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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
SANDRA D. KENNEDY
PAUL NEWMAN
BOB STUMP

IN THE MATTER OF THE APPLICATION OF
SUNRISE WATER CO., AN ARIZONA
CORPORATION, FOR A DETERMINATION OF
THE CURRENT FAIR VALUE OF ITS UTILITY
PLANT AND PROPERTY AND FOR
INCREASES IN ITS RATES AND CHARGES
BASED THEREON FOR UTILITY SERVICE

DOCKET NO. W-02069A-08-0406

**NOTICE OF FILING
REBUTTAL TESTIMONY**

1 Sunrise Water Co. ("Sunrise") hereby files rejoinder testimony by Marvin Collins and
2 Ray Jones.

3 RESPECTFULLY SUBMITTED on May 1, 2009.

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Arizona Corporation Commission
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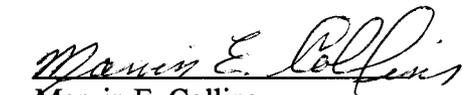
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9 **Copies of the foregoing mailed on**
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31
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33 Marvin E. Collins
34

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OF
MARVIN E. COLLINS
ON BEHALF OF
SUNRISE WATER COMPANY
MAY 1, 2009**

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1 **EXECUTIVE SUMMARY**

2 In his testimony:

3 Mr. Collins supports Sunrise's proposal to normalize hydrant water sales and provide an update
4 and analysis of Sunrise's 2009 hydrant water sales. Staff's proposed level of normalized hydrant
5 water sales is 13,234,760 gallons and Sunrise's proposed level of normalized hydrant water sales
6 is 8,189,208. Staff's proposal is 62% higher than Sunrise's proposal. Both proposals are many
7 multiples in excess of the 1,000,000 gallons in hydrant water sales projected for 2009 and similar
8 levels of hydrant water sales expected for the next several years in which new rates will be in
9 effect.

10 Mr. Collins reiterates Sunrise's position regarding the services provided to Sunrise by SRW
11 Consulting. SRW Consulting assists Sunrise with regulatory compliance and helps Sunrise to
12 develop communication strategies and issue management. These services directly benefit
13 Sunrise's customers.

14 Mr. Collins responds to Staff's Surrebuttal position regarding rent expense incurred to lease
15 workshop, storage, and field office space. Sunrise cannot store materials at the site or construct
16 any sort of a storage/shop building without obtaining a Special Use Permit or rezoning the site.
17 As previously discussed, successfully obtaining a Special Use Permit or rezoning the site is
18 speculative at best. Further, the process to apply for a Special Use Permit or rezone the site is
19 extensive and will require significant staff time, retaining consultants and legal counsel – all of
20 which come at significant cost. Second, if Sunrise were to successfully obtain a Special Use
21 Permit or rezone the site, Sunrise would need to install improvements necessary for its use of the
22 site and any improvements required by Maricopa County, estimated to cost a minimum of
23 \$150,000. The workshop is used by our field personnel on a regular basis and is necessary for
24 the provision of service. The \$12,487 annual cost to rent the facility represents a fair value for
25 the use of the facility.

26 Finally, Mr. Collins responds to Staff's Surrebuttal position regarding test year income tax
27 expense for Sunrise. Not allowing income-tax expense would undoubtedly weaken Sunrise's
28 ability to attract shareholder capital, which has the potential to significantly impair Sunrise's
29 ability to make needed capital improvements.

1 **I INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE**
3 **NUMBER.**

4 A. My name is Marvin E. Collins. My business address is 9098 W. Pinnacle Peak Rd.,
5 Peoria, Arizona 85383, and my business phone is (623) 972-6133.

6 **Q. ARE YOU THE SAME MARVIN E. COLLINS WHO PREVIOUSLY**
7 **SUBMITTED DIRECT AND REBUTTAL TESTIMONY IN THIS DOCKET?**

8 A. Yes.

9 **II PURPOSE OF TESTIMONY**

10 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

11 A. In my testimony:

- 12 • I provide support for Sunrise's proposal to normalize hydrant water sales and provide
13 an update and analysis of Sunrise's 2009 hydrant water sales.
- 14 • I reiterate Sunrise's position regarding the services provided to Sunrise by SRW
15 Consulting.
- 16 • I respond to Staff's Surrebuttal position regarding rent expense incurred to lease
17 workshop, storage, and field office space.
- 18 • Finally, I respond to Staff's Surrebuttal position regarding test-year income-tax
19 expense for Sunrise.

1 **III HYDRANT WATER SALES**

2 **Q. WHAT IS STAFF'S SURREBUTTAL POSITION REGARDING SUNRISE'S**
3 **PROPOSAL TO NORMALIZE HYDRANT WATER SALES REVENUE?**

4 A. After review of Sunrise's Rebuttal Testimony, Staff concludes that it is appropriate to
5 normalize test year hydrant water sales by averaging hydrant water sales between 2004
6 and 2007.

7 **Q. DO YOU AGREE WITH STAFF'S PROPOSED HYDRANT SALES**
8 **NORMALIZATION?**

9 A. No I do not. I appreciate that Staff now recognizes that normalization is needed.
10 However, as explained by Mr. Jones in his Rejoinder Testimony, the hydrant-sales
11 normalization methodology proposed by Staff is flawed. The method proposed by
12 Sunrise is superior and should be adopted.

13 **Q. CAN YOU PROVIDE AN UPDATE OF SUNRISE'S HYDRANT WATER SALES**
14 **THROUGH APRIL 2009?**

15 A. As of April 27, 2009, Sunrise's hydrant water sales are summarized as follows:

<u>Month</u>	<u>Gallons</u>
January	7,300
February	11,800
March	190,400
April	<u>49,700</u>
Total	259,200

22 **Q. HOW WOULD YOU CHARACTERIZE THIS LEVEL OF SALES?**

23 A. This level of hydrant water sales is very low, which is consistent with the depressed level
24 of construction activity in the Sunrise service area. I project hydrant water sales of

1 1,000,000 gallons per year for planning purposes. However, if this rate of sales continues
2 throughout this year, Sunrise will sell well under 1,000,000 gallons of hydrant water
3 during 2009.

4 **Q. HAS YOUR EXPECTATION FOR HYDRANT WATER SALES ON A GOING**
5 **FORWARD BASIS CHANGED?**

6 A. No. I am not aware of any new projects under planning or design that would
7 significantly raise the current hydrant water sales rate for Sunrise in 2009. Further, I
8 expect hydrant water sales to be similarly depressed through 2010 and beyond.

9 **Q. HOW DOES THIS PROJECTED LEVEL OF SALES COMPARE TO STAFF**
10 **AND SUNRISE'S PROPOSED NORMALIZED LEVEL OF SALES?**

11 A. Staff's proposed level of normalized hydrant water sales is 13,234,760 gallons and
12 Sunrise's proposed level of normalized hydrant water sales is 8,189,208. Staff's proposal
13 is 62% higher than Sunrise's proposal. Both proposals are many multiples in excess of
14 the 1,000,000 gallons in hydrant water sales projected for 2009 and similar levels of
15 hydrant water sales expected for the next several years in which new rates will be in
16 effect.

17 **IV OUTSIDE SERVICES**

18 **Q. HAVE YOU CHANGED YOUR POSITION REGARDING THE SERVICES**
19 **PROVIDED BY SRW CONSULTING?**

20 A. I have not. As explained in my Rebuttal Testimony, SRW Consulting assists Sunrise
21 with regulatory compliance and helps Sunrise to develop communication strategies and
22 issue management. These services directly benefit Sunrise's customers.

23 **Q. WHAT IS SUNRISE'S CURRENT POSITION REGARDING SERVICE**
24 **PROVIDED BY SRW CONSULTING?**

1 A. Sunrise continues to propose a 50-50 sharing of the \$27,000 relating to SRW Consulting
2 Fees.

3 **V BARN, WORKSHOP, STORAGE, FIELD OFFICE AND YARD RENT**

4 **Q. HAS STAFF CHANGED ITS POSITION REGARDING THE \$37,595 IN COST**
5 **ASSOCIATED WITH THE LEASE OF BARN, WORKSHOP, STORAGE, FIELD**
6 **OFFICE AND YARD RENT?**

7 A. No they have not. Staff continues to assert that Well No. 7 provides a no-cost alternative
8 to leasing of facilities at Mr. Campbell's residential property. Staff also notes that West
9 End Water Company uses the facilities and that other uses of the facilities are possible.
10 Lastly, Staff argues that the workshop is not needed for the provision of service and that
11 the cost is excessive.

12 **Q. IS THE WELL NO. 7 SITE A NO-COST ALTERNATIVE TO THE USE OF MR.**
13 **CAMPBELL'S RESIDENTIAL PROPERTY?**

14 A. No it is not. As explained in my Rebuttal Testimony, there are several obstacles to using
15 the Well No. 7 site. First, Sunrise cannot store materials at the site or construct any sort
16 of a storage/shop building without obtaining a Special Use Permit or rezoning the site.
17 As previously discussed, zoning applications in the Sunrise service area are routinely
18 challenged by residents to protect the one-acre home sites from commercial traffic and
19 disruption, making the probability of rezoning the site extremely low. The process to
20 obtain a Special Use Permit is the same as rezoning and is will also garner resident
21 opposition. Further, in order to get a Special Use Permit, the County would need to
22 consider a material and equipment storage facility attendant to the use of the site as a
23 booster station. Given these obstacles, successfully obtaining a Special Use Permit or
24 rezoning the site would be nearly impossible. Further, the process to apply for a Special
25 Use Permit or rezone the site is extensive and would require significant staff time,

1 retaining consultants and legal counsel – all of which come at significant cost. Second,
2 even if Sunrise were to successfully obtain a Special Use Permit or rezone the site,
3 Sunrise would still need to install improvements necessary for its use of the site and any
4 improvements required by Maricopa County. Potential improvements include drainage
5 structures, driveways, parking, and the actual storage/workshop building. I have
6 previously estimated these facilities will cost a minimum of \$150,000, and believe the
7 cost could be substantially more.

8 **Q. HAVE YOU VERIFIED THESE REQUIREMENTS WITH MARICOPA**
9 **COUNTY?**

10 A. Yes. I contacted Mr. Harry Stelling in the Planning and Development Department at
11 Maricopa County. Mr. Stelling verified that any enclosed or outdoor storage at the site
12 would require a Special Use Permit or rezoning the site. Mr. Stelling provided a flow
13 chart describing the extensive County process for obtaining a Special Use Permit or
14 rezoning the site, which I have attached as MEC-RJ1.

15 **Q. ARE THE STORAGE AND WORKSHOP FACILITIES USED BY WEST END**
16 **WATER COMPANY AND OTHERS?**

17 A. Consistent with shared use of the administrative offices, the storage and workshop
18 facilities are used by West End Water Company and are available to Mr. Campbell for
19 other uses. The costs incurred by Sunrise represent the value of the use of the shared
20 facilities by Sunrise.

21 **Q. STAFF ARGUES THAT THE WORKSHOP IS NOT NEEDED FOR THE**
22 **PROVISION OF SERVICE AND THAT THE COST IS EXCESSIVE. DO YOU**
23 **AGREE?**

1 A. No, as explained in my Rebuttal Testimony, the workshop is used by our field personnel
2 on a regular basis and is necessary for the provision of service. The \$12,487 annual cost
3 to rent the facility represents a fair value for the use of the facility.

4 **Q. WHAT IS SUNRISE'S CURRENT POSITION REGARDING LEASE COSTS**
5 **FOR WORKSHOP, STORAGE AND FIELD OFFICE SPACE?**

6 A. Staff's proposed adjustments should be rejected. The facilities in question are used and
7 useful to Sunrise and are used in the provision of service to Sunrise's customers. The
8 current site provides a secure and safe environment for the storage of the material,
9 equipment and vehicles used in providing water service to Sunrise customers. Sunrise is
10 very concerned about the security of the vehicles that would be parked at the Well #7 site
11 during non-working hours. The Commission has recently included these expenses in the
12 rates of Sunrise's sister company, West End Water Company, and should likewise allow
13 them for Sunrise. Contrary to Staff, Well Site No. 7 cannot be used as a no or low-cost
14 alternative.

15 **VI INCOME TAX EXPENSE**

16 **Q. HAS SUNRISE'S POSITION ON INCOME TAX CHANGED?**

17 A. No it has not. Mr. Jones provides a detailed response to Staff's Surrebuttal Testimony,
18 which I fully support.

19 **Q. IS THERE ANY PORTION OF STAFF'S SURREBUTTAL TESTIMONY THAT**
20 **YOU WOULD LIKE TO ADDRESS DIRECTLY?**

21 A. Yes. Staff asserts that Sunrise's argument relating to prospective capital improvements is
22 irrelevant to the issue of income tax expense. I strongly disagree with Staff's position.

23 **Q. SPECIFICALLY WHY DO YOU DISAGREE WITH STAFF'S POSITION?**

1 A. In support of its position, Staff asserts that if Sunrise's shareholder(s) make additional
2 capital improvements, the related capital cost will be included in a future rate base and an
3 appropriate rate of return will be provided on the investor's capital. Staff's analysis is
4 flawed.

5 In his Rebuttal Testimony, Mr. Jones established that excluding income tax from rates is
6 the equivalent of a 298 basis point reduction (10.0% to 7.02%) in the authorized return on
7 equity to the shareholder(s). Therefore, contrary to Staff's assertion that future
8 investments by shareholder(s) will earn an appropriate rate of return, shareholder(s) will
9 actually earn a substantially reduced rate of return. Sunrise, like all businesses, must
10 compete for capital. Since a shareholder cannot simply ignore the income tax expense
11 resulting from the net income of Sunrise as Staff does in its recommendation,
12 shareholders will make their investment decisions based on the substantially reduced,
13 after tax, rate of return. This reality will undoubtedly weaken Sunrise's ability to attract
14 shareholder capital. Contrary to Staff's assertion, this weakened ability to attract
15 shareholder capital has the potential to significantly impair Sunrise's ability to make
16 needed capital improvements.

17 **Q. DOES THIS CONCLUDE YOUR REJOINDER TESTIMONY?**

18 A. Yes.

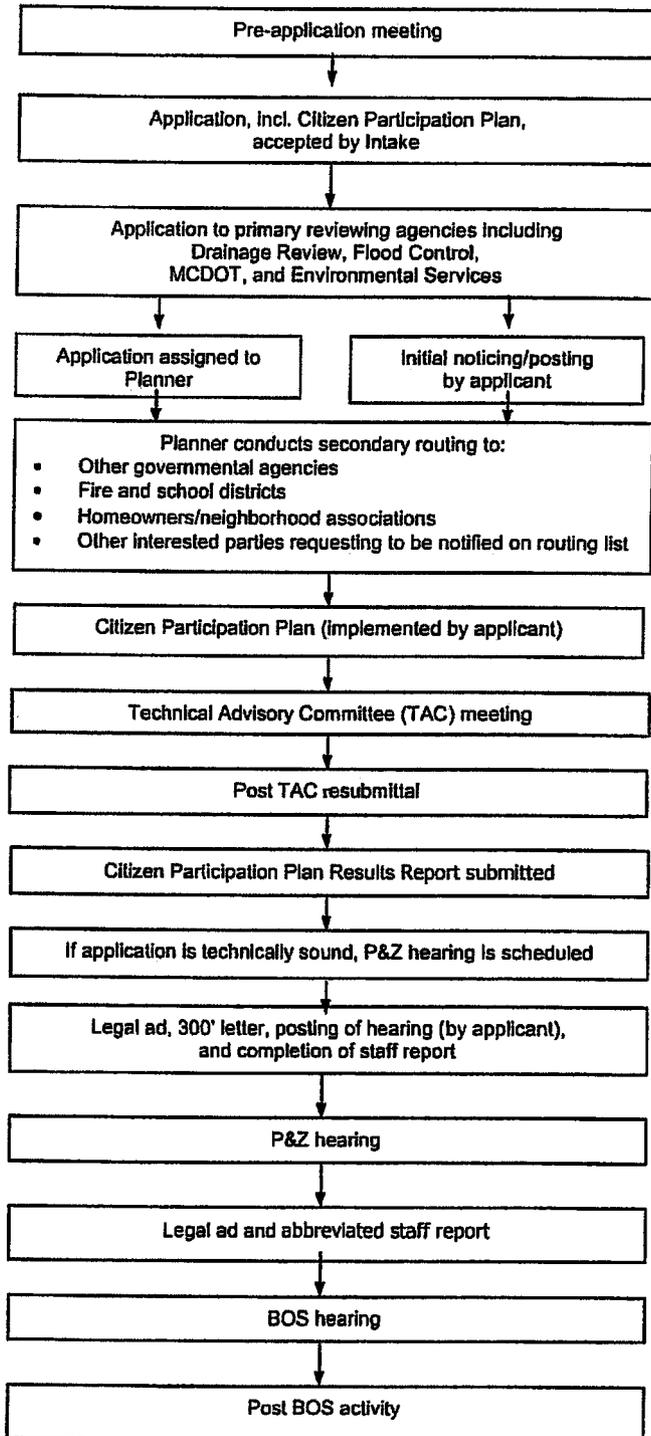


**Planning & Development
Department**

ZONE CHANGE/SUP PROCESS



PROJECT FLOW CHART



PRE-APPLICATION MEETING

A pre-application meeting is required for all cases. Possible items of discussion may include requirements, citizen participation plan, community and area plans, zoning patterns and trends. The pre-application meeting will include other County agencies such as Transportation, Drainage Review, Flood Control and Environmental Services.

After the meeting and after consulting with staff, the applicant may begin implementing the Citizen Participation Plan.

FILING AN APPLICATION

To submit an application, the following information is required:

- Pre-application meeting, application, and "Property Owner Authorization" forms (if applicable).
- Verification of ownership of the site, such as a recorded deed.
- Application fees for Planning, Drainage Review, and Transportation.
- Photographs of the site and adjacent properties.
- Precise Plan of Development (also known as a Site Plan). A Preliminary Plat may substitute, if applicable.
- Narrative Report, describing the request, justification for the request, property and area conditions, potential impacts, proposed improvements, services, utilities, etc.
- Other information such as building elevations and details, floor plans, sign details, landscape plans, architectural renderings, a drainage report and/or a traffic impact study.
- Citizen Participation Plan, describing the parties contacted by the applicant, how information about the application is disseminated, how inquiries are handled, schedule of completion, etc.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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OF
RAY L. JONES
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MAY 1, 2009**

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1 **EXECUTIVE SUMMARY**

2 In his testimony:

3 Mr. Jones sponsors Sunrise's rejoinder revenue requirement. Sunrise's rejoinder revenue
4 requirement is shown on Schedule A-1 Rejoinder. Sunrise has slightly increased its requested
5 revenue increase to \$222,943. This is an increase of 17.09% over adjusted test-year revenues of
6 \$1,304,363.

7 Mr. Jones responds to Staff's surrebuttal testimony positions regarding rate base and operating
8 income and details Sunrise's rebuttal positing pertaining to remaining points of disagreement
9 with Staff.

10 **Post-Test Year Refunds**

11 Sunrise and Staff continue to disagree on the treatment of post-test-year refunds of
12 Advances in aid of Construction. Sunrise proposes to add that portion of post-test-year
13 refunds attributable to revenues incurred during the test year to rate base. These refund
14 payment made in August of 2008 were required by Commission rules and based on
15 revenues generated during the period July 1, 2007, through June 30, 2008. Since the
16 refund obligation was accrued during the test year, and paid before rates will go into
17 effect in this case, the known-and-measureable refund amount should be included as a
18 pro-forma adjustment to rate base. Further, this practice is consistent with past
19 Commission treatment of post test year refunds.

20 **Hydrant-Water Sales**

21 Staff now agrees that it is appropriate to normalize test year hydrant-water sales.
22 However, Staff's method is still flawed. Staff does not exclude nonrecurring sales for the
23 Flood Control Project from its average. Second, because Staff's average does not include
24 historic low sales, the resulting normalized level of hydrant-water sales significantly
25 overstates expected hydrant-water sales on a going-forward basis.

26 **Outside Services**

27 Sunrise continues to propose a 50-50 sharing of the \$27,000 relating to SRW Consulting
28 Fees.

29 **Barn, Workshop, Storage, Field Office and Yard Rental**

30 As explained by Mr. Collins, Staff's proposed adjustments should be rejected.

31 **Income Tax Expense**

32 There is no material difference between how an S corporation pays taxes and how most
33 major Arizona utilities pay taxes. Most major utilities in Arizona—including Arizona
34 Public Service, Tucson Electric Power, Southwest Gas, Arizona-American Water,
35 Arizona Water, and Chaparral City Water—are C-Corps whose taxes are filed on a
36 consolidated basis along with other affiliated companies. There is no reason to
37 discriminate against Sunrise and in favor of APS, TEP, Southwest Gas, Arizona-
38 American Water, Arizona Water, Chaparral City Water, and the numerous other C-Corps
39 that are part of consolidated groups.

1 Under the Staff recommendation, shareholder(s) will actually earn a substantially reduced
2 after tax rate of return – a 298 basis-point reduction. A shareholder will undoubtedly
3 make an investment decisions based on the substantially reduced, after tax, rate of return.
4 This reality will weaken Sunrise’s ability to attract shareholder capital, and contrary to
5 Staff’s assertion, this weakened ability to attract shareholder capital has the very real
6 potential to significantly impair Sunrise’s ability to make needed capital improvements.

7 As an alternative proposal, Sunrise recommends that the Commission calculate taxes as if
8 the S-Corp had just one shareholder that derived all of its income from the regulated
9 utility. Using this method, Sunrise’s income-tax liability would \$55,449, compared to
10 \$65,599 at the corporate tax rate.

11 Rate Case Expense

12 Through month-end March 2009, Sunrise has expended approximately \$64,500 in rate
13 case expenses. To finish the case Sunrise estimates additional expense will be
14 approximately \$25,500, for a total rate case expense of \$90,000.

15 Rate Design

16 Sunrise continues to propose a break-over point between tier 2 and tier 3 of 18,000-
17 gallons for the ¾” meter size. Establishing the break-over point at the average usage for
18 the ¾” meter sends proper conservation price signals to Sunrise’s customers without
19 placing undue burden on below-average usage.

20 Sunrise continues to propose service charges that are consistent with those approved by
21 the Commission for Sunrise’s sister company West End Water Co.

22 Lastly, Sunrise does not believe a meter and service line installation charge is needed for
23 the 5/8” x 3/4” meter size, since due to large lots Sunrise does not offer this meter size.

24 Mr. Jones sponsors attached Exhibit RLJ-RJ1 containing the following updated schedules
25 referenced in my rebuttal testimony.

- 26 • Schedule A-1 Rejoinder
- 27 • Schedule B-1 Rejoinder
- 28 • Schedule B-2 Rejoinder
- 29 • Schedule C-1 Rejoinder
- 30 • Schedule C-2 Rejoinder
- 31 • Schedule C-3 Rejoinder
- 32 • Schedule H-3 Rejoinder

1 **I INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE**
3 **NUMBER.**

4 A. My name is Ray L. Jones. My business address is 25213 N. 49th Dr., Phoenix, Arizona
5 85083, and my business phone is (623) 341-4771.

6 **Q. ARE YOU THE SAME RAY L. JONES WHO PREVIOUSLY SUBMITTED**
7 **DIRECT AND REBUTTAL TESTIMONY IN THIS DOCKET?**

8 A. Yes.

9 **II PURPOSE OF TESTIMONY**

10 **Q. HAVE YOU REVIEWED STAFF'S REBUTTAL TESTIMONY IN THIS CASE?**

11 A. Yes, I reviewed the testimony provided by Mr. Alexander Igwe.

12 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

13 A. In my testimony:

- 14 • I sponsor Sunrise's rejoinder revenue requirement.
- 15 • I respond to Staff's surrebuttal testimony positions regarding rate base and operating
16 income and detail Sunrise's rebuttal positing pertaining to remaining points of
17 disagreement with Staff.
- 18 • I sponsor attached Exhibit RLJ-RJ1 containing the following updated schedules
19 referenced in my rebuttal testimony.
 - 20 ○ Schedule A-1 Rejoinder
 - 21 ○ Schedule B-1 Rejoinder
 - 22 ○ Schedule B-2 Rejoinder
 - 23 ○ Schedule C-1 Rejoinder
 - 24 ○ Schedule C-2 Rejoinder

1 o Schedule C-3 Rejoinder

2 o Schedule H-3 Rejoinder

3 **III REJOINDER REVENUE REQUIREMENT**

4 **Q. WHAT IS SUNRISE'S REJOINDER REVENUE REQUIREMENT?**

5 A. Sunrise's rejoinder revenue requirement is shown on Schedule A-1 Rejoinder. Sunrise
6 has slightly increased its requested revenue increase to \$222,943. This is an increase of
7 17.09% over adjusted test-year revenues of \$1,304,363.

8 **Q. WOULD YOU SUMMARIZE SUNRISE'S AND STAFF'S REVENUE**
9 **REQUIREMENT POSITIONS?**

10 A. The proposed revenue requirements and associated rate increases are summarized as
11 follows:

	<u>Revenue Requirement</u>	<u>Revenue Increase</u>	<u>% Increase</u>
13 Sunrise Direct	\$1,590,295	\$285,932	21.92%
14 Staff Direct	\$1,378,396	\$26,218	1.94%
15 Sunrise Rebuttal	\$1,522,229	\$217,866	16.70%
16 Staff Surrebuttal	\$1,399,838	\$81,096	6.15%
17 Sunrise Rejoinder	\$1,527,305	\$222,943	17.09%

18 **IV RATE BASE**

19 **Q. WHAT IS THE REMAINING DISAGREEMENT BETWEEN SUNRISE AND**
20 **STAFF REGARDING RATE BASE?**

21 A. Sunrise and Staff continue to disagree on the treatment of post-test-year refunds of
22 Advances in aid of Construction. Sunrise proposes to add that portion of post test year
23 refund attributable to revenues incurred during the test year to rate base. Staff objects to
24 this rate-base addition.

1 **Q. HAS THE COMMISSION INCLUDED POST-TEST-YEAR REFUNDS OF**
2 **ADVANCES IN AID OF CONSTRUCTION IN RATE BASE FOR OTHER**
3 **COMPANIES?**

4 A. Yes. In Docket No. WS-01303A-06-0403, Arizona-American Water Company asked
5 that post-test year refunds in the amounts of \$3,068,719 and \$1,315,165 be added to the
6 rate base of the Anthem Water District and Anthem/Agua Fria Wastewater District,
7 respectively. The relevant portions of the B-2 schedules detailing the requested
8 adjustments are attached as RLJ-RJ2.

9 **Q. WHAT POSITION DID STAFF AND RUCO TAKE REGARDING ARIZONA-**
10 **AMERICAN'S PROPOSED ADJUSTMENT?**

11 A. Staff and RUCO both accepted Arizona-American's proposed adjustment without
12 objection. The full amount of the post-test-year refund was included in the total rate base
13 recommended by Staff and RUCO.

14 **Q. DID THE COMMISSION ULTIMATELY APPROVE RATES BASED ON A**
15 **RATE BASE THAT INCLUDED THE POST-TEST-YEAR REFUND?**

16 A. Yes.

17 **Q. IS SUNRISE'S PROPOSAL REGARDING POST-TEST-YEAR REFUNDS**
18 **ANALOGOUS TO THE ADJUSTMENT PROPOSED AND APPROVED IN THE**
19 **ARIZONA-AMERICAN CASE?**

20 A. Yes. In both cases, the utility was contractually required to refund advances in aid of
21 construction during the following year for a liability incurred during the test year. In
22 Arizona-American's case, refunds were due in July 2006 based on customer-connection
23 counts as of the end of the test year on December 31, 2005. In Sunrise's case, Sunrise is
24 requesting inclusion of that portion of the August 2008 refund that is based on revenues

1 received during the July 1, 2007, to December 31, 2007, portion of the 2007 test year.

2 Just as in the Arizona-American case, these amounts were fixed, know, and measurable
3 liabilities as of the end of the test year, which were paid before rates went into effect.

4 **Q. WOULD YOU SUMMARIZE SUNRISE'S POSITION REGARDING THE POST-**
5 **TEST-YEAR REFUND?**

6 A. The refund payment made in August of 2008 is required by Commission rules and is
7 based on revenues generated during the period July 1, 2007, through June 30, 2008. By
8 the end of the 2007 test year, six months of revenue for the 12-month refund period had
9 been received by Sunrise, creating a known-and-measurable liability for refund of
10 Advances during the test year. Since the refund obligation was accrued during the test
11 year, and paid before rates will go into effect in this case, the known-and-measurable
12 refund amount should be included as a pro-forma adjustment to rate base. Further, this
13 practice is consistent with past Commission treatment of post test year refunds.

14 **Q. WOULD YOU SUMMARIZE SUNRISE'S AND STAFF'S RATE BASE**
15 **POSITIONS?**

16 A. Sunrise's and Staff's rate base positions are summarized as follows:

	<u>Sunrise Direct</u>	<u>Staff Direct & Surrebuttal</u>	<u>Sunrise Rebuttal & Rejoinder</u>
17 Adjusted Rate Base	18 \$1,448,154	\$1,183,834	\$1,248,012

20 **V OPERATING INCOME**

21 **A SETTLED ISSUES**

22 **Q. WHAT PREVIOUSLY CONTESTED ISSUES HAVE BEEN SETTLED AS A**
23 **RESULT OF STAFF'S SURREBUTTAL TESTIMONY?**

24 A. Staff has adopted Sunrise's rebuttal position on the following issues:

1 Transportation Expense

2 Staff has increased transportation expense by \$4,888 to correct a linkage error in Staff's
3 direct testimony schedules.

4 Miscellaneous Expense

5 Staff has increased miscellaneous expense by \$3,351 to reflect test year permit and
6 recording fees.

7 Property Tax Expense

8 Staff has adopted Sunrise's proposed CWIP amount, book value of licensed vehicles and
9 composite property tax rate. With these changes Staff and Sunrise are calculating
10 property tax in a consistent manner. However, the recommended amount of property tax
11 continues to differ due to differing revenue requirements.

12 **B HYDRANT-WATER SALES**

13 **Q. WHAT IS STAFF'S SURREBUTTAL POSITION REGARDING SUNRISE'S**
14 **PROPOSAL TO NORMALIZE HYDRANT-WATER SALES REVENUE?**

15 A. After review of Sunrise's Rebuttal Testimony, Staff concludes that it is appropriate to
16 normalize test year hydrant-water sales. Staff proposes to normalize sales by averaging
17 hydrant-water sales between 2004 and 2007.

18 **Q. IS STAFF'S PROPOSED METHOD OF NORMALIZING HYDRANT-WATER**
19 **SALES ACCEPTABLE TO SUNRISE?**

20 A. No it is not. Although Sunrise appreciates Staff's recognition of the need to normalize
21 hydrant-water sales, Staff's method is still flawed. Sunrise's method is superior and
22 should be adopted.

1 **Q. WHAT ARE THE FLAWS IN STAFFS PROPOSED METHOD FOR**
2 **NORMALIZING HYDRANT-WATER SALES?**

3 A. In general, Staff's methodology is flawed because it fails to recognize that there are two
4 distinct events that caused an unsustainable increase in Sunrise's hydrant-water sales
5 during the test year. First, Sunrise sold a large amount of water for the non-recurring
6 Flood Control Project during the 2007 test year. Second, due to the housing boom in the
7 Phoenix market, normal hydrant-water sales (excluding sales for the Flood Control
8 Project) peaked sharply in 2006 and began a steady decline in 2007.

9 Since Staff does not address these two unique events separately, two distinct flaws in
10 Staff's proposed methodology are created. First, since Staff does not exclude the sales
11 for the Flood Control Project from its average, the non-recurring sales are inappropriately
12 included in the normalized level of hydrant-water sales proposed by Staff. Second, since
13 Staff averages sales over four years instead of a more appropriate five years as
14 recommended by Sunrise, the resulting normalized level of hydrant-water sales
15 significantly overstates expected hydrant-water sales on a going-forward basis.

16 **Q. WHY SHOULD SALES FOR THE FLOOD CONTROL DISTRICT BE**
17 **EXCLUDED FROM THE AVERAGE USED TO NORMALIZE HYDRANT-**
18 **WATER SALES?**

19 A. In his Rebuttal Testimony, Mr. Collins established that the Flood Control Project was an
20 unusually large non-recurring project, not representative of normal construction in the
21 Sunrise service area. Since Sunrise will not sell hydrant water to the Flood Control
22 Project, or any similar replacement project, during the period for which rates will be in
23 effect, the one-time boost in hydrant-water sales during the test year from this project
24 should be wholly ignored. Including sales from the Flood Control Project in the

1 normalized average of hydrant-water sales overstates the normalized level of hydrant-
2 water sales. Overstating hydrant-water sales in turn overstates normalized test year
3 revenue, which creates a mismatch between test-year revenue and rate base.

4 **Q. WHY IS A FIVE-YEAR AVERAGE OVER THE PERIOD 2003-2007**
5 **PREFERABLE TO STAFF'S PROPOSED FOUR-YEAR AVERAGE OVER THE**
6 **PERIOD 2004-2007?**

7 A. In his Rebuttal Testimony, Mr. Collins established through his analysis of base hydrant-
8 water sales that base hydrant-water sales increased slowly from 2003 to 2005 and peaked
9 in 2006. He pointed out that the 2006 peak in base hydrant-water sales was followed by a
10 steady decline in 2007 and 2008. In his Rejoinder Testimony, Mr. Collins provides
11 evidence that 2009 hydrant-water sales are expected to be significantly lower than 2003
12 sales. On balance, Mr. Collins establishes that the increase in base hydrant-water sales
13 was a peaking event, rather than an ongoing trend to ever higher levels of sales.

14 To normalize a peaking event, one should equally weight data from low periods,
15 moderate periods, and peak periods. Sunrise's proposed methodology uses one year of
16 low sales (2003), two years of moderate sales (2004-2005), and two years of high sales
17 (2006-2007). Sunrise's balanced approach results in normalized hydrant-water sales of
18 8,189,208 gallons.

19 Staff proposes to use two years of moderate sales (2004-2005) and two years of high
20 sales (2006-2007), while ignoring years when sales were low. This method results in
21 normalized hydrant-water sales of 13,234,760 gallons when Flood Control Project sales
22 are included, and 9,967,835 excluding Flood Control Project sales. These levels of sales
23 are 62% and 22% above Sunrise's proposed level of normalized sales.

1 Staff's overweighting of moderate and high sales years might be appropriate if the
2 evidence established that Sunrise's hydrant-water sales were trending to ever higher level
3 of sales. However, as Mr. Collins shows, the hydrant-water sales trend is clearly back to
4 and even below historic low levels. Therefore, Sunrise's five-year average (using a
5 balance of low sales, moderate sales and high sales) is preferable to Staff's proposed
6 four-year average, which over-weights moderate and high sales years.

7 **Q. WHAT IS SUNRISE'S REJOINDER POSITION REGARDING**
8 **NORMALIZATION OF HYDRANT-WATER SALES?**

9 A. Sunrise sold a large amount of water for the Flood Control Project during the 2007 test
10 year. Since the sales were large and non-recurring due to a large regional project that is
11 not representative of normal construction within Sunrise's service area, it is appropriate
12 to normalize sales by eliminating the sales for the Flood Control Project from the test-
13 year hydrant-water sales. Due to the housing boom in the Phoenix market, base hydrant-
14 water sales peaked sharply in 2006, began a steady decline in 2007, and in 2009 are
15 expected to be below 2003 levels. A five-year average of base hydrant-water sales over
16 the period 2003-2007 is an appropriate method to normalize hydrant-water sales.
17 Without Sunrise's proposed normalization adjustment, test-year revenues will not
18 represent revenues on a going forward basis and create a mismatch between revenue and
19 rate base. Staff's proposed Operating Income Adjustment No. 1 and Operating Income
20 Adjustment No. 4 from Staff's Direct Testimony and Staff's proposed Operating Income
21 Adjustment No. 1 and Operating Income Adjustment No. 2 from Staff's Surrebuttal
22 Testimony should be rejected.

1 **C OUTSIDE SERVICES**

2 **Q. HAS THE COMPANY CHANGED ITS POSITION REGARDING OUTSIDE**
3 **SERVICES?**

4 A. No. As explained in Mr. Collin's Rejoinder Testimony, Sunrise continues to propose a
5 50-50 sharing of the \$27,000 relating to SRW Consulting Fees.

6 **D BARN, WORKSHOP, STORAGE, FIELD OFFICE AND YARD RENTAL**

7 **Q. HAS SUNRISE CHANGED ITS POSITION REGARDING BARN, WORKSHOP,**
8 **STORAGE, FIELD OFFICE AND YARD RENTAL?**

9 A. No. As explained by Mr. Collins, Staff's proposed adjustments should be rejected.

10 **E PROPERTY TAXES**

11 **Q. HAVE YOU UPDATED YOUR PROPERTY TAX ADJUSTMENT RLJ-12 TO**
12 **REFLECT YOUR REJOINDER POSITION?**

13 A. Yes. As indicated on page 16 of Schedule C-2 Rejoinder, Sunrise requests a property tax
14 expense of \$62,359.

15 **F INCOME TAX**

16 **Q. WHAT IS STAFF'S RECOMMENDATION REGARDING INCOME TAX**
17 **EXPENSE IN THIS CASE?**

18 A. Staff continues to recommend that income tax expense be excluded from the expenses of
19 Sunrise because it is an S corporation.

1 **Q. WHAT IS THE DIFFERENCE BETWEEN AN S CORPORATION AND A C**
2 **CORPORATION?**

3 A. An S corporation (S-Corp) is a corporation which has made an election to be taxed under
4 Subchapter S (Title 26, Subtitle A, Chapter 1, Subchapter S, US Code) of the tax code. A
5 C corporation (C-Corp) is any corporation which has not made this election.

6 **Q. HOW ARE THE PROFITS OF AN S-CORP TAXED?**

7 A. An S-Corp's profits are taxed on a pass-through basis rather than at the corporate level.
8 The corporation's profits are passed-through to the individual tax returns of the
9 shareholders, and taxes are paid on those profits by the shareholder after combining the
10 corporation's income with any other income or losses of the shareholder.

11 **Q. HOW ARE THE PROFITS OF A C-CORP TAXED?**

12 A. There are two possibilities for the taxation of a C-Corp.

13 By default C-Corps are taxed directly at the corporate level. Under this construct, the C-
14 Corp completes a tax return and directly pays taxes on the corporation's profits at
15 corporate tax rates.

16 An affiliated group of C-Corps can elect to file a consolidated return in lieu of separate
17 returns. Under this construct, the parent corporation completes a consolidated tax return
18 on behalf of the entire affiliated group. The parent corporation pays taxes on the profits
19 of the subsidiary corporation at corporate tax rates after combining the subsidiary
20 corporation's income with any other income or losses of the parent company and its other
21 subsidiary corporations.

1 **Q. ARE YOU AWARE OF C-CORPS REGULATED BY THE COMMISSION THAT**
2 **ARE PART OF CONSOLIDATED TAX GROUPS?**

3 A. It is my understanding that most major utilities in Arizona—including Arizona Public
4 Service, Tucson Electric Power, Southwest Gas, Arizona-American Water, Arizona
5 Water, and Chaparral City Water—are C-Corps whose taxes are filed on a consolidated
6 basis along with other affiliated companies.

7 **Q. DOES THE COMMISSION ALLOW INCOME TAX EXPENSES FOR A C-CORP**
8 **THAT IS A SUBSIDIARY OF ANOTHER CORPORATION THAT FILES A**
9 **CONSOLIDATED TAX RETURN?**

10 A. Yes. The Commission generally allows the same income tax expense for a standalone C-
11 Corp and a C-Corp that is part of a consolidated group. The tax expense is also reflected
12 in the gross revenue conversion factor.

13 **Q. HOW IS THE INCOME TAX EXPENSE DETERMINED FOR A C-CORP?**

14 A. The Commission routinely calculates income taxes as if the C-Corp filed taxes on a
15 standalone basis and includes the pro-forma income tax expense in the rates of those
16 companies.

17 **Q. FOR A C-CORP THAT IS PART OF A CONSOLIDATED GROUP, DOES THE**
18 **COMMISSION TAKE INTO CONSIDERATION THE EFFECTS OF THE**
19 **CONSOLIDATION?**

20 A. No. The income tax expense is calculated as if the C-Corp filed and paid income taxes
21 on a stand-alone basis.

1 **Q. WHY SHOULD THE INCOME TAX LIABILITY CREATED BY SUNRISE BE**
2 **RECOVERED IN RATES?**

3 A. It is not disputed that the net income generated by Sunrise through the provision of
4 regulated water services is subject to State and Federal income tax. The passed-through
5 tax liability would not exist absent the provision of regulated water services by Sunrise.
6 Clearly the tax is an expense incurred in the provision of water service by Sunrise.
7 Accordingly, like any other expense prudently incurred in the operation of a regulated
8 entity, the income tax expense should be recovered in rates of the regulated entity, unless
9 circumstances particular to the regulated entity warrant a disallowance of the income tax
10 expense. The pro-forma income tax expense proposed by Sunrise is calculated consistent
11 with the method used by the Commission for a C-Corp that is part of a consolidated
12 group and represents a fair and reasonable level of income tax expense to be included in
13 the rates for Sunrise.

14 **Q. WHAT IS THE BASIS OF STAFF'S POSITION?**

15 A. Staff's position is based almost entirely on the technicality that an S-Corp like Sunrise
16 does not directly pay income taxes. Staff attempts to reinforce its argument by arguing
17 that Mr. Campbell's paying income tax on Sunrise's operating income is no different than
18 shareholder's inclusion of corporate dividend distributions in personal income tax filings.
19 In an additional effort to reinforce its argument, Staff further opines that when S-Corps
20 incur losses, the distribution from such losses reduces the taxable income of affected
21 shareholders.

22 **Q. WHAT IS WRONG WITH STAFF'S POSITION?**

23 A. Staff's position is discriminatory and unfair. Staff is basing its position on a distinction
24 without a difference, rather than fairly and fully evaluating the effect of income taxes on

1 various forms of legal entities to reach its recommendation regarding income tax
2 treatment.

3 There is little difference between the income tax treatment of an S-Corp and the income
4 tax treatment of a C-Corp that is part of a consolidated group. In each case, the taxable
5 income of the corporation flows upstream to its stockholder. In the case of an S-Corp,
6 the stockholder consolidates the taxable income with its own taxable income and pays the
7 resulting income tax. In the case of a consolidated C-Corp, the stockholder (parent
8 corporation) consolidates the taxable income with its own taxable income (and the
9 taxable income of any other members of the consolidated group) and pays the resulting
10 income tax.

11 There is no reason to discriminate against Sunrise and in favor of APS, TEP, Southwest
12 Gas, Arizona-American Water, Arizona Water, Chaparral City Water, and the numerous
13 other C-Corps that are part of consolidated groups.

14 **Q. IS, AS STAFF CLAIMS, MR. CAMPBELL'S PAYING INCOME TAX ON**
15 **SUNRISE'S OPERATING INCOME NO DIFFERENT THAN SHAREHOLDER'S**
16 **INCLUSION OF CORPORATE DIVIDEND DISTRIBUTIONS IN PERSONAL**
17 **INCOME TAX FILINGS?**

18 A. No. Staff's statement is misleading and a poor analogy. Mr. Campbell, like all
19 shareholders of S-Corps, must pay income tax on the net income of an S-Corp whether or
20 not the net income is actually distributed to Mr. Campbell through a dividend. In other
21 words, Mr. Campbell, or any shareholder of an S-Corp, owes income tax on the entire net
22 income, even if the S-Corp distributes none of the profit to Mr. Campbell. In contrast,
23 corporate dividends are actual distributions of the corporation's net income to its
24 shareholders. An income tax liability is created only when a shareholder receives the

1 dividend and the taxable income is limited to the amount of the dividend. Clearly, Mr.
2 Campbell's paying of income tax on the net income of Sunrise is entirely different than
3 paying income tax on a corporate dividend.

4 **Q. DOES MR. CAMPBELL TAKE DIVIDENDS FROM SUNRISE?**

5 A. Mr. Campbell has never taken a dividend from Sunrise. In fact, Sunrise has been unable
6 to sustain its capital and operating needs through internally generated income and cash
7 flow. Rather than take dividends, Mr. Campbell has been required to infuse substantial
8 amounts of equity into Sunrise.

9 **Q. STAFF CLAIMS IT IS A BENEFIT THAT WHEN S-CORPS INCUR LOSSES,**
10 **THE DISTRIBUTION FROM SUCH LOSSES REDUCES THE TAXABLE**
11 **INCOME OF AFFECTED SHAREHOLDERS; DO YOU AGREE?**

12 A. No. Presumably Staff makes this statement to imply that S-Corps have some advantage
13 over C-Corps in regard to treatment of losses which justifies disallowing income tax in
14 the rates of Sunrise. The statement is potentially true but meaningless.

15 If an S-Corp incurred a loss and if the shareholder had other income, the loss would
16 reduce the taxable income as stated by Staff. However, it is equally true that if a C-Corp
17 that is part of a consolidated group incurred a loss, and if the consolidated group had
18 other income, the loss would reduce the taxable income of the consolidated group. There
19 are also methods for non-consolidated C-Corps to immediately benefit from current year
20 losses through the restatement of previous years income. Staff's is mistaken that utilities
21 established as S-Corps have some unique advantage in the way losses are treated.

22 Most importantly, regardless of the form of corporation, a reduction in taxable income
23 does nothing more than mitigate the harmful effect of a regulated utility's losses. If a

1 utility is incurring a loss, it is not earning a rate of return on its capital, is not fully
2 recovering its depreciation expense, and its financial condition is deteriorating. Using a
3 mitigating factor, losses potentially providing a tax benefit to shareholders, as a
4 justification for denying the net income needed to avoid the losses is contrary to the
5 Commission's constitutional duty to provide just and reasonable rates to the utilities it
6 regulates.

7 **Q. DO YOU AGREE WITH STAFFS CONCLUSION THAT SUNRISE'S**
8 **ARGUMENT RELATING TO PROSPECTIVE CAPITAL IMPROVEMENTS IS**
9 **IRRELEVANT TO THE ISSUE OF INCOME TAX EXPENSE?**

10 A. No. Under the Staff recommendation, shareholder(s) will actually earn a substantially
11 reduced after-tax rate of return, which I calculated in my Rebuttal Testimony to be a 298
12 basis-point reduction. A shareholder will undoubtedly make an investment decisions
13 based on the substantially reduced, after tax, rate of return. This reality will weaken
14 Sunrise's ability to attract shareholder capital, and contrary to Staff's assertion, this
15 weakened ability to attract shareholder capital has the very real potential to significantly
16 impair Sunrise's ability to make needed capital improvements.

17 **Q. STAFF OFFERS LONG-TERM DEBT AS AN ALTERNATIVE TO**
18 **SHAREHOLDER CAPITAL. IS THIS AN OPTION FOR SUNRISE?**

19 A. Yes it is. Mr. Collins has testified that Sunrise plans to use long-term debt in its capital
20 structure in the future. However, Staff's failure to include income-tax expense in
21 Sunrise's rates has several negative impacts to Sunrise's ability to raise debt capital. The
22 foregone income tax expense is a direct reduction to revenue and cash flow. This has the
23 effect of lowering debt coverage ratios while simultaneously increasing the need for

1 outside cash. Over time, Sunrise's capital structure will inevitably weaken, potentially to
2 the point where debt capital is no longer available to Sunrise.

3 **Q. PLEASE SUMMARIZE SUNRISE'S POSITION REGARDING INCOME TAX**
4 **EXPENSE.**

5 A. It is not disputed that the net income generated by Sunrise through the provision of
6 regulated water services is subject to State and Federal income tax. The passed-through
7 tax liability would not exist absent the provision of regulated water services by Sunrise,
8 and is an expense incurred in the provision of water service by Sunrise. As such, the
9 income tax expense should be recovered in rates of the regulated entity. The pro-forma
10 income tax expense proposed by Sunrise is calculated consistent with the method used by
11 the Commission for a C-Corp that belongs to a consolidated group and represents a fair
12 and reasonable level of income tax expense to be included in the rates for Sunrise.
13 Treating Sunrise differently than the APS, TEP, Southwest Gas, Arizona-American
14 Water, Arizona Water, Chaparral City Water, and the numerous other C-Corps that are
15 part of consolidated groups is discriminatory and unfair to Sunrise, the consolidated C-
16 Corps and their respective customers.

17 **Q. ARE THERE ALTERNATIVE WAYS FOR THE COMMISSION TO**
18 **CALCULATE THE INCOME-TAX ALLOWANCE FOR AN S CORPORATION?**

19 A. As I recommend above, the best method would be to calculate the tax allowance just like
20 that for a C-Corp that is part of a consolidated group. This method has the advantages of
21 simplicity, of treating all business entities the same, and of not unduly favoring one form
22 of business organization over another. However, I do have another alternative.

1 **Q. WHAT IS SUNRISE'S ALTERNATIVE PROPOSAL FOR CALCULATING**
2 **TAXES FOR AN S CORPORATION?**

3 A. I alternatively recommend that the Commission calculate taxes as if the S-Corp had just
4 one shareholder that derived all of its income from the regulated utility.

5 **Q. HAVE YOU CALCULATED SUNRISE'S TAX LIABILITY IF IT HAD JUST**
6 **ONE SHAREHOLDER THAT DERIVED ALL OF ITS INCOME FROM**
7 **SUNRISE?**

8 A. Yes. Exhibit RLJ-RJ3 provides the calculation for a married person filing jointly. The
9 calculated tax liability is:

	<u>State</u>	<u>Federal</u>	<u>Total</u>
Married Filing Jointly	\$7,253	\$48,196	\$55,449

12 **Q. HOW DOES THIS COMPARE TO THE TAX LIABILITY IF SUNRISE WERE A**
13 **C CORPORATION?**

14 A. On my Schedule C-2 Rejoinder, page 22, I calculated the tax liability would be \$65,599.
15 Thus, under my alternative method, the allowed tax liability is \$10,150 less.

16 **Q. IS SUNRISE'S ALTERNATIVE METHODOLOGY FAIR?**

17 A. Yes. Again, no one disputes that a utility with net income would have to pay taxes,
18 regardless of the form of the entity. However, Sunrise's alternative methodology adds
19 the complexity of differing tax rates depending upon the marital status and filing status of
20 the shareholder. In this example, I used the tax rates for a married person filing jointly.
21 The resulting tax would be higher for a single person or a married person filing
22 separately. It is also conservative, because most, if not all S-Corp shareholders would
23 have additional income, which would push the pass-through income into a higher tax

1 bracket. Because I assume no non-utility income, the calculated tax liability is most
2 likely less than the actual tax liability.

3 **Q. IS THERE ANYTHING ELSE YOU WOULD ADD TO SUNRISE'S**
4 **ALTERNATIVE RECOMMENDATION REGARDING INCOME TAX?**

5 A. Yes. While I believe the best method would be to calculate the tax allowance just like
6 that for a C-Corp that is part of a consolidated group, as an option to my preferred
7 alternative, I recommend that for S-Corps the Commission calculate the allowed income
8 taxes at the lower of the corporate tax rate and the shareholder's tax rate assuming the S-
9 Corp had just one shareholder that derived all of its income from the regulated utility. By
10 using the lower of the two amounts, ratepayers are not be harmed if the utility operates as
11 something other than a C-Corp.

12 **VI RATE CASE EXPENSE**

13 **Q. HAVE YOU UPDATED SUNRISE'S RATE CASE EXPENSE ESTIMATE?**

14 A. Yes I have. Through month-end march 2009, Sunrise has expended approximately
15 \$64,500 in rate case expenses. To finish the case Sunrise needed to continue to engage a
16 consultant and attorney to analyze Staff's surrebuttal testimony, prepare and file rejoinder
17 testimony, prepare for hearing, participate in the hearing, prepare closing briefs and
18 attend Open Meeting. Sunrise estimates this additional expense will be approximately
19 \$25,500, for a total rate-case expense of \$90,000. I have updated Income Statement RLJ-
20 18 to reflect an annual rate case expense amortization of \$30,000.

21 **VII RATE DESIGN**

22 **Q. HAS SUNRISE CHANGED ITS POSITION REGARDING RATE DESIGN?**

23 A. No. Sunrise continues to propose a break-over point between tier 2 and tier 3 of 18,000-
24 gallons for the ¾" meter size. Establishing the break-over point at the average usage for

1 the ¾" meter sends proper conservation price signals to Sunrise customers without
2 placing undue burden on below average usage. Sunrise continues to propose service
3 charges that are consistent with those approved by the Commission for Sunrise's sister
4 company West End Water Co. Lastly, a meter and service line installation charge is
5 needed for the 5/8" x 3/4" meter size, since, due to large lot sizes, Sunrise does not offer
6 this meter size.

7 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

8 **A. Yes, it does.**

Sunrise Water Co.
 Test Year Ended December 31, 2007
 Computation of Increase in Gross Revenue Requirements

Exhibit: RLJ-RJ1
 Schedule A-1 Rejoinder
 Page 1
 Witness: Jones

Line			
<u>No.</u>			
1	Original Cost Adjusted Rate Base	\$ 1,248,012	
2			
3	Adjusted Operating Income	(32,542)	
4			
5	Current Rate of Return	-2.61%	
6			
7	Required Operating Income	\$ 124,801	
8			
9	Required Rate of Return	10.00%	
10			
11	Operating Income Deficiency	\$ 157,344	
12			
13	Gross Revenue Conversion Factor	1.4169	
14			
15	Increase in Gross Revenue	\$ 222,943	17.09%
16			
17			
18		Projected	
19		Revenue	%
20		Increase Due	Dollar
21	<u>Customer Classification</u>	<u>To Rates</u>	<u>Increase</u>
22			
23	Residential	\$ 206,336	16.45%
24	Commercial	3,533	21.95%
25	Hydrant	12,599	49.82%
26	Coin Standpipe	418	17.67%
27			
28	Total Revenue Increase	\$ 222,886	17.17%
29			
30	<u>Supporting Schedules:</u>		
31	B-1 C-1		
32	C-3 H-1		
33			
34			

Sunrise Water Co.
 Test Year Ended December 31, 2007
 Summary of Original Cost Rate Base Elements

Exhibit: RLJ-RJ1
 Schedule B-1 Rejoinder
 Page 1
 Witness: Jones

Line No.		Original Cost Rate Base*
1		
2	Gross Utility Plant in Service	\$ 10,408,383
3		
4	Less: Accumulated Depreciation	<u>2,628,211</u>
5		
6	Net Utility Plant in Service	7,780,172
7		
8	Accumulated Deferred Income Taxes	143,632
9		
10	Less:	
11	Advances in Aid of Construction	6,320,530
12		
13	Contributions in Aid of Construction - Net of Amort.	263,407
14		
15	Customer Security Deposits	91,855
16		
17	Plus:	
18	Working Capital	<u>-</u>
19		
20	Rate Base	<u><u>\$ 1,248,012</u></u>
21		
22	* including pro forma adjustments	
23		
24		
25	<u>Supporting Schedules:</u>	
26	B-2 B-5	
27	B-3 E-1	
28		
29		

Recap Schedules:
 A-1

Line No.	[A] Actual End of Test Year	[B] ADJ RLJ-1	[C] ADJ RLJ-2	[D] ADJ RLJ-3	[E] ADJ RLJ-4	[F] ADJ RLJ-5
1						
2	\$ 9,752,043	\$ 287,858				\$ 168,481
3						
4	1,952,470		539,777			
5						
6	7,799,573	287,858	(539,777)	-	-	168,481
7						
8					143,632	
9						
10						
11	6,052,614			332,094		
12						
13	425,049					
14						
15	(8,945)					
16						
17	416,104	-	-	-	-	-
18						
19	91,855					
20						
21						
22						
23						
24	\$ 1,239,001	\$ 287,858	\$ (539,777)	\$ (332,094)	\$ 143,632	\$ 168,481
25						
26						
27						
28						
29						

Supporting Schedules:

E-1
 32
 33

Recap Schedules:

B-1

Line No.	[G] ADJ RLJ-6	[H] ADJ RLJ-7	[I] ADJ RLJ-8	[J] ADJ RLJ-9	[K] Total Pro Forma Adjustments	[L] Adjusted End of Test Year
1						
2			\$ 200,000		\$ 656,339	\$ 10,408,383
3						
4				135,964	675,741	2,628,211
5						
6	-	-	200,000	(135,964)	(19,401)	7,780,172
7						
8					143,632	143,632
9						
10						
11	(64,178)				267,916	6,320,530
12						
13					-	425,049
14						
15		(152,696)			(152,696)	(161,641)
16						
17	-	(152,696)	-	-	(152,696)	263,407
18						
19					-	91,855
20						
21						
22					-	-
23						
24	\$ 64,178	\$ 152,696	\$ 200,000	\$ (135,964)	\$ 9,011	\$ 1,248,012
25						
26						
27						
28						
29						
30	<u>Supporting Schedules:</u>					
31	E-1					
32						
33						

Line
 No.

1 Adjust Plant In Service Balance to Conform With Decision No. 53721

2

3 Commission Decision No. 53721 dated August 31, 1983 established the Original Cost of Plant In Service
 4 less Depreciation to be \$494,038. The finding is based on the Staff Report dated July 31, 1982 in
 5 Docket number U-2069-83-042. In the Staff Report, the Original Cost of Plant In Service was
 6 \$571,139. Sunrise Water Co. did not adjust its Plant in Service Balance to conform to the
 7 Commission finding in Decision No. 53721. This adjustment conforms the July 31, 1982
 8 Plant in Service balance to the Commission finding in Decision No. 53721.

9

	Plant In Service	Balance per Decision No.	7/31/1982 G/L	Amount Booked in Subsequent Years for PIS on 7/31/1982	Plant In Service Adjustment
10					
11					
12					
13					
14		<u>53721</u>	<u>G/L</u>	<u>on 7/31/1982</u>	<u>Adjustment</u>
15					
16	Land and Land Rights	\$ 38,000		\$ 33,696	\$ 4,304
17	Structures & Improvements	-	-	-	-
18	Wells & Springs	29,684	13,896	-	15,788
19	Pumping Equipment	23,761	11,124	-	12,637
20	Water Treatment Equipment				
21	Solution Feeders	-	-	-	-
22	Distribution Reservoirs & Standpipes				
23	Storage Tanks	38,064	17,819	-	20,244
24	Pressure Tanks	4,229	1,980	-	2,249
25	Transmission and Distribution Mains	383,304	179,441	-	203,863
26	Services	26,807	12,549	-	14,258
27	Meters	16,521	7,734	-	8,787
28	Hydrants	10,134	4,744	-	5,390
29	Office Furniture and Equipment		-	-	-
30	Computers and Software		-	-	-
31	Tools, Shop and Garage Equipment		-	-	-
32	Miscellaneous Equipment	635	297	-	338
33		<u>\$ 571,139</u>	<u>\$ 249,585</u>	<u>\$ 33,696</u>	<u>\$ 287,858</u>
34					
35	Plant In Service Balance per Decision No. 53721				\$ 571,139
36					
37	Less Plant In Service Balance July 31, 1982 G/L				\$ 283,281
38					
39	Less Amounts Booked in Subsequent Years for PIS on 7/31/1982				\$ 33,696
40					
41	Increase/(Decrease) to Plant In Service Balance				<u>\$ 287,858</u>
42					
43	Adjustment to Rate Base				<u>\$ 287,858</u>
44					
45					

Sunrise Water Co.
Test Year Ended December 31, 2007
Rate Base Adjustment RLJ-2

Exhibit: RLJ-RJ1
Schedule B-2 Rejoinder
Page 4
Witness: Jones

Line
No.

1	<u>Adjust Accumulated Depreciation Balance to Conform With Decision No. 53721</u>	
2		
3	Commission Order No. 53721 dated August 31, 1983 established a depreciation rate of 5.0%	
4	for all classes of depreciable plant. The depreciation rate is detailed in the Staff Report dated July 31, 1982 in	
5	Docket number U-2069-83-042. This adjustment restates Accumulated Depreciation during the period	
6	July 31, 1982 through December 31, 2007 using the approved 5.0% depreciation rate.	
7		
8		
9		
10	Calculated Accumulated Depreciation Balance at Dec. 31, 2007	\$ 2,492,247
11		
12	Accumulated Depreciation Balance Dec. 31, 2007 G/L	<u>1,952,470</u>
13		
14	Increase/(Decrease) to Accumulated Depreciation Balance	<u>\$ 539,777</u>
15		
16	Adjustment to Rate Base	<u>\$ (539,777)</u>
17		
18	<u>Supporting Schedules:</u>	
19	B-2.2	
20		
21		

Sunrise Water Co.
Test Year Ended December 31, 2007
Rate Base Adjustment RLJ-3

Exhibit: RLJ-RJ1
Schedule B-2 Rejoinder
Page 5
Witness: Jones

Line

No.

1	<u>Adjust Advance Balance to Reflect Advances Recorded As Taxable Income</u>	
2		
3	Sunrise Water Co. records all Advances in Aid of Construction in the Advance account. For those	
4	Advances that are considered income for tax purposes, Sunrise Water Co. records	
5	a debit in a contra account to Advances in Aid of Construction and a credit to	
6	Other Water Revenue. When refunds of taxable advances are made, a credit is recorded in the	
7	Advance contra account and a debit is recorded in Miscellaneous Expense. These entries are	
8	tax entries and should be eliminated for regulatory purposes.	
9		
10	WXA Advance contra account Balance Dec. 31, 2007 G/L	\$ 276,599
11		
12	Meter Advance contra account Balance Dec. 31, 2007 G/L	<u>55,495</u>
13		
14	Increase/(Decrease) to Advance in Aid of Construction Balance	<u>\$ 332,094</u>
15		
16	Adjustment to Rate Base	<u>\$ (332,094)</u>
17		
18		

Sunrise Water Co.
Test Year Ended December 31, 2007
Rate Base Adjustment RLJ-4

Exhibit: RLJ-RJ1
Schedule B-2 Rejoinder
Page 6
Witness: Jones

Line

No.

1	<u>Adjust Accumulated Deferred Income Taxes to Reflect Taxes Paid on Taxable Advances</u>	
2		
3	Sunrise Water Co. does not debit Accumulated Deferred Income Taxes to reflect taxes paid	
4	on taxable Advances. This adjustment is needed to reflect the investment in taxes paid on advanced	
5	plant.	
6		
7		
8	Taxable Advance Balance Dec. 31, 2007 G/L	\$ 332,094
9		
10	Sunrise Water Co. Marginal Tax Rate	<u>43.2505%</u>
11		
12	Increase/(Decrease) to Accumulated Deferred Income Tax Balance	<u>\$ 143,632</u>
13		
14	Adjustment to Rate Base	<u>\$ 143,632</u>
15		
16		

Sunrise Water Co.
Test Year Ended December 31, 2007
Rate Base Adjustment RLJ-5

Exhibit: RLJ-RJ1
Schedule B-2 Rejoinder
Page 7
Witness: Jones

Line
No.

1	<u>Adjust Plant In Service to reflect post test year plant in service</u>	
2		
3	Sunrise Water Co. has completed two post test year improvement projects related to	
4	removal of Well No. 2 from its system due to high levels of arsenic. These improvements	
5	are non revenue producing and should be included in rate base.	
6		
7		
8	Actual Cost 91st Ave Water Main	\$ 115,270
9		
10	Actual Cost 83rd Ave. Water Main	<u>45,534</u>
11		
12	Total Construction Cost	160,804
13		
14	Construction Overhead Rate	<u>4.77%</u>
15		
16	Capitalized Overhead	7,677
17		
18	Increase/(Decrease) to Plant in Service	<u>\$ 168,481</u>
19		
20	Adjustment to Rate Base	<u>\$ 168,481</u>
21		
22		

Sunrise Water Co.
Test Year Ended December 31, 2007
Rate Base Adjustment RLJ-6

Exhibit: RLJ-RJ1
Schedule B-2 Rejoinder
Page 8
Witness: Jones

Line		
<u>No.</u>		
1	<u>Adjust Advance Balance to Reflect Refunds Paid</u>	
2		
3	Sunrise Water Co. refunds advances each year based on revenues for the	
4	12-month period between the previous July 1 and June 30 of the current year.	
5	The refund paid in 2008 is known and measurable and is properly included in rate base.	
6		
7		
8	Total Refund Due July 1, 2007 through June 30, 2008	\$ 128,356
9		
10	Allow 1/2 for period July 1, 2007 through December 31, 2007	64,178
11		
12	Increase/(Decrease) to Advance in Aid of Construction Balance	<u>\$ (64,178)</u>
13		
14	Adjustment to Rate Base	<u>\$ 64,178</u>
15		
16		

Line
No.

1	<u>Adjust Accumulated Amortization of Contributions in Aid of Construction to Conform With Decision No. 53721:</u>	
2		
3	Commission Decision No. 53721 dated August 31, 1983 established a depreciation rate of 5.0%	
4	for all classes of depreciable plant. The depreciation rate is detailed in the Staff Report dated July 31, 1982 in	
5	Docket number U-2069-83-042. Contributions in Aid of Construction should be amortized using the 5.0%	
6	rate approved in Decision No. 53721. Sunrise Water Co. has not amortized Contribution in Aid of Construction	
7	consistent with Decision No. 53721. This adjustment restates Accumulated Contributions in Aid of Construction	
8	during the period July 31, 1982 through Dec. 31, 2007 using the approved 5.0% amortization rate.	
9		
10	Calculated Accumulated Amortization of CIAC Balance at Dec. 31, 2007	\$ 161,641
11		
12	Accumulated Amortization of CIAC Balance Dec. 31, 2007 G/L	<u>8,945</u>
13		
14	Increase/(Decrease) to Accumulated Amortization of CIAC Balance	<u>\$ 152,696</u>
15		
16	Adjustment to Rate Base	<u>\$ 152,696</u>
17		
18	<u>Supporting Schedules:</u>	
19	B-2.7	
20		
21		

Sunrise Water Co.
Test Year Ended December 31, 2007
Rate Base Adjustment RLJ-8

Exhibit: RLJ-RJ1
Schedule B-2 Rejoinder
Page 10
Witness: Jones

Line

No.

1 Adjust Plant In Service to Include Land Placed in Service during 2007, But Not Recorded Until 2008:

2

3 Sunrise Water Co. placed well No. 6 into service in 2007. However, the land transfer was not completed
4 until 2008. It is appropriate to include the land for Well No. 6 in rate base.

5

6 Amount Booked for Well No. 6 Land in 2008 \$ 200,000

7

8 Increase/(Decrease) to Plant in Service Balance \$ 200,000

9

10 Adjustment to Rate Base \$ 200,000

11

12

Sunrise Water Co.
Test Year Ended December 31, 2007
Rate Base Adjustment RLJ-9

Exhibit: RLJ-RJ1
Schedule B-2 Rejoinder
Page 11
Witness: Jones

Line

No.

1 Adjustment to account for accepted Staff Rate Base Adjustment

2

3 Accumulated Depreciation:

4 Staff Rate Base Adjustment No. 1

\$ 135,964

5

6 Increase/(Decrease) to Accumulated Depreciation Balance

\$ 135,964

7

8 Adjustment to Rate Base

\$ (135,964)

9

10

Sunrise Water Co.
 Test Year Ended December 31, 2007
 Adjusted Test Year Income Statement

Exhibit: RLJ-RJ1
 Schedule C-1 Rejoinder
 Page 1
 Witness: Jones

Line No.	Actual for Test Year Ended 12/31/2007	Total Pro forma Adjustments	Test Year Results After Pro forma Adjustments	Proposed Rate Increase	Adjusted With Rate Increase
1	Revenues				
2	\$ 1,349,666	\$ (53,642)	\$ 1,296,025	\$ 222,943	\$ 1,518,967
3	10,273	(1,935)	8,338		8,338
4	\$ 1,359,939	\$ (55,577)	\$ 1,304,363	\$ 222,943	\$ 1,527,305
5	Operating Expenses				
6	\$ 382,937	\$ (32,768)	\$ 350,170		\$ 350,170
7	179,081	(9,408)	169,673		169,673
8	14,099	-	14,099		14,099
9	26,549	-	26,549		26,549
10	49,245	2,987	52,233		52,233
11	45,163	(13,500)	31,663		31,663
12	2,635	2,184	4,819		4,819
13	37,664	21,021	58,685		58,685
14	74,769	(18,293)	56,476		56,476
15	11,141	-	11,141		11,141
16	77,595	(26,821)	50,775		50,775
17	-	30,000	30,000		30,000
18	14,287	(2,086)	12,201		12,201
19	307,762	98,301	406,063		406,063
20	55,953	6,406	62,359		62,359
21	-	-	-	65,599	65,599
22	\$ 1,278,881	\$ 58,024	\$ 1,336,905	\$ 65,599	\$ 1,402,504
23	\$ 81,058	\$ (113,600)	\$ (32,542)	\$ 157,344	\$ 124,801
24	Other Income (Expense)				
25	\$ 54,790	\$ (54,790)	\$ -	\$ -	\$ -
26	(2,161)	2,161	-	-	-
27	\$ 52,628	\$ (52,628)	\$ -	\$ -	\$ -
28	\$ 133,686	\$ (166,229)	\$ (32,542)	\$ 157,344	\$ 124,801

31 Supporting Schedules:
 32 E-2
 33 C-2
 34
 35

Recap Schedules:
 A-1

Sunrise Water Co.
 Test Year Ended December 31, 2007
 Income Statement Pro forma Adjustments

Exhibit: RLJ-RJ1
 Schedule C-2 Rejoinder
 Page 1
 Witness: Jones

Line No.	[A] ADJ <u>RLJ-1</u>	[B] ADJ <u>RLJ-2</u>	[C] ADJ <u>RLJ-3</u>	[D] ADJ <u>RLJ-4</u>	[E] ADJ <u>RLJ-5</u>
1	Revenues				
2					\$ (5,827)
3		(1,935)			
4	Total Revenues				
	\$ -	\$ (1,935)	\$ -	\$ -	\$ (5,827)
5	Operating Expenses				
6					
7					
8					
9					
10			2,649	1,839	
11					
12					
13					
14					
15					
16					
17					
18	(142,925)				
19					
20					
21					
22	Total Operating Expenses				
	\$ (142,925)	\$ -	\$ 2,649	\$ 1,839	\$ -
23	Operating Income				
	\$ 142,925	\$ (1,935)	\$ (2,649)	\$ (1,839)	\$ (5,827)
24	Other Income (Expense)				
25					
26					
27	Total Other Income (Expense)				
	\$ -	\$ -	\$ -	\$ -	\$ -
28	Net Income (Loss)				
	\$ 142,925	\$ (1,935)	\$ (2,649)	\$ (1,839)	\$ (5,827)
29					
30					
31	<u>Supporting Schedules:</u>		<u>Recap Schedules:</u>		
32			C-1		
33					
34					

Line No.	[F] ADJ RLJ-6	[G] ADJ RLJ-7	[H] ADJ RLJ-8	[I] ADJ RLJ-9	[J] ADJ RLJ-10	[K] ADJ RLJ-11
1	Revenues					
2			\$ (47,815)			
3						
4	Total Revenues					
	\$ -	\$ -	\$ (47,815)	\$ -	\$ -	\$ -
5	Operating Expenses					
6						
7	(5,425)	3,086		(7,069)		
8						
9						
10						
11						
12						
13						
14						
15						
16						
17						
18					106,658	
19						88,091
20						
21						
22	Total Operating Expenses					
	\$ (5,425)	\$ 3,086	\$ -	\$ (7,069)	\$ 106,658	\$ 88,091
23	Operating Income					
	\$ 5,425	\$ (3,086)	\$ (47,815)	\$ 7,069	\$ (106,658)	\$ (88,091)
24	Other Income (Expense)					
25						
26						
27	Total Other Income (Expense)					
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
28	Net Income (Loss)					
	\$ 5,425	\$ (3,086)	\$ (47,815)	\$ 7,069	\$ (106,658)	\$ (88,091)
29						
30						
31	<u>Supporting Schedules:</u>					
32						
33						
34						

	[L]	[M]	[N]	[O]	[P]	[Q]
Line	ADJ	ADJ	ADJ	ADJ	ADJ	ADJ
<u>No.</u>	<u>RLJ-12</u>	<u>RLJ-13</u>	<u>RLJ-14</u>	<u>RLJ-15</u>	<u>RLJ-16</u>	<u>RLJ-17</u>
1	Revenues					
2	Metered Water Revenues					
3	Other Water Revenues					
4	Total Revenues					
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5	Operating Expenses					
6	Salaries and Wages					
			\$ 31,902			
7	Purchased Power					
8	Chemicals					
9	Repairs and Maintenance					
10	Office Supplies Expense					
11	Outside Services					
12	Water Testing					
13	Rents					
14	Transportation Expense					
15	Insurance - General Liability					
16	Insurance - Health and Life					
		(33,157)		6,336		
17	Regulatory Expense					
						30,000
18	Miscellaneous Expense					
19	Depreciation Expense					
20	Property Taxes					
	6,406					
21	Income Taxes					
22	Total Operating Expenses					
	\$ 6,406	\$ (33,157)	\$ 31,902	\$ 6,336	\$ -	\$ 30,000
23	Operating Income					
	\$ (6,406)	\$ 33,157	\$ (31,902)	\$ (6,336)	\$ -	\$ (30,000)
24	Other Income (Expense)					
25	Interest and Dividend Income					
					\$ (54,790)	
26	Interest Expense					
					2,161	
27	Total Other Income (Expense)					
	\$ -	\$ -	\$ -	\$ -	\$ (52,628)	\$ -
28	Net Income (Loss)					
	\$ (6,406)	\$ 33,157	\$ (31,902)	\$ (6,336)	\$ (52,628)	\$ (30,000)
29						
30						
31	<u>Supporting Schedules:</u>					
32						
33						
34						

Line No.	[R] ADJ <u>RLJ-18</u>	[S] ADJ <u>RLJ-19</u>	[T] ADJ <u>RLJ-20</u>	[U] ADJ <u>RLJ-21</u>	[V] Total <u>Adjustments</u>
1	Revenues				
2					\$ (53,642)
3					(1,935)
4	Total Revenues				
	\$ -	\$ -	\$ -	\$ -	\$ (55,577)
5	Operating Expenses				
6		\$ (64,670)			\$ (32,768)
7					(9,408)
8					-
9					-
10		(1,500)			2,987
11			(13,500)		(13,500)
12		2,184			2,184
13		21,021			21,021
14		(18,293)			(18,293)
15					-
16					(26,821)
17					30,000
18		34,823		(642)	(2,086)
19		10,210			98,301
20					6,406
21					-
22	Total Operating Expenses				
	\$ -	\$ (16,225)	\$ (13,500)	\$ (642)	\$ 58,024
23	Operating Income				
	\$ -	\$ 16,225	\$ 13,500	\$ 642	\$ (113,600)
24	Other Income (Expense)				
25					\$ (54,790)
26					2,161
27	Total Other Income (Expense)				
	\$ -	\$ -	\$ -	\$ -	\$ (52,628)
28	Net Income (Loss)				
	\$ -	\$ 16,225	\$ 13,500	\$ 642	\$ (166,229)
29					
30					
31	<u>Supporting Schedules:</u>				
32					
33					
34					

Sunrise Water Co.
Test Year Ended December 31, 2007
Income Statement Adjustment RLJ-1

Exhibit: RLJ-RJ1
Schedule C-2 Rejoinder
Page 5
Witness: Jones

Line

No.

1	<u>Adjust Booked Expenses to Remove Refund of Taxable Advances from Miscellaneous Expense</u>	
2		
3	Sunrise Water Co. records all Advances in Aid of Construction in the Advance account. For those	
4	Advances that are considered income for tax purposes, Sunrise Water Co. records	
5	a debit in a contra account to Advances in Aid of Construction and a credit to	
6	Other Water Revenue. When refunds of taxable advances are made, a credit is recorded in the	
7	Advance contra account and a debit is recorded in Miscellaneous Expense. These entries are	
8	tax entries and should be eliminated for regulatory purposes.	
9		
10	Tax Expense Recorded As Miscellaneous Expense December 21, 2007 G/L	\$ 142,925
11		
12	Increase/(Decrease) in Miscellaneous Expense	<u>\$ (142,925)</u>
13		
14	Adjustment to Revenues and/or Expenses	<u>\$ (142,925)</u>
15		
16		

Line

No.

1	<u>Adjust Booked Revenue to Remove Meter Advance from Other Water Revenue</u>	
2		
3	Sunrise Water Co. records all Advances in Aid of Construction in the Advance account. For those	
4	Advances that are considered income for tax purposes, Sunrise Water Co. records	
5	a debit in a contra account to Advances in Aid of Construction and a credit to	
6	Other Water Revenue. When refunds of taxable advances are made, a credit is recorded in the	
7	Advance contra account and a debit is recorded in Miscellaneous Expense. These entries are	
8	tax entries and should be eliminated for regulatory purposes.	
9		
10	Tax Income Recorded As Other Water Revenue December 31, 2007 G/L	\$ 1,935
11		
12	Increase/(Decrease) in Other Water Revenue	<u>\$ (1,935)</u>
13		
14	Adjustment to Revenues and/or Expenses	<u>\$ (1,935)</u>
15		
16		

Line

No.

1	<u>Adjust Office Supplies Expense to Reflect Postage Increase</u>		
2			
3	During the Test Year Sunrise Water Co billed its customers using a post card bill. In		
4	anticipation of implementing Best Management Practices as required by new ADWR		
5	regulations, Sunrise has gone to a letter size bill to allow for customer messaging, Each		
6	new bill includes the bill, a return envelope and the mailing envelope. Postage		
7	costs have increased due to the new bill format. In addition postage		
8	rate increases have occurred.		
9			
10	Bills mailed during Test Year per BFA		15,891
11			
12	January 1, 2007 Post Card Rate	\$ 0.24	
13	May 14, 2007 Post Card Rate	\$ 0.26	
14	Percentage of Bills Mailed at \$0.24	33.3%	
15	Percentage of Bills Mailed at \$.026	66.7%	
16	Average Postage Cost per Bill During Test Year	<u>\$ 0.2533</u>	
17			
18			
19	Current Rate for Postage for 8 1/2" x 11" Bill	\$ 0.4200	
20	Average Postage Cost per Bill During Test Year	<u>0.2533</u>	
21	Per Bill Increase in Postage	\$ 0.1667	
22			
23	Total Increase in Postage Expense	\$ 2,649	
24			
25	Increase/(Decrease) in Office Supplies Expense	<u>\$ 2,649</u>	
26			
27	Adjustment to Revenues and/or Expenses	<u>\$ 2,649</u>	
28			
29			

Line

No.

1	<u>Adjust Office Supplies Expense to Reflect Bill Form and Handling Cost Increase</u>		
2			
3	During the Test Year Sunrise Water Co. billed its customers using a post card bill. In		
4	anticipation of implementing Best Management Practices as required by new ADWR		
5	regulations, as of March 2008, Sunrise has used a letter size bill to allow for customer		
6	messaging, Each new bill includes the bill, a return envelope and the mailing envelope.		
7	Form costs have increased due to the new bill format. Additionally, Sunrise Water Co.		
8	has leased a Pitney Bowes machine that folds and stuffs the bills.		
9			
10	Bills mailed during Test Year per BFA		15,891
11			
21	Per Bill Cost New Bill Format	\$	0.09
22	Per Bill Cost for Post Card Bill Forms during Test Year	\$	0.06
23	Per Bill Increase in Bill Form Cost	\$	0.03
24			
25	Increase in Bill Form Expense	\$	477
26	Pitney Bowes Annual Lease Expense	\$	1,362
27			
28	Total Increase in Billing Cost	\$	1,839
29			
30	Increase/(Decrease) in Office Supplies Expense	\$	1,839
31			
32	Adjustment to Revenues and/or Expenses	\$	1,839
33			
34			

Sunrise Water Co.
Test Year Ended December 31, 2007
Income Statement Adjustment RLJ-5

Exhibit: RLJ-RJ1
Schedule C-2 Rejoinder
Page 9
Witness: Jones

Line

No.

1	<u>Adjust Metered Water Revenue to Reflect Billed Revenue</u>	
2		
3	During the Test Year Sunrise Water Co. recorded Revenue on a cash basis. For regulatory	
4	purposes revenue should reflect billed revenue without regard to actual collections.	
5		
6	Residential and Commercial Metered Water Revenue Dec. 31, 2007 G/L	\$ 1,273,431
7		
8	Residential and Commercial Metered Water Revenue Per Billing Reports	<u>\$ 1,267,603</u>
9		
10	Difference Book (Cash Basis) vs. Billed Revenue	<u>\$ 5,827</u>
11		
12	Increase/(Decrease) in Metered Water Revenue	<u>\$ (5,827)</u>
13		
14	Adjustment to Revenues and/or Expenses	<u>\$ (5,827)</u>
15		
16		

Line			
<u>No.</u>			
1	<u>Adjust Purchased Power to Remove Personal Expense</u>		
2			
3	During the Test Year APS billings for Owner's home were charged to		
4	Purchased Power.		
5			
6	Personal Utility Expense:		
7	January	\$	459.13
8	February	\$	412.04
9	March	\$	287.40
10	April	\$	319.41
11	May	\$	251.48
12	June	\$	351.08
13	July	\$	507.30
14	August	\$	836.94
15	September	\$	700.24
16	October	\$	588.05
17	November	\$	468.35
18	December	\$	<u>243.37</u>
19	Total	\$	5,424.79
20			
21	Total Personal Utility Expense Charged to Purchased Power	\$	<u>5,425</u>
22			
23	Increase/(Decrease) in Purchased Power Expense	\$	<u>(5,425)</u>
24			
25	Adjustment to Revenues and/or Expenses	\$	<u>(5,425)</u>
26			
27			

Sunrise Water Co.
Test Year Ended December 31, 2007
Income Statement Adjustment RLJ-7

Exhibit: RLJ-RJ1
Schedule C-2 Rejoinder
Page 11
Witness: Jones

Line

No.

1 Adjust Purchased Power to Reflect APS Rate Increase

2

3 Calculated Power Adjustment

\$ 3,086

4

5 Total change in Pumping Power Expense due to Rate Increase

\$ 3,086

6

7 Increase/(Decrease) in Purchased Power Expense

\$ 3,086

8

9 Adjustment to Revenues and/or Expenses

\$ 3,086

10

11

12 Supporting Schedules:

13 C-2.7

14

15

Line			
<u>No.</u>			
1	<u>Adjust Metered Water Revenue to Reflect Normalized Level of Hydrant Meter Sales</u>		
2			
3	Sunrise Water Co. makes water available from fire hydrants in its service area to contractors		
4	performing construction within its service area. Hydrant meter sales for the Test Year are		
5	significantly above normal levels due to elevated levels of subdivision construction associated with		
6	high levels of real estate development in 2006 - 2007 and a single large flood control project under		
7	construction during 2007. Normalized hydrant meter sales should be used to avoid inclusion of		
8	nonrecurring revenue in the Test Year		
9			
10	Hydrant Meter Sales (gallons):		
11	Calendar Year 2003	1,074,700	
12	Calendar Year 2004	3,640,100	
13	Calendar Year 2005	4,759,010	
14	Calendar Year 2006	19,574,700	
15	Calendar Year 2007	<u>24,966,230</u>	
16	Total Hydrant Sales (5-Years)	54,014,740	
17			
18	Test Year Hydrant Sales for Flood Control Project	<u>(13,068,700)</u>	
19	Adjusted Total Hydrant Sales (5-Years)	40,946,040	
20			
21	Average Adjusted Hydrant Sales (5-Yr Period) (gallons)	8,189,208	
22	Test Year Hydrant Sales	<u>24,966,230</u>	
23			
24	Hydrant Sales in excess of 5-Yr Adjusted Average (gallons)	<u>(16,777,022)</u>	
25			
26	Revenue Generated Per 1,000 gallons	\$ 2.85	
27			
28	Test Year Hydrant Meter Revenue in Excess of 5-Yr Average	<u>\$ (47,815)</u>	
29			
30	Increase/(Decrease) in Metered Water Revenue	<u>\$ (47,815)</u>	
31			
32	Adjustment to Revenues and/or Expenses	<u>\$ (47,815)</u>	
33			
34			

Line			
<u>No.</u>			
1	<u>Adjust Purchased Power to Reflect Hydrant Meter Sales Adjustment</u>		
2			
3	Hydrant Sales are being normalized to 5-Yr Average Sales. Purchased Power should be		
4	reduced to reflect the normalized level of system demand.		
5			
6	Test Year Purchased Power Cost December 31, 2007 G/L	\$	179,081
7	Less:		
8	Power for Admin/Shop Buildings		2,134
9	Adjustment RLJ-6		<u>5,425</u>
10	Test Year Pumping Power Cost		171,522
11	Pumping Power Adjustment (See RLJ-7)		<u>3,086</u>
12	Adjusted Pumping Power Cost	\$	<u>174,608</u>
13			
14	Test Year Gallons Pumped		<u>414,409,000</u>
15			
16	Test Year Pumping Power Cost per 1,000 gallons	\$	0.4213
17			
18	Hydrant Sales Adjustment (See RLJ-8)		(16,777,022)
19			
20	Test Year Power Cost Attributable to Hydrant Sales Adjustment	\$	<u>7,069</u>
21			
22	Increase/(Decrease) in Purchased Power	\$	<u>(7,069)</u>
23			
24	Adjustment to Revenues and/or Expenses	\$	<u>(7,069)</u>
25			
26			

Line

No.

1	<u>Adjust Miscellaneous Expense to Reflect Normalized Level of Capitalized Overhead</u>		
2			
3	Sunrise Water Co. charges a portion of its administrative and general expenses to capital.		
4	The allocation is based upon the level of capital expenditures in a given year.		
5	During the test year capital expenditures were unusually high. The level of		
6	administrative and general expenses charged to capital should be normalized.		
7			
8			
9	Plant Additions per G/L		
10	Calendar Year 2003	\$ 142,071	
11	Calendar Year 2004	457,005	
12	Calendar Year 2005	127,059	
13	Calendar Year 2006	2,422,434	
14	Calendar Year 2007	<u>2,983,791</u>	
15	Total Plant Additions (5-Years)	\$ 6,132,360	
16			
17	Less: Land Additions	<u>873,264</u>	
18	Plant Additions subject to OH allocation	\$ 5,259,096	
19			
20	Capital Overhead Allocation per G/L		
21	Calendar Year 2003	\$ 3,183	
22	Calendar Year 2004	19,844	
23	Calendar Year 2005	3,388	
24	Calendar Year 2006	67,791	
25	Calendar Year 2007	<u>156,874</u>	
26	Total Capital Overhead (5-Years)	\$ 251,080	
27			
28	Capital Overhead Rate (5-Yr Average)	4.77%	
29			
30	Average Capital Overhead (5-Yr period)	\$ 50,216	
31			
32	Capitalized Overhead during Test Year	<u>\$ 156,874</u>	
33			
34	Capitalized Overhead in excess of Normalized Capital Overhead	<u>\$ 106,658</u>	
35			
36	Increase/(Decrease) in Miscellaneous Expense	<u>\$ 106,658</u>	
37			
38	Adjustment to Revenues and/or Expenses	<u>\$ 106,658</u>	
39			
40			

Line No.		12/31/2007 Plant Balances	Plant Adjustments	Adjusted Plant Balances	Staff Rates	Annual Depreciation
			RLJ-1 RLJ-5 RLJ-8			
1	<u>Adjust Depreciation Expense to Reflect Staff Recommended Depreciation Rates</u>					
2						
3						
4						
5	December 31, 2007 Plant Balances					
6	303 Land and Land Rights	\$ 873,264	\$ 204,304	\$ 1,077,568	0.00%	\$ -
7	304 Structures & Improvements	321,621	-	321,621	3.33%	10,710
8	307 Wells & Springs	1,989,247	15,788	2,005,035	3.33%	66,242
9	311 Pumping Equipment	1,689,043	12,637	1,701,681	12.50%	211,130
10	320 Water Treatment Equipment	-	-	-		-
11	320.2 Solution Feeders	76,874	-	76,874	20.00%	15,375
12	330 Distribution Reservoirs & Standpipes	-	-	-		-
13	330.1 Storage Tanks	439,372	20,244	459,616	2.22%	9,754
14	330.2 Pressure Tanks	48,819	2,249	51,068	5.00%	2,441
15	331 Transmission and Distribution Mains	3,471,502	372,345	3,843,847	2.00%	69,430
16	333 Services	405,494	14,258	419,752	3.33%	13,503
17	334 Meters	21,879	8,787	30,666	8.33%	1,823
18	335 Hydrants	366,179	5,390	371,569	2.00%	7,324
19	340 Office Furniture and Equipment	-	-	-	6.67%	-
20	340.1 Computers and Software	27,777	-	27,777	20.00%	5,555
21	343 Tools, Shop and Garage Equipment	12,763	-	12,763	5.00%	638
22	347 Miscellaneous Equipment	8,207	338	8,545	10.00%	821
23		9,752,043	656,339	10,408,383		
24	Staff Recommended Annual Depreciation				4.44%	\$ 414,746
25						
26	12/31/07 CIAC Balance					425,049
27						
28	Composite Depreciation Rate					4.44%
29						
30	Amortization of CIAC					\$ 18,893
31						
32	Calculated Depreciation Expense using Staff Recommended Depreciation					\$ 395,853
33						
34	Depreciation Recorded during Test Year					\$ 307,762
35						
36	Calculated Depreciation in excess of Test Year Depreciation					\$ 88,091
37						
38	Increase/(Decrease) in Depreciation Expense					\$ 88,091
39						
40	Adjustment to Revenues and/or Expenses					\$ 88,091
41						
42						

Line			
<u>No.</u>			
1	<u>Adjust Property Taxes to Reflect Proposed Revenues</u>		
2			
3	Adjusted Revenues in year ended 12/31/07	\$ 1,304,363	
4	Adjusted Revenues in year ended 12/31/07	1,304,363	
5	Proposed Revenues	<u>\$ 1,527,305</u>	
6	Average of three year's of revenue	<u>\$ 1,378,677</u>	
7	Average of three year's of revenue, times 2	<u>\$ 2,757,354</u>	
8	Add:		
9	Construction Work In Progress at 10%	5,709	
10	Deduct:		
11	Net Book Value of Transportation Equipment	<u>\$ -</u>	
12			
13	Full Cash Value	\$ 2,763,063	
14	Assessment Ratio (2008)	22.5%	
15	Assessed Value	<u>\$ 621,689</u>	
16	Property Tax Rate (Test Year)	10.0306%	
17	Property Tax with Proposed Rates	<u>\$ 62,359</u>	
18	Property Taxes in Test Year	<u>55,953</u>	
19	Change in Property Taxes	<u>\$ 6,406</u>	
20			
21	Increase/(Decrease) in Property Taxes	<u>\$ 6,406</u>	
22			
23	Adjustment to Revenues and/or Expenses	<u>\$ 6,406</u>	
24			
25			
26			

Sunrise Water Co.
Test Year Ended December 31, 2007
Income Statement Adjustment RLJ-13

Exhibit: RLJ-RJ1
Schedule C-2 Rejoinder
Page 17
Witness: Jones

Line		
<u>No.</u>		
1	<u>Adjust Insurance - Health and Life to Remove Personal Expense</u>	
2		
3	During the Test Year health care expenses for Owner were charged to	
4	Insurance - Health and Life.	
5		
6	Total Personal Health Care Expense Charged to Insurance - Health and Life	33,157
7		
8	Increase/(Decrease) in Insurance - Health and Life Expense	<u>\$ (33,157)</u>
9		
10	Adjustment to Revenues and/or Expenses	<u>\$ (33,157)</u>
11		
12		

Sunrise Water Co.
Test Year Ended December 31, 2007
Income Statement Adjustment RLJ-14

Exhibit: RLJ-RJ1
Schedule C-2 Rejoinder
Page 18
Witness: Jones

Line

No.

1	<u>Adjust Salaries and Wages Expense</u>	
2		
3	Adjusted Test Year Salary Expense ¹	\$ 414,840
4		
5	Test Year Salary Expense per G/L	382,937
6		
7	Increase/(Decrease) in Salaries and Wages Expense	<u>\$ 31,902</u>
8		
9	Adjustment to Revenues and/or Expenses	<u>\$ 31,902</u>
10		
11	¹ Sunrise includes all payroll taxes in its Salaries and Wage Expense Account	
12		
13	<u>Supporting Schedules:</u>	
14	C-2.14	
15		
16		

Sunrise Water Co.
Test Year Ended December 31, 2007
Income Statement Adjustment RLJ-15

Exhibit: RLJ-RJ1
Schedule C-2 Rejoinder
Page 19
Witness: Jones

Line			
<u>No.</u>			
1	<u>Adjust Health Insurance Expense</u>		
2			
3	Adjusted Test Year Health Insurance Expense	\$	50,775
4			
5	Test Year Health Insurance Expense per G/L		44,438
6			
7	Increase/(Decrease) in Health Insurance Expense	<u>\$</u>	<u>6,336</u>
8			
9	Adjustment to Revenues and/or Expenses	<u>\$</u>	<u>6,336</u>
10			
11			

Sunrise Water Co.
Test Year Ended December 31, 2007
Income Statement Adjustment RLJ-16

Exhibit: RLJ-RJ1
Schedule C-2 Rejoinder
Page 20
Witness: Jones

Line			
<u>No.</u>			
1	<u>Remove Other Income and Expenses to Eliminate Effects on Income Taxes</u>		
2			
3	Test Year Interest Income	\$	54,790
4	Test Year Interest Expense		<u>(2,161)</u>
5			
6	Total Other Income / (Expense)	\$	52,628
7			
8	Increase/(Decrease) in Other Income / (Expense)	\$	<u>(52,628)</u>
9			
10	Adjustment to Revenues and/or Expenses	\$	<u>(52,628)</u>
11			
12			

Sunrise Water Co.
Test Year Ended December 31, 2007
Income Statement Adjustment RLJ-17

Exhibit: RLJ-RJ1
Schedule C-2 Rejoinder
Page 21
Witness: Jones

Line		
<u>No.</u>		
1	<u>Regulatory Expense</u>	
2		
3	Estimated Rate Case Expense	\$ 90,000
4		
5	Estimated Amortization Period in Years	<u>3</u>
6		
7	Annual Rate Case Expense	30,000
8		
9	Test Year Regulatory Expense	<u>-</u>
10		
11	Increase in Rate Case Expense	\$ 30,000
12		
13	Increase/(Decrease) in Rate Case Expense	<u>\$ 30,000</u>
14		
15	Adjustment to Revenues and/or Expenses	<u>\$ 30,000</u>
16		
17		

Line No.		Test Year Adjusted Results	Adjusted with Rate Increase
1	<u>Calculation of Income Taxes at Proposed Rates</u>		
2			
3			
4	Income Before Taxes	\$ (32,542)	\$ 190,400
6	Arizona Taxable Income	<u>(32,542)</u>	<u>190,400</u>
7			
8	Less Arizona Income Tax 6.9680%	\$ -	\$ 13,267
9			
10	Apparent Arizona Tax Rate ^{1 3}		5.9509%
11			
12	Federal Income Before Taxes	\$ (32,542)	\$ 190,400
13	Less Arizona Income Taxes	-	13,267
14	Federal Taxable Income	<u>\$ (32,542)</u>	<u>\$ 177,133</u>
15			
16	FEDERAL INCOME TAXES:		
17	15% BRACKET UP TO 50,000	-	7,500
18	25% BRACKET UP TO 75,000	-	6,250
19	34% BRACKET UP TO 100,000	-	8,500
20	39% BRACKET UP TO 335,000	-	30,082
21	34% BRACKET OVER 335,001	-	-
22			
23	Federal Income Taxes:	\$ -	\$ 52,332
24			
25	Effective Federal Tax Rate		29.5438%
26			
27	Apparent Federal Tax Rate ^{2 3}		24.9585%
28			
29	Total Income Tax	<u>\$ -</u>	<u>\$ 65,599</u>
30			
31	Overall Effective Tax Rate	<u>0.0000%</u>	<u>34.4532%</u>
32			
33	Test Year Income Taxes, Per Books	\$ -	
34	Increase in Income Taxes	<u>-</u>	
35			
36	Adjustment to Revenues and/or Expense	<u>\$ -</u>	
37			
38	Test Year Income Taxes, Adjusted		\$ -
39			
40	Increase in Income Taxes		<u>65,599</u>
41			
42	Adjustment to Revenues and/or Expense		<u>\$ 65,599</u>
43			

44 ¹ Apparent Arizona Tax Rate is the change in State tax due divided by the change in Arizona Taxable Income
 45 ² Apparent Federal Tax Rate is the change in Federal tax due divided by the change in Federal Taxable Income
 46 ³ Calculation of Apparent Tax Rates is necessary to correctly calculate Gross Revenue Conversion Factor when
 47 Test Year Taxable Income is less than zero and is taxed at a rate of zero or when increased income is taxed at
 48 different marginal tax rates.
 49

Line		
<u>No.</u>		
1	<u>Adjustment to account for accepted Staff Operating Income Adjustments</u>	
2		
3	Salaries and Wages:	
4	Staff Operating Income Adjustment No. 2	\$ (68,913)
5	Staff Operating Income Adjustment No. 3	4,243
6	Total Salaries and Wages Staff Adjustment	<u>\$ (64,670)</u>
7		
8	Office Supplies Expense:	
9	Staff Operating Income Adjustment No. 5	\$ (1,500)
10	Total Office Supplies Expense Staff Adjustment	<u>\$ (1,500)</u>
11		
12	Water Testing Expense:	
13	Staff Operating Income Adjustment No. 7	\$ 2,184
14	Total Water Testing Expense Staff Adjustment	<u>\$ 2,184</u>
15		
16	Rent Expense:	
17	Staff Operating Income Adjustment No. 10	\$ 1,500
18	Staff Operating Income Adjustment No. 11	19,521
19	Total Rent Expense Staff Adjustment	<u>\$ 21,021</u>
20		
21	Transportation Expense:	
22	Staff Operating Income Adjustment No. 12	\$ (3,508)
23	Staff Operating Income Adjustment No. 13	(8,485)
24	Staff Operating Income Adjustment No. 14	(6,300)
25	Total Transportaion Expense Staff Adjustment	<u>\$ (18,293)</u>
26		
27	Miscellaneous Expense:	
28	Staff Operating Income Adjustment No. 16	\$ (2,285)
29	Staff Operating Income Adjustment No. 17	6,413
30	Staff Operating Income Adjustment No. 18	50,216
31	Staff Operating Income Adjustment No. 19	(19,521)
32	Total Miscellaneous Expense Staff Adjustment	<u>\$ 34,823</u>
33		
34	Depreciation Expense	
35	Staff Operating Income Adjustment No. 20	\$ 10,210
36	Total Depreciation Expense Staff Adjustment	<u>\$ 10,210</u>
37		
38	Total Accepted Staff Operating Income Adjustments	<u>\$ (16,225)</u>
39		
40		

Sunrise Water Co.
Test Year Ended December 31, 2007
Income Statement Adjustment RLJ-20

Exhibit: RLJ-RJ1
Schedule C-2 Rejoinder
Page 24
Witness: Jones

Line		
<u>No.</u>		
1	<u>Partial Acceptance of Staff Operating Income Adjustment No. 6</u>	
2		
3	Outside Services Expense:	
4	Cost of Services Provided by SRW Consulting	\$ 27,000
5		
6	50% Reduction in Cost	\$ (13,500)
7		
8	Increase/(Decrease) in Outside Services Expense	<u>\$ (13,500)</u>
9		
10	Adjustment to Revenues and/or Expenses	<u>\$ (13,500)</u>
11		
12		

Sunrise Water Co.
Test Year Ended December 31, 2007
Income Statement Adjustment RLJ-20

Exhibit: RLJ-RJ1
Schedule C-2 Rejoinder
Page 25
Witness: Jones

Line

No.

1	<u>Partial Acceptance of Staff Operating Income Adjustment No. 15</u>	
2		
3	Miscellaneous Expense:	
4	Permit/Recording Fees that should be capitalized	\$ 642
5		
6	Increase/(Decrease) in Miscellaneous Expense	<u>\$ (642)</u>
7		
8	Adjustment to Revenues and/or Expenses	<u>\$ (642)</u>
9		
10		

Sunrise Water Co.
 Test Year Ended December 31, 2007
 Computation of Gross Revenue Conversion Factor

Exhibit: RLJ-RJ1
 Schedule C-3 Rejoinder
 Page 1
 Witness: Jones

Line		
<u>No.</u>		
1	<u>Calculation of Gross Revenue Conversion Factor</u>	
2	Operating Income Before Taxes	100.0000%
3	Apparent State Tax Rate ¹	5.9509%
4	Federal Taxable Income	94.0491%
5	Apparent Federal Tax Rate ¹	24.9585%
6	Effective Apparent Federal Tax Rate	23.4733%
7		
8	Total Apparent Tax Rate	29.4242%
9		
10	Operating Income Percentage	70.5758%
11		
12	Gross Revenue Conversion Factor	1.41692
13		
14	<u>Calculation of Effective Tax Rate²</u>	
15	Operating Income Before Taxes	100.0000%
16	Effective State Tax Rate	6.9680%
17	Federal Taxable Income	93.0320%
18	Effective Federal Tax Rate	29.5438%
19	Effective Federal Tax Rate	27.4852%
20		
21	Total Effective Tax Rate	34.4532%
22		
23	<u>Calculation of Marginal Tax Rate³</u>	
24	Operating Income Before Taxes	100.0000%
25	Marginal State Tax Rate	6.9680%
26	Federal Taxable Income	93.0320%
27	Marginal Federal Tax Rate	39.0000%
28	Effective Marginal Federal Tax Rate	36.2825%
29		
30	Combined Marginal Tax Rate	43.2505%

33 ¹ Apparent Tax Rates are used in order to correctly calculate the Gross Revenue Conversion Factor.
 34 ² The Effective Tax Rate is the basis of the Income Tax Expense and is shown for reference purposes.
 35 ³ The Combined Marginal Tax Rate is the tax paid on incremental income and is shown for reference purposes.
 36

Line
No.

1 General Water Service Rates

			Base Charge			Volume Charge			
			Present	Proposed	Change	Present	Proposed	Change	
<u>Description</u>	<u>Block</u>		<u>Rate</u>	<u>Rate</u>	<u>Change</u>	<u>Rate</u>	<u>Rate</u>	<u>Change</u>	
6	3/4" Residential Meter	First	4,000 gal.	\$ 12.00	\$ 17.00	\$ 5.00	\$ 2.85	\$ 2.13	\$ (0.72)
7		Next	14,000 gal.				\$ 2.85	\$ 2.90	\$ 0.05
8		Over	18,000 gal.				\$ 2.85	\$ 3.52	\$ 0.67
9	3/4" Commercial Meter	First	4,000 gal.	\$ 12.00	\$ 17.00	\$ 5.00	\$ 2.85	\$ 2.13	\$ (0.72)
10		Next	14,000 gal.				\$ 2.85	\$ 2.90	\$ 0.05
11		Over	18,000 gal.				\$ 2.85	\$ 3.52	\$ 0.67
12	1" Residential Meter	First	27,000 gal.	\$ 16.50	\$ 28.33	\$ 11.83	\$ 2.85	\$ 2.90	\$ 0.05
13		Over	27,000 gal.				\$ 2.85	\$ 3.52	\$ 0.67
14	1" Commercial Meter	First	27,000 gal.	\$ 16.50	\$ 28.33	\$ 11.83	\$ 2.85	\$ 2.90	\$ 0.05
15		Over	27,000 gal.				\$ 2.85	\$ 3.52	\$ 0.67
16	1 1/2" Residential Meter	First	35,000 gal.	\$ 21.50	\$ 56.65	\$ 35.15	\$ 2.85	\$ 2.90	\$ 0.05
17		Over	35,000 gal.				\$ 2.85	\$ 3.52	\$ 0.67
18	2" Residential Meter	First	65,000 gal.	\$ 26.50	\$ 90.64	\$ 64.14	\$ 2.85	\$ 2.90	\$ 0.05
19		Over	65,000 gal.				\$ 2.85	\$ 3.52	\$ 0.67
20	Hydrant Meter	All	gal.	\$ -	\$ 181.28	\$ 181.28	\$ 2.85	\$ 2.90	\$ 0.05
21	Coin Meter	All	gal.	\$ -	\$ -	\$ -	\$ 2.85	\$ 2.90	\$ 0.05

24 Other Service Charges

	Present Rates	Proposed Rates
26 Establishment	\$ 10.00	\$ 35.00
27 Establishment (After Hours)	\$ 20.00	\$ 50.00
28 Reconnection (Delinquent)	\$ 10.00	\$ 35.00
29 Reconnection (Delinquent and After Hours)	\$ 20.00	\$ 50.00
30 Meter Test	\$ 5.00	\$ 30.00
31 Deposit Requirement (Residential)	2 times the average bill	2 times the average bill
32 Deposit Requirement (None Residential Meter)	2-1/2 times the average bill	2-1/2 times the average bill
33 Deposit Interest	n/t	6.0%
34 Re-Establishment (With-in 12 Months)	\$ 80.00	Number of Months off system times the monthly minimum bill
35 NSF Check	n/t	\$ 30.00
36 Meter Re-Read (If Incorrect)	n/t	\$ 10.00
37 Deferred Payment, Per Month	n/t	1.5%
38 Late Charge per month	n/t	1.5%
39 Charge of Moving Customer Meter	n/t	Cost

41 In addition to the collection of regular rates, the utility will collect from its
 42 customers a proportionate share of any privilege, sales, use, and franchise tax,
 43 per Commission rule A.A.C. 14-2-409(D)(5).

44
 45 All items billed at cost shall include labor, materials and parts, overheads and all applicable taxes.

46
 47 n/t - no tariff

48
 49

Line
No.

	Present	Proposed Rates		
		<u>Rates</u>	<u>Srv. Line</u>	<u>Meter</u>
1 <u>Service Line and Meter Installation Charges</u>				
2				
3				
4 3/4" Meter	\$ 275.00	\$ 445.00	\$ 255.00	\$ 700.00
5 1" Meter	\$ 325.00	\$ 495.00	\$ 315.00	\$ 810.00
6 1 1/2" Meter	\$ 550.00	\$ 550.00	\$ 525.00	\$ 1,075.00
7 2" Meter (PD or Turbo)	\$ 800.00	\$ 830.00	\$ 1,045.00	\$ 1,875.00
8 2" Meter (Compound)	n/t	\$ 830.00	\$ 1,890.00	\$ 2,720.00
9 3" Meter and above	n/t	At Cost	At Cost	At Cost

10
 11 All service line and meter advances shall include labor, materials and parts, overheads and all applicable taxes,
 12 including gross-up taxes for Federal and State taxes, if applicable.

13
 14 n/t - no tariff

	Present	Proposed
	<u>Rates</u>	<u>Rates¹</u>
16 <u>Private Fire Service</u>		
17		
18		
19 4" Fire Line Service	n/t	\$ 25.00
20 6" Fire Line Service	n/t	\$ 35.00
21 8" Fire Line Service	n/t	\$ 45.00
22		

23 ¹ Sunrise has filed a tariff to establish Private Fire Service at the rates indicated.
 24
 25

Exhibit RLJ-RJ2

Arizona American Water Company - Anthem Water
 Test Year Ended December 31, 2005
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Schedule B-2
 Page 1
 Witness: Gutowski

Line No.	(A) Actual End of Test Year	(B) ADJ LIG-1	(C) ADJ TMB-2	(D) ADJ TMB-3	(E) ADJ LIG-4	(F) ADJ LIG-5	(G) Total Pro Forma Adjustments	(H) Adjusted End of Test Year
1	\$ 79,586,201	\$ 2,000,000					\$ 2,000,000	\$ 81,586,201
2								
3								
4								
5		109,589					109,589	109,589
6								
7	7,317,529							7,317,529
8								
9	\$ 72,268,672	\$ 1,890,411	\$ -	\$ -	\$ -	\$ -	\$ 1,890,411	\$ 74,159,083
10								
11								
12								
13								
14	29,385,017					(3,068,719)	(3,068,719)	26,316,298
15	112,890							112,890
16	11,189,862			(6,713,917)			(6,713,917)	4,475,945
17	645,255						(161,314)	483,942
18	2,880							2,880
19	(284,160)							(284,160)
20	11,546							11,546
21								
22								
23								
24								
25								
26	60,874							60,874
27								
28	Total							
29	\$ 31,268,256	\$ 1,890,411	\$ 161,314	\$ 6,713,917	\$ -	\$ 3,068,719	\$ 11,834,360	\$ 43,100,616
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42								
43	Supporting Schedules:							
44	E-1							
45	Workpapers:							
46	Work Papers/Rate Based/Regulatory AIAC and CIAC.xsl							
47								
48								
49								
50	Schedules/06.sld (ing schd Anthem Water.xsl)							

Recap Schedules:
 B-1

Line
No.

1	<u>Major Refund of Advance to Del Webb/Pulte for 2005:</u>	
2		
3	The agreement with Del Webb/Pulte requires that refunds be made based on	
4	the number of ERU's connected as of the end of the year.	
5		
6	Based on the number of ERU's at the end of 2005, Arizona-American's portion	
7	of the refund due to Del Webb/Pulte is	
8		
9	Pro forma Refund of Advance for 2005	\$3,068,719
10		
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45	Workpapers:	
46		
47		
48		
49		
50	\\Schedules\06 std flng schd Anthem Water.xls	

Line

No.

1 Major Refund of Advance to Del Webb/Pulte for 2005:
2
3 The agreement with Del Webb/Pulte requires that refunds be made based on
4 the number of ERU's connected as of the end of the year.
5
6 Based on the number of ERU's at the end of 2005, Arizona-American's portion
7 of the refund due to Del Webb/Pulte is
8
9 Pro forma Refund of Advance for 2005 \$1,315,165

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Workpapers:

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\\Schedules\06 std flng schd Anthem AF Wastewater.xls\

Sunrise Water Co.
 Test Year Ended December 31, 2007
 Income Tax Pro Forma for S-Corp
 Using Shareholder Tax Rate (Married Filing Jointly)

Exhibit: RLJ-RJ3
 Witness: Jones

Line No.		Tax on Shareholder Wages on Standalone Basis	Test Year Adjusted Results	Adjusted with Rate Increase
1	<u>Calculation of Income Taxes at Proposed Rates</u>			
2				
3	<u>Arizona Taxes</u>			
4	Sunrise Net Income		\$ (32,387)	\$ 180,250
5	Shareholder Wages	68,913		68,913
6	Arizona Income	68,913		249,164
7	Arizona Standard Deduction	(9,042)		(9,042)
8	Arizona Personal Exemption	(4,200)		(4,200)
9	Arizona Taxable Income	55,671		235,922
10	ARIZONA INCOME TAXES:			
11	2.59% BRACKET UP TO 20,000	518		518
12	2.88% BRACKET UP TO 50,000	864		864
13	3.36% BRACKET UP TO 100,000	191		1,680
14	4.24% BRACKET UP TO 300,000	-		5,763
15	4.54% BRACKET OVER 300,001	-		-
16	Arizona Income Tax	\$ 1,573		\$ 8,825
17	Incremental Arizona Income Tax Attributal to Sunrise			\$ 7,253
18				
19				
20	<u>Federal Taxes</u>			
21	Sunrise Net Income		\$ (32,387)	\$ 180,250
22	Shareholder Wages	\$ 68,913		\$ 68,913
23	Federal Adjusted Gross Income	\$ 68,913		\$ 249,164
24	Greater of Standard Deduction or Arizona Tax	(10,900)		(10,900)
25	Federal Exemption	\$ (7,000)		(7,000)
26	Federal Taxable Income	\$ 51,013		\$ 231,264
27				
28	FEDERAL INCOME TAXES:			
29	10% BRACKET UP TO 16,050	1,605		1,605
30	15% BRACKET UP TO 65,100	5,245		7,358
31	25% BRACKET UP TO 131,450	-		16,588
32	28% BRACKET UP TO 200,300	-		19,278
33	33% BRACKET UP TO 357,700	-		10,218
34	35% BRACKET OVER 357,701	-		-
35	Federal Income Taxes:	\$ 6,850		\$ 55,046
36	Incremental Federal Income Tax Attributable to Sunrise			\$ 48,196
37				
38				
39				
40	Total Incremental Income Tax Attributal to Sunrise			\$ 55,449
41	Overall Effective Tax Rate			30.7622%
42				
43	Test Year Income Taxes, Per Books			
44	Increase in Income Taxes			
45	Adjustment to Revenues and/or Expense			
46	Test Year Income Taxes, Adjusted		\$ -	
47	Increase in Income Taxes			55,449
48	Adjustment to Revenues and/or Expense			\$ 55,449
49				