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BEFORE THE ARIZONA CORPORATION COMMISSION

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8 IN THE MATTER OF THE APPLICATION OF
 9 CHAPARRAL CITY WATER COMPANY,
 10 INC., AN ARIZONA CORPORATION, FOR A
 11 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-02113A-07-0551

NOTICE OF FILING

12

13 The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the

14 Surrebuttal Testimony of William A. Rigsby, CRRA, and Timothy J. Coley in the above-

15 referenced matter.

16

17 RESPECTFULLY SUBMITTED this 20th day of November 2008

Michelle L. Wood
Attorney

Arizona Corporation Commission
DOCKETED

NOV 20 2008

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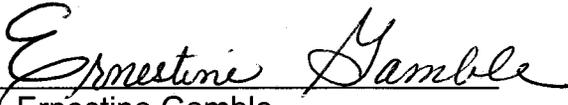
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CHAPARRAL CITY WATER COMPANY, INC.

DOCKET NO. W-02113A-07-0551

**SURREBUTTAL TESTIMONY
ON RATE CASE EXPENSE IN CONNECTION WITH
THE APPEAL AND REMAND OF DECISION NO. 68176
AND COST OF CAPITAL**

OF

WILLIAM A. RIGSBY, CRRA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

NOVEMBER 20, 2008

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1 **INTRODUCTION**

2 Q. Please state your name, occupation, and business address.

3 A. My name is William A. Rigsby. I am a Public Utilities Analyst V employed
4 by the Residential Utility Consumer Office ("RUCO") located at 1110 W.
5 Washington, Suite 220, Phoenix, Arizona 85007.

6
7 Q. Please state the purpose of your surrebuttal testimony.

8 A. The purpose of my surrebuttal testimony is to respond to Chaparral City
9 Water Company Inc.'s ("Chaparral" or "Company") rebuttal testimony on
10 RUCO's recommended rate of return on invested capital (which includes
11 RUCO's recommended capital structure, cost of short-term debt, cost of
12 long-term debt and cost of common equity) for the Company's water
13 operations in Maricopa County. I will also respond to Chaparral's rebuttal
14 testimony on the Company's request for recovery of legal expenses
15 associated with the appeal and remand of Decision No. 68176, dated
16 September 30, 2005 ("Remand Proceeding") and to the rebuttal testimony
17 on RUCO's position on Chaparral's request for interim rates.

18

19 Q. Have you filed any prior testimony in this case on behalf of RUCO?

20 A. Yes, I filed direct testimony on the cost of capital issues in this case with
21 the Arizona Corporation Commission ("ACC" or "Commission") on
22 September 30, 2008. My direct testimony addressed the cost of capital
23 issues that were raised in Chaparral's application requesting a permanent

1 rate increase ("Application") based on a test year ended December 31,
2 2006 ("Test Year"). I also filed, under separate cover, direct testimony
3 which presented RUCO's position on the Company's request for recovery
4 of legal expenses in connection with the appeal and remand of Decision
5 No. 68176, dated September 30, 2005 ("Remand Proceeding").
6

7 Q. How is your surrebuttal testimony organized?

8 A. My surrebuttal testimony contains seven parts: the introduction that I have
9 just presented; a summary of Chaparral's rebuttal testimony; a section on
10 Remand Proceeding legal expenses; a section on interim rates; a section
11 on capital structure; a section on the cost of debt (both short-term and
12 long-term); and, a section on the cost of equity capital.
13

14 **SUMMARY OF CHAPARRAL'S REBUTTAL TESTIMONY**

15 Q. Have you reviewed Chaparral's rebuttal testimony?

16 A. Yes. I have reviewed the rebuttal testimonies of Company witnesses
17 Robert N. Hanford, Robert J. Sprowls and Thomas J. Bourassa which
18 were filed on October 31, 2008.
19

20 Q. Please summarize Mr. Hanford's rebuttal testimony as it relates to those
21 portions of the case that you testified on.

22 A. Portions of pages eleven and twelve of Mr. Hanford's rebuttal testimony
23 address the half million dollars of legal expenses associated with the

1 Remand Proceeding. Mr. Hanford takes issue with RUCO's
2 recommendation that the Commission deny a Company-proposed
3 surcharge which would recover \$258,511 of the aforementioned half
4 million dollars in legal expenses incurred by Chaparral during the Remand
5 Proceeding.

6
7 Q. Please summarize Mr. Sprowl's rebuttal testimony.

8 A. Mr. Sprowl's rebuttal testimony concentrates on Chaparral's financial
9 condition and takes issue with the positions that RUCO took in the
10 Company's recent request for interim rates.

11
12 Q. Please summarize Mr. Bourassa's rebuttal testimony.

13 A. Mr. Bourassa's rebuttal testimony compares and contrasts the differences
14 between our respective cost of capital analyses, which used both the
15 discounted cash flow ("DCF") method and the capital asset pricing model
16 ("CAPM") for estimating the cost of common equity in this case. Mr.
17 Bourassa takes issue with the inflation adjustment I have made to my
18 unadjusted cost of common equity estimate, the choice of companies that
19 I use in my water company sample, my use of natural gas local distribution
20 companies ("LDC") in my analysis, and the use of geometric means in the
21 CAPM model.

22

23

1 **REMAND PROCEEDING LEGAL EXPENSES**

2 Q. What is the Company's rebuttal position on the recovery of legal expenses
3 associated with the Remand Proceeding?

4 A. Company witness Hanford takes the position that Chaparral is entitled to
5 \$258,511 in Remand Proceeding legal expenses which the Company
6 requested in supplemental testimony that was filed with the Commission
7 on September 8, 2008.

8
9 Q. What is Mr. Hanford's rebuttal position on RUCO's recommendation that
10 the Commission deny the Company's request for recovery of \$258,511 in
11 Remand Proceeding legal expenses?

12 A. Mr. Hanford agrees with RUCO's position that the Company made a
13 business decision to appeal Decision No. 68176 but then goes on to say
14 "so what?". Mr. Hanford opines that had the Commission followed the
15 Arizona Constitution, none of the Remand Proceeding costs would have
16 resulted.

17
18 Q. Please respond to Mr. Hanford's argument?

19 A. I will not make any comment on the legal issues raised in Mr. Hanford's
20 argument (i.e. the constitutionality of the Commission's actions in the prior
21 rate case), but I will stand by RUCO's position, that was presented in my
22 direct testimony, that Chaparral's Decision to appeal Decision No. 68176

1 was made strictly to increase the Company's operating income for the
2 benefit of the Company's shareholders.

3
4 Q. So the Company's rebuttal testimony has not persuaded RUCO to change
5 or modify its position on this issue?

6 A. No. As I stated in my direct testimony, RUCO does not believe that it is
7 reasonable for the Company to ask ratepayers to pay the expenses
8 associated with the appeal and Remand Proceeding. Furthermore, RUCO
9 reiterates its position that the Company-requested \$258,511 in Remand
10 Proceeding legal expense is excessive and unreasonable.

11
12 **INTERIM RATES**

13 Q. Please provide a brief background on RUCO's involvement in the
14 Company's request for interim rates.

15 A. On September 8, 2008, the Company filed a request for \$1,349,246 in
16 interim rates which, according to the Company's filing, represents an
17 increase of 18.12 percent over adjusted Test Year operating revenues.
18 On September 23, 2008, RUCO filed a response recommending that the
19 Company-requested interim rates be denied by the Commission. RUCO's
20 arguments opposing Chaparral's request were consistent with the
21 arguments that RUCO had previously made in a recent Arizona Public
22 Service Company ("APS") request for interim rates. On October 20, 2008,
23 a procedural conference was held at the Commission's Phoenix offices to

1 consider the Company's interim rate request and to discuss the procedure
2 for resolving the matter. No procedural order on the matter has been
3 issued to date.

4
5 Q. What is the Company's rebuttal position on RUCO's arguments opposing
6 the approval of interim rates?

7 A. Company witness Sprowls takes issue with the positions taken by RUCO
8 in its response to the Company's request for interim rates. Mr. Sprowls
9 presents the Company's positions on the required revenue and rate base
10 adjustments being made by RUCO in the Company's pending rate case
11 (which will be addresses by RUCO witness Timothy J. Coley) and argues
12 that RUCO's position on the Company's request for interim rates is
13 "contrary to basic economics" and "is out of touch with financial reality."
14 This is largely based on RUCO's observation that Chaparral's parent
15 company, American States Water Company ("American States"), is in a
16 position to infuse needed equity into Chaparral should the need arise. He
17 also states that RUCO's interim rate arguments are illustrative of what he
18 believes is a trend in Arizona to delay rate relief for utilities for as long as
19 possible not withstanding their financial health.

20
21 ...
22

1 Q. Please address Mr. Sprowls criticism of RUCO's position on the
2 Company's request for interim rates?

3 A. RUCO disagrees with Mr. Sprowls' assertion that RUCO "is out of touch
4 with financial reality." RUCO is not advocating that Chaparral's operations
5 should be subsidized by its parent company on a full time basis. The fact
6 that RUCO is recommending a \$1,144,478 increase in gross revenues in
7 this stage of the Company's rate case proceeding is evidence of this.
8 RUCO does believe that cash infusions, from either direct investors or
9 parent companies, to help any form of business entity to survive on a
10 temporary basis is an economic reality that cannot be overlooked. The
11 point that RUCO was trying to make is that American States is in a
12 position to provide capital, if needed, to Chaparral until permanent rate
13 relief is granted by the Commission.

14
15 Q. Have RUCO's arguments prevailed in other cases where Arizona utilities
16 have requested interim rates?

17 A. Yes. Examples of this are the Commission's decision to deny interim
18 rates to APS in Decision No. 68685, dated May 5, 2006, and the recent
19 Recommended Order and Opinion of the ACC's Chief Administrative Law
20 Judge which recommends denial of interim rates requested by APS in its
21 pending rate case that is now before the Commission.¹

¹ Docket No. E-01345A-08-0172

1 Q. Please comment on Mr. Sprowls' belief that there is a trend in Arizona to
2 delay rate relief for utilities for as long as possible notwithstanding their
3 financial health.

4 A. RUCO disagrees with Mr. Sprowls' remarks. With few exceptions, every
5 rate case proceeding in which RUCO has participated in resulted in timely
6 rate relief by the Commission. The main reason that Chaparral's current
7 rate proceeding has not been concluded is because of delays that are
8 directly attributed to the Company's business decision to appeal Decision
9 No. 68176.

10

11 **CAPITAL STRUCTURE**

12 Q. Briefly summarize the positions of the parties regarding capital structure.

13 A. As presented in Mr. Bourassa's rebuttal testimony, Chaparral is now
14 proposing a capital structure that is comprised of 3.97 percent short-term
15 debt, 19.45 percent long-term debt and 76.58 percent common equity.
16 ACC Staff is recommending a capital structure comprised of 24.4 percent
17 debt and 75.6 percent common equity. RUCO is recommending a revised
18 capital structure comprised of 4.08 percent short-term debt, 19.17 percent
19 long-term debt and 76.75 percent common equity.

20

21 ...

22

1 Q. Why have you revised the capital structure that you recommended in your
2 direct testimony?

3 A. I have revised my recommended capital structure for two reasons.
4 First, in my direct testimony I stated that I had adopted the Company's
5 projected level of long-term debt which reflects the retirement of
6 Chaparral's long-term Series 1997A (4.00% to 4.85%) serial bonds which
7 became due during the period from 1998 to 2007. However, my capital
8 structure calculation, exhibited on page 1 of Schedule WAR-1 in my direct
9 testimony, failed to reflect the lower level of long term debt presented on
10 page 3 of Schedule WAR-1 of my direct testimony. My revised capital
11 structure now reflects the correct level of projected long-term debt.

12 Second, as explained in the surrebuttal testimony of RUCO witness
13 Timothy J. Coley, RUCO has revised its recommendation regarding the
14 Company's \$1.28 million Central Arizona Project ("CAP") allocation.
15 RUCO originally recommended that the Commission should deny rate
16 base treatment for the entire amount of Chaparral's additional CAP
17 allocation. RUCO has now adopted a modified version of ACC Staff
18 witness Marvin E. Millsap's recommendation regarding the additional CAP
19 allocation and is recommending that 50 percent of the \$1.28 million be
20 allowed in rate base and be treated as a non-depreciable asset in the
21 Company's plant in service account. Accordingly, I have revised the level
22 of common equity in my recommended capital structure to reflect a

1 reduction of \$640,000 as opposed to the \$1,280,000 common equity
2 adjustment exhibited in my direct testimony.

3

4 **COST OF DEBT**

5 Q. Has there been any recent activity in regard to interest rates?

6 A. Yes. Since I filed my direct testimony on September 30, 2008, the Federal
7 Reserve has cut the federal funds rate by another 100 basis points to its
8 present level of 1.00 percent.

9

10 Q. Have you made any changes to your cost of short-term debt?

11 A. Yes. I have revised my recommended cost of short-term debt downward
12 from 3.13 percent to 2.71 percent to reflect the most recent one year
13 LIBOR² rate published in the November 12, 2008 issue of The Wall Street
14 Journal. The lower LIBOR rate is reflective of the downward direction that
15 interest rates have been moving in since I filed my direct testimony on
16 September 30, 2008.

17

18 Q. What cost of short-term debt are the other parties to the case
19 recommending at this point in time?

20 A. As I noted above, ACC Staff has eliminated short-term debt from its
21 recommended capital structure. Chaparral is recommending a lower cost

² London Interbank Offered Rate

1 of short-term debt of 3.98 percent which is the one year LIBOR rate that
2 was current prior to the filing date of Mr. Bourassa's rebuttal testimony.

3
4 Q. What costs of long-term debt are the parties to the case recommending?

5 A. The parties to the case are presently recommending the following:

| | | |
|---|-----------|-------|
| 6 | | |
| 7 | Chaparral | 5.33% |
| 8 | ACC Staff | 5.00% |
| 9 | RUCO | 5.34% |

10
11 **COST OF EQUITY CAPITAL**

12 Q. Have you had an opportunity to update your recommended cost of
13 common equity since you filed your direct testimony in this case?

14 A. Yes. On October 26, 2008, Value Line published its quarterly update on
15 the water utility industry (the next quarterly update on the natural gas utility
16 industry will not be published until December 12, 2008). Based on the
17 information contained in the aforementioned Value Line update and a
18 lower yield on the 5-year U.S. Treasury instrument that I use as a proxy
19 for the risk free rate of return in my CAPM analysis, I have estimated an
20 unadjusted cost of common equity of 8.60 percent which is 23 basis points
21 lower than the 8.83 percent figure that I estimated in my direct testimony.
22 Taking my revised capital structure, revised cost of short-term debt and
23 the same 200 basis point adjustment for inflation that I recommended in

1 my direct testimony to my updated 8.60 percent cost of common equity
2 would result in a FVRB weighed cost of capital of 6.19 percent. This is 19
3 basis points lower than the recommended 6.38 percent FVRB weighted
4 cost of capital that I recommended in my direct testimony.

5

6 Q. Are you revising your recommended cost of common equity to 6.19
7 percent?

8 A. No. Given the currently low level of the federal funds rate noted earlier,
9 and expectations of lower inflation as a result of the current economic
10 slowdown, I have decided not to make any change to the inflation adjusted
11 cost of common equity of 6.83 percent that I recommended in my direct
12 testimony.

13

14 Q. What non-inflation-adjusted costs of common equity are the parties to the
15 case presently recommending?

16 A. The parties to the case are presently recommending the following non-
17 inflation-adjusted costs of common equity:

18

| | | |
|----|-----------|--------|
| 19 | Chaparral | 11.50% |
| 20 | ACC Staff | 10.00% |
| 21 | RUCO | 8.83% |

22

1 Q. What inflation-adjusted costs of common equity are the parties to the case
2 presently recommending?

3 A. Mr. Bourassa has not made any inflation adjustment to his revised 11.50
4 percent cost of common equity. ACC Staff and RUCO are presently
5 recommending the following inflation-adjusted costs of common equity:

| | | |
|---|-----------|-------|
| 6 | | |
| 7 | ACC Staff | 8.80% |
| 8 | RUCO | 6.83% |

9

10 Q. What are the parties' recommended weighted costs of capital to be
11 applied to Chaparral's FVRB?

12 A. The parties to the case are recommending that the following weighted
13 costs of capital be applied to Chaparral's FVRB:

| | | |
|----|-----------|--------|
| 14 | | |
| 15 | Chaparral | 10.00% |
| 16 | ACC Staff | 7.60% |
| 17 | RUCO | 6.38% |

18

19 As can be seen above, there is presently a 362 basis point difference
20 between the Company-proposed 10.00 percent weighted cost of capital
21 and RUCO's revised recommended FVRB weighted cost of capital of 6.38
22 percent. RUCO and ACC Staff's recommended FVRB weighted costs of
23 capital fall within 122 basis points of each other. ACC Staff's

1 recommended 7.60 percent FVRB weighted cost of capital is 240 basis
2 points lower than what the Company is recommending.

3 Despite my revisions to my recommended capital structure and cost of
4 short-term debt, there is no change to the 6.38 percent weighted cost of
5 capital to be applied to FVRB that I recommended in my direct testimony.

6 The calculation is as follows:

| <u>DESCRIPTION</u> | <u>(A) CAPITALIZATION PER COMPANY</u> | <u>(B) RUCO ADJUSTMENTS</u> | <u>(C) RUCO ADJUSTED CAPITALIZATION</u> | <u>(D) CAPITAL RATIO</u> | <u>(E) COST</u> | <u>(F) WEIGHTED COST</u> |
|----------------------|---|-------------------------------------|---|----------------------------------|---------------------|----------------------------------|
| SHORT-TERM DEBT | \$ 1,400,000 | \$ - | \$ 1,400,000 | 4.08% | 2.71% | 0.11% |
| LONG-TERM DEBT | 6,865,000 | (280,000) | 6,585,000 | 19.17% | 5.34% | 1.02% |
| COMMON EQUITY | 27,002,476 | (640,000) | 26,362,476 | 76.75% | 6.83% | 5.24% |
| TOTAL CAPITALIZATION | <u>\$ 35,267,476</u> | <u>\$ (920,000)</u> | <u>\$ 34,347,476</u> | <u>100.00%</u> | | |

FVRB WEIGHTED COST OF CAPITAL

6.38%

7
8 Q. Please comment on Mr. Bourassa's revised cost of common equity figure
9 of 11.50 percent.

10 A. Mr. Bourassa's proposed 11.50 percent cost of common equity relies on
11 updated market data using the same methods that he used to calculate
12 the results exhibited in his direct testimony, consequently, the comments
13 that I made on his original analysis in my direct testimony still apply to his
14 revised analysis.

15
16
17
18 ...

1 Q. Do you agree with Mr. Bourassa's position that an inflation adjustment
2 should be based on forward-looking estimates of inflation?

3 A. Yes and that is why I am relying on the method that was recommended by
4 Ben Johnson, Ph.D., who testified on behalf of RUCO during the Remand
5 Proceeding, and was adopted by the Commission in Decision No. 70441.
6 As explained on page 38 of Dr. Johnson's direct testimony in the Remand
7 Proceeding, the difference between the yields on Treasury Inflation-
8 Protected Securities ("TIPS") and the yields on comparable U.S. Treasury
9 bonds with similar liquidity and maturity characteristics can be used to
10 estimate investors' future inflation expectations. That being the case, I
11 believe that the method that I have used in this case, which is the same
12 method used by Dr. Johnson in the Remand Proceeding, is appropriate.

13
14 Q. Please comment on Mr. Bourassa's position that your unadjusted common
15 equity estimate should only be reduced by 50 percent of the inflation factor
16 that you used in arriving at a FVRB rate of return.

17 A. Mr. Bourassa's logic is that the inflation adjustment should be cut in half
18 because of the 50/50 weighting between OCRB and RCND rate base to
19 arrive at a FVRB. On this point I believe that Mr. Bourassa's logic is
20 misguided. He is attempting to apply an accounting-like matching
21 convention that isn't really germane to this issue.

22

23

1 Q. Please explain why such a convention isn't germane to this issue.

2 A. Relying on Dr. Johnson's Remand Proceeding methodology, the main
3 purpose for making an inflation adjustment to my estimated cost of equity
4 is to avoid overcompensating investors for general inflation and not to
5 offset year-to-year increases or decreases in a utility's specific rate base
6 value as Mr. Bourassa is advocating.

7
8 Q. What do you mean by general inflation?

9 A. As explained in Dr. Johnson's surrebuttal testimony in the Remand
10 Proceeding, it is inflation that is recognized by equity investors generally,
11 because such inflation is already compensated for within the cost of equity
12 capital. The proxy for this is the difference between the yields on TIPS
13 and the yields on comparable U.S. Treasury bonds that I relied on to
14 estimate investors' future inflation expectations. This is reflected in my
15 inflation adjustment to the cost of common equity. For the reasons
16 explained above, I believe that my 200 basis point inflation adjustment is
17 appropriate.

18

19

20

21

22 ...

23

1 Q. Do you believe, as Mr. Bourassa does, that Southwest Water Company
2 ("SWWC") should have been excluded from your sample based on its
3 percentage of revenues from water utility services as pointed out by
4 Company witness Bourassa?

5 A. No. That would create a sample that is too small for the type of analysis
6 that I conduct. Furthermore, I disagree with Mr. Bourassa's assertion that
7 my estimates are biased downward because I have included SWWC.
8 While it is true that regulated water utilities provided 43.0 percent of 2007
9 revenues for SWWC, according to Value Line's October 26, 2006 water
10 utility industry update, the majority of SWWC's remaining revenues and
11 earnings from its services group are derived from activities that are closely
12 related to the provision of regulated water and wastewater services (i.e.
13 equipment maintenance and repair, sewer pipeline cleaning, billing and
14 collection services, and state-certified water and wastewater laboratory
15 analysis on a contract basis) as opposed to highly speculative activities
16 that are totally unrelated to the water and wastewater industry. It should
17 be pointed out that Chaparral's parent company American States, which
18 Mr. Bourassa and I included in our water company samples, is not a pure
19 water provider either. American States not only provides electric service
20 in California's Big Bear area, but also provides contract water and
21 wastewater services to various military installations including Andrews
22 AFB in Maryland. American States' 2007 Annual Report states that
23 Chaparral's parent provides the complete operation and maintenance of

1 water and wastewater systems at a number of U.S. Army posts in Virginia
2 including Fort Story, Fort Eustis, Fort Monroe and Fort Lee.

3
4 Q. Does RUCO agree with Mr. Bourassa's position that Chaparral's cost of
5 common equity should be higher than the yet-to-be-determined authorized
6 cost of common equity for Southwest Gas Corporation?

7 A. No. RUCO believes that each case should be decided on its own merits.
8 The cost of capital estimated for Chaparral in this case was calculated in
9 an economic environment that is different from the one that existed when
10 Southwest Gas Corporation's cost of equity was estimated.

11
12 Q. Please comment on Mr. Bourassa's argument that the results of the
13 natural gas sample of your cost of equity analysis are depressing your
14 cost of equity estimate for Chaparral.

15 A. For the most part, natural gas LDC's have very similar operating
16 characteristics with water companies such as Chaparral and are therefore
17 a good proxy for water and wastewater utility cost of capital studies. Their
18 inclusion also provides a larger sample to obtain an estimate from. In the
19 recent Arizona-American Water Company ("Arizona-American") Sun City
20 Water District Case, Arizona-American's cost of capital consultant also
21 used a sample of LDC's to arrive at her final cost of equity estimate. In
22 fact, in its initial closing brief in that case, Arizona-American criticized
23 RUCO for relying on its water utility sample DCF results, and failing to give

1 more weight to the results of RUCO's LDC sample results³. Arizona-
2 American stated the following:

3 "Mr. Rigsby's base calculation is also flawed. His DCF recommendation
4 equally weighted his DCF evaluations for his water utility samples and
5 his gas utility samples.⁶⁰
6

7 Unfortunately, his water utility sample only contained four companies.⁶¹
8 Mr. Rigsby conceded that a larger sample is better⁶² However, he went
9 ahead and weighted this sample equally with his gas utility sample,
10 which contained 10 companies.⁶³
11

12 Mr. Rigsby should have excluded the results of his DCF analysis for
13 water utilities. Four companies are just not enough. Unusual events at
14 just one company can unduly affect the entire sample, a risk that is
15 smoothed when a larger sample is used. If we just exclude the DCF
16 results for the water-utility sample, Mr. Rigsby's ROE estimate would
17 increase even more."
18

19 Q. Please explain why Mr. Bourassa's criticism regarding the use of a
20 geometric mean in your CAPM analysis is unfounded.

21 A. It is important to recognize that the information on both means, published
22 by Morningstar, is widely available to the investment community. For this
23 reason alone I believe that the use of both means in a CAPM analysis is
24 appropriate.

25 The best argument in favor of the geometric mean is that it provides a
26 truer picture of the effects of compounding on the value of an investment
27 when return variability exists. This is particularly relevant in the case of
28 the return on the stock market, which has had its share of ups and downs
29 over the 1926 to 2007 observation period used in my CAPM analysis.
30

³ Initial Brief of Arizona-American Water Company, Docket No. W-01303A-07-0209

1 Q. Can you provide an example to illustrate the differences between the two
2 averages?

3 A. Yes. The following example may help. Suppose you invest \$100 and
4 realize a 20.0 percent return over the course of a year. So at the end of
5 year 1, your original \$100 investment is now worth \$120. Now let's say
6 that over the course of a second year you are not as fortunate and the
7 value of your investment falls by 20.0 percent. As a result of this, the
8 \$120 value of your original \$100 investment falls to \$96. An arithmetic
9 mean of the return on your investment over the two-year period is zero
10 percent calculated as follows:

11

$$\begin{aligned} 12 \quad & (\text{year 1 return} + \text{year 2 return}) \div \text{number of periods} = \\ 13 \quad & (20.0\% + -20.0\%) \div 2 = \\ 14 \quad & (0.0\%) \div 2 = \underline{0.0\%} \end{aligned}$$

15

16 The arithmetic mean calculated above would lead you to believe that you
17 didn't gain or lose anything over the two-year investment period and that
18 your original \$100 investment is still worth \$100. But in reality, your
19 original \$100 investment is only worth \$96. A geometric mean on the
20 other hand calculates a compound return of negative 2.02 percent as
21 follows:

22
23

1 (year 2 value ÷ original value)^{1/number of periods} - 1 =
2 (\$96 ÷ \$100)^{1/2} - 1 =
3 (0.96)^{1/2} - 1 =
4 (0.9798) - 1 =
5 -0.0202 = -2.02%

6
7 The geometric mean calculation illustrated above provides a truer picture
8 of what happened to your original \$100 over the two-year investment
9 period.

10 As can be seen in the preceding example, in a situation where return
11 variability exists, a geometric mean will always be lower than an arithmetic
12 mean, which probably explains why utility consultants typically put up a
13 strenuous argument against the use of a geometric mean.

14
15 Q. Can you cite any other evidence that supports your use of both a
16 geometric and an arithmetic mean?

17 A. Yes. In the third edition of their book, Valuation: Measuring and Managing
18 the Value of Companies, authors Tom Copeland, Tim Koller and Jack
19 Murrin ("CKM") make the point that, while the arithmetic mean has been
20 regarded as being more forward-looking in determining market risk
21 premiums, a true market risk premium may lie somewhere between the
22 arithmetic and geometric averages published in Morningstar's SBBI
23 yearbook.

1 Q. Please explain.

2 A. In order to believe that the results produced by the arithmetic mean are
3 appropriate, you have to believe that each return possibility included in the
4 calculation is an independent draw. However, research conducted by
5 CKM demonstrates that year-to-year returns are not independent and are
6 actually auto-correlated (i.e. a relationship that exists between two or more
7 returns, such that when one return changes, the other, or others, also
8 change), meaning that the arithmetic mean has less credence. CKM also
9 explains two other factors that would make the Morningstar arithmetic
10 mean too high. The first factor deals with the holding period. The
11 arithmetic mean depends on the length of the holding period and there is
12 no "law" that says that holding periods of one year are the "correct"
13 measure. When longer periods (e.g. 2 years, 3 years etc.) are observed,
14 the arithmetic mean drops about 100 basis points. The second factor
15 deals with a situation known as survivor bias. According to CKM, this is a
16 well-documented problem with the Morningstar historical return series in
17 that it only measures the returns of successful firms. That is, those firms
18 that are listed on stock exchanges. The Morningstar historical return
19 series does not measure the failures, of which there are many. Therefore,
20 the return expectations in the future are likely to be lower than the
21 Morningstar historical averages. After conducting their analysis, CKM
22 conclude that 4.0 percent to 5.5 percent is a reasonable forward-looking
23 market risk premium. Adding the 2.95 percent 5-year Treasury yield (used

1 in my CAPM analysis) these two estimates indicate a cost of equity of 6.95
2 percent to 8.45 percent. Given the fact that utilities generally exhibit less
3 risk than industrials, a good argument could be made that a return in the
4 low end of this range is reasonable.

5
6 Q. How does your non-inflation adjusted cost of common equity compare with
7 the 6.95 percent to 8.45 percent range noted above?

8 A. My non-inflation adjusted cost of common equity of 8.83 percent is 38
9 basis points higher than the 8.45 percent high end of the range.

10
11 Q. Has the Commission adopted cost of equity recommendations that relied
12 on geometric means in prior cases?

13 A. Yes. The Commission has considered the use of geometric means to be
14 appropriate and has consistently adopted the cost of capital estimates of
15 expert witnesses who have relied on geometric means to develop their
16 recommended costs of common equity.

17
18 Q. Can you name any other sources that support CKM's conclusion that 4.0
19 percent to 5.5 percent is a reasonable market risk premium on a forward-
20 looking basis?

21 A. Yes. During the 39th annual Financial Forum of the Society of Utility and
22 Regulatory Financial Analysts, which was held at Georgetown University
23 in Washington D.C. on April 19 and 20, 2007, I had the opportunity to hear

1 the views of Aswarth Damodaran, Ph. D. and Felicia C. Marston, Ph. D.,
2 professors of finance from New York University and the University of
3 Virginia, respectively. Both have conducted empirical research on this
4 subject. Dr. Damodaran and Dr. Marston supported CKM's 4.0 to 5.5
5 percent estimates during a panel discussion that provided both professors
6 with the opportunity to explain their research on the equity risk premium
7 and to answer questions from other financial analysts in attendance. Each
8 of the panelists⁴ stated that they believed that a reasonable market risk
9 premium fell between 4.0 percent and 5.0 percent when asked to provide
10 estimates based on their research.

11
12 Q. What market risk premiums has Mr. Bourassa used in his CAPM
13 analyses?

14 A. Mr. Bourassa used a market risk premium of 7.50 percent in his historical
15 market risk premium CAPM analysis and a market risk premium of 14.40
16 percent in his current market risk premium CAPM analysis.

17
18
19
20 ...

21

⁴ Other analysts taking part in the panel discussion included Stephen G. Hill, CRRA, Principal, Hill Associates and moderator Farris M. Maddox, Principal Financial Analyst, Virginia State Corporation Commission.

1 Q. Please compare Mr. Bourassa's market risk premiums of 7.50 percent and
2 14.40 percent compare to the market risk premiums that you used in your
3 CAPM analyses?

4 A. My market risk premium calculated with a geometric mean is 4.90 percent
5 and my market risk premium calculated with an arithmetic mean is 6.50
6 percent. Based on the empirical research that I cited above, I believe that
7 it is fair to say that Mr. Bourassa's market risk premium estimates are
8 overly optimistic to say the least.

9
10 Q. If market risk premiums of 4.0 percent to 5.0 percent were used in your
11 CAPM model what would the results be?

12 A. Using market risk premiums ($r_m - r_f$) of 4.0 percent to 5.0 percent in my
13 CAPM model produces the following expected returns (k):

14
15 Water Company Sample using 4.0 percent

16
$$k = r_f + [\beta (r_m - r_f)]$$

17
$$k = 2.95\% + [1.05 (4.0\%)]$$

18
$$k = 7.15\%$$

19
20 Water Company Sample using 5.0 percent

21
$$k = r_f + [\beta (r_m - r_f)]$$

22
$$k = 2.95\% + [1.05 (5.0\%)]$$

23
$$k = 8.20\%$$

1 As can be seen above, my CAPM model, using a water company sample
2 average beta (β) of 1.05 and my recommended 5-year U.S. Treasury
3 constant maturity rate for the risk free rate of return (r_f), produces an
4 expected return (k) of 7.15 percent to 8.20 percent. My LDC sample,
5 using an average beta of 0.82, produces expected returns of 6.23 percent
6 to 5.84 percent. All of which makes my non-inflation adjusted 8.83
7 percent cost of common equity a reasonable estimate for Chaparral.

8
9 Q. Has any of the rebuttal testimony presented by Mr. Bourassa or any of the
10 other witnesses for Chaparral convinced you to make adjustments to your
11 recommended cost of common equity?

12 A. No.

13
14 Q. Does your silence on any of the issues or positions addressed in the
15 rebuttal testimony of the Company's witnesses constitute acceptance?

16 A. No, it does not.

17
18 Q. Does this conclude your surrebuttal testimony on CCWC?

19 A. Yes, it does.

CHAPARRAL CITY WATER COMPANY, INC.

DOCKET NO. W-02113A-07-0551

**SURREBUTTAL TESTIMONY
ON REQUIRED REVENUE AND RATE DESIGN**

OF

TIMOTHY J. COLEY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

NOVEMBER 20, 2008

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1 **INTRODUCTION**

2 Q. Please state your name and business address.

3 A. My name is Timothy J. Coley. My business address is 1110 W. Washington,
4 Suite 220, Phoenix, Arizona 85007.

5

6 Q. In what capacity and by who are you employed?

7 A. I am a Public Utilities Analyst V employed by the Residential Utility Consumer
8 Office ("RUCO").

9

10 Q. Please state your educational background and qualifications in utility regulation.

11 A. Appendix 1, attached to my direct testimony, describes my educational
12 background and includes a list of the rate cases and regulatory matters in which I
13 have participated.

14

15 Q. Have you previously testified in rate proceedings before the Arizona Corporation
16 Commission ("ACC")?

17 A. Yes. I have previously presented testimony regarding revenue requirements in
18 rate case proceedings before the Arizona Corporation Commission (hereafter
19 referred to as "ACC" or "Commission").

20

21 Q. Are you the same Timothy J. Coley who previously filed direct testimony in this
22 case?

23 A. Yes.

1 Q. Please state the purpose of your surrebuttal testimony in this case.

2 A. The purpose of my surrebuttal testimony in this case is to present RUCO's
3 responses and positions to Chaparral City Water Company's, Inc. (hereafter
4 referred to as "Chaparral", or "Company") rebuttal testimony filed on October 31,
5 2008 for a permanent rate increase for Chaparral City Water.

6
7 I will also respond to certain Commission Staff ("Staff") adjustments accepted by
8 the Company in its rebuttal testimony filing.

9

10 Q. What specific areas will your testimony address?

11 A. I will sponsor RUCO's recommended overall revenue requirements, rate base
12 adjustments, operating income and expense adjustments, a proposed low-
13 income program, other remaining issues, and the rate design pertaining to the
14 Company.

15

16 Q. Are there other RUCO witnesses that will provide testimony and sponsor other
17 areas of this rate proceeding?

18 A. Yes. RUCO witness Mr. William A. Rigsby is providing testimony and sponsoring
19 RUCO's recommended cost of capital and capital structure issues. He will also
20 address rate case expense pertaining to the legal fees associated with the
21 Company's Appeal and Remand of Commission Decision No. 68176.

22

1 Q. Please identify the exhibits and schedules that you are sponsoring in this
2 testimony.

3 A. The schedules are labeled TJC-1 through TJC-36 respectively. The exhibits that
4 support my testimony follow immediately after my schedules and are labeled
5 RUCO Exhibit 1 through RUCO Exhibit X.

6
7 Q. Does your silence on any issues or matters pertaining to the Company's rebuttal
8 testimony constitute RUCO's acceptance of the Company's position?

9 A. No.

10

11 **SURREBUTTAL REVENUE REQUIREMENTS**

12 Q. Please summarize your surrebuttal response to Chaparral City Water's rebuttal
13 testimony and your recommended surrebuttal revenue requirements.

14 A. Chaparral's revenue should be increased by \$1,144,478. This recommendation
15 is summarized on Schedule TJC-1. My recommended fair value rate base
16 ("FVRB") is \$27,498,329 for the Company. This information is shown on
17 Schedule TJC-2, and the detail supporting the original cost rate base is
18 presented on Schedule TJC-3. My recommended proposed operating income for
19 Chaparral City Water should be no more than \$1,754,393 as shown on Schedule
20 TJC-27.

21

22

23

1 **SUMMARY**

2 Q. Please summarize what areas your surrebuttal will address in this proceeding.

3 A. My surrebuttal testimony addresses the following areas:

4
5 **Original Cost Rate Base (“OCRB”) Adjustments:**

6 Adj. #1 – Intentionally Left Blank¹

7

8 Adj. #2 – Intentionally Left Blank

9

10 Adj. #3 – Remove Wells 8 & 9 – These two wells are no longer in service. This
11 adjustment removes well numbers 8 & 9 from Gross Utility Plant in Service
12 (“GUPIS”) and reduces plant by \$107,412. A corresponding adjustment of
13 \$107,412 to accumulated depreciation is necessary to eliminate the related
14 accumulated depreciation.

15

16 Adj. #4 – Intentionally Left Blank

17

18 Adj. #5 – Remove Shea Treatment Plant #1 - The Shea Treatment Plant #1 has
19 not been in service since 2003. This adjustment removes Shea Treatment Plant
20 #1 from GUPIS and reduces plant by \$2,010,923. A corresponding adjustment

¹ Adjustments are labeled “Intentionally Left Blank” for one of the following reasons: 1) the adjustment does not pertain to this particular section of adjustments or 2) the adjustment is simply a place holder for a future adjustment.

1 to accumulated depreciation is necessary in the amount of \$2,010,923 to
2 eliminate the related accumulated depreciation.

3
4 Adj. #6 – Capitalize Expensed Plant Items – This adjustment increases GUPIS
5 by \$80,891. The Company expensed some plant items that are more
6 appropriately capitalized as agreed to by the Company. RUCO accepts the
7 Company's corresponding adjustment to increase accumulated depreciation by
8 \$3,265. The adjustment to decrease the appropriate expenses will be discussed
9 later in the operating income section.

10
11 Adj. #7 – Intentionally Left Blank

12
13 Adj. #8 – Intentionally Left Blank

14
15 Adj. #9 – Direct Plant – This adjustment increases GUPIS by \$32,536. The
16 Company agrees that it failed to carry these plant items forward to the
17 appropriate schedules in its rate application.

18
19 Adj. #10 – General Office Plant and Accumulated Depreciation – This adjustment
20 reduces General Office Plant by \$95,944 and Accumulated Depreciation by
21 \$51,498. The adjustment corrects the Company's 4-Factor General Office
22 allocation factor from 3.21 percent to 2.8 percent.

23

1 Adj. #11 – Remove Post-test year General Office Plant – This adjustment
2 removes post-test year plant and reduces General Office plant by \$15,434.

3
4 Adj. #12 – Well Settlement Proceeds – This adjustment recognizes 100 percent
5 of the settlement proceeds as a regulatory liability in the amount of \$1,216,000
6 and is consistent with Staff's recommendation.

7
8 Adj. #13 – Intentionally Left Blank

9
10 Adj. #14 – Contributions in Aid of Construction ("CIAC") – This adjustment
11 increases CIAC and OCRB by \$1,523. The Company used an amortization rate
12 that was different than authorized in Commission Decision No. 68176.

13
14 Adj. #15 – Additional Central Arizona Project ("CAP") Allocation – This
15 adjustment removes the 50 percent of the additional CAP allocation as not used
16 and useful. It removes 100 percent of the deferred regulatory asset and places
17 50 percent, \$640,000, of it into a non-depreciable plant account.

18
19 Adj. #16 – Working Capital – This adjustment reduces working capital in the
20 amount of \$100,122 by including a cash working capital calculation that the
21 Company agreed to in its rebuttal testimony.

1 **Reconstruction Cost New Less Depreciation (“RCND”) Rate Base Adjustments:**

2 Adj. #1 – Reconstruction Cost New (“RCND”) Factor Rounding – The adjustment
3 decreases RCND direct plant by \$118 and corrects the Company’s truncating of
4 the RCND factor when trending the plant up to reconstruction cost new values.

5
6 Adj. #2 – Correct Plant Account 304 RCND Index Factors on Three Line Items –

7 This adjustment reduces both GUPIS and accumulated depreciation by \$17,807
8 and \$4,411 respectively. It corrects the RCND Index Factors for three direct
9 plant line items in account 304 as agreed to by the Company in its rebuttal
10 testimony.

11
12 Adj. #3 – Remove Wells 8 & 9 – This adjustment removes well numbers 8 & 9
13 from RCND GUPIS. It reduces both plant and accumulated depreciation by
14 \$441,470, because these two wells are no longer in service.

15
16 Adj. #4 – Intentionally Left Blank

17
18 Adj. #5 – Remove Shea Treatment Plant #1 - This adjustment removes Shea
19 Treatment Plant #1 from RCND GUPIS and reduces plant and accumulated
20 depreciation by \$3,262,891. This plant has not been in service since 2003.

21
22 Adj. #6 – Capitalize Expensed Plant Items – This adjustment increases GUPIS
23 by \$80,891. The Company expensed some plant items that are more

1 appropriately capitalized as agreed to by the Company. RUCO accepts the
2 Company's corresponding adjustment to increase accumulated depreciation by
3 \$3,265. The adjustment to decrease the appropriate expenses will be discussed
4 later in the operating income section.

5
6 Adj. #7 – Intentionally Left Blank

7
8 Adj. #8 – Intentionally Left Blank

9
10 Adj. #9 – Intentionally Left Blank

11
12 Adj. #10 – General Office RCND Plant and Accumulated Depreciation – This
13 adjustment decreases both plant and accumulated depreciation by \$126,720 and
14 \$67,617, respectively. It corrects the Company's 4-Factor General Office
15 allocation factor from 3.21 percent to 2.8 percent as agreed to by the Company in
16 its rebuttal testimony.

17
18 Adj. #11 – Remove Post-Test Year General Office Plant – This adjustment
19 removes post-test year plant, reduces General Office plant by \$15,434, and
20 increases accumulated depreciation by \$1,404.

21
22 Adj. #12 – Well Settlement Proceeds – This adjustment recognizes 100 percent
23 of the settlement proceeds as a regulatory liability in the amount of \$1,216,000.

1 Adj. #13 – Advances in Aid of Construction (“AIAC”) – This adjustment reduces
2 AIAC and RCND rate base by \$109,513 because any adjustment to GUPIS will
3 cause a change to the AIAC RCND Factor. This will be discussed later in my
4 testimony.

5
6 Adj. #14 – Contributions in Aid of Construction (“CIAC”) – This adjustment
7 increases CIAC and RCND GUPIS by \$2,351. The Company used an
8 amortization rate that was different than authorized in Commission Decision No.
9 68176.

10
11 Adj. #15 – Additional Central Arizona Project (“CAP”) Allocation – This
12 adjustment removes the 50 percent of the additional CAP allocation as not used
13 and useful. It removes 100 percent of the deferred regulatory asset and places
14 50 percent, \$640,000, of it into a non-depreciable plant account.

15
16 Adj. #16 – Working Capital – This adjustment reduces working capital in the
17 amount of \$100,122 by including a cash working capital calculation that the
18 Company agreed to in its rebuttal testimony.

19
20 **Operating Income Adjustments:**

21 Adj. #1 – Depreciation & Amortization Expense – This adjustment determines the
22 level of depreciation and amortization expense that should be allowed on a going

1 forward basis. Chaparral requires an adjustment that reduced the level of
2 depreciation and amortization expense by \$67,021.

3
4 Adj. #2 – Property Tax Expense – This adjustment reduces property tax expense
5 by adjusting two factors: 1) the three years of revenue used in the Arizona
6 Department of Revenue (“ADOR”) tax valuation formula and 2) the net book
7 value of the vehicles. The adjustment reduced property tax expense by \$77,724.

8
9 Adj. #3 – Miscellaneous Expense – This adjustment reflects Staff’s
10 recommendation to increase miscellaneous expense by \$38,164 that the
11 Company agreed to in its rebuttal testimony.

12
13 Adj. #4 – Rate Case Expense – This adjustment reduces the Company’s level of
14 rate case expense requested by \$51,538. The adjustment removes unamortized
15 rate case expense related to the Company’s previous rate case. RUCO witness,
16 Mr. Rigsby, will address the issue of additional rate case expense requested by
17 the Company associated with the prior rate case appeal.

18
19 Adj. #5 – Purchased Water – This adjustment reduces purchased water expense
20 by \$10,186. The adjustment reflects the Company’s rebuttal position.

21

1 Adj. #6 – Outside Services Expense – This adjustment decreases outside
2 services expense by \$71,000 because of a non-recurring expense on a going
3 forward basis.

4
5 Adj. #7 – Water Revenues – This adjustment increases water revenues by
6 \$58,310 due to actual gallons being used rather than estimates used by the
7 Company in its direct testimony in annualizing its revenue. RUCO accepts the
8 Company's rebuttal position regarding this adjustment.

9
10 Adj. #8 – Remove Expensed Plant Items and Capitalize – This adjustment
11 decreases Repairs & Maintenance Expenses by \$43,217 and adopts Staff's
12 adjustment to decrease Outside Services Expense by \$38,049 for a total
13 adjustment of \$81,266. The Company expensed some plant items that are more
14 appropriately capitalized as discussed in the rate base sections of my testimony.

15
16 Adj. #9 – Water Testing Expense – This adjustment adopts Staff's adjustment to
17 normalize water testing expense. It decreases the expense by \$17,820, which
18 the Company accepted in its rebuttal testimony.

19
20 Adj. #10 – Purchased Power Expense – This adjustment increases purchased
21 power expense by \$11,619 to pump additional gallons of water derived from the
22 revenue annualization calculation. It is the same adjustment proposed by the
23 Company in its rebuttal testimony.

1 Adj. #11 – Amortization of Additional CAP Allocation – This adjustment removes
2 the deferred regulatory asset amortization expense of \$64,000, which is
3 consistent with the Company's rebuttal position.

4
5 Adj. #12 – Income Tax Expense – This adjustment increases income tax
6 expense by \$194,666 to reflect RUCO's recommended taxable income.

7
8 **Other Remaining Issues**

9 Low-Income Program – The Company suggested that it would propose a Low-
10 Income Program ("LIP") prior to the hearing for the parties to review. RUCO
11 generally supports LIP's and will review it once it is available. The Company
12 stated that all customers would have to subsidize the program accordingly.

13
14 CAP Hook-up Fee – RUCO recommends that the language on Company
15 Schedule H-3, page 3, line 22 and lines 30 through 32 be struck. The Company
16 never addresses this issue in either its direct or rebuttal testimonies.

17
18 Grossing-up Taxes for Service Lines /Meter Installations – The Company has
19 proposed that service line and meter installations are now taxable income for
20 income purposes. RUCO is not aware of any changes that substantiate that
21 claim.

22

1 Q. Did the Company propose that service lines and meter installations be grossed-
2 up for taxes?

3 A. Yes. The Company made this request on Company Schedule H-3, page 4 but
4 was silent on the issue in written testimony.

5
6 Q. What recommendation is RUCO making regarding this proposed treatment to
7 gross these service lines and meter installations up for taxes?

8
9 A. RUCO recommends the Commission deny the request unless the Company can
10 cite some change in ACC rules and/or Internal Revenue Service Regulations
11 identifying a change that would allow such treatment.

12
13 Interest Synchronization – RUCO has adopted the Company's position on
14 interest synchronization and has multiplied Chaparral's FVRB times RUCO's
15 recommended weighted cost of debt to calculate an appropriate interest expense
16 deduction which is reflected in RUCO's recommended level of test year adjusted
17 income tax expense.

18
19 **RATE DESIGN**

20 Q. Is RUCO filing a new rate design in surrebuttal testimony?

21 A. Not at this time. As a result of RUCO's modified position, it will be filing revised
22 rate design schedules prior to the hearing that reflect RUCO's surrebuttal

1 revenue recommendation. RUCO's surrebuttal revenue recommendation is
2 approximately 7.4 percent more than its direct testimony recommendation.

3

4 **ORIGINAL COST RATE BASE ("OCRB")**

5 **OCRB Adjustment #1 – Intentionally Left Blank**

6

7 **OCRB Adjustment #2 – Intentionally Left Blank**

8

9 **OCRB Adjustment #3 – Remove Wells 8 and 9**

10

11 Q. Has the Company agreed to remove Wells 8 and 9 from rate base that are no
12 longer in service?

13 A. Yes.

14

15 Q. What adjustment did RUCO make to remove the two wells from OCRB that are
16 no longer in service?

17 A. RUCO accepted the Company's position to adopt Staff's recommendation and
18 removed \$107,412 from GUPIS. A corresponding adjustment to accumulated
19 depreciation was also adopted by RUCO that decreased accumulated
20 depreciation by \$107,412.

21 ..

22 ..

23 ..

1 Q. Is this a different adjustment than RUCO recommended in its direct testimony?

2 A. RUCO's surrebuttal adjustment is essentially the same as its direct testimony
3 adjustment. The only difference in RUCO's two recommendations is the amount.
4 Staff identified an additional \$3,944 that was related to an electric pump on one
5 of the wells. The Company adopted Staff's number in rebuttal testimony. RUCO
6 also adopts Staff's number of \$107,412 to remove the two wells in surrebuttal
7 testimony.

8

9 **OCRB Adjustment #4 – Intentionally Left Blank**

10 **OCRB Adjustment #5 – Remove Shea Water Treatment Plant 1**

11 Q. Did the Company adopt RUCO's adjustment to remove Shea Water Treatment
12 Plant 1 from OCRB because it is no longer in service?

13 A. Yes.

14

15 Q. What adjustment is necessary to remove the Shea Water Treatment Plant 1 from
16 OCRB?

17 A. A corresponding adjustment to decrease GUPIS and accumulated depreciation
18 in the amount of \$2,010,923 was necessary to remove the Shea Water
19 Treatment Plant from OCRB.

20 ..

21 ..

22 ..

23

1 **OCRB Adjustment #6 – Capitalize Plant Items Previously Expensed**

2 Q. Did the Company accept RUCO's adjustment to capitalize plant items that were
3 previously expensed?

4 A. Yes. The Company not only accepted RUCO's adjustment but also accepted
5 Staff's adjustment to capitalize additional plant that was previously expensed.
6 RUCO adopts the Company's proposal in surrebuttal testimony.

7
8 Q. What adjustment did the Company propose in adopting both Staff and RUCO's
9 adjustment to more appropriately capitalize plant items rather than expensing
10 them?

11 A. The Company capitalized both RUCO and Staff's adjustments to add an
12 additional \$80,891 to GUPIS and increased accumulated depreciation by \$3,265
13 relating to the plant items. A corresponding adjustment is made on the income
14 statement to remove the expensed items and will be discussed later.

15
16 **OCRB Adjustment #7 – Intentionally Left Blank**

17
18 **OCRB Adjustment #8 – Intentionally Left Blank**

19
20 ..
21 ..
22 ..

1 **OCRB Adjustment #9 – Additional Plant that was not carried forward to Company**

2 **Schedule B-2**

3 Q. Does RUCO accept the Company's adjustment to properly reflect additional plant
4 in service, which the Company failed to carry forward to its Schedule B-2?

5 A. Yes. RUCO made an adjustment to account for the plant.

6

7 Q. What adjustment did RUCO make to account for the additional plant?

8 A. RUCO made an adjustment in the amount of \$32,536 to increase GUPIS to
9 account for the additional plant.

10

11 **OCRB Adjustment #10 – To Correct General Office Plant Allocation Factor**

12 Q. Did the Company accept RUCO's adjustment to correct the general office plant
13 allocation factor?

14 A. Yes. The Company accepted RUCO's adjustment that corrects the general
15 office plant allocation factor to 2.8 percent rather than the 3.21 percent utilized by
16 the Company in its rate application.

17

18 Q. What adjustment did RUCO make to correct the general office allocation factor?

19 A. General office plant in service should be decreased by \$95,944 and accumulated
20 depreciation should be decreased by \$51,498 based on the 2.8 percent
21 allocation factor mentioned above as shown on Schedule TJC-10, pages 1 and
22 2.

23

1 **OCRB Adjustment #11 – To Remove Post Test Year General Office Plant from**
2 **Accounts 303 and 340**

3 Q. Did the Company accept RUCO's adjustment to remove post test year general
4 office plant?

5 A. The Company did not address RUCO's adjustment to remove the post test year
6 general office plant from OCRB.

7

8 Q. What is RUCO's position regarding this post test year general office plant in
9 surrebuttal testimony?

10 A. RUCO maintains its same direct testimony position to remove \$15,434 of 2007
11 post test year general office plant from accounts 303 and 340.

12

13 **OCRB Adjustment #12 – Treatment of Wells Proceeds**

14 Q. Does RUCO maintain its direct testimony position of a 50/50 sharing of the well
15 proceeds between the shareholders and ratepayers?

16 A. No. After reading Staff's direct testimony rationale that ratepayers should receive
17 100 percent of the settlement proceeds, RUCO is compelled to adopt Staff's
18 reasoning and support its position.

19

20 ..

21 ..

1 Q. Does RUCO agree with the Company's reasoning that the proceeds should be
2 treated the same as the Arizona Water Company – Eastern Group's Pinal Creek
3 Group Settlement proceeds, Commission Decision No. 66849?

4 A. There is a definite distinction between that case and Chaparral's Fountain Hill
5 Sanitary District ("FHSD") case. Here, the wells are fully depreciated. In the
6 Arizona Water Company situation, the Company's assets were not fully
7 depreciated.

8
9 Q. What accounting treatment is RUCO recommending for the settlement
10 proceeds?

11 A. RUCO recommends the same accounting treatment that Staff recommends. The
12 proceeds should be treated as a regulatory liability.

13
14 Q. What adjustment does RUCO recommend to treat the settlement proceeds as a
15 regulatory liability?

16 A. RUCO recommends reducing rate base by \$1.52 million less Staff's calculated
17 amortization expense for 2005 and 2006, which leaves a regulatory liability
18 balance of \$1,216,000

19
20 **OCRB Adjustment #13 – Intentionally Left Blank**

21 ..

22 ..

23 ..

1 **OCRB Adjustment #14 – To Correct Amortization Rate of Contributions in Aid of**
2 **Construction (“CIAC”)**

3 Q. Did the Company address RUCO’s adjustment that corrects the CIAC
4 amortization rate?

5 A. No. The Company did not address this adjustment in its rebuttal testimony.

6
7 Q. What position does RUCO take in its surrebuttal testimony regarding the CIAC
8 amortization rate?

9 A. RUCO maintains its direct testimony position that Commission Decision No.
10 68176 authorized a CIAC amortization rate of 3.3588 percent. The Company
11 utilized a composite rate of all the Company’s accounts. RUCO does not believe
12 that is the correct method to determine an amortization rate.

13
14 Q. Why do you believe that a total Company composite rate is improper?

15 A. CIAC consists primarily of mains, services, and meters with 2-3 percent
16 depreciation rates - not higher depreciable plant like transportation equipment at
17 a 20 percent rate and communication equipment at a 10 percent rate. RUCO
18 believes the Commission establishes the CIAC amortization rate in rate case
19 decisions, and that rate will remain constant going forward until the next rate
20 case decision. If the Commission disagrees with that understanding, another
21 way to derive a composite amortization rate for CIAC would be to use only the
22 accounts in which CIAC resides rather than a composite rate for all plant
23 accounts.

1 Q. Did you do an analysis using just the accounts that CIAC exists in?

2 A. Yes.

3
4 Q. What composite rate did you derive when using only accounts in which CIAC
5 exists?

6 A. I derived at a 2.96 percent composite CIAC amortization rate.

7
8 Q. If the Commission decides to set CIAC amortization rates in rate decisions, what
9 adjustment is RUCO recommending?

10 A. RUCO recommends increasing CIAC by \$1,523 as shown on Schedule TJC-12.

11

12 **OCRB Adjustment #15 – Treatment of Additional CAP Allocation**

13 Q. Does RUCO maintain its direct testimony position in surrebuttal regarding the
14 100 percent disallowance of an additional Central Arizona Project (“CAP”) water
15 allocation of 1,931 acre-feet?

16 A. No. RUCO’s surrebuttal position regarding the additional CAP allocation has
17 been modified.

18

19 Q. Please explain RUCO’s surrebuttal position regarding the additional CAP
20 allocation.

21 A. RUCO is recommending that 50 percent of the cost of the additional CAP
22 allocation be placed in a non-depreciable plant account – Account 303 – Land
23 and Land Rights.

1 Q. Why is RUCO recommending that 50 percent be placed in a non-depreciable
2 plant account?

3 A. RUCO recognizes and commends the Company's decision to help reduce and
4 conserve groundwater usage with surface water.

5

6 Q. Why is RUCO only allowing 50 percent of the total \$1.28 million cost of the
7 additional CAP allocation to be included in UPIS in a non-depreciable plant
8 account?

9 A. RUCO originally did not regard the CAP allocation as used and useful in the
10 provision of water service. However, in deference to the Company's future
11 source of supply concerns, RUCO now recognizes that some portion of the CAP
12 allocation should be given rate base treatment. Accordingly, RUCO is now
13 recommending that 50 percent of the CAP allocation should be given rate base
14 treatment. For these reasons, RUCO has partially adopted the Staff's position on
15 this issue and is recommending that 50 percent of the CAP allocation be booked
16 into a non-depreciable plant account. RUCO believes that the remaining 50
17 percent should be included in rate base at a future point in time when it is
18 deemed used and useful (See Bourassa Rebuttal at 29-30, Millsap Direct at 17,
19 and Scott at 11).

20 ..

21 ..

22 ..

23

1 **OCRB Adjustment #16 – Working Capital**

2 Q. Did the Company accept RUCO's working capital adjustment and thus its
3 lead/lag study to calculate cash working capital?

4 A. Yes.

5

6 Q. What adjustment did RUCO make for cash working capital?

7 A. RUCO's adjusted working capital to reflect the cash working capital requirements
8 decrease working capital by \$100,122. This number fluctuates as adjustments
9 are made and/or accepted because it is dependent on operating expense levels.

10

11 **RECONSTRUCTION COST NEW LESS DEPRECIATION RATE BASE ("RCND"):**

12 **RCND Adjustment #1 – RCND Factor Rounding**

13

14 Q. Did the Company address RUCO's adjustment to eliminate the truncation issue
15 for the RCND Factor that is used to trend UPIS up to its reconstruction cost new
16 value?

17 A. No. The Company did not address this adjustment in its rebuttal testimony.

18

19 Q. Would you please explain RUCO's RCND Factor rounding adjustment?

20 A. Yes. The Company's Schedule B-4, pages 1-7, truncates the RCND Factor. To
21 correct this problem, RUCO inserted a mathematical formula into the RCND
22 Factor cells to carry out the proper multiplication.

23

1 Q. Is RUCO proposing the same recommendation in surrebuttal testimony that it did
2 in direct testimony to eliminate the Company's truncating?

3 A. Yes. RUCO recommends reducing the RCND plant in service by \$118 and
4 increasing accumulated depreciation by \$1 as shown on Schedule TJC-16.

5

6 **RCND Adjustment #2 – Correct Account 304 Index Factors**

7 Q. Did the Company accept RUCO's adjustment that corrects the index factor for
8 the three plant line items in Account 304?

9 A. Yes. The Company accepts RUCO's adjustment and adjusted its RCND plant
10 value downward by \$17,805 in its rebuttal testimony.

11

12 **RCND Adjustment #3 – Remove Wells 8 and 9 – Not In Service**

13 Q. Did the Company agree with RUCO's RCND adjustment #3 to remove Wells 8
14 and 9 from UPIS?

15 A. Yes. This adjustment is discussed in RUCO's OCRB section of surrebuttal
16 testimony. Many of the RCND adjustments are mere reflections of the same
17 adjustments in RUCO's OCRB section with the exception being that the RCND
18 adjustments are trended up to a RCND value.

19

20 Q. Does RUCO agree with the amount of the Company's adjustment?

21 A. Yes. RUCO agrees with the Company's adjustment that removes UPIS and
22 accumulated depreciation in the amount of \$441,470.

23

1 **RCND Adjustment #4 – Remove Double Count of RCND Plant Transfers from ACC**

2 **Decision 68176**

3 Q. Did RUCO reconsider its RCND adjustment #4 that removed what RUCO
4 characterized as a double count of UPIS authorized in Decision No. 68176?

5 A. Yes. RUCO is now in agreement with the Company regarding this adjustment.

6
7 Q. What adjustment was necessary to correct RUCO's direct testimony position on
8 this possible double count of UPIS?

9 A. RUCO removed its adjustment in the surrebuttal schedules. However, it was
10 necessary to make the same adjustment, an addition, in the OCRB schedules to
11 account for UPIS the Company did not bring forward to its B-1 and B-2
12 Schedules. This adjustment is shown in RUCO's OCRB adjustment #9, which
13 increased UPIS by \$32,536.

14
15 **RCND Adjustment #5 – Remove Shea Water Treatment Plant 1**

16 Q. Did the Company accept RUCO's adjustment to remove the Shea Water
17 Treatment Plant 1 from RCND rate base?

18 A. Yes. Again, this adjustment is a mirror reflection of the same adjustment in
19 RUCO's OCRB section. The only difference here is it has been trended up to a
20 RCND value. The adjustment decreases the RCND UPIS and accumulated
21 depreciation by \$3,262,891. This plant has not been in service since 2003.

22

23

1 **RCND Adjustment #6 – Capitalize Expensed Plant Items**

2 Q. Did the Company accept RUCO's RCND adjustment #6 to capitalize expensed
3 plant items?

4 A. Yes. This adjustment is explained in RUCO's OCRB section of this testimony.
5

6 **RCND Adjustment #7 – Intentionally Left Blank**
7

8 **RCND Adjustment #8 - RCND Trended Direct Plant Accumulated Depreciation**

9 Q. Has the Company accepted RUCO's RCND adjustment that reconciles the
10 accumulated depreciation balance to RUCO's recommended level of
11 accumulated depreciation?

12 A. The Company does not explicitly address this adjustment to accumulated
13 depreciation. After reviewing both the Company's Schedule B-1, page 1 and
14 RUCO's Schedule TJC-2, which provide the same information, RUCO has come
15 to the conclusion that many of the Company's accepted adjustments from both
16 Staff and RUCO has largely accounted for this adjustment. In an effort to
17 eliminate some issues in dispute, RUCO has removed this adjustment.
18

19 **RCND Adjustment #9 – Intentionally Left Blank**

20 ..

21 ..

22 ..

1 **RCND Adjustment #10 – Correct General Office 4-Factor Plant & Accumulated**
2 **Depreciation Allocator**

3 Q. Did the Company accept RUCO's adjustment to correct the general office 4-
4 Factor Allocator for plant and accumulated depreciation?

5 A. Yes. This adjustment was fully explained in RUCO's direct testimony. It is also
6 briefly discussed in this testimony at the OCRB section. This adjustment is
7 merely trended up to a RCND value.

8

9 **RCND Adjustment #11 – Remove Post-Test Year General Office Plant**

10 Q. Did the Company address RUCO's adjustment to remove post test year general
11 office plant?

12 A. No. A discussion regarding this adjustment was provided in the OCRB section of
13 this testimony.

14

15 Q. What adjustment is necessary to recognize and remove the post-test year
16 general office plant?

17 A. Since this is post-test year plant, the adjustment is identical in both OCRB and
18 RCND rate base adjustments because there is no RCND trending factor to
19 consider. This adjustment reduces GUPIS by \$15,434 and increases
20 accumulated depreciation by \$1,404 for both OCRB and RCND rate bases.

21 ..

22 ..

23 ..

1 **RCND Adjustment #12 – Treatment of the Fountain Hills Sanitary District**
2 **(“FHSD”) Wells Settlement Proceeds**

3 Q. What is RUCO’s position regarding the FHSD Settlement proceeds with the
4 Company?

5 A. RUCO explained its position regarding the FHSD Settlement proceeds in the
6 OCRB section of this testimony.

7
8 **RCND Adjustment #13 – Advances in Aid of Construction (“AIAC”) Adjustment**

9 Q. Did the Company address RUCO’s adjustment to AIAC in rebuttal testimony?

10 A. No.

11
12 Q. What is RUCO’s position to this adjustment since the Company did not address it
13 in its rebuttal testimony?

14 A. As explained in RUCO’s direct testimony, “any adjustment to plant in service will
15 cause the AIAC factor to change because the AIAC factor is the ratio of the
16 RCND plant in service to the original cost plant in service. All of RUCO’s
17 adjustments to either RCND or OCRB plant in service caused a minor
18 modification to the AIAC factor. Thus, RUCO’s AIAC factor is slightly larger than
19 the Company’s factor.”

20
21 ..
22 ..

1 Q. Did the Company make any adjustment for AIAC when accepting any of Staff or
2 RUCO's rate base adjustments?

3 A. Yes. The Company's RCND AIAC balance changed from its direct to rebuttal
4 testimonies. The amount of change authorized by the Commission in this case
5 will be determined by the adjustments approved in its Decision. RUCO's
6 recommended plant levels are different than the Company's resulting in different
7 levels of RCND AIAC balances.

8

9 **RCND Adjustment #14 - Contributions in Aid of Construction ("CIAC")**

10 Q. Did the Company address RUCO's adjustment to CIAC?

11 A. No. However, the only difference in this adjustment and the same OCRB CIAC
12 balance adjustment is this adjustment has been trended up to a RCND value.
13 Please see RUCO's OCRB section for its rationale for the adjustment.

14

15 **RCND Adjustment #15 - Remove the Deferred Asset and Record 50 Percent in a**
16 **Non-Depreciable Plant Account - Additional CAP Allocation")**

17 Q. Is this the same adjustment that RUCO made in its OCRB section of this
18 testimony?

19 A. Yes. Please see that section of RUCO's testimony for a complete discussion.

20

21

22

23

1 **RCND Adjustment #16 – Working Capital**

2 Q. Did the Company accept RUCO's working capital adjustment and thus its
3 lead/lag study to calculate cash working capital?

4 A. Yes.

5

6 Q. What adjustment did RUCO make for cash working capital?

7 A. RUCO's adjustment to working capital to reflect the cash working capital
8 requirements decreases working capital by \$100,122. This number fluctuates as
9 adjustments are made and/or accepted because it is dependent on operating
10 expense levels.

11

12 **OPERATING INCOME & EXPENSES:**

13 **Operating Adjustment #1 – Depreciation & Amortization Expense**

14 Q. What is the difference between RUCO's and the Company's depreciation
15 expense recommendations?

16 A. The primary difference between RUCO's direct schedules and the Company's
17 rebuttal schedules is that RUCO inadvertently utilized "Test Year Book Results"
18 rather than the adjusted test year depreciation balance as a basis for its
19 adjustment. RUCO has corrected its Depreciation Expense Schedule. That
20 correction alone accounted for approximately \$25,000 of the reduction to
21 RUCO's direct testimony schedules. A second reason RUCO's depreciation
22 expense differed from the Company's is because RUCO had not made the plant
23 reclassification adjustment recommended by Staff and adopted by the Company.

1 RUCO does not object to the reclassification adjustment. The remaining
2 discrepancy results from slight differences in recommended plant balances.

3
4 Q. If RUCO doesn't object to the plant reclassification adjustment, why hasn't RUCO
5 made the adjustment in surrebuttal?

6 A. The primary reason was time. RUCO had not completed any analysis or review
7 of the adjustment. The Company and RUCO are within a \$3,000 difference of
8 depreciation expense without having made the reclassification adjustment.

9
10 **Operating Adjustment #2 – Property Tax Expense**

11 Q. What are the primary difference in RUCO's direct and the Company's direct
12 position regarding property tax expense?

13 A. RUCO used an alternative methodology rather than three years of historical
14 gross revenues. RUCO's alternative methodology uses two years of historical
15 revenues and one year of RUCO's proposed level of revenue.

16
17 Q. Did RUCO provide any empirical evidence in its direct testimony indicating the
18 Company has over-collected on its property tax expense that was last authorized
19 on September 30, 2005?

20 A. Yes. RUCO obtained the property tax expense for years 2004 through 2006
21 from the Company's rate application. The actual property tax expense for years
22 2007 and 2008 was obtained from Arizona Department of Revenue ("ADOR") as
23 shown below:

| | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> |
|----------------------|-------------|-------------|-------------|-------------|-------------|
| Property Tax Expense | \$ 280,537 | \$ 279,529 | \$ 241,774 | \$ 207,162 | \$ 187,214 |

Commission Decision No. 68176 made an allowance for property tax expense in the amount of \$299,495. In none of those years was that level of property tax expense achieved. Actually, the disparity is growing between what was authorized and the property tax expense actually incurred.

Operating Adjustment #3 – Miscellaneous Expense

Q. What is RUCO's adjustment to miscellaneous expense?

A. RUCO adopts Staff's recommended miscellaneous expense adjustment that was accepted by the Company in rebuttal testimony.

Operating Adjustment #4 – Rate Case Expense

Q. Did the Company make any concessions in its rebuttal testimony concerning rate case expense?

A. Yes. The Company decided to forgo any unamortized rate case expense resulting from Decision 68176.

Q. Is RUCO's position the same as in its direct testimony regarding the Appeal and Remand of Decision 68176?

A. Yes. This is discussed in RUCO witness, Mr. Rigsby's testimony.

1 **Operating Adjustment #5 – Purchased Water Expense**

2 Q. Did RUCO accept the Company's rebuttal adjustment to purchased water
3 expense?

4 A. Yes.

5

6 **Operating Adjustment #6 – Outside Services Expense**

7 Q. Did the Company address RUCO's adjustment to outside services?

8 A. No.

9

10 Q. What is RUCO's surrebuttal position regarding its outside services adjustment?

11 A. RUCO's surrebuttal position is the same as in its direct testimony. RUCO's audit
12 of outside service invoices determined that the Company eliminated an outside
13 service person on May 22 of the test year that provided water supply
14 superintendent services for the Company. The Company replaced these
15 services with an employee. The charges in the test year for the outside service
16 person are a nonrecurring expense on a going forward basis. All associated
17 charges for those outside services should be removed from adjusted test year
18 outside services account. This information is provided in Company work paper
19 titled "CCWC Employees – 06." The charge for the services was \$3,500 per
20 week. RUCO recommends reducing the outside service expense account by
21 \$71,000 to remove the nonrecurring expense as shown on Schedule TJC-37.

22

23

1 **Operating Adjustment #7 – Water Revenues**

2 Q. Has RUCO accepted the Company's adjustment to water revenues due to less
3 loss of water sales from the golf courses than the Company originally estimated?

4 A. Yes. RUCO has accepted the Company's calculated adjustment.

5

6 **Operating Adjustment #8 – Remove Expenses Charged to Repairs & Maintenance**
7 **and Outside Services and Capitalize**

8 Q. Has RUCO accepted the Company's adjustment to capitalize expensed plant
9 items?

10 A. Yes. RUCO had made a portion of the adjustment in its direct testimony, which
11 was accepted by the Company in its rebuttal testimony. The Company accepted
12 another adjustment recommended by Staff, which RUCO adopts in its surrebuttal
13 testimony.

14

15 Q. Please identify the total adjustment that RUCO accepts.

16 A. RUCO initially removed \$43,217 from the repairs & maintenance expense
17 account and capitalized it accordingly. Then, RUCO removed \$38,049 from
18 outside services and capitalized the expense as recommended by Staff and
19 accepted by the Company.

20

21 ..

22 ..

23

1 **Operating Adjustment #9 – Water Testing Expense**

2 Q. Please explain RUCO's adjustment to water testing expense.

3 A. RUCO adopts Staff's adjustment to water testing expense, which was also
4 accepted by the Company in rebuttal testimony.

5

6 **Operating Adjustment #10 – Purchased Power**

7 Q. Does RUCO accept the Company's adjustment to purchased power expense?

8 A. Yes.

9

10 **Operating Adjustment #11 – Amortization of the Additional CAP Allocation**

11 Q. Please explain RUCO's adjustment that removes the amortization associated
12 with the deferred regulatory asset – Additional CAP Allocation.

13 A. RUCO agrees with Staff's recommended treatment of the additional CAP
14 allocation. However, RUCO does not believe that the CAP allocation is currently
15 used and useful. As explained in the OCRB section, RUCO recognizes 50
16 percent of the allocation may be a non-depreciable plant account as suggested
17 by Staff and accepted by the Company in recognition that the CAP allocation
18 may help the Company reduce groundwater usage. Removal of the amortization
19 expense associated with the CAP allocation is consistent with Staff's
20 recommendation and accepted by the Company.

21 ..

22 ..

1 **Operating Adjustment #12 – Income Taxes**

2 Q. Please explain RUCO's adjustment to the Company's Income Tax Expense.

3 A. This adjustment results from RUCO's recommended level of taxable operating
4 income.

5

6 **Other Remaining Issues**

7 **Low-Income Program ("LIP")**

8 Q. Has the Company presented a LIP in this case?

9 A. No. However, the Company has proposed to present a LIP prior to the hearing
10 for the parties to review.

11

12 Q. What is RUCO's position regarding LIP's?

13 A. RUCO generally supports LIP's and will review it once it is available. The
14 Company stated that all customers would have to subsidize the program
15 accordingly.

16

17 **CAP Hook-Up Fee**

18 Q. Has the Company proposed a CAP Hook-up Fee to recover costs associated
19 with the additional CAP allocation?

20 A. Yes. The Company has proposed a "CAP Hook-up Fee" on new water
21 installations. This is shown on Company Schedule H-3, page 3, line 22 and lines
22 30 through 32.

23

1 Q. Does RUCO believe this is an appropriate hook-up fee to reimburse the
2 Company for its additional CAP allocation?

3 A. No. Hook-up fees are generally used to fund back-bone plant. RUCO believes
4 that the additional CAP allocation is not back-bone plant. The Company's
5 proposal would allow Chaparral to recover the cost of the allocation when both
6 Staff and RUCO are recommending that the CAP allocation be booked in a non-
7 depreciable account and the Company be permitted to earn a return on it in
8 perpetuity. For this reason, RUCO does not believe that Chaparral should be
9 permitted to recover the CAP allocation costs through the Company-proposed
10 hook-up fee on new water installations.

11
12 Q. Did the Company address this hook-up fee issue in either its direct or rebuttal
13 testimonies?

14 A. No.

15
16 Q. What is RUCO's recommendation concerning the Company's proposed CAP
17 hook-up fee?

18 A. RUCO recommends the Commission deny this hook-up fee and the language be
19 struck on the referenced Company H-3 Schedule.

20
21 ..

22 ..

23

1 **GROSSING-UP SERVICE LINE /METER INSTALLATION TAXES**

2 Q. Did the Company propose that service lines and meter installations be grossed-
3 up for taxes?

4 A. Yes. The Company made this request on Company Schedule H-3, page 4, but
5 was silent on the issue in written testimony.

6
7 Q. What recommendation is RUCO making regarding this proposed treatment to
8 gross these service lines and meter installations up for taxes?

9 A. RUCO recommends the Commission deny the request unless the Company can
10 cite some change in ACC rules and/or Internal Revenue Service Regulations that
11 would allow such treatment.

12

13 **INTEREST SYNCHRONIZATION**

14 Q. Has RUCO recalculated interest expense based on FVRB rather than OCRB?

15 A. RUCO has adopted the Company's position on interest synchronization and has
16 multiplied Chaparral's FVRB times RUCO's recommended weighted cost of debt
17 to calculate an appropriate interest expense deduction. The deduction is
18 reflected in RUCO's recommended level of test year adjusted income tax
19 expense.

20

21 ..

22 ..

23

1 **RATE DESIGN**

2 Q. Is RUCO filing a new rate design in surrebuttal testimony?

3 A. Not at this time. As a result of RUCO's modified position and the Company's
4 proposed LIP, it will be filing revised rate design schedules prior to the hearing
5 that reflect RUCO's pre-hearing position revenue recommendation. RUCO's
6 surrebuttal revenue recommendation is approximately 7.4 percent more than its
7 direct testimony recommendation.

8
9 Q. Does RUCO believe that its rate design will mirror that filed in its direct
10 schedules?

11 A. RUCO believes its rate design will be substantially similar with an upward
12 adjustment to account for the additional revenue recommendation.

13
14 Q. Does that conclude your surrebuttal testimony at this time?

15 A. Yes, it does.

CHAPARRAL CITY WATER COMPANY, INC.
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| TJC - 9 | OCRB ADJ. #6 - CAPITALIZE EXPENSED PLANT ITEMS |
| TJC - 10, page 1 of 2 | OCRB ADJ. #10 - GENERAL OFFICE PLANT ALLOCATION |
| TJC - 10, page 2 of 2 | OCRB ADJ. #10 - GENERAL OFFICE ACCUMULATED DEPRECIATION ALLOCATION |
| TJC - 11 | OCRB ADJ. #11 - REMOVE POST TEST YEAR GENERAL OFFICE PLANT |
| TJC - 12 | OCRB ADJ. #14 - RECOMPUTATION OF CONTRIBUTIONS IN AID OF CONSTRUCTION |
| TJC - 13 | RECONSTRUCTION COST NEW LESS DEPRECIATION ("RCND") RATE BASE |
| TJC - 14, pages 1 thru 2 | SUMMARY OF RCND RATE BASE ADJUSTMENTS |
| TJC - 15 | RCND UTILITY PLANT IN SERVICE & ACCUMULATED DEPRECIATION |
| TJC - 16 | RCND RATE BASE ADJ. #1 - UTILITY PLANT IN SERVICE - ROUNDING ADJUSTMENT |
| TJC - 17 | RCND RATE BASE ADJ. #2 - CORRECT ACCOUNT 304 INDEX FACTOR |
| TJC - 18 | RCND RATE BASE ADJ. #3 - REMOVE WELLS 8 & 9 |
| TJC - 19 | RCND RATE BASE ADJ. #5 - REMOVE SHEA WATER TREATMENT PLANT 1 |
| TJC - 20 | RCND RATE BASE ADJ. #6 - CAPITALIZE EXPENSED PLANT ITEMS |
| TJC - 21, page 1 of 2 | RCND RATE BASE ADJ. #10 - GENERAL OFFICE PLANT ALLOCATION |
| TJC - 21, page 2 of 2 | RCND RATE BASE ADJ. #10 - GENERAL OFFICE ACCUMULATED DEPRECIATION ALLOCATION |
| TJC - 22 | RCND RATE BASE ADJ. #11 - REMOVE POST TEST YEAR GENERAL OFFICE PLANT |
| TJC - 23 | RCND RATE BASE ADJ. #13 - RECALCULATE ADVANCES IN AID OF CONSTRUCTION ("AIAC") |
| TJC - 24 | RCND RATE BASE ADJ. #14 - RECOMPUTATION OF CONTRIBUTIONS IN AID OF CONSTRUCTION |
| TJC - 25 | OCRB ADJ. #15 - REMOVE DEFERRED REGULATORY ASSET |
| TJC - 26, pages 1 thru 15 | OCRB ADJ. #16 - WORKING CAPITAL |
| TJC - 27 | OPERATING INCOME - TEST YEAR AND RUCO PROPOSED |
| TJC - 28 | SUMMARY OF OPERATING ADJUSTMENTS |

| | |
|----------|--|
| TJC - 29 | OPERATING ADJ. #1 - DEPRECIATION AND AMORTIZATION EXPENSE |
| TJC - 30 | OPERATING ADJ. #2 - PROPERTY TAX EXPENSE |
| TJC - 31 | OPERATING ADJ. #4 - RATE CASE EXPENSE |
| TJC - 32 | OPERATING ADJ. #6 - OUTSIDE SERVICES EXPENSE |
| TJC - 33 | OPERATING ADJ. #8 - REMOVE EXPENSED PLANT ITEMS AND CAPITALIZE |
| TJC - 34 | OPERATING ADJ. #11 - REMOVE DEFERRED REGULATORY ASSET AMORTIZATION |
| TJC - 35 | OPERATING ADJ. #12 - INCOME TAXES |
| TJC - 36 | COST OF CAPITAL |

REVENUE REQUIREMENTS

| LINE NO. | DESCRIPTION | (A) COMPANY REQUESTED | (B) RUCO RECOMMENDED |
|----------|---------------------------------------|-----------------------------|----------------------------|
| 1 | ADJUSTED FAIR VALUE RATE BASE (FVRB) | \$ 28,736,406 | \$ 27,498,329 |
| 2 | ADJUSTED OPERATING INCOME | 797,271 | 1,051,686 |
| 3 | CURRENT RATE OF RETURN (L2 / L1) | 2.77% | 3.82% |
| 4 | REQUIRED RATE OF RETURN ON FVRB | 9.32% | 6.38% |
| 5 | REQUIRED OPERATING INCOME (L4 * L1) | 2,678,233 | 1,754,393 |
| 6 | OPERATING INCOME DEFICIENCY (L5 - L2) | 1,880,962 | 702,707 |
| 7 | GROSS REVENUE CONVERSION FACTOR | 1.6286 | 1.6287 |
| 8 | GROSS REVENUE INCREASE | \$ 3,063,335 | \$ 1,144,478 |
| 9 | CURRENT REVENUES T/Y ADJUSTED | 7,446,700 | 7,505,010 |
| 10 | PROPOSED ANNUAL REVENUE (L8 + L9) | 10,510,035 | 8,649,488 |
| 11 | PERCENTAGE AVERAGE INCREASE | 41.14% | 15.25% |
| 12 | COST OF COMMON EQUITY | 10.50% | 6.83% |

REFERENCES:

COLUMN (A): COMPANY SCHEDULE A-1

COLUMN (B): SCHEDULE TJC-1, PG. 2, TJC-2, TJC-3, TJC-30 AND TJC-43

CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 GROSS REVENUE CONVERSION FACTOR

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-1
 PAGE 2 OF 2
 SURREBUTTAL TESTIMONY

| <u>LINE NO.</u> | <u>DESCRIPTION</u> | <u>AMOUNT</u> | <u>REFERENCE</u> |
|-----------------|---------------------------|---|------------------|
| 1 | REVENUE | 1.0000 | |
| 2 | UNCOLLECTIBLES | <u>0.00000</u> | COMPANY SCH. C-3 |
| 3 | SUB-TOTAL | 1.0000 | LINE 1 - LINE 2 |
| 4 | LESS: TAX RATE | <u>38.60%</u> | NOTE (a) |
| 5 | TOTAL | 0.6140 | LINE 3 - LINE 4 |
| 6 | REVENUE CONVERSION FACTOR | 1.62867 | LINE 1/LINE 5 |

NOTE (a):
 CALCULATION OF EFFECTIVE TAX RATE

| | |
|--------------------------------|----------------|
| OPERATING INCOME BEFORE TAXES | 100.00% |
| LESS: ARIZONA STATE TAX | <u>6.97%</u> |
| TAXABLE INCOME FEDERAL | 93.03% |
| TIMES: FEDERAL INCOME TAX RATE | <u>34.00%</u> |
| SUBTOTAL | 31.63% |
| ADD STATE TAX RATE | 38.60% |
| LINE 3 ABOVE | <u>100.00%</u> |
| EFFECTIVE TAX RATE | 38.60% |

CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 SUMMARY OF RATE BASE

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-2
 SURREBUTTAL TESTIMONY

| Line No. | | RUCO Original Cost Rate base | RUCO RCND Rate base | RUCO Fair Value Rate Base (50/50) |
|----------|------------------------------------|------------------------------------|---------------------------|---|
| 1 | | | | |
| 2 | Gross Utility Plant in Service | \$ 50,295,600 | \$ 77,640,019 | \$ 63,967,809 |
| 3 | Less: Accumulated Depreciation | (13,710,454) | (22,122,967) | (17,916,711) |
| 4 | | | | |
| 5 | Net Utility Plant in Service | \$ 36,585,146 | \$ 55,517,052 | \$ 46,051,099 |
| 6 | | | | |
| 7 | <u>Less:</u> | | | |
| 8 | Advances in Aid of | | | |
| 9 | Construction | (6,557,243) | (10,122,247) | (8,339,745) |
| 10 | Contributions in Aid of | | | |
| 11 | Construction - Net of amortization | (6,120,652) | (9,443,703) | (7,782,178) |
| 12 | Customer Meter Deposits | (819,845) | (819,845) | (819,845) |
| 13 | Deferred Income Taxes & Credits | (925,896) | (925,896) | (925,896) |
| 14 | Investment tax Credits | - | - | - |
| 15 | Shared Gain on Well | (1,216,000) | (1,216,000) | (1,216,000) |
| 16 | | | | |
| 17 | <u>Plus:</u> | | | |
| 18 | Unamortized Debt Issuance | | | |
| 19 | Costs | 424,010 | 424,010 | 424,010 |
| 20 | Working Capital | 106,884 | 106,884 | 106,884 |
| 21 | Deferred Regulatory Assets | - | - | - |
| 22 | | | | |
| 23 | | | | |
| 24 | | | | |
| 25 | | | | |
| 26 | Total Rate Base | <u>\$ 21,476,403</u> | <u>\$ 33,520,255</u> | <u>\$ 27,498,329</u> |

30 SUPPORTING SCHEDULES:
 31 Schedules TJC-4, pages 1 and 2
 32 Schedules TJC-5
 33 Schedules TJC-6, pages 1, 2, and 3
 34 Schedules TJC-14, pages 1 and 2
 35 Schedule TJC-15

RECAP SCHEDULES:
 Schedule TJC-1

CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 RATE BASE - ORIGINAL COST

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-3
 SURREBUTTAL TESTIMONY

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED | (B) RUCO ADJUSTMENTS | (C) RUCO AS ADJUSTED |
|----------|---|-------------------------------|----------------------------|-------------------------------|
| 1 | PLANT IN SERVICE | \$ 51,771,885 | \$ (1,476,285) | \$ 50,295,600 |
| 2 | ACCUMULATED DEPRECIATION | <u>(15,877,022)</u> | <u>2,166,568</u> | <u>(13,710,454)</u> |
| 3 | NET PLANT IN SERVICE | \$ 35,894,863 | \$ 690,283 | \$ 36,585,146 |
| 4 | CONSTRUCTION WORK IN PROGRESS (CWIP) | <u>-</u> | <u>-</u> | <u>-</u> |
| 5 | TOTAL NET PLANT | \$ 35,894,863 | \$ 690,283 | \$ 36,585,146 |
| | Less: | | | |
| 6 | ADVANCES IN AID OF CONSTRUCTION (AIAC) | (6,557,243) | - | (6,557,243) |
| 7 | CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) - NET | (6,119,129) | (1,523) | (6,120,652) |
| 8 | CUSTOMER METER DEPOSITS | (819,845) | - | (819,845) |
| 9 | DEFERRED INCOME TAXES | (925,896) | - | (925,896) |
| 10 | INVESTMENT TAX CREDITS | - | - | - |
| 11 | SHARED GAIN ON WELL | (646,000) | (570,000) | (1,216,000) |
| | Plus: | | | |
| 12 | UNAMORTIZED DEBT ISSUANCE COSTS | 424,010 | - | 424,010 |
| 13 | WORKING CAPITAL | 207,006 | (100,122) | 106,884 |
| 14 | DEFERRED REGULATORY ASSETS | 1,280,000 | (1,280,000) | - |
| 15 | TOTAL RATE BASE | <u>\$ 22,737,766</u> | <u>\$ (1,261,363)</u> | <u>\$ 21,476,403</u> |

REFERENCES:

COLUMN (A): COMPANY SCHEDULE B-1
 COLUMN (B): SCHEDULE TJC-4, PAGES 1 and 2
 COLUMN (C): COLUMN (A) + COLUMN (B)

CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-4
 SURREBUTTAL TESTIMONY
 PAGE 1 of 2

| LINE NO. | DESCRIPTION | (A) COMPANY PROPOSED | (B) ADJ.#1 | (C) ADJ.#2 | (D) ADJ.#3 | (E) ADJ.#4 | (F) ADJ.#5 | (G) ADJ.#6 | (H) ADJ.#7 | (I) ADJ.#8 |
|----------|---|----------------------------|---------------|---------------|---------------|---------------|----------------|---------------|---------------|---------------|
| 1 | PLANT IN SERVICE | \$51,771,885 | | | \$ (107,412) | | \$ (2,010,923) | \$ 80,891 | | |
| 2 | ACCUMULATED DEPRECIATION | (15,877,022) | | | 107,412 | | 2,010,923 | (3,265) | | |
| 3 | NET PLANT IN SERVICE | \$35,894,863 | \$ - | \$ - | \$ - | \$ - | \$ 0 | \$ 77,626 | \$ - | \$ - |
| 4 | CONSTRUCTION WORK IN PROGRESS (CWIP) | | | | | | | | | |
| 5 | TOTAL NET PLANT | \$35,894,863 | \$ - | \$ - | \$ - | \$ - | \$ 0 | \$ 77,626 | \$ - | \$ - |
| | Less: | | | | | | | | | |
| 6 | ADVANCES IN AID OF CONSTRUCTION (AIAC) | (6,557,243) | | | | | | | | |
| 7 | CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) - NET | (6,119,129) | | | | | | | | |
| 8 | CUSTOMER METER DEPOSITS | (819,845) | | | | | | | | |
| 9 | DEFERRED INCOME TAXES | (925,896) | | | | | | | | |
| 10 | INVESTMENT TAX CREDITS | | | | | | | | | |
| 11 | SHARED GAIN ON WELL | (646,000) | | | | | | | | |
| | Plus: | | | | | | | | | |
| 12 | UNAMORTIZED DEBT ISSUANCE COSTS | 424,010 | | | | | | | | |
| 13 | WORKING CAPITAL | 207,006 | | | | | | | | |
| 14 | DEFERRED REGULATORY ASSETS | 1,280,000 | | | | | | | | |
| 15 | TOTAL RATE BASE | \$22,737,766 | \$ - | \$ - | \$ - | \$ - | \$ 0 | \$ 77,626 | \$ - | \$ - |

REFERENCE:

- SCHEDULE TJC-7
- SCHEDULE TJC-8
- SCHEDULE TJC-9

ADJUSTMENT #:

1. Intentionally Left Blank
2. Intentionally Left Blank
3. Remove Wells 8 & 9 - Out of Service
4. Intentionally Left Blank
5. Remove Shea Water Treatment Plant 1 - Taken Out of Service
6. Remove Expensed Plant Items and Capitalize
7. Intentionally Left Blank
8. Intentionally Left Blank

CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-4
 SURREBUTTAL TESTIMONY
 PAGE 2 of 2

| LINE NO. | DESCRIPTION | (J) ADJ #9 | (K) ADJ #10 | (L) ADJ #11 | (M) ADJ #12 | (N) ADJ #13 | (O) ADJ #14 | (P) ADJ #15 | (Q) ADJ #16 | (R) RUCO ADJUSTED |
|----------|---|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------------------|
| 1 | PLANT IN SERVICE | 32,536 | \$ (95,944) | \$ (15,434) | \$ - | \$ - | \$ - | \$ 640,000 | \$ - | \$ 50,295,600 |
| 2 | ACCUMULATED DEPRECIATION | | \$ 51,488 | | | | | | | (13,710,454) |
| 3 | NET PLANT IN SERVICE | \$ 32,536 | \$ (44,446) | \$ (15,434) | \$ - | \$ - | \$ - | \$ 640,000 | \$ - | \$ 36,585,146 |
| 4 | CONSTRUCTION WORK IN PROGRESS (CWIP) | | | | | | | | | |
| 5 | TOTAL NET PLANT | \$ 32,536 | \$ (44,446) | \$ (15,434) | \$ - | \$ - | \$ - | \$ 640,000 | \$ - | \$ 36,585,146 |
| | Less: | | | | | | | | | |
| 6 | ADVANCES IN AID OF CONSTRUCTION (AIAC) | | | | | | | | | (6,557,243) |
| 7 | CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) - NET | | | | | (1,523) | | | | (6,120,652) |
| 8 | CUSTOMER METER DEPOSITS | | | | | | | | | (819,845) |
| 9 | DEFERRED INCOME TAXES | | | | | | | | | (925,896) |
| 10 | INVESTMENT TAX CREDITS | | | | | | | | | - |
| 11 | SHARED GAIN ON WELL | | | | (570,000) | | | | | (1,216,000) |
| | Plus: | | | | | | | | | |
| 12 | UNAMORTIZED DEBT ISSUANCE COSTS | | | | | | | | | 424,010 |
| 13 | WORKING CAPITAL | | | | | | | | (100,122) | 106,884 |
| 14 | DEFERRED REGULATORY ASSETS | | | | | | | (1,280,000) | | - |
| 15 | TOTAL RATE BASE | \$ 32,536 | \$ (44,446) | \$ (15,434) | \$ (570,000) | \$ - | \$ (1,523) | \$ (640,000) | \$ (100,122) | \$ 21,476,403 |

ADJUSTMENT #:

- 9. To Adjust OCRB Direct Plant to Carry Plant Forward that was not recorded by the Company
- 10. Correct 4-Factor General Office Plant & Accumulated Depreciation Allocation Factor
- 11. Remove Post Test Year GO Plant in Account 303 & 340
- 12. FHSD Settlement Proceeds
- 13. Intentionally Left Blank
- 14. To correct CIAC amortization rate authorized in Decision No. 68176 per Bourassa Rebuttal Schedule C-2, page 2.
- 15. To Remove Deferred Regulatory Asset and Place 1/2 in UPIS - Additional CAP Allocation Working Capital
- 16. Working Capital

REFERENCE:

- SCHEDULE TJC-6
- SCHEDULE TJC-10, PAGES 1 and 2
- SCHEDULE TJC-11
- TJC TESTIMONY
- SCHEDULE TJC-12
- TJC TESTIMONY
- SCHEDULE TJC-29, PAGES 1 thru 15

CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 RE-COMPUTATION OF TOTAL UTILITY PLANT IN SERVICE (UPIS)
 AND ACCUMULATED DEPRECIATION FROM DECISION NO. 68176

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-5
 SURREBUTTAL TESTIMONY

Total Chaparral City Water UPIS:

| <u>Line No.</u> | <u>Description</u> | <u>Amount</u> |
|-----------------|--|---------------------|
| 1 | Chaparral City Water Direct Plant Per Company | \$51,020,714 |
| 2 | Chaparral City Water Direct Plant Per RUCO | 51,053,250 |
| 3 | RUCO's Direct Plant Adjustment | <u>\$ 32,536</u> |
| 4 | Chaparral City Water General Office Plant Allocation Per Company | \$ 751,171 |
| 5 | Chaparral City Water General Office Plant Allocation Per RUCO | 639,794 |
| 6 | RUCO's General Office Plant Allocation Adjustment | <u>\$ (111,377)</u> |
| 7 | Total Chaparral City Water Gross UPIS Per Company | \$51,771,885 |
| 8 | Total Chaparral City Water Gross UPIS Per RUCO | 51,693,044 |
| 9 | Total RUCO Gross UPIS Adjustment | <u>\$ (78,841)</u> |

Total Chaparral City Water Accumulated Depreciation:

| | | |
|----|--|--------------------|
| 10 | Chaparral City Water Direct Plant Accumulated Depreciation Per Company | \$15,473,834 |
| 11 | Chaparral City Water Direct Plant Accumulated Depreciation Per RUCO | 15,479,021 |
| 12 | RUCO's Direct Plant Accumulated Depreciation Adjustment | <u>5,187</u> |
| 13 | Chaparral City Water General Office Allocation of Accumulated Depreciation Per Company | 403,188 |
| 14 | Chaparral City Water General Office Allocation of Accumulated Depreciation Per RUCO | 351,690 |
| 15 | RUCO's General Office Allocation of Accumulated Depreciation Adjustment | <u>(51,498)</u> |
| 16 | Total Chaparral City Water Accumulated Depreciation Per Company | 15,877,022 |
| 17 | Total Chaparral City Water Accumulated Depreciation Per RUCO | 15,830,712 |
| 18 | Total RUCO Accumulated Depreciation Adjustment | <u>\$ (46,310)</u> |

Supporting Schedules:
 \TJC-4(a)\Schedules\Pages1-5\DirectPlant\AZ-CorpPlant\CentralDivisionPlant\
 Regarding RUCO's Eastern Div. treatment see Company response to RUCO DR 2.06

YEAR 2005

| LINE NO. | ACCT. NO. | ACCOUNT NAME | (A) 2005 PLANT ADDITNS | (B) 2005 PLANT RETIRMTS | (C) 2005 PLANT ADJUSTMT | (D) TOTAL PLANT VALUE 12/31/2005 | (E) DEPRECI- EXPENSE | (F) ENDING ACCUM. DEPREC. 12/31/2005 | (G) NET PLANT VALUE 12/31/2005 |
|----------|-----------|---|---------------------------------|----------------------------------|----------------------------------|--|----------------------------|---|---|
| 1 | 301 | Organization Cost | - | - | - | - | - | - | - |
| 2 | 302 | Franchise Cost and Other Intangible Plant | - | - | - | - | - | - | - |
| 3 | 303 | Land and Land Rights | 271,857 | - | - | 271,857 | - | - | 271,857 |
| 4 | 304 | Structures and Improvements | 985,407 | - | - | 1,453,952 | 33,023 | 314,003 | 1,139,949 |
| 5 | 305 | Collecting and Impounding Res. | 6,548 | - | - | 6,548 | 164 | 409 | 6,139 |
| 6 | 306 | Lake River and Other Intakes | - | - | - | - | - | - | - |
| 7 | 307 | Wells and Springs | 332,065 | - | - | 332,065 | 8,991 | 172,183 | 159,873 |
| 8 | 308 | Infiltration Galleries and Tunnels | - | - | - | - | - | - | - |
| 9 | 309 | Supply Mains | - | - | - | - | - | - | - |
| 10 | 310 | Power Generation Equipment | 1,345,324 | - | - | 1,429,796 | 69,378 | 695,905 | 733,891 |
| 11 | 311 | Electric Pumping Equipment | 7,622,424 | - | (21,889) | 7,752,767 | 208,142 | 2,046,099 | 5,706,668 |
| 12 | 320 | Water Treatment Equipment | 6,020,718 | - | (3,000) | 8,049,263 | 170,950 | 1,815,958 | 6,233,305 |
| 13 | 330 | Distribution Reservoirs & Standpipe | 16,340,626 | - | - | 16,532,274 | 390,366 | 6,814,830 | 9,717,444 |
| 14 | 331 | Transmission and Distribution Mains | 6,402,326 | - | - | 6,938,513 | 180,602 | 824,189 | 6,114,324 |
| 15 | 333 | Services | 2,415,169 | - | - | 2,630,341 | 99,838 | 767,679 | 1,862,662 |
| 16 | 334 | Meters | 607,893 | - | - | 871,877 | 17,572 | 215,077 | 656,800 |
| 17 | 335 | Hydrants | - | - | - | - | - | - | - |
| 18 | 336 | Backflow Prevention Devices | - | - | - | - | - | - | - |
| 19 | 339 | Other Plant and Miscellaneous Equipment | (0) | - | - | 1,610,687 | 28,529 | 28,529 | 1,582,157 |
| 20 | 340 | Office Furniture and Fixtures | 226,540 | - | (4,006) | 247,269 | 8,392 | 28,695 | 218,574 |
| 21 | 341 | Transportation Equipment | 437,535 | - | (23,389) | 534,742 | 33,422 | (46,369) | 581,111 |
| 22 | 342 | Stores Equipment | - | - | - | - | - | - | - |
| 23 | 343 | Tools and Work Equipment | 92,940 | - | - | 145,814 | 3,731 | 27,601 | 118,213 |
| 24 | 344 | Laboratory Equipment | - | - | - | - | - | 25 | (25) |
| 25 | 345 | Power Operated Equipment | - | - | - | - | - | - | - |
| 26 | 346 | Communications Equipment | 39,105 | - | - | 39,105 | 1,711 | (3,027) | 42,132 |
| 27 | 347 | Miscellaneous Equipment | 83,748 | - | - | 83,748 | 3,664 | 22,384 | 61,364 |
| 28 | 348 | Other Tangible Plant | 34,063 | - | - | 34,063 | 1,480 | 1,916 | 32,147 |
| 29 | | Plant Held for Future Use | - | - | - | - | - | - | - |
| 30 | | | | | | | | | |
| 31 | | Total Gross Water Plant in Service & Accumulated Depreciation | 43,264,288 | \$ 5,752,677 | \$ (52,284) | \$ 48,964,681 | \$ 1,259,964 | \$ 13,726,094 | \$ 35,238,586 |

YEAR 2006

| LINE NO. | ACCT. NO. | ACCOUNT NAME | BEGINNING PLANT BALANCES ON JAN. 1, 2006 | (A) 2006 PLANT ADDITNS | (B) 2006 PLANT RETIRMTS | (C) 2006 PLANT ADJUSTMT | (D) TOTAL PLANT VALUE 12/31/2006 | (E) DEPREC'N EXPENSE | (F) ENDING ACCUM. DEPREC. 12/31/2006 | (G) NET PLANT VALUE 12/31/2006 |
|----------|-----------|--|--|------------------------|-------------------------|-------------------------|----------------------------------|----------------------|--------------------------------------|--------------------------------|
| 1 | 301 | Organization Cost | - | - | - | - | - | - | - | - |
| 2 | 302 | Franchise Cost and Other Intangible Plant | - | - | - | - | - | - | - | - |
| 3 | 303 | Land and Land Rights | 271,857 | - | - | - | 271,857 | - | - | 271,857 |
| 4 | 304 | Structures and Improvements | 1,453,952 | 70,236 | (5,540) | - | 1,518,648 | 49,494 | 357,958 | 1,160,691 |
| 5 | 305 | Collecting and Impounding Res. | 6,548 | - | - | - | 6,548 | 164 | 573 | 5,975 |
| 6 | 306 | Lake River and Other Intakes | - | - | - | - | - | - | - | - |
| 7 | 307 | Wells and Springs | 332,065 | - | - | - | 332,065 | 11,058 | 183,250 | 148,815 |
| 8 | 308 | Infiltration Galleries and Tunnels | - | - | - | - | - | - | - | - |
| 9 | 309 | Supply Mains | - | - | - | - | - | - | - | - |
| 10 | 310 | Power Generation Equipment | - | - | - | - | - | - | - | - |
| 11 | 311 | Electric Pumping Equipment | 1,429,796 | 77,112 | - | - | 1,506,908 | 183,544 | 879,449 | 627,459 |
| 12 | 320 | Water Treatment Equipment | 7,752,767 | 10,733 | - | - | 7,763,500 | 258,346 | 2,304,445 | 5,459,055 |
| 13 | 330 | Distribution Reservoirs & Standpipe | 8,049,263 | 121,156 | - | - | 8,170,419 | 180,038 | 1,995,997 | 6,174,423 |
| 14 | 331 | Transmission and Distribution Mains | 16,532,274 | 918,360 | - | - | 17,450,634 | 339,829 | 7,154,659 | 10,295,975 |
| 15 | 333 | Services | 6,938,513 | 453,417 | (2,000) | - | 7,389,929 | 238,569 | 1,060,758 | 6,329,172 |
| 16 | 334 | Meters | 2,630,341 | 95,332 | - | - | 2,725,672 | 223,078 | 990,757 | 1,734,916 |
| 17 | 335 | Hydrants | 871,877 | 299,756 | - | - | 1,171,632 | 20,435 | 235,512 | 936,121 |
| 18 | 336 | Backflow Prevention Devices | - | - | - | - | - | - | - | - |
| 19 | 339 | Other Plant and Miscellaneous Equipment | 1,610,687 | - | - | - | 1,610,687 | 107,433 | 135,962 | 1,474,725 |
| 20 | 340 | Office Furniture and Fixtures | 247,269 | 23,090 | - | - | 270,359 | 17,263 | 45,958 | 224,401 |
| 21 | 341 | Transportation Equipment | 534,742 | 573 | - | - | 535,315 | 107,006 | 60,636 | 474,679 |
| 22 | 342 | Stores Equipment | - | - | - | - | - | - | - | - |
| 23 | 343 | Tools and Work Equipment | 145,814 | 3,551 | - | - | 149,365 | 7,379 | 34,981 | 114,384 |
| 24 | 344 | Laboratory Equipment | - | - | - | - | - | - | 25 | (25) |
| 25 | 345 | Power Operated Equipment | - | - | - | - | - | - | - | - |
| 26 | 346 | Communications Equipment | 39,105 | - | - | - | 39,105 | 3,910 | 883 | 38,222 |
| 27 | 347 | Miscellaneous Equipment | 83,748 | 22,794 | - | - | 106,542 | 9,514 | 31,898 | 74,644 |
| 28 | 348 | Other Tangible Plant | 34,063 | - | - | - | 34,063 | 3,406 | 5,322 | 28,741 |
| 29 | | Plant Held for Future Use | - | - | - | - | - | - | - | - |
| 30 | | | | | | | | | | |
| 31 | | RUCO Total Gross Water Plant in Service & Accumulated Depreciation | 48,964,681 | 2,096,109 | (7,540) | - | 51,053,250 | 1,760,466 | 15,479,021 | 35,574,229 |
| 32 | | | | | | | | | | |
| 33 | | Company Gross Water Plant in Service & Accumulated Depreciation | | | | | 51,020,714 | | 15,473,834 | |
| 34 | | | | | | | | | | |
| 35 | | RUCO Adjustment | | | | | 32,536 | | 5,187 | |

Chaparral City Water Company
 Test Year Ended December 31, 2006
 Original Cost Rate Base Proforma Adjustments
 Adjustment 3

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-7
SURREBUTTAL TESTIMONY

| | | | |
|------------|--|----|------------------|
| Line | | | |
| <u>No.</u> | | | |
| 1 | <u>OCRB Direct Plant - Remove Wells 8 & 9 - Out of Service</u> | | |
| 2 | | | |
| 3 | Company OCRB Direct Plant - Remove Wells 8 & 9 from Account 304 | \$ | - |
| 4 | Company OCRB Direct Plant - Remove Wells 8 & 9 from Account 307 | | - |
| 5 | RUCO OCRB Direct Plant - Remove Wells 8 & 9 from Account 304 | | (596) |
| 6 | RUCO OCRB Direct Plant - Remove Wells 8 & 9 from Account 307 | | (106,816) |
| 7 | RUCO Adjustment | | <u>(107,412)</u> |
| 8 | | | |
| 9 | | | |
| 10 | Increase (Decrease) to OCRB Direct Plant | \$ | <u>(107,412)</u> |
| 11 | | | |
| 12 | | | |
| 13 | | | |
| 14 | Company OCRB Direct Plant Accumulated Depreciation - A/C 304 | \$ | - |
| 15 | Company OCRB Direct Plant Accumulated Depreciation - A/C 307 | | - |
| 16 | RUCO OCRB Direct Plant Accumulated Depreciation - A/C 304 | | (596) |
| 17 | RUCO OCRB Direct Plant Accumulated Depreciation - A/C 307 | | (106,816) |
| 18 | RUCO Adjustment | | <u>(107,412)</u> |
| 19 | | | |
| 20 | | | |
| 21 | Increase (Decrease) to OCRB Accumulated Depreciation | \$ | <u>(107,412)</u> |
| 22 | | | |
| 23 | | | |
| 24 | Net Adjustment | \$ | <u>-</u> |

Chaparral City Water Company
 Test Year Ended December 31, 2006
 Original Cost Rate Base Proforma Adjustments
 Adjustment 5

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-8
SURREBUTTAL TESTIMONY

Line
No.

| | | |
|----|---|--|
| 1 | <u>OCRB Direct Plant - Remove Shea Water Treatment Plant 1 - Out of Service</u> | |
| 2 | | |
| 3 | Company OCRB Direct Plant - Account 320 | \$ 7,763,500 |
| 4 | RUCO OCRB Direct Plant - Account 320 | 5,752,577 |
| 5 | RUCO Adjustment | <u>(2,010,923)</u> |
| 6 | | |
| 7 | | |
| 8 | Increase (Decrease) to OCRB Direct Plant | <u>\$ (2,010,923)</u> |
| 9 | | |
| 10 | | |
| 11 | Company OCRB Direct Plant Accumulated Depreciation - A/C 320 | \$ 2,099,307 |
| 12 | RUCO OCRB Direct Plant Accumulated Depreciation - A/C 320 | 88,384 |
| 13 | RUCO Adjustment | <u>(2,010,923)</u> |
| 14 | | |
| 15 | | |
| 16 | Increase (Decrease) to OCRB Accumulated Depreciation | <u>\$ (2,010,923)</u> |
| 17 | | |
| 18 | | |
| 19 | Net Adjustment | 0 |
| 20 | | |
| 21 | | |
| 22 | | |
| 23 | | |
| 24 | <u>SUPPORTING SCHEDULE</u> | |
| 25 | rcn_plant_Remove Shea Water Treatment Plant 1.xls | |
| 26 | ocrb_plant_Remove Shea Water Treatment Plant 1.xls | |

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment 6

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-9
SURREBUTTAL TESTIMONY

| Line No. | | | |
|-------------|---|----|---------------|
| 1 | <u>OCRB Direct Plant - Remove Expensed Items and Capitalize</u> | | |
| 2 | | | |
| 3 | RUCO OCRB Direct Plant - Account 304 | \$ | 11,590 |
| 4 | RUCO OCRB Direct Plant - Account 311 | | 26,084 |
| 5 | RUCO OCRB Direct Plant - Account 339 | | 43,217 |
| 6 | RUCO Adjustment | | <u>80,891</u> |
| 7 | | | |
| 8 | Increase (Decrease) to OCRB Direct Plant | \$ | <u>80,891</u> |
| 9 | | | |
| 10 | | | |
| 11 | Accept Company's Adjustment to Accumulated Depreciation | | <u>3,265</u> |
| 12 | | | |
| 13 | Increase (Decrease) to OCRB Accumulated Depreciation | \$ | 3,265 |
| 14 | | | |
| 15 | | | |
| 16 | | | |
| 17 | | | |
| 18 | | | |
| 19 | | | |
| 20 | | | |
| 21 | | | |
| 22 | | | |
| 23 | | | |
| 24 | | | |
| 25 | | | |

CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 RATE BASE ADJUSTMENT #10 - GENERAL OFFICE ALLOCATED PLANT
 ORIGINAL COST

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-10
 PAGE 1 of 2
 SURREBUTTAL TESTIMONY

December 31, 2006

| Line No. | General Office Plant Allocation - Plant-in-Service | Per Company Orig. Cost | 4 Factor Allocation % | 4 Factor Allocated Orig. Cost |
|----------|---|------------------------|-----------------------|-------------------------------|
| 1 | 301 Organization Cost | 16,452 | 2.80% | 461 |
| 2 | 302 Franchise Cost and Other Intangible Plant | 1,089,237 | 2.80% | 30,499 |
| 3 | 303 Land and Land Rights | - | 2.80% | - |
| 4 | 304 Structures and Improvements | 5,802,813 | 2.80% | 162,479 |
| 5 | 305 Collecting and Impounding Res. | - | 2.80% | - |
| 6 | 306 Lake River and Other Intakes | - | 2.80% | - |
| 7 | 307 Wells and Springs | - | 2.80% | - |
| 8 | 308 Infiltration Galleries and Tunnels | - | 2.80% | - |
| 9 | 309 Supply Mains | - | 2.80% | - |
| 10 | 310 Power Generation Equipment | - | 2.80% | - |
| 11 | 311 Electric Pumping Equipment | (916) | 2.80% | (26) |
| 12 | 320 Water Treatment Equipment | - | 2.80% | - |
| 13 | 330 Distribution Reservoirs & Standpipe | - | 2.80% | - |
| 14 | 331 Transmission and Distribution Mains | - | 2.80% | - |
| 15 | 333 Services | - | 2.80% | - |
| 16 | 334 Meters | - | 2.80% | - |
| 17 | 335 Hydrants | - | 2.80% | - |
| 18 | 336 Backflow Prevention Devices | - | 2.80% | - |
| 19 | 339 Other Plant and Miscellaneous Equipment | 847,382 | 2.80% | 23,727 |
| 20 | 340 Office Furniture and Fixtures | 14,268,765 | 2.80% | 399,525 |
| 21 | 341 Transportation Equipment | 552,719 | 2.80% | 15,476 |
| 22 | 342 Stores Equipment | - | 2.80% | - |
| 23 | 343 Tools and Work Equipment | 405,643 | 2.80% | 11,358 |
| 24 | 344 Laboratory Equipment | 4,061 | 2.80% | 114 |
| 25 | 345 Power Operated Equipment | 249,261 | 2.80% | 6,979 |
| 26 | 346 Communications Equipment | 165,561 | 2.80% | 4,636 |
| 27 | 347 Miscellaneous Equipment | - | 2.80% | - |
| 28 | 348 Other Tangible Plant | - | 2.80% | - |
| 29 | | | | |
| 30 | Company Requested Level of Total General Office Plant | \$ 23,400,978 | | \$ 655,227 |
| 31 | | | | |
| 32 | Less: | | | |
| 33 | RUCO OCRB Adjustment #11 - Remove Post Test Year Plant | 551,208 | | |
| 34 | | | | |
| 35 | RUCO Recommended Level of Total General Office Plant | \$ 22,849,770 | | |
| 36 | 4 Factor Allocation Factor | 2.80% | | |
| 37 | | | | |
| 38 | RUCO Recommended Level of Allocated General Office Plant - See TJC-5 | \$ 639,794 | | |
| 39 | | | | |
| 40 | Company Increase (Decrease) to General Office Plant-in-Service Allocation | | | \$ 751,171 |
| 41 | RUCO Increase (Decrease) to General Office Plant-in-Service Allocation | | | \$ 655,227 |
| 42 | RUCO Adjustment | | | \$ (95,944) |

CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 RATE BASE ADJUSTMENT #10 - ACCUMULATED DEPRECIATION
 ORIGINAL COST

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-10
 PAGE 2 of 2
 SURREBUTTAL TESTIMONY

| Line No. | General Office Plant Allocation - Accumulated Depreciation | RUCO Accumulated Depreciation | 4 Factor Allocation % | Allocated Accumulated Depreciation |
|----------|--|-------------------------------|-----------------------|------------------------------------|
| 1 | 301 Organization Cost | 3,046 | 2.80% | 85 |
| 2 | 302 Franchise Cost and Other Intangible Plant | 211,596 | 2.80% | 5,925 |
| 3 | 303 Land and Land Rights | - | 2.80% | - |
| 4 | 304 Structures and Improvements | 2,354,430 | 2.80% | 65,924 |
| 5 | 305 Collecting and Impounding Res. | - | 2.80% | - |
| 6 | 306 Lake River and Other Intakes | - | 2.80% | - |
| 7 | 307 Wells and Springs | - | 2.80% | - |
| 8 | 308 Infiltration Galleries and Tunnels | - | 2.80% | - |
| 9 | 309 Supply Mains | - | 2.80% | - |
| 10 | 310 Power Generation Equipment | - | 2.80% | - |
| 11 | 311 Electric Pumping Equipment | - | 2.80% | - |
| 12 | 320 Water Treatment Equipment | - | 2.80% | - |
| 13 | 330 Distribution Reservoirs & Standpipe | - | 2.80% | - |
| 14 | 331 Transmission and Distribution Mains | - | 2.80% | - |
| 15 | 333 Services | - | 2.80% | - |
| 16 | 334 Meters | - | 2.80% | - |
| 17 | 335 Hydrants | - | 2.80% | - |
| 18 | 336 Backflow Prevention Devices | - | 2.80% | - |
| 19 | 339 Other Plant and Miscellaneous Equipment | 162,569 | 2.80% | 4,552 |
| 20 | 340 Office Furniture and Fixtures | 8,664,647 | 2.80% | 242,610 |
| 21 | 341 Transportation Equipment | 552,718 | 2.80% | 15,476 |
| 22 | 342 Stores Equipment | - | 2.80% | - |
| 23 | 343 Tools and Work Equipment | 192,488 | 2.80% | 5,390 |
| 24 | 344 Laboratory Equipment | 4,062 | 2.80% | 114 |
| 25 | 345 Power Operated Equipment | 249,257 | 2.80% | 6,979 |
| 26 | 346 Communications Equipment | 165,561 | 2.80% | 4,636 |
| 27 | 347 Miscellaneous Equipment | - | 2.80% | - |
| 28 | 348 Other Tangible Plant | - | 2.80% | - |
| 29 | | <u>\$ 12,560,374</u> | | <u>\$ 351,690</u> |
| 30 | | | | |
| 31 | Company Increase (Decrease) to General Office Accumulated Depreciation | | | \$ 403,188 |
| 32 | RUCO Increase (Decrease) to General Office Accumulated Depreciation | | | \$ 351,690 |
| 33 | RUCO Adjustment to General Office Accumulated Depreciation | | | \$ (51,498) |

Chaparral City Water Company
 Test Year Ended December 31, 2006
 OCRB Rate Base Proforma Adjustments
 Adjustment 11

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-11
SURREBUTTAL TESTIMONY

| | | |
|------------|--|--------------------|
| Line | | |
| <u>No.</u> | | |
| 1 | <u>OCRB General Office Plant - Remove Post Test Year Plant</u> | |
| 2 | | |
| 3 | Company OCRB 2007 Post Test Year Plant - Account 303 | \$ 159,087 |
| 4 | Company OCRB 2007 Post Test Year Plant - Account 340 | 392,121 |
| 5 | | <hr/> |
| 6 | Total Company Post Test Year - General Office Plant | 551,208 |
| 7 | | |
| 8 | Chaparral General Office Plant Allocator | <u>2.80%</u> |
| 9 | | |
| 10 | Increase (Decrease) to OCRB General Office Plant | <u>\$ (15,434)</u> |
| 11 | | |
| 12 | | |
| 13 | Company OCRB GO Plant Accumulated Depreciation - A/C | \$ 12,560,374 |
| 14 | RUCO OCRB Direct Plant Accumulated Depreciation | <u>12,560,374</u> |
| 15 | RUCO Adjustment | <u>-</u> |
| 16 | | |
| 17 | Chaparral General Office Plant Allocator | 2.80% |
| 18 | | |
| 19 | | |
| 20 | Increase (Decrease) to Accumulated Depreciation | <u>\$ -</u> |
| 21 | | |
| 22 | | |
| 23 | Net Adjustment | \$ (15,434) |
| 24 | | |
| 25 | | |

SUPPORTING SCHEDULE
 rcn_go_plant_Remove PTY Plant Adj.xls

Chaparral City Water Company
 Test Year Ended December 31, 2006
 Original Cost Rate Base Proforma Adjustments
 Adjustment 14

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-12
SURREBUTTAL TESTIMONY

Line
 No.

| | | | |
|----|---|--------------------|----------------------------|
| 1 | <u>Computation of CIAC Balances</u> | | |
| 2 | | | |
| 3 | Balance at 12/31/2003 per Decision | | \$ 273,476 |
| 4 | Additions 2004 | | <u>272,024</u> |
| 5 | Balance at 12/31/2004 | | 545,500 |
| 6 | Additions 2005 | | <u>405,152</u> |
| 7 | Balance at 12/31/2005 | | 950,652 |
| 8 | Additions 2006 | | <u>5,337,445</u> |
| 9 | Balance at 12/31/2006 | | <u><u>\$ 6,288,097</u></u> |
| 10 | | | |
| 11 | <u>Computation of Accumulated Amortization CIAC Balances (Half-year Convention)</u> | | |
| 12 | | | |
| 13 | Balance at 12/31/2003 per Decision | | \$ 15,334 |
| 14 | 2004 Amortization at composite rate | 2.500% | <u>10,237</u> |
| 15 | Balance at 12/31/2004 | | 25,571 |
| 16 | 2005 Amortization at composite rate | 2.500% (9 months) | 14,026 |
| 17 | 2005 Amortization at composite rate | 3.3588% (3 months) | <u>6,282</u> |
| 18 | Balance at 12/31/2005 | | 45,879 |
| 19 | 2006 Amortization at composite rate | 3.3588% | 121,568 |
| 20 | Balance at 12/31/2006 | | <u><u>\$ 167,447</u></u> |
| 21 | | | |
| 22 | A.A. Balance per Computation | | \$ 167,447 |
| 23 | Balance at End of Test Year | | <u>99,136</u> |
| 24 | Adjustment to A.A. CIAC | | <u>68,311</u> |
| 25 | | | |
| 26 | | | |
| 27 | Company Adjustment | | \$ 69,834 |
| 28 | RUCO Adjustment | | <u>68,311</u> |
| 29 | | | |
| 30 | | | |
| 31 | | | |
| 32 | Increase (Decrease) to Contributions-in-aid, Net | | <u><u>\$ 1,523</u></u> |

Reference:

Line 17 and 19 utilizes amortization rate authorized in Decision No. 68176 per Bourassa Rebuttal Schedule C-2, page 2.

CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 RATE BASE - RCND

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-13
 SURREBUTTAL TESTIMONY

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED | (B) RUCO ADJUSTMENTS | (C) RUCO AS ADJUSTED |
|----------|---|-------------------------|-------------------------|-------------------------|
| 1 | PLANT IN SERVICE | \$ 80,783,568 | \$ (3,143,549) | \$ 77,640,019 |
| 2 | ACCUMULATED DEPRECIATION | <u>(25,894,686)</u> | <u>3,771,719</u> | <u>(22,122,967)</u> |
| 3 | NET PLANT IN SERVICE | \$ 54,888,882 | \$ 628,170 | \$ 55,517,052 |
| 4 | CONSTRUCTION WORK IN PROGRESS (CWIP) | <u>-</u> | <u>-</u> | <u>-</u> |
| 5 | TOTAL NET PLANT | \$ 54,888,882 | \$ 628,170 | \$ 55,517,052 |
| | Less: | | | |
| 6 | ADVANCES IN AID OF CONSTRUCTION (AIAC) | (10,231,760) | 109,513 | (10,122,247) |
| 7 | CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) - NET | (9,441,352) | (2,351) | (9,443,703) |
| 8 | CUSTOMER METER DEPOSITS | (819,845) | - | (819,845) |
| 9 | DEFERRED INCOME TAXES | (925,896) | - | (925,896) |
| 10 | INVESTMENT TAX CREDITS | - | - | - |
| 11 | SHARED GAIN ON WELL | (646,000) | (570,000) | (1,216,000) |
| | Plus: | | | |
| 12 | UNAMORTIZED DEBT ISSUANCE COSTS | 424,010 | - | 424,010 |
| 13 | WORKING CAPITAL | 207,006 | (100,122) | 106,884 |
| 14 | DEFERRED REGULATORY ASSETS | 1,280,000 | (1,280,000) | - |
| 15 | TOTAL RATE BASE | <u>\$ 34,735,045</u> | <u>\$ (1,214,790)</u> | <u>\$ 33,520,255</u> |

REFERENCES:

COLUMN (A): COMPANY SCHEDULE B-4 and B-4-A
 COLUMN (B): SCHEDULE TJC-14, PAGES 1 and 2
 COLUMN (C): COLUMN (A) + COLUMN (B)

| LINE NO. | DESCRIPTION | (A) COMPANY PROPOSED | (B) ADJ #1 | (C) ADJ #2 | (D) ADJ #3 | (E) ADJ #4 | (F) ADJ #5 | (G) ADJ #6 | (H) ADJ #7 | (I) ADJ #8 |
|----------|---|----------------------------|----------------------|---------------|----------------|---------------|---------------|---------------|---------------|---------------|
| 1 | PLANT IN SERVICE | \$80,783,568 | \$ (118) \$ (17,807) | \$ (441,470) | \$ (3,262,891) | \$ 80,891 | | | | |
| 2 | ACCUMULATED DEPRECIATION | (25,894,686) | (1) 4,411 | 441,470 | 3,262,891 | (3,265) | | | | |
| 3 | NET PLANT IN SERVICE | \$54,888,882 | \$ (119) \$ (13,396) | \$ (0) \$ - | \$ 0 \$ - | \$ 77,626 | | | | |
| 4 | CONSTRUCTION WORK IN PROGRESS (CWIP) | - | | | | | | | | |
| 5 | TOTAL NET PLANT | \$54,888,882 | \$ (119) \$ (13,396) | \$ (0) \$ - | \$ 0 \$ - | \$ 77,626 | | | | |
| | Less: | | | | | | | | | |
| 6 | ADVANCES IN AID OF CONSTRUCTION (AIAC) | (10,231,760) | | | | | | | | |
| 7 | CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) - NET | (9,441,352) | | | | | | | | |
| 8 | CUSTOMER METER DEPOSITS | (819,845) | | | | | | | | |
| 9 | DEFERRED INCOME TAXES | (925,896) | | | | | | | | |
| 10 | INVESTMENT TAX CREDITS | - | | | | | | | | |
| 11 | SHARED GAIN ON WELL | (646,000) | | | | | | | | |
| | Plus: | | | | | | | | | |
| 12 | UNAMORTIZED DEBT ISSUANCE COSTS | 424,010 | | | | | | | | |
| 13 | WORKING CAPITAL | 207,006 | | | | | | | | |
| 14 | DEFERRED REGULATORY ASSETS | 1,280,000 | | | | | | | | |
| 15 | TOTAL RATE BASE | \$34,735,045 | \$ (119) \$ (13,396) | \$ (0) \$ - | \$ 0 \$ - | \$ 77,626 | | | | |

ADJUSTMENT #:
 Adjustment #1: RCN Factor Rounding Adjustment
 Adjustment #2: Correct Account 304 Index Factors on 3 Line Items
 Adjustment #3: Remove Wells 8 & 9 from Plant-in-Service and Accumulated Depreciation
 Adjustment #4: Intentionally Left Blank
 Adjustment #5: Remove Shea Water Treatment Plant - Out of Service
 Adjustment #6: Remove Expensed Plant Items and Capitalize
 Adjustment #7: Intentionally Left Blank
 Adjustment #8: Intentionally Left Blank

REFERENCE:
 SCHEDULE TJC-16
 SCHEDULE TJC-17
 SCHEDULE TJC-18
 SCHEDULE TJC-19
 SCHEDULE TJC-20

| LINE NO. | DESCRIPTION | (J) ADJ #9 | (K) ADJ #10 | (L) ADJ #11 | (M) ADJ #12 | (N) ADJ #13 | (O) ADJ #14 | (P) ADJ #15 | (Q) ADJ #16 | (R) RUCO ADJUSTED |
|----------|---|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------------------|
| 1 | PLANT IN SERVICE | | \$ (126,720) | \$ (15,434) | \$ - | \$ - | \$ - | \$ 640,000 | \$ - | \$ 77,640,019 |
| 2 | ACCUMULATED DEPRECIATION | | 67,617 | (1,404) | | | | | | (22,122,967) |
| 3 | NET PLANT IN SERVICE | \$ - | \$ (59,103) | \$ (16,837) | \$ - | \$ - | \$ - | \$ 640,000 | \$ - | \$ 55,517,052 |
| 4 | CONSTRUCTION WORK IN PROGRESS (CWIP) | | | | | | | | | - |
| 5 | TOTAL NET PLANT | \$ - | \$ (59,103) | \$ (16,837) | \$ - | \$ - | \$ - | \$ 640,000 | \$ - | \$ 55,517,052 |
| | Less: | | | | | | | | | |
| 6 | ADVANCES IN AID OF CONSTRUCTION (AIAC) | | | | | 109,513 | | | | (10,122,247) |
| 7 | CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) - NET | | | | | | (2,351) | | | (9,443,703) |
| 8 | CUSTOMER METER DEPOSITS | | | | | | | | | (819,845) |
| 9 | DEFERRED INCOME TAXES | | | | | | | | | (925,896) |
| 10 | INVESTMENT TAX CREDITS | | | | | | | | | - |
| 11 | SHARED GAIN ON WELL | | | | (570,000) | | | | | (1,216,000) |
| | Plus: | | | | | | | | | |
| 12 | UNAMORTIZED DEBT ISSUANCE COSTS | | | | | | | | | 424,010 |
| 13 | WORKING CAPITAL | | | | | | | | (100,122) | 106,884 |
| 14 | DEFERRED REGULATORY ASSETS | | | | | | | (1,280,000) | | - |
| 15 | TOTAL RATE BASE | \$ - | \$ (59,103) | \$ (16,837) | \$ (570,000) | \$ 109,513 | \$ (2,351) | \$ (640,000) | \$ (100,122) | \$ 33,520,255 |

ADJUSTMENT #:

- Adjustment #8: Intentionally Left Blank
- Adjustment #10: Correct 4-Factor General Office Plant & Accumulated Depreciation Allocation Factor
- Adjustment #11: Remove Post Test Year GO Plant in Account 303 & 340
- Adjustment #12: Well Settlement Proceeds
- Adjustment #13: AIAC RCN Factor Adjustment
- Adjustment #14: To correct CIAC amortization rate authorized in Decision No. 68176 per Bourassa Rebuttal Schedule C-2, page 2.
- Adjustment #15: To Remove Deferred Regulatory Asset - Additional CAP Allocation

REFERENCE:

- SCHEDULE TJC-24, PAGES 1 and 2
- SCHEDULE TJC-22
- SCHEDULE TJC-23
- SCHEDULE TJC-24
- SCHEDULE TJC-25

CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 OPERATING ADJ. #1 - TOTAL RCND UTILITY PLANT IN SERVICE (UPIS)
 AND ACCUMULATED DEPRECIATION

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-15
 SURREBUTTAL TESTIMONY

Total Chaparral City Water RCND UPIS:

| <u>Line No.</u> | <u>Description</u> | <u>Amount</u> |
|-----------------|--|-----------------------|
| 1 | Chaparral City Water Direct Plant Per Company | \$ 79,791,440 |
| 2 | Chaparral City Water Direct Plant Per RUCO | 76,741,731 |
| 3 | RUCO's Direct Plant Adjustment | <u>\$ (3,049,709)</u> |
| 4 | Chaparral City Water General Office Plant Allocation Per Company | \$ 992,128 |
| 5 | Chaparral City Water General Office Plant Allocation Per RUCO | 849,978 |
| 6 | RUCO's General Office Plant Allocation Adjustment | <u>\$ (142,150)</u> |
| 7 | Total Chaparral City Water Gross RCN UPIS Per Company | \$ 80,783,568 |
| 8 | Total Chaparral City Water Gross UPIS Per RUCO | 77,591,709 |
| 9 | Total RUCO Gross UPIS Adjustment | <u>\$ (3,191,859)</u> |

Total Chaparral City Water RCND Accumulated Depreciation:

| | | |
|----|--|-----------------------|
| 10 | Chaparral City Water Direct Plant Accumulated Depreciation Per Company | \$ 25,365,293 |
| 11 | Chaparral City Water Direct Plant Accumulated Depreciation Per RUCO | 21,287,651 |
| 12 | RUCO's Direct Plant Accumulated Depreciation Adjustment | <u>(4,077,642)</u> |
| 13 | Chaparral City Water General Office Allocation of Accumulated Depreciation Per Company | 529,393 |
| 14 | Chaparral City Water General Office Allocation of Accumulated Depreciation Per RUCO | 463,180 |
| 15 | RUCO's General Office Allocation of Accumulated Depreciation Adjustment | <u>(66,213)</u> |
| 16 | Total Chaparral City Water Accumulated Depreciation Per Company | 25,894,686 |
| 17 | Total Chaparral City Water Accumulated Depreciation Per RUCO | 21,750,830 |
| 18 | Total RUCO Accumulated Depreciation Adjustment | <u>\$ (4,143,856)</u> |
| 19 | RUCO's Chaparral City Water Plant Adjustment - Net of Accumulated Depreciation | \$ 951,996 |

Supporting Schedules:
 \\TJC-4(a)\Schedules\Pages1-5\DirectPlant\AZ-CorpPlant\CentralDivisionPlant\
 Regarding RUCO's Eastern Div. treatment see Company response to RUCO DR 2.06

Chaparral City Water Company
 Test Year Ended December 31, 2006
 RCND Rate Base Proforma Adjustments
 Adjustment 1

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-16
SURREBUTTAL TESTIMONY

Line
No.

| | | |
|----|---|-----------------|
| 1 | <u>RCN Direct Plant - Rounding Adjustment</u> | |
| 2 | | |
| 3 | Company RCN Trended Direct Plant | \$ 79,791,440 |
| 4 | RUCO RCN Trended Direct Plant | 79,791,322 |
| 5 | RUCO Adjustment | <u>(118)</u> |
| 6 | | |
| 7 | | |
| 8 | Increase (Decrease) to RCN Direct Plant | <u>\$ (118)</u> |
| 9 | | |
| 10 | | |
| 11 | Company RCN Trended Direct Plant Accumulated Depreciation | \$ 24,502,143 |
| 12 | RUCO RCN Trended Direct Plant Accumulated Depreciation | 24,502,143 |
| 13 | RUCO Adjustment | <u>1</u> |
| 14 | | |
| 15 | | |
| 16 | Increase (Decrease) to Accumulated Depreciation | <u>\$ 1</u> |
| 17 | | |
| 18 | | |
| 19 | Net Adjustment | \$ (119) |
| 20 | | |
| 21 | | |
| 22 | | |
| 23 | | |
| 24 | <u>SUPPORTING SCHEDULE</u> | |
| 25 | rcn_plant_correct_RCN Factor Rounding.xls | |

Chaparral City Water Company
Test Year Ended December 31, 2006
RCND Rate Base Proforma Adjustments
Adjustment 2

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-17
SURREBUTTAL TESTIMONY

| Line No. | | |
|-------------|---|--------------------|
| 1 | <u>RCN Direct Plant - Correct Account 304 Index Factor</u> | |
| 2 | | |
| 3 | Company RCN Trended Direct Plant - Account 304 | \$ 1,965,394 |
| 4 | RUCO RCN Trended Direct Plant - Account 304 | <u>1,947,587</u> |
| 5 | RUCO Adjustment | <u>(17,807)</u> |
| 6 | | |
| 7 | | |
| 8 | Increase (Decrease) to RCN Direct Plant | <u>\$ (17,807)</u> |
| 9 | | |
| 10 | | |
| 11 | Company RCN Trended Direct Plant Accumulated Depreciation - A/C 304 | \$ 486,810 |
| 12 | RUCO RCN Trended Direct Plant Accumulated Depreciation - A/C 304 | <u>482,399</u> |
| 13 | RUCO Adjustment | <u>(4,411)</u> |
| 14 | | |
| 15 | | |
| 16 | Increase (Decrease) to Accumulated Depreciation | <u>\$ (4,411)</u> |
| 17 | | |
| 18 | | |
| 19 | Net Adjustment | \$ (13,396) |
| 20 | | |
| 21 | | |
| 22 | | |
| 23 | | |
| 24 | <u>SUPPORTING SCHEDULE</u> | |
| 25 | rcn_plant_correct_Acct 304_Index.xls | |

Chaparral City Water Company
 Test Year Ended December 31, 2006
 RCND Rate Base Proforma Adjustments
 Adjustment 3

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-18
SURREBUTTAL TESTIMONY

| | | |
|------------|---|---------------------|
| Line | | |
| <u>No.</u> | | |
| 1 | <u>RCN Direct Plant - Remove Wells 8 & 9 - Out of Service</u> | |
| 2 | | |
| 3 | Company RCN Trended Direct Plant - Wells 8 & 9 from Account 307 | \$ 441,470 |
| 4 | RUCO RCN Trended Direct Plant - Wells 8 & 9 from Account 307 | - |
| 5 | RUCO Adjustment | <u>(441,470)</u> |
| 6 | | |
| 7 | | |
| 8 | Increase (Decrease) to RCN Direct Plant | <u>\$ (441,470)</u> |
| 9 | | |
| 10 | | |
| 11 | Company RCN Trended Direct Plant Accumulated Depreciation - A/C 307 | \$ 150,254 |
| 12 | RUCO RCN Trended Direct Plant Accumulated Depreciation - A/C 307 | <u>(291,216)</u> |
| 13 | RUCO Adjustment | <u>(441,470)</u> |
| 14 | | |
| 15 | | |
| 16 | Increase (Decrease) to Accumulated Depreciation | <u>\$ (441,470)</u> |
| 17 | | |
| 18 | | |
| 19 | Net Adjustment | \$ (0) |
| 20 | | |
| 21 | | |
| 22 | | |
| 23 | | |
| 24 | <u>SUPPORTING SCHEDULE</u> | |
| 25 | rcn_plant_Remove Well 8_9.xls | |

Chaparral City Water Company
Test Year Ended December 31, 2006
RCN Rate Base Proforma Adjustments
Adjustment 5

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-19
SURREBUTTAL TESTIMONY

| Line No. | | |
|----------|---|-----------------------|
| 1 | <u>RCND Direct Plant - Remove Shea Water Treatment Plant 1 - Out of Service</u> | |
| 2 | | |
| 3 | Company RCN Direct Plant - Account 320 | \$ 9,969,130 |
| 4 | RUCO RCN Direct Plant - Account 320 | 6,706,239 |
| 5 | RUCO Adjustment | <u>(3,262,891)</u> |
| 6 | | |
| 7 | | |
| 8 | Increase (Decrease) to RCN Direct Plant | <u>\$ (3,262,891)</u> |
| 9 | | |
| 10 | | |
| 11 | Company RCN Direct Plant Accumulated Depreciation - A/C 320 | \$ 2,695,725 |
| 12 | RUCO RCN Direct Plant Accumulated Depreciation - A/C 320 | (567,166) |
| 13 | RUCO Adjustment | <u>(3,262,891)</u> |
| 14 | | |
| 15 | | |
| 16 | Increase (Decrease) to Accumulated Depreciation | <u>\$ (3,262,891)</u> |
| 17 | | |
| 18 | | |
| 19 | Net Adjustment | <u>\$ 0</u> |
| 20 | | |
| 21 | | |
| 22 | | |
| 23 | | |
| 24 | <u>SUPPORTING SCHEDULE</u> | |
| 25 | rcn_plant_Remove Shea Water Treatment Plant 1.xls | |

Chaparral City Water Company
Test Year Ended December 31, 2006
RCN Rate Base Proforma Adjustments
Adjustment 6

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-20
SURREBUTTAL TESTIMONY

Line
No.

| | | | |
|----|---|----|---------------|
| 1 | <u>RCRB Direct Plant - Remove Expensed Items and Capitalize</u> | | |
| 2 | | | |
| 3 | RUCO RCRB Direct Plant - Account 304 | \$ | 11,590 |
| 4 | RUCO RCRB Direct Plant - Account 311 | | 26,084 |
| 5 | RUCO RCRB Direct Plant - Account 339 | | 43,217 |
| 6 | RUCO Adjustment | | <u>80,891</u> |
| 7 | | | |
| 8 | Increase (Decrease) to RCRB Direct Plant | \$ | <u>80,891</u> |
| 9 | | | |
| 10 | | | |
| 11 | Accept Company's Adjustment to Accumulated Depreciation | | <u>3,265</u> |
| 12 | | | |
| 13 | Increase (Decrease) to RCRB Accumulated Depreciation | \$ | <u>3,265</u> |
| 14 | | | |
| 15 | | | |
| 16 | Net Adjustment | \$ | 77,626 |
| 17 | | | |
| 18 | | | |
| 19 | | | |
| 20 | | | |
| 21 | | | |
| 22 | | | |
| 23 | | | |
| 24 | <u>SUPPORTING SCHEDULE</u> | | |
| 25 | rcn_plant_Remove Expensed Items & Capitalize.xls | | |

Chaparral City Water Company
 Test Year Ended December 31, 2006
 RCND Rate Base Proforma Adjustments
 Adjustment 10

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-21
PAGE 1 of 2
SURREBUTTAL TESTIMONY

Line
 No.

| | <u>General Office Plant Allocation - Plant-in-service</u> | Company | | | RUCO |
|----|---|---|----------------------|-------|--------------------|
| 1 | | Trended | 4 Factor | | 4 Factor |
| 2 | | | Allocation % | | Allocated |
| 3 | NARUC | NARUC Description | RCN Value | | Trended RCN |
| 4 | 301 | Organization Cost | 16,452 | 2.80% | 461 |
| 5 | 302 | Franchise Cost and Other Intangible Plant | 1,089,237 | 2.80% | 30,499 |
| 6 | 303 | Land and Land Rights | - | 2.80% | - |
| 7 | 304 | Structures and Improvements | 9,379,730 | 2.80% | 262,632 |
| 8 | 305 | Collecting and Impounding Res. | - | 2.80% | - |
| 9 | 306 | Lake River and Other Intakes | - | 2.80% | - |
| 10 | 307 | Wells and Springs | - | 2.80% | - |
| 11 | 308 | Infiltration Galleries and Tunnels | - | 2.80% | - |
| 12 | 309 | Supply Mains | - | 2.80% | - |
| 13 | 310 | Power Generation Equipment | - | 2.80% | - |
| 14 | 311 | Electric Pumping Equipment | (1,860) | 2.80% | (52) |
| 15 | 320 | Water Treatment Equipment | - | 2.80% | - |
| 16 | 330 | Distribution Reservoirs & Standpipe | - | 2.80% | - |
| 17 | 331 | Transmission and Distribution Mains | - | 2.80% | - |
| 18 | 333 | Services | - | 2.80% | - |
| 19 | 334 | Meters | - | 2.80% | - |
| 20 | 335 | Hydrants | - | 2.80% | - |
| 21 | 336 | Backflow Prevention Devices | - | 2.80% | - |
| 22 | 339 | Other Plant and Miscellaneous Equipment | 1,055,403 | 2.80% | 29,551 |
| 23 | 340 | Office Furniture and Fixtures | 17,188,237 | 2.80% | 481,271 |
| 24 | 341 | Transportation Equipment | 606,575 | 2.80% | 16,984 |
| 25 | 342 | Stores Equipment | - | 2.80% | - |
| 26 | 343 | Tools and Work Equipment | 663,298 | 2.80% | 18,572 |
| 27 | 344 | Laboratory Equipment | 15,358 | 2.80% | 430 |
| 28 | 345 | Power Operated Equipment | 634,172 | 2.80% | 17,757 |
| 29 | 346 | Communications Equipment | 260,818 | 2.80% | 7,303 |
| 30 | 347 | Miscellaneous Equipment | - | 2.80% | - |
| 31 | 348 | Other Tangible Plant | - | 2.80% | - |
| 32 | | | | | |
| 33 | | | <u>\$ 30,907,420</u> | | <u>\$ 865,408</u> |
| 34 | | | | | |
| 35 | | | | | |
| 36 | | Company Computed General Office Plant | | | \$ 992,128 |
| 37 | | RUCO Computed General Office Plant | | | 865,408 |
| 38 | | | | | |
| 39 | | Increase (Decrease) to Plant -in-service | | | <u>(126,720)</u> |

SUPPORTING SCHEDULE
 rcn_plant_correct_RCN Factor Rounding.xls

Chaparral City Water Company
 Test Year Ended December 31, 2006
 RCND Rate Base Proforma Adjustments
 Adjustment 11

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-22
SURREBUTTAL TESTIMONY

Line
No.

| | | |
|----|---|--------------------|
| 1 | <u>RCN General Office Plant - Remove Post Test Year Plant</u> | |
| 2 | | |
| 3 | Company RCN Trended 2007 Post Test Year Plant - Account 303 | \$ 159,087 |
| 4 | Company RCN Trended 2007 Post Test Year Plant - Account 340 | <u>392,121</u> |
| 5 | | |
| 6 | Total Company Post Test Year - General Office Plant | 551,208 |
| 7 | | |
| 8 | 4-Factor Allocator | <u>2.80%</u> |
| 9 | | |
| 10 | Increase (Decrease) to RCN General Office Plant | <u>\$ (15,434)</u> |
| 11 | | |
| 12 | | |
| 13 | Company RCN Trended GO Plant Accumulated Depreciation | \$ 16,491,997 |
| 14 | RUCO RCN Trended Direct Plant Accumulated Depreciation | <u>16,542,128</u> |
| 15 | RUCO Adjustment | <u>50,131</u> |
| 16 | | |
| 17 | Chaparral General Office Plant Allocator | 2.80% |
| 18 | | |
| 19 | | |
| 20 | Increase (Decrease) to Accumulated Depreciation | <u>\$ 1,404</u> |
| 21 | | |
| 22 | | |
| 23 | Net Adjustment | \$ (16,837) |
| 24 | | |
| 25 | | |

SUPPORTING SCHEDULE
 rcn_go_plant_Remove PTY Plant Adj.xls

Chaparral City Water Company
Test Year Ended December 31, 2006
RCND Rate Base Proforma Adjustments
Adjustment 13

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-23
SURREBUTTAL TESTIMONY

Line
No.

| | | |
|----|--|---------------------|
| 1 | <u>RCN General Office Plant - Adjust AIAC RCN Factor Balance</u> | |
| 2 | | |
| 3 | Company RCN Trended AIAC Balance | \$ (10,231,760) |
| 4 | RUCO RCN Trended AIAC Balance | <u>(10,122,247)</u> |
| 5 | | |
| 6 | Difference in Accum. Depre. - Line 7 minus Line 4 | (109,513) |
| 7 | | |
| 8 | | |
| 9 | Increase (Decrease) to RCN AIAC Balance | <u>\$ (109,513)</u> |
| 10 | | |
| 11 | | |
| 12 | | |
| 13 | | |
| 14 | | |
| 15 | | |
| 16 | | |
| 17 | | |
| 18 | | |
| 19 | | |
| 20 | | |
| 21 | | |
| 22 | | |
| 23 | | |
| 24 | | |
| 25 | | |

SUPPORTING SCHEDULE
SCHEDULE TJC-2

Chaparral City Water Company
Test Year Ended December 31, 2006
RCN Rate Base Proforma Adjustments
Adjustment 14

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-24
SURREBUTTAL TESTIMONY

Line
No.

| | | | |
|----|--|----|--------------------|
| 1 | <u>RCN Computation of CIAC Balance</u> | | |
| 2 | | | |
| 3 | Company CIAC Balance Per OCRB Schedule TJC-2 | \$ | (6,119,129) |
| 4 | | | |
| 5 | RUCO CIAC Balance Per OCRB Schedule TJC-2 | | <u>(6,120,652)</u> |
| 6 | | | |
| 7 | Increase (Decrease) to OCRB CIAC Balance | \$ | 1,523 |
| 8 | | | |
| 9 | RUCO RCN CIAC Trended Factor | | <u>1.5437</u> |
| 10 | | | |
| 11 | Increase (Decrease) to RCN CIAC Balance | \$ | <u>2,351</u> |
| 12 | | | |
| 13 | | | |
| 14 | | | |
| 15 | | | |
| 16 | | | |
| 17 | | | |
| 18 | | | |
| 19 | | | |
| 20 | | | |
| 21 | | | |
| 22 | | | |
| 23 | | | |
| 24 | | | |
| 25 | | | |
| 26 | | | |
| 27 | | | |
| 28 | | | |
| 29 | <u>Reference:</u> | | |
| 30 | SCHEDULE TJC-2 | | |
| 31 | Line 17 and 19 utilizes amortization rate authorized in Decision No. 68176 | | |
| 32 | per Bourassa Rebuttal Schedule C-2, page 2. | | |

Chaparral City Water Company
Test Year Ended December 31, 2006
RCND Rate Base Proforma Adjustments
Adjustment 15

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-25
SURREBUTTAL TESTIMONY

Line

No.

| | | |
|---|---|------------------------------|
| 1 | <u>Remove Deferred Regulatory Asset and Place 1/2 in UPIS - Additional CAP Allocation</u> | |
| 2 | | |
| 3 | Company Deferred Regulatory Asset | \$ 1,280,000 |
| 4 | | |
| 5 | RUCO Adjustment | <u>(1,280,000)</u> |
| 6 | | |
| 7 | Increase (Decrease) to RCN Rate Base | <u><u>\$ (1,280,000)</u></u> |

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL ADJUSTMENT
WORKING CAPITAL ADJUSTMENT SUMMARY

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-26
PAGE 1 OF 15
SURREBUTTAL TESTIMONY

| <u>LINE NO.</u> | <u>DESCRIPTION</u> | <u>AMOUNT</u> |
|-----------------|--|---------------------|
| 1 | Cash Working Capital per Company | \$ - |
| 2 | Cash Working Capital per RUCO | (100,122) |
| 3 | RUCO Adjustment | (100,122) |
| 4 | Materials & Supplies Inventories per Company | \$ 14,521 |
| 5 | Materials & Supplies Inventories per RUCO | 14,521 |
| 6 | RUCO Adjustment | - |
| 7 | Prepayments per Company | \$ 192,485 |
| 8 | Prepayments per RUCO | 192,485 |
| 9 | RUCO Adjustment | - |
| 10 | Total Working Capital Adjustment | \$ (100,122) |

REFERENCES:

Lines 1, 4, and 7: Company Schedule B-1, Page 1

Line 2: See RUCO Schedule TJC-29, Page 2 of 14

Line 10: Line 3 + Line 6 + Line 9

CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 RATE BASE ADJ. #16 - WORKING CAPITAL ADJUSTMENT
 LEAD/LAG CALCULATION

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-26
 PAGE 2 OF 15
 SURREBUTTAL TESTIMONY

| LINE NO. | DESCRIPTION | (A) EXPENSES PER COMPANY | (B) RUCO ADJUSTMENTS | (C) RUCO ADJUSTED EXPENSES | (D) RUCO (LEAD)/LAG DAYS | (E) RUCO \$ DAYS |
|----------|-------------------------------|-----------------------------|-------------------------|-------------------------------|-----------------------------|-----------------------|
| 1 | SALARIES and WAGES | \$ 969,244 | \$ - | 969,244 * | 12.00 | \$ 11,630,928 |
| 2 | PURCHASED WATER | 831,656 | (10,186) | 821,470 * | (36.88) | (30,295,639) |
| 3 | PURCHASED POWER | 602,982 | 11,619 | 614,601 * | 35.05 | 21,544,177 |
| 4 | CHEMICALS | 127,457 | - | 127,457 * | (50.91) | (6,488,529) |
| 5 | REPAIRS & MAINTENANCE | 104,609 | (43,217) | 61,392 * | 30.00 | 1,841,760 |
| 6 | OFFICE SUPPLIES & EXPENSE | 19,800 | - | 19,800 * | 22.70 | 449,550 |
| 7 | OUTSIDE SERVICES | 266,544 | (109,049) | 157,495 * | 29.09 | 4,581,765 |
| 8 | WATER TESTING | 43,458 | (17,820) | 25,638 * | 15.72 | 402,954 |
| 9 | TRANSPORTATION EXPENSES | 70,430 | - | 70,430 * | 30.00 | 2,112,900 |
| 10 | INSURANCE - GENERAL LIABILITY | (1,294) | - | (1,294) * | 30.00 | (38,820) |
| 11 | RENTS | - | - | - * | 0.00 | - |
| 12 | MISCELLANEOUS EXPENSE | 1,259,948 | 38,164 | 1,298,112 * | 30.00 | 38,943,360 |
| 13 | TAXES OTHER THAN INCOME | 47,873 | - | 47,873 * | 75.62 | 3,620,156 |
| 14 | PROPERTY TAXES | 295,813 | (77,724) | 218,089 * | 212.50 | 46,343,887 |
| 15 | STATE INCOME TAXES | 48,745 | 114,912 | 163,657 * | 62.65 | 10,253,093 |
| 16 | FEDERAL INCOME TAXES | 221,275 | 521,525 | 742,800 | 37.50 | 27,854,986 |
| 17 | INTEREST | 367,737 | (55,249) | 312,488 * | 90.00 | 28,123,944 |
| 18 | TOTAL OPERATING EXPENSES | <u>\$ 5,276,277</u> | <u>\$ 372,974</u> | <u>\$ 5,649,251</u> | | <u>\$ 160,880,473</u> |
| 19 | EXPENSE LAG | | | | 28.48 | |
| 20 | REVENUE LAG | | | | 22.01 | |
| 21 | NET LAG | | | | (6.47) | |
| 22 | CASH WORKING CAPITAL | <u>\$ (100,122)</u> | | | | |

NOTE
 * RUCO RECOMMENDED LEVEL OF CASH WORKING CAPITAL EXPENSES

ARIZONA-AMERICAN WATER COMPANY
 TEST YEAR ENDED DECEMBER 31, 2006
 RATE BASE ADJ. #16 - WORKING CAPITAL
 REVENUE LEAD/LAG ANALYSIS

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-26
 PAGE 3 OF 15
 SURREBUTTAL TESTIMONY

| | (A) | (B) | (C) | (D) | (E) | (F) | (G) | (H) | (I) | (J) | |
|----------|-----------------------|-----------|--------------------------|-----------|-------------|-----------|---------|------------------|----------------|--------------|--|
| | SERVICE PERIOD | | | | | | | | | | |
| LINE NO. | BEGINNING | ENDING | MID-POINT SERVICE PERIOD | BILL DATE | BILLING LAG | DUE DATE | PAY LAG | REVENUE LAG DAYS | AMOUNT OF BILL | RUCO \$ DAYS | |
| 1 | 3/1/2006 | 3/31/2006 | 15.00 | 3/14/2006 | -17.00 | 4/4/2006 | 21.00 | 19.00 | \$ 34.07 | \$ 647 | |
| 2 | 3/1/2006 | 3/31/2006 | 15.00 | 3/21/2006 | -10.00 | 4/11/2006 | 21.00 | 26.00 | 28.57 | 743 | |
| 3 | 3/1/2006 | 3/31/2006 | 15.00 | 3/14/2006 | -17.00 | 4/4/2006 | 21.00 | 19.00 | 25.82 | 491 | |
| 4 | 3/1/2006 | 3/31/2006 | 15.00 | 3/22/2006 | -9.00 | 4/12/2006 | 21.00 | 27.00 | 25.82 | 697 | |
| 5 | 3/1/2006 | 3/31/2006 | 15.00 | 3/22/2006 | -9.00 | 4/12/2006 | 21.00 | 27.00 | 25.82 | 697 | |
| 6 | 3/1/2006 | 3/31/2006 | 15.00 | 3/20/2006 | -11.00 | 4/10/2006 | 21.00 | 25.00 | 31.33 | 783 | |
| 7 | 3/1/2006 | 3/31/2006 | 15.00 | 3/13/2006 | -18.00 | 4/3/2006 | 21.00 | 18.00 | 52.24 | 940 | |
| 8 | 3/1/2006 | 3/31/2006 | 15.00 | 3/13/2006 | -18.00 | 4/3/2006 | 21.00 | 18.00 | 82.49 | 1,485 | |
| 9 | 3/1/2006 | 3/31/2006 | 15.00 | 3/6/2006 | -25.00 | 3/27/2006 | 21.00 | 11.00 | 52.24 | 575 | |
| 10 | 3/1/2006 | 3/31/2006 | 15.00 | 3/14/2006 | -17.00 | 4/4/2006 | 21.00 | 19.00 | 57.74 | 1,097 | |
| 11 | 3/1/2006 | 3/31/2006 | 15.00 | 3/21/2006 | -10.00 | 4/11/2006 | 21.00 | 26.00 | 41.22 | 1,072 | |
| 12 | 3/1/2006 | 3/31/2006 | 15.00 | 3/3/2006 | -28.00 | 3/24/2006 | 21.00 | 8.00 | 63.23 | 506 | |
| 13 | 3/1/2006 | 3/31/2006 | 15.00 | 3/7/2006 | -24.00 | 3/28/2006 | 21.00 | 12.00 | 41.22 | 495 | |
| 14 | 3/1/2006 | 3/31/2006 | 15.00 | 3/15/2006 | -16.00 | 4/5/2006 | 21.00 | 20.00 | 301.83 | 6,037 | |
| 15 | 3/1/2006 | 3/31/2006 | 15.00 | 3/22/2006 | -9.00 | 4/12/2006 | 21.00 | 27.00 | 549.86 | 14,846 | |
| 16 | | | | | | | | | | | |
| 17 | | | | | | | | | \$ 1,414 | \$ 31,110 | |
| 18 | | | | | | | | | | | |
| 19 | | | | | | | | | | | |
| 20 | RUCO REVENUE LAG DAYS | | | | | | | | | | |

22.01

REFERENCES:
 15 Chaparral City Water Bills

CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 RATE BASE ADJ. #16 - WORKING CAPITAL
 INTEREST EXPENSE (LEAD)/LAG ANALYSIS

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-26
 PAGE 4 OF 15
 SURREBUTTAL TESTIMONY

| LINE NO. | DESCRIPTION | (A) SERVICE PERIOD | | (C) | (D) | (E) | (F) | (G) | | |
|----------|------------------------------|--------------------|------------|--------------------------|-------------------------|--------------------|------------------|---------|-----------|-------|
| | | BEGINNING | ENDING | MID-POINT SERVICE PERIOD | PAYMENT DATE | PAYMENT (LEAD)/LAG | PAYMENT AMOUNT | DOLLAR | DAYS | |
| 1 | Bond due 2007 | 1/1/2006 | 12/31/2006 | 7/2/2006 | 6/30/2006 12/31/2006 | (2.00) 182.00 | 1.75% 1.75% | \$ | (0) 3 | |
| 2 | Bond due 2011 | 1/1/2006 | 12/31/2006 | 7/2/2006 | 6/30/2006 12/31/2006 | (2.00) 182.00 | 7.28% 7.28% | | (0) 13 | |
| 3 | Bond due 2022 | 1/1/2006 | 12/31/2006 | 7/2/2006 | 6/30/2006 12/31/2006 | (2.00) 182.00 | 33.58% 33.58% | | (1) 61 | |
| 4 | Bond due 2022 | 1/1/2006 | 12/31/2006 | 7/2/2006 | 6/30/2006 12/31/2006 | (2.00) 182.00 | 7.39% 7.39% | | (0) 13 | |
| 5 | TOTAL PAYMENTS & DOLLAR DAYS | | | | | | | 100.00% | \$ | 90 |
| 6 | INTEREST EXPENSE LAG DAYS | | | | | | | | | 90.00 |

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
PROPERTY TAX LAG DAYS ANALYSIS

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-26
PAGE 5 OF 15
SURREBUTTAL TESTIMONY

| LINE NO. | (A) | (B) | (C) | (D) | (E) |
|-------------|------------------------------------|------------|--------------------------------|------------|---------------------|
| | BEGINNING | ENDING | MID-POINT SERVICE PERIOD | DUE DATE | EXPENSE LAG DAYS |
| 1 | 1/1/2005 | 12/31/2005 | 7/1/2005 | 10/31/2005 | 61.00 |
| 2 | | | | 4/30/2006 | 151.50 |
| 3 | TOTAL PROPERTY TAX LAG DAYS | | | | 212.50 |

CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 RATE BASE ADJ. #16 - WORKING CAPITAL
 CALCULATION OF FEDERAL INCOME TAX LAG

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-26
 PAGE 6 OF 15
 SURREBUTTAL TESTIMONY

| LINE NO. | (A) PAYMENT DATE | - | (B) SERVICE PERIOD MIDPOINT | = | (C) (LEAD)/LAG DAYS | X | (D) PAYMENT AMOUNT | = | (E) DOLLAR DAYS |
|----------|---------------------|---|--------------------------------|---|------------------------|---|-----------------------|---|--------------------|
| 1 | 04/15/05 | | 07/01/05 | | (77.00) | | 25.00% | | (19.25) |
| 2 | 06/15/05 | | 07/01/05 | | (16.00) | | 25.00% | | (4.00) |
| 3 | 09/15/05 | | 07/01/05 | | 76.00 | | 25.00% | | 19.00 |
| 4 | 12/15/05 | | 07/01/05 | | 167.00 | | 25.00% | | 41.75 |
| 5 | TOTALS | | | | | | 100.00% | | 37.50 |
| 6 | INCOME TAX LAG | | | | 37.50 | | | | |

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
CALCULATION OF STATE INCOME TAX LAG

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-26
PAGE 7 OF 15
SURREBUTTAL TESTIMONY

| <u>LINE NO.</u> | <u>(A) PAYMENT DATE</u> | - | <u>(B) SERVICE PERIOD MIDPOINT</u> | = | <u>(C) (LEAD)/LAG DAYS</u> | X | <u>(D) PAYMENT AMOUNT</u> | = | <u>(E) DOLLAR DAYS</u> |
|-----------------|-------------------------|---|------------------------------------|---|----------------------------|---|---------------------------|----|------------------------|
| 1 | 04/15/99 | | 07/01/99 | | (77.00) | | 22.50% | \$ | (17) |
| 2 | 06/15/99 | | 07/01/99 | | (16.00) | | 22.50% | | (4) |
| 3 | 09/15/99 | | 07/01/99 | | 76.00 | | 22.50% | | 17 |
| 4 | 12/15/99 | | 07/01/99 | | 167.00 | | 22.50% | | 38 |
| 5 | 04/15/00 | | 07/01/99 | | 289.00 | | <u>10.00%</u> | | <u>29</u> |
| 6 | TOTALS | | | | | | 1.00 | | 62.65 |
| 7 | INCOME TAX LAG | | | | 62.65 | | | | |

CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 RATE BASE ADJ. #16 - WORKING CAPITAL
 OUTSIDE SERVICES EXPENSE LEAD/LAG ANALYSIS

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-26
 PAGE 8 OF 15
 SURREBUTTAL TESTIMONY

| LINE NO. | DESCRIPTION | (A) SERVICE PERIOD | | (C) | (D) | (E) | (F) | (G) |
|----------|--------------------|--------------------|------------|--------------------------|--------------|--------------------|----------------|--------------|
| | | BEGINNING | ENDING | MID-POINT SERVICE PERIOD | PAYMENT DATE | PAYMENT (LEAD)/LAG | PAYMENT AMOUNT | DOLLAR DAYS |
| 1 | TNT Technology Co. | 12/18/2006 | 12/24/2006 | 12/21/2006 | 1/25/2007 | 35.00 | \$ 1,060 | \$ 37,100 |
| 2 | NYE Tru Landscape | 11/1/2005 | 11/30/2005 | 11/15/2005 | 12/30/2005 | 44.50 | 22,875 | 1,017,938 |
| 3 | Quadna | 2/6/2006 | 2/10/2006 | 2/8/2006 | 2/23/2006 | 15.00 | 35,433 | 531,495 |
| 4 | TMV | 5/1/2006 | 5/31/2006 | 5/16/2006 | 6/15/2006 | 30.00 | 500 | 15,000 |
| 5 | Workplace Safety | 9/23/2005 | 9/30/2005 | 9/26/2005 | 9/29/2005 | 2.50 | 244 | 610 |
| 6 | Fennemore Craig | 7/1/2006 | 7/31/2006 | 7/16/2006 | 8/21/2006 | 36.00 | 21,221 | 763,956 |
| 7 | Total | | | | | | \$ 81,333 | \$ 2,366,099 |
| 8 | Lead/Lag Days | | | | | | 29.09 | |

CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 RATE BASE ADJ. #16 - WORKING CAPITAL
 PURCHASED POWER EXPENSE LEAD/LAG ANALYSIS

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-26
 PAGE 9 OF 15
 SURREBUTTAL TESTIMONY

| LINE NO. | DESCRIPTION | (A) SERVICE PERIOD | | (C) | (D) | (E) | (F) | (G) |
|-------------|-----------------------|--------------------|------------|--------------------------|--------------|--------------------|----------------|--------------|
| | | BEGINNING | ENDING | MID-POINT SERVICE PERIOD | PAYMENT DATE | PAYMENT (LEAD)/LAG | PAYMENT AMOUNT | DOLLAR DAYS |
| APS: | | | | | | | | |
| 1 | Jan-08 | 12/11/2007 | 1/9/2008 | 12/25/2007 | 1/31/2008 | 36.50 | \$ 17,136.95 | \$ 625,499 |
| 2 | Dec-07 | 11/8/2007 | 12/11/2007 | 11/24/2007 | 12/31/2007 | 36.50 | 22,160.38 | 808,854 |
| 3 | Nov-07 | 10/10/2007 | 11/8/2007 | 10/24/2007 | 11/30/2007 | 36.50 | 29,886.99 | 1,090,875 |
| 4 | Oct-07 | 9/11/2007 | 10/10/2007 | 9/25/2007 | 10/29/2007 | 33.50 | 30,158.30 | 1,010,303 |
| 5 | Total | | | | | | 99,342.62 | 3,535,530.73 |
| 6 | Lead/Lag Days | | | | | | 35.59 | |
| SRP: | | | | | | | | |
| 7 | Dec-07 | | | 15.5 | 23.5 | 39.00 | \$ 18,238.75 | \$ 711,311 |
| 8 | Oct-07 | | | 15 | 21 | 36.00 | 13,647.95 | 491,326 |
| 9 | Sep-07 | | | 16.5 | 16.5 | 33.00 | 13,996.67 | 461,890 |
| 10 | Aug-07 | | | 15 | 13 | 28.00 | 12,379.76 | 346,633 |
| 11 | Total | | | | | | \$ 58,263.13 | \$ 2,011,161 |
| 12 | Lead/Lag Days | | | | | | 34.52 | |
| 13 | Average Lead/Lag Days | | | | | | 35.05 | |

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
CALCULATION OF STATE INCOME TAX LAG

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-26
PAGE 10 OF 15
SURREBUTTAL TESTIMONY

| <u>LINE NO.</u> | (A) <u>SERVICE PERIOD</u> | (B) <u>SERVICE PERIOD MIDPOINT</u> | (C) <u>PAY DATE</u> | (D) <u>LAG DAYS</u> |
|---------------------|----------------------------------|---|----------------------------|----------------------------|
| 1 | 14 Days | 7 Days | 5 | 12 Days |

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
TAXES OTHER THAN INCOME

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-26
PAGE 11 OF 15
SURREBUTTAL TESTIMONY

| <u>LINE NO.</u> | (A) <u>SERVICE PERIOD</u> | (B) <u>SERVICE PERIOD MIDPOINT</u> | (C) <u>PAY DATE</u> | (D) <u>LAG DAYS</u> |
|---------------------|----------------------------------|---|----------------------------|----------------------------|
| 1 | 91.25 Days | 45.62 Days | 30 | 75.62 |

CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 RATE BASE ADJ. #16 - WORKING CAPITAL
 OFFICE SUPPLIES EXPENSE LEAD/LAG ANALYSIS

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-26
 PAGE 12 OF 15
 SURREBUTTAL TESTIMONY

| LINE NO. | DESCRIPTION | (A) | (B) | (C) | (D) | (E) | (F) | (G) |
|----------|-------------------------|----------------|------------|--------------------------|--------------|--------------------|----------------|-------------|
| | | SERVICE PERIOD | | MID-POINT SERVICE PERIOD | PAYMENT DATE | PAYMENT (LEAD)/LAG | PAYMENT AMOUNT | DOLLAR DAYS |
| 1 | Ikon | 11/8/2005 | 2/8/2006 | 12/24/2005 | 2/18/2006 | 56.00 | \$ 350.98 | \$ 19,655 |
| 2 | Ikon | 5/8/2006 | 8/8/2006 | 6/23/2006 | 8/18/2006 | 56.00 | 336.79 | 18,860 |
| 3 | Ikon | 8/8/2006 | 11/8/2006 | 9/23/2006 | 11/18/2006 | 56.00 | 382.83 | 21,438 |
| 4 | Robertson Consulting | 7/6/2006 | 7/24/2006 | 7/15/2006 | 7/24/2006 | 9.00 | 300.00 | 2,700 |
| 5 | Robertson Consulting | 8/25/2006 | 9/22/2006 | 9/8/2006 | 9/22/2006 | 14.00 | 725.89 | 10,162 |
| 6 | Laser Pros | 1/23/2006 | 1/26/2006 | 1/24/2006 | 1/26/2006 | 1.50 | 160.85 | 241 |
| 7 | OPACS | 1/9/2006 | 2/8/2006 | 1/24/2006 | 2/8/2006 | 15.00 | 395.01 | 5,925 |
| 8 | Laser Pros | 9/19/2006 | 9/20/2006 | 9/19/2006 | 9/20/2006 | 0.50 | 139.26 | 70 |
| 9 | OPACS | 1/20/2006 | 2/19/2006 | 2/4/2006 | 2/19/2006 | 15.00 | 460.07 | 6,901 |
| 10 | OPACS | 5/12/2006 | 6/11/2006 | 5/27/2006 | 6/11/2006 | 15.00 | 178.54 | 2,678 |
| 11 | OPACS | 7/28/2006 | 8/27/2006 | 8/12/2006 | 8/27/2006 | 15.00 | 309.78 | 4,647 |
| 12 | OPACS | 8/7/2006 | 9/6/2006 | 8/22/2006 | 9/6/2006 | 15.00 | 338.59 | 5,079 |
| 13 | Pitney Bowes | 8/24/2006 | 8/30/2006 | 8/27/2006 | 8/30/2006 | 3.00 | 189.99 | 570 |
| 14 | OPACS | 9/22/2006 | 10/22/2006 | 10/7/2006 | 10/22/2006 | 15.00 | 175.70 | 2,636 |
| 15 | Network Supply Resource | 9/12/2006 | 10/23/2006 | 10/2/2006 | 10/23/2006 | 20.50 | 298.00 | 6,109 |
| 5 | Total | | | | | | 4,742.28 | 107,671.29 |
| 6 | Lead/Lag Days | | | | | | 22.70 | |

CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 RATE BASE ADJ. #16 - WORKING CAPITAL
 WATER TESTING EXPENSE LEAD/LAG ANALYSIS

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-26
 PAGE 13 OF 15
 SURREBUTTAL TESTIMONY

| LINE NO. | DESCRIPTION | (A) | (B) | (C) | (D) | (E) | (F) | (G) |
|----------|--------------------|----------------|-----------|--------------------------|--------------|--------------------|----------------|-------------|
| | | SERVICE PERIOD | | MID-POINT SERVICE PERIOD | PAYMENT DATE | PAYMENT (LEAD)/LAG | PAYMENT AMOUNT | DOLLAR DAYS |
| 1 | Del Mar Analytical | 6/15/2006 | 7/17/2006 | 7/1/2006 | 7/17/2006 | 16.00 | \$ 1,800.00 | \$ 28,800 |
| 2 | Del Mar Analytical | 2/28/2006 | 3/30/2006 | 3/15/2006 | 3/30/2006 | 15.00 | 1,800.00 | 27,000 |
| 3 | Test America | 8/14/2006 | 9/13/2006 | 8/29/2006 | 9/13/2006 | 15.00 | 4,450.56 | 66,758 |
| 4 | Water Trax | 1/17/2006 | 2/18/2006 | 2/2/2006 | 2/18/2006 | 16.00 | 4,205.62 | 67,290 |
| 5 | MWH Laboratories | 1/24/2006 | 3/1/2006 | 2/11/2006 | 3/1/2006 | 18.00 | 1,865.00 | 33,570 |
| 6 | MWH Laboratories | 1/24/2006 | 2/13/2006 | 2/3/2006 | 2/13/2006 | 10.00 | 130.00 | 1,300 |
| 7 | Test America | 8/14/2006 | 9/13/2006 | 8/29/2006 | 9/13/2006 | 15.00 | 1,020.00 | 15,300 |
| 5 | Total | | | | | | 15,271.18 | 240,018.33 |
| 6 | Lead/Lag Days | | | | | | 15.72 | |

CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 RATE BASE ADJ. #16 - WORKING CAPITAL
 CHEMICAL EXPENSE LEAD/LAG ANALYSIS

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-26
 PAGE 14 OF 15
 SURREBUTTAL TESTIMONY

| LINE NO. | DESCRIPTION | (A) | (B) | (C) | (D) | (E) | (F) | (G) |
|----------|------------------|-----------|------------|--------------------------|--------------|--------------------|----------------|----------------|
| | | BEGINNING | ENDING | MID-POINT SERVICE PERIOD | PAYMENT DATE | PAYMENT (LEAD)/LAG | PAYMENT AMOUNT | DOLLAR DAYS |
| 1 | Hill Brothers | 12/8/2005 | 1/9/2006 | 12/24/2005 | 1/7/2006 | 14.00 | \$ 1,513.00 | \$ 21,182 |
| 2 | Hill Brothers | 1/9/2006 | 1/19/2006 | 1/14/2006 | 2/8/2006 | 25.00 | 1,406.00 | 35,150 |
| 3 | Hill Brothers | 1/19/2006 | 2/2/2006 | 1/26/2006 | 2/18/2006 | 23.00 | 1,406.00 | 32,338 |
| 4 | Hill Brothers | 2/2/2006 | 2/13/2006 | 2/7/2006 | 3/1/2006 | 21.50 | 1,406.00 | 30,229 |
| 5 | Hill Brothers | 2/13/2006 | 2/24/2006 | 2/18/2006 | 3/12/2006 | 21.50 | 1,620.00 | 34,830 |
| 6 | Hill Brothers | 2/24/2006 | 3/8/2006 | 3/2/2006 | 3/23/2006 | 21.00 | 1,406.00 | 29,526 |
| 7 | Hill Brothers | 3/8/2006 | 3/24/2006 | 3/16/2006 | 4/7/2006 | 22.00 | 1,406.00 | 30,932 |
| 8 | Hill Brothers | 3/24/2006 | 4/6/2006 | 3/30/2006 | 4/23/2006 | 23.50 | 1,406.00 | 33,041 |
| 9 | Hill Brothers | 4/6/2006 | 4/17/2006 | 4/11/2006 | 5/5/2006 | 23.50 | 1,620.00 | 38,070 |
| 10 | Hill Brothers | 4/17/2006 | 5/3/2006 | 4/25/2006 | 5/16/2006 | 21.00 | 1,620.00 | 34,020 |
| 11 | Hill Brothers | 5/3/2006 | 5/10/2006 | 5/6/2006 | 6/2/2006 | 26.50 | 1,299.00 | 34,424 |
| 12 | Hill Brothers | 5/10/2006 | 5/17/2006 | 5/13/2006 | 6/9/2006 | 26.50 | 1,620.00 | 42,930 |
| 13 | Hill Brothers | 5/17/2006 | 5/31/2006 | 5/24/2006 | 6/16/2006 | 23.00 | 1,620.00 | 37,260 |
| 14 | Hill Brothers | 5/31/2006 | 6/6/2006 | 6/3/2006 | 6/30/2006 | 27.00 | 2,155.00 | 58,185 |
| 15 | Hill Brothers | 6/6/2006 | 6/14/2006 | 6/10/2006 | 7/5/2006 | 25.00 | 2,155.00 | 53,875 |
| 16 | Hill Brothers | 6/14/2006 | 6/23/2006 | 6/18/2006 | 7/13/2006 | 24.50 | 2,155.00 | 52,798 |
| 17 | Hill Brothers | 6/23/2006 | 6/30/2006 | 6/26/2006 | 7/22/2006 | 25.50 | 2,155.00 | 54,953 |
| 18 | NTU Technologies | 2/23/2006 | 8/3/2006 | 5/14/2006 | 3/22/2006 | (53.50) | 14,229.60 | (761,284) |
| 19 | NTU Technologies | 8/3/2006 | 12/14/2006 | 10/8/2006 | 9/2/2006 | (36.50) | 13,261.60 | (484,048) |
| 20 | Thatcher | 1/1/2006 | 12/31/2006 | 7/2/2006 | 1/31/2006 | (152.00) | 21,066.97 | (3,202,179) |
| 21 | Engineered Sales | 1/1/2006 | 12/31/2006 | 7/2/2006 | 1/31/2006 | (152.00) | 1,008.91 | (153,354) |
| 22 | Total | | | | | | 77,535.08 | (3,947,124.26) |
| 23 | Lead/Lag Days | | | | | | (50.91) | |

CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 RATE BASE ADJ. #16 - WORKING CAPITAL
 PURCHASED WATER EXPENSE LEAD/LAG ANALYSIS

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-26
 PAGE 15 OF 15
 SURREBUTTAL TESTIMONY

| LINE NO. | DESCRIPTION | (A) SERVICE PERIOD BEGINNING | (B) SERVICE PERIOD ENDING | (C) MID-POINT SERVICE PERIOD | (D) PAYMENT DATE | (E) PAYMENT (LEAD)/LAG | (F) PAYMENT AMOUNT | (G) DOLLAR DAYS |
|----------|-------------------------|------------------------------|---------------------------|------------------------------|------------------|------------------------|--------------------|-----------------|
| 1 | CAP - Capital Charge #1 | 1/1/2008 | 6/30/2008 | 3/31/2008 | 11/20/2007 | (132.50) | \$ 73,269.00 | \$ (9,708,143) |
| 2 | CAP - M&I | 1/1/2008 | 1/31/2008 | 1/16/2008 | 12/20/2007 | (27.00) | 54,061.58 | (1,459,663) |
| 3 | CAP - M&I | 2/1/2008 | 2/29/2008 | 2/15/2008 | 1/20/2008 | (26.00) | 54,061.58 | (1,405,601) |
| 4 | CAP - M&I | 3/1/2008 | 3/31/2008 | 3/16/2008 | 2/20/2008 | (25.00) | 54,061.58 | (1,351,540) |
| 5 | CAP - M&I | 4/1/2008 | 4/30/2008 | 4/15/2008 | 3/20/2008 | (26.50) | 27,286.58 | (723,094) |
| 6 | CAP - Capital Charge #2 | 7/1/2008 | 12/31/2008 | 9/30/2008 | 5/20/2008 | (133.50) | 93,544.50 | (12,488,191) |
| 7 | CAP - M&I | 5/1/2008 | 5/31/2008 | 5/16/2008 | 4/20/2008 | (26.00) | 54,061.58 | (1,405,601) |
| 8 | CAP - M&I | 6/1/2008 | 6/30/2008 | 6/15/2008 | 5/20/2008 | (26.50) | 54,061.58 | (1,432,632) |
| 9 | CAP - M&I | 7/1/2008 | 7/31/2008 | 7/16/2008 | 6/20/2008 | (26.00) | 54,061.58 | (1,405,601) |
| 10 | CAP - M&I | 8/1/2008 | 8/31/2008 | 8/16/2008 | 7/20/2008 | (27.00) | 54,061.58 | (1,459,663) |
| 11 | CAP - M&I | 9/1/2008 | 9/30/2008 | 9/15/2008 | 8/20/2008 | (26.50) | 54,061.58 | (1,432,632) |
| 12 | CAP - M&I | 10/1/2008 | 10/31/2008 | 10/16/2008 | 9/20/2008 | (26.00) | 54,061.58 | (1,405,601) |
| 13 | CAP - M&I | 11/1/2008 | 11/30/2008 | 11/15/2008 | 10/20/2008 | (26.50) | 54,061.58 | (1,432,632) |
| 14 | CAP - M&I | 12/1/2008 | 12/31/2008 | 12/16/2008 | 11/20/2008 | (26.00) | 54,061.58 | (1,405,601) |
| 15 | CAP - CAGRD | 1/1/2007 | 12/31/2007 | 7/2/2007 | 10/15/2008 | 471.00 | 18,560.00 | 8,741,760 |
| 16 | Total | | | | | | 807,337.46 | (29,774,433.45) |
| 17 | Lead/Lag Days | | | | | | (36.88) | |

CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 OPERATING INCOME - TEST YEAR AND RUCO PROPOSED

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-27
 SURREBUTTAL TESTIMONY

| LINE NO. | DESCRIPTION | (A) COMPANY TEST YEAR AS FILED | (B) RUCO TEST YEAR ADJUSTMENTS | (C) RUCO TEST YEAR AS ADJUSTED | (D) RUCO PROPOSED CHANGES | (E) RUCO RECOMMENDED |
|----------------------------|----------------------------------|---|---|--|------------------------------------|----------------------------|
| REVENUES - WATER: | | | | | | |
| 1 | WATER REVENUES | \$ 7,364,411 | \$ 58,310 | \$ 7,422,721 | \$ 1,144,478 | \$ 8,567,199 |
| 2 | UNMETERED WATER REVENUES | - | - | - | - | - |
| 3 | OTHER WATER REVENUES | 82,289 | - | 82,289 | - | 82,289 |
| 4 | TOTAL REVENUES | <u>\$ 7,446,700</u> | <u>\$ 58,310</u> | <u>\$ 7,505,010</u> | <u>\$ 1,144,478</u> | <u>\$ 8,649,488</u> |
| OPERATING EXPENSES: | | | | | | |
| 5 | SALARIES AND WAGES | \$ 969,244 | \$ - | \$ 969,244 | \$ - | \$ 969,244 |
| 6 | PURCHASED WATER | 831,656 | (10,186) | 821,470 | - | 821,470 |
| 7 | PURCHASED POWER | 602,982 | 11,619 | 614,601 | - | 614,601 |
| 8 | CHEMICALS | 127,457 | - | 127,457 | - | 127,457 |
| 9 | REPAIRS AND MAINTENANCE | 104,609 | (43,217) | 61,392 | - | 61,392 |
| 10 | OFFICE SUPPLIES AND EXPENSE | 19,800 | - | 19,800 | - | 19,800 |
| 11 | OUTSIDE SERVICES | 266,544 | (109,049) | 157,495 | - | 157,495 |
| 12 | WATER TESTING | 43,458 | (17,820) | 25,638 | - | 25,638 |
| 13 | RENTS | - | - | - | - | - |
| 14 | TRANSPORTATION EXPENSES | 70,430 | - | 70,430 | - | 70,430 |
| 15 | INSURANCE - GENERAL LIABILITY | (1,294) | - | (1,294) | - | (1,294) |
| 16 | INSURANCE - HEALTH AND LIFE | - | - | - | - | - |
| 17 | REG. COMMISSION EXP. - RATE CASE | 144,871 | (51,538) | 93,333 | - | 93,333 |
| 18 | MISCELLANEOUS EXPENSE | 1,259,948 | 38,164 | 1,298,112 | - | 1,298,112 |
| 19 | DEPRECIATION & AMORTIZATION EXP. | 1,608,019 | (67,021) | 1,540,998 | - | 1,540,998 |
| 20 | AMORT. OF GAIN ON WELL | (76,000) | - | (76,000) | - | (76,000) |
| 21 | AMORT. OF CAP | 64,000 | (64,000) | - | - | - |
| 22 | TAXES OTHER THAN INCOME | 47,873 | - | 47,873 | - | 47,873 |
| 23 | PROPERTY TAXES | 295,813 | (77,724) | 218,089 | - | 218,089 |
| 24 | INCOME TAXES | 270,020 | 194,666 | 464,686 | 441,771 | 906,456 |
| 25 | TOTAL OPERATING EXPENSES | <u>\$ 6,649,430</u> | <u>\$ (196,106)</u> | <u>\$ 6,453,324</u> | <u>\$ 441,771</u> | <u>\$ 6,895,094</u> |
| 26 | UTILITY OPERATING INCOME | <u>\$ 797,270</u> | <u>\$ 254,416</u> | <u>\$ 1,051,686</u> | <u>\$ 702,707</u> | <u>\$ 1,754,393</u> |

REFERENCES:
 COLUMN (A): CO. SCH. C-1
 COLUMN (B): SCH. TJC-31
 COLUMN (C): COLUMN (A) + COLUMN (B)
 COLUMN (D): SCH. TJC-1, PAGE 1 OF 2
 COLUMN (E): COLUMN (C) + COLUMN (D)

CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 SUMMARY OF OPERATING ADJUSTMENTS

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-28
 SUBREBUTTAL TESTIMONY

| LINE NO. | DESCRIPTION | (A) COMPANY PROPOSED | (B) ADJ. #1 | (C) ADJ. #2 | (D) ADJ. #3 | (E) ADJ. #4 | (F) ADJ. #5 | (G) ADJ. #6 | (H) ADJ. #7 | (I) ADJ. #8 | (J) ADJ. #9 | (K) ADJ. #10 | (L) ADJ. #11 | (M) ADJ. #12 | (N) RUCO ADJUSTED |
|---------------------|--------------------------------|----------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|------------------|--------------------|--------------------|--------------------|--------------------|---------------------|-------------------------|
| REVENUES - WATER: | | | | | | | | | | | | | | | |
| 1 | WATER REVENUES | \$ 7,364,411 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 56,310 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 7,422,721 |
| 2 | UNMETERED WATER REVENUES | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 3 | OTHER WATER REVENUES | 82,289 | - | - | - | - | - | - | - | - | - | - | - | - | 82,289 |
| 4 | TOTAL REVENUES | <u>\$ 7,446,700</u> | <u>\$ -</u> | <u>\$ 56,310</u> | <u>\$ -</u> | <u>\$ 7,505,010</u> |
| OPERATING EXPENSES: | | | | | | | | | | | | | | | |
| 5 | SALARIES AND WAGES | \$ 968,244 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 968,244 |
| 6 | PURCHASED WATER | 831,656 | - | - | - | - | (10,186) | - | - | - | - | - | - | - | 821,470 |
| 7 | PURCHASED POWER | 602,982 | - | - | - | - | - | - | - | - | - | 11,619 | - | - | 614,601 |
| 8 | CHEMICALS | 127,457 | - | - | - | - | - | - | - | - | - | - | - | - | 127,457 |
| 9 | REPAIRS AND MAINTENANCE | 104,609 | - | - | - | - | - | - | (43,217) | - | - | - | - | - | 61,392 |
| 10 | OFFICE SUPPLIES AND EXPENSE | 19,800 | - | - | - | - | - | - | - | - | - | - | - | - | 19,800 |
| 11 | OUTSIDE SERVICES | 266,544 | - | - | - | - | (71,000) | - | - | (38,049) | - | - | - | - | 157,495 |
| 12 | WATER TESTING | 43,458 | - | - | - | - | - | - | - | (17,820) | - | - | - | - | 25,638 |
| 13 | RENTS | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 14 | TRANSPORTATION EXPENSES | 70,430 | - | - | - | - | - | - | - | - | - | - | - | - | 70,430 |
| 15 | INSURANCE - GENERAL LIABILITY | (1,294) | - | - | - | - | - | - | - | - | - | - | - | - | (1,294) |
| 16 | INSURANCE - HEALTH AND LIFE | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 17 | REG. COMMISSION EXP. - RATE CA | 144,871 | - | - | - | (51,538) | - | - | - | - | - | - | - | - | 93,333 |
| 18 | MISCELLANEOUS EXPENSE | 1,258,948 | - | - | 38,164 | - | - | - | - | - | - | - | - | - | 1,296,112 |
| 19 | DEPRECIATION & AMORTIZATION E | 1,608,019 | (67,021) | - | - | - | - | - | - | - | - | - | - | - | 1,540,998 |
| 20 | AMORT. OF GAIN ON WELL | (76,000) | - | - | - | - | - | - | - | - | - | - | - | - | (76,000) |
| 21 | AMORT. OF CAP | 64,000 | - | - | - | - | - | - | - | - | - | (64,000) | - | - | - |
| 22 | TAXES OTHER THAN INCOME | 47,873 | - | - | - | - | - | - | - | - | - | - | - | - | 47,873 |
| 23 | PROPERTY TAXES | 295,813 | - | (77,724) | - | - | - | - | - | - | - | - | - | - | 218,089 |
| 24 | INCOME TAXES | 270,020 | - | - | - | - | - | - | - | - | - | - | - | 194,666 | 464,686 |
| 25 | TOTAL OPERATING EXPENSES | <u>\$ 6,649,430</u> | <u>\$ (67,021)</u> | <u>\$ (77,724)</u> | <u>\$ 38,164</u> | <u>\$ (51,538)</u> | <u>\$ (10,186)</u> | <u>\$ (71,000)</u> | <u>\$ -</u> | <u>\$ (81,266)</u> | <u>\$ (17,820)</u> | <u>\$ 11,619</u> | <u>\$ (64,000)</u> | <u>\$ 194,666</u> | <u>\$ 6,453,324</u> |
| 26 | UTILITY OPERATING INCOME | <u>\$ 797,270</u> | <u>\$ 67,021</u> | <u>\$ 77,724</u> | <u>\$ (38,164)</u> | <u>\$ 51,538</u> | <u>\$ 10,186</u> | <u>\$ 71,000</u> | <u>\$ 56,310</u> | <u>\$ 81,266</u> | <u>\$ 17,820</u> | <u>\$ (11,619)</u> | <u>\$ 64,000</u> | <u>\$ (194,666)</u> | <u>\$ 1,051,686</u> |

10.71%

ADJUSTMENT #:
 1. Depreciation & Amortization Expense
 2. Property Tax Expense
 3. Miscellaneous Expense
 4. Rate Case Expense
 5. Purchased Water
 6. Outside Services

ADJUSTMENT #:
 7. Revenue Annualization
 8. Remove Expensed Plant Items and Capitalize
 9. Water Testing Expense
 10. Purchased Power
 11. Remove CAP Amortization
 12. Income Taxes

REFERENCE:
 Schedule TJC-38, pages 1 thru 31
 Schedule TJC-39
 Staff Testimony
 Schedule TJC-41
 Testimony of TJC
 Schedule TJC-43

CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 OPERATING ADJ. #1 - DEPRECIATION AND AMORTIZATION EXPENSE

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-29
 SURREBUTTAL TESTIMONY

| LINE NO. | ACCT. NO. | PLANT ACCOUNT NAME | (A) ADJUSTED TEST YEAR BALANCE PER COMPANY | (B) RUCO ADJUSTMENTS | (C) RUCO ADJUSTED BALANCE | (D) COMPONENT DEPRECIATION RATES | (E) RUCO RECOMMENDED DEPRECIATION EXPENSE |
|----------|-----------|---|---|------------------------------------|------------------------------|-------------------------------------|--|
| 1 | 301 | Organization Cost | - | \$ - | \$ - | 0.00% | \$ - |
| 2 | 302 | Franchise Cost and Other Intangible Plant | - | - | - | 0.00% | - |
| 3 | 303 | Land and Land Rights | 305,920 | 605,937 | 911,857 | 0.00% | - |
| 4 | 304 | Structures and Improvements | 1,518,648 | 10,994 | 1,529,642 | 3.33% | 50,937 |
| 5 | 305 | Collecting and Impounding Res. | 6,548 | 0 | 6,548 | 2.50% | 164 |
| 6 | 306 | Lake River and Other Intakes | - | - | - | 2.50% | - |
| 7 | 307 | Wells and Springs | 332,065 | (107,412) | 224,653 | 3.33% | 7,481 |
| 8 | 308 | Infiltration Galleries and Tunnels | - | - | - | 6.67% | - |
| 9 | 309 | Supply Mains | - | - | - | 2.00% | - |
| 10 | 310 | Power Generation Equipment | - | - | - | 5.00% | - |
| 11 | 311 | Electric Pumping Equipment | 1,506,908 | 0 | 1,506,908 | 12.50% | 188,364 |
| 12 | 320 | Water Treatment Equipment | 7,763,500 | (2,010,923) | 5,752,577 | 3.33% | 191,561 |
| 13 | 330 | Distribution Reservoirs & Standpipe | 8,170,420 | 6,547 | 8,176,967 | 2.22% | 181,529 |
| 14 | 331 | Transmission and Distribution Mains | 17,450,634 | 0 | 17,450,634 | 2.00% | 349,013 |
| 15 | 333 | Services | 7,389,930 | (0) | 7,389,930 | 3.33% | 246,085 |
| 16 | 334 | Meters | 2,725,673 | (0) | 2,725,673 | 8.33% | 227,049 |
| 17 | 335 | Hydrants | 1,171,633 | (1) | 1,171,633 | 2.00% | 23,433 |
| 18 | 336 | Backflow Prevention Devices | - | - | - | 6.67% | - |
| 19 | 339 | Other Plant and Miscellaneous Equipment | 1,610,687 | 149,760 | 1,760,447 | 6.67% | 117,422 |
| 20 | 340 | Office Furniture and Fixtures | 270,359 | (1) | 270,358 | 6.67% | 18,033 |
| 21 | 341 | Transportation Equipment | 535,315 | 0 | 535,315 | 20.00% | 107,063 |
| 22 | 342 | Stores Equipment | - | - | - | 4.00% | - |
| 23 | 343 | Tools and Work Equipment | 149,365 | 0 | 149,365 | 5.00% | 7,468 |
| 24 | 344 | Laboratory Equipment | - | - | - | 10.00% | - |
| 25 | 345 | Power Operated Equipment | - | - | - | 5.00% | - |
| 26 | 346 | Communications Equipment | 39,105 | (0) | 39,105 | 10.00% | 3,910 |
| 27 | 347 | Miscellaneous Equipment | 106,542 | (106,542) | - | 10.00% | - |
| 28 | 348 | Other Tangible Plant | - | 34,063 | 34,063 | 0.00% | - |
| 29 | | | | | | | |
| 30 | | TOTAL DIRECT PLANT IN SERVICE | \$ 51,053,253 | \$ (1,417,576) | \$ 49,635,677 | | \$ 1,719,510 |
| 31 | | | | | | | |
| 32 | | | | | | | |
| 33 | | | | | | | |
| 34 | | General Office Plant Allocated | Per Company | Correct for 4 Factor Alloc. | RUCO Adjusted | | |
| 35 | 301 | Organization Cost | 528 | (67) | 461 | 0.00% | - |
| 36 | 302 | Other Intangible Plant | - | 26,044 | 26,044 | 0.00% | - |
| 37 | 304 | Structures and Improvements | 186,270 | (23,791) | 162,479 | 3.33% | 5,411 |
| 38 | 311 | Electric Pumping Equipment | - | (26) | (26) | 12.50% | (3) |
| 39 | 339 | Other Plant and Miscellaneous Equipment | 27,201 | (3,474) | 23,727 | 3.33% | 790 |
| 40 | 340 | Office Furniture and Fixtures | 458,027 | (69,481) | 388,546 | 6.67% | 25,916 |
| 41 | 341 | Transportation Equipment | 17,742 | (2,266) | 15,476 | 20.00% | - Fully Depreciated |
| 42 | 343 | Tools and Work Equipment | 13,021 | (1,663) | 11,358 | 5.00% | 588 |
| 43 | 344 | Laboratory Equipment | 130 | (17) | 114 | 10.00% | 11 |
| 44 | 345 | Power Operated Equipment | 8,001 | (1,022) | 6,979 | 5.00% | - Fully Depreciated |
| 45 | 346 | Communications Equipment | 5,315 | (679) | 4,636 | 10.00% | - Fully Depreciated |
| 46 | | | | | | | |
| 47 | | TOTAL GENERAL OFFICE PLANT ALLOCATION | 716,236 | | 639,794 | | \$ 32,693 |
| 48 | | | | | | | |
| 49 | | Less: Amortization of Contributions - Year End Bal. | \$ 6,288,097 | | | 3.3588% 1 | \$ (211,205) |
| 50 | | | | | | | |
| 51 | | Total Depreciation Expense | | | | | \$ 1,540,998 |
| 52 | | | | | | | |
| 53 | | Adjusted Test Year Depreciation Expense | | | | | \$ 1,608,019 |
| 54 | | | | | | | |
| 55 | | Increase (Decrease) in Depreciation Expense | | | | | \$ (67,021) |
| 56 | | | | | | | |
| 57 | | Adjustment to Revenues and/or Expenses | | | | | \$ (67,021) |

Note: Column B, line 36 and 40 adjusts for both the 4 Factor Allocator (2.8%) and Removal of \$159,087 and \$392,121 of Post Test Year Plant in Account 303 and 340 respectively.
 * Amortization Rate approved in Commission Decision No. 68176.

CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 OPERATING ADJ. #2 - PROPERTY TAX EXPENSE

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-30
 SURREBUTTAL TESTIMONY

| LINE NO. | DESCRIPTION | AMOUNT | REFERENCE |
|----------|---|--------------------|--------------------------------------|
| 1 | REVENUES - 2004 | \$ 6,544,219 | COMPANY SCHEDULE E-1 |
| 2 | REVENUES - 2005 | 7,019,051 | COMPANY SCHEDULE E-1 |
| 3 | RUCO PROPOSED REVENUES | <u>8,649,488</u> | SCHEDULE TJC-30 |
| 4 | TOTAL | \$ 22,212,758 | SUM LINES 1, 2, & 3 |
| 5 | 3 YEAR AVERAGE | \$ 7,404,253 | LINE 4/3 YEARS |
| 6 | MULTIPLIER FOR REVENUES (2 X LAST 3 YRS. AVERAGE REVENUE) | <u>x 2</u> | ADOR VALUATION FACTOR |
| 7 | REVENUES FOR FULL CASH VALUE | \$ 14,808,505 | LINE 5 X 2 (MULTIPLIER FOR REVENUES) |
| 8 | ADD: 10% OF CWIP BALANCE | \$ - | COMPANY TRIAL BALANCE |
| 9 | LESS: NET BOOK VALUE OF VEHICLES | <u>474,679</u> | SCHEDULE TJC-6, PAGE 3 OF 3 |
| 10 | FULL CASH VALUE | \$ 14,333,826 | LINE 7 + LINE 8 MINUS LINE 9 |
| 11 | ASSESSMENT RATIO | <u>22.0%</u> | PER HOUSE BILL 2779 |
| 12 | ASSESSED VALUE | \$ 3,153,442 | LINE 10 X LINE 11 |
| 13 | PROPERTY TAX RATE | <u>6.9159%</u> | PER TAX BILLS |
| 14 | PROPERTY TAXES PAYABLE PER RUCO | \$ 218,089 | LINE 12 X LINE 13 |
| 15 | PROPERTY TAXES PER COMPANY | <u>295,813</u> | PER COMPANY |
| 16 | RUCO ADJUSTMENT | <u>\$ (77,724)</u> | LINE 14 MINUS LINE 15 |

Chaparral City Water Company
 TEST YEAR ENDED DECEMBER 31, 2006
 ADJUSTMENTS TO REVENUES AND/OR EXPENSES
 Adjustment Number 4

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-31
 SURREBUTTAL TESTIMONY

Line
No.

| | | |
|----|--|------------------------------------|
| 1 | <u>Rate Case Expense</u> | |
| 2 | | |
| 3 | Estimated Rate Case Expense | \$ 280,000 |
| 4 | Unrecovered Rate Case Expense (Prior Case) ¹ | <u>\$ -</u> |
| 5 | Rate Case Expense | <u>\$ 280,000</u> |
| 6 | | |
| 7 | Estimated Amortization Period (in Years) | 3.0 |
| 8 | | |
| 9 | Annual Rate Case Expense | <u>\$ 93,333</u> |
| 10 | | |
| 11 | Test Year Adjusted Rate Case Expense | \$ 144,871 |
| 12 | | |
| 13 | Increase(decrease) Rate Case Expense | <u>\$ (51,538)</u> |
| 14 | | |
| 15 | Adjustment to Revenue and/or Expense | <u>\$ (51,538)</u> |
| 16 | | |
| 17 | | |
| 18 | ¹ Computation of Unrecovered Rate Case Amount | |
| 19 | Rate Case Expense | \$ 285,000 [1] |
| 20 | Amortization Period (yrs) | 4 [2] |
| 21 | Annual Amortization amount | \$ 71,250 [3] = [1] divided by [2] |
| 22 | Amortization (years) | 1.83 [4] |
| 23 | Total Amortization | \$ 130,388 [5] = [4] times [3] |
| 24 | Remaining Unrecovered Rate Case Expense | \$ 154,613 [6] = [1] minus [5] |

Chaparral City Water Company
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 6

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-32
SURREBUTTAL TESTIMONY

Outside Services Expense

| | |
|--|---------------------------------|
| 1 Weekly Charge | \$ 3,500 |
| 2 January 1, 2006 thru May 22, 2006 | <u>20.28571</u> Number of Weeks |
| 3 | |
| 4 Increase(decrease) Miscellaneous Expense | \$(71,000) |
| 5 | |
| 6 Adjustment to Revenue and/or Expense | \$(71,000) |
| 7 | |
| 8 | |
| 9 | |

Chaparral City Water Company
Test Year Ended December 31, 2006
Operating Income & Expense Adjustments
Adjustment 8

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-33
SURREBUTTAL TESTIMONY

Line
No.

| | | | |
|----|--|----|-----------------|
| 1 | <u>Remove Expensed Items and Capitalize</u> | | |
| 2 | | | |
| 3 | Per RUCO Outside Services | \$ | (11,590) |
| 4 | Per RUCO Outside Services | | (26,084) |
| 5 | Per RUCO Repairs and Maintenance Expense | | (43,217) |
| 6 | Per RUCO Late Filing Penalty | | (45) |
| 7 | Per RUCO Outside Services | | (330) |
| 8 | RUCO Adjustment | | <u>(81,266)</u> |
| 9 | | | |
| 10 | Increase (Decrease) to Expenses | \$ | (81,266) |
| 11 | | | |
| 12 | | | |
| 13 | Adjustment to Revenue and/or Expense | \$ | (81,266) |
| 14 | | | |
| 15 | | | |
| 16 | | | |
| 17 | | | |
| 18 | | | |
| 19 | | | |
| 20 | | | |
| 21 | | | |
| 22 | | | |
| 23 | | | |
| 24 | <u>SUPPORTING SCHEDULE</u> | | |
| 25 | rcn_plant_Remove Expensed Items & Capitalize.xls | | |

**CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJUSTMENT 11 - REMOVE CAP AMORTIZATION**

**DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-34
SURREBUTTAL TESTIMONY**

See TJC Direct Testimony

CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 OPERATING ADJ. #12 - INCOME TAXES

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-35
 SURREBUTTAL TESTIMONY

| <u>LINE NO.</u> | <u>DESCRIPTION</u> | <u>AMOUNT</u> | <u>REFERENCE</u> |
|-----------------|--------------------------------------|--|----------------------|
| | <u>FEDERAL INCOME TAXES:</u> | | |
| 1 | OPERATING INCOME BEFORE INCOME TAXES | \$ 1,516,372 | SCH. TJC-28 |
| | LESS: | | |
| 2 | ARIZONA STATE TAX | 83,887 | LINE 11 |
| 3 | INTEREST EXPENSE | <u>312,488</u> | NOTE (a) |
| 4 | FEDERAL TAXABLE INCOME | \$ 1,119,997 | LINE 1 - LINES 2 & 3 |
| 5 | FEDERAL INCOME TAX RATE | <u>34.00%</u> | TAX RATE |
| 6 | FEDERAL INCOME TAX EXPENSE | \$ 380,799 | LINE 4 X LINE 5 |
| | <u>STATE INCOME TAXES:</u> | | |
| 7 | OPERATING INCOME BEFORE INCOME TAXES | \$ 1,516,372 | LINE 1 |
| | LESS: | | |
| 8 | INTEREST EXPENSE | <u>312,488</u> | NOTE (A) |
| 9 | STATE TAXABLE INCOME | \$ 1,203,884 | LINE 7 - LINE 8 |
| 10 | STATE TAX RATE | <u>6.968%</u> | TAX RATE |
| 11 | STATE INCOME TAX EXPENSE | \$ 83,887 | LINE 9 X LINE 10 |
| 12 | TOTAL INCOME TAX PER RUCO | 464,686 | LINE 6 + 11 |
| 13 | INCOME TAXES PER COMPANY FILING | 270,020 | COMPANY SCHEDULE C-1 |
| 14 | RUCO INCOME TAX ADJUSTMENT | \$ 194,666 | |
| | <u>NOTE (a):</u> | | |
| | INTEREST SYCHRONIZATION | | |
| | ADJUSTED RATE BASE | \$ 27,498,329 | |
| | WEIGHTED COST OF DEBT | <u>1.14%</u> | |
| | | <u>\$ 312,488</u> | |

OCRB WEIGHTED COST OF CAPITAL

| LINE NO. | DESCRIPTION | (A) AMOUNT | (B) RUCO ADJUSTMENT | (C) ADJUSTED BALANCE | (D) CAPITAL RATIO | (E) COST | (F) WEIGHTED COST |
|----------|--------------------------------------|----------------------|---------------------------|----------------------------|-------------------------|-------------|-------------------------|
| 1 | SHORT-TERM DEBT | \$ 1,400,000 | | \$ 1,400,000 | 4.10% | 2.71% | 0.11% |
| 2 | LONG-TERM DEBT | 6,865,000 | (280,000) | 6,585,000 | 19.20% | 5.34% | 1.03% |
| 3 | COMMON EQUITY | 27,002,476 | (640,000) | 26,362,476 | 76.80% | 8.83% | 6.78% |
| 4 | TOTAL CAPITALIZATION | <u>\$ 35,267,476</u> | <u>\$ (920,000)</u> | <u>\$ 34,347,476</u> | <u>100.10%</u> | | |
| 5 | OCRB WEIGHTED COST OF CAPITAL | | | | | | <u>7.92%</u> |

FVRB WEIGHTED COST OF CAPITAL

| LINE NO. | DESCRIPTION | (A) AMOUNT | (B) RUCO ADJUSTMENT | (C) ADJUSTED BALANCE | (D) CAPITAL RATIO | (E) COST | (F) WEIGHTED COST |
|----------|--------------------------------------|----------------------|---------------------------|----------------------------|-------------------------|-------------|-------------------------|
| 6 | SHORT-TERM DEBT | \$ 1,400,000 | | \$ 1,400,000 | 4.10% | 2.71% | 0.11% |
| 7 | LONG-TERM DEBT | 6,865,000 | (280,000) | 6,585,000 | 19.20% | 5.34% | 1.03% |
| 8 | COMMON EQUITY | 27,002,476 | (640,000) | 26,362,476 | 76.80% | 6.83% | 5.25% |
| 9 | TOTAL CAPITALIZATION | <u>\$ 35,267,476</u> | <u>\$ (920,000)</u> | <u>\$ 34,347,476</u> | <u>100.10%</u> | | |
| 10 | FVRB WEIGHTED COST OF CAPITAL | | | | | | <u>6.38%</u> |

REFERENCES:

- COLUMN (A): COMPANY SCH. D - 1
- COLUMN (B): TESTIMONY, WAR
- COLUMN (C): COLUMN (A) + COLUMN (B)
- COLUMN (D): COLUMN (C) + COLUMN (C), LINE 5
- COLUMN (E): TESTIMONY, WAR
- COLUMN (F): COLUMN (D) x COLUMN (E)