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AZ CORP COMMISSION
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*ARIZONA WATER COMPANY*

**Docket No. W-01445A-08-0440**

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# 2008 RATE HEARING

**For Test Year Ending 12/31/07**

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**PREPARED**

**REBUTTAL TESTIMONY & EXHIBITS**

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Arizona Corporation Commission
DOCKETED

JUL 10 2009

DOCKETED BY

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Attorneys for Arizona Water Company

**BEFORE THE ARIZONA CORPORATION COMMISSION**

| | |
|---|---|
| IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY, AND FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE AND FOR CERTAIN RELATED APPROVALS BASED THEREON | DOCKET NO. W-01445A-08-0440<br><br>**NOTICE OF FILING REBUTTAL TESTIMONY** |

Applicant, Arizona Water Company, hereby files the Rebuttal Testimony of William M. Garfield, Fredrick K. Schneider, Joseph D. Harris, Joel M. Reiker and Thomas M. Zepp in the above-captioned docket.

DATED this 10TH day of July, 2009.

ARIZONA WATER COMPANY

By: Robert W. Geake

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An original and thirteen (13) copies of the foregoing were delivered this 10th day of July, 2009 to:

Docketing Supervisor
Docket Control Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

A copy of the foregoing was mailed this 10th day of July, 2009 to:

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*ARIZONA WATER COMPANY*

**Docket No. W-01445A-08-0440**

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# 2008 RATE HEARING

**For Test Year Ending 12/31/07**

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**PREPARED**

**REBUTTAL TESTIMONY & EXHIBITS**

**OF**

**William M. Garfield**

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# *ARIZONA WATER COMPANY*

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**Rebuttal Testimony of**

## William M. Garfield

**I. Introduction and Purpose of Testimony**

**Q. PLEASE STATE YOUR NAME, EMPLOYER AND OCCUPATION?**

A. My name is William M. Garfield. I am employed by Arizona Water Company (the "Company") as President.

**Q. ARE YOU THE SAME WILLIAM M. GARFIELD THAT PREVIOUSLY PROVIDED DIRECT TESTIMONY IN THIS MATTER?**

A. Yes.

**Q. HAVE YOU REVIEWED THE DIRECT TESTIMONY FILED BY THE OTHER PARTIES TO THIS PROCEEDING?**

A. Yes, I have generally reviewed the testimony of each of the witnesses of the Commission's ("Commission") Utilities Division Staff ("Staff"), the Residential Utility Consumer Office ("RUCO"), Abbott Laboratories, Inc. ("Abbott"), and the International Brotherhood of Electrical Workers Local No. 387 ("IBEW").

**Q. WHAT IS THE PURPOSE AND EXTENT OF YOUR TESTIMONY?**

A. The purpose of my rebuttal testimony is to (1) rebut the testimony by Staff and RUCO witnesses on the Company's request for various adjuster mechanisms; (2) respond to the Staff and RUCO recommendations that create additional regulatory risk to the Company; (3) rebut the direct testimony of the IBEW witness.

**II. Staff Rebuttal**

**Q. DO YOU AGREE WITH STAFF THAT THE COMPANY PROVIDED NO JUSTIFICATION TO DEVIATE FROM THE COMMISSION'S FINDINGS**

**CONCERNING ADJUSTOR MECHANISMS IN ITS MOST RECENT RATE CASES?**

A. No, I do not. The Company provided specific reasons and justifications for the continuation, reinstatement or implementation of certain adjuster mechanisms. (*See* Garfield Direct Testimony, pp. 13-26)

**Q. DO YOU AGREE WITH STAFF THAT THE COMPANY FAILED TO DEMONSTRATE ANY EXTRAORDINARY CAUSE, INCLUDING VOLATILITY AND MAGNITUDE OF PURCHASED WATER, PURCHASED POWER OR FUEL COST, IN JUSTIFYING ITS REQUESTED ADJUSTER MECHANISMS OR ATTRITION (ADJUSTMENT) MECHANISM?**

A. No, I do not. First, I do not agree that adjusters can only be considered when extraordinary causes exist or where there is volatility in costs of a significant magnitude for purchased water, fuel or power, or for any other category of cost. Nevertheless, the Company demonstrated that the cost of fuel for the Company's vehicles alone increased approximately $600,000 per year over previous fuel costs based on fuel costs experienced in 2008. Based on the Company's year-end net income for 2008, the change in this one cost category alone would equal over twenty percent (20%) of the Company's net income.

**Q. ARE THE RECENT COMMISSION DECISIONS REFERRED TO BY STAFF CONCERNING ADJUSTER MECHANISMS CONSISTENT WITH OTHER UTILITY COMMISSIONS OR THE NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS ("NARUC")?**

A. No, they are not. For example, the National Regulatory Research Institute ("NRRI"), an effective research arm of NARUC, has recommended that adjustment clauses to recover a single category of cost should be employed as a ratemaking procedure to help mitigate the expenses of infrastructure replacement. (*See* copy of NRRI publication attached as Exhibit WMG-RB1). In addition, NARUC's Board of Directors passed a resolution adopting certain best

practices, which include pass-through adjustments, i.e. adjuster mechanisms such as those proposed by the Company in this matter. (*See* NARUC Committee on Water Sponsored Best Practices approved by the NARUC Board of Directors on July 27, 2005 attached as Exhibit WMG-RB2).

**Q. IF THE COMPANY'S REQUEST TO CONTINUE PPAMs AND PWAMs WAS REJECTED BY THE COMMISSION IN RECENT COMPANY RATE CASES, AS STAFF SUGGESTS, WHY DO YOU BELIEVE THE COMMISSION SHOULD DECIDE DIFFERENTLY IN THE PRESENT CASE?**

A. Staff is correct that the Commission did not approve the continuation of the PPAMs and PWAMs in the Company's most recent rate cases for its Eastern and Western Groups. However, the Commission did agree to continue them in the Company's most recent rate case for its Northern Group. I will also point out, that over the past twenty years, while the PPAMs and PWAMs were in effect, neither Staff nor RUCO presented any evidence that the PPAMs and PWAMs resulted in the Company earning more than its authorized rate of return.

Circumstances have changed, however, since the Commission's most recent decision involving the Company's Western Group. Fuel prices have increased dramatically, and, more importantly, the State of Arizona and the nation have suffered from the effects of a deep and long-lasting recession. As a result, significant budget cuts have been proposed and adopted by the Arizona Legislature that will severely limit the ability of the Commission to process utility applications in a timely manner. Staff requested a 90-day delay in this proceeding based on a lack of Staff resources, which Administrative Law Judge Nodes considered and ultimately granted a 60-day delay. With more budget cuts for the State of Arizona imminent, it is clear that this predicament will only worsen in the next year or two to come.

**Q. WHY ARE THE MATTERS ADDRESSED IN YOUR PREVIOUS ANSWER IMPORTANT IN THIS PROCEEDING?**

A. Because the costs associated with the provision of public utility water service have continued to increase over the years, effectively shifting the cost of service from the Company's ratepayers to the Company's investors. Lacking an effective means to recover these increased costs of providing such public utility service, which is the case with the regulatory framework that currently exists in Arizona, the Company's shareholders are left bearing the burden, and it is more burden that we are compensated for in our equity returns. The effects of this shift in cost-bearing to the Company will continue to discourage investment in needed infrastructure. If there was ever a time to consider addressing in an effective way how to adequately address such increasing costs of service, now is the time.

**Q. DID THE COMPANY PROPOSE AN ALTERNATIVE TO PPAMs, PPAMs AND THE PFAM?**

A. Yes. The Company believed that the Commission's familiarity with these sorts of adjusters, should provide some assurance to Staff and the Commission that these mechanisms can and have worked very well in the past and should be approved. Nevertheless, the Company believes that the Attrition Adjustment Mechanism ("AAM") provides the best solution to the problem at hand. As I discussed in my direct testimony, the AAM addresses the concerns the Commission raised in its most recent disapproval of cost-specific adjuster mechanisms (see Garfield Direct Testimony page 15, lines 10-22). More importantly, however, the AAM provides a solution to the lack of staff resources that confronts the Commission and Staff.

**Q. DOES STAFF RECOGNIZE THAT ITS RESOURCES ARE LIMITED DUE TO STATE BUDGET CUTS?**

A. Although Staff does not specifically mention it in its direct testimony, in a presentation by Steve Olea, Assistant Director of the Utilities Division as part of a

NARUC Conference on May 7, 2009, he addressed and identified the Staff resource shortfall and the backlog of cases currently pending before the Commission. *See* Exhibit WMG-RB3. Mr. Olea's presentation was before additional budget cuts became effective, a worsening predicament, making the importance of, and the need for, such adjusters more critical than ever before.

**Q. HOW IS THE AAM RESPONSIVE TO STAFF'S CONCERNS ABOUT ITS LACK OF AVAILABLE RESOURCES?**

A. First, of course, such an adjuster should reduce the number of rate cases. Second, the AAM can be applied as part of a single annual filing, submitted for the total Company. The cost index would be based on a wide variety of costs, using information provided by the federal government on a monthly basis, and it has been used by a number of states to effectively address rising costs of service. From an administrative perspective, a single Company-wide annual filing is preferred to individual system filings, such as in the case of PPAMs and PWAMs, and presumably PFAMs. At a time when Staff resources are severely limited, the AAM provides a very effective means of addressing cost increases or decreases.

**Q. ARE THERE OTHER ASPECTS OF THE AAM THAT WOULD BE RESPONSIVE TO STAFF'S CONCERNS?**

A. Yes, there are. The AAM can be coupled with an earnings test, similar to the ACRM surcharge. Systems that earn at or above the earnings test would not qualify for an AAM revenue increase. In addition, a broad-based cost index would consider many costs, not one specific cost, and would dampen out single item cost adjustments. Like the ACRM, the AAM can include a requirement to file a rate case within three years of the AAM's adoption. A wide based cost, such as is inherent with an AAM, has an overall effect on earnings much greater than a single item of cost, such as the MAP surcharge, for example. Taken in perspective, the AAM will provide cost recovery on a scale that could affect the

Company's net income by a full one percent if its operating costs increase by as little as three percent.

**Q. DO YOU AGREE WITH MR. PARCELL THAT IT IS NOT NECESSARY FOR THE COMMISSION TO APPROVE THE AAM SINCE THE COMPANY CAN ATTRACT CAPITAL ON REASONABLE TERMS WITHOUT THE AAM?**

A. This is financial theory versus financial reality. This is illustrated by the fact that Mr. Parcell's statement is not supported by any evidence and conflicts with conclusions of Wall Street investment and research firms that evaluate the regulatory climates of the nation's utility commissions. For example, in an article appearing in the November-December 1983 edition of the Financial Analysts Journal, Peter Navarro concludes that regulatory climate unfavorable to investments in utilities reduces the availability of capital to the industry as well as raising its cost. *See* Exhibit WMG-RB4. In Mr. Navarro's article, which reflects his review of bulletins and books published by investment and research firms and based on his discussions with individuals who rank utility commissions, he identifies eight factors that dominate such utility commission rankings. The eight factors are (1) return on common equity; (2) average regulatory lag; (3) whether interim rates may be put into effect before a final rate decision is entered; (4) whether a historical, current, or future test year is used; (5) whether construction work in progress ("CWIP") is allowed in the rate base; (6) whether tax benefits from accelerated depreciation and tax credits are normalized to enhance short-run cash flow for the utility or are flowed through to the ratepayer; and (7) whether any adjustment clauses are in effect; and (8) whether an "original cost" or "fair value" rate base is used. When you consider the overall regulatory climate in Arizona, the lack of adjusters is only one of many factors that do not favor investments in utilities such as the Company, but in fact do discourage investment in utilities.

III. **RUCO Rebuttal**

**Q. DOES RUCO HOLD A SIMILAR OPINION AND MAKE SIMILAR RECOMMENDATIONS CONCERNING ADJUSTERS?**

A. Yes, and they are likewise incorrect about the need for and benefits of such adjusters. As its comments concern the Company's proposed AAM, they are flat-out wrong about the effects of such an adjuster, the broad-based protections that inherently result from such an adjuster, and their conclusions are not supported by any evidence.

**Q. DOES STAFF OR RUCO EXPLAIN HOW, IN LIGHT OF THE SIGNIFICANT BUDGET CUTS FACING STATE AGENCIES, THEY WILL BE ABLE TO PROCESS RATE APPLICATIONS ON A MORE FREQUENT BASIS IF THE COMPANY IS UNSUCCESSFUL IN ACHIEVING A RETURN RESULTING FROM THIS PROCEEDING?**

A. No, they do not. Their lack of any analysis of the impact such delays will have on utilities like the Company shows the regulatory disconnect from the reality of such archaic methods. In addition, I would add that the positions of Staff and RUCO are inconsistent with the NARUC and the NRRI, which have concluded that there are certain best practices that address infrastructure needs of water utilities, i.e. the need to attract capital and utility infrastructure investments. Annual rate applications will only further exacerbate and slow down the regulatory wheels, leading to further delays in applications of all types at the Commission.

IV. **IBEW Rebuttal**

**Q. ON PAGE 5 OF HIS TESTIMONY, MR. JUNAS TESTIFIES THAT THE COMPANY'S CUSTOMER BASE IS IN A SITUATION OF "TREMENDOUS GROWTH." IS THIS A CORRECT STATEMENT?**

A. No, it is not. The Company's customer growth slowed tremendously in 2007, with customer growth actually registering a slight decline in customer base by the

end of 2008. In addition, additional losses in customers have occurred in 2009. At best, I would describe the Company's customer growth in 2008 and 2009 as flat or slightly declining, a reality of stark contrast to the statement of "tremendous growth" referred to in Mr. Junas' direct testimony.

**Q. AT PAGE 8, LINES 3-10, MR. JUNAS TESTIFIES THAT THE COMPANY ANNOUNCED THE 2009 LAYOFF OF EMPLOYEES WITHOUT DISCUSSING IT WITH THE IBEW AND WITHOUT INVOLVING IT. IS THAT WHAT ACTUALLY OCCURRED?**

A. No, it is not. In December 2008, the Company informed all of its employees and the IBEW that it was experiencing a severe financial situation, and that employee layoffs may be necessary. More importantly, the Company discussed the possibility of layoffs with the IBEW in the course of its negotiations in late 2008 concerning the renewal of the collective bargaining agreement ("CBA") for 2009. When the Company proceeded with the layoffs in February 2009, it followed the requirements of the CBA which contains specific procedures for layoffs. Thus, the Company informed the IBEW that layoffs might be needed; it never retreated from that message; and it followed the process required by the CBA in implementing them. The Company provided the IBEW with the layoff list and schedule in advance of the Company's layoffs, and in my discussions with Mr. Junas subsequent to the layoffs, every indication was that the Company adequately and correctly followed the procedures established by agreement in the CBA.

**Q. AT PAGE 8, LINES 17-21 OF HIS TESTIMONY, MR. JUNAS TESTIFIES ABOUT "HEFTY INCREASES" IN THE EMPLOYEE PORTION OF THE COMPANY'S GROUP MEDICAL INSURANCE PROGRAM. DOES THE COMPANY PAY FOR ANY PORTION OF THE INCREASE?**

A. Yes. As explained in Exhibit C to Mr. Junas' testimony, which is a copy of my June 8, 2009 memorandum to all employees concerning premiums for group

medical and dental insurance, the Company pays 100% of the premiums for employees under its group insurance plan and 60% of the cost of premiums for dependant coverage. These insurance premium cost sharing amounts are part of the CBA, which the Company and the IBEW agreed to in the course of negotiations. Thus, instead of paying a "hefty" increase, Company employees, including those in the bargaining unit, do not pay anything for their own personal medical or dental coverage, and only pay 40% percent of the increase in premiums for dependent coverage. The Company picked up 60% of the increase in premiums for dependent coverage.

**Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**

A. Yes.

# National Regulatory Research Institute

## Water and Wastewater Research Agenda

**Revised: May 28, 2008**

### Introduction

This document outlines research needs for water and wastewater issues. This is a dynamic document, continually subject to modification and addition of new projects and proposals. Provide comments and suggestions to the Water Section Chief, David Denig-Chakroff at: ddenig-chakroff@nrri.org or (608) 630-4426.

## Infrastructure Replacement and Asset Management: What Can Regulatory Commissions Do?

### Background

Surveys conducted by the U.S. Environmental Protection Agency (U.S. EPA) suggest that the need for water and wastewater infrastructure improvement and replacement (both privately and publicly owned) over the next 20 years is between $500 billion and $1 trillion. This dollar level reflects a growing need across the Nation to replace water and sewer pipes and other water and wastewater facilities as they approach the end of their useful lives.

The reason for this surge in infrastructure needs stems from the population boom and economic growth at the end of World War II. During those post-war years, there was unprecedented industrial, business, commercial and residential development, along with the water and wastewater infrastructure to support it. That infrastructure is now reaching the age when it is beginning to wear out and needs to be upgraded or replaced. Water and wastewater utilities need to manage those assets actively or risk adverse economic consequences, such as unplanned system failures, increased maintenance costs, and unbudgeted repair and replacement costs. Depending on the length of useful life of various components, the need to replace this infrastructure will continue over the next several decades.

Existing reports and guidance manuals detail how utilities can assess the remaining useful life of their facilities and how they can develop effective asset management plans.[1] These plans generally consist of a complete assessment of utility facilities and assets, including a determination of the condition and remaining useful life of each component of the system, right down to each segment of buried pipe. Components of the system are also rated in terms of criticality for operation of the system. A model is often developed based on asset condition, criticality and other relevant factors to prioritize the infrastructure replacement and improvement needs over time. Costs are then applied to determine reinvestment needs over time.

The goal of these plans is to determine a reinvestment timeline that will allow continued operation of critical infrastructure throughout its useful life, but will ensure replacement before it fails and before maintenance costs increase dramatically. Planners then can prepare infrastructure replacement schedules and budgets that will spread out the costs of improvements over a pre-established planning horizon. This scheduling and budgeting will avoid unplanned maintenance and capital costs to the utility while maintaining efficient operation of the system.

This situation poses several challenges for utilities and regulatory commissions. One challenge is how to finance the necessary infrastructure replacements such that (a) rates increase gradually (as opposed to sudden spikes in rates), while (b) maintaining the utilities' financial stability. A second challenge is ensuring that the large expenditures are made prudently, so as to win and sustain customer trust and political credibility. Adding to the challenge is the absence, for most utilities, of a designated fund available to replace aging infrastructure—an absence attributable to ratemaking practices which have kept depreciation rates low and have disallowed or discouraged rate recovery of contributions in aid of construction.

**Research Needs**

The current research need is to determine optional and optimal roles for state regulatory commissions with regard to water and wastewater infrastructure replacement and asset management. Such research should answer the following questions:

1. How should commissions establish clear expectations for utilities' prudent conduct and implementation of infrastructure replacement and asset management plans? What should those expectations be?

[1] Examples include: (1) U.S. EPA, *Environmental Management Systems and Asset Management: Tools to Reduce Costs, Manage Risk, Improve Performance*, undated publication; (2) U.S. EPA, *Asset Management: A Handbook for Small Water Systems*, Sept. 2003; (3) Matichich, Mike, et al., *Asset Management Planning and Reporting Options for Water Utilities*, AwwaRF project 2848, Winter 2005-2006; (4) Cromwell, John, et. al., *Financial and Economic Optimization of Water Main Replacement Programs*, AwwaRF project 462, Spring 2001.

2. Recognizing the need for both investor-owned and publicly-owned utilities to raise the funds necessary for the increased investment in infrastructure, what financial resources are available to utilities? It does not appear that utilities can rely on federal grants. Some government supported low-interest loan programs (such as the Drinking Water State Revolving Loan Fund program) are an option for some (but not all) utilities. Traditional bond financing is one viable option. Another alternative is revenue-backed financing (RBF).

3. What rate-design options are available? Rate-design options include, without limitation, distribution system investment charges, surcharges for non-revenue producing investment, and single tariff pricing. Research is necessary to assess alternatives in terms of economic efficiency, business practicality, consumer acceptability and other factors.

4. What ratemaking procedures should be employed to help mitigate the expenses of infrastructure replacement? Some examples that should be considered include:
   a. Increased allowable returns on equity.
   b. Prospective-looking rate cases.
   c. Construction work in progress (CWIP)[2] in rate base.
   d. Single-cost rate case for passthrough of a single category of costs.
   e. Adjustment clauses to recover a single category of cost specifically stated on the customer's bill.
   f. Streamlined rate cases.

5. What advance commitments, if any, should regulators or legislators make concerning cost recovery so that investors and bond holders can reduce their risks (thus lowering finance costs), without weakening the accountability necessary to ensure that expenditures are prudent.

**Deliverables**

1. A guide for regulators on the facts and principles underlying effective asset management, including both utility practices and regulatory policy, with specific descriptions of successful programs. The guide will also include a recommended reading list for regulators, including an annotated bibliography of relevant reports, studies and research on the subject.

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[2] CWIP allows certain construction costs for plant not yet in service to be included in rate base. Allowance for Funds Used During Construction (AFUDC) does not provide cash flow to fund a project.

***Resolution Supporting Consideration of Regulatory Policies Deemed as "Best Practices"***

**WHEREAS,** A number of innovative regulatory policies and mechanisms have been implemented by public utility commissions throughout the United States which have contributed to the ability of the water industry to effectively meet water quality and infrastructure challenges; *and*

**WHEREAS,** The capacity of such policies and mechanism to facilitate resolution of these challenges in appropriate circumstances supports identification of such policies and mechanisms as "best practices"; *and*

**WHEREAS,** During a recent educational dialogue, the "2005 NAWC Water Policy Forum," held among representatives from the water industry, State economic regulators, and State and federal drinking water program administrators, participants discussed (consensus was not sought nor determined) and identified over 30 innovative policies and mechanisms that have been summarized in a report of the Forum to be available on the website of the Committee on Water at www.naruc.org; *and*

**WHEREAS,** As public utility commissions continue to grapple with finding solutions to meet the myriad water and wastewater industry challenges, the Committee on Water hereby acknowledges the Forum's *Summary Report* as a starting point in a commission's review of available and proven regulatory mechanisms whenever additional regulatory policies and mechanisms are being considered; *and*

**WHEREAS,** To meet the challenges of the water and wastewater industry which may face a combined capital investment requirement nearing one trillion dollars over a 20-year period, the following policies and mechanisms were identified to help ensure sustainable practices in promoting needed capital investment and cost-effective rates: a) the use of prospectively relevant test years; b) the distribution system improvement charge; c) construction work in progress; d) pass-through adjustments; e) staff-assisted rate cases; f) consolidation to achieve economies of scale; g) acquisition adjustment policies to promote consolidation and elimination of non-viable systems; h) a streamlined rate case process; i) mediation and settlement procedures; j) defined timeframes for rate cases; k) integrated water resource management; l) a fair return on capital investment; *and* m) improved communications with ratepayers and stakeholders; *and*

**WHEREAS,** Due to the massive capital investment required to meet current and future water quality and infrastructure requirements, adequately adjusting allowed equity returns to recognize industry risk in order to provide a fair return on invested capital was recognized as crucial; *and*

**WHEREAS,** In light of the possibility that rate increases necessary to remediate aging infrastructure to comply with increasing water quality standards could aversely affect the affordability of water service to some customers, the following were identified as best practices to address these concerns: a) rate case phase-ins; b) innovative payment arrangements; c) allowing the consolidation of rates ("Single Tariff Pricing") of a multi-divisional water utility to spread capital costs over a larger base of customers; *and* d) targeted customer assistance programs; *and*

**WHEREAS,** Small water company viability issues continue to be a challenge for regulators, drinking water program administrators and the water industry; best practices identified by Forum participants include: a) stakeholder collaboration; b) a memoranda of understanding among relevant

State agencies and health departments; c) condemnation and receivership authority; and d) capacity development planning; *and*

**WHEREAS,** The U.S. Environmental Protection Agency's "Four-Pillar Approach" was discussed as yet another best practice essential for water and wastewater systems to sustain a robust and sustainable infrastructure to comprehensively ensure safe drinking water and clean wastewater, including: a) better management at the local or facility level; b) full-cost pricing; c) water efficiency or water conservation; *and* d) adopting the watershed approach, all of which economic regulators can help promote; *and*

**WHEREAS,** State drinking water program administrators emphasized the following mechanisms which Forum participants identified as best practices: a) active and effective security programs; b) interagency coordination to assist with new water quality regulation development and implementation, such as a memorandum of understanding; c) expanded technical assistance for small water systems; d) data system modernization to improve data reliability; e) effective administration and oversight of the Drinking Water State Revolving Fund to maximize infrastructure remediation, along with permitting investor owned water companies access in all States; f) the move from source water assessment to actual protection; *and* g) providing State drinking water programs with adequate resources to carry out their mandates; *now therefore be it*

**RESOLVED,** That the National Association of Regulatory Utility Commissioners (NARUC), convened in its July 2005 Summer Meetings in Austin, Texas, conceptually supports review and consideration of the innovative regulatory policies and practices identified herein as "best practices;" *and be it further*

**RESOLVED,** That NARUC recommends that economic regulators consider and adopt as many as appropriate of the regulatory mechanisms identified herein as best practices; *and be it further*

**RESOLVED,** That the Committee on Water stands ready to assist economic regulators with implementation of any of the best practices set forth within this Resolution.

---

*Sponsored by the Committee on Water*
*Adopted by the NARUC Board of Directors July 27, 2005*

WMG-RB3

# Arizona Corporation Commission

## Hot Topics

**resentation to NARUC**
**mittee on Accounting and Finance**
**May 7, 2009**

# Topic Areas

- Agency
- Cases / Issues
- Conservation
- Siting

# Overview

- Established by Constitution
  - Article 15 of the Arizona Constitution
- 5 Statewide Elected Commissioners
  - Beginning 2003
- 8 Divisions
  - Administration
  - Hearing
  - Corporations
  - Securities
  - Railroad / Pipeline Safety
  - Legal
  - Information Technology
  - Utilities

# Jurisdiction

- Investor-owned electric, gas, water and sewer utilities (Public Service Corporations)
- Rural Electric Cooperatives
- Water Associations
- Intrastate Natural Gas Pipelines
- Municipal gas utilities
- Telephone (Local Exchange and Resold Long Distance)

# Utilities Division Issues

- Budget
  - In Flux
- Staffing / Retirements
  - 72 Approved positions
  - 14 Vacant positions
- Succession Planning
  - Unable to Fill

# Electric

- Rate Cases
  - Arizona Public Service
  - Sulphur Springs Valley Electric Coop
  - Trico Electric Cooperative
- Issues
  - Renewable Energy Standards
  - Energy Efficiency
    - Investigation of Regulatory & Rate Incentives
  - Time of Use Rates
  - Resource Planning
  - Electric Competition
  - ARRA Money
- Rulemakings
  - Demand Side Management
  - Interconnection
  - Net Metering – effective May 23, 2009

# Gas

- Rate Cases
  - UNS Gas
- Issues
  - Rate Incentives
  - Alternative Form of Regulation
- Rulemakings
  - Demand Side Management

# Water

- Rate Cases
  - Chaparral City Water
  - H2O
  - Johnson Utilities
  - Arizona Water – 20 systems
  - Arizona-American Water – 10 systems
  - Global Water – 6 systems
  - Litchfield Park
  - 31 other pending
    - Wilhoit Water Company, ICR Water Users Association, Diablo Village Water, Fisher's Landing Water & Sewer, Tonto Village Water, Utility Systems, Christopher Creek Haven, Ehrenberg Improvement Association, Appaloosa Water, DS Water, Montezuma Rimrock Water, Pineview Water, Beaver Dam Water, Sunrise Water, Far West Water & Sewer, Orange Grove Water, Walnut Creek Water, Farmers Water, Ash Fork Development Association, Valley Utilities Water, Community Water of Green Valley, Wilhoit Water, Black Mountain Sewer, West Village Water, Q Mountain Water
- CC&N's
  - 49 – Water/Sewer Certificates (New / Extensions) pending
- Rulemaking
  - Water and Sewer CCN's

# Telecom

- Rate Cases
  - Qwest AFOR
- Issues
  - Triennial Review Remand Order
- Generic Dockets
  - Preferred Provider Agreements
  - VNXX
  - Arizona Universal Service Fund / Access Reform
- Federal Issues
  - Intercarrier Compensation
  - Net Neutrality
  - Telecom Mergers

# Conservation

- Electric & Gas
  - DSM
  - Energy Efficiency
- Water
  - Tiered Rates
  - Best Management Practices
    - Arizona Department of Water Resources

# Power Line & Generation Plant Siting

- 144 – UNS Electric: Vail to Valencia 115kV - 138kV upgrade
- 143 – APS: Bagdad 115kV transmission line relocation project
- 142 – Southwest Transmission Cooperative: San Manuel interconnect project
- Renewables
- FERC Backstop Authority

# Questions?

# Contact Information

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WMG-RB4

by Peter Navarro

# How Wall Street Ranks the Public Utility Commissions

Of the eight criteria Wall Street firms claim to use to measure the regulatory climate for public utilities, only two—the allowed rate of return on equity and the inclusion of construction work in progress in the rate base—are statistically significant. The higher the allowed return on equity, the higher the utility's realized return, hence the higher the value of its stock. It is thus not surprising that public utility commissions are perceived as more favorable, the higher the rate of return on equity they allow.

Use of the construction work in progress method of accounting allows the utility to earn an immediate return on its investment. Under the alternative approach to accounting for construction, the utility accrues an allowance during the construction period that can be earned only when the plant becomes operational. The construction work in progress method improves the utility's cash flow over the short term—a result investors obviously view with favor.

A REGULATORY CLIMATE unfavorable to investment in electric utilities not only reduces the availability of capital to the industry, but also raises its cost.[1] The increase in the cost of capital translates directly into rate increases for utility users. Furthermore, the reduced availability of capital may force an electric utility to forego cost-saving investments in new plants to meet load growth, in the conversion of existing oil plants to coal, and in energy conservation. Thus consumers may end up paying higher rates for less reliable service, and the nation may miss an opportunity to reduce oil imports.[2] Similarly, other regulated industries, such as telecommunications, may reduce their rate of technological innovation as a result of higher capital costs, indirectly raising rates to consumers and reducing the nation's productivity.

Regulatory climate, then, is of importance to consumers and policymakers as well as to public utility commissions (PUCs), regulated industries and the financial community. This article discusses how Wall Street investment firms measure regulatory climate and which factors dominate their rankings.

## Favorable vs. Unfavorable Regulation

More than 20 Wall Street investment and research firms rank the state PUCs that regulate virtually all the nation's public utilities. Although their scales vary, the basic goal is the same—to separate the very favorable and favorable commissions from the unfavorable ones.[3]

Based on a review of bulletins and books published by these firms and on discussions with individuals who rank PUCs, I have identified eight factors that Wall Street uses to determine regulatory rank:

(1) the return on common equity (ROE) allowed by the PUC;
(2) average regulatory lag (i.e., the time it takes for a PUC to process a rate case);
(3) whether interim rates are put into effect

1. Footnotes appear at end of article.

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before a final rate decision is made;

(4) whether a historical, current or future test year is used;

(5) whether construction work in progress (CWIP) is allowed in the rate base or, alternatively, whether an allowance for funds used during construction (AFUDC) is computed;

(6) whether the tax benefits from accelerated depreciation and investment tax credits are "normalized" to enhance short-run cash flow for the utility or are "flowed through" to the rate payer;

(7) whether any automatic adjustment clauses are in effect (e.g., a fuel adjustment clause); and

(8) whether an "original cost" or "fair value" rate base is used.

The relevance of these factors is fairly straightforward. The higher the allowed rate of return on equity, the higher the utility's realized earnings, hence the higher the value of the utility's stock. In contrast, lengthy regulatory lag means the utility cannot realize the returns allowed it because inflation erodes some of the real earnings; the value of the utility's stock falls accordingly. Interim rate relief, the use of a future test year, the inclusion of automatic adjustment clauses and use of a fair value rate base lessen earnings attrition due to regulatory lag.

Use of the construction work in progress (CWIP) method of accounting allows the utility to earn an immediate return on its investment. Under the allowance for funds used during construction (AFUDC) method, the utility accrues an allowance during the construction period that can be earned only when the plant is operational. With construction work in progress soaring from less than 5 per cent of total assets in 1965 to more than 40 per cent today, this difference is increasingly important to investors. Although CWIP and AFUDC are supposed to be equivalent on a net present value basis, investors prefer CWIP because it improves the utility's cash flow in the short term; they perceive the "paper earnings" of AFUDC as riskier. The normalization of tax benefits is also attractive to investors because it increases the utility's cash flow during the early years of an investment.[4]

A favorably ranked regulatory policy, then, is likely to be characterized by a relatively high allowed rate of return on equity, minimal regulatory lag, interim rate relief, use of the future test year, CWIP in the rate base, normalized accounting, an automatic fuel adjustment clause and a fair value rate base. An unfavorable regulatory climate might be characterized by lower allowed rates of return, lengthy regulatory lag, no interim rate relief, the use of a historical test year, AFUDC treatment of construction expenditures, flow-through accounting, a partially automatic fuel adjustment clause that flows through only a small percentage of fuel expenses to ratepayers and an original cost rate base.

## The Regulatory Climate Model

How much influence does each of these eight factors have in determining the regulatory ranking a PUC receives? By using the average value of each factor to create an "average PUC" and then changing one factor at a time, we can easily see whether it affects the ranking and by how much. Suppose, for example, that an otherwise average PUC increases its allowed rate of return by 15 per cent. If Wall Street does indeed value a higher allowed ROE, the probability of this PUC receiving an unfavorable ranking should now decrease and the probability of its receiving a favorable ranking should increase.

Table I shows the results of this average PUC analysis. (The model, specification of variables and the logit procedure used are discussed in the appendix.[5]) The predictive powers of all the factors are strong. However, *only* the allowed rate of return and the inclusion of CWIP appear to be statistically significant. Table II shows the results of a revised model that employs only ROE and CWIP. The results are conclusive: A 15 per cent increase above the sample mean for the allowed ROE increases the probability that Wall Street will assign the PUC a very favorable rank by 11 points and reduces the probability of an unfavorable rank by 12 points. Reducing the allowed ROE by 15 per cent has the opposite effect: The probability of a very favorable rank falls by 7 points and the probability of an unfavorable rank rises 22 points.

The effects of changing CWIP are even more dramatic.[6] Including 100 per cent CWIP in the rate base of an otherwise average PUC increases the probability of a favorable ranking by 20 points and reduces the probability of an unfavorable ranking by 16 points. With no CWIP in the rate base, the probability that the average PUC will be ranked favorably drops by 9 points, whereas the probability that it will be ranked unfavorably jumps by 25 points.

**Table I** Determinants of Regulatory Climate

| | The Full Model* | | | | The Revised Model** | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Variable* | *Coefficient* | *Standard Error* | *T-Statistic* | | *Variable* | *Coefficient* | *Standard Error* | *T-Statistic* |
| *Normalization* | ACOUNT1 | 14.88 | 481.0 | 0.3093E-01 | *Rate of Return* | ALLROE1 | 0.6756 | 0.2870 | 2.354 |
| | ACOUNT2 | −0.8380 | 0.9651 | −0.8683 | | ALLROE2 | 0.4331 | 0.2089 | 2.073 |
| *Rate-of-Return* | ALLROE1 | 0.5727 | 0.3507 | 1.633 | *CWIP* | CWIP1 | 4.084 | 1.0034 | 4.072 |
| | ALLROE2 | 0.4965 | 0.2440 | 2.035 | | CWIP2 | 2.455 | 0.8084 | 3.037 |
| *CWIP* | CWIP1 | 3.937 | 1.090 | 3.611 | *Constant* | C1 | −11.93 | 4.265 | −2.798 |
| | CWIP2 | 2.377 | 0.8589 | 2.767 | | C2 | −6.213 | 2.967 | −2.094 |
| *Fuel Cost Pass-Through* | FAC1 | 0.6195 | 0.9679 | 0.6400 | | | | | |
| | FAC2 | −0.7899E01 | 0.7203 | −0.1097 | | | | | |
| *Interim Rates* | INTRLF1 | 0.3810 | 0.9858 | 0.3865 | | | | | |
| | INTRLF2 | −0.4233 | 0.6253 | −0.6771 | | | | | |
| *Regulatory Lag* | LAG1 | 0.2239E-01 | 0.1515 | 0.1478 | | | | | |
| | LAG2 | −0.1205E-01 | 0.8027E-01 | −0.1502 | | | | | |
| *Rate Base* | RTEBSE1 | 1.849 | 1.425 | 1.297 | | | | | |
| | RTEBSE2 | 0.6652 | 1.285 | 0.5177 | | | | | |
| *Test Year* | TESTYR1 | 0.8790 | 0.8978 | 0.9790 | | | | | |
| | TESTYR2 | 0.9363 | 0.6423 | 1.458 | | | | | |
| *Constant* | C1 | −26.40 | 481.1 | −0.5488E-01 | | | | | |
| | C2 | −6.335 | 3.735 | −1.696 | | | | | |

* *Goodness-of-fit Statistics:*
Likelihood Ratio Index: 0.3302
Likelihood Ratio Statistic: 69.64
Percentage correctly predicted at convergence: 0.65

** *Goodness-of-fit Statistics*
Likelihood Ratio Index: 0.2597
Likelihood Ratio Statistic: 54.77
Percentage correctly predicted at convergence: 0.56

**Table II** Results of the Average Commission Analysis

| | $P_1$ = *Predicted Probability of a Very Favorable Ranking* | $P_2$ = *Predicted Probability of a Favorable Ranking* | $P_3$ = *Predicted Probability of an Unfavorable Ranking* |
|---|---|---|---|
| *Average Commission* | 0.14 | 0.65 | 0.21 |
| *Policies expected to improve regulatory ranking* | | | |
| Higher allowed rate of return (+15%) | 0.25 | 0.67 | 0.09 |
| CWIP in rate base | 0.34 | 0.61 | 0.05 |
| *Policies expected to worsen regulatory ranking* | | | |
| Lower allowed rate of return (−15%) | 0.07 | 0.51 | 0.43 |
| No CWIP in Rate Base | 0.05 | 0.49 | 0.46 |

## Policy Implications

Unfortunately, the two factors most important to investors' perception of the regulatory climate are the most susceptible to public scrutiny. The media seldom let an increase in allowed ROE slip by unnoticed. Perhaps even more controversial is the allowance of CWIP. Indeed, the political fortunes of some elected officials, such as former Governor Meldrim Thompson of New Hampshire, have suffered because of their endorsement of CWIP.

PUC commissioners would undoubtedly prefer less controversial policy reforms. Nevertheless, the evidence indicates that PUCs must increase the allowed ROE and/or allow CWIP in the rate base or their utilities will suffer an increased cost and scarcity of capital for which utilities and, ultimately, consumers will have to pay. ■

## Footnotes

1. See, for example, G.E. Pinches, J.C. Singleton and A. Jahankhani, "Fixed Coverage as a Determinant of Electric Utility Bond Ratings" (Financial Management Association, 1978); R.R. Trout, "The Regulatory Factor and Electric Utility Common Stock Investment Values," *Public Utilities Fortnightly*, November 22, 1979; and S.H. Archer, "The Regulatory Effects of Cost of Capital in Electric Utilities," *Public Utilities Fortnightly*, February 26, 1981.
2. This indirect penalty is discussed in P. Navarro, "Our Stake in the Electric Utilities Dilemma," *Harvard Business Review*, May-June 1982. It has also been measured for six utilities in a report for the Department of Energy: P. Navarro, "How Much Does the Consumer Pay for Lower Electric Utility Rates?" (Office of Policy and Planning, January 1983).
3. See, for example, the quarterly public utility regulation reports of Salomon Brothers Inc, Merrill Lynch, Duff and Phelps, Goldman Sachs, or Value Line. My thanks to Mark Luftig of Salomon Brothers, Ernest Liu of Goldman Sachs, Leonard Hyman of Merrill Lynch, and Bernhard Fleming of Duff and Phelps for many useful discussions as well as cooperation with data.
4. While President Reagan has made this normalization versus flow-through debate a moot point by mandating in the *Economic Recovery Tax Act of 1981* that all public utility commissions adopt normalization accounting if they want their utilities to be eligible for federal tax benefits, this legislation was not enacted until 1982. Because I am using 1978 and 1981 data, it is included here as a tested variable.
5. The interested reader may refer to P. Navarro, "The Determination of Regulatory Rank: A Revealed Preference Analysis" (Harvard University, Energy and Environmental Policy Center, 1983).
6. The average commission analysis was also performed with the value for CWIP set to 0.5 rather than to the sample mean. The results were very similar.

## Appendix

### The Model

The model used to test the revealed preferences of Wall Street is:

REGCLIM = f(ALLROE, LAG, CWIP, ACOUNT, INTRLF, TESTYR, FAC, RTEBASE),

where:

ALLROE = the allowed rate of return,
LAG = regulatory lag in months,
CWIP = an indicator variable equal to one if CWIP is allowed in the rate base and zero if AFUDC is computed,
ACOUNT = an indicator variable equal to one if normalization is the accounting convention and zero if the convention is flow-through,
INTRLF = an indicator variable equal to one if interim rates are allowed and zero otherwise,
TESTYR = an indicator variable equal to one if a future or current test year is allowed and zero otherwise (e.g., an historical test year),
FAC = an indicator variable equal to one if fuel costs are automatically passed through and zero otherwise, and
RTEBSE = an indicator variable equal to one for a fair value rate base and zero for an original cost rate base.

The dependent variable, REGCLIM (regulatory climate), is a composite based on the rankings of five firms—Salomon Brothers Inc, Goldman Sachs, Value Line, Duff and Phelps, and Merrill Lynch. When it equals one, the regulatory climate is considered to be very favorable; when it is two, it is favorable; and when it is three, the climate is unfavorable.

### Method of Estimation

Because the dependent variable was divided into three categories, I used multinomial logit estimation (which is similar to regression analysis) to examine the preferences of Wall Street. This procedure specified the probability that a PUC will be ranked in each of three categories as:

$$P_{ji} = \frac{e^{x_i' B^j}}{\sum_{j=1}^{3} e^{x_i' B^j}}, \quad j = 1,2,3,$$

where:

i = the number of PUCS,
j = the number of ranks,
$P_{ji}$ = the probability that rank j will be chosen for the ith PUC
x = a vector of individual characteristics postulated to be of importance in regulatory ranking, and
$B^j$ = a vector of parameters satisfying the restriction $B^j = 0$.

Table I presents the logit coefficients, and Table II presents the results of the average PUC analysis.

### The Data

The data were pooled from 1978 and 1981 data collected on the characteristics of state PUCs in 47 states and the District of Columbia. Estimates made using individual rankings were sufficiently similar to warrant reporting just the composite.

Table I presents logit coefficients, asymptotic standard errors and asymptotic T-statistics along with several "goodness of fit" measures for a full and a nested model. The percentage of correct predictions for maximum likelihood coefficients is 65 per cent for the full model and 56 per cent for the nested model. Only the variables ALLROE and CWIP appear to be statistically significant, so all other variables were deleted to arrive at the nested model. The coefficients of CWIP and ALLROE are both generally significant in either model; in the nested model, they are very robust.

*ARIZONA WATER COMPANY*

**Docket No. W-01445A-08-0440**

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# 2008 RATE HEARING

**For Test Year Ending 12/31/07**

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**PREPARED**

**REBUTTAL TESTIMONY & EXHIBITS**

**OF**

**Joseph D. Harris**

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# *ARIZONA WATER COMPANY*

**Rebuttal Testimony of**

## Joseph D. Harris

**I. Introduction and Purpose of Testimony**

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

A. My name is Joseph D. Harris. I am employed by Arizona Water Company (the "Company") as Vice President and Treasurer.

**Q. ARE YOU THE SAME JOSEPH D. HARRIS THAT PREVIOUSLY PROVIDED DIRECT TESTIMONY IN THIS MATTER?**

A. Yes.

**Q. HAVE YOU REVIEWED THE DIRECT TESTIMONY FILED BY THE OTHER PARTIES TO THIS PROCEEDING?**

A. Yes, I have generally reviewed the testimony of each of the witnesses of the Commission's ("Commission") Utilities Division Staff ("Staff"), the Residential Utility Consumer Office ("RUCO"), and Abbott Laboratories, Inc. .

**Q. WHAT IS THE PURPOSE AND EXTENT OF YOUR TESTIMONY?**

A. The purpose of my rebuttal testimony is to respond to the direct testimony of Staff witness Katrin Stukov and reiterate the Company's recommendation that the Arsenic Cost Recovery Surcharge ("ACRM") and Monitoring Assistance Program ("MAP") surcharges be continued.

**Q. HOW IS YOUR TESTIMONY ORGANIZED?**

A. My testimony is presented in three sections including the introductory section I. In section II I present the Company's response to Staff witness Stukov specifically related to the economic barriers the Company faces in meeting Staff's water loss targets in certain of the Company's water systems. In section III I advocate the retention of the ACRM and MAP surcharge mechanisms.

**Q. ARE YOU SPONSORING ANY EXHIBITS WITH YOUR REBUTTAL TESTIMONY?**

A. Yes, I am sponsoring JDH – RB1 which, based on Mr. Schneider's testimony, calculates the investment in replacement water mains and the revenue requirement necessary to meet Staff's targeted water loss.

**II. <u>Lost and Unaccounted for Water</u>**

**Q. HAVE YOU REVIEWED THE LOST AND UNACCOUNTED FOR WATER SUMMARY FOR THE WATER SYSTEMS THAT STAFF LISTED AS BEING OVER 10 PERCENT AND STAFF'S RECOMMENDATION FOR THOSE SYSTEMS?**

A. Yes, I have.

**Q. CAN YOU EXPLAIN THE ECONOMIC BARRIERS THAT WOULD PROHIBIT THE COMPANY FROM REDUCING WATER LOSS TO 10% OR LESS BY THE END OF 2010?**

A. Yes, as Mr. Schneider discusses in his rebuttal testimony (pages 15-21) while the Company maintains an aggressive leak detection program the long-term solution for many of these systems is the replacement of distribution mains. The quantity of mains that would need to be replaced varies by system, but the total cost to achieve Staff's targeted water loss would be nearly $35,000,000 as detailed on page 1, line 62 of Exhibit JDH – RB1.

**Q. HOW DOES THIS AMOUNT OF INVESTMENT COMPARE TO THE COMPANY'S TYPICAL CAPITAL BUDGET?**

A. Because of its deteriorating earnings, soaring debt and interest expense the Company's 2009 capital budget was slashed to $5,000,000. At this level of capital investment the Company would need seven years of devoting its entire capital budget to this problem in order to achieve the level of investment required. This is neither practical nor possible given the other ongoing capital investment needs of the Company.

**Q. WON'T NEW RATES RECOMMENDED BY THE COMPANY GENERATE ENOUGH EARNINGS TO ADDRESS THESE ISSUES?**

A. No. The rate setting process in Arizona is backward looking and makes no provision for future investment. Therefore, the current rate case would only provide earnings sufficient to support the level of investment the Company had in 2007, nearly two years ago. In the current rate setting environment the Company would make its investment in replacement water mains of nearly $35,000,000 and wait nearly two years until recovery is granted in a new rate case at an earnings loss of nearly $6,000,000 per year as shown on page 2, line 15 of Exhibit JDH-RB1. At best Staff's water loss requirement would be detrimental in the extreme to the Company's financial health; at its worst it is an unfunded mandate comparable to the arsenic mandates imposed by the Federal government.

**Q. IS ARIZONA UNIQUE IN FACING THE CHALLENGES OF INFRASTRUCTURE REPLACEMENT?**

A. No, in fact, in its study "The Clean Water and Drinking Water Infrastructure Gap Analysis", the Environmental Protection Agency ("EPA") highlights the aging infrastructure issue and estimates that nationwide between $52 and $249 billion will need to be spent on pipe replacement in the next 20 – 30 years[1]. Arizona, while a relatively new state, faces these same kinds of issues as age of pipe is just one factor in determining its useful life as Mr. Schneider explains in his rebuttal testimony.

**Q. HAVE OTHER STATES RECOGNIZED THIS PROBLEM AND DEVELOPED REGULATORY MECHANISMS TO AVERT THIS CRISIS?**

A. Yes, eight states; Pennsylvania, Delaware, Indiana, New York, Illinois, Missouri, Ohio and Connecticut have adopted a regulatory mechanism that allows utilities

[1] See Environmental Protection Agency, "The Clean Water and Drinking Water Infrastructure Gap Analysis" pages 32 – 35, *www.epa.gov/ogwdw000/gapreport.pdf*

to recover the return on, and the return of, the capital costs needed to replace water infrastructure on a periodic basis without filing a full rate case. These mechanisms, typically called Distribution System Improvement Charge or "DSIC", allow these states to proactively deal with the problem of aging infrastructure.

**Q. HOW DOES THIS TYPE OF MECHANISM WORK?**

A. A utility submits an annual filing to its regulatory commission detailing the amount of qualified non-revenue producing infrastructure constructed along with the schedules that calculate depreciation expense and the amount of pre-tax return necessary to support this investment and showing the calculation of the infrastructure surcharge.

**Q. HAS ANY TYPE OF SURCHARGE LIKE THIS EVER BEEN APPROVED IN ARIZONA?**

A. Yes, the ACRM is a surcharge mechanism that is very much like the DSIC surcharge approved in other states. The ACRM was a joint effort between the Company, Staff and RUCO. It was developed during the course of the Company's Northern Group rate case, Docket W-01445A-00-0962 as a response to the staggering investment requirements, some $34,000,000, of complying with the EPA's reduced maximum contaminant levels for arsenic. The Company believes the ACRM has worked well, and has balanced the utility's need to handle this unprecedented level of investment with the need to mitigate its impact on customers.

**Q. IF THE COMMISSION ADOPTS STAFF'S RECOMMENDATIONS IN REGARDS TO WATER LOSS SHOULD IT ALSO INCLUDE A FUNDING MECHANISM TO ADDRESS THESE ISSUES?**

A. Yes. Adoption of Staff's recommendations without providing a funding mechanism would not only cause serious harm to the Company's financial health but would also require an unfunded regulatory requirement comparable in scale and impact to the EPA's lowering of the maximum arsenic contaminant.

III. **ACRM and MAP Surcharges**

**Q. ARE THERE ISSUES WHICH THE COMPANY RAISED IN ITS DIRECT TESTIMONY WHICH HAVE NOT BEEN ADDRESSED IN THE TESTIMONY OF THE OTHER PARTIES?**

A. Yes, there are two issues the Company raised in its direct testimony which have not been addressed. They are: 1) continuation of the ACRM and 2) continuation of the MAP surcharge.

**Q. WHY IS IT IMPORTANT TO CONTINUE THE ACRM?**

A. As discussed in my direct testimony the Company has several arsenic treatment plants either under contract for construction or in the design phase. The estimated cost of these facilities is approximately $5,000,000 and without the type of immediate relief allowed under the ACRM the Company's precarious financial condition will continue to deteriorate. Additionally, the Company has ACRM surcharges in place that were designed to allow it to recover over $150,000 of previously deferred allowable O&M costs. It is likely that full recovery will not be possible before new rates are approved. For these reasons the Company recommends that the ACRM process be continued.

**Q. WHAT ABOUT THE MAP SURCHARGE?**

A. As outlined in Mr. Reiker's direct testimony urging the retention of the MAP surcharge, this approach brings transparency to the process by informing customers that participation in MAP testing is required by the Arizona Department of Environmental Quality. Additionally, the process allows cost reductions to be passed on to customers or for the MAP Surcharge to be eliminated entirely if population growth ends a system's requirement to participate in MAP.

**Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**

A. Yes.

Arizona Water Company
Test Year Ended December 31, 2007
Revenue Requirement on Main Replacements



| Line No. | (A) | (B) | (C) | (D) | (E) |
|---|---|---|---|---|---|
| 1 | PLANT IN SERVICE - MAINS (LF) | | | | |
| 2 | Diameter (in inches) | Total | Bisbee | Pinewood | Rimrock |
| 3 | | | | | |
| 4 | 2 | 132,652.0 | 102,334.0 | 5,555.0 | 24,763.0 |
| 5 | 3 | 21,085.0 | 18,582.0 | 1,153.0 | 1,350.0 |
| 6 | 4 | 191,548.0 | 53,115.0 | 71,040.0 | 67,393.0 |
| 7 | 6 | 254,661.0 | 112,486.0 | 87,487.0 | 54,688.0 |
| 8 | 8 | 34,092.0 | 25,390.0 | 5,064.0 | 3,638.0 |
| 9 | 10 | 29,065.0 | 28,505.0 | 560.0 | - |
| 10 | 12 | 12,517.0 | 12,517.0 | - | - |
| 11 | | | | | |
| 12 | REPLACEMENT COST/LF (Based on Medium Installation Difficulty) | | | | |
| 13 | Diameter | | | | |
| 14 | (in inches) | Total | Bisbee | Pinewood | Rimrock |
| 15 | | | | | |
| 16 | 2 | $ 94.45 | $ 101.31 | $ 71.31 | $ 71.31 |
| 17 | 3 | $ 97.75 | $ 101.31 | $ 71.31 | $ 71.31 |
| 18 | 4 | $ 79.63 | $ 101.31 | $ 71.31 | $ 71.31 |
| 19 | 6 | $ 84.56 | $ 101.31 | $ 71.31 | $ 71.31 |
| 20 | 8 | $ 121.05 | $ 135.09 | $ 80.09 | $ 80.09 |
| 21 | 10 | $ 163.94 | $ 165.00 | $ 110.00 | $ 110.00 |
| 22 | 12 | $ 165.00 | $ 165.00 | $ 111.00 | $ 112.00 |
| 23 | | | | | |
| 24 | TOTAL REPLACEMENT COST (Based on Quantity of Mains and Replacement Cost/LF) | | | | |
| 25 | Diameter | | | | |
| 26 | (in inches) | Total | Bisbee | Pinewood | Rimrock |
| 27 | | | | | |
| 28 | 2 | $ 12,529,435 | $ 10,367,458 | $ 396,127 | $ 1,765,850 |
| 29 | 3 | $ 2,061,031 | $ 1,882,542 | $ 82,220 | $ 96,269 |
| 30 | 4 | $ 15,252,738 | $ 5,381,081 | $ 5,065,862 | $ 4,805,795 |
| 31 | 6 | $ 21,534,456 | $ 11,395,957 | $ 6,238,698 | $ 3,899,801 |
| 32 | 8 | $ 4,126,878 | $ 3,429,935 | $ 405,576 | $ 291,367 |
| 33 | 10 | $ 4,764,925 | $ 4,703,325 | $ 61,600 | $ - |
| 34 | 12 | $ 2,065,305 | $ 2,065,305 | $ - | $ - |
| 35 | | | | | |
| 36 | PERCENTAGE REPLACEMENT NEEDED TO ACHIEVE TARGETED WATER LOSS | | | | |
| 37 | Diameter | | | | |
| 38 | (in inches) | Total | Bisbee | Pinewood | Rimrock |
| 39 | | | | | |
| 40 | 2 | | 60% | 60% | 35% |
| 41 | 3 | | 60% | 60% | 35% |
| 42 | 4 | | 60% | 60% | 35% |
| 43 | 5 | | 60% | 60% | 35% |
| 44 | 6 | | 60% | 60% | 35% |
| 45 | 8 | | 60% | 60% | 35% |
| 46 | 10 | | 60% | 60% | 0% |
| 47 | 12 | | 60% | 0% | 0% |
| 48 | | | | | |
| 49 | TOTAL INVESTMENT NEEDED | | | | |
| 50 | (Based on Replacement Cost and Replacement Percentage) | | | | |
| 51 | Diameter | | | | |
| 52 | (in inches) | Total | Bisbee | Pinewood | Rimrock |
| 53 | | | | | |
| 54 | 2 | $ 7,076,199 | $ 6,220,475 | $ 237,676 | $ 618,048 |
| 55 | 3 | $ 1,212,551 | $ 1,129,525 | $ 49,332 | $ 33,694 |
| 56 | 4 | $ 7,950,194 | $ 3,228,649 | $ 3,039,517 | $ 1,682,028 |
| 57 | 6 | $ 11,945,723 | $ 6,837,574 | $ 3,743,219 | $ 1,364,930 |
| 58 | 8 | $ 2,403,285 | $ 2,057,961 | $ 243,346 | $ 101,978 |
| 59 | 10 | $ 2,858,955 | $ 2,821,995 | $ 36,960 | $ - |
| 60 | 12 | $ 1,239,183 | $ 1,239,183 | $ - | $ - |
| 61 | | | | | |
| 62 | Total Investment | $ 34,686,090 | $ 23,535,362 | $ 7,350,050 | $ 3,800,678 |

Arizona Water Company
Test Year Ended December 31, 2007
Revenue Requirement on Main Replacements



| Line No. | | Total | Bisbee | Pinewood | Rimrock |
|---|---|---|---|---|---|
| 1 | Replacement Mains Plant in Service (pg 1, ln 60) | $ 34,686,090 | $ 23,535,362 | $ 7,350,050 | $ 3,800,678 |
| 2 | Accum Depreciation | - | - | - | - |
| 3 | Replacement Mains Rate Base | $ 34,686,090 | $ 23,535,362 | $ 7,350,050 | $ 3,800,678 |
| 4 | | | | | |
| 5 | Required Rate of Return (Company Proposed) | 9.81% | 9.81% | 9.81% | 9.81% |
| 6 | | | | | |
| 7 | Operating Income Deficiency | $ 3,402,705 | $ 2,308,819 | $ 721,040 | $ 372,847 |
| 8 | | | | | |
| 9 | Gross Conversion Factor | 1.6286 | 1.6286 | 1.6286 | 1.6286 |
| 10 | | | | | |
| 11 | Revenue Required on Replacement Mains | $ 5,541,645 | $ 3,760,143 | $ 1,174,286 | $ 607,219 |
| 12 | | | | | |
| 13 | Depreciation Expense | $ 99,196 | $ 67,307 | $ 21,020 | $ 10,869 |
| 14 | | | | | |
| 15 | Revenue Required for Main Replacements | $ 5,640,841 | $ 3,827,450 | $ 1,195,306 | $ 618,088 |
| 16 | | | | | |
| 17 | Total Revenue at Company Proposed Rates Test Year Ended December 31, 2007 | | | | |
| 18 | Schedule A-1 pg 2, ln 41, col J; pg 7, ln 41, col J; pg 8, ln 41, col B | $ 4,051,142 | $ 2,086,472 | $ 1,183,734 | $ 780,936 |
| 19 | | | | | |
| 20 | Percentage Increase over Company Proposed Rates | 139.2% | 183.4% | 101.0% | 79.1% |

*ARIZONA WATER COMPANY*

**Docket No. W-01445A-08-0440**

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# 2008 RATE HEARING

**For Test Year Ending 12/31/07**

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**PREPARED**

**REBUTTAL TESTIMONY & EXHIBITS**

**OF**

**Joel M. Reiker**

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# ARIZONA WATER COMPANY

## Rebuttal Testimony of
## Joel M. Reiker

I. **Introduction**

**Q. PLEASE STATE YOUR NAME, EMPLOYER, AND TITLE.**

A. My name is Joel M. Reiker. I am employed by Arizona Water Company (the "Company") as Manager of Rates and Regulatory Accounting.

**Q. ARE YOU THE SAME JOEL M. REIKER THAT PREVIOUSLY PROVIDED DIRECT TESTIMONY IN THIS PROCEEDING?**

A. Yes.

**Q. HAVE YOU REVIEWED THE DIRECT TESTIMONY FILED BY THE OTHER PARTIES TO THIS PROCEEDING?**

A. Yes, I have reviewed the testimony of each of the witnesses of the Arizona Corporation Commission's ("Commission") Utilities Division Staff ("Staff"), the Residential Utility Consumer Office ("RUCO"), and Abbott Laboratories, Inc. ("Abbott").

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

A. The purpose of my rebuttal testimony is to respond to the direct testimony of Staff witnesses Brian K. Bozzo and Alexander Ibhade Igwe, RUCO witnesses Timothy J. Coley and William A. Rigsby, and Abbott witness Stephen V. Chasse.

**Q. HOW IS YOUR TESTIMONY ORGANIZED?**

A. My testimony is presented in six sections, including this introductory section I. In section II, I discuss the negative impact on the financial integrity of the Company if the Commission were to adopt the recommendations of either Staff or RUCO in this case. In section III, I present the Company's updated revenue requirement. In Section IV, I address the rate base and respond to Staff witness Bozzo and

RUCO witness Coley. In Section V, I address the income statement and associated adjustments, and respond to Staff witness Igwe and RUCO witness Rigsby. In Section VI, I respond to Abbott witness Chasse and discuss the Company's proposed industrial rate design in the Casa Grande system.

## II. The Negative Financial Impact of Staff's and RUCO's Recommendations

**Q. HAVE YOU ANALYZED THE IMPACT ON THE COMPANY'S FINANCIAL INTEGRITY IF STAFF'S OR RUCO'S RECOMMENDED REVENUE REQUIREMENTS ARE ADOPTED BY THE COMMISSION IN THIS PROCEEDING?**

A. Yes, I have.

**Q. WHAT ARE THE RESULTS OF YOUR ANALYSIS?**

A. The results of my analysis are shown in Schedule JMR RB-1. Columns H and I of Schedule JMR RB-1 illustrate the effect of Staff's and RUCO's recommended revenues on the Company's 2008 operating results. The effect of Staff's and RUCO's recommended level of operating revenues on the Company's overall return on invested capital, return on equity ("ROE"), and pre-tax interest coverage ratio are shown in the following table:

| | STAFF | RUCO |
|---|---|---|
| Return on Average Invested Capital | 4.96% | 4.38% |
| Return on Year-End Capital | 4.81% | 4.25% |
| Return on Average Common Equity | 4.94% | 3.74% |
| Return on Year-End Equity | 4.97% | 3.77% |
| Pre-Tax Interest Coverage | 2.14x | 1.84x |

Most notable in the above table are the 2008 pro forma return on average common equity, return on year-end equity, and pre-tax interest coverage ratios. Assuming the Commission were to adopt Staff's recommendation in this proceeding, which is the more favorable of the two alternatives presented in the

table, the Company's 2008 return on year-end common equity improves by a mere 75 basis points, from 4.22% to 4.97%. RUCO's recommendation paints an even bleaker picture, causing the 2008 return on year-end common equity to *decrease* by 45 basis points from 4.22% to 3.77%. No party to this proceeding would claim that such common equity returns are fair, as long-term investors in the United States Government (a presumably risk-free borrower) can expect to earn returns on the order of 4.50%.[1]

**Q. WHAT DO THE PRE-TAX INTEREST COVERAGE RATIOS SHOWN IN THE ABOVE TABLE AND SCHEDULE JMR RB-1 TELL US ABOUT THE COMPANY'S FINANCIAL INTEGRITY?**

A. The interest coverage ratio measures the ability of a company's earnings to meet its fixed obligations (i.e. bond interest payments). Interest coverage is an important determinant of a company's creditworthiness – it plays a role in the ability of a firm to attract capital at reasonable terms. Requirements to maintain a minimum interest coverage ratio are commonly found in the indentures of public utilities, including that of the Company. The following table compares the Company's 2008 pro forma interest coverage ratio to those of the four publicly traded water companies followed by the *Value Line Investment Survey*, and relied on by Staff in its cost of equity analysis:

[1] U.S. Treasury 30-year Constant Maturities as of June 17, 2009.

| Company | Total Interest Coverage[2] |
|---|---|
| American States Water | 3.0x |
| Aqua America | 3.4x |
| California Water | 4.1x |
| Southwest Water | 2.7x |
| Average | 3.3x |
| *Arizona Water – Staff Recommended* | *2.14x* |
| *Arizona Water – RUCO Recommended* | *1.84x* |

As shown in the above table, the 2008 pro forma interest coverage ratios resulting from Staff's and RUCO's proposed level of operating revenues fall below those of the four publicly traded water utilities. As I mentioned above, the interest coverage ratio is one of the financial indicators examined by potential bond purchasers when assessing the creditworthiness of the Company. All other things being equal, a lower interest coverage ratio means the Company will have more difficulty attracting purchasers of prospective bond issues, and even if the Company is able to attract purchasers, those purchasers will demand to be compensated for the increased risk of default by requiring a higher return on their investment. These higher required returns are ultimately passed on to utility customers through an increase in the cost of debt.

**Q. DOESN'T STAFF'S COST OF CAPITAL WITNESS, MR. PARCELL, CLAIM (AT PAGE 31 OF HIS DIRECT TESTIMONY) THAT IF THE COMPANY EARNS HIS COST OF CAPITAL RECOMMENDATION, THE RESULTING INTEREST COVERAGE RATIO WILL FALL WITHIN THE BENCHMARK RANGE FOR A BBB-RATED, OR "INVESTMENT GRADE" UTILITY?**

A. Yes, he does. Mr. Parcell calculates a pretax interest coverage ratio of 3.17 for the Company on Schedule 11 of his testimony. However, as I've discussed above, and as I have shown on Schedule JMR-RB1, assuming Staff's

[2] Total interest coverage from *Value Line*. Data for Southwest Water as of June 2008.

recommended rates had been implemented on January 1, 2008, the Company's actual returns would have fallen far short of his recommendation and the resulting interest coverage ratio would be well below the ratio he calculates. In fact, the 2008 pro forma interest coverage ratios resulting from Staff's and RUCO's recommended levels of revenues are indicative of a BB, or "junk", rated utility, assuming S&P assigns a business risk profile ranking just one notch below the rank Mr. Parcell assumes.

**Q. WHAT CONSEQUENCE DO YOU ANTICIPATE IF THE COMMISSION ADOPTS EITHER STAFF'S OR RUCO'S RECOMMENDED LEVEL OF REVENUES?**

A. If either Staff's or RUCO's recommendations are adopted in this proceeding the Company would very likely immediately need to file another rate case for most, if not all, of its water systems. There are a number of factors that will determine whether the Company files a new rate case at the close of this proceeding, including a marked reduction in customer usage from adjusted test year levels, a continued increase in the level of company-funded net utility plant required to serve customers, and further increases in operating expenses.

**Q. WILL THE COMPANY BE ABLE TO ISSUE LONG-TERM DEBT?**

A. It is very unlikely the Company would be able to issue any additional long-term debt. The financial covenants contained in the Company's indenture prevent it from issuing long-term debt at this time. Considering the effect of Staff's recommended level of operating revenues on the Company's pro forma 2008 operating results and further reductions in usage and increases in operating expenses in 2009, the Company would not likely be able to issue any additional long-term debt.

**Q. PLEASE BRIEFLY DISCUSS THE REDUCTION IN CUSTOMER USAGE EXPERIENCED BY THE COMPANY.**

A. As I will discuss in further detail later in my rebuttal testimony, in 2008 the Company experienced a 760 million gallon, or 6.47% reduction in water sales from test year levels. This represents $2.4 million in unrealized revenues at proposed rates. Included in this drop in sales is a 49% reduction in construction water sales, representing $586,591 in unrealized revenues at proposed rates.

**Q. WHAT DO YOU MEAN BY "UNREALIZED REVENUES"?**

A. By "unrealized revenues", I am referring to the revenue dollars the Company would have never collected, or "realized" in 2008, as a result of the decline in customer usage, had the Company's proposed rates been implemented on January 1, 2008.

**Q. THANK YOU, MR. REIKER. PLEASE CONTINUE.**

A. As shown on Schedule H-2 of the Company's original application, industrial customers provided over 3% of the Company's revenues in 2007, while representing less than one-tenth of 1% of the number of customers served. The Company's two largest industrial customers, Abbott and Frito-Lay, have stated goals of significantly reducing the amount of water they purchase from the Company. In 2008, Abbott reduced the amount of water it purchased from the Company by approximately 18% compared to the test year. This reduction represents $120,973 in unrealized revenues at proposed rates. In the first six months of 2009, Abbott further reduced its usage by another 12.15% compared to the same period in 2008, representing an additional $36,074 in unrealized revenue. Further, as Abbott witness Mr. Chasse explains on page 4 of his testimony, Abbott has established a goal of 40% water use reduction by 2011. Also in 2008, Frito-Lay reduced the amount of water it purchased from the Company by nearly 9% compared to the test year, and in the first six months of 2009 reduced the amount of water it purchased by an additional 15.7%,

representing unrealized revenues at proposed rates of $22,044 and $18,177, respectively.

As I've just described, increases in operating expenses and required investment aside, declining usage alone is likely to necessitate the filing of a new rate case immediately after the close of this proceeding. In its application, the Company proposed a number of innovative and progressive mechanisms designed to mitigate the need for frequent and large rate case filings with the Commission. However, not only do Staff and RUCO remain staunchly opposed to these forms of progressive ratemaking, but Staff, through its recommended rate design in this proceeding, proposes to *increase* the percentage of total revenues collected through the volumetric/commodity rate by over 3%. I will address the proposed rate design of each of the parties in rebuttal testimony to be filed at a later date, but it is important to note here that declining usage is, and will be, a problem the Commission must address in this and future rate proceedings.

## III. Revenue Requirement

**Q. PLEASE SUMMARIZE THE COMPANY'S PROPOSED REBUTTAL REVENUE REQUIREMENTS AND ASSOCIATED INCREASES, AS WELL AS THOSE OF STAFF AND RUCO.**

A. The proposed revenue requirements of the parties are summarized in the following table:

PROPOSED REVENUE REQUIREMENTS

| System | Company - Rebuttal | Staff - Direct | RUCO - Direct |
|---|---|---|---|
| Superstition | $15,450,218 | $14,391,933 | $14,100,386 |
| Bisbee | 2,149,355 | 2,069,259 | 1,994,707 |
| Sierra Vista | 1,392,165 | 1,337,482 | 1,298,710 |
| San Manuel | 1,196,020 | 1,149,774 | 1,114,863 |
| Oracle | 1,172,886 | 1,089,248 | 1,055,732 |
| Winkelman | 128,906 | 121,212 | 115,757 |
| Miami | 2,768,783 | 2,587,585 | 2,515,731 |
| Casa Grande | 16,041,220 | 14,686,118 | 14,633,938 |
| Stanfield | 306,341 | 303,978 | 267,993 |
| White Tank | 1,566,758 | 1,438,668 | 1,562,653 |
| Ajo | 559,259 | 545,108 | 510,802 |
| Coolidge | 2,406,757 | 2,317,791 | 2,147,770 |
| Lakeside | 2,826,631 | 2,562,819 | 2,483,919 |
| Overgaard | 1,586,881 | 1,445,386 | 1,409,315 |
| Sedona | 5,484,342 | 4,923,229 | 4,494,082 |
| Pinewood | 1,160,149 | 1,098,364 | 1,039,166 |
| Rimrock | 980,506 | 909,861 | 873,888 |
| Total Company | $57,177,176 | $52,977,815 | $51,619,412 |

The above table does not reflect any revenue shifting that would result from the implementation of consolidated rate designs. The Company has provided updated rate case Schedules RBA-1 through RBD-1 detailing the Company's rebuttal adjustments and updated revenue requirement, in Exhibit JMR-RBEX1. The proposed rebuttal revenue increases are shown below:

PROPOSED REVENUE INCREASES

| System | Company - Rebuttal | Staff - Direct | RUCO - Direct |
|---|---|---|---|
| Superstition | $3,510,314 | $2,452,029 | $2,160,482 |
| Bisbee | 425,881 | 345,785 | 271,233 |
| Sierra Vista | (69,733) | (124,415) | (163,188) |
| San Manuel | 383,661 | 337,415 | 302,504 |
| Oracle | 46,671 | (36,967) | (70,482) |
| Winkelman | 30,184 | 22,688 | 17,035 |
| Miami | 918,105 | 736,907 | 665,054 |
| Casa Grande | 5,106,325 | 3,751,224 | 3,699,044 |
| Stanfield | 174,415 | 172,052 | 136,067 |
| White Tank | 322,023 | 193,932 | 317,918 |
| Ajo | 88,266 | 74,114 | 39,808 |
| Coolidge | 191,805 | 102,838 | (67,182) |
| Lakeside | 237,687 | (26,125) | (69,552) |
| Overgaard | (99,461) | (240,956) | (277,183) |
| Sedona | 1,963,217 | 1,402,105 | 975,545 |
| Pinewood | 112,686 | 50,901 | (7,224) |
| Rimrock | 472,525 | 401,880 | 366,377 |
| Total Company | $13,814,571 | $9,615,407 | $8,296,256 |

IV. **Rate Base**

**Q. PLEASE SUMMARIZE THE COMPANY'S, STAFF'S AND RUCO'S PROPOSED RATE BASES AT THIS STAGE OF THE CASE.**

A. The parties' proposed rate bases are summarized in the following table:

PROPOSED RATE BASES

| System | Company - Rebuttal | Staff – Direct | RUCO – Direct |
|---|---|---|---|
| Superstition | $43,223,792 | 42,812,403 | 42,201,371 |
| Bisbee | 4,642,994 | 4,619,362 | 4,604,287 |
| Sierra Vista | 2,504,626 | 2,491,943 | 2,492,548 |
| San Manuel | 2,029,766 | 2,019,483 | 2,026,115 |
| Oracle | 2,404,558 | 2,392,281 | 2,378,598 |
| Winkelman | 324,555 | 336,179 | 338,318 |
| Miami | 7,632,296 | 7,391,039 | 7,413,498 |
| Casa Grande | 41,008,611 | 40,554,691 | 39,826,084 |
| Stanfield | 820,996 | 791,031 | 774,655 |
| White Tank | 4,393,730 | 4,372,718 | 4,307,949 |
| Ajo | 1,119,110 | 1,113,530 | 1,094,479 |
| Coolidge | 4,248,815 | 4,256,413 | 3,455,162 |
| Lakeside | 7,160,630 | 7,019,069 | 6,985,207 |
| Overgaard | 3,331,286 | 3,315,094 | 3,252,625 |
| Sedona | 17,589,192 | 17,027,937 | 14,673,180 |
| Pinewood | 1,878,254 | 1,827,362 | 1,806,850 |
| Rimrock | 2,330,858 | 2,316,986 | 2,293,279 |
| Total Company | $146,644,069 | $144,657,521 | $139,924,205 |

Response to the Direct Testimony of Staff Witness Bozzo

*Staff Rate Base Adjustments Nos. 1 & 2*

**Q. DOES THE COMPANY ACCEPT STAFF RATE BASE ADJUSTMENTS NOS. 1 AND 2 TO REMOVE $5,473,842 FROM UTILITY PLANT IN SERVICE AND $2,511,769 IN RELATED ACCUMULATED DEPRECIATION?**

A. The Company accepts those portions of Staff rate base adjustments Nos. 1 and 2 that are related to plant items the Company found should have been previously retired. The Company also accepts Staff's removal of the costs related to the post-test year plant item identified as Work Authorization 1-4011 (Carroll Canyon well) in the Sedona system. Further, the Company proposes minor changes to the accounting entries required to properly reflect plant retirements. Schedule JMR-RB2 lists the plant items removed in Staff rate base adjustments Nos. 1 and 2. Column I of Schedule JMR-RB2 identifies which plant items should have been

retired. This information was provided to Staff in response to Staff data request BKB 11.16.

**Q. PLEASE EXPLAIN THE COMPANY'S PROPOSED CHANGES TO THE ACCOUNTING ENTRIES REQUIRED TO PROPERLY REFLECT PLANT RETIREMENTS.**

A. In Staff rate base adjustments Nos. 1 and 2, Mr. Bozzo credited utility plant in service by an amount equal to the original cost of the each plant item that the Company identified should have been retired, and debited accumulated depreciation by the corresponding balance of accumulated depreciation associated with each plant item. However, the proper accounting entries for the retirement of utility plant, and the method employed by the Company, is to credit utility plant in service by an amount equal to the original cost of the plant, and debit accumulated depreciation by the *same* amount. Company rate base adjustment JMR-RB1 reflects this retirement accounting convention.

**Q. DOES THE COMPANY ACCEPT STAFF'S RECOMMENDED DISALLOWANCE OF THE REMAINING PLANT ITEMS LISTED ON SCHEDULE JMR-RB2?**

A. No. As explained by Mr. Schneider in his rebuttal testimony, with the exception of an electrical panel identified as post-test year plant in the Pinewood system (page 2, line 14 of Schedule JMR-RB2) and Arizona Department of Water Resources ("DWR") well no. 55-516201 located in the Sedona system (page 2, line 1 of Schedule JMR-RB2), the remainder of the plant items listed on Schedule JMR-RB2 are either currently in service and benefiting customers, or have been identified by the Company as utility plant held for future use and should be included in rate base under a definite plan for such use.

**Q. WHICH PLANT ITEMS LISTED ON SCHEDULE JMR-RB2 ARE CURRENTLY IN SERVICE?**

A. The plant items identified as currently in service on Schedule JMR-RB2 include (1) three fences located in the Superstition, White Tank, and Sedona systems, (2) DWR well no. 55-613443 located in the Casa Grande system, and (3) an 8' by 12' block building located in the Sedona system. Mr. Schneider explains how these items are currently in use and benefiting customers in his rebuttal testimony.

**Q. WHY IS THE COMPANY PROPOSING TO INCLUDE PLANT HELD FOR FUTURE USE IN RATE BASE?**

A. The Company proposes to include in rate base the plant items identified as plant held for future use on Schedule JMR-RB2 because, as explained by Mr. Schneider in his rebuttal testimony, the Company maintains these items as backup equipment with a definite plan to place these items in service in the future. The Company further believes that the circumstances surrounding these plant items are similar to those which existed in prior cases when Staff recommended rate base treatment of plant held for future use. In surrebuttal testimony dated March 6, 2006 in Docket No. 05-0405, for example, Staff testified,

> Since the Company has actually used the equipment, Staff will no longer recommend its adjustment to remove the equipment from rate base.
>
> Because the Company has used this equipment, Staff recommends that the Company transfer the equipment from Plant Held for Future use to its appropriate Uniform System of Accounts ("USOA") capital account and use its authorized rates to depreciate the equipment.

In Decision No. 68858, dated July 28, 2006 in the above-referenced docket, the Commission accepted Staff's recommendation and included the items identified as plant held for future use in rate base. In the same decision, the Commission

cited RUCO's agreement that the backup equipment was used and useful and should be included in rate base (Decision No. 68858, p. 12, lines 24 – 25).

**Q. DOES THE COMPANY ACCEPT STAFF'S RECOMMENDATION TO REMOVE FROM THE PINEWOOD SYSTEM'S RATE BASE THE ELECTRICAL PANEL IDENTIFIED ON PAGE 2, LINE 14 OF SCHEDULE JMR-RB2?**

A. No. As explained in further detail by Mr. Schneider in his rebuttal testimony, and in the Company's response to Staff's informal data request dated May 5, 2009, if not for the unfortunate and untimely actions of Arizona Public Service Company, the electrical panel in question would have been placed in service well before the end of the test year.

**Q. DOES THE COMPANY ACCEPT STAFF'S RECOMMENDATION TO REMOVE DWR WELL NO. 55-516201 IDENTIFIED ON PAGE 2, LINE 1 OF SCHEDULE JMR-RB2 FROM THE SEDONA SYSTEM'S RATE BASE?**

A. No. While reviewing Staff's direct testimony and proposed rate base adjustments, the Company discovered that this well, originally listed as "inactive" on the Water Company Plant Description provided to Staff for the Sedona system, is actually in service and operating under a different DWR number. The DWR well No. 55-516201 was incorrectly listed on the Sedona Plant Description when it should have been shown on the Rancho Rojo/Valley Vista (a separate water system within the Sedona system) Plant Description. The error occurred when the DWR number was amended in the late 1980's for its re-drilling permit. When the well was re-drilled and permitted under DWR well No. 55-518969, it was correctly modified in the Rancho Rojo/Valley Vista Plant Description, but inadvertently left on the Sedona Plant Description under the old DWR number.

In 1989, the Company applied to DWR to re-drill and equip the well. The well is currently operating under DWR No. 55-518969 and is equipped with a 3-inch meter and 60 horse power pump, yielding 265 gallons per minute.

*Staff Rate Base Adjustment No. 3*

**Q. DOES THE COMPANY ACCEPT STAFF RATE BASE ADJUSTMENT NO. 3, TO REDUCE CONTRIBUTIONS IN AID OF CONSTRUCTION ("CIAC") BY $1,324,341?**

A. No. Staff rate base adjustment No. 3 removes from rate base two CIAC amounts related to two wells identified by Staff as not used and useful in Staff rate base adjustments Nos. 1 and 2. The wells in question are the Ranch 160 well No. 2 located in the Superstition system, and Well No. 11 located in the Coolidge system. The Company has identified these items as plant held for future use on Schedule JMR-RB2, and consistent with the Company's position regarding these items, any associated CIAC amounts should be included in rate base.

**Q. PLEASE IDENTIFY THE RATE BASE ADJUSTMENTS INCLUDED IN THE COMPANY'S REBUTTAL SCHEDULES WHICH REFLECT THE COMPANY'S PARTIAL ACCEPTANCE OF STAFF RATE BASE ADJUSTMENTS NOS. 1 THROUGH 3.**

A. The adjustment to reflect the plant retirements discussed above is identified as Company rebuttal rate base adjustment JMR-RB1, and the adjustment to reflect the removal of the costs associated with Work Authorization 1-4011 (Carroll Canyon well) in the Sedona system is identified as Company rebuttal rate base adjustment JMR-RB2, in Rebuttal Exhibit JMR-RBEX1, Schedule RB B-2.

*Staff Rate Base Adjustment No. 4*

**Q. DOES THE COMPANY ACCEPT STAFF RATE BASE ADJUSTMENT NO. 4, TO INCLUDE CUSTOMER DEPOSITS AS A CREDIT TO RATE BASE?**

A. Yes. The Company accepts this adjustment. This adjustment is identified as Company rebuttal rate base adjustment JMR-RB5 in Rebuttal Exhibit JMR-RBEX1, Schedule RB B-2.

*Staff Rate Base Adjustment No. 5*

**Q. DOES THE COMPANY ACCEPT STAFF RATE BASE ADJUSTMENT NO. 5, TO REMOVE THE COST ASSOCIATED WITH COMMON EQUITY FROM THE WORKING CASH COMPONENT OF WORKING CAPITAL?**

A. No, the Company does not accept Staff's adjustment.

**Q. WHAT BASIS DOES STAFF PROVIDE FOR ITS ADJUSTMENT?**

A. At page 15, lines 7 – 8 of his direct testimony, Mr. Bozzo states that "the cost of equity is not a normal or appropriate component for inclusion in a lead-lag study."

**Q. WHY DID THE COMPANY INCLUDE AN EQUITY COST COMPONENT IN ITS LEAD/LAG STUDY?**

A. The Company included the equity cost component of operating income in its calculation of required working cash for the sake of consistency. It is my understanding that in recent years, both Staff and RUCO have made a practice of including the debt cost component of operating income in the calculation of required working cash. However, if the cost associated with the debt component of operating income is included in the calculation of required working cash, then a corresponding adjustment to include the cost associated with the equity component should be made as well. The equity portion of the cost of capital should be recognized in the lead/lag study with a full revenue lag and a zero payment lead.

**Q. IS IT THE COMPANY'S POSITION THAT IF ONE COMPONENT OF OPERATING INCOME IS RECOGNIZED IN THE CALCULATION OF REQUIRED WORKING CASH, THEN ALL COMPONENTS SHOULD BE RECOGNIZED?**

A. Yes. The Company is indifferent to the inclusion of operating income in the calculation of required working cash. However, to be consistent, if you include one element of operating income you should include them all. The cost associated with equity is as much a cost of providing service as the cost

associated with debt, and the Company should be compensated for its implicit additional investment related to the time it must wait to recover this cost.

*Staff Rate Base Adjustment No. 6*

**Q. DOES THE COMPANY ACCEPT STAFF RATE BASE ADJUSTMENT NO. 6, TO REDUCE THE NET REGULATORY ASSET IN THE CASA GRANDE SYSTEM BY $14,289?**

A. Yes. As explained by Staff witness Mr. Bozzo, the purpose of this adjustment is to correct a calculation error made in the Company's application. This adjustment is labeled Company rate base adjustment JMR-RB3 in the Company's rebuttal Schedule RB B-2.

Response to the Direct Testimony of RUCO witness Coley

*RUCO Rate Base Adjustments Nos. 2 & 4*

**Q. DOES THE COMPANY ACCEPT RUCO RATE BASE ADJUSTMENTS NOS. 2 AND 4 TO REMOVE POST-TEST YEAR PLANT NOT RELATED TO ARSENIC AND NITRATE REMOVAL?**

A. No, the Company does not accept RUCO rate base adjustments Nos. 2 and 4.

**Q. WHAT IS THE BASIS FOR RUCO'S POSITION REGARDING POST-TEST YEAR PLANT?**

A. At page 11 (lines 3 – 5) of his testimony, Mr. Coley argues that including post-test year plant in rate base creates a mismatch which "strongly favors the stockholders at the detriment of the ratepayers." He goes on to argue (at lines 19 – 23) that the Company "could have chosen a 2008 test year instead of 2007. Obviously, the Company believes its request to raise rates is better promoted through a 2007 test year." Finally, Mr. Coley explains that RUCO recommends allowance of post-test year plant only related to arsenic and nitrate removal because such costs are mandated by the government.

**Q. DOES THE INCLUSION OF POST-TEST YEAR PLANT IN RATE BASE CREATE A MISMATCH WHICH STRONGLY FAVORS THE STOCKHOLDERS TO THE DETRIMENT OF THE RATEPAYERS, AS MR. COLEY CLAIMS?**

A. No, Mr. Coley's contention is unfounded. Nowhere does he show that the level of revenues resulting from the inclusion of post-test year plant would result in excess equity returns. Mr. Coley failed to prepare any kind of financial analysis, such as the one I presented in Schedule JMR-RB1, examining the effect of RUCO's proposed revenues on the Company's financial metrics, including the return on stockholders' equity. Furthermore, Mr. Coley hasn't produced any studies or otherwise cited any evidence suggesting that utilities that receive rate base treatment of post-test year plant earn excess returns in times of increasing investment requirements or reductions in usage. In fact, the evidence in this case, namely Schedule JMR-RB1, supports the notion that an attrition problem currently exists.

**Q. COULD THE COMPANY HAVE CHOSEN A 2008 TEST YEAR FOR THIS CASE, AS MR. COLEY CLAIMS?**

A. No. The Company was ordered in Decision No. 66400, dated October 14, 2003, to file a full rate application no later than September 30, 2007, based on a 2006 test year. On June 20, 2006, the Company filed a request for alteration or amendment of rate filing requirements, requesting (1) that the filing date for the companywide rate case be postponed until September 30, 2008, and (2) that the required test year be changed to 2007. Judge Nodes granted the Company's request by procedural order dated December 29, 2006. Clearly, the Company was not free to choose the test year in this case without first receiving the approval of the Administrative Law Judge, nor is it likely the Company could have strayed far from the required filing to create more favorable circumstances for itself.

**Q. DESPITE YOUR ANSWER TO THE PREVIOUS QUESTION, DO YOU BELIEVE THE SELECTION OF A TEST YEAR IS RELEVANT TO THE ISSUE OF POST-TEST YEAR PLANT?**

A. No. Because utilities in Arizona are generally not permitted to capitalize and defer depreciation expense and gross return on investment, a decision to file a rate case one year from today is a decision to never recover the capital costs to be incurred over the next 12 months on projects placed in service yesterday. I illustrated this point in my direct testimony (at page 31, lines 12 – 23) where I explain how the Company is guaranteed to never recover roughly $14 million in capital charges as a result of the regulatory lag associated with a historical test year. I would hope the Commission recognizes that its practice of making known and measurable changes to test year plant balances serves to mitigate the attritional problems associated with a historical test year, rather than providing a windfall to shareholders, as RUCO wrongfully claims.

**Q. DOES THE FACT THAT THE COST OF POST-TEST YEAR PLANT RELATED TO ARSENIC AND NITRATE REMOVAL WAS MANDATED BY THE GOVERNMENT MAKE THE COMPANY'S REMAINING POST TEST YEAR PLANT ITEMS ANY LESS NECESSARY TO THE PROVISION OF SERVICE?**

A. No. RUCO seems to argue (Coley direct, pp. 12 – 13) that only costs that are mandated by the government should be eligible for rate base treatment as post-test year plant because the Company didn't have the option of forgoing the investment. What RUCO fails to recognize is that rational investors don't give money away for free, nor do they throw good money after bad. Every capital project undertaken by the Company is scrutinized by its Board of Directors and approved only if absolutely necessary to the provision of safe and reliable service, with full knowledge that a portion of the related capital costs will never be recovered under the current Arizona regulatory framework. Forgoing investment should never be an option when the result is inadequate service.

**Q. HAS THE COMMISION ADOPTED A POLICY OR ISSUED A DECISION HOLDING THAT POST-TEST YEAR PLANT SHOULD ONLY BE CONSIDERED FOR RATE BASE TREATMENT WHEN IT IS MANDATED BY THE GOVERNMENT?**

A. No. The past is filled with Commission decisions which granted rate base treatment of post-test year plant not mandated by the government. See *Chaparral City Water Company, Decision 68176 (September 30, 2005); Rio Rico Utilities, Inc.*, Decision No. 67279 (October 5, 2004); *Bella Vista Water Company*, Decision No. 65350 (November 1, 2002); *Arizona Water Company*, Decision No. 65350 (November 1, 2002); *Paradise Valley Water Company*, Decision No. 61831 (July 20, 1999); *Far West Water Company*, Decision No. 60437 (September 29, 1997).

*RUCO Rate Base Adjustment No. 3*

**Q. WHAT IS THE COMPANY'S POSITION REGARDING RUCO RATE BASE ADJUSTMENT NO. 3, TO REMOVE PLANT HELD FOR FUTURE USE AND RECORD PLANT RETIREMENTS?**

A. The Company's position regarding plant held for future use and plant retirements is set forth in my response to Staff witness Mr. Bozzo, above.

*RUCO Rate Base Adjustment No. 5*

**Q. DOES THE COMPANY ACCEPT RUCO RATE BASE ADJUSTMENT NO. 5, TO REMOVE 35% OF THE HIGHWAY 179 IMPROVEMENT PROJECT IN THE SEDONA SYSTEM?**

A. No, the Company does not accept this adjustment. The Company was required under the threat of eminent domain to pay the full cost of this project to the Arizona Department of Transportation ("ADOT") in June of the test year, and did not have the option of postponing or otherwise forgoing the investment. Like arsenic and nitrate treatment, the costs related to this project were mandated by

the government. Further, the Company is not managing this project and has no control over its progress. Staff has appropriately recommended rate base treatment of the entire amount of this project.

*RUCO Rate Base Adjustment No. 6*

**Q. DOES THE COMPANY ACCEPT RUCO RATE BASE ADJUSTMENT NO. 6 RELATED TO WORKING CAPITAL?**

A. As explained below, the Company accepts some, but not all, of RUCO's adjustments to working capital.

**Q. DOES THE COMPANY ACCEPT RUCO'S ADJUSTMENT TO REFLECT 35.92 EXPENSE LAG DAYS FOR PURCHASED POWER IN THE CALCULATION OF THE WORKING CASH REQUIREMENT?**

A. No. RUCO relied on the number of purchased power expense lag days (35.92) utilized in the Company's most recent rate case for its Western group. The number of purchased power expense lag days utilized in the Company's application in this case (30.87) reflects the actual number of purchased power expense lag days occurring in the 2007 test year. In the absence of more current information, I recommend that the Commission rely on the most recent lead/lag study utilized in developing rates for the Company. In this case, the Company had the data required to calculate the actual number of test year purchased power expense lag days readily available, and the Commission should rely on that data.

**Q. DOES THE COMPANY ACCEPT RUCO'S ADJUSTMENTS TO THE NUMBER OF PURCHASED WATER EXPENSE LAG DAYS?**

A. No. The Company does not accept RUCO's adjustments to the number of purchased water expense lag days because they appear unreasonable on their face. For example, Mr. Coley proposes 46.04 purchased water expense lag days for the Superstition system, where 100% of the water purchased and resold

to general service customers is purchased from the Central Arizona Project ("CAP"). Because the CAP requires the Company to prepay one month in advance for water delivery, it follows that a negative number of purchased water expense lag days (i.e. a payment "lead") would exist in the Superstition system. Upon reviewing the work papers in support of the 46.04 lag days proposed by Mr. Coley, I found that while he did account for CAP prepayments in the Casa Grande system, he did not account for any water purchased from the CAP in the Superstition system. Mr. Coley's failure to consider the required payment arrangements with the Company's largest purchased water provider in his analysis renders his calculation unreliable. For this reason, the Commission should continue to rely on the most recent lead/lag study used in developing rates for the Company.

**Q. DOES THE COMPANY ACCEPT RUCO'S ADJUSTMENT TO REFLECT 20.43 LAG DAYS FOR CHEMICALS EXPENSE?**

A. No. The Company does not accept RUCO's adjustment to reflect 20.43 lag days for chemicals expense. Upon reviewing the work paper in support of the 20.43 lag days proposed by Mr. Coley, I found that even though the Company prepaid 25% of its test year costs for chemicals, none of the invoices he reviewed indicated a prepayment. I must conclude that Mr. Coley did not review these invoices. Therefore, I believe the best information regarding the number of lag days for chemicals expense is the number of days utilized in the Company's most recent rate proceeding, which is a payment lead of 18.11 days.

**Q. DOES THE COMPANY ACCEPT RUCO'S ADJUSTMENT TO REFLECT 30 LAG DAYS FOR OTHER OPERATIONS AND MAINTENANCE ("O&M") EXPENSE?**

A. No. The Company does not accept RUCO's adjustment to reflect 30 lag days for other O&M expenses. The only support Mr. Coley offers for his adjustment is a work paper listing 17 invoices with terms of net 30 days. The number of lag days

included in the Company's application is from the most recent lead/lag study utilized in developing rates for the Company in its previous three rate proceedings, and was based on an analysis of 180 vendor invoices. Mr. Coley's analysis only examines 17 invoices from which he apparently draws his conclusion regarding the number of lag days from nothing more than the payment terms. While terms of net 30 days are common among vendors, they tell us nothing about the time period in which services were rendered. In fact, many of the invoices Mr. Coley reviewed may have in fact been for pre-paid services, which would indicate a negative number of expense lag days, or a payment "lead".

**Q. DOES THE COMPANY ACCEPT RUCO'S ADJUSTMENT TO REMOVE RATE CASE EXPENSE FROM THE CALCULATION OF REQUIRED WORKING CASH?**

A. Yes, the Company accepts RUCO's adjustment.

**Q. DOES THE COMPANY ACCEPT RUCO'S ADJUSTMENT TO REMOVE THE COST ASSOCIATED WITH COMMON EQUITY FROM THE WORKING CASH COMPONENT OF WORKING CAPITAL?**

A. No. The Company does not accept this adjustment for the same reasons provided above with respect to Staff rate base adjustment No. 5.

**Q. DOES THE COMPANY ACCEPT RUCO'S ADJUSTMENT TO APPLY A HYPOTHETICAL GROSS REVENUE CONVERSION FACTOR ("GRCF") TO THOSE SYSTEMS WHICH HAVE FEDERAL TAXABLE INCOME OF LESS THAN $335,000?**

A. No. The Company is a single corporate entity that files a single Federal tax return and as a result, pays 34% of its taxable income to the Federal government regardless of where that taxable income is earned. RUCO was made aware of this fact in the Company's response to RUCO data request 2.01. It is therefore misleading for Mr. Coley to testify, as he does on page 26 (lines 7 – 14) of his

direct testimony, that the Company does not incur this level of Federal income tax in systems such as Winkelman. Further, I find it incredulous that RUCO would testify at length about such ratemaking concepts as the matching principle, and then propose that the Commission knowingly set rates below the cost of service by applying a fictitious Federal income tax rate. Much like the costs related to the removal of arsenic and nitrates, which RUCO recommends be recovered in this proceeding, Federal income taxes are also Federally-mandated, and the Commission should allow full recovery of this known and measurable expense.

**Q. DOES RUCO'S RECOMMENDATION HAVE BROADER POLICY IMPLICATIONS?**

A. Yes. Aside from abandoning the long-held regulatory axiom that rates are to be set at a level designed to recover the cost of providing service, RUCO's recommendation, if adopted, would serve to discourage the consolidation of smaller, troubled water systems in the State of Arizona. I submit that no water utility the size of the Company would pursue the acquisition of a water system the size of Ajo knowing that the Company's shareholders would be required to subsidize a portion of the Federal income taxes going forward.

## V. Income Statement

Response to the Direct Testimony of Staff Witness Igwe

*Staff Income Statement Adjustments Nos. 1, 2, & 3*

**Q. DOES THE COMPANY ACCEPT STAFF INCOME STATEMENT ADJUSTMENTS NOS. 1, 2, AND 3 RELATED TO PURCHASED WATER EXPENSE IN THE WHITE TANK SYSTEM?**

A. Yes. The Company accepts Staff income statement adjustments Nos. 1, 2, and 3. These adjustments are reflected on Company Rebuttal Exhibit JMR-RBEX1, Schedule RB C-2 as Company rebuttal income statement adjustment JMR-RB1.

*Staff Income Statement Adjustment No. 4*

**Q. DOES THE COMPANY ACCEPT THE FIRST PART OF STAFF INCOME STATEMENT ADJUSTMENT NO. 4, TO NORMALIZE AND REDUCE TANK MAINTENANCE EXPENSE BY $182,139?**

A. No. The Company does not accept Staff income statement adjustment No. 4. Staff's adjustment attempts to normalize over three years a cost that occurs at intervals of seven to fourteen years. This is a wholly inappropriate method of normalizing a cost such as tank maintenance expense which does not recur on an annual basis. Below, I show why Staff's testimony fails to demonstrate an understanding of the Company's annual tank maintenance program and expense accrual, and why the Commission should accept the Company's proposed adjustments for this expense, as it has in each of the Company's last three rate proceedings.

**Q. PLEASE EXPLAIN THE COMMISSION-APPROVED TANK MAINTENANCE ACCRUAL, AS PROPOSED BY THE COMPANY IN ITS APPLICATION.**

A. As explained in the direct testimony of Mr. Schneider, water storage tanks are inspected and cleaned on a routine basis. Interiors are recoated every 14 years and exteriors are painted every seven years. Without this program, water storage tanks would deteriorate more rapidly, shortening the useful life of each tank. Because the level and cost of tank maintenance varies from year to year, in each of the Company's last three rate proceedings the Commission has approved an annual reserve accrual to normalize the expenses over a 15-year period. This predetermined Commission-approved amount is debited to maintenance expense account 672 – Storage Tanks, and credited to reserve account 265 – Tank Maintenance. The actual costs related to painting and maintaining tanks are debited to account 265. In other words, the annual Commission-approved accrual is added to the existing reserve balance while the maintenance costs actually incurred are deducted from the balance. This

method of accrual accounting for tank maintenance expense has operated efficiently and successfully for over 30 years.

**Q. HOW HAS THE COMMISSION-APPROVED ACCRUAL AMOUNT BEEN DETERMINED IN EACH OF THE COMPANY'S LAST THREE RATE PROCEEDINGS?**

A. In each of the Company's last three rate proceedings, the tank maintenance reserve accrual adopted by the Commission was calculated using the same methodology proposed by the Company in this proceeding. Aside from the upgrading of software, the work papers used in calculating the revised tank maintenance accruals are the same. The revised accrual is calculated by first preparing a schedule of projected interior and exterior painting costs for each of the Company's tanks over the next 15 years. This schedule is prepared by the Company's operations department. These costs are then converted into future-year dollars using the average rate of growth in the Consumer Price Index over the last six years, in this case 2.67%. Because the Commission-approved accrual amount is added to the current reserve balance and the actual maintenance costs are deducted from the reserve balance, the revised accrual is that amount which results in the projected balance of the reserve account equaling zero at the end of the fifteenth year.

**Q. HOW HAS STAFF GONE ABOUT EVALUATING THE REASONABLENESS OF THE COMPANY'S REVISED ACCRUAL IN PRIOR RATE PROCEEDINGS?**

A. In the Company's 1999 test year rate proceeding for the Northern group, Staff did not address the revised accrual, and made no adjustments to tank maintenance expense in that proceeding. The Commission implicitly approved the Company's revised accrual for the Northern group in Decision No. 64282 (December 28, 2001).

In the Company's 2001 test year rate proceeding for the Eastern group, Staff testified as follows:

Q. What methodology did you use to review the adjustment?
A. Based on the interior and exterior areas of the entire tank inventory, an estimate of the cost was made using "Richardson Process Plant Construction Estimating Standards". The estimate was then annualized and compared with the Company's adjustment, after subtracting the 2001 expenses.

Q. What are your conclusions concerning the tank maintenance adjustment?
A. Staff's computed adjustment was comparable to the Company's and therefore, Staff accepts the Company's adjustment...[3]

The Commission approved the Company's revised accrual for the Eastern group in Decision No. 66849 (March 19, 2004). In the Company's 2003 test year rate proceeding for the Western group, Staff testified as follows:

Q. How did Staff evaluate tank maintenance costs?
A. Tank maintenance costs are embedded in the transmission and distribution expense line item number 13, in the "C-2" schedules. By using the Company's work paper and the schedules, the specific expense amount for tank maintenance was derived. Based on the interior and exterior areas of the tank inventory, an estimate of the customary cost was made using "Richardson Process Plant Construction Estimating Standards." The Company's predicted expense was then compared with Staff's estimated tank maintenance expense.
Q. What are your conclusions concerning the tank maintenance adjustment?
A. Staff's computed expense was comparable to the Company's and therefore, Staff accepts the Company's proposed expense...[4]

The Commission approved the Company's revised accrual for the Western group in Decision No. 68302 (November, 14, 2005).

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[3] Staff direct testimony in Docket No. 02-0619.

[4] Staff direct testimony in Docket No. 04-0650.

**Q. DID STAFF ATTEMPT TO EXPLAIN WHY THE COMMISSIN SHOULD ABANDON THIS PRIOR APPROVED RATEMAKING TREATMENT?**

A. No.

**Q. HOW DID STAFF GO ABOUT EVALUATING THE COMPANY'S PROPOSED TANK MAINTENANCE ACCRUAL IN THIS PROCEEDING?**

A. Based on Mr. Igwe's direct testimony (page 16, lines 10 – 21), it appears he reviewed the Company's work papers and drew a number of conclusions that are simply incorrect. Staff made no informed estimate of tank maintenance expense of its own to compare with the Company's revised accrual amounts, as it did in each of the Company's last two rate proceedings, and therefore has no basis to claim, as Mr. Igwe does on page 16 (lines 11 – 12) of his testimony, that the costs relied on by the Company are not representative of a market rate. In fact, Staff's engineering witness, Ms. Stukov, fails to even address the issue in her direct testimony. Staff also fails to recognize that estimates are not used to determine accrual balances, but that firm, competitively bid prices and actual expenses incurred are the basis of such accrual balances.

**Q. DID THE COMPANY DELIBERATELY OVERSTATE ITS PROPOSED TANK MAINTENANCE EXPENSE BY AN INFLATION FACTOR AS HIGH AS 48%, AS MR. IGWE CLAIMS ON PAGE 16 (LINES 14 – 15) OF HIS TESTIMONY?**

A. No. As I testified above, the Company used an inflation rate of 2.67% to convert the cost of tank maintenance scheduled to occur in future years from present-year dollars to future-year dollars. The 48% referenced by Mr. Igwe is simply the factor required to convert present-year dollars to "15 years from now" dollars, based on a 2.67% rate of inflation, calculated as follows:

$$(1 + 2.67\%)^{15} - 1 = 48\%$$

The purpose of this calculation is to account for the time value of money, which Mr. Igwe erroneously claims the Company failed to account for on page 16 (lines

18 – 19) of his testimony. I would also note that Mr. Igwe's statement that it is "presumptive to assume any inflationary trend over the next 15 years" (p. 16, lines 17 – 18) should not be taken as an indictment of the tank maintenance accrual the Commission has consistently approved, as Staff's own recommended return on equity presumes some level of inflation in future years. Finally, to the extent tank maintenance expenses are considered not to be known and measurable, Mr. Igwe's statement on page 16 (lines 23 – 26) of his testimony, that Staff does not usually recommend approval of such costs, is simply not the case as noted above. Mr. Igwe didn't undertake a sufficient analysis of this issue or he would have discovered both the prior treatment by the Commission of these costs and the Company's consistency with that precedent.

**Q. IS IT APPROPRIATE TO USE A THREE-YEAR AVERAGE TO NORMALIZE EXPENSES THAT ONLY OCCUR AT INTERVALS OF SEVEN AND FOURTEEN YEARS, AS STAFF PROPOSES IN THIS PROCEEDING?**

A. No. A three-year averaging of expenses that only occur once every seven and fourteen years fails to account for the full cycle of the Company's tank painting program. To illustrate, the Company owns three tanks in the Rimrock system with a total storage capacity 460,000 gallons. None of these tanks were rehabilitated in 2005, 2006, or 2007 – the three years used by Staff to normalize tank maintenance expenses. As a result, Staff calculated a three-year average tank maintenance expense of $0.00 for the Rimrock system. Realizing that it calculated a normalized tank maintenance expense for the Rimrock system of $0.00, Staff recommended the 2003 actual tank maintenance expense incurred in the Rimrock system of just $92. Staff makes this recommendation with full knowledge of the Company's tank maintenance schedule, which indicates that the Wickiup Mesa 200,000 gallon storage tank is scheduled to be painted in 2010 at an estimated cost of $41,205.

This same problem occurred in the Lakeside system where, having calculated a normalized tank maintenance expense of $0.00, Staff recommended the 2003 actual tank maintenance expense incurred of just $3,309. However, according to the Company's tank maintenance schedule provided to Staff, the Pinetop Lakes 310,000 gallon and 1,000,000 gallon storage tanks are scheduled to be painted in 2010 at a total estimated cost of $145,550.

Assuming Staff's recommendation was adopted, the Commission would be rejecting the Company's tank maintenance program, and the Company, being unable to recover all the costs of rehabilitating these tanks, would be forced to forgo any maintenance on them, thus reducing their useful life, increasing the potential for water loss, and increasing the level of future investment required to maintain adequate service.

The problems associated with Staff's recommendation are not limited to the situations described above, they only serve to demonstrate the point that it makes no sense to use a three-year historical average to normalize expenses that only occur once every seven and fourteen years. The appropriate normalization is a reserve-accrual amount based on a fifteen-year maintenance schedule adjusted for inflation, with actual expenses charged against the accrual balance. This is precisely what the Commission has approved in each of the Company's last three rate proceedings.

**Q. DOES THE COMPANY ACCEPT THE SECOND PART OF STAFF INCOME STATEMENT ADJUSTMENT NO. 4, TO NORMALIZE EXPENSE ACCOUNTS 663 (OPERATIONS – T&D METERS) AND 673 (MAINTENANCE – T&D MAINS) USING A THREE-YEAR AVERAGE?**

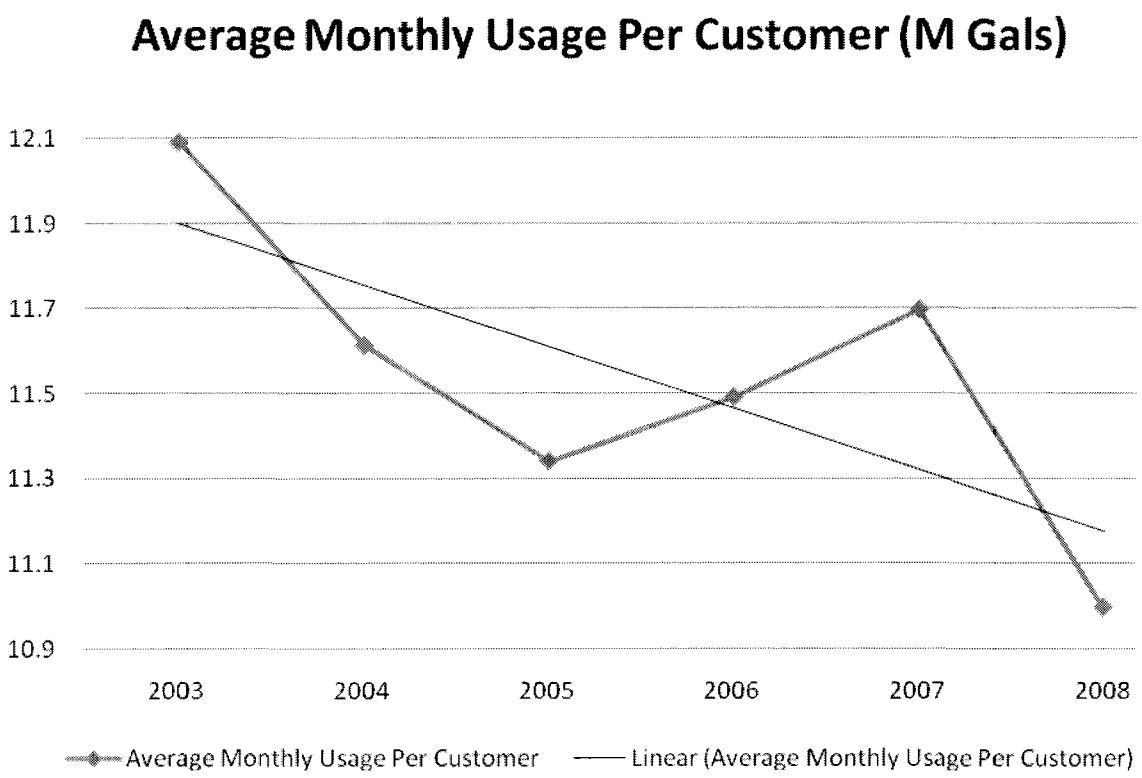
A. No. The Company does not accept this component of Staff income statement adjustment No. 4 for a number of reasons. First, averaging three years of historical costs does not reflect a known and measurable change to the test year. In fact, Staff's revenue requirement manager testified in docket No. 07-0679 that

averaging does not reflect a known and measurable change.[5] I also don't believe that averaging three years of historical costs is an appropriate method of normalization when attrition due in part to regulatory lag renders rates inadequate on the first day they are implemented, as indicated on Schedule JMR-RB1. Further, the events that necessitate normalizing adjustments are often extraordinary and nonrecurring. Although Mr. Igwe mentions that the Casa Grande system had a major repair during the test year (p. 18, lines 13 – 14), he doesn't identify the specific invoices that he believes were extraordinary and nonrecurring. Finally, I believe it is unreasonable to explicitly single out certain expenses for normalization while ignoring other areas of change that could be identified and measured as to their impact.

**Q. ARE YOU REFERRING TO ANY AREA IN PARTICULAR?**

A. Yes. I am referring to the test year billing determinants, most notably a 760 million gallon reduction in water sales from test year levels, including a 49% reduction in construction water sales alone, representing $586,591 in unrealized revenues at proposed rates. As a matter of fact, average usage per customer has been trending downward for a number of years, as shown in the following chart:

[5] Transcript, p. 125.




Schedule JMR-RB3 shows test year 2007 pro forma revenues at the Company's proposed rates for residential, commercial, industrial, and construction customers, as well as 2008 pro forma revenues at proposed rates for the same customer classes. As shown on page 1, column K, line 43 of schedule JMR-RB3, the reduction in water sales alone represents $2.4 million in unrealized revenues at proposed rates. Considering the fact that 2008 operating expenses increased by $2.0 million over 2007 adjusted test year levels (see schedule JMR-RB1, line 3), any type of normalizing adjustment that is based on historical expense levels is clearly ill-suited and produces undesirable results. These are the reasons piecemeal ratemaking like this approach to normalization should be avoided.

**Q. HAVE YOU CONDUCTED ANY TYPE OF ANALYSIS TO DETERMINE IF THE DECLINE IN USAGE DEPICTED IN THE ABOVE CHART IS ATTRIBUTABLE TO WEATHER CONDITIONS VERSUS CONSERVATION?**

A. Yes. I've conducted statistical studies in addition to the study included as Exhibit JMR-4 to my direct testimony which show a statistically significant decline in usage while controlling for average temperature and precipitation. These studies are attached to my rebuttal testimony as Schedules JMR-RB4 through JMR-RB7. In the studies shown in Schedules JMR-RB4 through JMR-RB7, I examined average monthly residential usage from January 2003 through May 2009 in the Company's largest systems where conservation-oriented (i.e. inverted tier) rates are currently in effect, while controlling for weather conditions. The results of those studies are shown in the following table:

| System(s) | Avg. Monthly Usage (M Gals) | Average Decline/Month (M Gals) | t-Statistic[6] |
|---|---|---|---|
| Casa Grande/Coolidge | 10.7 | -0.037 | -6.07 |
| Superstition/Miami | 8.5 | -0.010 | -2.78 |
| Bisbee | 5.6 | -0.022 | -4.24 |
| Sierra Vista | 9.6 | -0.019 | -2.63 |

As summarized in the table above and in Schedules JMR-RB4 through JMR-RB7, the coefficient representing changes in monthly residential usage *not* related to average daily temperature or total precipitation is negative and statistically significant. In simple terms, this means that residential customers in the systems listed above used on average, less water in each successive month from January 2003 through May 2009 for reasons not related to weather. In other words, they did what the rates they pay were designed to encourage them to do, that is conserve water.

[6] An absolute value of the t-statistic that is greater than 1.96 indicates that the estimate is statistically significant.

**Q. YOU MENTION THAT THE COMPANY EXPERIENCED A 49% REDUCTION IN CONSTRUCTION WATER SALES REPRESENTING $586,591 IN PROPOSED REVENUES. WHY DIDN'T THE COMPANY PROPOSE AN ADJUSTMENT TO NORMALIZE CONSTRUCTION WATER SALES?**

A. The Company decided not to propose a normalizing adjustment to construction water sales for a number of reasons. At the time the Company was preparing its application in the early months of 2008, few had suspected the state was near the end of a prolonged construction boom, and fewer believed the market for real estate would fall off as far as it did. Further, construction water sales had remained consistent in the years leading up to and including the test year, and any normalization based on historical averaging would have suggested that the adjustment was de minimis. The Company decided not to normalize construction water sales using projections of construction growth because that method was rejected by the Commission in the Company's most recent rate proceeding for the Northern group.

Had the Company known Staff would propose adjustments to lower various expenses by using averages of historical levels, we would have more aggressively pursued attritional adjustments to account for the post-test year reduction in customers and usage.

**Q. DID STAFF EXAMINE 2008 EXPENSE LEVELS FOR THE ACCOUNTS IT PROPOSES TO NORMALIZE?**

A. I don't believe so, as Mr. Igwe makes no mention of the actual expense levels incurred in 2008 for the accounts in question. Had Staff examined 2008 expense levels, they would have found that for both accounts (663 and 673) in both the Casa Grande and Superstition systems, actual 2008 expense levels were higher than Staff's proposed amounts based on historical averages of 2005 through 2007. While I do not agree that an adjustment to test year expense levels for accounts 663 and 673 is necessary, I do believe that actual 2008 expense levels

are more representative of conditions going forward than the historical averages proposed by Staff.

**Q. WHAT TYPES OF COSTS ARE CHARGED TO ACCOUNT 673, ONE OF THE ACCOUNTS STAFF PROPOSES TO NORMALIZE?**

A. Account 673 includes the cost of labor, materials used, and expenses incurred in the maintenance of mains, including the cost of repairing main leaks. Virtually all of the costs related to the reduction of water loss and repair of water main leaks that are appropriately chargeable to operating expenses are included in this account.

**Q. HAS STAFF MADE ANY RECOMMENDATIONS WITH RESPECT TO WATER LOSS?**

A. Yes. Staff's engineering witness, Ms. Stukov, recommends that the Company reduce water losses to less than 10% by December 31, 2010. In his rebuttal testimony, Mr. Harris discusses the massive capital investment that would be required to replace even a small percentage of the Company's mains for the purpose of reducing water loss. However, as I stated above, the costs related to water loss reduction are not limited to capital investment. This is because costs associated with the location and repair of main leaks are properly charged to maintenance expense account 673 when such repairs do not involve retirement units.

**Q. IN LIGHT OF STAFF'S RECOMMENDATION REGARDING WATER LOSS, DOES IT MAKE ANY SENSE TO PROPOSE AN ADJUSTMENT WHICH REDUCES THE LEVEL OF EXPENSE RECOVERABLE IN ACCOUNT 673?**

A. No. Staff recommends that the Company incur additional expenses chargeable to account 673, while at the same time recommending that the level of expense recovered in account 673 be reduced. In fact, the company inquired as to whether Staff would support the implementation of an automatic adjuster mechanism to allow for the recovery of the costs of reducing water losses in

Company data request No. 3.5, and Mr. Igwe oddly responded by stating that the maintenance of infrastructure is the Company's responsibility:

> Q. Will Staff agree to an automatic adjustment mechanism to allow for the recovery of the costs of reducing water loss without having to go through another rate case for each of the subject systems? If not, why not?
>
> A. No. Staff will not support an automatic adjustment mechanism for recovery of cost of reducing water loss. *Proper maintenance of infrastructure is a normal responsibility of a utility company, and the related maintenance cost is a component of cost of service.* (emphasis added)

I note that Staff's response is odd because Staff, in its income statement adjustment No. 3, proposes to disallow a portion of the costs incurred to maintain the Company's infrastructure and reduce water loss. It is unreasonable for Staff to assume that the Company can reduce the level of water loss reported in the test year by spending less money than expended on such efforts during the test year. These types of conflicting recommendations should be rejected by the Commission.

**Q. DID YOU FIND ANY ERRORS IN STAFF'S CALCULATIONS?**

A. Yes. I found that for the years 2005 and 2006, Mr. Igwe did not include in his calculations the expenses incurred in the portion of the Superstition system formerly known as Superior. As a result, Staff's three-year averages for accounts 663 and 673 for the Superstition system are understated and not correct.

*Staff Income Statement Adjustment No. 5*

**Q. DOES THE COMPANY ACCEPT STAFF INCOME STATEMENT ADJUSTMENT NO. 5, TO REMOVE THE COMPANY'S PROPOSED $308,701 CONSERVATION ADJUSTMENT IN THE NORTHERN GROUP?**

A. No. Staff apparently recommends denial of the Company's proposed adjustment because it is not aware of any instance where the Commission has previously granted a conservation adjustment (Igwe direct, p. 21, lines 18 – 21). Mr. Igwe also critiques the statistical analysis I presented in Exhibit JMR-4 of my direct testimony and concludes that it is not conclusive proof that tiered rates lead to a loss of revenues.

**Q. DOES MR. IGWE OFFER A VALID REASON FOR DISMISSING THE COMPANY'S ADJUSTMENT?**

A. No. I don't believe the fact that the Commission may not have approved something in the past is a valid reason to simply dismiss it in the present. Mr. Igwe fails to even cite an instance where a conservation adjustment has ever been proposed by a water utility.

**Q. HOW DO YOU RESPOND TO MR. IGWE'S CRITIQUE OF YOUR STATISTICAL ANALYSIS?**

A. Mr. Igwe's first critique of the study I presented in Exhibit JMR-4 of my direct testimony is to simply restate my own direct testimony that my analysis is not a study of price elasticity. Mr. Igwe is correct in pointing out that I chose not to conduct a study of price elasticity. I chose not to conduct such a study because it would have shown what more than 100 price elasticity studies conducted over the past thirty years have shown, that is, a likely price elasticity range for residential water demand of -0.10 to -0.30, with coefficients for industrial and commercial demand of up to -0.80.[7] In the Company's most recent Western group rate case, Mr. Kennedy, the Company's then Vice President and Treasurer, estimated the price elasticity of demand in the Company's Eastern group to be -0.57.[8] Given a price elasticity coefficient of -0.57, a 10% increase in

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[7] American Water Works Association Manual of Water Supply Practices M1. p. 158.

[8] Rebuttal testimony of Ralph Kennedy, p. 18. Docket No. 04-0650.

water rates results in a 5.7% reduction in water use. Based on the Company's proposed revenue increase for the Northern group and a more conservative estimate of price elasticity of -0.40, one can expect a 13.18% reduction in usage in the Northern group.

As mentioned, the Company provided evidence and discussed at length the issue of price elasticity in its most recent rate proceeding for the Western group and Staff simply ignored it.

**Q. HOW DO YOU RESPOND TO MR. IGWE'S STATEMENT ON PAGE 21, LINES 5 – 7, OF HIS TESTIMONY THAT YOUR STATISTICAL ANALYSIS IS BASED ON RECORDS THAT MAY NOT BE REPRESENTATIVE OF THE TEST YEAR OR THE TIME WHEN NEW RATES WILL BE IMPLEMENTED FOR THE NORTERN GROUP?**

A. I find Mr. Igwe's statement contradictory. Just two pages before he makes this statement, he recommends that the Commission set rates based on expense levels (for accounts 663 and 673) that existed during the same period over which I conducted my statistical analysis – 2005 through 2007 (Igwe direct, p. 18, lines 19 – 21). As I explained on page 19 of my direct testimony, my statistical analysis controls for average temperature and precipitation. To the extent these variables remain major factors affecting water consumption (other than the implementation of tiered rates), the data is valid for use in such a study.

**Q. HOW DO YOU RESPOND TO MR. IGWE'S STATEMENT ON PAGE 21, LINES 7 – 9 OF HIS TESTIMONY, THAT YOUR ANALYSIS DID NOT INCORPORATE ANY SAVINGS ASSOCIATED WITH A REDUCTION IN USAGE?**

A. One could reasonably expect a reduction in pumping and treatment costs as a result of a decline in usage. However, as shown in Schedule JMR-RB1, to the extent any such reductions actually occur, they are more than eclipsed by a general increase in other operating expenses. As noted above and on Schedule JMR-RB3, the reduction in 2008 water sales represents $2.4 million in unrealized

revenues at proposed rates, while 2008 operating expenses increased by $2.0 million over 2007 adjusted test year levels. Clearly, real world evidence in the form of actual operating results indicates that a reduction in usage will not improve the bottom line when expenses are increasing.

**Q. UNDER WHAT CIRCUMSTANCES WOULD THE COMPANY BE WILLING TO ACCEPT STAFF'S ADJUSTMENT?**

A. The Company would only be willing to accept Staff's adjustment in the event Staff was to support the concept of a water revenue adjustment mechanism ("WRAM"). I address this type of mechanism further below in my response to the direct testimony of RUCO witness Rigsby.

*Staff's CIAC Amortization Rate*

**Q. DID STAFF USE THE CORRECT CIAC AMORTIZATION RATE IN DEVELOPING ITS PROPOSED REVENUES?**

A. No. Staff calculated its own CIAC amortization rate equal to the composite depreciation rate on all depreciable plant accounts. This is neither the theoretically correct CIAC amortization rate, nor the rate currently approved for the Company by the Commission. In Decision No. 66849, the Commission agreed with the Company that the annual CIAC amortization rate should reflect the annual depreciation associated with the plant accounts that include contributions (i.e. transmission and distribution mains, fire sprinkler taps, services, meters, and hydrants) (Decision No. 66849, pp. 15 – 16). The appropriate rate, and the rate approved by the Commission in the above-referenced decision, is 2.00%.

Staff has apparently used the same methodology it advanced in the Company's most recent rate proceeding for the Eastern group, which was rejected by the Commission in Decision No. 66849 (p. 16). Staff's methodology uses a composite rate based on all depreciable plant accounts, including those accounts

such as office furniture and power operated equipment, which do not typically include contributed plant. The Commission should continue to apply the Company's current CIAC amortization rate of 2.00% in this proceeding.

Response to the Direct Testimony of RUCO Witness Rigsby

*RUCO Income Statement Adjustment No. 1*

**Q. DOES THE COMPANY ACCEPT RUCO INCOME STATEMENT ADJUSTMENT NO. 1 TO REDUCE LABOR EXPENSE BY $302,000 TO REFLECT RUCO'S NORMALIZATION OF OVERTIME HOURS BASED ON A 4 YEAR AVERAGE OF 2005 THROUGH 2008?**

A. No. The Company does not accept RUCO income statement adjustment No. 1. While Mr. Rigsby correctly states that the Company incurred approximately 28,000 hours of overtime during the test year, he fails to distinguish between the portion of those hours that were charged to O&M expense and the portion that was capitalized. As a result, his adjustment incorrectly assumes that all 28,000 hours of test year overtime were charged to O&M expense, and therefore included in the Company's test year operating expenses. The number of overtime hours actually charged to O&M expense during the test year was 19,180. Mr. Rigsby has overstated the number of test year overtime hours charged to O&M expense by approximately 8,820 hours, and therefore, his adjustment is fundamentally flawed.

**Q. DID MR. RIGSBY EXAMINE AND IDENTIFY ANY OTHER AREAS OF THE COST OF SERVICE WHICH, AS A RESULT OF A KNOWN AND MEASURABLE CHANGE IN CONDITIONS, WOULD HAVE THE OPPOSTIE INCOME EFFECT OF HIS ADJUSTMENT?**

A. No. RUCO singled out test year overtime hours, but failed to normalize or otherwise adjust the test year billing determinants to reflect the 6.47% decline in overall water usage or the 48.95% decline in construction water usage. These

changes represent $2.4 million and $586,591 in unrealized revenues at proposed rates, respectively. The lost revenues resulting from a decline in construction water sales alone is nearly double the amount of RUCO's payroll adjustment which, as explained in my previous answer, is overstated due to Mr. Rigsby's error. Again, this form of piecemeal ratemaking artificially lowers revenues through self-serving selection of certain components of the ratemaking equation.

**Q. ARE THERE ANY OTHER KNOWN AND MEASURABLE CHANGES TO THE TEST YEAR BILLING DETERMINANTS THAT SHOULD BE CONSIDERED IF THE COMMISSION WERE TO ADOPT THE TYPES OF NORMALIZING ADJUSTMENTS PROPOSED BY STAFF AND RUCO?**

A. Yes. As I discussed above, the Company's two largest customers, Abbott and Frito-Lay, have stated goals of significantly reducing the amount of water they purchase from the Company. In 2008, Abbott reduced the amount of water it purchased from the Company by approximately 18% compared to the test year. This reduction represents $120,973 in unrealized revenues at proposed rates. In the first six months of 2009, Abbott further reduced its usage by another 12.15% compared to the same period in 2008, representing an additional $36,074 in unrealized revenue. Further, as Abbott witness Mr. Chasse explains on page 4 of his testimony, Abbott has established a goal of 40% water use reduction by 2011. Also in 2008, Frito-Lay reduced the amount of water it purchased from the Company by nearly 9% compared to the test year, and reduced the amount of water it purchased by an additional 15.7% in the first six months of 2009, representing unrealized revenues at proposed rates of $22,044 and $18,177, respectively.

Clearly, if the Commission is to consider the types of normalizing adjustments proposed by Staff and RUCO in this proceeding, then it should examine all areas of the cost of service, including unrealized revenues resulting from reductions in usage.

*RUCO Income Statement Adjustments Nos. 2, 3, & 6*

**Q. DOES THE COMPANY ACCEPT RUCO INCOME STATEMENT ADJUSTMENTS NOS. 2, 3, AND 6, TO ADJUST PAYROLL TAXES, 401(K), AND INSURANCE EXPENSE TO COINCIDE WITH RUCO'S LABOR ADJUSTMENT?**

A. No. RUCO income statement adjustments Nos. 2, 3, and 6 are related to its payroll overtime adjustment which, as explained above, the Company does not accept.

*RUCO Income Statement Adjustment No. 4*

**Q. DOES THE COMPANY ACCEPT RUCO INCOME STATEMENT ADJUSTMENT NO. 4, TO REMOVE THE COMPANY'S CONSERVATION ADJUSTMENT IN THE NORTHERN GROUP?**

A. No. The Company does not accept RUCO income statement adjustment No. 4 for the same reasons stated above with respect to Staff income statement adjustment No. 5. However, the Company would accept the adjustment in the event RUCO supports, as it has in the past, the concept of a water revenue adjustment mechanism ("WRAM") designed to provide for the recovery of lost revenues that result from a reduction in average usage per customer.

**Q. WHEN HAS RUCO SUPPORTED SUCH A MECHANISM FOR THE COMPANY?**

A. In Docket No. 91-227, RUCO recognized that a successful conservation program would expose the Company to potential revenue losses and it would be inappropriate to penalize the Company in such a way. In that case, RUCO testified that the effects of conservation programs on the recovery of costs must be explicitly addressed within the ratemaking process.[9] Accordingly, RUCO

[9] See direct testimony of Bruce R. Oliver, p. 19 at 18 – 21, on behalf of RUCO in Docket No. 91-227.

proposed a surcharge mechanism designed to recover such lost revenues. In addition, RUCO recommended that for the first year of implementation of its proposed surcharge, the Company should be permitted to assume a 5% loss of sales due to conservation, not unlike the conservation adjustment proposed by the Company for the Northern group in this case.[10] I believe a WRAM would alleviate the concerns Mr. Rigsby expresses on pages 15 and 16 of his testimony regarding whether or not customers in the Northern group are already conserving water.

*RUCO Income Statement Adjustment No. 5*

**Q. DOES THE COMPANY ACCEPT RUCO INCOME STATEMENT ADJUSTMENT NO. 5, TO ADD PURCHASED POWER ADJUSTER MECHANISM ("PPAM") REVENUES BACK INTO TEST YEAR REVENUES?**

A. No. Surcharge revenues collected and credits provided during the test year are properly removed when determining the appropriate level of test year operating revenues. These surcharges and credits will effectively be reset to zero at the conclusion of this proceeding regardless of whether or not the Commission approves the Company's request to continue its PPAM in the Northern group. These revenues are therefore nonrecurring and should be removed from test year operating revenues.

*RUCO Income Statement Adjustment No. 9*

**Q. DOES THE COMPANY ACCEPT RUCO INCOME STATEMENT ADJUSTMENT NO. 9, TO REFLECT $300,000 IN RATE CASE EXPENSE INSTEAD OF $500,000 PROPOSED BY THE COMPANY?**

A. No. The Company continues to propose total rate case expense of $500,000 amortized over three years. As I explained on page 25 (lines 5 – 12) of my direct

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[10] See direct testimony of Bruce R. Oliver, p. 24 at 11 – 15, on behalf of RUCO in Docket No. 91-227.

testimony, the Company's requested rate case expense is based on a comparison of the amount of rate case expense actually incurred and allowed in the most recent rate cases for the Eastern, Western, and Northern groups. Consideration was given to the relative sizes of the prior cases in terms of the number of systems involved, and their total operating revenues and expenses, as well as the number and complexity of the issues involved.

According to Mr. Rigsby on page 21 (lines 1 – 11) of his testimony, RUCO will revise its recommendation after the hearing in this proceeding. The Company will continue to provide the parties updated rate case expenses throughout this proceeding.

## VI. Casa Grande Industrial Rate Design

Response to the Direct Testimony of Abbott Witness Chasse

**Q. IS ABBOT THE COMPANY'S LARGEST CUSTOMER?**

A. Yes. Abbott is the Company's largest customer. However, as noted by Mr. Chasse on page 3 of his direct testimony and discussed above, Abbott has significantly reduced the amount of water it purchases from the Company.

**Q. DOES THE COMPANY AGREE WITH THE DESCRIPTION OF THE SERVICE PROVIDED TO ABBOTT AS SET FORTH IN SECTION III OF MR. CHASSE'S DIRECT TESTIMONY IN THIS PROCEEDING?**

A. Yes. As explained by Mr. Chasse, the Company provides water service to Abbott primarily from its Well No. 20, and also from Well No. 17 and Well No. 26 located in the Casa Grande system, to the Abbott facility through a seven-mile dedicated pipeline. Although the water produced by Well No. 20 exceeds the maximum containment level for arsenic (0.014 Mg/l), the only treatment it receives prior to being delivered to Abbott is chlorination. Abbott currently pays the rates and charges set forth in the Company's General Service tariff for the Casa Grande system, which includes the arsenic cost recovery mechanism

("ACRM") surcharge. The Casa Grande General Service tariff includes a $95.47 monthly minimum ACRM surcharge (6-inch meter) and a $.2147 ACRM surcharge per thousand gallons consumed.

**Q. SO THE COMPANY IS CHARGING ABBOTT THE ACRM SURCHARGE BUT NOT USING THOSE FUNDS TO REMOVE ARSENIC?**

A. No. The ACRM surcharge reflects actual costs incurred for the treatment of arsenic and the Company is in no way collecting a surcharge to recover costs it does not incur. Abbott is currently a general service customer of the Company and as such is subject to the Company's General Service tariff, which makes no provision for a customer who receives water that was not treated for arsenic (whether such water needs treatment or not) to opt out of the ACRM surcharge. Such averaging of costs across customers in a single-tariff system is not unique to the treatment and removal of arsenic, as the cost of serving two customers in the same class can vary greatly depending on such differences as distance from the source of supply, and the size and type of mains serving the areas. Unfortunately, it is neither practical nor likely possible to determine the cost of service and develop a different rate for each customer served. Instead, we attempt to assign costs to classes of customers (i.e. residential, commercial, and industrial) in a manner that rates can be designed that come as close as possible to equaling the cost of providing service to each of those classes.

**Q. IS THAT WHY THE COMPANY PREPARED A COST OF SERVICE STUDY IN THIS PROCEEDING?**

A. Yes. As stated on page 33, lines 9 through 16, of my direct testimony, I prepared a cost of service study in this proceeding to provide a basis for creating separate and distinct rate schedules for the residential, commercial, and industrial classes of customers. Under the Company's current rate design, customer classes are determined by meter size only. As a result, Abbott pays the same rate, and is assumed to have the same cost of service, as every other customer in the Casa

Grande system. The cost of service study prepared by the Company and shown on the G schedules of the Company's application show that industrial customers, including Abbott, have a cost of service that is significantly different from that of the residential and commercial customer classes, and that they are in fact, providing a substantial rate subsidy to these other classes.

**Q. IF ABBOTT AND THE OTHER INDUSTRIAL CUSTOMERS OF THE COMPANY ARE CURRENTLY PAYING MORE THAN THEIR COST OF SERVICE, WHY HASN'T THE COMPANY PROPOSED TO REDUCE THE LEVEL OF REVENUES ALLOCATED TO THE INDUSTRIAL CLASS IN ITS RATE DESIGN?**

A. As explained in my direct testimony (p. 35, lines 13 – 18), the Company chose not to reduce the level of revenues allocated to this class because this is the first proceeding where different rate schedules will be developed for residential, commercial and industrial customers and costs are expected to continue to increase in the future. The Company instead proposes to bring rates closer to the cost of service by gradual steps rather than by drastic change. Further, the Company is concerned with the conflicting signal that it may be sending to customers who could receive a significant rate decrease at the same time the Company is actively promoting water conservation.

**Q. WOULD IT BE FAIR FOR THE COMMISSION TO SIGNIFICANTLY INCREASE THE RATES CHARGED TO THE COMPANY'S INDUSTRIAL CUSTOMERS?**

A. No, it would not. The evidence in this case suggests that industrial customers are already paying water rates that are significantly higher than cost and likely higher than value. It would simply be unfair and discriminatory to expect industrial customers to significantly increase the subsidy they currently provide to residential, commercial, and other customers.

**Q. WHAT DO YOU MEAN BY "VALUE" IN YOUR PREVIOUS ANSWER?**

A. Economics tells us that the seller of a product or service cannot force customers to pay more than what they believe the service is worth, the upper ceiling is the value of service. A price set above this limit would result in reduced sales. We know based on actual data and the testimony of Mr. Chasse, that Abbott has not only significantly reduced the amount of water it purchases, but has set a goal of further reductions. Additionally, Frito-Lay, who is the Company's second largest customer and is also located in the Casa Grande system, has a stated goal of removing its Casa Grande manufacturing plant from the water, natural gas, and electricity grids.[11] As noted in section II above, in 2008, Frito-Lay reduced the amount of water it purchased from the Company by nearly 9% compared to the test year, and reduced the amount of water it purchased by an additional 15.7% in the first six months of 2009.

**Q. DO YOU BELIEVE IT WOULD BE APPROPRIATE FOR THE COMMISSION TO CONTINUE TO IMPOSE AN INVERTED TIER RATE DESIGN ON INDUSTRIAL CUSTOMERS IN THIS PROCEEDING?**

A. No, I do not believe that would be fair, nor do I believe it would be any more effective than the flat rate proposed by the Company. This is because the flat commodity rate proposed by the Company is already higher than cost. In other words, the flat rate is representative of what the second tier commodity rate would be under an inverted tier design. Further, the Company's two largest industrial customers have already begun to implement conservation measures, and the Commission must consider what the future effects on residential and commercial customers will be if it increases the current rates charged to industrial customers who have definite plans to further reduce water consumption.

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[11] See "Snack Production Goes Green." The Arizona Republic. January 3, 2008.

**Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**

A. Yes.

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Summary Results of Operations



| Line No. | Description | Total Company [A] Prior Years Ended 12/31/2005 | [B] Prior Years Ended 12/31/2006 | [C] Test Year Actual 12/31/2007 | [D] Test Year Adjusted - As Filed 12/31/2007 | [E] 2008 Results of Operations Actual 12/31/2008 | [F] Pro Forma Company - As Filed 12/31/2008 | [G] Pro Forma Company - Rebuttal 12/31/2008 | [H] Pro Forma Staff - Direct 12/31/2008 | [I] Pro Forma RUCO - Direct 12/31/2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Gross Revenues | $ 42,215,916 | $ 44,988,676 | $ 46,826,504 | $ 43,362,605 | $ 49,629,881 | $ 56,300,024 | $ 54,742,572 | $ 50,516,788 | $ 49,126,532 |
| 2 | | | | | | | | | | |
| 3 | Operating Expenses | 31,774,367 | 34,734,086 | 38,302,059 | 38,633,346 | 40,671,906 | 40,671,906 | 40,671,906 | 40,671,906 | 40,671,906 |
| 4 | Income Taxes | 2,871,484 | 3,156,731 | 2,652,338 | (289,668) | 2,188,428 | 4,763,103 | 4,161,927 | 2,530,774 | 1,994,135 |
| 5 | Operating Income | $ 7,570,065 | $ 7,097,859 | $ 5,872,107 | $ 5,018,926 | $ 6,769,547 | $ 10,865,015 | $ 9,908,739 | $ 7,314,108 | $ 6,460,491 |
| 6 | | | | | | | | | | |
| 7 | Other Income and | | | | | | | | | |
| 8 | Deductions | 557,846 | 2,416,346 | 1,992,208 | - | 772,488 | 772,488 | 772,488 | 772,488 | 772,488 |
| 9 | Interest Expense | 2,025,726 | 3,048,463 | 3,984,196 | 5,479,715 | 4,598,464 | 4,598,464 | 4,598,464 | 4,598,464 | 4,598,464 |
| 10 | Net Income | $ 6,102,185 | $ 6,465,742 | $ 3,880,119 | $ (460,789) | $ 2,943,571 | $ 7,039,039 | $ 6,082,763 | $ 3,488,132 | $ 2,634,515 |
| 11 | | | | | | | | | | |
| 12 | | | | | | | | | | |
| 13 | | | | | | | | | | |
| 14 | Short-Term Debt | $ 9,850,000 | $ 7,800,000 | $ 32,000,000 | $ 32,000,000 | $ 7,300,000 | $ 3,204,532 | $ 4,160,808 | $ 6,755,439 | $ 7,064,495 |
| 15 | | | | | | | | | | |
| 16 | Long-Term Debt | 21,000,000 | 40,000,000 | 40,000,000 | 40,000,000 | 75,000,000 | 75,000,000 | 75,000,000 | 75,000,000 | 75,000,000 |
| 17 | | | | | | | | | | |
| 18 | Common Equity | 69,050,659 | 71,388,102 | 71,015,718 | 71,015,718 | 69,671,689 | 73,767,157 | 72,810,881 | 70,216,250 | 69,907,194 |
| 19 | | | | | | | | | | |
| 20 | Total Capital | $ 99,900,659 | $ 119,188,102 | $ 143,015,718 | $ 143,015,718 | $ 151,971,689 | $ 151,971,689 | $ 151,971,689 | $ 151,971,689 | $ 151,971,689 |
| 21 | | | | | | | | | | |
| 22 | | | | | | | | | | |
| 23 | | | | | | | | | | |
| 24 | Return on Average | | | | | | | | | |
| 25 | Invested Capital | 8.03% | 6.48% | 4.48% | 3.83% | 4.59% | 7.37% | 6.72% | 4.96% | 4.38% |
| 26 | | | | | | | | | | |
| 27 | Return on Year End | | | | | | | | | |
| 28 | Capital | 7.58% | 5.96% | 4.11% | 3.51% | 4.45% | 7.15% | 6.52% | 4.81% | 4.25% |
| 29 | | | | | | | | | | |
| 30 | Return on Average | | | | | | | | | |
| 31 | Common Equity | 8.98% | 9.21% | 5.45% | -0.65% | 4.18% | 9.72% | 8.46% | 4.94% | 3.74% |
| 32 | | | | | | | | | | |
| 33 | Return on Year End | | | | | | | | | |
| 34 | Common Equity | 8.84% | 9.06% | 5.46% | -0.65% | 4.22% | 9.54% | 8.35% | 4.97% | 3.77% |
| 35 | | | | | | | | | | |
| 36 | Pre-Tax Interest Coverage | 5.15 | 3.36 | 2.14 | 0.86 | 1.95 | 3.40 | 3.06 | 2.14 | 1.84 |
| 37 | | | | | | | | | | |
| 38 | | | | | | | | | | |
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| 54 | | | | | | | | | | |
| 55 | [1]S&P Ratings Direct | | | | | | | | | |

ARIZONA WATER COMPANY
Test Year Ended Decemer 31, 2007
Docket No. W-01445A-08-0440
Summary of Staff Recommended Plant Disallowances



| | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] |
|---|---|---|---|---|---|---|---|---|---|
| Line No. | System | Description 1 | Description 2 | Original Cost | Accumulated Depreciation At 12/31/2007 | CIAC Amt | NARUC Acct. | Notes Provided in Response to Staff D.R. BKB 11.16 | Company Rebuttal Position |
| 1 | Superstition | Ranch 160 W1 | 55-583450 | $ 316,447 | $ 60,109 | n/a | 314 | Plant held for future use | Include in Rate Base |
| 2 | Superstition | Ranch 160 W2 | 55-588620 | $ 484,606 | $ 79,500 | $ 484,606 | 314 | Plant held for future use | Include in Rate Base |
| 3 | Superstition | Queen Creek Pump Station | Fence | $ 7,306 | $ 2,255 | n/a | 321 | Currently in use | Include in Rate Base |
| 4 | Superstition | Queen Creek Pump Station | 10' x 10' Block Building | $ 1,173 | $ 1,486 | n/a | 321 | Needs to be retired | Retire |
| 5 | Superstition | Queen Creek Pump Station | 5 Pumps/Panel | $ 57,030 | $ 80,620 | n/a | 325 | Plant held for future use | Include in Rate Base |
| 6 | Superstition | Queen Creek Pump Station | Automatic Controls | $ 7,684 | $ 6,329 | n/a | 325 | Needs to be retired | Retire |
| 7 | Superstition | Queen Creek Pump Station | Filter System | $ 3,057 | $ 1,973 | n/a | 332 | Needs to be retired | Retire |
| 8 | Superstition | Desert Station Wells #1-3 | 20' T x 10' D Storage Tank | $ 500 | $ 655 | n/a | 342 | Needs to be retired | Retire |
| 9 | Superstition | Office/Warehouse | Mobile Radio Base Station | $ 7,088 | $ 4,553 | n/a | 397 | Needs to be retired | Retire |
| 10 | | | | $ 884,891 | $ 237,480 | $ 484,606 | | | |
| 11 | | | | | | | | | |
| 12 | Bisbee | Black Gap Repeater Station | 5' x 8' Metal Building | $ 704 | $ 746 | n/a | 397 | Needs to be retired | Retire |
| 13 | | | | $ 704 | $ 746 | | | | |
| 14 | | | | | | | | | |
| 15 | Winkelman | Well #2 | 55-616694 | $ 66,360 | $ 79,635 | n/a | 314 | Needs to be retired | Retire |
| 16 | | | | $ 66,360 | $ 79,635 | $ - | | | |
| 17 | | | | | | | | | |
| 18 | Miami | Well #23 Inactive | 55-528263 | $ 77,542 | $ 34,813 | n/a | 314 | Plant held for future use | Include in Rate Base |
| 19 | Miami | Bandy Heights Well #17 | 2 Booster Pumps 100HP/Panel | $ 201,695 | $ 41,509 | n/a | 325 | Plant held for future use | Include in Rate Base |
| 20 | | | | $ 279,237 | $ 76,321 | $ - | | | |
| 21 | | | | | | | | | |
| 22 | Casa Grande | Well #34 | 55-616588 | $ 22,742 | $ 22,923 | n/a | 314 | Plant held for future use | Include in Rate Base |
| 23 | Casa Grande | Well #9 | 55-616594 | $ 136,862 | $ 173,397 | n/a | 314 | Plant held for future use | Include in Rate Base |
| 24 | Casa Grande | Inactive | 55-616583 | $ 115,205 | $ 101,202 | n/a | 314 | Plant held for future use | Retire (High in Nitrates) |
| 25 | Casa Grande | Inactive | 55-613443 (Originally provided DWR No. 55-616598) | $ 159,393 | $ 135,923 | n/a | 314 | Currently in Use | Include in Rate Base |
| 26 | Casa Grande | Inactive | 55-616597 | $ 248,844 | $ 167,037 | n/a | 314 | Plant held for future use | Include in Rate Base |
| 27 | Casa Grande | Inactive | 55-616602 | $ 373,272 | $ 211,888 | n/a | 314 | Needs to be retired | Retire |
| 28 | | | | $ 1,056,318 | $ 812,369 | $ - | | | |
| 29 | | | | | | | | | |
| 30 | Stanfield | Table Top Well #3 | 6,000 Gallon Pressure Tank | $ 2,500 | $ 2,960 | n/a | 321 | Plant held for future use | Include in Rate Base |
| 31 | Stanfield | Table Top Well #3 | Liquid Chlorinator & Building | $ 35,041 | $ 7,904 | n/a | 332 | Plant held for future use | Include in Rate Base |
| 32 | Stanfield | Table Top Well #3 | 16,000 Gallon Storage Tank | $ 5,100 | $ 6,214 | n/a | 342 | Needs to be retired | Retire |
| 33 | | | | $ 42,641 | $ 17,077 | $ - | | | |
| 34 | | | | | | | | | |
| 35 | White Tank | Mar West Well #5 | Fence | $ 2,430 | $ 1,757 | n/a | 314 | Currently in use | Include in Rate Base |
| 36 | White Tank | Mar West Well #5 | 5,000 Gal Pressure Tank | $ 1,752 | $ 1,257 | n/a | 321 | Plant held for future use | Include in Rate Base |
| 37 | White Tank | Mar West Well #5 | 2 Booster Pumps 20 HP & 10 HP Pump/Panels | $ 33,352 | $ 25,950 | n/a | 325 | Plant held for future use | Include in Rate Base |
| 38 | White Tank | Well #8 | Hypochlorinator Cabinet | $ 746 | $ 130 | n/a | 331 | Plant held for future use | Include in Rate Base |
| 39 | White Tank | Well #7 - Warehouse | Hypochlorinator Cabinet | $ 158 | $ 154 | n/a | 331 | Plant held for future use | Include in Rate Base |
| 40 | | | | $ 38,438 | $ 29,248 | $ - | | | |
| 41 | | | | | | | | | |
| 42 | Coolidge | Well #1 | 55-616686 | $ 16,588 | $ 33,046 | n/a | 314 | Plant held for future use | Include in Rate Base |
| 43 | Coolidge | Well #11 | 55-210293 | $ 839,736 | $ 13,142 | $ 839,736 | 314 | Plant held for future use | Include in Rate Base |
| 44 | | | | $ 856,324 | $ 46,188 | $ 839,736 | | | |
| 45 | | | | | | | | | |
| 46 | Lakeside | Well #1 | 55-616581 | $ 313,824 | $ 207,265 | n/a | 314 | Plant held for future use | Include in Rate Base |
| 47 | | | | $ 313,824 | $ 207,265 | $ - | | | |

ARIZONA WATER COMPANY
Test Year Ended Decemer 31, 2007
Docket No. W-01445A-08-0440
Summary of Staff Recommended Plant Disallowances



| | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] |
|---|---|---|---|---|---|---|---|---|---|
| Line No. | System | Description 1 | Description 2 | Original Cost | Accumulated Depreciation At 12/31/2007 | CIAC Amt | NARUC Acct. | Notes Provided in Response to Staff D.R. BKB 11.16 | Company Rebuttal Position |
| 1 | Sedona | Inactive | 55-516201 | $ 973,264 | $ 441,132 | n/a | 314 | Plant held for future use | Include in Rate Base |
| 2 | Sedona | Inactive | 55-616660 | $ 45,969 | $ 56,553 | n/a | 314 | Needs to be retired | Retire |
| 3 | Sedona | Well #6 | 55-616662 | $ 103,222 | $ 153,723 | n/a | 314 | Plant held for future use | Include in Rate Base |
| 4 | Sedona | Carroll Canyon Well | | $ 413,817 | $ 1,249 | n/a | 314 | Not in Service | Remove from Rate Base |
| 5 | Sedona | VV Well #1 | 55-616672 | $ 184,328 | $ 159,932 | n/a | 314 | Needs to be retired | Retire |
| 6 | Sedona | Sunup Well Site | 55-632272 | $ 78,804 | $ 111,236 | n/a | 314 | Plant held for future use | Retire |
| 7 | Sedona | Sunup Well Site | 8' x 12' Block Building | $ 469 | $ 310 | n/a | 314 | Currently in use | Include in Rate Base |
| 8 | Sedona | Sunup Well Site | Automatic Controls | $ 555 | $ 640 | n/a | 314 | Needs to be retired | Retire |
| 9 | Sedona | Sunup Well Site | Fence | $ 11,689 | $ 5,601 | n/a | 314 | Currently in use | Include in Rate Base |
| 10 | Sedona | Sunup Well Site | 5 HP Pump/Panel | $ 6,761 | $ 2,889 | n/a | 325 | Plant held for future use | Include in Rate Base |
| 11 | | | | $ 1,818,878 | $ 933,265 | $ - | | | |
| 12 | | | | | | | | | |
| 13 | Pinewood | Inactive | 55-616650 | $ 13,512 | $ 10,674 | n/a | 314 | Needs to be retired | Retire |
| 14 | Pinewood | Well No. 10 | WA 1-4308 Electrical Panel | $ 40,553 | $ 1,191 | n/a | 325 | To be placed in service | Include in Rate Base |
| 15 | | | | $ 54,065 | $ 11,865 | $ - | | | |
| 16 | | | | | | | | | |
| 17 | Rimrock | MH1 | 55-803289 | $ 62,097 | $ 60,312 | n/a | 314 | Needs to be retired | Retire |
| 18 | | | | $ 62,097 | $ 60,312 | $ - | | | |
| 19 | | | | | | | | | |
| 20 | Totals | | | $ 5,473,778 | $ 2,511,771 | $1,324,342 | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Analysis of Revenue by Detailed Class

Total Company

| Line No. | Class of Service | [A] Test Year 2007 Pro Forma Revenues at Proposed Rates: Average Number of Customers | [B] Average Consumption | [C] Rate Revenues | [D] 2008 Pro Forma Revenues At Proposed Rates: Average Number of Customers | [E] Average Consumption | [F] Rate Revenues | [G] Increase/(Decrease): Average Number of Customers | [H] % | [I] Average Consumption | [J] % | [K] Rate Revenues | [L] % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | |
| 2 | Residential 5/8 x 3/4 -inch | 74,444 | 7,436 | $ 35,816,708 | 74,797 | 7,036 | $ 34,249,571 | 353 | 0.47% | (400) | -5.39% | (1,567,137) | -4.38% |
| 3 | Residential 1-inch | 2,988 | 14,861 | 3,448,216 | 3,075 | 13,860 | 3,447,278 | 87 | 2.90% | (1,001) | -6.74% | (938) | -0.03% |
| 4 | Residential 2-inch | 208 | 141,937 | 1,385,109 | 210 | 137,010 | 1,354,242 | 2 | 1.00% | (4,927) | -3.47% | (30,866) | -2.23% |
| 5 | Residential 3-inch | 13 | 454,311 | 236,828 | 21 | 245,879 | 241,632 | 8 | 62.42% | (208,432) | -45.88% | 4,803 | 2.03% |
| 6 | Residential 4-inch | 15 | 706,805 | 517,913 | 16 | 649,343 | 495,926 | 1 | 4.92% | (57,463) | -8.13% | (21,988) | -4.25% |
| 7 | Residential 6-inch | 22 | 811,950 | 896,173 | 22 | 810,253 | 879,227 | (0) | -1.14% | (1,697) | -0.21% | (16,945) | -1.89% |
| 8 | Residential 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 9 | Residential 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 10 | Commercial 5/8 x 3/4 -inch | 2,246 | 9,320 | 1,374,018 | 2,276 | 8,579 | 1,288,726 | 31 | 1.37% | (741) | -7.95% | (85,292) | -6.21% |
| 11 | Commercial 1-inch | 1,125 | 30,915 | 2,033,215 | 1,182 | 28,480 | 1,953,118 | 57 | 5.03% | (2,435) | -7.88% | (80,097) | -3.94% |
| 12 | Commercial 2-inch | 862 | 115,410 | 5,217,743 | 969 | 105,877 | 5,305,433 | 106 | 12.34% | (9,533) | -8.26% | 87,690 | 1.68% |
| 13 | Commercial 3-inch | 64 | 304,569 | 960,037 | 70 | 266,920 | 901,802 | 6 | 9.90% | (37,649) | -12.36% | (58,235) | -6.07% |
| 14 | Commercial 4-inch | 48 | 565,745 | 1,201,089 | 55 | 495,729 | 1,179,123 | 7 | 14.21% | (70,016) | -12.38% | (21,966) | -1.83% |
| 15 | Commercial 6-inch | 26 | 658,808 | 957,584 | 29 | 605,670 | 969,204 | 3 | 10.93% | (53,139) | -8.07% | 11,620 | 1.21% |
| 16 | Commercial 8-inch | 3 | 526,492 | 117,037 | 4 | 465,247 | 146,195 | 1 | 47.22% | (61,244) | -11.63% | 29,158 | 24.91% |
| 17 | Commercial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 18 | Industrial 5/8 x 3/4 -inch | 9 | 9,925 | 3,262 | 8 | 11,885 | 3,502 | (1) | -5.88% | 1,960 | 19.75% | 239 | 7.34% |
| 19 | Industrial 1-inch | 17 | 27,350 | 22,575 | 15 | 32,038 | 22,082 | (2) | -11.27% | 4,688 | 17.14% | (493) | -2.18% |
| 20 | Industrial 2-inch | 19 | 168,396 | 136,793 | 19 | 166,741 | 143,253 | (0) | -1.30% | (1,655) | -0.98% | 6,460 | 4.72% |
| 21 | Industrial 3-inch | 2 | 361,958 | 41,125 | 2 | 217,688 | 27,794 | - | 0.00% | (144,271) | -39.86% | (13,331) | -32.41% |
| 22 | Industrial 4-inch | 3 | 1,087,944 | 71,895 | 3 | 1,158,167 | 76,049 | - | 0.00% | 70,222 | 6.45% | 4,154 | 5.78% |
| 23 | Industrial 6-inch | 3 | 15,908,075 | 971,607 | 3 | 13,498,681 | 829,743 | - | 0.00% | (2,409,394) | -15.15% | (141,864) | -14.60% |
| 24 | Industrial 8-inch | 1 | 1,640,208 | 36,740 | 2 | 733,803 | 91,694 | 1 | 100.00% | (906,405) | -55.26% | 54,954 | 149.58% |
| 25 | Industrial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 26 | Construction Water (2-Inch) | - | 3,000 | 187 | - | - | - | - | 0.00% | (3,000) | -100.00% | (187) | -100.00% |
| 27 | Construction Water (3-Inch) | 157 | 127,436 | 1,229,254 | 122 | 94,128 | 812,384 | (35) | -22.55% | (33,308) | -26.14% | (416,870) | -33.91% |
| 28 | Construction Water (4-Inch) | 21 | 336,255 | 315,598 | 9 | 271,955 | 146,064 | (12) | -58.57% | (64,300) | -19.12% | (169,534) | -53.72% |
| 29 | | | | | | | | | | | | | |
| 30 | | | | | | | | | | | | | |
| 31 | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | |
| 33 | | | | | | | | | | | | | |
| 34 | | | | | | | | | | | | | |
| 35 | | | | | | | | | | | | | |
| 36 | Totals | 82,296 | 11,749 | $ 56,990,706 | 82,908 | 11,043 | $ 54,564,042 | 612 | 0.74% | (706) | -6.01% | (2,426,664) | -4.26% |
| 37 | | | | | | | | | | | | | |
| 38 | Total Residential | 77,690 | 8,523 | 42,300,947 | 78,141 | 8,074 | 40,667,876 | 450 | 0.58% | (448) | -5.26% | (1,633,071) | -3.86% |
| 39 | Total Commercial | 4,374 | 50,427 | 11,860,723 | 4,585 | 48,243 | 11,743,600 | 211 | 4.83% | (2,184) | -4.33% | (117,123) | -0.99% |
| 40 | Total Industrial | 54 | 1,063,128 | 1,283,997 | 52 | 952,703 | 1,194,118 | (2) | -3.10% | (110,426) | -10.39% | (89,879) | -7.00% |
| 41 | Total Construction Water | 178 | 151,974 | 1,545,039 | 130 | 105,953 | 958,448 | (48) | -26.78% | (46,021) | -30.28% | (586,591) | -37.97% |
| 42 | | | | | | | | | | | | | |
| 43 | Totals | 82,296 | 11,749 | $ 56,990,706 | 82,908 | 11,043 | $ 54,564,042 | 612 | 0.74% | (706) | -6.01% | $ (2,426,664) | -4.26% |
| 44 | | | | | | | | | | | | | |
| 45 | | | | | | | | | | | | | |
| 46 | | Test Year 2007 - Inclusive of Customer Growth Adjustment | | | 2008 Actual | | | Increase/(Decrease) | | | | | |
| 47 | | | | | | | | | | | | | |
| 48 | Total No. of Customers | Customers | Usage | | Customers | Usage | | Customers | Usage | | % | | |
| 49 | Res., Com., Ind., & Const. | 137,475 | | | 82,909 | | | (54,566) | | | | | |
| 50 | Residential Usage (M Gals) | | 8,009,564 | | | 7,571,045 | | | (438,519.2) | | -5.47% | | |
| 51 | Commercial Usage (M Gals) | | 2,732,250 | | | 2,654,270 | | | (77,980.3) | | -2.85% | | |
| 52 | Industrial Usage (M Gals) | | 685,718 | | | 601,310 | | | (84,408.1) | | -12.31% | | |
| 53 | Construction Usage (M Gals) | | 324,619 | | | 165,710 | | | (158,909.3) | | -48.95% | | |
| 54 | Total Usage | | 11,752,150.7 | | | 10,992,333.9 | | | (759,816.8) | | -6.47% | | |
| 55 | | | | | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Analysis of Revenue by Detailed Class

Eastern Group

| Line No. | Class of Service | [A] Test Year 2007 Pro Forma Revenues at Proposed Rates: Average Number of Customers | [B] Average Consumption | [C] Rate Revenues | [D] 2008 Pro Forma Revenues At Proposed Rates: Average Number of Customers | [E] Average Consumption | [F] Present Rates | [G] Increase/(Decrease): Average Number of Customers | [H] % | [I] Average Consumption | [J] % | [K] Rate Revenues | [L] % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | |
| 2 | Residential 5/8 x 3/4 -inch | 29,735 | 7,146 | $ 14,839,746 | 29,716 | 6,599 | $ 14,057,933 | (19) | -0.06% | (547) | -7.66% | (781,813) | -5.27% |
| 3 | Residential 1-inch | 1,919 | 11,488 | 2,046,876 | 1,841 | 11,215 | 1,934,703 | (78) | -4.06% | (273) | -2.38% | (112,174) | -5.48% |
| 4 | Residential 2-inch | 72 | 137,009 | 536,033 | 74 | 125,204 | 513,537 | 2 | 2.78% | (11,805) | -8.62% | (22,496) | -4.20% |
| 5 | Residential 3-inch | 4 | 371,467 | 75,544 | 4 | 345,796 | 70,898 | - | 0.00% | (25,671) | -6.91% | (4,646) | -6.15% |
| 6 | Residential 4-inch | 11 | 660,730 | 374,905 | 11 | 593,755 | 339,844 | - | 0.00% | (66,975) | -10.14% | (35,061) | -9.35% |
| 7 | Residential 6-inch | 13 | 888,368 | 635,575 | 13 | 870,864 | 610,018 | (0) | -2.56% | (17,504) | -1.97% | (25,556) | -4.02% |
| 8 | Residential 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 9 | Residential 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 10 | Commercial 5/8 x 3/4 -inch | 814 | 7,190 | 467,338 | 812 | 6,437 | 431,041 | (2) | -0.27% | (753) | -10.47% | (36,297) | -7.77% |
| 11 | Commercial 1-inch | 402 | 28,248 | 759,848 | 414 | 24,030 | 696,484 | 12 | 2.90% | (4,219) | -14.93% | (63,364) | -8.34% |
| 12 | Commercial 2-inch | 306 | 98,843 | 1,958,140 | 309 | 91,601 | 1,882,673 | 3 | 0.92% | (7,241) | -7.33% | (75,467) | -3.85% |
| 13 | Commercial 3-inch | 32 | 300,362 | 526,354 | 33 | 244,113 | 452,067 | 1 | 3.13% | (56,249) | -18.73% | (74,286) | -14.11% |
| 14 | Commercial 4-inch | 19 | 376,214 | 440,058 | 20 | 350,681 | 419,374 | 1 | 6.99% | (25,533) | -6.79% | (20,685) | -4.70% |
| 15 | Commercial 6-inch | 15 | 593,579 | 613,695 | 15 | 513,530 | 561,568 | 0 | 2.21% | (80,049) | -13.49% | (52,126) | -8.49% |
| 16 | Commercial 8-inch | 2 | 191,183 | 54,189 | 2 | 170,479 | 52,479 | - | 0.00% | (20,704) | -10.83% | (1,710) | -3.16% |
| 17 | Commercial 10-Inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 18 | Industrial 5/8 x 3/4 -inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 19 | Industrial 1-inch | 6 | 12,175 | 6,681 | 6 | 5,335 | 4,790 | - | 0.00% | (6,840) | -56.18% | (1,891) | -28.30% |
| 20 | Industrial 2-inch | 7 | 228,205 | 89,332 | 7 | 270,168 | 102,786 | - | 0.00% | 41,963 | 18.39% | 13,453 | 15.06% |
| 21 | Industrial 3-inch | 2 | 361,958 | 41,125 | 2 | 217,688 | 27,794 | - | 0.00% | (144,271) | -39.86% | (13,331) | -32.41% |
| 22 | Industrial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 23 | Industrial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 24 | Industrial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 25 | Industrial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 26 | Construction Water (2-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 27 | Construction Water (3-Inch) | 58 | 92,208 | 452,560 | 40 | 85,353 | 313,553 | (18) | -30.87% | (6,855) | -7.43% | (139,006) | -30.72% |
| 28 | Construction Water (4-Inch) | 2 | 250,090 | 42,109 | 2 | 790,550 | 96,415 | (0) | -10.34% | 540,460 | 216.11% | 54,305 | 128.96% |
| 29 | | | | | | | | | | | | | |
| 30 | | | | | | | | | | | | | |
| 31 | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | |
| 33 | | | | | | | | | | | | | |
| 34 | | | | | | | | | | | | | |
| 35 | | | | | | | | | | | | | |
| 36 | Totals | 33,420 | 10,372 | $ 23,960,107 | 33,322 | 9,585 | $ 22,567,957 | (98) | -0.29% | (787) | -7.59% | (1,392,150) | -5.81% |
| 37 | | | | | | | | | | | | | |
| 38 | Total Residential | 31,754 | 8,336 | 18,508,679 | 31,659 | 7,737 | 17,526,933 | (95) | -0.30% | (599) | -7.18% | (981,746) | -5.30% |
| 39 | Total Commercial | 1,591 | 46,281 | 4,819,620 | 1,606 | 41,704 | 4,495,685 | 15 | 0.94% | (4,577) | -9.89% | (323,935) | -6.72% |
| 40 | Total Industrial | 15 | 159,627 | 137,138 | 15 | 157,237 | 135,370 | - | 0.00% | (2,389) | -1.50% | (1,768) | -1.29% |
| 41 | Total Construction Water | 60 | 98,576 | 494,669 | 42 | 121,804 | 409,968 | (18) | -30.04% | 23,228 | 23.56% | (84,701) | -17.12% |
| 42 | | | | | | | | | | | | | |
| 43 | Totals | 33,420 | 10,372 | $ 23,960,107 | 33,322 | 9,585 | $ 22,567,957 | (98) | -0.29% | (787) | -7.59% | $ (1,392,150) | -5.81% |
| 44 | | | | | | | | | | | | | |
| 45 | | | | | | | | | | | | | |
| 46 | | Test Year 2007 - Inclusive of Customer Growth Adjustment | | | 2008 Actual | | | Increase/(Decrease) | | | | | |
| 47 | | | | | | | | | | | | | |
| 48 | Total No. of Customers | Customers | Usage | | Customers | Usage | | Customers | Usage | | % | | |
| 49 | Res., Com., Ind., & Const. | 152,105 | | | 33,322 | | | (118,783) | | | | | |
| 50 | Residential Usage (M Gals) | | 3,185,737 | | | 2,939,489 | | | (246,248.8) | | -7.73% | | |
| 51 | Commercial Usage (M Gals) | | 889,679 | | | 803,590 | | | (86,089.7) | | -9.68% | | |
| 52 | Industrial Usage (M Gals) | | 28,733 | | | 28,303 | | | (430.1) | | -1.50% | | |
| 53 | Construction Usage (M Gals) | | 70,876 | | | 61,268 | | | (9,608.5) | | -13.56% | | |
| 54 | Total Usage | | 4,175,025.7 | | | 3,832,648.6 | | | (342,377.1) | | -8.20% | | |
| 55 | | | | | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Analysis of Revenue by Detailed Class

Western Group

| Line No. | Class of Service | [A] Test Year 2007 Pro Forma Revenues at Proposed Rates: Average Number of Customers | [B] Average Consumption | [C] Rate Revenues | [D] 2008 Pro Forma Revenues At Proposed Rates: Average Number of Customers | [E] Average Consumption | [F] Present Rates | [G] Increase/(Decrease): Average Number of Customers | [H] % | [I] Average Consumption | [J] % | [K] Rate Revenues | [L] % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | |
| 2 | Residential 5/8 x 3/4 -inch | 26,831 | 9,052 | $ 12,314,298 | 27,122 | 8,928 | $ 12,127,706 | 292 | 1.09% | (124) | -1.37% | (186,592) | -1.52% |
| 3 | Residential 1-inch | 557 | 25,420 | 733,718 | 684 | 19,995 | 819,776 | 127 | 22.74% | (5,426) | -21.34% | 86,058 | 11.73% |
| 4 | Residential 2-inch | 87 | 185,161 | 595,225 | 86 | 184,345 | 584,337 | (1) | -0.86% | (816) | -0.44% | (10,888) | -1.83% |
| 5 | Residential 3-inch | 8 | 520,236 | 138,670 | 7 | 470,921 | 113,904 | (1) | -10.31% | (49,315) | -9.48% | (24,766) | -17.86% |
| 6 | Residential 4-inch | 2 | 1,167,930 | 83,948 | 3 | 1,019,672 | 98,745 | 1 | 33.33% | (148,257) | -12.69% | 14,797 | 17.63% |
| 7 | Residential 6-inch | 8 | 661,989 | 212,269 | 8 | 688,544 | 220,328 | 0 | 1.04% | 26,556 | 4.01% | 8,059 | 3.80% |
| 8 | Residential 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 9 | Residential 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 10 | Commercial 5/8 x 3/4 -inch | 920 | 9,957 | 496,604 | 940 | 9,036 | 456,417 | 20 | 2.18% | (922) | -9.25% | (40,187) | -8.09% |
| 11 | Commercial 1-inch | 455 | 32,429 | 723,999 | 502 | 29,740 | 711,148 | 47 | 10.29% | (2,690) | -8.29% | (12,851) | -1.77% |
| 12 | Commercial 2-inch | 370 | 145,180 | 2,225,744 | 469 | 127,045 | 2,418,992 | 99 | 26.63% | (18,135) | -12.49% | 193,247 | 8.68% |
| 13 | Commercial 3-inch | 26 | 262,312 | 290,446 | 31 | 258,224 | 323,016 | 5 | 20.51% | (4,088) | -1.56% | 32,570 | 11.21% |
| 14 | Commercial 4-inch | 21 | 826,469 | 618,655 | 26 | 671,715 | 612,348 | 5 | 22.92% | (154,754) | -18.72% | (6,307) | -1.02% |
| 15 | Commercial 6-inch | 9 | 791,214 | 271,571 | 11 | 742,109 | 336,604 | 3 | 28.30% | (49,105) | -6.21% | 65,033 | 23.95% |
| 16 | Commercial 8-inch | - | - | - | 1 | 682,653 | 47,177 | 1 | 0.00% | 682,653 | 0.00% | 47,177 | 0.00% |
| 17 | Commercial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 18 | Industrial 5/8 x 3/4 -inch | 6 | 11,372 | 2,129 | 5 | 12,488 | 1,860 | (1) | -16.67% | 1,116 | 9.81% | (269) | -12.65% |
| 19 | Industrial 1-inch | 9 | 34,647 | 10,608 | 8 | 43,279 | 11,575 | (1) | -10.19% | 8,632 | 24.91% | 967 | 9.11% |
| 20 | Industrial 2-inch | 12 | 134,220 | 47,460 | 12 | 106,408 | 40,467 | (0) | -2.04% | (27,811) | -20.72% | (6,993) | -14.73% |
| 21 | Industrial 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 22 | Industrial 4-inch | 3 | 1,087,944 | 71,895 | 3 | 1,158,167 | 76,049 | - | 0.00% | 70,222 | 6.45% | 4,154 | 5.78% |
| 23 | Industrial 6-inch | 3 | 15,908,075 | 971,607 | 3 | 13,498,681 | 829,743 | - | 0.00% | (2,409,394) | -15.15% | (141,864) | -14.60% |
| 24 | Industrial 8-inch | 1 | 1,640,208 | 36,740 | 2 | 973,546 | 77,190 | 1 | 100.00% | (666,663) | -40.64% | 40,450 | 110.10% |
| 25 | Industrial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 26 | Construction Water (2-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 27 | Construction Water (3-Inch) | 86 | 155,940 | 660,009 | 74 | 103,905 | 447,492 | (13) | -14.85% | (52,035) | -33.37% | (212,518) | -32.20% |
| 28 | Construction Water (4-Inch) | 19 | 347,511 | 273,489 | 7 | 99,090 | 49,649 | (12) | -64.86% | (248,421) | -71.49% | (223,840) | -81.85% |
| 29 | | | | | | | | | | | | | |
| 30 | | | | | | | | | | | | | |
| 31 | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | |
| 33 | | | | | | | | | | | | | |
| 34 | | | | | | | | | | | | | |
| 35 | | | | | | | | | | | | | |
| 36 | Totals | 29,434 | 15,925 | $ 20,779,085 | 30,005 | 15,248 | $ 20,404,522 | 572 | 1.94% | (677) | -4.25% | (374,563) | -1.80% |
| 37 | | | | | | | | | | | | | |
| 38 | Total Residential | 27,493 | 10,376 | 14,078,127 | 27,911 | 10,167 | 13,964,796 | 418 | 1.52% | (209) | -2.02% | (113,332) | -0.81% |
| 39 | Total Commercial | 1,801 | 60,458 | 4,627,019 | 1,981 | 59,498 | 4,905,701 | 180 | 9.97% | (960) | -1.59% | 278,681 | 6.02% |
| 40 | Total Industrial | 34 | 1,595,694 | 1,140,440 | 33 | 1,438,997 | 1,036,884 | (1) | -3.41% | (156,697) | -9.82% | (103,556) | -9.08% |
| 41 | Total Construction Water | 105 | 189,720 | 933,499 | 80 | 103,514 | 497,141 | (25) | -23.67% | (86,205) | -45.44% | (436,357) | -46.74% |
| 42 | | | | | | | | | | | | | |
| 43 | Totals | 29,434 | 15,925 | $ 20,779,085 | 30,005 | 15,248 | $ 20,404,522 | 572 | 1.94% | (677) | -4.25% | $ (374,563) | -1.80% |
| 44 | | | | | | | | | | | | | |
| 45 | | | | | | | | | | | | | |
| 46 | | Test Year 2007 - Inclusive of Customer Growth Adjustment | | | 2008 Actual | | | Increase/(Decrease) | | | | | |
| 47 | | | | | | | | | | | | | |
| 48 | Total No. of Customers | Customers | Usage | | Customers | Usage | | Customers | Usage | | % | | |
| 49 | Res., Com., Ind., & Const. | (14,648) | | | 30,005 | | | 44,653 | | | | | |
| 50 | Residential Usage (M Gals) | | 3,469,486 | | | 3,405,255 | | | (64,230.9) | | -1.85% | | |
| 51 | Commercial Usage (M Gals) | | 1,385,725 | | | 1,414,380 | | | 28,654.3 | | 2.07% | | |
| 52 | Industrial Usage (M Gals) | | 655,830 | | | 571,282 | | | (84,548.4) | | -12.89% | | |
| 53 | Construction Usage (M Gals) | | 238,857 | | | 99,477 | | | (139,379.9) | | -58.35% | | |
| 54 | Total Usage | | 5,749,898.7 | | | 5,490,393.9 | | | (259,504.8) | | -4.51% | | |
| 55 | | | | | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Analysis of Revenue by Detailed Class

Northern Group

| Line No. | Class of Service | [A] Test Year 2007 Pro Forma Revenues at Proposed Rates: Average Number of Customers | [B] Average Consumption | [C] Rate Revenues | [D] 2008 Pro Forma Revenues At Proposed Rates: Average Number of Customers | [E] Average Consumption | [F] Present Rates | [G] Increase/(Decrease): Average Number of Customers | [H] % | [I] Average Consumption | [J] % | [K] Rate Revenues | [L] % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | |
| 2 | Residential 5/8 x 3/4 -inch | 17,879 | 5,495 | $ 8,662,664 | 17,958 | 4,901 | $ 8,063,932 | 79 | 0.44% | (593) | -10.80% | (598,732) | -6.91% |
| 3 | Residential 1-inch | 511 | 16,012 | 667,622 | 549 | 15,086 | 692,800 | 38 | 7.44% | (926) | -5.78% | 25,178 | 3.77% |
| 4 | Residential 2-inch | 49 | 72,668 | 253,851 | 50 | 72,829 | 256,368 | 1 | 1.69% | 162 | 0.22% | 2,518 | 0.99% |
| 5 | Residential 3-inch | 1 | 252,792 | 22,614 | 10 | 42,758 | 56,829 | 9 | 900.00% | (210,034) | -83.09% | 34,215 | 151.30% |
| 6 | Residential 4-inch | 2 | 441,458 | 59,060 | 2 | 399,583 | 57,336 | - | 0.00% | (41,875) | -9.49% | (1,724) | -2.92% |
| 7 | Residential 6-inch | 1 | 1,018,217 | 48,329 | 1 | 1,026,333 | 48,881 | - | 0.00% | 8,117 | 0.80% | 552 | 1.14% |
| 8 | Residential 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 9 | Residential 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 10 | Commercial 5/8 x 3/4 -inch | 511 | 11,563 | 410,076 | 524 | 11,075 | 401,268 | 13 | 2.53% | (488) | -4.22% | (8,808) | -2.15% |
| 11 | Commercial 1-inch | 268 | 32,347 | 549,369 | 266 | 33,031 | 545,486 | (2) | -0.72% | 683 | 2.11% | (3,883) | -0.71% |
| 12 | Commercial 2-inch | 186 | 83,349 | 1,033,859 | 191 | 76,951 | 1,003,769 | 5 | 2.70% | (6,398) | -7.68% | (30,090) | -2.91% |
| 13 | Commercial 3-inch | 6 | 510,124 | 143,238 | 6 | 437,775 | 126,719 | - | 0.00% | (72,349) | -14.18% | (16,519) | -11.53% |
| 14 | Commercial 4-inch | 8 | 328,263 | 142,375 | 9 | 309,369 | 147,401 | 1 | 8.42% | (18,894) | -5.76% | 5,026 | 3.53% |
| 15 | Commercial 6-inch | 2 | 565,954 | 72,318 | 2 | 542,763 | 71,032 | - | 0.00% | (23,192) | -4.10% | (1,286) | -1.78% |
| 16 | Commercial 8-inch | 1 | 1,197,108 | 62,848 | 1 | 746,792 | 46,539 | - | 0.00% | (450,317) | -37.62% | (16,309) | -25.95% |
| 17 | Commercial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 18 | Industrial 5/8 x 3/4 -inch | 3 | 6,453 | 1,133 | 3 | 10,881 | 1,642 | 1 | 20.00% | 4,427 | 68.60% | 509 | 44.91% |
| 19 | Industrial 1-inch | 2 | 40,042 | 5,286 | 1 | 101,392 | 5,718 | (1) | -50.00% | 61,350 | 153.22% | 431 | 8.16% |
| 20 | Industrial 2-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 21 | Industrial 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 22 | Industrial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 23 | Industrial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 24 | Industrial 8-inch | - | - | - | - | 14,575 | 14,504 | - | 0.00% | 14,575 | 0.00% | 14,504 | 0.00% |
| 25 | Industrial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 26 | Construction Water (2-Inch) | - | 3,000 | 187 | - | - | - | - | 0.00% | (3,000) | -100.00% | (187) | -100.00% |
| 27 | Construction Water (3-Inch) | 13 | 94,196 | 116,685 | 8 | 49,650 | 51,339 | (5) | -36.71% | (44,546) | -47.29% | (65,346) | -56.00% |
| 28 | Construction Water (4-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 29 | | | | | | | | | | | | | |
| 30 | | | | | | | | | | | | | |
| 31 | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | |
| 33 | | | | | | | | | | | | | |
| 34 | | | | | | | | | | | | | |
| 35 | | | | | | | | | | | | | |
| 36 | Totals | 19,442 | 7,793 | $ 12,251,515 | 19,581 | 7,104 | $ 11,591,564 | 138 | 0.71% | (689) | -8.84% | (659,951) | -5.39% |
| 37 | | | | | | | | | | | | | |
| 38 | Total Residential | 18,443 | 6,081 | 9,714,140 | 18,570 | 5,503 | 9,176,147 | 127 | 0.69% | (578) | -9.50% | (537,993) | -5.54% |
| 39 | Total Commercial | 982 | 38,738 | 2,414,083 | 998 | 36,425 | 2,342,214 | 17 | 1.70% | (2,313) | -5.97% | (71,869) | -2.98% |
| 40 | Total Industrial | 5 | 21,381 | 6,420 | 4 | 33,508 | 21,864 | (1) | -11.11% | 12,127 | 56.72% | 15,444 | 240.58% |
| 41 | Total Construction Water | 13 | 94,196 | 116,872 | 8 | 49,650 | 51,339 | (5) | -36.71% | (44,546) | -47.29% | (65,533) | -56.07% |
| 42 | | | | | | | | | | | | | |
| 43 | Totals | 19,442 | 7,793 | $ 12,251,515 | 19,581 | 7,104 | $ 11,591,564 | 138 | 0.71% | (689) | -8.84% | $ (659,951) | -5.39% |
| 44 | | | | | | | | | | | | | |

| Line No. | | Test Year 2007 - Inclusive of Customer Growth Adjustment: Customers | Usage | 2008 Actual: Customers | Usage | Increase/(Decrease): Customers | Usage | % |
|---|---|---|---|---|---|---|---|---|
| 45 | | | | | | | | |
| 46 | | | | | | | | |
| 47 | | | | | | | | |
| 48 | Total No. of Customers | | | | | | | |
| 49 | Res., Com., Ind., & Const. | 18 | | 19,581 | | 19,564 | | |
| 50 | Residential Usage (M Gals) | | 1,354,340 | | 1,226,301 | | (128,039.5) | -9.45% |
| 51 | Commercial Usage (M Gals) | | 456,846 | | 436,301 | | (20,544.9) | -4.50% |
| 52 | Industrial Usage (M Gals) | | 1,155 | | 1,725 | | 570.4 | 49.40% |
| 53 | Construction Usage (M Gals) | | 14,886 | | 4,965 | | (9,920.9) | -66.65% |
| 54 | Total Usage | | 1,827,226.3 | | 1,669,291.4 | | (157,934.9) | -8.64% |
| 55 | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Analysis of Revenue by Detailed Class

Superstition

| Line No. | Class of Service | [A] Test Year 2007 Pro Forma Revenues at Proposed Rates: Average Number of Customers | [B] Average Consumption | [C] Rate Revenues | [D] 2008 Pro Forma Revenues At Proposed Rates: Average Number of Customers | [E] Average Consumption | [F] Present Rates | [G] Increase/(Decrease): Average Number of Customers | [H] % | [I] Average Consumption | [J] % | [K] Rate Revenues | [L] % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | |
| 2 | Residential 5/8 x 3/4 -inch | 18,201 | 7,358 | $ 9,266,017 | 18,203 | 6,794 | $ 8,795,791 | 1 | 0.01% | (564) | -7.67% | (470,226) | -5.07% |
| 3 | Residential 1-inch | 1,743 | 11,369 | 1,848,878 | 1,664 | 11,096 | 1,738,587 | (79) | -4.51% | (273) | -2.40% | (110,290) | -5.97% |
| 4 | Residential 2-inch | 61 | 137,186 | 460,981 | 63 | 125,798 | 444,606 | 2 | 3.42% | (11,388) | -8.30% | (16,376) | -3.55% |
| 5 | Residential 3-inch | 4 | 371,467 | 75,544 | 4 | 345,796 | 70,898 | - | 0.00% | (25,671) | -6.91% | (4,646) | -6.15% |
| 6 | Residential 4-inch | 11 | 660,730 | 374,905 | 11 | 593,755 | 339,844 | - | 0.00% | (66,975) | -10.14% | (35,061) | -9.35% |
| 7 | Residential 6-inch | 13 | 888,368 | 635,575 | 13 | 870,864 | 610,018 | (0) | -2.56% | (17,504) | -1.97% | (25,556) | -4.02% |
| 8 | Residential 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 9 | Residential 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 10 | Commercial 5/8 x 3/4 -inch | 257 | 10,406 | 189,219 | 255 | 9,333 | 172,201 | (3) | -0.97% | (1,073) | -10.31% | (17,018) | -8.99% |
| 11 | Commercial 1-inch | 241 | 34,209 | 527,075 | 251 | 28,322 | 477,166 | 10 | 4.14% | (5,887) | -17.21% | (49,909) | -9.47% |
| 12 | Commercial 2-inch | 167 | 98,828 | 1,065,968 | 171 | 88,229 | 1,006,897 | 4 | 2.30% | (10,599) | -10.72% | (59,070) | -5.54% |
| 13 | Commercial 3-inch | 22 | 311,047 | 400,738 | 22 | 229,379 | 314,556 | 0 | 0.76% | (81,669) | -26.26% | (86,181) | -21.51% |
| 14 | Commercial 4-inch | 11 | 352,401 | 240,203 | 11 | 293,994 | 218,228 | 0 | 3.94% | (58,407) | -16.57% | (21,975) | -9.15% |
| 15 | Commercial 6-inch | 9 | 742,685 | 416,881 | 9 | 644,322 | 386,753 | 0 | 3.67% | (98,363) | -13.24% | (30,128) | -7.23% |
| 16 | Commercial 8-inch | 2 | 191,183 | 54,189 | 2 | 170,479 | 52,479 | - | 0.00% | (20,704) | -10.83% | (1,710) | -3.16% |
| 17 | Commercial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 18 | Industrial 5/8 x 3/4 -inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 19 | Industrial 1-inch | 4 | 17,521 | 5,158 | 4 | 7,250 | 3,260 | - | 0.00% | (10,271) | -58.62% | (1,898) | -36.80% |
| 20 | Industrial 2-inch | 1 | 35,608 | 4,045 | 1 | 41,875 | 4,335 | - | 0.00% | 6,267 | 17.60% | 290 | 7.16% |
| 21 | Industrial 3-inch | 1 | 656,933 | 34,190 | 1 | 338,833 | 19,494 | - | 0.00% | (318,100) | -48.42% | (14,696) | -42.98% |
| 22 | Industrial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 23 | Industrial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 24 | Industrial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 25 | Industrial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 26 | Construction Water (2-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 27 | Construction Water (3-Inch) | 46 | 92,480 | 367,350 | 30 | 87,424 | 237,387 | (16) | -34.85% | (5,056) | -5.47% | (129,963) | -35.38% |
| 28 | Construction Water (4-Inch) | 1 | 479,227 | 36,728 | 2 | 855,179 | 95,603 | 1 | 60.00% | 375,953 | 78.45% | 58,875 | 160.30% |
| 29 | | | | | | | | | | | | | |
| 30 | | | | | | | | | | | | | |
| 31 | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | |
| 33 | | | | | | | | | | | | | |
| 34 | | | | | | | | | | | | | |
| 35 | | | | | | | | | | | | | |
| 36 | Totals | 20,795 | 11,208 | $ 16,003,642 | 20,716 | 10,280 | $ 14,988,103 | (79) | -0.38% | (927) | -8.27% | (1,015,539) | -6.35% |
| 37 | | | | | | | | | | | | | |
| 38 | Total Residential | 20,033 | 9,105 | 12,661,900 | 19,957 | 8,468 | 11,999,745 | (76) | -0.38% | (637) | -6.99% | (662,155) | -5.23% |
| 39 | Total Commercial | 709 | 63,591 | 2,894,271 | 721 | 54,427 | 2,628,280 | 12 | 1.73% | (9,163) | -14.41% | (265,991) | -9.19% |
| 40 | Total Industrial | 6 | 127,104 | 43,393 | 6 | 68,285 | 27,089 | - | 0.00% | (58,819) | -46.28% | (16,305) | -37.57% |
| 41 | Total Construction Water | 47 | 102,784 | 404,078 | 32 | 135,787 | 332,990 | (15) | -32.33% | 33,003 | 32.11% | (71,088) | -17.59% |
| 42 | | | | | | | | | | | | | |
| 43 | Totals | 20,795 | 11,208 | $ 16,003,642 | 20,716 | 10,280 | $ 14,988,103 | (79) | -0.38% | (927) | -8.27% | $ (1,015,539) | -6.35% |
| 44 | | | | | | | | | | | | | |
| 45 | | | | | | | | | | | | | |
| 46 | | | | | | | | | | | | | |
| 47 | | | | | | | | | | | | | |
| 48 | Total No. of Customers | Test Year 2007 - Inclusive of Customer Growth Adjustment: Customers | Usage | | 2008 Actual: Customers | Usage | | Increase/(Decrease): Customers | Usage | % | | | |
| 49 | Res., Com., Ind., & Const. | 53 | | | 20,716 | | | 20,663 | | | | | |
| 50 | Residential Usage (M Gals) | | 2,194,593.3 | | | 2,028,045.2 | | | (166,548.1) | -7.59% | | | |
| 51 | Commercial Usage (M Gals) | | 539,961.2 | | | 470,906.3 | | | (69,054.9) | -12.79% | | | |
| 52 | Industrial Usage (M Gals) | | 9,151.5 | | | 4,916.5 | | | (4,235.0) | -46.28% | | | |
| 53 | Construction Usage (M Gals) | | 57,867.4 | | | 51,734.8 | | | (6,132.6) | -10.60% | | | |
| 54 | Total Usage | | 2,801,573.4 | | | 2,555,602.8 | | | (245,970.6) | -8.78% | | | |
| 55 | | | | | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Analysis of Revenue by Detailed Class

Superstition (Apache Junction)

| Line No. | Class of Service | [A] Test Year 2007 Pro Forma Revenues at Proposed Rates: Average Number of Customers | [B] Average Consumption | [C] Rate Revenues | [D] 2008 Pro Forma Revenues At Proposed Rates: Average Number of Customers | [E] Average Consumption | [F] Present Rates | [G] Increase/(Decrease): Average Number of Customers | [H] % | [I] Average Consumption | [J] % | [K] Rate Revenues | [L] % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | |
| 2 | Residential 5/8 x 3/4 -inch | 16,958 | 7,438 | $ 8,690,369 | 16,976 | 6,853 | $ 8,246,058 | 17 | 0.10% | (584) | -7.85% | (444,311) | -5.11% |
| 3 | Residential 1-inch | 1,742 | 11,372 | 1,848,073 | 1,663 | 11,098 | 1,737,732 | (79) | -4.52% | (274) | -2.41% | (110,341) | -5.97% |
| 4 | Residential 2-inch | 61 | 137,186 | 460,981 | 63 | 125,798 | 444,606 | 2 | 3.42% | (11,388) | -8.30% | (16,376) | -3.55% |
| 5 | Residential 3-inch | 4 | 371,467 | 75,544 | 4 | 345,796 | 70,898 | - | 0.00% | (25,671) | -6.91% | (4,646) | -6.15% |
| 6 | Residential 4-inch | 11 | 660,730 | 374,905 | 11 | 593,755 | 339,844 | - | 0.00% | (66,975) | -10.14% | (35,061) | -9.35% |
| 7 | Residential 6-inch | 13 | 888,368 | 635,575 | 13 | 870,864 | 610,018 | (0) | -2.56% | (17,504) | -1.97% | (25,556) | -4.02% |
| 8 | Residential 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 9 | Residential 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 10 | Commercial 5/8 x 3/4 -inch | 202 | 11,064 | 152,909 | 197 | 10,082 | 140,144 | (5) | -2.44% | (982) | -8.88% | (12,764) | -8.35% |
| 11 | Commercial 1-inch | 233 | 34,979 | 516,493 | 241 | 28,873 | 464,238 | 8 | 3.47% | (6,106) | -17.46% | (52,255) | -10.12% |
| 12 | Commercial 2-inch | 153 | 104,842 | 1,016,144 | 156 | 92,115 | 946,741 | 3 | 1.85% | (12,726) | -12.14% | (69,403) | -6.83% |
| 13 | Commercial 3-inch | 21 | 316,340 | 388,601 | 21 | 233,450 | 304,775 | 0 | 0.80% | (82,890) | -26.20% | (83,826) | -21.57% |
| 14 | Commercial 4-inch | 11 | 352,401 | 240,203 | 11 | 293,994 | 218,228 | 0 | 3.94% | (58,407) | -16.57% | (21,975) | -9.15% |
| 15 | Commercial 6-inch | 9 | 742,685 | 416,881 | 9 | 644,322 | 386,753 | 0 | 3.67% | (98,363) | -13.24% | (30,128) | -7.23% |
| 16 | Commercial 8-inch | 2 | 191,183 | 54,189 | 2 | 170,479 | 52,479 | - | 0.00% | (20,704) | -10.83% | (1,710) | -3.16% |
| 17 | Commercial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 18 | Industrial 5/8 x 3/4 -inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 19 | Industrial 1-inch | 3 | 22,367 | 4,540 | 3 | 8,847 | 2,666 | - | 0.00% | (13,519) | -60.44% | (1,874) | -41.27% |
| 20 | Industrial 2-inch | 1 | 35,608 | 4,045 | 1 | 41,875 | 4,335 | - | 0.00% | 6,267 | 17.60% | 290 | 7.16% |
| 21 | Industrial 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 22 | Industrial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 23 | Industrial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 24 | Industrial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 25 | Industrial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 26 | Construction Water (2-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 27 | Construction Water (3-Inch) | 41 | 54,934 | 257,124 | 26 | 26,275 | 128,079 | (15) | -37.22% | (28,658) | -52.17% | (129,046) | -50.19% |
| 28 | Construction Water (4-Inch) | - | - | - | 0 | 1,333 | 1,514 | 0 | 0.00% | 1,333 | 0.00% | 1,514 | 0.00% |
| 29 | | | | | | | | | | | | | |
| 30 | | | | | | | | | | | | | |
| 31 | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | |
| 33 | | | | | | | | | | | | | |
| 34 | | | | | | | | | | | | | |
| 35 | | | | | | | | | | | | | |
| 36 | Totals | 19,464 | 11,345 | $ 15,136,576 | 19,397 | 10,324 | $ 14,099,109 | (68) | -0.35% | (1,021) | -9.00% | (1,037,468) | -6.85% |
| 37 | | | | | | | | | | | | | |
| 38 | Total Residential | 18,789 | 9,292 | 12,085,447 | 18,729 | 8,632 | 11,449,157 | (60) | -0.32% | (661) | -7.11% | (636,291) | -5.26% |
| 39 | Total Commercial | 630 | 69,615 | 2,785,419 | 637 | 59,398 | 2,513,359 | 7 | 1.10% | (10,216) | -14.68% | (272,061) | -9.77% |
| 40 | Total Industrial | 4 | 25,677 | 8,585 | 4 | 17,104 | 7,001 | - | 0.00% | (8,573) | -33.39% | (1,584) | -18.45% |
| 41 | Total Construction Water | 41 | 54,934 | 257,124 | 26 | 26,038 | 129,592 | (15) | -36.62% | (28,896) | -52.60% | (127,532) | -49.60% |
| 42 | | | | | | | | | | | | | |
| 43 | Totals | 19,464 | 11,345 | $ 15,136,576 | 19,397 | 10,324 | $ 14,099,109 | (68) | -0.35% | (1,021) | -9.00% | $ (1,037,468) | -6.85% |
| 44 | | | | | | | | | | | | | |
| 45 | | | | | | | | | | | | | |
| 46 | | Test Year 2007 - Inclusive of Customer Growth Adjustment | | | 2008 Actual | | | Increase/(Decrease) | | | | | |
| 47 | | | | | | | | | | | | | |
| 48 | Total No. of Customers | Customers | Usage | | Customers | Usage | | Customers | Usage | | % | | |
| 49 | Res., Com., Ind., & Const. | 45 | | | 19,397 | | | 19,351 | | | | | |
| 50 | Residential Usage (M Gals) | | 2,100,496.6 | | | 1,940,030.8 | | | (160,465.8) | | -7.64% | | |
| 51 | Commercial Usage (M Gals) | | 524,475.3 | | | 453,980.0 | | | (70,495.3) | | -13.44% | | |
| 52 | Industrial Usage (M Gals) | | 1,232.5 | | | 821.0 | | | (411.5) | | -33.39% | | |
| 53 | Construction Usage (M Gals) | | 27,302.1 | | | 8,201.9 | | | (19,100.2) | | -69.96% | | |
| 54 | Total Usage | | 2,653,506.5 | | | 2,403,033.7 | | | (250,472.8) | | -9.44% | | |
| 55 | | | | | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Analysis of Revenue by Detailed Class

Superstition (Superior)

| Line No. | Class of Service | [A] Test Year 2007 Pro Forma Revenues at Proposed Rates: Average Number of Customers | [B] Average Consumption | [C] Rate Revenues | [D] 2008 Pro Forma Revenues At Proposed Rates: Average Number of Customers | [E] Average Consumption | [F] Present Rates | [G] Increase/(Decrease): Average Number of Customers | [H] % | [I] Average Consumption | [J] % | [K] Rate Revenues | [L] % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | |
| 2 | Residential 5/8 x 3/4 -inch | 1,243 | 6,278 | $ 575,648 | 1,227 | 5,973 | $ 549,733 | (16) | -1.31% | (305) | -4.87% | (25,914) | -4.50% |
| 3 | Residential 1-inch | 1 | 6,092 | 805 | 1 | 7,350 | 855 | - | 0.00% | 1,258 | 20.66% | 50 | 6.23% |
| 4 | Residential 2-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 5 | Residential 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 6 | Residential 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 7 | Residential 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 8 | Residential 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 9 | Residential 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 10 | Commercial 5/8 x 3/4 -inch | 56 | 8,018 | 36,310 | 58 | 6,792 | 32,056 | 2 | 4.35% | (1,226) | -15.30% | (4,254) | -11.72% |
| 11 | Commercial 1-inch | 8 | 12,436 | 10,582 | 10 | 15,234 | 12,928 | 2 | 23.23% | 2,797 | 22.49% | 2,346 | 22.17% |
| 12 | Commercial 2-inch | 14 | 33,174 | 49,824 | 15 | 47,896 | 60,156 | 1 | 7.14% | 14,721 | 44.38% | 10,332 | 20.74% |
| 13 | Commercial 3-inch | 1 | 200,775 | 12,136 | 1 | 143,875 | 9,781 | - | 0.00% | (56,900) | -28.34% | (2,355) | -19.41% |
| 14 | Commercial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 15 | Commercial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 16 | Commercial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 17 | Commercial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 18 | Industrial 5/8 x 3/4 -inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 19 | Industrial 1-inch | 1 | 2,983 | 618 | 1 | 2,458 | 594 | - | 0.00% | (525) | -17.60% | (24) | -3.93% |
| 20 | Industrial 2-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 21 | Industrial 3-inch | 1 | 656,933 | 34,190 | 1 | 338,833 | 19,494 | - | 0.00% | (318,100) | -48.42% | (14,696) | -42.98% |
| 22 | Industrial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 23 | Industrial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 24 | Industrial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 25 | Industrial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 26 | Construction Water (2-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 27 | Construction Water (3-Inch) | 4 | 458,371 | 110,226 | 4 | 511,391 | 109,308 | (1) | -11.76% | 53,021 | 11.57% | (918) | -0.83% |
| 28 | Construction Water (4-Inch) | 1 | 479,227 | 36,728 | 2 | 977,157 | 94,089 | 1 | 40.00% | 497,930 | 103.90% | 57,362 | 156.18% |
| 29 | | | | | | | | | | | | | |
| 30 | | | | | | | | | | | | | |
| 31 | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | |
| 33 | | | | | | | | | | | | | |
| 34 | | | | | | | | | | | | | |
| 35 | | | | | | | | | | | | | |
| 36 | Totals | 1,330 | 9,194 | $ 867,066 | 1,319 | 9,637 | $ 888,995 | (11) | -0.82% | 443 | 4.82% | 21,929 | 2.53% |
| 37 | | | | | | | | | | | | | |
| 38 | Total Residential | 1,244 | 6,278 | 576,453 | 1,228 | 5,974 | 550,588 | (16) | -1.31% | (304) | -4.84% | (25,864) | -4.49% |
| 39 | Total Commercial | 79 | 15,401 | 108,852 | 84 | 16,775 | 114,921 | 5 | 6.77% | 1,375 | 8.93% | 6,069 | 5.58% |
| 40 | Total Industrial | 2 | 329,958 | 34,808 | 2 | 170,646 | 20,088 | - | 0.00% | (159,313) | -48.28% | (14,720) | -42.29% |
| 41 | Total Construction Water | 6 | 463,111 | 146,953 | 6 | 659,589 | 203,397 | - | 0.00% | 196,479 | 42.43% | 56,444 | 38.41% |
| 42 | | | | | | | | | | | | | |
| 43 | Totals | 1,330 | 9,194 | $ 867,066 | 1,319 | 9,637 | $ 888,995 | (11) | -0.82% | 443 | 4.82% | $ 21,929 | 2.53% |
| 44 | | | | | | | | | | | | | |
| 45 | | | | | | | | | | | | | |
| 46 | | Test Year 2007 - Inclusive of Customer Growth Adjustment | | | 2008 Actual | | | Increase/(Decrease) | | | | | |
| 47 | | | | | | | | | | | | | |
| 48 | Total No. of Customers | Customers | Usage | | Customers | Usage | | Customers | Usage | % | | | |
| 49 | Res., Com., Ind., & Const. | 8 | | | 1,319 | | | 1,312 | | | | | |
| 50 | Residential Usage (M Gals) | | 94,096.7 | | | 88,014.4 | | | (6,082.3) | -6.46% | | | |
| 51 | Commercial Usage (M Gals) | | 15,485.9 | | | 16,926.3 | | | 1,440.4 | 9.30% | | | |
| 52 | Industrial Usage (M Gals) | | 7,919.0 | | | 4,095.5 | | | (3,823.5) | -48.28% | | | |
| 53 | Construction Usage (M Gals) | | 30,565.3 | | | 43,532.9 | | | 12,967.6 | 42.43% | | | |
| 54 | Total Usage | | 148,066.9 | | | 152,569.1 | | | 4,502.2 | 3.04% | | | |
| 55 | | | | | | | | | | | | | |
| 56 | | | | | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Analysis of Revenue by Detailed Class

Bisbee

| Line No. | Class of Service | [A] Test Year 2007 Pro Forma Revenues at Proposed Rates: Average Number of Customers | [B] Average Consumption | [C] Rate Revenues | [D] 2008 Pro Forma Revenues At Proposed Rates: Average Number of Customers | [E] Average Consumption | [F] Present Rates | [G] Increase/(Decrease): Average Number of Customers | [H] % | [I] Average Consumption | [J] % | [K] Rate Revenues | [L] % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | |
| 2 | Residential 5/8 x 3/4 -inch | 3,085 | 5,215 | $ 1,365,222 | 3,070 | 5,033 | $ 1,325,587 | (15) | -0.48% | (182) | -3.49% | (39,635) | -2.90% |
| 3 | Residential 1-inch | 35 | 11,818 | 40,238 | 35 | 12,544 | 41,237 | (1) | -1.89% | 726 | 6.14% | 1,000 | 2.48% |
| 4 | Residential 2-inch | 7 | 58,307 | 33,275 | 7 | 56,340 | 31,973 | (0) | -1.18% | (1,967) | -3.37% | (1,302) | -3.91% |
| 5 | Residential 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 6 | Residential 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 7 | Residential 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 8 | Residential 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 9 | Residential 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 10 | Commercial 5/8 x 3/4 -inch | 211 | 4,665 | 94,374 | 211 | 4,358 | 90,103 | 0 | 0.12% | (307) | -6.58% | (4,271) | -4.53% |
| 11 | Commercial 1-inch | 46 | 20,250 | 74,940 | 46 | 20,902 | 76,878 | - | 0.00% | 652 | 3.22% | 1,938 | 2.59% |
| 12 | Commercial 2-inch | 42 | 124,410 | 381,937 | 42 | 135,721 | 413,514 | (0) | -0.20% | 11,311 | 9.09% | 31,577 | 8.27% |
| 13 | Commercial 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 14 | Commercial 4-inch | 3 | 230,222 | 53,639 | 3 | 243,806 | 57,034 | - | 0.00% | 13,583 | 5.90% | 3,395 | 6.33% |
| 15 | Commercial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 16 | Commercial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 17 | Commercial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 18 | Industrial 5/8 x 3/4 -inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 19 | Industrial 1-inch | 1 | 2,667 | 1,029 | 1 | 2,942 | 1,047 | - | 0.00% | 275 | 10.31% | 18 | 1.76% |
| 20 | Industrial 2-inch | 1 | 8 | 2,731 | 1 | - | 2,730 | - | 0.00% | (8) | -100.00% | (1) | -0.02% |
| 21 | Industrial 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 22 | Industrial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 23 | Industrial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 24 | Industrial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 25 | Industrial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 26 | Construction Water (2-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 27 | Construction Water (3-Inch) | 2 | 17,948 | 6,722 | 3 | 135,959 | 29,923 | 1 | 52.38% | 118,012 | 657.53% | 23,200 | 345.12% |
| 28 | Construction Water (4-Inch) | 1 | - | 4,500 | - | - | - | (1) | -100.00% | - | 0.00% | (4,500) | -100.00% |
| 29 | | | | | | | | | | | | | |
| 30 | | | | | | | | | | | | | |
| 31 | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | |
| 33 | | | | | | | | | | | | | |
| 34 | | | | | | | | | | | | | |
| 35 | | | | | | | | | | | | | |
| 36 | Totals | 3,434 | 7,216 | $ 2,058,607 | 3,419 | 7,297 | $ 2,070,027 | (15) | -0.45% | 81 | 1.12% | 11,420 | 0.55% |
| 37 | | | | | | | | | | | | | |
| 38 | Total Residential | 3,128 | 5,410 | 1,438,735 | 3,112 | 5,232 | 1,398,798 | (16) | -0.50% | (178) | -3.29% | (39,937) | -2.78% |
| 39 | Total Commercial | 302 | 25,930 | 604,890 | 302 | 27,474 | 637,529 | 0 | 0.06% | 1,544 | 5.95% | 32,639 | 5.40% |
| 40 | Total Industrial | 2 | 1,338 | 3,760 | 2 | 1,471 | 3,777 | - | 0.00% | 133 | 9.97% | 18 | 0.47% |
| 41 | Total Construction Water | 3 | 11,421 | 11,222 | 3 | 135,959 | 29,923 | (0) | -3.03% | 124,538 | 1090.41% | 18,700 | 166.63% |
| 42 | | | | | | | | | | | | | |
| 43 | Totals | 3,434 | 7,216 | $ 2,058,607 | 3,419 | 7,297 | $ 2,070,027 | (15) | -0.45% | 81 | 1.12% | $ 11,420 | 0.55% |
| 44 | | | | | | | | | | | | | |
| 45 | | | | | | | | | | | | | |
| 46 | | Test Year 2007 - Inclusive of Customer Growth Adjustment | | | 2008 Actual | | | Increase/(Decrease) | | | | | |
| 47 | | | | | | | | | | | | | |
| 48 | Total No. of Customers | Customers | Usage | | Customers | Usage | | Customers | Usage | % | | | |
| 49 | Res., Com., Ind., & Const. | 5 | | | 3,419 | | | 3,414 | | | | | |
| 50 | Residential Usage (M Gals) | | 203,031.1 | | | 195,382.4 | | | (7,648.7) | -3.77% | | | |
| 51 | Commercial Usage (M Gals) | | 93,999.6 | | | 99,591.5 | | | 5,591.9 | 5.95% | | | |
| 52 | Industrial Usage (M Gals) | | 32.1 | | | 35.3 | | | 3.2 | 9.97% | | | |
| 53 | Construction Usage (M Gals) | | 376.9 | | | 4,350.7 | | | 3,973.8 | 1054.34% | | | |
| 54 | Total Usage | | 297,439.7 | | | 299,359.9 | | | 1,920.2 | 0.65% | | | |
| 55 | | | | | | | | | | | | | |

Sierra Vista

| Line No. | Class of Service | [A] Test Year 2007 Pro Forma Revenues at Proposed Rates: Average Number of Customers | [B] Average Consumption | [C] Rate Revenues | [D] 2008 Pro Forma Revenues At Proposed Rates: Average Number of Customers | [E] Average Consumption | [F] Present Rates | [G] Increase/(Decrease): Average Number of Customers | [H] % | [I] Average Consumption | [J] % | [K] Rate Revenues | [L] % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | |
| 2 | Residential 5/8 x 3/4 -inch | 2,654 | 8,924 | $ 1,042,254 | 2,669 | 8,298 | $ 996,430 | 15 | 0.56% | (626) | -7.01% | (45,824) | -4.40% |
| 3 | Residential 1-inch | 62 | 15,485 | 54,794 | 62 | 14,709 | 52,857 | (0) | -0.67% | (776) | -5.01% | (1,937) | -3.54% |
| 4 | Residential 2-inch | 1 | 897,008 | 28,514 | 1 | 766,317 | 24,498 | - | 0.00% | (130,692) | -14.57% | (4,016) | -14.09% |
| 5 | Residential 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 6 | Residential 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 7 | Residential 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 8 | Residential 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 9 | Residential 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 10 | Commercial 5/8 x 3/4 -inch | 63 | 9,186 | 28,157 | 63 | 8,006 | 25,059 | 1 | 1.07% | (1,180) | -12.85% | (3,098) | -11.00% |
| 11 | Commercial 1-inch | 37 | 23,300 | 42,540 | 38 | 17,956 | 35,203 | 1 | 1.78% | (5,344) | -22.94% | (7,336) | -17.25% |
| 12 | Commercial 2-inch | 39 | 97,501 | 162,934 | 43 | 86,558 | 161,052 | 4 | 9.91% | (10,943) | -11.22% | (1,882) | -1.16% |
| 13 | Commercial 3-inch | 6 | 295,152 | 62,629 | 6 | 264,079 | 61,578 | 0 | 7.46% | (31,073) | -10.53% | (1,051) | -1.68% |
| 14 | Commercial 4-inch | 2 | 540,056 | 48,334 | 2 | 475,034 | 42,517 | 1 | 61.11% | (65,021) | -12.04% | (5,817) | -12.04% |
| 15 | Commercial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 16 | Commercial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 17 | Commercial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 18 | Industrial 5/8 x 3/4 -inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 19 | Industrial 1-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 20 | Industrial 2-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 21 | Industrial 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 22 | Industrial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 23 | Industrial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 24 | Industrial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 25 | Industrial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 26 | Construction Water (2-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 27 | Construction Water (3-Inch) | 4 | 111,910 | 25,727 | 2 | 108,377 | 10,656 | (3) | -57.69% | (3,532) | -3.16% | (15,071) | -58.58% |
| 28 | Construction Water (4-Inch) | 0 | 32,100 | 881 | 0 | 15,000 | 811 | - | 0.00% | (17,100) | -53.27% | (70) | -7.95% |
| 29 | | | | | | | | | | | | | |
| 30 | | | | | | | | | | | | | |
| 31 | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | |
| 33 | | | | | | | | | | | | | |
| 34 | | | | | | | | | | | | | |
| 35 | | | | | | | | | | | | | |
| 36 | Totals | 2,868 | 11,756 | $ 1,496,764 | 2,886 | 10,958 | $ 1,410,660 | 18 | 0.64% | (797) | -6.78% | (86,104) | -5.75% |
| 37 | | | | | | | | | | | | | |
| 38 | Total Residential | 2,717 | 9,401 | 1,125,562 | 2,732 | 8,721 | 1,073,785 | 14 | 0.53% | (680) | -7.24% | (51,777) | -4.60% |
| 39 | Total Commercial | 146 | 52,682 | 344,593 | 152 | 49,950 | 325,409 | 7 | 4.46% | (2,732) | -5.19% | (19,185) | -5.57% |
| 40 | Total Industrial | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 41 | Total Construction Water | 5 | 108,954 | 26,609 | 2 | 100,596 | 11,467 | (3) | -55.56% | (8,358) | -7.67% | (15,142) | -56.90% |
| 42 | | | | | | | | | | | | | |
| 43 | Totals | 2,868 | 11,756 | $ 1,496,764 | 2,886 | 10,958 | $ 1,410,660 | 18 | 0.64% | (797) | -6.78% | $ (86,104) | -5.75% |
| 44 | | | | | | | | | | | | | |
| 45 | | | | | | | | | | | | | |
| 46 | | Test Year 2007 - Inclusive of Customer Growth Adjustment | | | 2008 Actual | | | Increase/(Decrease) | | | | | |
| 47 | | | | | | | | | | | | | |
| 48 | Total No. of Customers | Customers | Usage | | Customers | Usage | | Customers | Usage | | % | | |
| 49 | Res., Com., Ind., & Const. | 5 | | | 2,886 | | | 2,881 | | | | | |
| 50 | Residential Usage (M Gals) | | 307,613.3 | | | 285,863.7 | | | (21,749.6) | | -7.07% | | |
| 51 | Commercial Usage (M Gals) | | 100,628.3 | | | 91,208.5 | | | (9,419.8) | | -9.36% | | |
| 52 | Industrial Usage (M Gals) | | - | | | - | | | - | | 0.00% | | |
| 53 | Construction Usage (M Gals) | | 5,883.5 | | | 2,414.3 | | | (3,469.2) | | -58.96% | | |
| 54 | Total Usage | | 414,125.0 | | | 379,486.5 | | | (34,638.5) | | -8.36% | | |
| 55 | | | | | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Analysis of Revenue by Detailed Class

San Manuel

| Line No. | Class of Service | [A] Test Year 2007 Pro Forma Revenues at Proposed Rates: Average Number of Customers | [B] Average Consumption | [C] Rate Revenues | [D] 2008 Pro Forma Revenues At Proposed Rates: Average Number of Customers | [E] Average Consumption | [F] Present Rates | [G] Increase/(Decrease): Average Number of Customers | [H] % | [I] Average Consumption | [J] % | [K] Rate Revenues | [L] % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | |
| 2 | Residential 5/8 x 3/4 -inch | 1,486 | 8,744 | $ 967,167 | 1,452 | 7,696 | $ 875,972 | (35) | -2.32% | (1,049) | -11.99% | (91,195) | -9.43% |
| 3 | Residential 1-inch | 6 | 22,760 | 10,999 | 7 | 23,861 | 12,310 | 1 | 8.22% | 1,100 | 4.84% | 1,311 | 11.92% |
| 4 | Residential 2-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 5 | Residential 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 6 | Residential 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 7 | Residential 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 8 | Residential 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 9 | Residential 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 10 | Commercial 5/8 x 3/4 -inch | 49 | 8,192 | 32,029 | 47 | 5,688 | 25,502 | (2) | -4.26% | (2,504) | -30.57% | (6,526) | -20.38% |
| 11 | Commercial 1-inch | 15 | 19,015 | 23,476 | 14 | 23,421 | 26,042 | (1) | -4.42% | 4,406 | 23.17% | 2,566 | 10.93% |
| 12 | Commercial 2-inch | 9 | 139,290 | 80,294 | 9 | 98,112 | 62,020 | - | 0.00% | (41,178) | -29.56% | (18,273) | -22.76% |
| 13 | Commercial 3-inch | 1 | 37,975 | 6,097 | 1 | 28,908 | 5,714 | - | 0.00% | (9,067) | -23.88% | (383) | -6.28% |
| 14 | Commercial 4-inch | 1 | 73,583 | 10,129 | 1 | 80,250 | 10,411 | - | 0.00% | 6,667 | 9.06% | 282 | 2.78% |
| 15 | Commercial 6-inch | 3 | 148,328 | 60,921 | 3 | 130,631 | 58,678 | - | 0.00% | (17,697) | -11.93% | (2,243) | -3.68% |
| 16 | Commercial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 17 | Commercial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 18 | Industrial 5/8 x 3/4 -inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 19 | Industrial 1-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 20 | Industrial 2-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 21 | Industrial 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 22 | Industrial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 23 | Industrial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 24 | Industrial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 25 | Industrial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 26 | Construction Water (2-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 27 | Construction Water (3-Inch) | 1 | 136,856 | 13,398 | 1 | 66,064 | 8,498 | (0) | -12.50% | (70,792) | -51.73% | (4,899) | -36.57% |
| 28 | Construction Water (4-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 29 | | | | | | | | | | | | | |
| 30 | | | | | | | | | | | | | |
| 31 | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | |
| 33 | | | | | | | | | | | | | |
| 34 | | | | | | | | | | | | | |
| 35 | | | | | | | | | | | | | |
| 36 | Totals | 1,572 | 10,062 | $ 1,204,509 | 1,535 | 8,728 | $ 1,085,148 | (37) | -2.35% | (1,335) | -13.27% | (119,361) | -9.91% |
| 37 | | | | | | | | | | | | | |
| 38 | Total Residential | 1,493 | 8,802 | 978,166 | 1,459 | 7,769 | 888,282 | (34) | -2.28% | (1,033) | -11.73% | (89,884) | -9.19% |
| 39 | Total Commercial | 78 | 32,021 | 212,945 | 75 | 26,420 | 188,368 | (3) | -3.53% | (5,602) | -17.49% | (24,578) | -11.54% |
| 40 | Total Industrial | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 41 | Total Construction Water | 1 | 136,856 | 13,398 | 1 | 66,064 | 8,498 | (0) | -12.50% | (70,792) | -51.73% | (4,899) | -36.57% |
| 42 | | | | | | | | | | | | | |
| 43 | Totals | 1,572 | 10,062 | $ 1,204,509 | 1,535 | 8,728 | $ 1,085,148 | (37) | -2.35% | (1,335) | -13.27% | $ (119,361) | -9.91% |
| 44 | | | | | | | | | | | | | |
| 45 | | | | | | | | | | | | | |
| 46 | | Test Year 2007 - Inclusive of Customer Growth Adjustment | | | 2008 Actual | | | Increase/(Decrease) | | | | | |
| 47 | | | | | | | | | | | | | |
| 48 | Total No. of Customers | Customers | Usage | | Customers | Usage | | Customers | Usage | | % | | |
| 49 | Res., Com., Ind., & Const. | 1 | | | 1,535 | | | 1,534 | | | | | |
| 50 | Residential Usage (M Gals) | | 156,692.4 | | | 135,970.7 | | | (20,721.7) | | -13.22% | | |
| 51 | Commercial Usage (M Gals) | | 29,873.7 | | | 23,857.0 | | | (6,016.7) | | -20.14% | | |
| 52 | Industrial Usage (M Gals) | | - | | | - | | | - | | 0.00% | | |
| 53 | Construction Usage (M Gals) | | 2,189.7 | | | 924.9 | | | (1,264.8) | | -57.76% | | |
| 54 | Total Usage | | 188,755.8 | | | 160,752.6 | | | (28,003.2) | | -14.84% | | |
| 55 | | | | | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Analysis of Revenue by Detailed Class

Oracle

| Line No. | Class of Service | [A] Test Year 2007 Pro Forma Revenues at Proposed Rates: Average Number of Customers | [B] Average Consumption | [C] Rate Revenues | [D] 2008 Pro Forma Revenues At Proposed Rates: Average Number of Customers | [E] Average Consumption | [F] Present Rates | [G] Increase/(Decrease): Average Number of Customers | [H] % | [I] Average Consumption | [J] % | [K] Rate Revenues | [L] % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | |
| 2 | Residential 5/8 x 3/4 -inch | 1,373 | 5,605 | $ 867,044 | 1,371 | 5,011 | $ 795,939 | (2) | -0.12% | (594) | -10.59% | (71,104) | -8.20% |
| 3 | Residential 1-inch | 48 | 9,756 | 68,537 | 51 | 8,886 | 67,056 | 2 | 4.84% | (870) | -8.92% | (1,481) | -2.16% |
| 4 | Residential 2-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 5 | Residential 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 6 | Residential 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 7 | Residential 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 8 | Residential 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 9 | Residential 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 10 | Commercial 5/8 x 3/4 -inch | 74 | 4,541 | 47,254 | 77 | 4,417 | 44,852 | 3 | 3.95% | (124) | -2.73% | (2,402) | -5.08% |
| 11 | Commercial 1-inch | 17 | 9,478 | 25,645 | 18 | 10,332 | 25,116 | 1 | 2.87% | 853 | 9.00% | (529) | -2.06% |
| 12 | Commercial 2-inch | 7 | 108,256 | 82,813 | 7 | 95,810 | 65,748 | - | 0.00% | (12,446) | -11.50% | (17,065) | -20.61% |
| 13 | Commercial 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 14 | Commercial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 15 | Commercial 6-inch | 1 | 799,942 | 70,368 | 1 | 628,325 | 56,741 | - | 0.00% | (171,617) | -21.45% | (13,627) | -19.37% |
| 16 | Commercial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 17 | Commercial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 18 | Industrial 5/8 x 3/4 -inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 19 | Industrial 1-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 20 | Industrial 2-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 21 | Industrial 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 22 | Industrial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 23 | Industrial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 24 | Industrial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 25 | Industrial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 26 | Construction Water (2-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 27 | Construction Water (3-Inch) | 3 | 68,697 | 22,459 | 3 | 46,640 | 18,524 | - | 0.00% | (22,057) | -32.11% | (3,935) | -17.52% |
| 28 | Construction Water (4-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 29 | | | | | | | | | | | | | |
| 30 | | | | | | | | | | | | | |
| 31 | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | |
| 33 | | | | | | | | | | | | | |
| 34 | | | | | | | | | | | | | |
| 35 | | | | | | | | | | | | | |
| 36 | Totals | 1,523 | 6,826 | $ 1,184,120 | 1,527 | 6,065 | $ 1,073,976 | 4 | 0.27% | (761) | -11.15% | (110,144) | -9.30% |
| 37 | | | | | | | | | | | | | |
| 38 | Total Residential | 1,421 | 5,746 | 935,581 | 1,422 | 5,149 | 862,995 | 1 | 0.05% | (597) | -10.38% | (72,585) | -7.76% |
| 39 | Total Commercial | 99 | 20,750 | 226,081 | 103 | 17,768 | 192,457 | 3 | 3.45% | (2,982) | -14.37% | (33,623) | -14.87% |
| 40 | Total Industrial | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 41 | Total Construction Water | 3 | 68,697 | 22,459 | 3 | 46,640 | 18,524 | - | 0.00% | (22,057) | -32.11% | (3,935) | -17.52% |
| 42 | | | | | | | | | | | | | |
| 43 | Totals | 1,523 | 6,826 | $ 1,184,120 | 1,527 | 6,065 | $ 1,073,976 | 4 | 0.27% | (761) | -11.15% | $ (110,144) | -9.30% |
| 44 | | | | | | | | | | | | | |

| Line No. | | Test Year 2007 - Inclusive of Customer Growth Adjustment: Customers | Usage | 2008 Actual: Customers | Usage | Increase/(Decrease): Customers | Usage | % |
|---|---|---|---|---|---|---|---|---|
| 45 | | | | | | | | |
| 46 | | | | | | | | |
| 47 | | | | | | | | |
| 48 | Total No. of Customers | | | | | | | |
| 49 | Res., Com., Ind., & Const. | 189,972 | | 1,527 | | (188,445) | | |
| 50 | Residential Usage (M Gals) | | 99,180.2 | | 87,859.2 | | (11,321.0) | -11.41% |
| 51 | Commercial Usage (M Gals) | | 26,546.0 | | 21,872.9 | | (4,673.1) | -17.60% |
| 52 | Industrial Usage (M Gals) | | - | | - | | - | 0.00% |
| 53 | Construction Usage (M Gals) | | 2,060.9 | | 1,399.2 | | (661.7) | -32.11% |
| 54 | Total Usage | | 127,787.1 | | 111,131.3 | | (16,655.8) | -13.03% |
| 55 | | | | | | | | |

Saddlebrook

| Line No. | Class of Service | [A] Test Year 2007 Pro Forma Revenues at Proposed Rates: Average Number of Customers | [B] Average Consumption | [C] Rate Revenues | [D] 2008 Pro Forma Revenues At Proposed Rates: Average Number of Customers | [E] Average Consumption | [F] Present Rates | [G] Increase/(Decrease): Average Number of Customers | [H] % | [I] Average Consumption | [J] % | [K] Rate Revenues | [L] % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | |
| 2 | Residential 5/8 x 3/4 -inch | - | - | $ - | - | - | $ - | - | 0.00% | - | 0.00% | - | 0.00% |
| 3 | Residential 1-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 4 | Residential 2-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 5 | Residential 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 6 | Residential 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 7 | Residential 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 8 | Residential 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 9 | Residential 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 10 | Commercial 5/8 x 3/4 -inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 11 | Commercial 1-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 12 | Commercial 2-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 13 | Commercial 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 14 | Commercial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 15 | Commercial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 16 | Commercial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 17 | Commercial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 18 | Industrial 5/8 x 3/4 -inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 19 | Industrial 1-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 20 | Industrial 2-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 21 | Industrial 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 22 | Industrial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 23 | Industrial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 24 | Industrial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 25 | Industrial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 26 | Construction Water (2-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 27 | Construction Water (3-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 28 | Construction Water (4-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 29 | | | | | | | | | | | | | |
| 30 | | | | | | | | | | | | | |
| 31 | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | |
| 33 | | | | | | | | | | | | | |
| 34 | | | | | | | | | | | | | |
| 35 | | | | | | | | | | | | | |
| 36 | Totals | - | #DIV/0! | $ - | - | #DIV/0! | $ - | - | 0.00% | #DIV/0! | #DIV/0! | - | 0.00% |
| 37 | | | | | | | | | | | | | |
| 38 | Total Residential | - | #DIV/0! | - | - | #DIV/0! | - | - | 0.00% | #DIV/0! | #DIV/0! | - | 0.00% |
| 39 | Total Commercial | - | #DIV/0! | - | - | #DIV/0! | - | - | 0.00% | #DIV/0! | #DIV/0! | - | 0.00% |
| 40 | Total Industrial | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 41 | Total Construction Water | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 42 | | | | | | | | | | | | | |
| 43 | Totals | - | #DIV/0! | $ - | - | #DIV/0! | $ - | - | 0.00% | #DIV/0! | #DIV/0! | $ - | 0.00% |
| 44 | | | | | | | | | | | | | |
| 45 | | | | | | | | | | | | | |
| 46 | | Test Year 2007 - Inclusive of Customer Growth Adjustment | | | 2008 Actual | | | Increase/(Decrease) | | | | | |
| 47 | | | | | | | | | | | | | |
| 48 | Total No. of Customers | Customers | Usage | | Customers | Usage | | Customers | | Usage | % | | |
| 49 | Res., Com., Ind., & Const. | - | | | - | | | - | | | | | |
| 50 | Residential Usage (M Gals) | | - | | | - | | | | - | 0.00% | | |
| 51 | Commercial Usage (M Gals) | | - | | | - | | | | - | 0.00% | | |
| 52 | Industrial Usage (M Gals) | | - | | | - | | | | - | 0.00% | | |
| 53 | Construction Usage (M Gals) | | - | | | - | | | | - | 0.00% | | |
| 54 | Total Usage | | - | | | - | | | | - | 0.00% | | |
| 55 | | | | | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Analysis of Revenue by Detailed Class

Winkelman

| Line No. | Class of Service | [A] Test Year 2007 Pro Forma Revenues at Proposed Rates: Average Number of Customers | [B] Average Consumption | [C] Rate Revenues | [D] 2008 Pro Forma Revenues At Proposed Rates: Average Number of Customers | [E] Average Consumption | [F] Present Rates | [G] Increase/(Decrease): Average Number of Customers | [H] % | [I] Average Consumption | [J] % | [K] Rate Revenues | [L] % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | |
| 2 | Residential 5/8 x 3/4 -inch | 144 | 9,459 | $ 63,066 | 143 | 8,501 | $ 58,903 | (1) | -0.69% | (958) | -10.13% | (4,163) | -6.60% |
| 3 | Residential 1-inch | 2 | 38,154 | 3,261 | 2 | 32,942 | 2,935 | - | 0.00% | (5,213) | -13.66% | (326) | -10.00% |
| 4 | Residential 2-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 5 | Residential 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 6 | Residential 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 7 | Residential 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 8 | Residential 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 9 | Residential 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 10 | Commercial 5/8 x 3/4 -inch | 16 | 7,834 | 6,543 | 15 | 5,154 | 5,122 | (1) | -8.16% | (2,679) | -34.20% | (1,420) | -21.71% |
| 11 | Commercial 1-inch | 1 | 24,333 | 1,152 | 1 | 49,050 | 1,867 | - | 0.00% | 24,717 | 101.58% | 716 | 62.14% |
| 12 | Commercial 2-inch | 3 | 68,994 | 10,011 | 3 | 44,143 | 6,705 | (1) | -16.67% | (24,851) | -36.02% | (3,306) | -33.03% |
| 13 | Commercial 3-inch | 1 | 405,792 | 14,238 | 1 | 371,067 | 13,225 | - | 0.00% | (34,725) | -8.56% | (1,013) | -7.12% |
| 14 | Commercial 4-inch | 2 | 396,417 | 30,932 | 2 | 426,983 | 32,840 | - | 0.00% | 30,567 | 7.71% | 1,908 | 6.17% |
| 15 | Commercial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 16 | Commercial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 17 | Commercial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 18 | Industrial 5/8 x 3/4 -inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 19 | Industrial 1-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 20 | Industrial 2-inch | 1 | 44,542 | 2,858 | 1 | 51,483 | 3,062 | - | 0.00% | 6,942 | 15.58% | 203 | 7.11% |
| 21 | Industrial 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 22 | Industrial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 23 | Industrial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 24 | Industrial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 25 | Industrial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 26 | Construction Water (2-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 27 | Construction Water (3-Inch) | 0 | 6,833 | 820 | - | - | - | (0) | -100.00% | (6,833) | -100.00% | (820) | -100.00% |
| 28 | Construction Water (4-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 29 | | | | | | | | | | | | | |
| 30 | | | | | | | | | | | | | |
| 31 | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | |
| 33 | | | | | | | | | | | | | |
| 34 | | | | | | | | | | | | | |
| 35 | | | | | | | | | | | | | |
| 36 | Totals | 171 | 17,832 | $ 132,882 | 168 | 16,681 | $ 124,660 | (3) | -1.81% | (1,151) | -6.46% | (8,222) | -6.19% |
| 37 | | | | | | | | | | | | | |
| 38 | Total Residential | 146 | 9,852 | 66,327 | 145 | 8,838 | 61,839 | (1) | -0.68% | (1,014) | -10.30% | (4,489) | -6.77% |
| 39 | Total Commercial | 23 | 66,767 | 62,876 | 22 | 67,989 | 59,760 | (2) | -7.86% | 1,222 | 1.83% | (3,116) | -4.96% |
| 40 | Total Industrial | 1 | 44,542 | 2,858 | 1 | 51,483 | 3,062 | - | 0.00% | 6,942 | 15.58% | 203 | 7.11% |
| 41 | Total Construction Water | 0 | 6,833 | 820 | - | - | - | (0) | -100.00% | (6,833) | -100.00% | (820) | -100.00% |
| 42 | | | | | | | | | | | | | |
| 43 | Totals | 171 | 17,832 | $ 132,882 | 168 | 16,681 | $ 124,660 | (3) | -1.81% | (1,151) | -6.46% | $ (8,222) | -6.19% |
| 44 | | | | | | | | | | | | | |
| 45 | | | | | | | | | | | | | |
| 46 | | Test Year 2007 - Inclusive of Customer Growth Adjustment | | | 2008 Actual | | | Increase/(Decrease) | | | | | |
| 47 | | | | | | | | | | | | | |
| 48 | Total No. of Customers | Customers | Usage | | Customers | Usage | | Customers | Usage | % | | | |
| 49 | Res., Com., Ind., & Const. | (99) | | | 168 | | | 266 | | | | | |
| 50 | Residential Usage (M Gals) | | 17,270.4 | | | 15,386.2 | | | (1,884.2) | -10.91% | | | |
| 51 | Commercial Usage (M Gals) | | 18,600.7 | | | 17,541.1 | | | (1,059.6) | -5.70% | | | |
| 52 | Industrial Usage (M Gals) | | 534.5 | | | 617.8 | | | 83.3 | 15.58% | | | |
| 53 | Construction Usage (M Gals) | | 20.5 | | | - | | | (20.5) | -100.00% | | | |
| 54 | Total Usage | | 36,426.1 | | | 33,545.1 | | | (2,881.0) | -7.91% | | | |
| 55 | | | | | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Analysis of Revenue by Detailed Class

Miami

| Line No. | Class of Service | [A] Test Year 2007 Pro Forma Revenues at Proposed Rates: Average Number of Customers | [B] Average Consumption | [C] Rate Revenues | [D] 2008 Pro Forma Revenues At Proposed Rates: Average Number of Customers | [E] Average Consumption | [F] Present Rates | [G] Increase/(Decrease): Average Number of Customers | [H] % | [I] Average Consumption | [J] % | [K] Rate Revenues | [L] % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | |
| 2 | Residential 5/8 x 3/4 -inch | 2,789 | 5,995 | $ 1,268,976 | 2,808 | 5,542 | $ 1,209,309 | 19 | 0.69% | (453) | -7.55% | (59,667) | -4.70% |
| 3 | Residential 1-inch | 21 | 7,950 | 20,170 | 22 | 7,872 | 19,720 | 1 | 2.72% | (77) | -0.97% | (450) | -2.23% |
| 4 | Residential 2-inch | 3 | 65,900 | 13,262 | 3 | 59,694 | 12,460 | - | 0.00% | (6,206) | -9.42% | (802) | -6.05% |
| 5 | Residential 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 6 | Residential 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 7 | Residential 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 8 | Residential 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 9 | Residential 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 10 | Commercial 5/8 x 3/4 -inch | 143 | 5,247 | 69,763 | 144 | 5,140 | 68,202 | 1 | 0.76% | (107) | -2.03% | (1,560) | -2.24% |
| 11 | Commercial 1-inch | 43 | 19,037 | 65,021 | 45 | 13,529 | 54,211 | 2 | 4.22% | (5,507) | -28.93% | (10,809) | -16.62% |
| 12 | Commercial 2-inch | 38 | 60,426 | 174,183 | 36 | 62,685 | 166,736 | (2) | -5.95% | 2,259 | 3.74% | (7,447) | -4.28% |
| 13 | Commercial 3-inch | 3 | 282,071 | 42,652 | 3 | 341,647 | 56,994 | 0 | 16.13% | 59,576 | 21.12% | 14,342 | 33.63% |
| 14 | Commercial 4-inch | 1 | 1,082,667 | 56,822 | 1 | 1,112,167 | 58,344 | - | 0.00% | 29,500 | 2.72% | 1,523 | 2.68% |
| 15 | Commercial 6-inch | 2 | 481,083 | 65,524 | 2 | 414,667 | 59,396 | - | 0.00% | (66,417) | -13.81% | (6,128) | -9.35% |
| 16 | Commercial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 17 | Commercial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 18 | Industrial 5/8 x 3/4 -inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 19 | Industrial 1-inch | 1 | 300 | 494 | 1 | 67 | 483 | - | 0.00% | (233) | -77.78% | (11) | -2.18% |
| 20 | Industrial 2-inch | 4 | 379,319 | 79,698 | 4 | 449,454 | 92,659 | - | 0.00% | 70,135 | 18.49% | 12,961 | 16.26% |
| 21 | Industrial 3-inch | 1 | 66,983 | 6,935 | 1 | 96,542 | 8,300 | - | 0.00% | 29,558 | 44.13% | 1,366 | 19.69% |
| 22 | Industrial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 23 | Industrial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 24 | Industrial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 25 | Industrial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 26 | Construction Water (2-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 27 | Construction Water (3-Inch) | 2 | 123,860 | 16,084 | 2 | 20,168 | 8,567 | 0 | 10.00% | (103,692) | -83.72% | (7,517) | -46.74% |
| 28 | Construction Water (4-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 29 | | | | | | | | | | | | | |
| 30 | | | | | | | | | | | | | |
| 31 | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | |
| 33 | | | | | | | | | | | | | |
| 34 | | | | | | | | | | | | | |
| 35 | | | | | | | | | | | | | |
| 36 | Totals | 3,051 | 8,363 | $ 1,879,582 | 3,072 | 7,942 | $ 1,815,382 | 21 | 0.69% | (421) | -5.04% | (64,200) | -3.42% |
| 37 | | | | | | | | | | | | | |
| 38 | Total Residential | 2,813 | 6,074 | 1,302,408 | 2,833 | 5,618 | 1,241,489 | 20 | 0.71% | (456) | -7.51% | (60,919) | -4.68% |
| 39 | Total Commercial | 230 | 28,849 | 473,964 | 231 | 28,339 | 463,883 | 1 | 0.47% | (510) | -1.77% | (10,080) | -2.13% |
| 40 | Total Industrial | 6 | 264,093 | 87,127 | 6 | 315,738 | 101,442 | - | 0.00% | 51,644 | 19.56% | 14,316 | 16.43% |
| 41 | Total Construction Water | 2 | 123,860 | 16,084 | 2 | 20,168 | 8,567 | 0 | 10.00% | (103,692) | -83.72% | (7,517) | -46.74% |
| 42 | | | | | | | | | | | | | |
| 43 | Totals | 3,051 | 8,363 | $ 1,879,582 | 3,072 | 7,942 | $ 1,815,382 | 21 | 0.69% | (421) | -5.04% | $ (64,200) | -3.42% |
| 44 | | | | | | | | | | | | | |

| Line No. | | Test Year 2007 - Inclusive of Customer Growth Adjustment: Customers | Usage | 2008 Actual: Customers | Usage | Increase/(Decrease): Customers | Usage | |
|---|---|---|---|---|---|---|---|---|
| 45 | | | | | | | | |
| 46 | | | | | | | | |
| 47 | | | | | | | | |
| 48 | Total No. of Customers | | | | | | | |
| 49 | Res., Com., Ind., & Const. | (37,832) | | 3,072 | | 40,904 | | |
| 50 | Residential Usage (M Gals) | | 207,356.8 | | 190,981.3 | | (16,375.5) | -7.90% |
| 51 | Commercial Usage (M Gals) | | 80,069.9 | | 78,612.3 | | (1,457.6) | -1.82% |
| 52 | Industrial Usage (M Gals) | | 19,014.7 | | 22,733.1 | | 3,718.4 | 19.56% |
| 53 | Construction Usage (M Gals) | | 2,477.2 | | 443.7 | | (2,033.5) | -82.09% |
| 54 | Total Usage | | 308,918.6 | | 292,770.4 | | (16,148.2) | -5.23% |
| 55 | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Analysis of Revenue by Detailed Class

Casa Grande

| Line No. | Class of Service | [A] Test Year 2007 Pro Forma Revenues at Proposed Rates: Average Number of Customers | [B] Average Consumption | [C] Rate Revenues | [D] 2008 Pro Forma Revenues At Proposed Rates: Average Number of Customers | [E] Average Consumption | [F] Present Rates | [G] Increase/(Decrease): Average Number of Customers | [H] % | [I] Average Consumption | [J] % | [K] Rate Revenues | [L] % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | |
| 2 | Residential 5/8 x 3/4 -inch | 20,324 | 8,843 | $ 8,752,009 | 20,586 | 8,724 | $ 8,633,937 | 261 | 1.29% | (119) | -1.34% | (118,073) | -1.35% |
| 3 | Residential 1-inch | 425 | 27,346 | 556,550 | 430 | 24,162 | 513,465 | 5 | 1.10% | (3,183) | -11.64% | (43,085) | -7.74% |
| 4 | Residential 2-inch | 73 | 178,701 | 481,361 | 71 | 175,756 | 452,146 | (2) | -3.30% | (2,945) | -1.65% | (29,215) | -6.07% |
| 5 | Residential 3-inch | 8 | 520,236 | 138,670 | 7 | 470,921 | 113,904 | (1) | -10.31% | (49,315) | -9.48% | (24,766) | -17.86% |
| 6 | Residential 4-inch | 2 | 1,167,930 | 83,948 | 3 | 1,019,672 | 98,745 | 1 | 33.33% | (148,257) | -12.69% | 14,797 | 17.63% |
| 7 | Residential 6-inch | 8 | 661,989 | 212,269 | 8 | 688,544 | 220,328 | 0 | 1.04% | 26,556 | 4.01% | 8,059 | 3.80% |
| 8 | Residential 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 9 | Residential 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 10 | Commercial 5/8 x 3/4 -inch | 596 | 10,292 | 307,136 | 600 | 9,183 | 273,272 | 4 | 0.61% | (1,110) | -10.78% | (33,864) | -11.03% |
| 11 | Commercial 1-inch | 345 | 32,991 | 510,144 | 374 | 31,185 | 505,126 | 29 | 8.43% | (1,805) | -5.47% | (5,019) | -0.98% |
| 12 | Commercial 2-inch | 301 | 146,421 | 1,789,546 | 382 | 127,032 | 1,948,172 | 81 | 26.99% | (19,389) | -13.24% | 158,627 | 8.86% |
| 13 | Commercial 3-inch | 21 | 265,154 | 239,779 | 26 | 258,636 | 267,135 | 5 | 22.96% | (6,518) | -2.46% | 27,356 | 11.41% |
| 14 | Commercial 4-inch | 16 | 956,967 | 517,244 | 20 | 742,536 | 510,130 | 5 | 29.03% | (214,430) | -22.41% | (7,115) | -1.38% |
| 15 | Commercial 6-inch | 6 | 869,674 | 196,004 | 8 | 819,223 | 265,227 | 2 | 38.89% | (50,451) | -5.80% | 69,223 | 35.32% |
| 16 | Commercial 8-inch | - | - | - | 1 | 1,126,000 | 36,780 | 1 | 0.00% | 1,126,000 | 0.00% | 36,780 | 0.00% |
| 17 | Commercial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 18 | Industrial 5/8 x 3/4 -inch | 5 | 12,572 | 1,868 | 5 | 12,488 | 1,860 | - | 0.00% | (83) | -0.66% | (8) | -0.44% |
| 19 | Industrial 1-inch | 6 | 25,797 | 4,863 | 5 | 32,249 | 4,766 | (1) | -15.28% | 6,452 | 25.01% | (96) | -1.98% |
| 20 | Industrial 2-inch | 9 | 153,197 | 34,919 | 8 | 127,099 | 26,355 | (1) | -12.61% | (26,098) | -17.04% | (8,563) | -24.52% |
| 21 | Industrial 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 22 | Industrial 4-inch | 3 | 1,087,944 | 71,895 | 3 | 1,158,167 | 76,049 | - | 0.00% | 70,222 | 6.45% | 4,154 | 5.78% |
| 23 | Industrial 6-inch | 2 | 23,801,550 | 947,346 | 2 | 20,168,546 | 804,089 | - | 0.00% | (3,633,004) | -15.26% | (143,257) | -15.12% |
| 24 | Industrial 8-inch | 1 | 1,640,208 | 36,740 | 1 | 1,788,142 | 39,657 | - | 0.00% | 147,933 | 9.02% | 2,917 | 7.94% |
| 25 | Industrial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 26 | Construction Water (2-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 27 | Construction Water (3-Inch) | 66 | 165,980 | 512,859 | 57 | 112,051 | 354,577 | (9) | -13.67% | (53,929) | -32.49% | (158,282) | -30.86% |
| 28 | Construction Water (4-Inch) | 17 | 368,251 | 255,790 | 6 | 82,722 | 43,171 | (11) | -64.18% | (285,529) | -77.54% | (212,619) | -83.12% |
| 29 | | | | | | | | | | | | | |
| 30 | | | | | | | | | | | | | |
| 31 | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | |
| 33 | | | | | | | | | | | | | |
| 34 | | | | | | | | | | | | | |
| 35 | | | | | | | | | | | | | |
| 36 | Totals | 22,235 | 16,869 | $ 15,650,939 | 22,603 | 16,073 | $ 15,188,890 | 368 | 1.66% | (796) | -4.72% | (462,050) | -2.95% |
| 37 | | | | | | | | | | | | | |
| 38 | Total Residential | 20,841 | 10,391 | 10,224,807 | 21,105 | 10,161 | 10,032,525 | 264 | 1.26% | (229) | -2.21% | (192,283) | -1.88% |
| 39 | Total Commercial | 1,285 | 67,926 | 3,559,853 | 1,412 | 67,388 | 3,805,841 | 127 | 9.84% | (539) | -0.79% | 245,988 | 6.91% |
| 40 | Total Industrial | 26 | 2,062,547 | 1,097,631 | 24 | 1,938,765 | 952,776 | (2) | -7.94% | (123,782) | -6.00% | (144,854) | -13.20% |
| 41 | Total Construction Water | 83 | 207,006 | 768,649 | 63 | 109,251 | 397,748 | (20) | -23.92% | (97,755) | -47.22% | (370,901) | -48.25% |
| 42 | | | | | | | | | | | | | |
| 43 | Totals | 22,235 | 16,869 | $ 15,650,939 | 22,603 | 16,073 | $ 15,188,890 | 368 | 1.66% | (796) | -4.72% | $ (462,050) | -2.95% |
| 44 | | | | | | | | | | | | | |
| 45 | | | | | | | | | | | | | |
| 46 | | Test Year 2007 - Inclusive of Customer Growth Adjustment | | | 2008 Actual | | | Increase/(Decrease) | | | | | |
| 47 | | | | | | | | | | | | | |
| 48 | Total No. of Customers | Customers | Usage | | Customers | Usage | | Customers | Usage | | | | |
| 49 | Res., Com., Ind., & Const. | 77,831 | | | 22,603 | | | (55,228) | | | | | |
| 50 | Residential Usage (M Gals) | | 2,636,836.6 | | | 2,573,452.0 | | | (63,384.6) | -2.40% | | | |
| 51 | Commercial Usage (M Gals) | | 1,109,659.6 | | | 1,141,413.5 | | | 31,753.9 | 2.86% | | | |
| 52 | Industrial Usage (M Gals) | | 649,702.3 | | | 562,241.9 | | | (87,460.4) | -13.46% | | | |
| 53 | Construction Usage (M Gals) | | 205,142.7 | | | 82,374.9 | | | (122,767.8) | -59.85% | | | |
| 54 | Total Usage | | 4,601,341.2 | | | 4,359,482.3 | | | (241,858.9) | -5.26% | | | |
| 55 | | | | | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Analysis of Revenue by Detailed Class

Stanfield

| Line No. | Class of Service | [A] Test Year 2007 Pro Forma Revenues at Proposed Rates: Average Number of Customers | [B] Average Consumption | [C] Rate Revenues | [D] 2008 Pro Forma Revenues At Proposed Rates: Average Number of Customers | [E] Average Consumption | [F] Present Rates | [G] Increase/(Decrease): Average Number of Customers | [H] % | [I] Average Consumption | [J] % | [K] Rate Revenues | [L] % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | |
| 2 | Residential 5/8 x 3/4 -inch | 175 | 9,162 | $ 94,576 | 172 | 9,032 | $ 90,009 | (3) | -1.77% | (130) | -1.42% | (4,567) | -4.83% |
| 3 | Residential 1-inch | 2 | 15,954 | 2,279 | 2 | 21,725 | 2,784 | - | 0.00% | 5,771 | 36.17% | 505 | 22.18% |
| 4 | Residential 2-inch | 0 | 3,900 | 150 | 1 | 64,717 | 3,945 | 1 | 1100.00% | 60,817 | 1559.40% | 3,795 | 2529.15% |
| 5 | Residential 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 6 | Residential 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 7 | Residential 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 8 | Residential 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 9 | Residential 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 10 | Commercial 5/8 x 3/4 -inch | 26 | 8,297 | 13,302 | 24 | 6,595 | 11,035 | (2) | -8.57% | (1,701) | -20.51% | (2,267) | -17.05% |
| 11 | Commercial 1-inch | 3 | 14,153 | 3,095 | 3 | 10,489 | 2,617 | - | 0.00% | (3,664) | -25.89% | (478) | -15.44% |
| 12 | Commercial 2-inch | 3 | 35,767 | 8,743 | 3 | 42,472 | 9,684 | - | 0.00% | 6,706 | 18.75% | 941 | 10.76% |
| 13 | Commercial 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 14 | Commercial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 15 | Commercial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 16 | Commercial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 17 | Commercial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 18 | Industrial 5/8 x 3/4 -inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 19 | Industrial 1-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 20 | Industrial 2-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 21 | Industrial 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 22 | Industrial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 23 | Industrial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 24 | Industrial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 25 | Industrial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 26 | Construction Water (2-inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 27 | Construction Water (3-inch) | 0 | 29,600 | 1,454 | - | - | - | (0) | -100.00% | (29,600) | -100.00% | (1,454) | -100.00% |
| 28 | Construction Water (4-inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 29 | | | | | | | | | | | | | |
| 30 | | | | | | | | | | | | | |
| 31 | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | |
| 33 | | | | | | | | | | | | | |
| 34 | | | | | | | | | | | | | |
| 35 | | | | | | | | | | | | | |
| 36 | Totals | 209 | 9,602 | $ 123,599 | 205 | 9,654 | $ 120,074 | (5) | -2.27% | 53 | 0.55% | (3,525) | -2.85% |
| 37 | | | | | | | | | | | | | |
| 38 | Total Residential | 177 | 9,236 | 97,005 | 175 | 9,496 | 96,738 | (2) | -1.23% | 260 | 2.82% | (267) | -0.27% |
| 39 | Total Commercial | 32 | 11,397 | 25,140 | 30 | 10,573 | 23,336 | (2) | -6.98% | (824) | -7.23% | (1,804) | -7.18% |
| 40 | Total Industrial | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 41 | Total Construction Water | 0 | 29,600 | 1,454 | - | - | - | (0) | -100.00% | (29,600) | -100.00% | (1,454) | -100.00% |
| 42 | | | | | | | | | | | | | |
| 43 | Totals | 209 | 9,602 | $ 123,599 | 205 | 9,654 | $ 120,074 | (5) | -2.27% | 53 | 0.55% | $ (3,525) | -2.85% |
| 44 | | | | | | | | | | | | | |
| 45 | | Test Year 2007 - Inclusive of Customer Growth Adjustment | | | 2008 Actual | | | Increase/(Decrease) | | | | | |
| 46 | | | | | | | | | | | | | |
| 47 | | | | | | | | | | | | | |
| 48 | Total No. of Customers | Customers | Usage | | Customers | Usage | | Customers | Usage | | | | |
| 49 | Res., Com., Ind., & Const. | (129,131) | | | 205 | | | 129,336 | | | | | |
| 50 | Residential Usage (M Gals) | | 20,020.6 | | | 19,885.5 | | | | (135.1) | -0.67% | | |
| 51 | Commercial Usage (M Gals) | | 4,311.0 | | | 3,806.1 | | | | (504.9) | -11.71% | | |
| 52 | Industrial Usage (M Gals) | | - | | | - | | | | - | 0.00% | | |
| 53 | Construction Usage (M Gals) | | 118.4 | | | - | | | | (118.4) | -100.00% | | |
| 54 | Total Usage | | 24,450.0 | | | 23,691.6 | | | | (758.4) | -3.10% | | |
| 55 | | | | | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Analysis of Revenue by Detailed Class

White Tank

| Line No. | Class of Service | [A] Test Year 2007 Pro Forma Revenues at Proposed Rates: Average Number of Customers | [B] Average Consumption | [C] Rate Revenues | [D] 2008 Pro Forma Revenues At Proposed Rates: Average Number of Customers | [E] Average Consumption | [F] Present Rates | [G] Increase/(Decrease): Average Number of Customers | [H] % | [I] Average Consumption | [J] % | [K] Rate Revenues | [L] % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | |
| 2 | Residential 5/8 x 3/4 -inch | 1,573 | 15,648 | $ 1,341,850 | 1,565 | 15,008 | $ 1,299,885 | (8) | -0.53% | (640) | -4.09% | (41,966) | -3.13% |
| 3 | Residential 1-inch | 62 | 16,729 | 89,634 | 183 | 9,467 | 219,738 | 121 | 196.08% | (7,262) | -43.41% | 130,104 | 145.15% |
| 4 | Residential 2-inch | 3 | 285,539 | 37,246 | 4 | 342,260 | 50,785 | 1 | 16.67% | 56,721 | 19.86% | 13,540 | 36.35% |
| 5 | Residential 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 6 | Residential 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 7 | Residential 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 8 | Residential 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 9 | Residential 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 10 | Commercial 5/8 x 3/4 -inch | 16 | 37,572 | 29,593 | 16 | 34,608 | 25,173 | 0 | 2.11% | (2,964) | -7.89% | (4,420) | -14.93% |
| 11 | Commercial 1-inch | 15 | 43,004 | 38,347 | 16 | 34,913 | 32,298 | 1 | 7.10% | (8,091) | -18.81% | (6,050) | -15.78% |
| 12 | Commercial 2-inch | 6 | 190,292 | 63,339 | 11 | 174,774 | 92,058 | 5 | 83.78% | (15,518) | -8.16% | 28,718 | 45.34% |
| 13 | Commercial 3-inch | 2 | 232,421 | 24,924 | 2 | 233,579 | 25,095 | - | 0.00% | 1,158 | 0.50% | 172 | 0.69% |
| 14 | Commercial 4-inch | 1 | 19,167 | 9,544 | 1 | 132,000 | 11,734 | (0) | -8.33% | 112,833 | 588.70% | 2,190 | 22.94% |
| 15 | Commercial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 16 | Commercial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 17 | Commercial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 18 | Industrial 5/8 x 3/4 -inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 19 | Industrial 1-inch | 1 | 14,542 | 1,526 | 1 | 43,383 | 2,588 | - | 0.00% | 28,842 | 198.34% | 1,062 | 69.63% |
| 20 | Industrial 2-inch | 1 | 140,883 | 8,356 | 1 | 148,083 | 8,622 | - | 0.00% | 7,200 | 5.11% | 265 | 3.17% |
| 21 | Industrial 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 22 | Industrial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 23 | Industrial 6-inch | 1 | 121,125 | 24,261 | 1 | 158,950 | 25,654 | - | 0.00% | 37,825 | 31.23% | 1,393 | 5.74% |
| 24 | Industrial 8-inch | - | - | - | 1 | 158,950 | 37,534 | 1 | 0.00% | 158,950 | 0.00% | 37,534 | 0.00% |
| 25 | Industrial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 26 | Construction Water (2-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 27 | Construction Water (3-Inch) | 5 | 174,996 | 49,315 | 2 | 54,240 | 15,249 | (3) | -54.55% | (120,756) | -69.01% | (34,066) | -69.08% |
| 28 | Construction Water (4-Inch) | 0 | 281,400 | 7,312 | - | - | - | (0) | -100.00% | (281,400) | -100.00% | (7,312) | -100.00% |
| 29 | | | | | | | | | | | | | |
| 30 | | | | | | | | | | | | | |
| 31 | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | |
| 33 | | | | | | | | | | | | | |
| 34 | | | | | | | | | | | | | |
| 35 | | | | | | | | | | | | | |
| 36 | Totals | 1,686 | 18,154 | $ 1,725,248 | 1,804 | 17,038 | $ 1,846,412 | 118 | 6.97% | (1,116) | -6.15% | 121,165 | 7.02% |
| 37 | | | | | | | | | | | | | |
| 38 | Total Residential | 1,638 | 16,183 | 1,468,730 | 1,751 | 15,084 | 1,570,408 | 113 | 6.90% | (1,099) | -6.79% | 101,678 | 6.92% |
| 39 | Total Commercial | 40 | 72,253 | 165,748 | 47 | 79,116 | 186,358 | 7 | 16.15% | 6,863 | 9.50% | 20,610 | 12.43% |
| 40 | Total Industrial | 3 | 92,183 | 34,143 | 4 | 127,342 | 74,397 | 1 | 33.33% | 35,158 | 38.14% | 40,254 | 117.90% |
| 41 | Total Construction Water | 5 | 183,863 | 56,627 | 2 | 54,240 | 15,249 | (3) | -58.33% | (129,623) | -70.50% | (41,378) | -73.07% |
| 42 | | | | | | | | | | | | | |
| 43 | Totals | 1,686 | 18,154 | $ 1,725,248 | 1,804 | 17,038 | $ 1,846,412 | 118 | 6.97% | (1,116) | -6.15% | $ 121,165 | 7.02% |
| 44 | | | | | | | | | | | | | |
| 45 | | Test Year 2007 - Inclusive of Customer Growth Adjustment | | | 2008 Actual | | | Increase/(Decrease) | | | | | |
| 46 | | | | | | | | | | | | | |
| 47 | | | | | | | | | | | | | |
| 48 | Total No. of Customers | Customers | Usage | | Customers | Usage | | Customers | Usage | | | | |
| 49 | Res., Com., Ind., & Const. | (80,316) | | | 1,804 | | | 82,120 | | | | | |
| 50 | *Residential Usage (M Gals)* | | 318,076.1 | | | 316,936.5 | | | | (1,139.6) | -0.36% | | |
| 51 | Commercial Usage (M Gals) | | 39,115.5 | | | 44,384.0 | | | | 5,268.5 | 13.47% | | |
| 52 | Industrial Usage (M Gals) | | 3,318.6 | | | 6,112.4 | | | | 2,793.8 | 84.19% | | |
| 53 | Construction Usage (M Gals) | | 11,031.8 | | | 1,356.0 | | | | (9,675.8) | -87.71% | | |
| 54 | Total Usage | | 371,542.0 | | | 368,788.9 | | | | (2,753.1) | -0.74% | | |
| 55 | | | | | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Analysis of Revenue by Detailed Class

Ajo

| Line No. | Class of Service | [A] Test Year 2007 Pro Forma Revenues at Proposed Rates: Average Number of Customers | [B] Average Consumption | [C] Rate Revenues | [D] 2008 Pro Forma Revenues At Proposed Rates: Average Number of Customers | [E] Average Consumption | [F] Present Rates | [G] Increase/(Decrease): Average Number of Customers | [H] % | [I] Average Consumption | [J] % | [K] Rate Revenues | [L] % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | |
| 2 | Residential 5/8 x 3/4 -inch | 603 | 5,185 | $ 421,122 | 594 | 4,859 | $ 397,488 | (9) | -1.44% | (326) | -6.28% | (23,634) | -5.61% |
| 3 | Residential 1-inch | 8 | 11,576 | 14,265 | 8 | 7,220 | 11,163 | 0 | 1.04% | (4,356) | -37.63% | (3,102) | -21.74% |
| 4 | Residential 2-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 5 | Residential 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 6 | Residential 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 7 | Residential 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 8 | Residential 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 9 | Residential 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 10 | Commercial 5/8 x 3/4 -inch | 52 | 5,553 | 39,209 | 56 | 5,478 | 43,505 | 4 | 8.39% | (75) | -1.35% | 4,295 | 10.95% |
| 11 | Commercial 1-inch | 19 | 36,557 | 75,358 | 19 | 35,796 | 73,085 | (0) | -0.87% | (762) | -2.08% | (2,272) | -3.02% |
| 12 | Commercial 2-inch | 3 | 31,644 | 14,904 | 3 | 21,572 | 12,580 | - | 0.00% | (10,072) | -31.83% | (2,323) | -15.59% |
| 13 | Commercial 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 14 | Commercial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 15 | Commercial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 16 | Commercial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 17 | Commercial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 18 | Industrial 5/8 x 3/4 -inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 19 | Industrial 1-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 20 | Industrial 2-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 21 | Industrial 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 22 | Industrial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 23 | Industrial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 24 | Industrial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 25 | Industrial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 26 | Construction Water (2-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 27 | Construction Water (3-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 28 | Construction Water (4-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 29 | | | | | | | | | | | | | |
| 30 | | | | | | | | | | | | | |
| 31 | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | |
| 33 | | | | | | | | | | | | | |
| 34 | | | | | | | | | | | | | |
| 35 | | | | | | | | | | | | | |
| 36 | Totals | 685 | 6,281 | $ 564,858 | 681 | 5,875 | $ 537,822 | (4) | -0.64% | (406) | -6.46% | (27,036) | -4.79% |
| 37 | | | | | | | | | | | | | |
| 38 | Total Residential | 611 | 5,268 | 435,387 | 603 | 4,890 | 408,652 | (9) | -1.40% | (378) | -7.17% | (26,736) | -6.14% |
| 39 | Total Commercial | 74 | 14,662 | 129,471 | 78 | 13,482 | 129,170 | 4 | 5.64% | (1,180) | -8.05% | (301) | -0.23% |
| 40 | Total Industrial | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 41 | Total Construction Water | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 42 | | | | | | | | | | | | | |
| 43 | Totals | 685 | 6,281 | $ 564,858 | 681 | 5,875 | $ 537,822 | (4) | -0.64% | (406) | -6.46% | $ (27,036) | -4.79% |
| 44 | | | | | | | | | | | | | |
| 45 | | | | | | | | | | | | | |
| 46 | | Test Year 2007 - Inclusive of Customer Growth Adjustment | | | 2008 Actual | | | Increase/(Decrease) | | | | | |
| 47 | | | | | | | | | | | | | |
| 48 | Total No. of Customers | Customers | Usage | | Customers | Usage | | Customers | Usage | | | | |
| 49 | Res., Com., Ind., & Const. | 116,947 | | | 681 | | | (116,266) | | | | | |
| 50 | Residential Usage (M Gals) | | 38,693.9 | | | 35,357.5 | | | (3,336.4) | -8.62% | | | |
| 51 | Commercial Usage (M Gals) | | 12,856.8 | | | 12,618.9 | | | (237.9) | -1.85% | | | |
| 52 | Industrial Usage (M Gals) | | - | | | - | | | - | 0.00% | | | |
| 53 | Construction Usage (M Gals) | | - | | | - | | | - | 0.00% | | | |
| 54 | Total Usage | | 51,550.7 | | | 47,976.4 | | | (3,574.3) | -6.93% | | | |
| 55 | | | | | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Analysis of Revenue by Detailed Class

Coolidge

| Line No. | Class of Service | [A] Test Year 2007 Pro Forma Revenues at Proposed Rates: Average Number of Customers | [B] Average Consumption | [C] Rate Revenues | [D] 2008 Pro Forma Revenues At Proposed Rates: Average Number of Customers | [E] Average Consumption | [F] Present Rates | [G] Increase/(Decrease): Average Number of Customers | [H] % | [I] Average Consumption | [J] % | [K] Rate Revenues | [L] % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | |
| 2 | Residential 5/8 x 3/4 -inch | 4,155 | 8,134 | $ 1,704,740 | 4,206 | 8,235 | $ 1,706,388 | 51 | 1.22% | 101 | 1.24% | 1,647 | 0.10% |
| 3 | Residential 1-inch | 61 | 22,897 | 70,989 | 62 | 23,736 | 72,625 | 1 | 1.79% | 839 | 3.66% | 1,636 | 2.30% |
| 4 | Residential 2-inch | 11 | 202,519 | 76,468 | 11 | 200,215 | 77,460 | 0 | 2.33% | (2,304) | -1.14% | 992 | 1.30% |
| 5 | Residential 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 6 | Residential 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 7 | Residential 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 8 | Residential 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 9 | Residential 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 10 | Commercial 5/8 x 3/4 -inch | 230 | 8,367 | 107,363 | 244 | 8,038 | 103,432 | 14 | 6.09% | (329) | -3.94% | (3,931) | -3.66% |
| 11 | Commercial 1-inch | 73 | 27,215 | 97,055 | 90 | 22,119 | 98,022 | 17 | 23.14% | (5,096) | -18.73% | 968 | 1.00% |
| 12 | Commercial 2-inch | 57 | 145,484 | 349,213 | 70 | 127,540 | 356,498 | 12 | 21.37% | (17,945) | -12.33% | 7,285 | 2.09% |
| 13 | Commercial 3-inch | 3 | 261,890 | 25,743 | 3 | 271,039 | 30,785 | 0 | 16.13% | 9,149 | 3.49% | 5,042 | 19.59% |
| 14 | Commercial 4-inch | 5 | 561,289 | 91,867 | 5 | 487,378 | 90,484 | 0 | 9.09% | (73,911) | -13.17% | (1,382) | -1.50% |
| 15 | Commercial 6-inch | 3 | 625,065 | 75,567 | 3 | 527,903 | 71,377 | 0 | 5.88% | (97,162) | -15.54% | (4,190) | -5.54% |
| 16 | Commercial 8-inch | - | - | - | 1 | 49,300 | 10,396 | 1 | 0.00% | 49,300 | 0.00% | 10,396 | 0.00% |
| 17 | Commercial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 18 | Industrial 5/8 x 3/4 -inch | 1 | 5,375 | 261 | - | - | - | (1) | -100.00% | (5,375) | -100.00% | (261) | -100.00% |
| 19 | Industrial 1-inch | 2 | 71,250 | 4,220 | 2 | 71,263 | 4,220 | - | 0.00% | 12 | 0.02% | 1 | 0.01% |
| 20 | Industrial 2-inch | 2 | 43,117 | 4,185 | 3 | 34,777 | 5,491 | 1 | 45.83% | (8,340) | -19.34% | 1,305 | 31.19% |
| 21 | Industrial 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 22 | Industrial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 23 | Industrial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 24 | Industrial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 25 | Industrial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 26 | Construction Water (2-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 27 | Construction Water (3-Inch) | 16 | 110,864 | 96,381 | 15 | 79,395 | 77,666 | (1) | -6.38% | (31,469) | -28.39% | (18,715) | -19.42% |
| 28 | Construction Water (4-Inch) | 1 | 107,625 | 10,388 | 1 | 295,500 | 6,479 | (1) | -62.50% | 187,875 | 174.56% | (3,909) | -37.63% |
| 29 | | | | | | | | | | | | | |
| 30 | | | | | | | | | | | | | |
| 31 | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | |
| 33 | | | | | | | | | | | | | |
| 34 | | | | | | | | | | | | | |
| 35 | | | | | | | | | | | | | |
| 36 | Totals | 4,619 | 12,286 | $ 2,714,440 | 4,713 | 12,207 | $ 2,711,324 | 95 | 2.05% | (79) | -0.64% | (3,117) | -0.11% |
| 37 | | | | | | | | | | | | | |
| 38 | Total Residential | 4,227 | 8,840 | 1,852,197 | 4,279 | 8,952 | 1,856,473 | 52 | 1.23% | 112 | 1.26% | 4,275 | 0.23% |
| 39 | Total Commercial | 370 | 46,653 | 746,808 | 415 | 42,627 | 760,996 | 45 | 12.07% | (4,026) | -8.63% | 14,188 | 1.90% |
| 40 | Total Industrial | 5 | 46,822 | 8,666 | 5 | 49,619 | 9,711 | (0) | -1.67% | 2,797 | 5.97% | 1,045 | 12.05% |
| 41 | Total Construction Water | 17 | 110,610 | 106,769 | 15 | 86,519 | 84,144 | (2) | -10.78% | (24,091) | -21.78% | (22,624) | -21.19% |
| 42 | | | | | | | | | | | | | |
| 43 | Totals | 4,619 | 12,286 | $ 2,714,440 | 4,713 | 12,207 | $ 2,711,324 | 95 | 2.05% | (79) | -0.64% | $ (3,117) | -0.11% |
| 44 | | | | | | | | | | | | | |
| 45 | | | | | | | | | | | | | |
| 46 | | Test Year 2007 - Inclusive of Customer Growth Adjustment | | | 2008 Actual | | | Increase/(Decrease) | | | | | |
| 47 | | | | | | | | | | | | | |
| 48 | Total No. of Customers | Customers | Usage | | Customers | Usage | | Customers | Usage | | | | |
| 49 | Res., Com., Ind., & Const. | 22 | | | 4,713 | | | 4,691 | | | | | |
| 50 | Residential Usage (M Gals) | | 455,858.9 | | | 459,623.7 | | | 3,764.8 | 0.83% | | | |
| 51 | Commercial Usage (M Gals) | | 219,782.2 | | | 212,157.0 | | | (7,625.2) | -3.47% | | | |
| 52 | Industrial Usage (M Gals) | | 2,809.3 | | | 2,927.5 | | | 118.2 | 4.21% | | | |
| 53 | Construction Usage (M Gals) | | 22,564.4 | | | 15,746.5 | | | (6,817.9) | -30.22% | | | |
| 54 | Total Usage | | 701,014.7 | | | 690,454.7 | | | (10,560.0) | -1.51% | | | |
| 55 | | | | | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Analysis of Revenue by Detailed Class

Lakeside

| Line No. | Class of Service | [A] Test Year 2007 Pro Forma Revenues at Proposed Rates: Average Number of Customers | [B] Average Consumption | [C] Rate Revenues | [D] 2008 Pro Forma Revenues At Proposed Rates: Average Number of Customers | [E] Average Consumption | [F] Present Rates | [G] Increase/(Decrease): Average Number of Customers | [H] % | [I] Average Consumption | [J] % | [K] Rate Revenues | [L] % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | |
| 2 | Residential 5/8 x 3/4 -inch | 4,652 | 4,312 | $ 2,169,723 | 4,690 | 3,949 | $ 2,041,241 | 37 | 0.80% | (363) | -8.41% | (128,483) | -5.92% |
| 3 | Residential 1-inch | 28 | 15,635 | 44,369 | 30 | 14,525 | 44,685 | 2 | 6.91% | (1,110) | -7.10% | 317 | 0.71% |
| 4 | Residential 2-inch | 10 | 43,627 | 44,977 | 10 | 42,758 | 44,285 | - | 0.00% | (869) | -1.99% | (692) | -1.54% |
| 5 | Residential 3-inch | 1 | 252,792 | 22,614 | 10 | 42,758 | 56,829 | 9 | 900.00% | (210,034) | -83.09% | 34,215 | 151.30% |
| 6 | Residential 4-inch | 1 | 406,417 | 36,255 | 1 | 430,667 | 38,351 | - | 0.00% | 24,250 | 5.97% | 2,096 | 5.78% |
| 7 | Residential 6-Inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 8 | Residential 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 9 | Residential 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 10 | Commercial 5/8 x 3/4 -inch | 141 | 8,078 | 116,227 | 155 | 7,434 | 116,488 | 14 | 9.85% | (644) | -7.97% | 262 | 0.23% |
| 11 | Commercial 1-inch | 53 | 24,143 | 123,546 | 53 | 22,277 | 113,257 | 1 | 1.75% | (1,865) | -7.73% | (10,289) | -8.33% |
| 12 | Commercial 2-inch | 34 | 68,710 | 222,277 | 34 | 63,370 | 210,594 | 0 | 1.24% | (5,340) | -7.77% | (11,683) | -5.26% |
| 13 | Commercial 3-inch | 1 | 52,983 | 6,381 | 1 | 70,425 | 7,700 | - | 0.00% | 17,442 | 32.92% | 1,319 | 20.67% |
| 14 | Commercial 4-inch | 1 | 77,000 | 9,557 | 2 | 56,579 | 12,803 | 1 | 58.33% | (20,421) | -26.52% | 3,246 | 33.97% |
| 15 | Commercial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 16 | Commercial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 17 | Commercial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 18 | Industrial 5/8 x 3/4 -inch | 2 | 2,546 | 743 | 2 | 2,404 | 728 | - | 0.00% | (142) | -5.56% | (15) | -1.97% |
| 19 | Industrial 1-inch | 1 | 80,025 | 4,614 | 1 | 101,392 | 5,718 | - | 0.00% | 21,367 | 26.70% | 1,104 | 23.92% |
| 20 | Industrial 2-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 21 | Industrial 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 22 | Industrial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 23 | Industrial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 24 | Industrial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 25 | Industrial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 26 | Construction Water (2-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 27 | Construction Water (3-Inch) | 2 | 138,631 | 33,541 | 2 | 39,843 | 12,928 | (0) | -3.45% | (98,788) | -71.26% | (20,613) | -61.46% |
| 28 | Construction Water (4-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 29 | | | | | | | | | | | | | |
| 30 | | | | | | | | | | | | | |
| 31 | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | |
| 33 | | | | | | | | | | | | | |
| 34 | | | | | | | | | | | | | |
| 35 | | | | | | | | | | | | | |
| 36 | Totals | 4,927 | 5,451 | $ 2,834,825 | 4,991 | 5,028 | $ 2,705,608 | 64 | 1.30% | (423) | -7.76% | (129,217) | -4.56% |
| 37 | | | | | | | | | | | | | |
| 38 | Total Residential | 4,692 | 4,601 | 2,317,939 | 4,740 | 4,269 | 2,225,391 | 48 | 1.02% | (332) | -7.22% | (92,548) | -3.99% |
| 39 | Total Commercial | 229 | 21,126 | 477,988 | 245 | 18,996 | 460,842 | 16 | 6.90% | (2,130) | -10.08% | (17,145) | -3.59% |
| 40 | Total Industrial | 3 | 28,372 | 5,357 | 3 | 35,400 | 6,446 | - | 0.00% | 7,028 | 24.77% | 1,089 | 20.33% |
| 41 | Total Construction Water | 2 | 138,631 | 33,541 | 2 | 39,843 | 12,928 | (0) | -3.45% | (98,788) | -71.26% | (20,613) | -61.46% |
| 42 | | | | | | | | | | | | | |
| 43 | Totals | 4,927 | 5,451 | $ 2,834,825 | 4,991 | 5,028 | $ 2,705,608 | 64 | 1.30% | (423) | -7.76% | $ (129,217) | -4.56% |
| 44 | | | | | | | | | | | | | |
| 45 | | | | | | | | | | | | | |
| 46 | | Test Year 2007 - Inclusive of Customer Growth Adjustment | | | 2008 Actual | | | Increase/(Decrease) | | | | | |
| 47 | | | | | | | | | | | | | |
| 48 | Total No. of Customers | Customers | Usage | | Customers | Usage | | Customers | Usage | | | | |
| 49 | Res., Com., Ind., & Const. | 5 | | | 4,991 | | | 4,985 | | | | | |
| 50 | Residential Usage (M Gals) | | 260,472.8 | | | 242,837.8 | | | (17,635.0) | -6.77% | | | |
| 51 | Commercial Usage (M Gals) | | 59,127.4 | | | 55,905.2 | | | (3,222.2) | -5.45% | | | |
| 52 | Industrial Usage (M Gals) | | 1,021.4 | | | 1,274.4 | | | 253.0 | 24.77% | | | |
| 53 | Construction Usage (M Gals) | | 4,020.3 | | | 1,115.6 | | | (2,904.7) | -72.25% | | | |
| 54 | Total Usage | | 324,641.9 | | | 301,133.0 | | | (23,508.9) | -7.24% | | | |
| 55 | | | | | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Analysis of Revenue by Detailed Class

Overgaard

| Line No. | Class of Service | [A] Test Year 2007 Pro Forma Revenues at Proposed Rates: Average Number of Customers | [B] Average Consumption | [C] Rate Revenues | [D] 2008 Pro Forma Revenues At Proposed Rates: Average Number of Customers | [E] Average Consumption | [F] Present Rates | [G] Increase/(Decrease): Average Number of Customers | [H] % | [I] Average Consumption | [J] % | [K] Rate Revenues | [L] % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | |
| 2 | Residential 5/8 x 3/4 -inch | 4,023 | 2,765 | $ 1,447,856 | 4,081 | 2,368 | $ 1,317,061 | 59 | 1.45% | (398) | -14.38% | (130,795) | -9.03% |
| 3 | Residential 1-inch | 5 | 12,555 | 6,556 | 4 | 13,621 | 6,263 | (1) | -11.67% | 1,066 | 8.49% | (293) | -4.47% |
| 4 | Residential 2-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 5 | Residential 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 6 | Residential 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 7 | Residential 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 8 | Residential 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 9 | Residential 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 10 | Commercial 5/8 x 3/4 -inch | 48 | 4,955 | 28,650 | 46 | 4,155 | 22,212 | (2) | -4.48% | (800) | -16.15% | (6,438) | -22.47% |
| 11 | Commercial 1-inch | 8 | 16,068 | 13,420 | 10 | 13,480 | 13,209 | 2 | 28.89% | (2,588) | -16.10% | (210) | -1.57% |
| 12 | Commercial 2-inch | 18 | 34,714 | 70,749 | 18 | 28,154 | 58,218 | 0 | 0.46% | (6,560) | -18.90% | (12,531) | -17.71% |
| 13 | Commercial 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 14 | Commercial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 15 | Commercial 6-inch | 1 | 301,408 | 30,306 | 1 | 326,775 | 32,158 | - | 0.00% | 25,367 | 8.42% | 1,852 | 6.11% |
| 16 | Commercial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 17 | Commercial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 18 | Industrial 5/8 x 3/4 -inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 19 | Industrial 1-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 20 | Industrial 2-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 21 | Industrial 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 22 | Industrial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 23 | Industrial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 24 | Industrial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 25 | Industrial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 26 | Construction Water (2-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 27 | Construction Water (3-Inch) | 1 | 108,921 | 12,660 | 1 | 14,207 | 4,488 | 0 | 7.14% | (94,715) | -86.96% | (8,172) | -64.55% |
| 28 | Construction Water (4-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 29 | | | | | | | | | | | | | |
| 30 | | | | | | | | | | | | | |
| 31 | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | |
| 33 | | | | | | | | | | | | | |
| 34 | | | | | | | | | | | | | |
| 35 | | | | | | | | | | | | | |
| 36 | Totals | 4,104 | 3,071 | $ 1,610,197 | 4,162 | 2,619 | $ 1,453,609 | 58 | 1.42% | (452) | -14.71% | (156,588) | -9.72% |
| 37 | | | | | | | | | | | | | |
| 38 | Total Residential | 4,028 | 2,778 | 1,454,412 | 4,086 | 2,380 | 1,323,324 | 58 | 1.44% | (398) | -14.32% | (131,088) | -9.01% |
| 39 | Total Commercial | 75 | 17,175 | 143,125 | 75 | 15,445 | 125,797 | 0 | 0.11% | (1,730) | -10.07% | (17,328) | -12.11% |
| 40 | Total Industrial | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 41 | Total Construction Water | 1 | 108,921 | 12,660 | 1 | 14,207 | 4,488 | 0 | 7.14% | (94,715) | -86.96% | (8,172) | -64.55% |
| 42 | | | | | | | | | | | | | |
| 43 | Totals | 4,104 | 3,071 | $ 1,610,197 | 4,162 | 2,619 | $ 1,453,609 | 58 | 1.42% | (452) | -14.71% | $ (156,588) | -9.72% |
| 44 | | | | | | | | | | | | | |
| 45 | | | | | | | | | | | | | |
| 46 | | Test Year 2007 - Inclusive of Customer Growth Adjustment | | | 2008 Actual | | | Increase/(Decrease) | | | | | |
| 47 | | | | | | | | | | | | | |
| 48 | Total No. of Customers | Customers | Usage | | Customers | Usage | | Customers | Usage | | | | |
| 49 | Res., Com., Ind., & Const. | 1 | | | 4,162 | | | 4,161 | | | | | |
| 50 | Residential Usage (M Gals) | | 137,141.8 | | | 116,682.7 | | | (20,459.1) | -14.92% | | | |
| 51 | Commercial Usage (M Gals) | | 16,287.5 | | | 13,900.5 | | | (2,387.0) | -14.66% | | | |
| 52 | Industrial Usage (M Gals) | | - | | | - | | | - | 0.00% | | | |
| 53 | Construction Usage (M Gals) | | 1,524.9 | | | 213.1 | | | (1,311.8) | -86.03% | | | |
| 54 | Total Usage | | 154,954.2 | | | 130,796.3 | | | (24,157.9) | -15.59% | | | |
| 55 | | | | | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Analysis of Revenue by Detailed Class

Sedona

| Line No. | Class of Service | [A] Test Year 2007 Pro Forma Revenues at Proposed Rates: Average Number of Customers | [B] Average Consumption | [C] Rate Revenues | [D] 2008 Pro Forma Revenues At Proposed Rates: Average Number of Customers | [E] Average Consumption | [F] Present Rates | [G] Increase/(Decrease): Average Number of Customers | [H] % | [I] Average Consumption | [J] % | [K] Rate Revenues | [L] % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | |
| 2 | Residential 5/8 x 3/4 -inch | 5,129 | 10,264 | $ 3,228,712 | 5,129 | 9,221 | $ 3,005,355 | (0) | 0.00% | (1,043) | -10.16% | (223,357) | -6.92% |
| 3 | Residential 1-inch | 466 | 16,333 | 604,698 | 501 | 15,441 | 628,980 | 34 | 7.38% | (891) | -5.46% | 24,282 | 4.02% |
| 4 | Residential 2-inch | 37 | 72,618 | 172,432 | 37 | 72,436 | 173,487 | 0 | 0.91% | (182) | -0.25% | 1,055 | 0.61% |
| 5 | Residential 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 6 | Residential 4-inch | 1 | 476,500 | 22,805 | 1 | 368,500 | 18,985 | - | 0.00% | (108,000) | -22.67% | (3,820) | -16.75% |
| 7 | Residential 6-inch | 1 | 1,018,217 | 48,329 | 1 | 1,026,333 | 48,881 | - | 0.00% | 8,117 | 0.80% | 552 | 1.14% |
| 8 | Residential 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 9 | Residential 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 10 | Commercial 5/8 x 3/4 -inch | 292 | 14,708 | 242,229 | 293 | 14,456 | 241,228 | 1 | 0.43% | (252) | -1.71% | (1,001) | -0.41% |
| 11 | Commercial 1-inch | 205 | 34,545 | 398,592 | 199 | 36,681 | 408,533 | (5) | -2.61% | 2,136 | 6.18% | 9,942 | 2.49% |
| 12 | Commercial 2-inch | 128 | 95,394 | 716,492 | 130 | 89,370 | 700,149 | 2 | 1.89% | (6,024) | -6.32% | (16,343) | -2.28% |
| 13 | Commercial 3-inch | 5 | 601,552 | 136,857 | 5 | 511,245 | 119,019 | - | 0.00% | (90,307) | -15.01% | (17,838) | -13.03% |
| 14 | Commercial 4-inch | 7 | 364,590 | 132,818 | 7 | 366,548 | 134,598 | 0 | 1.20% | 1,957 | 0.54% | 1,780 | 1.34% |
| 15 | Commercial 6-inch | 1 | 830,500 | 42,012 | 1 | 758,750 | 38,874 | - | 0.00% | (71,750) | -8.64% | (3,138) | -7.47% |
| 16 | Commercial 8-inch | 1 | 1,197,108 | 62,848 | 1 | 746,792 | 46,539 | - | 0.00% | (450,317) | -37.62% | (16,309) | -25.95% |
| 17 | Commercial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 18 | Industrial 5/8 x 3/4 -inch | 1 | 22,083 | 390 | 1 | 27,833 | 914 | 1 | 100.00% | 5,750 | 26.04% | 524 | 134.21% |
| 19 | Industrial 1-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 20 | Industrial 2-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 21 | Industrial 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 22 | Industrial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 23 | Industrial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 24 | Industrial 8-inch | - | - | - | 1 | 14,575 | 14,504 | 1 | 0.00% | 14,575 | 0.00% | 14,504 | 0.00% |
| 25 | Industrial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 26 | Construction Water (2-Inch) | 0 | 3,000 | 187 | - | - | - | (0) | -100.00% | (3,000) | -100.00% | (187) | -100.00% |
| 27 | Construction Water (3-Inch) | 7 | 86,662 | 48,892 | 3 | 28,261 | 17,852 | (3) | -50.00% | (58,401) | -67.39% | (31,040) | -63.49% |
| 28 | Construction Water (4-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 29 | | | | | | | | | | | | | |
| 30 | | | | | | | | | | | | | |
| 31 | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | |
| 33 | | | | | | | | | | | | | |
| 34 | | | | | | | | | | | | | |
| 35 | | | | | | | | | | | | | |
| 36 | Totals | 6,279 | 15,311 | $ 5,858,292 | 6,310 | 14,114 | $ 5,597,898 | 31 | 0.49% | (1,197) | -7.82% | (260,394) | -4.44% |
| 37 | | | | | | | | | | | | | |
| 38 | Total Residential | 5,634 | 11,434 | 4,076,976 | 5,668 | 10,426 | 3,875,688 | 35 | 0.61% | (1,008) | -8.81% | (201,288) | -4.94% |
| 39 | Total Commercial | 638 | 48,779 | 1,731,848 | 637 | 46,860 | 1,688,940 | (2) | -0.25% | (1,919) | -3.93% | (42,908) | -2.48% |
| 40 | Total Industrial | 1 | 22,083 | 390 | 2 | 22,530 | 15,418 | 1 | 233.33% | 447 | 2.02% | 15,027 | 3852.06% |
| 41 | Total Construction Water | 7 | 85,654 | 49,078 | 3 | 28,261 | 17,852 | (4) | -50.60% | (57,393) | -67.01% | (31,226) | -63.63% |
| 42 | | | | | | | | | | | | | |
| 43 | Totals | 6,279 | 15,311 | $ 5,858,292 | 6,310 | 14,114 | $ 5,597,898 | 31 | 0.49% | (1,197) | -7.82% | $ (260,394) | -4.44% |
| 44 | | | | | | | | | | | | | |
| 45 | | | | | | | | | | | | | |
| 46 | | Test Year 2007 - Inclusive of Customer Growth Adjustment | | | 2008 Actual | | | Increase/(Decrease) | | | | | |
| 47 | | | | | | | | | | | | | |
| 48 | Total No. of Customers | Customers | Usage | | Customers | Usage | | Customers | Usage | | | | |
| 49 | Res., Com., Ind., & Const. | 7 | | | 6,310 | | | 6,303 | | | | | |
| 50 | Residential Usage (M Gals) | | 776,451.2 | | | 709,182.2 | | | (67,269.0) | -8.66% | | | |
| 51 | Commercial Usage (M Gals) | | 372,911.2 | | | 357,920.4 | | | (14,990.8) | -4.02% | | | |
| 52 | Industrial Usage (M Gals) | | 132.5 | | | 450.6 | | | 318.1 | 240.08% | | | |
| 53 | Construction Usage (M Gals) | | 7,109.3 | | | 1,158.7 | | | (5,950.6) | -83.70% | | | |
| 54 | Total Usage | | 1,156,604.2 | | | 1,068,711.9 | | | (87,892.3) | -7.60% | | | |
| 55 | | | | | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Analysis of Revenue by Detailed Class

Pinewood

| Line No. | Class of Service | [A] Test Year 2007 Pro Forma Revenues at Proposed Rates: Average Number of Customers | [B] Average Consumption | [C] Rate Revenues | [D] 2008 Pro Forma Revenues At Proposed Rates: Average Number of Customers | [E] Average Consumption | [F] Present Rates | [G] Increase/(Decrease): Average Number of Customers | [H] % | [I] Average Consumption | [J] % | [K] Rate Revenues | [L] % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | |
| 2 | Residential 5/8 x 3/4 -inch | 2,851 | 2,407 | $ 1,105,679 | 2,854 | 2,140 | $ 1,061,534 | 3 | 0.09% | (267) | -11.09% | (44,145) | -3.99% |
| 3 | Residential 1-inch | 5 | 5,171 | 4,708 | 7 | 2,303 | 5,800 | 2 | 49.15% | (2,868) | -55.46% | 1,092 | 23.20% |
| 4 | Residential 2-inch | 2 | 235,396 | 32,746 | 2 | 261,271 | 35,877 | - | 0.00% | 25,875 | 10.99% | 3,131 | 9.56% |
| 5 | Residential 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 6 | Residential 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 7 | Residential 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 8 | Residential 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 9 | Residential 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 10 | Commercial 5/8 x 3/4 -inch | 16 | 11,115 | 14,911 | 15 | 10,727 | 13,589 | (1) | -6.25% | (388) | -3.49% | (1,322) | -8.86% |
| 11 | Commercial 1-inch | 1 | 5,967 | 977 | 1 | 7,533 | 1,058 | - | 0.00% | 1,567 | 26.26% | 81 | 8.27% |
| 12 | Commercial 2-inch | 4 | 57,807 | 13,606 | 4 | 45,746 | 18,143 | 0 | 11.63% | (12,061) | -20.86% | 4,537 | 33.35% |
| 13 | Commercial 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 14 | Commercial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 15 | Commercial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 16 | Commercial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 17 | Commercial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 18 | Industrial 5/8 x 3/4 -inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 19 | Industrial 1-inch | 1 | 58 | 672 | - | - | - | (1) | -100.00% | (58) | -100.00% | (672) | -100.00% |
| 20 | Industrial 2-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 21 | Industrial 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 22 | Industrial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 23 | Industrial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 24 | Industrial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 25 | Industrial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 26 | Construction Water (2-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 27 | Construction Water (3-Inch) | 1 | 20,733 | 2,676 | 1 | 133,388 | 7,439 | 0 | 33.33% | 112,654 | 543.35% | 4,763 | 177.98% |
| 28 | Construction Water (4-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 29 | | | | | | | | | | | | | |
| 30 | | | | | | | | | | | | | |
| 31 | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | |
| 33 | | | | | | | | | | | | | |
| 34 | | | | | | | | | | | | | |
| 35 | | | | | | | | | | | | | |
| 36 | Totals | 2,880 | 2,695 | $ 1,175,975 | 2,884 | 2,458 | $ 1,143,440 | 4 | 0.13% | (237) | -8.79% | (32,535) | -2.77% |
| 37 | | | | | | | | | | | | | |
| 38 | Total Residential | 2,858 | 2,575 | 1,143,133 | 2,863 | 2,322 | 1,103,211 | 5 | 0.18% | (253) | -9.84% | (39,922) | -3.49% |
| 39 | Total Commercial | 21 | 18,993 | 29,494 | 20 | 17,571 | 32,790 | (1) | -2.83% | (1,422) | -7.49% | 3,296 | 11.18% |
| 40 | Total Industrial | 1 | 58 | 672 | - | - | - | (1) | -100.00% | (58) | -100.00% | (672) | -100.00% |
| 41 | Total Construction Water | 1 | 20,733 | 2,676 | 1 | 133,388 | 7,439 | 0 | 33.33% | 112,654 | 543.35% | 4,763 | 177.98% |
| 42 | | | | | | | | | | | | | |
| 43 | Totals | 2,880 | 2,695 | $ 1,175,975 | 2,884 | 2,458 | $ 1,143,440 | 4 | 0.13% | (237) | -8.79% | $ (32,535) | -2.77% |
| 44 | | | | | | | | | | | | | |
| 45 | | | | | | | | | | | | | |
| 46 | | Test Year 2007 - Inclusive of Customer Growth Adjustment | | | 2008 Actual | | | Increase/(Decrease) | | | | | |
| 47 | | | | | | | | | | | | | |
| 48 | Total No. of Customers | Customers | Usage | | Customers | Usage | | Customers | Usage | | | | |
| 49 | Res., Com., Ind., & Const. | 2 | | | 2,884 | | | 2,882 | | | | | |
| 50 | Residential Usage (M Gals) | | 88,629.8 | | | 79,762.0 | | | (8,867.8) | -10.01% | | | |
| 51 | Commercial Usage (M Gals) | | 3,997.6 | | | 4,217.0 | | | 219.4 | 5.49% | | | |
| 52 | Industrial Usage (M Gals) | | 0.7 | | | - | | | (0.7) | -100.00% | | | |
| 53 | Construction Usage (M Gals) | | 124.4 | | | 1,067.1 | | | 942.7 | 757.80% | | | |
| 54 | Total Usage | | 92,752.5 | | | 85,046.1 | | | (7,706.4) | -8.31% | | | |
| 55 | | | | | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Analysis of Revenue by Detailed Class

Rimrock

| Line No. | Class of Service | [A] Test Year 2007 Pro Forma Revenues at Proposed Rates: Average Number of Customers | [B] Average Consumption | [C] Rate Revenues | [D] 2008 Pro Forma Revenues At Proposed Rates: Average Number of Customers | [E] Average Consumption | [F] Present Rates | [G] Increase/(Decrease): Average Number of Customers | [H] % | [I] Average Consumption | [J] % | [K] Rate Revenues | [L] % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | |
| 2 | Residential 5/8 x 3/4 -inch | 1,224 | 6,165 | $ 710,693 | 1,205 | 5,337 | $ 638,741 | (19) | -1.53% | (829) | -13.44% | (71,952) | -10.12% |
| 3 | Residential 1-inch | 7 | 6,456 | 7,292 | 7 | 6,373 | 7,072 | (0) | -2.33% | (83) | -1.29% | (220) | -3.02% |
| 4 | Residential 2-inch | 1 | 6,250 | 3,696 | 1 | 11,217 | 2,720 | 1 | 100.00% | 4,967 | 79.47% | (976) | -26.41% |
| 5 | Residential 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 6 | Residential 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 7 | Residential 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 8 | Residential 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 9 | Residential 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 10 | Commercial 5/8 x 3/4 -inch | 14 | 4,702 | 8,059 | 15 | 4,483 | 7,751 | 1 | 6.47% | (219) | -4.66% | (309) | -3.83% |
| 11 | Commercial 1-inch | 2 | 97,096 | 12,834 | 2 | 59,307 | 9,428 | 0 | 16.67% | (37,789) | -38.92% | (3,406) | -26.54% |
| 12 | Commercial 2-inch | 2 | 47,714 | 10,736 | 4 | 39,285 | 16,666 | 2 | 71.43% | (8,429) | -17.67% | 5,930 | 55.24% |
| 13 | Commercial 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 14 | Commercial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 15 | Commercial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 16 | Commercial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 17 | Commercial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 18 | Industrial 5/8 x 3/4 -inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 19 | Industrial 1-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 20 | Industrial 2-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 21 | Industrial 3-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 22 | Industrial 4-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 23 | Industrial 6-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 24 | Industrial 8-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 25 | Industrial 10-inch | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 26 | Construction Water (2-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 27 | Construction Water (3-Inch) | 2 | 78,037 | 18,916 | 1 | 176,313 | 8,632 | (2) | -70.37% | 98,275 | 125.93% | (10,284) | -54.37% |
| 28 | Construction Water (4-Inch) | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 29 | | | | | | | | | | | | | |
| 30 | | | | | | | | | | | | | |
| 31 | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | |
| 33 | | | | | | | | | | | | | |
| 34 | | | | | | | | | | | | | |
| 35 | | | | | | | | | | | | | |
| 36 | Totals | 1,252 | 6,502 | $ 772,226 | 1,235 | 5,641 | $ 691,009 | (17) | -1.36% | (861) | -13.24% | (81,217) | -10.52% |
| 37 | | | | | | | | | | | | | |
| 38 | Total Residential | 1,231 | 6,167 | 721,681 | 1,213 | 5,348 | 648,533 | (18) | -1.50% | (819) | -13.29% | (73,148) | -10.14% |
| 39 | Total Commercial | 19 | 20,115 | 31,629 | 21 | 16,956 | 33,845 | 3 | 15.77% | (3,159) | -15.71% | 2,215 | 7.00% |
| 40 | Total Industrial | - | - | - | - | - | - | - | 0.00% | - | 0.00% | - | 0.00% |
| 41 | Total Construction Water | 2 | 78,037 | 18,916 | 1 | 176,313 | 8,632 | (2) | -70.37% | 98,275 | 125.93% | (10,284) | -54.37% |
| 42 | | | | | | | | | | | | | |
| 43 | Totals | 1,252 | 6,502 | $ 772,226 | 1,235 | 5,641 | $ 691,009 | (17) | -1.36% | (861) | -13.24% | $ (81,217) | -10.52% |
| 44 | | | | | | | | | | | | | |
| 45 | | | | | | | | | | | | | |
| 46 | | Test Year 2007 - Inclusive of Customer Growth Adjustment | | | 2008 Actual | | | Increase/(Decrease) | | | | | |
| 47 | | | | | | | | | | | | | |
| 48 | Total No. of Customers | Customers | Usage | | Customers | Usage | | Customers | Usage | | | | |
| 49 | Res., Com., Ind., & Const. | 2 | | | 1,235 | | | 1,233 | | | | | |
| 50 | Residential Usage (M Gals) | | 91,644.5 | | | 77,835.9 | | | (13,808.6) | -15.07% | | | |
| 51 | Commercial Usage (M Gals) | | 4,522.0 | | | 4,357.7 | | | (164.3) | -3.63% | | | |
| 52 | Industrial Usage (M Gals) | | - | | | - | | | - | 0.00% | | | |
| 53 | Construction Usage (M Gals) | | 2,107.0 | | | 1,410.5 | | | (696.5) | -33.06% | | | |
| 54 | Total Usage | | 98,273.5 | | | 83,604.1 | | | (14,669.4) | -14.93% | | | |
| 55 | | | | | | | | | | | | | |

# MULTIPLE REGRESSION ANALYSIS
## RESIDENTIAL USAGE - CASA GRANDE/COOLIDGE

DEPENDENT VARIABLE $y$: M Gallons (Average gallons sold per residential customer per month)
INDEPENDENT VARIABLE $x_1$: Average Temerature (Average monthly temperature per Farmers Almanac)
INDEPENDENT VARIABLE $x_2$: Total Precipitation (Total monthly precipitation per Farmers Almanac)
INDEPENDENT VARIABLE $x_3$: Time (in months)

SUMMARY OUTPUT

| *Regression Statistics* | |
|---|---|
| R Square | 0.803943203 |
| Observations | 77 |

ANOVA

| | *df* | *F* | *Significance F* |
|---|---|---|---|
| Regression | 3 | 99.78036054 | 9.20409E-26 |
| Residual | 73 | | |
| Total | 76 | | |

| | *Coefficients* | *Standard Error* | *t Stat* | *Lower 95%* | *Upper 95%* |
|---|---|---|---|---|---|
| Intercept | 1.843555732 | 0.700000957 | 2.633647445 | 0.448455856 | 3.238655607 |
| X Variable $x_1$ | 0.142926531 | 0.009329832 | 15.31930331 | 0.124332203 | 0.16152086 |
| X Variable $x_2$ | 0.124362215 | 0.097019356 | 1.281828912 | -0.068997079 | 0.317721509 |
| X Variable $x_3$ | -0.037030924 | 0.006100757 | -6.069890057 | -0.049189715 | -0.024872133 |

SUMMARY EQUATION: Y = 1.84 M gallons + $0.14x_1$ + $0.12x_2$ - $0.037x_3$

R SQUARE:

Percentage of the variation in the dependent variable that is explained by the independent variables. The Value of $R^2$ will alwas be between 0 and 1. In this case the R Square value is 0.80, which means that the regression does a good job of accounting for the variation in M Gallons.

F-STATISTIC:

If the null hypothesis that the independent variables have no effect on M Gallons is true, then the F statistic will have come from an F distribution with m - 1 (2) degrees of freedom in the numerator and n - m (73) degrees of freedom in the denominator. The critical value for an F distribution at the 95% significance level with 2 and 45 degrees of freedom is 3.07. Since the calculated F value is much larger than the critical value, we can clearly reject the null hypothesis that the independent variables have no effect.

STANDARD ERROR:

Measure of the amount of variation there is in the estimate. The smaller the standard error, the more precise (believable) the estimate is. A general rule of thumb is that the width of the 95% confidence interval is four standard deviations (plus two and minus two from the estimated average.

t-STATISTIC:

The ratio of the estimate to its standard error. If the absolute value of the t-statistic is bigger than 1.96, then the estimate is statistically different from zero. Since the t-statistics for AvgTemp and Time are both greater than +/-1.96, we can reject the null hypothesis that the true value of $x_1$ and $x_3$ are zero, and conclude with 95% confidence that there is a connection between AvgTemp and M Gallons, and Time and M Gallons.

CONCLUSION:

While AvgTemp and TotPrecip remain constant, M Gallons consumed will drop by 0.037 per month over time. Given average monthly usage over the sample period of 10.7 M gallons/Mo, usage declines by (-0.037 ÷ 10.9) .35% per month while controlling for temperature and precipitation.

## MULTIPLE REGRESSION ANALYSIS
## RESIDENTIAL USAGE - SUPERSTITION/MIAMI

DEPENDENT VARIABLE $y$: M Gallons (Average gallons sold per residential customer per month)
INDEPENDENT VARIABLE $x_1$: Average Temerature (Average monthly temperature per Farmers Almanac)
INDEPENDENT VARIABLE $x_2$: Total Precipitation (Total monthly precipitation per Farmers Almanac)
INDEPENDENT VARIABLE $x_3$: Time (in months)

SUMMARY OUTPUT

| *Regression Statistics* | |
|---|---|
| R Square | 0.74676827 |
| Observations | 77 |

ANOVA

| | *df* | *F* | *Significance F* |
|---|---|---|---|
| Regression | 3 | 71.75783715 | 1.01153E-21 |
| Residual | 73 | | |
| Total | 76 | | |

| | *Coefficients* | *Standard Error* | *t Stat* | *Lower 95%* | *Upper 95%* |
|---|---|---|---|---|---|
| Intercept | 3.00591049 | 0.473309087 | 6.350840434 | 2.062606852 | 3.949214127 |
| X Variable $x_1$ | 0.081452728 | 0.005782655 | 14.08569686 | 0.069927913 | 0.092977543 |
| X Variable $x_2$ | -0.010845563 | 0.104877051 | -0.10341217 | -0.219865221 | 0.198174095 |
| X Variable $x_3$ | -0.01047159 | 0.003755557 | -2.788291959 | -0.017956405 | -0.002986775 |

SUMMARY EQUATION: Y = 3.00 M gallons + $0.08x_1$ - $0.01x_2$ - $0.01x_3$

R SQUARE:

Percentage of the variation in the dependent variable that is explained by the independent variables. The Value of $R^2$ will alwas be between 0 and 1. In this case the R Square value is 0.75, which means that the regression does a good job of accounting for the variation in M Gallons.

F-STATISTIC:

If the null hypothesis that the independent variables have no effect on M Gallons is true, then the F statistic will have come from an F distribution with m - 1 (2) degrees of freedom in the numerator and n - m (73) degrees of freedom in the denominator. The critical value for an F distribution at the 95% significance level with 2 and 45 degrees of freedom is 3.07. Since the calculated F value is much larger than the critical value, we can clearly reject the null hypothesis that the independent variables have no effect.

STANDARD ERROR:

Measure of the amount of variation there is in the estimate. The smaller the standard error, the more precise (believable) the estimate is. A general rule of thumb is that the width of the 95% confidence interval is four standard deviations (plus two and minus two from the estimated average.

t-STATISTIC:

The ratio of the estimate to its standard error. If the absolute value of the t-statistic is bigger than 1.96, then the estimate is statistically different from zero. Since the t-statistics for AvgTemp and Time are both greater than +/-1.96, we can reject the null hypothesis that the true value of $x_1$ and $x_3$ are zero, and conclude with 95% confidence that there is a connection between AvgTemp and M Gallons, and Time and M Gallons.

CONCLUSION:

While AvgTemp and TotPrecip remain constant, M Gallons consumed will drop by 0.0105 per month over time. Given average monthly usage over the sample period of 8.5 M gallons/Mo, usage declines by (-0.0105 ÷ 8.5) .12% per month while controlling for temperature and precipitation.

# MULTIPLE REGRESSION ANALYSIS
## RESIDENTIAL USAGE - BISBEE

DEPENDENT VARIABLE $y$: M Gallons (Average gallons sold per residential customer per month)
INDEPENDENT VARIABLE $x_1$: Average Temerature (Average monthly temperature per Farmers Almanac)
INDEPENDENT VARIABLE $x_2$: Total Precipitation (Total monthly precipitation per Farmers Almanac)
INDEPENDENT VARIABLE $x_3$: Time (in months)

SUMMARY OUTPUT

| *Regression Statistics* | |
|---|---|
| R Square | 0.660061477 |
| Observations | 77 |

ANOVA

| | *df* | *F* | *Significance F* |
|---|---|---|---|
| Regression | 3 | 47.24823707 | 4.43488E-17 |
| Residual | 73 | | |
| Total | 76 | | |

| | *Coefficients* | *Standard Error* | *t Stat* | *P-value* | *Lower 95%* | *Upper 95%* |
|---|---|---|---|---|---|---|
| Intercept | 0.042680642 | 0.624844516 | 0.068306019 | 0.945728785 | -1.202632666 | 1.287993949 |
| X Variable $x_1$ | 0.102762833 | 0.009476814 | 10.84360531 | 7.21578E-17 | 0.083875569 | 0.121650096 |
| X Variable $x_2$ | -0.191360641 | 0.117140213 | -1.63360332 | 0.106648106 | -0.424820745 | 0.042099464 |
| X Variable $x_3$ | -0.021616605 | 0.005096871 | -4.241152305 | 6.43086E-05 | -0.031774653 | -0.011458556 |

SUMMARY EQUATION: Y = 0.042 M gallons + $0.103x_1$ - $0.192x_2$ - $0.022x_3$

R SQUARE:

Percentage of the variation in the dependent variable that is explained by the independent variables. The Value of $R^2$ will alwas be between 0 and 1. In this case the R Square value is 0.66, which means that the regression does a good job of accounting for the variation in M Gallons.

F-STATISTIC:

If the null hypothesis that the independent variables have no effect on M Gallons is true, then the F statistic will have come from an F distribution with m - 1 (2) degrees of freedom in the numerator and n - m (73) degrees of freedom in the denominator. The critical value for an F distribution at the 95% significance level with 2 and 45 degrees of freedom is 3.07. Since the calculated F value is much larger than the critical value, we can clearly reject the null hypothesis that the independent variables have no effect.

STANDARD ERROR:

Measure of the amount of variation there is in the estimate. The smaller the standard error, the more precise (believable) the estimate is. A general rule of thumb is that the width of the 95% confidence interval is four standard deviations (plus two and minus two from the estimated average.

t-STATISTIC:

The ratio of the estimate to its standard error. If the absolute value of the t-statistic is bigger than 1.96, then the estimate is statistically different from zero. Since the t-statistics for AvgTemp and Time are both greater than +/-1.96, we can reject the null hypothesis that the true value of $x_1$ and $x_3$ are zero, and conclude with 95% confidence that there is a connection between AvgTemp and M Gallons, and Time and M Gallons.

CONCLUSION:

While AvgTemp and TotPrecip remain constant, M Gallons consumed will drop by 0.022 per month over time. Given average monthly usage over the sample period of 5.6 M gallons/Mo, usage declines by (-0.022 ÷ 5.6) .39% per month while controlling for temperature and precipitation.

## MULTIPLE REGRESSION ANALYSIS
## RESIDENTIAL USAGE - SIERRA VISTA

DEPENDENT VARIABLE $y$: M Gallons (Average gallons sold per residential customer per month)
INDEPENDENT VARIABLE $x_1$: Average Temerature (Average monthly temperature per Farmers Almanac)
INDEPENDENT VARIABLE $x_2$: Total Precipitation (Total monthly precipitation per Farmers Almanac)
INDEPENDENT VARIABLE $x_3$: Time (in months)

SUMMARY OUTPUT

| *Regression Statistics* | |
|---|---|
| R Square | 0.75024865 |
| Observations | 77 |

ANOVA

| | *df* | *F* | *Significance F* |
|---|---|---|---|
| Regression | 3 | 73.09690407 | 6.11755E-22 |
| Residual | 73 | | |
| Total | 76 | | |

| | *Coefficients* | *Standard Error* | *t Stat* | *P-value* | *Lower 95%* | *Upper 95%* |
|---|---|---|---|---|---|---|
| Intercept | -2.439654924 | 1.059772135 | -2.302056114 | 0.024186354 | -4.551777713 | -0.327532134 |
| X Variable $x_1$ | 0.196115162 | 0.015512038 | 12.64277251 | 4.58748E-20 | 0.165199716 | 0.227030607 |
| X Variable $x_2$ | -0.0462908 | 0.100931825 | -0.458634329 | 0.647859348 | -0.247447633 | 0.154866034 |
| X Variable $x_3$ | -0.019085152 | 0.007234389 | -2.638115178 | 0.010183287 | -0.033503269 | -0.004667035 |

SUMMARY EQUATION: Y = -2.44 M gallons + $0.196x_1$ - $0.046x_2$ - $0.019x_3$

R SQUARE:

Percentage of the variation in the dependent variable that is explained by the independent variables. The Value of $R^2$ will alwas be between 0 and 1. In this case the R Square value is 0.75, which means that the regression does a good job of accounting for the variation in M Gallons.

F-STATISTIC:

If the null hypothesis that the independent variables have no effect on M Gallons is true, then the F statistic will have come from an F distribution with m - 1 (2) degrees of freedom in the numerator and n - m (73) degrees of freedom in the denominator. The critical value for an F distribution at the 95% significance level with 2 and 45 degrees of freedom is 3.07. Since the calculated F value is much larger than the critical value, we can clearly reject the null hypothesis that the independent variables have no effect.

STANDARD ERROR:

Measure of the amount of variation there is in the estimate. The smaller the standard error, the more precise (believable) the estimate is. A general rule of thumb is that the width of the 95% confidence interval is four standard deviations (plus two and minus two from the estimated average.

t-STATISTIC:

The ratio of the estimate to its standard error. If the absolute value of the t-statistic is bigger than 1.96, then the estimate is statistically different from zero. Since the t-statistics for AvgTemp and Time are both greater than +/-1.96, we can reject the null hypothesis that the true value of $x_1$ and $x_3$ are zero, and conclude with 95% confidence that there is a connection between AvgTemp and M Gallons, and Time and M Gallons.

CONCLUSION:

While AvgTemp and TotPrecip remain constant, M Gallons consumed will drop by 0.019 per month over time. Given average monthly usage over the sample period of 9.6 M gallons/Mo, usage declines by (-0.019 ÷ 9.6) .20% per month while controlling for temperature and precipitation.

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue Requirement



| Line No. | Description | Total Company [A] Original Cost - As Filed | [B] | [C] | [D] | [E] Original Cost - Rebuttal | [F] | [G] |
|---|---|---|---|---|---|---|---|---|
| 4 | Adjusted Rate Base | $ 147,744,644 | | | | $ 146,644,069 | | |
| 6 | Adjusted Operating Income | $ 5,018,926 | | | | $ 5,008,368 | | |
| 8 | Current Rate of Return (Ln. 6 ÷ Ln. 4) | 3.40% | | | | 3.42% | | |
| 10 | Required Operating Income (Ln. 4 X Ln. 12) | $ 14,500,051 | | | | $ 13,490,670 | | |
| 12 | Required Rate of Return | 9.81% | | | | 9.20% | | |
| 14 | Operating Income Deficiency (Ln. 10 - Ln. 6) | $ 9,481,125 | | | | $ 8,482,301 | | |
| 16 | Gross Revenue Conversion Factor | 1.6286 | | | | 1.6286 | | |
| 18 | Required Increase in Gross Revenue | | | | | | | |
| 19 | (Ln. 14 X Ln. 16) | $ 15,441,289 | | | | $ 13,814,571 | | |
| 21 | Add: Consolidated Revenue Adjustment[1] | $ - | | | | $ - | | |
| 23 | Proposed Increase in Gross Revenues | $ 15,441,289 | | | | $ 13,814,571 | | |

| Customer Classification | As Filed Revenue - Present Rates | Revenue - Proposed Rates | Dollar Increase | Percent Increase | Rebuttal Revenue - Proposed Rates | Dollar Increase | Percent Increase |
|---|---|---|---|---|---|---|---|
| Residential | $ 30,958,747 | $ 42,300,947 | $ 11,342,200 | 36.64% | **RATE DESIGN TO BE FILED AT A LATER DATE** | | |
| Commercial | 8,456,122 | 11,860,723 | 3,404,601 | 40.26% | | | |
| Industrial | 1,255,959 | 1,283,997 | 28,038 | 2.23% | | | |
| Private Fire Service | 38,142 | 189,150 | 151,008 | 395.91% | | | |
| Other Water Revenues | 1,101,221 | 1,616,066 | 514,845 | 46.75% | | | |
| Total Water Revenues | $ 41,810,191 | $ 57,250,883 | $ 15,440,692 | 36.93% | | | |
| Miscellaneous Revenues | 1,551,299 | 1,551,299 | - | 0.00% | | | |
| Total Operating Revenues | $ 43,361,490 | $ 58,802,182 | $ 15,440,692 | 35.61% | | | |

[1]Consolidated Revenue Adjustment represents the increase/(decrease) in revenue requirement resulting from proposed rate consolidation.

Supporting Schedules:
RB B-1, RB C-1, RB C-3, RB H-1

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue Requirement

| Line No. | Description | Eastern Group [A] Original Cost - As Filed | [B] | [C] | [D] | [E] Original Cost - Rebuttal | [F] | [G] |
|---|---|---|---|---|---|---|---|---|
| 4 | Adjusted Rate Base | $ 63,042,440 | | | | $ 62,762,588 | | |
| 6 | Adjusted Operating Income | $ 2,595,030 | | | | $ 2,553,368 | | |
| 8 | Current Rate of Return (Ln. 6 ÷ Ln. 4) | 4.12% | | | | 4.07% | | |
| 10 | Required Operating Income (Ln. 4 X Ln. 12) | $ 6,187,152 | | | | $ 5,773,908 | | |
| 12 | Required Rate of Return | 9.81% | | | | 9.20% | | |
| 14 | Operating Income Deficiency (Ln. 10 - Ln. 6) | $ 3,592,122 | | | | $ 3,220,539 | | |
| 16 | Gross Revenue Conversion Factor | 1.6286 | | | | 1.6286 | | |
| 18 | Required Increase in Gross Revenue | | | | | | | |
| 19 | (Ln. 14 X Ln. 16) | $ 5,850,255 | | | | $ 5,245,082 | | |
| 21 | Add: Consolidated Revenue Adjustment[1] | $ - | | | | $ - | | |
| 23 | Proposed Increase in Gross Revenues | $ 5,850,255 | | | | $ 5,245,082 | | |

| Line No. | Customer Classification | As Filed Revenue - Present Rates | Revenue - Proposed Rates | Dollar Increase | Percent Increase | Rebuttal Revenue - Proposed Rates | Dollar Increase | Percent Increase |
|---|---|---|---|---|---|---|---|---|
| 31 | Residential | $ 13,749,222 | $ 18,508,679 | $ 4,759,457 | 34.62% | **RATE DESIGN TO BE FILED AT A LATER DATE** | | |
| 32 | Commercial | 3,878,018 | 4,819,620 | 941,603 | 24.28% | | | |
| 33 | Industrial | 137,244 | 137,138 | (106) | -0.08% | | | |
| 34 | Private Fire Service | 12,105 | 60,525 | 48,420 | 400.00% | | | |
| 35 | Other Water Revenues | 437,496 | 538,236 | 100,740 | 23.03% | | | |
| 37 | Total Water Revenues | $ 18,214,084 | $ 24,064,199 | $ 5,850,114 | 32.12% | | | |
| 39 | Miscellaneous Revenues | 799,213 | 799,213 | - | 0.00% | | | |
| 41 | Total Operating Revenues | $ 19,013,298 | $ 24,863,412 | $ 5,850,114 | 30.77% | | | |

[1]Consolidated Revenue Adjustment represents the increase/(decrease) in revenue requirement resulting from proposed rate consolidation.

Supporting Schedules:
RB B-1, RB C-1, RB C-3, RB H-1

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue Requirement

| Line No. | Description | Western Group [A] Original Cost - As Filed | [B] | [C] | [D] | [E] Original Cost - Rebuttal | [F] | [G] |
|---|---|---|---|---|---|---|---|---|
| 4 | Adjusted Rate Base | $ 51,955,032 | | | | $ 51,591,262 | | |
| 6 | Adjusted Operating Income | $ 1,082,152 | | | | $ 1,134,064 | | |
| 8 | Current Rate of Return (Ln. 6 ÷ Ln. 4) | 2.08% | | | | 2.20% | | |
| 10 | Required Operating Income (Ln. 4 X Ln. 12) | $ 5,099,005 | | | | $ 4,746,190 | | |
| 12 | Required Rate of Return | 9.81% | | | | 9.20% | | |
| 14 | Operating Income Deficiency (Ln. 10 - Ln. 6) | $ 4,016,853 | | | | $ 3,612,126 | | |
| 16 | Gross Revenue Conversion Factor | 1.6286 | | | | 1.6286 | | |
| 18 | Required Increase in Gross Revenue | | | | | | | |
| 19 | (Ln. 14 X Ln. 16) | $ 6,541,986 | | | | $ 5,882,834 | | |
| 21 | Add: Consolidated Revenue Adjustment[1] | $ - | | | | $ - | | |
| 23 | Proposed Increase in Gross Revenues | $ 6,541,986 | | | | $ 5,882,834 | | |

| Customer Classification | As Filed Revenue - Present Rates | Revenue - Proposed Rates | Dollar Increase | Percent Increase | Rebuttal Revenue - Proposed Rates | Dollar Increase | Percent Increase |
|---|---|---|---|---|---|---|---|
| Residential | $ 9,544,649 | $ 14,078,127 | $ 4,533,478 | 47.50% | **RATE DESIGN TO BE FILED AT A LATER DATE** | | |
| Commercial | 3,075,479 | 4,627,019 | 1,551,540 | 50.45% | | | |
| Industrial | 1,112,540 | 1,140,440 | 27,900 | 2.51% | | | |
| Private Fire Service | 15,357 | 75,225 | 59,868 | 389.84% | | | |
| Other Water Revenues | 591,503 | 960,202 | 368,699 | 62.33% | | | |
| Total Water Revenues | $ 14,339,529 | $ 20,881,014 | $ 6,541,485 | 45.62% | | | |
| Miscellaneous Revenues | 658,198 | 658,198 | - | 0.00% | | | |
| Total Operating Revenues | $ 14,997,726 | $ 21,539,211 | $ 6,541,485 | 43.62% | | | |

[1]Consolidated Revenue Adjustment represents the increase/(decrease) in revenue requirement resulting from proposed rate consolidation.

Supporting Schedules:
RB B-1, RB C-1, RB C-3, RB H-1

| Line No. | Description | Northern Group [A] Original Cost - As Filed | [B] | [C] | [D] | [E] Original Cost - Rebuttal | [F] | [G] |
|---|---|---|---|---|---|---|---|---|
| 4 | Adjusted Rate Base | $ 32,747,172 | | | | $ 32,290,219 | | |
| 6 | Adjusted Operating Income | $ 1,341,744 | | | | $ 1,320,936 | | |
| 8 | Current Rate of Return (Ln. 6 ÷ Ln. 4) | 4.10% | | | | 4.09% | | |
| 10 | Required Operating Income (Ln. 4 X Ln. 12) | $ 3,213,894 | | | | $ 2,970,571 | | |
| 12 | Required Rate of Return | 9.81% | | | | 9.20% | | |
| 14 | Operating Income Deficiency (Ln. 10 - Ln. 6) | $ 1,872,150 | | | | $ 1,649,636 | | |
| 16 | Gross Revenue Conversion Factor | 1.6286 | | | | 1.6286 | | |
| 18 | Required Increase in Gross Revenue | | | | | | | |
| 19 | (Ln. 14 X Ln. 16) | $ 3,049,048 | | | | $ 2,686,654 | | |
| 21 | Add: Consolidated Revenue Adjustment[1] | $ - | | | | $ (0) | | |
| 23 | Proposed Increase in Gross Revenues | $ 3,049,048 | | | | $ 2,686,654 | | |

| Customer Classification | As Filed Revenue - Present Rates | Revenue - Proposed Rates | Dollar Increase | Percent Increase | Rebuttal Revenue - Proposed Rates | Dollar Increase | Percent Increase |
|---|---|---|---|---|---|---|---|
| Residential | $ 7,664,876 | $ 9,714,140 | $ 2,049,264 | 26.74% | **RATE DESIGN TO BE FILED AT A LATER DATE** | | |
| Commercial | 1,502,625 | 2,414,083 | 911,459 | 60.66% | | | |
| Industrial | 6,176 | 6,420 | 244 | 3.95% | | | |
| Private Fire Service | 10,680 | 53,400 | 42,720 | 400.00% | | | |
| Other Water Revenues | 72,221 | 117,628 | 45,406 | 62.87% | | | |
| Total Water Revenues | $ 9,256,578 | $ 12,305,670 | $ 3,049,093 | 32.94% | | | |
| Miscellaneous Revenues | 93,888 | 93,888 | - | 0.00% | | | |
| Total Operating Revenues | $ 9,350,466 | $ 12,399,559 | $ 3,049,093 | 32.61% | | | |

[1]Consolidated Revenue Adjustment represents the increase/(decrease) in revenue requirement resulting from proposed rate consolidation.

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue Requirement

| Line No. | Description | Superstition [A] Original Cost - As Filed | [B] | [C] | [D] | [E] Original Cost - Rebuttal | [F] | [G] |
|---|---|---|---|---|---|---|---|---|
| 4 | Adjusted Rate Base | $ 43,424,545 | | | | $ 43,223,792 | | |
| 6 | Adjusted Operating Income | $ 1,850,403 | | | | $ 1,821,044 | | |
| 8 | Current Rate of Return (Ln. 6 ÷ Ln. 4) | 4.26% | | | | 4.21% | | |
| 10 | Required Operating Income (Ln. 4 X Ln. 12) | $ 4,261,800 | | | | $ 3,976,417 | | |
| 12 | Required Rate of Return | 9.81% | | | | 9.20% | | |
| 14 | Operating Income Deficiency (Ln. 10 - Ln. 6) | $ 2,411,397 | | | | $ 2,155,372 | | |
| 16 | Gross Revenue Conversion Factor | 1.6286 | | | | 1.6286 | | |
| 18 19 | Required Increase in Gross Revenue (Ln. 14 X Ln. 16) | $ 3,927,285 | | | | $ 3,510,314 | | |
| 21 | Add: Consolidated Revenue Adjustment[1] | $ 937,341 | (Superstition/Miami) | | | $ 918,085 | (Superstition/Miami) | |
| 23 | Proposed Increase in Gross Revenues | $ 4,864,625 | | | | $ 4,428,399 | | |

| Line No. | Customer Classification | As Filed Revenue - Present Rates | Revenue - Proposed Rates | Dollar Increase | Percent Increase | Rebuttal Revenue - Proposed Rates | Dollar Increase | Percent Increase |
|---|---|---|---|---|---|---|---|---|
| 31 | Residential | $ 8,708,528 | $ 12,661,900 | $ 3,953,372 | 45.40% | **RATE DESIGN TO BE FILED AT A LATER DATE** | | |
| 32 | Commercial | 2,125,927 | 2,894,271 | 768,345 | 36.14% | | | |
| 33 | Industrial | 35,010 | 43,393 | 8,384 | 23.95% | | | |
| 34 | Private Fire Service | 8,285 | 41,425 | 33,140 | 400.00% | | | |
| 35 | Other Water Revenues | 346,344 | 447,645 | 101,301 | 29.25% | | | |
| 37 | Total Water Revenues | $ 11,224,093 | $ 16,088,634 | $ 4,864,542 | 43.34% | | | |
| 39 | Miscellaneous Revenues | 716,166 | 716,166 | - | 0.00% | | | |
| 41 | Total Operating Revenues | $ 11,940,259 | $ 16,804,800 | $ 4,864,542 | 40.74% | | | |

[1]Consolidated Revenue Adjustment represents the increase/(decrease) in revenue requirement resulting from proposed rate consolidation.

Supporting Schedules:
RB B-1, RB C-1, RB C-3, RB H-1

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue Requirement

| Line No. | Description | Bisbee [A] Original Cost - As Filed | [B] | [C] | [D] | [E] Original Cost - Rebuttal | [F] | [G] |
|---|---|---|---|---|---|---|---|---|
| 4 | Adjusted Rate Base | $ 4,660,984 | | | | $ 4,642,994 | | |
| 6 | Adjusted Operating Income | $ 168,796 | | | | $ 165,641 | | |
| 8 | Current Rate of Return (Ln. 6 ÷ Ln. 4) | 3.62% | | | | 3.57% | | |
| 10 | Required Operating Income (Ln. 4 X Ln. 12) | $ 457,441 | | | | $ 427,137 | | |
| 12 | Required Rate of Return | 9.81% | | | | 9.20% | | |
| 14 | Operating Income Deficiency (Ln. 10 - Ln. 6) | $ 288,646 | | | | $ 261,496 | | |
| 16 | Gross Revenue Conversion Factor | 1.6286 | | | | 1.6286 | | |
| 18 | Required Increase in Gross Revenue | | | | | | | |
| 19 | (Ln. 14 X Ln. 16) | $ 470,098 | | | | $ 425,881 | | |
| 21 | Add: Consolidated Revenue Adjustment[1] | $ (106,651) | (Bisbee/Sierra Vista) | | | $ (92,700) | (Bisbee/Sierra Vista) | |
| 23 | Proposed Increase in Gross Revenues | $ 363,448 | | | | $ 333,181 | | |

| Customer Classification | As Filed Revenue - Present Rates | Revenue - Proposed Rates | Dollar Increase | Percent Increase | Rebuttal Revenue - Proposed Rates | Dollar Increase | Percent Increase |
|---|---|---|---|---|---|---|---|
| Residential | $ 1,192,358 | $ 1,438,735 | $ 246,377 | 20.66% | **RATE DESIGN TO BE FILED AT A LATER DATE** | | |
| Commercial | 491,635 | 604,890 | 113,255 | 23.04% | | | |
| Industrial | 2,303 | 3,760 | 1,456 | 63.23% | | | |
| Private Fire Service | 905 | 4,525 | 3,620 | 400.00% | | | |
| Other Water Revenues | 12,612 | 11,222 | (1,390) | -11.02% | | | |
| Total Water Revenues | $ 1,699,814 | $ 2,063,132 | $ 363,319 | 21.37% | | | |
| Miscellaneous Revenues | 23,340 | 23,340 | - | 0.00% | | | |
| Total Operating Revenues | $ 1,723,153 | $ 2,086,472 | $ 363,319 | 21.08% | | | |

[1]Consolidated Revenue Adjustment represents the increase/(decrease) in revenue requirement resulting from proposed rate consolidation.

Supporting Schedules:
RB B-1, RB C-1, RB C-3, RB H-1

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue Requirement

| Line No. | Description | Sierra Vista [A] Original Cost - As Filed | [B] | [C] | [D] | [E] Original Cost - Rebuttal | [F] | [G] |
|---|---|---|---|---|---|---|---|---|
| 4 | Adjusted Rate Base | $ 2,520,716 | | | | $ 2,504,626 | | |
| 6 | Adjusted Operating Income | $ 275,060 | | | | $ 273,232 | | |
| 8 | Current Rate of Return (Ln. 6 ÷ Ln. 4) | 10.91% | | | | 10.91% | | |
| 10 | Required Operating Income (Ln. 4 X Ln. 12) | $ 247,390 | | | | $ 230,416 | | |
| 12 | Required Rate of Return | 9.81% | | | | 9.20% | | |
| 14 | Operating Income Deficiency (Ln. 10 - Ln. 6) | $ (27,670) | | | | $ (42,817) | | |
| 16 | Gross Revenue Conversion Factor | 1.6286 | | | | 1.6286 | | |
| 18 | Required Increase in Gross Revenue | | | | | | | |
| 19 | (Ln. 14 X Ln. 16) | $ (45,064) | | | | $ (69,733) | | |
| 21 | Add: Consolidated Revenue Adjustment[1] | $ 106,651 | (Bisbee/Sierra Vista) | | | $ 92,700 | (Bisbee/Sierra Vista) | |
| 23 | Proposed Increase in Gross Revenues | $ 61,586 | | | | $ 22,967 | | |

| Customer Classification | As Filed Revenue - Present Rates | Revenue - Proposed Rates | Dollar Increase | Percent Increase | Rebuttal Revenue - Proposed Rates | Dollar Increase | Percent Increase |
|---|---|---|---|---|---|---|---|
| Residential | $ 1,067,726 | $ 1,125,562 | $ 57,836 | 5.42% | **RATE DESIGN TO BE FILED AT A LATER DATE** | | |
| Commercial | 346,123 | 344,593 | (1,530) | -0.44% | | | |
| Industrial | - | - | - | 0.00% | | | |
| Private Fire Service | 1,925 | 9,625 | 7,700 | 400.00% | | | |
| Other Water Revenues | 29,290 | 26,609 | (2,681) | -9.15% | | | |
| Total Water Revenues | $ 1,445,064 | $ 1,506,389 | $ 61,325 | 4.24% | | | |
| Miscellaneous Revenues | 16,645 | 16,645 | - | 0.00% | | | |
| Total Operating Revenues | $ 1,461,708 | $ 1,523,034 | $ 61,325 | 4.20% | | | |

[1]Consolidated Revenue Adjustment represents the increase/(decrease) in revenue requirement resulting from proposed rate consolidation.

Supporting Schedules:
RB B-1, RB C-1, RB C-3, RB H-1

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue Requirement

| Line No. | Description | San Manuel [A] Original Cost - As Filed | [B] | [C] | [D] | [E] Original Cost - Rebuttal | [F] | [G] |
|---|---|---|---|---|---|---|---|---|
| 4 | Adjusted Rate Base | $ 2,035,209 | | | | $ 2,029,766 | | |
| 6 | Adjusted Operating Income | $ (47,524) | | | | $ (48,842) | | |
| 8 | Current Rate of Return (Ln. 6 ÷ Ln. 4) | -2.34% | | | | -2.41% | | |
| 10 | Required Operating Income (Ln. 4 X Ln. 12) | $ 199,741 | | | | $ 186,730 | | |
| 12 | Required Rate of Return | 9.81% | | | | 9.20% | | |
| 14 | Operating Income Deficiency (Ln. 10 - Ln. 6) | $ 247,264 | | | | $ 235,572 | | |
| 16 | Gross Revenue Conversion Factor | 1.6286 | | | | 1.6286 | | |
| 18 | Required Increase in Gross Revenue | | | | | | | |
| 19 | (Ln. 14 X Ln. 16) | $ 402,704 | | | | $ 383,661 | | |
| 21 | Add: Consolidated Revenue Adjustment[1] | $ - | | | | $ - | | |
| 23 | Proposed Increase in Gross Revenues | $ 402,704 | | | | $ 383,661 | | |

| Line No. | Customer Classification | As Filed Revenue - Present Rates | Revenue - Proposed Rates | Dollar Increase | Percent Increase | Rebuttal Revenue - Proposed Rates | Dollar Increase | Percent Increase |
|---|---|---|---|---|---|---|---|---|
| 31 | Residential | $ 646,933 | $ 978,166 | $ 331,233 | 51.20% | **RATE DESIGN TO BE FILED AT A LATER DATE** | | |
| 32 | Commercial | 143,872 | 212,945 | 69,073 | 48.01% | | | |
| 33 | Industrial | - | - | - | 0.00% | | | |
| 34 | Private Fire Service | 60 | 300 | 240 | 400.00% | | | |
| 35 | Other Water Revenues | 11,143 | 13,398 | 2,254 | 20.23% | | | |
| 37 | Total Water Revenues | $ 802,008 | $ 1,204,809 | $ 402,801 | 50.22% | | | |
| 39 | Miscellaneous Revenues | 10,413 | 10,413 | - | 0.00% | | | |
| 41 | Total Operating Revenues | $ 812,422 | $ 1,215,223 | $ 402,801 | 49.58% | | | |

[1]Consolidated Revenue Adjustment represents the increase/(decrease) in revenue requirement resulting from proposed rate consolidation.

Supporting Schedules:
*RB B-1, RB C-1, RB C-3, RB H-1*

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue Requirement

| Line No. | Description | Oracle [A] Original Cost - As Filed | [B] | [C] | [D] | [E] Original Cost - Rebuttal | [F] | [G] |
|---|---|---|---|---|---|---|---|---|
| 4 | Adjusted Rate Base | $ 2,412,232 | | | | $ 2,404,558 | | |
| 6 | Adjusted Operating Income | $ 194,248 | | | | $ 192,553 | | |
| 8 | Current Rate of Return (Ln. 6 ÷ Ln. 4) | 8.05% | | | | 8.01% | | |
| 10 | Required Operating Income (Ln. 4 X Ln. 12) | $ 236,743 | | | | $ 221,210 | | |
| 12 | Required Rate of Return | 9.81% | | | | 9.20% | | |
| 14 | Operating Income Deficiency (Ln. 10 - Ln. 6) | $ 42,494 | | | | $ 28,656 | | |
| 16 | Gross Revenue Conversion Factor | 1.6286 | | | | 1.6286 | | |
| 18 | Required Increase in Gross Revenue | | | | | | | |
| 19 | (Ln. 14 X Ln. 16) | $ 69,208 | | | | $ 46,671 | | |
| 21 | Add: Consolidated Revenue Adjustment[1] | $ - | | | | $ - | | |
| 23 | Proposed Increase in Gross Revenues | $ 69,208 | | | | $ 46,671 | | |

| Customer Classification | As Filed Revenue - Present Rates | Revenue - Proposed Rates | Dollar Increase | Percent Increase | Rebuttal Revenue - Proposed Rates | Dollar Increase | Percent Increase |
|---|---|---|---|---|---|---|---|
| Residential | $ 864,783 | $ 935,581 | $ 70,797 | 8.19% | **RATE DESIGN TO BE FILED AT A LATER DATE** | | |
| Commercial | 229,282 | 226,081 | (3,201) | -1.40% | | | |
| Industrial | - | - | - | 0.00% | | | |
| Private Fire Service | 60 | 300 | 240 | 400.00% | | | |
| Other Water Revenues | 21,028 | 22,459 | 1,431 | 6.80% | | | |
| Total Water Revenues | $ 1,115,153 | $ 1,184,420 | $ 69,267 | 6.21% | | | |
| Miscellaneous Revenues | 11,106 | 11,106 | - | 0.00% | | | |
| Total Operating Revenues | $ 1,126,259 | $ 1,195,526 | $ 69,267 | 6.15% | | | |

[1]Consolidated Revenue Adjustment represents the increase/(decrease) in revenue requirement resulting from proposed rate consolidation.

Supporting Schedules:
RB B-1, RB C-1, RB C-3, RB H-1

| Line No. | Description | Saddlebrook [A] Original Cost - As Filed | [B] | [C] | [D] | [E] Original Cost - Rebuttal | [F] | [G] |
|---|---|---|---|---|---|---|---|---|
| 4 | Adjusted Rate Base | $ (0) | | | | $ (0) | | |
| 6 | Adjusted Operating Income | $ - | | | | $ (0) | | |
| 8 | Current Rate of Return (Ln. 6 ÷ Ln. 4) | 0.00% | | | | 1.36% | | |
| 10 | Required Operating Income (Ln. 4 X Ln. 12) | $ (0) | | | | $ (0) | | |
| 12 | Required Rate of Return | 9.81% | | | | 9.20% | | |
| 14 | Operating Income Deficiency (Ln. 10 - Ln. 6) | $ (0) | | | | $ (0) | | |
| 16 | Gross Revenue Conversion Factor | 1.6286 | | | | 1.6286 | | |
| 18 19 | Required Increase in Gross Revenue (Ln. 14 X Ln. 16) | $ - | | | | $ (0) | | |
| 21 | Add: Consolidated Revenue Adjustment[1] | $ - | | | | $ - | | |
| 23 | Proposed Increase in Gross Revenues | $ - | | | | $ (0) | | |

| Line No. | Customer Classification | As Filed Revenue - Present Rates | Rebuttal Revenue - Proposed Rates | Dollar Increase | Percent Increase |
|---|---|---|---|---|---|
| 31 | Residential | $ - | | | |
| 32 | Commercial | - | | | |
| 33 | Industrial | - | | | |
| 34 | Private Fire Service | - | | | |
| 35 | Other Water Revenues | - | | | |
| 37 | Total Water Revenues | $ - | | | |
| 39 | Miscellaneous Revenues | - | | | |
| 41 | Total Operating Revenues | $ - | | | |

**RATE DESIGN TO BE FILED AT A LATER DATE**

The Company is not proposing any rate changes for Saddlebrook. However, Saddlebrook's test year revenues are reconciled for informational purposes.

[1]Consolidated Revenue Adjustment represents the increase/(decrease) in revenue requirement resulting from proposed rate consolidation.

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue Requirement

| Line No. | Description | Winkelman [A] Original Cost - As Filed | [B] | [C] | [D] | [E] Original Cost - Rebuttal | [F] | [G] |
|---|---|---|---|---|---|---|---|---|
| 4 | Adjusted Rate Base | $ 325,142 | | | | $ 324,555 | | |
| 6 | Adjusted Operating Income | $ 10,198 | | | | $ 11,325 | | |
| 8 | Current Rate of Return (Ln. 6 ÷ Ln. 4) | 3.14% | | | | 3.49% | | |
| 10 | Required Operating Income (Ln. 4 X Ln. 12) | $ 31,910 | | | | $ 29,858 | | |
| 12 | Required Rate of Return | 9.81% | | | | 9.20% | | |
| 14 | Operating Income Deficiency (Ln. 10 - Ln. 6) | $ 21,712 | | | | $ 18,533 | | |
| 16 | Gross Revenue Conversion Factor | 1.6286 | | | | 1.6286 | | |
| 18 | Required Increase in Gross Revenue | | | | | | | |
| 19 | (Ln. 14 X Ln. 16) | $ 35,361 | | | | $ 30,184 | | |
| 21 | Add: Consolidated Revenue Adjustment[1] | $ - | | | | $ - | | |
| 23 | Proposed Increase in Gross Revenues | $ 35,361 | | | | $ 30,184 | | |

| Line No. | Customer Classification | As Filed Revenue - Present Rates | Revenue - Proposed Rates | Dollar Increase | Percent Increase | Rebuttal Revenue - Proposed Rates | Dollar Increase | Percent Increase |
|---|---|---|---|---|---|---|---|---|
| 31 | Residential | $ 44,901 | $ 66,327 | $ 21,426 | 47.72% | **RATE DESIGN TO BE FILED AT A LATER DATE** | | |
| 32 | Commercial | 50,097 | 62,876 | 12,778 | 25.51% | | | |
| 33 | Industrial | 1,773 | 2,858 | 1,086 | 61.26% | | | |
| 34 | Private Fire Service | - | - | - | 0.00% | | | |
| 35 | Other Water Revenues | 750 | 820 | 70 | 9.37% | | | |
| 37 | Total Water Revenues | $ 97,521 | $ 132,882 | $ 35,361 | 36.26% | | | |
| 39 | Miscellaneous Revenues | 1,203 | 1,203 | - | 0.00% | | | |
| 41 | Total Operating Revenues | $ 98,724 | $ 134,085 | $ 35,361 | 35.82% | | | |

[1]Consolidated Revenue Adjustment represents the increase/(decrease) in revenue requirement resulting from proposed rate consolidation.

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue Requirement

| Line No. | Description | Miami [A] Original Cost - As Filed | [B] | [C] | [D] | [E] Original Cost - Rebuttal | [F] | [G] |
|---|---|---|---|---|---|---|---|---|
| 4 | Adjusted Rate Base | $ 7,663,611 | | | | $ 7,632,296 | | |
| 6 | Adjusted Operating Income | $ 143,848 | | | | $ 138,414 | | |
| 8 | Current Rate of Return (Ln. 6 ÷ Ln. 4) | 1.88% | | | | 1.81% | | |
| 10 | Required Operating Income (Ln. 4 X Ln. 12) | $ 752,127 | | | | $ 702,141 | | |
| 12 | Required Rate of Return | 9.81% | | | | 9.20% | | |
| 14 | Operating Income Deficiency (Ln. 10 - Ln. 6) | $ 608,279 | | | | $ 563,727 | | |
| 16 | Gross Revenue Conversion Factor | 1.6286 | | | | 1.6286 | | |
| 18 | Required Increase in Gross Revenue | | | | | | | |
| 19 | (Ln. 14 X Ln. 16) | $ 990,664 | | | | $ 918,105 | | |
| 21 | Add: Consolidated Revenue Adjustment[1] | $ (937,341) | (Superstition/Miami) | | | $ (918,085) | (Superstition/Miami) | |
| 23 | Proposed Increase in Gross Revenues | $ 53,323 | | | | $ 20 | | |

| Line No. | Customer Classification | As Filed Revenue - Present Rates | Revenue - Proposed Rates | Dollar Increase | Percent Increase | Rebuttal Revenue - Proposed Rates | Dollar Increase | Percent Increase |
|---|---|---|---|---|---|---|---|---|
| 31 | Residential | $ 1,223,993 | $ 1,302,408 | $ 78,415 | 6.41% | **RATE DESIGN TO BE FILED AT A LATER DATE** | | |
| 32 | Commercial | 491,082 | 473,964 | (17,118) | -3.49% | | | |
| 33 | Industrial | 98,159 | 87,127 | (11,032) | -11.24% | | | |
| 34 | Private Fire Service | 870 | 4,350 | 3,480 | 400.00% | | | |
| 35 | Other Water Revenues | 16,329 | 16,084 | (245) | -1.50% | | | |
| 37 | Total Water Revenues | $ 1,830,432 | $ 1,883,932 | $ 53,500 | 2.92% | | | |
| 39 | Miscellaneous Revenues | 20,340 | 20,340 | - | 0.00% | | | |
| 41 | Total Operating Revenues | $ 1,850,773 | $ 1,904,272 | $ 53,500 | 2.89% | | | |

[1]Consolidated Revenue Adjustment represents the increase/(decrease) in revenue requirement resulting from proposed rate consolidation.

Supporting Schedules:
RB B-1, RB C-1, RB C-3, RB H-1



Recap Schedules:

| Line No. | Description | Casa Grande [A] Original Cost - As Filed | [B] | [C] | [D] | [E] Original Cost - Rebuttal | [F] | [G] |
|---|---|---|---|---|---|---|---|---|
| 4 | Adjusted Rate Base | $ 41,274,513 | | | | $ 41,008,611 | | |
| 6 | Adjusted Operating Income | $ 656,994 | | | | $ 637,288 | | |
| 8 | Current Rate of Return (Ln. 6 ÷ Ln. 4) | 1.59% | | | | 1.55% | | |
| 10 | Required Operating Income (Ln. 4 X Ln. 12) | $ 4,050,790 | | | | $ 3,772,629 | | |
| 12 | Required Rate of Return | 9.81% | | | | 9.20% | | |
| 14 | Operating Income Deficiency (Ln. 10 - Ln. 6) | $ 3,393,796 | | | | $ 3,135,341 | | |
| 16 | Gross Revenue Conversion Factor | 1.6286 | | | | 1.6286 | | |
| 18 | Required Increase in Gross Revenue | | | | | | | |
| 19 | (Ln. 14 X Ln. 16) | $ 5,527,254 | | | | $ 5,106,325 | | |
| 21 | Add: Consolidated Revenue Adjustment[1] | $ (147,457) | (Casa Grande/Stanfield/Coolidge) | | | $ (130,480) | (Casa Grande/Stanfield/Coolidge) | |
| 23 | Proposed Increase in Gross Revenues | $ 5,379,797 | | | | $ 4,975,845 | | |

| Line No. | Customer Classification | As Filed Revenue - Present Rates | Revenue - Proposed Rates | Dollar Increase | Percent Increase | Rebuttal Revenue - Proposed Rates | Dollar Increase | Percent Increase |
|---|---|---|---|---|---|---|---|---|
| 31 | Residential | $ 6,578,153 | $ 10,224,807 | $ 3,646,654 | 55.44% | **RATE DESIGN TO BE FILED AT A LATER DATE** | | |
| 32 | Commercial | 2,217,848 | 3,559,853 | 1,342,005 | 60.51% | | | |
| 33 | Industrial | 1,085,226 | 1,097,631 | 12,404 | 1.14% | | | |
| 34 | Private Fire Service | 13,267 | 65,525 | 52,258 | 393.89% | | | |
| 35 | Other Water Revenues | 450,343 | 776,932 | 326,589 | 72.52% | | | |
| 37 | Total Water Revenues | $ 10,344,838 | $ 15,724,748 | $ 5,379,910 | 52.01% | | | |
| 39 | Miscellaneous Revenues | 589,682 | 589,682 | - | 0.00% | | | |
| 41 | Total Operating Revenues | $ 10,934,520 | $ 16,314,430 | $ 5,379,910 | 49.20% | | | |

[1]Consolidated Revenue Adjustment represents the increase/(decrease) in revenue requirement resulting from proposed rate consolidation.

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue Requirement

| Line No. | Description | Stanfield [A] Original Cost - As Filed | [B] | [C] | [D] | [E] Original Cost - Rebuttal | [F] | [G] |
|---|---|---|---|---|---|---|---|---|
| 4 | Adjusted Rate Base | $ 823,590 | | | | $ 820,996 | | |
| 6 | Adjusted Operating Income | $ (31,092) | | | | $ (31,565) | | |
| 8 | Current Rate of Return (Ln. 6 ÷ Ln. 4) | -3.78% | | | | -3.84% | | |
| 10 | Required Operating Income (Ln. 4 X Ln. 12) | $ 80,829 | | | | $ 75,528 | | |
| 12 | Required Rate of Return | 9.81% | | | | 9.20% | | |
| 14 | Operating Income Deficiency (Ln. 10 - Ln. 6) | $ 111,922 | | | | $ 107,093 | | |
| 16 | Gross Revenue Conversion Factor | 1.6286 | | | | 1.6286 | | |
| 18 | Required Increase in Gross Revenue | | | | | | | |
| 19 | (Ln. 14 X Ln. 16) | $ 182,280 | | | | $ 174,415 | | |
| 21 | Add: Consolidated Revenue Adjustment[1] | $ (174,282) | (Casa Grande/Stanfield/Coolidge) | | | $ (167,736) | (Casa Grande/Stanfield/Coolidge) | |
| 23 | Proposed Increase in Gross Revenues | $ 7,998 | | | | $ 6,680 | | |

| Line No. | Customer Classification | As Filed Revenue - Present Rates | Revenue - Proposed Rates | Dollar Increase | Percent Increase | Rebuttal Revenue - Proposed Rates | Dollar Increase | Percent Increase |
|---|---|---|---|---|---|---|---|---|
| 31 | Residential | $ 88,840 | $ 97,005 | $ 8,165 | 9.19% | **RATE DESIGN TO BE FILED AT A LATER DATE** | | |
| 32 | Commercial | 22,667 | 25,140 | 2,473 | 10.91% | | | |
| 33 | Industrial | - | - | - | 0.00% | | | |
| 34 | Private Fire Service | - | - | - | 0.00% | | | |
| 35 | Other Water Revenues | 19,498 | 16,581 | (2,917) | -14.96% | | | |
| 37 | Total Water Revenues | $ 131,005 | $ 138,726 | $ 7,721 | 5.89% | | | |
| 39 | Miscellaneous Revenues | 936 | 936 | - | 0.00% | | | |
| 41 | Total Operating Revenues | $ 131,941 | $ 139,662 | $ 7,721 | 5.85% | | | |

[1]Consolidated Revenue Adjustment represents the increase/(decrease) in revenue requirement resulting from proposed rate consolidation.

Supporting Schedules:
RB B-1, RB C-1, RB C-3, RB H-1

**ARIZONA WATER COMPANY**
*Test Year Ended December 31, 2007*
Computation of Increase in Gross Revenue Requirement

| Line No. | Description | White Tank [A] Original Cost - As Filed | [B] | [C] | [D] | [E] Original Cost - Rebuttal | [F] | [G] |
|---|---|---|---|---|---|---|---|---|
| 4 | Adjusted Rate Base | $ 4,415,016 | | | | $ 4,393,730 | | |
| 6 | Adjusted Operating Income | $ 130,069 | | | | $ 206,480 | | |
| 8 | Current Rate of Return (Ln. 6 ÷ Ln. 4) | 2.95% | | | | 4.70% | | |
| 10 | Required Operating Income (Ln. 4 X Ln. 12) | $ 433,301 | | | | $ 404,206 | | |
| 12 | Required Rate of Return | 9.81% | | | | 9.20% | | |
| 14 | Operating Income Deficiency (Ln. 10 - Ln. 6) | $ 303,233 | | | | $ 197,726 | | |
| 16 | Gross Revenue Conversion Factor | 1.6286 | | | | 1.6286 | | |
| 18 | Required Increase in Gross Revenue | | | | | | | |
| 19 | (Ln. 14 X Ln. 16) | $ 493,855 | | | | $ 322,023 | | |
| 21 | Add: Consolidated Revenue Adjustment[1] | $ - | | | | $ - | | |
| 23 | Proposed Increase in Gross Revenues | $ 493,855 | | | | $ 322,023 | | |

| Customer Classification | As Filed Revenue - Present Rates | Revenue - Proposed Rates | Dollar Increase | Percent Increase | Rebuttal Revenue - Proposed Rates | Dollar Increase | Percent Increase |
|---|---|---|---|---|---|---|---|
| Residential | $ 1,058,534 | $ 1,468,730 | $ 410,196 | 38.75% | **RATE DESIGN TO BE FILED AT A LATER DATE** | | |
| Commercial | 119,356 | 165,748 | 46,391 | 38.87% | | | |
| Industrial | 18,656 | 34,143 | 15,487 | 83.01% | | | |
| Private Fire Service | 295 | 1,475 | 1,180 | 400.00% | | | |
| Other Water Revenues | 36,067 | 56,627 | 20,560 | 57.01% | | | |
| Total Water Revenues | $ 1,232,909 | $ 1,726,723 | $ 493,814 | 40.05% | | | |
| Miscellaneous Revenues | 12,331 | 12,331 | - | 0.00% | | | |
| Total Operating Revenues | $ 1,245,240 | $ 1,739,054 | $ 493,814 | 39.66% | | | |

[1]Consolidated Revenue Adjustment represents the increase/(decrease) in revenue requirement resulting from proposed rate consolidation.

***ARIZONA WATER COMPANY***
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue Requirement

Ajo

| Line No. | Description | [A] Original Cost - As Filed | [B] | [C] | [D] | [E] Original Cost - Rebuttal | [F] | [G] |
|---|---|---|---|---|---|---|---|---|
| 4 | Adjusted Rate Base | $ 1,123,706 | | | | $ 1,119,110 | | |
| 6 | Adjusted Operating Income | $ 49,548 | | | | $ 48,758 | | |
| 8 | Current Rate of Return (Ln. 6 ÷ Ln. 4) | 4.41% | | | | 4.36% | | |
| 10 | Required Operating Income (Ln. 4 X Ln. 12) | $ 110,284 | | | | $ 102,954 | | |
| 12 | Required Rate of Return | 9.81% | | | | 9.20% | | |
| 14 | Operating Income Deficiency (Ln. 10 - Ln. 6) | $ 60,735 | | | | $ 54,196 | | |
| 16 | Gross Revenue Conversion Factor | 1.6286 | | | | 1.6286 | | |
| 18 | Required Increase in Gross Revenue | | | | | | | |
| 19 | (Ln. 14 X Ln. 16) | $ 98,916 | | | | $ 88,266 | | |
| 21 | Add: Consolidated Revenue Adjustment[1] | $ - | | | | $ - | | |
| 23 | Proposed Increase in Gross Revenues | $ 98,916 | | | | $ 88,266 | | |

| Line No. | Customer Classification | As Filed Revenue - Present Rates | As Filed Revenue - Proposed Rates | As Filed Dollar Increase | As Filed Percent Increase | Rebuttal Revenue - Proposed Rates | Rebuttal Dollar Increase | Rebuttal Percent Increase |
|---|---|---|---|---|---|---|---|---|
| 31 | Residential | $ 360,119 | $ 435,387 | $ 75,269 | 20.90% | **RATE DESIGN TO BE FILED AT A LATER DATE** | | |
| 32 | Commercial | 106,369 | 129,471 | 23,102 | 21.72% | | | |
| 33 | Industrial | - | - | - | 0.00% | | | |
| 34 | Private Fire Service | 120 | 600 | 480 | 400.00% | | | |
| 35 | Other Water Revenues | 812 | 828 | 16 | 1.95% | | | |
| 37 | Total Water Revenues | $ 467,420 | $ 566,286 | $ 98,867 | 21.15% | | | |
| 39 | Miscellaneous Revenues | 3,669 | 3,669 | - | 0.00% | | | |
| 41 | Total Operating Revenues | $ 471,088 | $ 569,955 | $ 98,867 | 20.99% | | | |

[1]Consolidated Revenue Adjustment represents the increase/(decrease) in revenue requirement resulting from proposed rate consolidation.

Supporting Schedules:
RB B-1, RB C-1, RB C-3, RB H-1

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue Requirement

| Line No. | Description | Coolidge [A] Original Cost - As Filed | [B] | [C] | [D] | [E] Original Cost - Rebuttal | [F] | [G] |
|---|---|---|---|---|---|---|---|---|
| 4 | Adjusted Rate Base | $ 4,318,207 | | | | $ 4,248,815 | | |
| 6 | Adjusted Operating Income | $ 276,633 | | | | $ 273,103 | | |
| 8 | Current Rate of Return (Ln. 6 ÷ Ln. 4) | 6.41% | | | | 6.43% | | |
| 10 | Required Operating Income (Ln. 4 X Ln. 12) | $ 423,800 | | | | $ 390,874 | | |
| 12 | Required Rate of Return | 9.81% | | | | 9.20% | | |
| 14 | Operating Income Deficiency (Ln. 10 - Ln. 6) | $ 147,168 | | | | $ 117,771 | | |
| 16 | Gross Revenue Conversion Factor | 1.6286 | | | | 1.6286 | | |
| 18 | Required Increase in Gross Revenue | | | | | | | |
| 19 | (Ln. 14 X Ln. 16) | $ 239,682 | | | | $ 191,805 | | |
| 21 | Add: Consolidated Revenue Adjustment[1] | $ 321,738 | (Casa Grande/Stanfield/Coolidge) | | | $ 298,216 | (Casa Grande/Stanfield/Coolidge) | |
| 23 | Proposed Increase in Gross Revenues | $ 561,421 | | | | $ 490,021 | | |

| Line No. | Customer Classification | As Filed Revenue - Present Rates | Revenue - Proposed Rates | Dollar Increase | Percent Increase | Rebuttal Revenue - Proposed Rates | Dollar Increase | Percent Increase |
|---|---|---|---|---|---|---|---|---|
| 31 | Residential | $ 1,459,003 | $ 1,852,197 | $ 393,195 | 26.95% | **RATE DESIGN TO BE FILED AT A LATER DATE** | | |
| 32 | Commercial | 609,239 | 746,808 | 137,569 | 22.58% | | | |
| 33 | Industrial | 8,657 | 8,666 | 9 | 0.10% | | | |
| 34 | Private Fire Service | 1,675 | 7,625 | 5,950 | 355.24% | | | |
| 35 | Other Water Revenues | 84,784 | 109,234 | 24,451 | 28.84% | | | |
| 37 | Total Water Revenues | $ 2,163,358 | $ 2,724,531 | $ 561,173 | 25.94% | | | |
| 39 | Miscellaneous Revenues | 51,580 | 51,580 | - | 0.00% | | | |
| 41 | Total Operating Revenues | $ 2,214,937 | $ 2,776,111 | $ 561,173 | 25.34% | | | |

[1]Consolidated Revenue Adjustment represents the increase/(decrease) in revenue requirement resulting from proposed rate consolidation.

Supporting Schedules:
RB B-1, RB C-1, RB C-3, RB H-1

***ARIZONA WATER COMPANY***
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue Requirement

| Line No. | Description | Lakeside [A] Original Cost - As Filed | [B] | [C] | [D] | [E] Original Cost - Rebuttal | [F] | [G] |
|---|---|---|---|---|---|---|---|---|
| 4 | Adjusted Rate Base | $ 7,169,218 | | | | $ 7,160,630 | | |
| 6 | Adjusted Operating Income | $ 517,717 | | | | $ 512,807 | | |
| 8 | Current Rate of Return (Ln. 6 ÷ Ln. 4) | 7.22% | | | | 7.16% | | |
| 10 | Required Operating Income (Ln. 4 X Ln. 12) | $ 703,606 | | | | $ 658,749 | | |
| 12 | Required Rate of Return | 9.81% | | | | 9.20% | | |
| 14 | Operating Income Deficiency (Ln. 10 - Ln. 6) | $ 185,889 | | | | $ 145,943 | | |
| 16 | Gross Revenue Conversion Factor | 1.6286 | | | | 1.6286 | | |
| 18 | Required Increase in Gross Revenue | | | | | | | |
| 19 | (Ln. 14 X Ln. 16) | $ 302,745 | | | | $ 237,687 | | |
| 21 | Add: Consolidated Revenue Adjustment[1] | $ (23,271) | (Lakeside/Overgaard) | | | $ (31,862) | (Lakeside/Overgaard) | |
| 23 | Proposed Increase in Gross Revenues | $ 279,474 | | | | $ 205,825 | | |

| Line No. | Customer Classification | As Filed Revenue - Present Rates | Revenue - Proposed Rates | Dollar Increase | Percent Increase | Rebuttal Revenue - Proposed Rates | Dollar Increase | Percent Increase |
|---|---|---|---|---|---|---|---|---|
| 31 | Residential | $ 2,157,959 | $ 2,317,939 | $ 159,979 | 7.41% | **RATE DESIGN TO BE FILED AT A LATER DATE** | | |
| 32 | Commercial | 374,740 | 477,988 | 103,247 | 27.55% | | | |
| 33 | Industrial | 5,354 | 5,357 | 3 | 0.06% | | | |
| 34 | Private Fire Service | 1,560 | 7,800 | 6,240 | 400.00% | | | |
| 35 | Other Water Revenues | 23,656 | 33,541 | 9,885 | 41.79% | | | |
| 37 | Total Water Revenues | $ 2,563,269 | $ 2,842,625 | $ 279,355 | 10.90% | | | |
| 39 | Miscellaneous Revenues | 25,579 | 25,579 | - | 0.00% | | | |
| 41 | Total Operating Revenues | $ 2,588,849 | $ 2,868,204 | $ 279,355 | 10.79% | | | |

[1]Consolidated Revenue Adjustment represents the increase/(decrease) in revenue requirement resulting from proposed rate consolidation.

Supporting Schedules:
RB B-1, RB C-1, RB C-3, RB H-1

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue Requirement

Overgaard

| Line No. | Description | [A] Original Cost - As Filed | [B] | [C] | [D] | [E] Original Cost - Rebuttal | [F] | [G] |
|---|---|---|---|---|---|---|---|---|
| 4 | Adjusted Rate Base | $ 3,338,584 | | | | $ 3,331,286 | | |
| 6 | Adjusted Operating Income | $ 369,890 | | | | $ 367,535 | | |
| 8 | Current Rate of Return (Ln. 6 ÷ Ln. 4) | 11.08% | | | | 11.03% | | |
| 10 | Required Operating Income (Ln. 4 X Ln. 12) | $ 327,657 | | | | $ 306,465 | | |
| 12 | Required Rate of Return | 9.81% | | | | 9.20% | | |
| 14 | Operating Income Deficiency (Ln. 10 - Ln. 6) | $ (42,232) | | | | $ (61,070) | | |
| 16 | Gross Revenue Conversion Factor | 1.6286 | | | | 1.6286 | | |
| 18 | Required Increase in Gross Revenue | | | | | | | |
| 19 | (Ln. 14 X Ln. 16) | $ (68,781) | | | | $ (99,461) | | |
| 21 | Add: Consolidated Revenue Adjustment[1] | $ 23,271 | (Lakeside/Overgaard) | | | $ 31,862 | (Lakeside/Overgaard) | |
| 23 | Proposed Increase in Gross Revenues | $ (45,510) | | | | $ (67,599) | | |

| Customer Classification | As Filed Revenue - Present Rates | As Filed Revenue - Proposed Rates | As Filed Dollar Increase | As Filed Percent Increase | Rebuttal Revenue - Proposed Rates | Rebuttal Dollar Increase | Rebuttal Percent Increase |
|---|---|---|---|---|---|---|---|
| Residential | $ 1,520,492 | $ 1,454,412 | $ (66,080) | -4.35% | **RATE DESIGN TO BE FILED AT A LATER DATE** | | |
| Commercial | 129,573 | 143,125 | 13,552 | 10.46% | | | |
| Industrial | - | - | - | 0.00% | | | |
| Private Fire Service | 1,200 | 6,000 | 4,800 | 400.00% | | | |
| Other Water Revenues | 9,962 | 12,660 | 2,698 | 27.08% | | | |
| Total Water Revenues | $ 1,661,227 | $ 1,616,197 | $ (45,030) | -2.71% | | | |
| Miscellaneous Revenues | 24,422 | 24,422 | - | 0.00% | | | |
| Total Operating Revenues | $ 1,685,650 | $ 1,640,619 | $ (45,030) | -2.67% | | | |

[1]Consolidated Revenue Adjustment represents the increase/(decrease) in revenue requirement resulting from proposed rate consolidation.

Supporting Schedules:
RB B-1, RB C-1, RB C-3, RB H-1

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue Requirement

| Line No. | Description | Sedona [A] Original Cost - As Filed | [B] | [C] | [D] | [E] Original Cost - Rebuttal | [F] | [G] |
|---|---|---|---|---|---|---|---|---|
| 4 | Adjusted Rate Base | $ 18,018,529 | | | | $ 17,589,192 | | |
| 6 | Adjusted Operating Income | $ 424,708 | | | | $ 412,698 | | |
| 8 | Current Rate of Return (Ln. 6 ÷ Ln. 4) | 2.36% | | | | 2.35% | | |
| 10 | Required Operating Income (Ln. 4 X Ln. 12) | $ 1,768,386 | | | | $ 1,618,136 | | |
| 12 | Required Rate of Return | 9.81% | | | | 9.20% | | |
| 14 | Operating Income Deficiency (Ln. 10 - Ln. 6) | $ 1,343,678 | | | | $ 1,205,437 | | |
| 16 | Gross Revenue Conversion Factor | 1.6286 | | | | 1.6286 | | |
| 18 | Required Increase in Gross Revenue | | | | | | | |
| 19 | (Ln. 14 X Ln. 16) | $ 2,188,362 | | | | $ 1,963,217 | | |
| 21 | Add: Consolidated Revenue Adjustment[1] | $ 216,885 | (Sedona/Pinewood/Rimrock) | | | $ 214,252 | (Sedona/Pinewood/Rimrock) | |
| 23 | Proposed Increase in Gross Revenues | $ 2,405,246 | | | | $ 2,177,470 | | |

| Customer Classification | As Filed Revenue - Present Rates | Revenue - Proposed Rates | Dollar Increase | Percent Increase | Rebuttal Revenue - Proposed Rates | Dollar Increase | Percent Increase |
|---|---|---|---|---|---|---|---|
| Residential | $ 2,500,483 | $ 4,076,976 | $ 1,576,494 | 63.05% | **RATE DESIGN TO BE FILED AT A LATER DATE** | | |
| Commercial | 957,586 | 1,731,848 | 774,262 | 80.86% | | | |
| Industrial | 314 | 390 | 76 | 24.18% | | | |
| Private Fire Service | 7,690 | 38,450 | 30,760 | 400.00% | | | |
| Other Water Revenues | 26,718 | 49,834 | 23,116 | 86.52% | | | |
| Total Water Revenues | $ 3,492,791 | $ 5,897,498 | $ 2,404,707 | 68.85% | | | |
| Miscellaneous Revenues | 28,567 | 28,567 | - | 0.00% | | | |
| Total Operating Revenues | $ 3,521,358 | $ 5,926,065 | $ 2,404,707 | 68.29% | | | |

[1]Consolidated Revenue Adjustment represents the increase/(decrease) in revenue requirement resulting from proposed rate consolidation.

Supporting Schedules:
RB B-1, RB C-1, RB C-3, RB H-1

***ARIZONA WATER COMPANY***
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue Requirement

| Line No. | Description | Pinewood [A] Original Cost - As Filed | [B] | [C] | [D] | [E] Original Cost - Rebuttal | [F] | [G] |
|---|---|---|---|---|---|---|---|---|
| 4 | Adjusted Rate Base | $ 1,882,836 | | | | $ 1,878,254 | | |
| 6 | Adjusted Operating Income | $ 104,677 | | | | $ 103,601 | | |
| 8 | Current Rate of Return (Ln. 6 ÷ Ln. 4) | 5.56% | | | | 5.52% | | |
| 10 | Required Operating Income (Ln. 4 X Ln. 12) | $ 184,787 | | | | $ 172,792 | | |
| 12 | Required Rate of Return | 9.81% | | | | 9.20% | | |
| 14 | Operating Income Deficiency (Ln. 10 - Ln. 6) | $ 80,110 | | | | $ 69,191 | | |
| 16 | Gross Revenue Conversion Factor | 1.6286 | | | | 1.6286 | | |
| 18 | Required Increase in Gross Revenue | | | | | | | |
| 19 | (Ln. 14 X Ln. 16) | $ 130,470 | | | | $ 112,686 | | |
| 21 | Add: Consolidated Revenue Adjustment[1] | $ 6,107 | (Sedona/Pinewood/Rimrock) | | | $ 5,049 | (Sedona/Pinewood/Rimrock) | |
| 23 | Proposed Increase in Gross Revenues | $ 136,577 | | | | $ 117,736 | | |

| Customer Classification | As Filed Revenue - Present Rates | Revenue - Proposed Rates | Dollar Increase | Percent Increase | Rebuttal Revenue - Proposed Rates | Dollar Increase | Percent Increase |
|---|---|---|---|---|---|---|---|
| Residential | $ 1,014,530 | $ 1,143,133 | $ 128,603 | 12.68% | **RATE DESIGN TO BE FILED AT A LATER DATE** | | |
| Commercial | 22,880 | 29,494 | 6,613 | 28.90% | | | |
| Industrial | 508 | 672 | 165 | 32.40% | | | |
| Private Fire Service | 180 | 900 | 720 | 400.00% | | | |
| Other Water Revenues | 1,784 | 2,676 | 892 | 50.00% | | | |
| Total Water Revenues | $ 1,039,882 | $ 1,176,875 | $ 136,993 | 13.17% | | | |
| Miscellaneous Revenues | 6,859 | 6,859 | - | 0.00% | | | |
| Total Operating Revenues | $ 1,046,742 | $ 1,183,734 | $ 136,993 | 13.09% | | | |

[1]Consolidated Revenue Adjustment represents the increase/(decrease) in revenue requirement resulting from proposed rate consolidation.

Supporting Schedules:
*RB B-1, RB C-1, RB C-3, RB H-1*

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue Requirement

| Line No. | Description | Rimrock [A] Original Cost - As Filed | [B] | [C] | [D] | [E] Original Cost - Rebuttal | [F] | [G] |
|---|---|---|---|---|---|---|---|---|
| 4 | Adjusted Rate Base | $ 2,338,005 | | | | $ 2,330,858 | | |
| 6 | Adjusted Operating Income | $ (75,247) | | | | $ (75,706) | | |
| 8 | Current Rate of Return (Ln. 6 ÷ Ln. 4) | -3.22% | | | | -3.25% | | |
| 10 | Required Operating Income (Ln. 4 X Ln. 12) | $ 229,458 | | | | $ 214,430 | | |
| 12 | Required Rate of Return | 9.81% | | | | 9.20% | | |
| 14 | Operating Income Deficiency (Ln. 10 - Ln. 6) | $ 304,705 | | | | $ 290,136 | | |
| 16 | Gross Revenue Conversion Factor | 1.6286 | | | | 1.6286 | | |
| 18 | Required Increase in Gross Revenue | | | | | | | |
| 19 | (Ln. 14 X Ln. 16) | $ 496,253 | | | | $ 472,525 | | |
| 21 | Add: Consolidated Revenue Adjustment[1] | $ (222,992) | (Sedona/Pinewood/Rimrock) | | | $ (219,302) | (Sedona/Pinewood/Rimrock) | |
| 23 | Proposed Increase in Gross Revenues | $ 273,261 | | | | $ 253,223 | | |

| Customer Classification | As Filed Revenue - Present Rates | Revenue - Proposed Rates | Dollar Increase | Percent Increase | Rebuttal Revenue - Proposed Rates | Dollar Increase | Percent Increase |
|---|---|---|---|---|---|---|---|
| *Residential* | $ 471,412 | $ 721,681 | $ 250,269 | 53.09% | **RATE DESIGN TO BE FILED AT A LATER DATE** | | |
| Commercial | 17,845 | 31,629 | 13,784 | 77.25% | | | |
| Industrial | - | - | - | 0.00% | | | |
| Private Fire Service | 50 | 250 | 200 | 400.00% | | | |
| Other Water Revenues | 10,101 | 18,916 | 8,815 | 87.26% | | | |
| Total Water Revenues | $ 499,408 | $ 772,476 | $ 273,068 | 54.68% | | | |
| Miscellaneous Revenues | 8,461 | 8,461 | - | 0.00% | | | |
| Total Operating Revenues | $ 507,869 | $ 780,936 | $ 273,068 | 53.77% | | | |

[1]Consolidated Revenue Adjustment represents the increase/(decrease) in revenue requirement resulting from proposed rate consolidation.

Supporting Schedules:
RB B-1, RB C-1, RB C-3, RB H-1

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Summary Original Cost Rate Base



| Line No. | | Total Company [A] O. C. Rate Base - As Filed | Total Company [B] Rebuttal Adjustments | Total Company [C] O. C. Rate Base - Rebuttal | Eastern Group [D] O. C. Rate Base - As Filed | Eastern Group [E] Rebuttal Adjustments | Eastern Group [F] O. C. Rate Base - Rebuttal |
|---|---|---|---|---|---|---|---|
| 1 | | | | | | | |
| 2 | Gross Plant in Service | $ 344,143,635 | $ (1,379,225) | $ 342,764,410 | $ 134,364,970 | $ (86,566) | $ 134,278,404 |
| 3 | | | | | | | |
| 4 | Less: | | | | | | |
| 5 | Accumulated Depreciation | 71,352,954 | (966,657) | 70,386,297 | 30,486,765 | (86,566) | 30,400,199 |
| 6 | Net Plant in Service | $ 272,790,681 | $ (412,568) | $ 272,378,113 | $ 103,878,205 | $ - | $ 103,878,205 |
| 7 | | | | | | | |
| 8 | Less: | | | | | | |
| 9 | Advances in Aid of Construction | 72,608,333 | - | 72,608,333 | 21,201,255 | - | 21,201,255 |
| 10 | Contributions in Aid of Construction: | | | | | | |
| 11 | Gross | 42,642,875 | - | 42,642,875 | 14,122,412 | - | 14,122,412 |
| 12 | Accumulated Amortization | (7,450,363) | - | (7,450,363) | (2,230,343) | - | (2,230,343) |
| 13 | Net Contributions in Aid of Construction | $ 35,192,512 | $ - | $ 35,192,512 | $ 11,892,069 | $ - | $ 11,892,069 |
| 14 | | | | | | | |
| 15 | Deferred Income Tax | 19,165,001 | - | 19,165,001 | 7,984,139 | - | 7,984,139 |
| 16 | Customer Deposits | - | 658,379 | 658,379 | - | 274,581 | 274,581 |
| 17 | Add: | | | | | | |
| 18 | Working Capital | 1,876,007 | (15,339) | 1,860,668 | 773,699 | (5,272) | 768,428 |
| 19 | Net Regulatory Asset / (Liability) | 43,803 | (14,289) | 29,514 | (532,000) | - | (532,000) |
| 20 | | | | | | | |
| 21 | | | | | | | |
| 22 | | | | | | | |
| 23 | Total Rate Base | $ 147,744,644 | $ (1,100,575) | $ 146,644,069 | $ 63,042,440 | $ (279,853) | $ 62,762,588 |
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Supporting Schedules:
RB B-2, B-3, RB B-5, E-1 (as adjusted to remove Saddlebrook)



Recap Schedules:
RB A-1

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Summary Original Cost Rate Base



| Line No. | | Western Group [A] O. C. Rate Base - As Filed | Western Group [B] Rebuttal Adjustments | Western Group [C] O. C. Rate Base - Rebuttal | Northern Group [D] O. C. Rate Base - As Filed | Northern Group [E] Rebuttal Adjustments | Northern Group [F] O. C. Rate Base - Rebuttal |
|---|---|---|---|---|---|---|---|
| 1 | | | | | | | |
| 2 | Gross Plant in Service | $ 138,106,229 | $ (493,577) | $ 137,612,652 | $ 71,672,437 | $ (799,082) | $ 70,873,354 |
| 3 | | | | | | | |
| 4 | Less: | | | | | | |
| 5 | Accumulated Depreciation | 23,635,436 | (493,577) | 23,141,859 | 17,230,753 | (386,514) | 16,844,239 |
| 6 | Net Plant in Service | $ 114,470,793 | $ 0 | $ 114,470,793 | $ 54,441,683 | $ (412,568) | $ 54,029,115 |
| 7 | | | | | | | |
| 8 | Less: | | | | | | |
| 9 | Advances in Aid of Construction | 42,638,091 | - | 42,638,091 | 8,768,987 | - | 8,768,987 |
| 10 | Contributions in Aid of Construction: | | | | | | |
| 11 | Gross | 16,844,227 | - | 16,844,227 | 11,676,236 | - | 11,676,236 |
| 12 | Accumulated Amortization | (2,591,531) | - | (2,591,531) | (2,628,489) | - | (2,628,489) |
| 13 | Net Contributions in Aid of Construction | $ 14,252,696 | $ - | $ 14,252,696 | $ 9,047,747 | $ - | $ 9,047,747 |
| 14 | | | | | | | |
| 15 | Deferred Income Tax | 6,759,496 | - | 6,759,496 | 4,421,366 | - | 4,421,366 |
| 16 | Customer Deposits | - | 338,608 | 338,608 | - | 45,190 | 45,190 |
| 17 | Add: | | | | | | |
| 18 | Working Capital | 558,720 | (10,873) | 547,847 | 543,588 | 806 | 544,393 |
| 19 | Net Regulatory Asset / (Liability) | 575,803 | (14,289) | 561,514 | - | - | - |
| 20 | | | | | | | |
| 21 | | | | | | | |
| 22 | | | | | | | |
| 23 | Total Rate Base | $ 51,955,032 | $ (363,770) | $ 51,591,262 | $ 32,747,172 | $ (456,952) | $ 32,290,219 |
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Supporting Schedules:
RB B-2, B-3, RB B-5, E-1 (as adjusted to remove Saddlebrook)



Recap Schedules:
RB A-1

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Summary Original Cost Rate Base

| Line No. | | Superstition [A] O. C. Rate Base - As Filed | Superstition [B] Rebuttal Adjustments | Superstition [C] O. C. Rate Base - Rebuttal | Bisbee [A] O. C. Rate Base - As Filed | Bisbee [B] Rebuttal Adjustments | Bisbee [C] O. C. Rate Base - Rebuttal |
|---|---|---|---|---|---|---|---|
| 1 | | | | | | | |
| 2 | Gross Plant in Service | $ 93,590,431 | $ (19,502) | $ 93,570,929 | $ 10,314,658 | $ (704) | $ 10,313,954 |
| 3 | | | | | | | |
| 4 | Less: | | | | | | |
| 5 | Accumulated Depreciation | 17,724,938 | (19,502) | 17,705,436 | 4,218,432 | (704) | 4,217,728 |
| 6 | Net Plant in Service | $ 75,865,493 | $ - | $ 75,865,493 | $ 6,096,226 | $ - | $ 6,096,226 |
| 7 | | | | | | | |
| 8 | Less: | | | | | | |
| 9 | Advances in Aid of Construction | 18,952,520 | - | 18,952,520 | 258,981 | - | 258,981 |
| 10 | Contributions in Aid of Construction: | | | | | | |
| 11 | Gross | 10,888,555 | - | 10,888,555 | 452,659 | - | 452,659 |
| 12 | Accumulated Amortization | (1,733,417) | - | (1,733,417) | (106,681) | - | (106,681) |
| 13 | Net Contributions in Aid of Construction | $ 9,155,138 | $ - | $ 9,155,138 | $ 345,978 | $ - | $ 345,978 |
| 14 | | | | | | | |
| 15 | Deferred Income Tax | 4,779,751 | - | 4,779,751 | 954,417 | - | 954,417 |
| 16 | Customer Deposits | - | 196,185 | 196,185 | - | 17,600 | 17,600 |
| 17 | Add: | | | | | | |
| 18 | Working Capital | 446,461 | (4,568) | 441,892 | 124,134 | (390) | 123,744 |
| 19 | Net Regulatory Asset / (Liability) | - | - | - | - | - | - |
| 20 | | | | | | | |
| 21 | | | | | | | |
| 22 | | | | | | | |
| 23 | Total Rate Base | $ 43,424,545 | $ (200,753) | $ 43,223,792 | $ 4,660,984 | $ (17,990) | $ 4,642,994 |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Summary Original Cost Rate Base

| Line No. | | Sierra Vista [A] O. C. Rate Base - As Filed | Sierra Vista [B] Rebuttal Adjustments | Sierra Vista [C] O. C. Rate Base - Rebuttal | San Manuel [D] O. C. Rate Base - As Filed | San Manuel [E] Rebuttal Adjustments | San Manuel [F] O. C. Rate Base - Rebuttal |
|---|---|---|---|---|---|---|---|
| 1 | | | | | | | |
| 2 | Gross Plant in Service | $ 7,396,345 | $ - | $ 7,396,345 | $ 4,122,476 | $ - | $ 4,122,476 |
| 3 | | | | | | | |
| 4 | Less: | | | | | | |
| 5 | Accumulated Depreciation | 2,113,607 | - | 2,113,607 | 997,040 | - | 997,040 |
| 6 | Net Plant in Service | $ 5,282,738 | $ - | $ 5,282,738 | $ 3,125,436 | $ - | $ 3,125,436 |
| 7 | | | | | | | |
| 8 | Less: | | | | | | |
| 9 | Advances in Aid of Construction | 1,453,186 | - | 1,453,186 | 73,164 | - | 73,164 |
| 10 | Contributions in Aid of Construction: | | | | | | |
| 11 | Gross | 1,089,317 | - | 1,089,317 | 742,146 | - | 742,146 |
| 12 | Accumulated Amortization | (226,089) | - | (226,089) | (7,505) | - | (7,505) |
| 13 | Net Contributions in Aid of Construction | $ 863,228 | $ - | $ 863,228 | $ 734,641 | $ - | $ 734,641 |
| 14 | | | | | | | |
| 15 | Deferred Income Tax | 494,457 | - | 494,457 | 321,972 | - | 321,972 |
| 16 | Customer Deposits | - | 15,925 | 15,925 | - | 5,425 | 5,425 |
| 17 | Add: | | | | | | |
| 18 | Working Capital | 48,849 | (165) | 48,685 | 39,551 | (18) | 39,532 |
| 19 | Net Regulatory Asset / (Liability) | - | - | - | - | - | - |
| 20 | | | | | | | |
| 21 | | | | | | | |
| 22 | | | | | | | |
| 23 | Total Rate Base | $ 2,520,716 | $ (16,090) | $ 2,504,626 | $ 2,035,209 | $ (5,443) | $ 2,029,766 |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Summary Original Cost Rate Base

| Line No. | | Oracle [A] O. C. Rate Base - As Filed | Oracle [B] Rebuttal Adjustments | Oracle [C] O. C. Rate Base - Rebuttal | Saddlebrook [D] O. C. Rate Base - As Filed | Saddlebrook [E] Rebuttal Adjustments | Saddlebrook [F] O. C. Rate Base - Rebuttal |
|---|---|---|---|---|---|---|---|
| 1 | | | | | | | |
| 2 | Gross Plant in Service | $ 6,084,930 | $ - | $ 6,084,930 | $ (0) | $ - | $ (0) |
| 3 | | | | | | | |
| 4 | Less: | | | | | | |
| 5 | Accumulated Depreciation | 2,307,793 | - | 2,307,793 | 0 | - | 0 |
| 6 | Net Plant in Service | $ 3,777,137 | $ - | $ 3,777,137 | $ (0) | $ - | $ (0) |
| 7 | | | | | | | |
| 8 | Less: | | | | | | |
| 9 | Advances in Aid of Construction | 432,749 | - | 432,749 | - | - | - |
| 10 | Contributions in Aid of Construction: | | | | | | |
| 11 | Gross | 623,732 | - | 623,732 | - | - | - |
| 12 | Accumulated Amortization | (93,964) | - | (93,964) | - | - | - |
| 13 | Net Contributions in Aid of Construction | $ 529,768 | $ - | $ 529,768 | $ - | $ - | $ - |
| 14 | | | | | | | |
| 15 | Deferred Income Tax | 436,962 | - | 436,962 | - | - | - |
| 16 | Customer Deposits | - | 7,460 | 7,460 | - | - | - |
| 17 | Add: | | | | | | |
| 18 | Working Capital | 34,574 | (213) | 34,361 | - | 0 | 0 |
| 19 | Net Regulatory Asset / (Liability) | - | - | - | - | - | - |
| 20 | | | | | | | |
| 21 | | | | | | | |
| 22 | | | | | | | |
| 23 | Total Rate Base | $ 2,412,232 | $ (7,673) | $ 2,404,558 | $ (0) | $ 0 | $ (0) |
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Supporting Schedules:
RB B-2, B-3, RB B-5, E-1 (as adjusted to remove Saddlebrook)



Recap Schedules:
RB A-1

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Summary Original Cost Rate Base

| Line No. | | Winkelman [A] O. C. Rate Base - As Filed | Winkelman [B] Rebuttal Adjustments | Winkelman [C] O. C. Rate Base - Rebuttal | Miami [D] O. C. Rate Base - As Filed | Miami [E] Rebuttal Adjustments | Miami [F] O. C. Rate Base - Rebuttal |
|---|---|---|---|---|---|---|---|
| 1 | | | | | | | |
| 2 | Gross Plant in Service | $ 554,169 | $ (66,360) | $ 487,809 | $ 12,301,961 | $ - | $ 12,301,961 |
| 3 | | | | | | | |
| 4 | Less: | | | | | | |
| 5 | Accumulated Depreciation | 167,152 | (66,360) | 100,792 | 2,957,804 | - | 2,957,804 |
| 6 | Net Plant in Service | $ 387,018 | $ - | $ 387,018 | $ 9,344,157 | $ - | $ 9,344,157 |
| 7 | | | | | | | |
| 8 | Less: | | | | | | |
| 9 | Advances in Aid of Construction | 18,649 | - | 18,649 | 12,005 | - | 12,005 |
| 10 | Contributions in Aid of Construction: | | | | | | |
| 11 | Gross | 1,835 | - | 1,835 | 324,169 | - | 324,169 |
| 12 | Accumulated Amortization | (506) | - | (506) | (62,181) | - | (62,181) |
| 13 | Net Contributions in Aid of Construction | $ 1,329 | $ - | $ 1,329 | $ 261,988 | $ - | $ 261,988 |
| 14 | | | | | | | |
| 15 | Deferred Income Tax | 42,163 | - | 42,163 | 954,417 | - | 954,417 |
| 16 | Customer Deposits | - | 650 | 650 | - | 31,336 | 31,336 |
| 17 | Add: | | | | | | |
| 18 | Working Capital | 266 | 62 | 328 | 79,865 | 21 | 79,886 |
| 19 | Net Regulatory Asset / (Liability) | - | - | - | (532,000) | - | (532,000) |
| 20 | | | | | | | |
| 21 | | | | | | | |
| 22 | | | | | | | |
| 23 | Total Rate Base | $ 325,142 | $ (588) | $ 324,555 | $ 7,663,611 | $ (31,315) | $ 7,632,296 |
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Supporting Schedules:
RB B-2, B-3, RB B-5, E-1 (as adjusted to remove Saddlebrook)



Recap Schedules:
RB A-1

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Summary Original Cost Rate Base

| Line No. | | Casa Grande [A] O. C. Rate Base - As Filed | Casa Grande [B] Rebuttal Adjustments | Casa Grande [C] O. C. Rate Base - Rebuttal | Stanfield [D] O. C. Rate Base - As Filed | Stanfield [E] Rebuttal Adjustments | Stanfield [F] O. C. Rate Base - Rebuttal |
|---|---|---|---|---|---|---|---|
| 1 | | | | | | | |
| 2 | Gross Plant in Service | $ 104,521,096 | $ (488,477) | $ 104,032,619 | $ 1,180,745 | $ (5,100) | $ 1,175,645 |
| 3 | | | | | | | |
| 4 | Less: | | | | | | |
| 5 | Accumulated Depreciation | 17,639,046 | (488,477) | 17,150,569 | 260,400 | (5,100) | 255,300 |
| 6 | Net Plant in Service | $ 86,882,050 | $ - | $ 86,882,050 | $ 920,345 | $ - | $ 920,345 |
| 7 | | | | | | | |
| 8 | Less: | | | | | | |
| 9 | Advances in Aid of Construction | 29,671,663 | - | 29,671,663 | 15,715 | - | 15,715 |
| 10 | Contributions in Aid of Construction: | | | | | | |
| 11 | Gross | 14,050,085 | - | 14,050,085 | 49,164 | - | 49,164 |
| 12 | Accumulated Amortization | (2,242,757) | - | (2,242,757) | (12,246) | - | (12,246) |
| 13 | Net Contributions in Aid of Construction | $ 11,807,328 | $ - | $ 11,807,328 | $ 36,918 | $ - | $ 36,918 |
| 14 | | | | | | | |
| 15 | Deferred Income Tax | 5,088,308 | - | 5,088,308 | 51,746 | - | 51,746 |
| 16 | Customer Deposits | - | 252,738 | 252,738 | - | 2,635 | 2,635 |
| 17 | Add: | | | | | | |
| 18 | Working Capital | 383,959 | 1,125 | 385,084 | 7,625 | 40 | 7,665 |
| 19 | Net Regulatory Asset / (Liability) | 575,803 | (14,289) | 561,514 | - | - | - |
| 20 | | | | | | | |
| 21 | | | | | | | |
| 22 | | | | | | | |
| 23 | Total Rate Base | $ 41,274,513 | $ (265,902) | $ 41,008,611 | $ 823,590 | $ (2,595) | $ 820,996 |
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***ARIZONA WATER COMPANY***
Test Year Ended December 31, 2007
Summary Original Cost Rate Base

| Line No. | | White Tank [A] O. C. Rate Base - As Filed | White Tank [B] Rebuttal Adjustments | White Tank [C] O. C. Rate Base - Rebuttal | Ajo [D] O. C. Rate Base - As Filed | Ajo [E] Rebuttal Adjustments | Ajo [F] O. C. Rate Base - Rebuttal |
|---|---|---|---|---|---|---|---|
| 1 | | | | | | | |
| 2 | Gross Plant in Service | $ 13,137,036 | $ - | $ 13,137,036 | $ 2,207,212 | $ - | $ 2,207,212 |
| 3 | | | | | | | |
| 4 | Less: | | | | | | |
| 5 | Accumulated Depreciation | 1,716,047 | - | 1,716,047 | 812,825 | - | 812,825 |
| 6 | Net Plant in Service | $ 11,420,989 | $ - | $ 11,420,989 | $ 1,394,387 | $ - | $ 1,394,387 |
| 7 | | | | | | | |
| 8 | Less: | | | | | | |
| 9 | Advances in Aid of Construction | 5,647,808 | - | 5,647,808 | 87,953 | - | 87,953 |
| 10 | Contributions in Aid of Construction: | | | | | | |
| 11 | Gross | 1,134,727 | - | 1,134,727 | 65,554 | - | 65,554 |
| 12 | Accumulated Amortization | (175,250) | - | (175,250) | (15,854) | - | (15,854) |
| 13 | Net Contributions in Aid of Construction | $ 959,477 | $ - | $ 959,477 | $ 49,700 | $ - | $ 49,700 |
| 14 | | | | | | | |
| 15 | Deferred Income Tax | 454,211 | - | 454,211 | 155,237 | - | 155,237 |
| 16 | Customer Deposits | - | 9,530 | 9,530 | - | 4,600 | 4,600 |
| 17 | Add: | | | | | | |
| 18 | Working Capital | 55,523 | (11,756) | 43,767 | 22,208 | 4 | 22,212 |
| 19 | Net Regulatory Asset / (Liability) | - | - | - | - | - | - |
| 20 | | | | | | | |
| 21 | | | | | | | |
| 22 | | | | | | | |
| 23 | Total Rate Base | $ 4,415,016 | $ (21,286) | $ 4,393,730 | $ 1,123,706 | $ (4,596) | $ 1,119,110 |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Summary Original Cost Rate Base

| Line No. | | Coolidge [A] O. C. Rate Base - As Filed | Coolidge [B] Rebuttal Adjustments | Coolidge [C] O. C. Rate Base - Rebuttal | Lakeside [D] O. C. Rate Base - As Filed | Lakeside [E] Rebuttal Adjustments | Lakeside [F] O. C. Rate Base - Rebuttal |
|---|---|---|---|---|---|---|---|
| 1 | | | | | | | |
| 2 | Gross Plant in Service | $ 17,060,140 | $ - | $ 17,060,140 | $ 16,044,619 | $ - | $ 16,044,619 |
| 3 | | | | | | | |
| 4 | Less: | | | | | | |
| 5 | Accumulated Depreciation | 3,207,118 | - | 3,207,118 | 4,088,030 | - | 4,088,030 |
| 6 | Net Plant in Service | $ 13,853,022 | $ - | $ 13,853,022 | $ 11,956,589 | $ - | $ 11,956,589 |
| 7 | | | | | | | |
| 8 | Less: | | | | | | |
| 9 | Advances in Aid of Construction | 7,214,952 | - | 7,214,952 | 2,366,968 | - | 2,366,968 |
| 10 | Contributions in Aid of Construction: | | | | | | |
| 11 | Gross | 1,544,697 | - | 1,544,697 | 1,691,940 | - | 1,691,940 |
| 12 | Accumulated Amortization | (145,424) | - | (145,424) | (370,501) | - | (370,501) |
| 13 | Net Contributions in Aid of Construction | $ 1,399,273 | $ - | $ 1,399,273 | $ 1,321,439 | $ - | $ 1,321,439 |
| 14 | | | | | | | |
| 15 | Deferred Income Tax | 1,009,996 | - | 1,009,996 | 1,188,230 | - | 1,188,230 |
| 16 | Customer Deposits | - | 69,105 | 69,105 | - | 8,300 | 8,300 |
| 17 | Add: | | | | | | |
| 18 | Working Capital | 89,405 | (286) | 89,119 | 89,266 | (287) | 88,978 |
| 19 | Net Regulatory Asset / (Liability) | - | - | - | - | - | - |
| 20 | | | | | | | |
| 21 | | | | | | | |
| 22 | | | | | | | |
| 23 | Total Rate Base | $ 4,318,207 | $ (69,391) | $ 4,248,815 | $ 7,169,218 | $ (8,587) | $ 7,160,630 |
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Supporting Schedules:
RB B-2, B-3, RB B-5, E-1 (as adjusted to remove Saddlebrook)



Recap Schedules:
RB A-1

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Summary Original Cost Rate Base

| Line No. | | Overgaard [A] O. C. Rate Base - As Filed | Overgaard [B] Rebuttal Adjustments | Overgaard [C] O. C. Rate Base - Rebuttal | Sedona [D] O. C. Rate Base - As Filed | Sedona [E] Rebuttal Adjustments | Sedona [F] O. C. Rate Base - Rebuttal |
|---|---|---|---|---|---|---|---|
| 1 | | | | | | | |
| 2 | Gross Plant in Service | $ 10,905,405 | $ - | $ 10,905,405 | $ 34,324,616 | $ (723,473) | $ 33,601,143 |
| 3 | | | | | | | |
| 4 | Less: | | | | | | |
| 5 | Accumulated Depreciation | 3,542,894 | - | 3,542,894 | 6,146,141 | (310,905) | 5,835,236 |
| 6 | Net Plant in Service | $ 7,362,511 | $ - | $ 7,362,511 | $ 28,178,475 | $ (412,568) | $ 27,765,907 |
| 7 | | | | | | | |
| 8 | Less: | | | | | | |
| 9 | Advances in Aid of Construction | 1,420,695 | - | 1,420,695 | 3,651,412 | - | 3,651,412 |
| 10 | Contributions in Aid of Construction: | | | | | | |
| 11 | Gross | 2,543,592 | - | 2,543,592 | 6,396,542 | - | 6,396,542 |
| 12 | Accumulated Amortization | (613,170) | - | (613,170) | (1,279,254) | - | (1,279,254) |
| 13 | Net Contributions in Aid of Construction | $ 1,930,422 | $ - | $ 1,930,422 | $ 5,117,288 | $ - | $ 5,117,288 |
| 14 | | | | | | | |
| 15 | Deferred Income Tax | 764,684 | - | 764,684 | 1,619,443 | - | 1,619,443 |
| 16 | Customer Deposits | - | 6,935 | 6,935 | - | 18,575 | 18,575 |
| 17 | Add: | | | | | | |
| 18 | Working Capital | 91,873 | (363) | 91,511 | 228,197 | 1,805 | 230,003 |
| 19 | Net Regulatory Asset / (Liability) | - | - | - | - | - | - |
| 20 | | | | | | | |
| 21 | | | | | | | |
| 22 | | | | | | | |
| 23 | Total Rate Base | $ 3,338,584 | $ (7,298) | $ 3,331,286 | $ 18,018,529 | $ (429,338) | $ 17,589,192 |
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Supporting Schedules:
RB B-2, B-3, RB B-5, E-1 (as adjusted to remove Saddlebrook)



Recap Schedules:
RB A-1

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Summary Original Cost Rate Base

| Line No. | | Pinewood [A] O. C. Rate Base - As Filed | Pinewood [B] Rebuttal Adjustments | Pinewood [C] O. C. Rate Base - Rebuttal | Rimrock [D] O. C. Rate Base - As Filed | Rimrock [E] Rebuttal Adjustments | Rimrock [F] O. C. Rate Base - Rebuttal |
|---|---|---|---|---|---|---|---|
| 1 | | | | | | | |
| 2 | Gross Plant in Service | $ 5,454,969 | $ (13,512) | $ 5,441,457 | $ 4,942,827 | $ (62,097) | $ 4,880,730 |
| 3 | | | | | | | |
| 4 | Less: | | | | | | |
| 5 | Accumulated Depreciation | 2,349,271 | (13,512) | 2,335,758 | 1,104,418 | (62,097) | 1,042,321 |
| 6 | Net Plant in Service | $ 3,105,698 | $ - | $ 3,105,698 | $ 3,838,409 | $ - | $ 3,838,409 |
| 7 | | | | | | | |
| 8 | Less: | | | | | | |
| 9 | Advances in Aid of Construction | 249,075 | - | 249,075 | 1,080,835 | - | 1,080,835 |
| 10 | Contributions in Aid of Construction: | | | | | | |
| 11 | Gross | 783,751 | - | 783,751 | 260,411 | - | 260,411 |
| 12 | Accumulated Amortization | (296,411) | - | (296,411) | (69,153) | - | (69,153) |
| 13 | Net Contributions in Aid of Construction | $ 487,340 | $ - | $ 487,340 | $ 191,258 | $ - | $ 191,258 |
| 14 | | | | | | | |
| 15 | Deferred Income Tax | 565,368 | - | 565,368 | 283,642 | - | 283,642 |
| 16 | Customer Deposits | - | 4,330 | 4,330 | - | 7,050 | 7,050 |
| 17 | Add: | | | | | | |
| 18 | Working Capital | 78,921 | (252) | 78,668 | 55,331 | (97) | 55,234 |
| 19 | Net Regulatory Asset / (Liability) | - | - | - | - | - | - |
| 20 | | | | | | | |
| 21 | | | | | | | |
| 22 | | | | | | | |
| 23 | Total Rate Base | $ 1,882,836 | $ (4,582) | $ 1,878,254 | $ 2,338,005 | $ (7,147) | $ 2,330,858 |
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Supporting Schedules:
*RB B-2, B-3, RB B-5, E-1 (as adjusted to remove Saddlebrook)*



Recap Schedules:
RB A-1

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Summary Original Cost Rate Base

| Line No. | | Phoenix Office [A] O. C. Rate Base - As Filed | Phoenix Office [B] Rebuttal Adjustments | Phoenix Office [C] O. C. Rate Base - Rebuttal | Meter Shop [D] O. C. Rate Base - As Filed | Meter Shop [E] Rebuttal Adjustments | Meter Shop [F] O. C. Rate Base - Rebuttal |
|---|---|---|---|---|---|---|---|
| 1 | | | | | | | |
| 2 | Gross Plant in Service | $ - | $ - | $ - | $ - | $ - | $ - |
| 3 | | | | | | | |
| 4 | Less: | | | | | | |
| 5 | Accumulated Depreciation | - | - | - | - | - | - |
| 6 | Net Plant in Service | $ - | $ - | $ - | $ - | $ - | $ - |
| 7 | | | | | | | |
| 8 | Less: | | | | | | |
| 9 | Advances in Aid of Construction | - | - | - | - | - | - |
| 10 | Contributions in Aid of Construction: | | | | | | |
| 11 | Gross | - | - | - | - | - | - |
| 12 | Accumulated Amortization | - | - | - | - | - | - |
| 13 | Net Contributions in Aid of Construction | $ - | $ - | $ - | $ - | $ - | $ - |
| 14 | | | | | | | |
| 15 | Deferred Income Tax | - | - | - | - | - | - |
| 16 | Customer Deposits | - | - | - | - | - | - |
| 17 | Add: | | | | | | |
| 18 | Working Capital | - | - | - | - | - | - |
| 19 | Net Regulatory Asset / (Liability) | - | - | - | - | - | - |
| 20 | | | | | | | |
| 21 | | | | | | | |
| 22 | | | | | | | |
| 23 | Total Rate Base | $ - | $ - | $ - | $ - | $ - | $ - |
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Supporting Schedules:
RB B-2, B-3, RB B-5, E-1 (as adjusted to remove Saddlebrook)



Recap Schedules:
RB A-1

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Original Cost Rate Base Pro forma Adjustments



| Line No. | | Total Company [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR RB1 | [E] ADJ JMR RB2 | [F] ADJ JMR RB3 | [G] ADJ BLANK | [H] ADJ JMR RB5 | [I] ADJ BLANK | [J] ADJ JMR RB5 | [K] Total Rebuttal Adjustments | [L] Adjusted Test Year - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | | | | | | | | | | | | | |
| 2 | Plant Classification | | | | | | | | | | | | |
| 3 | Intangible Plant | $ 2,103,230 | $ - | $ 2,103,230 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 2,103,230 |
| 4 | Source of Supply Plant | 31,519,796 | (106,711) | 31,413,085 | (940,102) | (413,817) | - | - | - | - | - | (1,353,919) | 30,059,165 |
| 5 | Pumping Plant | 26,385,271 | 362,863 | 26,748,135 | (8,857) | - | - | - | - | - | - | (8,857) | 26,739,278 |
| 6 | Water Treatment Plant | 16,939,813 | 2,663,454 | 19,603,267 | (3,057) | - | - | - | - | - | - | (3,057) | 19,600,210 |
| 7 | Transmission & Distribution Plant | 246,561,976 | 2,386,690 | 248,948,666 | (5,600) | - | - | - | - | - | - | (5,600) | 248,943,066 |
| 8 | General Plant | 15,134,994 | 192,258 | 15,327,252 | (7,792) | - | - | - | - | - | - | (7,792) | 15,319,460 |
| 9 | Total Gross Plant in Service | $ 338,645,081 | $ 5,498,554 | $ 344,143,635 | $ (965,408) | $ (413,817) | $ - | $ - | $ - | $ - | $ - | $ (1,379,225) | $ 342,764,410 |
| 10 | | | | | | | | | | | | | |
| 11 | Less: | | | | | | | | | | | | |
| 12 | Accumulated Depreciation | 71,303,585 | 49,370 | 71,352,954 | (965,408) | (1,249) | - | - | - | - | - | (966,657) | 70,386,297 |
| 13 | Net Plant in Service | $ 267,341,496 | $ 5,449,184 | $ 272,790,681 | $ - | $ (412,568) | $ - | $ - | $ - | $ - | $ - | $ (412,568) | $ 272,378,113 |
| 14 | | | | | | | | | | | | | |
| 15 | Less: | | | | | | | | | | | | |
| 16 | Advances in Aid of Construction | 73,571,783 | (963,450) | 72,608,333 | - | - | - | - | - | - | - | - | 72,608,333 |
| 17 | Contributions in Aid of Construction: | | | | | | | | | | | | |
| 18 | Gross | 42,645,144 | (2,269) | 42,642,875 | - | - | - | - | - | - | - | - | 42,642,875 |
| 19 | Accumulated Amortization | (7,450,405) | 42 | (7,450,363) | - | - | - | - | - | - | - | - | (7,450,363) |
| 20 | Net Contributions in Aid of Construction | $ 35,194,739 | $ (2,227) | $ 35,192,512 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 35,192,512 |
| 21 | | | | | | | | | | | | | |
| 22 | Deferred Income Tax | 19,165,001 | - | 19,165,001 | - | - | - | - | - | - | - | - | 19,165,001 |
| 23 | Customer Deposits | - | - | - | - | - | - | - | 658,379 | - | - | 658,379 | 658,379 |
| 24 | Add: | | | | | | | | | | | | |
| 25 | Working Capital | 1,876,007 | 0 | 1,876,007 | - | - | - | - | - | - | (15,339) | (15,339) | 1,860,668 |
| 26 | Net Regulatory Asset / (Liability) | - | 43,803 | 43,803 | - | - | (14,289) | - | - | - | - | (14,289) | 29,514 |
| 27 | | | | | | | | | | | | | |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total Rate Base | $ 141,285,980 | $ 6,458,665 | $ 147,744,644 | $ - | $ (412,568) | $ (14,289) | $ - | $ (658,379) | $ - | $ (15,339) | $ (1,100,575) | $ 146,644,069 |
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Eastern Group

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR RB1 | [E] ADJ JMR RB2 | [F] ADJ JMR RB3 | [G] ADJ BLANK | [H] ADJ JMR RB5 | [I] ADJ BLANK | [J] ADJ JMR RB5 | [K] Total Rebuttal Adjustments | [L] Adjusted Test Year - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | | | | | | | | | | | | | |
| 2 | Plant Classification | | | | | | | | | | | | |
| 3 | Intangible Plant | $ 58,640 | $ 3,811 | $ 62,451 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 62,451 |
| 4 | Source of Supply Plant | 12,738,394 | (436,961) | 12,301,433 | (66,360) | - | - | - | - | - | - | (66,360) | 12,235,073 |
| 5 | Pumping Plant | 12,439,466 | - | 12,439,466 | (8,857) | - | - | - | - | - | - | (8,857) | 12,430,609 |
| 6 | Water Treatment Plant | 8,653,138 | 854 | 8,653,992 | (3,057) | - | - | - | - | - | - | (3,057) | 8,650,935 |
| 7 | Transmission & Distribution Plant | 94,127,128 | (743,818) | 93,383,310 | (500) | - | - | - | - | - | - | (500) | 93,382,810 |
| 8 | General Plant | 4,908,906 | 2,615,411 | 7,524,317 | (7,792) | - | - | - | - | - | - | (7,792) | 7,516,525 |
| 9 | Total Gross Plant in Service | $ 132,925,672 | $ 1,439,297 | $ 134,364,970 | $ (86,566) | $ - | $ - | $ - | $ - | $ - | $ - | $ (86,566) | $ 134,278,404 |
| 10 | | | | | | | | | | | | | |
| 11 | Less: | | | | | | | | | | | | |
| 12 | Accumulated Depreciation | 30,068,878 | 417,887 | 30,486,765 | (86,566) | - | - | - | - | - | - | (86,566) | 30,400,199 |
| 13 | Net Plant in Service | $ 102,856,795 | $ 1,021,410 | $ 103,878,205 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 103,878,205 |
| 14 | | | | | | | | | | | | | |
| 15 | Less: | | | | | | | | | | | | |
| 16 | Advances in Aid of Construction | 22,164,705 | (963,450) | 21,201,255 | - | - | - | - | - | - | - | - | 21,201,255 |
| 17 | Contributions in Aid of Construction: | | | | | | | | | | | | |
| 18 | Gross | 14,124,681 | (2,269) | 14,122,412 | - | - | - | - | - | - | - | - | 14,122,412 |
| 19 | Accumulated Amortization | (2,230,385) | 42 | (2,230,343) | - | - | - | - | - | - | - | - | (2,230,343) |
| 20 | Net Contributions in Aid of Construction | $ 11,894,296 | $ (2,227) | $ 11,892,069 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 11,892,069 |
| 21 | | | | | | | | | | | | | |
| 22 | Deferred Income Tax | 7,984,139 | - | 7,984,139 | - | - | - | - | - | - | - | - | 7,984,139 |
| 23 | Customer Deposits | - | - | - | - | - | - | - | 274,581 | - | - | 274,581 | 274,581 |
| 24 | Add: | | | | | | | | | | | | |
| 25 | Working Capital | 773,699 | 0 | 773,699 | - | - | - | - | - | - | (5,272) | (5,272) | 768,428 |
| 26 | Net Regulatory Asset / (Liability) | - | (532,000) | (532,000) | - | - | - | - | - | - | - | - | (532,000) |
| 27 | | | | | | | | | | | | | |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total Rate Base | $ 61,587,353 | $ 1,455,087 | $ 63,042,440 | $ - | $ - | $ - | $ - | $ (274,581) | $ - | $ (5,272) | $ (279,853) | $ 62,762,588 |
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Western Group

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR RB1 | [E] ADJ JMR RB2 | [F] ADJ JMR RB3 | [G] ADJ BLANK | [H] ADJ JMR RB5 | [I] ADJ BLANK | [J] ADJ JMR RB5 | [K] Total Rebuttal Adjustments | [L] Adjusted Test Year - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | | | | | | | | | | | | | |
| 2 | Plant Classification | | | | | | | | | | | | |
| 3 | Intangible Plant | $ 2,030,123 | $ 3,226 | $ 2,033,349 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 2,033,349 |
| 4 | Source of Supply Plant | 9,093,781 | (83,474) | 9,010,308 | (488,477) | - | - | - | - | - | - | (488,477) | 8,521,831 |
| 5 | Pumping Plant | 8,055,586 | 322,367 | 8,377,953 | - | - | - | - | - | - | - | - | 8,377,953 |
| 6 | Water Treatment Plant | 6,958,321 | 2,156,811 | 9,115,131 | - | - | - | - | - | - | - | - | 9,115,131 |
| 7 | Transmission & Distribution Plant | 104,082,737 | 918,107 | 105,000,845 | (5,100) | - | - | - | - | - | - | (5,100) | 104,995,745 |
| 8 | General Plant | 2,282,194 | 2,286,448 | 4,568,643 | - | - | - | - | - | - | - | - | 4,568,643 |
| 9 | Total Gross Plant in Service | $ 132,502,743 | $ 5,603,486 | $ 138,106,229 | $ (493,577) | $ - | $ - | $ - | $ - | $ - | $ - | $ (493,577) | $ 137,612,652 |
| 10 | | | | | | | | | | | | | |
| 11 | Less: | | | | | | | | | | | | |
| 12 | Accumulated Depreciation | 23,203,309 | 432,127 | 23,635,436 | (493,577) | - | - | - | - | - | - | (493,577) | 23,141,859 |
| 13 | Net Plant in Service | $ 109,299,434 | $ 5,171,359 | $ 114,470,793 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 114,470,793 |
| 14 | | | | | | | | | | | | | |
| 15 | Less: | | | | | | | | | | | | |
| 16 | Advances in Aid of Construction | 42,638,091 | - | 42,638,091 | - | - | - | - | - | - | - | - | 42,638,091 |
| 17 | Contributions in Aid of Construction: | | | | | | | | | | | | |
| 18 | Gross | 16,844,227 | - | 16,844,227 | - | - | - | - | - | - | - | - | 16,844,227 |
| 19 | Accumulated Amortization | (2,591,531) | - | (2,591,531) | - | - | - | - | - | - | - | - | (2,591,531) |
| 20 | Net Contributions in Aid of Construction | $ 14,252,696 | $ - | $ 14,252,696 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 14,252,696 |
| 21 | | | | | | | | | | | | | |
| 22 | Deferred Income Tax | 6,759,496 | - | 6,759,496 | - | - | - | - | - | - | - | - | 6,759,496 |
| 23 | Customer Deposits | - | - | - | - | - | - | - | 338,608 | - | - | 338,608 | 338,608 |
| 24 | Add: | | | | | | | | | | | | |
| 25 | Working Capital | 558,720 | - | 558,720 | - | - | - | - | - | - | (10,873) | (10,873) | 547,847 |
| 26 | Net Regulatory Asset / (Liability) | - | 575,803 | 575,803 | - | - | (14,289) | - | - | - | - | (14,289) | 561,514 |
| 27 | | | | | | | | | | | | | |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total Rate Base | $ 46,207,871 | $ 5,747,162 | $ 51,955,032 | $ - | $ - | $ (14,289) | $ - | $ (338,608) | $ - | $ (10,873) | $ (363,770) | $ 51,591,262 |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments



| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR RB1 | [E] ADJ JMR RB2 | [F] ADJ JMR RB3 | [G] ADJ BLANK | [H] ADJ JMR RB5 | [I] ADJ BLANK | [J] ADJ JMR RB5 | [K] Total Rebuttal Adjustments | [L] Adjusted Test Year - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Northern Group | | | Rebuttal Adjustments | | | | | | | | |
| 1 | | | | | | | | | | | | | |
| 2 | Plant Classification | | | | | | | | | | | | |
| 3 | Intangible Plant | $ 5,319 | $ 2,110 | $ 7,430 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 7,430 |
| 4 | Source of Supply Plant | 9,687,541 | 413,803 | 10,101,344 | (385,265) | (413,817) | - | - | - | - | - | (799,082) | 9,302,262 |
| 5 | Pumping Plant | 5,890,219 | 40,496 | 5,930,716 | - | - | - | - | - | - | - | - | 5,930,716 |
| 6 | Water Treatment Plant | 1,326,304 | 507,839 | 1,834,143 | - | - | - | - | - | - | - | - | 1,834,143 |
| 7 | Transmission & Distribution Plant | 48,346,045 | 2,218,466 | 50,564,511 | - | - | - | - | - | - | - | - | 50,564,511 |
| 8 | General Plant | 1,785,960 | 1,448,332 | 3,234,292 | - | - | - | - | - | - | - | - | 3,234,292 |
| 9 | Total Gross Plant in Service | $ 67,041,389 | $ 4,631,048 | $ 71,672,437 | $ (385,265) | $ (413,817) | $ - | $ - | $ - | $ - | $ - | $ (799,082) | $ 70,873,354 |
| 10 | | | | | | | | | | | | | |
| 11 | Less: | | | | | | | | | | | | |
| 12 | Accumulated Depreciation | 16,951,057 | 279,696 | 17,230,753 | (385,265) | (1,249) | - | - | - | - | - | (386,514) | 16,844,239 |
| 13 | Net Plant in Service | $ 50,090,332 | $ 4,351,352 | $ 54,441,683 | $ - | $ (412,568) | $ - | $ - | $ - | $ - | $ - | $ (412,568) | $ 54,029,115 |
| 14 | | | | | | | | | | | | | |
| 15 | Less: | | | | | | | | | | | | |
| 16 | Advances in Aid of Construction | 8,768,987 | - | 8,768,987 | - | - | - | - | - | - | - | - | 8,768,987 |
| 17 | Contributions in Aid of Construction: | | | | | | | | | | | | |
| 18 | Gross | 11,676,236 | - | 11,676,236 | - | - | - | - | - | - | - | - | 11,676,236 |
| 19 | Accumulated Amortization | (2,628,489) | - | (2,628,489) | - | - | - | - | - | - | - | - | (2,628,489) |
| 20 | Net Contributions in Aid of Construction | $ 9,047,747 | $ - | $ 9,047,747 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 9,047,747 |
| 21 | | | | | | | | | | | | | |
| 22 | Deferred Income Tax | 4,421,366 | - | 4,421,366 | - | - | - | - | - | - | - | - | 4,421,366 |
| 23 | Customer Deposits | - | - | - | - | - | - | - | 45,190 | - | - | 45,190 | 45,190 |
| 24 | Add: | | | | | | | | | | | | |
| 25 | Working Capital | 543,588 | - | 543,588 | - | - | - | - | - | - | 806 | 806 | 544,393 |
| 26 | Net Regulatory Asset / (Liability) | - | - | - | - | - | - | - | - | - | - | - | - |
| 27 | | | | | | | | | | | | | |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total Rate Base | $ 28,395,820 | $ 4,351,352 | $ 32,747,172 | $ - | $ (412,568) | $ - | $ - | $ (45,190) | $ - | $ 806 | $ (456,952) | $ 32,290,219 |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments



Superstition

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR-RB1 | [E] ADJ JMR RB2 | [F] ADJ JMR RB3 | [G] ADJ BLANK | [H] ADJ JMR RB5 | [I] ADJ BLANK | [J] ADJ JMR RB5 | [K] Total Rebuttal Adjustments | [L] Adjusted Test Year - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | | | | | | | | | | | | | |
| 2 | Plant Classification | | | | | | | | | | | | |
| 3 | Intangible Plant | $ 10,273 | $ 2,281 | $ 12,555 | | | | | | | | $ - | $ 12,555 |
| 4 | Source of Supply Plant | 5,528,765 | 20 | 5,528,785 | | | | | | | | - | 5,528,785 |
| 5 | Pumping Plant | 7,692,391 | - | 7,692,391 | (8,857) | | | | | | | (8,857) | 7,683,534 |
| 6 | Water Treatment Plant | 6,885,225 | 511 | 6,885,736 | (3,057) | | | | | | | (3,057) | 6,882,679 |
| 7 | Transmission & Distribution Plant | 68,913,944 | 1,513 | 68,915,456 | (500) | | | | | | | (500) | 68,914,956 |
| 8 | General Plant | 2,989,778 | 1,565,731 | 4,555,508 | (7,088) | | | | | | | (7,088) | 4,548,420 |
| 9 | Total Gross Plant in Service | $ 92,020,375 | $ 1,570,056 | $ 93,590,431 | $ (19,502) | $ - | $ - | $ - | $ - | $ - | $ - | $ (19,502) | $ 93,570,929 |
| 10 | | | | | | | | | | | | | |
| 11 | Less: | | | | | | | | | | | | |
| 12 | Accumulated Depreciation | 17,454,502 | 270,436 | 17,724,938 | (19,502) | | | | | | | (19,502) | 17,705,436 |
| 13 | Net Plant in Service | $ 74,565,873 | $ 1,299,621 | $ 75,865,493 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 75,865,493 |
| 14 | | | | | | | | | | | | | |
| 15 | Less: | | | | | | | | | | | | |
| 16 | Advances in Aid of Construction | 18,952,520 | - | 18,952,520 | | | | | | | | - | 18,952,520 |
| 17 | Contributions in Aid of Construction: | | | | | | | | | | | | |
| 18 | Gross | 10,888,555 | - | 10,888,555 | | | | | | | | - | 10,888,555 |
| 19 | Accumulated Amortization | (1,733,417) | - | (1,733,417) | | | | | | | | - | (1,733,417) |
| 20 | Net Contributions in Aid of Construction | $ 9,155,138 | $ - | $ 9,155,138 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 9,155,138 |
| 21 | | | | | | | | | | | | | |
| 22 | Deferred Income Tax | 4,779,751 | - | 4,779,751 | | | | | | | | - | 4,779,751 |
| 23 | Customer Deposits | - | - | - | | | | | 196,185 | | | 196,185 | 196,185 |
| 24 | Add: | | | | | | | | | | | | |
| 25 | Working Capital | 446,461 | - | 446,461 | | | | | | | (4,568) | (4,568) | 441,892 |
| 26 | Net Regulatory Asset / (Liability) | - | - | - | | | | | | | | - | - |
| 27 | | | | | | | | | | | | | |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total Rate Base | $ 42,124,925 | $ 1,299,621 | $ 43,424,545 | $ - | $ - | $ - | $ - | $ (196,185) | $ - | $ (4,568) | $ (200,753) | $ 43,223,792 |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments

Bisbee

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR-RB1 | [E] ADJ JMR RB2 | [F] ADJ JMR RB3 | [G] ADJ BLANK | [H] ADJ JMR RB5 | [I] ADJ BLANK | [J] ADJ JMR RB5 | [K] Total Rebuttal Adjustments | [L] Adjusted Test Year - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | | | | | | | | | | | | | |
| 2 | Plant Classification | | | | | | | | | | | | |
| 3 | Intangible Plant | $ 42,876 | $ 456 | $ 43,332 | | | | | | | | $ - | $ 43,332 |
| 4 | Source of Supply Plant | 849,842 | 4 | 849,846 | | | | | | | | - | 849,846 |
| 5 | Pumping Plant | 889,639 | - | 889,639 | | | | | | | | - | 889,639 |
| 6 | Water Treatment Plant | 46,401 | 102 | 46,503 | | | | | | | | - | 46,503 |
| 7 | Transmission & Distribution Plant | 7,664,441 | 302 | 7,664,743 | | | | | | | | - | 7,664,743 |
| 8 | General Plant | 507,950 | 312,644 | 820,594 | (704) | | | | | | | (704) | 819,890 |
| 9 | Total Gross Plant in Service | $ 10,001,150 | $ 313,508 | $ 10,314,658 | $ (704) | $ - | $ - | $ - | $ - | $ - | $ - | $ (704) | $ 10,313,954 |
| 10 | | | | | | | | | | | | | |
| 11 | Less: | | | | | | | | | | | | |
| 12 | Accumulated Depreciation | 4,164,431 | 54,000 | 4,218,432 | (704) | | | | | | | (704) | 4,217,728 |
| 13 | Net Plant in Service | $ 5,836,719 | $ 259,507 | $ 6,096,226 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 6,096,226 |
| 14 | | | | | | | | | | | | | |
| 15 | Less: | | | | | | | | | | | | |
| 16 | Advances in Aid of Construction | 258,981 | - | 258,981 | | | | | | | | - | 258,981 |
| 17 | Contributions in Aid of Construction: | | | | | | | | | | | | |
| 18 | Gross | 452,659 | - | 452,659 | | | | | | | | - | 452,659 |
| 19 | Accumulated Amortization | (106,681) | - | (106,681) | | | | | | | | - | (106,681) |
| 20 | Net Contributions in Aid of Construction | $ 345,978 | $ - | $ 345,978 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 345,978 |
| 21 | | | | | | | | | | | | | |
| 22 | Deferred Income Tax | 954,417 | - | 954,417 | | | | | | | | - | 954,417 |
| 23 | Customer Deposits | - | - | - | | | | | 17,600 | | | 17,600 | 17,600 |
| 24 | Add: | | | | | | | | | | | | |
| 25 | Working Capital | 124,134 | - | 124,134 | | | | | | | (390) | (390) | 123,744 |
| 26 | Net Regulatory Asset / (Liability) | - | - | - | | | | | | | | - | - |
| 27 | | | | | | | | | | | | | |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total Rate Base | $ 4,401,477 | $ 259,507 | $ 4,660,984 | $ - | $ - | $ - | $ - | $ (17,600) | $ - | $ (390) | $ (17,990) | $ 4,642,994 |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments

Sierra Vista

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR-RB1 | [E] ADJ JMR RB2 | [F] ADJ JMR RB3 | [G] ADJ BLANK | [H] ADJ JMR RB5 | [I] ADJ BLANK | [J] ADJ JMR RB5 | [K] Total Rebuttal Adjustments | [L] Adjusted Test Year - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | | | | | | | | | | | | | |
| 2 | Plant Classification | | | | | | | | | | | | |
| 3 | Intangible Plant | $ 520 | $ 236 | $ 756 | | | | | | | | $ - | $ 756 |
| 4 | Source of Supply Plant | 688,415 | 2 | 688,417 | | | | | | | | - | 688,417 |
| 5 | Pumping Plant | 719,189 | - | 719,189 | | | | | | | | - | 719,189 |
| 6 | Water Treatment Plant | 92,869 | 53 | 92,922 | | | | | | | | - | 92,922 |
| 7 | Transmission & Distribution Plant | 5,348,050 | 156 | 5,348,207 | | | | | | | | - | 5,348,207 |
| 8 | General Plant | 384,882 | 161,972 | 546,855 | | | | | | | | - | 546,855 |
| 9 | Total Gross Plant in Service | $ 7,233,925 | $ 162,420 | $ 7,396,345 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 7,396,345 |
| 10 | | | | | | | | | | | | | |
| 11 | Less: | | | | | | | | | | | | |
| 12 | Accumulated Depreciation | 2,085,630 | 27,976 | 2,113,607 | | | | | | | | - | 2,113,607 |
| 13 | Net Plant in Service | $ 5,148,295 | $ 134,444 | $ 5,282,738 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 5,282,738 |
| 14 | | | | | | | | | | | | | |
| 15 | Less: | | | | | | | | | | | | |
| 16 | Advances in Aid of Construction | 1,453,186 | - | 1,453,186 | | | | | | | | - | 1,453,186 |
| 17 | Contributions in Aid of Construction: | | | | | | | | | | | | |
| 18 | Gross | 1,089,317 | - | 1,089,317 | | | | | | | | - | 1,089,317 |
| 19 | Accumulated Amortization | (226,089) | - | (226,089) | | | | | | | | - | (226,089) |
| 20 | Net Contributions in Aid of Construction | $ 863,228 | $ - | $ 863,228 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 863,228 |
| 21 | | | | | | | | | | | | | |
| 22 | Deferred Income Tax | 494,457 | - | 494,457 | | | | | | | | - | 494,457 |
| 23 | Customer Deposits | - | - | - | | | | | 15,925 | | | 15,925 | 15,925 |
| 24 | Add: | | | | | | | | | | | | |
| 25 | Working Capital | 48,849 | - | 48,849 | | | | | | | (165) | (165) | 48,685 |
| 26 | Net Regulatory Asset / (Liability) | - | - | - | | | | | | | | - | - |
| 27 | | | | | | | | | | | | | |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total Rate Base | $ 2,386,272 | $ 134,444 | $ 2,520,716 | $ - | $ - | $ - | $ - | $ (15,925) | $ - | $ (165) | $ (16,090) | $ 2,504,626 |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments

San Manuel

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR-RB1 | [E] ADJ JMR RB2 | [F] ADJ JMR RB3 | [G] ADJ BLANK | [H] ADJ JMR RB5 | [I] ADJ BLANK | [J] ADJ JMR RB5 | [K] Total Rebuttal Adjustments | [L] Adjusted Test Year - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | | | | | | | | | | | | | |
| 2 | Plant Classification | | | | | | | | | | | | |
| 3 | Intangible Plant | $ 334 | $ 154 | $ 488 | | | | | | | | $ - | $ 488 |
| 4 | Source of Supply Plant | 175,501 | 1 | 175,502 | | | | | | | | - | 175,502 |
| 5 | Pumping Plant | 376,086 | - | 376,086 | | | | | | | | - | 376,086 |
| 6 | Water Treatment Plant | 1,398,590 | 34 | 1,398,624 | | | | | | | | - | 1,398,624 |
| 7 | Transmission & Distribution Plant | 1,712,855 | 102 | 1,712,957 | | | | | | | | - | 1,712,957 |
| 8 | General Plant | 353,348 | 105,470 | 458,818 | | | | | | | | - | 458,818 |
| 9 | Total Gross Plant in Service | $ 4,016,715 | $ 105,762 | $ 4,122,476 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 4,122,476 |
| 10 | | | | | | | | | | | | | |
| 11 | Less: | | | | | | | | | | | | |
| 12 | Accumulated Depreciation | 978,823 | 18,217 | 997,040 | | | | | | | | - | 997,040 |
| 13 | Net Plant in Service | $ 3,037,892 | $ 87,545 | $ 3,125,436 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 3,125,436 |
| 14 | | | | | | | | | | | | | |
| 15 | Less: | | | | | | | | | | | | |
| 16 | Advances in Aid of Construction | 73,164 | - | 73,164 | | | | | | | | - | 73,164 |
| 17 | Contributions in Aid of Construction: | | | | | | | | | | | | |
| 18 | Gross | 742,146 | - | 742,146 | | | | | | | | - | 742,146 |
| 19 | Accumulated Amortization | (7,505) | - | (7,505) | | | | | | | | - | (7,505) |
| 20 | Net Contributions in Aid of Construction | $ 734,641 | $ - | $ 734,641 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 734,641 |
| 21 | | | | | | | | | | | | | |
| 22 | Deferred Income Tax | 321,972 | - | 321,972 | | | | | | | | - | 321,972 |
| 23 | Customer Deposits | - | - | - | | | | | 5,425 | | | 5,425 | 5,425 |
| 24 | Add: | | | | | | | | | | | | |
| 25 | Working Capital | 39,551 | - | 39,551 | | | | | | | (18) | (18) | 39,532 |
| 26 | Net Regulatory Asset / (Liability) | - | - | - | | | | | | | | - | - |
| 27 | | | | | | | | | | | | | |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total Rate Base | $ 1,947,665 | $ 87,545 | $ 2,035,209 | $ - | $ - | $ - | $ - | $ (5,425) | $ - | $ (18) | $ (5,443) | $ 2,029,766 |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR-RB1 | [E] ADJ JMR RB2 | [F] ADJ JMR RB3 | [G] ADJ BLANK | [H] ADJ JMR RB5 | [I] ADJ BLANK | [J] ADJ JMR RB5 | [K] Total Rebuttal Adjustments | [L] Adjusted Test Year - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Oracle | | | | | | | | |
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | | | | | | | | | | | | | |
| 2 | Plant Classification | | | | | | | | | | | | |
| 3 | Intangible Plant | $ 418 | $ 209 | $ 627 | | | | | | | | $ - | $ 627 |
| 4 | Source of Supply Plant | 1,000,108 | (428,999) | 571,108 | | | | | | | | - | 571,108 |
| 5 | Pumping Plant | 951,836 | - | 951,836 | | | | | | | | - | 951,836 |
| 6 | Water Treatment Plant | 104,075 | 47 | 104,121 | | | | | | | | - | 104,121 |
| 7 | Transmission & Distribution Plant | 4,895,154 | (700,569) | 4,194,584 | | | | | | | | - | 4,194,584 |
| 8 | General Plant | 119,514 | 143,138 | 262,652 | | | | | | | | - | 262,652 |
| 9 | Total Gross Plant in Service | $ 7,071,105 | $ (986,175) | $ 6,084,930 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 6,084,930 |
| 10 | | | | | | | | | | | | | |
| 11 | Less: | | | | | | | | | | | | |
| 12 | Accumulated Depreciation | 2,315,764 | (7,971) | 2,307,793 | | | | | | | | - | 2,307,793 |
| 13 | Net Plant in Service | $ 4,755,341 | $ (978,204) | $ 3,777,137 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 3,777,137 |
| 14 | | | | | | | | | | | | | |
| 15 | Less: | | | | | | | | | | | | |
| 16 | Advances in Aid of Construction | 1,393,034 | (960,285) | 432,749 | | | | | | | | - | 432,749 |
| 17 | Contributions in Aid of Construction: | | | | | | | | | | | | |
| 18 | Gross | 623,732 | - | 623,732 | | | | | | | | - | 623,732 |
| 19 | Accumulated Amortization | (93,964) | - | (93,964) | | | | | | | | - | (93,964) |
| 20 | Net Contributions in Aid of Construction | $ 529,768 | $ - | $ 529,768 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 529,768 |
| 21 | | | | | | | | | | | | | |
| 22 | Deferred Income Tax | 436,962 | - | 436,962 | | | | | | | | - | 436,962 |
| 23 | Customer Deposits | - | - | - | | | | | 7,460 | | | 7,460 | 7,460 |
| 24 | Add: | | | | | | | | | | | | |
| 25 | Working Capital | 34,574 | - | 34,574 | | | | | | | (213) | (213) | 34,361 |
| 26 | Net Regulatory Asset / (Liability) | - | - | - | | | | | | | | - | - |
| 27 | | | | | | | | | | | | | |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total Rate Base | $ 2,430,150 | $ (17,919) | $ 2,412,232 | $ - | $ - | $ - | $ - | $ (7,460) | $ - | $ (213) | $ (7,673) | $ 2,404,558 |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | Saddlebrook Rebuttal Adjustments [D] ADJ JMR-RB1 | [E] ADJ JMR RB2 | [F] ADJ JMR RB3 | [G] ADJ BLANK | [H] ADJ JMR RB5 | [I] ADJ BLANK | [J] ADJ JMR RB5 | [K] Total Rebuttal Adjustments | [L] Adjusted Test Year - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | |
| 2 | Plant Classification | | | | | | | | | | | | |
| 3 | Intangible Plant | $ - | $ - | $ - | | | | | | | | $ - | $ - |
| 4 | Source of Supply Plant | 7,993 | (7,993) | (0) | | | | | | | | - | (0) |
| 5 | Pumping Plant | - | - | - | | | | | | | | - | - |
| 6 | Water Treatment Plant | - | - | - | | | | | | | | - | - |
| 7 | Transmission & Distribution Plant | 45,637 | (45,637) | - | | | | | | | | - | - |
| 8 | General Plant | - | - | - | | | | | | | | - | - |
| 9 | Total Gross Plant in Service | $ 53,630 | $ (53,630) | $ (0) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ (0) |
| 10 | | | | | | | | | | | | | |
| 11 | Less: | | | | | | | | | | | | |
| 12 | Accumulated Depreciation | 1,157 | (1,157) | 0 | | | | | | | | - | 0 |
| 13 | Net Plant in Service | $ 52,473 | $ (52,473) | $ (0) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ (0) |
| 14 | | | | | | | | | | | | | |
| 15 | Less: | | | | | | | | | | | | |
| 16 | Advances in Aid of Construction | 3,165 | (3,165) | - | | | | | | | | - | - |
| 17 | Contributions in Aid of Construction: | | | | | | | | | | | | |
| 18 | Gross | 2,269 | (2,269) | - | | | | | | | | - | - |
| 19 | Accumulated Amortization | (42) | 42 | - | | | | | | | | - | - |
| 20 | Net Contributions in Aid of Construction | $ 2,227 | $ (2,227) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 21 | | | | | | | | | | | | | |
| 22 | Deferred Income Tax | - | - | - | | | | | | | | - | - |
| 23 | Customer Deposits | - | - | - | | | | | - | | | - | - |
| 24 | Add: | | | | | | | | | | | | |
| 25 | Working Capital | (0) | 0 | - | | | | | | | 0 | 0 | 0 |
| 26 | Net Regulatory Asset / (Liability) | - | - | - | | | | | | | | - | - |
| 27 | | | | | | | | | | | | | |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total Rate Base | $ 47,081 | $ (47,081) | $ (0) | $ - | $ - | $ - | $ - | $ - | $ - | $ 0 | $ 0 | $ (0) |
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Winkelman

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR-RB1 | [E] ADJ JMR RB2 | [F] ADJ JMR RB3 | [G] ADJ BLANK | [H] ADJ JMR RB5 | [I] ADJ BLANK | [J] ADJ JMR RB5 | [K] Total Rebuttal Adjustments | [L] Adjusted Test Year - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | | | | | | | | | | | | | |
| 2 | Plant Classification | | | | | | | | | | | | |
| 3 | Intangible Plant | $ 2,117 | $ 20 | $ 2,137 | | | | | | | | $ - | $ 2,137 |
| 4 | Source of Supply Plant | 51,263 | 0 | 51,263 | (66,360) | | | | | | | (66,360) | (15,097) |
| 5 | Pumping Plant | 163,932 | - | 163,932 | | | | | | | | - | 163,932 |
| 6 | Water Treatment Plant | 39,944 | 5 | 39,948 | | | | | | | | - | 39,948 |
| 7 | Transmission & Distribution Plant | 265,868 | 13 | 265,881 | | | | | | | | - | 265,881 |
| 8 | General Plant | 17,196 | 13,812 | 31,008 | | | | | | | | - | 31,008 |
| 9 | Total Gross Plant in Service | $ 540,319 | $ 13,850 | $ 554,169 | $ (66,360) | $ - | $ - | $ - | $ - | $ - | $ - | $ (66,360) | $ 487,809 |
| 10 | | | | | | | | | | | | | |
| 11 | Less: | | | | | | | | | | | | |
| 12 | Accumulated Depreciation | 164,766 | 2,386 | 167,152 | (66,360) | | | | | | | (66,360) | 100,792 |
| 13 | Net Plant in Service | $ 375,553 | $ 11,464 | $ 387,018 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 387,018 |
| 14 | | | | | | | | | | | | | |
| 15 | Less: | | | | | | | | | | | | |
| 16 | Advances in Aid of Construction | 18,649 | - | 18,649 | | | | | | | | - | 18,649 |
| 17 | Contributions in Aid of Construction: | | | | | | | | | | | | |
| 18 | Gross | 1,835 | - | 1,835 | | | | | | | | - | 1,835 |
| 19 | Accumulated Amortization | (506) | - | (506) | | | | | | | | - | (506) |
| 20 | Net Contributions in Aid of Construction | $ 1,329 | $ - | $ 1,329 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,329 |
| 21 | | | | | | | | | | | | | |
| 22 | Deferred Income Tax | 42,163 | - | 42,163 | | | | | | | | - | 42,163 |
| 23 | Customer Deposits | - | - | - | | | | | 650 | | | 650 | 650 |
| 24 | Add: | | | | | | | | | | | | |
| 25 | Working Capital | 266 | - | 266 | | | | | | | 62 | 62 | 328 |
| 26 | Net Regulatory Asset / (Liability) | - | - | - | | | | | | | | - | - |
| 27 | | | | | | | | | | | | | |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total Rate Base | $ 313,678 | $ 11,464 | $ 325,142 | $ - | $ - | $ - | $ - | $ (650) | $ - | $ 62 | $ (588) | $ 324,555 |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments

Miami

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR-RB1 | [E] ADJ JMR RB2 | [F] ADJ JMR RB3 | [G] ADJ BLANK | [H] ADJ JMR RB5 | [I] ADJ BLANK | [J] ADJ JMR RB5 | [K] Total Rebuttal Adjustments | [L] Adjusted Test Year - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | | | | | | | | | | | | | |
| 2 | Plant Classification | | | | | | | | | | | | |
| 3 | Intangible Plant | $ 2,102 | $ 456 | $ 2,557 | | | | | | | | $ - | $ 2,557 |
| 4 | Source of Supply Plant | 4,436,508 | 4 | 4,436,512 | | | | | | | | - | 4,436,512 |
| 5 | Pumping Plant | 1,646,392 | - | 1,646,392 | | | | | | | | - | 1,646,392 |
| 6 | Water Treatment Plant | 86,035 | 102 | 86,137 | | | | | | | | - | 86,137 |
| 7 | Transmission & Distribution Plant | 5,281,179 | 302 | 5,281,481 | | | | | | | | - | 5,281,481 |
| 8 | General Plant | 536,238 | 312,644 | 848,882 | | | | | | | | - | 848,882 |
| 9 | Total Gross Plant in Service | $ 11,988,453 | $ 313,508 | $ 12,301,961 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 12,301,961 |
| 10 | | | | | | | | | | | | | |
| 11 | Less: | | | | | | | | | | | | |
| 12 | Accumulated Depreciation | 2,903,803 | 54,000 | 2,957,804 | | | | | | | | - | 2,957,804 |
| 13 | Net Plant in Service | $ 9,084,649 | $ 259,507 | $ 9,344,157 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 9,344,157 |
| 14 | | | | | | | | | | | | | |
| 15 | Less: | | | | | | | | | | | | |
| 16 | Advances in Aid of Construction | 12,005 | - | 12,005 | | | | | | | | - | 12,005 |
| 17 | Contributions in Aid of Construction: | | | | | | | | | | | | |
| 18 | Gross | 324,169 | - | 324,169 | | | | | | | | - | 324,169 |
| 19 | Accumulated Amortization | (62,181) | - | (62,181) | | | | | | | | - | (62,181) |
| 20 | Net Contributions in Aid of Construction | $ 261,988 | $ - | $ 261,988 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 261,988 |
| 21 | | | | | | | | | | | | | |
| 22 | Deferred Income Tax | 954,417 | - | 954,417 | | | | | | | | - | 954,417 |
| 23 | Customer Deposits | - | - | - | | | | | 31,336 | | | 31,336 | 31,336 |
| 24 | Add: | | | | | | | | | | | | |
| 25 | Working Capital | 79,865 | - | 79,865 | | | | | | | 21 | 21 | 79,886 |
| 26 | Net Regulatory Asset / (Liability) | - | (532,000) | (532,000) | | | | | | | | - | (532,000) |
| 27 | | | | | | | | | | | | | |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total Rate Base | $ 7,936,104 | $ (272,493) | $ 7,663,611 | $ - | $ - | $ - | $ - | $ (31,336) | $ - | $ 21 | $ (31,315) | $ 7,632,296 |
| 31 | | | | | | | | | | | | | |
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Casa Grande

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR-RB1 | [E] ADJ JMR RB2 | [F] ADJ JMR RB3 | [G] ADJ BLANK | [H] ADJ JMR RB5 | [I] ADJ BLANK | [J] ADJ JMR RB5 | [K] Total Rebuttal Adjustments | [L] Adjusted Test Year - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | | | | | | | | | | | | | |
| 2 | Plant Classification | | | | | | | | | | | | |
| 3 | Intangible Plant | $ 1,973,405 | $ 2,429 | $ 1,975,834 | | | | | | | | $ - | $ 1,975,834 |
| 4 | Source of Supply Plant | 6,201,858 | (88,152) | 6,113,706 | (488,477) | | | | | | | (488,477) | 5,625,229 |
| 5 | Pumping Plant | 5,555,416 | 22,085 | 5,577,501 | | | | | | | | - | 5,577,501 |
| 6 | Water Treatment Plant | 6,633,953 | 478,843 | 7,112,796 | | | | | | | | - | 7,112,796 |
| 7 | Transmission & Distribution Plant | 80,427,268 | 68,735 | 80,496,004 | | | | | | | | - | 80,496,004 |
| 8 | General Plant | 1,579,913 | 1,665,343 | 3,245,256 | | | | | | | | - | 3,245,256 |
| 9 | Total Gross Plant in Service | $ 102,371,813 | $ 2,149,283 | $ 104,521,096 | $ (488,477) | $ - | $ - | $ - | $ - | $ - | $ - | $ (488,477) | $ 104,032,619 |
| 10 | | | | | | | | | | | | | |
| 11 | Less: | | | | | | | | | | | | |
| 12 | Accumulated Depreciation | 17,344,334 | 294,713 | 17,639,046 | (488,477) | | | | | | | (488,477) | 17,150,569 |
| 13 | Net Plant in Service | $ 85,027,479 | $ 1,854,571 | $ 86,882,050 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 86,882,050 |
| 14 | | | | | | | | | | | | | |
| 15 | Less: | | | | | | | | | | | | |
| 16 | Advances in Aid of Construction | 29,671,663 | - | 29,671,663 | | | | | | | | - | 29,671,663 |
| 17 | Contributions in Aid of Construction: | | | | | | | | | | | | |
| 18 | Gross | 14,050,085 | - | 14,050,085 | | | | | | | | - | 14,050,085 |
| 19 | Accumulated Amortization | (2,242,757) | - | (2,242,757) | | | | | | | | - | (2,242,757) |
| 20 | Net Contributions in Aid of Construction | $ 11,807,328 | $ - | $ 11,807,328 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 11,807,328 |
| 21 | | | | | | | | | | | | | |
| 22 | Deferred Income Tax | 5,088,308 | - | 5,088,308 | | | | | | | | - | 5,088,308 |
| 23 | Customer Deposits | - | - | - | | | | | 252,738 | | | 252,738 | 252,738 |
| 24 | Add: | | | | | | | | | | | | |
| 25 | Working Capital | 383,959 | - | 383,959 | | | | | | | 1,125 | 1,125 | 385,084 |
| 26 | Net Regulatory Asset / (Liability) | - | 575,803 | 575,803 | | | (14,289) | | | | | (14,289) | 561,514 |
| 27 | | | | | | | | | | | | | |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total Rate Base | $ 38,844,139 | $ 2,430,374 | $ 41,274,513 | $ - | $ - | $ (14,289) | $ - | $ (252,738) | $ - | $ 1,125 | $ (265,902) | $ 41,008,611 |
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Stanfield

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR-RB1 | [E] ADJ JMR RB2 | [F] ADJ JMR RB3 | [G] ADJ BLANK | [H] ADJ JMR RB5 | [I] ADJ BLANK | [J] ADJ JMR RB5 | [K] Total Rebuttal Adjustments | [L] Adjusted Test Year - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | | | | | | | | | | | | | |
| 2 | Plant Classification | | | | | | | | | | | | |
| 3 | Intangible Plant | $ 1,198 | $ 25 | $ 1,223 | | | | | | | | $ - | $ 1,223 |
| 4 | Source of Supply Plant | 172,909 | 0 | 172,909 | | | | | | | | - | 172,909 |
| 5 | Pumping Plant | 309,898 | 118,488 | 428,386 | | | | | | | | - | 428,386 |
| 6 | Water Treatment Plant | 17,860 | 14,924 | 32,783 | | | | | | | | - | 32,783 |
| 7 | Transmission & Distribution Plant | 266,082 | 172,706 | 438,788 | (5,100) | | | | | | | (5,100) | 433,688 |
| 8 | General Plant | 81,735 | 24,921 | 106,656 | | | | | | | | - | 106,656 |
| 9 | Total Gross Plant in Service | $ 849,682 | $ 331,063 | $ 1,180,745 | $ (5,100) | $ - | $ - | $ - | $ - | $ - | $ - | $ (5,100) | $ 1,175,645 |
| 10 | | | | | | | | | | | | | |
| 11 | Less: | | | | | | | | | | | | |
| 12 | Accumulated Depreciation | 251,964 | 8,437 | 260,400 | (5,100) | | | | | | | (5,100) | 255,300 |
| 13 | Net Plant in Service | $ 597,718 | $ 322,627 | $ 920,345 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 920,345 |
| 14 | | | | | | | | | | | | | |
| 15 | Less: | | | | | | | | | | | | |
| 16 | Advances in Aid of Construction | 15,715 | - | 15,715 | | | | | | | | - | 15,715 |
| 17 | Contributions in Aid of Construction: | | | | | | | | | | | | |
| 18 | Gross | 49,164 | - | 49,164 | | | | | | | | - | 49,164 |
| 19 | Accumulated Amortization | (12,246) | - | (12,246) | | | | | | | | - | (12,246) |
| 20 | Net Contributions in Aid of Construction | $ 36,918 | $ - | $ 36,918 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 36,918 |
| 21 | | | | | | | | | | | | | |
| 22 | Deferred Income Tax | 51,746 | - | 51,746 | | | | | | | | - | 51,746 |
| 23 | Customer Deposits | - | - | - | | | | | 2,635 | | | 2,635 | 2,635 |
| 24 | Add: | | | | | | | | | | | | |
| 25 | Working Capital | 7,625 | - | 7,625 | | | | | | | 40 | 40 | 7,665 |
| 26 | Net Regulatory Asset / (Liability) | - | - | - | | | | | | | | - | - |
| 27 | | | | | | | | | | | | | |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total Rate Base | $ 500,964 | $ 322,627 | $ 823,590 | $ - | $ - | $ - | $ - | $ (2,635) | $ - | $ 40 | $ (2,595) | $ 820,996 |
| 31 | | | | | | | | | | | | | |
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White Tank

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR-RB1 | [E] ADJ JMR RB2 | [F] ADJ JMR RB3 | [G] ADJ BLANK | [H] ADJ JMR RB5 | [I] ADJ BLANK | [J] ADJ JMR RB5 | [K] Total Rebuttal Adjustments | [L] Adjusted Test Year - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | | | | | | | | | | | | | |
| 2 | Plant Classification | | | | | | | | | | | | |
| 3 | Intangible Plant | $ 10,363 | $ 217 | $ 10,580 | | | | | | | | $ - | $ 10,580 |
| 4 | Source of Supply Plant | 610,565 | 4,673 | 615,238 | | | | | | | | - | 615,238 |
| 5 | Pumping Plant | 702,903 | 178,980 | 881,883 | | | | | | | | - | 881,883 |
| 6 | Water Treatment Plant | 19,520 | 1,100,309 | 1,119,829 | | | | | | | | - | 1,119,829 |
| 7 | Transmission & Distribution Plant | 9,598,791 | 640,801 | 10,239,592 | | | | | | | | - | 10,239,592 |
| 8 | General Plant | 119,452 | 150,462 | 269,915 | | | | | | | | - | 269,915 |
| 9 | Total Gross Plant in Service | $ 11,061,594 | $ 2,075,441 | $ 13,137,036 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 13,137,036 |
| 10 | | | | | | | | | | | | | |
| 11 | Less: | | | | | | | | | | | | |
| 12 | Accumulated Depreciation | 1,663,562 | 52,485 | 1,716,047 | | | | | | | | - | 1,716,047 |
| 13 | Net Plant in Service | $ 9,398,033 | $ 2,022,956 | $ 11,420,989 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 11,420,989 |
| 14 | | | | | | | | | | | | | |
| 15 | Less: | | | | | | | | | | | | |
| 16 | Advances in Aid of Construction | 5,647,808 | - | 5,647,808 | | | | | | | | - | 5,647,808 |
| 17 | Contributions in Aid of Construction: | | | | | | | | | | | | |
| 18 | Gross | 1,134,727 | - | 1,134,727 | | | | | | | | - | 1,134,727 |
| 19 | Accumulated Amortization | (175,250) | - | (175,250) | | | | | | | | - | (175,250) |
| 20 | Net Contributions in Aid of Construction | $ 959,477 | $ - | $ 959,477 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 959,477 |
| 21 | | | | | | | | | | | | | |
| 22 | Deferred Income Tax | 454,211 | - | 454,211 | | | | | | | | - | 454,211 |
| 23 | Customer Deposits | - | - | - | | | | | 9,530 | | | 9,530 | 9,530 |
| 24 | Add: | | | | | | | | | | | | |
| 25 | Working Capital | 55,523 | - | 55,523 | | | | | | | (11,756) | (11,756) | 43,767 |
| 26 | Net Regulatory Asset / (Liability) | - | - | - | | | | | | | | - | - |
| 27 | | | | | | | | | | | | | |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total Rate Base | $ 2,392,060 | $ 2,022,956 | $ 4,415,016 | $ - | $ - | $ - | $ - | $ (9,530) | $ - | $ (11,756) | $ (21,286) | $ 4,393,730 |
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| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR-RB1 | [E] ADJ JMR RB2 | [F] ADJ JMR RB3 | [G] ADJ BLANK | [H] ADJ JMR RB5 | [I] ADJ BLANK | [J] ADJ JMR RB5 | [K] Total Rebuttal Adjustments | [L] Adjusted Test Year - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | | | | | | | | | | | | | |
| 2 | Plant Classification | | | | | | | | | | | | |
| 3 | Intangible Plant | $ 3,628 | $ 74 | $ 3,702 | | | | | | | | $ - | $ 3,702 |
| 4 | Source of Supply Plant | 9,477 | 1 | 9,477 | | | | | | | | - | 9,477 |
| 5 | Pumping Plant | 89,231 | - | 89,231 | | | | | | | | - | 89,231 |
| 6 | Water Treatment Plant | 4,290 | 17 | 4,306 | | | | | | | | - | 4,306 |
| 7 | Transmission & Distribution Plant | 1,916,329 | 49 | 1,916,378 | | | | | | | | - | 1,916,378 |
| 8 | General Plant | 133,267 | 50,852 | 184,119 | | | | | | | | - | 184,119 |
| 9 | Total Gross Plant in Service | $ 2,156,220 | $ 50,992 | $ 2,207,212 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 2,207,212 |
| 10 | | | | | | | | | | | | | |
| 11 | Less: | | | | | | | | | | | | |
| 12 | Accumulated Depreciation | 804,042 | 8,783 | 812,825 | | | | | | | | - | 812,825 |
| 13 | Net Plant in Service | $ 1,352,178 | $ 42,209 | $ 1,394,387 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,394,387 |
| 14 | | | | | | | | | | | | | |
| 15 | Less: | | | | | | | | | | | | |
| 16 | Advances in Aid of Construction | 87,953 | - | 87,953 | | | | | | | | - | 87,953 |
| 17 | Contributions in Aid of Construction: | | | | | | | | | | | | |
| 18 | Gross | 65,554 | - | 65,554 | | | | | | | | - | 65,554 |
| 19 | Accumulated Amortization | (15,854) | - | (15,854) | | | | | | | | - | (15,854) |
| 20 | Net Contributions in Aid of Construction | $ 49,700 | $ - | $ 49,700 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 49,700 |
| 21 | | | | | | | | | | | | | |
| 22 | Deferred Income Tax | 155,237 | - | 155,237 | | | | | | | | - | 155,237 |
| 23 | Customer Deposits | - | - | - | | | | | 4,600 | | | 4,600 | 4,600 |
| 24 | Add: | | | | | | | | | | | | |
| 25 | Working Capital | 22,208 | - | 22,208 | | | | | | | 4 | 4 | 22,212 |
| 26 | Net Regulatory Asset / (Liability) | - | - | - | | | | | | | | - | - |
| 27 | | | | | | | | | | | | | |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total Rate Base | $ 1,081,497 | $ 42,209 | $ 1,123,706 | $ - | $ - | $ - | $ - | $ (4,600) | $ - | $ 4 | $ (4,596) | $ 1,119,110 |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments

Coolidge

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR-RB1 | [E] ADJ JMR RB2 | [F] ADJ JMR RB3 | [G] ADJ BLANK | [H] ADJ JMR RB5 | [I] ADJ BLANK | [J] ADJ JMR RB5 | [K] Total Rebuttal Adjustments | [L] Adjusted Test Year - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | | | | | | | | | | | | | |
| 2 | Plant Classification | | | | | | | | | | | | |
| 3 | Intangible Plant | $ 41,529 | $ 482 | $ 42,011 | | | | | | | | $ - | $ 42,011 |
| 4 | Source of Supply Plant | 2,098,973 | 4 | 2,098,977 | | | | | | | | - | 2,098,977 |
| 5 | Pumping Plant | 1,398,139 | 2,814 | 1,400,953 | | | | | | | | - | 1,400,953 |
| 6 | Water Treatment Plant | 282,698 | 562,719 | 845,417 | | | | | | | | - | 845,417 |
| 7 | Transmission & Distribution Plant | 11,874,267 | 35,816 | 11,910,083 | | | | | | | | - | 11,910,083 |
| 8 | General Plant | 367,827 | 394,871 | 762,698 | | | | | | | | - | 762,698 |
| 9 | Total Gross Plant in Service | $ 16,063,434 | $ 996,706 | $ 17,060,140 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 17,060,140 |
| 10 | | | | | | | | | | | | | |
| 11 | Less: | | | | | | | | | | | | |
| 12 | Accumulated Depreciation | 3,139,408 | 67,710 | 3,207,118 | | | | | | | | - | 3,207,118 |
| 13 | Net Plant in Service | $ 12,924,026 | $ 928,996 | $ 13,853,022 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 13,853,022 |
| 14 | | | | | | | | | | | | | |
| 15 | Less: | | | | | | | | | | | | |
| 16 | Advances in Aid of Construction | 7,214,952 | - | 7,214,952 | | | | | | | | - | 7,214,952 |
| 17 | Contributions in Aid of Construction: | | | | | | | | | | | | |
| 18 | Gross | 1,544,697 | - | 1,544,697 | | | | | | | | - | 1,544,697 |
| 19 | Accumulated Amortization | (145,424) | - | (145,424) | | | | | | | | - | (145,424) |
| 20 | Net Contributions in Aid of Construction | $ 1,399,273 | $ - | $ 1,399,273 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,399,273 |
| 21 | | | | | | | | | | | | | |
| 22 | Deferred Income Tax | 1,009,996 | - | 1,009,996 | | | | | | | | - | 1,009,996 |
| 23 | Customer Deposits | - | - | - | | | | | 69,105 | | | 69,105 | 69,105 |
| 24 | Add: | | | | | | | | | | | | |
| 25 | Working Capital | 89,405 | - | 89,405 | | | | | | | (286) | (286) | 89,119 |
| 26 | Net Regulatory Asset / (Liability) | - | - | - | | | | | | | | - | - |
| 27 | | | | | | | | | | | | | |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total Rate Base | $ 3,389,211 | $ 928,996 | $ 4,318,207 | $ - | $ - | $ - | $ - | $ (69,105) | $ - | $ (286) | $ (69,391) | $ 4,248,815 |
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Lakeside

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR-RB1 | [E] ADJ JMR RB2 | [F] ADJ JMR RB3 | [G] ADJ BLANK | [H] ADJ JMR RB5 | [I] ADJ BLANK | [J] ADJ JMR RB5 | [K] Total Rebuttal Adjustments | [L] Adjusted Test Year - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | | | | | | | | | | | | | |
| 2 | Plant Classification | | | | | | | | | | | | |
| 3 | Intangible Plant | $ 1,200 | $ 567 | $ 1,767 | | | | | | | | $ - | $ 1,767 |
| 4 | Source of Supply Plant | 1,730,752 | 5 | 1,730,757 | | | | | | | | - | 1,730,757 |
| 5 | Pumping Plant | 2,184,518 | - | 2,184,518 | | | | | | | | - | 2,184,518 |
| 6 | Water Treatment Plant | 72,217 | 127 | 72,344 | | | | | | | | - | 72,344 |
| 7 | Transmission & Distribution Plant | 11,151,494 | 376 | 11,151,870 | | | | | | | | - | 11,151,870 |
| 8 | General Plant | 514,127 | 389,235 | 903,362 | | | | | | | | - | 903,362 |
| 9 | Total Gross Plant in Service | $ 15,654,309 | $ 390,311 | $ 16,044,619 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 16,044,619 |
| 10 | | | | | | | | | | | | | |
| 11 | Less: | | | | | | | | | | | | |
| 12 | Accumulated Depreciation | 4,020,801 | 67,229 | 4,088,030 | | | | | | | | - | 4,088,030 |
| 13 | Net Plant in Service | $ 11,633,508 | $ 323,081 | $ 11,956,589 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 11,956,589 |
| 14 | | | | | | | | | | | | | |
| 15 | Less: | | | | | | | | | | | | |
| 16 | Advances in Aid of Construction | 2,366,968 | - | 2,366,968 | | | | | | | | - | 2,366,968 |
| 17 | Contributions in Aid of Construction: | | | | | | | | | | | | |
| 18 | Gross | 1,691,940 | - | 1,691,940 | | | | | | | | - | 1,691,940 |
| 19 | Accumulated Amortization | (370,501) | - | (370,501) | | | | | | | | - | (370,501) |
| 20 | Net Contributions in Aid of Construction | $ 1,321,439 | $ - | $ 1,321,439 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,321,439 |
| 21 | | | | | | | | | | | | | |
| 22 | Deferred Income Tax | 1,188,230 | - | 1,188,230 | | | | | | | | - | 1,188,230 |
| 23 | Customer Deposits | - | - | - | | | | | 8,300 | | | 8,300 | 8,300 |
| 24 | Add: | | | | | | | | | | | | |
| 25 | Working Capital | 89,266 | - | 89,266 | | | | | | | (287) | (287) | 88,978 |
| 26 | Net Regulatory Asset / (Liability) | - | - | - | | | | | | | | - | - |
| 27 | | | | | | | | | | | | | |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total Rate Base | $ 6,846,136 | $ 323,081 | $ 7,169,218 | $ - | $ - | $ - | $ - | $ (8,300) | $ - | $ (287) | $ (8,587) | $ 7,160,630 |
| 31 | | | | | | | | | | | | | |
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| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR-RB1 | [E] ADJ JMR RB2 | [F] ADJ JMR RB3 | [G] ADJ BLANK | [H] ADJ JMR RB5 | [I] ADJ BLANK | [J] ADJ JMR RB5 | [K] Total Rebuttal Adjustments | [L] Adjusted Test Year - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Overgaard Rebuttal Adjustments | | | | | | | | |
| 1 | | | | | | | | | | | | | |
| 2 | Plant Classification | | | | | | | | | | | | |
| 3 | Intangible Plant | $ 746 | $ 365 | $ 1,111 | | | | | | | | $ - | $ 1,111 |
| 4 | Source of Supply Plant | 709,148 | 3 | 709,152 | | | | | | | | - | 709,152 |
| 5 | Pumping Plant | 588,420 | - | 588,420 | | | | | | | | - | 588,420 |
| 6 | Water Treatment Plant | 58,910 | 82 | 58,991 | | | | | | | | - | 58,991 |
| 7 | Transmission & Distribution Plant | 8,818,703 | 242 | 8,818,945 | | | | | | | | - | 8,818,945 |
| 8 | General Plant | 478,295 | 250,492 | 728,787 | | | | | | | | - | 728,787 |
| 9 | Total Gross Plant in Service | $ 10,654,222 | $ 251,184 | $ 10,905,405 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 10,905,405 |
| 10 | | | | | | | | | | | | | |
| 11 | Less: | | | | | | | | | | | | |
| 12 | Accumulated Depreciation | 3,499,629 | 43,265 | 3,542,894 | | | | | | | | - | 3,542,894 |
| 13 | Net Plant in Service | $ 7,154,593 | $ 207,918 | $ 7,362,511 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 7,362,511 |
| 14 | | | | | | | | | | | | | |
| 15 | Less: | | | | | | | | | | | | |
| 16 | Advances in Aid of Construction | 1,420,695 | - | 1,420,695 | | | | | | | | - | 1,420,695 |
| 17 | Contributions in Aid of Construction: | | | | | | | | | | | | |
| 18 | Gross | 2,543,592 | - | 2,543,592 | | | | | | | | - | 2,543,592 |
| 19 | Accumulated Amortization | (613,170) | - | (613,170) | | | | | | | | - | (613,170) |
| 20 | Net Contributions in Aid of Construction | $ 1,930,422 | $ - | $ 1,930,422 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,930,422 |
| 21 | | | | | | | | | | | | | |
| 22 | Deferred Income Tax | 764,684 | - | 764,684 | | | | | | | | - | 764,684 |
| 23 | Customer Deposits | - | - | - | | | | | 6,935 | | | 6,935 | 6,935 |
| 24 | Add: | | | | | | | | | | | | |
| 25 | Working Capital | 91,873 | - | 91,873 | | | | | | | (363) | (363) | 91,511 |
| 26 | Net Regulatory Asset / (Liability) | - | - | - | | | | | | | | - | - |
| 27 | | | | | | | | | | | | | |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total Rate Base | $ 3,130,665 | $ 207,918 | $ 3,338,584 | $ - | $ - | $ - | $ - | $ (6,935) | $ - | $ (363) | $ (7,298) | $ 3,331,286 |
| 31 | | | | | | | | | | | | | |
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Sedona

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR-RB1 | [E] ADJ JMR RB2 | [F] ADJ JMR RB3 | [G] ADJ BLANK | [H] ADJ JMR RB5 | [I] ADJ BLANK | [J] ADJ JMR RB5 | [K] Total Rebuttal Adjustments | [L] Adjusted Test Year - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | | | | | | | | | | | | | |
| 2 | Plant Classification | | | | | | | | | | | | |
| 3 | Intangible Plant | $ 2,514 | $ 773 | $ 3,287 | | | | | | | | $ - | $ 3,287 |
| 4 | Source of Supply Plant | 5,503,598 | 413,792 | 5,917,390 | (309,656) | (413,817) | | | | | | (723,473) | 5,193,917 |
| 5 | Pumping Plant | 2,266,397 | 32 | 2,266,429 | | | | | | | | - | 2,266,429 |
| 6 | Water Treatment Plant | 789,585 | 507,539 | 1,297,124 | | | | | | | | - | 1,297,124 |
| 7 | Transmission & Distribution Plant | 21,456,695 | 2,217,491 | 23,674,185 | | | | | | | | - | 23,674,185 |
| 8 | General Plant | 635,710 | 530,490 | 1,166,200 | | | | | | | | - | 1,166,200 |
| 9 | Total Gross Plant in Service | $ 30,654,499 | $ 3,670,117 | $ 34,324,616 | $ (309,656) | $ (413,817) | $ - | $ - | $ - | $ - | $ - | $ (723,473) | $ 33,601,143 |
| 10 | | | | | | | | | | | | | |
| 11 | Less: | | | | | | | | | | | | |
| 12 | Accumulated Depreciation | 6,026,166 | 119,974 | 6,146,141 | (309,656) | (1,249) | | | | | | (310,905) | 5,835,236 |
| 13 | Net Plant in Service | $ 24,628,332 | $ 3,550,143 | $ 28,178,475 | $ - | $ (412,568) | $ - | $ - | $ - | $ - | $ - | $ (412,568) | $ 27,765,907 |
| 14 | | | | | | | | | | | | | |
| 15 | Less: | | | | | | | | | | | | |
| 16 | Advances in Aid of Construction | 3,651,412 | - | 3,651,412 | | | | | | | | - | 3,651,412 |
| 17 | Contributions in Aid of Construction: | | | | | | | | | | | | |
| 18 | Gross | 6,396,542 | - | 6,396,542 | | | | | | | | - | 6,396,542 |
| 19 | Accumulated Amortization | (1,279,254) | - | (1,279,254) | | | | | | | | - | (1,279,254) |
| 20 | Net Contributions in Aid of Construction | $ 5,117,288 | $ - | $ 5,117,288 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 5,117,288 |
| 21 | | | | | | | | | | | | | |
| 22 | Deferred Income Tax | 1,619,443 | - | 1,619,443 | | | | | | | | - | 1,619,443 |
| 23 | Customer Deposits | - | - | - | | | | | 18,575 | | | 18,575 | 18,575 |
| 24 | Add: | | | | | | | | | | | | |
| 25 | Working Capital | 228,197 | - | 228,197 | | | | | | | 1,805 | 1,805 | 230,003 |
| 26 | Net Regulatory Asset / (Liability) | - | - | - | | | | | | | | - | - |
| 27 | | | | | | | | | | | | | |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total Rate Base | $ 14,468,387 | $ 3,550,143 | $ 18,018,529 | $ - | $ (412,568) | $ - | $ - | $ (18,575) | $ - | $ 1,805 | $ (429,338) | $ 17,589,192 |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments

Pinewood

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR-RB1 | [E] ADJ JMR RB2 | [F] ADJ JMR RB3 | [G] ADJ BLANK | [H] ADJ JMR RB5 | [I] ADJ BLANK | [J] ADJ JMR RB5 | [K] Total Rebuttal Adjustments | [L] Adjusted Test Year - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | | | | | | | | | | | | | |
| 2 | Plant Classification | | | | | | | | | | | | |
| 3 | Intangible Plant | $ 593 | $ 270 | $ 863 | | | | | | | | $ - | $ 863 |
| 4 | Source of Supply Plant | 1,146,586 | 2 | 1,146,589 | (13,512) | | | | | | | (13,512) | 1,133,076 |
| 5 | Pumping Plant | 431,139 | 40,464 | 471,603 | | | | | | | | - | 471,603 |
| 6 | Water Treatment Plant | 32,855 | 60 | 32,915 | | | | | | | | - | 32,915 |
| 7 | Transmission & Distribution Plant | 3,563,283 | 268 | 3,563,550 | | | | | | | | - | 3,563,550 |
| 8 | General Plant | 54,248 | 185,201 | 239,448 | | | | | | | | - | 239,448 |
| 9 | Total Gross Plant in Service | $ 5,228,703 | $ 226,265 | $ 5,454,969 | $ (13,512) | $ - | $ - | $ - | $ - | $ - | $ - | $ (13,512) | $ 5,441,457 |
| 10 | | | | | | | | | | | | | |
| 11 | Less: | | | | | | | | | | | | |
| 12 | Accumulated Depreciation | 2,316,092 | 33,179 | 2,349,271 | (13,512) | | | | | | | (13,512) | 2,335,758 |
| 13 | Net Plant in Service | $ 2,912,612 | $ 193,087 | $ 3,105,698 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 3,105,698 |
| 14 | | | | | | | | | | | | | |
| 15 | Less: | | | | | | | | | | | | |
| 16 | Advances in Aid of Construction | 249,075 | - | 249,075 | | | | | | | | - | 249,075 |
| 17 | Contributions in Aid of Construction: | | | | | | | | | | | | |
| 18 | Gross | 783,751 | - | 783,751 | | | | | | | | - | 783,751 |
| 19 | Accumulated Amortization | (296,411) | - | (296,411) | | | | | | | | - | (296,411) |
| 20 | Net Contributions in Aid of Construction | $ 487,340 | $ - | $ 487,340 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 487,340 |
| 21 | | | | | | | | | | | | | |
| 22 | Deferred Income Tax | 565,368 | - | 565,368 | | | | | | | | - | 565,368 |
| 23 | Customer Deposits | - | - | - | | | | | 4,330 | | | 4,330 | 4,330 |
| 24 | Add: | | | | | | | | | | | | |
| 25 | Working Capital | 78,921 | - | 78,921 | | | | | | | (252) | (252) | 78,668 |
| 26 | Net Regulatory Asset / (Liability) | - | - | - | | | | | | | | - | - |
| 27 | | | | | | | | | | | | | |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total Rate Base | $ 1,689,750 | $ 193,087 | $ 1,882,836 | $ - | $ - | $ - | $ - | $ (4,330) | $ - | $ (252) | $ (4,582) | $ 1,878,254 |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments

Rimrock

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR-RB1 | [E] ADJ JMR RB2 | [F] ADJ JMR RB3 | [G] ADJ BLANK | [H] ADJ JMR RB5 | [I] ADJ BLANK | [J] ADJ JMR RB5 | [K] Total Rebuttal Adjustments | [L] Adjusted Test Year - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | | | | | | | | | | | | | |
| 2 | Plant Classification | | | | | | | | | | | | |
| 3 | Intangible Plant | $ 266 | $ 135 | $ 401 | | | | | | | | $ - | $ 401 |
| 4 | Source of Supply Plant | 597,456 | 1 | 597,457 | (62,097) | | | | | | | (62,097) | 535,360 |
| 5 | Pumping Plant | 419,745 | - | 419,745 | | | | | | | | - | 419,745 |
| 6 | Water Treatment Plant | 372,738 | 30 | 372,768 | | | | | | | | - | 372,768 |
| 7 | Transmission & Distribution Plant | 3,355,871 | 90 | 3,355,961 | | | | | | | | - | 3,355,961 |
| 8 | General Plant | 103,581 | 92,914 | 196,495 | | | | | | | | - | 196,495 |
| 9 | Total Gross Plant in Service | $ 4,849,656 | $ 93,171 | $ 4,942,827 | $ (62,097) | $ - | $ - | $ - | $ - | $ - | $ - | $ (62,097) | $ 4,880,730 |
| 10 | | | | | | | | | | | | | |
| 11 | Less: | | | | | | | | | | | | |
| 12 | Accumulated Depreciation | 1,088,370 | 16,048 | 1,104,418 | (62,097) | | | | | | | (62,097) | 1,042,321 |
| 13 | Net Plant in Service | $ 3,761,287 | $ 77,123 | $ 3,838,409 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 3,838,409 |
| 14 | | | | | | | | | | | | | |
| 15 | Less: | | | | | | | | | | | | |
| 16 | Advances in Aid of Construction | 1,080,835 | - | 1,080,835 | | | | | | | | - | 1,080,835 |
| 17 | Contributions in Aid of Construction: | | | | | | | | | | | | |
| 18 | Gross | 260,411 | - | 260,411 | | | | | | | | - | 260,411 |
| 19 | Accumulated Amortization | (69,153) | - | (69,153) | | | | | | | | - | (69,153) |
| 20 | Net Contributions in Aid of Construction | $ 191,258 | $ - | $ 191,258 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 191,258 |
| 21 | | | | | | | | | | | | | |
| 22 | Deferred Income Tax | 283,642 | - | 283,642 | | | | | | | | - | 283,642 |
| 23 | Customer Deposits | - | - | - | | | | | 7,050 | | | 7,050 | 7,050 |
| 24 | Add: | | | | | | | | | | | | |
| 25 | Working Capital | 55,331 | - | 55,331 | | | | | | | (97) | (97) | 55,234 |
| 26 | Net Regulatory Asset / (Liability) | - | - | - | | | | | | | | - | - |
| 27 | | | | | | | | | | | | | |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total Rate Base | $ 2,260,882 | $ 77,123 | $ 2,338,005 | $ - | $ - | $ - | $ - | $ (7,050) | $ - | $ (97) | $ (7,147) | $ 2,330,858 |
| 31 | | | | | | | | | | | | | |
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Phoenix Office

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR-RB1 | [E] ADJ JMR RB2 | [F] ADJ JMR RB3 | [G] ADJ BLANK | [H] ADJ JMR RB5 | [I] ADJ BLANK | [J] ADJ JMR RB5 | [K] Total Rebuttal Adjustments | [L] Adjusted Test Year - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | | | | | | | | | | | | | |
| 2 | Plant Classification | | | | | | | | | | | | |
| 3 | Intangible Plant | $ 9,148 | $ (9,148) | $ - | | | | | | | | $ - | $ - |
| 4 | Source of Supply Plant | - | - | - | | | | | | | | - | - |
| 5 | Pumping Plant | - | - | - | | | | | | | | - | - |
| 6 | Water Treatment Plant | - | - | - | | | | | | | | - | - |
| 7 | Transmission & Distribution Plant | - | - | - | | | | | | | | - | - |
| 8 | General Plant | 6,020,298 | (6,020,298) | - | | | | | | | | - | - |
| 9 | Total Gross Plant in Service | $ 6,029,446 | $ (6,029,446) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 10 | | | | | | | | | | | | | |
| 11 | Less: | | | | | | | | | | | | |
| 12 | Accumulated Depreciation | 1,036,382 | (1,036,382) | - | | | | | | | | - | - |
| 13 | Net Plant in Service | $ 4,993,064 | $ (4,993,064) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 14 | | | | | | | | | | | | | |
| 15 | Less: | | | | | | | | | | | | |
| 16 | Advances in Aid of Construction | - | - | - | | | | | | | | - | - |
| 17 | Contributions in Aid of Construction: | | | | | | | | | | | | |
| 18 | Gross | - | - | - | | | | | | | | - | - |
| 19 | Accumulated Amortization | - | - | - | | | | | | | | - | - |
| 20 | Net Contributions in Aid of Construction | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 21 | | | | | | | | | | | | | |
| 22 | Deferred Income Tax | - | - | - | | | | | | | | - | - |
| 23 | Customer Deposits | - | - | - | | | | | | | | - | - |
| 24 | Add: | | | | | | | | | | | | |
| 25 | Working Capital | - | - | - | | | | | | | | - | - |
| 26 | Net Regulatory Asset / (Liability) | - | - | - | | | | | | | | - | - |
| 27 | | | | | | | | | | | | | |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total Rate Base | $ 4,993,064 | $ (4,993,064) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 31 | | | | | | | | | | | | | |
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Meter Shop

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR-RB1 | [E] ADJ JMR RB2 | [F] ADJ JMR RB3 | [G] ADJ BLANK | [H] ADJ JMR RB5 | [I] ADJ BLANK | [J] ADJ JMR RB5 | [K] Total Rebuttal Adjustments | [L] Adjusted Test Year - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | | | | | | | | | | | | | |
| 2 | Plant Classification | | | | | | | | | | | | |
| 3 | Intangible Plant | $ - | $ - | $ - | | | | | | | | $ - | $ - |
| 4 | Source of Supply Plant | 80 | (80) | - | | | | | | | | - | - |
| 5 | Pumping Plant | - | - | - | | | | | | | | - | - |
| 6 | Water Treatment Plant | 2,050 | (2,050) | - | | | | | | | | - | - |
| 7 | Transmission & Distribution Plant | 6,066 | (6,066) | - | | | | | | | | - | - |
| 8 | General Plant | 137,636 | (137,636) | - | | | | | | | | - | - |
| 9 | Total Gross Plant in Service | $ 145,831 | $ (145,831) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 10 | | | | | | | | | | | | | |
| 11 | Less: | | | | | | | | | | | | |
| 12 | Accumulated Depreciation | 43,959 | (43,959) | - | | | | | | | | - | - |
| 13 | Net Plant in Service | $ 101,872 | $ (101,872) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 14 | | | | | | | | | | | | | |
| 15 | Less: | | | | | | | | | | | | |
| 16 | Advances in Aid of Construction | - | - | - | | | | | | | | - | - |
| 17 | Contributions in Aid of Construction: | | | | | | | | | | | | |
| 18 | Gross | - | - | - | | | | | | | | - | - |
| 19 | Accumulated Amortization | - | - | - | | | | | | | | - | - |
| 20 | Net Contributions in Aid of Construction | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 21 | | | | | | | | | | | | | |
| 22 | Deferred Income Tax | - | - | - | | | | | | | | - | - |
| 23 | Customer Deposits | - | - | - | | | | | | | | - | - |
| 24 | Add: | | | | | | | | | | | | |
| 25 | Working Capital | - | - | - | | | | | | | | - | - |
| 26 | Net Regulatory Asset / (Liability) | - | - | - | | | | | | | | - | - |
| 27 | | | | | | | | | | | | | |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total Rate Base | $ 101,872 | $ (101,872) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 31 | | | | | | | | | | | | | |
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| Line No. | System | Location & Description | Plant Classification | NARUC Acct. | Original Cost | Credit UPIS | Debit Accum. Deprec. |
|---|---|---|---|---|---|---|---|
| 1 | | | | | | | |
| 2 | Superstition | Queen Creek Pump Station - 10' x 10' Block Building | Pumping Plant | 321 | $ 1,173 | $ 1,173 | $ 1,173 |
| 3 | Superstition | Queen Creek Pump Station - Automatic Controls | Pumping Plant | 325 | 7,684 | 7,684 | 7,684 |
| 4 | | | Subtotal Pumping Plant | | $ 8,857 | $ 8,857 | $ 8,857 |
| 5 | | | | | | | |
| 6 | Superstition | Queen Creek Pump Station - Filter System | Water Treatment Plant | 332 | 3,057 | 3,057 | 3,057 |
| 7 | | | Subtotal Water Treatment Plant | | $ 3,057 | $ 3,057 | $ 3,057 |
| 8 | | | | | | | |
| 9 | Superstition | Desert Station Wells #1-3 - 20' T x 10' D Storage Tank | Transmission & Distribution | 342 | 500 | 500 | 500 |
| 10 | | | Subtotal Transmission & Distribution | | $ 500 | $ 500 | $ 500 |
| 11 | | | | | | | |
| 12 | Superstition | Office/Warehouse - Mobile Radio Base Station | General Plant | 397 | 7,088 | 7,088 | 7,088 |
| 13 | | | Subtotal General Plant | | $ 7,088 | $ 7,088 | $ 7,088 |
| 14 | | | | | | | |
| 15 | | | Total Superstition | | $ 19,502 | $ 19,502 | $ 19,502 |
| 16 | | | | | | | |
| 17 | | | | | | | |
| 18 | Bisbee | Black Gap Repeater Station - 5' x 8' Metal Building | General Plant | 397 | 704 | 704 | 704 |
| 19 | | | Subtotal General Plant | | $ 704 | $ 704 | $ 704 |
| 20 | | | | | | | |
| 21 | | | Total Bisbee | | $ 704 | $ 704 | $ 704 |
| 22 | | | | | | | |
| 23 | | | | | | | |
| 24 | Winkelman | Well #2 - 55-616694 | Source of Supply | 314 | 66,360 | 66,360 | 66,360 |
| 25 | | | Subtotal Source of Supply | | $ 66,360 | $ 66,360 | $ 66,360 |
| 26 | | | | | | | |
| 27 | | | Total Winkelman | | $ 66,360 | $ 66,360 | $ 66,360 |
| 28 | | | | | | | |
| 29 | | | Total Eastern Group | | $ 86,566 | $ 86,566 | $ 86,566 |
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| Line No. | System | Location & Description | Plant Classification | NARUC Acct. | Original Cost | Credit UPIS | Debit Accum. Deprec. |
|---|---|---|---|---|---|---|---|
| 1 | | | | | | | |
| 2 | Casa Grande | Inactive - 55-616602 | Source of Supply | 314 | 373,272 | 373,272 | 373,272 |
| 3 | Casa Grande | Inactive - 55-616583 | Source of Supply | 314 | 115,205 | 115,205 | 115,205 |
| 4 | | | Subtotal Source of Supply | | $ 488,477 | $ 488,477 | $ 488,477 |
| 5 | | | | | | | |
| 6 | | | Total Casa Grande | | $ 488,477 | $ 488,477 | $ 488,477 |
| 7 | | | | | | | |
| 8 | | | | | | | |
| 9 | Stanfield | Table Top Well #3 - 16,000 Gallon Storage Tank | Transmission & Distribution | 342 | 5,100 | 5,100 | 5,100 |
| 10 | | | Subtotal Transmission & Distribution | | $ 5,100 | $ 5,100 | $ 5,100 |
| 11 | | | | | | | |
| 12 | | | Total Stanfield | | $ 5,100 | $ 5,100 | $ 5,100 |
| 13 | | | | | | | |
| 14 | | | Total Western Group | | $ 493,577 | $ 493,577 | $ 493,577 |
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| Line No. | System | Location & Description | Plant Classification | NARUC Acct. | Original Cost | Credit UPIS | Debit Accum. Deprec. |
|---|---|---|---|---|---|---|---|
| 1 | | | | | | | |
| 2 | Sedona | Inactive - 55-616660 | Source of Supply | 314 | $ 45,969 | $ 45,969 | $ 45,969 |
| 3 | Sedona | VV Well #1 - 55-616672 | Source of Supply | 314 | 184,328 | 184,328 | 184,328 |
| 4 | Sedona | Sunup Well Site - Automatic Controls | Source of Supply | 314 | 555 | 555 | 555 |
| 5 | Sedona | Sunup Well Site - 55-632272 | Source of Supply | 314 | 78,804 | 78,804 | 78,804 |
| 6 | | | Subtotal Source of Supply | | $ 309,656 | $ 309,656 | $ 309,656 |
| 7 | | | | | | | |
| 8 | | | Total Sedona | | $ 309,656 | $ 309,656 | $ 309,656 |
| 9 | | | | | | | |
| 10 | | | | | | | |
| 11 | Pinewood | Inactive - 55-616650 | Source of Supply | 314 | 13,512 | 13,512 | 13,512 |
| 12 | | | Subtotal Source of Supply | | $ 13,512 | $ 13,512 | $ 13,512 |
| 13 | | | | | | | |
| 14 | | | Total Pinewood | | $ 13,512 | $ 13,512 | $ 13,512 |
| 15 | | | | | | | |
| 16 | | | | | | | |
| 17 | Rimrock | MH1 - 55-803289 | Source of Supply | 314 | 62,097 | 62,097 | 62,097 |
| 18 | | | Subtotal Source of Supply | | $ 62,097 | $ 62,097 | $ 62,097 |
| 19 | | | | | | | |
| 20 | | | Total Rimrock | | $ 62,097 | $ 62,097 | $ 62,097 |
| 21 | | | | | | | |
| 22 | | | Total Northern Group | | $ 385,265 | $ 385,265 | $ 385,265 |
| 23 | | | | | | | |
| 24 | | | | | | | |
| 25 | | | Total Company | | $ 965,408 | $ 965,408 | $ 965,408 |
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| Line No. | System | Location & Description | Plant Classification | NARUC Acct. | Original Cost | Accum. Deprec. | Net Rate Base Reduction |
|---|---|---|---|---|---|---|---|
| 1 | | | | | | | |
| 2 | Sedona | Carroll Canyon Well | Source of Supply | 314 | $ 413,817 | $ 1,249.0 | $ 412,568 |
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| 1 | No calculation required. |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Rate Base Adjustment JMR-RB5
Adjust Working Capital to Reflect Rebuttal Position

| Line No. | | [A] As Filed Working Cash Sch. RB B-5 | [B] Rebuttal Adjustments Sch. RB B-5 | [C] Rebuttal Working Cash Sch. RB B-5 |
|---|---|---|---|---|
| 1 | Eastern Group | | | |
| 2 | Supersition | $ 172,162 | $ (4,568) | $ 167,593 |
| 3 | Apache Junction | | | |
| 4 | Superior | | | |
| 5 | Bisbee | 14,949 | (390) | 14,558 |
| 6 | Sierra Vista | 1,319 | (165) | 1,155 |
| 7 | San Manuel | 21,763 | (18) | 21,745 |
| 8 | Oracle | 10,481 | (213) | 10,267 |
| 9 | Saddlebrook | (0) | 0 | 0 |
| 10 | Winkelman | (2,061) | 62 | (1,998) |
| 11 | Miami | 19,303 | 21 | 19,324 |
| 12 | Subtotal | $ 237,916 | $ (5,272) | $ 232,644 |
| 13 | | | | |
| 14 | Western Group | | | |
| 15 | Casa Grande | 52,304 | 1,125 | 53,429 |
| 16 | Stanfield | 4,293 | 40 | 4,333 |
| 17 | White Tank | 26,652 | (11,756) | 14,896 |
| 18 | Ajo | 12,078 | 4 | 12,081 |
| 19 | Coolidge | 8,965 | (286) | 8,678 |
| 20 | Subtotal | $ 104,291 | $ (10,873) | $ 93,418 |
| 21 | | | | |
| 22 | Northern Group | | | |
| 23 | Lakeside | 23,629 | (287) | 23,342 |
| 24 | Overgaard | 48,580 | (363) | 48,217 |
| 25 | Sedona | 87,691 | 1,805 | 89,496 |
| 26 | Pinewood | 24,661 | (252) | 24,408 |
| 27 | Rimrock | 29,652 | (97) | 29,555 |
| 28 | Subtotal | $ 214,212 | $ 806 | $ 215,018 |
| 29 | | | | |
| 30 | Total Company | $ 556,419 | $ (15,339) | $ 541,080 |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Computation of Working Capital

| Line No. | | Total Company [A] As Filed Working Capital | Total Company [B] Rebuttal Adjustments | Total Company [C] Rebuttal Working Capital | Eastern Group [D] As Filed Working Capital | Eastern Group [E] Rebuttal Adjustments | Eastern Group [F] Rebuttal Working Capital | Western Group [G] As Filed Working Capital | Western Group [H] Rebuttal Adjustments | Western Group [I] Rebuttal Working Capital |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | |
| 2 | Working Cash Requirement | | | | | | | | | |
| 3 | (Sch. B-5 Appendix) | $ 556,419 | $ (15,339) | $ 541,080 | $ 237,916 | $ (5,272) | $ 232,644 | $ 104,291 | $ (10,873) | $ 93,418 |
| 4 | | | | | | | | | | |
| 5 | Material and Supplies Inventories[1] | 268,104 | - | 268,104 | 97,736 | - | 97,736 | 83,570 | - | 83,570 |
| 6 | | | | | | | | | | |
| 7 | Required Bank Balances[1] | 514,412 | - | 514,412 | 214,304 | - | 214,304 | 181,433 | - | 181,433 |
| 8 | | | | | | | | | | |
| 9 | Prepayments & Special Deposits[1] | 537,072 | - | 537,072 | 223,744 | - | 223,744 | 189,425 | - | 189,425 |
| 10 | | | | | | | | | | |
| 11 | Total Working Capital Allowance | $ 1,876,007 | $ (15,339) | $ 1,860,668 | $ 773,699 | $ (5,272) | $ 768,428 | $ 558,720 | $ (10,873) | $ 547,847 |
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| 55 | [1]13-month average balances | | | | | | | | | |

Supporting Schedules:
E-1 (as adjusted to reflect 13-month average balances), RB B-5 Appendix

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Computation of Working Capital

| Line No. | | Northern Group [A] As Filed Working Capital | Northern Group [B] Rebuttal Adjustments | Northern Group [C] Rebuttal Working Capital | Superstition [D] As Filed Working Capital | Superstition [E] Rebuttal Adjustments | Superstition [F] Rebuttal Working Capital | Bisbee [G] As Filed Working Capital | Bisbee [H] Rebuttal Adjustments | Bisbee [I] Rebuttal Working Capital |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | |
| 2 | Working Cash Requirement | | | | | | | | | |
| 3 | (Sch. B-5 Appendix) | $ 214,212 | $ 806 | $ 215,018 | $ 172,162 | $ (4,568) | $ 167,593 | $ 14,949 | $ (390) | $ 14,558 |
| 4 | | | | | | | | | | |
| 5 | Material and Supplies Inventories[1] | 86,799 | - | 86,799 | 12,059 | - | 12,059 | 56,821 | - | 56,821 |
| 6 | | | | | | | | | | |
| 7 | Required Bank Balances[1] | 118,675 | - | 118,675 | 128,294 | - | 128,294 | 25,618 | - | 25,618 |
| 8 | | | | | | | | | | |
| 9 | Prepayments & Special Deposits[1] | 123,902 | - | 123,902 | 133,946 | - | 133,946 | 26,746 | - | 26,746 |
| 10 | | | | | | | | | | |
| 11 | Total Working Capital Allowance | $ 543,588 | $ 806 | $ 544,393 | $ 446,461 | $ (4,568) | $ 441,892 | $ 124,134 | $ (390) | $ 123,744 |
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| 55 | [1]13-month average balances | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Computation of Working Capital

| Line No. | | Sierra Vista [A] As Filed Working Capital | Sierra Vista [B] Rebuttal Adjustments | Sierra Vista [C] Rebuttal Working Capital | San Manuel [D] As Filed Working Capital | San Manuel [E] Rebuttal Adjustments | San Manuel [F] Rebuttal Working Capital | Oracle [G] As Filed Working Capital | Oracle [H] Rebuttal Adjustments | Oracle [I] Rebuttal Working Capital |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | |
| 2 | Working Cash Requirement | | | | | | | | | |
| 3 | (Sch. B-5 Appendix) | $ 1,319 | $ (165) | $ 1,155 | $ 21,763 | $ (18) | $ 21,745 | $ 10,481 | $ (213) | $ 10,267 |
| 4 | | | | | | | | | | |
| 5 | Material and Supplies Inventories[1] | 20,402 | - | 20,402 | 123 | - | 123 | 119 | - | 119 |
| 6 | | | | | | | | | | |
| 7 | Required Bank Balances[1] | 13,272 | - | 13,272 | 8,642 | - | 8,642 | 11,729 | - | 11,729 |
| 8 | | | | | | | | | | |
| 9 | Prepayments & Special Deposits[1] | 13,856 | - | 13,856 | 9,023 | - | 9,023 | 12,245 | - | 12,245 |
| 10 | | | | | | | | | | |
| 11 | Total Working Capital Allowance | $ 48,849 | $ (165) | $ 48,685 | $ 39,551 | $ (18) | $ 39,532 | $ 34,574 | $ (213) | $ 34,361 |
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| 55 | [1]13-month average balances | | | | | | | | | |

Supporting Schedules:
E-1 (as adjusted to reflect 13-month average balances), RB B-5 Appendix

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Computation of Working Capital

| Line No. | | Saddlebrook [A] As Filed Working Capital | Saddlebrook [B] Rebuttal Adjustments | Saddlebrook [C] Rebuttal Working Capital | Winkelman [D] As Filed Working Capital | Winkelman [E] Rebuttal Adjustments | Winkelman [F] Rebuttal Working Capital | Miami [G] As Filed Working Capital | Miami [H] Rebuttal Adjustments | Miami [I] Rebuttal Working Capital |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | |
| 2 | Working Cash Requirement | | | | | | | | | |
| 3 | (Sch. B-5 Appendix) | $ (0) | $ 0 | $ 0 | $ (2,061) | $ 62 | $ (1,998) | $ 19,303 | $ 21 | $ 19,324 |
| 4 | | | | | | | | | | |
| 5 | Material and Supplies Inventories[1] | - | - | - | 13 | - | 13 | 8,198 | - | 8,198 |
| 6 | | | | | | | | | | |
| 7 | Required Bank Balances[1] | - | - | - | 1,132 | - | 1,132 | 25,618 | - | 25,618 |
| 8 | | | | | | | | | | |
| 9 | Prepayments & Special Deposits[1] | - | - | - | 1,182 | - | 1,182 | 26,746 | - | 26,746 |
| 10 | | | | | | | | | | |
| 11 | Total Working Capital Allowance | $ (0) | $ 0 | $ 0 | $ 266 | $ 62 | $ 328 | $ 79,865 | $ 21 | $ 79,886 |
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| 55 | [1]13-month average balances | | | | | | | | | |

Supporting Schedules:
E-1 (as adjusted to reflect 13-month average balances), RB B-5 Appendix



Recap Schedules:
B-1

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Computation of Working Capital

| Line No. | | Casa Grande [A] As Filed Working Capital | Casa Grande [B] Rebuttal Adjustments | Casa Grande [C] Rebuttal Working Capital | Stanfield [D] As Filed Working Capital | Stanfield [E] Rebuttal Adjustments | Stanfield [F] Rebuttal Working Capital | White Tank [G] As Filed Working Capital | White Tank [H] Rebuttal Adjustments | White Tank [I] Rebuttal Working Capital |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | |
| 2 | Working Cash Requirement | | | | | | | | | |
| 3 | (Sch. B-5 Appendix) | $ 52,304 | $ 1,125 | $ 53,429 | $ 4,293 | $ 40 | $ 4,333 | $ 26,652 | $ (11,756) | $ 14,896 |
| 4 | | | | | | | | | | |
| 5 | Material and Supplies Inventories[1] | 52,486 | - | 52,486 | 493 | - | 493 | 3,950 | - | 3,950 |
| 6 | | | | | | | | | | |
| 7 | Required Bank Balances[1] | 136,576 | - | 136,576 | 1,389 | - | 1,389 | 12,192 | - | 12,192 |
| 8 | | | | | | | | | | |
| 9 | Prepayments & Special Deposits[1] | 142,593 | - | 142,593 | 1,450 | - | 1,450 | 12,729 | - | 12,729 |
| 10 | | | | | | | | | | |
| 11 | Total Working Capital Allowance | $ 383,959 | $ 1,125 | $ 385,084 | $ 7,625 | $ 40 | $ 7,665 | $ 55,523 | $ (11,756) | $ 43,767 |
| 12 | | | | | | | | | | |
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| 55 | [1]13-month average balances | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Computation of Working Capital

| Line No. | | Ajo [A] As Filed Working Capital | Ajo [B] Rebuttal Adjustments | Ajo [C] Rebuttal Working Capital | Coolidge [D] As Filed Working Capital | Coolidge [E] Rebuttal Adjustments | Coolidge [F] Rebuttal Working Capital | Lakeside [G] As Filed Working Capital | Lakeside [H] Rebuttal Adjustments | Lakeside [I] Rebuttal Working Capital |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | |
| 2 | Working Cash Requirement | | | | | | | | | |
| 3 | (Sch. B-5 Appendix) | $ 12,078 | $ 4 | $ 12,081 | $ 8,965 | $ (286) | $ 8,678 | $ 23,629 | $ (287) | $ 23,342 |
| 4 | | | | | | | | | | |
| 5 | Material and Supplies Inventories[1] | 1,614 | - | 1,614 | 25,027 | - | 25,027 | 445 | - | 445 |
| 6 | | | | | | | | | | |
| 7 | Required Bank Balances[1] | 4,167 | - | 4,167 | 27,110 | - | 27,110 | 31,894 | - | 31,894 |
| 8 | | | | | | | | | | |
| 9 | Prepayments & Special Deposits[1] | 4,350 | - | 4,350 | 28,304 | - | 28,304 | 33,298 | - | 33,298 |
| 10 | | | | | | | | | | |
| 11 | Total Working Capital Allowance | $ 22,208 | $ 4 | $ 22,212 | $ 89,405 | $ (286) | $ 89,119 | $ 89,266 | $ (287) | $ 88,978 |
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| 55 | [1]13-month average balances | | | | | | | | | |

Supporting Schedules:
E-1 (as adjusted to reflect 13-month average balances), RB B-5 Appendix

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Computation of Working Capital

| Line No. | | Overgaard [A] As Filed Working Capital | Overgaard [B] Rebuttal Adjustments | Overgaard [C] Rebuttal Working Capital | Sedona [D] As Filed Working Capital | Sedona [E] Rebuttal Adjustments | Sedona [F] Rebuttal Working Capital | Pinewood [G] As Filed Working Capital | Pinewood [H] Rebuttal Adjustments | Pinewood [I] Rebuttal Working Capital |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | |
| 2 | Working Cash Requirement | | | | | | | | | |
| 3 | (Sch. B-5 Appendix) | $ 48,580 | $ (363) | $ 48,217 | $ 87,691 | $ 1,805 | $ 89,496 | $ 24,661 | $ (252) | $ 24,408 |
| 4 | | | | | | | | | | |
| 5 | Material and Supplies Inventories[1] | 1,339 | - | 1,339 | 51,656 | - | 51,656 | 23,241 | - | 23,241 |
| 6 | | | | | | | | | | |
| 7 | Required Bank Balances[1] | 20,525 | - | 20,525 | 43,468 | - | 43,468 | 15,175 | - | 15,175 |
| 8 | | | | | | | | | | |
| 9 | Prepayments & Special Deposits[1] | 21,429 | - | 21,429 | 45,383 | - | 45,383 | 15,844 | - | 15,844 |
| 10 | | | | | | | | | | |
| 11 | Total Working Capital Allowance | $ 91,873 | $ (363) | $ 91,511 | $ 228,197 | $ 1,805 | $ 230,003 | $ 78,921 | $ (252) | $ 78,668 |
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| 55 | [1]13-month average balances | | | | | | | | | |

***ARIZONA WATER COMPANY***
Test Year Ended December 31, 2007
Computation of Working Capital

| Line No. | | Rimrock [A] As Filed Working Capital | [B] Rebuttal Adjustments | [C] Rebuttal Working Capital |
|---|---|---|---|---|
| 1 | | | | |
| 2 | Working Cash Requirement | | | |
| 3 | (Sch. B-5 Appendix) | $ 29,652 | $ (97) | $ 29,555 |
| 4 | | | | |
| 5 | Material and Supplies Inventories[1] | 10,117 | - | 10,117 |
| 6 | | | | |
| 7 | Required Bank Balances[1] | 7,613 | - | 7,613 |
| 8 | | | | |
| 9 | Prepayments & Special Deposits[1] | 7,949 | - | 7,949 |
| 10 | | | | |
| 11 | Total Working Capital Allowance | $ 55,331 | $ (97) | $ 55,234 |
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| 55 | [1]13-month average balances | | | |

Supporting Schedules:
E-1 (as adjusted to reflect 13-month average balances), RB B-5 Appendix

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Computation of Working Cash Requirement

Superstition

| Line No. | | As Filed [A] Adjusted Results - As Filed | [B] Revenue Lag Days[1] | [C] Expense Lag Days[2] | [D] Net Lag Days [B - C] | [E] Lead / Lag Factor [D ÷ 365] | [F] Working Cash Requirement [A X E] | Rebuttal [G] Adjusted Results - Rebuttal | [H] Revenue Lag Days[1] | [I] Expense Lag Days[2] | [J] Net Lag Days [H - I] | [K] Lead / Lag Factor [J ÷ 365] | [L] Working Cash Requirement [G X K] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 3 | Operating Expenses | | | | | | | | | | | | |
| 4 | Purchased Power | $ 1,170,704 | 34.85 | 30.87 | 3.98 | 0.0109 | $ 12,772 | $ 1,170,704 | 34.85 | 30.87 | 3.98 | 0.0109 | $ 12,772 |
| 5 | Payroll | 2,085,023 | 34.85 | 14.00 | 20.85 | 0.0571 | 119,115 | 2,085,023 | 34.85 | 14.00 | 20.85 | 0.0571 | 119,115 |
| 6 | Purchased Water | 1,019,696 | 34.85 | (0.11) | 34.96 | 0.0958 | 97,673 | 1,019,696 | 34.85 | (0.11) | 34.96 | 0.0958 | 97,673 |
| 7 | Chemicals | 136,522 | 34.85 | (18.11) | 52.96 | 0.1451 | 19,810 | 136,522 | 34.85 | (18.11) | 52.96 | 0.1451 | 19,810 |
| 8 | Property & Liability Insurance | 74,503 | 34.85 | (45.27) | 80.12 | 0.2195 | 16,354 | 74,503 | 34.85 | (45.27) | 80.12 | 0.2195 | 16,354 |
| 9 | Workman's Compensation Insurance | 37,245 | 34.85 | (46.50) | 81.35 | 0.2229 | 8,301 | 37,245 | 34.85 | (46.50) | 81.35 | 0.2229 | 8,301 |
| 10 | Health Insurance | 508,881 | 34.85 | (8.92) | 43.77 | 0.1199 | 61,027 | 508,881 | 34.85 | (8.92) | 43.77 | 0.1199 | 61,027 |
| 11 | Other Operating & Maintenance Expenses | 1,478,516 | 34.85 | (9.27) | 44.12 | 0.1209 | 178,726 | 1,436,949 | 34.85 | (9.27) | 44.12 | 0.1209 | 173,702 |
| 12 | Federal Current Income Taxes | 1,365,782 | 34.85 | 37.00 | (2.15) | (0.0059) | (8,038) | 1,265,824 | 34.85 | 37.00 | (2.15) | (0.0059) | (7,449) |
| 13 | State Current Income Taxes | 300,869 | 34.85 | 37.00 | (2.15) | (0.0059) | (1,771) | 278,850 | 34.85 | 37.00 | (2.15) | (0.0059) | (1,641) |
| 14 | FICA Taxes | 167,515 | 34.85 | 14.00 | 20.85 | 0.0571 | 9,570 | 167,515 | 34.85 | 14.00 | 20.85 | 0.0571 | 9,570 |
| 15 | FUTA & SUTA Taxes | 4,009 | 34.85 | 83.10 | (48.25) | (0.1322) | (530) | 4,009 | 34.85 | 83.10 | (48.25) | (0.1322) | (530) |
| 16 | Property Taxes | 815,362 | 34.85 | 212.00 | (177.15) | (0.4853) | (395,725) | 806,808 | 34.85 | 212.00 | (177.15) | (0.4853) | (391,574) |
| 17 | Registration, Svc. Contracts, & Misc. Fees | 137,947 | 34.85 | (98.83) | 133.68 | 0.3663 | 50,523 | 137,947 | 34.85 | (98.83) | 133.68 | 0.3663 | 50,523 |
| 18 | Retirement Annuities (401k) | 167,966 | 34.85 | 34.72 | 0.13 | 0.0004 | 61 | 167,966 | 34.85 | 34.72 | 0.13 | 0.0004 | 61 |
| 21 | Subtotal | $ 9,470,539 | | | | | $ 167,868 | $ 9,298,440 | | | | | $ 167,713 |
| 24 | Synchronized Interest | 1,610,577 | 34.85 | 91.25 | (56.40) | (0.15452) | (248,858) | 1,519,230 | 34.85 | 91.25 | (56.40) | (0.15452) | (234,744) |
| 25 | Cost of Equity | 2,651,223 | 34.85 | - | 34.85 | 0.09548 | 253,152 | 2,457,187 | 34.85 | - | 34.85 | 0.09548 | 234,624 |
| 27 | Subtotal | $ 4,261,800 | | | | | $ 4,293 | $ 3,976,417 | | | | | $ (120) |
| 30 | Total | $ 13,732,339 | | | | | $ 172,162 | $ 13,274,857 | | | | | $ 167,593 |

50 Notes
51 Rate Case Expense Removed from Other O&M
52 [1]2007 Actual lag days
53 [2]Dec. No. 64282 as amended by
54 Dec. Nos. 66849 & 68302, Purchased
55 Power based on actual 2007 lag days.

Bisbee

| Line No. | | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] | [K] | [L] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | As Filed | | | | | | Rebuttal | | | | | |
| 1 | | Adjusted Results - | Revenue | Expense | Net Lag Days | Lead / Lag Factor | Working Cash Requirement | Adjusted Results - | Revenue | Expense | Net Lag Days | Lead / Lag Factor | Working Cash Requirement |
| 2 | | As Filed | Lag Days[1] | Lag Days[2] | [B - C] | [D ÷ 365] | [A X E] | Rebuttal | Lag Days[1] | Lag Days[2] | [H - I] | [J ÷ 365] | [G X K] |
| 3 | Operating Expenses | | | | | | | | | | | | |
| 4 | Purchased Power | $ 224,856 | 30.87 | 30.87 | (0.00) | (0.0000) | $ (2) | $ 224,856 | 30.87 | 30.87 | (0.00) | (0.0000) | $ (2) |
| 5 | Payroll | 426,619 | 30.87 | 14.00 | 16.87 | 0.0462 | 19,713 | 426,619 | 30.87 | 14.00 | 16.87 | 0.0462 | 19,713 |
| 6 | Purchased Water | - | 30.87 | (0.11) | 30.98 | 0.0849 | - | - | 30.87 | (0.11) | 30.98 | 0.0849 | - |
| 7 | Chemicals | 16,598 | 30.87 | (18.11) | 48.98 | 0.1342 | 2,227 | 16,598 | 30.87 | (18.11) | 48.98 | 0.1342 | 2,227 |
| 8 | Property & Liability Insurance | 14,877 | 30.87 | (45.27) | 76.14 | 0.2086 | 3,103 | 14,877 | 30.87 | (45.27) | 76.14 | 0.2086 | 3,103 |
| 9 | Workman's Compensation Insurance | 7,437 | 30.87 | (46.50) | 77.37 | 0.2120 | 1,576 | 7,437 | 30.87 | (46.50) | 77.37 | 0.2120 | 1,576 |
| 10 | Health Insurance | 161,575 | 30.87 | (8.92) | 39.79 | 0.1090 | 17,612 | 161,575 | 30.87 | (8.92) | 39.79 | 0.1090 | 17,612 |
| 11 | Other Operating & Maintenance Expenses | 219,974 | 30.87 | (9.27) | 40.14 | 0.1100 | 24,189 | 211,674 | 30.87 | (9.27) | 40.14 | 0.1100 | 23,276 |
| 12 | Federal Current Income Taxes | 146,597 | 30.87 | 37.00 | (6.13) | (0.0168) | (2,464) | 135,972 | 30.87 | 37.00 | (6.13) | (0.0168) | (2,285) |
| 13 | State Current Income Taxes | 32,294 | 30.87 | 37.00 | (6.13) | (0.0168) | (543) | 29,953 | 30.87 | 37.00 | (6.13) | (0.0168) | (503) |
| 14 | FICA Taxes | 33,449 | 30.87 | 14.00 | 16.87 | 0.0462 | 1,546 | 33,449 | 30.87 | 14.00 | 16.87 | 0.0462 | 1,546 |
| 15 | FUTA & SUTA Taxes | 800 | 30.87 | 83.10 | (52.23) | (0.1431) | (115) | 800 | 30.87 | 83.10 | (52.23) | (0.1431) | (115) |
| 16 | Property Taxes | 114,911 | 30.87 | 212.00 | (181.13) | (0.4963) | (57,025) | 114,010 | 30.87 | 212.00 | (181.13) | (0.4963) | (56,578) |
| 17 | Registration, Svc. Contracts, & Misc. Fees | 28,787 | 30.87 | (98.83) | 129.70 | 0.3553 | 10,229 | 28,787 | 30.87 | (98.83) | 129.70 | 0.3553 | 10,229 |
| 18 | Retirement Annuities (401k) | 53,331 | 30.87 | 34.72 | (3.85) | (0.0106) | (563) | 53,331 | 30.87 | 34.72 | (3.85) | (0.0106) | (563) |
| 19 | | | | | | | | | | | | | |
| 20 | | | | | | | | | | | | | |
| 21 | Subtotal | $ 1,482,105 | | | | | $ 19,483 | $ 1,459,939 | | | | | $ 19,236 |
| 22 | | | | | | | | | | | | | |
| 23 | | | | | | | | | | | | | |
| 24 | Synchronized Interest | 172,872 | 30.87 | 91.25 | (60.38) | (0.16544) | (28,599) | 163,192 | 30.87 | 91.25 | (60.38) | (0.16544) | (26,998) |
| 25 | Cost of Equity | 284,570 | 30.87 | - | 30.87 | 0.08456 | 24,064 | 263,945 | 30.87 | - | 30.87 | 0.08456 | 22,320 |
| 26 | | | | | | | | | | | | | |
| 27 | Subtotal | $ 457,441 | | | | | $ (4,535) | $ 427,137 | | | | | $ (4,677) |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total | $ 1,939,546 | | | | | $ 14,949 | $ 1,887,076 | | | | | $ 14,558 |
| 31 | | | | | | | | | | | | | |
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| 50 | Notes | | | | | | | | | | | | |
| 51 | Rate Case Expense Removed from Other O&M | | | | | | | | | | | | |
| 52 | [1]2007 Actual lag days | | | | | | | | | | | | |
| 53 | [2]Dec. No. 64282 as amended by | | | | | | | | | | | | |
| 54 | Dec. Nos. 66849 & 68302, Purchased | | | | | | | | | | | | |
| 55 | Power based on actual 2007 lag days. | | | | | | | | | | | | |

Sierra Vista

| Line No. | | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] | [K] | [L] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | As Filed | | | | | | Rebuttal | | | | | |
| 1 | | Adjusted Results - | Revenue | Expense | Net Lag Days | Lead / Lag Factor | Working Cash Requirement | Adjusted Results - | Revenue | Expense | Net Lag Days | Lead / Lag Factor | Working Cash Requirement |
| 2 | | As Filed | Lag Days[1] | Lag Days[2] | [B - C] | [D ÷ 365] | [A X E] | Rebuttal | Lag Days[1] | Lag Days[2] | [H - I] | [J ÷ 365] | [G X K] |
| 3 | Operating Expenses | | | | | | | | | | | | |
| 4 | Purchased Power | $ 220,661 | 30.47 | 30.87 | (0.40) | (0.0011) | $ (241) | $ 220,661 | 30.47 | 30.87 | (0.40) | (0.0011) | $ (241) |
| 5 | Payroll | 323,498 | 30.47 | 14.00 | 16.47 | 0.0451 | 14,599 | 323,498 | 30.47 | 14.00 | 16.47 | 0.0451 | 14,599 |
| 6 | Purchased Water | - | 30.47 | (0.11) | 30.58 | 0.0838 | - | - | 30.47 | (0.11) | 30.58 | 0.0838 | - |
| 7 | Chemicals | 8,699 | 30.47 | (18.11) | 48.58 | 0.1331 | 1,158 | 8,699 | 30.47 | (18.11) | 48.58 | 0.1331 | 1,158 |
| 8 | Property & Liability Insurance | 7,707 | 30.47 | (45.27) | 75.74 | 0.2075 | 1,599 | 7,707 | 30.47 | (45.27) | 75.74 | 0.2075 | 1,599 |
| 9 | Workman's Compensation Insurance | 3,853 | 30.47 | (46.50) | 76.97 | 0.2109 | 813 | 3,853 | 30.47 | (46.50) | 76.97 | 0.2109 | 813 |
| 10 | Health Insurance | 37,602 | 30.47 | (8.92) | 39.39 | 0.1079 | 4,058 | 37,602 | 30.47 | (8.92) | 39.39 | 0.1079 | 4,058 |
| 11 | *Other Operating & Maintenance Expenses* | 163,165 | 30.47 | (9.27) | 39.74 | 0.1089 | 17,766 | 158,865 | 30.47 | (9.27) | 39.74 | 0.1089 | 17,298 |
| 12 | Federal Current Income Taxes | 79,281 | 30.47 | 37.00 | (6.53) | (0.0179) | (1,418) | 73,349 | 30.47 | 37.00 | (6.53) | (0.0179) | (1,312) |
| 13 | State Current Income Taxes | 17,465 | 30.47 | 37.00 | (6.53) | (0.0179) | (312) | 16,158 | 30.47 | 37.00 | (6.53) | (0.0179) | (289) |
| 14 | FICA Taxes | 17,329 | 30.47 | 14.00 | 16.47 | 0.0451 | 782 | 17,329 | 30.47 | 14.00 | 16.47 | 0.0451 | 782 |
| 15 | FUTA & SUTA Taxes | 415 | 30.47 | 83.10 | (52.63) | (0.1442) | (60) | 415 | 30.47 | 83.10 | (52.63) | (0.1442) | (60) |
| 16 | Property Taxes | 80,115 | 30.47 | 212.00 | (181.53) | (0.4973) | (39,844) | 79,659 | 30.47 | 212.00 | (181.53) | (0.4973) | (39,618) |
| 17 | Registration, Svc. Contracts, & Misc. Fees | 14,914 | 30.47 | (98.83) | 129.30 | 0.3543 | 5,283 | 14,914 | 30.47 | (98.83) | 129.30 | 0.3543 | 5,283 |
| 18 | Retirement Annuities (401k) | 12,411 | 30.47 | 34.72 | (4.25) | (0.0116) | (144) | 12,411 | 30.47 | 34.72 | (4.25) | (0.0116) | (144) |
| 19 | | | | | | | | | | | | | |
| 20 | | | | | | | | | | | | | |
| 21 | Subtotal | $ 987,115 | | | | | $ 4,039 | $ 975,120 | | | | | $ 3,926 |
| 22 | | | | | | | | | | | | | |
| 23 | | | | | | | | | | | | | |
| 24 | Synchronized Interest | 93,491 | 30.47 | 91.25 | (60.78) | (0.16652) | (15,568) | 88,033 | 30.47 | 91.25 | (60.78) | (0.16652) | (14,659) |
| 25 | Cost of Equity | 153,899 | 30.47 | - | 30.47 | 0.08348 | 12,848 | 142,383 | 30.47 | - | 30.47 | 0.08348 | 11,887 |
| 26 | | | | | | | | | | | | | |
| 27 | Subtotal | $ 247,390 | | | | | $ (2,719) | $ 230,416 | | | | | $ (2,772) |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total | $ 1,234,505 | | | | | $ 1,319 | $ 1,205,536 | | | | | $ 1,155 |
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| 50 | Notes | | | | | | | | | | | | |
| 51 | Rate Case Expense Removed from Other O&M | | | | | | | | | | | | |
| 52 | [1]2007 Actual lag days | | | | | | | | | | | | |
| 53 | [2]*Dec. No. 64282 as amended by* | | | | | | | | | | | | |
| 54 | Dec. Nos. 66849 & 68302, Purchased | | | | | | | | | | | | |
| 55 | Power based on actual 2007 lag days. | | | | | | | | | | | | |

San Manuel

| Line No. | | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] | [K] | [L] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | As Filed | | | | | | Rebuttal | | | | | |
| 1 | | Adjusted Results - | Revenue | Expense | Net Lag Days | Lead / Lag Factor | Working Cash Requirement | Adjusted Results - | Revenue | Expense | Net Lag Days | Lead / Lag Factor | Working Cash Requirement |
| 2 | | As Filed | Lag Days[1] | Lag Days[2] | [B - C] | [D ÷ 365] | [A X E] | Rebuttal | Lag Days[1] | Lag Days[2] | [H - I] | [J ÷ 365] | [G X K] |
| 3 | Operating Expenses | | | | | | | | | | | | |
| 4 | Purchased Power | $ 38,358 | 30.26 | 30.87 | (0.61) | (0.0017) | $ (64) | $ 38,358 | 30.26 | 30.87 | (0.61) | (0.0017) | $ (64) |
| 5 | Payroll | 211,339 | 30.26 | 14.00 | 16.26 | 0.0446 | 9,415 | 211,339 | 30.26 | 14.00 | 16.26 | 0.0446 | 9,415 |
| 6 | Purchased Water | 241,318 | 30.26 | (0.11) | 30.37 | 0.0832 | 20,080 | 241,318 | 30.26 | (0.11) | 30.37 | 0.0832 | 20,080 |
| 7 | Chemicals | 5,855 | 30.26 | (18.11) | 48.37 | 0.1325 | 776 | 5,855 | 30.26 | (18.11) | 48.37 | 0.1325 | 776 |
| 8 | Property & Liability Insurance | 5,019 | 30.26 | (45.27) | 75.53 | 0.2069 | 1,039 | 5,019 | 30.26 | (45.27) | 75.53 | 0.2069 | 1,039 |
| 9 | Workman's Compensation Insurance | 2,509 | 30.26 | (46.50) | 76.76 | 0.2103 | 528 | 2,509 | 30.26 | (46.50) | 76.76 | 0.2103 | 528 |
| 10 | Health Insurance | 55,150 | 30.26 | (8.92) | 39.18 | 0.1073 | 5,920 | 55,150 | 30.26 | (8.92) | 39.18 | 0.1073 | 5,920 |
| 11 | Other Operating & Maintenance Expenses | 166,217 | 30.26 | (9.27) | 39.53 | 0.1083 | 18,002 | 163,417 | 30.26 | (9.27) | 39.53 | 0.1083 | 17,699 |
| 12 | Federal Current Income Taxes | 64,011 | 30.26 | 37.00 | (6.74) | (0.0185) | (1,182) | 59,442 | 30.26 | 37.00 | (6.74) | (0.0185) | (1,097) |
| 13 | State Current Income Taxes | 14,101 | 30.26 | 37.00 | (6.74) | (0.0185) | (260) | 13,095 | 30.26 | 37.00 | (6.74) | (0.0185) | (242) |
| 14 | FICA Taxes | 11,284 | 30.26 | 14.00 | 16.26 | 0.0446 | 503 | 11,284 | 30.26 | 14.00 | 16.26 | 0.0446 | 503 |
| 15 | FUTA & SUTA Taxes | 270 | 30.26 | 83.10 | (52.84) | (0.1448) | (39) | 270 | 30.26 | 83.10 | (52.84) | (0.1448) | (39) |
| 16 | Property Taxes | 68,170 | 30.26 | 212.00 | (181.74) | (0.4979) | (33,943) | 67,712 | 30.26 | 212.00 | (181.74) | (0.4979) | (33,715) |
| 17 | Registration, Svc. Contracts, & Misc. Fees | 9,837 | 30.26 | (98.83) | 129.09 | 0.3537 | 3,479 | 9,837 | 30.26 | (98.83) | 129.09 | 0.3537 | 3,479 |
| 18 | Retirement Annuities (401k) | 18,203 | 30.26 | 34.72 | (4.46) | (0.0122) | (222) | 18,203 | 30.26 | 34.72 | (4.46) | (0.0122) | (222) |
| 19 | | | | | | | | | | | | | |
| 20 | | | | | | | | | | | | | |
| 21 | Subtotal | $ 911,640 | | | | | $ 24,030 | $ 902,807 | | | | | $ 24,058 |
| 22 | | | | | | | | | | | | | |
| 23 | | | | | | | | | | | | | |
| 24 | Synchronized Interest | 75,484 | 30.26 | 91.25 | (60.78) | (0.16652) | (12,569) | 71,342 | 30.26 | 91.25 | (60.78) | (0.16652) | (11,880) |
| 25 | Cost of Equity | 124,257 | 30.26 | - | 30.26 | 0.08291 | 10,302 | 115,388 | 30.26 | - | 30.26 | 0.08291 | 9,566 |
| 26 | | | | | | | | | | | | | |
| 27 | Subtotal | $ 199,741 | | | | | $ (2,267) | $ 186,730 | | | | | $ (2,313) |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total | $ 1,111,380 | | | | | $ 21,763 | $ 1,089,538 | | | | | $ 21,745 |
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| 50 | Notes | | | | | | | | | | | | |
| 51 | Rate Case Expense Removed from Other O&M | | | | | | | | | | | | |
| 52 | [1]2007 Actual lag days | | | | | | | | | | | | |
| 53 | [2]Dec. No. 64282 as amended by | | | | | | | | | | | | |
| 54 | Dec. Nos. 66849 & 68302, Purchased | | | | | | | | | | | | |
| 55 | Power based on actual 2007 lag days. | | | | | | | | | | | | |

Oracle

| Line No. | | As Filed [A] Adjusted Results - As Filed | [B] Revenue Lag Days[1] | [C] Expense Lag Days[2] | [D] Net Lag Days [B - C] | [E] Lead / Lag Factor [D ÷ 365] | [F] Working Cash Requirement [A X E] | Rebuttal [G] Adjusted Results - Rebuttal | [H] Revenue Lag Days[1] | [I] Expense Lag Days[2] | [J] Net Lag Days [H - I] | [K] Lead / Lag Factor [J ÷ 365] | [L] Working Cash Requirement [G X K] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | |
| 2 | | | | | | | | | | | | | |
| 3 | Operating Expenses | | | | | | | | | | | | |
| 4 | Purchased Power | $ 149,736 | 30.96 | 30.87 | 0.09 | 0.0002 | $ 36 | $ 149,736 | 30.96 | 30.87 | 0.09 | 0.0002 | $ 36 |
| 5 | Payroll | 211,104 | 30.96 | 14.00 | 16.96 | 0.0465 | 9,808 | 211,104 | 30.96 | 14.00 | 16.96 | 0.0465 | 9,808 |
| 6 | Purchased Water | - | 30.96 | (0.11) | 31.07 | 0.0851 | - | - | 30.96 | (0.11) | 31.07 | 0.0851 | - |
| 7 | Chemicals | 575 | 30.96 | (18.11) | 49.07 | 0.1344 | 77 | 575 | 30.96 | (18.11) | 49.07 | 0.1344 | 77 |
| 8 | Property & Liability Insurance | 6,811 | 30.96 | (45.27) | 76.23 | 0.2088 | 1,422 | 6,811 | 30.96 | (45.27) | 76.23 | 0.2088 | 1,422 |
| 9 | Workman's Compensation Insurance | 3,405 | 30.96 | (46.50) | 77.46 | 0.2122 | 723 | 3,405 | 30.96 | (46.50) | 77.46 | 0.2122 | 723 |
| 10 | Health Insurance | 52,643 | 30.96 | (8.92) | 39.88 | 0.1093 | 5,751 | 52,643 | 30.96 | (8.92) | 39.88 | 0.1093 | 5,751 |
| 11 | Other Operating & Maintenance Expenses | 163,327 | 30.96 | (9.27) | 40.23 | 0.1102 | 18,001 | 159,527 | 30.96 | (9.27) | 40.23 | 0.1102 | 17,582 |
| 12 | Federal Current Income Taxes | 75,869 | 30.96 | 37.00 | (6.04) | (0.0166) | (1,256) | 70,418 | 30.96 | 37.00 | (6.04) | (0.0166) | (1,166) |
| 13 | State Current Income Taxes | 16,713 | 30.96 | 37.00 | (6.04) | (0.0166) | (277) | 15,513 | 30.96 | 37.00 | (6.04) | (0.0166) | (257) |
| 14 | FICA Taxes | 15,314 | 30.96 | 14.00 | 16.96 | 0.0465 | 711 | 15,314 | 30.96 | 14.00 | 16.96 | 0.0465 | 711 |
| 15 | FUTA & SUTA Taxes | 366 | 30.96 | 83.10 | (52.14) | (0.1429) | (52) | 366 | 30.96 | 83.10 | (52.14) | (0.1429) | (52) |
| 16 | Property Taxes | 53,921 | 30.96 | 212.00 | (181.04) | (0.4960) | (26,745) | 53,569 | 30.96 | 212.00 | (181.04) | (0.4960) | (26,570) |
| 17 | Registration, Svc. Contracts, & Misc. Fees | 13,350 | 30.96 | (98.83) | 129.79 | 0.3556 | 4,747 | 13,350 | 30.96 | (98.83) | 129.79 | 0.3556 | 4,747 |
| 18 | Retirement Annuities (401k) | 17,376 | 30.96 | 34.72 | (3.76) | (0.0103) | (179) | 17,376 | 30.96 | 34.72 | (3.76) | (0.0103) | (179) |
| 19 | | | | | | | | | | | | | |
| 20 | | | | | | | | | | | | | |
| 21 | Subtotal | $ 780,510 | | | | | $ 12,768 | $ 769,706 | | | | | $ 12,634 |
| 22 | | | | | | | | | | | | | |
| 23 | | | | | | | | | | | | | |
| 24 | Synchronized Interest | 89,467 | 30.96 | 91.25 | (60.29) | (0.16518) | (14,779) | 84,515 | 30.96 | 91.25 | (60.29) | (0.16518) | (13,961) |
| 25 | Cost of Equity | 147,275 | 30.96 | - | 30.96 | 0.08482 | 12,491 | 136,694 | 30.96 | - | 30.96 | 0.08482 | 11,594 |
| 26 | | | | | | | | | | | | | |
| 27 | Subtotal | $ 236,743 | | | | | $ (2,287) | $ 221,210 | | | | | $ (2,367) |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total | $ 1,017,253 | | | | | $ 10,481 | $ 990,916 | | | | | $ 10,267 |
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| 50 | Notes | | | | | | | | | | | | |
| 51 | Rate Case Expense Removed from Other O&M | | | | | | | | | | | | |
| 52 | [1]2007 Actual lag days | | | | | | | | | | | | |
| 53 | [2]Dec. No. 64282 as amended by | | | | | | | | | | | | |
| 54 | Dec. Nos. 66849 & 68302, Purchased | | | | | | | | | | | | |
| 55 | Power based on actual 2007 lag days. | | | | | | | | | | | | |

Saddlebrook

| Line No. | | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] | [K] | [L] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | As Filed | | | | | | Rebuttal | | | | | |
| | | Adjusted Results - As Filed | Revenue Lag Days[1] | Expense Lag Days[2] | Net Lag Days [B - C] | Lead / Lag Factor [D ÷ 365] | Working Cash Requirement [A X E] | Adjusted Results - Rebuttal | Revenue Lag Days[1] | Expense Lag Days[2] | Net Lag Days [H - I] | Lead / Lag Factor [J ÷ 365] | Working Cash Requirement [G X K] |
| 3 | Operating Expenses | | | | | | | | | | | | |
| 4 | Purchased Power | $ - | 29.31 | 30.87 | (1.56) | (0.0043) | $ - | $ - | 29.31 | 30.87 | (1.56) | (0.0043) | $ - |
| 5 | Payroll | 812 | 29.31 | 14.00 | 15.31 | 0.0419 | - | 812 | 29.31 | 14.00 | 15.31 | 0.0419 | - |
| 6 | Purchased Water | - | 29.31 | (0.11) | 29.42 | 0.0806 | - | - | 29.31 | (0.11) | 29.42 | 0.0806 | - |
| 7 | Chemicals | - | 29.31 | (18.11) | 47.42 | 0.1299 | - | - | 29.31 | (18.11) | 47.42 | 0.1299 | - |
| 8 | Property & Liability Insurance | - | 29.31 | (45.27) | 74.58 | 0.2043 | - | - | 29.31 | (45.27) | 74.58 | 0.2043 | - |
| 9 | Workman's Compensation Insurance | - | 29.31 | (46.50) | 75.81 | 0.2077 | - | - | 29.31 | (46.50) | 75.81 | 0.2077 | - |
| 10 | Health Insurance | - | 29.31 | (8.92) | 38.23 | 0.1047 | - | - | 29.31 | (8.92) | 38.23 | 0.1047 | - |
| 11 | Other Operating & Maintenance Expenses | (812) | 29.31 | (9.27) | 38.58 | 0.1057 | - | (812) | 29.31 | (9.27) | 38.58 | 0.1057 | - |
| 12 | Federal Current Income Taxes | 0 | 29.31 | 37.00 | (7.69) | (0.0211) | - | 0 | 29.31 | 37.00 | (7.69) | (0.0211) | - |
| 13 | State Current Income Taxes | 0 | 29.31 | 37.00 | (7.69) | (0.0211) | - | 0 | 29.31 | 37.00 | (7.69) | (0.0211) | - |
| 14 | FICA Taxes | - | 29.31 | 14.00 | 15.31 | 0.0419 | - | - | 29.31 | 14.00 | 15.31 | 0.0419 | - |
| 15 | FUTA & SUTA Taxes | - | 29.31 | 83.10 | (53.79) | (0.1474) | - | - | 29.31 | 83.10 | (53.79) | (0.1474) | - |
| 16 | Property Taxes | - | 29.31 | 212.00 | (182.69) | (0.5005) | - | - | 29.31 | 212.00 | (182.69) | (0.5005) | - |
| 17 | Registration, Svc. Contracts, & Misc. Fees | - | 29.31 | (98.83) | 128.14 | 0.3511 | - | - | 29.31 | (98.83) | 128.14 | 0.3511 | - |
| 18 | Retirement Annuities (401k) | - | 29.31 | 34.72 | (5.41) | (0.0148) | - | - | 29.31 | 34.72 | (5.41) | (0.0148) | - |
| 21 | Subtotal | $ 0 | | | | | $ - | $ 0 | | | | | $ - |
| 24 | Synchronized Interest | - | 29.31 | 91.25 | (61.94) | (0.16971) | - | (0) | 29.31 | 91.25 | (61.94) | (0.16971) | 0 |
| 25 | Cost of Equity | (0) | 29.31 | - | 29.31 | 0.08029 | (0) | (0) | 29.31 | - | 29.31 | 0.08029 | (0) |
| 27 | Subtotal | $ (0) | | | | | $ (0) | $ (0) | | | | | $ 0 |
| 30 | Total | $ (0) | | | | | $ (0) | $ (0) | | | | | $ 0 |

Notes
Rate Case Expense Removed from Other O&M
[1]2007 Actual lag days
[2]Dec. No. 64282 as amended by
Dec. Nos. 66849 & 68302, Purchased
Power based on actual 2007 lag days.

Winkelman

| Line No. | | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] | [K] | [L] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | As Filed | | | | | | Rebuttal | | | | | |
| 1 | | Adjusted Results - | Revenue | Expense | Net Lag Days | Lead / Lag Factor | Working Cash Requirement | Adjusted Results - | Revenue | Expense | Net Lag Days | Lead / Lag Factor | Working Cash Requirement |
| 2 | | As Filed | Lag Days[1] | Lag Days[2] | [B - C] | [D ÷ 365] | [A X E] | Rebuttal | Lag Days[1] | Lag Days[2] | [H - I] | [J ÷ 365] | [G X K] |
| 3 | Operating Expenses | | | | | | | | | | | | |
| 4 | Purchased Power | $ 7,310 | 29.19 | 30.87 | (1.68) | (0.0046) | $ (34) | $ 7,310 | 29.19 | 30.87 | (1.68) | (0.0046) | $ (34) |
| 5 | Payroll | 23,622 | 29.19 | 14.00 | 15.19 | 0.0416 | 983 | 23,622 | 29.19 | 14.00 | 15.19 | 0.0416 | 983 |
| 6 | Purchased Water | - | 29.19 | (0.11) | 29.30 | 0.0803 | - | - | 29.19 | (0.11) | 29.30 | 0.0803 | - |
| 7 | Chemicals | - | 29.19 | (18.11) | 47.30 | 0.1296 | - | - | 29.19 | (18.11) | 47.30 | 0.1296 | - |
| 8 | Property & Liability Insurance | 657 | 29.19 | (45.27) | 74.46 | 0.2040 | 134 | 657 | 29.19 | (45.27) | 74.46 | 0.2040 | 134 |
| 9 | Workman's Compensation Insurance | 329 | 29.19 | (46.50) | 75.69 | 0.2074 | 68 | 329 | 29.19 | (46.50) | 75.69 | 0.2074 | 68 |
| 10 | Health Insurance | 5,925 | 29.19 | (8.92) | 38.11 | 0.1044 | 619 | 5,925 | 29.19 | (8.92) | 38.11 | 0.1044 | 619 |
| 11 | Other Operating & Maintenance Expenses | 16,768 | 29.19 | (9.27) | 38.46 | 0.1054 | 1,767 | 16,401 | 29.19 | (9.27) | 38.46 | 0.1054 | 1,728 |
| 12 | Federal Current Income Taxes | 10,226 | 29.19 | 37.00 | (7.81) | (0.0214) | (219) | 9,505 | 29.19 | 37.00 | (7.81) | (0.0214) | (203) |
| 13 | State Current Income Taxes | 2,253 | 29.19 | 37.00 | (7.81) | (0.0214) | (48) | 2,094 | 29.19 | 37.00 | (7.81) | (0.0214) | (45) |
| 14 | FICA Taxes | 1,478 | 29.19 | 14.00 | 15.19 | 0.0416 | 61 | 1,478 | 29.19 | 14.00 | 15.19 | 0.0416 | 61 |
| 15 | FUTA & SUTA Taxes | 35 | 29.19 | 83.10 | (53.91) | (0.1477) | (5) | 35 | 29.19 | 83.10 | (53.91) | (0.1477) | (5) |
| 16 | Property Taxes | 10,675 | 29.19 | 212.00 | (182.81) | (0.5008) | (5,346) | 10,508 | 29.19 | 212.00 | (182.81) | (0.5008) | (5,263) |
| 17 | Registration, Svc. Contracts, & Misc. Fees | 1,288 | 29.19 | (98.83) | 128.02 | 0.3507 | 452 | 1,288 | 29.19 | (98.83) | 128.02 | 0.3507 | 452 |
| 18 | Retirement Annuities (401k) | 1,956 | 29.19 | 34.72 | (5.53) | (0.0151) | (30) | 1,956 | 29.19 | 34.72 | (5.53) | (0.0151) | (30) |
| 19 | | | | | | | | | | | | | |
| 20 | | | | | | | | | | | | | |
| 21 | Subtotal | $ 82,522 | | | | | $ (1,598) | $ 81,108 | | | | | $ (1,534) |
| 22 | | | | | | | | | | | | | |
| 23 | | | | | | | | | | | | | |
| 24 | Synchronized Interest | 12,059 | 29.19 | 91.25 | (62.06) | (0.17002) | (2,050) | 11,407 | 29.19 | 91.25 | (62.06) | (0.17002) | (1,940) |
| 25 | Cost of Equity | 19,851 | 29.19 | - | 29.19 | 0.07998 | 1,588 | 18,450 | 29.19 | - | 29.19 | 0.07998 | 1,476 |
| 26 | | | | | | | | | | | | | |
| 27 | Subtotal | $ 31,910 | | | | | $ (463) | $ 29,858 | | | | | $ (464) |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total | $ 114,432 | | | | | $ (2,061) | $ 110,965 | | | | | $ (1,998) |
| 31 | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | |
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| 48 | | | | | | | | | | | | | |
| 49 | | | | | | | | | | | | | |
| 50 | Notes | | | | | | | | | | | | |
| 51 | Rate Case Expense Removed from Other O&M | | | | | | | | | | | | |
| 52 | [1]2007 Actual lag days | | | | | | | | | | | | |
| 53 | [2]Dec. No. 64282 as amended by | | | | | | | | | | | | |
| 54 | Dec. Nos. 66849 & 68302, Purchased | | | | | | | | | | | | |
| 55 | Power based on actual 2007 lag days. | | | | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Computation of Working Cash Requirement

Miami

| Line No. | | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] | [K] | [L] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | As Filed | | | | | | Rebuttal | | | | | |
| | | Adjusted Results - As Filed | Revenue Lag Days[1] | Expense Lag Days[2] | Net Lag Days [B - C] | Lead / Lag Factor [D ÷ 365] | Working Cash Requirement [A X E] | Adjusted Results - Rebuttal | Revenue Lag Days[1] | Expense Lag Days[2] | Net Lag Days [H - I] | Lead / Lag Factor [J ÷ 365] | Working Cash Requirement [G X K] |
| 3 | Operating Expenses | | | | | | | | | | | | |
| 4 | Purchased Power | $ 199,919 | 29.89 | 30.87 | (0.98) | (0.0027) | $ (535) | $ 199,919 | 29.89 | 30.87 | (0.98) | (0.0027) | $ (535) |
| 5 | Payroll | 537,761 | 29.89 | 14.00 | 15.89 | 0.0435 | 23,415 | 537,761 | 29.89 | 14.00 | 15.89 | 0.0435 | 23,415 |
| 6 | Purchased Water | - | 29.89 | (0.11) | 30.00 | 0.0822 | - | - | 29.89 | (0.11) | 30.00 | 0.0822 | - |
| 7 | Chemicals | 4,099 | 29.89 | (18.11) | 48.00 | 0.1315 | 539 | 4,099 | 29.89 | (18.11) | 48.00 | 0.1315 | 539 |
| 8 | Property & Liability Insurance | 14,877 | 29.89 | (45.27) | 75.16 | 0.2059 | 3,063 | 14,877 | 29.89 | (45.27) | 75.16 | 0.2059 | 3,063 |
| 9 | Workman's Compensation Insurance | 7,437 | 29.89 | (46.50) | 76.39 | 0.2093 | 1,557 | 7,437 | 29.89 | (46.50) | 76.39 | 0.2093 | 1,557 |
| 10 | Health Insurance | 152,915 | 29.89 | (8.92) | 38.81 | 0.1063 | 16,261 | 152,915 | 29.89 | (8.92) | 38.81 | 0.1063 | 16,261 |
| 11 | Other Operating & Maintenance Expenses | 306,280 | 29.89 | (9.27) | 39.16 | 0.1073 | 32,863 | 297,980 | 29.89 | (9.27) | 39.16 | 0.1073 | 31,972 |
| 12 | Federal Current Income Taxes | 241,035 | 29.89 | 37.00 | (7.11) | (0.0195) | (4,693) | 223,514 | 29.89 | 37.00 | (7.11) | (0.0195) | (4,352) |
| 13 | State Current Income Taxes | 53,098 | 29.89 | 37.00 | (7.11) | (0.0195) | (1,034) | 49,238 | 29.89 | 37.00 | (7.11) | (0.0195) | (959) |
| 14 | FICA Taxes | 33,449 | 29.89 | 14.00 | 15.89 | 0.0435 | 1,456 | 33,449 | 29.89 | 14.00 | 15.89 | 0.0435 | 1,456 |
| 15 | FUTA & SUTA Taxes | 800 | 29.89 | 83.10 | (53.21) | (0.1458) | (117) | 800 | 29.89 | 83.10 | (53.21) | (0.1458) | (117) |
| 16 | Property Taxes | 107,575 | 29.89 | 212.00 | (182.11) | (0.4989) | (53,672) | 106,382 | 29.89 | 212.00 | (182.11) | (0.4989) | (53,076) |
| 17 | Registration, Svc. Contracts, & Misc. Fees | 29,284 | 29.89 | (98.83) | 128.72 | 0.3527 | 10,327 | 29,284 | 29.89 | (98.83) | 128.72 | 0.3527 | 10,327 |
| 18 | Retirement Annuities (401k) | 50,473 | 29.89 | 34.72 | (4.83) | (0.0132) | (667) | 50,473 | 29.89 | 34.72 | (4.83) | (0.0132) | (667) |
| 21 | Subtotal | $ 1,739,001 | | | | | $ 28,764 | $ 1,708,128 | | | | | $ 28,884 |
| 24 | Synchronized Interest | 284,236 | 29.89 | 91.25 | (61.36) | (0.16810) | (47,781) | 268,260 | 29.89 | 91.25 | (61.36) | (0.16810) | (45,095) |
| 25 | Cost of Equity | 467,891 | 29.89 | - | 29.89 | 0.08190 | 38,320 | 433,881 | 29.89 | - | 29.89 | 0.08190 | 35,534 |
| 27 | Subtotal | $ 752,127 | | | | | $ (9,461) | $ 702,141 | | | | | $ (9,561) |
| 30 | Total | $ 2,491,128 | | | | | $ 19,303 | $ 2,410,269 | | | | | $ 19,324 |

50 Notes
51 Rate Case Expense Removed from Other O&M
52 [1]2007 Actual lag days
53 [2]Dec. No. 64282 as amended by
54 Dec. Nos. 66849 & 68302, Purchased
55 Power based on actual 2007 lag days.

Casa Grande

| Line No. | | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] | [K] | [L] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | As Filed | | | | | | Rebuttal | | | | | |
| | | Adjusted Results - As Filed | Revenue Lag Days[1] | Expense Lag Days[2] | Net Lag Days [B - C] | Lead / Lag Factor [D ÷ 365] | Working Cash Requirement [A X E] | Adjusted Results - Rebuttal | Revenue Lag Days[1] | Expense Lag Days[2] | Net Lag Days [H - I] | Lead / Lag Factor [J ÷ 365] | Working Cash Requirement [G X K] |
| 3 | Operating Expenses | | | | | | | | | | | | |
| 4 | Purchased Power | $ 1,387,878 | 30.25 | 30.87 | (0.62) | (0.0017) | $ (2,357) | $ 1,387,878 | 30.25 | 30.87 | (0.62) | (0.0017) | $ (2,357) |
| 5 | Payroll | 2,349,262 | 30.25 | 14.00 | 16.25 | 0.0445 | 104,590 | 2,349,262 | 30.25 | 14.00 | 16.25 | 0.0445 | 104,590 |
| 6 | Purchased Water | 374,207 | 30.25 | (0.11) | 30.36 | 0.0832 | 31,126 | 374,207 | 30.25 | (0.11) | 30.36 | 0.0832 | 31,126 |
| 7 | Chemicals | 135,843 | 30.25 | (18.11) | 48.36 | 0.1325 | 17,998 | 135,843 | 30.25 | (18.11) | 48.36 | 0.1325 | 17,998 |
| 8 | Property & Liability Insurance | 79,312 | 30.25 | (45.27) | 75.52 | 0.2069 | 16,410 | 79,312 | 30.25 | (45.27) | 75.52 | 0.2069 | 16,410 |
| 9 | Workman's Compensation Insurance | 39,649 | 30.25 | (46.50) | 76.75 | 0.2103 | 8,337 | 39,649 | 30.25 | (46.50) | 76.75 | 0.2103 | 8,337 |
| 10 | Health Insurance | 596,846 | 30.25 | (8.92) | 39.17 | 0.1073 | 64,051 | 596,846 | 30.25 | (8.92) | 39.17 | 0.1073 | 64,051 |
| 11 | Other Operating & Maintenance Expenses | 2,169,776 | 30.25 | (9.27) | 39.52 | 0.1083 | 234,930 | 2,125,526 | 30.25 | (9.27) | 39.52 | 0.1083 | 230,139 |
| 12 | Federal Current Income Taxes | 1,298,159 | 30.25 | 37.00 | (6.75) | (0.0185) | (24,007) | 1,200,951 | 30.25 | 37.00 | (6.75) | (0.0185) | (22,209) |
| 13 | State Current Income Taxes | 285,973 | 30.25 | 37.00 | (6.75) | (0.0185) | (5,289) | 264,559 | 30.25 | 37.00 | (6.75) | (0.0185) | (4,893) |
| 14 | FICA Taxes | 178,329 | 30.25 | 14.00 | 16.25 | 0.0445 | 7,939 | 178,329 | 30.25 | 14.00 | 16.25 | 0.0445 | 7,939 |
| 15 | FUTA & SUTA Taxes | 4,267 | 30.25 | 83.10 | (52.85) | (0.1448) | (618) | 4,267 | 30.25 | 83.10 | (52.85) | (0.1448) | (618) |
| 16 | Property Taxes | 806,467 | 30.25 | 212.00 | (181.75) | (0.4979) | (401,577) | 797,611 | 30.25 | 212.00 | (181.75) | (0.4979) | (397,167) |
| 17 | Registration, Svc. Contracts, & Misc. Fees | 141,878 | 30.25 | (98.83) | 129.08 | 0.3536 | 50,174 | 141,878 | 30.25 | (98.83) | 129.08 | 0.3536 | 50,174 |
| 18 | Retirement Annuities (401k) | 197,001 | 30.25 | 34.72 | (4.47) | (0.0122) | (2,413) | 197,001 | 30.25 | 34.72 | (4.47) | (0.0122) | (2,413) |
| 21 | Subtotal | $ 10,044,849 | | | | | $ 99,296 | $ 9,873,121 | | | | | $ 101,109 |
| 24 | Synchronized Interest | 1,530,834 | 30.25 | 91.25 | (61.00) | (0.16712) | (255,838) | 1,441,370 | 30.25 | 91.25 | (61.00) | (0.16712) | (240,887) |
| 25 | Cost of Equity | 2,519,956 | 30.25 | - | 30.25 | 0.08288 | 208,846 | 2,331,258 | 30.25 | - | 30.25 | 0.08288 | 193,207 |
| 27 | Subtotal | $ 4,050,790 | | | | | $ (46,992) | $ 3,772,629 | | | | | $ (47,680) |
| 30 | Total | $ 14,095,639 | | | | | $ 52,304 | $ 13,645,749 | | | | | $ 53,429 |

50 Notes
51 Rate Case Expense Removed from Other O&M
52 [1]2007 Actual lag days
53 [2]Dec. No. 64282 as amended by
54 Dec. Nos. 66849 & 68302, Purchased
55 Power based on actual 2007 lag days.

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Computation of Working Cash Requirement

Stanfield

| Line No. | | As Filed [A] Adjusted Results - As Filed | [B] Revenue Lag Days[1] | [C] Expense Lag Days[2] | [D] Net Lag Days [B - C] | [E] Lead / Lag Factor [D ÷ 365] | [F] Working Cash Requirement [A X E] | Rebuttal [G] Adjusted Results - Rebuttal | [H] Revenue Lag Days[1] | [I] Expense Lag Days[2] | [J] Net Lag Days [H - I] | [K] Lead / Lag Factor [J ÷ 365] | [L] Working Cash Requirement [G X K] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 3 | Operating Expenses | | | | | | | | | | | | |
| 4 | Purchased Power | $ 20,599 | 31.65 | 30.87 | 0.78 | 0.0021 | $ 44 | $ 20,599 | 31.65 | 30.87 | 0.78 | 0.0021 | $ 44 |
| 5 | Payroll | 22,437 | 31.65 | 14.00 | 17.65 | 0.0484 | 1,085 | 22,437 | 31.65 | 14.00 | 17.65 | 0.0484 | 1,085 |
| 6 | Purchased Water | - | 31.65 | (0.11) | 31.76 | 0.0870 | - | - | 31.65 | (0.11) | 31.76 | 0.0870 | - |
| 7 | Chemicals | - | 31.65 | (18.11) | 49.76 | 0.1363 | - | - | 31.65 | (18.11) | 49.76 | 0.1363 | - |
| 8 | Property & Liability Insurance | 807 | 31.65 | (45.27) | 76.92 | 0.2107 | 170 | 807 | 31.65 | (45.27) | 76.92 | 0.2107 | 170 |
| 9 | Workman's Compensation Insurance | 403 | 31.65 | (46.50) | 78.15 | 0.2141 | 86 | 403 | 31.65 | (46.50) | 78.15 | 0.2141 | 86 |
| 10 | Health Insurance | 5,925 | 31.65 | (8.92) | 40.57 | 0.1111 | 659 | 5,925 | 31.65 | (8.92) | 40.57 | 0.1111 | 659 |
| 11 | Other Operating & Maintenance Expenses | 86,555 | 31.65 | (9.27) | 40.92 | 0.1121 | 9,703 | 86,105 | 31.65 | (9.27) | 40.92 | 0.1121 | 9,653 |
| 12 | Federal Current Income Taxes | 25,903 | 31.65 | 37.00 | (5.35) | (0.0147) | (380) | 24,043 | 31.65 | 37.00 | (5.35) | (0.0147) | (352) |
| 13 | State Current Income Taxes | 5,706 | 31.65 | 37.00 | (5.35) | (0.0147) | (84) | 5,296 | 31.65 | 37.00 | (5.35) | (0.0147) | (78) |
| 14 | FICA Taxes | 1,814 | 31.65 | 14.00 | 17.65 | 0.0484 | 88 | 1,814 | 31.65 | 14.00 | 17.65 | 0.0484 | 88 |
| 15 | FUTA & SUTA Taxes | 43 | 31.65 | 83.10 | (51.45) | (0.1410) | (6) | 43 | 31.65 | 83.10 | (51.45) | (0.1410) | (6) |
| 16 | Property Taxes | 14,053 | 31.65 | 212.00 | (180.35) | (0.4941) | (6,944) | 13,862 | 31.65 | 212.00 | (180.35) | (0.4941) | (6,849) |
| 17 | Registration, Svc. Contracts, & Misc. Fees | 1,443 | 31.65 | (98.83) | 130.48 | 0.3575 | 516 | 1,443 | 31.65 | (98.83) | 130.48 | 0.3575 | 516 |
| 18 | Retirement Annuities (401k) | 1,956 | 31.65 | 34.72 | (3.07) | (0.0084) | (16) | 1,956 | 31.65 | 34.72 | (3.07) | (0.0084) | (16) |
| 21 | Subtotal | $ 187,644 | | | | | $ 4,921 | $ 184,733 | | | | | $ 4,998 |
| 24 | Synchronized Interest | 30,546 | 31.65 | 91.25 | (59.60) | (0.16329) | (4,988) | 28,856 | 31.65 | 91.25 | (59.60) | (0.16329) | (4,712) |
| 25 | Cost of Equity | 50,283 | 31.65 | - | 31.65 | 0.08671 | 4,360 | 46,672 | 31.65 | - | 31.65 | 0.08671 | 4,047 |
| 27 | Subtotal | $ 80,829 | | | | | $ (628) | $ 75,528 | | | | | $ (665) |
| 30 | Total | $ 268,473 | | | | | $ 4,293 | $ 260,261 | | | | | $ 4,333 |

50 Notes
51 Rate Case Expense Removed from Other O&M
52 [1]2007 Actual lag days
53 [2]Dec. No. 64282 as amended by
54 Dec. Nos. 66849 & 68302, Purchased
55 Power based on actual 2007 lag days.

White Tank

| Line No. | | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] | [K] | [L] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | As Filed | | | | | | Rebuttal | | | | | |
| | | Adjusted Results - As Filed | Revenue Lag Days[1] | Expense Lag Days[2] | Net Lag Days [B - C] | Lead / Lag Factor [D ÷ 365] | Working Cash Requirement [A X E] | Adjusted Results - Rebuttal | Revenue Lag Days[1] | Expense Lag Days[2] | Net Lag Days [H - I] | Lead / Lag Factor [J ÷ 365] | Working Cash Requirement [G X K] |
| 3 | Operating Expenses | | | | | | | | | | | | |
| 4 | Purchased Power | $ 105,581 | 31.87 | 30.87 | 0.99 | 0.0027 | $ 288 | $ 120,831 | 31.87 | 30.87 | 0.99 | 0.0027 | $ 329 |
| 5 | Payroll | 183,411 | 31.87 | 14.00 | 17.87 | 0.0489 | 8,977 | 183,411 | 31.87 | 14.00 | 17.87 | 0.0489 | 8,977 |
| 6 | Purchased Water | 150,244 | 31.87 | (0.11) | 31.98 | 0.0876 | 13,162 | (0) | 31.87 | (0.11) | 31.98 | 0.0876 | (0) |
| 7 | Chemicals | 8,608 | 31.87 | (18.11) | 49.98 | 0.1369 | 1,179 | 8,608 | 31.87 | (18.11) | 49.98 | 0.1369 | 1,179 |
| 8 | Property & Liability Insurance | 7,080 | 31.87 | (45.27) | 77.14 | 0.2113 | 1,496 | 7,080 | 31.87 | (45.27) | 77.14 | 0.2113 | 1,496 |
| 9 | Workman's Compensation Insurance | 3,539 | 31.87 | (46.50) | 78.37 | 0.2147 | 760 | 3,539 | 31.87 | (46.50) | 78.37 | 0.2147 | 760 |
| 10 | Health Insurance | 46,262 | 31.87 | (8.92) | 40.79 | 0.1117 | 5,169 | 46,262 | 31.87 | (8.92) | 40.79 | 0.1117 | 5,169 |
| 11 | Other Operating & Maintenance Expenses | 198,280 | 31.87 | (9.27) | 41.14 | 0.1127 | 22,346 | 201,192 | 31.87 | (9.27) | 41.14 | 0.1127 | 22,674 |
| 12 | Federal Current Income Taxes | 138,860 | 31.87 | 37.00 | (5.14) | (0.0141) | (1,954) | 128,672 | 31.87 | 37.00 | (5.14) | (0.0141) | (1,810) |
| 13 | State Current Income Taxes | 30,590 | 31.87 | 37.00 | (5.14) | (0.0141) | (430) | 28,345 | 31.87 | 37.00 | (5.14) | (0.0141) | (399) |
| 14 | FICA Taxes | 15,919 | 31.87 | 14.00 | 17.87 | 0.0489 | 779 | 15,919 | 31.87 | 14.00 | 17.87 | 0.0489 | 779 |
| 15 | FUTA & SUTA Taxes | 381 | 31.87 | 83.10 | (51.24) | (0.1404) | (53) | 381 | 31.87 | 83.10 | (51.24) | (0.1404) | (53) |
| 16 | Property Taxes | 53,436 | 31.87 | 212.00 | (180.14) | (0.4935) | (26,372) | 51,265 | 31.87 | 212.00 | (180.14) | (0.4935) | (25,300) |
| 17 | Registration, Svc. Contracts, & Misc. Fees | 12,665 | 31.87 | (98.83) | 130.70 | 0.3581 | 4,535 | 12,665 | 31.87 | (98.83) | 130.70 | 0.3581 | 4,535 |
| 18 | Retirement Annuities (401k) | 15,270 | 31.87 | 34.72 | (2.86) | (0.0078) | (119) | 15,270 | 31.87 | 34.72 | (2.86) | (0.0078) | (119) |
| 21 | Subtotal | $ 970,126 | | | | | $ 29,762 | $ 823,439 | | | | | $ 18,216 |
| 24 | Synchronized Interest | 163,749 | 31.87 | 91.25 | (59.39) | (0.16270) | (26,642) | 154,431 | 31.87 | 91.25 | (59.39) | (0.16270) | (25,126) |
| 25 | Cost of Equity | 269,552 | 31.87 | - | 31.87 | 0.08730 | 23,532 | 249,775 | 31.87 | - | 31.87 | 0.08730 | 21,806 |
| 27 | Subtotal | $ 433,301 | | | | | $ (3,109) | $ 404,206 | | | | | $ (3,320) |
| 30 | Total | $ 1,403,427 | | | | | $ 26,652 | $ 1,227,645 | | | | | $ 14,896 |

50 Notes
51 Rate Case Expense Removed from Other O&M
52 [1]2007 Actual lag days
53 [2]Dec. No. 64282 as amended by
54 Dec. Nos. 66849 & 68302, Purchased
55 Power based on actual 2007 lag days.

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Computation of Working Cash Requirement

Ajo

| Line No. | | As Filed [A] Adjusted Results - As Filed | [B] Revenue Lag Days[1] | [C] Expense Lag Days[2] | [D] Net Lag Days [B - C] | [E] Lead / Lag Factor [D ÷ 365] | [F] Working Cash Requirement [A X E] | Rebuttal [G] Adjusted Results - Rebuttal | [H] Revenue Lag Days[1] | [I] Expense Lag Days[2] | [J] Net Lag Days [H - I] | [K] Lead / Lag Factor [J ÷ 365] | [L] Working Cash Requirement [G X K] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 3 | Operating Expenses | | | | | | | | | | | | |
| 4 | Purchased Power | $ 3,297 | 29.59 | 30.87 | (1.28) | (0.0035) | $ (12) | $ 3,297 | 29.59 | 30.87 | (1.28) | (0.0035) | $ (12) |
| 5 | Payroll | 72,016 | 29.59 | 14.00 | 15.59 | 0.0427 | 3,076 | 72,016 | 29.59 | 14.00 | 15.59 | 0.0427 | 3,076 |
| 6 | Purchased Water | 159,092 | 29.59 | (0.11) | 29.70 | 0.0814 | 12,945 | 159,092 | 29.59 | (0.11) | 29.70 | 0.0814 | 12,945 |
| 7 | Chemicals | 448 | 29.59 | (18.11) | 47.70 | 0.1307 | 59 | 448 | 29.59 | (18.11) | 47.70 | 0.1307 | 59 |
| 8 | Property & Liability Insurance | 2,420 | 29.59 | (45.27) | 74.86 | 0.2051 | 496 | 2,420 | 29.59 | (45.27) | 74.86 | 0.2051 | 496 |
| 9 | Workman's Compensation Insurance | 1,210 | 29.59 | (46.50) | 76.09 | 0.2085 | 252 | 1,210 | 29.59 | (46.50) | 76.09 | 0.2085 | 252 |
| 10 | Health Insurance | 19,143 | 29.59 | (8.92) | 38.51 | 0.1055 | 2,020 | 19,143 | 29.59 | (8.92) | 38.51 | 0.1055 | 2,020 |
| 11 | Other Operating & Maintenance Expenses | 66,459 | 29.59 | (9.27) | 38.86 | 0.1065 | 7,075 | 65,109 | 29.59 | (9.27) | 38.86 | 0.1065 | 6,932 |
| 12 | Federal Current Income Taxes | 35,343 | 29.59 | 37.00 | (7.41) | (0.0203) | (718) | 32,774 | 29.59 | 37.00 | (7.41) | (0.0203) | (665) |
| 13 | State Current Income Taxes | 7,786 | 29.59 | 37.00 | (7.41) | (0.0203) | (158) | 7,220 | 29.59 | 37.00 | (7.41) | (0.0203) | (147) |
| 14 | FICA Taxes | 5,441 | 29.59 | 14.00 | 15.59 | 0.0427 | 232 | 5,441 | 29.59 | 14.00 | 15.59 | 0.0427 | 232 |
| 15 | FUTA & SUTA Taxes | 130 | 29.59 | 83.10 | (53.51) | (0.1466) | (19) | 130 | 29.59 | 83.10 | (53.51) | (0.1466) | (19) |
| 16 | Property Taxes | 26,265 | 29.59 | 212.00 | (182.41) | (0.4998) | (13,126) | 26,080 | 29.59 | 212.00 | (182.41) | (0.4998) | (13,034) |
| 17 | Registration, Svc. Contracts, & Misc. Fees | 4,328 | 29.59 | (98.83) | 128.42 | 0.3518 | 1,523 | 4,328 | 29.59 | (98.83) | 128.42 | 0.3518 | 1,523 |
| 18 | Retirement Annuities (401k) | 6,318 | 29.59 | 34.72 | (5.13) | (0.0141) | (89) | 6,318 | 29.59 | 34.72 | (5.13) | (0.0141) | (89) |
| 21 | Subtotal | $ 409,696 | | | | | $ 13,557 | $ 405,026 | | | | | $ 13,569 |
| 24 | Synchronized Interest | 41,677 | 29.59 | 91.25 | (61.66) | (0.16893) | (7,041) | 39,334 | 29.59 | 91.25 | (61.66) | (0.16893) | (6,645) |
| 25 | Cost of Equity | 68,606 | 29.59 | - | 29.59 | 0.08107 | 5,562 | 63,619 | 29.59 | - | 29.59 | 0.08107 | 5,157 |
| 27 | Subtotal | $ 110,284 | | | | | $ (1,479) | $ 102,954 | | | | | $ (1,488) |
| 30 | Total | $ 519,979 | | | | | $ 12,078 | $ 507,979 | | | | | $ 12,081 |

50 Notes
51 Rate Case Expense Removed from Other O&M
52 [1]2007 Actual lag days
53 [2]Dec. No. 64282 as amended by
54 Dec. Nos. 66849 & 68302, Purchased
55 Power based on actual 2007 lag days.

Coolidge

| Line No. | | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] | [K] | [L] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | As Filed | | | | | | Rebuttal | | | | | |
| | | Adjusted Results - As Filed | Revenue Lag Days[1] | Expense Lag Days[2] | Net Lag Days [B - C] | Lead / Lag Factor [D ÷ 365] | Working Cash Requirement [A X E] | Adjusted Results - Rebuttal | Revenue Lag Days[1] | Expense Lag Days[2] | Net Lag Days [H - I] | Lead / Lag Factor [J ÷ 365] | Working Cash Requirement [G X K] |
| 3 | Operating Expenses | | | | | | | | | | | | |
| 4 | Purchased Power | $ 192,581 | 30.86 | 30.87 | (0.01) | (0.0000) | $ (7) | $ 192,581 | 30.86 | 30.87 | (0.01) | (0.0000) | $ (7) |
| 5 | Payroll | 464,280 | 30.86 | 14.00 | 16.86 | 0.0462 | 21,441 | 464,280 | 30.86 | 14.00 | 16.86 | 0.0462 | 21,441 |
| 6 | Purchased Water | - | 30.86 | (0.11) | 30.97 | 0.0848 | - | - | 30.86 | (0.11) | 30.97 | 0.0848 | - |
| 7 | Chemicals | 10,428 | 30.86 | (18.11) | 48.97 | 0.1342 | 1,399 | 10,428 | 30.86 | (18.11) | 48.97 | 0.1342 | 1,399 |
| 8 | Property & Liability Insurance | 15,743 | 30.86 | (45.27) | 76.13 | 0.2086 | 3,283 | 15,743 | 30.86 | (45.27) | 76.13 | 0.2086 | 3,283 |
| 9 | Workman's Compensation Insurance | 7,870 | 30.86 | (46.50) | 77.36 | 0.2119 | 1,668 | 7,870 | 30.86 | (46.50) | 77.36 | 0.2119 | 1,668 |
| 10 | Health Insurance | 131,493 | 30.86 | (8.92) | 39.78 | 0.1090 | 14,330 | 131,493 | 30.86 | (8.92) | 39.78 | 0.1090 | 14,330 |
| 11 | Other Operating & Maintenance Expenses | 338,524 | 30.86 | (9.27) | 40.13 | 0.1099 | 37,215 | 329,741 | 30.86 | (9.27) | 40.13 | 0.1099 | 36,250 |
| 12 | Federal Current Income Taxes | 135,816 | 30.86 | 37.00 | (6.14) | (0.0168) | (2,286) | 124,428 | 30.86 | 37.00 | (6.14) | (0.0168) | (2,094) |
| 13 | State Current Income Taxes | 29,919 | 30.86 | 37.00 | (6.14) | (0.0168) | (504) | 27,410 | 30.86 | 37.00 | (6.14) | (0.0168) | (461) |
| 14 | FICA Taxes | 35,397 | 30.86 | 14.00 | 16.86 | 0.0462 | 1,635 | 35,397 | 30.86 | 14.00 | 16.86 | 0.0462 | 1,635 |
| 15 | FUTA & SUTA Taxes | 847 | 30.86 | 83.10 | (52.24) | (0.1431) | (121) | 847 | 30.86 | 83.10 | (52.24) | (0.1431) | (121) |
| 16 | Property Taxes | 151,656 | 30.86 | 212.00 | (181.14) | (0.4963) | (75,264) | 150,601 | 30.86 | 212.00 | (181.14) | (0.4963) | (74,741) |
| 17 | Registration, Svc. Contracts, & Misc. Fees | 30,535 | 30.86 | (98.83) | 129.69 | 0.3553 | 10,849 | 30,535 | 30.86 | (98.83) | 129.69 | 0.3553 | 10,849 |
| 18 | Retirement Annuities (401k) | 43,402 | 30.86 | 34.72 | (3.86) | (0.0106) | (459) | 43,402 | 30.86 | 34.72 | (3.86) | (0.0106) | (459) |
| 21 | Subtotal | $ 1,588,490 | | | | | $ 13,178 | $ 1,564,756 | | | | | $ 12,969 |
| 24 | Synchronized Interest | 160,158 | 30.86 | 91.25 | (60.39) | (0.16546) | (26,500) | 149,337 | 30.86 | 91.25 | (60.39) | (0.16546) | (24,710) |
| 25 | Cost of Equity | 263,642 | 30.86 | - | 30.86 | 0.08454 | 22,287 | 241,537 | 30.86 | - | 30.86 | 0.08454 | 20,419 |
| 27 | Subtotal | $ 423,800 | | | | | $ (4,213) | $ 390,874 | | | | | $ (4,291) |
| 30 | Total | $ 2,012,290 | | | | | $ 8,965 | $ 1,955,631 | | | | | $ 8,678 |

50 Notes
51 Rate Case Expense Removed from Other O&M
52 [1]2007 Actual lag days
53 [2]Dec. No. 64282 as amended by
54 Dec. Nos. 66849 & 68302, Purchased
55 Power based on actual 2007 lag days.

Lakeside

| Line No. | | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] | [K] | [L] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | As Filed | | | | | | Rebuttal | | | | | |
| | | Adjusted Results - As Filed | Revenue Lag Days[1] | Expense Lag Days[2] | Net Lag Days [B - C] | Lead / Lag Factor [D ÷ 365] | Working Cash Requirement [A X E] | Adjusted Results - Rebuttal | Revenue Lag Days[1] | Expense Lag Days[2] | Net Lag Days [H - I] | Lead / Lag Factor [J ÷ 365] | Working Cash Requirement [G X K] |
| 3 | Operating Expenses | | | | | | | | | | | | |
| 4 | Purchased Power | $ 181,940 | 29.43 | 30.87 | (1.44) | (0.0040) | $ (719) | $ 181,940 | 29.43 | 30.87 | (1.44) | (0.0040) | $ (719) |
| 5 | Payroll | 500,941 | 29.43 | 14.00 | 15.43 | 0.0423 | 21,174 | 500,941 | 29.43 | 14.00 | 15.43 | 0.0423 | 21,174 |
| 6 | Purchased Water | 1,233 | 29.43 | (0.11) | 29.54 | 0.0809 | 100 | 1,233 | 29.43 | (0.11) | 29.54 | 0.0809 | 100 |
| 7 | Chemicals | 7,672 | 29.43 | (18.11) | 47.54 | 0.1302 | 999 | 7,672 | 29.43 | (18.11) | 47.54 | 0.1302 | 999 |
| 8 | Property & Liability Insurance | 18,521 | 29.43 | (45.27) | 74.70 | 0.2047 | 3,790 | 18,521 | 29.43 | (45.27) | 74.70 | 0.2047 | 3,790 |
| 9 | Workman's Compensation Insurance | 9,259 | 29.43 | (46.50) | 75.93 | 0.2080 | 1,926 | 9,259 | 29.43 | (46.50) | 75.93 | 0.2080 | 1,926 |
| 10 | Health Insurance | 154,738 | 29.43 | (8.92) | 38.35 | 0.1051 | 16,257 | 154,738 | 29.43 | (8.92) | 38.35 | 0.1051 | 16,257 |
| 11 | Other Operating & Maintenance Expenses | 383,567 | 29.43 | (9.27) | 38.70 | 0.1060 | 40,666 | 373,234 | 29.43 | (9.27) | 38.70 | 0.1060 | 39,571 |
| 12 | Federal Current Income Taxes | 225,485 | 29.43 | 37.00 | (7.57) | (0.0207) | (4,678) | 209,702 | 29.43 | 37.00 | (7.57) | (0.0207) | (4,350) |
| 13 | State Current Income Taxes | 49,672 | 29.43 | 37.00 | (7.57) | (0.0207) | (1,030) | 46,195 | 29.43 | 37.00 | (7.57) | (0.0207) | (958) |
| 14 | FICA Taxes | 41,644 | 29.43 | 14.00 | 15.43 | 0.0423 | 1,760 | 41,644 | 29.43 | 14.00 | 15.43 | 0.0423 | 1,760 |
| 15 | FUTA & SUTA Taxes | 997 | 29.43 | 83.10 | (53.67) | (0.1470) | (147) | 997 | 29.43 | 83.10 | (53.67) | (0.1470) | (147) |
| 16 | Property Taxes | 116,684 | 29.43 | 212.00 | (182.57) | (0.5002) | (58,365) | 115,743 | 29.43 | 212.00 | (182.57) | (0.5002) | (57,895) |
| 17 | Registration, Svc. Contracts, & Misc. Fees | 35,236 | 29.43 | (98.83) | 128.26 | 0.3514 | 12,382 | 35,236 | 29.43 | (98.83) | 128.26 | 0.3514 | 12,382 |
| 18 | Retirement Annuities (401k) | 51,074 | 29.43 | 34.72 | (5.29) | (0.0145) | (741) | 51,074 | 29.43 | 34.72 | (5.29) | (0.0145) | (741) |
| 21 | Subtotal | $ 1,778,663 | | | | | $ 33,376 | $ 1,748,128 | | | | | $ 33,151 |
| 24 | Synchronized Interest | 265,900 | 29.43 | 91.25 | (61.82) | (0.16938) | (45,037) | 251,682 | 29.43 | 91.25 | (61.82) | (0.16938) | (42,629) |
| 25 | Cost of Equity | 437,706 | 29.43 | - | 29.43 | 0.08062 | 35,290 | 407,068 | 29.43 | - | 29.43 | 0.08062 | 32,820 |
| 27 | Subtotal | $ 703,606 | | | | | $ (9,747) | $ 658,749 | | | | | $ (9,809) |
| 30 | Total | $ 2,482,269 | | | | | $ 23,629 | $ 2,406,878 | | | | | $ 23,342 |

50 Notes
51 Rate Case Expense Removed from Other O&M
52 [1]2007 Actual lag days
53 [2]Dec. No. 64282 as amended by
54 Dec. Nos. 66849 & 68302, Purchased
55 Power based on actual 2007 lag days.

Overgaard

| Line No. | | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] | [K] | [L] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | As Filed | | | | | | Rebuttal | | | | | |
| | | Adjusted Results - As Filed | Revenue Lag Days[1] | Expense Lag Days[2] | Net Lag Days [B - C] | Lead / Lag Factor [D ÷ 365] | Working Cash Requirement [A X E] | Adjusted Results - Rebuttal | Revenue Lag Days[1] | Expense Lag Days[2] | Net Lag Days [H - I] | Lead / Lag Factor [J ÷ 365] | Working Cash Requirement [G X K] |
| 3 | Operating Expenses | | | | | | | | | | | | |
| 4 | Purchased Power | $ 71,171 | 29.65 | 30.87 | (1.23) | (0.0034) | $ (239) | $ 71,171 | 29.65 | 30.87 | (1.23) | (0.0034) | $ (239) |
| 5 | Payroll | 22,262 | 29.65 | 14.00 | 15.65 | 0.0429 | 954 | 22,262 | 29.65 | 14.00 | 15.65 | 0.0429 | 954 |
| 6 | Purchased Water | 58 | 29.65 | (0.11) | 29.76 | 0.0815 | 5 | 58 | 29.65 | (0.11) | 29.76 | 0.0815 | 5 |
| 7 | Chemicals | 6,009 | 29.65 | (18.11) | 47.76 | 0.1308 | 786 | 6,009 | 29.65 | (18.11) | 47.76 | 0.1308 | 786 |
| 8 | Property & Liability Insurance | 11,919 | 29.65 | (45.27) | 74.92 | 0.2052 | 2,446 | 11,919 | 29.65 | (45.27) | 74.92 | 0.2052 | 2,446 |
| 9 | Workman's Compensation Insurance | 5,959 | 29.65 | (46.50) | 76.15 | 0.2086 | 1,243 | 5,959 | 29.65 | (46.50) | 76.15 | 0.2086 | 1,243 |
| 10 | Health Insurance | 69,507 | 29.65 | (8.92) | 38.57 | 0.1057 | 7,344 | 69,507 | 29.65 | (8.92) | 38.57 | 0.1057 | 7,344 |
| 11 | Other Operating & Maintenance Expenses | 626,570 | 29.65 | (9.27) | 38.92 | 0.1066 | 66,803 | 619,920 | 29.65 | (9.27) | 38.92 | 0.1066 | 66,094 |
| 12 | Federal Current Income Taxes | 105,005 | 29.65 | 37.00 | (7.36) | (0.0202) | (2,116) | 97,558 | 29.65 | 37.00 | (7.36) | (0.0202) | (1,966) |
| 13 | State Current Income Taxes | 23,132 | 29.65 | 37.00 | (7.36) | (0.0202) | (466) | 21,491 | 29.65 | 37.00 | (7.36) | (0.0202) | (433) |
| 14 | FICA Taxes | 26,800 | 29.65 | 14.00 | 15.65 | 0.0429 | 1,149 | 26,800 | 29.65 | 14.00 | 15.65 | 0.0429 | 1,149 |
| 15 | FUTA & SUTA Taxes | 641 | 29.65 | 83.10 | (53.46) | (0.1465) | (94) | 641 | 29.65 | 83.10 | (53.46) | (0.1465) | (94) |
| 16 | Property Taxes | 65,159 | 29.65 | 212.00 | (182.36) | (0.4996) | (32,554) | 64,758 | 29.65 | 212.00 | (182.36) | (0.4996) | (32,353) |
| 17 | Registration, Svc. Contracts, & Misc. Fees | 22,676 | 29.65 | (98.83) | 128.48 | 0.3520 | 7,982 | 22,676 | 29.65 | (98.83) | 128.48 | 0.3520 | 7,982 |
| 18 | Retirement Annuities (401k) | 22,942 | 29.65 | 34.72 | (5.08) | (0.0139) | (319) | 22,942 | 29.65 | 34.72 | (5.08) | (0.0139) | (319) |
| 21 | Subtotal | $ 1,079,809 | | | | | $ 52,924 | $ 1,063,671 | | | | | $ 52,598 |
| 24 | Synchronized Interest | 123,825 | 29.65 | 91.25 | (61.61) | (0.16878) | (20,899) | 117,088 | 29.65 | 91.25 | (61.61) | (0.16878) | (19,762) |
| 25 | Cost of Equity | 203,832 | 29.65 | - | 29.65 | 0.08122 | 16,555 | 189,377 | 29.65 | - | 29.65 | 0.08122 | 15,381 |
| 27 | Subtotal | $ 327,657 | | | | | $ (4,344) | $ 306,465 | | | | | $ (4,381) |
| 30 | Total | $ 1,407,466 | | | | | $ 48,580 | $ 1,370,136 | | | | | $ 48,217 |

50 Notes
51 Rate Case Expense Removed from Other O&M
52 [1]2007 Actual lag days
53 [2]Dec. No. 64282 as amended by
54 Dec. Nos. 66849 & 68302, Purchased
55 Power based on actual 2007 lag days.

Sedona

| Line No. | | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] | [K] | [L] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | As Filed | | | | | | Rebuttal | | | | | |
| 1 | | Adjusted Results - As Filed | Revenue Lag Days[1] | Expense Lag Days[2] | Net Lag Days [B - C] | Lead / Lag Factor [D ÷ 365] | Working Cash Requirement [A X E] | Adjusted Results - Rebuttal | Revenue Lag Days[1] | Expense Lag Days[2] | Net Lag Days [H - I] | Lead / Lag Factor [J ÷ 365] | Working Cash Requirement [G X K] |
| 3 | Operating Expenses | | | | | | | | | | | | |
| 4 | Purchased Power | $ 518,834 | 28.67 | 30.87 | (2.20) | (0.0060) | $ (3,130) | $ 518,834 | 28.67 | 30.87 | (2.20) | (0.0060) | $ (3,130) |
| 5 | Payroll | 42,663 | 28.67 | 14.00 | 14.67 | 0.0402 | 1,714 | 42,663 | 28.67 | 14.00 | 14.67 | 0.0402 | 1,714 |
| 6 | Purchased Water | - | 28.67 | (0.11) | 28.78 | 0.0788 | - | - | 28.67 | (0.11) | 28.78 | 0.0788 | - |
| 7 | Chemicals | 8,650 | 28.67 | (18.11) | 46.78 | 0.1282 | 1,109 | 8,650 | 28.67 | (18.11) | 46.78 | 0.1282 | 1,109 |
| 8 | Property & Liability Insurance | 25,243 | 28.67 | (45.27) | 73.94 | 0.2026 | 5,113 | 25,243 | 28.67 | (45.27) | 73.94 | 0.2026 | 5,113 |
| 9 | Workman's Compensation Insurance | 12,619 | 28.67 | (46.50) | 75.17 | 0.2059 | 2,599 | 12,619 | 28.67 | (46.50) | 75.17 | 0.2059 | 2,599 |
| 10 | Health Insurance | 170,235 | 28.67 | (8.92) | 37.59 | 0.1030 | 17,531 | 170,235 | 28.67 | (8.92) | 37.59 | 0.1030 | 17,531 |
| 11 | Other Operating & Maintenance Expenses | 1,462,349 | 28.67 | (9.27) | 37.94 | 0.1039 | 151,996 | 1,448,266 | 28.67 | (9.27) | 37.94 | 0.1039 | 150,532 |
| 12 | Federal Current Income Taxes | 566,716 | 28.67 | 37.00 | (8.33) | (0.0228) | (12,937) | 515,106 | 28.67 | 37.00 | (8.33) | (0.0228) | (11,759) |
| 13 | State Current Income Taxes | 124,842 | 28.67 | 37.00 | (8.33) | (0.0228) | (2,850) | 113,473 | 28.67 | 37.00 | (8.33) | (0.0228) | (2,590) |
| 14 | FICA Taxes | 56,756 | 28.67 | 14.00 | 14.67 | 0.0402 | 2,281 | 56,756 | 28.67 | 14.00 | 14.67 | 0.0402 | 2,281 |
| 15 | FUTA & SUTA Taxes | 1,358 | 28.67 | 83.10 | (54.43) | (0.1491) | (203) | 1,358 | 28.67 | 83.10 | (54.43) | (0.1491) | (203) |
| 16 | Property Taxes | 125,837 | 28.67 | 212.00 | (183.33) | (0.5023) | (63,205) | 123,615 | 28.67 | 212.00 | (183.33) | (0.5023) | (62,089) |
| 17 | Registration, Svc. Contracts, & Misc. Fees | 48,046 | 28.67 | (98.83) | 127.50 | 0.3493 | 16,783 | 48,046 | 28.67 | (98.83) | 127.50 | 0.3493 | 16,783 |
| 18 | Retirement Annuities (401k) | 56,189 | 28.67 | 34.72 | (6.05) | (0.0166) | (932) | 56,189 | 28.67 | 34.72 | (6.05) | (0.0166) | (932) |
| 19 | | | | | | | | | | | | | |
| 20 | | | | | | | | | | | | | |
| 21 | Subtotal | $ 3,220,336 | | | | | $ 115,870 | $ 3,141,052 | | | | | $ 116,960 |
| 22 | | | | | | | | | | | | | |
| 23 | | | | | | | | | | | | | |
| 24 | Synchronized Interest | 668,291 | 28.67 | 91.25 | (62.58) | (0.17146) | (114,584) | 618,225 | 28.67 | 91.25 | (62.58) | (0.17146) | (105,999) |
| 25 | Cost of Equity | 1,100,095 | 28.67 | - | 28.67 | 0.07854 | 86,404 | 999,911 | 28.67 | - | 28.67 | 0.07854 | 78,535 |
| 26 | | | | | | | | | | | | | |
| 27 | Subtotal | $ 1,768,386 | | | | | $ (28,179) | $ 1,618,136 | | | | | $ (27,464) |
| 28 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| 30 | Total | $ 4,988,723 | | | | | $ 87,691 | $ 4,759,188 | | | | | $ 89,496 |
| 31 | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | |
| 33 | | | | | | | | | | | | | |
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| 48 | | | | | | | | | | | | | |
| 49 | | | | | | | | | | | | | |
| 50 | Notes | | | | | | | | | | | | |
| 51 | Rate Case Expense Removed from Other O&M | | | | | | | | | | | | |
| 52 | [1]2007 Actual lag days | | | | | | | | | | | | |
| 53 | [2]Dec. No. 64282 as amended by | | | | | | | | | | | | |
| 54 | Dec. Nos. 66849 & 68302, Purchased | | | | | | | | | | | | |
| 55 | Power based on actual 2007 lag days. | | | | | | | | | | | | |

Pinewood

| Line No. | | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] | [K] | [L] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | As Filed | | | | | | Rebuttal | | | | | |
| | | Adjusted Results - As Filed | Revenue Lag Days[1] | Expense Lag Days[2] | Net Lag Days [B - C] | Lead / Lag Factor [D ÷ 365] | Working Cash Requirement [A X E] | Adjusted Results - Rebuttal | Revenue Lag Days[1] | Expense Lag Days[2] | Net Lag Days [H - I] | Lead / Lag Factor [J ÷ 365] | Working Cash Requirement [G X K] |
| 3 | Operating Expenses | | | | | | | | | | | | |
| 4 | Purchased Power | $ 84,846 | 28.40 | 30.87 | (2.47) | (0.0068) | $ (575) | $ 84,846 | 28.40 | 30.87 | (2.47) | (0.0068) | $ (575) |
| 5 | Payroll | 294,552 | 28.40 | 14.00 | 14.40 | 0.0394 | 11,618 | 294,552 | 28.40 | 14.00 | 14.40 | 0.0394 | 11,618 |
| 6 | Purchased Water | - | 28.40 | (0.11) | 28.51 | 0.0781 | - | - | 28.40 | (0.11) | 28.51 | 0.0781 | - |
| 7 | Chemicals | 345 | 28.40 | (18.11) | 46.51 | 0.1274 | 44 | 345 | 28.40 | (18.11) | 46.51 | 0.1274 | 44 |
| 8 | Property & Liability Insurance | 8,812 | 28.40 | (45.27) | 73.67 | 0.2018 | 1,779 | 8,812 | 28.40 | (45.27) | 73.67 | 0.2018 | 1,779 |
| 9 | Workman's Compensation Insurance | 4,405 | 28.40 | (46.50) | 74.90 | 0.2052 | 904 | 4,405 | 28.40 | (46.50) | 74.90 | 0.2052 | 904 |
| 10 | Health Insurance | 76,799 | 28.40 | (8.92) | 37.32 | 0.1022 | 7,852 | 76,799 | 28.40 | (8.92) | 37.32 | 0.1022 | 7,852 |
| 11 | Other Operating & Maintenance Expenses | 218,087 | 28.40 | (9.27) | 37.67 | 0.1032 | 22,506 | 213,170 | 28.40 | (9.27) | 37.67 | 0.1032 | 21,999 |
| 12 | Federal Current Income Taxes | 59,219 | 28.40 | 37.00 | (8.60) | (0.0236) | (1,396) | 55,005 | 28.40 | 37.00 | (8.60) | (0.0236) | (1,296) |
| 13 | State Current Income Taxes | 13,045 | 28.40 | 37.00 | (8.60) | (0.0236) | (307) | 12,117 | 28.40 | 37.00 | (8.60) | (0.0236) | (286) |
| 14 | FICA Taxes | 19,814 | 28.40 | 14.00 | 14.40 | 0.0394 | 782 | 19,814 | 28.40 | 14.00 | 14.40 | 0.0394 | 782 |
| 15 | FUTA & SUTA Taxes | 474 | 28.40 | 83.10 | (54.70) | (0.1499) | (71) | 474 | 28.40 | 83.10 | (54.70) | (0.1499) | (71) |
| 16 | Property Taxes | 41,350 | 28.40 | 212.00 | (183.60) | (0.5030) | (20,800) | 41,126 | 28.40 | 212.00 | (183.60) | (0.5030) | (20,687) |
| 17 | Registration, Svc. Contracts, & Misc. Fees | 16,774 | 28.40 | (98.83) | 127.23 | 0.3486 | 5,847 | 16,774 | 28.40 | (98.83) | 127.23 | 0.3486 | 5,847 |
| 18 | Retirement Annuities (401k) | 25,349 | 28.40 | 34.72 | (6.32) | (0.0173) | (439) | 25,349 | 28.40 | 34.72 | (6.32) | (0.0173) | (439) |
| 21 | Subtotal | $ 863,872 | | | | | $ 27,742 | $ 853,589 | | | | | $ 27,469 |
| 24 | Synchronized Interest | 69,833 | 28.40 | 91.25 | (62.85) | (0.17220) | (12,025) | 66,017 | 28.40 | 91.25 | (62.85) | (0.17220) | (11,368) |
| 25 | Cost of Equity | 114,954 | 28.40 | - | 28.40 | 0.07780 | 8,943 | 106,775 | 28.40 | - | 28.40 | 0.07780 | 8,307 |
| 27 | Subtotal | $ 184,787 | | | | | $ (3,082) | $ 172,792 | | | | | $ (3,061) |
| 30 | Total | $ 1,048,659 | | | | | $ 24,661 | $ 1,026,381 | | | | | $ 24,408 |

50 Notes
51 Rate Case Expense Removed from Other O&M
52 [1]2007 Actual lag days
53 [2]Dec. No. 64282 as amended by
54 Dec. Nos. 66849 & 68302, Purchased
55 Power based on actual 2007 lag days.

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Computation of Working Cash Requirement

Rimrock

| Line No. | | As Filed [A] Adjusted Results - As Filed | [B] Revenue Lag Days[1] | [C] Expense Lag Days[2] | [D] Net Lag Days [B - C] | [E] Lead / Lag Factor [D ÷ 365] | [F] Working Cash Requirement [A X E] | Rebuttal [G] Adjusted Results - Rebuttal | [H] Revenue Lag Days[1] | [I] Expense Lag Days[2] | [J] Net Lag Days [H - I] | [K] Lead / Lag Factor [J ÷ 365] | [L] Working Cash Requirement [G X K] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 3 | Operating Expenses | | | | | | | | | | | | |
| 4 | Purchased Power | $ 43,401 | 31.15 | 30.87 | 0.28 | 0.0008 | $ 34 | $ 43,401 | 31.15 | 30.87 | 0.28 | 0.0008 | $ 34 |
| 5 | Payroll | 133,621 | 31.15 | 14.00 | 17.15 | 0.0470 | 6,279 | 133,621 | 31.15 | 14.00 | 17.15 | 0.0470 | 6,279 |
| 6 | Purchased Water | - | 31.15 | (0.11) | 31.26 | 0.0856 | - | - | 31.15 | (0.11) | 31.26 | 0.0856 | - |
| 7 | Chemicals | 2,079 | 31.15 | (18.11) | 49.26 | 0.1350 | 281 | 2,079 | 31.15 | (18.11) | 49.26 | 0.1350 | 281 |
| 8 | Property & Liability Insurance | 4,421 | 31.15 | (45.27) | 76.42 | 0.2094 | 926 | 4,421 | 31.15 | (45.27) | 76.42 | 0.2094 | 926 |
| 9 | Workman's Compensation Insurance | 2,210 | 31.15 | (46.50) | 77.65 | 0.2127 | 470 | 2,210 | 31.15 | (46.50) | 77.65 | 0.2127 | 470 |
| 10 | Health Insurance | 33,272 | 31.15 | (8.92) | 40.07 | 0.1098 | 3,653 | 33,272 | 31.15 | (8.92) | 40.07 | 0.1098 | 3,653 |
| 11 | Other Operating & Maintenance Expenses | 286,170 | 31.15 | (9.27) | 40.42 | 0.1107 | 31,692 | 283,703 | 31.15 | (9.27) | 40.42 | 0.1107 | 31,419 |
| 12 | Federal Current Income Taxes | 73,535 | 31.15 | 37.00 | (5.85) | (0.0160) | (1,178) | 68,260 | 31.15 | 37.00 | (5.85) | (0.0160) | (1,094) |
| 13 | State Current Income Taxes | 16,199 | 31.15 | 37.00 | (5.85) | (0.0160) | (260) | 15,037 | 31.15 | 37.00 | (5.85) | (0.0160) | (241) |
| 14 | FICA Taxes | 9,941 | 31.15 | 14.00 | 17.15 | 0.0470 | 467 | 9,941 | 31.15 | 14.00 | 17.15 | 0.0470 | 467 |
| 15 | FUTA & SUTA Taxes | 238 | 31.15 | 83.10 | (51.95) | (0.1423) | (34) | 238 | 31.15 | 83.10 | (51.95) | (0.1423) | (34) |
| 16 | Property Taxes | 27,191 | 31.15 | 212.00 | (180.85) | (0.4955) | (13,472) | 26,871 | 31.15 | 212.00 | (180.85) | (0.4955) | (13,314) |
| 17 | Registration, Svc. Contracts, & Misc. Fees | 8,415 | 31.15 | (98.83) | 129.98 | 0.3561 | 2,997 | 8,415 | 31.15 | (98.83) | 129.98 | 0.3561 | 2,997 |
| 18 | Retirement Annuities (401k) | 10,982 | 31.15 | 34.72 | (3.57) | (0.0098) | (107) | 10,982 | 31.15 | 34.72 | (3.57) | (0.0098) | (107) |
| 21 | Subtotal | $ 651,674 | | | | | $ 31,747 | $ 642,451 | | | | | $ 31,735 |
| 24 | Synchronized Interest | 86,714 | 31.15 | 91.25 | (60.10) | (0.16465) | (14,278) | 81,925 | 31.15 | 91.25 | (60.10) | (0.16465) | (13,489) |
| 25 | Cost of Equity | 142,744 | 31.15 | - | 31.15 | 0.08535 | 12,183 | 132,505 | 31.15 | - | 31.15 | 0.08535 | 11,309 |
| 27 | Subtotal | $ 229,458 | | | | | $ (2,095) | $ 214,430 | | | | | $ (2,180) |
| 30 | Total | $ 881,132 | | | | | $ 29,652 | $ 856,881 | | | | | $ 29,555 |

50 Notes
51 Rate Case Expense Removed from Other O&M
52 [1]2007 Actual lag days
53 [2]Dec. No. 64282 as amended by
54 Dec. Nos. 66849 & 68302, Purchased
55 Power based on actual 2007 lag days.

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Adjusted Test Year Income Statement

| Line No. | | Total Company [A] Test Year Ended 12/31/2007 | [B] Pro Forma Adjustments - As Filed | [C] Adjusted Test Year - As Filed | [D] Rebuttal Adjustments | [E] Adjusted Test Year - Rebuttal | [F] Required Increase - Rebuttal | [G] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|
| 1 | Operating Revenues | | | | | | | |
| 2 | Residential | $ 33,474,763 | $ (2,515,392) | $ 30,959,371 | $ - | $ 30,959,371 | | |
| 3 | Commercial | 9,060,764 | (604,592) | 8,456,171 | - | 8,456,171 | | |
| 4 | Industrial | 1,370,197 | (114,239) | 1,255,958 | - | 1,255,958 | | |
| 5 | Private Fire Service | 42,101 | (3,956) | 38,145 | - | 38,145 | | |
| 6 | Other Water Revenues | 1,212,055 | (110,395) | 1,101,660 | - | 1,101,660 | | |
| 7 | Total Water Revenues | $ 45,159,880 | $ (3,348,574) | $ 41,811,305 | $ - | $ 41,811,305 | $ 13,814,571 | $ 55,625,877 |
| 8 | | | | | | | | |
| 9 | Miscellaneous | 1,666,624 | (115,325) | 1,551,299 | - | 1,551,299 | - | 1,551,299 |
| 10 | Total Operating Revenues | $ 46,826,504 | $ (3,463,900) | $ 43,362,605 | $ - | $ 43,362,605 | $ 13,814,571 | $ 57,177,176 |
| 11 | | | | | | | | |
| 12 | Operating Expenses | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | |
| 14 | Purchased Water | 1,911,466 | 34,382 | 1,945,848 | (150,244) | 1,795,604 | - | 1,795,604 |
| 15 | Other | 180,831 | 13,139 | 193,970 | - | 193,970 | - | 193,970 |
| 16 | Pumping Expenses: | | | | | | | |
| 17 | Purchased Power | 4,396,070 | 225,603 | 4,621,673 | 15,250 | 4,636,923 | - | 4,636,923 |
| 18 | Purchased Gas | 5,326 | - | 5,326 | - | 5,326 | - | 5,326 |
| 19 | Other | 1,490,288 | 68,787 | 1,559,075 | - | 1,559,075 | - | 1,559,075 |
| 20 | Water Treatment Expenses | 1,242,415 | 537,036 | 1,779,451 | 6,862 | 1,786,313 | - | 1,786,313 |
| 21 | Transmission & Distribution Expenses | 5,875,678 | 229,463 | 6,105,141 | - | 6,105,141 | - | 6,105,141 |
| 22 | Customer Accounting Expenses | 3,954,472 | 35,770 | 3,990,242 | - | 3,990,242 | - | 3,990,242 |
| 23 | Sales Expense | 21,320 | (2) | 21,318 | - | 21,318 | - | 21,318 |
| 24 | Administrative & General Expenses | 5,675,444 | 1,314,034 | 6,989,478 | - | 6,989,478 | - | 6,989,478 |
| 25 | Total Operations & Maintenance Expense | $ 24,753,310 | $ 2,458,212 | $ 27,211,522 | $ (128,132) | $ 27,083,390 | $ - | $ 27,083,390 |
| 26 | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 6,847,235 | 1,200,343 | 8,047,578 | (30,630) | 8,016,948 | - | 8,016,948 |
| 28 | | | | | | | | |
| 29 | Taxes | | | | | | | |
| 30 | Federal Income Taxes | 2,429,696 | (2,667,072) | (237,376) | 162,227 | (75,149) | 4,369,670 | 4,294,522 |
| 31 | State Income Taxes | 222,642 | (274,934) | (52,292) | 35,737 | (16,555) | 962,599 | 946,045 |
| 32 | Property Taxes | 2,102,867 | 575,960 | 2,678,826 | (28,645) | 2,650,182 | - | 2,650,182 |
| 33 | Other | 4,598,647 | (3,903,227) | 695,420 | - | 695,420 | - | 695,420 |
| 34 | Total Taxes | $ 9,353,852 | $ (6,269,273) | $ 3,084,579 | $ 169,320 | $ 3,253,898 | $ 5,332,270 | $ 8,586,168 |
| 35 | | | | | | | | |
| 36 | Total Operating Expenses | $ 40,954,397 | $ (2,610,719) | $ 38,343,678 | $ 10,558 | $ 38,354,236 | $ 5,332,270 | $ 43,686,506 |
| 37 | Operating Income | $ 5,872,107 | $ (853,181) | $ 5,018,926 | $ (10,558) | $ 5,008,368 | $ 8,482,301 | $ 13,490,670 |
| 38 | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | |
| 40 | Interest: | | | | | | | |
| 41 | Long-Term Debt | 2,781,000 | 2,698,715 | 5,479,715 | (536,793) | 4,942,922 | - | 4,942,922 |
| 42 | Short-Term Debt | 1,201,696 | (1,201,696) | - | 211,323 | 211,323 | - | 211,323 |
| 43 | Other | (1,635,240) | 1,635,240 | - | - | - | - | - |
| 44 | Total Interest | $ 2,347,456 | $ 3,132,259 | $ 5,479,715 | $ (325,470) | $ 5,154,245 | $ - | $ 5,154,245 |
| 45 | | | | | | | | |
| 46 | Other (Income) - Net | (355,468) | 355,468 | - | - | - | - | - |
| 47 | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 1,991,988 | $ 3,487,727 | $ 5,479,715 | $ (325,470) | $ 5,154,245 | $ - | $ 5,154,245 |
| 49 | | | | | | | | |
| 50 | Net Income | $ 3,880,119 | $ (4,340,908) | $ (460,789) | $ 314,912 | $ (145,877) | $ 8,482,301 | $ 8,336,425 |
| 51 | | | | | | | | |
| 52 | | | | | | | | |
| 53 | | | | | | | | |
| 54 | | | | | | | | |
| 55 | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Adjusted Test Year Income Statement

| Line No. | | Eastern Group [A] Test Year Ended 12/31/2007 | [B] Pro Forma Adjustments - As Filed | [C] Adjusted Test Year - As Filed | [D] Rebuttal Adjustments | [E] Adjusted Test Year - Rebuttal | [F] Required Increase - Rebuttal | [G] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|
| 1 | Operating Revenues | | | | | | | |
| 2 | Residential | $ 14,848,894 | $ (1,099,924) | $ 13,748,970 | $ - | $ 13,748,970 | | |
| 3 | Commercial | 4,174,182 | (295,941) | 3,878,241 | - | 3,878,241 | | |
| 4 | Industrial | 148,583 | (11,339) | 137,245 | - | 137,245 | | |
| 5 | Private Fire Service | 13,193 | (1,082) | 12,111 | - | 12,111 | | |
| 6 | Other Water Revenues | 476,124 | (38,654) | 437,470 | - | 437,470 | | |
| 7 | Total Water Revenues | $ 19,660,977 | $ (1,446,941) | $ 18,214,036 | $ - | $ 18,214,036 | $ 5,245,082 | $ 23,459,119 |
| 8 | | | | | | | | |
| 9 | Miscellaneous | 850,928 | (51,714) | 799,213 | - | 799,213 | - | 799,213 |
| 10 | Total Operating Revenues | $ 20,511,905 | $ (1,498,655) | $ 19,013,250 | $ - | $ 19,013,250 | $ 5,245,082 | $ 24,258,332 |
| 11 | | | | | | | | |
| 12 | Operating Expenses | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | |
| 14 | Purchased Water | 1,197,318 | 63,696 | 1,261,014 | - | 1,261,014 | - | 1,261,014 |
| 15 | Other | 79,045 | 956 | 80,001 | - | 80,001 | - | 80,001 |
| 16 | Pumping Expenses: | | | | | | | |
| 17 | Purchased Power | 1,869,924 | 141,621 | 2,011,545 | - | 2,011,545 | - | 2,011,545 |
| 18 | Purchased Gas | 1,313 | - | 1,313 | - | 1,313 | - | 1,313 |
| 19 | Other | 571,978 | 14,607 | 586,585 | - | 586,585 | - | 586,585 |
| 20 | Water Treatment Expenses | 372,237 | 140,289 | 512,526 | - | 512,526 | - | 512,526 |
| 21 | Transmission & Distribution Expenses | 2,439,994 | 51,596 | 2,491,590 | - | 2,491,590 | - | 2,491,590 |
| 22 | Customer Accounting Expenses | 1,697,788 | 4,428 | 1,702,216 | - | 1,702,216 | - | 1,702,216 |
| 23 | Sales Expense | 9,885 | (2) | 9,883 | - | 9,883 | - | 9,883 |
| 24 | Administrative & General Expenses | 2,425,544 | 414,378 | 2,839,922 | - | 2,839,922 | - | 2,839,922 |
| 25 | Total Operations & Maintenance Expense | $ 10,665,026 | $ 831,570 | $ 11,496,596 | $ - | $ 11,496,596 | $ - | $ 11,496,596 |
| 26 | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 2,918,798 | 361,425 | 3,280,223 | (3,180) | 3,277,044 | - | 3,277,044 |
| 28 | | | | | | | | |
| 29 | Taxes | | | | | | | |
| 30 | Federal Income Taxes | 1,144,581 | (1,012,268) | 132,313 | 46,645 | 178,958 | 1,659,066 | 1,838,024 |
| 31 | State Income Taxes | 104,623 | (75,476) | 29,147 | 10,275 | 39,423 | 365,477 | 404,900 |
| 32 | Property Taxes | 1,078,104 | 172,624 | 1,250,728 | (12,079) | 1,238,649 | - | 1,238,649 |
| 33 | Other | 1,819,602 | (1,590,390) | 229,212 | - | 229,212 | - | 229,212 |
| 34 | Total Taxes | $ 4,146,910 | $ (2,505,509) | $ 1,641,400 | $ 44,841 | $ 1,686,242 | $ 2,024,543 | $ 3,710,785 |
| 35 | | | | | | | | |
| 36 | Total Operating Expenses | $ 17,730,734 | $ (1,312,514) | $ 16,418,219 | $ 41,662 | $ 16,459,881 | $ 2,024,543 | $ 18,484,424 |
| 37 | Operating Income | $ 2,781,171 | $ (186,141) | $ 2,595,030 | $ (41,662) | $ 2,553,368 | $ 3,220,539 | $ 5,773,908 |
| 38 | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | |
| 40 | Interest: | | | | | | | |
| 41 | Long-Term Debt | 1,158,565 | 1,179,622 | 2,338,187 | (222,652) | 2,115,535 | - | 2,115,535 |
| 42 | Short-Term Debt | 500,627 | (500,627) | - | 90,445 | 90,445 | - | 90,445 |
| 43 | Other | (681,241) | 681,241 | - | - | - | - | - |
| 44 | Total Interest | $ 977,950 | $ 1,360,237 | $ 2,338,187 | $ (132,208) | $ 2,205,979 | $ - | $ 2,205,979 |
| 45 | | | | | | | | |
| 46 | Other (Income) - Net | (148,088) | 148,088 | - | - | - | - | - |
| 47 | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 829,862 | $ 1,508,325 | $ 2,338,187 | $ (132,208) | $ 2,205,979 | $ - | $ 2,205,979 |
| 49 | | | | | | | | |
| 50 | Net Income | $ 1,951,309 | $ (1,694,465) | $ 256,843 | $ 90,546 | $ 347,389 | $ 3,220,539 | $ 3,567,929 |
| 51 | | | | | | | | |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Adjusted Test Year Income Statement

| Line No. | | Western Group [A] Test Year Ended 12/31/2007 | [B] Pro Forma Adjustments - As Filed | [C] Adjusted Test Year - As Filed | [D] Rebuttal Adjustments | [E] Adjusted Test Year - Rebuttal | [F] Required Increase - Rebuttal | [G] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|
| 1 | Operating Revenues | | | | | | | |
| 2 | Residential | $ 10,254,042 | $ (709,927) | $ 9,544,115 | $ - | $ 9,544,115 | | |
| 3 | Commercial | 3,216,325 | (141,006) | 3,075,319 | - | 3,075,319 | | |
| 4 | Industrial | 1,214,990 | (102,452) | 1,112,538 | - | 1,112,538 | | |
| 5 | Private Fire Service | 17,089 | (1,729) | 15,360 | - | 15,360 | | |
| 6 | Other Water Revenues | 657,029 | (65,059) | 591,970 | - | 591,970 | | |
| 7 | Total Water Revenues | $ 15,359,476 | $ (1,020,173) | $ 14,339,303 | $ - | $ 14,339,303 | $ 5,882,834 | $ 20,222,137 |
| 8 | | | | | | | | |
| 9 | Miscellaneous | 714,399 | (56,201) | 658,198 | - | 658,198 | - | 658,198 |
| 10 | Total Operating Revenues | $ 16,073,875 | $ (1,076,374) | $ 14,997,500 | $ - | $ 14,997,500 | $ 5,882,834 | $ 20,880,335 |
| 11 | | | | | | | | |
| 12 | Operating Expenses | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | |
| 14 | Purchased Water | 712,857 | (29,314) | 683,543 | (150,244) | 533,299 | - | 533,299 |
| 15 | Other | 80,496 | 12,000 | 92,496 | - | 92,496 | - | 92,496 |
| 16 | Pumping Expenses: | | | | | | | |
| 17 | Purchased Power | 1,670,903 | 39,033 | 1,709,936 | 15,250 | 1,725,186 | - | 1,725,186 |
| 18 | Purchased Gas | 1,387 | - | 1,387 | - | 1,387 | - | 1,387 |
| 19 | Other | 616,558 | 48,463 | 665,021 | - | 665,021 | - | 665,021 |
| 20 | Water Treatment Expenses | 341,795 | 326,599 | 668,394 | 6,862 | 675,256 | - | 675,256 |
| 21 | Transmission & Distribution Expenses | 2,263,512 | 175,361 | 2,438,873 | - | 2,438,873 | - | 2,438,873 |
| 22 | Customer Accounting Expenses | 1,263,217 | 23,871 | 1,287,088 | - | 1,287,088 | - | 1,287,088 |
| 23 | Sales Expense | 5,740 | - | 5,740 | - | 5,740 | - | 5,740 |
| 24 | Administrative & General Expenses | 2,033,654 | 326,175 | 2,359,829 | - | 2,359,829 | - | 2,359,829 |
| 25 | Total Operations & Maintenance Expense | $ 8,990,119 | $ 922,186 | $ 9,912,305 | $ (128,132) | $ 9,784,173 | $ - | $ 9,784,173 |
| 26 | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 2,535,955 | 611,577 | 3,147,532 | (15,391) | 3,132,141 | - | 3,132,141 |
| 28 | | | | | | | | |
| 29 | Taxes | | | | | | | |
| 30 | Federal Income Taxes | 579,448 | (1,014,655) | (435,207) | 85,282 | (349,924) | 1,860,792 | 1,510,868 |
| 31 | State Income Taxes | 53,213 | (149,085) | (95,872) | 18,787 | (77,085) | 409,916 | 332,831 |
| 32 | Property Taxes | 701,910 | 349,967 | 1,051,878 | (12,458) | 1,039,419 | - | 1,039,419 |
| 33 | Other | 1,826,408 | (1,491,695) | 334,713 | - | 334,713 | - | 334,713 |
| 34 | Total Taxes | $ 3,160,979 | $ (2,305,467) | $ 855,512 | $ 91,611 | $ 947,123 | $ 2,270,708 | $ 3,217,831 |
| 35 | | | | | | | | |
| 36 | Total Operating Expenses | $ 14,687,053 | $ (771,705) | $ 13,915,349 | $ (51,912) | $ 13,863,436 | $ 2,270,708 | $ 16,134,144 |
| 37 | Operating Income | $ 1,386,821 | $ (304,669) | $ 1,082,152 | $ 51,912 | $ 1,134,064 | $ 3,612,126 | $ 4,746,190 |
| 38 | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | |
| 40 | Interest: | | | | | | | |
| 41 | Long-Term Debt | 980,859 | 946,106 | 1,926,965 | (187,982) | 1,738,983 | - | 1,738,983 |
| 42 | Short-Term Debt | 423,838 | (423,838) | - | 74,346 | 74,346 | - | 74,346 |
| 43 | Other | (576,749) | 576,749 | - | - | - | - | - |
| 44 | Total Interest | $ 827,948 | $ 1,099,017 | $ 1,926,965 | $ (113,636) | $ 1,813,329 | $ - | $ 1,813,329 |
| 45 | | | | | | | | |
| 46 | Other (Income) - Net | (125,374) | 125,374 | - | - | - | - | - |
| 47 | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 702,574 | $ 1,224,391 | $ 1,926,965 | $ (113,636) | $ 1,813,329 | $ - | $ 1,813,329 |
| 49 | | | | | | | | |
| 50 | Net Income | $ 684,247 | $ (1,529,060) | $ (844,813) | $ 165,548 | $ (679,265) | $ 3,612,126 | $ 2,932,861 |
| 51 | | | | | | | | |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Adjusted Test Year Income Statement

Northern Group

| Line No. | | [A] Test Year Ended 12/31/2007 | [B] Pro Forma Adjustments - As Filed | [C] Adjusted Test Year - As Filed | [D] Rebuttal Adjustments | [E] Adjusted Test Year - Rebuttal | [F] Required Increase - Rebuttal | [G] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|
| 1 | Operating Revenues | | | | | | | |
| 2 | Residential | $ 8,371,827 | $ (705,541) | $ 7,666,286 | $ - | $ 7,666,286 | | |
| 3 | Commercial | 1,670,256 | (167,645) | 1,502,611 | - | 1,502,611 | | |
| 4 | Industrial | 6,624 | (448) | 6,175 | - | 6,175 | | |
| 5 | Private Fire Service | 11,819 | (1,145) | 10,674 | - | 10,674 | | |
| 6 | Other Water Revenues | 78,902 | (6,682) | 72,220 | - | 72,220 | | |
| 7 | Total Water Revenues | $ 10,139,427 | $ (881,461) | $ 9,257,966 | $ - | $ 9,257,966 | $ 2,686,654 | $ 11,944,621 |
| 8 | | | | | | | | |
| 9 | Miscellaneous | 101,298 | (7,410) | 93,888 | - | 93,888 | - | 93,888 |
| 10 | Total Operating Revenues | $ 10,240,725 | $ (888,871) | $ 9,351,854 | $ - | $ 9,351,854 | $ 2,686,654 | $ 12,038,509 |
| 11 | | | | | | | | |
| 12 | Operating Expenses | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | |
| 14 | Purchased Water | 1,291 | - | 1,291 | - | 1,291 | - | 1,291 |
| 15 | Other | 21,290 | 183 | 21,473 | - | 21,473 | - | 21,473 |
| 16 | Pumping Expenses: | | | | | | | |
| 17 | Purchased Power | 855,243 | 44,949 | 900,192 | - | 900,192 | - | 900,192 |
| 18 | Purchased Gas | 2,626 | - | 2,626 | - | 2,626 | - | 2,626 |
| 19 | Other | 301,752 | 5,717 | 307,469 | - | 307,469 | - | 307,469 |
| 20 | Water Treatment Expenses | 528,383 | 70,148 | 598,531 | - | 598,531 | - | 598,531 |
| 21 | Transmission & Distribution Expenses | 1,172,172 | 2,507 | 1,174,679 | - | 1,174,679 | - | 1,174,679 |
| 22 | Customer Accounting Expenses | 993,467 | 7,471 | 1,000,938 | - | 1,000,938 | - | 1,000,938 |
| 23 | Sales Expense | 5,695 | - | 5,695 | - | 5,695 | - | 5,695 |
| 24 | Administrative & General Expenses | 1,216,246 | 573,481 | 1,789,727 | - | 1,789,727 | - | 1,789,727 |
| 25 | Total Operations & Maintenance Expense | $ 5,098,165 | $ 704,456 | $ 5,802,621 | $ - | $ 5,802,621 | $ - | $ 5,802,621 |
| 26 | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 1,392,482 | 227,341 | 1,619,823 | (12,059) | 1,607,764 | - | 1,607,764 |
| 28 | | | | | | | | |
| 29 | Taxes | | | | | | | |
| 30 | Federal Income Taxes | 705,667 | (640,149) | 65,518 | 30,300 | 95,818 | 849,812 | 945,630 |
| 31 | State Income Taxes | 64,806 | (50,373) | 14,433 | 6,675 | 21,108 | 187,206 | 208,314 |
| 32 | Property Taxes | 322,853 | 53,368 | 376,221 | (4,107) | 372,114 | - | 372,114 |
| 33 | Other | 952,637 | (821,143) | 131,494 | - | 131,494 | - | 131,494 |
| 34 | Total Taxes | $ 2,045,963 | $ (1,458,297) | $ 587,666 | $ 32,868 | $ 620,534 | $ 1,037,019 | $ 1,657,552 |
| 35 | | | | | | | | |
| 36 | Total Operating Expenses | $ 8,536,610 | $ (526,500) | $ 8,010,110 | $ 20,809 | $ 8,030,919 | $ 1,037,019 | $ 9,067,937 |
| 37 | Operating Income | $ 1,704,115 | $ (362,371) | $ 1,341,744 | $ (20,809) | $ 1,320,936 | $ 1,649,636 | $ 2,970,571 |
| 38 | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | |
| 40 | Interest: | | | | | | | |
| 41 | Long-Term Debt | 641,577 | 572,986 | 1,214,563 | (126,159) | 1,088,404 | - | 1,088,404 |
| 42 | Short-Term Debt | 277,231 | (277,231) | - | 46,532 | 46,532 | - | 46,532 |
| 43 | Other | (377,250) | 377,250 | - | - | - | - | - |
| 44 | Total Interest | $ 541,558 | $ 673,005 | $ 1,214,563 | $ (79,627) | $ 1,134,936 | $ - | $ 1,134,936 |
| 45 | | | | | | | | |
| 46 | Other (Income) - Net | (82,006) | 82,006 | - | - | - | - | - |
| 47 | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 459,552 | $ 755,011 | $ 1,214,563 | $ (79,627) | $ 1,134,936 | $ - | $ 1,134,936 |
| 49 | | | | | | | | |
| 50 | Net Income | $ 1,244,564 | $ (1,117,382) | $ 127,181 | $ 58,818 | $ 185,999 | $ 1,649,636 | $ 1,835,635 |
| 51 | | | | | | | | |
| 52 | | | | | | | | |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Adjusted Test Year Income Statement

Superstition

| Line No. | | [A] Test Year Ended 12/31/2007 | [B] Pro Forma Adjustments - As Filed | [C] Adjusted Test Year - As Filed | [D] Rebuttal Adjustments | [E] Adjusted Test Year - Rebuttal | [F] Required Increase - Rebuttal | [G] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|
| 1 | Operating Revenues | | | | | | | |
| 2 | Residential | $ 9,383,199 | $ (675,028) | $ 8,708,171 | $ - | $ 8,708,171 | | |
| 3 | Commercial | 2,306,291 | (180,373) | 2,125,918 | - | 2,125,918 | | |
| 4 | Industrial | 38,884 | (3,875) | 35,010 | - | 35,010 | | |
| 5 | Private Fire Service | 9,027 | (734) | 8,293 | - | 8,293 | | |
| 6 | Other Water Revenues | 376,916 | (30,569) | 346,347 | - | 346,347 | | |
| 7 | Total Water Revenues | $ 12,114,317 | $ (890,579) | $ 11,223,738 | $ - | $ 11,223,738 | $ 3,510,314 | $ 14,734,052 |
| 8 | | | | | | | | |
| 9 | Miscellaneous | 760,674 | (44,508) | 716,166 | - | 716,166 | - | 716,166 |
| 10 | Total Operating Revenues | $ 12,874,991 | $ (935,087) | $ 11,939,904 | $ - | $ 11,939,904 | $ 3,510,314 | $ 15,450,218 |
| 11 | | | | | | | | |
| 12 | Operating Expenses | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | |
| 14 | Purchased Water | 956,000 | 63,696 | 1,019,696 | - | 1,019,696 | - | 1,019,696 |
| 15 | Other | 46,746 | 1,794 | 48,540 | - | 48,540 | - | 48,540 |
| 16 | Pumping Expenses: | | | | | | | |
| 17 | Purchased Power | 1,066,931 | 103,773 | 1,170,704 | - | 1,170,704 | - | 1,170,704 |
| 18 | Purchased Gas | - | - | - | - | - | - | - |
| 19 | Other | 304,812 | 2,192 | 307,004 | - | 307,004 | - | 307,004 |
| 20 | Water Treatment Expenses | 239,384 | 149,651 | 389,035 | - | 389,035 | - | 389,035 |
| 21 | Transmission & Distribution Expenses | 1,291,602 | 48,092 | 1,339,694 | - | 1,339,694 | - | 1,339,694 |
| 22 | Customer Accounting Expenses | 941,896 | 3,531 | 945,427 | - | 945,427 | - | 945,427 |
| 23 | Sales Expense | 5,489 | - | 5,489 | - | 5,489 | - | 5,489 |
| 24 | Administrative & General Expenses | 1,365,289 | 226,124 | 1,591,413 | - | 1,591,413 | - | 1,591,413 |
| 25 | Total Operations & Maintenance Expense | $ 6,218,149 | $ 598,854 | $ 6,817,003 | $ - | $ 6,817,003 | $ - | $ 6,817,003 |
| 26 | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 1,849,900 | 319,309 | 2,169,209 | (1,056) | 2,168,153 | - | 2,168,153 |
| 28 | | | | | | | | |
| 29 | Taxes | | | | | | | |
| 30 | Federal Income Taxes | 845,292 | (721,745) | 123,547 | 31,933 | 155,480 | 1,110,343 | 1,265,824 |
| 31 | State Income Taxes | 77,628 | (50,412) | 27,216 | 7,035 | 34,251 | 244,599 | 278,850 |
| 32 | Property Taxes | 713,782 | 101,580 | 815,362 | (8,554) | 806,808 | - | 806,808 |
| 33 | Other | 1,117,329 | (980,165) | 137,164 | - | 137,164 | - | 137,164 |
| 34 | Total Taxes | $ 2,754,031 | $ (1,650,742) | $ 1,103,289 | $ 30,414 | $ 1,133,703 | $ 1,354,942 | $ 2,488,645 |
| 35 | | | | | | | | |
| 36 | Total Operating Expenses | $ 10,822,080 | $ (732,579) | $ 10,089,501 | $ 29,359 | $ 10,118,860 | $ 1,354,942 | $ 11,473,802 |
| 37 | Operating Income | $ 2,052,911 | $ (202,508) | $ 1,850,403 | $ (29,359) | $ 1,821,044 | $ 2,155,372 | $ 3,976,417 |
| 38 | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | |
| 40 | Interest: | | | | | | | |
| 41 | Long-Term Debt | 693,581 | 916,996 | 1,610,577 | (153,635) | 1,456,942 | - | 1,456,942 |
| 42 | Short-Term Debt | 299,703 | (299,703) | - | 62,288 | 62,288 | - | 62,288 |
| 43 | Other | (407,829) | 407,829 | - | - | - | - | - |
| 44 | Total Interest | $ 585,456 | $ 1,025,121 | $ 1,610,577 | $ (91,347) | $ 1,519,230 | $ - | $ 1,519,230 |
| 45 | | | | | | | | |
| 46 | Other (Income) - Net | (88,654) | 88,654 | - | | - | - | - |
| 47 | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 496,802 | $ 1,113,775 | $ 1,610,577 | $ (91,347) | $ 1,519,230 | $ - | $ 1,519,230 |
| 49 | | | | | | | | |
| 50 | Net Income | $ 1,556,109 | $ (1,316,283) | $ 239,826 | $ 61,989 | $ 301,815 | $ 2,155,372 | $ 2,457,187 |
| 51 | | | | | | | | |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Adjusted Test Year Income Statement

Bisbee

| Line No. | | [A] Test Year Ended 12/31/2007 | [B] Pro Forma Adjustments - As Filed | [C] Adjusted Test Year - As Filed | [D] Rebuttal Adjustments | [E] Adjusted Test Year - Rebuttal | [F] Required Increase - Rebuttal | [G] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|
| 1 | Operating Revenues | | | | | | | |
| 2 | Residential | $ 1,325,953 | $ (133,357) | $ 1,192,596 | $ - | $ 1,192,596 | | |
| 3 | Commercial | 537,874 | (46,174) | 491,700 | - | 491,700 | | |
| 4 | Industrial | 2,480 | (178) | 2,302 | - | 2,302 | | |
| 5 | Private Fire Service | 996 | (88) | 908 | - | 908 | | |
| 6 | Other Water Revenues | 14,009 | (1,380) | 12,628 | - | 12,628 | | |
| 7 | Total Water Revenues | $ 1,881,312 | $ (181,177) | $ 1,700,135 | $ - | $ 1,700,135 | $ 425,881 | $ 2,126,015 |
| 8 | | | | | | | | |
| 9 | Miscellaneous | 25,609 | (2,269) | 23,340 | - | 23,340 | - | 23,340 |
| 10 | Total Operating Revenues | $ 1,906,921 | $ (183,446) | $ 1,723,475 | $ - | $ 1,723,475 | $ 425,881 | $ 2,149,355 |
| 11 | | | | | | | | |
| 12 | Operating Expenses | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | |
| 14 | Purchased Water | - | - | - | - | - | - | - |
| 15 | Other | 2,440 | 3 | 2,443 | - | 2,443 | - | 2,443 |
| 16 | Pumping Expenses: | | | | | | | |
| 17 | Purchased Power | 207,583 | 17,273 | 224,856 | - | 224,856 | - | 224,856 |
| 18 | Purchased Gas | 615 | - | 615 | - | 615 | - | 615 |
| 19 | Other | 49,935 | 142 | 50,077 | - | 50,077 | - | 50,077 |
| 20 | Water Treatment Expenses | 42,050 | (9,117) | 32,933 | - | 32,933 | - | 32,933 |
| 21 | Transmission & Distribution Expenses | 267,088 | 3,395 | 270,483 | - | 270,483 | - | 270,483 |
| 22 | Customer Accounting Expenses | 179,926 | (392) | 179,534 | - | 179,534 | - | 179,534 |
| 23 | Sales Expense | 529 | - | 529 | - | 529 | - | 529 |
| 24 | Administrative & General Expenses | 335,625 | 56,958 | 392,583 | - | 392,583 | - | 392,583 |
| 25 | Total Operations & Maintenance Expense | $ 1,085,791 | $ 68,263 | $ 1,154,054 | $ - | $ 1,154,054 | $ - | $ 1,154,054 |
| 26 | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 244,945 | 16,517 | 261,462 | (47) | 261,415 | - | 261,415 |
| 28 | | | | | | | | |
| 29 | Taxes | | | | | | | |
| 30 | Federal Income Taxes | 75,538 | (77,638) | (2,100) | 3,362 | 1,262 | 134,710 | 135,972 |
| 31 | State Income Taxes | 6,937 | (7,400) | (463) | 741 | 278 | 29,675 | 29,953 |
| 32 | Property Taxes | 97,492 | 17,419 | 114,911 | (901) | 114,010 | - | 114,010 |
| 33 | Other | 213,647 | (186,832) | 26,815 | - | 26,815 | - | 26,815 |
| 34 | Total Taxes | $ 393,614 | $ (254,451) | $ 139,163 | $ 3,201 | $ 142,364 | $ 164,385 | $ 306,750 |
| 35 | | | | | | | | |
| 36 | Total Operating Expenses | $ 1,724,350 | $ (169,671) | $ 1,554,679 | $ 3,154 | $ 1,557,833 | $ 164,385 | $ 1,722,218 |
| 37 | Operating Income | $ 182,571 | $ (13,775) | $ 168,796 | $ (3,154) | $ 165,641 | $ 261,496 | $ 427,137 |
| 38 | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | |
| 40 | Interest: | | | | | | | |
| 41 | Long-Term Debt | 138,494 | 34,378 | 172,872 | (16,371) | 156,501 | - | 156,501 |
| 42 | Short-Term Debt | 59,844 | (59,844) | - | 6,691 | 6,691 | - | 6,691 |
| 43 | Other | (81,435) | 81,435 | - | - | - | - | - |
| 44 | Total Interest | $ 116,903 | $ 55,968 | $ 172,872 | $ (9,680) | $ 163,192 | $ - | $ 163,192 |
| 45 | | | | | | | | |
| 46 | Other (Income) - Net | (17,702) | 17,702 | - | - | - | - | - |
| 47 | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 99,201 | $ 73,671 | $ 172,872 | $ (9,680) | $ 163,192 | $ - | $ 163,192 |
| 49 | | | | | | | | |
| 50 | Net Income | $ 83,370 | $ (87,446) | $ (4,076) | $ 6,525 | $ 2,449 | $ 261,496 | $ 263,945 |
| 51 | | | | | | | | |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Adjusted Test Year Income Statement

Sierra Vista

| Line No. | | [A] Test Year Ended 12/31/2007 | [B] Pro Forma Adjustments - As Filed | [C] Adjusted Test Year - As Filed | [D] Rebuttal Adjustments | [E] Adjusted Test Year - Rebuttal | [F] Required Increase - Rebuttal | [G] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|
| 1 | Operating Revenues | | | | | | | |
| 2 | Residential | $ 1,155,911 | $ (88,083) | $ 1,067,828 | $ - | $ 1,067,828 | | |
| 3 | Commercial | 344,921 | 1,248 | 346,169 | - | 346,169 | | |
| 4 | Industrial | (106) | 106 | - | - | - | | |
| 5 | Private Fire Service | 2,076 | (152) | 1,924 | - | 1,924 | | |
| 6 | Other Water Revenues | 31,851 | (2,520) | 29,331 | - | 29,331 | | |
| 7 | Total Water Revenues | $ 1,534,653 | $ (89,400) | $ 1,445,253 | $ - | $ 1,445,253 | $ (69,733) | $ 1,375,520 |
| 8 | | | | | | | | |
| 9 | Miscellaneous | 17,947 | (1,302) | 16,645 | - | 16,645 | - | 16,645 |
| 10 | Total Operating Revenues | $ 1,552,600 | $ (90,703) | $ 1,461,897 | $ - | $ 1,461,897 | $ (69,733) | $ 1,392,165 |
| 11 | | | | | | | | |
| 12 | Operating Expenses | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | |
| 14 | Purchased Water | - | - | - | - | - | - | - |
| 15 | Other | 2,046 | 50 | 2,096 | - | 2,096 | - | 2,096 |
| 16 | Pumping Expenses: | | | | | | | |
| 17 | Purchased Power | 220,481 | 180 | 220,661 | - | 220,661 | - | 220,661 |
| 18 | Purchased Gas | 698 | - | 698 | - | 698 | - | 698 |
| 19 | Other | 39,758 | 6,262 | 46,020 | - | 46,020 | - | 46,020 |
| 20 | Water Treatment Expenses | 29,471 | (7,017) | 22,454 | - | 22,454 | - | 22,454 |
| 21 | Transmission & Distribution Expenses | 213,182 | 366 | 213,548 | - | 213,548 | - | 213,548 |
| 22 | Customer Accounting Expenses | 134,304 | 204 | 134,508 | - | 134,508 | - | 134,508 |
| 23 | Sales Expense | 275 | - | 275 | - | 275 | - | 275 |
| 24 | Administrative & General Expenses | 128,422 | 23,829 | 152,251 | - | 152,251 | - | 152,251 |
| 25 | Total Operations & Maintenance Expense | $ 768,637 | $ 23,873 | $ 792,510 | $ - | $ 792,510 | $ - | $ 792,510 |
| 26 | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 178,016 | 8,517 | 186,533 | - | 186,533 | - | 186,533 |
| 28 | | | | | | | | |
| 29 | Taxes | | | | | | | |
| 30 | Federal Income Taxes | 117,936 | (24,401) | 93,535 | 1,871 | 95,406 | (22,057) | 73,349 |
| 31 | State Income Taxes | 10,831 | 9,774 | 20,605 | 412 | 21,017 | (4,859) | 16,158 |
| 32 | Property Taxes | 69,372 | 10,743 | 80,115 | (455) | 79,659 | - | 79,659 |
| 33 | Other | 123,479 | (109,940) | 13,539 | - | 13,539 | - | 13,539 |
| 34 | Total Taxes | $ 321,618 | $ (113,824) | $ 207,794 | $ 1,827 | $ 209,622 | $ (26,916) | $ 182,706 |
| 35 | | | | | | | | |
| 36 | Total Operating Expenses | $ 1,268,271 | $ (81,433) | $ 1,186,838 | $ 1,827 | $ 1,188,665 | $ (26,916) | $ 1,161,749 |
| 37 | Operating Income | $ 284,329 | $ (9,269) | $ 275,060 | $ (1,827) | $ 273,232 | $ (42,817) | $ 230,416 |
| 38 | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | |
| 40 | Interest: | | | | | | | |
| 41 | Long-Term Debt | 71,750 | 21,741 | 93,491 | (9,068) | 84,423 | - | 84,423 |
| 42 | Short-Term Debt | 31,004 | (31,004) | - | 3,609 | 3,609 | - | 3,609 |
| 43 | Other | (42,189) | 42,189 | - | - | - | - | - |
| 44 | Total Interest | $ 60,564 | $ 32,927 | $ 93,491 | $ (5,458) | $ 88,033 | $ - | $ 88,033 |
| 45 | | | | | | | | |
| 46 | Other (Income) - Net | (9,171) | 9,171 | - | - | - | - | - |
| 47 | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 51,393 | $ 42,098 | $ 93,491 | $ (5,458) | $ 88,033 | $ - | $ 88,033 |
| 49 | | | | | | | | |
| 50 | Net Income | $ 232,935 | $ (51,367) | $ 181,569 | $ 3,631 | $ 185,200 | $ (42,817) | $ 142,383 |
| 51 | | | | | | | | |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Adjusted Test Year Income Statement

San Manuel

| Line No. | | [A] Test Year Ended 12/31/2007 | [B] Pro Forma Adjustments - As Filed | [C] Adjusted Test Year - As Filed | [D] Rebuttal Adjustments | [E] Adjusted Test Year - Rebuttal | [F] Required Increase - Rebuttal | [G] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|
| 1 | Operating Revenues | | | | | | | |
| 2 | Residential | $ 695,832 | $ (48,928) | $ 646,904 | $ - | $ 646,904 | | |
| 3 | Commercial | 153,904 | (10,032) | 143,872 | - | 143,872 | | |
| 4 | Industrial | - | - | - | - | - | | |
| 5 | Private Fire Service | 60 | (4) | 56 | - | 56 | | |
| 6 | Other Water Revenues | 11,894 | (781) | 11,113 | - | 11,113 | | |
| 7 | Total Water Revenues | $ 861,690 | $ (59,744) | $ 801,946 | $ - | $ 801,946 | $ 383,661 | $ 1,185,606 |
| 8 | | | | | | | | |
| 9 | Miscellaneous | 11,077 | (664) | 10,413 | - | 10,413 | - | 10,413 |
| 10 | Total Operating Revenues | $ 872,767 | $ (60,408) | $ 812,359 | $ - | $ 812,359 | $ 383,661 | $ 1,196,020 |
| 11 | | | | | | | | |
| 12 | Operating Expenses | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | |
| 14 | Purchased Water | 241,318 | - | 241,318 | - | 241,318 | - | 241,318 |
| 15 | Other | 8,189 | (1,282) | 6,907 | - | 6,907 | - | 6,907 |
| 16 | Pumping Expenses: | | | | | | | |
| 17 | Purchased Power | 35,137 | 3,221 | 38,358 | - | 38,358 | - | 38,358 |
| 18 | Purchased Gas | - | - | - | - | - | - | - |
| 19 | Other | 35,120 | (451) | 34,669 | - | 34,669 | - | 34,669 |
| 20 | Water Treatment Expenses | 21,228 | 19,588 | 40,816 | - | 40,816 | - | 40,816 |
| 21 | Transmission & Distribution Expenses | 135,276 | 10,467 | 145,743 | - | 145,743 | - | 145,743 |
| 22 | Customer Accounting Expenses | 105,751 | (1,109) | 104,642 | - | 104,642 | - | 104,642 |
| 23 | Sales Expense | 497 | - | 497 | - | 497 | - | 497 |
| 24 | Administrative & General Expenses | 118,465 | 22,389 | 140,854 | - | 140,854 | - | 140,854 |
| 25 | Total Operations & Maintenance Expense | $ 700,981 | $ 52,823 | $ 753,804 | $ - | $ 753,804 | $ - | $ 753,804 |
| 26 | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 79,936 | 26,198 | 106,134 | - | 106,134 | - | 106,134 |
| 28 | | | | | | | | |
| 29 | Taxes | | | | | | | |
| 30 | Federal Income Taxes | (10,234) | (53,134) | (63,368) | 1,455 | (61,913) | 121,355 | 59,442 |
| 31 | State Income Taxes | (940) | (13,019) | (13,959) | 320 | (13,639) | 26,733 | 13,095 |
| 32 | Property Taxes | 57,525 | 10,645 | 68,170 | (457) | 67,712 | - | 67,712 |
| 33 | Other | 70,382 | (61,280) | 9,102 | - | 9,102 | - | 9,102 |
| 34 | Total Taxes | $ 116,733 | $ (116,789) | $ (56) | $ 1,318 | $ 1,262 | $ 148,089 | $ 149,351 |
| 35 | | | | | | | | |
| 36 | Total Operating Expenses | $ 897,650 | $ (37,767) | $ 859,882 | $ 1,318 | $ 861,200 | $ 148,089 | $ 1,009,289 |
| 37 | Operating Income | $ (24,883) | $ (22,640) | $ (47,524) | $ (1,318) | $ (48,842) | $ 235,572 | $ 186,730 |
| 38 | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | |
| 40 | Interest: | | | | | | | |
| 41 | Long-Term Debt | 46,721 | 28,763 | 75,484 | (7,067) | 68,417 | - | 68,417 |
| 42 | Short-Term Debt | 20,188 | (20,188) | - | 2,925 | 2,925 | - | 2,925 |
| 43 | Other | (27,472) | 27,472 | - | - | - | - | - |
| 44 | Total Interest | $ 39,437 | $ 36,047 | $ 75,484 | $ (4,142) | $ 71,342 | $ - | $ 71,342 |
| 45 | | | | | | | | |
| 46 | Other (Income) - Net | (5,972) | 5,972 | - | - | - | - | - |
| 47 | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 33,465 | $ 42,019 | $ 75,484 | $ (4,142) | $ 71,342 | $ - | $ 71,342 |
| 49 | | | | | | | | |
| 50 | Net Income | $ (58,349) | $ (64,659) | $ (123,008) | $ 2,824 | $ (120,184) | $ 235,572 | $ 115,388 |
| 51 | | | | | | | | |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Adjusted Test Year Income Statement

| Line No. | | [A] Test Year Ended 12/31/2007 | [B] Pro Forma Adjustments - As Filed | [C] Adjusted Test Year - As Filed | [D] Oracle Rebuttal Adjustments | [E] Adjusted Test Year - Rebuttal | [F] Required Increase - Rebuttal | [G] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|
| 1 | Operating Revenues | | | | | | | |
| 2 | Residential | $ 912,698 | $ (48,103) | $ 864,595 | $ - | $ 864,595 | | |
| 3 | Commercial | 226,983 | 2,460 | 229,443 | - | 229,443 | | |
| 4 | Industrial | - | - | - | - | - | | |
| 5 | Private Fire Service | 60 | (4) | 56 | - | 56 | | |
| 6 | Other Water Revenues | 22,482 | (1,467) | 21,015 | - | 21,015 | | |
| 7 | Total Water Revenues | $ 1,162,223 | $ (47,114) | $ 1,115,109 | $ - | $ 1,115,109 | $ 46,671 | $ 1,161,780 |
| 8 | | | | | | | | |
| 9 | Miscellaneous | 11,794 | (688) | 11,106 | - | 11,106 | - | 11,106 |
| 10 | Total Operating Revenues | $ 1,174,017 | $ (47,802) | $ 1,126,215 | $ - | $ 1,126,215 | $ 46,671 | $ 1,172,886 |
| 11 | | | | | | | | |
| 12 | Operating Expenses | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | |
| 14 | Purchased Water | - | - | - | - | - | - | - |
| 15 | Other | 9,201 | 307 | 9,508 | - | 9,508 | - | 9,508 |
| 16 | Pumping Expenses: | | | | | | | |
| 17 | Purchased Power | 150,258 | (522) | 149,736 | - | 149,736 | - | 149,736 |
| 18 | Purchased Gas | - | - | - | - | - | - | - |
| 19 | Other | 34,173 | 4,430 | 38,603 | - | 38,603 | - | 38,603 |
| 20 | Water Treatment Expenses | 19,572 | (4,030) | 15,542 | - | 15,542 | - | 15,542 |
| 21 | Transmission & Distribution Expenses | 146,609 | 5,401 | 152,010 | - | 152,010 | - | 152,010 |
| 22 | Customer Accounting Expenses | 98,713 | 1,715 | 100,428 | - | 100,428 | - | 100,428 |
| 23 | Sales Expense | 549 | - | 549 | - | 549 | - | 549 |
| 24 | Administrative & General Expenses | 129,543 | 22,407 | 151,950 | - | 151,950 | - | 151,950 |
| 25 | Total Operations & Maintenance Expense | $ 588,618 | $ 29,708 | $ 618,326 | $ - | $ 618,326 | $ - | $ 618,326 |
| 26 | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 175,777 | 5,616 | 181,393 | - | 181,393 | - | 181,393 |
| 28 | | | | | | | | |
| 29 | Taxes | | | | | | | |
| 30 | Federal Income Taxes | 76,934 | (22,956) | 53,978 | 1,678 | 55,656 | 14,762 | 70,418 |
| 31 | State Income Taxes | 6,343 | 5,548 | 11,891 | 370 | 12,260 | 3,252 | 15,513 |
| 32 | Property Taxes | 47,154 | 6,767 | 53,921 | (352) | 53,569 | - | 53,569 |
| 33 | Other | 88,155 | (75,697) | 12,458 | - | 12,458 | - | 12,458 |
| 34 | Total Taxes | $ 218,586 | $ (86,338) | $ 132,248 | $ 1,695 | $ 133,943 | $ 18,014 | $ 151,957 |
| 35 | | | | | | | | |
| 36 | Total Operating Expenses | $ 982,981 | $ (51,014) | $ 931,966 | $ 1,695 | $ 933,661 | $ 18,014 | $ 951,676 |
| 37 | Operating Income | $ 191,036 | $ 3,212 | $ 194,248 | $ (1,695) | $ 192,553 | $ 28,656 | $ 221,210 |
| 38 | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | |
| 40 | Interest: | | | | | | | |
| 41 | Long-Term Debt | 63,407 | 26,061 | 89,467 | (8,417) | 81,050 | - | 81,050 |
| 42 | Short-Term Debt | 27,399 | (27,399) | - | 3,465 | 3,465 | - | 3,465 |
| 43 | Other | (37,283) | 37,283 | - | - | - | - | - |
| 44 | Total Interest | $ 53,522 | $ 35,945 | $ 89,467 | $ (4,952) | $ 84,515 | $ - | $ 84,515 |
| 45 | | | | | | | | |
| 46 | Other (Income) - Net | (8,105) | 8,105 | - | - | - | - | - |
| 47 | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 45,417 | $ 44,050 | $ 89,467 | $ (4,952) | $ 84,515 | $ - | $ 84,515 |
| 49 | | | | | | | | |
| 50 | Net Income | $ 145,619 | $ (40,838) | $ 104,781 | $ 3,257 | $ 108,038 | $ 28,656 | $ 136,694 |
| 51 | | | | | | | | |
| 52 | | | | | | | | |
| 53 | | | | | | | | |
| 54 | | | | | | | | |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Adjusted Test Year Income Statement

Saddlebrook

| Line No. | | [A] Test Year Ended 12/31/2007 | [B] Pro Forma Adjustments - As Filed | [C] Adjusted Test Year - As Filed | [D] Rebuttal Adjustments | [E] Adjusted Test Year - Rebuttal | [F] Required Increase - Rebuttal | [G] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|
| 1 | Operating Revenues | | | | | | | |
| 2 | Residential | $ 1,851 | $ (1,851) | $ - | $ - | $ - | | |
| 3 | Commercial | 18,949 | (18,949) | - | - | - | | |
| 4 | Industrial | - | - | - | - | - | | |
| 5 | Private Fire Service | 30 | (30) | - | - | - | | |
| 6 | Other Water Revenues | - | - | - | - | - | | |
| 7 | Total Water Revenues | $ 20,830 | $ (20,830) | $ - | $ - | $ - | $ - | $ - |
| 8 | | | | | | | | |
| 9 | Miscellaneous | 543 | (543) | - | - | - | - | - |
| 10 | Total Operating Revenues | $ 21,373 | $ (21,373) | $ - | $ - | $ - | $ - | $ - |
| 11 | | | | | | | | |
| 12 | Operating Expenses | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | |
| 14 | Purchased Water | - | - | - | - | - | - | - |
| 15 | Other | 37 | (37) | - | - | - | - | - |
| 16 | Pumping Expenses: | | | | | | | |
| 17 | Purchased Power | - | - | - | - | - | - | - |
| 18 | Purchased Gas | - | - | - | - | - | - | - |
| 19 | Other | 167 | (167) | - | - | - | - | - |
| 20 | Water Treatment Expenses | 114 | (114) | - | - | - | - | - |
| 21 | Transmission & Distribution Expenses | 659 | (659) | - | - | - | - | - |
| 22 | Customer Accounting Expenses | 2,892 | (2,892) | - | - | - | - | - |
| 23 | Sales Expense | 2 | (2) | - | - | - | - | - |
| 24 | Administrative & General Expenses | 102 | (102) | - | - | - | - | - |
| 25 | Total Operations & Maintenance Expense | $ 3,973 | $ (3,973) | $ - | $ - | $ - | $ - | $ - |
| 26 | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 1,115 | (1,115) | - | - | - | - | - |
| 28 | | | | | | | | |
| 29 | Taxes | | | | | | | |
| 30 | Federal Income Taxes | 4,758 | (4,758) | - | 0 | 0 | - | 0 |
| 31 | State Income Taxes | 669 | (669) | - | 0 | 0 | - | 0 |
| 32 | Property Taxes | 15 | (15) | - | - | - | - | - |
| 33 | Other | 1,337 | (1,337) | - | - | - | - | - |
| 34 | Total Taxes | $ 6,779 | $ (6,779) | $ - | $ 0 | $ 0 | $ - | $ 0 |
| 35 | | | | | | | | |
| 36 | Total Operating Expenses | $ 11,867 | $ (11,867) | $ - | $ 0 | $ 0 | $ - | $ 0 |
| 37 | Operating Income | $ 9,506 | $ (9,506) | $ - | $ (0) | $ (0) | $ - | $ (0) |
| 38 | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | |
| 40 | Interest: | | | | | | | |
| 41 | Long-Term Debt | - | - | - | (0) | (0) | - | (0) |
| 42 | Short-Term Debt | - | - | - | (0) | (0) | - | (0) |
| 43 | Other | - | - | - | - | - | - | - |
| 44 | Total Interest | $ - | $ - | $ - | $ (0) | $ (0) | $ - | $ (0) |
| 45 | | | | | | | | |
| 46 | Other (Income) - Net | - | - | - | - | - | - | - |
| 47 | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ - | $ - | $ - | $ (0) | $ (0) | $ - | $ (0) |
| 49 | | | | | | | | |
| 50 | Net Income | $ 9,506 | $ (9,506) | $ - | $ 0 | $ 0 | $ - | $ 0 |
| 51 | | | | | | | | |
| 52 | | | | | | | | |
| 53 | | | | | | | | |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Adjusted Test Year Income Statement

Winkelman

| Line No. | | [A] Test Year Ended 12/31/2007 | [B] Pro Forma Adjustments - As Filed | [C] Adjusted Test Year - As Filed | [D] Rebuttal Adjustments | [E] Adjusted Test Year - Rebuttal | [F] Required Increase - Rebuttal | [G] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|
| 1 | Operating Revenues | | | | | | | |
| 2 | Residential | $ 49,335 | $ (4,434) | $ 44,901 | $ - | $ 44,901 | | |
| 3 | Commercial | 53,748 | (3,652) | 50,096 | - | 50,096 | | |
| 4 | Industrial | 1,925 | (151) | 1,774 | - | 1,774 | | |
| 5 | Private Fire Service | - | - | - | - | - | | |
| 6 | Other Water Revenues | 817 | (68) | 749 | - | 749 | | |
| 7 | Total Water Revenues | $ 105,824 | $ (8,305) | $ 97,519 | $ - | $ 97,519 | $ 30,184 | $ 127,703 |
| 8 | | | | | | | | |
| 9 | Miscellaneous | 1,295 | (92) | 1,203 | - | 1,203 | - | 1,203 |
| 10 | Total Operating Revenues | $ 107,119 | $ (8,397) | $ 98,722 | $ - | $ 98,722 | $ 30,184 | $ 128,906 |
| 11 | | | | | | | | |
| 12 | Operating Expenses | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | |
| 14 | Purchased Water | - | - | - | - | - | - | - |
| 15 | Other | 890 | 7 | 897 | - | 897 | - | 897 |
| 16 | Pumping Expenses: | | | | | | | |
| 17 | Purchased Power | 6,757 | 553 | 7,310 | - | 7,310 | - | 7,310 |
| 18 | Purchased Gas | - | - | - | - | - | - | - |
| 19 | Other | 4,187 | (37) | 4,150 | - | 4,150 | - | 4,150 |
| 20 | Water Treatment Expenses | 2,109 | (737) | 1,372 | - | 1,372 | - | 1,372 |
| 21 | Transmission & Distribution Expenses | 18,775 | (2,157) | 16,618 | - | 16,618 | - | 16,618 |
| 22 | Customer Accounting Expenses | 11,399 | (67) | 11,332 | - | 11,332 | - | 11,332 |
| 23 | Sales Expense | 58 | - | 58 | - | 58 | - | 58 |
| 24 | Administrative & General Expenses | 13,712 | 2,404 | 16,116 | - | 16,116 | - | 16,116 |
| 25 | Total Operations & Maintenance Expense | $ 57,887 | $ (32) | $ 57,855 | $ - | $ 57,855 | $ - | $ 57,855 |
| 26 | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 18,926 | 1,002 | 19,928 | (2,077) | 17,851 | - | 17,851 |
| 28 | | | | | | | | |
| 29 | Taxes | | | | | | | |
| 30 | Federal Income Taxes | 2,680 | (3,639) | (959) | 916 | (43) | 9,547 | 9,505 |
| 31 | State Income Taxes | 246 | (457) | (211) | 202 | (9) | 2,103 | 2,094 |
| 32 | Property Taxes | 9,223 | 1,452 | 10,675 | (167) | 10,508 | - | 10,508 |
| 33 | Other | 9,244 | (8,009) | 1,235 | - | 1,235 | - | 1,235 |
| 34 | Total Taxes | $ 21,393 | $ (10,652) | $ 10,741 | $ 951 | $ 11,692 | $ 11,651 | $ 23,342 |
| 35 | | | | | | | | |
| 36 | Total Operating Expenses | $ 98,206 | $ (9,682) | $ 88,524 | $ (1,126) | $ 87,398 | $ 11,651 | $ 99,048 |
| 37 | Operating Income | $ 8,913 | $ 1,285 | $ 10,198 | $ 1,126 | $ 11,325 | $ 18,533 | $ 29,858 |
| 38 | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | |
| 40 | Interest: | | | | | | | |
| 41 | Long-Term Debt | 6,118 | 5,941 | 12,059 | (1,119) | 10,940 | - | 10,940 |
| 42 | Short-Term Debt | 2,644 | (2,644) | - | 468 | 468 | - | 468 |
| 43 | Other | (3,598) | 3,598 | - | - | - | - | - |
| 44 | Total Interest | $ 5,164 | $ 6,895 | $ 12,059 | $ (652) | $ 11,407 | $ - | $ 11,407 |
| 45 | | | | | | | | |
| 46 | Other (Income) - Net | (782) | 782 | - | - | - | - | - |
| 47 | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 4,382 | $ 7,677 | $ 12,059 | $ (652) | $ 11,407 | $ - | $ 11,407 |
| 49 | | | | | | | | |
| 50 | Net Income | $ 4,531 | $ (6,392) | $ (1,861) | $ 1,778 | $ (83) | $ 18,533 | $ 18,450 |
| 51 | | | | | | | | |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Adjusted Test Year Income Statement

Miami

| Line No. | | [A] Test Year Ended 12/31/2007 | [B] Pro Forma Adjustments - As Filed | [C] Adjusted Test Year - As Filed | [D] Rebuttal Adjustments | [E] Adjusted Test Year - Rebuttal | [F] Required Increase - Rebuttal | [G] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|
| 1 | Operating Revenues | | | | | | | |
| 2 | Residential | $ 1,324,116 | $ (100,141) | $ 1,223,975 | $ - | $ 1,223,975 | | |
| 3 | Commercial | 531,513 | (40,469) | 491,044 | - | 491,044 | | |
| 4 | Industrial | 105,400 | (7,240) | 98,160 | - | 98,160 | | |
| 5 | Private Fire Service | 944 | (70) | 874 | - | 874 | | |
| 6 | Other Water Revenues | 18,155 | (1,870) | 16,285 | - | 16,285 | | |
| 7 | Total Water Revenues | $ 1,980,128 | $ (149,791) | $ 1,830,338 | $ - | $ 1,830,338 | $ 918,105 | $ 2,748,442 |
| 8 | | | | | | | | |
| 9 | Miscellaneous | 21,989 | (1,649) | 20,340 | - | 20,340 | - | 20,340 |
| 10 | Total Operating Revenues | $ 2,002,117 | $ (151,439) | $ 1,850,678 | $ - | $ 1,850,678 | $ 918,105 | $ 2,768,783 |
| 11 | | | | | | | | |
| 12 | Operating Expenses | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | |
| 14 | Purchased Water | - | - | - | - | - | - | - |
| 15 | Other | 9,496 | 114 | 9,610 | - | 9,610 | - | 9,610 |
| 16 | Pumping Expenses: | | | | | | | |
| 17 | Purchased Power | 182,777 | 17,142 | 199,919 | - | 199,919 | - | 199,919 |
| 18 | Purchased Gas | - | - | - | - | - | - | - |
| 19 | Other | 103,826 | 2,235 | 106,061 | - | 106,061 | - | 106,061 |
| 20 | Water Treatment Expenses | 18,309 | (7,935) | 10,374 | - | 10,374 | - | 10,374 |
| 21 | Transmission & Distribution Expenses | 366,803 | (13,308) | 353,495 | - | 353,495 | - | 353,495 |
| 22 | Customer Accounting Expenses | 222,907 | 3,437 | 226,344 | - | 226,344 | - | 226,344 |
| 23 | Sales Expense | 2,486 | - | 2,486 | - | 2,486 | - | 2,486 |
| 24 | Administrative & General Expenses | 334,386 | 60,368 | 394,754 | - | 394,754 | - | 394,754 |
| 25 | Total Operations & Maintenance Expense | $ 1,240,990 | $ 62,054 | $ 1,303,044 | $ - | $ 1,303,044 | $ - | $ 1,303,044 |
| 26 | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 370,183 | (14,619) | 355,564 | - | 355,564 | - | 355,564 |
| 28 | | | | | | | | |
| 29 | Taxes | | | | | | | |
| 30 | Federal Income Taxes | 31,677 | (103,998) | (72,321) | 5,431 | (66,890) | 290,405 | 223,514 |
| 31 | State Income Taxes | 2,909 | (18,841) | (15,932) | 1,196 | (14,735) | 63,974 | 49,238 |
| 32 | Property Taxes | 83,542 | 24,033 | 107,575 | (1,193) | 106,382 | - | 106,382 |
| 33 | Other | 196,029 | (167,130) | 28,899 | - | 28,899 | - | 28,899 |
| 34 | Total Taxes | $ 314,157 | $ (265,935) | $ 48,221 | $ 5,434 | $ 53,656 | $ 354,378 | $ 408,034 |
| 35 | | | | | | | | |
| 36 | Total Operating Expenses | $ 1,925,330 | $ (218,500) | $ 1,706,829 | $ 5,434 | $ 1,712,264 | $ 354,378 | $ 2,066,642 |
| 37 | Operating Income | $ 76,788 | $ 67,061 | $ 143,848 | $ (5,434) | $ 138,414 | $ 563,727 | $ 702,141 |
| 38 | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | |
| 40 | Interest: | | | | | | | |
| 41 | Long-Term Debt | 138,494 | 145,743 | 284,236 | (26,975) | 257,261 | - | 257,261 |
| 42 | Short-Term Debt | 59,844 | (59,844) | - | 10,999 | 10,999 | - | 10,999 |
| 43 | Other | (81,435) | 81,435 | - | - | - | - | - |
| 44 | Total Interest | $ 116,903 | $ 167,333 | $ 284,236 | $ (15,976) | $ 268,260 | $ - | $ 268,260 |
| 45 | | | | | | | | |
| 46 | Other (Income) - Net | (17,702) | 17,702 | - | - | - | - | - |
| 47 | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 99,201 | $ 185,035 | $ 284,236 | $ (15,976) | $ 268,260 | $ - | $ 268,260 |
| 49 | | | | | | | | |
| 50 | Net Income | $ (22,413) | $ (117,975) | $ (140,388) | $ 10,542 | $ (129,846) | $ 563,727 | $ 433,881 |
| 51 | | | | | | | | |
| 52 | | | | | | | | |
| 53 | | | | | | | | |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Adjusted Test Year Income Statement

Casa Grande

| Line No. | | [A] Test Year Ended 12/31/2007 | [B] Pro Forma Adjustments - As Filed | [C] Adjusted Test Year - As Filed | [D] Rebuttal Adjustments | [E] Adjusted Test Year - Rebuttal | [F] Required Increase - Rebuttal | [G] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|
| 1 | Operating Revenues | | | | | | | |
| 2 | Residential | $ 7,057,641 | $ (479,321) | $ 6,578,320 | $ - | $ 6,578,320 | | |
| 3 | Commercial | 2,311,157 | (93,468) | 2,217,689 | - | 2,217,689 | | |
| 4 | Industrial | 1,185,591 | (100,368) | 1,085,224 | - | 1,085,224 | | |
| 5 | Private Fire Service | 14,770 | (1,502) | 13,268 | - | 13,268 | | |
| 6 | Other Water Revenues | 503,729 | (53,018) | 450,711 | - | 450,711 | | |
| 7 | Total Water Revenues | $ 11,072,888 | $ (727,676) | $ 10,345,212 | $ - | $ 10,345,212 | $ 5,106,325 | $ 15,451,537 |
| 8 | | | | | | | | |
| 9 | Miscellaneous | 637,701 | (48,019) | 589,682 | - | 589,682 | - | 589,682 |
| 10 | Total Operating Revenues | $ 11,710,589 | $ (775,695) | $ 10,934,895 | $ - | $ 10,934,895 | $ 5,106,325 | $ 16,041,220 |
| 11 | | | | | | | | |
| 12 | Operating Expenses | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | |
| 14 | Purchased Water | 374,207 | - | 374,207 | - | 374,207 | - | 374,207 |
| 15 | Other | 66,355 | 9,823 | 76,178 | - | 76,178 | - | 76,178 |
| 16 | Pumping Expenses: | | | | | | | |
| 17 | Purchased Power | 1,351,229 | 36,649 | 1,387,878 | - | 1,387,878 | - | 1,387,878 |
| 18 | Purchased Gas | 509 | - | 509 | - | 509 | - | 509 |
| 19 | Other | 498,302 | 39,588 | 537,890 | - | 537,890 | - | 537,890 |
| 20 | Water Treatment Expenses | 283,039 | 248,578 | 531,617 | - | 531,617 | - | 531,617 |
| 21 | Transmission & Distribution Expenses | 1,767,971 | 120,024 | 1,887,995 | - | 1,887,995 | - | 1,887,995 |
| 22 | Customer Accounting Expenses | 891,911 | 17,473 | 909,384 | - | 909,384 | - | 909,384 |
| 23 | Sales Expense | 4,312 | - | 4,312 | - | 4,312 | - | 4,312 |
| 24 | Administrative & General Expenses | 1,513,786 | 247,896 | 1,761,682 | - | 1,761,682 | - | 1,761,682 |
| 25 | Total Operations & Maintenance Expense | $ 6,751,621 | $ 720,032 | $ 7,471,653 | $ - | $ 7,471,653 | $ - | $ 7,471,653 |
| 26 | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 1,911,885 | 417,875 | 2,329,760 | (15,289) | 2,314,471 | - | 2,314,471 |
| 28 | | | | | | | | |
| 29 | Taxes | | | | | | | |
| 30 | Federal Income Taxes | 337,483 | (787,643) | (450,160) | 35,936 | (414,224) | 1,615,176 | 1,200,951 |
| 31 | State Income Taxes | 30,993 | (130,159) | (99,166) | 7,916 | (91,250) | 355,809 | 264,559 |
| 32 | Property Taxes | 535,360 | 271,107 | 806,467 | (8,856) | 797,611 | - | 797,611 |
| 33 | Other | 1,340,087 | (1,120,741) | 219,346 | - | 219,346 | - | 219,346 |
| 34 | Total Taxes | $ 2,243,923 | $ (1,767,436) | $ 476,487 | $ 34,996 | $ 511,483 | $ 1,970,984 | $ 2,482,467 |
| 35 | | | | | | | | |
| 36 | Total Operating Expenses | $ 10,907,429 | $ (629,529) | $ 10,277,900 | $ 19,707 | $ 10,297,607 | $ 1,970,984 | $ 12,268,591 |
| 37 | Operating Income | $ 803,160 | $ (146,166) | $ 656,994 | $ (19,707) | $ 637,288 | $ 3,135,341 | $ 3,772,629 |
| 38 | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | |
| 40 | Interest: | | | | | | | |
| 41 | Long-Term Debt | 738,356 | 792,479 | 1,530,834 | (148,560) | 1,382,275 | - | 1,382,275 |
| 42 | Short-Term Debt | 319,050 | (319,050) | - | 59,096 | 59,096 | - | 59,096 |
| 43 | Other | (434,156) | 434,156 | - | - | - | - | - |
| 44 | Total Interest | $ 623,250 | $ 907,585 | $ 1,530,834 | $ (89,464) | $ 1,441,370 | $ - | $ 1,441,370 |
| 45 | | | | | | | | |
| 46 | Other (Income) - Net | (94,377) | 94,377 | - | - | - | - | - |
| 47 | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 528,873 | $ 1,001,961 | $ 1,530,834 | $ (89,464) | $ 1,441,370 | $ - | $ 1,441,370 |
| 49 | | | | | | | | |
| 50 | Net Income | $ 274,287 | $ (1,148,127) | $ (873,840) | $ 69,757 | $ (804,083) | $ 3,135,341 | $ 2,331,258 |
| 51 | | | | | | | | |
| 52 | | | | | | | | |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Adjusted Test Year Income Statement

Stanfield

| Line No. | | [A] Test Year Ended 12/31/2007 | [B] Pro Forma Adjustments - As Filed | [C] Adjusted Test Year - As Filed | [D] Rebuttal Adjustments | [E] Adjusted Test Year - Rebuttal | [F] Required Increase - Rebuttal | [G] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|
| 1 | Operating Revenues | | | | | | | |
| 2 | Residential | $ 93,732 | $ (4,892) | $ 88,841 | $ - | $ 88,841 | | |
| 3 | Commercial | 24,666 | (2,015) | 22,651 | - | 22,651 | | |
| 4 | Industrial | - | - | - | - | - | | |
| 5 | Private Fire Service | - | - | - | - | - | | |
| 6 | Other Water Revenues | 18,946 | 552 | 19,498 | - | 19,498 | | |
| 7 | Total Water Revenues | $ 137,344 | $ (6,354) | $ 130,990 | $ - | $ 130,990 | $ 174,415 | $ 305,405 |
| 8 | | | | | | | | |
| 9 | Miscellaneous | 2,238 | (1,302) | 936 | - | 936 | - | 936 |
| 10 | Total Operating Revenues | $ 139,582 | $ (7,656) | $ 131,926 | $ - | $ 131,926 | $ 174,415 | $ 306,341 |
| 11 | | | | | | | | |
| 12 | Operating Expenses | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | |
| 14 | Purchased Water | - | - | - | - | - | - | - |
| 15 | Other | 374 | 4 | 378 | - | 378 | - | 378 |
| 16 | Pumping Expenses: | | | | | | | |
| 17 | Purchased Power | 18,790 | 1,809 | 20,599 | - | 20,599 | - | 20,599 |
| 18 | Purchased Gas | - | - | - | - | - | - | - |
| 19 | Other | 4,571 | 260 | 4,831 | - | 4,831 | - | 4,831 |
| 20 | Water Treatment Expenses | 1,362 | 61,624 | 62,986 | - | 62,986 | - | 62,986 |
| 21 | Transmission & Distribution Expenses | 18,274 | 6,734 | 25,008 | - | 25,008 | - | 25,008 |
| 22 | Customer Accounting Expenses | 8,590 | 128 | 8,718 | - | 8,718 | - | 8,718 |
| 23 | Sales Expense | 43 | - | 43 | - | 43 | - | 43 |
| 24 | Administrative & General Expenses | 15,443 | 2,117 | 17,560 | - | 17,560 | - | 17,560 |
| 25 | Total Operations & Maintenance Expense | $ 67,447 | $ 72,677 | $ 140,124 | $ - | $ 140,124 | $ - | $ 140,124 |
| 26 | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 33,456 | 12,611 | 46,067 | (102) | 45,965 | - | 45,965 |
| 28 | | | | | | | | |
| 29 | Taxes | | | | | | | |
| 30 | Federal Income Taxes | 5,361 | (37,114) | (31,753) | 627 | (31,126) | 55,169 | 24,043 |
| 31 | State Income Taxes | 492 | (7,487) | (6,995) | 138 | (6,857) | 12,153 | 5,296 |
| 32 | Property Taxes | 9,361 | 4,692 | 14,053 | (191) | 13,862 | - | 13,862 |
| 33 | Other | 10,455 | (8,933) | 1,522 | - | 1,522 | - | 1,522 |
| 34 | Total Taxes | $ 25,669 | $ (48,842) | $ (23,173) | $ 574 | $ (22,599) | $ 67,322 | $ 44,723 |
| 35 | | | | | | | | |
| 36 | Total Operating Expenses | $ 126,572 | $ 36,446 | $ 163,018 | $ 472 | $ 163,490 | $ 67,322 | $ 230,813 |
| 37 | Operating Income | $ 13,010 | $ (44,103) | $ (31,092) | $ (472) | $ (31,565) | $ 107,093 | $ 75,528 |
| 38 | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | |
| 40 | Interest: | | | | | | | |
| 41 | Long-Term Debt | 7,509 | 23,038 | 30,546 | (2,873) | 27,673 | - | 27,673 |
| 42 | Short-Term Debt | 3,245 | (3,245) | - | 1,183 | 1,183 | - | 1,183 |
| 43 | Other | (4,415) | 4,415 | - | - | - | - | - |
| 44 | Total Interest | $ 6,338 | $ 24,208 | $ 30,546 | $ (1,690) | $ 28,856 | $ - | $ 28,856 |
| 45 | | | | | | | | |
| 46 | Other (Income) - Net | (960) | 960 | - | - | - | - | - |
| 47 | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 5,378 | $ 25,168 | $ 30,546 | $ (1,690) | $ 28,856 | $ - | $ 28,856 |
| 49 | | | | | | | | |
| 50 | Net Income | $ 7,632 | $ (69,270) | $ (61,639) | $ 1,218 | $ (60,421) | $ 107,093 | $ 46,672 |
| 51 | | | | | | | | |
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| 53 | | | | | | | | |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Adjusted Test Year Income Statement

White Tank

| Line No. | | [A] Test Year Ended 12/31/2007 | [B] Pro Forma Adjustments - As Filed | [C] Adjusted Test Year - As Filed | [D] Rebuttal Adjustments | [E] Adjusted Test Year - Rebuttal | [F] Required Increase - Rebuttal | [G] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|
| 1 | Operating Revenues | | | | | | | |
| 2 | Residential | $ 1,126,251 | $ (68,323) | $ 1,057,928 | $ - | $ 1,057,928 | | |
| 3 | Commercial | 115,074 | 4,284 | 119,358 | - | 119,358 | | |
| 4 | Industrial | 19,835 | (1,177) | 18,658 | - | 18,658 | | |
| 5 | Private Fire Service | 314 | (19) | 295 | - | 295 | | |
| 6 | Other Water Revenues | 38,934 | (2,768) | 36,166 | - | 36,166 | | |
| 7 | Total Water Revenues | $ 1,300,408 | $ (68,004) | $ 1,232,404 | $ - | $ 1,232,404 | $ 322,023 | $ 1,554,426 |
| 8 | | | | | | | | |
| 9 | Miscellaneous | 13,109 | (778) | 12,331 | - | 12,331 | - | 12,331 |
| 10 | Total Operating Revenues | $ 1,313,517 | $ (68,782) | $ 1,244,735 | $ - | $ 1,244,735 | $ 322,023 | $ 1,566,758 |
| 11 | | | | | | | | |
| 12 | Operating Expenses | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | |
| 14 | Purchased Water | 179,558 | (29,314) | 150,244 | (150,244) | (0) | - | (0) |
| 15 | Other | 3,504 | 2,102 | 5,606 | - | 5,606 | - | 5,606 |
| 16 | Pumping Expenses: | | | | | | | |
| 17 | Purchased Power | 104,113 | 1,468 | 105,581 | 15,250 | 120,831 | - | 120,831 |
| 18 | Purchased Gas | - | - | - | - | - | - | - |
| 19 | Other | 39,750 | 1,526 | 41,276 | - | 41,276 | - | 41,276 |
| 20 | Water Treatment Expenses | 19,638 | 15,337 | 34,975 | 6,862 | 41,837 | - | 41,837 |
| 21 | Transmission & Distribution Expenses | 149,069 | 24,508 | 173,577 | - | 173,577 | - | 173,577 |
| 22 | Customer Accounting Expenses | 72,298 | 321 | 72,619 | - | 72,619 | - | 72,619 |
| 23 | Sales Expense | 362 | - | 362 | - | 362 | - | 362 |
| 24 | Administrative & General Expenses | 127,889 | 18,812 | 146,701 | - | 146,701 | - | 146,701 |
| 25 | Total Operations & Maintenance Expense | $ 696,181 | $ 34,759 | $ 730,940 | $ (128,132) | $ 602,808 | $ - | $ 602,808 |
| 26 | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 207,520 | 86,975 | 294,495 | - | 294,495 | - | 294,495 |
| 28 | | | | | | | | |
| 29 | Taxes | | | | | | | |
| 30 | Federal Income Taxes | 67,984 | (85,334) | (17,350) | 44,164 | 26,813 | 101,859 | 128,672 |
| 31 | State Income Taxes | 6,243 | (10,065) | (3,822) | 9,729 | 5,907 | 22,439 | 28,345 |
| 32 | Property Taxes | 32,957 | 20,479 | 53,436 | (2,172) | 51,265 | - | 51,265 |
| 33 | Other | 138,530 | (81,563) | 56,967 | - | 56,967 | - | 56,967 |
| 34 | *Total Taxes* | $ 245,714 | $ (156,483) | $ 89,231 | $ 51,721 | $ 140,952 | $ 124,297 | $ 265,249 |
| 35 | | | | | | | | |
| 36 | Total Operating Expenses | $ 1,149,415 | $ (34,749) | $ 1,114,666 | $ (76,411) | $ 1,038,255 | $ 124,297 | $ 1,162,552 |
| 37 | Operating Income | $ 164,102 | $ (34,033) | $ 130,069 | $ 76,411 | $ 206,480 | $ 197,726 | $ 404,206 |
| 38 | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | |
| 40 | Interest: | | | | | | | |
| 41 | Long-Term Debt | 65,910 | 97,839 | 163,749 | (15,650) | 148,099 | - | 148,099 |
| 42 | Short-Term Debt | 28,480 | (28,480) | - | 6,332 | 6,332 | - | 6,332 |
| 43 | Other | (38,755) | 38,755 | - | - | - | - | - |
| 44 | Total Interest | $ 55,635 | $ 108,114 | $ 163,749 | $ (9,318) | $ 154,431 | $ - | $ 154,431 |
| 45 | | | | | | | | |
| 46 | Other (Income) - Net | (8,425) | 8,425 | - | - | - | - | - |
| 47 | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 47,210 | $ 116,539 | $ 163,749 | $ (9,318) | $ 154,431 | $ - | $ 154,431 |
| 49 | | | | | | | | |
| 50 | Net Income | $ 116,892 | $ (150,572) | $ (33,680) | $ 85,729 | $ 52,049 | $ 197,726 | $ 249,775 |
| 51 | | | | | | | | |
| 52 | | | | | | | | |
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| 55 | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Adjusted Test Year Income Statement

| Line No. | | [A] Test Year Ended 12/31/2007 | [B] Pro Forma Adjustments - As Filed | [C] Adjusted Test Year - As Filed | Ajo [D] Rebuttal Adjustments | [E] Adjusted Test Year - Rebuttal | [F] Required Increase - Rebuttal | [G] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|
| 1 | Operating Revenues | | | | | | | |
| 2 | Residential | $ 377,562 | $ (17,524) | $ 360,038 | $ - | $ 360,038 | | |
| 3 | Commercial | 112,990 | (6,639) | 106,351 | - | 106,351 | | |
| 4 | Industrial | - | - | - | - | - | | |
| 5 | Private Fire Service | 132 | (8) | 124 | - | 124 | | |
| 6 | Other Water Revenues | 551 | 261 | 812 | - | 812 | | |
| 7 | Total Water Revenues | $ 491,235 | $ (23,910) | $ 467,325 | $ - | $ 467,325 | $ 88,266 | $ 555,591 |
| 8 | | | | | | | | |
| 9 | Miscellaneous | 3,922 | (254) | 3,669 | - | 3,669 | - | 3,669 |
| 10 | Total Operating Revenues | $ 495,157 | $ (24,163) | $ 470,994 | $ - | $ 470,994 | $ 88,266 | $ 559,259 |
| 11 | | | | | | | | |
| 12 | Operating Expenses | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | |
| 14 | Purchased Water | 159,092 | - | 159,092 | - | 159,092 | - | 159,092 |
| 15 | Other | 290 | (219) | 71 | - | 71 | - | 71 |
| 16 | Pumping Expenses: | | | | | | | |
| 17 | Purchased Power | 3,297 | - | 3,297 | - | 3,297 | - | 3,297 |
| 18 | Purchased Gas | - | - | - | - | - | - | - |
| 19 | Other | 16,409 | (95) | 16,314 | - | 16,314 | - | 16,314 |
| 20 | Water Treatment Expenses | 4,901 | 3 | 4,904 | - | 4,904 | - | 4,904 |
| 21 | Transmission & Distribution Expenses | 59,442 | 6,878 | 66,320 | - | 66,320 | - | 66,320 |
| 22 | Customer Accounting Expenses | 29,070 | 6 | 29,076 | - | 29,076 | - | 29,076 |
| 23 | Sales Expense | 133 | - | 133 | - | 133 | - | 133 |
| 24 | Administrative & General Expenses | 48,693 | 6,832 | 55,525 | - | 55,525 | - | 55,525 |
| 25 | Total Operations & Maintenance Expense | $ 321,327 | $ 13,405 | $ 334,732 | $ - | $ 334,732 | $ - | $ 334,732 |
| 26 | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 46,972 | 4,182 | 51,154 | - | 51,154 | - | 51,154 |
| 28 | | | | | | | | |
| 29 | Taxes | | | | | | | |
| 30 | Federal Income Taxes | 20,225 | (16,170) | 4,055 | 800 | 4,854 | 27,919 | 32,774 |
| 31 | State Income Taxes | 1,857 | (964) | 893 | 176 | 1,069 | 6,150 | 7,220 |
| 32 | Property Taxes | 21,643 | 4,622 | 26,265 | (185) | 26,080 | - | 26,080 |
| 33 | Other | 34,463 | (30,116) | 4,347 | - | 4,347 | - | 4,347 |
| 34 | Total Taxes | $ 78,188 | $ (42,628) | $ 35,560 | $ 791 | $ 36,351 | $ 34,070 | $ 70,420 |
| 35 | | | | | | | | |
| 36 | Total Operating Expenses | $ 446,487 | $ (25,041) | $ 421,445 | $ 791 | $ 422,236 | $ 34,070 | $ 456,306 |
| 37 | Operating Income | $ 48,670 | $ 878 | $ 49,548 | $ (791) | $ 48,758 | $ 54,196 | $ 102,954 |
| 38 | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | |
| 40 | Interest: | | | | | | | |
| 41 | Long-Term Debt | 22,526 | 19,151 | 41,677 | (3,955) | 37,722 | - | 37,722 |
| 42 | Short-Term Debt | 9,734 | (9,734) | - | 1,613 | 1,613 | - | 1,613 |
| 43 | Other | (13,245) | 13,245 | - | - | - | - | - |
| 44 | Total Interest | $ 19,014 | $ 22,663 | $ 41,677 | $ (2,343) | $ 39,334 | $ - | $ 39,334 |
| 45 | | | | | | | | |
| 46 | Other (Income) - Net | (2,879) | 2,879 | - | - | - | - | - |
| 47 | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 16,135 | $ 25,542 | $ 41,677 | $ (2,343) | $ 39,334 | $ - | $ 39,334 |
| 49 | | | | | | | | |
| 50 | Net Income | $ 32,535 | $ (24,664) | $ 7,871 | $ 1,552 | $ 9,423 | $ 54,196 | $ 63,619 |
| 51 | | | | | | | | |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Adjusted Test Year Income Statement

Coolidge

| Line No. | | [A] Test Year Ended 12/31/2007 | [B] Pro Forma Adjustments - As Filed | [C] Adjusted Test Year - As Filed | [D] Rebuttal Adjustments | [E] Adjusted Test Year - Rebuttal | [F] Required Increase - Rebuttal | [G] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|
| 1 | Operating Revenues | | | | | | | |
| 2 | Residential | $ 1,598,856 | $ (139,867) | $ 1,458,989 | $ - | $ 1,458,989 | | |
| 3 | Commercial | 652,438 | (43,168) | 609,270 | - | 609,270 | | |
| 4 | Industrial | 9,564 | (907) | 8,657 | - | 8,657 | | |
| 5 | Private Fire Service | 1,873 | (200) | 1,673 | - | 1,673 | | |
| 6 | Other Water Revenues | 94,870 | (10,086) | 84,784 | - | 84,784 | | |
| 7 | Total Water Revenues | $ 2,357,601 | $ (194,229) | $ 2,163,372 | $ - | $ 2,163,372 | $ 191,805 | $ 2,355,177 |
| 8 | | | | | | | | |
| 9 | Miscellaneous | 57,429 | (5,849) | 51,580 | - | 51,580 | - | 51,580 |
| 10 | Total Operating Revenues | $ 2,415,030 | $ (200,078) | $ 2,214,952 | $ - | $ 2,214,952 | $ 191,805 | $ 2,406,757 |
| 11 | | | | | | | | |
| 12 | Operating Expenses | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | |
| 14 | Purchased Water | - | - | - | - | - | - | - |
| 15 | Other | 9,973 | 289 | 10,262 | - | 10,262 | - | 10,262 |
| 16 | Pumping Expenses: | | | | | | | |
| 17 | Purchased Power | 193,474 | (893) | 192,581 | - | 192,581 | - | 192,581 |
| 18 | Purchased Gas | 878 | - | 878 | - | 878 | - | 878 |
| 19 | Other | 57,526 | 7,184 | 64,710 | - | 64,710 | - | 64,710 |
| 20 | Water Treatment Expenses | 32,855 | 1,056 | 33,911 | - | 33,911 | - | 33,911 |
| 21 | Transmission & Distribution Expenses | 268,756 | 17,217 | 285,973 | - | 285,973 | - | 285,973 |
| 22 | Customer Accounting Expenses | 261,348 | 5,942 | 267,290 | - | 267,290 | - | 267,290 |
| 23 | Sales Expense | 890 | - | 890 | - | 890 | - | 890 |
| 24 | Administrative & General Expenses | 327,843 | 50,518 | 378,361 | - | 378,361 | - | 378,361 |
| 25 | Total Operations & Maintenance Expense | $ 1,153,543 | $ 81,313 | $ 1,234,856 | $ - | $ 1,234,856 | $ - | $ 1,234,856 |
| 26 | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 336,122 | 89,934 | 426,056 | - | 426,056 | - | 426,056 |
| 28 | | | | | | | | |
| 29 | Taxes | | | | | | | |
| 30 | Federal Income Taxes | 148,395 | (88,393) | 60,002 | 3,756 | 63,758 | 60,670 | 124,428 |
| 31 | State Income Taxes | 13,628 | (410) | 13,218 | 827 | 14,045 | 13,365 | 27,410 |
| 32 | Property Taxes | 102,590 | 49,066 | 151,656 | (1,055) | 150,601 | - | 150,601 |
| 33 | Other | 302,873 | (250,341) | 52,532 | - | 52,532 | - | 52,532 |
| 34 | Total Taxes | $ 567,486 | $ (290,079) | $ 277,407 | $ 3,529 | $ 280,936 | $ 74,035 | $ 354,971 |
| 35 | | | | | | | | |
| 36 | Total Operating Expenses | $ 2,057,151 | $ (118,832) | $ 1,938,319 | $ 3,529 | $ 1,941,848 | $ 74,035 | $ 2,015,883 |
| 37 | Operating Income | $ 357,879 | $ (81,246) | $ 276,633 | $ (3,529) | $ 273,103 | $ 117,771 | $ 390,874 |
| 38 | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | |
| 40 | Interest: | | | | | | | |
| 41 | Long-Term Debt | 146,559 | 13,600 | 160,158 | (16,944) | 143,215 | - | 143,215 |
| 42 | Short-Term Debt | 63,329 | (63,329) | - | 6,123 | 6,123 | - | 6,123 |
| 43 | Other | (86,177) | 86,177 | - | - | - | - | - |
| 44 | Total Interest | $ 123,711 | $ 36,447 | $ 160,158 | $ (10,821) | $ 149,337 | $ - | $ 149,337 |
| 45 | | | | | | | | |
| 46 | Other (Income) - Net | (18,733) | 18,733 | - | - | - | - | - |
| 47 | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 104,978 | $ 55,181 | $ 160,158 | $ (10,821) | $ 149,337 | $ - | $ 149,337 |
| 49 | | | | | | | | |
| 50 | Net Income | $ 252,901 | $ (136,427) | $ 116,474 | $ 7,292 | $ 123,766 | $ 117,771 | $ 241,537 |
| 51 | | | | | | | | |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Adjusted Test Year Income Statement

Lakeside

| Line No. | | [A] Test Year Ended 12/31/2007 | [B] Pro Forma Adjustments - As Filed | [C] Adjusted Test Year - As Filed | [D] Rebuttal Adjustments | [E] Adjusted Test Year - Rebuttal | [F] Required Increase - Rebuttal | [G] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|
| 1 | Operating Revenues | | | | | | | |
| 2 | Residential | $ 2,279,195 | $ (121,137) | $ 2,158,058 | $ - | $ 2,158,058 | | |
| 3 | Commercial | 393,456 | (18,716) | 374,740 | - | 374,740 | | |
| 4 | Industrial | 5,697 | (343) | 5,354 | - | 5,354 | | |
| 5 | Private Fire Service | 1,680 | (123) | 1,557 | - | 1,557 | | |
| 6 | Other Water Revenues | 25,115 | (1,460) | 23,656 | - | 23,656 | | |
| 7 | Total Water Revenues | $ 2,705,143 | $ (141,779) | $ 2,563,364 | $ - | $ 2,563,364 | $ 237,687 | $ 2,801,051 |
| 8 | | | | | | | | |
| 9 | Miscellaneous | 27,400 | (1,821) | 25,579 | - | 25,579 | - | 25,579 |
| 10 | Total Operating Revenues | $ 2,732,543 | $ (143,600) | $ 2,588,943 | $ - | $ 2,588,943 | $ 237,687 | $ 2,826,631 |
| 11 | | | | | | | | |
| 12 | Operating Expenses | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | |
| 14 | Purchased Water | 1,233 | - | 1,233 | - | 1,233 | - | 1,233 |
| 15 | Other | 5,132 | 52 | 5,184 | - | 5,184 | - | 5,184 |
| 16 | Pumping Expenses: | | | | | | | |
| 17 | Purchased Power | 182,166 | (226) | 181,940 | - | 181,940 | - | 181,940 |
| 18 | Purchased Gas | - | - | - | - | - | - | - |
| 19 | Other | 51,830 | 1,847 | 53,677 | - | 53,677 | - | 53,677 |
| 20 | Water Treatment Expenses | 30,953 | (2,490) | 28,463 | - | 28,463 | - | 28,463 |
| 21 | Transmission & Distribution Expenses | 285,766 | 4,681 | 290,447 | - | 290,447 | - | 290,447 |
| 22 | Customer Accounting Expenses | 274,175 | 1,718 | 275,893 | - | 275,893 | - | 275,893 |
| 23 | Sales Expense | 686 | - | 686 | - | 686 | - | 686 |
| 24 | Administrative & General Expenses | 337,580 | 169,079 | 506,659 | - | 506,659 | - | 506,659 |
| 25 | Total Operations & Maintenance Expense | $ 1,169,521 | $ 174,660 | $ 1,344,181 | $ - | $ 1,344,181 | $ - | $ 1,344,181 |
| 26 | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 361,305 | 55,638 | 416,943 | - | 416,943 | - | 416,943 |
| 28 | | | | | | | | |
| 29 | Taxes | | | | | | | |
| 30 | Federal Income Taxes | 250,736 | (121,012) | 129,724 | 4,795 | 134,519 | 75,183 | 209,702 |
| 31 | State Income Taxes | 23,027 | 5,550 | 28,577 | 1,056 | 29,633 | 16,562 | 46,195 |
| 32 | Property Taxes | 101,466 | 15,218 | 116,684 | (941) | 115,743 | - | 115,743 |
| 33 | Other | 221,100 | (185,983) | 35,117 | - | 35,117 | - | 35,117 |
| 34 | Total Taxes | $ 596,329 | $ (286,227) | $ 310,102 | $ 4,910 | $ 315,013 | $ 91,745 | $ 406,757 |
| 35 | | | | | | | | |
| 36 | Total Operating Expenses | $ 2,127,155 | $ (55,929) | $ 2,071,226 | $ 4,910 | $ 2,076,137 | $ 91,745 | $ 2,167,881 |
| 37 | Operating Income | $ 605,388 | $ (87,671) | $ 517,717 | $ (4,910) | $ 512,807 | $ 145,943 | $ 658,749 |
| 38 | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | |
| 40 | Interest: | | | | | | | |
| 41 | Long-Term Debt | 172,422 | 93,478 | 265,900 | (24,537) | 241,363 | - | 241,363 |
| 42 | Short-Term Debt | 74,505 | (74,505) | - | 10,319 | 10,319 | - | 10,319 |
| 43 | Other | (101,385) | 101,385 | - | - | - | - | - |
| 44 | Total Interest | $ 145,542 | $ 120,358 | $ 265,900 | $ (14,218) | $ 251,682 | $ - | $ 251,682 |
| 45 | | | | | | | | |
| 46 | Other (Income) - Net | (22,039) | 22,039 | - | - | - | - | - |
| 47 | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 123,503 | $ 142,397 | $ 265,900 | $ (14,218) | $ 251,682 | $ - | $ 251,682 |
| 49 | | | | | | | | |
| 50 | Net Income | $ 481,885 | $ (230,067) | $ 251,817 | $ 9,308 | $ 261,125 | $ 145,943 | $ 407,068 |
| 51 | | | | | | | | |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Adjusted Test Year Income Statement

Overgaard

| Line No. | | [A] Test Year Ended 12/31/2007 | [B] Pro Forma Adjustments - As Filed | [C] Adjusted Test Year - As Filed | [D] Rebuttal Adjustments | [E] Adjusted Test Year - Rebuttal | [F] Required Increase - Rebuttal | [G] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|
| 1 | Operating Revenues | | | | | | | |
| 2 | Residential | $ 1,602,235 | $ (81,048) | $ 1,521,187 | $ - | $ 1,521,187 | | |
| 3 | Commercial | 131,496 | (1,921) | 129,575 | - | 129,575 | | |
| 4 | Industrial | - | - | - | - | - | | |
| 5 | Private Fire Service | 1,272 | (77) | 1,195 | - | 1,195 | | |
| 6 | Other Water Revenues | 10,612 | (649) | 9,963 | - | 9,963 | | |
| 7 | Total Water Revenues | $ 1,745,615 | $ (83,695) | $ 1,661,920 | $ - | $ 1,661,920 | $ (99,461) | $ 1,562,459 |
| 8 | | | | | | | | |
| 9 | Miscellaneous | 25,555 | (1,133) | 24,422 | - | 24,422 | - | 24,422 |
| 10 | Total Operating Revenues | $ 1,771,171 | $ (84,828) | $ 1,686,342 | $ - | $ 1,686,342 | $ (99,461) | $ 1,586,881 |
| 11 | | | | | | | | |
| 12 | Operating Expenses | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | |
| 14 | Purchased Water | 58 | - | 58 | - | 58 | - | 58 |
| 15 | Other | 4,270 | 108 | 4,378 | - | 4,378 | - | 4,378 |
| 16 | Pumping Expenses: | | | | | | | |
| 17 | Purchased Power | 70,727 | 444 | 71,171 | - | 71,171 | - | 71,171 |
| 18 | Purchased Gas | - | - | - | - | - | - | - |
| 19 | Other | 41,113 | 2,828 | 43,941 | - | 43,941 | - | 43,941 |
| 20 | Water Treatment Expenses | 24,963 | (10,230) | 14,733 | - | 14,733 | - | 14,733 |
| 21 | Transmission & Distribution Expenses | 229,850 | 7,623 | 237,473 | - | 237,473 | - | 237,473 |
| 22 | Customer Accounting Expenses | 202,816 | 4,382 | 207,198 | - | 207,198 | - | 207,198 |
| 23 | Sales Expense | 446 | - | 446 | - | 446 | - | 446 |
| 24 | Administrative & General Expenses | 183,733 | 95,940 | 279,673 | - | 279,673 | - | 279,673 |
| 25 | Total Operations & Maintenance Expense | $ 757,976 | $ 101,096 | $ 859,072 | $ - | $ 859,072 | $ - | $ 859,072 |
| 26 | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 211,509 | 3,271 | 214,780 | - | 214,780 | - | 214,780 |
| 28 | | | | | | | | |
| 29 | Taxes | | | | | | | |
| 30 | Federal Income Taxes | 176,904 | (50,143) | 126,761 | 2,258 | 129,018 | (31,460) | 97,558 |
| 31 | State Income Taxes | 16,246 | 11,678 | 27,924 | 497 | 28,422 | (6,930) | 21,491 |
| 32 | Property Taxes | 60,413 | 4,746 | 65,159 | (401) | 64,758 | - | 64,758 |
| 33 | Other | 120,698 | (97,942) | 22,756 | - | 22,756 | - | 22,756 |
| 34 | Total Taxes | $ 374,261 | $ (131,661) | $ 242,600 | $ 2,354 | $ 244,954 | $ (38,391) | $ 206,563 |
| 35 | | | | | | | | |
| 36 | Total Operating Expenses | $ 1,343,746 | $ (27,294) | $ 1,316,453 | $ 2,354 | $ 1,318,807 | $ (38,391) | $ 1,280,416 |
| 37 | Operating Income | $ 427,424 | $ (57,535) | $ 369,890 | $ (2,354) | $ 367,535 | $ (61,070) | $ 306,465 |
| 38 | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | |
| 40 | Interest: | | | | | | | |
| 41 | Long-Term Debt | 110,962 | 12,863 | 123,825 | (11,538) | 112,287 | - | 112,287 |
| 42 | Short-Term Debt | 47,948 | (47,948) | - | 4,801 | 4,801 | - | 4,801 |
| 43 | Other | (65,246) | 65,246 | - | - | - | - | - |
| 44 | Total Interest | $ 93,664 | $ 30,162 | $ 123,825 | $ (6,737) | $ 117,088 | $ - | $ 117,088 |
| 45 | | | | | | | | |
| 46 | Other (Income) - Net | (14,183) | 14,183 | - | - | - | - | - |
| 47 | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 79,480 | $ 44,345 | $ 123,825 | $ (6,737) | $ 117,088 | $ - | $ 117,088 |
| 49 | | | | | | | | |
| 50 | Net Income | $ 347,944 | $ (101,879) | $ 246,065 | $ 4,383 | $ 250,447 | $ (61,070) | $ 189,377 |
| 51 | | | | | | | | |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Adjusted Test Year Income Statement

Sedona

| Line No. | | [A] Test Year Ended 12/31/2007 | [B] Pro Forma Adjustments - As Filed | [C] Adjusted Test Year - As Filed | [D] Rebuttal Adjustments | [E] Adjusted Test Year - Rebuttal | [F] Required Increase - Rebuttal | [G] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|
| 1 | Operating Revenues | | | | | | | |
| 2 | Residential | $ 2,841,617 | $ (341,354) | $ 2,500,263 | $ - | $ 2,500,263 | | |
| 3 | Commercial | 1,095,227 | (137,656) | 957,571 | - | 957,571 | | |
| 4 | Industrial | 386 | (71) | 315 | - | 315 | | |
| 5 | Private Fire Service | 8,621 | (929) | 7,692 | - | 7,692 | | |
| 6 | Other Water Revenues | 29,987 | (3,271) | 26,716 | - | 26,716 | | |
| 7 | Total Water Revenues | $ 3,975,838 | $ (483,280) | $ 3,492,558 | $ - | $ 3,492,558 | $ 1,963,217 | $ 5,455,775 |
| 8 | | | | | | | | |
| 9 | Miscellaneous | 31,985 | (3,418) | 28,567 | - | 28,567 | - | 28,567 |
| 10 | Total Operating Revenues | $ 4,007,823 | $ (486,699) | $ 3,521,124 | $ - | $ 3,521,124 | $ 1,963,217 | $ 5,484,342 |
| 11 | | | | | | | | |
| 12 | Operating Expenses | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | |
| 14 | Purchased Water | - | - | - | - | - | - | - |
| 15 | Other | 7,223 | 24 | 7,247 | - | 7,247 | - | 7,247 |
| 16 | Pumping Expenses: | | | | | | | |
| 17 | Purchased Power | 482,672 | 36,162 | 518,834 | - | 518,834 | - | 518,834 |
| 18 | Purchased Gas | 2,626 | - | 2,626 | - | 2,626 | - | 2,626 |
| 19 | Other | 127,839 | 1,343 | 129,182 | - | 129,182 | - | 129,182 |
| 20 | Water Treatment Expenses | 252,032 | 67,690 | 319,722 | - | 319,722 | - | 319,722 |
| 21 | Transmission & Distribution Expenses | 405,503 | (5,309) | 400,194 | - | 400,194 | - | 400,194 |
| 22 | Customer Accounting Expenses | 321,664 | 1,444 | 323,108 | - | 323,108 | - | 323,108 |
| 23 | Sales Expense | 2,838 | - | 2,838 | - | 2,838 | - | 2,838 |
| 24 | Administrative & General Expenses | 436,766 | 204,311 | 641,077 | - | 641,077 | - | 641,077 |
| 25 | Total Operations & Maintenance Expense | $ 2,039,163 | $ 305,664 | $ 2,344,827 | $ - | $ 2,344,827 | $ - | $ 2,344,827 |
| 26 | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 596,420 | 134,613 | 731,033 | (9,692) | 721,341 | - | 721,341 |
| 28 | | | | | | | | |
| 29 | Taxes | | | | | | | |
| 30 | Federal Income Taxes | 228,075 | (353,557) | (125,482) | 19,605 | (105,877) | 620,983 | 515,106 |
| 31 | State Income Taxes | 20,945 | (48,588) | (27,643) | 4,319 | (23,324) | 136,797 | 113,473 |
| 32 | Property Taxes | 100,862 | 24,975 | 125,837 | (2,222) | 123,615 | - | 123,615 |
| 33 | Other | 472,018 | (424,173) | 47,845 | - | 47,845 | - | 47,845 |
| 34 | Total Taxes | $ 821,900 | $ (801,343) | $ 20,557 | $ 21,702 | $ 42,259 | $ 757,780 | $ 800,039 |
| 35 | | | | | | | | |
| 36 | Total Operating Expenses | $ 3,457,483 | $ (361,066) | $ 3,096,417 | $ 12,010 | $ 3,108,426 | $ 757,780 | $ 3,866,206 |
| 37 | Operating Income | $ 550,340 | $ (125,633) | $ 424,708 | $ (12,010) | $ 412,698 | $ 1,205,437 | $ 1,618,136 |
| 38 | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | |
| 40 | Interest: | | | | | | | |
| 41 | Long-Term Debt | 234,995 | 433,296 | 668,291 | (75,413) | 592,878 | - | 592,878 |
| 42 | Short-Term Debt | 101,543 | (101,543) | - | 25,347 | 25,347 | - | 25,347 |
| 43 | Other | (138,178) | 138,178 | - | - | - | - | - |
| 44 | Total Interest | $ 198,360 | $ 469,931 | $ 668,291 | $ (50,066) | $ 618,225 | $ - | $ 618,225 |
| 45 | | | | | | | | |
| 46 | Other (Income) - Net | (30,037) | 30,037 | - | - | - | - | - |
| 47 | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 168,323 | $ 499,968 | $ 668,291 | $ (50,066) | $ 618,225 | $ - | $ 618,225 |
| 49 | | | | | | | | |
| 50 | Net Income | $ 382,017 | $ (625,600) | $ (243,583) | $ 38,057 | $ (205,527) | $ 1,205,437 | $ 999,911 |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Adjusted Test Year Income Statement

Pinewood

| Line No. | | [A] Test Year Ended 12/31/2007 | [B] Pro Forma Adjustments - As Filed | [C] Adjusted Test Year - As Filed | [D] Rebuttal Adjustments | [E] Adjusted Test Year - Rebuttal | [F] Required Increase - Rebuttal | [G] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|
| 1 | Operating Revenues | | | | | | | |
| 2 | Residential | $ 1,083,909 | $ (68,656) | $ 1,015,253 | $ - | $ 1,015,253 | | |
| 3 | Commercial | 28,808 | (5,928) | 22,880 | - | 22,880 | | |
| 4 | Industrial | 541 | (34) | 507 | - | 507 | | |
| 5 | Private Fire Service | 192 | (13) | 179 | - | 179 | | |
| 6 | Other Water Revenues | 1,907 | (123) | 1,784 | - | 1,784 | | |
| 7 | Total Water Revenues | $ 1,115,358 | $ (74,754) | $ 1,040,604 | $ - | $ 1,040,604 | $ 112,686 | $ 1,153,290 |
| 8 | | | | | | | | |
| 9 | Miscellaneous | 7,321 | (462) | 6,859 | - | 6,859 | - | 6,859 |
| 10 | Total Operating Revenues | $ 1,122,679 | $ (75,216) | $ 1,047,463 | $ - | $ 1,047,463 | $ 112,686 | $ 1,160,149 |
| 11 | | | | | | | | |
| 12 | Operating Expenses | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | |
| 14 | Purchased Water | - | - | - | - | - | - | - |
| 15 | Other | 3,249 | (10) | 3,239 | - | 3,239 | - | 3,239 |
| 16 | Pumping Expenses: | | | | | | | |
| 17 | Purchased Power | 79,026 | 5,820 | 84,846 | - | 84,846 | - | 84,846 |
| 18 | Purchased Gas | - | - | - | - | - | - | - |
| 19 | Other | 56,946 | (643) | 56,303 | - | 56,303 | - | 56,303 |
| 20 | Water Treatment Expenses | 41,777 | (7,937) | 33,840 | - | 33,840 | - | 33,840 |
| 21 | Transmission & Distribution Expenses | 169,696 | 3,680 | 173,376 | - | 173,376 | - | 173,376 |
| 22 | Customer Accounting Expenses | 133,628 | (195) | 133,433 | - | 133,433 | - | 133,433 |
| 23 | Sales Expense | 1,188 | - | 1,188 | - | 1,188 | - | 1,188 |
| 24 | Administrative & General Expenses | 176,851 | 66,895 | 243,746 | - | 243,746 | - | 243,746 |
| 25 | Total Operations & Maintenance Expense | $ 662,361 | $ 67,609 | $ 729,970 | $ - | $ 729,970 | $ - | $ 729,970 |
| 26 | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 114,943 | 17,263 | 132,206 | (423) | 131,783 | - | 131,783 |
| 28 | | | | | | | | |
| 29 | Taxes | | | | | | | |
| 30 | Federal Income Taxes | 60,430 | (42,480) | 17,950 | 1,412 | 19,362 | 35,644 | 55,005 |
| 31 | State Income Taxes | 5,550 | (1,596) | 3,954 | 311 | 4,265 | 7,852 | 12,117 |
| 32 | Property Taxes | 40,414 | 936 | 41,350 | (225) | 41,126 | - | 41,126 |
| 33 | Other | 93,059 | (75,702) | 17,357 | - | 17,357 | - | 17,357 |
| 34 | Total Taxes | $ 199,453 | $ (118,842) | $ 80,611 | $ 1,498 | $ 82,109 | $ 43,496 | $ 125,605 |
| 35 | | | | | | | | |
| 36 | Total Operating Expenses | $ 976,757 | $ (33,971) | $ 942,787 | $ 1,075 | $ 943,862 | $ 43,496 | $ 987,357 |
| 37 | Operating Income | $ 145,922 | $ (41,245) | $ 104,677 | $ (1,075) | $ 103,601 | $ 69,191 | $ 172,792 |
| 38 | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | |
| 40 | Interest: | | | | | | | |
| 41 | Long-Term Debt | 82,040 | (12,207) | 69,833 | (6,523) | 63,310 | - | 63,310 |
| 42 | Short-Term Debt | 35,450 | (35,450) | - | 2,707 | 2,707 | - | 2,707 |
| 43 | Other | (48,240) | 48,240 | - | - | - | - | - |
| 44 | Total Interest | $ 69,250 | $ 583 | $ 69,833 | $ (3,816) | $ 66,017 | $ - | $ 66,017 |
| 45 | | | | | | | | |
| 46 | Other (Income) - Net | (10,486) | 10,486 | - | - | - | - | - |
| 47 | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 58,764 | $ 11,069 | $ 69,833 | $ (3,816) | $ 66,017 | $ - | $ 66,017 |
| 49 | | | | | | | | |
| 50 | Net Income | $ 87,158 | $ (52,314) | $ 34,844 | $ 2,741 | $ 37,584 | $ 69,191 | $ 106,775 |
| 51 | | | | | | | | |
| 52 | | | | | | | | |
| 53 | | | | | | | | |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Adjusted Test Year Income Statement

Rimrock

| Line No. | | [A] Test Year Ended 12/31/2007 | [B] Pro Forma Adjustments - As Filed | [C] Adjusted Test Year - As Filed | [D] Rebuttal Adjustments | [E] Adjusted Test Year - Rebuttal | [F] Required Increase - Rebuttal | [G] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|
| 1 | Operating Revenues | | | | | | | |
| 2 | Residential | $ 564,870 | $ (93,347) | $ 471,523 | $ - | $ 471,523 | | |
| 3 | Commercial | 21,269 | (3,424) | 17,845 | - | 17,845 | | |
| 4 | Industrial | - | - | - | - | - | | |
| 5 | Private Fire Service | 54 | (3) | 51 | - | 51 | | |
| 6 | Other Water Revenues | 11,280 | (1,179) | 10,101 | - | 10,101 | | |
| 7 | Total Water Revenues | $ 597,473 | $ (97,953) | $ 499,521 | $ - | $ 499,521 | $ 472,525 | $ 972,046 |
| 8 | | | | | | | | |
| 9 | Miscellaneous | 9,036 | (575) | 8,461 | - | 8,461 | - | 8,461 |
| 10 | Total Operating Revenues | $ 606,509 | $ (98,528) | $ 507,981 | $ - | $ 507,981 | $ 472,525 | $ 980,506 |
| 11 | | | | | | | | |
| 12 | Operating Expenses | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | |
| 14 | Purchased Water | - | - | - | - | - | - | - |
| 15 | Other | 1,416 | 9 | 1,425 | - | 1,425 | - | 1,425 |
| 16 | Pumping Expenses: | | | | | | | |
| 17 | Purchased Power | 40,652 | 2,749 | 43,401 | - | 43,401 | - | 43,401 |
| 18 | Purchased Gas | - | - | - | - | - | - | - |
| 19 | Other | 24,024 | 344 | 24,368 | - | 24,368 | - | 24,368 |
| 20 | Water Treatment Expenses | 178,658 | 23,116 | 201,774 | - | 201,774 | - | 201,774 |
| 21 | Transmission & Distribution Expenses | 81,357 | (8,168) | 73,189 | - | 73,189 | - | 73,189 |
| 22 | Customer Accounting Expenses | 61,184 | 122 | 61,306 | - | 61,306 | - | 61,306 |
| 23 | Sales Expense | 537 | - | 537 | - | 537 | - | 537 |
| 24 | Administrative & General Expenses | 81,316 | 37,256 | 118,572 | - | 118,572 | - | 118,572 |
| 25 | Total Operations & Maintenance Expense | $ 469,144 | $ 55,427 | $ 524,571 | $ - | $ 524,571 | $ - | $ 524,571 |
| 26 | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 108,305 | 16,556 | 124,861 | (1,944) | 122,917 | - | 122,917 |
| 28 | | | | | | | | |
| 29 | Taxes | | | | | | | |
| 30 | Federal Income Taxes | (10,478) | (72,957) | (83,435) | 2,231 | (81,204) | 149,464 | 68,260 |
| 31 | State Income Taxes | (962) | (17,418) | (18,380) | 491 | (17,888) | 32,926 | 15,037 |
| 32 | Property Taxes | 19,698 | 7,493 | 27,191 | (319) | 26,871 | - | 26,871 |
| 33 | Other | 45,762 | (37,342) | 8,420 | - | 8,420 | - | 8,420 |
| 34 | Total Taxes | $ 54,020 | $ (120,224) | $ (66,204) | $ 2,403 | $ (63,801) | $ 182,389 | $ 118,588 |
| 35 | | | | | | | | |
| 36 | Total Operating Expenses | $ 631,469 | $ (48,241) | $ 583,228 | $ 459 | $ 583,687 | $ 182,389 | $ 766,076 |
| 37 | Operating Income | $ (24,959) | $ (50,287) | $ (75,247) | $ (459) | $ (75,706) | $ 290,136 | $ 214,430 |
| 38 | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | |
| 40 | Interest: | | | | | | | |
| 41 | Long-Term Debt | 41,159 | 45,556 | 86,714 | (8,148) | 78,566 | - | 78,566 |
| 42 | Short-Term Debt | 17,785 | (17,785) | - | 3,359 | 3,359 | - | 3,359 |
| 43 | Other | (24,202) | 24,202 | - | - | - | - | - |
| 44 | Total Interest | $ 34,742 | $ 51,972 | $ 86,714 | $ (4,790) | $ 81,925 | $ - | $ 81,925 |
| 45 | | | | | | | | |
| 46 | Other (Income) - Net | (5,261) | 5,261 | - | - | - | - | - |
| 47 | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 29,481 | $ 57,233 | $ 86,714 | $ (4,790) | $ 81,925 | $ - | $ 81,925 |
| 49 | | | | | | | | |
| 50 | Net Income | $ (54,441) | $ (107,521) | $ (161,961) | $ 4,330 | $ (157,631) | $ 290,136 | $ 132,505 |
| 51 | | | | | | | | |
| 52 | | | | | | | | |
| 53 | | | | | | | | |
| 54 | | | | | | | | |
| 55 | | | | | | | | |

Total Company

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR RB1 | [E] ADJ JMR RB2 | [F] ADJ JMR RB3 | [G] ADJ JMR-RB4 | [H] ADJ JMR RB5 | [I] Total Rebuttal Adjustments | [J] Adjusted Test Year - Rebuttal | [K] Required Increase - Rebuttal | [L] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | Operating Revenues | | | | | | | | | | | | |
| 2 | Residential | $ 33,474,763 | $ (2,515,392) | $ 30,959,371 | $ - | $ - | $ - | $ - | $ - | $ - | $ 30,959,371 | | |
| 3 | Commercial | 9,060,764 | (604,592) | 8,456,171 | - | - | - | - | - | - | 8,456,171 | | |
| 4 | Industrial | 1,370,197 | (114,239) | 1,255,958 | - | - | - | - | - | - | 1,255,958 | | |
| 5 | Private Fire Service | 42,101 | (3,956) | 38,145 | - | - | - | - | - | - | 38,145 | | |
| 6 | Other Water Revenues | 1,212,055 | (110,395) | 1,101,660 | - | - | - | - | - | - | 1,101,660 | | |
| 7 | Total Water Revenues | $ 45,159,880 | $ (3,348,574) | $ 41,811,305 | $ - | $ - | $ - | $ - | $ - | $ - | $ 41,811,305 | $ 13,814,571 | $ 55,625,877 |
| 8 | | | | | | | | | | | | | |
| 9 | Miscellaneous | 1,666,624 | (115,325) | 1,551,299 | | | | | | - | 1,551,299 | - | 1,551,299 |
| 10 | Total Operating Revenues | $ 46,826,504 | $ (3,463,900) | $ 43,362,605 | $ - | $ - | $ - | $ - | $ - | $ - | $ 43,362,605 | $ 13,814,571 | $ 57,177,176 |
| 11 | | | | | | | | | | | | | |
| 12 | Operating Expenses | | | | | | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | | | | | | |
| 14 | Purchased Water | 1,911,466 | 34,382 | 1,945,848 | (150,244) | - | - | - | - | (150,244) | 1,795,604 | | 1,795,604 |
| 15 | Other | 180,831 | 13,139 | 193,970 | - | - | - | - | - | - | 193,970 | | 193,970 |
| 16 | Pumping Expenses: | | | | | | | | | | | | - |
| 17 | Purchased Power | 4,396,070 | 225,603 | 4,621,673 | 15,250 | - | - | - | - | 15,250 | 4,636,923 | | 4,636,923 |
| 18 | Purchased Gas | 5,326 | - | 5,326 | - | - | - | - | - | - | 5,326 | | 5,326 |
| 19 | Other | 1,490,288 | 68,787 | 1,559,075 | - | - | - | - | - | - | 1,559,075 | | 1,559,075 |
| 20 | Water Treatment Expenses | 1,242,415 | 537,036 | 1,779,451 | 6,862 | - | - | - | - | 6,862 | 1,786,313 | | 1,786,313 |
| 21 | Transmission & Distribution Expenses | 5,875,678 | 229,463 | 6,105,141 | - | - | - | - | - | - | 6,105,141 | | 6,105,141 |
| 22 | Customer Accounting Expenses | 3,954,472 | 35,770 | 3,990,242 | - | - | - | - | - | - | 3,990,242 | | 3,990,242 |
| 23 | Sales Expense | 21,320 | (2) | 21,318 | - | - | - | - | - | - | 21,318 | | 21,318 |
| 24 | Administrative & General Expenses | 5,675,444 | 1,314,034 | 6,989,478 | - | - | - | - | - | - | 6,989,478 | | 6,989,478 |
| 25 | Total Operations & Maintenance Expense | $ 24,753,310 | $ 2,458,212 | $ 27,211,522 | $ (128,132) | $ - | $ - | $ - | $ - | $ (128,132) | $ 27,083,390 | $ - | $ 27,083,390 |
| 26 | | | | | | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 6,847,235 | 1,200,343 | 8,047,578 | - | (30,630) | - | - | - | (30,630) | 8,016,948 | | 8,016,948 |
| 28 | | | | | | | | | | | | | |
| 29 | Taxes | | | | | | | | | | | | |
| 30 | Federal Income Taxes | 2,429,696 | (2,667,072) | (237,376) | - | - | - | - | 162,227 | 162,227 | (75,149) | 4,369,670 | 4,294,522 |
| 31 | State Income Taxes | 222,642 | (274,934) | (52,292) | - | - | - | - | 35,737 | 35,737 | (16,555) | 962,599 | 946,045 |
| 32 | Property Taxes | 2,102,867 | 575,960 | 2,678,826 | - | - | - | (28,645) | - | (28,645) | 2,650,182 | | 2,650,182 |
| 33 | Other | 4,598,647 | (3,903,227) | 695,420 | - | - | - | - | - | - | 695,420 | | 695,420 |
| 34 | Total Taxes | $ 9,353,852 | $ (6,269,273) | $ 3,084,579 | $ - | $ - | $ - | $ (28,645) | $ 197,965 | $ 169,320 | $ 3,253,898 | $ 5,332,270 | $ 8,586,168 |
| 35 | | | | | | | | | | | | | |
| 36 | Total Operating Expenses | $ 40,954,397 | $ (2,610,719) | $ 38,343,678 | $ (128,132) | $ (30,630) | $ - | $ (28,645) | $ 197,965 | $ 10,558 | $ 38,354,236 | $ 5,332,270 | $ 43,686,506 |
| 37 | Operating Income | $ 5,872,107 | $ (853,181) | $ 5,018,926 | $ 128,132 | $ 30,630 | $ - | $ 28,645 | $ (197,965) | $ (10,558) | $ 5,008,368 | $ 8,482,301 | $ 13,490,670 |
| 38 | | | | | | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | | | | | | |
| 40 | Interest: | | | | | | | | | | | | |
| 41 | Long-Term Debt | 2,781,000 | 2,698,715 | 5,479,715 | - | - | (536,793) | - | - | (536,793) | 4,942,922 | | 4,942,922 |
| 42 | Short-Term Debt | 1,201,696 | (1,201,696) | - | - | - | 211,323 | - | - | 211,323 | 211,323 | | 211,323 |
| 43 | Other | (1,635,240) | 1,635,240 | - | - | - | - | - | - | - | - | | - |
| 44 | Total Interest | $ 2,347,456 | $ 3,132,259 | $ 5,479,715 | $ - | $ - | $ (325,470) | $ - | $ - | $ (325,470) | $ 5,154,245 | $ - | $ 5,154,245 |
| 45 | | | | | | | | | | | | | |
| 46 | Other (Income) - Net | (355,468) | 355,468 | - | - | - | - | - | - | - | - | | - |
| 47 | | | | | | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 1,991,988 | $ 3,487,727 | $ 5,479,715 | $ - | $ - | $ (325,470) | $ - | $ - | $ (325,470) | $ 5,154,245 | $ - | $ 5,154,245 |
| 49 | | | | | | | | | | | | | |
| 50 | Net Income | $ 3,880,119 | $ (4,340,908) | $ (460,789) | $ 128,132 | $ 30,630 | $ 325,470 | $ 28,645 | $ (197,965) | $ 314,912 | $ (145,877) | $ 8,482,301 | $ 8,336,425 |
| 51 | | | | | | | | | | | | | |
| 52 | | | | | | | | | | | | | |
| 53 | | | | | | | | | | | | | |
| 54 | | | | | | | | | | | | | |
| 55 | | | | | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Pro Forma Adjustments

Eastern Group

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR RB1 | [E] ADJ JMR RB2 | [G] ADJ JMR RB3 | [H] ADJ JMR-RB4 | [I] ADJ JMR RB5 | [J] Total Rebuttal Adjustments | [K] Adjusted Test Year - Rebuttal | [L] Required Increase - Rebuttal | [M] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | Operating Revenues | | | | | | | | | | | | |
| 2 | Residential | $ 14,848,894 | $ (1,099,924) | $ 13,748,970 | $ - | $ - | $ - | $ - | $ - | $ - | $ 13,748,970 | | |
| 3 | Commercial | 4,174,182 | (295,941) | 3,878,241 | - | - | - | - | - | - | 3,878,241 | | |
| 4 | Industrial | 148,583 | (11,339) | 137,245 | - | - | - | - | - | - | 137,245 | | |
| 5 | Private Fire Service | 13,193 | (1,082) | 12,111 | - | - | - | - | - | - | 12,111 | | |
| 6 | Other Water Revenues | 476,124 | (38,654) | 437,470 | - | - | - | - | - | - | 437,470 | | |
| 7 | Total Water Revenues | $ 19,660,977 | $ (1,446,941) | $ 18,214,036 | $ - | $ - | $ - | $ - | $ - | $ - | $ 18,214,036 | $ 5,245,082 | $ 23,459,119 |
| 8 | | | | | | | | | | | | | |
| 9 | Miscellaneous | 850,928 | (51,714) | 799,213 | - | - | - | - | - | - | 799,213 | - | 799,213 |
| 10 | Total Operating Revenues | $ 20,511,905 | $ (1,498,655) | $ 19,013,250 | $ - | $ - | $ - | $ - | $ - | $ - | $ 19,013,250 | $ 5,245,082 | $ 24,258,332 |
| 11 | | | | | | | | | | | | | |
| 12 | Operating Expenses | | | | | | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | | | | | | |
| 14 | Purchased Water | 1,197,318 | 63,696 | 1,261,014 | - | - | - | - | - | - | 1,261,014 | | 1,261,014 |
| 15 | Other | 79,045 | 956 | 80,001 | - | - | - | - | - | - | 80,001 | | 80,001 |
| 16 | Pumping Expenses: | | | | | | | | | | | | |
| 17 | Purchased Power | 1,869,924 | 141,621 | 2,011,545 | - | - | - | - | - | - | 2,011,545 | | 2,011,545 |
| 18 | Purchased Gas | 1,313 | - | 1,313 | - | - | - | - | - | - | 1,313 | | 1,313 |
| 19 | Other | 571,978 | 14,607 | 586,585 | - | - | - | - | - | - | 586,585 | | 586,585 |
| 20 | Water Treatment Expenses | 372,237 | 140,289 | 512,526 | - | - | - | - | - | - | 512,526 | | 512,526 |
| 21 | Transmission & Distribution Expenses | 2,439,994 | 51,596 | 2,491,590 | - | - | - | - | - | - | 2,491,590 | | 2,491,590 |
| 22 | Customer Accounting Expenses | 1,697,788 | 4,428 | 1,702,216 | - | - | - | - | - | - | 1,702,216 | | 1,702,216 |
| 23 | Sales Expense | 9,885 | (2) | 9,883 | - | - | - | - | - | - | 9,883 | | 9,883 |
| 24 | Administrative & General Expenses | 2,425,544 | 414,378 | 2,839,922 | - | - | - | - | - | - | 2,839,922 | | 2,839,922 |
| 25 | Total Operations & Maintenance Expense | $ 10,665,026 | $ 831,570 | $ 11,496,596 | $ - | $ - | $ - | $ - | $ - | $ - | $ 11,496,596 | $ - | $ 11,496,596 |
| 26 | | | | | | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 2,918,798 | 361,425 | 3,280,223 | - | (3,180) | - | - | - | (3,180) | 3,277,044 | | 3,277,044 |
| 28 | | | | | | | | | | | | | |
| 29 | Taxes | | | | | | | | | | | | |
| 30 | Federal Income Taxes | 1,144,581 | (1,012,268) | 132,313 | - | - | - | - | 46,645 | 46,645 | 178,958 | 1,659,066 | 1,838,024 |
| 31 | State Income Taxes | 104,623 | (75,476) | 29,147 | - | - | - | - | 10,275 | 10,275 | 39,423 | 365,477 | 404,900 |
| 32 | Property Taxes | 1,078,104 | 172,624 | 1,250,728 | - | - | - | (12,079) | - | (12,079) | 1,238,649 | | 1,238,649 |
| 33 | Other | 1,819,602 | (1,590,390) | 229,212 | - | - | - | - | - | - | 229,212 | | 229,212 |
| 34 | Total Taxes | $ 4,146,910 | $ (2,505,509) | $ 1,641,400 | $ - | $ - | $ - | $ (12,079) | $ 56,920 | $ 44,841 | $ 1,686,242 | $ 2,024,543 | $ 3,710,785 |
| 35 | | | | | | | | | | | | | |
| 36 | Total Operating Expenses | $ 17,730,734 | $ (1,312,514) | $ 16,418,219 | $ - | $ (3,180) | $ - | $ (12,079) | $ 56,920 | $ 41,662 | $ 16,459,881 | $ 2,024,543 | $ 18,484,424 |
| 37 | Operating Income | $ 2,781,171 | $ (186,141) | $ 2,595,030 | $ - | $ 3,180 | $ - | $ 12,079 | $ (56,920) | $ (41,662) | $ 2,553,368 | $ 3,220,539 | $ 5,773,908 |
| 38 | | | | | | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | | | | | | |
| 40 | Interest: | | | | | | | | | | | | |
| 41 | Long-Term Debt | 1,158,565 | 1,179,622 | 2,338,187 | - | - | (222,652) | - | - | (222,652) | 2,115,535 | | 2,115,535 |
| 42 | Short-Term Debt | 500,627 | (500,627) | - | - | - | 90,445 | - | - | 90,445 | 90,445 | | 90,445 |
| 43 | Other | (681,241) | 681,241 | - | - | - | - | - | - | - | - | | - |
| 44 | Total Interest | $ 977,950 | $ 1,360,237 | $ 2,338,187 | $ - | $ - | $ (132,208) | $ - | $ - | $ (132,208) | $ 2,205,979 | $ - | $ 2,205,979 |
| 45 | | | | | | | | | | | | | |
| 46 | Other (Income) - Net | (148,088) | 148,088 | - | - | - | - | - | - | - | - | | - |
| 47 | | | | | | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 829,862 | $ 1,508,325 | $ 2,338,187 | $ - | $ - | $ (132,208) | $ - | $ - | $ (132,208) | $ 2,205,979 | $ - | $ 2,205,979 |
| 49 | | | | | | | | | | | | | |
| 50 | Net Income | $ 1,951,309 | $ (1,694,465) | $ 256,843 | $ - | $ 3,180 | $ 132,208 | $ 12,079 | $ (56,920) | $ 90,546 | $ 347,389 | $ 3,220,539 | $ 3,567,929 |
| 51 | | | | | | | | | | | | | |
| 52 | | | | | | | | | | | | | |
| 53 | | | | | | | | | | | | | |
| 54 | | | | | | | | | | | | | |
| 55 | | | | | | | | | | | | | |

Western Group

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR RB1 | [E] ADJ JMR RB2 | [G] ADJ JMR RB3 | [H] ADJ JMR-RB4 | [I] ADJ JMR RB5 | [J] Total Rebuttal Adjustments | [K] Adjusted Test Year - Rebuttal | [L] Required Increase - Rebuttal | [M] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | Operating Revenues | | | | | | | | | | | | |
| 2 | Residential | $ 10,254,042 | $ (709,927) | $ 9,544,115 | $ - | $ - | $ - | $ - | $ - | $ - | $ 9,544,115 | | |
| 3 | Commercial | 3,216,325 | (141,006) | 3,075,319 | - | - | - | - | - | - | 3,075,319 | | |
| 4 | Industrial | 1,214,990 | (102,452) | 1,112,538 | - | - | - | - | - | - | 1,112,538 | | |
| 5 | Private Fire Service | 17,089 | (1,729) | 15,360 | - | - | - | - | - | - | 15,360 | | |
| 6 | Other Water Revenues | 657,029 | (65,059) | 591,970 | - | - | - | - | - | - | 591,970 | | |
| 7 | Total Water Revenues | $ 15,359,476 | $ (1,020,173) | $ 14,339,303 | $ - | $ - | $ - | $ - | $ - | $ - | $ 14,339,303 | $ 5,882,834 | $ 20,222,137 |
| 8 | | | | | | | | | | | | | |
| 9 | Miscellaneous | 714,399 | (56,201) | 658,198 | - | - | - | - | - | - | 658,198 | - | 658,198 |
| 10 | Total Operating Revenues | $ 16,073,875 | $ (1,076,374) | $ 14,997,500 | $ - | $ - | $ - | $ - | $ - | $ - | $ 14,997,500 | $ 5,882,834 | $ 20,880,335 |
| 11 | | | | | | | | | | | | | |
| 12 | Operating Expenses | | | | | | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | | | | | | |
| 14 | Purchased Water | 712,857 | (29,314) | 683,543 | (150,244) | - | - | - | - | (150,244) | 533,299 | | 533,299 |
| 15 | Other | 80,496 | 12,000 | 92,496 | - | - | - | - | - | - | 92,496 | | 92,496 |
| 16 | Pumping Expenses: | | | | | | | | | | | | |
| 17 | Purchased Power | 1,670,903 | 39,033 | 1,709,936 | 15,250 | - | - | - | - | 15,250 | 1,725,186 | | 1,725,186 |
| 18 | Purchased Gas | 1,387 | - | 1,387 | - | - | - | - | - | - | 1,387 | | 1,387 |
| 19 | Other | 616,558 | 48,463 | 665,021 | - | - | - | - | - | - | 665,021 | | 665,021 |
| 20 | Water Treatment Expenses | 341,795 | 326,599 | 668,394 | 6,862 | - | - | - | - | 6,862 | 675,256 | | 675,256 |
| 21 | Transmission & Distribution Expenses | 2,263,512 | 175,361 | 2,438,873 | - | - | - | - | - | - | 2,438,873 | | 2,438,873 |
| 22 | Customer Accounting Expenses | 1,263,217 | 23,871 | 1,287,088 | - | - | - | - | - | - | 1,287,088 | | 1,287,088 |
| 23 | Sales Expense | 5,740 | - | 5,740 | - | - | - | - | - | - | 5,740 | | 5,740 |
| 24 | Administrative & General Expenses | 2,033,654 | 326,175 | 2,359,829 | - | - | - | - | - | - | 2,359,829 | | 2,359,829 |
| 25 | Total Operations & Maintenance Expense | $ 8,990,119 | $ 922,186 | $ 9,912,305 | $ (128,132) | $ - | $ - | $ - | $ - | $ (128,132) | $ 9,784,173 | $ - | $ 9,784,173 |
| 26 | | | | | | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 2,535,955 | 611,577 | 3,147,532 | - | (15,391) | - | - | - | (15,391) | 3,132,141 | | 3,132,141 |
| 28 | | | | | | | | | | | | | |
| 29 | Taxes | | | | | | | | | | | | |
| 30 | Federal Income Taxes | 579,448 | (1,014,655) | (435,207) | - | - | - | - | 85,282 | 85,282 | (349,924) | 1,860,792 | 1,510,868 |
| 31 | State Income Taxes | 53,213 | (149,085) | (95,872) | - | - | - | - | 18,787 | 18,787 | (77,085) | 409,916 | 332,831 |
| 32 | Property Taxes | 701,910 | 349,967 | 1,051,878 | - | - | - | (12,458) | - | (12,458) | 1,039,419 | | 1,039,419 |
| 33 | Other | 1,826,408 | (1,491,695) | 334,713 | - | - | - | - | - | - | 334,713 | | 334,713 |
| 34 | Total Taxes | $ 3,160,979 | $ (2,305,467) | $ 855,512 | $ - | $ - | $ - | $ (12,458) | $ 104,069 | $ 91,611 | $ 947,123 | $ 2,270,708 | $ 3,217,831 |
| 35 | | | | | | | | | | | | | |
| 36 | Total Operating Expenses | $ 14,687,053 | $ (771,705) | $ 13,915,349 | $ (128,132) | $ (15,391) | $ - | $ (12,458) | $ 104,069 | $ (51,912) | $ 13,863,436 | $ 2,270,708 | $ 16,134,144 |
| 37 | Operating Income | $ 1,386,821 | $ (304,669) | $ 1,082,152 | $ 128,132 | $ 15,391 | $ - | $ 12,458 | $ (104,069) | $ 51,912 | $ 1,134,064 | $ 3,612,126 | $ 4,746,190 |
| 38 | | | | | | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | | | | | | |
| 40 | Interest: | | | | | | | | | | | | |
| 41 | Long-Term Debt | 980,859 | 946,106 | 1,926,965 | - | - | (187,982) | - | - | (187,982) | 1,738,983 | | 1,738,983 |
| 42 | Short-Term Debt | 423,838 | (423,838) | - | - | - | 74,346 | - | - | 74,346 | 74,346 | | 74,346 |
| 43 | Other | (576,749) | 576,749 | - | - | - | - | - | - | - | - | | - |
| 44 | Total Interest | $ 827,948 | $ 1,099,017 | $ 1,926,965 | $ - | $ - | $ (113,636) | $ - | $ - | $ (113,636) | $ 1,813,329 | $ - | $ 1,813,329 |
| 45 | | | | | | | | | | | | | |
| 46 | Other (Income) - Net | (125,374) | 125,374 | - | - | - | - | - | - | - | - | | - |
| 47 | | | | | | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 702,574 | $ 1,224,391 | $ 1,926,965 | $ - | $ - | $ (113,636) | $ - | $ - | $ (113,636) | $ 1,813,329 | $ - | $ 1,813,329 |
| 49 | | | | | | | | | | | | | |
| 50 | Net Income | $ 684,247 | $ (1,529,060) | $ (844,813) | $ 128,132 | $ 15,391 | $ 113,636 | $ 12,458 | $ (104,069) | $ 165,548 | $ (679,265) | $ 3,612,126 | $ 2,932,861 |
| 51 | | | | | | | | | | | | | |
| 52 | | | | | | | | | | | | | |
| 53 | | | | | | | | | | | | | |
| 54 | | | | | | | | | | | | | |
| 55 | | | | | | | | | | | | | |

Northern Group

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR RB1 | [E] ADJ JMR RB2 | [G] ADJ JMR RB3 | [H] ADJ JMR-RB4 | [I] ADJ JMR RB5 | [J] Total Rebuttal Adjustments | [K] Adjusted Test Year - Rebuttal | [L] Required Increase - Rebuttal | [M] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | Operating Revenues | | | | | | | | | | | | |
| 2 | Residential | $ 8,371,827 | $ (705,541) | $ 7,666,286 | $ - | $ - | $ - | $ - | $ - | $ - | $ 7,666,286 | | |
| 3 | Commercial | 1,670,256 | (167,645) | 1,502,611 | - | - | - | - | - | - | 1,502,611 | | |
| 4 | Industrial | 6,624 | (448) | 6,175 | - | - | - | - | - | - | 6,175 | | |
| 5 | Private Fire Service | 11,819 | (1,145) | 10,674 | - | - | - | - | - | - | 10,674 | | |
| 6 | Other Water Revenues | 78,902 | (6,682) | 72,220 | - | - | - | - | - | - | 72,220 | | |
| 7 | Total Water Revenues | $ 10,139,427 | $ (881,461) | $ 9,257,966 | $ - | $ - | $ - | $ - | $ - | $ - | $ 9,257,966 | $ 2,686,654 | $ 11,944,621 |
| 8 | | | | | | | | | | | | | |
| 9 | Miscellaneous | 101,298 | (7,410) | 93,888 | - | - | - | - | - | - | 93,888 | - | 93,888 |
| 10 | Total Operating Revenues | $ 10,240,725 | $ (888,871) | $ 9,351,854 | $ - | $ - | $ - | $ - | $ - | $ - | $ 9,351,854 | $ 2,686,654 | $ 12,038,509 |
| 11 | | | | | | | | | | | | | |
| 12 | Operating Expenses | | | | | | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | | | | | | |
| 14 | Purchased Water | 1,291 | - | 1,291 | - | - | - | - | - | - | 1,291 | | 1,291 |
| 15 | Other | 21,290 | 183 | 21,473 | - | - | - | - | - | - | 21,473 | | 21,473 |
| 16 | Pumping Expenses: | | | | | | | | | | | | |
| 17 | Purchased Power | 855,243 | 44,949 | 900,192 | - | - | - | - | - | - | 900,192 | | 900,192 |
| 18 | Purchased Gas | 2,626 | - | 2,626 | - | - | - | - | - | - | 2,626 | | 2,626 |
| 19 | Other | 301,752 | 5,717 | 307,469 | - | - | - | - | - | - | 307,469 | | 307,469 |
| 20 | Water Treatment Expenses | 528,383 | 70,148 | 598,531 | - | - | - | - | - | - | 598,531 | | 598,531 |
| 21 | Transmission & Distribution Expenses | 1,172,172 | 2,507 | 1,174,679 | - | - | - | - | - | - | 1,174,679 | | 1,174,679 |
| 22 | Customer Accounting Expenses | 993,467 | 7,471 | 1,000,938 | - | - | - | - | - | - | 1,000,938 | | 1,000,938 |
| 23 | Sales Expense | 5,695 | - | 5,695 | - | - | - | - | - | - | 5,695 | | 5,695 |
| 24 | Administrative & General Expenses | 1,216,246 | 573,481 | 1,789,727 | - | - | - | - | - | - | 1,789,727 | | 1,789,727 |
| 25 | Total Operations & Maintenance Expense | $ 5,098,165 | $ 704,456 | $ 5,802,621 | $ - | $ - | $ - | $ - | $ - | $ - | $ 5,802,621 | $ - | $ 5,802,621 |
| 26 | | | | | | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 1,392,482 | 227,341 | 1,619,823 | - | (12,059) | - | - | - | (12,059) | 1,607,764 | | 1,607,764 |
| 28 | | | | | | | | | | | | | |
| 29 | Taxes | | | | | | | | | | | | |
| 30 | Federal Income Taxes | 705,667 | (640,149) | 65,518 | - | - | - | - | 30,300 | 30,300 | 95,818 | 849,812 | 945,630 |
| 31 | State Income Taxes | 64,806 | (50,373) | 14,433 | - | - | - | - | 6,675 | 6,675 | 21,108 | 187,206 | 208,314 |
| 32 | Property Taxes | 322,853 | 53,368 | 376,221 | - | - | - | (4,107) | - | (4,107) | 372,114 | | 372,114 |
| 33 | Other | 952,637 | (821,143) | 131,494 | - | - | - | - | - | - | 131,494 | | 131,494 |
| 34 | Total Taxes | $ 2,045,963 | $ (1,458,297) | $ 587,666 | $ - | $ - | $ - | $ (4,107) | $ 36,975 | $ 32,868 | $ 620,534 | $ 1,037,019 | $ 1,657,552 |
| 35 | | | | | | | | | | | | | |
| 36 | Total Operating Expenses | $ 8,536,610 | $ (526,500) | $ 8,010,110 | $ - | $ (12,059) | $ - | $ (4,107) | $ 36,975 | $ 20,809 | $ 8,030,919 | $ 1,037,019 | $ 9,067,937 |
| 37 | Operating Income | $ 1,704,115 | $ (362,371) | $ 1,341,744 | $ - | $ 12,059 | $ - | $ 4,107 | $ (36,975) | $ (20,809) | $ 1,320,936 | $ 1,649,636 | $ 2,970,571 |
| 38 | | | | | | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | | | | | | |
| 40 | Interest: | | | | | | | | | | | | |
| 41 | Long-Term Debt | 641,577 | 572,986 | 1,214,563 | - | - | (126,159) | - | - | (126,159) | 1,088,404 | | 1,088,404 |
| 42 | Short-Term Debt | 277,231 | (277,231) | - | - | - | 46,532 | - | - | 46,532 | 46,532 | | 46,532 |
| 43 | Other | (377,250) | 377,250 | - | - | - | - | - | - | - | - | | - |
| 44 | Total Interest | $ 541,558 | $ 673,005 | $ 1,214,563 | $ - | $ - | $ (79,627) | $ - | $ - | $ (79,627) | $ 1,134,936 | $ - | $ 1,134,936 |
| 45 | | | | | | | | | | | | | |
| 46 | Other (Income) - Net | (82,006) | 82,006 | - | - | - | - | - | - | - | - | | - |
| 47 | | | | | | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 459,552 | $ 755,011 | $ 1,214,563 | $ - | $ - | $ (79,627) | $ - | $ - | $ (79,627) | $ 1,134,936 | $ - | $ 1,134,936 |
| 49 | | | | | | | | | | | | | |
| 50 | Net Income | $ 1,244,564 | $ (1,117,382) | $ 127,181 | $ - | $ 12,059 | $ 79,627 | $ 4,107 | $ (36,975) | $ 58,818 | $ 185,999 | $ 1,649,636 | $ 1,835,635 |
| 51 | | | | | | | | | | | | | |
| 52 | | | | | | | | | | | | | |
| 53 | | | | | | | | | | | | | |
| 54 | | | | | | | | | | | | | |
| 55 | | | | | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Pro Forma Adjustments

Superstition

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR RB1 | [E] ADJ JMR RB2 | [G] ADJ JMR RB3 | [H] ADJ JMR-RB4 | [I] ADJ JMR RB5 | [J] Total Rebuttal Adjustments | [K] Adjusted Test Year - Rebuttal | [L] Required Increase - Rebuttal | [M] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | Operating Revenues | | | | | | | | | | | | |
| 2 | Residential | $ 9,383,199 | $ (675,028) | $ 8,708,171 | | | | | | $ - | $ 8,708,171 | | |
| 3 | Commercial | 2,306,291 | (180,373) | 2,125,918 | | | | | | - | 2,125,918 | | |
| 4 | Industrial | 38,884 | (3,875) | 35,010 | | | | | | - | 35,010 | | |
| 5 | Private Fire Service | 9,027 | (734) | 8,293 | | | | | | - | 8,293 | | |
| 6 | Other Water Revenues | 376,916 | (30,569) | 346,347 | | | | | | - | 346,347 | | |
| 7 | Total Water Revenues | $ 12,114,317 | $ (890,579) | $ 11,223,738 | $ - | $ - | $ - | $ - | $ - | $ - | $ 11,223,738 | $ 3,510,314 | $ 14,734,052 |
| 8 | | | | | | | | | | | | | |
| 9 | Miscellaneous | 760,674 | (44,508) | 716,166 | | | | | | - | 716,166 | | 716,166 |
| 10 | Total Operating Revenues | $ 12,874,991 | $ (935,087) | $ 11,939,904 | $ - | $ - | $ - | $ - | $ - | $ - | $ 11,939,904 | $ 3,510,314 | $ 15,450,218 |
| 11 | | | | | | | | | | | | | |
| 12 | Operating Expenses | | | | | | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | | | | | | |
| 14 | Purchased Water | 956,000 | 63,696 | 1,019,696 | | | | | | - | 1,019,696 | | 1,019,696 |
| 15 | Other | 46,746 | 1,794 | 48,540 | | | | | | - | 48,540 | | 48,540 |
| 16 | Pumping Expenses: | | | | | | | | | | | | |
| 17 | Purchased Power | 1,066,931 | 103,773 | 1,170,704 | | | | | | - | 1,170,704 | | 1,170,704 |
| 18 | Purchased Gas | - | - | - | | | | | | - | - | | - |
| 19 | Other | 304,812 | 2,192 | 307,004 | | | | | | - | 307,004 | | 307,004 |
| 20 | Water Treatment Expenses | 239,384 | 149,651 | 389,035 | | | | | | - | 389,035 | | 389,035 |
| 21 | Transmission & Distribution Expenses | 1,291,602 | 48,092 | 1,339,694 | | | | | | - | 1,339,694 | | 1,339,694 |
| 22 | Customer Accounting Expenses | 941,896 | 3,531 | 945,427 | | | | | | - | 945,427 | | 945,427 |
| 23 | Sales Expense | 5,489 | - | 5,489 | | | | | | - | 5,489 | | 5,489 |
| 24 | Administrative & General Expenses | 1,365,289 | 226,124 | 1,591,413 | | | | | | - | 1,591,413 | | 1,591,413 |
| 25 | Total Operations & Maintenance Expense | $ 6,218,149 | $ 598,854 | $ 6,817,003 | $ - | $ - | $ - | $ - | $ - | $ - | $ 6,817,003 | $ - | $ 6,817,003 |
| 26 | | | | | | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 1,849,900 | 319,309 | 2,169,209 | | $ (1,056) | | | | (1,056) | 2,168,153 | | 2,168,153 |
| 28 | | | | | | | | | | | | | |
| 29 | Taxes | | | | | | | | | | | | |
| 30 | Federal Income Taxes | 845,292 | (721,745) | 123,547 | | | | | 31,933 | 31,933 | 155,480 | 1,110,343 | 1,265,824 |
| 31 | State Income Taxes | 77,628 | (50,412) | 27,216 | | | | | 7,035 | 7,035 | 34,251 | 244,599 | 278,850 |
| 32 | Property Taxes | 713,782 | 101,580 | 815,362 | | | | (8,554) | | (8,554) | 806,808 | | 806,808 |
| 33 | Other | 1,117,329 | (980,165) | 137,164 | | | | | | - | 137,164 | | 137,164 |
| 34 | Total Taxes | $ 2,754,031 | $ (1,650,742) | $ 1,103,289 | $ - | $ - | $ - | $ (8,554) | $ 38,968 | $ 30,414 | $ 1,133,703 | $ 1,354,942 | $ 2,488,645 |
| 35 | | | | | | | | | | | | | |
| 36 | Total Operating Expenses | $ 10,822,080 | $ (732,579) | $ 10,089,501 | $ - | $ (1,056) | $ - | $ (8,554) | $ 38,968 | $ 29,359 | $ 10,118,860 | $ 1,354,942 | $ 11,473,802 |
| 37 | Operating Income | $ 2,052,911 | $ (202,508) | $ 1,850,403 | $ - | $ 1,056 | $ - | $ 8,554 | $ (38,968) | $ (29,359) | $ 1,821,044 | $ 2,155,372 | $ 3,976,417 |
| 38 | | | | | | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | | | | | | |
| 40 | Interest: | | | | | | | | | | | | |
| 41 | Long-Term Debt | 693,581 | 916,996 | 1,610,577 | | | (153,635) | | | (153,635) | 1,456,942 | | 1,456,942 |
| 42 | Short-Term Debt | 299,703 | (299,703) | - | | | 62,288 | | | 62,288 | 62,288 | | 62,288 |
| 43 | Other | (407,829) | 407,829 | - | | | - | | | - | - | | - |
| 44 | Total Interest | $ 585,456 | $ 1,025,121 | $ 1,610,577 | $ - | $ - | $ (91,347) | $ - | $ - | $ (91,347) | $ 1,519,230 | $ - | $ 1,519,230 |
| 45 | | | | | | | | | | | | | |
| 46 | Other (Income) - Net | (88,654) | 88,654 | - | | | | | | - | - | | - |
| 47 | | | | | | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 496,802 | $ 1,113,775 | $ 1,610,577 | $ - | $ - | $ (91,347) | $ - | $ - | $ (91,347) | $ 1,519,230 | $ - | $ 1,519,230 |
| 49 | | | | | | | | | | | | | |
| 50 | Net Income | $ 1,556,109 | $ (1,316,283) | $ 239,826 | $ - | $ 1,056 | $ 91,347 | $ 8,554 | $ (38,968) | $ 61,989 | $ 301,815 | $ 2,155,372 | $ 2,457,187 |
| 51 | | | | | | | | | | | | | |
| 52 | | | | | | | | | | | | | |
| 53 | | | | | | | | | | | | | |
| 54 | | | | | | | | | | | | | |
| 55 | | | | | | | | | | | | | |

Bisbee

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR RB1 | [E] ADJ JMR RB2 | [G] ADJ JMR RB3 | [H] ADJ JMR-RB4 | [I] ADJ JMR RB5 | [J] Total Rebuttal Adjustments | [K] Adjusted Test Year - Rebuttal | [L] Required Increase - Rebuttal | [M] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | Operating Revenues | | | | | | | | | | | | |
| 2 | Residential | $ 1,325,953 | $ (133,357) | $ 1,192,596 | | | | | | $ - | $ 1,192,596 | | |
| 3 | Commercial | 537,874 | (46,174) | 491,700 | | | | | | - | 491,700 | | |
| 4 | Industrial | 2,480 | (178) | 2,302 | | | | | | - | 2,302 | | |
| 5 | Private Fire Service | 996 | (88) | 908 | | | | | | - | 908 | | |
| 6 | Other Water Revenues | 14,009 | (1,380) | 12,628 | | | | | | - | 12,628 | | |
| 7 | Total Water Revenues | $ 1,881,312 | $ (181,177) | $ 1,700,135 | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,700,135 | $ 425,881 | $ 2,126,015 |
| 8 | | | | | | | | | | | | | |
| 9 | Miscellaneous | 25,609 | (2,269) | 23,340 | | | | | | - | 23,340 | | 23,340 |
| 10 | Total Operating Revenues | $ 1,906,921 | $ (183,446) | $ 1,723,475 | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,723,475 | $ 425,881 | $ 2,149,355 |
| 11 | | | | | | | | | | | | | |
| 12 | Operating Expenses | | | | | | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | | | | | | |
| 14 | Purchased Water | - | - | - | | | | | | - | - | | - |
| 15 | Other | 2,440 | 3 | 2,443 | | | | | | - | 2,443 | | 2,443 |
| 16 | Pumping Expenses: | | | | | | | | | | | | |
| 17 | Purchased Power | 207,583 | 17,273 | 224,856 | | | | | | - | 224,856 | | 224,856 |
| 18 | Purchased Gas | 615 | - | 615 | | | | | | - | 615 | | 615 |
| 19 | Other | 49,935 | 142 | 50,077 | | | | | | - | 50,077 | | 50,077 |
| 20 | Water Treatment Expenses | 42,050 | (9,117) | 32,933 | | | | | | - | 32,933 | | 32,933 |
| 21 | Transmission & Distribution Expenses | 267,088 | 3,395 | 270,483 | | | | | | - | 270,483 | | 270,483 |
| 22 | Customer Accounting Expenses | 179,926 | (392) | 179,534 | | | | | | - | 179,534 | | 179,534 |
| 23 | Sales Expense | 529 | - | 529 | | | | | | - | 529 | | 529 |
| 24 | Administrative & General Expenses | 335,625 | 56,958 | 392,583 | | | | | | - | 392,583 | | 392,583 |
| 25 | Total Operations & Maintenance Expense | $ 1,085,791 | $ 68,263 | $ 1,154,054 | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,154,054 | $ - | $ 1,154,054 |
| 26 | | | | | | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 244,945 | 16,517 | 261,462 | | $ (47) | | | | (47) | 261,415 | | 261,415 |
| 28 | | | | | | | | | | | | | |
| 29 | Taxes | | | | | | | | | | | | |
| 30 | Federal Income Taxes | 75,538 | (77,638) | (2,100) | | | | | 3,362 | 3,362 | 1,262 | 134,710 | 135,972 |
| 31 | State Income Taxes | 6,937 | (7,400) | (463) | | | | | 741 | 741 | 278 | 29,675 | 29,953 |
| 32 | Property Taxes | 97,492 | 17,419 | 114,911 | | | | (901) | | (901) | 114,010 | | 114,010 |
| 33 | Other | 213,647 | (186,832) | 26,815 | | | | | | - | 26,815 | | 26,815 |
| 34 | Total Taxes | $ 393,614 | $ (254,451) | $ 139,163 | $ - | $ - | $ - | $ (901) | $ 4,102 | $ 3,201 | $ 142,364 | $ 164,385 | $ 306,750 |
| 35 | | | | | | | | | | | | | |
| 36 | Total Operating Expenses | $ 1,724,350 | $ (169,671) | $ 1,554,679 | $ - | $ (47) | $ - | $ (901) | $ 4,102 | $ 3,154 | $ 1,557,833 | $ 164,385 | $ 1,722,218 |
| 37 | Operating Income | $ 182,571 | $ (13,775) | $ 168,796 | $ - | $ 47 | $ - | $ 901 | $ (4,102) | $ (3,154) | $ 165,641 | $ 261,496 | $ 427,137 |
| 38 | | | | | | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | | | | | | |
| 40 | Interest: | | | | | | | | | | | | |
| 41 | Long-Term Debt | 138,494 | 34,378 | 172,872 | | | (16,371) | | | (16,371) | 156,501 | | 156,501 |
| 42 | Short-Term Debt | 59,844 | (59,844) | - | | | 6,691 | | | 6,691 | 6,691 | | 6,691 |
| 43 | Other | (81,435) | 81,435 | - | | | - | | | - | - | | - |
| 44 | Total Interest | $ 116,903 | $ 55,968 | $ 172,872 | $ - | $ - | $ (9,680) | $ - | $ - | $ (9,680) | $ 163,192 | $ - | $ 163,192 |
| 45 | | | | | | | | | | | | | |
| 46 | Other (Income) - Net | (17,702) | 17,702 | - | | | | | | - | - | | - |
| 47 | | | | | | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 99,201 | $ 73,671 | $ 172,872 | $ - | $ - | $ (9,680) | $ - | $ - | $ (9,680) | $ 163,192 | $ - | $ 163,192 |
| 49 | | | | | | | | | | | | | |
| 50 | Net Income | $ 83,370 | $ (87,446) | $ (4,076) | $ - | $ 47 | $ 9,680 | $ 901 | $ (4,102) | $ 6,525 | $ 2,449 | $ 261,496 | $ 263,945 |
| 51 | | | | | | | | | | | | | |
| 52 | | | | | | | | | | | | | |
| 53 | | | | | | | | | | | | | |
| 54 | | | | | | | | | | | | | |
| 55 | | | | | | | | | | | | | |

Sierra Vista

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR RB1 | [E] ADJ JMR RB2 | [G] ADJ JMR RB3 | [H] ADJ JMR-RB4 | [I] ADJ JMR RB5 | [J] Total Rebuttal Adjustments | [K] Adjusted Test Year - Rebuttal | [L] Required Increase - Rebuttal | [M] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | Operating Revenues | | | | | | | | | | | | |
| 2 | Residential | $ 1,155,911 | $ (88,083) | $ 1,067,828 | | | | | | $ - | $ 1,067,828 | | |
| 3 | Commercial | 344,921 | 1,248 | 346,169 | | | | | | - | 346,169 | | |
| 4 | Industrial | (106) | 106 | - | | | | | | - | - | | |
| 5 | Private Fire Service | 2,076 | (152) | 1,924 | | | | | | - | 1,924 | | |
| 6 | Other Water Revenues | 31,851 | (2,520) | 29,331 | | | | | | - | 29,331 | | |
| 7 | Total Water Revenues | $ 1,534,653 | $ (89,400) | $ 1,445,253 | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,445,253 | $ (69,733) | $ 1,375,520 |
| 8 | | | | | | | | | | | | | |
| 9 | Miscellaneous | 17,947 | (1,302) | 16,645 | | | | | | - | 16,645 | | 16,645 |
| 10 | Total Operating Revenues | $ 1,552,600 | $ (90,703) | $ 1,461,897 | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,461,897 | $ (69,733) | $ 1,392,165 |
| 11 | | | | | | | | | | | | | |
| 12 | Operating Expenses | | | | | | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | | | | | | |
| 14 | Purchased Water | - | - | - | | | | | | - | - | | - |
| 15 | Other | 2,046 | 50 | 2,096 | | | | | | - | 2,096 | | 2,096 |
| 16 | Pumping Expenses: | | | | | | | | | | | | |
| 17 | Purchased Power | 220,481 | 180 | 220,661 | | | | | | - | 220,661 | | 220,661 |
| 18 | Purchased Gas | 698 | - | 698 | | | | | | - | 698 | | 698 |
| 19 | Other | 39,758 | 6,262 | 46,020 | | | | | | - | 46,020 | | 46,020 |
| 20 | Water Treatment Expenses | 29,471 | (7,017) | 22,454 | | | | | | - | 22,454 | | 22,454 |
| 21 | Transmission & Distribution Expenses | 213,182 | 366 | 213,548 | | | | | | - | 213,548 | | 213,548 |
| 22 | Customer Accounting Expenses | 134,304 | 204 | 134,508 | | | | | | - | 134,508 | | 134,508 |
| 23 | Sales Expense | 275 | - | 275 | | | | | | - | 275 | | 275 |
| 24 | Administrative & General Expenses | 128,422 | 23,829 | 152,251 | | | | | | - | 152,251 | | 152,251 |
| 25 | Total Operations & Maintenance Expense | $ 768,637 | $ 23,873 | $ 792,510 | $ - | $ - | $ - | $ - | $ - | $ - | $ 792,510 | $ - | $ 792,510 |
| 26 | | | | | | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 178,016 | 8,517 | 186,533 | | | | | | - | 186,533 | | 186,533 |
| 28 | | | | | | | | | | | | | |
| 29 | Taxes | | | | | | | | | | | | |
| 30 | Federal Income Taxes | 117,936 | (24,401) | 93,535 | | | | | 1,871 | 1,871 | 95,406 | (22,057) | 73,349 |
| 31 | State Income Taxes | 10,831 | 9,774 | 20,605 | | | | | 412 | 412 | 21,017 | (4,859) | 16,158 |
| 32 | Property Taxes | 69,372 | 10,743 | 80,115 | | | | (455) | | (455) | 79,659 | | 79,659 |
| 33 | Other | 123,479 | (109,940) | 13,539 | | | | | | - | 13,539 | | 13,539 |
| 34 | Total Taxes | $ 321,618 | $ (113,824) | $ 207,794 | $ - | $ - | $ - | $ (455) | $ 2,283 | $ 1,827 | $ 209,622 | $ (26,916) | $ 182,706 |
| 35 | | | | | | | | | | | | | |
| 36 | Total Operating Expenses | $ 1,268,271 | $ (81,433) | $ 1,186,838 | $ - | $ - | $ - | $ (455) | $ 2,283 | $ 1,827 | $ 1,188,665 | $ (26,916) | $ 1,161,749 |
| 37 | *Operating Income* | $ 284,329 | $ (9,269) | $ 275,060 | $ - | $ - | $ - | $ 455 | $ (2,283) | $ (1,827) | $ 273,232 | $ (42,817) | $ 230,416 |
| 38 | | | | | | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | | | | | | |
| 40 | Interest: | | | | | | | | | | | | |
| 41 | Long-Term Debt | 71,750 | 21,741 | 93,491 | | | (9,068) | | | (9,068) | 84,423 | | 84,423 |
| 42 | Short-Term Debt | 31,004 | (31,004) | - | | | 3,609 | | | 3,609 | 3,609 | | 3,609 |
| 43 | Other | (42,189) | 42,189 | - | | | - | | | - | - | | - |
| 44 | Total Interest | $ 60,564 | $ 32,927 | $ 93,491 | $ - | $ - | $ (5,458) | $ - | $ - | $ (5,458) | $ 88,033 | $ - | $ 88,033 |
| 45 | | | | | | | | | | | | | |
| 46 | Other (Income) - Net | (9,171) | 9,171 | - | | | | | | - | - | | - |
| 47 | | | | | | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 51,393 | $ 42,098 | $ 93,491 | $ - | $ - | $ (5,458) | $ - | $ - | $ (5,458) | $ 88,033 | $ - | $ 88,033 |
| 49 | | | | | | | | | | | | | |
| 50 | Net Income | $ 232,935 | $ (51,367) | $ 181,569 | $ - | $ - | $ 5,458 | $ 455 | $ (2,283) | $ 3,631 | $ 185,200 | $ (42,817) | $ 142,383 |
| 51 | | | | | | | | | | | | | |
| 52 | | | | | | | | | | | | | |
| 53 | | | | | | | | | | | | | |
| 54 | | | | | | | | | | | | | |
| 55 | | | | | | | | | | | | | |

San Manuel

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR RB1 | [E] ADJ JMR RB2 | [G] ADJ JMR RB3 | [H] ADJ JMR-RB4 | [I] ADJ JMR RB5 | [J] Total Rebuttal Adjustments | [K] Adjusted Test Year - Rebuttal | [L] Required Increase - Rebuttal | [M] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | Operating Revenues | | | | | | | | | | | | |
| 2 | Residential | $ 695,832 | $ (48,928) | $ 646,904 | | | | | | $ - | $ 646,904 | | |
| 3 | Commercial | 153,904 | (10,032) | 143,872 | | | | | | - | 143,872 | | |
| 4 | Industrial | - | - | - | | | | | | - | - | | |
| 5 | Private Fire Service | 60 | (4) | 56 | | | | | | - | 56 | | |
| 6 | Other Water Revenues | 11,894 | (781) | 11,113 | | | | | | - | 11,113 | | |
| 7 | Total Water Revenues | $ 861,690 | $ (59,744) | $ 801,946 | $ - | $ - | $ - | $ - | $ - | $ - | $ 801,946 | $ 383,661 | $ 1,185,606 |
| 8 | | | | | | | | | | | | | |
| 9 | Miscellaneous | 11,077 | (664) | 10,413 | | | | | | - | 10,413 | | 10,413 |
| 10 | Total Operating Revenues | $ 872,767 | $ (60,408) | $ 812,359 | $ - | $ - | $ - | $ - | $ - | $ - | $ 812,359 | $ 383,661 | $ 1,196,020 |
| 11 | | | | | | | | | | | | | |
| 12 | Operating Expenses | | | | | | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | | | | | | |
| 14 | Purchased Water | 241,318 | - | 241,318 | | | | | | - | 241,318 | | 241,318 |
| 15 | Other | 8,189 | (1,282) | 6,907 | | | | | | - | 6,907 | | 6,907 |
| 16 | Pumping Expenses: | | | | | | | | | | | | |
| 17 | Purchased Power | 35,137 | 3,221 | 38,358 | | | | | | - | 38,358 | | 38,358 |
| 18 | Purchased Gas | - | - | - | | | | | | - | - | | - |
| 19 | Other | 35,120 | (451) | 34,669 | | | | | | - | 34,669 | | 34,669 |
| 20 | Water Treatment Expenses | 21,228 | 19,588 | 40,816 | | | | | | - | 40,816 | | 40,816 |
| 21 | Transmission & Distribution Expenses | 135,276 | 10,467 | 145,743 | | | | | | - | 145,743 | | 145,743 |
| 22 | Customer Accounting Expenses | 105,751 | (1,109) | 104,642 | | | | | | - | 104,642 | | 104,642 |
| 23 | Sales Expense | 497 | - | 497 | | | | | | - | 497 | | 497 |
| 24 | Administrative & General Expenses | 118,465 | 22,389 | 140,854 | | | | | | - | 140,854 | | 140,854 |
| 25 | Total Operations & Maintenance Expense | $ 700,981 | $ 52,823 | $ 753,804 | $ - | $ - | $ - | $ - | $ - | $ - | $ 753,804 | $ - | $ 753,804 |
| 26 | | | | | | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 79,936 | 26,198 | 106,134 | | | | | | - | 106,134 | | 106,134 |
| 28 | | | | | | | | | | | | | |
| 29 | Taxes | | | | | | | | | | | | |
| 30 | Federal Income Taxes | (10,234) | (53,134) | (63,368) | | | | | 1,455 | 1,455 | (61,913) | 121,355 | 59,442 |
| 31 | State Income Taxes | (940) | (13,019) | (13,959) | | | | | 320 | 320 | (13,639) | 26,733 | 13,095 |
| 32 | Property Taxes | 57,525 | 10,645 | 68,170 | | | | (457) | | (457) | 67,712 | | 67,712 |
| 33 | Other | 70,382 | (61,280) | 9,102 | | | | | | - | 9,102 | | 9,102 |
| 34 | Total Taxes | $ 116,733 | $ (116,789) | $ (56) | $ - | $ - | $ - | $ (457) | $ 1,775 | $ 1,318 | $ 1,262 | $ 148,089 | $ 149,351 |
| 35 | | | | | | | | | | | | | |
| 36 | Total Operating Expenses | $ 897,650 | $ (37,767) | $ 859,882 | $ - | $ - | $ - | $ (457) | $ 1,775 | $ 1,318 | $ 861,200 | $ 148,089 | $ 1,009,289 |
| 37 | Operating Income | $ (24,883) | $ (22,640) | $ (47,524) | $ - | $ - | $ - | $ 457 | $ (1,775) | $ (1,318) | $ (48,842) | $ 235,572 | $ 186,730 |
| 38 | | | | | | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | | | | | | |
| 40 | Interest: | | | | | | | | | | | | |
| 41 | Long-Term Debt | 46,721 | 28,763 | 75,484 | | | (7,067) | | | (7,067) | 68,417 | | 68,417 |
| 42 | Short-Term Debt | 20,188 | (20,188) | - | | | 2,925 | | | 2,925 | 2,925 | | 2,925 |
| 43 | Other | (27,472) | 27,472 | - | | | - | | | - | - | | - |
| 44 | Total Interest | $ 39,437 | $ 36,047 | $ 75,484 | $ - | $ - | $ (4,142) | $ - | $ - | $ (4,142) | $ 71,342 | $ - | $ 71,342 |
| 45 | | | | | | | | | | | | | |
| 46 | Other (Income) - Net | (5,972) | 5,972 | - | | | | | | - | - | | - |
| 47 | | | | | | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 33,465 | $ 42,019 | $ 75,484 | $ - | $ - | $ (4,142) | $ - | $ - | $ (4,142) | $ 71,342 | $ - | $ 71,342 |
| 49 | | | | | | | | | | | | | |
| 50 | Net Income | $ (58,349) | $ (64,659) | $ (123,008) | $ - | $ - | $ 4,142 | $ 457 | $ (1,775) | $ 2,824 | $ (120,184) | $ 235,572 | $ 115,388 |
| 51 | | | | | | | | | | | | | |
| 52 | | | | | | | | | | | | | |
| 53 | | | | | | | | | | | | | |
| 54 | | | | | | | | | | | | | |
| 55 | | | | | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Pro Forma Adjustments

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR RB1 | [E] ADJ JMR RB2 | [G] ADJ JMR RB3 | [H] ADJ JMR-RB4 | [I] ADJ JMR RB5 | [J] Total Rebuttal Adjustments | [K] Adjusted Test Year - Rebuttal | [L] Required Increase - Rebuttal | [M] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Oracle | | Rebuttal Adjustments | | | | | | |
| 1 | Operating Revenues | | | | | | | | | | | | |
| 2 | Residential | $ 912,698 | $ (48,103) | $ 864,595 | | | | | | $ - | $ 864,595 | | |
| 3 | Commercial | 226,983 | 2,460 | 229,443 | | | | | | - | 229,443 | | |
| 4 | Industrial | - | - | - | | | | | | - | - | | |
| 5 | Private Fire Service | 60 | (4) | 56 | | | | | | - | 56 | | |
| 6 | Other Water Revenues | 22,482 | (1,467) | 21,015 | | | | | | - | 21,015 | | |
| 7 | Total Water Revenues | $ 1,162,223 | $ (47,114) | $ 1,115,109 | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,115,109 | $ 46,671 | $ 1,161,780 |
| 8 | | | | | | | | | | | | | |
| 9 | Miscellaneous | 11,794 | (688) | 11,106 | | | | | | - | 11,106 | | 11,106 |
| 10 | Total Operating Revenues | $ 1,174,017 | $ (47,802) | $ 1,126,215 | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,126,215 | $ 46,671 | $ 1,172,886 |
| 11 | | | | | | | | | | | | | |
| 12 | Operating Expenses | | | | | | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | | | | | | |
| 14 | Purchased Water | - | - | - | | | | | | - | - | | - |
| 15 | Other | 9,201 | 307 | 9,508 | | | | | | - | 9,508 | | 9,508 |
| 16 | Pumping Expenses: | | | | | | | | | | | | |
| 17 | Purchased Power | 150,258 | (522) | 149,736 | | | | | | - | 149,736 | | 149,736 |
| 18 | Purchased Gas | - | - | - | | | | | | - | - | | - |
| 19 | Other | 34,173 | 4,430 | 38,603 | | | | | | - | 38,603 | | 38,603 |
| 20 | Water Treatment Expenses | 19,572 | (4,030) | 15,542 | | | | | | - | 15,542 | | 15,542 |
| 21 | Transmission & Distribution Expenses | 146,609 | 5,401 | 152,010 | | | | | | - | 152,010 | | 152,010 |
| 22 | Customer Accounting Expenses | 98,713 | 1,715 | 100,428 | | | | | | - | 100,428 | | 100,428 |
| 23 | Sales Expense | 549 | - | 549 | | | | | | - | 549 | | 549 |
| 24 | Administrative & General Expenses | 129,543 | 22,407 | 151,950 | | | | | | - | 151,950 | | 151,950 |
| 25 | Total Operations & Maintenance Expense | $ 588,618 | $ 29,708 | $ 618,326 | $ - | $ - | $ - | $ - | $ - | $ - | $ 618,326 | $ - | $ 618,326 |
| 26 | | | | | | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 175,777 | 5,616 | 181,393 | | | | | | - | 181,393 | | 181,393 |
| 28 | | | | | | | | | | | | | |
| 29 | Taxes | | | | | | | | | | | | |
| 30 | Federal Income Taxes | 76,934 | (22,956) | 53,978 | | | | | 1,678 | 1,678 | 55,656 | 14,762 | 70,418 |
| 31 | State Income Taxes | 6,343 | 5,548 | 11,891 | | | | | 370 | 370 | 12,260 | 3,252 | 15,513 |
| 32 | Property Taxes | 47,154 | 6,767 | 53,921 | | | | (352) | | (352) | 53,569 | | 53,569 |
| 33 | Other | 88,155 | (75,697) | 12,458 | | | | | | - | 12,458 | | 12,458 |
| 34 | Total Taxes | $ 218,586 | $ (86,338) | $ 132,248 | $ - | $ - | $ - | $ (352) | $ 2,047 | $ 1,695 | $ 133,943 | $ 18,014 | $ 151,957 |
| 35 | | | | | | | | | | | | | |
| 36 | Total Operating Expenses | $ 982,981 | $ (51,014) | $ 931,966 | $ - | $ - | $ - | $ (352) | $ 2,047 | $ 1,695 | $ 933,661 | $ 18,014 | $ 951,676 |
| 37 | Operating Income | $ 191,036 | $ 3,212 | $ 194,248 | $ - | $ - | $ - | $ 352 | $ (2,047) | $ (1,695) | $ 192,553 | $ 28,656 | $ 221,210 |
| 38 | | | | | | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | | | | | | |
| 40 | Interest: | | | | | | | | | | | | |
| 41 | Long-Term Debt | 63,407 | 26,061 | 89,467 | | | (8,417) | | | (8,417) | 81,050 | | 81,050 |
| 42 | Short-Term Debt | 27,399 | (27,399) | - | | | 3,465 | | | 3,465 | 3,465 | | 3,465 |
| 43 | Other | (37,283) | 37,283 | - | | | - | | | - | - | | - |
| 44 | Total Interest | $ 53,522 | $ 35,945 | $ 89,467 | $ - | $ - | $ (4,952) | $ - | $ - | $ (4,952) | $ 84,515 | $ - | $ 84,515 |
| 45 | | | | | | | | | | | | | |
| 46 | Other (Income) - Net | (8,105) | 8,105 | - | | | | | | - | - | | - |
| 47 | | | | | | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 45,417 | $ 44,050 | $ 89,467 | $ - | $ - | $ (4,952) | $ - | $ - | $ (4,952) | $ 84,515 | $ - | $ 84,515 |
| 49 | | | | | | | | | | | | | |
| 50 | Net Income | $ 145,619 | $ (40,838) | $ 104,781 | $ - | $ - | $ 4,952 | $ 352 | $ (2,047) | $ 3,257 | $ 108,038 | $ 28,656 | $ 136,694 |
| 51 | | | | | | | | | | | | | |
| 52 | | | | | | | | | | | | | |
| 53 | | | | | | | | | | | | | |
| 54 | | | | | | | | | | | | | |
| 55 | | | | | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Pro Forma Adjustments

Saddlebrook

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR RB1 | [E] ADJ JMR RB2 | [G] ADJ JMR RB3 | [H] ADJ JMR-RB4 | [I] ADJ JMR RB5 | [J] Total Rebuttal Adjustments | [K] Adjusted Test Year - Rebuttal | [L] Required Increase - Rebuttal | [M] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | Operating Revenues | | | | | | | | | | | | |
| 2 | Residential | $ 1,851 | $ (1,851) | $ - | | | | | | $ - | $ - | | |
| 3 | Commercial | 18,949 | (18,949) | - | | | | | | - | - | | |
| 4 | Industrial | - | - | - | | | | | | - | - | | |
| 5 | Private Fire Service | 30 | (30) | - | | | | | | - | - | | |
| 6 | Other Water Revenues | - | - | - | | | | | | - | - | | |
| 7 | Total Water Revenues | $ 20,830 | $ (20,830) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 8 | | | | | | | | | | | | | |
| 9 | Miscellaneous | $ 543 | (543) | - | | | | | | - | - | | - |
| 10 | Total Operating Revenues | $ 21,373 | $ (21,373) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 11 | | | | | | | | | | | | | |
| 12 | Operating Expenses | | | | | | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | | | | | | |
| 14 | Purchased Water | - | - | - | | | | | | - | - | | - |
| 15 | Other | 37 | (37) | - | | | | | | - | - | | - |
| 16 | Pumping Expenses: | | | | | | | | | | | | |
| 17 | Purchased Power | - | - | - | | | | | | - | - | | - |
| 18 | Purchased Gas | - | - | - | | | | | | - | - | | - |
| 19 | Other | 167 | (167) | - | | | | | | - | - | | - |
| 20 | Water Treatment Expenses | 114 | (114) | - | | | | | | - | - | | - |
| 21 | Transmission & Distribution Expenses | 659 | (659) | - | | | | | | - | - | | - |
| 22 | Customer Accounting Expenses | 2,892 | (2,892) | - | | | | | | - | - | | - |
| 23 | Sales Expense | 2 | (2) | - | | | | | | - | - | | - |
| 24 | Administrative & General Expenses | 102 | (102) | - | | | | | | - | - | | - |
| 25 | Total Operations & Maintenance Expense | $ 3,973 | $ (3,973) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 26 | | | | | | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 1,115 | (1,115) | - | | | | | | - | - | | - |
| 28 | | | | | | | | | | | | | |
| 29 | Taxes | | | | | | | | | | | | |
| 30 | Federal Income Taxes | 4,758 | (4,758) | - | | | | | 0 | 0 | 0 | - | 0 |
| 31 | State Income Taxes | 669 | (669) | - | | | | | 0 | 0 | 0 | - | 0 |
| 32 | Property Taxes | 15 | (15) | - | | | | - | | - | - | | - |
| 33 | Other | 1,337 | (1,337) | - | | | | | | - | - | | - |
| 34 | Total Taxes | $ 6,779 | $ (6,779) | $ - | $ - | $ - | $ - | $ - | $ 0 | $ 0 | $ 0 | $ - | $ 0 |
| 35 | | | | | | | | | | | | | |
| 36 | Total Operating Expenses | $ 11,867 | $ (11,867) | $ - | $ - | $ - | $ - | $ - | $ 0 | $ 0 | $ 0 | $ - | $ 0 |
| 37 | Operating Income | $ 9,506 | $ (9,506) | $ - | $ - | $ - | $ - | $ - | $ (0) | $ (0) | $ (0) | $ - | $ (0) |
| 38 | | | | | | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | | | | | | |
| 40 | Interest: | | | | | | | | | | | | |
| 41 | Long-Term Debt | - | - | - | | | (0) | | | (0) | (0) | | (0) |
| 42 | Short-Term Debt | - | - | - | | | (0) | | | (0) | (0) | | (0) |
| 43 | Other | - | - | - | | | - | | | - | - | | - |
| 44 | Total Interest | $ - | $ - | $ - | $ - | $ - | $ (0) | $ - | $ - | $ (0) | $ (0) | $ - | $ (0) |
| 45 | | | | | | | | | | | | | |
| 46 | Other (Income) - Net | - | - | - | | | | | | - | - | | - |
| 47 | | | | | | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ - | $ - | $ - | $ - | $ - | $ (0) | $ - | $ - | $ (0) | $ (0) | $ - | $ (0) |
| 49 | | | | | | | | | | | | | |
| 50 | Net Income | $ 9,506 | $ (9,506) | $ - | $ - | $ - | $ 0 | $ - | $ (0) | $ 0 | $ 0 | $ - | $ 0 |
| 51 | | | | | | | | | | | | | |
| 52 | | | | | | | | | | | | | |
| 53 | | | | | | | | | | | | | |
| 54 | | | | | | | | | | | | | |
| 55 | | | | | | | | | | | | | |

Winkelman

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR RB1 | [E] ADJ JMR RB2 | [G] ADJ JMR RB3 | [H] ADJ JMR-RB4 | [I] ADJ JMR RB5 | [J] Total Rebuttal Adjustments | [K] Adjusted Test Year - Rebuttal | [L] Required Increase - Rebuttal | [M] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | Operating Revenues | | | | | | | | | | | | |
| 2 | Residential | $ 49,335 | $ (4,434) | $ 44,901 | | | | | | $ - | $ 44,901 | | |
| 3 | Commercial | 53,748 | (3,652) | 50,096 | | | | | | - | 50,096 | | |
| 4 | Industrial | 1,925 | (151) | 1,774 | | | | | | - | 1,774 | | |
| 5 | Private Fire Service | - | - | - | | | | | | - | - | | |
| 6 | Other Water Revenues | 817 | (68) | 749 | | | | | | - | 749 | | |
| 7 | Total Water Revenues | $ 105,824 | $ (8,305) | $ 97,519 | $ - | $ - | $ - | $ - | $ - | $ - | $ 97,519 | $ 30,184 | $ 127,703 |
| 8 | | | | | | | | | | | | | |
| 9 | Miscellaneous | 1,295 | (92) | 1,203 | | | | | | - | 1,203 | | 1,203 |
| 10 | Total Operating Revenues | $ 107,119 | $ (8,397) | $ 98,722 | $ - | $ - | $ - | $ - | $ - | $ - | $ 98,722 | $ 30,184 | $ 128,906 |
| 11 | | | | | | | | | | | | | |
| 12 | Operating Expenses | | | | | | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | | | | | | |
| 14 | Purchased Water | - | - | - | | | | | | - | - | | - |
| 15 | Other | 890 | 7 | 897 | | | | | | - | 897 | | 897 |
| 16 | Pumping Expenses: | | | | | | | | | | | | |
| 17 | Purchased Power | 6,757 | 553 | 7,310 | | | | | | - | 7,310 | | 7,310 |
| 18 | Purchased Gas | - | - | - | | | | | | - | - | | - |
| 19 | Other | 4,187 | (37) | 4,150 | | | | | | - | 4,150 | | 4,150 |
| 20 | Water Treatment Expenses | 2,109 | (737) | 1,372 | | | | | | - | 1,372 | | 1,372 |
| 21 | Transmission & Distribution Expenses | 18,775 | (2,157) | 16,618 | | | | | | - | 16,618 | | 16,618 |
| 22 | Customer Accounting Expenses | 11,399 | (67) | 11,332 | | | | | | - | 11,332 | | 11,332 |
| 23 | Sales Expense | 58 | - | 58 | | | | | | - | 58 | | 58 |
| 24 | Administrative & General Expenses | 13,712 | 2,404 | 16,116 | | | | | | - | 16,116 | | 16,116 |
| 25 | Total Operations & Maintenance Expense | $ 57,887 | $ (32) | $ 57,855 | $ - | $ - | $ - | $ - | $ - | $ - | $ 57,855 | $ - | $ 57,855 |
| 26 | | | | | | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 18,926 | 1,002 | 19,928 | | $ (2,077) | | | | (2,077) | 17,851 | | 17,851 |
| 28 | | | | | | | | | | | | | |
| 29 | Taxes | | | | | | | | | | | | |
| 30 | Federal Income Taxes | 2,680 | (3,639) | (959) | | | | | 916 | 916 | (43) | 9,547 | 9,505 |
| 31 | State Income Taxes | 246 | (457) | (211) | | | | | 202 | 202 | (9) | 2,103 | 2,094 |
| 32 | Property Taxes | 9,223 | 1,452 | 10,675 | | | | (167) | | (167) | 10,508 | | 10,508 |
| 33 | Other | 9,244 | (8,009) | 1,235 | | | | | | - | 1,235 | | 1,235 |
| 34 | Total Taxes | $ 21,393 | $ (10,652) | $ 10,741 | $ - | $ - | $ - | $ (167) | $ 1,118 | $ 951 | $ 11,692 | $ 11,651 | $ 23,342 |
| 35 | | | | | | | | | | | | | |
| 36 | Total Operating Expenses | $ 98,206 | $ (9,682) | $ 88,524 | $ - | $ (2,077) | $ - | $ (167) | $ 1,118 | $ (1,126) | $ 87,398 | $ 11,651 | $ 99,048 |
| 37 | Operating Income | $ 8,913 | $ 1,285 | $ 10,198 | $ - | $ 2,077 | $ - | $ 167 | $ (1,118) | $ 1,126 | $ 11,325 | $ 18,533 | $ 29,858 |
| 38 | | | | | | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | | | | | | |
| 40 | Interest: | | | | | | | | | | | | |
| 41 | Long-Term Debt | 6,118 | 5,941 | 12,059 | | | (1,119) | | | (1,119) | 10,940 | | 10,940 |
| 42 | Short-Term Debt | 2,644 | (2,644) | - | | | 468 | | | 468 | 468 | | 468 |
| 43 | Other | (3,598) | 3,598 | - | | | - | | | - | - | | - |
| 44 | Total Interest | $ 5,164 | $ 6,895 | $ 12,059 | $ - | $ - | $ (652) | $ - | $ - | $ (652) | $ 11,407 | $ - | $ 11,407 |
| 45 | | | | | | | | | | | | | |
| 46 | Other (Income) - Net | (782) | 782 | - | | | | | | - | - | | - |
| 47 | | | | | | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 4,382 | $ 7,677 | $ 12,059 | $ - | $ - | $ (652) | $ - | $ - | $ (652) | $ 11,407 | $ - | $ 11,407 |
| 49 | | | | | | | | | | | | | |
| 50 | Net Income | $ 4,531 | $ (6,392) | $ (1,861) | $ - | $ 2,077 | $ 652 | $ 167 | $ (1,118) | $ 1,778 | $ (83) | $ 18,533 | $ 18,450 |
| 51 | | | | | | | | | | | | | |
| 52 | | | | | | | | | | | | | |
| 53 | | | | | | | | | | | | | |
| 54 | | | | | | | | | | | | | |
| 55 | | | | | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Pro Forma Adjustments

Miami

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR RB1 | [E] ADJ JMR RB2 | [G] ADJ JMR RB3 | [H] ADJ JMR-RB4 | [I] ADJ JMR RB5 | [J] Total Rebuttal Adjustments | [K] Adjusted Test Year - Rebuttal | [L] Required Increase - Rebuttal | [M] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | Operating Revenues | | | | | | | | | | | | |
| 2 | Residential | $ 1,324,116 | $ (100,141) | $ 1,223,975 | | | | | | $ - | $ 1,223,975 | | |
| 3 | Commercial | 531,513 | (40,469) | 491,044 | | | | | | - | 491,044 | | |
| 4 | Industrial | 105,400 | (7,240) | 98,160 | | | | | | - | 98,160 | | |
| 5 | Private Fire Service | 944 | (70) | 874 | | | | | | - | 874 | | |
| 6 | Other Water Revenues | 18,155 | (1,870) | 16,285 | | | | | | - | 16,285 | | |
| 7 | Total Water Revenues | $ 1,980,128 | $ (149,791) | $ 1,830,338 | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,830,338 | $ 918,105 | $ 2,748,442 |
| 8 | | | | | | | | | | | | | |
| 9 | Miscellaneous | 21,989 | (1,649) | 20,340 | | | | | | - | 20,340 | | 20,340 |
| 10 | Total Operating Revenues | $ 2,002,117 | $ (151,439) | $ 1,850,678 | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,850,678 | $ 918,105 | $ 2,768,783 |
| 11 | | | | | | | | | | | | | |
| 12 | Operating Expenses | | | | | | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | | | | | | |
| 14 | Purchased Water | - | - | - | | | | | | - | - | | - |
| 15 | Other | 9,496 | 114 | 9,610 | | | | | | - | 9,610 | | 9,610 |
| 16 | Pumping Expenses: | | | | | | | | | | | | |
| 17 | Purchased Power | 182,777 | 17,142 | 199,919 | | | | | | - | 199,919 | | 199,919 |
| 18 | Purchased Gas | - | - | - | | | | | | - | - | | - |
| 19 | Other | 103,826 | 2,235 | 106,061 | | | | | | - | 106,061 | | 106,061 |
| 20 | Water Treatment Expenses | 18,309 | (7,935) | 10,374 | | | | | | - | 10,374 | | 10,374 |
| 21 | Transmission & Distribution Expenses | 366,803 | (13,308) | 353,495 | | | | | | - | 353,495 | | 353,495 |
| 22 | Customer Accounting Expenses | 222,907 | 3,437 | 226,344 | | | | | | - | 226,344 | | 226,344 |
| 23 | Sales Expense | 2,486 | - | 2,486 | | | | | | - | 2,486 | | 2,486 |
| 24 | Administrative & General Expenses | 334,386 | 60,368 | 394,754 | | | | | | - | 394,754 | | 394,754 |
| 25 | Total Operations & Maintenance Expense | $ 1,240,990 | $ 62,054 | $ 1,303,044 | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,303,044 | $ - | $ 1,303,044 |
| 26 | | | | | | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 370,183 | (14,619) | 355,564 | | | | | | - | 355,564 | | 355,564 |
| 28 | | | | | | | | | | | | | |
| 29 | Taxes | | | | | | | | | | | | |
| 30 | Federal Income Taxes | 31,677 | (103,998) | (72,321) | | | | | 5,431 | 5,431 | (66,890) | 290,405 | 223,514 |
| 31 | State Income Taxes | 2,909 | (18,841) | (15,932) | | | | | 1,196 | 1,196 | (14,735) | 63,974 | 49,238 |
| 32 | Property Taxes | 83,542 | 24,033 | 107,575 | | | | (1,193) | | (1,193) | 106,382 | | 106,382 |
| 33 | Other | 196,029 | (167,130) | 28,899 | | | | | | - | 28,899 | | 28,899 |
| 34 | Total Taxes | $ 314,157 | $ (265,935) | $ 48,221 | $ - | $ - | $ - | $ (1,193) | $ 6,627 | $ 5,434 | $ 53,656 | $ 354,378 | $ 408,034 |
| 35 | | | | | | | | | | | | | |
| 36 | Total Operating Expenses | $ 1,925,330 | $ (218,500) | $ 1,706,829 | $ - | $ - | $ - | $ (1,193) | $ 6,627 | $ 5,434 | $ 1,712,264 | $ 354,378 | $ 2,066,642 |
| 37 | Operating Income | $ 76,788 | $ 67,061 | $ 143,848 | $ - | $ - | $ - | $ 1,193 | $ (6,627) | $ (5,434) | $ 138,414 | $ 563,727 | $ 702,141 |
| 38 | | | | | | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | | | | | | |
| 40 | Interest: | | | | | | | | | | | | |
| 41 | Long-Term Debt | 138,494 | 145,743 | 284,236 | | | (26,975) | | | (26,975) | 257,261 | | 257,261 |
| 42 | Short-Term Debt | 59,844 | (59,844) | - | | | 10,999 | | | 10,999 | 10,999 | | 10,999 |
| 43 | Other | (81,435) | 81,435 | - | | | - | | | - | - | | - |
| 44 | Total Interest | $ 116,903 | $ 167,333 | $ 284,236 | $ - | $ - | $ (15,976) | $ - | $ - | $ (15,976) | $ 268,260 | $ - | $ 268,260 |
| 45 | | | | | | | | | | | | | |
| 46 | Other (Income) - Net | (17,702) | 17,702 | - | | | | | | - | - | | - |
| 47 | | | | | | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 99,201 | $ 185,035 | $ 284,236 | $ - | $ - | $ (15,976) | $ - | $ - | $ (15,976) | $ 268,260 | $ - | $ 268,260 |
| 49 | | | | | | | | | | | | | |
| 50 | Net Income | $ (22,413) | $ (117,975) | $ (140,388) | $ - | $ - | $ 15,976 | $ 1,193 | $ (6,627) | $ 10,542 | $ (129,846) | $ 563,727 | $ 433,881 |
| 51 | | | | | | | | | | | | | |
| 52 | | | | | | | | | | | | | |
| 53 | | | | | | | | | | | | | |
| 54 | | | | | | | | | | | | | |
| 55 | | | | | | | | | | | | | |

Casa Grande

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR RB1 | [E] ADJ JMR RB2 | [G] ADJ JMR RB3 | [H] ADJ JMR-RB4 | [I] ADJ JMR RB5 | [J] Total Rebuttal Adjustments | [K] Adjusted Test Year - Rebuttal | [L] Required Increase - Rebuttal | [M] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | Operating Revenues | | | | | | | | | | | | |
| 2 | Residential | $ 7,057,641 | $ (479,321) | $ 6,578,320 | | | | | | $ - | $ 6,578,320 | | |
| 3 | Commercial | 2,311,157 | (93,468) | 2,217,689 | | | | | | - | 2,217,689 | | |
| 4 | Industrial | 1,185,591 | (100,368) | 1,085,224 | | | | | | - | 1,085,224 | | |
| 5 | Private Fire Service | 14,770 | (1,502) | 13,268 | | | | | | - | 13,268 | | |
| 6 | Other Water Revenues | 503,729 | (53,018) | 450,711 | | | | | | - | 450,711 | | |
| 7 | Total Water Revenues | $ 11,072,888 | $ (727,676) | $ 10,345,212 | $ - | $ - | $ - | $ - | $ - | $ - | $ 10,345,212 | $ 5,106,325 | $ 15,451,537 |
| 8 | | | | | | | | | | | | | |
| 9 | Miscellaneous | 637,701 | (48,019) | 589,682 | | | | | | - | 589,682 | | 589,682 |
| 10 | Total Operating Revenues | $ 11,710,589 | $ (775,695) | $ 10,934,895 | $ - | $ - | $ - | $ - | $ - | $ - | $ 10,934,895 | $ 5,106,325 | $ 16,041,220 |
| 11 | | | | | | | | | | | | | |
| 12 | Operating Expenses | | | | | | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | | | | | | |
| 14 | Purchased Water | 374,207 | - | 374,207 | | | | | | - | 374,207 | | 374,207 |
| 15 | Other | 66,355 | 9,823 | 76,178 | | | | | | - | 76,178 | | 76,178 |
| 16 | Pumping Expenses: | | | | | | | | | | | | |
| 17 | Purchased Power | 1,351,229 | 36,649 | 1,387,878 | | | | | | - | 1,387,878 | | 1,387,878 |
| 18 | Purchased Gas | 509 | - | 509 | | | | | | - | 509 | | 509 |
| 19 | Other | 498,302 | 39,588 | 537,890 | | | | | | - | 537,890 | | 537,890 |
| 20 | Water Treatment Expenses | 283,039 | 248,578 | 531,617 | | | | | | - | 531,617 | | 531,617 |
| 21 | Transmission & Distribution Expenses | 1,767,971 | 120,024 | 1,887,995 | | | | | | - | 1,887,995 | | 1,887,995 |
| 22 | Customer Accounting Expenses | 891,911 | 17,473 | 909,384 | | | | | | - | 909,384 | | 909,384 |
| 23 | Sales Expense | 4,312 | - | 4,312 | | | | | | - | 4,312 | | 4,312 |
| 24 | Administrative & General Expenses | 1,513,786 | 247,896 | 1,761,682 | | | | | | - | 1,761,682 | | 1,761,682 |
| 25 | Total Operations & Maintenance Expense | $ 6,751,621 | $ 720,032 | $ 7,471,653 | $ - | $ - | $ - | $ - | $ - | $ - | $ 7,471,653 | $ - | $ 7,471,653 |
| 26 | | | | | | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 1,911,885 | 417,875 | 2,329,760 | | $ (15,289) | | | | (15,289) | 2,314,471 | | 2,314,471 |
| 28 | | | | | | | | | | | | | |
| 29 | Taxes | | | | | | | | | | | | |
| 30 | Federal Income Taxes | 337,483 | (787,643) | (450,160) | | | | | 35,936 | 35,936 | (414,224) | 1,615,176 | 1,200,951 |
| 31 | State Income Taxes | 30,993 | (130,159) | (99,166) | | | | | 7,916 | 7,916 | (91,250) | 355,809 | 264,559 |
| 32 | Property Taxes | 535,360 | 271,107 | 806,467 | | | | (8,856) | | (8,856) | 797,611 | | 797,611 |
| 33 | Other | 1,340,087 | (1,120,741) | 219,346 | | | | | | - | 219,346 | | 219,346 |
| 34 | Total Taxes | $ 2,243,923 | $ (1,767,436) | $ 476,487 | $ - | $ - | $ - | $ (8,856) | $ 43,852 | $ 34,996 | $ 511,483 | $ 1,970,984 | $ 2,482,467 |
| 35 | | | | | | | | | | | | | |
| 36 | Total Operating Expenses | $ 10,907,429 | $ (629,529) | $ 10,277,900 | $ - | $ (15,289) | $ - | $ (8,856) | $ 43,852 | $ 19,707 | $ 10,297,607 | $ 1,970,984 | $ 12,268,591 |
| 37 | Operating Income | $ 803,160 | $ (146,166) | $ 656,994 | $ - | $ 15,289 | $ - | $ 8,856 | $ (43,852) | $ (19,707) | $ 637,288 | $ 3,135,341 | $ 3,772,629 |
| 38 | | | | | | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | | | | | | |
| 40 | Interest: | | | | | | | | | | | | |
| 41 | Long-Term Debt | 738,356 | 792,479 | 1,530,834 | | | (148,560) | | | (148,560) | 1,382,275 | | 1,382,275 |
| 42 | Short-Term Debt | 319,050 | (319,050) | - | | | 59,096 | | | 59,096 | 59,096 | | 59,096 |
| 43 | Other | (434,156) | 434,156 | - | | | - | | | - | - | | - |
| 44 | Total Interest | $ 623,250 | $ 907,585 | $ 1,530,834 | $ - | $ - | $ (89,464) | $ - | $ - | $ (89,464) | $ 1,441,370 | $ - | $ 1,441,370 |
| 45 | | | | | | | | | | | | | |
| 46 | Other (Income) - Net | (94,377) | 94,377 | - | | | | | | - | - | | - |
| 47 | | | | | | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 528,873 | $ 1,001,961 | $ 1,530,834 | $ - | $ - | $ (89,464) | $ - | $ - | $ (89,464) | $ 1,441,370 | $ - | $ 1,441,370 |
| 49 | | | | | | | | | | | | | |
| 50 | Net Income | $ 274,287 | $ (1,148,127) | $ (873,840) | $ - | $ 15,289 | $ 89,464 | $ 8,856 | $ (43,852) | $ 69,757 | $ (804,083) | $ 3,135,341 | $ 2,331,258 |
| 51 | | | | | | | | | | | | | |
| 52 | | | | | | | | | | | | | |
| 53 | | | | | | | | | | | | | |
| 54 | | | | | | | | | | | | | |
| 55 | | | | | | | | | | | | | |

Stanfield

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR RB1 | [E] ADJ JMR RB2 | [G] ADJ JMR RB3 | [H] ADJ JMR-RB4 | [I] ADJ JMR RB5 | [J] Total Rebuttal Adjustments | [K] Adjusted Test Year - Rebuttal | [L] Required Increase - Rebuttal | [M] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | Operating Revenues | | | | | | | | | | | | |
| 2 | Residential | $ 93,732 | $ (4,892) | $ 88,841 | | | | | | $ - | $ 88,841 | | |
| 3 | Commercial | 24,666 | (2,015) | 22,651 | | | | | | - | 22,651 | | |
| 4 | Industrial | - | - | - | | | | | | - | - | | |
| 5 | Private Fire Service | - | - | - | | | | | | - | - | | |
| 6 | Other Water Revenues | 18,946 | 552 | 19,498 | | | | | | - | 19,498 | | |
| 7 | Total Water Revenues | $ 137,344 | $ (6,354) | $ 130,990 | $ - | $ - | $ - | $ - | $ - | $ - | $ 130,990 | $ 174,415 | $ 305,405 |
| 8 | | | | | | | | | | | | | |
| 9 | Miscellaneous | 2,238 | (1,302) | 936 | | | | | | - | 936 | | 936 |
| 10 | Total Operating Revenues | $ 139,582 | $ (7,656) | $ 131,926 | $ - | $ - | $ - | $ - | $ - | $ - | $ 131,926 | $ 174,415 | $ 306,341 |
| 11 | | | | | | | | | | | | | |
| 12 | Operating Expenses | | | | | | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | | | | | | |
| 14 | Purchased Water | - | - | - | | | | | | - | - | | - |
| 15 | Other | 374 | 4 | 378 | | | | | | - | 378 | | 378 |
| 16 | Pumping Expenses: | | | | | | | | | | | | |
| 17 | Purchased Power | 18,790 | 1,809 | 20,599 | | | | | | - | 20,599 | | 20,599 |
| 18 | Purchased Gas | - | - | - | | | | | | - | - | | - |
| 19 | Other | 4,571 | 260 | 4,831 | | | | | | - | 4,831 | | 4,831 |
| 20 | Water Treatment Expenses | 1,362 | 61,624 | 62,986 | | | | | | - | 62,986 | | 62,986 |
| 21 | Transmission & Distribution Expenses | 18,274 | 6,734 | 25,008 | | | | | | - | 25,008 | | 25,008 |
| 22 | Customer Accounting Expenses | 8,590 | 128 | 8,718 | | | | | | - | 8,718 | | 8,718 |
| 23 | Sales Expense | 43 | - | 43 | | | | | | - | 43 | | 43 |
| 24 | Administrative & General Expenses | 15,443 | 2,117 | 17,560 | | | | | | - | 17,560 | | 17,560 |
| 25 | Total Operations & Maintenance Expense | $ 67,447 | $ 72,677 | $ 140,124 | $ - | $ - | $ - | $ - | $ - | $ - | $ 140,124 | $ - | $ 140,124 |
| 26 | | | | | | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 33,456 | 12,611 | 46,067 | | $ (102) | | | | (102) | 45,965 | | 45,965 |
| 28 | | | | | | | | | | | | | |
| 29 | Taxes | | | | | | | | | | | | |
| 30 | Federal Income Taxes | 5,361 | (37,114) | (31,753) | | | | | 627 | 627 | (31,126) | 55,169 | 24,043 |
| 31 | State Income Taxes | 492 | (7,487) | (6,995) | | | | | 138 | 138 | (6,857) | 12,153 | 5,296 |
| 32 | Property Taxes | 9,361 | 4,692 | 14,053 | | | | (191) | | (191) | 13,862 | | 13,862 |
| 33 | Other | 10,455 | (8,933) | 1,522 | | | | | | - | 1,522 | | 1,522 |
| 34 | Total Taxes | $ 25,669 | $ (48,842) | $ (23,173) | $ - | $ - | $ - | $ (191) | $ 765 | $ 574 | $ (22,599) | $ 67,322 | $ 44,723 |
| 35 | | | | | | | | | | | | | |
| 36 | Total Operating Expenses | $ 126,572 | $ 36,446 | $ 163,018 | $ - | $ (102) | $ - | $ (191) | $ 765 | $ 472 | $ 163,490 | $ 67,322 | $ 230,813 |
| 37 | Operating Income | $ 13,010 | $ (44,103) | $ (31,092) | $ - | $ 102 | $ - | $ 191 | $ (765) | $ (472) | $ (31,565) | $ 107,093 | $ 75,528 |
| 38 | | | | | | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | | | | | | |
| 40 | Interest: | | | | | | | | | | | | |
| 41 | Long-Term Debt | 7,509 | 23,038 | 30,546 | | | (2,873) | | | (2,873) | 27,673 | | 27,673 |
| 42 | Short-Term Debt | 3,245 | (3,245) | - | | | 1,183 | | | 1,183 | 1,183 | | 1,183 |
| 43 | Other | (4,415) | 4,415 | - | | | - | | | - | - | | - |
| 44 | *Total Interest* | $ 6,338 | $ 24,208 | $ 30,546 | $ - | $ - | $ (1,690) | $ - | $ - | $ (1,690) | $ 28,856 | $ - | $ 28,856 |
| 45 | | | | | | | | | | | | | |
| 46 | Other (Income) - Net | (960) | 960 | - | | | | | | - | - | | - |
| 47 | | | | | | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 5,378 | $ 25,168 | $ 30,546 | $ - | $ - | $ (1,690) | $ - | $ - | $ (1,690) | $ 28,856 | $ - | $ 28,856 |
| 49 | | | | | | | | | | | | | |
| 50 | Net Income | $ 7,632 | $ (69,270) | $ (61,639) | $ - | $ 102 | $ 1,690 | $ 191 | $ (765) | $ 1,218 | $ (60,421) | $ 107,093 | $ 46,672 |
| 51 | | | | | | | | | | | | | |
| 52 | | | | | | | | | | | | | |
| 53 | | | | | | | | | | | | | |
| 54 | | | | | | | | | | | | | |
| 55 | | | | | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Pro Forma Adjustments

White Tank

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR RB1 | [E] ADJ JMR RB2 | [G] ADJ JMR RB3 | [H] ADJ JMR-RB4 | [I] ADJ JMR RB5 | [J] Total Rebuttal Adjustments | [K] Adjusted Test Year - Rebuttal | [L] Required Increase - Rebuttal | [M] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | Operating Revenues | | | | | | | | | | | | |
| 2 | Residential | $ 1,126,251 | $ (68,323) | $ 1,057,928 | | | | | | $ - | $ 1,057,928 | | |
| 3 | Commercial | 115,074 | 4,284 | 119,358 | | | | | | - | 119,358 | | |
| 4 | Industrial | 19,835 | (1,177) | 18,658 | | | | | | - | 18,658 | | |
| 5 | Private Fire Service | 314 | (19) | 295 | | | | | | - | 295 | | |
| 6 | Other Water Revenues | 38,934 | (2,768) | 36,166 | | | | | | - | 36,166 | | |
| 7 | Total Water Revenues | $ 1,300,408 | $ (68,004) | $ 1,232,404 | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,232,404 | $ 322,023 | $ 1,554,426 |
| 8 | | | | | | | | | | | | | |
| 9 | Miscellaneous | 13,109 | (778) | 12,331 | | | | | | - | 12,331 | | 12,331 |
| 10 | Total Operating Revenues | $ 1,313,517 | $ (68,782) | $ 1,244,735 | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,244,735 | $ 322,023 | $ 1,566,758 |
| 11 | | | | | | | | | | | | | |
| 12 | Operating Expenses | | | | | | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | | | | | | |
| 14 | Purchased Water | 179,558 | (29,314) | 150,244 | (150,244) | | | | | (150,244) | (0) | | (0) |
| 15 | Other | 3,504 | 2,102 | 5,606 | | | | | | - | 5,606 | | 5,606 |
| 16 | Pumping Expenses: | | | | | | | | | | | | |
| 17 | Purchased Power | 104,113 | 1,468 | 105,581 | 15,250 | | | | | 15,250 | 120,831 | | 120,831 |
| 18 | Purchased Gas | - | - | - | | | | | | - | - | | - |
| 19 | Other | 39,750 | 1,526 | 41,276 | | | | | | - | 41,276 | | 41,276 |
| 20 | Water Treatment Expenses | 19,638 | 15,337 | 34,975 | 6,862 | | | | | 6,862 | 41,837 | | 41,837 |
| 21 | Transmission & Distribution Expenses | 149,069 | 24,508 | 173,577 | | | | | | - | 173,577 | | 173,577 |
| 22 | Customer Accounting Expenses | 72,298 | 321 | 72,619 | | | | | | - | 72,619 | | 72,619 |
| 23 | Sales Expense | 362 | - | 362 | | | | | | - | 362 | | 362 |
| 24 | Administrative & General Expenses | 127,889 | 18,812 | 146,701 | | | | | | - | 146,701 | | 146,701 |
| 25 | Total Operations & Maintenance Expense | $ 696,181 | $ 34,759 | $ 730,940 | $ (128,132) | $ - | $ - | $ - | $ - | $ (128,132) | $ 602,808 | $ - | $ 602,808 |
| 26 | | | | | | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 207,520 | 86,975 | 294,495 | | | | | | - | 294,495 | | 294,495 |
| 28 | | | | | | | | | | | | | |
| 29 | Taxes | | | | | | | | | | | | |
| 30 | Federal Income Taxes | 67,984 | (85,334) | (17,350) | | | | | 44,164 | 44,164 | 26,813 | 101,859 | 128,672 |
| 31 | State Income Taxes | 6,243 | (10,065) | (3,822) | | | | | 9,729 | 9,729 | 5,907 | 22,439 | 28,345 |
| 32 | Property Taxes | 32,957 | 20,479 | 53,436 | | | | (2,172) | | (2,172) | 51,265 | | 51,265 |
| 33 | Other | 138,530 | (81,563) | 56,967 | | | | | | - | 56,967 | | 56,967 |
| 34 | Total Taxes | $ 245,714 | $ (156,483) | $ 89,231 | $ - | $ - | $ - | $ (2,172) | $ 53,892 | $ 51,721 | $ 140,952 | $ 124,297 | $ 265,249 |
| 35 | | | | | | | | | | | | | |
| 36 | Total Operating Expenses | $ 1,149,415 | $ (34,749) | $ 1,114,666 | $ (128,132) | $ - | $ - | $ (2,172) | $ 53,892 | $ (76,411) | $ 1,038,255 | $ 124,297 | $ 1,162,552 |
| 37 | Operating Income | $ 164,102 | $ (34,033) | $ 130,069 | $ 128,132 | $ - | $ - | $ 2,172 | $ (53,892) | $ 76,411 | $ 206,480 | $ 197,726 | $ 404,206 |
| 38 | | | | | | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | | | | | | |
| 40 | Interest: | | | | | | | | | | | | |
| 41 | Long-Term Debt | 65,910 | 97,839 | 163,749 | | | (15,650) | | | (15,650) | 148,099 | | 148,099 |
| 42 | Short-Term Debt | 28,480 | (28,480) | - | | | 6,332 | | | 6,332 | 6,332 | | 6,332 |
| 43 | Other | (38,755) | 38,755 | - | | | - | | | - | - | | - |
| 44 | Total Interest | $ 55,635 | $ 108,114 | $ 163,749 | $ - | $ - | $ (9,318) | $ - | $ - | $ (9,318) | $ 154,431 | $ - | $ 154,431 |
| 45 | | | | | | | | | | | | | |
| 46 | Other (Income) - Net | (8,425) | 8,425 | - | | | | | | - | - | | - |
| 47 | | | | | | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 47,210 | $ 116,539 | $ 163,749 | $ - | $ - | $ (9,318) | $ - | $ - | $ (9,318) | $ 154,431 | $ - | $ 154,431 |
| 49 | | | | | | | | | | | | | |
| 50 | Net Income | $ 116,892 | $ (150,572) | $ (33,680) | $ 128,132 | $ - | $ 9,318 | $ 2,172 | $ (53,892) | $ 85,729 | $ 52,049 | $ 197,726 | $ 249,775 |
| 51 | | | | | | | | | | | | | |
| 52 | | | | | | | | | | | | | |
| 53 | | | | | | | | | | | | | |
| 54 | | | | | | | | | | | | | |
| 55 | | | | | | | | | | | | | |

Supporting Schedules:



Recap Schedules:
RB C-1

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Pro Forma Adjustments

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR RB1 | [E] ADJ JMR RB2 | [G] ADJ JMR RB3 | [H] ADJ JMR-RB4 | [I] ADJ JMR RB5 | [J] Total Rebuttal Adjustments | [K] Adjusted Test Year - Rebuttal | [L] Required Increase - Rebuttal | [M] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Ajo | | | | | | | | |
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | Operating Revenues | | | | | | | | | | | | |
| 2 | Residential | $ 377,562 | $ (17,524) | $ 360,038 | | | | | | $ - | $ 360,038 | | |
| 3 | Commercial | 112,990 | (6,639) | 106,351 | | | | | | - | 106,351 | | |
| 4 | Industrial | - | - | - | | | | | | - | - | | |
| 5 | Private Fire Service | 132 | (8) | 124 | | | | | | - | 124 | | |
| 6 | Other Water Revenues | 551 | 261 | 812 | | | | | | - | 812 | | |
| 7 | Total Water Revenues | $ 491,235 | $ (23,910) | $ 467,325 | $ - | $ - | $ - | $ - | $ - | $ - | $ 467,325 | $ 88,266 | $ 555,591 |
| 8 | | | | | | | | | | | | | |
| 9 | Miscellaneous | 3,922 | (254) | 3,669 | | | | | | - | 3,669 | | 3,669 |
| 10 | Total Operating Revenues | $ 495,157 | $ (24,163) | $ 470,994 | $ - | $ - | $ - | $ - | $ - | $ - | $ 470,994 | $ 88,266 | $ 559,259 |
| 11 | | | | | | | | | | | | | |
| 12 | Operating Expenses | | | | | | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | | | | | | |
| 14 | Purchased Water | 159,092 | - | 159,092 | | | | | | - | 159,092 | | 159,092 |
| 15 | Other | 290 | (219) | 71 | | | | | | - | 71 | | 71 |
| 16 | Pumping Expenses: | | | | | | | | | | | | |
| 17 | Purchased Power | 3,297 | - | 3,297 | | | | | | - | 3,297 | | 3,297 |
| 18 | Purchased Gas | - | - | - | | | | | | - | - | | - |
| 19 | Other | 16,409 | (95) | 16,314 | | | | | | - | 16,314 | | 16,314 |
| 20 | Water Treatment Expenses | 4,901 | 3 | 4,904 | | | | | | - | 4,904 | | 4,904 |
| 21 | Transmission & Distribution Expenses | 59,442 | 6,878 | 66,320 | | | | | | - | 66,320 | | 66,320 |
| 22 | Customer Accounting Expenses | 29,070 | 6 | 29,076 | | | | | | - | 29,076 | | 29,076 |
| 23 | Sales Expense | 133 | - | 133 | | | | | | - | 133 | | 133 |
| 24 | Administrative & General Expenses | 48,693 | 6,832 | 55,525 | | | | | | - | 55,525 | | 55,525 |
| 25 | Total Operations & Maintenance Expense | $ 321,327 | $ 13,405 | $ 334,732 | $ - | $ - | $ - | $ - | $ - | $ - | $ 334,732 | $ - | $ 334,732 |
| 26 | | | | | | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 46,972 | 4,182 | 51,154 | | | | | | - | 51,154 | | 51,154 |
| 28 | | | | | | | | | | | | | |
| 29 | Taxes | | | | | | | | | | | | |
| 30 | Federal Income Taxes | 20,225 | (16,170) | 4,055 | | | | | 800 | 800 | 4,854 | 27,919 | 32,774 |
| 31 | State Income Taxes | 1,857 | (964) | 893 | | | | | 176 | 176 | 1,069 | 6,150 | 7,220 |
| 32 | Property Taxes | 21,643 | 4,622 | 26,265 | | | | (185) | | (185) | 26,080 | | 26,080 |
| 33 | Other | 34,463 | (30,116) | 4,347 | | | | | | - | 4,347 | | 4,347 |
| 34 | Total Taxes | $ 78,188 | $ (42,628) | $ 35,560 | $ - | $ - | $ - | $ (185) | $ 976 | $ 791 | $ 36,351 | $ 34,070 | $ 70,420 |
| 35 | | | | | | | | | | | | | |
| 36 | Total Operating Expenses | $ 446,487 | $ (25,041) | $ 421,445 | $ - | $ - | $ - | $ (185) | $ 976 | $ 791 | $ 422,236 | $ 34,070 | $ 456,306 |
| 37 | Operating Income | $ 48,670 | $ 878 | $ 49,548 | $ - | $ - | $ - | $ 185 | $ (976) | $ (791) | $ 48,758 | $ 54,196 | $ 102,954 |
| 38 | | | | | | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | | | | | | |
| 40 | Interest: | | | | | | | | | | | | |
| 41 | Long-Term Debt | 22,526 | 19,151 | 41,677 | | | (3,955) | | | (3,955) | 37,722 | | 37,722 |
| 42 | Short-Term Debt | 9,734 | (9,734) | - | | | 1,613 | | | 1,613 | 1,613 | | 1,613 |
| 43 | Other | (13,245) | 13,245 | - | | | - | | | - | - | | - |
| 44 | Total Interest | $ 19,014 | $ 22,663 | $ 41,677 | $ - | $ - | $ (2,343) | $ - | $ - | $ (2,343) | $ 39,334 | $ - | $ 39,334 |
| 45 | | | | | | | | | | | | | |
| 46 | Other (Income) - Net | (2,879) | 2,879 | - | | | | | | - | - | | - |
| 47 | | | | | | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 16,135 | $ 25,542 | $ 41,677 | $ - | $ - | $ (2,343) | $ - | $ - | $ (2,343) | $ 39,334 | $ - | $ 39,334 |
| 49 | | | | | | | | | | | | | |
| 50 | Net Income | $ 32,535 | $ (24,664) | $ 7,871 | $ - | $ - | $ 2,343 | $ 185 | $ (976) | $ 1,552 | $ 9,423 | $ 54,196 | $ 63,619 |
| 51 | | | | | | | | | | | | | |
| 52 | | | | | | | | | | | | | |
| 53 | | | | | | | | | | | | | |
| 54 | | | | | | | | | | | | | |
| 55 | | | | | | | | | | | | | |

Coolidge

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR RB1 | [E] ADJ JMR RB2 | [G] ADJ JMR RB3 | [H] ADJ JMR-RB4 | [I] ADJ JMR RB5 | [J] Total Rebuttal Adjustments | [K] Adjusted Test Year - Rebuttal | [L] Required Increase - Rebuttal | [M] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | Operating Revenues | | | | | | | | | | | | |
| 2 | Residential | $ 1,598,856 | $ (139,867) | $ 1,458,989 | | | | | | $ - | $ 1,458,989 | | |
| 3 | Commercial | 652,438 | (43,168) | 609,270 | | | | | | - | 609,270 | | |
| 4 | Industrial | 9,564 | (907) | 8,657 | | | | | | - | 8,657 | | |
| 5 | Private Fire Service | 1,873 | (200) | 1,673 | | | | | | - | 1,673 | | |
| 6 | Other Water Revenues | 94,870 | (10,086) | 84,784 | | | | | | - | 84,784 | | |
| 7 | Total Water Revenues | $ 2,357,601 | $ (194,229) | $ 2,163,372 | $ - | $ - | $ - | $ - | $ - | $ - | $ 2,163,372 | $ 191,805 | $ 2,355,177 |
| 8 | | | | | | | | | | | | | |
| 9 | Miscellaneous | 57,429 | (5,849) | 51,580 | | | | | | - | 51,580 | | 51,580 |
| 10 | Total Operating Revenues | $ 2,415,030 | $ (200,078) | $ 2,214,952 | $ - | $ - | $ - | $ - | $ - | $ - | $ 2,214,952 | $ 191,805 | $ 2,406,757 |
| 11 | | | | | | | | | | | | | |
| 12 | Operating Expenses | | | | | | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | | | | | | |
| 14 | Purchased Water | - | - | - | | | | | | - | - | | - |
| 15 | Other | 9,973 | 289 | 10,262 | | | | | | - | 10,262 | | 10,262 |
| 16 | Pumping Expenses: | | | | | | | | | | | | |
| 17 | Purchased Power | 193,474 | (893) | 192,581 | | | | | | - | 192,581 | | 192,581 |
| 18 | Purchased Gas | 878 | - | 878 | | | | | | - | 878 | | 878 |
| 19 | Other | 57,526 | 7,184 | 64,710 | | | | | | - | 64,710 | | 64,710 |
| 20 | Water Treatment Expenses | 32,855 | 1,056 | 33,911 | | | | | | - | 33,911 | | 33,911 |
| 21 | Transmission & Distribution Expenses | 268,756 | 17,217 | 285,973 | | | | | | - | 285,973 | | 285,973 |
| 22 | Customer Accounting Expenses | 261,348 | 5,942 | 267,290 | | | | | | - | 267,290 | | 267,290 |
| 23 | Sales Expense | 890 | - | 890 | | | | | | - | 890 | | 890 |
| 24 | Administrative & General Expenses | 327,843 | 50,518 | 378,361 | | | | | | - | 378,361 | | 378,361 |
| 25 | Total Operations & Maintenance Expense | $ 1,153,543 | $ 81,313 | $ 1,234,856 | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,234,856 | $ - | $ 1,234,856 |
| 26 | | | | | | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 336,122 | 89,934 | 426,056 | | | | | | - | 426,056 | | 426,056 |
| 28 | | | | | | | | | | | | | |
| 29 | Taxes | | | | | | | | | | | | |
| 30 | Federal Income Taxes | 148,395 | (88,393) | 60,002 | | | | | 3,756 | 3,756 | 63,758 | 60,670 | 124,428 |
| 31 | State Income Taxes | 13,628 | (410) | 13,218 | | | | | 827 | 827 | 14,045 | 13,365 | 27,410 |
| 32 | Property Taxes | 102,590 | 49,066 | 151,656 | | | | (1,055) | | (1,055) | 150,601 | | 150,601 |
| 33 | Other | 302,873 | (250,341) | 52,532 | | | | | | - | 52,532 | | 52,532 |
| 34 | Total Taxes | $ 567,486 | $ (290,079) | $ 277,407 | $ - | $ - | $ - | $ (1,055) | $ 4,584 | $ 3,529 | $ 280,936 | $ 74,035 | $ 354,971 |
| 35 | | | | | | | | | | | | | |
| 36 | Total Operating Expenses | $ 2,057,151 | $ (118,832) | $ 1,938,319 | $ - | $ - | $ - | $ (1,055) | $ 4,584 | $ 3,529 | $ 1,941,848 | $ 74,035 | $ 2,015,883 |
| 37 | Operating Income | $ 357,879 | $ (81,246) | $ 276,633 | $ - | $ - | $ - | $ 1,055 | $ (4,584) | $ (3,529) | $ 273,103 | $ 117,771 | $ 390,874 |
| 38 | | | | | | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | | | | | | |
| 40 | Interest: | | | | | | | | | | | | |
| 41 | Long-Term Debt | 146,559 | 13,600 | 160,158 | | | (16,944) | | | (16,944) | 143,215 | | 143,215 |
| 42 | Short-Term Debt | 63,329 | (63,329) | - | | | 6,123 | | | 6,123 | 6,123 | | 6,123 |
| 43 | Other | (86,177) | 86,177 | - | | | - | | | - | - | | - |
| 44 | Total Interest | $ 123,711 | $ 36,447 | $ 160,158 | $ - | $ - | $ (10,821) | $ - | $ - | $ (10,821) | $ 149,337 | $ - | $ 149,337 |
| 45 | | | | | | | | | | | | | |
| 46 | Other (Income) - Net | (18,733) | 18,733 | - | | | | | | - | - | | - |
| 47 | | | | | | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 104,978 | $ 55,181 | $ 160,158 | $ - | $ - | $ (10,821) | $ - | $ - | $ (10,821) | $ 149,337 | $ - | $ 149,337 |
| 49 | | | | | | | | | | | | | |
| 50 | Net Income | $ 252,901 | $ (136,427) | $ 116,474 | $ - | $ - | $ 10,821 | $ 1,055 | $ (4,584) | $ 7,292 | $ 123,766 | $ 117,771 | $ 241,537 |
| 51 | | | | | | | | | | | | | |
| 52 | | | | | | | | | | | | | |
| 53 | | | | | | | | | | | | | |
| 54 | | | | | | | | | | | | | |
| 55 | | | | | | | | | | | | | |

Lakeside

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR RB1 | [E] ADJ JMR RB2 | [G] ADJ JMR RB3 | [H] ADJ JMR-RB4 | [I] ADJ JMR RB5 | [J] Total Rebuttal Adjustments | [K] Adjusted Test Year - Rebuttal | [L] Required Increase - Rebuttal | [M] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | Operating Revenues | | | | | | | | | | | | |
| 2 | Residential | $ 2,279,195 | $ (121,137) | $ 2,158,058 | | | | | | $ - | $ 2,158,058 | | |
| 3 | Commercial | 393,456 | (18,716) | 374,740 | | | | | | - | 374,740 | | |
| 4 | Industrial | 5,697 | (343) | 5,354 | | | | | | - | 5,354 | | |
| 5 | Private Fire Service | 1,680 | (123) | 1,557 | | | | | | - | 1,557 | | |
| 6 | Other Water Revenues | 25,115 | (1,460) | 23,656 | | | | | | - | 23,656 | | |
| 7 | Total Water Revenues | $ 2,705,143 | $ (141,779) | $ 2,563,364 | $ - | $ - | $ - | $ - | $ - | $ - | $ 2,563,364 | $ 237,687 | $ 2,801,051 |
| 8 | | | | | | | | | | | | | |
| 9 | Miscellaneous | 27,400 | (1,821) | 25,579 | | | | | | - | 25,579 | | 25,579 |
| 10 | Total Operating Revenues | $ 2,732,543 | $ (143,600) | $ 2,588,943 | $ - | $ - | $ - | $ - | $ - | $ - | $ 2,588,943 | $ 237,687 | $ 2,826,631 |
| 11 | | | | | | | | | | | | | |
| 12 | Operating Expenses | | | | | | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | | | | | | |
| 14 | Purchased Water | 1,233 | - | 1,233 | | | | | | - | 1,233 | | 1,233 |
| 15 | Other | 5,132 | 52 | 5,184 | | | | | | - | 5,184 | | 5,184 |
| 16 | Pumping Expenses: | | | | | | | | | | | | |
| 17 | Purchased Power | 182,166 | (226) | 181,940 | | | | | | - | 181,940 | | 181,940 |
| 18 | Purchased Gas | - | - | - | | | | | | - | - | | - |
| 19 | Other | 51,830 | 1,847 | 53,677 | | | | | | - | 53,677 | | 53,677 |
| 20 | Water Treatment Expenses | 30,953 | (2,490) | 28,463 | | | | | | - | 28,463 | | 28,463 |
| 21 | Transmission & Distribution Expenses | 285,766 | 4,681 | 290,447 | | | | | | - | 290,447 | | 290,447 |
| 22 | Customer Accounting Expenses | 274,175 | 1,718 | 275,893 | | | | | | - | 275,893 | | 275,893 |
| 23 | Sales Expense | 686 | - | 686 | | | | | | - | 686 | | 686 |
| 24 | Administrative & General Expenses | 337,580 | 169,079 | 506,659 | | | | | | - | 506,659 | | 506,659 |
| 25 | Total Operations & Maintenance Expense | $ 1,169,521 | $ 174,660 | $ 1,344,181 | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,344,181 | $ - | $ 1,344,181 |
| 26 | | | | | | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 361,305 | 55,638 | 416,943 | | | | | | - | 416,943 | | 416,943 |
| 28 | | | | | | | | | | | | | |
| 29 | Taxes | | | | | | | | | | | | |
| 30 | Federal Income Taxes | 250,736 | (121,012) | 129,724 | | | | | 4,795 | 4,795 | 134,519 | 75,183 | 209,702 |
| 31 | State Income Taxes | 23,027 | 5,550 | 28,577 | | | | | 1,056 | 1,056 | 29,633 | 16,562 | 46,195 |
| 32 | Property Taxes | 101,466 | 15,218 | 116,684 | | | | (941) | | (941) | 115,743 | | 115,743 |
| 33 | Other | 221,100 | (185,983) | 35,117 | | | | | | - | 35,117 | | 35,117 |
| 34 | Total Taxes | $ 596,329 | $ (286,227) | $ 310,102 | $ - | $ - | $ - | $ (941) | $ 5,851 | $ 4,910 | $ 315,013 | $ 91,745 | $ 406,757 |
| 35 | | | | | | | | | | | | | |
| 36 | Total Operating Expenses | $ 2,127,155 | $ (55,929) | $ 2,071,226 | $ - | $ - | $ - | $ (941) | $ 5,851 | $ 4,910 | $ 2,076,137 | $ 91,745 | $ 2,167,881 |
| 37 | Operating Income | $ 605,388 | $ (87,671) | $ 517,717 | $ - | $ - | $ - | $ 941 | $ (5,851) | $ (4,910) | $ 512,807 | $ 145,943 | $ 658,749 |
| 38 | | | | | | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | | | | | | |
| 40 | Interest: | | | | | | | | | | | | |
| 41 | Long-Term Debt | 172,422 | 93,478 | 265,900 | | | (24,537) | | | (24,537) | 241,363 | | 241,363 |
| 42 | Short-Term Debt | 74,505 | (74,505) | - | | | 10,319 | | | 10,319 | 10,319 | | 10,319 |
| 43 | Other | (101,385) | 101,385 | - | | | - | | | - | - | | - |
| 44 | Total Interest | $ 145,542 | $ 120,358 | $ 265,900 | $ - | $ - | $ (14,218) | $ - | $ - | $ (14,218) | $ 251,682 | $ - | $ 251,682 |
| 45 | | | | | | | | | | | | | |
| 46 | Other (Income) - Net | (22,039) | 22,039 | - | | | | | | - | - | | - |
| 47 | | | | | | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 123,503 | $ 142,397 | $ 265,900 | $ - | $ - | $ (14,218) | $ - | $ - | $ (14,218) | $ 251,682 | $ - | $ 251,682 |
| 49 | | | | | | | | | | | | | |
| 50 | Net Income | $ 481,885 | $ (230,067) | $ 251,817 | $ - | $ - | $ 14,218 | $ 941 | $ (5,851) | $ 9,308 | $ 261,125 | $ 145,943 | $ 407,068 |
| 51 | | | | | | | | | | | | | |
| 52 | | | | | | | | | | | | | |
| 53 | | | | | | | | | | | | | |
| 54 | | | | | | | | | | | | | |
| 55 | | | | | | | | | | | | | |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Pro Forma Adjustments

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR RB1 | [E] ADJ JMR RB2 | [G] ADJ JMR RB3 | [H] ADJ JMR-RB4 | [I] ADJ JMR RB5 | [J] Total Rebuttal Adjustments | [K] Adjusted Test Year - Rebuttal | [L] Required Increase - Rebuttal | [M] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Overgaard Rebuttal Adjustments | | | | | | | | |
| 1 | Operating Revenues | | | | | | | | | | | | |
| 2 | Residential | $ 1,602,235 | $ (81,048) | $ 1,521,187 | | | | | | $ - | $ 1,521,187 | | |
| 3 | Commercial | 131,496 | (1,921) | 129,575 | | | | | | - | 129,575 | | |
| 4 | Industrial | - | - | - | | | | | | - | - | | |
| 5 | Private Fire Service | 1,272 | (77) | 1,195 | | | | | | - | 1,195 | | |
| 6 | Other Water Revenues | 10,612 | (649) | 9,963 | | | | | | - | 9,963 | | |
| 7 | Total Water Revenues | $ 1,745,615 | $ (83,695) | $ 1,661,920 | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,661,920 | $ (99,461) | $ 1,562,459 |
| 8 | | | | | | | | | | | | | |
| 9 | Miscellaneous | 25,555 | (1,133) | 24,422 | | | | | | - | 24,422 | | 24,422 |
| 10 | Total Operating Revenues | $ 1,771,171 | $ (84,828) | $ 1,686,342 | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,686,342 | $ (99,461) | $ 1,586,881 |
| 11 | | | | | | | | | | | | | |
| 12 | Operating Expenses | | | | | | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | | | | | | |
| 14 | Purchased Water | 58 | - | 58 | | | | | | - | 58 | | 58 |
| 15 | Other | 4,270 | 108 | 4,378 | | | | | | - | 4,378 | | 4,378 |
| 16 | Pumping Expenses: | | | | | | | | | | | | |
| 17 | Purchased Power | 70,727 | 444 | 71,171 | | | | | | - | 71,171 | | 71,171 |
| 18 | Purchased Gas | - | - | - | | | | | | - | - | | - |
| 19 | Other | 41,113 | 2,828 | 43,941 | | | | | | - | 43,941 | | 43,941 |
| 20 | Water Treatment Expenses | 24,963 | (10,230) | 14,733 | | | | | | - | 14,733 | | 14,733 |
| 21 | Transmission & Distribution Expenses | 229,850 | 7,623 | 237,473 | | | | | | - | 237,473 | | 237,473 |
| 22 | Customer Accounting Expenses | 202,816 | 4,382 | 207,198 | | | | | | - | 207,198 | | 207,198 |
| 23 | Sales Expense | 446 | - | 446 | | | | | | - | 446 | | 446 |
| 24 | Administrative & General Expenses | 183,733 | 95,940 | 279,673 | | | | | | - | 279,673 | | 279,673 |
| 25 | Total Operations & Maintenance Expense | $ 757,976 | $ 101,096 | $ 859,072 | $ - | $ - | $ - | $ - | $ - | $ - | $ 859,072 | $ - | $ 859,072 |
| 26 | | | | | | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 211,509 | 3,271 | 214,780 | | | | | | - | 214,780 | | 214,780 |
| 28 | | | | | | | | | | | | | |
| 29 | Taxes | | | | | | | | | | | | |
| 30 | Federal Income Taxes | 176,904 | (50,143) | 126,761 | | | | | 2,258 | 2,258 | 129,018 | (31,460) | 97,558 |
| 31 | State Income Taxes | 16,246 | 11,678 | 27,924 | | | | | 497 | 497 | 28,422 | (6,930) | 21,491 |
| 32 | Property Taxes | 60,413 | 4,746 | 65,159 | | | | (401) | | (401) | 64,758 | | 64,758 |
| 33 | Other | 120,698 | (97,942) | 22,756 | | | | | | - | 22,756 | | 22,756 |
| 34 | Total Taxes | $ 374,261 | $ (131,661) | $ 242,600 | $ - | $ - | $ - | $ (401) | $ 2,755 | $ 2,354 | $ 244,954 | $ (38,391) | $ 206,563 |
| 35 | | | | | | | | | | | | | |
| 36 | Total Operating Expenses | $ 1,343,746 | $ (27,294) | $ 1,316,453 | $ - | $ - | $ - | $ (401) | $ 2,755 | $ 2,354 | $ 1,318,807 | $ (38,391) | $ 1,280,416 |
| 37 | Operating Income | $ 427,424 | $ (57,535) | $ 369,890 | $ - | $ - | $ - | $ 401 | $ (2,755) | $ (2,354) | $ 367,535 | $ (61,070) | $ 306,465 |
| 38 | | | | | | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | | | | | | |
| 40 | Interest: | | | | | | | | | | | | |
| 41 | Long-Term Debt | 110,962 | 12,863 | 123,825 | | | (11,538) | | | (11,538) | 112,287 | | 112,287 |
| 42 | Short-Term Debt | 47,948 | (47,948) | - | | | 4,801 | | | 4,801 | 4,801 | | 4,801 |
| 43 | Other | (65,246) | 65,246 | - | | | - | | | - | - | | - |
| 44 | Total Interest | $ 93,664 | $ 30,162 | $ 123,825 | $ - | $ - | $ (6,737) | $ - | $ - | $ (6,737) | $ 117,088 | $ - | $ 117,088 |
| 45 | | | | | | | | | | | | | |
| 46 | Other (Income) - Net | (14,183) | 14,183 | - | | | | | | - | - | | - |
| 47 | | | | | | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 79,480 | $ 44,345 | $ 123,825 | $ - | $ - | $ (6,737) | $ - | $ - | $ (6,737) | $ 117,088 | $ - | $ 117,088 |
| 49 | | | | | | | | | | | | | |
| 50 | Net Income | $ 347,944 | $ (101,879) | $ 246,065 | $ - | $ - | $ 6,737 | $ 401 | $ (2,755) | $ 4,383 | $ 250,447 | $ (61,070) | $ 189,377 |
| 51 | | | | | | | | | | | | | |
| 52 | | | | | | | | | | | | | |
| 53 | | | | | | | | | | | | | |
| 54 | | | | | | | | | | | | | |
| 55 | | | | | | | | | | | | | |

Sedona

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR RB1 | [E] ADJ JMR RB2 | [G] ADJ JMR RB3 | [H] ADJ JMR-RB4 | [I] ADJ JMR RB5 | [J] Total Rebuttal Adjustments | [K] Adjusted Test Year - Rebuttal | [L] Required Increase - Rebuttal | [M] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | Operating Revenues | | | | | | | | | | | | |
| 2 | Residential | $ 2,841,617 | $ (341,354) | $ 2,500,263 | | | | | | $ - | $ 2,500,263 | | |
| 3 | Commercial | 1,095,227 | (137,656) | 957,571 | | | | | | - | 957,571 | | |
| 4 | Industrial | 386 | (71) | 315 | | | | | | - | 315 | | |
| 5 | Private Fire Service | 8,621 | (929) | 7,692 | | | | | | - | 7,692 | | |
| 6 | Other Water Revenues | 29,987 | (3,271) | 26,716 | | | | | | - | 26,716 | | |
| 7 | Total Water Revenues | $ 3,975,838 | $ (483,280) | $ 3,492,558 | $ - | $ - | $ - | $ - | $ - | $ - | $ 3,492,558 | $ 1,963,217 | $ 5,455,775 |
| 8 | | | | | | | | | | | | | |
| 9 | Miscellaneous | 31,985 | (3,418) | 28,567 | | | | | | - | 28,567 | | 28,567 |
| 10 | Total Operating Revenues | $ 4,007,823 | $ (486,699) | $ 3,521,124 | $ - | $ - | $ - | $ - | $ - | $ - | $ 3,521,124 | $ 1,963,217 | $ 5,484,342 |
| 11 | | | | | | | | | | | | | |
| 12 | Operating Expenses | | | | | | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | | | | | | |
| 14 | Purchased Water | - | - | - | | | | | | - | - | | - |
| 15 | Other | 7,223 | 24 | 7,247 | | | | | | - | 7,247 | | 7,247 |
| 16 | Pumping Expenses: | | | | | | | | | | | | |
| 17 | Purchased Power | 482,672 | 36,162 | 518,834 | | | | | | - | 518,834 | | 518,834 |
| 18 | Purchased Gas | 2,626 | - | 2,626 | | | | | | - | 2,626 | | 2,626 |
| 19 | Other | 127,839 | 1,343 | 129,182 | | | | | | - | 129,182 | | 129,182 |
| 20 | Water Treatment Expenses | 252,032 | 67,690 | 319,722 | | | | | | - | 319,722 | | 319,722 |
| 21 | Transmission & Distribution Expenses | 405,503 | (5,309) | 400,194 | | | | | | - | 400,194 | | 400,194 |
| 22 | Customer Accounting Expenses | 321,664 | 1,444 | 323,108 | | | | | | - | 323,108 | | 323,108 |
| 23 | Sales Expense | 2,838 | - | 2,838 | | | | | | - | 2,838 | | 2,838 |
| 24 | Administrative & General Expenses | 436,766 | 204,311 | 641,077 | | | | | | - | 641,077 | | 641,077 |
| 25 | Total Operations & Maintenance Expense | $ 2,039,163 | $ 305,664 | $ 2,344,827 | $ - | $ - | $ - | $ - | $ - | $ - | $ 2,344,827 | $ - | $ 2,344,827 |
| 26 | | | | | | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 596,420 | 134,613 | 731,033 | | $ (9,692) | | | | (9,692) | 721,341 | | 721,341 |
| 28 | | | | | | | | | | | | | |
| 29 | Taxes | | | | | | | | | | | | |
| 30 | Federal Income Taxes | 228,075 | (353,557) | (125,482) | | | | | 19,605 | 19,605 | (105,877) | 620,983 | 515,106 |
| 31 | State Income Taxes | 20,945 | (48,588) | (27,643) | | | | | 4,319 | 4,319 | (23,324) | 136,797 | 113,473 |
| 32 | Property Taxes | 100,862 | 24,975 | 125,837 | | | | (2,222) | | (2,222) | 123,615 | | 123,615 |
| 33 | Other | 472,018 | (424,173) | 47,845 | | | | | | - | 47,845 | | 47,845 |
| 34 | Total Taxes | $ 821,900 | $ (801,343) | $ 20,557 | $ - | $ - | $ - | $ (2,222) | $ 23,924 | $ 21,702 | $ 42,259 | $ 757,780 | $ 800,039 |
| 35 | | | | | | | | | | | | | |
| 36 | Total Operating Expenses | $ 3,457,483 | $ (361,066) | $ 3,096,417 | $ - | $ (9,692) | $ - | $ (2,222) | $ 23,924 | $ 12,010 | $ 3,108,426 | $ 757,780 | $ 3,866,206 |
| 37 | Operating Income | $ 550,340 | $ (125,633) | $ 424,708 | $ - | $ 9,692 | $ - | $ 2,222 | $ (23,924) | $ (12,010) | $ 412,698 | $ 1,205,437 | $ 1,618,136 |
| 38 | | | | | | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | | | | | | |
| 40 | Interest: | | | | | | | | | | | | |
| 41 | Long-Term Debt | 234,995 | 433,296 | 668,291 | | | (75,413) | | | (75,413) | 592,878 | | 592,878 |
| 42 | Short-Term Debt | 101,543 | (101,543) | - | | | 25,347 | | | 25,347 | 25,347 | | 25,347 |
| 43 | Other | (138,178) | 138,178 | - | | | - | | | - | - | | - |
| 44 | Total Interest | $ 198,360 | $ 469,931 | $ 668,291 | $ - | $ - | $ (50,066) | $ - | $ - | $ (50,066) | $ 618,225 | $ - | $ 618,225 |
| 45 | | | | | | | | | | | | | |
| 46 | Other (Income) - Net | (30,037) | 30,037 | - | | | | | | - | - | | - |
| 47 | | | | | | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 168,323 | $ 499,968 | $ 668,291 | $ - | $ - | $ (50,066) | $ - | $ - | $ (50,066) | $ 618,225 | $ - | $ 618,225 |
| 49 | | | | | | | | | | | | | |
| 50 | Net Income | $ 382,017 | $ (625,600) | $ (243,583) | $ - | $ 9,692 | $ 50,066 | $ 2,222 | $ (23,924) | $ 38,057 | $ (205,527) | $ 1,205,437 | $ 999,911 |
| 51 | | | | | | | | | | | | | |
| 52 | | | | | | | | | | | | | |
| 53 | | | | | | | | | | | | | |
| 54 | | | | | | | | | | | | | |
| 55 | | | | | | | | | | | | | |

Pinewood

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR RB1 | [E] ADJ JMR RB2 | [G] ADJ JMR RB3 | [H] ADJ JMR-RB4 | [I] ADJ JMR RB5 | [J] Total Rebuttal Adjustments | [K] Adjusted Test Year - Rebuttal | [L] Required Increase - Rebuttal | [M] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | Operating Revenues | | | | | | | | | | | | |
| 2 | Residential | $ 1,083,909 | $ (68,656) | $ 1,015,253 | | | | | | $ - | $ 1,015,253 | | |
| 3 | Commercial | 28,808 | (5,928) | 22,880 | | | | | | - | 22,880 | | |
| 4 | Industrial | 541 | (34) | 507 | | | | | | - | 507 | | |
| 5 | Private Fire Service | 192 | (13) | 179 | | | | | | - | 179 | | |
| 6 | Other Water Revenues | 1,907 | (123) | 1,784 | | | | | | - | 1,784 | | |
| 7 | Total Water Revenues | $ 1,115,358 | $ (74,754) | $ 1,040,604 | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,040,604 | $ 112,686 | $ 1,153,290 |
| 8 | | | | | | | | | | | | | |
| 9 | Miscellaneous | 7,321 | (462) | 6,859 | | | | | | - | 6,859 | | 6,859 |
| 10 | Total Operating Revenues | $ 1,122,679 | $ (75,216) | $ 1,047,463 | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,047,463 | $ 112,686 | $ 1,160,149 |
| 11 | | | | | | | | | | | | | |
| 12 | Operating Expenses | | | | | | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | | | | | | |
| 14 | Purchased Water | - | - | - | | | | | | - | - | | - |
| 15 | Other | 3,249 | (10) | 3,239 | | | | | | - | 3,239 | | 3,239 |
| 16 | Pumping Expenses: | | | | | | | | | | | | |
| 17 | Purchased Power | 79,026 | 5,820 | 84,846 | | | | | | - | 84,846 | | 84,846 |
| 18 | Purchased Gas | - | - | - | | | | | | - | - | | - |
| 19 | Other | 56,946 | (643) | 56,303 | | | | | | - | 56,303 | | 56,303 |
| 20 | Water Treatment Expenses | 41,777 | (7,937) | 33,840 | | | | | | - | 33,840 | | 33,840 |
| 21 | Transmission & Distribution Expenses | 169,696 | 3,680 | 173,376 | | | | | | - | 173,376 | | 173,376 |
| 22 | Customer Accounting Expenses | 133,628 | (195) | 133,433 | | | | | | - | 133,433 | | 133,433 |
| 23 | Sales Expense | 1,188 | - | 1,188 | | | | | | - | 1,188 | | 1,188 |
| 24 | Administrative & General Expenses | 176,851 | 66,895 | 243,746 | | | | | | - | 243,746 | | 243,746 |
| 25 | Total Operations & Maintenance Expense | $ 662,361 | $ 67,609 | $ 729,970 | $ - | $ - | $ - | $ - | $ - | $ - | $ 729,970 | $ - | $ 729,970 |
| 26 | | | | | | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 114,943 | 17,263 | 132,206 | | $ (423) | | | | (423) | 131,783 | | 131,783 |
| 28 | | | | | | | | | | | | | |
| 29 | Taxes | | | | | | | | | | | | |
| 30 | Federal Income Taxes | 60,430 | (42,480) | 17,950 | | | | | 1,412 | 1,412 | 19,362 | 35,644 | 55,005 |
| 31 | State Income Taxes | 5,550 | (1,596) | 3,954 | | | | | 311 | 311 | 4,265 | 7,852 | 12,117 |
| 32 | Property Taxes | 40,414 | 936 | 41,350 | | | | (225) | | (225) | 41,126 | | 41,126 |
| 33 | Other | 93,059 | (75,702) | 17,357 | | | | | | - | 17,357 | | 17,357 |
| 34 | Total Taxes | $ 199,453 | $ (118,842) | $ 80,611 | $ - | $ - | $ - | $ (225) | $ 1,723 | $ 1,498 | $ 82,109 | $ 43,496 | $ 125,605 |
| 35 | | | | | | | | | | | | | |
| 36 | Total Operating Expenses | $ 976,757 | $ (33,971) | $ 942,787 | $ - | $ (423) | $ - | $ (225) | $ 1,723 | $ 1,075 | $ 943,862 | $ 43,496 | $ 987,357 |
| 37 | Operating Income | $ 145,922 | $ (41,245) | $ 104,677 | $ - | $ 423 | $ - | $ 225 | $ (1,723) | $ (1,075) | $ 103,601 | $ 69,191 | $ 172,792 |
| 38 | | | | | | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | | | | | | |
| 40 | Interest: | | | | | | | | | | | | |
| 41 | Long-Term Debt | 82,040 | (12,207) | 69,833 | | | (6,523) | | | (6,523) | 63,310 | | 63,310 |
| 42 | Short-Term Debt | 35,450 | (35,450) | - | | | 2,707 | | | 2,707 | 2,707 | | 2,707 |
| 43 | Other | (48,240) | 48,240 | - | | | - | | | - | - | | - |
| 44 | Total Interest | $ 69,250 | $ 583 | $ 69,833 | $ - | $ - | $ (3,816) | $ - | $ - | $ (3,816) | $ 66,017 | $ - | $ 66,017 |
| 45 | | | | | | | | | | | | | |
| 46 | Other (Income) - Net | (10,486) | 10,486 | - | | | | | | - | - | | - |
| 47 | | | | | | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 58,764 | $ 11,069 | $ 69,833 | $ - | $ - | $ (3,816) | $ - | $ - | $ (3,816) | $ 66,017 | $ - | $ 66,017 |
| 49 | | | | | | | | | | | | | |
| 50 | Net Income | $ 87,158 | $ (52,314) | $ 34,844 | $ - | $ 423 | $ 3,816 | $ 225 | $ (1,723) | $ 2,741 | $ 37,584 | $ 69,191 | $ 106,775 |
| 51 | | | | | | | | | | | | | |
| 52 | | | | | | | | | | | | | |
| 53 | | | | | | | | | | | | | |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Pro Forma Adjustments

Rimrock

| Line No. | | [A] Actual End of Test Year | [B] Total Pro Forma Adjustments | [C] Adjusted Test Year As Filed | [D] ADJ JMR RB1 | [E] ADJ JMR RB2 | [G] ADJ JMR RB3 | [H] ADJ JMR-RB4 | [I] ADJ JMR RB5 | [J] Total Rebuttal Adjustments | [K] Adjusted Test Year - Rebuttal | [L] Required Increase - Rebuttal | [M] Adjstd' w/ Increase - Rebuttal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Rebuttal Adjustments | | | | | | | | |
| 1 | Operating Revenues | | | | | | | | | | | | |
| 2 | Residential | $ 564,870 | $ (93,347) | $ 471,523 | | | | | | $ - | $ 471,523 | | |
| 3 | Commercial | 21,269 | (3,424) | 17,845 | | | | | | - | 17,845 | | |
| 4 | Industrial | - | - | - | | | | | | - | - | | |
| 5 | Private Fire Service | 54 | (3) | 51 | | | | | | - | 51 | | |
| 6 | Other Water Revenues | 11,280 | (1,179) | 10,101 | | | | | | - | 10,101 | | |
| 7 | Total Water Revenues | $ 597,473 | $ (97,953) | $ 499,521 | $ - | $ - | $ - | $ - | $ - | $ - | $ 499,521 | $ 472,525 | $ 972,046 |
| 8 | | | | | | | | | | | | | |
| 9 | Miscellaneous | 9,036 | (575) | 8,461 | | | | | | - | 8,461 | | 8,461 |
| 10 | Total Operating Revenues | $ 606,509 | $ (98,528) | $ 507,981 | $ - | $ - | $ - | $ - | $ - | $ - | $ 507,981 | $ 472,525 | $ 980,506 |
| 11 | | | | | | | | | | | | | |
| 12 | Operating Expenses | | | | | | | | | | | | |
| 13 | Source of Supply Expenses: | | | | | | | | | | | | |
| 14 | Purchased Water | - | - | - | | | | | | - | - | | - |
| 15 | Other | 1,416 | 9 | 1,425 | | | | | | - | 1,425 | | 1,425 |
| 16 | Pumping Expenses: | | | | | | | | | | | | |
| 17 | Purchased Power | 40,652 | 2,749 | 43,401 | | | | | | - | 43,401 | | 43,401 |
| 18 | Purchased Gas | - | - | - | | | | | | - | - | | - |
| 19 | Other | 24,024 | 344 | 24,368 | | | | | | - | 24,368 | | 24,368 |
| 20 | Water Treatment Expenses | 178,658 | 23,116 | 201,774 | | | | | | - | 201,774 | | 201,774 |
| 21 | Transmission & Distribution Expenses | 81,357 | (8,168) | 73,189 | | | | | | - | 73,189 | | 73,189 |
| 22 | Customer Accounting Expenses | 61,184 | 122 | 61,306 | | | | | | - | 61,306 | | 61,306 |
| 23 | Sales Expense | 537 | - | 537 | | | | | | - | 537 | | 537 |
| 24 | Administrative & General Expenses | 81,316 | 37,256 | 118,572 | | | | | | - | 118,572 | | 118,572 |
| 25 | Total Operations & Maintenance Expense | $ 469,144 | $ 55,427 | $ 524,571 | $ - | $ - | $ - | $ - | $ - | $ - | $ 524,571 | $ - | $ 524,571 |
| 26 | | | | | | | | | | | | | |
| 27 | Depreciation & Amortization Expenses | 108,305 | 16,556 | 124,861 | | $ (1,944) | | | | (1,944) | 122,917 | | 122,917 |
| 28 | | | | | | | | | | | | | |
| 29 | Taxes | | | | | | | | | | | | |
| 30 | Federal Income Taxes | (10,478) | (72,957) | (83,435) | | | | | 2,231 | 2,231 | (81,204) | 149,464 | 68,260 |
| 31 | State Income Taxes | (962) | (17,418) | (18,380) | | | | | 491 | 491 | (17,888) | 32,926 | 15,037 |
| 32 | Property Taxes | 19,698 | 7,493 | 27,191 | | | | (319) | | (319) | 26,871 | | 26,871 |
| 33 | Other | 45,762 | (37,342) | 8,420 | | | | | | - | 8,420 | | 8,420 |
| 34 | Total Taxes | $ 54,020 | $ (120,224) | $ (66,204) | $ - | $ - | $ - | $ (319) | $ 2,722 | $ 2,403 | $ (63,801) | $ 182,389 | $ 118,588 |
| 35 | | | | | | | | | | | | | |
| 36 | Total Operating Expenses | $ 631,469 | $ (48,241) | $ 583,228 | $ - | $ (1,944) | $ - | $ (319) | $ 2,722 | $ 459 | $ 583,687 | $ 182,389 | $ 766,076 |
| 37 | Operating Income | $ (24,959) | $ (50,287) | $ (75,247) | $ - | $ 1,944 | $ - | $ 319 | $ (2,722) | $ (459) | $ (75,706) | $ 290,136 | $ 214,430 |
| 38 | | | | | | | | | | | | | |
| 39 | Other Income & Deductions: | | | | | | | | | | | | |
| 40 | Interest: | | | | | | | | | | | | |
| 41 | Long-Term Debt | 41,159 | 45,556 | 86,714 | | | (8,148) | | | (8,148) | 78,566 | | 78,566 |
| 42 | Short-Term Debt | 17,785 | (17,785) | - | | | 3,359 | | | 3,359 | 3,359 | | 3,359 |
| 43 | Other | (24,202) | 24,202 | - | | | - | | | - | - | | - |
| 44 | Total Interest | $ 34,742 | $ 51,972 | $ 86,714 | $ - | $ - | $ (4,790) | $ - | $ - | $ (4,790) | $ 81,925 | $ - | $ 81,925 |
| 45 | | | | | | | | | | | | | |
| 46 | Other (Income) - Net | (5,261) | 5,261 | - | | | | | | - | - | | - |
| 47 | | | | | | | | | | | | | |
| 48 | Total Other (Income) & Deductions | $ 29,481 | $ 57,233 | $ 86,714 | $ - | $ - | $ (4,790) | $ - | $ - | $ (4,790) | $ 81,925 | $ - | $ 81,925 |
| 49 | | | | | | | | | | | | | |
| 50 | Net Income | $ (54,441) | $ (107,521) | $ (161,961) | $ - | $ 1,944 | $ 4,790 | $ 319 | $ (2,722) | $ 4,330 | $ (157,631) | $ 290,136 | $ 132,505 |
| 51 | | | | | | | | | | | | | |
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| Line No. | |
|---|---|
| 1 | No Calculation Required. |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Adjustment JMR-RB2
Adjust Depreciation Expense to Reflect Rebuttal Plant Adjustments

| Line No. | Acct. No. | Description | Superstition [A] Rebuttal Rate Base Adjustments | Superstition [B] Proposed Depreciation Rate | Superstition [C] Increase / (Decrease) Depr. Exp. |
|---|---|---|---|---|---|
| 1 | | | | | |
| 2 | 301 | Organization | $ - | 0.00% | $ - |
| 3 | 302 | Franchises | - | note_1 | - |
| 4 | 303 | Other Intangibles | - | note_1 | - |
| 5 | 310.1 | Water Rights | - | 0.00% | - |
| 6 | 310.3 | Other Source of Supply Land | - | 0.00% | - |
| 7 | 310.4 | Wells - Other | - | note_1 | - |
| 8 | 314 | Wells | - | 3.13% | - |
| 9 | 320 | Pumping Plant Land | - | 0.00% | - |
| 10 | 321 | Pumping Plant Structures & Improvements | (1,173) | 2.86% | (34) |
| 11 | 325 | Electtric Pumping Equipment | (7,684) | 5.88% | (452) |
| 12 | 328 | Gas Engine Equipment | - | 4.00% | - |
| 13 | 330 | Water Treatment Plant Land | - | 0.00% | - |
| 14 | 331 | Water Treatment Structures & Improvements | - | 2.50% | - |
| 15 | 332 | Water Treatment Equipment | (3,057) | 2.86% | (87) |
| 16 | 340 | Transmission and Distribution Land | - | 0.00% | - |
| 17 | 342 | Storage Tanks | (500) | 2.00% | (10) |
| 18 | 343 | Transmission & Distribution Mains | - | 1.79% | - |
| 19 | 344 | Fire Sprinkler Taps | - | 2.00% | - |
| 20 | 345 | Services | - | 2.38% | - |
| 21 | 346 | Meters | - | 4.55% | - |
| 22 | 348 | Hydrants | - | 1.82% | - |
| 23 | 389 | General Plant Land | - | 0.00% | - |
| 24 | 390 | General Plant Structures | - | 2.50% | - |
| 25 | 390.1 | Leasehold Improvements | - | note_2 | - |
| 26 | 391 | Office Furniture & Equipment | - | 6.67% | - |
| 27 | 393 | Warehouse Equipment | - | 5.00% | - |
| 28 | 394 | Tools, Shop & Garage Equipment | - | 4.00% | - |
| 29 | 395 | Laboratory Equipment | - | 5.00% | - |
| 30 | 396 | Power Operated Equipment | - | 6.67% | - |
| 31 | 397 | Communication Equipment | (7,088) | 6.67% | (473) |
| 32 | 398 | Miscellaneous Equipment | - | 3.33% | - |
| 33 | | Subtotal | $ (19,502) | | $ (1,056) |
| 34 | | | | | |
| 35 | | | | | |
| 36 | | | | | |
| 37 | | | | | |
| 38 | | Net Regulatory Asset / (Liability) | - | | - |
| 39 | | Subtotal | $ - | | $ - |
| 40 | | | | | |
| 41 | Less: | Contributions in Aid of Construction | $ - | 2.00% | $ - |
| 42 | | | | | |
| 43 | Total Increase/(Decrease) in Depreciation Expense - Rebuttal | | | | $ (1,056) |
| 44 | | | | | |
| 45 | | | | | |
| 46 | | | | | |
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52 note_1 Acct. 302 - Franchises amortized over 25 years. Acct. 303 - Other intangibles amortized over 15 & 20 Years.
53 Acct. 310.4 - Wells - Other amortized over 24 years. Accumulated Amortization booked to Acct. 111 - Amort. Of Ltd. Term Investments.
54 See supporting document \2007 Amortization of Intangibles.pdf\.
55 note_2 Acct. 390.1 - Leasehold Improvements amortized over the remaining life of the associated lease.

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Adjustment JMR-RB2
Adjust Depreciation Expense to Reflect Rebuttal Plant Adjustments

| Line No. | Acct. No. | Description | Bisbee [A] Rebuttal Rate Base Adjustments | Bisbee [B] Proposed Depreciation Rate | Bisbee [C] Increase / (Decrease) Depr. Exp. |
|---|---|---|---|---|---|
| 1 | | | | | |
| 2 | 301 | Organization | $ - | 0.00% | $ - |
| 3 | 302 | Franchises | - | note_1 | - |
| 4 | 303 | Other Intangibles | - | note_1 | - |
| 5 | 310.1 | Water Rights | - | 0.00% | - |
| 6 | 310.3 | Other Source of Supply Land | - | 0.00% | - |
| 7 | 310.4 | Wells - Other | - | note_1 | - |
| 8 | 314 | Wells | - | 3.13% | - |
| 9 | 320 | Pumping Plant Land | - | 0.00% | - |
| 10 | 321 | Pumping Plant Structures & Improvements | - | 2.86% | - |
| 11 | 325 | Electtric Pumping Equipment | - | 5.88% | - |
| 12 | 328 | Gas Engine Equipment | - | 4.00% | - |
| 13 | 330 | Water Treatment Plant Land | - | 0.00% | - |
| 14 | 331 | Water Treatment Structures & Improvements | - | 2.50% | - |
| 15 | 332 | Water Treatment Equipment | - | 2.86% | - |
| 16 | 340 | Transmission and Distribution Land | - | 0.00% | - |
| 17 | 342 | Storage Tanks | - | 2.00% | - |
| 18 | 343 | Transmission & Distribution Mains | - | 1.79% | - |
| 19 | 344 | Fire Sprinkler Taps | - | 2.00% | - |
| 20 | 345 | Services | - | 2.38% | - |
| 21 | 346 | Meters | - | 4.55% | - |
| 22 | 348 | Hydrants | - | 1.82% | - |
| 23 | 389 | General Plant Land | - | 0.00% | - |
| 24 | 390 | General Plant Structures | - | 2.50% | - |
| 25 | 390.1 | Leasehold Improvements | - | note_2 | - |
| 26 | 391 | Office Furniture & Equipment | - | 6.67% | - |
| 27 | 393 | Warehouse Equipment | - | 5.00% | - |
| 28 | 394 | Tools, Shop & Garage Equipment | - | 4.00% | - |
| 29 | 395 | Laboratory Equipment | - | 5.00% | - |
| 30 | 396 | Power Operated Equipment | - | 6.67% | - |
| 31 | 397 | Communication Equipment | (704) | 6.67% | (47) |
| 32 | 398 | Miscellaneous Equipment | - | 3.33% | - |
| 33 | | Subtotal | $ (704) | | $ (47) |
| 34 | | | | | |
| 35 | | | | | |
| 36 | | | | | |
| 37 | | | | | |
| 38 | | Net Regulatory Asset / (Liability) | - | | - |
| 39 | | Subtotal | $ - | | $ - |
| 40 | | | | | |
| 41 | Less: | Contributions in Aid of Construction | $ - | 2.00% | $ - |
| 42 | | | | | |
| 43 | Total Increase/(Decrease) in Depreciation Expense - Rebuttal | | | | $ (47) |
| 44 | | | | | |
| 45 | | | | | |
| 46 | | | | | |
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52 note_1 Acct. 302 - Franchises amortized over 25 years. Acct. 303 - Other intangibles amortized over 15 & 20 Years.
53 Acct. 310.4 - Wells - Other amortized over 24 years. Accumulated Amortization booked to Acct. 111 - Amort. Of Ltd. Term Investments.
54 See supporting document \2007 Amortization of Intangibles.pdf\.
55 note_2 Acct. 390.1 - Leasehold Improvements amortized over the remaining life of the associated lease.

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Adjustment JMR-RB2
Adjust Depreciation Expense to Reflect Rebuttal Plant Adjustments

| Line No. | Acct. No. | Description | Winkelman [A] Rebuttal Rate Base Adjustments | Winkelman [B] Proposed Depreciation Rate | Winkelman [C] Increase / (Decrease) Depr. Exp. |
|---|---|---|---|---|---|
| 1 | | | | | |
| 2 | 301 | Organization | $ - | 0.00% | $ - |
| 3 | 302 | Franchises | - | note_1 | - |
| 4 | 303 | Other Intangibles | - | note_1 | - |
| 5 | 310.1 | Water Rights | - | 0.00% | - |
| 6 | 310.3 | Other Source of Supply Land | - | 0.00% | - |
| 7 | 310.4 | Wells - Other | - | note_1 | - |
| 8 | 314 | Wells | (66,360) | 3.13% | (2,077) |
| 9 | 320 | Pumping Plant Land | - | 0.00% | - |
| 10 | 321 | Pumping Plant Structures & Improvements | - | 2.86% | - |
| 11 | 325 | Electtric Pumping Equipment | - | 5.88% | - |
| 12 | 328 | Gas Engine Equipment | - | 4.00% | - |
| 13 | 330 | Water Treatment Plant Land | - | 0.00% | - |
| 14 | 331 | Water Treatment Structures & Improvements | - | 2.50% | - |
| 15 | 332 | Water Treatment Equipment | - | 2.86% | - |
| 16 | 340 | Transmission and Distribution Land | - | 0.00% | - |
| 17 | 342 | Storage Tanks | - | 2.00% | - |
| 18 | 343 | Transmission & Distribution Mains | - | 1.79% | - |
| 19 | 344 | Fire Sprinkler Taps | - | 2.00% | - |
| 20 | 345 | Services | - | 2.38% | - |
| 21 | 346 | Meters | - | 4.55% | - |
| 22 | 348 | Hydrants | - | 1.82% | - |
| 23 | 389 | General Plant Land | - | 0.00% | - |
| 24 | 390 | General Plant Structures | - | 2.50% | - |
| 25 | 390.1 | Leasehold Improvements | - | note_2 | - |
| 26 | 391 | Office Furniture & Equipment | - | 6.67% | - |
| 27 | 393 | Warehouse Equipment | - | 5.00% | - |
| 28 | 394 | Tools, Shop & Garage Equipment | - | 4.00% | - |
| 29 | 395 | Laboratory Equipment | - | 5.00% | - |
| 30 | 396 | Power Operated Equipment | - | 6.67% | - |
| 31 | 397 | Communication Equipment | - | 6.67% | - |
| 32 | 398 | Miscellaneous Equipment | - | 3.33% | - |
| 33 | | Subtotal | $ (66,360) | | $ (2,077) |
| 34 | | | | | |
| 35 | | | | | |
| 36 | | | | | |
| 37 | | | | | |
| 38 | | Net Regulatory Asset / (Liability) | - | | - |
| 39 | | Subtotal | $ - | | $ - |
| 40 | | | | | |
| 41 | Less: | Contributions in Aid of Construction | $ - | 2.00% | $ - |
| 42 | | | | | |
| 43 | Total Increase/(Decrease) in Depreciation Expense - Rebuttal | | | | $ (2,077) |
| 44 | | | | | |
| 45 | | | | | |
| 46 | | | | | |
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| 51 | | | | | |

52 note_1 Acct. 302 - Franchises amortized over 25 years. Acct. 303 - Other intangibles amortized over 15 & 20 Years.
53 Acct. 310.4 - Wells - Other amortized over 24 years. Accumulated Amortization booked to Acct. 111 - Amort. Of Ltd. Term Investments.
54 See supporting document \2007 Amortization of Intangibles.pdf\.
55 note_2 Acct. 390.1 - Leasehold Improvements amortized over the remaining life of the associated lease.

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Adjustment JMR-RB2
Adjust Depreciation Expense to Reflect Rebuttal Plant Adjustments

| Line No. | Acct. No. | Description | Casa Grande [A] Rebuttal Rate Base Adjustments | Casa Grande [B] Proposed Depreciation Rate | Casa Grande [C] Increase / (Decrease) Depr. Exp. |
|---|---|---|---|---|---|
| 1 | | | | | |
| 2 | 301 | Organization | $ - | 0.00% | $ - |
| 3 | 302 | Franchises | - | note_1 | - |
| 4 | 303 | Other Intangibles | - | note_1 | - |
| 5 | 310.1 | Water Rights | - | 0.00% | - |
| 6 | 310.3 | Other Source of Supply Land | - | 0.00% | - |
| 7 | 310.4 | Wells - Other | - | note_1 | - |
| 8 | 314 | Wells | (488,477) | 3.13% | (15,289) |
| 9 | 320 | Pumping Plant Land | - | 0.00% | - |
| 10 | 321 | Pumping Plant Structures & Improvements | - | 2.86% | - |
| 11 | 325 | Electtric Pumping Equipment | - | 5.88% | - |
| 12 | 328 | Gas Engine Equipment | - | 4.00% | - |
| 13 | 330 | Water Treatment Plant Land | - | 0.00% | - |
| 14 | 331 | Water Treatment Structures & Improvements | - | 2.50% | - |
| 15 | 332 | Water Treatment Equipment | - | 2.86% | - |
| 16 | 340 | Transmission and Distribution Land | - | 0.00% | - |
| 17 | 342 | Storage Tanks | - | 2.00% | - |
| 18 | 343 | Transmission & Distribution Mains | - | 1.79% | - |
| 19 | 344 | Fire Sprinkler Taps | - | 2.00% | - |
| 20 | 345 | Services | - | 2.38% | - |
| 21 | 346 | Meters | - | 4.55% | - |
| 22 | 348 | Hydrants | - | 1.82% | - |
| 23 | 389 | General Plant Land | - | 0.00% | - |
| 24 | 390 | General Plant Structures | - | 2.50% | - |
| 25 | 390.1 | Leasehold Improvements | - | note_2 | - |
| 26 | 391 | Office Furniture & Equipment | - | 6.67% | - |
| 27 | 393 | Warehouse Equipment | - | 5.00% | - |
| 28 | 394 | Tools, Shop & Garage Equipment | - | 4.00% | - |
| 29 | 395 | Laboratory Equipment | - | 5.00% | - |
| 30 | 396 | Power Operated Equipment | - | 6.67% | - |
| 31 | 397 | Communication Equipment | - | 6.67% | - |
| 32 | 398 | Miscellaneous Equipment | - | 3.33% | - |
| 33 | | Subtotal | $ (488,477) | | $ (15,289) |
| 34 | | | | | |
| 35 | | | | | |
| 36 | | | | | |
| 37 | | | | | |
| 38 | | Net Regulatory Asset / (Liability) | - | | - |
| 39 | | Subtotal | $ - | | $ - |
| 40 | | | | | |
| 41 | Less: | Contributions in Aid of Construction | $ - | 2.00% | $ - |
| 42 | | | | | |
| 43 | Total Increase/(Decrease) in Depreciation Expense - Rebuttal | | | | $ (15,289) |
| 44 | | | | | |
| 45 | | | | | |
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52 note_1 Acct. 302 - Franchises amortized over 25 years. Acct. 303 - Other intangibles amortized over 15 & 20 Years.
53 Acct. 310.4 - Wells - Other amortized over 24 years. Accumulated Amortization booked to Acct. 111 - Amort. Of Ltd. Term Investments.
54 See supporting document \2007 Amortization of Intangibles.pdf\.
55 note_2 Acct. 390.1 - Leasehold Improvements amortized over the remaining life of the associated lease.

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Adjustment JMR-RB2
Adjust Depreciation Expense to Reflect Rebuttal Plant Adjustments

| Line No. | Acct. No. | Description | Stanfield [A] Rebuttal Rate Base Adjustments | Stanfield [B] Proposed Depreciation Rate | Stanfield [C] Increase / (Decrease) Depr. Exp. |
|---|---|---|---|---|---|
| 1 | | | | | |
| 2 | 301 | Organization | $ - | 0.00% | $ - |
| 3 | 302 | Franchises | - | note_1 | - |
| 4 | 303 | Other Intangibles | - | note_1 | - |
| 5 | 310.1 | Water Rights | - | 0.00% | - |
| 6 | 310.3 | Other Source of Supply Land | - | 0.00% | - |
| 7 | 310.4 | Wells - Other | - | note_1 | - |
| 8 | 314 | Wells | - | 3.13% | - |
| 9 | 320 | Pumping Plant Land | - | 0.00% | - |
| 10 | 321 | Pumping Plant Structures & Improvements | - | 2.86% | - |
| 11 | 325 | Electtric Pumping Equipment | - | 5.88% | - |
| 12 | 328 | Gas Engine Equipment | - | 4.00% | - |
| 13 | 330 | Water Treatment Plant Land | - | 0.00% | - |
| 14 | 331 | Water Treatment Structures & Improvements | - | 2.50% | - |
| 15 | 332 | Water Treatment Equipment | - | 2.86% | - |
| 16 | 340 | Transmission and Distribution Land | - | 0.00% | - |
| 17 | 342 | Storage Tanks | (5,100) | 2.00% | (102) |
| 18 | 343 | Transmission & Distribution Mains | - | 1.79% | - |
| 19 | 344 | Fire Sprinkler Taps | - | 2.00% | - |
| 20 | 345 | Services | - | 2.38% | - |
| 21 | 346 | Meters | - | 4.55% | - |
| 22 | 348 | Hydrants | - | 1.82% | - |
| 23 | 389 | General Plant Land | - | 0.00% | - |
| 24 | 390 | General Plant Structures | - | 2.50% | - |
| 25 | 390.1 | Leasehold Improvements | - | note_2 | - |
| 26 | 391 | Office Furniture & Equipment | - | 6.67% | - |
| 27 | 393 | Warehouse Equipment | - | 5.00% | - |
| 28 | 394 | Tools, Shop & Garage Equipment | - | 4.00% | - |
| 29 | 395 | Laboratory Equipment | - | 5.00% | - |
| 30 | 396 | Power Operated Equipment | - | 6.67% | - |
| 31 | 397 | Communication Equipment | - | 6.67% | - |
| 32 | 398 | Miscellaneous Equipment | - | 3.33% | - |
| 33 | | Subtotal | $ (5,100) | | $ (102) |
| 34 | | | | | |
| 35 | | | | | |
| 36 | | | | | |
| 37 | | | | | |
| 38 | | Net Regulatory Asset / (Liability) | - | | - |
| 39 | | Subtotal | $ - | | $ - |
| 40 | | | | | |
| 41 | Less: | Contributions in Aid of Construction | $ - | 2.00% | $ - |
| 42 | | | | | |
| 43 | Total Increase/(Decrease) in Depreciation Expense - Rebuttal | | | | $ (102) |
| 44 | | | | | |
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52 note_1 Acct. 302 - Franchises amortized over 25 years. Acct. 303 - Other intangibles amortized over 15 & 20 Years.
53 Acct. 310.4 - Wells - Other amortized over 24 years. Accumulated Amortization booked to Acct. 111 - Amort. Of Ltd. Term Investments.
54 See supporting document \2007 Amortization of Intangibles.pdf\.
55 note_2 Acct. 390.1 - Leasehold Improvements amortized over the remaining life of the associated lease.

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Adjustment JMR-RB2
Adjust Depreciation Expense to Reflect Rebuttal Plant Adjustments

| Line No. | Acct. No. | Description | Sedona [A] Rebuttal Rate Base Adjustments | Sedona [B] Proposed Depreciation Rate | Sedona [C] Increase / (Decrease) Depr. Exp. |
|---|---|---|---|---|---|
| 1 | | | | | |
| 2 | 301 | Organization | $ - | 0.00% | $ - |
| 3 | 302 | Franchises | - | note_1 | - |
| 4 | 303 | Other Intangibles | - | note_1 | - |
| 5 | 310.1 | Water Rights | - | 0.00% | - |
| 6 | 310.3 | Other Source of Supply Land | - | 0.00% | - |
| 7 | 310.4 | Wells - Other | - | note_1 | - |
| 8 | 314 | Wells | (309,656) | 3.13% | (9,692) |
| 9 | 320 | Pumping Plant Land | - | 0.00% | - |
| 10 | 321 | Pumping Plant Structures & Improvements | - | 2.86% | - |
| 11 | 325 | Electtric Pumping Equipment | - | 5.88% | - |
| 12 | 328 | Gas Engine Equipment | - | 4.00% | - |
| 13 | 330 | Water Treatment Plant Land | - | 0.00% | - |
| 14 | 331 | Water Treatment Structures & Improvements | - | 2.50% | - |
| 15 | 332 | Water Treatment Equipment | - | 2.86% | - |
| 16 | 340 | Transmission and Distribution Land | - | 0.00% | - |
| 17 | 342 | Storage Tanks | - | 2.00% | - |
| 18 | 343 | Transmission & Distribution Mains | - | 1.79% | - |
| 19 | 344 | Fire Sprinkler Taps | - | 2.00% | - |
| 20 | 345 | Services | - | 2.38% | - |
| 21 | 346 | Meters | - | 4.55% | - |
| 22 | 348 | Hydrants | - | 1.82% | - |
| 23 | 389 | General Plant Land | - | 0.00% | - |
| 24 | 390 | General Plant Structures | - | 2.50% | - |
| 25 | 390.1 | Leasehold Improvements | - | note_2 | - |
| 26 | 391 | Office Furniture & Equipment | - | 6.67% | - |
| 27 | 393 | Warehouse Equipment | - | 5.00% | - |
| 28 | 394 | Tools, Shop & Garage Equipment | - | 4.00% | - |
| 29 | 395 | Laboratory Equipment | - | 5.00% | - |
| 30 | 396 | Power Operated Equipment | - | 6.67% | - |
| 31 | 397 | Communication Equipment | - | 6.67% | - |
| 32 | 398 | Miscellaneous Equipment | - | 3.33% | - |
| 33 | | Subtotal | $ (309,656) | | $ (9,692) |
| 34 | | | | | |
| 35 | | | | | |
| 36 | | | | | |
| 37 | | | | | |
| 38 | | Net Regulatory Asset / (Liability) | - | | - |
| 39 | | Subtotal | $ - | | $ - |
| 40 | | | | | |
| 41 | Less: | Contributions in Aid of Construction | $ - | 2.00% | $ - |
| 42 | | | | | |
| 43 | Total Increase/(Decrease) in Depreciation Expense - Rebuttal | | | | $ (9,692) |
| 44 | | | | | |
| 45 | | | | | |
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52 note_1 Acct. 302 - Franchises amortized over 25 years. Acct. 303 - Other intangibles amortized over 15 & 20 Years.
53 Acct. 310.4 - Wells - Other amortized over 24 years. Accumulated Amortization booked to Acct. 111 - Amort. Of Ltd. Term Investments.
54 See supporting document \2007 Amortization of Intangibles.pdf\.
55 note_2 Acct. 390.1 - Leasehold Improvements amortized over the remaining life of the associated lease.

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Adjustment JMR-RB2
Adjust Depreciation Expense to Reflect Rebuttal Plant Adjustments

| Line No. | Acct. No. | Description | Pinewood [A] Rebuttal Rate Base Adjustments | Pinewood [B] Proposed Depreciation Rate | Pinewood [C] Increase / (Decrease) Depr. Exp. |
|---|---|---|---|---|---|
| 1 | | | | | |
| 2 | 301 | Organization | $ - | 0.00% | $ - |
| 3 | 302 | Franchises | - | note_1 | - |
| 4 | 303 | Other Intangibles | - | note_1 | - |
| 5 | 310.1 | Water Rights | - | 0.00% | - |
| 6 | 310.3 | Other Source of Supply Land | - | 0.00% | - |
| 7 | 310.4 | Wells - Other | - | note_1 | - |
| 8 | 314 | Wells | (13,512) | 3.13% | (423) |
| 9 | 320 | Pumping Plant Land | - | 0.00% | - |
| 10 | 321 | Pumping Plant Structures & Improvements | - | 2.86% | - |
| 11 | 325 | Electtric Pumping Equipment | - | 5.88% | - |
| 12 | 328 | Gas Engine Equipment | - | 4.00% | - |
| 13 | 330 | Water Treatment Plant Land | - | 0.00% | - |
| 14 | 331 | Water Treatment Structures & Improvements | - | 2.50% | - |
| 15 | 332 | Water Treatment Equipment | - | 2.86% | - |
| 16 | 340 | Transmission and Distribution Land | - | 0.00% | - |
| 17 | 342 | Storage Tanks | - | 2.00% | - |
| 18 | 343 | Transmission & Distribution Mains | - | 1.79% | - |
| 19 | 344 | Fire Sprinkler Taps | - | 2.00% | - |
| 20 | 345 | Services | - | 2.38% | - |
| 21 | 346 | Meters | - | 4.55% | - |
| 22 | 348 | Hydrants | - | 1.82% | - |
| 23 | 389 | General Plant Land | - | 0.00% | - |
| 24 | 390 | General Plant Structures | - | 2.50% | - |
| 25 | 390.1 | Leasehold Improvements | - | note_2 | - |
| 26 | 391 | Office Furniture & Equipment | - | 6.67% | - |
| 27 | 393 | Warehouse Equipment | - | 5.00% | - |
| 28 | 394 | Tools, Shop & Garage Equipment | - | 4.00% | - |
| 29 | 395 | Laboratory Equipment | - | 5.00% | - |
| 30 | 396 | Power Operated Equipment | - | 6.67% | - |
| 31 | 397 | Communication Equipment | - | 6.67% | - |
| 32 | 398 | Miscellaneous Equipment | - | 3.33% | - |
| 33 | | Subtotal | $ (13,512) | | $ (423) |
| 34 | | | | | |
| 35 | | | | | |
| 36 | | | | | |
| 37 | | | | | |
| 38 | | Net Regulatory Asset / (Liability) | - | | - |
| 39 | | Subtotal | $ - | | $ - |
| 40 | | | | | |
| 41 | Less: | Contributions in Aid of Construction | $ - | 2.00% | $ - |
| 42 | | | | | |
| 43 | Total Increase/(Decrease) in Depreciation Expense - Rebuttal | | | | $ (423) |
| 44 | | | | | |
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52 note_1 Acct. 302 - Franchises amortized over 25 years. Acct. 303 - Other intangibles amortized over 15 & 20 Years.
53 Acct. 310.4 - Wells - Other amortized over 24 years. Accumulated Amortization booked to Acct. 111 - Amort. Of Ltd. Term Investments.
54 See supporting document \2007 Amortization of Intangibles.pdf\.
55 note_2 Acct. 390.1 - Leasehold Improvements amortized over the remaining life of the associated lease.

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Adjustment JMR-RB2
Adjust Depreciation Expense to Reflect Rebuttal Plant Adjustments

| Line No. | Acct. No. | Description | Rimrock [A] Rebuttal Rate Base Adjustments | [B] Proposed Depreciation Rate | [C] Increase / (Decrease) Depr. Exp. |
|---|---|---|---|---|---|
| 1 | | | $ - | | |
| 2 | 301 | Organization | - | 0.00% | $ - |
| 3 | 302 | Franchises | - | note_1 | - |
| 4 | 303 | Other Intangibles | - | note_1 | - |
| 5 | 310.1 | Water Rights | - | 0.00% | - |
| 6 | 310.3 | Other Source of Supply Land | - | 0.00% | - |
| 7 | 310.4 | Wells - Other | (62,097) | note_1 | - |
| 8 | 314 | Wells | - | 3.13% | - |
| 9 | 320 | Pumping Plant Land | - | 0.00% | - |
| 10 | 321 | Pumping Plant Structures & Improvements | - | 2.86% | (1,944) |
| 11 | 325 | Electtric Pumping Equipment | - | 5.88% | - |
| 12 | 328 | Gas Engine Equipment | - | 4.00% | - |
| 13 | 330 | Water Treatment Plant Land | - | 0.00% | - |
| 14 | 331 | Water Treatment Structures & Improvements | - | 2.50% | - |
| 15 | 332 | Water Treatment Equipment | - | 2.86% | - |
| 16 | 340 | Transmission and Distribution Land | - | 0.00% | - |
| 17 | 342 | Storage Tanks | - | 2.00% | - |
| 18 | 343 | Transmission & Distribution Mains | - | 1.79% | - |
| 19 | 344 | Fire Sprinkler Taps | - | 2.00% | - |
| 20 | 345 | Services | - | 2.38% | - |
| 21 | 346 | Meters | - | 4.55% | - |
| 22 | 348 | Hydrants | - | 1.82% | - |
| 23 | 389 | General Plant Land | - | 0.00% | - |
| 24 | 390 | General Plant Structures | - | 2.50% | - |
| 25 | 390.1 | Leasehold Improvements | - | note_2 | - |
| 26 | 391 | Office Furniture & Equipment | - | 6.67% | - |
| 27 | 393 | Warehouse Equipment | - | 5.00% | - |
| 28 | 394 | Tools, Shop & Garage Equipment | - | 4.00% | - |
| 29 | 395 | Laboratory Equipment | - | 5.00% | - |
| 30 | 396 | Power Operated Equipment | - | 6.67% | - |
| 31 | 397 | Communication Equipment | - | 6.67% | - |
| 32 | 398 | Miscellaneous Equipment | - | 3.33% | - |
| 33 | | Subtotal | $ (62,097) | | $ (1,944) |
| 34 | | | | | |
| 35 | | Net Regulatory Asset / (Liability) | | | |
| 36 | | Subtotal | $ - | | $ - |
| 37 | | | - | | - |
| 38 | | Less: Contributions in Aid of Construction | | | |
| 39 | | | $ - | | $ - |
| 40 | | Total Increase/(Decrease) in Depreciation Expense - Rebuttal | | 2.00% | $ - |
| 41 | | | | | $ (1,944) |
| 42 | | | | | |
| 43 | | | | | |
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note_1 Acct. 302 - Franchises amortized over 25 years. Acct. 303 - Other intangibles amortized over 15 & 20 Years.
Acct. 310.4 - Wells - Other amortized over 24 years. Accumulated Amortization booked to Acct. 111 - Amort. Of Ltd. Term Investments.
See supporting document \2007 Amortization of Intangibles.pdf\.
note_2 Acct. 390.1 - Leasehold Improvements amortized over the remaining life of the associated lease.

Supporting Schedules:

Recap Schedules:

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Adjustment JMR-RB3
Adjust Synchronized Interest to Reflect Rebuttal Rate Base Adjustments



| Line No. | System | Total Company [A] Rebuttal Orig. Cost Rate Base Sch. B-1 Ln. 23 | [B] Weighted Cost of Long-Term Debt Sch. D-1 | [C] Synchronized Interest - Long-Term Debt | [D] Adjusted T.Y. Long-Term Interest - As Filed | [E] Increase / (Decrease) Long-Term Interest Exp. | [F] Weighted Cost of Short-Term Debt Sch. D-1 | [G] Synchronized Interest - Short-Term Debt | [H] Adjusted T.Y. Short-Term Interest - As Filed | [I] Increase / (Decrease) Short-Term Interest Exp. | [J] Test Year Other Interest - As Filed | [K] Increase / (Decrease) Other Interest Exp. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 3 | Eastern Group | | | | | | | | | | | |
| 4 | Supersition | $ 43,223,792 | 3.37% | $ 1,456,942 | $ 1,610,577 | $ (153,635) | 0.14% | $ 62,288 | $ - | $ 62,288 | $ - | $ - |
| 5 | Apache Junction | | | | | | | | | | | |
| 6 | Superior | | | | | | | | | | | |
| 7 | Bisbee | 4,642,994 | 3.37% | 156,501 | 172,872 | (16,371) | 0.14% | 6,691 | - | 6,691 | - | - |
| 8 | Sierra Vista | 2,504,626 | 3.37% | 84,423 | 93,491 | (9,068) | 0.14% | 3,609 | - | 3,609 | - | - |
| 9 | San Manuel | 2,029,766 | 3.37% | 68,417 | 75,484 | (7,067) | 0.14% | 2,925 | - | 2,925 | - | - |
| 10 | Oracle | 2,404,558 | 3.37% | 81,050 | 89,467 | (8,417) | 0.14% | 3,465 | - | 3,465 | - | - |
| 11 | Saddlebrook | (0) | 3.37% | (0) | - | (0) | 0.14% | (0) | - | (0) | - | - |
| 12 | Winkelman | 324,555 | 3.37% | 10,940 | 12,059 | (1,119) | 0.14% | 468 | - | 468 | - | - |
| 13 | Miami | 7,632,296 | 3.37% | 257,261 | 284,236 | (26,975) | 0.14% | 10,999 | - | 10,999 | - | - |
| 14 | Subtotal | $ 62,762,588 | | $ 2,115,535 | $ 2,338,187 | $ (222,652) | | $ 90,445 | $ - | $ 90,445 | $ - | $ - |
| 16 | Western Group | | | | | | | | | | | |
| 17 | Casa Grande | $ 41,008,611 | 3.37% | $ 1,382,275 | $ 1,530,834 | $ (148,560) | 0.14% | $ 59,096 | $ - | $ 59,096 | $ - | $ - |
| 18 | Stanfield | 820,996 | 3.37% | 27,673 | 30,546 | (2,873) | 0.14% | 1,183 | - | 1,183 | - | - |
| 19 | White Tank | 4,393,730 | 3.37% | 148,099 | 163,749 | (15,650) | 0.14% | 6,332 | - | 6,332 | - | - |
| 20 | Ajo | 1,119,110 | 3.37% | 37,722 | 41,677 | (3,955) | 0.14% | 1,613 | - | 1,613 | - | - |
| 21 | Coolidge | 4,248,815 | 3.37% | 143,215 | 160,158 | (16,944) | 0.14% | 6,123 | - | 6,123 | - | - |
| 22 | Subtotal | $ 51,591,262 | | $ 1,738,983 | $ 1,926,965 | $ (187,982) | | $ 74,346 | $ - | $ 74,346 | $ - | $ - |
| 24 | Northern Group | | | | | | | | | | | |
| 25 | Lakeside | $ 7,160,630 | 3.37% | $ 241,363 | $ 265,900 | $ (24,537) | 0.14% | $ 10,319 | $ - | $ 10,319 | $ - | $ - |
| 26 | Overgaard | 3,331,286 | 3.37% | 112,287 | 123,825 | (11,538) | 0.14% | 4,801 | - | 4,801 | - | - |
| 27 | Sedona | 17,589,192 | 3.37% | 592,878 | 668,291 | (75,413) | 0.14% | 25,347 | - | 25,347 | - | - |
| 28 | Pinewood | 1,878,254 | 3.37% | 63,310 | 69,833 | (6,523) | 0.14% | 2,707 | - | 2,707 | - | - |
| 29 | Rimrock | 2,330,858 | 3.37% | 78,566 | 86,714 | (8,148) | 0.14% | 3,359 | - | 3,359 | - | - |
| 30 | Subtotal | $ 32,290,219 | | $ 1,088,404 | $ 1,214,563 | $ (126,159) | | $ 46,532 | $ - | $ 46,532 | $ - | $ - |
| 32 | Total Company | $ 146,644,069 | | $ 4,942,922 | $ 5,479,715 | $ (536,793) | | $ 211,323 | $ - | $ 211,323 | $ - | $ - |

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Adjustment JMR-RB4
Adjust Property Taxes to Reflect Proposed Rates



| Line No. | | Superstition [A] Property Taxes | Bisbee [B] Property Taxes | Sierra Vista [C] Property Taxes | San Manuel [D] Property Taxes | Oracle [E] Property Taxes | Saddlebrook [F] Property Taxes | Winkelman [G] Property Taxes | Miami [H] Property Taxes | Casa Grande [I] Property Taxes |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | |
| 2 | Adjusted Rebuttal Revenues - Test Year Ended 12/31/07 | $ 11,939,904 | $ 1,723,475 | $ 1,461,897 | $ 812,359 | $ 1,126,215 | $ - | $ 98,722 | $ 1,850,678 | $ 10,934,895 |
| 3 | Adjusted RebuttalRevenues - Test Year Ended 12/31/07 | 11,939,904 | 1,723,475 | 1,461,897 | 812,359 | 1,126,215 | - | 98,722 | 1,850,678 | 10,934,895 |
| 4 | Proposed Revenues | 15,450,218 | 2,149,355 | 1,392,165 | 1,196,020 | 1,172,886 | - | 128,906 | 2,768,783 | 16,041,220 |
| 5 | | | | | | | | | | |
| 6 | Average Revenue | $ 13,110,009 | $ 1,865,435 | $ 1,438,653 | $ 940,246 | $ 1,141,772 | $ - | $ 108,783 | $ 2,156,713 | $ 12,637,003 |
| 7 | | | | | | | | | | |
| 8 | Average Revenue Multiplied by 2 | $ 26,220,018 | $ 3,730,870 | $ 2,877,306 | $ 1,880,492 | $ 2,283,544 | $ - | $ 217,567 | $ 4,313,426 | $ 25,274,006 |
| 9 | | | | | | | | | | |
| 10 | | | | | | | | | | |
| 11 | | | | | | | | | | |
| 12 | | | | | | | | | | |
| 13 | | | | | | | | | | |
| 14 | | | | | | | | | | |
| 15 | Deduct: | | | | | | | | | |
| 16 | Net Book Value of Transportation Equipment | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 17 | | | | | | | | | | |
| 18 | | | | | | | | | | |
| 19 | Full Cash Value | $ 26,220,018 | $ 3,730,870 | $ 2,877,306 | $ 1,880,492 | $ 2,283,544 | $ - | $ 217,567 | $ 4,313,426 | $ 25,274,006 |
| 20 | | | | | | | | | | |
| 21 | Assessment Ratio | 23.0% | 23.0% | 23.0% | 23.0% | 23.0% | 23.0% | 23.0% | 23.0% | 23.0% |
| 22 | | | | | | | | | | |
| 23 | Assessed Value | 6,030,604 | 858,100 | 661,780 | 432,513 | 525,215 | 0 | 50,040 | 992,088 | 5,813,021 |
| 24 | | | | | | | | | | |
| 25 | Property Tax Rate | 13.38% | 13.29% | 12.04% | 15.66% | 10.20% | 10.46% | 21.00% | 10.72% | 13.72% |
| 26 | | | | | | | | | | |
| 27 | Property Tax | 806,808 | 114,010 | 79,659 | 67,712 | 53,569 | - | 10,508 | 106,382 | 797,611 |
| 28 | | | | | | | | | | |
| 29 | Tax on Parcels | | | | | | | | | |
| 30 | | | | | | | | | | |
| 31 | Total Property Tax at Proposed Rates | $ 806,808 | $ 114,010 | $ 79,659 | $ 67,712 | $ 53,569 | $ - | $ 10,508 | $ 106,382 | $ 797,611 |
| 32 | | | | | | | | | | |
| 33 | Adjusted Test Year Property Taxes - As Filed | 815,362 | 114,911 | 80,115 | 68,170 | 53,921 | - | 10,675 | 107,575 | 806,467 |
| 34 | | | | | | | | | | |
| 35 | Increase / (Decrease) in Property Taxes | $ (8,554) | $ (901) | $ (455) | $ (457) | $ (352) | $ - | $ (167) | $ (1,193) | $ (8,856) |
| 36 | | | | | | | | | | |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Adjustment JMR-RB4
Adjust Property Taxes to Reflect Proposed Rates



| Line No. | | Stanfield [A] Property Taxes | White Tank [B] Property Taxes | Ajo [C] Property Taxes | Coolidge [D] Property Taxes | Lakeside [E] Property Taxes | Overgaard [F] Property Taxes | Sedona [G] Property Taxes | Pinewood [H] Property Taxes | Rimrock [I] Property Taxes |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | |
| 2 | Adjusted Rebuttal Revenues - Test Year Ended 12/31/07 | $ 131,926 | $ 1,244,735 | $ 470,994 | $ 2,214,952 | $ 2,588,943 | $ 1,686,342 | $ 3,521,124 | $ 1,047,463 | $ 507,981 |
| 3 | Adjusted RebuttalRevenues - Test Year Ended 12/31/07 | 131,926 | 1,244,735 | 470,994 | 2,214,952 | 2,588,943 | 1,686,342 | 3,521,124 | 1,047,463 | 507,981 |
| 4 | Proposed Revenues | 306,341 | 1,566,758 | 559,259 | 2,406,757 | 2,826,631 | 1,586,881 | 5,484,342 | 1,160,149 | 980,506 |
| 5 | | | | | | | | | | |
| 6 | Average Revenue | $ 190,064 | $ 1,352,076 | $ 500,416 | $ 2,278,887 | $ 2,668,173 | $ 1,653,189 | $ 4,175,530 | $ 1,085,025 | $ 665,489 |
| 7 | | | | | | | | | | |
| 8 | Average Revenue Multiplied by 2 | $ 380,129 | $ 2,704,151 | $ 1,000,831 | $ 4,557,773 | $ 5,336,345 | $ 3,306,377 | $ 8,351,060 | $ 2,170,050 | $ 1,330,979 |
| 9 | | | | | | | | | | |
| 10 | | | | | | | | | | |
| 11 | | | | | | | | | | |
| 12 | | | | | | | | | | |
| 13 | | | | | | | | | | |
| 14 | | | | | | | | | | |
| 15 | Deduct: | | | | | | | | | |
| 16 | Net Book Value of Transportation Equipment | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 17 | | | | | | | | | | |
| 18 | | | | | | | | | | |
| 19 | Full Cash Value | $ 380,129 | $ 2,704,151 | $ 1,000,831 | $ 4,557,773 | $ 5,336,345 | $ 3,306,377 | $ 8,351,060 | $ 2,170,050 | $ 1,330,979 |
| 20 | | | | | | | | | | |
| 21 | Assessment Ratio | 23.0% | 23.0% | 23.0% | 23.0% | 23.0% | 23.0% | 23.0% | 23.0% | 23.0% |
| 22 | | | | | | | | | | |
| 23 | Assessed Value | 87,430 | 621,955 | 230,191 | 1,048,288 | 1,227,359 | 760,467 | 1,920,744 | 499,112 | 306,125 |
| 24 | | | | | | | | | | |
| 25 | Property Tax Rate | 15.85% | 8.24% | 11.33% | 14.37% | 9.43% | 8.52% | 6.44% | 8.24% | 8.78% |
| 26 | | | | | | | | | | |
| 27 | Property Tax | 13,862 | 51,265 | 26,080 | 150,601 | 115,743 | 64,758 | 123,615 | 41,126 | 26,871 |
| 28 | | | | | | | | | | |
| 29 | Tax on Parcels | | | | | | | | | |
| 30 | | | | | | | | | | |
| 31 | Total Property Tax at Proposed Rates | $ 13,862 | $ 51,265 | $ 26,080 | $ 150,601 | $ 115,743 | $ 64,758 | $ 123,615 | $ 41,126 | $ 26,871 |
| 32 | | | | | | | | | | |
| 33 | Adjusted Test Year Property Taxes - As Filed | 14,053 | 53,436 | 26,265 | 151,656 | 116,684 | 65,159 | 125,837 | 41,350 | 27,191 |
| 34 | | | | | | | | | | |
| 35 | Increase / (Decrease) in Property Taxes | $ (191) | $ (2,172) | $ (185) | $ (1,055) | $ (941) | $ (401) | $ (2,222) | $ (225) | $ (319) |
| 36 | | | | | | | | | | |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Adjustment JMR-RB5
Adjust Income Taxes to Reflect Adjusted Test Year Results & Proposed Revenues

| Line No. | | Superstition [A] T.Y. Adjusted Rebuttal | Superstition [B] Adjusted w/ Increase | Bisbee [C] T.Y. Adjusted Rebuttal | Bisbee [D] Adjusted w/ Increase | Sierra Vista [E] T.Y. Adjusted Rebuttal | Sierra Vista [F] Adjusted w/ Increase |
|---|---|---|---|---|---|---|---|
| 1 | | | | | | | |
| 2 | | | | | | | |
| 3 | Operating Income Before Inc. Taxes | $ 2,010,776 | $ 5,521,090 | $ 167,181 | $ 593,062 | $ 389,655 | $ 319,923 |
| 4 | Interest Expense | 1,519,230 | 1,519,230 | 163,192 | 163,192 | 88,033 | 88,033 |
| 5 | Arizona Taxable Income (Ln. 3 + Ln. 4) | $ 491,546 | $ 4,001,860 | $ 3,989 | $ 429,870 | $ 301,623 | $ 231,890 |
| 6 | | | | | | | |
| 7 | Less Arizona Income Tax (Ln. 5 X Ln. 8) | $ 34,251 | $ 278,850 | $ 278 | $ 29,953 | $ 21,017 | $ 16,158 |
| 8 | Arizona Income Tax Rate = 6.968% | | | | | | |
| 9 | | | | | | | |
| 10 | Federal Income Before Taxes (Ln. 5) | $ 491,546 | $ 4,001,860 | $ 3,989 | $ 429,870 | $ 301,623 | $ 231,890 |
| 11 | Less Arizona Income Taxes (Ln. 7) | 34,251 | 278,850 | 278 | 29,953 | 21,017 | 16,158 |
| 12 | Federal Taxable Income (Ln. 10 - Ln. 11) | $ 457,295 | $ 3,723,011 | $ 3,711 | $ 399,917 | $ 280,606 | $ 215,732 |
| 13 | | | | | | | |
| 14 | Federal Income Taxes: | | | | | | |
| 15 | 15% Bracket from $1 to $50,000 | - | - | - | - | - | - |
| 16 | 25% Bracket from $50,001 to $75,000 | - | - | - | - | - | - |
| 17 | 34% Bracket from $75,001 to $100,000 | - | - | - | - | - | - |
| 18 | 39% Bracket from $100,001 to $335,000 | - | - | - | - | - | - |
| 19 | 34% Bracket over $335,000 | 155,480 | 1,265,824 | 1,262 | 135,972 | 95,406 | 73,349 |
| 20 | | | | | | | |
| 21 | Federal Income Taxes: | $ 155,480 | $ 1,265,824 | $ 1,262 | $ 135,972 | $ 95,406 | $ 73,349 |
| 22 | | | | | | | |
| 23 | | | | | | | |
| 24 | Total Income Tax (Ln. 11 + Ln. 21) | $ 189,731 | $ 1,544,673 | $ 1,540 | $ 165,925 | $ 116,423 | $ 89,507 |
| 25 | | | | | | | |
| 26 | Tax Rate (Ln. 24 ÷ Ln. 5) | 38.60% | 38.60% | 38.60% | 38.60% | 38.60% | 38.60% |
| 27 | | | | | | | |
| 28 | Effective Income Tax Rates | | | | | | |
| 29 | State (Ln. 7 ÷ Ln. 5) | 6.97% | 6.97% | 6.97% | 6.97% | 6.97% | 6.97% |
| 30 | Federal (Ln. 21 ÷ Ln. 5) | 31.63% | 31.63% | 31.63% | 31.63% | 31.63% | 31.63% |
| 31 | Revenue Conversion Factor (1 ÷ (1 - Ln. 26) | 1.6286 | 1.6286 | 1.6286 | 1.6286 | 1.6286 | 1.6286 |
| 32 | | | | | | | |
| 33 | Test Year Federal Income Taxes - As Filed (Sch. C-2, Ln. 30) | $ 123,547 | | $ (2,100) | | $ 93,535 | |
| 34 | Increase / (Decrease) in Federal Income Taxes (Ln. 21 - Ln. 33) | 31,933 | | 3,362 | | 1,871 | |
| 35 | | | | | | | |
| 36 | Test Year State Income Taxes - As Filed (Sch. C-2, Ln. 31) | $ 27,216 | | $ (463) | | $ 20,605 | |
| 37 | Increase / (Decrease) in State Income Taxes (Ln. 11 - Ln. 36) | 7,035 | | 741 | | 412 | |
| 38 | | | | | | | |
| 39 | Test Year Federal Income Taxes - Rebuttal | | $ 155,480 | | $ 1,262 | | $ 95,406 |
| 40 | Increase / (Decrease) in Federal Income Taxes (Ln. 21 - Ln. 39) | | 1,110,343 | | 134,710 | | (22,057) |
| 41 | | | | | | | |
| 42 | Test Year State Income Taxes - Rebuttal | | 34,251 | | 278 | | 21,017 |
| 43 | Increase / (Decrease) in State Income Taxes (Ln. 11 - Ln. 42) | | 244,599 | | 29,675 | | (4,859) |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Adjustment JMR-RB5
Adjust Income Taxes to Reflect Adjusted Test Year Results & Proposed Revenues

| Line No. | | San Manuel [A] T.Y. Adjusted Rebuttal | San Manuel [B] Adjusted w/ Increase | Oracle [C] T.Y. Adjusted Rebuttal | Oracle [D] Adjusted w/ Increase | Saddlebrook [C] T.Y. Adjusted Rebuttal | Saddlebrook [D] Adjusted w/ Increase |
|---|---|---|---|---|---|---|---|
| 1 | | | | | | | |
| 2 | | | | | | | |
| 3 | Operating Income Before Inc. Taxes | $ (124,393) | $ 259,267 | $ 260,470 | $ 307,141 | $ - | $ - |
| 4 | Interest Expense | 71,342 | 71,342 | 84,515 | 84,515 | (0) | (0) |
| 5 | Arizona Taxable Income (Ln. 3 + Ln. 4) | $ (195,736) | $ 187,925 | $ 175,954 | $ 222,625 | $ 0 | $ 0 |
| 6 | | | | | | | |
| 7 | Less Arizona Income Tax (Ln. 5 X Ln. 7) | $ (13,639) | $ 13,095 | $ 12,260 | $ 15,513 | $ 0 | $ 0 |
| 8 | Arizona Income Tax Rate = 6.968% | | | | | | |
| 9 | | | | | | | |
| 10 | Federal Income Before Taxes (Ln. 5) | $ (195,736) | $ 187,925 | $ 175,954 | $ 222,625 | $ 0 | $ 0 |
| 11 | Less Arizona Income Taxes (Ln. 7) | (13,639) | 13,095 | 12,260 | 15,513 | 0 | 0 |
| 12 | Federal Taxable Income (Ln. 10 - Ln. 11) | $ (182,097) | $ 174,831 | $ 163,694 | $ 207,113 | $ 0 | $ 0 |
| 13 | | | | | | | |
| 14 | Federal Income Taxes: | | | | | | |
| 15 | 15% Bracket from $1 to $50,000 | - | - | - | - | - | - |
| 16 | 25% Bracket from $50,001 to $75,000 | - | - | - | - | - | - |
| 17 | 34% Bracket from $75,001 to $100,000 | - | - | - | - | - | - |
| 18 | 39% Bracket from $100,001 to $335,000 | - | - | - | - | - | - |
| 19 | 34% Bracket over $335,000 | (61,913) | 59,442 | 55,656 | 70,418 | 0 | 0 |
| 20 | | | | | | | |
| 21 | Federal Income Taxes: | $ (61,913) | $ 59,442 | $ 55,656 | $ 70,418 | $ 0 | $ 0 |
| 22 | | | | | | | |
| 23 | | | | | | | |
| 24 | Total Income Tax (Ln. 11 + Ln. 21) | $ (75,552) | $ 72,537 | $ 67,916 | $ 85,931 | $ 0 | $ 0 |
| 25 | | | | | | | |
| 26 | Tax Rate (Ln. 24 ÷ Ln. 5) | 38.60% | 38.60% | 38.60% | 38.60% | 38.60% | 38.60% |
| 27 | | | | | | | |
| 28 | Effective Income Tax Rates | | | | | | |
| 29 | State (Ln. 7 ÷ Ln. 5) | 6.97% | 6.97% | 6.97% | 6.97% | 6.97% | 6.97% |
| 30 | Federal (Ln. 21 ÷ Ln. 5) | 31.63% | 31.63% | 31.63% | 31.63% | 31.63% | 31.63% |
| 31 | Revenue Conversion Factor (1 ÷ (1 - Ln. 26) | 1.6286 | 1.6286 | 1.6286 | 1.6286 | 1.6286 | 1.6286 |
| 32 | | | | | | | |
| 33 | Test Year Federal Income Taxes - As Filed (Sch. C-2, Ln. 30) | $ (63,368) | | $ 53,978 | | $ - | |
| 34 | Increase / (Decrease) in Federal Income Taxes (Ln. 21 - Ln. 33) | 1,455 | | 1,678 | | 0 | |
| 35 | | | | | | | |
| 36 | Test Year State Income Taxes - As Filed (Sch. C-2, Ln. 31) | $ (13,959) | | $ 11,891 | | $ - | |
| 37 | Increase / (Decrease) in State Income Taxes (Ln. 11 - Ln. 36) | 320 | | 370 | | 0 | |
| 38 | | | | | | | |
| 39 | Test Year Federal Income Taxes - Rebuttal | | $ (61,913) | | $ 55,656 | | $ 0 |
| 40 | Increase / (Decrease) in Federal Income Taxes (Ln. 21 - Ln. 39) | | 121,355 | | 14,762 | | - |
| 41 | | | | | | | |
| 42 | Test Year State Income Taxes - Rebuttal | | (13,639) | | 12,260 | | 0 |
| 43 | Increase / (Decrease) in State Income Taxes (Ln. 11 - Ln. 42) | | 26,733 | | 3,252 | | - |
| 44 | | | | | | | |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Adjustment JMR-RB5
Adjust Income Taxes to Reflect Adjusted Test Year Results & Proposed Revenues

| Line No. | | Winkelman [E] T.Y. Adjusted Rebuttal | Winkelman [F] Adjusted w/ Increase | Miami [A] T.Y. Adjusted Rebuttal | Miami [B] Adjusted w/ Increase | Casa Grande [C] T.Y. Adjusted Rebuttal | Casa Grande [D] Adjusted w/ Increase |
|---|---|---|---|---|---|---|---|
| 1 | | | | | | | |
| 2 | | | | | | | |
| 3 | Operating Income Before Inc. Taxes | $ 11,272 | $ 41,456 | $ 56,789 | $ 974,893 | $ 131,814 | $ 5,238,139 |
| 4 | Interest Expense | 11,407 | 11,407 | 268,260 | 268,260 | 1,441,370 | 1,441,370 |
| 5 | Arizona Taxable Income (Ln. 3 + Ln. 4) | $ (135) | $ 30,049 | $ (211,471) | $ 706,634 | $ (1,309,557) | $ 3,796,768 |
| 6 | | | | | | | |
| 7 | Less Arizona Income Tax (Ln. 5 X Ln. 7) | $ (9) | $ 2,094 | $ (14,735) | $ 49,238 | $ (91,250) | $ 264,559 |
| 8 | Arizona Income Tax Rate = 6.968% | | | | | | |
| 9 | | | | | | | |
| 10 | Federal Income Before Taxes (Ln. 5) | $ (135) | $ 30,049 | $ (211,471) | $ 706,634 | $ (1,309,557) | $ 3,796,768 |
| 11 | Less Arizona Income Taxes (Ln. 7) | (9) | 2,094 | (14,735) | 49,238 | (91,250) | 264,559 |
| 12 | Federal Taxable Income (Ln. 10 - Ln. 11) | $ (126) | $ 27,955 | $ (196,736) | $ 657,395 | $ (1,218,307) | $ 3,532,210 |
| 13 | | | | | | | |
| 14 | Federal Income Taxes: | | | | | | |
| 15 | 15% Bracket from $1 to $50,000 | - | - | - | - | - | - |
| 16 | 25% Bracket from $50,001 to $75,000 | - | - | - | - | - | - |
| 17 | 34% Bracket from $75,001 to $100,000 | - | - | - | - | - | - |
| 18 | 39% Bracket from $100,001 to $335,000 | - | - | - | - | - | - |
| 19 | 34% Bracket over $335,000 | (43) | 9,505 | (66,890) | 223,514 | (414,224) | 1,200,951 |
| 20 | | | | | | | |
| 21 | Federal Income Taxes: | $ (43) | $ 9,505 | $ (66,890) | $ 223,514 | $ (414,224) | $ 1,200,951 |
| 22 | | | | | | | |
| 23 | | | | | | | |
| 24 | Total Income Tax (Ln. 11 + Ln. 21) | $ (52) | $ 11,598 | $ (81,626) | $ 272,753 | $ (505,474) | $ 1,465,510 |
| 25 | | | | | | | |
| 26 | Tax Rate (Ln. 24 ÷ Ln. 5) | 38.60% | 38.60% | 38.60% | 38.60% | 38.60% | 38.60% |
| 27 | | | | | | | |
| 28 | Effective Income Tax Rates | | | | | | |
| 29 | State (Ln. 7 ÷ Ln. 5) | 6.97% | 6.97% | 6.97% | 6.97% | 6.97% | 6.97% |
| 30 | Federal (Ln. 21 ÷ Ln. 5) | 31.63% | 31.63% | 31.63% | 31.63% | 31.63% | 31.63% |
| 31 | Revenue Conversion Factor (1 ÷ (1 - Ln. 26) | 1.6286 | 1.6286 | 1.6286 | 1.6286 | 1.6286 | 1.6286 |
| 32 | | | | | | | |
| 33 | Test Year Federal Income Taxes - As Filed (Sch. C-2, Ln. 30) | $ (959) | | $ (72,321) | | $ (450,160) | |
| 34 | Increase / (Decrease) in Federal Income Taxes (Ln. 21 - Ln. 33) | 916 | | 5,431 | | 35,936 | |
| 35 | | | | | | | |
| 36 | Test Year State Income Taxes - As Filed (Sch. C-2, Ln. 31) | $ (211) | | $ (15,932) | | $ (99,166) | |
| 37 | Increase / (Decrease) in State Income Taxes (Ln. 11 - Ln. 36) | 202 | | 1,196 | | 7,916 | |
| 38 | | | | | | | |
| 39 | Test Year Federal Income Taxes - Rebuttal | | $ (43) | | $ (66,890) | | $ (414,224) |
| 40 | Increase / (Decrease) in Federal Income Taxes (Ln. 21 - Ln. 39) | | 9,547 | | 290,405 | | 1,615,176 |
| 41 | | | | | | | |
| 42 | Test Year State Income Taxes - Rebuttal | | (9) | | (14,735) | | (91,250) |
| 43 | Increase / (Decrease) in State Income Taxes (Ln. 11 - Ln. 42) | | 2,103 | | 63,974 | | 355,809 |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Adjustment JMR-RB5
Adjust Income Taxes to Reflect Adjusted Test Year Results & Proposed Revenues

| Line No. | | Stanfield [E] T.Y. Adjusted Rebuttal | Stanfield [F] Adjusted w/ Increase | White Tank [A] T.Y. Adjusted Rebuttal | White Tank [B] Adjusted w/ Increase | Ajo [C] T.Y. Adjusted Rebuttal | Ajo [D] Adjusted w/ Increase |
|---|---|---|---|---|---|---|---|
| 1 | | | | | | | |
| 2 | | | | | | | |
| 3 | | | | | | | |
| 4 | Operating Income Before Inc. Taxes | $ (69,547) | $ 104,868 | $ 239,200 | $ 561,223 | $ 54,681 | $ 142,947 |
| 5 | Interest Expense | 28,856 | 28,856 | 154,431 | 154,431 | 39,334 | 39,334 |
| 6 | Arizona Taxable Income (Ln. 3 + Ln. 4) | $ (98,404) | $ 76,012 | $ 84,769 | $ 406,792 | $ 15,347 | $ 103,612 |
| 7 | | | | | | | |
| 8 | Less Arizona Income Tax (Ln. 5 X Ln. 7) | $ (6,857) | $ 5,296 | $ 5,907 | $ 28,345 | $ 1,069 | $ 7,220 |
| 9 | Arizona Income Tax Rate = 6.968% | | | | | | |
| 10 | | | | | | | |
| 11 | Federal Income Before Taxes (Ln. 5) | $ (98,404) | $ 76,012 | $ 84,769 | $ 406,792 | $ 15,347 | $ 103,612 |
| 12 | Less Arizona Income Taxes (Ln. 7) | (6,857) | 5,296 | 5,907 | 28,345 | 1,069 | 7,220 |
| 13 | Federal Taxable Income (Ln. 10 - Ln. 11) | $ (91,547) | $ 70,715 | $ 78,863 | $ 378,447 | $ 14,277 | $ 96,393 |
| 14 | | | | | | | |
| 15 | Federal Income Taxes: | | | | | | |
| 16 | 15% Bracket from $1 to $50,000 | - | - | - | - | - | - |
| 17 | 25% Bracket from $50,001 to $75,000 | - | - | - | - | - | - |
| 18 | 34% Bracket from $75,001 to $100,000 | - | - | - | - | - | - |
| 19 | 39% Bracket from $100,001 to $335,000 | - | - | - | - | - | - |
| 20 | 34% Bracket over $335,000 | - | - | - | - | - | - |
| 21 | Federal Income Taxes: | (31,126) | 24,043 | 26,813 | 128,672 | 4,854 | 32,774 |
| 22 | | | | | | | |
| 23 | Total Income Tax (Ln. 11 + Ln. 21) | $ (31,126) | $ 24,043 | $ 26,813 | $ 128,672 | $ 4,854 | $ 32,774 |
| 24 | | | | | | | |
| 25 | Tax Rate (Ln. 24 ÷ Ln. 5) | 38.60% | 38.60% | 38.60% | 38.60% | 38.60% | 38.60% |
| 26 | | | | | | | |
| 27 | Effective Income Tax Rates | $ (37,983) | $ 29,340 | $ 32,720 | $ 157,017 | $ 5,924 | $ 39,993 |
| 28 | State (Ln. 7 ÷ Ln. 5) | 6.97% | 6.97% | 6.97% | 6.97% | 6.97% | 6.97% |
| 29 | Federal (Ln. 21 ÷ Ln. 5) | 31.63% | 31.63% | 31.63% | 31.63% | 31.63% | 31.63% |
| 30 | Revenue Conversion Factor (1 ÷ (1 - Ln. 26) | 1.6286 | 1.6286 | 1.6286 | 1.6286 | 1.6286 | 1.6286 |
| 31 | | | | | | | |
| 32 | Test Year Federal Income Taxes - As Filed (Sch. C-2, Ln. 30) | $ (31,753) | | $ (17,350) | | $ 4,055 | |
| 33 | Increase / (Decrease) in Federal Income Taxes (Ln. 21 - Ln. 33) | 627 | | 44,164 | | 800 | |
| 34 | | | | | | | |
| 35 | Test Year State Income Taxes - As Filed (Sch. C-2, Ln. 31) | $ (6,995) | | $ (3,822) | | $ 893 | |
| 36 | Increase / (Decrease) in State Income Taxes (Ln. 11 - Ln. 36) | 138 | | 9,729 | | 176 | |
| 37 | | | | | | | |
| 38 | Test Year Federal Income Taxes - Rebuttal | | $ (31,126) | | $ 26,813 | | $ 4,854 |
| 39 | Increase / (Decrease) in Federal Income Taxes (Ln. 21 - Ln. 39) | | 55,169 | | 101,859 | | 27,919 |
| 40 | | | | | | | |
| 41 | Test Year State Income Taxes - Rebuttal | | (6,857) | | 5,907 | | 1,069 |
| 42 | Increase / (Decrease) in State Income Taxes (Ln. 11 - Ln. 42) | | 12,153 | | 22,439 | | 6,150 |
| 43 | | | | | | | |
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Supporting Schedules:

Recap Schedules:

**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Adjustment JMR-RB5
Adjust Income Taxes to Reflect Adjusted Test Year Results & Proposed Revenues

| Line No. | | Coolidge [E] T.Y. Adjusted Rebuttal | Coolidge [F] Adjusted w/ Increase | Lakeside [A] T.Y. Adjusted Rebuttal | Lakeside [B] Adjusted w/ Increase | Overgaard [C] T.Y. Adjusted Rebuttal | Overgaard [D] Adjusted w/ Increase |
|---|---|---|---|---|---|---|---|
| 1 | | | | | | | |
| 2 | | | | | | | |
| 3 | Operating Income Before Inc. Taxes | $ 350,907 | $ 542,712 | $ 676,959 | $ 914,646 | $ 524,975 | $ 425,514 |
| 4 | Interest Expense | 149,337 | 149,337 | 251,682 | 251,682 | 117,088 | 117,088 |
| 5 | Arizona Taxable Income (Ln. 3 + Ln. 4) | $ 201,570 | $ 393,375 | $ 425,277 | $ 662,965 | $ 407,887 | $ 308,426 |
| 6 | | | | | | | |
| 7 | Less Arizona Income Tax (Ln. 5 X Ln. 7) | $ 14,045 | $ 27,410 | $ 29,633 | $ 46,195 | $ 28,422 | $ 21,491 |
| 8 | Arizona Income Tax Rate = 6.968% | | | | | | |
| 9 | | | | | | | |
| 10 | Federal Income Before Taxes (Ln. 5) | $ 201,570 | $ 393,375 | $ 425,277 | $ 662,965 | $ 407,887 | $ 308,426 |
| 11 | Less Arizona Income Taxes (Ln. 7) | 14,045 | 27,410 | 29,633 | 46,195 | 28,422 | 21,491 |
| 12 | Federal Taxable Income (Ln. 10 - Ln. 11) | $ 187,524 | $ 365,965 | $ 395,644 | $ 616,769 | $ 379,465 | $ 286,935 |
| 13 | | | | | | | |
| 14 | Federal Income Taxes: | | | | | | |
| 15 | 15% Bracket from $1 to $50,000 | - | - | - | - | - | - |
| 16 | 25% Bracket from $50,001 to $75,000 | - | - | - | - | - | - |
| 17 | 34% Bracket from $75,001 to $100,000 | - | - | - | - | - | - |
| 18 | 39% Bracket from $100,001 to $335,000 | - | - | - | - | - | - |
| 19 | 34% Bracket over $335,000 | 63,758 | 124,428 | 134,519 | 209,702 | 129,018 | 97,558 |
| 20 | | | | | | | |
| 21 | Federal Income Taxes: | $ 63,758 | $ 124,428 | $ 134,519 | $ 209,702 | $ 129,018 | $ 97,558 |
| 22 | | | | | | | |
| 23 | | | | | | | |
| 24 | Total Income Tax (Ln. 11 + Ln. 21) | $ 77,804 | $ 151,838 | $ 164,152 | $ 255,897 | $ 157,440 | $ 119,049 |
| 25 | | | | | | | |
| 26 | Tax Rate (Ln. 24 ÷ Ln. 5) | 38.60% | 38.60% | 38.60% | 38.60% | 38.60% | 38.60% |
| 27 | | | | | | | |
| 28 | Effective Income Tax Rates | | | | | | |
| 29 | State (Ln. 7 ÷ Ln. 5) | 6.97% | 6.97% | 6.97% | 6.97% | 6.97% | 6.97% |
| 30 | Federal (Ln. 21 ÷ Ln. 5) | 31.63% | 31.63% | 31.63% | 31.63% | 31.63% | 31.63% |
| 31 | Revenue Conversion Factor (1 ÷ (1 - Ln. 26) | 1.6286 | 1.6286 | 1.6286 | 1.6286 | 1.6286 | 1.6286 |
| 32 | | | | | | | |
| 33 | Test Year Federal Income Taxes - As Filed (Sch. C-2, Ln. 30) | $ 60,002 | | $ 129,724 | | $ 126,761 | |
| 34 | Increase / (Decrease) in Federal Income Taxes (Ln. 21 - Ln. 33) | 3,756 | | 4,795 | | 2,258 | |
| 35 | | | | | | | |
| 36 | Test Year State Income Taxes - As Filed (Sch. C-2, Ln. 31) | $ 13,218 | | $ 28,577 | | $ 27,924 | |
| 37 | Increase / (Decrease) in State Income Taxes (Ln. 11 - Ln. 36) | 827 | | 1,056 | | 497 | |
| 38 | | | | | | | |
| 39 | Test Year Federal Income Taxes - Rebuttal | | $ 63,758 | | $ 134,519 | | $ 129,018 |
| 40 | Increase / (Decrease) in Federal Income Taxes (Ln. 21 - Ln. 39) | | 60,670 | | 75,183 | | (31,460) |
| 41 | | | | | | | |
| 42 | Test Year State Income Taxes - Rebuttal | | 14,045 | | 29,633 | | 28,422 |
| 43 | Increase / (Decrease) in State Income Taxes (Ln. 11 - Ln. 42) | | 13,365 | | 16,562 | | (6,930) |
| 44 | | | | | | | |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Adjustment JMR-RB5
Adjust Income Taxes to Reflect Adjusted Test Year Results & Proposed Revenues

| Line No. | | Sedona [E] T.Y. Adjusted Rebuttal | Sedona [F] Adjusted w/ Increase | Pinewood [A] T.Y. Adjusted Rebuttal | Pinewood [B] Adjusted w/ Increase | Rimrock [C] T.Y. Adjusted Rebuttal | Rimrock [D] Adjusted w/ Increase |
|---|---|---|---|---|---|---|---|
| 1 | | | | | | | |
| 2 | | | | | | | |
| 3 | Operating Income Before Inc. Taxes | $ 283,497 | $ 2,246,714 | $ 127,228 | $ 239,914 | $ (174,798) | $ 297,727 |
| 4 | Interest Expense | 618,225 | 618,225 | 66,017 | 66,017 | 81,925 | 81,925 |
| 5 | Arizona Taxable Income (Ln. 3 + Ln. 4) | $ (334,728) | $ 1,628,489 | $ 61,211 | $ 173,897 | $ (256,723) | $ 215,802 |
| 6 | | | | | | | |
| 7 | Less Arizona Income Tax (Ln. 5 X Ln. 7) | $ (23,324) | $ 113,473 | $ 4,265 | $ 12,117 | $ (17,888) | $ 15,037 |
| 8 | Arizona Income Tax Rate = 6.968% | | | | | | |
| 9 | | | | | | | |
| 10 | Federal Income Before Taxes (Ln. 5) | $ (334,728) | $ 1,628,489 | $ 61,211 | $ 173,897 | $ (256,723) | $ 215,802 |
| 11 | Less Arizona Income Taxes (Ln. 7) | (23,324) | 113,473 | 4,265 | 12,117 | (17,888) | 15,037 |
| 12 | Federal Taxable Income (Ln. 10 - Ln. 11) | $ (311,404) | $ 1,515,016 | $ 56,946 | $ 161,780 | $ (238,835) | $ 200,765 |
| 13 | | | | | | | |
| 14 | Federal Income Taxes: | | | | | | |
| 15 | 15% Bracket from $1 to $50,000 | - | - | - | - | - | - |
| 16 | 25% Bracket from $50,001 to $75,000 | - | - | - | - | - | - |
| 17 | 34% Bracket from $75,001 to $100,000 | - | - | - | - | - | - |
| 18 | 39% Bracket from $100,001 to $335,000 | - | - | - | - | - | - |
| 19 | 34% Bracket over $335,000 | (105,877) | 515,106 | 19,362 | 55,005 | (81,204) | 68,260 |
| 20 | | | | | | | |
| 21 | Federal Income Taxes: | $ (105,877) | $ 515,106 | $ 19,362 | $ 55,005 | $ (81,204) | $ 68,260 |
| 22 | | | | | | | |
| 23 | | | | | | | |
| 24 | Total Income Tax (Ln. 11 + Ln. 21) | $ (129,201) | $ 628,579 | $ 23,627 | $ 67,122 | $ (99,092) | $ 83,297 |
| 25 | | | | | | | |
| 26 | Tax Rate (Ln. 24 ÷ Ln. 5) | 38.60% | 38.60% | 38.60% | 38.60% | 38.60% | 38.60% |
| 27 | | | | | | | |
| 28 | Effective Income Tax Rates | | | | | | |
| 29 | State (Ln. 7 ÷ Ln. 5) | 6.97% | 6.97% | 6.97% | 6.97% | 6.97% | 6.97% |
| 30 | Federal (Ln. 21 ÷ Ln. 5) | 31.63% | 31.63% | 31.63% | 31.63% | 31.63% | 31.63% |
| 31 | Revenue Conversion Factor (1 ÷ (1 - Ln. 26) | 1.6286 | 1.6286 | 1.6286 | 1.6286 | 1.6286 | 1.6286 |
| 32 | | | | | | | |
| 33 | Test Year Federal Income Taxes - As Filed (Sch. C-2, Ln. 30) | $ (125,482) | | $ 17,950 | | $ (83,435) | |
| 34 | Increase / (Decrease) in Federal Income Taxes (Ln. 21 - Ln. 33) | 19,605 | | 1,412 | | 2,231 | |
| 35 | | | | | | | |
| 36 | Test Year State Income Taxes - As Filed (Sch. C-2, Ln. 31) | $ (27,643) | | $ 3,954 | | $ (18,380) | |
| 37 | Increase / (Decrease) in State Income Taxes (Ln. 11 - Ln. 36) | 4,319 | | 311 | | 491 | |
| 38 | | | | | | | |
| 39 | Test Year Federal Income Taxes - Rebuttal | | $ (105,877) | | $ 19,362 | | $ (81,204) |
| 40 | Increase / (Decrease) in Federal Income Taxes (Ln. 21 - Ln. 39) | | 620,983 | | 35,644 | | 149,464 |
| 41 | | | | | | | |
| 42 | Test Year State Income Taxes - Rebuttal | | (23,324) | | 4,265 | | (17,888) |
| 43 | Increase / (Decrease) in State Income Taxes (Ln. 11 - Ln. 42) | | 136,797 | | 7,852 | | 32,926 |
| 44 | | | | | | | |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Adjustment JMR-RB5
Adjust Income Taxes to Reflect Adjusted Test Year Results & Proposed Revenues

| Line No. | | Total Company [C] T.Y. Adjusted Rebuttal | Total Company [D] Adjusted w/ Increase | Eastern Group [A] T.Y. Adjusted Rebuttal | Eastern Group [B] Adjusted w/ Increase | Western Group [C] T.Y. Adjusted Rebuttal | Western Group [D] Adjusted w/ Increase |
|---|---|---|---|---|---|---|---|
| 1 | | | | | | | |
| 2 | | | | | | | |
| 3 | Operating Income Before Inc. Taxes | $ 4,916,665 | $ 18,731,236 | $ 2,771,750 | $ 8,016,832 | $ 707,055 | $ 6,589,889 |
| 4 | Interest Expense | 5,154,245 | 5,154,245 | 2,205,979 | 2,205,979 | 1,813,329 | 1,813,329 |
| 5 | Arizona Taxable Income (Ln. 3 + Ln. 4) | $ (237,580) | $ 13,576,991 | $ 565,771 | $ 5,810,853 | $ (1,106,275) | $ 4,776,560 |
| 6 | | | | | | | |
| 7 | Less Arizona Income Tax (Ln. 5 X Ln. 7) | $ (16,555) | $ 946,045 | $ 39,423 | $ 404,900 | $ (77,085) | $ 332,831 |
| 8 | Arizona Income Tax Rate = 6.968% | | | | | | |
| 9 | | | | | | | |
| 10 | Federal Income Before Taxes (Ln. 5) | $ (237,580) | $ 13,576,991 | $ 565,771 | $ 5,810,853 | $ (1,106,275) | $ 4,776,560 |
| 11 | Less Arizona Income Taxes (Ln. 7) | (16,555) | 946,045 | 39,423 | 404,900 | (77,085) | 332,831 |
| 12 | Federal Taxable Income (Ln. 10 - Ln. 11) | $ (221,025) | $ 12,630,947 | $ 526,348 | $ 5,405,953 | $ (1,029,190) | $ 4,443,729 |
| 13 | | | | | | | |
| 14 | Federal Income Taxes: | | | | | | |
| 15 | 15% Bracket from $1 to $50,000 | - | - | - | - | - | - |
| 16 | 25% Bracket from $50,001 to $75,000 | - | - | - | - | - | - |
| 17 | 34% Bracket from $75,001 to $100,000 | - | - | - | - | - | - |
| 18 | 39% Bracket from $100,001 to $335,000 | - | - | - | - | - | - |
| 19 | 34% Bracket over $335,000 | (75,149) | 4,294,522 | 178,958 | 1,838,024 | (349,924) | 1,510,868 |
| 20 | | | | | | | |
| 21 | Federal Income Taxes: | $ (75,149) | $ 4,294,522 | $ 178,958 | $ 1,838,024 | $ (349,924) | $ 1,510,868 |
| 22 | | | | | | | |
| 23 | | | | | | | |
| 24 | Total Income Tax (Ln. 11 + Ln. 21) | $ (91,703) | $ 5,240,567 | $ 218,381 | $ 2,242,924 | $ (427,010) | $ 1,843,698 |
| 25 | | | | | | | |
| 26 | Tax Rate (Ln. 24 ÷ Ln. 5) | 38.60% | 38.60% | 38.60% | 38.60% | 38.60% | 38.60% |
| 27 | | | | | | | |
| 28 | Effective Income Tax Rates | | | | | | |
| 29 | State (Ln. 7 ÷ Ln. 5) | 6.97% | 6.97% | 6.97% | 6.97% | 6.97% | 6.97% |
| 30 | Federal (Ln. 21 ÷ Ln. 5) | 31.63% | 31.63% | 31.63% | 31.63% | 31.63% | 31.63% |
| 31 | Revenue Conversion Factor (1 ÷ (1 - Ln. 26) | 1.6286 | 1.6286 | 1.6286 | 1.6286 | 1.6286 | 1.6286 |
| 32 | | | | | | | |
| 33 | Test Year Federal Income Taxes - As Filed (Sch. C-2, Ln. 30) | $ (237,376) | | $ 132,313 | | $ (435,207) | |
| 34 | Increase / (Decrease) in Federal Income Taxes (Ln. 21 - Ln. 33) | 162,227 | | 46,645 | | 85,282 | |
| 35 | | | | | | | |
| 36 | Test Year State Income Taxes - As Filed (Sch. C-2, Ln. 31) | $ (52,292) | | $ 29,147 | | $ (95,872) | |
| 37 | Increase / (Decrease) in State Income Taxes (Ln. 11 - Ln. 36) | 35,737 | | 10,275 | | 18,787 | |
| 38 | | | | | | | |
| 39 | Test Year Federal Income Taxes - Rebuttal | | $ (75,149) | | $ 178,958 | | $ (349,924) |
| 40 | Increase / (Decrease) in Federal Income Taxes (Ln. 21 - Ln. 39) | | 4,369,670 | | 1,659,066 | | 1,860,792 |
| 41 | | | | | | | |
| 42 | Test Year State Income Taxes - Rebuttal | | (16,555) | | 39,423 | | (77,085) |
| 43 | Increase / (Decrease) in State Income Taxes (Ln. 11 - Ln. 42) | | 962,599 | | 365,477 | | 409,916 |
| 44 | | | | | | | |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Income Statement Adjustment JMR-RB5
Adjust Income Taxes to Reflect Adjusted Test Year Results & Proposed Revenues

| Line No. | | Northern Group [C] T.Y. Adjusted Rebuttal | Northern Group [D] Adjusted w/ Increase |
|---|---|---|---|
| 1 | | | |
| 2 | | | |
| 3 | Operating Income Before Inc. Taxes | $ 1,437,861 | $ 4,124,515 |
| 4 | Interest Expense | 1,134,936 | 1,134,936 |
| 5 | Arizona Taxable Income (Ln. 3 + Ln. 4) | $ 302,925 | $ 2,989,579 |
| 6 | | | |
| 7 | Less Arizona Income Tax (Ln. 5 X Ln. 7) | $ 21,108 | $ 208,314 |
| 8 | Arizona Income Tax Rate = 6.968% | | |
| 9 | | | |
| 10 | Federal Income Before Taxes (Ln. 5) | $ 302,925 | $ 2,989,579 |
| 11 | Less Arizona Income Taxes (Ln. 7) | 21,108 | 208,314 |
| 12 | Federal Taxable Income (Ln. 10 - Ln. 11) | $ 281,817 | $ 2,781,265 |
| 13 | | | |
| 14 | Federal Income Taxes: | | |
| 15 | 15% Bracket from $1 to $50,000 | - | - |
| 16 | 25% Bracket from $50,001 to $75,000 | - | - |
| 17 | 34% Bracket from $75,001 to $100,000 | - | - |
| 18 | 39% Bracket from $100,001 to $335,000 | - | - |
| 19 | 34% Bracket over $335,000 | 95,818 | 945,630 |
| 20 | | | |
| 21 | Federal Income Taxes: | $ 95,818 | $ 945,630 |
| 22 | | | |
| 23 | | | |
| 24 | Total Income Tax (Ln. 11 + Ln. 21) | $ 116,926 | $ 1,153,944 |
| 25 | | | |
| 26 | Tax Rate (Ln. 24 ÷ Ln. 5) | 38.60% | 38.60% |
| 27 | | | |
| 28 | Effective Income Tax Rates | | |
| 29 | State (Ln. 7 ÷ Ln. 5) | 6.97% | 6.97% |
| 30 | Federal (Ln. 21 ÷ Ln. 5) | 31.63% | 31.63% |
| 31 | Revenue Conversion Factor (1 ÷ (1 - Ln. 26) | 1.6286 | 1.6286 |
| 32 | | | |
| 33 | Test Year Federal Income Taxes - As Filed (Sch. C-2, Ln. 30) | $ 65,518 | |
| 34 | Increase / (Decrease) in Federal Income Taxes (Ln. 21 - Ln. 33) | 30,300 | |
| 35 | | | |
| 36 | Test Year State Income Taxes - As Filed (Sch. C-2, Ln. 31) | $ 14,433 | |
| 37 | Increase / (Decrease) in State Income Taxes (Ln. 11 - Ln. 36) | 6,675 | |
| 38 | | | |
| 39 | Test Year Federal Income Taxes - Rebuttal | | $ 95,818 |
| 40 | Increase / (Decrease) in Federal Income Taxes (Ln. 21 - Ln. 39) | | 849,812 |
| 41 | | | |
| 42 | Test Year State Income Taxes - Rebuttal | | 21,108 |
| 43 | Increase / (Decrease) in State Income Taxes (Ln. 11 - Ln. 42) | | 187,206 |
| 44 | | | |
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**ARIZONA WATER COMPANY**
Test Year Ended December 31, 2007
Summary Cost of Capital

| | | Total Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] |
| | | End of Test Year - Actual | | | | End of Projected Year - Present Rates - As Filed | | | |
| Line No. | Description | Dollar Amount | Percent of Total | Rate of Return | Weighted Return | Dollar Amount | Percent of Total | Rate of Return | Weighted Return |
| 2 | Short-Term Debt | $ 32,000,000 | 22.38% | 7.00% | 1.57% | $ 14,111,986 | 8.98% | 7.00% | 0.63% |
| 4 | Long-Term Debt | 40,000,000 | 27.97% | 6.96% | 1.95% | 75,000,000 | 47.75% | 7.31% | 3.49% |
| 6 | Common Equity | 71,015,718 | 49.66% | 5.46% | 2.71% | 67,958,378 | 43.27% | 1.76% | 0.76% |
| 8 | Totals | 143,015,718 | 100.00% | | 6.23% | 157,070,364 | 100.00% | | 4.88% |

| | End of Test Year - As Filed | | | | End of Projected Year - Proposed Rates As Filed | | | |
|---|---|---|---|---|---|---|---|---|
| | Dollar Amount | Percent of Total | Cost Rate | Weighted Cost | Dollar Amount | Percent of Total | Rate of Return | Weighted Return |
| Short-Term Debt | $ - | - | - | - | $ 6,363,933 | 4.05% | 7.00% | 0.28% |
| Long-Term Debt | 75,000,000 | 50.76% | 7.31% | 3.71% | 75,000,000 | 47.75% | 7.31% | 3.49% |
| Common Equity | 72,744,646 | 49.24% | 12.40% | 6.11% | 75,706,431 | 48.20% | 9.53% | 4.59% |
| Totals | 147,744,644 | 100.00% | | 9.81% | 157,070,364 | 100.00% | | 8.37% |

| | End of Test Year - Rebuttal | | | |
|---|---|---|---|---|
| | Dollar Amount | Percent of Total | Cost Rate | Weighted Cost |
| Short-Term Debt | $ 7,300,000 | 4.80% | 3.00% | 0.14% |
| Long-Term Debt | 75,000,000 | 49.35% | 6.83% | 3.37% |
| Common Equity | 69,671,689 | 45.85% | 12.40% | 5.68% |
| Totals | 151,971,689 | 100.00% | | 9.20% |

*ARIZONA WATER COMPANY*

**Docket No. W-01445A-08-0440**

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# 2008 RATE HEARING

**For Test Year Ending 12/31/07**

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**PREPARED**

**REBUTTAL TESTIMONY & EXHIBITS**

**OF**

**Fredrick K. Schneider**

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| III. | LOST AND UNACCOUNTED WATER | 5 |
| IV. | PLANT HELD FOR FUTURE USE | 21 |
| V. | POST TEST YEAR PLANT | 28 |

# *ARIZONA WATER COMPANY*

**Rebuttal Testimony of**

## Fredrick K. Schneider

## I. Introduction and Purpose of Testimony

**Q. PLEASE STATE YOUR NAME, EMPLOYER, AND OCCUPATION?**

A. My name is Fredrick K. Schneider. I am employed by Arizona Water Company (the "Company") as Vice President of Engineering. My business address is 3805 N. Black Canyon Highway, Phoenix, Arizona 85015.

**Q. ARE YOU THE SAME FREDRICK K. SCHNEIDER THAT PREVIOUSLY PROVIDED DIRECT TESTIMONY IN THIS MATTER?**

A. Yes.

**Q. HAVE YOU REVIEWED THE DIRECT TESTIMONY FILED BY THE OTHER PARTIES TO THIS PROCEEDING?**

A. Yes, I have reviewed the testimony of each of the witnesses of the Commission's Utilities Division Staff ("Staff"), the Residential Utility Consumer Office ("RUCO"), and Abbott Laboratories, Inc.

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

A. The purpose of my rebuttal testimony is to respond to the direct testimony of Staff witnesses Katrin Stukov and Brian K. Bozzo, and RUCO witness Timothy Coley.

**Q. HOW IS YOUR TESTIMONY ORGANIZED?**

A. My testimony is presented in five sections including this section. In section II, I present the Company's responses to Staff witness Stukov specifically related to Arizona Department of Water Resources ("ADWR") compliance in the Company's Oracle and Superior systems. In section III, I address Staff witness

Stukov specifically related to lost and unaccounted water for the Company's systems which were depicted as having water loss above the Commission-recommended thresholds, the plant improvements required and subsequent rate impacts of meeting that threshold. In section IV, I respond to Staff witness Bozzo and RUCO witness Coley related to their recommended disallowance of certain plant facilities which are properly classified as plant held for future use since the Company has specific plans for the full use of these facilities. In section V, I respond to, and discuss, post test year plant testimony presented by Staff witness Bozzo and RUCO witness Coley; which work is complete and describe how certain plant cannot yet be fully used since Arizona Public Service ("APS") has and continues to cause the Company delays in establishing the requested service.

**Q. ARE YOU SPONSORING ANY EXHIBITS WITH YOUR REBUTTAL TESTIMONY?**

A. Yes, I am sponsoring the following exhibits:

FKS- RB1 - ADWR Compliance Report for Superior

FKS- RB2 - ADWR Compliance Report for Oracle

II. **<u>ADWR Compliance</u>**

**Q. MS. STUKOV CONTENDS THAT THE COMPANY'S SUPERIOR AND ORACLE SYSTEMS ARE NOT IN COMPLIANCE WITH ADWR'S REQUIREMENTS FOR LOST AND UNACCOUNTED FOR WATER. IS THAT CORRECT?**

A. No. The Superior and Oracle systems are currently in compliance with ADWR's requirements. Attached are copies of the ADWR Water Provider Compliance Status Reports for Superior as Exhibit FKS-RB1 and Oracle as Exhibit FKS-RB2.

**Q. ARE ALL OF THE OTHER SYSTEMS IN COMPLIANCE WITH THESE REQUIREMENTS?**

A. Yes.

**III. <u>Lost and Unaccounted Water</u>**

**Q. HAVE YOU REVIEWED STAFF'S LIST OF COMPANY WATER SYSTEMS WITH LOST AND UNACCOUNTED WATER OVER 10 PERCENT?**

A. Yes I have.

**Q. ACCORDING TO MS. STUKOV, THE COMPANY HAS A SERIOUS PROBLEM WITH LOST AND UNACCOUNTED FOR WATER, AND STEPS SHOULD BE IMMEDIATELY TAKEN TO ADDRESS THIS PROBLEM. DO YOU AGREE WITH STAFF'S RECOMMENDATION?**

A. No. Although certain systems have higher water losses than other systems, there are justifiable reasons for that situation. In fact, the Company administers one the most comprehensive programs for managing water loss of all private water utilities in Arizona. The systems that are experiencing such higher water losses have unusual or unique circumstances, which Ms. Stukov has ignored in her testimony. She has also ignored the fact that capital improvements needed to achieve Staff's recommendations would cost many millions of dollars, and result in substantial rate increases for our customers. There is no indication that Staff has considered these costs or their impact on rates.

**Q. DO YOU AGREE WITH MS. STUKOV THAT EACH COMPANY WATER SYSTEM SHOULD HAVE LOST AND UNACCOUNTED FOR WATER OF NO GREATER THAN 15%?**

A. No, I do not. Several of the Company's water systems are faced with unique and compelling circumstances that lead to higher water losses. Some water systems pump water many miles from the source of supply to the communities they serve at extremely high pressures. Others are faced with large changes in seasonal

use and freezing winter temperatures resulting in ruptured service lines and meters. Yet, others are faced with waterlines that are older than the State of Arizona itself. A single system can face multiple issues or determinants affecting performance. The over-simplified and antiquated water loss determinants used by Staff do not account for any of these or other relevant factors. I will discuss in detail these factors and their impacts on water loss for each of the eight water systems.

**Q. IS MS. STUKOV'S RECOMMENDATION NO. 2, IN SECTION KS OF HER TESTIMONY THAT THE COMPANY BE REQUIRED TO FILE CERTAIN WATER LOSS REPORTS REASONABLE?**

A. No, it is not. The arbitrary and unfounded requirement of filing additional reports does absolutely nothing to reduce lost water within any of these systems. The extensive time which the Company would spend in developing these reports only detract from the Company's extensive efforts and does nothing to address the factors leading to water loss in these systems.

**Q. DESCRIBE THE COMPANY'S CURRENT EFFORTS TO PROMOTE AND ENCOURAGE CONSERVATION?**

A. In addition to the Leak Detection Program and the Meter Application and Maintenance Programs which I discuss in detail on pages 10-11 of my rebuttal testimony, the Company also has four other measures it currently uses.

**BASIC WATER CONSERVATION EDUCATION PROGRAM**

- Rotation of 13 conservation-oriented messages printed on customer bills 6 times per year.
- The Company's website (www.azwater.com) contains current conservation publications and information.

- The Company distributes 27 conservation publications, children-oriented conservation books and other free conservation materials available to all customers through their local Division offices.

**RESIDENTIAL AUDIT PROGRAM**

- Water audits are available free of charge to all residential customers. Notices of the availability of water audits are included on customer bills.
- Internal and external audits.
- Written conservation recommendation.
- Selected applicable conservation publications are provided to the customer.
- The Company's conservation technicians also schedule visits with customers during which they are informed about Company-provided services such as those included in an audit.

**CUSTOMER HIGH WATER USE INQUIRY RESOLUTION**

- Prompt investigation of all high water use inquiries.
- Re-check the meter read.
- Instruct customers how to read their meter, check for leaks and compare usage with previous years.

**WATER WASTE INVESTIGATIONS AND INFORMATION**

- Timely response to potential instances of water waste.
- Water is shut off and the customer is notified.
- Customer is provided with information on ways to correct the problem.
- Follow-up visit scheduled for the following month.

**Q. IN ADDITION TO THE COMPANY'S CONSERVATION EFFORTS, WHAT DOES THE COMPANY DO TO MANAGE WATER LOSS IN ITS SYSTEMS?**

A. Water loss within the Company's eighteen systems is an ongoing and concerted effort by the Company. Water loss for each system is tracked monthly and reviewed by each local manager. Local managers track their employees' time

monitoring and repairing leaks utilizing the Company's leak detection equipment. Water loss reports, efforts expended to repair located leaks and monitoring results for undetected leaks are reviewed monthly by the Company's upper management. This information is closely monitored and highly scrutinized to ensure that water loss is kept to a cost-effective minimum.

**Q. WHAT DO YOU MEAN BY "COST-EFFECTIVE MINIMUM"?**

A. By "cost-effective minimum", I am referring to a level of water loss that is maintained without (1) having to divert capital resources away from projects that are more urgent and necessary to ensure the provision of safe and reliable service, and (2) requiring a level of investment that would have a detrimental effect on the Company's financial condition and ultimately customers' rates, as explained in more detail by Mr. Harris in his rebuttal testimony.

**Q. YOU ALSO MENTIONED THAT THE COMPANY UTILIZES LEAK DETECTION EQUIPMENT. IS THE EQUIPMENT USED THROUGHOUT THE COMPANY?**

A. Yes. In the past, the Company has contracted with leak survey professionals to perform system-wide leak surveys. Although successful in locating leaks, the cost of the leak surveys was generally not offset by cost savings. Therefore, the Company purchased leak detection equipment so it can self-perform the required leak surveys, as further described below. In 2003, the Company purchased a leak correlator and a data logger for use and testing by the Company's field technicians. Based on the initial success of this equipment, the Company purchased a second set of each type of equipment. This equipment was used throughout the Company. As the Company realized the benefits of using this equipment and as its employees became more experienced with its use, the Company purchased additional leak correlators. Currently, each Division has and utilizes at least one set of leak correlators. In systems where additional correlators were required, managers have two units. Currently, the Company

has eight leak correlators and two data loggers, which are used throughout the eighteen systems. The Company's success in managing water loss is due in part to ongoing water loss monitoring and the continued use of these leak detection units. The Company intends to purchase additional correlators and data loggers in the future.

**Q. WHAT ELSE IS THE COMPANY DOING TO MONITOR AND MANAGE WATER LOSS?**

A. The Company manages water loss through efforts as identified by the following four categories. The first being water main and service line maintenance, the second is the use of leak detection equipment, the third is the Company's meter application program and the fourth is the Company's meter maintenance program.

**Q. CAN YOU DESCRIBE THESE CATEGORIES IN MORE DETAIL?**

A. Yes. I will summarize the Company's efforts for each category.

**<u>WATER MAIN AND SERVICE LINE MAINTENANCE PROGRAM</u>**

The Company has reduced lost water due to water main leaks, breaks, and service line leaks through timely repairs and replacements. The Company schedules repairs of minor water main and service line leaks as soon as possible, but in the case of main breaks, the Company makes repairs immediately. Sources of lost water due to unidentified water main and service line leaks are more problematic as they are not always easily identifiable except through more advanced methods of detection, such as through the use of leak detection equipment and by conducting leak surveys. Although smaller service leaks can be extremely difficult to identify, meter readers report observed service leaks in their normal course of reading meters. The meter readers are essential to system monitoring as they visually inspect the entire system monthly.

## LEAK DETECTION

As discussed, the Company relies upon two complimentary types of leak detection equipment purchased for its water systems. These systems allow us to identify the location of water leaks without the need for more labor-intensive methods to inspect each section of a distribution system. One type of leak detection equipment, the digital leak detection logger (i.e., data logger), is used to survey a larger area of the distribution systems to locate potential leaks that would not otherwise be located by visual inspection/observation techniques. A second type of leak detection equipment, the digital leak correlator, is used to assist in determining the location of potential leaks as well as pinpoint specific locations of leaks identified through surveys conducted by the digital leak detection logger. Company employees are professionally trained on the operation of the leak detection equipment and it has been a valuable resource and a cost-effective method of reducing lost water.

## METER APPLICATION PROGRAM

The Company's Engineering Department, utilizing information provided by the Company's Meter Shop in Coolidge, reviews new meter applications prior to establishing water service. Typically, 5/8" X 3/4" water meters are installed for most new residential subdivisions. Both residential and non-residential meter applications that require 1" or larger water meters result in wide ranges of flows, and include applications that may include fire flows. The Company's Engineering Department chooses the most appropriate meter for the application that meets the expected range of anticipated customer flows. All water meters have inherent ranges of accuracies through various ranges of flows. Even though meters cannot be 100% accurate at all rates of flow, they are designed to provide a high level of accuracy throughout such ranges of flows according to AWWA and other water industry standards.

## METER MAINTENANCE PROGRAM

The Company's meter maintenance program establishes the criteria upon which meters are removed for repairs or replacement. The Company's Meter Shop has established change-out criteria based on total gallons and length of time in service for each water system. In addition, the Meter Shop performs periodic tests on each water system's meters to provide an ongoing assessment of the suitability of meter change-out criteria for each system. In this manner, the Company ensures that meter accuracy is maintained within industry standard limits and confirmed through meter testing. The Company's eighteen water systems are up-to-date with their meter maintenance program and ongoing meter testing program.

**Q. ARE THESE TYPICAL CATEGORIES THAT WATER COMPANIES USE?**

A. Yes. The water main service line programs and the use of leak detection equipment are standard water industry practices. Even so, I am not aware of another private water utility in Arizona that manages their meter program as aggressively as the Company. In fact, our meter repair and maintenance technicians train other utility personnel such advanced practices routinely at utility conferences. The Company is a leader within the water industry in this regard. In addition, the Company's President, Mr. Garfield, serves on AWWA's Water Meter Standards Committee, which establishes water meter accuracy and repair standards in addition to other meter standards for the water industry.

**Q. WHAT ARE THE PRIMARY FACTORS THAT AFFECT WATER LOSS WITHIN THE COMPANY'S EIGHTEEN WATER SYSTEMS?**

A. There are seven primary factors that affect water loss within the Company's eighteen water systems. Those factors are (1) age of water mains, (2) system pressures, (3) length and diameter of pipelines, (4) soil composition, (5) non-

surfacing leaks, (6) seasonal population increases/decreases and (7) economic barriers.

**Q. PLEASE DISCUSS THESE FACTORS IN MORE DETAIL.**

A. Each of the seven factors are discussed in detail below.

**AGE OF WATER MAINS**

The Company has over 1,700 miles of water mains. In some of the Company's water systems, water mains were installed in the early 1900s and are still in service today. Some of the oldest mains date back to 1904, remaining in service for 105 years. The maximum useful life of most water mains has been determined to be approximately 100 years. Water mains are replaced and repaired on a continual basis, but not at the frequency to complete a 100-year replacement cycle, because it is simply not cost-effective or economical. As a result, there is a higher frequency of water main breaks in systems with water mains nearing or surpassing the end of their useful life. The Company is not alone in this problem of aging infrastructure. Aging infrastructure is affecting water utilities nationwide and even worldwide. Water main replacement, its cost, and effect on customers are discussed further in the *Economic Barriers* section below.

**SYSTEM PRESSURE**

Several of the Company's water systems have well fields located many miles from the actual service area. As a result, water pressure in the transmission mains from some of these well fields approach 900 pounds per square inch gauge ("psig"), which is significantly higher than what is usually encountered in a typical municipal water distribution main. Higher pressure on transmission lines leads to higher pressure in certain areas of a water system, with some pressures higher than the 75 psig, a pressure that the Company would ideally maintain. Increased system operating pressures greatly increase water

leakage in water mains and service lines, even those small, difficult to detect leaks.

To depict impact on the increased water loss due specifically to increased pressure in the distribution system, I have summarized in the table below the rate of flow of water through a ¼-inch diameter hole in a waterline.

| Pressure (psig) | Diameter of Hole (in) | Flow Rate (gpm) | Flow Rate (gpd) |
|---|---|---|---|
| 40 | 0.25 | 8.5 | 12,224 |
| 60 | 0.25 | 14.9 | 14,972 |
| 100 | 0.25 | 19.2 | 19,328 |
| 200 | 0.25 | 27.2 | 27,334 |
| 500 | 0.25 | 42.9 | 43,219 |
| 900 | 0.25 | 57.6 | 57,984 |

in – Inches

gpm – Gallons per minute

gpd – Gallons per day

If the diameter of the hole doubled to ½-inch the flow of water through the hole increases by 400%. The flow of lost water through a small leak does not substantially change with usage which can have a substantial impact on smaller water systems. This impact can be substantial if the system has significant seasonal usage.

The Company understands the importance of pressure management and makes every effort to control the pressure of the water systems. But we realize that the flow of water that leaks from a hole on a higher pressure line is greater than the same diameter hole on a line with lower pressure.

**LENGTH AND DIAMETER OF PIPE**

The 1,700 miles of Company water mains equates to approximately 107 feet of pipe per customer. The Company's water systems range from a low of 59 to a high of 197 feet of pipe per customer. The Company's water systems that have an above-average amount of pipe per customer, as well as those with larger pipe diameters, will experience more water loss than water systems with a similar number of customers and less than average pipe per customer.

**SOIL COMPOSITION**

Some Company water systems experience accelerated corrosion of their water mains due to the soil composition in which the water main is located. Additionally, six of the Company's water systems are located in areas where mining activity was, or is, still present. The mining residuals, combined with the soil characteristics of the area accelerate or promote corrosion of the Company's water mains. Furthermore, certain pipe material is more suitable for direct contact with rocks and larger cinders without compromising the pipe and leading to water leaks. For all water systems, proper bedding, shading, and backfilling of repaired or replaced water mains are critical.

**NON-SURFACING LEAKS**

The Company's water systems in the mountainous regions of Arizona frequently have leaks that do not immediately surface, or surface at a different location. A comparable leak in the Company's other water systems where the water leaks surface is usually identified and repaired quicker, resulting in less water loss. Use of the digital leak detection equipment in areas where the leaks do not immediately surface has been a valuable management tool.

**SEASONAL POPULATION INCREASES/DECREASES**

Several of the Company's water systems are affected by seasonal population fluctuations, where annual water sales are artificially low compared to

systems with the same number of service connections but with higher percentages of year-round occupancies. These systems still experience the same number of leaks, yet their water loss appears greater due to lower overall sales. A water system will have a "given leakage" per foot of pipe for a specific pipe diameter. This amount of water leakage will occur regardless of customer usage as long as the system remains pressurized. Regardless of monthly consumption, the water system will lose the same volume of water each month. With customer sales at a minimum, however, the percentage of lost water will appear very high. During the time of year with higher sales, the same volume of lost water will appear lower. This illustrates the impact of seasonal fluctuations of usage.

**ECONOMIC BARRIERS**

Steps taken beyond the Company's current efforts to reduce lost water would include the implementation of main and/or service replacement programs in systems which would benefit from such programs. However, the water savings achieved by this approach must be weighed against the costs that would be incurred by the Company and ultimately its customers. The costs incurred by the Company include unrecovered capital costs. Although this problem can be mitigated through ACRM-like surcharges, the effect of replacing even 10 percent of the Company's water mains will increase customer bills by an average of 19 percent Company-wide (refer to Exhibit JDH-RB1 to Mr. Harris' rebuttal testimony).

**Q. PLEASE DISCUSS BY SYSTEM, FOR THOSE SYSTEMS HAVING WATER LOSS ABOVE 10%, THE COMPANY'S PROGRESS AND CHALLENGES IN MANAGING LOST AND UNACCOUNTED FOR WATER.**

A. A water system is comprised of pipe that has an allowable leakage when newly installed. The total amount of leakage is a function of the factors previously

described. Consequently, water systems with one or more of these characteristics will be subject to more water loss than a comparable water system where these factors are not present. I will address the systems in alphabetical order.

**Bisbee**

Many waterlines within the Bisbee system date back to the early 1900s, predating Arizona's statehood. The Bisbee water system is experiencing the same challenges as much of the country — its infrastructure is aging. Replacement of miles of waterline nearing or at the end of its useful life would require a significant capital investment and cause tremendous strain on the Company and ultimately its customers. The estimated cost to replace 60 percent of the waterlines in the Bisbee water system is more than $23,500,000. As a comparison of the size of this investment needed, the current rate base for Bisbee is approximately $5,000,000 (refer to Exhibit JDH-RB1 of Mr. Harris' rebuttal testimony).

In addition to the aging waterline infrastructure and the significant cost of replacement, locating waterline leaks within Bisbee is extremely difficult. Many of the leaks never reach the surface due to the extremely thick street sections comprising brick roads, which were subsequently overlayed with concrete and then paved over more recently. In many instances, the roadway section is over 12-inches thick. Due to the significant elevation changes and distance from the well field to the northern-most portion of town, system pressures routinely exceed 100 psig. The transmission line from the Company's well field to the City of Bisbee is nearly six miles long and begins at the well field with pressures around 600 psig. To minimize lost water along the aging, above ground, six-mile long transmission line, the Company has increased its efforts in monitoring the

transmission line for leaks. As a result of these efforts, water loss within this system has remained stable.

**Pinetop Lakes**

Much of the water loss in the Pinetop Lakes water system is due to non-surfacing leaks, seasonal consumption and weather-related water loss from freezing water meters and service lines. In the cold winter months, with little snow to insulate the ground as has been the case during the current drought conditions in Arizona, the freeze depth increases thereby increasing the number of service line breaks and water loss. Another impact from cold weather is meter freezing. These types of leaks can lead to significant water loss that may go unnoticed for a month before the next meter reading. The Company actively monitors system losses and repairs all system leaks. In light of these efforts, water loss within this system has remained stable.

**Pinewood**

Essentially, the Pinewood system serves Munds Park south of Flagstaff. A portion of the water loss is caused by weather-related water loss from freezing water meters and service lines similar to the Pinetop Lakes water system discussed above. However, a significant amount of the water loss in this system is due to pipeline construction methods and pipeline material used. Soil conditions are also a factor. At the time of construction, the pipeline material was considered acceptable. However, as it is now known, the installation of transite pipe in rocky conditions results in numerous pipeline breaks. Identification of leaks within the Pinewood system is more difficult due to local soil conditions, which allows for the rapid percolation of water at shallow depths. The infiltrated water migrates laterally away from the waterline and remains largely undetected. Similar to the conditions in Bisbee, a significant portion of the system will require replacement in order to address water loss. The Company has analyzed the

costs to replace the transite waterlines, a significant cause of lost water, with stronger ductile iron waterlines. Replacement of 60 percent of the waterlines is estimated to cost $7,350,000, As a comparison of the size of this investment needed, the current rate base for Pinewood is approximately $1,900,000 (refer to Exhibit JDH-RB1 of Mr. Harris' rebuttal testimony). Due to low year-round occupancy rates and overall lower water use, water losses appear higher than the average water system and will always be a challenge to find and repair. As a result of the Company's continuing efforts, it has reduced water loss by an additional 3 percent to 22.6 percent as of May 2009.

**Rimrock**

Water loss in Rimrock is from a variety of sources including older waterlines and difficult to locate leaks. However, with the Company's increased efforts in managing water loss and the purchase of additional leak detection equipment, the Company has been able to stabilize water loss in Rimrock. To further reduce lost water, however, a portion of the existing waterlines would require replacement. In lieu of a detailed analysis of the system, it is estimated that replacement of 35 percent of the waterlines would cost approximately $3,800,000. As a comparison of the size of the investment needed, the current rate base for Rimrock is approximately $2,300,000 (refer to Exhibit JDH-RB1 of Mr. Harris' rebuttal testimony).

**San Manuel**

Lost water in San Manuel is due to a variety of factors including older water mains, problematic service lines and holes in the system's above-ground steel water storage tanks. However, due to the Company's efforts in using and managing the leak detection equipment, the aggressive meter replacement program, increased system monitoring and the replacement of a problematic section of antiquated spiral-welded steel water line in 2008, water loss has been

trending downward. To date, water loss has dropped 0.5 percent to 10.2 percent as of May 2009. With these continuing efforts, the Company expects to reduce lost water to less than 10 percent.

**Superior**

The Superior water system presents unique water loss challenges, and has been the subject of presentations by various Commissioners regarding the need for exceptions to the 10 percent water loss yardstick. One recent presentation was given by Commissioner Mayes as part of her presentation to the Investor Owned Water Utility Association on May 18, 2005. Reasons given for the "exception to the rule" were travel distance from the source of supply to the town of Superior, evaporative cooling required due to naturally high water temperatures, and the costs associated with resolving the water loss. With the Company's increased efforts in utilizing its leak detection equipment and increased monitoring of the 23-mile long above ground transmission pipeline, water loss has been declining. Water loss is approximately 10.7 percent as of May 2009. With transmission pipeline operating pressures exceeding 900 psig and the additional cooling requirement, this system is one example of the "Exception to the Rule".

**Tierra Grande**

The Tierra Grande system has experienced an increase in water loss over the past few years. The Company has increased its efforts in monitoring this system and has been able to reduce the water loss percentage. The water loss for 2008 was 10.2 percent. With these continuing efforts, the Company expects to reduce lost water to less than 10 percent.

**Winkelman**

The Winkelman water system experienced a significant loss in the number of customers due to the large storm event of 1993, which caused a large amount

of runoff on the Gila River. The river overflowed its banks and destroyed a significant number of homes belonging to approximately 30 percent of the Company's Winkelman water system customers. The lines that served these homes remain pressurized and in service providing service to the few homes left near the end of those lines. Over the past 12 months, the Company recognized a steady increase in water loss. The local staff increased their leak monitoring efforts and a few smaller leaks were located and repaired; however, no large leaks were located. In August 2008, through the use of advanced leak detection equipment, a leak was detected and located in very sandy soils. The sandy soils allowed the leak to go undetected. Following the subsequent leak repair, water loss in the Winkelman system has been on steady decline and the Company is on track to reduce lost water to less than 10 percent.

**Q. CAN THE COMPANY FUND THE TYPES OF IMPROVEMENTS REQUIRED TO REPLACE THE AGING INFRASTRUCTURE?**

A. Not in my view. Investments of these magnitudes are greater in scale than the federally mandated arsenic treatment plants the Company constructed totaling more than $34 million. Mr. Joseph Harris discusses limitations on the Company's ability to fund these types of improvements on pages 4-5 of his rebuttal testimony.

**Q. WHAT MECHANISM DO UTILITIES IN OTHER STATES HAVE TO DEAL WITH THE REPLACEMENT OF AGING INFRASTRUCTURE?**

A. Several other states and Public Utility Commissions have implemented a Distribution System Improvement Charge, commonly referred to as a DSIC program. Benefits of the program include more efficient and timely investment of capital, significant progress in replacing aging infrastructure, enhanced service quality, and reduction of water lost through leaks. As water supplies become more stressed in the future, which is expected to happen due to many factors,

reducing water loss through the replacement of aging infrastructure will be necessary. Such programs typically include protections for customers such as limits on the amount of incremental revenues that can be collected, exclusion of capital projects that are revenue producing, and true-up mechanisms. A DSIC program typically covers non-revenue producing investments to replace aging infrastructure. For more on the details of this program, please refer to Mr. Joseph Harris' Rebuttal Testimony, pages 5-6.

## IV <u>Plant Held for Future Use</u>

**Q. DO YOU AGREE WITH STAFF WITNESS BOZZO'S RECOMMENDATION AT PP. 9-10 OF HIS DIRECT TESTIMONY THAT $5,437,842 SHOULD BE REMOVED FROM RATE BASE BECAUSE IT IS NOT USED AND USEFUL?**

A. No, I do not. This plant is plant held for future use and, as I describe in detail below, the Company has specific plans for putting the plant in service in the near future, and valid financial and operating reasons why it is not currently in service. As explained by Mr. Reiker on pages 12-15 of his rebuttal testimony, the Company only accepts the removal of those plant items that should have been retired, as well as the Carroll Canyon well located in the Sedona system which was included in the Company's application as post-test year plant. With the exception of an electrical panel included as post-test year plant in the Pinewood system, the remaining plant items are accounted for as plant held for future use as I describe in detail below.

**Q. WHAT REASON DOES STAFF PROVIDE FOR RECOMMENDING THAT THESE ITEMS BE REMOVED FROM RATE BASE?**

A. According to the direct testimony of Mr. Bozzo (pp. 8-10), Ms. Stukov identified various plant items that she concluded (incorrectly) were inactive or not in service, and Staff further determined (again incorrectly) through the Company's response to Staff data request 11.16 that these items are not used and useful.

**Q. DOES THE COMPANY'S RESPONSE TO STAFF DATA REQUEST 11.16 INDICATE THAT ALL OF THE ITEMS THAT STAFF RECOMMENDS BE DISALLOWED ARE NOT USED AND USEFUL?**

A. No. In fact, several of the items Staff recommends be disallowed were identified by the Company as plant held for future use in its response to Staff data request 11.16. Although these items are not currently in use, they are planned for use and are useful, and therefore meet the Commission's criteria, as outlined in A.A.C. R14-2-103(a)(3)(h), for being included in rate base.

**Q. WHY IS THIS PLANT HELD FOR FUTURE USE NOT IN SERVICE TODAY?**

A. With limited financial options, the Company cannot complete the projects described below until the Company's earnings improve. Due to the Company's deteriorated earnings, the Company's 2008 capital budget was drastically reduced from the original $18.9 million to $8.1 million. Additional reductions were approved by the Company's Board of Directors, further reducing the Company's 2009 capital budget to $5.0 million.

**Q. WHAT IS THE COMPANY'S PLAN FOR THE INFRASTRUCTURE FACILITIES LISTED AS PLANT HELD FOR FUTURE USE?**

A. Plans are listed in detail for each plant description below:

**Superstition Ranch 160 Wells #1 and #2** – The Ranch 160 Wells #1 and #2 are facilities contributed by the developer. These two wells are planned for use when the pipeline connection is completed to the Superstition system. The Company is working with the State Land Department to obtain the final segment of right-of-way. The Company and developer will then coordinate the design completion and commissioning of the two wells. These wells will be placed in service once the housing market improves.

**Superstition; Queen Creek Pump Station - 5 Pumps/Panel** – The pumps and electrical panels are slated to be relocated to the Coolidge Airport location where

a new storage tank and booster station is planned. For the reasons stated, this project has been postponed. The Company plans to move forward to complete this project in 2010.

**Miami; Well #23** – This well is out of service due to required repairs and replacements. Due to the Company's deteriorated earnings, this project has been temporarily delayed. The Company plans to complete the required repairs and replacements and use this well in 2011.

**Miami; Bandy Heights 2 Booster Pumps 100HP/Panel** – The Booster Pump Station ("BPS") was completed on June 14, 2004 and placed in service on December 31, 2004 and is part of this rate case application. This BPS is a critical part of the Miami water system. The newly constructed BPS moves water into the Miami water system from 3 of the 4 largest wells. The Company believes that Staff made a mistake when it concluded that the new BPS is not in service. Perhaps Staff's confusion arose because the old BPS is listed as out of service and has since been retired.

**Casa Grande; Well #34** – Well #34 was acquired as part of the Arizona City water system acquisition and is planned to be an additional source of supply for the Arizona City portion of the Casa Grande water system. Water produced by the well currently exceeds the arsenic MCL and requires treatment prior to its use. This portion of the Casa Grande system has experienced significant growth. The existing well (Well #28) is the single source of supply located in the Arizona City portion of the Casa Grande water system, with the remaining source of supply being provided by a single five mile long 12-inch waterline from the central Casa Grande system. In 2008, the Company successfully acquired a parcel of land to construct a new storage tank, booster station and ultimately a new arsenic treatment plant to treat water produced from Well #34. The new plant facilities are scheduled to begin design in late 2009 and construction in

2010-2011. However, as discussed previously, due to the Company's financial condition, this project has been temporarily delayed. The Company anticipates its completion in 2012.

**Casa Grande; Well #9** – Based on water quality results taken from Well #9, the groundwater arsenic levels exceed the new MCL. Well #9 is remote from the rest of the Casa Grande well field and existing arsenic treatment plants. The Company determined that constructing a transmission line from Well #9 to one of the existing arsenic treatment plants was not cost-effective. Instead, removal of arsenic will occur on-site with a wellhead arsenic treatment plant. Due to the current level of investment in arsenic treatment plants Company-wide and specifically in Casa Grande, and the Company's deteriorated earnings, the Company decided to temporarily delay wellhead arsenic treatment until the financial performance of the Company improves. The Company plans to move forward with this project and anticipates its completion in 2012.

**Casa Grande; Well #12 (ADWR 55-616597)** – Water produced from this well has elevated levels of nitrates and the well was temporarily removed from service for that reason. The levels of nitrate were high enough that it was difficult to blend water form this well with other wells, and the Company did not believe it was cost-effective to construct a nitrate treatment plant at this time. Instead, with the construction of the Company's centralized Cottonwood Lane arsenic treatment plant, water from Well #12 can be blended with water from the wells supplying the Cottonwood Lane plant to a level below the MCL. The combined flows from the wells contributing to the Cottonwood Lane plant are approximately 5,500 gallons per minute compared to the capacity of Well #12 of approximately 800 gpm. Again, the larger flow rate at the Cottonwood Lane plant will allow water produced by Well #12 to be blended with the other wells to a point below the nitrate MCL thereby facilitating its use. The Company intends to complete

the construction of the required pipeline and related equipment and programming. However, due to the current level of investment in arsenic treatment plants in Casa Grande and the Company's deteriorated earnings the Company decided to temporarily delay the construction until the financial performance of the Company improves. The Company plans to move forward with this project and anticipates its completion in 2010.

**Stanfield; Table Top Well #3 6,000 Gallon Pressure Tank** – The pressure tank at this site is planned to be relocated to the Coolidge Airport location where a new storage tank and booster station are also planned. Due to the Company's deteriorated earnings, this project has been temporarily delayed. The Company plans to move forward with this project and anticipates its completion in 2010.

**Stanfield; Table Top Well #3 Liquid Chlorinator & Building** – The Company is currently using the chlorinator at this site, although it was temporarily out of service for a few months while some repairs were being made.

**White Tank; Mar West Well #5 – 5,000 Gallon Pressure Tank** – The Company plans to place this facility in service and utilize it to supplement its supply to the White Tank water system. Currently, the well is over the MCL for nitrates. With the recent construction of a new nitrate treatment plant at Well #7, which is part of this rate case application, the Company intends to utilize the new nitrate treatment plant to treat water produced from this well. The Mar West facility will be used in conjunction with Well #7 as a supplemental supply. The White Tank water system has source of supply constraints and the Company envisions this facility as being a key part of the source of supply solution. Due to the Company's deteriorated earnings, this project has been temporarily delayed. The Company plans to move forward with this project and anticipates its completion in 2012.

**White Tank; Mar West Well #5, 2 Booster Pumps/Panel** – Key component of the Mar West facility operation discussed above.

**White Tank; Well #8 Hypochlorinator Cabinet** – This cabinet is no longer being used to house chlorination equipment, but is being used as a cabinet for the storage of miscellaneous parts and equipment. In lieu of purchasing a new on-site storage building, the Company decided to utilize an existing cabinet avoiding the additional costs of a new storage building.

**White Tank; Well #7 Hypochlorinator Cabinet** – This cabinet is no longer being used to house chlorination equipment, but is being used as a cabinet for the storage of miscellaneous parts and equipment. In lieu of purchasing a new on-site storage building, the Company decided to utilize an existing cabinet avoiding the additional costs of a new storage building.

**Coolidge; Well #1** – Well #1 (Valley Farms) is located on the same property as the Company's Valley Farms Well #2 and the storage tank and booster station which are currently under construction. With the customer growth in this portion of the Coolidge water system, additional source of supply, storage and booster capacity are required. Additionally, water produced by Well #2 is high in arsenic and would otherwise require treatment. In lieu of constructing an arsenic treatment plant for Well #2, the Company plans to place Well #1 in service. Well #1 will add additional source of supply at this site and it will allow the two wells to be blended together to reduce the arsenic levels below 10 ppb. The Company has completed the construction of the storage tank (which is not part of this rate case application) and anticipates the completion of the booster station later this year. The Company is currently developing the detailed blending plan report, which will be submitted to ADEQ for its review and approval. The Company intends to have the blending plan approved and Well #1 placed in service prior to summer of 2010.

**Coolidge; Well #11** – The groundwater produced by this well exceeds the new MCL for arsenic and will require wellhead treatment. This well is located in the area of Coolidge that has experienced significant growth over the past 3-5 years. When economic conditions improve, new home construction will place significant pressure on the Coolidge system. The placement of this well into service is a key part of the Company maintaining the required source of supply in Coolidge. Due to the Company's deteriorated earnings, this project has been temporarily delayed. The Company plans to move forward with this project in the future when earnings and the housing market improve.

**Lakeside; Well #1** – This well was removed from service due to high turbidity. The Company's solution to address the high turbidity is to construct an above-ground filter system to remove these small particulates. The existing site is of sufficient size to accommodate the construction of the necessary filter vessels. However, due to the Company's deteriorated earnings, this project has been temporarily delayed. The Company plans to move forward with this project and anticipates its completion in 2012.

**Sedona; Well #6** – Well #6 (the Rainbow Well) has been in continuous service since it was acquired as part of the Oak Creek Heights Water Association, Inc. water system acquisition in 1963. The well is a critical source of supply for the Sedona system. Historical arsenic sample results indicate elevated levels of arsenic in this well, at times exceeding 10 ppb. Although the well is in compliance with the current arsenic MCL, results from the most recent arsenic water quality results indicate that wellhead arsenic treatment will be required. The Company has contracted with Layne Christensen to design and construct the required arsenic treatment plant at this site. The Company has obtained the required building permit for the construction of the arsenic treatment plant and will begin construction in late 2009 with construction completion scheduled for

late 2010. Based on the latest water quality testing, this well will continue operating both now and after the treatment plant is commissioned. Therefore, this well should continue to be included in rate base.

**V. <u>Post Test Year Plant</u>**

**Q. <u>Pinewood Well #10</u>**

A. As a result of the Company's continued persistence, the electrical panels are complete. Although construction has been approved by APS and a request for service has been repeatedly made by the Company, APS continues to unreasonably delay establishing service. As explained the Company's response to Staff's informal data request dated May 5, 2009, delays in placing the Well #10 electrical panels in service are outside the Company's control. In fact, if it were not for the unfortunate and untimely actions of APS, I am confident the electrical panel in question would have been placed in service before the end of the test year. For the last 12 months, APS has delayed energizing the electrical panels. The Company has continuously contacted APS during this time and APS set the electric meter July 8, 2009. APS has informed the Company that the new panels will be energized by July 20, 2009.

**Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**

A. Yes.

# Arizona Department of Water Resources
## Water Provider Compliance Status Report

**Water System Name: ARIZONA WATER COMPANY – SUPERIOR**

**Water System ID #: ADWR #56-002002.0000; PWS #11-021**

**Compliance Status:**

| *Requirement* | *In compliance* | *Not in Compliance* | *Not yet determined* | *Not Applicable* |
|---|---|---|---|---|
| Annual water use reports within AMAs and INAs (if using non-exempt wells) | X | | | |
| Annual report for community water systems outside of AMAs | | | | X |
| Annual assured or adequate water supply reports for designated providers | | | | X (Undesignated provider) |
| Designation of assured or adequate water supply in good standing for designated providers | | | | X |
| System water plan | X | | | |
| Management plan requirements within AMAs<br>1) Lost and unaccounted for water<br><10% of total use for large providers<br><15% of total use for small providers<br>2) Annual submittal of updated service area and distribution maps<br>3) NPCCP requirements are met<br>4) GPCD requirements are met<br>5) ACP requirements are met<br>6) Individual user requirements are met | 2: X<br>6:X | 1: X SEE COMMENT BELOW | | 3 – 5: X |
| Well permit volumes within AMAs | X | | | |
| Type I and II grandfathered right limits within AMAs | X | | | |
| Maintenance of accurate measuring devices within AMAs and INAs | X | | | |

| | | | | |
|---|---|---|---|---|
| Groundwater transportation restrictions | | | | X |
| Approval of deliveries of groundwater to other providers within AMAs | | | | X |

*Comments:* Subsequent to the initial Water Provider Compliance Status Report issued on 12/12/08, Arizona Water Company – Superior (ADWR #56-002002.0000; PWS #11-021), met with Department staff on 1/13/09 to discuss lost and unaccounted for water compliance status. At the meeting, Arizona Water Company presented information detailing increased measures and oversight undertaken to address their lost and unaccounted for water non-compliance. The Department anticipates a complete and satisfactory resolution regarding this matter in the near future. If you have any questions please contact Andrew Craddock, ADWR Compliance Manager, at (602) 771-8615.

**Completed by:**

| Program | *Reviewed* | *Not applicable* | Name | Phone | Date |
|---|---|---|---|---|---|
| **AMA Office** | X | | Sandra House | 602-771-8585 | 12/5/08 **Revised: 6/23/09** |
| **Office of Assured & Adequate Water Supply** | | X | Rick Obenshain | 602-771-8622 | 12/5/08 **Revised: 6/23/09** |
| **Community Water Planning** | X | | Melanie Ford | 602-771-8442 | 12/12/08 **Revised: 6/23/09** |

*This compliance status report does not guarantee the water availability for this system, nor does it reflect the status of any other water system owned by this utility company.*

# Arizona Department of Water Resources
## Water Provider Compliance Status Report

**Water System Name: ARIZONA WATER COMPANY – ORACLE**

**Water System ID #: ADWR #56-000016.0000; PWS #11-019**

**Compliance Status:**

| *Requirement* | *In compliance* | *Not in Compliance* | *Not yet determined* | *Not Applicable* |
|---|---|---|---|---|
| Annual water use reports within AMAs and INAs (if using non-exempt wells) | X | | | |
| Annual report for community water systems outside of AMAs | | | | X |
| Annual assured or adequate water supply reports for designated providers | | | | X (Undesignated provider) |
| Designation of assured or adequate water supply in good standing for designated providers | | | | X |
| System water plan | X | | | |
| Management plan requirements within AMAs<br>1) Lost and unaccounted for water<br><10% of total use for large providers<br><15% of total use for small providers<br>2) Annual submittal of updated service area and distribution maps<br>3) NPCCP requirements are met<br>4) GPCD requirements are met<br>5) ACP requirements are met<br>6) Individual user requirements are met | 2:X | 1: X SEE COMMENT BELOW | | 3 – 6: X |
| Well permit volumes within AMAs | X | | | |
| Type I and II grandfathered right limits within AMAs | | | | X |
| Maintenance of accurate measuring devices within AMAs and INAs | X | | | |

| | | | | |
|---|---|---|---|---|
| Groundwater transportation restrictions | X | | | |
| Approval of deliveries of groundwater to other providers within AMAs | | | | X |

*Comments:* Subsequent to the initial Water Provider Compliance Status Report issued on 12/12/08, Arizona Water Company – Oracle (ADWR #56-000016.0000; PWS #11-019), met with Department staff on 1/13/09 to discuss lost and unaccounted for water compliance status. At the meeting, Arizona Water Company presented information detailing increased measures and oversight undertaken to address their lost and unaccounted for water non-compliance. The Department anticipates a complete and satisfactory resolution regarding this matter in the near future. If you have any questions please contact Andrew Craddock, ADWR Compliance Manager, at (602) 771-8615.

**Completed by:**

| Program | *Reviewed* | *Not applicable* | Name | Phone | Date |
|---|---|---|---|---|---|
| **AMA Office** | X | | Jeff Tannler | 520-770-3800 | 12/12/08 **Revised: 6/23/09** |
| **Office of Assured & Adequate Water Supply** | | X | Rick Obenshain | 602-771-8622 | 12/5/08 **Revised: 6/23/09** |
| **Community Water Planning** | X | | Melanie Ford | 602-771-8442 | 12/12/08 **Revised: 6/23/09** |

*This compliance status report does not guarantee the water availability for this system, nor does it reflect the status of any other water system owned by this utility company.*

*ARIZONA WATER COMPANY*

**Docket No. W-01445A-08-0440**

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# 2008 RATE HEARING

**For Test Year Ending 12/31/07**

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**PREPARED**

**REBUTTAL TESTIMONY & EXHIBITS**

**OF**

**Thomas M. Zepp**

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## *ARIZONA WATER COMPANY*

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**Rebuttal Testimony of**

# THOMAS M. ZEPP

## I. Introduction and Purpose of Testimony

**Q. PLEASE STATE YOUR NAME AND ADDRESS.**

A. My name is Thomas M. Zepp. My business address is 1500 Liberty Street, S.E., Suite 250, Salem, Oregon 97032.

**Q. ARE YOU THE SAME THOMAS M. ZEPP THAT PREVIOUSLY PROVIDED DIRECT TESTIMONY IN THIS MATTER?**

A. Yes. I previously filed direct testimony on the appropriate cost of equity. My professional background and experience are described in that testimony.

**Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?**

A. On behalf of the applicant, Arizona Water Company ("Arizona Water" or "the Company").

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

A. The purpose of this rebuttal testimony is to address the direct testimony of David C. Parcell ("Parcell Dt.") on behalf of the Arizona Corporation Commission ("Commission"), Utilities Division ("Staff"), and the direct testimony of William A. Rigsby ("Rigsby Dt.") on behalf of the Residential Utility Consumer Office ("RUCO") dealing with Arizona Water's cost of equity. I have also updated my direct testimony and provide an update of Staff testimony from the Chaparral City Water case presented in Fall 2008.

**Q. HAS YOUR RECOMMENDED COST OF EQUITY FOR ARIZONA WATER CHANGED BASED ON THE TESTIMONIES PRESENTED BY MR. PARCELL AND MR. RIGSBY?**

A. No. It is my opinion that under the current circumstances, the Company should be authorized a return on equity of 12.4 %.

**Q. PLEASE PROVIDE A SUMMARY OF YOUR REBUTTAL TESTIMONY.**

A. My testimony is summarized below:

(1) An update of my direct testimony indicates Arizona Water's cost of equity now falls in a range of 12.4% to 12.9%. I continue to recommend a return on equity of 12.4%.

(2) An update of Staff's cost of capital model indicates the cost of equity for its sample of six water utilities is now 11.2%. Once Arizona Water's required risk premium of no less than 50 basis points is recognized, the Staff approach indicates Arizona Water requires an equity return of 11.7%.

(3) Mr. Parcell has advocated a number of techniques designed to bias downward his cost of equity estimates. Once those techniques are exposed and corrected, a restatement of his methods indicates the cost of equity for the water utilities sample normally used by the Commission and Staff falls in a range of 11.2% to 12.3%. Had Mr. Parcell recognized Arizona Water is more risky than this sample, his equity cost estimates would indicate the Company has an equity cost that falls in a range of 11.7% to 12.8%.

(4) Mr. Rigsby has adopted an incorrect concept to determine the risk-free rate in his capital asset pricing model ("CAPM") analysis and made several errors in the preparation of his equity cost estimates. Once his analyses are corrected and restated and a 50 basis point risk premium is included for Arizona Water, his methods indicate the Company's cost of equity falls in a range of 12.0% to 12.4%.

**Q. HOW IS YOUR REBUTTAL TESTIMONY ORGANIZED?**

A. In Section II, I present an update of my direct testimony and discuss concerns with implementation of the CAPM at this time. In Section III, I present an update of the cost of equity determined with the Staff models. In Section IV, I explain

why it is appropriate to rely on arithmetic annual averages instead of geometric annual averages when determining future growth rates and required ROEs from historical data. In Section V, I explain why the sample of six water utilities previously relied upon by Staff and the Commission should again be used to determine benchmark cost of equity estimates.

In Section VI, I respond to Mr. Parcell. I address a number of ways Mr. Parcell has constructed equity cost estimates that produce negatively biased estimates of cost of equity. These techniques include (1) including Southwest Water Company in two of his water utilities samples, (2) relying on geometric annual averages instead of conceptually correct arithmetic annual averages to compute growth rates and expected returns (3) failure to recognize the time value of money when he computes dividend yields, (4) failure to adopt an appropriate growth rate for the first year dividends are paid, (5) failure to reconcile his current 10% cost of equity estimate with the 11.2% cost of equity that is produced with a straight-forward update of Staff's cost of equity methods, (6) failure to include growth from external sources (called "vs growth") that both Staff (in the past), RUCO, and I have recognized should be included in sustainable growth rate estimates, (7) giving only a 20% weight to conceptually correct estimate of growth when estimating growth for the DCF model, (8) failure to compute a current risk premium to use in CAPM equity cost estimates that is easily constructed from the data he presents, (9) reliance on a comparable earnings method which has previously been rejected by this commission and (10) failure to recognize Arizona Water is more risky than his benchmark water utilities samples and requires a risk premium of at least 50 basis points.

In Section VII, I respond to Mr. Rigsby's equity cost estimates. I restate his DCF equity cost estimates with dividend yields that recognize the time value of money, corrected values of br growth, and estimates of "v" in "vs" growth based on Mr. Rigsby's data, and find his DCF sample indicates the benchmark

cost of equity is 11.5%. I also restate his CAPM approach with the correct concepts and available forecasts of long-term Treasury rates and find his CAPM equity cost is 11.9%. Again, because Arizona Water is more risky than the water utilities sample, it requires an ROE that is at least 50 basis point higher.

## II. Update of Direct Testimony

**Q. HAVE YOU UPDATED YOUR DIRECT TESTIMONY?**

A. Yes.

**Q. DO YOU HAVE A GENERAL STATEMENT THAT PUTS THE UPDATE OF YOUR DIRECT TESTIMONY IN PERSPECTIVE?**

A. Yes. During the last year, as more and more problems in the financial sector became known, the Dow Jones average fell by 38%, the S&P 500 Index dropped by 40%, and the New York Stock Exchange Composite dropped by 43%. Not only has there been tremendous damage to the values of financial assets of investors, but the United States economy is in a severe recession. While there are some indications that we are now starting to pull out of the recession, the forecasted full recovery has been moving farther into the future. During this period, there has been a very obvious "flight to quality," which has led to the traditional spreads between required returns on Treasury securities and other assets increasing as investors have spurned common stocks and corporate bonds in favor of Treasury securities. *See* Rebuttal Table 1. Currently the spread between Baa bonds and long-term Treasury bonds is 298 basis points, 132 basis point higher than the average spread during 1990 to 2007. The current spread between Aaa bonds and long-term Treasury bonds has also increased from an historic average of 82 basis points to a current spread of 112 basis points.

As a result of this flight to quality, dismal outlook for the economy and lack of interest in corporate bonds and stocks, costs of equity for all stocks—including water utility stocks—have increased by significant amounts, even though yields

on Treasury securities decreased as concerned investors have clamored to buy them. Given this background, the Commission should recognize and expect that costs of equity for Arizona Water and other water utilities are higher now than they were last year when I prepared my direct testimony. Mr. Parcell's suggestion that the cost of equity has dropped as a result of the financial disaster in the stock market is erroneous and should be ignored.

**Q. IS THERE QUANTITATIVE SUPPORT FOR THE COST OF EQUITY BEING HIGHER NOW THAN LAST YEAR?**

A. Yes. Last year I estimated the cost of equity with the discounted cash flow ("DCF") model for the sample of six water utilities used by the ACC Staff in water and wastewater cases. At that point in time, when conceptually correct estimates of growth were used to make the estimate, the indicated cost of equity for the water utilities sample fell in a range of 11.8% to 11.9%, and Arizona Water's indicated cost of equity fell in a range of 12.3% to 12.4%. *See* Table 10 of Zepp direct testimony. As discussed below, that indicated cost of equity has increased to 12.8% for the water utilities sample and 13.3% for Arizona Water, an increase in the indicated cost of equity of over 100 basis points since last year. *See* Rebuttal Table 4 in Zepp Rebuttal testimony.

Last year, I also estimated the cost of equity for the ACC sample of six water utilities with DCF growth based on the ACC Staff approach, which gives weight to past growth as well as weight to forward-looking estimates of growth. With the ACC Staff approach, the indicated DCF cost of equity for the benchmark sample fell in a range of 11.3% to 11.4% and Arizona Water's cost of equity fell in a range of 11.8% to 11.9%. See Table 11 of Zepp direct testimony. I show below that if I update that analysis using the same method to determine growth I used in my direct testimony, the updated cost of equity for the benchmark sample falls in a range of 11.9% to 12.0% and the indicated cost of equity for Arizona Water falls in a range of 12.4% to 12.5%. This update indicates the Company's

cost of equity has increased by 60 basis point since the time I prepared my direct testimony.

**Q. WHAT HAS HAPPENED TO THE COST OF EQUITY ESTIMATES MADE WITH THE CAPITAL ASSET PRICING MODEL?**

A. Such updates are not straightforward and require more than a simple mechanical update to be useful. I discuss the difficulty with updates of the CAPM below.

**Q. PLEASE BEGIN WITH YOUR UPDATES OF THE DCF MODEL. WHAT HAS HAPPENED TO DIVIDEND YIELDS?**

A. They have increased. Rebuttal Table 2 shows the average dividend yields for the sample of six water utilities have increased to 3.82% for the most recent 3-month period and to 3.75% for the 12-month period ending in May 2009. I used the same method to determine dividend yields that I used in my direct testimony.

**Q. WHAT HAS HAPPENED TO THE AVERAGE OF ANALYSTS' FORWARD-LOOKING ESTIMATES OF GROWTH?**

A. In my direct testimony, to avoid over-stating the cost of equity based on the DCF model, I did not give any weight to the 15% growth forecast for Connecticut Water Service. If I again leave the forecast for Connecticut Water Service out of the average, the average of analysts' forecasts of growth increases slightly from 8.6% to 8.7% Compare Table 9 in my direct testimony to Rebuttal Table 3. If I include Connecticut Water Service in the average, the average growth rate is now 9.1%. To be conservative, I have again not included the growth forecast for Connecticut Water Service in the average used to make my update.

**Q. WHERE DO YOU REPORT YOUR UPDATE OF THE DCF ESTIMATE PRESENTED IN TABLE 10 OF YOUR DIRECT TESTIMONY?**

A. It is reported in Rebuttal Table 4. Based on updates of dividend yields reported in Rebuttal Table 2 and the current average of analysts' growth rates (excluding the forecasts for Connecticut Water Service) presented in Rebuttal Table 3,

Rebuttal Table 4 shows the DCF estimate of the cost of equity for the Commission sample of six water utilities is now 12.8% and the indicated cost of equity for the Company is 13.3%.

**Q. DID YOU UPDATE TABLE 3 IN YOUR DIRECT TESTIMONY?**

A. Yes. Table 3 in my direct testimony reports average annual growth in earnings per share ("EPS"), dividends per share ("DPS"), book value per share ("BVPS") and common stock prices per share ("price") for 5-year and 10-year periods ending in 2007. Rebuttal Table 5 reports the same information for periods ending in 2008. For convenience, I also report comparable data reported by Mr. Parcell for the most recent five-year period, which I discuss later.

**Q. WHAT IS SHOWN IN REBUTTAL TABLE 6?**

A. Rebuttal Table 6 is an update of Table 11 in my direct testimony. The average of historical growth rates based on data ending in 2008, which I report in Rebuttal Table 5, is lower than similar data ending in 2007. Thus, the growth rate in Rebuttal Table 6 is lower than I reported in Table 11 of my direct testimony. But since the average dividend yields for the period ending in May 2009 are much higher than in 2008, the DCF cost of equity estimate made in Table 11 increases from a range of 11.8% to 11.9% for Arizona Water to a range of 12.4% to 12.5%.

**Q. IS THIS POINT IMPORTANT?**

A. Yes, it is. The difference between the DCF cost of equity estimates made with the conceptually correct measures of growth presented in Table 10 of my direct testimony and Rebuttal Table 4, indicate the cost of equity for water utilities has increased by 100 basis points since last year. A comparison of Table 11 of my direct testimony and Rebuttal Table 6 shows the cost of equity has increased by only 60 basis points.

Rebuttal Table 6 gives an equal weight to growth in past 5-year and 10-year periods and the conceptually correct measures of forward-looking growth reported in Rebuttal Table 3. But, if indeed investors double-count past growth

and give it some weight, there is no way to know what periods of past growth are considered by investors or how much weight is given to past results instead of expected future growth. For example, if, as Mr. Parcell suggests in his analysis, investors look at past growth in recent five-year periods, a simple update of Table 11 would indicate the DCF cost of equity increased by approximately 80 basis points, not 60 basis points. This calculation is also presented in Rebuttal Table 6. Giving other weights to past growth would produce other differences.

**Q. PLEASE TURN TO YOUR COMMENTS ABOUT THE CAPM. LET'S BEGIN WITH BETA ESTIMATES. HAS THE AVERAGE BETA FOR THE STAFF SAMPLE OF WATER UTILITIES DECREASED SINCE 2008?**

A. Yes, it has decreased from 0.98 in March 2008 to 0.84 in April 2009.

**Q. DOES THAT MEAN WATER UTILITIES NOW REQUIRE LOWER RETURNS THAN WERE REQUIRED LAST YEAR?**

A. No. The simple CAPM equity cost estimate depends on the size of the market risk premium ("MRP") for the index used to estimate the beta, and the return required for a zero-beta asset ("RF"), as well as beta estimates. Beta is a relative measure of risk. Given the dramatic unexpected drop in the stock market, most stocks and certainly indexes like the S&P 500 used to estimate betas are viewed as more risky. In relative terms, the lower beta estimate for the Staff water utilities sample indicates water utilities are less risky, but risk and required return may be higher if the market risk premium and/or the return required for a zero-beta asset are higher now than last year. Thus, the risk of a water utility stock may drop relative to an index but still be just as risky, or riskier, than it was before the increase in risk of the market.

**Q. DO YOU HAVE CONCERNS WITH IMPLEMENTATION OF THE CAPM AT THIS TIME?**

A. Yes. Given the flight to quality and the tremendous drop in the stock market during the last year, I have concerns with (a) whether estimates of the zero-beta

asset return (RF) are appropriate to use when implementing the model and (b) whether it is possible to determine a reasonable estimate of the MRP now demanded by investors.

**Q. WHAT ARE YOUR CONCERNS WITH OBTAINING A USEFUL ESTIMATE OF THE RETURN ON THE ZERO-BETA ASSET AT THIS TIME?**

A. Conceptually, the return on the zero-beta asset should be the highest return an investor could expect to receive if he/she held an asset that has returns that are not correlated with market returns. In my direct testimony, I adopted a forecast of long-term Treasury bond rates as a conservative measure of this zero-beta asset return. Since the time I prepared that testimony, there has been a flight to quality and the spread between Baa bonds and Treasury bonds has increased. The spread is now 132 basis points above the average of that spread during the period 1990-2007. The spread between Aaa bonds and Treasury bonds has also increased. Given investors' current concerns with holding stocks and corporate bonds, they appear to be willing to take the risk of negative future returns from long-term Treasuries which may occur if higher inflation, higher Treasury rates and lower prices for Treasury bonds result from the huge amount of debt being issued by the United States government. Also, the beta for long-term Treasury securities may actually be negative at this time as prices for stocks dropped as investors sold stocks and bid up prices for Treasury securities. In 2008, Morningstar reports the total returns for stocks was a negative 37% while the total return on long-term Treasury bonds was a positive 25.87%. I am skeptical that the yield for long-term Treasury bonds is as high as the zero-beta return that is required by CAPM theory, particularly at this time.

**Q. HAVE YOU UPDATED TABLE 12 IN YOUR DIRECT TESTIMONY?**

A. Yes. That update is provided in Rebuttal Table 7. The average of the first two years being forecasted by Blue Chip combined with an update of the Value Line forecasts for those years indicates an expected future long-term Treasury bond

rate of 4.93%, a rate slightly higher than the rate I relied upon in my direct testimony.

**Q. HAVE YOU ATTEMPTED TO ESTIMATE THE REQUIRED RETURN FOR THE ZERO-BETA ASSET?**

A. No, I have not. For the reasons stated above, however, I believe the correct value for the zero-beta asset return is higher than 4.93% at this time.

**Q. HAVE YOU UPDATED YOUR ESTIMATE OF THE MARKET RISK PREMIUM?**

A. Yes. Morningstar correctly points out that annual MRPs have been random in the past and "the best estimate of the expected value of a variable that has behaved randomly in the past is the average (or arithmetic mean) of its past values".[1] But while such an average MRP, which has dropped from 7.1% in 2008 to 6.5% today, may be the best long-term measure of the MRP, investors expect a market recovery and also know that Value Line is forecasting a near-term market return premium of 13.6% for the next several years[2]. To implement the CAPM, we need to estimate what investors expect the average MRP to be in all future periods. If investors expect a 13.6% risk premium for four years and then 6.5% risk premium thereafter, the indicated current present value of future MRPs is 8.5%.

**Q. DO YOU HAVE ANY CONCERNS WITH BETA AS THE MEASURE OF RISK FOR ARIZONA WATER?**

A. Yes. While the average beta for the Staff water utilities sample has dropped from 0.98 in 2008 to 0.84 in April 2009, that drop must be considered in the context of how much investors view the risk of the stock market in general. If indeed, investors currently expect higher than average future returns for the stock market

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[1] (Morningstar, *Ibbotson SBBI 2009 Valuation Yearbook*, pp. 60-61).

[2] Determined as the difference between dividend yields of 2.4% and potential capital appreciation of 80% in four years and the current Treasury rate of 4.6%. Value Line Summary & Index (June 19, 2009)

index used to determine beta estimates, lower beta risk does not mean lower required ROEs.

**Q. HAVE YOU UPDATED THE CAPM ESTIMATE YOU PROVIDED IN TABLE 13 OF YOUR DIRECT TESTIMONY?**

A. Yes, while I continue to be concerned with CAPM estimates at this time, I did update that estimate. The update of 12.0% for the Staff sample and 12.5% for Arizona Water is reported in Rebuttal Table 8.

**Q. DID YOU ALSO UPDATE THE CAPM ANALYSIS YOU PRESENTED IN TABLE 14 OF YOUR DIRECT TESTIMONY?**

A. Yes. Rebuttal Table 9 provides that update. In this CAPM estimate I rely on the updated MRP estimate provided in Rebuttal Table 10. Rebuttal Table 10 is my update of Table 15 in my direct testimony. Based on this update, the indicated cost of equity for the Staff water utilities sample and Arizona Water are 11.9% and 12.4%, respectively.

**Q. DO YOU PROVIDE A SUMMARY OF YOUR UPDATED EQUITY COST ESTIMATES?**

A. Yes, that summary is presented in Rebuttal Table 11. Based on these updates, the indicated cost of equity for Arizona Water is now 12.7% instead of 12.4% I derived in 2008. This update adds support to my recommended ROE of 12.4% for Arizona Water.

## III. <u>Update of ACC Staff Testimony</u>

**Q. WHAT IS THE TOPIC OF THIS SECTION OF YOUR TESTIMONY?**

A. In this section of my testimony I present an updated estimate of the cost of equity using the DCF and CAPM models, with the methods and inputs that have been used by Staff in prior water and wastewater utility rate cases, including the most recent rate cases for Arizona Water. Updates of the Staff tables estimates are reported in Tab 2. I used spot stock prices and other data available mid-June 2009, which were current data when this testimony was written, to be consistent

with the methods previously used by Staff. The DCF model using Staff's methods and inputs produces an indicated cost of equity of 9.8% and the CAPM produces an indicated cost of equity of 12.6%, resulting in an average cost of equity of 11.2%.

**Q. WHY DID YOU PERFORM AN ESTIMATE OF THE COST OF EQUITY USING STAFF'S METHODS?**

A. In prior Arizona rate cases in which I have testified, including Arizona Water's prior rate cases for its Western Group, Docket No. W-01445A-04-0650,[3] and its Eastern Group, Docket No. W-01445A-02-0619,[4] as well as Chaparral City Water Company's 2005 rate case, Docket No. W-02113A-04-0616,[5] Staff used the DCF and CAPM models to estimate the cost of equity. In each of these cases, Staff's particular methods and inputs were approved and adopted by the Commission.[6] The methods and inputs used by Mr. Parcell differ from those used by Staff, and they conflict with prior Commission decisions. Consequently, I have prepared an equity cost estimate using Staff's normal methods and inputs to determine what cost of equity would be indicated, and how such estimate compares to Mr. Parcell's recommendation. As stated, Staff's method produces a cost of equity of 11.2%, while Mr. Parcell recommends a cost of equity of only 10%.

**Q. WHAT ARE THE CRITICAL DIFFERENCES BETWEEN MR. PARCELL'S APPROACH AND STAFF'S APPROACH?**

A. There are several significant differences:

- Mr. Parcell uses samples of water utilities that differ from those used by

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[3] Direct Testimony of Alejandro Ramirez, Docket No. W-01445A-04-0650 (May 25, 2005); Surrebuttal Testimony of Alejandro Ramirez, Docket No. W-01445A-04-0650 (April 18, 2005).

[4] Direct Testimony of Joel M. Reiker, Docket No. W-01445A-02-0619 (July 8, 2003); Surrebuttal Testimony of Joel M. Reiker, Docket No. W-01445A-02-0619 (Sept. 3, 2003).

[5] Direct Testimony of Alejandro Ramirez, Docket No. W-02113A-04-0616 (March 22, 2005); Surrebuttal Testimony of Alejandro Ramirez, Docket No. W-02113A-04-0650 (May 18, 2005).

[6] *Ariz. Water Co.*, Decision No. 68302 (Nov. 17, 2005); *Ariz. Water Co.*, Decision No. 66849 (March 19, 2004); *Chaparral City Water Co.*, Decision No. 68176 (Sept. 30, 2005).

Staff and approved by the Commission in prior rate cases, including Arizona Water's prior rate cases.

- Mr. Parcell does not use spot stock prices and spot yields on Treasury securities, which conflicts with Staff's approach.
- Mr. Parcell does not use a multi-stage DCF model.
- Mr. Parcell has eliminated Staff's estimate of the current market risk premium from his CAPM estimate, and has substituted a second historic market risk premium, which double-counts historic market risk while ignoring current market risk.
- Mr. Parcell uses a geometric mean to estimate the historic market risk premium in his CAPM estimate, while Staff uses the conceptually correct arithmetic mean. I address this issue in Section IV.
- Mr. Parcell uses the historic total return on Treasuries rather than their historic income return to compute market risk premiums, while Staff uses the conceptually correct income return.
- Mr. Parcell uses a comparable earnings method to derive a third estimate of the cost of equity, even though the Commission and Staff have criticized the use of comparable earnings in prior rate cases, including Arizona Water's Western Group case.[7] In Section V, I show that, contrary to Mr. Parcell's conclusion, when the Comparable Earnings approach is combined with other data relied upon by Mr. Parcell, the indicated required ROE for water utilities falls in a range of 12.3% to 12.8%.

The bottom line is that the methods selected by Mr. Parcell appear to be specifically intended to depress the cost of equity, as shown by the fact that his 10.0% cost of equity is 120 basis points below the 11.2% cost of equity estimate produced by Staff's methods.

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[7] Decision No. 68302 at 37-38.

**Q. DOES MR. PARCELL OR ANY OTHER STAFF WITNESS EXPLAIN WHY STAFF'S NORMAL METHODS AND INPUTS HAVE NOT BEEN USED IN THIS CASE?**

A. No. No explanation has been given for this change in methods, nor has Mr. Parcell attempted to reconcile his methods with those used by Staff in Arizona Water's prior rate cases.

**Q. IS IT APPROPRIATE TO SWITCH BACK AND FORTH BETWEEN METHODOLOGIES IN SETTING RATES?**

A. No, it is not. The United States Supreme Court has stated that "a State's decision to arbitrarily switch back and forth between methodologies in a way that required investors to bear the risk of bad investments at some times while denying the benefit of good investments at others would raise serious constitutional questions."[8] The same principle is applicable here. After consistently using the same methods and inputs to estimate the cost of equity in prior water and wastewater rate cases, and after the Commission has approved those methods and inputs in prior rate cases (including the Company's prior cases), Staff is proposing different methods to lower the cost of equity. This is arbitrary and unfair, particularly given the recent instability in the financial markets and resulting increase in the cost of equity.

**Q. DO YOU AGREE WITH STAFF'S METHODS AND INPUTS?**

A. No. In prior rate cases I have explained that certain inputs Staff uses are inappropriate and depress the cost of equity. But even if Staff inputs are used, the resulting equity cost estimate is still substantially higher than Mr. Parcell's estimate, suggesting that the substitution of Mr. Parcell's methods is intended to depress the cost of equity below current market levels.

## IV. <u>Arithmetic and Geometric Annual Averages</u>

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[8] *Duquesne Light Co. v. Barasch*, 488 U.S. 299, 315 (1989).

**Q. WHAT IS THE MAIN POINT YOU MAKE IN THIS SECTION OF YOUR REBUTTAL TESTIMONY?**

A. The main point is that, to the extent that one believes historical data provide useful information for the determination of future growth rates and required returns on equity, the analyst should rely on arithmetic annual averages to make such growth projections and ROE determinations. Geometric annual averages routinely produce negatively biased estimates of future growth and negatively biased estimates of ROEs required by investors and thus should *never* be given any weight in cost of capital analyses. The latter point is especially important because in some instances, Mr. Parcell and Mr. Rigsby rely completely or in other cases rely partially on geometric annual averages in their determinations of growth rates and equity costs. As I explain in this section, no weight should be given to any growth rate or ROE estimate that is based in whole or in part on geometric annual averages of past data.

**Q. WHEN SHOULD GEOMETRIC ANNUAL AVERAGES BE CONSIDERED BY INVESTORS?**

A. Geometric annual averages provide a useful way to compare past performance of different assets during different periods of time. For example, T. Rowe Price offers investors an Emerging Markets Bond Fund and an International Bond Fund. Over the last 5-year and 10-year periods, the International Bond Fund provided total returns of 23.2% and 53.7%. But such returns are difficult for investors to understand and compare. Once those total returns are converted to annual average geometric returns, the returns are 4.26% and 4.39%, respectively, and investors would know that that fund provided similar returns over 5-year and 10-year periods. Geometric annual average returns are also useful for comparing past performances of different funds. Over the last five years, the Emerging Markets Bond Fund had a total return of 30.6% which would be difficult for investors to compare to the range of total returns of 23.2% to

53.7% for the International Bond Fund. If, however, the five-year returns for the Emerging Markets Bond Fund are restated as annual average geometric return of 5.49%, the investor can easily make a comparison of past performances of the different funds.

But though the geometric annual average provides a very useful way to examine what has happened in the past, it should not be used to determine estimates of expected future returns or future growth rates. Even if one believes that future growth for water utilities will be similar to growth in the past, an assumption the data I present in Tables 3 and Table 9 of my direct testimony and Rebuttal Tables 3 and 5 show is questionable, it is conceptually incorrect to use past geometric annual average growth rates to determine future growth or future returns in the future.

**Q. WHAT IS THE EFFECT OF USING A GEOMETRIC ANNUAL AVERAGE TO CALCULATE GROWTH RATES AND MARKET RISK PREMIUMS?**

A. It lowers the cost of equity estimates produced by the DCF model and CAPM, which is undoubtedly a factor that has been considered by Mr. Parcell and Mr. Rigsby in using that approach.

**Q. WHAT IS THE RELATIONSHIP BETWEEN ARITHMETIC ANNUAL AVERAGE RETURNS AND GEOMETRIC ANNUAL AVERAGE RETURNS?**

A. The relationship between arithmetic annual average returns (A) and geometric annual average returns (G) is approximately

$$A \approx G + Var(A)/2,$$

Where the arithmetic average annual return ("A") is approximately equal to the geometric annual average return ("G") plus the variance in the arithmetic return (Var(A)) divided by 2.[9]

If in the special case where a return or growth rate is exactly the same in

[9] Morningstar, *Ibbotson SBBI 2008 Valuation Yearbook*, p. 97.

every period, the variance would be zero and the two returns would be the same. However, this is not the case for risky assets. Thus, if one believes future growth (or future returns) and variance in future growth (returns) will be similar to what has occurred in the past, the arithmetic annual average growth rate must be used to determine equity costs or the utility will be unable to achieve the past geometric annual average growth. Mr. Parcell and Mr. Rigsby's proposal to consider past geometric annual average growth and past geometric annual averages of returns is a results-driven way to make sure a utility will not attain the forecasted growth or earn returns in the future that have occurred in the past.

**Q. DO YOU HAVE A SIMPLE EXAMPLE WHICH ADDRESSES THE ISSUE?**

A. Yes. I have attached Tab 3 to my testimony which is a copy of Appendix 4-A of Roger Morin's 2006 book *New Regulatory Finance*. Morin provides a thorough discussion of this issue and cites several academic studies which explain why the arithmetic annual average is the only concept to adopt when relying on past data to forecast future growth or required ROEs. One of the examples he provides is from Brealey, Myers and Allen's 2006 graduate textbook in corporate finance. Brealey, Myers and Allen provide an excellent example showing that with a possibility of annual returns of -10%, +10% and +30% for a fictional entity "Big Oil" that does not pay dividends, the expected return is 10% (an average of the three potential returns) and with an initial investment of $100 in that stock, the expected end-of period value of the stock is $110. Brealey, Myers and Allen show that this 10% return must be the discount rate used to determine the present value of the stock of $100. They also show that the compound average return of 8.8% ($100 x 1.1 x .9 x 1.3) = $108.77, (the geometric annual average return), is less than the opportunity cost of capital. Thus, if this were a utility stock (instead of "Big Oil") and a regulator set the return at only 8.8%, investors would not be willing to invest in that utility stock because the opportunity cost of investing elsewhere is 10%. Mr. Parcell and Mr. Rigsby recommend that the

equivalent of this 8.8% ROE be included in the average of ROEs they suggest are acceptable to investors when that is not the case. The 8.8% ROE is less than the opportunity cost of capital of 10%. Thus if the 8.8% is given *any* weight, even a 25% weight, the authorized ROE would be 9.7% which is less than cost of capital, 10%.

**Q. IS THERE A HIDDEN FLAW IN APPROACHES THAT RELY ON GEOMETRIC ANNUAL AVERAGE RETURNS ON EQUITY AS A MEASURE OF FUTURE REQUIRED ROES?**

A. Yes. The hidden flaw is that the approach assumes investors already know what will happen in the future when they do not. In effect, it assumes investors will know the final outcome when that is never the case with investments in common stocks. If an investor actually expected he/she would only get an 8.8% return when a 10% return is required, the investor would be better off investing in assets other than the regulated utility.

**Q. DOES THE SAME CONCEPT APPLY TO ESTIMATED GROWTH RATES?**

A. Yes, it also applies to the determination of forward-looking growth rates from historical data. Rebuttal Table 3 reports 5-year growth rates computed with arithmetic annual averages and Mr. Parcell's estimates of 5-year growth computed with geometric annual averages. A comparison of the differences between estimates of EPS growth for SJW Corp. using the conceptually correct arithmetic annual average of 10.8% and Mr. Parcell's reported growth of only 3.5% shows the magnitude of negative bias that occurs when using the wrong concept to prepare DCF growth estimates. By comparing SJW Corp.'s EPS in only two years, 2003 and 2008, Mr. Parcell's approach totally ignores the large variance in EPS experienced by SJW Corp.. If it is believed that past EPS growth is a harbinger of future growth, each of the annual changes in EPS growth during the entire 5-year period should be considered.

## V. Problems Concerning The Sample Groups Chosen by Mr. Parcell and Mr. Rigsby

**Q. WHAT SAMPLE GROUP DID YOU USE TO IMPLEMENT THE CAPM AND DCF MODELS?**

A. I used the sample group of water utilities that have been consistently used by Staff for a number of years, American States Water, Aqua America, California Water Service, Connecticut Water Service, SJW Corp., and Middlesex Water Company. The Commission has repeatedly accepted that exact same sample group in determining the cost of equity for Arizona water and wastewater utilities. It did so, for example, in Arizona Water's prior rate cases for its Western and Eastern Groups.

**Q. MR. PARCELL REFERS TO THESE SIX WATER UTILITIES AS THE "ZEPP WATER SAMPLE GROUP". IS THAT AN ACCURATE DESCRIPTION?**

A. No. As stated, I used these water companies because they have been consistently used in estimating the cost of equity in this jurisdiction. A better description would be "Staff's Water Sample Group" to distinguish the water utilities sample from the other utilities that Mr. Parcell used.

**Q. ARE THERE PROBLEMS WITH THE SAMPLE UTILITIES CHOSEN BY MR. PARCELL?**

A. Yes. He has selected water utilities that have experienced financial problems or otherwise should not be used to estimate the cost of equity. For example, Mr. Parcell has included Southwest Water Company in two of his three samples despite the fact that less than 50% of Southwest Water's revenues are derived from regulated activities. According to the most recent AUS Utility Report (May 2009), only 45% of Southwest Water's revenues are derived from regulated activities. Put simply, it isn't a water utility.

Moreover, Southwest Water's financial condition is extremely poor. According to the May 2009 AUS Utility Report, for the 12-month period ended

June 30, 2008, Southwest Water had negative earnings per share, and its dividend payout ratio, return on common equity and return on total capital are described as "not meaningful." Finally, as Mr. Rigsby explains in his testimony, Value Line has suspended all projections and estimates for Southwest Water due to accounting and financial statement reporting errors.

Mr. Parcell also includes Artesian Resources and York Water in one of his samples. Mr. Parcell reports conceptually correct forward-looking estimates of growth for these utilities in Schedule 5 page 4 of 4. If one relies upon these conceptually correct estimates of growth, the DCF cost of equity estimates for them are 11.1% and 11.3%, respectively, which are substantially above his subjective determination of a cost of equity of 10%. But neither company can be included in his CAPM analysis because of data problems. Artesian cannot be considered because there is no beta estimate for it, and the beta for York Water cannot be considered because its stock is thinly traded and thus its beta estimate is known to be biased downward[10]. As a result, if the goal is to base all equity costs on the same sample, we are left with the sample of six water utilities traditionally relied upon by this Commission to determine cost of equity estimates.

**Q. DO YOU AGREE WITH RUCO'S SAMPLES?**

A. No, I do not. First, RUCO uses only three of Staff's sample water utilities, and does not consider data for Connecticut Water Service, SJW Corp., and Middlesex Water Company. This choice produces inefficient estimates of the cost of equity since useful data for twice as many water utilities are available, but not used by RUCO. Moreover, RUCO also uses a group of publicly traded gas companies as a proxy. This sample has previously been found by the Commission to be inappropriate.

[10] Richard Roll, " A Possible Explanation of the Small Firm Effect," *Journal of Finance,* Vol. XXXVI, No. 4 (Sept. 1981).

**Q. WHY CAN'T MR. RIGSBY'S NATURAL GAS UTILITIES BE USED TO ESTIMATE ARIZONA WATER'S COST OF EQUITY?**

A. At this time, RUCO's gas utilities sample has an average beta of 0.67, while RUCO's water utility sample has an average beta of 0.82.[11] Therefore, the water utilities sample has more market risk than the gas utilities sample, and equity costs for the gas utilities sample cannot be used to estimate the Company's cost of equity unless upward adjustments in costs of equity estimates for the gas utilities are made to account for the difference in risk. Mr. Rigsby does not make such upward adjustments.

**Q. ARE YOU AWARE OF ANY PRIOR ATTEMPTS TO USE GAS UTILITIES TO ESTIMATE THE COST OF EQUITY IN A WATER UTILITY RATE CASE IN THIS STATE?**

A. Yes. In Arizona Water's 2002 rate case for its Eastern Group, I proposed the use of a sample of gas utilities to estimate the cost of equity. At that time, the average betas of the water and gas sample groups were lower than they are today, with the average beta for the gas utility sample being 0.69 and the average for the water utility sample being only 0.59. Staff estimated that the equity cost for the sample gas utilities was approximately 100 basis points higher than the sample water utilities, requiring a downward adjustment to the gas utilities' cost of equity to make the two groups comparable.[12] Because of this difference in risk, the Commission rejected the use of the gas utilities.

In this docket, the difference between average betas of the two sample groups would require an upward adjustment in equity cost estimates for the gas utilities because the average beta of the gas sample group is now less than the average beta of the water utility sample group. In fact, the difference in the sample groups' betas is greater than the difference that existed in 2003, and

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[11] *See* Rigsby Dt., Sch. WAR-7.
[12] Decision No. 66849 at 21.

would require an upward adjustment of more than 100 basis points[13]. For this reason, the gas utilities are not comparable, and cannot be treated as such in implementing the DCF and CAPM models. In reality, RUCO has used them to depress the CAPM cost of equity estimates, not to provide a larger sample group.

## VI. Additional Responses to Mr. Parcell

**Q. DO YOU HAVE ANY OTHER RESPONSES TO MR. PARCELL'S TESTIMONY?**

A. Yes. In addition to the comments I made above, I also restate and correct his DCF and CAPM equity cost estimates. I also show that if the Commission wants to change its prior position and give weight to a comparable earnings analysis, such an analysis indicates water utilities have required ROEs in a range of 12.3% to 12.8%.

### Mr. Parcell's DCF Analysis

**Q. PLEASE BEGIN WITH YOUR RESPONSES TO HIS DCF ESTIMATES? IS HIS CALCULATION OF THE AVERAGE CURRENT DIVIDEND YIELD APPROPRIATE?**

A. No. Throughout my response to Mr. Parcell, I primarily respond to the equity cost estimates he has provided for the sample of six water utilities consistently used by the Commission to determine equity cost estimates. The current dividend yield he reports for this sample is 3.4% and the adjusted average yield is 3.5% (Schedule 5, page 4 of 4). The "adjusted average" yield is Mr. Parcell's estimate of $D_1/P_0$, the yield used in the DCF equation. Based on the Staff method reported in Tab 2, Schedule 1, the more appropriate value for $D_1/P_0$ is

[13] Using the intermediate term market risk premium of 7.0%, the upward adjustment would be 105 basis points [7% times (.82-.67)]. If the current market risk premium were relied upon, the indicated increase would be 204 basis points (13.6% times (.82-.67).

3.7%. Also, for comparison, my updated value for $D_1/P_0$ for the three month period relied upon by Mr. Parcell, is 3.82%. *See* Rebuttal Table 2, Tab 1.

**Q. WHY IS MR. PARCELL'S ESTIMATE OF $D_1/P_0$ BIASED DOWNWARD?**

A. It is biased downward for two reasons. First, Mr. Parcell disagrees with the Staff method and grows the current dividend by only one-half the growth rate. Equation (3) of my direct testimony shows that the valuation equation used to determine the DCF model requires a value for $D_1$ equal to the dividend a full year into the future, not one-half of a year into the future, to be consistent with growth in other future periods. The Staff method is also incorrect because it assumes first-year growth only three quarters into the future. While I think the Staff approach is biased, it is less biased than Mr. Parcell's aggressive choice of growing the current dividend by only half as much as should be used in the model.

Second, Mr. Parcell does not allow for the time value of money. As I explain at page 26 of my direct testimony, ignoring the time value of money is inconsistent with utilities paying dividends on a quarterly basis instead of once a year. Recognizing the time value of money increases $D_1/P_0$ by roughly 10 basis points.

**Q. DO YOU HAVE ANY CONCERNS WITH THE METHOD HE USES TO DETERMINE GROWTH RATES?**

A. Yes. First, Mr. Parcell waters down his estimates of growth by giving only a 20% weight to the conceptually appropriate value of growth provided by analysts' forecasts. Two of his estimates are based on incomplete estimates of sustainable growth. One is based on past growth of EPS, DPS and BVPS. The fourth looks at Value Line projections. When he does examine analysts' forecasts of EPS growth, he only relies on EPS growth rates reported by Yahoo! Finance and gives no weight to forecasts provided by Zacks. He also does not incorporate analysts' forecasts of growth reported by Value Line that are readily

available for SJW Corp. and Middlesex Water. By giving excessive weight to incomplete estimates of sustainable growth, and no weight to other available forecasts made by analysts, and excessive weight to past growth that would have already been recognized by analysts when they made their forecasts, he constructs anemic estimates of growth expected by investors.

**Q. PLEASE EXPLAIN THE PROBLEM WITH MR. PARCELL'S ESTIMATES OF SUSTAINABLE GROWTH.**

A. Mr. Parcell relies on past growth from earnings retention ("br growth") and projections of earnings retention growth as proxies for sustainable growth. At page 16, line 24, Mr. Parcell implies he is using the "Gordon DCF model" but when he implements the model, he ignores the fact that Professor Gordon emphasized that growth from both internal sources ("br growth") and from external sources ("vs growth", which results from the sale of common stock at prices above book value), should be recognized when determining estimates of sustainable growth for utilities.

Additionally, Mr. Parcell apparently ignores the fact that Staff and Mr. Rigsby routinely rely on estimates of sustainable growth, not just growth from internal sources, to make their estimates of sustainable growth. Based on the update of Staff's model, Mr. Parcell understated sustainable growth by 2.0%. *See* Table 3, Tab 2. And based on Mr. Rigsby's corrected growth rates discussed in Section VII, Mr. Parcell has understated sustainable growth by 1.83%.

**Q. DO YOU HAVE ANY OTHER CONCERNS WITH MR. PARCELL'S GROWTH RATE ESTIMATES?**

A. Yes, Mr. Parcell's reported estimates of EPS growth made by analysts are inefficient. Zacks as well as Yahoo! Finance report analysts' forecasts of expected future EPS growth. Value Line also reports analysts' forecasts of growth for water utilities included in its Expanded Edition. This information would

be known to investors and should be considered. When this additional information is considered, four of the six averages of analysts' forecasts increase and two stay the same or decrease. This additional information increases the average reported by Mr. Parcell from 8.5% to 9.7%. Mr. Parcell appears to have chosen his source of analysts' forecasts to bias downward his DCF equity cost estimate.

**Q. HAVE YOU CONSTRUCTED A DCF ESTIMATE THAT INCORPORATES YOUR CONCERNS?**

A. Yes. I report my restatement of his DCF analysis in Rebuttal Table 12. In making this restatement, I rely on dividend yields of 3.7% made with the ACC Staff model. This estimate of dividend yields is conservative because it does not recognize the time value of money. For my restatement I have also dropped Mr. Parcell's incomplete estimates of retention growth because such estimates are about 2.0% smaller than conceptually-correct estimates of sustainable growth. Third, I have used an average of analysts' forecasts of growth reported by Zacks, Yahoo! Finance and Value Line instead of the limited data Mr. Parcell used. Once these changes are made, Mr. Parcell's indicated DCF equity cost increases to 11.6%.

**<u>Mr. Parcell's CAPM Analysis</u>**

**Q. HAVE YOU ALSO RESTATED MR. PARCELL'S CAPM ESTIMATE?**

A. Yes. In making my restatement, I have relied on the beta estimates reported by Value Line in April and adopted by Mr. Parcell in his testimony. I have, however, revised the market risk premium and risk-free rate of interest required in the CAPM model.

**Q. FOR PERSPECTIVE, HOW DOES THE STAFF NORMALLY IMPLEMENT THE CAPM?**

A. Staff performs two estimates of the cost of equity using the CAPM, one of which uses an historical market risk premium ("MRP") and the other using a current

MRP. Both estimates use the same beta (ß) which represents the riskiness of the investment relative to the market as a whole. Staff's beta is equal to the average beta of the six sample water utilities. For the risk-free rate of interest in its historical MRP CAPM estimate, Staff uses the average spot yields on intermediate-term Treasuries. For the risk-free rate of interest in its current MRP CAPM estimate, Staff uses the spot yield on long-term Treasuries. The date Staff selects for these spot yields corresponds to the dates selected for the sample companies' stock spot market prices and other financial market inputs.

**Q. HAS THE METHOD USED BY STAFF TO CALCULATE THE CURRENT MARKET RISK PREMIUM BEEN ADOPTED BY THE COMMISSION IN WATER AND WASTEWATER UTILITY RATE CASES?**

A. Yes. In Arizona Water's Western Group rate case, for example, the Commission adopted Staff's CAPM estimate, explaining:

> [W]hile interest rates have gone up, the cost of equity for the market as a whole as decreased, while the cost of equity for utilities has remained relatively stable. Staff states that while its witness in [Arizona Water's prior rate case] estimated an overall market risk premium at 13.1%, its current estimate is 7.8% ..., and this relative change in the risks of utilities as compared to the overall market is reflected in Staff's increased beta estimate, from 0.59 in the [prior case] to 0.68 in this case.[14]

A similar discussion appears in Decision No. 69164, which involved a request for rate increases by an Arizona wastewater utility.[15] In that case, Staff's cost of capital witness testified that changes in interest rates do not mean that the cost of equity will also change or even move in the same direction as interest rates.

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[14] Decision No. 68302 at 38.

[15] *Black Mountain Sewer Corp.*, Decision No. 69164 (Dec. 5, 2006).

Thus, "while interest rates increased between the filing of [the Staff witness'] direct and surrebuttal testimonies, from 3.3% to 4.7%, Staff's current MRP declined from 13.1% to 5.7%, thereby offsetting the interest rate increase (Tr. 719-722)."[16] The same phenomenon is present in this case: While Treasury yields have declined, the betas of the water utilities in the sample group and the market risk premium have remained high, resulting in a cost of equity of approximately 13%.

**Q. IS IT IMPORTANT TO CONSIDER THE CURRENT MARKET RISK PREMIUM IN ESTIMATING THE COST OF EQUITY?**

A. Yes. At present, the financial markets have been impacted by a downturn in the business cycle and other, related economic events, which have increased the general market risk associated with investment. This is evidenced by the fact that spreads between Treasury securities and Baa investment-grade commercial bonds are 80% higher than the average spread during the period 1990 to 2007 and the current yield on Baa investment grade utility bonds is higher today than during the last seven years.[17]

Given these circumstances, current market risk must be considered in estimating the cost of equity. The version of the CAPM that utilizes an estimate of the current MRP provides an unbiased means for doing so.

**Q. HOWEVER, YOU HAVE CRITICIZED STAFF'S METHOD OF ESTIMATING THE CURRENT MARKET RISK PREMIUM.**

A. That is true. But my criticisms have related to the manner in which Staff normally estimates the current MRP, which is quite volatile and unstable. I estimated the current MRP, as I did in Direct Table 15, Rebuttal Table 8 and in past testimony before this Commission, with methods that eliminate the sharp increases and decreases in the market risk premium that result from Staff's method. The point

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[16] Decision No. 69164 at 25.
[17] See Rebuttal Table 1 and Value Line *Selection & Opinion* (June 19, 2009).

is that current market conditions need to be considered in setting rates that will become effective later this year. Otherwise, the cost of equity is being estimated with historic data that fail to account for current market conditions and current capital costs.

**Q. HOW DOES MR. PARCELL DETERMINE THE MRP?**

A. Mr. Parcell determines the MRP as an average of three values. One is a 1978-2007 average of historic risk premiums of 6.45%. The other two are estimates of the long-term average MRP derived from data reported by Morningstar. The latter two are conceptually incorrect because both rely on differences in total returns and one is computed as a geometric annual average.

**Q. HAVE YOU PREVIOUSLY EXPLAINED WHY GEOMETRIC ANNUAL AVERAGES ARE INAPPROPRIATE?**

A. Yes. In Section IV, I explained why only arithmetic annual averages should be used to determine future risk premiums, future expected returns and future expected growth rates. Geometric annual averages do not, and as a consequence, they bias-downward appropriate estimates. Because Mr. Parcell uses a flawed concept, I give no weight to the estimate of the market risk premium of 3.9% reported at page 23 of his testimony and do not update it. In restating Mr. Parcell's testimony, I examine only the two market risk premiums which are not based on this flawed concept.

**Q. ARE THERE PROBLEMS WITH HIS OTHER LONG-TERM MARKET RISK PREMIUM ESTIMATES?**

A. Yes, both Mr. Parcell and Mr. Rigsby erroneously use total returns on Treasury securities in their risk premium calculations. This method also reduces that cost of equity estimate.

**Q. IS THIS METHOD CORRECT?**

A. No. The Morningstar, *Ibbotson SBBI 2009 Valuation Edition Yearbook*, at page 58 (attached at Tab 4), provides a helpful discussion of this issue. When a

Treasury security is used in the CAPM as the proxy for the risk-free rate of interest, the income return is the portion of the total return that results from the expected periodic cash flow, i.e., the bond coupon payment. The income return provides an unbiased estimate of the risk-less rate of return because an investor can hold the Treasury security to maturity and be entitled to the income return with no capital loss (or capital gain). Data for total returns reported by Morningstar, however, are derived by selling bonds before that maturity occurs and buying other bonds with the desired maturity to maintain a constant maturity portfolio. Such resulting positive or negative returns have nothing to do with the risk-free return expected at the time the Treasury security was purchased and thus are inconsistent with treating the Treasury security as a risk-free asset. Looking backward, and if costs of maintaining a constant maturity portfolio are ignored, total returns for Treasuries have turned out to be slightly higher than income returns. Thus, this choice by Mr. Parcell and Mr. Rigsby produces lower risk premiums than are conceptually correct. In making my restatements of their analyses, I have relied upon the conceptually correct income returns.

**Q. HOW DID YOU DETERMINE YOUR RESTATEMENT OF MR. PARCELL'S MARKET RISK PREMIUM?**

A. I determined my restatement of his MRP as an average of the long-term average of market risk premiums of 6.5% reported in Table 5-1 and Table 5-2 of Morningstar, *Ibbotson SBBI 2009 Valuation Yearbook* and an estimate of the recent market risk premium of 9.08% derived from current Treasury rates and data in Mr. Parcell's Schedule 6 and Schedule 9.

**Q. IS THE 6.5% AN UPDATE OF THE 7.1% MRP REPORTED BY MORNINGSTAR IN 2008?**

A. Yes.

**Q. HOW IS THE 9.08% MRP DERIVED?**

A. It is derived from data Mr. Parcell relied upon in Schedule 6 and 9 and his testimony at pages 26 where he states that when one forms an estimate of the current cost of equity, he/she should rely on two periods: 2002-2008 (the last business cycle) and 1992-2001 (the most recent complete business cycle). Initially, data for the two periods reported in Schedule 6 of Mr. Parcell's testimony are used to determine how risk premiums change as rates for 20-year Treasury rates change. Mr. Parcell's data indicate that as interest rates dropped by 155 basis points, risk premiums increased by 69 basis points. Mr. Parcell, however, has ignored that information even though he testifies that these two periods should be examined to determine current costs of equity.

I have used the relationship between changes in risk premiums and interest rates revealed in Mr. Parcell's Schedule 6 to determine an estimate of the current market risk premium. Combining the current 20-year Treasury rate of 4.67% with that information indicates the current market risk premium is 9.08%. The 1978-2007 average risk premium of 6.45% used by Mr. Parcell does not provide a useful estimate of the current market risk premium. See Rebuttal Table 13.

**Q. HOW DID YOU DETERMINE THE RISK-FREE RATE FOR YOUR RESTATEMENT OF MR. PARCELL'S CAPM ANALYSIS?**

A. Mr. Parcell adopts the 20-year Treasury rate in his analysis. In preparing this rebuttal, I also adopt it. This rate has increased since Mr. Parcell prepared his testimony. At this time, the 20-year Treasury rate is 4.67%. New rates for Arizona Water will not be set today, however, and thus it is appropriate to rely on expected Treasury yields for the future period when new rates will be in effect. I relied on an average of Blue Chip and Value Line's forecast of the future yield for long-term Treasury rates of 4.93% to update my equity cost estimates. The

4.93% is reported in Rebuttal Table 7. For my initial restatement of Mr. Parcell's analysis, however, I have used the current 20-year Treasury rate of 4.67%.

**Q. WHERE DO YOU REPORT YOUR INITIAL RESTATEMENT OF MR. PARCELL'S CAPM EQUITY COST ESTIMATE?**

A. It is reported in Rebuttal Table 14. The estimate in panel A is based on the current 20-year Treasury bond rate of 4.67%, the Value Line betas used by Mr. Parcell in his analysis, and a MRP of 7.79%. Based on those data, the CAPM equity costs range from 10.5% to 12.5% and have an average of 11.2%.

**Q. SHOULD THE CAPM ESTIMATE BE BASED ON THE CURRENT TREASURY BOND RATE?**

A. No. The CAPM estimate should be based on the long-term Treasury rate expected during the future period when the Company's new rates will be in effect. If that conceptually appropriate value for the RF were adopted, the indicated average CAPM equity cost estimate for the sample would be 11.5% and the indicated cost of equity for Arizona Water would be 12.0%. This calculation is shown in panel B of Rebuttal Table 14.

**<u>Mr. Parcell's Comparable Earnings Analysis</u>**

**Q. DO YOU HAVE A RESPONSE TO HIS COMPARABLE EARNINGS ROE ESTIMATE?**

A. Yes, I have four responses. First, the Commission has rejected the use of comparable earnings approaches in recent rate cases, including Arizona Water's most recent rate decision for its Western Group systems. In that case, the Commission rejected Arizona Water's risk premium estimate because it used authorized and realized rates of return, stating:

> In estimating its cost of equity, Arizona Water relied on a risk premium analysis methodology used by the [California] PUC staff, which uses comparisons to actual or authorized returns

on equity. This sort of "comparable earnings" analysis has long been discredited for several reasons. Market-based methods like the DCF model and the CAPM provide more reliable estimates of equity cost, because it is capital markets, not regulatory commissions that determine the cost of equity. Use of the risk premium analysis urged by the Company would circumvent the market forces that regulation attempts, as much as possible, to replicate. ... The risk premium analysis methodology erroneously assumes that accounting-based "actual" ROEs are equal to the cost of equity. [18]

Second, at page 24, Mr. Parcell states that the comparable earnings method provides a direct measure of the fair return because it is designed to measure returns expected to be earned on original cost book value of similar risk enterprises. While the Company in this case has chosen to use original cost as its measure of fair value rate base, in general, a measure of return on original cost will be unfair to Arizona utilities because fair value rate base is generally larger than original cost. Mr. Parcell apparently is unaware of regulatory requirements in Arizona that may or may not be appropriate in states that rely on original cost rate bases to determine rates for utilities. This Commission's rejection of cost of equity estimation techniques that rely on returns earned on utilities' book or accounting equity is also consistent with the fair value standard, which considers market values in setting rates rather historic, book investment in plant.

[18] Decision No. 68302 at 37-38. See also *Arizona-American Water Co.* , Decision No. 67093 (June 30, 2004) at 29 (rejecting the use of comparable earnings).

Third, at page 25, Mr. Parcell states that "It is possible to assess the degree to which a given level of return equates to the cost of capital "by" evaluating investor acceptance of [realized] returns by reference to the resulting market-to-book ratios.", But this is not the case. There are many reasons investors may bid up market prices for stocks above book values other than an expectation that a water utility will earn more than its cost of equity. Investors may expect a city or some other public entity to condemn all or part of a water utility and that the public entity will be required by the court to pay the utility the fair market value for it. Water utilities' assets typically have values based on reproduction costs that are well in excess of book value. I have testified on the values of water utility properties and electric utility properties in various court cases in California, Utah and Oregon. Based on my experience, in situations where only a portion of the utility is being condemned, valuations based on reproduction cost new less depreciation indicate utility property has a value well in excess of book value. Investors would be aware that courts may award potential condemnation values well in excess of book values even if the utility earns no more than its cost of equity.

**Q. ARE THERE OTHER REASONS MARKET-TO-BOOK RATIOS DO NOT PROVIDE AN INDICATION OF INVESTOR ACCEPTANCE OF PAST EARNED RETURNS ON EQUITY?**

A. Yes. Investors may anticipate a merger or acquisition that produces premium prices similar to those reported in Table 4 of my direct testimony, which have been well above book values. With such anticipated sale prices well above book values, a water utility would also be priced above book value even if the water utility made no more than its cost of equity. There are other reasons as well.[19]

[19] When John Thornton was a member of the Staff of the Oregon Public Utility Commission, he listed the following six reasons a market price could exceed book value even if the utility was expected to earn its Authorized ROE: (1) public utility commissions do not issue orders simultaneously in all jurisdictions, (2) not all of a company's earnings are regulated, (3) regulatory expenses, revenue and rate base

**Q. WHAT IS YOUR FOURTH RESPONSE?**

A. My fourth response is that to the extent any weight is to be given to the data in Mr. Parcell's schedules 9 and 10, those data indicate water utilities require higher returns than have been earned in the past. My Rebuttal Table 15 provides that demonstration. Panel A shows risk-free rates reported by Mr. Parcell in Schedule 6 for the two periods 2002-2007 and 1992-2001 shown at the bottom of Schedule 9, the earned ROEs Mr. Parcell reports for the S&P 500 in Schedule 9 for those periods, the indicated risk premium required by the index in those periods and the market-to-book ratios. Based on those data and my calculations in Rebuttal Table 13, the indicated risk premium for that market index was 8.27% in the 1992-2001 period, 8.96% in the 2002-2007 period and 9.08% when the 20-year Treasury rate is 4.67%.

At page 27, Mr. Parcell opines that "In order to apply these returns to the cost of equity for proxy utilities, however, it is necessary to compare the risk levels of the utility industry with those of the competitive sector". Panel B of Rebuttal Table 15 provides that comparison for two periods. During the period 1992-2007, assuming a 2005 beta of 0.68 (from Table 5 in my direct testimony) provides a reasonable proxy for beta risk, the average required ROE for the water utilities was 11.57% but the average of earned ROEs for those utilities was only 10.10%. Even with earnings below the required level, the average market-to-book ratio was 2.01. If the market-to-book ratio tells us anything, it suggests it would have been closer to 3.13 (the average for the market index) if the utilities had earned ROEs closer to the level required.

Panel B also provides a calculation of required average ROEs of 12.51% in the current period compared to an average of earned ROEs of 9.17%. Of special

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adjustments may cause accounting returns to differ from those calculated on a rate case basis, (4) actual sales do not equal sales assumed in a rate case, (5) market expected ROEs change frequently while rate case authorized ROEs do not, and (6) regulated subsidiaries constitute only a piece of a holding company pie. Testimony of John Thornton in Oregon Docket UM 903 (filed November 9, 1998).

note is that the data Mr. Parcell provides in schedules 6, 9 and 10 indicate the required ROE for the Staff water utilities sample is 12.3%, 230 basis points higher than the ROE he recommends.

And, to the extent that any weight is given to the market-to-book ratio and the difference between earned and required ROEs in this period, the difference between required ROEs and earned ROEs is larger than in the past and the market-to-book ratio is lower.

**Q. PLEASE SUMMARIZE YOUR RESTATEMENTS AND CORRECTIONS OF MR. PARCELL'S TESTIMONY.**

A. I present Rebuttal Tables 12, 13, 14 and 15 which respond to the three methods Mr. Parcell presents in support of his 10% ROE recommendation for the Company. My restatement indicates the cost of equity for the sample of six water utilities used by the Commission and Staff in past water and wastewater cases, falls in a range of 11.2% to 12.3%. The restated DCF estimate is 11.6%, the restated CAPM estimate averaged 11.2% based on current Treasury rates and 11.5% based on the conceptually correct rates expected in the future, and his comparable earnings approach indicates an appropriate ROE is 12.3%. Mr. Parcell does not incorporate a risk premium to reflect that Arizona Water is more risky than the sample utilities he uses to determine benchmark cost of equity estimates. If he had used the 50 basis point risk premium I recommended, the indicated cost of equity for the Company falls in a range of 11.7% to 12.8% and is consistent with my recommended ROE of 12.4%.

**<u>Other Responses to Mr. Parcell</u>**

**Q. AT PAGES 33 TO 38, MR. PARCELL CRITICIZES THE GROWTH RATES YOU ADOPTED IN YOUR DCF ANALYSES. DO YOU HAVE ANY RESPONSES?**

A. Yes, I have seven responses

(1) He ignored my testimony at pages 27-29 of my direct testimony in which I explained why it is reasonable to anticipate that investors expect higher growth in the future than has occurred in the past.

(2) He does not respond to the findings presented in the Gordon, Gordon and Gould article (cited at page 28 of my direct testimony) that analysts' forecasts provide the best forecasts for DCF calculations.

(3) At page 34, line 22, he mentions a 1998 article in which the author found analysts' forecasts of EPS growth were overly optimistic. I have two responses to this. First, it is easier for analysts to forecast EPS growth for utilities than stocks in general. Second, over the years I have made two studies that show claims like the one made by Mr. Parcell do not apply to utilities. The first study was a study of forecasted ROEs for gas distribution utilities during the period 1977 to 1998. *See* Rebuttal Table 16. In that study I found the actual realized real returns on equity were slightly higher—not lower—than the analysts had forecasted. The second study compared Value Line forecasts of br growth for electric utilities during the period 1982 to 2007. *See* Rebuttal Table 17. In that analysis I found that once the impact of errors in inflation forecasts was removed, Value Line's real forecasts of br growth were slightly lower than the br growth that actually occurred.

(4) I agree with his comments at page 34 of his testimony that there is a lot of information available to investors, but do not understand how that changes the logical conclusion that analysts also know about that information and take it into account when they prepare forecasts of EPS growth.

(5) At page 35 Mr. Parcell notes that analysts have done a poor job of forecasting profits during 2008 and 2009. I don't see his point. Historical data do not even attempt to predict future profits.

(6) He apparently agrees with me that analysts' forecasts of growth are conceptually correct. Since that is the case, it is appropriate to give such growth

rates the heaviest weight. Mr. Parcell, however, gives such conceptually correct growth rates only a 20% weight in his deliberations.

(7) At page 37 Mr. Parcell states that if historical growth is to be given any weight in a DCF analysis, growth in stock prices should be given no weight. Certainly Mr. Parcell is familiar with the fact that if the market to book ratio does not change, market prices are expected to grow at the same rate as book value and past growth in prices is simply a proxy for book value growth. His rejection of past stock price growth is in conflict with steady-state growth assumed with the constant growth DCF model and appears to be just one more convenient way to reduce his growth rate estimate to a level lower than what is expected by investors.

**Q. DO YOU HAVE ANY RESPONSES TO MR. PARCELL'S CRITICISM OF YOUR CAPM ANALYSIS?**

A. Yes. Risk-free rate: I disagree that the relevant risk free rate has dropped. Last year that rate was 4.90% and it is now 4.93%. Also, the current long-term Treasury rate is 4.67%, not the 3.83% rate Mr. Parcell adopted in his analysis.

Beta estimates: I agree with the fact that the average beta for the Staff sample is lower than when I prepared my direct testimony but any reasonable estimate of the market risk premium has increased which offsets the lower betas.

Market risk premium: I agree that the Morningstar estimate of the long-term average MRP has dropped from 7.1% to 6.5% and have used the updated value in my updated analysis. As discussed above, it is inappropriate to give any weight to geometric annual averages. The discussion in my testimony and the appendix from Dr. Morin's book (at Tab 3) explain why that is the case. Mr. Parcell's inclusion of geometric annual averages is apparently done to bias downward his cost of equity estimates. After the devastating fall in the stock market in recent months, it is reasonable for investors to expect higher than

average market risk premiums during the next several years. MRP estimates should incorporate that expectation.

**Q. AT PAGES 41 AND 42, MR. PARCELL ARGUES THAT ARIZONA WATER IS NOT MORE RISKY THAN THE ACC STAFF WATER UTILITIES SAMPLE. DO YOU HAVE A RESPONSE?**

A. Yes. Mr. Parcell argues that I have incorrectly compared Arizona Water's risks to the "total operations" of "larger water groups" (Parcell Dt. at 41-42). This argument erroneously assumes that Arizona Water is part of a "larger water group." While its common stock is owned by a parent, Arizona Water operates on a stand-alone basis. Thus, it is not part of larger "water group," in contrast, for example, to a utility like Arizona-American Water Company that is part of a much larger, integrated water system.

**Q. YOU MENTIONED ARIZONA-AMERICAN WATER COMPANY. HAS MR. PARCELL RECENTLY ADDRESSED THE RISK OF THAT WATER COMPANY IN CONNECTION WITH SETTING RATES?**

A. Yes. Mr. Parcell provided testimony on the cost of equity for the ACC Staff in Arizona-American Water Company's pending rate case, Docket Nos. W-01303A-08-0227 and SW-01303A-08-0227. In his surrebuttal testimony, dated March 3, 2009, at pages 5 to 6, Mr. Parcell criticized Arizona-American's cost of capital witness for focusing solely on risk resulting from the high percentage of debt in that company's capital structure and ignoring other firm-specific risks, including firm size. He argued that Arizona-American has lower risk because:

> [Arizona-American] is part of the AWW [American Water Works Company] system, and in fact substantially funded as an integral part of this system. AWW is the largest publicly-traded water system in the U.S. As a result, it generally faces lower risk than smaller water systems. In addition, the fact that AWW operates in a large number of states, with

> multiple divisions in many states, indicates that it has less risk than less diversified water systems.[20]

Arizona Water, in contrast, does not have operations in states other than Arizona. Arizona Water raises capital on its own and issues its own debt. Moreover, as other Company witnesses have testified, many of Arizona Water's systems are very small, with limited customers and high capital investment per customer. Mr. Garfield has provided a detailed discussion of the characteristics of Arizona Water's systems and other factors that increase its investment risk in his direct testimony at pages 27 to 33.

**Q. WHAT COST OF EQUITY DID MR. PARCELL PROPOSE FOR ARIZONA-AMERICAN WATER COMPANY?**

A. He proposed a cost of equity of 10% for that water company, just as he has in this case, even though based on his testimony in the Arizona-American Water Company case, Arizona Water is riskier and has a higher cost of equity.

**Q. MR. PARCELL CLAIMS THAT CONSIDERATION OF ARIZONA WATER'S BUSINESS RISKS WAS REJECTED BY THE COMMISION. HOW DO YOU RESPOND?**

A. Just because one or more past Commissioners in Arizona were not convinced that Arizona Water has greater risks than the Staff water utilities sample, does not mean such greater risks do not exist. Mr. Parcell has argued that the Commission should consider firm size, diversification and other firm-specific risks in his testimony in the Arizona-American Water Company case. Given that testimony, I assume he agrees that Arizona Water's firm-specific risks should be considered in this case. Obviously, it would be arbitrary and unfair to consider firm-specific risks in one case and ignore them in another case.

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[20] Surrebuttal Testimony of David C. Parcell, Docket Nos. W-01303A-08-0227 and SW-01303A-08-0227 (March 3, 2009) at 6.

As I explained in direct testimony (at pages 14 to 24), and as Mr. Garfield explained in his direct testimony, Arizona Water faces a number of risks that are not faced by the six publicly traded utilities in the ACC Staff sample. Investors would consider those risks in evaluating an investment in the Company. Therefore, those risks need to be taken into account in determining Arizona Water's cost of equity.

**Q. DO YOU HAVE ANY FINAL RESPONSE TO MR. PARCELL?**

A. Yes. At several places in his testimony, including page 30, Mr. Parcell makes the erroneous argument that the recession has depressed profits for most enterprises and thus the costs of equity for utilities have dropped. This conclusion flies in the face of obvious increases in DCF estimates of the cost of equity. As prices have dropped, dividend yields for water utilities have increased while forward-looking growth rates have stayed the same or are slightly higher. Even if one were to base a DCF estimate on historical data, all of those data, save data in 2008, are the same and thus there would be no basis to assume a drop in expected growth large enough to offset the increase in dividend yields.

At page 30, lines 11 to 17, Mr. Parcell also speculates that the measures the U. S. government has taken were designed to lower the cost of capital. Even if that were true, it does not mean the cost of equity is lower today than before the market turmoil began. Quantitative evidence provided by the DCF model shows water utilities have higher costs of equity today than last year. Thus, whatever measures have been enacted by government to offset increases in costs of capital have not been strong enough to bring down the cost of equity for water utilities to levels prevailing last year. The Commission said in Arizona Water's prior rate case that that capital costs are determined by the market, not

by regulators.[21] The results produced by the DCF, a market-based model, clearly show that the cost of equity has increased.

## VII. Additional Responses to Mr. Rigsby

### RUCO's DCF Analysis

**Q. PLEASE TURN TO YOUR COMMENTS ABOUT MR. RIGSBY'S DCF APPROACH. WHAT ARE YOUR PRIMARY CONCERNS WITH HIS APPROACH?**

A. I address four concerns. First, Mr. Rigsby used an inefficient sample of only three water utilities when useful data for three other water utilities normally included in the water utilities sample considered and approved by the Commission were available and should have been included in his analysis. I addressed this issue above.

Second, Mr. Rigsby fails to recognize the time value of money when he computed dividend yields.

Third, his estimates of "br" growth are subjective and understate projected br growth. His br growth rate estimates also fail to account for Value Line determining ROEs on year-end equity instead of average equity.

Fourth, in contrast to Mr. Parcell, Mr. Rigsby agrees that "vs" growth (external growth) and "br" growth (internal growth) should be recognized when determining sustainable growth rate estimates. However, he has not adopted estimates of "vs" growth investors would reasonably expect from water utilities.

**Q. SHOULD DIVIDEND YIELDS ADOPTED IN DCF ANALYSES RECOGNIZE THE TIME VALUE OF MONEY?**

A. Yes. I explained this point at page 26 of my direct testimony. Not recognizing the time value of money biases downward Mr. Rigsby's DCF cost of equity

[21] Decision No. 68302 at 38.

estimates by approximately 10 basis points. In my restatement of Mr. Rigsby's DCF approach, I make the proper calculation.

**Q. HOW DOES MR. RIGSBY DETERMINE ESTIMATES OF "BR" GROWTH?**

A. Mr. Rigsby considers historic and projected data from Value Line which he reports in Schedule WAR-5 and then makes subjective estimates of br growth for American States, California Water and Aqua America of 6.0%, 6.0% and 4.0%, respectively.

**Q. ARE THESE ESTIMATES OF BR GROWTH CONSISTENT WITH THE UNDERLYING VALUE LINE DATA HE CONSIDERED?**

A. No. Those estimates of br growth average 5.3%, but the underlying data reported by Value Line for the future period 2012- 2014 average 6.0%. Compare columns (a) and (b) in Rebuttal Table 18.

**Q. ARE THE DATA IN COLUMN (B) APPROPRIATE FOR A DCF ANALYSIS?**

A. No. Value Line computes ROEs from earnings divided by year-end equity when the appropriate denominator for a DCF growth rate calculation is average equity. After adjusting the estimates of br growth in column (b) with the Federal Energy Regulatory Commission ("FERC") formula to recognize the fact that Value Line computes ROEs on year-end equity, those "br" growth rates are 6.5%, 6.1% and 6.0%, respectively and average 6.2%. *See* Rebuttal Table 18, column (c).

**Q. HOW DO THE ESTIMATES OF BR GROWTH COMPARE TO THE ESTIMATES OF PROJECTED BR GROWTH YOU DETERMINED WITH YOUR UPDATE OF THE ACC STAFF MODEL?**

A. They are the same. These data are provided in Schedule TZ-4 in Tab 2.

**Q. TURN TO MR. RIGSBY'S ESTIMATE OF "VS" GROWTH. ARE THERE PROBLEMS WITH THE FORMULA HE USES TO COMPUTE "V"?**

A. Yes. In estimating the "v" in "vs" growth Mr. Rigsby has substituted his personal opinion for market data. He opines that ultimately, investors would expect stock prices for regulated utilities to drop to book value (Rigsby Dt. at 16). Thus,

instead of using the market prices to determine "v", Mr. Rigsby uses an average of the observed market-to-book ratio and a hypothetical market-to-book ratio of 1.0 to compute his estimate of "v" in "vs" growth. When the market-to-book ratio is 1.0, "v" is estimated to be zero and "vs" growth is also estimated to be zero. If one adopts the concept Mr. Rigsby espouses, it has the effect of assuming investors expect one-half as much "vs" growth as is revealed by market data. If markets are reasonably efficient, even if investors did expect movement of stock prices back to book values at some future time, market prices for utility stocks would already reflect potential movements back toward book values. Therefore, this adjustment is inappropriate and produces negatively biased estimate of growth.

**Q. SHOULD MARKET PRICES MOVE TOWARD BOOK VALUES IF A UTILITY'S AUTHORIZED RETURN IS EQUAL TO THE COST OF EQUITY?**

A. Not necessarily. I discuss this issue above and do not repeat that testimony again. Average market-to-book ratios for water utilities followed by AUS Utilities Reports have been above 1.0 since at least 1991.

**Q. DID YOU PREPARE A RESTATEMENT OF MR. RIGSBY'S DCF APPROACH?**

A. Yes. For this restatement, I relied upon the forward-looking estimates of "br" growth reported by Mr. Rigsby (but adjusted with the FERC formula (from Rebuttal Table 18)), my restatement of Mr. Rigsby's "vs" growth and Mr. Rigsby's dividend yields adjusted for the time value of money. Panel A of Rebuttal Table 19 shows that if sustainable growth is based on those dividend yields, adjusted "br" growth and the revised estimate of "vs" growth, the indicated cost of equity for his water utilities sample is 11.5%. Because Arizona Water is more risky, this analysis indicates the Company's cost of equity is at least 12.0%.

**Q. DID YOU PREPARE A SECOND DCF ANALYSIS BASED ON THE DATA REPORTED BY MR. RIGSBY?**

A. Yes. For this second analysis, I adopted the same dividend yields as in Panel A of Rebuttal Table 19, but adopted conceptually correct analysts' forecasts of growth reported by Zacks and included in Mr. Rigsby's Schedule WAR-6. This analysis indicates a benchmark cost of equity of 11.8% and an indicated cost of equity for Arizona Water of 12.3%. See Panel B of Rebuttal Schedule 19.

**RUCO'S CAPM Estimates**

**Q. DO YOU HAVE ANY PRELIMINARY COMMENTS ABOUT RUCO'S CAPM ESTIMATES?**

A. Yes. Even without any examination of how RUCO's CAPM results were derived, it is obvious Mr. Rigsby's estimates are too low to satisfy the attraction of capital standard. Mr. Rigsby's CAPM estimates range from 5.26% to 7.43%, and average only 6.28%.[22] By contrast, the yield on investment-grade utility bonds is currently 7.76%.[23] Likewise, the California Public Utilities Commission recently authorized California Water Service Company and Golden States Water Company (the primary subsidiary of American States Water) to borrow at an interest rate of 8.3%.[24] The results produced by RUCO's method are confiscatory because they are well below the cost of debt.

**Q. TURN TO YOUR COMMENTS ABOUT MR. RIGSBY'S CAPM ESTIMATES. HAS HE USED A CORRECT CONCEPT TO DETERMINE THE VALUE FOR RF?**

A. No. Mr. Rigsby uses a 5-year Treasury security rate in his CAPM approach. It is inappropriate to use either a short-term or intermediate-term Treasury security to determine the value for RF, the risk-free rate of return, for two reasons. First, intermediate-term Treasury rates understate the appropriate RF to use when analyzing long-lived assets such as common stocks. Morningstar (formerly

[22] Rigsby Dt., Sch. 1 at 3.
[23] Value Line Selection & Opinion (June 19, 2009).
[24] California Water Service, et al. (consolidated), Decision No. 09-05-019 (May 7, 2009).

Ibbotson Associates) explains that the appropriate choice for the zero-beta asset is a return that is no less than the expected return for long-term Treasury securities.

> The horizon of the chosen Treasury security should match the horizon of whatever is being valued. When valuing a business that is being treated as a going concern, the appropriate Treasury security should be that of a long-term Treasury bond. Note that the horizon is a function of the investment, not the investor. If the investor plans to hold a stock in a company for only five years, the yield on a five-year Treasury note would not be appropriate since the company will continue to exist beyond those five years. . . .
>
> Companies are entities that generally have no defined life span; when determining a company's value, it is important to use a long-term discount rate because the life of the company is assumed to be infinite.[25]

Second, shorter-term Treasury rates have been shown to understate the correct value for the "zero-beta" asset in the CAPM. The concepts underlying the CAPM require a risk-free return that has a zero beta (no correlation with market returns) that is the highest return for assets that have betas equal to zero. Empirical studies of CAPM show that rates for short-term and intermediate-term Treasury securities understate that risk-free return. At page 28, Mr. Rigsby notes Professor Sharpe was one of the scholars who developed the CAPM. In his book *Investments* (Prentice Hall, Third Edition, 1985, page 401), Professor

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[25] Morningstar, *Ibbotson SBBI 2009 Valuation Yearbook*, at 46, 57.

Sharpe advises readers that empirical analyses have shown the value for RF in the Sharpe-Lintner CAPM is significantly higher than short-term Treasury rates. The rate for long-term Treasury securities is simply a proxy for that RF. It is possible that long-term Treasury rates are lower than the return investors require for the zero-beta asset, but such returns are clearly a better proxy than intermediate-term rates.

**Q. DO YOU HAVE ANY CONCERNS WITH HIS CHOICE OF A VALUE FOR THE MARKET RISK PREMIUM?**

A. Yes. Mr. Rigsby relies on two flawed concepts to determine his market risk premiums. Those flawed concepts are the use of geometric annual average returns and the use of total returns for Treasury securities instead of conceptually correct income returns. Mr. Rigsby also relies solely on historic data, and does not consider current market risk. I discussed these issues above and will not repeat that discussion here. The MRP should be determined as an arithmetic annual average using long-term Treasury rates and, in this struggling stock market, should give weight to both long-term and current estimates of the MRP. I determined a reasonable value which recognizes these factors is a MRP of 8.5%. *See* Rebuttal Table 8.

**Q. HAVE YOU RESTATED RUCO'S CAPM APPROACH WITH THE AVERAGE BETA FOR MR. RIGSBY'S SAMPLE AND CORRECTED VALUES FOR RF AND THE MRP?**

A. Yes. I have restated Mr. Rigsby's CAPM equity cost with current and forecasted values of long-term Treasury rates as the measure of RF. The restatement indicates the cost of equity for his water utilities sample falls in a range of 11.6% to 11.9%, determined as follows:

$$\text{Equity cost} = RF + \beta \times MRP$$

Using current Treasury rates, the equity cost estimate is

$$11.6\% = 4.67\% + .82 \times 8.5\%,$$

and, using forecasted Treasury rates is

11.9% = 4.93% + .82 x 8.5%.

Recognizing Arizona Water is more risky than his water utilities sample, the indicated cost of equity for the Company falls in a range of 12.1% to 12.4%.

**Q. PLEASE SUMMARIZE YOUR RESTATEMENTS AND CORRECTIONS OF RUCO'S DCF AND CAPM ANALYSES.**

A. Mr. Rigsby presented RUCO's cost of equity testimony. Once his analyses are corrected and restated and a 50 basis point risk premium is allowed for the Company's above average risk, the range of DCF cost of equity estimates for his water utilities sample support the Company's cost of equity falling in a range of 11.5% to 11.9% and the indicated cost of equity for Arizona Water based on his CAPM approach falls in a range of 12.0% to 12.4%.

**Other Responses to Mr. Rigsby**

**Q. DO YOU HAVE A RESPONSE TO HIS COMMENTS ABOUT DIFFERENCES IN YOUR DCF ESTIMATES AND HIS?**

A. Yes. Mr. Rigsby states he believes the main reason for differences in our growth rate estimates is that I rely primarily on EPS forecasts and he relies on forecasts of future growth in EPS, DPS and BVPS. I do not agree. I discuss the differences in our approaches above. As I understand what he did, his focus was on determining estimates of br growth and vs growth, not forecasts of EPS, DPS and BVPS growth.

**Q. HOW ABOUT DIFFERENCES IN HIS CAPM APPROACH AND YOURS?**

A. One big difference is the choice of the security used to estimate the risk-free rate. Empirical tests of the CAPM have shown the simple CAPM which uses short-term Treasury rates as the risk-less rate of return are inadequate and that the CAPM actually requires a risk-less rate of return for a zero-beta asset that is higher. Professor Sharpe reports the results of CAPM tests by Fama and MacBeth ("Risk Return and Equilibrium: Empirical Tests", *Journal of Political*

*Economy,* (May/June 1973) pp. 607-636) in which Fama and MacBeth found the zero-beta asset return was 7.32% when short-term Treasury bill rates averaged 1.56%. Sharpe states "the difference was substantial and statistically significant".[26] The value for RF used by Mr. Rigsby of 1.87% is not very different from the rate for short-term Treasury securities at the time Fama and MacBeth made their study. Long-term Treasury rates are currently 4.67%, a value below the 7.32% found to be required by the zero-beta asset, but certainly provide a better proxy for RF than 1.87%. The quotation from Morningstar I provided above also explains why one should use a long-term Treasury return to determine required returns for an asset that has a long life. Utility stocks have lives longer than the time between rate cases.

Another important difference is Mr. Rigsby computed his market risk premium from conceptually incorrect data that relies on geometric annual averages as well as total returns for Treasury rates. I address those issues above and do not repeat that testimony here.

**Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?**

A. Yes.

---

[26] (William Sharpe, Third Edition of *Investments*, p. 401).

**Arizona Water Company**

**Rebuttal Table 1**

**Past and Current Spreads Between Treasury Rates and Rates for Baa Bonds and Aaa Bonds**

A. Past Actual Rates (1990 to 2007)[a/]

| Year | 30-Year Treasury Rates | Baa Rates | Baa Spread | Aaa Rates | Aaa Spread |
|---|---|---|---|---|---|
| 1990 | 8.61% | 10.36% | 1.75% | 9.32% | 0.71% |
| 1991 | 8.14% | 9.80% | 1.66% | 8.77% | 0.63% |
| 1992 | 7.67% | 8.98% | 1.31% | 8.14% | 0.47% |
| 1993 | 6.59% | 7.93% | 1.34% | 7.22% | 0.63% |
| 1994 | 7.37% | 8.63% | 1.26% | 7.97% | 0.60% |
| 1995 | 6.88% | 8.20% | 1.32% | 7.59% | 0.71% |
| 1996 | 6.71% | 8.05% | 1.34% | 7.37% | 0.66% |
| 1997 | 6.61% | 7.87% | 1.26% | 7.27% | 0.66% |
| 1998 | 5.58% | 7.22% | 1.64% | 6.53% | 0.95% |
| 1999 | 5.87% | 7.88% | 2.01% | 7.05% | 1.18% |
| 2000 | 5.94% | 8.37% | 2.43% | 7.62% | 1.68% |
| 2001 | 5.49% | 7.95% | 2.46% | 7.08% | 1.59% |
| 2002 | 5.42% | 7.80% | 2.38% | 6.49% | 1.07% |
| 2003 | 5.05% | 6.76% | 1.71% | 5.66% | 0.61% |
| 2004 | 5.12% | 6.39% | 1.27% | 5.63% | 0.51% |
| 2005 | 4.56% | 6.06% | 1.50% | 5.23% | 0.67% |
| 2006 | 4.91% | 6.48% | 1.57% | 5.59% | 0.68% |
| 2007 | 4.84% | 6.48% | 1.64% | 5.56% | 0.72% |
| Average | 6.19% | 7.85% | 1.66% | 7.01% | 0.82% |

B. Current Spread[b/]

| | Baa bonds | Aaa bonds |
|---|---|---|
| 30-Year Treasury | 4.69% | 4.69% |
| Bond rate | 7.67% | 5.81% |
| Spread | 2.98% | 1.12% |

Notes and Sources:

a/ Source is Federal Reserve or as implied by rates for 20-year Treasury bonds when 30-year bonds are not available.

b/ As reported by the Federal Reserve on June 15, 2009

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## Arizona Water Company

## Rebuttal Table 2: Update of Table 7

## Current Annualized Average Dividend Yields for Water Utilities Sample

| | | 3-Month Average $D_0/P_0$ | 12-Month Average $D_0/P_0$ |
|---|---|---|---|
| 1 | American States | 3.09% | 3.17% |
| 2 | Aqua America | 3.12% | 3.58% |
| 4 | California Water | 3.23% | 3.49% |
| 5 | Connecticut Water Service | 4.74% | 4.28% |
| 6 | Middlesex Water | 5.61% | 5.03% |
| 8 | SJW Corporation | 3.15% | 2.94% |
| | Average | 3.82% | 3.75% |

Notes and Source:

_a/ For periods ending in May 2009. Data recognize time value of money.

6/23/2009

## Arizona Water Company

### Rebuttal Table 3: Update of Table 9

### Analysts' Forecasts of Growth for DCF Model

| | | Zack's[a/] | First Call[a/] | Value Line[b/] | Average |
|---|---|---|---|---|---|
| 1 | American States | 7.0% | 4.0% | 9.5% | 6.8% |
| 2 | Aqua America | 7.7% | 7.5% | 10.0% | 8.4% |
| 3 | California Water | 7.6% | 7.5% | 9.0% | 8.0% |
| 4 | Connecticut Water Service | na | 15.0% | na | 15.0% |
| 5 | Middlesex Water | 7.0% | 8.0% | 8.0% | 7.7% |
| 6 | SJW Corporation | 15.0% | 10.0% | 12.5% | 12.5% |
| | Average of Reported Forecasts | | | | 9.1% |
| | Average without Connecticut Water Service[c/] | | | | 8.7% |

Notes and Sources:

a/ Reported on the Internet, June 18, 2009.

b/ As reported April 24, 2009. Data for firms in Small and Mid-Cap edition are data reported by Value Line.

c/ Connecticut Water Service not included in average used in direct testimony or rebuttal.

6/23/2009

## Arizona Water Company

### Rebuttal Table 4: Update of Table 10

### Coneptually Correct DCF Estimates for the Water Utilities Sample

| | | Analysts' Forecasts of Growth | |
|---|---|---|---|
| 3-month Current Yield | | 3.82% | a/ |
| Growth Rate | | 8.69% | b/ |
| Expected Yield | | 4.16% | c/ |
| ROE | | 12.8% | d/ |
| | | | |
| 12-month Current Yield | | 3.75% | a/ |
| Growth Rate | | 8.69% | b/ |
| Expected Yield | | 4.07% | c/ |
| ROE | | 12.8% | d/ |
| | | | |
| *Range of ROE Estimates for Benchmark Utilities* | 12.8% | to | 12.8% |
| *Adjust for AWC's Added Risks* | 13.3% | to | 13.3% |

Notes and Sources:

a/ From Rebuttal Table 2.

b/ Average of estimated growth rates from Rebuttal Table 3.

c/ Expected yield = $D_1/P_0 = D_0/P_0 * (1 + g)$

d/ ROE = $D_1/P_0 + g$

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**Arizona Water Company**

**Rebuttal Table 5: Update of Table 3**

**Comparison of Past and Future Estimates of Growth for the Water Utilites Sample**
**Periods Ending December 2008**

| | | 5-Year Growth As Estimated with 10-K Data | | | | |
|---|---|---|---|---|---|---|
| | | Price[a/] | BVPS[b/] | DPS[b/] | EPS[b/] | Average |
| 1 | American States Water | 6.6% | 5.2% | 2.5% | 17.3% | 9.7% |
| 2 | Aqua America | 6.6% | 8.0% | 8.5% | 4.5% | 6.3% |
| 3 | California Water Service | 12.3% | 6.2% | 0.8% | 10.2% | 9.6% |
| 4 | Connecticut Water Service | -3.0% | 3.2% | 1.3% | 7.4% | 2.5% |
| 5 | Middlesex Water | -3.0% | 6.5% | 1.6% | 8.2% | 3.9% |
| 6 | SJW Corporation | 18.7% | 8.8% | 6.0% | 10.8% | 12.8% |
| | Sample Average | 6.4% | 6.3% | 3.5% | 9.7% | 7.5% |

| | | 5-Year Growth As reported by Mr. Parcell | | | | |
|---|---|---|---|---|---|---|
| | | Price[a/] | BVPS[d/] | DPS[d/] | EPS[d/] | Average |
| 1 | American States Water | na | 5.1% | 2.6% | 14.7% | 9.9% |
| 2 | Aqua America | na | 7.9% | 7.8% | 5.1% | 6.5% |
| 3 | California Water Service | na | 6.1% | 0.9% | 9.4% | 7.8% |
| 4 | Connecticut Water Service | na | 3.2% | 1.2% | -0.7% | 1.2% |
| 5 | Middlesex Water | na | 6.2% | 1.5% | 7.9% | 7.0% |
| 6 | SJW Corporation | na | 9.0% | 5.8% | 3.5% | 6.2% |
| | Sample Average | na | 6.3% | 3.3% | 6.6% | 6.5% |

| | | Average Annual Changes in Last Ten Years | | | | |
|---|---|---|---|---|---|---|
| | | Price[a/] | BVPS[c/] | DPS[c/] | EPS[c/] | Average |
| 1 | American States Water | 7.0% | 4.5% | 1.8% | 7.8% | 6.4% |
| 2 | Aqua America | 9.5% | 9.4% | 7.2% | 6.4% | 8.4% |
| 3 | California Water Service | 5.1% | 4.6% | 0.9% | 5.2% | 5.0% |
| 4 | Connecticut Water Service | 3.9% | 4.0% | 1.2% | 5.4% | 4.4% |
| 5 | Middlesex Water | 4.5% | 4.3% | 2.0% | 3.9% | 4.2% |
| 6 | SJW Corporation | 17.3% | 6.3% | 5.3% | 10.0% | 11.2% |
| | Sample Average | 7.9% | 5.5% | 3.1% | 6.5% | 6.6% |

| | | Forecasted EPS Growth[e/] |
|---|---|---|
| 1 | American States Water | 6.8% |
| 2 | Aqua America | 8.4% |
| 3 | California Water Service | 8.0% |
| 4 | Connecticut Water Service | 15.0% |
| 5 | Middlesex Water | 7.7% |
| 6 | SJW Corporation | 12.5% |
| | Sample Average | 9.7% |

Notes and Sources:
a/ Average of changes in year-end prices ending in 2008.
b/ Derived from data in Annual Reports to Stockholders and 10-K Reports for period 2004-2008.
c/ Derived from data in Annual Reports to Stockholders and 10-K Reports for period 1999-2008.
d/ From Mr. Parcell's Schedule 5.

**Arizona Water Company**

**Rebuttal Table 6: Update of Table 11**

**DCF Estimates Based on Staff Approach: Growth Rate Gives Equal Weight to Past and Forecasted Growth**

| | | | | | | |
|---|---|---|---|---|---|---|
| | | Update of Past and Forecasted Growth | | | Average of Past 5-year and Forecasted Growth | |
| 3-month Current Yield | | 3.82% | a/ | | 3.82% | a/ |
| Growth Rate | | 7.86% | b/ | | 8.08% | b/ |
| Expected Yield | | 4.12% | c/ | | 4.13% | c/ |
| ROE | | 12.0% | d/ | | 12.2% | d/ |
| 12-month Current Yield | | 3.75% | a/ | | 3.75% | a/ |
| Growth Rate | | 7.86% | b/ | | 8.08% | b/ |
| Expected Yield | | 4.04% | c/ | | 4.05% | c/ |
| ROE | | 11.9% | d/ | | 12.1% | d/ |
| *Range of ROE Estimates for Benchmark Utilities* | 11.9% | to | 12.0% | 12.1% | to | 12.2% |
| *Adjust for AWC's Added Risks* | 12.4% | to | 12.5% | 12.6% | to | 12.7% |

Notes and Sources:

a/ From Rebuttal Table 2.

b/ Average of estimated growth rates from Rebuttal Tables 3 and 5.

c/ Expected yield = $D_1/P_0 = D_0/P_0 * (1 + g)$

d/ ROE = $D_1/P_0 + g$

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## Arizona Water Company

## Rebuttal Table 7: Update of Table 12

## Expected 30-Year Treasury Bond Rates

| | 2011 | 2012 | Average |
|---|---|---|---|
| Blue Chip Consensus Forecasts[a/] | 4.90% | 5.30% | 5.10% |
| Value Line[b/] | 4.50% | 5.00% | 4.75% |
| Average | | | 4.93% |

Sources and Notes:

a/ June 2009 Blue Chip consensus forecasts.

b/ Value Line Quarterly Forecasts, May 29, 2009.

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## Arizona Water Company

## Rebuttal Table 8: Update of Table 14

## Estimate of the Cost of Equity for Benchmark Water Utilites Based on Long-Horizon Average Market Risk Premium

Cost of Equity = RF + Beta x MRP

| | CAPM Estimate |
|---|---|
| Risk Free Rate-[a/] | 4.93% |
| Beta-[b/] | 0.84 |
| Market Risk Premium-[c/] | 8.5% |
| Cost of Equity for Water Utilities Sample = | 12.0% |
| Indicated Cost of Equity for AWC = | 12.5% |

Notes and Sources:

a/ From Rebuttal Table 7.

b/ From Value Line as of April 24, 2009.

c/ Update of long-horizon market risk preium reported by Morningstar Ibbotson SBBI, 2009 Valuation Yearbook, Table 5-1 adjusted to reflect iniital recovery of the stock market with a 13.6% risk premium

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## Arizona Water Company

## Rebuttal Table 9: Update of Table 14

## Estimate of the Cost of Equity for the Water Utilites Sample and Arizona Water Based on Recent Market Risk Premiums[c/]

Cost of Equity = RF + Beta x MRP

| | CAPM Estimate |
|---|---|
| Risk Free Rate[a/] | 4.93% |
| Beta[b/] | 0.84 |
| Market Risk Premium[c/] | 8.3% |
| Cost of Equity for Water Utilities Sample = | 11.9% |
| Indicated Cost of Equity for AWC = | 12.4% |

Notes and Sources:

a/ From Table 7.

b/ From Value Line as of April 24, 2009.

c/ Average of recent equity risk premiums implied by DCF analysis of the Value Industrial Composite from 1987 to 2009. See Rebuttal Table 10.

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**Arizona Water Company**

**Rebuttal Table 10**

**Determination of Average Risk Premiums Based on DCF Analyses of the Value Line Industrial Composite: 1987 to 2007**

| Study | Study Date | Dividend Yield | Sustainable growth | DCF Equity Cost | Long-term Treasury Lag 1 Mnth | Risk Premium |
|---|---|---|---|---|---|---|
| 1 | 2/87 | 3.00% | 9.39% | 12.39% | 7.39% | 5.00% |
| 2 | 2/88 | 3.10% | 9.93% | 13.03% | 8.83% | 4.20% |
| 3 | 7/88 | 3.50% | 7.77% | 11.27% | 9.00% | 2.27% |
| 4 | 2/89 | 3.50% | 7.77% | 11.27% | 8.93% | 2.34% |
| 5 | 2/90 | 3.20% | 7.77% | 10.97% | 8.26% | 2.71% |
| 6 | 1/91 | 3.70% | 9.93% | 13.63% | 8.24% | 5.39% |
| 7 | 2/92 | 2.80% | 9.39% | 12.19% | 7.58% | 4.61% |
| 8 | 2/93 | 2.90% | 8.31% | 11.21% | 7.34% | 3.87% |
| 9 | 2/94 | 3.00% | 8.31% | 11.31% | 6.39% | 4.92% |
| 10 | 2/95 | 2.70% | 9.93% | 12.63% | 7.97% | 4.66% |
| 11 | 3/96 | 2.70% | 10.48% | 13.18% | 6.03% | 7.15% |
| 12 | 2/97 | 2.40% | 12.13% | 14.53% | 6.91% | 7.62% |
| 13 | 1/98 | 1.50% | 14.92% | 16.42% | 6.07% | 10.35% |
| 14 | 1/99 | 1.30% | 16.05% | 17.35% | 5.36% | 11.99% |
| 15 | 2/00 | 0.80% | 16.05% | 16.85% | 6.86% | 9.99% |
| 16 | 7/00 | 1.00% | 14.92% | 15.92% | 6.28% | 9.64% |
| 17 | 2/01 | 1.20% | 13.79% | 14.99% | 5.65% | 9.34% |
| 18 | 7/01 | 1.20% | 12.13% | 13.33% | 5.82% | 7.51% |
| 19 | 1/02 | 1.20% | 12.13% | 13.33% | 5.76% | 7.57% |
| 20 | 8/02 | 1.60% | 12.68% | 14.28% | 5.51% | 8.77% |
| 21 | 1/03 | 1.60% | 12.13% | 13.73% | 5.01% | 8.72% |
| 22 | 7/03 | 1.50% | 11.57% | 13.07% | 4.34% | 8.73% |
| 23 | 3/04 | 1.60% | 12.13% | 13.73% | 4.94% | 8.79% |
| 24 | 10/04 | 1.80% | 11.57% | 13.37% | 4.89% | 8.48% |
| 25 | 4/05 | 1.90% | 11.57% | 13.47% | 4.89% | 8.58% |
| 26 | 11/05 | 2.10% | 12.68% | 14.78% | 4.74% | 10.04% |
| 27 | 5/06 | 2.10% | 12.68% | 14.78% | 5.22% | 9.56% |
| 28 | 11/06 | 2.20% | 15.48% | 17.68% | 4.94% | 12.74% |
| 29 | 5/07 | 2.50% | 14.92% | 17.42% | 4.87% | 12.55% |
| 30 | 11/07 | 1.60% | 15.48% | 17.08% | 4.77% | 12.31% |
| 31 | 5/08 | 1.80% | 17.76% | 19.56% | 4.44% | 15.12% |
| 32 | 11/08 | 2.80% | 15.48% | 18.28% | 4.17% | 14.11% |
| 33 | 5/09 | 2.80% | 15.48% | 18.28% | 3.76% | 14.52% |

Averages for:

| | |
|---|---|
| All years (1987-2009) | 8.3% |
| Last 15 years (1995-2009) | 10.0% |
| Last 10 years (2000-2009) | 10.4% |

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**Arizona Water Company**

**Rebuttal Table 11: Update of Table 16**

**Summary Table: Estimated Cost of Equity for Arizona Water Company**

| | Estimated Equity Costs for Benchmark Water Utilities Sample | | | Estimates of Equity Costs for Arizona Water[a/] | | |
|---|---|---|---|---|---|---|
| DCF Estimates | | | | | | |
| Update of Table 10 | 12.8% | to | 12.8% | 13.3% | to | 13.3% |
| Update of Table 11 | 11.9% | to | 12.2% | 12.4% | to | 12.7% |
| DCF Average | | 12.4% | | | 12.9% | |
| CAPM Estimates | | | | | | |
| Update of Table 13 | | 12.0% | | | 12.5% | |
| Update of Table 14 | | 11.9% | | | 12.4% | |
| CAPM Average | | 12.0% | | | 12.5% | |
| Range of Equity Cost Estimates | 11.9% | to | 12.4% | 12.4% | to | 12.9% |
| Average Cost of Equity Estimate[b/] | | 12.2% | | | 12.7% | |

Notes:

a/ Equity Cost estimates include a 50 basis point risk premium for AWC.

b/ Cost of Equity determined with Staff method of giving equal weight to DCF and CAPM estimates,

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**Arizona Water Company**

**Rebuttal Table 12: Restatement of Mr. Parcell's Schedule 5**
**Page 4 of 4 for the Staff Sample of 6 Water Utilties**

**PROXY WATER UTILITIES DCF COST RATES**

| COMPANY | ADJUSTED YIELD-a/ | HISTORIC RETENTION GROWTH | PROSPECTIVE RETENTION GROWTH | HISTORIC PER SHARE GROWTH-c/ | PROSPECTIVE PER SHARE GROWTH | PROJECTED EPS GROWTH | AVERAGE GROWTH | DCF RATES |
|---|---|---|---|---|---|---|---|---|
| American States Water Co. | 3.4% | -b/ | -b/ | 8.3% | 5.8% | 6.8% | 7.0% | 10.4% |
| Aqua America, Inc. | 3.2% | -b/ | -b/ | 7.0% | 6.7% | 8.4% | 7.3% | 10.6% |
| California Water Service Group | 3.3% | -b/ | -b/ | 5.7% | 4.8% | 8.0% | 6.2% | 9.5% |
| Connecticut Water Service, Inc. | 4.5% | -b/ | -b/ | 4.0% | | 15.0% | 9.5% | 14.0% |
| Middlesex Water | 5.1% | -b/ | -b/ | 5.4% | | 7.7% | 6.5% | 11.6% |
| SJW Corporation | 3.0% | -b/ | -b/ | 8.5% | | 12.5% | 10.5% | 13.5% |
| Mean | 3.7% | | | 6.5% | 5.8% | 9.7% | 7.8% | 11.6% |

Notes and Sources
a/ Source is update of Tab "DivYld WP" used to prepare the Staff COC schedules.
b/ Not included because Mr. Parcell failed to include estimate of vs growth.
c/ Corrected historical growth rates based on arithmetic annual average growth. Reported in Rebuttal Table 5.

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**Arizona Water Company**

**Rebuttal Table 13: Analysis and Restatement of Mr. Parcell's Schedule 6**

**STANDARD & POOR'S 500 COMPOSITE**
**20-YEAR U.S. TREASURY BOND YIELDS**
**RISK PREMIUMS** [a/]

| Year | EPS | BVPS | ROE | 20-YEAR T-BOND | RISK PREMIUM |
|---|---|---|---|---|---|
| 1977 | | $79.07 | | | |
| 1978 | $12.33 | $85.35 | 15.00% | 7.90% | 7.10% |
| 1979 | $14.86 | $94.27 | 16.55% | 8.86% | 7.69% |
| 1980 | $14.82 | $102.48 | 15.06% | 9.97% | 5.09% |
| 1981 | $15.36 | $109.43 | 14.50% | 11.55% | 2.95% |
| 1982 | $12.64 | $112.46 | 11.39% | 13.50% | -2.11% |
| 1983 | $14.03 | $116.93 | 12.23% | 10.38% | 1.85% |
| 1984 | $16.64 | $122.47 | 13.90% | 11.74% | 2.16% |
| 1985 | $14.61 | $125.20 | 11.80% | 11.25% | 0.55% |
| 1986 | $14.48 | $126.82 | 11.49% | 8.98% | 2.51% |
| 1987 | $17.50 | $134.04 | 13.42% | 7.92% | 5.50% |
| 1988 | $23.75 | $141.32 | 17.25% | 8.97% | 8.28% |
| 1989 | $22.87 | $147.26 | 15.85% | 8.81% | 7.04% |
| 1990 | $21.73 | $153.01 | 14.47% | 8.19% | 6.28% |
| 1991 | $16.29 | $158.85 | 10.45% | 8.22% | 2.23% |
| Most recent complete businsess cycle [b/] | | | | | |
| 1992 | $19.09 | $149.74 | 12.37% | 7.26% | 5.11% |
| 1993 | $21.89 | $180.88 | 13.24% | 7.17% | 6.07% |
| 1994 | $30.60 | $193.06 | 16.37% | 6.59% | 9.78% |
| 1995 | $33.96 | $215.51 | 16.62% | 7.60% | 9.02% |
| 1996 | $38.73 | $237.08 | 17.11% | 6.18% | 10.93% |
| 1997 | $39.72 | $249.52 | 16.33% | 6.64% | 9.69% |
| 1998 | $37.71 | $266.40 | 14.62% | 5.83% | 8.79% |
| 1999 | $48.17 | $290.68 | 17.29% | 5.57% | 11.72% |
| 2000 | $50.00 | $325.80 | 16.22% | 6.50% | 9.72% |
| 2001 | $24.69 | $338.37 | 7.43% | 5.53% | 1.90% |
| Last busines cycle [b/] | | | | | |
| 2002 | $27.59 | $321.72 | 8.36% | 5.59% | 2.77% |
| 2003 | $48.73 | $367.17 | 14.15% | 4.80% | 9.35% |
| 2004 | $58.55 | $414.75 | 14.98% | 5.02% | 9.96% |
| 2005 | $69.93 | $453.06 | 16.12% | 4.69% | 11.43% |
| 2006 | $81.51 | $504.39 | 17.03% | 4.68% | 12.35% |
| 2007 | $66.17 | $529.59 | 12.80% | 4.86% | 7.94% |
| 1978 - 2007 Average | | | 14.09% | 7.69% | 6.45% |
| 1992 - 2001 Average | | | 14.76% | 6.49% | 8.27% |
| 2002 - 2007 Average | | | 13.90% | 4.94% | 8.96% |
| Changes betwe last two busines cycles | | | -0.86% | -1.55% | 0.69% |
| Estimated slope = change in MRP/change in RF | | | | | -0.45 |
| **Current 20-year Treasury rate and Expected MRP** | | | | **4.67%** | **9.08%** |

Notes and Sources:
a/ Data from Mr. Parcell's schedule 6.
b/ As stated in Mr. Parcell's testimony at page 26, lines 1 to 2.
c/ Current 20-year Treasury rate reported by the Federal Reserve as of June 15, 2009.

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## Arizona Water Company

### Rebuttal Table 14: Update and Response to Mr. Parcell's Schedule 7
### CAPM Estimates for the ACC Staff Water Utilities Sample

| Panel A. | Current 20 Year RF[a/] | Beta[b/] | Average MRP[c/] | Equity Cost Estimate |
|---|---|---|---|---|
| American States Water Co. | 4.67% | 0.85 | 7.79% | 11.3% |
| Aqua America, Inc. | 4.67% | 0.75 | 7.79% | 10.5% |
| California Water Service Group | 4.67% | 0.85 | 7.79% | 11.3% |
| Connecticut Water Service, Inc. | 4.67% | 0.80 | 7.79% | 10.9% |
| Middlesex Water | 4.67% | 0.80 | 7.79% | 10.9% |
| SJW Corporation | 4.67% | 1.00 | 7.79% | 12.5% |
| Average | | | | **11.2%** |

| Panel B. | Expected 20-Year RF[d/] | Beta[b/] | Average MRP[c/] | Equity Cost Estimate |
|---|---|---|---|---|
| American States Water Co. | 4.93% | 0.85 | 7.79% | 11.5% |
| Aqua America, Inc. | 4.93% | 0.75 | 7.79% | 10.8% |
| California Water Service Group | 4.93% | 0.85 | 7.79% | 11.5% |
| Connecticut Water Service, Inc. | 4.93% | 0.80 | 7.79% | 11.2% |
| Middlesex Water | 4.93% | 0.80 | 7.79% | 11.2% |
| SJW Corporation | 4.93% | 1.00 | 7.79% | 12.7% |
| Average | | | | **11.5%** |

Notes and Sources:

a/ Current 20-year Treasury rate as reported by the Federal Reserve on June 15, 2009.

b/ As reported by Mr. Parcell in Schedule 7.

c/ Average of long-term average MRP reported by Morningstar in 2009 Valuation Yearbook of 6.5% and estimate of current MRP reported in Rebuttal Table 13.

d/ Source is Rebuttal Table 7.

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**Arizona Water Company**

**Rebuttal Table 15: Analysis and Response to Mr. Parcell's Comparable Earnings Analysis**

Panel A: Analysis of S&P Data

| Line | Period | Risk-free Rate[b/] | Earned ROE[c/] | Risk Premium for S&P 500 | Market to Book Ratio[c/] |
|---|---|---|---|---|---|
| 1 | 1992-2001 | 6.49% | 14.8% | 8.27% | 3.41 |
| 2 | 2002-2007 | 4.94% | 13.9% | 8.96% | 2.84 |
| 3 | Average (1992-2007) | 5.71% | 14.3% | 8.62% | 3.13 |
| 4 | Current RF and MRP[a/] | 4.67% | | 9.08% | |

Panel B: Analyis of Mr. Parcell's Samples

| | | Large Value Line Utilites Sample | AUS Utility Reports Sample | ACC Staff Water Utilties Sample |
|---|---|---|---|---|
| | Past Period (Averages for 1992 -2007) | | | |
| 4 | Beta (2005) | 0.68 | 0.68 | 0.68 |
| 5 | RF | 5.71% | 5.71% | 5.71% |
| 6 | MRP | 8.62% | 8.62% | 8.62% |
| 7 | Required ROE | 11.57% | 11.57% | 11.57% |
| 8 | Earned ROE | 9.5% | 10.2% | 10.6% |
| 9 | Market to book ratio | 1.99 | 2.00 | 2.04 |
| | Current Period | | | |
| 10 | Beta[d/] | 0.90 | 0.85 | 0.84 |
| 11 | RF[e/] | 4.67% | 4.67% | 4.67% |
| 12 | MRP[e/] | 9.08% | 9.08% | 9.08% |
| 14 | Current Required ROE | 12.85% | 12.39% | 12.30% |
| 13 | 2008 Earned ROE | 9.0% | 9.1% | 9.4% |
| 15 | 2008 Market to Book Ratio | 1.84 | 1.70 | 1.93 |

Notes and Sources:
a/ Source is Rebuttal Table 13.
b/ Mr. Parcell's Schedule 6.
c/ Mr. Parcell's Schedule 9.
d/ Mr. Parcell's Schedule 10, page 1 of 2.
e/ From line 4 of panel A.

**Arizona Water Company**

**Rebuttal Table 16**

**Examination of Bias in Real and Nominal Value Line ROE Forecasts for 8 Natural Gas Utilities**
**1977 to 1998**

| | | Nominal Returns | | | Inflation-c/ | | | Real Returns | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Date of Value Line Issue | Average Value Line Forecasted ROE (1977-1994) | Average Actual Earned ROE 4 Years Later (1981-1998) | Difference Between Forecasted and Actual Nominal ROEs | Expected Inflation | Actual Inflation | Difference Between Forecasted and Actual Inflation | Average Value Line Forecasted ROE (1977-1994) | Actual Earned ROE 4 Years Later (1981-1998) | Difference Between Forecasted and Actual Real ROEs |
| 1 | Oct-77 | 13.00% | 11.32% | 1.68% | 5.50% | 9.70% | -4.20% | 7.50% | 1.62% | 5.88% |
| 2 | Jan-79 | 12.81% | 11.91% | 0.90% | 5.50% | 3.90% | 1.60% | 7.31% | 8.01% | -0.70% |
| 3 | Oct-80 | 14.13% | 15.86% | -1.73% | 8.25% | 3.70% | 4.55% | 5.88% | 12.16% | -6.28% |
| 4 | Oct-81 | 15.06% | 13.81% | 1.25% | 7.50% | 3.20% | 4.30% | 7.56% | 10.61% | -3.05% |
| 5 | Oct-82 | 14.00% | 12.07% | 1.93% | 5.20% | 2.60% | 2.60% | 8.80% | 9.47% | -0.67% |
| 6 | Oct-83 | 13.94% | 12.28% | 1.66% | 5.00% | 3.00% | 2.00% | 8.94% | 9.28% | -0.34% |
| 7 | Oct-84 | 15.13% | 14.67% | 0.46% | 5.50% | 3.70% | 1.80% | 9.63% | 10.97% | -1.34% |
| 8 | Oct-85 | 15.56% | 13.12% | 2.44% | 4.50% | 4.20% | 0.30% | 11.06% | 8.92% | 2.14% |
| 9 | Oct-86 | 13.63% | 12.41% | 1.21% | 3.80% | 4.40% | -0.60% | 9.83% | 8.01% | 1.81% |
| 10 | Oct-87 | 13.19% | 11.62% | 1.56% | 4.50% | 4.00% | 0.50% | 8.69% | 7.62% | 1.06% |
| 11 | Oct-88 | 13.13% | 10.88% | 2.24% | 4.60% | 2.70% | 1.90% | 8.53% | 8.18% | 0.34% |
| 12 | Oct-89 | 13.50% | 12.58% | 0.92% | 4.60% | 2.60% | 2.00% | 8.90% | 9.98% | -1.08% |
| 13 | Oct-90 | 14.00% | 11.71% | 2.29% | 4.30% | 2.30% | 2.00% | 9.70% | 9.41% | 0.29% |
| 14 | Oct-91 | 14.13% | 11.34% | 2.78% | 3.70% | 2.50% | 1.20% | 10.43% | 8.84% | 1.58% |
| 15 | Oct-92 | 14.38% | 13.08% | 1.29% | 3.90% | 2.10% | 1.80% | 10.48% | 10.98% | -0.51% |
| 16 | Dec-93 | 12.56% | 12.62% | -0.06% | 2.40% | 2.00% | 0.40% | 10.16% | 10.62% | -0.46% |
| 17 | Dec-94 | 12.19% | 11.20% | 0.99% | 2.80% | 1.30% | 1.50% | 9.39% | 9.90% | -0.51% |
| | Average | 13.78% | 12.50% | 1.28% | 4.80% | 3.41% | 1.39% | | | -0.11% |

Notes and Source:
a/ Source of Study: Testimony of T. Zepp in Oregon PUC Docket UG-132, Exhibit UG-132/NWN/5000.
b/ ROEs are annual averages for 8 natural gas distribution companies for each year.
c/ Based on forecasted and realized values for the GNP deflator.

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**Arizona Water Company**

**Rebuttal Table 17**

**Comparison of Forecasted and Realized Value Line Forecasts of br-growth for Electric Utility (Central) Industry**
**1982 to 2007**

| | | | | Nominal - br growth[b/] | | | Consumer Price Index[a/] | | | Real - br growth | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Line | Year-end Date of Forecast | Future period | Future Mid-Year | Value Line Forecast of br Growth | Actual br Growth | Difference Between Forecasted and Actual | Forecast | Actual | Difference Between Forecasted and Actual | Forecast | Actual | Difference Between Forecasted and Actual |
| 1 | 1982 | 1985 -1987 | 1986 | 3.00% | 4.60% | -1.60% | 5.00% | 1.90% | 3.10% | -2.00% | 2.70% | -4.70% |
| 2 | 1983 | 1986 -1988 | 1987 | 4.00% | 4.40% | -0.40% | 5.30% | 3.70% | 1.60% | -1.30% | 0.70% | -2.00% |
| 3 | 1984 | 1987 -1989 | 1988 | 4.50% | 3.30% | 1.20% | 5.50% | 4.10% | 1.40% | -1.00% | -0.80% | -0.20% |
| 4 | 1985 | 1988 -1990 | 1989 | 5.00% | 2.90% | 2.10% | 5.00% | 4.80% | 0.20% | 0.00% | -1.90% | 1.90% |
| 5 | 1986 | 1989 -1991 | 1990 | 5.00% | 2.50% | 2.50% | 4.50% | 5.40% | -0.90% | 0.50% | -2.90% | 3.40% |
| 6 | 1987 | 1990 -1992 | 1991 | 4.70% | 2.40% | 2.30% | 5.00% | 4.20% | 0.80% | -0.30% | -1.80% | 1.50% |
| 7 | 1988 | 1991 -1993 | 1992 | 4.00% | 3.30% | 0.70% | 4.50% | 3.00% | 1.50% | -0.50% | 0.30% | -0.80% |
| 8 | 1989 | 1992 -1994 | 1993 | 3.70% | 2.90% | 0.80% | 4.90% | 3.00% | 1.90% | -1.20% | -0.10% | -1.10% |
| 9 | 1990 | 1993 -1995 | 1994 | 3.80% | 2.50% | 1.30% | 4.70% | 2.60% | 2.10% | -0.90% | -0.10% | -0.80% |
| 10 | 1991 | 1995 -1997 | 1996 | 3.70% | 3.00% | 0.70% | 4.50% | 2.90% | 1.60% | -0.80% | 0.10% | -0.90% |
| 11 | 1992 | 1995 -1997 | 1996 | 3.50% | 3.00% | 0.50% | 4.10% | 2.90% | 1.20% | -0.60% | 0.10% | -0.70% |
| 12 | 1993 | 1996 -1998 | 1997 | 3.10% | 2.60% | 0.50% | 3.40% | 2.30% | 1.10% | -0.30% | 0.30% | -0.60% |
| 13 | 1994 | 1997 -1999 | 1998 | 3.00% | 2.80% | 0.20% | 3.50% | 1.60% | 1.90% | -0.50% | 1.20% | -1.70% |
| 14 | 1995 | 1998 -2000 | 1999 | 3.20% | 4.20% | -1.00% | 3.30% | 2.20% | 1.10% | -0.10% | 2.00% | -2.10% |
| 15 | 1996 | 1999 -2001 | 2000 | 3.60% | 0.10% | 3.50% | 3.30% | 3.40% | -0.10% | 0.30% | -3.30% | 3.60% |
| 16 | 1997 | 2000 -2002 | 2001 | 4.00% | 5.40% | -1.40% | 2.80% | 2.80% | 0.00% | 1.20% | 2.60% | -1.40% |
| 17 | 1998 | 2001 -2003 | 2002 | 4.50% | 2.50% | 2.00% | 2.80% | 1.60% | 1.20% | 1.70% | 0.90% | 0.80% |
| 18 | 1999 | 2002 -2004 | 2003 | 5.20% | 4.80% | 0.40% | 2.80% | 2.30% | 0.50% | 2.40% | 2.50% | -0.10% |
| 19 | 2000 | 2003 -2005 | 2004 | 6.00% | 4.80% | 1.20% | 2.70% | 2.70% | 0.00% | 3.30% | 2.10% | 1.20% |
| 20 | 2001 | 2004 -2006 | 2005 | 6.00% | 4.90% | 1.10% | 2.80% | 3.40% | -0.60% | 3.20% | 1.50% | 1.70% |
| 21 | 2002 | 2005 -2007 | 2006 | 5.50% | 5.50% | 0.00% | 2.80% | 3.20% | -0.40% | 2.70% | 2.30% | 0.40% |
| 22 | 2003 | 2006 -2008 | 2007 | 5.50% | 5.50% | 0.00% | 2.50% | 2.90% | -0.40% | 3.00% | 2.60% | 0.40% |
| | | Column average | | 4.30% | 3.54% | 0.75% | 3.90% | 3.04% | 0.85% | 0.40% | 0.50% | -0.10% |

Notes and Sources:

a/ Forecasted and actual Consumer Price Index values which were correlated with Value Line estimates for the Electric Utility (Central) Industry.

b/ Acutal br-growth and forecasted br-growth as reported by Value Line in various year-end issues of Issue 5, Ratings & Reports for the Electric Utility (Central) Industry.

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## Arizona Water Company

### Rebuttal Table 18: Analysis of Mr. Rigsby's br and vs Growth Rates

| | br Growth | [A] Adopted by Mr. Rigsby | [B] Calculated by Mr. Rigsby in Work Papers[a/] | [C] Calculated br Growth Adjusted with FERC Formula[b/] |
|---|---|---|---|---|
| 1 | American States Water Co. | 6.0% | 6.4% | 6.5% |
| 2 | California Water Service Group | 6.0% | 5.9% | 6.1% |
| 3 | Aqua America, Inc. | 4.0% | 5.8% | 6.0% |
| 4 | Average | 5.3% | 6.0% | 6.2% |

| | vs Growth | Adopted by Mr. Rigsby | Calculated vs with Formula[c/] used by Gordon |
|---|---|---|---|
| 5 | American States Water Co. | 1.81% | 3.61% |
| 6 | California Water Service Group | 0.63% | 1.27% |
| 7 | Aqua America, Inc. | 0.30% | 0.60% |
| 8 | Average | 0.91% | 1.83% |

| | br + vs Growth | Adopted by Mr. Rigsby | Revised and Corrected br + vs Growth |
|---|---|---|---|
| 9 | American States Water Co. | 7.81% | 10.16% |
| 10 | California Water Service Group | 6.63% | 7.37% |
| 11 | Aqua America, Inc. | 4.30% | 6.56% |
| 12 | Average | 6.25% | 8.03% |

Notes and Sources:

a/ From Mr. Rigsby's electronic work paper titled "AWC Utilities C-sched Water Sample".

b/ FERC formula adjusts br growth estimates to reflect Value Line reporting ROEs calculated with year-end equity.

c/ Gordon formula computes "v" from current market prices.

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**Arizona Water Company**

**Rebuttal Table 19**

**Revisons and Corrections of RUCO's DCF Analysis[a/]**
**Docket No. W-01445A-08-0440**

Panel A. Revise and Correct RUCO br + vs growth

| COMPANY | Corrected Dividend Yield[b/] ($D_0/P_0$) | DCF Dividend Yield[c/] ($D_1/P_0$) | Corrected BR + VS Growth Rate[b/] | DCF Cost of Equity Capital |
|---|---|---|---|---|
| AWR | 3.12% | 3.44% | 10.16% | 13.59% |
| CWT | 3.33% | 3.58% | 7.37% | 10.95% |
| WTR | 3.13% | 3.34% | 6.56% | 9.90% |
| | | | WATER COMPANY AVERAGE: | **11.5%** |
| | | | RECOGNIZE AWC'S REQUIRED RISK PREMIUM | **12.0%** |

Panel B. Adopt forward-looking forecasts published by Zacks[a/]

| COMPANY | Corrected Dividend Yield[b/] ($D_0/P_0$) | DCF Dividend Yield[c/] ($D_1/P_0$) | Zacks Growth Rates[a/] | DCF Cost of Equity Capital |
|---|---|---|---|---|
| AWR | 3.12% | 3.39% | 8.70% | 12.09% |
| CWT | 3.33% | 3.60% | 8.00% | 11.60% |
| WTR | 3.13% | 3.39% | 8.30% | 11.69% |
| | | | WATER COMPANY AVERAGE: | **11.8%** |
| | | | RECOGNIZE AWC'S REQUIRED RISK PREMIUM | **12.3%** |

Notes and Sources:
a/ Data taken from RUCO's electronic work paper.
b/ Mr. Rigsby's dividend yields increased to reflect the time value of money.
c/ RUCO failed to use conceptually correct dividend growth in first year.

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Arizona Water Company
Final Cost of Equity Estimates
Sample Water Utilities

| [A] | [B] | | [C] | | [D] | | [E] |
|---|---|---|---|---|---|---|---|
| **DCF Method** | | | $D_1/P_0$ [1] | + | $g$ [2] | = | k |
| Constant Growth DCF Estimate | | | 3.7% | + | 5.6% | = | 9.3% |
| Multi-Stage DCF Estimate | | | | | | = | 10.3% |
| **Average of DCF Estimates** | | | | | | | **9.8%** |
| **CAPM Method** | Rf | + | $\beta$ [5] | x | (Rp) | = | k |
| Historical Market Risk Premium[3] | 3.3% | + | 0.84 | x | 7.0% [6] | = | 9.1% |
| Current Market Risk Premium[4] | 4.6% | + | 0.84 | x | 13.6% [7] | = | 16.1% |
| **Average of CAPM Estimates** | | | | | | | **12.6%** |
| | | | | | **Average** | | **11.2%** |
| | | | | | Financial risk adjustment | | 0.0% |
| | | | | | **Total** | | **11.2%** |

1 MSN Money and Value Line

2 Schedule TZ-6

3 Risk-free rate (Rf) for 5, 7, and 10 year Treasury rates from the U.S. Treasury Department at www.ustreas.gov 06/16/2009

4 Risk-free rate (Rf) for 30 Year Treasury bond rate from the U.S. Treasury Department at www.ustreas.gov 06/16/2009

5 Value Line

6 Historical Market Risk Premium (Rp) from Ibbotson Associates SBBI 2009 Yearbook, Table 5-1.

7 Value Line Investment Survey June 19, 2009

Arizona Water Company
Average Capital Structure of Sample Water Utilities

| [A] | [B] | [C] | [D] |
|---|---|---|---|
| Company | Debt | Common Equity | Total |
| American States Water | 45.6% | 54.4% | 100.0% |
| California Water | 41.4% | 58.6% | 100.0% |
| Aqua America | 53.6% | 46.4% | 100.0% |
| Connecticut Water | 46.4% | 53.6% | 100.0% |
| Middlesex Water | 45.0% | 55.0% | 100.0% |
| SJW Corp | 46.4% | 53.6% | 100.0% |
| Average Sample Water Utilities | **46.4%** | **53.6%** | **100.0%** |
| Arizona Water Company | **50.0%** | **50.0%** | **100.0%** |

**Source:**
**Sample Water Companies from Value Line**

Arizona Water Company
Growth in Earnings and Dividends
Sample Water Utilities

| [A] | [B] | [C] | [D] | [E] |
|---|---|---|---|---|
| Company | Dividends Per Share 1998-2008 DPS[1] | Dividends Per Share Projected DPS[1] | Earnings Per Share 1998-2008 EPS[1] | Earnings Per Share Projected EPS[1] |
| American States Water | 1.8% | 5.1% | 3.7% | 10.9% |
| California Water | 0.9% | 2.8% | 2.7% | 6.9% |
| Aqua America | 7.0% | 4.0% | 6.2% | 11.4% |
| Connecticut Water | 1.2% | No Projection | 0.8% | No Projection |
| Middlesex Water | 1.9% | No Projection | 2.3% | No Projection |
| SJW Corp | 5.2% | No Projection | 3.6% | No Projection |
| Average Sample Water Utilities | **3.0%** | **3.9%** | **3.2%** | **9.7%** |

1 Value Line

Arizona Water Company
Sustainable Growth
Sample Water Utilities

| [A] | [B] | [C] | [D] | [E] | [F] |
|---|---|---|---|---|---|
| Company | Retention Growth **1998 to 2007** br | Retention Growth Projected br | Stock Financing Growth vs | Sustainable Growth **1998 to 2007** br + vs | Sustainable Growth Projected br + vs |
| American States Water | 2.9% | 6.5% | 1.3% | 4.2% | 7.8% |
| California Water | 1.9% | 6.1% | 3.9% | 5.9% | 10.0% |
| Aqua America | 4.3% | 6.0% | 3.7% | 8.1% | 9.7% |
| Connecticut Water | 2.5% | No Projection | 1.0% | 3.5% | No Projection |
| Middlesex Water | 1.3% | No Projection | 1.8% | 3.1% | No Projection |
| SJW Corp | 4.2% | No Projection | 0.1% | 4.3% | No Projection |
| Average Sample Water Utilities | **2.9%** | **6.2%** | **2.0%** | **4.8%** | **9.2%** |

**[B]: Value Line**
**[C]: Value Line**
**[D]: Value Line and MSN Money**
**[E]: [B]+[D]**
**[F]: [C]+[D]**

Arizona Water Company
Selected Financial Data of Sample Water Utilities

| [A] | [B] | [C] | [D] | [E] | [F] | [G] |
|---|---|---|---|---|---|---|
| Company | Symbol | Spot Price 6/16/2009 | Book Value | Mkt To Book | *Value Line* Beta $\beta$ | Raw Beta $\beta raw$ |
| American States Water | AWR | **32.59** | 18.30 | 1.8 | **0.85** | 0.75 |
| California Water | CWT | **35.36** | 19.95 | 1.8 | **0.85** | 0.75 |
| Aqua America | WTR | **16.79** | 8.17 | 2.1 | **0.75** | 0.60 |
| Connecticut Water | CTWS | **20.65** | 12.77 | 1.6 | **0.80** | 0.67 |
| Middlesex Water | MSEX | **13.77** | 10.76 | 1.3 | **0.80** | 0.67 |
| SJW Corp | SJW | **21.99** | 14.09 | 1.6 | **1.00** | 0.97 |
| Average | | | | **1.7** | **0.84** | **0.73** |

[C]: Msn Money

[D]: Value Line

[E]: [C] / [D]

[F]: Value Line April 24, 2009

[G]: (-0.35 + [F]) / 0.67

Arizona Water Company
Calculation of Expected Infinite Annual Growth in Dividends
Sample Water Utilities

| [A] | [B] |
|---|---|
| Description | g |
| DPS Growth - Historical[1] | 3.0% |
| DPS Growth - Projected[1] | 3.9% |
| EPS Growth - Historical[1] | 3.2% |
| EPS Growth - Projected[1] | 9.7% |
| Sustainable Growth - Historical[2] | 4.8% |
| Sustainable Growth - Projected[2] | 9.2% |
| Average | **5.6%** |

1 Schedule TZ-3

2 Schedule TZ-4

Arizona Water Company
Multi-Stage DCF Estimates
Sample Water Utilities

| [A] | [B] | [C] | [D] | [E] | [F] | [H] | [I] |
|---|---|---|---|---|---|---|---|
| Company | Current Mkt. Price ($P_o$)[1] 6/16/2009 | Projected Dividends[2] (Stage 1 growth) ($D_t$) $d_1$ | $d_2$ | $d_3$ | $d_4$ | Stage 2 growth[3] ($g_n$) | Equity Cost Estimate ($K$)[4] |
| American States Water | **32.6** | 1.10 | 1.17 | 1.23 | 1.30 | 6.7% | 10.0% |
| California Water | **35.4** | 1.18 | 1.25 | 1.32 | 1.39 | 6.7% | 9.9% |
| Aqua America | **16.8** | 0.54 | 0.57 | 0.60 | 0.64 | 6.7% | 9.8% |
| Connecticut Water | **20.7** | 0.93 | 0.98 | 1.04 | 1.10 | 6.7% | 11.1% |
| Middlesex Water | **13.8** | 0.70 | 0.74 | 0.78 | 0.83 | 6.7% | 11.6% |
| SJW Corp | **22.0** | 0.65 | 0.69 | 0.73 | 0.77 | 6.7% | 9.6% |
| | | | | | | Average | **10.3%** |

$$P_0 = \sum_{t=1}^{n} \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K-g_n}\left[\frac{1}{(1+K)}\right]^n$$

Where : $P_0$ = current stock price
$D_t$ = dividends expected during stage 1
$K$ = cost of equity
$n$ = years of non – constant growth
$D_n$ = dividend expected in year n
$g_n$ = constant rate of growth expected after year n

1 [B] see Schedule TZ-5
2 Derived from Value Line Information
3 Average annual growth in GDP 1929 - 2008 in current dollars.
4 Internal Rate of Return of Projected Dividends

3 http://www.bea.doc.gov/

# NEW

# REGULATORY

# FINANCE

**Roger A. Morin, PhD**

**2006**
**PUBLIC UTILITIES REPORTS, INC.**
**Vienna, Virginia**

# Appendix 4-A
# Arithmetic versus Geometric Means in Estimating the Cost of Capital

The use of the arithmetic mean appears counter-intuitive at first glance, because we commonly use the geometric mean return to measure the average annual achieved return over some time period. For example, the long-term performance of a portfolio is frequently assessed using the geometric mean return.

But performance appraisal is one thing, and cost of capital estimation is another matter entirely. In estimating the cost of capital, the goal is to obtain the rate of return that investors expect, that is, a target rate of return. On average, investors expect to achieve their target return. This target expected return is in effect an arithmetic average. The achieved or retrospective return is the geometric average. In statistical parlance, the arithmetic average is the unbiased measure of the expected value of repeated observations of a random variable, not the geometric mean. This appendix formally illustrates that only arithmetic averages can be used as estimates of cost of capital, and that the geometric mean is not an appropriate measure of cost of capital.

The geometric mean answers the question of what constant return you would have had to achieve in each year to have your investment growth match the return achieved by the stock market. The arithmetic mean answers the question of what growth rate is the best estimate of the future amount of money that will be produced by continually reinvesting in the stock market. It is the rate of return which, compounded over multiple periods, gives the mean of the probability distribution of ending wealth.

While the geometric mean is the best estimate of performance over a long period of time, this does not contradict the statement that the arithmetic mean compounded over the number of years that an investment is held provides the best estimate of the ending wealth value of the investment. The reason is that an investment with uncertain returns will have a higher ending wealth value than an investment which simply earns (with certainty) its compound or geometric rate of return every year. In other words, more money, or terminal wealth, is gained by the occurrence of higher than expected returns than is lost by lower than expected returns.

In capital markets, where returns are a probability distribution, the answer that takes account of uncertainty, the arithmetic mean, is the correct one for estimating discount rates and the cost of capital.

While the geometric mean is appropriate when measuring performance over a long time period, it is incorrect when estimating a risk premium to compute the cost of capital.

**TABLE 4A-1**
**GEOMETRIC VS. ARITHMETIC RETURNS**

| | Stock A | Stock B |
|---|---|---|
| 1996 | 50.0% | 11.61% |
| 1997 | −54.7% | 11.61% |
| 1998 | 98.5% | 11.61% |
| 1999 | 42.2% | 11.61% |
| 2000 | −32.3% | 11.61% |
| 2001 | −39.2% | 11.61% |
| 2002 | 153.2% | 11.61% |
| 2003 | −10.0% | 11.61% |
| 2004 | 38.9% | 11.61% |
| 2005 | 20.0% | 11.61% |
| Standard Deviation | 64.9% | 0.0% |
| Arithmetic Mean | 26.7% | 11.6% |
| Geometric Mean | 11.6% | 11.6% |

## Theory

The geometric mean measures the magnitude of the returns, as the investor starts with one portfolio and ends with another. It does not measure the variability of the journey, as does the arithmetic mean. The geometric mean is backward looking. There is no difference in the geometric mean of two stocks or portfolios, one of which is highly volatile and the other of which is absolutely stable. The arithmetic mean, on the other hand, is forward-looking in that it does impound the volatility of the stocks.

To illustrate, Table 4A-1 shows the historical returns of two stocks, the first one is highly volatile with a standard deviation of returns of 65% while the second one has a zero standard deviation. It makes no sense intuitively that the geometric mean is the correct measure of return, one that implies that both stocks are equally risky since they have the same geometric mean. No rational investor would consider the first stock equally as risky as the second stock. Every financial model to calculate the cost of capital recognizes that investors are risk-averse and avoid risk unless they are adequately compensated for undertaking it. It is more consistent to use the mean that fully impounds risk (arithmetic mean) than the one from which risk has been removed (geometric mean). In short, the arithmetic mean recognizes the uncertainty in the stock market while the geometric mean removes the uncertainty by smoothing over annual differences.

## Empirical Evidence

If both the geometric and arithmetic mean returns over the 1926–2004 data are regressed against the standard deviation of returns for the firms in the

deciles, the arithmetic mean outperforms the geometric mean in this statistical regression. Moreover, the constant of arithmetic mean regression matches the average Treasury bond rate and therefore makes economic sense while the constant for the geometric mean matches nothing in particular. This is simply because the geometric mean is stripped of volatility information and, as a result, does a poor job of forecasting returns based on volatility.

The following illustration is frequently invoked in defense of the geometric mean. Suppose that a stock's performance over a two-year period is representative of the probability distribution, doubling in one year ($r_1 = 100\%$) and halving in the next ($r_2 = -50\%$). The stock's price ends up exactly where it started, and the geometric average annual return over the two-year period, $r_g$, is zero:

$$
\begin{aligned}
1 + r_g &= [(1 + r_1)(1 + r_2)]^{1/2} \\
&= [(1 + 1)(1 - .50)]^{1/2} = 1 \\
r_g &= 0
\end{aligned}
$$

confirming that a zero year-by-year return would have replicated the total return earned on the stock. The expected annual future rate of return on the stock is not zero, however. It is the arithmetic average of 100% and −50%, $(100 - 50)/2 = 25\%$. There are two equally likely outcomes per dollar invested: either a gain of \$1 when $r = 100\%$ or a loss of \$0.50 when $r = -50\%$. The expected profit is $(\$1 - \$.50)/2 = \$.25$ for a 25% expected rate of return. The profit in the good year more than offsets the loss in the bad year, despite the fact that the geometric return is zero. The arithmetic average return thus provides the best guide to expected future returns.

## What Academics Have to Say

Bodie, Kane, and Marcus (2005) cite:

> Which is the superior measure of investment performance, the arithmetic average or the geometric average? The geometric average has considerable appeal because it represents the constant rate of return we would have needed to earn in each year to match actual performance over some past investment period. It is an excellent measure of *past* performance. However, if our focus is on future performance, then the arithmetic average is the statistic of interest because it is an unbiased estimate of the portfolio's expected future return (assuming, of course, that the expected return does not change over time). In contrast, because the geometric return over a sample period is always less than the arithmetic mean,

> it constitutes a downward-biased estimator of the stock's expected return in any future year.
>
> Again, the arithmetic average is the better guide to future performance.

Another way of stating the Bodie, Kane, Marcus argument in favor of the arithmetic mean is that it is the best estimate of the future value of the return distribution because it represents the expected value of the distribution. It is most useful for determining the central tendency of a distribution at a particular time, that is, for cross-sectional analysis. The geometric mean, on the other hand, is best suited for measuring an investment's compound rate of return over time, that is, for time-series analysis. This is the same argument made by Ibbotson Associates (2005) where it is shown, using probability theory, that future terminal wealth is given by compounding the arithmetic mean, and not the geometric mean. In other words, if we accept the past as prologue, the best estimate of a future year's return based on a random distribution of the prior years' returns is the arithmetic average. Statistically, it is our best guess for the holding-period return in a given year.

Brigham and Ehrhardt (2005) in their widely used corporate finance text point out that the arithmetic average is more consistent with CAPM theory, as one of its key underpinning assumptions is that investors are supposed to focus, in their portfolio decisions, upon returns in the next period and the standard deviation of this return. To the extent that this next period is one year, the preference for the arithmetic mean, which derives from a set of single one year period returns, follows. It is also noteworthy that one of the crucial assumptions inherent in the CAPM is that investors are single-period expected utility of terminal wealth maximizers who choose among alternative portfolios on the basis of each portfolio's expected return and standard deviation.

Brealey, Myers, and Allen (2006) in their leading graduate textbook in corporate finance opt strongly for the arithmetic mean. The authors illustrate the distinction between arithmetic and geometric averages and conclude that arithmetic averages are appropriate when estimating the cost of capital:

> The proper uses of arithmetic and compound rates of return from past investments are often misunderstood. Therefore, we call a brief time-out for a clarifying example.
>
> Suppose that the price of Big Oil's common stock is \$100. There is an equal chance that at the end of the year the stock will be worth \$90, \$110, or \$130. Therefore, the return could be $-10$ percent, $+10$ percent or $+30$ percent (we assume that Big Oil does not pay a dividend). The expected return is $1/3(-10+10+30) = +10$ percent.

If we run the process in reverse and discount the expected cash flow by the expected rate of return, we obtain the value of Big Oil's stock:

$$PV = \frac{110}{1.10} = \$100$$

The expected return of 10 percent is therefore the correct rate at which to discount the expected cash flow from Big Oil's stock. It is also the opportunity cost of capital for investments which have the same degree of risk as Big Oil.

Now suppose that we observe the returns on Big Oil stock over a large number of years. If the odds are unchanged, the return will be −10 percent in a third of the years, +10 percent in a further third, and +30 percent in the remaining years. The arithmetic average of these yearly returns is

$$\frac{-10 + 10 + 30}{3} = +10\%$$

Thus the arithmetic average of the returns correctly measures the opportunity cost of capital for investments of similar risk to Big Oil stock.

The average compound annual return on Big Oil stock would be

$$(.9 \times 1.1 \times 1.3)^{1/3} - 1 = .088, \text{ or } 8.8\%$$

less than the opportunity cost of capital. Investors would not be willing to invest in a project that offered an 8.8 percent expected return if they could get an expected return of 10 percent in the capital markets. The net present value of such a project would be

$$NPV = -100 + \frac{108.8}{1.1} = -1.1$$

Moral: If the cost of capital is estimated from historical returns or risk premiums, use arithmetic averages, not compound annual rates of return (geometric averages).

(Richard A. Brealey, Stewart C. Myers, and Paul Allen, *Principles of Corporate Finance*, 8th Edition, Irwin McGraw-Hill, 2006, page 156–7.)

The widely cited Ibbotson Associates publication also contains a detailed and rigorous discussion of the impropriety of using geometric averages in estimating the cost of capital.[12]

[12] Ibbotson Associates, *Stocks, Bonds, Bills, and Inflation, 2005 Yearbook, Valuation Edition*, page 75.

> The arithmetic average equity risk premium can be demonstrated to be most appropriate when discounting future cash flows. For use as the expected equity risk premium in either the CAPM or the building block approach, the arithmetic mean or the simple difference of the arithmetic means of stock market returns and riskless rates is the relevant number. This is because both the CAPM and the building block approach are additive models, in which the cost of capital is the sum of its parts. The geometric average is more appropriate for reporting past performance, since it represents the compound average return.
>
> The argument for using the arithmetic average is quite straightforward. In looking at projected cash flows, the equity risk premium that should be employed is the equity risk premium that is expected to actually be incurred over the future time periods.
>
> The best estimate of the expected value of a variable that has behaved randomly in the past is the average (or arithmetic mean) of its past values.

In their widely publicized research on the market risk premium, Dimson, Marsh and Staunton (2002) state

> The arithmetic mean of a sequence of different returns is always larger than the geometric mean. To see this, consider equally likely returns of +25 and −20 percent. Their arithmetic mean is 2½ percent, since (25 − 20)/2 = 2½. Their geometric mean is zero, since (1 + 25/100) × (1 − 20/100) − 1 = 0. But which mean is the right one for discounting risky expected future cash flows? For forward-looking decisions, the arithmetic mean is the appropriate measure.
>
> To verify that the arithmetic mean is the correct choice, we can use the 2½ percent required return to value the investment we just described. A $1 stake would offer equal probabilities of receiving back $1.25 or $0.80. To value this, we discount the cash flows at the arithmetic mean rate of 2½ percent. The present values are respectively $1.25/1.015 = $1.22 and $0.80/1.025 = $0.78, each with equal probability, so the value is $1.22 × ½ + $0.80 × ½ = $1.00. If there were a sequence of equally likely returns of +25 and −20 percent, the geometric mean return will eventually converge on zero. The 2½ percent forward-looking arithmetic mean is required to compensate for the year-to-year volatility of returns.

Lastly, on the practical side, Bruner, Eades, Harris, and Higgins (1998) found that 71% of the texts and tradebooks in their extensive survey of practice supported use of an arithmetic mean for estimation of the cost of equity.

## Mean Reversion Argument

Some academics have argued that if stock returns were expected to revert to a trend, this would suggest the use of a geometric mean since the geometric mean is, by definition, an estimate of a smoothed long-run trend increment. These same academics have argued that the historical estimate of the market risk premium (''MRP'') is upward-biased by the buoyant performance of the stock market prior to 2002, and because of the extraordinary and unusually high realized MRPs in those years, investors expect a return to lower MRPs in the future, bringing the average MPR to a more ''normal'' level.

The presence or absence of mean reversion is an empirical issue. The empirical findings are weak and highly contradictory; the empirical evidence is inconclusive and unconvincing, certainly not enough to support the ''mean reversion'' hypothesis. The weight of the empirical evidence on this issue is that the more sophisticated tests of mean reversion in the MRP demonstrate that the realized MRP over the last 75 years or so was almost perfectly free of mean reversion, and had no statistically identifiable time trend. It is also noteworthy that most of these studies were performed prior to the stock market's debacle in 2000–2002, years of extraordinary and unusually low realized MRPs. The stock market's dismal performance of 2000–2002 has certainly taken the wind out of the mean reversion school's sails.

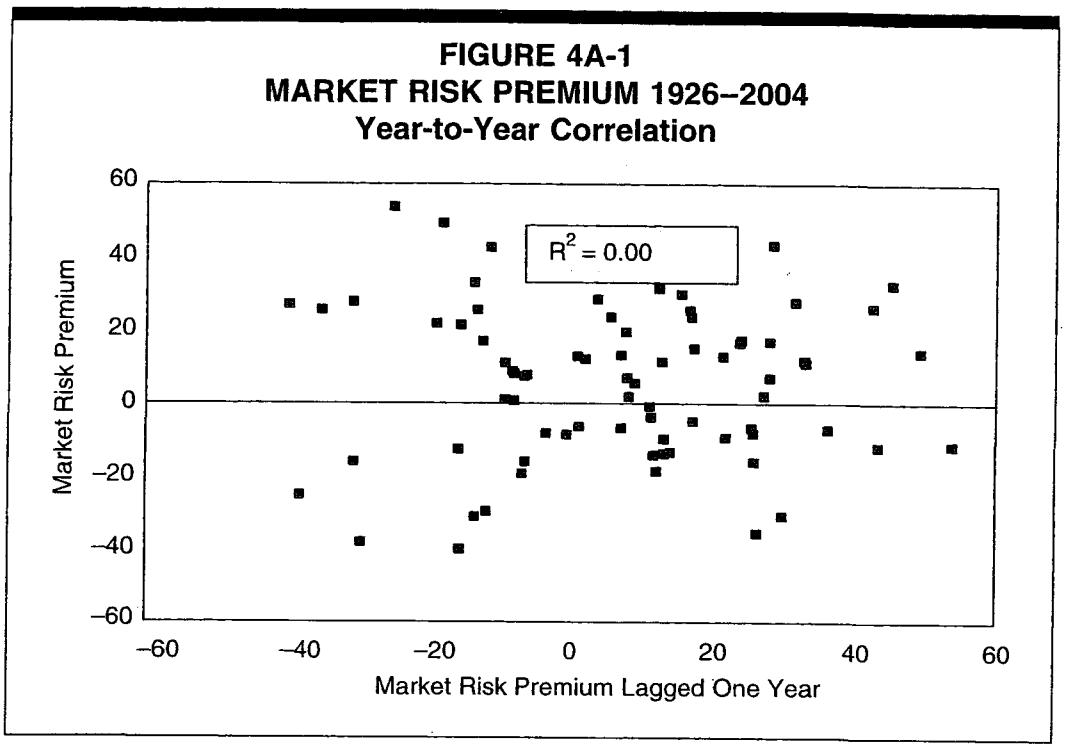
An examination of historical MRPs reveals that the MRP is random with no observable pattern. To the extent that the estimated historical equity risk premium follows what is known in statistics as a random walk, one should expect the equity risk premium to remain at its historical mean. Therefore, the best estimate of the future risk premium is the historical mean.

Ibbotson Associates (2005) find no evidence that the market price of risk or the amount of risk in common stocks has changed over time:

> Our own empirical evidence suggests that the yearly difference between the stock market total return and the U.S. Treasury bond income return in any particular year is random . . . there is no discernable pattern in the realized equity risk premium. (Ibbotson Associates, *Stocks, Bonds, Bills, and Inflation, 2005 Yearbook, Valuation Edition,* pages 74–75)

In statistical parlance, there is no significant serial correlation in successive annual market risk premiums, that is, no trend. Ibbotson Associates go on to state that it is reasonable to assume that these quantities will remain stable in the future (*Id.*):

> The best estimate of the expected value of a variable that has behaved randomly in the past is the average (or arithmetic mean)




of its past values. (Ibbotson Associates, *Stocks, Bonds, Bills, and Inflation, 2004 Yearbook, Valuation Edition*, page 75)

Nowhere is it suggested by Ibbotson Associates that the market risk premium has declined over time.

Because there is little evidence that the MRP has changed over time, it is reasonable to assume that these quantities will remain stable in the future. Figure 4A-1 shows the relationship, or the lack of relationship, between year-to-year MRPs reported in the Ibbotson Associates Valuation Yearbook, 2005 edition, for the 1926–2004 period. The relationship is virtually absent, as indicated by the low $R^2$ of zero between successive MRPs. In other words, there is no history in successive MRPs as indicated by the zero serial correlation coefficient.

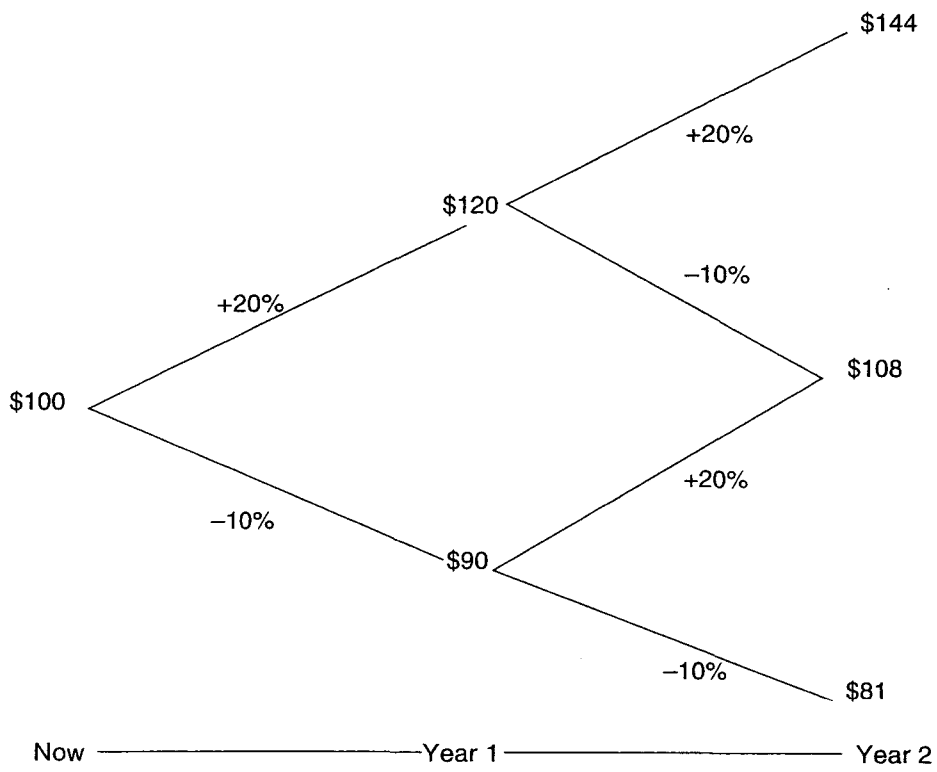
In short, the determination of the cost of capital with the CAPM requires an unbiased estimate of the expected annual return. The expected arithmetic return provides the appropriate measure for this purpose.

## Formal Demonstration

This section shows why arithmetic rather than geometric means should be used for forecasting, discounting, and estimating the cost of capital.[13] By

[13] This section is adapted from a similar treatments and demonstration in Brealey, Myers, and Allen (2006) and Ibbotson Associates (2005).

**FIGURE 4A-2**
**POSSIBLE STOCK PRICES**




definition, the cost of equity capital is the annual discount rate that equates the discounted value of expected future cash flows (from dividends and the sale of the stock at the end of the investor's investment horizon) to the current market price of a share in the firm. The discount rate that equates the discounted value of future expected dividends and the end of period expected stock price to the current stock price is a prospective arithmetic, rather than a prospective geometric, mean rate of return. Since future dividends and stock prices cannot be predicted with certainty, the "expected" annual rate of return that investors require is an average "target" percentage rate around which the actual, year-by-year returns will vary. This target rate is, in effect, an arithmetic average.

A numerical illustration will clarify this important point. Consider a non-dividend paying stock trading for $100 which has, in every year, an equal chance of appreciating by 20% or declining by 10%. Thus, after one year, there is an equal chance that the stock's price will be $120 and an equal chance the price will be $90. Figure 4A-2 presents all possible eventualities after two periods have elapsed (the rates of return are presented at the end of the lines in the diagram).

The possible stock prices are shown in the following table.

**TABLE 4A-2**
**STOCK PRICES AFTER TWO PERIODS**

| Price | Chance |
|---|---|
| $144 | 1 chance in 4 |
| $108 | 2 chances in 4 |
| $ 81 | 1 chance in 4 |

The expected future stock price after two periods is then:

$$1/4\ (\$144) + 2/4\ (\$108) + 1/4\ (\$81) = \$110.25$$

The cost of equity capital is calculated as the discount rate that equates the present value of the future expected cash flows to the current stock price. In the present simple example, the only cash flow is the gain from selling the stock after two periods have elapsed. Thus, using the expected stock price of $110.25 calculated above, the expected rate of return is that r, which solves the following equation:

$$\text{Current Stock Price} = \frac{\text{Expected Stock Price}}{(1 + r)^2}$$

The factor $(1 + r)^2$ discounts the expected stock price to the present. Substituting the numerical values, we have:

$$\$100 = \frac{\$110.25}{(1+r)^2}$$

$$r = 5\%$$

Thus, the cost of equity capital is 5%. This 5% cost of equity capital is equal to the prospective arithmetic mean rate of return, which is the probability-weighted average single period rate of return on equity. Since in every period there is an equal chance that the stock's return will be 20% or −10%, the probability-weighted average is:

$$1/2\ (20\%) + 1/2\ (-10\%) = 5\%$$

However, the 5% cost of equity capital is not equal to the prospective geometric mean rate of return, which is a probability-weighted average of the possible compounded rates of return over the two periods. Now consider the prospective geometric mean rate of return. Table 4A-3 shows the possible compounded rates of return over two periods, and the probability of each.

Thus, the prospective geometric mean rate of return is:

$$1/4\ (20\%) + 2/4\ (3.92\%) + 1/4\ (-10\%) = 4.46\%$$

**TABLE 4A-3**
**STOCK PRICES AND RETURNS AFTER TWO PERIODS**

| Price | Chance | Compounded Return |
|---|---|---|
| $144 | 1 chance in 4 | 20.00% |
| $108 | 2 chances in 4 | 3.92% |
| $ 81 | 1 chance in 4 | −10.00% |

This return is not equal to the 5% cost of equity capital.

The example can easily be extended to include the case of a dividend-paying company and will reach the same conclusion: the implied discount rate calculated in the DCF model is an expected arithmetic rather than an expected geometric mean rate of return.

The foregoing analysis shows that it is erroneous to use a prospective multi-year geometric mean rate of return as a "target" rate of return for each year of the period. If, for example, investors currently require an expected future rate of return on an investment of 13% each year, then 13% is the appropriate annual rate of return on equity for ratemaking purposes. Consequently, in using a risk premium approach for the purposes of rate of return regulation, the single-year annual required rate of return should be estimated using arithmetic mean risk premiums.

It should be pointed out that the use of the arithmetic mean does not imply an investment holding period of one year. Rather, it is premised on the uncertainty with respect to each year's return during the holding period, however many years that may be. When computing the arithmetic average of historic annual returns in order to calculate the average return (expected value of the return), every achieved return outcome is one possible future outcome for each year the security will be held. Each historic return has an equal probability of occurring during each year of the holding period. The resulting expected value of the risk premium is the arithmetic average of all of the past premiums considered, regardless of the length of the expected holding period.

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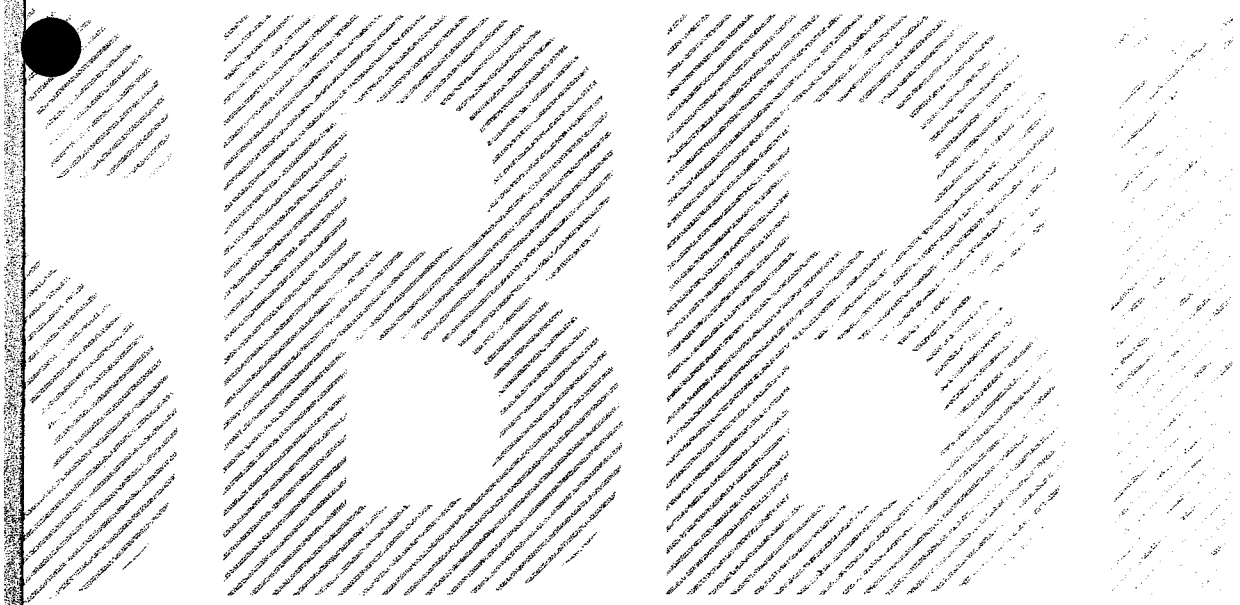
1926–2008



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Treasury bond; however, the Treasury currently does not issue a 20-year bond. The 30-year bond that the Treasury recently began issuing again is theoretically more correct due to the long-term nature of business valuation, yet Ibbotson Associates instead creates a series of returns using bonds on the market with approximately 20 years to maturity. The reason for the use of a 20-year maturity bond is that 30-year Treasury securities have only been issued over the relatively recent past, starting in February of 1977, and were not issued at all through the early 2000s.

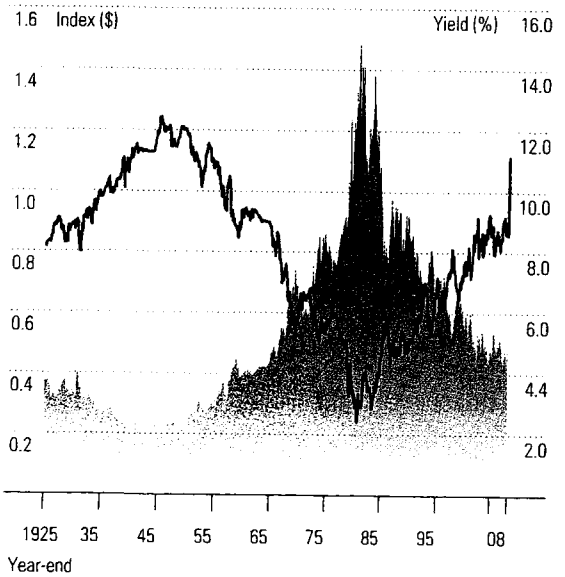
The same reason exists for why we do not use the 10-year Treasury bond—a long history of market data is not available for 10-year bonds. We have persisted in using a 20-year bond to keep the basis of the time series consistent.

**Income Return**

Another point to keep in mind when calculating the equity risk premium is that the income return on the appropriate-horizon Treasury security, rather than the total return, is used in the calculation. The total return is comprised of three return components: the income return, the capital appreciation return, and the reinvestment return. The income return is defined as the portion of the total return that results from a periodic cash flow or, in this case, the bond coupon payment. The capital appreciation return results from the price change of a bond over a specific period. Bond prices generally change in reaction to unexpected fluctuations in yields. Reinvestment return is the return on a given month's investment income when reinvested into the same asset class in the subsequent months of the year. The income return is thus used in the estimation of the equity risk premium because it represents the truly riskless portion of the return.[2]

Yields have generally risen on the long-term bond over the 1926–2008 period, so it has experienced negative capital appreciation over much of this time. This trend has turned around since the 1980s, however. Graph 5-2 illustrates the yields on the long-term government bond series compared to an index of the long-term government bond capital appreciation. In general, as yields rose, the capital appreciation index fell, and vice versa. Had an investor held the long-term bond to maturity, he would have realized the yield on the bond as the total return. However, in a constant maturity portfolio, such as those used to measure bond returns in this publication, bonds are sold before maturity (at a capital loss if the market yield has risen since the time of purchase). This negative return is associated with the risk of unanticipated yield changes.

**Graph 5-2:** Long-term Government Bond Yields versus Capital Appreciation Index




Data from 1925–2008.

For example, if bond yields rise unexpectedly, investors can receive a higher coupon payment from a newly issued bond than from the purchase of an outstanding bond with the former lower-coupon payment. The outstanding lower-coupon bond will thus fail to attract buyers, and its price will decrease, causing its yield to increase correspondingly, as its coupon payment remains the same. The newly priced outstanding bond will subsequently attract purchasers who will benefit from the shift in price and yield; however, those investors who already held the bond will suffer a capital loss due to the fall in price.

Anticipated changes in yields are assessed by the market and figured into the price of a bond. Future changes in yields that are not anticipated will cause the price of the bond to adjust accordingly. Price changes in bonds due to unanticipated changes in yields introduce price risk into the total return. Therefore, the total return on the bond series does not represent the riskless rate of return.The income return better represents the unbiased estimate of the purely riskless rate of return, since an investor can hold a bond to maturity and be entitled to the income return with no capital loss.