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BEFORE THE ARIZONA CORPORATION COMMISSION

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8 IN THE MATTER OF THE APPLICATION OF  
 9 ARIZONA-AMERICAN WATER COMPANY,  
 10 AN ARIZONA CORPORATION, FOR A  
 11 DETERMINATION OF THE CURRENT FAIR  
 12 VALUE OF ITS UTILITY PLANT AND  
 13 PROPERTY AND FOR INCREASES IN ITS  
 14 RATES AND CHARGES BASED THEREON  
 FOR UTILITY SERVICE BY ITS AGUA FRIA  
 WATER DISTRICT, ANTHEM WATER  
 DISTRICT, HAVASU WATER DISTRICT,  
 MOHAVE WATER DISTRICT, PARADISE  
 VALLEY WATER DISTRICT, SUN CITY  
 WEST WATER DISTRICT AND TUBAC  
 WATER DISTRICT.

Docket No. W-01303A-08-0227

15 IN THE MATTER OF THE APPLICATION OF  
 16 ARIZONA-AMERICAN WATER COMPANY,  
 17 AN ARIZONA CORPORATION, FOR A  
 18 DETERMINATION OF THE CURRENT FAIR  
 19 VALUE OF ITS UTILITY PLANT AND  
 20 PROPERTY AND FOR INCREASES IN ITS  
 21 RATES AND CHARGES BASED THEREON  
 FOR UTILITY SERVICE BY ITS AGUA FRIA  
 WASTEWATER DISTRICT, ANTHEM  
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 WASTEWATER DISTRICT.

Docket No. SW-01303A-08-0227

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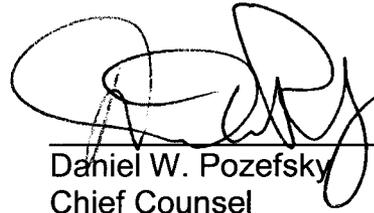
Arizona Corporation Commission  
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1 The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing  
2 the Surrebuttal Testimony of William A. Rigsby, CRRA, Rodney L. Moore and Timothy J.  
3 Coley in the above-referenced matter.

4 RESPECTFULLY SUBMITTED this 3<sup>rd</sup> day of March, 2009.

5  
6  
7  
8  
  
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Chief Counsel

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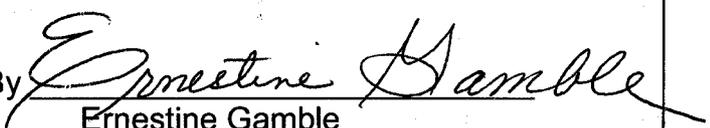
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Secretary to Daniel Pozefsky

**ARIZONA-AMERICAN WATER COMPANY**

**DOCKET NO. W-01303A-08-0227**

**DOCKET NO. SW-01303A-08-0227**

**SURREBUTTAL TESTIMONY**

**OF**

**WILLIAM A. RIGSBY, CRAA**

**ON BEHALF OF**

**THE**

**RESIDENTIAL UTILITY CONSUMER OFFICE**

**MARCH 3, 2009**

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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 testimony is to respond to Arizona-American Water  
9 Company's ("Arizona-American" or "Company") rebuttal testimony on  
10 RUCO's policy recommendations for the Company's water and  
11 wastewater operations in Maricopa and Mohave Counties.

12

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

14 A. Yes, I filed two pieces of direct testimony on this case with the Arizona  
15 Corporation Commission ("ACC" or "Commission") on January 9, 2009.  
16 My direct testimony addressed both the policy issues and the cost of  
17 capital issues associated with Arizona-American's application requesting a  
18 permanent rate increase ("Application") based on a test year ended  
19 December 31, 2007 ("Test Year").

20

21 ...

22

1 Q. Are you also filing surrebuttal testimony on the cost of capital issues  
2 associated with this case?

3 A. Yes. I have filed under separate cover, surrebuttal testimony on the cost  
4 of capital issues associated with the case.

5

6 Q. How is your policy surrebuttal testimony organized?

7 A. My policy surrebuttal testimony is organized into three sections. First, the  
8 introduction I have just presented and second, the summary of my  
9 testimony that I am about to give. Third, I will explain the positions that  
10 RUCO and Arizona-American have taken on the various issues that were  
11 addressed in my direct testimony.

12

13 **SUMMARY OF ARIZONA-AMERICAN'S REBUTTAL TESTIMONY**

14 Q. Have you reviewed Arizona-American's rebuttal testimony?

15 A. Yes. I have reviewed Arizona-American's rebuttal testimony filed on  
16 February 12, 2009.

17

18 Q. Please summarize Arizona-American's rebuttal positions on the issues  
19 that were addressed in RUCO's direct testimony.

20 A. Arizona-American has adopted a number of the adjustments that were  
21 presented in the direct testimony of RUCO witnesses Rodney L. Moore  
22 and Timothy Coley. As can be seen in the rebuttal testimony of Company

1 witness Sheryl L. Hubbard, Arizona-American has adopted, either partially  
2 or in full, Mr. Moore's recommended operating expense adjustments on  
3 labor expense, waste disposal expense, chemicals expense, management  
4 fees, rate case expense and miscellaneous expense. In regard to rate  
5 base adjustments, Company witness Linda J. Gutowski has accepted  
6 several of Mr. Coley's recommended adjustments including projects that  
7 were mistakenly included in the Company's Sun City West Water District  
8 as opposed to the Agua Fria Water District, and the removal of post-test  
9 year plant in the Company's Paradise Valley Water District. The  
10 unresolved operating expense and rate base adjustments between the  
11 Company and RUCO will be discussed in detail in the surrebuttal  
12 testimony of Mr. Moore and Mr. Coley.

13  
14 **IMPUTED AIAC**

15 Q. Are Arizona-American and RUCO in agreement on the issue of imputed  
16 advances in aid of construction ("AIAC")?

17 A. Yes. Arizona-American agrees with RUCO's position that the amortization  
18 of the imputed AIAC is a known and measureable post-test year event and  
19 that the Commission should adopt the Company-proposed treatment of  
20 imputed AIAC.

1 **WHITE TANKS PLANT CWIP**

2 Q. Have you reviewed Arizona-American's rebuttal testimony on the White  
3 Tanks Plant?

4 A. Yes. I have reviewed the rebuttal testimony of Company witnesses Paul  
5 G. Townsley, Christopher C. Buls, Bradley J. Cole and Thomas M.  
6 Broderick.

7  
8 Q. Has the testimony of the aforementioned Arizona-American witnesses  
9 persuaded RUCO to change its position on the White Tanks Plant?

10 A. No. RUCO continues to recommend that the Commission reject the  
11 Company's request to include \$25 million of White Tanks Plant  
12 construction work in progress ("CWIP") in rate base. As I stated in my  
13 direct testimony, RUCO has consistently taken the position that CWIP fails  
14 the used and useful standard which is the basis for allowing recovery of  
15 utility plant in rates. In regard to the White Tanks plant specifically,  
16 RUCO's past support for the White Tanks Plant has, and continues to be,  
17 that existing ratepayers should not have to pay for plant that is clearly  
18 intended for future customers.

19

20

21 ...

22

1 Q. The Company has stated in its rebuttal testimony that RUCO opposes its  
2 request to extend the collection period for the hook-up fees through 2020,  
3 is this correct?

4 A. No. There appears to be some confusion on this point that I would like to  
5 clear up. As I stated on page 14 of my direct testimony on policy issues,  
6 RUCO supports the Company's request to extend the collection period for  
7 the hook-up fees through 2020. However on page 17 of my direct  
8 testimony on policy issues I also stated that none of Mr. Broderick's  
9 recommendations regarding the WHU-1 hook-up fee be adopted by the  
10 Commission and that the Company should continue to adhere to the  
11 provisions of Decision No. 69914. What I should have said was that with  
12 the exception of extending the collection period for the hook-up fees  
13 through 2020, the Company should continue to adhere to the provisions of  
14 Decision No. 69914 in regard to matters pertaining to the White Tanks  
15 Plant. Hopefully this will resolve this point.

16  
17  
18  
19  
20  
21 ...  
22

1 **WHITE TANKS PLANT O&M DEFERRAL MECHANISM**

2 Q. Has RUCO changed its position on the Company's request for an adjustor  
3 mechanism, similar to an arsenic cost recovery mechanism ("ACRM"), to  
4 recover deferred O&M costs associated with the White Tanks Plant?

5 A. No. For the reasons given in my direct testimony on policy issues, RUCO  
6 still believes that the Commission should deny the Company's request for  
7 an ACRM-like mechanism to recover O&M costs.

8  
9 Q. Please respond to the Company's allegation that during the prior White  
10 Tanks Plant financing application proceeding, RUCO supported Arizona-  
11 American's request to seek a cost recovery mechanism in the next  
12 permanent rate case.

13 A. RUCO's position during the White Tanks Plant financing application  
14 proceeding was that Arizona-American can request whatever it wants to  
15 request in its next permanent rate case proceeding. That did not mean  
16 that RUCO would be in full support of whatever the Company would  
17 request.

18  
19 **TUBAC ACRM**

20 Q. Does RUCO still support Arizona-American's request for an ACRM for the  
21 Company's Tubac Water District?

22 A. Yes.

1 Q. Does RUCO have any position on either the Central Plant or the Point-Of  
2 Use options for removing arsenic from water in the Tubac Water District?

3 A. No. However, RUCO can see why the Company favors the less labor  
4 intensive and less customer intrusive Central Plant option.

5  
6 Q. Is it RUCO's understanding that no final cost on arsenic removal plant for  
7 the Tubac Water District will be established in this proceeding or that the  
8 costs will be included in the rates established in this proceeding?

9 A. Yes. RUCO understands that no recovery of final costs will be determined  
10 in this proceeding. Final costs will be determined later after the plant is  
11 constructed and is providing service to ratepayers. The Company will  
12 then apply for step-one and two ACRM surcharges, as it has in the past,  
13 to recover its capital and O&M costs associated with the plant. As I stated  
14 in my direct testimony, RUCO will take part in the review of the Company's  
15 Tubac Water District ACRM filings as it has reviewed all of the prior ACRM  
16 filings resulting from rate cases that RUCO has intervened in.

17

18 **PARADISE VALLEY PUBLIC SAFETY SURCHARGE**

19 Q. What is the Company's rebuttal position on fire flow improvements in  
20 Paradise Valley?

21 A. Company witness Broderick has testified that Arizona-American is  
22 withdrawing its request to re-establish the Paradise Valley Water District

1 Public Safety Surcharge to fund its remaining discretionary fire-flow  
2 projects. Mr. Broderick stated that the proceeds from the existing High  
3 Block Usage Surcharge, which are being treated as CIAC, will be  
4 adequate to recover the costs associated with both the initial fire flow  
5 study that the Company conducted in the early stages of the project, and  
6 the costs associated with the suspended Phase 3b fire flow project. Mr.  
7 Broderick is proposing that the High Block usage Surcharge be eliminated  
8 at the conclusion of this case and that the Public Safety Surcharge remain  
9 at zero.

10  
11 Q. Is RUCO still recommending that the Commission adopt its recommended  
12 monthly public safety surcharge?

13 A. No. On Friday, February 20, 2009, RUCO's Director, RUCO's Chief Legal  
14 Counsel and I met with the Mayor of the Town of Paradise Valley, the  
15 Town Attorney, the Town Manager, a member of the Town Council, and a  
16 Paradise Valley resident, who is serving on the citizen's advisory  
17 committee on fire flow issues, to discuss this matter. During the meeting,  
18 the representatives from the Town of Paradise Valley expressed their  
19 desire to suspend any remaining fire flow improvement projects. As a  
20 result of this meeting, RUCO is withdrawing its recommended monthly  
21 public safety surcharge and is recommending that the Commission adopt  
22 the Company's request to eliminate the High Block Usage Surcharge at

1           the conclusion of this case and to leave the Public Safety Surcharge set at  
2           zero.

3

4           **PARADISE VALLEY SYSTEM BENEFITS SURCHARGE**

5           Q.     Does RUCO still support the Company-proposed Paradise Valley System  
6           Benefits Surcharge?

7           A.     Yes. As I stated in my direct testimony on policy issues, RUCO is aware  
8           of landscape conversion programs and other types of public awareness  
9           programs that could be funded by the Company-proposed surcharge and  
10          believes that both the Company and ratepayers can derive benefits from  
11          these types of programs. For this reason RUCO continues to recommend  
12          that the Commission adopt the Company-requested Paradise Valley  
13          System Benefits Surcharge.

14

15          **PARADISE VALLEY CAP SURCHARGE MODIFICATIONS**

16          Q.     Is RUCO recommending any changes to the existing Paradise Valley CAP  
17          Surcharge?

18          A.     No.

19

20

21

22

1 **WISHING WELL WASTEWATER TREATMENT FACILITY**

2 Q. Has RUCO changed its position on including the Wishing Well  
3 Wastewater Treatment Facility in rate base?

4 A. No. Based on RUCO's analysis of the facility and on data responses to  
5 the ACC Staff engineer assigned to the case, RUCO believes that the  
6 facility is overbuilt and that fifty percent of it is excess capacity.  
7 Consequently, RUCO continues to recommend that only fifty percent of  
8 the costs associated with Wishing Well Wastewater Treatment Facility  
9 should be given rate base treatment.

10  
11 Q. Does RUCO still recommend that the Company be permitted to recover  
12 the remaining fifty percent in a future rate case proceeding?

13 A. Yes. RUCO continues to recommend that Arizona-American be  
14 permitted to book any unrecovered costs, such as depreciation expense,  
15 in a deferral account that would allow the Company to recover the costs in  
16 a future rate case proceeding when the Wishing Well Wastewater  
17 Treatment Facility is being fully utilized to provide service to ratepayers.

18  
19  
20  
21  
22

1 **TANK MAINTENANCE**

2 Q. Has the Company made changes to its request for a tank maintenance  
3 program?

4 A. Yes. The Company has revised its request for a tank maintenance  
5 program and has updated its cost estimates.

6  
7 Q. Does RUCO support the Company's revised request for a tank  
8 maintenance reserve?

9 A. Yes. RUCO witness Moore has updated his operating expense  
10 recommendations to reflect the Company-proposed changes. RUCO  
11 continues to believe that ratepayers will benefit from regular preventive  
12 maintenance and upkeep on large plant assets such as water tanks and  
13 that any imprudent or unreasonable expenditure incurred by the Company  
14 in connection with the program can be addressed in future rate cases in  
15 order to insure that ratepayers are not being overcharged for work that is  
16 not needed.

17

18 **FUEL AND POWER SUPPLY ADJUSTMENT MECHANISM**

19 Q. Is the Company still seeking a fuel and power supply adjustment  
20 mechanism?

21 A. Yes.

22

1 Q. Has RUCO changed its position on the Company's request for a fuel and  
2 power supply adjustment mechanism?

3 A. No. For all of the reasons presented in my direct testimony on policy  
4 issues, RUCO continues to recommend that the Commission reject the  
5 Company's request for a fuel and power supply adjustor mechanism.  
6

7 Q. Does your silence on any of the issues, matters or findings addressed in  
8 the rebuttal testimony of any of the witnesses for Arizona-American  
9 constitute your acceptance of their positions on such issues, matters or  
10 findings?

11 A. No, it does not.  
12

13 Q. Does this conclude your surrebuttal testimony on Arizona-American?

14 A. Yes, it does.

**ARIZONA-AMERICAN WATER COMPANY**

**DOCKET NO. W-01303A-08-0227**

**DOCKET NO. SW-01303A-08-0227**

**COST OF CAPITAL**

**SURREBUTTAL TESTIMONY**

**OF**

**WILLIAM A. RIGSBY, CRAA**

**ON BEHALF OF**

**THE**

**RESIDENTIAL UTILITY CONSUMER OFFICE**

**MARCH 3, 2009**

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CAPITAL STRUCTURE ..... 3  
COST OF DEBT..... 4  
COST OF EQUITY CAPITAL..... 4

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 testimony is to respond to Arizona-American Water  
9 Company Inc.'s ("Arizona-American" 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 debt and cost of common  
12 equity) for seven of the Company's water and wastewater operations in  
13 the state of Arizona.

14

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

16 A. Yes, on January 9, 2009, I filed direct testimony with the Arizona  
17 Corporation Commission ("ACC" or "Commission") on both the policy  
18 issues and the cost of capital issues associated with this case.

19

20 Q. How is your surrebuttal testimony on cost of capital organized?

21 A. My surrebuttal testimony contains five parts: the introduction that I have  
22 just presented; a summary of Arizona-American's rebuttal testimony; a

1 section on capital structure; a section on the cost of debt; and, a section  
2 on the cost of equity capital.

3  
4 **SUMMARY OF ARIZONA-AMERICAN'S REBUTTAL TESTIMONY**

5 Q. Have you reviewed Arizona-American's rebuttal testimony?

6 A. Yes. I have reviewed the rebuttal testimony, filed on February 10, 2009,  
7 of Company witnesses Thomas M. Broderick and Bente Villadsen, Ph.D.  
8 Both Mr. Broderick and Dr. Villadsen address the cost of capital issues in  
9 this case.

10  
11 Q. Please summarize Mr. Broderick's rebuttal testimony.

12 A. Mr. Broderick's rebuttal testimony argues that short-term debt should be  
13 excluded from Arizona-American's capital structure. He also presents  
14 information regarding the stated rate of interest on a recent debt issuance  
15 for a Texas-American subsidiary.

16  
17 Q. Please summarize Dr. Villadsen's rebuttal testimony.

18 A. Dr. Villadsen's rebuttal testimony explains why my cost of equity figure  
19 should not be adopted by the Commission. Dr. Villadsen is critical of both  
20 my discounted cash flow ("DCF") method and CAPM or, as Dr. Villadsen  
21 refers to it, the "risk positioning method," analyses that I conducted in  
22 order to arrive at my recommended cost of common equity for Arizona-  
23 American in this case. Dr. Villadsen takes issue with certain assumptions

1 that I have incorporated into my DCF model, my reliance on a geometric  
2 mean, and the various inputs used in my CAPM model. Dr. Villadsen  
3 further believes that my cost of equity figure does not take into account the  
4 recent debt issuance for a Texas-American subsidiary noted above.

5  
6 **CAPITAL STRUCTURE**

7 Q. What capital structures are the parties to the case presently  
8 recommending?

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

10  
11

	<u>Company</u>	<u>ACC Staff</u>	<u>RUCO</u>
12 Short-Term Debt		10.98%	
13 Long-Term Debt	53.25%	47.70%	55.20%
14 Equity	46.75%	41.62%	44.80%

15

16 RUCO has not made any changes to its recommended blanket capital  
17 structure which was based on the Company's response to ACC Staff data  
18 request PMC 15.1 dated October 10, 2008.

19  
20  
21  
22  
23

1 **COST OF DEBT**

2 Q. Please compare the costs of debt being recommended by the parties to  
3 the case.

4 A. With regard to the cost of short-term debt, Mr. Parcell is recommending a  
5 cost of 5.367 percent. The parties to the case are presently  
6 recommending the following costs of long-term debt:

7

8	Arizona-American	5.468%
9	ACC Staff	5.463%
10	RUCO	5.460%

11

12 **COST OF EQUITY CAPITAL**

13 Q. What costs of equity capital are the parties to the case recommending?

14 A. The costs of common equity presently being recommended by the parties  
15 to the case are as follows:

16

17	Arizona-American	11.75%
18	ACC Staff	10.00%
19	RUCO	8.88%

20

21

22 ...

23

1 Q. What are the weighted costs of capital presently recommended by the  
2 parties to the case?

3 A. The weighted costs of capital presently recommended by the parties to the  
4 case are as follows:

5

6	Arizona-American	8.40%
7	ACC Staff	7.34%
8	RUCO	7.00%

9

10 As can be seen above, there is presently a 140 basis point difference  
11 between the Company-proposed 8.40 percent weighted cost of capital and  
12 RUCO's recommended weighted cost of capital of 7.00 percent. RUCO  
13 and ACC Staff's recommended weighted costs of capital fall within 34  
14 basis points of each other.

15

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

17 A. Yes. On January 28, 2009, the Federal Reserve decided not to increase  
18 or decrease the federal funds rate and kept it between zero and 0.25  
19 percent. According to an Associated Press article<sup>1</sup> that appeared on  
20 MSNBC.com, the Fed's action was based on some recent weakening of  
21 the economy. According to the Fed's statement that was released after

---

<sup>1</sup> Associated Press, "Fed, citing weak economy, holds rates fast," MSNBC.com, January 28, 2009

1 the decision was made to sit still on rates, all but one of the members of  
2 the Federal Open Market Committee believed the deteriorating condition  
3 of the U.S. economy warranted that no change be made in the key interest  
4 rate. The Fed also stated that it intended to keep the federal funds rate  
5 low for quite "some time."

6  
7 Q. Have you made any changes to the 8.88 percent cost of common equity  
8 that you recommended in your direct testimony?

9 A. No.

10  
11 Q. Has Dr. Villadsen made any changes to her recommended 11.75 percent  
12 cost of equity capital based on this new information?

13 A. No. Dr. Villadsen continues to advocate the same 11.75 percent return on  
14 common equity based on market information that was available at the time  
15 of her original filing in May 2008. Her 11.75 percent estimate was derived  
16 from the same after tax weighted average cost of capital ("ATWACC")  
17 method that has been rejected by the Commission in every Arizona-  
18 American rate case proceeding that the Brattle Group has testified in.

19  
20  
21  
22 ...  
23

1 Q. Please address Dr. Villadsen's argument that your recommended cost of  
2 equity is too low given the fact that Arizona-American's lending subsidiary  
3 recently issued debt for a Texas-American subsidiary with an interest rate  
4 of 10.00 percent.

5 A. I disagree that a single debt issuance at a particular point in time should  
6 be the sole reason for increasing my recommended cost of equity.  
7 Particularly at a time when Value Line has taken the position that water  
8 utility stocks are attractive to investors given the current economic climate.  
9 In the most recent Value Line update on the water utility industry, dated  
10 January 23, 2009, Value Line analyst Andre J. Costanza had this to say:

11 "Not much has changed in the Water Utility Industry since our  
12 October report. Stocks here have held their ground for the most  
13 part, whereas the broader market continued to struggle with  
14 ongoing economic uncertainty. Although an improving regulatory  
15 environment has played a hand, the industry is really benefiting  
16 from the its perceived safety, stemming from the necessity of water  
17 itself as well as the steady stream of income that the stocks here  
18 generate. The group as a whole ranks near the top of the Value  
19 Line Investment Survey for Timeliness and should continue to do  
20 well over the next six to 12 months, as investors look for a place to  
21 ride out the economic turbulence that is likely to persist."  
22  
23

24 Mr. Costanza further stated:

25 "Now more than ever we believe that initiating a position in the  
26 Water Utility industry may be prudent. Although the 3- to 5-year  
27 prospects of these stocks pale in comparison to the *Value Line*  
28 median, projections for many outside the industry are counting on  
29 an economic recovery. However, there is no turnaround in sight and  
30 a timeline for such a scenario continues to elude Wall Street. That  
31 said, water utility stocks are likely to continue to do well regardless  
32 of the economic backdrop because water is and will always be a  
33 necessity. Even still, it is important to remember that the individual  
34 reports of each stock should be carefully reviewed before making a  
35 financial commitment. On that note, however, we believe that  
36 *California Water Services* is an interesting candidate, given its  
37 Above Average (2) ranking for Timeliness. *American Water Works*

1 continues to intrigue us, too, but its short trading history makes it a  
2 speculative play. Meanwhile, *Aqua America's* M&A strategy gives it  
3 the most upside in our opinion, despite adding more risk."  
4

5 Despite the fact that Arizona-American's parent, American Water Works,  
6 is viewed as speculative, it is still one of several water utilities that Mr.  
7 Costanza considers to be a good choice for investor's portfolios in  
8 uncertain economic times. Based on this information, I would say that no  
9 upward adjustment to my cost of equity figure is needed considering that  
10 water utility stocks are currently in demand.  
11

12 Q. Are there other reasons you can cite as to why you think that a higher  
13 return is not needed to attract investors?

14 A. Yes. One has to take into consideration that the investment community at  
15 large is well aware of the fact that regulated utilities, such as Arizona-  
16 American, are indeed different from non-regulated entities in terms of how  
17 they recover their costs. This information is taken into account when  
18 institutions and individual investors make their decisions on where to place  
19 their funds. The best example of this can be seen in an MSN  
20 Money/CNBC article<sup>2</sup> authored by Jon D. Markman, a weekly columnist for  
21 CNBC (Attachment A). In his article, Mr. Markman pitched his suggestions  
22 for investing in what some believe to be a coming global water shortage.  
23 In regard to domestic utilities, Markman had this to say:

---

<sup>2</sup> Markman, Jon D, "Invest in the Coming Global Water Shortage," MSN.com, January 12, 2005,  
<http://moneycentral.msn.com/content/P102152.asp>.

1  
2 "Virtually all of the U.S. water utility stocks are regulated by states  
3 and counties, which makes them pretty dull. Governmental entities  
4 typically give utilities a monopoly in a geographic region, then set  
5 their profit margin a smidge above costs. Just about the only  
6 distinguishing factor among them are the growth rates of their  
7 regions and their ability to efficiently manage their underground pipe  
8 and pumping infrastructure."  
9  
10

11 Q. Please address Dr. Villadsen's position that you have failed to make a 50  
12 basis point upward adjustment to your recommended cost of equity as you  
13 have in prior cases.

14 A. It is true that I have not made either a direct upward adjustment to my  
15 recommended cost of common equity or recommend a hypothetical  
16 capital structure to provide the Company with a higher weighted average  
17 cost of common equity. In prior Arizona-American cases before the  
18 Commission I have stated that I believed that a good argument could be  
19 made not to make such adjustments since regulated utilities have the  
20 ability to file for rate increases as opposed to competitive firms that have  
21 no such option. It is also no secret that the Commission has recently  
22 signaled that the use of methods such as hypothetical capital structures  
23 should not be prolonged if utilities make no progress toward improving  
24 their levels of equity. Quite frankly, I believe that, given the fact that water  
25 utilities are actually attractive in the current economic climate, ratepayers  
26 should not have to subsidize utilities through equity risk adjustments or  
27 hypothetical capital structures. In short, if Arizona-American wants higher

1 rates of return, it should start trying to improve the level of equity in its  
2 capital structure by issuing less debt.

3

4 Q. Do you accept the modifications that Dr. Villadsen has made to the DCF  
5 results that you presented in your direct testimony?

6 A. No.

7

8 Q. Please respond to Dr. Villadsen's criticism that your DCF estimates of  
9 external growth are also biased downward.

10 A. Dr. Villadsen has taken issue with my calculation of "v" for the external  
11 growth rate estimate portion of the DCF's growth component. This  
12 calculation takes into consideration the fact that, while in theory a utility's  
13 stock price should move toward a market to book ratio of 1.0 if regulators  
14 authorize a rate of return that is equal to a utility's cost of capital, in reality  
15 a utility will continue to issue shares of stock that are priced above book  
16 value.

17 As I explained on page 16 of my direct testimony, this same assumption  
18 was incorporated into the DCF analysis performed by Mr. Stephen Hill,  
19 ACC Staff's cost of cost of capital witness, in a prior Southwest Gas rate  
20 case proceeding. Mr. Hill used the same methods that I have used in  
21 arriving at the inputs for his DCF model. His final recommendation for  
22 Southwest Gas Corporation, which was adopted by the Commission, was  
23 largely based on the results of his DCF analysis, which incorporated the

1 same valid market-to-book ratio assumption that I have used consistently  
2 in cases before the Commission.

3  
4 Q. Please discuss Dr. Villadsen's criticism of your testimony, which asserts  
5 that one of the desired effects of regulation is to achieve a market-to-book  
6 ratio of 1.0 on the common stock of an investor-owned utility.

7 A. My direct testimony sets forth the premise that the market value of a  
8 utility's stock will tend to move toward book value, or a market-to-book  
9 ratio of 1.0, if regulators allow a rate of return that is equal to the cost of  
10 capital of firms with similar risk. This premise is recognized among  
11 practitioners who have testified in cost of capital proceedings<sup>3</sup>.

12 Despite Dr. Villadsen's arguments presented on pages 31 through 34 of  
13 her rebuttal testimony, I believe that a utility's market price should equal its  
14 book price over the long run if regulators allow a rate of return that is equal  
15 to the utility's cost of capital. That is assuming that the utility's rate of  
16 return ("ROR") is comparable to the rates of return of other firms in the  
17 same risk class. I believe that a better explanation of this concept is one  
18 that I have used in the past and assumes that if a hypothetical utility's  
19 book price is \$20.00 per share and regulators adopt a rate of return that is  
20 equal to the utility's cost of capital of 10.00 percent, the utility will earn  
21 \$2.00 per share ("EPS"). With earnings of \$2.00 per share, and a market  
22 required rate of return on equity of 10.00 percent, for firms in the utility's

---

<sup>3</sup> Carleton, Willard T. and Morin, Roger A.

1 risk class, the market price of the utility's stock will set at \$20.00 per share  
2 (\$2.00 EPS ÷ 10.00% ROR = \$20.00 per share price). If the utility  
3 records earnings that are higher than the earnings of other firms with  
4 similar risk, the market value of the utility's shares will increase  
5 accordingly (\$2.50 EPS ÷ 10.00% ROR = \$25.00 per share). On the other  
6 hand, if the utility posts lower earnings, the stock's market price will fall  
7 below book value (\$1.50 EPS ÷ 10.00% ROR = \$15.00 per share).

8 Because of economic forces beyond the control of regulators, it is not  
9 reasonable to assume that the utility will have earnings that match those  
10 of firms of similar risk in every year of operation. In some years, earnings  
11 may drop causing the market-to-book ratio to fall below 1.0, while in other  
12 years the utility may have earnings that exceed those of other firms in its  
13 risk classification. However, over the long run the utility's earnings should  
14 average out to the earnings that are expected based on its level of risk.  
15 These average earnings over time will result in a market-to-book ratio of  
16 1.0. A 1.0 ratio may never be achieved in practice and many investors  
17 may not even care what the market-to-book ratio is as long as they  
18 receive their required rate of return.

19  
20 Q. Are there any other reasons why your market-to-book ratio calculation is  
21 valid?

22 A. Yes. SWWC, and for that matter each of the other utilities included in my  
23 sample, are engaged in unregulated activities to some degree. Because it

1 is difficult to obtain a sample comprised only of "pure play" utilities, the  
2 calculation that I have employed in my DCF model helps to eliminate the  
3 impact that those unregulated operating segments would have on the  
4 market-to-book ratio of the utilities included in my sample.

5  
6 Q. Do you accept the modifications that Dr. Villadsen has made to the CAPM  
7 results that you presented in your direct testimony?

8 A. No.

9  
10 Q. Please explain why Dr. Villadsen's criticism regarding the use of a  
11 geometric mean in your CAPM analysis is unfounded.

12 A. As I stated in my direct testimony there is an on-going debate as to which  
13 is the better average to rely on. However, it is important to recognize that  
14 the information on both means, published by Morningstar, is widely  
15 available to the investment community. For this reason alone I believe  
16 that the use of both means in a CAPM analysis is appropriate.

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

22

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

12  $( \text{year 1 return} + \text{year 2 return} ) \div \text{number of periods} =$

13  $( 20.0\% + -20.0\% ) \div 2 =$

14  $( 0.0\% ) \div 2 = \underline{0.0\%}$

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 )<sup>1/number of periods</sup> - 1 =  
2                                   ( \$96 ÷ \$100 )<sup>1/2</sup> - 1 =  
3   ( 0.96 )<sup>1/2</sup> - 1 =  
4   ( 0.9798 ) - 1 =  
5   -0.0202 = -2.02%

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

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

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

A. Yes. In the third edition of their book, Valuation: Measuring and Managing the Value of Companies, authors Tom Copeland, Tim Koller and Jack Murrin ("CKM") make the point that, while the arithmetic mean has been regarded as being more forward-looking in determining market risk premiums, a true market risk premium may lie somewhere between the arithmetic and geometric averages published in Morningstar's SBBI 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 current yield of a 5-year Treasury

1 instrument (Attachment B) of 1.80 percent to these two estimates indicate  
2 a cost of equity of 5.80 percent to 7.30 percent which is 308 to 158 basis  
3 points less than my recommended cost of equity of 8.88 percent. Given  
4 the fact that utilities generally exhibit less risk than industrials, a return in  
5 the low end of this range could be considered reasonable.

6  
7 Q. Can you name any other sources that support CKM's conclusion that 4.0  
8 percent to 5.5 percent is a reasonable market risk premium on a forward-  
9 looking basis?

10 A. Yes. During the 39<sup>th</sup> annual Financial Forum of the Society of Utility and  
11 Regulatory Financial Analysts, which was held at Georgetown University  
12 in Washington D.C. on April 19 and 20, 2007, I had the opportunity to hear  
13 the views of Aswarth Damodaran, Ph. D. and Felicia C. Marston, Ph. D.,  
14 professors of finance from New York University and the University of  
15 Virginia respectively, who have conducted empirical research on this  
16 subject. Dr. Damodaran and Dr. Marston supported CKM's 4.0 to 5.5  
17 percent estimates during a panel discussion that provided both professors  
18 with the opportunity to explain their research on the equity risk premium  
19 and to answer questions from other financial analysts in attendance. Each  
20 of the panelists<sup>4</sup> stated that they believed that a reasonable market risk

---

<sup>4</sup> 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 premium fell between 4.0 percent and 5.0 percent when asked to provide  
2 estimates based on their research.

3  
4 Q. If market risk premiums of 4.0 percent to 5.0 percent were used in your  
5 CAPM model what would the results be?

6 A. Using market risk premiums ( $r_m - r_f$ ) of 4.0 percent to 5.0 percent in my  
7 CAPM model, using a proxy of water companies, produces the following  
8 expected returns (k):

9  
10 Water Company Sample using 4.0 percent

11 
$$k = r_f + [ \beta (r_m - r_f) ]$$

12 
$$k = 1.50\% + [ 1.01 (4.0\%) ]$$

13 
$$k = 5.54\%$$

14  
15 Water Company Sample using 5.0 percent

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

17 
$$k = 1.50\% + [ 1.01 (5.0\%) ]$$

18 
$$k = 6.55\%$$

19  
20 As can be seen above, my CAPM model, using a water company sample  
21 average beta ( $\beta$ ) of 1.01 and the yield on a 5-year Treasury instrument of  
22 1.50 percent for the risk free rate of return ( $r_f$ ), produces an expected  
23 return (k) of 5.54 percent to 6.55 percent. My LDC sample, using an

1 average beta of 0.70, produces expected returns of 4.30 percent to 5.00  
2 percent. All of which makes my revised recommended 8.88 percent cost  
3 of common equity appear to be generous.

4  
5 Q. Are you revising your cost of equity figure based on the higher yield on the  
6 5-year Treasury yield that you noted above?

7 A. No. Despite the 30 basis point difference in the 5-year Treasury yield, the  
8 risk premiums of 5.10 percent to 6.80 percent that I am using in my CAPM  
9 exceed the 4.0 percent to 5.50 percent risk premiums that are supported  
10 by the empirical research described above. For this reason I am not  
11 making any changes to my recommended 8.88 percent cost of equity  
12 capital.

13  
14 Q. Has any of the rebuttal testimony presented by Mr. Broderick, Dr.  
15 Villadsen or any of the other witnesses for Arizona-American convinced  
16 you to make adjustments to your recommended cost of common equity?

17 A. No.

18  
19 Q. Does your silence on any of the issues or positions addressed in the  
20 rebuttal testimony of the Company's witnesses constitute acceptance?

21 A. No, it does not.

22

23

Surrebuttal Testimony of William A. Rigsby  
Arizona-American Water Company  
Docket No. W-01303A-08-0227  
Docket No. SW-01303A-08-0227

1 Q. Does this conclude your surrebuttal testimony on Arizona-American?

2 A. Yes, it does.

# **ATTACHMENT A**



**Jon Markman**

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**SuperModels**

**Invest in the coming global water shortage**

Fresh water's getting scarce, and it has no substitutes. For investors in companies that can supply our increasingly thirsty planet, that spells opportunity.

By [Jon D. Markman](#)

Ten years ago next Monday, a massive earthquake rolled under the Japanese city of Kobe at dawn, toppling 140,000 buildings, causing 300 major fires, killing more than 5,000 people and leaving 300,000 homeless.

To help cover the story for the L.A. Times, I left my wife to care for our 10-day-old daughter and 2-year-old son and flew into the city with a small team of Los Angeles-based trauma doctors and nurses. We found a surreal, smoking ruin of a city with roads twisted like coils of rope, high-rises tilted at Dr. Seuss angles and thousands of middle-class families jammed into dingy, ice-cold rooms in the few public buildings left standing.

Just as in the tsunami zone of South Asia this month, the immediate health danger, besides a possible outbreak of disease, was a lack of fresh water. More than 75% of the city's water supply was destroyed when underground pipes fractured. As much as they desired pallets of drugs, food, blankets and tents sent from throughout Japan and abroad, the Kobe survivors coveted -- and needed -- clean, bottled water for cooking, drinking and bathing.

Both incidents are a stark reminder that water is our most precious resource. Because it is seemingly ubiquitous in the United States, it is taken for granted.

Massive snowstorms in California this month have loaded up the snowpack that provides water there, and rains in the Southeast are filling reservoirs in that part of the country.

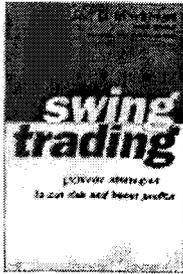
The rest of the world, however, is not so fortunate.

**Not making any more water**

There is no more fresh water on Earth today than there was a million years ago. Yet today, 6 billion people share it. Since 1950, the world population has doubled, but water use has tripled, notes John Dickerson, an analyst and fund manager based in San Diego. Unlike petroleum, he adds, no technological innovation can ever replace water.

China, which is undergoing a vast rural-to-urban population migration, is emblematic of the places where water has become scarce. It has about as much

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water as Canada but 100 times more people. Per-capita water reserves are only about a fourth the global average, according to experts. Of its 669 cities, 440 regularly suffer moderate to critical water shortages.

Although not widely appreciated, water has been recognized by conservative investors as an investment opportunity -- and it has rewarded them. Over the past 10 years, the Media General water utilities index is up 133%, double the return of the **Dow Jones Utilities Index** (\$UTIL). Over the past five years, water utilities are up 32% -- clobbering the flat returns of both the Dow Jones Utilities and the **Dow Industrials** (\$INDU). One of water's key long-term value drivers as an investment, according to Dickerson: Demand is not affected by inflation, recession, interest rates or changing tastes.

Virtually all of the U.S. water utility stocks are regulated by states and counties, which makes them pretty dull. Governmental entities typically give utilities a monopoly in a geographic region, then set their profit margin a smidge above costs. Just about the only distinguishing factor among them are the growth rates of their regions and their ability to efficiently manage their underground pipe and pumping infrastructure. Among the best are **Aqua America** (WTR, [news](#), [msgs](#)) of Philadelphia, **Southwest Water** (SWWC, [news](#), [msgs](#)) of Los Angeles; **California Water Service Group** (CWT, [news](#), [msgs](#)), based in San Jose, Calif.; and **American States Water** (AWR, [news](#), [msgs](#)) of San Dimas, Calif.

In a moment, I'll offer a couple of potentially more impactful ways to invest in water, but first let's look a little more broadly at world demand.

### Aquifers in India are being sucked dry

The tsunami has focused attention on water demand in South Asia -- and it's a good thing, as it was already reaching critical status in rural areas. Several decades ago, farmers in the Indian state of Gujarat used oxen to haul water in buckets from a few feet below the surface. Now they pump it from 1,000 feet below the surface. That may sound good, but they have been drawing water from the earth to feed a mushrooming population at such a terrific rate that ancient aquifers have been sucked dry -- turning once-fertile fields slowly into sand.

According to New Scientist magazine, farmers using crude oilfield technology in India have drilled 21 million "tube wells" into the strata beneath the fields, and every year millions more wells throughout the region -- all the way to Vietnam -- are being dug to service water-needy crops like rice and sugar cane. The magazine quoted research from the annual Stockholm Water Symposium that the pumps that transformed Indian farming are drawing 200 cubic kilometers of water to the surface each year, while only a fraction is replaced by monsoon

rains. At this rate, the research suggested, groundwater supplies in some areas will be exhausted in five to 10 years, and millions of Indians will see their farmland turned to desert.

In China, the magazine reported, 30 cubic kilometers more water is being pumped to the surface each year than is replaced by rain -- one of the reasons that the country has become dependent on grain imports from the West. This is not just an issue for agriculture. Earlier this year, the Indian state of Kerala ordered the **PepsiCo** (PEP, news, msgs) and **Coca-Cola** (KO, news, msgs) bottling plants closed due to water shortages, costing the companies millions of dollars.

In this country, shareholder activists already are lobbying companies to share water-dependency concerns worldwide with their stakeholders in their financial statements.

#### **Water, water everywhere, but . . .**

The central problem is that less than 2% of the world's ample store of water is fresh. And that amount is bombarded by industrial pollution, disease and cyclical shifts in rain patterns. Its increasing scarcity has impelled private companies and countries to attempt to lock up rights to key sources. In an [article last month](#), the Christian Science Monitor suggested that the next decade may see a cartel of water-exporting countries rivaling the Organization of Petroleum Exporting Countries for dominance in the world economy.

"Water is blue gold; it's terribly precious," Maude Barlow, chair of the Council of Canadians, told the Monitor. "Not too far in the future, we're going to see a move to surround and commodify the world's fresh water. Just as they've divvied up the world's oil, in the coming century, there's going to be a grab."

Besides the domestic water utilities listed above -- and similarly plodding foreign utilities such as **United Utilities** (UU, news, msgs) of the United Kingdom, which sports a 6.9% dividend yield, and **Suez** (SZE, news, msgs) of France -- investors interested in the sector can consider a number of variant plays. None are extremely exciting, but my guess is that, over the next few years, some more interesting purification technologies will emerge, along with, perhaps, a vibrant attempt at worldwide industry consolidation.

One current idea is Tennessee-based copper pipe and valve maker **Mueller Industries** (MLI, news, msgs), a \$1 billion business with a trailing price/earnings multiple of 15 that is still not expensive despite a 47% run-up in the past year. Its leading outside investor is **Berkshire Hathaway** (BRK.A, news, msgs), the

investment vehicle of legendary investor Warren Buffett.

Another is flow-control products maker **Watts Water**

**Technologies** (WTS, news, msgs), which is a little richer at a \$975 million market cap and a trailing P/E multiple of 19, but is still owned by several leading value managers, including Mario Gabelli.

And possibly the most interesting is **Consolidated Water** (CWCO, news, msgs), a \$160 million company based in the Cayman Islands that specializes in developing and operating ocean-water desalinization plants and water-distribution systems in areas where natural supplies of drinking water are scarce, such as the Caribbean and South America. It currently supplies water to Belize, Barbados, the British Virgin Islands and the Bahamas, and it has expansion plans. It is the most expensive, but it may also have the greatest growth prospects. Of all of these, it is up the most over the past five years, a relatively steady 355%.

Of course, there is one other benefit to water investing: When these companies say they're going to do a dilutive deal, it's not something to worry about.

#### Fine Print

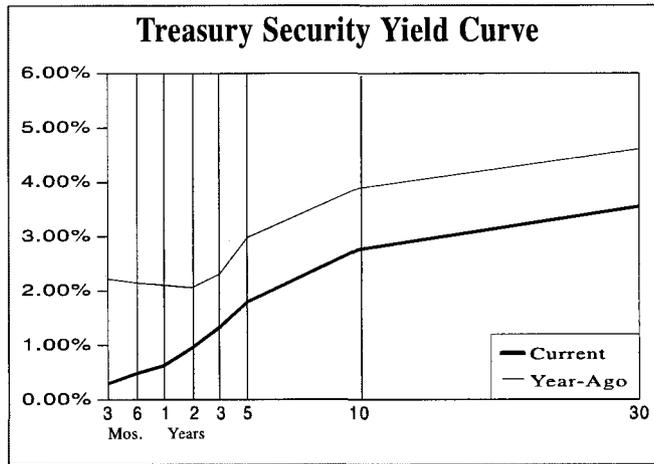
Dickerson runs a hedge fund in San Diego strictly focused on water investing, the Summit Water Equity Fund. . . To learn more about Southwest Water, [click here](#). . . . To learn more about California Water Service Group, which runs systems in New Mexico, Hawaii and Washington State, as well as California, [click here](#). . . . To learn more about American States Water, [click here](#). . . To learn more about Mueller, [click here](#), and, for Consolidated Water, [click here](#). . . Seems like talk is cheap. Since mid-December, the value of the company radio personality Howard Stern is leaving, **Viacom** (VIA.B, news, msgs), has risen 9% while the value of the company he's headed to, **Sirius Satellite Radio** (SIRI, news, msgs), is down 13.5%. . . . For background on the Kobe earthquake, approaching its 10th anniversary, [click here](#) and [here](#).

*Jon D. Markman is publisher of [StockTactics Advisor](#), an independent weekly investment newsletter, as well as senior strategist and portfolio manager at Pinnacle Investment Advisors. While he cannot provide personalized investment advice or recommendations, he welcomes column critiques and comments at [jon.markman@gmail.com](mailto:jon.markman@gmail.com); put COMMENT in the subject line. At the time of publication he held positions in the following stocks mentioned in this column: Coca-Cola.*

**ATTACHMENT B**

## Selected Yields

	Recent (2/18/09)	3 Months Ago (11/19/08)	Year Ago (2/20/08)		Recent (2/18/09)	3 Months Ago (11/19/08)	Year Ago (2/20/08)
<b>TAXABLE</b>							
<b>Market Rates</b>				<b>Mortgage-Backed Securities</b>			
Discount Rate	0.50	1.25	3.50	GNMA 6.5%	4.05	5.82	5.10
Federal Funds	0.00-0.25	1.00	3.00	FHLMC 6.5% (Gold)	3.92	5.73	5.31
Prime Rate	3.25	4.00	6.00	FNMA 6.5%	3.78	5.67	5.09
30-day CP (A1/P1)	0.52	2.60	3.05	FNMA ARM	3.90	3.90	5.19
3-month LIBOR	1.25	2.17	3.08	<b>Corporate Bonds</b>			
<b>Bank CDs</b>				Financial (10-year) A	8.33	8.73	5.82
6-month	0.87	1.59	2.20	Industrial (25/30-year) A	6.14	7.23	6.29
1-year	1.20	1.95	2.19	Utility (25/30-year) A	5.74	7.34	6.15
5-year	2.14	3.32	2.82	Utility (25/30-year) Baa/BBB	7.07	8.20	6.33
<b>U.S. Treasury Securities</b>				<b>Foreign Bonds (10-Year)</b>			
3-month	0.30	0.06	2.22	Canada	2.86	3.51	3.93
6-month	0.48	0.65	2.15	Germany	2.99	3.54	4.03
1-year	0.63	0.97	2.11	Japan	1.26	1.48	1.43
5-year	1.80	2.02	2.98	United Kingdom	3.39	4.04	4.69
10-year	2.76	3.32	3.89	<b>Preferred Stocks</b>			
10-year (inflation-protected)	1.61	3.51	1.41	Utility A	6.03	7.10	6.08
30-year	3.55	3.91	4.61	Financial A	13.57	7.94	7.00
30-year Zero	3.43	3.92	4.76	Financial Adjustable A	5.52	5.52	5.52



<b>TAX-EXEMPT</b>							
<b>Bond Buyer Indexes</b>							
20-Bond Index (GOs)	4.89	5.14	4.47				
25-Bond Index (Revs)	5.67	5.98	4.82				
<b>General Obligation Bonds (GOs)</b>							
1-year Aaa	0.55	1.10	1.70				
1-year A	0.65	1.20	1.80				
5-year Aaa	1.85	2.84	2.80				
5-year A	2.15	2.94	3.10				
10-year Aaa	2.90	3.83	3.55				
10-year A	3.40	4.03	3.84				
25/30-year Aaa	4.72	5.20	4.64				
25/30-year A	5.72	5.60	4.77				
<b>Revenue Bonds (Revs) (25/30-Year)</b>							
Education AA	5.80	5.85	4.80				
Electric AA	5.90	5.90	4.80				
Housing AA	6.15	6.00	5.10				
Hospital AA	6.10	6.10	5.15				
Toll Road Aaa	5.95	5.95	4.80				

## Federal Reserve Data

<b>BANK RESERVES</b>							
<i>(Two-Week Period; in Millions, Not Seasonally Adjusted)</i>							
	Recent Levels			Average Levels Over the Last...			
	2/11/09	1/28/09	Change	12 Wks.	26 Wks.	52 Wks.	
Excess Reserves	611390	793044	-181654	716470	419399	218520	
Borrowed Reserves	561332	565099	-3767	627457	505338	324816	
Net Free/Borrowed Reserves	50058	227945	-177887	89012	-85939	-106296	

<b>MONEY SUPPLY</b>							
<i>(One-Week Period; in Billions, Seasonally Adjusted)</i>							
	Recent Levels			Growth Rates Over the Last...			
	2/2/09	1/26/09	Change	3 Mos.	6 Mos.	12 Mos.	
M1 (Currency+demand deposits)	1568.0	1548.2	19.8	11.6%	23.3%	13.6%	
M2 (M1+savings+small time deposits)	8249.6	8277.4	-27.8	17.6%	14.8%	9.6%	

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**ARIZONA-AMERICAN WATER COMPANY**

**DOCKET NO. W-01303A-08-0227**

**DOCKET NO. SW-01303A-08-0227**

**SURREBUTTAL TESTIMONY**

**OF**

**TIMOTHY J. COLEY**

**ON BEHALF OF**

**THE**

**RESIDENTIAL UTILITY CONSUMER OFFICE**

**MARCH 3, 2009**

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1 **INTRODUCTION**

2 Q. Please state your name for the record.

3 A. My name is Timothy J. Coley.

4

5 Q. Have you previously filed testimony regarding this docket?

6 A. Yes, I have. I filed direct testimony in this docket on January 9, 2009.

7

8 Q. What is the purpose of your surrebuttal testimony?

9 A. My surrebuttal testimony will address the Company's rebuttal comments  
10 pertaining to adjustments I recommended in my direct testimony.

11

12 **SUMMARY OF ADJUSTMENTS**

13 Q. What areas will you address in your surrebuttal testimony?

14 A. My surrebuttal testimony will address RUCO's recommended rate base  
15 adjustments for the following Arizona-American ("Company") water and  
16 wastewater districts:

17 AGUA FRIA WATER DISTRICT

- 18 1. Surrebuttal Adjustment No. 1 – Post Test Year Plant;  
19 2. Revised Direct Adjustment No. 1 – Accumulated Depreciation;  
20 3. Revised Direct Adjustment No. 2 – Contributions In Aid of  
21 Construction ("CIAC") Associated with Construction Work In  
22 Progress ("CWIP");

- 1           4.     Revised Direct Adjustment No. 3 – Accumulated Amortization of
- 2                     CIAC;
- 3           5.     Revised Direct Adjustment No. 4 – Utility Plant In Service (“UPIS”);
- 4           6.     Revised Direct Adjustment No. 5 – Deferred Debits;
- 5           7.     Revised Direct Adjustment No. 6 – Working Capital;
- 6           8.     Revised Direct Adjustment No. 7 – White Tanks CWIP;
- 7           9.     Rate Design and Proof of Recommended Revenue; and
- 8           10.    Typical Residential Bill Analysis.

9

10           HAVASU WATER DISTRICT

- 11           1.    Surrebuttal Adjustment No. 1 – Remove and Transfer Gateway Plant;
- 12           2.    Revised Direct Adjustment No. 1 – Accumulated Depreciation;
- 13           3.    Revised Direct Adjustment No. 2 – CIAC Associated with CWIP;
- 14           4.    Revised Direct Adjustment No. 3 – Not Used;
- 15           5.    Revised Direct Adjustment No. 5 – Deferred Debits;
- 16           6.    Revised Direct Adjustment No. 6 – Working Capital;
- 17           7.    Rate Design and Proof of Recommended Revenue; and
- 18           8.    Typical Residential Bill Analysis.

19

20           MOHAVE WASTEWATER DISTRICT

- 21           1.    Surrebuttal Adjustment No. 1 – Transfer and Add Gateway Plant;
- 22           2.    Revised Direct Adjustment No. 1 – Accumulated Depreciation;
- 23           3.    Revised Direct Adjustment No. 2 – CIAC Associated with CWIP;

- 1           4. Revised Direct Adjustment No. 3 – Not Used;
- 2           5. Revised Direct Adjustment No. 4 – Remove 50% of Wishing Well
- 3           Treatment Plant;
- 4           6. Revised Direct Adjustment No. 5 – Deferred Debits;
- 5           7. Revised Direct Adjustment No. 6 – Working Capital;
- 6           8. Rate Design and Proof of Recommended Revenue; and
- 7           9. Typical Residential Bill Analysis.

8

9           MOHAVE WATER DISTRICT

- 10          1. Surrebuttal Adjustment No. 1 – Transfer and Add Gateway Plant;
- 11          2. Surrebuttal Adjustment No. 2 – Big Bend Reservoir Actual Cost;
- 12          3. Revised Direct Adjustment No. 1 – Accumulated Depreciation;
- 13          4. Revised Direct Adjustment No. 2 – CIAC and Advances In Aid of
- 14          Construction (“AIAC”) Associated with CWIP;
- 15          5. Revised Direct Adjustment No. 3 – Accumulated Amortization of CIAC;
- 16          6. Revised Direct Adjustment No. 4 –Not Used;
- 17          7. Revised Direct Adjustment No. 5 – Deferred Debits;
- 18          8. Revised Direct Adjustment No. 6 – Working Capital;
- 19          9. Rate Design and Proof of Recommended Revenue; and
- 20          10. Typical Residential Bill Analysis.

1            PARADISE VALLEY WATER DISTRICT

- 2            1. Surrebuttal Adjustment No. 1 – Pump Retirement;
- 3            2. Revised Direct Adjustment No. 1 – Accumulated Depreciation;
- 4            3. Revised Direct Adjustment No. 2 – CIAC Associated with CWIP;
- 5            4. Revised Direct Adjustment No. 3 – Post Test Year Plant;
- 6            5. Revised Direct Adjustment No. 4 – Accumulated Depreciation;
- 7            6. Revised Direct Adjustment No. 5 – Post Test Year Plant;
- 8            7. Revised Direct Adjustment No. 6 – Deferred Debits;
- 9            8. Revised Direct Adjustment No. 7 – Working Capital;
- 10          9. Rate Design and Proof of Recommended Revenue; and
- 11          10. Typical Residential Bill Analysis.

12

13           SUN CITY WEST WATER DISTRICT

- 14          1. Revised Direct Adjustment No. 1 – Accumulated Depreciation;
- 15          2. Revised Direct Adjustment No. 2 – CIAC Associated with CWIP;
- 16          3. Revised Direct Adjustment No. 3 – Post Test Year Plant;
- 17          4. Revised Direct Adjustment No. 4 – Utility Plant In Service (“UPIS”);
- 18          5. Revised Direct Adjustment No. 5 – Deferred Debits;
- 19          6. Revised Direct Adjustment No. 6 – Working Capital;
- 20          7. Rate Design and Proof of Recommended Revenue; and
- 21          8. Typical Residential Bill Analysis.
- 22
- 23

1            TUBAC WATER DISTRICT

- 2            1. Revised Direct Adjustment No. 1 – Accumulated Depreciation;  
3            2. Revised Direct Adjustment No. 2 – AIAC Associated with CWIP;  
4            3. Revised Direct Adjustment No. 3 – Not Used;  
5            4. Revised Direct Adjustment No. 4 – Not Used;  
6            5. Revised Direct Adjustment No. 5 – Deferred Debits;  
7            6. Revised Direct Adjustment No. 6 – Working Capital;  
8            7. Rate Design and Proof of Recommended Revenue; and  
9            8. Typical Residential Bill Analysis.

10  
11            To support the adjustments in my surrebuttal testimony, I am presenting  
12            Surrebuttal Schedules numbered SURR RLM-1, pages 1 and 2, SURR  
13            RLM-2A, SURR RLM-2, SURR RLM-6 through SURR RLM-9, SURR  
14            RLM-13, Rate Design Surrebuttal Schedules SURR RLM-RD1 and RLM-  
15            RD2, which are filed concurrently in my surrebuttal testimony.

16  
17            **ORIGINAL COST RATE BASE (“OCRB”) ADJUSTMENTS**

18            RUCO Surrebuttal OCRB Adjustment No. 1 – The Purpose of This  
19            Adjustment Varies Depending to Which District It Applies

20            NOTE: THIS ADJUSTMENT AFFECTS ONLY AGUA FRIA, HAVASU,  
21            MOHAVE, AND PARADISE VALLEY WATER DISTRICTS AND MOHAVE  
22            WASTEWATER DISTRICT.

1 Q. Please explain your surrebuttal rate base adjustment #1 to the Agua Fria  
2 Water District.

3 A. As shown on Schedule SURR RLM-2, this is a conforming adjustment,  
4 which accepts the Company's realization of actual costs incurred for the  
5 construction of the Sierra Montana 2.2 MG Reservoir from an earlier  
6 estimated amount. This adjustment reduces UPIS by \$252,470.

7  
8 Q. Please explain your surrebuttal rate base adjustment #1 to the Havasu  
9 Water District.

10 A. This is a conforming adjustment the Company proposed in its rebuttal  
11 testimony. It moves the water and wastewater plant associated with the  
12 Gateway facilities from Havasu to the Mohave Water and Wastewater  
13 Districts. Gateway is geographically located half way between the Havasu  
14 District and the Mohave Districts. The plant was recorded on the books of  
15 Havasu but is in the Certificate of Convenience & Necessity ("CC&N") with  
16 the Commission as belonging to the Mohave Water and Wastewater  
17 Districts.

18  
19 Q. What adjustment is necessary to move the Havasu plant to its proper  
20 CC&N area of the Mohave Water and Wastewater Districts?

21 A. It is necessary to reduce Havasu's UPIS by \$816,311. A companion  
22 adjustment to reduce the associated accumulated depreciation balance by

1           \$14,000 is also necessary. These adjustments are shown on Surrebuttal  
2           Schedule RLM-2.

3

4   Q.    Please explain your surrebuttal rate base adjustment #1 to the Mohave  
5           Wastewater District.

6   A.    This adjustment is the flip side of the Gateway plant discussed above for  
7           the Havasu Water District. Rather than removing UPIS, it is necessary to  
8           add plant to both the Mohave Water and Wastewater Districts accordingly.

9

10   Q.    What adjustment does RUCO make to Mohave Wastewater to properly  
11           book the Gateway plant assets in its CC&N?

12   A.    It is necessary to increase the Mohave Wastewater District's UPIS by  
13           \$94,978. A companion adjustment to increase the associated  
14           accumulated depreciation balance by \$7,621 is also necessary. These  
15           adjustments are shown on Surrebuttal Schedule RLM-2.

16

17   Q.    What adjustment did RUCO make to the Mohave Water District to account  
18           for the Gateway plant assets and accumulated depreciation?

19   A.    RUCO increased both Mohave Water's UPIS and accumulated  
20           depreciation by \$721,333 and \$45,790 respectively. This adjustment  
21           completes the transfer of the Gateway plant assets from Havasu to the  
22           proper CC&N(s). These adjustments are shown on Surrebuttal Schedule  
23           RLM-2.

1 Q. Please explain your surrebuttal rate base adjustment #1 to the Paradise  
2 Valley Water District.

3 A. This is a conforming adjustment, which accepts the Company's proposal,  
4 to properly book retirements to Paradise Valley rather than the Sun City  
5 and Sun City West Water Districts. These retirements resulted from the  
6 Company building new arsenic treatment plant in Paradise Valley for  
7 which tanks and pumps were retired in the process.

8  
9 Q. What adjustment does RUCO make to account for the retirements of the  
10 tanks and pumps?

11 A. RUCO reduced both UPIS and accumulated depreciation by \$180,916  
12 and \$120,802. These adjustments are shown on Surrebuttal Schedule  
13 RLM-2.

14  
15 RUCO Surrebuttal OCRB Adjustment No. 2 – Big Bend Acres Reservoir

16 NOTE: THIS ADJUSTMENT AFFECTS ONLY MOHAVE WATER  
17 DISTRICT.

18 Q. Please explain your surrebuttal rate base adjustment #2 to the Mohave  
19 Water District.

20 A. This adjustment updates the estimated post test year plant cost to actual  
21 costs. The costs are associated with the construction of the 0.25 MG Big  
22 Bend Acres Reservoir.

23

1 Q. What adjustment did RUCO make to update the estimated cost to actual  
2 costs?

3 A. RUCO increased Mohave Water's UPIS by \$32,395. This adjustment is  
4 shown on Surrebuttal Schedule RLM-2.

5

6 RUCO Direct OCRB Adjustment No. 1 – Accumulated Depreciation

7 NOTE: THIS ADJUSTMENT AFFECTS ALL DISTRICTS.

8 Q. Did the Company accept RUCO's OCRB adjustment #1 to accumulated  
9 depreciation for all the Company's districts?

10 A. No.

11

12 Q. On what grounds did the Company reject RUCO's adjustment to  
13 accumulated depreciation?

14 A. The Company gave the following reasons as follows:

15 RUCO inappropriately recomputed depreciation expense for  
16 all districts claiming that the only acceptable methods of  
17 depreciation are mid-year or mid-month. RUCO is incorrect.  
18 Arizona-American changed from the mid-year method to the  
19 end of the month method as of January 2003. The  
20 Company's depreciation methodology is accepted by our  
21 outside auditors and complies with all Sarbanes-Oxley  
22 requirements. All three methods give the same results over  
23 the life of the asset...RUCO would improperly substitute a  
24 fictional depreciation expense.  
25

26 Q. Does RUCO agree with the Company's assertion regarding the  
27 accumulated depreciation adjustment?

28 A. Yes and no.

1 Q. Please explain to which part of the Company's claim above that RUCO  
2 agrees with and to which part of the Company's assertion that it does not  
3 agree with?

4 A. RUCO stated in its direct testimony that "RUCO's opinion regarding  
5 Generally Accepted Accounting Principles ("GAAP") does not recognize a  
6 full-month depreciation methodology as being an accepted depreciation  
7 convention method." After RUCO further researched the subject, a full  
8 month depreciation expense for plant additions, adjustments, and  
9 retirements is an acceptable depreciation method recognized by GAAP  
10 "so long as the method is applied *consistently*."<sup>1</sup> However, the Company  
11 has failed to be consistent in its depreciation methodology, as GAAP  
12 requires.

13  
14 Q. Why does RUCO claim that the Company has failed to be consistent in its  
15 use of a depreciation methodology as required by GAAP?

16 A. In the Company's last mega-case (Commission Decision 67093 dated  
17 June 30, 2004), the Commission authorized the following in its statement:

18 Arizona-American already employs a half month convention,  
19 whereby a plant item is treated as being placed in service on  
20 the 15<sup>th</sup> of the month it becomes operational. (Exh. A-21 at  
21 7). The Company agrees with RUCO that a half-year  
22 convention should be utilized absent a reason to depart from  
23 the usual methodology, but asserts that its use would be  
24 improper here. The Company contends that there is no  
25 reason to be less accurate than the Company's system  
26 allows for...

---

<sup>1</sup> John Wiley & Sons, Inc., Intermediate Accounting, D. Kieso, J. Weygandt, T. Warfield, 2001, page 559.

1 Q. Isn't RUCO utilizing the same depreciation methodology that the Company  
2 asserted in Decision No. 67093?

3 A. Yes.

4  
5 Q. Should an entity seek authorization and permission from its regulatory  
6 body or federal agency before changing its depreciation method?

7 A. Yes. Changing depreciation methods can increase or decrease rates for  
8 ratepayers in this instance. It also has an impact on taxable income filed  
9 with the Internal Revenue Service ("IRS"). The IRS requires an entity to  
10 seek written permission prior to changing its depreciation methodology  
11 when filing its income taxes. RUCO is of the opinion that the Company  
12 should have been required to do the same with the Commission through  
13 an accounting order etc. because it must be consistent with the method  
14 utilized over time.

15  
16 Q. What is RUCO's overall net accumulated depreciation adjustment for the  
17 seven systems filed by the Company in this case?

18 A. The overall net adjustment reduces accumulated depreciation by  
19 \$1,102,677, which is in the Company's favor as shown on Surrebuttal  
20 Schedule RLM-2.

21  
22 RUCO Direct OCRB Adjustment #2 – AIAC & CIAC Associated with CWIP

23 NOTE: THIS ADJUSTMENT AFFECTS ALL DISTRICTS.

1 Q. Does RUCO agree with the Company's adjustment to remove the AIAC  
2 and CIAC that it claims is CWIP related?

3 A. No. Arizona has historically excluded CWIP in rate base and historically  
4 treated CIAC as a deduction from rate base. Thus, under RUCO's  
5 recommendations, Arizona-American is being afforded the same rate base  
6 treatment for these two items that every other utility in Arizona is afforded.  
7 These are fungible funds that cannot be distinguished from other sources.  
8 I discussed this adjustment fully in my direct testimony.

9

10 Q. What is RUCO's total adjustment for the seven districts in this case to  
11 reverse the Company's proposal to increase rate base by excluding the  
12 AIAC and CIAC booked balances?

13 A. RUCO's total adjustment for the seven districts reduces rate base by  
14 \$4,254,861 as shown on Surrebuttal Schedules RLM-2 respectively.

15

16 RUCO Direct OCRB Adjustment #3 – Various Conforming Adjustments  
17 Pertaining to Different Districts

18 NOTE: THIS ADJUSTMENT AFFECTS AGUA FRIA, MOHAVE,  
19 PARADISE VALLEY, AND SUN CITY WEST WATER DISTRICTS.

20 Q. Please explain RUCO rate base adjustment #3 as it pertains to Agua Fria  
21 and Mohave Water Districts.

22 A. This is a specific adjustment for Agua Fria and Mohave Water Districts to  
23 conform with the Company's response to Staff data request GTM 18.7, 2<sup>nd</sup>

1 Supplement. The Company stated, "An error was made to Mohave Water  
2 by reducing CIAC for a disbursement which belonged in the Agua Fria  
3 Water district." The CIAC was correctly transferred but no corresponding  
4 adjustment had been made to correct the accumulated amortization  
5 balance for the two districts. This adjustment decreases Agua Fria's CIAC  
6 balance by \$28,016 and increases Mohave Water CIAC by \$27,517.

7  
8 Q. Please discuss RUCO rate base adjustment #3 to Paradise Valley.

9 A. This is a specific adjustment for the PV Water District to conform with the  
10 Company's response to RUCO data request 1.34. It relates to the  
11 removal of post-test-year plant adjustment, Well #12, which the Company  
12 later removed from this rate case. The Company had never received the  
13 proper permits to begin construction. It reduces post test-year plant by  
14 \$2,109,032.

15  
16 Q. Please discuss RUCO rate base adjustment #3 to Sun City West Water  
17 District.

18 A. This is a specific adjustment for the Sun City West Water District to  
19 conform with the Company's response to Staff data request DH 4.3. The  
20 Company mistakenly booked a \$70,000 retirement to Sun City West that  
21 should have been recorded on the Paradise Valley books. Another  
22 \$6,672 of retirements were incorrectly booked to Sun City West that  
23 should have been booked to Sun City.

1 RUCO Direct OCRB Adjustment #4 – Various Adjustments Pertaining to Different  
2 Districts

3 NOTE: THIS ADJUSTMENT AFFECTS AGUA FRIA WATER, MOHAVE  
4 WASTEWATER, PARADISE VALLEY WATER, AND SUN CITY WEST  
5 WATER DISTRICTS.

6 Q. Did the Company accept RUCO rate base adjustment #4 for the Agua Fria  
7 Water District?

8 A. Yes. This adjustment increases rate base by \$18,581 for two projects that  
9 were actually in the Agua Fria Water District but were mistakenly booked  
10 to the Sun City West Water District. A companion adjustment was also  
11 accepted by the Company to increase accumulated depreciation by  
12 \$2,375.

13  
14 Q. Did the Company accept RUCO rate base adjustment #4 for the Mohave  
15 Wastewater District to remove 50 percent of the Wishing Well Treatment  
16 Plant as excess capacity?

17 A. The Company is not entirely agreeable to remove 50 percent of the  
18 Wishing Well Treatment Plant as excess capacity. The Company stated  
19 that the project was both an upgrade and expansion of the old plant. The  
20 Company adds that the total amount associated with the expansion to 0.5  
21 MGD is \$1,405,233. The Company suggests, "If the Commission were  
22 inclined to accept RUCO's recommendation to defer 50% of the costs to

1           serve additional customers, that would be only \$702,616." RUCO will  
2           investigate that claim further and will address that issue at a later date.

3  
4    Q.    What adjustment did RUCO make to remove 50 percent of the total cost of  
5           the Wishing Well Treatment Plant project?

6    A.    This adjustment is an updated amount that includes 50 percent of the  
7           estimated cost of \$3,932,080 that the Company sought in its rate  
8           application plus 50 percent of the Company's rebuttal adjustment of  
9           \$343,959 to true up to the project's actual cost. RUCO's surrebuttal  
10          adjustment reduces UPIS by \$2,138,020 for excess capacity as shown on  
11          Surrebuttal Schedule RLM-2.

12  
13   Q.    Did the Company accept RUCO's rate base adjustment #4 to decrease  
14          accumulated depreciation by \$456,414 in the Paradise Valley Water  
15          District?

16   A.    No. RUCO witness, Mr. Moore, made this adjustment. After a discussion  
17          with him, Mr. Moore said the leading causes for the adjustment was  
18          primarily due to the different depreciation rates utilized by the Company  
19          and RUCO. The mid-month depreciation convention employed by RUCO  
20          also leads to some of the discrepancies between the Company and  
21          RUCO. Mr. Moore stated he made some corrections that Company  
22          witness, Ms. Gutowski, had pointed out since RUCO filed its direct

1 testimony. Thus, this surrebuttal adjustment is a different amount after  
2 making those corrections to its direct adjustment.

3

4 Q. Does the Company agree with RUCO's rate base adjustment #4 that  
5 removes plant and accumulated depreciation from Sun City West Water  
6 District that was attributable to the Agua Fria Water District?

7 A. Yes, with minor calculations. RUCO accepts the calculation that the  
8 Company suggests.

9

10 RUCO Direct OCRB Adjustment #5 – Deferred Debits with the Exception of  
11 Paradise Valley

12 NOTE: THIS ADJUSTMENT AFFECTS ALL WATER AND  
13 WASTEWATER DISTRICTS EXCEPT PARADISE VALLEY.

14 Q. Does the Company agree with RUCO's rate base adjustment #4 that  
15 corrects the deferred debit balances?

16 A. Yes. These are conforming adjustments that derived from a recalculation  
17 by the Company after filing its rate application.

18

19 Q. What adjustments were necessary to properly reflect the new amounts for  
20 the deferred debits?

21 A. The following adjustments were necessary to increase (decrease) rate  
22 base in the amounts below:

23

Agua Fria	(\$ 3,321,116)	Havasu	(\$ 145,701)
-----------	----------------	--------	--------------

1	Mohave Water (\$ 1,649,972)	Mohave WW	\$ 7,701
2	Sun City West \$ 892,284	Tubac	(\$51,122)

3

4 RUCO Direct OCRB Adjustment #5 – Paradise Valley Post Test Year Plant

5 Retirements

6 NOTE: THIS ADJUSTMENT AFFECTS ONLY PARADISE VALLEY  
7 WATER DISTRICT.

8 Q. Does RUCO agree with the Company's rebuttal position regarding the  
9 inappropriate retirement adjustment that RUCO makes in its rate base  
10 adjustment #5?

11 A. Yes. RUCO agrees that the amount would be double counted because  
12 RUCO's rate base adjustment #1 has already accounted for this  
13 retirement adjustment. RUCO removed rate base adjustment #5 in its  
14 surrebuttal testimony and schedules as shown on Surrebuttal Schedule  
15 RLM-2.

16

17 RUCO Direct OCRB Adjustment #6 – Working Capital with the Exception of

18 Paradise Valley

19 NOTE: THIS ADJUSTMENT AFFECTS ALL WATER AND  
20 WASTEWATER DISTRICTS EXCEPT PARADISE VALLEY.

21

22

1 Q. Please address Company witness, Ms. Hubbard, regarding RUCO's  
2 lead/lag calculation study.

3 A. Ms. Hubbard discussed what she assumed were errors in RUCO's  
4 lead/lag calculations. In some of the instances she was correct. Those  
5 errors have been corrected. At other times, what she thought was an  
6 error was actually RUCO's very intent in calculating the lead/lag study.

7  
8 Q. Please explain what you meant by that was the "intent" of the calculation.

9 A. Ms. Hubbard stated that since I did not include regulatory expense in  
10 column C of my lead/lag calculation in "other operating expenses" then it  
11 was incorrect. She added, "Therefore the resulting Expense Lag on line  
12 18 is incorrect." RUCO deliberately excluded the regulatory expense in  
13 the lead/lag calculation. The Commission has historically excluded  
14 regulatory expense in lead/lag calculations. Regulatory expenses are  
15 treated similar to non-cash items such as depreciation expense. The  
16 Company did expend cash to pay for such expenses, but there will be no  
17 future expenses because they will be recovered in rates going forward.  
18 Therefore, it would be improper to include expenses that have no future  
19 cash outlays. Thus, regulatory expenses should not be included in a  
20 lead/lag calculation for those reasons. I deliberately excluded the non-  
21 cash operating expense of depreciation/amortization and rate case  
22 expense as was approved by the Commission in the Company's previous

1 two Paradise Valley decisions and the last Mohave Water and Wastewater  
2 decision.

3  
4 Q. Did the Company revise its cash working capital request in its rebuttal  
5 testimony filing?

6 A. Yes.

7  
8 Q. What revisions did the Company make in its rebuttal request for cash  
9 working capital?

10 A. The Company made several revisions to its original lead/lag study as filed  
11 in the direct rate application. First, the Company updated all expense  
12 account balances to its rebuttal position. Second, the Company's revised  
13 surrebuttal lead/lag study adopts all the expense lag days that were  
14 approved in Commission Decision No. 69440, dated May 1, 2007. That  
15 change alone was significant. Third, the Company removed most non-  
16 cash items from its lead/lag study, i.e. depreciation and amortization  
17 expenses but not regulatory expenses. The Company's lead/lag study  
18 now includes interest expense where the original study failed to do so.  
19 The Company did not make any changes to its revenue lead/lag days as  
20 proposed in its original filing, which RUCO disagrees with and will address  
21 later in this section.

22

1 Q. Does RUCO accept the Company's revised lead/lag study as proposed in  
2 its rebuttal filing?

3 A. No. However, RUCO does accept the Company's proposal to use the  
4 expense lag days from the previous Mohave rate case (Decision No.  
5 69440).

6

7 Q. How much cash working capital had the Company originally requested in  
8 its direct rate application?

9 A. The Company originally requested a total of \$3,008,039 for cash working  
10 capital, inclusive of all seven districts. The amount for each individual  
11 district is shown below:

12

13	Agua Fria	\$ 1,409,860	Havasu	\$ 102,420
14	Mohave WW	\$ 58,358	Mohave Water	\$ 367,562
15	Paradise Valley	\$ 549,034	Sun City West	\$ 480,140
16	Tubac	\$ 40,665		

17

18 Q. How much cash working capital is the Company requesting in its rebuttal  
19 testimony?

20 A. The Company revised its total cash working capital request to \$471,358,  
21 inclusive of all seven districts. The amount for each individual district is  
22 shown below:

23

1	Agua Fria	\$ 60,105	Havasu	\$ 46,992
2	Mohave WW	\$ 425	Mohave Water	\$ 185,707
3	Paradise Valley	\$ 79,326	Sun City West	\$ 77,120
4	Tubac	\$ 21,683		

5

6 Q. Isn't that a significant drop from what the Company had originally  
7 requested in its direct rate application?

8 A. Yes. It represents approximately an 84 percent decrease from the amount  
9 the Company originally requested in cash working capital. This revised  
10 decrease is driven primarily by the inclusion of interest expense and  
11 exclusion of non-cash items such as depreciation expense when  
12 calculating a lead/lag study.

13

14 Q. Does RUCO have other concerns with the Company's revised lead/lag  
15 study?

16 A. Yes.

17

18 Q. What other concerns does RUCO have regarding the Company's revised  
19 lead/lag study?

20 A. 1. RUCO believes the revenue lag days are excessive;  
21 2. The Company includes regulatory expense as an expense item in  
22 other operating expenses in the lead/lag calculation.

23

1 Q. Please discuss RUCO's concerns regarding the revenue lag days being  
2 excessive in the Company's lead/lag calculation.

3 A. RUCO will use the Company's Agua Fria Water District to illustrate the  
4 concerns RUCO has with the Company's revenue lag days. The total  
5 revenue lag days are the sum of the 1) mid-point of the service period –  
6 13.5 to 17 days for an average of 15.32 days, 2) billing lag days – 2 to 8  
7 days for an average of 4.29 days, and 3) pay lag days – consisting of 20  
8 to 21 days for an average of 20.21 days. The average sum of the three  
9 components of the revenue lag days is  $15.32 + 4.29 + 20.21 = 39.82$  total  
10 revenue lag days. These calculations are shown in RUCO's work papers.  
11 This accurately reflects the district's cash working capital needs. The  
12 Company calculated a range of 46.25 to 50.13 for the seven different  
13 districts in this case for revenue lag days. The Company uses 48.94  
14 revenue lag days for the Agua Fria District to calculate its lead/lag study.  
15 This is the amount of time between the mid-point of the service period and  
16 when the customer payment becomes due.

17  
18 Q. Did RUCO express its concerns to the Company during the discovery  
19 period?

20 A. Yes. RUCO was alerted to the excessive revenue lag days early in the  
21 discovery process of its initial analysis of the Company's lead/lag study  
22 and issued data request 2.02. The data request questioned the  
23 Company's "Service and Billing" lag day study as follows:

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15

Q. Lead/Lag Study Some of the data on the W/P entitled "Service and Billing Lag Agua Fria" appears to be incorrect. For example some lines show billing lags of over 200 days and other lines show negative days for the service lag. If this is incorrect please provide a corrected spreadsheet. If it is correct, please provide an explanation of these anomalies.

A. The tab labeled "Service and Billing Lag Agua Fria" on worksheet 2007 Agua Fria Lead Lag.xls.xls is incorrect. Please see the revised spreadsheet.

The shortened revised spreadsheet is provided below. The entire corrected spreadsheet is nearly 1,800 lines long. This illustration shows the first several lines and the last lines.

Arizona American Water Company  
 Test Year Ended December 31, 2007  
 Lead/Lag Study

Exhibit  
 Schedule  
 Page  
 Witness:

SERVICE & BILLING LAG AGUA FRIA

Line No.	Route	Revenue Period	Previous Read	Current Read	Billing Date	Service Lag	Billing Lag
1	351	Jan-07	12/23/2006	1/26/2007	1/31/2007	17.00	5.00
2	351	Feb-07	1/26/2007	2/26/2007	2/28/2007	15.50	2.00
3	351	Mar-07	2/26/2007	3/27/2007	3/30/2007	14.50	3.00
4	351	May-07	3/27/2007	4/26/2007	5/1/2007	15.00	5.00
5	351	May-07	4/26/2007	5/24/2007	5/30/2007	14.00	6.00
6	351	Jun-07	5/24/2007	6/25/2007	6/28/2007	16.00	3.00
7	351	Jul-07	6/25/2007	7/26/2007	7/31/2007	15.50	5.00
8	351	Aug-07	7/26/2007	8/27/2007	8/31/2007	16.00	4.00
9	351	Oct-07	8/27/2007	9/26/2007	10/1/2007	15.00	5.00
10	351	Oct-07	9/26/2007	10/25/2007	10/30/2007	14.50	5.00
11	351	Nov-07	10/25/2007	11/27/2007	11/30/2007	16.50	3.00
12	351	Dec-07	11/27/2007	12/21/2007	12/28/2007	12.00	7.00
13	352	Jan-07	12/8/2006	1/11/2007	1/16/2007	17.00	5.00
14	352	Feb-07	1/11/2007	2/8/2007	2/13/2007	14.00	5.00
43	761	Oct-07	9/25/2007	10/24/2007	10/29/2007	14.50	5.00
44	761	Nov-07	10/24/2007	11/26/2007	11/29/2007	16.50	3.00
45	761	Dec-07	11/26/2007	12/20/2007	12/27/2007	12.00	7.00
46	762	Jul-07	6/22/2007	7/26/2007	7/31/2007	17.00	5.00
47	762	Aug-07	7/26/2007	8/27/2007	8/31/2007	16.00	4.00
48	762	Oct-07	8/27/2007	9/26/2007	10/1/2007	15.00	5.00
49	762	Oct-07	9/26/2007	10/25/2007	10/30/2007	14.50	5.00
50	762	Dec-07	10/25/2007	11/29/2007	12/7/2007	17.50	8.00
51	762	Dec-07	11/29/2007	12/21/2007	12/28/2007	11.00	7.00
52	763	Dec-07	11/27/2007	12/21/2007	12/28/2007	12.00	7.00
53							
54				Average		15.13	4.48

16

1           The Company's revised "Service and Billing" lag day study calculated a  
2           mid-point service period of 15.13 days and a billing lag of 4.48 days for a  
3           total of 19.61 days = (15.13 + 4.48). That sum is equal to what RUCO  
4           calculated (Attached as RUCO Exhibit 1) in its mid-point service period,  
5           15.32 days, plus RUCO's calculated billing period, 4.29 days, in its  
6           revenue lag calculation for Agua Fria's service and billing lag (15.32 +  
7           4.29 = 19.61 RUCO service and billing lag days).

8  
9   Q.   Did the Company use the corrected service and billing lags provided to  
10       RUCO in data request 2.02 as described in the previous chart and  
11       paragraph?

12   A.   No. The Company used the service and billing lag days, 10.598 days and  
13       10.179 days respectively, from a service and billing lag study that it has  
14       admitted was incorrect in RUCO data request 2.02. Arizona-American  
15       made the effort to correct the study and provide a revised service and  
16       billing lag study and failed to use the corrected lag days in its rebuttal  
17       filing.

18  
19   Q.   How many lag days did the Company and RUCO compute for the third  
20       and final component of the revenue lag days, which is the payment lag  
21       days?

22   A.   The Company computed 28.166 payment lag days and RUCO computed  
23       20.21 payment lag days. That's a difference of 7.956 payment lag days.

1 Q. That is a significant difference in payment lag days isn't it?

2 A. Yes. That is the primary difference between RUCO's calculation of total  
3 revenue lag days and the Company's because RUCO and the Company's  
4 corrected (but not used) service and billing lag days are identical.

5  
6 Q. How did the Company compute its payment lag days?

7 A. The Company first computes the average daily balance of accounts  
8 receivable of 254 days, which is \$4,727,582. Next, the Company totals  
9 the annual revenues that are \$61,263,424. The Company then divides the  
10 total annual revenues by 365 days that results in average daily revenues  
11 of \$167,845 ( $\$61,263,424 / 365 \text{ days} = \$167,845$ ). Finally, the Company  
12 derives its payment lag days of 28.166 by dividing the average daily  
13 balance of account receivables by average daily revenues to arrive at the  
14 28.166 payment lag days ( $\$4,727,582 / \$167,845 = 28.166 \text{ payment lag}$   
15 days).

16  
17 Q. Does RUCO disagree with the Company's calculation?

18 A. RUCO disagrees with the third calculation that divides the total annual  
19 revenues by 365 days, which results in average daily revenues of  
20 \$167,845 ( $\$61,263,424 / 365 \text{ days} = \$167,845$ ).

21

1 Q. Explain why RUCO disagrees with the part of the calculation that divides  
2 the total annual revenues by 365 days, which results in average daily  
3 revenues of \$167,845 ( $\$61,263,424 / 365 \text{ days} = \$167,845$ ).

4 A. If the Company averages 254 days of the daily balances of accounts  
5 receivable, it should divide the total annual revenues of \$61,263,424 by  
6 the same 254 days (not counting weekends), which results in \$241,195 for  
7 the average daily revenues as opposed to the Company's \$167,845. That  
8 would match apples to apples rather than apples to oranges.

9  
10 Q. What is the result of the payment lag days if the same number of daily  
11 balance of accounts receivable (254 days) were used to divide the total  
12 annual revenues ( $\$61,263,424 / 254 \text{ days}$ ) rather than the 365 days  
13 (counting weekends)?

14 A. The result of dividing the total annual revenues of \$61,263,424 by the 254  
15 days equals \$241,195. The last calculation to derive at the payment lag  
16 days is to divide the average daily balance of accounts receivable by the  
17 average number days of revenue receivable ( $\$4,727,582 / \$241,195 =$   
18 19.60 payment lag days).

19

20

21

22 ...

23

1 Q. How many payment lag days did RUCO calculate in its revenue lag  
2 calculation?

3 A. RUCO's payment lag calculation resulted in a 20.21 lag days compared to  
4 the 19.60 payment lag days for Agua Fria as discussed earlier. The  
5 difference is minimal.

6  
7 Q. What method and/or analysis did RUCO perform in determining its  
8 recommended revenue lag days for each district?

9 A. In RUCO data request 8.01, RUCO requested fifteen copies of actual bills  
10 in each district in this case for various customer classifications  
11 (proportionately by classifications by number of customers served in that  
12 class). By utilizing this sample of bills, RUCO was able to ascertain the  
13 service period, therefore the mid-point service period was established, and  
14 the bill date, which establishes the billing lag days. The pay lag is  
15 determined by adding the number of days from the bill date to the due  
16 date. The total revenue lag days are the sum of the 1) mid-point service  
17 period, 2) billing lag days, and 3) pay lag days. These calculations are  
18 shown in RUCO's work papers. This accurately reflects the districts' cash  
19 working capital needs. This is the same method that has been approved  
20 by the Commission a number of times in recent cases.

21

22 ...

23

1 Q. What is RUCO's final analysis regarding the Company's revenue lag  
2 calculation?

3 A. RUCO's analysis determined that the Company's pay lag days were  
4 excessive by approximately eight to ten days for each district. Previous  
5 Arizona-American lead/lag studies for the revenue lag days are nearly  
6 identical to RUCO's in this case. For instance, Paradise Valley's previous  
7 rate case (Decision No. 68858) recognized 38.30 revenue lag days.  
8 RUCO calculated 38.90 for Paradise Valley in this instant case while the  
9 Company used 50.13931 revenue lag days. The same is true for the  
10 recent Mohave Water and Wastewater cases. Commission Decision No.  
11 69440 established and approved 39.15 revenue lag days for Mohave  
12 Water. RUCO calculated and recommends a near identical revenue lag  
13 days of 39.20 in the instant case while the Company used 48.23919  
14 revenue lag days in the instant case for the same Mohave Water District.  
15 The Commission approved a revenue lag of 37.11 days in Commission  
16 Decision No. 69440 for the Mohave Wastewater District. RUCO  
17 recommends a 39.77 revenue lag for Mohave Wastewater in this case.  
18 These recommendations are quite similar to what has been authorized in  
19 Arizona-American's previous rate cases.

20

21

22 ...

23

1 Q. What is RUCO's final cash working capital recommendation for the seven  
2 districts in this case?

3 A. RUCO recommends a total of negative \$299,676 for cash working capital,  
4 inclusive of all seven districts. The amount for each individual district is  
5 shown below:

7	Agua Fria	(\$ 236,355)	Havasu	\$ 10,348
8	Mohave WW	(\$ 4,689)	Mohave Water	\$ 67,444
9	Paradise Valley	(\$ 148,538)	Sun City West	(\$ 7,196)
10	Tubac	\$ 19,310		

11  
12 Q. Isn't a negative amount of cash working capital peculiar outcome?

13 A. No, not at all. The Paradise Valley Water District in a recent case had a  
14 similar amount of negative cash working capital. Utility bills and revenue  
15 recovery are regular monthly occurrences, as are most expenses.  
16 Therefore, larger utilities typically do not have positive cash working  
17 capital requirements. Many of the utilities that file rate applications with  
18 the Commission request zero cash working capital as a means of avoiding  
19 the ultimate operating income reduction associated with negative cash  
20 working capital.

21  
22 ...

23

1 Q. Don't most of the companies claim that a lead/lag study is excessively  
2 expensive, complex, labor intensive, and over burdensome?

3 A. Yes.

4

5 Q. How do you respond to that claim?

6 A. RUCO admits it does add to cost, it is somewhat complex, it requires more  
7 labor, and may be a burden. As the Commission has acknowledged time  
8 and time again, a lead/lag study is the most accurate method to measure  
9 a Company's working capital requirements. From the Company's  
10 perspective a lead/lag study is overly burdensome. This is no surprise  
11 because it normally reduces rate base, and thus, utility operating income  
12 is reduced. It is not fair to the ratepayers to provide additional cash to the  
13 Company that it does not need. If the Company had maintained its direct  
14 testimony position regarding cash working capital needs and that position  
15 was accepted by the Commission, it would have resulted in an inflated  
16 rate base of more than \$3.3 million and the Company would have received  
17 a return on the inflated rate base.

18

19 Q. If the Company changed a billing/payment policy, would that warrant such  
20 a deviation of revenue lag days from a previous case to this case?

21 A. That could be true. However, the Company's billing/payment policy is the  
22 same today as it was in the prior cases (See RUCO Exhibit 3). That  
23 exhibit states the meter reading, billing, and payment policy for the

1 Company, "each meter shall be read monthly or as close to the same day  
2 of each month as practicable unless otherwise approved by the  
3 Commission." This is the same Company policy that has existed for  
4 years.

5  
6 RUCO Direct OCRB Adjustment #6 – Paradise Valley Deferred Debits

7 NOTE: THIS ADJUSTMENT AFFECTS ONLY PARADISE VALLEY.

8 Q. Please discuss RUCO's deferred debit adjustment for Paradise Valley.

9 A. This adjustment is common to all seven districts in this case. It was  
10 previously discussed in detail in RUCO rate base adjustment #5.

11  
12 Q. What adjustment was necessary to restate the deferred debit balance?

13 A. This was a conforming adjustment that reduces the deferred debit balance  
14 by \$1,083,637 in the Paradise Valley District.

15  
16 RUCO Direct OCRB Adjustment #7 – White Tanks CWIP

17 NOTE: THIS ADJUSTMENT AFFECTS ONLY AGUA FRIA.

18 Q. Please discuss RUCO's position regarding the inclusion of the White  
19 Tanks CWIP in Agua Fria Water District.

20 A. RUCO witness, Mr. Rigsby, discusses this adjustment in his testimony.

21  
22  
23 ...

1 **RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**

2 Q. Have you revised your Schedule presenting your recommended rate  
3 designs?

4 A. Yes, as shown on Schedule SURR RLM-RD1, the rate design is  
5 consistent with RUCO's recommended revenue allocations and  
6 requirement as revised in RUCO's surrebuttal testimonies.

7  
8 Q. Have you revised your Schedule presenting proof of your recommended  
9 revenue?

10 A. Yes, I have. As shown on Schedule SURR RLM-RD1, my recommended  
11 rate design will produce the recommended required revenue as revised in  
12 my surrebuttal testimony.

13

14 **TYPICAL RESIDENTIAL BILL ANALYSIS**

15 Q. Has RUCO revised its Schedule representing the financial impact of  
16 RUCO's recommended rate design on the typical residential customer?

17 A. Yes. The impact of RUCO's revised recommended revenues is presented  
18 on the district's Surrebuttal Schedule RLM-RD2. This typical bill analysis  
19 for residential customers shows the financial impact with various levels of  
20 usage.

21

22 Q. Does this conclude your surrebuttal testimony?

23 A. Yes, it does.

RUCO  
EXHIBIT 1







## Gauging Water Use

### Reading Your Meter

The water meter measures the amount of water you use, and its readings serve as the basis for your water charges. We read meters monthly in most areas. The meter may be inside, often in the basement, or it may be outside, usually in a pit at the curb. Water meters measure the amount of flow from the water main into the home plumbing system. Only the flow of water into the meter can cause its dial to move to register water usage. At many properties with a meter inside, we have installed devices outside so that we can read the meter without having to enter your property.

If your meter is inside your property and there is no device outside to read the meter, you can help us to ensure accurate billings by providing us access to the meter on the next reading date indicated on your bill, or calling your reading in that day to our toll-free meter reading number, 1.800.672.1095. If the meter is outside, you do not need to assist us in obtaining a reading.

Since the register is never reset while the meter is in service, the usage for any given period is determined by subtracting the previous reading from the present reading.

### If Your Bill is Unusually High

An unusually high bill can occur for many reasons. A little investigation can help you save water and money.

#### Actual readings:

Make sure your meter is accessible, so your bill is based on actual readings. When we cannot obtain a meter reading, we try to estimate usage accurately. However, a high bill can occur when an actual meter reading follows several estimated readings that were too low. To avoid estimated readings, make sure your meter is easily accessible to our meter reading crews.

#### Check for leaks:

Small leaks can quickly add up to many gallons lost. A dripping faucet can waste 15 gallons a day. Just a 1/8-inch sized leak consumes more than 3,500 gallons per day. Most leaks are easy to find, but some can go undetected. You may want to check:

- Your toilet. It is not uncommon to lose more than 100 gallons a week to a toilet leak. You can check for leaks by putting a small amount of weak coffee or tea in the tank, then watch for a few minutes. If the color of the coffee/tea shows up in the bowl, you have a leak that needs to be repaired. Similarly, leak detection kits have dye tablets that perform the same function. Food coloring, however, is not recommended as it may adhere to cracks/scratches in the bowl and permanently stain.
- Dishwasher/clothes washer. Look for drips or stains underneath or behind these appliances.
- Indoor and outside faucets. Replace worn gaskets and washers.
- Sprinkler systems. Check for damaged sprinkler system heads and system leaks.

#### Look at your water usage:

- The high bill may be explained by changes in the way your household is using water.
- Did you use more water keeping your lawn green?
- Is your water sprinkler system functioning properly?
- Did you do extra loads of laundry before or after a vacation?
- Did you have friends or relatives staying at your house?

#### Water Usage for standard homes (approximate gallons per use)

##### Toilets:

Conventional: 5.0

Low-Flow: 3.5

Ultra Low-Flow: 1.6

##### Washing Machines:



## Billing and Payment Information

At Arizona American Water, providing you with the best customer service possible is our priority. We offer the following payment methods:

### Pay by Mail

Use the convenient return envelope provided to you with your bill. Detach and enclose the bill stub with your check or money order. Do not send cash.

### Automatic Payment

Sign up for Automatic Payment, and your bill will be paid on time, every time, directly from your checking or savings account on the date it is due.

Download the [Automatic Payment Form](#) for complete instructions.

### Online Bill Pay

You can use your Visa or MasterCard credit or debit cards to pay your bill online. For more information, visit: [www.paymybill.com](http://www.paymybill.com)

### Pay by Phone

If you do not have questions about your bill, you can pay-by-phone using your Visa or MasterCard by calling 1.866.271.5522. There is a small fee for this service. Be sure to have your 10-digit account number handy. This is located on the upper right corner of your current bill.

### Pay at at local payment location

[Convenient payment locations](#) across the state will accept your payment. Please note these locations DO NOT accept payments by mail.

### Understanding Your Bill

The service charge on your bill allows the company to recover a portion of fixed costs necessary to provide customers with access to service. Power, chemicals, maintenance, rent, customer service, and administrative service expenses are examples of these costs. Other charges determined by the Arizona Corporations Commission may also be shown on your bill.

Today, most Arizona American Water customers are billed based on the volume they consume as measured by a water meter at the service location. Metered systems help customers monitor their water usage to conserve precious resources, protect the environment, and control customer costs.

### Metered Customers

Arizona American Water employees regularly read your water meter to find out how much water has been used during the prior period. The service charge is a minimum regular charge determined by the meter diameter, to which we add a commodity charge based on the cost of water actually used.

Payment is due upon receipt of the bill. The bill is past due 15 days after the billing date on the statement. Failure to pay in a timely manner may result in disconnection of water service. To start service again, the outstanding bill and a reconnection fee must be paid.

### Third Party Notification Service

A special program is available to help protect elderly or disabled customers from service interruption. We offer this service at no extra charge. With our Third Party Notification service, a phone call will be made to a person designated by the customer prior to service being disconnected. This will give a family member, friend or caregiver time to take action to prevent the service from being terminated.

**For most customers, your water bill is divided into two sections – a flat service charge and a quantity charge.**

A. The flat service charge is the fee you pay to connect to the system. It remains the same each month



**ARIZONA-AMERICAN WATER COMPANY**

**DOCKET NO. W-01303A-08-0227**

**DOCKET NO. SW-01303A-08-0227**

**SURREBUTTAL TESTIMONY**

**OF**

**RODNEY L. MOORE**

**ON BEHALF OF**

**THE**

**RESIDENTIAL UTILITY CONSUMER OFFICE**

**MARCH 3, 2009**

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1 **INTRODUCTION**

2 Q. Please state your name for the record.

3 A. My name is Rodney Lane Moore.

4

5 Q. Have you previously filed testimony regarding this docket?

6 A. Yes, I have. I filed direct testimony in this docket on January 9, 2009.

7

8 Q. What is the purpose of your surrebuttal testimony?

9 A. My surrebuttal testimony will address the Company's rebuttal comments  
10 pertaining to adjustments I sponsored in my direct testimony.

11

12 **SUMMARY OF ADJUSTMENTS**

13 Q. What areas will you address in your surrebuttal testimony?

14 A. My surrebuttal testimony will address the following RUCO proposed  
15 operating income adjustments:

16 1. Surrebuttal Adjustment No. 1 – ACRM Revenue;

17 2. Surrebuttal Adjustment No. 2 – Labor Expense;

18 3. Surrebuttal Adjustment No. 3 – Tank Maintenance Expense;

19 4. Surrebuttal Adjustment No. 4 – Chemical Expense;

20 5. Surrebuttal Adjustment No. 5 - Water Testing Expense;

21 6. Revise Direct Adjustment No. 8 - Property Tax;

22 7. Revise Direct Adjustment No. 9 - Depreciation Expense;

23 8. Revise Direct Adjustment No. 10 - Income Tax;

1           9.     Rate Design and Proof of Recommended Revenue; and

2           10.    Typical Residential Bill Analysis.

3  
4           To support the adjustments in my surrebuttal testimony, I am sponsoring  
5           Surrebuttal Schedules numbered SURR RLM-1, SURR RLM-2A, SURR  
6           RLM-2, SURR RLM-6 through SURR RLM-9, SURR RLM-13, Rate  
7           Design Surrebuttal Schedules SURR RLM-RD1 and SURR RLM-RD2,  
8           which are filed concurrently in my surrebuttal testimony.

9  
10        **OPERATING INCOME**

11           RUCO Surrebuttal Income Adjustment No. 1 (Company Adjustment LJG-  
12           1R) – Annualize Arsenic Cost Removal Mechanism (“ACRM”) Revenue

13           NOTE: THIS ADJUSTMENT AFFECTS ONLY HAVASU, PARADISE  
14           VALLEY AND SUN CITY WEST WATER.

15        Q.     Please explain your adjustment to the test-year revenue.

16        A.     As shown on the appropriate district’s Schedule SURR RLM-7, this is a  
17           conforming adjustment, which accepts the Company’s recognition of the  
18           additional revenue generated by the Commission’s approval of the ACRM  
19           Step 2 increase as a result of Decision No. 70560 effective September 3,  
20           2008.

1           RUCO Surrebuttal Income Adjustment No. 2 (Company Adjustment LJG-  
2           4R) - Labor Expense

3           NOTE: THIS ADJUSTMENT AFFECTS ONLY HAVASU, PARADISE  
4           VALLEY, TUBAC AND MOHAVE WASTEWATER.

5           Q.     Please explain your adjustment to the test-year labor expense.

6           A.     As shown on the appropriate district's Schedule SURR RLM-7, this is a  
7           conforming adjustment to reflect the Company's rebuttal position to  
8           correctly record the impact of the adjusted labor expense level in all  
9           districts involved in the instant case. Previously, my direct testimony labor  
10          adjustment did not extend to all districts.

11  
12          RUCO Surrebuttal Income Adjustment No. 3 (Company Adjustment LJG-  
13          5R) – Tank Maintenance Expense

14          NOTE: THIS ADJUSTMENT AFFECTS ALL WATER DISTRICTS

15          Q.     Please explain your adjustment to the test-year labor expense.

16          A.     As shown on Schedule SURR RLM-7, this is a conforming adjustment to  
17          reflect the Company's revised cost estimates for each district's tank  
18          maintenance expense account.

1           RUCO Surrebuttal Income Adjustment No. 4 (Company Adjustment LJG-  
2           3R) - Chemical Expenses

3           NOTE: THIS ADJUSTMENT AFFECTS ONLY AGUA FRIA AND  
4           HAVASU.

5           Q.     Please explain your adjustment to the test-year chemical expenses.

6           A.     As shown on the appropriate district's Schedule SURR RLM-7, this is a  
7           conforming adjustment to reflect the Company's similar adjustment to  
8           Agua Fria as RUCO had recommended for Paradise Valley. Moreover,  
9           this adjustment recognizes Havasu's amortized arsenic O & M costs  
10          approved in Decision No. 69162, dated December 5, 2006 and  
11          inadvertently omitted by the Company in its original filing.

12  
13          RUCO Surrebuttal Income Adjustment No. 5 (Company Adjustment LJG-  
14          6R) – Water Testing Expenses

15          NOTE: THIS ADJUSTMENT AFFECTS ALL DISTRICTS

16          Q.     Please explain your adjustment to the test-year water testing expenses.

17          A.     As shown on Schedule SURR RLM-7, this is a conforming adjustment to  
18          reflect the Company's revised cost estimates for each district's water  
19          testing expenses.

1        RUCO Direct Operating Income Adjustment RLM-8 – Property Tax  
2        Expense

3        NOTE: THIS ADJUSTMENT AFFECTS ALL DISTRICTS

4        Q.     Please explain your adjustment to the test-year property tax expenses.

5        A.     As shown on Schedule SURR RLM-7, this adjustment reflects changes in  
6        RUCO's adjusted and proposed revenues.

7  
8        RUCO Direct Operating Income Adjustment RLM-9 – Depreciation  
9        Expense

10       NOTE: THIS ADJUSTMENT AFFECTS ALL DISTRICTS

11       Q.     Please explain your adjustment to the test-year depreciation expense.

12       A.     As shown on Schedule SURR RLM-7, this adjustment reflects changes in  
13       RUCO's adjusted gross plant in service and RUCO's acceptance of Staff's  
14       depreciation rates as stated in its direct testimony.

15  
16       RUCO Direct Operating Income Adjustment RLM-10 – Income Tax  
17       Expense

18       NOTE: THIS ADJUSTMENT AFFECTS ALL DISTRICTS

19       Q.     Please explain your adjustment to the test-year income tax expenses.

20       A.     As shown on Schedule SURR RLM-7, this adjustment reflects changes in  
21       RUCO's adjusted operating expenses and revenues.

22

23

1           Rate Case Expense

2    Q.    Is RUCO revising its recommended level of rate case expenses for the  
3           instant case as stated in its direct testimony?

4    A.    No. RUCO finds no compelling evidence in the Company's rebuttal  
5           testimony to revise its recommended level of rate case expense as a  
6           financial burden on the ratepayers.

7  
8    Q.    Do you agree with the Company's proposal to include the unamortized  
9           portion of the prior rate case expenses for Mohave Water and Mohave  
10          Wastewater districts for recovery in the instant case?

11   A.    No.

12  
13   Q.    Please discuss the reasons why it is inappropriate to allow utilities to  
14          recover prior rate case expenses.

15   A.    Such treatment is contrary to the goals of the ratemaking process. The  
16          ratemaking process attempts to set rates at a normal recurring level of  
17          expenses. Simultaneous amortization of the expense of two separate rate  
18          cases is not a normal recurring expense. Allowing a utility to reamortize  
19          prior rate case expenses would create a situation that allow the utility to  
20          recover expenses associated with rates that are no longer in effect.  
21          Ratemaking principles have traditionally prohibited such retroactive  
22          ratemaking. Those principles have also required that assets and  
23          expenses included in rates provide a current benefit to ratepayers.

1 Reamortization of prior years' rate case expense would defy both these  
2 standard ratemaking principles.

3  
4 Q. Please continue discussing why the reamortization of prior rate case  
5 expense is inappropriate.

6 A. The amortization period set for rate case recovery in any given docket is  
7 an estimation or approximation of the length of time rates are reasonably  
8 expected to be in effect. Because it is an estimate, the period is not exact  
9 and generally results in under- or over-recovery. Allowing a utility to  
10 recover prior unrecovered rate case expense in a subsequent docket  
11 would be inequitable. Such a practice, if allowed to continue, would  
12 consistently reward stockholders at ratepayers' expense.

13  
14 Q. In order to create an equitable situation, is it your recommendation that  
15 both under- and over-recovered rate case expenses should be charged or  
16 refunded to the ratepayer?

17 A. No. Such a practice would result in current ratepayers being charged or  
18 credited with expenditures related to rates that are no longer in effect,  
19 creating intergenerational inequities and a situation where rates are set  
20 retroactively. Certainly, it has never been this Commission's practice to  
21 examine the level of expense that was authorized in individual expense  
22 categories in prior dockets, compare it to the level of expense actually  
23 incurred, and then allow the utility to retroactively recover or refund the

1 difference. In this respect, rate case expense is not unique from other  
2 expense categories. Thus, retroactive recovery or refunding of prior rate  
3 case expense should not be allowed.  
4

5 **PARADISE VALLEY FIRE FLOW IMPROVEMENT PROJECTS**

6 Q. Is RUCO revising its position on Paradise Valley's fire flow projects and  
7 the associated funding mechanism designated as the Paradise Valley  
8 Public Safety Surcharge?

9 A. Yes. RUCO witness William A. Rigsby fully explains RUCO's revised  
10 recommendations for the Paradise Valley's fire flow improvement projects  
11 and the associated public safety surcharge in his surrebuttal testimony.  
12

13 **RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**

14 Q. Have you revised your Schedule presenting your recommended rate  
15 designs?

16 A. Yes, as shown on Schedule SURR RLM-RD1, the rate design is  
17 consistent with RUCO's recommended revenue allocations and  
18 requirement as revised in RUCO's surrebuttal testimonies.  
19

20 Q. For the Paradise Valley district is RUCO still supporting the five-tiered  
21 inverted block structure?

22 A. No. RUCO has adopted a three-tiered rate design. The three-tiered  
23 inverted block design, also proposed by Staff, when compared to the five-

1 tiered design proposed by the Company would generate a lower monthly  
2 bill to residential customers with a 5/8 X 3/4 inch-meter consuming either  
3 the average of 20,493 gallons or the median usage of 61,391 gallons per  
4 month. Moreover, the five-tiered design does not provide any meaningful  
5 conservation incentives, since customer's median use would have to  
6 decline by over 40,000 gallons a month (or 67 percent) before receiving a  
7 benefit of the lower cost per gallon consumed. Similarly, customer's  
8 average use would have to decline by over 16,000 gallons a month (or 80  
9 percent) before receiving a benefit of the lower cost per gallon consumed.

10  
11 Q. Please provide a chart, which displays the impact of RUCO's  
12 recommended rate design.

13 A. The chart below displays:

- 14 1. Current rates for both "average" and "median" use residential  
15 customers with a 5/8 X 3/4 inch-meter;
  - 16 2. Proposed rates for RUCO's recommended three-tiered  
17 design; and
  - 18 3. A comparison of RUCO's and the Company's recommended  
19 rate increases, based on the Company's five-tiered design.
- 20  
21  
22  
23

1  
2 Average Residential Customer's monthly bill consumes 20,493 gallons:

3 Current Rate: \$49.21.

4 Proposed Rates: RUCO 3-tier RUCO 5-tier AZ-AM's 5-tier  
5 \$56.63 \$59.97 \$70.26

6  
7 Median Residential Customer's monthly bill consumes 61,391 gallons:

8 Current Rate: \$131.23.

9 Proposed Rates: RUCO 3-tier RUCO 5-tier AZ-AM's 5-tier  
10 \$147.27 \$157.56 \$184.61

11  
12 Q. Have you revised your Schedule presenting proof of your recommended  
13 revenue?

14 A. Yes, I have. As shown on Schedule SURR RLM-RD1, my recommended  
15 rate design will produce the recommended required revenue as revised in  
16 my surrebuttal testimony.

17  
18 **TYPICAL RESIDENTIAL BILL ANALYSIS**

19 Q. Has RUCO revised its Schedule representing the financial impact of  
20 RUCO's recommended rate design on the typical residential customer?

21 A. Yes. The impact of RUCO's revised recommended revenues is presented  
22 on the district's Surrebuttal Schedule SURR RLM-RD2.

1           This typical bill analysis for residential customers shows the financial  
2           impact with various levels of usage.

3

4   Q.     Does this conclude your surrebuttal testimony?

5   A.     Yes, it does.

AGUA FRIA WATER DISTRICT

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SURR RD-2	1	TYPICAL RESIDENTIAL BILL ANALYSIS

**SURREBUTTAL REVENUE REQUIREMENT**

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 96,976,396	\$ 64,339,595
2	Adjusted Operating Income (Loss)	\$ 2,601,288	\$ 2,593,789
3	Current Rate Of Return (L2 / L1)	2.68%	4.03%
4	Required Operating Income (L5 X L1)	\$ 8,146,017	\$ 4,503,772
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 5,544,729	\$ 1,909,983
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6578	1.6286
8	Increase In Gross Revenue Requirement (L7 X L6)	<b>\$ 9,192,203</b>	<b>\$ 3,110,665</b>
9	Adjusted Test Year Revenue	\$ 18,818,613	\$ 18,818,614
10	Proposed Annual Revenue (L8 + L9)	\$ 28,010,816	\$ 21,929,279
11	Required Percentage Increase In Revenue (L8 / L9)	48.85%	16.53%
12	Rate Of Return On Common Equity	11.75%	8.88%

References:

Column (A): Company Schedules A-1 and C-1  
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-16

**SURREBUTTAL GROSS REVENUE CONVERSION FACTOR**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<b>CALCULATION OF GROSS REVENUE CONVERSION FACTOR:</b>					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.3860			
3	Subtotal (L1 - L2)	<u>0.6140</u>			
4	<b>Revenue Conversion Factor (L1 / L3)</b>	<b>1.6286</b>			
<b>CALCULATION OF EFFECTIVE TAX RATE:</b>					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	<u>6.9680%</u>			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	34.0000%			
9	Effective Federal Income Tax Rate (L7 X L8)	<u>31.6309%</u>			
10	Combined Federal And State Income Tax Rate (L6 + L9)	<u>38.5989%</u>			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 4,503,772			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	<u>2,593,789</u>			
13	Required Increase In Operating Income (L11 - L12)		\$ 1,909,983		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 1,609,755			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	<u>409,073</u>			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 1,200,682		
17	Total Required Increase In Revenue (L13 + L16)		<u>\$ 3,110,665</u>		
<b>CALCULATION OF INCOME TAX:</b>					
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			RUCO Recommended	\$ 21,929,279
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)				15,815,752
20	Synchronized Interest (Col. (C), L37)				<u>1,943,056</u>
21	Arizona Taxable Income (L18 - L19 - L20)				\$ 4,170,471
22	Arizona State Income Tax Rate				<u>6.9680%</u>
23	Arizona Income Tax (L21 X L22)				\$ 290,598
24	Fed. Taxable Income (L21 - L23)				\$ 3,879,873
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%				\$ 7,500
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%				6,250
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%				8,500
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%				91,650
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%				1,205,257
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 1,319,157
31	Combined Federal And State Income Tax (L23 + L30)				<u>\$ 1,609,755</u>
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)				\$ 409,073
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)				<u>\$ 1,200,682</u>
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				34.00%
<b>CALCULATION OF INTEREST SYNCHRONIZATION:</b>					
35	Rate Base (Sch. RLM-2, Col. (H), L15)				\$ 64,339,595
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)				3.02%
37	Synchronized Interest (L35 X L36)				<u>\$ 1,943,056</u>

**SURREBUTTAL RATE BASE - ORIGINAL COST**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 211,145,154	\$ (233,889)	\$ 210,911,265
2	CWIP - White Tanks	25,000,000	(25,000,000)	\$ -
3	Accumulated Depreciation	(20,033,433)	968,689	(19,064,744)
4	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 216,111,721</u>	<u>\$ (24,265,200)</u>	<u>\$ 191,846,521</u>
5	Advances In Aid Of Const.	\$ (98,233,813)	\$ -	\$ (98,233,813)
6	Contribution In Aid Of Const.	\$ (29,706,549)	\$ (3,432,286)	\$ (33,138,835)
7	Accumulated Amortization Of CIAC	1,435,287	28,016	1,463,303
8	NET CIAC (L6 + L7)	<u>\$ (28,271,263)</u>	<u>\$ (3,404,270)</u>	<u>\$ (31,675,532)</u>
9	Imputed Regulatory Advances	\$ -	\$ -	\$ -
10	Imputed Regulatory Contributions	\$ (796,965)	\$ -	\$ (796,965)
11	Customer Meter Deposits	\$ (19,040)	\$ -	\$ (19,040)
12	Deferred Income Taxes And Credits	\$ 2,839,311	\$ -	\$ 2,839,311
13	Investment Tax Credits	\$ -	\$ -	\$ -
14	Deferred Debits	\$ 3,529,517	\$ (3,321,116)	\$ 208,401
15	Allowance For Working Capital	\$ 1,816,928	\$ (1,646,215)	\$ 170,713
16	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
17	Rounding	\$ (1)	\$ -	\$ (1)
18	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u>\$ 96,976,396</u>	<u>\$ (32,636,800)</u>	<u>\$ 64,339,595</u>

References:

- Column (A): Company Schedule B-1
- Column (B): Schedule RLM-2
- Column (C): Column (A) + Column (B)

SURREBTUTAL SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) SURREBTUTL ADJMT NO. 1 POST TY PLANT	(C) REVISED ADJMT NO. 1 ACCUMULTD DEPRECTN	(D) ADJMT NO. 2 CIAC FOR CWIP	(E) ADJMT NO. 3 ACC AMORT PER GB 18.7	(F) ADJMT NO. 4 UPIS PER GB 9.4	(G) ADJMT NO. 5 DEFERRED DEBITS	(H) REVISED ADJMT NO. 6 WORKING CAPITAL	(I) ADJMT NO. 7 WHITE TANKS CWIP	(J) RUCO ADJTD OCRB/FVRB
1	Gross Utility Plant In Service	\$ 211,145,154	\$ (252,470)	\$ -	\$ -	\$ -	\$ 18,581	\$ -	\$ -	\$ (25,000,000)	\$ 210,911,265
2	CWIP - White Tanks	25,000,000	-	971,064	-	-	(2,375)	-	-	-	\$ (19,064,744)
3	Accumulated Depreciation	(20,033,433)	-	971,064	-	-	16,206	-	-	-	\$ 191,848,521
4	Net Utility Plant In Service (Sum L1 & L3)	\$ 216,111,721	\$ (252,470)	\$ 971,064	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (25,000,000)	\$ 191,848,521
5	Advances In Aid Of Const.	\$ (98,233,813)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (98,233,813)
6	Contribution In Aid Of Const	\$ (29,706,549)	\$ -	\$ -	\$ (3,432,286)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (33,138,835)
7	Accumulated Amortization Of CIAC	1,435,287	-	-	-	28,016	-	-	-	-	1,463,303
8	NET CIAC (L6 + L7)	\$ (28,271,263)	\$ -	\$ -	\$ (3,432,286)	\$ 28,016	\$ -	\$ -	\$ -	\$ -	\$ (31,675,532)
9	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10	Imputed Regulatory Contributions	\$ (796,965)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (796,965)
11	Customer Meter Deposits	\$ (19,040)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (19,040)
12	Deferred Income Taxes And Credits	\$ 2,839,311	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,839,311
13	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	Deferred Debits	\$ 3,529,517	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (3,321,116)	\$ -	\$ -	\$ 208,401
15	Allowance For Working Capital	\$ 1,816,928	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,646,215)	\$ -	\$ 170,713
16	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17	Rounding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
18	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	\$ 96,976,396	\$ (252,470)	\$ 971,064	\$ (3,432,286)	\$ 28,016	\$ 16,206	\$ (3,321,116)	\$ (1,646,215)	\$ (25,000,000)	\$ 64,339,595

SURREBTUTAL ADJUSTMENTS:  
Column (B): Surrebtutal Adjustment No. 1 - Post Test-Year Plant Adjustment (Surrebtutal Testimony, RLM)

- References:  
Column (A): Company Schedule B-2  
Column (C): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation (See RLM-3, Pages 1 Thru 7, And Testimony, RLM)  
Column (D): Adjustment No. 2 - Reinstate Company's Adjustment To Remove CIAC Associated With CWIP  
Column (E): Adjustment No. 3 - Conforming Adjustment Per Company Response To Staff DR GB 18.7  
Column (F): Adjustment No. 4 - Conforming Adjustment Per Company Response To Staff DR GB 9.4  
Column (G): Adjustment No. 5 - Adjust Post Test-Year Plant Per Company Responses To Staff Data Request GWB 17.1  
Column (H): Adjustment No. 7 - Allowance For Working Capital  
Column (I): Adjustment No. 6 - Remove Company's Adjustment To Include CWIP Associated With The White Tanks Project  
Column (J): Sum Of Columns (A), (B), (C), (D), (E), (F), (G) & (H)

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6  
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A) AMOUNT	(B) REFERENCE
1	Materials And Supplies As Per Company	\$ 192,139	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	<u>192,139</u>	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 214,929	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	<u>214,929</u>	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	\$ 1,409,860	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	<u>(236,355)</u>	RUCO Schedule RLM-5, Page 2
9	Adjustment	\$ (1,646,215)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See RLM-2, Column (G))	<u>\$ (1,646,215)</u>	Sum Lines 3, 6 & 9

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6 - CONT'D  
LEAD/LAG DAY SUMMARY**

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTM'TS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 1,440,677	\$ (71,074)	\$ 1,369,603	12.00	\$ 16,435,242
2	Purchased Water	901,467	-	901,467	86.87	78,310,438
3	Fuel & Power	1,954,815	-	1,954,815	32.42	63,375,102
4	Chemicals	1,121,555	(139,625)	981,930	28.47	27,955,547
5	Management Fees	2,775,604	-	2,775,604	(3.88)	(10,769,344)
6	Group Insurance	396,645	-	396,645	(4.64)	(1,842,218)
7	Pensions	240,413	-	240,413	45.00	10,818,585
8	Insurance Other Than Group	158,153	-	158,153	45.00	7,116,885
9	Customer Accounting	370,806	-	370,806	7.46	2,766,213
10	Rents	63,217	-	63,217	(10.68)	(675,271)
11	Depreciation & Amortization	4,397,190	(4,397,190)	-	-	-
12	Other Operating Expenses	1,603,545	(389,172)	1,214,372	30.00	36,431,169
	Taxes:					
13	Taxes Other Than Income	128,923	-	128,923	15.65	2,017,787
14	Property Taxes	803,071	16,314	819,385	212.50	174,119,327
15	Income Tax	3,352,198	(1,742,443)	1,609,755	42.04	67,674,426
16	Interest Expense	-	1,943,056	1,943,056	106.52	206,974,302
17	Total Appropriate Operating Expenses	<u>\$ 19,708,280</u>	<u>\$ (4,780,135)</u>	<u>\$ 14,928,145</u>		<u>\$ 680,708,190</u>
18	Expense Lag	Line 17, Col. (E) / (C)	45.60			
19	Revenue Lag	Company Response To RUCO DR 8	<u>39.82</u>			
20	Net Lag	Line 18 - Line 17	(5.78)			
21	RUCO Adjusted Expenses	Col. (C), Line 16	<u>\$ 14,928,145</u>			
22	Cash Working Capital	Line 19 X Line 20 / 365 Days	<u>(236,355)</u>			
23	Company As Filed	Co. Schedule B-6, Page 1	1,409,860			
24	Difference	Line 21 - Line 22	<u>\$ (1,646,215)</u>			
25	ADJUSTMENT (See RLM-5, Page 1, L 9)	Line 23	<u>\$ (1,646,215)</u>			

Referer Column (A): - Company Schedule B-6  
Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)  
Column (C): Column (A) + (B)  
Column (D): - Company Schedule B-6  
Column (E): Column (C) X Column (D)

**SURREBUTTAL OPERATING INCOME**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJM'TS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
<b>Revenues:</b>						
1	Metered Water Revenues	\$ 17,913,497	\$ -	\$ 17,913,497	\$ 3,110,665	\$ 21,024,162
2	Unmetered Water Revenues	905,117	-	905,117	-	905,117
3	Other Water Revenues	-	-	-	-	-
4	<b>TOTAL OPERATING REVENUE</b>	<b>\$ 18,818,614</b>	<b>\$ -</b>	<b>\$ 18,818,614</b>	<b>\$ 3,110,665</b>	<b>\$ 21,929,279</b>
<b>Operating Expenses:</b>						
5	Labor	\$ 1,440,677	\$ (71,074)	\$ 1,369,603	\$ -	\$ 1,369,603
6	Purchased Water	901,467	-	901,467	-	901,467
7	Fuel & Power	1,954,815	-	1,954,815	-	1,954,815
8	Chemicals	1,121,555	(139,625)	981,930	-	981,930
9	Waste Disposal	(870)	870	-	-	-
10	Management Fees	2,775,604	-	2,775,604	-	2,775,604
11	Group Insurance	396,645	-	396,645	-	396,645
12	Pensions	240,413	-	240,413	-	240,413
13	Regulatory Expense	64,012	-	64,012	-	64,012
14	Insurance Other Than Group	158,153	-	158,153	-	158,153
15	Customer Accounting	370,806	-	370,806	-	370,806
16	Rents	63,217	-	63,217	-	63,217
17	General Office Expense	161,107	-	161,107	-	161,107
18	Miscellaneous	787,967	(5,376)	782,591	-	782,591
19	Maintenance Expense	591,329	(320,655)	270,674	-	270,674
20	Depreciation & Amortization	4,397,190	(20,784)	4,376,406	-	4,376,406
21	General Taxes - Property Taxes	803,071	16,314	819,385	-	819,385
22	General Taxes - Other	128,923	-	128,923	-	128,923
23	Income Tax	(138,756)	547,829	409,073	1,200,682	1,609,755
24	Rounding	-	-	-	-	-
25	<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 16,217,325</b>	<b>\$ 7,500</b>	<b>\$ 16,224,825</b>	<b>\$ 1,200,682</b>	<b>\$ 17,425,507</b>
26	<b>OPERATING INCOME (LOSS)</b>	<b>\$ 2,601,289</b>	<b>\$ (7,500)</b>	<b>\$ 2,593,789</b>	<b>\$ 1,909,983</b>	<b>\$ 4,503,772</b>

**References:**

- Column (A): Company Schedule C-1
- Column (B): RLM-7, Columns (B) Thru (H)
- Column (C): Column (A) + Column (B)
- Column (D): RLM-1, Pages 1 & 2
- Column (E): Column (C) + Column (D)

**SURREBUTTAL SUMMARY OF OPERATING INCOME ADJUSTMENTS**  
**TEST YEAR AS FILED AND ADJUSTMENTS**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) SURREBUTL ADJMT NO. 3 TANK MAINTENANCE	(C) SURREBUTL ADJMT NO. 4 CHEMICAL EXPENSE	(D) SURREBUTL ADJMT NO. 5 WATER TEST EXPENSE	(E) REVISED ADJMT NO. 1 PROPERTY TAX	(F) REVISED ADJMT NO. 2 DEPRECIATN & AMORTIZN	(G) ADJMT NO. 3 RATE CASE EXPENSE	(H) ADJMT NO. 4 WASTE DISPOSAL	(I) ADJMT NO. 5 AIP EXPENSE	(J) ADJMT NO. 6 LABOR EXPENSE	(K) ADJMT NO. 7 MISC. EXPENSE	(L) REVISED ADJMT NO. 8 INCOME TAX	(M) RUCO AS ADJTD
1	Revenues:													
2	Metered Water Revenues	\$ 17,913,497	-	-	-	-	-	-	-	-	-	-	-	\$ 17,913,497
3	Unmetered Water Revenues	906,117	-	-	-	-	-	-	-	-	-	-	-	906,117
4	TOTAL OPERATING REV.	\$ 18,819,614	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,819,614
5	Operating Expenses:													
6	Labor	\$ 1,440,677	-	-	-	-	-	-	-	\$ (33,409)	\$ (37,665)	-	-	\$ 1,369,603
7	Purchased Water	901,467	-	-	-	-	-	-	-	-	-	-	-	901,467
8	Fuel & Power	1,954,815	-	-	-	-	-	-	-	-	-	-	-	1,954,815
9	Chemicals	1,121,555	-	(139,625)	-	-	-	-	-	-	-	-	-	981,930
10	Waste Disposal	(870)	-	-	-	-	-	870	-	-	-	-	-	-
11	Management Fees	2,775,604	-	-	-	-	-	-	-	-	-	-	-	2,775,604
12	Group Insurance	396,645	-	-	-	-	-	-	-	-	-	-	-	396,645
13	Pensions	240,413	-	-	-	-	-	-	-	-	-	-	-	240,413
14	Regulatory Expense	64,012	-	-	-	-	-	-	-	-	-	-	-	64,012
15	Insurance Other Than Group	158,153	-	-	-	-	-	-	-	-	-	-	-	158,153
16	Customer Accounting	370,806	-	-	-	-	-	-	-	-	-	-	-	370,806
17	Rents	63,217	-	-	-	-	-	-	-	-	-	-	-	63,217
18	General Office Expense	161,107	-	-	-	-	-	-	-	-	-	-	-	161,107
19	Miscellaneous	787,967	-	-	-	-	-	-	-	-	-	-	-	787,967
20	Maintenance Expense	591,329	(320,655)	-	74	-	-	-	-	-	-	(5,450)	-	270,674
21	Depreciation & Amortization	4,397,190	-	-	-	-	(20,784)	-	-	-	-	-	-	4,376,406
22	General Taxes - Property Taxes	803,071	-	-	-	16,314	-	-	-	-	-	-	-	819,385
23	General Taxes - Other	128,923	-	-	-	-	-	-	-	-	-	-	-	128,923
24	Income Tax	(138,756)	-	-	-	-	-	-	-	-	-	-	547,829	(138,756)
25	TOTAL OPERATING EXP.	\$ 16,217,325	\$ (320,655)	\$ (139,625)	\$ 74	\$ 16,314	\$ (20,784)	\$ -	\$ 870	\$ (33,409)	\$ (37,665)	\$ (5,450)	\$ 547,829	\$ 15,676,996
26	OPERATING INC. (LOSS)	\$ 2,602,289	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,142,618

SURREBUTTAL ADJUSTMENTS:  
 3 Tank Maintenance  
 4 Chemical Expenses  
 5 Water Testing Expenses

REFERENCE:  
 Surrebutal Testimony, RLM  
 Surrebutal Testimony, RLM  
 Surrebutal Testimony, RLM

ADJUSTMENTS:  
 1 Property Tax Computation  
 2 Depreciation And Amortization Expense  
 3 Rate Case Expense  
 4 Waste Disposal Expense  
 5 Annual Incentive Pay Program Expense  
 6 Labor Expense  
 7 Miscellaneous Expenses  
 8 Income Tax

REFERENCE:  
 Testimony, RLM And Schedule RLM-8  
 Testimony, RLM And Schedule RLM-9  
 Testimony, RLM And Schedule RLM-10  
 Testimony, RLM  
 Testimony, RLM And Schedule RLM-11  
 Testimony, RLM  
 Testimony, RLM And Schedule RLM-12  
 Testimony, RLM And Schedule RLM-13

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1  
PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	\$ 18,818,614	
2	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	18,818,614	
3	Proposed Revenues	Sch. RLM-6, Col (D), Ln 4	21,929,279	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 59,566,507	
5	Average Annual Operating Revenues	Line 4 / 3	19,855,502	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 39,711,005
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ 1,422,630	
8	10% Of CWIP	Line 7 X 10%		\$ 142,263
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	Company Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	Company Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 39,853,268
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 9,166,252	
Property Tax Rates:				
15	Primary Tax Rate	Company Workpapers	8.93915%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	8.93915%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 819,385
19	Test Year Adjusted Property Tax Expense As Filing	Co. Sch. C-1		803,071
20	Decrease In Property Tax Expense	Line 18 - Line 19		\$ 16,314
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 16,314

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2  
TEST YEAR DEPRECIATION EXPENSE**

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ 1,229	0.00%	\$ -
2	302000	Franchises	321,997	0.00%	-
3	303200	Land & Land Rights SS	1,433,636	0.00%	-
4	303300	Land & Land Rights P	(28,462)	0.00%	-
5	303400	Land & Land Rights TD	624,652	0.00%	-
6	303600	Land & Land Rights AG	-	0.00%	-
7	304100	Struct & Imp SS	9,020,159	2.50%	225,504
8	304200	Struct & Imp P	4,836,854	1.67%	80,775
9	304300	Struct & Imp WT	1,162,010	1.67%	19,406
10	304400	Struct & Imp TD	3,550,951	0.00%	-
11	304600	Struct & Imp Offices	173,285	4.63%	8,023
12	304800	Struct & Imp Misc	-	0.00%	-
13	305000	Collect & Impounding	-	2.50%	-
14	307000	Wells & Springs	11,874,350	3.33%	395,416
15	310100	Power Generation Equip Other	828,646	4.42%	36,626
16	311200	Pump Equip Electric	21,199,873	4.42%	937,034
17	311300	Pump Equip Diesel	11,872	4.42%	525
18	311500	Pump Equip Other	1,271,551	4.42%	56,203
19	320100	WT Equip Non-Media	9,503,375	4.00%	380,135
20	330000	Dist Reservoirs & Standpipe	9,495,115	1.67%	158,568
21	331001	TD Mains Not Classified By Size	5,717,924	1.53%	87,484
22	331100	TD Mains 4in & Less	21,371,153	1.53%	326,979
23	331200	TD Mains 6in to 8in	31,329,479	1.53%	479,341
24	331300	TD Mains 10in to 16in	27,284,414	1.53%	417,452
25	331400	TD Mains 18in And Greater	13,774,400	2.00%	275,488
26	332000	Fire Mains	89,876	2.00%	1,798
27	333000	Services	11,273,032	2.48%	279,571
28	334100	Meters	4,666,830	2.51%	117,137
29	334200	Meter Installations	1,583,277	2.51%	39,740
30	335000	Hydrants	11,793,410	2.00%	235,868
31	339100	Other P/E Intangible	-	0.00%	-
32	339500	Other P/E TD	-	0.00%	-
33	340100	Office Furniture & Equip	92,864	4.04%	3,752
34	340200	Comp & Periph Equip	74,675	10.00%	7,467
35	341100	Trans Equip Lt Duty Trks	202,656	22.00%	44,584
36	341200	Trans Equip Hvy Duty Trks	-	15.00%	-
37	342000	Stores Equipment	-	3.92%	-
38	343000	Tools, Shop, Garage Equip	8,607	4.02%	346
39	344000	Laboratory Equipment	-	3.71%	-
40	345000	Power Operated Equipment	30,559	5.20%	1,589
41	346100	Comm Equip Non-Telephone	1,462,700	10.30%	150,658
42	346300	Comm Equip Other	390,586	4.93%	19,256
43	TOTAL	TEST YEAR DIRECT UPIS AND DEPRECIATION EXPENSE	<u>\$ 206,427,533</u>		<u>\$ 4,786,726</u>
44	SUB-TOTAL	TEST YEAR CORPORATE UPIS AND DEPRECIATION EXPENSE			186,438
45	TOTAL	DEPRECIATION EXPENSE ON UPIS			<u>4,973,163</u>
45		POST TEST YEAR DEPRECIATION EXPENSE ON UPIS			55,722
46		DEPRECIATION ON ACQUISITION ADJUSTMENT			230,973
47		AMORTIZATION OF REGULATORY ASSETS			2,918
48		AMORTIZATION OF CONTRIBUTIONS			(689,025)
49		AMORTIZATION OF REGULATORY CIAC			(197,344)
50		Rounding			(1)
51	<b>TOTAL DEPRECIATION EXPENSE</b>				<u>\$ 4,376,406</u>
52	Company As Filed				<u>4,397,190</u>
53	Difference				<u>\$ (20,784)</u>
54	RUCO Adjustment (See RLM-7, Column (C))				<u>\$ (20,784)</u>

References:

Column (A): RLM-3, Page 7, Column (D)  
Column (B): RLM-3, Page 1, Column (A)  
Column (C): Column (A) X Column (B)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7  
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
<b>FEDERAL INCOME TAXES:</b>			
1	Operating Income Before Taxes	Sch. MDC-6, Column (C), L26 + L23	\$ 3,002,862
LESS:			
2	Arizona State Tax	Line 11	73,847
3	Interest Expense	Note (A) Line 20	1,943,056
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ 985,959
5	Federal Tax Rate	Sch. MDC-1, Pg 2, Col. (D), L34	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	\$ 335,226
<b>STATE INCOME TAXES:</b>			
7	Operating Income Before Taxes	Line 1	\$ 3,002,862
LESS:			
8	Interest Expense	Note (A) Line 20	1,943,056
9	State Taxable Income	Line 7 - Line 8	\$ 1,059,806
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ 73,847
<b>TOTAL INCOME TAX EXPENSE:</b>			
12	Federal Income Tax Expense	Line 6	\$ 335,226
13	State Income Tax Expense	Line 11	73,847
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ 409,073
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		(138,756)
16	Total Income Tax Adjustment	Line 14 - Line 15	\$ 547,829
17	RUCO Adjustment (See Sch. RLM-7, Column (H))	Line 16	\$ 547,829

NOTE (A):

Interest Synchronization:			
18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$	64,339,595
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)		3.02%
20	Interest Expense (L18 X L19)	\$	1,943,056



**RATE DESIGN AND PROOF OF RECOMMENDED REVENUE  
ADJUSTED TEST-YEAR REVENUE**

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMIN'TS	(B) ANN'ZED ADJTM'TS	(C) TEST YEAR ADJUSTED DETERMIN'TS	(D) PROPOSED CHARGES & USAGE FEES	(E) RUCO PROPOSED REVENUES	(F) TOTAL REVENUES
38	C2M1F - 4" Commodity Usage	1	-	1	\$ 245.03	\$ 2,246	\$ 2,246
39	First Tier - First 400,000 Gals.	2,284	-	2,284	\$ 2,6794	\$ 6,121	
40	Second Tier - Over 400,000 Gals.	4,581	-	4,581	\$ 2,8394	\$ 13,007	
41	C2M1G - 6" Commodity Usage	3	-	3	\$ 472.25	\$ 16,434	\$ 16,434
42	First Tier - First 800,000 Gals.	17,669	-	17,669	\$ 2,6794	\$ 47,341	
43	Second Tier - Over 800,000 Gals.	41767	-	41,767	\$ 2,8394	\$ 118,595	
44	C2M3 - Arizona Water Contract Commodity Usage	1	-	1	\$ -	\$ -	\$ -
45	First Tier - First 8,000 Gals.	17	-	17	\$ 2,2636	\$ 38	
46	Second Tier - Over 8,000 Gals.	1984	-	1,984	\$ 2,6794	\$ 5,316	
47	Total Commercial Customers	<u>766</u>	<u>3</u>	<u>769</u>			\$ 5,354
48	Total Commercial Usage	<u>1,240,264</u>	<u>3,490</u>	<u>1,243,754</u>			
49	<b>TOTAL COMMERCIAL CUSTOMERS REVENUE</b>						<u>\$ 4,170,663</u>
<b>OPA</b>							
50	C4M2 - Agua Fria OPA - Prison	1	-	1	\$ 212.96	\$ 3,534.23	
51	All Commodity Usage	14,430	-	14,430	\$ 2,6794	\$ 38,663.06	
52	<b>TOTAL OPA CUSTOMER REVENUE</b>						<u>\$ 42,197</u>
<b>SALE FOR RESALE</b>							
53	C5M1 - Agua Fria OWU PI Surprise	4	-	4	\$ -	\$ -	
54	All Commodity Usage	123,440	-	123,440	\$ 0.7737	\$ 95,509.34	
55	<b>TOTAL SALE FOR RESALE CUSTOMER REVENUE</b>				\$ -	\$ -	<u>\$ 95,509</u>
<b>PRIVATE FIRE PROTECTION CUSTOMERS</b>							
56	B6M04 - 4"	1	-	1	\$ 49.60	\$ 595	
57	C6M04 - 4"	82	-	82	\$ 38.38	\$ 37,935	
58	C6M06 - 6"	111	-	111	\$ 57.54	\$ 76,474	
59	C6M08 - 8"	36	-	36	\$ 76.72	\$ 33,400	
60	C6M12 - 12"	1	-	1	\$ 230.15	\$ 2,762	
61	E6M06 6"	1	-	1	\$ 178.28	\$ 1,248	
62	Commodity Usage	-	-	-	No Charge		
63	<b>TOTAL PRIVATE FIRE PROTECTION CUSTOMERS REVENUE</b>						<u>\$ 152,414</u>
<b>MISC IRRIGATION SALES</b>							
64	C7M2 - Agua Fria Irrigation - Raw	4	-	4	\$ -	\$ -	
	All Commodity Usage	4,464	-	4,464	\$ 0.7737	\$ 3,454	
65	C8M2 - Agua Fria Non-Potable	1	-	1	\$ -	\$ -	
66	All Commodity Usage	152,821	-	152,821	\$ 0.9594	\$ 146,620	
67	<b>TOTAL MISC IRRIGATION CUSTOMERS REVENUE</b>						<u>\$ 150,074</u>
68	<b>TOTAL RUCO TEST YEAR REVENUE PER BILL COUNT</b>						<u>\$ 20,795,911</u>
69	Unreconciled Difference vs. Billed Revenues						228,251
70	<b>REVENUE PER BILL COUNT</b>						<u>\$ 21,024,162</u>
71	Other Revenue						905,117
72	ACRM Revenue						-
73	<b>TOTAL REVENUE</b>						<u>\$ 21,929,279</u>
74	<b>ADJUSTED TEST-YEAR REVENUE PER FILING</b>						<u>\$ 21,929,279</u>
75	Difference						\$ (0)

**SURREBUTTAL TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	DESCRIPTION	(A) PRESENT	(B)	(C) COMPANY PROPOSED	(D)	(E) RUCO PROPOSED	(F)
<b>REVENUE ALLOCATION</b>							
1	RESIDENTIAL	\$ 13,689,331	77.05%	\$ 20,981,543	77.84%	\$ 16,185,054	77.83%
2	OTHER	4,078,231	22.95%	5,973,910	22.16%	4,610,857	22.17%
3	TOTAL	<u>\$ 17,767,562</u>	<u>100.00%</u>	<u>\$ 26,955,453</u>	<u>100.00%</u>	<u>\$ 20,795,911</u>	<u>100.00%</u>
<b>ALLOCATION RATIOS</b>							
4	FIX REVENUE	\$ 6,142,639	34.57%	\$ 8,890,833	32.98%	\$ 6,853,728	32.96%
5	VARIABLE REVENUE	11,624,923	65.43%	18,064,620	67.02%	13,942,183	67.04%
6	TOTAL	<u>\$ 17,767,562</u>	<u>100.00%</u>	<u>\$ 26,955,453</u>	<u>100.00%</u>	<u>\$ 20,795,911</u>	<u>100.00%</u>
<b>RES. G-1 (5/8" X 3/4") RATE DESIGN</b>							
		<u>PRESENT</u>		<u>COMPANY PROPOSED</u>		<u>RUCO PROPOSED</u>	
7	BASIC MONTHLY CHARGE	\$ 10.45		\$ 15.00		\$ 11.61	
		<u>PRESENT</u>		<u>PROPOSED</u>			
8	First Tier - First 4,000 Gals.	\$ 1.5398	First Tier - First 4,000 Gals.	\$ 2.9256		\$ 2.2636	
9	Second Tier - Next 9,000 Gals.	\$ 2.2198	Second Tier - Next 9,000 Gals.	\$ 3.4629		\$ 2.6794	
10	Third Tier - Over 13,000 Gals.	\$ 2.6468	Third Tier - Over 13,000 Gals.	\$ 3.6698		\$ 2.8394	
<b>RESIDENTIAL BILL COMPARISONS</b>							
COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL		% OF AVERAGE MONTH USAGE OF 7400 Gal.	GALLONS USED AT VARIOUS USAGE	PRESENT MONTHLY WATER COST	RUCO PROP'D MONTHLY WATER COST	RUCO PROP'D MONTHLY INCREASE	RUCO PROP'D MONTHLY % INCREASE
11		25.00%	1,850	\$ 13.30	\$ 15.79	\$ 2.50	18.76%
12		50.00%	3,700	\$ 16.15	\$ 19.98	\$ 3.83	23.74%
13		100.00%	7,400	\$ 24.16	\$ 29.77	\$ 5.61	23.24%
14		150.00%	11,100	\$ 32.37	\$ 39.68	\$ 7.31	22.60%
15		200.00%	14,800	\$ 41.35	\$ 49.89	\$ 8.53	20.64%

HAVASU WATER DISTRICT

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**REVENUE REQUIREMENT**

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 4,221,474	\$ 3,175,404
2	Adjusted Operating Income (Loss)	\$ (131,419)	\$ 46,436
3	Current Rate Of Return (L2 / L1)	-3.11%	1.46%
4	Required Operating Income (L5 X L1)	\$ 354,604	\$ 222,156
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 486,023	\$ 175,721
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6785	1.5286
8	Increase In Gross Revenue Requirement (L7 X L6)	<b>\$ 815,803</b>	<b>\$ 268,604</b>
9	Adjusted Test Year Revenue	\$ 1,026,587	\$ 1,177,522
10	Proposed Annual Revenue (L8 + L9)	\$ 1,842,390	\$ 1,446,126
11	Required Percentage Increase In Revenue (L8 / L9)	79.47%	22.81%
12	Rate Of Return On Common Equity	11.75%	8.88%

References:

Column (A): Company Schedules A-1 and C-1  
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-14

**GROSS REVENUE CONVERSION FACTOR**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.3458			
3	Subtotal (L1 - L2)	<u>0.6542</u>			
4	<b>Revenue Conversion Factor (L1 / L3)</b>	<b>1.5286</b>			
CALCULATION OF EFFECTIVE TAX RATE:					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	<u>93.0320%</u>			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	29.6802%			
9	Effective Federal Income Tax Rate (L7 X L8)	<u>27.6121%</u>			
10	Combined Federal And State Income Tax Rate (L6 + L9)	<u>34.5801%</u>			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 222,156			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	<u>46,436</u>			
13	Required Increase In Operating Income (L11 - L12)		\$ 175,721		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 66,804			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	<u>(26,080)</u>			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 92,884		
17	Total Required Increase In Revenue (L13 + L16)		<u>\$ 268,604</u>		
CALCULATION OF INCOME TAX:					
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			\$ 1,446,126	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			1,157,166	
20	Synchronized Interest (Col. (C), L37)			95,774	
21	Arizona Taxable Income (L18 - L19 - L20)			\$ 193,186	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				\$ 13,461
24	Fed. Taxable Income (L21 - L23)			\$ 179,725	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			31,093	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			-	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 53,343
31	Combined Federal And State Income Tax (L23 + L30)				<u>\$ 66,804</u>
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)				\$ (26,080)
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)				<u>\$ 92,884</u>
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				29.68%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 3,175,404	
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)			3.02%	
37	Synchronized Interest (L35 X L36)			<u>\$ 95,774</u>	

**RATE BASE - ORIGINAL COST**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 9,837,304	\$ (816,311)	\$ 9,020,993
2	Accumulated Depreciation	\$ (1,327,687)	18,659	\$ (1,309,028)
3	Net Utility Plant In Service (Sum L1 & L3)	\$ 8,509,617	\$ (797,652)	\$ 7,711,965
4	Advances In Aid Of Const.	\$ (3,217,334) 0	\$ -	\$ (3,217,334)
5	Contribution In Aid Of Const.	\$ (1,355,090)	\$ (10,645)	\$ (1,365,735)
6	Accumulated Amortization Of CIAC	\$ -	\$ -	\$ -
7	NET CIAC (L6 + L7)	\$ (1,355,090)	\$ (10,645)	\$ (1,365,735)
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (113,427)	\$ -	\$ (113,427)
10	Customer Meter Deposits	\$ (512)	\$ -	\$ (512)
11	Deferred Income Taxes And Credits	\$ 131,385	\$ -	\$ 131,385
12	Investment Tax Credits	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 155,374	\$ (145,701)	\$ 9,673
14	Allowance For Working Capital	\$ 111,462	\$ (92,072)	\$ 19,390
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
16	Rounding	\$ (1)	\$ -	\$ (1)
17	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	\$ 4,221,474	\$ (1,046,070)	\$ 3,175,404

References:

- Column (A): Company Schedule B-1
- Column (B): Schedule RLM-2
- Column (C): Column (A) + Column (B)

**SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS**

LINE NO.	(A) DESCRIPTION	(B) SURREBUT'L ADJMT NO. 1 REMOVE GATEWAY	(C) ADJMT NO. 1 ACCUMULT'D DEPRECTN	(D) ADJMT NO. 2 CIAC FOR CWIP	(E)	(F) ADJMT NO. 4 DEFERRED DEBITS	(G) ADJMT NO. 5 WORKING CAPITAL	(H) RUCO ADJUSTED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 9,837,304	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,020,993
2	Accumulated Depreciation	(1,327,687)	4,659	-	-	-	-	(1,309,028)
3	Net Utility Plant In Service (Sum L1 & L3)	\$ 8,509,617	\$ 4,659	\$ -	\$ -	\$ -	\$ -	\$ 7,711,965
4	Advances In Aid Of Const.	\$ (3,217,334)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (3,217,334)
5	Contribution In Aid Of Const.	\$ (1,355,090)	\$ -	\$ (10,645)	\$ -	\$ -	\$ -	\$ (1,365,735)
6	Accumulated Amortization Of CIAC	-	-	-	-	-	-	-
7	NET CIAC (L5 + L6)	\$ (1,355,090)	\$ -	\$ (10,645)	\$ -	\$ -	\$ -	\$ (1,365,735)
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (113,427)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (113,427)
10	Customer Meter Deposits	\$ (512)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (512)
11	Deferred Income Taxes And Credits	\$ 131,385	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 131,385
12	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 155,374	\$ -	\$ -	\$ (145,701)	\$ -	\$ -	\$ 9,673
14	Allowance For Working Capital	\$ 111,462	\$ -	\$ -	\$ -	\$ (92,072)	\$ -	\$ 19,390
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Rounding	(1)	-	-	-	-	-	(1)
17	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	\$ 4,221,474	\$ 4,659	\$ (10,645)	\$ -	\$ (145,701)	\$ (92,072)	\$ 3,175,404

References:

- Column (A): Company Schedule B-2
- Column (B): Remove Gateway Plant and Transfer to Mohave Water and Wastewater Districts
- Column (C): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation (See Direct RLM-3, Pages 1 Thru 7, And Testimony, RLM)
- Column (D): Adjustment No. 2 - Reverse Company's Adjustment To Remove CIAC Associated With CWIP
- Column (E): Adjustment No. 4 - Intentionally Left Blank
- Column (F): Adjustment No. 5 - Recalculate Deferred Regulatory Assets
- Column (G): Adjustment No. 6 - Allowance For Working Capital
- Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6  
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A) AMOUNT	(B) REFERENCE
1	Materials And Supplies As Per Company	\$ 4,486	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	4,486	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 4,556	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	4,556	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	\$ 102,420	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	10,348	RUCO Schedule RLM-5, Page 2
9	Adjustment	\$ (92,072)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See RLM-2, Column (G))	<u>\$ (92,072)</u>	Sum Lines 3, 6 & 9

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6 - CONT'D  
LEAD/LAG DAY SUMMARY**

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTM'TS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 204,741	\$ (2,259)	\$ 202,482	12.0000	\$ 2,429,784
2	Purchased Water	-	-	-	86.8700	-
3	Fuel & Power	111,139	-	111,139	32.4200	3,603,126
4	Chemicals	88,249	7,916	96,165	28.4700	2,737,818
5	Waste Disposal	-	52	52	30.0000	1,560
6	Management Fees	166,461	(2,004)	164,457	(3.8800)	(638,095)
7	Group Insurance	63,729	-	63,729	(4.6445)	(295,989)
8	Pensions	35,586	-	35,586	45.0000	1,601,370
9	Insurance Other Than Group	8,974	-	8,974	45.0000	403,830
10	Customer Accounting	22,062	-	22,062	7.4600	164,583
11	Rents	5,059	-	5,059	(10.6818)	(54,039)
12	Depreciation & Amorization	291,351	(291,351)	-	-	-
13	Other Operating Expenses	258,745	(159,754)	98,991	30.0000	2,969,725
	Taxes:					
14	Taxes Other Than Income	17,638	-	17,638	15.6511	276,054
15	Property Taxes	44,112	10,283	54,395	212.5000	11,558,874
16	Income Tax	147,572	(80,768)	66,804	42.0402	2,808,447
17	Interest Expense	-	95,774	95,774	106.5200	10,201,874
18	Total Appropriate Operating Expenses	<u>\$ 1,465,418</u>	<u>\$ (422,111)</u>	<u>\$ 1,043,307</u>		<u>\$ 37,768,921</u>
19	Expense Lag	Line 18, Col. (E) / (C)	36.20			
20	Revenue Lag		<u>39.82</u>			
21	Net Lag	Line 20 - Line 19	3.62			
22	RUCO Adjusted Expenses	Col. (C), Line 18	<u>\$ 1,043,307</u>			
23	Cash Working Capital	Line 21 X Line 22 / 365 Days	<u>10,348</u>			
24	Company As Filed	Co. Schedule B-6, Page 1	102,420			
25	Difference	Line 23 - Line 24	<u>\$ (92,072)</u>			
26	ADJUSTMENT (See RLM-5, Page 1, L 9)	Line 25	<u>\$ (92,072)</u>			

References:

- Column (A): - Company Schedule B-6
- Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
- Column (C): Column (A) + (B)
- Column (D): - Company Schedule B-6
- Column (E): Column (C) X Column (D)

**OPERATING INCOME**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJ'MTS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
Revenues:						
1	Metered Water Revenues	\$ 1,003,476	\$ 150,935	\$ 1,154,411	\$ 268,604	\$ 1,423,015
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Water Revenues	23,110	-	23,110	-	23,110
4	<b>TOTAL OPERATING REVENUE</b>	<b>\$ 1,026,587</b>	<b>\$ 150,935</b>	<b>\$ 1,177,522</b>	<b>\$ 268,604</b>	<b>\$ 1,446,126</b>
Operating Expenses:						
5	Labor	\$ 204,741	\$ (2,259)	\$ 202,482	\$ -	\$ 202,482
6	Purchased Water	-	-	-	-	-
7	Fuel & Power	111,139	-	111,139	-	111,139
8	Chemicals	88,249	7,916	96,165	-	96,165
9	Waste Disposal	(52)	52	-	-	-
10	Management Fees	166,461	(2,004)	164,457	-	164,457
11	Group Insurance	63,729	-	63,729	-	63,729
12	Pensions	35,586	-	35,586	-	35,586
13	Regulatory Expense	3,840	(0)	3,840	-	3,840
14	Insurance Other Than Group	8,974	-	8,974	-	8,974
15	Customer Accounting	22,062	-	22,062	-	22,062
16	Rents	5,059	-	5,059	-	5,059
17	General Office Expense	13,616	-	13,616	-	13,616
18	Miscellaneous	42,644	3,606	46,250	-	46,250
19	Maintenance Expense	198,697	(159,572)	39,125	-	39,125
20	Depreciation & Amortization	291,351	(18,702)	272,649	-	272,649
21	General Taxes - Property Taxes	44,112	10,283	54,395	-	54,395
22	General Taxes - Other	17,638	-	17,638	-	17,638
23	Income Tax	(159,839)	133,759	(26,080)	92,884	66,804
24	Rounding	(2)	-	-	-	-
25	<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 1,158,005</b>	<b>\$ (26,921)</b>	<b>\$ 1,131,086</b>	<b>\$ 92,884</b>	<b>\$ 1,223,969</b>
26	<b>OPERATING INCOME (LOSS)</b>	<b>\$ (131,419)</b>	<b>\$ 177,856</b>	<b>\$ 46,436</b>	<b>\$ 175,721</b>	<b>\$ 222,156</b>

References:

- Column (A): Company Schedule C-1
- Column (B): RLM-7, Columns (B) Thru (H)
- Column (C): Column (A) + Column (B)
- Column (D): RLM-1, Pages 1 & 2
- Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS  
TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) SURREBUTL ADJMT NO. 1 REVENUE	(C) SURREBUTL ADJMT NO. 2 LABOR	(D) SURREBUTL ADJMT NO. 3 TANK MAINTENANCE	(E) SURREBUTL ADJMT NO. 4 CHEMICAL EXPENSE	(F) SURREBUTL ADJMT NO. 5 WATER TEST EXPENSE	(G) ADJMT NO. 1 PROPERTY TAX	(H) DEPRECIATION & AMORTIZN	(I) ADJMT NO. 2 RATE CASE EXPENSE	(J) ADJMT NO. 3 WASTE DISPOSAL	(K) ADJMT NO. 4 AIP EXPENSE	(L) ADJMT NO. 6 MISC. EXPENSES	(M) ADJMT NO. 7 MISC. EXPENSES	(N) ADJMT NO. 8 INCOME TAX	(O) RUCO AS ADJTD
1	Revenues:															
2	Metered Water Revenues	\$ 1,009,476	\$ 150,935													
3	Unmetered Water Revenues	23,110														
4	Other Water Revenues	\$ 1,026,587	\$ 150,935													
5	TOTAL OPERATING REV.															
6	Operating Expenses:															
7	Labor	\$ 204,741		\$ (2,269)												
8	Purchased Water															
9	Fuel & Power	111,139														
10	Chemicals	84,249														
11	Waste Disposal	186,491			7,916											
12	Management Fees	85,471														
13	Insurance	35,586														
14	Regulatory Expense	3,840														
15	Insurance Other Than Group	8,974														
16	Customer Accounting	22,062														
17	Rents	5,059														
18	General Office Expense	13,916														
19	Miscellaneous	42,644														
20	Maintenance Expense	198,697														
21	Depreciation & Amortization	291,351														
22	General Taxes - Property Taxes	44,112														
23	General Taxes - Other	17,638														
24	Income Tax	(159,639)														
25	Rounding	(2)														
26	TOTAL OPERATING EXP.	\$ 1,158,095		\$ (2,269)	\$ (159,572)	\$ 7,916	\$ 3,794	\$ 10,283	\$ (18,702)	\$ (0)	\$ 52	\$ (2,004)	\$ (188)	\$ (133,759)	\$ 1,131,089	
	OPERATING INC. (LOSS)	\$ (131,419)														\$ 46,436

SURREBUTL ADJUSTMENTS:  
Column A: Company as Filed  
Column B: ACRM Revenue  
Column C: Labor  
Column D: Tank Maintenance  
Column E: Chemical Expense  
Column F: Water Testing  
Column G: Property Tax Computation

REFERENCE:  
Company C-2 as Filed  
RLM Testimony  
RLM Testimony  
RLM Testimony  
RLM Testimony  
RLM Testimony and SURR Schedule 8

SURREBUTL ADJUSTMENTS:  
Column H: Depreciation And Amortization Expense  
Column I: Rate Case Expense  
Column J: Waste Disposal  
Column K: Annual Incentive Pay Program Expense  
Column L: Intentionally Left Blank  
Column M: Miscellaneous Expense  
Column N: Income Tax

REFERENCE:  
RLM Testimony and SURR Schedule RLM-9  
RLM Testimony  
RLM Testimony  
RLM Testimony  
RLM Testimony and SURR Schedule RLM-13

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1  
PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Adjusted Test Year Revenue	Schedule RLM-7	\$ 1,177,522	
2	Adjusted Test Year Revenue	Schedule RLM-7	1,177,522	
3	RUCO Proposed Revenue	Schedule RLM-6	1,446,126	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 3,801,169	
5	Average Annual Operating Revenues	Line 4 / 3	1,267,056	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 2,534,112
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ 100,797	
8	10% Of CWIP	Line 7 X 10%		\$ 10,080
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	Company Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	Company Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 2,544,192
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 585,164	
Property Tax Rates:				
15	Primary Tax Rate	Company Workpapers	9.30%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	9.30%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 54,395
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		44,112
20	Increase (Decrease) In Property Tax Expense	Line 18 - Line 19		\$ 10,283
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 10,283

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2  
TEST YEAR DEPRECIATION EXPENSE**

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMMISSION AUTHORIZED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ 10,144	0.00%	\$ -
2	302000	Franchises	-	0.00%	-
3	303200	Land & Land Rights SS	47,343	0.00%	-
4	303300	Land & Land Rights P	-	0.00%	-
5	303500	Land & Land Rights TD	-	0.00%	-
6	303600	Land & Land Rights AG	-	0.00%	-
7	304100	Struct & Imp SS	2,033,779	2.79%	56,742
8	304200	Struct & Imp P	99,968	0.00%	-
9	304300	Struct & Imp WT	-	0.00%	-
10	304400	Struct & Imp TD	-	0.00%	-
11	304600	Struct & Imp Offices	20,697	2.03%	420
12	304800	Struct & Imp Misc	-	0.00%	-
13	305000	Collect & Impounding	148,253	2.54%	3,766
14	306000	Lakes, Rivers, Other Intakes	-	0.00%	-
15	307000	Wells & Springs	385,744	2.54%	9,798
16	310100	Power Generation Equip Other	580	5.12%	30
17	311200	Pump Equip Electric	1,295,271	3.71%	48,055
18	311300	Pump Equip Diesel	-	0.00%	-
19	311500	Pump Equip Other	4,202	0.00%	-
20	320100	WT Equip Non-Media	258,942	12.00%	31,073
21	330000	Dist Reservoirs & Standpipe	1,237,149	2.33%	28,826
22	331001	TD Mains Not Classified by Size	778,740	2.13%	16,587
23	331100	TD Mains 4in & Less	409,286	2.13%	8,718
24	331200	TD Mains 6in to 8in	850,235	2.13%	18,110
25	331300	TD Mains 10in to 16in	730,665	2.13%	15,563
26	333000	Services	278,916	2.89%	8,061
27	334100	Meters	175,586	3.52%	6,181
28	334200	Meter Installations	17,253	3.52%	607
29	335000	Hydrants	-	0.00%	-
30	339100	Othber P/E Intangible	-	0.00%	-
31	3392500	Other P/E SS	33,463	0.00%	-
32	340100	Office Furniture & Equip	3,254	4.10%	133
33	340200	Comp & Periph Equip	17,522	4.10%	718
34	341100	Trans Equip Lt Duty Trks	76,510	25.00%	19,128
35	341200	Trans Equip Hvy Duty Trks	-	25.00%	-
36	342000	Stores Equipment	-	3.93%	-
37	343000	Tools, Shop, Garage Equip	17,822	7.55%	1,346
38	344000	Laboratory Equipment	460	3.06%	14
39	345000	Power Operated Equipment	33,093	9.23%	3,054
40	346100	Comm Equip Non-Telephone	11,702	4.10%	480
41	346300	Comm Equip Other	44,414	6.19%	2,749
42	TOTAL	TEST YEAR DIRECT UPIS AND DEPRECIATION EXPENSE	<u>\$ 9,020,993</u>		<u>\$ 280,158</u>
43	SUB-TOTAL	TEST YEAR CORPORATE UPIS AND DEPRECIATION EXPENSE			25,755
44	SUB-TOTAL	POST TEST YEAR DEPRECIATION EXPENSE ON UPIS			-
45	TOTAL	DEPRECIATION EXPENSE ON UPIS			<u>\$ 305,913</u>
46		AMORTIZATION OF DEFERRED DEBIT - Y2K COSTS			-
47		AMORITZATION OF REGULATORY ASSETS			834
48		AMORTIZATION OF CONTRIBUTIONS			(6,011)
49		AMORTIZATION OF REGULATORY CIAC			(28,087)
50		Rounding			-
51	TOTAL DEPRECIATION EXPENSE				<u>\$ 272,649</u>
52	Company As Filed				291,351
53	Difference				<u>(18,702)</u>
54	RUCO Adjustment (See RLM-7, Column (C))				<u>(18,702)</u>

References:

Column (A): RLM-3, Page 7, Column (D)  
Column (B): RLM-3, Page 1, Column (A)  
Column (C): Column (A) X Column (B)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7  
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
<b>FEDERAL INCOME TAXES:</b>			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L26 + L23	\$ 20,356
	LESS:		
2	Arizona State Tax	Line 11	(5,255)
3	Interest Expense	Note (A) Line 20	95,774
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	<u>\$ (70,163)</u>
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	29.68%
6	Federal Income Tax Expense	Line 4 X line 5	<u>\$ (20,825)</u>
<b>STATE INCOME TAXES:</b>			
7	Operating Income Before Taxes	Line 1	\$ 20,356
	LESS:		
8	Interest Expense	Note (A) Line 20	95,774
9	State Taxable Income	Line 7 - Line 8	<u>\$ (75,418)</u>
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	<u>\$ (5,255)</u>
<b>TOTAL INCOME TAX EXPENSE:</b>			
12	Federal Income Tax Expense	Line 6	\$ (20,825)
13	State Income Tax Expense	Line 11	(5,255)
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	<u>\$ (26,080)</u>
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		(159,839)
16	Total Income Tax Adjustment	Line 14 - Line 15	<u>\$ 133,759</u>
17	RUCO Adjustment (See Sch. RLM-7, Column (H))	Line 16	<u>\$ 133,759</u>
NOTE (A):			
Interest Synchronization:			
18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$ 3,175,404	
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)	3.02%	
20	Interest Expense (L18 X L19)	<u>\$ 95,774</u>	

**RATE DESIGN AND PROOF OF RECOMMENDED REVENUE  
PROPOSED REVENUE**

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMIN'TS	(B) ANN'ZED ADJTM'TS	(C) TEST YEAR ADJUSTED DETERMIN'TS	(D) PROPOSED CHARGES & USAGE FEES	(E) RUCO PROPOSED REVENUES	(F) TOTAL REVENUES
<b>RESIDENTIAL CUSTOMERS</b>							
1	H1M1A - 5/8" & 3/4" Commodity Usage	1,679	(8)	1,671	\$ 22.04	\$ 441,854	\$ 441,854
2	First Tier - First 4,000 Gals.	59,838	(380)	59,458	\$ 3.1736	\$ 188,693	
3	Second Tier - Next 9,000 Gals.	67,209	(542)	66,667	\$ 3.3019	\$ 220,129	
4	Third Tier - Over 13,000 Gals.	69,397	-	69,397	\$ 3.5851	\$ 248,793	
					\$ -		\$ 657,615
5	H1M1B - 1" Commodity Usage	1	-	1	\$ 37.92	\$ 295	\$ 295
6	First Tier - First 30,000 Gals.	79	-	79	\$ 3.3019	\$ 261	
7	Second Tier - Over 30,000 Gals.	63	-	63	\$ 3.5851	\$ 226	
8	H1M1D - 2" Commodity Usage	1	-	1	\$ 74.61	\$ 950	\$ 950
9	First Tier - First 60,000 Gals.	377	-	377	\$ 3.3019	\$ 1,245	
10	Second Tier - Over 60,000 Gals.	0	-	0	\$ 3.5851	\$ -	
11	H1M1F - 4" Commodity Usage	2	-	2	\$ 128.41	\$ 3,592	\$ 3,592
12	First Tier - First 110,000 Gals.	1,992	-	1,992	\$ 3.3019	\$ 6,577	
13	Second Tier - Over 110,000 Gals.	4,381	-	4,381	\$ 3.5851	\$ 15,706	
14	H1M3D - Apt 2" Commodity Usage	0	-	0	\$ 11.02	\$ 11	\$ 22,284
15	First Tier - First 60,000 Gals.	53	-	53	\$ 3.3019	\$ 175	
16	Second Tier - Over 60,000 Gals.	0	-	0	\$ 3.5851	\$ -	\$ 175
17	H1M3F - Apt 4" Commodity Usage	40	-	40	\$ 11.02	\$ 5,333	\$ 5,333
18	First Tier - First 110,000 Gals.	254	-	254	\$ 3.3019	\$ 839	
19	Second Tier - Over 110,000 Gals.	76	-	76	\$ 3.5851	\$ 272	
20	H1M3H - Apt 4" - Valley Manor Commodity Usage	73	-	73	\$ 11.02	\$ 9,597	\$ 9,597
21	First Tier - First 110,000 Gals.	1,430	-	1,430	\$ 3.3019	\$ 4,722	
22	Second Tier - Over 110,000 Gals.	2,748	-	2,748	\$ 3.5851	\$ 9,852	
23	H1M3J - Apt 4" - Kenjen RV Commodity Usage	111	-	111	\$ 11.02	\$ 14,610	\$ 14,610
24	First Tier - First 110,000 Gals.	1,401	-	1,401	\$ 3.3019	\$ 4,626	
25	Second Tier - Over 110,000 Gals.	271	-	271	\$ 3.5851	\$ 972	
26	H1M3K - Apt 4" - HV Falls RV Commodity Usage	280	-	280	\$ 11.02	\$ 36,954	\$ 36,954
27	First Tier - First 110,000 Gals.	1,253	-	1,253	\$ 3.3019	\$ 4,137	
28	Second Tier - Over 110,000 Gals.	796	-	796	\$ 3.5851	\$ 2,854	
29	H1M3L - Apt 1" - LH RV Commodity Usage	38	-	38	\$ 11.02	\$ 4,969	\$ 4,969
30	First Tier - First 30,000 Gals.	330	-	330	\$ 3.3019	\$ 1,090	
31	Second Tier - Over 30,000 Gals.	1,747	-	1,747	\$ 3.5851	\$ 6,263	
32	H1M3M - Apt 1" - D Hills RV Commodity Usage	99	-	99	\$ 11.02	\$ 13,045	\$ 7,353
33	First Tier - First 30,000 Gals.	503	-	503	\$ 3.3019	\$ 1,661	
34	Second Tier - Over 30,000 Gals.	799	-	799	\$ 3.5851	\$ 2,864	
35	H1M3P - Apt 6" - Hav Resort Commodity Usage	166	-	166	\$ 11.02	\$ 21,915	\$ 4,525
36	First Tier - First 500,000 Gals.	5,777	-	5,777	\$ 3.3019	\$ 19,076	
37	Second Tier - Over 500,000 Gals.	526	-	526	\$ 3.5851	\$ 1,885	
38	Total Residential Customers	<u>2,654</u>	<u>(8)</u>	<u>2,646</u>			\$ 20,961
39	Total Residential Usage	<u>227,603</u>	<u>(922)</u>	<u>226,681</u>			
40	TOTAL RESIDENTIAL CUSTOMERS REVENUE						<u>\$ 1,296,041</u>

**RATE DESIGN AND PROOF OF RECOMMENDED REVENUE  
ADJUSTED TEST-YEAR REVENUE**

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMINTS	(B) ANN'ZED ADJTM'TS	(C) TEST YEAR ADJUSTED DETERMINTS	(D) PROPOSED CHARGES & USAGE FEES	(E) RUCO PROPOSED REVENUES	(F) TOTAL REVENUES
<b>COMMERCIAL CUSTOMERS</b>							
34	H2M1A - 5/8" & 3/4" Commodity Usage	38	-0.2	38	\$ 22.04	\$ 10,073	\$ 10,073
35	First Tier - First 13,000 Gals.	3,229	-26.0	3,203	\$ 3.3019	\$ 10,576	
36	Second Tier - Over 13,000 Gals.	5,349	-0.9	5,348	\$ 3.5851	\$ 19,173	
							\$ 29,749
37	H2M1B - 1" Commodity Usage	10	-0.3	10	\$ 37.92	\$ 4,379	\$ 4,379
38	First Tier - First 30,000 Gals.	2,145	-90.0	2,055	\$ 3.3019	\$ 6,785	
39	Second Tier - Over 30,000 Gals.	5,041	-91.9	4,949	\$ 3.5851	\$ 17,743	
							\$ 24,528
40	H2M1D - 2" Commodity Usage	22	-0.1	22	\$ 74.61	\$ 19,903	\$ 19,903
41	First Tier - First 60,000 Gals.	9,042	-60.0	8,982	\$ 3.3019	\$ 29,658	
42	Second Tier - Over 60,000 Gals.	11,161	-15.5	11,146	\$ 3.5851	\$ 39,958	
							\$ 69,615
43	H2M1E - 3" Commodity Usage	5	0.0	5	\$ 101.51	\$ 5,600	\$ 5,600
44	First Tier - First 90,000 Gals.	814	0.0	814	\$ 3.3019	\$ 2,688	
45	Second Tier - Over 90,000 Gals.	419	0.0	419	\$ 3.59	\$ 1,502	
							\$ 4,190
46	Total Commercial Customers	<u>75</u>	<u>-1</u>	<u>75</u>			
47	Total Commercial Usage	<u>37,200</u>	<u>-284</u>	<u>36,916</u>			
48	<b>TOTAL COMMERCIAL CUSTOMERS REVENUE</b>						<u>\$ 168,038</u>
64	<b>TOTAL RUCO TEST YEAR REVENUE PER BILL COUNT</b>						<u>\$ 1,464,078</u>
65	Unreconciled Difference vs. Billed Revenues						<u>(41,062)</u>
66	<b>REVENUE PER BILL COUNT</b>						<u>1,423,016</u>
67	Other Revenue						23,110
68	ACRM Revenue						-
69	<b>TOTAL REVENUE</b>						<u>\$ 1,446,126</u>
70	<b>PROPOSED REVENUE PER FILING</b>						<u>\$ 1,446,126</u>
71	Difference						\$ 0

**RATE DESIGN AND PROOF OF RECOMMENDED REVENUE  
TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	DESCRIPTION	(A) PRESENT	(B)	(C) COMPANY PROPOSED	(D)	(E) RUCO PROPOSED	(F)
<b>REVENUE ALLOCATION</b>							
1	RESIDENTIAL	\$ 917,232	88.44%	\$ 1,646,824	88.52%	\$ 1,296,041	88.52%
2	OTHER	119,942	11.56%	213,518	11.48%	168,038	11.48%
3	TOTAL	<u>\$ 1,037,174</u>	<u>100.00%</u>	<u>\$ 1,860,342</u>	<u>100.00%</u>	<u>\$ 1,464,078</u>	<u>100.00%</u>
<b>ALLOCATION RATIOS</b>							
4	FIX REVENUE	\$ 470,144	45.33%	\$ 753,600	40.51%	\$ 593,078	40.51%
5	VARIABLE REVENUE	567,030	54.67%	1,106,743	59.49%	871,000	59.49%
6	TOTAL	<u>\$ 1,037,174</u>	<u>100.00%</u>	<u>\$ 1,860,342</u>	<u>100.00%</u>	<u>\$ 1,464,078</u>	<u>100.00%</u>
<b>RES. G-1 (5/8" X 3/4") RATE DESIGN</b>							
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
7	BASIC MONTHLY CHARGE	\$ 17.40		\$ 28.00		\$ 22.04	
COMMODITY CHARGE							
		PRESENT	PROPOSED				
8	First Tier - First 4,000 Gals.	\$ 1.6802	First Tier - First 4,000 Gals.	\$ 4.0325		\$ 3.1736	
9	Second Tier - Next 9,000 Gals.	\$ 2.1852	Second Tier - Next 9,000 Gals.	\$ 4.1956		\$ 3.3019	
10	Third Tier - Over 13,000 Gals.	\$ 2.5002	Third Tier - Over 13,000 Gals.	\$ 4.5554		\$ 3.5851	
<b>RESIDENTIAL BILL COMPARISONS</b>							
COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL		% OF AVERAGE MONTH USAGE OF 9705 Gal.	GALLONS USED AT VARIOUS USAGE	PRESENT MONTHLY WATER COST	RUCO PROP'D MONTHLY WATER COST	RUCO PROP'D MONTHLY INCREASE	RUCO PROP'D MONTHLY % INCREASE
11		25.00%	2,426	\$ 21.48	\$ 29.74	\$ 8.26	38.46%
12		50.00%	4,853	\$ 25.98	\$ 37.44	\$ 11.45	44.07%
13		100.00%	9,705	\$ 35.55	\$ 52.63	\$ 17.08	48.06%
14		150.00%	14,558	\$ 47.68	\$ 70.03	\$ 22.35	46.87%
15		200.00%	19,410	\$ 59.81	\$ 87.43	\$ 27.61	46.17%

MOHAVE WATER DISTRICT

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SURR RD-2	1	TYPICAL RESIDENTIAL BILL ANALYSIS

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 12,041,310	\$ 10,561,020
2	Adjusted Operating Income (Loss)	\$ 37,140	\$ 360,802
3	Current Rate Of Return (L2 / L1)	0.31%	3.42%
4	Required Operating Income (L5 X L1)	\$ 1,011,470	\$ 738,866
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 974,330	\$ 378,064
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6990	1.6286
8	Increase In Gross Revenue Requirement (L7 X L6)	<b>\$ 1,655,410</b>	<b>\$ 615,728</b>
9	Adjusted Test Year Revenue	\$ 5,113,631	\$ 5,113,631
10	Proposed Annual Revenue (L8 + L9)	\$ 6,769,041	\$ 5,729,359
11	Required Percentage Increase In Revenue (L8 / L9)	32.37%	12.04%
12	Rate Of Return On Common Equity	11.75%	8.88%

References:

Column (A): Company Schedules A-1 and C-1  
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-16

**GROSS REVENUE CONVERSION FACTOR**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.3860			
3	Subtotal (L1 - L2)	0.6140			
4	<b>Revenue Conversion Factor (L1 / L3)</b>	<b>1.6286</b>			
CALCULATION OF EFFECTIVE TAX RATE:					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	34.0000%			
9	Effective Federal Income Tax Rate (L7 X L8)	31.6309%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	38.5989%			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 738,866			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	360,802			
13	Required Increase In Operating Income (L11 - L12)		\$ 378,064		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 264,235			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	26,571			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 237,664		
17	Total Required Increase In Revenue (L13 + L16)		\$ 615,728		
CALCULATION OF INCOME TAX:					
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			\$ 5,729,359	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			4,726,258	
20	Synchronized Interest (Col. (C), L37)			318,534	
21	Arizona Taxable Income (L18 - L19 - L20)			\$ 684,567	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				\$ 47,701
24	Fed. Taxable Income (L21 - L23)			\$ 636,867	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			91,650	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			102,635	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 216,535
31	Combined Federal And State Income Tax (L23 + L30)				\$ 264,235
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)				\$ 26,571
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)				\$ 237,664
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				34.00%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 10,561,020	
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)			3.02%	
37	Synchronized Interest (L35 X L36)			\$ 318,534	

**RATE BASE - ORIGINAL COST**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 28,800,225	\$ 753,728	\$ 29,553,953
2	Accumulated Depreciation	\$ (13,084,198)	129,951	\$ (12,954,247)
3	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 15,716,027</u>	<u>\$ 883,679</u>	<u>\$ 16,599,706</u>
4	Advances In Aid Of Const.	\$ (5,947,009)	\$ (291,910)	\$ (6,238,919)
5	Contribution In Aid Of Const.	\$ (107,545)	\$ (94,453)	\$ (201,998)
6	Accumulated Amortization Of CIAC	\$ -	\$ (27,517)	\$ (27,517)
7	NET CIAC (L6 + L7)	<u>\$ (107,545)</u>	<u>\$ (121,969)</u>	<u>\$ (229,514)</u>
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (1,157,044)	\$ -	\$ (1,157,044)
10	Customer Meter Deposits	\$ (7,800)	\$ -	\$ (7,800)
11	Deferred Income Taxes And Credits	\$ 1,360,455	\$ -	\$ 1,360,455
12	Investment Tax Credits	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 1,749,805	\$ (1,649,972)	\$ 99,833
14	Allowance For Working Capital	\$ 434,422	\$ (300,118)	\$ 134,304
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
16	Rounding	\$ (1)	\$ -	\$ (1)
17	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u>\$ 12,041,310</u>	<u>\$ (1,480,290)</u>	<u>\$ 10,561,020</u>

References:

- Column (A): Company Schedule B-1
- Column (B): Schedule RLM-2
- Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB	(B) SURREBT/ ADJ. 1 MOVE GATEWAY	(C) SURREBT/ ADJ. 2 BIG BEND ACTUAL COST	(D) ADJMT NO. 1 ACCUMULTD DEPRECTN	(E) ADJMT NO. 2 CIAC FOR CWIP	(F) ADJMT NO. 3 ACC AMORT PER GB 18.7	(G) ADJMT NO. 4	(H) ADJMT NO. 5 DEFERRED DEBITS	(I) ADJMT NO. 6 WORKING CAPITAL	(J) RUCO ADJTD OCRB/FVRB
1	Gross Utility Plant In Service	\$ 28,800,225	\$ 721,333	\$ 32,395	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,553,953
2	Accumulated Depreciation	(13,064,198)	(45,790)	-	175,741	-	-	-	-	-	(12,954,247)
3	Net Utility Plant In Service (Sum L1 & L3)	\$ 15,716,027	\$ 675,543	\$ 32,395	\$ 175,741	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,599,706
4	Advances In Aid Of Const.	\$ (5,947,009)	\$ -	\$ -	\$ -	\$ (291,910)	\$ -	\$ -	\$ -	\$ -	\$ (6,238,919)
5	Contribution In Aid Of Const.	\$ (107,545)	\$ -	\$ -	\$ -	\$ (94,453)	\$ -	\$ -	\$ -	\$ -	\$ (201,998)
6	Accumulated Amortization Of CIAC	-	-	-	-	-	(27,517)	-	-	-	(27,517)
7	NET CIAC (L5 + L6)	\$ (107,545)	\$ -	\$ -	\$ -	\$ (94,453)	\$ (27,517)	\$ -	\$ -	\$ -	\$ (229,514)
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (1,157,044)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,157,044)
10	Customer Meter Deposits	\$ (7,800)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (7,800)
11	Deferred Income Taxes And Credits	\$ 1,360,455	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,360,455
12	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 1,749,805	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,649,972)	\$ -	\$ -	\$ 99,833
14	Allowance For Working Capital	\$ 434,422	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (300,118)	\$ 134,304
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Rounding	(1)	-	-	-	-	-	-	-	-	(1)
17	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	\$ 12,041,310	\$ 675,543	\$ 32,395	\$ 175,741	\$ (386,362)	\$ (27,517)	\$ -	\$ (1,649,972)	\$ (300,118)	\$ 10,561,020

References:

- Surrebutal Adjustments:
- Column (A): Company Schedule B-2
- Column (B): Surrebutal Adjustment No. 1 - Add Gateway Plant (RLM Testimony)
- Column (C): Surrebutal Adjustment No. 2 - Big Bend Reservoir Actual Cost (RLM Testimony)

Direct Adjustments:

- Column (D): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation (See RLM-3, Pages 1 Thru 7, And Testimony, RLM)
- Column (E): Adjustment No. 2 - Reverse Company's Adjustment To Remove CIAC Associated With CWIP
- Column (F): Adjustment No. 3 - Conforming Adjustment to GB 18.7
- Column (G): Adjustment No. 4 - Intentionally Left Blank
- Column (H): Adjustment No. 5 - To Correct Deferred Debit Balance per Company's Response to Staff DR GWB 17.1
- Column (I): Adjustment No. 6 - Allowance For Working Capital
- Column (J): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6  
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A) AMOUNT	(B) REFERENCE
1	Materials And Supplies As Per Company	\$ 8,897	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	8,897	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 57,963	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	57,963	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	\$ 367,562	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	67,444	RUCO Schedule RLM-5, Page 2
9	Adjustment	\$ (300,118)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See RLM-2, Column (G))	\$ (300,118)	Sum Lines 3, 6 & 9

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6 - CONT'D  
LEAD/LAG DAY SUMMARY**

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTM'TS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 899,973	\$ (12,768)	\$ 887,205	12.0000	\$ 10,646,460
2	Purchased Water	44,384	-	44,384	86.8700	3,855,638
3	Fuel & Power	501,877	-	501,877	32.4200	16,270,852
4	Chemicals	7,846	-	7,846	28.4700	223,376
5	Waste Disposal	(295)	295	-	30.0000	-
6	Management Fees	940,899	(11,325)	929,574	(3.8800)	(3,606,747)
7	Group Insurance	209,312	-	209,312	(4.6445)	(972,150)
8	Pensions	127,879	-	127,879	45.0000	5,754,555
9	Insurance Other Than Group	51,991	-	51,991	45.0000	2,339,595
10	Customer Accounting	132,002	-	132,002	7.4600	984,735
11	Rents	15,559	-	15,559	(10.6818)	(166,198)
12	Depreciation & Amorization	883,235	(883,235)	-	-	-
13	Other Operating Expenses	1,160,857	(470,254)	690,603	30.0000	20,718,078
	Taxes:					
14	Taxes Other Than Income	75,809	-	75,809	15.6511	1,186,494
15	Property Taxes	221,795	8,882	230,677	212.5000	49,018,871
16	Income Tax	422,238	(158,003)	264,235	42.0402	11,108,505
17	Interest Expense	-	318,534	318,534	106.5200	33,930,230
18	Total Appropriate Operating Expenses	<u>\$ 5,695,361</u>	<u>\$ (1,207,874)</u>	<u>\$ 4,487,487</u>		<u>\$ 151,292,295</u>
19	Expense Lag		Line 18, Col. (E) / (C)	33.71		
20	Revenue Lag		RUCO Workpapers	<u>39.20</u>		
21	Net Lag		Line 20 - Line 19	5.49		
22	RUCO Adjusted Expenses		Col. (C), Line 18	<u>\$ 4,487,487</u>		
23	Cash Working Capital		Line 21 X Line 22 / 365 Days	<u>67,444</u>		
24	Company As Filed		Co. Schedule B-6, Page 1	367,562		
25	Difference		Line 23 - Line 24	<u>\$ (300,118)</u>		
26	ADJUSTMENT (See RLM-5, Page 1, L 9)		Line 25	<u>\$ (300,118)</u>		

References:

- Column (A): - Company Schedule B-6
- Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
- Column (C): Column (A) + (B)
- Column (D): - Company Schedule B-6
- Column (E): Column (C) X Column (D)

**OPERATING INCOME**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJ'MTS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
<b>Revenues:</b>						
1	Metered Water Revenues	\$ 4,932,608	\$ -	\$ 4,932,608	\$ 615,728	\$ 5,548,336
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Water Revenues	181,023	-	181,023	-	181,023
4	<b>TOTAL OPERATING REVENUE</b>	<b>\$ 5,113,631</b>	<b>\$ -</b>	<b>\$ 5,113,631</b>	<b>\$ 615,728</b>	<b>\$ 5,729,359</b>
<b>Operating Expenses:</b>						
5	Labor	\$ 899,973	\$ (12,768)	\$ 887,205	\$ -	\$ 887,205
6	Purchased Water	44,384	-	44,384	-	44,384
7	Fuel & Power	501,877	-	501,877	-	501,877
8	Chemicals	7,846	-	7,846	-	7,846
9	Waste Disposal	(295)	295	-	-	-
10	Management Fees	940,899	(11,325)	929,574	-	929,574
11	Group Insurance	209,312	-	209,312	-	209,312
12	Pensions	127,879	-	127,879	-	127,879
13	Regulatory Expense	119,303	(96,100)	23,203	-	23,203
14	Insurance Other Than Group	51,991	-	51,991	-	51,991
15	Customer Accounting	132,002	-	132,002	-	132,002
16	Rents	15,559	-	15,559	-	15,559
17	General Office Expense	103,944	-	103,944	-	103,944
18	Miscellaneous	354,017	7,220	361,237	-	361,237
19	Maintenance Expense	583,888	(381,669)	202,219	-	202,219
20	Depreciation & Amortization	883,235	(61,694)	821,541	-	821,541
21	General Taxes - Property Taxes	221,795	8,882	230,677	-	230,677
22	General Taxes - Other	75,809	-	75,809	-	75,809
23	Income Tax	(196,927)	223,498	26,571	237,664	264,235
24	Rounding	-	-	-	-	-
25	<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 5,076,491</b>	<b>\$ (323,662)</b>	<b>\$ 4,752,829</b>	<b>\$ 237,664</b>	<b>\$ 4,990,493</b>
26	<b>OPERATING INCOME (LOSS)</b>	<b>\$ 37,140</b>	<b>\$ 323,662</b>	<b>\$ 360,802</b>	<b>\$ 378,064</b>	<b>\$ 738,866</b>

References:

- Column (A): Company Schedule C-1
- Column (B): RLM-7, Columns (B) Thru (H)
- Column (C): Column (A) + Column (B)
- Column (D): RLM-1, Pages 1 & 2
- Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS  
 TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) SURREBUTL ADJMT NO. 3 TANK MAINTENANCE	(C) SURREBUTL ADJMT NO. 5 WATER TESTING	(D) ADJMT NO. 1 PROPERTY TAX	(E) ADJMT NO. 2 DEPRECIATION & AMORTIZATION	(F) ADJMT NO. 3 RATE CASE EXPENSE	(G) ADJMT NO. 4 WASTE DISPOSAL	(H) ADJMT NO. 5 AIP EXPENSE	(I) ADJMT NO. 6 LABOR EXPENSE	(J) ADJMT NO. 7 MISC. EXPENSES	(K) ADJMT NO. 8 INCOME TAX	(L) RUCO AS ADJTD
1	Revenues:												
2	Metered Water Revenues	\$ 4,932,608											\$ 4,932,608
3	Unmetered Water Revenues												
4	Other Water Revenues	181,023											181,023
	TOTAL OPERATING REV.	\$ 5,113,631											\$ 5,113,631
	Operating Expenses:												
5	Labor	\$ 899,973								\$ (12,768)			\$ 887,205
6	Purchased Water	44,384											44,384
7	Fuel & Power	501,877											501,877
8	Chemicals	7,846											7,846
9	Waste Disposal	(295)					295						
10	Management Fees	940,899						(11,325)					929,574
11	Group Insurance	209,312											209,312
12	Pensions	127,879											127,879
13	Regulatory Expense	119,303											119,303
14	Insurance Other Than Group	51,991											51,991
15	Customer Accounting	132,002											132,002
16	Rents	15,559											15,559
17	General Office Expense	103,944											103,944
18	Miscellaneous	354,017		8,627							(1,407)		361,237
19	Maintenance Expense	583,888	(381,669)										202,219
20	Depreciation & Amortization	883,235											883,235
21	General Taxes - Property Taxes	221,795				(61,694)							160,101
22	General Taxes - Other	75,809			8,882								84,691
23	Income Tax	(196,927)										223,498	26,571
24	Rounding												
25	TOTAL OPERATING EXP.	\$ 5,076,491	\$ (381,669)	\$ 8,627	\$ 8,882	\$ (61,694)	\$ (96,100)	\$ 295	\$ (11,325)	\$ (12,768)	\$ (1,407)	\$ 223,498	\$ 4,752,829
26	OPERATING INC. (LOSS)	\$ 37,140											\$ 360,802

SURREBUTL ADJUSTMENTS:  
 1 Tank Maintenance Expense  
 2 Water Testing Expense

DIRECT ADJUSTMENTS:  
 1 Property Tax Computation  
 2 Depreciation And Amortization Expense  
 3 Rate Case Expense  
 4 Waste Disposal Expense  
 5 Annual Incentive Pay Program Expense  
 6 To Correct Test Year Labor Expense  
 7 Miscellaneous Expense  
 8 Income Tax

REFERENCE:  
 RLM Testimony  
 RLM Testimony

Testimony, RLM And Schedule RLM-8  
 Testimony, RLM And Schedule RLM-9  
 RLM Testimony  
 Per Company Response to DR GTM 8.7  
 RLM Testimony  
 Agua Fria, Mohave & Sun City West Adjustment To Labor Expense  
 RLM Testimony  
 Testimony, RLM And Schedule RLM-13

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1  
PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Adjusted Test Year Revenue	Schedule RLM-7	\$ 5,113,631	
2	Adjusted Test Year Revenue	Schedule RLM-7	5,113,631	
3	RUCO Proposed Revenue	Schedule RLM-6	5,729,359	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 15,956,621	
5	Average Annual Operating Revenues	Line 4 / 3	5,318,874	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 10,637,748
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ 498,471	
8	10% Of CWIP	Line 7 X 10%		\$ 49,847
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	RUCO Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	RUCO Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 10,687,595
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 2,458,147	
Property Tax Rates:				
15	Primary Tax Rate	Company Workpapers	9.38%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	9.38%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 230,677
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		221,795
20	Increase (Decrease) In Property Tax Expense	Line 18 - Line 19		\$ 8,882
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 8,882

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2  
TEST YEAR DEPRECIATION EXPENSE**

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ 34,004	0.00%	\$ -
2	302000	Franchises	37,061	0.00%	-
3	303200	Land & Land Rights SS	290,791	0.00%	-
4	303300	Land & Land Rights P	2,351	0.00%	-
5	303500	Land & Land Rights TD	9,609	0.00%	-
6	303600	Land & Land Rights AG	31,052	0.00%	-
7	304100	Struct & Imp SS	452,783	2.83%	12,814
8	304200	Struct & Imp P	1,687	2.39%	40
9	304300	Struct & Imp WT	47,846	2.50%	1,196
10	304400	Struct & Imp TD	6,311	1.81%	114
11	304600	Struct & Imp Offices	477,525	2.03%	9,694
12	304700	Struct & Imp - Stores	29,223	2.03%	593
13	305000	Collect & Impounding	663,944	2.54%	16,864
14	306000	Lakes, Rivers, Other Intakes	-	0.00%	-
15	307000	Wells & Springs	1,068,077	2.70%	28,838
16	310100	Power Generation Equip Other	188,229	0.00%	-
17	311200	Pump Equip Electric	2,325,058	5.12%	119,043
18	311300	Pump Equip Diesel	-	0.00%	-
19	311500	Pump Equip Other	1,009	5.12%	52
20	320100	WT Equip Non-Media	50,870	12.00%	6,104
21	330000	Dist Reservoirs & Standpipe	2,237,501	1.81%	40,499
22	331001	TD Mains Not Classified by Size	131,082	2.61%	3,421
23	331100	TD Mains 4in & Less	11,718,711	2.61%	305,858
24	331200	TD Mains 6in to 8in	2,476,114	2.61%	64,627
25	331300	TD Mains 10in to 16in	221,359	2.61%	5,777
26	333000	Services	3,447,832	5.41%	186,528
27	334100	Meters	1,770,642	6.53%	115,623
28	334200	Meter Installations	236,697	6.53%	15,456
29	335000	Hydrants	36,474	0.00%	-
30	339100	Other P/E Intangible	-	0.00%	-
31	3392500	Other P/E SS	82,582	0.00%	-
32	340100	Office Furniture & Equip	253,564	4.10%	10,396
33	340200	Comp & Periph Equip	113,990	4.10%	4,674
34	340300	Computer Software	191,175	4.10%	7,838
35	341100	Trans Equip Lt Duty Trks	343,147	25.00%	85,787
36	341200	Trans Equip Hvy Duty Trks	-	25.00%	-
37	342000	Stores Equipment	2,400	3.93%	94
38	343000	Tools, Shop, Garage Equip	138,100	7.55%	10,427
39	344000	Laboratory Equipment	7,623	3.06%	233
40	345000	Power Operated Equipment	172,529	9.23%	15,924
41	346100	Communication Equipment	199,709	4.10%	8,188
42	346200	Communication Equipment Telephone	49,678	4.10%	2,037
43	346300	Miscellaneous Equipment	5,615	6.19%	348
44	TOTAL	0	<u>\$ 29,553,953</u>		<u>\$ 1,079,088</u>
44	SUB-TOTAL	POST TEST YEAR DEPRECIATION EXPENSE ON UPIS			12,014
45	TOTAL	DEPRECIATION EXPENSE ON UPIS			<u>\$ 1,091,102</u>
46		AMORTIZATION OF DEFERRED DEBIT - Y2K COSTS			-
47		AMORITZATION OF REGULATORY ASSETS			9,384
48		AMORTIZATION OF CONTRIBUTIONS			7,561
49		AMORTIZATION OF REGULATORY CIAC			(286,506)
50		Rounding			-
51	<b>TOTAL DEPRECIATION EXPENSE</b>				<u>\$ 821,541</u>
52	Company As Filed				883,235
53	Difference				<u>\$ (61,694)</u>
54	RUCO Adjustment (See RLM-7, Column (C))				<u>\$ (61,694)</u>

References:

Column (A): RLM-3, Page 7, Column (D)  
Column (B): RLM-3, Page 1, Column (A)  
Column (C): Column (A) X Column (B)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7  
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
<b>FEDERAL INCOME TAXES:</b>			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L26 + L23	\$ 387,373
LESS:			
2	Arizona State Tax	Line 11	4,797
3	Interest Expense	Note (A) Line 20	318,534
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ 64,042
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	\$ 21,774
<b>STATE INCOME TAXES:</b>			
7	Operating Income Before Taxes	Line 1	\$ 387,373
LESS:			
8	Interest Expense	Note (A) Line 20	318,534
9	State Taxable Income	Line 7 - Line 8	\$ 68,839
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ 4,797
<b>TOTAL INCOME TAX EXPENSE:</b>			
12	Federal Income Tax Expense	Line 6	\$ 21,774
13	State Income Tax Expense	Line 11	4,797
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ 26,571
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		(196,927)
16	Total Income Tax Adjustment	Line 14 - Line 15	\$ 223,498
17	RUCO Adjustment (See Sch. RLM-7, Column (H))	Line 16	\$ 223,498

NOTE (A):

Interest Synchronization:		
18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$ 10,561,020
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)	3.02%
20	Interest Expense (L18 X L19)	\$ 318,534

**RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**  
**PROPOSED REVENUE**

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMINTS	(B) ANN'ZED ADJTM'TS	(C) TEST YEAR ADJUSTED DETERMINTS	(D) PROPOSED CHARGES & USAGE FEES	(E) RUCO PROPOSED REVENUES	(F) TOTAL REVENUES
<b>RESIDENTIAL CUSTOMERS</b>							
1	G1M1A - 5/8" & 3/4" Commodity Usage	14,732	(3)	14,729	\$ 10.13	\$ 1,790,852	\$ 1,790,852
2	First Tier - First 4,000 Gals.	527,981	(148)	527,833	\$ 1.2420	\$ 655,586	
3	Second Tier - Next 6,000 Gals.	483,259	(151)	483,108	\$ 1.3721	\$ 662,855	
4	Third Tier - Over 10,000 Gals.	415,917	-	415,917	\$ 1.4725	\$ 612,455	
							\$ 1,930,896
5	G1M1B - 1" Commodity Usage	55	0	55	\$ 24.60	\$ 16,384	\$ 16,384
6	First Tier - First 25,000 Gals.	9,632	96	9,728	\$ 1.3721	\$ 13,348	
7	Second Tier - Over 25,000 Gals.	6,291	-	6,291	\$ 1.4725	\$ 9,264	
							\$ 22,611
8	G1M1D - 2" Commodity Usage	30	-	30	\$ 78.74	\$ 28,369	\$ 28,369
9	First Tier - First 80,000 Gals.	14,419	-	14,419	\$ 1.3721	\$ 19,784	
10	Second Tier - Over 80,000 Gals.	29,167	-	29,167	\$ 1.4725	\$ 42,950	
							\$ 62,733
11	G1M2A - Apt 5/8" X 3/4" Commodity Usage	72	-	72	\$ 10.13	\$ 8,809	\$ 8,809
12	First Tier - First 10,000 Gals.	7,980	-	7,980	\$ 1.3721	\$ 10,949	
13	Second Tier - Over 10,000 Gals.	7,248	-	7,248	\$ 1.4725	\$ 10,673	
							\$ 21,622
14	G1M2B - Apt 1" Commodity Usage	55	-	55	\$ 24.60	\$ 16,109	\$ 16,109
15	First Tier - First 25,000 Gals.	10,407	-	10,407	\$ 1.3721	\$ 14,279	
16	Second Tier - Over 25,000 Gals.	6,078	-	6,078	\$ 1.4725	\$ 8,950	
							\$ 23,229
17	G1M2C - Apt 1-1/2" Commodity Usage	4	-	4	\$ 49.22	\$ 2,320	\$ 2,320
18	First Tier - First 50,000 Gals.	2,090	-	2,090	\$ 1.3721	\$ 2,868	
19	Second Tier - Over 50,000 Gals.	500	-	500	\$ 1.4725	\$ 736	
							\$ 3,604
20	G1M2D - Apt 2" Commodity Usage	145	-	145	\$ 78.74	\$ 137,101	\$ 137,101
21	First Tier - First 80,000 Gals.	57,666	-	57,666	\$ 1.3721	\$ 79,121	
22	Second Tier - Over 80,000 Gals.	68,243	-	68,243	\$ 1.4725	\$ 100,491	
							\$ 179,612
23	G1M2F - Apt 4" Commodity Usage	4	-	4	\$ 248.96	\$ 11,236	\$ 11,236
24	First Tier - First 250,000 Gals.	5,465	-	5,465	\$ 1.3721	\$ 7,498	
25	Second Tier - Over 250,000 Gals.	3,049	-	3,049	\$ 1.4725	\$ 4,490	
							\$ 11,988
26	G1M2G - Apt 6" Commodity Usage	3	-	3	\$ 492.14	\$ 17,717	\$ 17,717
27	First Tier - First 500,000 Gals.	9,165	-	9,165	\$ 1.3721	\$ 12,575	
28	Second Tier - Over 500,000 Gals.	9,449	-	9,449	\$ 1.4725	\$ 13,914	
							\$ 26,489
29	G1M3A - Apt 5/8" x 3/4" - Rio Utility Commodity Usage	352	-	352	\$ 10.13	\$ 42,793	\$ 42,793
30	First Tier - First 4,000 Gals.	13,793	-	13,793	\$ 1.2420	\$ 17,131	
31	Second Tier - Next 6,000 Gals.	14,700	-	14,700	\$ 1.3721	\$ 20,169	
32	Third Tier - Over 10,000 Gals.	14,697	-	14,697	\$ 1.4725	\$ 21,642	
							\$ 58,943
33	G1M3B - Apt 1" - Rio Utility Commodity Usage	4	-	4	\$ 24.60	\$ 1,181	\$ 1,181
34	First Tier - First 25,000 Gals.	468	-	468	\$ 1.3721	\$ 642	
35	Second Tier - Over 25,000 Gals.	53	-	53	\$ 1.4725	\$ 78	
							\$ 720
36	Total Residential Customers	15,456	(3)	15,453			
37	Total Residential Usage	1,703,924	(202)	1,703,722			
38	TOTAL RESIDENTIAL CUSTOMERS REVENUE						\$ 4,415,318

**RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**  
**PROPOSED REVENUE**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)
		TEST YEAR DETERMIN'TS	ANN'ZED ADJTM'TS	TEST YEAR ADJUSTED DETERMIN'TS	PROPOSED CHARGES & USAGE FEES	RUCO PROPOSED REVENUES	TOTAL REVENUES
<b>COMMERCIAL CUSTOMERS</b>							
39	G2M1A - 5/8" & 3/4" Commodity Usage	402	(1)	402	\$ 10.13	\$ 48,842	\$ 48,842
40	First Tier - First 13,000 Gals.	25,169	(90)	25,079	\$ 1.3721	\$ 34,410	
41	Second Tier - Over 13,000 Gals.	31,262	(15)	31,247	\$ 1.4725	\$ 46,012	
42	G2M1B - 1" Commodity Usage	171	0	171	\$ 24.60	\$ 50,510	\$ 50,510
43	First Tier - First 30,000 Gals.	28,236	125	28,361	\$ 1.3721	\$ 38,913	
44	Second Tier - Over 30,000 Gals.	25,918	7	25,925	\$ 1.4725	\$ 38,176	
45	G2M1C - 1-1/2" Commodity Usage	9	(0)	9	\$ 49.22	\$ 5,154	\$ 5,154
46	First Tier - First 60,000 Gals.	3,433	(150)	3,283	\$ 1.3721	\$ 4,504	
47	Second Tier - Over 60,000 Gals.	9,690	(215)	9,475	\$ 1.4725	\$ 13,952	
48	G2M1D - 2" Commodity Usage	206	0	207	\$ 78.74	\$ 195,172	\$ 195,172
49	First Tier - First 60,000 Gals.	97,948	80	98,028	\$ 1.3721	\$ 134,501	
50	Second Tier - Over 60,000 Gals.	157,392	23	157,415	\$ 1.4725	\$ 231,800	
51	G2M1E - 3" Commodity Usage	30	-	30	\$ 157.48	\$ 55,995	\$ 55,995
52	First Tier - First 60,000 Gals.	16,576	-	16,576	\$ 1.3721	\$ 22,743	
53	Second Tier - Over 60,000 Gals.	21,120	-	21,120	\$ 1.4725	\$ 31,100	
54	G2M1F - 4" Commodity Usage	1	-	1	\$ 248.96	\$ 3,685	\$ 3,685
55	First Tier - First 60,000 Gals.	2,117	-	2,117	\$ 1.3721	\$ 2,905	
56	Second Tier - Over 60,000 Gals.	255	-	255	\$ 1.4725	\$ 375	
57	G2M1G - 6" Commodity Usage	2	-	2	\$ 492.14	\$ 9,577	\$ 9,577
58	First Tier - First 60,000 Gals.	1,449	-	1,449	\$ 1.3721	\$ 1,988	
59	Second Tier - Over 60,000 Gals.	185	-	185	\$ 1.4725	\$ 272	
60	G2M1V - 5/8" X 3/4" - BHC Memorial Commodity Usage	2	-	2	\$ -	\$ -	\$ -
61	First Tier - First 60,000 Gals.	207	-	207	\$ 1.3721	\$ 284	
62	Second Tier - Over 60,000 Gals.	1,236	-	1,236	\$ 1.4725	\$ 1,820	
63	H2M1D - 2" - Havasu Commercial Commodity Usage	1	-	1	\$ 46.18	\$ 330	\$ 330
64	First Tier - First 60,000 Gals.	415	-	415	\$ 1.6414	\$ 682	
65	Second Tier - Over 60,000 Gals.	2,444	-	2,444	\$ 1.8356	\$ 4,486	
66	H2M1F - 4" - Havasu Commercial Commodity Usage	0	-	0	\$ 79.48	\$ 397	\$ 397
67	First Tier - First 90,000 Gals.	550	-	550	\$ 1.6414	\$ 903	
68	Second Tier - Over 90,000 Gals.	882	-	882	\$ 1.8356	\$ 1,619	
69	Total Commercial Customers	<u>824</u>	<u>(1)</u>	<u>823</u>			\$ 2,261
70	Total Commercial Usage	<u>1,703,924</u>	<u>(202)</u>	<u>1,703,722</u>			\$ -
71	TOTAL COMMERCIAL CUSTOMERS REVENUE						<u>\$ 981,108</u>

**RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**  
**PROPOSED REVENUE**

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMIN'TS	(B) ANN'ZED ADJTM'TS	(C) TEST YEAR ADJUSTED DETERMIN'TS	(D) PROPOSED CHARGES & USAGE FEES	(E) RUCO PROPOSED REVENUES	(F) TOTAL REVENUES
<b>OPA</b>							
72	G4M1 - Bullhead OPA - 5/8" X 3/4"	25	-	25	\$ 10.13	\$ 3,060	
73	All Commodity Usage	2,257	-	2,257	\$ 1.4303	\$ 3,228	\$ 6,288
74	G4M1 - Bullhead OPA - 1"	8	0	8	\$ 24.60	\$ 2,350	
75	All Commodity Usage	3,543	6	3,549	\$ 1.4303	\$ 5,076	\$ 7,427
76	G4M1 - Bullhead OPA - 1-1/2"	4	-	4	\$ 49.22	\$ 2,362	
77	All Commodity Usage	2,104	-	2,104	\$ 1.4303	\$ 3,009	\$ 5,372
78	G4M1 - Bullhead OPA - 2"	42	0	42	\$ 78.74	\$ 39,831	
79	All Commodity Usage	36,512	798	37,310	\$ 1.4303	\$ 53,365	\$ 93,196
80	G4M1 - Bullhead OPA - 3"	2	-	2	\$ 157.48	\$ 3,779	
81	All Commodity Usage	17,545	-	17,545	\$ 1.4303	\$ 25,095	\$ 28,875
82	G4M1 - Bullhead OPA - 4"	1	-	1	\$ 248.96	\$ 2,988	
83	All Commodity Usage	9,597	-	9,597	\$ 1.4303	\$ 13,727	\$ 16,714
84	G4M1 - Bullhead OPA - 6"	1	-	1	\$ 492.14	\$ 5,906	
85	All Commodity Usage	19,160	-	19,160	\$ 1.4303	\$ 27,405	\$ 33,311
86	Total OPA Customers	<u>83</u>	<u>1</u>	<u>83</u>			
87	Total OPA Usage	<u>86,204</u>	<u>804</u>	<u>87,008</u>			
88	TOTAL OPA CUSTOMERS REVENUE						<u>\$ 191,182</u>
<b>PRIVATE FIRE PROTECTION CUSTOMERS (No Commodity Usage Charge)</b>							
89	G6M02 - 2"	21	-	21	\$ 8.18	\$ 2,062	
90	G6M04 - 4"	66	0	66	\$ 16.34	\$ 12,938	
91	G6M06 - 6"	20	-	20	\$ 24.52	\$ 5,885	
92	G6M08 - 8"	5	-	5	\$ 32.70	\$ 1,962	
93	G6M10 - 10"	1	-	1	\$ 40.86	\$ 490	
94	G8M4 - Hydrant	161	-	161	\$ 20.82	\$ 40,227	
95	Total Fire Protection Customers	<u>274</u>	<u>0</u>	<u>274</u>			
96	TOTAL PRIVATE FIRE PROTECTION CUSTOMERS						<u>\$ 63,564</u>
97	<b>TOTAL RUCO TEST YEAR REVENUE PER BILL COUNT</b>						<u>\$ 5,651,173</u>
98	Unreconciled Difference vs. Billed Revenues						<u>(104,938)</u>
99	<b>REVENUE PER BILL COUNT</b>						<u>5,546,236</u>
100	Other Revenue						181,023
101	ACRM Revenue						-
102	<b>TOTAL REVENUE</b>						<u>\$ 5,727,259</u>
103	<b>PROPOSED REVENUE PER FILING</b>						<u>\$ 5,729,359</u>
104	Difference						\$ (2,101)
105	Percentage Difference						-0.04%

**RATE DESIGN AND PROOF OF RECOMMENDED REVENUE  
TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	DESCRIPTION	(A) PRESENT	(B)	(C) COMPANY PROPOSED	(D)	(E) RUCO PROPOSED	(F)
<b>REVENUE ALLOCATION</b>							
1	RESIDENTIAL	\$ 3,891,713	77.57%	\$ 5,229,273	78.13%	\$ 4,415,318	78.13%
2	OTHER	1,125,047	22.43%	1,463,682	21.87%	1,235,855	21.87%
3	TOTAL	<u>\$ 5,016,760</u>	<u>100.00%</u>	<u>\$ 5,651,173</u>	<u>100.00%</u>	<u>\$ 5,651,173</u>	<u>100.00%</u>
<b>ALLOCATION RATIOS</b>							
4	FIX REVENUE	\$ 2,186,482	43.58%	\$ 3,039,479	45.41%	\$ 2,566,373	45.41%
5	VARIABLE REVENUE	2,830,278	56.42%	3,653,476	54.59%	3,084,800	54.59%
6	TOTAL	<u>\$ 5,016,760</u>	<u>100.00%</u>	<u>\$ 5,651,173</u>	<u>100.00%</u>	<u>\$ 5,651,173</u>	<u>100.00%</u>
<b>RES. G-1 (5/8" X 3/4") RATE DESIGN</b>							
		<u>PRESENT</u>		<u>COMPANY PROPOSED</u>		<u>RUCO PROPOSED</u>	
7	BASIC MONTHLY CHARGE	\$ 8.75		\$ 12.00		\$ 10.13	
		<u>PRESENT</u>		<u>PROPOSED</u>			
8	First Tier - First 4,000 Gals.	First Tier - First 4,000 Gals.	\$ 0.8500	\$ 1.4710		\$ 1.2420	
9	Second Tier - Next 6,000 Gals.	Second Tier - Next 6,000 Gals.	\$ 1.3000	\$ 1.6250		\$ 1.3721	
10	Third Tier - Over 10,000 Gals.	Third Tier - Over 10,000 Gals.	\$ 1.5000	\$ 1.7440		\$ 1.4725	
<b>RESIDENTIAL BILL COMPARISONS</b>							
COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL		% OF AVERAGE MONTH USAGE OF 8073 Gal.	GALLONS USED AT VARIOUS USAGE	PRESENT MONTHLY WATER COST	RUCO PROP'D MONTHLY WATER COST	RUCO PROP'D MONTHLY INCREASE	RUCO PROP'D MONTHLY % INCREASE
11		25.00%	2,018	\$ 10.47	\$ 12.64	\$ 2.17	20.77%
12		50.00%	4,037	\$ 12.20	\$ 15.15	\$ 2.95	24.21%
13		100.00%	8,073	\$ 17.44	\$ 20.69	\$ 3.24	18.59%
14		150.00%	12,110	\$ 23.12	\$ 26.44	\$ 3.32	14.38%
15		200.00%	16,146	\$ 29.17	\$ 32.38	\$ 3.21	11.02%

MOHAVE WASTEWATER DISTRICT

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REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 4,740,149	\$ 2,631,542
2	Adjusted Operating Income (Loss)	\$ 15,619	\$ 161,965
3	Current Rate Of Return (L2 / L1)	0.33%	6.15%
4	Required Operating Income (L5 X L1)	\$ 398,173	\$ 184,107
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 382,554	\$ 22,142
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6786	1.4803
8	Increase In Gross Revenue Requirement (L7 X L6)	<b>\$ 642,148</b>	<b>\$ 32,777</b>
9	Adjusted Test Year Revenue	\$ 796,161	\$ 796,161
10	Proposed Annual Revenue (L8 + L9)	\$ 1,438,309	\$ 828,938
11	Required Percentage Increase In Revenue (L8 / L9)	80.66%	4.12%
12	Rate Of Return On Common Equity	11.75%	8.88%

References:

Column (A): Company Schedules A-1 and C-1  
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-16

**GROSS REVENUE CONVERSION FACTOR**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.3245			
3	Subtotal (L1 - L2)	<u>0.6755</u>			
4	<b>Revenue Conversion Factor (L1 / L3)</b>	<b>1.4803</b>			
CALCULATION OF EFFECTIVE TAX RATE:					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	<u>93.0320%</u>			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	27.3874%			
9	Effective Federal Income Tax Rate (L7 X L8)	<u>25.4790%</u>			
10	Combined Federal And State Income Tax Rate (L6 + L9)	<u>32.4470%</u>			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 184,107			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	<u>161,965</u>			
13	Required Increase In Operating Income (L11 - L12)		\$ 22,142		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 50,307			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	<u>39,672</u>			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 10,635		
17	Total Required Increase In Revenue (L13 + L16)		<u>\$ 32,777</u>		
				RUCO	
				Recommended	
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			\$ 828,938	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			594,524	
20	Synchronized Interest (Col. (C), L37)			<u>79,371</u>	
21	Arizona Taxable Income (L18 - L19 - L20)			\$ 155,043	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				\$ 10,803
24	Fed. Taxable Income (L21 - L23)			\$ 144,240	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			17,253	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			-	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 39,503
31	Combined Federal And State Income Tax (L23 + L30)				<u>\$ 50,307</u>
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)				\$ 39,672
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)				<u>\$ 10,635</u>
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				27.39%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. RLM-2, Col. (H), L15)		\$ 2,631,542		
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)		3.02%		
37	Synchronized Interest (L35 X L36)		<u>\$ 79,371</u>		

**RATE BASE - ORIGINAL COST**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ*TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 7,154,300	\$ (2,043,042)	\$ 5,111,259
2	Accumulated Depreciation	\$ (367,213)	55,176	\$ (312,037)
3	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 6,787,087</u>	<u>\$ (1,987,866)</u>	<u>\$ 4,799,221</u>
4	Advances In Aid Of Const.	\$ (1,414,706) 0	\$ -	\$ (1,414,706)
5	Contribution In Aid Of Const.	\$ (668,945)	\$ (65,395)	\$ (734,340)
6	Accumulated Amortization Of CIAC	\$ -	\$ -	\$ -
7	NET CIAC (L6 + L7)	<u>\$ (668,945)</u>	<u>\$ (65,395)</u>	<u>\$ (734,340)</u>
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (131,237)	\$ -	\$ (131,237)
10	Customer Meter Deposits	\$ -	\$ -	\$ -
11	Deferred Income Taxes And Credits	\$ 105,590	\$ -	\$ 105,590
12	Investment Tax Credits	\$ -	\$ -	\$ -
13	Deferred Debits	\$ -	\$ 7,701	\$ 7,701
14	Allowance For Working Capital	\$ 62,360	\$ (63,047)	\$ (687)
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
16	Rounding	\$ -	\$ -	\$ -
17	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u>\$ 4,740,149</u>	<u>\$ (2,108,607)</u>	<u>\$ 2,631,542</u>

**SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS**

LINE NO.	(A) COMPANY AS FILED OCRB	(B) SURREBUTTL ADJMT NO. 1 GATEWAY PLANT	(C) ADJMT NO. 1 ACCUMULTD DEPRECT'N	(D) ADJMT NO. 2 CIAC FOR CWIP	(E) ADJMT NO. 4 WISHING WELL	(F) ADJMT NO. 5 DEFERRED DEBITS	(G) ADJMT NO. 6 WORKING CAPITAL	(H) RUCO ADJUSTED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 7,154,300	\$ -	\$ -	\$ (2,138,020)	\$ -	\$ -	\$ 5,111,259
2	Accumulated Depreciation	(367,213)	62,797	-	-	-	-	(312,037)
3	Net Utility Plant In Service (Sum L1 & L3)	\$ 6,787,087	\$ 62,797	\$ -	\$ (2,138,020)	\$ -	\$ -	\$ 4,799,221
4	Advances In Aid Of Const.	\$ (1,414,706)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,414,706)
5	Contribution In Aid Of Const. - Net	\$ (688,945)	\$ -	\$ (65,395)	\$ -	\$ -	\$ -	\$ (734,340)
6	Accumulated Amortization Of CIAC	-	-	-	-	-	-	-
7	NET CIAC (L5 + L6)	\$ (688,945)	\$ -	\$ (65,395)	\$ -	\$ -	\$ -	\$ (734,340)
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (131,237)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (131,237)
10	Customer Meter Deposits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11	Deferred Income Taxes And Credits	\$ 105,590	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 105,590
12	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Deferred Debits	\$ -	\$ -	\$ -	\$ -	\$ 7,701	\$ -	\$ 7,701
14	Allowance For Working Capital	\$ 62,360	\$ -	\$ -	\$ -	\$ -	\$ (63,047)	\$ (687)
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Rounding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	\$ 4,740,149	\$ 62,797	\$ (65,395)	\$ (2,138,020)	\$ 7,701	\$ (63,047)	\$ 2,631,542

References:

- Column (A): Company Schedule B-2
- Column (B): Surrebuttal Adjustment No. 1 - Add Gateway Plant (RLM Testimony)
- Column (C): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation (See RLM-3, Pages 1 Thru 7, And Testimony, TJC)
- Column (D): Adjustment No. 2 - Reverse Company's Adjustment To Remove CIAC Associated With CWIP
- Column (E): Adjustment No. 3 - Intentionally Left Blank
- Column (F): Adjustment No. 4 - To Remove 50% of Post Test Year Treatment Plant Expansion Plus Company Rebuttal Adjustment as Not-Used & Useful
- Column (G): Adjustment No. 5 - Adjust Deferred Debits Per Company Responses To Staff Data Request GWB 17.1
- Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6  
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A) AMOUNT	(B) REFERENCE
1	Materials And Supplies As Per Company	\$ 341	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	341	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 3,661	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	3,661	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	\$ 58,358	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	(4,689)	RUCO Schedule RLM-5, Page 2
9	Adjustment	\$ (63,047)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See RLM-2, Column (G))	\$ (63,047)	Sum Lines 3, 6 & 9

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6 - CONT'D  
LEAD/LAG DAY SUMMARY**

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTM'TS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 108,996	\$ (1,678)	\$ 107,318	12.0000	\$ 1,287,816
2	Purchased Water	-	-	-	-	-
3	Fuel & Power	73,650	-	73,650	32.4200	2,387,733
4	Chemicals	9,214	-	9,214	28.4700	262,323
5	Waste Disposal	126,228	(139,961)	(13,733)	30.0000	(411,990)
6	Management Fees	123,665	(1,489)	122,176	(3.8800)	(474,045)
7	Group Insurance	24,046	-	24,046	(4.6445)	(111,682)
8	Pensions	18,447	-	18,447	45.0000	830,115
9	Insurance Other Than Group	7,294	-	7,294	45.0000	328,230
10	Customer Accounting	16,497	-	16,497	7.4600	123,068
11	Rents	1,613	-	1,613	(10.6818)	(17,230)
12	Depreciation & Amorization	248,398	(248,398)	-	-	-
13	Other Operating Expenses	51,688	(12,019)	39,669	30.0000	1,190,072
	Taxes:					
14	Taxes Other Than Income	9,778	-	9,778	15.6511	153,036
15	Property Taxes	37,922	4,310	42,232	212.5000	8,974,198
16	Income Tax	9,778	40,529	50,307	42.0402	2,114,911
17	Interest Expense	-	79,371	79,371	106.5200	8,454,564
18	Total Appropriate Operating Expenses	<u>\$ 867,214</u>	<u>\$ (279,336)</u>	<u>\$ 587,879</u>		<u>\$ 25,091,120</u>
19	Expense Lag	Line 18, Col. (E) / (C)	42.68			
20	Revenue Lag	RUCO Workpapers	<u>39.77</u>			
21	Net Lag	Line 20 - Line 19	(2.91)			
22	RUCO Adjusted Expenses	Col. (C), Line 18	<u>\$ 587,879</u>			
23	Cash Working Capital	Line 21 X Line 22 / 365 Days	<u>(4,689)</u>			
24	Company As Filed	Co. Schedule B-6, Page 1	58,358			
25	Difference	Line 23 - Line 24	<u>\$ (63,047)</u>			
26	ADJUSTMENT (See RLM-5, Page 1, L 9)	Line 25	<u>\$ (63,047)</u>			

References:

- Column (A): - Company Schedule B-6
- Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
- Column (C): Column (A) + (B)
- Column (D): - Company Schedule B-6
- Column (E): Column (C) X Column (D)

**OPERATING INCOME**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJ'M'TS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Metered Water Revenues	\$ 791,279	\$ -	\$ 791,279	\$ 32,777	\$ 824,056
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Revenues	4,882	-	4,882	-	4,882
4	<b>TOTAL OPERATING REVENUE</b>	<b>\$ 796,161</b>	<b>\$ -</b>	<b>\$ 796,161</b>	<b>\$ 32,777</b>	<b>\$ 828,938</b>
	Operating Expenses:					
5	Labor	\$ 108,996	\$ (1,678)	\$ 107,318	\$ -	\$ 107,318
6	Purchased Water	-	-	-	-	-
7	Fuel & Power	73,650	-	73,650	-	73,650
8	Chemicals	9,214	-	9,214	-	9,214
9	Waste Disposal	126,228	(139,961)	(13,733)	-	(13,733)
10	Management Fees	123,665	(1,489)	122,176	-	122,176
11	Group Insurance	24,046	-	24,046	-	24,046
12	Pensions	18,447	-	18,447	-	18,447
13	Regulatory Expense	22,140	(19,159)	2,981	-	2,981
14	Insurance Other Than Group	7,294	-	7,294	-	7,294
15	Customer Accounting	16,497	-	16,497	-	16,497
16	Rents	1,613	-	1,613	-	1,613
17	General Office Expense	7,874	-	7,874	-	7,874
18	Miscellaneous	16,726	10,121	26,847	-	26,847
19	Maintenance Expense	4,948	-	4,948	-	4,948
20	Depreciation & Amortization	248,398	(115,056)	133,342	-	133,342
21	General Taxes - Property Taxes	37,922	4,310	42,232	-	42,232
22	General Taxes - Other	9,778	-	9,778	-	9,778
23	Income Tax	(76,894)	116,566	39,672	10,635	50,307
24	Rounding	-	-	-	-	-
25	<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 780,542</b>	<b>\$ (146,346)</b>	<b>\$ 634,196</b>	<b>\$ 10,635</b>	<b>\$ 644,831</b>
26	<b>OPERATING INCOME (LOSS)</b>	<b>\$ 15,619</b>	<b>\$ 146,346</b>	<b>\$ 161,965</b>	<b>\$ 22,142</b>	<b>\$ 184,107</b>

References:

- Column (A): Company Schedule C-1
- Column (B): RLM-7, Columns (B) Thru (H)
- Column (C): Column (A) + Column (B)
- Column (D): RLM-1, Pages 1 & 2
- Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS  
TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) SURREBT'L ADJMT NO. 2 LABOR EXPENSE	(C) SURREBT'L ADJMT NO. 5 WATER TEST EXPENSE	(D) ADJMT NO. 1 PROPERTY TAX	(E) ADJMT NO. 2 DEPRECIATN & AMORTIZN	(F) ADJMT NO. 3 RATE CASE EXPENSE	(G) ADJMT NO. 4 WASTE DISPOSAL	(H) ADJMT NO. 5 AIP EXPENSE	(I) ADJMT NO. 6 MISC EXPENSES	(J) ADJMT NO. 7 INCOME TAX	(K) RUCO AS ADJTD
1	Revenues:											
2	Metered Water Revenues	\$ 791,279	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 791,279
3	Unmetered Water Revenues	4,882	-	-	-	-	-	-	-	-	-	4,882
4	Other Revenues	796,161	-	-	-	-	-	-	-	-	-	796,161
	TOTAL OPERATING REV.	\$ 1,592,322	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,592,322
5	Operating Expenses:											
6	Labor	\$ 108,996	\$ (1,678)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 107,318
7	Purchased Water	-	-	-	-	-	-	-	-	-	-	-
8	Fuel & Power	73,650	-	-	-	-	-	-	-	-	-	73,650
9	Chemicals	9,214	-	-	-	-	-	-	-	-	-	9,214
10	Waste Disposal	126,228	-	-	-	-	(139,961)	-	-	-	-	(13,733)
11	Management Fees	123,665	-	-	-	-	-	(1,489)	-	-	-	122,176
12	Group Insurance	24,046	-	-	-	-	-	-	-	-	-	24,046
13	Pensions	18,447	-	-	-	-	-	-	-	-	-	18,447
14	Regulatory Expense	22,140	-	-	-	(19,159)	-	-	-	-	-	2,981
15	Insurance Other Than Group	7,294	-	-	-	-	-	-	-	-	-	7,294
16	Customer Accounting	16,497	-	-	-	-	-	-	-	-	-	16,497
17	Rent	1,613	-	-	-	-	-	-	-	-	-	1,613
18	General Office Expense	7,874	-	-	-	-	-	-	-	-	-	7,874
19	Miscellaneous	16,726	-	10,288	-	-	-	-	-	(167)	-	26,847
20	Maintenance Expense	4,948	-	-	-	-	-	-	-	-	-	4,948
21	Depreciation & Amortization	248,398	-	-	(115,056)	-	-	-	-	-	-	133,342
22	General Taxes - Property Taxes	37,922	-	-	4,310	-	-	-	-	-	-	42,232
23	General Taxes - Other	9,778	-	-	-	-	-	-	-	-	-	9,778
24	Income Tax	(76,894)	-	-	-	-	-	-	-	-	116,566	39,672
25	TOTAL OPERATING EXP.	\$ 780,542	\$ (1,678)	\$ 10,288	\$ 4,310	\$ (115,056)	\$ (19,159)	\$ (139,961)	\$ (1,489)	\$ (167)	\$ 116,566	\$ 634,196
26	OPERATING INC. (LOSS)	\$ 15,619	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,619

SURREBT'L ADJUSTMENTS:

- Labor Expense
  - Water Testing Expense
- DIRECT ADJUSTMENTS:
- Property Tax Computation
  - Depreciation And Amortization Expense
  - Rate Case Expense
  - Waste Disposal Expense
  - Annual Incentive Pay Program Expense
  - Miscellaneous Expenses
  - Income Tax

REFERENCE:

- RLM Testimony  
RLM Testimony  
RLM Testimony  
RLM Testimony  
RLM Testimony  
RLM Testimony  
RLM Testimony, RLM And Schedule RLM-8  
RLM Testimony, RLM And Schedule RLM-9  
RLM Testimony  
RLM Testimony  
RLM Testimony  
RLM Testimony, and Schedule RLM-13

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1  
PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Adjusted Test Year Revenue	Schedule RLM-7	\$ 796,161	
2	Adjusted Test Year Revenue	Schedule RLM-7	796,161	
3	RUCO Proposed Revenue	Schedule RLM-6	828,938	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 2,421,260	
5	Average Annual Operating Revenues	Line 4 / 3	807,087	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 1,614,173
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ 1,689,307	
8	10% Of CWIP	Line 7 X 10%		\$ 168,931
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	Company Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	Company Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 1,783,104
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 410,114	
Property Tax Rates:				
15	Primary Tax Rate	Company Workpapers	10.30%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	10.30%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 42,232
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		37,922
20	Increase (Decrease) In Property Tax Expense	Line 18 - Line 19		\$ 4,310
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 4,310

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2  
TEST YEAR DEPRECIATION EXPENSE**

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) RUCO DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ -	0.00%	\$ -
2	352000	Franchises	364	0.00%	-
3	354200	Structures and Improvements	201,579	2.80%	5,644
4	360000	Sewer Lines	5,382	2.00%	108
5	361100	WW Collecting Mains	1,615,707	2.00%	32,314
6	362000	WW Special Collecting Struct.	74,760	2.00%	1,495
7	363000	WW Services Sewer	314,343	2.04%	6,413
8	364000	WW Flow Measuring Devices	23,113	5.42%	1,253
9	371100	WW Pumping Equipment Elect.	18,935	5.42%	1,026
10	380100	WW Equipment Sed Tanks/Acc	803,788	3.60%	28,936
11	380300	WW TD Equipment Sldge Dry/Flt	1,427,808	5.00%	71,390
12	380500	WW TD Equipment Chem Trmt Plant	14,311	5.00%	716
13	380600	WW TD Equipment Other Disposal	479,569	5.00%	23,978
14	393000	WW Tool Shop & Garage Equipment	44,237	4.47%	1,977
15	394000	WW Laboratory Equipment	587	3.71%	22
16	396000	Communication Equipment	81,418	10.30%	8,386
17	398000	Other Plant	5,367	5.10%	273
18	TOTAL	TEST YEAR DIRECT UPIS AND DEPRECIATION EXPENSE	\$ 5,111,259		\$ 183,932
43	SUB-TOTAL	TEST YEAR CORPORATE UPIS AND DEPRECIATION EXPENSE			-
44	SUB-TOTAL	POST TEST YEAR DEPRECIATION EXPENSE ON UPIS			-
45	TOTAL	DEPRECIATION EXPENSE ON UPIS			\$ 183,932
46		AMORTIZATION OF DEFERRED DEBIT - Y2K COSTS			-
47		AMORTIZATION OF REGULATORY ASSETS			-
48		AMORTIZATION OF CONTRIBUTIONS			(18,093)
49		AMORTIZATION OF REGULATORY CIAC			(32,497)
50		Rounding			-
51	<b>TOTAL DEPRECIATION EXPENSE</b>				\$ 133,342
52	Company As Filed				248,398
53	Difference				\$ (115,056)
54	RUCO Adjustment (See RLM-7, Column (C))				\$ (115,056)

References:

Column (A): RLM-3, Page 7, Column (D)  
Column (B): RLM-3, Page 1, Column (A)  
Column (C): Column (A) X Column (B)  
Represents 50% of Post Test Year Treatment Plant

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7  
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
<b>FEDERAL INCOME TAXES:</b>			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L26 + L23	\$ 201,637
LESS:			
2	Arizona State Tax	Line 11	8,520
3	Interest Expense	Note (A) Line 20	79,371
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	<u>\$ 113,747</u>
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	27.39%
6	Federal Income Tax Expense	Line 4 X line 5	<u>\$ 31,152</u>
<b>STATE INCOME TAXES:</b>			
7	Operating Income Before Taxes	Line 1	\$ 201,637
LESS:			
8	Interest Expense	Note (A) Line 20	79,371
9	State Taxable Income	Line 7 - Line 8	<u>\$ 122,266</u>
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	<u>\$ 8,520</u>
<b>TOTAL INCOME TAX EXPENSE:</b>			
12	Federal Income Tax Expense	Line 6	\$ 31,152
13	State Income Tax Expense	Line 11	8,520
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	<u>\$ 39,672</u>
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		(76,894)
16	Total Income Tax Adjustment	Line 14 - Line 15	<u>\$ 116,566</u>
17	RUCO Adjustment (See Sch. RLM-7, Column (J))	Line 16	<u>\$ 116,566</u>

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$ 2,631,542
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)	3.02%
20	Interest Expense (L18 X L19)	<u>\$ 79,371</u>



TYPICAL RESIDENTIAL BILL ANALYSIS

LINE NO.	DESCRIPTION	(A) PRESENT	(B) %	(C) COMPANY PROPOSED	(D) %	(E) RUCO PROPOSED	(F) %
<b>REVENUE ALLOCATION</b>							
1	RESIDENTIAL	\$ 724,046	91.35%	\$ 1,309,553	91.25%	\$ 874,671	92.20%
2	OTHER	68,553	8.65%	125,626	8.75%	73,962	7.80%
3	TOTAL	<u>\$ 792,599</u>	<u>100.00%</u>	<u>\$ 1,435,179</u>	<u>100.00%</u>	<u>\$ 948,633</u>	<u>100.00%</u>
<b>ALLOCATION RATIOS</b>							
4	FIX REVENUE	\$ 740,024	93.37%	\$ 1,338,452	93.26%	\$ 884,027	93.19%
5	VARIABLE REVENUE	52,575	6.63%	96,728	6.74%	64,606	6.81%
6	TOTAL	<u>\$ 792,599</u>	<u>100.00%</u>	<u>\$ 1,435,179</u>	<u>100.00%</u>	<u>\$ 948,633</u>	<u>100.00%</u>
<b>RESIDENTIAL (5/8" X 3/4") RATE DESIGN</b>							
		<u>PRESENT</u>		<u>COMPANY PROPOSED</u>		<u>RUCO PROPOSED</u>	
7	BASIC MONTHLY CHARGE	\$ 49.65		\$ 89.80		\$ 59.98	
		<u>PRESENT</u>		<u>PROPOSED</u>			
8	Flat Rate	\$ 2.00		\$ 8.00		\$ 5.34	
9	Effluent - All Acre Feet	\$ 200.00		\$ 250.00		\$ 166.98	
<b>RESIDENTIAL BILL COMPARISONS</b>							
		<u>MONTHLY CONSUMPTION</u>		<u>PRESENT MONTHLY CHARGE</u>	<u>RUCO PROP'D MONTHLY CHARGE</u>	<u>RUCO PROP'D MONTHLY INCREASE</u>	<u>RUCO PROP'D MONTHLY % INCREASE</u>
10		Flat Rate		\$ 49.65	\$ 59.98	\$ 10.33	20.80%

PARADISE VALLEY WATER DISTRICT

TABLE OF CONTENTS TO RLM SURREBUTTAL SCHEDULES

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SURR RLM-2	1	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
SURR RLM-6	1	OPERATING INCOME
SURR RLM-7	1	SUMMARY OF OPERATING INCOME ADJUSTMENTS
SURREBUTTAL TESTIMONY, RLM		ACRM REVENUE
SURREBUTTAL TESTIMONY, RLM		LABOR EXPENSE
SURREBUTTAL TESTIMONY, RLM		TANK MAINTENANCE
SURREBUTTAL TESTIMONY, RLM		CHEMICAL EXPENSE
SURREBUTTAL TESTIMONY, RLM		WATER TESTING EXPENSE
SURR RLM-8	1	OPERATING INCOME ADJUSTMENT NO. 1 - PROPERTY TAX COMPUTATION
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SURR RD-1	1 & 2	RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
SURR RD-2	1	TYPICAL RESIDENTIAL BILL ANALYSIS

**SURREBUTTAL REVENUE REQUIREMENT**

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 40,864,986	\$ 39,222,581
2	Adjusted Operating Income (Loss)	\$ 1,552,498	\$ 2,057,329
3	Current Rate Of Return (L2 / L1)	3.80%	5.25%
4	Required Operating Income (L5 X L1)	\$ 3,432,659	\$ 2,745,581
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 1,880,161	\$ 688,252
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6496	1.6286
8	Increase In Gross Revenue Requirement (L7 X L6)	<b>\$ 3,101,550</b>	<b>\$ 1,120,911</b>
9	Adjusted Test Year Revenue	\$ 7,848,732	\$ 8,220,585
10	Proposed Annual Revenue (L8 + L9)	\$ 10,950,282	\$ 9,341,496
11	Required Percentage Increase In Revenue (L8 / L9)	39.52%	13.64%
12	Rate Of Return On Common Equity	11.91%	8.88%

References:

Column (A): Company Schedules A-1 and C-1  
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-16

**SURREBUTTAL GROSS REVENUE CONVERSION FACTOR**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<b>CALCULATION OF GROSS REVENUE CONVERSION FACTOR:</b>					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.3860			
3	Subtotal (L1 - L2)	<u>0.6140</u>			
4	<b>Revenue Conversion Factor (L1 / L3)</b>	<b>1.6286</b>			
<b>CALCULATION OF EFFECTIVE TAX RATE:</b>					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	<u>93.0320%</u>			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	34.0000%			
9	Effective Federal Income Tax Rate (L7 X L8)	<u>31.6309%</u>			
10	Combined Federal And State Income Tax Rate (L6 + L9)	<u>38.5989%</u>			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 2,745,581			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	<u>2,057,329</u>			
13	Required Increase In Operating Income (L11 - L12)		\$ 688,252		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 981,336			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	<u>548,677</u>			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 432,659		
17	Total Required Increase In Revenue (L13 + L16)		<u>\$ 1,120,911</u>		
<b>CALCULATION OF INCOME TAX:</b>					
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			RUCO Recommended	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			\$ 9,341,496	
20	Synchronized Interest (Col. (C), L37)			5,614,579	
21	Arizona Taxable Income (L18 - L19 - L20)			<u>1,184,522</u>	
22	Arizona State Income Tax Rate			\$ 2,542,395	
23	Arizona Income Tax (L21 X L22)			6.9680%	\$ 177,154
24	Fed. Taxable Income (L21 - L23)			\$ 2,365,241	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			91,650	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			690,282	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 804,182
31	Combined Federal And State Income Tax (L23 + L30)				<u>\$ 981,336</u>
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)				\$ 548,677
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)				<u>\$ 432,659</u>
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				34.00%
<b>CALCULATION OF INTEREST SYNCHRONIZATION:</b>					
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 39,222,581	
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)			3.02%	
37	Synchronized Interest (L35 X L36)			<u>\$ 1,184,522</u>	

**SURREBUTTAL RATE BASE - ORIGINAL COST**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 61,588,447	\$ (70,735)	\$ 61,517,713
2	Accumulated Depreciation	(12,099,985)	476,662	(11,623,323)
3	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 49,488,462</u>	<u>\$ 405,927</u>	<u>\$ 49,894,389</u>
				0
4	Advances In Aid Of Const.	\$ (1,704,269)	\$ -	\$ (1,704,269)
5	Contribution In Aid Of Const.	\$ (12,789,338)	\$ (322,588)	\$ (13,111,926)
6	Accumulated Amortization Of CIAC	5,539,222	-	5,539,222
7	NET CIAC (L6 + L7)	<u>\$ (7,250,116)</u>	<u>\$ (322,588)</u>	<u>\$ (7,572,704)</u>
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ -	\$ -	\$ -
10	Customer Meter Deposits	\$ (12,600)	\$ -	\$ (12,600)
11	Deferred Income Taxes And Credits	\$ (1,600,604)	\$ -	\$ (1,600,604)
12	Investment Tax Credits	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 1,238,398	\$ (1,083,637)	\$ 154,761
14	Allowance For Working Capital	\$ 705,715	\$ (642,107)	\$ 63,608
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
16	Rounding	\$ -	\$ -	\$ -
17	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u>\$ 40,864,986</u>	<u>\$ (1,642,405)</u>	<u>\$ 39,222,581</u>

References:

- Column (A): Company Schedule B-1
- Column (B): Schedule RLM-2
- Column (C): Column (A) + Column (B)

SURREBUTTAL SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	(A) DESCRIPTION	(B) SURREBUTL ADJMT NO. 1 PUMP RETIREMENT	(C) ADJMT NO. 1 ACCUMULTD DEPRECTN	(D) ADJMT NO. 2 CIAC FOR CWIP	(E) REVISED ADJMT NO. 3 POST TY PLANT	(F) ADJMT NO. 4 ACCUMULTD DEPRECTN	(G) REVISED ADJMT NO. 5 GROSS PLANT	(H) ADJMT NO. 6 DEFERRED DEBITS	(I) ADJMT NO. 7 WORKING CAPITAL	(J) RUCO ADJUSTED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 61,588,447	\$ -	\$ -	\$ 110,182	\$ -	\$ -	\$ -	\$ -	\$ 61,517,713
2	Accumulated Depreciation	(12,089,965)	(100,554)	-	-	456,414	-	-	-	(11,623,323)
3	Net Utility Plant In Service (Sum L1 & L3)	\$ 49,498,462	\$ (100,554)	\$ -	\$ 110,182	\$ 456,414	\$ -	\$ -	\$ -	\$ 49,894,389
4	Advances In Aid Of Const.	\$ (1,704,269)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,704,269)
5	Contribution In Aid Of Const	\$ (12,789,338)	\$ -	\$ (322,588)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (13,111,926)
6	Accumulated Amortization Of CIAC	5,539,222	-	-	-	-	-	-	-	5,539,222
7	NET CIAC (L5 + L6)	\$ (7,250,116)	\$ -	\$ (322,588)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (7,572,704)
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10	Customer Meter Deposits	\$ (12,600)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (12,600)
11	Deferred Income Taxes And Credits	\$ (1,600,604)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,600,604)
12	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 1,238,398	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,083,637)	\$ -	\$ 154,761
14	Allowance For Working Capital	\$ 705,715	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (642,107)	\$ 63,608
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Rounding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	\$ 40,864,986	\$ (100,554)	\$ (322,588)	\$ 110,182	\$ 456,414	\$ -	\$ (1,083,637)	\$ (642,107)	\$ 39,222,581

SURREBUTTAL ADJUSTMENTS:

Column (A): Surrebittal Adjustment No. 1 - Adjust Test-Year Gross Plant & Accumulated Depreciation Per Company Rebuttal

- References:
- Column (A): Company Schedule B-2
  - Column (C): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation Per Company Responses To RUCO Data Request 1.31
  - Column (D): Adjustment No. 2 - Reverse Company's Adjustment LUG-6 To Remove CIAC Associated With CWIP
  - Column (E): Adjustment No. 3 - Adjust Post Test-Year Plant Per Company Responses To RUCO Data Request 1.34
  - Column (F): Adjustment No. 4 - Adjust Test-Year Accumulated Depreciation First For Company Revised Dep. Rates Per Response To RUCO Data Request 1.07 & 1.08 And Second RUCO Computed Acc. Dep. Using A Mid-Month Convention.
  - Column (G): Adjustment No. 5 - Adjust Post Test-Year Plant Per Company Responses To Staff Data Request DH 4.3
  - Column (H): Adjustment No. 6 - Adjust Post Test-Year Plant Per Company Responses To Staff Data Request, GWB 17.1
  - Column (I): Adjustment No. 7 - Adjust Allowance For Working Capital To Reflect RUCO Operating Income Adjustments And the Disallowance Of Depreciation Expense In The Allowance.
  - Column (J): Sum Of Columns (A), (B), (C), (D), (E), (F), (G), (H) & (I)

**SURREBUTTAL OPERATING INCOME**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJ'M'TS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
<b>Revenues:</b>						
1	Metered Water Revenues	\$ 7,832,113	\$ 371,853	\$ 8,203,966	\$ 1,120,911	\$ 9,324,877
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Water Revenues	16,619	-	16,619	-	16,619
4	<b>TOTAL OPERATING REVENUE</b>	<b>\$ 7,848,732</b>	<b>\$ 371,853</b>	<b>\$ 8,220,585</b>	<b>\$ 1,120,911</b>	<b>\$ 9,341,496</b>
<b>Operating Expenses:</b>						
5	Labor	\$ 715,859	\$ (12,536)	\$ 703,323	\$ -	\$ 703,323
6	Purchased Water	-	-	-	-	-
7	Fuel & Power	693,068	-	693,068	-	693,068
8	Chemicals	236,982	(51,945)	185,037	-	185,037
9	Waste Disposal	(290)	290	-	-	-
10	Management Fees	923,778	(11,119)	912,659	-	912,659
11	Group Insurance	184,827	-	184,827	-	184,827
12	Pensions	130,911	-	130,911	-	130,911
13	Regulatory Expense	21,283	-	21,283	-	21,283
14	Insurance Other Than Group	45,435	-	45,435	-	45,435
15	Customer Accounting	123,742	-	123,742	-	123,742
16	Rents	21,467	-	21,467	-	21,467
17	General Office Expense	87,860	-	87,860	-	87,860
18	Miscellaneous	351,828	(10,096)	341,732	-	341,732
19	Maintenance Expense	578,292	(367,350)	210,942	-	210,942
20	Depreciation & Amortization	1,615,824	(26,530)	1,589,294	-	1,589,294
21	General Taxes - Property Taxes	268,996	26,030	295,026	-	295,026
22	General Taxes - Other	67,972	-	67,972	-	67,972
23	Income Tax	228,400	320,277	548,677	432,659	981,336
24	Rounding	1	-	-	-	-
25	<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 6,296,235</b>	<b>\$ (132,978)</b>	<b>\$ 6,163,256</b>	<b>\$ 432,659</b>	<b>\$ 6,595,915</b>
26	<b>OPERATING INCOME (LOSS)</b>	<b>\$ 1,552,497</b>	<b>\$ 504,831</b>	<b>\$ 2,057,329</b>	<b>\$ 688,252</b>	<b>\$ 2,745,581</b>

**References:**

- Column (A): Company Schedule C-1
- Column (B): RLM-7, Columns (B) Thru (H)
- Column (C): Column (A) + Column (B)
- Column (D): RLM-1, Pages 1 & 2
- Column (E): Column (C) + Column (D)

**SURREBTTL SUMMARY OF OPERATING INCOME ADJUSTMENTS**  
**TEST YEAR AS FILED AND ADJUSTMENTS**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) SURREBTTL ADJMT NO. 1		(C) SURREBTTL ADJMT NO. 2		(D) SURREBTTL ADJMT NO. 3		(E) SURREBTTL ADJMT NO. 4		(F) SURREBTTL ADJMT NO. 5		(G) SURREBTTL ADJMT NO. 6		(H) SURREBTTL ADJMT NO. 7		(K) REVISED ADJMT NO. 7 INCOME TAX	(L) RUCO AS ADJTD	
			ACRM REVENUE	LABOR	MAINTENANCE	WATER TEST EXPENSE	TANK	ADJMT NO. 1	ADJMT NO. 2	ADJMT NO. 3	ADJMT NO. 4	ADJMT NO. 5	ADJMT NO. 6	ADJMT NO. 7	ADJMT NO. 8	ADJMT NO. 9			ADJMT NO. 10
1	Revenues:																		
2	Metered Water Revenues	\$ 7,832,113	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,203,966
3	Unmetered Water Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	16,619
4	Other Water Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	16,619
5	TOTAL OPERATING REV.	\$ 7,848,732	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,220,585
6	Operating Expenses:																		
7	Labor	\$ 715,859	\$ -	\$ (12,536)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 703,323
8	Purchased Water	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	693,068
9	Fuel & Power	693,068	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	693,068
10	Chemicals	235,982	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	185,037
11	Waste Disposal	(290)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Management Fees	923,778	-	-	-	-	-	290	-	-	-	-	-	-	-	-	-	-	912,659
13	Group Insurance	184,827	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	184,827
14	Pensions	130,911	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	130,911
15	Regulatory Expense	21,283	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	21,283
16	Insurance Other Than Group	45,435	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	45,435
17	Customer Accounting	123,742	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	123,742
18	Rent	21,467	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	21,467
19	General Office Expense	87,860	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	87,860
20	Miscellaneous	351,828	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	351,828
21	Maintenance Expense	576,292	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	576,292
22	Depreciation & Amortization	1,615,824	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,589,294
23	General Taxes - Property Taxes	268,996	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	268,996
24	General Taxes - Other	67,972	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	67,972
25	Income Tax	228,400	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	228,400
26	Rounding	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1
27	TOTAL OPERATING EXP.	\$ 6,295,235	\$ -	\$ (12,536)	\$ (6,293)	\$ (367,350)	\$ (6,293)	\$ (26,530)	\$ (26,030)	\$ (26,530)	\$ (290)	\$ (51,945)	\$ (11,119)	\$ (3,803)	\$ (320,277)	\$ (3,803)	\$ (320,277)	\$ (3,803)	\$ 6,183,256
28	OPERATING INC. (LOSS)	\$ 1,552,497	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,037,329

**SURREBTTL ADJUSTMENTS:**

- 1 ACRM Revenue
- 2 Labor Expense
- 3 Tank Maintenance
- 5 Water Testing Expense

**REFERENCE:**

- Surrebuttal Testimony, RLM
- Surrebuttal Testimony, RLM
- Surrebuttal Testimony, RLM

**ADJUSTMENTS:**

- 1 Property Tax Computation
- 2 Depreciation And Amortization Expense
- 3 Waste Disposal Expense
- 4 Chemical Expense
- 5 Annual Incentive Pay Program Expense
- 6 Labor Expense
- 7 Miscellaneous Expenses
- 8 Income Tax

**REFERENCE:**

- Testimony, RLM And Schedule RLM-8
- Testimony, RLM And Schedule RLM-9
- Testimony, RLM
- Testimony, RLM
- Testimony, RLM And Schedule RLM-11
- Testimony, RLM And Schedule RLM-12
- Testimony, RLM And Schedule RLM-13

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1  
PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	\$ 8,220,585	
2	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	8,220,585	
3	Proposed Revenues	Sch. RLM-6, Col (D), Ln 4	9,341,496	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 25,782,666	
5	Average Annual Operating Revenues	Line 4 / 3	8,594,222	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 17,188,444
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ 1,438,015	
8	10% Of CWIP	Line 7 X 10%		\$ 143,802
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	Company Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	Company Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 17,332,245
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 3,986,416	
Property Tax Rates:				
15	Primary Tax Rate	Company Workpapers	7.40%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	7.40%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 295,026
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		268,996
20	Decrease In Property Tax Expense	Line 18 - Line 19		\$ 26,030
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 26,030

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2  
TEST YEAR DEPRECIATION EXPENSE**

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ 15,350	0.00%	\$ -
2	302000	Franchises	-	0.00%	-
3	339600	Miscellaneous Intangibles	10,520	0.00%	-
4	303200	Land & Land Rights SS	-	0.00%	-
5	303300	Land & Land Rights P	-	0.00%	-
6	303500	Land & Land Rights TD	8,324	0.00%	-
7	303600	Land & Land Rights AG	-	0.00%	-
8	304100	Struct & Imp SS	(489,625)	2.50%	(12,241)
9	304200	Struct & Imp P	-	3.99%	-
10	304300	Struct & Imp WT	20,468,880	2.00%	409,378
11	304400	Struct & Imp TD	23,764	1.50%	356
12	304500	Struct & Imp AG	5,731	3.99%	229
13	304600	Struct & Imp Offices	-	0.00%	-
14	304700	Struct & Imp Store, Shop, & Garage	3,036	3.99%	121
15	304800	Struct & Imp Misc	(8,633)	3.99%	(344)
16	305000	Collect & Impounding	-	0.00%	-
17	307000	Wells & Springs	1,644,156	2.48%	40,775
18	310100	Power Generation Equip Other	554,631	4.39%	24,348
19	311200	Pump Equip Electric	3,487,801	4.39%	153,114
20	311300	Pump Equip Diesel	190	4.39%	8
21	311500	Pump Equip Other	-	0.00%	-
22	320100	WT Equip Non-Media	9,826,154	7.06%	693,726
23	309000	Supply Mains	-	1.11%	-
24	330000	Dist Reservoirs & Standpipe	2,115,945	3.15%	66,652
25	331001	TD Mains Not Classified By Size	2,395,291	0.00%	-
26	331100	TD Mains 4in & Less	114,959	4.17%	4,794
27	331200	TD Mains 6in to 8in	5,046,297	2.52%	127,167
28	331300	TD Mains 10in to 16in	9,132,419	2.34%	213,699
29	332000	Fire Mains	14,058	1.53%	215
30	333000	Services	2,724,759	4.72%	128,609
31	334100	Meters	350,869	2.51%	8,807
32	334200	Meter Installations	148,305	1.51%	2,239
33	335000	Hydrants	1,054,321	2.10%	22,141
34	339100	Other P/E Intangible	-	0.00%	-
35	339500	Other P/E TD	-	0.00%	-
36	340100	Office Furniture & Equip	58,812	4.04%	2,376
37	340200	Comp & Periph Equip	38,291	10.00%	3,829
38	340300	Computer Software	14,710	25.00%	3,678
39	340500	Other Office Equipment	674	7.13%	48
40	341100	Trans Equip Lt Duty Trks	(0)	22.00%	(0)
41	341300	Trans Equip Autos	3,541	7.80%	276
42	341400	Trans Equip Other	27,905	0.93%	260
43	343000	Tools,Shop,Garage Equip	111,116	3.61%	4,011
44	344000	Laboratory Equipment	17,620	10.00%	1,762
45	345000	Power Operated Equipment	96,131	4.64%	4,460
46	346100	Comm Equip Non-Telephone	386,889	9.76%	37,760
47	346300	Comm Equip Other	58,841	4.93%	2,901
48	TOTAL	TEST YEAR DIRECT UPIS AND DEPRECIATION EXPENSE	\$ 59,462,031		\$ 1,945,155
43	SUB-TOTAL	TEST YEAR CORPORATE UPIS AND DEPRECIATION EXPENSE	120,225		26,819
	TOTAL	DEPRECIATION EXPENSE ON UPIS			1,971,973
44	SUB-TOTAL	POST TEST YEAR DEPRECIATION EXPENSE ON UPIS			-
46		AMORTIZATION OF DEFERRED DEBIT - Y2K COSTS			-
47		AMORTIZATION OF REGULATORY ASSETS			72
48		AMORTIZATION OF CONTRIBUTIONS			(382,752)
49		AMORTIZATION OF REGULATORY CIAC			-
50		Rounding			1
51	TOTAL DEPRECIATION EXPENSE				\$ 1,589,294
52	Company As Filed				1,615,824
53	Difference				\$ (26,530)
54	RUCO Adjustment (See RLM-7, Column (C))				\$ (26,530)

References:

Column (A): RLM-3, Page 7, Column (D)  
Column (B): RLM-3, Page 1, Column (A)  
Column (C): Column (A) X Column (B)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7  
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
<b>FEDERAL INCOME TAXES:</b>			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L26 + L23	\$ 2,606,006
LESS:			
2	Arizona State Tax	Line 11	99,049
3	Interest Expense	Note (A) Line 20	1,184,522
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	<u>\$ 1,322,435</u>
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	<u>\$ 449,628</u>
<b>STATE INCOME TAXES:</b>			
7	Operating Income Before Taxes	Line 1	\$ 2,606,006
LESS:			
8	Interest Expense	Note (A) Line 20	1,184,522
9	State Taxable Income	Line 7 - Line 8	<u>\$ 1,421,484</u>
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	<u>\$ 99,049</u>
<b>TOTAL INCOME TAX EXPENSE:</b>			
12	Federal Income Tax Expense	Line 6	\$ 449,628
13	State Income Tax Expense	Line 11	99,049
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	<u>\$ 548,677</u>
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		228,400
16	Total Income Tax Adjustment	Line 14 - Line 15	<u>\$ 320,277</u>
17	RUCO Adjustment (See Sch. RLM-7, Column (J))	Line 16	<u>\$ 320,277</u>

NOTE (A):

Interest Synchronization:		
18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$ 39,222,581
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)	3.02%
20	Interest Expense (L18 X L19)	<u>\$ 1,184,522</u>

**RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**  
**PROPOSED REVENUE**

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMIN'TS	(B) ANN'ZED ADJUSTM'TS	(C) TEST YEAR ADJUSTED DETERMIN'TS	(D) PROPOSED CHARGES & USAGE FEES	(E) RUCO PROPOSED REVENUES	(F) TOTAL REVENUES
<b>RESIDENTIAL CUSTOMERS</b>							
1	P1M1A - 5/8"	2,258	-5	2,253	\$ 29.16	\$ 788,377	
2	P1M1A - 3/4"	32	-0.08	32	\$ 30.17	11,598	
3	P1M1A - 1"	1,926	-4	1,921	\$ 48.65	1,121,659	
4	P1M1A - 1-1/2"	64	0	64	\$ 98.22	75,110	
5	P1M1A - 2"	138	0	138	\$ 156.53	259,398	
6	P1M1B - MMWC 5/8"	2	0	2	\$ 29.16	699	
7	P1M1B - MMWC 1"	43	0	43	\$ 48.65	25,190	
8	P1M1B - MMWC 1-1/2"	20	0	20	\$ 98.22	23,615	
9	P1M1B - MMWC 2"	11	0	11	\$ 156.53	20,678	
10	Total Customers	<u>4,494</u>	<u>-9</u>	<u>4,484</u>			\$ 2,326,324
Commodity Usage							
11	First Tier - First 25,000 Gals.	892,767	-2,550	890,216	\$ 1,3417	\$ 1,194,436	
12	Second Tier - Next 55,000 Gals.	796,125	-1,685	794,440	\$ 2,3258	1,847,733	
13	Third Tier - Over 80,000 Gals.	548,980	-253	548,727	\$ 2,9120	1,597,879	
14	Total Usage	<u>2,237,872</u>	<u>-4,489</u>	<u>2,233,383</u>			\$ 4,640,048
15	TOTAL RESIDENTIAL CUSTOMERS REVENUE						<u>\$ 6,966,372</u>
<b>COMMERCIAL CUSTOMERS</b>							
16	P2M1A - 5/8"	67	-0.42	67	\$ 29.16	\$ 23,386	
17	P2M1A - 3/4"	1	0	1	\$ 30.17	362	
18	P2M1A - 1"	51	-0.33	51	\$ 48.65	29,678	
19	P2M1A - 1-1/2"	25	-0.17	24	\$ 98.22	28,713	
20	P2M1A - 2"	123	-1	123	\$ 156.53	230,235	
21	P2M1A - 3"	25	0	25	\$ 290.04	85,438	
22	P2M1A - 4"	1	0	1	\$ 482.65	5,792	
23	P2M1A - 6"	4	0	4	\$ 966.82	46,407	
24	Sub-Total Customers	<u>297</u>	<u>-2</u>	<u>295</u>			\$ 450,011
Commodity Usage							
25	First Tier	397,389	-2,917	394,472	\$ 2,3258	\$ 917,475	
26	Second Tier	173,333	0	173,333	\$ 3,1034	537,921	
27	Sub-Total Usage	<u>570,722</u>	<u>-2,917</u>	<u>567,805</u>			\$ 1,455,396
28	P2M1T - TURF 3"	1	0	1	\$ 290.04	2,358	
29	P2M1T - TURF 4"	0.33	0	0.33	\$ 482.65	1,931	
30	P2PVC - CC 6"	1	0	1	\$ 821.80	10,445	
31	Sub-Total Customers	<u>2</u>	<u>0</u>	<u>2</u>			\$ 14,734
Commodity Usage							
32	P2M1T - TURF 3" & 4"	39,969	0	39,969	\$ 1,9614	\$ 78,396	
33	P2PVC - CC 6"	185,447	0	185,447	\$ 1,9042	353,136	
34	Sub-Total Usage	<u>225,416</u>	<u>0</u>	<u>225,416</u>			\$ 431,531
35	Total Customers						
36	Total Usage	<u>299</u>					
37	First Tier	622,805					
38	Second Tier	173,333					
39	TOTAL COMMERCIAL CUSTOMERS REVENUE						<u>\$ 2,351,673</u>

**RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**  
**PROPOSED REVENUE**

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMIN'TS	(B) ANN'ZED ADJUSTM'TS	(C) TEST YEAR ADJUSTED DETERMIN'TS	(D) PROPOSED CHARGES & USAGE FEES	(E) RUCO PROPOSED REVENUES	(F) TOTAL REVENUES
<b>OPA CUSTOMERS</b>							
40	P4MIT - 3	<u>1</u>	0	<u>1</u>	\$ 290.04	\$3,480	
	Commodity Usage						
41	All Usage	<u>11,050</u>	0	<u>11,050</u>	\$ 1.9614	\$ 21,674	
42	Total Usage	<u>11,050</u>	<u>0</u>	<u>11,050</u>			\$ 25,154
43	TOTAL OPA CUSTOMERS REVENUE						<u>\$ 25,154</u>
<b>SALE FOR RESALE CUSTOMERS</b>							
44	P5M1A - OWU/OPA 5/8"	5	0	5	\$ 29.16	\$ 1,750	
45	P5M1A - OWU/OPA 1"	10	0	10	\$ 48.65	5,914	
46	P5M1A - OWU/OPA 2"	<u>5</u>	0	<u>5</u>	\$ 156.53	<u>9,392</u>	
47	Total Customers	<u>20</u>		<u>20</u>			\$ 17,056
	Commodity Usage						
48	All Usage	<u>7,855</u>	0	<u>7,855</u>	\$ 2.9493	\$ 23,166	
49	Total Usage	<u>7,855</u>	<u>0</u>	<u>7,855</u>			\$ 23,166
50	TOTAL SALE FOR RESALE CUSTOMERS REVENUE						<u>\$ 40,222</u>
<b>PRIVATE FIRE PROTECTION CUSTOMERS</b>							
51	P6M1A	69	0	<u>69</u>	\$ 26.04	\$ 21,592.46	
52	Commodity Usage	-	0	<u>-</u>	No Charge		
53	TOTAL PRIVATE FIRE PROTECTION CUSTOMERS REVENUE						<u>\$ 21,592</u>
54	TOTAL RUCO PROPOSED REVENUE PER BILL COUNT						<u>\$ 9,405,014</u>
55	Unreconciled Difference vs. Billed Revenues						(80,137)
56	REVENUE PER BILL COUNT						<u>9,324,877</u>
57	Other Water Revenues						<u>16,619</u>
58	TOTAL REVENUE						<u>9,341,496</u>
59	PROPOSED REVENUE						<u>\$ 9,341,496</u>
60	Difference						\$ 0

**TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
<b>REVENUE ALLOCATION</b>							
1	RESIDENTIAL	\$ 6,138,486	77.75%	\$ 8,672,282	78.74%	\$ 6,962,424	74.07%
2	OTHER	\$ 1,756,288	22.25%	\$ 2,341,517	21.26%	\$ 2,437,259	25.93%
3	TOTAL	<u>\$ 7,894,774</u>	<u>100.00%</u>	<u>\$ 11,013,799</u>	<u>100.00%</u>	<u>\$ 9,399,683</u>	<u>100.00%</u>
<b>ALLOCATION RATIOS</b>							
4	FIX REVENUE	2,016,921	44.63%	\$ 2,720,360	24.70%	\$ 2,831,592	30.12%
5	VARIABLE REVENUE	2,502,680	55.37%	\$ 8,293,438	75.30%	\$ 6,568,091	69.88%
6	TOTAL	<u>4,519,601</u>	<u>100.00%</u>	<u>\$ 11,013,799</u>	<u>100.00%</u>	<u>\$ 9,399,683</u>	<u>100.00%</u>
<b>RESIDENTIAL (5/8" X 3/4") RATE DESIGN</b>							
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
7	BASIC MONTHLY CHARGE	\$ 24.34		\$ 28.00		\$ 29.16	
COMMODITY CHARGE							
		PRESENT	PROPOSED				
8	First Tier - First 25,000 Gals.	First Tier - First 25,000 Gals.	\$ 1.2134	\$ 1.2883	\$ 1.3417		
9	Second Tier - Next 55,000 Gals.	Second Tier - Next 55,000 Gals.	\$ 2.1034	\$ 2.2332	\$ 2.3258		
10	Third Tier - Over 80,000 Gals.	Third Tier - Over 80,000 Gals.	\$ 2.6334	\$ 2.7960	\$ 2.9120		
<b>RESIDENTIAL BILL COMPARISONS</b>							
COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL							
		MONTHLY CONSUMPTION	% OF AVERAGE MONTH USAGE OF 20,493 Gal.	PRESENT MONTHLY WATER COST	RUCO PROP'D MONTHLY WATER COST	RUCO PROP'D MONTHLY INCREASE	RUCO PROP'D MONTHLY % INCREASE
11		5,123	25.00%	\$ 30.56	\$ 36.04	\$ 5.48	17.93%
12		10,472	50.00%	\$ 37.05	\$ 43.21	\$ 6.17	16.64%
13		20,493	100.00%	\$ 49.21	\$ 56.66	\$ 7.45	15.14%
14		30,740	150.00%	\$ 69.79	\$ 76.06	\$ 6.26	8.98%
15		40,986	200.00%	\$ 96.77	\$ 99.89	\$ 3.11	3.22%

SUN CITY WEST WATER DISTRICT

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**SURREBUTTAL REVENUE REQUIREMENT**

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 37,901,085	\$ 38,260,070
2	Adjusted Operating Income (Loss)	\$ 587,425	\$ 609,674
3	Current Rate Of Return (L2 / L1)	1.55%	1.59%
4	Required Operating Income (L5 X L1)	\$ 3,183,691	\$ 2,678,205
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 2,596,266	\$ 2,068,531
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6471	1.6286
8	Increase In Gross Revenue Requirement (L7 X L6)	<b>\$ 4,276,305</b>	<b>\$ 3,368,882</b>
9	Adjusted Test Year Revenue	\$ 5,701,431	\$ 5,857,266
10	Proposed Annual Revenue (L8 + L9)	\$ 9,977,736	\$ 9,226,148
11	Required Percentage Increase In Revenue (L8 / L9)	75.00%	57.52%
12	Rate Of Return On Common Equity	11.91%	8.88%

References:

Column (A): Company Schedules A-1 and C-1  
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-16

**SURREBUTTAL GROSS REVENUE CONVERSION FACTOR**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<b>CALCULATION OF GROSS REVENUE CONVERSION FACTOR:</b>					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.3860			
3	Subtotal (L1 - L2)	<u>0.6140</u>			
4	<b>Revenue Conversion Factor (L1 / L3)</b>	<b>1.6286</b>			
<b>CALCULATION OF EFFECTIVE TAX RATE:</b>					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	<u>6.9680%</u>			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	34.0000%			
9	Effective Federal Income Tax Rate (L7 X L8)	<u>31.6309%</u>			
10	Combined Federal And State Income Tax Rate (L6 + L9)	<u>38.5989%</u>			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 2,678,205			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	<u>609,674</u>			
13	Required Increase In Operating Income (L11 - L12)		\$ 2,068,531		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 957,254			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	<u>(343,097)</u>			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 1,300,351		
17	Total Required Increase In Revenue (L13 + L16)		<u>\$ 3,368,882</u>		
<b>CALCULATION OF INCOME TAX:</b>					
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			RUCO Recommended	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			\$ 9,226,148	
20	Synchronized Interest (Col. (C), L37)			5,590,689	
21	Arizona Taxable Income (L18 - L19 - L20)			<u>1,155,454</u>	
22	Arizona State Income Tax Rate			\$ 2,480,005	
23	Arizona Income Tax (L21 X L22)			<u>6.9680%</u>	\$ 172,807
24	Fed. Taxable Income (L21 - L23)			\$ 2,307,198	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			91,650	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			670,547	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 784,447
31	Combined Federal And State Income Tax (L23 + L30)				<u>\$ 957,254</u>
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)				\$ (343,097)
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)				<u>\$ 1,300,351</u>
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				34.00%
<b>CALCULATION OF INTEREST SYNCHRONIZATION:</b>					
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 38,260,070	
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)			3.02%	
37	Synchronized Interest (L35 X L36)			<u>\$ 1,155,454</u>	

**SURREBUTTAL RATE BASE - ORIGINAL COST**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 48,893,385	\$ 58,091	\$ 48,951,476
2	Accumulated Depreciation	(10,514,488)	(86,736)	(10,601,224)
3	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 38,378,897</u>	<u>\$ (28,645)</u>	<u>\$ 38,350,252</u>
4	Advances In Aid Of Const.	\$ (1,175,373)	\$ -	\$ (1,175,373)
5	Contribution In Aid Of Const.	\$ (20,548)	\$ (17,318)	\$ (37,866)
6	Accumulated Amortization Of CIAC	1,057	-	1,057
7	NET CIAC (L6 + L7)	<u>\$ (19,491)</u>	<u>\$ (17,318)</u>	<u>\$ (36,809)</u>
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (392,368)	\$ -	\$ (392,368)
10	Customer Meter Deposits	\$ (1,225)	\$ -	\$ (1,225)
11	Deferred Income Taxes And Credits	\$ 1,326,577	\$ -	\$ 1,326,577
12	Investment Tax Credits	\$ -	\$ -	\$ -
13	Deferred Debits	\$ (777,486)	\$ 892,284	\$ 114,798
14	Allowance For Working Capital	\$ 561,556	\$ (487,336)	\$ 74,220
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
16	Rounding	\$ (2)	\$ -	\$ (2)
17	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u>\$ 37,901,085</u>	<u>\$ 358,985</u>	<u>\$ 38,260,070</u>

References:

- Column (A): Company Schedule B-1
- Column (B): Schedule RLM-2
- Column (C): Column (A) + Column (B)

**SURREBUTTAL SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS**

LINE NO.	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
DESCRIPTION	COMPANY AS FILED OCRB	ADJMT NO. 1 ACCUMULT'D DEPRECT'N	ADJMT NO. 2 CIAC FOR CWIP	ADJMT NO. 3 UPIS/ACC DEP PER DR DH 4.3	REVISED ADJMT NO. 4 UPIS/ACC DEP PER DR GB 9.4	ADJMT NO. 5 DEFERRED DEBITS	ADJMT NO. 6 WORKING CAPITAL	RUCO ADJ'TED OCRB/FVRB
1	\$ 48,893,385	\$ -	\$ -	\$ 76,672	\$ (18,581)	\$ -	\$ -	\$ 48,951,476
2	(10,514,488)	(12,580)	-	(76,531)	2,375	-	-	(10,601,224)
3	\$ 38,378,897	\$ 12,580	\$ -	\$ 141	\$ (16,206)	\$ -	\$ -	\$ 38,350,252
4	\$ (1,175,373)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,175,373)
5	\$ (20,548)	\$ -	\$ (17,318)	\$ -	\$ -	\$ -	\$ -	\$ (37,866)
6	1,057	-	-	-	-	-	-	1,057
7	\$ (19,491)	\$ -	\$ (17,318)	\$ -	\$ -	\$ -	\$ -	\$ (36,809)
8	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	\$ (392,368)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (392,368)
10	\$ (1,225)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,225)
11	\$ 1,326,577	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,326,577
12	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	\$ (777,486)	\$ -	\$ -	\$ -	\$ -	\$ 892,284	\$ -	\$ 114,798
14	\$ 561,556	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (487,336)	\$ 74,220
15	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	(2)	(2)	-	-	-	-	-	(2)
17	\$ 37,901,085	\$ 12,580	\$ (17,318)	\$ 141	\$ (16,206)	\$ 892,284	\$ (487,336)	\$ 38,260,070

References:

- Column (A): Company Schedule B-2
- Column (B): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation (See RLM-3, Pages 1 Thru 7, And Testimony, RLM)
- Column (C): Adjustment No. 2 - Reverse Company's Adjustment To Remove CIAC Associated With CWIP
- Column (D): Adjustment No. 3 - Conforming Adjustment Per Company Response to Staff DR DH 4.3
- Column (E): Adjustment No. 4 - Conforming Adjustment Per Company Response to Staff DR GB 9.4
- Column (F): Adjustment No. 5 - Adjust Post Test-Year Plant Per Company Responses To Staff Data Request GWB 17.1
- Column (G): Adjustment No. 6 - Allowance For Working Capital
- Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6  
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A) AMOUNT	(B) REFERENCE
1	Materials And Supplies As Per Company	\$ 56,510	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	56,510	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 24,906	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	24,906	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	\$ 480,140	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	(7,196)	RUCO Schedule RLM-5, Page 2
9	Adjustment	\$ (487,336)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See RLM-2, Column (G))	\$ (487,336)	Sum Lines 3, 6 & 9

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6 - CONT'D  
LEAD/LAG DAY SUMMARY**

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTM'TS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
Appropriate Operating Expenses:						
1	Labor	\$ 703,217	\$ (13,569)	\$ 689,648	12.00	\$ 8,275,776
2	Purchased Water	(2,690)	-	(2,690)	(37.17)	99,987
3	Fuel & Power	830,074	-	830,074	32.42	26,912,078
4	Chemicals	227,889	-	227,889	18.06	4,114,536
5	Management Fees	999,903	(12,035)	987,868	10.40	10,273,824
6	Group Insurance	191,120	-	191,120	(14.08)	(2,691,333)
7	Pensions	137,699	-	137,699	45.00	6,196,455
8	Insurance Other Than Group	58,622	-	58,622	(68.27)	(4,002,165)
9	Customer Accounting	133,476	-	133,476	19.76	2,637,194
10	Rents	14,331	-	14,331	(10.50)	(150,476)
11	Depreciation & Amorization	1,323,541	(1,323,541)	-	-	-
12	Other Operating Expenses	575,155	(85,529)	489,625	30.00	14,688,760
Taxes:						
13	Property Taxes	179,896	40,691	220,587	15.07	3,325,257
14	Taxes Other Than Income	65,832	-	65,832	212.50	13,989,300
15	Income Tax	1,308,459	(1,651,556)	(343,097)	28.75	(9,864,028)
16	Interest Expense	-	1,155,454	1,155,454	106.52	123,078,971
17	Total Appropriate Operating Expenses	<u>\$ 6,746,524</u>	<u>\$ (1,890,085)</u>	<u>\$ 4,856,438</u>		<u>\$ 196,884,137</u>
18	Expense Lag		Line 17, Col. (E) / (C)	40.54		
19	Revenue Lag		Company Response To RUCO DR 8	<u>40.00</u>		
20	Net Lag		Line 19 - Line 18	(0.54)		
21	RUCO Adjusted Expenses		Col. (C), Line 17	<u>\$ 4,856,438</u>		
22	Cash Working Capital		Line 20 X Line 21 / 365 Days	<u>(7,196)</u>		
23	Company As Filed		Co. Schedule B-6, Page 1	480,140		
24	Difference		Line 22 - Line 23	<u>\$ (487,336)</u>		
25	ADJUSTMENT (See RLM-5, Page 1, L 9)		Line 24	<u>\$ (487,336)</u>		

References:

- Column (A): - Company Schedule B-6
- Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
- Column (C): Column (A) + (B)
- Column (D): - Company Schedule B-6
- Column (E): Column (C) X Column (D)

**SURREBUTTAL OPERATING INCOME**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJ'MTS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
<b>Revenues:</b>						
1	Metered Water Revenues	\$ 5,661,030	\$ 155,835	\$ 5,816,865	\$ 3,368,882	\$ 9,185,747
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Water Revenues	40,401	-	40,401	-	40,401
4	<b>TOTAL OPERATING REVENUE</b>	<b>\$ 5,701,431</b>	<b>\$ 155,835</b>	<b>\$ 5,857,266</b>	<b>\$ 3,368,882</b>	<b>\$ 9,226,148</b>
<b>Operating Expenses:</b>						
5	Labor	\$ 703,217	\$ (13,569)	\$ 689,648	\$ -	\$ 689,648
6	Purchased Water	(2,690)	-	(2,690)	-	(2,690)
7	Fuel & Power	830,074	-	830,074	-	830,074
8	Chemicals	227,889	-	227,889	-	227,889
9	Waste Disposal	4,391	313	4,704	-	4,704
10	Management Fees	999,903	(12,035)	987,868	-	987,868
11	Group Insurance	191,120	-	191,120	-	191,120
12	Pensions	137,699	-	137,699	-	137,699
13	Regulatory Expense	33,802	(9,737)	24,065	-	24,065
14	Insurance Other Than Group	58,622	-	58,622	-	58,622
15	Customer Accounting	133,476	-	133,476	-	133,476
16	Rents	14,331	-	14,331	-	14,331
17	General Office Expense	57,226	-	57,226	-	57,226
18	Miscellaneous	232,408	(4,692)	227,716	-	227,716
19	Maintenance Expense	247,328	(47,349)	199,979	-	199,979
20	Depreciation & Amortization	1,323,541	199,003	1,522,544	-	1,522,544
21	General Taxes - Property Taxes	179,896	40,691	220,587	-	220,587
22	General Taxes - Other	65,832	-	65,832	-	65,832
23	Income Tax	(324,059)	(19,038)	(343,097)	1,300,351	957,254
24	Rounding	-	-	-	-	-
25	<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 5,114,006</b>	<b>\$ 133,586</b>	<b>\$ 5,247,592</b>	<b>\$ 1,300,351</b>	<b>\$ 6,547,943</b>
26	<b>OPERATING INCOME (LOSS)</b>	<b>\$ 587,425</b>	<b>\$ 22,249</b>	<b>\$ 609,674</b>	<b>\$ 2,068,531</b>	<b>\$ 2,678,205</b>

**References:**

- Column (A): Company Schedule C-1
- Column (B): RLM-7, Columns (B) Thru (H)
- Column (C): Column (A) + Column (B)
- Column (D): RLM-1, Pages 1 & 2
- Column (E): Column (C) + Column (D)

**SURREBTTL SUMMARY OF OPERATING INCOME ADJUSTMENTS**  
**TEST YEAR AS FILED AND ADJUSTMENTS**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) SURREBTTL ACRM REVENUE	(C) SURREBTTL TANK MAINTENANCE	(D) SURREBTTL WATER TEST EXPENSE	(E) ADJMT NO. 1 PROPERTY TAX	(F) ADJMT NO. 2 DEPRECIATN & AMORTIZN EXPENSE	(G) ADJMT NO. 3 WASTE DISPOSAL	(H) ADJMT NO. 4 AIP EXPENSE	(I) ADJMT NO. 5 LABOR EXPENSE	(J) ADJMT NO. 6 MISC EXPENSE	(K) ADJMT NO. 7 INCOME TAX	(L) ADJMT NO. 8 RUCO AS ADJTD	(M)
1	Metered Water Revenues	\$ 5,661,030	\$ 155,835											
2	Unmetered Water Revenues	40,401												
3	Other Water Revenues													
4	TOTAL OPERATING REV.	\$ 5,701,431	\$ 155,835											\$ 5,857,266
	Operating Expenses:													
5	Labor	\$ 703,217												\$ 689,643
6	Purchased Water	(2,690)												(2,690)
7	Fuel & Power	830,074												830,074
8	Chemicals	227,889												227,889
9	Waste Disposal	4,391												4,704
10	Management Fees	995,903												987,868
11	Group Insurance	191,120												191,120
12	Pensions	137,699												137,699
13	Regulatory Expense	33,802												24,065
14	Insurance Other Than Group	58,622					(9,737)							58,622
15	Customer Accounting	133,476												133,476
16	Rents	14,331												14,331
17	General Office Expense	57,226												57,226
18	Miscellaneous	232,408												227,716
19	Maintenance Expense	247,328												199,979
20	Depreciation & Amortization	1,323,541		(47,349)										1,522,544
21	General Taxes - Property Taxes	179,896				40,691								220,587
22	General Taxes - Other	65,832												65,832
23	Income Tax	(324,059)												(343,097)
24	Rounding													
25	TOTAL OPERATING EXP.	\$ 5,114,006	\$ (47,349)	\$ (3,393)	\$ (9,737)	\$ 40,691	\$ 195,003	\$ 313	\$ (12,035)	\$ (13,569)	\$ (1,299)	\$ (19,038)	\$ 5,247,592	
26	OPERATING INC. (LOSS)	\$ 587,425												\$ 609,674

SURREBTTL ADJUSTMENTS:  
1 ACRM Revenue  
3 Tank Maintenance  
5 Water Testing Expenses

REFERENCE:  
Surrebuttal Testimony, RLM  
Surrebuttal Testimony, RLM  
Surrebuttal Testimony, RLM

ADJUSTMENTS:  
1 Property Tax Computation  
2 Depreciation And Amortization Expense  
3 Rate Case Expense  
4 Waste Disposal Expense  
5 Annual Incentive Pay Program Expense  
6 Labor Expense  
7 Miscellaneous Expenses  
8 Income Tax

REFERENCE:  
Testimony, RLM And Schedule RLM-8  
Testimony, RLM And Schedule RLM-9  
Testimony, RLM And Schedule RLM-10  
Testimony, RLM  
Testimony, RLM And Schedule RLM-11  
Testimony, RLM  
Testimony, RLM And Schedule RLM-12  
Testimony, RLM And Schedule RLM-13

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1  
PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	\$ 5,857,266	
2	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	5,857,266	
3	Proposed Revenues	Sch. RLM-6, Col (D), Ln 4	9,226,148	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 20,940,680	
5	Average Annual Operating Revenues	Line 4 / 3	6,980,227	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 13,960,453
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ (50,858)	
8	10% Of CWIP	Line 7 X 10%		\$ (5,086)
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	Company Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	Company Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 13,955,368
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 3,209,735	
Property Tax Rates:				
15	Primary Tax Rate	Company Workpapers	6.87%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	6.87%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 220,587
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		179,896
20	Decrease In Property Tax Expense	Line 18 - Line 19		\$ 40,691
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 40,691

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2  
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ 20,086	0.00%	\$ -
2	302000	Franchises	1,346	0.00%	-
3	303200	Land & Land Rights SS	11,651	0.00%	-
4	303300	Land & Land Rights P	44,957	0.00%	-
5	303500	Land & Land Rights TD	-	0.00%	-
6	303600	Land & Land Rights AG	-	0.00%	-
7	304100	Struct & Imp SS	7,620,980	2.50%	190,525
8	304200	Struct & Imp P	224,821	1.67%	3,755
9	304300	Struct & Imp WT	90,867	1.67%	1,517
10	304400	Struct & Imp TD	(441)	2.00%	(9)
11	304600	Struct & Imp Offices	17,269	4.63%	800
12	304800	Struct & Imp Misc	-	2.50%	-
13	305000	Collect & Impounding	-	0.00%	-
14	307000	Wells & Springs	2,587,201	2.52%	65,197
15	310100	Power Generation Equip Other	36,044	4.42%	1,593
16	311200	Pump Equip Electric	5,157,344	4.42%	227,955
17	311300	Pump Equip Diesel	11,177	5.00%	559
18	311500	Pump Equip Other	169,696	4.42%	7,501
19	320100	WT Equip Non-Media	6,346,604	7.06%	448,070
20	330000	Dist Reservoirs & Standpipe	760,063	1.67%	12,693
21	331001	TD Mains Not Classified By Size	13,055,020	1.53%	199,742
22	331100	TD Mains 4in & Less	614	1.53%	9
23	331200	TD Mains 6in to 8in	409,390	1.53%	6,264
24	331300	TD Mains 10in to 16in	252,697	1.53%	3,866
25	332000	Fire Mains	169	1.53%	3
26	333000	Services	7,342,743	2.48%	182,100
27	334100	Meters	1,756,083	2.51%	44,078
28	334200	Meter Installations	147,290	2.51%	3,697
29	335000	Hydrants	1,835,679	2.00%	36,714
30	339100	Other P/E Intangible	-	0.00%	-
31	339500	Other P/E TD	-	2.00%	-
32	340100	Office Furniture & Equip	20,787	4.59%	954
33	340200	Comp & Periph Equip	41,437	10.00%	4,144
34	341100	Trans Equip Lt Duty Trks	225,178	25.00%	56,295
35	341200	Trans Equip Hvy Duty Trks	21,027	15.00%	3,154
36	342000	Stores Equipment	142	3.91%	6
37	343000	Tools,Shop,Garage Equip	19,641	4.02%	790
38	344000	Laboratory Equipment	1,607	3.71%	60
39	345000	Power Operated Equipment	161,886	5.02%	8,127
40	346100	Comm Equip Non-Telephone	163,135	10.30%	16,803
41	346300	Comm Equip Other	1,338	4.93%	66
42	SUB-TOTAL	TEST YEAR DIRECT UPIS AND DEPRECIATION EXPENSE	\$ 48,555,528		\$ 1,527,024
43	SUB-TOTAL	TEST YEAR CORPORATE UPIS AND DEPRECIATION EXPENSE	390,490		87,107
44	SUB-TOTAL	POST TEST YEAR DEPRECIATION EXPENSE ON UPIS	5,456		247
45	TOTAL	DEPRECIATION EXPENSE ON UPIS			\$ 1,614,378
46		AMORTIZATION OF DEFERRED DEBIT - Y2K COSTS			5,841
47		AMORITZATION OF REGULATORY ASSETS			-
48		AMORTIZATION OF CONTRIBUTIONS			(515)
49		AMORTIZATION OF REGULATORY CIAC			(97,158)
50		Rounding			(2)
51	TOTAL DEPRECIATION EXPENSE				\$ 1,522,544
52	Company As Filed				1,323,541
53	Difference				\$ 199,003
54	RUCO Adjustment (See RLM-7, Column (C))				\$ 199,003

References:

Column (A): RLM-3, Page 7, Column (D)  
Column (B): RLM-3, Page 1, Column (A)  
Column (C): Column (A) X Column (B)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7  
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
<b>FEDERAL INCOME TAXES:</b>			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L26 + L23	\$ 266,577
LESS:			
2	Arizona State Tax	Line 11	(61,937)
3	Interest Expense	Note (A) Line 20	1,155,454
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ (826,940)
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	\$ (281,160)
<b>STATE INCOME TAXES:</b>			
7	Operating Income Before Taxes	Line 1	\$ 266,577
LESS:			
8	Interest Expense	Note (A) Line 20	1,155,454
9	State Taxable Income	Line 7 - Line 8	\$ (888,877)
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ (61,937)
<b>TOTAL INCOME TAX EXPENSE:</b>			
12	Federal Income Tax Expense	Line 6	\$ (281,160)
13	State Income Tax Expense	Line 11	(61,937)
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ (343,097)
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		(324,059)
16	Total Income Tax Adjustment	Line 14 - Line 15	\$ (19,038)
17	RUCO Adjustment (See Sch. RLM-7, Column (H))	Line 16	\$ (19,038)

NOTE (A):

Interest Synchronization:			
18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$	38,260,070
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)		3.02%
20	Interest Expense (L18 X L19)	\$	1,155,454

**RATE DESIGN AND PROOF OF RECOMMENDED REVENUE  
PROPOSED REVENUE**

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMIN'TS	(B) ANN'ZED ADJUSTM'TS	(C) TEST YEAR ADJUSTED DETERMIN'TS	(D) PROPOSED CHARGES & USAGE FEES	(E) RUCO PROPOSED REVENUES	(F) TOTAL REVENUES
<b>RESIDENTIAL CUSTOMERS</b>							
1	B1M1A - 5/8" & 3/4" Commodity Usage	14,230	1	14,231	\$ 14.04	\$ 2,397,681	\$ 2,397,681
2	First Tier - First 4,000 Gals.	598,474	28	598,502	\$ 2.6959	\$ 1,613,514	
3	Second Tier - Next 11,000 Gals.	477,061	19	477,080	\$ 2.9681	\$ 1,416,029	
4	Third Tier - Over 15,000 Gals.	69,293		69,293	\$ 3.1949	\$ 221,385	\$ 3,250,928
5	B1M1B - 1" Commodity Usage	163	1	165	\$ 35.79	\$ 70,672	\$ 70,672
6	First Tier - First 40,000 Gals.	20,768	209	20,977	\$ 2.9681	\$ 62,262	
7	Second Tier - Over 40,000 Gals.	3,242	-	3,242	\$ 3.1949	\$ 10,358	
8	B1M1C - 1-1/2" Commodity Usage	474	-	474	\$ 76.70	\$ 436,370	\$ 436,370
9	First Tier - First 100,000 Gals.	284,741	-	284,741	\$ 2.9681	\$ 845,144	
10	Second Tier - Over 100,000 Gals.	36,222	-	36,222	\$ 3.1949	\$ 115,726	
11	B1M1D - 2" Commodity Usage	140	-	140	\$ 112.50	\$ 189,045	\$ 189,045
12	First Tier - First 150,000 Gals.	91,660	-	91,660	\$ 2.9681	\$ 272,057	
13	Second Tier - Over 150,000 Gals.	15,244	-	15,244	\$ 3.1949	\$ 48,703	
14	B1M1E - 3" Commodity Usage	0	-	0.06	\$ 194.29	\$ 150	\$ 320,761
15	First Tier - First 275,000 Gals.	16	-	16	\$ 2.9681	\$ 47	\$ 150
16	Second Tier - Over 275,000 Gals.		-	0	\$ 3.1949	\$ -	
17	B1M1F - 4" Commodity Usage	1	-	1	\$ 288.87	\$ 3,533	\$ 47
18	First Tier - First 400,000 Gals.	4,893	-	4,893	\$ 2.9681	\$ 14,523	\$ 3,533
19	Second Tier - Over 400,000 Gals.	103,406	-	103,406	\$ 3.1949	\$ 330,373	
20	Total Residential Customers	<u>15,009</u>	<u>2</u>	<u>15,011</u>			\$ 344,896
21	Total Residential Usage	<u>1,705,021</u>	<u>255</u>	<u>1,705,276</u>			
22	TOTAL RESIDENTIAL CUSTOMERS REVENUE						<u>\$ 8,047,573</u>
<b>COMMERCIAL CUSTOMERS</b>							
23	B2M1A - 5/8" & 3/4" Commodity Usage	70	-	70	\$ 14.04	\$ 11,784	\$ 11,784
24	First Tier - First 15,000 Gals.	3,285	-	3,285	\$ 2.9681	\$ 9,750	
25	Second Tier - Over 15,000 Gals.	2,308	-	2,308	\$ 3.1949	\$ 7,374	\$ 17,124
26	B2M1B - 1" Commodity Usage	85	(0.4)	85	\$ 35.79	\$ 36,379	\$ 36,379
27	First Tier - First 40,000 Gals.	16,952	(153)	16,799	\$ 2.9681	\$ 49,861	
28	Second Tier - Over 40,000 Gals.	14,350	-	14,350	\$ 3.1949	\$ 45,847	\$ 95,708
29	B2M1C - 1-1/2" Commodity Usage	87	-	87	\$ 76.70	\$ 80,072	\$ 80,072
30	First Tier - First 100,000 Gals.	34,850	-	34,850	\$ 2.9681	\$ 103,439	
31	Second Tier - Over 100,000 Gals.	12,469	-	12,469	\$ 3.1949	\$ 39,837	\$ 143,276
32	B2M1D - 2" Commodity Usage	132	(0.1)	132	\$ 112.50	\$ 178,658	\$ 178,658
33	First Tier - First 150,000 Gals.	98,774	(90)	98,684	\$ 2.9681	\$ 292,906	
34	Second Tier - Over 150,000 Gals.	44,612	-	44,612	\$ 3.1949	\$ 142,531	\$ 435,437
35	B2M1E - 3" Commodity Usage	11	-	11	\$ 194.29	\$ 25,504	\$ 25,504
36	First Tier - First 275,000 Gals.	12,243	-	12,243	\$ 2.9681	\$ 36,339	
37	Second Tier - Over 275,000 Gals.	24,438	-	24,438	\$ 3.1949	\$ 78,077	

**RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**  
**PROPOSED REVENUE**

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMIN'TS	(B) ANN'ZED ADJUSTM'TS	(C) TEST YEAR ADJUSTED DETERMIN'TS	(D) PROPOSED CHARGES & USAGE FEES	(E) RUCO PROPOSED REVENUES	(F) TOTAL REVENUES
38	B2M1F - 4" Commodity Usage	1	-	1	\$ 288.87	\$ 3,466	\$ 3,466
39	First Tier - First 400,000 Gals.	4,800	-	4,800	\$ 2,9681	\$ 14,247	
40	Second Tier - Over 400,000 Gals.	7,385	-	7,385	\$ 3,1949	\$ 23,594	\$ 37,841
41	B2M1G - 6" Commodity Usage	1	-	1	\$ 396.24	\$ 4,862	\$ 4,862
42	First Tier - First 550,000 Gals.	3,146	-	3,146	\$ 2,9681	\$ 9,338	
43	Second Tier - Over 550,000 Gals.	-	-	-	\$ 3,1949	\$ -	\$ 9,338
44	Total Commercial Customers	<u>387</u>	<u>(0.5)</u>	<u>387</u>			
45	Total Commercial Usage	<u>279,612</u>	<u>(243)</u>	<u>279,369</u>			
46	TOTAL COMMERCIAL CUSTOMERS REVENUE						<u>\$ 1,079,451</u>
<b>PRIVATE FIRE PROTECTION CUSTOMERS</b>							
47	B6MO4 - 4"	18	-	18	\$ 65.93	\$ 14,242	
48	B6MO6 - 6"	42	-	42	\$ 98.92	\$ 49,947	
49	B6MO8 - 8"	10	-	10	\$ 131.89	\$ 15,932	
50	Commodity Usage	-	-	-	No Charge		
51	TOTAL PRIVATE FIRE PROTECTION CUSTOMERS REVENUE						<u>\$ 80,120</u>
52	TOTAL RUCO PROPOSED REVENUE PER BILL COUNT						<u>\$ 9,207,144</u>
53	Unreconciled Difference vs. Billed Revenues						(21,397)
	Other Revenue						40,401
54	TOTAL REVENUE						<u>\$ 9,226,148</u>
55	PROPOSED REVENUE PER FILING						<u>\$ 9,226,148</u>
56	Difference						\$ 0

**TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
<b>REVENUE ALLOCATION</b>							
1	RESIDENTIAL	\$ 4,884,840	86.06%	\$ 8,597,662	86.33%	\$ 8,047,573	87.41%
2	OTHER	791,022	13.94%	1,361,070	13.67%	1,159,571	12.59%
3	TOTAL	\$ 5,675,862	100.00%	\$ 9,958,732	100.00%	\$ 9,207,144	100.00%
<b>ALLOCATION RATIOS</b>							
4	FIX REVENUE	\$ 2,386,032	42.04%	\$ 3,758,789	37.74%	\$ 3,518,297	38.21%
5	VARIABLE REVENUE	3,289,830	57.96%	6,199,943	62.26%	5,688,848	61.79%
6	TOTAL	\$ 5,675,862	100.00%	\$ 9,958,732	100.00%	\$ 9,207,144	100.00%
<b>RESIDENTIAL (5/8" X 3/4") RATE DESIGN</b>							
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
7	BASIC MONTHLY CHARGE	\$ 9.57		\$ 15.00		\$ 14.04	
COMMODITY CHARGE							
		PRESENT	PROPOSED				
8	First Tier - First 4,000 Gals.	First Tier - First 4,000 Gals.	\$ 1.3092	\$ 2.8802		\$ 2.6959	
9	Second Tier - Next 11,000 Gals.	Second Tier - Next 11,000 Gals.	\$ 1.7442	\$ 3.1710		\$ 2.9681	
10	Third Tier - Over 15,000 Gals.	Third Tier - Over 15,000 Gals.	\$ 2.0102	\$ 3.4133		\$ 3.1949	
<b>RESIDENTIAL BILL COMPARISONS</b>							
COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL		% OF AVERAGE MONTH USAGE OF 6,704 Gal.	GALLONS USED AT VARIOUS USAGE	PRESENT MONTHLY WATER COST	RUCO PROP'D MONTHLY WATER COST	RUCO PROP'D MONTHLY INCREASE	RUCO PROP'D MONTHLY % INCREASE
11		25.00%	1,676	\$ 11.76	\$ 18.56	\$ 6.79	57.76%
12		50.00%	3,352	\$ 13.96	\$ 23.08	\$ 9.12	65.33%
13		100.00%	6,704	\$ 19.52	\$ 32.85	\$ 13.33	68.26%
14		150.00%	10,056	\$ 25.37	\$ 42.80	\$ 17.43	68.70%
15		200.00%	13,408	\$ 31.22	\$ 52.75	\$ 21.53	68.98%

TUBAC WATER DISTRICT

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**SURREBUTTAL REVENUE REQUIREMENT**

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 1,527,454	\$ 1,436,261
2	Adjusted Operating Income (Loss)	\$ (38,553)	\$ (61,618)
3	Current Rate Of Return (L2 / L1)	-2.52%	-4.29%
4	Required Operating Income (L5 X L1)	\$ 128,306	\$ 100,538
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 166,859	\$ 162,156
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6674	1.3078
8	Increase In Gross Revenue Requirement (L7 X L6)	<b>\$ 278,214</b>	<b>\$ 212,074</b>
9	Adjusted Test Year Revenue	\$ 426,898	\$ 426,900
10	Proposed Annual Revenue (L8 + L9)	\$ 705,112	\$ 638,974
11	Required Percentage Increase In Revenue (L8 / L9)	65.17%	49.68%
12	Rate Of Return On Common Equity	11.91%	8.88%

References:

Column (A): Company Schedules A-1 and C-1  
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-16

**SURREBUTTAL GROSS REVENUE CONVERSION FACTOR**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<b>CALCULATION OF GROSS REVENUE CONVERSION FACTOR:</b>					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.2354			
3	Subtotal (L1 - L2)	<u>0.7646</u>			
4	<b>Revenue Conversion Factor (L1 / L3)</b>	<b>1.3078</b>			
<b>CALCULATION OF EFFECTIVE TAX RATE:</b>					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	<u>93.0320%</u>			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	17.8110%			
9	Effective Federal Income Tax Rate (L7 X L8)	<u>16.5699%</u>			
10	Combined Federal And State Income Tax Rate (L6 + L9)	<u>23.5379%</u>			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 100,538			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	<u>(61,618)</u>			
13	Required Increase In Operating Income (L11 - L12)		\$ 162,156		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 17,597			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	<u>(32,321)</u>			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 49,918		
17	Total Required Increase In Revenue (L13 + L16)		<u>\$ 212,074</u>		
<b>CALCULATION OF INCOME TAX:</b>					
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			RUCO Recommended	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			\$ 638,974	
20	Synchronized Interest (Col. (C), L37)			520,838	
21	Arizona Taxable Income (L18 - L19 - L20)			<u>43,375</u>	
22	Arizona State Income Tax Rate			\$ 74,760	
23	Arizona Income Tax (L21 X L22)			6.9680%	\$ 5,209
24	Fed. Taxable Income (L21 - L23)			\$ 69,551	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			4,888	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			-	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			-	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			-	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 12,388
31	Combined Federal And State Income Tax (L23 + L30)				<u>\$ 17,597</u>
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)				\$ (32,321)
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)				<u>\$ 49,918</u>
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				17.81%
<b>CALCULATION OF INTEREST SYNCHRONIZATION:</b>					
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 1,436,261	
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)			3.02%	
37	Synchronized Interest (L35 X L36)			<u>\$ 43,375</u>	

**SURREBUTTAL RATE BASE - ORIGINAL COST**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 3,423,384	\$ -	\$ 3,423,384
2	Accumulated Depreciation	(939,364)	1,550	(937,814)
3	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 2,484,020</u>	<u>\$ 1,550</u>	<u>\$ 2,485,570</u>
4	Advances In Aid Of Const.	\$ (1,042,125)	\$ (20,266)	\$ (1,062,391)
5	Contribution In Aid Of Const.	\$ (195)	\$ -	\$ (195)
6	Accumulated Amortization Of CIAC	17	-	17
7	NET CIAC (L6 + L7)	<u>\$ (178)</u>	<u>\$ -</u>	<u>\$ (178)</u>
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (58,023)	\$ -	\$ (58,023)
10	Customer Meter Deposits	\$ (540)	\$ -	\$ (540)
11	Deferred Income Taxes And Credits	\$ 46,088	\$ -	\$ 46,088
12	Investment Tax Credits	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 54,503	\$ (51,122)	\$ 3,381
14	Allowance For Working Capital	\$ 43,709	\$ (21,355)	\$ 22,354
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
16	Rounding	\$ -	\$ -	\$ -
17	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u>\$ 1,527,454</u>	<u>\$ (91,193)</u>	<u>\$ 1,436,261</u>

References:

- Column (A): Company Schedule B-1
- Column (B): Schedule RLM-2
- Column (C): Column (A) + Column (B)

**SURREBUTTAL SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB	(B) ADJMT NO. 1 ACCUMULT'D DEPRECT'N	(C) ADJMT NO. 2 ADJMT NO. 1 AIAC FOR CWIP	(D) ADJMT NO. 3	(E) ADJMT NO. 4	(F) ADJMT NO. 5 DEFERRED DEBITS	(G) ADJMT NO. 6 WORKING CAPITAL	(H) RUCO ADJTD OCRB/FVRB
1	Gross Utility Plant In Service	\$ 3,423,384	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,423,384
2	Accumulated Depreciation	(939,364)	1,550	-	-	-	-	-	(937,814)
3	Net Utility Plant In Service (Sum L1 & L3)	\$ 2,484,020	\$ 1,550	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,485,570
4	Advances In Aid Of Const.	\$ (1,042,125)	\$ -	\$ (20,266)	\$ -	\$ -	\$ -	\$ -	\$ (1,062,391)
5	Contribution In Aid Of Const.	\$ (195)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (195)
6	Accumulated Amortization Of CIAC	17	-	-	-	-	-	-	17
7	NET CIAC (L5 + L6)	\$ (178)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (178)
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (58,023)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (58,023)
10	Customer Meter Deposits	\$ (540)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (540)
11	Deferred Income Taxes And Credits	\$ 46,088	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46,088
12	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 54,503	\$ -	\$ -	\$ -	\$ -	\$ (51,122)	\$ -	\$ 3,381
14	Allowance For Working Capital	\$ 43,709	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (21,355)	\$ 22,354
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Rounding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	\$ 1,527,454	\$ 1,550	\$ (20,266)	\$ -	\$ -	\$ (51,122)	\$ (21,355)	\$ 1,436,261

References:

- Column (A): Company Schedule B-2
- Column (B): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation (See RLM-3, Pages 1 Thru 7, And Testimony, RLM)
- Column (C): Adjustment No. 2 - Reverse Company's Adjustment To Remove CIAC Associated With CWIP
- Column (D): Adjustment No. 3 - Intentionally Left Blank
- Column (E): Adjustment No. 4 - Intentionally Left Blank
- Column (F): Adjustment No. 5 - Adjust Post Test-Year Plant Per Company Responses To Staff Data Request GWB 17.1
- Column (G): Adjustment No. 6 - Allowance For Working Capital
- Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6  
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A) AMOUNT	(B) REFERENCE
1	Materials And Supplies As Per Company	\$ 1,445	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	1,445	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 1,598	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	1,598	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	\$ 40,665	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	19,310	RUCO Schedule RLM-5, Page 2
9	Adjustment	\$ (21,355)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See RLM-2, Column (G))	\$ (21,355)	Sum Lines 3, 6 & 9

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6 - CONT'D  
LEAD/LAG DAY SUMMARY**

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTM'TS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 131,623	\$ (1,183)	\$ 130,440	12.00	\$ 1,565,275
2	Purchased Water	-	-	-	86.87	-
3	Fuel & Power	25,631	-	25,631	32.42	830,957
4	Chemicals	2,190	-	2,190	28.47	62,357
5	Management Fees	87,180	(1,049)	86,131	(3.88)	(334,187)
6	Group Insurance	24,921	-	24,921	(4.64)	(115,747)
7	Pensions	28,546	-	28,546	45.00	1,284,592
8	Insurance Other Than Group	5,049	(3,011)	2,038	45.00	91,708
9	Customer Accounting	11,644	(6,595)	5,049	7.46	37,666
10	Rents	4,146	7,498	11,644	(10.68)	(124,379)
11	Depreciation & Amorization	81,679	(81,679)	-	-	-
12	Other Operating Expenses	77,593	(68)	77,525	30.00	2,325,746
	Taxes:					
13	Taxes Other Than Income	11,078	-	11,078	15.65	173,382
14	Property Taxes	26,350	3,882	30,232	212.50	6,424,317
15	Income Tax	52,871	(35,274)	17,597	42.04	739,782
16	Interest Expense	-	43,375	43,375	106.52	
17	Total Appropriate Operating Expenses	<u>\$ 570,501</u>	<u>\$ (74,104)</u>	<u>\$ 496,397</u>		<u>\$ 12,961,469</u>
18	Expense Lag		Line 17, Col. (E) / (C)	26.11		
19	Revenue Lag		Company Response To RUCO DR 8	<u>40.31</u>		
20	Net Lag		Line 19 - Line 18	14.20		
21	RUCO Adjusted Expenses		Col. (C), Line 17	<u>\$ 496,397</u>		
22	Cash Working Capital		Line 20 X Line 21 / 365 Days	<u>19,310</u>		
23	Company As Filed		Co. Schedule B-6, Page 1	40,665		
24	Difference		Line 22 - Line 23	<u>\$ (21,355)</u>		
25	ADJUSTMENT (See RLM-5, Page 1, L 9)		Line 24	<u>\$ (21,355)</u>		

References:

- Column (A): - Company Schedule B-6
- Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
- Column (C): Column (A) + (B)
- Column (D): - Company Schedule B-6
- Column (E): Column (C) X Column (D)

**SURREBUTTAL OPERATING INCOME**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJ'M'TS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	<b>Revenues:</b>					
1	Metered Water Revenues	\$ 423,061	\$ -	\$ 423,061	\$ 212,074	\$ 635,135
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Water Revenues	3,839	-	3,839	-	3,839
4	<b>TOTAL OPERATING REVENUE</b>	<b>\$ 426,900</b>	<b>\$ -</b>	<b>\$ 426,900</b>	<b>\$ 212,074</b>	<b>\$ 638,974</b>
	<b>Operating Expenses:</b>					
5	Labor	\$ 131,623	\$ (1,183)	\$ 130,440	\$ -	\$ 130,440
6	Purchased Water	\$ -	-	-	-	-
7	Fuel & Power	25,631	-	25,631	-	25,631
8	Chemicals	2,190	-	2,190	-	2,190
9	Waste Disposal	(27)	27	-	-	-
10	Management Fees	87,180	(1,049)	86,131	-	86,131
11	Group Insurance	24,921	-	24,921	-	24,921
12	Pensions	28,546	-	28,546	-	28,546
13	Regulatory Expense	1,480	558	2,038	-	2,038
14	Insurance Other Than Group	5,049	-	5,049	-	5,049
15	Customer Accounting	11,644	-	11,644	-	11,644
16	Rents	4,146	-	4,146	-	4,146
17	General Office Expense	8,811	-	8,811	-	8,811
18	Miscellaneous	49,935	(93)	49,842	-	49,842
19	Maintenance Expense	17,394	1,478	18,872	-	18,872
20	Depreciation & Amortization	81,679	(412)	81,267	-	81,267
21	General Taxes - Property Taxes	26,350	3,882	30,232	-	30,232
22	General Taxes - Other	11,078	-	11,078	-	11,078
23	Income Tax	(52,178)	19,857	(32,321)	49,918	17,597
24	Rounding	-	-	-	-	-
25	<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 465,453</b>	<b>\$ 23,065</b>	<b>\$ 488,518</b>	<b>\$ 49,918</b>	<b>\$ 538,435</b>
26	<b>OPERATING INCOME (LOSS)</b>	<b>\$ (38,553)</b>	<b>\$ (23,065)</b>	<b>\$ (61,618)</b>	<b>\$ 162,156</b>	<b>\$ 100,538</b>

References:

- Column (A): Company Schedule C-1
- Column (B): RLM-7, Columns (B) Thru (H)
- Column (C): Column (A) + Column (B)
- Column (D): RLM-1, Pages 1 & 2
- Column (E): Column (C) + Column (D)

**SURREBUTTAL SUMMARY OF OPERATING INCOME ADJUSTMENTS**  
**TEST YEAR AS FILED AND ADJUSTMENTS**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) SURREBUT'L ADJMT NO. 2 LABOR	(C) SURREBUT'L ADJMT NO. 3 TANK MAINTENANCE	(D) SURREBUT'L ADJMT NO. 5 WATER TEST EXPENSE	(E) REVISED ADJMT NO. 1 PROPERTY TAX	(F) REVISED ADJMT NO. 2 DEPRECIATN & AMORTIZN EXPENSE	(G) ADJMT NO. 3 RATE CASE EXPENSE	(H) ADJMT NO. 4 WASTE DISPOSAL	(I) ADJMT NO. 5 AIP EXPENSE	(J) ADJMT NO. 6 MISC EXPENSES	(K) REVISED ADJMT NO. 7 INCOME TAX	(L) RUCO AS ADJTD
1	Revenues:												
2	Metered Water Revenues	\$ 423,061	-	-	-	-	-	-	-	-	-	-	\$ 423,061
3	Unmetered Water Revenues	-	-	-	-	-	-	-	-	-	-	-	-
4	Other Water Revenues	3,839	-	-	-	-	-	-	-	-	-	-	3,839
5	TOTAL OPERATING REV.	\$ 426,900	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 426,900
6	Operating Expenses:												
7	Labor	\$ 131,623	\$ (1,183)	-	-	-	-	-	-	-	-	-	\$ 130,440
8	Purchased Water	-	-	-	-	-	-	-	-	-	-	-	-
9	Fuel & Power	25,631	-	-	-	-	-	-	-	-	-	-	25,631
10	Chemicals	2,190	-	-	-	-	-	-	-	-	-	-	2,190
11	Waste Disposal	(27)	-	-	-	-	-	-	27	-	-	-	-
12	Management Fees	87,180	-	-	-	-	-	-	-	-	-	-	86,131
13	Group Insurance	24,921	-	-	-	-	-	-	-	(1,049)	-	-	24,921
14	Pensions	28,546	-	-	-	-	-	-	-	-	-	-	28,546
15	Regulatory Expense	1,480	-	-	-	-	-	-	-	-	-	-	2,038
16	Insurance Other Than Group	5,049	-	-	-	-	-	-	-	-	-	-	5,049
17	Customer Accounting	11,644	-	-	-	-	-	-	-	-	-	-	11,644
18	Rents	4,146	-	-	-	-	-	-	-	-	-	-	4,146
19	General Office Expense	8,811	-	-	-	-	-	-	-	-	-	-	8,811
20	Miscellaneous	49,935	-	-	-	-	-	-	-	-	(1,668)	-	49,842
21	Maintenance Expense	17,394	-	1,478	-	-	-	-	-	-	-	-	18,872
22	Depreciation & Amortization	81,679	-	-	-	-	(412)	-	-	-	-	-	81,267
23	General Taxes - Property Taxes	26,350	-	-	-	3,882	-	-	-	-	-	-	30,232
24	General Taxes - Other	11,078	-	-	-	-	-	-	-	-	-	-	11,078
25	Income Tax	(52,178)	-	-	-	-	-	-	-	-	-	19,857	(32,321)
26	TOTAL OPERATING EXP.	\$ 465,453	\$ (1,183)	\$ 1,478	\$ 1,575	\$ 3,882	\$ (412)	\$ 558	\$ 27	\$ (1,049)	\$ (1,668)	\$ 19,857	\$ 488,518
	OPERATING INC. (LOSS)	\$ (38,553)											\$ (61,618)

SURREBUTTAL ADJUSTMENTS:  
 2 Labor Expense  
 3 Tank Maintenance  
 5 Water Testing Expense

REFERENCE:  
 Surrebutal Testimony, RLM  
 Surrebutal Testimony, RLM  
 Surrebutal Testimony, RLM

ADJUSTMENTS:  
 1 Property Tax Computation  
 2 Depreciation And Amortization Expense  
 3 Rate Case Expense  
 4 Waste Disposal Expense  
 5 Annual Incentive Pay Program Expense  
 6 Miscellaneous Expenses  
 7 Income Tax

REFERENCE:  
 Testimony, RLM And Schedule RLM-8  
 Testimony, RLM And Schedule RLM-9  
 Testimony, RLM And Schedule RLM-10  
 Testimony, RLM  
 Testimony, RLM And Schedule RLM-11  
 Testimony, RLM And Schedule RLM-12  
 Testimony, RLM And Schedule RLM-13

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1  
PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Year 2005	Co. Sch. E-2	\$ 435,053	
2	Year 2006	Co. Sch. E-2	405,985	
3	RUCO Proposed Revenue	RUCO Sch. RLM-6	638,974	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 1,480,012	
5	Average Annual Operating Revenues	Line 4 / 3	493,337	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 986,674
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ 479,596	
8	10% Of CWIP	Line 7 X 10%		\$ 47,960
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	Company Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	Company Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 1,034,634
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 237,966	
Property Tax Rates:				
15	Primary Tax Rate	Company Workpapers	12.70%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	12.70%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 30,232
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		26,350
20	Decrease In Property Tax Expense	Line 18 - Line 19		\$ 3,882
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 3,882

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2  
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ 567	0.00%	\$ -
2	302000	Franchises	2,030	0.00%	-
3	303200	Land & Land Rights SS	20,414	0.00%	-
4	303300	Land & Land Rights P	50	0.00%	-
5	303400	Land & Land Rights WT	50	0.00%	-
6	303500	Land & Land Rights TD	422	0.00%	-
7	303600	Land & Land Rights AG	2,755	0.00%	-
8	304100	Struct & Imp SS	25,292	2.21%	559
9	304200	Struct & Imp P	14,608	2.21%	323
10	304300	Struct & Imp WT	-	2.21%	-
11	304400	Struct & Imp TD	156	2.21%	3
12	304600	Struct & Imp Offices	498	2.21%	11
13	304800	Struct & Imp Misc	-	0.00%	-
14	305000	Collect & Impounding	-	0.00%	-
15	307000	Wells & Springs	238,951	3.08%	7,360
16	310100	Power Generation Equip Other	4,832	4.24%	205
17	311200	Pump Equip Electric	281,110	4.24%	11,919
18	311300	Pump Equip Diesel	879	4.24%	37
19	311500	Pump Equip Other	403,823	4.24%	17,122
20	320100	WT Equip Non-Media	55,863	4.00%	2,235
21	330000	Dist Reservoirs & Standpipe	151,203	1.62%	2,449
22	331001	TD Mains Not Classified By Size	301,122	1.97%	5,932
23	331100	TD Mains 4in & Less	874,456	1.97%	17,227
24	331200	TD Mains 6in to 8in	390,384	1.97%	7,691
25	331300	TD Mains 10in to 16in	-	2.34%	-
26	333000	Services	401,618	2.45%	9,840
27	334100	Meters	99,053	2.42%	2,397
28	334200	Meter Installations	20,328	2.42%	492
29	335000	Hydrants	78,367	1.97%	1,544
30	339100	Other P/E Intangible	-	0.00%	-
31	339500	Other P/E TD	-	0.00%	-
32	340100	Office Furniture & Equip	5,453	3.28%	179
33	340200	Comp & Periph Equip	1,336	10.83%	145
34	341100	Trans Equip Lt Duty Trks	17,166	25.00%	4,292
35	341200	Trans Equip Hvy Duty Trks	-	15.00%	-
36	342000	Stores Equipment	-	3.59%	-
37	343000	Tools, Shop, Garage Equip	14,442	3.59%	518
38	344000	Laboratory Equipment	-	0.00%	-
39	345000	Power Operated Equipment	-	4.64%	-
40	346100	Comm Equip Non-Telephone	1,932	5.03%	97
41	346300	Comm Equip Other	659	4.93%	32
42	SUB-TOTAL	TEST YEAR DIRECT UPIS AND DEPRECIATION EXPENSE	\$ 3,409,819		\$ 92,608
43	SUB-TOTAL	TEST YEAR CORPORATE UPIS AND DEPRECIATION EXPENSE	12,387		3,026
44	SUB-TOTAL	POST TEST YEAR DEPRECIATION EXPENSE ON UPIS	-		-
45	TOTAL	DEPRECIATION EXPENSE ON UPIS			\$ 95,635
46		AMORTIZATION OF DEFERRED DEBIT - Y2K COSTS			-
47		AMORITZATION OF REGULATORY ASSETS			-
48		AMORTIZATION OF CONTRIBUTIONS			-
49		AMORTIZATION OF REGULATORY CIAC			(14,368)
50		Rounding			-
51		<b>TOTAL DEPRECIATION EXPENSE</b>			<b>\$ 81,267</b>
52		Company As Filed			81,679
53		Difference			\$ (412)
54		RUCO Adjustment (See RLM-7, Column (C))			\$ (412)

References:

Column (A): RLM-3, Page 7, Column (D)  
Column (B): RLM-3, Page 1, Column (A)  
Column (C): Column (A) X Column (B)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7  
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
<b>FEDERAL INCOME TAXES:</b>			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L26 + L23	\$ (93,938)
LESS:			
2	Arizona State Tax	Line 11	(9,568)
3	Interest Expense	Note (A) Line 20	43,375
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ (127,745)
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	17.81%
6	Federal Income Tax Expense	Line 4 X line 5	\$ (22,753)
<b>STATE INCOME TAXES:</b>			
7	Operating Income Before Taxes	Line 1	\$ (93,938)
LESS:			
8	Interest Expense	Note (A) Line 20	43,375
9	State Taxable Income	Line 7 - Line 8	\$ (137,313)
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ (9,568)
<b>TOTAL INCOME TAX EXPENSE:</b>			
12	Federal Income Tax Expense	Line 6	\$ (22,753)
13	State Income Tax Expense	Line 11	(9,568)
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ (32,321)
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		(52,178)
16	Total Income Tax Adjustment	Line 14 - Line 15	\$ 19,857
17	RUCO Adjustment (See Sch. RLM-7, Column (J))	Line 16	\$ 19,857

NOTE (A):

Interest Synchronization:		
18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$ 1,436,261
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)	3.02%
20	Interest Expense (L18 X L19)	\$ 43,375

**RATE DESIGN AND PROOF OF RECOMMENDED REVENUE  
PROPOSED REVENUE**

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMINTS	(B) ANN'ZED ADJUSTM'TS	(C) TEST YEAR ADJUSTED DETERMINTS	(D) PROPOSED CHARGES & USAGE FEES	(E) RUCO PROPOSED REVENUES	(F) TOTAL REVENUES
<b>RESIDENTIAL CUSTOMERS</b>							
1	F1M1A - 5/8" & 3/4" Commodity Usage	461	1	462	\$ 29.44	\$ 163,219	\$ 163,219
2	First Tier - First 4,000 Gals.	17,836	118	17,954	\$ 3.4237	\$ 61,065	
3	Second Tier - Next 16,000 Gals.	32,438	-	32,438	\$ 4.3928	\$ 142,493	
4	Third Tier - Over 20,000 Gals.	14,857	-	14,857	\$ 4.4834	\$ 66,609	
							\$ 270,168
5	F1M1B - 1" Commodity Usage	23	0.2	23	\$ 44.32	\$ 12,458	\$ 12,458
6	First Tier - First 35,000 Gals.	3,655	41	3,696	\$ 4.3928	\$ 16,057	
7	Second Tier - Over 35,000 Gals.	2,032	-	2,032	\$ 4.4834	\$ 9,110	
							\$ 25,167
11	F1M1D - 2" Commodity Usage	3	-	3	\$ 145.82	\$ 5,283	\$ 5,283
12	First Tier - First 150,000 Gals.	1,628	-	1,628	\$ 4.3928	\$ 7,151	
13	Second Tier - Over 150,000 Gals.	17	-	17	\$ 4.4834	\$ 76	
							\$ 7,228
14	F1M1E - 3" Commodity Usage	1	-	1	\$ 172.99	\$ 2,071	\$ 2,071
15	First Tier - First 175,000 Gals.	10	-	10	\$ 4.3928	\$ 44	
16	Second Tier - Over 175,000 Gals.	0	-	0	\$ 4.4834	\$ -	
							\$ 44
20	Total Residential Customers	<u>489</u>	<u>1</u>	<u>490</u>			
21	Total Residential Usage	<u>72,474</u>	<u>158</u>	<u>72,632</u>			
22	TOTAL RESIDENTIAL CUSTOMERS REVENUE						<u>\$ 485,636</u>
<b>COMMERCIAL CUSTOMERS</b>							
23	F2M1A - 5/8" & 3/4" Commodity Usage	47	0	47	\$ 29.44	\$ 16,467	\$ 16,467
24	First Tier - First 20,000 Gals.	3,406	0	3,406	\$ 4.3928	\$ 14,962	
25	Second Tier - Over 20,000 Gals.	1,688	0	1,688	\$ 4.4834	\$ 7,568	
							\$ 22,530
26	F2M1B - 1" Commodity Usage	16	0	16	\$ 44.32	\$ 8,509	\$ 8,509
27	First Tier - First 35,000 Gals.	2,641	64	2,705	\$ 4.3928	\$ 11,600	
28	Second Tier - Over 35,000 Gals.	3,472	0	3,472	\$ 4.4834	\$ 15,566	
							\$ 27,166
29	F2M1C - 1-1/2" Commodity Usage	2	0	2	\$ 88.63	\$ 2,127	\$ 2,127
30	First Tier - First 85,000 Gals.	491	0	491	\$ 4.3928	\$ 2,157	
31	Second Tier - Over 85,000 Gals.	0	0	0	\$ 4.4834	\$ -	
							\$ 2,157
32	F2M1D - 2" Commodity Usage	10	0	10	\$ 145.82	\$ 16,847	\$ 16,847
33	First Tier - First 150,000 Gals.	6,618	0	6,618	\$ 4.3928	\$ 29,071	
34	Second Tier - Over 150,000 Gals.	2,950	0	2,950	\$ 4.4834	\$ 13,226	
							\$ 42,297
35	F2M1E - 3" Commodity Usage	4	0	4	\$ 172.99	\$ 7,703	\$ 7,703
36	First Tier - First 175,000 Gals.	864	0	864	\$ 4.3928	\$ 3,795	
37	Second Tier - Over 175,000 Gals.	45	0	45	\$ 4.4834	\$ 202	
							\$ 3,997
38	Total Commercial Customers	<u>78</u>	<u>0</u>	<u>78</u>			
39	Total Commercial Usage	<u>22,175</u>	<u>64</u>	<u>22,239</u>			
40	TOTAL COMMERCIAL CUSTOMERS REVENUE						<u>\$ 149,800</u>
41	TOTAL RUCO PROPOSED REVENUE PER BILL COUNT						<u>\$ 635,436</u>
42	Unreconciled Difference vs. Billed Revenues						<u>(301)</u>
43	REVENUE PER BILL COUNT						<u>635,135</u>
44	Other Revenue						<u>3,839</u>
45	TOTAL REVENUE						<u>\$ 638,974</u>
46	PROPOSED REVENUE PER BOOK						<u>\$ 638,974</u>
	Difference						<u>\$ 0</u>

TYPICAL RESIDENTIAL BILL ANALYSIS

LINE NO.	DESCRIPTION	(A)	(B)	(C)		(D)		(E)	(F)
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED			
<b>REVENUE ALLOCATION</b>									
1	RESIDENTIAL	\$ 321,006	75.84%	\$ 536,183	76.43%	\$ 485,636		76.43%	
2	OTHER	102,238	24.16%	165,391	23.57%	149,800		23.57%	
3	TOTAL	<u>\$ 423,244</u>	<u>100.00%</u>	<u>\$ 701,574</u>	<u>100.00%</u>	<u>\$ 635,436</u>		<u>100.00%</u>	
<b>ALLOCATION RATIOS</b>									
4	FIX REVENUE	\$ 156,585	37.00%	\$ 259,109	36.93%	\$ 234,683		36.93%	
5	VARIABLE REVENUE	266,659	63.00%	442,465	63.07%	400,754		63.07%	
6	TOTAL	<u>423,244</u>	<u>100.00%</u>	<u>\$ 701,574</u>	<u>100.00%</u>	<u>\$ 635,436</u>		<u>100.00%</u>	
<b>RESIDENTIAL (5/8" X 3/4") RATE DESIGN</b>									
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED			
7	BASIC MONTHLY CHARGE	\$ 19.68		\$ 32.50		\$ 29.44			
COMMODITY CHARGE									
		PRESENT	PROPOSED						
8	First Tier - First 4,000 Gals.	First Tier - First 4,000 Gals.	\$ 1.89	\$ 3.78	\$ 3.42				
9	Second Tier - Next 16,000 Gals.	Second Tier - Next 16,000 Gals.	\$ 2.85	\$ 4.85	\$ 4.39				
10	Third Tier - Over 20,000 Gals.	Third Tier - Over 20,000 Gals.	\$ 3.41	\$ 4.95	\$ 4.48				
<b>RESIDENTIAL BILL COMPARISONS</b>									
COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL									
		MONTHLY CONSUMPTION	% OF AVERAGE MONTH USAGE OF 11,767 Gal.	PRESENT MONTHLY WATER COST	RUCO PROP'D MONTHLY WATER COST	RUCO PROP'D MONTHLY INCREASE		RUCO PROP'D MONTHLY % INCREASE	
11		2,942	25.00%	\$ 25.24	\$ 39.51	\$ 14.27		56.53%	
12		5,884	50.00%	\$ 32.61	\$ 51.41	\$ 18.80		57.64%	
13		11,767	100.00%	\$ 49.38	\$ 77.25	\$ 27.87		56.45%	
14		17,651	150.00%	\$ 66.15	\$ 103.10	\$ 36.95		55.86%	
15		23,534	200.00%	\$ 84.89	\$ 129.26	\$ 44.37		52.27%	