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AZ CORP COMMISSION
DOCKET CONTROL

Transcript Exhibit(s)

Docket#(s): WS-04235A-06-0303

Exhibit # : A1, A2, A3, A4, A5, A6, A9, S1, S2, S3.

Arizona Corporation Commission
DOCKETED

JUL 10 2007

DOCKETED BY KR NR

A-1

Richard L. Sallquist
SALLQUIST, DRUMMOND & O'CONNOR, P.C.
4500 S. Lakeshore Drive, Suite 339
Tempe, Arizona 85282
Telephone: (480)-839-5202
Fax: (480) 345-0412
Attorneys for Utility Source, L.L.C.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C. FOR A DETERMINIATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PROPERTY AND FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICES	)	DOCKET NO. W-04325A-06-___ **APPLICATION**

Utility Source, L.L.C., (hereinafter referred to as "Utility Source" or the "Company"), by and through the undersigned counsel, hereby submits its rate increase application and in support of said application state as follows:

1. Utility Source is authorized to provide water and wastewater service in portions of Coconino County, Arizona.

2. The Company is presently providing service under the rates and charges authorized by the Commission in Decision No. 67446, dated January 4, 2005, which Decision required this filing.

3. The Company hereby requests the Commission grant an increase in its water rates and charges as contained in the Rate Application which was prepared in accordance with AAC R14-2-103 for Class C companies, and which is attached hereto as **Exhibit A** and incorporated herein for all purposes.

EXHIBIT
A-1
admitted

36100.00000.138

4. The Company hereby requests an increase in its wastewater rates and charges as contained in the Rate Application which was prepared in accordance with AAC R14-2-103 for Class C companies, and which is attached hereto as **Exhibit B** and incorporated herein for all purposes.

5. The Company's Cost of Capital is set forth in the Schedules attached hereto as **Exhibit D** and incorporated herein for all purposes.

6. The supporting testimony of the Company's rate consultant, Thomas J. Bourassa supporting the Water Application, the Wastewater Application, and the Cost of Capital, are attached hereto as **Exhibits D, E, and F** respectively and are incorporated herein by this reference for all purposes.

7. The proposed form of Tariff for water and wastewater service is appended hereto as **Exhibit G** and incorporated herein by this reference for all purposes. The specific terms and conditions of that Tariff are hereby requested to be approved by the Commission. The Tariff will then be submitted at the conclusion of this matter as a Compliance Filing with the Commission's mandated changes in the Terms and Conditions and with the Commission approved Rates and Charges.

8. Notice of this Application will be provided in accordance with the Procedural Order issued in this docket.

WHEREFORE, the Company respectfully request that the Commission process this Rate Application as expeditiously as practicable, and thereafter issue an order granting the requested relief and such other relief as the Commission may deem appropriate.

Respectfully submitted this 1st day of May, 2006.

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

By _____

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

Original and fifteen copies of the foregoing filed this 1st day of May, 2006, with:

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

36100.00000.138

EXHIBITS

A Water Application Supporting Schedules

B Wastewater Application Supporting Schedules

C. Cost of Capital Supporting Schedules

D. Tom Bourassa's Testimony regarding the Water Application

E. Tom Bourassa's Testimony regarding the Wastewater Application

F Tom Bourassa's Testimony regarding Cost of Capital

G. Proposed form of Tariff

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C. – SEWER DIVISION, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-_____

WATER DIVISION
SUPPORTING RATE SCHEDULES

THOMAS J. BOURASSA

EXHIBIT A

36100-00000.139

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Schedule A-1
Page 1
Witness: Bourassa

Line No.			
1	Fair Value Rate Base	$	3,079,513
2			
3	Adjusted Operating Income		(77,896)
4			
5	Current Rate of Return		-2.53%
6			
7	Required Operating Income	$	323,349
8			
9	Required Rate of Return on Fair Value Rate Base		10.50%
10			
11	Operating Income Deficiency	$	401,245
12			
13	Gross Revenue Conversion Factor		1.0000
14			
15	Increase in Gross Revenue		
16	Requirement	$	401,245

Line No.	Customer Classification	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
17					
18	**Customer**	**Present**	**Proposed**	**Dollar**	**Percent**
19	**Classification**	**Rates**	**Rates**	**Increase**	**Increase**
20	**(Residential Commercial, Irrigation)**				
21	3/4 Inch Residential	$ 76,792	$ 254,546	$ 177,754	231.47%
22	1 1/2 Inch Commercial	2,397	8,085	5,689	237.34%
23	2 Inch Commecrial	3,868	13,092	9,224	238.46%
24				-	0.00%
25	Revenue Annualization	6,121	20,441	14,320	233.95%
26				-	0.00%
27	Proforma Revenues	83,560	277,740	194,180	232.38%
28				-	0.00%
29	**Subtotal**	$ 172,738	$ 573,904	$ 401,166	232.24%
30					
31	Other Water Revenues	1,657	1,657	-	0.00%
32				-	0.00%
33				-	0.00%
34	**Total of Water Revenues (a)**	$ 174,395	$ 575,562	$ 401,166	230.03%
35					
36					
37					
38					
39					
40					
41	SUPPORTING SCHEDULES:				
42	B-1				
43	C-1				
44	C-3				
45	H-1				
46					

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Summary of Results of Operations

Exhibit
Schedule A-2
Page 1
Witness: Bourassa

Line No.	Description	Prior Years Ended 12/31/2003	Prior Years Ended 12/31/2004	Test Year Actual 12/31/2005	Test Year Adjusted 12/31/2005	Projected Year Present Rates 12/31/2006	Projected Year Proposed Rates 12/31/2006
1	Gross Revenues	$ -	$ 46,498	$ 84,647	$ 174,328	$ 174,328	$ 575,573
2							
3	Revenue Deductions and	-	70,864	227,355	252,224	252,224	252,224
4	Operating Expenses						
5							
6	Operating Income	$ -	$ (24,366)	$ (142,708)	$ (77,896)	$ (77,896)	$ 323,349
7							
8	Other Income and	-	-	-	-	-	-
9	Deductions						
10							
11	Interest Expense	-	-	-	-	-	-
12							
13	Net Income	$ -	$ (24,366)	$ (142,708)	$ (77,896)	$ (77,896)	$ 323,349
14							
15	Earned Per Average						
16	Common Share	-	(0.05)	(0.31)	(0.17)	(0.17)	0.70
17							
18	Dividends Per						
19	Common Share	-	-	-	-	-	-
20							
21	Payout Ratio	-	-	-	-	-	-
22							
23	Return on Average						
24	Invested Capital	0.00%	-132.66%	-8.49%	-212.05%	358.45%	-1487.94%
25							
26	Return on Year End						
27	Capital	0.00%	-66.33%	-4.29%	-212.05%	97.13%	-403.19%
28							
29	Return on Average						
30	Common Equity	0.00%	-133.09%	-8.49%	3340.93%	-2.37%	9.27%
31							
32	Return on Year End						
33	Common Equity	0.00%	-66.54%	-4.29%	188.70%	-2.40%	8.86%
34							
35	Times Bond Interest Earned						
36	Before Income Taxes	-	-	-	-	-	-
37							
38	Times Total Interest and						
39	Preferred Dividends Earned						
40	After Income Taxes	-	-	-	-	-	-
41							
42							
43	SUPPORTING SCHEDULES						
44	C-1						
45	E-2						
46	F-1						

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Construction Expenditures
and Gross Utility Plant in Service

Exhibit
Schedule A-4
Page 1
Witness: Bourassa

Line No.		Construction Expenditures	Net Plant Placed in Service	Gross Utility Plant in Service
1				
2	Prior Year Ended 12/31/2002	-	-	-
3				
4	Prior Year Ended 12/31/2003	-	-	-
5				
6	Prior Year Ended 12/31/2004	-	-	-
7				
8	Test Year Ended 12/31/2005	3,420,464	3,420,464	3,420,464
9				
10	Projected Year Ended 12/31/2006	-	-	3,420,464
11				
12				
13				
14				
15	SUPPORTING SCHEDULES:			
16	B-2			
17	E-5			
18	F-3			
19				
20				

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

Exhibit
Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 3,420,464	$ 3,420,464
3	Less: Accumulated Depreciation	58,465	58,465
4			
5	Net Utility Plant in Service	$ 3,361,999	$ 3,361,999
6			
7	Less:		
8	Advances in Aid of		
9	Construction	294,745	294,745
10	Contributions in Aid of		
11	Construction - Net of amortization	-	-
12	Customer Meter Deposits	-	-
13	Deferred Income Taxes & Credits	-	-
14	Investment tax Credits	-	-
15		-	-
16			
17	Plus:		
18	Unamortized Finance		
19	Charges	-	-
20	Deferred Tax Assets	-	-
21	Allowance for Working Capital	12,259	12,259
22			
23			
24	Total Rate Base	$ 3,079,513	$ 3,079,513
25			
26			
27			
28	SUPPORTING SCHEDULES:		
29	B-2		
30	B-3		
31	B-5		
32	E-1		
33			

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

Exhibit
Schedule B-2
Page 1
Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustments Label	Proforma Adjustments Amount	Adjusted at end of Test Year
1	Gross Utility				
2	Plant in Service	$ 3,420,464			$ 3,420,464
3					
4	**Less:**				
5	Accumulated				
6	Depreciation	116,024	1	(57,559)	58,465
7					
8					
9	Net Utility Plant				
10	in Service	$ 3,304,440			$ 3,361,999
11					
12	**Less:**				
13	Advances in Aid of				
14	Construction	-	2	294,745	294,745
15					
16	Contributions in Aid of				
17	Construction - Net	-			-
18					
19	Customer Refundable Meter Deposits	-			-
20	Deferred Income Tax Liability	-			-
21	Investment Tax Credits	-			-
22					
23					
24	**Plus:**				
25	Unamortized Finance				
26	Charges	-			-
27	Deferred Income Tax Asset	-			-
28	Working capital	-	3	12,259	12,259
29		-			-
30					
31	Total	$ 3,304,440			$ 3,079,513
32					
33					
34					
35	SUPPORTING SCHEDULES:				RECAP SCHEDULES:
36	B-2, pages 2-4				B-1
37	E-1				
38					
39					
40					
41					
42					
43					
44					

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

Exhibit
Schedule B-2
Page 2
Witness: Bourassa

Line No.			
1	Accumulated Depreciation Adjustment		
2			
3	Computed Balance	$	58,465
4	Balance per Company Schedule E-1		116,024
5	Difference	$	(57,559)
6			
7			
8			
9			
10			
11	Increase (Decrease) to Accumulated Depreciation	$	(57,559)
12			
13			
14			
15	SUPPORTING SCHEDULES		
16	B-2, pages 2a-2c		
17			
18			
19			
20			

Utility Source, LLC - Sewer Division
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 2a
Witness: Bourassa

Account No.	Description	Deprec. Rate	12/31/2004	2004 Accum. Depr.	2004 Plant Additions	2004 Plant Adjustments	2004 Adjusted Plant Additions	2004 Plant Retirements	2004 Plant Balance	2004 Depr.
351	Organization	0.00%	-				-		-	-
352	Franchises	0.00%	-				-		-	-
353	Land and Land Rights	0.00%	-				-		-	-
354	Structures and Improvements	3.33%	-				-		-	-
355	Power Generation Equipment	5.00%	-				-		-	-
360	Collection Sewers - Force	2.00%	-				-		-	-
361	Collection Sewers - Gravity	2.00%	-				-		-	-
362	Special Collecting Structures	2.00%	-				-		-	-
363	Services to Customers	2.00%	-				-		-	-
364	Flow Measuring Devices	10.00%	-				-		-	-
365	Flow Measuring Installations	10.00%					-		-	-
370	Receiving Wells	3.33%	-				-		-	-
371	Pumping Equipment	12.50%	-				-		-	-
380	Treatment and Disposal Equipment	5.00%	-				-		-	-
381	Plant Sewers	5.00%	-				-		-	-
382	Outfall Sewer Lines	3.33%	-				-		-	-
389	Other Plant and Misc. Equipment	6.67%	-				-		-	-
390	Office Furniture and Equipment	6.67%	-				-		-	-
391	Transportation Equipment	20.00%	-				-		-	-
393	Tools, Shop and Garage Equipment.	5.00%	-				-		-	-
394	Laboratory Equipment	10.00%	-				-		-	-
395	Power Operated Equipment	5.00%	-				-		-	-
398	Other TangiblePlant	10.00%	-				-		-	-
			-				-		-	-
			-				-		-	-
			-				-		-	-
			-				-		-	-
			-				-		-	-
	Plant Held for Future Use						-		-	-
	TOTAL WATER PLANT		-	-	-	-	-	-	-	-
	Depreciation								-	
(a)	Staff Accumulated Depreciation Allocated to Plant.		-							
	Retirements (excluding land)								-	
	Accumulated Depreciation Balance			-					-	
	Half Year Convention used on depreciation									

Utility Source, LLC - Sewer Division
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 4b
Witness: Bourassa

Account No.	Description	Deprec. Rate	2005 Depreciable Balance	2005 Plant Additions	2005 Plant Adjustments	2005 Adjusted Plant Additions	2005 Plant Retirements	Plant Retirements To Date	2005 Plant Balance	2005 Deprec.
351	Organization	0.00%	-			-		-	-	-
352	Franchises	0.00%	-			-		-	-	-
353	Land and Land Rights	0.00%	-	105,000		105,000		-	105,000	-
354	Structures and Improvements	3.33%	-	56,350		56,350		-	56,350	938
355	Power Generation Equipment	5.00%	-	32,200		32,200		-	32,200	805
360	Collection Sewers - Force	2.00%	-			-		-	-	-
361	Collection Sewers - Gravity	2.00%	-	260,553		260,553		-	260,553	2,606
362	Special Collecting Structures	2.00%	-			-		-	-	-
363	Services to Customers	2.00%	-	60,375		60,375		-	60,375	604
364	Flow Measuring Devices	10.00%	-			-		-	-	-
365	Flow Measuring Installations	10.00%	-	3,450		3,450		-	3,450	173
370	Receiving Wells	3.33%	-			-		-	-	-
371	Pumping Equipment	12.50%	-			-		-	-	-
380	Treatment and Disposal Equipment	5.00%	-	1,106,874		1,106,874		-	1,106,874	27,672
381	Plant Sewers	5.00%	-			-		-	-	-
382	Outfall Sewer Lines	3.33%	-			-		-	-	-
389	Other Plant and Misc. Equipment	6.67%	-			-		-	-	-
390	Office Furniture and Equipment	6.67%	-			-		-	-	-
391	Transportation Equipment	20.00%	-			-		-	-	-
393	Tools, Shop and Garage Equipment.	5.00%	-			-		-	-	-
394	Laboratory Equipment	10.00%	-			-		-	-	-
395	Power Operated Equipment	5.00%	-			-		-	-	-
398	Other TangiblePlant	10.00%	-			-		-	-	-
			-			-		-	-	-
			-			-		-	-	-
			-			-		-	-	-
			-			-		-	-	-
			-			-		-	-	-
	Plant Held for Future Use		-			-		-	-	-
	TOTAL WATER PLANT		-	1,624,802	-	1,624,802	-	-	1,624,802	32,797
	Depreciation								32,797	
(a)	Staff Accumulated Depreciation Allocated to Plant.									
	Retirements (excluding land)								-	
	Accumulated Depreciation Balance								32,797	
	Half Year Convention used on depreciation									

Utility Source, LLC - Sewer Division
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 4c
Witness: Bourassa

Account No.	Description	Deprec. Rate	Year End Accumulated Depreciation by Account Dec-04 2004	Dec-05 2005
351	Organization	0.00%	-	-
352	Franchises	0.00%	-	-
353	Land and Land Rights	0.00%	-	-
354	Structures and Improvements	3.33%	-	938
355	Power Generation Equipment	5.00%	-	805
360	Collection Sewers - Force	2.00%	-	-
361	Collection Sewers - Gravity	2.00%	-	2,606
362	Special Collecting Structures	2.00%	-	-
363	Services to Customers	2.00%	-	604
364	Flow Measuring Devices	10.00%	-	-
365	Flow Measuring Installations	10.00%	-	173
370	Receiving Wells	3.33%	-	-
371	Pumping Equipment	12.50%	-	-
380	Treatment and Disposal Equipment	5.00%	-	27,672
381	Plant Sewers	5.00%	-	-
382	Outfall Sewer Lines	3.33%	-	-
389	Other Plant and Misc. Equipment	6.67%	-	-
390	Office Furniture and Equipment	6.67%	-	-
391	Transportation Equipment	20.00%	-	-
393	Tools, Shop and Garage Equipment.	5.00%	-	-
394	Laboratory Equipment	10.00%	-	-
395	Power Operated Equipment	5.00%	-	-
398	Other TangiblePlant	10.00%	-	-
			-	-
			-	-
			-	-
			-	-
			-	-
	Plant Held for Future Use		-	-
	TOTAL WATER PLANT		-	32,797
	Depreciation			
(a)	Staff Accumulated Depreciation Allocated to Plant.			
	Retirements (excluding land)			
	Accumulated Depreciation Balance			
	Half Year Convention used on depreciation			

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

Exhibit
Schedule B-2
Page 3
Witness: Bourassa

Line No.			
1	Unrecorded developer Advances-in-Aid of Constrcution		
2			
3	Flagstaff Meadows LXA	$	294,745
4			
5			
6			
7			
8	Increase (Decrease) to Advances-in-Aid of Construction	$	294,745
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			

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

Exhibit
Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	10,747
3	Pumping Power (1/24 of Pumping Power)		1,512
4	Purchased Water (1/24 of Purchased Water)		-
5	Material and Supplies Inventories		-
6	Prepayments		-
7			
8			
9	Total Working Capital Allowance	$	12,259
10			
11			
12	Working Capital Requested	$	12,259
13			
14			
15	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
16	E-1	B-1	
17			

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Income Statement

Exhibit
Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Book Results	Label	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**						
2	Metered Water Revenues	$ 82,989	4/5	$ 89,681	$ 172,670	$ 401,245	$ 573,915
3	Unmetered Water Revenues	-			-		-
4	Other Water Revenues	1,657			1,657		1,657
5		$ 84,647		$ 89,681	$ 174,328	$ 401,245	$ 575,573
6	**Operating Expenses**						
7	Salaries and Wages	$ -			$ -		$ -
8	Purchased Water	-			-		-
9	Purchased Power	36,292			36,292		36,292
10	Chemicals	530			530		530
11	Repairs and Maintenance	8,747			8,747		8,747
12	Office Supplies and Expense	4,292			4,292		4,292
13	Outside Services	20,630			20,630		20,630
14	Water Testing	8,553			8,553		8,553
15	Rents	-			-		-
16	Transportation Expenses	-			-		-
17	Insurance - General Liability	-			-		-
18	Insurance - Health and Life	-			-		-
19	Regulatory Commission Expense - Rate Case	-	3	12,500	12,500		12,500
20	Miscellaneous Expense	30,722			30,722		30,722
21	Depreciation Expense	116,024	1	907	116,931		116,931
22	Taxes Other Than Income	-			-		-
23	Property Taxes	1,564	2	11,462	13,026		13,026
24	Income Tax	-			-	-	-
25					-		-
26	**Total Operating Expenses**	$ 227,355		$ 24,869	$ 252,224	$ -	$ 252,224
27	**Operating Income**	$ (142,708)		$ 64,812	$ (77,896)	$ 401,245	$ 323,349
28	**Other Income (Expense)**						
29	Interest Income	-			-		-
30	Other income	-			-		-
31	Interest Expense	-			-		-
32	Other Expense	-			-		-
33		-			-		-
34	**Total Other Income (Expense)**	$ -		$ -	$ -	$ -	$ -
35	**Net Profit (Loss)**	$ (142,708)		$ 64,812	$ (77,896)	$ 401,245	$ 323,349
36							
37	SUPPORTING SCHEDULES:					RECAP SCHEDULES:	
38	C-2					A-1	
39	E-2						
40							

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

Exhibit
Schedule C-2
Page 1
Witness: Bourassa

Adjustments to Revenues and Expenses

Line No.		1 Depreciation Expense	2 Property Taxes	3 Rate Case Expense	4 Revenue Annualization	5 Proforma Revenues	6 Intentionally Left Blank	Subtotal
3	Revenues				6,121	83,560		89,681
5	Expenses	907	11,462	12,500				24,869
8	Operating Income	(907)	(11,462)	(12,500)	6,121	83,560	-	64,812
11	Interest Expense							-
13	Other Income / Expense							-
16	Net Income	(907)	(11,462)	(12,500)	6,121	83,560	-	64,812

Adjustments to Revenues and Expenses

		7 Intentionally Left Blank	8 Intentionally Left Blank	9 Intentionally Left Blank	10 Intentionally Left Blank	11 Intentionally Left Blank	12 Intentionally Left Blank	Subtotal
23	Revenues							89,681
25	Expenses							24,869
28	Operating Income	-	-	-	-	-	-	64,812
31	Interest Expense							-
33	Other Income / Expense							-
36	Net Income	-	-	-	-	-	-	64,812

Adjustments to Revenues and Expenses

		13 Intentionally Left Blank	14 Intentionally Left Blank	15 Intentionally Left Blank	16 Intentionally Left Blank	17 Intentionally Left Blank	18 Intentionally Left Blank	Total
43	Revenues							89,681
45	Expenses							24,869
48	Operating Income	-	-	-	-	-	-	64,812
51	Interest Expense							-
53	Other Income / Expense							-
56	Net Income	-	-	-	-	-	-	64,812

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Schedule C-2
Page 2
Witness: Bourassa

Line No.					
1	Depreciation Expense				
2					
3	**Account**			**Proposed**	**Depreciation**
4	**No.**	**Description**	**Original Cost**	**Rate**	**Expense**
5	301	Organization Cost	-	0.00%	-
6	302	Franchise Cost	-	0.00%	-
7	303	Land and Land Rights	210,000	0.00%	-
8	304	Structures and Improvements	109,250	3.33%	3,638
9	305	Collecting and Impounding Res.	-	2.50%	-
10	306	Lake River and Other Intakes	-	2.50%	-
11	307	Wells and Springs	2,233,883	3.33%	74,388
12	308	Infiltration Galleries and Tunnels	-	6.67%	-
13	309	Supply Mains	-	2.00%	-
14	310	Power Generation Equipment	87,400	5.00%	4,370
15	311	Electric Pumping Equipment	161,494	12.50%	20,187
16	320	Water Treatment Equipment	5,487	3.33%	183
17	330	Distribution Reservoirs & Standpipe	345,000	2.22%	7,659
18	331	Transmission and Distribution Mains	147,200	2.00%	2,944
19	333	Services	86,250	3.33%	2,872
20	334	Meters	-	8.33%	-
21	335	Hydrants	34,500	2.00%	690
22	336	Backflow Prevention Devices	-	6.67%	-
23	339	Other Plant and Miscellaneous Equipment	-	6.67%	-
24	340	Office Furniture and Fixtures	-	6.67%	-
25	341	Transportation Equipment	-	20.00%	-
26	342	Stores Equipment	-	4.00%	-
27	343	Tools and Work Equipment	-	5.00%	-
28	344	Laboratory Equipment	-	10.00%	-
29	345	Power Operated Equipment	-	5.00%	-
30	346	Communications Equipment	-	10.00%	-
31	347	Miscellaneous Equipment	-	10.00%	-
32	348	Other Tangible Plant	-	10.00%	-
33					
34					
35					
36		TOTALS	$ 3,420,464		$ 116,931
37					
38					
39	**Other**				-
40					-
41					
42			$ -		$ -
43					
44	**Post Test Year Plant per B-2**				
45					-
46					-
47					-
48	Total PTY Plant		$ -		$ -
48					
49	Less: Amortization of Contributions - Balance End of TY		$ -	3.4186%	$ -
50					
51	Total Depreciation Expense				$ 116,931
52					
53					
54					
55	Adjusted Depreciation Expense				$ 116,931
56					
57	Test Year Depreciation Expense				$ 116,024
58					
59	Increase (decrease) in Depreciation Expense				907
60					
61	Adjustment to Revenues and/or Expenses				$ 907
62					
63					

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

Exhibit
Schedule C-2
Page 3
Witness: Bourassa

Line No.			
1	Adjust Property Taxes to Reflect Proposed Revenues:		
2			
3	Adjusted Revenues in year ended 09/31/05	$	174,328
4	Adjusted Revenues in year ended 09/31/05		174,328
5	Proposed Revenues		575,573
6	Average of three year's of revenue	$	308,076
7	Average of three year's of revenue, times 2	$	616,152
8	Add:		
9	Construction Work in Progess at 10%	$	-
10	Deduct:		
11	Book Value of Transportation Equipment		-
12			
13	Full Cash Value	$	616,152
14	Assessment Ratio		23.50%
15	Assessed Value		144,796
16	Property Tax Rate		8.9963%
17			
18	Property Tax		13,026
19	Tax on Parcels		0
20			
21	Total Property Tax at Proposed Rates	$	13,026
22	Property Taxes in the test year		1,564
23	Change in Property Taxes	$	11,462
24			
25			
26	Adjustment to Revenues and/or Expenses	$	11,462
27			
28			

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 3

Exhibit
Schedule C-2
Page 4
Witness: Bourassa

Line No.			
1	Rate Case Expense		
2			
3	Estimated Rate Case Expense	$	50,000
4			
5	Estimated Amortization Period in Years		4
6			
7	Annual Rate Case Expense	$	12,500
8			
9	Test Year Rate Case Expense	$	-
10			
11	Increase(decrease) Rate Case Expense	$	12,500
12			
13	Adjustment to Revenue and/or Expense	$	12,500
14			
15			
16			
17			
18			
19			
20			

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Schedule C-2
Page 5
Witness: Bourassa

Line No.			
1	Revenue Annualization		
2			
3			
4	Revenue Annualization	$	6,121
5			
6			
7			
8	Total Revenue from Annualization	$	6,121
9			
10			
11	Adjustment to Revenue and/or Expense	$	6,121
12			
13	SUPPORTING SCHEDULES		
14	C-2		
15	H-1		
16			
17			
18			
19			
20			

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Schedule C-2
Page 6
Witness: Bourassa

Line No.			
1	Proforma Customer Growth		
2			
3			
4	Projected Customer Growth 3/4 Inch Meter		350
5	Average Bill	$	19.90
6	No. of bills		12
7	Total Revenues from Projected Growth	$	83,560
8			
9			
10	Adjustment to Revenue and/or Expense	$	83,560
11			
12	SUPPORTING SCHEDULES		
13	C-2		
14	H-1		
15			
16			
17			
18			
19			

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

Exhibit
Schedule C-3
Page 1
Witness: Bourassa

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

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

Exhibit
Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	End of Test Year Dollar Amount	Percent of Total	(e) Cost Rate	Weighted Cost	End of Projected Year Dollar Amount	Percent of Total	(e) Cost Rate	Weighted Cost
1	Long-Term Debt	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	0.00%
2									
3	Stockholder's Equity (1)	3,383,299	100.00%	10.50%	10.50%	3,706,647	100.00%	10.50%	10.50%
4									
5	Totals	3,383,299	100.00%		10.50%	3,706,647	100.00%		10.50%
6									
7									
8	**(1) Increase Equity for A/D adjustment 1, B-2, page 1**	**$**	**57,559**						
9									
10									
11	SUPPORTING SCHEDULES:								RECAP SCHEDULES:
12	D-1								A-3
13	D-3								
14	D-4								
15	E-1								
16									
17									
18									
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									
31									

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Cost of Long Term Debt

Exhibit
Schedule D-2
Page 1
Witness: Bourassa

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

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Cost of Preferred Stock

Exhibit
Schedule D-3
Page 1
Witness: Bourassa

Line No.	Description of Issue	End of Test Year Shares Outstanding	End of Test Year Amount	End of Test Year Dividend Requirement	End of Projected Year Shares Outstanding	End of Projected Year Amount	End of Projected Year Dividend Requirement
1							
2							
3	NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING						
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17	SUPPORTING SCHEDULES:			RECAP SCHEDULES:			
18	(a) E-1			(a) D-1			
19							
20							

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Cost of Common Equity

Exhibit
Schedule D-4
Page 1
Witness: Bourassa

Line No.	
1	
2	The Company is proposing a cost of common equity of 10.5% .
3	
4	
5	
6	
7	
8	
9	
10	
11	
12	
13	
14	
15	
16	
17	SUPPORTING SCHEDULES: RECAP SCHEDULES:
18	(a) E-1 (a) D-1
19	
20	

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Comparative Balance Sheets

Exhibit
Schedule E-1
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2005	Year Ended 12/31/2004	Year Ended 12/31/2003
1	**ASSETS**			
2	Plant In Service	$ 3,420,464	$ -	$ -
3				
4	Non-Utility Plant	-	-	-
5	Construction Work in Progress	-	-	-
6	Less: Accumulated Depreciation	(116,024)	-	-
7	Net Plant	$ 3,304,440	$ -	$ -
8				
9	Debt Reserve Fund	$ -	$ -	$ -
10				
11		$ -	$ -	$ -
12				
13	CURRENT ASSETS			
14	Cash and Equivalents	$ 1,883	$ 22,589	$ -
15	Restricted Cash	-	-	-
16	Accounts Receivable, Net	20,040	14,145	-
17	Unbilled Revenues	-	-	-
18	Materials and Supplies	-	-	-
19	Prepayments	-	-	-
20	Other Current Assets	-	-	-
21	Total Current Assets	$ 21,923	$ 36,734	$ -
22				
23	Deferred Debits	$ -	$ -	$ -
24				
25	Other Investments & Special Funds	$ -	$ -	$ -
26				
27	TOTAL ASSETS	$ 3,326,363	$ 36,734	$ -
28				
29				
30	**LIABILITIES AND STOCKHOLDERS' EQUITY**			
31				
32	Common Equity	$ 3,325,740	$ 36,617	$ -
33				
34	Long-Term Debt	$ -	$ -	$ -
35				
36	CURRENT LIABILITIES			
37	Accounts Payable	$ -	$ -	$ -
38	Current Portion of Long-Term Debt	-	-	-
39	Payables to Associated Companies	-	-	-
40	Customer Meter Deposits, Current	-	-	-
41	Accrued Taxes	-	-	-
42	Accrued Interest	-	-	-
43	Other Current Liabilities	623	118	-
44	Total Current Liabilities	$ 623	$ 118	$ -
45	DEFERRED CREDITS			
46	Customer Meter Deposits, less current	$ -	$ -	$ -
47	Advances in Aid of Construction		-	-
48	Accumulated Deferred Income Taxes	-	-	-
49	Contributions In Aid of Construction, Net	-	-	-
50	Asset Retirement Obligations	-	-	-
51	Total Deferred Credits	$ -	$ -	$ -
52				
53	Total Liabilities & Common Equity	$ 3,326,363	$ 36,734	$ -
54				
55	SUPPORTING SCHEDULES:			
56	E-5			
57				

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Comparative Income Statements

Exhibit
Schedule E-2
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2005	Prior Year Ended 12/31/2004	Prior Year Ended 12/31/2003
1	**Revenues**			
2	Metered Water Revenues	$ 82,989	$ 46,498	$ -
3	Unmetered Water Revenues	-	-	-
4	Other Water Revenues	1,657	-	-
5	**Total Revenues**	$ 84,647	$ 46,498	$ -
6	**Operating Expenses**			
7	Salaries and Wages	$ -	$ -	$ -
8	Purchased Water	-	-	-
9	Purchased Power	36,292	18,047	-
10	Chemicals	530		-
11	Repairs and Maintenance	8,747	2,418	-
12	Office Supplies and Expense	4,292	181	-
13	Outside Services	20,630	34,516	-
14	Water Testing	8,553	15,481	-
15	Rents	-	-	-
16	Transportation Expenses	-	-	-
17	Insurance - General Liability	-	-	-
18	Insurance - Health and Life	-	-	-
19	Regulatory Commission Expense - Rate Case	-	-	-
20	Miscellaneous Expense	30,722	221	-
21	Depreciation Expense	116,024	-	-
22	Taxes Other Than Income	-	-	-
23	Property Taxes	1,564	-	-
24	Income Tax	-	-	-
25				
26	**Total Operating Expenses**	$ 227,355	$ 70,864	$ -
27	**Operating Income**	$ (142,708)	$ (24,366)	$ -
28	**Other Income (Expense)**			
29	Interest Income	-	-	-
30	Other income	-	-	-
31	Interest Expense	-	-	-
32	Other Expense	-	-	-
33				
34	**Total Other Income (Expense)**	$ -	$ -	$ -
35	**Net Profit (Loss)**	$ (142,708)	$ (24,366)	$ -
36				
37				

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Detail of Plant in Service

Exhibit
Schedule E-5
Page 1
Witness: Bourassa

Line No.	Acct. No.	Plant Description	Plant Balance at 12/31/2004	Plant Additions, Reclass-ications or or Retirements	Plant Balance at 12/31/2005
1					
2	301	Organization Cost	$ -	$ -	$ -
3	302	Franchise Cost	-	-	-
4	303	Land and Land Rights	-	210,000	210,000
5	304	Structures and Improvements	-	109,250	109,250
6	305	Collecting and Impounding Res.	-	-	-
7	306	Lake River and Other Intakes	-	-	-
8	307	Wells and Springs	-	2,233,883	2,233,883
9	308	Infiltration Galleries and Tunnels	-	-	-
10	309	Supply Mains	-	-	-
11	310	Power Generation Equipment	-	87,400	87,400
12	311	Electric Pumping Equipment	-	161,494	161,494
13	320	Water Treatment Equipment	-	5,487	5,487
14	330	Distribution Reservoirs & Standpipe	-	345,000	345,000
15	331	Transmission and Distribution Mains	-	147,200	147,200
16	333	Services	-	86,250	86,250
17	334	Meters	-	-	-
18	335	Hydrants	-	34,500	34,500
19	336	Backflow Prevention Devices	-	-	-
20	339	Other Plant and Miscellaneous Equipment	-	-	-
21	340	Office Furniture and Fixtures	-	-	-
22	341	Transportation Equipment	-	-	-
23	342	Stores Equipment	-	-	-
24	343	Tools and Work Equipment	-	-	-
25	344	Laboratory Equipment	-	-	-
26	345	Power Operated Equipment	-	-	-
27	346	Communications Equipment	-	-	-
28	347	Miscellaneous Equipment	-	-	-
29	348	Other Tangible Plant	-	-	-
30		Plant Held for Future Use	-	-	-
31					
32		TOTAL WATER PLANT	$ -	$ 3,420,464	$ 3,420,464
33					
34	SUPPORTING SCHEDULES			RECAP SCHEDULES:	
35				A-4	
36				E-1	
37					

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Operating Statistics

Exhibit
Schedule E-7
Page 1
Witness: Bouras

Line No.		Test Year Ended 12/31/2005	Prior Year Ended 12/31/2004	Prior Year Ended 12/31/2003
1	WATER STATISTICS:			
2				
3				
4				
5	Total Gallons Sold (in Thousands)	19,596	0	0
6				
7				
8				
9	Water Revenues from Customers:	$ 82,989	$ -	$ -
10				
11				
12				
13				
14	Year End Number of Customers	337	-	-
15				
16				
17	Annual Gallons (in Thousands)			
18	Sold Per Year End Customer	58	0	0
19				
20				
21				
22	Annual Revenue per Year End Customer	$ 246.26	$ -	$ -
23				
24	Pumping Cost Per 1,000 Gallons	$ 1.8521	$ -	$ -
25	Purchased Water Cost per 1,000 Gallons	$ -	$ -	$ -

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Taxes Charged to Operations

Exhibit
Schedule E-8
Page 1
Witness: Bourassa

Line No.	Description	Test Year Ended 12/31/2005	Prior Year Ended 12/31/2004	Prior Year Ended 12/31/2003
1	Description			
2				
3	Federal Income Taxes	$ -	$ -	$ -
4	State Income Taxes	-	-	-
5	Payroll Taxes	-	-	-
6	Property Taxes	1,564	-	-
7				
8	Totals	$ 1,564	$ -	$ -
9				
10				
11				
12				
13				
14				

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Notes To Financial Statements

Exhibit
Schedule E-9
Page 1
Witness: Bourassa

The Company does conduct independent audits

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Projected Income Statements - Present & Proposed Rates

Exhibit
Schedule F-1
Page 1
Witness: Bourassa

Line No.		Test Year Actual Results	At Present Rates Year Ended 12/31/2006	At Proposed Rates Year Ended 12/31/2006
1	**Revenues**			
2	Metered Water Revenues	$ 82,989	$ 172,670	$ 573,915
3	Unmetered Water Revenues	-	-	-
4	Other Water Revenues	1,657	1,657	1,657
5		$ 84,647	$ 174,328	$ 575,573
6	**Operating Expenses**			
7	Salaries and Wages	$ -	$ -	$ -
8	Purchased Water	-	-	-
9	Purchased Power	36,292	36,292	36,292
10	Chemicals	530	530	530
11	Repairs and Maintenance	8,747	8,747	8,747
12	Office Supplies and Expense	4,292	4,292	4,292
13	Outside Services	20,630	20,630	20,630
14	Water Testing	8,553	8,553	8,553
15	Rents	-	-	-
16	Transportation Expenses	-	-	-
17	Insurance - General Liability	-	-	-
18	Insurance - health and Life	-	-	-
19	Regulatory Commission Expense - Rate Case	-	12,500	12,500
20	Miscellaneous Expense	30,722	30,722	30,722
21	Depreciation Expense	116,024	116,931	116,931
22	Taxes Other Than Income	-	-	-
23	Property Taxes	1,564	13,026	13,026
24	Income Tax	-	-	-
25				
26	**Total Operating Expenses**	$ 227,355	$ 252,224	$ 252,224
27	**Operating Income**	$ (142,708)	$ (77,896)	$ 323,349
28	**Other Income (Expense)**			
29	Interest Income	-	-	-
30	Other income	-	-	-
31	Interest Expense	-	-	-
32	Other Expense	-	-	-
33	Gain/Loss Sale of Fixed Assets	-	-	-
34	**Total Other Income (Expense)**	$ -	$ -	$ -
35	**Net Profit (Loss)**	$ (142,708)	$ (77,896)	$ 323,349
36				

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Projected Construction Requirements

Exhibit
Schedule F-3
Page 1
Witness: Bourassa

Line No.	Account Number	Plant Asset:	Test Year	2006
1				
2	Account			
3	Number	Plant Asset:	Test Year	2006
4	301	Organization Cost	$ -	$ -
5	302	Franchise Cost	-	-
6	303	Land and Land Rights	210,000	-
7	304	Structures and Improvements	109,250	-
8	306	Lake, River and Other Intakes	-	-
9	307	Wells and Springs	-	-
10	310	Power Generation Equipment	2,233,883	-
11	311	Electric Pumping Equipment	-	-
12	320	Water Treatment Equipment	-	-
13	330	Distribution Reservoirs & Standpipe	87,400	-
14	331	Transmission and Distribution Mains	161,494	-
15	333	Services	5,487	-
16	334	Meters	345,000	-
17	335	Hydrants	147,200	-
18	339	Plant Structures and Improvements	86,250	-
19	340	Office Furniture and Fixtures	-	-
20	341	Transportation Equipment	34,500	-
21	343	Tools and Work Equipment	-	-
22	344	Power Operated Equipment	-	-
23	345	Communications Equipment	-	-
24	346	Miscellaneous Equipment	-	-
25	348	Other Tangible Plant	-	-
26			-	
27	Total		$ 3,420,464	$ -
28				
29				
30				

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Assumptions Used in Rate Filing

Exhibit
Schedule F-4
Page 1
Witness: Bourassa

Line No.	
1	Property Taxes were computed using the method used by the Arizona Department
2	of Revenue
3	
4	Projected construction expenditures are shown on Schedule A-4.
5	
6	Expense adjustments are shown on Schedule C2, and are explained in the testimony.
7	
8	
9	
10	
11	
12	
13	
14	
15	

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

Exhibit
Schedule H-1
Page 1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1							
2	3/4 Inch Meter - Residential	76,792	254,546	177,754	231.47%	44.03%	44.23%
3	1 Inch Meter						
4	1.5 Inch Meter Commercial	2,397	8,085	5,689	237.34%	1.37%	1.40%
5	2 Inch Meter Commercial	3,868	13,092	9,224	238.46%	2.22%	2.27%
6							
7	Miscellaneous Revenues	1,657	1,657	-	0.00%	0.95%	0.29%
8	Total Water Revenues	$ 84,715	$ 277,381	$ 192,666	227.43%	48.58%	48.19%
9	3/4 Inch customer revenue						
10	annualized to end of year, based on						
11	year end number of customers	$ 6,121	$ 20,441	$ 14,320	233.95%	3.51%	3.55%
12	Proforma Revenues [1]	$ 83,560	$ 277,740	$ 194,180	232.38%	47.91%	48.26%
13	Total Water Revenues, after correction for						
14	Billing to hundreds of Gallons	$ 174,395	$ 575,562	$ 401,166	461.38%	52.09%	51.74%
15							
16	(1) See C-2 adjustment number 5.						
17							
18							
19	Total Water Revenues without Revenue						
20	Annualization and Proforma Revenues	$ 84,715					
21	Water Revenues Per General Ledger	$ 84,647					
22	Difference	$68					
23							
24	Percentage Error	-0.08%					
25							
26							

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

Exhibit
Schedule H-2
Page 1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Average Number of Customers at 12/31/2005	Average Consumption	Revenues Present Rates	Revenues Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1							
2	3/4 Inch Meter - Residential	307	4,740	$ 76,792	$ 254,546	$ 177,754	232.38%
3	1 Inch Meter	-	-	$ -	$ -	$ -	0.00%
4	1.5 Inch Meter Commercial	1	64,470	$ 2,397	$ 8,085	$ 5,689	237.34%
5	2 Inch Meter Commercial	1	103,821	$ 3,868	$ 13,092	$ 9,224	238.46%
6	3/4 Inch Meter - Residential Revenue Annualization	307	4,740	$ 6,121	$ 20,441	$ 14,320	233.95%
7	Proforma Revenues	350	4,740	$ 83,560	$ 277,740	$ 194,180	232.38%
8							

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

Exhibit
Schedule H-3
Page 1
Witness: Bourassa

Line No.	Customer Classification and Meter Size	Present Rates	Proposed Rates	Percent Change	Meter Flow Ratios 5/8 Inch Meter	Meter Flow Ratios 3/4 Inch Meter
1	**Monthly Usage Charge for:**					
2	Residential,Commercial, Irrigation, Resale and Miscellaneous Customers					
3	5/8 x 3/4 Inch (NOT APPLICABLE)	$ -	$ -	0.00%	1	N/A
4	3/4 Inch	6.48	24.30	275.00%	1.5	1.00
5	1 Inch	8.02	40.50	404.99%	2.5	1.67
6	1 1/2 Inch	9.62	81.00	742.00%	5	3.33
7	2 Inch	14.00	129.60	825.71%	8	5.33
8	3 Inch	-	259.20	0.00%	16	10.67
9	4 Inch	58.00	405.00	598.28%	25	16.67
10	6 Inch	89.80	810.00	802.00%	50	33.33
11	Construction, Bulk, Standpipe	-	-	0.00%		
12						
13	Gallons In Minimum					
14	All Meter Sizes	-	-			
15						

Line No.		Present Rates From Gallons		Present Rates To Gallons	Charge per 1,000 gal	Present Rates From Gallons		Present Rates To Gallons	Charge per 1,000 gal
16									
17									
18									
19	**Residential (all meter sizes)**								
20	Tier 1	-	Up to	5,000	$ 2.83	-	Up to	5,000	$ 8.82
21	Tier 2	From 5,001	Up to	15,000	$ 3.32	From 5,001	Up to	15,000	$ 10.35
22	Tier 3	Over 15,000			$ 4.71	Over 15,000			$ 14.69
23									
24	**Muti-Family, Mobile Home, Commercial**								
25		All gallons			$ 2.97	All gallons			$ 9.26
26									
27	**Irrigation**								
28		All gallons			N/A	All gallons			$ 9.26
29									
30	**Standpipe**								
31		All gallons			$ 6.00	All gallons			$ 10.35
32									
33	**Construction Water**								
34		All gallons			$ 6.00	All gallons			$ 10.35
35									
36									
37									
38									
39									
40									
41									
42									
43									
44									
45									
46									
47									
48									

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

Exhibit
Schedule H-3
Page 2
Witness: Bourassa

Line No.				
1				
2	**Meter and Service Line Installation Charges**			
3			Present	Proposed
4	Meter Size		Rates	Rates
5	5/8 x 3/4 Inch	(NOT APPLICABLE)	$0.00	$0.00
6	3 / 4 Inch		$575.00	$575.00
7	1 Inch		$660.00	$660.00
8	1 1/2 Inch		$900.00	$900.00
9	2 Inch		$1,525.00	$1,525.00
10	4 Inch		$3,360.00	$3,360.00
11	6 Inch		$6,035.00	$6,035.00
12				
13				
14				
15				
16				
17				
18				
19				
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36				

Exhibit
Schedule H-3
Page 3
Witness: Bourassa

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

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

28 (a) Same customer, same location within 12 months. Number of months off the system times the monthly minimum.
29 (b) The Company does not normally require a deposit prior to provision of service. However, if service is not in the property owner's name, this deposit is required.
30 Also, in the event service is disconnected for non-payment, this deposit may be required.
31 Residential - 2 times the estimated average monthly bill
32 Non-residential - 2 1/2 times the estimated maximum monthly bill.
33 Deposit interest 3.0%
34
35
36
37 TAXES AND ASSESSMENTS
38 In addition to all other rates and charges authorized herein, the Company shall collect from its customers all applicable sales, transaction, privilege,
39 regulatory or other taxes and assessments as may apply now or in the future, per Rule R14-2-608(D)(5).
40
41
42
43
44
45
46

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

Exhibit
Schedule H-4
Page 1
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 6.48	$ 24.30	$ 17.82	275.00%
1,000	9.31	33.12	23.81	255.79%
2,000	12.14	41.95	29.81	245.53%
3,000	14.97	50.77	35.80	239.16%
4,000	17.80	59.60	41.80	234.81%
5,000	20.63	68.42	47.79	231.65%
6,000	23.95	78.77	54.82	228.90%
7,000	27.27	89.12	61.85	226.82%
8,000	30.59	99.47	68.88	225.19%
9,000	33.91	109.83	75.92	223.88%
10,000	37.23	120.18	82.95	222.80%
12,000	43.87	140.88	97.01	221.14%
14,000	50.51	161.59	111.08	219.91%
16,000	58.54	186.62	128.08	218.80%
18,000	67.96	215.99	148.03	217.83%
20,000	77.38	245.37	167.99	217.09%
25,000	100.93	318.80	217.87	215.86%
30,000	124.48	392.22	267.74	215.09%
35,000	148.03	465.65	317.62	214.57%
40,000	171.58	539.08	367.50	214.19%
45,000	195.13	612.51	417.38	213.90%
50,000	218.68	685.94	467.26	213.67%
60,000	265.78	832.80	567.02	213.34%
70,000	312.88	979.66	666.78	213.11%
80,000	359.98	1,126.51	766.53	212.94%
90,000	407.08	1,273.37	866.29	212.81%
100,000	454.18	1,420.23	966.05	212.70%
Average Usage				
4,740	$ 19.90	$ 66.13	$ 46.23	232.38%
Median Usage				
4,500	$ 19.22	$ 64.01	$ 44.79	233.11%

Present Rates:

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

Proposed Rates:

Monthly Minimum:		$ 24.30
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	5,000	$ 8.82
Up to	15,000	$ 10.35
Over		$ 14.69

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

Exhibit
Schedule H-4
Page 2
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 9.62	$ 81.00	$ 71.38	742.00%
1,000	12.59	90.26	77.67	616.92%
2,000	15.56	99.52	83.96	539.59%
3,000	18.53	108.78	90.25	487.06%
4,000	21.50	118.04	96.54	449.03%
5,000	24.47	127.30	102.83	420.24%
6,000	27.44	136.56	109.12	397.68%
7,000	30.41	145.82	115.41	379.52%
8,000	33.38	155.08	121.70	364.60%
9,000	36.35	164.34	127.99	352.12%
10,000	39.32	173.60	134.28	341.52%
12,000	45.26	192.13	146.87	324.49%
14,000	51.20	210.65	159.45	311.42%
16,000	57.14	229.17	172.03	301.06%
18,000	63.08	247.69	184.61	292.66%
20,000	69.02	266.21	197.19	285.70%
25,000	83.87	312.51	228.64	272.61%
30,000	98.72	358.81	260.09	263.47%
35,000	113.57	405.12	291.55	256.71%
40,000	128.42	451.42	323.00	251.52%
45,000	143.27	497.72	354.45	247.40%
50,000	158.12	544.02	385.90	244.06%
60,000	187.82	636.63	448.81	238.96%
70,000	217.52	729.23	511.71	235.25%
80,000	247.22	821.84	574.62	232.43%
90,000	276.92	914.44	637.52	230.22%
100,000	306.62	1,007.05	700.43	228.43%
Average Usage				
64,470	201.10	678.02	476.93	237.16%
Median Usage				
60,000	187.82	636.63	448.81	238.96%

Present Rates:

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

Proposed Rates:

Monthly Minimum:	$ 81.00
Gallons in Minimum	-
Charge Per 1,000 Gallons	
All gals	$ 9.26

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

Exhibit
Schedule H-4
Page 3
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 14.00	$ 129.60	$ 115.60	825.71%
1,000	16.97	138.86	121.89	718.27%
2,000	19.94	148.12	128.18	642.83%
3,000	22.91	157.38	134.47	586.95%
4,000	25.88	166.64	140.76	543.90%
5,000	28.85	175.90	147.05	509.71%
6,000	31.82	185.16	153.34	481.91%
7,000	34.79	194.42	159.63	458.85%
8,000	37.76	203.68	165.92	439.42%
9,000	40.73	212.94	172.21	422.82%
10,000	43.70	222.20	178.50	408.48%
12,000	49.64	240.73	191.09	384.94%
14,000	55.58	259.25	203.67	366.44%
16,000	61.52	277.77	216.25	351.51%
18,000	67.46	296.29	228.83	339.21%
20,000	73.40	314.81	241.41	328.90%
25,000	88.25	361.11	272.86	309.19%
30,000	103.10	407.41	304.31	295.16%
35,000	117.95	453.72	335.77	284.67%
40,000	132.80	500.02	367.22	276.52%
45,000	147.65	546.32	398.67	270.01%
50,000	162.50	592.62	430.12	264.69%
60,000	192.20	685.23	493.03	256.52%
70,000	221.90	777.83	555.93	250.53%
80,000	251.60	870.44	618.84	245.96%
90,000	281.30	963.04	681.74	242.35%
100,000	311.00	1,055.65	744.65	239.44%
Average Usage				
103,821	322.35	1,091.03	768.68	238.46%
Median Usage				
100,901	313.68	1,063.99	750.31	239.20%

Present Rates:

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

Proposed Rates:

Monthly Minimum:	$ 129.60
Gallons in Minimum	-
Charge Per 1,000 Gallons	
All gals	$ 9.26

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Customer Classification: 3/4 Inch Meters
Bill Count

Exhibit
Schedule H-5
Page 1
Witness: Bourassa

Usage From:	Usage To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Totals
-	-	44	34	34	40	33	33	23	20	32	28	22	17	360
1	1,000	30	29	35	16	15	27	16	27	17	19	19	26	276
1,001	2,000	21	22	30	27	31	29	31	23	20	27	34	32	327
2,001	3,000	30	33	29	35	22	25	22	15	30	28	27	34	330
3,001	4,000	27	40	32	33	34	31	33	25	29	46	41	49	420
4,001	5,000	42	27	41	44	42	46	44	34	41	34	45	58	498
5,001	6,000	27	33	38	40	39	41	19	25	34	31	45	51	423
6,001	7,000	24	28	14	19	28	28	26	30	33	24	29	32	315
7,001	8,000	14	10	13	17	23	13	14	18	21	21	19	15	198
8,001	9,000	8	11	8	7	14	9	13	18	16	16	14	6	140
9,001	10,000	2	6	1	1	4	9	9	14	14	12	17	4	93
10,001	11,000	0	3	0	2	2	4	10	11	13	8	5	4	62
11,001	12,000	0	1	0	3	3	4	14	8	6	10	4	4	57
12,001	13,000	0	3	3	0	1	5	5	6	4	10	6	1	44
13,001	14,000	0	0	2	0	2	3	4	9	6	6	3	1	36
14,001	15,000	0	1	0	1	3	0	1	4	5	3	0	0	18
15,001	16,000	0	1	0	0	0	3	2	2	3	1	1	0	13
16,001	17,000	0	0	0	1	0	0	4	6	0	3	0	0	14
17,001	18,000	0	1	0	0	0	1	2	6	1	2	0	0	13
18,001	19,000	0	0	0	0	0	2	1	2	0	1	1	1	8
19,001	20,000	0	1	0	0	0	1	2	2	1	1	0	0	8
20,001	21,000	0	1	0	0	0	0	4	2	1	1	0	0	9
21,001	22,000	0	1	0	0	0	0	1	0	1	0	0	0	3
22,001	23,000	0	0	0	0	0	1	1	2	0	1	0	0	5
23,001	24,000	0	0	0	0	0	0	3	2	0	0	0	0	5
24,001	25,000	0	0	0	0	0	0	0	0	0	0	0	0	0
25,001	26,000	0	0	0	0	0	0	0	1	0	1	0	0	2
26,001	27,000	0	1	1	0	0	0	0	1	0	1	0	0	4
27,001	28,000	0	0	0	0	0	0	0	0	0	0	0	0	0
28,001	29,000	0	1	0	0	0	0	0	0	0	1	0	0	2
29,001	30,000	0	0	0	0	0	0	0	0	0	0	0	0	0
30,001	31,000	0	0	0	0	0	0	1	0	0	0	0	0	1
31,001	32,000	0	0	0	0	0	0	0	0	0	1	0	0	1
32,001	33,000	0	0	0	0	0	1	0	0	0	0	0	0	1
33,001	34,000	0	0	0	0	0	0	0	1	0	0	0	0	1
34,001	35,000	0	0	0	0	0	0	0	0	0	0	0	0	0
35,001	36,000	0	0	0	0	0	0	0	0	0	0	0	0	0
36,001	37,000	0	0	0	0	0	0	0	0	0	0	0	0	0
37,001	38,000	0	0	0	0	0	0	0	0	0	0	0	0	0
38,001	39,000	0	0	0	0	0	0	0	0	0	0	0	0	0
39,001	40,000	0	0	0	0	0	0	0	0	0	0	0	0	0
40,001	41,000	0	0	0	0	0	0	0	0	1	0	0	0	1
41,001	42,000	0	0	0	0	0	0	0	0	0	0	0	0	0

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Customer Classification: 3/4 Inch Meters
Bill Count

Exhibit
Schedule H-5
Page 1
Witness: Bourassa

Usage From:	Usage To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Totals
42,001	43,000	0	0	0	0	0	0	0	0	0	0	0	0	0
43,001	44,000	0	0	0	0	0	0	0	0	0	0	0	0	0
44,001	45,000	0	0	0	0	0	0	0	0	0	0	0	0	0
45,001	46,000	0	0	0	0	0	0	0	0	0	0	0	0	0
46,001	47,000	0	0	0	0	0	0	0	0	0	0	0	0	0
47,001	48,000	0	0	0	0	0	0	0	0	0	0	0	0	0
48,001	49,000	0	0	0	0	0	0	1	0	0	0	0	0	1
49,001	50,000	0	0	0	0	0	0	0	0	0	0	0	0	0
50,001	51,000	0	0	0	0	0	0	0	0	0	0	0	0	0
51,001	52,000	0	0	0	0	0	0	0	0	0	0	0	0	0
52,001	53,000	0	0	0	0	0	0	0	0	0	0	0	0	0
53,001	54,000	0	0	0	0	0	0	0	0	0	0	0	0	0
54,001	55,000	0	0	0	0	0	0	0	0	0	0	0	0	0
55,001	56,000	0	0	0	0	0	0	0	0	0	0	0	0	0
56,001	57,000	0	0	0	0	0	0	0	0	0	0	0	0	0
57,001	58,000	0	0	0	0	0	0	0	0	0	0	0	0	0
58,001	59,000	0	0	0	0	0	0	0	0	0	0	0	0	0
59,001	60,000	0	0	0	0	0	0	0	0	0	0	0	0	0
60,001	61,000	0	0	0	0	0	0	0	0	0	0	0	0	0
61,001	62,000	0	0	0	0	0	0	0	0	0	0	0	0	0
62,001	63,000	0	0	0	0	0	0	0	0	0	0	0	0	0
63,001	64,000	0	0	0	0	0	0	0	0	0	0	0	0	0
64,001	65,000	0	0	0	0	0	0	0	0	0	0	0	0	0
65,001	66,000	0	0	0	0	0	0	0	0	0	0	0	0	0
66,001	67,000	0	0	0	0	0	0	0	0	0	0	0	0	0
67,001	68,000	0	0	0	0	0	0	0	0	0	0	0	0	0
68,001	69,000	0	0	0	0	0	0	0	0	0	0	0	0	0
69,001	70,000	0	0	0	0	0	0	0	0	0	0	0	0	0
70,001	71,000	0	0	0	0	0	0	0	0	0	0	0	0	0
71,001	72,000	0	0	0	0	0	0	0	0	0	0	0	0	0
72,001	73,000	0	0	0	0	0	0	0	0	0	0	0	0	0
73,001	74,000	0	0	0	0	0	0	0	0	0	0	0	0	0
74,001	75,000	0	0	0	0	0	0	0	0	0	0	0	0	0
75,001	76,000	0	0	0	0	0	0	0	0	0	0	0	0	0
76,001	77,000	0	0	0	0	0	0	0	0	0	0	0	0	0
77,001	78,000	0	0	0	0	0	0	0	0	0	0	0	0	0
78,001	79,000	0	0	0	0	0	0	0	0	0	0	0	0	0
79,001	80,000	0	0	0	0	0	0	0	0	0	0	0	0	0
80,001	81,000	0	0	0	0	0	0	0	0	0	0	0	0	0
81,001	82,000	0	0	0	0	0	0	0	0	0	0	0	0	0
82,001	83,000	0	0	0	0	0	0	0	0	0	0	0	0	0
83,001	84,000	0	0	0	0	0	0	0	0	0	0	0	0	0
84,001	85,000	0	0	0	0	0	0	0	0	0	0	0	0	0

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Customer Classification: 3/4 Inch Meters
Bill Count

Exhibit
Schedule H-5
Page 1
Witness: Bourassa

Usage From:	Usage To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Totals
85,001	86,000	0	0	0	0	0	0	0	0	0	0	0	0	0
86,001	87,000	0	0	0	0	0	0	0	0	0	0	0	0	0
87,001	88,000	0	0	0	0	0	0	0	0	0	0	0	0	0
88,001	89,000	0	0	0	0	0	0	0	0	0	0	0	0	0
89,001	90,000	0	0	0	0	0	0	0	0	0	0	0	0	0
90,001	91,000	0	0	0	0	0	0	0	0	0	0	0	0	0
91,001	92,000	0	0	0	0	0	0	0	0	0	0	0	0	0
92,001	93,000	0	0	0	0	0	0	0	0	0	0	0	0	0
93,001	94,000	0	0	0	0	0	0	0	0	0	0	0	0	0
94,001	95,000	0	0	0	0	0	0	0	0	0	0	0	0	0
95,001	96,000	0	0	0	0	0	0	0	0	0	0	0	0	0
96,001	97,000	0	0	0	0	0	0	0	0	0	0	0	0	0
97,001	98,000	0	0	0	0	0	0	0	0	0	0	0	0	0
98,001	99,000	0	0	0	0	0	0	0	0	0	0	0	0	0
99,001	100,000	0	0	0	0	0	0	0	0	0	0	0	0	0
														0
Totals		269	288	281	286	296	316	306	314	329	337	332	335	3,689
Average Number of Customers												307		
Average Usage												4,740		

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Customer Classification 1 1/2 Inch Meters
Bill Count

Exhibit
Schedule H-5
Page 2
Witness: Bourassa

Usage From:	To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
-	-													0
1	1,000													0
1,001	2,000													0
2,001	3,000													0
3,001	4,000													0
4,001	5,000													0
5,001	6,000													0
6,001	7,000													0
7,001	8,000													0
8,001	9,000													0
9,001	10,000													0
10,001	11,000													0
11,001	12,000													0
12,001	13,000													0
13,001	14,000													0
14,001	15,000													0
15,001	16,000													0
16,001	17,000													0
17,001	18,000													0
18,001	19,000													0
19,001	20,000													0
20,001	21,000													0
21,001	22,000													0
22,001	23,000													0
23,001	24,000													0
24,001	25,000													0
25,001	26,000													0
26,001	27,000													0
27,001	28,000													0
28,001	29,000													0
29,001	30,000													0
30,001	31,000													0
31,001	32,000													0
32,001	33,000													0
33,001	34,000													0
34,001	35,000													0
35,001	36,000													0
36,001	37,000													0
37,001	38,000													0
38,001	39,000													0

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Customer Classification 1 1/2 Inch Meters
Bill Count

Exhibit
Schedule H-5
Page 2
Witness: Bourassa

Usage From:	To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
39,001	40,000													0
40,001	41,000													0
41,001	42,000													0
42,001	43,000													0
43,001	44,000													0
44,001	45,000													0
45,001	46,000													0
46,001	47,000													0
47,001	48,000										1		1	2
48,001	49,000					1								1
49,001	50,000			1										1
50,001	51,000													0
51,001	52,000													0
52,001	53,000													0
53,001	54,000	1												1
54,001	55,000													0
55,001	56,000													0
56,001	57,000													0
57,001	58,000													0
58,001	59,000						1							1
59,001	60,000													0
60,001	61,000											1		1
61,001	62,000													0
62,001	63,000													0
63,001	64,000		1											1
64,001	65,000													0
65,001	66,000				1									1
66,001	67,000													0
67,001	68,000													0
68,001	69,000													0
69,001	70,000													0
70,001	71,000													0
71,001	72,000													0
72,001	73,000													0
73,001	74,000													0
74,001	75,000													0
75,001	76,000									1				1
76,001	77,000													0
77,001	78,000													0
78,001	79,000													0

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Customer Classification 1 1/2 Inch Meters
Bill Count

Exhibit
Schedule H-5
Page 2
Witness: Bourassa

Usage From:	Usage To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
79,001	80,000													0
80,001	81,000													0
81,001	82,000													0
82,001	83,000													0
83,001	84,000													0
84,001	85,000													0
85,001	86,000													0
86,001	87,000													0
87,001	88,000													0
88,001	89,000													0
89,001	90,000													0
90,001	91,000													0
91,001	92,000													0
92,001	93,000													0
93,001	94,000													0
94,001	95,000							1						1
95,001	96,000													0
96,001	97,000													0
97,001	98,000													0
98,001	99,000													0
99,001	100,000													0
Over 100,000 gallons														
103,639	103,639								1					1
	-													0
														0
		1	1	1	1	1	1	1	1	1	1	1	1	12
											Average Usage			64,470

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Customer Classification: 2 Inch Meters - Commercial
Bill Count

Exhibit
Schedule H-5
Page 3
Witness: Bourassa

Usage From:	To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
-	-	-	-	-	-	-	-	-	-	-	-	-	-	
1	1,000	-	-	-	-	-	-	-	-	-	-	-	-	0
1,001	2,000	-	-	-	-	-	-	-	-	-	-	-	-	0
2,001	3,000	-	-	-	-	-	-	-	-	-	-	-	-	0
3,001	4,000	-	-	-	-	-	-	-	-	-	-	-	-	0
4,001	5,000	-	-	-	-	-	-	-	-	-	-	-	-	0
5,001	6,000	-	-	-	-	-	-	-	-	-	-	-	-	0
6,001	7,000	-	-	-	-	-	-	-	-	-	-	-	-	0
7,001	8,000	-	-	-	-	-	-	-	-	-	-	-	-	0
8,001	9,000	-	-	-	-	-	-	-	-	-	-	-	-	0
9,001	10,000	-	-	-	-	-	-	-	-	-	-	-	-	0
10,001	11,000	-	-	-	-	-	-	-	-	-	-	-	-	0
11,001	12,000	-	-	-	-	-	-	-	-	-	-	-	-	0
12,001	13,000	-	-	-	-	-	-	-	-	-	-	-	-	0
13,001	14,000	-	-	-	-	-	-	-	-	-	-	-	-	0
14,001	15,000	-	-	-	-	-	-	-	-	-	-	-	-	0
15,001	16,000	-	-	-	-	-	-	-	-	-	-	-	-	0
16,001	17,000	-	-	-	-	-	-	-	-	-	-	-	-	0
17,001	18,000	-	-	-	-	-	-	-	-	-	-	-	-	0
18,001	19,000	-	-	-	-	-	-	-	-	-	-	-	-	0
19,001	20,000	-	-	-	-	-	-	-	-	-	-	-	-	0
20,001	21,000	-	-	-	-	-	-	-	-	-	-	-	-	0
21,001	22,000	-	-	-	-	-	-	-	-	-	-	-	-	0
22,001	23,000	-	-	-	-	-	-	-	-	-	-	-	-	0
23,001	24,000	-	-	-	-	-	-	-	-	-	-	-	-	0
24,001	25,000	-	-	-	-	-	-	-	-	-	-	-	-	0
25,001	26,000	-	-	-	-	-	-	-	-	-	-	-	-	0
26,001	27,000	-	-	-	-	-	-	-	-	-	-	-	-	0
27,001	28,000	-	-	-	-	-	-	-	-	-	-	-	-	0
28,001	29,000	-	-	-	-	-	-	-	-	-	-	-	-	0
29,001	30,000	-	-	-	-	-	-	-	-	-	-	-	-	0
30,001	31,000	-	-	-	-	-	-	-	-	-	-	-	-	0
31,001	32,000	-	-	-	-	-	-	-	-	-	-	-	-	0
32,001	33,000	-	-	-	-	-	-	-	-	-	-	-	-	0
33,001	34,000	-	-	-	-	-	-	-	-	-	-	-	-	0
34,001	35,000	-	-	-	-	-	-	-	-	-	-	-	-	0
35,001	36,000	-	-	-	-	-	-	-	-	-	-	-	-	0
36,001	37,000	-	-	-	-	-	-	-	-	-	-	-	-	0

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Customer Classification: 2 Inch Meters - Commercial
Bill Count

Exhibit
Schedule H-5
Page 3
Witness: Bourassa

Usage From:	To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
37,001	38,000	-	-	-	-	-	-	-	-	-	-	-	-	0
38,001	39,000	-	-	-	-	-	-	-	-	-	-	-	-	0
39,001	40,000	-	-	-	-	-	-	-	-	-	-	-	-	0
40,001	41,000	-	-	-	-	-	-	-	-	-	-	-	-	0
41,001	42,000	-	1	-	-	-	-	-	-	-	-	-	-	1
42,001	43,000	-	-	-	-	-	-	-	-	-	-	-	-	0
43,001	44,000	-	-	-	-	-	-	-	-	-	-	-	-	0
44,001	45,000	-	-	-	-	-	-	-	-	-	-	-	-	0
45,001	46,000	-	-	-	-	-	-	-	-	-	-	-	-	0
46,001	47,000	-	-	-	-	-	-	-	-	-	-	-	-	0
47,001	48,000	-	-	-	-	-	-	-	-	-	-	-	-	0
48,001	49,000	-	-	-	-	-	-	-	-	-	-	-	-	0
49,001	50,000	-	-	-	-	-	-	-	-	-	-	-	-	0
50,001	51,000	-	-	-	-	-	-	-	-	-	-	-	-	0
51,001	52,000	-	-	-	-	-	-	-	-	-	-	-	-	0
52,001	53,000	-	-	-	-	-	-	-	-	-	-	-	-	0
53,001	54,000	-	-	-	-	-	-	-	-	-	-	-	-	0
54,001	55,000	-	-	-	-	-	-	-	-	-	-	-	-	0
55,001	56,000	-	-	-	-	-	-	-	-	-	-	-	-	0
56,001	57,000	-	-	-	-	-	-	-	-	-	-	-	-	0
57,001	58,000	-	-	-	-	-	-	-	-	-	-	-	-	0
58,001	59,000	-	-	-	-	-	-	-	-	-	-	-	-	0
59,001	60,000	-	-	-	-	-	-	-	-	-	-	-	-	0
60,001	61,000	-	-	-	-	-	-	-	-	-	-	-	-	0
61,001	62,000	-	-	-	-	-	-	-	-	-	-	-	-	0
62,001	63,000	-	-	-	-	-	-	-	-	-	-	-	-	0
63,001	64,000	-	-	-	-	-	-	-	-	-	-	-	-	0
64,001	65,000	-	-	-	-	-	-	-	-	-	-	-	-	0
65,001	66,000	-	-	-	-	-	-	-	-	-	-	-	-	0
66,001	67,000	-	-	-	-	-	-	-	-	-	-	-	-	0
67,001	68,000	-	-	-	-	-	-	-	-	-	-	-	-	0
68,001	69,000	-	-	-	-	-	-	-	-	-	-	-	-	0
69,001	70,000	-	-	-	-	-	-	-	-	-	-	-	-	0
70,001	71,000	-	-	-	-	-	-	-	-	-	-	-	-	0
71,001	72,000	-	-	-	-	-	-	-	-	-	-	-	-	0
72,001	73,000	-	-	-	-	-	-	-	-	-	-	-	-	0
73,001	74,000	-	-	-	-	-	-	-	-	-	-	-	-	0
74,001	75,000	-	-	-	-	-	-	-	-	-	-	-	-	0

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Customer Classification: 2 Inch Meters - Commercial
Bill Count

Exhibit
Schedule H-5
Page 3
Witness: Bourassa

Usage From:	To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
75,001	76,000	-	-	-	-	-	-	-	-	-	-	-	-	0
76,001	77,000	-	-	-	-	-	-	-	-	-	-	-	-	0
77,001	78,000	-	-	-	-	-	-	-	-	-	-	-	-	0
78,001	79,000	-	-	-	-	-	-	-	-	-	-	-	-	0
79,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	0
80,001	81,000	-	-	-	-	-	-	-	-	-	-	-	-	0
81,001	82,000	-	-	-	-	-	-	-	-	-	-	-	-	0
82,001	83,000	-	-	-	-	-	-	-	-	-	-	-	-	0
83,001	84,000	-	-	-	-	-	-	-	-	-	-	-	-	0
84,001	85,000	-	-	-	-	-	-	-	-	-	-	-	-	0
85,001	86,000	-	-	-	-	-	-	-	-	-	-	-	-	0
86,001	87,000	-	-	-	-	-	-	-	-	-	-	-	-	0
87,001	88,000	1	-	-	-	-	-	-	-	-	-	-	-	1
88,001	89,000	-	-	-	-	-	-	-	-	-	-	-	-	0
89,001	90,000	-	-	-	1	-	-	-	-	-	-	-	-	1
90,001	91,000	-	-	-	-	-	-	-	-	-	-	-	-	0
91,001	92,000	-	-	-	-	-	-	-	-	-	-	-	-	0
92,001	93,000	-	-	-	-	1	-	-	-	-	-	-	-	1
93,001	94,000	-	-	-	-	-	-	-	-	-	-	-	-	0
94,001	95,000	-	-	-	-	-	-	-	-	-	1	-	-	1
95,001	96,000	-	-	-	-	-	-	-	-	-	-	-	-	0
96,001	97,000	-	-	-	-	-	-	-	-	-	-	-	-	0
97,001	98,000	-	-	-	-	-	-	-	-	-	-	-	-	0
98,001	99,000	-	-	-	-	-	-	-	-	-	-	-	-	0
99,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	0
Over 100,000 gallons														
100,276	100,276	-	-	-	-	-	-	-	-	-	-	-	1	1
101,526	101,526	-	-	-	-	-	-	-	-	-	-	1	-	1
102,726	102,726	-	-	-	-	-	1	-	-	-	-	-	-	1
103,104	103,104	-	-	1	-	-	-	-	-	-	-	-	-	1
103,639	103,639	-	-	-	-	-	-	-	-	-	-	-	-	0
125,174	125,174	-	-	-	-	-	-	1	-	-	-	-	-	1
141,694	141,694	-	-	-	-	-	-	-	1	-	-	-	-	1
165,845	165,845	-	-	-	-	-	-	-	-	1	-	-	-	1
														0
														0
		1	1	1	1	1	1	1	1	1	1	1	1	12
Average Usage														103,821

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C. – SEWER DIVISION, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-_____

SEWER DIVISION
SUPPORTING RATE SCHEDULES

THOMAS J. BOURASSA

EXHIBIT B

36100-00000.139

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

Exhibit
Schedule A-1
Page 1
Witness: Bourassa

Line No.			
1	Fair Value Rate Base	$	1,401,953
2			
3	Adjusted Operating Income		(40,014)
4			
5	Current Rate of Return		-2.85%
6			
7	Required Operating Income	$	147,205
8			
9	Required Rate of Return on Fair Value Rate Base		10.50%
10			
11	Operating Income Deficiency	$	187,219
12			
13	Gross Revenue Conversion Factor		1.0000
14			
15	Increase in Gross Revenue		
16	Requirement	$	187,219

	Customer Classification (Residential Commercial, Irrigation)	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
21	3/4 Inch Residential	$ 47,983	$ 127,970	$ 79,988	166.70%
22	1.5 Inch Commercial	2,750	7,334	$ 4,584	166.70%
23	2 Inch Commercial	3,326	8,872	$ 5,545	166.70%
24					0.00%
25	Revenue Annualization	3,836	10,230	$ 6,394	166.70%
26					0.00%
27	Proforma Revenues	54,353	144,959	$ 90,606	166.70%
28				-	0.00%
29	**Subtotal**	$ 112,248	$ 299,365	$ 187,117	166.70%
30					
31	Other Revenues	1,657	1,657	-	0.00%
32					0.00%
33					0.00%
34	**Total of Water Revenues (a)**	$ 113,905	$ 301,022	$ 187,117	164.27%

35
36
37
38
39
40
41 SUPPORTING SCHEDULES:
42 B-1
43 C-1
44 C-3
45 H-1
46

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Summary of Results of Operations

Exhibit
Schedule A-2
Page 1
Witness: Bourassa

Line No.	Description	Prior Years Ended 12/31/2003	Prior Years Ended 12/31/2004	Test Year Actual 12/31/2005	Test Year Adjusted 12/31/2005	Projected Year Present Rates 12/31/2006	Projected Year Proposed Rates 12/31/2006
1	Gross Revenues	$ -	$ 28,031	$ 47,803	$ 113,905	$ 113,905	$ 301,124
2							
3	Revenue Deductions and	-	44,113	134,582	153,919	153,919	153,919
4	Operating Expenses						
5							
6	Operating Income	$ -	$ (16,083)	$ (86,779)	$ (40,014)	$ (40,014)	$ 147,205
7							
8	Other Income and	-	-	-	-	-	-
9	Deductions						
10							
11	Interest Expense	-	-	-	-	-	-
12							
13	Net Income	$ -	$ (16,083)	$ (86,779)	$ (40,014)	$ (40,014)	$ 147,205
14							
15	Earned Per Average						
16	Common Share	-	(0.03)	(0.19)	(0.09)	(0.09)	0.32
17							
18	Dividends Per						
19	Common Share	-	-	-	-	-	-
20							
21	Payout Ratio	-	-	-	-	-	-
22							
23	Return on Average						
24	Invested Capital	0.00%	-155.67%	-10.90%	-193.65%	-277.62%	1021.34%
25							
26	Return on Year End						
27	Capital	0.00%	-77.83%	-5.52%	-193.65%	-490.19%	1803.34%
28							
29	Return on Average						
30	Common Equity	0.00%	-155.67%	-10.90%	-6099.84%	-2.58%	8.95%
31							
32	Return on Year End						
33	Common Equity	0.00%	-77.83%	-5.52%	206.78%	-2.61%	8.56%
34							
35	Times Bond Interest Earned						
36	Before Income Taxes	-	-	-	-	-	-
37							
38	Times Total Interest and						
39	Preferred Dividends Earned						
40	After Income Taxes	-	-	-	-	-	-
41							
42							
43	SUPPORTING SCHEDULES						
44	C-1						
45	E-2						
46	F-1						

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Construction Expenditures
and Gross Utility Plant in Service

Exhibit
Schedule A-4
Page 1
Witness: Bourassa

Line No.		Construction Expenditures	Net Plant Placed in Service	Gross Utility Plant in Service
1				
2	Prior Year Ended 12/31/2002	-	-	-
3				
4	Prior Year Ended 12/31/2003	-	-	-
5				
6	Prior Year Ended 12/31/2004	-	-	-
7				
8	Test Year Ended 12/31/2005	1,624,802	1,624,802	1,624,802
9				
10	Projected Year Ended 12/31/2006	-	-	1,624,802
11				
12				
13				
14				
15	SUPPORTING SCHEDULES:			
16	B-2			
17	E-5			
18	F-3			
19				
20				

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

Exhibit
Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 1,624,802	$ 1,624,802
3	Less: Accumulated Depreciation	32,797	32,797
4			
5	Net Utility Plant in Service	$ 1,592,005	$ 1,592,005
6			
7	Less:		
8	Advances in Aid of		
9	Construction	197,973	197,973
10	Contributions in Aid of		
11	Construction - Net of amortization	-	-
12	Customer Meter Deposits	-	-
13	Deferred Income Taxes & Credits	-	-
14	Investment tax Credits	-	-
15	Plant Held for Future Use	-	-
16			
17	Plus:		
18	Unamortized Finance		
19	Charges	-	-
20	Deferred Tax Assets	-	-
21	Allowance for Working Capital	7,921	7,921
22			
23			
24	Total Rate Base	$ 1,401,953	$ 1,401,953
25			
26			
27			
28	SUPPORTING SCHEDULES:		
29	B-2		
30	B-3		
31	B-5		
32	E-1		
33			

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

Exhibit
Schedule B-2
Page 1
Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustments Label	Proforma Adjustments Amount	Adjusted at end of Test Year
1	Gross Utility				
2	Plant in Service	$ 1,624,802			$ 1,624,802
3					
4	**Less:**				
5	Accumulated				
6	Depreciation	65,422	1	(32,625)	32,797
7					
8					
9	Net Utility Plant				
10	in Service	$ 1,559,380			$ 1,592,005
11					
12	**Less:**				
13	Advances in Aid of				
14	Construction	-	2	197,973	197,973
15					
16	Contributions in Aid of				
17	Construction - Net	-			-
18					
19	Customer Refundable Meter Deposits	-			-
20	Deferred Income Tax Liability	-			-
21	Investment Tax Credits	-			-
22	Plant Held for Future Use	-			-
23					
24	**Plus:**				
25	Unamortized Finance				
26	Charges	-			-
27	Deferred Income Tax Asset	-			-
28	Working capital	-	3	7,921	7,921
29		-			-
30					
31	Total	$ 1,559,380			$ 1,401,953
32					
33					
34					
35	SUPPORTING SCHEDULES:				RECAP SCHEDULES:
36	B-2, pages 2-4				B-1
37	E-1				
38					
39					
40					
41					
42					
43					
44					

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

Exhibit
Schedule B-2
Page 2
Witness: Bourassa

Line No.			
1	Accumulated Depreciation Adjustment		
2			
3	Computed Balance	$	32,797
4	Balance per Company Schedule E-1		65,422
5	Difference	$	(32,625)
6			
7			
8			
9			
10			
11	Increase (Decrease) to Accumulated Depreciation	$	(32,625)
12			
13			
14			
15	SUPPORTING SCHEDULES		
16	B-2, pages 2a-2c		
17			
18			
19			
20			

Utility Source, LLC - Sewer Division
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 2a
Witness: Bourassa

Account No.	Description	Deprec. Rate	12/31/2004	2004 Accum. Depr.	2004 Plant Additions	2004 Plant Adjustments	2004 Adjusted Plant Additions	2004 Plant Retirements	2004 Plant Balance	2004 Depr.
351	Organization	0.00%	-				-		-	-
352	Franchises	0.00%	-				-		-	-
353	Land and Land Rights	0.00%	-				-		-	-
354	Structures and Improvements	3.33%	-				-		-	-
355	Power Generation Equipment	5.00%	-				-		-	-
360	Collection Sewers - Force	2.00%	-				-		-	-
361	Collection Sewers - Gravity	2.00%	-				-		-	-
362	Special Collecting Structures	2.00%	-				-		-	-
363	Services to Customers	2.00%	-				-		-	-
364	Flow Measuring Devices	10.00%	-				-		-	-
365	Flow Measuring Installations	10.00%					-		-	-
370	Receiving Wells	3.33%	-				-		-	-
371	Pumping Equipment	12.50%	-				-		-	-
380	Treatment and Disposal Equipment	5.00%	-				-		-	-
381	Plant Sewers	5.00%	-				-		-	-
382	Outfall Sewer Lines	3.33%	-				-		-	-
389	Other Plant and Misc. Equipment	6.67%	-				-		-	-
390	Office Furniture and Equipment	6.67%	-				-		-	-
391	Transportation Equipment	20.00%	-				-		-	-
393	Tools, Shop and Garage Equipment.	5.00%	-				-		-	-
394	Laboratory Equipment	10.00%	-				-		-	-
395	Power Operated Equipment	5.00%	-				-		-	-
398	Other TangiblePlant	10.00%	-				-		-	-
			-				-		-	-
			-				-		-	-
			-				-		-	-
			-				-		-	-
			-				-		-	-
	Plant Held for Future Use						-		-	-
	TOTAL WATER PLANT		-	-	-	-	-	-	-	-
	Depreciation								-	
(a)	Staff Accumulated Depreciation Allocated to Plant.		-							
	Retirements (excluding land)								-	
	Accumulated Depreciation Balance			-					-	
	Half Year Convention used on depreciation									

Utility Source, LLC - Sewer Division
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 4b
Witness: Bourassa

Account No.	Description	Deprec. Rate	2005 Depreciable Balance	2005 Plant Additions	2005 Plant Adjustments	2005 Adjusted Plant Additions	2005 Plant Retirements	Plant Retirements To Date	2005 Plant Balance	2005 Deprec.
351	Organization	0.00%	-			-		-	-	-
352	Franchises	0.00%	-			-		-	-	-
353	Land and Land Rights	0.00%	-	105,000		105,000		-	105,000	-
354	Structures and Improvements	3.33%	-	56,350		56,350		-	56,350	938
355	Power Generation Equipment	5.00%	-	32,200		32,200		-	32,200	805
360	Collection Sewers - Force	2.00%	-			-		-	-	-
361	Collection Sewers - Gravity	2.00%	-	260,553		260,553		-	260,553	2,606
362	Special Collecting Structures	2.00%	-			-		-	-	-
363	Services to Customers	2.00%	-	60,375		60,375		-	60,375	604
364	Flow Measuring Devices	10.00%	-			-		-	-	-
365	Flow Measuring Installations	10.00%	-	3,450		3,450		-	3,450	173
370	Receiving Wells	3.33%	-			-		-	-	-
371	Pumping Equipment	12.50%	-			-		-	-	-
380	Treatment and Disposal Equipment	5.00%	-	1,106,874		1,106,874		-	1,106,874	27,672
381	Plant Sewers	5.00%	-			-		-	-	-
382	Outfall Sewer Lines	3.33%	-			-		-	-	-
389	Other Plant and Misc. Equipment	6.67%	-			-		-	-	-
390	Office Furniture and Equipment	6.67%	-			-		-	-	-
391	Transportation Equipment	20.00%	-			-		-	-	-
393	Tools, Shop and Garage Equipment.	5.00%	-			-		-	-	-
394	Laboratory Equipment	10.00%	-			-		-	-	-
395	Power Operated Equipment	5.00%	-			-		-	-	-
398	Other TangiblePlant	10.00%	-			-		-	-	-
			-			-		-	-	-
			-			-		-	-	-
			-			-		-	-	-
			-			-		-	-	-
			-			-		-	-	-
	Plant Held for Future Use		-			-		-	-	-
	TOTAL WATER PLANT		-	1,624,802	-	1,624,802	-	-	1,624,802	32,797
	Depreciation								32,797	
(a)	Staff Accumulated Depreciation Allocated to Plant.									
	Retirements (excluding land)								-	
	Accumulated Depreciation Balance								32,797	
	Half Year Convention used on depreciation									

Utility Source, LLC - Sewer Division
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 4c
Witness: Bourassa

Account No.	Description	Deprec. Rate	Year End Accumulated Depreciation by Account Dec-04 2004	Dec-05 2005
351	Organization	0.00%	-	-
352	Franchises	0.00%	-	-
353	Land and Land Rights	0.00%	-	-
354	Structures and Improvements	3.33%	-	938
355	Power Generation Equipment	5.00%	-	805
360	Collection Sewers - Force	2.00%	-	-
361	Collection Sewers - Gravity	2.00%	-	2,606
362	Special Collecting Structures	2.00%	-	-
363	Services to Customers	2.00%	-	604
364	Flow Measuring Devices	10.00%	-	-
365	Flow Measuring Installations	10.00%	-	173
370	Receiving Wells	3.33%	-	-
371	Pumping Equipment	12.50%	-	-
380	Treatment and Disposal Equipment	5.00%	-	27,672
381	Plant Sewers	5.00%	-	-
382	Outfall Sewer Lines	3.33%	-	-
389	Other Plant and Misc. Equipment	6.67%	-	-
390	Office Furniture and Equipment	6.67%	-	-
391	Transportation Equipment	20.00%	-	-
393	Tools, Shop and Garage Equipment.	5.00%	-	-
394	Laboratory Equipment	10.00%	-	-
395	Power Operated Equipment	5.00%	-	-
398	Other TangiblePlant	10.00%	-	-
			-	-
			-	-
			-	-
			-	-
			-	-
	Plant Held for Future Use		-	-
	TOTAL WATER PLANT		-	32,797
	Depreciation			
(a)	Staff Accumulated Depreciation Allocated to Plant.			
	Retirements (excluding land)			
	Accumulated Depreciation Balance			
	Half Year Convention used on depreciation			

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

Exhibit
Schedule B-2
Page 3
Witness: Bourassa

Line No.			
1	Unrecorded developer Advances-in-Aid of Constrcution		
2			
3	Flagstaff Meadows LXA	$	197,973
4			
5			
6			
7			
8	Increase (Decrease) to Advances-in-Aid of Construction	$	197,973
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Computation of Working Capital

Exhibit
Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	7,921
3	Pumping Power (1/24 of Pumping Power)		-
4	Purchased Water (1/24 of Purchased Water)		-
5	Material and Supplies Inventories		-
6	Prepayments		-
7			
8			
9	Total Working Capital Allowance	$	7,921
10			
11			
12	Working Capital Requested	$	7,921
13			
14			
15	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
16	E-1	B-1	
17			

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Income Statement

Exhibit
Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Book Results	Label	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**						
2	Flat Rate and Metered Revenues	$ 46,145	4/5/6	$ 66,103	$ 112,248	$ 187,219	$ 299,467
3	Misc. Service Revenues	-			-		-
4	Other Wastewater Revenues	1,657			1,657		1,657
5		$ 47,803		$ 66,103	$ 113,905	$ 187,219	$ 301,124
6	**Operating Expenses**						
7	Salaries and Wages	$ -			$ -		$ -
8	Purchased Wastewater Treatment	-			-		-
9	Sludge Removal Expense	-			-		-
10	Purchased Power	17,423			17,423		17,423
11	Fuel for Power Production	-			-		-
12	Chemicals	3,945			3,945		3,945
13	Materials and Supplies	4,793			4,793		4,793
14	Contractual Services - Professional	1,195			1,195		1,195
15	Contractual Services - Testing	20,472			20,472		20,472
16	Contractual Services - Other	15,000			15,000		15,000
17	Repairs and Maintenance	-			-		-
18	Rents	-			-		-
19	Transportation Expenses	-			-		-
20	Insurance	-			-		-
21	Regulatory Commission Expense - Rate Case	-	3	12,500	12,500		12,500
22	Miscellaneous Expense	5,465			5,465		5,465
23	Depreciation Expense	65,422	1	172	65,594		65,594
24	Taxes Other Than Income	-			-		-
25	Property Taxes	867	2	6,666	7,533		7,533
26	Income Tax	-					
27							
28					-		-
29	**Total Operating Expenses**	$ 134,582		$ 19,337	$ 153,919	$ -	$ 153,919
30	**Operating Income**	$ (86,779)		$ 46,765	$ (40,014)	$ 187,219	$ 147,205
31	**Other Income (Expense)**						
32	Interest Income	-			-		-
33	Other income	-			-		-
34	Interest Expense	-			-		-
35	Other Expense	-			-		-
36		-			-		-
37	**Total Other Income (Expense)**	$ -		$ -	$ -	$ -	$ -
38	**Net Profit (Loss)**	$ (86,779)		$ 46,765	$ (40,014)	$ 187,219	$ 147,205
39							
40	SUPPORTING SCHEDULES:					RECAP SCHEDULES:	
41	C-2					A-1	
42	E-2						
43							

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

Exhibit
Schedule C-2
Page 1
Witness: Bourassa

Adjustments to Revenues and Expenses

Line No.		1 Depreciation Expense	2 Property Taxes	3 Rate Case Expense	4 Unbilled Revenues	5 Revenue Annualization	6 Proforma Revenues	Subtotal
3	Revenues				7,914	3,836	54,353	66,103
5	Expenses	172	6,666	12,500				19,337
8	Operating Income	(172)	(6,666)	(12,500)	7,914	3,836	54,353	46,765
11	Interest Expense							-
14	Other Income / Expense							-
16	Net Income	(172)	(6,666)	(12,500)	7,914	3,836	54,353	46,765

Adjustments to Revenues and Expenses

		7 Intentionally Left Blank	8 Intentionally Left Blank	9 Intentionally Left Blank	10 Intentionally Left Blank	11 Intentionally Left Blank	12 Intentionally Left Blank	Subtotal
23	Revenues							66,103
25	Expenses							19,337
28	Operating Income	-	-	-	-	-	-	46,765
31	Interest Expense							-
34	Other Income / Expense							-
36	Net Income	-	-	-	-	-	-	46,765

Adjustments to Revenues and Expenses

		13 Intentionally Left Blank	14 Intentionally Left Blank	15 Intentionally Left Blank	16 Intentionally Left Blank	17 Intentionally Left Blank	18 Intentionally Left Blank	Total
43	Revenues							66,103
45	Expenses							19,337
48	Operating Income	-	-	-	-	-	-	46,765
51	Interest Expense							-
54	Other Income / Expense							-
56	Net Income	-	-	-	-	-	-	46,765

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Schedule C-2
Page 2
Witness: Bourassa

Line No.					
1	Depreciation Expense				
2					
3	Account			Proposed	Depreciation
4	No.	Description	Original Cost	Rate	Expense
5	351	Organization	-	0.00%	-
6	352	Franchises	-	0.00%	-
7	353	Land and Land Rights	105,000	0.00%	-
8	354	Structures and Improvements	56,350	3.33%	1,876
9	355	Power Generation Equipment	32,200	5.00%	1,610
10	360	Collection Sewers - Force	-	2.00%	-
11	361	Collection Sewers - Gravity	260,553	2.00%	5,211
12	362	Special Collecting Structures	-	2.00%	-
13	363	Services to Customers	60,375	2.00%	1,208
14	364	Flow Measuring Devices	-	10.00%	-
15	365	Flow Measuring Installations	3,450	10.00%	345
16	370	Receiving Wells	-	3.33%	-
17	371	Pumping Equipment	-	12.50%	-
18	380	Treatment and Disposal Equipment	1,106,874	5.00%	55,344
19	381	Plant Sewers	-	5.00%	-
20	382	Outfall Sewer Lines	-	3.33%	-
21	389	Other Plant and Misc. Equipment	-	6.67%	-
22	390	Office Furniture and Equipment	-	6.67%	-
23	391	Transportation Equipment	-	20.00%	-
24	393	Tools, Shop and Garage Equipment.	-	5.00%	-
25	394	Laboratory Equipment	-	10.00%	-
26	395	Power Operated Equipment	-	5.00%	-
27	398	Other TangiblePlant	-	10.00%	-
28					
29					
30					
31					
32					
33					
34		TOTALS	$ 1,624,802		$ 65,594
35					
36	**Other**				
37					-
38					
39			$ -		$ -
40					
41	**Post Test Year Plant per B-2**				
42					-
43					-
44					-
45	Total PTY Plant		$ -		$ -
45					
46	Less: Amortization of Contributions - Balance End of TY		$ -	4.0370%	$ -
47					
48	Total Depreciation Expense				$ 65,594
49					
50					
51					
52	Adjusted Depreciation Expense				$ 65,594
53					
54	Test Year Depreciation Expense				$ 65,422
55					
56	Increase (decrease) in Depreciation Expense				$ 172
57					
58	Adjustment to Revenues and/or Expenses				$ 172
59					
60					

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

Exhibit
Schedule C-2
Page 3
Witness: Bourassa

Line No.			
1	Adjust Property Taxes to Reflect Proposed Revenues:		
2			
3	Adjusted Revenues in year ended 09/31/05	$	113,905
4	Adjusted Revenues in year ended 09/31/05		113,905
5	Proposed Revenues		301,124
6	Average of three year's of revenue	$	176,311
7	Average of three year's of revenue, times 2	$	352,623
8	Add:		
9	Construction Work in Progess at 10%	$	-
10	Deduct:		
11	Book Value of Transportation Equipment		-
12			
13	Full Cash Value	$	352,623
14	Assessment Ratio		23.50%
15	Assessed Value		82,866
16	Property Tax Rate		9.0903%
17			
18	Property Tax		7,533
19	Tax on Parcels		0
20			
21	Total Property Tax at Proposed Rates	$	7,533
22	Property Taxes in the test year		867
23	Change in Property Taxes	$	6,666
24			
25			
26	Adjustment to Revenues and/or Expenses	$	6,666
27			
28			

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 3

Exhibit
Schedule C-2
Page 4
Witness: Bourassa

Line No.			
1	Rate Case Expense		
2			
3	Estimated Rate Case Expense	$	50,000
4			
5	Estimated Amortization Period in Years		4
6			
7	Annual Rate Case Expense	$	12,500
8			
9	Test Year Rate Case Expense	$	-
10			
11	Increase(decrease) Rate Case Expense	$	12,500
12			
13	Adjustment to Revenue and/or Expense	$	12,500
14			
15			
16			
17			
18			
19			
20			

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

Exhibit
Schedule C-2
Page 5
Witness: Bourassa

Line No.			
1	Unrecorded Revenues		
2			
3			
4	Unrecorded Revenues	$	7,914
5			
6			
7			
8	Total	$	7,914
9			
10			
11	Adjustment to Revenue and/or Expense	$	7,914
12			
13	SUPPORTING SCHEDULES		
14	H-1		
15			
16			
17			
18			
19			
20			

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Schedule C-2
Page 6
Witness: Bourassa

Line No.			
1	Revenue Annualization		
2			
3			
4	Revenue Annualization	$	3,836
5			
6			
7			
8	Total Revenue from Annualization	$	3,836
9			
10			
11	Adjustment to Revenue and/or Expense	$	3,836
12			
13	SUPPORTING SCHEDULES		
14	C-2		
15	H-1		
16			
17			
18			
19			
20			

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Schedule C-2
Page 7
Witness: Bourassa

Line No.			
1	Proforma Customer Growth		
2			
3			
4	Projected Customer Growth 3/4 Inch Meter		350
5	Average Bill	$	12.94
6	No. of bills		12
7	Total Revenues from Projected Growth	$	54,353
8			
9			
10	Adjustment to Revenue and/or Expense	$	54,353
11			
12	SUPPORTING SCHEDULES		
13	C-2		
14	H-1		
15			
16			
17			
18			
19			
20			

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

Exhibit
Schedule C-3
Page 1
Witness: Bourassa

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

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

Exhibit
Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	End of Test Year Dollar Amount	Percent of Total	(e) Cost Rate	Weighted Cost	End of Projected Year Dollar Amount	Percent of Total	(e) Cost Rate	Weighted Cost
1	Long-Term Debt	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	0.00%
2									
3	Stockholder's Equity (1)	1,604,435	100.00%	10.50%	10.50%	1,751,640	100.00%	10.50%	10.50%
4									
5	Totals	1,604,435	100.00%		10.50%	1,751,640	100.00%		10.50%
6									
7									
8	**(1) Increase Equity for A/D adjustment 1, B-2, page 1**	**$**	**32,625**						
9									
10									
11	SUPPORTING SCHEDULES:								RECAP SCHEDULES:
12	D-1								A-3
13	D-3								
14	D-4								
15	E-1								
16									
17									
18									
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									
31									

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Cost of Long Term Debt

Exhibit
Schedule D-2
Page 1
Witness: Bourassa

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

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Cost of Preferred Stock

Exhibit
Schedule D-3
Page 1
Witness: Bourassa

Line No.	Description of Issue	End of Test Year Shares Outstanding	End of Test Year Amount	End of Test Year Dividend Requirement	End of Projected Year Shares Outstanding	End of Projected Year Amount	End of Projected Year Dividend Requirement
1							
2							
3	NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING						
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17	SUPPORTING SCHEDULES:			RECAP SCHEDULES:			
18	(a) E-1			(a) D-1			
19							
20							

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Cost of Common Equity

Exhibit
Schedule D-4
Page 1
Witness: Bourassa

Line No.	
1	
2	The Company is proposing a cost of common equity of 10.5% .
3	
4	
5	
6	
7	
8	
9	
10	
11	
12	
13	
14	
15	
16	
17	SUPPORTING SCHEDULES: RECAP SCHEDULES:
18	(a) E-1 (a) D-1
19	
20	

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Comparative Balance Sheets

Exhibit
Schedule E-1
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2005	Year Ended 12/31/2004	Year Ended 12/31/2003
1	**ASSETS**			
2	Plant In Service	$ 1,624,802	$ -	$ -
3				
4	Non-Utility Plant	-	-	-
5	Construction Work in Progress	-	-	-
6	Less: Accumulated Depreciation	(65,422)	-	-
7	Net Plant	$ 1,559,380	$ -	$ -
8				
9	Debt Reserve Fund	$ -	$ -	$ -
10				
11		$ -	$ -	$ -
12				
13	CURRENT ASSETS			
14	Cash and Equivalents	$ 1,471	$ 12,707	$ -
15	Restricted Cash	-	-	-
16	Accounts Receivable, Net	10,959	7,956	-
17	Unbilled Revenues	-	-	-
18	Materials and Supplies	-	-	-
19	Prepayments	-	-	-
20	Other Current Assets	-	-	-
21	Total Current Assets	$ 12,430	$ 20,663	$ -
22				
23	Deferred Debits	$ -	$ -	$ -
24				
25	Other Investments & Special Funds	$ -	$ -	$ -
26				
27	TOTAL ASSETS	$ 1,571,810	$ 20,663	$ -
28				
29				
30	**LIABILITIES AND STOCKHOLDERS' EQUITY**			
31				
32	Common Equity	$ 1,571,810	$ 20,663	$ -
33				
34	Long-Term Debt	$ -	$ -	$ -
35				
36	CURRENT LIABILITIES			
37	Accounts Payable	$ -	$ -	$ -
38	Current Portion of Long-Term Debt	-	-	-
39	Payables to Associated Companies	-	-	-
40	Customer Meter Deposits, Current	-	-	-
41	Accrued Taxes	-	-	-
42	Accrued Interest	-	-	-
43	Other Current Liabilities	-	-	-
44	Total Current Liabilities	$ -	$ -	$ -
45	DEFERRED CREDITS			
46	Customer Meter Deposits, less current	$ -	$ -	$ -
47	Advances in Aid of Construction	-	-	-
48	Accumulated Deferred Income Taxes	-	-	-
49	Contributions In Aid of Construction, Net	-	-	-
50	Asset Retirement Obligations	-	-	-
51	Total Deferred Credits	$ -	$ -	$ -
52				
53	Total Liabilities & Common Equity	$ 1,571,810	$ 20,663	$ -
54				
55	SUPPORTING SCHEDULES:			
56	E-5			
57				

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Comparative Income Statements

Exhibit
Schedule E-2
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2005	Prior Year Ended 12/31/2004	Prior Year Ended 12/31/2003
1	**Revenues**			
2	Flat Rate and Metered Revenues	$ 46,145	$ 28,031	$ -
3	Misc. Service Revenues	-	-	-
4	Other Wastewater Revenues	1,657	-	-
5	**Total Revenues**	$ 47,803	$ 28,031	$ -
6	**Operating Expenses**			
7	Salaries and Wages	$ -	$ -	$ -
8	Purchased Wastewater Treatment	-	-	-
9	Sludge Removal Expense	-	-	-
10	Purchased Power	17,423	18,047	-
11	Fuel for Power Production	-	-	-
12	Chemicals	3,945	-	-
13	Materials and Supplies	4,793	4,425	-
14	Contractual Services - Professional	1,195	21,272	-
15	Contractual Services - Testing	20,472	-	-
16	Contractual Services - Other	15,000	-	-
17	Repairs and Maintenance	-	-	-
18	Rents	-	-	-
19	Transportation Expenses	-	-	-
20	Insurance	-	-	-
21	Regulatory Commission Expense - Rate Case	-	-	-
22	Miscellaneous Expense	5,465	369	-
23	Depreciation Expense	65,422	-	-
24	Taxes Other Than Income	-	-	-
25	Property Taxes	867	-	
26	Income Tax	-	-	
27				
28	**Total Operating Expenses**	$ 134,582	$ 44,113	$ -
29	**Operating Income**	$ (86,779)	$ (16,083)	$ -
30	**Other Income (Expense)**			
31	Interest Income	-	-	-
32	Other income	-	-	-
33	Interest Expense	-	-	-
34	Other Expense	-	-	-
35				
36	**Total Other Income (Expense)**	$ -	$ -	$ -
37	**Net Profit (Loss)**	$ (86,779)	$ (16,083)	$ -
38				
39				

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Detail of Plant in Service

Exhibit
Schedule E-5
Page 1
Witness: Bourassa

Line No.	Acct. No.	Plant Description	Plant Balance at 12/31/2004	Plant Additions, Reclass-ications or or Retirements	Plant Balance at 12/31/2005
1					
2	351	Organization	$ -	$ -	$ -
3	352	Franchises	-	-	-
4	353	Land and Land Rights	-	105,000	105,000
5	354	Structures and Improvements	-	56,350	56,350
6	355	Power Generation Equipment	-	32,200	32,200
7	360	Collection Sewers - Force	-	-	-
8	361	Collection Sewers - Gravity	-	260,553	260,553
9	362	Special Collecting Structures	-	-	-
10	363	Services to Customers	-	60,375	60,375
11	364	Flow Measuring Devices	-	-	-
12	365	Flow Measuring Installations	-	3,450	3,450
13	370	Receiving Wells	-	-	-
14	371	Pumping Equipment	-	-	-
15	380	Treatment and Disposal Equipment	-	1,106,874	1,106,874
16	381	Plant Sewers	-	-	-
17	382	Outfall Sewer Lines	-	-	-
18	389	Other Plant and Misc. Equipment	-	-	-
19	390	Office Furniture and Equipment	-	-	-
20	391	Transportation Equipment	-	-	-
21	393	Tools, Shop and Garage Equipment.	-	-	-
22	394	Laboratory Equipment	-	-	-
23	395	Power Operated Equipment	-	-	-
24	398	Other TangiblePlant	-	-	-
25					
26					
27					
28					
29					
30					
31					
32		TOTAL WATER PLANT	$ -	$ 1,624,802	$ 1,624,802
33					
34		SUPPORTING SCHEDULES		RECAP SCHEDULES:	
35				A-4	
36				E-1	
37					

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Operating Statistics

Exhibit
Schedule E-7
Page 1
Witness: Bouras

Line No.		Test Year Ended 12/31/2005	Prior Year Ended 12/31/2004	Prior Year Ended 12/31/2003
1	WATER STATISTICS:			
2				
3				
4				
5	Total Gallons Treated (in Thousands)	19,596	0	0
6				
7				
8				
9	Wastewater Revenues from Customers:	$ 46,145	$ -	$ -
10				
11				
12				
13				
14	Year End Number of Customers	337	-	-
15				
16				
17	Annual Gallons (in Thousands)			
18	Treated Per Year End Customer	58	0	0
19				
20				
21				
22	Annual Revenue per Year End Customer	$ 136.93	$ -	$ -
23				
24	Pumping Cost Per 1,000 Gallons	$ 0.8891	$ -	$ -
25	Purchased Water Cost per 1,000 Gallons	$ -	$ -	$ -

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Taxes Charged to Operations

Exhibit
Schedule E-8
Page 1
Witness: Bourassa

Line No.	Description	Test Year Ended 12/31/2005	Prior Year Ended 12/31/2004	Prior Year Ended 12/31/2003
1	Description			
2				
3	Federal Income Taxes	$ -	$ -	$ -
4	State Income Taxes	-	-	-
5	Payroll Taxes	-	-	-
6	Property Taxes	867	-	-
7				
8	Totals	$ 867	$ -	$ -
9				
10				
11				
12				
13				
14				

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Notes To Financial Statements

Exhibit
Schedule E-9
Page 1
Witness: Bourassa

The Company does conduct independent audits

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Projected Income Statements - Present & Proposed Rates

Exhibit
Schedule F-1
Page 1
Witness: Bourassa

Line No.		Test Year Actual Results	At Present Rates Year Ended 12/31/2006	At Proposed Rates Year Ended 12/31/2006
1	**Revenues**			
2	Flat Rate and Metered Revenues	$ 46,145	$ 112,248	$ 299,467
3	Misc. Service Revenues	-	-	-
4	Other Wastewater Revenues	1,657	1,657	1,657
5		$ 47,803	$ 113,905	$ 301,124
6	**Operating Expenses**			
7	Salaries and Wages	$ -	$ -	$ -
8	Purchased Wastewater Treatment	-	-	-
9	Sludge Removal Expense	-	-	-
10	Purchased Power	17,423	17,423	17,423
11	Fuel for Power Production	-	-	-
12	Chemicals	3,945	3,945	3,945
13	Materials and Supplies	4,793	4,793	4,793
14	Contractual Services - Professional	1,195	1,195	1,195
15	Contractual Services - Testing	20,472	20,472	20,472
16	Contractual Services - Other	15,000	15,000	15,000
17	Repairs and Maintenance	-	-	-
18	Rents	-	-	-
19	Transportation Expenses	-	-	-
20	Insurance	-	-	-
21	Regulatory Commission Expense - Rate Case	-	12,500	12,500
22	Miscellaneous Expense	5,465	5,465	5,465
23	Depreciation Expense	65,422	65,594	65,594
24	Taxes Other Than Income	-	-	-
25	Property Taxes	867	7,533	7,533
26	Income Tax	-	-	-
27				
28	**Total Operating Expenses**	$ 134,582	$ 153,919	$ 153,919
29	**Operating Income**	$ (86,779)	$ (40,014)	$ 147,205
30	**Other Income (Expense)**			
31	Interest Income	-	-	-
32	Other income	-	-	-
33	Interest Expense	-	-	-
34	Other Expense	-	-	-
35	Gain/Loss Sale of Fixed Assets	-	-	-
36	**Total Other Income (Expense)**	$ -	$ -	$ -
37	**Net Profit (Loss)**	$ (86,779)	$ (40,014)	$ 147,205
38				

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Projected Construction Requirements

Exhibit
Schedule F-3
Page 1
Witness: Bourassa

Line No.	Account Number	Plant Asset:	Test Year	2006
1				
2				
3				
4	301	Organization Cost	$ -	$ -
5	302	Franchise Cost	-	-
6	303	Land and Land Rights	105,000	-
7	304	Structures and Improvements	56,350	-
8	306	Lake, River and Other Intakes	32,200	-
9	307	Wells and Springs	-	-
10	310	Power Generation Equipment	260,553	-
11	311	Electric Pumping Equipment	-	-
12	320	Water Treatment Equipment	60,375	-
13	330	Distribution Reservoirs & Standpipe	-	-
14	331	Transmission and Distribution Mains	3,450	-
15	333	Services	-	-
16	334	Meters	-	-
17	335	Hydrants	1,106,874	-
18	339	Plant Structures and Improvements	-	-
19	340	Office Furniture and Fixtures	-	-
20	341	Transportation Equipment	-	-
21	343	Tools and Work Equipment	-	-
22	344	Power Operated Equipment	-	-
23	345	Communications Equipment	-	-
24	346	Miscellaneous Equipment	-	-
25	348	Other Tangible Plant	-	-
26			-	
27	Total		$ 1,624,802	$ -
28				
29				
30				

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Assumptions Used in Rate Filing

Exhibit
Schedule F-4
Page 1
Witness: Bourassa

Line No.	
1	Property Taxes were computed using the method used by the Arizona Department
2	of Revenue
3	
4	Projected construction expenditures are shown on Schedule A-4.
5	
6	Expense adjustments are shown on Schedule C2, and are explained in the testimony.
7	
8	
9	
10	
11	
12	
13	
14	
15	

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

Exhibit
Schedule H-1
Page 1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1							
2	3/4 Inch Meter - Residential	47,983	127,970	79,988	166.70%	42.13%	42.51%
3	1 Inch Meter						
4	1.5 Inch Meter Motel	2,750	7,334	4,584	166.70%	2.41%	2.44%
5	2 Inch Meter Commercial	3,326	8,872	5,545	166.70%	2.92%	2.95%
6							
7	Miscellaneous Revenues	1,657	1,657	-	0.00%	1.46%	0.55%
8	Total Water Revenues	$ 55,717	$ 145,834	$ 90,117	161.74%	48.91%	48.45%
9	3/4 Inch customer revenue						
10	annualized to end of year, based on						
11	year end number of customers	$ 3,836	$ 10,230	$ 6,394	166.70%	3.37%	3.40%
12	Proforma Revenues (1)	$ 54,353	$ 144,959	$ 90,606	166.70%	47.72%	48.16%
13	Total Water Revenues, after correction for						
14	Billing to hundreds of Gallons	$ 113,905	$ 301,022	$ 187,117	164.27%	52.28%	51.84%
15							
16	(1) See C-2 adjustment number 6.						
17							
18	Total Water Revenues without Revenue						
19	Annualization and Proforma Revenues		$ 55,717				
20	Water Revenues Per General Ledger	$ 47,803					
21	C-2 Adjustment for Unrecorded Revenues(2)	$ 7,914	$ 55,717				
22	Difference		$0				
23							
24	Percentage Error		0.00%				
25							
26	(2) Company billed less than it should have based on water usage.						
27	Accounted for in C-2 adjustment 4.						

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

Exhibit
Schedule H-2
Page 1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Average Number of Customers at 12/31/2005	Average Water Usage	Revenues Present Rates	Revenues Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1							
2	3/4 Inch Meter - Residential	307	4,740	$ 47,983	$ 127,970	$ 79,988	166.70%
3	1 Inch Meter	-	-	$ -	$ -	$ -	0.00%
4	1.5 Inch Meter Motel	1	64,470	$ 2,750	$ 7,334	$ 4,584	166.70%
5	2 Inch Meter Commercial	1	103,821	$ 3,326	$ 8,872	$ 5,545	166.70%
6	3/4 Inch Meter - Residential Revenue Annualization	307	4,740	$ 3,836	$ 10,230	$ 6,394	166.70%
7	Proforma Revenues	350	4,740	$ 54,353	$ 144,959	$ 90,606	166.70%
8							

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

Exhibit
Schedule H-3
Page 1
Witness: Bourassa

Line No.	Customer Classification and Meter Size	Present Rates	Proposed Rates	Percent Change
1	**Monthly Usage Charge for:**			
2	Flat Rates			
3	Residential	$ -	$ -	0.00%
4	Commercial and Industrial			
5	Car washes, laudromats, Commercial, Manufacturing	-	-	0.00%
6	Hotels, Motels	-	-	0.00%
7	Restauarants	-	-	0.00%
8	Industrial Laundries	-	-	0.00%
9	Waste haulers	-	-	0.00%
10	Restuarant Grease	-	-	0.00%
11	Treatment Plant Sludge	-	-	0.00%
12	Mud Sump Waste	-	-	0.00%
13				
14	Rate per 1,000 Gallons of Water Usage			
15	Residential	$ 2.73	$ 7.28	166.70%
16	Commercial and Industrial			
17	Car washes, laudromats, Commercial, Manufacturing	2.67	7.12	166.70%
18	Hotels, Motels	3.58	9.55	166.70%
19	Restauarants	4.42	11.79	166.70%
20	Industrial Laundries	3.92	10.45	166.70%
21	Waste haulers	80.00	213.36	166.70%
22	Restuarant Grease	70.00	186.69	166.70%
23	Treatment Plant Sludge	80.00	213.36	166.70%
24	Mud Sump Waste	250.00	666.75	166.70%
25				
26				
27	Gallons In Minimum			
28	All Meter Sizes	-	-	
29				
30				
31				
32				
33	TAXES AND ASSESSMENTS			
34	In addition to all other rates and charges authorized herein, the Company shall collect from its customers all applicable sales, transaction, privilege,			
35	regulatory or other taxes and assessments as may apply now or in the future, per Rule R14-2-608(D)(5).			
36				
37				
38				
39				
40				
41				
42				
43				
44				
45				

Exhibit
Schedule H-3
Page 2
Witness: Bourassa

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

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment per Rule R14-2-603D (a)	$ 20.00	$ 20.00
2	Establishment, after hours	$ 40.00	$ 40.00
3	Re-establishment, per Rule R14-2-603D	$ 40.00	$ 40.00
4	Re-connection of Service, per Rule R-14-2-603D	$ 50.00	$ 50.00
5	Reconnection, after hours	$ 40.00	$ 40.00
6	Deposit Requirement, per Rule R14-2-603B	(b)	(b)
7	NSF check charge , per RUle R14-2-608E (c)	$ 20.00	$ 20.00
8	Deferred Payment Charge, per month (d)	1.50%	1.50%
9	Late Payment, per month	1.50%	1.50%
10	Service Calls, per hour (e)	40.00	$ 40.00
11	Service Lateral Connection Charge (f)		
12	Residential	$ 500.00	$ 500.00
13	Commercial	Cost	Cost
14	Main Extension	(g)	(g)
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

26 (a) Same customer, same location within 12 months. Number of months off the system times the monthly minimum.
27 (b) The Company does not normally require a deposit prior to provision of service. However, if service is not in the property owner's name, this deposit is required.
28 Also, in the event service is disconnected for non-payment, this deposit may be required.
29 Residential - 2 times the estimated average monthly bill
30 Non-residential - 2 1/2 times the estimated maximum monthly bill.
31 Deposit interest 3.0%
32 (c) This charge does not apply if wastewater service is paid with the same NSF check used to pay for water service for which the NSF fee is charged.
33 (d) Deferred paymets for wastewater service are only available is established in connection wih deferred payments for water service.
34 (e) For service problem found to be on Customer's side of property line, Company will not repair the problem.
35 (f) Company shall own the Service lateral up to the Customer's property line. Company shall maintain and operate the Service lateral only from the connection
36 to the main line or the right-of-way up to its connection with the Customer's Service lateral at the edge of the right-of-way, beyond which maintenance
37 is the Customer's responsibility.
38 (g) All Main Extensions shall be completed at cost and shall be non-refundable Contributions-in-Aid of Construction.
39
40 TAXES AND ASSESSMENTS
41 In addition to all other rates and charges authorized herein, the Company shall collect from its customers all applicable sales, transaction, privilege,
42 regulatory or other taxes and assessments as may apply now or in the future, per Rule R14-2-608(D)(5).
43
44

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

Exhibit
Schedule H-4
Page 1
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ -	$ -	$ -	#DIV/0!
1,000	2.73	7.28	4.55	166.70%
2,000	5.46	14.56	9.10	166.70%
3,000	8.19	21.84	13.65	166.70%
4,000	10.92	29.12	18.20	166.70%
5,000	13.65	36.40	22.75	166.70%
6,000	16.38	43.69	27.31	166.70%
7,000	19.11	50.97	31.86	166.70%
8,000	21.84	58.25	36.41	166.70%
9,000	24.57	65.53	40.96	166.70%
10,000	27.30	72.81	45.51	166.70%
12,000	32.76	87.37	54.61	166.70%
14,000	38.22	101.93	63.71	166.70%
16,000	43.68	116.49	72.81	166.70%
18,000	49.14	131.06	81.92	166.70%
20,000	54.60	145.62	91.02	166.70%
25,000	68.25	182.02	113.77	166.70%
30,000	81.90	218.43	136.53	166.70%
35,000	95.55	254.83	159.28	166.70%
40,000	109.20	291.24	182.04	166.70%
45,000	122.85	327.64	204.79	166.70%
50,000	136.50	364.05	227.55	166.70%
60,000	163.80	436.85	273.05	166.70%
70,000	191.10	509.66	318.56	166.70%
80,000	218.40	582.47	364.07	166.70%
90,000	245.70	655.28	409.58	166.70%
100,000	273.00	728.09	455.09	166.70%
Average Usage				
4,740	$ 12.94	$ 34.51	$ 21.57	166.70%
Median Usage				
4,500	$ 12.29	$ 32.76	$ 20.48	166.70%

Present Rates:

Monthly Minimum:	$ -
Gallons in Minimum	-
Charge Per 1,000 Gallons	
	$ 2.73

Proposed Rates:

Monthly Minimum:	$ -
Gallons in Minimum	-
Charge Per 1,000 Gallons	
	$ 7.28

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

Exhibit
Schedule H-4
Page 2
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ -	$ -	$ -	#DIV/0!
1,000	3.58	9.55	5.97	166.70%
2,000	7.16	19.10	11.94	166.70%
3,000	10.74	28.64	17.90	166.70%
4,000	14.32	38.19	23.87	166.70%
5,000	17.90	47.74	29.84	166.70%
6,000	21.48	57.29	35.81	166.70%
7,000	25.06	66.84	41.78	166.70%
8,000	28.64	76.38	47.74	166.70%
9,000	32.22	85.93	53.71	166.70%
10,000	35.80	95.48	59.68	166.70%
12,000	42.96	114.57	71.61	166.70%
14,000	50.12	133.67	83.55	166.70%
16,000	57.28	152.77	95.49	166.70%
18,000	64.44	171.86	107.42	166.70%
20,000	71.60	190.96	119.36	166.70%
25,000	89.50	238.70	149.20	166.70%
30,000	107.40	286.44	179.04	166.70%
35,000	125.30	334.18	208.88	166.70%
40,000	143.20	381.91	238.71	166.70%
45,000	161.10	429.65	268.55	166.70%
50,000	179.00	477.39	298.39	166.70%
60,000	214.80	572.87	358.07	166.70%
70,000	250.60	668.35	417.75	166.70%
80,000	286.40	763.83	477.43	166.70%
90,000	322.20	859.31	537.11	166.70%
100,000	358.00	954.79	596.79	166.70%
Average Usage				
64,470	230.80	615.55	384.75	166.70%
Median Usage				
60,000	214.80	572.87	358.07	166.70%

Present Rates:

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

Proposed Rates:

Monthly Minimum:	$	-
Gallons in Minimum		-
Charge Per 1,000 Gallons		
	$	9.55

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

Exhibit
Schedule H-4
Page 2
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase

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

Exhibit
Schedule H-4
Page 3
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ -	$ -	$ -	#DIV/0!
1,000	2.67	7.12	4.45	166.70%
2,000	5.34	14.24	8.90	166.70%
3,000	8.01	21.36	13.35	166.70%
4,000	10.68	28.48	17.80	166.70%
5,000	13.35	35.60	22.25	166.70%
6,000	16.02	42.73	26.71	166.70%
7,000	18.69	49.85	31.16	166.70%
8,000	21.36	56.97	35.61	166.70%
9,000	24.03	64.09	40.06	166.70%
10,000	26.70	71.21	44.51	166.70%
12,000	32.04	85.45	53.41	166.70%
14,000	37.38	99.69	62.31	166.70%
16,000	42.72	113.93	71.21	166.70%
18,000	48.06	128.18	80.12	166.70%
20,000	53.40	142.42	89.02	166.70%
25,000	66.75	178.02	111.27	166.70%
30,000	80.10	213.63	133.53	166.70%
35,000	93.45	249.23	155.78	166.70%
40,000	106.80	284.84	178.04	166.70%
45,000	120.15	320.44	200.29	166.70%
50,000	133.50	356.04	222.54	166.70%
60,000	160.20	427.25	267.05	166.70%
70,000	186.90	498.46	311.56	166.70%
80,000	213.60	569.67	356.07	166.70%
90,000	240.30	640.88	400.58	166.70%
100,000	267.00	712.09	445.09	166.70%
Average Usage				
103,821	277.20	739.30	462.09	166.70%
Median Usage				
100,901	269.41	718.50	449.10	166.70%

Present Rates:

Monthly Minimum:	$ -
Gallons in Minimum	-
Charge Per 1,000 Gallons	$ 2.67

Proposed Rates:

Monthly Minimum:	$ -
Gallons in Minimum	-
Charge Per 1,000 Gallons	$ 7.12

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Customer Classification: 3/4 Inch Meters
Bill Count

Exhibit
Schedule H-5
Page 1
Witness: Bourassa

Usage From:	Usage To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Totals
-	-	44	34	34	40	33	33	23	20	32	28	22	17	360
1	1,000	30	29	35	16	15	27	16	27	17	19	19	26	276
1,001	2,000	21	22	30	27	31	29	31	23	20	27	34	32	327
2,001	3,000	30	33	29	35	22	25	22	15	30	28	27	34	330
3,001	4,000	27	40	32	33	34	31	33	25	29	46	41	49	420
4,001	5,000	42	27	41	44	42	46	44	34	41	34	45	58	498
5,001	6,000	27	33	38	40	39	41	19	25	34	31	45	51	423
6,001	7,000	24	28	14	19	28	28	26	30	33	24	29	32	315
7,001	8,000	14	10	13	17	23	13	14	18	21	21	19	15	198
8,001	9,000	8	11	8	7	14	9	13	18	16	16	14	6	140
9,001	10,000	2	6	1	1	4	9	9	14	14	12	17	4	93
10,001	11,000	0	3	0	2	2	4	10	11	13	8	5	4	62
11,001	12,000	0	1	0	3	3	4	14	8	6	10	4	4	57
12,001	13,000	0	3	3	0	1	5	5	6	4	10	6	1	44
13,001	14,000	0	0	2	0	2	3	4	9	6	6	3	1	36
14,001	15,000	0	1	0	1	3	0	1	4	5	3	0	0	18
15,001	16,000	0	1	0	0	0	3	2	2	3	1	1	0	13
16,001	17,000	0	0	0	1	0	0	4	6	0	3	0	0	14
17,001	18,000	0	1	0	0	0	1	2	6	1	2	0	0	13
18,001	19,000	0	0	0	0	0	2	1	2	0	1	1	1	8
19,001	20,000	0	1	0	0	0	1	2	2	1	1	0	0	8
20,001	21,000	0	1	0	0	0	0	4	2	1	1	0	0	9
21,001	22,000	0	1	0	0	0	0	1	0	1	0	0	0	3
22,001	23,000	0	0	0	0	0	1	1	2	0	1	0	0	5
23,001	24,000	0	0	0	0	0	0	3	2	0	0	0	0	5
24,001	25,000	0	0	0	0	0	0	0	0	0	0	0	0	0
25,001	26,000	0	0	0	0	0	0	0	1	0	1	0	0	2
26,001	27,000	0	1	1	0	0	0	0	1	0	1	0	0	4
27,001	28,000	0	0	0	0	0	0	0	0	0	0	0	0	0
28,001	29,000	0	1	0	0	0	0	0	0	0	1	0	0	2
29,001	30,000	0	0	0	0	0	0	0	0	0	0	0	0	0
30,001	31,000	0	0	0	0	0	0	1	0	0	0	0	0	1
31,001	32,000	0	0	0	0	0	0	0	0	0	1	0	0	1
32,001	33,000	0	0	0	0	0	1	0	0	0	0	0	0	1
33,001	34,000	0	0	0	0	0	0	0	1	0	0	0	0	1
34,001	35,000	0	0	0	0	0	0	0	0	0	0	0	0	0
35,001	36,000	0	0	0	0	0	0	0	0	0	0	0	0	0
36,001	37,000	0	0	0	0	0	0	0	0	0	0	0	0	0
37,001	38,000	0	0	0	0	0	0	0	0	0	0	0	0	0
38,001	39,000	0	0	0	0	0	0	0	0	0	0	0	0	0
39,001	40,000	0	0	0	0	0	0	0	0	0	0	0	0	0
40,001	41,000	0	0	0	0	0	0	0	0	1	0	0	0	1
41,001	42,000	0	0	0	0	0	0	0	0	0	0	0	0	0

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Customer Classification: 3/4 Inch Meters
Bill Count

Exhibit
Schedule H-5
Page 1
Witness: Bourassa

Usage From:	Usage To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Totals
42,001	43,000	0	0	0	0	0	0	0	0	0	0	0	0	0
43,001	44,000	0	0	0	0	0	0	0	0	0	0	0	0	0
44,001	45,000	0	0	0	0	0	0	0	0	0	0	0	0	0
45,001	46,000	0	0	0	0	0	0	0	0	0	0	0	0	0
46,001	47,000	0	0	0	0	0	0	0	0	0	0	0	0	0
47,001	48,000	0	0	0	0	0	0	0	0	0	0	0	0	0
48,001	49,000	0	0	0	0	0	0	1	0	0	0	0	0	1
49,001	50,000	0	0	0	0	0	0	0	0	0	0	0	0	0
50,001	51,000	0	0	0	0	0	0	0	0	0	0	0	0	0
51,001	52,000	0	0	0	0	0	0	0	0	0	0	0	0	0
52,001	53,000	0	0	0	0	0	0	0	0	0	0	0	0	0
53,001	54,000	0	0	0	0	0	0	0	0	0	0	0	0	0
54,001	55,000	0	0	0	0	0	0	0	0	0	0	0	0	0
55,001	56,000	0	0	0	0	0	0	0	0	0	0	0	0	0
56,001	57,000	0	0	0	0	0	0	0	0	0	0	0	0	0
57,001	58,000	0	0	0	0	0	0	0	0	0	0	0	0	0
58,001	59,000	0	0	0	0	0	0	0	0	0	0	0	0	0
59,001	60,000	0	0	0	0	0	0	0	0	0	0	0	0	0
60,001	61,000	0	0	0	0	0	0	0	0	0	0	0	0	0
61,001	62,000	0	0	0	0	0	0	0	0	0	0	0	0	0
62,001	63,000	0	0	0	0	0	0	0	0	0	0	0	0	0
63,001	64,000	0	0	0	0	0	0	0	0	0	0	0	0	0
64,001	65,000	0	0	0	0	0	0	0	0	0	0	0	0	0
65,001	66,000	0	0	0	0	0	0	0	0	0	0	0	0	0
66,001	67,000	0	0	0	0	0	0	0	0	0	0	0	0	0
67,001	68,000	0	0	0	0	0	0	0	0	0	0	0	0	0
68,001	69,000	0	0	0	0	0	0	0	0	0	0	0	0	0
69,001	70,000	0	0	0	0	0	0	0	0	0	0	0	0	0
70,001	71,000	0	0	0	0	0	0	0	0	0	0	0	0	0
71,001	72,000	0	0	0	0	0	0	0	0	0	0	0	0	0
72,001	73,000	0	0	0	0	0	0	0	0	0	0	0	0	0
73,001	74,000	0	0	0	0	0	0	0	0	0	0	0	0	0
74,001	75,000	0	0	0	0	0	0	0	0	0	0	0	0	0
75,001	76,000	0	0	0	0	0	0	0	0	0	0	0	0	0
76,001	77,000	0	0	0	0	0	0	0	0	0	0	0	0	0
77,001	78,000	0	0	0	0	0	0	0	0	0	0	0	0	0
78,001	79,000	0	0	0	0	0	0	0	0	0	0	0	0	0
79,001	80,000	0	0	0	0	0	0	0	0	0	0	0	0	0
80,001	81,000	0	0	0	0	0	0	0	0	0	0	0	0	0
81,001	82,000	0	0	0	0	0	0	0	0	0	0	0	0	0
82,001	83,000	0	0	0	0	0	0	0	0	0	0	0	0	0
83,001	84,000	0	0	0	0	0	0	0	0	0	0	0	0	0
84,001	85,000	0	0	0	0	0	0	0	0	0	0	0	0	0

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Customer Classification: 3/4 Inch Meters
Bill Count

Exhibit
Schedule H-5
Page 1
Witness: Bourassa

Usage From:	Usage To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Totals
85,001	86,000	0	0	0	0	0	0	0	0	0	0	0	0	0
86,001	87,000	0	0	0	0	0	0	0	0	0	0	0	0	0
87,001	88,000	0	0	0	0	0	0	0	0	0	0	0	0	0
88,001	89,000	0	0	0	0	0	0	0	0	0	0	0	0	0
89,001	90,000	0	0	0	0	0	0	0	0	0	0	0	0	0
90,001	91,000	0	0	0	0	0	0	0	0	0	0	0	0	0
91,001	92,000	0	0	0	0	0	0	0	0	0	0	0	0	0
92,001	93,000	0	0	0	0	0	0	0	0	0	0	0	0	0
93,001	94,000	0	0	0	0	0	0	0	0	0	0	0	0	0
94,001	95,000	0	0	0	0	0	0	0	0	0	0	0	0	0
95,001	96,000	0	0	0	0	0	0	0	0	0	0	0	0	0
96,001	97,000	0	0	0	0	0	0	0	0	0	0	0	0	0
97,001	98,000	0	0	0	0	0	0	0	0	0	0	0	0	0
98,001	99,000	0	0	0	0	0	0	0	0	0	0	0	0	0
99,001	100,000	0	0	0	0	0	0	0	0	0	0	0	0	0
		0	0	0	0	0	0	0	0	0	0	0	0	0
														0
Totals		269	288	281	286	296	316	306	314	329	337	332	335	3,689
Average Number of Customers												307		
Average Usage												4,740		

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Customer Classification 1 1/2 Inch Meters
Bill Count

Exhibit
Schedule H-5
Page 2
Witness: Bourassa

Usage From:	To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
-	-													0
1	1,000													0
1,001	2,000													0
2,001	3,000													0
3,001	4,000													0
4,001	5,000													0
5,001	6,000													0
6,001	7,000													0
7,001	8,000													0
8,001	9,000													0
9,001	10,000													0
10,001	11,000													0
11,001	12,000													0
12,001	13,000													0
13,001	14,000													0
14,001	15,000													0
15,001	16,000													0
16,001	17,000													0
17,001	18,000													0
18,001	19,000													0
19,001	20,000													0
20,001	21,000													0
21,001	22,000													0
22,001	23,000													0
23,001	24,000													0
24,001	25,000													0
25,001	26,000													0
26,001	27,000													0
27,001	28,000													0
28,001	29,000													0
29,001	30,000													0
30,001	31,000													0
31,001	32,000													0
32,001	33,000													0
33,001	34,000													0
34,001	35,000													0
35,001	36,000													0
36,001	37,000													0
37,001	38,000													0
38,001	39,000													0

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Customer Classification 1 1/2 Inch Meters
Bill Count

Exhibit
Schedule H-5
Page 2
Witness: Bourassa

Usage From:	To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
39,001	40,000													0
40,001	41,000													0
41,001	42,000													0
42,001	43,000													0
43,001	44,000													0
44,001	45,000													0
45,001	46,000													0
46,001	47,000													0
47,001	48,000										1		1	2
48,001	49,000					1								1
49,001	50,000			1										1
50,001	51,000													0
51,001	52,000													0
52,001	53,000													0
53,001	54,000	1												1
54,001	55,000													0
55,001	56,000													0
56,001	57,000													0
57,001	58,000													0
58,001	59,000						1							1
59,001	60,000													0
60,001	61,000											1		1
61,001	62,000													0
62,001	63,000													0
63,001	64,000		1											1
64,001	65,000													0
65,001	66,000				1									1
66,001	67,000													0
67,001	68,000													0
68,001	69,000													0
69,001	70,000													0
70,001	71,000													0
71,001	72,000													0
72,001	73,000													0
73,001	74,000													0
74,001	75,000													0
75,001	76,000									1				1
76,001	77,000													0
77,001	78,000													0
78,001	79,000													0

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Customer Classification 1 1/2 Inch Meters
Bill Count

Exhibit
Schedule H-5
Page 2
Witness: Bourassa

Usage From:	To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
79,001	80,000													0
80,001	81,000													0
81,001	82,000													0
82,001	83,000													0
83,001	84,000													0
84,001	85,000													0
85,001	86,000													0
86,001	87,000													0
87,001	88,000													0
88,001	89,000													0
89,001	90,000													0
90,001	91,000													0
91,001	92,000													0
92,001	93,000													0
93,001	94,000													0
94,001	95,000							1						1
95,001	96,000													0
96,001	97,000													0
97,001	98,000													0
98,001	99,000													0
99,001	100,000													0
Over 100,000 gallons														
103,639	103,639								1					1
	-													0
	-													0
	-													0
	-													0
	-													0
	-													0
	-													0
	-													0
	-													0
	-													0
	-													0
	-													0
	-													0
	-													0
		1	1	1	1	1	1	1	1	1	1	1	1	12
													Average Usage	64,470

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Customer Classification: 2 Inch Meters - Commercial
Bill Count

Exhibit
Schedule H-5
Page 3
Witness: Bourassa

Usage From:	To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
-	-	-	-	-	-	-	-	-	-	-	-	-	-	
1	1,000	-	-	-	-	-	-	-	-	-	-	-	-	0
1,001	2,000	-	-	-	-	-	-	-	-	-	-	-	-	0
2,001	3,000	-	-	-	-	-	-	-	-	-	-	-	-	0
3,001	4,000	-	-	-	-	-	-	-	-	-	-	-	-	0
4,001	5,000	-	-	-	-	-	-	-	-	-	-	-	-	0
5,001	6,000	-	-	-	-	-	-	-	-	-	-	-	-	0
6,001	7,000	-	-	-	-	-	-	-	-	-	-	-	-	0
7,001	8,000	-	-	-	-	-	-	-	-	-	-	-	-	0
8,001	9,000	-	-	-	-	-	-	-	-	-	-	-	-	0
9,001	10,000	-	-	-	-	-	-	-	-	-	-	-	-	0
10,001	11,000	-	-	-	-	-	-	-	-	-	-	-	-	0
11,001	12,000	-	-	-	-	-	-	-	-	-	-	-	-	0
12,001	13,000	-	-	-	-	-	-	-	-	-	-	-	-	0
13,001	14,000	-	-	-	-	-	-	-	-	-	-	-	-	0
14,001	15,000	-	-	-	-	-	-	-	-	-	-	-	-	0
15,001	16,000	-	-	-	-	-	-	-	-	-	-	-	-	0
16,001	17,000	-	-	-	-	-	-	-	-	-	-	-	-	0
17,001	18,000	-	-	-	-	-	-	-	-	-	-	-	-	0
18,001	19,000	-	-	-	-	-	-	-	-	-	-	-	-	0
19,001	20,000	-	-	-	-	-	-	-	-	-	-	-	-	0
20,001	21,000	-	-	-	-	-	-	-	-	-	-	-	-	0
21,001	22,000	-	-	-	-	-	-	-	-	-	-	-	-	0
22,001	23,000	-	-	-	-	-	-	-	-	-	-	-	-	0
23,001	24,000	-	-	-	-	-	-	-	-	-	-	-	-	0
24,001	25,000	-	-	-	-	-	-	-	-	-	-	-	-	0
25,001	26,000	-	-	-	-	-	-	-	-	-	-	-	-	0
26,001	27,000	-	-	-	-	-	-	-	-	-	-	-	-	0
27,001	28,000	-	-	-	-	-	-	-	-	-	-	-	-	0
28,001	29,000	-	-	-	-	-	-	-	-	-	-	-	-	0
29,001	30,000	-	-	-	-	-	-	-	-	-	-	-	-	0
30,001	31,000	-	-	-	-	-	-	-	-	-	-	-	-	0
31,001	32,000	-	-	-	-	-	-	-	-	-	-	-	-	0
32,001	33,000	-	-	-	-	-	-	-	-	-	-	-	-	0
33,001	34,000	-	-	-	-	-	-	-	-	-	-	-	-	0
34,001	35,000	-	-	-	-	-	-	-	-	-	-	-	-	0
35,001	36,000	-	-	-	-	-	-	-	-	-	-	-	-	0
36,001	37,000	-	-	-	-	-	-	-	-	-	-	-	-	0
37,001	38,000	-	-	-	-	-	-	-	-	-	-	-	-	0
38,001	39,000	-	-	-	-	-	-	-	-	-	-	-	-	0

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Customer Classification: 2 Inch Meters - Commercial
Bill Count

Exhibit
Schedule H-5
Page 3
Witness: Bourassa

Usage From:	To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
39,001	40,000	-	-	-	-	-	-	-	-	-	-	-	-	0
40,001	41,000	-	-	-	-	-	-	-	-	-	-	-	-	0
41,001	42,000	-	1	-	-	-	-	-	-	-	-	-	-	1
42,001	43,000	-	-	-	-	-	-	-	-	-	-	-	-	0
43,001	44,000	-	-	-	-	-	-	-	-	-	-	-	-	0
44,001	45,000	-	-	-	-	-	-	-	-	-	-	-	-	0
45,001	46,000	-	-	-	-	-	-	-	-	-	-	-	-	0
46,001	47,000	-	-	-	-	-	-	-	-	-	-	-	-	0
47,001	48,000	-	-	-	-	-	-	-	-	-	-	-	-	0
48,001	49,000	-	-	-	-	-	-	-	-	-	-	-	-	0
49,001	50,000	-	-	-	-	-	-	-	-	-	-	-	-	0
50,001	51,000	-	-	-	-	-	-	-	-	-	-	-	-	0
51,001	52,000	-	-	-	-	-	-	-	-	-	-	-	-	0
52,001	53,000	-	-	-	-	-	-	-	-	-	-	-	-	0
53,001	54,000	-	-	-	-	-	-	-	-	-	-	-	-	0
54,001	55,000	-	-	-	-	-	-	-	-	-	-	-	-	0
55,001	56,000	-	-	-	-	-	-	-	-	-	-	-	-	0
56,001	57,000	-	-	-	-	-	-	-	-	-	-	-	-	0
57,001	58,000	-	-	-	-	-	-	-	-	-	-	-	-	0
58,001	59,000	-	-	-	-	-	-	-	-	-	-	-	-	0
59,001	60,000	-	-	-	-	-	-	-	-	-	-	-	-	0
60,001	61,000	-	-	-	-	-	-	-	-	-	-	-	-	0
61,001	62,000	-	-	-	-	-	-	-	-	-	-	-	-	0
62,001	63,000	-	-	-	-	-	-	-	-	-	-	-	-	0
63,001	64,000	-	-	-	-	-	-	-	-	-	-	-	-	0
64,001	65,000	-	-	-	-	-	-	-	-	-	-	-	-	0
65,001	66,000	-	-	-	-	-	-	-	-	-	-	-	-	0
66,001	67,000	-	-	-	-	-	-	-	-	-	-	-	-	0
67,001	68,000	-	-	-	-	-	-	-	-	-	-	-	-	0
68,001	69,000	-	-	-	-	-	-	-	-	-	-	-	-	0
69,001	70,000	-	-	-	-	-	-	-	-	-	-	-	-	0
70,001	71,000	-	-	-	-	-	-	-	-	-	-	-	-	0
71,001	72,000	-	-	-	-	-	-	-	-	-	-	-	-	0
72,001	73,000	-	-	-	-	-	-	-	-	-	-	-	-	0
73,001	74,000	-	-	-	-	-	-	-	-	-	-	-	-	0
74,001	75,000	-	-	-	-	-	-	-	-	-	-	-	-	0
75,001	76,000	-	-	-	-	-	-	-	-	-	-	-	-	0
76,001	77,000	-	-	-	-	-	-	-	-	-	-	-	-	0
77,001	78,000	-	-	-	-	-	-	-	-	-	-	-	-	0
78,001	79,000	-	-	-	-	-	-	-	-	-	-	-	-	0

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Customer Classification: 2 Inch Meters - Commercial
Bill Count

Exhibit
Schedule H-5
Page 3
Witness: Bourassa

Usage From:	To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
79,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	0
80,001	81,000	-	-	-	-	-	-	-	-	-	-	-	-	0
81,001	82,000	-	-	-	-	-	-	-	-	-	-	-	-	0
82,001	83,000	-	-	-	-	-	-	-	-	-	-	-	-	0
83,001	84,000	-	-	-	-	-	-	-	-	-	-	-	-	0
84,001	85,000	-	-	-	-	-	-	-	-	-	-	-	-	0
85,001	86,000	-	-	-	-	-	-	-	-	-	-	-	-	0
86,001	87,000	-	-	-	-	-	-	-	-	-	-	-	-	0
87,001	88,000	1	-	-	-	-	-	-	-	-	-	-	-	1
88,001	89,000	-	-	-	-	-	-	-	-	-	-	-	-	0
89,001	90,000	-	-	-	1	-	-	-	-	-	-	-	-	1
90,001	91,000	-	-	-	-	-	-	-	-	-	-	-	-	0
91,001	92,000	-	-	-	-	-	-	-	-	-	-	-	-	0
92,001	93,000	-	-	-	-	1	-	-	-	-	-	-	-	1
93,001	94,000	-	-	-	-	-	-	-	-	-	-	-	-	0
94,001	95,000	-	-	-	-	-	-	-	-	-	1	-	-	1
95,001	96,000	-	-	-	-	-	-	-	-	-	-	-	-	0
96,001	97,000	-	-	-	-	-	-	-	-	-	-	-	-	0
97,001	98,000	-	-	-	-	-	-	-	-	-	-	-	-	0
98,001	99,000	-	-	-	-	-	-	-	-	-	-	-	-	0
99,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	0
Over 100,000 gallons														
100,276	100,276	-	-	1	-	-	-	-	-	-	-	-	-	1
101,526	101,526	-	-	-	-	-	1	-	-	-	-	-	-	1
102,726	102,726	-	-	-	-	-	-	1	-	-	-	-	-	1
103,104	103,104	-	-	-	-	-	-	-	1	-	-	-	-	1
103,639	103,639	-	-	-	-	-	-	-	-	-	-	-	-	0
125,174	125,174	-	-	-	-	-	-	-	-	1	-	-	-	1
141,694	141,694	-	-	-	-	-	-	-	-	-	-	1	-	1
165,845	165,845	-	-	-	-	-	-	-	-	-	-	-	1	1
														0
														0
														0
	-													0
		1	1	1	1	1	1	1	1	1	1	1	1	12
Average Usage														103,821
Median Usage														100,901

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C. – SEWER DIVISION, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-_____

COST OF CAPITAL SCHEDULES

THOMAS J. BOURASSA

EXHIBIT C

36100-00000.139

Utility Source, LLC
Selected Characteristics of Water Utilities

Schedule D-4.1
Witness: Bourassa

No.		% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating
1						
2						
3						
4	1. American States	87%	$ 231.8	$ 621.0	A-	A2
5	2. Aqua America	78%	$ 489.3	$ 1,890.3	AA-	NR
6	3. California Water	93%	$ 312.3	$ 856.7	NR	A2
7	4. Connecticut Water	97%	$ 51.8	$ 199.4	AA+	NR
8	5. Middlesex	94%	$ 73.5	$ 250.8	A	NR
9	6. SJW Corp.	97%	$ 164.3	$ 301.0	NR	NR
10						
11	Average	91%	$ 220.5	$ 686.5		
12						
13	Utility Source, LLC	56%	$ 0.2	$ 5.0		
14						
15	Source: AUS Utility Reports (April 2006)					

Utility Source, LLC
Capital Structures of Water Utilities December 2005

Schedule D-4.2
Witness: Bourassa

No.		Book Value		Market Value	
1		Long-Term	Common	Long-Term	Common
2		Debt	Equity	Debt	Equity
3					
4	1. American States	50.4%	49.6%	28.4%	71.6%
5	2. Aqua America	52.0%	48.0%	22.2%	77.8%
6	3. California Water	48.3%	51.7%	25.5%	74.5%
7	4. Connecticut Water	40.6%	59.4%	23.4%	76.6%
8	5. Middlesex	56.3%	43.7%	37.3%	62.7%
9	6. SJW Corp.	42.6%	57.4%	24.1%	75.9%
10					
11	Average	48.3%	51.7%	26.8%	73.2%
12					
13	Utility Source, LLC	0.0%	100.0%	N/A	N/A
14					
15					
16	Sources:				
17	Zacks Investment Research				
18					
19					
20					

Utility Source, LLC
Comparisons of Past and Future Estimates of Growth

Schedule D-4.3
Witness: Bourassa

Line No.		Company	Five-year historical average annual changes: Price	Book Value	DPS	EPS	Average Future Growth*
7	1.	American States	7.30%	4.42%	0.69%	0.46%	7.67%
8	2.	Aqua America	16.33%	9.25%	7.40%	8.95%	10.33%
9	3.	California Water	10.42%	4.85%	0.72%	4.30%	8.50%
10	4.	Connecticut Water	5.39%	4.94%	1.49%	-3.56%	
11	5.	Middlesex	4.31%	4.10%	2.20%	8.10%	4.00%
12	6.	SJW Corp.	7.17%	5.88%	5.27%	2.82%	
15		GROUP AVERAGE	8.49%	5.57%	2.96%	3.51%	7.63%
16		GROUP MEDIAN	7.23%	4.89%	1.84%	3.56%	8.08%

18 * See Schedule D-4.7
19 Sources:
20 Value Line Data
21 Yahoo Finance

Schedule D-4.4
Witness: Bourassa

Utility Source, LLC

Comparisons of Past and Future Estimates of Growth

Line No.		Company	Ten-year historical average annual changes: Price	Book Value	DPS	EPS	Average Future Growth*
7	1.	American States	11.32%	4.29%	0.95%	3.49%	7.67%
8	2.	Aqua America	18.95%	8.89%	6.18%	9.61%	10.33%
9	3.	California Water	10.97%	3.34%	0.92%	4.21%	8.50%
10	4.	Connecticut Water	9.38%	3.84%	1.27%	-0.66%	
11	5.	Middlesex	9.50%	6.35%	2.34%	3.59%	4.00%
12	6.	SJW Corp.	12.59%	6.20%	3.95%	-2.89%	
15		GROUP AVERAGE	12.12%	5.48%	2.60%	2.89%	7.63%
16		GROUP MEDIAN	11.15%	5.24%	1.80%	3.54%	8.08%

18 * See Schedule D-4.7
19 Sources:
20 Value Line Data
21 Yahoo Finance

Utility Source, LLC
Stock Price Comparision

Schedule D-4.5
Witness: Bourassa

Line No.		Company	Price at 4/25/2005	Spot Price 4/25/2006	Difference Spot Price	Percent Increase
1	1.	American States (AWR)	$ 24.34	$ 39.54	$ 15.20	62.45%
2	2.	Aqua America (WTR)	20.15	24.09	3.94	19.55%
3	3.	California Water (CWT)	33.18	43.24	10.06	30.32%
4	4.	Connecticut Water (CTWS)	22.82	25.93	3.11	13.63%
5	5.	Middlesex (MSEX)	17.17	18.61	1.44	8.39%
6	6.	SJW Corp. (SJW)	17.67	25.10	7.43	42.05%
7						
8					$ 6.86	29.40%
9						
10	Sources:					
11		Yahoo Finance				
12		Zacks Investment Research				
13						
14						
15						

Utility Source, LLC
Analysts Forecasts of Earnings Per Share Growth

Schedule D-4.6
Witness: Bourassa

Line No.		Company	(1) Zacks	(2) S&P	(3) Value Line	(4) Average Growth (G) (Cols 1-3)
			EPS GROWTH			
7	1.	American States	6.00%	5.00%	12.00%	7.67%
8	2.	Aqua America	9.00%	9.00%	13.00%	10.33%
9	3.	California Water	9.00%	8.00%	8.50%	8.50%
10	4.	Connecticut Water				7.63%
11	5.	Middlesex	4.00%	4.00%		4.00%
12	6.	SJW Corp.				7.63%
15		GROUP AVERAGE	7.00%	6.50%	11.17%	7.63%
16		GROUP MEDIAN				7.65%

Sources:
Value Line Investment Survey Dated April 27, 2006
Zacks Investment Research Site Dated April 25, 2006
S&P Earnings Guide April 2006

Utility Source, LLC
Estimates of Sustainable Growth

Schedule D-4.7
Witness: Bourassa

Line No.		Company	(1) Retention Ratio	(2) Rate of Return	(3) br Growth	(4) sv Growth	(5) Average Sustainable Growth (Cols 3+4)
7	1.	American States	0.54	12.00%	6.51%	2.74%	9.25%
8	2.	Aqua America	0.55	13.00%	7.15%	1.14%	8.29%
9	3.	California Water	0.42	11.00%	4.66%	4.42%	9.08%
10	4.	Connecticut Water					
11	5.	Middlesex					
12	6.	SJW Corp.					
15		GROUP AVERAGE	0.51	12.00%	6.11%	2.77%	8.87%
16		GROUP MEDIAN	0.54	12.00%	6.51%	2.74%	9.08%

18 Sources:
19 Value Line Data Reported April 27, 2006

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

Schedule D-4.9
Witness: Bourassa

Line No.		Company	(1) Spot Price (Po)	(2) Next Year's Div (D1)	(3) Dividend Yield	(4) (a) EPS Growth (g)	(5) Indicated Cost of Equity k=Div Yld + g (Cols 3+4)
7	1.	American States	39.54	0.91	2.30%	7.67%	10.0%
8	2.	Aqua America	24.09	0.44	1.83%	10.33%	12.2%
9	3.	California Water	43.24	1.15	2.66%	8.50%	11.2%
10	4.	Connecticut Water	25.93	0.86	3.32%	7.63%	10.9%
11	5.	Middlesex	18.61	0.69	3.71%	4.00%	7.7%
12	6.	SJW Corp.	25.10	0.56	2.23%	7.63%	9.9%
15		GROUP AVERAGE					10.3%
16		GROUP MEDIAN					10.5%

(a) See Schedules D-4.5

Sources:
Zacks Investment Research April 25, 2006
Value Line Data April 27, 2006

Utility Source, LLC
Estimates of sv Growth

Schedule D-4.8
Witness: Bourassa

Line No.		Company	(1) Stock Financing Rate	(2) Current Market to Book Ratio	(3) v	(4) sv Growth	
7	1.	American States	4.55%	2.52	0.60	2.74%	0.00
8	2.	Aqua America	1.54%	3.82	0.74	1.14%	0.00
9	3.	California Water	7.02%	2.70	0.63	4.42%	0.00
10	4.	Connecticut Water				na	
11	5.	Middlesex				na	
12	6.	SJW Corp.				na	
15		GROUP AVERAGE	4.37%	3.01	0.66	2.77%	
16		GROUP MEDIAN	4.55%	2.70	0.63	2.74%	

Sources:
Value Line data reported January 27, 2006

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

Schedule D-4.10
Witness: Bourassa

Line No.		Company	(1) Spot Price (Po)	(2) Next Year's Div (D1)	(3) Dividend Yield	(4) Sustainable Growth(a) br	(5) vs	(6) br+sv Growth (g)	(7) Indicated Cost of Equity k=Div Yld + g (Cols 3+6)
7	1.	American States	39.54	0.91	2.30%	6.51%	2.74%	9.25%	11.6%
8	2.	Aqua America	24.09	0.44	1.83%	7.15%	1.14%	8.29%	10.1%
9	3.	California Water	43.24	1.15	2.66%	4.66%	4.42%	9.08%	11.7%
10	4.	Connecticut Water	25.93	0.86	3.32%			8.87%	12.2%
11	5.	Middlesex	18.61	0.70	3.76%			8.87%	12.6%
12	6.	SJW Corp.	25.10	0.55	2.19%			8.87%	11.1%
15		GROUP AVERAGE							11.5%
16		GROUP MEDIAN							11.6%

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

Sources:
Zacks Investment Research April 25, 2006
Value Line data Jauanry 27, 2006

Schedule D-4.11
Witness: Bourassa

Utility Source, LLC
Discounted Cash Flow Analysis (Water)
Two-Stage Growth - Projected

Line No.		Company	(1) Spot Price(P_0)	(2) Next Year's Div (D_1)	(3) Yield (D_1/P_0)	(4) Projected Growth Rates Near Term (a)	(5) Long Term (GDP)	(6) Average (b)	(7) Indicated Cost of Equity
7	1.	American States	39.54	0.91	2.30%	7.67%	6.80%	7.38%	9.7%
8	2.	Aqua America	24.09	0.44	1.83%	10.33%	6.80%	9.17%	11.0%
9	3.	California Water	43.24	1.15	2.66%	8.50%	6.80%	7.94%	10.6%
10	4.	Connecticut Water	25.93	0.86	3.32%	7.63%	6.80%	7.35%	10.7%
11	5.	Middlesex	18.61	0.70	3.76%	4.00%	6.80%	4.92%	8.7%
12	6.	SJW Corp.	25.10	0.55	2.19%	7.63%	6.80%	7.35%	9.5%
15		GROUP AVERAGE							10.0%
16		GROUP MEDIAN							10.1%

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

Sources:
Zacks Investment Research April 25, 2006
Value Line data Jauanry 27, 2006

Utility Source, LLC
Risk Premium Equity Cost Analysis
Average Equity Returns of Sample Water Companies

Schedule D-4.12
Witness: Bourassa

Line No.		Actual Returns on Equity	Annual Average 10 Year Treasury	Risk Premium 10 Year Treasury
1	2005	9.75%	4.29%	5.46%
2	2004	8.95%	4.27%	4.68%
3	2003	8.75%	4.01%	4.74%
4	2002	10.25%	4.61%	5.64%
5	2001	10.05%	5.02%	5.03%
6	2000	9.62%	6.03%	3.59%
7	1999	11.20%	5.65%	5.55%
8	1998	10.62%	5.26%	5.36%
9	1997	11.52%	6.35%	5.17%
10	1996	11.67%	6.44%	5.23%
11	1995	10.93%	6.57%	4.36%
12				
13				
14	10 Year Average Premium			5.04%
15	5 Year Average Premium			5.11%
16				
17				
18	Forecasted Interest Rates for 2007-2008(c)			5.20%
19				
20	Projected Returns on Equity			
21	10 Year Average			10.2%
22	5 Year Average			10.3%
23				
24				
25	Sources:			
26	Value Line data reported Jan 27, 2006			
27	Ibbotson Associates SBBI Valuation Edition 2005 Yearbook			
28	Blue Chip Forecast Interest Rates - 10 year Treas. Dec, 2005			
29	Federal Reserve			
30				

Schedule D-4.13
Witness: Bourassa

Utility Source, LLC
Risk Premium Equity Cost Analysis
Authorized Equity Returns of Sample Water Companies

Line No.		Authorized Returns on Equity	Average Annual 10 Year Treasury	Risk Premium 10 Year Treasury
1	2005	10.50%	4.29%	6.21%
2	2004	10.40%	4.27%	6.13%
3	2003	10.48%	4.01%	6.47%
4	2002	10.62%	4.61%	6.01%
5	2001	10.86%	5.02%	5.84%
6	2000	11.12%	6.03%	5.09%
7	1999	11.12%	5.65%	5.47%
8	1998	11.06%	5.26%	5.80%
9	1997	11.18%	6.35%	4.83%
10	1996	11.58%	6.44%	5.14%
11	1995	11.51%	6.57%	4.94%
12				
13				
14	10 Year Average Premium			5.70%
15	5 Year Average Premium			6.13%
16				
17				
18	Consensus Forecast Interest Rates for 2007-2008(c)			5.20%
19				
20	Projected Returns on Equity			
21	10 Year Average			10.9%
22	5 Year Average			11.3%
23				
24				
25	Sources:			
26	AUS Utility Reports, issues for December various years			
27	Ibbotson Associates SBBI Valuation Edition 2005 Yearbook			
28	Blue Chip Forecast Interest Rates - 10 year Treas. Dec, 2005			
29				

Test Year Ended Septmber 30, 2005
Returns on Equity of Nationally Traded Water
Utilities as Reported in AUS Utility Reports
April 2006

Exhibit
Schedule D-4.14
Page 1
Witness: Bourassa

Line No.		Authorized Rate of Return	Current Rate of Return
1	American States Water Co.	10.0%	10.4%
2	Aqua America	10.1%	11.5%
3	California Water	10.1%	9.3%
4	Connecticut Water Service	12.7%	12.0%
5	Middlesex Water Co.	10.0%	8.4%
6	SJW Corp.	9.9%	11.5%
7			
8			
9	Averages	10.5%	10.5%
10			
11			
12			
13			
14			
15			

Exhibit 1
Witness: Bourassa

Utility Source, LLC

Discounted Cash Flow Analysis (Water)
Market Price

Line No.		Company	(1)	(2) 2006 Div	(3) 5 Year Historical Average Div. Growth	(4) Recent Price	(5) 5 Year Historical Average Price Growth	(6) Year 5 Price	(7) EXPECTED CASH FLOWS Recent Price	(8) Year 1 Div	(9) Year 2 Div	(10) Year 3 Div	(11) Year 4 Div	(12) Year 5 Div + Price	(13) **Implied ROE** = Internal Rate of Return (Cols 7-12)
1															
2															
3															
4															
5															
6															
7	1.	American States		$ 0.91	0.69%	$ 39.54	7.30%	$ 56.25	$ (39.54)	$ 0.91	$ 0.92	$ 0.92	$ 0.93	$ 63.68	11.6%
8	2.	Aqua America		0.46	7.40%	24.09	16.33%	51.33	(24.09)	0.46	0.49	0.53	0.57	56.45	19.9%
9	3.	California Water		1.16	0.72%	43.24	10.42%	70.97	(43.24)	1.16	1.25	1.34	1.44	85.34	16.5%
10	4.	Connecticut Water		0.87	1.49%	25.93	5.39%	33.72	(25.93)	0.87	0.93	1.00	1.08	45.57	14.5%
11	5.	Middlesex		0.71	2.20%	18.61	4.31%	22.98	(18.61)	0.71	0.76	0.82	0.88	33.53	15.4%
12	6.	SJW Corp.		0.59	5.27%	25.10	7.17%	35.48	(25.10)	0.59	0.63	0.68	0.73	44.98	14.2%
13															
14															
15		GROUP AVERAGE			2.96%		8.49%								15.4%
16		GROUP MEDIAN			1.84%		7.23%								14.9%
17															
18															
19															

20 Sources:
21 Value Line Investment Survey Dated Jan 27, 2006
22 Zacks Investment Research April 25, 2006
23 Yahoo Finance

Utility Source, LLC
Historical Compound Annual Total Market Returns

Exhibit 2
Witness: Bourassa

	Company	3 Yr.** Return	5 Yr.** Return	10 Yr.*** Return
1.	American States	27.67%	16.84%	21.33%
2.	Aqua America	55.89%	34.37%	28.45%
3.	California Water	39.40%	23.55%	16.58%
4.	Connecticut Water	7.28%	16.34%	14.91%
5.	Middlesex	15.02%	12.92%	15.01%
6.	SJW Corp.	42.94%	17.68%	19.86%
	Average	31.37%	20.28%	19.36%

* 2003-2005
** 2001-2005
*** 1996-2005

Sources:
Value Line Data
Yahoo Finance

Utility Source, LLC
Historical Compound Annual Capital Appreciation Returns

Exhibit 3
Witness: Bourassa

	Company	3 Yr.* Return	5 Yr.** Return	10 Yr.*** Return
1.	American States	13.90%	8.19%	13.25%
2.	Aqua America	32.99%	21.12%	27.11%
3.	California Water	21.10%	12.54%	13.65%
4.	Connecticut Water	2.09%	7.61%	11.68%
5.	Middlesex	6.11%	5.32%	11.55%
6.	SJW Corp.	23.91%	9.11%	17.76%
	Average	16.68%	10.65%	15.83%

* 2003-2005
** 2001-2005
*** 1996-2005

Sources:
Value Line Data
Yahoo Finance

Exhibit 4
Witness: Bourassa

Utility Source, LLC
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model
Using Analyst Estimates of DPS Growth

Line No.		Company	(1) Spot Price (Po)	(2) Next Year's Div (D1)	(3) Dividend Yield	(4) Div. Growth	(5) Indicated Equity Cost k=Div Yld + G (Cols 1+4)
7	1.	American States	39.54	0.91	2.30%	1.50%	3.8%
8	2.	Aqua America	24.09	0.44	1.83%	8.00%	9.8%
9	3.	California Water	43.24	1.15	2.66%	1.50%	4.2%
10	4.	Connecticut Water	25.93	0.86	3.32%	Not Available	
11	5.	Middlesex	18.61	0.69	3.71%	Not Available	
12	6.	SJW Corp.	25.10	0.56	2.23%	Not Available	
15		GROUP AVERAGE					5.9%
16		GROUP MEDIAN					4.2%
18		Current Baa interest rate					6.7%
20		Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Top 10					8.2%
21		Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Bottom 10					6.1%
22		Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Average					7.1%

Sources:
- Value Line data report on April 26, 2006
- Zacks Investment Research data for April 26, 2006
- Yahoo Finance
- Federal Reserve April 26,2006
- Blue Chip Financial Forecast Dec 2005

Utility Source, LLC
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Historical
Using 5 Year Historical Dividend Growth

Exhibit 5
Witness: Bourassa

Line No.		Company	(1) Spot Price (Po)	(2) Next Year's Div (D1)	(3) Dividend Yield	(4) Historical Div. Growth	(5) Indicated Equity Cost k=Div Yld + G (Cols 1+4)
7	1.	American States	39.54	0.91	2.30%	0.69%	3.0%
8	2.	Aqua America	24.09	0.44	1.83%	7.40%	9.2%
9	3.	California Water	43.24	1.15	2.66%	0.72%	3.4%
10	4.	Connecticut Water	25.93	0.86	3.32%	1.49%	4.8%
11	5.	Middlesex	18.61	0.70	3.76%	2.20%	6.0%
12	6.	SJW Corp.	25.10	0.55	2.19%	5.27%	7.5%
15		GROUP AVERAGE					5.6%
16		GROUP MEDIAN					5.4%
18		Current Baa interest rate					6.7%
20		Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Top 10					8.2%
21		Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Bottom 10					6.1%
22		Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Average					7.1%

24 * Indicated Equity Cost Below Cost of Debt

26 Sources:
27 Value Line data report on April 26, 2006
28 Zacks Investment Research data for April 26, 2006
29 Yahoo Finance
30 Federal Reserve April 26,2006
31 Blue Chip Financial Forecast Dec 2005

Utility Source, LLC
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Historical
Using 5 Year Historical EPS Growth

Exhibit 6
Witness: Bourassa

Line No.		Company	(1) Spot Price (Po)	(2) Next Year's Div (D1)	(3) Dividend Yield	(4) Historical EPS Growth	(5) Indicated Equity Cost k=Div Yld + G (Cols 1+4)
1	1.	American States	39.54	0.91	2.30%	0.46%	2.8%
2	2.	Aqua America	24.09	0.44	1.83%	8.95%	10.8%
3	3.	California Water	43.24	1.15	2.66%	4.30%	7.0%
4	4.	Connecticut Water	25.93	0.86	3.32%	-3.56%	-0.2%
5	5.	Middlesex	18.61	0.70	3.76%	8.10%	11.9%
6	6.	SJW Corp.	25.10	0.55	2.19%	2.82%	5.0%
7		GROUP AVERAGE					6.2%
8		GROUP MEDIAN					6.0%
9		Current Baa interest rate					6.7%
10		Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Top 10					8.2%
11		Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Bottom 10					6.1%
12		Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Average					7.1%

* Indicated Equity Cost Below Current Cost of Debt

Sources:
Value Line data report on April 26, 2006
Zacks Investment Research data for April 26, 2006
Yahoo Finance
Federal Reserve April 26,2006
Blue Chip Financial Forecast Dec 2005

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C. – WATER DIVISION, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: W-_____

DIRECT TESTIMONY OF

THOMAS J. BOURASSA

EXHIBIT D

I. INTRODUCTION AND QUALIFICATIONS.

Q. PLEASE STATE YOUR NAME AND ADDRESS.

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

Q. WHAT IS YOUR PROFESSION AND BACKGROUND?

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

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

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

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

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

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

A. I am testifying in this proceeding on behalf of the applicant, Utility Source, L.L.C. – Water Division ("USLLC" or "the Company"). USLLC is seeking increases in its rates and charges for water utility service in its certificated service area, which is located in Coconino County.

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

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

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

Q. PLEASE SUMMARIZE THE COMPANY'S APPLICATION.

A. The test year used by USLLC is the 12-month period ending December 31, 2005. The Company is requesting a 10.5 percent return on its fair value rate base ("FVRB"). The Company has also proposed certain pro forma adjustments to take into account known and measurable changes to rate base, expenses and revenues. These pro forma adjustments are consistent with normal ratemaking and are contemplated by the Commission's rules and regulations governing rate applications. *See* R14-2-103. These adjustments are necessary to obtain a normal or realistic relationship between revenues, expenses and rate base on a going-

forward basis.

The Company's fair value rate base is $3,079,513. The increase in revenues to provide for recovery of operating expenses and a 10.5 percent return on rate base is approximately $401,245, an increase of approximately 230 percent over the adjusted and annualized test year revenues.

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

A. In the ACC decision approving the Company's CC&N, the Company was ordered to file a rate case by May 1, 2006 using a 2005 test year. (Decision No. 67446, January 4, 2005). The Company has grown to approximately 337 customers at the end of the test year and has invested over $3.4 million in plant. The Company's current rate of return, based on the adjusted test year data, is a negative 5.16 percent. As demonstrated by the Company's filing, rate increases are necessary to ensure that the Company recovers its operating expenses and has an opportunity to earn a reasonable return on the fair value of its utility plant and property devoted to public service.

III. <u>SUMMARY OF A, E AND F SCHEDULES</u>.

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

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

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

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

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

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

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

The E Schedules are based on the Company's actual operating results, as reported by the Company in annual reports filed with the Commission. Per Commission's rules and regulations governing rate applications the Company has provided prior year fiscal year results. *See* R14-2-103-B.

The E-1 Schedule contains the comparative balance sheet data the years fiscal years end December 31, 2003, 2004, and 2005.

Schedule E-2, page 1, contains the income statement for the fiscal years ended December 31, 2003, 2004, and 2005.

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

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

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

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

Schedule E-8 contains the taxes charged to operations.

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

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

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

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

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

IV. RATE BASE (B SCHEDULES).

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

A. Yes. I will start with Schedule B-5, which is the working capital allowance. Because USLLC is a small water utility, I used the "formula method" of computing the working capital allowance to reduce expenses associated with seeking rate relief. The working capital adjustment is reflected in B2 adjustment number 4.

Q. PLEASE CONTINUE.

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

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

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

B-2 adjustment number 1 reduces accumulated depreciation to the re-computed amounts per the Company's plant schedules.

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

A. Yes. As I stated, the Company received approval for its CC&N in January 2005. The Company has not previously filed a rate case. Thus, the plant shown on Schedule B-2 started with zero plant and shows plant additions and retirements since start up. Pages 2a through 2c of the B-2 schedule, show the details of plant additions, retirements, and accumulated depreciation through the end of the test year using half-year convention for depreciation.

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

A. Because the Company used full-year convention for depreciation in the past. The Company should have used half-year convention.

Q. PLEASE CONTINUE.

A. B-2 adjustment number 2 increase advances-in-aid of construction ("AIAC") for unrecorded developer advances.

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

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

V. INCOME STATEMENT (C SCHEDULES).

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

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

Adjustment 1 annualizes depreciation expense. The proposed depreciation rate for each component of utility plant is shown on Schedule C-2, page 2. The depreciation rates were approved in Decision 67446.

Q. PLEASE CONTINUE.

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

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

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

Q. IS THIS CONSISTENT WITH PRIOR COMMISSION DECISIONS?

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

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

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

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

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

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

A. Adjustment 3 shows the rate case expense. The Company estimates rate case expense of $50,000 amortized over four years because it believes a four-year cycle for future rate cases is reasonable given this utility's circumstances.

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

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

Q. PLEASE DISCUSS THE FIRST OF THESE FACTORS?

A. The Company cannot raise its rates except by filing for rate relief and the Commission dictates the process for obtaining rate relief. USLLC, a Class C water provider based on the proposed revenues with roughly 350 customers, has to file the substantially the same schedules as a Class A and B utility (*i.e.,* APS, Arizona Water, SW Gas) with hundreds of thousands of customers. While a larger utility's filing would obviously be "larger", USLLC still faces essentially the same

requirement of filing multiple copies of every document and notice requirements as a larger utility. In addition to the filing and notice requirements imposed by the Commission on larger utilities. For instance, the Company must prepare three rounds of pre-filed testimony, participate in all of the procedural and evidentiary hearings and open meetings, and typically, file one or more rounds of closing briefs. To meet all of the requirements of obtaining rate relief, USLLC requires the assistance and expertise of a regulatory accountant and attorney, resulting in a substantial portion of the rate case expense actually incurred.

Q. PLEASE DISCUSS THE SECOND FACTOR?

A. The length of time between rate cases has a substantial impact on rate case expense. Every rate case involves reconciliation of plant accounts since the last rate case. Obviously, the longer it has been, the more difficult the reconciliation. Similarly, longer periods between the determination of operating expenses typically means more increases in expenses. This leads to larger increases which are always more controversial.

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

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

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

A. Yes, it is an estimate based on my experience. But I can only consider the

foreseeable. If things turn out more complicated than anticipated, the Company will modify its request to account for that increased expense. Conversely, if the case proceeds and rate case expense is lower than expected, we would make an appropriate adjustment downward.

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

A. As a practical matter, the utility always does. My estimate of $50,000 assumes USLLC will actually incur a higher amount of total rate case expense. I would also agree that if the utility does something improper, or advances positions in bad-faith, it should shoulder the burden of such actions. But, as I testified, the Commission dictates the process, not the utility and absent such circumstances, the utility must be allowed to recover its reasonably incurred rate case expense.

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

A. Adjustment 4 annualizes revenues to the year-end number of customers. The annualization was based on the number of customers at the end of the test year, compared to the actual number of customers during each month of the test year. Average revenues by month were computed for the test year. The average revenues were then multiplied by the increase (or decrease) in number of customers for each month of the test year.

Adjustment 5 increases revenues for proposed projected growth of 350 customers. This is based on known projects currently under development and assumes full build-out. The Company has proposed projected revenues in order to minimize the impact on rates and is not intended to set any precedent for this or any other Company regulated by the Commission.

VI. RATE DESIGN (H SCHEDULES).

Q. WHAT ARE THE COMPANY'S PRESENT RATES?

A.

Meter Size	Monthly Minimum	Gallons included in Monthly Minimum
5/8	N/A	N/A
3/4	$ 6.48	0
1	$ 8.02	0
1 1 /2	$ 9.62	0
2	$ 14.00	0
3	N/A	0
4	$ 58.00	0
6	$ 89.80	0

The commodity charge for residential (all meter sizes) is as follows:

Tier	Charge Per 1,000 gallons
Zero to 5,000 gallons	$2.83
5,001 to 15,000 gallons	$3.32
Over 15,000 gallons	$4.71

For multi-family, mobile home, and commercial customers, the commodity rate is $2.97 per 1,000 gallons for all gallons.

There is no commodity rate for irrigation customers. The construction meter and standpipe rate is $6.00 per 1,000 gallons with no minimum monthly charge.

Q. WHAT ARE THE COMPANY'S PROPOSED RATES?

A. The proposed rates for customers with using a water meter size of:

Meter	Monthly	Gallons included

Size	Minimum	in Monthly Minimum
5/8	N/A	0
3/4	$ 24.30	0
1	$ 40.50	0
1 1/2	$ 81.00	0
2	$ 129.60	0
3	$ 259.20	0
4	$ 405.00	0
6	$ 810.00	0

The commodity charge for residential (all meter sizes) is as follows:

Tier	Charge Per 1,000 gallons
Zero to 5,000 gallons	$ 8.82
5,001 to 15,000 gallons	$10.35
Over 15,000 gallons	$14.69

For multi-family, mobile home, and commercial customers, the proposed commodity rate is $9.26 per 1,000 gallons for all gallons.

The proposed commodity rate for irrigation customers is $9.26. The construction meter and standpipe rate is $10.35 per 1,000 gallons with no minimum monthly charge.

Q. WHAT IS THE RATE IMPACT ON RESIDENTIAL CUSTOMERS USING THE MONTHLY AVERAGE WATER USAGE?

A. Customers on 3/4 meters who consume the average quantity of water (4,740 gallons per month) will experience a rate increase of $46.23 per month, or an increase of approximately 232%.

Q. ARE THERE ANY PROPOSED CHANGES TO THE COMPANY'S

MISCELLANEOUS SERVICE CHARGES?

A. No.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C. – SEWER DIVISION, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-_____

DIRECT TESTIMONY OF

THOMAS J. BOURASSA

EXHIBIT E

I. INTRODUCTION AND QUALIFICATIONS.

Q. PLEASE STATE YOUR NAME AND ADDRESS.

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

Q. WHAT IS YOUR PROFESSION AND BACKGROUND?

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

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

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

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

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

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

A. I am testifying in this proceeding on behalf of the applicant, Utility Source, L.L.C. – Sewer Division ("USLLC" or "the Company"). USLLC is seeking increases in its rates and charges for water utility service in its certificated service area, which is located in Coconino County.

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

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

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

Q. PLEASE SUMMARIZE THE COMPANY'S APPLICATION.

A. The test year used by USLLC is the 12-month period ending December 31, 2005. The Company is requesting a 10.5 percent return on its fair value rate base ("FVRB"). The Company has also proposed certain pro forma adjustments to take into account known and measurable changes to rate base, expenses and revenues. These pro forma adjustments are consistent with normal ratemaking and are contemplated by the Commission's rules and regulations governing rate applications. *See* R14-2-103. These adjustments are necessary to obtain a normal or realistic relationship between revenues, expenses and rate base on a going-

forward basis.

The Company's fair value rate base is $1,401,953. The increase in revenues to provide for recovery of operating expenses and a 10.5 percent return on rate base is approximately $187,219, an increase of approximately 164 percent over the adjusted and annualized test year revenues.

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

A. In the ACC decision approving the Company's CC&N, the Company was ordered to file a rate case by May 1, 2006 using a 2005 test year. (Decision No. 67446, January 4, 2005). The Company has grown to approximately 337 customers at the end of the test year and has invested over $1.6 million in plant. The Company's current rate of return, based on the adjusted test year data, is a negative 2.85 percent. As demonstrated by the Company's filing, rate increases are necessary to ensure that the Company recovers its operating expenses and has an opportunity to earn a reasonable return on the fair value of its utility plant and property devoted to public service.

III. <u>SUMMARY OF A, E AND F SCHEDULES</u>.

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

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

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

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

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

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

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

The E Schedules are based on the Company's actual operating results, as reported by the Company in annual reports filed with the Commission. Per Commission's rules and regulations governing rate applications the Company has provided prior year fiscal year results. *See* R14-2-103-B.

The E-1 Schedule contains the comparative balance sheet data the years fiscal years end December 31, 2003, 2004, and 2005.

Schedule E-2, page 1, contains the income statement for the fiscal years ended December 31, 2003, 2004, and 2005.

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

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

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

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

Schedule E-8 contains the taxes charged to operations.

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

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

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

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

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

IV. RATE BASE (B SCHEDULES).

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

A. Yes. I will start with Schedule B-5, which is the working capital allowance. Because USLLC is a small wastewater utility, I used the "formula method" of computing the working capital allowance to reduce expenses associated with seeking rate relief. The working capital adjustment is reflected in B2 adjustment number 4.

Q. PLEASE CONTINUE.

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

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

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

B-2 adjustment number 1 reduces accumulated depreciation to the re-computed amounts per the Company's plant schedules.

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

A. Yes. As I stated, the Company received approval for its CC&N in January 2005. The Company has not previously filed a rate case. Thus, the plant shown on Schedule B-2 started with zero plant and shows plant additions and retirements since start up. Pages 2a through 2c of the B-2 schedule, show the details of plant additions, retirements, and accumulated depreciation through the end of the test year using half-year convention for depreciation.

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

A. Because the Company used full-year convention for depreciation in the past. The Company should have used half-year convention.

Q. PLEASE CONTINUE.

A. B-2 adjustment number 2 increase advances-in-aid of construction ("AIAC") for unrecorded developer advances.

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

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

V. INCOME STATEMENT (C SCHEDULES).

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

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

Adjustment 1 annualizes depreciation expense. The proposed depreciation rate for each component of utility plant is shown on Schedule C-2, page 2. The depreciation rates were approved in Decision 67446.

Q. PLEASE CONTINUE.

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

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

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

Q. IS THIS CONSISTENT WITH PRIOR COMMISSION DECISIONS?

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

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

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

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

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

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

A. Adjustment 3 shows the rate case expense. The Company estimates rate case expense of $50,000 amortized over four years because it believes a four-year cycle for future rate cases is reasonable given this utility's circumstances.

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

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

Q. PLEASE DISCUSS THE FIRST OF THESE FACTORS?

A. The Company cannot raise its rates except by filing for rate relief and the Commission dictates the process for obtaining rate relief. USLLC, a Class C wastewater provider based on the proposed revenues with roughly 350 customers, has to file the substantially the same schedules as a Class A and B utility (*i.e.*, APS, Arizona Water, SW Gas) with hundreds of thousands of customers. While a larger utility's filing would obviously be "larger", USLLC still faces essentially

the same requirement of filing multiple copies of every document and notice requirements as a larger utility. In addition to the filing and notice requirements imposed by the Commission on larger utilities. For instance, the Company must prepare three rounds of pre-filed testimony, participate in all of the procedural and evidentiary hearings and open meetings, and typically, file one or more rounds of closing briefs. To meet all of the requirements of obtaining rate relief, USLLC requires the assistance and expertise of a regulatory accountant and attorney, resulting in a substantial portion of the rate case expense actually incurred.

Q. PLEASE DISCUSS THE SECOND FACTOR?

A. The length of time between rate cases has a substantial impact on rate case expense. Every rate case involves reconciliation of plant accounts since the last rate case. Obviously, the longer it has been, the more difficult the reconciliation. Similarly, longer periods between the determination of operating expenses typically means more increases in expenses. This leads to larger increases which are always more controversial.

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

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

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

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

A. Adjustment 4 annualizes revenues to the year-end number of customers. The annualization was based on the number of customers at the end of the test year, compared to the actual number of customers during each month of the test year. Average revenues by month were computed for the test year. The average revenues were then multiplied by the increase (or decrease) in number of customers for each month of the test year.

Adjustment number 5 increases revenues for unbilled revenues during the test year. Wastewater bills are based on water usage. The Company under billed wastewater services during the test year as confirmed by the bill count and shown on the H-1 schedule. This adjustment is required to properly reflect test year revenues.

Adjustment 6 increases revenues for proposed projected growth of 350

customers. This is based on known projects currently under development and assumes full build-out. The Company has proposed projected revenues in order to minimize the impact on rates and is not intended to set any precedent for this or any other Company regulated by the Commission.

VI. RATE DESIGN (H SCHEDULES).

Q. WHAT ARE THE COMPANY'S PRESENT RATES?

A.

Customer Class	Flat Monthly Charge	Charge per 1,000 gallons of Water Usage
Residential	N/A	$ 2.73
Car Washes, Laundromats, Commercial, Manufacturing	N/A	$ 2.67
Hotels, Motels	N/A	$ 3.58
Restaurants	N/A	$ 4.42
Industrial Laundries	N/A	$ 3.92
Waste Haulers	N/A	$80.00
Restaurant Grease	N/A	$70.00
Treatment Plant Sludge	N/A	$80.00
Mud Sump Waste	N/A	$250.00

Q. WHAT ARE THE COMPANY'S PROPOSED RATES?

A. The proposed rates for customers is:

A.

Customer Class	Flat Monthly Charge	Charge per 1,000 gallons of Water Usage
Residential	N/A	$ 7.28
Car Washes,		

Laundromats, Commercial, Manufacturing	N/A	$ 7.12
Hotels, Motels	N/A	$ 9.55
Restaurants	N/A	$ 11.79
Industrial Laundries	N/A	$ 10.45
Waste Haulers	N/A	$213.36
Restaurant Grease	N/A	$186.69
Treatment Plant Sludge	N/A	$213.36
Mud Sump Waste	N/A	$666.75

Q. WHAT IS THE RATE IMPACT ON RESIDENTIAL CUSTOMERS USING THE MONTHLY AVERAGE WATER USAGE?

A. Residential Customers who consume the average quantity of water (4,740 gallons per month) will experience a rate increase of $34.51 per month, or an increase of approximately 167%.

Q. ARE THERE ANY PROPOSED CHANGES TO THE COMPANY'S MISCELLANEOUS SERVICE CHARGES?

A. No.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C. – SEWER DIVISION, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-_____

COST OF CAPITAL
DIRECT TESTIMONY OF

THOMAS J. BOURASSA

EXHIBIT F

I. INTRODUCTION AND QUALIFICATIONS.

Q. PLEASE STATE YOUR NAME AND ADDRESS.

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

Q. WHAT IS YOUR PROFESSION AND BACKGROUND?

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

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

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

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

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

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

A. I am testifying in this proceeding on behalf of the applicant, Utility Source, L.L.C. ("USLLC" or "the Company"). USLLC is seeking increases in its rates and charges for water and wastewater utility service in its certificated service area, which is located in Coconino County.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. I will testify in support of the Company's proposed fair rate of return. I am sponsoring Schedules D, which are filed concurrently herewith in support of the Company's application.

II. COST OF CAPITAL (D SCHEDULES).

A. Rate Of Return Summary

Q. WOULD YOU PLEASE SUMMARIZE YOUR RECOMMENDED EQUITY RETURN?

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

The cost of equity for USLLC cannot be estimated directly because it is extremely small and is not publicly traded. Therefore, there is no market data for USLLC. Consequently, I applied the DCF models to a sample of water utilities selected from the *Value Line Investment Survey*. There are six water utilities in my

sample: American States Water, Aqua America, California Water, Connecticut Water, Middlesex Water, and SJW Corp. I selected these water utilities because Staff has used them in recent water utility rate cases. To test my DCF results, I performed a risk premium analysis based on 10-year Treasury rates. Computations of common equity returns using DCF and risk premium approaches are shown on schedules D-4.9 through D-4.13.

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

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

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

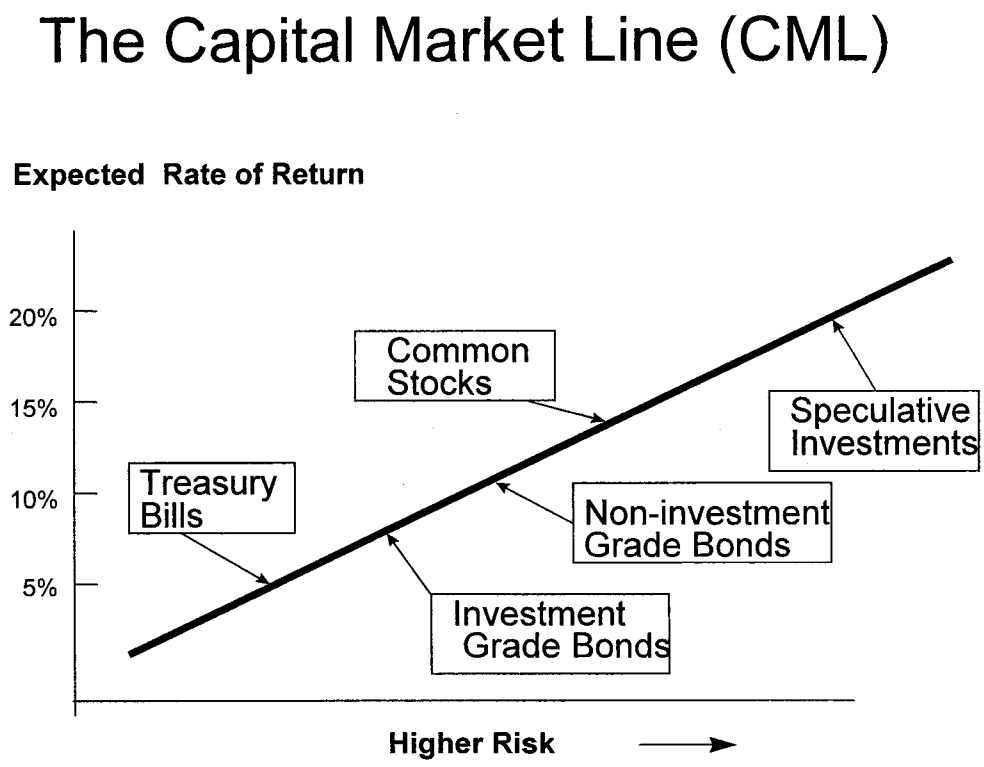
B. <u>Overview of the Cost of Capital</u>

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

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

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

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



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

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

A. As already suggested by the CML, the allocation of capital in a free market

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

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

The capital markets reflect investor expectations and requirements each day through market prices. Prices for stocks and bonds change to reflect investor expectations and the relative attractiveness of one investment versus another. While the example provided above seems straightforward, returns on common stocks are not directly observable in advance, in contrast to debt or preferred stocks with fixed payment terms, and therefore they must be estimated from market data. Estimating the cost of equity capital is a matter of informed judgment about the relative risk of the company in question and the expected rate of return characteristics of other alternative investments.

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

DETERMINED?

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

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

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

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

Q. WOULD YOU DISCUSS THESE FACTORS IN GREATER DETAIL?

A. The pure rate of interest essentially reflects both the time preference for, and the productivity of, capital. From the standpoint of the individual, it is the rate of interest required to induce the individual to forego present consumption and offer the funds thus saved to others for a specified length of time. Moreover, the pure rate of interest concept is based on the assumption that no uncertainty affects the investment undertaken by the individual, i.e., there is no doubt that the periodic interest payments will be made and the principal returned at the end of the time period. In reality, investments without risk do not exist. Every commitment of funds involves some degree of uncertainty. U.S. Government obligations,

however, may at times approach something like a risk free rate of interest. It must be pointed out, however, that U.S. Treasury obligations are only "risk free" in the sense that they are typically regarded as being free of default risk. Holders of these obligations still face the dangers of purchasing power loss (inflation risk) and the loss of capital values if real interest rates rise (interest rate risk).

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

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

A. Yes. Conceptually,

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

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

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

A. In the past 10 years, inflation and capital market costs have generally declined. Interest rates have been lower than in previous decades. Inflation, as measured by the Consumer Price Index, has been at relatively low levels. The uneven pace of the economy kept consumer prices in check and resulted in low interest rates. Since the first quarter 2004, however, improving economic growth and concerns about inflation have led to fluctuating interest rates. The Federal Reserve began

raising interest rates in June 2004 to address these concerns.

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

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

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

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

INTEREST RATES?

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

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

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

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

A. Although the water utilities in the sample have recently encountered a more favorable regulatory environment, especially in California, the water utility industry is expected to confront increasing infrastructure demands. Many of the current infrastructures are over 100 years old and are in need of significant maintenance and, in some cases, massive renovation and replacement. In addition, water companies are faced with the continued heightened threat of bio-terrorism on U.S. pipelines and reservoirs as well as the continuing need to comply with EPA water purification standards. As infrastructure costs continue to climb, many smaller companies are at a disadvantage. With out sufficient resources to fund improvements, many companies are being forced to sell to larger utilities with the flexibility and capital to deal with them.

Q. ARE WASTEWATER UTILITIES FACED WITH SIMILAR INDUSTRY ISSUES AS WELL?

A. Yes. Wastewater utilities must also comply with new and more stringent regulatory standards and are confronted by the similar bio-terorrism threats. The 2004 hurricanes highlighted the potential public health effects and dangers when wastewater treatment facilities are damaged. Wastewater utilities also face high

infrastructure costs, perhaps even greater costs than water utilities. Wastewater capital costs on a per customer basis are generally much higher than those for water utilities. Further, wastewater treatment facilities must be built in capacity increments large enough to be economical in the long-term. For utilities facing growth, treatment facilities are required to be built well before the capacity can be fully utilized. These two conditions substantially increase investment and financial risk.

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

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

Business risk, the basic risk associated with any business undertaking, is the uncertainty associated with the enterprise's day-to-day operations. In essence, it is a function of the normal day-to-day business environment, both locally and nationally. Business risks include the condition of the economy and capital markets, the state of labor markets, regional stability, government regulation, technological obsolescence, and other similar factors that may impact demand for the business product and its cost of production. For example, one of the biggest risks USLLC faces is the ever-changing regulatory climate. Water utilities are subject to strict regulation because of the health and risks associated with their operations. The environmental rules frequently change, usually resulting in additional requirements and increased costs.

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

Financial risk, on the other hand, concerns the distribution of business risk

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

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

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

A. Generally, when a firm engages in debt financing, it exposes itself to risks that, once debt becomes significant relative to the total capital structure, increase in a geometric fashion compared to the linear percentage increase in the debt ratio itself. This risk is illustrated by considering the effect of leverage on net earnings. For example, as leverage increases, the equity ratio falls. This creates two adverse effects on the investor. First, equity earnings decline rapidly and may even disappear. Second, the "cushion" of equity protection for debt falls. A decline in the protection afforded debt holders, or the possibility of a serious decline in debt protection, will act to increase the cost of debt financing. Therefore, one may conclude that each new financing, whether through debt or equity, impacts the

marginal cost of future financing by any alternative method. For a firm already perceived as being over-leveraged, this additional borrowing would cause the marginal cost of both equity and debt to increase. On the other hand, if the same firm instead employed equity funding, this could actually reduce the real marginal cost of additional borrowing, even if the particular equity issuance occurred at a higher unit cost than an equivalent amount of debt.

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

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

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

> A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments on other business undertaking which

> are attended by corresponding risks and uncertainties.... The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management to maintain and support its credit and enable it to raise money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market, and business conditions generally.

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

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

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

(1) The rate of return should be similar to the return in businesses with similar or comparable risks;

(2) The return should be sufficient to ensure the confidence in the financial integrity of the utility;

(3) The return should be sufficient to maintain and support the utilities credit; and

(4) The return should enable the utility to attract capital necessary for the proper discharge of its duties.

Based on these principles, the fair rate of return should closely parallel investor opportunity costs as discussed above. If the utility earns its market cost of equity, neither its stockholders nor its customers should be disadvantaged.

Q. HOW HAVE THESE CRITERIA BEEN APPLIED IN REGULATORY PROCEEDINGS?

A. The application of the "reasonableness" criteria laid down in these Supreme Court cases has resulted in significant controversy. The typical method of computing the overall cost of capital is quite straightforward: it is the composite, weighted cost of the various classes of capital (debt, preferred stock, and common equity), used by the utility. The weighting is done by calculating the proportion that each class of capital bears to total capital. However, there is no consensus regarding the best method of measuring the cost of equity capital. The increasing regulatory emphasis on objectivity in determining of return has resulted in a proliferation of quasi-mechanical techniques and formulae for use in equity return determination. As will be discussed more fully below, however, none of the techniques introduced has been universally accepted.

C. <u>Estimating the Cost of Equity Capital</u>

Q. WOULD YOU BRIEFLY DESCRIBE THE APPROACH YOU FOLLOWED IN YOUR COST OF CAPITAL STUDY?

A. Estimating the cost of equity is a matter of informed judgment. The development of an appropriate rate of return for a regulated enterprise involves the determination the level of risk associated with that enterprise and the determination of an appropriate return for that risk level. Practitioners employ various techniques that provide a link to actual capital market data and assist in defining the various relationships that underlie the equity cost estimation process.

As I have testified, USLLC is not publicly traded so the information required to directly estimate USLLC's cost of equity is not available. Accordingly, I used a sample of water utilities to provide means of developing an appropriate cost of equity for USLLC. Water utilities are used because there are no publicly traded companies that derive the bulk of their revenue from both water and wastewater services. There are six water utilities included in my sample and

include American States Water, Aqua America, California Water, Connecticut Water, Middlesex Water, and SJW Corp. All these companies are followed by the *Value Line Investment Survey*.

Q. ARE THE WATER UTILITIES IN YOUR SAMPLE DIRECTLY COMPARABLE TO USLLC?

A. No. Their primary source of revenues is from water services. However, they have enough similarity to provide a useful starting point for developing a cost of equity for USLLC. All of these companies are regulated utilities, and their primary source of revenues is from regulated services. While all of them primarily provide water service, some of the companies provide both water and wastewater services.

Q. DOES THE MARKET DATA PROVIDED BY THE WATER UTILITY SAMPLE CAPTURE ALL OF THE MARKET RISKS USLLC MIGHT FACE IF IT WERE PUBLICLY TRADED?

A. In my opinion, no. First, there is no comparable market data for utility companies the size of USLLC. The smallest company in the sample, Connecticut Water, has 40 times the net plant investment of USLLC, and over 320 times the revenues. Second, market data for the sample water utilities do not include data for water utilities primarily serving the Arizona market and thus primarily subject to Arizona rate regulation. Arizona rate regulation requires use of historical test years and limited out of period adjustments. Further, USLLC faces the risk that unexpected changes in costs in the period in which new rates will be in effect will not be recovered without a costly and lengthy general rate case.

The water sample is heavily weighted with utilities doing business in California. American States, California Water, and SJW Corp. are based in California and receive the bulk of revenues from utility service in that state. These utilities are face less regulatory risk because the California Public Utilities

Commission ("PUC") allows the use of future test years and balancing accounts for expenses such as purchased power and purchased water. Aqua America, the largest water utility in the group, has operations in more than 10 states. As a result, its systems are regulated by different state commissions and are less affected by unfavorable decisions and policies of a particular regulatory commission.

Q. CAN YOU PROVIDE A GENERAL DESCRIPTION OF THE WATER UTILITIES IN YOUR SAMPLE?

A. Certainly. Schedule D-4.1 lists the operating revenues and net plant for the six water utilities as reported by *AUS Utility Reports* (formerly *C.A. Turner Utility Reports*) and USLLC. In addition, below is a general description of each of the companies:

(1) American States primarily serves the California market though Southern California Water Company provides water services to over 1 million people within 75 communities in 10 counties in the State of California, primarily in Los Angeles, San Bernardino, and Oranges counties. It has one subsidiary serving the Arizona market with approximately 13,000 customers in Fountain Hills and Scottsdale. Approximately 91 percent of American States revenues were derived from Southern California Water. Revenues for American States were over $236 million in 2005 and net plant was over $629 million at the end of 2005.

(2) Aqua America owns regulated utilities in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, Maine, Missouri, New York, and South Carolina, serving over 864,000 customers at the end of 2005. Revenues for Aqua America were over $496 million in 2005 and net plant was over $1.97 billion at the end of 2005.

(3) California Water Service Group owns subsidiaries in California, New Mexico, Washington, and Hawaii serving over 500,000 customers. The California

operations account for over 95 percent of customers and over 96 percent of operating revenues. Revenues for California Water were over $320 million in 2005 and net plant was over $756 million at the end of 2005.

(4) Connecticut Water Services owns subsidiaries in Connecticut and Massachusetts serving over 87,000 customers. Revenues for Connecticut Water Service were over $53 million in 2004 and net plant was over $195 million at the end of 2004.

(5) Middlesex Water owns subsidiaries in New Jersey and Delaware serving over 84,000 customers and provides water service under contract to municipalities in central New Jersey to a population of over 267,000. Revenues for Middlesex Water were over $71 million in 2004 and net plant was over $235 million at the end of 2004.

(6) SJW Corp. owns San Jose Water, which provides water service in an 138 square mile area in San Jose, California, and surrounding communities. Revenues for SJW Corp were over $180.1 million in 2005 and net plant was over $301 million at the end of 2005.

Q. HOW DOES USLLC COMPARE TO THE SAMPLE WATER UTILITES?

A. It is much smaller. At the end of the test year, USLLC had approximately 350 water utility customers. Its revenues totaled less than $91,000, and its net plant was approximately $1.86 million. And USLLC is not diversified. It has a relatively small service territory in Coconino County with relatively low growth potential compared to the sample companies, and no alternative sources of revenue.

Q. IS USLLC COMPARABLE TO THE SAMPLE WATER UTILITIES?

A. Certainly, a good argument can be made that USLLC is not comparable to the six publicly traded water utilities in the same group. Unfortunately, as I testified, the approaches commonly used to estimate a utility's cost of equity require market

data, which is not available for small private businesses, like USLLC. As a result, much larger, public companies must be used as proxies. This is an important factor to keep in mind, since the criteria established by the Supreme Court in decisions such as *Bluefield Water Works* and *Hope Natural Gas* require the use of comparable companies, i.e., companies that would be viewed by investors as having similar risks.

Q. YOU PREVIOUSLY DISCUSSED FINANCIAL RISK, WHICH IS RELATED TO A FIRM'S CAPITAL STRUCTURE. HOW DO THE CAPITAL STRUCTURES OF THE SAMPLE WATER UTILITIES COMPARE TO USLLC?

A. Schedule D-4.2 shows the capital structure of USLLC contains no debt and 100 percent equity compared to the average of the water utility sample of 48 percent debt and 52 percent equity. Having no debt in its capital structure implies less financial risk than the water utility sample.

Q. DO YOU HAVE ANY GENERAL CONCERNS WITH THE DATA AVILABLE TO MAKE COST OF EQUITY ESTIMATES FOR THE WATER UTILITIES?

A. Yes. Schedule D-4.3 shows that common stock prices have increased significantly during the past five years, and those increases have exceeded the average annual increases in dividends per share (DPS), earnings per share (EPS) and book value per share. *Value Line* (January 2004) suggests part of the reason for this is consolidation in the water utility industry. *Value Line* has advised investors to expect mergers and acquisitions to continue and stock prices from an acquisition to be as much as four times book value.

Irrespective of investor merger and acquisition expectations, stock price growth has exceeded book growth. Schedule D-4.4 shows that common stock

prices have had annual average price increases during the past 10 years that have exceeded the average annual increases in dividends per share, earnings per share, and book value per share.

Q. ARE THERE OTHER DATA SHOWING THAT STOCK PRICES FOR THE WATER UTILITY STOCKS HAVE BEEN INCREASING?

A. Yes. Schedule D-4.5 compares the closing stock prices for the April 25, 2005 to the spot price at April 25, 2006. In this period of time, the average increase in prices was over $6.86 per share. This is an average of nearly 30 percent.

Q. WHAT IMPLICATIONS DOES THIS HAVE FOR ESTIMATING THE COST OF EQUITY USING THE SAMPLE WATER UTILITIES?

A. If investors have bid up prices for utility stocks in anticipation of a merger or acquisition, the stock prices will reflect the investor's expected premium at acquisition. As I will discuss later, this distorts the results produced the DCF model and lowers the indicated equity cost.

Alternatively, investors may have bid up the prices for the water utility stocks because they expect increases in earnings and dividends in the future. In other words, investors expect the water utilities to be authorized, and to actually earn higher returns on equity.

Q. WHAT METHODS AND CAPITAL MARKT DATA ARE USED TO EVALUATE THE COST OF EQUITY CAPITAL?

A. Techniques for estimating the cost of equity generally fall into three groups:

(1) comparable earnings methods,

(2) risk premium methods, and

(3) DCF methods.

The comparable earnings methods used to determine the cost of equity is a direct outgrowth of judicial opinions on the rate of return. The *Bluefield* decision

suggests that opportunity cost, as defined in the economic literature, is the appropriate measure of the actual cost of common equity for a regulated utility. This approach involves direct observation of market returns, an assessment of the persistence of those returns, and an evaluation of the risk accepted by that return. The advantage of the comparable earnings approach is that it is easy to calculate and the amount of subjective judgment required is minimal. The basis for comparison is the book value of common equity, which less vulnerable to regulatory influences, in contrast to the market-based DCF model and the capital asset pricing model ("CAPM").

The second group of estimation techniques are risk premium methods, which begin with currently observable market returns, such as yields on government or corporate bonds, and add an incremental amount for the additional risk associated with common equity. The CAPM, for example, is a type of risk premium approach. Although the CAPM method is widely used in academic research, questionable assumptions that underlie the model have detracted from its practical application. Other risk premium methods, such as the bond-yield plus risk premium method, are less subjective than the CAPM and are easier to implement. The risk premium method does not require estimates of beta or market risk premiums, for example, or depend on what interest rate is chosen as the proxy for the risk free rate.

Q. CAN YOU ELABORATE?

A. Yes. Despite more than 30 years of attempts to empirically validate the CAPM approach, there is no consensus on its legitimacy. There are a few hints that the model is incorrect. For starters, we all hold different portfolios. Therefore, it cannot be exactly true. Researchers have focused on the more interesting issue of whether rates of return depend upon beta (ß) and whether the elegant, linear form

of the model holds for all types of stocks. What they have found is that real markets typically deviate broadly from the original version of the CAPM, which is sometimes called the Sharpe-Linter model. Some of the most forceful arguments against the CAPM are presented in a recent article written by Dr. Eugene Fama and Dr. Kenneth French.[1] Reviewing various empirical studies of the CAPM, these authors found that beta does a relatively poor job at explaining differences in the actual returns of portfolios of U.S. stocks. They noted that there are variables besides beta (ß) explain portfolio returns better, suggesting the CAPM, while theoretically interesting, is incomplete and has little practical application.

Q. PLEASE CONTINUE.

The final commonly used technique, the DCF method, is simply the sum of a stock's expected dividend yield and the expected long-term growth rate. Dividend yields are readily available, but long-term growth estimates are more difficult to obtain. DCF constant growth models require very long-term growth estimates, and it can be argued that more explicit multi-stage models are preferred. The DCF model results are generally more consistent with actual capital market behavior. However, as I have stated, the DCF model does require judgment in selecting appropriate growth rates.

In the final analysis ROE estimates are subjective and should be based on sound, informed judgment. I have applied several versions of the DCF and risk premium methods that I believe brackets the fair cost of equity capital for USLLC, without taking into account the additional risks USLLC possesses.

Q. PLEASE EXPLAIN THE DCF METHOD OF ESTIMATING THE COST OF EQUITY.

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[1] Eugene F. Fama and Kenneth R. French, "The Capital Asset Pricing Model: Theory and Evidence," *Journal of Economic Perspectives* (Summer 2004) 25-46.

A. The DCF model is based on the concept that the current price of a share of stock is equal to the present value of future cash flows from the purchase of the stock. In other words, the DCF model is an attempt to replicate the market valuation process that sets the price investors are willing to pay for a share of a company's stock. It rests on the assumption that investors rely on the expected returns (i.e., cash flow they expect to receive) to set the price of a security. The DCF model in its most general form is:

(1) $P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \ldots + CF_n/(1+k)^n$

where k is the cost of equity; n is a very large number; P_0 is the current stock price; and, CF_1, CF_2,...CF_n are all the expected future cash flows expected to be received in periods 1, 2, ...n.

Equation (1) can be written to show that the current price (P_0) is also equal to

(2) $P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \ldots + P_t/(1+k)^t$

where P_t is the price expected to be received at the end of the period t. If the future price (P_t) included a premium (an expected increase in the stock price or capital gain), the price the investor would pay today in anticipation of receiving that premium would increase. In other words, by estimating the cash flows from the purchase of a stock in the way of dividends and capital gains, we can calculate the investors' required rate of return, i.e., the rate of return investors presumptively used in bidding the current price to the stock (P_0) to its current level. This is a Market Price version of the DCF model. As with the general form of the DCF model in equation (1), in the Market Price approach the current stock price (P_0) is the present value of the expected cash inflows. The cash flows are comprised of dividends and the final selling price of the stock. The estimated cost of equity (k) is the rate of return investors expect if they bought the stock at today's price, held

the stock and received dividends through the transition period, and then sold it for price (P_t).

Q. CAN YOU PROVIDE AN EXAMPLE TO ILLUSTRATE THE MARKET PRICE VERSION OF THE DCF MODEL?

A. Yes. Assume an investor buys a share of common stock for $40. If the expected dividend during the coming year is $2.00, then the expected dividend yield is 5 percent ($2.00/$40 = 5.0 percent). If the stock price is also expected to increase to $43.00 after one year, this $3.00 expected gain adds an additional 7.5 percent to the expected total rate of return ($3.00/$40 = 7.5 percent). Thus, the investor buying the stock at $40 per share, expects a total return of 12.5 percent (5 percent dividend yield plus 7.5 percent price appreciation). The total return of 12.5 percent is the appropriate measure of the cost of capital because this is the rate of return that caused the investor to commit $40 of his capital by purchasing the stock.

I have provided a Market Price DCF model in Exhibit 1 to illustrate the Market Price DCF model approach further. The model computes the implied rate of return from a stream of cash flows. The first cash flow is negative and is the purchase price of the stock. I used the spot price at March 28, 2006, as reported by *Zack's Investment Research* as the initial purchase price. The next series of cash flows are the expected dividends for the next four years. The final cash flow is the dividend in year 5 plus the expected selling price of the stock. The selling price of the stock is based on the historical 5-year average annual price growth for each of the stocks. The average implied rate of return is 15.4 percent.

Q. HOW DOES THE RESULT OF YOUR MARKET PRICE DCF COMPARE TO THE HISTORICAL COMPOUND ANNUAL MARKET RETURNS FOR THE WATER UTILITY SAMPLE?

A. As shown in Exhibit 2, the average 5-year historical compound annual total market

return for the water utility sample is 20.3 percent. The 5-year market Price DCF result is lower that the 5 year historical total market returns. The 5-year market price DCF using historical 10 year average annual price growth is 18.3 percent. Despite the fact that the historical 5-year and 10-year total market returns as well as the market price DCF indicate returns in the range of 15 to 20 percent, I do not rely on this method. I have instead used it to evaluate the reasonableness of the results produced by the other versions of the DCF model I have used.

Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE DCF MODEL.

A. Under the assumption that future cash flows are expected to grow at a constant rate ("g"), equation (1) can be solved for k and rearranged into the simple form:

(3) $k = CF_1/P_0 + g$

where CF_1/P_0 is the expected dividend yield and g is the expected long term dividend (price) growth rate ("g"). The expected dividend yield is computed as the ratio of next period's expected dividend ("CF_1") divided by the current stock price ("P_0"). This form of the DCF model is known as the constant growth DCF model and recognizes that investors expect to receive a portion of their total return in the form of current dividends and the remainder through future dividends and capital (price) appreciation. A key assumption of this form of the model is that investors expect that same rate of return (k) every year and that market price grows at the same rate as dividends. This has not been historically true for the water utility sample as evidenced by the data shown in schedules D-4.3 and D-4.4. As a result, estimates of long-term growth rates (g) should take this into account.

Q. HOW IS THE FORMULA FOR THE MULTI-STAGE DCF MODEL DERIVED?

Under the multi-stage growth DCF model, equation (1) is expanded to incorporate

two or more growth rate periods and is written as:

(4) $P_0 = CF_0(1+g_1)/(1+k) + \ldots + CF_0(1+g_2)^n/(1+k)^n + CF_0(1+g_t)^{(t+1)}/k-g_t)$

where g_1, g_2, etc., represent growth rates for periods 1, 2, etc., and g_t represents the growth rate from period t to infinity. This version of the DCF model assumes that cash flow growth will occur at different rates for one or more periods and ultimately reach a terminal growth stage that continues indefinitely.

Q. LET'S TURN TO SPECIFIC INPUTS USED IN YOUR DCF MODELS. WHAT DATA HAVE YOU USED TO COMPUTE THE DIVIDEND YIELD (CF_1/P_0) IN YOUR MODELS?

A. I used the spot price for each of stocks of the water utilities in the sample group on April 25, 2006 as reported by *Zacks Investment Research*. The dividend is the expected 2006 dividend.

Q. EARLIER YOU TESTIFIED THAT STOCK PRICES HAVE BEEN INCREASING DUE TO POTENTIAL MERGERS AND ACQUISTIONS, HOW DOES THIS IMPACT THE DIVIDEND YIELD?

A. The DCF model results will be negatively biased because the dividend yield (CF_1/P_0) is reduced by virtue of having a larger denominator, the stock price (P_0). This impact is not by itself problematic, since the DCF model is intended to take into account changes in the stock price (upward or downward). Investors may have bid up the price of the stocks of the water utilities in the sample group because they expect increased growth in earnings and, as a result, increased dividend growth and appreciation in the price of the stock. However, if stock prices have been bid up in anticipation of a merger or an acquisition, then the DCF model estimate will not reflect true market conditions and understate the cost of equity.

Q. WHAT MEASURES OF GROWTH ("g") HAVE YOU USED?

A. I have used earnings growth forecasts, where available, from three different,

widely-followed sources: *Zack's Investment Research, Standard & Poor Earnings Guide*, and *Value Line Investment Survey*. Schedule D-4.6 reflects estimates of earnings growth.

I have also used forecasts of book returns, retention ratios, and growth in the number of common shares from *Value Line* to determine sustainable growth estimates, which I describe in more detail below. Schedules D-4.7 and D-4.8 show my calculations of sustainable growth.

For the multi-stage DCF, I employed a two-stage model with short-term and long-term growth rates. Staff normally uses two growth stages in its multi-stage DCF model, so I used that approach as well. I used analysts' forecasts of EPS growth for the near term and average long-term GDP growth for the long-term.

Q. DID YOU USE THE ARITHMETIC MEAN OR THE GEOMETRIC MEAN FOR GDP GROWTH?

A. The arithmetic mean. It is well established that if the cost of capital is estimated from historical data, an arithmetic average should be used.[2]

Q. WHY DID YOU USE FORECASTED GROWTH RATES IN YOUR MODELS?

A. The DCF model requires estimates of growth that investors expect in the future. Accordingly, I used analysts' forecasts of growth. Logically, in estimating future growth, financial institutions and analysts have taken into account all relevant historical information on a company as well as other more recent information.[3] To the extent that past results provide useful indications of future growth prospects,

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[2] Ibbotson Associates, *SBBI Valuation Edition 2005 Yearbook* 75-77; Richard A. Brealey and Stewart C. Myers, *Principles of Corporation Finance* (7th ed. 2003) 156-157.

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

analysts' forecasts would already incorporate that information. In addition, a stock's current price reflects known historic information on that company, including its past earnings history. Any further recognition of the past will double count what has already occurred. Therefore, forward-looking growth rates should be used.

Q. HAVE YOU COMPARED THE ANALYST ESTIMATES OF GROWTH WITH HISTORICAL DATA?

A. Yes. As shown in Exhibit 3, the average 5-year historical compound annual capital (price) appreciation is 10.65 percent. The average 10-year historical compound annual capital (price) appreciation is 15.83 percent. This is significantly higher than the average analyst estimates of growth of 7.63 percent. While historical returns do not necessarily reflect what will occur in the future, the analysts' estimates of EPS growth are significantly <u>less</u> than the historical capital appreciation and the historical total returns. Thus, I believe using the analyst estimates of EPS growth for the growth rate in the DCF model is conservative.

Q. WHY HAVE YOU NOT USED FORECASTS OF DIVIDEND GROWTH?

A. The average annual forecast of dividend growth is extremely low. When forecasted dividend growth is used in the DCF model, it produces a cost of equity below the cost of debt.

Q. HAVE YOU PREPARED CONSTANT GROWTH DCF MODELS USING ANALYST ESTIMATES OF DPS GROWTH?

A. Yes. Exhibit 4, attached hereto, reflect constant growth DCF results using analyst estimates of DPS growth. The result is 5.9 percent. This is less than the current yield on a Moody's Baa investment grade bond at 6.7 percent. Forecasted Moody's Baa investment grade bonds for 2007-2008 is 7.1 percent.

Q. HAVE YOU PREPARED CONSTANT GROWTH DCF MODELS USING

HISTORICAL DPS AND EPS GROWTH RATES?

A. Yes. Exhibits 5 and 6, attached hereto, reflect constant growth DCF results using five-year historical annual growth rates for DPS and EPS. The DCF results using five-year historical annual growth rates for DPS is 5.6 percent. The DCF results using five-year historical annual growth rates for EPS is 6.2 percent. Both are below the cost of Moody's Baa investment grade bonds is 6.7 percent. Forecasted Moody's Baa investment grade bonds for 2007-2008 is 7.1 percent.

Q. WHY HAVEN'T YOU AVERAGED THESE RESULTS WITH THE RESULTS OF YOUR DCF USING ANALYST EXPECTATIONS OF EPS GROWTH?

A. Using the analyst expectations of DPS growth, the historical DPS growth, or historical EPS growth results in returns which are unrealistic. Thus, averaging these results with the results using analyst estimates of EPS growth only serves to depress the indicated cost of equity. Investors would not bid up the price of a utility stock if the expected return is approximately the equal to or less than returns on bonds or other debt investments. As the CML depicted previously illustrates, common stocks are higher and to the right of investment grade bonds on the CML continuum because they are exposed to more risk. The DCF model is a forward looking model and the results using historical DPS and EPS growth are unreasonable.

Q. YOU MENTIONED SUSTAINABLE GROWTH EARLIER. PLEASE EXPLAIN WHAT SUSTAINABLE GROWTH IS?

A. Sustainable growth is derived by combining the expected growth from future retained earnings and expected future growth from sales of common stock. The growth rate (g) becomes:

(5) $g = br + sv$

where b is the expected retention ratio; r is the expected return on common equity; s is the funds raised from the sale of stock as a fraction of existing common equity; and, v is fraction of funds raised from the sale of stock that accrues to shareholders.[4]

Q. HOW DID YOU ESTIMATE "br" GROWTH?

A. I used projected rates of return, dividends per share, and earnings per share found in *Value* Line to estimate "br" growth.

Q. HOW DID YOU ESTIMATE "sv" GROWTH?

A. I used *Value Line*'s projections of new issues of common stock to estimate "s" and reported books values and the spot price to estimate "v". All of the water utility stocks used in my sample are currently selling at prices above book value and thus have "sv" growth.

Q. HOW DO YOUR ESTIMATES FOR SUSTAINABLE GROWTH COMPARE TO THE HISTORICAL COMPOUND ANNUAL CAPITAL APPRECIATION RETURN?

A. The average sustainable growth for the utility sample as shown in schedule D-4.7 is 8.41 percent and is lower than the average 5-year and 10-year historical compound annual capital appreciation return of 10.65 percent and 15.83 percent, respectively.

Q. LET'S MOVE ON TO YOUR OTHER EQUITY COST ESTIMATION METHOD, MR. BOURASSA. PLEASE EXPLAIN YOUR RISK PREMIUM METHODOLOGY.

A. Risk premium methods are based on the assumption that equity securities are riskier than debt. Since equity securities are riskier, investors require a higher rate of return. The risk premium between equity securities and debt can be directly estimated by comparing authorized and actual returns on equity with the current

[4] See Gordon Myron J., *The Cost of Capital to a Public Utility* (Michigan, 1974).

yields of investment grade bonds or other debt instruments:

> The risk premium method of determining the cost of equity, sometimes referred to as the "stock-bond-yield spread method" or the "risk positioning method," or again the "bond-yield plus risk-premium" method, recognizes that common equity capital is more risky than debt from an investor's standpoint, and that investors require higher returns on stocks than on bonds to compensate for the additional risk. The general approach is relatively straightforward: First, determine the historical spread between the return on debt and the return on equity. Second, add this spread to the current debt yield to derive an estimate of current equity return requirements.
>
> The risk premium approach to estimating the cost of equity derives its usefulness from the simple fact that while equity return requirements cannot be readily quantified at any given time, the returns on bonds can be assessed precisely at every instant in time. If the magnitude of the risk premium between stocks and bonds is known, then this information can be used to produce the cost of common equity. This can be accomplished retrospectively using historical risk premiums or prospectively using expected risk premiums.

Roger A. Morin, *Regulatory Finance: Utilities' Cost of Capital* (1994) 269. As I have testified, there is no need to estimate betas or market risk premiums, as required in implementing the CAPM. It is a simpler and less subjective approach.

Q. CAN YOU EXPLAIN YOUR BOND-YIELD PLUS RISK PREMIUM APPROACH?

A. Yes. I have computed the average risk premium for the actual and authorized returns from 1996 to 2005 (10 years) when compared to the 10-year Treasury rate for the six water utilities in the sample group. I then add the average risk premium to the forecasted interest rates for 10-year Treasuries for 2007-2008.

Q. WHY DO YOU USE PROJECTED INTEREST RATES FOR 2007-2008?

A. I have used this period because it is the period in which USLLC's rates will be in effect.

Q. WHY NOT USE CURRENT RATES FOR TREASURY SECURITIES?

A. The goal is to determine the cost of capital for USLLC when new rates are in effect, not the cost of capital 12 months before new rates are approved. Current interest rates are sometimes higher and sometimes lower than rates during future periods. However, interest rates have been close to 40 year lows in past few years, and have been increasing and are expected to increase.

Q. ARE RISK PREMIUM ESTIMATES OF THE COST OF EQUITY CONSISTENT WITH OTHER CURRENT CAPITAL MARKET COSTS?

A. Yes. The risk premium approach is founded on directly observable, market interest rates. This assures that the premium estimates of the cost of equity begin with a sound basis, are tied to current capital market costs.

D. <u>Details of Cost of Equity Estimates</u>

Q. PLEASE DISCUSS YOUR ANALYSIS OF THE COST OF EQUITY FOR USLLC.

A. In the first part of my analysis, I applied two versions of the constant growth DCF and a two-stage DCF models to the six water utilities in the sample group. The DCF analyses appear on schedules D-4.9, D-4.10, and D-4.11. The DCF models produce an indicated equity cost in the range of 7.7 percent to 12.6 percent.

In the second part of my analysis, I developed and reviewed cost of equity estimates based on the bond-yield plus risk premium method. The risk premium analysis based on actual and authorized returns on equity indicates an equity cost in the range of 10.2 percent to 11.3 percent.

In the third part of my analysis, I compared the actual and authorized returns reported in *AUS Utility Reports* to the results of my DCF and risk premium methods. The range of actual returns is from 9.9 percent to 12.7 percent. The range of authorized returns is from 8.4 percent to 12.0 percent.

Finally, I also considered *Value Line*'s most current forecasts of the

composite equity return for the water utility industry. *Value Line*'s forecasts a composite return of 10% for 2006, 10.5% for 2006, and 11.5% for the 2009-11 period.

Based on the DCF and risk premium results, and with consideration for current market, industry, and other factors, I believe a return on equity of 10.5 percent is appropriate. USLLC has a higher cost of equity than the water utility sample group due to its small size, leverage and other characteristics. Thus, an equity return of 10.5 percent is conservative for USLLC.

Q. PLEASE DISCUSS YOUR CONSTANT GROWTH DCF MODELS.

A. I computed the cost of equity using two constant growth models. The first, shown on schedule D-4.9, uses analyst's forecasts of earning per share growth. The average of the results is 10.3 percent.

The second constant growth DCF model, shown on schedule D-4.10, uses my computations of sustainable growth ("br + sv"). To compute sustainable growth I used analysts forecasts of the retention ratio and return of common equity to estimate "br" growth. I also used analysts' forecast of the growth in the number of common shares and the current market to book ratio to estimate "vs" growth. The current market to book ratio is based on the spot price at April 25, 2006 and the book value at December 31, 2005. The average of the results is 11.5 percent.

Q. PLEASE DISCUSS YOUR MULTISTAGE DCF MODEL.

A. I use a two-stage growth DCF model. The average of the analysts' expected growth is used for the near-term and GDP growth for the long-term. Short-term growth is given a weight of .67. The average result of the two-stage DCF model, shown on schedule D-4.11, is 10.0 percent.

Q. PLEASE DISCUSS YOUR RISK PREMIUM ANALYSIS?

A. The first risk premium analysis, shown on schedule D-4.12, computes the average

risk premium on the actual returns for the six water companies from 1996 to 2005 (10 years) when compared to the 10-year Treasury rates. The average risk premium is then added to the forecasted interest rates for 10-year Treasuries for 2007-2008. The result of the first risk premium analysis is 10.2 percent.

The second risk premium analysis, shown on schedule D-4.13, computes the average risk premium on the authorized returns for the six water companies from 1996 to 2005 (10 years) when compared to the 10-year Treasury rate. The average risk premium is then added to the forecasted interest rates for 10-year Treasuries for 2007-2008. The result of second risk premium analysis is 10.8 percent.

Q. WHAT ARE THE ACTUAL AND AUTHORIZED RETURNS FOR THE SAMPLE WATER UTILITIES?

A. Schedule D-4-14 shows the actual and authorized returns for the six water utilities. The average of the actual returns is 10.5 percent. The average of the authorized returns is 10.5 percent.

Q. PLEASE SUMMARIZE YOUR RESULTS.

A. The following table summarizes the results of the models I have used, and provides the comparable earnings data I used as I check on my estimates:

DCF Analysis	Range	Midpoint
Constant Growth (earnings growth)	7.7% - 12.2%	10.0%
Constant Growth (sustainable growth)	10.1% - 12.6%	11.4%
Two-Stage Growth Model	9.8% - 11.2%	9.9%
Risk Premium Analysis		
Actual Returns	10.2% - 10.3%	10.3%
Authorized Returns	10.9% - 11.3%	11.1%
Comparable Earnings		
Actual Returns	9.9% - 12.7%	11.3%

Authorized Returns	9.9% - 12.0%	10.2%
Value Line Industry Composite (2006)		10.0%
Value Line Industry Composite (2007)		10.5%
Value Line Industry Composite (2009)		11.5%

At 10.5 percent, my recommended cost of equity is near the middle of the range of estimates produced by the DCF and risk premium models, but nevertheless within the ranges of both sets of estimates. My recommendation represents a reasonable balance between the economic forecasts of higher interest rates during the period in which rates will be in effect, the reduced equity costs obtained from low dividend yields using the DCF model, and my judgment about USLLC's additional risks not captured by the market models, including the risk of rate regulation and small size for USLLC.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

UTILITY SOURCE, L.L.C.

ORIGINAL

DOCKET WS- 04235A

TARIFF

Issued February 1, 2005

Effective January 4, 2005

ISSUED BY:

Lonnie McCleve, General Manager
Utility Source, L.L.C.
521 E. San Pedro
Gilbert, AZ 85233

36100.00000.105

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EXHIBIT G

UTILITY SOURCE, L.L.C. ORIGINAL

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ISSUED BY:

Lonnie McCleve, General Manager
Utility Source, L.L.C.
521 E. San Pedro
Gilbert, AZ 85233

36100.00000.105

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ISSUED BY:

Lonnie McCleve, General Manager
Utility Source, L.L.C.
521 E. San Pedro
Gilbert, AZ 85233

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Applies to all **WATER** service areas

PART ONE

STATEMENT OF CHARGES
WATER SERVICE

I. RATES

In Opinion and Order No. 67446, dated January 4, 2005, the Commission approved the following rates and charges to become effective January 4, 2005.

Meter Size Inches	Usage Included in Minimum Charge Gallons	Minimum Charge Per Month
A. General Residential, Commercial, Industrial, and Irrigation Service		
5/8 X ¾ Meter	0	N/A
3/4" Meter	-0-	6.48
1" Meter	-0-	8.02
1 1/2" Meter	-0-	9.62
2" Meter	-0-	14.00
4" Meter	-0-	58.00
6" Meter	-0-	89.80

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PART ONE

STATEMENT OF CHARGES
WATER SERVICE

B. Commodity Charges

The rate for use in addition to the minimum stated above shall be the same for all sizes of meters. Additional usage shall be at the following rate per 1,000 gallons:

Consumption	Rate
Residential	
0-5,000	$2.83
5,000-15,000	$3.32
15,001 and over	$4.71
Multi-Family, Mobile Home, Commercial	
All	$2.97
Standpipe	
All	$6.00
Construction Water	
All	$6.00

Applies to all **WATER** service areas

PART ONE

STATEMENT OF CHARGES
WATER SERVICE

II. TAXES AND ASSESSMENTS

In addition to all other rates and charges authorized herein, the Company shall collect from its customers all applicable sales, transaction, privilege, regulatory or other taxes and assessments as may apply now or in the future, per Rule R14-2-409(D)(5).

Applies to all **WATER** service areas

PART ONE

STATEMENT OF CHARGES
WATER SERVICE

III. ADDITIONAL CHARGES[1]

A.	Establishment of Service Per Rule R14-2-403D (new customer charge, in addition to E, L and M below)	$ 20.00
	1. If after hours	$ 40.00
B.	Re-establishment of Service Per Rule R14-2-403D (same customer, same location within 12 months)	$30.00
C.	Reconnection of Service Per Rule R14-2-403D	$ 50.00
	1. If after hours	$ 40.00
D.	Charge for Moving Meter at Customer Request Per Rule R14-2-405B	Cost[2]

[1] Additional charges authorized in Paragraph III H, I and J shall not be duplicated for dual service customers.
[2] See Sheet No. 8.

ISSUED BY:

Lonnie McCleve, General Manager
Utility Source, L.L.C.
521 E. San Pedro
Gilbert, AZ 85233

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PART ONE

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E.	Minimum Deposit Requirement Per Rule R14-2-403B	
	1. Residential customer	(2 times estimated average monthly bill)
	2. Non residential customer	(2-1/2 times estimated maximum monthly bill)
	3. Deposit Interest (per annum)	3.0%
F.	Meter test per Rule, If correct Per Rule R14-2-408F	N/A
G.	Meter Reread Per Rule R14-2-408C	$ 10.00
H.	Charge for NSF Check Per Rule R14-2-409F	$ 20.00
I.	Deferred Payment Finance Charge Per month	1.5%

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ISSUED BY:

Lonnie McCleve, General Manager
Utility Source, L.L.C.
521 E. San Pedro
Gilbert, AZ 85233

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PART ONE

STATEMENT OF CHARGES
WATER SERVICE

J.	Late Payment Charge Per Month	1.5% [3] [4]
K.	Service Calls, per hour After hours only	$40.00[5]

[3] Bills for utility services are due and payable when rendered. Any payment not received within fifteen (15) days from the date the bill was rendered shall be considered delinquent and subject to the termination policy set forth in the Company's rate tariff. All Late Payment Charges shall be billed on the customer's next regularly scheduled billing. If the customer fails to pay the Late Payment Charge by the due date on the next billing, the customer will receive a ten (10) day termination notice. If the customer does not pay the Late Payment Charges by that date the service will be terminated. Service shall be terminated only for that service for which the customer is delinquent or is in violation of other Tariff or Rule provisions. All customers whose service is terminated for failure to pay the Late Payment Charges are subject to the Company's reconnection charges set forth in the Company's tariff.
[4] This charge shall not apply if the customer has arranged for a Deferred Payment Plan.
[5] For service problem found to be on Customer's side of meter. Company will not repair problem.

ISSUED BY:

Lonnie McCleve, General Manager
Utility Source, L.L.C.
521 E. San Pedro
Gilbert, AZ 85233

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PART ONE

STATEMENT OF CHARGES
WATER SERVICE

L.	Meter Advance Policy [6]	
		Advance [7]
	3/4" Meter	$575.00
	1" Meter	$660.00
	1 1/2" Meter	$900.00
	2" Meter	$1,525.00
	4" Meter	$3,360.00
	6" Meter	$6,035.00
M.	Main Extension Tariff Per Rule R14-2-406B	Cost[8]

[6] The customer shall be the owner of and be responsible for the design, installation, maintenance and operation of the Service Line on the customer's side of the water meter.
[7] Plus county permit charges. Permit charges are non-refundable.
[8] Per Sheet No. 8.

ISSUED BY:

Lonnie McCleve, General Manager
Utility Source, L.L.C.
521 E. San Pedro
Gilbert, AZ 85233

36100.00000.105

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PART ONE

STATEMENT OF CHARGES
WATER SERVICE

IV. PERMITTED COSTS

A. Costs shall be verified by invoice.

B. For services that are provided by the Company at costs, cost shall include labor, materials, other charges incurred, and overhead not to exceed 10%. However, prior to any such service being provided, the estimated cost of such service will be provided by the Company to the customer. After review of the cost estimate, the customer will pay the amount of the estimated cost to the Company.

C. In the event that the actual cost is less than the estimated cost, the Company will refund the excess to the customer within 30 days after completion of the provision of the service or after Company's receipt of invoices, timesheets or other related documents, whichever is later.

D. In the event the actual cost is more than the estimated cost, the Company will bill the customer for the amount due within 30 days after completion of the provision of the service or after the Company's receipt of invoices, timesheets or other related documents, whichever is later. The amount so billed will be due and payable 30 days after the invoice date. However, if the actual cost is more than five percent (5%) greater than the total amount paid, the customer will only be required to pay five percent (5%) more than the total amount paid, unless the Company can demonstrate that the increased costs were beyond its control and could not be foreseen at the time the estimate for the total amount paid was made.

ISSUED BY:

Lonnie McCleve, General Manager
Utility Source, L.L.C.
521 E. San Pedro
Gilbert, AZ 85233

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Applies to all **WATER** service areas

PART ONE

STATEMENT OF CHARGES
WATER SERVICE

E. At the customer's request, the Company shall make available to the customer all invoices, timesheets or related documents that support the cost for providing such service.

F. Permitted costs shall include any Federal, State or local taxes that are or may be payable by the Company as a result of any tariff or contract for water facilities under which the Customer advances or contributes funds or facilities to the Company.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

I. CROSS-CONNECTION CONTROL

A. Purpose.

To protect the public water supply in the Company's water supply in the Company's water system from the possibility of contamination caused by backflow through unprotected cross-connections by requiring the installation and periodic testing of backflow-prevention assemblies pursuant to the provisions of the Arizona Administrative Code, Title 14, Chapter 2, Section 405.B.6 as adopted by the Arizona Corporation Commission, and Title 18, Chapter 4, Section 115, as adopted by the Arizona Department of Environmental Quality, or Maricopa County Environmental Services Division, as those regulations may be revised from time to time.

B. Inspections.

The customers shall cooperate fully with the Company in its efforts to investigate and determine the degree of potential health hazard to the public water supply which may result from conditions existing on the customer's premises.

C. Requirements.

In compliance with the Rules and Regulations of the Arizona Corporation Commission and the Arizona Department of Environmental Quality, specifically A.A.C. R14-2-405.B.6 and A.A.C. R18-4-115 relating to backflow prevention:

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
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1. The Company may require a customer to pay for and have installed, maintain, test and repair a backflow-prevention assembly if A.A.C. R18-4-115.B or C applies.

2. A backflow-prevention assembly required to be installed by the customer under this tariff shall comply with the requirements set forth in A.A.C. R18-4-115.D and E.

3. The Company shall give any customer who is required to install and/or test a backflow-prevention assembly written notice of said requirement. If A.A.C. R14-2-410.B.1.a. is not applicable, the customer shall be given thirty (30) days in which to comply with this notice. If the customer can show good cause as to why he cannot install the device within thirty (30) days, the Company or the Arizona Corporation Commission Staff may grant additional time for this requirement.

4. Testing shall be in conformance with the requirements of A.A.C. R18-4-115.F. and Maricopa County Environmental Services Division. The Company shall not require an unreasonable number of tests.

5. The customer shall provide the Company with records of installation and testing. For each backflow-prevention assembly, these records shall include:

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

a. assembly identification number and description;
b. location;
c. date(s) of test(s);
d. description of repairs made by tester; and
e. tester's name and certificate number.

D. Discontinuance of Service.

In accordance with A.A.C. R14-2-407 and 410 and provisions of this tariff, the Company may terminate service or deny service to a customer who fails to install and/or test a backflow-prevention assembly as required by this tariff.

1. In the event the backflow-prevention assembly has not been installed or fails any test and A.A.C. R14-2-410.B.1.a. is applicable, the Company may terminate service immediately and without notice. The backflow-prevention assembly shall be installed and repaired by the customer and retested before service is restored.

2. In the event the backflow-prevention assembly has not been installed or fails any test and A.A.C. R14-2-410.B.1.a. is not applicable, the backflow-prevention assembly shall be installed and/or repaired by the customer and tested within fourteen (14) days of written notice by the Company. Failure to install or to remedy the deficiency or dysfunction of the assembly, or failure to retest shall be grounds for termination of water utility service in accordance with A.A.C. R14-2-410.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

II. INTERRUPTIBLE SERVICE; COMPANY'S LIABILITY LIMITATIONS

A. The Company will supply only such water at such pressures as may be available from time to time as a result of the normal operation of its water system. The Company will maintain a minimum water pressure of 20 p.s.i. and will not guarantee a specific gallons per minute flow rate at any public fire hydrants or fire sprinkler service. In the event service is interrupted, irregular or defective, or fails from causes beyond the Company's control or through ordinary negligence of its employees or agents, the Company will not be liable for any injuries or damages arising therefrom.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

III. CURTAILMENT PLAN FOR UTILITY SOURCE, L.L.C.

ADEQ Public Water System Number: PWS I.D. #03-394

Utility Source, LLC ("Company") is authorized to curtail water service to all customers, residential and commercial, within its certificated area under the following terms and conditions:

This curtailment plan shall become part of the Arizona Department of Environmental Quality Emergency Operations Plan for the Company.

The Company shall notify its customers of this new tariff as part of its next regularly scheduled billing after the effective date of this tariff or no later than sixty (60) days after the date of this tariff.

The Company shall provide a copy of the curtailment plan to any customer, upon request.

Stage 1 Exists When:

Company is able to maintain water storage in the system at 100 percent of capacity and there are no known problems with its well production or water storage in the system.

Restrictions: Under Stage 1, Company is deemed to be operating normally and no curtailment is necessary.

Notice Requirements: Under Stage 1, no notice is necessary.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

Stage 2 Exists When:

a. Company's water storage or well production has been less than 80 percent of capacity for at least 48 consecutive hours, and

b. Company has identified issues such as steadily declining water table, an increased draw-down threatening pump operations, or poor water production creating a reasonable belief the Company will be unable to meet anticipated water demand on a sustained basis.

Restrictions: Under Stage 2, the Company may request the customers to voluntarily employ water conservation measures to reduce water consumption by approximately 50 percent. Outside watering should be limited to essential water, dividing outside watering on some uniform basis (such as even and odd days) and eliminating outside watering on weekends and holidays.

Notice Requirements: Under Stage 2, the Company is required to notify customers by delivering written notice door to door at each service address, or by United States first class mail to the billing address or, at the Company's option both. Such notice shall notify the customers of the general nature of the problem and the need to conserve water.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

Stage 3 Exists When:

a. Company's total water storage or well production has been less than 50 percent of capacity for at least 24 consecutive hours, and

b. Company has identified issues such as a steadily declining water table, increased draw down threatening pump operations, or poor water production, creating a reasonable belief the Company will be unable to meet anticipated water demand on a sustained basis. Standpipe service shall be suspended.

Restrictions: Under Stage 3, Company shall request the customer to voluntarily employ water conservation measures to reduce daily consumption by approximately 50 percent. All outside watering should be eliminated, except livestock, and indoor water conservation techniques should be employed whenever possible. Standpipe service shall be suspended.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

Notice Requirements:

1. Company is required to notify customers by delivering written notice to each service address, or by United States first class mail to the billing address or, at the Company's option both. Such Notice shall notify the customers of the general nature of the problem and the need to conserve water.

2. Beginning with Stage 3, Company shall post at least two (2) signs showing the curtailment stage. Signs shall be posted at noticeable locations, like at the well sites and at the entrance to the major subdivision served by the Company.

3. Company shall notify the Consumer Services Section of the Utilities Division of the Corporation Commission at least 12 hours prior to entering Stage 3.

Once Stage 3 has been reached, the Company must begin to augment the supply of water by either hauling or through an emergency interconnect with an approved water supply in an attempt to maintain the curtailment at a level no higher than Stage 3 until a permanent solution has been implemented.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

Stage 4 Exists When:

a. Company's total water storage or well production has been less than 25 percent of capacity for at least 12 consecutive hours, and

b. Company has identified issues such as a steadily declining water table, increased draw down threatening pump operations, or poor water production, creating a reasonable belief the Company will be unable to meet anticipated water demand on a sustained basis.

Restrictions: Under Stage 4, Company shall inform the customers of a **mandatory** restriction to employ water conservation measures to reduce daily consumption. Failure to comply will result in customer disconnection. The following uses of water shall be prohibited:

- Irrigation of outdoor lawns, trees, shrubs, or any plant life is prohibited
- Washing of any vehicle is prohibited
- The use of water for dust control or any outdoor cleaning uses is prohibited
- The use of drip or misting systems of any kind is prohibited
- The filling of any swimming pool, spas, fountains or ornamental pools is prohibited
- The use of construction water shall be prohibited

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

- Restaurant patrons shall be served water only upon request
- Any other water intensive activity is prohibited

The Company's operation of its standpipe service shall be prohibited. The addition of new service lines and meter installations is prohibited.

Notice Requirements:

1. Company is required to notify customers by delivering written notice to each service address, or by United States first class mail to the billing address or, at the Company's option, both. Such notice shall notify the customers of the general nature of the problem and the need to conserve water.

2. Company shall post at least two (2) signs showing curtailment stage. Signs shall be posted at noticeable locations, like at the well sites and at the entrance to the major subdivision served by the Company.

3. Company shall notify the Consumer Services Section of the Utilities Division of the Corporation Commission at least 12 hours prior to entering Stage 4.

ISSUED BY:

Lonnie McCleve, General Manager
Utility Source, L.L.C.
521 E. San Pedro
Gilbert, AZ 85233

APPROVED FOR FILING
DECISION #: 67446

36100.00000.105

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

Once Stage 4 has been reached, the Company must augment the supply of water by hauling or through an emergency interconnect from an approved supply in an attempt to maintain the supply until a permanent solution has been implemented.

Customers who fail to comply with cessation of outdoor use provisions will be given a written notice to end all outdoor use. Failure to comply with in two (2) working days of receipt of the notice will result in temporary loss of service until an agreement can be made to end unauthorized use of outdoor water. To restore service, the customer shall be required to pay all authorized reconnection fees. If a customer believes he/she has been disconnected in error, the customer may contact the Commission's Consumer Service Section at 1-800-222-7000 to initiate an investigation.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

IV. RULES AND REGULATIONS

The Company has adopted the Rules and Regulations established by the Commission as the basis for its operating procedures. A.A.C. R14-2-401 through A.A.C. R14-2-411 will be controlling of Company procedures, unless specific Commission Order(s) provide otherwise.

Applies to all **WASTEWATER** service areas

PART THREE

STATEMENT OF CHARGES
WASTEWATER SERVICE

I. RATES

In Opinion and Order No. 67446, dated January 4, 2005, the Commission approved the following rates and charges to become effective on January 4, 2004:

	Water Service Size	Minimum Charge	Rate per 1,000 Water Usage
A.	General Residential Service		
	All Sizes	-0-	$2.73
B.	Commercial and Industrial Service		
	Car washes, Laundromats, Commercial, manufacturing	-0-	$2.67
	Hotels, Motels	-0-	$3.58
	Restaurants	-0-	$4.42
	Industrial Laundries	-0-	$3.92
	Waste Haulers	-0-	$80.00
	Restaurant Grease	-0-	$70.00
	Treatment Plant Sludge	-0-	$80.00
	Mud Sump Waste	-0-	$250.00

ISSUED BY:

Lonnie McCleve, General Manager
Utility Source, L.L.C.
521 E. San Pedro
Gilbert, AZ 85233

APPROVED FOR FILING
DECISION #: 67446

36100.00000.105

Applies to all **WASTEWATER** service areas

PART THREE

STATEMENT OF CHARGES
WASTEWATER SERVICE

II. TAXES AND ASSESSMENTS

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

III. ADDITIONAL CHARGES[9]

A.	Establishment of Service per Rule R14-2-603D (new customer charge, in addition to D, I and J below)	$20.00[10]
	1. If after hours	40.00
B.	Re-establishment of Service per Rule R14-2-603D (same customer, same location within 12 months)	Note[11]
C.	Reconnection of Service Per Rule R14-2-603D	50.00
	1. If after hours	40.00

[9] Additional charges authorized in Paragraph III E, F and G shall not be duplicated for dual service customers.
[10] Initial monthly billing under PART THREE I to new wastewater service for homes under construction shall commence no sooner than 30, and no more than 60 days after the water meter is installed. Wastewater billing to new service at existing locations shall be pro-rated from the start of service.
[11] Number of months off system times the sum of the monthly minimum.

ISSUED BY:

Lonnie McCleve, General Manager
Utility Source, L.L.C.
521 E. San Pedro
Gilbert, AZ 85233

APPROVED FOR FILING
DECISION #: 67446

36100.00000.105

Applies to all **WASTEWATER** service areas

PART THREE

STATEMENT OF CHARGES
WASTEWATER SERVICE

D.	Deposit Requirement[12] per Rule R140-2-603B	
	1. Residential customer	(2 times estimated average monthly bill)
	2. Non-residential customer	(2-1/2 times estimated maximum monthly bill)
	3. Deposit Interest	3.0%
E.	Charge for NSF Check per Rule R14-2-608E[13]	$20.00
F.	Deferred Payment Finance Charge, per month[14]	1.5%

[12] The Company does not normally require a deposit prior to the provision of service. However, if the service is not in the property owner's name, this deposit is required. Also in the event service is disconnected due to nonpayment, this deposit may be required.
[13] This charge shall not apply if wastewater service is paid with the same NSF check used to pay for water service for which a NSF fee is charged.
[14] Deferred payments for wastewater service are only available if established in connection with deferred payments for water service under PART ONE, III(I) of this tariff.

ISSUED BY:

Lonnie McCleve, General Manager
Utility Source, L.L.C.
521 E. San Pedro
Gilbert, AZ 85233

APPROVED FOR FILING
DECISION #67446

36100.00000.105

Applies to all **WASTEWATER** service areas

PART THREE

STATEMENT OF CHARGES
WASTEWATER SERVICE

G.	Late Payment, Per Month, per Rule R14-2-608F	1.5% [15] [16]
H.	Service Calls, per hour After hours only	$40.00[17]
I.	Service Lateral Connection Charge[18] Residential Commercial	 $500.00 Cost[19]
J.	Main Extension Tariff, per Rule R14-2-606B	Cost[20]

[15] This charge shall not apply if the customer has arranged for a Deferred Payment Plan.
[16] Bills for utility services are due and payable when rendered. Any payment not received within fifteen (15) days from the date the bill was rendered shall be considered delinquent and subject to the termination policy set forth in the Company's rate tariff. All Late Payment Charges shall be billed on the customer's next regularly scheduled billing. If the customer fails to pay the Late Payment Charge by the due date on the next billing, the customer will receive a ten (10) day termination notice. If the customer does not pay the Late Payment Charges by that date the service will be terminated. Service shall be terminated only for that service for which the customer is delinquent or is in violation of other Tariff or Rule provisions. All customers whose service is terminated for failure to pay the Late Payment Charges are subject to the Company's reconnection charges set forth in the Company's tariff.
[17] For service problem found to be on Customer's side of lot line. Company will not repair problem.
[18] The Company shall own the Service Lateral up to the Customer's property line. The Customer shall own the Service Lateral beyond that point. The Company shall maintain and operate the Service Lateral only from the connection to the main line in the street or right-of-way up to its interconnection with the Customer's Service Lateral at the edge of the right-of-way, beyond which maintenance is the Customer's responsibility
[19] Per Sheet No. 26.
[20] All Main Extensions shall be completed at cost per Sheet No. 30 and shall be non-refundable Contributions-in-Aid-of-Construction.

ISSUED BY:

Lonnie McCleve, General Manager
Utility Source, L.L.C.
521 E. San Pedro
Gilbert, AZ 85233

APPROVED FOR FILING
DECISION #: 67446

36100.00000.105

Applies to all **WASTEWATER** service areas

PART THREE

STATEMENT OF CHARGES
WASTEWATER SERVICE

IV. PERMITTED COSTS

A. Costs shall be verified by invoice.

B. For services that are provided by the Company at cost, cost shall include labor, materials, other charges incurred, and overhead not to exceed 10 percent. However, prior to any such service being provided, the estimated cost of such service will be provided by the Company to the customer. After review of the cost estimate, the customer will pay the amount of the estimated cost to the Company.

C. In the event that the actual cost is less than the estimated cost, the Company will refund the excess to the customer within 30 days after completion of the provision of the service or after Company's receipt of invoices, timesheets or other related documents, whichever is later.

D. In the event the actual cost is more than the estimated cost, the Company will bill the customer for the amount due within 30 days after completion of the invoices, timesheets or other related documents, whichever is later. The amount so billed will be due and payable 30 days after the invoice date. However, if the actual amount is more than five percent (5%) greater than the total amount paid, the customer will only be required to pay five percent (5%) more than the total amount paid, unless the Company can demonstrate that the increased cost was beyond its control and could not be foreseen at the time the estimate for the total amount was made.

E. At the customer's request, the Company shall make available to the customer all invoices, timesheets or related documents that support the cost for providing such service.

Applies to all **WASTEWATER** service areas

PART THREE

STATEMENT OF CHARGES
WASTEWATER SERVICE

F. Permitted costs shall include any Federal, State or local taxes that are or may be payable by the Company as a result of any tariff or contract for wastewater facilities under which the Customer advances or contributes funds or facilities to the Company.

Applies to all **WASTEWATER** service areas

PART FOUR

STATEMENT OF TERMS AND CONDITIONS
WASTEWATER SERVICE

I. CUSTOMER DISCHARGE TO SYSTEM

A. Service Subject to Regulation

The Company provides wastewater service using treatment and collection facilities that are regulated by numerous county, state and federal Statutes and Regulations. Those Regulations include limitations as to domestic strength wastewater and the type of wastewater that may be discharged into the system by any person directly or indirectly connected to the plant.

B. Waste Limitations

The Company has established the permissible limits of concentration as domestic strength wastewater and will limit concentration for various specific substances, materials, waters, or wastes that can be accepted in the sewer system, and to specify those substances, materials, waters, or wastes that are prohibited from entering the sewer system. Each permissible limit so established shall be placed on file in the business office of the Company, with a copy filed with the Commission. No person shall discharge, or cause to be discharged, any new sources of inflow including, but not limited to, storm water, surface water, groundwater, roof runoffs, subsurface drainage, cooling water, or polluted industrial process waters into the sanitary sewer. The Company will require an affidavit from all commercial and industrial customers, and their professional engineer, stating that the wastewater discharged to the system does not exceed domestic strength.

Applies to all **WASTEWATER** service areas

PART FOUR

STATEMENT OF TERMS AND CONDITIONS
WASTEWATER SERVICE

C. Inspection and Right of Entry

Every facility that is involved directly or indirectly with the discharge of wastewater to the Treatment Plant may be inspected by the Company as it deems necessary. These facilities shall include but not be limited to sewers; sewage pumping plants; all processes; devices and connection sewers; and all similar sewerage facilities. Inspections may be made to determine that such facilities are maintained and operated properly and are adequate to meet the provisions of these rules. Inspections may include the collection of samples. Authorized personnel of the Company shall be provided immediate access to all of the above facilities or to other facilities directly or indirectly connected to the Treatment Plant at all reasonable times including those occasioned by emergency conditions. Any permanent or temporary obstruction to easy access to the user's facility to be inspected shall promptly be removed by the facility user or owner at the written or verbal request of the Company and shall not be replaced. No person shall interfere with, delay, resist or refuse entrance to an authorized Company representative attempting to inspect any facility involved directly or indirectly with a discharge of wastewater to the Treatment Plant. Adequate identification shall be provided by the Company for all inspectors and other authorized personnel and these persons shall identify themselves when entering any property for inspection purposes or when inspecting the work of any contractor.

All transient motor homes, travel trailers and other units containing holding tanks must arrive at the Company's service area in an empty condition. Inspection will

Applies to all **WASTEWATER** service areas

PART FOUR

STATEMENT OF TERMS AND CONDITIONS
WASTEWATER SERVICE

be required of said units prior to their being allowed to hookup to the wastewater system.

D. Termination of Water Service for Violation of Wastewater Rules and Regulations

The Company is authorized to discontinue water service to any person connected to both its water and sewer systems who violates the Company's wastewater terms and conditions as set forth in this PART FOUR or in any way creates a public health hazard or the likelihood of such a public health hazard. This termination authority does not apply to non-payment for water or wastewater services.

II. RULES AND REGULATIONS

The Company has adopted the Rules and Regulations established by the Commission as the basis for its operating procedures. A.A.C. R14-2-601 through A.A.C. R14-2-609 will be controlling of Company procedures, unless specifically approved tariffs or Commission Order(s) provide otherwise.

COMMISSIONERS
JEFF HATCH-MILLER - Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

ARIZONA CORPORATION COMMISSION

BRIAN C. McNEIL
Executive Secretary

August 18, 2005

Mr. Richard L. Sallquist
Sallquist & Drummond, P.C.
4500 South Lakeshore Drive, Suite 339
Tempe, Arizona 85282

RE: UTILITY SOURCE, L.L.C.
DOCKET NOS. WS-04235A-04-0073/0074
DECISION NO. 67446

Dear Mr. Sallquist:

Enclosed is a stamped copy of the rates and charges that were approved as being in compliance to the above Decision, with an effective date of January 4, 2005.

If you have questions regarding the filing of these tariffs, please contact me at (602) 542-4251.

Sincerely,

Lori H. Miller
Programs & Projects Specialist II
Utilities Division

/lhm

Enclosures

cc: Brian K. Bozzo
Compliance Enforcement

A-2

SALLQUIST, DRUMMOND & O'CONNOR, P.C.
ATTORNEYS AT LAW
TEMPE OFFICE
4500 S. LAKESHORE DRIVE
SUITE 339
TEMPE, ARIZONA 85282

RICHARD L. SALLQUIST

PHONE (480) 839-5202
FACSIMILE (480) 345-0412
E-MAIL dick@sd-law.com

August 23, 2006

Arizona Corporation Commission
Docket Control
1200 W. Washington
Phoenix, AZ 85007

Re: Utility Source, L.L.C. Application for a Certificate of Convenience and Necessity Extension; Docket No. WS-04235A-06-0303; Compliance

Dear Sir:

Attached please find 15 copies of the Affidavit of Publication in the subject proceeding.

In the event you have any questions regarding these matters, please do not hesitate to call.

Sincerely,

Richard L. Sallquist

Enclosures

cc: Hearing Division
Legal Division
Utilities Division
Lonnie McCleve

36100.00000.158

EXHIBIT
A-2
admitted

AFFIDAVIT/PROOF OF PUBLICATION

STATE OF ARIZONA

} ss.

County of Coconino

Bobbie Crosby being duly sworn, deposes and says:

That she is the legal clerk of the Arizona Daily Sun

a newspaper published at Flagstaff, Coconino County, Arizona; that the

legal 8307

_____ a copy of which is

hereunto attached, was first published in said newspaper in its issue dated

the 21 day of July, 2006, and was

published in each one issue of said newspaper for one

consecutive day the last publication being in the issue dated the

21 day of July, 2006.

"OFFICIAL SEAL"
Joeyanne Jaimes
Notary Public-Arizona
Coconino County
My Commission Expires [illegible]

Subscribed and sworn to before me this

8th day of Aug, 2006

Joeyanne Jaimes

Notary Public

My Commission expires 9/21/2006

Legal No. 8307

PUBLIC NOTICE OF HEARING ON THE APPLICATION OF UTLITY SOURCE, LLC, FOR AN INCREASE IN ITS RATES FOR WATER AND WASTEWATER SERVICE (DOCKET NO. WS-04235A-06-0303)

On May 1, 2006, as later supplemented, Utility Source, LLC ("Utility Source" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for an increase in operating income of approximately 99 percent ($2,474,357). Under the Utility Source proposal, a typical residential customer's bill for water service (based on usage of 4,740 gallons per month) would increase from current charges of $19.90 per month to $66.13 per month (approximately 232 percent) Under the Company's proposal, a typical residential customer's bill for wastewater service (based on water usage of 4,740 gallons per month) would increase from current charges of $12.94 per month to $34.51 per month (approximately 167 percent)

The Commission's Utilities Division Staff has not yet made a recommendation regarding the Company's rate increase proposal, and the Commission will determine the appropriate rate relief to be granted based on the evidence of record in this proceeding. The Commission is not bound by the proposals made by the Company, Staff, or any intervenors and therefore, the final rates approved in this docket may be lower or higher than the rates described above. Copies of the application and proposed tariffs are available at the Company's offices at:

Utility Source L.L.C.
721 E. San Pedro
Gilbert, AZ 85234

and on the internet via the Commission website (www.azcc.gov) using the e-docket function.

The Commission will hold a hearing on this matter beginning January 22, 2007, at 10:00 a.m. at the Commission's offices, 1200 West Washington, Phoenix, Arizona. Public comments will be taken on the first day of the hearing.

The law provides for an open public hearing at which, under appropriate circumstances interested parties may intervene. Intervention shall be permitted to any person entitled by law to intervene and having a direct and substantial interest in the matter. Persons desiring to intervene must file a written motion to intervene with the Commission no later than November 15, 2006. The motion to intervene must be sent to the Company or its counsel and to all parties of record, and must contain the following:

1. The name, address, and telephone number of the proposed intervenor and of any party upon whom service of document is to be made if different from the intervenor.
2. A short statement of the proposed intervenor's interest in the proceeding (e.g. a customer of the Company, a shareholder of the Company, etc.)
3. A statement certifying that a copy of the motion to intervene has been mailed to the Company or its counsel and to all parties of record in the case.

The granting of intervention, among other things, entitles a party to present sworn evidence at the hearing and to cross-examine other witnesses. However, failure to intervene will not preclude any interested person or entity from appearing at the hearing and providing public comment on the application or from filing written comments in the record of the case. You will not receive any further notice of this proceeding unless you request it.

If you have any substantive questions about this application for an increase in water and wastewater rates, you may contact the Company at: Mary Ann Parry
Utility Source, L.L.C.
721 E. San Pedro
Gilbert, AZ 85234
(480) 892-8756
lonniemccleve@cox.net

If you wish to file written comments regarding the application, or want further information on intervention, you may contact the Consumer Services Section of the Commission at 1200 West Washington Street, Phoenix, Arizona 85007; or call 1-800-222-7000.

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as sign language interpreter, as well as request this document in an alternative format, by contacting the ADA Coordinator, Linda Hogan, at LHogan@azcc.gov., voice phone number 602/542-3931. Requests should be made as early as possible to allow time to arrange the accommodation. PUB: July 21, 2006 8307

A-3

SALLQUIST, DRUMMOND & O'CONNOR, P.C.
ATTORNEYS AT LAW
TEMPE OFFICE
4500 S. LAKESHORE DRIVE
SUITE 339
TEMPE, ARIZONA 85282

RICHARD L. SALLQUIST

PHONE (480) 839-5202
FACSIMILE (480) 345-0412
E-MAIL dick@sd-law.com

August 16, 2006

HAND DELIVERY
Arizona Corporation Commission
Docket Control
1200 W. Washington
Phoenix, AZ 85007

Re: Utility Source, L.L.C. Application for a Certificate of Convenience and Necessity Extension; Docket No. WS-04235A-06-0303; Compliance

Dear Sir:

Attached please find 15 copies of the Affidavit of Mailing in the subject proceeding.

In the event you have any questions regarding these matters, please do not hesitate to call.

Sincerely,

Richard L. Sallquist

Enclosures

cc: Hearing Division
Legal Division
Utilities Division
Lonnie McCleve

36100.00000.156

EXHIBIT
A-3
admitted

Richard L. Sallquist
Sallquist, Drummond & O'Connor, P.C.
4500 South Lakeshore Drive
Suite 339
Tempe, Arizona 85282
Phone: (480) 839-5202
Fax: (480) 345-0412
Attorneys for Applicant

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C. FOR A DETERMINIATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PROPERTY AND FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICES	)	DOCKET NO. WS-04235A-06-0303

STATE OF ARIZONA)
)ss
County of Maricopa)

1. I am Lonnie McCleve, Manager of Utility Source, L.L.C. My business address is 721 E. San Pedro, Gilbert, Arizona 85234.

2. On August 15 2006, I caused the Notice in the form attached hereto to be mailed with the July monthly billings by U.S. mail, postage prepaid, to all customers of record as of July 31, 2006.

3. Further affiant sayeth naught.

DATED this 15 day of August, 2006.

UTILITY SOURCE, L.L.C.

By: _____
Lonnie McCleve

36100-00000.155

The foregoing instrument was acknowledged before me this 15 day of August, 2006, by Lonnie McCarve.

MARY ANN PARRY
Notary Public - Arizona
Maricopa County
My Comm. Expires Oct 13, 2008

Mary Ann Parry
Notary Public

My Commission Expires:

10-13-2008

Original and fifteen copies of the foregoing filed this ___ day of August, 2006 with:

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

A copy of the foregoing filed this ____ day of August, 2006 to:

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

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

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

PUBLIC NOTICE OF HEARING ON THE APPLICATION OF UTILITY SOURCE, LLC, FOR AN INCREASE IN ITS RATES FOR WATER AND WASTEWATER SERVICE (DOCKET NO. WS-04235A-06-0303)

On May 1, 2006, as later supplemented, Utility Source, LLC ("Utility Source" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for an increase in operating income of approximately 99 percent ($2,474,357). **Under the Utility Source proposal, a typical residential customer's bill for water service (based on usage of 4,740 gallons per month) would increase from current charges of $19.90 per month to $66.13 per month (approximately 232 percent). Under the Company's proposal, a typical residential customer's bill for wastewater service (based on water usage of 4,740 gallons per month) would increase from current charges of $12.94 per month to $34.51 per month (approximately 167 percent).**

The Commission's Utilities Division Staff has not yet made a recommendation regarding the Company's rate increase proposal, and the Commission will determine the appropriate rate relief to be granted based on the evidence of record in this proceeding. The Commission is not bound by the proposals made by the Company, Staff, or any intervenors and, therefore, the final rates approved in this docket may be lower or higher than the rates described above. Copies of the application and proposed tariffs are available at the Company's offices at:

Utility Source, L.L.C.
721 E. San Pedro
Gilbert, AZ 85234

and on the internet via the Commission website (www.azcc.gov) using the e-docket function.

The Commission will hold a **hearing** on this matter beginning **January 22, 2007, at 10:00 a.m.**, at the Commission's offices, 1200 West Washington, Phoenix, Arizona. Public comments will be taken on the first day of the hearing.

The law provides for an open public hearing at which, under appropriate circumstances, interested parties may intervene. Intervention shall be permitted to any person entitled by law to intervene and having a direct and substantial interest in the matter. Persons desiring to intervene must file a written motion to intervene with the Commission no later than **November 15, 2006.** The motion to intervene must be sent to the Company or its counsel and to all parties of record, and must contain the following:

1. The name, address, and telephone number of the proposed intervenor and of any party upon whom service of documents is to be made if different from the intervenor.

2. A short statement of the proposed intervenor's interest in the proceeding (e.g., a customer of the Company, a shareholder of the Company, etc.).

3. A statement certifying that a copy of the motion to intervene has been mailed to the Company or its counsel and to all parties of record in the case.

The granting of intervention, among other things, entitles a party to present sworn evidence at the hearing and to cross-examine other witnesses. However, failure to intervene will not preclude any interested person or entity from appearing at the hearing and providing public comment on the application or from filing written comments in the record of the case. You will not receive any further notice of this proceeding unless you request it.

If you have any substantive questions about this application for an increase in water and wastewater rates, you may contact the Company at:

Mary Ann Parry
Utility Source, L.L.C.
721 E. San Pedro
Gilbert, AZ 85234
(480) 892-8756
lonniemccleve@cox.net

If you wish to file written comments regarding the application, or want further information on intervention, you may contact the Consumer Services Section of the Commission at 1200 West Washington Street, Phoenix, Arizona 85007, or call 1-800-222-7000.

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting the ADA Coordinator, Linda Hogan, at LHogan@azcc.gov., voice phone number 602/542-3931. Requests should be made as early as possible to allow time to arrange the accommodation.

A-4

Richard L. Sallquist
SALLQUIST, DRUMMOND & O'CONNOR, P.C.
4500 S. Lakeshore Drive, Suite 339
Tempe, Arizona 85282
Telephone: (480) 839-5202
Attorneys for Utility Source, L.L.C

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C. FOR A DETERMINIATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PROPERTY AND FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICES	**WS-04235A-06-0303** **NOTICE OF FILING REBUTTAL TESTIMOMNIES**

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

Respectfully submitted this 16th day of February 2007.

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

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

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

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

_____

36100.00000.174

EXHIBIT
A-4
admitted

A copy of the foregoing filed
this 16 day of February, 2007, to:

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

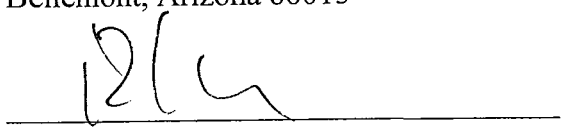
Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

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

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

David Hitesman
4661 N Bellemont
Bellemont, Arizona 86015

Dennis Jones
11573 W Cove Crest
Bellemont, Arizona 86015



BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C. – WATER DIVISION, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: WS-04235A-06-0303

REBUTTAL TESTIMONY OF

THOMAS J. BOURASSA

WATER DIVISION

I. INTRODUCTION AND QUALIFICATIONS.

Q. PLEASE STATE YOUR NAME AND ADDRESS.

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

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

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

Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

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

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

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

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

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

Q. WHY IS THE REQUESTED REVENUE INCREASE HIGHER IN THE COMPANY'S REBUTTAL FILING?

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

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

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

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

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

	Revenue Requirement	Revenue Incr.	% Increase
Company-Direct	$575,955	$401,245	230.17%
Staff	$367,449	$193,122	110.78%
Company Rebuttal	$382,187	$291,420	321.06%

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

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

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

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

II. RATE BASE.

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

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

	OCRB	FVRB
Company-Direct	$ 3,079,513	$ 3,079,513
Staff	$ 2,048,228	$ 2,048,228
Company Rebuttal	$ 2,053,792	$ 2,053,792

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

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

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

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

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

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

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

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

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

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

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

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

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

C. <u>Advance-in-Aid of Construction ("AIAC").</u>

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

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

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

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

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

inconsistent with an assumption that all plant was placed in service in 2004. Accordingly, the Company's computation is based on amortization starting in 2004 and thus includes 2 years of amortization (using ½ year convention). B-2 rebuttal adjustment 4 reflects the Company's proposed adjustment to accumulated amortization of $16,694.

E. <u>Working Capital.</u>

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

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

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

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

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

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

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

III. INCOME STATEMENT.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q. PLEASE CONTINUE.

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

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

rate case expense in the instant case.

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

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

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

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

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

IV. RATE DESIGN.

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

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

The Company continues to propose an inverted three tier design for the 5/8 inch and ¾ inch meters. For 1 inch and larger meters, the Company now proposes a two tier design. The 1 inch and larger meters break over points are scaled on the flow of a 5/8 inch meter. In addition, the Company now proposes an inverted tier design for the commercial, mobile home, multi-family, and irrigation customer classes. Thus, all customer classes are subject to an inverted tier design with the exception of construction water and standpipe water service.

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

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

With the changes to the Company's proposed rate design at this stage of the proceeding, both Staff and the Company propose an inverted three tier design for the 5/8 inch and ¾ inch metered customers (residential, commercial, multi-family, and mobile home) and an inverted two tier design for 1 inch and larger meters (residential, commercial, multi-family, and mobile home). However, under Staff's

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

Q. DO YOU AGREE THAT THE ¾ INCH METERS SHOULD HAVE THE SAME MONTHLY MINIMUM AS THE 5/8 INCH METERS?

A. Ordinarily no. The ¾ inch meters should generally be scaled on the 5/8 inch meter as are the other size meters. The ¾ inch meters have a higher potential demand on the water system due to higher flow capacity and accordingly should have a higher minimum charge. However, since the Company does not have any 5/8 inch metered customers and does not anticipate any in the future, there is no reason to set the monthly minimums differently.

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

A. Yes. I am a bit confused by Staff's schedule. For the ¾ inch commercial meters and the 1 inch and larger residential and commercial meters, Staff schedules appears to show that there is no charge for the first 4,000 gallons. I believe this is a typographical error.

Further, the ¾ inch residential meters appear to have an inverted three tier design while the ¾ inch commercial have an inverted two tier design. I am not sure if this is intentional or another typographical error. If Staff's intent is to have the ¾ inch residential meters and the ¾ inch commercial meters on separate tier structures, I would disagree with Staff. Unless there is a compelling reason for different tier structures, the two should be on the same tier structure.

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

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

Q. DOES STAFF'S DESIGN PROVIDE FOR MORE OR LESS REVENUE STABILIY THAN THE COMPANY'S RATE DESIGN?

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

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

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

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

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

The commodity charges and tiers by meter size are:

Meter Size	Tier (gallons)	Charge per 1,000 gallons	
5/8 and ¾ Inch	1 to 4,000	$ 9.60	
	4,001 to 12,000	$12.48	
	Over 12,000	$16.22	
1 Inch	1 to 30,000 (22,500 ??)		$12.48
	Over 30,000	$16.22	
1 ½ Inch	1 to 60,000	$12.48	
	Over 60,000	$16.22	
2 Inch	1 to 96,000	$12.48	
	Over 96,000	$16.22	
3 Inch	1 to 192,000	$12.48	
	Over 192,000	$16.22	
4 Inch	1 to 300,000	$12.48	
	Over 300,000	$16.22	
6 Inch	1 to 600,000	$12.48	
	Over 600,000	$16.22	

The proposed construction meter and standpipe rate is $12.48 per 1,000 gallons with no minimum monthly charge.

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

A. Yes.

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

A. Yes.

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

A. Yes.

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

Exhibit
Rebuttal Schedule A-1
Page 1
Witness: Bourassa

Line No.		
1	Fair Value Rate Base	$ 2,053,792
2		
3	Adjusted Operating Income	(75,772)
4		
5	Current Rate of Return	-3.69%
6		
7	Required Operating Income	$ 215,648
8		
9	Required Rate of Return on Fair Value Rate Base	10.50%
10		
11	Operating Income Deficiency	$ 291,420
12		
13	Gross Revenue Conversion Factor	1.0000
14		
15	Increase in Gross Revenue	
16	Requirement	$ 291,420
17		
18	% Increase	321.06%

19					
20	**Customer**	**Present**	**Proposed**	**Dollar**	**Percent**
21	**Classification**	**Rates**	**Rates**	**Increase**	**Increase**
22	**(Residential Commercial, Irrigation)**				
23					
24	3/4 Inch Residential	$ 76,792	$ 323,336	$ 246,544	321.05%
25	1 1/2 Inch Commercial	2,397	12,117	9,720	405.54%
26	2 Inch Commecrial	3,868	19,609	15,741	406.94%
27				-	0.00%
28	Revenue Annualization	6,121	25,317	19,196	313.61%
29					
30	Proforma Revenues		-	-	0.00%
31				-	0.00%
32	**Subtotal**	$ 89,178	$ 380,379	$ 291,201	326.54%
33					
34	Other Water Revenues	1,657	1,657	-	0.00%
35				-	0.00%
36				-	0.00%
37	**Total of Water Revenues (a)**	$ 90,836	$ 382,037	$ 291,201	320.58%

38
39
40
41
42 SUPPORTING SCHEDULES:
43 Rebuttal B-1
44 Rebuttal C-1
45 Rebuttal C-3
46 Rebuttal H-1
47

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

Exhibit
Rebuttal Schedule B-1
Page 1
Witness: Bourassa

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

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

Exhibit
Rebuttal Schedule B-2
Page 1
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Adjustments	Rebuttal Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 3,420,464	(961,229)	$ 2,459,235
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	58,465	68,927	127,392
7				
8				
9	Net Utility Plant			
10	in Service	$ 3,361,999	$ (1,030,156)	$ 2,331,843
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	294,745	(294,745)	-
15				
16	Contributions in Aid of			
17	Construction (CIAC)	-	294,745	294,745
18				
19				
20	Accum. Amortization of CIAC	-	(16,694)	(16,694)
21				
22				
23	Customer Meter Deposits	-	0	-
24	Deferred Income Taxes	-	-	-
25	Investment Tax Credits	-	-	-
26				
27				
28	**Plus:**			
29	Unamortized Finance Charges	-		-
30	Material and Supplies Inventories			
31	Prepayments			
32	Allowance for Working Capital	12,259	(12,259)	-
33				
34				
35	Total	$ 3,079,513	$ (1,025,721)	$ 2,053,792
36				
37				
38				
39				
40				
41	SUPPORTING SCHEDULES:			
42	Rebuttal B-2, pages 2			
43				
44				
45				
46				
47				
48				

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

Exhibit
Rebuttal Schedule B-2
Page 2
Witness: Bourassa

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

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

Exhibit
Rebuttal Schedule B-2
Page 3
Witness: Bourassa

Line No.				
1	Plant-in-Service			
2				
3				
4	304	Structures and Inprovements		$ (36,253)
5	307	Wells and Springs		(898,645)
6	311	Pumping Equipment		(2,783)
7	330	Ristribution Reservoirs and Standpipes		(23,548)
8	Total Plant-in-Service to be Removed			$ (961,229)
9				
10				
11	Increase (Decrease) to Plant-in-Service			$ (961,229)
12				
13				
14	304 Structures and Improvements			
15	Reclassify perimeter fencing cost from Distribution and Reservoir s (Acct 330)		23,548	
16	Disallowed decorative fencing costs		(59,801)	
17			$ (36,253)	
18	307 Wells and Springs			
19	Error correction for Bob Beeman Drilling costs (invoice 14407060)		(6,697)	
20	Drilling costs for Bob Beeman Drilling double counted in Pumping Equipment (Acct 311)		(133,525)	
21	Perimeter fencing costs from Steve Hoemes Bldg double counted		(2,500)	
22	Sales tax amounts from Boob Beeman Drilling already included in Accts 307 and 311		(19,340)	
23	Deep Well #4 costs not in service		(736,583)	
24			$ (898,645)	
25	311 Pumpng Equipment			
26	Error correction for Bob Beeman Drilling costs (invoice 19402860)		$ (2,783)	
27				
28	330 Diretibution Reservoirs			
29	Reclassify fencing costs to Structures and Improvements (Acct 304)		$ (23,548)	
30				
31				
32				
33	SUPPORTING SCHEDULES			
34	Staff Schedule JMM-W4			
35				

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

Exhibit
Rebuttal Schedule B-2
Page 4
Witness: Bourassa

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

Utility Source, LLC - Water Division
Plant Additions and Retirements

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

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

Utility Source, LLC - Water Division
Plant Additions and Retirements

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

Account No.	Description	Deprec. Rate	2005 Plant Additions	2005 Plant Adjustments	2005 Adjusted Plant Additions	2005 Plant Retirements	Plant Retirements To Date	2005 Plant Balance	2005 Deprec.
301	Organization Cost	0.00%			-		-	-	-
302	Franchise Cost	0.00%			-		-	-	-
303	Land and Land Rights	0.00%			-		-	210,000	-
304	Structures and Improvements	3.33%			-		-	72,997	2,431
305	Collecting and Impounding Res.	2.50%			-		-	-	-
306	Lake River and Other Intakes	2.50%			-		-	-	-
307	Wells and Springs	3.33%			-		-	1,335,238	44,463
308	Infiltration Galleries and Tunnels	6.67%			-		-	-	-
309	Supply Mains	2.00%			-		-	-	-
310	Power Generation Equipment	5.00%			-		-	87,400	4,370
311	Electric Pumping Equipment	12.50%			-		-	158,711	19,839
320	Water Treatment Equipment	3.33%			-		-	5,487	183
330	Distribution Reservoirs & Standpipe	2.22%			-		-	321,452	7,136
331	Transmission and Distribution Mains	2.00%			-		-	147,200	2,944
333	Services	3.33%			-		-	86,250	2,872
334	Meters	8.33%			-		-	-	-
335	Hydrants	2.00%			-		-	34,500	690
336	Backflow Prevention Devices	6.67%			-		-	-	-
339	Other Plant and Miscellaneous Equipment	6.67%			-		-	-	-
340	Office Furniture and Fixtures	6.67%			-		-	-	-
341	Transportation Equipment	20.00%			-		-	-	-
342	Stores Equipment	4.00%			-		-	-	-
343	Tools and Work Equipment	5.00%			-		-	-	-
344	Laboratory Equipment	10.00%			-		-	-	-
345	Power Operated Equipment	5.00%			-		-	-	-
346	Communications Equipment	10.00%			-		-	-	-
347	Miscellaneous Equipment	10.00%			-		-	-	-
348	Other Tangible Plant	10.00%			-		-	-	-
	Plant Held for Future Use				-		-	-	-
	TOTAL WATER PLANT		-	-	-	-	-	2,459,235	84,928
	Depreciation							84,928	
(a)	Staff Accumulated Depreciation Allocated to Plant.								
	Retirements (excluding land)							-	
	Accumulated Depreciation Balance							127,392	
	Half Year Convention used on depreciation								

Utility Source, LLC - Water Division
Plant Additions and Retirements

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

Account No.	Description	Deprec. Rate	Year End Accumulated Depreciation by Account Dec-04 2004	Dec-05 2005
301	Organization Cost	0.00%	-	-
302	Franchise Cost	0.00%	-	-
303	Land and Land Rights	0.00%	-	-
304	Structures and Improvements	3.33%	1,215	3,646
305	Collecting and Impounding Res.	2.50%	-	-
306	Lake River and Other Intakes	2.50%	-	-
307	Wells and Springs	3.33%	22,232	66,695
308	Infiltration Galleries and Tunnels	6.67%	-	-
309	Supply Mains	2.00%	-	-
310	Power Generation Equipment	5.00%	2,185	6,555
311	Electric Pumping Equipment	12.50%	9,919	29,758
320	Water Treatment Equipment	3.33%	91	274
330	Distribution Reservoirs & Standpipe	2.22%	3,568	10,704
331	Transmission and Distribution Mains	2.00%	1,472	4,416
333	Services	3.33%	1,436	4,308
334	Meters	8.33%	-	-
335	Hydrants	2.00%	345	1,035
336	Backflow Prevention Devices	6.67%	-	-
339	Other Plant and Miscellaneous Equipment	6.67%	-	-
340	Office Furniture and Fixtures	6.67%	-	-
341	Transportation Equipment	20.00%	-	-
342	Stores Equipment	4.00%	-	-
343	Tools and Work Equipment	5.00%	-	-
344	Laboratory Equipment	10.00%	-	-
345	Power Operated Equipment	5.00%	-	-
346	Communications Equipment	10.00%	-	-
347	Miscellaneous Equipment	10.00%	-	-
348	Other Tangible Plant	10.00%	-	-
	Plant Held for Future Use		-	-
	TOTAL WATER PLANT		42,464	127,392

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

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

Exhibit
Rebuttal Schedule B-2
Page 5
Witness: Bourassa

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

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

Exhibit
Rebuttal Schedule B-2
Page 6
Witness: Bourassa

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

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

Exhibit
Rebuttal Schedule B-2
Page 7
Witness: Bourassa

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

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

Exhibit
Rebuttal Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	6,329
3	Pumping Power (1/24 of Pumping Power)		1,512
4	Purchased Water (1/24 of Purchased Water)		-
5			
6			
7			
8			
9	Total Working Capital Allowance Rebuttal	$	7,842
10			
11	Total Working Capital Allowance Requested	$	-
12			
13	Working Capital per Direct Filing	$	12,259
14			
15	Increase (Decrease) in Working Capital	$	(12,259)
16			
17			
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
19		Rebuttal B-1	
20			

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

Exhibit
Rebuttal Schedule C-1
Page 1
Witness: Bourassa

Line No.		Adjusted Book Results	Adjustments	Rebuttal Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**					
2	Metered Water Revenues	$ 172,670	$ (83,560)	$ 89,110	$ 291,420	$ 380,530
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	1,657	-	1,657		1,657
5		$ 174,328	$ (83,560)	$ 90,768	$ 291,420	$ 382,187
6	**Operating Expenses**					
7	Salaries and Wages	$ -	-	$ -		$ -
8	Purchased Water	-	-	-		-
9	Purchased Power	36,292	-	36,292		36,292
10	Chemicals	530	(530)	0		0
11	Repairs and Maintenance	8,747	-	8,747		8,747
12	Office Supplies and Expense	4,292	-	4,292		4,292
13	Outside Services	20,630	(8,202)	12,428		12,428
14	Water Testing	8,553	(6,107)	2,446		2,446
15	Rents	-	-	-		-
16	Transportation Expenses	-	-	-		-
17	Insurance - General Liability	-	-	-		-
18	Insurance - Health and Life	-	-	-		-
19	Regulatory Commission Expense - Ra	12,500	-	12,500		12,500
20	Miscellaneous Expense	30,722	(20,500)	10,222		10,222
21	Depreciation Expense	116,931	(43,132)	73,799		73,799
22	Taxes Other Than Income	-	-	-		-
23	Property Taxes	13,026	(7,214)	5,813		5,813
24	Income Tax	-	-	-	-	-
25						
26	**Total Operating Expenses**	$ 252,224	$ (85,685)	$ 166,539	$ -	$ 166,539
27	**Operating Income**	$ (77,896)	$ 2,125	$ (75,772)	$ 291,420	$ 215,648
28	**Other Income (Expense)**					
29	Interest Income	-		-		-
30	Other income	-		-		-
31	Interest Expense	-		-		-
32	Other Expense	-		-		-
33						
34	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -
35	**Net Profit (Loss)**	$ (77,896)	$ 2,125	$ (75,772)	$ 291,420	$ 215,648
36						
37						
38						
39	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
40	Rebuttal C-1, Page 2				Rebuttal A-1	
41	Rebuttal C-2					

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

Exhibit
Rebuttal Schedule C-1
Page 2
Witness: Bourassa

Line No.		ADJUSTMENT LABEL->> Direct Adjusted Results	1 Depreciation Expense	2 Property Taxes	3 Revenue Adjustment	4 Chemicals Expense	5 Outside Services	6 Water Testing	7 Miscellaneous Expense	Rebuttal Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**											
2	Metered Water Revenues	$ 172,670			$ (83,560)					$ 89,110	$ 291,420	$ 380,530
3	Unmetered Water Revenues	-								-		-
4	Other Water Revenues	1,657								1,657		1,657
5		$ 174,328	$ -	$ -	$ (83,560)	$ -	$ -	$ -	$ -	$ 90,768	$ 291,420	$ 382,187
6	**Operating Expenses**											
7	Salaries and Wages	$ -								$ -		$ -
8	Purchased Water	-								-		-
9	Purchased Power	36,292								36,292		36,292
10	Chemicals	530				(530)				0		0
11	Repairs and Maintenance	8,747								8,747		8,747
12	Office Supplies and Expense	4,292								4,292		4,292
13	Outside Services	20,630					(8,202)			12,428		12,428
14	Water Testing	8,553						(6,107)		2,446		2,446
15	Rents	-								-		-
16	Transportation Expenses	-								-		-
17	Insurance - General Liability	-								-		-
18	Insurance - Health and Life	-								-		-
19	Reg. Comm. Exp. - Rate Case	12,500								12,500		12,500
20	Miscellaneous Expense	30,722							(20,500)	10,222		10,222
21	Depreciation Expense	116,931	(43,132)							73,799		73,799
22	Taxes Other Than Income	-								-		-
23	Property Taxes	13,026		(7,214)						5,813		5,813
24	Income Tax	-								-		-
25	**Total Operating Expenses**	$ 252,224	$ (43,132)	$ (7,214)	$ -	$ (530)	$ (8,202)	$ (6,107)	$ (20,500)	$ 166,539	$ -	$ 166,539
26	**Operating Income**	$ (77,896)	$ 43,132	$ 7,214	$ (83,560)	$ 530	$ 8,202	$ 6,107	$ 20,500	$ (75,772)	$ 291,420	$ 215,648
27	**Other Income (Expense)**											
28	Interest Income	-								-		-
29	Other income	-								-		-
30	Interest Expense	-								-		-
31	Other Expense	-								-		-
32												
33	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
34	**Net Profit (Loss)**	$ (77,896)	$ 43,132	$ 7,214	$ (83,560)	$ 530	$ 8,202	$ 6,107	$ 20,500	$ (75,772)	$ 291,420	$ 215,648
35												
36	SUPPORTING SCHEDULES:											
37	Rebuttal C-2											

RECAP SCHEDULES:
Rebuttal A-1

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

Exhibit
Rebuttal Schedule C-2
Page 1
Witness: Bourassa

Adjustments to Revenues and Expenses

Line No.		1 Depreciation Expense	2 Property Taxes	3 Proforma Revenue Adjustment	4 Chemicals Expense	5 Outside Services Expense	6 Water Testing Expense	Subtotal
3	Revenues			(83,560)				(83,560)
5	Expenses	(43,132)	(7,214)		(530)	(8,202)	(6,107)	(65,185)
8	Operating Income	43,132	7,214	(83,560)	530	8,202	6,107	(18,375)
10	Interest							-
11	Expense							-
12	Other							
13	Income /							-
14	Expense							
16	Net Income	43,132	7,214	(83,560)	530	8,202	6,107	(18,375)

Adjustments to Revenues and Expenses

		7 Miscellaneous Expense	8 Intentionally Left Blank	9 Intentionally Left Blank	10 Intentionally Left Blank	11 Intentionally Left Blank	12 Intentionally Left Blank	Subtotal
23	Revenues							(83,560)
25	Expenses	(20,500)						(85,685)
28	Operating Income	20,500	-	-	-	-	-	2,125
30	Interest							
31	Expense							-
32	Other							
33	Income /							-
34	Expense							
36	Net Income	20,500	-	-	-	-	-	2,125

Adjustments to Revenues and Expenses

		13 Intentionally Left Blank	14 Intentionally Left Blank	15 Intentionally Left Blank	16 Intentionally Left Blank	17 Intentionally Left Blank	18 Intentionally Left Blank	Total
43	Revenues							(83,560)
45	Expenses							(85,685)
48	Operating Income	-	-	-	-	-	-	2,125
50	Interest							
51	Expense							-
52	Other							
53	Income /							-
54	Expense							
56	Net Income	-	-	-	-	-	-	2,125

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

Exhibit
Rebuttal Schedule C-2
Page 2
Witness: Bourassa

Line No.								
1	Depreciation Expense							
2								
3	Account		Direct Adjusted	From B-2 Adj. #1	From B-2 Adj. #3	Rebuttal Adjusted	Proposed	Depreciation
4	No.	Description	Original Cost	Plant	CIAC	Original Cost	Rates	Expense
5	301	Organization Cost	-			-	0.00%	-
6	302	Franchise Cost	-			-	0.00%	-
7	303	Land and Land Rights	210,000			210,000	0.00%	-
8	304	Structures and Improvements	109,250	(36,253)		72,997	3.33%	2,431
9	305	Collecting and Impounding Res.	-			-	2.50%	-
10	306	Lake River and Other Intakes	-			-	2.50%	-
11	307	Wells and Springs	2,233,883	(898,645)		1,335,238	3.33%	44,463
12	308	Infiltration Galleries and Tunnels	-			-	6.67%	-
13	309	Supply Mains	-			-	2.00%	-
14	310	Power Generation Equipment	87,400			87,400	5.00%	4,370
15	311	Electric Pumping Equipment	161,494	(2,783)		158,711	12.50%	19,839
16	320	Water Treatment Equipment	5,487			5,487	3.33%	183
17	330	Distribution Reservoirs & Standpipe	345,000	(23,548)		321,452	2.22%	7,136
18	331	Transmission and Distribution Mains	147,200			147,200	2.00%	2,944
19	333	Services	86,250			86,250	3.33%	2,872
20	334	Meters	-			-	8.33%	-
21	335	Hydrants	34,500			34,500	2.00%	690
22	336	Backflow Prevention Devices	-			-	6.67%	-
23	339	Other Plant and Miscellaneous Equipment	-			-	6.67%	-
24	340	Office Furniture and Fixtures	-			-	6.67%	-
25	341	Transportation Equipment	-			-	20.00%	-
26	342	Stores Equipment	-			-	4.00%	-
27	343	Tools and Work Equipment	-			-	5.00%	-
28	344	Laboratory Equipment	-			-	10.00%	-
29	345	Power Operated Equipment	-			-	5.00%	-
30	346	Communications Equipment	-			-	10.00%	-
31	347	Miscellaneous Equipment	-			-	10.00%	-
32	348	Other Tangible Plant	-				10.00%	
33								
34		TOTALS	$ 3,420,464	$ (961,229)	$ -	$ 2,459,235		$ 84,928
35								
63							Composite	
64	Less: Amortization of Contributions - Balance End of TY		$ -		$ 294,745	$ 294,745	3.776%	$ (11,129)
65						-		-
66			$ -	$ -	$ 294,745	$ 294,745		$ (11,129)
67								
68	Adjusted Test Year Depreciation Expense Rebuttal Filing							$ 73,799
69	Adjusted Test Year Depreciation Expense Direct Filing							116,931
70								
71	Increase (decrease) in Depreciation Expense							$ (43,132)
72								
73	Adjustment to Revenues and/or Expenses							$ (43,132)

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

Rebuttal Schedule C-2
Page 3
Witness: Bourassa

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

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

Rebuttal Schedule C-2
Page 4
Witness: Bourassa

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

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

Rebuttal Schedule C-2
Page 5
Witness: Bourassa

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

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

Rebuttal Schedule C-2
Page 6
Witness: Bourassa

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

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

Rebuttal Schedule C-2
Page 7
Witness: Bourassa

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

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

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

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

Exhibit
Rebuttal Schedule C-3
Page 1
Witness: Bourassa

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

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

Exhibit
Rebuttal Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	End of Test Year Dollar Amount	Percent of Total	(e) Cost Rate	Weighted Cost	Adjusted End of Test Year Dollar Amount	Percent of Total	(e) Cost Rate	Weighted Cost
1	Long-Term Debt	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	N/A
2		3,383,299	100.00%	10.50%	10.50%	3,598,947	100.00%	10.50%	N/A
3	Stockholder's Equity								
4									
5	Totals	3,383,299	100.00%		10.50%	3,598,947	100.00%		0.00%
6									
7									
8									
9									
10									
11	SUPPORTING SCHEDULES:					RECAP SCHEDULES:			
12	Rebuttal D-2								
13									
14									
15									
16									
17									
18									
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									
31									

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

Exhibit
Rebuttal Schedule H-1
Page 1
Witness: Bourassa

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

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

Exhibit
Rebuttal Schedule H-2
Page 1
Witness: Bourassa

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

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

Exhibit
Rebuttal Schedule H-3
Page 1
Witness: Bourassa

Line No.	Customer Classification and Meter Size	Present Rates	Proposed Rates	Percent Change	Meter Flow Ratios 5/8 Inch Meter	Meter Flow Ratios 3/4 Inch Meter
1	**Monthly Usage Charge for:**					
2	Residential,Commercial, Irrigation, Resale and Miscellaneous Customers					
3	5/8 x 3/4 Inch	N/A	$ 35.74		1	N/A
4	3/4 Inch	6.48	35.74	451.50%	1.5	1.00
5	1 Inch	8.02	89.34	1014.00%	2.5	1.67
6	1 1/2 Inch	9.62	178.69	1757.44%	5	3.33
7	2 Inch	14.00	285.90	1942.13%	8	5.33
8	3 Inch	N/A	571.80		16	10.67
9	4 Inch	58.00	893.43	1440.40%	25	16.67
10	6 Inch	89.80	1,786.86	1889.82%	50	33.33
11	Construction, Bulk, Standpipe	-	-	0.00%		
12						
13	Gallons In Minimum					
14	All Meter Sizes	-	-			

Line No.		Present Rates From Gallons		To Gallons	Charge per 1,000 gal	Proposed Rates From Gallons	To Gallons	Charge per 1,000 gal
15								
16								
17								
18								
19	**Residential (all meter sizes)**							
20	Tier 1	-	Up to	5,000	$ 2.83	See Page 2 for Proposed Rates		
21	Tier 2 From	5,001	Up to	15,000	$ 3.32			
22	Tier 3 Over	15,000			$ 4.71			
23								
24	**Muti-Family, Mobile Home, Commercial**							
25		All gallons			$ 2.97	See Page 2 for Proposed Rates		
26								
27								
28	**Irrigation**							
29		All gallons			N/A	See Page 2 for Proposed Rates		
30								
31	**Standpipe**							
32		All gallons			$ 6.00	All gallons		$ 12.48
33								
34	**Construction Water**							
35		All gallons			$ 6.00	All gallons		$ 12.48
36								
37								
38								
39								
40								

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

Exhibit
Rebuttal Schedule H-3
Page 2
Witness: Bourassa

Line No.		Proposed Rates From Gallons		To Gallons	Charge per 1,000 gal
1					
2					
3	**Residential, Commercial, Irrigation**				
4					
5	Meter Size				
6					
7	5/8 Inch and 3/4 Inch	-	Up to	4,000	$ 9.60
8		4,001	Up to	12,000	$ 12.48
9			Over		$ 16.22
10					
11	1 Inch				
12		-	Up to	30,000	$ 12.48
13			Over	30,000	$ 16.22
14					
15	1 1/2 Inch				
16		-	Up to	60,000	$ 12.48
17			Over	60,000	$ 16.22
18					
19	2 Inch				
20		-	Up to	96,000	$ 12.48
21			Over	96,000	$ 16.22
22					
23	3 Inch				
24		-	Up to	192,000	$ 12.48
25			Over	192,000	$ 16.22
26					
27	4 Inch				
28		-	Up to	300,000	$ 12.48
29			Over	300,000	$ 16.22
30					
31	6 Inch				
32		-	Up to	600,000	$ 12.48
33			Over	600,000	$ 16.22
34					
35					
36					
37					
38					
39					
40					

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

Exhibit
Rebuttal Schedule H-3
Page 3
Witness: Bourassa

Line No.			
1			
2	**Meter and Service Line Installation Charges**		
3		Present	Proposed
4	Meter Size	Rates	Rates
5	5/8 x 3/4 Inch	N/A	$520.00
6	3/4 Inch	$575.00	$575.00
7	1 Inch	$660.00	$660.00
8	1 1/2 Inch	$900.00	$900.00
9	2 Inch Turbo	$1,525.00	$1,525.00
10	2 Inch Compound		$2,320.00
11	3 Inch Turbo		$2,275.00
12	3 Inch Compound		$3,110.00
13	4 Inch Turbo	$3,360.00	$3,360.00
14	4 Inch Compound		$4,475.00
15	6 Inch Turbo	$6,035.00	$6,035.00
16	6 Inch Compound		$8,050.00
17			
18			
19			
20			
21			
22			
23			
24			
25			
26			
27			
28			
29			
30			
31			
32			
33			
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36			
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41			

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

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

28 (a) Same customer, same location within 12 months. Number of months off the system times the monthly minimum.
29 (b) The Company does not normally require a deposit prior to provision of service. However, if service is not in the property owner's name, this deposit is required.
30 Also, in the event service is disconnected for non-payment, this deposit may be required.
31 Residential - 2 times the estimated average monthly bill
32 Non-residential - 2 1/2 times the estimated maximum monthly bill.
33 Deposit interest 3.0%
34
35
36
37 TAXES AND ASSESSMENTS
38 In addition to all other rates and charges authorized herein, the Company shall collect from its customers all applicable sales, transaction, privilege,
39 regulatory or other taxes and assessments as may apply now or in the future, per Rule R14-2-608(D)(5).
40
41
42
43
44
45
46

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

Exhibit
Rebuttal Schedule H-4
Page 1
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 6.48	$ 35.74	$ 29.26	451.50%
1,000	9.31	45.34	36.03	386.97%
2,000	12.14	54.94	42.80	352.53%
3,000	14.97	64.54	49.57	331.11%
4,000	17.80	74.14	56.34	316.50%
5,000	20.63	86.62	65.99	319.86%
6,000	23.95	99.10	75.15	313.77%
7,000	27.27	111.58	84.31	309.16%
8,000	30.59	124.06	93.47	305.55%
9,000	33.91	136.54	102.63	302.65%
10,000	37.23	149.02	111.79	300.26%
12,000	43.87	173.98	130.11	296.57%
14,000	50.51	206.43	155.92	308.68%
16,000	58.54	238.87	180.33	308.05%
18,000	67.96	271.32	203.36	299.24%
20,000	77.38	303.77	226.39	292.57%
25,000	100.93	384.89	283.96	281.34%
30,000	124.48	466.01	341.53	274.36%
35,000	148.03	547.13	399.10	269.61%
40,000	171.58	628.25	456.67	266.16%
45,000	195.13	709.37	514.24	263.54%
50,000	218.68	790.49	571.81	261.48%
60,000	265.78	952.73	686.95	258.47%
70,000	312.88	1,114.97	802.09	256.36%
80,000	359.98	1,277.21	917.23	254.80%
90,000	407.08	1,439.45	1,032.37	253.60%
100,000	454.18	1,601.69	1,147.51	252.66%
Average Usage				
4,740	$ 19.90	$ 83.38	$ 63.48	319.08%
Median Usage				
4,500	$ 19.22	$ 80.38	$ 61.16	318.30%

Present Rates:

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

Proposed Rates:

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

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

Exhibit
Rebuttal Schedule H-4
Page 2
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 9.62	$ 178.69	$ 169.07	1757.44%
1,000	12.59	191.17	178.58	1418.40%
2,000	15.56	203.65	188.09	1208.78%
3,000	18.53	216.13	197.60	1066.36%
4,000	21.50	228.61	207.11	963.28%
5,000	24.47	241.09	216.62	885.23%
6,000	27.44	253.57	226.13	824.07%
7,000	30.41	266.05	235.64	774.86%
8,000	33.38	278.53	245.15	734.41%
9,000	36.35	291.01	254.66	700.57%
10,000	39.32	303.49	264.17	671.84%
12,000	45.26	328.45	283.19	625.69%
14,000	51.20	353.41	302.21	590.25%
16,000	57.14	378.37	321.23	562.17%
18,000	63.08	403.33	340.25	539.39%
20,000	69.02	428.29	359.27	520.52%
25,000	83.87	490.69	406.82	485.06%
30,000	98.72	553.09	454.37	460.26%
35,000	113.57	615.49	501.92	441.94%
40,000	128.42	677.89	549.47	427.87%
45,000	143.27	740.29	597.02	416.71%
50,000	158.12	802.69	644.57	407.64%
60,000	187.82	927.49	739.67	393.82%
70,000	217.52	1,089.73	872.21	400.98%
80,000	247.22	1,251.97	1,004.75	406.42%
90,000	276.92	1,414.21	1,137.29	410.69%
100,000	306.62	1,576.45	1,269.83	414.14%
Average Usage				
64,470	201.10	1,000.01	798.91	397.28%
Median Usage				
60,000	187.82	927.49	739.67	393.82%

Present Rates:

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

Proposed Rates:

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

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

Exhibit
Rebuttal Schedule H-4
Page 3
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 14.00	$ 285.90	$ 271.90	1942.13%
1,000	16.97	298.38	281.41	1658.27%
2,000	19.94	310.86	290.92	1458.96%
3,000	22.91	323.34	300.43	1311.34%
4,000	25.88	335.82	309.94	1197.60%
5,000	28.85	348.30	319.45	1107.27%
6,000	31.82	360.78	328.96	1033.81%
7,000	34.79	373.26	338.47	972.89%
8,000	37.76	385.74	347.98	921.55%
9,000	40.73	398.22	357.49	877.70%
10,000	43.70	410.70	367.00	839.81%
12,000	49.64	435.66	386.02	777.63%
14,000	55.58	460.62	405.04	728.75%
16,000	61.52	485.58	424.06	689.30%
18,000	67.46	510.54	443.08	656.80%
20,000	73.40	535.50	462.10	629.56%
25,000	88.25	597.90	509.65	577.50%
30,000	103.10	660.30	557.20	540.44%
35,000	117.95	722.70	604.75	512.72%
40,000	132.80	785.10	652.30	491.19%
45,000	147.65	847.50	699.85	473.99%
50,000	162.50	909.90	747.40	459.94%
60,000	192.20	1,034.70	842.50	438.34%
70,000	221.90	1,159.50	937.60	422.53%
80,000	251.60	1,284.30	1,032.70	410.45%
90,000	281.30	1,409.10	1,127.80	400.92%
100,000	311.00	1,548.87	1,237.87	398.03%
Average Usage				
103,821	322.35	1,610.86	1,288.51	399.73%
Median Usage				
100,901	313.68	1,563.49	1,249.82	398.44%

Present Rates:

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

Proposed Rates:

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

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C. – SEWER DIVISION, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: WS-04235A-06-0303

REBUTTAL TESTIMONY OF

THOMAS J. BOURASSA

SEWER DIVISION

I. INTRODUCTION AND QUALIFICATIONS.

Q. PLEASE STATE YOUR NAME AND ADDRESS.

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

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

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

Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

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

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

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

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

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

Q. WHY IS THE REQUESTED REVENUE INCREASE LOWER IN THE COMPANY'S REBUTTAL FILING?

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

("OCRB") and Fair Value Rate Base ("FVRB") are reduced by $87,860 from the direct filing. The adjusted test year level of operating expense has been reduced by $8,514 compared to the Company's direct adjusted test year level of operating expense.

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

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

	Revenue Requirement	Revenue Incr.	% Increase
Company-Direct	$301,124	$187,220	164.37%
Staff	$224,908	$111,003	97.45%
Company Rebuttal	$283,384	$169,479	148.79%

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

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

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

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

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

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

II. RATE BASE.

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

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

	OCRB	FVRB
Company-Direct	$ 1,401,953	$ 1,401,953
Staff	$ 989,576	$ 989,576
Company Rebuttal	$ 1,314,093	$ 1,314,093

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

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

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

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

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

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

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

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

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

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

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

A. No.

Q. PLEASE CONTINUE.

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

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

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

Q. PLEASE SPEAK TO WASTEWATER TREATMENT PLANT # 2.

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

B. Accumulated Depreciation.

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

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

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

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

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

D. Accumulated Amortization of CIAC.

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

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

E. Working Capital.

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

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

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

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

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

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

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

III. <u>INCOME STATEMENT</u>.

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

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

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

discussed above.

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

Q. PLEASE CONTINUE.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IV. RATE DESIGN.

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

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

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

A. The rebuttal proposed rates are:

A.

Customer Class	Flat Monthly Charge	Charge per 1,000 gallons of Water Usage
Residential	N/A	$ 6.85
Car Washes, Laundromats, Commercial, Manufacturing	N/A	$ 6.70
Hotels, Motels	N/A	$ 8.99
Restaurants	N/A	$ 11.09
Industrial Laundries	N/A	$ 9.84
Waste Haulers	N/A	$200.80
Restaurant Grease	N/A	$175.70
Treatment Plant Sludge	N/A	$200.80
Mud Sump Waste	N/A	$627.50

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

A. Yes.

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

A. Yes.

Advanced Environmental Systems, Inc.

Executed

6

361 lift/plant

PROPOSAL TO:

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

FOR ONE (1)

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

TO SERVE:

BELLEMONT TRAVEL CENTER

I-40, exit 185

ADVANCED ENVIRONMENTAL SYSTEMS, INC. PROPOSAL # 020103R1

January 15, 2002

EXHIBIT 1

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

PRIMARY TRASH TANK/LIFT STATION

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

MAIN TRASH TANK/LIFT STATION

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

IDEA PROCESS PLANT AND EQUIPMENT PACKAGE

1 IVE Collector(s), dimensioned as per Table C, shall be installed in place per AES specifications during tank construction.

1 Omni-Flow Partition(s), dimensioned as per Table C, shall be installed in place per AES specifications during tank construction.

1 Aeration system sufficient to provide the required oxygen for the nitrification and BOD removals as specified in Table A, all necessary in-basin aeration equipment complete with necessary ancillary equipment.

Total Number of Air Blower Package(s):	1 Blower Package(s)
Total Number of Spare Air Blower(s):	1 Spare Blower(s)
Total Number of Spare Motor(s):	1 Spare Motor(s)
Air Blower Horsepower:	20.00 HP / Blower
Total Number of Fine Bubble Diffusers:	48 Diffusers

Installation By: Advanced Environmental Systems, Inc.

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

Installation By: Advanced Environmental Systems, Inc.

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

Installation By: Advanced Environmental Systems, Inc.

TANKAGE

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

Installation By: Advanced Environmental Systems, Inc.

CONTROLS

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

Installation By: Advanced Environmental Systems, Inc.

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

Installation By: Advanced Environmental Systems, Inc.

TURN-KEY INSTALLATION

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

30 Days of Installation
2 Days of Start-Up

FILTER

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

DISINFECTION

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

DELIVERY

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

PROVISIONS

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

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

6 Freight, transportation to jobsite and unloading of equipment.(provided by AES)
7 Site preparation, stabilization, rock-removal, de-mucking or de-watering. (if required)
8 Site excavation and hauling bedding material and backfilling to finish grade.(provided by AES)
9 Local taxes which may apply.
10 Power generator, if on-site construction power is not available.(provided by AES)
11 Water for filling of basin.
12 Site security.(until AES is on site)
13 Any site yard piping and plumbing that may be required.(provided by AES)
14 Pump for the discharge of Effluent to the discharge point of approx. 200gpm shall be provided by A.E.S.

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

70,597.22 = lift stations
238,402.78 = plant #1

TURN-KEY INSTALLED PRICE: $309,000.00

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

RESPECTFULLY SUBMITTED,

Advanced Environmental Systems, Inc.
President

PURCHASER
(please read *Terms & Conditions of Sale* before signing)

Accepted By:

Utility Source LLC
Company/Client:

1/17/2002
Date:

ABlueBook

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

INVOICE

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

INVOICE NO.	901064
PAGE	1 of 1
DATE	12/03/04

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

OCK #	DESCRIPTION	ORDERED	SHIPPED	BACK ORDER	U/M	PRICE	PER	EXTENSION
2	(OR) DuPont Antiseptic Hand Wipes, 160 Count MSDS SHEET SHIPPED WITH ITEM Order From Catalog 115	2	2	0	EA	13.22	EA	26.44
2	Barnes 3SE1544L Sewage Pump 1.5HP/460V/3PH, 3" Disch.	1	1	0	EA	.00	EA	.00
		1	1	0	EA	1330.40	EA	1330.40

47 49 83

PAID 12-7-04

Date Rec'd Back of pump 30

32

ask Pat about this if OK Pat Pay US

YOU for your business!	MERCHANDISE	MISCELLANEOUS	DISCOUNT	TAX	FREIGHT	TOTAL DUE
THLY CHARGE 30 DAYS PAST DUE ints apply to merchandise only.	1356.84	.00	.00	.00	160.89	1517.73

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

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

3
REENFIELD LAND DEVELOPMENT

711 N BELLMONT SPRINGS
ELLMONT, AZ 86015
TN JEREMY /928-699-2226

SOLD TO

952789
GREENFIELD LAND DEVELOPMENT

721 E SAN PEDRO
GILBERT, AZ 85234

PATTON ELECTRIC LLC

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

Invoice

Date	Invoice #
9/4/2003	487

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

PAID

P.O. No.	Terms
	Net 30

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

Thank you for your business.

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

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

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

PATTON ELECTRIC LLC

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

Invoice

Date	Invoice #
9/4/2003	483

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

PAID

P.O. No.	Terms
	Net 30

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

TOTAL $727.73 BP 10/9/03

Thank you for your business.

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

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

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

PATTON ELECTRIC LLC

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

Invoice

Date	Invoice #
10/8/2004	701

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

P.O. No.	Terms
	Due on receipt

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

Thank you for your business.

Subtotal	1451.35
Sales Tax (8.126%)	
Total	
Payments/Credits	
Balance Due	

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

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

PATTON ELECTRIC LLC

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

Invoice

Date	Invoice #
10/8/2004	701

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

P.O. No.	Terms
	Due on receipt

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

Thank you for your business.

Subtotal	
Sales Tax (8.126%)	
Total	
Payments/Credits	
Balance Due	

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

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

PATTON ELECTRIC LLC

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

Invoice

Date	Invoice #
10/8/2004	701

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

P.O. No.	Terms
	Due on receipt

Description	Qty	Rate	Amount

Thank you for your business.

Subtotal	$1,401.35
Sales Tax (8.126%)	$8.97
Total	$1,410.32
Payments/Credits	$0.00
Balance Due	$1,410.32

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

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

OK
J.S.

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

Exhibit
Rebuttal Schedule A-1
Page 1
Witness: Bourassa

Line No.			
1	Fair Value Rate Base	$	1,314,093
2			
3	Adjusted Operating Income		(31,550)
4			
5	Current Rate of Return		-2.40%
6			
7	Required Operating Income	$	137,980
8			
9	Required Rate of Return on Fair Value Rate Base		10.50%
10			
11	Operating Income Deficiency	$	169,530
12			
13	Gross Revenue Conversion Factor		1.0000
14			
15	Increase in Gross Revenue		
16	Requirement	$	169,530
17			
18	% Increase		148.83%

	Customer Classification (Residential Commercial, Irrigation)	**Present Rates**	**Proposed Rates**	**Dollar Increase**	**Percent Increase**
19					
20					
21					
22					
23					
24	3/4 Inch Residential	$ 47,983	$ 120,437	$ 72,454	151.00%
25	1.5 Inch Commercial	2,750	6,902	$ 4,152	151.00%
26	2 Inch Commercial	3,326	8,349	$ 5,023	151.00%
27					0.00%
28	Revenue Annualization	3,836	9,627	$ 5,792	151.00%
29					0.00%
30	Proforma Revenues	54,353	136,426	$ 82,073	151.00%
31				-	0.00%
32	**Subtotal**	$ 112,248	$ 281,742	$ 169,494	151.00%
33					
34	Other Revenues	1,657	1,657	-	0.00%
35					0.00%
36					0.00%
37	**Total of Water Revenues (a)**	$ 113,905	$ 283,399	$ 169,494	148.80%
38					
39					
40					
41					
42	SUPPORTING SCHEDULES:				
43	Rebuttal B-1				
44	Rebuttal C-1				
45	Rebuttal C-3				
46	Rebuttal H-1				
47					

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

Exhibit
Rebuttal Schedule B-1
Page 1
Witness: Bourassa

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

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

Exhibit
Rebuttal Schedule B-2
Page 1
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Adjustments	Rebuttal Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 1,624,802	(29,321)	$ 1,595,481
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	32,797	63,395	96,191
7				
8				
9	Net Utility Plant			
10	in Service	$ 1,592,005	$ (92,716)	$ 1,499,290
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	197,973	(197,973)	-
15				
16	Contributions in Aid of			
17	Construction (CIAC)	-	197,973	197,973
18				
19				
20	Accum. Amortization of CIAC	-	(12,777)	(12,777)
21				
22				
23	Customer Meter Deposits	-	0	-
24	Deferred Income Taxes	-	-	-
25	Investment Tax Credits	-	-	-
26				
27				
28	**Plus:**			
29	Unamortized Finance Charges	-		-
30	Material and Supplies Inventories			
31	Prepayments			
32	Allowance for Working Capital	7,921	(7,921)	-
33				
34				
35	Total	$ 1,401,953	$ (87,860)	$ 1,314,093
36				
37				
38				
39				
40				
41	SUPPORTING SCHEDULES:			
42	Rebuttal B-2, pages 2			
43				
44				
45				
46				
47				
48				

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

Exhibit
Rebuttal Schedule B-2
Page 2
Witness: Bourassa

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

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

Exhibit
Rebuttal Schedule B-2
Page 3
Witness: Bourassa

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

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

Exhibit
Rebuttal Schedule B-2
Page 4
Witness: Bourassa

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

Utility Source, LLC - Sewer Division
Plant Additions and Retirements

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

Account No.	Description	Deprec. Rate	12/31/2004	2004 Accum. Depr.	2004 Plant Additions	2004 Plant Adjustments	2004 Adjusted Plant Additions	2004 Plant Retirements	2004 Plant Balance	2004 Depr.
351	Organization	0.00%	-				-		-	-
352	Franchises	0.00%	-				-		-	-
353	Land and Land Rights	0.00%	-		105,000		105,000		105,000	-
354	Structures and Improvements	3.33%	-		56,350		56,350		56,350	938
355	Power Generation Equipment	5.00%	-		32,200	(29,321)	2,879		2,879	72
360	Collection Sewers - Force	2.00%	-				-		-	-
361	Collection Sewers - Gravity	2.00%	-		260,553		260,553		260,553	2,606
362	Special Collecting Structures	2.00%	-				-		-	-
363	Services to Customers	2.00%	-		60,375		60,375		60,375	604
364	Flow Measuring Devices	10.00%	-				-		-	-
365	Flow Measuring Installations	10.00%			3,450		3,450		3,450	173
370	Receiving Wells	3.33%	-				-		-	-
371	Pumping Equipment	12.50%	-				-		-	-
380	Treatment and Disposal Equipment	5.00%	-		1,106,874	-	1,106,874		1,106,874	27,672
381	Plant Sewers	5.00%	-				-		-	-
382	Outfall Sewer Lines	3.33%	-				-		-	-
389	Other Plant and Misc. Equipment	6.67%	-				-		-	-
390	Office Furniture and Equipment	6.67%	-				-		-	-
391	Transportation Equipment	20.00%	-				-		-	-
393	Tools, Shop and Garage Equipment.	5.00%	-				-		-	-
394	Laboratory Equipment	10.00%	-				-		-	-
395	Power Operated Equipment	5.00%	-				-		-	-
398	Other TangiblePlant	10.00%	-				-		-	-
			-				-		-	-
			-				-		-	-
			-				-		-	-
			-				-		-	-
			-				-		-	-
	Plant Held for Future Use						-		-	-
	TOTAL WATER PLANT		-	-	1,624,802	(29,321)	1,595,481	-	1,595,481	32,064
	Depreciation								32,064	
(a)	Staff Accumulated Depreciation Allocated to Plant.		-							
	Retirements (excluding land)								-	
	Accumulated Depreciation Balance			-					32,064	
	Half Year Convention used on depreciation									

Utility Source, LLC - Sewer Division
Plant Additions and Retirements

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

Account No.	Description	Deprec. Rate	2005 Depreciable Balance	2005 Plant Additions	2005 Plant Adjustments	2005 Adjusted Plant Additions	2005 Plant Retirements	Plant Retirements To Date	2005 Plant Balance	2005 Deprec.
351	Organization	0.00%	-			-		-	-	-
352	Franchises	0.00%	-			-		-	-	-
353	Land and Land Rights	0.00%	105,000			-		-	105,000	-
354	Structures and Improvements	3.33%	56,350			-		-	56,350	1,876
355	Power Generation Equipment	5.00%	2,879			-		-	2,879	144
360	Collection Sewers - Force	2.00%	-			-		-	-	-
361	Collection Sewers - Gravity	2.00%	260,553			-		-	260,553	5,211
362	Special Collecting Structures	2.00%	-			-		-	-	-
363	Services to Customers	2.00%	60,375			-		-	60,375	1,208
364	Flow Measuring Devices	10.00%	-			-		-	-	-
365	Flow Measuring Installations	10.00%	3,450			-		-	3,450	345
370	Receiving Wells	3.33%	-			-		-	-	-
371	Pumping Equipment	12.50%	-			-		-	-	-
380	Treatment and Disposal Equipment	5.00%	1,106,874			-		-	1,106,874	55,344
381	Plant Sewers	5.00%	-			-		-	-	-
382	Outfall Sewer Lines	3.33%	-			-		-	-	-
389	Other Plant and Misc. Equipment	6.67%	-			-		-	-	-
390	Office Furniture and Equipment	6.67%	-			-		-	-	-
391	Transportation Equipment	20.00%	-			-		-	-	-
393	Tools, Shop and Garage Equipment.	5.00%	-			-		-	-	-
394	Laboratory Equipment	10.00%	-			-		-	-	-
395	Power Operated Equipment	5.00%	-			-		-	-	-
398	Other TangiblePlant	10.00%	-			-		-	-	-
			-			-		-	-	-
			-			-		-	-	-
			-			-		-	-	-
			-			-		-	-	-
			-			-		-	-	-
	Plant Held for Future Use		-			-		-	-	-
	TOTAL WATER PLANT		1,595,481	-	-	-	-	-	1,595,481	64,128
	Depreciation								64,128	
(a)	Staff Accumulated Depreciation Allocated to Plant.									
	Retirements (excluding land)								-	
	Accumulated Depreciation Balance								96,191	
	Half Year Convention used on depreciation									

Utility Source, LLC - Sewer Division
Plant Additions and Retirements

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

Account No.	Description	Deprec. Rate	Year End Accumulated Depreciation by Account Dec-04 2004	Dec-05 2005
351	Organization	0.00%	-	-
352	Franchises	0.00%	-	-
353	Land and Land Rights	0.00%	-	-
354	Structures and Improvements	3.33%	938	2,815
355	Power Generation Equipment	5.00%	72	216
360	Collection Sewers - Force	2.00%	-	-
361	Collection Sewers - Gravity	2.00%	2,606	7,817
362	Special Collecting Structures	2.00%	-	-
363	Services to Customers	2.00%	604	1,811
364	Flow Measuring Devices	10.00%	-	-
365	Flow Measuring Installations	10.00%	173	518
370	Receiving Wells	3.33%	-	-
371	Pumping Equipment	12.50%	-	-
380	Treatment and Disposal Equipment	5.00%	27,672	83,016
381	Plant Sewers	5.00%	-	-
382	Outfall Sewer Lines	3.33%	-	-
389	Other Plant and Misc. Equipment	6.67%	-	-
390	Office Furniture and Equipment	6.67%	-	-
391	Transportation Equipment	20.00%	-	-
393	Tools, Shop and Garage Equipment.	5.00%	-	-
394	Laboratory Equipment	10.00%	-	-
395	Power Operated Equipment	5.00%	-	-
398	Other TangiblePlant	10.00%	-	-
			-	-
			-	-
			-	-
			-	-
			-	-
	Plant Held for Future Use		-	-
	TOTAL WATER PLANT		32,064	96,191
	Depreciation			
(a)	Staff Accumulated Depreciation Allocated to Plant.			
	Retirements (excluding land)			
	Accumulated Depreciation Balance			
	Half Year Convention used on depreciation			

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

Exhibit
Rebuttal Schedule B-2
Page 5
Witness: Bourassa

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

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

Exhibit
Rebuttal Schedule B-2
Page 6
Witness: Bourassa

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

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

Exhibit
Rebuttal Schedule B-2
Page 7
Witness: Bourassa

Line No.		
1	Working Capital	
2		
3	Working Capital Per Rebuttal Filing	$ -
4	Working Capital Per Direct Filing	7,921
5		
6		
7	Increase (Decrease) to Working Capital	$ (7,921)
8		
9		
10		
11		
12	SUPPORTING SCHEDULES	
13	Rebuttal Schedule B-5	
14		
15		
16		
17		
18		
19		
20		

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

Exhibit
Rebuttal Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	8,412
3	Pumping Power (1/24 of Pumping Power)		726
4	Purchased Water Treatment (1/24 of Purchased Water)		-
5			
6			
7			
8			
9	Total Working Capital Allowance Rebuttal	$	9,138
10			
11	Total Working Capital Allowance Requested	$	-
12			
13	Working Capital per Direct Filing	$	7,921
14			
15	Increase (Decrease) in Working Capital	$	(7,921)
16			
17			
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
19		Rebuttal B-1	
20			

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

Exhibit
Rebuttal Schedule C-1
Page 1
Witness: Bourassa

Line No.		Adjusted Book Results	Adjustments	Rebuttal Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**					
2	Metered Water Revenues	$ 112,248	$ -	$ 112,248	$ 169,479	$ 281,727
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	1,657	-	1,657		1,657
5		$ 113,905	$ -	$ 113,905	$ 169,479	$ 283,384
6	**Operating Expenses**					
7	Salaries and Wages	$ -	-	$ -		$ -
8	Purchased Wastewater Treatment	-	-	-		-
9	Sludge Removal Expense	-	-	-		-
10	Purchased Power	17,423	-	17,423		17,423
11	Fuel for Power Production	-	-	-		-
12	Chemicals	3,945	-	3,945		3,945
13	Materials and Supplies	4,793	-	4,793		4,793
14	Contractual Services - Professional	1,195	-	1,195		1,195
15	Contractual Services - Testing	20,472	4,430	24,902		24,902
16	Contractual Services - Other	15,000	-	15,000		15,000
17	Repairs and Maintenance	-	-	-		-
18	Rents	-	-	-		-
19	Transportation Expenses	-	-	-		-
20	Insurance	-	-	-		-
21	Regulatory Commission Expense - Ra	12,500	-	12,500		12,500
22	Miscellaneous Expense	5,465	(500)	4,965		4,965
	Depreciation Expense	65,594	(9,984)	55,610		55,610
	Taxes Other Than Income	-	-	-		-
23	Property Taxes	7,533	(2,410)	5,123		5,123
24	Income Tax	-	-	-	-	-
25						
26	**Total Operating Expenses**	$ 153,919	$ (8,464)	$ 145,455	$ -	$ 145,455
27	**Operating Income**	$ (40,014)	$ 8,464	$ (31,550)	$ 169,479	$ 137,930
28	**Other Income (Expense)**					
29	Interest Income	-		-		-
30	Other income	-		-		-
31	Interest Expense	-		-		-
32	Other Expense	-		-		-
33						
34	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -
35	**Net Profit (Loss)**	$ (40,014)	$ 8,464	$ (31,550)	$ 169,479	$ 137,930
36						
37						
38						
39	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
40	Rebuttal C-1, Page 2				Rebuttal A-1	
41	Rebuttal C-2					

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

Exhibit
Rebuttal Schedule C-1
Page 2
Witness: Bourassa

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

RECAP SCHEDULES:
Rebuttal A-1

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

Exhibit
Rebuttal Schedule C-2
Page 1
Witness: Bourassa

Adjustments to Revenues and Expenses

Line No.		1 Depreciation Expense	2 Property Taxes	3 Wastewater Testing	4 Miscellaneous Expense	5 Intentionally Left Blank	6 Intentionally Left Blank	Subtotal
1								
2								
3	Revenues							-
4								
5	Expenses	(9,984)	(2,410)	(500)	4,430			(8,464)
6								
7	Operating							
8	Income	9,984	2,410	500	(4,430)	-	-	8,464
9								
10	Interest							-
11	Expense							-
12	Other							
13	Income /							-
14	Expense							
15								
16	Net Income	9,984	2,410	500	(4,430)	-	-	8,464

Adjustments to Revenues and Expenses

		7 Intentionally Left Blank	8 Intentionally Left Blank	9 Intentionally Left Blank	10 Intentionally Left Blank	11 Intentionally Left Blank	12 Intentionally Left Blank	Subtotal
19								
20								
21								
22								
23	Revenues							-
24								
25	Expenses							(8,464)
26								
27	Operating							
28	Income	-	-	-	-	-	-	8,464
29								
30	Interest							
31	Expense							-
32	Other							
33	Income /							-
34	Expense							
35								
36	Net Income	-	-	-	-	-	-	8,464

Adjustments to Revenues and Expenses

		13 Intentionally Left Blank	14 Intentionally Left Blank	15 Intentionally Left Blank	16 Intentionally Left Blank	17 Intentionally Left Blank	18 Intentionally Left Blank	Total
39								
40								
41								
42								
43	Revenues							-
44								
45	Expenses							(8,464)
46								
47	Operating							
48	Income	-	-	-	-	-	-	8,464
49								
50	Interest							
51	Expense							-
52	Other							
53	Income /							-
54	Expense							
55								
56	Net Income	-	-	-	-	-	-	8,464

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

Exhibit
Rebuttal Schedule C-2
Page 3
Witness: Bourassa

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

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

Rebuttal Schedule C-2
Page 3
Witness: Bourassa

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

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

Line No.			
1	Miscellaneous Expense		
2			
3			
4	Decrease Miscellaneous Expense	$	(500)
5			
6			
7	Adjustment to Revenues and/or Expenses	$	(500)
8			
9			
10			
11			
12	SUPPORTING SCHEDULES		
13	See Staff Schedule JMM-WW10		
14			
15			
16			
17			
18			
19			
20			

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

Rebuttal Schedule C-2
Page 5
Witness: Bourassa

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

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

Exhibit
Rebuttal Schedule C-3
Page 1
Witness: Bourassa

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

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

Exhibit
Rebuttal Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	End of Test Year Dollar Amount	End of Test Year Percent of Total	End of Test Year (e) Cost Rate	End of Test Year Weighted Cost	Adjusted End of Test Year Dollar Amount	Adjusted End of Test Year Percent of Total	Adjusted End of Test Year (e) Cost Rate	Adjusted End of Test Year Weighted Cost
1	Long-Term Debt	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	N/A
2									
3	Stockholder's Equity	1,604,435	100.00%	10.50%	10.50%	1,742,365	100.00%	10.50%	N/A
4									
5	Totals	1,604,435	100.00%		10.50%	1,742,365	100.00%		0.00%
6									
7									
8									
9									
10									
11	SUPPORTING SCHEDULES:								RECAP SCHEDULES:
12	Rebuttal D-2								
13									
14									
15									
16									
17									
18									
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									
31									

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

Exhibit
Schedule H-1
Page 1
Witness: Bourassa

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

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

Exhibit
Schedule H-2
Page 1
Witness: Bourassa

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

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

Exhibit
Schedule H-3
Page 1
Witness: Bourassa

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

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

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment per Rule R14-2-603D (a)	$ 20.00	$ 20.00
2	Establishment, after hours	$ 40.00	$ 40.00
3	Re-establishment, per Rule R14-2-603D	$ 40.00	$ 40.00
4	Re-connection of Service, per Rule R-14-2-603D	$ 50.00	$ 50.00
5	Reconnection, after hours	$ 40.00	$ 40.00
6	Deposit Requirement, per Rule R14-2-603B	(b)	(b)
7	NSF check charge , per RUle R14-2-608E (c)	$ 20.00	$ 20.00
8	Deferred Payment Charge, per month (d)	1.50%	1.50%
9	Late Payment, per month	1.50%	1.50%
10	Service Calls, per hour (e)	40.00	$ 40.00
11	Service Lateral Connection Charge (f)		
12	Residential	$ 500.00	$ 500.00
13	Commercial	Cost	Cost
14	Main Extension	(g)	(g)
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

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

TAXES AND ASSESSMENTS

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

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

Exhibit
Schedule H-4
Page 1
Witness: Bourassa

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

Present Rates:

Monthly Minimum:	$ -
Gallons in Minimum	-
Charge Per 1,000 Gallons	$ 2.73

Proposed Rates:

Monthly Minimum:	$ -
Gallons in Minimum	-
Charge Per 1,000 Gallons	$ 6.85

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

Exhibit
Schedule H-4
Page 2
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ -	$ -	$ -	#DIV/0!
1,000	3.58	8.99	5.41	151.00%
2,000	7.16	17.97	10.81	151.00%
3,000	10.74	26.96	16.22	151.00%
4,000	14.32	35.94	21.62	151.00%
5,000	17.90	44.93	27.03	151.00%
6,000	21.48	53.91	32.43	151.00%
7,000	25.06	62.90	37.84	151.00%
8,000	28.64	71.89	43.25	151.00%
9,000	32.22	80.87	48.65	151.00%
10,000	35.80	89.86	54.06	151.00%
12,000	42.96	107.83	64.87	151.00%
14,000	50.12	125.80	75.68	151.00%
16,000	57.28	143.77	86.49	151.00%
18,000	64.44	161.74	97.30	151.00%
20,000	71.60	179.72	108.12	151.00%
25,000	89.50	224.65	135.15	151.00%
30,000	107.40	269.57	162.17	151.00%
35,000	125.30	314.50	189.20	151.00%
40,000	143.20	359.43	216.23	151.00%
45,000	161.10	404.36	243.26	151.00%
50,000	179.00	449.29	270.29	151.00%
60,000	214.80	539.15	324.35	151.00%
70,000	250.60	629.01	378.41	151.00%
80,000	286.40	718.86	432.46	151.00%
90,000	322.20	808.72	486.52	151.00%
100,000	358.00	898.58	540.58	151.00%
Average Usage				
64,470	230.80	579.31	348.51	151.00%
Median Usage				
60,000	214.80	539.15	324.35	151.00%

Present Rates:

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

Proposed Rates:

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

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

Exhibit
Schedule H-4
Page 3
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ -	$ -	$ -	#DIV/0!
1,000	2.67	6.70	4.03	151.00%
2,000	5.34	13.40	8.06	151.00%
3,000	8.01	20.11	12.10	151.00%
4,000	10.68	26.81	16.13	151.00%
5,000	13.35	33.51	20.16	151.00%
6,000	16.02	40.21	24.19	151.00%
7,000	18.69	46.91	28.22	151.00%
8,000	21.36	53.61	32.25	151.00%
9,000	24.03	60.32	36.29	151.00%
10,000	26.70	67.02	40.32	151.00%
12,000	32.04	80.42	48.38	151.00%
14,000	37.38	93.82	56.44	151.00%
16,000	42.72	107.23	64.51	151.00%
18,000	48.06	120.63	72.57	151.00%
20,000	53.40	134.03	80.63	151.00%
25,000	66.75	167.54	100.79	151.00%
30,000	80.10	201.05	120.95	151.00%
35,000	93.45	234.56	141.11	151.00%
40,000	106.80	268.07	161.27	151.00%
45,000	120.15	301.58	181.43	151.00%
50,000	133.50	335.09	201.59	151.00%
60,000	160.20	402.10	241.90	151.00%
70,000	186.90	469.12	282.22	151.00%
80,000	213.60	536.14	322.54	151.00%
90,000	240.30	603.15	362.85	151.00%
100,000	267.00	670.17	403.17	151.00%
Average Usage				
103,821	277.20	695.77	418.57	151.00%
Median Usage				
100,901	269.41	676.21	406.80	151.00%

Present Rates:

Monthly Minimum:	$ -
Gallons in Minimum	-
Charge Per 1,000 Gallons	$ 2.67

Proposed Rates:

Monthly Minimum:	$ -
Gallons in Minimum	-
Charge Per 1,000 Gallons	$ 6.70

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: WS-04235A-06-0303

COST OF CAPITAL

REBUTTAL TESTIMONY OF

THOMAS J. BOURASSA

I. INTRODUCTION AND QUALIFICATIONS.

Q. PLEASE STATE YOUR NAME AND ADDRESS.

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

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

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

Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

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

II. COST OF CAPITAL.

A. Overview and Summary.

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

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

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

Q. HAVE YOU UPDATED YOUR COST OF CAPITAL SCHEDULES?

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

table below summarizes the results.

DCF Analysis	Range	Midpoint
Constant Growth (earnings growth)	9.8% - 12.0%	10.9%
Constant Growth (sustainable growth)	8.3% - 10.5%	9.4%
Two-Stage Growth Model	9.2% - 11.5%	10.4%
Risk Premium Analysis		
Actual Returns	10.1% - 10.2%	10.2%
Authorized Returns	10.8% - 11.3%	11.1%
Comparable Earnings		
Actual Returns	4.2% - 11.7%	8.0%
Authorized Returns	9.9% - 12.7%	11.3%
Value Line Industry Composite (2006)		9.0%
Value Line Industry Composite (2007)		10.0%
Value Line Industry Composite (2009)		10.5%

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

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

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

Q. DOES STAFF PROPOSE A FINANCIAL RISK ADJUSTMENT IN ITS

COST OF EQUITY RECOMMENDATION?

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

B. <u>Response to Staff's Testimony on Use of Analyst Forecasts for Estimating Growth Rates</u>.

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

A. I did not claim that the study by Gordon, Myron, and Gould[1] concluded that investors ignore past growth rates. The authors note that all four estimates of growth[2] evaluated in the study rely on past data, but in the case of the analyst earnings forecasts, a larger body of past data is used, filtered through a group of security analysts who adjust for abnormalities that are not considered relevant for future growth. *Id.* The authors conclude that because of this, "the *superior performance* of the cost of equity estimates *based on earnings forecasts* should come as no surprise." *Id.* (emphasis added). The authors also note that forecasts are widely accepted by investors and the study does, in fact, support the sole use of analyst forecasts. *Id.*

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

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

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

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

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

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

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

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

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

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

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

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

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

> We have also seen that in spite of high error rates being recognized for decades, neither analysts nor investors who religiously depend on them have altered their methods in any way.[3]

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

[3] David Dreman, Contrarian Investment Strategies: The Next Generation. 1998. Simon & Schuster. New York. page 115-116.

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

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

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

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

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

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

PROPRIETY OF USING ANALYST ESTIMATES?

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

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

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

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

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

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

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

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

C. <u>Response to Staff's Testimony on Comparable Earnings and Risk Premium</u>.

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

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

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

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

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

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

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

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

and Mr. Irvine, the historical market returns are much *higher* than the 10.5% I recommend. For example, the following "total" returns, which take into account both dividend payments and increases in stock price, are reported in Value Line:

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

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

Q. WOULD INVESTORS CONSIDER THE TOTAL MARKET RETURNS OF A STOCK?

A. Yes. From the standpoint of an investor, a true market rate of return would take into account *both* anticipated dividends *and* capital gains resulting from future changes in the price of stock. I expect Mr. Irvine to agree when he testifies that "the cost of equity is the compensation investors expect for bearing the risk of ownership of a stock." *See* Irvine DT at 7. As I will testify later, historical market returns for the water utility sample companies are much greater than either myself or Mr. Irvine recommend for the COE in the instant case. These are no less relevant to developing estimates of investor expectations.

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

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

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

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

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

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

HISTORICAL MARKET RISK PREMIUM CAPM?

A. Yes. But the historical market risk premium Staff uses is based on the S&P 500 consisting mainly of very large U.S. companies. Mr. Irvine's water utility sample consists of mostly Micro-Cap companies. The largest company, Aqua America would be considered a Mid-Cap. The financial data show that mid-cap, low-cap and micro-cap companies historical have higher returns than large-cap companies. *See* Stocks, Bonds, Bills and Inflation 2006 Year Book, Ibbotson Associates, Chicago, 2005, at 28. As we have seen, the historical returns on the water utility sample are consistent with this historical financial data.

Q. PLEASE CONTINUE.

A. The basic idea of the standard constant growth DCF approach to estimating the COE is to infer the COE from the current share price and from an estimate of investors' expected future growth. Exactly what prospective measure of growth should be used (trends in earnings per share, dividends per share, book value per share) and how the information contained in these various measures used by investors is important in order to infer the <u>investors' true expected return</u>. Although the growth rate in the DCF model is the expected rate of growth in dividends, it is assumed that earnings, book value, and stock price all growth at the same constant rate as dividends. Historically price, book value, earnings and dividends have not grown at the same rate. *See* Bourassa DT at 27. Further, the investors' return and the cost of equity capital for an application to original cost rate base (book value) are identical only when the market price is equal to book value. In fact, the DCF model <u>understates</u> the COE when price and book are not close to unity (the market-to-book ratio of the water utilities sample companies averages over 2.6).

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

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

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

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

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

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

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

Q. PLEASE EXPLAIN YOUR EQUITY RISK PREMIUM ANALYSIS?

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

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

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

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

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

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

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

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

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

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

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

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

Q. PLEASE CONTINUE.

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

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

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

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

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

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

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

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

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

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

Q. DO STUDIES BY OTHERS SUPPORT THE VIEW THAT SMALLER UTILTIES ARE MORE RISKY THAN LARGER ONES?

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

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

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

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

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

does not extend to all Arizona regulated utilities.

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

E. <u>Staff's DCF Estimates Are Unreasonably Low Due to Staff's Biased Selection of Inputs.</u>

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

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

Q. WHAT ARE THE GROWTH RATES USED BY STAFF?

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

Type of Growth	Historic	Projected
Dividends per Share ("DPS") Growth	2.7%	5.0%

Type of Growth	Historic	Projected
Earning per Share (EPS") Growth	4.2%	7.9%
Intrinsic (Sustainable) Growth	5.8%	8.4%
Average	**4.2%**	**7.1%**

Staff's gives the historical growth rates 50% weight in its model. Using the overall historical average growth rate, the indicated COE is nearly at the projected cost of Baa bonds (6.9%). The DCF model using Staff's overall historical average produces an indicated COE of 7.0%:

(1) Staff DCF – Historical Growth

D_1/P_o	+	G	=	K
2.8%		4.2%		7.0%

Q. WHAT ARE THE INDICATED COSTS OF EQUITY JUST USING STAFF'S HISTORICAL EPS OR DPS GROWTH?

A. The indicated costs of equity using historical DPS growth and historical EPS growth are 6.8% and 5.5%, respectively. *See* Cost of Capital Rebuttal Exhibits 3 and 4. Perhaps even more revealing is that Staff excludes an EPS growth rate for one of its water utility sample companies because it is negative. *See* Schedule SPI-4. Mr. Irvine would like us to believe that his analysis is less subjective. *See* Irvine DT at 38. But if a negative growth rate can be excluded because it is not realistic, then why shouldn't the other growth rates be eliminated on a similar basis. If investors view historical information just as important as forecasts of growth, as Mr. Irvine claims, then why should a negative growth rate be excluded?

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

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

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

F. <u>Staff CAPM Estimates Underestimate the Current Cost of Equity.</u>

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

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

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

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

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

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

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

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

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

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

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

G. Restatement of Staff Cost of Equity Results.

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

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

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

the choice of the inputs Staff employs and the reasonableness of their assumptions. When they are examined in detail, it becomes apparent that their respective choices skew the results of models downward.

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

A. Yes.

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

Exhibit
Schedule D-4.0
Witness: Bourassa

Line No.		Low	High	Midpoint
1	DCF Constant Growth	9.8%	12.0%	10.9%
2	DCF Sustainable Growth	8.3%	10.5%	9.4%
3	DCF Two-Stage	9.2%	11.5%	10.4%
4				
5	Risk Premium - Actual Returns	10.1%	10.2%	10.2%
6	Risk Premium - Authorized Returns	10.8%	11.3%	11.1%
7				
8	Actual Returns	4.2%	11.7%	8.0%
9	Authorized Returns	9.9%	12.7%	11.3%
10				
11	Water Utility Industry			
12	2006			9.0%
13	2007			10.0%
14	09-11			10.5%
15				
16				
17				
18				
19				
20				

Utility Source, L.L.C.
Selected Characteristics of Water Utilities

Exhibit
Schedule D-4.1
Witness: Bourassa

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

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

Exhibit
Schedule D-4.2
Witness: Bourassa

No.		Book Value		Market Value	
1		Long-Term	Common	Long-Term	Common
2		Debt	Equity	Debt	Equity
3					
4	1. American States	50.4%	49.6%	28.3%	71.7%
5	2. Aqua America	52.0%	48.0%	22.6%	77.4%
6	3. California Water	48.3%	51.7%	24.1%	75.9%
7	4. Connecticut Water	40.6%	59.4%	23.8%	76.2%
8	5. Middlesex	56.3%	43.7%	36.6%	63.4%
9	6. SJW Corp.	42.6%	57.4%	16.7%	83.3%
10					
11	Average	48.3%	51.7%	25.3%	74.7%
12					
13	Utility Source, L.L.C.	0.0%	100.0%	N/A	N/A
14					
15					
16	Sources:				
17	Zacks Investment Research				
18					
19					
20					

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

Exhibit
Schedule D-4.3
Page 1
Witness: Bourassa

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

18 * See Schedule D-4.5
19 Sources:
20 Value Line Data
21 Yahoo Finance

Utility Source, L.L.C.

Comparisons of Past and Future Estimates of Growth

Exhibit
Schedule D-4.4
Page 1
Witness: Bourassa

Ten-year historical compound annual changes

Line No.	Company	Price	Book Value	DPS	EPS	Average Future Growth*
1	1. American States	13.25%	4.33%	1.05%	1.64%	7.50%
2	2. Aqua America	27.11%	9.86%	6.94%	9.00%	9.17%
3	3. California Water	13.65%	3.15%	1.01%	Negative	8.17%
4	4. Connecticut Water	11.68%	4.03%	1.13%	Negative	
5	5. Middlesex	11.55%	3.93%	1.99%	3.67%	
6	6. SJW Corp.	17.76%	5.44%	3.94%	3.24%	
7						
8	GROUP AVERAGE	15.83%	5.12%	2.68%	4.39%	8.28%
9	GROUP MEDIAN	13.45%	4.18%	1.56%	3.45%	8.17%

* See Schedule D-4.5

Sources:

Value Line Data

Yahoo Finance

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

Exhibit
Schedule D-4.5
Witness: Bourassa

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

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

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

Exhibit
Schedule D-4.6
Witness: Bourassa

Line No.		Company	(1) Retention Ratio	(2) Rate of Return	(3) br Growth	(4) sv Growth	(5) Average Sustainable Growth (Cols 3+4)
1							
2							
3							
4							
5							
6							
7	1.	American States	0.48	10.00%	4.84%	1.81%	6.65%
8	2.	Aqua America	0.33	12.00%	3.96%	2.23%	6.19%
9	3.	California Water	0.32	9.00%	2.90%	4.60%	7.50%
10	4.	Connecticut Water					
11	5.	Middlesex					
12	6.	SJW Corp.					
13							
14							
15		GROUP AVERAGE	0.38	10.33%	3.90%	2.88%	6.78%
16		GROUP MEDIAN	0.33	10.00%	3.96%	2.23%	6.65%
17							
18	Sources:						
19		Value Line Data					
20							
21							
22							
23							

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

Exhibit
Schedule D-4.7
Witness: Bourassa

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

Sources:
Value Line Data

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

Exhibit
Schedule D-4.8
Witness: Bourassa

Line No.		Company	(1) Spot Price (Po)	(2) Next Year's Div (D_1)	(3) Dividend Yield	(4) (a) EPS Growth (g)	(5) Indicated Cost of Equity k=Div Yld + g (Cols 3+4)
1	1.	American States	38.95	0.94	2.41%	7.50%	9.9%
2	2.	Aqua America	22.79	0.50	2.19%	9.17%	11.4%
3	3.	California Water	40.15	1.16	2.89%	8.17%	11.1%
4	4.	Connecticut Water	24.93	0.86	3.45%	8.28%	11.7%
5	5.	Middlesex	18.49	0.68	3.70%	8.28%	12.0%
6	6.	SJW Corp.	39.05	0.58	1.49%	8.28%	9.8%
7		GROUP AVERAGE			2.69%	8.28%	11.0%
8		GROUP MEDIAN					11.2%

a) See Schedules D-4.5

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

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

Exhibit
Schedule D-4.9
Witness: Bourassa

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

a) See Schedule D-4.6 and D-4.7

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

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

Exhibit
Schedule D-4.10
Witness: Bourassa

Line No.		Company	(1) Spot Price(P_0)	(2) Next Year's Div (D_1)	(3) Yield (D_1/P_0)	(4) Projected Growth Rates Near Term (a)	(5) Long Term (GDP)	(6) Average (b)	(7) Indicated Cost of Equity
7	1.	American States	38.95	0.94	2.41%	7.50%	6.80%	7.27%	9.7%
8	2.	Aqua America	22.79	0.50	2.19%	9.17%	6.80%	8.39%	10.6%
9	3.	California Water	40.15	1.16	2.89%	8.17%	6.80%	7.72%	10.6%
10	4.	Connecticut Water	24.93	0.86	3.45%	8.28%	6.80%	7.79%	11.2%
11	5.	Middlesex	18.49	0.68	3.70%	8.28%	6.80%	7.79%	11.5%
12	6.	SJW Corp.	39.05	0.56	1.43%	8.28%	6.80%	7.79%	9.2%
15		GROUP AVERAGE						7.79%	10.5%
16		GROUP MEDIAN							10.6%

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

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

Exhibit
Schedule D-4.11
Witness: Bourassa

Line No.		Actual Returns on Equity	Annual Average 10 Year Treasury	Risk Premium 10 Year Treasury
1	2005	9.22%	4.29%	4.93%
2	2004	9.00%	4.27%	4.73%
3	2003	8.75%	4.01%	4.74%
4	2002	10.25%	4.61%	5.64%
5	2001	10.05%	5.02%	5.03%
6	2000	9.62%	6.03%	3.59%
7	1999	11.20%	5.65%	5.55%
8	1998	10.62%	5.26%	5.36%
9	1997	11.52%	6.35%	5.17%
10	1996	11.67%	6.44%	5.23%
11	1995	10.93%	6.57%	4.36%
12				
13				
14	10 Year Average Premium			5.00%
15	5 Year Average Premium			5.01%
16				
17				
18	Consensus Forecast Interest Rates for 2008-2009			5.15%
19				
20	Projected Returns on Equity			
21	10 Year Average			10.1%
22	5 Year Average			10.2%
23				
24				
25	Sources:			
26	Value Line Data			
27	Ibbotson Associates SBBI Valuation Edition 2006 Yearbook			
28	Blue Chip Forecast Interest Rates - 10 year Treas. December 2006			
29	Federal Reserve			
30				

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

Exhibit
Schedule D-4.12
Witness: Bourassa

Line No.		Authorized Returns on Equity	Average Annual 10 Year Treasury	Risk Premium 10 Year Treasury
1	2005	10.47%	4.34%	6.13%
2	2004	10.40%	4.27%	6.13%
3	2003	10.48%	4.01%	6.47%
4	2002	10.62%	4.61%	6.01%
5	2001	10.86%	5.02%	5.84%
6	2000	11.12%	6.03%	5.09%
7	1999	11.12%	5.65%	5.47%
8	1998	11.06%	5.26%	5.80%
9	1997	11.18%	6.35%	4.83%
10	1996	11.58%	6.44%	5.14%
11	1995	11.51%	6.57%	4.94%
12				
13				
14	10 Year Average Premium			5.69%
15	5 Year Average Premium			6.12%
16				
17				
18	Consensus Forecast Interest Rates for 2008-2009			5.15%
19				
20	Projected Returns on Equity			
21	10 Year Average			10.8%
22	5 Year Average			11.3%
23				
24				
25	Sources:			
26	AUS Utility Reports, issues for December various years			
27	Ibbotson Associates SBBI Valuation Edition 2006 Yearbook			
28	Blue Chip Forecast Interest Rates - 10 year Treas. December 2006			
29	Federal Reserve			

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

Exhibit
Schedule D-4.13
Witness: Bourassa

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

Exhibit 1

Witness: Bourassa

Utility Source, L.L.C.
Water Utility Sample Common Stocks
over Long-Term Treasury Bonds
Annual Long-Term Term Risk Premium Analysis

Line No.	Year	(1) Long-Term Term Gov't Bond Yield	(2) 20 Year Maturity Bond Value	(3) Gain (Loss)	(4) Interest	(5) Bond Total Return	(6) Water Utility Sample Composite Stock Index[1]	(7) Dividend Index[1]	(8) Capital Gain (Loss) % Growth	(9) Yield	(10) Stock Total Return	(11) Equity Risk Premium
1	2005	4.61%	1,029.84	29.84	48.40	7.82%	28.24	0.83	28.32%	3.79%	32.12%	24.29%
2	2004	4.84%	1,034.35	34.35	51.10	8.54%	22.00	0.83	18.43%	4.46%	22.89%	14.34%
3	2003	5.11%	966.42	(33.58)	48.40	1.48%	18.58	0.82	24.34%	5.47%	29.80%	28.32%
4	2002	4.84%	1,115.77	115.77	57.50	17.33%	14.94	0.81	-4.26%	5.17%	0.91%	-16.41%
5	2001	5.75%	979.95	(20.05)	55.80	3.57%	15.61	0.80	9.82%	5.64%	15.46%	11.89%
6	2000	5.58%	1,148.30	148.30	68.20	21.65%	14.21	0.80	3.16%	5.80%	8.96%	-12.69%
7	1999	6.82%	848.41	(151.59)	54.20	-9.74%	13.78	0.79	16.27%	6.65%	22.92%	32.66%
8	1998	5.42%	1,072.71	72.71	60.20	13.29%	11.85	0.78	7.78%	7.11%	14.89%	1.60%
9	1997	6.02%	1,081.92	81.92	67.30	14.92%	10.99	0.77	37.29%	9.60%	46.89%	31.97%
10	1996	6.73%	923.67	(76.33)	60.30	-1.60%	8.01	0.76	22.23%	11.63%	33.86%	35.46%
11	1995	6.03%	1,225.98	225.98	79.90	30.59%	6.55	0.75	19.06%	13.61%	32.68%	2.09%
12	1994	7.99%	856.40	(143.60)	65.40	-7.82%	5.50	0.74	-18.47%	11.03%	-7.43%	0.39%
13	1993	6.54%	1,079.70	79.70	72.60	15.23%	6.75	0.72	20.37%	12.85%	33.21%	17.98%
14	1992	7.26%	1,004.19	4.19	73.00	7.72%	5.61	0.71	24.56%	15.66%	40.22%	32.50%
15	1991	7.30%	1,118.94	118.94	84.40	20.33%	4.50	0.69	14.59%	17.46%	32.05%	11.71%
16	1990	8.44%	1,000.00				3.93	0.67				
17												
18	5 Year Average					7.75%			15.33%	4.91%	20.24%	12.49%
19	10 Year Average					7.73%			16.34%	6.53%	22.87%	15.14%
20	15 Year Average					9.55%			14.90%	9.06%	23.96%	14.41%
21												
22	Forecast Long-Term Treasury (2008-2009)											5.15%
23												
24	20 year Treasury (February 7, 2007)											4.94%
25												
26	Indicated Cost of Equity Using Forecasted Interest Rates											
27	5 Year											17.64%
28	10 Year											20.29%
29	15 Year											19.56%
30												
31	Indicated Cost of Equity Using Current Interest Rates											
32	5 Year											17.43%
33	10 Year											20.08%
34	15 Year											19.35%
35												

36 Sources:
37 Ibbotson Associates Stocks, Bonds, Bills and Inflation 2006 Yearbook Table B-9 Long-Term Government Bond Yields December Each year
38 Blue Chip Financial Forecast December 2006
39 Yahoo Finance December Stock Prices and Dividends
40 Value Line
41 Utility Sample Company Composite is value wieghted index. It includes American States, Aqua America, California Water, Connecticut Water, Middlesex Water,
42 and SJW Corp.
43
44 [1] Market Value Weighted

State of California

Memorandum

Date: May 21, 2004

To: Izetta C. R. Jackson, Director – Water Division

From: **Public Utilities Commission—**
San Francisco –
Seaneen M. Wilson, FEIV

Subject: *Concerns regarding how Rates of Return and Returns on Equity are determined for Class A, B, C, and D Water Utilities*

Overview

I would like to address two issues in this memorandum – 1) Concerns regarding the determination of a Rate of Return (ROR) for Del Oro Water Company, and 2) Explanation of the specific methods used to determine the ROR for the various classes of water utilities.

Concerns Regarding Del Oro ROR

Prior to the May 6th Commission meeting, an advisor raised concerns regarding the determination of the Rate of Return (ROR) of 8.53% for Del Oro Water Company (Del Oro) (Agenda Item 16 at May 6th Commission Meeting). There was a concern that the ROR for this Class B water utility was 100 basis points lower than ROR's recently authorized for Class A water utilities.

First of all, the recommended ROR for Del Oro is not 100 basis points less than the ROR's most recently authorized for Class A water utilities. In particular, at the May 6th meeting, California-American Water was authorized a ROR of 6.74% (D.04-05-023) and the next most recent authorized ROR is 8.79% for Southern California Water (D.04-03-039). Not only are these returns not 100 basis points greater than that recommended for Del Oro, in the case of California-American, its ROR is 179 basis points lower than that recommended for Del Oro.

Second, as described below, there is a particular method for determining the ROR for each Class of water utility. If the suggested adjustment of a 100 basis point increase is made to the ROR, the Return on Equity (ROE) for this Class B water utility would be greater than that authorized for a Class D water utility, which is not appropriate. (see detailed discussion below)

EXHIBIT 2

Methods for determining ROR for Different Classes of Water Utilities

One of the duties of this Commission is to authorize the ROR and ROE for Class A, B, C, and D water utilities. Given the different characteristics of and risks faced by each class of water utility, the ROR and ROE are calculated differently for each.

Class A – 10,000 or more customers

The ROR for Class A water utilities is determined by summing the weighted cost of each component of the capital structure (cost factor times percentage of capital structure). This capital structure is normally made up of long-term debt and common equity. The long-term debt cost is based on the rates each company pays its lenders and the ROE is determined by the Commission after assessing the results of market based models run on a comparable group of water utilities. (Example attached at p. 4 – Table 1-1)

Class B – 2,000 – 9,999 customers

The ROR for Class B water utilities is determined in a similar fashion, except for the calculation of the ROE. Since market data is not available for water utilities comparable to Class B (companies of this size are not publicly traded), staff averages the most recently authorized Class A and Class C ROE's in order to determine the appropriate ROE for a Class B company (see attached tables at p.5 – Class B Tables). The company specific capital structure and cost of long-term debt[1] are then combined with this Class A & C average ROE to determine the overall ROR for the Class B water utility.

Del Oro ROR

As the first Class B Table shows (page 5), the ROR calculated for Del Oro is 8.53%. This is based on a combination of the company specific capital structure and cost of long-term debt and the average of the recently authorized Class A and C returns. A suggestion has been made that this company receive a ROR of 9.50%. If this ROR is plugged into that calculation, the resulting ROE would be 13.57%, which is greater than the highest ROE currently being recommended for Class D water utilities of 13.4% (page 6).

Class C & D – C = 500- 1,999 customers / D = 1 – 499 customers

The ROR for Class C and D water utilities is determined based on procedures adopted in

1 D.92-03-093, p. 30, "As to rate of return, we will continue to deal with Class B utilities on a case by case basis."

D.92-03-093.[2] Since most Class C and D water utilities do not have any long-term debt, (or, if they do it is covered by a principal and interest surcharge and not included in rates) their total capital structure consists of common equity. The ROE that is determined for Class C and D water utilities is also the ROR. Per D.92-03-093, each year the Water Division reviews the movement of interest rates in the past year as well as ROEs authorized for Class A water utilities to determine the appropriate ROEs for the Class C and D water utilities. (See attached March 1, 2004 memo) If there is material movement up or down in interest rates or the authorized Class A ROE's, then the range of ROEs recommended for Class C and D water utilities is adjusted in the same direction. A range of ROE's is provided so that the analyst can consider the specific risks faced by each individual company in a particular class.[3]

If you have any questions or would like to learn more about cost of capital for water utilities, please contact me at 415-703-1818 or smw@cpuc.ca.gov.

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2 D.92-03-093, p. 29, "Because we recognize that Class C and Class D water utilities are fundamentally different from Class A water utilities in terms of the operational and financial risks they face, it is not appropriate to tie the range of returns to those of Class A utilities. Instead, we will have CACD prepare an annual recommendation to the Commission on the appropriate range of returns fro Class C and D utilities. Consideration will be given to changes in financial conditions and substantial changes in operational conditions meriting adjustment to the range of reasonable returns."

3 D.92-03-093, p. 29, "Use of a range allows for acknowledgement of differences in water quality, service, and management.".

Table 1-1

	Capital Structure	Cost Factor	Weighted Cost
Test Year 2003			
Long-Term Debt	55.92%	7.39%	4.13%
Common Equity	44.08%	9.54%	4.20%
Total	100.00%		8.34%
Test Year 2004			
Long-Term Debt	57.56%	7.28%	4.19%
Common Equity	42.44%	9.54%	4.05%
Total	100.00%		8.24%
Test Year 2005			
Long-Term Debt	58.35%	7.16%	4.18%
Common Equity	41.65%	9.54%	3.97%
Total	100.00%		8.15%
Test Year 2006			
Long-Term Debt	58.40%	7.46%	4.36%
Common Equity	41.60%	9.54%	3.97%
Total	100.00%		8.32%

Class B Tables

Del Oro Group of Companies
Cost of Capital

Description	Capital Ratios	Cost Factors	Weighted Cost Factors
Long Term Debt	67.20%	7.57%	5.09%
Common Equity	32.80%	10.98%	3.60%
Rate of Return	100%		8.69%

Del Oro Group of Companies
Class B Water ROE

Description	ROE
Most Recently Authorized Class A ROE	9.80%
Average of Range of Class C ROE's recommended by Water Division	12.15%
Average	**10.98%**

State of California

Memorandum

Date: March 1, 2004

To: The Commission

From: **Kenneth K Louie, Chief, Audit & Compliance Branch**
Izetta Jackson, Director, Water Division

Subject: *Rate of Return for Small Water Utilities (Class C and Class D)*

This memorandum updates the Water Division's recommended rates of return for Class C (<2,000 customers) and Class D (<500 customers) water companies, as required by D.92-03-093 in Phase I of I.90-11-033 (Water Risk OII).

Based on our analysis of financial market changes within the last year and the high operational risks faced by Class C and Class D water companies, we are recommending no change in the return ranges for Class C and Class D water utilities informal general rate cases. For 2004, we are recommending Return on Equity (ROE) ranges of:

Class C – 11.65% to 12.65% (no change from last year)
Class D – 12.40% to 13.40% (no change from last year)

In setting rates of return for other utilities, the Commission has recognized changes in interest rates as well as the economy generally. At the same time, the Commission has cautioned against lock-step conformity to these factors. The Water Division's Audit & Compliance staff has developed its recommendations accordingly.

- Financial Market Outlook: Overall, interest rates have decreased since last year. As of February 2004:
  - The average yield on 90-day Treasury Bills is .92%, as compared to 1.03% for 2003, representing an 11 basis point decrease;
  - The average yield on a 1-Year Treasury is 1.25%, as compared to 1.24% for 2003, representing a 1 basis point increase;
  - The average yield on a 5-Year Treasury is 3.10%, as compared to 2.97% in 2003, representing a 13 basis point increase: and
  - The average Long-term Treasury is 5.03%, as compared to 4.96% in 2003,

representing a 7 basis point increase.

- It should also be noted that the interest rate forecasts for 2004 are somewhat higher than those experienced in 2003:
  - 90-day Treasury bill is forecast to be 1.10%,
  - 1-Year Treasury is forecast to be 1.57%,
  - 5-Year Treasury is forecast to be 3.39%, and
  - Long-Term Treasury is forecast to be 5.30%.

In developing its ROE recommendations, Water Division's Audit & Compliance staff also observes any changes from the previous years authorized returns for Class A water companies.

- Authorized ROE's for Class A water utilities have remained fairly constant since last year, averaging 9.93% in 2003.

Water Division staff also evaluates the high risk factors inherent in the Class C and Class D water companies, taking into account that:

- ROE should be high enough to encourage rate base investment, and
- ROE should be well above the cost of debt. This compensates owners of small water companies for financing water plant with personal borrowings, which is risky. Small water companies are still prone to business failures and uncompensated takeovers.

In D.92-03-093, the Commission has allowed rate of return to be set at a level above or below the recommended ranges if warranted by the facts of a particular case and established the 1992 standard returns shown for Class C and Class D water utilities. Thus, our recommended returns are stated as "ranges" so that Water Division staff may recognize differences in such items as water and service quality and management effectiveness, on a case-by-case basis. Since that time, several risk-reducing Commission policies have been added, including Automatic CPI offset procedure, Extraordinary expense memo accounts, Catastrophic Event Memorandum Account, Service Guarantee Plan, and Purchased Power/Water balancing accounts.

The table below provides a historical perspective on the recommended return on equity for the small water companies. Any questions regarding this recommendation may be directed to Sean Wilson of the Water Division (1-415-703-1818, smw@cpuc.ca.gov).

Year	Recommended ROE Range		Federal Reserve Statistics			
	Class C Water	Class D Water	90-day Treasuries	1-Year Treasuries	5-Year Treasuries	Long-Term Treasuries
1994	11.30% - 11.80%	13.60% - 14.10%	4.37%	5.32%	6.69%	7.37%
1995	13.00% - 13.50%	14.00% - 14.50%	5.66%	5.94%	6.38%	6.88%
1996	12.00% - 13.00%	12.755 - 13.75%	5.15%	5.52%	6.18%	6.71%
1997	12.50% - 13.50%	13.50% - 14.50%	5.20%	5.63%	6.22%	6.61%
1998	12.00% - 13.00%	12.75% - 13.75%	4.91%	5.05%	5.15%	5.58%
1999	12.00% - 13.00%	12.75% - 13.75%	4.78%	5.08%	5.55%	5.87%
2000	12.25% - 13.25%	13.00% - 14.00%	6.00%	6.11%	6.16%	5.94%
2001	12.00% - 13.00%	12.75% - 13.75%	3.48%	3.49%	4.56%	5.49%
2002	11.75% - 12.75%	12.50% - 13.50%	1.64%	2.00%	3.82%	5.43%
2003	11.65% - 12.65%	12.40% - 13.40%	1.03%	1.24%	2.97%	4.96%
2004	11.65% - 12.65%	12.40% - 13.40%	0.92%	1.25%	3.10%	5.03%

NOTE: 2003 Average Interest Rates as of February 2004

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

Exhibit 3
Witness: Bourassa

Line No.		Company	(1) Spot Price (Po)	(2) Next Year's Div (D1)	(3) Dividend Yield	(4) 10 Yr. Historical DPS Growth	(5) Indicated Equity Cost k=Div Yld + G (Cols 1+4)	
1	1.	American States	41.04	0.94	2.29%	1.06%	3.3%	*
2	2.	Aqua America	24.07	0.47	1.94%	6.16%	8.1%	
3	3.	California Water	38.55	1.20	3.11%	1.12%	4.2%	*
4	4.	Connecticut Water	21.60	0.87	4.04%	1.26%	5.3%	*
5	5.	Middlesex	18.81	0.72	3.82%	2.18%	6.0%	*
6	6.	SJW Corp.	33.99	0.59	1.73%	4.24%	6.0%	*
7		GROUP AVERAGE					5.5%	*
8		GROUP MEDIAN					5.6%	
9		Current Baa interest rate					6.3%	
10		Blue Chip Forecast Baa Corporate Bond Interest Rate 2008-2009 Top 10					6.9%	
11		Blue Chip Forecast Baa Corporate Bond Interest Rate 2008-2009 Bottom 10					6.4%	
12		Blue Chip Forecast Baa Corporate Bond Interest Rate 2008-2009 Consensus					6.9%	

* Indicated Equity Cost Below Cost of Debt

Sources:
Staff Workpapers
Federal Reserve Feburary 7, 2007
Blue Chip Financial Forecast December 2006

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

Exhibit 4
Witness: Bourassa

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

* Indicated Equity Cost Below Cost of Debt

Sources:
Staff Workpapers
Federal Reserve Feburary 7, 2007
Blue Chip Financial Forecast December 2006

A-5

Richard L. Sallquist
SALLQUIST, DRUMMOND & O'CONNOR, P.C.
4500 S. Lakeshore Drive, Suite 339
Tempe, Arizona 85282
Telephone: (480) 839-5202
Attorneys for Utility Source, L.L.C

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C. FOR A DETERMINIATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PROPERTY AND FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICES	**WS-04235A-06-0303** **NOTICE OF FILING REJOINDER TESTIMOMNIES**

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

Respectfully submitted this 2nd day of April 2007.

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

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

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

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

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EXHIBIT
A-5
admitted

A copy of the foregoing filed
this 2nd day of April, 2007, to:

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

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

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

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

David Hitesman
4661 N Bellemont
Bellemont, Arizona 86015

Dennis Jones
11573 W Cove Crest
Bellemont, Arizona 86015

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C. – WATER DIVISION, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: WS-04235A-06-0303

REJOINDER TESTIMONY OF

THOMAS J. BOURASSA

WATER DIVISION

I. INTRODUCTION AND QUALIFICATIONS.

Q. PLEASE STATE YOUR NAME AND ADDRESS.

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

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

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

Q. WHAT IS THE PURPOSE OF THIS REJOINDER TESTIMONY?

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

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

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

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

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

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

FILING?

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

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

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

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

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

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

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

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

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

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

A. The difference in the revenue requirement between Staff and the Company of $117,246 is primarily due to a difference in each of the party's recommended

return. Staff is recommending a 6.23 percent return. *See* Michlik SB at 8. The Company continues to recommend a return of 10.5 percent.

Q. HOW DID STAFF DETERMINE A 6.23 PERCENT RETURN?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

the 8.9 percent Mr. Irvine recommends.

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

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

I do not dispute that the circumstances in the prior case were unusual and the Commission dealt with those circumstances in that case. But, those circumstances are not the same circumstances in the instant case. *See* A.C.C Decision 67446, January 4, 2005. In that case, the homeowners association had built plant and was serving customers when the Company applied for its CC&N. However, in the prior case, not only was the Company fined for its actions, but the Commission decided to keep the low existing rates, which were substantially less than the Staff recommended in that proceeding, and concluded "...it is appropriate to set rates in this matter using traditional rate case methods which look to actual expenses and rate base of the Company. We do not have sufficient information in the record regarding actual expenses and rate base to be able to set rates at this time. Because we lack sufficient information to change the Company's rates, we will direct the Company to use its existing rates until such time as the Company

files a rate case, which it may do at any time, but no later than May 1, 2006, based on a 2005 test year." *Id.* at 18. In the instant case, Staff has examined the actual expenses and rate base for the water division. There are essentially no remaining disputes between the parties on these items for the water division.

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

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

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

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

A. Yes. However, the actual expenses and plant investment (rate base) support the large increase and the Company should be afforded the ability to recover its

operating expenses as well as a return on and of that investment. Stated another way, which I believe is accurate, the existing rates were set too low. Again, and I must emphasize, the Company has made an extraordinary proposal to include revenues from potential future customer growth which may not materialize for several years in order to help minimize the impact. As I will discuss later in my testimony, the Company will not earn the return authorized in the instant case for several years – at best.

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

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

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

CLAIMS?

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

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

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

Q. PLEASE EXPLAIN.

A. As you will recall, under the Company's proposed rates, the pro-forma revenues total approximately $231,000 while the requested rate increase is approximately $310,000. Dividing $231,000 by $310,000 yields approximately 75 percent. Staff's current proposal shifts the portion of the rate payer impact to potential

future growth even higher at 94 percent – an even higher risk to the Company. The potential customer growth may not materialize for several years and, in the instant case, the Company will not even realize the return authorized by the Commission until such time as that growth may materialize. It is not news the housing market has experienced a significant slow down in the past year or so and is not expected to recover until the 2nd half of 2008 at the earliest.

Q. HOW MUCH CUSTOMER GROWTH OCCURRED IN 2006?

A. Zero.

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

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

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

A. I have prepared an exhibit to illustrate the projected returns. *See* Rejoinder Exhibit 1, pages 1 and 2. Assuming an annual growth of 50 customers the projected actual return for projected years 1, 2, and 3 are 2.64 percent, 3.28 percent, and 5.12 percent, respectively. Assuming an annual growth of 100 customers the projected actual return for projected years 1, 2, and 3 are 3.28 percent, 5.75 percent, and 8.23 percent, respectively. *Id.* These projections assume no increases in operating expenses and increases in rate base as a result of additional required plant investment. Using Staff's proposed rates the returns are far less. *Id.* at 3 and 4. The assumptions that there will be no change no change in operating expenses and

rate base are unrealistic. As a result the return projections stated above are high-end estimates. As I have stated, while the Company is including revenues from potential future growth to help minimize the impact to rate payers, in doing so, it is taking enormous risk while at the same time receiving very low returns for several years. Staff's recommendations only increase that risk and further erode the shareholder returns.

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

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

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

A. Yes.

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

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

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

A. Yes.

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

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

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

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

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

case, the Company is willing to accept that scenario – for now at least.

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

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

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

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

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

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

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

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

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

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

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

A. I am not sure I understand the District's characterization. The pro-forma revenues are based on the growth in customers for Flagstaff Meadows – Phase III. These customers are currently not on the system and may not be for several years. These

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

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

A. Under existing rates, the monthly minimum for a 2 inch metered customer is $14.00 per month. At this stage of the proceeding, the proposed monthly minimum for a 2 inch metered customer is $195.13. This is an increase in the minimum of approximately 1,294 percent ($195.13 minus $14.00 divided by $14.00). However, under the appropriate comparison, the average usage of 103,821 gallons, the average bill under present rates is $322.35, and under proposed rates the average bill is $1,057.73 – an increase of $735.38. The percentage increase is approximately 228 percent ($1,057.73 minus $322.35 divided by $322.35). The median use of the 2 inch metered customers is nearly the same as the average use at 100,901 gallons. The percentage increase at the

median use is therefore not that different than the average use. The high percentage increase in the monthly minimum is a bit misleading and it is more appropriate to look at the increases at the average or even the median use.

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

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

II. RATE BASE.

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

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

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

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

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

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

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

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

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

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

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

A. As I have previously indicated, the $736,583 is the cost related to Deep Well #4. As you will recall, Deep Well #4 is necessary to serve the future growth of the 350 customers. *See* Bourassa RB at 4. As you will recall, the Company agreed with Staff to remove the plant from rate base in its rebuttal filing. In its rebuttal filing, the Company also removed pro forma revenues for future growth in the

determination of the revenue requirement and rate increase as the plant was necessary to serve the growth. *Id* at 4. I am sure Staff reversed its position in its surrebuttal when it realized that even though including the costs of Deep Well #4 in rate base increased rate base, that also including the pro-forma revenues from customer growth provided for substantially less impact to rate payers. The evidence it the instant case bears that out.

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

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

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

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

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

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

III. INCOME STATEMENT.

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

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

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

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

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

IV. RATE DESIGN.

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

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

Both Staff and the Company propose an inverted three tier design for the 5/8 inch and ¾ inch metered customers and an inverted two tier design for 1 inch and larger meters. For the 5/8 inch and ¾ inch metered customers, the first break over point of 4,000 gallons is the same between the Company and Staff. For the second break over point, the Company proposes 12,000 gallons while Staff proposes 9,000 gallons. Staff has revised its break over points for the 1 inch and larger meters, and

like the Company, provides for different break over points for each meter size. The break over points are different, but are generally consistent with the Company.

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

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

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

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

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

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

The commodity charges and tiers by meter size are:

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

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

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

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

A. Yes.

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

A. Yes.

Q. DOES THAT CONCLUDE YOUR REJOINDER TESTIMONY

Utility Source, LLC - Water Division
Plant Additions and Retirements

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

Account No.	Description	Deprec. Rate	Year End Accumulated Depreciation by Account Dec-04 2004	Dec-05 2005
301	Organization Cost	0.00%	-	-
302	Franchise Cost	0.00%	-	-
303	Land and Land Rights	0.00%	-	-
304	Structures and Improvements	3.33%	1,215	3,646
305	Collecting and Impounding Res.	2.50%	-	-
306	Lake River and Other Intakes	2.50%	-	-
307	Wells and Springs	3.33%	34,496	103,487
308	Infiltration Galleries and Tunnels	6.67%	-	-
309	Supply Mains	2.00%	-	-
310	Power Generation Equipment	5.00%	2,185	6,555
311	Electric Pumping Equipment	12.50%	9,919	29,758
320	Water Treatment Equipment	3.33%	91	274
330	Distribution Reservoirs & Standpipe	2.22%	3,568	10,704
331	Transmission and Distribution Mains	2.00%	1,472	4,416
333	Services	3.33%	1,436	4,308
334	Meters	8.33%	-	-
335	Hydrants	2.00%	345	1,035
336	Backflow Prevention Devices	6.67%	-	-
339	Other Plant and Miscellaneous Equipment	6.67%	-	-
340	Office Furniture and Fixtures	6.67%	-	-
341	Transportation Equipment	20.00%	-	-
342	Stores Equipment	4.00%	-	-
343	Tools and Work Equipment	5.00%	-	-
344	Laboratory Equipment	10.00%	-	-
345	Power Operated Equipment	5.00%	-	-
346	Communications Equipment	10.00%	-	-
347	Miscellaneous Equipment	10.00%	-	-
348	Other Tangible Plant	10.00%	-	-
	Plant Held for Future Use		-	-
	TOTAL WATER PLANT		54,728	164,185
	Depreciation			
(a)	Staff Accumulated Depreciation Allocated to Plant.			
	Retirements (excluding land)			
	Accumulated Depreciation Balance			
	Half Year Convention used on depreciation			

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

Exhibit
Rejoinder Schedule B-2
Page 5
Witness: Bourassa

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

[1] Half year Convention on additions

REGARDING THE WATER APPLICATION?

A. Yes.

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

Exhibit
Rejoinder Schedule A-1
Page 1
Witness: Bourassa

Line No.		
1	Fair Value Rate Base	$ 2,753,096
2		
3	Adjusted Operating Income	(23,286)
4		
5	Current Rate of Return	-0.85%
6		
7	Required Operating Income	$ 289,075
8		
9	Required Rate of Return on Fair Value Rate Base	10.50%
10		
11	Operating Income Deficiency	$ 312,361
12		
13	Gross Revenue Conversion Factor	1.0000
14		
15	Increase in Gross Revenue	
16	Requirement	$ 312,361
17		
18	% Increase	179.18%

	Customer Classification (Residential Commercial, Irrigation)	**Present Rates**	**Proposed Rates**	**Dollar Increase**	**Percent Increase**
24	3/4 Inch Residential	$ 76,792	$ 214,653	$ 137,861	179.52%
25	1 1/2 Inch Commercial	2,397	7,956	5,559	231.94%
26	2 Inch Commecrial	3,868	12,874	9,006	232.83%
27				-	0.00%
28	Revenue Annualization	6,121	16,854	10,734	175.36%
29					
30	Proforma Revenues	83,560	232,706	149,146	178.49%
31				-	0.00%
32	**Subtotal**	$ 172,738	$ 485,043	$ 312,305	180.80%
33					
34	Other Water Revenues	1,657	1,657	-	0.00%
35				-	0.00%
36				-	0.00%
37	**Total of Water Revenues (a)**	$ 174,395	$ 486,701	$ 312,305	179.08%

38
39
40
41
42 SUPPORTING SCHEDULES:
43 Rejoinder B-1
44 Rejoinder C-1
45 Rejoinder C-3
46 Rejoinder H-1
47

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

Exhibit
Rejoinder Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 3,195,818	$ 3,195,818
3	Less: Accumulated Depreciation	164,185	164,185
4			
5	Net Utility Plant in Service	$ 3,031,633	$ 3,031,633
6			
7	Less:		
8	Advances in Aid of		
9	Construction	-	-
10	Contributions in Aid of		
11	Construction	294,745	294,745
12	Accumulated Amortization of CIAC	(16,207)	(16,207)
13			
14	Customer Meter Deposits	-	-
15	Deferred Income Taxes & Credits	-	-
16	Customer Meter Deposits	-	-
17	Deferred Income Taxes		
18	Investment Tax Credits		
19	Plus:		
20	Unamortized Finance Charges	-	-
21	Material and Supplies Inventories		
22	Prepayments		
23	Allowance for Working Capital	-	-
24			
25			
26			
27	Total Rate Base	$ 2,753,096	$ 2,753,096
28			
29			
30			
31	SUPPORTING SCHEDULES:		
32	Rejoinder B-2		
33	Rejoinder B-5		
34			
35			
36			

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

Exhibit
Rejoinder Schedule B-2
Page 1
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Adjustments	Rejoinder Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 2,459,235	736,583	$ 3,195,818
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	127,392	36,792	164,185
7				
8				
9	Net Utility Plant			
10	in Service	$ 2,331,843	$ 699,791	$ 3,031,633
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	-	-	-
15				
16	Contributions in Aid of			
17	Construction (CIAC)	294,745	-	294,745
18				
19				
20	Accum. Amortization of CIAC	(16,694)	486	(16,207)
21				
22				
23	Customer Meter Deposits	-	0	-
24	Deferred Income Taxes	-	-	-
25	Investment Tax Credits	-	-	-
26				
27				
28	**Plus:**			
29	Unamortized Finance Charges	-		-
30	Material and Supplies Inventories			
31	Prepayments			
32	Allowance for Working Capital	-		-
33				
34				
35	Total	$ 2,053,792	$ 699,304	$ 2,753,096
36				
37				
38				
39				
40				
41	SUPPORTING SCHEDULES:			
42	Rejoinder B-2, pages 2			
43				
44				
45				
46				
47				
48				

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

Exhibit
Rejoinder Schedule B-2
Page 2
Witness: Bourassa

Line No.		ADJUSTMENT LABEL->> Rebuttal Adjusted End of Test Year	1 Plant-In-Service	2 Accum. Depreciation	3 CIAC Adjustment	4 Intentionally Left Blank	5 Intentionally Left Blank	Rejoinder Adjusted at end of Test Year
1	Gross Utility							
2	Plant in Service	$ 2,459,235	736,583					$ 3,195,818
3								
4	**Less:**							
5	Accumulated							
6	Depreciation	127,392		36,792				164,185
7								
8								
9	Net Utility Plant							
10	in Service	$ 2,331,843	$ 736,583	$ (36,792)	$ -	$ -	$ -	$ 3,031,633
11								
12	**Less:**							
13	Advances in Aid of							
14	Construction	-						-
15								
16	Contributions in Aid of							
17	Construction (CIAC)	294,745						294,745
18								
19	Accum. Amortization of CIAC	(16,694)			486			(16,207)
20								
21	Customer Meter Deposits	-						-
22	Deferred Income Taxes	-						-
23	Investment Tax Credits	-						-
24								
25	**Plus:**							
26	Unamortized Finance							
27	Charges	-						-
28	Material and Supplies Inventories							
29	Prepayments	-						-
30	Allowance for Working Capital	-						-
31								
32	Total	$ 2,053,792	$ 736,583	$ (36,792)	$ (486)	$ -	$ -	$ 2,753,096
33								
34	SUPPORTING SCHEDULES:							
35	Rejoinder B-2, pages 3-5							

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

Exhibit
Rejoinder Schedule B-2
Page 3
Witness: Bourassa

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

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

Exhibit
Rejoinder Schedule B-2
Page 4
Witness: Bourassa

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

Utility Source, LLC - Water Division
Plant Additions and Retirements

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

Account No.	Description	Deprec. Rate	12/31/2004	2004 Accum. Depr.	2004 Plant Additions	2004 Plant Rejoinder Adjustments	2004 Adjusted Plant Additions	2004 Plant Retirements	2004 Plant Balance	2004 Depr.
301	Organization Cost	0.00%	-				-		-	-
302	Franchise Cost	0.00%	-				-		-	-
303	Land and Land Rights	0.00%	-		210,000		210,000		210,000	-
304	Structures and Improvements	3.33%	-		109,250	(36,253)	72,997		72,997	1,215
305	Collecting and Impounding Res.	2.50%	-				-		-	-
306	Lake River and Other Intakes	2.50%	-				-		-	-
307	Wells and Springs	3.33%	-		2,233,883	(162,062)	2,071,821		2,071,821	34,496
308	Infiltration Galleries and Tunnels	6.67%	-				-		-	-
309	Supply Mains	2.00%	-				-		-	-
310	Power Generation Equipment	5.00%	-		87,400		87,400		87,400	2,185
311	Electric Pumping Equipment	12.50%			161,494	(2,783)	158,711		158,711	9,919
320	Water Treatment Equipment	3.33%	-		5,487		5,487		5,487	91
330	Distribution Reservoirs & Standpipe	2.22%	-		345,000	(23,548)	321,452		321,452	3,568
331	Transmission and Distribution Mains	2.00%	-		147,200		147,200		147,200	1,472
333	Services	3.33%	-		86,250		86,250		86,250	1,436
334	Meters	8.33%	-				-		-	-
335	Hydrants	2.00%	-		34,500		34,500		34,500	345
336	Backflow Prevention Devices	6.67%	-				-		-	-
339	Other Plant and Miscellaneous Equipment	6.67%	-				-		-	-
340	Office Furniture and Fixtures	6.67%	-				-		-	-
341	Transportation Equipment	20.00%	-				-		-	-
342	Stores Equipment	4.00%	-				-		-	-
343	Tools and Work Equipment	5.00%	-				-		-	-
344	Laboratory Equipment	10.00%	-				-		-	-
345	Power Operated Equipment	5.00%	-				-		-	-
346	Communications Equipment	10.00%	-				-		-	-
347	Miscellaneous Equipment	10.00%	-				-		-	-
348	Other Tangible Plant	10.00%	-				-		-	-
	Plant Held for Future Use						-		-	-
	TOTAL WATER PLANT		-	-	3,420,464	(224,646)	3,195,818	-	3,195,818	54,728
	Depreciation								54,728	
(a)	Staff Accumulated Depreciation Allocated to Plant.		-							
	Retirements (excluding land)								-	
	Accumulated Depreciation Balance			-					54,728	
	Half Year Convention used on depreciation									

Utility Source, LLC - Water Division
Plant Additions and Retirements

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

Account No.	Description	Deprec. Rate	2005 Plant Additions	2005 Plant Adjustments	2005 Adjusted Plant Additions	2005 Plant Retirements	Plant Retirements To Date	2005 Plant Balance	2005 Deprec.
301	Organization Cost	0.00%			-		-	-	-
302	Franchise Cost	0.00%			-		-	-	-
303	Land and Land Rights	0.00%			-		-	210,000	-
304	Structures and Improvements	3.33%			-		-	72,997	2,431
305	Collecting and Impounding Res.	2.50%			-		-	-	-
306	Lake River and Other Intakes	2.50%			-		-	-	-
307	Wells and Springs	3.33%			-		-	2,071,821	68,992
308	Infiltration Galleries and Tunnels	6.67%			-		-	-	-
309	Supply Mains	2.00%			-		-	-	-
310	Power Generation Equipment	5.00%			-		-	87,400	4,370
311	Electric Pumping Equipment	12.50%			-		-	158,711	19,839
320	Water Treatment Equipment	3.33%			-		-	5,487	183
330	Distribution Reservoirs & Standpipe	2.22%			-		-	321,452	7,136
331	Transmission and Distribution Mains	2.00%			-		-	147,200	2,944
333	Services	3.33%			-		-	86,250	2,872
334	Meters	8.33%			-		-	-	-
335	Hydrants	2.00%			-		-	34,500	690
336	Backflow Prevention Devices	6.67%			-		-	-	-
339	Other Plant and Miscellaneous Equipment	6.67%			-		-	-	-
340	Office Furniture and Fixtures	6.67%			-		-	-	-
341	Transportation Equipment	20.00%			-		-	-	-
342	Stores Equipment	4.00%			-		-	-	-
343	Tools and Work Equipment	5.00%			-		-	-	-
344	Laboratory Equipment	10.00%			-		-	-	-
345	Power Operated Equipment	5.00%			-		-	-	-
346	Communications Equipment	10.00%			-		-	-	-
347	Miscellaneous Equipment	10.00%			-		-	-	-
348	Other Tangible Plant	10.00%			-		-	-	-
	Plant Held for Future Use				-		-	-	-
	TOTAL WATER PLANT		-	-	-	-	-	3,195,818	109,456
	Depreciation							109,456	
(a)	Staff Accumulated Depreciation Allocated to Plant.								
	Retirements (excluding land)							-	
	Accumulated Depreciation Balance							164,185	
	Half Year Convention used on depreciation								

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

Exhibit
Rejoinder Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	6,329
3	Pumping Power (1/24 of Pumping Power)		1,512
4	Purchased Water (1/24 of Purchased Water)		-
5			
6			
7			
8			
9	Total Working Capital Allowance Rejoinder	$	7,842
10			
11	Total Working Capital Allowance Requested	$	-
12			
13	Working Capital per Direct Filing	$	-
14			
15	Increase (Decrease) in Working Capital	$	-
16			
17			
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
19		Rejoinder B-1	
20			

Utility Source, L.L.C. - Water Division
Test Year Ended December 31, 2005
Income Statement

Exhibit
Rejoinder Schedule C-1
Page 1
Witness: Bourassa

Line No.		Adjusted Book Results	Adjustments	Rejoinder Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**					
2	Metered Water Revenues	$ 89,110	$ 83,560	$ 172,670	$ 312,361	$ 485,031
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	1,657	-	1,657		1,657
5		$ 90,768	$ 83,560	$ 174,328	$ 312,361	$ 486,689
6	**Operating Expenses**					
7	Salaries and Wages	$ -	-	$ -		$ -
8	Purchased Water	-	-	-		-
9	Purchased Power	36,292	-	36,292		36,292
10	Chemicals	0	-	0		0
11	Repairs and Maintenance	8,747	-	8,747		8,747
12	Office Supplies and Expense	4,292	-	4,292		4,292
13	Outside Services	12,428	-	12,428		12,428
14	Water Testing	2,446	-	2,446		2,446
15	Rents	-	-	-		-
16	Transportation Expenses	-	-	-		-
17	Insurance - General Liability	-	-	-		-
18	Insurance - Health and Life	-	-	-		-
19	Regulatory Commission Expense - Ra	12,500	-	12,500		12,500
20	Miscellaneous Expense	10,222	-	10,222		10,222
21	Depreciation Expense	73,799	24,852	98,651		98,651
22	Taxes Other Than Income	-	-	-		-
23	Property Taxes	5,813	6,222	12,035		12,035
24	Income Tax	-	-	-	-	-
25						
26	**Total Operating Expenses**	$ 166,539	$ 31,074	$ 197,613	$ -	$ 197,613
27	**Operating Income**	$ (75,772)	$ 52,486	$ (23,286)	$ 312,361	$ 289,075
28	**Other Income (Expense)**					
29	Interest Income	-		-		-
30	Other income	-		-		-
31	Interest Expense	-		-		-
32	Other Expense	-		-		-
33						
34	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -
35	**Net Profit (Loss)**	$ (75,772)	$ 52,486	$ (23,286)	$ 312,361	$ 289,075
36						
37						
38						
39	SUPPORTING SCHEDULES:					RECAP SCHEDULES:
40	Rejoinder C-1, Page 2					Rejoinder A-1
41	Rejoinder C-2					

Utility Source, L.L.C. - Water Division
Test Year Ended December 31, 2005
Income Statement

Exhibit
Rejoinder Schedule C-1
Page 2
Witness: Bourassa

Line No.		ADJUSTMENT LABEL->> Rebuttal Adjusted Results	1 Depreciation Expense	2 Property Taxes	3 Revenue Adjustment	4 Intentionally Left Blank	5 Intentionally Left Blank	6 Intentionally Left Blank	7 Intentionally Left Blank	Rejoinder Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**											
2	Metered Water Revenues	$ 89,110			$ 83,560					$ 172,670	$ 312,361	$ 485,031
3	Unmetered Water Revenues	-								-		-
4	Other Water Revenues	1,657								1,657		1,657
5		$ 90,768	$ -	$ -	$ 83,560	$ -	$ -	$ -	$ -	$ 174,328	$ 312,361	$ 486,689
6	***Operating Expenses***											
7	Salaries and Wages	$ -								$ -		$ -
8	Purchased Water	-								-		-
9	Purchased Power	36,292								36,292		36,292
10	Chemicals	0								0		0
11	Repairs and Maintenance	8,747								8,747		8,747
12	Office Supplies and Expense	4,292								4,292		4,292
13	Outside Services	12,428								12,428		12,428
14	Water Testing	2,446								2,446		2,446
15	Rents	-								-		-
16	Transportation Expenses	-								-		-
17	Insurance - General Liability	-								-		-
18	Insurance - Health and Life	-								-		-
19	Reg. Comm. Exp. - Rate Case	12,500								12,500		12,500
20	Miscellaneous Expense	10,222								10,222		10,222
21	Depreciation Expense	73,799	24,852							98,651		98,651
22	Taxes Other Than Income	-								-		-
23	Property Taxes	5,813		6,222						12,035		12,035
24	Income Tax	-								-		-
25	**Total Operating Expenses**	$ 166,539	$ 24,852	$ 6,222	$ -	$ -	$ -	$ -	$ -	$ 197,613	$ -	$ 197,613
26	**Operating Income**	$ (75,772)	$ (24,852)	$ (6,222)	$ 83,560	$ -	$ -	$ -	$ -	$ (23,286)	$ 312,361	$ 289,075
27	**Other Income (Expense)**											
28	Interest Income	-								-		-
29	Other income	-								-		-
30	Interest Expense	-								-		-
31	Other Expense	-								-		-
32												
33	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
34	**Net Profit (Loss)**	$ (75,772)	$ (24,852)	$ (6,222)	$ 83,560	$ -	$ -	$ -	$ -	$ (23,286)	$ 312,361	$ 289,075
35												
36	SUPPORTING SCHEDULES:											
37	Rejoinder C-2											

RECAP SCHEDULES:
Rejoinder A-1

Utility Source, L.L.C. - Water Division
Test Year Ended December 31, 2005
Adjustments to Revenues and Expenses

Exhibit
Rejoinder Schedule C-2
Page 1
Witness: Bourassa

Line No.		Adjustments to Revenues and Expenses						
		1	2	3	4	5	6	
		Depreciation Expense	Property Taxes	Proforma Revenue Adjustment	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Subtotal
3	Revenues			83,560				83,560
5	Expenses	24,852	6,222					31,074
7 8	Operating Income	(24,852)	(6,222)	83,560	-	-	-	52,486
10	Interest							-
11	Expense							-
12 13 14	Other Income / Expense							-
16	Net Income	(24,852)	(6,222)	83,560	-	-	-	52,486

Line No.		Adjustments to Revenues and Expenses						
		7	8	9	10	11	12	
		Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Subtotal
23	Revenues							83,560
25	Expenses							31,074
27 28	Operating Income	-	-	-	-	-	-	52,486
30	Interest							
31	Expense							-
32 33 34	Other Income / Expense							-
36	Net Income	-	-	-	-	-	-	52,486

Line No.		Adjustments to Revenues and Expenses						
		13	14	15	16	17	18	
		Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Total
43	Revenues							83,560
45	Expenses							31,074
47 48	Operating Income	-	-	-	-	-	-	52,486
50	Interest							
51	Expense							-
52 53 54	Other Income / Expense							-
56	Net Income	-	-	-	-	-	-	52,486

Utility Source, L.L.C. - Water Division
Test Year Ended December 31, 2005
Adjustments to Revenues and Expenses
Adjustment #1

Exhibit
Rejoinder Schedule C-2
Page 2
Witness: Bourassa

Line No.								
1	Depreciation Expense							
2								
3	Account		Direct Adjusted	From Rejoinder B-2 Adj. #1	Intentionally Left	Rejoinder Adjusted	Proposed	Depreciation
4	No.	Description	Original Cost	Plant	Blank	Original Cost	Rates	Expense
5	301	Organization Cost	-			-	0.00%	-
6	302	Franchise Cost	-			-	0.00%	-
7	303	Land and Land Rights	210,000			210,000	0.00%	-
8	304	Structures and Improvements	72,997			72,997	3.33%	2,431
9	305	Collecting and Impounding Res.	-			-	2.50%	-
10	306	Lake River and Other Intakes	-			-	2.50%	-
11	307	Wells and Springs	1,335,238	736,583		2,071,821	3.33%	68,992
12	308	Infiltration Galleries and Tunnels	-			-	6.67%	-
13	309	Supply Mains	-			-	2.00%	-
14	310	Power Generation Equipment	87,400			87,400	5.00%	4,370
15	311	Electric Pumping Equipment	158,711			158,711	12.50%	19,839
16	320	Water Treatment Equipment	5,487			5,487	3.33%	183
17	330	Distribution Reservoirs & Standpipe	321,452			321,452	2.22%	7,136
18	331	Transmission and Distribution Mains	147,200			147,200	2.00%	2,944
19	333	Services	86,250			86,250	3.33%	2,872
20	334	Meters	-			-	8.33%	-
21	335	Hydrants	34,500			34,500	2.00%	690
22	336	Backflow Prevention Devices	-			-	6.67%	-
23	339	Other Plant and Miscellaneous Equipment	-			-	6.67%	-
24	340	Office Furniture and Fixtures	-			-	6.67%	-
25	341	Transportation Equipment	-			-	20.00%	-
26	342	Stores Equipment	-			-	4.00%	-
27	343	Tools and Work Equipment	-			-	5.00%	-
28	344	Laboratory Equipment	-			-	10.00%	-
29	345	Power Operated Equipment	-			-	5.00%	-
30	346	Communications Equipment	-			-	10.00%	-
31	347	Miscellaneous Equipment	-			-	10.00%	-
32	348	Other Tangible Plant	-				10.00%	
33								
34		TOTALS	$ 2,459,235	$ 736,583	$ -	$ 3,195,818		$ 109,456
35								
63							Composite	
64	Less: Amortization of CIAC -Rebuttal Balance End of TY		$ 294,745			$ 294,745	3.666%	$ (10,805)
65						-		-
66			$ 294,745	$ -	$ -	$ 294,745		$ (10,805)
67								
68	Adjusted Test Year Depreciation Expense Rejoinder Filing							$ 98,651
69	Adjusted Test Year Depreciation Expense Rebuttal Filing							73,799
70								
71	Increase (decrease) in Depreciation Expense							$ 24,852
72								
73	Adjustment to Revenues and/or Expenses							$ 24,852

Utility Source, L.L.C. - Water Division
Test Year Ended December 31, 2005
Adjustment to Revenues and Expenses
Adjustment Number 2

Rejoinder Schedule C-2
Page 3
Witness: Bourassa

Line No.			
1	Adjust Property Taxes to Reflect Proposed Revenues:		
2			
3	Adjusted Revenues in year ended 12/31/2005	$	174,328
4	Adjusted Revenues in year ended 12/31/2005		174,328
5	Proposed Revenues		486,689
6	Average of three year's of revenue	$	278,448
7	Average of three year's of revenue, times 2	$	556,896
8	Add:		
9	Construction Work in Progess at 10%	$	-
10	Deduct:		
11	Book Value of Transportation Equipment		-
12			
13	Full Cash Value	$	556,896
14	Assessment Ratio		23.50%
15	Assessed Value		130,871
16	Property Tax Rate		8.9963%
17			
18	Property Tax		11,774
19	Tax on Parcels		261
20			
21	Total Property Tax at Proposed Rates Rejoinder	$	12,035
22	Property Taxes per Rebuttal Filing		5,813
23	Change in Property Taxes	$	6,222
24			
25			
26	Adjustment to Revenues and/or Expenses	$	6,222
27			
28			

Utility Source, L.L.C. - Water Division
Test Year Ended December 31, 2005
Adjustment to Revenues and Expense
Adjustment Number 3

Rejoinder Schedule C-2
Page 4
Witness: Bourassa

Line No.			
1	Proforma Revenues from Additional 350 Customers		
2			
3			
4	Proforma Revenues per Rejoinder Filing	$	83,560
5	Proforma Revenues per Rebuttal Filing		-
6			
7	Adjustment to Revenues and/or Expenses	$	83,560
8			
9			
10			
11			
12	SUPPORTING SCHEDULES		
13	Company Direct Schedule C-2, page 6, Adjustment # 5		
14			
15			
16			
17			
18			
19			
20			

Utility Source, L.L.C. - Water Division
Test Year Ended December 31, 2005
Computation of Gross Revenue Conversion Factor

Exhibit
Rejoinder Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	0.00%
2		
3	State Income Taxes	0.00%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	0.00%
9		
10	Operating Income % = 100% - Tax Percentage	100.00%
11		
12		
13		
14		
15	1 = Gross Revenue Conversion Factor	
16	Operating Income %	1.0000
17		
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
19		Rejoinder A-1
20		

Utility Source, L.L.C. - Water Division
Test Year Ended December 31, 2005
Summary of Cost of Capital

Exhibit
Rejoinder Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	End of Test Year Dollar Amount	End of Test Year Percent of Total	End of Test Year (e) Cost Rate	End of Test Year Weighted Cost	Adjusted End of Test Year Dollar Amount	Adjusted End of Test Year Percent of Total	Adjusted End of Test Year (e) Cost Rate	Adjusted End of Test Year Weighted Cost
1	Long-Term Debt	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	N/A
2									
3	Stockholder's Equity	3,383,299	100.00%	10.50%	10.50%	3,672,374	100.00%	10.50%	N/A
4									
5	Totals	3,383,299	100.00%		10.50%	3,672,374	100.00%		0.00%
6									
7									
8									
9									
10									
11	SUPPORTING SCHEDULES:								
12	Rejoinder D-2								
13									
14									
15									
16									
17									
18									
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									
31									

RECAP SCHEDULES:

Utility Source, L.L.C. - Water Division
Test Year Ended August 31, 2005
Cost of Long Term Debt

Exhibit
Rejoinder Schedule D-2
Page 1
Witness: Bourassa

Line No.	Description of Debt	End of Test Year Amount Outstanding	End of Test Year Annual Interest	End of Test Year Interest Rate	End of Test Year Weighted Cost	End of Projected Year Amount Outstanding	End of Projected Year Annual Interest	End of Projected Year Interest Rate	End of Projected Year Weighted Cost
1									
2									
3									
4									
5									
6									
7									
8									
9									
10									
11									
12									
13	Totals	$ -	-		0.00%	$ -	-		0.00%
14									
15	Supporting Schdules:								
16	E-2								
17									
18									
19									
20									
21									
22									
23									

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Revenue Summary

Exhibit
Rejoinder Schedule H-1
Page 1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1							
2	3/4 Inch Meter - Residential	76,792	214,653	137,861	179.52%	44.03%	44.10%
3	1 Inch Meter	2,397	7,956	5,559	231.94%	1.37%	1.63%
4	1.5 Inch Meter Commercial	3,868	12,874	9,006	232.83%	2.22%	2.65%
5	2 Inch Meter Commercial						
6		1,657	1,657	-	0.00%	0.95%	0.34%
7	Miscellaneous Revenues	$ 84,715	$ 237,141	$ 152,426	179.93%	48.58%	48.72%
8	Total Water Revenues						
9	3/4 Inch customer revenue						
10	annualized to end of year, based on						
11	year end number of customers	$ 6,121	$ 16,854	$ 10,734	175.36%	3.51%	3.46%
12	Proforma Revenues	$ 83,560	$ 232,706	$ 149,146	178.49%	47.91%	47.81%
13	Total Water Revenues, after correction for						
14	Billing to hundreds of Gallons	$ 174,395	$ 486,701	$ 312,305	355.28%	52.09%	52.19%
15							
16							
17							
18							
19	Total Water Revenues without Revenue						
20	Annualization and Proforma Revenues	$ 84,715					
21	Water Revenues Per General Ledger	$ 84,647					
22	Difference	$68					
23							
24	Percentage Error	-0.08%					
25							
26							

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Analysis of Revenue by Detailed Class
Rates

Exhibit
Rejoinder Schedule H-2
Page 1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Average Number of Customers at 12/31/2005	Average Consumption	Revenues Present Rates	Revenues Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1							
2	3/4 Inch Meter - Residential	307	4,740	$ 76,792	$ 214,653	$ 137,861	178.49%
3	1 Inch Meter	-	-	$ -	$ -	$ -	0.00%
4	1.5 Inch Meter Commercial	1	64,470	$ 2,397	$ 7,956	$ 5,559	231.94%
5	2 Inch Meter Commercial	1	103,821	$ 3,868	$ 12,874	$ 9,006	232.83%
6	3/4 Inch Meter - Residential Revenue Annualization	307	4,740	$ 6,121	$ 16,854	$ 10,734	175.36%
7							
8							

Exhibit
Rejoinder Schedule H-3
Page 1
Witness: Bourassa

Utility Source, LLC - Water Division
Changes in Representative Rates
Test Year Ended December 31, 2005

Line No.	Customer Classification and Meter Size	Present Rates	Proposed Rates	Percent Change	Meter Flow Ratios 5/8 Inch Meter	Meter Flow Ratios 3/4 Inch Meter
1	**Monthly Usage Charge for:**					
2	Residential,Commercial, Irrigation, Resale and Miscellaneous Customers					
3	5/8 x 3/4 Inch	N/A	$ 24.39		1	N/A
4	3/4 Inch	6.48	24.39	276.40%	1.5	1.00
5	1 Inch	8.02	60.98	660.31%	2.5	1.67
6	1 1/2 Inch	9.62	121.95	1167.71%	5	3.33
7	2 Inch	14.00	195.13	1293.76%	8	5.33
8	3 Inch	N/A	390.25		16	10.67
9	4 Inch	58.00	609.77	951.32%	25	16.67
10	6 Inch	89.80	1,219.54	1258.06%	50	33.33
11	Construction, Bulk, Standpipe	-	-	0.00%		
12						
13	Gallons In Minimum					
14	All Meter Sizes	-	-			

		Present Rates				Proposed Rates			
			From Gallons		To Gallons	Charge per 1,000 gal	From Gallons	To Gallons	Charge per 1,000 gal
19	**Residential (all meter sizes)**						See Page 2 for Proposed Rates		
20	Tier 1		-	Up to	5,000	$ 2.83			
21	Tier 2	From	5,001	Up to	15,000	$ 3.32			
22	Tier 3	Over	15,000			$ 4.71			
23									
24	**Muti-Family, Mobile Home, Commercial**						See Page 2 for Proposed Rates		
25			All gallons			$ 2.97			
26									
27									
28	**Irrigation**						See Page 2 for Proposed Rates		
29			All gallons			N/A			
30									
31	**Standpipe**								
32			All gallons			$ 6.00	All gallons		$ 8.13
33									
34	**Construction Water**								
35			All gallons			$ 6.00	All gallons		$ 8.13
36									
37									
38									
39									
40									

Utility Source, LLC - Water Division
Changes in Representative Rates
Test Year Ended December 31, 2005

Exhibit
Rejoinder Schedule H-3
Page 2
Witness: Bourassa

Line No.		Proposed Rates From Gallons		To Gallons		Charge per 1,000 gal
1						
2						
3	**Residential, Commercial, Irrigation**					
4						
5	Meter Size					
6		-	Up to	4,000	$	6.25
7	5/8 Inch and 3/4 Inch	4,001	Up to	12,000	$	8.13
8			Over		$	10.56
9						
10						
11	1 Inch	-	Up to	30,000	$	8.13
12			Over	30,000	$	10.56
13						
14						
15	1 1/2 Inch	-	Up to	60,000	$	8.13
16			Over	60,000	$	10.56
17						
18						
19	2 Inch	-	Up to	96,000	$	8.13
20			Over	96,000	$	10.56
21						
22						
23	3 Inch	-	Up to	192,000	$	8.13
24			Over	192,000	$	10.56
25						
26						
27	4 Inch	-	Up to	300,000	$	8.13
28			Over	300,000	$	10.56
29						
30						
31	6 Inch	-	Up to	600,000	$	8.13
32			Over	600,000	$	10.56
33						
34						
35						
36						
37						
38						
39						
40						

Utility Source, LLC - Water Division
Changes in Representative Rates
Test Year Ended December 31, 2005

Exhibit
Rejoinder Schedule H-3
Page 3
Witness: Bourassa

Line No.			
1			
2	**Meter and Service Line Installation Charges**		
3		Present	Proposed
4	Meter Size	Rates	Rates
5	5/8 x 3/4 Inch	N/A	$520.00
6	3/4 Inch	$575.00	$575.00
7	1 Inch	$660.00	$660.00
8	1 1/2 Inch	$900.00	$900.00
9	2 Inch Turbo	$1,525.00	$1,525.00
10	2 Inch Compound		$2,320.00
11	3 Inch Turbo		$2,275.00
12	3 Inch Compound		$3,110.00
13	4 Inch Turbo	$3,360.00	$3,360.00
14	4 Inch Compound		$4,475.00
15	6 Inch Turbo	$6,035.00	$6,035.00
16	6 Inch Compound		$8,050.00
17			
18			
19			
20			
21			
22			
23			
24			
25			
26			
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41			

Exhibit
Rejoinder Schedule H-3
Page 4
Witness: Bourassa

Utility Source, LLC - Water Division
Changes in Representative Rate Schedules
Test Year Ended December 31, 2005

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment, per Rule R14-2-403D	$ 20.00	$ 20.00
2	Establishment (After Hours)	$ 40.00	$ 40.00
3	Re-establishment, Per Rule R14-2-403D (a)	$ 30.00	$ 30.00
4	Reconnection , per Rule R14-2-403D	$ 50.00	$ 50.00
5	Reconnection (After Hours)	$ 40.00	$ 40.00
6	Charge for Moving Meter	Cost	Cost
7	Minimum Deposit Requirement, per Rule R14-2-403B	(b)	(b)
8	Meter test, if correct per Rule R14-2-408F	N/A	N/A
9	Meter Re-Read per Rule R14-2-408C	$ 10.00	$ 10.00
10	NSF Check, per Rule R14-2-409F	$ 20.00	$ 20.00
11	Deferred Finance Charge, per month per Rule R14-2-403B	1.50%	1.50%
12	Late Payment Charge, per month	1.50%	1.50%
13	Service Calls, per hour (e)	40.00	$ 40.00
14	Meter Advances	See Page 2	See Page 2
15	Main Extension, per Rule R14-2-406B	Cost	Cost
16			
17			
18			
19			
20			$ -
21			
22			
23			
24			
25			
26			
27			

28 (a) Same customer, same location within 12 months. Number of months off the system times the monthly minimum.
29 (b) The Company does not normally require a deposit prior to provision of service. However, if service is not in the property owner's name, this deposit is required.
30 Also, in the event service is disconnected for non-payment, this deposit may be required.
31 Residential - 2 times the estimated average monthly bill
32 Non-residential - 2 1/2 times the estimated maximum monthly bill.
33 Deposit interest 3.0%
34
35
36
37 TAXES AND ASSESSMENTS
38 In addition to all other rates and charges authorized herein, the Company shall collect from its customers all applicable sales, transaction, privilege,
39 regulatory or other taxes and assessments as may apply now or in the future, per Rule R14-2-608(D)(5).
40
41
42
43
44
45
46

Utility Source, LLC - Water Division
Bill Comparison at Present and Proposed Rates
Customer Classification: 3/4 Inch Meters

Exhibit
Rejoinder Schedule H-4
Page 1
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 6.48	$ 24.39	$ 17.91	276.40%
1,000	9.31	30.64	21.33	229.12%
2,000	12.14	36.89	24.75	203.88%
3,000	14.97	43.14	28.17	188.18%
4,000	17.80	49.39	31.59	177.48%
5,000	20.63	57.52	36.89	178.80%
6,000	23.95	65.64	41.69	174.07%
7,000	27.27	73.77	46.50	170.50%
8,000	30.59	81.89	51.30	167.70%
9,000	33.91	90.02	56.11	165.45%
10,000	37.23	98.14	60.91	163.61%
12,000	43.87	114.39	70.52	160.75%
14,000	50.51	135.52	85.01	168.29%
16,000	58.54	156.64	98.10	167.58%
18,000	67.96	177.77	109.81	161.57%
20,000	77.38	198.89	121.51	157.03%
25,000	100.93	251.70	150.77	149.38%
30,000	124.48	304.52	180.04	144.63%
35,000	148.03	357.33	209.30	141.39%
40,000	171.58	410.14	238.56	139.04%
45,000	195.13	462.95	267.82	137.25%
50,000	218.68	515.77	297.09	135.85%
60,000	265.78	621.39	355.61	133.80%
70,000	312.88	727.02	414.14	132.36%
80,000	359.98	832.64	472.66	131.30%
90,000	407.08	938.27	531.19	130.49%
100,000	454.18	1,043.89	589.71	129.84%
Average Usage				
4,740	$ 19.90	$ 55.41	$ 35.51	178.49%
Median Usage				
4,500	$ 19.22	$ 53.45	$ 34.24	178.18%

Present Rates:

Monthly Minimum:		$ 6.48
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	5,000	$ 2.83
Over	15,000	$ 3.32
		$ 4.71

Proposed Rates:

Monthly Minimum:		$ 24.39
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	4,000	$ 6.25
Up to	12,000	$ 8.13
Over		$ 10.56

Utility Source, LLC - Water Division
Bill Comparison at Present and Proposed Rates
Customer Classification 1 1/2 Inch Meters

Exhibit
Rejoinder Schedule H-4
Page 2
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 9.62	$ 121.95	$ 112.33	1167.71%
1,000	12.59	130.08	117.49	933.19%
2,000	15.56	138.20	122.64	788.20%
3,000	18.53	146.33	127.80	689.68%
4,000	21.50	154.45	132.95	618.39%
5,000	24.47	162.58	138.11	564.40%
6,000	27.44	170.70	143.26	522.10%
7,000	30.41	178.83	148.42	488.06%
8,000	33.38	186.95	153.57	460.08%
9,000	36.35	195.08	158.73	436.67%
10,000	39.32	203.20	163.88	416.79%
12,000	45.26	219.45	174.19	384.87%
14,000	51.20	235.70	184.50	360.36%
16,000	57.14	251.95	194.81	340.94%
18,000	63.08	268.20	205.12	325.18%
20,000	69.02	284.45	215.43	312.13%
25,000	83.87	325.08	241.21	287.60%
30,000	98.72	365.70	266.98	270.45%
35,000	113.57	406.33	292.76	257.78%
40,000	128.42	446.95	318.53	248.04%
45,000	143.27	487.58	344.31	240.32%
50,000	158.12	528.20	370.08	234.05%
60,000	187.82	609.45	421.63	224.49%
70,000	217.52	715.08	497.56	228.74%
80,000	247.22	820.70	573.48	231.97%
90,000	276.92	926.33	649.41	234.51%
100,000	306.62	1,031.95	725.33	236.56%
Average Usage				
64,470	201.10	656.67	455.57	226.54%
Median Usage				
60,000	187.82	609.45	421.63	224.49%

Present Rates:

Monthly Minimum:		$ 9.62
Gallons in Minimum		-
Charge Per 1,000 Gallons		
All gals		$ 2.97

Proposed Rates:

Monthly Minimum:		$ 121.95
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	60,000	$ 8.13
Over	60,000	$ 10.56

Utility Source, LLC - Water Division
Bill Comparison at Present and Proposed Rates
Customer Classification: 2 Inch Meters - Commercial

Exhibit
Rejoinder Schedule H-4
Page 3
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 14.00	$ 195.13	$ 181.13	1293.76%
1,000	16.97	203.25	186.28	1097.71%
2,000	19.94	211.38	191.44	960.06%
3,000	22.91	219.50	196.59	858.10%
4,000	25.88	227.63	201.75	779.54%
5,000	28.85	235.75	206.90	717.16%
6,000	31.82	243.88	212.06	666.42%
7,000	34.79	252.00	217.21	624.35%
8,000	37.76	260.13	222.37	588.89%
9,000	40.73	268.25	227.52	558.61%
10,000	43.70	276.38	232.68	532.44%
12,000	49.64	292.63	242.99	489.50%
14,000	55.58	308.88	253.30	455.73%
16,000	61.52	325.13	263.61	428.49%
18,000	67.46	341.38	273.92	406.04%
20,000	73.40	357.63	284.23	387.23%
25,000	88.25	398.25	310.00	351.28%
30,000	103.10	438.88	335.78	325.68%
35,000	117.95	479.50	361.55	306.53%
40,000	132.80	520.13	387.33	291.66%
45,000	147.65	560.75	413.10	279.78%
50,000	162.50	601.38	438.88	270.08%
60,000	192.20	682.63	490.43	255.16%
70,000	221.90	763.88	541.98	244.24%
80,000	251.60	845.13	593.53	235.90%
90,000	281.30	926.38	645.08	229.32%
100,000	311.00	1,017.38	706.38	227.13%
Average Usage				
103,821	322.35	1,057.73	735.38	228.13%
Median Usage				
100,901	313.68	1,026.89	713.22	227.37%

Present Rates:

Monthly Minimum:		$ 14.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
All gals		$ 2.97

Proposed Rates:

Monthly Minimum:		$ 195.13
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	96,000	$ 8.13
Over	96,000	$ 10.56

Utility Source, L.L.C. - Water Division
Test Year Ended December 31, 2005
Projected Revenues and Expense and Return on Rate Base Using Company Proposed rates

Line No.		Adjusted Test Year at Present Rates[1]	Adjusted Test Year at Proposed Rates[1]	Projected Year 1	Projected Year 2	Projected Year 3
6	Customer Growth			50	50	50
8	Cummulative Additional Customers			50	100	150
10	Effective Customer Growth 1/2 year			25	75	125
12	Revenues[2]	$ 90,768	$ 252,805	$ 270,426	$ 304,670	$ 338,914
14	Operating Expenses	$ 197,613	$ 197,613	$ 197,613	$ 197,613	$ 197,613
16	Operating Income	$ (106,845)	$ 55,192	$ 72,813	$ 107,057	$ 141,301
18	Operating Margin	-117.71%	21.83%	26.93%	35.14%	41.69%
20	Rate Base	$ 2,753,096	$ 2,753,096	$ 2,753,096	$ 2,753,096	$ 2,753,096
22	Return on Rate Base	-3.88%	2.00%	2.64%	3.89%	5.13%

[1] Excludes pro-forma revenues from customer growth.
[2] Half-year convention used for projected customer growth and revenues. Based on average bill for 3/4 inch customer

Utility Source, L.L.C. - Water Division
Test Year Ended December 31, 2005
Projected Revenues and Expense and Return on Rate Base Using Company Proposed rates

Line No.		Adjusted Test Year at Present Rates[1]	Adjusted Test Year at Proposed Rates[1]	Projected Year 1	Projected Year 2	Projected Year 3
6	Customer Growth			100	100	100
8	Cummulative Additional Customers			100	200	300
10	Effective Customer Growth 1/2 year			50	150	250
12	Revenues[2]	$ 90,768	$ 252,805	$ 288,048	$ 356,536	$ 425,023
14	Operating Expenses	$ 197,613	$ 197,613	$ 197,613	$ 197,613	$ 197,613
16	Operating Income	$ (106,845)	$ 55,192	$ 90,435	$ 158,923	$ 227,410
18	Operating Margin	-117.71%	21.83%	31.40%	44.57%	53.51%
20	Rate Base	$ 2,753,096	$ 2,753,096	$ 2,753,096	$ 2,753,096	$ 2,753,096
22	Return on Rate Base	-3.88%	2.00%	3.28%	5.77%	8.26%

[1] Excludes pro-forma revenues from customer growth.
[2] Half-year convention used for projected customer growth and revenues. Based on average bill for 3/4 inch customer

Utility Source, L.L.C. - Water Division
Test Year Ended December 31, 2005
Projected Revenues and Expense and Return on Rate Base Using Staff Proposed Rates at 6.23 ROR

Line No.		Adjusted Test Year at Present Rates[1]	Adjusted Test Year at Proposed Rates[1]	Projected Year 1	Projected Year 2	Projected Year 3
6	Customer Growth			50	50	50
8	Cummulative Additional Customers			50	100	150
10	Effective Customer Growth 1/2 year			25	75	125
12	Revenues[2]	$ 90,768	$ 186,411	$ 200,311	$ 227,112	$ 253,912
14	Operating Expenses	$ 195,549	$ 195,549	$ 195,549	$ 195,549	$ 195,549
16	Operating Income	$ (104,781)	$ (9,138)	$ 4,762	$ 31,563	$ 58,363
18	Operating Margin	-115.44%	-4.90%	2.38%	13.90%	22.99%
20	Rate Base	$ 2,753,096	$ 2,753,096	$ 2,753,096	$ 2,753,096	$ 2,753,096
22	Return on Rate Base	-3.81%	-0.33%	0.17%	1.15%	2.12%

[1] Excludes pro-forma revenues from customer growth.
[2] Half-year convention used for projected customer growth and revenues. Based on average bill for 3/4 inch metered customer.

Utility Source, L.L.C. - Water Division
Test Year Ended December 31, 2005
Projected Revenues and Expense and Return on Rate Base Using Staff Proposed Rates at 6.23 ROR

Line No.		Adjusted Test Year at Present Rates[1]	Adjusted Test Year at Proposed Rates[1]	Projected Year 1	Projected Year 2	Projected Year 3
6	Customer Growth			100	100	100
8	Cummulative Additional Customers			100	200	300
10	Effective Customer Growth 1/2 year			50	150	250
12	Revenues[2]	$ 90,768	$ 186,411	$ 214,212	$ 267,813	$ 321,414
14	Operating Expenses	$ 195,186	$ 195,549	$ 195,186	$ 195,186	$ 195,186
16	Operating Income	$ (104,418)	$ (9,138)	$ 19,026	$ 72,627	$ 126,228
18	Operating Margin	-115.04%	-4.90%	8.88%	27.12%	39.27%
20	Rate Base	$ 2,753,096	$ 2,753,096	$ 2,753,096	$ 2,753,096	$ 2,753,096
22	Return on Rate Base	-3.79%	-0.33%	0.69%	2.64%	4.58%

[1] Excludes pro-forma revenues from customer growth.
[2] Half-year convention used for projected customer growth and revenues. Based on average bill for 3/4 inch metered customer.

Utility Source, L.L.C. - Sewer Division
Test Year Ended December 31, 2005
Projected Revenues and Expense and Return on Rate Base Using Company Proposed rates

Line No.		Adjusted Test Year at Present Rates[1]	Adjusted Test Year at Proposed Rates[1]	Projected Year 1	Projected Year 2	Projected Year 3
6	Customer Growth			50	50	50
8	Cummulative Additional Customers			50	100	150
10	Effective Customer Growth 1/2 year			25	75	125
12	Revenues[2]	$ 59,552	$ 131,591	$ 141,303	$ 158,727	$ 176,151
14	Operating Expenses	$ 136,864	$ 136,864	$ 136,864	$ 136,864	$ 136,864
16	Operating Income	$ (77,312)	$ (5,273)	$ 4,439	$ 21,863	$ 39,287
18	Operating Margin	-129.82%	-4.01%	3.14%	13.77%	22.30%
20	Rate Base	$ 1,111,382	$ 1,111,382	$ 1,111,382	$ 1,111,382	$ 1,111,382
22	Return on Rate Base	-6.96%	-0.47%	0.40%	1.97%	3.53%

[1] Excludes pro-forma revenues from customer growth.
[2] Half-year convention used for projected customer growth and revenues. Based on average bill for 3/4 inch customer

Utility Source, L.L.C. - Sewer Division
Test Year Ended December 31, 2005
Projected Revenues and Expense and Return on Rate Base Using Company Proposed rates

Line No.		Adjusted Test Year at Present Rates[1]	Adjusted Test Year at Proposed Rates[1]	Projected Year 1	Projected Year 2	Projected Year 3
6	Customer Growth			100	100	100
8	Cummulative Additional Customers			100	200	300
10	Effective Customer Growth 1/2 year			50	150	250
12	Revenues[2]	$ 59,552	$ 131,591	$ 151,015	$ 185,863	$ 220,711
14	Operating Expenses	$ 136,864	$ 136,864	$ 136,864	$ 136,864	$ 136,864
16	Operating Income	$ (77,312)	$ (5,273)	$ 14,151	$ 48,999	$ 83,847
18	Operating Margin	-129.82%	-4.01%	9.37%	26.36%	37.99%
20	Rate Base	$ 1,111,382	$ 1,111,382	$ 1,111,382	$ 1,111,382	$ 1,111,382
22	Return on Rate Base	-6.96%	-0.47%	1.27%	4.41%	7.54%

[1] Excludes pro-forma revenues from customer growth.
[2] Half-year convention used for projected customer growth and revenues. Based on average bill for 3/4 inch customer

Utility Source, L.L.C. - Sewer Division
Test Year Ended December 31, 2005
Projected Revenues and Expense and Return on Rate Base Using Staff Proposed Rates at 8.9 ROR

Line No.		Adjusted Test Year at Present Rates[1]	Adjusted Test Year at Proposed Rates[1]	Projected Year 1	Projected Year 2	Projected Year 3
6	Customer Growth			50	50	50
8	Cummulative Additional Customers			50	100	150
10	Effective Customer Growth 1/2 year			25	75	125
12	Revenues[2]	$ 59,552	$ 119,156	$ 128,463	$ 145,077	$ 161,691
14	Operating Expenses	$ 136,348	$ 136,348	$ 136,348	$ 136,348	$ 136,348
16	Operating Income	$ (76,796)	$ (17,192)	$ (7,885)	$ 8,729	$ 25,343
18	Operating Margin	-128.96%	-14.43%	-6.14%	6.02%	15.67%
20	Rate Base	$ 1,111,382	$ 1,111,382	$ 1,111,382	$ 1,111,382	$ 1,111,382
22	Return on Rate Base	-6.91%	-1.55%	-0.71%	0.79%	2.28%

[1] Excludes pro-forma revenues from customer growth.
[2] Half-year convention used for projected customer growth and revenues. Based on average bill for 3/4 inch customer

Utility Source, L.L.C. - Water Division
Test Year Ended December 31, 2005
Projected Revenues and Expense and Return on Rate Base Using Staff Proposed Rates at 8.9 ROR

Line No.		Adjusted Test Year at Present Rates[1]	Adjusted Test Year at Proposed Rates[1]	Projected Year 1	Projected Year 2	Projected Year 3
6	Customer Growth			50	50	50
8	Cummulative Additional Customers			50	100	150
10	Effective Customer Growth 1/2 year			25	75	125
12	Revenues[2]	$ 90,768	$ 229,539	$ 245,587	$ 275,683	$ 305,779
14	Operating Expenses	$ 195,549	$ 195,549	$ 195,549	$ 195,549	$ 195,549
16	Operating Income	$ (104,781)	$ 33,990	$ 50,038	$ 80,134	$ 110,230
18	Operating Margin	-115.44%	14.81%	20.37%	29.07%	36.05%
20	Rate Base	$ 2,753,096	$ 2,753,096	$ 2,753,096	$ 2,753,096	$ 2,753,096
22	Return on Rate Base	-3.81%	1.23%	1.82%	2.91%	4.00%

[1] Excludes pro-forma revenues from customer growth.
[2] Half-year convention used for projected customer growth and revenues. Based on average bill for 3/4 inch metered customer.

Utility Source, L.L.C. - Sewer Division
Test Year Ended December 31, 2005
Projected Revenues and Expense and Return on Rate Base Using Staff Proposed Rates at 8.9 ROR

Line No.		Adjusted Test Year at Present Rates[1]	Adjusted Test Year at Proposed Rates[1]	Projected Year 1	Projected Year 2	Projected Year 3
6	Customer Growth			100	100	100
8	Cummulative Additional Customers			100	200	300
10	Effective Customer Growth 1/2 year			50	150	250
12	Revenues[2]	$ 59,552	$ 119,156	$ 137,770	$ 170,998	$ 204,226
14	Operating Expenses	$ 136,346	$ 136,346	$ 136,346	$ 136,346	$ 136,346
16	Operating Income	$ (76,794)	$ (17,190)	$ 1,424	$ 34,652	$ 67,880
18	Operating Margin	-128.95%	-14.43%	1.03%	20.26%	33.24%
20	Rate Base	$ 1,111,382	$ 1,111,382	$ 1,111,382	$ 1,111,382	$ 1,111,382
22	Return on Rate Base	-6.91%	-1.55%	0.13%	3.12%	6.11%

[1] Excludes pro-forma revenues from customer growth.
[2] Half-year convention used for projected customer growth and revenues. Based on average bill for 3/4 inch customer

Utility Source, L.L.C. - Water Division
Test Year Ended December 31, 2005
Projected Revenues and Expense and Return on Rate Base Using Staff Proposed Rates at 8.9 ROR

Line No.		Adjusted Test Year at Present Rates[1]	Adjusted Test Year at Proposed Rates[1]	Projected Year 1	Projected Year 2	Projected Year 3
6	Customer Growth			100	100	100
8	Cummulative Additional Customers			100	200	300
10	Effective Customer Growth 1/2 year			50	150	250
12	Revenues[2]	$ 90,768	$ 229,539	$ 261,635	$ 321,827	$ 382,019
14	Operating Expenses	$ 195,549	$ 195,549	$ 195,549	$ 195,549	$ 195,549
16	Operating Income	$ (104,781)	$ 33,990	$ 66,086	$ 126,278	$ 186,470
18	Operating Margin	-115.44%	14.81%	25.26%	39.24%	48.81%
20	Rate Base	$ 2,753,096	$ 2,753,096	$ 2,753,096	$ 2,753,096	$ 2,753,096
22	Return on Rate Base	-3.81%	1.23%	2.40%	4.59%	6.77%

[1] Excludes pro-forma revenues from customer growth.
[2] Half-year convention used for projected customer growth and revenues. Based on average bill for 3/4 inch metered customer.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C. – SEWER DIVISION, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: WS-04235A-06-0303

REJOINDER TESTIMONY OF

THOMAS J. BOURASSA

WATER DIVISION

I. INTRODUCTION AND QUALIFICATIONS.

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive, Phoenix, Arizona 85029.

Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT AND REBUTTAL TESTIMONY IN THE INSTANT CASE?

A. Yes, my direct and rebuttal testimony was submitted in support of the initial application in this docket by Utility Source, L.L.C. – Sewer Division ("USLLC" or "Company").

Q. WHAT IS THE PURPOSE OF THIS REJOINDER TESTIMONY?

A. I will provide rejoinder testimony in response to the surrebuttal filings by Arizona Corporation Commission Utilities Division Staff ("Staff") and the Ponderosa Fire District ("District") with respect to rate base, revenues and expenses, and rate design. My rejoinder testimony on the cost of capital can be found under separate cover.

Q. WHAT IS THE REVENUE INCREASE THAT THE COMPANY IS PROPOSING IN THIS REJOINDER TESTIMONY?

A. The Company is proposing a total revenue requirement of $253,559, which constitutes an increase in revenues of $139,654, or 122.61 percent over adjusted test year revenues.

Q. HOW DOES THIS COMPARE WITH THE COMPANY'S REBUTTAL FILING?

A. In the rebuttal filing, the Company requested a total revenue requirement of $283,384, an increase in revenues of $169,479, or 148.79 percent.

Q. WHY IS THE REQUESTED RATE INCREASE LOWER IN THE COMPANY'S REJOINDER FILING?

A. The Company's rebuttal filing reflects the adoption of Staff's recommendation to remove additional plant-in-service totaling $216,389. Original Cost Rate Base ("OCRB") and Fair Value Rate Base ("FVRB") are decreased by $202,711 from the rebuttal filing. The adjusted test year level of operating expense has been reduced by $8,591 compared to the Company's rebuttal adjusted test year levels primarily as a result of a decrease to depreciation expense and property taxes.

Q. HAS THE COMPANY PROPOSED TO INCREASE OPERATING EXPENSES TO REFLECT THE BILLING AND CUSTOMER SERVICE COSTS ASSOCIATED WITH THE ADDITONAL 350 CUSTOMERS?

A. No, and as a result operating expenses are to some extent understated.

Q. PLEASE SUMMARIZE THE PROPOSED REVENUE REQUIREMENTS AND RATE INCREASES FOR THE COMPANY AND STAFF AT THIS STAGE OF THE PROCEEDING?

A. The proposed revenue requirements and proposed rate increases are as follows:

	Revenue Requirement	Revenue Incr.	% Increase
Company Direct	$301,124	$187,220	164.37%
Staff Direct	$224,908	$111,003	97.45%
Company Rebuttal	$283,384	$169,479	148.79%
Staff Surrebuttal	$235,454	$121,549	106.71%
Company Rejoinder	$253,559	$139,654	122.61%

Q. WHY IS STAFF'S REVENUE REQUIREMENT AND REVENUE INCREASE LOWER RELATIVE TO USLLC?

A. The difference in the revenue requirement between Staff and the Company of $18,105 is primarily due to a difference in each of the party's recommended return. Staff is recommending an 8.9 percent return. *See* Michlik SB at 8. The Company continues to recommend a return of 10.5 percent.

Q. DO YOU AGREE THAT THE REQUESTED RATE INCREASE IS LARGE?

A. Yes. However, the actual expenses and plant investment (rate base) support the large increase and the Company should be afforded the ability to recover its operating expenses as well as a return on and of that investment. Stated another way, which I believe is accurate, the existing rates were initially set too low. Again, and I must emphasize, the Company has made an extraordinary proposal to include revenues from potential future customer growth which may not materialize for several years in order to help minimize the impact. As I will discuss later in my testimony, the Company will not earn the return authorized in the instant case for several years – at best.

Q. IN THE COMPANY'S PRIOR CASE, DIDN'T STAFF RECOMMEND MUCH HIGHER RATES THAN WERE APPROVED?

A. Yes. While not being directly relevant to the instant case, Staff's analysis in the prior case did recognize that higher 'initial' rates were warranted. Based on the information at the time, Staff recommended rates which were much higher than those approved. The flat monthly charge Staff recommended for a residential customer was $40.64. The 'initial' rates recommended by Staff in the prior case are not that different than the Company's recommendations in the instant case. Under the Company's proposed rates, the average bill for a residential customer will be $31.96. It is not surprising that higher rates are being recommended by the Company in the instant case. The CC&N application schedules and including plant costs (actual and projected) and customer growth in the prior case demonstrated track to the actual expenses and plant investment in the instant case - especially considering the inclusion of the pro-forma customer growth. Putting this aside, the Company's recommendations are based on actual expenses and rate base – which

was the stated objective of the Commission in the prior case. (See Decision 67446, January 4, 2005)

Q. DOES THE COMPANY CONTINUE TO INCLUDE PRO-FORMA REVENUES FROM POTENTIAL FUTURE GROWTH OF 350 CUSTOMERS IN REVENUES?

A. Yes. As you will recall, the company increase test year revenues by $54,353 for pro-forma revenues from future customer growth. The portion of the revenue requirement from pro-forma revenues at proposed rates is $121,968, which is approximately 48 percent of the proposed revenue requirement. Because of this, the impact to existing rate payers is significantly reduced.

Q. PLEASE QUANTIFY THE REDUCTION IN THE IMPACT TO RATE PAYERS BY THE INCLUSION OF THE PRO-FORMA REVENUES?

A. Without the inclusion of pro-forma revenues, the required rate increase to achieve the revenue requirement would be approximately $193,000. This would constitute a rate increase of approximately 325 percent. By inclusion of the pro-form revenues, the rate increase dropped to approximately 123 percent – a 62 percent reduction from the required increase without the pro-forma revenues. The Company has shifted a significant portion of the rate payer impact to potential future customer growth. In fact, the pro-forma revenues from growth make up nearly 87 percent of the requested rate increase.

Q. PLEASE EXPLAIN.

A. As you will recall, under the Company's proposed rates, the pro-forma revenues total approximately $122,000 while the requested rate increase is approximately $140,000. Dividing $122,000 by $140,000 yields approximately 87 percent. It should be noted that the potential customer growth may not materialize for several years and, in the instant case, the Company will not even realize the return

authorized by the Commission until such time as that growth may materialize. It is not news the housing market has experienced a significant slow down in the past year or so and is not expected to recover until the 2nd half of 2008 at the earliest.

Q. HOW MUCH CUSTOMER GROWTH OCCURRED IN 2006?

A. Zero.

Q. WITHOUT THE REVENUES FROM POTENTIAL FUTURE CUSTOMER GROWTH, WHAT IS THE RETURN ON RATE BASE UNDER THE COMPANY'S PROPOSED RATES AND STAFF'S PROPOSED RATES?

A. Under the Company's proposed rates the return is approximately a negative 0.47 percent and under Staff's proposed rates the return is approximately negative 1.6 percent.

Q. WHAT WOULD BE THE PROJECTED ACTUAL RETURNS FOR THE NEXT THREE YEARS ASSUMING ANNUAL GROWTH OF 50 CUSTOMERS AND ASSUMING ANNUAL GROWTH OF 100 CUSTOMERS?

A. I have prepared an exhibit to illustrate the projected returns for the sewer division. *See* Rejoinder Exhibit 1, pages 5 and 6. Assuming an annual growth of 50 customers the projected actual return for projected years 1, 2, and 3 are 0.40 percent, 1.97 percent, and 3.53 percent, respectively. Assuming an annual growth of 100 customers the projected actual return for projected years 1, 2, and 3 are 1.27 percent, 4.41 percent, and 7.54 percent, respectively. *Id.* These projections assume no increases in operating expenses and increases in rate base as a result of additional required plant investment. Using Staff's proposed rates the returns are far less. *Id.* at 7 and 8. The assumptions that there will be no change in operating expenses and rate base are unrealistic. As a result the return projections stated above are high-end estimates. As I have stated, while the Company is including

revenues from potential future growth to help minimize the impact to rate payers, in doing so, it is taking enormous risk while at the same time receiving very low returns for several years.

Q. YOU HAVE USED A FIGURE OF 350 POTENTIAL FUTURE CUSTOMERS THROUHOUT THIS PROCEEDING, IS THIS A KNOWN NUMBER BASED ON RECENT INFORMATION?

A. It is actually high by 70 to 75 customers based on the latest master plan for the Flagstaff Meadows - Phase III development. The current master plan shows development of 276 lots, not the anticipated 350 lots the Company has used throughout this proceeding. Never-the-less, the Company continues to base it proposals using potential future growth of 350.

Q. WILL THE COMPANY HAVE TO EXTEND ITS CC&N TO ACCOMMODATE THE ADDITIONAL 70 TO 75 CUSTOMERS?

A. Yes.

Q. WHO OWNS THE LOTS AND WHO IS THE BUILDER FOR FLAGSTAFF MEADOWS PHASE III?

A. Empire Builders. Empire Builders is not affiliated with the Company or its shareholder.

Q. IS THAT BUILDER FUNDING THE ON-SITE INFRASTRUCTURE FOR THE DEVELOPMENT THROUGH CONTRIBUTIONS-IN-AID OF CONSTRUCTION?

A. Yes.

Q. PLEASE RESPOND TO MR. MICHLIK'S COMMENTS ON PAGE 10 OF HIS SURREBUTTAL TESTIMONY FOR THE WATER DIVISION THAT UNDER STAFF'S RATES THE COMPANY WILL HAVE A SUFFICIENT OPERATING MARGIN?

A. Putting aside that an operating margin approach is not appropriate in the instant case, Mr. Michlik claims the Company will have an operating margin of 41 percent for the sewer division. *See* Michlik SB at 10 . What he doesn't disclose is that that operating margin assumes the potential future 350 customers are connected and the Company is receiving revenues from them. None of the 350 customers are actually there and his operating margin is fiction. In reality, if no additional customer growth occurs, then the Company will have a negative 14.43 percent operating margin under Staff rates. *Id.* And, like the rate of return, it will take several years to achieve that operating margin assuming no increase in operating expenses and rate base as a result of further plant investment. Again, arguably these are unrealistic assumptions. So, it is more likely the Company may never achieve that operating margin under Staff's rates.

Q. WILL THE COMPANY HAVE SUFFICIENT OPERATING MARGIN UNDER THE COMPANY'S PROPOSED RATES?

A. Not for the sewer division. The sewer division will have a negative 6.51 percent under the Company's proposed rates. *Id.* at 5 and 6. On the other hand, combined with the water division's positive operating margin, overall the Company will have a positive operating margin of about 12 percent. Based on my experience, Staff typically recommends a minimum of 10 percent for cases in which an operating margin approach is used. I do not typically ascribe to having the water division subsidize the sewer division, or visa versa. Rates should be set to support the operating expenses and plant used to serve rate payers for each division. But, in the instant case, the Company is willing to accept that scenario – for now at least.

Q. DO YOU HAVE ANY PROBLEMS WITH AN 8.9 PERCENT RETURN?

A. Yes. As you can see, even the 10.5 percent return is insufficient to provide a positive operating margin for the sewer division under a no growth scenario. An

8.9 percent exacerbates the problem. In fact, the combined the water division's negative operating margin under Staff's proposed rates at a 6.23 percent return, the overall operating margin is a negative 8.62 percent. This is insufficient by any standard.

Q. AT WHAT POINT WILL THE SEWER DIVISION EXPERIENCE A POSTIVE OPERATING MARGIN UNDER STAFF PROPOSED RATES?

A. It appears from the analysis that at least 100 new customers will be necessary. At that level the analysis shows a positive operating margin of about 1 percent. *Id.* at 7 and 8.

Q. PLEASE RESPOND TO THE SURREBUTTAL TESTIMONY OF THE PONDEROSA FIRE DISTRICT.

A. My testimony in response to the district can be found in my water division rejoinder testimony. I will not repeat that testimony here.

II. RATE BASE.

Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE BASE RECOMMENDATIONS?

A. The rate bases proposed by all parties in the case are as follows:

	OCRB	FVRB
Company-Direct	$ 1,401,953	$ 1,401,953
Staff Direct	$ 989,576	$ 989,576
Company Rebuttal	$ 1,314,093	$ 1,314,093
Staff Surrebuttal	$ 1,113,582	$ 1,113,582
Company Rejoinder	$ 1,111,382	$ 1,111,382

Q. TO WHAT DO YOU ATTRIBUTE THE DECREASE IN RATE BASE FROM THE REBUTTAL FILING TO THE REJOINDER FILING?

A. The Company has accepted Staff's adjustments to increase plant-in-service totaling

$236,389.

A. <u>Plant-in-Service</u>.

Q. PLEASE EXLAIN THE COMPANY'S REBUTTAL ADJUSTMENTS TO PLANT-IN-SERVICE.

A. B-2 rebuttal adjustment number 1 reflects an increase to plant-in-service of $216,389. The Company has accepted and the adjustment matches Staff's proposed adjustment. *See* Michlik SB at 5.

Notably, to eliminate issues between the parties, the Company has agrees to remove $178,703 of costs related to evaporative lagoons. *See* Michlik SB at 6.

Q. DO STAFF AND THE COMPANY AGREE ON THE BALANCE OF PLANT-IN-SERVICE?

A. Yes.

B. <u>Accumulated Depreciation</u>.

Q. PLEASE EXPLAIN THE COMPANY'S REJOINDER ADJUSTMENT TO ACCUMULATED DEPRECIATION?

A. B-2 rebuttal adjustment number 2 reflects the increase to accumulated depreciation for $14,030 associated with the decrease to plant-in-service. The Company's adjustment is lower than Staff's adjustment of $16,229. Both Staff and the Company computed accumulated depreciation taking into account all plant adjustments. The Company's computed accumulated depreciation amount is approximately $2,200 higher than Staff. I have not found a reason for the discrepancy. *See* Staff Surrebuttal Schedule JMM-WW2.

C. <u>Accumulated Amortization of CIAC.</u>

Q. HAVE YOU MADE A REJOINDER ADJUSTMENT CONCERNING CONTRIBUTIONS-IN-AID OF CONTRUCTION?

A. Yes. The Company has adjusted the balance of accumulated amortization of CIAC

to reflect the change to the composite depreciation rate as the result of the changes to plant-in-service. B-2 rebuttal adjustment number 3 reflects this adjustment. The Company accumulated amortization balance of $14,425 is the same as Staff's.

III. INCOME STATEMENT.

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF?

A. Yes. The Company rejoinder adjustments are detailed on Rebuttal Schedule C-2, pages 1-3. The rejoinder income statement with adjustments is shown on Rebuttal Schedule C-1, pages 1-2.

Rejoinder adjustment 1 annualizes depreciation expense taking into account the changes to plant-in-service, as discussed above.

Rejoinder adjustment number 2 reduces property tax expense and reflects the rejoinder proposed revenues.

IV. RATE DESIGN.

Q. PLEASE SUMMARIZE THE POSITIONS OF THE PARTIES WITH RESPECT TO THE RATE DESIGN.

A. Both Staff and the Company propose the same basic rate design which is based on water usage rather than flat monthly rates.

Q. WHAT ARE THE COMPANY'S REJOINDER PROPOSED RATES?

A. The rejoinder proposed rates are:

A.

Customer Class	Flat Monthly Charge	Charge per 1,000 gallons of Water Usage
Residential	N/A	$ 6.13
Car Washes,		

Laundromats, Commercial, Manufacturing	N/A	$ 5.99
Hotels, Motels	N/A	$ 8.03
Restaurants	N/A	$ 9.92
Industrial Laundries	N/A	$ 8.80
Waste Haulers	N/A	$179.52
Restaurant Grease	N/A	$157.08
Treatment Plant Sludge	N/A	$179.52
Mud Sump Waste	N/A	$561.00

Q. ARE STAFF AND THE COMPANY AGREEMENT ON THE COMPANY'S PROPOSED METER AND SERVICE LINE INSTALLATION CHARGES?

A. Yes.

Q. ARE STAFF AND THE COMPANY IN AGREEMENT ON THE COMPANY'S PROPOSED METER AND SERVICE LINE INSTALLATION CHARGES?

A. Yes.

Q. DOES THAT CONCLUDE YOUR REJOINDER TESTIMONY REGARDING THE WATER APPLICATION?

A. Yes.

Utility Source, L.L.C. - Sewer Division
Test Year Ended December 31, 2005
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Rejoinder Schedule A-1
Page 1
Witness: Bourassa

Line No.		
1	Fair Value Rate Base	$ 1,111,382
2		
3	Adjusted Operating Income	(22,959)
4		
5	Current Rate of Return	-2.07%
6		
7	Required Operating Income	$ 116,695
8		
9	Required Rate of Return on Fair Value Rate Base	10.50%
10		
11	Operating Income Deficiency	$ 139,654
12		
13	Gross Revenue Conversion Factor	1.0000
14		
15	Increase in Gross Revenue	
16	Requirement	$ 139,654
17		
18	% Increase	122.61%

19					
20	**Customer**	**Present**	**Proposed**	**Dollar**	**Percent**
21	**Classification**	**Rates**	**Rates**	**Increase**	**Increase**
22	**(Residential Commercial, Irrigation)**				
23					
24	3/4 Inch Residential	$ 47,983	$ 107,674	$ 59,691	124.40%
25	1.5 Inch Commercial	2,750	6,171	$ 3,421	124.40%
26	2 Inch Commercial	3,326	7,464	$ 4,138	124.40%
27				$ -	0.00%
28	Revenue Annualization	3,836	8,607	$ 4,772	124.40%
29					0.00%
30	Proforma Revenues	54,353	121,968	$ 67,615	124.40%
31				-	0.00%
32	**Subtotal**	$ 112,248	$ 251,884	$ 139,636	124.40%
33					
34	Other Revenues	1,657	1,657	-	0.00%
35					0.00%
36					0.00%
37	**Total of Water Revenues (a)**	$ 113,905	$ 253,541	$ 139,636	122.59%

38
39
40
41
42 SUPPORTING SCHEDULES:
43 Rejoinder B-1
44 Rejoinder C-1
45 Rejoinder C-3
46 Rejoinder H-1
47

Utility Source, L.L.C. - Sewer Division
Test Year Ended December 31, 2005
Summary of Rate Base

Exhibit
Rejoinder Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 1,379,092	$ 1,379,092
3	Less: Accumulated Depreciation	82,161	82,161
4			
5	Net Utility Plant in Service	$ 1,296,931	$ 1,296,931
6			
7	Less:		
8	Advances in Aid of		
9	Construction	-	-
10	Contributions in Aid of		
11	Construction	197,973	197,973
12	Accumulated Amortization of CIAC	(12,425)	(12,425)
13			
14	Customer Meter Deposits	-	-
15	Deferred Income Taxes & Credits	-	-
16	Customer Meter Deposits	-	-
17	Deferred Income Taxes		
18	Investment Tax Credits		
19	Plus:		
20	Unamortized Finance Charges	-	-
21	Material and Supplies Inventories		
22	Prepayments		
23	Allowance for Working Capital	-	-
24			
25			
26			
27	Total Rate Base	$ 1,111,382	$ 1,111,382
28			
29			
30			
31	SUPPORTING SCHEDULES:		
32	Rejoinder B-2		
33	Rejoinder B-5		
34			
35			
36			

Utility Source, L.L.C. - Sewer Division
Test Year Ended December 31, 2005
Original Cost Rate Base Proforma Adjustments

Exhibit
Rejoinder Schedule B-2
Page 1
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Adjustments	Rejoinder Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 1,595,481	(216,389)	$ 1,379,092
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	96,191	(14,030)	82,161
7				
8				
9	Net Utility Plant			
10	in Service	$ 1,499,290	$ (202,359)	$ 1,296,931
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	-	-	-
15				
16	Contributions in Aid of			
17	Construction (CIAC)	197,973	-	197,973
18				
19				
20	Accum. Amortization of CIAC	(12,777)	352	(12,425)
21				
22				
23	Customer Meter Deposits	-	0	-
24	Deferred Income Taxes	-	-	-
25	Investment Tax Credits	-	-	-
26				
27				
28	**Plus:**			
29	Unamortized Finance Charges	-		-
30	Material and Supplies Inventories			
31	Prepayments			
32	Allowance for Working Capital	-	-	-
33				
34				
35	Total	$ 1,314,093	$ (202,711)	$ 1,111,382
36				
37				
38				
39				
40				
41	SUPPORTING SCHEDULES:			
42	Rejoinder B-2, pages 2			
43				
44				
45				
46				
47				
48				

Utility Source, L.L.C. - Sewer Division
Test Year Ended December 31, 2005
Original Cost Rate Base Proforma Adjustments

Exhibit
Rejoinder Schedule B-2
Page 2
Witness: Bourassa

Line No.		ADJUSTMENT LABEL->> Rebuttal Adjusted End of Test Year	1 Plant-In-Service	2 Accum. Depreciation	3 CIAC Amortization	4 Intentionally Left Blank	5 Intentionally Left Blank	Rejoinder Adjusted at end of Test Year
1	Gross Utility							
2	Plant in Service	$ 1,595,481	(216,389)					$ 1,379,092
3								
4	**Less:**							
5	Accumulated							
6	Depreciation	96,191		(14,030)				82,161
7								
8								
9	Net Utility Plant							
10	in Service	$ 1,499,290	$ (216,389)	$ 14,030	$ -	$ -	$ -	$ 1,296,931
11								
12	**Less:**							
13	Advances in Aid of							
14	Construction	-						-
15								
16	Contributions in Aid of							
17	Construction (CIAC)	197,973						197,973
18								
19	Accum. Amortization of CIAC	(12,777)			352			(12,425)
20								
21	Customer Meter Deposits	-						-
22	Deferred Income Taxes	-						-
23	Investment Tax Credits	-						-
24								
25	**Plus:**							
26	Unamortized Finance							
27	Charges	-						-
28	Material and Supplies Inventories							
29	Prepayments	-						-
30	Allowance for Working Capital	-						-
31								
32	Total	$ 1,314,093	$ (216,389)	$ 14,030	$ (352)	$ -	$ -	$ 1,111,382
33								
34	SUPPORTING SCHEDULES:							
35	Rejoinder B-2, pages 3-5							

Utility Source, L.L.C. - Sewer Division
Test Year Ended December 31, 2005
Original Cost Rate Base Proforma Adjustments
Adjustment 1

Exhibit
Rejoinder Schedule B-2
Page 3
Witness: Bourassa

Line No.				
1	Plant-in-Service			
2				
3				
4	380	Treatment and Disposal Equipment	$	(24,107)
5	380	Treatment and Disposal Equipment		(13,579)
6	380	Treatment and Disposal Equipment		(178,703)
7				
8	Total Plant-in-Service to be Removed		$	(216,389)
9				
10				
11	Increase (Decrease) to Plant-in-Service		$	(216,389)
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				
30	SUPPORTING SCHEDULES			
31	Staff Surrebuttal Schedule JMM-WW4			

Utility Source, L.L.C. - Sewer Division
Test Year Ended December 31, 2005
Original Cost Rate Base Proforma Adjustments
Adjustment #2

Exhibit
Rejoinder Schedule B-2
Page 4
Witness: Bourassa

Line No.			
1	Accumulated Depreciation		
2			
3	Accumulated Depreciation per Rejoinder Filing	$	82,161
4	Accumulated Depreciation per Rebuttal Filing		96,191
5			
6	Increase (Decrease) to Accumulated Depreciation	$	(14,030)
7			
8			
9	Increase (Decrease) to Accumulated Depreciation	$	(14,030)
10			
11			
12			
13	SUPPORTING SCHEDULES		
14	Rejoinder B-2, pages 4a through 4c		
15			
16			
17			
18			
19			
20			

Utility Source, LLC - Sewer Division
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 4a
Witness: Bourassa

Account No.	Description	Deprec. Rate	12/31/2004	2004 Accum. Depr.	2004 Plant Additions	2004 Plant Adjustments	2004 Adjusted Plant Additions	2004 Plant Retirements	2004 Plant Balance	2004 Depr.
351	Organization	0.00%	-				-		-	-
352	Franchises	0.00%	-				-		-	-
353	Land and Land Rights	0.00%	-		105,000		105,000		105,000	-
354	Structures and Improvements	3.33%	-		56,350		56,350		56,350	938
355	Power Generation Equipment	5.00%	-		32,200		32,200		32,200	805
360	Collection Sewers - Force	2.00%	-				-		-	-
361	Collection Sewers - Gravity	2.00%	-		260,553		260,553		260,553	2,606
362	Special Collecting Structures	2.00%	-				-		-	-
363	Services to Customers	2.00%	-		60,375		60,375		60,375	604
364	Flow Measuring Devices	10.00%	-				-		-	-
365	Flow Measuring Installations	10.00%			3,450		3,450		3,450	173
370	Receiving Wells	3.33%	-				-		-	-
371	Pumping Equipment	12.50%	-				-		-	-
380	Treatment and Disposal Equipment	5.00%	-		1,106,874	(216,389)	890,485		890,485	22,262
381	Plant Sewers	5.00%	-				-		-	-
382	Outfall Sewer Lines	3.33%	-				-		-	-
389	Other Plant and Misc. Equipment	6.67%	-				-		-	-
390	Office Furniture and Equipment	6.67%	-				-		-	-
391	Transportation Equipment	20.00%	-				-		-	-
393	Tools, Shop and Garage Equipment.	5.00%	-				-		-	-
394	Laboratory Equipment	10.00%	-				-		-	-
395	Power Operated Equipment	5.00%	-				-		-	-
398	Other TangiblePlant	10.00%	-				-		-	-
			-				-		-	-
			-				-		-	-
			-				-		-	-
			-				-		-	-
			-				-		-	-
	Plant Held for Future Use						-		-	-
	TOTAL WATER PLANT		-	-	1,624,802	(216,389)	1,408,413	-	1,408,413	27,387
	Depreciation								27,387	
(a)	Staff Accumulated Depreciation Allocated to Plant.		-							
	Retirements (excluding land)								-	
	Accumulated Depreciation Balance			-					27,387	
	Half Year Convention used on depreciation									

Utility Source, LLC - Sewer Division
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 4b
Witness: Bourassa

Account No.	Description	Deprec. Rate	2005 Depreciable Balance	2005 Plant Additions	2005 Plant Adjustments	2005 Adjusted Plant Additions	2005 Plant Retirements	Plant Retirements To Date	2005 Plant Balance	2005 Deprec.
351	Organization	0.00%	-			-		-	-	-
352	Franchises	0.00%	-			-		-	-	-
353	Land and Land Rights	0.00%	105,000			-		-	105,000	-
354	Structures and Improvements	3.33%	56,350			-		-	56,350	1,876
355	Power Generation Equipment	5.00%	32,200			-		-	32,200	1,610
360	Collection Sewers - Force	2.00%	-			-		-	-	-
361	Collection Sewers - Gravity	2.00%	260,553			-		-	260,553	5,211
362	Special Collecting Structures	2.00%	-			-		-	-	-
363	Services to Customers	2.00%	60,375			-		-	60,375	1,208
364	Flow Measuring Devices	10.00%	-			-		-	-	-
365	Flow Measuring Installations	10.00%	3,450			-		-	3,450	345
370	Receiving Wells	3.33%	-			-		-	-	-
371	Pumping Equipment	12.50%	-			-		-	-	-
380	Treatment and Disposal Equipment	5.00%	890,485			-		-	890,485	44,524
381	Plant Sewers	5.00%	-			-		-	-	-
382	Outfall Sewer Lines	3.33%	-			-		-	-	-
389	Other Plant and Misc. Equipment	6.67%	-			-		-	-	-
390	Office Furniture and Equipment	6.67%	-			-		-	-	-
391	Transportation Equipment	20.00%	-			-		-	-	-
393	Tools, Shop and Garage Equipment.	5.00%	-			-		-	-	-
394	Laboratory Equipment	10.00%	-			-		-	-	-
395	Power Operated Equipment	5.00%	-			-		-	-	-
398	Other TangiblePlant	10.00%	-			-		-	-	-
			-			-		-	-	-
			-			-		-	-	-
			-			-		-	-	-
			-			-		-	-	-
			-			-		-	-	-
	Plant Held for Future Use		-			-		-	-	-
	TOTAL WATER PLANT		1,408,413	-	-	-	-	-	1,408,413	54,774
	Depreciation								54,774	
(a)	Staff Accumulated Depreciation Allocated to Plant.									
	Retirements (excluding land)								-	
	Accumulated Depreciation Balance								82,161	
	Half Year Convention used on depreciation									

Utility Source, LLC - Sewer Division
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 4c
Witness: Bourassa

Account No.	Description	Deprec. Rate	Year End Accumulated Depreciation by Account Dec-04 2004	Dec-05 2005
351	Organization	0.00%	-	-
352	Franchises	0.00%	-	-
353	Land and Land Rights	0.00%	-	-
354	Structures and Improvements	3.33%	938	2,815
355	Power Generation Equipment	5.00%	805	2,415
360	Collection Sewers - Force	2.00%	-	-
361	Collection Sewers - Gravity	2.00%	2,606	7,817
362	Special Collecting Structures	2.00%	-	-
363	Services to Customers	2.00%	604	1,811
364	Flow Measuring Devices	10.00%	-	-
365	Flow Measuring Installations	10.00%	173	518
370	Receiving Wells	3.33%	-	-
371	Pumping Equipment	12.50%	-	-
380	Treatment and Disposal Equipment	5.00%	22,262	66,786
381	Plant Sewers	5.00%	-	-
382	Outfall Sewer Lines	3.33%	-	-
389	Other Plant and Misc. Equipment	6.67%	-	-
390	Office Furniture and Equipment	6.67%	-	-
391	Transportation Equipment	20.00%	-	-
393	Tools, Shop and Garage Equipment.	5.00%	-	-
394	Laboratory Equipment	10.00%	-	-
395	Power Operated Equipment	5.00%	-	-
398	Other TangiblePlant	10.00%	-	-
			-	-
			-	-
			-	-
			-	-
			-	-
	Plant Held for Future Use		-	-
	TOTAL WATER PLANT		27,387	82,161
	Depreciation			
(a)	Staff Accumulated Depreciation Allocated to Plant.			
	Retirements (excluding land)			
	Accumulated Depreciation Balance			
	Half Year Convention used on depreciation			

Utility Source, L.L.C. - Sewer Division
Test Year Ended December 31, 2005
Original Cost Rate Base Proforma Adjustments
Adjustment #3

Exhibit
Rejoinder Schedule B-2
Page 5
Witness: Bourassa

No.

1 CIAC Amortization

	CIAC	Amortization Rate	Amortization[1]
Balance at 12/31/2003	$ -		
2004 Additions	197,973	4.18%	4,142
Balance at 12/31/2004	$ 197,973		
Jan-Dec Amortization		4.18%	8,283
2005 Additions			
Balance at 12/31/2005	$ 197,973		$ 12,425
Balance of CIAC Amortization per Rebuttal Filing			$ 12,777
Increase (Decrease) in Amortization			$ (352)
Adjustment to Accumulated Amortization			$ 352

[1] Half year Convention on additions

Utility Source, L.L.C. - Sewer Division
Test Year Ended December 31, 2005
Computation of Working Capital

Exhibit
Rejoinder Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	8,412
3	Pumping Power (1/24 of Pumping Power)		726
4	Purchased Water Treatment (1/24 of Purchased Water)		-
5			
6			
7			
8			
9	Total Working Capital Allowance Rejoinder	$	9,138
10			
11	Total Working Capital Allowance Requested	$	-
12			
13	Working Capital per Direct Filing	$	-
14			
15	Increase (Decrease) in Working Capital	$	-
16			
17			
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
19		Rejoinder B-1	
20			

Utility Source, L.L.C. - Sewer Division
Test Year Ended December 31, 2005
Income Statement

Exhibit
Rejoinder Schedule C-1
Page 1
Witness: Bourassa

Line No.		Adjusted Book Results	Adjustments	Rejoinder Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**					
2	Metered Water Revenues	$ 112,248	$ -	$ 112,248	$ 139,654	$ 251,902
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	1,657	-	1,657		1,657
5		$ 113,905	$ -	$ 113,905	$ 139,654	$ 253,559
6	**Operating Expenses**					
7	Salaries and Wages	$ -	-	$ -		$ -
8	Purchased Wastewater Treatment	-	-	-		-
9	Sludge Removal Expense	-	-	-		-
10	Purchased Power	17,423	-	17,423		17,423
11	Fuel for Power Production	-	-	-		-
12	Chemicals	3,945	-	3,945		3,945
13	Materials and Supplies	4,793	-	4,793		4,793
14	Contractual Services - Professional	1,195	-	1,195		1,195
15	Contractual Services - Testing	24,902	-	24,902		24,902
16	Contractual Services - Other	15,000	-	15,000		15,000
17	Repairs and Maintenance	-	-	-		-
18	Rents	-	-	-		-
19	Transportation Expenses	-	-	-		-
20	Insurance	-	-	-		-
21	Regulatory Commission Expense - Ra	12,500	-	12,500		12,500
22	Miscellaneous Expense	4,965	-	4,965		4,965
	Depreciation Expense	55,610	(10,585)	45,025		45,025
	Taxes Other Than Income	-	-	-		-
23	Property Taxes	5,123	1,994	7,116		7,116
24	Income Tax	-	-	-	-	-
25						
26	**Total Operating Expenses**	$ 145,455	$ (8,591)	$ 136,864	$ -	$ 136,864
27	**Operating Income**	$ (31,550)	$ 8,591	$ (22,959)	$ 139,654	$ 116,695
28	**Other Income (Expense)**					
29	Interest Income	-		-		-
30	Other income	-		-		-
31	Interest Expense	-		-		-
32	Other Expense	-		-		-
33						
34	***Total Other Income (Expense)***	$ -	$ -	$ -	$ -	$ -
35	**Net Profit (Loss)**	$ (31,550)	$ 8,591	$ (22,959)	$ 139,654	$ 116,695
36						
37						
38						
39	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
40	Rejoinder C-1, Page 2				Rejoinder A-1	
41	Rejoinder C-2					

Utility Source, L.L.C. - Sewer Division
Test Year Ended December 31, 2005
Income Statement

Exhibit
Rejoinder Schedule C-1
Page 2
Witness: Bourassa

Line No.		ADJUSTMENT LABEL->> Rebuttal Adjusted Results	1 Depreciation Expense	2 Property Taxes	3 Intentionally Left Blank	4 Intentionally Left Blank	6 Rejoinder Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**								
2	Flat Rate and Metered Revenues	$ 112,248					$ 112,248	$ 139,654	$ 251,902
3	Misc. Service Revenues	-					-		-
4	Other Wastewater Revenues	1,657					1,657		1,657
5		$ 113,905	$ -	$ -	$ -	$ -	$ 113,905	$ 139,654	$ 253,559
6	**Operating Expenses**								
7	Salaries and Wages	$ -					$ -		$ -
8	Purchased Wastewater Treatment	-					-		-
9	Sludge Removal Expense	-					-		-
10	Purchased Power	17,423					17,423		17,423
11	Fuel for Power Production	-					-		-
12	Chemicals	3,945					3,945		3,945
13	Materials and Supplies	4,793					4,793		4,793
14	Contractual Services - Professional	1,195					1,195		1,195
15	Contractual Services - Testing	24,902					24,902		24,902
16	Contractual Services - Other	15,000					15,000		15,000
17	Repairs and Maintenance	-					-		-
18	Rents	-					-		-
19	Transportation Expenses	-					-		-
20	Insurance	-					-		-
21	Regulatory Commission Expense - Rate Case	12,500					12,500		12,500
22	Miscellaneous Expense	4,965					4,965		4,965
23	Depreciation Expense	55,610	(10,585)				45,025		45,025
24	Taxes Other Than Income	-					-		-
25	Property Taxes	5,123		1,994			7,116		7,116
26	Income Tax	-					-		-
27	**Total Operating Expenses**	$ 145,455	$ (10,585)	$ 1,994	$ -	$ -	$ 136,864	$ -	$ 136,864
28	**Operating Income**	$ (31,550)	$ 10,585	$ (1,994)	$ -	$ -	$ (22,959)	$ 139,654	$ 116,695
29	**Other Income (Expense)**								
30	Interest Income	-					-		-
31	Other income	-					-		-
32	Interest Expense	-					-		-
33	Other Expense	-					-		-
34									
35	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
36	**Net Profit (Loss)**	$ (31,550)	$ 10,585	$ (1,994)	$ -	$ -	$ (22,959)	$ 139,654	$ 116,695
37									
38	SUPPORTING SCHEDULES:								
39	Rejoinder C-2								
40									

RECAP SCHEDULES:
Rejoinder A-1

Utility Source, L.L.C. - Sewer Division
Test Year Ended December 31, 2005
Adjustments to Revenues and Expenses

Exhibit
Rejoinder Schedule C-2
Page 1
Witness: Bourassa

Adjustments to Revenues and Expenses

Line No.		1 Depreciation Expense	2 Property Taxes	3 Intentionally Left Blank	4 Intentionally Left Blank	5 Intentionally Left Blank	6 Intentionally Left Blank	Subtotal
3	Revenues							-
5	Expenses	(10,585)	1,994					(8,591)
8	Operating Income	10,585	(1,994)	-	-	-	-	8,591
10	Interest							-
11	Expense							-
13	Other Income /							-
14	Expense							
16	Net Income	10,585	(1,994)	-	-	-	-	8,591

Adjustments to Revenues and Expenses

Line No.		7 Intentionally Left Blank	8 Intentionally Left Blank	9 Intentionally Left Blank	10 Intentionally Left Blank	11 Intentionally Left Blank	12 Intentionally Left Blank	Subtotal
23	Revenues							-
25	Expenses							(8,591)
28	Operating Income	-	-	-	-	-	-	8,591
30	Interest							
31	Expense							-
33	Other Income /							-
34	Expense							
36	Net Income	-	-	-	-	-	-	8,591

Adjustments to Revenues and Expenses

Line No.		13 Intentionally Left Blank	14 Intentionally Left Blank	15 Intentionally Left Blank	16 Intentionally Left Blank	17 Intentionally Left Blank	18 Intentionally Left Blank	Total
43	Revenues							-
45	Expenses							(8,591)
48	Operating Income	-	-	-	-	-	-	8,591
50	Interest							
51	Expense							-
53	Other Income /							-
54	Expense							
56	Net Income	-	-	-	-	-	-	8,591

Utility Source, L.L.C. - Sewer Division
Test Year Ended December 31, 2005
Adjustments to Revenues and Expenses
Adjustment #1

Exhibit
Rejoinder Schedule C-2
Page 2
Witness: Bourassa

Line No.								
1	Depreciation Expense							
2								
3	Account		Direct Adjusted	From B-2 Adj. #1	Intentionally Left	Rejoinder Adjusted	Proposed	Depreciation
4	No.	Description	Original Cost	Plant	Blank	Original Cost	Rates	Expense
5	351	Organization	-			-	0.00%	-
6	352	Franchises	-			-	0.00%	-
7	353	Land and Land Rights	105,000			105,000	0.00%	-
8	354	Structures and Improvements	56,350			56,350	3.33%	1,876
9	355	Power Generation Equipment	2,879			2,879	5.00%	144
10	360	Collection Sewers - Force	-			-	2.00%	-
11	361	Collection Sewers - Gravity	260,553			260,553	2.00%	5,211
12	362	Special Collecting Structures	-			-	2.00%	-
13	363	Services to Customers	60,375			60,375	2.00%	1,208
14	364	Flow Measuring Devices	-			-	10.00%	-
15	365	Flow Measuring Installations	3,450			3,450	10.00%	345
16	370	Receiving Wells	-			-	3.33%	-
17	371	Pumping Equipment	-			-	12.50%	-
18	380	Treatment and Disposal Equipment	1,106,874	(216,389)		890,485	5.00%	44,524
19	381	Plant Sewers	-			-	5.00%	-
20	382	Outfall Sewer Lines	-			-	3.33%	-
21	389	Other Plant and Misc. Equipment	-			-	6.67%	-
22	390	Office Furniture and Equipment	-			-	6.67%	-
23	391	Transportation Equipment	-			-	20.00%	-
24	393	Tools, Shop and Garage Equipment.	-			-	5.00%	-
25	394	Laboratory Equipment	-			-	10.00%	-
26	395	Power Operated Equipment	-			-	5.00%	-
27	398	Other TangiblePlant	-			-	10.00%	-
28								
29								
30								
31								
32								
33								
34		TOTALS	$ 1,595,481	$ (216,389)	$ -	$ 1,379,092		$ 53,308
35								
36								
63								
64	Less: Amortization of CIAC - Rebuttal Balance End of TY		$ 197,973			$ 197,973	4.18%	$ (8,283)
65								-
66			$ 197,973	$ -	$ -	$ 197,973		$ (8,283)
67	Adjusted Test Year Depreciation Expense Rejoinder Filing							$ 45,025
68	Adjusted Test Year Depreciation Expense Rebuttal Filing							55,610
69								
70	Increase (decrease) in Depreciation Expense							$ (10,585)
71								
72	Adjustment to Revenues and/or Expenses							$ (10,585)

Utility Source, L.L.C. - Sewer Division
Test Year Ended December 31, 2005
Adjustment to Revenues and Expenses
Adjustment Number 2

Rejoinder Schedule C-2
Page 3
Witness: Bourassa

Line No.			
1	Adjust Property Taxes to Reflect Proposed Revenues:		
2			
3	Adjusted Revenues in year ended 09/30/2005	$	113,905
4	Adjusted Revenues in year ended 09/30/2005		113,905
5	Proposed Revenues		253,559
6	Average of three year's of revenue	$	160,456
7	Average of three year's of revenue, times 2	$	320,913
8	Add:		
9	Construction Work in Progess at 10%	$	-
10	Deduct:		
11	Book Value of Transportation Equipment		-
12			
13	Full Cash Value	$	320,913
14	Assessment Ratio		23.50%
15	Assessed Value		75,414
16	Property Tax Rate		9.0903%
17			
18	Property Tax		6,855
19	Tax on Parcels		261
20			
21	Total Property Tax at Proposed Rates Rejoinder	$	7,116
22	Property Taxes per Direct Filing		5,123
23	Change in Property Taxes	$	1,994
24			
25			
26	Adjustment to Revenues and/or Expenses	$	1,994
27			
28			

Utility Source, L.L.C. - Sewer Division
Test Year Ended December 31, 2005
Computation of Gross Revenue Conversion Factor

Exhibit
Rejoinder Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	0.00%
2		
3	State Income Taxes	0.00%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	0.00%
9		
10	Operating Income % = 100% - Tax Percentage	100.00%
11		
12		
13		
14		
15	1 = Gross Revenue Conversion Factor	
16	Operating Income %	1.0000
17		
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
19		Rejoinder A-1
20		

Utility Source, L.L.C. - Sewer Division
Test Year Ended December 31, 2005
Summary of Cost of Capital

Exhibit
Rejoinder Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	End of Test Year Dollar Amount	End of Test Year Percent of Total	End of Test Year (e) Cost Rate	End of Test Year Weighted Cost	Adjusted End of Test Year Dollar Amount	Adjusted End of Test Year Percent of Total	Adjusted End of Test Year (e) Cost Rate	Adjusted End of Test Year Weighted Cost
1	Long-Term Debt	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	N/A
2									
3	Stockholder's Equity	1,604,435	100.00%	10.50%	10.50%	1,721,130	100.00%	10.50%	N/A
4									
5	Totals	1,604,435	100.00%		10.50%	1,721,130	100.00%		0.00%
6									
7									
8									
9									
10									
11	SUPPORTING SCHEDULES:								RECAP SCHEDULES:
12	Rejoinder D-2								
13									
14									
15									
16									
17									
18									
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									
31									

Utility Source, L.L.C. - Sewer Division
Test Year Ended August 31, 2005
Cost of Long Term Debt

Exhibit
Rejoinder Schedule D-2
Page 1
Witness: Bourassa

Line No.	Description of Debt	End of Test Year Amount Outstanding	End of Test Year Annual Interest	End of Test Year Interest Rate	End of Test Year Weighted Cost	End of Projected Year Amount Outstanding	End of Projected Year Annual Interest	End of Projected Year Interest Rate	End of Projected Year Weighted Cost
1									
2									
3									
4									
5									
6									
7									
8									
9									
10									
11									
12									
13	Totals	$ -	-		0.00%	$ -	-		0.00%
14									
15	Supporting Schdules:								
16	E-2								
17									
18									
19									
20									
21									
22									
23									

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Revenue Summary

Exhibit
Schedule H-1
Page 1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1							
2	3/4 Inch Meter - Residential	$ 47,983	$ 107,674	$ 59,691	124.40%	42.13%	42.47%
3	1 Inch Meter	2,750	6,171	3,421	124.40%	2.41%	2.43%
4	1.5 Inch Meter Motel	3,326	7,464	4,138	124.40%	2.92%	2.94%
5	2 Inch Meter Commercial	1,657	1,657	-	0.00%	1.46%	0.65%
6		$ 55,717	$ 122,966	$ 67,250	120.70%	48.91%	48.50%
7	Miscellaneous Revenues	$ 3,836	$ 8,607	$ 4,772	124.40%	3.37%	3.39%
8	Total Water Revenues	$ 54,353	$ 121,968	$ 67,615	124.40%	47.72%	48.11%
9	3/4 Inch customer revenue	$ 113,905	$ 253,541	$ 139,636	122.59%	100.00%	100.00%
10	annualized to end of year, based on						
11	year end number of customers						
12							
13	Proforma Revenues (1)						
14	Total Water Revenues, after correction for						
15	Billing to hundreds of Gallons						
16							
17	(1) See C-2 adjustment number 6.						
18							
19	Total Water Revenues without Revenue						
20	Annualization and Proforma Revenues						
21	Water Revenues Per General Ledger	$ 47,803	$ 55,717				
22	C-2 Adjustment for Unrecorded Revenues(2)	$ 7,914					
23	Difference		$ 55,717				
24			$0				
25	Percentage Error		0.00%				
26							
27	(2) Company billed less than it should have based on water usage.						
28	Accounted for in C-2 adjustment 4.						

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Analysis of Revenue by Detailed Class
Rates

Exhibit
Schedule H-2
Page 1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Average Number of Customers at 12/31/2005	Average Water Usage	Revenues Present Rates	Revenues Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1							
2	3/4 Inch Meter - Residential	307	4,740	$ 47,983	$ 107,674	$ 59,691	124.40%
3	1 Inch Meter	-	-	$ -	$ -	$ -	0.00%
4	1.5 Inch Meter Motel	1	64,470	$ 2,750	$ 6,171	$ 3,421	124.40%
5	2 Inch Meter Commercial	1	103,821	$ 3,326	$ 7,464	$ 4,138	124.40%
6	3/4 Inch Meter - Residential Revenue Annualization	307	4,740	$ 3,836	$ 8,607	$ 4,772	124.40%
7	Proforma Revenues	350	4,740	$ 54,353	$ 121,968	$ 67,615	124.40%
8							

Utility Source, LLC - Sewer Division
Changes in Representative Rates
Test Year Ended December 31, 2005

Exhibit
Schedule H-3
Page 1
Witness: Bourassa

Line No.	Customer Classification and Meter Size	Present Rates	Proposed Rates	Percent Change
1	**Monthly Usage Charge for:**			
2	Flat Rates			
3	Residential	$ -	$ -	0.00%
4	Commercial and Industrial			
5	Car washes, laudromats, Commercial, Manufacturing	-	-	0.00%
6	Hotels, Motels	-	-	0.00%
7	Restauarants	-	-	0.00%
8	Industrial Laundries	-	-	0.00%
9	Waste haulers	-	-	0.00%
10	Restuarant Grease	-	-	0.00%
11	Treatment Plant Sludge	-	-	0.00%
12	Mud Sump Waste	-	-	0.00%
13				
14	Rate per 1,000 Gallons of Water Usage			
15	Residential	$ 2.73	$ 6.13	124.40%
16	Commercial and Industrial			
17	Car washes, laudromats, Commercial, Manufacturing	2.67	5.99	124.40%
18	Hotels, Motels	3.58	8.03	124.40%
19	Restauarants	4.42	9.92	124.40%
20	Industrial Laundries	3.92	8.80	124.40%
21	Waste haulers	80.00	179.52	124.40%
22	Restuarant Grease	70.00	157.08	124.40%
23	Treatment Plant Sludge	80.00	179.52	124.40%
24	Mud Sump Waste	250.00	561.00	124.40%
25				
26				
27	Gallons In Minimum			
28	All Meter Sizes	-	-	
29				
30				
31				
32				
33	TAXES AND ASSESSMENTS			
34	In addition to all other rates and charges authorized herein, the Company shall collect from its customers all applicable sales, transaction, privilege,			
35	regulatory or other taxes and assessments as may apply now or in the future, per Rule R14-2-608(D)(5).			
36				
37				
38				
39				
40				
41				
42				
43				
44				
45				

Exhibit
Schedule H-3
Page 2
Witness: Bourassa

Utility Source, LLC - Sewer Division
Changes in Representative Rate Schedules
Test Year Ended December 31, 2005

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment per Rule R14-2-603D (a)	$ 20.00	$ 20.00
2	Establishment, after hours	$ 40.00	$ 40.00
3	Re-establishment, per Rule R14-2-603D	$ 40.00	$ 40.00
4	Re-connection of Service, per Rule R-14-2-603D	$ 50.00	$ 50.00
5	Reconnection, after hours	$ 40.00	$ 40.00
6	Deposit Requirement, per Rule R14-2-603B	(b)	(b)
7	NSF check charge , per RUle R14-2-608E (c)	$ 20.00	$ 20.00
8	Deferred Payment Charge, per month (d)	1.50%	1.50%
9	Late Payment, per month	1.50%	1.50%
10	Service Calls, per hour (e)	40.00	$ 40.00
11	Service Lateral Connection Charge (f)		
12	Residential	$ 500.00	$ 500.00
13	Commercial	Cost	Cost
14	Main Extension	(g)	(g)
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

26 (a) Same customer, same location within 12 months. Number of months off the system times the monthly minimum.
27 (b) The Company does not normally require a deposit prior to provision of service. However, if service is not in the property owner's name, this deposit is required.
28 Also, in the event service is disconnected for non-payment, this deposit may be required.
29 Residential - 2 times the estimated average monthly bill
30 Non-residential - 2 1/2 times the estimated maximum monthly bill.
31 Deposit interest 1.5%
32 (c) This charge does not apply if wastewater service is paid with the same NSF check used to pay for water service for which the NSF fee is charged.
33 (d) Deferred payments for wastewater service are only established in connection wih deferred payments for water service.
34 (e) For service problem found to be on Customer's side of property line, Company will not repair the problem.
35 (f) Company shall own the Service lateral up to the Customer's property line. Company shall maintain and operate the Service lateral only from the connection
36 to the main line or the right-of-way up to its connection with the Customer's Service lateral at the edge of the right-of-way, beyond which maintenance
37 is the Customer's responsibility.
38 (g) All Main Extensions shall be completed at cost and shall be non-refundable Contributions-in-Aid of Construction.
39
40 TAXES AND ASSESSMENTS
41 In addition to all other rates and charges authorized herein, the Company shall collect from its customers all applicable sales, transaction, privilege,
42 regulatory or other taxes and assessments as may apply now or in the future, per Rule R14-2-608(D)(5).
43
44

Utility Source, LLC - Sewer Division
Bill Comparison at Present and Proposed Rates
Customer Classification: 3/4 Inch Meters

Exhibit
Schedule H-4
Page 1
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ -	$ -	$ -	#DIV/0!
1,000	2.73	6.13	3.40	124.40%
2,000	5.46	12.25	6.79	124.40%
3,000	8.19	18.38	10.19	124.40%
4,000	10.92	24.50	13.58	124.40%
5,000	13.65	30.63	16.98	124.40%
6,000	16.38	36.76	20.38	124.40%
7,000	19.11	42.88	23.77	124.40%
8,000	21.84	49.01	27.17	124.40%
9,000	24.57	55.14	30.57	124.40%
10,000	27.30	61.26	33.96	124.40%
12,000	32.76	73.51	40.75	124.40%
14,000	38.22	85.77	47.55	124.40%
16,000	43.68	98.02	54.34	124.40%
18,000	49.14	110.27	61.13	124.40%
20,000	54.60	122.52	67.92	124.40%
25,000	68.25	153.15	84.90	124.40%
30,000	81.90	183.78	101.88	124.40%
35,000	95.55	214.41	118.86	124.40%
40,000	109.20	245.04	135.84	124.40%
45,000	122.85	275.68	152.83	124.40%
50,000	136.50	306.31	169.81	124.40%
60,000	163.80	367.57	203.77	124.40%
70,000	191.10	428.83	237.73	124.40%
80,000	218.40	490.09	271.69	124.40%
90,000	245.70	551.35	305.65	124.40%
100,000	273.00	612.61	339.61	124.40%
Average Usage				
4,740	$ 12.94	$ 29.04	$ 16.10	124.40%
Median Usage				
4,500	$ 12.29	$ 27.57	$ 15.28	124.40%

Present Rates:

Monthly Minimum:	$ -
Gallons in Minimum	-
Charge Per 1,000 Gallons	$ 2.73

Proposed Rates:

Monthly Minimum:	$ -
Gallons in Minimum	-
Charge Per 1,000 Gallons	$ 6.13

Utility Source, LLC - Sewer Division
Bill Comparison at Present and Proposed Rates
Customer Classification 1 1/2 Inch Meters

Exhibit
Schedule H-4
Page 2
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ -	$ -	$ -	#DIV/0!
1,000	3.58	8.03	4.45	124.40%
2,000	7.16	16.07	8.91	124.40%
3,000	10.74	24.10	13.36	124.40%
4,000	14.32	32.13	17.81	124.40%
5,000	17.90	40.17	22.27	124.40%
6,000	21.48	48.20	26.72	124.40%
7,000	25.06	56.23	31.17	124.40%
8,000	28.64	64.27	35.63	124.40%
9,000	32.22	72.30	40.08	124.40%
10,000	35.80	80.34	44.54	124.40%
12,000	42.96	96.40	53.44	124.40%
14,000	50.12	112.47	62.35	124.40%
16,000	57.28	128.54	71.26	124.40%
18,000	64.44	144.60	80.16	124.40%
20,000	71.60	160.67	89.07	124.40%
25,000	89.50	200.84	111.34	124.40%
30,000	107.40	241.01	133.61	124.40%
35,000	125.30	281.17	155.87	124.40%
40,000	143.20	321.34	178.14	124.40%
45,000	161.10	361.51	200.41	124.40%
50,000	179.00	401.68	222.68	124.40%
60,000	214.80	482.01	267.21	124.40%
70,000	250.60	562.35	311.75	124.40%
80,000	286.40	642.68	356.28	124.40%
90,000	322.20	723.02	400.82	124.40%
100,000	358.00	803.35	445.35	124.40%
Average Usage				
64,470	230.80	517.92	287.12	124.40%
Median Usage				
60,000	214.80	482.01	267.21	124.40%

Present Rates:

Monthly Minimum:	$ -
Gallons in Minimum	-
Charge Per 1,000 Gallons	$ 3.58

Proposed Rates:

Monthly Minimum:	$ -
Gallons in Minimum	-
Charge Per 1,000 Gallons	$ 8.03

Utility Source, LLC - Sewer Division
Bill Comparison at Present and Proposed Rates
Customer Classification: 2 Inch Meters - Commercial

Exhibit
Schedule H-4
Page 3
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ -	$ -	$ -	#DIV/0!
1,000	2.67	5.99	3.32	124.40%
2,000	5.34	11.98	6.64	124.40%
3,000	8.01	17.97	9.96	124.40%
4,000	10.68	23.97	13.29	124.40%
5,000	13.35	29.96	16.61	124.40%
6,000	16.02	35.95	19.93	124.40%
7,000	18.69	41.94	23.25	124.40%
8,000	21.36	47.93	26.57	124.40%
9,000	24.03	53.92	29.89	124.40%
10,000	26.70	59.91	33.21	124.40%
12,000	32.04	71.90	39.86	124.40%
14,000	37.38	83.88	46.50	124.40%
16,000	42.72	95.86	53.14	124.40%
18,000	48.06	107.85	59.79	124.40%
20,000	53.40	119.83	66.43	124.40%
25,000	66.75	149.79	83.04	124.40%
30,000	80.10	179.74	99.64	124.40%
35,000	93.45	209.70	116.25	124.40%
40,000	106.80	239.66	132.86	124.40%
45,000	120.15	269.62	149.47	124.40%
50,000	133.50	299.57	166.07	124.40%
60,000	160.20	359.49	199.29	124.40%
70,000	186.90	419.40	232.50	124.40%
80,000	213.60	479.32	265.72	124.40%
90,000	240.30	539.23	298.93	124.40%
100,000	267.00	599.15	332.15	124.40%
Average Usage				
103,821	277.20	622.04	344.84	124.40%
Median Usage				
100,901	269.41	604.55	335.14	124.40%

Present Rates:

Monthly Minimum:	$ -
Gallons in Minimum	-
Charge Per 1,000 Gallons	$ 2.67

Proposed Rates:

Monthly Minimum:	$ -
Gallons in Minimum	-
Charge Per 1,000 Gallons	$ 5.99

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: WS-04235A-06-0303

COST OF CAPITAL

REJOINDER TESTIMONY OF

THOMAS J. BOURASSA

I. INTRODUCTION AND QUALIFICATIONS.

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive, Phoenix, Arizona 85029.

Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT AND REBUTTAL TESTIMONY IN THE INSTANT CASE?

A. Yes, my direct and rebuttal testimony was submitted in support of the initial application in this docket by Utility Source, L.L.C. ("USLLC" or "Company").

Q. WHAT IS THE PURPOSE OF THIS REJOINDER TESTIMONY?

A. I will provide rejoinder testimony in response to the direct filings by Arizona Corporation Commission Utilities Division Staff ("Staff") with respect to the cost of capital.

II. COST OF CAPITAL.

A. Overview and Summary.

Q. PLEASE SUMMARIZE THE COMPANY'S REJOINDER POSITION REGARDING COST OF CAPITAL?

A. The Company continues to recommend 10.5 percent as its cost of capital and rate of return on original cost rate base, which USLLC accepts as the fair value of its utility property for purposes of this rate case. The 10.5 percent rate of return is based on a capital structure consisting of 100 percent common equity.

A return on equity of 10.5 percent is extremely conservative when the small size and the operational and business risks related to USLLC's water operations are considered.

Q. HAVE YOU UPDATED YOUR COST OF CAPITAL SCHEDULES?

A. Yes. I have updated my cost of capital analysis using more recent data. My updated schedules are attached to this testimony as rebuttal D schedules and the

table below summarizes the results.

DCF Analysis	Range	Midpoint
Constant Growth (earnings growth)	9.7% - 12.0%	10.9%
Constant Growth (sustainable growth)	8.2% - 10.5%	9.4%
Two-Stage Growth Model	9.2% - 11.5%	10.4%
Risk Premium Analysis		
Actual Returns	10.1% - 10.2%	10.2%
Authorized Returns	10.8% - 11.3%	11.1%
Comparable Earnings		
Actual Returns[1]	4.2% - 11.7%	8.0%
Authorized Returns	9.9% - 12.7%	11.3%
Value Line Industry Composite (2006)		9.0%
Value Line Industry Composite (2007)		10.0%
Value Line Industry Composite (2009)		10.5%

Based on these results, I continue to believe that 10.5 percent is a reasonable rate of return for USLLC, especially in light of the additional risk associated with an equity investment in USLLC.

Q. HAVE THE RESULTS OF YOUR COST OF CAPITAL CHANGED SIGNIFICANTLY SINCE YOUR REBUTTAL FILING?

A. No. In fact, they are nearly the same.

Q. HOW DOES THE RETURN OF 10.5 PERCENT YOU ARE RECOMMENDING COMPARE TO STAFF?

A. The rate of return on equity ("ROE") recommended by Staff is now 8.9 percent.

[1] If the low actual return of 4.2% for Connecticut Water Services is excluded because it is below the cost of debt, the midpoint is 10.1%.

This is 70 basis points lower than the 9.6 percent Staff recommended in its direct filing. I continue to believe the rate of return recommended by Staff is simply too low given the Company's extremely small size, limited revenue and cash flow, small customer base, lack of diversification, lack of liquidity, and other characteristics.

To make matters worse, while Staff witness Mr. Irvine recommends an overall 8.9 percent ROE, Staff witness Mr. Michlik employs a 'backed into' 6.23 percent return for the water division and an 8.9 percent return for the sewer division. As a result, Staff's overall return is 7.0 percent - not 8.9 percent. The Company has increased risks by using pro-forma revenues from potential future growth in the determination of the revenue requirement. Further, the Company will not realize the authorized return for several years, even at optimistic growth rates. *See* Rejoinder Testimony (Water Division) of Thomas J. Bourassa ("Bourassa WRJ") at 11, and Rejoinder Testimony (Sewer Division) of Thomas J. Bourassa ("Bourassa WWRJ") at 5.

Neither the returns recommended by Mr. Michlik (6.23 percent for the water division and 8.9 percent for the sewer division) nor the 8.9 percent overall return recommended by Mr. Irvine produce an adequate overall operating margin for USLLC (under a no growth scenario). In fact, the operating margin is negative for both the water and sewer division under Staff's current recommendations. *See* Bourassa WRJ at 13-14.

Q. WHAT IS THE CURRENT PRIME RATE?

A. 8.25 percent. Staff's overall rate of return of 7.0 percent in the instant case is less than the cost of debt.

B. Analysis and Criticism of Staff's Cost of Capital Analysis.

Q. WHAT IS THE CAUSE OF THE DECREASE IN THE RECOMMENDED

RETURN BY STAFF?

Q. There are two primary reasons. The first reason is that Staff's average DCF results dropped from 9.0 percent in its direct filing to 8.4 percent in its surrebuttal filing primarily due to a drop in the growth estimate used by Staff. Staff's dividend yield as dropped by 30 basis points, but I believe there may be an error in Staff's computation. I will discuss this later in my testimony. The second reason for the decrease in Staff's ROE is due to a significant decrease in Staff's average CAPM result which decreased from 10.2 percent in its direct filing to 9.4 percent in its surrebuttal filing. Staff's historical market risk premium ("MRP") CAPM result increased slightly from 10.9 percent to 11.0 percent, but Staff's current MRP premium CAPM result decreased by 170 basis points dropping from 9.5 percent in its direct filing to 7.8 percent in its surrebuttal filing.

Q. PLEASE DISCUSS THE DECREASE IN STAFF'S GROWTH RATE ESTIMATE.

A. Staff's growth rate estimate decreased from 5.7 percent in its direct filing to 5.2 percent in its surrebuttal filing. *See* Staff Direct and Surrebuttal Schedule SPI-2 and SPI-7. One of the main reasons that Staff's growth estimate has decreased is due to a much lower projected EPS growth estimate. Staff's projected EPS growth estimate dropped from 7.9 percent to 6.3 percent - a 160 basis point reduction. *See* Staff Direct and Surrebuttal Schedule SPI-7. As you will recall, Staff' relies exclusively on the Value Line Investment Survey data for its projected EPS growth rate. *See* Direct Testimony of Steven P. Irvine ("Irvine DT") at 15. The average of the Value Line published projected EPS growth rate for the utility sample companies has not changed significantly from the October 28, 2006 Value Line report Staff employed in its direct filing to the January 26, 2007 Value Line report Staff employed in its surrebuttal filing. Yet, Staff's projected EPS growth rate

dropped precipitously.

The table below provides a comparison.

	VL Report Projected EPS Growth Oct. 28, 2006	Staff Direct Filing Computed EPS Growth	VL Report Projected EPS Growth Jan. 26, 2006	Staff Surrebuttal Filing Computed EPS Growth
American States	10.5%	7.6%	10.5%	7.6%
Aqua America	8.0%	12.0%	7.5%	7.1%
California Water	4.5%	4.1%	4.5%	4.1%
Conn. Water	No Projection	No Projection	No Projection	No Projection
Middlesex	No Projection	No Projection	No Projection	No Projection
SJW Corp.	No Projection	No Projection	No Projection	No Projection
Average	7.7%	7.9%	7.5%	6.3%

Q. WHY ARE STAFF'S EPS GROWTH RATES DIFFERENT THAN THE VALUE LINE PUBLISHED GROWTH RATES?

A. Because Staff computes its own based on other Value Line data. This computation is subject to Staff's own judgments about the time period and other information used to compute the growth rate. These judgments whether intentional or unintentional skew the results downward.

Q. PLEASE EXPLAIN WHAT YOU MEAN WHEN YOU SAY THAT THE COMPUTATION OF THE PROJECTED EPS GROWTH RATES CAN BE DIFFERENT DEPENDING ON THE SELECTION OF THE TIME PERIODS?

A. If one chooses to compute the compound growth rate of EPS from 2005 to 2010 using a 5 year compounding period, as Staff has done, the result is 6.3 percent. On

the other hand, if one chooses to compute the compound growth rate of EPS from 2006 to 2010 using a 4 year compounding period, the result is 8.8 percent - 230 basis points higher.

Q. WHY DOES STAFF COMPUTE A PROJECTED EPS GROWTH RATE WHEN VALUE PUBLISHES THE GROWTH RATES?

A. I do not know. What I do know, is that the choice made by Staff results in the lowest growth rate which is inconsistent with not only Value Line's published growth rates, but those from other independently available sources.

Q. HOW DO THE CORRESPONDING PROJECTED EPS GROWTH RATES COMPARE FROM YOUR DIRECT TO YOUR REJOINDER COST OF CAPITAL ANALYSES?

A. The table below provides a comparison.

	VL Report Projected EPS Growth Oct. 28, 2006	USLLC Direct Filing Average EPS Growth	VL Report Projected EPS Growth Jan. 26, 2006	USLLC Rejoinder Filing Average EPS Growth
American States	10.5%	7.7%	10.5%	8.3%
Aqua America	8.0%	10.3%	7.5%	8.8%
California Water	4.5%	8.5%	4.5%	7.8%
Conn. Water	No Projection	No Projection	No Projection	No Projection
Middlesex	No Projection	4.0%	No Projection	No Projection
SJW Corp.	No Projection	No Projection	No Projection	No Projection
Average	7.7%	7.6%	7.5%	8.3%

Q. WHY ARE YOUR EPS GROWTH RATES DIFFERENT THAN THE VALUE LINE PUBLISHED GROWTH RATES?

A. As you will recall, I used analysts' forecasts of EPS growth from several sources,

not just Value Line. I used forecasts published by Zack's Investment Research, Standard & Poor's Earning Guide, and Value Line Investment Survey. *See* Direct Testimony of Thomas J. Bourassa ("Bourassa DT") at 26. As I have previously testified, using analysts' forecasts from several reputable sources offsets potentially overly optimistic or overly pessimistic projections from one source. *See* Bourassa RB at 4.

In addition, I use the published rates which are objectively obtained. That is, I do not compute growth rates based on other data which may be subject to my own judgments about the time period and other information.

Q. I NOTICED YOU DO NOT HAVE AN EPS GROWTH RATE PROJECTION FOR MIDDLESEX WATER IN YOUR REJOINDER GROWTH ESTIMATES. PLEASE EXPLAIN?

A. In the preparation of the cost of capital analysis for the Company's direct filing, growth estimates for Middlesex Water could be obtained from at least two independent sources (Zack's Investment Research and the Standard and & Poor's Earnings Guide). Between the Company's direct and rebuttal filings, only one growth rate estimate from an independent source was available (Zack's Investment Research). This continues to be the case for the Company's rejoinder filing.

Q. YOU HAVE CRITICIZED STAFF FOR USING ITS OWN JUDGEMENTS, AREN'T YOU USING YOUR OWN JUDGEMENT TO EXCLUDE THE PROJECT GROWTH RATE FOR MIDDLESEX WATER? PLEASE EXPLAIN.

A. Yes. However, my judgment to exclude the projected EPS growth rate for Middlesex is based on sound reasoning as are my judgment to exclude the low historical DPS and EPS growth rates. *See* Bourassa RB at 20-22. By excluding Middlesex's projected EPS growth estimate, I remain consistent with my approach

to have at least two independent sources.

In the interest of full disclosure, however, the EPS growth estimate for Middlesex Water published by Zack's Investment Research is 8.0 percent - significantly higher than the 4.0 percent EPS growth estimate used in the Company's direct filing cost of capital analysis. Zack's Investment Research (March 23, 2007) also published a projected EPS growth estimate for Connecticut Water Services. The published growth rate estimate is 10.0 percent. If these two independent single source estimates were to be employed in my rejoinder EPS growth estimate, the result would be approximately 8.6 percent - 30 basis points higher than the 8.3 percent stated in the table above and 230 basis points higher than Staff's.

Q. IT APPEARS THAT THE AVERAGE PROJECTED EPS GROWTH ESTIMATE FROM THE COMPANY'S DIRECT FILING TO THE COMPANY'S REJOINDER FILING HAS INCREASED, NOT DECREASED AS SUGGESTED BY STAFF'S COMPUTED EPS GROWTH RATE ESTIMATE?

A. Correct. Staff's projected EPS growth rate estimate has dropped by 160 basis points while the Company's has increased by 70 basis points. The independently published data, not only from Value Line, but other independent sources, suggest that the projected EPS growth estimate has increased, not decreased.

Q. IS STAFF'S AVERAGE DCF RESULT REALISTIC?

A. No. Staff's average DCF result of 8.4 percent is extremely low and is approaching the prime rate of 8.25 percent. More importantly, however, Staff's constant growth DCF result is 7.7 percent, 55 basis points below the prime rate. *See* Staff Surrebuttal Schedule SPI-2.

Q. IF THE AVERAGE PROJECTED EPS GROWTH ESTIMATE OF 8.3

PERCENT WERE TO BE USED IN STAFF'S GROWTH RATE ESTIMATE AND ULTIMATELY IN STAFF'S CONSTANT GROWTH DCF, WHAT WOULD THE CONSTANT GROWTH DCF RESULT BE?

A. 8.1 percent - still below the prime rate of 8.25 percent.

Q. THE USE OF THE HIGHER PROJECTED EPS GROWTH RATE ESTIMATE OF 8.3 PERCENT DOESN'T SEEM TO BRING STAFF'S CONSTANT GROWTH DCF RESULT UP OVER THE PRIME RATE. WHY?

A. Because of the extremely low historical DPS and EPS growth rates Staff also employs. I discussed at length in my rebuttal testimony about low historical DPS and EPS growth rates Staff employs and will not repeat them here. *See* Bourassa RB at 20-22. None-the-less, Staff's constant growth DCF result of 7.7 percent is another example of Staff blindly accepting the results of its models – results that do not pass a reality check.

Q. YOU MENTIONED THAT STAFF'S DIVIDEND YIELD DROPPED BY 30 BASIS POINTS. DO YOU HAVE AN EXPLANATION?

A. No. Staff's dividend yield is now 2.5 percent compared to 2.8 percent in its direct filing. I computed a dividend yield of 2.7 percent using the spot price February 21, 2007, the same date used by Staff. I believe Staff's dividend yield is understated by 20 basis points.

Q. PLEASE COMMENT ON STAFF'S CURRENT MARKET RISK PREMIUM CAPM RESULT.

A. As I stated earlier, Staff's current MRP CAPM result is now 7.8 percent. *See* Staff Surrebuttal Schedule SPI-2. Amazingly, this result is also below the prime rate of 8.25 percent. This is yet another example of Staff blindly accepting the results of its models.

Q. ISN'T THE CURRENT MARKET RISK PREMIUM CAPM AN UNSTABLE METHOD CONTRARY TO MR. IRVINE'S CLAIM ON PAGE 12 OF HIS SURREBUTTAL?

A. Yes. The fact that Staff's current MRP CAPM indicated cost of equity ("COE") dropped by 170 basis points from 9.5 percent to 7.8 percent in just a few short months should be enough evidence. If the computation were made using the most recent Value Line Investment Survey Summary and Index (dated March 30, 2007) and the March 29, 2007 treasury rates, Staff's current MRP CAPM indicated COE would be 9.5 percent - the same result Staff obtained in its direct. So, in the period of about a about two and a half months since Staff prepared its direct filing cost of capital analysis to now, the indicated COE using the current MRP CAPM has dropped by 170 basis points and then risen by 170 basis points.

Q. HAVE YOU TAKEN INTO CONSIDERATION ANY CHANGE IN BETA?

A. Yes. The same beta was used to eliminate the effects of any change in beta. But, beta has increased from 0.82 to 0.85. If the change in beta is taken into account, the indicated COE rises to 9.6 percent. Obviously, the volatility of Staff's current MRP CAPM raises serious questions about the use of the COE estimate produced with this input. We are still more than a month away from hearing, and new rates will not go into effect until August of 2007 – some five months from now. What will the current MRP CAPM indicated COE be at that time?

Q. HAVE YOU COMPUTED THE CURRENT MRP CAPM COST OF EQUITY FOR MARCH 30, 2007 USING THE SAME METHODLOGY STAFF DID IN ITS DIRECT AND SURREBUTTAL FILINGS?

A. Yes. In my rebuttal testimony I discussed Staff's methodology for the current MRP which is then used in Staff's current MRP CAPM. *See* Bourassa RB at 23. To be consistent with Staff, I used the median values of the dividend yield and

price appreciation potential as the starting point. As you will recall, I have a difference with Staff with respect to the use of median values rather than average values for the dividend yield and the price appreciation potential as inputs to the market based DCF to derive the current market COE which is then used to compute the current MRP. *See* Bourassa RB at 23-25. It is clear that use of the median values produces extremely volatile results.

Q. HAVE THE AVERAGE VALUES FOR THE DIVIDEND YIELD AND PRICE APPRECIATION CHANGED AS DRAMATICALLY AS THE CORRESPONDING MEDIAN VALUES?

A. No. The average dividend yield for the Value Line Index for February 2007 is still 2.1 percent, the same as it was in October 2006. Compare the 2.1 percent <u>average</u> dividend yield to the 1.6 percent <u>median</u> dividend yield employed by Staff in its surrebuttal analysis on February 21, 2007. The average price appreciation potential for the Value Line Index for February 2007 is 10.47 percent. In October 2006, the average price appreciation potential was 10.76 percent. Compare the February 2007 10.47 percent <u>average</u> price appreciation potential to the 6.78 percent <u>median</u> price appreciation potential employed by Staff in its surrebuttal analysis on February 21, 2007.

Q. HOW DO THE RESULTS OF THE CURRENT MARKET RISK PREMIUM CAPM COMPARE FROM OCTOBER 2006 TO FEBRUARY 2007 USING THE AVERAGE DIVIDEND YIELD AND PRICE APPRECIATION POTENTIAL?

A. Eliminating the effect of the increase in beta, which as I stated increased from 0.82 to 0.85, the current MRP CAPM indicated COE using the February 2007 Value Line data as discussed above, would be 11.2 percent. – the same result as was computed in my rebuttal. *See* Bourassa RB at 24. If the increase in beta is taken

into account, the indicated COE rises to 11.4 percent.

What is suggested by the 11.2 percent and the 11.4 percent indicated COE is that the COE under current market conditions is not decreasing, if anything it suggests it is increasing. This is contrary to what is suggested by Staff's two data points of 9.5 percent and 7.8 percent. Using the averages versus the medians in the instant case is clearly less volatile.

Q. WHY DO YOU USE THE OCTOBER 2006 AND FEBRUARY 2007 VALUE LINE DATA TO COMPUTE THE COST OF EQUITY?

A. To provide a direct comparison to Staff.

Q. DO YOU AGREE WITH MR. IRVINE THAT THE MEDIAN VALUES FOR THE DIVIDEND YIELD AND THE PRICE APPRECIATION POTENTIAL ARE MORE APPROPRIATE BECAUSE THEY ARE MORE ACCESSIBLE TO INVESTORS?

A. No. This is a poor excuse at best. Value Line publishes the projected EPS and DPS growth rates for the water utility sample companies. These are readily available to investors and require no further calculation, yet Staff makes a calculation of its own rather than use the published EPS growth rates. Interestingly, and as I have pointed out, the published rates produce projected growth rates significantly higher than Staff's computed growth rate. Clearly, Mr. Irvine has made choices in the selection of inputs which skew his results downward. *See* Bourassa RB at 34.

Q. ARE THE AVERAGE DIVIDEND YIELD AND AVERAGE PRICE APPRECIATION POTENITAL READILY AVAILABLE TO INVESTORS?

A. Yes. I obtained them from the Value Line Investment Analyzer software, widely available to investors.

Q. IS THE COMPUTATION OF THE AVERAGE VALUES FOR THE

DIVIDEND YIELD AND THE PRICE APPRECIATION POTENITAL SUBJECT TO YOUR JUDGEMENT?

A. No. The data is available from Value Line, an independent source, and a simple average is computed.

Q. DOES MR. IRVINE'S ARGUMENT THAT THE MEDIAN VALUES ARE LESS AFFECTED BY STATISTICAL OUTLIERS HAVE ANY MERIT?

A. No. A simple example will show how this argument does not have merit. Assume an investor purchases a single share of stock in each of the Value Line Index 1,700 stocks. I am sure Mr. Irvine would agree that the investor is diversified with respect to stocks. In purchasing a share of all 1,700 stocks in the market, the investor will earn the average return, not the median return.

C. <u>Response to Staff's Testimony on Unique Risks</u>.

Q. PLEASE RESPOND TO THE TESTIMONY MR. IRVINE AT PAGE 3 OF SURREBUTTAL TESTIMONY REGARDING UNIQUE AND FIRM SIZE?

A. I am a bit confused by Mr. Irvine's testimony. Mr. Irvine testifies that unique risk can be diversified away from by investors holding diversified portfolios. I have not testified in opposition to this view point. It is apparent Mr. Irvine has not read or has conveniently ignored my Rebuttal Testimony on this subject. *See* Bourassa RB at 14-20. Mr. Irvine arguments assume that the market data for the large publicly traded water utility companies captures the risks for small water utilities like USLLC. That is, the publicly traded water utility sample group is directly comparable to USLLC. It is not. Therefore, I am not speaking of unique risks with respect to USLLC.

The risks associated with small size, lack of diversification, limited revenue and cash flow, small customer base, lack of liquidity, as well as regulatory and construction risk are common to small water utilities. These risks are unique only

in the sense that the large publicly traded water utilities do not possess these same levels of risk. As I testified, investors would price the risks differently in the market. *Id.*

Both Staff and I use a sample of publicly traded water utility companies as a starting point in our respective COE analyses. However, unlike Mr. Irvine, who starts and ends that analysis, I recognize that the USLLC, like other small water utilities in Arizona, is not directly comparable. The problem is, we simply do not have market data for small water utilities to directly assess how an investor would price those risks.

Firm size is not a unique risk as Mr. Irvine asserts. *See* Surrebuttal Testimony of Steven P. Irvine ("Irvine SB") at 4. The size phenomenon is well documented in the financial literature. I have previously testified to studies by Dr. Zepp and the California Public Utilities Commission ("CPUC"). *See* Bourassa RB at 16 and 17. Small companies have very different returns than large ones and on average those returns have been higher. Ibbotson Associates' widely used compilation of historical returns from 1926 to the present reinforces the evidence (*See* Stocks, Bonds, Bills and Inflation 2006 Year Book, Ibbotson Associates, Chicago, 2005). Ibbotson Associates' historical return series shows the average annual return of 12.3 percent is for large company stocks while returns for micro-cap, low-cap and mid-cap stocks are 18.8 percent, 15.7 percent, and 14.2 percent, respectively, significantly higher than those for large company stocks. The size effect is particularly relevant for small utilities. Not only do these small utilities possess higher risks than their larger counterparts, they are subjected to a significant size effect, strongly suggesting that their COE is higher.

The view that small water utilities are not directly comparable to the large publicly traded water utilities does not violate any tenet of modern financial theory.

Modern financial theory of investment behavior rests on the notion that the specific risk component not explained by the market can be diversified away by the investor. In the instant case, we are not talking about the specific risks to USLLC per se, but the market risk associated with small water utilities like USLLC which we unable to measure.

Q. PLEASE RESPOND TO MR. IRVINE'S COMMENTS ON PAGE 4 OF HIS SURREBUTTAL TESTIMONY THAT THE COMMISSION HAS REJECTED THE FIRM PREMIUM FOR SMALL UTILITIES.

A. In his testimony, Mr. Irvine admits that "the Commission does not customary make a judgment on a specific principle in an individual rate case and expressly apply the principle to all other regulated utilities. Such a global finding would be customarily made in a generic docket." *See* Irvine SB at 7. Mr. Irvine apparently agrees with my rebuttal response to his assertion that the Commission has rejected the size premium for all utilities. *See* Bourassa RB at 18-20. But, even if this Commission currently holds this view point at the present time, it does not detract from the merits with respect to higher returns for small utilities. The CPUC memorandum provides credible evidence supporting the viewpoint that small utilities have higher business and operational risks, that small utilities are not directly comparable to large utilities, and that no market data exists to make a market based analysis are directly meaningful for small utilities.

Q. DO THE RETURNS STATED IN THE 2004 CALIFORNIA PUBLIC UTILITIES COMMISSION MEMORANDUM APPLY TO COST OF EQUITY RECOMENDATIONS FOR 2007?

A. Not directly. However, they do have relevance in one important aspect. That is, the rise interest rates since 2004 do not suggest the CPUC recommended returns for small utilities have decreased. After all, according to the memorandum, the

CPUC returns for small water utilities are based largely on the prevailing and expected levels of interest rates.

Q. PLEASE RESPOND TO MR. IRVINE'S REFERENCES TO THE ANNIE WONG STUDY ON THE FIRM SIZE EFFECT FOR WATER UTLITIES ON PAGE 5 OF HIS SURREBUTTAL TESTIMONY.

A. Mr. Irvine has referred to this study before. Ms. Wong's study and her conclusions have been disputed and called into question by Dr. Zepp[2]. Dr. Zepp examined Ms. Wong's results are commented:

> Wong's empirical results *are not strong enough to conclude that beta risks of utilities are unrelated to size.* In the period 1963–1967, when monthly data were used to estimate betas, her estimates of utility betas as well as industrial betas increased as the size of the firms decreased, but she did not find the same inverse relationship between size and beta risk for utilities in other periods. Being unable to demonstrate a relationship between size and beta in other periods may be the result of Wong using monthly, weekly and daily data to make those beta estimates. Roll (1980) concluded trading infrequency seems to be a powerful cause of bias in beta risk estimates when time intervals of a month or less are used to estimate betas for small stocks. When a small stock is thinly traded, its stock price does not reflect the movement of the market, which drives down the apparent covariance with the market and creates an artificially low beta estimate. *Id.* at 579 (emphasis supplied)

Dr. Zepp ultimately concluded:

> Wong's concluding remarks should be re-examined and placed into perspective. She noted that industrial betas tend to decrease with increases in firm size but the same relationship is not found in every period for utilities. Had longer time intervals been used to estimate betas, as was done in Table 1, she may have found the same inverse relationship between size and beta risk for utilities in other periods. She also concludes "there is some weak evidence that firm size is a missing factor from the CAPM for the industrial but not the utility

[2] Zepp, Thomas M. (2002, August). Utility Stocks and the size effect – revisited. *The Quarterly Review of Economics and Finance*, 578-582.

> stocks" (Wong, 1993, p. 98), *but the weak evidence provides little support for a small firm effect existing or not existing in the in either the industrial or utility sector.* Two other studies discussed here support a conclusion that smaller water utilities are more risky than larger ones. To the extent that water utilities are representative of all utilities, there is support for smaller utilities being more risky than larger ones. *Id.* at 582 (emphasis supplied)

Regardless of whether one chooses to accept Ms. Wong's conclusions, Ms. Wong's study encompassed the utility industry which included both electric and gas utilities and did not focus on water utilities. Further, the average market value of the smallest utility portfolio in her study in 1993 was $62 million – 40 to 50 times larger than is USLLC. When I speak about the various risks associated with USLLC's small size, limited revenue, limited customer growth and lack of liquidity, I am talking about risks which have not been priced by investors and are not reflected in any available market data. Ms. Wong's study does not apply in the instant case.

But consider that if USLLC has a well failure or a transmission main break, the impact on USLLC is far more serious than if Aqua American or California Water Service experiences a similar problem. Indeed, USLLC's earnings could be wiped out as available cash flow is diverted to repair or replace the well. For this reason, an investor would view an equity investment in USLLC much differently than an equity investment in the stock of a large publicly traded water utility, and would require a higher return on that investment. Otherwise, the investor would instead purchase Aqua America's stock, which would have less risk while promising a greater return.

Q. PLEASE RESPOND TO MR. IRVINE'S ASSERTION THAT DR. ZEPP'S STUDY IS DEFECTIVE BECAUSE HIS SAMPLE SIZE WAS SMALL?

A. Whether one chooses to accept the results of Dr. Zepp's study or not, his study is consistent with the CPUC study using a sample of 58 <u>water</u> utilities. Contrast this

to Ms. Wong's study which did not focus on water utilities. As Dr. Zepp states regarding the CPUC study, "Following 8 days of hearings and testimony by 21 witnesses regarding this study, it was adopted by the California Public Utilities Commission in CPUC Decision 92-03-093, dated March 31, 1992." *Id.*

Q. PLEASE COMMENT ON MR. IRVINES CRITICISM OF THE IBBOTSON ASSOCIATES HISTORICAL TOTAL MARKET RETURNS FOR MID-CAP, LOW-CAP, AND MICRO-CAP STOCKS ON PAGE 7 OF HIS SURREBUTTAL TESTIMONY?

A. While Mr. Irvine may find that the returns published by Ibbotson Associates (see Ibbotson Associates, Stocks, Bonds, Bills, and Inflation 2006 Year Book, Chicago, 2005 at 28) are irrelevant, the historical market returns of the water utility sample companies published by Value Line are consistent with the Ibbotson Associates returns. *See* Bourassa RB at 10. Further, the results on the bond risk premium analysis presented in my rebuttal testimony are also consistent with the Ibbotson Associates returns. *See* Bourassa RB at 14. As a reality check, the Ibbotson returns are relevant.

D. Response to Staff's Testimony on Comparisons to Actual and Authorized Returns.

Q. PLEASE RESPOND TO MR. IRVINE'S COMMENTS ON PAGE 7 AND 8 OF HIS SURREBUTTAL TESTIMONY CONCERNING THE ROLE OF ACTUAL AND AUTHORIZED EARNINGS?

A. It is apparent from his testimony that Mr. Irvine doesn't understand the basis for the comparable earnings method. As I previously discussed in my Direct Testimony, the comparable earnings approach is rooted in U.S. Supreme Court decisions, including *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944), and *Bluefield Waterworks & Improvement Co. v. Public Service*

Commission of West Virginia, 262 U.S. 679 (1923). *See* Direct Testimony of Thomas Bourassa ("Bourassa DT") at 24 and 30.

Given these requirements, it would be myopic at best to simply ignore actual and authorized returns on equity. The goal is to authorize a return on equity that is equal to the return on investments with similar risk. Mr. Irvine is exclusively advocating that the results of his finance models should be used without regard to whether the results of those models are consistent with the actual and authorized earnings of the companies he has used to implement his finance models. I am not surprised. Mr. Irvine does not even acknowledge the criteria set forth by *Hope* and *Bluefield* anywhere in his testimony. The basis of his entire testimony is that expected returns may only be estimated with market based models such as the DCF and CAPM. Like much of his testimony, this simply ignores reality. If a company has consistently earned returns on equity between 10 percent and 11 percent during the past 5 years, and is projected to continue to earn a return on equity within that range, why would an investor reject that information and, instead, choose to rely solely on a finance model? In fact, why would investment services such as Value Line and Standard & Poor's publish historic information regarding a company's earnings if expected returns can only be estimated by using finance models? They wouldn't have much of a market for their products.

E. <u>Response to Staff's Testimony on the Use of Analyst Forecasts.</u>

Q. PLEASE COMMENT ON MR. IRVINE'S TESTIMONY AND PAGE 10 OF HIS SURREBUTTAL THAT HISTORICAL GROWTH RATES ARE LESS SUBJECTIVE BECAUSE THEY ARE BASED ON CALCULATIONS?

A. Mr. Irvine's assertion that historical growth rates are less subjective because they are based on calculations is puzzling. A calculation of historical growth rates are what they are. The point is, when estimating investor expectations <u>using</u> those

growth rates in a prospective model is subjective and provides no more a balanced approach than using only analyst expectations. I have already testified to the reasons why I chose to use analyst expectations and the superiority of the use of analyst expectations in estimating the COE and will not repeat them here. *See* Bourassa RB at 3-4.

Q. CAN YOU COMMENT ON MR. IRVINE' SURREBUTTAL TESTIMONY CONCERNING YOUR EXCLUSION OF HISTORICAL DPS AND EPS GROWTH RATES FROM THE DCF MODEL?

A. Mr. Irvine defends the use of historical DPS and EPS growth rates asserting that this provides a balanced and reasonable outcome, which is supposedly Staff's objective. *See* Irvine SB at 10. Mr. Irvine goes on to testify that if the low growth rates were to be excluded from Staff's growth estimate then it would also be appropriate to exclude the highest growth estimates. *Id.*. The difference is that there is a sound basis for excluding the historical growth rates, but not the projected growth rates. As I previously testified, the indicated costs of equity using historical DPS growth estimates are at or below the cost of debt. *See* Bourassa DT at 27-28 and Bourassa RB at 20-21. In addition, in estimating future growth, financial institutions and analysts have taken into account all relevant historical information on a company as well as other more recent information. Analyst estimates of EPS growth have also been shown to be superior in estimating the COE. These were the reasons why I excluded the historical growth rates from my analysis. *See* Bourassa DT at 26-27 and Bourassa RB at 3. The low indicated COE of Staff's constant growth DCF of 7.7% and current MRP CAPM of 7.8% suggest I am correct in my criticisms of the inputs Staff employs in its models.

The highest growth rates by either Staff or USLLC actually produce results within the ranges of my risk premium approaches and my comparable earnings approaches. Thus, there is no reason to exclude them.

Q. PLEASE EXPLAIN.

A. In Rejoinder Schedule D-4.5, the highest projected average EPS growth estimates are from Value Line at 9.0 percent. The average dividend yield of the water utilities sample is 2.7 percent. The indicated COE using the constant growth DCF model is 11.7 percent – still within the range of my COE results. Looking at it from Staff's perspective, Staff's highest growth rate is 7.5 percent for the projected sustainable growth rate. Staff's average dividend yield is 2.5 percent. The indicated COE using the constant growth DCF model is 10.0 percent - also still within the range of my COE results.

Even more telling is if Staff's highest growth rate of 7.5% is excluded from Staff's growth rates, Staff's constant growth DCF indicated COE drops to 7.2 percent – 50 basis points lower than the already low 7.7 percent.

I have shown that the average total market returns for the water utilities sample during the past 5 years have been 16.84 percent (13.34 percent compounded). *See* Bourassa RB at 10. In addition, I have shown that a market based bond risk premium based on the water utility sample and the current yield on long-term government bonds indicates a COE of over 17 percent. Historically investors have received returns far greater than Staff's recommended 8.9 percent return and far greater than my recommendation for USLLC of 10.5 percent. As the evidence shows, the highest growth rates should not be excluded because there is no rational basis to do so.

Q. DOES MR. IRVINE CRITICIZE YOUR COMPUTATION OF THE AVERAGE TOTAL MARKET RETURNS FOR THE WATER UTILITY SAMPLE FOR THE PAST 5 YEAR?

A. Yes, Mr. Irvine that the finds the 13.34 percent total market returns does not recognize compounding, but I in fact it does. *See* Irvine SB at 9. The 5 year average total market return is 16.84 percent.

F. <u>Response to Staff's Testimony on the Staff's Inputs.</u>

Q. PLEASE COMMENT ON MR. IRVINE'S TESTIMONY THAT STAFF DOES NOT EXCLUDE INPUTS BECAUSE THEY ARE AT OR BELOW A SELECTED BENCHMARK AND ARE VIEWED AS TOO HIGH OR TOO LOW?

A. Mr. Irvine's comments reinforce my point that Staff does not provide for a reality check on the results of their models. Mr. Irvine mechanically applies his finance models and blindly accepts the results.

Q. DOES THAT CONCLUDE YOUR REBUTTAL COST OF CAPITAL TESTIMONY?

A. Yes.

Utility Source, L.L.C.
Summary of Results

Exhibit
Rejoinder ScheduleD-4.0
Witness: Bourassa

Line No.		Low	High	Midpoint
1	DCF Constant Growth	9.7%	12.0%	10.9%
2	DCF Sustainable Growth	8.2%	10.5%	9.4%
3	DCF Two-Stage	9.2%	11.5%	10.4%
4				
5	Risk Premium - Actual Returns	10.1%	10.2%	10.2%
6	Risk Premium - Authorized Returns	10.8%	11.3%	11.1%
7				
8	Actual Returns	4.2%	11.7%	8.0%
9	Authorized Returns	9.9%	12.7%	11.3%
10				
11	Water Utility Industry			
12	2006			9.0%
13	2007			10.0%
14	09-11			10.5%
15				
16				
17				
18				
19				
20				

Utility Source, L.L.C.
Selected Characteristics of Water Utilities

Exhibit
Rejoinder Schedule D-4.1
Witness: Bourassa

Line No.		% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating
1						
2						
3						
4	1. American States	85%	$ 254.3	$ 655.7	A-	A2
5	2. Aqua America	88%	$ 519.6	$ 2,112.5	AA-	NR
6	3. California Water	96%	$ 331.9	$ 813.9	NR	A2
7	4. Connecticut Water	90%	$ 49.4	$ 209.0	AAA	NR
8	5. Middlesex	89%	$ 80.5	$ 274.4	A	NR
9	6. SJW Corp.	97%	$ 188.3	$ 406.7	NR	NR
10						
11	Average	91%	$ 237.3	$ 745.4		
12						
13	Utility Source, L.L.C.	56%	$ 0.2	$ 5.0	NR	NR
14						
15	Source: AUS Utility Reports (March 2007)					

Utility Source, L.L.C.
Capital Structures of Water Utilities December 2005

Exhibit
Rejoinder Schedule D-4.2
Witness: Bourassa

No.		Book Value		Market Value	
1		Long-Term	Common	Long-Term	Common
2		Debt	Equity	Debt	Equity
3					
4	1. American States	50.4%	49.6%	29.4%	70.6%
5	2. Aqua America	52.0%	48.0%	22.8%	77.2%
6	3. California Water	48.3%	51.7%	25.0%	75.0%
7	4. Connecticut Water	40.6%	59.4%	24.5%	75.5%
8	5. Middlesex	56.3%	43.7%	36.7%	63.3%
9	6. SJW Corp.	42.6%	57.4%	16.2%	83.8%
10					
11	Average	48.3%	51.7%	25.8%	74.2%
12					
13	Utility Source, L.L.C.	0.0%	100.0%	N/A	N/A
14					
15					
16	Sources:				
17	Zacks Investment Research				
18					
19					
20					

Utility Source, L.L.C.
Comparisons of Past and Future Estimates of Growth

Exhibit
Rejoinder Schedule D-4.3
Page 1
Witness: Bourassa

Line No.		Company	Five-year historical compound annual changes: Price	Book Value	DPS	EPS	Average Future Growth*
7	1.	American States	14.33%	4.53%	0.90%	Negative	8.25%
8	2.	Aqua America	13.45%	16.62%	8.45%	6.84%	8.83%
9	3.	California Water	14.16%	4.06%	0.53%	7.03%	7.83%
10	4.	Connecticut Water	-2.03%	5.40%	1.22%	Negative	
11	5.	Middlesex	5.41%	4.33%	1.56%	5.44%	
12	6.	SJW Corp.	24.77%	6.02%	5.27%	11.53%	
15		GROUP AVERAGE	11.68%	6.83%	2.99%	7.71%	8.31%
16		GROUP MEDIAN	13.81%	4.96%	1.39%	6.93%	8.25%

18 * See Rejoinder Schedule D-4.5
19 Sources:
20 Value Line Data
21 Yahoo Finance

Utility Source, L.L.C.

Comparisons of Past and Future Estimates of Growth

Exhibit
Rejoinder Schedule D-4.4
Page 1
Witness: Bourassa

Line No.		Company	Ten-year historical compound annual changes: Price	Book Value	DPS	EPS	Average Future Growth*
7	1.	American States	14.63%	4.13%	1.05%	1.64%	8.25%
8	2.	Aqua America	19.28%	12.77%	6.94%	9.00%	8.83%
9	3.	California Water	11.32%	2.60%	1.01%	Negative	7.83%
10	4.	Connecticut Water	9.88%	4.12%	1.13%	Negative	
11	5.	Middlesex	12.89%	3.89%	1.99%	3.67%	
12	6.	SJW Corp.	21.15%	4.28%	3.94%	3.24%	
15		GROUP AVERAGE	14.86%	5.30%	2.68%	4.39%	8.31%
16		GROUP MEDIAN	13.76%	4.13%	1.56%	3.45%	8.25%

18 * See Rejoinder Schedule D-4.5
19 Sources:
20 Value Line Data
21 Yahoo Finance

Utility Source, L.L.C.
Analysts Forecasts of Earnings Per Share Growth

Exhibit
Rejoinder Schedule D-4.5
Witness: Bourassa

Line No.		Company	(1) Zacks	(2) S&P	(3) Value Line	(4) Average Growth (G) (Cols 1-3)
			EPS GROWTH			
7	1.	American States		6.00%	10.50%	8.25%
8	2.	Aqua America	9.00%	10.00%	7.50%	8.83%
9	3.	California Water	9.00%	10.00%	4.50%	7.83%
10	4.	Connecticut Water	*10.00%*			8.31%
11	5.	Middlesex	8.00%			8.31%
12	6.	SJW Corp.				8.31%
15		GROUP AVERAGE	9.00%	8.67%	7.50%	8.31%
16		GROUP MEDIAN				8.31%

Sources:
Value Line Investment Analyzer March 30, 2007
Zacks Investment Research Site March 23, 2007
S&P Earnings Guide March 2007

Utility Source, L.L.C.
Estimates of Sustainable Growth

Exhibit
Rejoinder Schedule D-4.6
Witness: Bourassa

Line No.		Company	(1) Retention Ratio	(2) Rate of Return	(3) br Growth	(4) sv Growth	(5) Average Sustainable Growth (Cols 3+4)
7	1.	American States	0.48	10.00%	4.84%	1.81%	6.65%
8	2.	Aqua America	0.33	12.00%	3.96%	2.23%	6.19%
9	3.	California Water	0.32	9.00%	2.90%	4.60%	7.50%
10	4.	Connecticut Water					
11	5.	Middlesex					
12	6.	SJW Corp.					
15		GROUP AVERAGE	0.38	10.33%	3.90%	2.88%	6.78%
16		GROUP MEDIAN	0.33	10.00%	3.96%	2.23%	6.65%

Sources:
Value Line Data

Utility Source, L.L.C.
Estimates of sv Growth

Exhibit
Rejoinder Schedule D-4.7
Witness: Bourassa

Line No.		Company	(1) Stock Financing Rate	(2) Current Market to Book Ratio	(3) v	(4) sv Growth
1						
2						
3						
4						
5						
6						
7	1.	American States	3.04%	2.48	0.60	1.81%
8	2.	Aqua America	3.06%	3.68	0.73	2.23%
9	3.	California Water	7.41%	2.64	0.62	4.60%
10	4.	Connecticut Water				na
11	5.	Middlesex				na
12	6.	SJW Corp.				na
13						
14						
15		GROUP AVERAGE	4.50%	2.93	0.65	2.88%
16		GROUP MEDIAN	3.06%	2.64	0.62	2.23%
17						
18	Sources:					
19		Value Line Data				
20						
21						

Utility Source, L.L.C.
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model
Using Projected EPS Growth

Exhibit
Rejoinder Schedule D-4.8
Witness: Bourassa

Line No.		Company	(1) Spot Price (Po)	(2) Next Year's Div (D1)	(3) Dividend Yield	(4) (a) EPS Growth (g)	(5) Indicated Cost of Equity k=Div Yld + g (Cols 3+4)
7	1.	American States	36.87	0.94	2.55%	8.25%	10.8%
8	2.	Aqua America	22.45	0.50	2.23%	8.83%	11.1%
9	3.	California Water	38.32	1.16	3.03%	7.83%	10.9%
10	4.	Connecticut Water	24.05	0.86	3.57%	8.31%	11.9%
11	5.	Middlesex	18.39	0.68	3.72%	8.31%	12.0%
12	6.	SJW Corp.	40.48	0.58	1.43%	8.31%	9.7%
15		GROUP AVERAGE			2.76%	8.31%	11.1%
16		GROUP MEDIAN					11.0%

18 a) See Rejoinder Schedules D-4.5

20 Sources:
21 Value Line Investment Analyzer March 30, 2007
22 Yahoo Finance Website March 30, 2007

Utility Source, L.L.C.
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Sustainable Growth

Exhibit
Rejoinder Schedule D-4.9
Witness: Bourassa

Line No.		Company	(1) Spot Price (Po)	(2) Next Year's Div (D1)	(3) Dividend Yield	(4) Sustainable Growth(a) br	(5) vs	(6) br+sv Growth (g)	(7) Indicated Cost of Equity k=Div Yld + g (Cols 3+6)
7	1.	American States	36.87	0.94	2.55%	4.84%	1.81%	6.65%	9.2%
8	2.	Aqua America	22.45	0.50	2.23%	3.96%	2.23%	6.19%	8.4%
9	3.	California Water	38.32	1.16	3.03%	2.90%	4.60%	7.50%	10.5%
10	4.	Connecticut Water	24.05	0.86	3.57%			6.78%	10.4%
11	5.	Middlesex	18.39	0.68	3.72%			6.78%	10.5%
12	6.	SJW Corp.	40.48	0.58	1.43%			6.78%	8.2%
15		GROUP AVERAGE			2.76%			6.78%	9.5%
16		GROUP MEDIAN							9.8%

a) See Rejoinder Schedule D-4.6 and D-4.7

Sources:
Value Line Investment Analyzer March 30, 2007
Yahoo Finance Website March 30, 2007

Utility Source, L.L.C.
Discounted Cash Flow Analysis (Water)
Two-Stage Growth - Projected

Exhibit
Rejoinder Schedule D-4.10
Witness: Bourassa

Line No.		Company	(1) Spot Price(P_0)	(2) Next Year's Div (D_1)	(3) Yield (D_1/P_0)	(4) Projected Growth Rates Near Term (a)	(5) Long Term (GDP)	(6) Average (b)	(7) Indicated Cost of Equity
7	1.	American States	36.87	0.94	2.55%	8.25%	6.80%	7.77%	10.3%
8	2.	Aqua America	22.45	0.50	2.23%	8.83%	6.80%	8.16%	10.4%
9	3.	California Water	38.32	1.16	3.03%	7.83%	6.80%	7.49%	10.5%
10	4.	Connecticut Water	24.05	0.86	3.57%	8.31%	6.80%	7.81%	11.4%
11	5.	Middlesex	18.39	0.68	3.72%	8.31%	6.80%	7.81%	11.5%
12	6.	SJW Corp.	40.48	0.56	1.38%	8.31%	6.80%	7.81%	9.2%
15		GROUP AVERAGE						7.81%	10.6%
16		GROUP MEDIAN							10.5%

(a) See Rejoinder Schedule D-4.5
(b) Near term growth given weighting of .67

Utility Source, L.L.C.
Risk Premium Equity Cost Analysis
Average Equity Returns of Sample Water Companies

Exhibit
Rejoinder Schedule D-4.11
Witness: Bourassa

Line No.		Actual Returns on Equity	Annual Average 10 Year Treasury	Risk Premium 10 Year Treasury
1	2005	9.22%	4.29%	4.93%
2	2004	9.00%	4.27%	4.73%
3	2003	8.75%	4.01%	4.74%
4	2002	10.25%	4.61%	5.64%
5	2001	10.05%	5.02%	5.03%
6	2000	9.62%	6.03%	3.59%
7	1999	11.20%	5.65%	5.55%
8	1998	10.62%	5.26%	5.36%
9	1997	11.52%	6.35%	5.17%
10	1996	11.67%	6.44%	5.23%
11	1995	10.93%	6.57%	4.36%
12				
13				
14	10 Year Average Premium			5.00%
15	5 Year Average Premium			5.01%
16				
17				
18	Consensus Forecast Interest Rates for 2008-2009			5.15%
19				
20	Projected Returns on Equity			
21	10 Year Average			10.1%
22	5 Year Average			10.2%
23				
24				
25	Sources:			
26	Value Line Data			
27	Ibbotson Associates SBBI Valuation Edition 2006 Yearbook			
28	Blue Chip Forecast Interest Rates - 10 year Treas. December 2006			
29	Federal Reserve			
30				

Utility Source, L.L.C.
Risk Premium Equity Cost Analysis
Authorized Equity Returns of Sample Water Companies

Exhibit
Rejoinder Schedule D-4.12
Witness: Bourassa

Line No.		Authorized Returns on Equity	Average Annual 10 Year Treasury	Risk Premium 10 Year Treasury
1	2005	10.47%	4.34%	6.13%
2	2004	10.40%	4.27%	6.13%
3	2003	10.48%	4.01%	6.47%
4	2002	10.62%	4.61%	6.01%
5	2001	10.86%	5.02%	5.84%
6	2000	11.12%	6.03%	5.09%
7	1999	11.12%	5.65%	5.47%
8	1998	11.06%	5.26%	5.80%
9	1997	11.18%	6.35%	4.83%
10	1996	11.58%	6.44%	5.14%
11	1995	11.51%	6.57%	4.94%
12				
13				
14	10 Year Average Premium			5.69%
15	5 Year Average Premium			6.12%
16				
17				
18	Consensus Forecast Interest Rates for 2008-2009			5.15%
19				
20	Projected Returns on Equity			
21	10 Year Average			10.8%
22	5 Year Average			11.3%
23				
24				
25	Sources:			
26	AUS Utility Reports, issues for December various years			
27	Ibbotson Associates SBBI Valuation Edition 2006 Yearbook			
28	Blue Chip Forecast Interest Rates - 10 year Treas. December 2006			
29	Federal Reserve			

Test Year Ended December 31, 2005
Returns on Equity of Nationally Traded Water
Utilities as Reported in AUS Utility Reports
March 2007

Exhibit
Rejoinder Schedule D-4.13
Witness: Bourassa

Line No.		Authorized Rate of Return	Current Rate of Return
1	American States Water Co.	9.9%	8.4%
2	Aqua America	10.1%	10.5%
3	California Water	10.1%	8.4%
4	Connecticut Water Service	12.7%	4.2%
5	Middlesex Water Co.	10.0%	10.0%
6	SJW Corp.	10.1%	11.7%
7			
8			
9	Averages	10.5%	8.9%
10			
11			
12			
13			
14			
15			

A-6

Richard L. Sallquist
SALLQUIST, DRUMMOND & O'CONNOR, P.C.
4500 S. Lakeshore Drive, Suite 339
Tempe, Arizona 85282
Telephone: (480) 839-5202
Attorneys for Utility Source, L.L.C

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C. FOR A DETERMINIATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PROPERTY AND FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICES	**WS-04235A-06-0303** **NOTICE OF FILING SUPPLEMENTAL REJOINDER TESTIMONY**

Utility Source, L.L.C. by and through undersigned counsel, hereby provides Notice of Filing of the Supplemental Rejoinder Testimony of Lonnie McCleve regarding the customer comments at the March 19, 2007 Public Comment meeting held in Flagstaff. The Company only received the Transcript of that meeting on March 30, 2007 and provides these responses thereto.

Respectfully submitted this 6th day of April 2007.

SALLQUIST, DRUMMOND & O'CONNOR, P.C.

By_____
Richard L. Sallquist
4500 S. Lakeshore Drive, Suite 339
Tempe, AZ 85282
Attorneys for Utility Source, L.L.C.

Original and ten copies of the foregoing filed this 6th day of April 2007, with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

_____

36100.00000.186

EXHIBIT
A-6
admitted

A copy of the foregoing filed
this 24th day of April, 2007, to:

Hearing Division
Arizona Corporation Commission
1200 W. Washington
Phoenix, Arizona 85007

Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Ponderosa Fire District
c/o Starr Lamphere, Board Chairman
P.O. Box 16359
Bellemont, Arizona 86015

David Hitesman
4661 N Bellemont
Bellemont, Arizona 86015

Dennis Jones
11573 W Cove Crest
Bellemont, Arizona 86015

36100.00000.186

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: WS-04235A-06-0303

SUPPLEMENTAL REJOINDER TESTIMONY OF

LONNIE MCCLEVE

FILED APRIL 6, 2007

Q. Would you please your name and business address?

A. My name is Lonnie McCleve. My business address is 721 San Pedro, Gilbert, Arizona 85234.

Q. What is your relationship to Utility Source, LLC

A. I am an owner and officer of the company.

Q. Are you familiar with the subject Application, and have you filed testimony in this proceeding?

A. I am familiar with the Application, but have not previously filed testimony in this matter.

Q. **Are you aware that the Commission held a Public Comment meeting on this Application in Flagstaff on March 19, 2007?**

A. Yes I am. I was not in attendance, although a Company representative was there during the entire meeting. I have had an opportunity to review the official transcript of that meeting.

Q. Is it your opinion that based upon those un-sworn comments there is substantial misunderstanding of the Company's operations and its relationship to the developer and homeowners association?

A. I believe that to be true, and I also believe there were some misstatements of fact made by some of the individuals.

Q. Let me ask about certain of the issues that I believe the Commission may be concerned with, roughly in the order they were raised at the meeting.

First, was an allegation of unauthorized water use. Would you please speak to that allegation?

A. Yes. The Company is using water from its system for use in the Deep Well #4 drilling operation. The delivery point for that water is in the proximity of the mobile home park. This may have caused certain observers to believe that the mobile home park was receiving water through other than normal metered service. It is not. The water used for construction of a well is for the benefit of Utility Source and the water used will be appropriately accounted for by Utility Source.

Q. There was also an allegation that certain family members or employees were not being charged for their utility services. Was that statement correct?

A. Absolutely not. This is a false accusation. We are aware that this would be a sensitive issue both for the Commission and other customers and would never consider such a practice. All customers are charged and pay our tariffed charges for both water and sewer use.

Q. Will you please briefly summarize your meter reading and billing procedures?

A. Yes. Meters are read manually. Most meters are read every month. There may be anywhere from two to five meters that can not be read on certain months due to issues beyond our control, such as standing water over meter preventing visual read or vehicles being parked on top of meter boxes. You should be aware that every time we have rain or snow melt, it is possible that some of the meters boxes fill with mud or water so a read could be delayed. Those bills are then estimated in accordance with the Commission's

Rules and Regulations. When a homeowner calls about their bill we research the problem and thereafter call them. Sometimes it involves our on-site person. If there is a glitch in the computer, we call our computer representative. Depending on the question, we do not always determine the answers that day. We are not familiar with the particulars of all comments at the meeting, but one customer stated his bill was significantly over the normal bill. Our Office Manager had the on-site person re-read the meter and that customer was correct; the reading was off by 10,000 gallons. By his next bill it had been corrected. Another customer suggested we had mis-read his meter, but we re-read that meter and it was right on for his usage. Another customer who commented is a homeowner who moved in after a tenant left owing the Company, and a disconnect notice was put on the door. The new homeowner had not called to set up service. Therefore, we had no way of knowing someone new was living there. We just knew that water was being used. This too was corrected.

Q. Others commented on the Company's responses to customer telephone inquiries. Will you please respond?

A. Our toll free number is on each bill and customers regularly use it. When not in her office, our Office Manager transfers calls from work to her mobile and speaks with several homeowners a day, after hours (including 2:00 a.m.), and on weekends. We believe the vast majority of these calls are resolved satisfactorily. Our operations person lives on-site and is often aware of the problem and in the process of correcting it even before the Office Manager calls him.

Q. There was also a question regarding water trucks hauling water offsite, and

whether or not those customers are being billed?

A. There are currently two water haulers, Larry Wright Water Hauler, and Pilot. Pilot is only hauling water through the construction phase of their truck stop. When it is completed they will be tapped into our main line with a regular meter. Larry Wright mainly hauls to residential customers. Both haulers are charged the tariffed rate per 1,000 gallons used.

Q. An additional misunderstanding appeared to be regarding the relationship between the Company, the developer of property, and that homeowners association, and possible misdealings among those parties. Would you please explain for the Commission the relationship of those parties and the dealings between among them?

A. Utility Source, LLC, Greenfield Land Development and Flagstaff Meadows Property Owner's Association are separate entities and have been from their inception. Each has its own bylaws and operating agreement. Moreover, each entity has its own bank account for depositing revenues and paying bills. Income and expenses are accounted for separately for each of these entities on their own set of books. Utility Source possesses a bank account for depositing water and wastewater revenues. Bills associated with the operation of the utility company are paid exclusively through this account. Utility Source is a public service company and is obviously regulated by the Commission. It has been issued a Federal Identification Number by the Internal Revenue Service. It is required to file annual reports with both the Commission's Utility Division and the Arizona Department of Revenue. These report income and expenses as well as the Company's assets and liabilities. Like all utility companies, Utility Source LLC is

subject to close scrutiny by utility regulatory agencies. It is submitted that the Company just went through a microscopic review of all plant, revenues and expenses by the Commission Staff. No suggestion of any inappropriate transaction was made by Staff. Utility Source is also required to file annual corporate income tax returns, both state and federal. The utility company has a part time office manager that handles customer service matters. We have a monthly contract with an office assistant who is responsible for creating monthly billings based on the meter readings. A computer consultant provides regular hardware maintenance and supervises billing software functions. An independent accountant performs all accounting duties and is responsible for reporting compliance. Utility Source utilizes three separate Certified Public Accounting firms for tax filings, and regulatory execution. Utility Source contracts with firms that provide such services as water testing, wastewater testing, and sludge removal. We also contract with Contract Wastewater Operator (CWO), as the ADEQ certified Operator, and as the on-site operator for the water and wastewater treatment plants. CWO employs Jeremy McCaleb who assists with these responsibilities. Other tasks completed by Mr. McCaleb include monthly meter reading as well as being available to customers for service issues. Fortunately, he resides in Flagstaff Meadows and is on call 24 hours a day.

Greenfield Land Development is a partnership which possesses its own bank account for the purpose of depositing income received and the paying of bills associated with the operation of its development projects. Mary Ann Parry manages the day to day operations for Greenfield Land Development. Also engaged in the Company's operations is an independent accountant who administers all accounting functions. A Certified

Public Accountant prepares annual federal and state tax returns. Greenfield did initially develop the area, but has sold most of the property to third-party builders.

Flagstaff Meadows Property Owners Association is registered as a non-profit corporation with the Arizona Corporation Commission, and owned by the property owners. As with virtually all homeowners associations, it was formed by the developers, and remained in the developers control until the majority of the homes we sold. That has now occurred, and the control is being "transitioned" to the residents. The Association has its own bank account through which all dues collected are deposited. It pays for bills associated with operation through this bank account. Mary Ann Parry has been serving as the office manager for the Property Owners Association. Her responsibilities included, but were not limited to, creating invoices for dues, collection of funds, payables, and other secretarial duties are required by daily operation. Upon completion of the subdivision sales, and in accordance with the CC&R'S and Bylaws, a meeting was recently held to elect new board members who will be responsible for all the affairs of the Association. Unfortunately, very little interest was shown in those positions, but elections were held and seven members were elected to the new board. A meeting is scheduled for April 19, 2007 to further the implementation of the new board members duties and responsibilities and to plan for the New Year.

Q. It was indirectly suggested that either the Association or Utility Source might be paying for landscaping or other services of shareholders or shareholder's family members. Have any such services been provided at utility customer or association member expense?

A. Absolutely not. Because there are a limited number of service companies available in Bellemont, I cannot tell you that some of the Company's subcontractors have not done work for individuals within the community, but I can tell you that those services were not paid for by the Company or the Association.

Q. One customer questioned water quality reports. Are those filed and available for customer review?

A. Yes. All required water quantity and quality have been filed with ADWR and ADEQ, respectively. The Company will be preparing a Consumer Confidence Report as required by ADEQ and that report will be distributed to all the customers. It will have all data in it. We do not recall being previously asked for these reports by any customer, the Company is doing everything required by the controlling regulatory agencies.

Q. Are you aware of the suggested change in the associations CC&R's pertaining to rainwater?

A. No, to our knowledge the Association has never had a request to approve a system wherein rainwater was captured and to be reused for landscaping. This is clearly not a water company issue. I expect the POA would be open to that type of proposal. That proposal would be consistent with the policy of conservation which is incorporated in the CC&R's under Section4.3 A. As stated, the developers are in the process of turning over control of the property owners association to the new board, and if any such proposals were submitted, I expect they would be reviewed and decided by the new board.

Q. Another subject raised at the Public Comment meeting has to do with water losses.

A. Yes. The Commission's engineering report in this proceeding indicates that the Company is in compliance with all ADEQ requirements and that the water laws is 5.8%, well within the acceptable limits.

Q. The final question I have pertains to outages. Have there been frequent or extended outages of service to any portion of your system?

A. No. We have been fortunate in that we have not experienced any such problems. We believe the system is well-designed, and it is all relatively new. Therefore, we would not anticipate any such problems. There certainly may have been short-term outages for normal maintenance or tapping of a main, but that would be in a relatively small area of the system and for a relatively short period of time.

Q. Mr. McCleve, is it your opinion that the Company is providing adequate quantities and good quantities water to all customers within its system?

A. Absolutely. We understand the customer's frustration with a proposed increase in the water and wastewater rates. We believe the Company has requested increases on the lower side of the range of reasonableness for the services it is providing. The Company's proposed rates are not dissimilar to other non-metropolitan private water companies in the state. We intend on continuing to provide the highest levels of service to our customers.

Q. Mr. McCleve, you testified that you were not in attendance at the Public Comment meeting, but I understand the Company was not given an opportunity to respond to those comments at that time. Has the Company made any effort to respond to those individual comments?

A. Yes, we thought it would be appropriate if we would provide a copy of this

Rejoinder Testimony to each of those individuals. I have had our staff mail a copy to each customer who identified him or herself at the meeting at the billing address we have for that individual. We are certainly hopeful of maintaining an open line of communication with our neighbors and customers, whether it be in the formality of a rate proceeding or on a day-to-day basis.

Q. Does this conclude your testimony?

A. Yes, it does.

Utility Source, L.L.C.
Wells and Springs

Exhibit

		Cost	A/D (A)	Annual Deprec (B)
Shallow Wells 1,2,3	$	138,000	6893	4595
Deep Well #1		212,750	10624	7085
Deep Well #2		241,500	12063	8042
Deep Well #3		742,988	37113	24742
Deep Well #4		736,583	36792	24528
Total	$	2,071,821	103484	68992
Per B-2	$	2,071,821	(1)	(2)

CHECK

(1) Per B2 page 4c $103,487
($2 difference due to rounding)

(2) Per C-2, page 2 $68,992

(A) A/D Cost times 3.33% times 1.5 yrs

(B) Deprec rate 3.33%

EXHIBIT
A-9
admitted

EXHIBIT
S-1
admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
GARY PIERCE

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IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C. FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PROPERTY AND FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICES.

DOCKET NO. WS-04235A-06-0303

NOTICE OF FILING DIRECT TESTIMONY

Staff of the Arizona Corporation Commission hereby files the Direct Testimony of Jeffrey M. Michlik, Steven P. Irvine, and Jian W. Liu, of the Utilities Division, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 19th day of January, 2007.

Charles H. Hains
Attorney, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

Original and thirteen (13) copies of the foregoing were filed this 19th day of January, 2007 with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Copy of the foregoing mailed this
19th day of January, 2007 to:

Richard L. Sallquist
SALLQUIST, DRUMMOND & O'CONNOR, P.C.
4500 South Lakeshore Drive, Suite 339
Tempe, Arizona 85282
Attorney for Utility Source, LLC

Utility Source, LLC
721 East San Pedro
Gilbert, Arizona 85234

Ponderosa Fire District
c/o Starr Lanphere, Board Chairman
P.O. Box 16359
Bellemont, Arizona 86015

David Hitesman
4661 North Bellemont Spring
Bellemont, Arizona 86015

Dennis Jones
11573 West Cove Crest
Bellemont, Arizona 86015

DIRECT

TESTIMONY

OF

JEFFREY M. MICHLIK

STEVEN P. IRVINE

JIAN W. LIU

DOCKET NO. WS-04235A-06-0303

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C., AN ARIZONA LIMITED LIABILITY COMPANY, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PROPERTY AND FOR AN INCREASE IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICES

JANUARY 19, 2007

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner
GARY PIERCE
Commissioner

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C., AN ARIZONA LIMITED LIABILITY COMPANY, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PROPERTY AND FOR AN INCREASE IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICES	)	DOCKET NO. WS-04235A-06-0303

DIRECT

TESTIMONY

OF

JEFFREY M. MICHLIK

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JANUARY 19, 2007

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EXECUTIVE SUMMARY
UTILITY SOURCE, LLC
WATER DIVISION
DOCKET NO. W-04235A-06-0303

Utility Source, LLC – Water Division ("Company") is an Arizona limited liability company. The water utility is located in Coconino County. The Company's water system is located just north of highway 40 in Bellemont, Arizona. The Company served approximately 337 customers during the test year ended December 31, 2005. The Company's current rates were approved in Decision No. 67446, dated January 4, 2005.

Rate Application:

The Company proposes rates that would increase operating revenue by $401,245 to produce operating revenue of $575,572 resulting in operating income of $323,349, or a 230.17 percent increase over test year revenue of $174,327. The Company also proposes a fair value rate base ("FVRB") of $3,079,513, which is its original cost rate base, and a 10.50 percent rate of return on the FVRB.

Staff recommends rates that would increase operating revenue by $193,122 to produce operating revenue of $367,449 resulting in operating income of $196,630, or a 110.78 percent increase over adjusted test year revenue of $174,327. Staff recommends a FVRB of $2,048,228, and a 9.60 percent rate of return on the FVRB.

Rate Design:

Due to the facts related in Decision No. 67446, in which the Company did not have a valid Certificate of Convenience and Necessity (CC&N) and was charging rates that were not approved by the Commission; Staff, in an effort to alleviate the rate burden on customers, has accepted the Company's proposal and will include estimated usage of 350 homes that are currently being built, in the rate design.

The Company proposes an inverted three-tier rate design for all residential meter size customers and flat commodity rates for multi-family, mobile home, commercial customers, and construction meter and standpipe customers. The typical 3/4-inch meter residential bill with a median usage of 4,500 gallons would increase by $44.78, or 233.02 percent, from $19.22 to $63.99.

Staff recommends an inverted three-tier rate design for 5/8-inch meters and 3/4-inch meters, and an inverted two-tier rate structure for larger meters. The recommended rate structure conforms to those regularly adopted by the Commission in recent years. The typical 3/4-inch meter residential bill with median usage of 4,500 gallons would increase by $22.07, or 114.83 percent, from $19.22 to $41.28.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Jeffrey M. Michlik. I am a Public Utilities Analyst IV employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as a Public Utilities Analyst IV.

A. In my capacity as a Public Utilities Analyst IV, I analyze and examine accounting, financial, statistical and other information and prepare reports based on my analyses that present Staff's recommendations to the Commission on utility revenue requirements, rate design and other matters. I also provide expert testimony on these same issues.

Q. Please describe your educational background and professional experience.

A. In 2000, I graduated from Idaho State University, receiving a Bachelor of Business Administration Degree in Accounting and Finance, and I am a Certified Public Accountant with the Arizona State Board of Accountancy. I have attended the National Association of Regulatory Utility Commissioners' ("NARUC") Utility Rate School, which presents general regulatory and business issues.

I joined the Commission as a Public Utilities Analyst in May of 2006. Prior to employment with the Commission, I worked four years for the Arizona Office of the Auditor General as a Staff Auditor, and one year in public accounting as a Senior Auditor.

Q. What is the scope of your testimony in this case?

A. I am presenting Staff's analysis and recommendations regarding Utility Source, LLC's ("Company") application for a permanent increase in its rates and charges for water utility

service within Coconino County, Arizona. I am presenting testimony and schedules addressing rate base, operating revenues and expenses, revenue requirement, and rate design. Staff witness Mr. Steve Irvine is presenting Staff's Cost of Capital and related recommendations. Mr. Jian Liu is presenting Staff's engineering analysis and related recommendations.

Q. What is the basis of your testimony in this case?

A. I performed a regulatory audit of the Company's application and records. The regulatory audit consisted of examining and testing financial information, accounting records, and other supporting documentation and verifying that the accounting principles applied were in accordance with the Commission adopted NARUC Uniform System of Accounts ("USOA").

BACKGROUND

Q. Please review the background of this application.

A. Utility Source is an Arizona limited liability company. The water utility is located in Coconino County. The Company's water system is located just north of highway 40 in Bellemont, Arizona. The Company served approximately 337 customers during the test year ended December 31, 2005. The Company's current rates were approved in Decision No. 67446, dated January 4, 2005. Pursuant to Decision No. 67446, the Company filed an application on May 1, 2006, requesting a determination of the current fair value of its utility property and permanent rate increase for its water and sewer divisions. On July 3, 2006, Staff filed a letter declaring the application sufficient.

CONSUMER SERVICES

Q. Please provide a brief history of customer complaints received by the Commission regarding the Company. Additionally, please discuss customer responses to the Company's proposed rate increase.

A. Staff reviewed the Commission's records and found zero complaints, six inquiries, and thirteen opinions during the past three and a half years. All of the thirteen opinions were opposed to the proposed rate increase.

SUMMARY OF FILING, RECOMMENDATIONS, AND ADJUSTMENTS.

Q. Please summarize the Company's proposals in this filing.

A. The Company proposes rates that would increase operating revenues by $401,245 to produce operating revenue of $575,572 resulting in operating income of $323,349, or a 230.17 percent increase over test year revenue of $174,327. The Company also proposes a fair value rate base ("FVRB") of $3,079,513 which is its original cost rate base, and a 10.50 percent rate of return on the FVRB.

Q. Please summarize Staff's recommendations.

A. Staff recommends rates that would increase operating revenue by $193,122 to produce operating revenue of $367,449 resulting in operating income of $196,630, or a 110.78 percent increase over adjusted test year revenue of $174,327. Staff recommends a FVRB of $2,048,228, and a 9.60 percent rate of return on the FVRB.

Q. Please summarize the rate base adjustments addressed in your testimony.

A. My testimony addresses the following issues:

Plant in Service – These adjustments decrease rate base by $961,228.

Accumulated Depreciation – This adjustment decreases rate base by $68,927.

Contributions in Aid of Construction ("CIAC") – This adjustment increases rate base by $11,129.

Working Capital – This adjustment decreases rate base by $12,259.

Q. Please summarize the operating revenue and expense adjustments addressed in your testimony.

A. My testimony addresses the following issues:

Chemicals Expense – This adjustment decreases expenses by $530.

Outside Services Expense – This adjustment decreases expenses by $8,202.

Water Testing Expense – This adjustment decreases expenses by $6,107.

Miscellaneous Expense – This adjustment decreases expenses by $20,500.

Depreciation Expense – This adjustment decreases expenses by $43,132.

Property Tax Expense – This adjustment decreases expenses by $2,933.

Rate Base

Rate Base Summary

Q. Please review the Company's proposed rate base.

A. The Company is proposing a FVRB of $3,079,513 as shown on Schedule JMM-W2.

Q. Is Staff recommending any changes to the Company's proposed rate base?

A. Yes. Staff recommends a FVRB of $2,048,228 as shown on Schedule JMM-W2, a reduction of $1,031,285 from the Company's proposed FVRB.

Q. How many rate base adjustments is Staff recommending?

A. Staff recommends four adjustments to rate base as shown on Schedules JMM-W2 and JMM-W3. Each adjustment described below is made to the FVRB.

Rate Base Adjustment No. 1 – Plant in Service

Q. What is the Company proposing for account 304, Structures and Improvements?

A. The Company is proposing costs of $109,250. See Company Schedule B-2 page 4b.

Q. Please explain the results of Staff's analysis of account 304, Structures and Improvements.

A. Staff examined invoices and the line item detail schedule by plant account provided by the Company, as requested by Staff. The Company's general ledger failed to provide detailed transactions identifying the amount and description of individual assets composing the account balance. Staff's analysis of the documentation and explanations provided by the Company through Staff's data requests concluded that $23,548 in perimeter wall water tank fencing cost was incorrectly classified to account 330, distribution and reservoirs. This amount was reclassified to account 304, structures and improvements, and confirmed by the Company in response to Staff's third data request. Staff concluded that the $23,548 perimeter flood wall around the water pump house and storage tanks, were necessary, and used and useful in providing water utility service.

Staff disallowed amounts for $34,178, $13,278 and $12,345, asserted by the Company to be water utility related fencing costs. Staff disallowed these amounts for lack of supporting documentation providing evidence that the fencing costs were necessary, and used and useful in providing water utility service. These costs were considered by Staff to be part of the general development of the project contributing to decorative, park-setting enhancements, and not necessary water utility costs to be incurred by utility customers.

Q. What is Staff's recommendation for account 304, Structures and Improvements?

A. Staff is recommending an increase due to the reclassification of $23,548 to structures and improvements, and a decrease of $59,800 due to the disallowance in unsubstantiated fencing costs deemed not necessary nor used and useful as a cost of water utility service, for a net decrease to the account of $36,252. Staff's resulting recommended account balance for structures and improvements is $72,998. Staff's adjustments are shown on Schedule JMM-W4.

Q. What is the Company proposing for account 307, Wells and Springs?

A. The Company is proposing costs of $2,233,833. See Company Schedule B-2 page 4b.

Q. Please explain the results of Staff's analysis of account 307, Wells and Springs.

A. Staff examined invoices and the line item detail schedule by plant account provided by the Company, as requested by Staff. Staff's analysis of the documentation and explanations provided by the Company through Staff's data requests concluded the following:

1. Staff decreased costs posted to Bob Beeman Drilling Company by $6,697, from $561,850 to $555,153, to reflect sales invoice number 14407060 costs of $538,798 and sales tax expense adjustment of $16,355, as confirmed in the Company's response to Staff's third data request.
2. Staff removed $133,525 posted to Bob Beeman Drilling Company invoice number 19402860, double counted and included in account 311, pumping equipment, as confirmed in the Company's response to Staff's third data request.
3. Staff removed $2,500 posted as Steve Holmes Construction perimeter fencing cost for deep well number 3, double counted and included in account 304, structures and improvements at $2,912, as confirmed by the Company's response to Staff's third data request.

4. Staff removed $19,340 posted as sales tax expense to deep well number 3, which was double counted and included as sales tax in Bob Beeman Drilling Company costs posted in item 1 above, and to account 311, pumping equipment, invoice number 19402860, as confirmed by the Company's response to Staff's third data request.
5. Staff disallowed $736,583 classified by the Company as costs incurred for deep well number 4, which was not in service nor used and useful during the test year.

Q. What is Staff's recommendation for account 307, Wells and Springs?

A. Staff is recommending a decrease of $898,645, resulting in a recommended account balance of $1,335,508.

Q. What is the Company proposing for account 311, Pumping Equipment?

A. The Company is proposing costs of $161,494. See Company Schedule B-2 page 4b.

Q. Please explain the results of Staff's analysis of account 311, Pumping Equipment.

A. Staff's analysis of the documentation and explanations provided by the Company through Staff's data requests concluded that the sales tax included in invoice number 19402860 for Bob Beeman Drilling Company was incorrectly stated. The Company confirmed, in its response to Staff's third data request, that the invoice amount and sales tax should be $135,989 and $2,984 respectively, for a transaction total of $138,973. The amount posted to the general ledger was $141,756. Thus, Staff had to make a downward adjustment of $2,783.

Q. What is Staff's recommendation for account 311, Pumping Equipment?

A. Staff is recommending a decrease of $2,783, from $161,494 to $158,711.

Q. What is the Company proposing for account 330, Distribution Reservoirs and Standpipes?

A. The Company is proposing costs of $345,000. See Company Schedule B-2 page 4b.

Q. Please explain the results of Staff's analysis of account 330, Distribution Reservoirs and Standpipes.

A. Staff's analysis of the documentation and explanations provided by the Company through Staff's data requests concluded that costs of $23,548 for perimeter wall water tank fencing was incorrectly included in account 330, distribution reservoirs and standpipes, and should be reclassified to account 304, structures and improvements. This reclassification was confirmed by the Company's response to Staff's third data request.

Q. What is Staff's recommendation for account 330, Distribution Reservoirs and Standpipes?

A. Staff is recommending a decrease of $23,548, resulting in a recommended account balance for distribution reservoirs and standpipes of $321,452.

Rate Base Adjustment No. 2 – Accumulated Depreciation.

Q. What is the Company proposing for Accumulated Depreciation?

A. The Company is proposing $58,465 for accumulated depreciation. See Company Schedule B-2 page 4b.

Q. Please explain the results of Staff's analysis of Accumulated Depreciation.

A. Staff's analysis of the exhibits and schedules, documentation and explanations provided by the Company concluded that the Company used an in-service date for all plant assets that corresponded to the date the Company obtained its Certificate of Convenience and

Necessity ("CC&N"). However, in the instant case, the owners had placed in service all water utility plant prior to obtaining a CC&N, and were providing service to customers prior to the in-service date used by the Company in this rate application, which is the grant date of their CC&N and the rate application test year, 2005.

In Staff's review of the line item detail schedule by plant account and invoices provided by the Company, material amounts included in the schedule did not have transaction dates or invoices associated with the costs. However, it is clear from the documentation provided that all water utility plant assets were providing service by the end of 2004. Therefore, Staff is recommending 2004 as the in-service date of all water utility plant assets, instead of 2005 as proposed by the Company.

In review of Company witness Mr. Bourassa's Schedule B-2, page 4b testimony, the Company used an in-service date of 2005 and a half year convention in computing depreciation expense for the first year, which translates into an accumulated depreciation total for the test year equal to the half year of depreciation expense. Since Staff is recommending 2004 as the in-service date of all water utility plant assets, Staff's accumulated depreciation will consist of half year depreciation, using the half year convention, for 2004, and a full year of depreciation for 2005.

Q. What is Staff's recommendation for the Accumulated Depreciation account?

A. Staff is recommending an increase of $68,927, resulting in a recommended account balance for accumulated depreciation of $127,392. Staff's adjustment is shown on schedule JMM-W5.

Rate Base Adjustment No. 3 – Advances in Aid of Construction ("AIAC") reclassified as CIAC.

Q. What is the Company proposing for AIAC?

A. The Company is proposing $294,745. See Company Schedule B-2 page 1.

Q. Please explain the results of Staff's analysis of AIAC.

A. While inquiring of the nature of the assets included by the Company in AIAC and requesting supporting line extension agreements approved by the Commission for the advances, the Company's response to Staff's second data request stated that the Company's proposed AIAC amount was in error and should be reclassified as CIAC. Staff accepts the Company's proposal to reclassify the AIAC amount to CIAC.

Q. What is Staff's recommendation for AIAC and CIAC?

A. Staff is recommending decreasing AIAC by $294,745 and increasing CIAC by $294,745. Additionally, Staff is recommending amortization of CIAC in 2005 of $11,129, for a net CIAC of $283,616. Staff's adjustments are shown on schedule JMM-W6.

Rate Base Adjustment No. 4 – Working Capital

Q. What is the Company proposing for the Allowance of Cash Working Capital?

A. The Company is proposing a $12,259 allowance for cash working capital based on a simple income statement approach which takes 1/8 of the amount presented on the income statement for operations and maintenance expense and 1/24 of the amount for pumping power. This methodology is known as the formula method. See Company Schedule B-5 page 1.

Q. What recommendation is Staff making?

A. Staff is recommending that the $12,259 allowance for cash working capital be disallowed, as a utility of this size should have presented a lead-lag study to establish an estimate of cash working capital. As a result, Staff is recommending a zero balance for cash working capital.

Q. Why is Staff recommending disallowance of this amount?

A Staff typically only allows cash working capital allowances calculated by the formula method for small class D and E utilities. The formula method always produces a positive cash working capital need. Utilities classified as A, B, or C are much larger and Staff believes that the formula method does not accurately reflect the related cash working capital needs. Typically Staff finds that proper lead/lag studies usually produce a negative cash working capital need. Staff recommends disallowance of any cash working capital allowance. Staff's adjustment is shown on schedule JMM-W7.

Operating Income

Operating Income Summary

Q. Did Staff make any adjustments to operating revenue?

A. No, however, Staff did accept the Company's projected customer growth of 350 customers.

Q. Why is Staff accepting these projected numbers?

A. The numbers submitted by the Company are known projects currently under development and assume that the homes will be built. The Company has provided these numbers in an effort to minimize the impact on the rates and is not intended to set any precedent for this or any other utility regulated by the Commission.

Q. Is this unusual?

A. Yes, however, noting the history of the Company, which was operating without a valid CC&N, Staff feels that the rate payer should not have to pay for the Company's mistakes.

Q. What happens if all the homes are not built?

A. The Company could be under earning, and as a result will have to reduce expenses or file another rate case. In this particular case, the Company is assuming the risk that the homes may not be built.

Q. What are the results of Staff's analysis of test year revenues, expenses, and operating income?

A. Staff's analysis resulted in adjusted test year operating revenues of $174,327, operating expenses of $170,819 and operating income of $3,508 as shown on Schedules JMM-W8 and JMM-W9. Staff made six adjustments to operating expenses.

Operating Expense Adjustment No. 1 – Chemical Expense.

Q. Please explain Staff's Operating Expense Adjustment No. 1.

A. Staff's adjustment decreased chemicals expense by $530, from $530 to $0. Staff disallowed, as an unnecessary cost of water utility service, dye used in the community lake. Staff's adjustment is shown on Schedule JMM-W10.

Operating Expense Adjustment No. 2 – Outside Service Expense.

Q. Please explain Staff's Operating Expense Adjustment No. 2.

A. Staff's adjustment decreased outside services expense by $8,202, from $20,630 to $12,428. Staff's adjustment is shown on Schedule JMM-W11.

Q. Why is Staff making this recommendation?

A. Staff is disallowing the following expenses:

1. Staff is disallowing $2,622 in expense for the Kimley Horn traffic update study. This expense is not associated with the day to day operations and water utility cost of service, and was confirmed in the Company's response to Staff's second data request.
2. Staff is disallowing $5,580 in legal expense considered by Staff to be a regulatory commission expense, covered within the $50,000 regulatory commission expense costs the Company is claiming in this application.

Operating Expense Adjustment No. 3 – Water Testing Expense.

Q. Please explain Staff's Operating Expense Adjustment No. 3.

A. Staff's adjustment decreased water testing expense by $6,107, from $8,553 to $2,446, as shown on Schedule JMM-W12. An explanation of this adjustment can be found on page 7 of the Engineering Report of Staff witness Mr. Jian W. Liu's direct testimony.

Operating Expense Adjustment No. 4 – Miscellaneous Operating Expense

Q. Please explain Staff's Operating Expense Adjustment No. 4.

A. Staff's adjustment decreased miscellaneous expense by $20,500, from $30,722 to $10,222. Staff's adjustment is shown on Schedule JMM-W13.

Q. Why is Staff making this recommendation?

A. Staff is disallowing the following miscellaneous expenses:

1. Staff disallowed a $20,000 Commission imposed penalty on the owners for operating utility water and wastewater services without a CC&N. This penalty should not be endured by utility customers, and is not a recurring cost of service.

2. Staff disallowed $500 in expense for a physical determination availability application relating to the Company's CC&N extension application. The application was signed and dated by the owner on 4/18/2006; however, the Company posted the expense on 12/28/2005. Based on the documentation provided by the Company the expense is considered outside the test year and not a recurring cost of service.

Operating Expense Adjustment No. 5 – Depreciation Expense

Q. Please explain Staff's Operating Expense Adjustment No. 5.

A. Staff's adjustment decreases depreciation expense by $43,132, from $116,931 to $73,799.

Q. Why does this amount differ from what the Company proposed depreciation expense?

A. Staff's recalculation of depreciation expense is based upon Staff's recommended depreciation rates, and Staff's adjustments to rate base and the in-service date for plant assets. Since the Company was operating water utility service prior to the test year 2005, and all water utility plant was in service no later than 2004, Staff is using 2004 as the in-service date for all plant assets. This results in half year deprecation, using the half year convention, in 2004, and full year depreciation in the 2005 test year. This is shown on Schedules JMM-W14.

Operating Expense Adjustment No. 6 – Property Tax Expense

Q. Please explain Staff's Operating Expense Adjustment No. 6.

A. Staff's adjustment decreases property tax $2,933, from $13,026 to $10,093. Staff's calculation is based upon Staff's adjusted test year and recommended revenues. Please see Schedule JMM-15 for Staff's calculation.

REVENUE REQUIREMENT

Q. What does the Company propose for an increase in operating revenue?

A. The Company proposes increasing operating revenues by $401,245 from $174,327 to $575,572.

Q. What does Staff recommend for an increase in operating revenues?

A. Staff recommends a $193,122 increase in operating revenues, from $174,327 to $367,449.

Q. How did Staff determine its recommended operating revenue?

A. Staff determined a 9.60 percent return on FVRB is appropriate. Therefore, a rate of return of 9.60 percent on Staff's recommended FVRB of $2,048,228 produces the required operating income of $196,630. Staff then determined that the revenue requirement needs to be $367,449 in order to obtain the recommended rate of return. For further information on how the 9.60 percent cost of capital was calculated please see the testimony of Staff witness Steve Irvine.

Q. Is there anything unusual about the way Staff calculated the revenue requirement?

A. Yes, as mentioned earlier in my testimony Staff accepted the Company's adjustment to test year revenues by including estimated usage of 350 homes that are currently under development. Therefore, the 350 homes account for $173,376 of the total $365,792 in metered water revenue, or 47.40 percent of total metered water revenue. The $173,376 was calculated as follows: 350 customers x 12 months x $41.28 Staff's Median Usage from Schedule JMM-W17 = $173,376. The remainder is calculated from the Company's current customers.

Q. Why has Staff calculated the revenue requirement in this manner?

A. Staff calculated the revenue requirement in this manner based on the facts and issues that were reviewed in Decision No. 67446, which directly affects the current water and wastewater customers of the Company.

As a result of operating a water/wastewater system without a valid CC&N, the Company was assessed a penalty for failure to comply with the Rules and Regulations of the Arizona Corporation Commission. In the Decision, it was noted that "The Company's actions, as detailed in the record of this proceeding, constitute one of the most egregious examples of unauthorized preemptory operations ever confronted by the Commission. Therefore, as a condition of approval of the requested CC&N, Utility Source shall pay $20,000, based on a penalty of $100 for each of its approximately 200 customers that were connected to the Company's system prior to issuance of a CC&N." See Decision No. 67446 page 19.

In this Decision it was also noted that "it appears that the developer induced customers to purchase homes with water and wastewater rates that will be insufficient to support the construction and long-term operations of water and wastewater systems for planned development. Although we do not ascribe any malicious intent to developer's actions, the net effect of those actions cannot help but lead to extremely unhappy customers who may be left to pay for the utility systems at costs that significantly exceed the rates they expected to pay when they purchased their homes." See Decision No. 67446 page 11.

As a result of the artificially low unapproved rates, the Company in the Order was required to "Notify all existing and future customers that: the water and wastewater rates currently in effect were not approved by the Commission because the Company

commenced operations without the Commission's authorization; the Company is required to file a rate application by May 1, 2006 that may result in higher rates." See Decision No. 67446 page 24.

As you can see from the excerpts in the previous case, the Commission was critical of the Company not having a valid CC&N and operating with rates that were not approved by the Commission. In addition, the Commission was concerned about the rate impact on current and future customers.

In an effort to lessen the rate impact on customers, the Company in its rate application proposed including 350 homes that are currently being built. Staff accepted the Company's proposal and has included these 350 customers in the rate design in order to ameliorate the rate shock that current and future customers will experience. Also, since Staff accepted the Company's revenue adjustment to test year revenues, it is only logical to include these 350 customers in deriving the revenue requirement. Again this is a unique case, and should not be used as a precedent for any other utility regulated by the Commission.

Q. What would happen if only the current customers were used to derive the revenue requirement?

A. Staff's recommendations would be inadequate and Staff would have to recommend further increases in the rates imposed on the current and future customers.

RATE DESIGN

Q. Have you prepared a schedule summarizing the present, Company proposed, and Staff recommended rates and service charges?

A. Yes. A summary of the present, Company proposed, and Staff recommended rates and service charges are provided on Schedule JMM-W16.

Q. Would you please summarize the present rate design?

A. The present monthly minimum charges by meter size are as follows: 3/4-inch $6.48; 1-inch $8.02; 1 ½-inch $9.62; 2-inch $14.00; 4-inch $58.00; and 6-inch $89.80. The present commodity rate is $2.83 per thousand gallons from zero gallon up to 5,000 gallons, $3.32 for usage between 5,001 and 15,000 gallons, and $4.71 for any usage over 15,001 gallons. These rates apply to residential customers only. Multi-family, mobile home, and commercial customers are charged a flat rate per 1,000 gallons of $2.97; while standpipe and construction water customers are charged a flat rate per 1,000 gallons of $6.00.

Q. Would you please summarize the Company's proposed rate design?

A. The Company's proposed monthly minimum charges by meter size are as follows: 3/4-inch $24.30; 1-inch $40.50; 1 ½-inch $81.00; 2-inch $129.60; 3-inch $259.20; 4-inch $405.00; 6-inch $810.00. The present commodity rate is $8.82 per thousand gallons from zero gallon up to 5,000 gallons, $10.35 for usage between 5,001 and 15,000 gallons, and $14.69 for any usage over 15,001 gallons. These rates apply to residential customers only. Multi-family, mobile home, and commercial customers are charged a flat rate per 1,000 gallons of $9.26; while standpipe and construction water customers are charged a flat rate per 1,000 gallons of $10.35.

Q. Would you please summarize Staff's recommended rate design?

A. Staff's recommended monthly minimum charges for both commercial and residential customers by meter size are as follows: 5/8-inch $18.50; 3/4-inch $18.50; 1-inch $46.50; 1 ½-inch $92.50; 2-inch $148.00; 3-inch $296.00; 4-inch $462.50; 6-inch $925.00. Zero gallons are included in the monthly minimum charge. Staff recommends an inverted tier rate design that consists of three tiers for the residential 5/8-inch and 3/4-inch meter customers and two tiers for all others excluding irrigation, standpipe/bulk water, and construction water users. The additional tier for the residential 5/8-inch and 3/4-inch meters is for the first 4,000 gallons. Staff's rate design recognizes the growing importance of managing water as a finite resource and its increasing cost. Efficiency in water use is encouraged by producing a higher customer bill with increased consumption or use of a larger meter. For irrigation, Staff recommends a charge per 1,000 gallons of $9.26, and for standpipe/bulk water, and construction water users, Staff recommends a charge per 1,000 gallons of usage of $10.35. A comparison of the current rates, the Company's proposed rates, and Staff's recommended rates are presented on Schedule JMM-W16.

Q. Why is Staff not recommending a flat rate for multi-family mobile home, and Commercial Customers?

A. In the prior Decision No. 67446, both the Company and Staff proposed and recommended metered tiered rates for both residential and commercial customer and not a flat rate. Staff is uncertain why the order contained a flat rate amount of $2.97 per 1,000 gallons for multi-family mobile home, and commercial users. Staff believes that it is more equitable to include multi-family mobile home and commercial customers in metered residential and commercial tiered rates and not as a separate flat rate category.

Q. What is the rate impact on a 3/4-inch meter residential customer using a median consumption of 4,500 gallons?

A. The median usage of residential 3/4-inch meter customers is 4,500 gallons per month. The 3/4-inch meter residential customer would experience a $44.78 or 223.02 percent increase in their monthly bill from $19.22 to $63.99 under the Company's proposed rates and a $22.07 or 114.83 percent increase in their monthly bill from $19.22 to $41.28 under Staff's recommended rates. A typical bill analysis is provided on Schedule JMM-W17.

Q. What is the basis for Staff's recommendation for the respective commodity break-over points?

A. The use of the recommended break-over points by Staff serves two purposes. First, it supports the state-wide effort to improve water-use efficiency. Customers are rewarded monetarily by restricting their use to these levels which reflects efficient water use. Second, a desirable characteristic of Staff's rate design is that it effectively serves to provide affordable water to customers willing to limit consumption to their basic needs. Providing affordable water in limited amounts is appropriate because water is the only commodity that is necessary for sustaining life.

Q. What water system service lines, meter installation charges, and service charges does Staff recommend?

A. A comparison of the current charges for water system service lines, metered installation charges, and service charges; the Company's proposed changes, and Staff's recommended changes are presented on Schedules JMM-W16. These charges are within Staff's experience of what are reasonable and customary charges.

1 **Q. Does this conclude your direct testimony?**

2 A. Yes, it does.

UTILITY SOURCE, LLC. - Water Division
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Schedule JMM-W1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(C) COMPANY FAIR VALUE	(D) STAFF ORIGINAL COST	(E) STAFF FAIR COST
1	Adjusted Rate Base	$ 3,079,513	$ 3,079,513	$ 2,048,228	$ 2,048,228
2	Adjusted Operating Income (Loss)	$ (77,896)	$ (77,896)	$ 3,508	$ 3,508
3	Current Rate of Return (L2 / L1)	-2.53%	-2.53%	0.17%	0.17%
4	Required Rate of Return	10.50%	10.50%	9.60%	9.60%
5	Required Operating Income (L4 * L1)	$ 323,349	$ 323,349	$ 196,630	$ 196,630
6	Operating Income Deficiency (L5 - L2)	$ 401,245	$ 401,245	$ 193,122	$ 193,122
7	Gross Revenue Conversion Factor	1.0000	1.0000	1.0000	1.0000
8	Required Revenue Increase (L7 * L6)	$ 401,245	$ 401,245	$ 193,122	$ 193,122
9	Adjusted Test Year Revenue	$ 174,327	$ 174,327	$ 174,327	$ 174,327
10	Proposed Annual Revenue (L8 + L9)	$ 575,572	$ 575,572	$ 367,449	$ 367,449
11	Required Increase in Revenue (%)	230.17%	230.17%	110.78%	110.78%
12	Rate of Return on Rate Base (%)	10.50%	10.50%	9.60%	9.60%

References:
Column (A): Company Schedule B-1
Column (B): Company Schedule B-1
Column (C): Staff Schedules JMM-W2, JMM-W8
Column (D): Staff Schedules JMM-W2, JMM-W8

UTILITY SOURCE, LLC. - Water Division
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Schedule JMM-W2

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	REF	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 3,420,464	$ (961,228)	ADJ # 1	$ 2,459,236
2	Less: Accumulated Depreciation	58,465	68,927	ADJ # 2	127,392
3	Net Plant in Service	$ 3,361,999	$ (1,030,155)		$ 2,331,844
	LESS:				
4	Contributions in Aid of Construction (CIAC)	$ -	$ 294,745	ADJ # 3	$ 294,745
5	Less: Accumulated Amortization	-	11,129		11,129
6	Net CIAC	-	283,616		283,616
7	Advances in Aid of Construction (AIAC)	294,745	(294,745)	ADJ # 3	-
8	Customer Deposits	-	-		-
9	Deferred Income Tax Credits	-	-		-
	ADD:				
10	Unamortized Finance Charges	-	-		-
11	Deferred Tax Assets	-	-		-
12	Working Capital	12,259	(12,259)	ADJ # 4	-
13	**Original Cost Rate Base**	$ 3,079,513	$ (1,031,285)		$ 2,048,228

References:
Column (A), Company Schedule B-1
Column (B): Schedule JMM-W3
Column (C): Column (A) + Column (B)

UTILITY SOURCE, LLC. - Water Division
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Schedule JMM-W3

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] PLANT IN SERVICE ADJ No. 1	[C] ACCUM DEPREC ADJ NO. 2	[D] AIAC TO CIAC ADJ No. 3	[E] WORKING CAPITAL ADJ No. 4	[F] STAFF ADJUSTED
	PLANT IN SERVICE:							
1								
2	301	Organization	$ -	$ -	$ -	$ -	$ -	$ -
3	302	Franchises	-	-	-	-	-	-
4	303	Land and Land Rights	210,000	-	-	-	-	210,000
5	304	Structures & Improvements	109,250	(36,252)	-	-	-	72,998
6	305	Collecting & Impounding Reservoirs	-	-	-	-	-	-
7	306	Lakes, Rivers, Other Intakes	-	-	-		-	-
8	307	Wells and Springs	2,233,883	(898,645)	-	-	-	1,335,238
9	308	Infiltration Galleries and Tunnels	-	-	-	-	-	-
10	309	Supply Mains	-	-	-	-	-	-
11	310	Power Generation Equipment	87,400	-	-	-	-	87,400
12	311	Pumping Equipment	161,494	(2,783)		-	-	158,711
13	320	Water Treatment Plant	5,487	-		-	-	5,487
14	330	Distribution Reservoirs & Standpipes	345,000	(23,548)	-	-	-	321,452
15	331	Transmission & Distribution Mains	147,200	-	-	-	-	147,200
16	333	Services	86,250	-	-	-	-	86,250
17	334	Meters	-	-		-	-	-
18	335	Hydrants	34,500	-	-	-	-	34,500
19	336	Backflow Prevention Devices	-	-	-	-	-	-
20	339	Other Plant & Misc. Equipment	-	-	-	-	-	-
21	340	Office Furniture & Equipment	-	-	-	-	-	-
22	341	Transportation Equipment	-	-	-	-	-	-
23	342	Stores Equipment	-	-	-	-	-	-
24	343	Tools, Ship & Garage Equipment	-	-	-	-	-	-
25	344	Laboratory Equipment	-					
26	345	Power Operated Equipment	-					
27	346	Communication Equipment	-					
28	347	Miscellaneous Equipment	-					
29	348	Other Tangible Plant	-					
30			3,420,464	(961,228)	-	-	-	2,459,236
31	Add:		-					-
32			-					-
33			-		-	-	-	-
34			-	-	-	-	-	-
35	Less:		-					-
36			-	-	-	-	-	-
37			-	-	-	-	-	-
38								-
39	Total Plant in Service		$ 3,420,464	$ (961,228)	$ -	$ -	$ -	2,459,236
40	Less: Accumulated Depreciation		58,465	-	68,927	-	-	127,392
41				-	-	-	-	-
42	Net Plant in Service (L59 - L 60)		$ 3,361,999	$ (961,228)	$ (68,927)	$ -	$ -	2,331,844
43								
44	*LESS:*							
45	Contributions in Aid of Construction (CIAC)		$ -	$ -	$ -	$ 294,745	$ -	294,745
46	Less: Accumulated Amortization			-	-	11,129	-	11,129
47	Net CIAC (L25 - L26)		-	-	-	283,616	-	283,616
48	Advances in Aid of Construction (AIAC)		294,745	-	-	(294,745)	-	-
49	Customer Meter Deposits		-	-	-	-	-	-
50	Deferred Income Tax Credits		-	-	-	-	-	-
51								
52	*ADD:*							
53	Unamortized Finance Charges		-	-	-	-	-	-
54	Deferred Tax Assets		-	-	-	-	-	-
55	Working Capital		12,259	-	-	-	(12,259)	-
56								-
57	**Original Cost Rate Base**		$ 3,079,513	$ (961,228)	$ (68,927)	$ 11,129	$ (12,259)	2,048,228

ADJ #		References:
1	Plant in Service	Schedule JMM-W4
2	Accumulated Depreciation	Schedule JMM-W5
3	AIAC Reclasification to CIAC	Schedule JMM-W6
4	Working Capital Allowance	Schedule JMM-W7

Utility Source, LLC. - Water Division
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Schedule JMM-W4

RATE BASE ADJUSTMENT NO. 1 - PLANT ADJUSTMENTS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Structures & Improvements (Account 304)	$ 109,250	$ (36,252)	$ 72,998
2	Wells and Springs (Account 307)	2,233,883	(898,645)	1,335,238
3	Pumping Equipment (Account 311)	161,494	(2,783)	158,711
4	Distribution Reservoirs and Standpipes (330)	345,000	(23,548)	321,452
5	Totals	$ 2,849,627	$ (961,228)	$ 1,888,399
	Staff's Calculation of Structures & Improvements (Account 304)			
6	Reclassify perimeter wall fencing cost from Distributions and Reservoirs (Account 330)	$ 23,548		
	Disallowance of decorative fencing:			
7	Steve Holmes building Company	$ (34,178)		
8	Steve Holmes building Company	$ (13,278)		
9	Steve Holmes building Company	$ (12,345)		
10		$ (36,252)		
	Staff's Calculation of Wells and Springs (Account 307)			
11	Corrected error entered for Bob Beeman Drilling Co. inv # 14407060 from $561,850 to $555,153	$ (6,697)		
12	Removed $133,525 in Bob Beeman Drilling cost double counted and included in #311 Pumping Equipment.	$ (133,525)		
13	Removed $2,500 Steve Holmes perimeter fencing cost well #3 double counted and already included in Structures & Improvements (Account 304)	$ (2,500)		
14	Removed $19,339.68 sales tax from well #3 already included in Bob Beeman entries in accounts #307 & #311.	$ (19,340)		
15	Dissallowed $736,583.00 Deep well 4 costs not used & usefull,	$ (736,583)		
16	and outside of test year.	$ (898,645)		
	Staff's Calculation of Pumping Equipment (Account 311)			
17	Corrected error entered for Bob Beeman Drilling Co. inv # 19402860 from $141,756 to $138,973	$ (2,783)		
	Staff's Calculation of Distribution Reservoirs and Standpipes (Account 330)			
18	Reclassify perimeter wall fencing cost to Structures & Improvements (Account 304)	$ (23,548)		

References:
Column A: Company Schedule B-1, Page 1
Column B: Testimony, JMM, Schedule JMM-W3
Column C: Column [A] + Column [B]

Utility Source, LLC. - Water Division
Docket No. WS-04235A-06-0303
Test Year Ended December 31, 2005

Schedule JMM-W5

RATE BASE ADJUSTMENT NO. 2 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Accumulated Depreciation	$ 58,465	$ 68,927	$ 127,392

	ACCT NO	DESCRIPTION	AT ENGINEER RECOMMENDED RATES: Total Plant Staff Adjusted 12/31/2004	Recommended Rate	HALF YEAR DEP.	A.D 12/31/2004	ADDITIONS 12/31/2005	RETIREMENTS 12/31/2005	PLT BAL 12/31/2005	DEP EXP 12/31/2005 FULL YR	A.D 12/31/2005
2	301	Organization Cost	-	-	-	-	-	-	-	-	-
3	302	Franchise Cost	-	-	-	-	-	-	-	-	-
4	303	*Land & Land Rights*	210,000	-	-	-	-	-	210,000	-	-
5	304	Structures & Improvements	72,998	3.33%	1,215	1,215	-	-	72,998	2,431	3,646
6	307	Wells & Springs	1,335,238	3.33%	22,232	22,232	-	-	1,335,238	44,463	66,695
7	310	Power Generation Equipment	87,400	5.00%	2,185	2,185	-	-	87,400	4,370	6,555
8	311	Electric Pumping Equip.	158,711	12.50%	9,919	9,919	-	-	158,711	19,839	29,758
9	320	Water Treatment Equipment	5,487	3.33%	91	91	-	-	5,487	183	274
10	320.1	Water Treatment Plants	-	3.33%	-	-	-	-	-	-	-
11	320.2	Solution Chemicals Feeders	-	20.00%	-	-	-	-	-	-	-
12	330	Distribution Reservoirs	321,452	2.22%	3,568	3,568	-	-	321,452	7,136	10,704
13	330.1	Storage Tanks	-	2.22%	-	-	-	-	-	-	-
14	330.2	Pressure Tanks	-	5.00%	-	-	-	-	-	-	-
15	331	Transmission & Distribution-Mains	147,200	2.00%	1,472	1,472	-	-	147,200	2,944	4,416
16	333	Services	86,250	3.33%	1,436	1,436	-	-	86,250	2,872	4,308
17	334	Meters	-	8.33%	-	-	-	-	-	-	-
18	335	Hydrants	34,500	2.00%	345	345	-	-	34,500	690	1,035
19	336	Backflow Preventors	-	6.67%	-	-	-	-	-	-	-
20	339	Other Plant and Miscellaneous Equipment	-	6.67%	-	-	-	-	-	-	-
21	340	Office Furniture & Equip.	-	6.67%	-	-	-	-	-	-	-
22	341	Transportation Equip.	-	20.00%	-	-	-	-	-	-	-
23	343	Tools and Work Equipment	-	5.00%	-	-	-	-	-	-	-
24	344	Laboratory Equipment	-	10.00%	-	-	-	-	-	-	-
25	345	Power Operated Equipment	-	5.00%	-	-	-	-	-	-	-
26	346	Communications Equipment	-	10.00%	-	-	-	-	-	-	-
27	347	Miscellaneous Equipment	-	10.00%	-	-	-	-	-	-	-
28	348	Other Tangible Plant	-	-	-	-	-	-	-	-	-
29	350.1	OFI Engineering and Planning	-	3.33%	-	-	-	-	-	-	-
30	350.2	OFI Well Site	-	3.33%	-	-	-	-	-	-	-
31	105	*Materials and Supplies Inventory*	-	-	-	-	-	-	-	-	-
	Totals		2,459,236	-	42,464	42,464	-	-	2,459,236	84,928	127,392

CIAC Composite Rate 3.7759%

Non Depreciable Plant 2,249,236

References:
Column A: Company Schedule B-1, Page 1
Column B: Testimony, JMM, Schedule JMM-W3
Column C: Column [A] + Column [B]

Utility Source, LLC. - Water Division
Docket No. WS-04235A-06-0303
Test Year Ended December 31, 2005

Schedule JMM-W6

RATE BASE ADJUSTMENT NO. 3 - RECLASSIFICATION OF AIAC TO CIAC

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Advances in Aid of Construction (AIAC)	$ 294,745	$ 294,745	$ -
2	Contributions in Aid of Construction (CIAC)	$ -	$ 283,616	$ 283,616

	Staff's amortization of CIAC	
3	Amortization of CIAC:	$ 294,745
4	Composite amortization rate (see JMM-WW5):	3.7759%
5	Amortized CIAC:	$ 11,129
6	Net CIAC:	$ 283,616

References:
Column A: Company Schedule B-1, Page 1
Column B: Testimony, JMM, Schedule JMM-W3
Column C: Column [A] + Column [B]

Utility Source, LLC. - Water Division
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Schedule JMM-W7

RATE BASE ADJUSTMENT NO. 4 - REMOVAL OF ALLOWANCE FOR CASH WORKING CAPITAL

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Allowance for Cash Working Capital	$ 12,259	$ (12,259)	$ -

References:
Column A: Company Schedule B-1, Page 1
Column B: Testimony, JMM, Schedule JMM-W3
Column C: Column [A] + Column [B]

Utility Source, LLC. - Water Division
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Schedule JMM-W8

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS		[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	*REVENUES:*						
2	Metered Water Sales	$ 172,670	$ -		$ 172,670	$ 193,122	$ 365,792
3	Water Sales - Unmetered	-	-		-	-	-
4	Other Operating Revenue	1,657	-		1,657	-	1,657
5	**Total Operating Revenues**	$ 174,327	$ -		$ 174,327	$ 193,122	$ 367,449
	OPERATING EXPENSES:						
6	Salaries and Wages	$ -	$ -		$ -	$ -	$ -
7	Purchased Water	-	-		-	-	-
8	Purchased Power	36,292	-		36,292	-	36,292
9	Chemicals	530	(530)	Adj # 1	-	-	-
10	Repairs and Maintenance	8,747	-		8,747	-	8,747
11	Office Supplies and Expense	4,292	-		4,292	-	4,292
12	Outside Services	20,630	(8,202)	Adj # 2	12,428	-	12,428
13	Water Testing	8,553	(6,107)	Adj # 3	2,446	-	2,446
14	Rents	-	-		-	-	-
15	Transportation Expenses	-	-		-	-	-
16	Insurance - General Liability	-	-		-	-	-
17	Insurance - Health and Life	-	-		-	-	-
18	Regulatory Commsiion Expense - Rate Case	12,500	-		12,500	-	12,500
19	Miscellaneous Expense	30,722	(20,500)	Adj # 4	10,222	-	10,222
20	Depreciation Expense	116,931	(43,132)	Adj # 5	73,799	-	73,799
21	Taxes Other Than Income	-	-		-	-	-
22	Property Taxes	13,026	(2,933)	Adj # 6	10,093	-	10,093
23	Income Tax	-	-		-	-	-
26							
27	**Total Operating Expenses**	$ 252,223	$ (81,404)		$ 170,819	$ -	$ 170,819
28	**Operating Income (Loss)**	$ (77,896)	$ 81,404		$ 3,508	$ 193,122	$ 196,630

References:
Column (A): Company Schedule C-1
Column (B): Schedule JMM-W9
Column (C): Column (A) + Column (B)
Column (D): Schedules JMM-1
Column (E): Column (C) + Column (D)

Utility Source, LLC. - Water Division
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Test Year Ended December 31, 2005

Schedule JMM-W9

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] CHEMICALS ADJ # 1	[C] OUTSIDE SERVICES ADJ # 2	[D] WATER TESTING ADJ # 3	[E] MISCELLANEOUS ADJ # 4	[F] DEPERCIATION ADJ # 5	[G] PROPERTY TAX ADJ # 6	[H] STAFF ADJUSTED
1	*REVENUES:*								
2	Metered Water Sales	$ 172,670	-	-	-	-	-	-	172,670
3	Water Sales - Unmetered	-	-	-	-	-	-	-	-
4	Other Operating Revenue	1,657	-	-	-	-	-	-	1,657
5	**Total Operating Revenues**	$ 174,327	-	-	-	-	-	-	174,327
	OPERATING EXPENSES:								
			-	-	-	-	-	-	-
6			-	-	-	-	-	-	-
7	Salaries and Wages	$ -	-	-	-	-	-	-	-
8	Purchased Water	-	-	-	-	-	-	-	-
9	Purchased Power	36,292	-	-	-	-	-	-	36,292
10	Chemicals	530	(530)	-	-	-	-	-	-
11	Repairs and Maintenance	8,747	-	-	-	-	-	-	8,747
12	Office Supplies and Expense	4,292	-					-	4,292
13	Outside Services	20,630	-	(8,202)	-	-	-	-	12,428
14	Water Testing	8,553	-	-	(6,107)	-	-	-	2,446
15	Rents	-	-	-	-	-	-	-	-
16	Transportation Expenses	-	-	-	-	-	-	-	-
17	Insurance - General Liability	-	-	-	-	-	-	-	-
18	Insurance - Health and Life	-	-	-	-	-	-		-
19	Regulatory Commsiion Expense - Rate Case	12,500	-	-	-	-	-	-	12,500
20	Miscellaneous Expense	30,722	-	-	-	(20,500)	-	-	10,222
21	Depreciation Expense	116,931	-	-	-	-	(43,132)	-	73,799
22	Taxes Other Than Income	-	-	-	-	-	-	-	-
23	Property Taxes	13,026	-					(2,933)	10,093
24	Income Tax	-	-						-
									-
25	**Total Operating Expenses**	252,223	(530)	(8,202)	(6,107)	(20,500)	(43,132)	(2,933)	170,819
26	**Operating Income (Loss)**	(77,895)	530	8,202	6,107	20,500	43,132	2,933	3,508

ADJ #		References:
1	Chemicals	Schedule JMM-W10
2	Outside Services Expense	Schedule JMM-W11
3	Water Testing Expense	Schedule JMM-W12
4	Misceaalenous Expense	Schedule JMM-W13
5	Depreciation Expense	Schedule JMM-W14
6	Poperty Taxes	Schedule JMM-W15

Utility Source, LLC. - Water Division
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Test Year Ended December 31, 2005

Schedule JMM-W10

OPERATING INCOME ADJUSTMENT # 1 - CHEMICALS EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Chemicals	$ 530	$ (530)	$ -

References:
Column A: Company Schedule C-1
Column B: Testimony, JMM, Schedule JMM-W9
Column C: Column [A] + Column [B]

Utility Source, LLC. - Water Division
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Schedule JMM-W11

OPERATING INCOME ADJUSTMENT # 2 - OUTSIDE SERVICES EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Outside Services	$ 20,630	$ (8,202)	$ 12,428
	Staff's calcuation of Outside Services			
3	Amount disallowed as non cost of service, Kimley Horn traffic study	$ (2,622)		
4	Disallowed legal expense which is reasonalby accounted for in Company's estimated rate case expense	(5,580)		
5	Total	$ (8,202)		

References:
Column A: Company Schedule C-1
Column B: Testimony, JMM, Schedule JMM-W9
Column C: Column [A] + Column [B]

Utility Source, LLC. - Water Division
Docket No. WS-04235A-06-0303
Test Year Ended December 31, 2005

Schedule JMM-W12

OPERATING INCOME ADJUSTMENT # 3 - WATER TESTING EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Water Testing Expense	$ 8,553	$ (6,107)	$ 2,446

References:
Column A: Company Schedule C-1
Column B: Testimony, JMM, Schedule JMM-W9
Column C: Column [A] + Column [B]

Utility Source, LLC. - Water Division
Docket No. WS-04235A-06-0303
Test Year Ended December 31, 2005

Schedule JMM-W13

OPERATING INCOME ADJUSTMENT # 4 - MISCELLANEOUS EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Miscellaneous expense	$ 30,722	$ (20,500)	$ 10,222

Staff's Calculation of Miscellaneous Expense

Disallowed penalty imposed on Company by Commission for operating without a CC&N, a non cost of service expense not imposed on customers.	$ (20,000)
Disallowed PAD application fee for CC&N extension dated 4/2006, outside test yr.	(500)
Total	$ (20,500)

References:
Column A: Company Schedule C-1
Column B: Testimony, JMM, Schedule JMM-W9
Column C: Column [A] + Column [B]

Utility Source, LLC. - Water Division
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Test Year Ended December 31, 2005

Schedule JMM-W14

OPERATING INCOME ADJUSTMENT NO. 4 - DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Depreciation Expense	$ 116,931	$ (43,132)	$ 73,799

	ACCT NO	DESCRIPTION	AT ENGINEER RECOMMENDED RATES: Total Plant Staff Adjusted 12/31/2004	Recommended Rate	HALF YEAR DEP.	A.D 12/31/2004	ADDITIONS 12/31/2005	RETIREMENTS 12/31/2005	PLT BAL 12/31/2005	DEP EXP 12/31/2005 FULL YR	A.D 12/31/2005
2	301	Organization Cost	-	-	-	-	-	-	-	-	-
3	302	Franchise Cost	-	-	-	-	-	-	-	-	-
4	303	Land & Land Rights	210,000	-	-	-	-	-	210,000	-	-
5	304	Structures & Improvements	72,998	3.33%	1,215	1,215	-	-	72,998	2,431	3,646
6	307	Wells & Springs	1,335,238	3.33%	22,232	22,232	-	-	1,335,238	44,463	66,695
7	310	Power Generation Equipment	87,400	5.00%	2,185	2,185	-	-	87,400	4,370	6,555
8	311	Electric Pumping Equip.	158,711	12.50%	9,919	9,919	-	-	158,711	19,839	29,758
9	320	Water Treatment Equipment	5,487	3.33%	91	91	-	-	5,487	183	274
10	320.1	Water Treatment Plants	-	3.33%	-	-	-	-	-	-	-
11	320.2	Solution Chemicals Feeders	-	20.00%	-	-	-	-	-	-	-
12	330	Distribution Reservoirs	321,452	2.22%	3,568	3,568	-	-	321,452	7,136	10,704
13	330.1	Storage Tanks	-	2.22%	-	-	-	-	-	-	-
14	330.2	Pressure Tanks	-	5.00%	-	-	-	-	-	-	-
15	331	Transmission & Distribution-Mains	147,200	2.00%	1,472	1,472	-	-	147,200	2,944	4,416
16	333	Services	86,250	3.33%	1,436	1,436	-	-	86,250	2,872	4,308
17	334	Meters	-	8.33%	-	-	-	-	-	-	-
18	335	Hydrants	34,500	2.00%	345	345	-	-	34,500	690	1,035
19	336	Backflow Preventors	-	6.67%	-	-	-	-	-	-	-
20	339	Other Plant and Miscellaneous Equipment	-	6.67%	-	-	-	-	-	-	-
21	340	Office Furniture & Equip.	-	6.67%	-	-	-	-	-	-	-
22	341	Transportation Equip.	-	20.00%	-	-	-	-	-	-	-
23	343	Tools and Work Equipment	-	5.00%	-	-	-	-	-	-	-
24	344	Laboratory Equipment	-	10.00%	-	-	-	-	-	-	-
25	345	Power Operated Equipment	-	5.00%	-	-	-	-	-	-	-
26	346	Communications Equipment	-	10.00%	-	-	-	-	-	-	-
27	347	Miscellaneous Equipment	-	10.00%	-	-	-	-	-	-	-
28	348	Other Tangible Plant	-	-	-	-	-	-	-	-	-
29	350.1	OFI Engineering and Planning	-	3.33%	-	-	-	-	-	-	-
30	350.2	OFI Well Site	-	3.33%	-	-	-	-	-	-	-
31	105	Materials and Supplies Inventory	-	-	-	-	-	-	-	-	-
	Totals		2,459,236	-	42,464	42,464	-	-	2,459,236	84,928	127,392

32 CIAC Composite Rate 3.7759%

Non Depreciable Plant 2,249,236

Depreciation Expense Calculation:

33	Depreciation 2005:	$ 84,928
34	Net Amortization of CIAC: (294,745 x .037759)	(11,129)
35	Depreciation Expense:	$ 73,799

References:
Column A: Company Schedule C-1
Column B: Testimony, JMM, Schedule JMM-W9
Column C: Column [A] + Column [B]

Utility Source, LLC. - Water Division
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Schedule JMM-W15

OPERATING INCOME ADJUSTMENT #6 - PROPERTY TAXES

LINE NO.	Property Tax Calculation	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	(C) STAFF AS ADJUSTED
1	Property Taxes	$ 13,026	$ (2,933)	$ 10,093

	Staff's Calculation of Property Taxes to Reflect Recommended Revenues:	
2	Staff Adjusted Test Year Revenues - 2002	$ 174,327
3	Weight Factor	2
4	Subtotal (Line 1 * Line 2)	348,654
5	Staff Recommended Revenue, Per Schedule JMM-1	367,449
6	Subtotal (Line 4 + Line 5)	716,103
7	Number of Years	3
8	Three Year Average (Line 5 / Line 6)	238,701
9	Department of Revenue Mutilplier	2
10	Revenue Base Value (Line 7 * Line 8)	477,402
11	Plus: 10% of CWIP	-
12	Less: Net Book Value of Licensed Vehicles	-
13	Full Cash Value (Line 9 + Line 10 - Line 11)	477,402
14	Assessment Ratio	23.50%
15	Assessment Value (Line 12 * Line 13)	112,189
16	Composite Property Tax Rate (Per Company Schedule C-2, Page 3, Line 16)	8.9963%
17	Staff Proposed Property Tax Expense (Line 14 * Line 15)	$ 10,093
18	Company Proposed Property Tax	13,026
19	Increase/(Decrease) to Property Tax Expense	$ (2,933)

References:
Column A: Company Schedule C-1
Column B: Testimony, JMM, Schedule JMM-W9
Column C: Column [A] + Column [B]

RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8x3/4" Meter	$ -	$ -	18.50
3/4" Meter	6.48	24.30	18.50
1" Meter	8.02	40.50	46.50
11/2" Meter	9.62	81.00	92.50
2" Meter	14.00	129.60	148.00
3" Meter	-	259.20	296.00
4" Meter	58.00	405.00	462.50
6" Meter	89.80	810.00	925.00
Commodity Rates			
5/8x3/4" Meter (Residential)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	N/A	N/A	N/A
From 6,001 to 15,000 Gallons	N/A	N/A	N/A
In excess of 15,000 Gallons	N/A	N/A	N/A
From Zero to 5,000 Gallons	N/A	N/A	N/A
From 5,001 to 15,000 Gallons	N/A	N/A	N/A
Over 15,000 Gallons	N/A	N/A	N/A
From Zero to 4,000 Gallons	N/A	N/A	$ 4.80
From 4,001 to 9,000 Gallons	N/A	N/A	7.16
Over 9,000 Gallons	N/A	N/A	8.60
5/8x3/4" Meter (Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	N/A	N/A	N/A
From 6,001 to 15,000 Gallons	N/A	N/A	N/A
In excess of 15,000 Gallons	N/A	N/A	N/A
From Zero to 5,000 Gallons			
From 5,001 to 15,000 Gallons			
Over 15,000 Gallons			
From Zero to 4,000 Gallons	N/A	N/A	N/A
From 4,001 to 9,000 Gallons	N/A	N/A	$ 7.16
Over 9,000 Gallons	N/A	N/A	8.60
3/4" Meter (Residential)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	$ 2.83	N/A	N/A
From 6,001 to 15,000 Gallons	3.32	N/A	N/A
In excess of 15,000 Gallons	4.71	N/A	N/A
From Zero to 5,000 Gallons	N/A	$ 8.82	N/A
From 5,001 to 15,000 Gallons	N/A	10.35	N/A
Over 15,000 Gallons	N/A	14.69	N/A
From Zero to 4,000 Gallons	N/A	N/A	$ 4.80
From 4,001 to 9,000 Gallons	N/A	N/A	7.16
Over 9,000 Gallons	N/A	N/A	8.60
3/4" Meter (Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	N/A	N/A	N/A
From 6,001 to 15,000 Gallons	N/A	N/A	N/A
In excess of 15,000 Gallons	N/A	N/A	N/A
From Zero to 5,000 Gallons	N/A	N/A	N/A
From 5,001 to 15,000 Gallons	N/A	N/A	N/A
Over 15,000 Gallons	N/A	N/A	N/A
From Zero to 4,000 Gallons	N/A	N/A	N/A
From 4,001 to 9,000 Gallons	N/A	N/A	$ 7.16
Over 9,000 Gallons	N/A	N/A	8.60
1" Meter and Larger (Residential)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	$ 2.83	N/A	N/A
From 6,001 to 15,000 Gallons	3.32	N/A	N/A
In excess of 15,000 Gallons	4.71	N/A	N/A

From Zero to 5,000 Gallons	N/A	$ 8.82	N/A
From 5,001 to 15,000 Gallons	N/A	10.35	N/A
Over 15,000 Gallons	N/A	14.69	N/A
From Zero to 4,000 Gallons	N/A	N/A	N/A
From 4,001 to 9,000 Gallons	N/A	N/A	$ 7.16
Over 9,000 Gallons	N/A	N/A	8.60
1" Meter and Larger (Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	N/A	N/A	N/A
From 6,001 to 15,000 Gallons	N/A	N/A	N/A
In excess of 15,000 Gallons	N/A	N/A	N/A
From Zero to 5,000 Gallons	N/A	N/A	N/A
From 5,001 to 15,000 Gallons	N/A	N/A	N/A
Over 15,000 Gallons	N/A	N/A	N/A
From Zero to 9,000 Gallons	N/A	N/A	N/A
From 4,001 to 9,000 Gallons	N/A	N/A	$ 7.16
Over 9,000 Gallons	N/A	N/A	8.60
Multi-Family Mobile Home, and Commercial Customers			
All consumption per 1,000 gallons	$ 2.97	$ 9.26	N/A
Irrigation Meters			
Charge per 1,000 gallons for usage	N/A	$ 9.26	$ 9.26
Standpipe or Bulk Water			
Standpipe or bulk water per 1,000 gallons	$ 6.00	$ 10.35	$ 10.35
Construction Water			
Construction Water per 1,000 gallons	$ 6.00	$ 10.35	$ 10.35
Service Line and Meter Installation Charges			
5/8" x 3/4" Meter	$ -	$ -	$ 520.00
3/4" Meter	575.00	575.00	575.00
1" Meter	660.00	660.00	660.00
1½" Meter	900.00	900.00	900.00
2" Turbine Meter	1,525.00	1,525.00	1,525.00
2" Compound Meter	-	-	2,320.00
3" Turbine Meter	-	-	2,275.00
3" Compound Meter	-	-	3,110.00
4" Turbine Meter	3,360.00	3,360.00	3,360.00
4" Compound Meter	-	-	4,475.00
6" Turbine Meter	6,035.00	6,035.00	6,035.00
6" Compound Meter	-	-	8,050.00
Service Charges			
Establishment	$ 20.00	$ 20.00	$ 20.00
Establishment of Services after hours	40.00	40.00	40.00
Re-establishment of Service	*	*	*
Reconnection Service	50.00	50.00	50.00
Reconnection (Deliquent and After Hours)	40.00	40.00	40.00
Charge for moving meter	Cost	Cost	Cost
After hours service charge	40.00	40.00	40.00
Minimum Deposit Requirement	**	**	**
Deposit Interrest	3.00%	3.00%	Per Rule
Meter Test	20.00	20.00	20.00
Meter Re-Read	10.00	10.00	10.00
Charge for NSF Check	20.00	20.00	20.00
Late Payment charge for delinquent bill	1.50%	1.50%	***
Deferred Payment Finance Charge	1.50%	1.50%	***
Main Extension and additional facility agreements	***	***	***

* Per Commission Rule Rule R14-2-403(D)
** Per Commission Rule Rule R14-2-403(B)
*** Per Commission Rule Rule R14-2-406(B)

UTILITY SOURCE, LLC - Water Division
Docket No. WS-04235A-06-0303
Test Year Ended December 31, 2005

Schedule JMM-W17

Typical Bill Analysis
General Service 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	4,740	$ 19.89	$ 66.11	$ 46.21	232.29%
Median Usage	4,500	19.22	63.99	$ 44.78	233.02%
Staff Recommended					
Average Usage	4,740	$ 19.89	$ 43.00	$ 23.10	116.14%
Median Usage	4,500	19.22	41.28	$ 22.07	114.83%

Present & Proposed Rates (Without Taxes)
General Service 3/4-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	$ 6.48	$ 24.30	275.00%	$ 18.50	185.49%
1,000	9.31	33.12	255.75%	23.30	150.27%
2,000	12.14	41.94	245.47%	28.10	131.47%
3,000	14.97	50.76	239.08%	32.90	119.77%
4,000	17.80	59.58	234.72%	37.70	111.80%
5,000	20.63	68.40	231.56%	44.86	117.45%
6,000	23.95	78.75	228.81%	52.02	117.20%
7,000	27.27	89.10	226.73%	59.18	117.02%
8,000	30.59	99.45	225.11%	66.34	116.87%
9,000	33.91	109.80	223.80%	73.50	116.75%
10,000	37.23	120.15	222.72%	82.10	120.52%
11,000	40.55	130.50	221.82%	90.70	123.67%
12,000	43.87	140.85	221.06%	99.30	126.35%
13,000	47.19	151.20	220.41%	107.90	128.65%
14,000	50.51	161.55	219.84%	116.50	130.65%
15,000	53.83	171.90	219.34%	125.10	132.40%
16,000	58.54	186.59	218.74%	133.70	128.39%
17,000	63.25	201.28	218.23%	142.30	124.98%
18,000	67.96	215.97	217.79%	150.90	122.04%
19,000	72.67	230.66	217.41%	159.50	119.49%
20,000	77.38	245.35	217.07%	168.10	117.24%
25,000	100.93	318.80	215.86%	211.10	109.15%
30,000	124.48	392.25	215.11%	254.10	104.13%
35,000	148.03	465.70	214.60%	297.10	100.70%
40,000	171.58	539.15	214.23%	340.10	98.22%
45,000	195.13	612.60	213.94%	383.10	96.33%
50,000	218.68	686.05	213.72%	426.10	94.85%
75,000	336.43	1,053.30	213.08%	641.10	90.56%
100,000	454.18	1,420.55	212.77%	856.10	88.49%

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner
GARY PIERCE
Commissioner

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C., AN ARIZONA LIMITED LIABILITY COMPANY, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PROPERTY AND FOR AN INCREASE IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICES	)	DOCKET NO. WS-04235A-06-0303

DIRECT

TESTIMONY

OF

JEFFREY M. MICHLIK

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JANUARY 19, 2007

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EXECUTIVE SUMMARY
UTILITY SOURCE, LLC
SEWER DIVISION
DOCKET NO. W-04235A-06-0303

Utility Source, LLC – Sewer Division ("Company") is an Arizona limited liability company. The sewer utility is located in Coconino County. The Company's sewer system is located just north of highway 40 in Bellemont, Arizona. The Company served approximately 337 customers during the test year ended December 31, 2005. The Company's current rates were approved in Decision No. 67446, dated January 4, 2005.

Rate Application:

The Company proposes rates that would increase operating revenue by $187,220 to produce operating revenue of $301,125 resulting in operating income of $147,205, or a 164.37 percent increase over test year revenue of $113,905. The Company also proposes a fair value rate base ("FVRB") of $1,401,953 which is its original cost rate base, and a 10.50 percent rate of return on the FVRB.

Staff recommends rates that would increase operating revenue by $111,003 to produce operating revenue of $224,908 resulting in operating income of $94,999, or a 97.45 percent increase over adjusted test year revenue of $113,905. Staff recommends a FVRB of $989,576, and a 9.60 percent rate of return on the FVRB.

Rate Design:

Due to the facts related in Decision No. 67446, in which the Company did not have a valid Certificate of Convenience and Necessity (CC&N) and was charging rates that were not approved by the Commission; Staff, in an effort to alleviate the rate burden on customers, has accepted the Company's proposal and will include estimated usage of 350 homes that are currently being built, in the rate design.

The Company proposes rates per 1,000 gallons of water usage by customer category as follows: residential $7.28; car washes, laundromats, commercial, manufacturing $7.12; hotels and motels $9.55; restaurants $11.79; industrial laundries $10.45; waste haulers $213.36; restaurant grease $186.69; treatment plant sludge $213.36; and mud sump waste $666.75.

Staff recommends rates per 1,000 gallons of water usage by customer category as follows: residential $5.58; car washes, laundromats, commercial, manufacturing $5.45; hotels and motels $7.31; restaurants; $9.03; industrial laundries $8.01; waste haulers $163.44; restaurant grease $143.01; treatment plant sludge $163.44; and mud sump waste $510.75.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Jeffrey M. Michlik. I am a Public Utilities Analyst IV employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as a Public Utilities Analyst IV.

A. In my capacity as a Public Utilities Analyst IV, I analyze and examine accounting, financial, statistical and other information and prepare reports based on my analyses that present Staff's recommendations to the Commission on utility revenue requirements, rate design and other matters. I also provide expert testimony on these same issues.

Q. Please describe your educational background and professional experience.

A. In 2000, I graduated from Idaho State University, receiving a Bachelor of Business Administration Degree in Accounting and Finance, and I am a Certified Public Accountant with the Arizona State Board of Accountancy. I have attended the National Association of Regulatory Utility Commissioners' ("NARUC") Utility Rate School, which presents general regulatory and business issues.

I joined the Commission as a Public Utilities Analyst in May of 2006. Prior to employment with the Commission, I worked four years for the Arizona Office of the Auditor General as a Staff Auditor, and one year in public accounting as a Senior Auditor.

Q. What is the scope of your testimony in this case?

A. I am presenting Staff's analysis and recommendations regarding Utility Source, LLC's ("Company") application for a permanent increase in its rates and charges for wastewater

utility service within Coconino County, Arizona. I am presenting testimony and schedules addressing rate base, operating revenues and expenses, revenue requirement, and rate design. Staff witness Mr. Steve Irvine is presenting Staff's Cost of Capital and related recommendations. Mr. Jian Liu is presenting Staff's engineering analysis and related recommendations.

Q. What is the basis of your testimony in this case?

A. I performed a regulatory audit of the Company's application and records. The regulatory audit consisted of examining and testing financial information, accounting records, and other supporting documentation and verifying that the accounting principles applied were in accordance with the Commission adopted NARUC Uniform System of Accounts ("USOA").

BACKGROUND

Q. Please review the background of this application.

A. Utility Source is an Arizona limited liability company. The wastewater utility is located in Coconino County. The Company's wastewater system is located just north of highway 40 in Bellemont, Arizona. The Company served approximately 337 customers during the test year ended December 31, 2005. The Company's current rates were approved in Decision No. 67446, dated January 4, 2005. On May 1, 2006, the Company filed an application as a result of Decision No. 67446, requesting a determination of the current fair value of its utility property and permanent rate increase for its water and sewer divisions. On July 3, 2006, Staff filed a letter declaring the application sufficient.

CONSUMER SERVICES

Q. Please provide a brief history of customer complaints received by the Commission regarding the Company. Additionally, please discuss customer responses to the Company's proposed rate increase.

A. Staff reviewed the Commission's records and found zero complaints, six inquiries, and thirteen opinions during the past three and a half years. All of the thirteen opinions were opposed to the proposed rate increase.

SUMMARY OF FILING, RECOMMENDATIONS, AND ADJUSTMENTS

Q. Please summarize the Company's filing.

A. The Company proposes rates that would increase operating revenues by $187,220, to produce operating revenue of $301,125, resulting in operating income of $147,205, or a 164.37 percent increase over test year revenue of $113,905. The Company also proposes a fair value rate base ("FVRB") of $1,401,953, which is its original cost rate base, and a 10.50 percent rate of return on the FVRB.

Q. Please summarize Staff's recommendations.

A. Staff recommends rates that would increase operating revenue by $111,003 to produce operating revenue of $224,908, resulting in operating income of $94,999, or a 97.45 percent increase over adjusted test year revenue of $113,905. Staff recommends a FVRB of $989,576, and a 9.60 percent rate of return on the FVRB.

Q. Please summarize the rate base adjustments addressed in your testimony.

A. My testimony addresses the following issues:

Plant in Service – These adjustments decrease rate base by $375,095.

Accumulated Depreciation – This adjustment decreases rate base by $37,461.

Contributions in Aid of Construction ("CIAC") – This adjustment increases rate base by $8,101.

Working Capital – This adjustment decreases rate base by $7,921.

Q. Please summarize the operating revenue and expense adjustments addressed in your testimony.

A. My testimony addresses the following issues:

Miscellaneous Expense – This adjustment decreases expenses by $500.

Waste Water Testing Expense – This adjustment increases expenses by $4,430.

Depreciation Expense – This adjustment decreases expenses by $26,856.

Property Tax Expense – This adjustment decreases expenses by $1,086.

RATE BASE

Rate Base Summary

Q. Please review the Company's proposed rate base.

A. The Company is proposing a FVRB of $1,401,953 as shown on Schedule JMM-WW2.

Q. Is Staff recommending any changes to the Company's proposed rate base?

A. Yes. Staff recommends a FVRB of $989,576 as shown on Schedule JMM-WW2, a reduction of $412,377 from the Company's proposed FVRB.

Q. How many rate base adjustments is Staff recommending?

A. Staff recommends four adjustments to rate base as shown on Schedules JMM-WW2 and JMM-WW3. Each adjustment described below is made to the FVRB.

Rate Base Adjustment No. 1 – Plant in Service.

Q. What is the Company proposing for the account 355, Power Generation Equipment?

A. The Company is proposing costs of $32,200. See Company Schedule B-2 page 4b.

Q. Please explain the results of Staff's analysis of account 355, Power Generation Equipment.

A. Staff examined invoices and a line item detail schedule by plant account provided by the Company, as requested by Staff. Staff's analysis of the documentation and explanations provided by the Company through Staff's data requests concluded that $29,321 of emergency generator cost contributed to Santec Corporation was double counted and included in account 380, treatment and disposal equipment, treatment plant #2. The contract for wastewater treatment plant #2 was signed with Santec Corporation, and included addendums for an enhanced emergency generator, management fees and site work. Staff removed the emergency generator cost from account 355 and kept the cost as part of the total contract amount contributed to Santec Corporation for wastewater treatment plant #2 in account 380.

Q. What is Staff's recommendation for account 355, Power Generation Equipment?

A. Staff is recommending the disallowance of $29,321 already included in account 380, treatment and disposal equipment, treatment plant #2. Staff's resulting recommended account balance for power generation equipment is $2,879.

Q. What is the Company proposing for account 380, Treatment and Disposal Equipment?

A. The Company is proposing costs of $1,106,874. See Company Schedule B-2 page 4b.

Q. Please explain the results of Staff's analysis of account 380, Treatment and Disposal Equipment.

A. Staff examined invoices and a line item detail schedule by plant account provided by the Company, as requested by Staff. Staff's analysis of the documentation and explanations provided by the Company through Staff's data requests concluded the following:

1. Staff disallowed $68,271 of costs posted to treatment plant #1, which was performed by Alta Mesa Construction. No invoices or explanation of the costs asserted by the Company for this amount were provided. Staff was unable to determine what the cost was for, or whether it possibly represented work performed by Advanced Environmental Systems, Inc., the vendor contracted to build wastewater treatment plant #1. The burden of proof to substantiate costs is on the Company, and utility customers cannot be asked to endure unsupported costs in determining their rates.

2. Staff disallowed $178,231 in costs posted to Evaporative Lagoons related to the Flagstaff Meadows Water Feature Project contracted by the vendor Red Rock Contractors. The costs represent manmade water falls, streams, pond, and lake. Effluent processed by the wastewater treatment plants are used to feed the pond and lake. In Staff's review of documentation provided by the Company, there was no indication that the water features described were a necessary and required component of the wastewater utility system. No documentation from ADEQ approving the water features as a necessary part of the sewer system was made available. Based on available documentation, Staff has concluded that the water features are not a necessary component of the utility system, but contribute to a park-like setting for the general development which has already profited the owners through the sale of homes in the Flagstaff Meadows development project.

Staff believes that utility customers should not endure the cost of these features in utility rates.

3. Staff disallowed $99,272 in costs contributed to treatment plant #2. The contract for wastewater treatment plant #2 was signed with Santec Corporation, and included addendums for an enhanced emergency generator, management fees and site work. Due to the addendums to the contract, additional charges and adjustments, Staff requested all cancelled checks paid to Santec Corporation. The total of cancelled checks was used to record the amount of work performed by Santec Corporation for wastewater treatment plant #2. The amount disallowed by Staff is the difference between the Company's asserted costs for treatment plant #2 and the total of cancelled checks provided.

Q. What is Staff's recommendation for account 380, Treatment and Disposal Equipment?

A. Staff is recommending a decrease of $345,774, resulting in a recommended account balance of $761,100.

Q. What is the result of the two adjustments made for Plant in Service?

A. The net result of the two adjustments is to decrease plant in service by $375,095, from $1,139,074 to $763,979. Staff's adjustments are shown on schedule JMM-WW4.

Rate Base Adjustment No. 2 – Accumulated Depreciation.

Q. What is the Company proposing for Accumulated Depreciation?

A. The Company is proposing $32,797 for accumulated depreciation. See Company Schedule B-2 page 1.

Q. Please explain the results of Staff's analysis of Accumulated Depreciation.

A. Staff's analysis of the schedules, documentation and explanations provided by the Company through Staff's data requests concluded that the Company used an in-service date for all plant assets that corresponded to the date the Company obtained its Certificate of Convenience and Necessity ("CC&N"). However, in the instant case, the owners had placed in service all sewer utility plant prior to obtaining a CC&N, and were providing service to customers prior to the in-service date used by the Company in this rate application, which is the grant date of their CC&N and the rate application test year, 2005.

In Staff's review of the line item detail schedule by plant account and invoices provided by the Company, material amounts included in the schedule did not have transaction dates or invoices associated with the costs. However, it is clear from the documentation provided that all wastewater utility plant assets were providing service by the end of 2004. Therefore, Staff is recommending 2004 as the in-service date of all wastewater utility plant assets, and not 2005 as the Company proposes.

In review of Company witness Mr. Bourassa's Schedule B-2, page 4b testimony, the Company used an in-service date of 2005 and a half year convention in computing depreciation expense for the first year, which translates into an accumulated depreciation total for the test year equal to the half year of depreciation expense. Since Staff is recommending 2004 as the in-service date of all wastewater utility plant assets, Staff's accumulated depreciation will consist of half year depreciation, using the half year convention, for 2004, and a full year of depreciation for 2005.

Q. What is Staff's recommendation for the Accumulated Depreciation account?

A. Staff is recommending an increase of $37,461, resulting in a recommended account balance for accumulated depreciation of $70,258. Staff's adjustment is shown on Schedule JMM-WW5.

Rate Base Adjustment No. 3 – Advances in Aid of Construction ("AIAC") reclassified as CIAC.

Q. What is the Company proposing for AIAC?

A. The Company is proposing $197,973. See Company Schedule B-2 page 1.

Q. Please explain the results of Staff's analysis of AIAC.

A. While inquiring of the nature of the assets included by the Company in AIAC and requesting supporting line extension agreements approved by the Commission for the advances, the Company's response to Staff's second data request stated that the Company's proposed AIAC amount was in error and should be reclassified as CIAC. Staff accepts the Company's proposal to reclassify the AIAC amount to CIAC.

Q. What is Staff's recommendation for AIAC and CIAC?

A. Staff is recommending decreasing AIAC by $197,973 and increasing CIAC by $197,973. Additionally, Staff is recommending amortization of CIAC in 2005 of $8,101, for a net CIAC balance of $189,872. Staff's adjustment is shown on schedule JMM-WW6.

Rate Base Adjustment No. 4 – Working Capital.

Q. What is the Company proposing for the Allowance of Cash Working Capital?

A. The Company is proposing a $7,921 allowance for cash working capital based on a simple income statement approach which takes 1/8 of the amount presented on the income

statement for operations and maintenance expense and 1/24 of the amount for pumping power. This methodology is known as the formula method. See Company Schedule B-5 page 1.

Q. What recommendation is Staff making?

A. Staff is recommending that the $7,921 allowance for cash working capital be disallowed, as a utility of this size should have presented a lead-lag study to establish an estimate of cash working capital. As a result, Staff is recommending a zero balance for cash working capital. Staff's adjustment is shown on Schedule JMM-WW7.

Q. Why is Staff recommending disallowance of this amount?

A Staff typically only allows cash working capital allowances calculated by the formula method for small class D and E utilities. The formula method always produces a positive cash working capital need. Utilities classified as A, B, or C are much larger and Staff believes that the formula method does not accurately reflect the related cash working capital needs. Typically Staff finds that proper lead/lag studies usually produce a negative cash working capital need. Staff recommends disallowance of any cash working capital allowance.

OPERATING INCOME

Operating Income Summary

Q. What are the results of Staff's analysis of test year revenues, expenses, and operating income?

A. Staff's analysis resulted in adjusted test year operating revenues of $113,905, operating expenses of $129,909 and operating loss of $16,004 as shown on Schedules JMM-WW8 and JMM-WW9. Staff made three adjustments to operating income.

Q. Did Staff make any adjustments to operating revenue?

A. No, however, Staff did accept the Company's projected customer growth of 350 customers.

Q. Why is Staff accepting these projected numbers?

A. The numbers submitted by the Company are known projects currently under development and assume that the homes will be built. The Company has provided these numbers in an effort to minimize the impact on the rates and is not intended to set any precedent for this or any other utility regulated by the Commission.

Q. Is this unusual?

A. Yes, however, noting the history of the Company, which was operating without a valid CC&N, Staff feels that the rate payer should not have to pay for the Company's mistakes.

Q. What happens if all the homes are not built?

A. The Company could be under earning, and as a result will have to reduce expenses or file another rate case. In this particular case, the Company is assuming the risk that the homes may not be built.

Operating Expense Adjustment No. 1 – Miscellaneous Operating Expense

Q. Please explain Staff's Operating Expense Adjustment No. 1.

A. Staff's adjustment decreased miscellaneous expense by $500, from $5,465 to $4,965. Staff's adjustment is shown on Schedule JMM-WW10.

Q. Why is Staff making this recommendation?

A. Staff is disallowing $500 in expense for a physical determination availability application relating to the Company's CC&N extension application. The application was signed and dated by the owner on 4/18/2006; however, the Company posted the expense on 12/28/2005. Based on the documentation provided by the Company the expense is considered outside the test year and not a recurring cost of service.

Operating Expense Adjustment No. 2 – Waste Water Testing Expense

Q. Please explain Staff's Operating Expense Adjustment No. 2.

A. Staff's adjustment increases waste water testing expense by $4,430, from $0 to $4,430, as shown on Schedule JMM-WW11. An explanation of this adjustment can be found in Staff's Engineering Report.

Operating Expense Adjustment No. 3 – Depreciation Expense

Q. Please explain Staff's Operating Expense Adjustment No. 3.

A. Staff's adjustment decreases depreciation expense by $26,856, from $65,954 to $38,738.

Q. Why does this amount differ from the Company proposed depreciation expense?

A. Staff's calculation of depreciation expense is based upon Staff's recommended depreciation rates, and Staff's adjustments to rate base and the in-service date for plant assets. Since the Company was operating water utility service prior to the test year 2005, and all water utility plant was in service no later than 2004, Staff is using 2004 as the in-service date for all plant assets. This results in half year deprecation, using the half year convention, in 2004, and full year depreciation in the 2005 test year. This is shown on Schedule JMM-WW12.

Operating Expense Adjustment No. 4 – Property Tax Expense

Q. Please explain Staff's Operating Expense Adjustment No. 4.

A. Staff's adjustment decreases property tax $1,086, from $7,533 to $6,447. Staff's calculation is based upon Staff's adjusted test year and recommended revenues. Please see Schedule JMM-WW13 for Staff's calculation.

REVENUE REQUIREMENT

Q. What does the Company propose for an increase in operating revenue?

A. The Company proposes increasing operating revenues by $187,220 from $113,905 to $301,125.

Q. What does Staff recommend for an increase in operating revenues?

A. Staff recommends a $111,003 increase in operating revenues, from $113,905 to $224,908.

Q. How did Staff determine its recommended operating revenue?

A. Staff determined a 9.60 percent return on FVRB is appropriate. Therefore, a rate of return of 9.60 percent on Staff's recommended FVRB of $989,576 produces the required operating income of $94,999. For further information on how the 9.60 percent cost of capital was calculated please see the testimony of Staff witness Steve Irvine.

Q. Why did Staff choose a flow rate, instead of flat rate for its customers?

A. Each case is unique unto itself, and in this particular case it was decided in Decision No. 67446 that flow rates would be used. In addition, the Company has or plans to have more than one commercial class of user (i.e., car wash, hotel, and industrial laundries) instead of a single commercial class such as a manufacturing plant. Each of the above commercial classes discharges different volumes of waste into the sewer system.

Q. Why did Staff use water usage instead of an estimate of volumetric discharge?

A. Again each case is unique, and it was decided in Decision No. 67446 that the rates would be based on water usage volume.

Q. Is there anything unusual about the way Staff calculated the revenue requirement?

A. Yes, as mentioned earlier in my testimony Staff accepted the Company's adjustment to test year revenues by including estimated usage of 350 homes that are currently under development. Therefore, the 350 homes account for $105,420 of the total $224,908 in metered water revenue, or 46.87 percent of total metered water revenue. The $105,420 was calculated as follows: 350 customers x 12 months x $25.10 Staff's Median Usage from Schedule JMM-WW15 = $105,420. The remainder is calculated from the Company's current customers.

Q. Why has Staff calculated the revenue requirement in this manner?

A. Staff calculated the revenue requirement in this manner based on the facts and issues that were reviewed in Decision No. 67446, which directly affects the current water and wastewater customers of the Company.

As a result of operating a water/wastewater system without a valid CC&N, the Company was assessed a penalty for failure to comply with the Rules and Regulations of the Arizona Corporation Commission. In the Decision, it was noted that "The Company's actions, as detailed in the record of this proceeding, constitute one of the most egregious examples of unauthorized preemptory operations ever confronted by the Commission. Therefore, as a condition of approval of the requested CC&N, Utility Source shall pay $20,000, based on a penalty of $100 for each of its approximately 200 customers that were

connected to the Company's system prior to issuance of a CC&N." See Decision No. 67446 page 19.

In this Decision it was also noted that "it appears that the developer induced customers to purchase homes with water and wastewater rates that will be insufficient to support the construction and long-term operations of water and wastewater systems for planned development. Although we do not ascribe any malicious intent to developer's actions, the net effect of those actions cannot help but lead to extremely unhappy customers who may be left to pay for the utility systems at costs that significantly exceed the rates they expected to pay when they purchased their homes." See Decision No. 67446 page 11.

As a result of the artificially low unapproved rates, the Company in the Order was required to "Notify all existing and future customers that: the water and wastewater rates currently in effect were not approved by the Commission because the Company commenced operations without the Commission's authorization; the Company is required to file a rate application by May 1, 2006 that may result in higher rates." See Decision No. 67446 page 24.

As you can see from the excerpts in the previous case, the Commission was critical of the Company not having a valid CC&N and operating with rates that were not approved by the Commission. In addition, the Commission was concerned about the rate impact on current and future customers.

In an effort to lessen the rate impact on customers, the Company in its rate application proposed including 350 homes that are currently being built. Staff accepted the Company's proposal and has included these 350 customers in the rate design in order to

ameliorate the rate shock that current and future customers will experience. Also, since Staff accepted the Company's revenue adjustment to test year revenues, it is only logical to include these 350 customers in deriving the revenue requirement. Again this is a unique case, and should not be used as a precedent for any other utility regulated by the Commission.

Q. What would happen if only the current customers were used to derive the revenue requirement?

A. Staff's recommendations would be inadequate and Staff would have to recommend further increases in the rates imposed on the current and future customers.

RATE DESIGN

Q. Have you prepared a schedule summarizing the present, Company proposed, and Staff recommended rates and service charges?

A. Yes. A summary of the present, Company proposed, and Staff recommended rates and service charges are provided on Schedule JMM-WW14.

Q. Would you please summarize the present rate design?

A. The present rates per 1,000 gallons of water usage by customer category are as follows: residential $2.73; car washes, laundromats, commercial, and manufacturing $2.67; hotels and motels $3.58; restaurants $4.42; industrial laundries $3.92; waste haulers $80.00; restaurant grease $70.00; treatment plant sludge $80.00; and mud sump waste $250.00.

Q. Would you please summarize the Company's proposed rate design?

A. The Company's proposed rates per 1,000 gallons of water usage by customer category are as follows: residential $7.28; car washes, laundromats, commercial, manufacturing $7.12;

hotels and motels $9.55; restaurants $11.79; industrial laundries $10.45; waste haulers $213.36; restaurant grease $186.69; treatment plant sludge $213.36; and mud sump waste $666.75.

Q. Would you please summarize Staff's recommended rate design?

A. Staff's recommended rates per 1,000 gallons of water usage by customer category are as follows: residential $5.58; car washes, laundromats, commercial, manufacturing $5.45; hotels and motels $7.31; restaurants; $9.03; industrial laundries $8.01; waste haulers $163.44; restaurant grease $143.01; treatment plant sludge $163.44; and mud sump waste $510.75. A comparison of the current rates, the Company's proposed rates, and Staff's recommended rates are presented on Schedule JMM-WW14.

Q. What is the rate impact on a residential wastewater customer with a median consumption of 4,500 gallons?

A. A typical bill analysis is provided on Schedule JMM-WW15. The median usage of residential 3/4-inch meter customers is 4,500 gallons per month. The 3/4-inch meter residential customer would experience a $20.48 or 166.67 percent increase in their monthly bill from $12.29 to $32.76 under the Company's proposed rates and a $12.81 or 104.30 percent increase in their monthly bill from $12.29 to $25.10 under Staff's recommended rates.

Q. What service charges does Staff recommend?

A. A comparison of the current charges, the Company's proposed charges, and Staff's recommended charges are presented on Schedules JMM-WW14. These charges are within Staff's experience of what are reasonable and customary charges.

Q. Does this conclude your direct testimony?

A. Yes, it does.

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Schedule JMM-WW1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(C) COMPANY FAIR VALUE	(D) STAFF ORIGINAL COST	(E) STAFF FAIR COST
1	Adjusted Rate Base	$ 1,401,953	$ 1,401,953	$ 989,576	$ 989,576
2	Adjusted Operating Income (Loss)	$ (40,015)	$ (40,015)	$ (16,004)	$ (16,004)
3	Current Rate of Return (L2 / L1)	-2.85%	-2.85%	-1.62%	-1.62%
4	Required Rate of Return	10.50%	10.50%	9.60%	9.60%
5	Required Operating Income (L4 * L1)	$ 147,205	$ 147,205	$ 94,999	$ 94,999
6	Operating Income Deficiency (L5 - L2)	$ 187,220	$ 187,220	$ 111,003	$ 111,003
7	Gross Revenue Conversion Factor	1.0000	1.0000	1.0000	1.0000
8	Required Revenue Increase (L7 * L6)	$ 187,220	$ 187,220	$ 111,003	$ 111,003
9	Adjusted Test Year Revenue	$ 113,905	$ 113,905	$ 113,905	$ 113,905
10	Proposed Annual Revenue (L8 + L9)	$ 301,125	$ 301,125	$ 224,908	$ 224,908
11	Required Increase in Revenue (%)	164.37%	164.37%	97.45%	97.45%
12	Rate of Return on Rate Base (%)	10.50%	10.50%	9.60%	9.60%

References:
Column (A): Company Schedule B-1
Column (B): Company Schedule B-1
Column (C): Staff Schedules JMM-WW2, JMM-WW8
Column (D): Staff Schedules JMM-WW2, JMM-WW8

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Schedule JMM-WW2

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	REF	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 1,624,802	$ (375,095)	ADJ # 1	$ 1,249,707
2	Less: Accumulated Depreciation	32,797	37,461	ADJ # 2	70,258
3	Net Plant in Service	$ 1,592,005	$ (412,556)		$ 1,179,449
	LESS:				
4	Contributions in Aid of Construction (CIAC)	$ -	$ 197,973	ADJ # 3	$ 197,973
5	Less: Accumulated Amortization	-	8,101		8,101
6	Net CIAC	-	189,872		189,872
7	Advances in Aid of Construction (AIAC)	197,973	(197,973)	ADJ # 3	-
8	Customer Deposits	-	-		-
9	Deferred Income Tax Credits	-	-		-
	ADD:				
10	Unamortized Finance Charges	-	-		-
11	Deferred Tax Assets	-	-		-
12	Working Capital	7,921	(7,921)	ADJ # 4	-
13	**Original Cost Rate Base**	$ 1,401,953	$ (412,377)		$ 989,576

References:
Column (A), Company Schedule B-1
Column (B): Schedule JMM-WW3
Column (C): Column (A) + Column (B)

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Schedule JMM-WW3

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] PLANT IN SERVICE ADJ No. 1	[C] ACCUM DEPREC ADJ NO. 2	[D] AIAC TO CIAC ADJ No. 3	[E] WORKING CAPITAL ADJ No. 4	[F] STAFF ADJUSTED
	PLANT IN SERVICE:							
1								
2	351	Organization	$ -	$ -	$ -	$ -	$ -	$ -
3	352	Franchises	-	-	-	-	-	-
4	353	Land and Land Rights	105,000	-	-	-	-	105,000
5	354	Structures & Improvements	56,350	-	-	-	-	56,350
6	355	Power Generation Equipment	32,200	(29,321)	-	-	-	2,879
7	360	Collection Sewers - Force	-	-	-		-	-
8	361	Collection Sewers - Gravity	260,553	-	-	-	-	260,553
9	362	Special Collecting Structures	-	-	-	-	-	-
10	363	Services to Customers	60,375	-	-	-	-	60,375
11	364	Flow Measuring Devices	-	-	-	-	-	-
12	365	Flow Measuring Installations	3,450	-		-	-	3,450
13	370	Receiving Wells	-	-		-	-	-
14	371	Pumping Equipment	-	-	-	-	-	-
15	380	Teatment and Disposal Equipment	1,106,874	(345,774)	-	-	-	761,100
16	381	Plant Sewers	-	-	-	-	-	-
17	382	Outfall Sewer Lines		-		-	-	-
18	389	Other Plant & Misc. Equipment	-	-	-	-	-	-
19	390	Office Furniture & Equipment	-	-	-	-	-	-
20	391	Transportation Equipment	-	-	-	-	-	-
21	393	Tools, Ship & Garage Equipment	-	-	-	-	-	-
22	394	Laboratory Equipment	-	-	-	-	-	-
23	395	Power Operated Equipment	-	-	-	-	-	-
24	398	Other Tangible Plant	-	-	-	-	-	-
25								
26			1,624,802	(375,095)	-	-	-	1,249,707
27	Add:		-					-
28			-					-
29			-		-	-	-	-
30			-	-	-	-	-	-
31	Less:		-					-
32			-	-	-	-	-	-
33			-	-	-	-	-	-
34								-
35	Total Plant in Service		$ 1,624,802	$ (375,095)	$ -	$ -	$ -	1,249,707
36	Less: Accumulated Depreciation		32,797	-	37,461	-	-	70,258
37				-	-	-	-	-
38	Net Plant in Service (L59 - L 60)		$ 1,592,005	$ (375,095)	$ (37,461)	$ -	$ -	1,179,449
39								
40	*LESS:*							
41	Contributions in Aid of Construction (CIAC)		$ -	$ -	$ -	$ 197,973	$ -	197,973
42	Less: Accumulated Amortization			-	-	8,101	-	8,101
43	Net CIAC (L25 - L26)		-	-	-	189,872	-	189,872
44	Advances in Aid of Construction (AIAC)		197,973	-	-	(197,973)	-	-
45	Customer Meter Deposits		-	-	-	-	-	-
46	Deferred Income Tax Credits		-	-	-	-	-	-
47								
48	*ADD:*							
49	Unamortized Finance Charges		-	-	-	-	-	-
50	Deferred Tax Assets		-	-	-	-	-	-
51	Working Capital		7,921	-	-	-	(7,921)	-
52								-
53	**Original Cost Rate Base**		$ 1,401,953	$ (375,095)	$ (37,461)	$ 8,101	$ (7,921)	989,576

ADJ #		References:
1	Plant in Service	Schedule JMM-WW4
2	Accumulated Depreciation	Schedule JMM-WW5
3	AIAC Reclasification to CIAC	Schedule JMM-WW6
4	Working Capital Allowance	Schedule JMM-WW7

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Schedule JMM-WW4

RATE BASE ADJUSTMENT NO. 1 - PLANT ADJUSTMENTS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Power Generation Equipment (Account 355)	$ 32,200	$ (29,321)	$ 2,879
2	Treatment and Disposal Equipment (Account 380)	1,106,874	(345,774)	761,100
3	Totals	$ 1,139,074	$ (375,095)	$ 763,979
	Staff's Calculation of Power Generation Equipment (Account 355)			
4	Removed $29,321 double counted in Treatment and Disposal Equipment (Account 380)	$ (29,321)		
	Staff's Calculation of Treatment and Disposal Equipment (Account 380)			
5	Unsubstantiated costs of $68,271 relating to Alta Mesa Construction	$ (68,271)		
6	Removal of manmade water falls, streams, ponds and lakes	(178,231)		
7	Unsubstantiated costs of $99,272 relating to Treatment Plant No. 2	(99,272)		
8	Total	$ (345,774)		

References:
Column A: Company
Column B: Testimony, JMM, Schedule JMM-WW3
Column C: Column [A] + Column [B]

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Schedule JMM-WW5

RATE BASE ADJUSTMENT NO. 2 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Accumulated Depreciation	$ 32,797	$ 37,461	$ 70,258

	ACCT NO	DESCRIPTION	AT ENGINEER RECOMMENDED RATES: Total Plant Staff Adjusted 12/31/2004	Recommended Rate	HALF YEAR DEP.	A.D 12/31/2004	ADDITIONS 12/31/2005	RETIREMENTS 12/31/2005	PLT BAL 12/31/2005	DEP EXP 12/31/2005 FULL YR	A.D 12/31/2005
2	351	Organization	-		-	-	-	-	-	-	-
3	352	Franchises	-		-	-	-	-	-	-	-
4	353	Land and Land Rights	105,000	0.00%	-	-	-	-	105,000	-	-
5	354	Structures & Improvements	56,350	3.33%	938	938	-	-	56,350	1,876	2,815
6	355	Power Generation Equipment	2,879	5.00%	72	72	-	-	2,879	144	216
7	360	Collection Sewers - Force	-	2.00%	-	-	-	-	-	-	-
8	361	Collection Sewers - Gravity	260,553	2.00%	2,606	2,606	-	-	260,553	5,211	7,817
9	362	Special Collecting Structures	-	2.00%	-	-	-	-	-	-	-
10	363	Services to Customers	60,375	2.00%	604	604	-	-	60,375	1,208	1,811
11	364	Flow Measuring Devices	-	10.00%	-	-	-	-	-	-	-
12	365	Flow Measuring Installations	3,450	10.00%	173	173	-	-	3,450	345	518
13	370	Receiving Wells	-	3.33%	-	-	-	-	-	-	-
14	371	Pumping Equipment	-	12.50%	-	-	-	-	-	-	-
15	380	Teatment and Disposal Equipment	761,100	5.00%	19,028	19,028	-	-	761,100	38,055	57,083
16	381	Plant Sewers	-	5.00%	-	-	-	-	-	-	-
17	382	Outfall Sewer Lines	-	3.33%	-	-	-	-	-	-	-
18	389	Other Plant & Misc. Equipment	-	6.67%	-	-	-	-	-	-	-
19	390	Office Furniture & Equipment	-	6.67%	-	-	-	-	-	-	-
20	391	Transportation Equipment	-	20.00%	-	-	-	-	-	-	-
21	393	Tools, Ship & Garage Equipment	-	5.00%	-	-	-	-	-	-	-
22	394	Laboratory Equipment	-	10.00%	-	-	-	-	-	-	-
23	395	Power Operated Equipment	-	5.00%	-	-	-	-	-	-	-
24	398	Other Tangible Plant	-	10.00%	-	-	-	-	-	-	-
25			-		-	-	-	-	-	-	-
26			1,249,707		23,419	23,419	-	-	1,249,707	46,839	70,258
27											
28		Composite Rate:	4.0918%					Depreciable Plant:	1,144,707		

References:
Column A: Company Schedule B-1, Page 1
Column B: Testimony, JMM, Schedule JMM-WW3
Column C: Column [A] + Column [B]

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Schedule JMM-WW6

RATE BASE ADJUSTMENT NO. 3 - RECLASSIFICATION OF AIAC TO CIAC

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Advances in Aid of Construction (AIAC)	$ 197,973	$ (197,973)	$ -
2	Contributions in Aid of Construction (CIAC)	$ -	$ 189,872	$ 189,872

	Staff's amortization of CIAC	
3	Amortization of CIAC:	$ 197,973
4	Composite amortization rate (see JMM-WW5):	4.0918%
5	Amortized CIAC:	$ 8,101
6	Net CIAC:	$ 189,872

References:
Column A: Company Schedule B-1, Page 1
Column B: Testimony, JMM, Schedule JMM-WW3
Column C: Column [A] + Column [B]

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Schedule JMM-WW7

RATE BASE ADJUSTMENT NO. 4 - REMOVAL OF ALLOWANCE FOR CASH WORKING CAPITAL

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Allowance for Cash Working Capital	$ 7,921	$ (7,921)	$ -

References:
Column A: Company Schedule B-1, Page 1
Column B: Testimony, JMM, Schedule JMM-WW3
Column C: Column [A] + Column [B]

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Schedule JMM-WW8

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS		[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	*REVENUES:*						
2	Metered Water Sales	$ 112,248	$ -		$ 112,248	$ 111,003	$ 223,251
3	Water Sales - Unmetered	-	-		-	-	-
4	Other Operating Revenue	1,657	-		1,657	-	1,657
5	**Total Operating Revenues**	$ 113,905	$ -		$ 113,905	$ 111,003	$ 224,908
	OPERATING EXPENSES:						
6	Salaries and Wages	$ -	$ -		$ -	$ -	$ -
7	Purchased Wastewater Treatment	-	-		-	-	-
8	Sludge Removal Expense	-	-		-	-	-
9	Purchased Power	17,423	-		17,423	-	17,423
10	Fuel for Power Production	-	-		-	-	-
11	Chemicals	3,945	-		3,945	-	3,945
12	Materials and Supplies	4,793	-		4,793	-	4,793
13	Contractual Services- Professional	1,195	-		1,195	-	1,195
14	Contractual Services- Testing	20,472	-		20,472	-	20,472
15	Contractual Services- Other	15,000	-		15,000	-	15,000
16	Repairs and Maintenance	-	-		-	-	-
17	Waste Water Testing Expense	-	4,430	ADJ # 2	4,430	-	4,430
18	Rents	-	-		-	-	-
19	Transportation Expenses	-	-		-	-	-
20	Insurance	-	-		-	-	-
21	Regulatory Commission Expense - Rate Case	12,500	-		12,500	-	12,500
22	Miscellaneous Expense	5,465	(500)	ADJ # 1	4,965	-	4,965
23	Depreciation Expense	65,594	(26,856)	ADJ # 3	38,738	-	38,738
24	Taxes Other Than Income	-	-		-	-	-
25	Property Taxes	7,533	(1,086)	ADJ # 4	6,447	-	6,447
26	Income Tax	-	-		-	-	-
27							
28	**Total Operating Expenses**	$ 153,920	$ (24,011)		$ 129,909	$ -	$ 129,909
29	**Operating Income (Loss)**	$ (40,015)	$ 24,011		$ (16,004)	$ 111,003	$ 94,999

References:
Column (A): Company Schedule C-1
Column (B): Schedule JMM-WW9
Column (C): Column (A) + Column (B)
Column (D): Schedules JMM-WW1
Column (E): Column (C) + Column (D)

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Schedule JMM-WW9

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Misc. Expense	[C] ADJ #2 Waste Water Testing	[D] ADJ #3 Depreciation Exp	[D] ADJ #4 Property Tax	[E] STAFF ADJUSTED
1	*REVENUES:*						
2	Flat Rate and Metered Revenues	112,248	-	-	-	-	112,248
3	Misc. Service Revenues	-	-	-	-	-	-
4	Other Wastewater Revenues	1,657	-	-	-	-	1,657
5	**Total Operating Revenues**	113,905	-	-	-	-	113,905
6	*OPERATING EXPENSES:*						
7	Salaries and Wages	-	-	-	-	-	-
8	Purchased Wastewater Treatment	-	-	-	-	-	-
9	Sludge Removal Expense	-	-	-	-	-	-
10	Purchased Power	17,423	-	-	-	-	17,423
11	Fuel for Power Production	-	-	-	-	-	-
12	Chemicals	3,945	-	-	-	-	3,945
13	Materials and Supplies	4,793	-	-	-	-	4,793
14	Contractual Services- Professional	1,195	-		-	-	1,195
15	Contractual Services- Testing	20,472	-	-	-	-	20,472
16	Contractual Services- Other	15,000	-	-	-	-	15,000
17	Repairs and Maintenance	-	-	-	-	-	-
18	Waste Water Testing Expense	-	-	4,430	-	-	4,430
19	Rents	-	-	-	-	-	-
20	Transportation Expenses	-	-	-	-	-	-
21	Insurance	-	-	-			-
22	Regulatory Commission Expense - Rate Case	12,500	-	-	-	-	12,500
23	Miscellaneous Expense	5,465	(500)	-	-	-	4,965
24	Depreciation Expense	65,594	-	-	(26,856)	-	38,738
25	Taxes Other Than Income	-	-	-	-	-	-
26	Property Taxes	7,533	-	-	(1,086)	(1,086)	6,447
27	Income Tax	-	-	-	-	-	-
							-
28	**Total Operating Expenses**	153,920	(500)	4,430	(27,941)	(1,086)	129,909
29	**Operating Income (Loss)**	(40,014)	500	(4,430)	27,941	1,086	(16,004)

ADJ #		References:
1	Miscellaneous Expense	Schedule JMM-WW10
2	Waste Water Testing Expense	Schedule JMM-WW11
3	Depreciation Expense	Schedule JMM-WW12
4	Property Taxes	Schedule JMM-WW13

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Schedule JMM-WW10

OPERATING EXPENSE ADJUSTMENT # 1 - MISCELLANEOUS EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Miscellaneous expense	$ 5,465	$ (500)	$ 4,965

Staff's Calculation of Miscellaneous Expense

Disallowed PAD application fee for CC&N extension dated 4/2006, outside test year	$ (500)

References:
Column A: Company Schedule C-1
Column B: Testimony, JMM, Schedule JMM-WW9
Column C: Column [A] + Column [B]

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Schedule JMM-WW11

OPERATING EXPENSE ADJUSTMENT # 2 - WASTE WATER TESTING EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Waste Water Testing Expense	$ -	$ 4,430	$ 4,430

References:
Column A: Company Schedule C-1
Column B: Testimony, JMM, Schedule JMM-WW9
Column C: Column [A] + Column [B]

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Schedule JMM-WW12

OPERATING EXPENSE ADJUSTMENT NO. 3 - DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Depreciation Expense	$ 65,594	$ (26,856)	$ 38,738

	ACCT NO	DESCRIPTION	AT ENGINEER RECOMMENDED RATES: Total Plant Staff Adjusted 12/31/2004	Recommended Rate	HALF YEAR DEP.	A.D 12/31/2004	ADDITIONS 12/31/2005	RETIREMENTS 12/31/2005	PLT BAL 12/31/2005	DEP EXP 12/31/2005 FULL YR	A.D 12/31/2005
2	351	Organization	-		-	-	-	-	-	-	-
3	352	Franchises	-		-	-	-	-	-	-	-
4	353	Land and Land Rights	105,000	0.00%	-	-	-	-	105,000	-	-
5	354	Structures & Improvements	56,350	3.33%	938	938	-	-	56,350	1,876	2,815
6	355	Power Generation Equipment	2,879	5.00%	72	72	-	-	2,879	144	216
7	360	Collection Sewers - Force	-	2.00%	-	-	-	-	-	-	-
8	361	Collection Sewers - Gravity	260,553	2.00%	2,606	2,606	-	-	260,553	5,211	7,817
9	362	Special Collecting Structures	-	2.00%	-	-	-	-	-	-	-
10	363	Services to Customers	60,375	2.00%	604	604	-	-	60,375	1,208	1,811
11	364	Flow Measuring Devices	-	10.00%	-	-	-	-	-	-	-
12	365	Flow Measuring Installations	3,450	10.00%	173	173	-	-	3,450	345	518
13	370	Receiving Wells	-	3.33%	-	-	-	-	-	-	-
14	371	Pumping Equipment	-	12.50%	-	-	-	-	-	-	-
15	380	Teatment and Disposal Equipment	761,100	5.00%	19,028	19,028	-	-	761,100	38,055	57,083
16	381	Plant Sewers	-	5.00%	-	-	-	-	-	-	-
17	382	Outfall Sewer Lines	-	3.33%	-	-	-	-	-	-	-
18	389	Other Plant & Misc. Equipment	-	6.67%	-	-	-	-	-	-	-
19	390	Office Furniture & Equipment	-	6.67%	-	-	-	-	-	-	-
20	391	Transportation Equipment	-	20.00%	-	-	-	-	-	-	-
21	393	Tools, Ship & Garage Equipment	-	5.00%	-	-	-	-	-	-	-
22	394	Laboratory Equipment	-	10.00%	-	-	-	-	-	-	-
23	395	Power Operated Equipment	-	5.00%	-	-	-	-	-	-	-
24	398	Other Tangible Plant	-	10.00%	-	-	-	-	-	-	-
25			-		-	-	-	-	-	-	-
26			1,249,707		23,419	23,419	-	-	1,249,707	46,839	70,258

27 Composite Rate: 4.0918%

Depreciable Plant: 1,144,707

28 Depreciation Expense Calculation:
29 Depreciation 2005: 46,839
30 Net Amortization of CIAC: 8,101
31 Depreciation Expense: 38,738

References:
Column A: Company Schedule B-1, Page 1
Column B: Testimony, JMM, Schedule JMM-WW9
Column C: Column [A] + Column [B]

Utility Source, LLC. - Sewer Division
Docket No. WS-04235A-06-0303
Test Year Ended December 31, 2005

Schedule JMM-WW13

OPERATING EXPENSE ADJUSTMENT NO. 4 - PROPERTY TAX

LINE NO.	Property Tax Calculation	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	(C) STAFF AS ADJUSTED
1	Property Taxes	$ 7,533	$ (1,086)	$ 6,447
	Staff's Calcualation of Property Tax			
2	Staff Adjusted Test Year Revenues - 2002			$ 113,905
3	Weight Factor			2
4	Subtotal (Line 1 * Line 2)			227,810
5	Staff Recommended Revenue, Per Schedule JMM-WW1			224,908
6	Subtotal (Line 4 + Line 5)			452,718
7	Number of Years			3
8	Three Year Average (Line 5 / Line 6)			150,906
9	Department of Revenue Mutilplier			2
10	Revenue Base Value (Line 7 * Line 8)			301,812
11	Plus: 10% of CWIP - 2002			-
12	Less: Net Book Value of Licensed Vehicles			-
13	Full Cash Value (Line 9 + Line 10 - Line 11)			301,812
14	Assessment Ratio			23.50%
15	Assessment Value (Line 12 * Line 13)			70,926
16	Composite Property Tax Rate (Per Company Schedule C-2, Page 3, Line 16)			9.0903%
17	Staff Proposed Property Tax Expense (Line 14 * Line 15)			$ 6,447
18	Company Proposed Property Tax			7,533
19	Increase/(Decrease) to Property Tax Expense			$ (1,086)

References:
Column A: Company Schedule B-1, Page 1
Column B: Testimony, JMM, Schedule JMM-WW9
Column C: Column [A] + Column [B]

UTILITY SOURCE, LLC. - Sewer Division
Docket No. W-04235A-06-0303
Test Year Ended December 31, 2005

Schedule JMM-WW14

RATE DESIGN

Monthly Minimum Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
Rate per 1,000 gal. water usage			
Residential	$ 2.73	$ 7.28	$ 5.58
Car washes, Laundromats, commercial, manufacturing	2.67	7.12	5.45
Hotels and Motels	3.58	9.55	7.31
Restaurants	4.42	11.79	9.03
Industrial Laundries	3.92	10.45	8.01
Waste Haulers	80.00	213.36	163.44
Restaurant Grease	70.00	186.69	143.01
Treatment Plant Sludge	80.00	213.36	163.44
Mud Sump Waste	250.00	666.75	510.75
Service Charges			
Establishment	$ 20.00	$ 20.00	$ 20.00
Establishment of Services after hours	40.00	40.00	40.00
Re-establishment of Service	*	*	*
Reconnection Services	50.00	50.00	50.00
Reconnection (Deliquent and After Hours)	40.00	40.00	40.00
Minimum Deposit Requirement	**	**	**
Deposit Interest	3.00%	3.00%	Per Rule
Charges for NSF Check	20.00	20.00	20.00
Deferred Payment Finance Charge	1.50%	1.50%	***
Late Payment, Per Month	***	***	***
Service Calls, per hour (After hours only)	40.00	40.00	40.00
Service Lateral Connection Charge:			
Residential	500.00	500.00	500.00
Commercial	Cost	Cost	Cost
Main Extension Tariff	Cost	Cost	Cost

* Per Commission Rule R14-2-603(D)
** Per Commission Rule R14-2-603(B)
*** Per Commission Rule R14-2-608(F)

UTILITY SOURCE, LLC. - Sewer Division
Docket No. WS-04235A-06-0303
Test Year Ended December 31, 2005

Schedule JMM-WW15

Typical Bill Analysis
General Service 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	4,740	$ 12.94	$ 34.51	$ 21.57	166.67%
Median Usage	4,500	12.29	32.76	$ 20.48	166.67%
Staff Recommended					
Average Usage	4,740	$ 12.94	$ 26.44	$ 13.50	104.30%
Median Usage	4,500	12.29	25.10	$ 12.81	104.30%

Present & Proposed Rates (Without Taxes)
General Service 3/4-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	$ -	$ -		$ -	
1,000	2.73	7.28	166.67%	5.58	104.30%
2,000	5.46	14.56	166.67%	11.15	104.30%
3,000	8.19	21.84	166.67%	16.73	104.30%
4,000	10.92	29.12	166.67%	22.31	104.30%
5,000	13.65	36.40	166.67%	27.89	104.30%
6,000	16.38	43.68	166.67%	33.46	104.30%
7,000	19.11	50.96	166.67%	39.04	104.30%
8,000	21.84	58.24	166.67%	44.62	104.30%
9,000	24.57	65.52	166.67%	50.20	104.30%
10,000	27.30	72.80	166.67%	55.77	104.30%
11,000	30.03	80.08	166.67%	61.35	104.30%
12,000	32.76	87.36	166.67%	66.93	104.30%
13,000	35.49	94.64	166.67%	72.51	104.30%
14,000	38.22	101.92	166.67%	78.08	104.30%
15,000	40.95	109.20	166.67%	83.66	104.30%
16,000	43.68	116.48	166.67%	89.24	104.30%
17,000	46.41	123.76	166.67%	94.82	104.30%
18,000	49.14	131.04	166.67%	100.39	104.30%
19,000	51.87	138.32	166.67%	105.97	104.30%
20,000	54.60	145.60	166.67%	111.55	104.30%
25,000	68.25	182.00	166.67%	139.43	104.30%
30,000	81.90	218.40	166.67%	167.32	104.30%
35,000	95.55	254.80	166.67%	195.21	104.30%
40,000	109.20	291.20	166.67%	223.10	104.30%
45,000	122.85	327.60	166.67%	250.98	104.30%
50,000	136.50	364.00	166.67%	278.87	104.30%
75,000	204.75	546.00	166.67%	418.30	104.30%
100,000	273.00	728.00	166.67%	557.74	104.30%

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner
GARY PIERCE
Commissioner

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C. FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PROPERTY AND FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICES	)	DOCKET NO. WS-04325A-06-0303

DIRECT

TESTIMONY

OF

STEVEN P. IRVINE

PUBLIC UTILITIES ANALYST III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JANUARY 19, 2007

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EXECUTIVE SUMMARY
UTILITY SOURCE, L.L.C.
DOCKET NO. WS-004235A-06-0303

The direct testimony of Staff witness Steven P. Irvine addresses the following issues:

Capital Structure – Staff recommends that the Arizona Corporation Commission ("Commission") adopt a capital structure for Utility Source, L.L.C. ("Utility Source" or "Company") for this proceeding consisting of 0 percent debt and 100 percent equity.

Cost of Equity – Staff's 9.6 percent estimated return on equity ("ROE") for the Company is based on cost of equity estimates for the sample companies ranging from 9.0 percent using the discounted cash flow method ("DCF") to 10.2 percent using the capital asset pricing model ("CAPM").

Overall Rate of Return – Staff recommends that the Commission adopt an overall rate of return ("ROR") of 9.6 percent.

Mr. Bourassa's Testimony – The Commission should reject the 10.5 percent ROE proposed by Utility Source for the following reasons:

1. Mr. Bourassa's DCF estimates rely exclusively on analysts' forecasts. In addition, Mr. Bourassa's DCF constant growth analysis does not include dividend growth.

2. Mr. Bourassa's risk premium analysis is not market based and relies on forecasted interest rates for 10-year Treasuries for 2007-2008.

I. INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Steve Irvine. I am a Public Utilities Analyst III employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as a Public Utilities Analyst.

A. In my capacity as a Public Utilities Analyst III I conduct studies to estimate the cost of equity capital, perform analyses of debt costs and compute the overall rate of return in rate proceedings. I also design rates to generate the revenue requirement in rate proceedings.

Q. Please describe your educational background and professional experience.

A. In 1994, I graduated from Arizona State University, receiving a Bachelor of Science degree in Business Marketing. In 1997, I received a Masters degree in Public Administration from Arizona State University. I began employment with the Commission in May of 2001 and have worked in the Utilities Division since September of 2002.

Q. What is the scope of your testimony in this case?

A. My testimony provides Staff's recommended rate of return for Utility Source, L.L.C. ("Utility Source" or "Company") in this case.

Summary of Testimony and Recommendations

Q. Briefly summarize how Staff's cost of capital testimony is organized.

A. Staff's cost of capital testimony is presented in ten sections. Section I is this introduction. Section II discusses the concept of weighted average cost of capital ("WACC"). Section

III presents the concept of capital structure and presents Staff's recommended capital structure for Utility Source in this proceeding. Section IV discusses the concepts of return on equity ("ROE") and risk. Section V presents the methods employed by Staff to estimate Utility Source's ROE. Section VI presents the findings of Staff's ROE analysis. Section VII presents Staff's final cost of equity estimates for Utility Source. Section VIII presents Staff's rate of return ("ROR") recommendation for Utility Source. Section IX presents Staff's comments on the direct testimony of Utility Source's witness, Mr. Thomas J. Bourassa. Finally, Section X summarizes Staff's recommendations.

Q. Briefly summarize Staff's proposed capital structure, return on equity and overall rate of return for Utility Source in this proceeding.

A. Staff recommends a 9.6 percent overall ROR. Staff's recommended ROR reflects a capital structure composed of 0 percent debt and 100 percent equity, a 9.6 percent ROE for the Company based on cost of equity estimates for the sample companies ranging from 9.0 percent using the discounted cash flow method ("DCF") to 10.2 percent using the capital asset pricing model ("CAPM"). Staff's recommended 9.6 percent ROR is calculated in Schedule SPI-1.

Q. Briefly summarize Utility Source's proposed capital structure, return on equity and overall rate of return for this proceeding.

A. The Company proposes a capital structure that consists of 100 percent equity and 0 percent debt. Since the Company is not proposing any debt financing, its proposed ROR is equal to its ROE at 10.5 percent. Table I summarizes Utility Source's proposed capital structure and costs.

Table 1

	Weight	Cost	Weighted Cost
Long-term Debt	0.0%	0.0%	0.0%
Common Equity	100.0%	10.5%	10.5%
Cost of Capital/ROR			**10.5%**

II. THE WEIGHTED AVERAGE COST OF CAPITAL

Q. Please explain the term cost of capital.

A. Cost of capital is the opportunity cost of an investment. For an investor it is the rate of return that one would expect to earn in investments with risk similar to the investment being considered. One can invest in a company through a variety of securities such as stock, bonds, and debt. The cost of capital to a company issuing a variety of securities is an average of the expected returns on the securities the company has issued weighted according to the size of each security relative to the company's entire security portfolio. This total cost of capital is referred to as the weighted average cost of capital ("WACC"). While a company may determine the size of the dividends it pays or offer debt at particular rates at its own discretion, in a competitive market, the market determines the expected return on its equity capital. Equity investors are attracted to an equity investment when the expected returns are similar to those of other entities with similar risk. That is, the cost of equity capital is determined by the market.

Q. What is the WACC formula?

A. The WACC formula is as follows:

Equation 1

$$WACC = \sum_{i=1}^{n} W_i * r_i$$

In this equation, W_i is the weight given to the ith security (the proportion of the ith security relative to the portfolio) and r_i is the expected return on the ith security.

Q. Please provide an example of a hypothetical capital structure demonstrating application of Equation 1.

A. For purposes of this example, assume that an entity has a capital structure composed of 70 percent debt and 30 percent equity. Also, assume that the embedded cost of debt is 7.0 percent and the expected return on equity, i.e. the cost of equity, is 10.0 percent. Calculation of the WACC is as follows:

WACC = (70% * 7.0%) + (30% * 10.0%)

WACC = 4.90% + 3.00%

WACC = 7.90%

The weighted average cost of capital in this example is 7.90 percent. The entity in this example would need to earn an overall rate of return of 7.90 percent to cover its cost of capital.

III. CAPITAL STRUCTURE

Background

Q. Please explain the capital structure concept.

A. While WACC describes the average unit cost of capital employed from a company's various securities, capital structure describes the relative proportions of each type of security (capital leases, long-term debt, short-term debt, preferred stock, and common stock). As the proportion of the capital structure represented by fixed obligation financing increases (increased leverage), risk associated with the ability to meet financial obligations (financial risk) increases.

Q. How is the capital structure for a given company described?

A. A company's capital structure is described by simply stating the percentage of each component of the capital structure relative to the whole capital structure. The following is an example of a hypothetical capital structure. Assume that the capital structure for an entity that is financed by $10,000 of capital leases, $30,000 of long-term debt, $5,000 of short-term debt, $10,000 of preferred stock and $45,000 of common stock. The capital structure for the company is shown in Table 2.

Table 2

Component			%
Capital Leases	$10,000	($10,000/$100,000)	10.0%
Long-Term Debt	$30,000	($30,000/$100,000)	30.0%
Short-Term Debt	$5,000	($5,000/$100,000)	5.0%
Preferred Stock	$10,000	($10,000/$100,000)	10.0%
Common Stock	$45,000	($45,000/$100,000)	45.0%
Total	$100,000		100%

The capital structure in this example is composed of 10.0 percent capital leases, 30.0 percent long-term debt, 5.0 percent short-term debt, 10.0 percent preferred stock and 45.0 percent common stock.

Utility Source's Capital Structure

Q. What capital structure does Utility Source propose?

A. The Company recommends a capital structure with 0 percent debt and 100 percent equity. Schedule D-1 of the application describes that stockholder's equity in the Company was $3,383,299 during the test year and that there was no long term debt.

Q. What capital structure does Staff recommend for Utility Source?

A. Staff recommends a capital structure composed of 100 percent equity and 0 percent debt as shown in Schedules SPI-1.

Q. How does Utility Source's capital structure compare to capital structures of publicly traded water utilities?

A. The average capital structure of the six publicly traded water companies ("sample companies") is 51.4 percent debt and 48.6 percent equity. The capital structure for each of the sample companies is shown in Schedule SPI-3.

Q. Does Staff discuss the matter of a cost of equity adjustment as it relates to capital structure differences between Utility Source and the sample water companies?

A. Yes. This matter is discussed in Section VII, Final Cost of Equity Estimates for Utility Source.

IV. RETURN ON EQUITY

Background

Q. Please define the term cost of equity.

A. Cost of equity is the compensation that investors expect for bearing the risk of ownership of a stock. The return that investors expect for a given stock is equivalent to the expected returns of other firms with equivalent risk. Investors can expect a given stock's return to be similar to returns of other stocks with equivalent levels of risk as investors can simply select the other stocks as an alternative. Investors are likely to do so if there are other stocks available with similar levels of risk and higher returns. Cost of equity is therefore determined by the market given the prevailing market conditions.

Q. Can the cost of equity for Utility Source be determined by market data related to its stock and earnings?

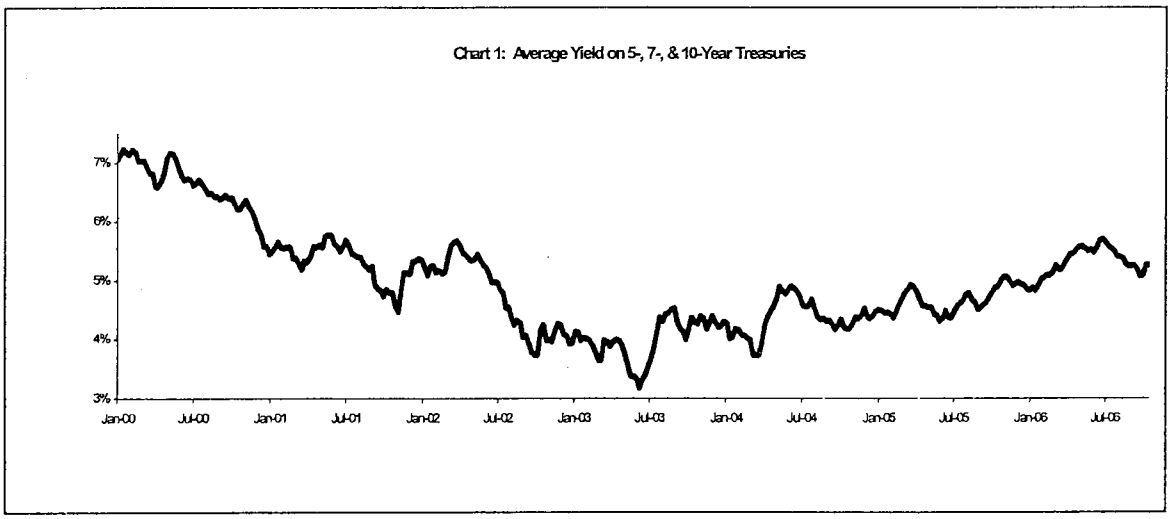
A. As Utility Source's stock is not publicly traded, its cost of equity cannot be estimated directly. As stated previously, investors expect returns equivalent to the returns of stocks with equivalent risk. As a proxy for Utility Source's own market data, Staff has estimated Utility Source's cost of equity using market data from six publicly traded water utilities.

Q. Do interest rates affect cost of equity?

A. Yes. According to the CAPM, the direction of change in interest rates is an indicator of the direction of change in cost of equity. The CAPM is a market based model used for cost of capital estimation that Staff employs to estimate Utility Source's cost of equity. The CAPM model is discussed in greater detail in Section V of this testimony.

Q. What has been the general trend in interest rates in recent years?

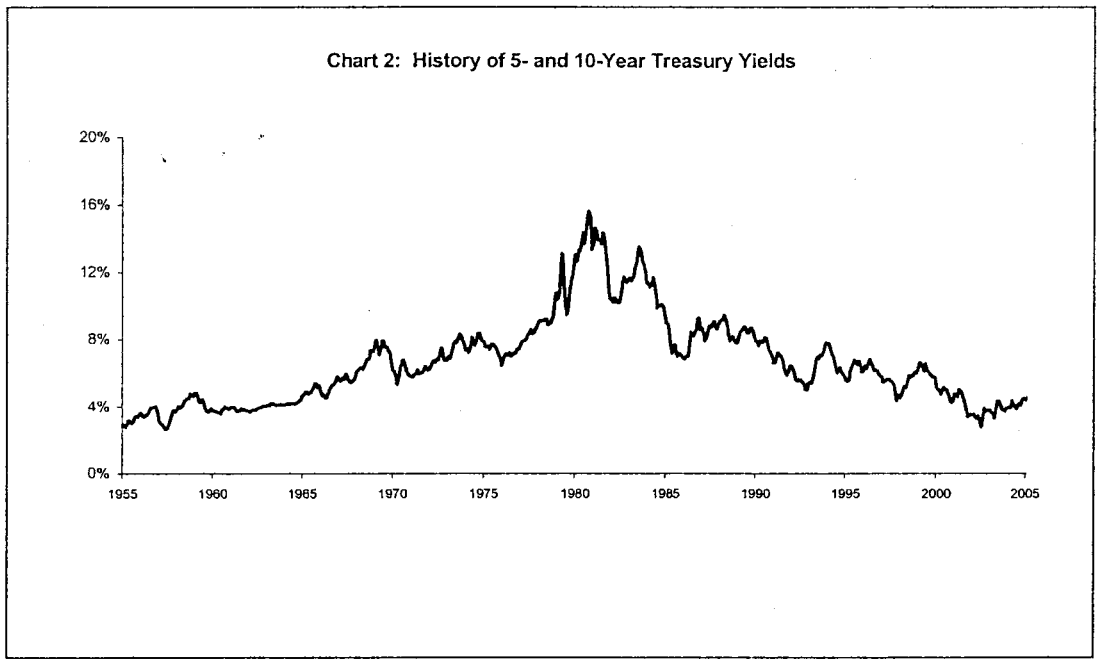
A. U.S. treasury rates from November 2000 to 2006 are shown in Chart 1. The chart shows that the rates in this timeframe generally declined until mid 2003 and have on average risen somewhat since that time.



Source: Federal Reserve

Q. What has been the general trend in interest rates in the long-term?

A. U.S. treasury rates from 1955 to present are shown in Chart 2. The chart demonstrates that in that period rates rose on average until the 1980's and have fallen on average since that time.



Source: Federal Reserve

Q. What do these trends suggest for cost of equity?

A. As mentioned previously, interest rates generally have a positive relationship with cost of capital. As a result, cost of equity has declined significantly in the past 25 years.

Risk

Q. Please define risk as it relates to cost of capital.

A. Risk is uncertainty that results from the variability of returns from an investment. Greater variability results in greater risk. Because investors are generally averse to risk, investments with greater inherent risk must promise higher expected yields.[1] Risk can be separated into two components: market risk and non-market risk. Market risk can also be

[1] Scott, David L. Wall Street Words, revised edition. Houghton Mifflin Company. Boston. 1988. p. 324.

referred to as systematic or non-diversifiable risk. Non-market risk can also be referred to as unique or diversifiable risk.

Q. What is market risk?

A. Market risk is risk which results from forces that affect the entire market. Examples of forces that contribute to market risk include but are not limited to: inflation, interest rates, general business cycles, international incidents, and war. Each of these forces impacts the entire market. An investor cannot eliminate market risk by holding a diverse portfolio as market risk affects all stocks. While market risk affects all stocks, the degree to which market risk affects an individual stock's returns varies. The sensitivity of a given stock's returns relative to the whole market is measured by the indicator beta. Beta reflects both the business risk and financial risk of a firm. As beta is a component of the CAPM model, it is discussed in greater detail in Section V of this testimony.

Q. What is business risk?

A. Business risk is that risk which is associated with the fluctuation in earnings due to the basic nature of a firm's business. Companies in the same line of business experience the same business risk associated with earning cycles for that line of business. Business risk affects cost of equity.

Q. What is financial risk?

A. Financial risk is the risk that results from a company's reliance on debt financing. Financial risk affects cost of equity. Firms whose capital is highly leveraged have greater exposure related to the ability to service debt. As leverage increases, risk also increases. This increase in risk results in an increase in cost of equity.

Q. What is non-market risk?

A. Non-market risk, or firm-specific risk, is risk that results from forces which are firm specific, or singular to a firm. Examples of forces that contribute to non-market risk include but are not limited to: strikes, lawsuits, failure of a product line, and loss of a client. Different firms experience their own unique, or non-market, risks. By holding a diverse portfolio an individual investor can eliminate non-market risk.

Q. Do market and non-market risk affect cost of equity?

A. Market risk does affect cost of equity. Because non-market risk is diversifiable, investors cannot expect to be compensated for non-market risk, i.e., non-market risk does not affect cost of equity.

V. ESTIMATING THE COST OF EQUITY

Introduction

Q. Did Staff directly estimate Utility Source's cost of equity?

A. No. As Utility Source is not a publicly traded company, financial metrics needed to directly estimate Utility Source's cost of equity are not available. For this reason, Staff used market information from six publicly traded water companies as a proxy for the financial metrics needed to estimate Utility Source's cost of equity. Data from the proxy companies is averaged in Staff's analysis. Relying on averaged data from a sample group as a proxy has the beneficial effect of reducing sample error associated with variance present at the instant in time from which the financial metrics are selected.

Q. What companies did Staff select as proxies or comparables for Utility Source?

A. Staff's sample consisted of: American States Water, California Water, Connecticut Water Services, Middlesex Water, Aqua America, and SJW Corp. These companies were selected as they are publicly traded and a significant portion of their revenues come from regulated operations. Utility Source's analysis is based on these same sample companies.

Q. What models did Staff implement to estimate Utility Source's cost of equity?

A. Staff's estimate of the cost of equity is based the DCF and the CAPM.

Q. Why did Staff choose to base its analysis on the DCF and CAPM?

A. Staff chose these models as they are widely recognized market based models for estimating the cost of equity. Since the cost of equity is determined by the market, use of market based models is appropriate. These models are explained in the following sections of this testimony.

Discounted Cash Flow Model Analysis

Q. Please provide a brief summary of the theory upon which the DCF method of estimating the cost of equity is based.

A. The DCF method of stock valuation is based on the theory that an investment's current value is equal the discounted sum of the future revenues generated from the investment. Professor Myron Gordon pioneered the use of the DCF method to estimate the cost of capital for a public utility in the 1960's. This model is widely used due to its theoretical merit and simplicity. The DCF formula calculates the cost of capital using expected dividends, market price, and a dividend growth rate. This process is applied to each of the

sample companies and the results are averaged to determine an estimated cost of capital for the subject company.

Q. Are alternative growth rate models used in Staff's application of the DCF?

A. Yes. Staff uses two versions of the DCF. In one version, Staff uses a single continuous growth rate. This is referred to as the constant growth DCF. In the second version Staff uses a two-stage growth rate that assumes that dividend growth will change in the future. This second model is referred to as the multi-stage or non-constant growth DCF.

The Constant-Growth DCF

Q. What is the mathematical formula used in Staff's constant-growth DCF analysis?

A. The constant-growth DCF formula used in Staff's analysis is as follows:

Equation 2:

$$K = \frac{D_1}{P_0} + g$$

where:
K = the cost of equity
D_1 = the expected annual dividend
P_0 = the current stock price
g = the expected infinite annual growth rate of dividends

This formula assumes that the company has a constant earnings retention rate and that its earnings will continue to grow at a single constant rate. According to this equation, a stock with a current market price of $10 per share, an expected annual dividend of $0.60 per share and an expected dividend growth rate of 4.0 percent per year has a cost of equity of 10.0 percent. This is calculated as follows: ($0.60/$10 or 6.0 percent) + (4.0 percent) = 10 percent.

Q. How did Staff select the dividend yield components D_1 and P_0 in the constant-growth DCF formula?

A. Staff used the expected annual dividend[2] (D_1) and stock price (P_0) at the close of the market on October 25, 2006, as reported by *MSN Money*.

Q. Why did Staff use the October 25, 2006 spot stock price rather than a historical average stock price to calculate the dividend yield component of the DCF formula?

A. Current rather than historic spot price is used in order to be consistent with financial theory. According to the efficient market hypothesis, current stock prices reflect all available information. This includes investors' current expectations of future returns. Consequently, current stock price is the best indicator of those expectations. Use of a historical average of stock prices illogically discounts the most recent information in favor of less recent information. The latter is stale and is representative of underlying conditions that may have changed.

Q. How did Staff estimate the dividend growth (g) component of the constant-growth DCF model represented by Equation 2?

A. The growth component used by Staff is determined by averaging six different estimation methods. The results are shown in Schedule SPI-7. Staff calculated both historical and projected growth estimates on dividend-per-share ("DPS")[3], earnings-per-share ("EPS")[4] and sustainable growth bases.

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[2] *Value Line* Summary & Index. October 20, 2006
[3] Derived from information provided by *Value Line*
[4] Derived from information provided by *Value Line*

Q. Why did Staff include EPS growth in estimation of the dividend growth component of the constant-growth DCF model?

A. Historic and projected EPS are considered in the constant-growth DCF model as dividends are related to earnings. While dividend payouts are not necessarily determined by a given constant proportion to earnings, dividends cannot exceed earnings indefinitely. In the long term, dividend payouts are dependent on earnings.

Q. How did Staff calculate historical DPS growth?

A. Staff calculated historical DPS growth by averaging DPS growth of the sample water utilities from 1996 to 2005. These averages are shown on Schedule SPI-4. Staff's analysis indicates an average historical growth rate of 2.7 for the sample water utilities.

Q. How did Staff estimate the projected DPS growth?

A. Staff averaged the projected DPS growth rates shown in *Value Line* for the sample water utilities. The average of the DPS projections is 5.0 percent as shown in SPI-4.

Q. How did Staff calculate the historical EPS growth rate?

A. Staff calculated the historical EPS growth rate by averaging the EPS for the sample companies from 1996 to 2005. Staff excluded Connecticut Water's historical EPS growth rate from the average as it is negative 0.9 percent and negative growth is inconsistent with the DCF model. The historical average EPS is 4.2 percent as shown in SPI-4.

Q. How did Staff estimate the projected EPS growth?

A. Staff averaged the projected EPS growth rates shown in *Value Line* for the sample water utilities. The average of the EPS projections is 7.9 percent as shown in SPI-4.

Q. How did Staff calculate its historical and projected sustainable growth rates?

A. Historical and projected sustainable growth rates are calculated by adding the respective retention growth rates (br) to stock financing growth rates (vs) as shown in the last two columns of SPI-5.

Q. What is retention growth?

A. Retention growth is growth in dividends that results from retention of earnings. This concept is based on the theory that dividend growth will not be achieved unless the company retains and reinvests some of its earnings. It is used in Staff's calculation of sustainable growth shown in SPI-5.

Q. What is the formula for the retention growth rate?

A. Retention growth is the product of the retention ratio and the book/accounting return on equity. The formula is as follows:

Equation 3:

$$\text{Retention Growth Rate} = br$$

where: b = the retention ratio (1 – dividend payout ratio)
r = the accounting/book return on common equity

Q. How did Staff calculate the average historical retention growth rate (br) for the sample water utilities?

A. Staff calculated the historical retention rates by averaging the retention rates for the sample companies from 1996 to 2005. The historical average retention rate is 3.1 percent as shown in SPI-5.

Q. How did Staff determine projected retention growth rate (br) for the sample water utilities?

A. Staff averaged the projected retention growth rates for the period 2009 to 2011 shown in *Value Line* for the sample water utilities. The average of the retention rate projections is 4.8 percent as shown in SPI-5.

Q. When can retention growth provide a reasonable estimate of future dividend growth?

A. The retention growth rate is a reasonable estimate of future dividend growth when the retention ratio is reasonably constant and the entity's market price to book value ("market-to-book ratio") is expected to be 1.0. The average retention ratio has been reasonably constant in recent years. However, the market-to-book ratio for the sample water utilities is 2.6, notably higher than 1.0, as shown in Schedule SPI-6.

Q. Is there any financial implication of a market-to-book ratio greater than 1.0?

A. Yes. A market-to-book ratio greater than 1.0 implies that investors expect an entity to earn an accounting/book return on its equity that exceeds its cost of equity. The relationship between required returns and expected cash flows is readily observed in the fixed securities market. For example, assume an entity contemplating issuance of bonds with a face value of $10 million at either 6 percent or 7 percent, and thus, paying annual interest of $600,000 or $700,000, respectively. Regardless of investors' required return on similar bonds, investors will be willing to pay more for the bonds if issued at 7 percent than if the bonds are issued at 6 percent. For example, if the current interest rate required by investors is 6 percent, then investors would bid $10 million for the 6 percent bonds and more than $10 million for the 7 percent bonds. Similarly, if equity investors require a 7

percent return and expect an entity to earn accounting/book returns of 12 percent, the market will bid up the price of the entity's stock to provide the required return of 7 percent.

Q. How has Staff generally recognized a market-to-book ratio exceeding 1.0 in its cost of equity analyses in recent years?

A. Staff has assumed that investors expect the market-to-book ratio to remain greater than 1.0. Given that, Staff has added a stock financing growth rate (vs) term to the retention ratio (br) term to calculate its historical and projected sustainable growth rates.

Q. Do the historical and projected sustainable growth rates Staff uses to develop its DCF cost of equity in this case include stock financing growth as an input?

A. Yes.

Q. What is stock financing growth?

A. Stock financing growth is the growth in an entity's dividends due to the sale of stock by that entity. Stock financing growth is a concept derived by Myron Gordon and discussed in his book *The Cost of Capital to a Public Utility.*[5] Stock financing growth is the product of the fraction of the funds raised from the sale of stock that accrues to existing shareholders (v) and the fraction resulting from dividing the funds raised from the sale of stock by the existing common equity(s).

Q. What is the mathematical formula for the stock financing growth rate?

A. The stock financing growth rate formula is as follows:

[5] Gordon, Myron J. *The Cost of Capital to a Public Utility*, MSU Public Utilities Studies, Michigan, 1974. pp 31-35.

Equation 4:

$$\text{Stock Financing Growth} = vs$$

where: v = Fraction of the funds raised from the sale of stock that accrues to existing shareholders

s = Funds raised from the sale of stock as a fraction of the existing common equity

Q. How is the variable v presented above calculated?

A. Variable v is calculated as follows:

Equation 5:

$$v = 1 - \left(\frac{book\ value}{market\ value} \right)$$

For example, assume that a share of stock has a $40 book value and is selling for $80. Then, to find the value of v, the formula is applied:

$$v = 1 - \left(\frac{40}{80} \right)$$

In this example, v is equal to 0.50.

Q. How is the variable s presented above calculated?

A. Variable s is calculated as follows:

Equation 6:

$$s = \frac{\text{Funds raised from issuance of stock}}{\text{Total existing common equity before issuance}}$$

For example, assume that an entity has $100 in existing equity, and it sells $25 of stock. Then, to find the value of s, the formula is applied:

$$s = \left(\frac{25}{100}\right)$$

In this example, s is equal to 25.0 percent.

Q. What is the vs term when the market-to-book ratio is equal to 1.0?

A. A market-to-book ratio equal to 1.0 reflects that investors expect an entity to earn a book/accounting return on their equity investment equal to the cost of equity. When the market-to-book ratio is equal to 1.0, none of the funds raised from the sale of stock by the entity accrues to the benefit of existing shareholders, i.e., the term v is equal to zero (0.0). Consequently, the vs term is also equal to zero (0.0). When stock financing growth is zero, dividend growth depends solely on the br term.

Q. What is the affect of the vs term when the market-to-book ratio is greater than 1.0?

A. A market-to-book ratio greater than 1.0 reflects that investors expect an entity to earn a book/accounting return on their equity investment greater than the cost of equity. Equation 5 shows that when the market-to-book ratio is greater than 1.0 the v term is also greater

than zero. The excess by which new shares are issued and sold over book value per share of outstanding stock is a contribution that accrues to existing stockholders in the form of a higher book value. The resulting higher book value leads to higher expected earnings and dividends. Continued growth from the vs term is dependent upon the continued issuance and sale of additional shares at a price that exceeds book value per share.

Q. What vs estimate did Staff calculate from its analysis of the sample water utilities?

A. Staff estimated an average stock financing growth (vs) of 2.6 percent for the sample water utilities as shown in Schedule SPI-5.

Q. What would one expect to occur should a stock have a market-to-book ratio greater than 1.0 as a result of investors' expectations that earnings would exceed the cost of equity capital and the entity subsequently was authorized rates equal to its cost of equity capital?

A. A reasonable expectation is for the market-to-book ratio to move toward 1.0.

Q. If the average market-to-book ratio of the sample water utilities falls to 1.0 due to authorized ROE's equaling the cost of equity capital, would Staff's inclusion of the vs term in its constant-growth DCF analysis result in an overestimate of its sustainable dividend growth rate and the resulting DCF ROE estimate?

A. Yes. Inclusion of the vs term assumes that the market-to-book ratio continues to exceed 1.0, and that the water utilities will continue to issue and sell stock at prices exceeding book value resulting in benefits for existing shareholders. If the market-to-book ratio declines to 1.0, the stock financing term is not necessary.

Q. What are Staff's historical and projected sustainable growth rates?

A. Based on the average earnings retention of the sample water companies, Staff's estimated historical sustainable growth rate is 5.8 percent. Staff's projected sustainable growth rate is 8.4 percent based on the retention growth rate projected by *Value Line*. Staff's estimates of the sustainable growth rate are shown in SPI-5 and SPI-7.

Q. What is Staff's expected infinite annual growth rate in dividends?

A. Staff's expected infinite annual growth rate in dividends is 5.7 percent, the average of historical and projected dividends per share ("DPS"), earnings per share ("EPS"), and sustainable growth rate estimates. The calculation is shown in SPI-7.

Q. What is Staff's constant-growth DCF estimate?

A. Staff's constant-growth DCF estimate is 8.5 percent as shown in Schedule SPI-2.

Multi-Stage DCF

Q. Why did Staff include the multi-stage DCF in its estimate of Utility Source's cost of equity?

A. Staff used the multi-stage DCF to consider the assumption that dividends may not grow at a constant rate.

Q. Please describe the multi-stage DCF used in Staff's analysis?

A. As mentioned previously, the multi-stage DCF uses two stages of growth. The first stage is four years followed by the second stage. A separate growth rate is applied to each stage.

Q. What is the mathematical formula for the multi-stage DCF?

A. The multi-stage DCF formula is shown in the following equation:

Equation 7:

$$P_0 = \sum_{t=1}^{n} \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K-g_n}\left[\frac{1}{(1+K)}\right]^n$$

Where: P_0 = current stock price
D_t = dividends expected during stage 1
K = cost of equity
n = years of non – constant growth
D_n = dividend expected in year n
g_n = constant rate of growth expected after year n

Q. What steps did Staff take to implement its multi-stage DCF cost of equity model?

A. First, Staff projected future dividends for each of the sample water utilities using the near-term and long-term growth rate periods discussed previously. Second, Staff calculated the rate (cost of equity) which equates the present value of the forecasted dividends to the current stock price for each of the sample water utilities. Finally, Staff calculated an average of the individual sample companies' cost of equity estimates.

Q. How did Staff calculate growth rate for the first stage of the multi-stage DCF?

A. The growth rate for the first stage is based on *Value Line's* projected dividends for the next twelve months, when available, and on the average dividend growth rate calculated in Staff's constant DCF analysis for the remainder of the stage.

Q. How did Staff estimate the growth rate for the second stage of the multi-stage DCF model?

A. Staff calculated the arithmetic mean of growth in GDP from 1929 to 2005.[6] Use of the historic arithmetic mean of GDP assumes that dividend growth for the utility will be similar to the historical growth in the overall economy.

Q. What is the historical GDP growth rate that Staff used in stage-2 growth?

A. The arithmetic mean of growth in GDP used in stage-2 is 6.8 percent as shown in SPI-8.

Q. What is Staff's multi-stage DCF estimate?

A. Staff's multi-stage DCF estimate is 9.5 percent as shown in Schedule SPI-8.

Q. What is Staff's overall DCF estimate?

A. Staff's overall DCF estimate is 9.0 percent. Staff calculated the overall DCF estimate by averaging the constant growth DCF (8.5 percent) and multi-stage DCF (9.5 percent) estimates as shown in Schedule SPI-2.

Capital Asset Pricing Model

Q. Please describe the capital asset pricing model and the premise it is based on.

A. The CAPM is a model used in pricing of securities. The CAPM formula is based on the premise that the return on a security is equal to the sum of a risk free rate and a risk premium. The risk free rate portion of the formula compensates an investor for the risk inherent in investing in the market. The risk premium portion of the formula compensates an investor for taking on additional risk. The model illustrates the relationship between

[6] www.bea.doc.gov

risk and expected return. It is useful in establishing expected returns for a security given its risk and the returns of other securities of similar risk. In 1990, Professors Harry Markowitz, William Sharpe, and Merton Miller earned the Nobel Prize in Economic Sciences for their contribution to the development of the CAPM. The CAPM assumes that investors hold portfolios sufficiently diversified to eliminate any non-systematic (unique) risk.[7]

Q. What is the mathematical formula for the CAPM?

A. The mathematical formula for the CAPM is:

Equation 8:

$$K = R_f + \beta(R_m - R_f)$$

where:

R_f	=	risk free rate
R_m	=	return on market
β	=	beta
$R_m - R_f$	=	market risk premium
K	=	expected return

The equation shows that the expected return (K) on a security is equal to the risk-free interest rate (R_f) plus the product of the market risk premium ("Rp") ($R_m - R_f$) multiplied by beta (β) where beta represents the risk of the investment relative to the market.

Q. What is the risk free rate?

A. The risk free rate is the rate of return of an investment with no risk.

[7] Brigham, Eugene F. and Ehrhardt, Michael C. Financial Management Theory and Practice 11th Edition. 2005. Thomson South-Western. United States. P. 182.

Q. What rate does Staff use to estimate the risk free rate?

A. Staff relies on the U.S. Treasury security spot rates as an estimate for the risk free rate.

Q. Why are U.S. Treasury security spot rates an appropriate measure of the risk-free rate?

A. U.S. Treasury securities are generally considered risk free as they are issued and backed by the U.S. Government. U.S. Treasuries also have the benefit of being verifiable, objective and readily available.

Q. What does beta measure?

A. Beta represents the correlation between price variation of an individual security and the price variation of the market. Beta is a measure of systematic (market) risk. Systematic risk, as opposed to unsystematic (unique) risk, cannot be eliminated by diversification. Investors who hold diverse portfolios can eliminate non-systematic risk. Therefore, only systematic risk affects the cost of equity.

Q. How is the beta measurement expressed?

A. Beta is expressed as a numeral. Beta for the market is 1.0. A security with a beta greater than 1.0 is riskier than the market, and a security with a beta less than 1.0 is less risky than the market. The degree to which a given security's beta is greater or less than 1.0 indicates its relatively greater or lesser risk to the market.

Q. How did Staff estimate Utility Source's beta?

A. Staff's DCF analysis for Utility Source uses a beta equal to the average of the betas for the sample companies. Staff used the betas published in *Value Line* on October 27, 2006.

The average of the betas is 0.82. Schedule SPI-6 shows the *Value Line* betas and their average.

Q. How did the average of the sample water utilities beta's compare to the market's beta?

A. The average beta of the six sample water utilities is 0.82. This conclusion is based on averaging beta's published in *Value Line* on October 27, 2006. As beta for the entire market is 1.0, the average of the sample companies' betas is less than the market's beta.

Q. What is the implication of a 0.82 beta for the average of sample water utilities compared to a 1.0 beta for the market?

A. The implication is that the cost of equity for a regulated water utility is below the average required return on the market.

Q. Please describe the expected market risk premium (R_m-R_f).

A. Conceptually, it is the return that an investor expects to receive to compensate for market risk. Mathematically speaking, the expected market risk premium is the expected return on a market portfolio minus the risk free rate.

Q. How many risk premium CAPM analyses did Staff conduct in its analysis of Utility Source's cost of equity capital?

A. Staff conducted two risk premium CAPM analyses: current market risk premium and historic market risk premium. Staff averaged the results of the two risk premium analyses to calculate a CAPM cost of equity estimate as shown in SPI-2.

Historic Market Risk Premium

Q. What did Staff use for the historic market risk premium?

A. Staff referred to the *Ibbotson Associates' Stocks, Bonds, Bills, and Inflation 2005 Yearbook* and selected Ibbotson's measure of the average premium of the market over intermediate treasury securities since 1926. Ibbotson Associates calculates the historical risk premium by averaging the historical arithmetic differences between the S&P 500 and the intermediate-term government bond income returns. Staff's historic market risk premium is 7.5 percent as shown in Schedule SPI-2.

Current Market Risk Premium

Q. How did Staff establish the current market risk premium?

A. Staff solved equation 8 for the market risk premium using a DCF derived expected return (K) of 10.48 percent based on *Value Line's* current projections for the dividend yield (1.7 percent) and growth (8.78 percent[8]) for all dividend paying stocks; the 30-year Treasury note rate (4.9 percent) for the risk free rate (R_f); and the market beta of 1.0. Staff calculated a current market risk premium of 5.58 percent.[9]

Q. What are the results of Staff's historical and current market risk premium CAPM analyses?

A. Staff's cost of equity estimate is 10.9 percent using the historical market risk premium CAPM and 9.5 percent using current market risk premium CAPM.

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[8] 3 to 5 year growth = 40%. $1.40^{0.25}$ = 1.0878; (1.0878 – 1.0 = .0878 or 8.78%)
[9] If 10.48= 4.9% + 1(Rm – Rf), then, (Rm-Rf) = 5.58%

Q. What is Staff's overall CAPM estimate?

A. Staff's overall CAPM estimate is 10.2 percent which is the average of the historical market risk premium CAPM and the current market risk premium CAPM estimates as shown in Schedule SPI-2.

VI. SUMMARY OF STAFF'S COST OF EQUITY ANALYSIS

Q. What is Staff's constant-growth DCF analysis estimate of the cost of equity for the sample water companies?

A. Staff's constant-growth DCF estimate of the cost of equity for the sample water utilities is 8.5 percent. The results are shown in Schedule SPI-2. A summary of the analysis is as follows:

k = Dividend yield + Expected dividend growth

k = 2.8% + 5.7%

k = 8.5%

Q. What is Staff's multi-stage DCF analysis estimate of the cost of equity for the sample water companies?

A. Staff's multi-stage DCF estimate of the cost of equity for the sample water utilities is 9.5 percent. The result is presented in Schedule SPI-2. A summary of the analysis is as follows:

Company	Equity Cost Estimate (k)
American States Water	9.0%
California Water	9.8%
Aqua America	8.6%
Connecticut Water	10.7%
Middlesex Water	10.5%
SJW Corp	8.4%
Average	**9.5%**

Q. What is Staff's overall DCF estimate of the cost of equity?

A. Staff's overall DCF estimate of the cost of equity for the sample utilities is 9.0 percent. This estimate is calculated by averaging Staff's constant growth and multi-stage DCF estimates as shown in Schedule SPI-2.

Q. What is Staff's CAPM estimate of the cost of equity for the sample companies using the historical market risk premium?

A. Staff's CAPM estimate of the cost of equity for the sample companies using the historical market risk premium is 10.9 percent. The results are shown in Schedule SPI-2. A summary of the analysis is as follows:[10]

k = historical risk free rate + beta * historical market risk premium
k = 4.8% + 0.82 * 7.5%
k = 4.8% + 6.2%
k = 10.9%

[10] Rounded Figures

Q. What is Staff's CAPM estimate of the cost of equity for the sample companies using the current market risk premium?

A. Staff's CAPM estimate of the cost of equity for the sample companies using the current market risk premium is 9.5 percent. The results are shown in Schedule SPI-2. A summary of the analysis is as follows:[11]

k = current risk free rate + beta * current market risk premium
k = 4.9% + 0.82 * 5.6%
k = 4.9% + 4.6%
k = 9.5%

Q. What is Staff's overall CAPM estimate of the cost of equity for the sample utilities?

A. Staff's overall CAPM estimate for the sample utilities is 10.2 percent. This estimate is calculated by averaging the historical market risk premium CAPM and the current market risk premium CAPM estimates for the sample companies as shown in Schedule SPI-2.

Q. Please summarize the results of Staff's cost of equity analysis.

A. The following table shows the results of Staff's cost of equity analysis:

Table 2

Method	Estimate
Average DCF Estimate	9.0%
Average CAPM Estimate	10.2%
Overall Average	**9.6%**

Staff's average estimate of the cost of equity of the sample water utilities is 9.6 percent.

[11] Rounded Figures

VII. FINAL COST OF EQUITY ESTIMATES FOR UTILITY SOURCE

Q. Does capital structure influence the cost of equity?

A. Yes. Capital structure influences cost of capital. Companies with higher debt leverage have higher financial risk. Investors require a higher rate of return to compensate for greater risk. Accordingly, when an applicant's capital structure is different than the average of the sample companies an adjustment to the cost of equity may be appropriate to reflect the difference in financial risk.

Q. Does Utility Source's capital structure differ from the average capital structure of the sample companies?

A. Yes. Schedule D-2 of the application indicates that Utility Source has no debt. This debt free capital structure reflects less financial risk than the average of the sample companies. The sample companies average 51.1 percent debt and 48.9 percent equity.

Q. Does Staff recommend an adjustment to recognize the difference in financial risk between Utility Source and the sample companies?

A. No. Staff finds that Utility Source's capital structure is appropriate. The Company is privately held and has no access to capital markets. An entity that lacks access to the capital markets has comparatively less ability to manage its capital structure efficiently than an entity with access to the capital markets. Therefore, an entity lacking access to the capital markets should appropriately maintain a higher level of equity to maintain financial health. A downward adjustment to return on equity would serve as a disincentive for the Company to maintain a capital structure that is appropriate for its circumstances.

Q. What is Staff's ROE recommendation for Utility Source?

A. Staff recommends an ROE of 9.6 percent.

VIII. RATE OF RETURN RECOMMENDATION

Q. What is Staff's overall rate of return recommendation for Utility Source?

A. Staff recommends a 9.6 percent ROR for Utility Source. Staff's recommendation is based on a capital structure composed of 0 percent debt and 100 percent equity and a 9.6 percent ROE as shown in Schedule SPI-1 and Table 3 below.

Table 3

	Weight	Cost	Weighted Cost
Long-term Debt	0%	0%	0%
Common Equity	100%	9.6%	9.6%
Cost of Capital/ROR			**9.6%**

IX. STAFF RESPONSE TO COMPANY'S COST OF CAPITAL WITNESS MR. THOMAS J. BOURASSA

Q. Please summarize Mr. Bourassa's cost of capital analyses and recommendations.

A. Mr. Bourassa's cost of capital recommendation is based on use of both constant growth and multi-stage growth DCF models. In addition to these models, he also performs a bond-yield plus risk premium analysis and a comparative earning analysis to support the results of his conclusions from his DCF analyses. Mr. Bourassa asserts that Utility Source faces additional risks not captured by the market models, such as financial risk and Arizona's use of historic test years and limited out of period adjustments.[12] Mr. Bourassa

[12] Direct Testimony of Thomas J. Bourassa, Utility Source, L.L.C. Company, Docket no. WS-04235A-06-0303, page 15 of 34.

concludes that a 10.5 percent ROE presents a reasonable balance resulting from his analyses.

Constant-Growth DCF

Q. What are Staff's comments on Mr. Bourassa's sole reliance on analysts' forecasts to estimate DPS growth in his constant growth DCF estimates?

A. Staff finds Mr. Bourassa's sole reliance on analysts' forecasts to be inappropriate for two reasons. First, sole reliance on analysts' forecasts of earnings growth to forecast DPS is inappropriate because it assumes that investors do not independently consider other relevant information such as past dividend and earnings growth. Second, analysts' forecasts are known to be overly optimistic. Sole use of analysts' forecasts to calculate the growth in dividends (g) results in inflated growth estimations, and consequently, inflated cost of equity estimates.

Q. Does Staff have any comment regarding Mr. Bourassa's statement "To the extent that past results provide useful indications of future growth prospects, analysts' forecasts would already incorporate that information ... Any further recognition of the past will double count what has already occurred."[13]

A. Analysts' forecasts cannot be used as a proxy for investors' expectations for growth. Investors have at their disposal both analysts' forecasts and historic growth data. While analysts may have considered historical measures of growth, it is reasonable to assume that investors rely to some extent on past growth as well. This calls for consideration of both analysts' forecasts as well as past growth. Should the entire investment community form their growth expectations based on both analysts' forecasts *and* their own assessment

[13] Direct Testimony of Thomas J. Bourassa, Utility Source, L.L.C. Company, Docket no. WS-04235A-06-0303, page 26 and 27 of 34.

of historic data, their collective conclusions will form the market's expectation for growth and subsequently cost of capital. Further, investor consideration of historical data does not necessarily result in a double count of the information. Investors may assess the historical data differently than analysts and modify analysts' projections to reflect their own analyses. The market will reflect investors' expectations regardless of whether any duplicate consideration of historical data takes place in their analyses.

Q. Does Staff have any comments on the study conducted by David A. Gordon, Myron J. Gordon and Lawrence I. Gould[14] that Mr. Bourassa asserts supports exclusive use of analysts' forecasts in the DCF model?

A. Yes. The article cited by Mr. Bourassa does not conclude that investors ignore past growth when pricing stocks. The article describes that the Gordon and Gould study considered three methods of growth estimation that rely on historical data. The article states that these three methods are "popular/or attractive methods" and "have been widely used in … research on stock valuation models."[15] The article also says, "There is a wide variety of acceptable methods for using historical data to estimate future growth."[16] The article does not support the sole use of analysts' forecast in the DCF.

Q. Does Staff have any further evidence that Professor Gordon does not recommend exclusive reliance on analysts' forecasts as the measure of growth in the DCF model?

A. Yes. Nine years after publishing his study Professor Gordon addressed the matter at the 30th Financial Forum of the Society of Utility and Regulatory Financial Analysts. In his address he stated:

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[14] Gordon, David A., Myron J. Gordon, Lawrence I. Gould. "Choice Among Methods of Estimating Share Yield." *The Journal of Portfolio Management.* Spring 1989. pp. 50-55. (Bourassa's direct testimony, page 26, footnote.)
[15] Ibid.
[16] Ibid.

> I understand that companies coming before regulatory agencies liked and advocated the high growth rates in security analyst forecasts for arriving at their cost of equity capital. Instead of rejecting these forecasts, I understand that FERC and other regulatory agencies have decided to compromise with them. In particular, in arriving at the cost of equity for company X, the FERC has decided to arrive at the growth rate in my dividend growth model by using an average of two growth rates. One is security analysts forecast of the short-term growth rate in earnings provided by IBES or *Value Line* and the other a more long run and typically lower figure such as the past growth in GNP.
>
> Such an average can be questioned on various grounds. However, my judgment is that between the short-term forecast alone and its average with the past growth rate in GNP, *the latter may be a more reasonable figure.*[17] (Emphasis added)

Simply stated, if Professor Gordon were to use these questionable methods of estimating growth rates, he would temper the typically higher analysts' forecasts with the typically lower GNP growth rate by averaging the two.

Q. Are there other experts who offer views that suggest sole reliance on analysts' growth forecasts is inadvisable?

A. Yes. Other financial experts have commented on the optimism in analysts' growth forecasts.[18] Several studies have been conducted to measure this phenomenon. In *Contrarian Investment Strategies: The Next Generation* David Breman cites a study that found that *Value Line* analysts overestimated forecasts by 9 percent annually, on average for the 1987 – 1989 period.

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[17] Gordon, M. J. Keynote Address at the 30th Financial Forum of the Society of Utility and Regulatory Financial Analysts. May 8, 1998. Transparency 3.

[18] See Seigel, Jeremy J. Stocks for the Long Run. 2002. McGraw-Hill. New York. p. 100. Dreman, David. *Contrarian Investment Strategies: The Next Generation*. 1998. Simon & Schuster. New York. pp. 97-98. Malkiel, Burton G. *A Random Walk Down Wall Street*. 2003. W.W. Norton & Co. New York. p. 175.

Burton Malkiel of Princeton University studied one-year and five-year forecasts made by respected analysts. His study found that when compared to actual earnings, several naïve forecasting models, including growth of national income, proved to be more accurate. The following excerpt from Professor Malkiel's book *A Random Walk Down Wall Street* discusses the results of his study:

> When confronted with the poor record of their five-year growth estimates, *the security analysts honestly, if sheepishly, admitted that five years ahead is really too far in advance to make reliable projections*. They protested that although long-term projections are admittedly important, they really ought to be judged on their ability to project earnings changes one year ahead. Believe it or not, it turned out that their one-year forecasts were even worse than their five-year projections.
>
> The analysts fought back gamely. They complained that it was unfair to judge their performance on a wide cross section of industries, because earnings for high-tech firms and various "cyclical" companies are notoriously hard to forecast. *"Try us on utilities," one analyst confidently asserted. At the time they were considered among the most stable group of companies because of government regulation. So we tried it and they didn't like it. Even the forecasts for the stable utilities were far off the mark.*[19] (Emphasis added)

Q. Is the investment community aware that analysts' forecasts are inflated or overly optimistic?

A. Yes. Problems related to analysts' forecasts are cited in a number of financial articles widely available to investors such as *The Wall Street Journal*.[20] Logically, investors who

[19] Malkiel, Burton G. A Random Walk Down Wall Street. 2003. W.W. Norton & Co. New York. p. 175

[20] See Smith, Randall & Craig, Suzanne. "Big Firms Had Research Ploy: Quiet Payments Among Rivals." *The Wall Street Journal*. April 30, 2003. Brown, Ken. "Analysts: Still Coming Up Rosy." *The Wall Street Journal*. January 27, 2003. p. C1. Karmin, Craig. "Profit Forecasts Become Anybody's Guess." *The Wall Street Journal*. January 21, 2003. p. C1. Gasparino, Charles. "Merrill Lynch Investigation Widens." *The Wall Street Journal*. April 11, 2002. p. C4. Elstein, Aaron. "Earnings Estimates Are All Over the Map." *The Wall Street Journal*. August 2, 2001. p. C1. Dreman, David. "Don't Count on those Earnings Forecasts." *Forbes*. January 26, 1998. p. 110. Coggan, Philip. "Optimism skews predictions EQUITIES: Data demonstrate that corporate performance reverts to

are made aware of the bias in analysts' forecasts will not rely solely on those forecasts in decision making. Such investors are more likely to rely on other methods of growth assessment or a combination of methods.

Q. Does Mr. Bourassa's own testimony provide comment contradicting the propriety of sole reliance on analysts' forecasts to estimate dividend growth?

A. Yes. Mr. Bourassa's testimony (P. 20, lines 5 through 46) describes that an advantage of the comparable earnings approach is that it is easy to calculate and the amount of subjective judgment required is minimal. In this statement Mr. Bourassa correctly indicates that minimizing subjective judgment in cost of equity analysis is an advantage. Analysts' projections are inherently subjective and prone to error. Accordingly, they should not be relied upon solely in growth estimation.

Q. What are Staff's comments to Mr. Bourassa's testimony (P. 21, lines 19 and 20) that states, "In the final analysis ROE estimates are subjective and should be based on sound, informed judgment" given that he previously identified minimizing subjectivity as an advantage in cost of equity models?

A. The subjectivity inherent in growth estimation can be reduced by inclusion of historic growth data that is factual as opposed to sole reliance on perceptions.

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the mean, writes Philip Coggan." *Financial Times Limited.* April 24, 2004. p. 12. Thomas, Joe. "Too Good to be True." *Financial Times Business Limited.* September 3, 2004. Boselovic, Len. "Heard Off the Street." *Pittsburgh Post-Gazette.* March 7, 2005. BUSINESS, Pg.B-1. Jagow, Scott. Marketplace Morning Report (radio program). Minnesota Public Radio. October 20, 2005.

Q. Does Mr. Bourassa make other subjective choices in his cost of equity analysis that unnecessarily reduce its objectivity?

A. Yes. Mr. Bourassa's testimony (P. 27, lines 17 though 19) describes that he has not used forecasts of dividend growth in his DCF model as the average annual forecast of dividend growth is very low. The omission of such data results in exclusion of publicly accessible data which the investment community may consider in forming its growth expectations. Mr. Bourassa apparently believes that forecasts of dividend growth are appropriate considerations for cost of equity analysis but excluded them, therefore, swaying the results of his cost of equity estimation.

Q. Should DPS growth be included in a DCF analysis?

A. Yes. The present value of a stock is equal to the present value of all future dividends rather than the present value of all future earnings. This is the case as not all earnings are dispersed as dividends. On this matter, Professor Jeremy Siegel of the Wharton School of Finance said:

> Note that the price of the stock is always equal to the present value of all future *dividends* and not the present value of future earnings. Earnings not paid to investors can have value only if they are paid as dividends or other cash disbursements at a later date. Valuing stock as the present discounted value of future earnings is manifestly wrong and greatly overstates the value of the firm.[21]

[21] Seigel, Jeremy J. Stocks for the Long Run. 2002. McGraw-Hill. New York. P. 93.

Multi-Stage DCF

Q. What are Staff's comments on Mr. Bourassa's sole reliance on forecasted earnings growth for the near-term ("Stage - 1 growth") in his multi-stage DCF?

A. It is not likely that investors rely solely on forecasted earnings growth and therefore his conclusions are not likely to reflect the market's expectations. Investors have a variety of methods available to them to assess growth. Alternatives include historic growth which is objective rather than subjective. Additionally, as stated previously, analysts' forecasts are known to be inflated or overly optimistic.

Risk Premium

Q. Please describe Mr. Bourassa's risk premium analysis.

A. Mr. Bourassa computed the average risk premium for (1) actual returns for the ten years 1995 to 2004 and (2) authorized returns for the ten years 1996 to 2006 compared to the 10-year Treasury rate on Utility Source's proxies. He then added the average risk premium for each method to the forecasted interest rates for 10-year Treasuries for 2007-2008.

Q. What are Staff's comments on Mr. Bourassa's risk premium method for estimation of cost of equity?

A. This analysis is based on actual returns for his sample of water companies. This analysis is not market based as the cost of equity is determined by the market and not by actual or authorized returns. The analysis also relies on forecasts for interest on 10-year Treasuries. Analysts who forecast future interest rates have no more information upon which to project future interest rates than what is reflected in the current rate.

Nancy L. Jacob of the University of Washington and R. Richardson Pettit of the University of Houston note the following:

> While we know something about many of the factors that determine interest rates (money supply, the demand for loanable funds, etc.) little evidence exists to suggest these factors can be predicted with enough accuracy to successfully predict the rates.[22]

Q. What is Staff's comment in regard to Mr. Bourassa's statement which explains that he selected the forecast for interest rates for 2007 – 2008 as that is the period in which Utility Source's rates will be in effect?[23]

A. Irrespective of the timing, it remains that it is a faulty assumption that interest rates can be predicted.

Comparative Earnings

Q. Please provide a description of Mr. Bourassa's comparative earnings analysis.

A. In his comparative earnings analysis Mr. Bourassa compares the results of his DCF and risk premium methods to the actual and authorized returns reported in *AUS Utility Reports* and to *Value Line's* forecasts of the composite equity return for the water utility industry.

Q. What are Staff's comments on this method?

A. Again, as with his risk premium analysis, Mr. Bourassa relies on actual and authorized returns. As mentioned previously, actual and authorized returns are not market based. The cost of equity is determined by the market; hence, actual and authorized returns are not reliable indicators of the cost of equity. These methods are not consistent with modern

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[22] Jacob, Nancy L., R. Richardson Pettit. *Investments*. Irwin. Homewood, Ill. 1988. p. 499.
[23] Direct Testimony of Thomas J. Bourassa, Utility Source, L.L.C. Company, Docket no. WS-04235A-06-0303, page 30 of 34.

financial theory. In regard to reliance on *Value Line* forecasts for equity return for the water utility industry, Staff would again note that analyst's forecasts are known to be inflated or overly optimistic.

Unique Risks

Q. What is Staff's response to Mr. Bourassa's assertion that the market data provided by the water utility sample does not capture all of the market risks of Utility Source because Arizona rate regulation requires use of historical test years and recognizes limited out of period adjustments?[24]

A. The risk examples cited by Mr. Bourassa are examples of unique risks. Use of a historical test year is a unique risk and so is use of a future test year. Existence of unique risk does not necessarily indicate that a company has more total risk than others as all companies have their own set of unique risks. Moreover, the market does not reward for unique risk as it can be diversified away.

Q. What is Staff's response to Mr. Bourassa's assertion that a good argument can be made that Utility Source is not comparable to the six publicly traded water utilities in the same group as a result of size differences?[25]

A. The Commission has previously ruled that firm size does not warrant recognition of a risk premium. In Decision No. 64727, dated April 17, 2002, for Black Mountain Gas, the Commission agreed with Staff that "the 'firm size' phenomenon' does not exist for regulated utilities, and that therefore there is no need to adjust for risk for small firm size in utility rate regulation." Decision No. 64282, dated December 28, 2001, states, "We do

[24] Direct Testimony of Thomas J. Bourassa, Utility Source, L.L.C. Company, Docket no. WS-04235A-06-0303, page 15 of 34.
[25] Direct Testimony of Thomas J. Bourassa, Utility Source, L.L.C. Company, Docket no. WS-04235A-06-0303, page 17 and 18 of 34.

not agree with the Company's proposal to assign a risk premium to Arizona Water based on its size relative to the other publicly traded water utilities ..."

CAPM

Q. What is Staff's comment regarding Mr. Bourassa's criticism of the CAPM?

A. Mr. Bourassa asserts that the CAPM has questionable assumptions that underlie the model that have detracted from its practical application.[26] The CAPM, like all other models for estimating the cost of equity, has limitations. If all models exhibiting limitations were eliminated, no models would be acceptable. The CAPM has a particularly beneficial quality that makes it a preferable model. It is market based. In The Cost of Capital – A Practitioner's Guide, David Parcell indicates that, "It (CAPM) has widespread use in the investment community, particularly by portfolio managers who employ modern portfolio theory."[27]

X. RECOMMENDATIONS

Q. Please summarize Staff's recommendations.

A. Staff recommends a 9.6 percent ROR for Utility Source. Staff's recommendation is based on a capital structure composed of 0 percent debt and 100 percent equity and a 9.6 percent ROE as shown Table 4 below.

[26] Direct Testimony of Thomas J. Bourassa, Utility Source, L.L.C. Company, Docket no. WS-04235A-06-0303, page 20 of 34.
[27] Parcell, David C. *The Cost of Capital – A Practitioner's Guide.* Parcell. 1997. p. 6 – 23.

Table 4

	Weight	Cost	Weighted Cost
Long-term Debt	0%	0%	0%
Common Equity	100%	9.6%	9.6%
Cost of Capital/ROR			**9.6%**

Staff further recommends that the Commission reject the Company's proposed 10.5 percent ROR. The Company's proposed ROR is supported by ROE estimation methods that are not reliable representatives of the current cost of equity capital.

Q. Does this conclude your direct testimony?

A. Yes, it does.

Utility Source LLC
Capital Structure
And Weighted Average Cost of Capital
Staff Recommended and Company Proposed

[A]	[B]	[C]	[D]
Description	Weight (%)	Cost	Weighted Cost
Staff Recommended Structure			
Debt	0.0% [1]	0.0%	0.0%
Common Equity	100.0% [1]	9.6% [2]	9.6%
Weighted Average Cost of Capital/ROR			**9.6%**
Company Proposed Structure			
Debt	0.0%	0.0%	0.0%
Common Equity	100.0%	10.5%	10.5%
Weighted Average Cost of Capital/ROR			**10.5%**

[D] : [B] x [C]

1 Supporting Schedules: SPI-3

2 Supporting Schedule: SPI-2

Utility Source LLC
Final Cost of Equity Estimates
Sample Water Utilities

[A]	[B]		[C]		[D]		[E]
DCF Method			D_1/P_0 [1]	+	g [2]	=	k
Constant Growth DCF Estimate			2.8%	+	5.7%	=	8.5%
Multi-Stage DCF Estimate						=	9.5%
Average of DCF Estimates							**9.0%**
CAPM Method	Rf	+	β [5]	x	(Rp)	=	k
Historical Market Risk Premium[3]	4.8%	+	0.82	x	7.5% [6]	=	10.9%
Current Market Risk Premium[4]	4.9%	+	0.82	x	5.6% [7]	=	9.5%
Average of CAPM Estimates							**10.2%**
					Average		**9.6%**
					Total		**9.6%**

1 MSN Money and Value Line

2 SPI-7

3 Wall Street Journal (Rf) 5, 7, and 10 year Treasury rates

4 Wall Street Journal (Rf) 30 Year Treasury bond rate

5 Value Line

6 Historical Market Risk Premium (Rp) from Ibbotson Associates SBBI 2005 Yearbook

7 Testimony

Utility Source LLC
Average Capital Structure of Sample Water Utilities

[A]	[B]	[C]	[D]
Company	Debt	Common Equity	Total
American States Water	52.2%	47.8%	100.0%
California Water	50.4%	49.6%	100.0%
Aqua America	55.0%	45.0%	100.0%
Connecticut Water	45.0%	55.0%	100.0%
Middlesex Water	58.9%	41.1%	100.0%
SJW Corp	46.6%	53.4%	100.0%
Average Sample Water Utilities	51.4%	48.6%	100.0%
Utility Source LLC	0.0%	100.0%	100.0%

Source:
Sample Water Companies from Value Line

Utility Source LLC
Growth in Earnings and Dividends
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
Company	Dividends Per Share 1996 to 2005 DPS[1]	Dividends Per Share Projected DPS[1]	Earnings Per Share 1996 to 2005 EPS[1]	Earnings Per Share Projected EPS[1]
American States Water	1.1%	1.3%	2.5%	7.6%
California Water	1.1%	1.4%	2.3%	4.1%
Aqua America	6.2%	12.5%	9.4%	12.0%
Connecticut Water	1.3%	No Projection	-0.9%	No Projection
Middlesex Water	2.2%	No Projection	0.4%	No Projection
SJW Corp	4.2%	No Projection	6.6%	No Projection
Average Sample Water Utilities	2.7%	5.0%	4.2% [2]	7.9%

1 Value Line

2 Note that the figure -0.9% has been excluded from the calculation.

Utility Source LLC
Sustainable Growth
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
Company	**Retention Growth 1996 to 2005 br**	**Retention Growth Projected br**	**Stock Financing Growth vs**	**Sustainable Growth 1996 to 2005 br + vs**	**Sustainable Growth Projected br + vs**
American States Water	2.6%	5.1%	1.5%	4.1%	6.6%
California Water	2.6%	2.9%	2.7%	5.3%	5.6%
Aqua America	4.4%	6.3%	6.6%	11.1%	13.0%
Connecticut Water	2.7%	No Projection	0.5%	3.3%	No Projection
Middlesex Water	1.2%	No Projection	4.4%	5.6%	No Projection
SJW Corp	5.2%	No Projection	0.0%	5.2%	No Projection
Average Sample Water Utilities	3.1%	4.8%	2.6%	5.8%	8.4%

[B]: Value Line
[C]: Value Line
[D]: Value Line and MSN Money
[E]: [B]+[D]
[F]: [C]+[D]

Utility Source LLC
Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Company	Symbol	Spot Price 10/25/2006	Book Value	Mkt To Book	*Value Line* Beta β	Raw Beta β *raw*
American States Water	AWR	41.04	16.30	2.5	0.80	0.67
California Water	CWT	38.55	16.82	2.3	0.85	0.75
Aqua America	WTR	24.07	6.60	3.6	0.85	0.75
Connecticut Water	CTWS	21.60	11.87	1.8	0.85	0.75
Middlesex Water	MSEX	18.81	8.70	2.2	0.80	0.67
SJW Corp	SJW	33.99	10.79	3.2	0.75	0.60
Average				**2.6**	**0.82**	**0.70**

[C]: MSN Money

[D]: Value Line

[E]: [C] / [D]

[F]: Value Line

[G]: -0.35 + [F] / 0.67

Utility Source LLC
Calculation of Expected Infinite Annual Growth in Dividends
Sample Water Utilities

[A]	[B]
Description	g
DPS Growth - Historical[1]	2.7%
DPS Growth - Projected[1]	5.0%
EPS Growth - Historical[1]	4.2%
EPS Growth - Projected[1]	7.9%
Sustainable Growth - Historical[2]	5.8%
Sustainable Growth - Projected[2]	8.4%
Average	**5.7%**

1 Schedule SPI-4

2 Schedule SPI-5

Utility Source LLC
Multi-Stage DCF Estimates
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[H]	[I]
Company	Current Mkt. Price (P_o)[1] 10/25/2006	Projected Dividends[2] (Stage 1 growth) (D_t) d_1	d_2	d_3	d_4	Stage 2 growth[3] (g_n)	Equity Cost Estimate (K)[4]
American States Water	41.0	0.94	0.99	1.05	1.11	6.8%	9.0%
California Water	38.6	1.20	1.27	1.34	1.41	6.8%	9.8%
Aqua America	24.1	0.47	0.49	0.52	0.55	6.8%	8.6%
Connecticut Water	21.6	0.87	0.92	0.97	1.03	6.8%	10.7%
Middlesex Water	18.8	0.72	0.76	0.80	0.85	6.8%	10.5%
SJW Corp	34.0	0.59	0.62	0.66	0.69	6.8%	8.4%

Average **9.5%**

$$P_0 = \sum_{t=1}^{n} \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K-g_n}\left[\frac{1}{(1+K)}\right]^n$$

Where : P_0 = current stock price
D_t = dividends expected during stage 1
K = cost of equity
n = years of non – constant growth
D_n = dividend expected in year n
g_n = constant rate of growth expected after year n

1 [B] see schedule SPI-6

2 Derived from *Value Line Information*

3 Average annual growth in GDP 1929 - 2005 in current dollars.

4 Internal Rate of Return of Projected Dividends

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner
GARY PIERCE
Commissioner

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE LLC, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR RATE INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON	)	DOCKET NO. WS-04235A-06-0303

DIRECT

TESTIMONY

OF

JIAN W. LIU

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JANUARY 19, 2007

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ENGINEERING REPORT ..... EXHIBIT JWL

EXECUTIVE SUMMARY
UTILITY SOURCE LLC
DOCKET NO. WS-04235A-06-0303

CONCLUSIONS

A. Based on data submitted by the Company, ADEQ has determined that the water system (Public Water System #03-300) has no deficiencies and is currently delivering water that meets the water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4.

B. ADEQ regulates the wastewater system under Inventory #104083, Permit # 32797. ADEQ correspondence dated March 21, 2006, indicated that the facility is in compliance with ADEQ regulations.

C. The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 parts per billion ("ppb") to 10 ppb. The most recent arsenic levels at Utility Source did not exceed 10 ppb for all producing wells. Based on this arsenic concentration, the Company is in compliance with the new arsenic MCL.

D. Utility Source is not within any Active Management Area, and consequently is not subject to ADWR reporting and conservation rules.

E. A check with the Utilities Division Compliance Section showed that there were no delinquent compliance items for Utility Source.

F. Staff concludes that Shallow Well #4, Shallow Well #5 and Deep Well #4 were NOT used and useful during the test year of 2005.

RECOMMENDATIONS

1. Staff recommends its average annual cost of $2,446 be adopted for the water testing expense in this proceeding.

2. Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table E1 for water systems, and in Table E2 for wastewater systems. It is recommended that Utility Source use these depreciation rates by individual NARUC category on a going forward basis.

INTRODUCTION

Q. Please state your name, place of employment and job title.

A. My name is Jian W. Liu. My place of employment is the Arizona Corporation Commission ("Commission"), Utilities Division, 1200 West Washington Street, Phoenix, Arizona 85007. My job title is Water/Wastewater Engineer.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since October 2005.

Q. Please list your duties and responsibilities.

A. As a Water/Wastewater Engineer, my responsibilities include the inspection, investigation, and evaluation of water and wastewater systems; preparing reconstruction cost new and/or original cost studies, cost of service studies and investigative reports; providing technical recommendations and suggesting corrective action for water and wastewater systems; and providing written and oral testimony on rate applications and other cases before the Commission.

Q. How many companies have you analyzed for the Utilities Division?

A. I have analyzed approximately 17 companies covering various responsibilities for the Utilities Division.

Q. Have you previously testified before this Commission?

A. Yes, I have testified before this Commission.

Q. What is your educational background?

A. I am a Ph.D. Candidate in Geotechnical Engineering from Arizona State University ("ASU"). I have a Master of Science Degree in Natural Science from ASU and a Master of Science Degree in Civil Engineering from Institute of Rock & Soil Mechanics ("IRSM"), Academy of Sciences, China.

Q. Briefly describe your pertinent work experience.

A. From 1982 to 2000, I was employed by IRSM, SCS Engineers, and URS Corporation as a Civil and Environmental Engineer. In 2000, I joined the Arizona Department of Environmental Quality ("ADEQ"). My responsibilities with ADEQ included review and approval of water distribution systems, sewer distribution systems, and on-site wastewater treatment facilities. I remained with ADEQ until transferring to the Commission in October 2005.

Q. Please state your professional membership, registrations, and licenses.

A. I am a licensed professional civil engineer in the State of Arizona.

PURPOSE OF TESTIMONY

Q. Were you assigned to provide Staff's engineering analysis and recommendation for Utility Source LLC ("Utility Source" or "Company") in this proceeding?

A. Yes. I reviewed Utility Source's application and responses to data requests, and I inspected the water and sewer systems on August 29, 2006. This testimony and its attachment present Staff's engineering evaluation.

ENGINEERING REPORT

Q. Please describe the attached Engineering Report, Exhibit JWL.

A. Exhibit JWL presents the details and analyses of Staff's findings, and is attached to this direct testimony. Exhibit JWL contains the following major topics: (1) a description of the water and wastewater systems and the processes, (2) water use and wastewater flows, (3) growth, (4) compliance with the rules of the ADEQ, Arizona Department of Water Resources ("ADWR"), and the Commission, (5) depreciation rates, (6) curtailment plan tariff.

Staff's conclusions and recommendations from the engineering report are contained in the "Executive Summary", above.

Q. Does this conclude your direct testimony?

A. Yes, it does.

ENGINEERING REPORT
FOR
UTILITY SOURCE LLC
DOCKET NO. WS-04235A-06-0303 (RATES)

DECEMBER 22, 2006

A. LOCATION OF UTILITY SOURCE LLC ("UTILITY SOURCE" OR "COMPANY")

Utility Source is located approximately eight miles west of Flagstaff, near Bellemont in Coconino County. Figure A-1 shows the location of Utility Source within Coconino County and Figure A-2 shows the certificated area.

B. DESCRIPTION OF WATER AND WASTEWATER SYSTEMS

Water System

The water and wastewater systems were field inspected on August 29, 2006, by Jian W Liu, Staff Utilities Engineer, in the accompaniment of Gary Bulechek, representing Utility Source.

Utility Source's water Certificate of Convenience and Necessity ("CC&N") has approximately 230 acres and wastewater system CC&N has approximately 291 acres.

The water system consists of nine wells, two storage tanks, booster system, and a distribution system serving 337 customers during the test year of 2005. Staff concludes that the existing water system has adequate infrastructure to serve the existing customer base.

Shallow Well #4 and Shallow Well #5 have not been used for last three yeas according to Mr. Jeremy McCaleb, a certified water and wastewater operator for Utility Source. Deep Well #4 was not connected to the existing water system for the test year of 2005. Staff concludes that Shallow Well #4, Shallow Well #5 and Deep Well #4 were NOT used and useful during the test year of 2005.

A system schematic is shown in Figure B-1 with detailed plant facility descriptions as follows:

Table 1. Well Data

ADWR ID No.	Well Name	Pump (HP)	Pump (GPM)	Casing Depth (feet)	Casing Size (inches)	Meter Size (inches)	Year Drilled
55-503545	Shallow Well #1	1	10	215	7	2	1982
55-515324	Shallow Well #2	1	5	105	8	2	1987
55-559096	Shallow Well #3	2	7	240	6	2	1997
55-564258	Shallow Well #4	2	12	300	7		1998
55-593267	Deep Well #1	10	11	1947	8	2	2002
55-598834	Deep Well #2	50	23	2100	8	2	2003
55-203241	Deep Well #3	125	72	2801	10	2	2004
55-598623	Shallow Well #5	2	10	300	6		2004
55-206887	Deep Well #4		371	2908	16		2005

Note: GPM = gallons per minute.

Table 2. Storage Tanks

Capacity (Gallons)	Quantity (Each)
422,000	1
258,000	1
Totals: 680,000	2

Table 3. Booster Systems

Horsepower	Quantity
15	2
75	1

Table 4. Water Mains

Diameter	Material	Length (in feet)
6-inch	C-900	900
8-inch	C-900	14,563
12-inch	C-900	5,860

Table 5. Customer Meters

Size	Quantity
3/4-inch	340
1-1/2-inch	3
2-inch	1
Total	344

Table 6. Fire Hydrants

Size	Quantity
Standard	33

Wastewater System

The operation of the wastewater system consists of a wastewater treatment plant, two lift stations and collection system serving approximately 337 service laterals during the test year of 2005. Wastewater treatment is provided by a 150,000 gallon per day ("gpd") SANTEC activated sludge process with de-nitrification. The plant has been operating at approximately 45,000 gpd. Staff concludes that the existing wastewater system has adequate infrastructure to serve the existing customer base.

Table 1. Wastewater Treatment Plant

Name or Description	Plant Items	Location
Plant #1	37,500 gallon per day ("GPD") extended aeration, step feed system	Near Intersection of Shadow Mountain and Bellemont Springs Roads
Plant #2	100,000 GPD extended aeration	Same as above

Table 2. Lift Stations

Location	Quantity of Pumps	Horsepower per Pump	Capacity per Pump (GPM)	Wet Well Capacity (gals.)
Bellemont Travel Center	2	1.5	50	1,500
Flagstaff Meadows	2	3.0	150	8,000

Notes: GPM = gallons per minute and gals = gallons.

Table 3. Force Mains

Size	Material	Length (Feet)
4-inch	SDR-35	2,200
	Total:	2,200

Table 4. Manholes

Type	Quantity
Standard	60

Table 5. Cleanouts

Quantity
1

Table 6. Collection Mains

Diameter	Material	Length (Feet)
8-inch	SDR-35	16,224
12-inch	SDR-35	360
	Total:	16,584

Table 7. Service Laterals

Size	Quantity
4-inch	327
6-inch	3
Total:	330

A system schematic is shown for the wastewater treatment plant ("WWTP") in Figure B-2.

C. WATER USE

Water Sold

Based on the information provided by Utility Source, water use for the year 2005 is presented in Figure C-1. Customer consumption experienced a high monthly average water use of 236 gallons per day ("GPD") per connection and a low monthly average water use of 122 GPD per connection for an average annual use of 171 GPD per connection.

Non-Account Water

Non-account water should be 10% or less and never more than 15%. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing. The Company reported 20,798,494 gallons pumped and 19,575,654 gallons sold, resulting in a water loss of 5.88% for 2005. Non-account water is within acceptable limits.

Wastewater Flows

Based on the information provided by the Company, wastewater flow for the year 2005 is presented in Figure D-1. Customers experienced a high monthly average wastewater flow of 180 GPD per connection and a low monthly average wastewater flow of 127 GPD per connection for an average annual wastewater flow of 151 GPD per connection.

D. GROWTH

During the test year 2005, Utility Source had approximately 337 water and wastewater customers. It is projected that Utility Source could have approximately 537 water customers by 2010, and 789 wastewater customers by 2010 because two proposed developments have their own water supply.

E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE ("ADEQ")

Compliance

Based on data submitted by the Company, ADEQ has determined that the water system (Public Water System #03-300) has no deficiencies and is currently delivering water that meets the water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4. (ADEQ report dated February 7, 2006).

Arsenic

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 parts per billion ("ppb") to 10 ppb. The most recent arsenic levels at Utility Source did not exceed 10 ppb for all producing wells. Based on this arsenic concentration, the Company is in compliance with the new arsenic MCL.

Wastewater

Compliance Status

ADEQ regulates the wastewater system under Inventory #104083, Permit # 32797. ADEQ correspondence dated March 21, 2006, indicated that the facility is in compliance with ADEQ regulations.

F. Water Testing Expense

The Company is subject to mandatory participation in the Monitoring Assistance Program ("MAP"). Starting January 1, 2002, water companies paid a fixed $250 per year fee, plus an additional fee of $2.07 per service connection ($2.57 per service connection minus $0.50 refund per service connection) regardless of meter size for participation in MAP. Participation in the MAP program is mandatory for water systems, which serve less than 10,000 persons (approximately 3,300 service connections). The Company has 337 service connections for calendar year 2006, so the MAP fee is $947.59.

The Company reported its water testing expense at $8,553 during the test year. Staff has reviewed the Company's testing expense and has recalculated the testing costs based on the Company's laboratory costs. Table A shows Staff's annual monitoring expense estimate of $2,446 with participation in the MAP.

Table A. Water Testing Expense

Monitoring – Based on 5 sampling points (Tests per 3 years, unless noted.)	Cost per test	No. of tests per 3 years	Total 3 year cost	Annual Cost
Total Coliform – monthly	$ 20	180	3600	1200
Inorganics (& secondary)	MAP	MAP	MAP	MAP
Radiochemical – (1/ 4 yrs)	MAP			MAP
IOC's, SOC's, VOC's				MAP
Nitrites	MAP			MAP
Nitrates - annual	$ 18	15	270	90
Asbestos – per 9 years	MAP			MAP
Lead & Copper - annual	$ 25	25	250	208
MAP fees (annual)				$948
Total				**$2,446**

Staff recommends its annual water testing expense of $2,446 be used for purposes of this application.

G. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

Utility Source is not within any Active Management Area, and consequently is not subject to ADWR reporting and conservation rules.

H. ARIZONA CORPORATION COMMISSION ("ACC" or "COMMISSION") COMPLIANCE

A check with the Utilities Division Compliance Section showed that there were no delinquent compliance items for Utility Source (Email dated May 26, 2006).

I. DEPRECIATION RATES

In recent orders, the Commission has been shifting away from the use of composite rates in favor of individual depreciation rates by National Association of Regulatory Utility Commissioners ("NARUC") category. (For example, a uniform 2.50 percent composite rate would not really be appropriate for either vehicles or transmission mains and instead, different specific retirement rates should be used.)

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table E1 for water systems and in Table E2 for

wastewater systems. It is recommended that Utility Source use these depreciation rates by individual NARUC category on a going forward basis.

J. CURTAILMENT PLAN TARIFF

Utility Source has a curtailment plan tariff filed with the ACC.

FIGURES

Coconino County Map ..... Figure A-1

Certificated Area ..... Figure A-2

Water System Schematic ..... Figure B-1

Sewer System Schematic ..... Figure B-2

Water Use ..... Figure C-1

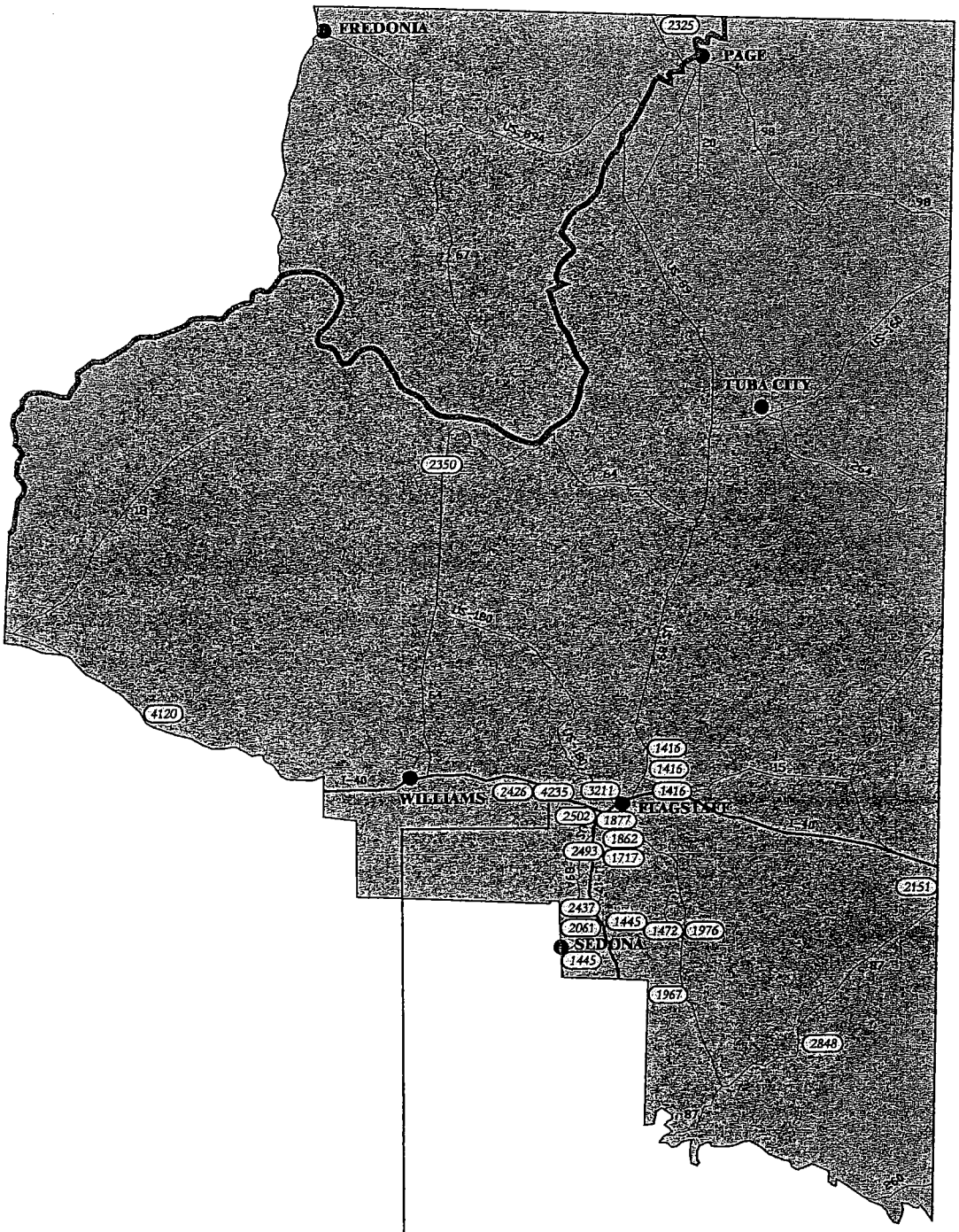
Wastewater Flow ..... Figure D-1

TABLES

Water Depreciation Rates ..... Table E1

Wastewater Depreciation Rates ..... Table E2

COCONINO COUNTY

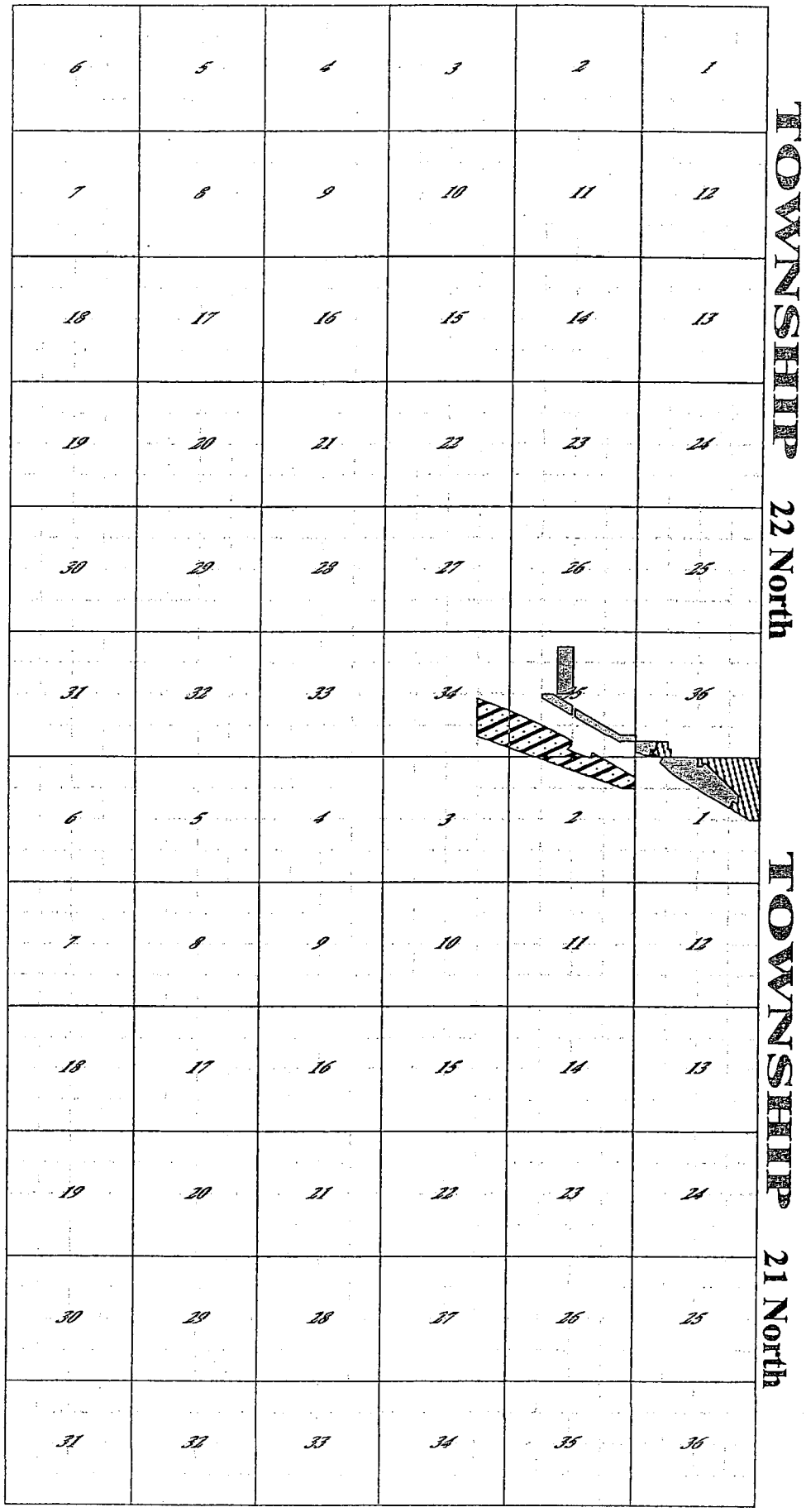


1445	ARIZONA WATER COMPANY
2426	BELLEMONT WATER COMPANY
1416	DONEY PARK WATER
2502	FLAGSTAFF RANCH WATER COMPANY, INC.
2493	FOREST HIGHLANDS WATER COMPANY
4120	GRAND CANYON CAVERNS AND INN, LLC
2325	GREENEHAVEN WATER COMPANY, INC.
1862	HECKETHORN WATER COMPANY
2437	JUNIPINE COMMUNITY PROPERTY OWNERS ASSOCIATION
1472	MORMON LAKE WATER COMPANY
1877	MOUNTAIN DELL WATER, INC.
2061	OAK CREEK UTILITY CORPORATION
1717	PONDEROSA UTILITY CORPORATION
2848	STARLIGHT WATER COMPANY, INC.
1967	STONEMAN LAKE WATER COMPANY
1976	TALL PINE ESTATES WATER & IMPROVEMENT ASSOC.
2350	TUSAYAN WATER DEVELOPMENT ASSOCIATION, INC.
3211	WEST VILLAGE WATER COMPANY
2151	WINSLOW WEST WATER COMPANY, INC.
4235	UTILITY SOURCE, LLC

Figure A1

COUNTY: *Coconino*

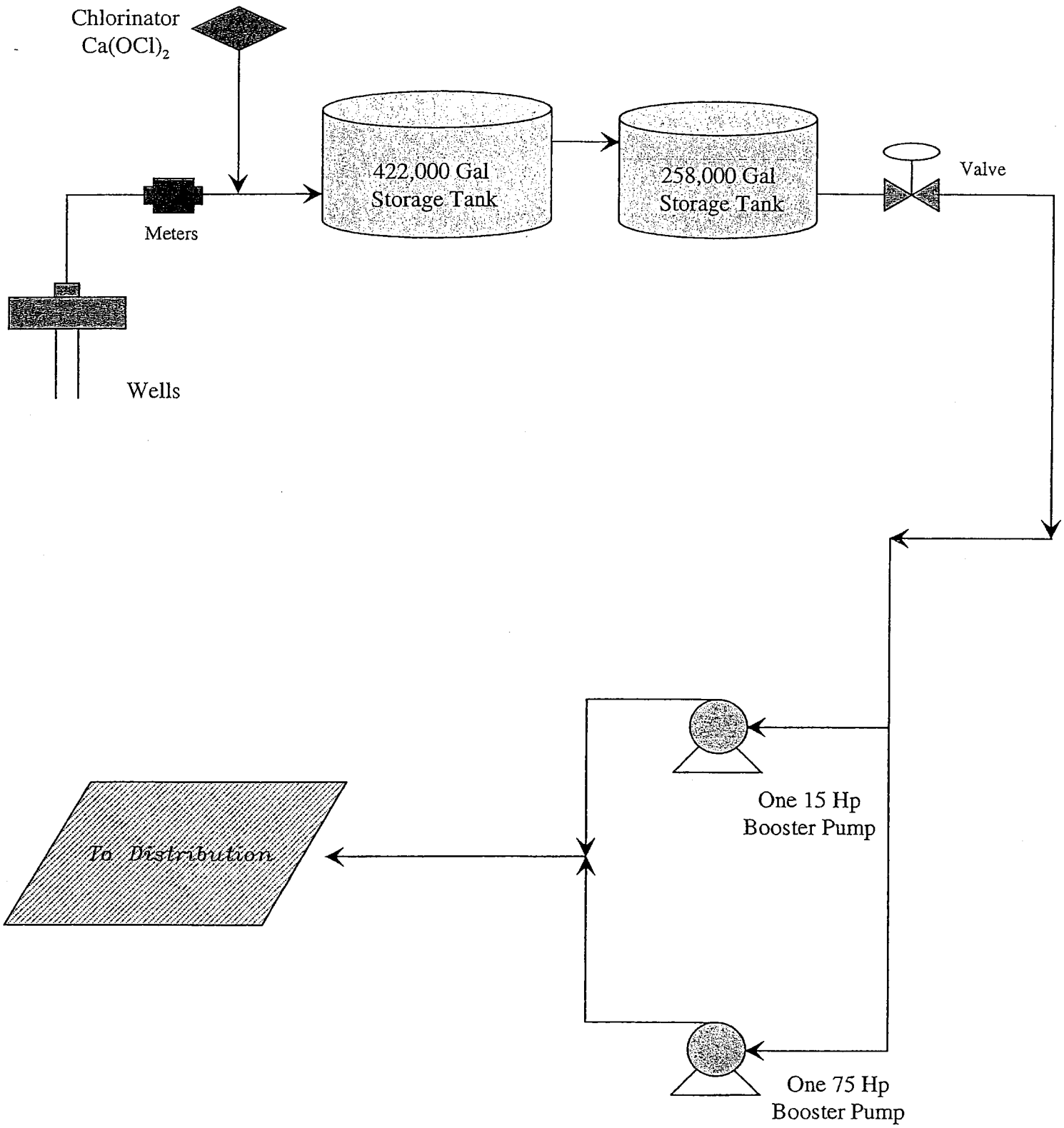
RANGE 5 East



W-2526
Bellemont Water Company

WS-4235
Utility Source, LLC

Utility Source, LLC
Docket No. WS-04235A-05-0707
Application for Extension



Process Schematic
Utility Source, L.L.C.
PWS ID# 03-300

Figure B-1

UTILITY SOURCE, L.L.C. - SEWER
DOCKET NO. WS-04235A-06-0303

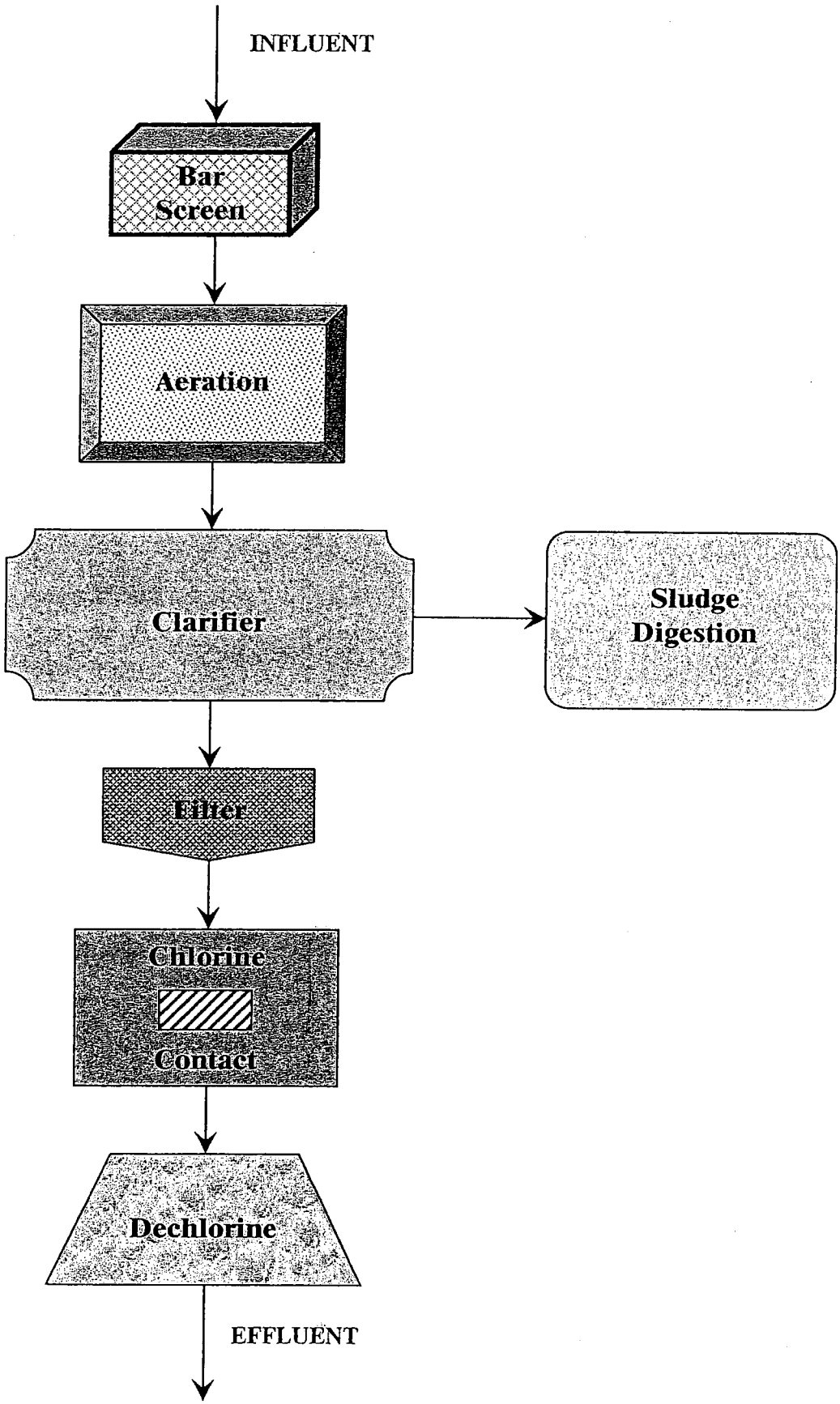


Figure B-2

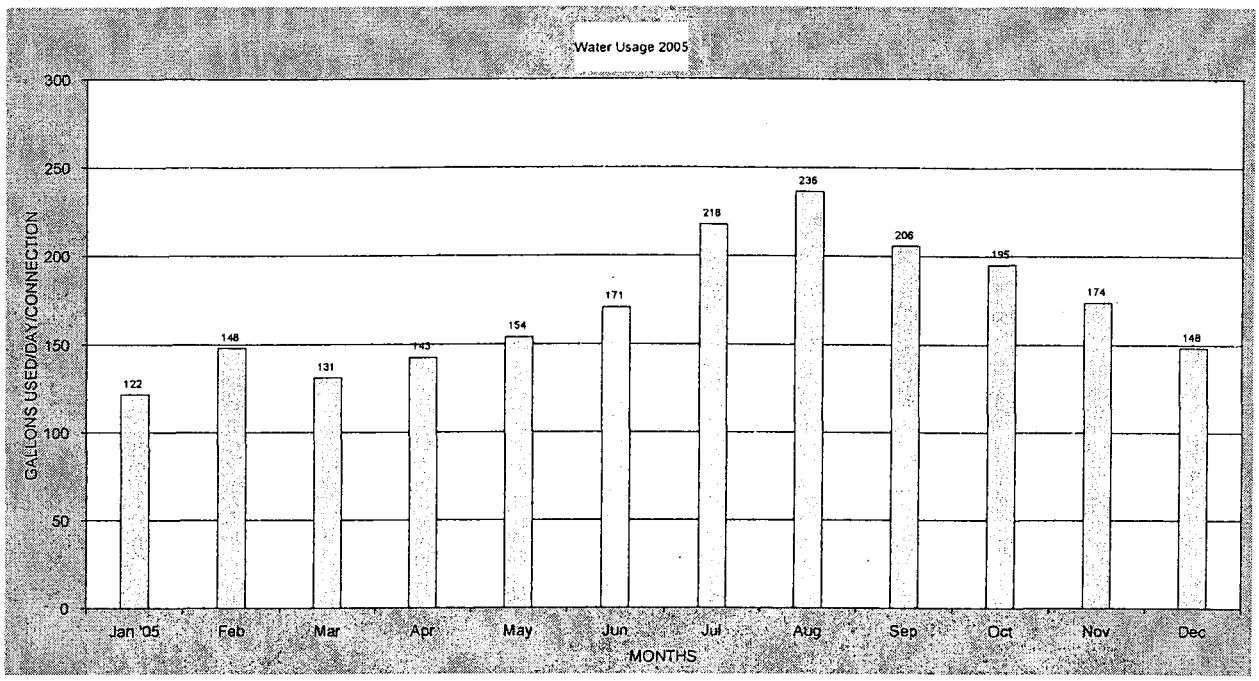


Figure C-1. Water Use

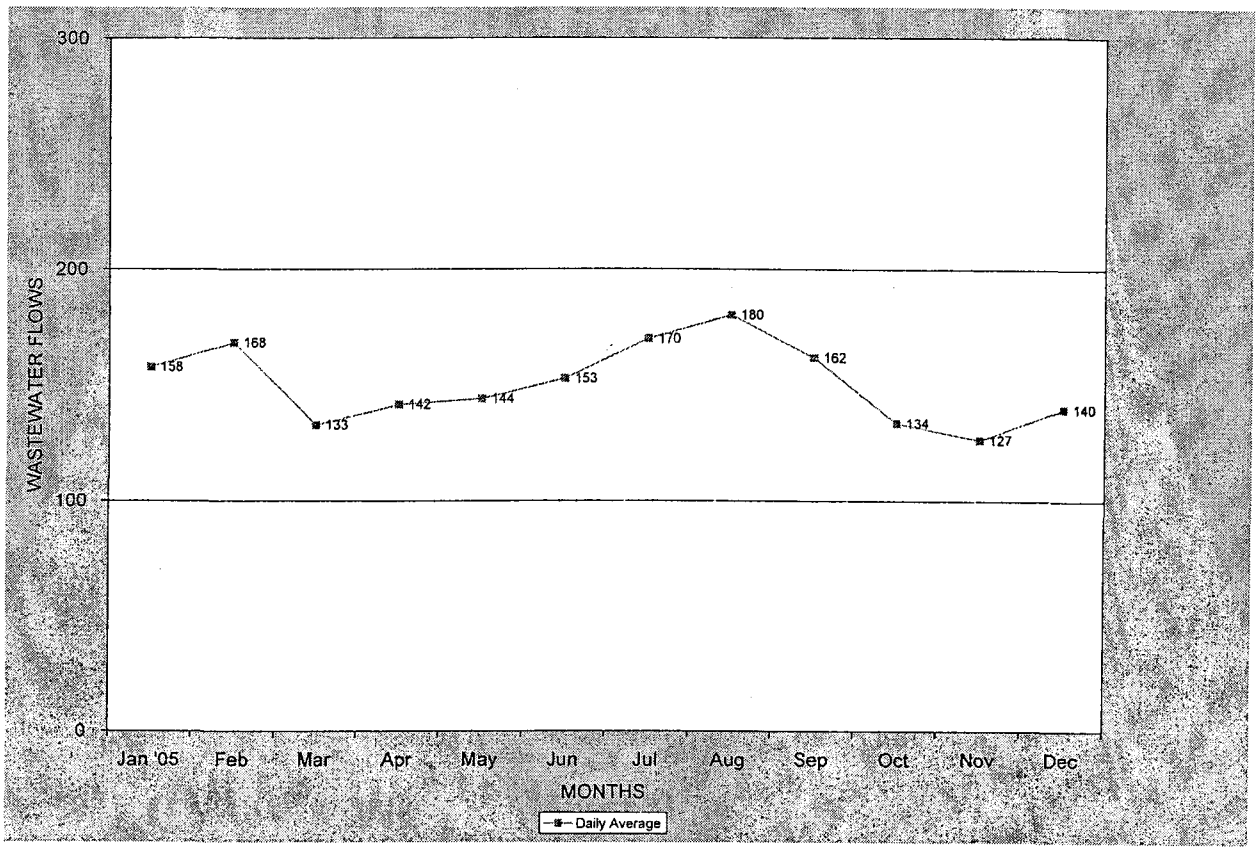


Figure D-1 Wastewater Flow

Table E1. Water Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	10	10.00

Table E2. Wastewater Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
354	Structures & Improvements	30	3.33
355	Power Generation Equipment	20	5.00
360	Collection Sewers – Force	50	2.0
361	Collection Sewers- Gravity	50	2.0
362	Special Collecting Structures	50	2.0
363	Services to Customers	50	2.0
364	Flow Measuring Devices	10	10.0
365	Flow Measuring Installations	10	10.00
366	Reuse Services	50	2.00
367	Reuse Meters & Meter Installations	12	8.33
370	Receiving Wells	30	3.33
371	Pumping Equipment	8	12.50
374	Reuse Distribution Reservoirs	40	2.50
375	Reuse Transmission & Distribution System	40	2.50
380	Treatment & Disposal Equipment	20	5.0
381	Plant Sewers	20	5.0
382	Outfall Sewer Lines	30	3.33
389	Other Plant & Miscellaneous Equipment	15	6.67
390	Office Furniture & Equipment	15	6.67
390.1	Computers & Software	5	20.0
391	Transportation Equipment	5	20.0
392	Stores Equipment	25	4.0
393	Tools, Shop & Garage Equipment	20	5.0
394	Laboratory Equipment	10	10.0
395	Power Operated Equipment	20	5.0
396	Communication Equipment	10	10.0
397	Miscellaneous Equipment	10	10.0
398	Other Tangible Plant	----	----

NOTE: Acct. 398, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

EXHIBIT
S-2
admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

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KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C. FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PROPERTY AND FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICES.	DOCKET NO. WS-04235A-06-0303 **NOTICE OF FILING SURREBUTTAL TESTIMONY**

Staff of the Arizona Corporation Commission hereby files the Surrebuttal Testimony of Jeffrey M. Michlik and Steven P. Irvine of the Utilities Division, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 19th day of March, 2007.

Charles H. Hains
Attorney, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

Original and thirteen (13) copies of the foregoing were filed this 19th day of March, 2007 with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

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Copy of the foregoing mailed this
19th day of March, 2007 to:

Richard L. Sallquist
SALLQUIST, DRUMMOND & O'CONNOR, P.C.
4500 South Lakeshore Drive, Suite 339
Tempe, Arizona 85282
Attorney for Utility Source, LLC

Utility Source, LLC
721 East San Pedro
Gilbert, Arizona 85234

Ponderosa Fire District
c/o Starr Lanphere, Board Chairman
P.O. Box 16359
Bellemont, Arizona 86015

David Hitesman
4661 North Bellemont Spring
Bellemont, Arizona 86015

Dennis Jones
11573 West Cove Crest
Bellemont, Arizona 86015

Tom Bourassa
139 West Wood Drive
Phoenix, Arizona 85029

Shaylin Bogard

SURREBUTTAL

TESTIMONY

OF

JEFFREY M. MICHLIK

STEVEN P. IRVINE

DOCKET NO. WS-04235A-06-0303

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C. FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PROPERTY AND FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICES

MARCH 19, 2007

BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON
Chairman
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
KRISTIN K. MAYES
Commissioner
GARY PIERCE
Commissioner

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C. FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PROPERTY AND FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICES.	)	DOCKET NO. WS-04235A-06-0303

SURREBUTTAL

TESTIMONY

OF

JEFFREY M. MICHLIK

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MARCH 19, 2007

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- Rate Design 11

SURREBUTTAL SCHEDULES

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Rate Base – Original Cost JMM-W2

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Original Cost Rate Base Adj. No. 3 – Reclassification of AIAC to CIAC JMM-W6

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EXECUTIVE SUMMARY
UTILITY SOURCE, LLC-WATER DIVISION
DOCKET NO. W-04235A-06-0303

Staff's surrebuttal testimony recommends revised rates that would increase operating revenues by $192,688 to produce operating revenues of $367,015 resulting in operating income of $171,466, or a 110.53 percent increase over test year revenues of $174,327. Staff also recommends a revised fair value rate base of $2,752,271.

Revenue Requirement

Staff responds to the Company's rescission of its proposal to include 350 projected customer homes in the rate application, and Staff's attempt to alleviate rate shock.

Rate Base

Staff further comments on why the Company chose to rescind its proposal based on Staff's adjustments to rate base, and why Staff has now decided to include a deep well. In addition, Staff responds to the Company's adjustment to accumulated amortization of contributions in aid of construction ("CIAC").

Income Statement

Staff responds to the Company's unfounded and incorrect assertions regarding why Staff originally accepted the Company's proposal.

Rate of Return on Rate Base

Staff explains why it recommends a downward adjustment to the Company's rate of return on rate base, and the benefits it will have on current and future rate payers.

Rate Design

Staff recommends and comments on the new rate design.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Jeffrey M. Michlik. I am a Public Utilities Analyst V employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Jeffrey M. Michlik who filed direct testimony in this case?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony in this proceeding?

A. The purpose of my surrebuttal testimony in this proceeding is to provide Staff's response to the rebuttal testimony of Utility Source, LLC ("Company") witness, Mr. Thomas J. Bourassa, regarding revenue requirement, rate base, operating revenues and expenses, and rate design.

Q. Please explain how Staff's surrebuttal testimony is organized.

A. Staff's surrebuttal testimony is generally organized to present issues in the same sequence as presented in Mr. Bourassa's rebuttal testimony.

Q. Does Staff's lack of response to a particular issue mean it is accepting the Company's position on that issue?

A. No. Staff's lack of response to any issue in this surrebuttal testimony should not be construed as agreement with the Company's rebuttal testimony; rather, where there is no response, Staff relies on its original direct testimony.

RESPONSE TO MR. THOMAS J. BOURASSA'S REBUTTAL TESTIMONY

Revenue Requirement

Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony regarding revenue requirement?

A. Yes.

Q. Please summarize the proposed and recommended revenue requirement, revenue increase, and percentage increase.

A. The proposed and recommended revenue requirement, revenue increase, and percentage increase are as follows:

	Revenue Requirement	Revenue Increase	Percentage Increase
Company-Direct	$575,955	$401,245	230.17 percent
Staff-Direct	$367,449	$193,122	110.78 percent
Company-Rebuttal	$382,187	$291,420	321.06 percent
Staff-Surrebuttal	$367,015	$192,688	110.53 percent

Q. What has the Company changed since it filed its direct testimony?

A. The Company now wants to rescind its proposal to include 350 future customer homes in the rate application. *See* Rebuttal Testimony of Thomas J. Bourassa ("Bourassa RT") at 2. This results in an elimination of pro forma revenue in the amount of $83,560 from adjusted test year revenues of $277,740. In an effort to alleviate rate shock to current and future customers, as originally proposed by the Company, Staff will accept the Company's counter proposal to include some plant in service that it would ordinarily not accept, (as explained in Staff's direct testimony), and as a result will include the pro forma revenues in the amount of $83,560. *See* Staff Surrebuttal Schedule W-4.

Q. Why does the Company now want to rescind its proposal?

A. Staff recommended that the Company's original cost rate base ("OCRB"), which in this case is equal to the fair value rate base ("FVRB"), be reduced by $1,025,721. This triggered the Company's decision to rescind its revenue proposal of including 350 future customers. *See* Bourassa RT at 5.

Q. Was the Company's original offer in the application to include the 350 future customers unusual?

A. Yes, as stated in Staff's direct testimony. *See* Direct Testimony of Jeffrey M. Michlik ("Michlik DT") at 15.

Q. Did Staff accept the Company's original proposal to include these 350 future customers?

A. Yes, See Michlik DT at 17.

Q. Why did Staff accept the Company's original proposal?

A. As stated in Staff's direct testimony, the Company was willing to ameliorate rate shock to its current and future customers by including these 350 customers in its pro forma revenue and rate design, and as a result Staff was willing to accept the Company's original proposal.

Q. Now that the Company has withdrawn its original proposal in its rebuttal testimony, what is Staff's position?

A. Staff's position is unchanged from its direct testimony, other then Staff will accept the Company's proposal to include some plant (Deep Well #4) in service that Staff did not include in its direct testimony.

Rate Base

Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony regarding rate base?

A. Yes.

Q. Would Staff please identify each party's respective rate base recommendations?

A. Yes. The rate bases proposed and recommended by all parties in the case are as follows:

	OCRB	FVRB
Company-Direct	$3,079,513	$3,079,513
Staff-Direct	$2,048,228	$2,048,228
Company-Rebuttal	$2,053,792	$2,053,792
Staff-Surrebuttal	$2,752,271	$2,752,271

Q. Why has Staff increased its rate base by $704,043, from $2,048,228 in the direct testimony filed to $2,752,271 in the surrebuttal testimony?

A. Staff, after reviewing the Company's rebuttal testimony, has increased the rate base in order to match rate base with customers, i.e., include the future well that will serve the future customers as proposed by the Company.

Q. In the Company's rebuttal testimony it now appears that the Company wants to rescind its proposal to include 350 customers in its application. Is that correct?

A. Yes, the Company now states that "This growth may not materialize for several years especially given that the housing sector has experienced a significant downturn in the past year or so. By excluding plant from rate base which is necessary to serve future growth, the risk to the Company is greatly magnified and which the Company is not willing to accept. If Staff is not going to acknowledge those plant additions, the customers to be served by that plant must also be excluded." *See* Bourassa RT at 2.

Q. Can you please elaborate on this?

A. Yes, Staff made $961,229 in adjustments (reductions) to plant in service, of this amount $224,646 deals with costs that are misclassified or double counted, which the Company does not dispute. The remaining balance of $736,583, is related to Deep Well # 4, and was found not to be used and useful in the test year. It is because of this adjustment that the Company now wants to rescind its proposal to include the future growth of the 350 customers as summarized below:

"The well is functional and is being used to conduct certain ADWR required tests, but it is not interconnected to the system. Therefore, the Company does not disagree with Staff. However, Deep Well # 4 is necessary to serve the future growth of the 350 customers. As I previously testified, because this plant has been excluded from rate base at this time, the Company is no longer proposing pro forma revenues for the future growth in the determination of the revenue requirement and rate increase." *See* Bourassa RT at 4.

Q. Is Staff willing to accept the Company's rebuttal argument that it should be allowed to include deep well # 4 in rate base, as the future growth of the 350 customers in the water division depends on this well?

A. Yes. This adjustment is shown on Surrebuttal Schedule JMM-W4.

Q. Staff usually does not include in rate base, plant that is not used and useful in the test year. Why is this case any different?

A. Staff would not normally include in rate base, plant that is not used and useful in the test year. However, as mentioned earlier as a benefit to current and future ratepayers in this case, and as an attempt to ameliorate rate shock; Staff has decided to accept the

Company's offer. The results of these benefits will be clearly explained in the rate design section.

Q. Does Staff agree that Deep Well # 4 is needed to service the additional 350 future customers?

A. Yes, according to Staff's Engineer the Company will need this well to service the 350 future customers. As the Company will need this well to service the future 350 customers, and Staff is including the revenue from these 350 customers, it is logical that we include this amount in rate base.

Q. Since this is a combined water and wastewater case did the Company also make a similar proposal in its direct testimony for the wastewater division?

A. Yes, the proposal is identical to the water division, in which the Company proposed to include future growth of 350 customers.

Q. Does the Company still continue to propose to include future growth of 350 customers for the wastewater division?

A. Yes, the Company comments that "At this stage of the proceeding the Company has not changed its position on including pro forma revenues in the determination of the revenue requirement and rate increase for the sewer division. Unlike the water division, the wastewater division presently has capacity that will serve at least a portion of the demand from those 350 customers." *See* Bourassa RT at 9.

Q. So, if you include these 350 customers in the wastewater division, is it logical to include these 350 customers in the water division?

A. Yes.

Q. Mr. Bourassa states that accumulated amortization of Contributions in Aid of Construction ("CIAC") should be increased to reflect 2 years of amortization. *See* Bourassa RT at 6. Does Staff accept this number?

A. Yes. However, the amount will differ due to Staff's CIAC amortization rate which is calculated from the plant in service depreciation composite rate. Staff's adjustment decreases accumulated amortization by $500, from $16,694 to $16,194 as the associated accumulated amortization should include 2 years of amortization (using a ½ year convention) starting in 2004. This adjustment is shown on Surrebuttal Schedule JMM-W6.

<u>Income Statement</u>

Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony regarding the income statement?

A. Yes.

Q. Please comment on Mr. Bourassa's statement that Staff's acceptance of the Company's direct proposal to include the 350 projected customers is justified in order to further <u>penalize</u> the Company? *See* Bourassa RT at 9.

A. This statement is unfounded and incorrect. If you read through the direct testimony submitted, Staff specifically states throughout its testimony that it has accepted the **Company's proposal** ***to alleviate the rate burden on customers***, as shown below:

"Staff, in an ***effort to alleviate the rate burden on customers***, has accepted the **Company's proposal** and will include estimated usage of 350 homes that are currently being built, in the rate design" *See* Michlik DT in the Executive Summary.

"Why is Staff accepting these projected numbers? The numbers submitted by the Company are known projects currently under development and assume that the homes will be built. The **Company has provided these numbers in *an effort to minimize the impact on the rates*** and is not intended to set any precedent for this or any other utility regulated by the Commission." *See* Michlik DT at 11.

"In an effort to lessen the rate impact on customers, **the Company in its rate application proposed including 350 homes that are currently being built**. Staff accepted the Company's proposal and has included these 350 customers in the rate design *in order to ameliorate the rate shock that current and future customers will experience*." *See* Michlik DT at 17.

Rate of Return on Rate Base

Q. Why is Staff recommending a required rate of return/cost of capital of 6.23 percent in the water division instead of 8.9 percent as it is in the wastewater division?

A. In order to be consistent between the water and wastewater customer bases and rate bases and in Staff's effort to ameliorate rate shock to customers recommends a lower rate of return for the water division.

Q. Does Staff believe that a rate of return/cost of capital of 8.9 percent is appropriate?

A. Yes, as was calculated by Staff witness Steve Irvine. However, in this case, for the reasons as previously described, Staff believes the fair value rate of return for the water division should be 6.23%.

Q. Is this an attempt to penalize the Company?

A. No, the Company has already been fined for its violations of Commission requirements. However, Staff believes that allowing the Company to receive a larger increase on the water division than is recommended by Staff would not only allow it to benefit from its violations, but would also penalize its captive customers.

Q. If Staff is recommending a rate of return on rate base of 8.9 percent for the sewer division, isn't this inconsistent?

A. No, by using a 8.9 percent rate of return on rate base, this produced a required increase in revenue of 96.70 percent in the wastewater division. In the water division Staff was able to use a 6.23 percent rate of return on rate base to produce a required increase in revenue of 110.53 percent.

Q. How did Staff arrive at the 6.23 percent rate of return and the 110.53 increase in revenue?

A. Staff in an effort to be consistent with its direct testimony, wanted to produce a revenue requirement and rates that were similar to the direct testimony. In Staff's direct testimony we produced a required increase in revenue of 110.78 percent and similar rates.

Q. So you are stating that Staff reduced its rate of return on rate base to 6.23 percent to make the required increase in revenue similar to the wastewater division and the ultimate increase to be passed on to rate payers similar for both divisions. Is this correct?

A. Yes.

Q. If Staff lowers the rate of return on rate base for the water company, will it have enough money to operate?

A. Yes, the operating margin for the water division is 47 percent, and operating margin for the sewer division is 41 percent.

Q. Are there any other reasons why Staff has decided to lower the rate of return on rate base?

A. Yes, taking a step back Staff believes this case is a hybrid somewhere between a Certificate of Convenience and Necessity case and a regular rate case, due to the unusual circumstances in this case, in which the Company began operating with rates not approved by the Commission and the Commission requiring the Company to file a rate application using a 2005 test year.

Q. Did the Commission make any comments about the rates Staff recommended in the prior CC&N case?

A. Yes, Staff recommended a monthly minimum rate of $24.37 which is 24 percent higher than the monthly minimum rate of $18.50 that Staff is currently recommending. The Commission commented that "the approval of such rates in this proceeding would result in an unconscionable increase for existing customers." *See* Decision no. 67446 at 16.

Q. Has Staff used other means than rate of return on rate base to calculate the revenue requirement in other rate cases?

A. Yes, Staff has used operating margin, cash flows, and Water Infrastructure Financing Authority loan amounts to recommend revenue requirements for companies.

Q. Has an Administrative Law Judge or the Commission ever reduced a Company's rate of return on rate base?

A. Yes.

Q. You have mentioned that Staff's water rate proposal takes into account gradualism, benefits to the customers and the idea that the Company should not benefit from past violations. Please explain.

A. Staff will present three scenarios' below, which will demonstrate why Staff's recommendation is the most fair to the rate payers, following the principles of gradualism.

Under scenario one, which Staff recommends, Staff includes the pro forma revenue, includes Deep Well # 4, and includes the 350 future customers in rate design, but reduces the rate of return on rate base from 8.9 percent to 6.23 percent. *See* Staff Surrebuttal Schedule JMM-W1. The results are a monthly minimum charge of $18.50 for a ¾-inch residential customer. *See* Staff Surrebuttal Schedule JMM-W12. The median usage of residential ¾-inch meter customers is 4,500 gallons per month. The ¾-inch meter residential customer would experience a $22.07 or 114.83 percent increase in his/her monthly bill from $19.22 to $41.28 under Staff's recommended rates. *See* Staff Surrebuttal Schedule JMM-W13

Under scenario two, Staff includes the pro forma revenue, includes Deep Well # 4, and includes the 350 future customers in rate design, and uses an 8.9 percent rate of return on rate base. *See* Staff Surrebuttal Schedule JMM-W14. The results are a monthly minimum charge of $23.00 for a ¾-inch residential customer. *See* Staff Surrebuttal Schedule JMM-W15. The ¾-inch meter residential customer would experience a $30.53 or 158.86

percent increase in his/her monthly bill from $19.22 to $49.74 under Staff's recommended rates. *See* Staff Surrebuttal Schedule JMM-W16.

Under scenario three, which the Company proposes in its rebuttal testimony, Staff eliminates the pro forma revenue, does not include Deep Well # 4, and excludes the 350 future customers in rate design, and uses an 8.9 percent rate of return on rate base. *See* Staff Surrebuttal Schedule JMM-W17. The results are a monthly minimum charge of $34.00 for a ¾-inch residential customer. *See* Staff Surrebuttal Schedule JMM-W18. The ¾-inch meter residential customer would experience a $55.80 or 290.37 percent increase in his/her monthly bill from $19.22 to $75.01 under Staff's recommended rates. *See* Staff Surrebuttal Schedule JMM-W19.

Staff believes the above clearly demonstrates that Staff's proposal is the most fair to customers while still providing sufficient revenues and a fair rate of return to the Company.

Rate Design

Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony regarding rate design?

A. Yes.

Q. Please restate the Company's and Staff's proposed and recommended monthly minimum rates.

A. In the Company's rebuttal testimony it proposes a monthly minimum charge of $35.74 for ¾-inch meter residential customers. Staff has recommended a monthly charge of $18.50 for ¾-inch meter residential customers. *See* Staff Surrebuttal Schedule JMM-W12.

Q. What is the rate impact on a ¾-inch meter residential customer using a median consumption of 4,500 gallons?

A. The median usage of residential ¾-inch meter customers is 4,500 gallons per month. The ¾-inch meter residential customer would experience a $59.73 or 310.82 percent increase in his/her monthly bill from $19.22 to $78.94 under the Company's proposed rates and a $22.07 or 114.83 percent increase in his/her monthly bill from $19.22 to $41.28 under Staff's recommended rates. *See* Staff Surrebuttal Schedule JMM-W13

Q. Do you have any other comments or disagreements with the Company on rate design?

A. Yes, the Company now proposes "that the irrigation class of customers also have an inverted tier design consistent with the other customer classes." *See* Bourassa RT at 13.

Q. Does Staff agree with the Company's proposal?

A. No, customarily irrigation customers are typically made up of agriculture and ranching interests and have been treated similar to other bulk water users such as standpipe and construction customers. In this case, the Company first proposed a flat rate for its irrigation customers of $9.26, which Staff accepted. The Company now wants to change the irrigation class of customers from a flat rate to a tier rate design, but gave no explanation. Therefore, Staff continues to believe that the original Company proposed rate is the most appropriate for this customer class.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

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Surrebuttal Schedule JMM-W1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY REBUTTAL COST	(C) COMPANY REBUTTAL FAIR VALUE	(D) STAFF SURREBUTTAL COST	(E) STAFF SURREBUTTAL FAIR VALUE
1	Adjusted Rate Base	$ 2,052,792	$ 2,052,792	$ 2,752,271	$ 2,752,271
2	Adjusted Operating Income (Loss)	$ (75,772)	$ (75,772)	$ (21,222)	$ (21,222)
3	Current Rate of Return (L2 / L1)	-3.69%	-3.69%	-0.77%	-0.77%
4	Required Rate of Return	10.50%	10.50%	6.23%	6.23%
5	Required Operating Income (L4 * L1)	$ 215,543	$ 215,543	$ 171,466	$ 171,466
6	Operating Income Deficiency (L5 - L2)	$ 291,420	$ 291,420	$ 192,688	$ 192,688
7	Gross Revenue Conversion Factor	1.0000	1.0000	1.0000	1.0000
8	Required Revenue Increase (L7 * L6)	$ 291,420	$ 291,420	$ 192,688	$ 192,688
9	Adjusted Test Year Revenue	$ 90,767	$ 90,767	$ 174,327	$ 174,327
10	Proposed Annual Revenue (L8 + L9)	$ 382,187	$ 382,187	$ 367,015	$ 367,015
11	Required Increase in Revenue (%)	321.06%	321.06%	110.53%	110.53%
12	Rate of Return on Rate Base (%)	10.50%	10.50%	6.23%	6.23%

References:
Column (A): Company Rebuttal Schedule B-1
Column (B): Company Rebuttal Schedule B-1
Column (C): Staff Surrebuttal Schedules JMM-W2, JMM-W7
Column (D): Staff Surrebuttal Schedules JMM-W2, JMM-W7

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Surrebuttal Schedule JMM-W2

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY REBUTTAL AS FILED	(B) STAFF SURREBUTTAL ADJUSTMENTS	REF	(C) STAFF SURREBUTTAL AS ADJUSTED
1	Plant in Service	$ 2,458,236	$ 736,583	ADJ # 1	$ 3,194,819
2	Less: Accumulated Depreciation	127,392	36,605	ADJ # 2	163,997
3	Net Plant in Service	$ 2,330,844	$ 699,978		$ 3,030,822
	LESS:				
4	Contributions in Aid of Construction (CIAC)	$ 294,745	$ -		$ 294,745
5	Less: Accumulated Amortization	16,694	(500)	ADJ # 3	16,194
6	Net CIAC	278,051	500		278,551
7	Advances in Aid of Construction (AIAC)	-	-		-
8	Customer Deposits	-	-		-
9	Deferred Income Tax Credits	-	-		-
	ADD:				
10	Unamortized Finance Charges	-	-		-
11	Deferred Tax Assets	-	-		-
12	Working Capital	-	-		-
13	**Original Cost Rate Base**	$ 2,052,793	$ 699,478		$ 2,752,271

References:
Column (A), Company Rebuttal Schedule B-1
Column (B): Surrebuttal Schedule JMM-W3
Column (C): Column (A) + Column (B)

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Surrebuttal Schedule JMM-W3

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY REBUTTAL AS FILED	[B] STAFF SURREBUTTAL PLANT IN SERVICE ADJ No. 1	[C] STAFF SURREBUTTAL ACCUM DEPREC ADJ NO. 2	[D] STAFF SURREBUTTAL AIAC TO CIAC ADJ No. 3	[E] STAFF SURREBUTTAL ADJUSTED
	PLANT IN SERVICE:						
1							
2	301	Organization	$ -	$ -	$ -	$ -	$ -
3	302	Franchises	-	-	-	-	-
4	303	Land and Land Rights	210,000	-	-	-	210,000
5	304	Structures & Improvements	72,998	-	-	-	72,998
6	305	Collecting & Impounding Reservoirs	-	-	-	-	-
7	306	Lakes, Rivers, Other Intakes	-	-	-		-
8	307	Wells and Springs	1,335,238	736,583	-	-	2,071,821
9	308	Infiltration Galleries and Tunnels	-	-	-	-	-
10	309	Supply Mains	-	-	-	-	-
11	310	Power Generation Equipment	87,400	-	-	-	87,400
12	311	Pumping Equipment	157,711	-		-	157,711
13	320	Water Treatment Plant	5,487	-		-	5,487
14	330	Distribution Reservoirs & Standpipes	321,452	-	-	-	321,452
15	331	Transmission & Distribution Mains	147,200	-	-	-	147,200
16	333	Services	86,250	-	-	-	86,250
17	334	Meters	-	-		-	-
18	335	Hydrants	34,500	-	-	-	34,500
19	336	Backflow Prevention Devices	-	-	-	-	-
20	339	Other Plant & Misc. Equipment	-	-	-	-	-
21	340	Office Furniture & Equipment	-	-	-	-	-
22	341	Transportation Equipment	-	-	-	-	-
23	342	Stores Equipment	-	-	-	-	-
24	343	Tools, Ship & Garage Equipment	-	-	-	-	-
25	344	Laboratory Equipment	-				
26	345	Power Operated Equipment	-				
27	346	Communication Equipment	-				
28	347	Miscellaneous Equipment	-				
29	348	Other Tangible Plant	-				
30			2,458,236	736,583	-	-	3,194,819
31	Add:		-				-
32			-				-
33			-		-	-	-
34			-	-	-	-	-
35	Less:		-				-
36			-	-	-	-	-
37			-	-	-	-	-
38							-
39	Total Plant in Service		$ 2,458,236	$ 736,583	$ -	$ -	$ 3,194,819
40	Less: Accumulated Depreciation		127,392	-	36,605	-	163,997
41				-	-	-	-
42	Net Plant in Service (L59 - L 60)		$ 2,330,844	$ 736,583	$ (36,605)	$ -	$ 3,030,822
43							
44	*LESS:*						
45	Contributions in Aid of Construction (CIAC)		$ 294,745	$ -	$ -	$ -	$ 294,745
46	Less: Accumulated Amortization		16,694	-	-	(500)	16,194
47	Net CIAC (L25 - L26)		278,051	-	-	500	278,551
48	Advances in Aid of Construction (AIAC)		-	-	-	-	-
49	Customer Meter Deposits		-	-	-	-	-
50	Deferred Income Tax Credits		-	-	-	-	-
51							-
52	*ADD:*						-
53	Unamortized Finance Charges		-	-	-	-	-
54	Deferred Tax Assets		-	-	-	-	-
55	Working Capital		-	-	-	-	-
56							-
57	**Original Cost Rate Base**		$ 2,052,793	$ 736,583	$ (36,605)	$ (500)	$ 2,752,271

ADJ #		References:
1	Plant in Service	Surrebuttal Schedule JMM-W4
2	Accumulated Depreciation	Surrebuttal Schedule JMM-W5
3	AIAC Reclasification to CIAC	Surrebuttal Schedule JMM-W6

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Surrebuttal Schedule JMM-W4

RATE BASE ADJUSTMENT NO. 1 - PLANT ADJUSTMENTS

LINE NO.	DESCRIPTION	[A] COMPANY REBUTTAL AS FILED	[B] STAFF SURREBUTTAL ADJUSTMENTS	[C] STAFF SURREBUTTAL AS ADJUSTED
1	Wells and Springs (Account 307)	$ 1,335,238	$ 736,583	$ 2,071,821
	Staff's Calculation of Wells and Springs (Account 307)			
2	Staff's inclusion of Deep Well # 4	$ 736,583		

References:
Column A: Company Rebuttal Schedule B-1, Page 1
Column B: Testimony, JMM, Surrebuttal Schedule JMM-W3
Column C: Column [A] + Column [B]

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Surrebuttal Schedule JMM-W5

RATE BASE ADJUSTMENT NO. 2 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Accumulated Depreciation	$ 127,392	$ 36,605	$ 163,997

	ACCT NO	DESCRIPTION	AT ENGINEER RECOMMENDED RATES Total Plant Staff Adjusted 12/31/2004	Recommended Rate	HALF YEAR DEP.	A.D 12/31/2004	ADDITIONS 12/31/2005	RETIREMENTS 12/31/2005	PLT BAL 12/31/2005	DEP EXP 12/31/2005 FULL YR	A.D 12/31/2005
2	301	Organization Cost	-	-	-	-	-	-	-	-	-
3	302	Franchise Cost	-	-	-	-	-	-	-	-	-
4	303	Land & Land Rights	210,000	-	-	-	-	-	210,000	-	-
5	304	Structures & Improvements	72,998	3.33%	1,215	1,215	-	-	72,998	2,431	3,646
6	307	Wells & Springs	2,071,821	3.33%	34,496	34,496	-	-	2,071,821	68,992	103,487
7	310	Power Generation Equipment	87,400	5.00%	2,185	2,185	-	-	87,400	4,370	6,555
8	311	Electric Pumping Equip.	157,711	12.50%	9,857	9,857	-	-	157,711	19,714	29,571
9	320	Water Treatment Equipment	5,487	3.33%	91	91	-	-	5,487	183	274
10	320.1	Water Treatment Plants	-	3.33%	-	-	-	-	-	-	-
11	320.2	Solution Chemicals Feeders	-	20.00%	-	-	-	-	-	-	-
12	330	Distribution Reservoirs	321,452	2.22%	3,568	3,568	-	-	321,452	7,136	10,704
13	330.1	Storage Tanks	-	2.22%	-	-	-	-	-	-	-
14	330.2	Pressure Tanks	-	5.00%	-	-	-	-	-	-	-
15	331	Transmission & Distribution-Mains	147,200	2.00%	1,472	1,472	-	-	147,200	2,944	4,416
16	333	Services	86,250	3.33%	1,436	1,436	-	-	86,250	2,872	4,308
17	334	Meters	-	8.33%	-	-	-	-	-	-	-
18	335	Hydrants	34,500	2.00%	345	345	-	-	34,500	690	1,035
19	336	Backflow Preventors	-	6.67%	-	-	-	-	-	-	-
20	339	Other Plant and Miscellaneous Equipment	-	6.67%	-	-	-	-	-	-	-
21	340	Office Furniture & Equip.	-	6.67%	-	-	-	-	-	-	-
22	341	Transportation Equip.	-	20.00%	-	-	-	-	-	-	-
23	343	Tools and Work Equipment	-	5.00%	-	-	-	-	-	-	-
24	344	Laboratory Equipment	-	10.00%	-	-	-	-	-	-	-
25	345	Power Operated Equipment	-	5.00%	-	-	-	-	-	-	-
26	346	Communications Equipment	-	10.00%	-	-	-	-	-	-	-
27	347	Miscellaneous Equipment	-	10.00%	-	-	-	-	-	-	-
28	348	Other Tangible Plant	-	-	-	-	-	-	-	-	-
29	350.1	OFI Engineering and Planning	-	3.33%	-	-	-	-	-	-	-
30	350.2	OFI Well Site	-	3.33%	-	-	-	-	-	-	-
31	105	Materials and Supplies Inventory	-	-	-	-	-	-	-	-	-
	Totals		3,194,819	-	54,666	54,666	-	-	3,194,819	109,331	163,997

CIAC Composite Rate 3.6629%

Non Depreciable Plant 2,984,819

References:
Column A: Company Rebuttal Schedule B-1, Page 1
Column B: Testimony, JMM, Surrebuttal Schedule JMM-W3
Column C: Column [A] + Column [B]

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Surrebuttal Schedule JMM-W6

RATE BASE ADJUSTMENT NO. 3 - RECLASSIFICATION OF AIAC TO CIAC

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Accumulated Amortization of CIAC	$ 16,694	$ (500)	$ 16,194
	Staff's amortization of CIAC			
2	Amortization of CIAC:		$ 294,745	
3	Composite amortization rate (see JMM-WW5):		3.6629%	
4	Amortized CIAC for test year:		$ 10,796	
5	Plus prior year amortization (using 1/2 year convention)		$ 5,398	
6	Accumulated Amortization of CIAC		$ 16,194	

References:
Column A: Company Rebuttal Schedule B-1, Page 1
Column B: Testimony, JMM, Surrebuttal Schedule JMM-W3
Column C: Column [A] + Column [B]

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Surrebuttal Schedule JMM-W7

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY REBUTTAL ADJUSTED TEST YEAR AS FILED	[B] STAFF SURREBUTTAL TEST YEAR ADJUSTMENTS		[C] STAFF SURREBUTTAL TEST YEAR AS ADJUSTED	[D] STAFF SURREBUTTAL PROPOSED CHANGES	[E] STAFF SURREBUTTAL RECOMMENDED
1	*REVENUES:*						
2	Metered Water Sales	$ 89,110	$ 83,560	Adj # 1	$ 172,670	$ 192,688	$ 365,358
3	Water Sales - Unmetered	-	-		-	-	-
4	Other Operating Revenue	1,657	-		1,657	-	1,657
5	**Total Operating Revenues**	$ 90,767	$ 83,560		$ 174,327	$ 192,688	$ 367,015
	OPERATING EXPENSES:						
6	Salaries and Wages	$ -	$ -		$ -	$ -	$ -
7	Purchased Water	$ -	-		-	-	-
8	Purchased Power	$ 36,292	-		36,292	-	36,292
9	Chemicals	$ -	-		-	-	-
10	Repairs and Maintenance	$ 8,747	-		8,747	-	8,747
11	Office Supplies and Expense	$ 4,292	-		4,292	-	4,292
12	Outside Services	$ 12,428	-		12,428	-	12,428
13	Water Testing	$ 2,446	-		2,446	-	2,446
14	Rents	$ -	-		-	-	-
15	Transportation Expenses	$ -	-		-	-	-
16	Insurance - General Liability	$ -	-		-	-	-
17	Insurance - Health and Life	$ -	-		-	-	-
18	Regulatory Commsiion Expense - Rate Case	$ 12,500	-		12,500	-	12,500
19	Miscellaneous Expense	$ 10,222	-		10,222	-	10,222
20	Depreciation Expense	$ 73,799	24,736	Adj # 2	98,535	-	98,535
21	Taxes Other Than Income	$ -	-		-	-	-
22	Property Taxes	$ 5,813	4,274	Adj # 3	10,087	-	10,087
23	Income Tax	$ -	-		-	-	-
26							
27	**Total Operating Expenses**	$ 166,539	$ 29,010		$ 195,549	$ -	$ 195,549
28	**Operating Income (Loss)**	$ (75,772)	$ 54,550		$ (21,222)	$ 192,688	$ 171,466

References:
Column (A): Company Schedule C-1
Column (B): Schedule JMM-W9
Column (C): Column (A) + Column (B)
Column (D): Schedules JMM-1
Column (E): Column (C) + Column (D)

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Surrebuttal Schedule JMM-W8

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY REBUTTAL TEST YEAR AS FILED	[B] STAFF SURREBUTTAL PRO FORMA REVENUES ADJ # 1	[F] STAFF SURREBUTTAL DEPERCIATION ADJ # 2	[G] STAFF SURREBUTTAL PROPERTY TAX ADJ # 3	[H] STAFF SURREBUTTAL ADJUSTED
1	*REVENUES:*					
2	Metered Water Sales	$ 89,110	83,560	-	-	172,670
3	Water Sales - Unmetered	-	-	-	-	-
4	Other Operating Revenue	1,657	-	-	-	1,657
5	**Total Operating Revenues**	$ 90,767	83,560	-	-	174,327
	OPERATING EXPENSES:					
			-	-	-	-
6			-	-	-	-
7	Salaries and Wages	$ -	-	-	-	-
8	Purchased Water	-	-	-	-	-
9	Purchased Power	36,292	-	-	-	36,292
10	Chemicals	-	-	-	-	-
11	Repairs and Maintenance	8,747	-	-	-	8,747
12	Office Supplies and Expense	4,292	-		-	4,292
13	Outside Services	12,428	-	-	-	12,428
14	Water Testing	2,446	-	-	-	2,446
15	Rents	-	-	-	-	-
16	Transportation Expenses	-	-	-	-	-
17	Insurance - General Liability	-	-	-	-	-
18	Insurance - Health and Life	-	-	-		-
19	Regulatory Commsiion Expense - Rate Case	12,500	-	-	-	12,500
20	Miscellaneous Expense	10,222	-	-	-	10,222
21	Depreciation Expense	73,799	-	24,736	-	98,535
22	Taxes Other Than Income	-	-	-	-	-
23	Property Taxes	5,813	-		4,274	10,087
24	Income Tax	-	-			-
						-
25	**Total Operating Expenses**	166,539	-	24,736	4,274	195,549
26	**Operating Income (Loss)**	(75,772)	83,560	(24,736)	(4,274)	(21,222)

ADJ #		References:
1	Pro-Forma Revenues	Surrebuttal Schedule JMM-W10
2	Depreciation Expense	Surrebuttal Schedule JMM-W14
3	Poperty Taxes	Surrebuttal Schedule JMM-W15

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Surrebuttal Schedule JMM-W9

OPERATING INCOME ADJUSTMENT # 1 - PRO FORMA REVENUES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Metered Water Sales	$ 89,110	$ 83,560	$ 172,670

Staff's Calculation
Inclusion of Pro Forma Revenues $ 83,560

References:
Column A: Company Schedule C-1
Column B: Testimony, JMM, Schedule JMM-W9
Column C: Column [A] + Column [B]

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Surrebuttal Schedule JMM-W10

OPERATING INCOME ADJUSTMENT NO. 2 - DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Depreciation Expense	$ 73,799	$ 24,736	$ 98,535

	ACCT NO	DESCRIPTION	AT ENGINEER RECOMMENDED RATES: Total Plant Staff Adjusted 12/31/2004	Recommended Rate	HALF YEAR DEP.	A.D 12/31/2004	ADDITIONS 12/31/2005	RETIREMENTS 12/31/2005	PLT BAL 12/31/2005	DEP EXP 12/31/2005 FULL YR	A.D 12/31/2005
2	301	Organization Cost	-	-	-	-	-	-	-	-	-
3	302	Franchise Cost	-	-	-	-	-	-	-	-	-
4	303	Land & Land Rights	210,000	-	-	-	-	-	210,000	-	-
5	304	Structures & Improvements	72,998	3.33%	1,215	1,215	-	-	72,998	2,431	3,646
6	307	Wells & Springs	2,071,821	3.33%	34,496	34,496	-	-	2,071,821	68,992	103,487
7	310	Power Generation Equipment	87,400	5.00%	2,185	2,185	-	-	87,400	4,370	6,555
8	311	Electric Pumping Equip.	157,711	12.50%	9,857	9,857	-	-	157,711	19,714	29,571
9	320	Water Treatment Equipment	5,487	3.33%	91	91	-	-	5,487	183	274
10	320.1	Water Treatment Plants	-	3.33%	-	-	-	-	-	-	-
11	320.2	Solution Chemicals Feeders	-	20.00%	-	-	-	-	-	-	-
12	330	Distribution Reservoirs	321,452	2.22%	3,568	3,568	-	-	321,452	7,136	10,704
13	330.1	Storage Tanks	-	2.22%	-	-	-	-	-	-	-
14	330.2	Pressure Tanks	-	5.00%	-	-	-	-	-	-	-
15	331	Transmission & Distribution-Mains	147,200	2.00%	1,472	1,472	-	-	147,200	2,944	4,416
16	333	Services	86,250	3.33%	1,436	1,436	-	-	86,250	2,872	4,308
17	334	Meters	-	8.33%	-	-	-	-	-	-	-
18	335	Hydrants	34,500	2.00%	345	345	-	-	34,500	690	1,035
19	336	Backflow Preventors	-	6.67%	-	-	-	-	-	-	-
20	339	Other Plant and Miscellaneous Equipment	-	6.67%	-	-	-	-	-	-	-
21	340	Office Furniture & Equip.	-	6.67%	-	-	-	-	-	-	-
22	341	Transportation Equip.	-	20.00%	-	-	-	-	-	-	-
23	343	Tools and Work Equipment	-	5.00%	-	-	-	-	-	-	-
24	344	Laboratory Equipment	-	10.00%	-	-	-	-	-	-	-
25	345	Power Operated Equipment	-	5.00%	-	-	-	-	-	-	-
26	346	Communications Equipment	-	10.00%	-	-	-	-	-	-	-
27	347	Miscellaneous Equipment	-	10.00%	-	-	-	-	-	-	-
28	348	Other Tangible Plant	-	-	-	-	-	-	-	-	-
29	350.1	OFI Engineering and Planning	-	3.33%	-	-	-	-	-	-	-
30	350.2	OFI Well Site	-	3.33%	-	-	-	-	-	-	-
31	105	Materials and Supplies Inventory	-	-	-	-	-	-	-	-	-
	Totals		3,194,819	-	54,666	54,666	-	-	3,194,819	109,331	163,997

32 CIAC Composite Rate 3.6629%

Non Depreciable Plant 2,984,819

Depreciation Expense Calculation:

33	Depreciation 2005:	$ 109,331
34	Net Amortization of CIAC:	(10,796)
35	Depreciation Expense:	$ 98,535

References:
Column A: Company Schedule C-1
Column B: Testimony, JMM, Schedule JMM-W9
Column C: Column [A] + Column [B]

Utility Source, LLC. - Water Division
Docket No. WS-04235A-06-0303
Test Year Ended December 31, 2005

Surrebuttal Schedule JMM-W11

OPERATING INCOME ADJUSTMENT #3 - PROPERTY TAXES

LINE NO.	Property Tax Calculation	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	(C) STAFF AS ADJUSTED
1	Property Taxes	$ 5,813	$ 4,274	$ 10,087

	Staff's Calculation of Property Taxes to Reflect Recommended Revenues:	
2	Staff Adjusted Test Year Revenues - 2002	$ 174,327
3	Weight Factor	2
4	Subtotal (Line 1 * Line 2)	348,654
5	Staff Recommended Revenue, Per Schedule JMM-1	367,015
6	Subtotal (Line 4 + Line 5)	715,669
7	Number of Years	3
8	Three Year Average (Line 5 / Line 6)	238,556
9	Department of Revenue Mutilplier	2
10	Revenue Base Value (Line 7 * Line 8)	477,113
11	Plus: 10% of CWIP	-
12	Less: Net Book Value of Licensed Vehicles	-
13	Full Cash Value (Line 9 + Line 10 - Line 11)	477,113
14	Assessment Ratio	23.50%
15	Assessment Value (Line 12 * Line 13)	112,122
16	Composite Property Tax Rate (Per Company Schedule C-2, Page 3, Line 16)	8.9963%
17	Staff Proposed Property Tax Expense (Line 14 * Line 15)	$ 10,087
18	Company Proposed Property Tax	5,813
19	Increase/(Decrease) to Property Tax Expense	$ 4,274

References:
Column A: Company Schedule C-1
Column B: Testimony, JMM, Schedule JMM-W9
Column C: Column [A] + Column [B]

RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8x3/4" Meter	$ -	$ 35.74	18.50
3/4" Meter	6.48	35.74	18.50
1" Meter	8.02	89.34	46.50
11/2" Meter	9.62	178.69	92.50
2" Meter	14.00	285.90	148.00
3" Meter	-	571.80	296.00
4" Meter	58.00	893.43	462.50
6" Meter	89.80	1,786.86	925.00
Commodity Rates			
5/8x3/4" Meter (Residential and Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	N/A	N/A	N/A
From 6,001 to 15,000 Gallons	N/A	N/A	N/A
In excess of 15,000 Gallons	N/A	N/A	N/A
From 1 to 4,000 Gallons	N/A	$ 9.60	N/A
From 4,001 to 12,000 Gallons	N/A	12.48	N/A
Over 12,000 Gallons	N/A	16.22	N/A
From Zero to 4,000 Gallons	N/A	N/A	$ 4.80
From 4,001 to 9,000 Gallons	N/A	N/A	7.16
Over 9,000 Gallons	N/A	N/A	8.60
3/4" Meter (Residential and Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	$ 2.83	N/A	N/A
From 6,001 to 15,000 Gallons	3.32	N/A	N/A
In excess of 15,000 Gallons	4.71	N/A	N/A
From 1 to 4,000 Gallons	N/A	$ 9.60	N/A
From 4,001 to 12,000 Gallons	N/A	12.48	N/A
Over 12,000 Gallons	N/A	16.22	N/A
From Zero to 4,000 Gallons	N/A	N/A	$ 4.80
From 4,001 to 9,000 Gallons	N/A	N/A	7.16
Over 9,000 Gallons	N/A	N/A	8.60
1" Meter (Residential and Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	$ 2.83	N/A	N/A
From 6,001 to 15,000 Gallons	3.32	N/A	N/A
In excess of 15,000 Gallons	4.71	N/A	N/A
From 1 to 30,000 Gallons	N/A	$ 12.48	N/A
Over 30,000 Gallons	N/A	16.22	N/A
From Zero to 27,000 Gallons	N/A	N/A	$ 7.16
Over 27,000 Gallons	N/A	N/A	8.60
11/2" Meter (Residential and Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	N/A	N/A	N/A
From 6,001 to 15,000 Gallons	N/A	N/A	N/A
In excess of 15,000 Gallons	N/A	N/A	N/A
From 1 to 60,000 Gallons	N/A	$ 12.48	N/A
Over 60,000 Gallons	N/A	16.22	N/A
From Zero to 57,000 Gallons	N/A	N/A	$ 7.16
Over 57,000 Gallons	N/A	N/A	8.60
2" Meter (Residential and Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	N/A	N/A	N/A
From 6,001 to 15,000 Gallons	N/A	N/A	N/A
In excess of 15,000 Gallons	N/A	N/A	N/A
From 1 to 96,000 Gallons	N/A	$ 12.48	N/A
Over 96,000 Gallons	N/A	16.22	N/A
From Zero to 94,000 Gallons	N/A	N/A	$ 7.16
Over 94,000 Gallons	N/A	N/A	8.60
3" Meter (Residential and Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			

From 1 to 6,000 Gallons	N/A	N/A	N/A
From 6,001 to 15,000 Gallons	N/A	N/A	N/A
In excess of 15,000 Gallons	N/A	N/A	N/A
From 1 to 192,000 Gallons	N/A	$ 12.48	N/A
Over 192,000 Gallons	N/A	16.22	N/A
From Zero to 195,000 Gallons	N/A	N/A	$ 7.16
Over 195,000 Gallons	N/A	N/A	8.60
4" Meter (Residential and Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	N/A	N/A	N/A
From 6,001 to 15,000 Gallons	N/A	N/A	N/A
In excess of 15,000 Gallons	N/A	N/A	N/A
From 1 to 300,000 Gallons	N/A	$ 12.48	N/A
Over 300,000 Gallons	N/A	16.22	N/A
From Zero to 309,000 Gallons	N/A	N/A	$ 7.16
Over 309,000 Gallons	N/A	N/A	8.60
6" Meter (Residential and Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	N/A	N/A	N/A
From 6,001 to 15,000 Gallons	N/A	N/A	N/A
In excess of 15,000 Gallons	N/A	N/A	N/A
From 1 to 600,000 Gallons	N/A	12.48	N/A
Over 600,000 Gallons	N/A	16.22	N/A
Over 15,000 Gallons	N/A	N/A	N/A
From Zero to 615,000 Gallons	N/A	N/A	$ 7.16
Over 615,000 Gallons	N/A	N/A	8.60
Multi-Family Mobile Home, and Commercial Customers			
All consumption per 1,000 gallons	$ 2.97	$ 9.26	N/A
Irrigation Meters			
Charge per 1,000 gallons for usage	N/A	N/A	$ 9.26
Standpipe or Bulk Water			
Standpipe or bulk water per 1,000 gallons	$ 6.00	$ 10.35	$ 10.35
Construction Water			
Construction Water per 1,000 gallons	$ 6.00	$ 10.35	$ 10.35
Service Line and Meter Installation Charges			
5/8" x 3/4" Meter	$ -	$ -	$ 520.00
3/4" Meter	575.00	575.00	575.00
1" Meter	660.00	660.00	660.00
1½" Meter	900.00	900.00	900.00
2" Turbine Meter	1,525.00	1,525.00	1,525.00
2" Compound Meter	-	-	2,320.00
3" Turbine Meter	-	-	2,275.00
3" Compound Meter	-	-	3,110.00
4" Turbine Meter	3,360.00	3,360.00	3,360.00
4" Compound Meter	-	-	4,475.00
6" Turbine Meter	6,035.00	6,035.00	6,035.00
6" Compound Meter	-	-	8,050.00
Service Charges			
Establishment	$ 20.00	$ 20.00	$ 20.00
Establishment of Services after hours	40.00	40.00	40.00
Re-establishment of Service	*	*	*
Reconnection Service	50.00	50.00	50.00
Reconnection (Deliquent and After Hours)	40.00	40.00	40.00
Charge for moving meter	Cost	Cost	Cost
After hours service charge	40.00	40.00	40.00
Minimum Deposit Requirement	**	**	**
Deposit Interrest	3.00%	3.00%	Per Rule
Meter Test	20.00	20.00	20.00
Meter Re-Read	10.00	10.00	10.00
Charge for NSF Check	20.00	20.00	20.00
Late Payment charge for delinquent bill	1.50%	1.50%	***
Deferred Payment Finance Charge	1.50%	1.50%	***
Main Extension and additional facility agreements	***	***	***

* Per Commission Rule Rule R14-2-403(D)
** Per Commission Rule Rule R14-2-403(B)
*** Per Commission Rule Rule R14-2-406(B)

UTILITY SOURCE, LLC - Water Division
Docket No. WS-04235A-06-0303
Test Year Ended December 31, 2005

Surrebuttal Schedule JMM-W13

Typical Bill Analysis
General Service 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	4,740	$ 19.89	$ 81.24	$ 61.35	308.38%
Median Usage	4,500	19.22	78.94	$ 59.73	310.82%
Staff Recommended					
Average Usage	4,740	$ 19.89	$ 43.00	$ 23.10	116.14%
Median Usage	4,500	19.22	41.28	$ 22.07	114.83%

Present & Proposed Rates (Without Taxes)
General Service 3/4-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	$ 6.48	$ 35.74	451.54%	$ 18.50	185.49%
1,000	9.31	45.34	387.00%	23.30	150.27%
2,000	12.14	54.94	352.55%	28.10	131.47%
3,000	14.97	64.54	331.13%	32.90	119.77%
4,000	17.80	74.14	316.52%	37.70	111.80%
5,000	20.63	83.74	305.91%	44.86	117.45%
6,000	23.95	96.22	301.75%	52.02	117.20%
7,000	27.27	108.70	298.61%	59.18	117.02%
8,000	30.59	121.18	296.14%	66.34	116.87%
9,000	33.91	133.66	294.16%	73.50	116.75%
10,000	37.23	146.14	292.53%	82.10	120.52%
11,000	40.55	158.62	291.17%	90.70	123.67%
12,000	43.87	171.10	290.02%	99.30	126.35%
13,000	47.19	183.58	289.02%	107.90	128.65%
14,000	50.51	196.06	288.16%	116.50	130.65%
15,000	53.83	208.54	287.40%	125.10	132.40%
16,000	58.54	224.76	283.94%	133.70	128.39%
17,000	63.25	240.98	281.00%	142.30	124.98%
18,000	67.96	257.20	278.46%	150.90	122.04%
19,000	72.67	273.42	276.25%	159.50	119.49%
20,000	77.38	289.64	274.31%	168.10	117.24%
25,000	100.93	370.74	267.32%	211.10	109.15%
30,000	124.48	451.84	262.98%	254.10	104.13%
35,000	148.03	532.94	260.02%	297.10	100.70%
40,000	171.58	614.04	257.87%	340.10	98.22%
45,000	195.13	695.14	256.24%	383.10	96.33%
50,000	218.68	776.24	254.97%	426.10	94.85%
75,000	336.43	1,181.74	251.26%	641.10	90.56%
100,000	454.18	1,587.24	249.47%	856.10	88.49%

UTILITY SOURCE, LLC. - Water Division
Docket No. WS-04235A-06-0303
Test Year Ended December 31, 2005

Surrebuttal Schedule JMM-W14

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY REBUTTAL COST	(C) COMPANY REBUTTAL FAIR VALUE	(D) STAFF SURREBUTTAL COST	(E) STAFF SURREBUTTAL FAIR VALUE
1	Adjusted Rate Base	$ 2,052,792	$ 2,052,792	$ 2,752,271	$ 2,752,271
2	Adjusted Operating Income (Loss)	$ (75,772)	$ (75,772)	$ (22,272)	$ (22,272)
3	Current Rate of Return (L2 / L1)	-3.69%	-3.69%	-0.81%	-0.81%
4	Required Rate of Return	10.50%	10.50%	8.90%	8.90%
5	Required Operating Income (L4 * L1)	$ 215,543	$ 215,543	$ 244,952	$ 244,952
6	Operating Income Deficiency (L5 - L2)	$ 291,420	$ 291,420	$ 267,225	$ 267,225
7	Gross Revenue Conversion Factor	1.0000	1.0000	1.0000	1.0000
8	Required Revenue Increase (L7 * L6)	$ 291,420	$ 291,420	$ 267,225	$ 267,225
9	Adjusted Test Year Revenue	$ 90,767	$ 90,767	$ 174,327	$ 174,327
10	Proposed Annual Revenue (L8 + L9)	$ 382,187	$ 382,187	$ 441,552	$ 441,552
11	Required Increase in Revenue (%)	321.06%	321.06%	153.29%	153.29%
12	Rate of Return on Rate Base (%)	10.50%	10.50%	8.90%	8.90%

References:
Column (A): Company Rebuttal Schedule B-1
Column (B): Company Rebuttal Schedule B-1
Column (C): Staff Surrebuttal Schedules JMM-W2, JMM-W8
Column (D): Staff Surrebuttal Schedules JMM-W2, JMM-W8

RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8x3/4" Meter	$ -	$ 35.74	23.00
3/4" Meter	6.48	35.74	23.00
1" Meter	8.02	89.34	57.50
11/2" Meter	9.62	178.69	115.00
2" Meter	14.00	285.90	184.00
3" Meter	-	571.80	368.00
4" Meter	58.00	893.43	575.00
6" Meter	89.80	1,786.86	1,150.00
Commodity Rates			
5/8x3/4" Meter (Residential and Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	N/A	N/A	N/A
From 6,001 to 15,000 Gallons	N/A	N/A	N/A
In excess of 15,000 Gallons	N/A	N/A	N/A
From 1 to 4,000 Gallons	N/A	$ 9.60	N/A
From 4,001 to 12,000 Gallons	N/A	12.48	N/A
Over 12,000 Gallons	N/A	16.22	N/A
From Zero to 4,000 Gallons	N/A	N/A	$ 5.63
From 4,001 to 9,000 Gallons	N/A	N/A	8.44
Over 9,000 Gallons	N/A	N/A	10.13
3/4" Meter (Residential and Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	$ 2.83	N/A	N/A
From 6,001 to 15,000 Gallons	3.32	N/A	N/A
In excess of 15,000 Gallons	4.71	N/A	N/A
From 1 to 4,000 Gallons	N/A	$ 9.60	N/A
From 4,001 to 12,000 Gallons	N/A	12.48	N/A
Over 12,000 Gallons	N/A	16.22	N/A
From Zero to 4,000 Gallons	N/A	N/A	$ 5.63
From 4,001 to 9,000 Gallons	N/A	N/A	8.44
Over 9,000 Gallons	N/A	N/A	10.13
1" Meter (Residential and Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	$ 2.83	N/A	N/A
From 6,001 to 15,000 Gallons	3.32	N/A	N/A
In excess of 15,000 Gallons	4.71	N/A	N/A
From 1 to 30,000 Gallons	N/A	$ 12.48	N/A
Over 30,000 Gallons	N/A	16.22	N/A
From Zero to 27,000 Gallons	N/A	N/A	$ 8.44
Over 27,000 Gallons	N/A	N/A	10.13
11/2" Meter (Residential and Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	N/A	N/A	N/A
From 6,001 to 15,000 Gallons	N/A	N/A	N/A
In excess of 15,000 Gallons	N/A	N/A	N/A
From 1 to 60,000 Gallons	N/A	$ 12.48	N/A
Over 60,000 Gallons	N/A	16.22	N/A
From Zero to 57,000 Gallons	N/A	N/A	$ 8.44
Over 57,000 Gallons	N/A	N/A	10.13
2" Meter (Residential and Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	N/A	N/A	N/A
From 6,001 to 15,000 Gallons	N/A	N/A	N/A
In excess of 15,000 Gallons	N/A	N/A	N/A
From 1 to 96,000 Gallons	N/A	$ 12.48	N/A
Over 96,000 Gallons	N/A	16.22	N/A
From Zero to 94,000 Gallons	N/A	N/A	$ 8.44
Over 94,000 Gallons	N/A	N/A	10.13
3" Meter (Residential and Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			

From 1 to 6,000 Gallons	N/A	N/A	N/A
From 6,001 to 15,000 Gallons	N/A	N/A	N/A
In excess of 15,000 Gallons	N/A	N/A	N/A
From 1 to 192,000 Gallons	N/A	$ 12.48	N/A
Over 192,000 Gallons	N/A	16.22	N/A
From Zero to 195,000 Gallons	N/A	N/A	$ 8.44
Over 195,000 Gallons	N/A	N/A	10.13
4" Meter (Residential and Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	N/A	N/A	N/A
From 6,001 to 15,000 Gallons	N/A	N/A	N/A
In excess of 15,000 Gallons	N/A	N/A	N/A
From 1 to 300,000 Gallons	N/A	$ 12.48	N/A
Over 300,000 Gallons	N/A	16.22	N/A
From Zero to 309,000 Gallons	N/A	N/A	$ 8.44
Over 309,000 Gallons	N/A	N/A	10.13
6" Meter (Residential and Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	N/A	N/A	N/A
From 6,001 to 15,000 Gallons	N/A	N/A	N/A
In excess of 15,000 Gallons	N/A	N/A	N/A
From 1 to 600,000 Gallons	N/A	12.48	N/A
Over 600,000 Gallons	N/A	16.22	N/A
Over 15,000 Gallons	N/A	N/A	N/A
From Zero to 615,000 Gallons	N/A	N/A	$ 8.44
Over 615,000 Gallons	N/A	N/A	10.13
Multi-Family Mobile Home, and Commercial Customers			
All consumption per 1,000 gallons	$ 2.97	$ 9.26	N/A
Irrigation Meters			
Charge per 1,000 gallons for usage	N/A	N/A	$ 9.26
Standpipe or Bulk Water			
Standpipe or bulk water per 1,000 gallons	$ 6.00	$ 10.35	$ 10.35
Construction Water			
Construction Water per 1,000 gallons	$ 6.00	$ 10.35	$ 10.35
Service Line and Meter Installation Charges			
5/8" x 3/4" Meter	$ -	$ -	$ 520.00
3/4" Meter	575.00	575.00	575.00
1" Meter	660.00	660.00	660.00
1½" Meter	900.00	900.00	900.00
2" Turbine Meter	1,525.00	1,525.00	1,525.00
2" Compound Meter	-	-	2,320.00
3" Turbine Meter	-	-	2,275.00
3" Compound Meter	-	-	3,110.00
4" Turbine Meter	3,360.00	3,360.00	3,360.00
4" Compound Meter	-	-	4,475.00
6" Turbine Meter	6,035.00	6,035.00	6,035.00
6" Compound Meter	-	-	8,050.00
Service Charges			
Establishment	$ 20.00	$ 20.00	$ 20.00
Establishment of Services after hours	40.00	40.00	40.00
Re-establishment of Service	*	*	*
Reconnection Service	50.00	50.00	50.00
Reconnection (Deliquent and After Hours)	40.00	40.00	40.00
Charge for moving meter	Cost	Cost	Cost
After hours service charge	40.00	40.00	40.00
Minimum Deposit Requirement	**	**	**
Deposit Interrest	3.00%	3.00%	Per Rule
Meter Test	20.00	20.00	20.00
Meter Re-Read	10.00	10.00	10.00
Charge for NSF Check	20.00	20.00	20.00
Late Payment charge for delinquent bill	1.50%	1.50%	***
Deferred Payment Finance Charge	1.50%	1.50%	***
Main Extension and additional facility agreements	***	***	***

* Per Commission Rule Rule R14-2-403(D)
** Per Commission Rule Rule R14-2-403(B)
*** Per Commission Rule Rule R14-2-406(B)

UTILITY SOURCE, LLC - Water Division
Docket No. WS-04235A-06-0303
Test Year Ended December 31, 2005

Surrebuttal Schedule JMM-W16

Typical Bill Analysis
General Service 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	4,740	$ 19.89	$ 81.24	$ 61.35	308.38%
Median Usage	4,500	19.22	78.94	$ 59.73	310.82%
Staff Recommended					
Average Usage	4,740	$ 19.89	$ 51.77	$ 31.87	160.20%
Median Usage	4,500	19.22	49.74	$ 30.53	158.86%

Present & Proposed Rates (Without Taxes)
General Service 3/4-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	$ 6.48	$ 35.74	451.54%	$ 23.00	254.94%
1,000	9.31	45.34	387.00%	28.63	207.52%
2,000	12.14	54.94	352.55%	34.26	182.21%
3,000	14.97	64.54	331.13%	39.89	166.47%
4,000	17.80	74.14	316.52%	45.52	155.73%
5,000	20.63	83.74	305.91%	53.96	161.56%
6,000	23.95	96.22	301.75%	62.40	160.54%
7,000	27.27	108.70	298.61%	70.84	159.77%
8,000	30.59	121.18	296.14%	79.28	159.17%
9,000	33.91	133.66	294.16%	87.72	158.68%
10,000	37.23	146.14	292.53%	97.85	162.83%
11,000	40.55	158.62	291.17%	107.98	166.29%
12,000	43.87	171.10	290.02%	118.11	169.23%
13,000	47.19	183.58	289.02%	128.24	171.75%
14,000	50.51	196.06	288.16%	138.37	173.95%
15,000	53.83	208.54	287.40%	148.50	175.87%
16,000	58.54	224.76	283.94%	158.63	170.98%
17,000	63.25	240.98	281.00%	168.76	166.81%
18,000	67.96	257.20	278.46%	178.89	163.23%
19,000	72.67	273.42	276.25%	189.02	160.11%
20,000	77.38	289.64	274.31%	199.15	157.37%
25,000	100.93	370.74	267.32%	249.80	147.50%
30,000	124.48	451.84	262.98%	300.45	141.36%
35,000	148.03	532.94	260.02%	351.10	137.18%
40,000	171.58	614.04	257.87%	401.75	134.15%
45,000	195.13	695.14	256.24%	452.40	131.85%
50,000	218.68	776.24	254.97%	503.05	130.04%
75,000	336.43	1,181.74	251.26%	756.30	124.80%
100,000	454.18	1,587.24	249.47%	1,009.55	122.28%

UTILITY SOURCE, LLC. - Water Division
Docket No. WS-04235A-06-0303
Test Year Ended December 31, 2005

Surrebuttal Schedule JMM-W17

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY REBUTTAL COST	(C) COMPANY REBUTTAL FAIR VALUE	(D) STAFF SURREBUTTAL COST	(E) STAFF SURREBUTTAL FAIR VALUE
1	Adjusted Rate Base	$ 2,052,792	$ 2,052,792	$ 2,052,793	$ 2,052,793
2	Adjusted Operating Income (Loss)	$ (75,772)	$ (75,772)	$ (77,464)	$ (77,464)
3	Current Rate of Return (L2 / L1)	-3.69%	-3.69%	-3.77%	-3.77%
4	Required Rate of Return	10.50%	10.50%	8.90%	8.90%
5	Required Operating Income (L4 * L1)	$ 215,543	$ 215,543	$ 182,699	$ 182,699
6	Operating Income Deficiency (L5 - L2)	$ 291,420	$ 291,420	$ 260,162	$ 260,162
7	Gross Revenue Conversion Factor	1.0000	1.0000	1.0000	1.0000
8	Required Revenue Increase (L7 * L6)	$ 291,420	$ 291,420	$ 260,162	$ 260,162
9	Adjusted Test Year Revenue	$ 90,767	$ 90,767	$ 90,767	$ 90,767
10	Proposed Annual Revenue (L8 + L9)	$ 382,187	$ 382,187	$ 350,929	$ 350,929
11	Required Increase in Revenue (%)	321.06%	321.06%	286.63%	286.63%
12	Rate of Return on Rate Base (%)	10.50%	10.50%	8.90%	8.90%

References:
Column (A): Company Rebuttal Schedule B-1
Column (B): Company Rebuttal Schedule B-1
Column (C): Staff Surrebuttal Schedules JMM-W2, JMM-W3
Column (D): Staff Surrebuttal Schedules JMM-W2, JMM-W3

RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8x3/4" Meter	$ -	$ 35.74	34.00
3/4" Meter	6.48	35.74	34.00
1" Meter	8.02	89.34	85.00
11/2" Meter	9.62	178.69	170.00
2" Meter	14.00	285.90	272.00
3" Meter	-	571.80	544.00
4" Meter	58.00	893.43	850.00
6" Meter	89.80	1,786.86	1,700.00
Commodity Rates			
5/8x3/4" Meter (Residential and Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	N/A	N/A	N/A
From 6,001 to 15,000 Gallons	N/A	N/A	N/A
In excess of 15,000 Gallons	N/A	N/A	N/A
From 1 to 4,000 Gallons	N/A	$ 9.60	N/A
From 4,001 to 12,000 Gallons	N/A	12.48	N/A
Over 12,000 Gallons	N/A	16.22	N/A
From Zero to 4,000 Gallons	N/A	N/A	$ 8.63
From 4,001 to 9,000 Gallons	N/A	N/A	12.98
Over 9,000 Gallons	N/A	N/A	15.52
3/4" Meter (Residential and Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	$ 2.83	N/A	N/A
From 6,001 to 15,000 Gallons	3.32	N/A	N/A
In excess of 15,000 Gallons	4.71	N/A	N/A
From 1 to 4,000 Gallons	N/A	$ 9.60	N/A
From 4,001 to 12,000 Gallons	N/A	12.48	N/A
Over 12,000 Gallons	N/A	16.22	N/A
From Zero to 4,000 Gallons	N/A	N/A	$ 8.63
From 4,001 to 9,000 Gallons	N/A	N/A	12.98
Over 9,000 Gallons	N/A	N/A	15.52
1" Meter (Residential and Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	$ 2.83	N/A	N/A
From 6,001 to 15,000 Gallons	3.32	N/A	N/A
In excess of 15,000 Gallons	4.71	N/A	N/A
From 1 to 30,000 Gallons	N/A	$ 12.48	N/A
Over 30,000 Gallons	N/A	16.22	N/A
From Zero to 27,000 Gallons	N/A	N/A	$ 12.98
Over 27,000 Gallons	N/A	N/A	15.52
11/2" Meter (Residential and Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	N/A	N/A	N/A
From 6,001 to 15,000 Gallons	N/A	N/A	N/A
In excess of 15,000 Gallons	N/A	N/A	N/A
From 1 to 60,000 Gallons	N/A	$ 12.48	N/A
Over 60,000 Gallons	N/A	16.22	N/A
From Zero to 57,000 Gallons	N/A	N/A	$ 12.98
Over 57,000 Gallons	N/A	N/A	15.52
2" Meter (Residential and Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	N/A	N/A	N/A
From 6,001 to 15,000 Gallons	N/A	N/A	N/A
In excess of 15,000 Gallons	N/A	N/A	N/A
From 1 to 96,000 Gallons	N/A	$ 12.48	N/A
Over 96,000 Gallons	N/A	16.22	N/A
From Zero to 94,000 Gallons	N/A	N/A	$ 12.98
Over 94,000 Gallons	N/A	N/A	15.52
3" Meter (Residential and Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	N/A	N/A	N/A
From 6,001 to 15,000 Gallons	N/A	N/A	N/A

In excess of 15,000 Gallons	N/A	N/A	N/A
From 1 to 192,000 Gallons	N/A	$ 12.48	N/A
Over 192,000 Gallons	N/A	16.22	N/A
From Zero to 195,000 Gallons	N/A	N/A	$ 12.98
Over 195,000 Gallons	N/A	N/A	15.52
4" Meter (Residential and Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	N/A	N/A	N/A
From 6,001 to 15,000 Gallons	N/A	N/A	N/A
In excess of 15,000 Gallons	N/A	N/A	N/A
From 1 to 300,000 Gallons	N/A	$ 12.48	N/A
Over 300,000 Gallons	N/A	16.22	N/A
From Zero to 309,000 Gallons	N/A	N/A	$ 12.98
Over 309,000 Gallons	N/A	N/A	15.52
6" Meter (Residential and Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 6,000 Gallons	N/A	N/A	N/A
From 6,001 to 15,000 Gallons	N/A	N/A	N/A
In excess of 15,000 Gallons	N/A	N/A	N/A
From 1 to 600,000 Gallons	N/A	12.48	N/A
Over 600,000 Gallons	N/A	16.22	N/A
Over 15,000 Gallons	N/A	N/A	N/A
From Zero to 615,000 Gallons	N/A	N/A	$ 12.98
Over 615,000 Gallons	N/A	N/A	15.52
Multi-Family Mobile Home, and Commercial Customers			
All consumption per 1,000 gallons	$ 2.97	$ 9.26	N/A
Irrigation Meters			
Charge per 1,000 gallons for usage	N/A	N/A	$ 9.26
Standpipe or Bulk Water			
Standpipe or bulk water per 1,000 gallons	$ 6.00	$ 10.35	$ 10.35
Construction Water			
Construction Water per 1,000 gallons	$ 6.00	$ 10.35	$ 10.35
Service Line and Meter Installation Charges			
5/8" x 3/4" Meter	$ -	$ -	$ 520.00
3/4" Meter	575.00	575.00	575.00
1" Meter	660.00	660.00	660.00
1½" Meter	900.00	900.00	900.00
2" Turbine Meter	1,525.00	1,525.00	1,525.00
2" Compound Meter	-	-	2,320.00
3" Turbine Meter	-	-	2,275.00
3" Compound Meter	-	-	3,110.00
4" Turbine Meter	3,360.00	3,360.00	3,360.00
4" Compound Meter	-	-	4,475.00
6" Turbine Meter	6,035.00	6,035.00	6,035.00
6" Compound Meter	-	-	8,050.00
Service Charges			
Establishment	$ 20.00	$ 20.00	$ 20.00
Establishment of Services after hours	40.00	40.00	40.00
Re-establishment of Service	*	*	*
Reconnection Service	50.00	50.00	50.00
Reconnection (Deliquent and After Hours)	40.00	40.00	40.00
Charge for moving meter	Cost	Cost	Cost
After hours service charge	40.00	40.00	40.00
Minimum Deposit Requirement	**	**	**
Deposit Interrest	3.00%	3.00%	Per Rule
Meter Test	20.00	20.00	20.00
Meter Re-Read	10.00	10.00	10.00
Charge for NSF Check	20.00	20.00	20.00
Late Payment charge for delinquent bill	1.50%	1.50%	***
Deferred Payment Finance Charge	1.50%	1.50%	***
Main Extension and additional facility agreements	***	***	***

* Per Commission Rule Rule R14-2-403(D)
** Per Commission Rule Rule R14-2-403(B)
*** Per Commission Rule Rule R14-2-406(B)

UTILITY SOURCE, LLC - Water Division
Docket No. WS-04235A-06-0303
Test Year Ended December 31, 2005

Surrebuttal Schedule JMM-W19

Typical Bill Analysis
General Service 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	4,740	$ 19.89	$ 81.24	$ 61.35	308.38%
Median Usage	4,500	19.22	78.94	$ 59.73	310.82%
Staff Recommended					
Average Usage	4,740	$ 19.89	$ 78.13	$ 58.23	292.70%
Median Usage	4,500	19.22	75.01	$ 55.80	290.37%

Present & Proposed Rates (Without Taxes)
General Service 3/4-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	$ 6.48	$ 35.74	451.54%	$ 34.00	424.69%
1,000	9.31	45.34	387.00%	42.63	357.89%
2,000	12.14	54.94	352.55%	51.26	322.24%
3,000	14.97	64.54	331.13%	59.89	300.07%
4,000	17.80	74.14	316.52%	68.52	284.94%
5,000	20.63	83.74	305.91%	81.50	295.06%
6,000	23.95	96.22	301.75%	94.48	294.49%
7,000	27.27	108.70	298.61%	107.46	294.06%
8,000	30.59	121.18	296.14%	120.44	293.72%
9,000	33.91	133.66	294.16%	133.42	293.45%
10,000	37.23	146.14	292.53%	148.94	300.05%
11,000	40.55	158.62	291.17%	164.46	305.57%
12,000	43.87	171.10	290.02%	179.98	310.26%
13,000	47.19	183.58	289.02%	195.50	314.28%
14,000	50.51	196.06	288.16%	211.02	317.78%
15,000	53.83	208.54	287.40%	226.54	320.84%
16,000	58.54	224.76	283.94%	242.06	313.50%
17,000	63.25	240.98	281.00%	257.58	307.24%
18,000	67.96	257.20	278.46%	273.10	301.85%
19,000	72.67	273.42	276.25%	288.62	297.17%
20,000	77.38	289.64	274.31%	304.14	293.05%
25,000	100.93	370.74	267.32%	381.74	278.22%
30,000	124.48	451.84	262.98%	459.34	269.01%
35,000	148.03	532.94	260.02%	536.94	262.72%
40,000	171.58	614.04	257.87%	614.54	258.17%
45,000	195.13	695.14	256.24%	692.14	254.71%
50,000	218.68	776.24	254.97%	769.74	251.99%
75,000	336.43	1,181.74	251.26%	1,157.74	244.13%
100,000	454.18	1,587.24	249.47%	1,545.74	240.34%

BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON
Chairman
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
KRISTIN K. MAYES
Commissioner
GARY PIERCE
Commissioner

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C. FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PROPERTY AND FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICES.	)	DOCKET NO. WS-04235A-06-0303

SURREBUTTAL

TESTIMONY

OF

JEFFREY M. MICHLIK

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MARCH 19, 2007

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EXECUTIVE SUMMARY
UTILITY SOURCE, LLC-WASTEWATER
DOCKET NO. WS-04235A-06-0303

Staff's surrebuttal testimony recommends revised rates that would increase operating revenues by $110,149 to produce operating revenues of $224,054 resulting in operating income of $92,039, or a 96.70 percent increase over test year revenues of $113,905. Staff also recommends a revised FVRB of $1,034,141.

Revenue Requirement

Staff recommends its revenue requirement, revenue increase, and percentage of revenue increase.

Rate Base

Staff responds to the Company's adjustment to accumulated amortization of contributions in aid of construction ("CIAC"), and further comments on why some of the plant in service items should still be disallowed.

Income Statement

Staff responds to the Company's unfounded and incorrect assertions regarding why Staff originally accepted the Company's proposal.

Rate Design

Staff explains the new rate design and the effects it will have on wastewater customers.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Jeffrey M. Michlik. I am a Public Utilities Analyst V employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Jeffrey M. Michlik who filed direct testimony in this case?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony in this proceeding?

A. The purpose of my surrebuttal testimony in this proceeding is to provide Staff's response to the rebuttal testimony of Utility Source, LLC ("Company") witness, Mr. Thomas J. Bourassa, regarding revenue requirement, rate base, operating revenues and expenses, and rate design.

Q. Please explain how Staff's surrebuttal testimony is organized.

A. Staff's surrebuttal testimony is generally organized to present issues in the same sequence as presented in Mr. Bourassa's rebuttal testimony.

Q. Does Staff's lack of response to a particular issue mean it is accepting the Company's position on that issue?

A. No. Staff's lack of response to any issue in this surrebuttal testimony should not be construed as agreement with the Company's rebuttal testimony; rather, where there is no response, Staff relies on its original direct testimony.

RESPONSE TO MR. THOMAS J. BOURASSA'S REBUTTAL TESTIMONY

Revenue Requirement

Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony regarding revenue requirement?

A. Yes.

Q. Please summarize the proposed and recommended revenue requirement, revenue increase, and percentage increase.

A. The proposed and recommended revenue requirement, revenue increase, and percentage increase are as follows:

	Revenue Requirement	Revenue Increase	Percentage Increase
Company-Direct	$301,124	$187,220	164.37 percent
Staff-Direct	$224,908	$111,003	97.45 percent
Company-Rebuttal	$283,384	$169,479	148.79 percent
Staff-Surrebuttal	$224,054	$110,149	96.70 percent

Q. Why is the Company's revenue requirement and proposed increase higher than Staffs?

A. As Mr. Bourassa suggests, the differences in revenue requirement are primarily a result of the differences in rate base, cost of capital, and depreciation expense; with the balance being attributed to the level of property taxes. *See* Rebuttal Testimony of Thomas J. Bourassa ("Bourassa RT") at 2.

Q. Does the Company still propose to include pro forma revenues from future customer growth in the determination of the revenue requirement and rate increase for the sewer division?

A. Yes, *See* Bourassa RT at 2.

Q. Is Staff still willing to accept the Company's proposal to include future growth of 350 customers in the sewer division?

A. Yes.

Rate Base

Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony regarding rate base?

A. Yes.

Q. Would you please identify each party's respective rate base recommendations?

A. Yes. The rate bases proposed and recommended by all parties in the case are as follows:

	OCRB	FVRB
Company-Direct	$1,401,953	$1,401,953
Staff	$989,576	$989,576
Company Rebuttal	$1,314,093	$1,314,093
Staff Surrebuttal	$1,034,141	$1,034,141

Q. Are there any adjustments to plant in service that were overlooked by Staff in direct testimony?

A. Yes, Account 380 – Treatment and Disposal Equipment was valued at $1,106,874 in the original application and, per examination of the general ledger, was broken out as follows:

Memo	Amount
Treatment Plant #1	$ 333,500
Treatment Plant #2	$ 546,704
Evaporative Lagoons	$ 161,000
Power to Site	$ 16,100
WWTP	$ 3,750
WWTP	$ 45,819
Total	$1,106,874

In response to Staff data request JCB 3.18 regarding Account #380 Treatment and Disposal Equipment, Treatment Plant #2, and JCB 3.19 regarding Account #380 Treatment and Disposal Equipment – Evaporative Lagoons, the Company states that there were mistakes in both sub accounts as one was understated and the other overstated. In the case of Treatment Plant # 2 the Company stated that the original amount of $546,704 was incorrect and the total treatment cost for Treatment Plant #2 should be $463,011 a decrease of $83,693. In the case of the Evaporative Lagoons the Company stated that the original amount of $161,000 was understated and the total evaporative lagoons cost should be $220,586, an increase of $59,586. The net effect of the overstatement of the costs for Treatment Plant # 2 in the amount of $83,693 and the understatement of the costs for the evaporative lagoons in the amount of $59,586 nets to a decrease of $24,107 (i.e., 83,693-59,586). This adjustment is reflected at line 3 of Staff Surrebuttal Schedule JMM-WW4.

Q. Are there any other adjustments that you would like to make changes to in Staff's direct testimony?

A. Yes, due to a typographical error, the amount which Staff disallowed in the direct testimony for account 380 treatment and disposal Equipment for Evaporative lagoons was $178,231, but should have been $178,703. This adjustment is reflected at line 4 of Staff Surrebuttal Schedule JMM-WW4.

Q. Mr. Bourassa states that $68,271 in costs related to wastewater treatment should be included in plant in service. *See* Bourassa RT at 4. Has the Company provided additional information to Staff to support its claim?

A. Yes, per examination of the rebuttal testimony, contract, and additional information provided by the Company, Staff has determined that this amount should be included in wastewater treatment plant # 1, and has removed its adjustment of it in Staff Surrebuttal Schedule JMM-WW4.

Q. Mr. Bourassa states that $178,231 (which is now $178,703) of costs related to evaporative lagoons consisting of water falls, streams, pond is an integral component of the wastewater treatment system. *See* Bourassa RT at 5. Does Staff agree?

A. No, per examination of the Arizona Department of Environmental Quality Aquifer Protection Permit ("APP") # 104083, Flagstaff Meadows Wastewater Treatment Plant ("WWTP"). Under the Facility Description:

"The WWTP process will consist of an influent lift station, headwork with bars screens, an equalization basin, anoxic and aeration tanks for nitrification-denitrification, secondary clarifiers, filters, a chlorine disinfection contact tank, dechlorination, a sludge holding tank, sludge belt press thickeners, and effluent pump station, and a clay lined effluent

holding pond. The effluent generated is discharged into an unnamed tributary to Volunteer Wash as regulated by the Arizona Discharge Elimination System permit AZ0024708 and/or by reuse under a valid reuse permit."

There is no mention of a lake with a fountain, waterfalls, streambeds or other additional pond within the Company's APP.

Q. What is Staff's understanding of an APP?

A. It is Staff's understanding that the APP serves as a blue print as to what the Company is allowed to construct.

Q. So Staff would agree after reading the Company's APP, that the Company is allowed to construct a clay lined effluent holding pond?

A. Yes.

Q. In Staff data request 5.3, did Staff specifically ask the Company why the lake, waterfalls, streambeds and other pond were not mentioned in the APP?

A. Yes.

Q. What was the Company's response?

A. The Company responded that "the lake, water fall, stream and pond and all water features, are lined and part of the APP facilities.

Q. What is Staff's position?

A. Staff does not agree. Staff, as stated earlier, believes the Company is allowed to construct a clay lined effluent holding pond, and that any additional, decorative features beyond that are at the Company's discretion and not required by ADEQ.

Q. Please comment on Mr. Bourassa's statement that effluent used for the purpose of turf irrigation is beneficial to the Company? *See* Bourassa RT at 9.

A. Staff agrees with the Company's statement that the use of effluent for turf irrigation is beneficial. However, that is not at issue, what is at issue is whether the rate payers should pickup the costs of these additional water features that were not included in the APP.

Q. Was the Company able to respond to Staff's data request 5.2 which asked for a breakout of significant items included in the wastewater aeration system such as the lake, waterfalls, streambeds and pond?

A. No, Staff e-mailed a copy of an invoice in the amount of $178,703 from Red Rock Contractors which contained the Flagstaff Meadows Water Feature Project Overview, and asked the Company to breakout these costs. The Company responded that it was unable to breakout these costs.

Q. Does Staff know if the pond mentioned in the APP is included in this invoice?

A. No, the invoice does not mention the upper pond, and the Company was unable to breakout the pond costs for Staff. Therefore, Staff, as in its direct testimony, believes the water features are not a necessary component of the utility system, but contribute to a park-like setting for the general development which has already profited the owners through the sale of homes in the Flagstaff Meadows development project, and these costs should be disallowed.

Q. Are there also power costs involved to pump water from the holding pond to the lake, and other costs related to operating the lake fountain?

A. Yes, however at this point Staff is unable to breakout these costs, but recommends that the Company be required to separate these costs in its next rate application so that these expenses can be independently analyzed.

Q. Mr. Bourassa states that Staff disallowed $99,272 of costs related to wastewater treatment plant #2, but should have included this amount as there is other sufficient supporting documentation to substantiate the costs. *See* Bourassa RT at 5. Does Staff accept this number?

A. No, as mentioned earlier in response to Staff data request 2.1, the Company supplied Staff with a detailed schedule of account balances in which the Company stated that account 380 Treatment and Disposal Equipment Treatment Plant # 2 was valued at $546,704. However, per examination of the Company's response to Staff data request number 3.18, in which Staff asked for a detailed line item schedule of all costs incurred from Santec for Treatment Plant # 2, the Company presented Staff with a different amount. The Company stated that: "Our review of these costs, contract billings and change order billings found the following Santec invoices to be applicable to the costs for account # 380 Treatment and Disposal Equipment, Treatment Plant # 2." The revised cost presented by the Company for Treatment Plant # 2 is $463,011, a shortfall of $83,693. Therefore, this lends credence to Staff's adjustment as there is not other sufficient supporting documentation to substantiate these costs ($83,693) due to the Company's own admission that it does not exist. Therefore, Staff is only making a $13,579 adjustment (i.e., $463,011-$449,432 the number of cancelled checks) for unsubstantiated documentation.

Q. Mr. Bourassa states that accumulated amortization of CIAC should be increased to reflect 2 years of amortization. *See* Bourassa RT at 6. Does Staff accept this?

A. Yes. However, the amount will differ due to Staff's CIAC amortization rate which is calculated from the plant in service depreciation composite rate. Staff's adjustment increases accumulated amortization by $4,083, from $8,167 to $12,250 as the associated accumulated amortization should include 2 years of amortization (using a ½ year convention) starting in 2004. This adjustment is shown on Surrebuttal Schedule JMM-WW6.

Income Statement

Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony regarding the income statement?

A. Yes.

Q. Please comment on Mr. Bourassa's statement that Staff's acceptance of the Company's direct proposal to include the 350 projected customers is justified in order to further penalize the Company? *See* Bourassa RT at 9.

A. This statement is unfounded and incorrect. If you read through its direct testimony submitted, Staff specifically states throughout its testimony that it has accepted the **Company's proposal** in ***an effort to alleviate the rate burden on customers***, as shown below:

"Staff, in an ***effort to alleviate the rate burden on customers***, has accepted the **Company's proposal** and will include estimated usage of 350 homes that are currently being built, in the rate design" *See* Direct Testimony of Jeffrey M. Michlik ("Michlik DT") in the Executive Summary.

"Why is Staff accepting these projected numbers? The numbers submitted by the Company are known projects currently under development and assume that the homes will be built. The **Company has provided these numbers** in ***an effort to minimize the impact on the rates*** and is not intended to set any precedent for this or any other utility regulated by the Commission." *See* Michlik DT at 11.

"In an effort to lessen the rate impact on customers, **the Company in its rate application proposed including 350 homes that are currently being built**. Staff accepted the Company's proposal and has included these 350 customers in the rate design *in order to ameliorate the rate shock that current and future customers will experience*." *See* Michlik DT at 17.

Rate Design

Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony regarding Rate Design?

A. Yes.

Q. Has Staff's rate design changed as a result of the Company's rebuttal testimony?

A. Yes, Staff has provided a revised rate design. See Surrebuttal Schedule JMM-WW11.

Q. What is the rate impact on a ¾-inch meter residential customer using a median consumption of 4,500 gallons?

A. The median usage of residential ¾-inch meter customers is 4,500 gallons per month. The ¾-inch meter residential customer would experience $18.54 or 150.92 percent increase in their monthly bill from $12.29 to $30.83 under the Company's proposed rates and a $12.71 or 103.50 percent increase in their monthly bill from $12.29 to $25.00 under Staff's recommended rates. *See* Staff Surrebuttal Schedule JMM-WW12.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

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Surrebuttal Schedule JMM-WW1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY REBUTTAL ORIGINAL COST	(B) COMPANY REBUTTAL FAIR VALUE	(C) STAFF SURREBUTTAL ORIGINAL COST	(D) STAFF SURREBUTTAL FAIR VALUE
1	Adjusted Rate Base	$ 1,314,093	$ 1,314,093	$ 1,034,141	$ 1,034,141
2	Adjusted Operating Income (Loss)	$ (31,551)	$ (31,551)	$ (70,893)	$ (70,893)
3	Current Rate of Return (L2 / L1)	-2.40%	-2.40%	-6.86%	-6.86%
4	Required Rate of Return	10.50%	10.50%	8.90%	8.90%
5	Required Operating Income (L4 * L1)	$ 137,980	$ 137,980	$ 92,039	$ 92,039
6	Operating Income Deficiency (L5 - L2)	$ 169,531	$ 169,479	$ 162,931	$ 162,931
7	Gross Revenue Conversion Factor	1.0000	1.0000	1.0000	1.0000
8	Required Revenue Increase (L7 * L6)	$ 169,479	$ 169,479	$ 162,931	$ 162,931
9	Adjusted Test Year Revenue	$ 113,905	$ 113,905	$ 59,552	$ 59,552
10	Proposed Annual Revenue (L8 + L9)	$ 283,384	$ 283,384	$ 222,483	$ 222,483
11	Required Increase in Revenue (%)	148.79%	148.79%	273.59%	273.59%
12	Rate of Return on Rate Base (%)	10.50%	10.50%	8.90%	8.90%

References:
Column (A): Company Rebuttal Schedule B-1
Column (B): Company Rebuttal Schedule B-1
Column (C): Staff Surrebuttal Schedules JMM-WW2, JMM-WW7
Column (D): Staff Surrebuttal Schedules JMM-WW2, JMM-WW7

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Surrebuttal Schedule JMM-WW2

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY REBUTTAL AS FILED	(B) STAFF SURREBUTTAL ADJUSTMENTS	REF	(C) STAFF SURREBUTTAL AS ADJUSTED
1	Plant in Service	$ 1,595,481	$ (302,082)	ADJ # 1	$ 1,293,399
2	Less: Accumulated Depreciation	96,191	(22,656)	ADJ # 2	73,535
3	Net Plant in Service	$ 1,499,290	$ (279,426)		$ 1,219,864
	LESS:				
4	Contributions in Aid of Construction (CIAC)	$ 197,973	$ -		$ 197,973
5	Less: Accumulated Amortization	12,777	(527)	ADJ # 3	12,250
6	Net CIAC	185,196	527		185,723
7	Advances in Aid of Construction (AIAC)	-	-		-
8	Customer Deposits	-	-		-
9	Deferred Income Tax Credits	-	-		-
	ADD:				
10	Unamortized Finance Charges	-	-		-
11	Deferred Tax Assets	-	-		-
12	Working Capital	-	-		-
13	**Original Cost Rate Base**	$ 1,314,094	$ (279,953)		$ 1,034,141

References:
Column (A), Company Rebuttal Schedule B-1
Column (B): Surrebuttal Schedule JMM-WW3
Column (C): Column (A) + Column (B)

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Surrebuttal Schedule JMM-WW3

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY REBUTTAL AS FILED	[B] STAFF SURREBUTTAL PLANT IN SERVICE ADJ No. 1	[C] STAFF SURREBUTTAL ACCUM DEPREC ADJ NO. 2	[D] STAFF SURREBUTTAL AIAC TO CIAC ADJ No. 3	[E] STAFF ADJUSTED
	PLANT IN SERVICE:						
1							
2	351	Organization	$ -	$ -	$ -	$ -	$ -
3	352	Franchises	-	-	-	-	-
4	353	Land and Land Rights	105,000	-	-	-	105,000
5	354	Structures & Improvements	56,350	-	-	-	56,350
6	355	Power Generation Equipment	2,879	-	-	-	2,879
7	360	Collection Sewers - Force	-	-	-		-
8	361	Collection Sewers - Gravity	260,553	-	-	-	260,553
9	362	Special Collecting Structures	-	-	-	-	-
10	363	Services to Customers	60,375	-	-	-	60,375
11	364	Flow Measuring Devices	-	-	-	-	-
12	365	Flow Measuring Installations	3,450	-		-	3,450
13	370	Receiving Wells	-	-		-	-
14	371	Pumping Equipment	-	-	-	-	-
15	380	Teatment and Disposal Equipment	1,106,874	(302,082)	-	-	804,792
16	381	Plant Sewers	-	-	-	-	-
17	382	Outfall Sewer Lines		-		-	-
18	389	Other Plant & Misc. Equipment	-	-	-	-	-
19	390	Office Furniture & Equipment	-	-	-	-	-
20	391	Transportation Equipment	-	-	-	-	-
21	393	Tools, Ship & Garage Equipment	-	-	-	-	-
22	394	Laboratory Equipment	-	-	-	-	-
23	395	Power Operated Equipment	-	-	-	-	-
24	398	Other Tangible Plant	-	-	-	-	-
25							
26			1,595,481	(302,082)	-	-	1,293,399
27	Add:		-				-
28			-				-
29			-		-	-	-
30			-	-	-	-	-
31	Less:		-				-
32			-	-	-	-	-
33			-	-	-	-	-
34							-
35	Total Plant in Service		$ 1,595,481	$ (302,082)	$ -	$ -	1,293,399
36	Less: Accumulated Depreciation		96,191	-	(22,656)	-	73,535
37				-	-	-	-
38	*Net Plant in Service* (L59 - L 60)		$ 1,499,290	$ (302,082)	$ 22,656	$ -	1,219,864
39							
40	*LESS:*						
41	Contributions in Aid of Construction (CIAC)		$ 197,973	$ -	$ -	$ -	197,973
42	Less: Accumulated Amortization		12,777	-	-	(527)	12,250
43	Net CIAC (L25 - L26)		185,196	-	-	-	185,196
44	Advances in Aid of Construction (AIAC)		-	-	-	-	-
45	Customer Meter Deposits		-	-	-	-	-
46	Deferred Income Tax Credits		-	-	-	-	-
47							
48	*ADD:*						
49	Unamortized Finance Charges		-	-	-	-	-
50	Deferred Tax Assets		-	-	-	-	-
51	Working Capital		-	-	-	-	-
52							-
53	**Original Cost Rate Base**		$ 1,314,094	$ (302,082)	$ 22,656	$ -	1,034,668

ADJ #		References:
1	Plant in Service	Surrebuttal Schedule JMM-WW4
2	Accumulated Depreciation	Surrebuttal Schedule JMM-WW5
3	AIAC Reclasification to CIAC	Surrebuttal Schedule JMM-WW6

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Surrebuttal Schedule JMM-WW4

RATE BASE ADJUSTMENT NO. 1 - PLANT ADJUSTMENTS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Treatment and Disposal Equipment (Account 380)	1,106,874	(302,082)	804,792
2	Totals	$ 1,106,874	$ (302,082)	$ 804,792
	Staff's Calculation of Treatment and Disposal Equipment (Account 380)			
3	Adjustments for the Company's overstatement and understatement of sub accounts	$ (24,107)		
4	Removal of manmade water falls, streams, ponds and lakes	(178,703)		
5	Unsubstantiated costs of $99,272 relating to Treatment Plant No. 2	(99,272)		
6	Total	$ (302,082)		

References:
Column A: Company Rebuttal Schedule B-1, Page 1
Column B: Testimony, JMM, Surrebuttal Schedule JMM-WW3
Column C: Column [A] + Column [B]

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Surrebuttal Schedule JMM-WW5

RATE BASE ADJUSTMENT NO. 2 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Accumulated Depreciation	$ 96,191	$ (22,656)	$ 73,535

	ACCT NO	DESCRIPTION	AT ENGINEER RECOMMENDED RATES: Total Plant Staff Adjusted 12/31/2004	Recommended Rate	HALF YEAR DEP.	A.D 12/31/2004	ADDITIONS 12/31/2005	RETIREMENTS 12/31/2005	PLT BAL 12/31/2005	DEP EXP 12/31/2005 FULL YR	A.D 12/31/2005
2	351	Organization	-		-	-	-	-	-	-	-
3	352	Franchises	-		-	-	-	-	-	-	-
4	353	Land and Land Rights	105,000	0.00%	-	-	-	-	105,000	-	-
5	354	Structures & Improvements	56,350	3.33%	938	938	-	-	56,350	1,876	2,815
6	355	Power Generation Equipment	2,879	5.00%	72	72	-	-	2,879	144	216
7	360	Collection Sewers - Force	-	2.00%	-	-	-	-	-	-	-
8	361	Collection Sewers - Gravity	260,553	2.00%	2,606	2,606	-	-	260,553	5,211	7,817
9	362	Special Collecting Structures	-	2.00%	-	-	-	-	-	-	-
10	363	Services to Customers	60,375	2.00%	604	604	-	-	60,375	1,208	1,811
11	364	Flow Measuring Devices	-	10.00%	-	-	-	-	-	-	-
12	365	Flow Measuring Installations	3,450	10.00%	173	173	-	-	3,450	345	518
13	370	Receiving Wells	-	3.33%	-	-	-	-	-	-	-
14	371	Pumping Equipment	-	12.50%	-	-	-	-	-	-	-
15	380	Teatment and Disposal Equipment	804,792	5.00%	20,120	20,120	-	-	804,792	40,240	60,359
16	381	Plant Sewers	-	5.00%	-	-	-	-	-	-	-
17	382	Outfall Sewer Lines	-	3.33%	-	-	-	-	-	-	-
18	389	Other Plant & Misc. Equipment	-	6.67%	-	-	-	-	-	-	-
19	390	Office Furniture & Equipment	-	6.67%	-	-	-	-	-	-	-
20	391	Transportation Equipment	-	20.00%	-	-	-	-	-	-	-
21	393	Tools, Ship & Garage Equipment	-	5.00%	-	-	-	-	-	-	-
22	394	Laboratory Equipment	-	10.00%	-	-	-	-	-	-	-
23	395	Power Operated Equipment	-	5.00%	-	-	-	-	-	-	-
24	398	Other Tangible Plant	-	10.00%	-	-	-	-	-	-	-
25			-		-	-	-	-	-	-	-
26			1,293,399		24,512	24,512	-	-	1,293,399	49,024	73,535
27											
28		Composite Rate:	4.1252%					Depreciable Plant:	1,188,399		

References:
Column A: Company Rebuttal Schedule B-1, Page 1
Column B: Testimony, JMM, Surrebuttal Schedule JMM-WW3
Column C: Column [A] + Column [B]

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Surrebuttal Schedule JMM-WW6

RATE BASE ADJUSTMENT NO. 3 - ACCUMULATED AMORTIZATION OF CONSTRIBUTIONS IN AID OF CONSTRUCTION

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Accumated Amortization of CIAC	$ 12,777	$ (527)	$ 12,250

	Staff's amortization of CIAC	
3	Amortization of CIAC:	$ 197,973
4	Composite amortization rate (see JMM-WW5):	4.1252%
5	Amortized CIAC:	$ 8,167
	Plus prior year amortization (using 1/2 year convention)	$ 4,083
6	Accumulated Amortization of CIAC	$ 12,250

References:
Column A: Company Rebuttal Schedule B-1, Page 1
Column B: Testimony, JMM, Surrebuttal Schedule JMM-WW3
Column C: Column [A] + Column [B]

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Surrebuttal Schedule JMM-WW7

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY REBUTTAL TEST YEAR AS FILED	[B] STAFF SURREBUTTAL TEST YEAR ADJUSTMENTS		[C] STAFF SURREBUTTAL TEST YEAR AS ADJUSTED	[D] STAFF SURREBUTTAL PROPOSED CHANGES	[E] STAFF SURREBUTTAL RECOMMENDED
1	*REVENUES:*						
2	Metered Water Sales	$ 112,248	$ (54,353)	ADJ # 1	$ 57,895	$ 162,931	$ 220,826
3	Water Sales - Unmetered	-	-		-	-	-
4	Other Operating Revenue	1,657	-		1,657	-	1,657
5	**Total Operating Revenues**	$ 113,905	$ (54,353)		$ 59,552	$ 162,931	$ 222,483
	OPERATING EXPENSES:						
6	Salaries and Wages	$ -	$ -		$ -	$ -	$ -
7	Purchased Wastewater Treatment	-	-		-	-	-
8	Sludge Removal Expense	-	-		-	-	-
9	Purchased Power	17,423	-		17,423	-	17,423
10	Fuel for Power Production	-	-		-	-	-
11	Chemicals	3,945	-		3,945	-	3,945
12	Materials and Supplies	4,793	-		4,793	-	4,793
13	Contractual Services- Professional	1,195	-		1,195	-	1,195
14	Contractual Services- Testing	24,902	-		24,902	-	24,902
15	Contractual Services- Other	15,000	-		15,000	-	15,000
16	Repairs and Maintenance	-	-		-	-	-
17	Waste Water Testing Expense	-	-		-	-	-
18	Rents	-	-		-	-	-
19	Transportation Expenses	-	-		-	-	-
20	Insurance	-	-		-	-	-
21	Regulatory Commission Expense - Rate Case	12,500	-		12,500	-	12,500
22	Miscellaneous Expense	4,965	-		4,965	-	4,965
23	Depreciation Expense	55,610	(14,753)	ADJ # 2	40,857	-	40,857
24	Taxes Other Than Income	-	-		-	-	-
25	Property Taxes	5,123	(258)	ADJ # 3	4,865	-	4,865
26	Income Tax	-	-		-	-	-
27							
28	**Total Operating Expenses**	$ 145,456	$ (15,011)		$ 130,445	$ -	$ 130,445
29	**Operating Income (Loss)**	$ (31,551)	$ (39,342)		$ (70,893)	$ 162,931	$ 92,039

References:
Column (A): Company Rebuttal Schedule C-1
Column (B): Surrebuttal Schedule JMM-WW8
Column (C): Column (A) + Column (B)
Column (D): Surrebuttal Schedule JMM-WW1
Column (E): Column (C) + Column (D)

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Surrebuttal Schedule JMM-WW8

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY REBUTTAL AS FILED	[B] STAFF SURREBUTTAL ADJ #1 Revenues	[D] STAFF SURREBUTTAL ADJ #2 Depreciation Exp	[D] STAFF SURREBUTTAL ADJ #3 Property Tax	[E] STAFF SURREBUTTAL ADJUSTED
1	*REVENUES:*					
2	Flat Rate and Metered Revenues	112,248	(54,353)	-	-	57,895
3	Misc. Service Revenues	-	-	-	-	-
4	Other Wastewater Revenues	1,657	-	-	-	1,657
5	**Total Operating Revenues**	113,905	(54,353)	-	-	59,552
6	*OPERATING EXPENSES:*					
7	Salaries and Wages	-	-	-	-	-
8	Purchased Wastewater Treatment	-	-	-	-	-
9	Sludge Removal Expense	-	-	-	-	-
10	Purchased Power	17,423	-	-	-	17,423
11	Fuel for Power Production	-	-	-	-	-
12	Chemicals	3,945	-	-	-	3,945
13	Materials and Supplies	4,793	-	-	-	4,793
14	Contractual Services- Professional	1,195	-	-	-	1,195
15	Contractual Services- Testing	24,902	-	-	-	24,902
16	Contractual Services- Other	15,000	-	-	-	15,000
17	Repairs and Maintenance	-	-	-	-	-
18	Waste Water Testing Expense	-	-	-	-	-
19	Rents	-	-	-	-	-
20	Transportation Expenses	-	-	-	-	-
21	Insurance	-	-			-
22	Regulatory Commission Expense - Rate Case	12,500	-	-	-	12,500
23	Miscellaneous Expense	4,965	-	-	-	4,965
24	Depreciation Expense	55,610	-	(14,753)	-	40,857
25	Taxes Other Than Income	-	-	-	-	-
26	Property Taxes	5,123	-	(258)	(258)	4,865
27	Income Tax	-	-	-	-	-
						-
28	**Total Operating Expenses**	145,456	-	(15,011)	(258)	130,445
29	**Operating Income (Loss)**	(31,551)	(54,353)	15,011	258	(70,893)

ADJ #		References:
1	Pro Forma Revenues	Surrebuttal Schedule JMM-WW9
2	Depreciation Expense	Surrebuttal Schedule JMM-WW10
3	Property Taxes	Surrebuttal Schedule JMM-WW11

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Surrebuttal Schedule JMM-WW9

OPERATING INCOME ADJUSTMENT # 1 - REMOVAL OF PRO FORMA REVENUES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Metered Water Sales	$ 112,248	$ (54,353)	$ 57,895

Staff's Calculation
Removal of Pro forma Revenues in response to Company's rebuttal testimony. $ 54,353

References:
Column A: Company Schedule C-1
Column B: Testimony, JMM, Schedule JMM-W9
Column C: Column [A] + Column [B]

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Surrebuttal Schedule JMM-WW10

OPERATING EXPENSE ADJUSTMENT NO. 2 - DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Depreciation Expense	$ 55,610	$ (14,753)	$ 40,857

	ACCT NO	DESCRIPTION	AT ENGINEER RECOMMENDED RATES: Total Plant Staff Adjusted 12/31/2004	Recommended Rate	HALF YEAR DEP.	A.D 12/31/2004	ADDITIONS 12/31/2005	RETIREMENTS 12/31/2005	PLT BAL 12/31/2005	DEP EXP 12/31/2005 FULL YR	A.D 12/31/2005
2	351	Organization	-		-	-	-	-	-	-	-
3	352	Franchises	-		-	-	-	-	-	-	-
4	353	Land and Land Rights	105,000	0.00%	-	-	-	-	105,000	-	-
5	354	Structures & Improvements	56,350	3.33%	938	938	-	-	56,350	1,876	2,815
6	355	Power Generation Equipment	2,879	5.00%	72	72	-	-	2,879	144	216
7	360	Collection Sewers - Force	-	2.00%	-	-	-	-	-	-	-
8	361	Collection Sewers - Gravity	260,553	2.00%	2,606	2,606	-	-	260,553	5,211	7,817
9	362	Special Collecting Structures	-	2.00%	-	-	-	-	-	-	-
10	363	Services to Customers	60,375	2.00%	604	604	-	-	60,375	1,208	1,811
11	364	Flow Measuring Devices	-	10.00%	-	-	-	-	-	-	-
12	365	Flow Measuring Installations	3,450	10.00%	173	173	-	-	3,450	345	518
13	370	Receiving Wells	-	3.33%	-	-	-	-	-	-	-
14	371	Pumping Equipment	-	12.50%	-	-	-	-	-	-	-
15	380	Teatment and Disposal Equipment	804,792	5.00%	20,120	20,120	-	-	804,792	40,240	60,359
16	381	Plant Sewers	-	5.00%	-	-	-	-	-	-	-
17	382	Outfall Sewer Lines	-	3.33%	-	-	-	-	-	-	-
18	389	Other Plant & Misc. Equipment	-	6.67%	-	-	-	-	-	-	-
19	390	Office Furniture & Equipment	-	6.67%	-	-	-	-	-	-	-
20	391	Transportation Equipment	-	20.00%	-	-	-	-	-	-	-
21	393	Tools, Ship & Garage Equipment	-	5.00%	-	-	-	-	-	-	-
22	394	Laboratory Equipment	-	10.00%	-	-	-	-	-	-	-
23	395	Power Operated Equipment	-	5.00%	-	-	-	-	-	-	-
24	398	Other Tangible Plant	-	10.00%	-	-	-	-	-	-	-
25			-		-	-	-	-	-	-	-
26			1,293,399		24,512	24,512	-	-	1,293,399	49,024	73,535

27 Composite Rate: 4.1252%

Depreciable Plant: 1,188,399

28 Depreciation Expense Calculation:
29 Depreciation 2005: 49,024
30 Net Amortization of CIAC: 8,167
31 Depreciation Expense: 40,857

References:
Column A: Company Rebuttal Schedule B-1, Page 1
Column B: Testimony, JMM, Surrebuttal Schedule JMM-WW8
Column C: Column [A] + Column [B]

Utility Source, LLC. - Sewer Division
Docket No. WS-04235A-06-0303
Test Year Ended December 31, 2005

Surrebuttal Schedule JMM-WW11

OPERATING EXPENSE ADJUSTMENT NO. 3 - PROPERTY TAX

LINE NO.	Property Tax Calculation	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	(C) STAFF AS ADJUSTED
1	Property Taxes	$ 5,123	$ (258)	$ 4,865
	Staff's Calcualation of Property Tax			
2	Staff Adjusted Test Year Revenues - 2002			$ 59,552
3	Weight Factor			2
4	Subtotal (Line 1 * Line 2)			119,104
5	Staff Recommended Revenue, Per Schedule JMM-WW1			222,483
6	Subtotal (Line 4 + Line 5)			341,587
7	Number of Years			3
8	Three Year Average (Line 5 / Line 6)			113,862
9	Department of Revenue Mutilplier			2
10	Revenue Base Value (Line 7 * Line 8)			227,725
11	Plus: 10% of CWIP - 2002			-
12	Less: Net Book Value of Licensed Vehicles			-
13	Full Cash Value (Line 9 + Line 10 - Line 11)			227,725
14	Assessment Ratio			23.50%
15	Assessment Value (Line 12 * Line 13)			53,515
16	Composite Property Tax Rate (Per Company Schedule C-2, Page 3, Line 16)			9.0903%
17	Staff Proposed Property Tax Expense (Line 14 * Line 15)			$ 4,865
18	Company Proposed Property Tax			5,123
19	Increase/(Decrease) to Property Tax Expense			$ (258)

References:
Column A: Company Rebuttal Schedule B-1, Page 1
Column B: Testimony, JMM, Surrebuttal Schedule JMM-WW8
Column C: Column [A] + Column [B]

RATE DESIGN

Monthly Minimum Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
Rate per 1,000 gal. water usage			
Residential	$ 2.73	$ 6.85	$ 10.43
Car washes, Laundromats, commercial, manufacturing	2.67	6.70	10.20
Hotels and Motels	3.58	8.99	13.68
Restaurants	4.42	11.09	16.88
Industrial Laundries	3.92	9.84	14.97
Waste Haulers	80.00	200.80	305.60
Restaurant Grease	70.00	175.70	267.40
Treatment Plant Sludge	80.00	200.80	305.60
Mud Sump Waste	250.00	627.50	955.00
Service Charges			
Establishment	$ 20.00	$ 20.00	$ 20.00
Establishment of Services after hours	40.00	40.00	40.00
Re-establishment of Service	*	*	*
Reconnection Services	50.00	50.00	50.00
Reconnection (Deliquent and After Hours)	40.00	40.00	40.00
Minimum Deposit Requirement	**	**	**
Deposit Interest	3.00%	3.00%	Per Rule
Charges for NSF Check	20.00	20.00	20.00
Deferred Payment Finance Charge	1.50%	1.50%	***
Late Payment, Per Month	***	***	***
Service Calls, per hour (After hours only)	40.00	40.00	40.00
Service Lateral Connection Charge:			
Residential	500.00	500.00	500.00
Commercial	Cost	Cost	Cost
Main Extension Tariff	Cost	Cost	Cost

* Per Commission Rule R14-2-603(D)
** Per Commission Rule R14-2-603(B)
*** Per Commission Rule R14-2-608(F)

UTILITY SOURCE, LLC. - Sewer Division
Docket No. WS-04235A-06-0303
Test Year Ended December 31, 2005

Surrebuttal Schedule JMM-WW13

Typical Bill Analysis
General Service 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	4,740	$ 12.94	$ 34.51	$ 21.57	166.67%
Median Usage	4,500	12.29	32.76	$ 20.48	166.67%
Staff Recommended					
Average Usage	4,740	$ 12.94	$ 49.43	$ 36.49	282.00%
Median Usage	4,500	12.29	46.93	$ 34.64	282.00%

Present & Proposed Rates (Without Taxes)
General Service 3/4-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	$ -	$ -		$ -	
1,000	2.73	7.28	166.67%	10.43	282.00%
2,000	5.46	14.56	166.67%	20.86	282.00%
3,000	8.19	21.84	166.67%	31.29	282.00%
4,000	10.92	29.12	166.67%	41.71	282.00%
5,000	13.65	36.40	166.67%	52.14	282.00%
6,000	16.38	43.68	166.67%	62.57	282.00%
7,000	19.11	50.96	166.67%	73.00	282.00%
8,000	21.84	58.24	166.67%	83.43	282.00%
9,000	24.57	65.52	166.67%	93.86	282.00%
10,000	27.30	72.80	166.67%	104.29	282.00%
11,000	30.03	80.08	166.67%	114.71	282.00%
12,000	32.76	87.36	166.67%	125.14	282.00%
13,000	35.49	94.64	166.67%	135.57	282.00%
14,000	38.22	101.92	166.67%	146.00	282.00%
15,000	40.95	109.20	166.67%	156.43	282.00%
16,000	43.68	116.48	166.67%	166.86	282.00%
17,000	46.41	123.76	166.67%	177.29	282.00%
18,000	49.14	131.04	166.67%	187.71	282.00%
19,000	51.87	138.32	166.67%	198.14	282.00%
20,000	54.60	145.60	166.67%	208.57	282.00%
25,000	68.25	182.00	166.67%	260.72	282.00%
30,000	81.90	218.40	166.67%	312.86	282.00%
35,000	95.55	254.80	166.67%	365.00	282.00%
40,000	109.20	291.20	166.67%	417.14	282.00%
45,000	122.85	327.60	166.67%	469.29	282.00%
50,000	136.50	364.00	166.67%	521.43	282.00%
75,000	204.75	546.00	166.67%	782.15	282.00%
100,000	273.00	728.00	166.67%	1,042.86	282.00%

BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON
Chairman
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
KRISTIN K. MAYES
Commissioner
GARY PIERCE
Commissioner

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C. FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PROPERTY AND FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE	)	DOCKET NO. WS-04235A-06-0303

SURREBUTTAL

TESTIMONY

OF

STEVEN P. IRVINE

PUBLIC UTILITIES ANALYST III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MARCH 19, 2007

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EXECUTIVE SUMMARY
UTILITY SOURCE, L.L.C.
DOCKET NO. WS-04235A-06-00303

The surrebuttal testimony of Staff witness Steven P. Irvine addresses the following issues:

Capital Structure – Staff recommends that the Arizona Corporation Commission ("Commission") adopt a capital structure for Utility Source, L.L.C. ("Applicant" or "Company") for this proceeding consisting of 0 percent debt and 100 percent equity.

Cost of Equity – Staff's estimated return on equity ("ROE") for the Applicant is based on cost of equity estimates for the sample companies of 9.4 percent for the capital asset pricing model ("CAPM") and 8.4 percent for the discounted cash flow method ("DCF").

Overall Rate of Return – Staff recommends that the Commission adopt an overall rate of return ("ROR") of 8.9 percent.

Response to Mr. Bourassa's Rebuttal Testimony – The Commission should reject the Company proposed 10.5 percent ROE for the following reasons:

1. The Company's DCF estimates rely exclusively on analyst's forecasts. In addition, the Company's DCF constant growth analysis does not include dividend growth.

2. The Company's risk premium analysis is not market based and inappropriately relies on forecasted interest rates for 10-year Treasuries for 2007-2008.

I. INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Steve Irvine. I am a Public Utilities Analyst employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Did you previously file direct testimony dealing with cost of capital in this case?

A. Yes.

Q. What matters are addressed in your surrebuttal testimony?

A. This surrebuttal testimony presents an update of Staff's cost of capital analysis and related recommendations for Utility Source, L.L.C. ("Utility Source" or "Company") and responds to cost of capital elements of the rebuttal testimony of Utility Source Witness Mr. Thomas J. Bourassa.

Q. Please explain how Staff's surrebuttal testimony is organized.

A. Staff's surrebuttal testimony is presented in four sections. Section I is this introduction. Section II discusses Staff's updated cost of capital analysis. Section III presents Staff's comments on the cost of capital elements of the rebuttal testimony of the Applicant's cost of capital witness, Mr. Thomas J. Bourassa. Section III contains five subheadings that group together common issues related to the Company's cost of capital rebuttal testimony. The subheadings are: unique risk and size; comparison to actual and authorized returns; analyst forecasts; Staff inputs; and capital asset pricing model ("CAPM"). Lastly, Section IV presents Staff's cost of capital recommendations.

II. UPDATED COST OF CAPITAL ANALYSIS

Q. Has Staff updated its cost of capital ("COC") analysis since filing direct testimony?

A. Yes. Staff has updated the analysis to reflect more current market data. Surrebuttal schedules SPI-1 through SPI-8 are included to support the new results and analysis.

Q. Has Staff updated the capital structure?

A. No. Staff continues to recommend a capital structure composed of 0 percent debt and 100 percent equity.

Q. Has Staff changed its method of calculating rate of return ("ROR")?

A. No. The methodology has not been changed.

Q. What is Staff's updated return on equity ("ROE")?

A. The ROE in Staff's direct testimony was 9.6 percent. Staff now recommends an 8.9 percent ROE.

Q. What is Staff's updated ROR estimate?

A. The ROR in Staff's direct testimony was 9.6 percent. Staff now recommends an 8.9 percent overall ROR for Utility Source. Staff's recommendation is based on an ROE of 8.9 percent and a cost of debt of 0 percent.

III. RESPONSE TO THE REBUTTAL TESTIMONY OF THE APPLICANT'S COST OF CAPITAL WITNESS MR. THOMAS J. BOURASSA

Q. Are there any overriding issues with the Company's position that sheds light on the Company's cost of capital testimony?

A. Yes. The Company's rebuttal testimony contains wrong conclusions, inconsistencies, misapplies concepts, and ignores important factors. However, the most revealing aspect of the Company's cost of capital testimony is its demonstration of a fundamental misunderstanding of the cost of equity itself. A major criticism by the Company of Staff's approach is the selection of inputs to the models. However, the Company has no credible grounds to criticize the inputs used by Staff in its cost of capital models. In addition, the Company has not selected superior inputs for cost of capital models.

Unique Risk and Size

Q. What is Staff's response to the Company's assertion that, "If there is a lack of diversification, limited revenues and cash flow, small customer base, higher regulatory risk, and higher liquidity risk, investors do care and risk is higher"?[1]

A. It is unclear whether the reference to lack of diversification refers to diversification of an investor's portfolio or the business lines of a company. If the statement means to convey that unique risks are important to an investor who does not hold a diversified portfolio, the statement may be true but is irrelevant to determination of cost of equity. Investors who hold diverse portfolios can eliminate non-systematic risk. Therefore, only systematic risk affects the cost of equity. The market does not reward for unique risk as it can be diversified away. If the statement means to cite lack of diversification of a company's business lines as an example of a unique risk that is a concern to investors, the statement may be true of investors who do not hold diverse portfolios, but is untrue for investors

[1] Thomas J. Bourassa's rebuttal testimony. Page 17.

holding diverse portfolios. Again, investors who hold diverse portfolios can eliminate non-systematic risk. Therefore, only systematic risk affects the cost of equity. The market does not reward for unique risk as it can be diversified away.

Q. Referring more specifically to the matter of size, what is Staff's response to the Company's argument that Utility Source faces additional risk related to the small size of the Company compared to the sample group?[2]

A. A firm's size is a unique risk. The market does not reward for unique risk as it can be diversified away. In previous decisions the Commission has determined that small size is not grounds for a risk premium.[3]

Q. What is Staff's response to the Company's assertion that the averages of the sample companies' betas do not reflect Utility Source's level of risk.[4]

A. The Commission has regularly adopted Staff's recommended ROE's for utilities whose stock is not traded based on use of these same sample companies. Furthermore, Staff's use of the sample companies for its CAPM analysis is just as valid as the Company's use of the sample for its DCF analysis. The sample companies and Utility Source are similar in that they are regulated utilities and serve captive customers. Any unique risks which may differentiate Utility Source from the sample companies are diversifiable and not grounds for a risk premium.

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[2] Ibid. Page 17.
[3] Examples can be found in Decision Nos. 64282, 64727, and 66849.
[4] Thomas J. Bourassa's rebuttal testimony. Page 17.

Q. What is Staff's response to the Company's Exhibit No. 2 that contains a 2004 staff memorandum from the California Public Utilities Commission ("CPUC") detailing differing rate of return guidelines based on company size?

A. The Arizona Corporation Commission has previously ruled that firm size does not warrant recognition of a risk premium. Furthermore, as investors' expectations change over time, cost of equity findings made in 2004 should not be used as a basis for cost of equity estimation in 2007.

Q. Can Staff cite any studies that address the effects of a utility's small size on its cost of capital?

A. Yes. This matter is the subject of a study by Annie Wong, which was published in the *Journal of the Midwest Finance Association* in 1993. The study concluded that while a firm size risk factor may be required for industrial firms, it is not required for utilities:

> The objective of this study is to examine if the size effect exists in the utility industry. After controlling for equity values, there is some weak evidence that firm size is a missing factor from the CAPM for the industrial but not for the utility stocks. This implies that although the size phenomenon has been strongly documented for the industrials, the findings suggest that there is no need to adjust for the firm size in utility rate regulations.[5]

[5] Wong, Annie. "Utility Stocks and the Size Effect: An Empirical Analysis." *Journal of the Midwest Finance Association*. 1993. Page 98.

Q. Does Wong explain why size is not relevant in the utility industry?

A. Yes. Wong explains that the main reasons are monopolistic power and the regulated financial structure of utilities:

> First, given firm size, utility stocks are consistently less risky than industrial stocks. Second, industrial betas tend to decrease with firm size but utility betas do not. These findings may be attributed to the fact that all public utilities operate in an environment with regional monopolistic power and regulated financial structure. As a result, the business and financial risks are very similar among the utilities regardless of their sizes. Therefore, utility betas would not necessarily be expected to be related to firm size.[6]

Q. Does Staff have any comments regarding the article by Dr. Thomas Zepp that argues that a firm size effect exists for utilities?[7]

A. Yes. The study shown in Table 2 of the article shows sample size limited to a comparison between DCF based cost of equity estimates for two smaller companies and two larger companies.[8] Based on this limited sample, the article claims to find a significant difference.[9] The article fails to identify essential elements to support that finding. For example, there is no explanation of the sample selection process to demonstrate that the sample companies are representative of these respective populations.

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[6] Ibid. Page 98.
[7] Thomas J. Bourassa's rebuttal testimony. Page 18 and 19.
[8] Zepp, Thomas M. "Utility Stocks and The Size Effect – Revisited." *The Quarterly Review of Economics and Finance* 2002. Page 580.
[9] Ibid. Page 580.

Q. Does Staff have any comments regarding the 18.8, 15.7 and 14.2 percent returns for mid cap stocks that the Company cites as findings of the study by Ibbotson Associates?[10]

A, Yes. The returns cited are long-term returns for samples of stocks listed with New York Stock Exchange, American Stock Exchange, and the Nasdaq National Market and are not returns for utilities.[11]

Q. What is Staff's response to the Company's argument that the Commission's previous decisions rejecting arguments for firm size adjustments do not apply to all Arizona regulated utilities?[12]

A. It is not customary for the Commission to make a judgment on a specific principle in an individual rate case and expressly apply the principle to all other regulated Arizona utilities. Such a global finding would more customarily be made in a generic docket. However, it can be said that the Commission has repeatedly rejected the firm size adjustment argument in recent cases.[13]

Comparison to Actual and Authorized Returns

Q. What is Staff's response to the Company's view that earnings play a far greater role in investment decisions than the results of a CAPM or DCF model?[14]

A. Actual earnings are not the earnings expected by the market and thus cannot be equated with cost of equity ("COE"). The return earned by other companies may be one consideration in estimating COE, but such returns should not be given a far greater role in consideration of COE estimation as asserted by the Company.[15] The COE is the

[10] Thomas J. Bourassa's rebuttal testimony. Page 15.
[11] Ibbotson Associates. *Stocks, Bonds, Bills, and Inflation Valuation Edition 2006 Yearbook. 2006.* Page 141.
[12] Thomas J. Bourassa's rebuttal testimony. Page 19 and 20.
[13] Examples can be found in Decision Nos. 64282, 64727, and 66849.
[14] Thomas J. Bourassa's rebuttal testimony. Page 11.
[15] Ibid. Page 11.

expectation of investors, not the historical earnings. Recognizing this distinction is necessary for understanding the COE concept.

Q. What is Staff's response to the Company's argument that the current COE should be higher than ROE's set by regulators in 2003 and 2004 for the sample companies as shown in D-4.14 as a result of increased interest rates?[16]

A. This argument ignores other important factors and displays a fundamental misunderstanding of a financial concept. This comparison fails to recognize that COE changes over time and that the returns authorized for the sample utilities in prior rate cases cannot be compared directly to the market expectations that exist presently. The Company itself notes that authorized ROE's may differ from COE if the authorized ROE's are the result of settlement agreements.[17] Furthermore, many variables influence COE and an increase in interest rates does not necessarily result in an increase in cost of capital.

Q. Does Staff have further comments regarding the Company's view that authorized ROE's may be a conservative measure of COE?[18]

A. Yes. Staff would note that settlement agreements could also result in an ROE above the COE should parties allow a higher ROE in exchange for some other concession. Similarly, a regulator could choose to set ROE above COE at its own discretion for whatever reason it sees fit. This is one reason, as cited previously, that authorized ROE's cannot be equated with COE.

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[16] Ibid. Page 9.
[17] Ibid. Page 9.
[18] Ibid. Page 9.

Q. What comment does Staff have in regard to the 13.34 percent rate of return that the Company calculates using a comparable earnings analysis?[19]

A. Actual returns should not be equated with COE. Staff also notes that the percentages shown in the annual average column appear to be the product of the percent increase in the "5 Years" column divided by five. Such a product would not yield average annual growth as it does not recognize compounding. The percentages in the average annual column should reflect smaller percentages of growth to account for annual compounding.

Q. What is Staff's comment on the Company's suggestion that projected interest rates should be used rather than current interest rates in cost of equity estimation?[20]

A. Analysts who forecast interest rates do not have any more information about the future than what is already reflected in the current rate. Present rates are more appropriate than forecasted rates, as the best indicator of tomorrow's yield is today's yield.

Use of Analyst's Forecasts

Q. What comments does Staff have regarding Mr. Bourassa's discussion of the merits of analysts' forecasts compared to other measures of growth such as historical growth rates?

A. Staff reiterates comments made in direct testimony as this matter has already been addressed. As analysts projections may differ from historic growth rates and both measures are available to the public, Staff includes both measures of growth in COE estimation to provide a balanced approach.

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[19] Ibid. Page 10.
[20] Ibid. Page 13.

Q. Are historical growth rates any less subjective than using analyst expectations of growth?

A. Yes. Historical growth rates are the product of calculations. Analysts' projections are the products of human judgment. While analysts' projections are more subjective, Staff uses both historical growth and analysts' projections to achieve a balanced approach to COE estimation as discussed previously.

Q. Please discuss the Company's exclusion of historical dividends per share ("DPS") and EPS growth from its DCF model.

A. Exclusion of inputs that tend to either increase or decrease results produces a skewed result rather than the balanced outcome that is Staff's objective. Staff includes historical DPS and EPS growth because this is information readily available, and it is reasonable to expect investors to consider this information in making investment decisions. Had Staff excluded historical DPS and EPS, it would have been necessary to also exclude the highest growth components in order to maintain a balanced outcome. Staff's methodology for calculation of growth for use in the DCF model gives equal weight to historical and projected EPS, DPS and sustainable growth. Calculation of Staff's DCF growth rate component is shown in Surrebuttal Schedule SPI-7.

Q. What is Staff's comment regarding the Company's exclusion of DPS growth in its DCF analysis?[21]

A. Recently, in Decision No. 68487, dated February 23, 2006, the Commission rejected a similar action by an applicant who had excluded several DCF return rates as the results were less than returns being authorized in other jurisdictions.[22] Exclusion of inputs that

[21] Ibid. Page 7.
[22] Docket No. G-01551A-04-0876.

produce results that are viewed as either too low or too high based on a comparison to a benchmark of one's choosing is inappropriate.

Staff Inputs

Q. Please comment on the Company's characterization of the inputs for Staff's models as biased.

A. Staff does not exclude inputs to the models because they produce results that are above or below a selected benchmark and are viewed as too low or too high. In the case of Staff's exclusion of Connecticut's negative EPS growth, Staff has excluded the negative growth as it is inconsistent with the DCF model.

Q. Please comment on Staff's use of both arithmetic and geometric means in cost of equity estimation?

A. Staff uses both arithmetic and geometric means in the cost of equity analysis as it provides a balanced approach to the analysis. David Parcell's *The Cost of Capital- A Practitioner's Guide* describes that a dispute frequently occurs related to the question of whether arithmetic or geometric growth better portrays expected growth in the DCF model and that neither viewpoint reigns supreme.[23] Parcell also states that findings of a study by Carleton and Lakonishok on the matter lead to a conclusion that investors likely consider both arithmetic and geometric growth rates.[24]

[23] Parcell, David C. *The Cost of Capital – A Practitioner's Guide.* Parcell. 1997. Pages. 8 – 22 and 8 - 23.
[24] Ibid. Page 8 – 24.

CAPM

Q. What comment does Staff have in response to the Company's assertion that Staff's current market risk premium ("MRP") is very unstable?[25]

A. It is incorrect to conclude that changes in Staff's current MRP over time signify instability in Staff's method for determining the MRP. Changes in Staff's current MRP results are a reflection of changes in the market's current risk premium rather than instability in Staff's method.

Q. Please discuss the Company's comments regarding Staff's use of median values rather than average (mean) values in deriving the current MRP.

A. The Company represents that it has calculated the average price dividend yield and average price appreciation potential and that the averages are higher than the medians used by Staff. Staff has not calculated the averages for the appreciation potential and dividend yield. Rather than calculating the averages, Staff has relied on the median values for these indicators published on the front page of *Value Line*'s weekly *Investment Survey*. Staff notes that *Value Line* publishes the medians on the front page of the *Investment Survey* and that the Company has calculated the averages as an alternative. Staff has chosen to use the median dividend yields and median appreciation potential as the figures are highly accessible both to Staff and the investment community. In addition to being more accessible, median measures also have the benefit of being less affected by statistical outliers.

[25] Thomas J. Bourassa's rebuttal testimony. Page 23.

Q. Are there clear technical merits to the use of either median or average (mean) values in calculation of dividend yield or appreciation potential?

A. No. Both are measures of central tendency. One cannot know in advance whether a random set of data will have a higher median or average. For this reason, Staff's use of median values is not meant to reduce Staff's cost of equity estimation. Staff has relied on the median values consistently in the past as they are less affected by statistical outliers than average values and are published figures on *The Value Line Investment Survey*'s front page.

IV. STAFF RECOMMENDATIONS

Q. What are Staff's recommendations for Utility Source's cost of capital?

A. Staff makes the following recommendations for Utility Source's cost of capital:

1. Staff recommends a capital structure of 0 percent debt and 100 percent equity.
2. Staff recommends no cost of debt as it is not applicable.
3. Staff recommends a cost of equity of 8.9 percent.
4. Staff recommends an overall rate of return of 8.9 percent.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

Utility Source LLC
Capital Structure
And Weighted Average Cost of Capital
Staff Recommended and Company Proposed

[A]	[B]	[C]	[D]
Description	Weight (%)	Cost	Weighted Cost
Staff Recommended Structure			
Debt	0.0% [1]	N/A	0.0%
Common Equity	100.0% [1]	8.9% [2]	8.9%
Weighted Average Cost of Capital/ROR			**8.9%**
Company Proposed Structure			
Debt	0.0%	0.0%	0.0%
Common Equity	100.0%	10.5%	10.5%
Weighted Average Cost of Capital/ROR			**10.5%**

[D] : [B] x [C]

1 Supporting Schedules: SPI-3

2 Supporting Schedule: SPI-2

Utility Source LLC
Final Cost of Equity Estimates
Sample Water Utilities

[A]	[B]		[C]		[D]		[E]
DCF Method			D_1/P_0 [1]	+	g [2]	=	k
Constant Growth DCF Estimate			2.5%	+	5.2%	=	7.7%
Multi-Stage DCF Estimate						=	9.1%
Average of DCF Estimates							**8.4%**
CAPM Method	Rf	+	β [5]	x	(Rp)	=	k
Historical Market Risk Premium[3]	4.7%	+	0.85	x	7.5% [6]	=	11.0%
Current Market Risk Premium[4]	4.8%	+	0.85	x	3.6% [7]	=	7.8%
Average of CAPM Estimates							**9.4%**
					Average		**8.9%**
					Total		**8.9%**

1 MSN Money and Value Line

2 SPI-7

3 Wall Street Journal (Rf) 5, 7, and 10 year Treasury rates

4 Wall Street Journal (Rf) 30 Year Treasury bond rate

5 Value Line

6 Historical Market Risk Premium (Rp) from Ibbotson Associates SBBI 2006 Yearbook

7 Testimony

Utility Source LLC
Average Capital Structure of Sample Water Utilities

[A]	[B]	[C]	[D]
Company	Debt	Common Equity	Total
American States Water	51.7%	48.3%	100.0%
California Water	49.8%	50.2%	100.0%
Aqua America	54.6%	45.4%	100.0%
Connecticut Water	45.0%	55.0%	100.0%
Middlesex Water	59.4%	40.6%	100.0%
SJW Corp	47.0%	53.0%	100.0%
Average Sample Water Utilities	51.3%	48.7%	100.0%
Utility Source LLC	0.0%	100.0%	100.0%

Source:
Sample Water Companies from Value Line

Utility Source LLC
Growth in Earnings and Dividends
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
Company	Dividends Per Share 1996 to 2005 DPS[1]	Dividends Per Share Projected DPS[1]	Earnings Per Share 1996 to 2005 EPS[1,2]	Earnings Per Share Projected EPS[1]
American States Water	1.1%	1.7%	2.5%	7.6%
California Water	1.1%	1.4%	2.3%	4.1%
Aqua America	6.2%	10.9%	9.4%	7.1%
Connecticut Water	1.3%	No Projection	-0.9%	No Projection
Middlesex Water	2.2%	No Projection	0.4%	No Projection
SJW Corp	4.2%	No Projection	6.6%	No Projection
Average Sample Water Utilities	2.7%	4.7%	4.2%	6.3%

1 Value Line

2 Note that the figure -0.9% has been excluded from the calculation.

Utility Source LLC
Sustainable Growth
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
Company	**Retention Growth 1996 to 2005 br**	**Retention Growth Projected br**	**Stock Financing Growth vs**	**Sustainable Growth 1996 to 2005 br + vs**	**Sustainable Growth Projected br + vs**
American States Water	2.6%	5.0%	1.5%	4.1%	6.5%
California Water	2.6%	2.9%	2.9%	5.5%	5.8%
Aqua America	4.4%	4.0%	6.1%	10.6%	10.2%
Connecticut Water	2.7%	No Projection	0.6%	3.4%	No Projection
Middlesex Water	1.2%	No Projection	4.3%	5.4%	No Projection
SJW Corp	5.2%	No Projection	0.0%	5.2%	No Projection
Average Sample Water Utilities	3.1%	4.0%	2.6%	5.7%	7.5%

[B]: Value Line
[C]: Value Line
[D]: Value Line and MSN Money
[E]: [B]+[D]
[F]: [C]+[D]

Utility Source LLC
Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Company	Symbol	Spot Price 2/21/2007	Book Value	Mkt To Book	*Value Line* Beta β	Raw Beta βraw
American States Water	AWR	40.02	16.42	2.4	0.80	0.67
California Water	CWT	41.20	16.08	2.6	0.90	0.82
Aqua America	WTR	23.57	7.76	3.0	0.90	0.82
Connecticut Water	CTWS	24.97	12.03	2.1	0.90	0.82
Middlesex Water	MSEX	18.34	8.79	2.1	0.85	0.75
SJW Corp	SJW	36.94	10.95	3.4	0.75	0.60
Average				**2.6**	**0.85**	**0.75**

[C]: MSN Money

[D]: Value Line

[E]: [C] / [D]

[F]: Value Line

[G]: -0.35 + [F] / 0.67

Utility Source LLC
Calculation of Expected Infinite Annual Growth in Dividends
Sample Water Utilities

[A]	[B]
Description	g
DPS Growth - Historical[1]	2.7%
DPS Growth - Projected[1]	4.7%
EPS Growth - Historical[1]	4.2%
EPS Growth - Projected[1]	6.3%
Sustainable Growth - Historical[2]	5.7%
Sustainable Growth - Projected[2]	7.5%
Average	**5.2%**

1 Schedule SPI-4

2 Schedule SPI-5

Utility Source LLC
Multi-Stage DCF Estimates
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[H]	[I]
Company	Current Mkt. Price (P_o)[1] 2/21/2007	Projected Dividends[2] (Stage 1 growth) (D_t) d_1	d_2	d_3	d_4	Stage 2 growth[3] (g_n)	Equity Cost Estimate (K)[4]
American States Water	40.0	0.72	0.75	0.79	0.83	6.8%	8.4%
California Water	41.2	1.16	1.22	1.28	1.35	6.8%	9.5%
Aqua America	23.6	0.47	0.50	0.52	0.55	6.8%	8.7%
Connecticut Water	25.0	0.88	0.93	0.98	1.03	6.8%	10.1%
Middlesex Water	18.3	0.55	0.57	0.60	0.64	6.8%	9.6%
SJW Corp	36.9	0.61	0.64	0.67	0.70	6.8%	8.3%

Average **9.1%**

$$P_0 = \sum_{t=1}^{n} \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K-g_n}\left[\frac{1}{(1+K)}\right]^n .$$

Where : P_0 = current stock price

D_t = dividends expected during stage 1

K = cost of equity

n = years of non – constant growth

D_n = dividend expected in year n

g_n = constant rate of growth expected after year n

1 [B] see schedule SPI-6

2 Derived from Value Line Information

3 Average annual growth in GDP 1929 - 2006 in current dollars.

4 Internal Rate of Return of Projected Dividends

ORIGINAL

BEFORE THE ARIZONA CORPORATION

3DNE

COMMISSIONERS

MIKE GLEASON, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

EXHIBIT
S-3
admitted

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C. FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PROPERTY AND FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICES.

DOCKET NO. WS-04235A-06-0303

NOTICE OF FILING REVISED SURREBUTTAL TESTIMONY

On March 19, 2007, Staff of the Arizona Corporation Commission ("Staff") filed its surrebuttal testimony for this proceeding. Staff inadvertently included incorrect schedules in the portion dealing with the wastewater division of Utility Source LLC ("Company"). Conforming changes to numbers provided in the testimony to reflect the corrected schedule information have also been made in the testimony dealing with the Company's wastewater division.

RESPECTFULLY SUBMITTED this 21st day of March, 2007.

Charles H. Hains
Attorney, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

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Original and thirteen (13) copies of the foregoing were filed this 21st day of March, 2007 with:

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Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Copy of the foregoing mailed this
21st day of March, 2007 to:

Richard L. Sallquist
SALLQUIST, DRUMMOND & O'CONNOR, P.C.
4500 South Lakeshore Drive, Suite 339
Tempe, Arizona 85282
Attorney for Utility Source, LLC

Utility Source, LLC
721 East San Pedro
Gilbert, Arizona 85234

Ponderosa Fire District
c/o Starr Lanphere, Board Chairman
P.O. Box 16359
Bellemont, Arizona 86015

David Hitesman
4661 North Bellemont Spring
Bellemont, Arizona 86015

Dennis Jones
11573 West Cove Crest
Bellemont, Arizona 86015

Tom Bourassa
139 West Wood Drive
Phoenix, Arizona 85029

Shaylin Begay

BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON
Chairman
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
KRISTIN K. MAYES
Commissioner
GARY PIERCE
Commissioner

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C. FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PROPERTY AND FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICES.	)	DOCKET NO. WS-04235A-06-0303

REVISED SURREBUTTAL

TESTIMONY

OF

JEFFREY M. MICHLIK

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MARCH 22, 2007

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EXECUTIVE SUMMARY
UTILITY SOURCE, LLC-WASTEWATER
DOCKET NO. WS-04235A-06-0303

Upon review of its surrebuttal testimony submitted to Docket Control on Monday, March 19th, 2007, Staff noted two errors. The first was that the incorrect surrebuttal schedules were included. The second error was that one of Staff's adjustments described in the surrebuttal testimony was not reflected in the surrebuttal schedule. Therefore, Staff is submitting its revised surrebuttal testimony and schedules.

Staff's revised surrebuttal testimony recommends revised rates that would increase operating revenues by $121,549 to produce operating revenues of $235,454 resulting in operating income of $113,905, or a 106.71 percent increase over test year revenues of $113,905. Staff also recommends a revised FVRB of $1,113,582.

Revenue Requirement

Staff recommends its revenue requirement, revenue increase, and percentage of revenue increase.

Rate Base

Staff responds to the Company's adjustment to accumulated amortization of contributions in aid of construction ("CIAC"), and further comments on why some of the plant in service items should still be disallowed.

Income Statement

Staff responds to the Company's unfounded and incorrect assertions regarding why Staff originally accepted the Company's proposal.

Rate Design

Staff explains the new rate design and the effects it will have on wastewater customers.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Jeffrey M. Michlik. I am a Public Utilities Analyst V employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Jeffrey M. Michlik who filed direct testimony in this case?

A. Yes, I am.

Q. Why is Staff submitting revised surrebuttal testimony?

A. Upon review of its surrebuttal testimony submitted to Docket Control on Monday, March 19th, 2007, Staff noted two errors. The first was that the incorrect surrebuttal schedules were included. The second error was that one of Staff's adjustments described in the surrebuttal testimony was not reflected in the surrebuttal schedule. Therefore, Staff is submitting its revised surrebuttal testimony and schedules.

Q. What is the purpose of your revised surrebuttal testimony in this proceeding?

A. The purpose of my revised surrebuttal testimony in this proceeding is to provide Staff's response to the rebuttal testimony of Utility Source, LLC ("Company") witness, Mr. Thomas J. Bourassa, regarding revenue requirement, rate base, operating revenues and expenses, and rate design.

Q. Please explain how Staff's revised surrebuttal testimony is organized.

A. Staff's revised surrebuttal testimony is generally organized to present issues in the same sequence as presented in Mr. Bourassa's rebuttal testimony.

Q. Does Staff's lack of response to a particular issue mean it is accepting the Company's position on that issue?

A. No. Staff's lack of response to any issue in this surrebuttal testimony should not be construed as agreement with the Company's rebuttal testimony; rather, where there is no response, Staff relies on its original direct testimony.

RESPONSE TO MR. THOMAS J. BOURASSA'S REBUTTAL TESTIMONY

Revenue Requirement

Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony regarding revenue requirement?

A. Yes.

Q. Please summarize the proposed and recommended revenue requirement, revenue increase, and percentage increase.

A. The proposed and recommended revenue requirement, revenue increase, and percentage increase are as follows:

	Revenue Requirement	Revenue Increase	Percentage Increase
Company-Direct	$301,124	$187,220	164.37 percent
Staff-Direct	$224,908	$111,003	97.45 percent
Company-Rebuttal	$283,384	$169,479	148.79 percent
Staff-Revised Surrebuttal	$235,454	$121,549	106.71 percent

Q. Why is the Company's revenue requirement and proposed increase higher than Staff's?

A. As Mr. Bourassa suggests, the differences in revenue requirement are primarily a result of the differences in rate base, cost of capital, and depreciation expense; with the balance being attributed to the level of property taxes. *See* Rebuttal Testimony of Thomas J. Bourassa ("Bourassa RT") at 2.

Q. Does the Company still propose to include pro forma revenues from future customer growth in the determination of the revenue requirement and rate increase for the sewer division?

A. Yes, *See* Bourassa RT at 2.

Q. Is Staff still willing to accept the Company's proposal to include future growth of 350 customers in the sewer division?

A. Yes.

Rate Base

Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony regarding rate base?

A. Yes.

Q. Would you please identify each party's respective rate base recommendations?

A. Yes. The rate bases proposed and recommended by all parties in the case are as follows:

	OCRB	FVRB
Company-Direct	$1,401,953	$1,401,953
Staff-Direct	$989,576	$989,576
Company-Rebuttal	$1,314,093	$1,314,093
Staff-Revised Surrebuttal	$1,113,582	$1,113,582

Q. Are there any adjustments to plant in service that were overlooked by Staff in direct testimony?

A. Yes, Account 380 – Treatment and Disposal Equipment was valued at $1,106,874 in the original application and, per examination of the general ledger, was broken out as follows:

Memo	Amount
Treatment Plant #1	$ 333,500
Treatment Plant #2	$ 546,704
Evaporative Lagoons	$ 161,000
Power to Site	$ 16,100
WWTP	$ 3,750
WWTP	$ 45,819
Total	$1,106,874

In response to Staff data request JCB 3.18 regarding Account #380 Treatment and Disposal Equipment, Treatment Plant #2, and JCB 3.19 regarding Account #380 Treatment and Disposal Equipment – Evaporative Lagoons, the Company states that there

were mistakes in both sub accounts as one was understated and the other overstated. In the case of Treatment Plant # 2 the Company stated that the original amount of $546,704 was incorrect and the total treatment cost for Treatment Plant #2 should be $463,011 a decrease of $83,693. In the case of the Evaporative Lagoons the Company stated that the original amount of $161,000 was understated and the total evaporative lagoons cost should be $220,586, an increase of $59,586. The net effect of the overstatement of the costs for Treatment Plant # 2 in the amount of $83,693 and the understatement of the costs for the evaporative lagoons in the amount of $59,586 nets to a decrease of $24,107 (i.e., 83,693-59,586). This adjustment is reflected at line 3 of Staff Revised Surrebuttal Schedule JMM-WW4.

Q. Are there any other adjustments that you would like to make changes to in Staff's direct testimony?

A. Yes, due to a typographical error, the amount which Staff disallowed in the direct testimony for account 380 treatment and disposal Equipment for Evaporative lagoons was $178,231, but should have been $178,703. This adjustment is reflected at line 4 of Staff Revised Surrebuttal Schedule JMM-WW4.

Q. Mr. Bourassa states that $68,271 in costs related to wastewater treatment should be included in plant in service. *See* Bourassa RT at 4. Has the Company provided additional information to Staff to support its claim?

A. Yes, per examination of the rebuttal testimony, contract, and additional information provided by the Company, Staff has determined that this amount should be included in wastewater treatment plant # 1, and has removed its adjustment of it in Staff Revised Surrebuttal Schedule JMM-WW4.

Q. Mr. Bourassa states that $178,231 (which is now $178,703) of costs related to evaporative lagoons consisting of water falls, streams, pond is an integral component of the wastewater treatment system. *See* Bourassa RT at 5. Does Staff agree?

A. No, per examination of the Arizona Department of Environmental Quality Aquifer Protection Permit ("APP") # 104083, Flagstaff Meadows Wastewater Treatment Plant ("WWTP"). Under the Facility Description:

"The WWTP process will consist of an influent lift station, headwork with bars screens, an equalization basin, anoxic and aeration tanks for nitrification-denitrification, secondary clarifiers, filters, a chlorine disinfection contact tank, dechlorination, a sludge holding tank, sludge belt press thickeners, and effluent pump station, and a clay lined effluent holding pond. The effluent generated is discharged into an unnamed tributary to Volunteer Wash as regulated by the Arizona Discharge Elimination System permit AZ0024708 and/or by reuse under a valid reuse permit."

There is no mention of a lake with a fountain, waterfalls, streambeds or other additional pond within the Company's APP.

Q. What is Staff's understanding of an APP?

A. It is Staff's understanding that the APP serves as a blue print as to what the Company is allowed to construct.

Q. So Staff would agree after reading the Company's APP, that the Company is allowed to construct a clay lined effluent holding pond?

A. Yes.

Q. In Staff data request 5.3, did Staff specifically ask the Company why the lake, waterfalls, streambeds and other pond were not mentioned in the APP?

A. Yes.

Q. What was the Company's response?

A. The Company responded that "the lake, water fall, stream and pond and all water features, are lined and part of the APP facilities.

Q. What is Staff's position?

A. Staff does not agree. Staff, as stated earlier, believes the Company is allowed to construct a clay lined effluent holding pond, and that any additional, decorative features beyond that are at the Company's discretion and not required by ADEQ.

Q. Please comment on Mr. Bourassa's statement that effluent used for the purpose of turf irrigation is beneficial to the Company? *See* Bourassa RT at 9.

A. Staff agrees with the Company's statement that the use of effluent for turf irrigation is beneficial. However, that is not at issue, what is at issue is whether the rate payers should pickup the costs of these additional water features that were not included in the APP.

Q. Was the Company able to respond to Staff's data request 5.2 which asked for a breakout of significant items included in the wastewater aeration system such as the lake, waterfalls, streambeds and pond?

A. No, Staff e-mailed a copy of an invoice in the amount of $178,703 from Red Rock Contractors which contained the Flagstaff Meadows Water Feature Project Overview, and asked the Company to breakout these costs. The Company responded that it was unable to breakout these costs.

Q. Does Staff know if the pond mentioned in the APP is included in this invoice?

A. No, the invoice does not mention the upper pond, and the Company was unable to breakout the pond costs for Staff. Therefore, Staff, as in its direct testimony, believes the water features are not a necessary component of the utility system, but contribute to a park-like setting for the general development which has already profited the owners through the sale of homes in the Flagstaff Meadows development project, and these costs should be disallowed.

Q. Are there also power costs involved to pump water from the holding pond to the lake, and other costs related to operating the lake fountain?

A. Yes, however at this point Staff is unable to breakout these costs, but recommends that the Company be required to separate these costs in its next rate application so that these expenses can be independently analyzed.

Q. Mr. Bourassa states that Staff disallowed $99,272 of costs related to wastewater treatment plant #2, but should have included this amount as there is other sufficient supporting documentation to substantiate the costs. *See* Bourassa RT at 5. Does Staff accept this number?

A. No, as mentioned earlier in response to Staff data request 2.1, the Company supplied Staff with a detailed schedule of account balances in which the Company stated that account 380 Treatment and Disposal Equipment Treatment Plant # 2 was valued at $546,704. However, per examination of the Company's response to Staff data request number 3.18, in which Staff asked for a detailed line item schedule of all costs incurred from Santec for Treatment Plant # 2, the Company presented Staff with a different amount. The Company stated that: "Our review of these costs, contract billings and change order billings found the following Santec invoices to be applicable to the costs for account # 380 Treatment and Disposal Equipment, Treatment Plant # 2." The revised cost presented by the Company for Treatment Plant # 2 is $463,011, a shortfall of $83,693. Therefore, this lends credence to Staff's adjustment as there is not other sufficient supporting documentation to substantiate these costs ($83,693) due to the Company's own admission that it does not exist. Therefore, Staff is only making a $13,579 adjustment (i.e., $463,011-$449,432 the number of cancelled checks) for unsubstantiated documentation. This adjustment is reflected at line 4 of Staff Revised Surrebuttal Schedule JMM-WW4.

Q. Mr. Bourassa states that accumulated amortization of CIAC should be increased to reflect 2 years of amortization. *See* Bourassa RT at 6. Does Staff accept this?

A. Yes. However, the amount will differ due to Staff's CIAC amortization rate which is calculated from the plant in service depreciation composite rate. Staff's adjustment increases accumulated amortization by $4,142, from $8,283 to $12,425 as the associated accumulated amortization should include 2 years of amortization (using a ½ year convention) starting in 2004. This adjustment is shown on Revised Surrebuttal Schedule JMM-WW6.

Income Statement

Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony regarding the income statement?

A. Yes.

Q. Please comment on Mr. Bourassa's statement that Staff's acceptance of the Company's direct proposal to include the 350 projected customers is justified in order to further penalize the Company? *See* Bourassa RT at 9.

A. This statement is unfounded and incorrect. If you read through its direct testimony submitted, Staff specifically states throughout its testimony that it has accepted the **Company's proposal** in ***an effort to alleviate the rate burden on customers,*** as shown below:

"Staff, in an ***effort to alleviate the rate burden on customers,*** has accepted the **Company's proposal** and will include estimated usage of 350 homes that are currently being built, in the rate design" *See* Direct Testimony of Jeffrey M. Michlik ("Michlik DT") in the Executive Summary.

"Why is Staff accepting these projected numbers? The numbers submitted by the Company are known projects currently under development and assume that the homes will be built. The **Company has provided these numbers** in ***an effort to minimize the impact on the rates*** and is not intended to set any precedent for this or any other utility regulated by the Commission." *See* Michlik DT at 11.

"In an effort to lessen the rate impact on customers, **the Company in its rate application proposed including 350 homes that are currently being built**. Staff accepted the Company's proposal and has included these 350 customers in the rate design *in order to ameliorate the rate shock that current and future customers will experience*." *See* Michlik DT at 17.

Rate Design

Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony regarding Rate Design?

A. Yes.

Q. Has Staff's rate design changed as a result of the Company's rebuttal testimony?

A. Yes, Staff has provided a revised rate design. See Staff Revised Surrebuttal Schedule JMM-WW11.

Q. What is the rate impact on a ¾-inch meter residential customer using a median consumption of 4,500 gallons?

A. The median usage of residential ¾-inch meter customers is 4,500 gallons per month. The ¾-inch meter residential customer would experience $18.54 or 150.92 percent increase in their monthly bill from $12.29 to $30.83 under the Company's proposed rates and a $14.00 or 114.00 percent increase in their monthly bill from $12.29 to $26.29 under Staff's recommended rates. *See* Staff Revised Surrebuttal Schedule JMM-WW12.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

UTILITY SOURCE, LLC. - Wastewater Division
Docket No. WS-04235A-06-0303
Test Year Ended December 31, 2005

Revised Surrebuttal Schedule JMM-WW1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY REBUTTAL ORIGINAL COST	(B) COMPANY REBUTTAL FAIR VALUE	(C) STAFF SURREBUTTAL ORIGINAL COST	(D) STAFF SURREBUTTAL FAIR VALUE
1	Adjusted Rate Base	$ 1,314,093	$ 1,314,093	$ 1,113,582	$ 1,113,582
2	Adjusted Operating Income (Loss)	$ (31,551)	$ (31,551)	$ (22,441)	$ (22,441)
3	Current Rate of Return (L2 / L1)	-2.40%	-2.40%	-2.02%	-2.02%
4	Required Rate of Return	10.50%	10.50%	8.90%	8.90%
5	Required Operating Income (L4 * L1)	$ 137,980	$ 137,980	$ 99,109	$ 99,109
6	Operating Income Deficiency (L5 - L2)	$ 169,531	$ 169,479	$ 121,549	$ 121,549
7	Gross Revenue Conversion Factor	1.0000	1.0000	1.0000	1.0000
8	Required Revenue Increase (L7 * L6)	$ 169,479	$ 169,479	$ 121,549	$ 121,549
9	Adjusted Test Year Revenue	$ 113,905	$ 113,905	$ 113,905	$ 113,905
10	Proposed Annual Revenue (L8 + L9)	$ 283,384	$ 283,384	$ 235,454	$ 235,454
11	Required Increase in Revenue (%)	148.79%	148.79%	106.71%	106.71%
12	Rate of Return on Rate Base (%)	10.50%	10.50%	8.90%	8.90%

References:
Column (A): Company Rebuttal Schedule B-1
Column (B): Company Rebuttal Schedule B-1
Column (C): Staff Revised Surrebuttal Schedules JMM-WW2, JMM-WW7
Column (D): Staff Revised Surrebuttal Schedules JMM-WW2, JMM-WW7

UTILITY SOURCE, LLC. - Wastewater Division
Docket No. WS-04235A-06-0303
Test Year Ended December 31, 2005

Revised Surrebuttal Schedule JMM-WW2

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY REBUTTAL AS FILED	(B) STAFF SURREBUTTAL ADJUSTMENTS	REF	(C) STAFF SURREBUTTAL AS ADJUSTED
1	Plant in Service	$ 1,595,481	$ (216,389)	ADJ # 1	$ 1,379,092
2	Less: Accumulated Depreciation	96,191	(16,229)	ADJ # 2	79,962
3	Net Plant in Service	$ 1,499,290	$ (200,160)		$ 1,299,130
	LESS:				
4	Contributions in Aid of Construction (CIAC)	$ 197,973	$ -		$ 197,973
5	Less: Accumulated Amortization	12,777	(352)	ADJ # 3	12,425
6	Net CIAC	185,196	352		185,548
7	Advances in Aid of Construction (AIAC)	-	-		-
8	Customer Deposits	-	-		-
9	Deferred Income Tax Credits	-	-		-
	ADD:				
10	Unamortized Finance Charges	-	-		-
11	Deferred Tax Assets	-	-		-
12	Working Capital	-	-		-
13	**Original Cost Rate Base**	$ 1,314,094	$ (200,512)		$ 1,113,582

References:
Column (A), Company Rebuttal Schedule B-1
Column (B): Revised Surrebuttal Schedule JMM-WW3
Column (C): Column (A) + Column (B)

UTILITY SOURCE, LLC. - Wastewater Division
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Revised Surrebuttal Schedule JMM-WW3

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY REBUTTAL AS FILED	[B] STAFF SURREBUTTAL PLANT IN SERVICE ADJ No. 1	[C] STAFF SURREBUTTAL ACCUM DEPREC ADJ NO. 2	[D] STAFF SURREBUTTAL AIAC TO CIAC ADJ No. 3	[E] STAFF SURREBUTTAL ADJUSTED
	PLANT IN SERVICE:						
1							
2	351	Organization	$ -	$ -	$ -	$ -	$ -
3	352	Franchises	-	-	-	-	-
4	353	Land and Land Rights	105,000	-	-	-	105,000
5	354	Structures & Improvements	56,350	-	-	-	56,350
6	355	Power Generation Equipment	2,879	-	-	-	2,879
7	360	Collection Sewers - Force	-	-	-		-
8	361	Collection Sewers - Gravity	260,553	-	-	-	260,553
9	362	Special Collecting Structures	-	-	-	-	-
10	363	Services to Customers	60,375	-	-	-	60,375
11	364	Flow Measuring Devices	-	-	-	-	-
12	365	Flow Measuring Installations	3,450	-		-	3,450
13	370	Receiving Wells	-	-		-	-
14	371	Pumping Equipment	-	-	-	-	-
15	380	Teatment and Disposal Equipment	1,106,874	(216,389)	-	-	890,485
16	381	Plant Sewers	-	-	-	-	-
17	382	Outfall Sewer Lines		-		-	-
18	389	Other Plant & Misc. Equipment	-	-	-	-	-
19	390	Office Furniture & Equipment	-	-	-	-	-
20	391	Transportation Equipment	-	-	-	-	-
21	393	Tools, Ship & Garage Equipment	-	-	-	-	-
22	394	Laboratory Equipment	-	-	-	-	-
23	395	Power Operated Equipment	-	-	-	-	-
24	398	Other Tangible Plant	-	-	-	-	-
25							
26			1,595,481	(216,389)	-	-	1,379,092
27	Add:		-				-
28			-				-
29			-		-	-	-
30			-	-	-	-	-
31	Less:		-				-
32			-	-	-	-	-
33			-	-	-	-	-
34							-
35	Total Plant in Service		$ 1,595,481	$ (216,389)	$ -	$ -	1,379,092
36	Less: Accumulated Depreciation		96,191	-	(16,229)	-	79,962
37				-	-	-	-
38	Net Plant in Service (L59 - L 60)		$ 1,499,290	$ (216,389)	$ 16,229	$ -	1,299,130
39							
40	*LESS:*						
41	Contributions in Aid of Construction (CIAC)		$ 197,973	$ -	$ -	$ -	197,973
42	Less: Accumulated Amortization		12,777	-	-	(352)	12,425
43	Net CIAC (L25 - L26)		185,196	-	-	-	185,196
44	Advances in Aid of Construction (AIAC)		-	-	-	-	-
45	Customer Meter Deposits		-	-	-	-	-
46	Deferred Income Tax Credits		-	-	-	-	-
47							
48	*ADD:*						
49	Unamortized Finance Charges		-	-	-	-	-
50	Deferred Tax Assets		-	-	-	-	-
51	Working Capital		-	-	-	-	-
52							-
53	**Original Cost Rate Base**		$ 1,314,094	$ (216,389)	$ 16,229	$ -	1,113,934

ADJ #		References:
1	Plant in Service	Revised Surrebuttal Schedule JMM-WW4
2	Accumulated Depreciation	Revised Surrebuttal Schedule JMM-WW5
3	AIAC Reclasification to CIAC	Revised Surrebuttal Schedule JMM-WW6

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Revised Surrebuttal Schedule JMM-WW4

RATE BASE ADJUSTMENT NO. 1 - PLANT ADJUSTMENTS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Treatment and Disposal Equipment (Account 380)	1,106,874	(216,389)	890,485
2	Totals	$ 1,106,874	$ (216,389)	$ 890,485

Staff's Calculation of Treatment and Disposal Equipment (Account 380)

3	Adjustments for the Company's overstatement and understatement of sub accounts	$ (24,107)
4	Removal of manmade water falls, streams, ponds and lakes	(178,703)
5	Unsubstantiated costs of $13,579 relating to Treatment Plant No. 2	(13,579)
6	Total	$ (216,389)

References:
Column A: Company Rebuttal Schedule B-1, Page 1
Column B: Testimony, JMM, Revised Surrebuttal Schedule JMM-WW3
Column C: Column [A] + Column [B]

Utility Source, LLC. - Wastewater Division
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Revised Surrebuttal Schedule JMM-WW5

RATE BASE ADJUSTMENT NO. 2 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Accumulated Depreciation	$ 96,191	$ (16,229)	$ 79,962

	ACCT NO	DESCRIPTION	AT ENGINEER RECOMMENDED RATES: Total Plant Staff Adjusted 12/31/2004	Recommended Rate	HALF YEAR DEP.	A.D 12/31/2004	ADDITIONS 12/31/2005	RETIREMENTS 12/31/2005	PLT BAL 12/31/2005	DEP EXP 12/31/2005 FULL YR	A.D 12/31/2005
2	351	Organization	-		-	-	-	-	-	-	-
3	352	Franchises	-		-	-	-	-	-	-	-
4	353	Land and Land Rights	105,000	0.00%	-	-	-	-	105,000	-	-
5	354	Structures & Improvements	56,350	3.33%	938	938	-	-	56,350	1,876	2,815
6	355	Power Generation Equipment	2,879	5.00%	72	72	-	-	2,879	144	216
7	360	Collection Sewers - Force	-	2.00%	-	-	-	-	-	-	-
8	361	Collection Sewers - Gravity	260,553	2.00%	2,606	2,606	-	-	260,553	5,211	7,817
9	362	Special Collecting Structures	-	2.00%	-	-	-	-	-	-	-
10	363	Services to Customers	60,375	2.00%	604	604	-	-	60,375	1,208	1,811
11	364	Flow Measuring Devices	-	10.00%	-	-	-	-	-	-	-
12	365	Flow Measuring Installations	3,450	10.00%	173	173	-	-	3,450	345	518
13	370	Receiving Wells	-	3.33%	-	-	-	-	-	-	-
14	371	Pumping Equipment	-	12.50%	-	-	-	-	-	-	-
15	380	Teatment and Disposal Equipment	890,485	5.00%	22,262	22,262	-	-	890,485	44,524	66,786
16	381	Plant Sewers	-	5.00%	-	-	-	-	-	-	-
17	382	Outfall Sewer Lines	-	3.33%	-	-	-	-	-	-	-
18	389	Other Plant & Misc. Equipment	-	6.67%	-	-	-	-	-	-	-
19	390	Office Furniture & Equipment	-	6.67%	-	-	-	-	-	-	-
20	391	Transportation Equipment	-	20.00%	-	-	-	-	-	-	-
21	393	Tools, Ship & Garage Equipment	-	5.00%	-	-	-	-	-	-	-
22	394	Laboratory Equipment	-	10.00%	-	-	-	-	-	-	-
23	395	Power Operated Equipment	-	5.00%	-	-	-	-	-	-	-
24	398	Other Tangible Plant	-	10.00%	-	-	-	-	-	-	-
25			-		-	-	-	-	-	-	-
26			1,379,092		26,654	26,654	-	-	1,379,092	53,308	79,962
27											
28		Composite Rate:	4.1840%					Depreciable Plant:	1,274,092		

References:
Column A: Company Rebuttal Schedule B-1, Page 1
Column B: Testimony, JMM, Revised Surrebuttal Schedule JMM-WW3
Column C: Column [A] + Column [B]

Utility Source, LLC. - Wastewater Division
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Revised Surrebuttal Schedule JMM-WW6

RATE BASE ADJUSTMENT NO. 3 - ACCUMULATED AMORTIZATION OF CONSTRIBUTIONS IN AID OF CONSTRUCTION

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Accumated Amortization of CIAC	$ 12,777	$ (352)	$ 12,425

Staff's amortization of CIAC

3	Amortization of CIAC:	$ 197,973
4	Composite amortization rate (see JMM-WW5):	4.1840%
5	Amortized CIAC:	$ 8,283
	Plus prior year amortization (using 1/2 year convention)	$ 4,142
6	Accumulated Amortization of CIAC	$ 12,425

References:
Column A: Company Rebuttal Schedule B-1, Page 1
Column B: Testimony, JMM, Revised Surrebuttal Schedule JMM-WW3
Column C: Column [A] + Column [B]

Utility Source, LLC. - Wastewater Division
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Revised Surrebuttal Schedule JMM-WW7

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY REBUTTAL TEST YEAR AS FILED	[B] STAFF SURREBUTTAL TEST YEAR ADJUSTMENTS		[C] STAFF SURREBUTTAL TEST YEAR AS ADJUSTED	[D] STAFF SURREBUTTAL PROPOSED CHANGES	[E] STAFF SURREBUTTAL RECOMMENDED
1	*REVENUES:*						
2	Flat Rate and Metered Revenues	$ 112,248	$ -		$ 112,248	$ 121,549	$ 233,797
3	Misc. Service Revenues	-	-		-	-	-
4	Other Wastewater Revenues	1,657	-		1,657	-	1,657
5	**Total Operating Revenues**	$ 113,905	$ -		$ 113,905	$ 121,549	$ 235,454
	OPERATING EXPENSES:						
6	Salaries and Wages	$ -	$ -		$ -	$ -	$ -
7	Purchased Wastewater Treatment	-	-		-	-	-
8	Sludge Removal Expense	-	-		-	-	-
9	Purchased Power	17,423	-		17,423	-	17,423
10	Fuel for Power Production	-	-		-	-	-
11	Chemicals	3,945	-		3,945	-	3,945
12	Materials and Supplies	4,793	-		4,793	-	4,793
13	Contractual Services- Professional	1,195	-		1,195	-	1,195
14	Contractual Services- Testing	24,902	-		24,902	-	24,902
15	Contractual Services- Other	15,000	-		15,000	-	15,000
16	Repairs and Maintenance	-	-		-	-	-
17	Waste Water Testing Expense	-	-		-	-	-
18	Rents	-	-		-	-	-
19	Transportation Expenses	-	-		-	-	-
20	Insurance	-	-		-	-	-
21	Regulatory Commission Expense - Rate Case	12,500	-		12,500	-	12,500
22	Miscellaneous Expense	4,965	-		4,965	-	4,965
23	Depreciation Expense	55,610	(10,585)	ADJ # 1	45,025	-	45,025
24	Taxes Other Than Income	-	-		-	-	-
25	Property Taxes	5,123	1,475	ADJ # 2	6,598	-	6,598
26	Income Tax	-	-		-	-	-
27							
28	**Total Operating Expenses**	$ 145,456	$ (9,110)		$ 136,346	$ -	$ 136,346
29	**Operating Income (Loss)**	$ (31,551)	$ 9,110		$ (22,441)	$ 121,549	$ 99,109

References:
Column (A): Company Rebuttal Schedule C-1
Column (B): Revised Surrebuttal Schedule JMM-WW8
Column (C): Column (A) + Column (B)
Column (D): Revised Surrebuttal Schedule JMM-WW1
Column (E): Column (C) + Column (D)

Utility Source, LLC. - Wastewater Division
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Revised Surrebuttal Schedule JMM-WW8

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY REBUTTAL AS FILED	[B] STAFF SURREBUTTAL ADJ #1 Depreciation Exp	[C] STAFF SURREBUTTAL ADJ #2 Property Tax	[D] STAFF SURREBUTTAL ADJUSTED
1	*REVENUES:*				
2	Flat Rate and Metered Revenues	112,248	-	-	112,248
3	Misc. Service Revenues	-	-	-	-
4	Other Wastewater Revenues	1,657	-	-	1,657
5	**Total Operating Revenues**	113,905	-	-	113,905
6	*OPERATING EXPENSES:*				
7	Salaries and Wages	-	-	-	-
8	Purchased Wastewater Treatment	-	-	-	-
9	Sludge Removal Expense	-	-	-	-
10	Purchased Power	17,423	-	-	17,423
11	Fuel for Power Production	-	-	-	-
12	Chemicals	3,945	-	-	3,945
13	Materials and Supplies	4,793	-	-	4,793
14	Contractual Services- Professional	1,195	-	-	1,195
15	Contractual Services- Testing	24,902	-	-	24,902
16	Contractual Services- Other	15,000	-	-	15,000
17	Repairs and Maintenance	-	-	-	-
18	Waste Water Testing Expense	-	-	-	-
19	Rents	-	-	-	-
20	Transportation Expenses	-	-	-	-
21	Insurance	-			-
22	Regulatory Commission Expense - Rate Case	12,500	-	-	12,500
23	Miscellaneous Expense	4,965	-	-	4,965
24	Depreciation Expense	55,610	(10,585)	-	45,025
25	Taxes Other Than Income	-	-	-	-
26	Property Taxes	5,123	-	1,475	6,598
27	Income Tax	-	-	-	-
					-
28	**Total Operating Expenses**	145,456	(10,585)	1,475	134,871
29	**Operating Income (Loss)**	(31,551)	10,585	(1,475)	(20,966)

ADJ #		References:
1	Depreciation Expense	Revised Surrebuttal Schedule JMM-WW9
2	Property Taxes	Revised Surrebuttal Schedule JMM-WW10

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Revised Surrebuttal Schedule JMM-WW9

OPERATING EXPENSE ADJUSTMENT NO. 1 - DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Depreciation Expense	$ 55,610	$ (10,585)	$ 45,025

	ACCT NO	DESCRIPTION	AT ENGINEER RECOMMENDED RATES: Total Plant Staff Adjusted 12/31/2004	Recommended Rate	HALF YEAR DEP.	A.D 12/31/2004	ADDITIONS 12/31/2005	RETIREMENTS 12/31/2005	PLT BAL 12/31/2005	DEP EXP 12/31/2005 FULL YR	A.D 12/31/2005
2	351	Organization	-		-	-	-	-	-	-	-
3	352	Franchises	-		-	-	-	-	-	-	-
4	353	Land and Land Rights	105,000	0.00%	-	-	-	-	105,000	-	-
5	354	Structures & Improvements	56,350	3.33%	938	938	-	-	56,350	1,876	2,815
6	355	Power Generation Equipment	2,879	5.00%	72	72	-	-	2,879	144	216
7	360	Collection Sewers - Force	-	2.00%	-	-	-	-	-	-	-
8	361	Collection Sewers - Gravity	260,553	2.00%	2,606	2,606	-	-	260,553	5,211	7,817
9	362	Special Collecting Structures	-	2.00%	-	-	-	-	-	-	-
10	363	Services to Customers	60,375	2.00%	604	604	-	-	60,375	1,208	1,811
11	364	Flow Measuring Devices	-	10.00%	-	-	-	-	-	-	-
12	365	Flow Measuring Installations	3,450	10.00%	173	173	-	-	3,450	345	518
13	370	Receiving Wells	-	3.33%	-	-	-	-	-	-	-
14	371	Pumping Equipment	-	12.50%	-	-	-	-	-	-	-
15	380	Teatment and Disposal Equipment	890,485	5.00%	22,262	22,262	-	-	890,485	44,524	66,786
16	381	Plant Sewers	-	5.00%	-	-	-	-	-	-	-
17	382	Outfall Sewer Lines	-	3.33%	-	-	-	-	-	-	-
18	389	Other Plant & Misc. Equipment	-	6.67%	-	-	-	-	-	-	-
19	390	Office Furniture & Equipment	-	6.67%	-	-	-	-	-	-	-
20	391	Transportation Equipment	-	20.00%	-	-	-	-	-	-	-
21	393	*Tools, Ship & Garage Equipment*	-	5.00%	-	-	-	-	-	-	-
22	394	Laboratory Equipment	-	10.00%	-	-	-	-	-	-	-
23	395	Power Operated Equipment	-	5.00%	-	-	-	-	-	-	-
24	398	Other Tangible Plant	-	10.00%	-	-	-	-	-	-	-
25			-		-	-	-	-	-	-	-
26			1,379,092		26,654	26,654	-	-	1,379,092	53,308	79,962

27	*Composite Rate:*	4.1840%	Depreciable Plant: 1,274,092
28	Depreciation Expense Calculation:		
29	Depreciation 2005:	53,308	
30	Net Amortization of CIAC:	8,283	
31	Depreciation Expense:	45,025	

References:
Column A: Company Rebuttal Schedule B-1, Page 1
Column B: Testimony, JMM, Revised Surrebuttal Schedule JMM-WW8
Column C: Column [A] + Column [B]

Utility Source, LLC. - Wastewater Division
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Revised Surrebuttal Schedule JMM-WW10

OPERATING EXPENSE ADJUSTMENT NO. 2 - PROPERTY TAX

LINE NO.	Property Tax Calculation	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	(C) STAFF AS ADJUSTED
1	Property Taxes	$ 5,123	$ 1,475	$ 6,598
	Staff's Calcualation of Property Tax			
2	Staff Adjusted Test Year Revenues - 2005			$ 113,905
3	Weight Factor			2
4	Subtotal (Line 1 * Line 2)			227,810
5	Staff Recommended Revenue, Per Schedule JMM-WW1			235,454
6	Subtotal (Line 4 + Line 5)			463,264
7	Number of Years			3
8	Three Year Average (Line 5 / Line 6)			154,421
9	Department of Revenue Mutilplier			2
10	Revenue Base Value (Line 7 * Line 8)			308,843
11	Plus: 10% of CWIP - 2002			-
12	Less: Net Book Value of Licensed Vehicles			-
13	Full Cash Value (Line 9 + Line 10 - Line 11)			308,843
14	Assessment Ratio			23.50%
15	Assessment Value (Line 12 * Line 13)			72,578
16	Composite Property Tax Rate (Per Company Schedule C-2, Page 3, Line 16)			9.0903%
17	Staff Proposed Property Tax Expense (Line 14 * Line 15)			$ 6,598
18	Company Proposed Property Tax			5,123
19	Increase/(Decrease) to Property Tax Expense			$ 1,475

References:
Column A: Company Rebuttal Schedule B-1, Page 1
Column B: Testimony, JMM, Revised Surrebuttal Schedule JMM-WW8
Column C: Column [A] + Column [B]

UTILITY SOURCE, LLC. - Wastewater Division
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Revised Surrebuttal Schedule JMM-WW11

RATE DESIGN

Monthly Minimum Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
Rate per 1,000 gal. water usage			
Residential	$ 2.73	$ 6.85	$ 5.84
Car washes, Laundromats, commercial, manufacturing	2.67	6.70	5.71
Hotels and Motels	3.58	8.99	7.66
Restaurants	4.42	11.09	9.46
Industrial Laundries	3.92	9.84	8.39
Waste Haulers	80.00	200.80	171.20
Restaurant Grease	70.00	175.70	149.80
Treatment Plant Sludge	80.00	200.80	171.20
Mud Sump Waste	250.00	627.50	535.00
Service Charges			
Establishment	$ 20.00	$ 20.00	$ 20.00
Establishment of Services after hours	40.00	40.00	40.00
Re-establishment of Service	*	*	*
Reconnection Services	50.00	50.00	50.00
Reconnection (Deliquent and After Hours)	40.00	40.00	40.00
Minimum Deposit Requirement	**	**	**
Deposit Interest	3.00%	3.00%	Per Rule
Charges for NSF Check	20.00	20.00	20.00
Deferred Payment Finance Charge	1.50%	1.50%	***
Late Payment, Per Month	***	***	***
Service Calls, per hour (After hours only)	40.00	40.00	40.00
Service Lateral Connection Charge:			
Residential	500.00	500.00	500.00
Commercial	Cost	Cost	Cost
Main Extension Tariff	Cost	Cost	Cost

* Per Commission Rule R14-2-603(D)
** Per Commission Rule R14-2-603(B)
*** Per Commission Rule R14-2-608(F)

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Revised Surrebuttal Schedule JMM-WW12

Typical Bill Analysis
General Service 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	4,740	$ 12.94	$ 32.47	$ 19.53	150.92%
Median Usage	4,500	12.29	30.83	$ 18.54	150.92%
Staff Recommended					
Average Usage	4,740	$ 12.94	$ 27.69	$ 14.75	114.00%
Median Usage	4,500	12.29	26.29	$ 14.00	114.00%

Present & Proposed Rates (Without Taxes)
General Service 3/4-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	$ -	$ -		$ -	
1,000	2.73	6.85	150.92%	5.84	114.00%
2,000	5.46	13.70	150.92%	11.68	114.00%
3,000	8.19	20.55	150.92%	17.53	114.00%
4,000	10.92	27.40	150.92%	23.37	114.00%
5,000	13.65	34.25	150.92%	29.21	114.00%
6,000	16.38	41.10	150.92%	35.05	114.00%
7,000	19.11	47.95	150.92%	40.90	114.00%
8,000	21.84	54.80	150.92%	46.74	114.00%
9,000	24.57	61.65	150.92%	52.58	114.00%
10,000	27.30	68.50	150.92%	58.42	114.00%
11,000	30.03	75.35	150.92%	64.26	114.00%
12,000	32.76	82.20	150.92%	70.11	114.00%
13,000	35.49	89.05	150.92%	75.95	114.00%
14,000	38.22	95.90	150.92%	81.79	114.00%
15,000	40.95	102.75	150.92%	87.63	114.00%
16,000	43.68	109.60	150.92%	93.48	114.00%
17,000	46.41	116.45	150.92%	99.32	114.00%
18,000	49.14	123.30	150.92%	105.16	114.00%
19,000	51.87	130.15	150.92%	111.00	114.00%
20,000	54.60	137.00	150.92%	116.84	114.00%
25,000	68.25	171.25	150.92%	146.06	114.00%
30,000	81.90	205.50	150.92%	175.27	114.00%
35,000	95.55	239.75	150.92%	204.48	114.00%
40,000	109.20	274.00	150.92%	233.69	114.00%
45,000	122.85	308.25	150.92%	262.90	114.00%
50,000	136.50	342.50	150.92%	292.11	114.00%
75,000	204.75	513.75	150.92%	438.17	114.00%
100,000	273.00	685.00	150.92%	584.22	114.00%