

ORIGINAL NEW APPLICATION



0000101767

RECEIVED

FENNEMORE CRAIG, P.C.
Jay L. Shapiro (No. 014650)
Patrick J. Black (No. 017141)
3003 N. Central Ave.
Suite 2600
Phoenix, Arizona 85012
Attorneys for Southern Sunrise Water Company Inc.

2003 AUG 31 P 12:47

Arizona Corporation Commission

DOCKETED

FILED CONTROL
DOCKET CONTROL

AUG 31 2009

DOCKETED BY
ML

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE
APPLICATION OF SOUTHERN
SUNRISE WATER COMPANY INC., AN
ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR
VALUE OF ITS UTILITY PLANTS AND
PROPERTY AND FOR INCREASES IN
ITS WATER RATES AND CHARGES
FOR UTILITY SERVICE BASED
THEREON.

DOCKET NO: W-20454A-09-_____

APPLICATION

W-20454A-09-0413

Southern Sunrise Water Company, Inc. an Arizona public service corporation ("SSWC"), hereby applies for an order establishing the fair value of its plant and property used for the provision of public water utility service and, based on such finding, approving permanent rates and charges for utility service designed to produce a fair return thereon.

In support thereof, SSWC states as follows:

1. SSWC is a public service corporation engaged in providing water utility service in portions of Cochise County, Arizona, pursuant to certificates of convenience and necessity ("CC&N") granted by the Arizona Corporation Commission. During the Test Year, SSWC served approximately 789 customers.

2. SSWC's business office is located at 12725 W. Indian School Road, Suite D-101, Avondale, Arizona 85392 and its telephone number is (623) 935-9367.

1 SSWC's primary management contact is Greg Sorensen. Mr. Sorensen is employed by
2 Algonquin Water Services ("AWS") as Director of Operations for the Western Group.

3 3. The persons responsible for overseeing and directing the conduct of this rate
4 application are Greg Sorensen and SSWC's rate case consultant, Mr. Thomas Bourassa.
5 Mr. Sorensen's mailing address is 12725 W. Indian School Road, Suite D-101, Avondale,
6 Arizona 85392 and his telephone number is (623) 298-3753; his telecopier number is
7 (623) 935-1020, and his e-mail address is Greg.Sorensen@algonquinwater.com.
8 Mr. Bourassa's mailing address is 139 W. Wood Drive, Phoenix, Arizona 85029, his
9 telephone number is (602) 246-7150; his telecopier number is (602) 246-1040, and his
10 e-mail address is tjb114@cox.net. **All discovery, data requests and other requests for**
11 **information concerning this Application should be directed to Mr. Sorensen,**
12 **including copies by e-mail, as well as to Gerald Tremblay by email at**
13 **Gerald.Tremblay@algonquinpower.com, and to Mr. Bourassa, with a copy to**
14 **undersigned counsel for SSWC, including by e-mail to jshapiro@fclaw.com and**
15 **wbirk@fclaw.com.**

16 4. SSWC's present rates and charges for utility service were approved by the
17 Commission in Decision No. 68826 (June 29, 2006), the decision granting the Company a
18 CC&N.

19 5. SSWC maintains that revenues from its utility operations are presently
20 inadequate to provide SSWC a fair rate of return on the fair value of its utility plant and
21 property devoted to public water utility service, including significant increases in SSWC's
22 water utility plant. Operating expenses have also increased since the last test year. These
23 changes since the test year in the prior rate proceeding have caused the revenues produced
24 by the current rates and charges for water utility service to become inadequate to meet
25 operating expenses and provide a reasonable rate of return for the water division and
26 SSWC as a whole. Therefore, SSWC requests that certain adjustments to its rates and

1 charges for utility service be approved by the Commission so that SSWC may recover its
2 operating expenses and be given an opportunity to earn a just and reasonable rate of return
3 on the fair value of its property. SSWC agrees to use its original cost rate base as its fair
4 value rate base in this proceeding to minimize disputes and reduce rate case expense.

5 6. Filed concurrently herewith are the schedules required pursuant to A.A.C.
6 R14-2-103. The test year utilized by SSWC in connection with the preparation of such
7 schedules is the 12-month period that ended March 31, 2009. SSWC requests that the
8 Commission utilize such test year in connection with this Application, with appropriate
9 adjustments to obtain a normal or more realistic relationship between revenues, expenses
10 and rate base during the period in which the rates established in this proceeding are in
11 effect.

12 7. During the test year, SSWC's adjusted gross revenues were \$444,136. The
13 adjusted operating income was \$6,042, leading to an operating income deficiency of
14 \$191,645. The adjusted fair value rate base was \$1,544,434. Thus, the rate of return
15 during the test year was 0.39 percent.

16 8. SSWC submits that the overall rate of return to SSWC is too low to allow it
17 to pay reasonable dividends, maintain a sound credit rating, and/or enable SSWC to attract
18 additional capital on reasonable and acceptable terms in order to continue the investment
19 in utility plant necessary to adequately serve customers.

20 9. SSWC is requesting an increase in revenues equal to \$309,090, an increase
21 in revenues of 69.59 percent. The adjustments to SSWC's rates and charges that are
22 proposed herein, when fully implemented, will produce a rate of return on the fair value
23 rate base equal to 12.80 percent.

24 10. Filed concurrently in support of this Application is the Direct Testimony of
25 Greg Sorensen, providing an overview of SSWC and discussing SSWC's improvements
26 since the last rate decision. Mr. Sorensen also discusses changes to SSWC's tariffs,

1 including changes to the current hook up fee tariff (**Attachment 1**) and to service line and
2 meter installation charges. Also filed is the Direct Testimony of Thomas Bourassa, in two
3 separate volumes that collectively provide an overview of SSWC's rate filing, discussion
4 of the revenue requirement, including the "A" through "F" schedules, and the "G"
5 schedules, development of the rate base and income statement adjustments, cost of equity
6 capital and related issues, proposed rates, including the "H" schedules, and discussion of
7 the effects of the proposed rates on customers' bills. SSWC's "D" Schedules, which
8 concern the cost of capital, are attached to the volume of Mr. Bourassa's testimony
9 addressing cost of capital.

10 11. Attached hereto as **Attachment 2** are plant descriptions and a completed
11 water use data sheet.

12 WHEREFORE, SSWC requests the following relief:

13 A. That the Commission, upon proper notice and at the earliest possible time,
14 conduct a hearing in accordance with A.R.S. § 40-251 and determine the fair value of
15 SSWC's utility plants and property devoted to providing water utility service;

16 B. Based upon such determination, that the Commission approve permanent
17 adjustments to the rates and charges for water utility service provided by SSWC, as
18 proposed by SSWC herein, or approve such other rates and charges as will produce a just
19 and reasonable rate of return on the fair value of SSWC's utility plant and property; and

20 C. That the Commission authorize such other and further relief as may be
21 appropriate to ensure that SSWC has an opportunity to earn a just and reasonable return
22 on the fair value of their utility plant and property and as may otherwise be required under
23 Arizona law.

24 ...

25 ...

26 ...

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

RESPECTFULLY SUBMITTED this 31st day of August, 2009.

FENNEMORE CRAIG, P.C.

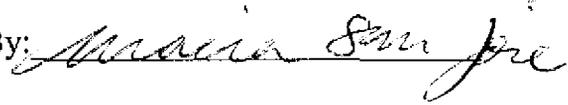
By



Jay L. Shapiro
Patrick J. Black
3003 North Central Avenue
Suite 2600
Phoenix, Arizona 85012
Attorneys for Southern Sunrise Water
Company Inc.

ORIGINAL and fifteen (15) copies of the
foregoing, together with the direct testimonies
and schedules supporting
this application, were delivered
this 31st day of August, 2009, to:

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

By: 

2206876.1

Southern Sunrise Water Company Inc.

Application for a Determination of the
Fair Value of Its Utility Plants and Property and for
Increases in Its Water Rates and Charges

August 31, 2009

Application

Attachment 1 **(Hook-Up Fee Tariff)**

DOCKET NO. _____

Cancelling Sheet No. ____

Applies to all WATER service areas

HOOK UP FEES

I. Purpose and Applicability.

The purpose of the hook-up fees payable to Southern Sunrise Water Company (“SSWC”) pursuant to this tariff is to equitably apportion the costs of constructing additional shared Off-Site Facilities necessary to provide water production, delivery, storage and pressure among all new service connections. These charges are applicable to all new service connections undertaken via Main Extension Agreements or requests for service not requiring a Main Extension Agreement entered into after the effective date of this tariff. The charges are one-time charges and are payable as a condition to SSWC’s establishment of service, as more particularly provided below.

II. Definitions.

Unless the context otherwise requires, the definitions set forth in A.C.C. R14-2-401 of the Arizona Corporation Commission’s (“Commission”) rules and regulations governing water utilities shall apply in interpreting this tariff schedule.

“Applicant” means any party entering into an agreement with SSWC for the installation of water facilities to serve new service connections, and may include Developers and/or Builders of new residential subdivisions and/or commercial and industrial properties.

“SSWC” means Southern Sunrise Water Company, an Arizona public service corporation.

“Main Extension Agreement” means an agreement whereby an Applicant, Developer and/or Builder agrees to advance the costs of the installation of water facilities necessary or desirable to serve new service connections within a development, or; installs such water facilities necessary or desirable to serve new service connections and transfers ownership of such water facilities to SSWC, which agreement shall require the approval of the Commission pursuant to A.A.C. R14-2-406, and shall have the same meaning as “Water Facilities Agreement” or “Line Extension Agreement.”

Issued: _____

Effective : _____

ISSUED BY:

Greg Sorensen, Director Of Operations
Southern Sunrise Water Company
12725 W. Indian School Road, Suite D-101
Avondale, AZ 85392

DOCKET NO. _____

Cancelling Sheet No. ____

Applies to all WATER service areas

HOOK UP FEES

“Off-Site Facilities” means wells, storage tanks and related appurtenances necessary for proper operation, including engineering and design costs. Off-Site Facilities also may include booster pumps, pressure tanks, transmission mains and related appurtenances necessary for proper operation, if these facilities are not for the exclusive use of the applicant and will benefit the entire water system or provide regional or division wide benefits.

“Service Connection” means and includes all service connections for single-family residential, commercial, industrial or other uses, regardless of meter size.

III. Off-Site Hook-Up Fee.

For each new service connection, SSWC shall collect a Hook-Up Fee derived as follows:

OFF-SITE HOOK-UP FEE TABLE		
Meter Size	Size Factor	Total Fee
5/8" x 3/4 "	1	\$1,600
3/4"	1.5	\$2,400
1"	2.5	\$4,000
1-1/2 "	5	\$8,000
2"	8	\$12,800
3"	16	\$25,600
4"	25	\$40,000
6" or larger	50	\$80,000

Issued: _____

Effective : _____

ISSUED BY:

Greg Sorensen, Director Of Operations
Southern Sunrise Water Company
12725 W. Indian School Road, Suite D-101
Avondale, AZ 85392

DOCKET NO. _____

Cancelling Sheet No. ____

Applies to all WATER service areas

HOOK UP FEES

IV. Terms and Conditions.

(A) Assessment of One Time Hook-Up Fee: The Hook-up fee may be assessed only once per parcel, service connection, or lot within a subdivision or commercial/industrial property although a supplemental assessment may apply to conform to the above table if the intended use of a parcel is subsequently altered from that originally intended when the first assessment was paid.

(B) Use of Hook-Up Fee: Hook-up fees may be used only to pay for capital items of Off-Site Facilities, or for repayment of loans obtained to fund the cost of installation of Off-Site Facilities. Hook-up fees shall not be used to cover repairs, maintenance, or other operating costs. All hook-up fee funds collected by SSWC shall be deposited into a separate account and bear interest.

(C) Time of Payment:

1. For those requiring a Main Extension Agreement: In the event that the person or entity that will be constructing improvements ("Applicant", "Developer" or "Builder") is otherwise required to enter into a Main Extension Agreement, whereby the Applicant, Developer or Builder agrees to advance the costs of installing mains, valves, fittings, hydrants and other on-site improvements in order to extend service in accordance with R-14-2-406(B), payment of the hook-up fee required hereunder shall be made by the Applicant, Developer or Builder concurrent with execution of the Main Extension Agreement.

2. For those connecting to an existing main that was installed pursuant to a Main Extension Agreement that was approved by the Commission: In the event that the Applicant, Developer or Builder for service is not required to enter into a Main Extension Agreement, the hook-up fee charges hereunder shall be due and payable at the time the meter and service line installation fee is due and payable.

Issued: _____

Effective : _____

ISSUED BY:

Greg Sorensen, Director Of Operations
Southern Sunrise Water Company
12725 W. Indian School Road, Suite D-101
Avondale, AZ 85392

DOCKET NO. _____

Cancelling Sheet No. ____

Applies to all WATER service areas

HOOK UP FEES

(D) Off-Site Facilities Construction By Developer: SSWC and Applicant, Developer or Builder may agree to construction of Off-Site Facilities necessary to serve a particular development by Applicant, Developer or Builder, which facilities are then conveyed to SSWC. In that event, SSWC shall credit the total cost of such Off-Site Facilities as an offset to hook-up fees due under this tariff or against additional facilities required by the SSWC for the provision of service. If the total cost of the Off-Site Facilities constructed by Applicant, Developer or Builder and conveyed to SSWC is less than the applicable hook-up fees under this tariff, plus any additional requirements imposed by the SSWC then Applicant, Developer or Builder shall pay the remaining amount owed hereunder. If the total cost of the Off-Site Facilities constructed by Applicant, Developer or Builder and conveyed SSWC is more than the applicable hook-up fees under this tariff plus the additional requirements then Applicant, Developer or Builder shall not be entitled to any refunds.

(E) Failure to Pay Charges; Delinquent Payments: SSWC will not be obligated to make an advance commitment to provide or actually provide water service to any Developer, Builder or other Applicant for service in the event that the Developer, Builder or other Applicant for service has not paid in full all charges hereunder. Under no circumstances will SSWC set a meter or otherwise allow service to be established if the entire amount of any payment due hereunder has not been paid.

(F) Large Subdivision Projects: In the event that the Applicant, Developer or Builder is engaged in the development of a residential subdivision containing more than 150 lots, SSWC may, in its discretion, agree to payment of hook-up fees in installments. Such installments may be based on the residential subdivision development's phasing, and should attempt to equitably apportion the payment of charges hereunder based on the Applicant's, Developer's or Builder's construction schedule and water service requirements.

(G) Hook-Up Fees Non-refundable: The amounts collected by SSWC as hook-up fees pursuant to this hook-up fee tariff shall be non-refundable contributions in aid of construction.

Issued: _____

Effective : _____

ISSUED BY:

Greg Sorensen, Director Of Operations
Southern Sunrise Water Company
12725 W. Indian School Road, Suite D-101
Avondale, AZ 85392

DOCKET NO. _____

Cancelling Sheet No. _____

Applies to all WATER service areas

HOOK UP FEES

(H) Use of Hook-Up Fees Received: All funds collected by SSWC as hook-up fees shall be deposited into a separate account and bear interest and shall be used solely for the purposes of paying for the costs of the installation of Off-Site Facilities, including repayment of loans previously obtained for the installation of Off-Site Facilities that will benefit the water system.

(I) Hook-Up Fee in Addition to On-Site Facilities: The hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Main Extension Agreement. The applicable hook-up fee under this tariff may not cover the total costs to be borne by Applicant for necessary Off-Site Facilities necessary to provide service to Applicant's property or development.

(J) Disposition of Excess Funds: After all necessary and desirable Off-Site Facilities are constructed utilizing funds collected pursuant to the hook-up fees, or if the hook-up fee has been terminated by order of the Commission, any funds remaining in the account shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

(K) Fire Flow Requirements: In the event the Applicant for service has fire flow requirements that require additional facilities beyond those facilities whose costs were included in the hook-up fee, and which are contemplated to be constructed using the proceeds of the hook-up fees, SSWC may require the Applicant to install such additional facilities as are required to meet those additional fire flow requirements, as a non-refundable contribution, in addition to the hook-up fee.

(L) Status Reporting Requirements to the Commission: SSWC shall submit a calendar year hook-up fee status report each January 31st to Docket Control for the prior twelve (12) month period, beginning January 31, 2011, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the physical property in respect of which such fee was paid, the amount of money spent from the account, the amount of interest earned on the funds within the tariff account, and an itemization of all facilities that have been installed using the tariff funds during the 12 month period.

Issued: _____

Effective : _____

ISSUED BY:

Greg Sorensen, Director Of Operations
Southern Sunrise Water Company
12725 W. Indian School Road, Suite D-101
Avondale, AZ 85392

Southern Sunrise Water Company Inc.

Application for a Determination of the
Fair Value of Its Utility Plants and Property and for
Increases in Its Water Rates and Charges

August 31, 2009

Application

Attachment 2

(Plant Descriptions and Water Use Data Sheet)

COMPANY NAME Southern Sunrise Water Company

Test Year Ended: 03/31/09

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (inches)	Year Drilled
55-550951	5	45	144	10	2	1995
55-630887	5	25	458	8	1 1/2	1973
55-563118	5	75	150	8	2	1997
55-563117	5	45	145	6	2	1997
55-527262	10	110	298	6	3	1990
55-630018	40	150	524	16	6	1959

* Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)

BOOSTER PUMPS		FIRE HYDRANTS	
Horsepower	Quantity	Quantity Standard	Quantity Other
5	4		
10	4		
15	2		

STORAGE TANKS		PRESSURE TANKS	
Capacity	Quantity	Capacity	Quantity
160,000	1	1,000	2
150,000	1	3,000	1
24,000	1	5,000	1
9,400	1		
10,000	1		

Note: If you are filing for more than one system, please provide separate sheets for each system.

WATER COMPANY PLANT DESCRIPTION (CONTINUED)

MAINS

Size (in inches)	Material	Length (in feet)
2	PVC	<u>Unknown</u>
3	PVC	<u>Unknown</u>
4	PVC	<u>Unknown</u>
5		
6	PVC	<u>Unknown</u>
8		
10		
12		

CUSTOMER METERS

Size (in inches)	Quantity
5/8 X 3/4	<u>797</u>
3/4	
1	<u>1</u>
1 1/2	
2	<u>1</u>
Comp. 3	
Turbo 3	
Comp. 4	
Turbo 4	
Comp. 6	
Turbo 6	

For the following three items, list the utility owned assets in each category for each system.

TREATMENT EQUIPMENT:

Chlorinator Injector Pumps & 40 Gallon Tank _____

STRUCTURES:

Small Sheds, building at Horseshoe, 6" chainlink fences at Jaxel, Horseshoe & Miracle Valley

OTHER:

COMPANY NAME: Southern Sunrise Water Company

ADEQ Public Water System Number * Please see attachment

WATER USE DATA SHEET

MONTH/YEAR (12 Months of Test Year)	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)
APRIL	835	4,712,012	5,266,400	
MAY	836	4,836,643	6,911,840	
JUNE	836	6,143,225	8,475,530	
JULY	836	4,742,480	6,383,380	
AUGUST	836	4,388,671	5,909,397	
SEPTEMBER	835	4,809,547	6,377,883	
OCTOBER	834	4,453,872	6,249,800	
NOVEMBER	836	4,304,028	5,619,900	
DECEMBER	836	3,584,048	5,212,700	
JANUARY	837	3,849,802	5,268,700	
FEBRUARY	837	3,644,308	5,044,900	
MARCH	841	3,942,004	5,935,100	
TOTALS →		53,410,640	72,655,530	

Is the Water Utility located in an ADWR Active Management Area (AMA)?

() Yes (X) No

Does the Company have an ADWR Gallons Per Capita Per Day (GPCPD) requirement?

() Yes (X) No

If Yes, provide the GPCPD amount: _____

Note: If you are filing for more than one system, please provide separate data sheets for each system. For explanation of any of the above, please contact the Engineering Supervisor at 602-542-7277

**Gallons pumped cannot equal to or be less than gallons sold.*

1 FENNEMORE CRAIG, P.C.
2 Jay L. Shapiro (No. 014650)
3 Patrick J. Black (No. 017141)
4 3003 N. Central Ave.
5 Suite 2600
6 Phoenix, Arizona 85012
7 Attorneys for Southern Sunrise Water Company Inc.

8 **BEFORE THE ARIZONA CORPORATION COMMISSION**

9 IN THE MATTER OF THE
10 APPLICATION OF SOUTHERN
11 SUNRISE WATER COMPANY INC., AN
12 ARIZONA CORPORATION, FOR A
13 DETERMINATION OF THE FAIR
14 VALUE OF ITS UTILITY PLANTS AND
15 PROPERTY AND FOR INCREASES IN
16 ITS WATER RATES AND CHARGES
17 FOR UTILITY SERVICE BASED
18 THEREON.

DOCKET NO: W-20454A-09-_____

19 **DIRECT TESTIMONY OF**

20 **GREG SORENSEN**

21 **August 31, 2009**

TABLE OF CONTENTS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

- I. INTRODUCTION AND PURPOSE OF TESTIMONY1
- II. OVERVIEW OF SOUTHERN SUNRISE WATER COMPANY INC.....2
- III. SUMMARY OF SIGNIFICANT SYSTEM IMPROVEMENTS AND OTHER CHANGES SINCE THE ACQUISITION.....5
 - A. HUF Tariffs.....9
 - B. Other Tariff Changes11

2205184.5

1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Greg Sorensen. My business address is 12725 W. Indian School Road,
4 Suite D-101, Avondale, AZ 85392.

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

6 A. On behalf of the Applicant Southern Sunrise Water Company Inc. ("SSWC").

7 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8 A. I am employed by Algonquin Water Services ("AWS") as Director of Operations
9 for the Western Group. AWS is an affiliate of SSWC through common ownership
10 of stock by the same parent, Algonquin Water Resources of America ("AWRA").

11 **Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES AS DIRECTOR OF**
12 **OPERATIONS.**

13 A. I oversee the operations and business management functions for AWRA's utility
14 holdings in Arizona. AWS manages and operates 18 utilities in Arizona, Texas,
15 Missouri, and Illinois. I have the responsibility for the daily operations and
16 administration of all the Arizona utilities, for the financial and operating results for
17 each utility, for capital and operating cost budgeting, for rate case planning and
18 oversight and ratemaking policies and procedures.

19 **Q. WHAT IS YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND**
20 **BEFORE BEING EMPLOYED BY AWS?**

21 A. I earned a Bachelor's degree in Accounting from Wake Forest University in 1993.
22 I worked for Arthur Andersen as a staff and then senior auditor for 5 years.
23 Afterwards, I was a Director of Financial Reporting & Analysis, Controller, and
24 VP Finance for Excel Agent Services, an international call center company. I am a
25 Certified Public Accountant in the State of Georgia (license # CPA017709). I have
26 worked for AWS since November 2005 as Controller and Director of Operations.

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?**

2 A. Yes, I have testified in Commission proceedings involving Gold Canyon Sewer
3 Company, and Northern Sunrise Water Company Inc. ("NSWC"). These entities
4 are affiliates of SSWC as they are all wholly owned affiliates of AWRA. My
5 testimony has also been prefiled in the pending rate cases for three other affiliates
6 providing water and sewer utility service in Arizona - Black Mountain Sewer
7 Corporation, Docket No. SW-02361A-08-0609, Litchfield Park Service Company,
8 Docket Nos. SW-01428A-09-0103 and W-01427A-09-0104, and Rio Rico
9 Utilities, Inc., Docket No. WS-02676A-09-0257. Bella Vista Water Co., Inc.
10 ("BVWC") and NSWC have also filed rate cases at the same time as SSWC, and
11 my direct testimony is also being filed in support of those applications.

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

13 A. The purpose of my testimony is to support SSWC's application for rate relief. I
14 will provide background on SSWC and its operations. I will also summarize
15 significant capital improvements completed by SSWC and other operating cost
16 changes that are contributing to the need for a rate increase.

17 **II. OVERVIEW OF SOUTHERN SUNRISE WATER COMPANY INC.**

18 **Q. PLEASE PROVIDE AN OVERVIEW OF SSWC.**

19 A. SSWC provides only water service to its 789 customers. The customer base is
20 almost entirely residential, although there are 3 commercial/industrial customers.
21 SSWC's certificated service territory is located in and around Hereford, in Cochise
22 County, Arizona. The area in which we serve is not part of an Active Management
23 Area, although, as noted in recent NSWC and SSWC proceedings, Cochise County
24 has implemented certain rules requiring proof of adequate water supply for new
25 construction/subdivisions. These requirements have been helpful in managing
26 growth and ensuring adequate water supply for people in the area.

1 **Q. DOES SSWC ALSO PROVIDE WATER SERVICE FOR IRRIGATION,**
2 **INCLUDING ANY SCHOOLS, PARKS, GOLF COURSES OR OTHER**
3 **ORNAMENTAL WATER FEATURES?**

4 A. No, we do not. Our commercial customers are a gas station, a mini-mart, and a
5 propane distributor, all located in the Miracle Valley subsystem.

6 **Q. PLEASE DESCRIBE SSWC'S WATER RESOURCES.**

7 A. SSWC has 3 subsystems, 2 of which are interconnected. The Cochise and
8 Horseshoe subsystems have 4 wells capable of producing 190 gpm and 180,000
9 gallons of storage. The Miracle Valley subsystem has 2 wells (100 gpm and 250
10 gpm) and 150,000 gallons of storage. All these subsystems are chlorinated for the
11 health and safety of our customers.

12 **Q. WHAT IS SSWC'S COMPLIANCE STATUS?**

13 A. To the best of my knowledge, SSWC is currently in compliance with the rules and
14 regulations of the Arizona Department of Environmental Quality, Arizona
15 Department of Water Resources, and Arizona Corporation Commission.¹

16 **Q. WHEN DID THE CURRENT RATES GO INTO EFFECT?**

17 A. SSWC's current rates were approved in Decision No. 68826 (June 29, 2006),
18 which decision granted SSWC's initial CC&N.

19 **Q. SO SSWC WAS JUST ESTABLISHED A FEW YEARS AGO?**

20 A. Yes. SSWC was formed by consolidating 3 very small water utilities into one new
21 water utility. By way of background, on April 13, 2006, NSWC and SSWC each
22 filed an application with the Commission for a new CC&N to provide water utility
23 service in Cochise County, Arizona. At the same time, NSWC and SSWC filed a
24 joint application for approval of the sale and transfer of water utility assets and
25

26 ¹ See Attachment I.

1 cancellation of the CC&Ns of Miracle Valley Water Company, Inc. ("Miracle
2 Valley), Cochise Water Co. ("Cochise"), Horseshoe Ranch Water Company
3 ("Horseshoe Ranch"), Crystal Water Company ("Crystal"), Mustang Water
4 Company ("Mustang"), Coronado Estates Water Company ("Coronado Estates"),
5 and Sierra Sunset Water Company ("Sierra Sunset"), (collectively the "McLain
6 Systems". In other words, NSWC and SSWC were formed by Algonquin
7 specifically to be the regulated water providers in the areas then served by seven
8 separate water utilities that had been formed and operated by Johnny McLain.
9 Pursuant to the applications, the McLain systems were to be divided geographically
10 with NSWC serving the former Coronado, Sierra Sunset, Crystal and Mustang
11 service areas, along with an additional area known as Babocomari adjacent to the
12 Coronado system, and SSWC serving the former territories served by Cochise,
13 Miracle Valley and Horseshoe Ranch.

14 **Q. DID MR. MCLAIN SELL THESE WATER SYSTEMS TO ALGONQUIN?**

15 A. No, Algonquin was the successful bidder in a bankruptcy sale. Before that, the
16 McLain Systems had a storied history in front of the Commission. The physical
17 inadequacies and necessary repairs, maintenance and capital improvements for
18 each of the seven McLain Systems were detailed in Decision Nos. 66241
19 (September 16, 2003), at which time the Commission also gave its approval for
20 appointment of an interim manager. Then, in Decision No. 68272 (November 8,
21 2005), the Commission ordered a moratorium on new hook-ups.

22 **Q. HOW DID THINGS GET SO BAD IN THE MCLAIN SYSTEMS?**

23 A. Since most of the problems occurred before AWRA arrived on the scene, I am not
24 really in a position to discuss how things got so bad. Suffice to say, not only had
25 the prior owner failed to pay debts, including property taxes, but the McLain
26

1 systems were in serious disrepair due to long-term disregard of the need for capital
2 improvements and maintenance by qualified, competent operators.

3 **Q. SO WHAT EXACTLY DID THE COMMISSION APPROVE IN DECISION**
4 **NO. 68826?**

5 A. On June 29, 2006, Decision No. 68826 was issued approving (1) NSWC and
6 SSWC's Joint Application for approval of the sale and transfer of water utility
7 assets and cancellation of the CC&Ns of the McLain Systems, (2) the applications
8 of NSWC and SSWC for new CC&Ns subject to certain conditions, and (3) rates
9 and charges to be effective for all service provided by NSWC and SSWC as of the
10 first day of the month following notification to the Commission that acquisition of
11 the McLain Systems has been completed. In September 2006, Algonquin Water
12 Services took over as interim operator, replacing the Arizona Small Utility
13 Association. On March 12, 2007 we notified the Commission that the acquisition
14 was complete and the current rates have been in effect since April 1, 2007.

15 **Q. WHY IS SSWC FILING FOR NEW RATES AT THIS TIME?**

16 A. We were required by the Commission to file a rate case. That deadline was
17 extended by the Commission, and this rate application was required to be filed by
18 August 31, 2009. Of equal or greater importance however, and as detailed in
19 Mr. Bourassa's schedules, SSWC earned a return of less than 1% during the test
20 year. This is not a fair and reasonable return on the value of the property we
21 devote to serving the public.

22 **III. SUMMARY OF SIGNIFICANT SYSTEM IMPROVEMENTS AND OTHER**
23 **CHANGES SINCE THE ACQUISITION**

24 **Q. WHAT IMPROVEMENTS HAVE BEEN MADE TO THE SSWC SYSTEM**
25 **SINCE IT WAS ACQUIRED BY AWRA?**

26

1 A. In the most basic terms, we have turned a system that was not fit for public service
2 into one that provides safe, clean, reliable service to the community in which we
3 serve. While the system is not perfect, it is one that we, and the customers, can
4 depend on and be proud of. The rehabilitation of these systems was greatly
5 assisted by the Commission, Staff, and Arizona Department of Environmental
6 Quality. I believe the resulting system can be pointed to as a success story and,
7 hopefully, a model of how to rescue small troubled water systems in the state. In
8 fact, NSWC and SSWC won the Arizona Water Association 2009 Water
9 Distribution System of the Year for systems serving less than 50,000 customers.
10 Using a Commission Staff engineering report as a guideline, with some
11 amendments along the way which were reviewed and agreed to by Staff, the
12 following improvements were made:

13 **MIRACLE VALLEY**

- 14
- 15 • Added a meter to the wells.
 - 16 • Constructed a minimum 6 ft. high chain link fence with barbed wire 400 LF.
At the well sites
 - 17 • Construct 12 ft. wide chain link gate at the well sites.
 - 18 • Installed a new 350 GPM VFD Booster Station.
 - 19 • Installed a Chlorinator.
 - 20 • Rebuilt Electrical Control and wiring system.
 - 21 • Installed a new 150,000 gallon storage tank.
 - 22 • Added sampling tap to wells.
 - 23 • Survey property to establish property boundaries of two well sites.

24 **COCHISE**

25 **Naranja Wellsite**

- 26
- Added meters to wells.
 - Constructed a minimum 6 ft. High chain link fence with barbed wired 800
LF at well sites.
 - Construct 12 ft wide chain link gate at well sites.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

- Overhauled 5 hp booster pump.
- Rebuilt Electrical Control and wiring system.
- Replaced air compressor and controls on Pressure Tank.
- Replaced Gauges on Booster and Transfer Pumps.
- Replaced check valves on booster and transfer pumps.
- Built concrete pads to mount booster and transfer pumps.
- Installed well pump high level shut off level controller to storage tank.
- Installed low-level sensor in storage tank for booster and transfer pump shut off.
- Installed telemetry to start and stop transfer pumps filling Horseshoe storage.
- Add sampling taps to wells
- Survey property to establish property boundaries for well site.
- Removed old storage tank and trash and graded well site.
- Installed a chlorinator.

Jaxel

- Added a meter to well.
- Added an additional booster pump.
- Installed a Chlorinator.
- Survey property to establish property boundaries of well site.

HORSESHOE

- Replaced 3-inch meter measuring transfer flow from Cochise.
- Replaced fence with a minimum 6 ft high chain link fence with barbed wire, 200LF at well site.
- Constructed 12 ft. wide chain link gate.
- Replaced 2 - 7.5 hp booster pumps.
- Rebuilt Electrical Control and wiring system.
- Installed a Chlorinator.
- Replaced 3,000 Gallon pressure tank.
- Designed and constructed interconnection with Bella Vista South system.
- Repaired doors on storage building.
- Added air relief valve to transmission line from Cochise and graded and secured site.
- Survey property to establish boundaries of storage and well sites.

1 **Q. HAVE THERE BEEN ANY OTHER SIGNIFICANT CHANGES OR**
2 **INCREASES IN OPERATING EXPENSES SINCE THE ACQUISITION?**

3 A. The most significant operational costs for the SSWC systems are people, along
4 with repair/maintenance costs and electricity. There are 21 people working out of
5 our Sierra Vista offices, which provide service to NSWC, BVWC and SSWC.
6 Three operators primarily provide service to NSWC and SSWC, and customer
7 service/administration is shared amongst the three water utilities to provide better
8 service and economies of scale.

9 **Q. ANY OTHER SIGNIFICANT CHALLENGES IMPACTING SSWC'S**
10 **OPERATIONS?**

11 A. The Miracle Valley subsystem is approximately 4 miles from the nearest point of
12 our other Sierra Vista systems, so there can at times be some challenges in
13 managing time and projects as efficiently as we would like due to the distance
14 between our Sierra Vista systems (NSWC, SSWC, and BVWC). However, for a
15 small system like SSWC, the shared service model operating out of a consolidated
16 BVWC CC&N is a better, more efficient model than a stand-alone one. Another
17 challenge we encounter is a couple of "carry-overs" caused by the prior owner.
18 Many of the service lines and meters are "hard-piped" so there is no isolation valve
19 or coupling. This makes it difficult and more expensive when a meter must be
20 changed out, and requires either a hot-tap or main isolation, which causes a brief
21 outage for customer in the area. Also, the remaining system is still comprised of
22 thousands of feet of 2-inch pvc pipe, which is not proper construction for this
23 system. In the fullness of time, this 2-inch pipe will have to be replaced. It is also
24 susceptible to leaks and breaks, which cause higher water loss in the systems than
25 we would like to see. Since we have now stabilized the systems and they are able
26 to provide water to customers without the frequent, prolonged outages they had

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

become accustomed to under prior ownership, we can now direct more of our attention to addressing water loss within the system.

IV. PROPOSED TARIFF CHANGES

Q. IS SSWC PROPOSING ANY CHANGES OF ITS TARIFF OF RATES AND CHARGES?

A. We are proposing a new hook up fee (“HUF”) tariff and changes to the meter and service line installation costs.

Q. DOES SSWC CURRENTLY HAVE A LOW INCOME TARIFF?

A. No.

Q. WHY ISN’T SSWC PROPOSING THAT A LOW INCOME TARIFF BE APPROVED IN THIS RATE CASE?

A. Because, on a stand-alone basis, SSWC is far too small. This means that the cost burden would fall too heavily on those who do not qualify for the low income tariff. However, we do propose a low income tariff for the consolidated BVWC. I discuss this additional factor in my testimony supporting consolidation to be filed in this docket once it has been opened.

A. HUF Tariffs

Q. DOES SSWC CURRENTLY HAVE A HOOK UP FEE (“HUF”) TARIFF?

A. Yes, it allows for \$1,000 per residential unit to be collected on new homes connecting to our system.

Q. WHY IS SSWC PROPOSING HUF TARIFFS IN THIS RATE CASE?

A. To assist SSWC in more equitably apportioning the cost of constructing additional off-site facilities to provide water production, delivery, storage and pressure among new service connections. As a result, we are proposing an increased HUF to address part of the costs for off-site facilities for new service connections.

1 **Q. WHAT IS THE AMOUNT OF THE HUF BEING PROPOSED?**

2 A. The HUFs will be based on meter size. As set forth in the proposed Water HUF,
3 the HUFs will be \$1,600 for a 5/8" meter, and \$1,800 for 3/4" and 1" meters.

4 **Q. WHAT FACTORS DID SSWC CONSIDER TO ARRIVE AT THESE**
5 **AMOUNTS?**

6 A. There are basically three factors that we considered. First, we desire to keep
7 customer rates within a reasonable range, while allowing SSWC an opportunity to
8 recover its operating costs and earn a reasonable return on the fair value of its rate
9 base. We considered the historical average cost of plant per customer, we also
10 considered our estimated reasonable costs for increased capacity and off-site
11 facilities for new service connections based on our ongoing experience with capital
12 investment.

13 The second factor is fairness. Ideally, all customers within a class should
14 pay the same amount because each customer is contributing to the same extent to
15 the operating and administrative costs of the utility and each customer is providing
16 a like amount in support of the return on rate base. In other words, each customer
17 within that class is paying his or her cost of service. Each customer (old and new)
18 should have approximately the same amount of utility investment dedicated to its
19 needs, with the balance of the capital required to furnish service funded by the
20 developer.

21 The third factor is that of balancing invested capital versus contributed
22 capital. Many of the assets utilized within this system are older assets, which need
23 refurbishment or replacement. These types of assets necessitate capital investment
24 by SSWC. These investments likely result in the need for additional rates.
25 Therefore, in this instance, we view a HUF with required CIAC or zero-cost capital
26 a favorable situation to allow development to pay the bill, or at least a significant

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

part of it, for growth and allow the utility to invest the funds for system maintenance capital.

B. Other Tariff Changes

Q. DOES SSWC PROPOSE ANY OTHER TARIFF CHANGES?

A. We have requested an increase in the meter and service line installation tariff. This revised cost is more reflective of the current actual cost to provide this service, and places the cost of growth directly on the party causing the cost so it is not borne by the existing customers.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Southern Sunrise Water Company Inc.

Application for a Determination of the
Fair Value of Its Utility Plants and Property and for
Increases in Its Water Rates and Charges

August 31, 2009

Greg Sorensen Direct Testimony

Attachment 1

Arizona Department of Environmental Quality
Drinking Water Monitoring and Protection Unit
 Mail Code 5415B-2
 1110 West Washington Street
 Phoenix, AZ 85007

Drinking Water Compliance Status Report

System Name	System Type	Is system consecutive?
SOUTHERN SUNRISE WC - MIRACLE VALLEY	<input checked="" type="checkbox"/> Community	<input type="checkbox"/> Yes, to PWS #
System ID #	<input type="checkbox"/> Non-transient Non-community	
02023	<input type="checkbox"/> Transient Non-community	<input checked="" type="checkbox"/> No

Overall Compliance status	<input checked="" type="checkbox"/> No major deficiencies	<input type="checkbox"/> Major deficiencies
Monitoring and Reporting status	<input checked="" type="checkbox"/> No major deficiencies	<input type="checkbox"/> Major deficiencies
Comments: None		

Operation and Maintenance status	<input checked="" type="checkbox"/> No major deficiencies	<input type="checkbox"/> Major deficiencies
Date of last Sanitary Survey	5-16-07	Inspector John Eyre, SRO
Major unresolved/ongoing operation and maintenance deficiencies:		
<input type="checkbox"/> unable to maintain 20psi	<input type="checkbox"/> inadequate storage	
<input type="checkbox"/> cross connection/backflow problems	<input type="checkbox"/> surface water treatment rule	
<input type="checkbox"/> treatment deficiencies	<input type="checkbox"/> ATC/AOC	
<input type="checkbox"/> certified operator	<input type="checkbox"/> other =	
Comments: None		

Is an ADEQ administrative order in effect?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Comments: None		

System Information	
Population Served	635
Service Connections	253
Number of Entry Points to the Distribution System	2
Number of Sources	2
Initial Monitoring Year	1995
Monitoring Assistance Program (MAP) System	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

Evaluation completed by	Donna Calderon, Manager  Drinking Water Monitoring and Protection Unit		
Phone	602-771-4641	Date	August 7, 2009
<input checked="" type="checkbox"/>	Based upon data submitted by the water system, ADEQ has determined that this system is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4, and PWS is in compliance.		
<input type="checkbox"/>	Based upon the monitoring and reporting deficiencies noted above, ADEQ cannot determine if this system is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4, and/or PWS is not in compliance.		
<input type="checkbox"/>	Based upon the operation and maintenance deficiencies noted above, ADEQ cannot determine if this system is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4, and/or PWS is not in compliance.		

This compliance status report does not guarantee the water quality for this system in the future, and does not reflect the status of any other water system owned by this utility company.

Arizona Department of Environmental Quality
Drinking Water Monitoring and Protection Unit
 Mail Code 5415B-2
 1110 West Washington Street
 Phoenix, AZ 85007

Drinking Water Compliance Status Report

System Name	System Type	Is system consecutive?
SOUTHERN SUNRISE WC - COCHISE/HORSESHOE	<input checked="" type="checkbox"/> Community	<input type="checkbox"/> Yes, to PWS #
System ID #	<input type="checkbox"/> Non-transient Non-community	
02011	<input type="checkbox"/> Transient Non-community	<input checked="" type="checkbox"/> No

Overall compliance status	<input checked="" type="checkbox"/> No major deficiencies	<input type="checkbox"/> Major deficiencies
Monitoring and Reporting status	<input checked="" type="checkbox"/> No major deficiencies	<input type="checkbox"/> Major deficiencies
Comments: None		

Operation and Maintenance status	<input checked="" type="checkbox"/> No major deficiencies	<input type="checkbox"/> Major deficiencies
Date of last Sanitary Survey	5-16-07	Inspector John Eyre, SRO
Major unresolved/ongoing operation and maintenance deficiencies:		
<input type="checkbox"/> unable to maintain 20psi	<input type="checkbox"/> cross connection/backflow problems	<input type="checkbox"/> inadequate storage
<input type="checkbox"/> treatment deficiencies	<input type="checkbox"/> certified operator	<input type="checkbox"/> surface water treatment rule
		<input type="checkbox"/> ATC/AOC
		<input type="checkbox"/> other =
Comments: None		

Is an ADEQ administrative order in effect?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Comments: None		

System Information	
Population Served	1460
Service Connections	581
Number of Entry Points to the Distribution System	3
Number of Sources	3
Initial Monitoring Year	1995
Monitoring/Assistance Program (MAP) System	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

Evaluation completed by	Donna Calderon, Manager  Drinking Water Monitoring and Protection Unit		
Phone	602-771-4641	Date	August 7, 2009
<input checked="" type="checkbox"/>	Based upon data submitted by the water system, ADEQ has determined that this system is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4, and PWS is in compliance.		
<input type="checkbox"/>	Based upon the monitoring and reporting deficiencies noted above, ADEQ cannot determine if this system is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4, and/or PWS is not in compliance.		
<input type="checkbox"/>	Based upon the operation and maintenance deficiencies noted above, ADEQ cannot determine if this system is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4, and/or PWS is not in compliance.		

This compliance status report does not guarantee the water quality for this system in the future, and does not reflect the status of any other water system owned by this utility company.

1 FENNEMORE CRAIG, P.C.
Jay L. Shapiro (No. 014650)
2 Patrick J. Black (No. 017141)
3003 N. Central Ave.
3 Suite 2600
4 Phoenix, Arizona 85012
Attorneys for Southern Sunrise Water Company Inc.

5
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7
8 IN THE MATTER OF THE
9 APPLICATION OF SOUTHERN
10 SUNRISE WATER COMPANY INC., AN
11 ARIZONA CORPORATION, FOR A
12 DETERMINATION OF THE FAIR
13 VALUE OF ITS UTILITY PLANTS AND
PROPERTY AND FOR INCREASES IN
ITS WATER RATES AND CHARGES
FOR UTILITY SERVICE BASED
THEREON.

DOCKET NO: W-20454A-09-_____

14
15
16 **DIRECT TESTIMONY OF**

17 **THOMAS J. BOURASSA**

18 **(RATE BASE, INCOME STATEMENT AND RATE DESIGN)**

19 **August 31, 2009**
20
21
22
23
24
25
26

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

TABLE OF CONTENTS

I. INTRODUCTION, QUALIFICATIONS AND PURPOSE.....1

II. OVERVIEW OF SSWC’S REQUEST FOR RATE RELIEF.....3

III. SUMMARY OF SCHEDULES.....4

 A. Summary of A, E and F Schedules.4

 B. Rate Base (B Schedules).....6

 C. Income Statement (C Schedules).....9

 D. Rate Design (H Schedules).13

2206590.5

1 **I. INTRODUCTION, QUALIFICATIONS AND PURPOSE**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

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

5 **Q. WHAT IS YOUR PROFESSION AND BACKGROUND?**

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

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

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

18 In my private practice, I have prepared and/or assisted in the preparation of
19 several water and wastewater utility rate applications before the Arizona
20 Corporation Commission ("Commission").

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

22 A. I am testifying in this proceeding on behalf of the applicant, Southern Sunrise
23 Water Company Inc. ("SSWC"). SSWC is seeking changes in its rates and charges
24 for water utility service in its certificated service area, which area is located in
25 Cochise County, Arizona.

26

1 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

2 A. I will testify in support of SSWC's proposed adjustments to its rates and charges
3 for water utility service. I am sponsoring the direct schedules, which are filed
4 concurrently herewith in support of SSWC's application. I was responsible for the
5 preparation of these schedules based on my investigation and review of SSWC's
6 relevant books and records.

7 For convenience, the two portions of my direct testimony, each with the
8 relevant schedules attached, are being filed separately in this case. In this volume
9 of my direct testimony, I address the rate bases, income statements (revenue and
10 operating expenses), required increases in revenue, and rate designs and proposed
11 rates and charges for water service. Schedules A through C, E-F and H are
12 attached to this portion of my direct testimony. SSWC has not prepared a cost of
13 service study because of its very small size and because there are only two classes
14 of customers, 5/8 inch residential and 3/4 inch residential. Consequently, the G
15 schedules are omitted.

16 In the second volume of my direct testimony, to which the D schedules are
17 attached, I address cost of capital. SSWC is requesting a return on common equity
18 of 12.8 percent. As shown on Schedule D-1, SSWC's capital structure for
19 ratemaking purposes consists of 100 percent equity and 0 percent debt. The
20 weighted cost of capital is 12.8 percent.

21 **Q. IN HIS DIRECT TESTIMONY, MR. SORENSEN MENTIONS SSWC'S**
22 **REQUEST FOR CONSOLIDATION. ARE YOU ALSO ADDRESSING**
23 **CONSOLIDATION?**

24 A. Yes, although like Mr. Sorensen, my testimony in support of the requested
25 consolidation of SSWC, Bella Vista Water Co., Inc. ("BVWC") and Northern
26 Sunrise Water Company Inc. ("NSWC") is attached to the Joint Application that

1 BVWC will file in a separate docket.¹ My direct testimony in support of the rate
2 application is also being filed in each of the rate case dockets initiated by BVWC
3 and NSWC. Along with my consolidation testimony, I have also prepared and am
4 I also sponsoring a full, fourth set of schedules that illustrate the rates for a
5 consolidated BVWC.

6 **Q. WHAT DO YOU MEAN BY A “CONSOLIDATED BVWC”?**

7 A. Under the Joint Application for consolidation, BVWC would be the surviving
8 entity with one set of rates and charges for all customers. In other words, NSWC
9 and SSWC would no longer exist.

10 **II. OVERVIEW OF SSWC’S REQUEST FOR RATE RELIEF**

11 **Q. PLEASE SUMMARIZE SSWC’S APPLICATION.**

12 A. The test year used by SSWC is the 12-month period ending March 31, 2009.
13 SSWC is requesting a 12.8 percent return on its fair value rate base (“FVRB”).
14 SSWC has also proposed certain pro forma adjustments to take into account known
15 and measurable changes to rate base, expenses and revenues. These pro forma
16 adjustments are consistent with normal ratemaking and are contemplated by the
17 Commission’s rules and regulations governing rate applications. *See* R14-2-103.
18 These adjustments are necessary to obtain a normal or realistic relationship
19 between revenues, expenses and rate base on a going-forward basis.

20 SSWC’s proposed fair value rate base is \$1,544,434. The increase in
21 revenues to provide for recovery of operating expenses and a 12.8 percent return on
22

23
24 ¹ Bella Vista Water Co., Inc., Northern Sunrise Water Company Inc., and Southern Sunrise Water
25 Company Inc.’s Joint Application for Approval of Authority to Consolidate Rates and for the
26 Transfer of Utility Assets to Bella Vista Water Co., Inc. filed on August 31, 2009, *Bella Vista
Water Co., Inc., Northern Sunrise Water Company Inc. and Southern Sunrise Water Company
Inc.*, Docket No. W-02465A-09-_____ (“Joint Application”).

1 rate base is approximately \$309,090, an increase of approximately 69.59 percent
2 over the adjusted and annualized test year revenues.

3 **Q. WHY IS SSWC FILING FOR NEW RATES AT THIS TIME?**

4 A. Because it was ordered to do so by the Commission. Additionally, SSWC is not
5 earning a fair return on the fair value of its water plant devoted to service. This is
6 largely due to a substantial investment in plant (over \$1.1 million) necessary to
7 serve water customers that SSWC has made since it was granted a Certificate of
8 Convenience and Necessity ("CC&N") in June 2006 (Decision No. 68826, June
9 29,2006). SSWC's rate base value has increased by over \$820,000 since the value
10 was determined by the Commission in January 2006 (Decision No. 68412, January
11 23, 2006). Further, the initial rates and revenue requirements were based on a 5-
12 year projection of revenue, expenses, plant investment, and rate base. These
13 projections were in early 2006. Since that time, actual revenues, expenses, plant
14 investment, and rate base are higher than originally projected. And, as a
15 consequence, SSWC's current rate of return, based on the adjusted test year data, is
16 0.39 percent.

17 **III. SUMMARY OF SCHEDULES**

18 **A. Summary of A, E and F Schedules.**

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

21 A. The A-1 Schedule is a summary of the rate base, operating income, current
22 operating margin, required operating margin, operating income deficiency, and the
23 increase in gross revenue. A 12.8 percent return on FVRB is requested. The
24 increase in the revenue requirement is \$309,090. Revenues at present and
25 proposed and customer classifications are also shown on this schedule.

26

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

3 Schedule A-3 contains SSWC's capital structure for the test year and the
4 two prior years.

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

8 Schedule A-5 is the summary of SSWC's changes in financial position (cash
9 flow) for the prior two years, the test year at present rates, and a projected year at
10 present and proposed rates.

11 The E Schedules are based on SSWC's actual operating results, as reported
12 by SSWC in annual reports filed with the Commission. The E-1 Schedule contains
13 the comparative balance sheet data for the years 2007, 2008, and 2009 ending on
14 March 31.

15 Schedule E-2, page 1, contains the income statement for the years 2007,
16 2008, and 2009 ending on March 31.

17 Schedule E-3 contains the statements of changes in SSWC's financial
18 position for the test year and the two prior years.

19 Schedule E-4 provides the changes in membership equity.

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

22 Schedule E-7 contains operating statistics for the years ended 2007, 2008,
23 and 2009 ending on March 31.

24 Schedule E-8 contains the taxes charged to operations.

25 The accountant's notes to the financial statements and the financial
26 assumptions used in preparing the rate filing schedules are shown on Schedules E-9

1 and F-4, respectively, in accordance with the Commission's standard filing
2 requirements. SSWC does not prepare audited financial statements.

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

5 Schedule F-2 contains the summary of changes in financial position (cash
6 flow) for the prior two years, the test year at present rates, and a projected year at
7 present and proposed rates.

8 Schedule F-3 shows SSWC's projected construction requirements for 2010,
9 2011, and 2012.

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

12 **B. Rate Base (B Schedules).**

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

15 A. Yes. I will start with Schedule B-5, which is the working capital allowance. I used
16 the "formula method" of computing the working capital allowance to reduce costs.
17 However, SSWC is not requesting a working capital allowance.

18 **Q. WHY DIDN'T SSWC PREPARE A LEAD-LAG STUDY AND USE THE**
19 **RESULTS OF THAT STUDY TO COMPUTE WORKING CAPITAL?**

20 A. Because the costs to prepare a lead-lag study outweigh the benefits. By way of
21 illustration, in a recent case for Chaparral City Water Company (W-02113A-07-
22 0551), the Residential Utility Consumer Office prepared a lead-lag study and
23 computed a negative \$111,000 of cash working capital. SSWC is one-seventh the
24 size in terms of the level of expenses. So, let's assume for argument's sake that a
25 lead-lag study would produce negative working capital of \$15,800. If the negative
26 \$5,500 were included in rate base, the impact on the revenue requirement would be

1 a negative \$3,294 (-\$15,800 times 12.8 percent return times the tax factor of
2 1.6286). In the meantime, SSWC would have incurred \$10,000 just to have the
3 study prepared. Plus, depending on what components of expenses I include in the
4 calculation, SSWC could easily incur more than \$15,000 defending its working
5 capital calculation, all of which increases rate case expense. This is why I believe
6 the costs far outweigh the benefits, and why I have recommended and SSWC has
7 accepted seeking no working capital allowance.

8 **Q. THANK YOU. PLEASE CONTINUE.**

9 A. SSWC did not file Schedules B-3 and B-4. To limit issues in dispute and reduce
10 rate case expense, SSWC is requesting that its original cost rate base ("OCRB") be
11 used as its FVRB.

12 **Q. HAVE YOU PREPARED SCHEDULES SHOWING ADJUSTMENTS TO**
13 **SSWC'S ORIGINAL COST RATE BASE?**

14 A. Yes. Schedule B-2 shows adjustments to the OCRB cost rate base proposed by
15 SSWC. Schedule B-2, pages 2 through 6, provides the supporting information.
16 These adjustments are, in summary:

17 B-2 adjustment number 1, as shown on Schedule B-2, page 2, adjusts plant-
18 in-service. There are two plant-in-service adjustments included in Adjustment 1.
19 These are shown on Schedule B-2, page 3, and are labeled as adjustments "A" and
20 "B".

21 Adjustment A of B-2 adjustment number 1 adjusts plant-in-service to
22 remove affiliated profit from plant-in-service that was recorded in plant-in-service
23 during the years since SSWC's last rate case.

24 Adjustment B of B-2 adjustment number 1 adjusts plant-in-service to reflect
25 the reconciliation of SSWC's plant-in-service detail to its amount recorded at the
26 end of the test year and as reflected on the E-1 schedule.

1 **Q. PLEASE CONTINUE.**

2 A. Adjustment 2 shown on Schedule B-2, page 2, adjusts accumulated depreciation.
3 The details of the accumulated depreciation adjustment are shown on Schedule B-
4 2, page 4. There is only one adjustment shown on this schedule and it is labeled as
5 adjustment "A".

6 Adjustment A of B-2 adjustment 2 reflects the re-computed amounts per
7 SSWC's B-2 plant schedule and takes into consideration the removed affiliate
8 profit.

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

11 A. Yes. *See* Decision No. 68412. A reconciliation of the starting balances for plant-
12 in-service in the instant case is shown on Schedule B-2, page 3.6.

13 For accumulated depreciation, a reconciliation of the starting balances for
14 accumulated depreciation in the instant case is shown on Schedule B-2, page 3.7.

15 The plant shown on Schedule B-2 started with the plant-in-service balances
16 approved in Decision No. 68412 which established the starting values of plant-in-
17 service. Plant additions and retirements since acquisition by Algonquin have been
18 added to and deducted from total plant shown on Schedule B-2, pages 3.1 to 3.4.
19 As mentioned above, capitalized affiliate profit recorded in the plant additions for
20 each year have been deducted from the plant. Pages 3.1 to 3.5 of the schedule
21 show the details for the accumulated depreciation through the end of the test year
22 using the half-year convention for depreciation.

23 **Q. WHAT DEPRECIATION RATES DID YOU EMPLOY?**

24 A. Staff's typical and customary depreciation rates. These are the same rates used in
25 the financial projections to set initial rates. *See* Decision No. 68826 at 30.

26

1 Q. **THANK YOU. PLEASE CONTINUE.**

2 A. B-2 adjustment number 3 as shown on Schedule B-2, page 5 adjusts deferred
3 income taxes. SSWC's computation is based on the adjusted plant-in-service,
4 accumulated depreciation, and CIAC in the instant case and the tax basis of its
5 assets using the tax rate found on Schedule C-3.

6 B-2 adjustment number 4, labeled as 4a and 4b, adjusts contributions in aid
7 of construction ("CIAC") and amortization for CIAC recorded since the since the
8 prior rate case. The detail of SSWC's proposed CIAC adjustments can be found on
9 Schedule B-2, page 6 and 6.1 to 6.2.

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

12 A. As stated, the FVRB shown on Schedule A-1 is based on OCRB, with no
13 adjustment for the current values of SSWC's plant and property.

14 C. **Income Statement (C Schedules).**

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

17 A. The following is a summary of adjustments shown on Schedule C-1:

18 Adjustment 1 annualizes depreciation expense. The proposed depreciation
19 rate for each component of utility plant is shown on Schedule C-2, page 2. The
20 depreciation rates approved in SSWC's last rate case were account specific rates.
21 SSWC proposes to continue to use these rates.

22 Adjustment 2 increases the property taxes based on proposed revenues.
23 SSWC has recognized the reduction in the assessment ratio contained in A.R.S.
24 § 42-15001, entitled "Assessed Valuation of Class One Property". By law, the
25 assessment ratio will be reduced through tax year 2011 to 20 percent. SSWC has
26 proposed a two-year reduction in the assessment ratio or a reduction from the 23

1 percent employed for the 2008 property tax year to 21 percent for 2010 property
2 tax year.

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

5 A. To determine full cash value, I used the method employed by the Arizona
6 Department of Revenue - Centrally Valued Properties ("ADOR" or "the
7 Department"). This method determines full cash value by using twice the average
8 of three years of revenue, plus an addition for CWIP and a deduction for the book
9 value of transportation equipment. In the instant case, I used two times the
10 adjusted revenues for the year ending March 31, 2009, and one year of revenues at
11 proposed rates. The assessed value (21 percent of full cash value) was then
12 multiplied by the property tax rate to determine adjusted property tax expense.

13 **Q. IS THIS CONSISTENT WITH PRIOR COMMISSION DECISIONS?**

14 A. Yes. *E.g., Chaparral City Water Company*, Decision No. 68176 (September 30,
15 2005) at 13, *Rio Rico Utilities Inc.*, Decision No. 67279 (October 5, 2004), and
16 *Bella Vista Water Company*, Decision No. 65350 (November 2, 2001)..

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

19 A. Yes. Like income taxes, property taxes must be adjusted to ensure that the new
20 rates are sufficient to produce the revenue requirement. For this reason, the
21 Commission has repeatedly approved the use of proposed revenues to determine an
22 appropriate level of property tax expense to be recovered through rates.

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

25 A. Adjustment 3 shows estimated rate case expense of \$125,000, which is roughly
26 sixty percent of a total estimated rate case expense of \$200,000.

1 **Q. HOW DID YOU ARRIVE AT THESE AMOUNTS?**

2 A. First, I assumed that SSWC and NSWC would have their rate cases heard together,
3 at a minimum, even if the consolidation with BVWC were rejected. I understand
4 this is how the two entities have generally proceeded before the Commission.
5 Second, I estimated \$200,000 for a SSWC/NSWC rate case based on my
6 experience with rate cases before the Commission, and that of SSWC's counsel.
7 Third, I allocated that amount 62-38 percent, roughly consistent with the difference
8 in customer numbers between these two water providers.

9 **Q. PLEASE EXPLAIN WHY YOU REFER TO THESE AMOUNTS AS**
10 **"ESTIMATES"?**

11 A. Because I can't see the future, I can only make some guesses based on my
12 experience. The specifics of who may intervene, what unique issues may come
13 into dispute, what kind of procedural problems we will encounter, and what will
14 happen with the joint consolidation request, I cannot predict. I know rate cases are
15 lengthy and expensive, but I still have to start with an estimate. If things turn out
16 more complicated than anticipated, SSWC will modify its request to account for
17 that increased expense. Conversely, if the case proceeds and rate case expense is
18 lower than expected, we would make an appropriate adjustment downward.

19 **Q. WHAT AMORTIZATION PERIOD ARE YOU RECOMMENDING?**

20 A. SSWC proposes that rate case expense be recovered over three years because it
21 believes a three-year cycle for future rate cases is reasonable given this utility's
22 circumstances. Initial rates for SSWC were established over 3 years ago and, the
23 current shareholder, Algonquin Water Resources of America, which acquired
24 SSWC in June 2006 intends to file cases on a regular basis.

25
26

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

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

9 Adjustment 5 annualizes purchased power expense based on the additional
10 gallons sold from annualizing revenues to the year-end number of customers in
11 Adjustment 4, above. This adjustment is intended to match the additional expense
12 associated with the revenue annualization.

13 Adjustment 6 annualizes chemicals expense based on the additional gallons
14 sold from annualizing revenues to the year-end number of customers in Adjustment
15 4, above. This adjustment is intended to match the additional expense associated
16 with the revenue annualization.

17 Adjustment number 7 increases outside services for known and measurable
18 changes to the general office allocation.

19 Adjustment 8 synchronizes interest expense with rate base.

20 Adjustment 9 reflects income taxes on taxable income based on the tax rate
21 under proposed revenues.

22 **Q. DO THE CONTRACTUAL COSTS SSWC HAS RECORDED IN EXPENSE**
23 **FOR THE TEST YEAR INCLUDE AFFILIATE PROFIT?**

24 A. No. The test year costs reflect actual costs. No profit is included consistent, with
25 Commission decisions for SSWC affiliates, *Black Mountain Sewer Corporation*
26 and *Gold Canyon Sewer Company*. Since acquisition, SSWC's parent has

1 developed methodologies consistent with rate making practices used by similarly
2 situated holding companies where the parent company owns more than one
3 subsidiary utility to allocate and record shared costs.

4 For example, under the allocation methodology, operation labor costs are
5 directly allocated based on operator time, accounting and billing costs are allocated
6 based on a customer allocation factor, and corporate overhead is allocated based
7 upon a 4-factor methodology. SSWC's parent has compared the amounts recorded
8 in expense on the books of SSWC and the allocated cost based on its methodology
9 and has determined that the amounts recorded in expense for the test year were
10 correct.

11 **D. Rate Design (H Schedules).**

12 **Q. WHAT ARE SSWC'S PRESENT RATES FOR WATER SERVICE?**

13 A. SSWC's present rates are:

14 **MONTHLY SERVICE CHARGES**

15	5/8" x 3/4" meters	\$31.00
16	3/4" Meters	\$46.50
17	1" Meters	\$77.50
18	1 1/2" Meters	\$155.00
19	2" Meters	\$248.00
20	3" Meter	\$496.00
21	4" Meters	\$775.00
22	6" Meter	\$930.00
23	8" Meters	\$1550.00

24 **COMMODITY RATES**

25	All meter sizes	0 to 5,000 gals	\$ 2.00
26		5,001 to 10,000 gals	\$ 2.75

1		Over 10,000 gals	\$ 3.90
2	Standpipe (bulk)	All gallons	\$ 3.90

3 **Q. WHAT ARE SSWC'S PROPOSED RATES FOR WATER SERVICE?**

4 A. SSWC's proposed rates are:

5 MONTHLY SERVICE CHARGES

6	5/8" x 3/4" meters	\$54.37
7	3/4" Meters	\$81.56
8	1" Meters	\$135.93
9	1 1/2" Meters	\$271.85
10	2" Meters	\$434.96
11	3" Meters	\$869.92
12	4" Meters	\$1,359.25
13	6" Meters	\$2,718.50
14	8" Meters	\$4,349.60

15 COMMODITY RATES

16	Residential 5/8" X 3/4" Meters	1 to 4,000 gals	\$ 3.51
17		4,001 to 10,000 gals	\$ 4.26
18		Over 10,000 gals	\$ 5.41
19	Residential 3/4" Meters	1 to 4000 gals	\$ 3.51
20		4,001 to 10,000 gals	\$ 4.26
21		Over 10,000 gals	\$ 5.41
22	Commercial 5/8" X 3/4" Meters	1 to 10,000 gals	\$ 3.51
23		Over 10,000 gals	\$ 4.26
24	Commercial 3/4" Meters	1 to 10,000 gals	\$ 3.51
25		Over 10,000 gals	\$ 4.26
26	1" Meters	1 to 15,000 gals	\$ 3.51

1		Over 15,000 gals	\$ 4.26
2	1 ½" Meters	1 to 25,000	\$ 3.51
3		Over 25,000	\$ 4.26
4	2" Meters	1 to 50,000	\$ 3.51
5		Over 50,000	\$ 4.26
6	3" Meters	1 to 80,000	\$ 3.51
7		Over 80,000	\$ 4.26
8	4" Meters	1 to 160,000	\$ 3.51
9		Over 160,000	\$ 4.26
10	6" Meters	1 to 250,000	\$ 3.51
11		Over 250,000	\$ 4.26
12	8" Meters	1 to 500,000	\$ 3.51
13		Over 500,000	\$ 4.26
14	Standpipe (bulk)	All gallons	\$ 4.26

15 **Q. WHAT METER SIZE ARE THE MAJORITY OF CUSTOMERS ON AND**
16 **WHAT WAS THE AVERAGE MONTHLY BILL DURING THE TEST**
17 **YEAR ?**

18 A. The largest customer class is the 5/8 inch residential class. As shown on Schedule
19 H-2, page 1, the average monthly bill under present rates for a 5/8 inch residential
20 customer using an average 5,581 gallons is \$42.60.

21 **Q. WHAT WILL BE THE AVERAGE 5/8 INCH RESIDENTIAL CUSTOMER**
22 **AVERAGE MONTHLY BILL UNDER THE NEW RATES?**

23 A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates
24 for a 5/8 inch residential customer using an average 5,581 gallons is \$75.15 – a
25 \$32.55 increase over the present monthly bill or a 76.41 percent increase.

26

1 **Q. IS SSWC'S RATE DESIGN A CONSERVATION ORIENTED RATE**
2 **DESIGN?**

3 A. Yes. Inverted tier rate designs are conservation oriented. The smaller residential
4 meters (5/8" and 3/4") are on an inverted three-tier rate design and all other meter
5 sizes and classes are on an inverted two-tier design.

6 **Q. IS SSWC PROPOSING AN OFF-SITE FACILITIES HOOK-UP FEE**
7 **(HUF)?**

8 A. Yes. A discussion of the proposed HUF tariff is contained in Greg Sorensen's
9 direct testimony.²

10 **Q. IS SSWC PROPOSING ANY CHANGES TO ITS METER AND SERVICE**
11 **LINE INSTALLATION CHARGES?**

12 A. Yes. As shown on Schedule H-3, page 4, SSWC is proposing meter and service
13 line installation charges be based on actual costs.³

14 **Q. IS SSWC PROPOSING ANY CHANGES TO MISCELLANEOUS SERVICE**
15 **CHARGES?**

16 A. No.

17 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

18 A. Yes.

19

20

21

22

23

24

25 ² Greg Sorensen Direct Testimony ("Sorensen SSWC Dt.") at 9-11.

26 ³ Sorensen SSWC Dt. at 11.

Southern Sunrise Water Company Inc.

Application for a Determination of the
Fair Value of Its Utility Plants and Property and for
Increases in Its Water Rates and Charges

August 31, 2009

Schedules A-C, E, F, H

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Computation of Increase in Gross Revenue
 Requirements As Adjusted

Exhibit
 Schedule A-1
 Page 1
 Witness: Bourassa

Line
 No.

1	Fair Value Rate Base			\$	1,544,434	
2						
3	Adjusted Operating Income				6,042	
4						
5	Current Rate of Return				0.39%	
6						
7	Required Operating Income			\$	197,688	
8						
9	Required Rate of Return on Fair Value Rate Base				12.80%	
10						
11	Operating Income Deficiency			\$	191,645	
12						
13	Gross Revenue Conversion Factor				1.6128	
14						
15	Increase in Gross Revenue Revenue Requirement				309,090	
16						
17	Adjusted Test Year Revenues			\$	444,136	
18	Increase in Gross Revenue Revenue Requirement			\$	309,090	
19	Proposed Revenue Requirement			\$	753,226	
20	Percent Increase				69.59%	
21						
22	Customer		Present		Proposed	Dollar
23	Classification		Rates		Rates	Increase
24	5/8 Inch Residential	\$	423,617	\$	726,873	\$ 303,256
25	3/4 Inch Residential		-		-	-
26						
27						
28	Subtotal	\$	423,617	\$	726,873	\$ 303,256
29						71.59%
30	1 Inch Commercial	\$	1,657	\$	2,879	\$ 1,222
31	2 Inch Commercial		4,422		6,758	2,336
32						
33						
34						
35						
36						
37						
38						
39	Subtotal	\$	6,079	\$	9,637	\$ 3,558
40						58.53%
41						
42						
43						
44						
45						
46						
47						
48	Subtotal Revenues before Annualization	\$	429,696	\$	736,510	\$ 306,814
49	Revenue Annualization		3,335		5,863	2,527
50	Miscellaneous Revenues		10,679		10,679	-
51	Reconciling Amount H-1 to C-1		426		174	(252)
52	Total of Water Revenues (a)	\$	444,136	\$	753,226	\$ 309,089
53						69.59%

54
 55 **SUPPORTING SCHEDULES:**
 56 B-1
 57 C-1
 58 C-3
 59 H-1

Southern Sunrise Water Company
Test Year Ended March 31, 2009
Summary of Results of Operations

Exhibit
Schedule A-2
Page 1
Witness: Bourassa

Line No.	Description	Prior Years Ended		Test Year		Projected Year	
		3/31/2007	3/31/2008	Actual 3/31/2009	Adjusted 3/31/2009	Present Rates 3/31/2010	Proposed Rates 3/31/2010
1	Gross Revenues	\$ 52,987	\$ 417,236	\$ 440,801	\$ 444,136	\$ 444,136	\$ 753,226
2							
3	Revenue Deductions and	24,024	433,587	402,558	438,094	438,094	555,539
4	Operating Expenses						
5							
6	Operating Income	\$ 28,963	\$ (16,351)	\$ 38,243	\$ 6,042	\$ 6,042	\$ 197,688
7							
8	Other Income and	-	-	-	-	-	-
9	Deductions						
10							
11	Interest Expense	-	14	311	-	-	-
12							
13	Net Income	\$ 28,963	\$ (16,337)	\$ 38,554	\$ 6,042	\$ 6,042	\$ 197,688
14							
15	Earned Per Average						
16	Common Share	289.63	(163.37)	385.54	60.42	60.42	1,976.88
17							
18	Dividends Per						
19	Common Share	-	-	-	-	-	-
20							
21	Payout Ratio	-	-	-	-	-	-
22							
23	Return on Average						
24	Invested Capital	6.15%	-1.35%	2.42%	0.42%	0.40%	13.11%
25							
26	Return on Year End						
27	Capital	3.07%	-1.11%	2.24%	0.42%	0.39%	12.60%
28							
29	Return on Average						
30	Common Equity	6.66%	-1.47%	2.80%	0.44%	0.43%	13.17%
31							
32	Return on Year End						
33	Common Equity	3.33%	-1.20%	2.76%	0.44%	0.43%	12.31%
34							
35	Times Bond Interest Earned						
36	Before Income Taxes	-	367.50	(122.97)	-	-	-
37							
38	Times Total Interest and						
39	Preferred Dividends Earned						
40	After Income Taxes	-	1,167.93	(122.97)	-	-	-
41							
42							
43	<u>SUPPORTING SCHEDULES</u>						
44	C-1						
45	E-2						
46	F-1						

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Summary of Capital Structure

Exhibit
 Schedule A-3
 Page 1
 Witness: Bourassa

Line No.	Description:	Prior Years Ended		Test Year	Projected Year
		<u>3/31/2007</u>	<u>3/31/2008</u>	<u>3/31/2009</u>	<u>3/31/2010</u>
1					
2					
3	Short-term Debt	\$ -	\$ -	\$ -	\$ -
4					
5	Long-Term Debt	\$ -	\$ -	\$ -	\$ -
6					
7	Total Debt	\$ -	\$ -	\$ -	\$ -
8					
9	Preferred Stock	-	-	-	-
10					
11	Common Equity	4,726,521	5,645,930	1,408,804	1,606,492
12					
13					
14	Total Capital & Debt	\$ 4,726,521	\$ 5,645,930	\$ 1,408,804	\$ 1,606,492
15					
16					
17	Capitalization Ratios:				
18					
19	Short-term Debt	-	-	-	-
20					
21	Long-Term Debt	0.00%	0.00%	0.00%	0.00%
22					
23	Total Debt	0.00%	0.00%	0.00%	0.00%
24					
25	Preferred Stock	-	-	-	-
26					
27	Common Equity	100.00%	100.00%	100.00%	100.00%
28					
29					
30	Total Capital	100.00%	100.00%	100.00%	100.00%
31					
32	Weighted Cost of				
33	Short-Term Debt	0.00%	0.00%	0.00%	0.00%
34					
35	Weighted Cost of				
36	Long-Term Debt	0.00%	0.00%	0.00%	0.00%
37					
38	Weighted Cost of				
39	Senior Capital	0.00%	0.00%	0.00%	0.00%
40					
41					
42	<u>SUPPORTING SCHEDULES:</u>				
43	E-1				
44	D-1				

Southern Sunrise Water Company
Test Year Ended March 31, 2009
Construction Expenditures
and Gross Utility Plant in Service

Exhibit
Schedule A-4
Page 1
Witness: Bourassa

Line No.		<u>Construction Expenditures</u>	<u>Net Plant Placed in Service</u>	<u>Gross Utility Plant in Service</u>
1				
4	Prior Year Ended 12/31/2006	845,111	840,549	840,549
5				
6	Prior Year Ended 12/31/2007	629,503	164,889	1,005,438
7				
8	Test Year Ended 12/31/2008	332,197	748,193	1,753,631
9				
10	Projected Year Ended 12/31/2009	200,000	200,000	1,953,631
11				
12				
13				
14				
15	<u>SUPPORTING SCHEDULES:</u>			
16	B-2			
17	E-5			
18	F-3			
19				
20				

Southern Sunrise Water Company
Test Year Ended March 31, 2009
Summary Statements of Cash Flows

Exhibit
Schedule A-5
Page 1
Witness: Bourassa

Line
No.

	Prior Year Ended <u>3/31/2007</u>	Prior Year Ended <u>3/31/2008</u>	Test Year Ended <u>3/31/2009</u>	Projected Year Present Rates <u>3/31/2010</u>	Projected Year Proposed Rates <u>3/31/2010</u>
1					
2					
3					
4					
5	Cash Flows from Operating Activities				
6	\$ 28,963	\$ (16,337)	\$ 38,564	\$ 6,042	\$ 197,688
7	Adjustments to reconcile net income to net cash				
8	provided by operating activities:				
9	8,384	70,724	90,929	76,419	76,419
10	-	-	-	-	-
11	-	-	-	-	-
12	Changes in Certain Assets and Liabilities:				
13	(74,423)	31,333	(5,473)	-	-
14	-	-	-	-	-
15	-	-	-	-	-
16	-	(2,384)	(2,990)	-	-
17	57,841	20,848	6,275	-	-
18	14,842	24,074	178,228	-	-
19	-	-	2,870	-	-
20	-	(1,082)	(1,922)	-	-
21	-	-	-	-	-
22	-	-	(788)	-	-
23	\$ 35,607	\$ 127,176	\$ 305,683	\$ 82,462	\$ 274,107
24	Cash Flow From Investing Activities:				
25	(845,111)	(629,503)	(332,197)	(200,000)	(200,000)
26	-	-	-	-	-
27	-	-	-	-	-
28	\$ (845,111)	\$ (629,503)	\$ (332,197)	\$ (200,000)	\$ (200,000)
29	Cash Flow From Financing Activities				
30	-	-	-	-	-
31	-	-	-	-	-
32	-	-	20,000	-	-
33	-	-	-	-	-
34	-	-	-	-	-
35	-	-	-	-	-
36	840,547	504,969	(623)	-	-
37	\$ 840,547	\$ 504,969	\$ 19,377	\$ -	\$ -
38	31,043	2,642	(7,137)	(117,538)	74,107
39	-	31,043	33,685	26,548	26,548
40	\$ 31,043	\$ 33,685	\$ 26,548	\$ (90,990)	\$ 100,655

41
42

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Summary of Rate Base

Exhibit
 Schedule B-1
 Page 1
 Witness: Bourassa

Line No.	<u>Original Cost</u> <u>Rate base</u>	<u>Fair Value</u> <u>Rate Base</u>
1		
2	\$ 1,724,610	\$ 1,724,610
3	Less: Accumulated Depreciation	105,733
4		
5	Net Utility Plant in Service	\$ 1,618,877
6		
7	<u>Less:</u>	
8	Advances in Aid of	
9	Construction	-
10	Contributions in Aid of	
11	Construction	20,000
12		
13	Accumulated Amortization of CIAC	(15)
14		
15	Customer Meter Deposits	2,870
16	Deferred Income Taxes & Credits	51,588
17		
18		
19		
20	<u>Plus:</u>	
21	Unamortized Debt Issuance	
22	Costs	-
23	Deferred Reg. Assets	-
24	Working capital	-
25		
26		
27		
28		
29	<u>\$ 1,544,434</u>	<u>\$ 1,544,434</u>
30		
31		
32		
33	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
34	B-2	A-1
35	B-3	
36	B-5	
37	E-1	
38		

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Schedule B-2
 Page 1
 Witness: Bourassa

Line No.		Actual at End of <u>Test Year</u>	Proforma Adjustment <u>Amount</u>	Adjusted at end of <u>Test Year</u>
1	Gross Utility			
2	Plant in Service	\$ 1,753,631	(29,021)	\$ 1,724,610
3				
4	Less:			
5	Accumulated			
6	Depreciation	170,036	(64,303)	105,733
7				
8				
9	Net Utility Plant			
10	in Service	\$ 1,583,595		\$ 1,618,877
11				
12	Less:			
13	Advances in Aid of			
14	Construction	-	-	-
15				
16	Contributions in Aid of			
17	Construction	20,000	-	20,000
18				
19	Accumulated Amort of CIAC	-	(15)	(15)
20				
21	Customer Meter Deposits	2,870	-	2,870
22	Deferred Income Taxes & Credits	-	51,588	51,588
23				
24				
25				
26	Plus:			
27	Unamortized Debt Issuance			
28	Costs	-	-	-
29	Deferred Reg. Assets	-	-	-
30	Working capital	-	-	-
31				
32				
33				
34				
35	Total	<u>\$ 1,560,725</u>		<u>\$ 1,544,434</u>

39 SUPPORTING SCHEDULES:
 40 B-2, pages 2
 41 E-1

RECAP SCHEDULES:
 B-1

42
 43
 44
 45
 46
 47
 48

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Schedule B-2
 Page 2
 Witness: Bourassa

Line No.	Description	Actual at End of Test Year	Proforma Adjustments			Adjusted at end of Test Year
			1 Plant	2 Accumulated Depr.	3 DIT	
1	Gross Utility Plant in Service	\$ 1,753,631	(29,021)			\$ 1,724,610
2						
3						
4	Less:					
5	Accumulated Depreciation	170,036		(64,303)		105,733
6						
7						
8						
9	Net Utility Plant in Service	\$ 1,583,595	\$ (29,021)	\$ 64,303	\$ -	\$ 1,618,877
10						
11						
12	Less:					
13	Advances in Aid of Construction	-				-
14						
15						
16	Contributions in Aid of Construction (CIAC)	20,000				20,000
17						
18						
19	Accumulated Amort of CIAC	-			(15)	(15)
20						
21	Customer Meter Deposits	2,870				2,870
22	Deferred Income Taxes & Credits	-		51,588		51,588
23						
24						
25	Plus:					
26	Unamortized Debt Issuance Costs	-				-
27						
28	Deferred Reg. Assets	-				-
29	Allowance for Working Capital	-				-
30						
31	Total	\$ 1,560,725	\$ (29,021)	\$ 64,303	\$ (51,588)	\$ 1,544,434
32						
33						
34						
35						
36						
37						

SUPPORTING SCHEDULES:
 B-2, pages 3-6
 E-1

Account No.	Description	Deprec. Rate Before	Deprec. Rate After	Per Decision 68412	2007 Plant Additions	2007 Plant Adjustments ¹	2007 Adjusted Plant Additions	2007 Plant Retirements	2007 Salvage A/D Only	2007 Plant Balance	2007 Deprec.
		Dec-06	Dec-06	Plant AI 12/31/2006							
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-
303	Land and Land Rights	0.00%	0.00%	336,686	-	-	-	-	-	336,686	-
304	Structures and Improvements	3.33%	3.33%	1,287	-	-	-	-	-	1,287	43
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	2.50%	-	25,317	-	25,317	-	-	52,142	1,315
307	Wells and Springs	3.33%	3.33%	26,825	-	-	-	-	-	-	-
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-	-	-	-	-	-	-	-
309	Supply Mains	2.00%	2.00%	-	2,706	-	2,706	-	-	2,706	27
310	Power Generation Equipment	5.00%	5.00%	-	-	-	-	-	-	-	-
311	Electric Pumping Equipment	12.50%	12.50%	42,847	63,528	-	63,528	-	-	106,375	9,326
320	Water Treatment Equipment	3.33%	3.33%	-	-	-	-	-	-	-	-
320.1	Water Treatment Equipment	3.33%	3.33%	-	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	20.00%	20.00%	-	2,079	-	2,079	-	-	127,535	2,810
330	Distribution Reservoirs & Standpipe	2.22%	2.22%	125,536	-	-	-	-	-	-	-
330.1	Storage tanks	2.22%	2.22%	-	-	-	-	-	-	-	-
330.2	Pressure Tanks	5.00%	5.00%	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	2.00%	2.00%	71,667	3,748	(465)	3,263	-	-	74,930	1,466
333	Services	3.33%	3.33%	-	22,618	-	22,618	-	-	22,618	377
334	Meters	8.33%	8.33%	-	2,997	-	2,997	-	-	2,997	125
335	Hydrants	2.00%	2.00%	300	4,701	-	4,701	-	-	5,001	53
336	Backflow Prevention Devices	6.67%	6.67%	-	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	-	9,370	-	9,370	-	-	9,370	312
340	Office Furniture and Fixtures	6.67%	6.67%	-	-	-	-	-	-	-	-
340.1	Computers and Software	20.00%	20.00%	-	-	-	-	-	-	-	-
341	Transportation Equipment	20.00%	20.00%	-	-	-	-	-	-	-	-
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-	-	-	-
343	Tools and Work Equipment	5.00%	5.00%	-	-	-	-	-	-	-	-
344	Laboratory Equipment	10.00%	10.00%	-	-	-	-	-	-	-	-
345	Power Operated Equipment	5.00%	5.00%	-	-	-	-	-	-	-	-
346	Communications Equipment	10.00%	10.00%	-	-	-	-	-	-	-	-
347	Miscellaneous Equipment	10.00%	10.00%	-	-	-	-	-	-	-	-
348	Other Tangible Plant Rounding	10.00%	10.00%	-	235,381	-	235,381	-	-	235,381	11,769
Plant Held for Future Use											
TOTAL WATER PLANT											
				605,168	372,444	(485)	371,959	-	-	977,127	27,623

See B-2 page 3.5 See B-2 page 3.6
1 Affiliates Profit

Southern Starline Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.2

Account No.	Description	Deprec.	Deprec.	2008		2008		2008		2008	2008
		Rate Before Dec-06	Rate After Dec-06	Plant Additions	Adjustments ¹	Adjusted Plant Additions	Plant Retirements	Salvage/Adj. A/D Only	Plant Balance		
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	336,686	-	-
304	Structures and Improvements	3.33%	3.33%	305,955	-	305,955	-	-	307,242	-	5,137
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	2.50%	-	-	-	-	-	-	-	-
307	Wells and Springs	3.33%	3.33%	75,969	-	75,969	-	-	128,111	-	3,061
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-	-	-	-	-	-	-	-
309	Supply Mains	2.00%	2.00%	550	-	550	-	-	3,256	-	60
310	Power Generation Equipment	5.00%	5.00%	-	-	-	-	-	-	-	-
311	Electric Pumping Equipment	12.50%	12.50%	92,548	(15,912)	76,636	-	-	183,012	-	18,087
320	Water Treatment Equipment	3.33%	3.33%	-	-	-	-	-	-	-	-
320.1	Water Treatment Equipment	3.33%	3.33%	-	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	20.00%	20.00%	-	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.22%	2.22%	132,576	(1,660)	130,916	-	-	258,551	-	4,287
330.1	Storage tanks	2.22%	2.22%	-	-	-	-	-	-	-	-
330.2	Pressure Tanks	5.00%	5.00%	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	2.00%	2.00%	6,319	(2,343)	3,976	-	-	78,906	-	1,538
333	Services	3.33%	3.33%	35,678	(530)	35,148	-	-	57,767	-	1,338
334	Meters	8.33%	8.33%	18,413	(5,563)	12,850	-	-	15,863	-	785
335	Hydrants	2.00%	2.00%	13,415	-	13,415	-	-	18,416	-	234
336	Backflow Prevention Devices	6.67%	6.67%	-	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	12,628	(482)	12,146	-	-	21,516	-	1,030
340	Office Furniture and Fixtures	6.67%	6.67%	-	-	-	-	-	-	-	-
340.1	Computers and Software	20.00%	20.00%	-	-	-	-	-	-	-	-
341	Transportation Equipment	20.00%	20.00%	-	-	-	-	-	-	-	-
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-	-	-	-
343	Tools and Work Equipment	5.00%	5.00%	125	-	125	-	-	125	-	3
344	Laboratory Equipment	10.00%	10.00%	-	-	-	-	-	-	-	-
345	Power Operated Equipment	5.00%	5.00%	-	-	-	-	-	-	-	-
346	Communications Equipment	10.00%	10.00%	3,379	-	3,379	-	-	3,379	-	169
347	Miscellaneous Equipment	10.00%	10.00%	-	-	-	-	-	-	-	-
348	Other Tangible Plant	10.00%	10.00%	-	-	-	-	-	235,381	-	23,538
	Rounding			-	-	-	-	-	-	-	-
	Plant Held for Future Use										
	TOTAL WATER PLANT			697,562	(26,480)	671,082	-	-	1,648,209	-	59,203

¹ Affiliate Profit

Southern Sunrise Water Company
Plant Reconciliation to Prior Rate Case

Exhibit
Schedule B-2
Page 3.5

Line No.	Account No.	Description	Miracle	Horseshoe	Cochise	Per Decision 68412		Adjustments		Per Decision 68412	
						Prior Case Adjusted Plant	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Prior Case Adjusted Plant	Prior Case Adjusted Plant
6	301	Organization Cost				-	-	-	-	-	-
7	302	Franchise Cost				-	-	-	-	-	-
8	303	Land and Land Rights	6,550	7,955	322,181	336,686	336,686			336,686	
9	304	Structures and Improvements		1,287		1,287	1,287			1,287	
10	305	Collecting and Impounding Res.				-	-	-	-	-	-
11	306	Lake River and Other Intakes				-	-	-	-	-	-
12	307	Wells and Springs		21,050	5,775	26,825	26,825			26,825	
13	308	Infiltration Galleries and Tunnels				-	-	-	-	-	-
14	309	Supply Mains				-	-	-	-	-	-
15	310	Power Generation Equipment				-	-	-	-	-	-
16	311	Electric Pumping Equipment	6,855	1,500	34,492	42,847	42,847			42,847	
17	320	Water Treatment Equipment				-	-	-	-	-	-
18	320.1	Water Treatment Plants				-	-	-	-	-	-
19	320.2	Chemical Solution Feeders				-	-	-	-	-	-
20	330	Distribution Reservoirs & Standpipe		30,556	95,000	125,556	125,556			125,556	
21	330.1	Storage tanks				-	-	-	-	-	-
22	330.2	Pressure Tanks				-	-	-	-	-	-
23	331	Transmission and Distribution Mains	9,394	62,273		71,667	71,667			71,667	
24	333	Services				-	-	-	-	-	-
25	334	Meters				-	-	-	-	-	-
26	335	Hydrants		300		300	300			300	
27	336	Backflow Prevention Devices				-	-	-	-	-	-
28	339	Other Plant and Miscellaneous Equipment				-	-	-	-	-	-
29	340	Office Furniture and Fixtures				-	-	-	-	-	-
30	340.1	Computers and Software				-	-	-	-	-	-
31	341	Transportation Equipment				-	-	-	-	-	-
32	342	Stores Equipment				-	-	-	-	-	-
33	343	Tools and Work Equipment				-	-	-	-	-	-
34	344	Laboratory Equipment				-	-	-	-	-	-
35	345	Power Operated Equipment				-	-	-	-	-	-
36	346	Communications Equipment				-	-	-	-	-	-
37	347	Miscellaneous Equipment				-	-	-	-	-	-
38	348	Other Tangible Plant				-	-	-	-	-	-
39		Plant not in Service				-	-	-	-	-	-
40		TOTAL	22,799	124,921	457,448	605,168	605,168			605,168	

Southern Sunrise Water Company
 A/D Reconciliation to Prior Rate Case

Exhibit
 Schedule B-2
 Page 3.6

Line No.	Account No.	Description	Per Decision 68412		Adjustments		Per Decision 68412	
			Prior Case Adjusted A/D	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Prior Case Adjusted A/D	
1	301	Organization Cost	-	-	-	-	-	-
2	302	Franchise Cost	-	-	-	-	-	-
3	303	Land and Land Rights	-	-	-	-	-	-
4	304	Structures and Improvements	-	-	-	-	-	-
5	305	Collecting and Impounding Res.	-	-	-	-	-	-
6	306	Lake River and Other Intakes	-	-	-	-	-	-
7	307	Wells and Springs	-	-	-	-	-	-
8	308	Infiltration Galleries and Tunnels	-	-	-	-	-	-
9	309	Supply Mains	-	-	-	-	-	-
10	310	Power Generation Equipment	-	-	-	-	-	-
11	311	Electric Pumping Equipment	-	-	-	-	-	-
12	320	Water Treatment Equipment	-	-	-	-	-	-
13	320.1	Water Treatment Plants	-	-	-	-	-	-
14	320.2	Chemical Solution Feeders	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipe	-	-	-	-	-	-
16	330.1	Storage tanks	-	-	-	-	-	-
17	330.2	Pressure Tanks	-	-	-	-	-	-
18	331	Transmission and Distribution Mains	-	-	-	-	-	-
19	333	Services	-	-	-	-	-	-
20	334	Meters	-	-	-	-	-	-
21	335	Hydrants	-	-	-	-	-	-
22	336	Backflow Prevention Devices	-	-	-	-	-	-
23	339	Other Plant and Miscellaneous Equipment	-	-	-	-	-	-
24	340	Office Furniture and Fixtures	-	-	-	-	-	-
25	340.1	Computers and Software	-	-	-	-	-	-
26	341	Transportation Equipment	-	-	-	-	-	-
27	342	Stores Equipment	-	-	-	-	-	-
28	343	Tools and Work Equipment	-	-	-	-	-	-
29	344	Laboratory Equipment	-	-	-	-	-	-
30	345	Power Operated Equipment	-	-	-	-	-	-
31	346	Communications Equipment	-	-	-	-	-	-
32	347	Miscellaneous Equipment	-	-	-	-	-	-
33	348	Other Tangible Plant	-	-	-	-	-	-
34		Rounding	-	-	-	-	-	-
35		TOTAL	-	-	-	-	-	-
36			-	-	-	-	-	-
37			-	-	-	-	-	-
38			-	-	-	-	-	-
39			-	-	-	-	-	-
40			-	-	-	-	-	-
41			-	-	-	-	-	-

Southern Sunrisc Water Company
 Test Year Ended March 31, 2009
 Original Cost Rate Base Proforma Adjustments
 Adjustment 3

Exhibit
 Schedule B-2
 Page 5
 Witness: Bourassa

Line No.	<u>Deferred Income Tax as of March 31, 2009</u>	<u>Book Value¹</u>	<u>Adjusted</u>	<u>Tax Value</u>	<u>Probability of Realization of Future Tax Benefit</u>	<u>Deductible TD (Taxable TD) Expected to be Realized</u>	<u>Tax Rate</u>	<u>Future Tax Asset Current</u>	<u>Future Tax Asset Non Current</u>	<u>Future Tax Liability Current</u>	<u>Future Tax Liability Non Current</u>
1											
2											
3											
4											
5											
6	Plant-in-Service	\$ 1,724,610									
7	Accum. Deprec.	(105,733)									
8	CIAC	(20,000)									
9	Fixed Assets	<u>\$ 1,598,877</u>		1,463,108	100.0%	\$ (135,769)	38.0%				
10	AIAC				100.0%	-	38.0%	\$			(51,588)
11	Tax Benefits from O.L. Carry Forward.				100.0%	-	38.0%	\$			
12								<u>\$</u>	<u>-</u>	<u>\$</u>	<u>(51,588)</u>
13											
14								\$	(51,588)		
15									1,000,000		
16	Factor										
17											
18	Allocated DIT Asset (Liability)							\$	(51,588)		
19											
20	DIT Asset (Liability) per books							\$	-		
21											
22	Adjustment to DIT							\$	51,588		
23											
24	¹ Adjusted - per B-2, page 2										
25											
26											

Net Asset (Liability)

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Original Cost Rate Base Proforma Adjustments
 Adjustment 4

Exhibit
 Schedule B-2
 Page 6
 Witness: Bourassa

Line
No.

1 CIAC and Accumulated Amortization

2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36

	<u>Gross CIAC</u>	<u>Accum. Amort.</u>
5 Computed balance at 3/31/2009	\$ 20,000	\$ 15
7 Book balance at 3/31/2009	<u>\$ 20,000</u>	<u>\$ -</u>
9 Increase (decrease)	\$ -	\$ 15
12 Adjustment to CIAC	<u>\$ -</u>	<u>\$ (15)</u>
13 Label	4a	4b

19 SUPPORTING SCHEDULES

20 B-2, page 6.1 to 6.2

Southern Sunrise Water Company

Test Year Ended March 31, 2009

Original Cost Rate Base Proforma Adjustments
Contributions-in-aid of Construction and Amortization
Adjustment 4

Exhibit
Schedule B-2
Page 6.1
Witness: Bourassa

Line No.	Balance at 1/1/2006	2006 Activity	Balance at 12/31/2006	2007 Activity
1	-	-	-	-
2	-	-	-	-
3	-	-	-	-
4	-	-	-	-
5	-	-	-	-
6	-	-	-	-
7	-	-	-	-
8	-	-	-	-
9	-	-	-	-
10	-	2.8270%	-	3.5922%
11	-	-	-	-
12	-	-	-	-
13	-	-	-	-
14	-	-	-	-
15	-	-	-	-
16	-	-	-	-
17	-	-	-	-
18	-	-	-	-
19	-	-	-	-
20	-	-	-	-
21	-	-	-	-
22	-	-	-	-
23	-	-	-	-
24	-	-	-	-
25	-	-	-	-
26	-	-	-	-
27	-	-	-	-
28	-	-	-	-
29	-	-	-	-
30	-	-	-	-
31	-	-	-	-
32	-	-	-	-
33	-	-	-	-
34	-	-	-	-
35	-	-	-	-
22	-	-	-	-
23	-	-	-	-
24	-	-	-	-
25	-	-	-	-
26	-	-	-	-
	Total CIAC Water			
	Total Accum Amort.			

Southern Sunrise Water Company

Test Year Ended March 31, 2009

Original Cost Rate Base Proforma Adjustments

Contributions-in-aid of Construction and Amortization

Adjustment 4

Exhibit
Schedule B-2
Page 6.2
Witness: Bourassa

Line No.	2008 Activity	Balance at 12/31/2008	2009 Activity	Balance at 3/31/2009
1				
2				
3				
4		-	20,000	20,000
5				
6				
7	-	-	15	15
8	-	-	15	15
9				
10	1.0963%		0.1525%	
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34				
35				
22				20,000
23				
24				15
25				
26				
Total CIAC Water				20,000
Total Accum. Amort.				15

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Computation of Working Capital

Exhibit
 Schedule B-5
 Page 1
 Witness: Bourassa

Line		
<u>No.</u>		
1	Cash Working Capital (1/8 of Allowance	
2	Operation and Maintenance Expense)	\$ 37,357
3	Pumping Power (1/24 of Pumping Power)	1,348
4	Purchased Water (1/24 of Purchased Water)	-
5	Materials and Supplies	-
6	Prepays	5,374
7		
8		
9	Total Working Capital Allowance	<u>\$ 44,079</u>
10		
11		
12	Working Capital Requested	<u>\$ -</u>
13		
14		
15	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
16	E-1	B-1
17		
18		Adjusted
19	<u>Cash Working Capital Detail</u>	<u>Test Year Results</u>
20		
21	Total Operating Expense	\$ 438,094
22	Less:	
23	Income Tax	3,703
24	Property Tax	26,765
25	Depreciation	76,419
26	Purchased Water	-
27	Purchased Power	32,354
28	Allowable Expenses	<u>\$ 298,853</u>
29	1/8 of allowable expenses	<u>\$ 37,357</u>
30		
31		

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Income Statement

Exhibit
 Schedule C-1
 Page 1
 Witness: Bourassa

Line No.		Test Year Book Results	Label	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Revenues						
2	Metered Water Revenues	\$ 430,122	4	\$ 3,335	\$ 433,457	\$ 309,090	\$ 742,547
3	Unmetered Water Revenues	-			-		-
4	Other Water Revenues	10,679			10,679		10,679
5		<u>\$ 440,801</u>		<u>\$ 3,335</u>	<u>\$ 444,136</u>	<u>\$ 309,090</u>	<u>\$ 753,226</u>
6	Operating Expenses						
7	Salaries and Wages	\$ -			\$ -		\$ -
8	Purchased Water	-			-		-
9	Purchased Power	32,112	5	242	32,354		32,354
10	Fuel for Power Production	-			-		-
11	Chemicals	1,255	6	10	1,265		1,265
12	Materials & Supplies	7,972			7,972		7,972
13	Outside Services	91			91		91
14	Outside Services- Legal	5,390			5,390		5,390
15	Outside Services- Other	175,090	7	4,337	179,427		179,427
16	Water Testing	5,592			5,592		5,592
17	Equipment Rental	-			-		-
18	Rents - Building	-			-		-
19	Transportation Expenses	25,481			25,481		25,481
20	Insurance - General Liability	10,788			10,788		10,788
21	Insurance - Health and Life	-			-		-
22	Reg. Comm. Exp.	1,024			1,024		1,024
23	Reg. Comm. Exp. - Rate Case	-	3	41,667	41,667		41,667
24	Miscellaneous Expense	14,810			14,810		14,810
25	Bad Debt Expense	5,346			5,346		5,346
26	Depreciation Expense	90,929	1	(14,510)	76,419		76,419
27	Taxes Other Than Income	-			-		-
28	Property Taxes	26,678	2	87	26,765		26,765
29	Income Tax	-	9	3,703	3,703	117,445	121,148
30	Total Operating Expenses	<u>\$ 402,558</u>		<u>\$ 35,536</u>	<u>\$ 438,094</u>	<u>\$ 117,445</u>	<u>\$ 555,539</u>
31	Operating Income	<u>\$ 38,243</u>		<u>\$ (32,201)</u>	<u>\$ 6,042</u>	<u>\$ 191,645</u>	<u>\$ 197,688</u>
32	Other Income (Expense)						
33	Interest Income	-			-		-
34	Other income (loss)	-			-		-
35	Interest Expense	311	8	(311)	-		-
36	Other Expense	-			-		-
37		-			-		-
38	Total Other Income (Expense)	<u>\$ 311</u>		<u>\$ (311)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
39	Net Profit (Loss)	<u>\$ 38,554</u>		<u>\$ (32,512)</u>	<u>\$ 6,042</u>	<u>\$ 191,645</u>	<u>\$ 197,688</u>

41 SUPPORTING SCHEDULES:

42 C-2

43 E-2

RECAP SCHEDULES:

A-1

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Adjustments to Revenues and Expenses

Exhibit
 Schedule C-2
 Page 1
 Witness: Bourassa

Line No.	<u>Adjustments to Revenues and Expenses</u>						<u>Subtotal</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	
	Depreciation Expense	Property Taxes	Rate Case Expense	Revenue Annualization	Purchased Power Expense	Annualize Chemicals Expense	
1							
2							
3				3,335			3,335
4	(14,510)	87	41,667		242	10	27,495
5							
6							
7							
8	14,510	(87)	(41,667)	3,335	(242)	(10)	(24,160)
9							
10							
11							
12							
13							
14							
15							
16	14,510	(87)	(41,667)	3,335	(242)	(10)	(24,160)
17							
18							
19							
20							
21							
22							
23							
24	4,337		3,703				35,536
25							
26							
27	(4,337)		(3,703)				(32,201)
28							
29							
30							
31							
32							
33							
34							
35	(4,337)	(311)	(3,703)				(32,512)

Adjustments to Revenues and Expenses

Line No.	<u>Adjustments to Revenues and Expenses</u>			<u>Subtotal</u>
	<u>7</u>	<u>8</u>	<u>9</u>	
	General Office Allocation	Interest Synchronization	Income Taxes	
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34				
35				

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Adjustments to Revenues and Expenses
 Adjustment Number 1

Exhibit
 Schedule C-2
 Page 2
 Witness: Bourassa

Line No.	Acct. No.	Description	Adjusted Original Cost	Proposed Rates	Depreciation Expense
1		<u>Depreciation Expense</u>			
2					
3					
4					
5	301	Organization Cost	-	0.00%	-
6	302	Franchise Cost	71	0.00%	-
7	303	Land and Land Rights	336,686	0.00%	-
8	304	Structures and Improvements	335,501	3.33%	11,172
9	305	Collecting and Impounding Res.	-	2.50%	-
10	306	Lake River and Other Intakes	-	2.50%	-
11	307	Wells and Springs	133,969	3.33%	4,461
12	308	Infiltration Galleries and Tunnels	-	6.67%	-
13	309	Supply Mains	3,798	2.00%	76
14	310	Power Generation Equipment	-	5.00%	-
15	311	Electric Pumping Equipment	197,625	12.50%	24,703
16	320	Water Treatment Equipment	-	3.33%	-
17	320.1	Water Treatment Plant	-	3.33%	-
18	320.2	Chemical Solution Feeders	-	20.00%	-
19	330	Dist. Reservoirs & Standpipe	263,512	2.22%	5,850
20	330.1	Storage tanks	-	2.22%	-
21	330.2	Pressure Tanks	-	5.00%	-
22	331	Trans. and Dist. Mains	85,865	2.00%	1,717
23	333	Services	70,365	3.33%	2,343
24	334	Meters	18,257	8.33%	1,521
25	335	Hydrants	18,416	2.00%	368
26	336	Backflow Prevention Devices	-	6.67%	-
27	339	Other Plant and Misc. Equip.	21,516	6.67%	1,435
28	340	Office Furniture and Fixtures	-	6.67%	-
29	340.1	Computers and Software	-	20.00%	-
30	341	Transportation Equipment	-	20.00%	-
31	342	Stores Equipment	-	4.00%	-
32	343	Tools and Work Equipment	270	5.00%	13
33	344	Laboratory Equipment	-	10.00%	-
34	345	Power Operated Equipment	-	5.00%	-
35	346	Communications Equipment	3,379	10.00%	338
36	347	Miscellaneous Equipment	-	10.00%	-
37	348	Other Tangible Plant	235,381	10.00%	23,538
38					
39		TOTALS	\$ 1,724,610		\$ 77,537
40					
41					
42		Less: Amortization of Contributions	\$ 20,000	5.5865%	\$ (1,117)
43					
44					
45					
46		Total Depreciation Expense			\$ 76,419
47					
48		Test Year Depreciation Expense			90,929
49					
50		Increase (decrease) in Depreciation Expense			(14,510)
51					
52		Adjustment to Revenues and/or Expenses			\$ (14,510)
53					

SUPPORTING SCHEDULE

B-2, page 3
 B-2, page 6

* Fully Depreciated

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Adjustment to Revenues and Expenses
 Adjustment Number 2

Exhibit
 Schedule C-2
 Page 3
 Witness: Bourassa

Line

No.

1	<u>Property Taxes:</u>	
2		
3	Adjusted Revenues in year ended 3/31/09	\$ 444,136
4	Adjusted Revenues in year ended 3/31/09	444,136
5	Proposed Revenues	<u>753,226</u>
6	Average of three year's of revenue	\$ 547,166
7	Average of three year's of revenue, times 2	\$ 1,094,333
8	Add:	
9	Construction Work in Progress at 10%	\$ 5,318
10	Deduct:	
11	Book Value of Transportation Equipment	<u>-</u>
12		
13	Full Cash Value	\$ 1,094,333
14	Assessment Ratio	<u>21%</u>
15	Assessed Value	229,810
16	Property Tax Rate	10.7803%
17		
18	Property Tax	24,774
19	Plus: Tax on Parcels	1,991
20		
21	Total Property Tax at Proposed Rates	<u>\$ 26,765</u>
22	Property Taxes recorded during the test year	<u>26,678</u>
23	Change in Property Taxes	<u>\$ 87</u>
24		
25		
26	Adjustment to Revenues and/or Expenses	<u>\$ 87</u>
27		
28		

Southern Sunrise Water Company
Test Year Ended March 31, 2009
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 3

Exhibit
Schedule C-2
Page 4
Witness: Bourassa

Line
No.

1	<u>Rate Case Expense</u>	
2		
3	Estimated Rate Case Expense	\$ 125,000
4		
5	Rate Case Expense	<u>\$ 125,000</u>
6		
7	Estimated Amortization Period (in Years)	3.0
8		
9	Annual Rate Case Expense	<u>\$ 41,667</u>
10		
11	Test Year Rate Case Expense	\$ -
12		
13	Increase(decrease) Rate Case Expense	<u>\$ 41,667</u>
14		
15	Adjustment to Revenue and/or Expense	<u>\$ 41,667</u>
16		
17		
18		
19		
20		
21		
22		
23		
24		

Southern Sunrise Water Company
Test Year Ended March 31, 2009
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Schedule C-2
Page 5
Witness: Bourassa

Line

No.

1	<u>Revenue Annualization</u>		
2			
3			
4	Revenue Annualization	\$	3,335
5			
6			
7			
8	Total Revenue from Annualization	<u>\$</u>	<u>3,335</u>
9			
10			
11	Adjustment to Revenue and/or Expense	<u>\$</u>	<u>3,335</u>
12			
13	<u>SUPPORTING SCHEDULES</u>		
14	C-2 pages 5.1 to 5.3		
15	H-1		
16			
17			
18			
19			
20			

Southern Sunrise Water Company
 5/8 Inch Residential
 Customers to Year End Levels
 Test Year Ended March 31, 2009

Exhibit
 Schedule C-2
 Page 5.1
 Witness: Bourassa

Line No.		Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08
1	Year End Number of Customers	792	792	792	792	792	792	792
2	Actual Customers	795	790	788	779	786	786	784
3	Increase in Number of Customers/Bills	(3)	2	4	13	6	6	8
4	Average Revenue / Present Rates	\$ 43.58	\$ 44.12	\$ 49.62	\$ 43.31	\$ 42.19	\$ 43.10	\$ 42.76
5	Revenue Annualization / Present Rates	\$ (131)	\$ 88	\$ 198	\$ 563	\$ 253	\$ 259	\$ 342
6								
7	Increase in Number of Customers	(3)	2	4	13	6	6	8
8	Average Revenue / Proposed Rates	\$ 76.67	\$ 77.50	\$ 86.03	\$ 76.25	\$ 74.51	\$ 75.92	\$ 75.40
9	Revenue Annualization / Proposed Rates	\$ (230)	\$ 155	\$ 344	\$ 991	\$ 447	\$ 456	\$ 603
10	Additional Gallons to be Produced	(17,818)	12,267	32,545	75,920	32,597	34,583	45,131

Line No.		Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Total Year
15	Year End Number of Customers	792	792	792	792	792	
16	Actual Customers	787	785	780	784	792	
17	Increase in Number of Customers/Bills	5	7	12	8	-	68
18	Average Revenue / Present Rates	\$ 41.49	\$ 40.09	\$ 40.76	\$ 40.20	\$ 40.75	
19	Revenue Annualization / Present Rates	\$ 207	\$ 281	\$ 489	\$ 322	\$ -	\$ 2,872
20							
21	Increase in Number of Customers	5	7	12	8	-	
22	Average Revenue / Proposed Rates	\$ 73.43	\$ 70.72	\$ 72.15	\$ 70.96	\$ 72.13	
23	Revenue Annualization / Proposed Rates	\$ 207	\$ 281	\$ 489	\$ 322	\$ -	\$ 5,062
24	Additional Gallons to be Produced	25,892	31,802	58,537	36,795	-	368,251

Southern Sunrise Water Company
 1 Inch Commercial
 Customers to Year End Levels
 Test Year Ended March 31, 2009

Exhibit
 Schedule C-2
 Page 5.2
 Witness: Bourassa

Line No.		Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08
1	Year End Number of Customers	2	2	2	2	2	2	2
2	Actual Customers	1	1	1	1	1	1	2
3	Increase in Number of Customers/Bills	1	1	1	1	1	1	-
4	Average Revenue / Present Rates	\$ 91.63	\$ 91.63	\$ 97.13	\$ 91.63	\$ 91.63	\$ 84.50	\$ 84.50
5	Revenue Annualization / Present Rates	\$ 92	\$ 92	\$ 97	\$ 92	\$ 92	\$ -	\$ -
6								
7	Increase in Number of Customers	1	1	1	1	1	1	-
8	Average Revenue / Proposed Rates	\$ 158.75	\$ 158.75	\$ 166.77	\$ 158.75	\$ 158.75	\$ 148.22	\$ 148.22
9	Revenue Annualization / Proposed Rates	\$ 159	\$ 159	\$ 166	\$ 159	\$ 159	\$ -	\$ -
10	Additional Gallons to be Produced	6,501	6,501	8,501	6,501	6,501	-	-
11								
12								
13								
14								
15	Year End Number of Customers	2	2	2	2	2	2	2
16	Actual Customers	2	2	2	2	2	2	2
17	Increase in Number of Customers/Bills	-	-	-	-	-	-	5
18	Average Revenue / Present Rates	\$ 83.50	\$ 84.50	\$ 86.50	\$ 84.50	\$ 84.50	\$ 84.50	\$ 84.50
19	Revenue Annualization / Present Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 464
20								
21	Increase in Number of Customers	-	-	-	-	-	-	-
22	Average Revenue / Proposed Rates	\$ 146.46	\$ 148.22	\$ 151.73	\$ 148.22	\$ 148.22	\$ 148.22	\$ 801
23	Revenue Annualization / Proposed Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,503
24	Additional Gallons to be Produced	-	-	-	-	-	-	-

Southern Sunrise Water Company
 2 Inch Commercial
 Customers to Year End Levels
 Test Year Ended March 31, 2009

Exhibit
 Schedule C-2
 Page 5.3
 Witness: Bourassa

Line No.		Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08
1	Year End Number of Customers	1	1	1	1	1	1	1
2	Actual Customers	-	-	-	-	-	-	-
3	Increase in Number of Customers/Bills	\$ 304.90	\$ 343.90	\$ 363.40	\$ 371.20	\$ 289.30	\$ 297.10	\$ 255.00
4	Average Revenue / Present Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5	Revenue Annualization / Present Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6								
7	Increase in Number of Customers	-	-	-	-	-	-	-
8	Average Revenue / Proposed Rates	\$ 499.90	\$ 535.00	\$ 552.55	\$ 559.57	\$ 465.86	\$ 492.88	\$ 447.25
9	Revenue Annualization / Proposed Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12								
13								
14								
15	Year End Number of Customers	1	1	1	1	1	1	1
16	Actual Customers	-	-	-	-	-	-	-
17	Increase in Number of Customers/Bills	\$ 343.90	\$ 281.50	\$ 293.20	\$ 316.60	\$ 961.97		
18	Average Revenue / Present Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
19	Revenue Annualization / Present Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
20								
21	Increase in Number of Customers	-	-	-	-	-	-	-
22	Average Revenue / Proposed Rates	\$ 535.00	\$ 478.84	\$ 489.37	\$ 510.43	\$ 1,171.49		
23	Revenue Annualization / Proposed Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
24	Additional Gallons to be Produced	-	-	-	-	-	-	-

Southern Sunrise Water Company
Test Year Ended March 31, 2009
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Schedule C-2
Page 6
Witness: Bourassa

Line

No.

1	<u>Annualize Purchase Power Expense</u>	
2		
3	Test Year Purchased Power Expense	\$ 32,112
4		
5		
6	Total Adjusted Purchased Power Expense	<u>\$ 32,112</u>
7		
8	Gallon Sold during Test Year (in 1,000's)	53,163
9		
10	Cost per 1,000 gallons	\$ 0.60
11		
12	Additional Gallons from Revenue Annualization (in 1,000's)	403
13		
14		
15	Increase (decrease) in Purchased Power	<u>\$ 242</u>
16		
17	Adjustment to Revenue and/or Expense	<u><u>\$ 242</u></u>
18		
19		
20		
21		

Southern Sunrise Water Company
Test Year Ended March 31, 2009
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Schedule C-2
Page 7
Witness: Bourassa

Line

No.

1	<u>Annualize Chemicals Expense</u>		
2			
3	Test Year Chemicals Expense	\$	1,255
4			
5	Gallon Sold during Test Year (in 1,000's)		53,163
6			
7	Cost per 1,000 gallons	\$	0.0236
8			
9	Additional Gallons from Revenue Annualization		403
10			
11			
12	Increase (decrease) in Purchased Power	\$	<u>10</u>
13			
14	Adjustment to Revenue and/or Expense	\$	<u><u>10</u></u>
15			
16			
17			
18			
19			
20			

Southern Sunrise Water Company
Test Year Ended March 31, 2009
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Schedule C-2
Page 8
Witness: Bourassa

Line

No.

1	<u>Increase in Allocated General Office Cost (Outside Services)</u>		
2			
3			
4	Increase in Operations Labor	\$ 23,983	
5	Allocation Factor (Factor method - Customer Count)	1.17%	
6	Increase (decrease) in Allocated Operations Labor Cost		\$ 281
7			
8	Increase in General Overhead Labor	\$ 300,914	
9	Allocation Factor (Factor method - 4-factor)	1.35%	
10	Increase (decrease) in Allocated Operations Labor Cost		\$ 4,057
11			
12	Increase (decrease) in Outside Services		<u>\$ 4,337</u>
13			
14			
15			
16			
17	Adjustment to Revenue and/or Expense		<u>\$ 4,337</u>
18			
19			
20			

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Adjustment to Revenues and Expenses
 Adjustment Number 8

Exhibit
 Schedule C-2
 Page 9
 Witness: Bourassa

Line
No.

1	<u>Interest Synchronization</u>		
2			
3			
4	Fair Value Rate Base	\$	1,544,434
5	Weighted Cost of Debt		0.00%
6	Interest Expense	\$	-
7			
8	Test Year Interest Expense		<u>\$ (311)</u>
9			
10	Increase (decrease) in Interest Expense		311
11			
12			
13			
14	Adjustment to Revenue and/or Expense		<u><u>\$ (311)</u></u>

15				
16				
17	<u>Weighted Cost of Debt Computation</u>			
18			<u>Cost</u>	<u>Weighted Cost</u>
19		<u>Amount</u>	<u>Percent</u>	
20	Debt	\$ -	0.00%	0.00%
21	Equity	\$ 1,408,804	100.00%	12.80%
22	Total	\$ 1,408,804	100.00%	12.80%
23				
24				

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Adjustment to Revenues and/or Expenses
 Adjustment Number 9

Exhibit
 Schedule C-2
 Page 10
 Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjusted with Rate Increase
1	<u>Income Tax Computation</u>		
2			
3			
4			
5			
6			
7	Taxable Income	\$ 9,745	\$ 318,835
8			
9	Taxable Income	<u>\$ 9,745</u>	<u>\$ 318,835</u>
10			
11			
12			
13	Income Before Taxes	<u>\$ 9,745</u>	<u>\$ 318,835</u>
14			
15	Arizona Income Before Taxes	\$ 9,745	\$ 318,835
16			
17	Less Arizona Income Tax	<u>\$ 679</u>	<u>\$ 22,216</u>
18	Rate = 6.97%		
19	Arizona Taxable Income	\$ 9,066	\$ 296,619
20			
21	Arizona Income Taxes	\$ 679	\$ 22,216
22			
23	Federal Income Before Taxes	\$ 9,745	\$ 318,835
24			
25	Less Arizona Income Taxes	<u>\$ 679</u>	<u>\$ 22,216</u>
26			
27	Federal Taxable Income	<u>\$ 9,066</u>	<u>\$ 296,619</u>
28			
29			
30	1 Inch		
31	2 Inch		
32	15% BRACKET	\$ 1,360	\$ 7,500
33	25% BRACKET	\$ -	\$ 6,250
34	34% BRACKET	\$ -	Federal \$ 8,500
35	39% BRACKET	\$ -	Effective \$ 76,681
36	34% BRACKET	\$ -	Tax \$ -
37		Rate	Rate
38	Federal Income Taxes	<u>\$ 1,360</u> 13.95%	<u>\$ 98,931</u> 31.03%
39			
40			
41	Total Income Tax	<u>\$ 2,039</u>	<u>\$ 121,148</u>
42			
43	Overall Tax Rate	<u>20.92%</u>	<u>38.00%</u>
44			
45	Income Tax at Proposed Rates Effective Rate	<u>\$ 3,703</u>	
46			

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Computation of Gross Revenue Conversion Factor

Exhibit
 Schedule C-3
 Page 1
 Witness: Bourassa

Line No.	<u>Description</u>	Percentage of Incremental Gross <u>Revenues</u>
1	Federal Income Taxes	31.03%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	<u>0.00%</u>
6		
7		
8	Total Tax Percentage	38.00%
9		
10	Operating Income % = 100% - Tax Percentage	62.00%
11		
12		
13		
14		
15	<u>1</u> = Gross Revenue Conversion Factor	
16	Operating Income %	1.6128
17		
18	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
19		A-1
20		

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Comparative Balance Sheets

Exhibit
 Schedule E-1
 Page 1
 Witness: Bourassa

Line No.		Test Year Ended 3/31/2009	Year Ended 3/31/2008	Year Ended 3/31/2007
1	ASSETS			
2	Plant In Service	\$ 1,753,631	\$ 1,005,438	\$ 840,549
3	Non-Utility Plant	-	-	-
4	Construction Work in Progress	53,180	469,176	4,562
5	Less: Accumulated Depreciation	(170,036)	(79,108)	(8,384)
6	Net Plant	<u>\$ 1,636,775</u>	<u>\$ 1,395,506</u>	<u>\$ 836,727</u>
7				
8				
9	Debt Reserve Funds	\$ -	\$ -	\$ -
10				
11	CURRENT ASSETS			
12	Cash and Equivalents	\$ 26,548	\$ 33,685	\$ 31,043
13	Restricted Cash	-	-	-
14	Short-term Investments	-	-	-
15	Accounts Receivable, Net	48,563	43,090	74,423
16	Accounts Receivable -Other	-	-	-
17	Materials and Supplies	-	-	-
18	Prepayments	5,374	2,384	-
19	Other Current Assets	-	-	-
20	Total Current Assets	<u>\$ 80,485</u>	<u>\$ 79,159</u>	<u>\$ 105,466</u>
21				
22	Deferred Debits	\$ 788	\$ -	\$ -
23				
24	Other Assets			
25				
26	TOTAL ASSETS	<u>\$ 1,718,048</u>	<u>\$ 1,474,665</u>	<u>\$ 942,193</u>
27				
28	LIABILITIES AND STOCKHOLDERS' EQUITY			
29	Common Equity	\$ 1,396,074	\$ 1,358,142	\$ 869,510
30				
31	Long-Term Debt, less current	\$ -	\$ -	\$ -
32				
33	CURRENT LIABILITIES			
34	Accounts Payable	\$ 84,964	\$ 78,689	\$ 57,841
35	Current Portion of Long-Term Debt	-	-	-
36	Current Portion of AIAC	-	-	-
37	Payables to Associated Companies	217,144	38,916	14,842
38	Customer Meter Deposits, Current	-	-	-
39	Taxes Payable	(3,004)	(1,082)	-
40	Accrued Employee expenses	-	-	-
41	Accrued Interest	-	-	-
42	Other Current Liabilities	-	-	-
43	Total Current Liabilities	<u>\$ 299,104</u>	<u>\$ 116,523</u>	<u>\$ 72,683</u>
44	DEFERRED CREDITS			
45	Customer Meter Deposits, less current	\$ 2,870	\$ -	\$ -
46	Advances in Aid of Construction	-	-	-
47	Accumulated Deferred Income Taxes	-	-	-
48	Contributions In Aid of Construction	20,000	-	-
49	Accumulated Amortization of CIAC	-	-	-
50				
51	Total Deferred Credits	<u>\$ 22,870</u>	<u>\$ -</u>	<u>\$ -</u>
52				
53	Total Liabilities & Common Equity	<u>\$ 1,718,048</u>	<u>\$ 1,474,665</u>	<u>\$ 942,193</u>

54
 55 **SUPPORTING SCHEDULES:**
 56 E-5

RECAP SCHEDULES:
 A-3

57
 58
 59

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Comparative Income Statements

Exhibit
 Schedule E-2
 Page 1
 Witness: Bourassa

Line No.		Test Year Ended <u>3/31/2009</u>	Prior Year Ended <u>3/31/2008</u>	Prior Year Ended <u>3/31/2007</u>
1	Revenues			
2	Metered Water Revenues	\$ 430,122	\$ 404,231	\$ 51,410
3	Unmetered Water Revenues	-	-	-
4	Other Water Revenues	10,679	13,005	1,577
5	Total Revenues	\$ 440,801	\$ 417,236	\$ 52,987
6	Operating Expenses			
7	Salaries and Wages	\$ -	\$ -	\$ -
8	Purchased Water	-	2,119	-
9	Purchased Power	32,112	30,962	2,241
10	Fuel For Power Production	-	-	-
11	Chemicals	1,255	-	-
12	Materials and Supplies	7,972	12,818	113
13	Outside Services	91	-	-
14	Outside Services- Legal	5,390	5,138	14
15	Outside Services- Other	175,090	225,851	10,413
16	Water Testing	5,592	13,163	-
17	Equipment Rental	-	186	-
18	Rents - Building	-	-	-
19	Transportation Expenses	25,481	22,111	1,027
20	Insurance - General Liability	10,788	12,009	1,140
21	Insurance - Vehicle	-	-	-
22	Reg. Comm. Exp. - Other	1,024	2,544	45
23	Reg. Comm. Exp. - Rate Case	-	-	-
24	Miscellaneous Expense	14,810	6,523	93
25	Bad Debt Expense	5,346	9,477	-
26	Depreciation Expense	90,929	70,724	8,384
27	Taxes Other Than Income	-	-	-
28	Property Taxes	26,678	8,756	554
29	Income Tax	-	11,206	-
30				
31	Total Operating Expenses	\$ 402,558	\$ 433,587	\$ 24,024
32	Operating Income	\$ 38,243	\$ (16,351)	\$ 28,963
33	Other Income (Expense)			
34	Interest Income	\$ -	\$ -	\$ -
35	Other income (loss)	-	-	-
36	Interest Expense	311	14	-
37	Other Expense	-	-	-
38				
39	Total Other Income (Expense)	\$ 311	\$ 14	\$ -
40	Net Profit (Loss)	\$ 38,554	\$ (16,337)	\$ 28,963

41
42
43
44
45
46
47
48
49
50
51

SUPPORTING SCHEDULES:

RECAP SCHEDULES:
A-2

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Comparative Statements of Cash Flows

Exhibit
 Schedule E-3
 Page 1
 Witness: Bourassa

Line No.	Test Year Ended <u>3/31/2009</u>	Prior Year Ended <u>3/31/2008</u>	Prior Year Ended <u>3/31/2007</u>	
1				
2				
3	Cash Flows from Operating Activities			
4	Net Income	\$ 38,554	\$ (16,337)	\$ 28,963
5	Adjustments to reconcile net income to net cash			
6	provided by operating activities:			
7	Depreciation and Amortization	90,929	70,724	8,384
8	Adjustments to Depreciation and Amortization			
9	<i>Other</i>			
10	Changes in Certain Assets and Liabilities:			
11	Accounts Receivable	(5,473)	31,333	(74,423)
12	Accounts Receivable, Other			
13	Materials and Supplies Inventory			
14	Prepaid Expenses	(2,990)	(2,384)	
15	Accounts Payable	6,275	20,848	57,841
16	Intercompany payable	178,228	24,074	14,842
17	Customer Meter Deposits	2,870		
18	Taxes Payable	(1,922)	(1,082)	
19	Deferred Income Taxes			
20	Other assets and liabilities	(788)		
21	Net Cash Flow provided by Operating Activities	<u>\$ 305,683</u>	<u>\$ 127,176</u>	<u>\$ 35,607</u>
22	Cash Flow From Investing Activities:			
23	Capital Expenditures	(332,197)	(629,503)	(845,111)
24	Plant Held for Future Use			
25	Change In Short-term Investments			
26	Net Cash Flows from Investing Activities	<u>\$ (332,197)</u>	<u>\$ (629,503)</u>	<u>\$ (845,111)</u>
27	Cash Flow From Financing Activities			
28	Change in Restricted Cash			
29	Net Receipts of Advances-in-Aid of Construction			
30	Net Receipts of Contributions-in-Aid of Construction	20,000		
31	Repayments of Long-Term Debt			
32	Dividends Paid			
33	Deferred Financing Costs			
34	Stock/Paid in Capital	(623)	504,969	840,547
35	Net Cash Flows Provided by Financing Activities	<u>\$ 19,377</u>	<u>\$ 504,969</u>	<u>\$ 840,547</u>
36	Increase(decrease) in Cash and Cash Equivalents	(7,137)	2,642	31,043
37	Cash and Cash Equivalents at Beginning of Year			
38	Cash and Cash Equivalents at End of Year	<u>\$ 26,548</u>	<u>\$ 33,685</u>	<u>\$ 31,043</u>

40 SUPPORTING SCHEDULES:

RECAP SCHEDULES:

A-5

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Statement of Changes in Stockholder's Equity

Exhibit
 Schedule E-4
 Page 1
 Witness: Bourassa

Line
No.

	<u>Common</u> <u>Stock</u>	<u>Paid-In-Capital</u>	<u>Retained</u> <u>Earnings</u>	<u>Total</u>
1				
2				
3				
4	\$ -	\$ -	\$ -	\$ -
5		840,547		840,547
6			-	-
7			28,963	28,963
8	\$ -	\$ 840,547	\$ 28,964	\$ 869,510
9		504,969		504,969
10				-
11			(16,337)	(16,337)
12	\$ -	\$ 1,345,516	\$ 12,627	\$ 1,358,142
13		(622)		(622)
14				-
15			38,554	38,554
16	\$ -	\$ 1,344,894	\$ 51,181	\$ 1,396,074

17
 18
 19
 20
 21
 22
 23

SUPPORTING SCHEDULES:

RECAP SCHEDULES:

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Detail of Plant in Service

Exhibit
 Schedule E-5
 Page 1
 Witness: Bourassa

Line No.	Acct. No.	Plant Description	Plant Balance at 3/31/2008	Plant Additions, Reclassifications or Retirements	Plant Balance at 3/31/2009
1					
2	301	Organization Cost	\$ -	\$ -	\$ -
3	302	Franchise Cost	-	2,612	2,612
4	303	Land and Land Rights	384,007	-	384,007
5	304	Structures and Improvements	1,044	334,214	335,258
6	305	Collecting and Impounding Res.	-	-	-
7	306	Lake River and Other Intakes	-	-	-
8	307	Wells and Springs	47,147	81,827	128,974
9	308	Infiltration Galleries and Tunnels	-	-	-
10	309	Supply Mains	2,706	1,092	3,798
11	310	Power Generation Equipment	-	-	-
12	311	Electric Pumping Equipment	100,116	106,493	206,609
13	320	Water Treatment Equipment	-	-	-
14	320.1	Water Treatment Equipment	-	-	-
15	320.2	Chemical Solution Feeders	-	-	-
16	330	Distribution Reservoirs & Standpipe	104,967	137,537	242,504
17	330.1	Storage tanks	-	-	-
18	330.2	Pressure Tanks	-	-	-
19	331	Transmission and Distribution Mains	62,985	12,793	75,778
20	333	Services	36,360	34,535	70,895
21	334	Meters	2,997	20,813	23,810
22	335	Hydrants	18,359	-	18,359
23	336	Backflow Prevention Devices	-	-	-
24	339	Other Plant and Miscellaneous Equipment	9,370	12,628	21,998
25	340	Office Furniture and Fixtures	-	-	-
26	340.1	Computers and Software	-	-	-
27	341	Transportation Equipment	-	-	-
28	342	Stores Equipment	-	-	-
29	343	Tools and Work Equipment	-	270	270
30	344	Laboratory Equipment	-	-	-
31	345	Power Operated Equipment	-	-	-
32	346	Communications Equipment	-	3,379	3,379
33	347	Miscellaneous Equipment	-	-	-
34	348	Other Tangible Plant	235,381	-	235,381
35		Rounding	(1)	-	(1)
36		TOTAL WATER PLANT	<u>\$ 1,005,438</u>	<u>\$ 748,193</u>	<u>\$ 1,753,631</u>

38 SUPPORTING SCHEDULES

RECAP SCHEDULES:

A-4

E-1

41

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Operating Statistics

Exhibit
 Schedule E-7
 Page 1
 Witness: Bourassa

Line No.		Test Year Ended <u>3/31/2009</u>	Prior Year Ended <u>3/31/2008</u>	Prior Year Ended <u>3/31/2007</u>
1	<u>WATER STATISTICS:</u>			
2				
3				
4				
5	Total Gallons Sold (in Thousands)	53,163	51,814	3,935
6				
7				
8				
9	Water Revenues from Customers:	\$ 440,801	\$ 417,236	\$ 52,987
10				
11				
12				
13				
14	Year End Number of Customers	795	835	809
15				
16				
17	Annual Gallons (in Thousands)			
18	Sold Per Year End Customer	67	62	5
19				
20				
21				
22	Annual Revenue per Year End Customer	\$ 554.47	\$ 499.68	\$ 65.50
23				
24	Purchased Power Cost per 1,000 Gallons	\$ 0.6040	\$ 0.5976	\$ 0.5696
25	Purchased Water Cost per 1,000 Gallons	\$ -	\$ 0.0409	\$ -

Southern Sunrise Water Company
Test Year Ended March 31, 2009
Taxes Charged to Operations

Exhibit
Schedule E-8
Page 1
Witness: Bourassa

Line No.	Description	Test Year Ended <u>3/31/2009</u>	Prior Year Ended <u>3/31/2008</u>	Prior Year Ended <u>3/31/2007</u>
1	Description			
2				
3	Federal Income Taxes*	\$ -	\$ 11,550	\$ (1,941)
4	State Income Taxes*	-	(344)	1,941
5	Payroll Taxes	-	-	-
6	Property Taxes	26,678	8,756	554
7				
8	Totals	<u>\$ 26,678</u>	<u>\$ 19,962</u>	<u>\$ 554</u>
9				
10				
11	*Computed			
12				
13				
14				

Southern Sunrise Water Company
Test Year Ended March 31, 2009
Notes To Financial Statements

Exhibit
Schedule E-9
Page 1
Witness: Bourassa

Company does not conduct independent audits

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Projected Income Statements - Present & Proposed Rates

Exhibit
 Schedule F-1
 Page 1
 Witness: Bourassa

Line No.		Test Year Actual Results	At Present Rates Year Ended 3/31/2010	At Proposed Rates Year Ended 3/31/2010
1	Revenues			
2	Metered Water Revenues	\$ 430,122	\$ 433,457	\$ 742,547
3	Unmetered Water Revenues	-	-	-
4	Other Water Revenues	10,679	10,679	10,679
5		<u>\$ 440,801</u>	<u>\$ 444,136</u>	<u>\$ 753,226</u>
6	Operating Expenses			
7	Salaries and Wages	\$ -	\$ -	\$ -
8	Purchased Water	-	-	-
9	Purchased Power	32,112	32,354	32,354
10	Fuel For Power Production	-	-	-
11	Chemicals	1,255	1,265	1,265
12	Materials and Supplies	7,972	7,972	7,972
13	Outside Services	91	91	91
14	Outside Services- Other	5,390	5,390	5,390
15	Outside Services- Legal	175,090	179,427	179,427
16	Water Testing	5,592	5,592	5,592
17	Equipment Rental	-	-	-
18	Rents - Buliding	-	-	-
19	Transportation Expenses	25,481	25,481	25,481
20	Insurance - General Liability	10,788	10,788	10,788
21	Insurance - Vehicle	-	-	-
22	Reg. Comm. Exp. - Other	1,024	1,024	1,024
23	Reg. Comm. Exp. - Rate Case	-	41,667	41,667
24	Miscellaneous Expense	14,810	14,810	14,810
25	Bad Debt Expense	5,346	5,346	5,346
26	Depreciation Expense	90,929	76,419	76,419
27	Taxes Other Than Income	-	-	-
28	Property Taxes	26,678	26,765	26,765
29	Income Tax	-	3,703	121,148
30				
31	Total Operating Expenses	<u>\$ 402,558</u>	<u>\$ 438,094</u>	<u>\$ 555,539</u>
32	Operating Income	<u>\$ 38,243</u>	<u>\$ 6,042</u>	<u>\$ 197,688</u>
33	Other Income (Expense)			
34	Interest Income	-	-	-
35	Other income	-	-	-
36	Interest Expense	311	-	-
37	Other Expense	-	-	-
38	Gain/Loss Sale of Fixed Assets	-	-	-
39	Total Other Income (Expense)	<u>\$ 311</u>	<u>\$ -</u>	<u>\$ -</u>
40	Net Profit (Loss)	<u>\$ 38,554</u>	<u>\$ 6,042</u>	<u>\$ 197,688</u>
41				

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Projected Statements of Changes in Financial Position
 Present and Proposed Rates

Exhibit
 Schedule F-2
 Page 1
 Witness: Bourassa

Line No.		Test Year Ended 3/31/2009	At Present Rates Year Ended 3/31/2010	At Proposed Rates Year Ended 3/31/2010
5	Cash Flows from Operating Activities			
6	Net Income	\$ 38,554	\$ 6,042	\$ 197,688
7	Adjustments to reconcile net income to net cash			
8	provided by operating activities:			
9	Depreciation and Amortization	90,929	76,419	76,419
10	Adjustment to Depreciation and Amortization	-		
11	Other	-		
12	Changes in Certain Assets and Liabilities:			
13	Accounts Receivable	(5,473)		
14	Accounts Receivable, Other	-		
15	Materials and Supplies Inventory	-		
16	Prepaid Expenses	(2,990)		
17	Accounts Payable	6,275		
18	Intercompany payable	178,228		
19	Customer Deposits	2,870		
20	Taxes Payable	(1,922)		
21	Deferred Income Taxes	-		
22	Other assets and liabilities	(788)		
23	Net Cash Flow provided by Operating Activities	<u>\$ 305,683</u>	<u>\$ 82,462</u>	<u>\$ 274,107</u>
24	Cash Flow From Investing Activities:			
25	Capital Expenditures	(332,197)	(200,000)	(200,000)
26	Plant Held for Future Use	-		
27	Change In Short-term Investments	-		
28	Net Cash Flows from Investing Activities	<u>\$ (332,197)</u>	<u>\$ (200,000)</u>	<u>\$ (200,000)</u>
29	Cash Flow From Financing Activities			
30	Change in Restricted Cash	-		
31	Net Receipts of Advances-in-Aid of Construction	-		
32	Net Receipts of Contributions-in-Aid of Construction	20,000		
33	Repayments of Long-Term Debt	-	-	-
34	Dividends Paid	-		
35	Deferred Financing Costs	-		
36	Stock/Paid in Capital	(623)		
37	Net Cash Flows Provided by Financing Activities	<u>\$ 19,377</u>	<u>\$ -</u>	<u>\$ -</u>
38	Increase(decrease) in Cash and Cash Equivalents	(7,137)	(117,538)	74,107
39	Cash and Cash Equivalents at Beginning of Year	33,685	26,548	26,548
40	Cash and Cash Equivalents at End of Year	<u>\$ 26,548</u>	<u>\$ (90,990)</u>	<u>\$ 100,655</u>
41				

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Projected Construction Requirements

Exhibit
 Schedule F-3
 Page 1
 Witness: Bourassa

Line No.	Account	<u>2010</u>	<u>2011</u>	<u>2012</u>
1				
2	Account			
3	<u>Number</u> <u>Plant Asset:</u>			
4	301 Organization Cost			
5	302 Franchise Cost			
6	303 Land and Land Rights			
7	304 Structures and Improvements	100,000		
8	305 Collecting and Impounding Res.			
9	306 Lake River and Other Intakes			
10	307 Wells and Springs			
11	308 Infiltration Galleries and Tunnels			
12	309 Supply Mains			
13	310 Power Generation Equipment			
14	311 Electric Pumping Equipment			
15	320 Water Treatment Equipment			
16	320.1 Water Treatment Equipment			
17	320.2 Checmical Solution Feeders			
18	330 Distribution Reservoirs & Standpipe			
19	330.1 Storage tanks			
20	330.2 Pressure Tanks			
21	331 Transmission and Distribution Mains	100,000		50,000
22	333 Services			
23	334 Meters			
24	335 Hydrants			
25	336 Backflow Prevention Devices			
26	339 Other Plant and Miscellaneous Equipment			
27	340 Office Furniture and Fixtures			
28	340.1 Computers and Software			
29	341 Transportation Equipment			
30	342 Stores Equipment			
31	343 Tools and Work Equipment			
32	344 Laboratory Equipment			
33	345 Power Operated Equipment			
34	346 Communications Equipment		120,000	
35	347 Miscellaneous Equipment			
36	348 Other Tangible Plant			80,000
37				
38				
39	Total	<u>\$ 200,000</u>	<u>\$ 120,000</u>	<u>\$ 130,000</u>
40				
41				
42				

Southern Sunrise Water Company
Test Year Ended March 31, 2009
Assumptions Used in Rate Filing

Exhibit
Schedule F-4
Page 1
Witness: Bourassa

Line

No.

- 1 Property Taxes were computed using the method used by the Arizona Department
- 2 of Revenue
- 3
- 4 Projected construction expenditures are shown on Schedule A-4.
- 5
- 6 Expense adjustments are shown on Schedule C2, and are explained in the testimony.
- 7
- 8 Accumulated depreciation and depreciation expense were computed at Arizona Corporation
- 9 Commission allowed rated in *Prior Commission Decision*.
- 10
- 11 Income taxes were computed using statutory state and federal income tax rates.
- 12
- 13
- 14
- 15

Southern Sunrise Water Company
 Test Year Ended March 31, 2009

Exhibit
 Schedule H-1
 Page 3
 Witness: Bourassa

Revenue Summary

With Annualized Revenues to Year End Number of Customers

Line No.	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1						
2						
3	\$ 429,696	\$ 736,510	\$ 306,814	71.40%	100.00%	100.00%
4	3,335	5,863	2,527.44	75.78%	0.78%	0.80%
5	\$ 433,031	\$ 742,373	\$ 309,341	71.44%		
6						
7	\$ 10,679	\$ 10,679	-	0.00%	2.49%	1.45%
8	426	174	(252)	-59.15%	0.10%	0.02%
9	\$ 444,136	\$ 753,226	\$ 309,089	69.59%	0.00%	0.00%
10						
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						
21						
22						
23						
24						
25						
26						
27						
28						
29						
30						
31						
32						
33						
34						
35						

Revenue Reconciliation

14	Revenue per bill count before revenue annualization	\$ 429,696
15	Revenue per GL (metered water revenues)	\$ 430,122
16	Difference	(426)
17	Difference %	-0.10%
18	Tolerance %	0.50%
19	Tolerance Amount + or -	\$ 2,151
20	Acceptable?	YES

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Customer Summary

Exhibit
 Schedule H-2
 Page 1
 Witness: Bourassa

Line No.	Meter Size, Class	(a) Average Number of Customers at 3/31/2009	Average Consumption	Average Bill		Proposed Increase		
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount	
1	5/8 Inch Residential	786	5,581 \$	42.60 \$	75.15	32.55	76.41%	
2								
3								
4								
5	Subtotal	786						
6								
7	1 Inch Commercial	2	4,448 \$	86.40 \$	151.54	65.15	75.40%	
8	2 Inch Commercial	1	34,624 \$	367.78 \$	556.49	188.71	51.31%	
9								
10								
11								
12								
13								
14								
15								
16	Subtotal	3						
17								
18								
19								
20								
21								
22								
23								
24								
25								
26								
27	Total	789						
28	(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.							
29								
30								

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Customer Summary

Exhibit
 Schedule H-2
 Page 2
 Witness: Bourassa

Line No.	Meter Size, Class	(a) Average Number of Customers at 3/31/2009	Median Bill		Proposed Increase		
			Median Consumption	Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	5/8 Inch Residential	786	4,500	\$ 40.00	\$ 70.54	30.54	76.35%
2							
3							
4							
5	Subtotal	786					
6							
7	1 Inch Commercial	2	6,500	\$ 91.63	\$ 158.75	67.12	73.26%
8	2 Inch Commercial	1	21,500	316.60	510.43	193.83	61.22%
9							
10							
11							
12							
13							
14							
15							
16	Subtotal	3					
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27	Total	789					
28	(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.						
29							
30							

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Present and Proposed Rates

Exhibit
 Schedule H-3
 Page 1
 Witness: Bourassa

Line No.	Monthly Usage Charge for: Meter Size (All Zones and Classes):	Present Rates	Proposed Rates	Change	Percent Change
1	5/8 Inch	\$ 31.00	\$ 54.37	\$ 23.37	75.39%
2	3/4 Inch	46.50	81.56	35.06	75.40%
3	1 Inch	77.50	135.93	58.43	75.39%
4	1 1/2 Inch	155.00	271.85	116.85	75.39%
5	2 Inch	248.00	434.96	186.96	75.39%
6	3 Inch	496.00	869.92	373.92	75.39%
7	4 Inch	775.00	1,359.25	584.25	75.39%
8	6 Inch	930.00	2,718.50	1,788.50	192.31%
9	8 Inch	1,550.00	4,349.60	2,799.60	180.62%

1% of monthly minimum for comparable sized meters, but not less than \$5.00 per month

Gallons In Minimum (All Meter Sizes and Classes)

Line No.	Commodity Rates Meter Size and Class	Block	Present Rate	Proposed Rate
21	All Meter Sizes and Classes, Except Irrigation	0 gallons to 5,000 gallons	\$ 2.00	\$ 3.51
22		5,000 gallons to 10,000 gallons	\$ 2.75	\$ 4.26
23		Over 10,000 gallons	\$ 3.90	\$ 5.41
25	All Meter Sizes - Irrigation	0 gallons to 45,000 gallons	\$ 2.75	\$ 3.51
26		Over 45,000 gallons	\$ 3.90	\$ 4.26
28	5/8 Inch and 3/4 Inch Meter - Residential	0 gallons to 4,000 gallons	\$ 3.51	\$ 4.26
29		4,001 gallons to 10,000 gallons	\$ 4.26	\$ 5.41
30		over 10,000 gallons	\$ 5.41	\$ 5.41
32	5/8 Inch and 3/4 Inch Meter - Com, Irrigation	0 gallons to 10,000 gallons	\$ 3.51	\$ 4.26
33		over 10,000 gallons	\$ 4.26	\$ 4.26
35	1 Inch Meter - All classes	0 gallons to 15,000 gallons	\$ 3.51	\$ 4.26
36		over 15,000 gallons	\$ 4.26	\$ 4.26
39	1.5 Inch Meter - All Classes	0 gallons to 25,000 gallons	\$ 3.51	\$ 4.26
40		over 25,000 gallons	\$ 4.26	\$ 4.26

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Present and Proposed Rates

Exhibit
 Schedule H-3
 Page 2
 Witness: Bourassa

Line No.	Commodity Rates Meter Size and Class	Block	(Per 1,000 gallons)	
			Present Rate	Proposed Rate
1				
2	2 Inch Meter - All Classes	0 gallons to 50,000 gallons over 50,000 gallons	\$	3.51
3			\$	4.26
4	3 Inch Meter - All Classes	0 gallons to 80,000 gallons over 80,000 gallons	\$	3.51
5			\$	4.26
6	4 Inch Meter - All Classes	0 gallons to 160,000 gallons over 160,000 gallons	\$	3.51
7			\$	4.26
8	6 Inch Meter - All Classes	0 gallons to 250,000 gallons over 250,000 gallons	\$	3.51
9			\$	4.26
10	8 Inch Meter - All Classes	0 gallons to 500,000 gallons over 500,000 gallons	\$	3.51
11			\$	4.26
12	Standpipe (Bulk)	All gallons	\$ 3.90	\$ 4.26
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34				
35				
36				
37				
38				

Southern Sunrise Water Company
 Changes in Representative Rate Schedules
 Test Year Ended March 31, 2009

Exhibit
 Schedule H-3
 Page 3
 Witness: Bourassa

Line		Present	Proposed
No.	<u>Other Service Charges</u>	<u>Rates</u>	<u>Rates</u>
1	Establishment (Regular Hours) per Rule R14-2-403.D	\$ 25.00	\$ 25.00
2	Establishment (After Hours) per Rule R14-2-403.D	\$ 35.00	\$ 35.00
3	Re-Establishment of Service per Rule R14-2-403.D	[a]	[a]
4	Reconnection (Delinquent) per Rule R14-2-403.D	\$ 35.00	\$ 35.00
5	Reconnection (After Hours) per Rule R14-2-403.D	NT	\$ 45.00
6	Meter Test (if correct) per Rule R14-2-408.F	NT	\$ 30.00
7	Meter Reread per Rule R14-2-408.C (if correct)	\$ 5.00	\$ 15.00
8	NSF Check per Rule R14-2-409.F	NT	\$ 15.00
9	Deferred Payment, Per Month per Rule R14-2-409.G	1.50%	1.50%
10	Late Charge	1.50%	1.50%
11	Service Calls - Per Hour/After Hours(e)	\$ 50.00	\$ 50.00
12	Deposit Requirements	[b]	[b]
13	Moving Meter at Customer Request	NT	Cost
14	Damage to Meter	NT	Cost
15	Meter and Service lines	see H-3, page 4	
16	Main Extension Tariff	Cost	Cost
17			
18			
19			
20			
21	[a] Minimum charge times number of full months off the system. per Rule R14-2-403.D.		
22	[b] Per ACC Rules R14-2-403.B <u>Residential</u> - two times the average bill.		
23	<u>Commercial</u> - two and one-half times the average bill.		
24			
25			
26			
27			
28	IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM		
29	ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE		
30	TAX. PER COMMISSION RULE 14-2-409D(5).		
31			
32			
33			
34			
35			

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Meter and Service Line Charges

Exhibit
 Schedule H-3
 Page 4
 Witness: Bourassa

Line

No.

1

2 **Refundable Meter and Service Line Charges**

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

	Present Service Line Charge	Present Meter Install- ation Charge	Total Present Charge	Proposed Service Line Charge	Proposed Meter Install- ation Charge	Total Proposed Charge*
9 5/8 x 3/4 Inch			\$ 410.00	At Cost	At Cost	At Cost
10 3/4 Inch			410.00	At Cost	At Cost	At Cost
11 1 Inch			520.00	At Cost	At Cost	At Cost
12 1 1/2 Inch			660.00	At Cost	At Cost	At Cost
13 2 Inch / Turbine			1,155.00	At Cost	At Cost	At Cost
14 2 Inch / Compound			1,720.00	At Cost	At Cost	At Cost
15 3 Inch / Turbine			1,625.00	At Cost	At Cost	At Cost
16 3 Inch / Compound			2,260.00	At Cost	At Cost	At Cost
17 4 Inch / Turbine			2,500.00	At Cost	At Cost	At Cost
18 4 Inch / Compound			3,200.00	At Cost	At Cost	At Cost
19 6 Inch / Turbine			4,500.00	At Cost	At Cost	At Cost
20 6 Inch / Compound			6,300.00	At Cost	At Cost	At Cost
21 8 Inch & Larger			8,200.00	At Cost	At Cost	At Cost

* Plus actual road crossing costs.

N/T = No Tariff

Southern Sunrise Water Company
Test Year Ended March 31, 2009
Hook-Up Fees

Exhibit
Schedule H-3
Page 5
Witness: Bourassa

Line
No.

1

2 **Off-site Facilities Hook-up Fee**

3

4

5

6 5/8 x 3/4 Inch

Present
Charge

Proposed
Charge

\$ 1,600

7 3/4 Inch

NT

2,400

8 1 Inch

NT

4,000

9 1 1/2 Inch

NT

8,000

10 2 Inch

NT

12,800

11 3 Inch

NT

25,600

12 4 Inch

NT

40,000

13 6 Inch or larger

NT

80,000

14

15

16

17

18

19

20

21 NT = No Tariff

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

Southern Sunrise Water Company
Bill Comparison Present and Proposed Rates
 5/8 Inch Residential

Exhibit
 Schedule H-4
 Page 1
 Witness: Bourassa

Meter Size:

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase	Present Rates:
-	\$ 31.00	\$ 54.37	\$ 23.37	75.39%	Monthly Minimum: \$ 31.00
1,000	33.00	57.88	24.88	75.39%	Gallons in Minimum Charge Per 1,000 Gallons
2,000	35.00	61.39	26.39	75.40%	Up to 5,000 \$ 2.00
3,000	37.00	64.90	27.90	75.41%	Up to 10,000 \$ 2.75
4,000	39.00	68.41	29.41	75.41%	Over 10,000 \$ 3.90
5,000	41.00	72.67	31.67	77.24%	
6,000	43.75	76.93	33.18	75.84%	
7,000	46.50	81.19	34.69	74.60%	
8,000	49.25	85.45	36.20	73.50%	
9,000	52.00	89.71	37.71	72.52%	
10,000	54.75	93.97	39.22	71.63%	
12,000	62.55	104.79	42.24	67.53%	
14,000	70.35	115.61	45.26	64.34%	
16,000	78.15	126.43	48.28	61.78%	
18,000	85.95	137.25	51.30	59.69%	
20,000	93.75	148.07	54.32	57.94%	
25,000	113.25	175.12	61.87	54.63%	
30,000	132.75	202.17	69.42	52.29%	
35,000	152.25	229.22	76.97	50.56%	
40,000	171.75	256.27	84.52	49.21%	
45,000	191.25	283.32	92.07	48.14%	
50,000	210.75	310.37	99.62	47.27%	
60,000	249.75	364.47	114.72	45.93%	
70,000	288.75	418.57	129.82	44.96%	
80,000	327.75	472.67	144.92	44.22%	
90,000	366.75	526.77	160.02	43.63%	
100,000	405.75	580.87	175.12	43.16%	
Average Usage	\$ 42.60	\$ 75.15	\$ 32.55	76.41%	
Median Usage	\$ 40.00	\$ 70.54	\$ 30.54	76.35%	

Proposed Rates:
 Monthly Minimum: \$ 54.37
 Gallons in Minimum Charge Per 1,000 Gallons
 Up to 4,000 \$ 3.51
 Up to 10,000 \$ 4.26
 Over 10,000 \$ 5.41

Southern Sunrise Water Company

Bill Comparison Present and Proposed Rates

1 Inch Commercial

Meter Size:

Exhibit
Schedule H-4
Page 2
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 77.50	\$ 135.93	\$ 58.43	75.39%
1,000	79.50	139.44	59.94	75.40%
2,000	81.50	142.95	61.45	75.40%
3,000	83.50	146.46	62.96	75.40%
4,000	85.50	149.97	64.47	75.40%
5,000	87.50	153.48	65.98	75.41%
6,000	90.25	156.99	66.74	73.95%
7,000	93.00	160.50	67.50	72.58%
8,000	95.75	164.01	68.26	71.29%
9,000	98.50	167.52	69.02	70.07%
10,000	101.25	171.03	69.78	68.92%
12,000	109.05	178.05	69.00	63.27%
14,000	116.85	185.07	68.22	58.38%
16,000	124.65	192.09	67.44	54.10%
18,000	132.45	199.11	66.66	50.33%
20,000	140.25	206.13	65.88	46.97%
25,000	159.75	223.68	63.93	40.02%
30,000	179.25	244.98	65.73	36.67%
35,000	198.75	266.28	67.53	33.98%
40,000	218.25	287.58	69.33	31.77%
45,000	237.75	308.88	71.13	29.92%
50,000	257.25	330.18	72.93	28.35%
60,000	296.25	372.78	76.53	25.83%
70,000	335.25	415.38	80.13	23.90%
80,000	374.25	457.98	83.73	22.37%
90,000	413.25	500.58	87.33	21.13%
100,000	452.25	543.18	90.93	20.11%
Average Usage	86.40	151.54	65.15	75.40%
Median Usage	91.63	158.75	67.12	73.26%

Present Rates:
Monthly Minimum: \$ 77.50
Gallons in Minimum
Charge Per 1,000 Gallons
 Up to 5,000 \$ 2.00
 Up to 10,000 \$ 2.75
 Over 10,000 \$ 3.90

Proposed Rates:
Monthly Minimum: \$ 135.93
Gallons in Minimum
Charge Per 1,000 Gallons
 Up to 25,000 \$ 3.51
 Up to 99,999,999 \$ 4.26
 Over 99,999,999 \$ 4.26

Southern Sunrise Water Company
 Bill Comparison Present and Proposed Rates
 2 Inch Commercial

Exhibit
 Schedule H-4
 Page 3
 Witness: Bourassa

Meter Size:

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase	Present Rates: Monthly Minimum Gallons in Minimum Charge Per 1,000 Gallons
-	\$ 248.00	\$ 434.96	\$ 186.96	75.39%	\$ 248.00
1,000	250.00	438.47	188.47	75.39%	-
2,000	252.00	441.98	189.98	75.39%	
3,000	254.00	445.49	191.49	75.39%	
4,000	256.00	449.00	193.00	75.39%	
5,000	258.00	452.51	194.51	75.39%	5,000 \$ 2.00
6,000	260.75	456.02	195.27	74.89%	10,000 \$ 2.75
7,000	263.50	459.53	196.03	74.39%	10,000 \$ 3.90
8,000	266.25	463.04	196.79	73.91%	
9,000	269.00	466.55	197.55	73.44%	
10,000	271.75	470.06	198.31	72.98%	
12,000	279.55	477.08	197.53	70.66%	
14,000	287.35	484.10	196.75	68.47%	\$ 434.96
16,000	295.15	491.12	195.97	66.40%	-
18,000	302.95	498.14	195.19	64.43%	
20,000	310.75	505.16	194.41	62.56%	80,000 \$ 3.51
25,000	330.25	522.71	192.46	58.28%	99,999,999 \$ 4.26
30,000	349.75	540.26	190.51	54.47%	99,999,999 \$ 4.26
35,000	369.25	557.81	188.56	51.07%	
40,000	388.75	575.36	186.61	48.00%	
45,000	408.25	592.91	184.66	45.23%	
50,000	427.75	610.46	182.71	42.71%	
60,000	466.75	645.56	178.81	38.31%	
70,000	505.75	680.66	174.91	34.58%	
80,000	544.75	715.76	171.01	31.39%	
90,000	583.75	758.36	174.61	29.91%	
100,000	622.75	800.96	178.21	28.62%	
Average Usage					
34,624	\$ 367.78	\$ 556.49	\$ 188.71	51.31%	
Median Usage					
21,500	\$ 316.60	\$ 510.43	\$ 193.83	61.22%	

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 5/8 Inch Residential

Exhibit
 Schedule H-5
 Page 1
 Witness: Bourassa

Meter Size:

Usage From:	Usage To:	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
-	-	36	30	24	19	26	32	27	19	17	19	15	14	278	278	-
1,001	1,000	74	72	64	76	98	83	94	100	108	89	101	98	1,057	1,335	529
2,001	2,000	86	81	52	75	97	82	72	94	110	102	95	95	1,041	2,376	2,091
3,001	3,000	84	70	62	100	107	88	105	100	114	102	118	113	1,163	3,539	4,999
4,001	4,000	76	101	71	109	97	99	77	95	98	84	95	109	1,111	4,650	8,888
5,001	5,000	82	75	73	72	94	85	77	86	86	91	92	87	1,000	5,650	13,389
6,001	6,000	59	67	62	61	61	64	61	66	62	70	70	80	799	6,449	17,784
7,001	7,000	66	54	44	51	36	52	63	50	60	59	53	43	633	7,082	21,898
8,001	8,000	52	35	46	41	45	45	40	40	28	42	35	37	498	7,580	25,634
9,001	9,000	35	37	47	36	23	33	25	21	17	24	25	37	360	7,940	28,694
10,001	10,000	32	27	25	23	17	19	28	18	17	24	21	18	269	8,209	31,249
11,001	11,000	18	24	29	18	13	20	27	18	12	8	16	5	208	8,417	33,434
12,001	12,000	11	18	27	18	15	10	12	13	6	14	9	7	160	8,577	35,274
13,001	13,000	15	18	24	13	6	11	12	10	7	11	9	11	147	8,724	37,111
14,001	14,000	9	14	13	11	5	10	12	5	6	3	6	4	98	8,822	38,434
15,001	15,000	7	10	15	5	7	6	2	3	5	7	5	3	75	8,897	39,522
16,001	16,000	11	8	13	8	5	5	6	2	3	5	5	4	75	8,972	40,684
17,001	17,000	4	8	10	5	3	6	8	3	3	0	1	2	53	9,025	41,559
18,001	18,000	6	4	8	5	3	6	4	4	3	2	0	1	46	9,071	42,364
19,001	19,000	3	7	12	4	3	3	4	5	0	2	0	4	47	9,118	43,233
20,001	20,000	2	5	11	5	2	3	7	2	1	1	2	3	44	9,162	44,091
21,001	21,000	1	1	3	3	3	2	4	1	1	2	2	1	24	9,186	44,583
22,001	22,000	3	2	6	2	3	2	1	3	0	1	0	2	25	9,211	45,121
23,001	23,000	3	4	5	3	3	1	3	0	0	1	0	0	23	9,234	45,638
24,001	24,000	0	5	5	2	2	1	2	2	1	0	3	2	25	9,259	46,226
25,001	25,000	0	1	4	4	2	0	0	1	0	0	0	3	15	9,274	46,593
26,001	26,000	4	1	4	1	0	1	1	1	0	0	1	1	15	9,289	46,976
27,001	27,000	1	0	2	0	1	2	0	1	0	0	0	2	9	9,298	47,215
28,001	28,000	0	0	4	1	1	1	1	3	1	1	1	1	16	9,314	47,655
29,001	29,000	5	0	3	1	0	3	0	1	1	1	1	0	16	9,330	48,111
30,001	30,000	3	0	1	2	1	3	2	2	1	2	1	1	19	9,349	48,671
31,001	31,000	0	2	2	0	0	0	0	1	0	1	0	0	6	9,355	48,854
32,001	32,000	1	4	0	0	0	0	1	0	0	0	1	0	7	9,362	49,075
33,001	33,000	0	0	1	1	0	0	0	0	2	0	0	0	4	9,366	49,205
34,001	34,000	1	0	3	0	1	1	0	0	0	1	0	0	7	9,373	49,439
35,001	35,000	0	0	1	0	0	1	1	1	0	0	0	1	5	9,378	49,612
36,001	36,000	1	0	1	1	2	1	0	0	1	1	0	0	8	9,386	49,896
37,001	37,000	0	1	4	0	0	1	0	0	1	0	0	0	7	9,393	50,151
38,001	38,000	0	1	0	0	0	0	0	1	0	0	0	0	2	9,395	50,226

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 5/8 Inch Residential

Exhibit
 Schedule H-5
 Page 1
 Witness: Bourassa

Meter Size:

Usage From:	Usage To:	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
38,001	39,000	1	3	0	0	0	0	0	0	0	0	0	0	4	9,399	50,380
39,001	40,000	0	0	1	1	0	0	0	2	0	1	0	0	5	9,404	50,578
40,001	41,000	0	0	0	0	0	0	0	0	0	0	0	0	-	9,404	50,578
41,001	42,000	0	0	0	1	0	0	0	0	0	0	0	0	1	9,405	50,619
42,001	43,000	0	0	0	1	0	0	0	0	1	0	0	1	3	9,408	50,747
43,001	44,000	0	0	0	0	0	0	0	0	0	0	0	0	-	9,408	50,747
44,001	45,000	0	0	1	0	0	0	0	0	0	0	0	0	1	9,409	50,791
45,001	46,000	0	0	0	0	0	0	0	0	0	0	0	0	-	9,409	50,791
46,001	47,000	1	0	0	0	0	1	1	0	0	0	0	1	4	9,413	50,977
47,001	48,000	0	0	0	0	0	0	0	0	0	1	0	0	1	9,414	51,025
48,001	49,000	0	0	1	0	0	0	1	0	1	0	0	0	3	9,417	51,170
49,001	50,000	0	0	0	0	0	0	0	0	0	0	0	0	-	9,417	51,170
50,001	51,000	0	0	0	0	0	0	0	0	0	0	0	0	-	9,417	51,170
51,001	52,000	0	0	0	0	0	0	0	0	0	0	0	0	-	9,417	51,170
52,001	53,000	1	0	0	0	0	0	0	0	0	0	0	0	1	9,418	51,223
53,001	54,000	1	0	0	0	0	0	0	0	0	0	0	0	1	9,419	51,276
54,001	55,000	0	0	0	0	0	0	0	0	0	0	0	1	2	9,421	51,385
55,001	56,000	0	0	0	0	0	0	0	0	0	1	0	0	1	9,422	51,441
56,001	57,000	0	0	0	0	0	0	0	0	0	0	0	0	1	9,423	51,497
57,001	58,000	0	0	1	0	0	0	0	0	0	1	0	0	1	9,424	51,555
58,001	59,000	0	0	1	0	0	0	0	0	1	0	0	0	2	9,426	51,672
59,001	60,000	0	0	0	0	0	0	0	0	0	0	0	0	-	9,426	51,672
60,001	61,000	0	0	0	0	0	0	0	0	0	0	0	0	1	9,427	51,732
61,001	62,000	0	0	0	0	0	0	0	0	0	0	0	1	1	9,428	51,794
62,001	63,000	0	0	0	0	0	0	0	0	0	0	0	0	-	9,428	51,794
63,001	64,000	0	0	0	0	0	0	0	0	0	0	0	0	-	9,428	51,794
64,001	65,000	0	0	0	0	0	0	0	0	0	0	0	0	-	9,428	51,794
65,001	66,000	0	0	0	0	0	0	0	0	0	0	0	0	-	9,428	51,794
66,001	67,000	0	0	0	0	0	0	0	0	0	0	0	0	-	9,428	51,794
67,001	68,000	0	0	0	0	0	0	0	0	0	0	0	0	-	9,428	51,794
68,001	69,000	0	0	0	0	0	0	0	0	0	0	0	0	-	9,428	51,794
69,001	70,000	0	0	0	0	0	0	0	0	0	0	0	0	-	9,428	51,794
70,001	71,000	0	0	0	0	0	0	0	0	0	0	0	0	-	9,428	51,794
71,001	72,000	0	0	0	0	0	0	0	0	0	0	0	0	-	9,428	51,794
72,001	73,000	0	0	0	0	0	0	0	0	0	0	0	0	-	9,428	51,794
73,001	74,000	0	0	0	0	0	0	0	0	0	0	0	0	-	9,428	51,794
74,001	75,000	0	0	0	0	0	0	0	0	0	0	0	0	-	9,428	51,794
75,001	76,000	0	0	0	0	0	1	0	0	0	0	0	0	1	9,429	51,868
76,001	77,000	0	0	0	0	0	0	0	0	0	0	0	0	-	9,429	51,868
		0	0	0	0	0	0	0	0	0	0	0	0	-	9,429	51,868

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 1 Inch Commercial

Exhibit
 Schedule H-5
 Page 2
 Witness: Bourassa

Meter Size:

Usage From:	Usage To:	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
83,001	84,000	-	-	-	-	-	-	-	-	-	-	-	-	-	19	85
84,001	85,000	-	-	-	-	-	-	-	-	-	-	-	-	-	19	85
85,001	86,000	-	-	-	-	-	-	-	-	-	-	-	-	-	19	85
86,001	87,000	-	-	-	-	-	-	-	-	-	-	-	-	-	19	85
87,001	88,000	-	-	-	-	-	-	-	-	-	-	-	-	-	19	85
88,001	89,000	-	-	-	-	-	-	-	-	-	-	-	-	-	19	85
89,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	19	85
90,001	91,000	-	-	-	-	-	-	-	-	-	-	-	-	-	19	85
91,001	92,000	-	-	-	-	-	-	-	-	-	-	-	-	-	19	85
92,001	93,000	-	-	-	-	-	-	-	-	-	-	-	-	-	19	85
93,001	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-	19	85
94,001	95,000	-	-	-	-	-	-	-	-	-	-	-	-	-	19	85
95,001	96,000	-	-	-	-	-	-	-	-	-	-	-	-	-	19	85
96,001	97,000	-	-	-	-	-	-	-	-	-	-	-	-	-	19	85
97,001	98,000	-	-	-	-	-	-	-	-	-	-	-	-	-	19	85
98,001	99,000	-	-	-	-	-	-	-	-	-	-	-	-	-	19	85
99,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	19	85
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	19	85
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	19	85
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	19	85
Totals														19	4,448	
															6,500	

Average Usage
 Median Usage

1 FENNEMORE CRAIG, P.C.
Jay L. Shapiro (No. 014650)
2 Patrick J. Black (No. 017141)
3003 N. Central Ave.
3 Suite 2600
4 Phoenix, Arizona 85012
Attorneys for Southern Sunrise Water Company

5
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7
8 IN THE MATTER OF THE
9 APPLICATION OF SOUTHERN
10 SUNRISE WATER COMPANY, AN
ARIZONA CORPORATION, FOR A
11 DETERMINATION OF THE FAIR
VALUE OF ITS UTILITY PLANTS AND
12 PROPERTY AND FOR INCREASES IN
ITS WATER RATES AND CHARGES
13 FOR UTILITY SERVICE BASED
THEREON.

DOCKET NO: W-20454A-09-_____

14
15
16
17
18 **DIRECT TESTIMONY OF**
19 **THOMAS J. BOURASSA**
20 **(COST OF CAPITAL)**

21
22 **August 31, 2009**
23
24
25
26

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

TABLE OF CONTENTS

I. INTRODUCTION1

II. SUMMARY OF TESTIMONY AND THE PROPOSED COST OF CAPITAL FOR SSWC1

III. OVERVIEW OF THE RELATIONSHIP BETWEEN RISK AND THE EXPECTED RETURN ON AN INVESTMENT3

IV. THE MEANING OF “JUST AND REASONABLE” RATE OF RETURN14

V. THE ESTIMATED COST OF EQUITY FOR SSWC15

 A. The Publicly Traded Utilities That Comprise the Sample Group Used to Estimate SSWC’s Cost of Equity.15

 B. Overview of the DCF and CAPM Methodologies.....22

 C. Explanation of the DCF Model and Its Inputs23

 D. Explanation of the CAPM and Its Inputs30

 E. Financial Risk Adjustment.....35

 F. Company Specific Risk Premium.....36

 G. Summary and Conclusions37

2206817.4

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

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

5 **Q. ARE YOU THE SAME THOMAS J. BOURASSA THAT FILED DIRECT**
6 **TESTIMONY ON RATE BASE, INCOME STATEMENT, REVENUE**
7 **REQUIREMENT AND RATE DESIGN IN THIS DOCKET?**

8 A. Yes, and all of my background information and testimony regarding my
9 qualifications is contained in that portion of my direct testimony.

10 **II. SUMMARY OF TESTIMONY AND THE PROPOSED COST OF CAPITAL**
11 **FOR SSWC**

12 **Q. WHAT IS THE PURPOSE OF THIS PORTION OF YOUR DIRECT**
13 **TESTIMONY?**

14 A. This portion of my direct testimony will focus on cost of capital issues. I will
15 testify in support of Southern Sunrise Water Company's ("SSWC") proposed rate
16 of return on its fair value rate base. I am sponsoring SSWC's D Schedules, which
17 are attached to this testimony. As noted above, I am also sponsoring direct
18 testimony that addresses SSWC's rate base, income statement (revenue and
19 operating expenses), required increase in revenue, and its rate design and proposed
20 rates and charges for service. For the convenience of the Commission and the
21 parties, that testimony and my related schedules are being filed separately in this
22 case.

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

25 A. Yes. I have prepared 16 schedules that support my testimony and 1 attachment.
26

1 **Q. PLEASE SUMMARIZE YOUR COST OF CAPITAL TESTIMONY.**

2 A. I determine SSWC's cost of equity falls in the range of 10.2 percent to 16.5 percent
3 with the midpoint of the range at 13.3 percent. I am recommending a return on
4 equity ("ROE") of 12.8 percent. My recommendation is based on (i) cost of equity
5 estimates using constant growth and multi-stage growth discounted cash flow
6 ("DCF") models and the capital asset pricing model ("CAPM") for the sample
7 group of publicly traded utilities, (ii) my review of the economic conditions
8 expected to prevail during the period in which new rates will be in effect, (iii) my
9 judgment about the risks associated with small utilities like SSWC not captured by
10 the market data for publicly traded water utilities used in my study, (iv) the
11 financial risk associated with the level of debt in SSWC's capital structure, and
12 (v) additional specific business and operational risks faced by SSWC Company.

13 **Q. PLEASE SUMMARIZE THE APPROACH YOU USED TO ESTIMATE**
14 **THE COST OF EQUITY FOR SSWC.**

15 A. The cost of equity for SSWC cannot be estimated directly because SSWC's
16 common stock is not publicly traded and there is no market data for SSWC.
17 Consequently, I applied the DCF and CAPM models using data from a sample of
18 water utilities selected from the Value Line Investment Survey. There are six
19 water utilities in my sample: American States Water, Aqua America, California
20 Water, Connecticut Water, Middlesex Water, and SJW Corp. As explained later in
21 my testimony, these companies are not really comparable to SSWC, but they are
22 water utilities for which market data are available and because the Arizona
23 Commission's Utilities Division Staff ("Staff") has relied on data for these water
24 utilities in a number of recent water and sewer utility rate cases.

25 My DCF analyses indicate ROE's in the range of 11.2 percent to 13.0
26 percent with a midpoint of 12.1 percent. The CAPM analysis, again using the

1 same sample group, indicates that ROE's in the range of 10.1 percent to 21.0
2 percent is appropriate with a midpoint of 15.6 percent. Both the DCF and CAPM
3 ranges are before consideration of company specific risks.

4 My ROE estimates after consideration of financial risk and small company
5 risk is in the range of 10.2 percent to 16.5 percent with a midpoint of 13.3 percent.
6 Given SSWC's relatively small size compared to the large publicly traded utilities
7 used in my sample, the regulatory methods and policies used in this jurisdiction,
8 and other firm-specific factors, it is my opinion that at the present time, a cost of
9 equity of no less than 12.8 percent is warranted.

10 My recommendation of 12.8 percent balances my judgment about the
11 degree of financial and business risk associated with an investment in SSWC as
12 well as consideration of the current economic environment. A summary of my cost
13 of equity analysis result is shown on Schedule D-4.1.

14 **III. OVERVIEW OF THE RELATIONSHIP BETWEEN RISK AND THE**
15 **EXPECTED RETURN ON AN INVESTMENT**

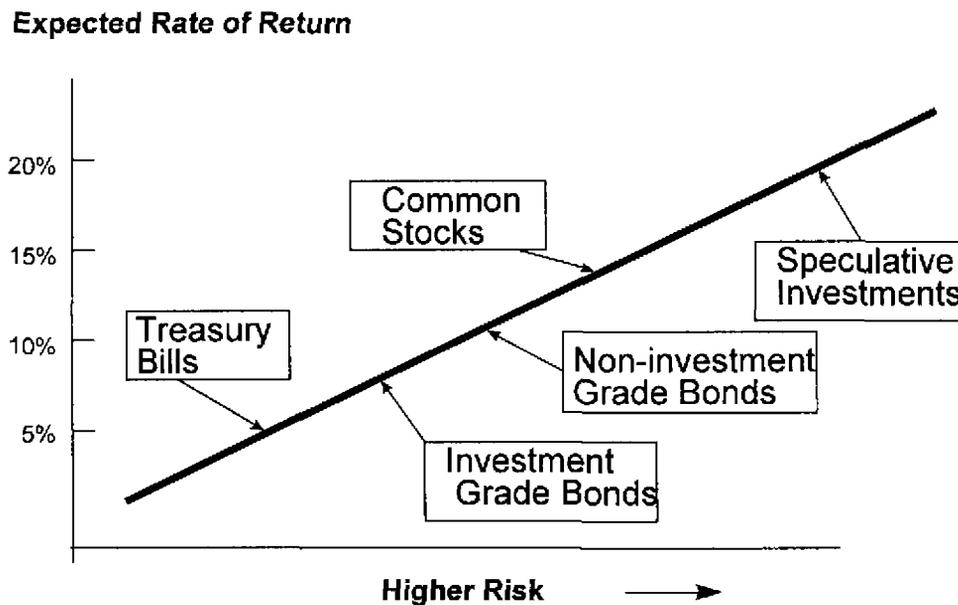
16 **Q. HOW IS THE COST OF EQUITY TYPICALLY ANALYZED?**

17 A. The cost of equity is the rate of return that equity investors expect to receive on
18 their investment. Investors can choose to invest in many types of assets, not simply
19 publicly traded stock. Each investment will have varying degrees of risk, ranging
20 from relatively low risk assets such as Treasury securities to somewhat higher risk
21 corporate bonds to even higher risk common stocks. As the level of risk increases,
22 investors require higher returns on their investment. Finance models that are used
23 to estimate the cost of equity often rely on this basic concept.
24
25
26

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

3 A. Yes. The following graph depicts the risk-return relationship that has become
4 widely known as the Capital Market Line ("CML") ("Figure 1"). The CML
5 illustrates in a general way the risk-return relationship.

6 7 8 The Capital Market Line (CML)



19
20
21 The CML can be viewed as a continuum of the available investment opportunities
22 for investors. Investment risk increases moving upward and to the right along the
23 CML. Again, the expected return increases with the risk.

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

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

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

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

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

26

1 **Q. HOW IS THE COST OF EQUITY FOR A PARTICULAR UTILITY**
2 **DETERMINED?**

3 A. The estimation of a utility's cost of equity is complex. It requires an analysis of the
4 factors influencing the cost of various types of capital, such as interest on long-
5 term debt, dividends on preferred stock, and earnings on common equity. The data
6 for such an analysis comes from highly competitive capital markets, where the firm
7 raises funds by issuing common stock, selling bonds, and by borrowing (both long-
8 and short-term) from banks and other financial institutions. In the capital markets,
9 the cost of capital, whether the capital is in the form of debt or equity, is
10 determined by two important factors:

- 11 1) The pure or real rate of interest, often called the risk-free rate of
12 interest; and,
- 13 2) The uncertainty or risk premium (the compensation the investor
14 requires over and above the real or pure rate of interest for subjecting
15 his capital to additional risk).

16 **Q. PLEASE DISCUSS THESE FACTORS IN GREATER DETAIL.**

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

26 Turning to the second factor affecting the cost of capital, it is generally

1 accepted that the higher the degree of uncertainty, the higher the cost of capital.
2 Investors are regarded as risk adverse and require that the rate of return increase as
3 the risk (uncertainty) associated with an investment increase.

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

6 A. Yes. Conceptually,

7 [1] Required Return for Common Stocks = Return on a risk-free asset + Risk Premium
8

9 where the risk premium investors require for common stocks will be higher than
10 the risk premium they require for investment grade bonds. This relationship is
11 depicted in Figure 1 above. As I will discuss later in this testimony, this concept is
12 the basis of risk premium methods, such as the CAPM, that are used to estimate the
13 cost of equity.

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

16 A. In the past 10 years, inflation and capital market costs have generally declined.
17 Interest rates have been lower than in previous decades. Past inflation, as
18 measured by the Consumer Price Index, has been at relatively low levels in the past
19 10 years.

20 The roughly 6 year span of economic expansion after the 2001 recession
21 began to wane in 2007. Year-over-year Gross Domestic Product (“GDP”) growth¹
22 for 2005, 2006, and 2007 was 3.6 percent, 3.1 percent, and 2.7 percent,
23 respectively. GDP growth was, in part, spurred on by low interest rates during this
24 period. The Federal Reserve, having lowered the target Federal Funds rate to 1.0
25

26 ¹ GDP percentage change based on current dollars (1930-2008).

1 percent by the end of 2003, began raising interest rates in 2004 to help keep the
2 economy from overheating and to help keep inflation in check. By mid-2006, the
3 Federal Reserve had raised the target Federal Funds rate to 5.25 percent.

4 The economic expansion was broad, taking in the major consumer and
5 industrial sectors for much of its span. However, economic expansion also brought
6 excesses, particularly in the areas of housing, lending practices, and the financial
7 markets.

8 Economic growth slowed in 2007. For 2007, the year-over-year GDP
9 growth had dropped to 2.1 percent with the last quarter of 2007 at a negative 0.2
10 percent. The slow economic growth combined with the excesses during the
11 economic expansion of the previous 6 years created turmoil in the credit, financial,
12 and housing markets.

13 In order to address the weakening economy, the Federal Reserve, starting in
14 September 2007, took a series of rate cut actions (525 basis points). The reductions
15 in interest rates by the Federal Open Market Committee ("FOMC") were taken in
16 order to promote economic growth and to mitigate risks to economic activity. The
17 target Federal Funds rate stands at zero to .25 percent.

18 GDP growth for the four quarters of 2008 was 0.9 percent, 2.8 percent,
19 negative 0.5 percent, and negative 6.3 percent, respectively. Year-over-year GDP
20 growth for 2008 was 0.4 percent. GDP growth for the first quarter of 2009 was
21 negative 5.5 percent and the estimate for the second quarter is a negative 1.3
22 percent. The recent recession was deep, costing millions of job losses across a
23 number of industries. However, many economists are growing more optimistic
24 about the pace of economic growth later this year. According to the Value Line
25 Investment Survey (August 28, 2009), the recession seems to have run its course.
26 The Blue Chip Financial Forecast ("Blue Chip") consensus forecasts (August 1,

1 2009) of real GDP growth for the third and fourth quarter of 2009 are expected to
2 be a 0.9 percent and 1.4 percent, respectively. While economic growth is expected
3 to improve in the second half of 2009, recovery is expected to be slow as there are
4 risks to the U.S. economy from still overly leveraged households, a banking system
5 still saddled with toxic assets, ballooning federal deficits, the failure of the housing
6 market to stabilize in the year ahead, and continued weakness in business and
7 consumer spending.

8 **Q. WHAT ABOUT THE STATUS OF THE CREDIT MARKETS?**

9 A. Federal Reserve Chairman Ben Bernanke noted in Congressional testimony late
10 last year that financial markets were under considerable stress and that broader
11 retrenchment in the willingness of investors to bear risk, troubles in the credit
12 markets and a weaker outlook of economic growth have added to the stresses on
13 economic growth. After the Federal Reserve lowered the target federal funds rate
14 to zero to 25 basis points in late 2008, the three month Treasury bill yields dropped
15 to near zero, and yields on the two, five, ten and thirty year yield treasuries fell to
16 the lowest levels since the Treasury began regular sales of the securities. More
17 recently, however, yields on longer dated Treasury yields have risen to levels that
18 are 60-130 basis points over their December 2008 levels. Some analysts attribute
19 the run up in yields to rising jitters among investors about the tidal wave of Federal
20 debt issued earlier this year and to the expected debt to be issued to fund the
21 massive \$800 billion "stimulus" package recently enacted by Congress and signed
22 by the President and to the expected additional billions of dollars above the already
23 authorized \$750 billion Trouble Asset Repurchase Program ("TARP") passed last
24 year to address the weaknesses in the credit markets.

25 Arguably, the recent turmoil in the credit markets, the ballooning federal
26 deficits, and weakness in business and consumer spending will continue to have a

1 significant drag on the economy. The current capital markets reflect the
2 uncertainty and relatively low confidence of investors in the financial markets, in
3 the future prospects of strong economic growth, and concerns over higher inflation
4 over the next several years. Naturally, despite relatively low U.S. Treasury yields
5 over the past several years, the premiums required for investors to hold and buy
6 securities is much higher than in the recent past due to this uncertainty.

7 **Q. IS THERE A RELATIONSHIP BETWEEN THE COST OF EQUITY AND**
8 **INTEREST RATES?**

9 A. Yes. All things being equal, the cost of equity moves in the same direction as
10 interest rates. Lower interest rates on U.S. Treasuries (“risk-free” rate) imply
11 lower equity returns and visa versa. However, as indicated by Equation 1 above,
12 the risk premium required to compensate investors also impacts the cost of equity.
13 Higher risk premiums required by investors imply higher equity costs and visa
14 versa. Risk premiums are impacted by uncertainty in future interest rates, business
15 and economic conditions, expected inflation, and other risk factors including
16 interest rate risk, business risk, regulatory risk, financial risk, construction risk, and
17 liquidity risk.

18 The flight to quality and low risk investments as the stock market began to
19 tumble last year drove treasury yields to very low levels. But, as noted earlier, the
20 federal government has and is expected to significantly increase its borrowing in
21 order to “stimulate” the economy and address systemic problems in the credit
22 markets. This in turn, has resulted in increasing yields on Treasuries as investors
23 get jittery about the risks of the massive debt load the federal government is taking
24 on.

1 **Q. IS SSWC AFFECTED BY THESE SAME MARKET UNCERTAINTIES**
2 **AND CONCERNS?**

3 A. Yes, in general, all investors are impacted by bad economic news, and SSWC's
4 investors are not immune to uncertainty. In the current economic environment,
5 even large publicly traded companies felt the impact. Investment grade bond (Baa)
6 yields rose to over 9 percent towards the end of last year and have remained
7 relatively high. Currently investment grade bond yields are 6.5 percent
8 (August 21, 2009). Utilities are not immune to the higher capital costs of the
9 current economic environment either. The average beta (a measurement of market
10 risk) for the water utility sample companies has risen significantly over the past
11 couple of years.

12 As discussed above, capital costs have risen significantly over the past year
13 or so. And, smaller utilities like SSWC generally feel the impact worse because
14 they are small, with a small customer base and an inability to attract capital.

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

17 A. On the whole, the water utility industry is expected to continue to confront
18 increasing infrastructure demand. According to the *Value Line Investment Survey*,
19 many utilities have facilities that are decades old and in need of significant
20 maintenance and, in some cases, massive renovation and replacement. In addition,
21 the U.S. E.P.A. and state and local regulators continue to impose more stringent
22 environmental quality and operational standards, such as new maximum
23 contaminant levels for public drinking water systems. Additional operational
24 requirements have also been imposed to address the threat of bio-terrorism on U.S.
25 water systems. As infrastructure costs continue to climb, many smaller companies
26 are at a serious disadvantage. Without sufficient resources to fund improvements

1 to meet new and more stringent requirements, many smaller companies are being
2 forced to sell to larger utilities, which have greater operational flexibility and
3 resources, as well as access to capital.

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

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

8 Business risk, the basic risk associated with any business undertaking, is the
9 uncertainty associated with the enterprise's day-to-day operations. In essence, it is
10 a function of the normal day-to-day business environment, both locally and
11 nationally. Business risks include the condition of the economy and capital
12 markets, the state of labor markets, regional stability, government regulation,
13 technological obsolescence, and other similar factors that may impact demand for
14 the business product and its cost of production. For utilities, business risk also
15 includes the volatility of revenues due to abnormal weather conditions, degree of
16 operational leverage, regulation, and regulatory climate. Regulation, for example,
17 can compound the business risk if it is unpredictable in reacting to cost increases
18 both in terms of the time lag and magnitude. Regulatory lag makes it difficult to
19 earn a reasonable return particularly in an inflationary environment and/or when
20 there is significant lag between the timing of investment in capital projects and its
21 recognition in rates. Put simply, the greater the degree of uncertainty regarding the
22 various factors affecting a company's business, the greater the risk of an
23 investment in a company and the greater the compensation required by the
24 investor.

25 Financial risk, on the other hand, concerns the distribution of business risk
26 to the various capital investors in the utility. As I discussed earlier, permanent

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

7 An important component of financial risk is construction risk. Construction
8 risk refers to the magnitude of a company's capital budget. If a company has a
9 large construction budget relative to internally generated cash flows it will require
10 external financing. It is important that companies have access to capital funds on
11 reasonable terms and conditions. Utilities are more susceptible to construction risk
12 for two reasons. First, utilities generally have high capital requirements to build
13 plant to serve customers. Second, utilities have a mandated obligation to serve,
14 leaving less flexibility both in the timing and discretion of scheduling capital
15 projects. This is compounded by the limited ability to wait for more favorable
16 market conditions to raise the capital necessary to fund the capital projects.

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

1 **IV. THE MEANING OF “JUST AND REASONABLE” RATE OF RETURN**

2 **Q. HAVE THE COURTS SET FORTH ANY CRITERIA THAT GOVERN THE**
3 **RATE OF RETURN THAT A UTILITY’S RATES SHOULD PRODUCE?**

4 A. Yes. In 1923, the U.S. Supreme Court set forth the following criteria for
5 determining whether a rate of return is reasonable in *Bluefield Water Works and*
6 *Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679,
7 692-93 (1923):

8 A public utility is entitled to such rates as will permit it to earn a
9 return on the value of the property which it employs for the
10 convenience of the public equal to that generally being made at the
11 same time and in the same general part of the country on investments
12 on other business undertaking which are attended by corresponding
13 risks and uncertainties The return should be reasonably sufficient
14 to assure confidence in the financial soundness of the utility and
should be adequate, under efficient and economical management to
maintain and support its credit and enable it to raise money necessary
for the proper discharge of its public duties. A rate of return may be
reasonable at one time and become too high or too low by changes
affecting opportunities for investment, the money market, and
business conditions generally.

15 In summary, under *Bluefield Water Works*:

- 16 (1) The rate of return should be similar to the return in businesses with
17 similar or comparable risks;
- 18 (2) The return should be sufficient to ensure the confidence in the
19 financial integrity of the utility; and
- 20 (3) The return should be sufficient to maintain and support the utility’s
21 credit.

22 **Q. HAVE THESE CRITERIA BEEN APPLIED IN REGULATORY**
23 **PROCEEDINGS?**

24 A. Yes, but the application of the “reasonableness” criteria laid down by the U.S.
25 Supreme Court has resulted in controversy. The typical method of computing the
26 overall cost of capital is quite straightforward: it is the composite, weighted cost of

1 the various classes of capital (debt, preferred stock, and common equity), used by
2 the utility. The weighting is done by calculating the proportion that each class of
3 capital bears to total capital. However, there is no consensus regarding the best
4 method of estimating the cost of equity capital. The increasing regulatory
5 emphasis on objectivity in determining the rate of return has resulted in a
6 proliferation of market-based finance models that are used in equity return
7 determination. As will be discussed more fully below, however, none of these
8 models are universally accepted as the "correct" means of estimating the ROE.

9 **V. THE ESTIMATED COST OF EQUITY FOR SSWC**

10 **A. The Publicly Traded Utilities That Comprise the Sample Group Used to**
11 **Estimate SSWC's Cost of Equity.**

12 **Q. PLEASE BRIEFLY DESCRIBE THE APPROACH YOU FOLLOWED IN**
13 **YOUR COST OF CAPITAL ANALYSIS FOR SSWC.**

14 **A.** As I have stated, estimating the cost of equity is a matter of informed judgment.
15 The development of an appropriate rate of return for a regulated enterprise involves
16 a determination of the level of risk associated with that enterprise and the
17 determination of an appropriate return for that risk level. Practitioners employ
18 various techniques that provide a link to actual capital market data and assist in
19 defining the various relationships that underlie the equity cost estimation process.

20 Since SSWC is not publicly traded, the information required to directly
21 estimate SSWC's cost of equity is not available. Accordingly, I used a sample
22 group of water utilities as a starting point to develop an appropriate cost of equity
23 for SSWC. There are six water utilities included in the sample group: American
24 States Water, Aqua America, California Water, Connecticut Water, Middlesex
25 Water, and SJW Corp. All these companies are followed by the *Value Line*
26 *Investment Survey*.

1 **Q. ARE THE WATER UTILITIES IN YOUR SAMPLE DIRECTLY**
2 **COMPARABLE TO SSWC?**

3 A. No, but they are utilities for which market data is available. All of them are
4 regulated, they primarily provide water service, although some provide both water
5 and wastewater services, and their primary source of revenues is from regulated
6 services. Therefore, they provide a useful starting point for developing a cost of
7 equity for SSWC. I emphasized "starting point" because SSWC is not publicly
8 traded. Additionally, there is no market data available for smaller utilities, like
9 SSWC, that can be used to develop cost of equity estimates.

10 **Q. DOES THE MARKET DATA PROVIDED BY THE WATER UTILITY**
11 **SAMPLE CAPTURE ALL OF THE MARKET RISKS THAT SSWC**
12 **MIGHT FACE IF IT WERE PUBLICLY TRADED?**

13 A. In my opinion, no. As I stated, there is no comparable market data for utility
14 companies the size of SSWC. The average revenue of the water utility sample
15 companies is over 665 times that of SSWC, and the average net plant of the water
16 utility sample companies is over 544 times that of SSWC. Even the smallest
17 company in the sample group, Connecticut Water, has over 153 times the net plant
18 of SSWC, and over 150 times the revenues.

19 **Q. PLEASE PROVIDE A GENERAL DESCRIPTION OF THE WATER**
20 **UTILITIES IN YOUR SAMPLE.**

21 A. Schedule D-4.2 lists the operating revenues and net plant for the six water utilities
22 as reported by AUS Utility Reports (formerly C.A. Turner Utility Reports) and
23 SSWC. In addition, below is a general description of each of the companies:

24 (1) American States Water (AWR) primarily serves the California
25 market through Golden State Water Company, which provides water
26 services to over 254,000 customers within 75 communities in 10

1 counties in the State of California, primarily in Los Angeles, San
2 Bernardino, and Orange counties. It has one subsidiary serving the
3 Arizona market with approximately 13,000 customers in Fountain
4 Hills and Scottsdale. AWR also owns an electric utility service
5 provider with over 23,000 customers, but approximately 91 percent
6 of its revenues were derived from commercial and residential water
7 customers. Revenues for American States were \$318.7 million in
8 2008 and net plant nearly \$724 million at the end of 2008.

9 (2) Aqua America (WTR) owns regulated utilities in Pennsylvania,
10 Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana,
11 Virginia, Maine, Missouri, New York, and South Carolina, serving
12 over 945,000 customers at the end of 2008. WTR's utility base is
13 diversified among residential water, commercial water, fire
14 protection, industrial water, other water, and wastewater customers.
15 Total revenues for WTR were nearly \$627 million in 2008 and net
16 plant was nearly \$2.58 billion at the end of 2008.

17 (3) California Water Service Group (CWT) owns subsidiaries in
18 California, New Mexico, Washington, and Hawaii serving over
19 180,000 customers. The California operations account for over 95
20 percent of customers and over 96 percent of operating revenues.
21 Revenues for CWT were over \$410 million in 2008 and net plant
22 nearly \$1 billion at the end of 2008.

23 (4) Connecticut Water Services (CTWS) owns subsidiaries in
24 Connecticut and Massachusetts serving over 87,000 customers.
25 Revenues for CTWS were over \$61 million in 2008 and net plant
26 over \$250 million at the end of 2008.

1 (5) Middlesex Water (MSEX) owns subsidiaries in New Jersey and
2 Delaware serving over 105,000 customers and provides water service
3 under contract to municipalities in central New Jersey to a population
4 of over 267,000. Revenues for MSEX were over \$91 million in 2008
5 and net plant was over \$312 million at the end of 2008.

6 (6) SJW Corp. (SJW) owns San Jose Water, which provides water
7 service in a 138 square mile area in San Jose, California, and
8 surrounding communities. Revenues for SJW were over \$220
9 million in 2008 and net plant was over \$492 million at the end of
10 2008.

11 **Q. HOW DOES SSWC COMPARE TO THE SAMPLE WATER UTILITIES?**

12 A. It is smaller. At the end of the test year, SSWC had approximately 795 customers.
13 Its revenues totaled approximately \$445,000, and its net plant-in-service was
14 approximately \$1.7 million. SSWC is located in Cochise County and has a
15 relatively small service territory compared to the sample water companies.

16 **Q. ARE THERE OTHER FACTORS FOR SMALLER UTILITIES, LIKE**
17 **SSWC, WHICH INCREASE RISK?**

18 A. Yes. Because smaller utilities like SSWC are not publicly traded they have less
19 financial flexibility, which in turn increases risk. SSWC does not have access to
20 the public equity markets and this lack of financial flexibility increases risk
21 because it has no choice but to rely on retained earnings, short-term debt, and
22 privately placed bonds to provide capital for plant improvements and additions
23 necessary to ensure safe and reliable water service to its customers. Further,
24 SSWC does not have a market to issue common stock to the public to raise capital.

25 Water utilities are capital intensive and typically have large construction
26 budgets. SSWC's construction budget for the next three years is over \$450,000.

1 As discussed on page 13 of my testimony, firms with large capital budgets face
2 construction risk (a form of financial risk). The size of a utility's capital budget
3 relative to the size of the utility itself often increases construction risk. Larger
4 utilities may be able to fund large capital budgets from earnings and short-term
5 borrowings. For smaller utilities like SSWC, the ability to fund relatively large
6 capital budgets from earnings and short-term debt is difficult to obtain, requiring
7 that additional capital be raised. However, the ability to raise additional capital is
8 in and of itself challenging and compounded by a limited ability to access capital,
9 an obligation to serve, and a limited ability to wait for more favorable market
10 conditions to raise the capital necessary to fund necessary capital projects.

11 **Q. WHAT OTHER RISK FACTORS DISTINGUISH SSWC FROM THE**
12 **LARGER SAMPLE WATER UTILITIES?**

13 A. There are a number of state specific factors that increase the risk to Arizona's
14 private water and wastewater utilities.

15 First, the regulatory environment in which SSWC operates is much different
16 than that of the sample water utilities. Arizona's private water and wastewater
17 utilities face legal constraints that limit their ability to obtain rate relief outside of a
18 general rate case in which the "fair value" of the utility's property is determined
19 and used to set rates. The Arizona Constitution, as interpreted in court decisions,
20 limits the ability of Arizona utilities to utilize adjustment mechanisms, advice letter
21 filings and other streamlined procedures to obtain recovery of costs outside a
22 general rate case, in contrast to many other jurisdictions.

23 Second, the Commission requires the use of an historic test year with
24 limitations on the amount of out-of-period adjustments. This process creates
25 another state-specific factor that increases risk and thus required ROEs for utilities
26 in Arizona. In fact, three out of the six sample water companies operate primarily

1 in California – American States, California Water and SJW Corp. California uses
2 future test years to help better match plant investment and revenues and expenses
3 going forward - the period in which rates will be in effect. California also allows
4 the use of balancing accounts on major operating expenses like purchased power
5 and purchased water to help utilities recover expenses that are beyond their control.

6 A fourth utility in the sample group, Aqua America, has regulatory mechanisms
7 available to it to help reduce risk. In six states in which Aqua America operates
8 water utilities, and two states in which Aqua America operates wastewater utilities,
9 regulatory bodies permit it to add a surcharge to water or wastewater bills to offset
10 the additional depreciation and capital costs associated with certain capital
11 expenditures related to replacing and rehabilitating infrastructure systems. Aqua
12 America also operates in jurisdictions in which it may bill utility customers in
13 accordance with a rate filing that is pending before the respective regulatory
14 commission as well as jurisdictions that authorize the use of expense deferrals and
15 amortization in order to provide for an impact on its operating income by an
16 amount that approximates the requested amount in a rate request. In addition,
17 certain states in which Aqua America operates use a surcharge or credit on bills to
18 reflect changes in certain costs, such as changes in state tax rates, other taxes and
19 purchased water, until such time as the costs are incorporated into base rates.

20 **Q. IT DOESN'T APPEAR THAT SSWC IS ACTUALLY COMPARABLE TO**
21 **THE SAMPLE WATER UTILITIES.**

22 **A.** It really is not, for the reasons I have stated. Constraints on the rate making
23 process in Arizona make it difficult to obtain approval of rates that allow Arizona's
24 private water and wastewater utilities to recover the costs of service they will
25 actually incur during the period when new rates are put in place, which can be
26 several years beyond the test year. Risks are higher for SSWC, and the required

1 return on equity should be above the level required by water utilities that operate in
2 states that do not have such limitations imposed, either by law or by agency policy,
3 on the rate-setting system. Unfortunately, as I testified, the approaches commonly
4 used to estimate a utility's cost of equity require market data, which is not available
5 ~~for smaller companies and utilities operating exclusively in Arizona, like SSWC.~~

6 As a result, much larger, public companies must be used as proxies.

7 But the emphasis on proxy is very important. The criteria established by the
8 Supreme Court in decisions such as *Bluefield Water Works* require the use of
9 comparable companies, i.e., companies that would be viewed by investors as
10 having similar risks. A rational investor would not regard SSWC as having the
11 same level of risk as Aqua America or even Connecticut Water. Consequently, the
12 results produced by the DCF and CAPM methodologies, utilizing data for the
13 sample utilities, often understates the appropriate return on equity for a regulated
14 water utility provider.

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

19 A. Schedule D-4.3 shows that the capital structure of SSWC on March 31, 2009
20 contains 0 percent debt and 100 percent equity, compared to the average of the
21 water utility sample of 46.9 percent debt and 53.1 percent equity.

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

24 A. Yes. Generally, when a firm engages in debt financing, it exposes itself to greater
25 risk. Once debt becomes significant relative to the total capital structure, the risk
26 increases in a geometric fashion compared to the linear percentage increase in the

1 debt ratio itself. This risk is illustrated by considering the effect of leverage on net
2 earnings. For example, as leverage increases, the equity ratio falls. This creates
3 two adverse effects on the investor. First, equity earnings decline rapidly and may
4 even disappear. Second, the "cushion" of equity protection for debt falls. A
5 decline in the protection afforded debt holders, or the possibility of a serious
6 decline in debt protection, will act to increase the cost of debt financing.
7 Therefore, one may conclude that each new financing, whether through debt or
8 equity, impacts the marginal cost of future financing by any alternative method.
9 For a firm already perceived as being over-leveraged, this additional borrowing
10 would cause the marginal cost of both equity and debt to increase. On the other
11 hand, if the same firm instead employed equity funding, this could actually reduce
12 the real marginal cost of additional borrowing, even if the particular equity
13 issuance occurred at a higher unit cost than an equivalent amount of debt.

14 Having less debt in its capital structure implies that SSWC has less financial
15 risk than the water utility sample, which may offset the other factors that make
16 SSWC more risky than the sample group. However, smaller utilities cannot
17 support the same level of debt as larger utilities and smaller utilities tend to have
18 less debt in their capital structures as a result. Smaller utilities face higher business
19 and operational risk as compared to larger utilities which magnify the financial risk
20 of higher debt levels in their capital structures.

21 **B. Overview of the DCF and CAPM Methodologies**

22 **Q. PLEASE EXPLAIN THE GENERAL APPROACHES TO ESTIMATING**
23 **THE COST OF CAPITAL.**

24 **A.** There two broad approaches:

- 25 1) identify comparable-risk sample companies and estimate the cost of
26 capital directly, and,

1 2) find the location of the CML and estimate the relative risk of the
2 company that jointly determines the cost of capital.

3 The DCF model is an example of a method falling into the first general
4 approach. It is a direct method, but uses only a subset of the total capital market
5 evidence. ~~The DCF model rests on the premise that the fundamental value of an~~
6 asset (stock) is its ability to generate future cash flows to the owner of that asset
7 (stock). I will explain the DCF model in more detail later. For now, the DCF is
8 simply the sum of a stock's expected dividend yield and the expected long-term
9 growth rate. Dividend yields are readily available, but long-term growth estimates
10 are more difficult to obtain.

11 The CAPM is an example of a method falling into the second general
12 approach. It uses information on all securities rather than a small subset. I will
13 explain the CAPM in more detail later. For now, the CAPM is a risk-return
14 relationship, often depicted graphically as the CML. The CAPM is the sum of a
15 risk-free return and a risk premium.

16 Each of these two methods has its own way of measuring investor
17 expectations. In the final analysis, ROE estimates are subjective and should be
18 based on sound, informed judgment rationally articulated and supported by
19 competent evidence. I have applied several versions of the DCF, and two versions
20 of the CAPM to "bracket" the fair cost of equity capital for SSWC, but without
21 taking into account the additional risks that SSWC possesses.

22 **C. Explanation of the DCF Model and Its Inputs**

23 **Q. PLEASE EXPLAIN THE DCF METHOD OF ESTIMATING THE COST OF**
24 **EQUITY.**

25 **A. The DCF model is based on the concept that the current price of a share of stock is**
26 **equal to the present value of future cash flows from the purchase of the stock. In**

1 other words, the DCF model is an attempt to replicate the market valuation process
2 that sets the price investors are willing to pay for a share of a company's stock. It
3 rests on the assumption that investors rely on the expected returns (i.e., cash flow
4 they expect to receive) to set the price of a security. The DCF model in its most
5 general form is:

$$6 \quad [2] \quad P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \dots + CF_n/(1+k)^n$$

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

10 Equation (2) can be written to show that the current price (P_0) is also equal
11 to

$$12 \quad [3] \quad P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \dots + P_t/(1+k)^t$$

13 where P_t is the price expected to be received at the end of the period t . If the future
14 price (P_t) included a premium (an expected increase in the stock price or capital
15 gain), the price the investor would pay today in anticipation of receiving that
16 premium would increase. In other words, by estimating the cash flows from the
17 purchase of a stock in the form of dividends and capital gains, we can calculate the
18 investor's required rate of return, i.e., the rate of return an investor presumptively
19 used in bidding the current price to the stock (P_0) to its current level.

20 Equation [3] is a Market Price version of the DCF model. As with the
21 general form of the DCF model in equation [2], in the Market Price approach the
22 current stock price (P_0) is the present value of the expected cash inflows. The cash
23 flows are comprised of dividends and the final selling price of the stock. The
24 estimated cost of equity (k) is the rate of return investors expect if they bought the
25 stock at today's price, held the stock and received dividends through the transition
26 period, and then sold it for price (P_t).

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

3 A. Yes. Assume an investor buys a share of common stock for \$40. If the expected
4 dividend during the coming year is \$2.00, then the expected dividend yield is 5
5 percent ($\$2.00/\$40 = 5.0$ percent). If the stock price is also expected to increase to
6 \$43.00 after one year, this \$3.00 expected gain adds an additional 7.5 percent to the
7 expected total rate of return ($\$3.00/\$40 = 7.5$ percent). Thus, the investor buying
8 the stock at \$40 per share, expects a total return of 12.5 percent (5 percent dividend
9 yield plus 7.5 percent price appreciation). The total return of 12.5 percent is the
10 appropriate measure of the cost of capital because this is the rate of return that
11 caused the investor to commit \$40 of his capital by purchasing the stock.

12 **Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE DCF**
13 **MODEL.**

14 A. Under the assumption that future cash flows are expected to grow at a constant rate
15 (“g”), equation [2] can be solved for k and rearranged into the simple form:

16 [4] $k = CF_1/P_0 + g$

17 where CF_1/P_0 is the expected dividend yield and g is the expected long term
18 dividend (price) growth rate (“g”). The expected dividend yield is computed as the
19 ratio of next period’s expected dividend (“ CF_1 ”) divided by the current stock price
20 (“ P_0 ”). This form of the DCF model is known as the constant growth DCF model
21 and recognizes that investors expect to receive a portion of their total return in the
22 form of current dividends and the remainder through future dividends and capital
23 (price) appreciation. A key assumption of this form of the model is that investors
24 expect that same rate of return (k) every year and that market price grows at the
25 same rate as dividends. This has not been historically true for the water utility
26

1 sample, as shown by the data in Schedule D-4.4 and Schedule D.4.5. As a result,
2 estimates of long-term growth rates (g) should take this into account.

3 **Q. ARE THERE ANY GENERAL CONCERNS ABOUT APPLYING THE DCF**
4 **MODEL TO UTILITY STOCKS?**

5 A. There are a number of reasons why caution must be used when applying the DCF
6 model to utility stocks. First, the stock price and dividend yield component may be
7 unduly influenced by structural changes in the industry, such as mergers and
8 acquisitions, which influence investor expectations. Second, the DCF model is
9 based on a number of assumptions which may not be realistic given the current
10 capital market environment. The traditional DCF model assumes that the stock
11 price, book value, dividends, and earnings all grow at the same rate. This has not
12 been historically true for the sample water utility companies. Third, the application
13 of the DCF model produces estimates of the cost of equity that are consistent with
14 investor expectations only when the market price of a stock and the stock's book
15 value are approximately the same. The DCF model will understate the cost of
16 equity when the market-to-book ratio exceeds 1.0 and conversely will overstate the
17 cost of equity when the market-to-book ratio is less than 1.0. The reason for this is
18 that the market-derived return produced by the DCF is often applied to book value
19 rate base by regulators. Fourth, the assumption of a constant growth rate may be
20 unrealistic, and there may be difficulty in finding an adequate proxy for the growth
21 rate. Historical growth rates can be downward based as a result of the impact of
22 anemic historical growth rates in earnings, mergers and acquisitions, restructuring,
23 unfavorable regulatory decisions, and even abnormal weather patterns. Further, by
24 placing too much emphasis on the past, the estimation of future growth becomes
25 circular.

26

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

4 A. First, I computed a current dividend yield (CF_0/P_0). The expected dividend yield
5 (CF_1/P_0) is the current dividend yield (CF_0/P_0) times one plus the growth rate (g). I
6 used the spot price for each of the stocks of the water utilities in the sample group
7 as reported by the Value Line Investment Analyzer for August 21, 2009 for P_0 .
8 The current dividend (CF_0) is the dividend for the next year as reported by Value
9 Line. In my schedules, the current dividend yield is denoted as (D_0/P_0), where D_0
10 is the current dividend and P_0 is the spot stock price. (D_1/P_0) is used to denote the
11 expected dividend yield in the schedules.

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

13 A. For my primary DCF growth estimate, I have used analyst growth forecasts, where
14 available, from four different, widely-followed sources: *Zack's Investment*
15 *Research*, *Morningstar*, *Yahoo Finance*², and *Value Line Investment Survey*.
16 Schedule D-4.6 reflects the analyst estimates of growth. The currently available
17 estimates from these four sources provide at least two estimates for each of the
18 sample water utility companies. When there is no estimate of forward-looking
19 growth for a utility in the water utilities sample, I have assumed investors expect
20 the growth for that utility to equal the average of growth rates for the other water
21 utilities in the sample.

22 **Q. WHY DID YOU USE FORECASTED GROWTH RATES AS YOUR**
23 **PRIMARY ESTIMATE OF GROWTH?**

24 A. The DCF model requires estimates of growth that investors expect in the future and
25

26 ² Yahoo Finance analyst estimates provided by Thompson Financial.

1 not past estimates of growth that have already occurred. Accordingly, I use as a
2 primary estimate of growth analysts' forecasts of growth. Logically, in estimating
3 future growth, financial institutions and analysts have taken into account all
4 relevant historical information on a company as well as other more recent
5 information.³ To the extent that past results provide useful indications of future
6 growth prospects, analysts' forecasts would already incorporate that information.
7 In addition, a stock's current price reflects known historic information on that
8 company, including its past earnings history. Any further recognition of the past
9 will double count what has already occurred. Therefore, forward-looking growth
10 rates should be used.

11 **Q. WHAT OTHER ESTIMATES OF GROWTH DID YOU USE?**

12 A. I used the 5-year historical average growth rates in the stock price, book value per
13 share ("BVPS"), earnings per share ("EPS") and dividends per share ("DPS")
14 along with the average of analyst expectations. Using the historical average of
15 price, BVPS, EPS, and EPS growth is reasonable because investors know that, in
16 equilibrium, common stock prices, BVPS, EPS and DPS will all grow at the same
17 rate and would take information about changes in stock prices and growth in BVPS
18 into account when they price utilities' stocks. As I stated earlier, a basic
19 assumption of the DCF model is that the stock price, BVPS, EPS and DPS all grow
20 at the same rate. While I believe this growth rate gives further recognition to the
21 past that is already incorporated into analyst estimates of growth, I have been
22

23 ³ David A. Gordon, Myron J. Gordon and Lawrence I. Gould, "Choice Among Methods of
24 Estimating Share Yield," *Journal of Portfolio Management* (Spring 1989) 50-55. Gordon,
25 Gordon and Gould found that a consensus of analysts' forecasts of earnings per share growth for
26 the next five years provides a more accurate estimate of growth required in the DCF model than
three different historical measures of growth (historical EPS, historical DPS, and historical
retention growth). They explain that this result makes sense because analysts would take into
account such past growth as indicators of future growth as well as any new information.

1 criticized by Staff in the past for not giving direct consideration to past growth
2 rates in my estimate of growth.

3 **Q. WHAT OTHER CONCERNS DO YOU HAVE ON THE USE OF**
4 **HISTORICAL DPS GROWTH IN YOUR DCF ESTIMATE OF GROWTH?**

5 A. Although I have used historical DPS growth in my estimate, I believe the use of
6 historical DPS growth depresses the growth rate. Attachment 1 shows the constant
7 growth DCF results using historical DPS growth. The result is 6.9 percent. While
8 this is above the current cost of investment grade bonds at 6.5 percent, four of the
9 six indicated cost of equity estimates are well below the cost of investment grade
10 bonds. It is important to keep in mind that there is a great deal of empirical
11 evidence demonstrating that, on average, stocks are riskier than bonds and achieve
12 higher returns. Morningstar, for example, annually publishes its comprehensive
13 study of historical returns on stocks and bonds.⁴

14 Putting aside the potential distortions to the result produced by the DCF
15 model caused by structural changes to the industry and abnormal weather
16 conditions, it does not make sense to employ growth rates that result in indicated
17 equity returns less than the cost of debt, especially when those results fly in the
18 face of a large body of empirical evidence. Investors would not bid up the price of
19 a utility stock if the expected return is equivalent to returns on bonds and other debt
20 investments. As the CML depicted previously illustrates, common stocks are
21 higher and to the right of investment grade bonds on the CML continuum because
22 they are riskier investments. Again, the empirical evidence supports this
23 conclusion. The results using historical DPS growth are unreasonable.

24
25
26

⁴ Morningstar, *Ibbotson S&P 500 Valuation Yearbook*.

1 **Q. WHY DID YOU NOT USE ANALYST ESTIMATES OF DPS GROWTH?**

2 A. Primarily because only one source provides dividend growth estimates (*Value*
3 *Line*). Further, *Value Line* only provides estimates for three of the six companies
4 in my proxy group. The lack of analyst DPS estimates makes these estimates very
5 poor proxies for growth.

6 **D. Explanation of the CAPM and Its Inputs**

7 **Q. PLEASE EXPLAIN THE CAPM METHODOLOGY FOR ESTIMATING**
8 **THE COST OF EQUITY.**

9 A. As I already indicated, the CAPM is a type of risk premium methodology that is
10 often depicted graphically in a form identical to the CML. Put simply, the CAPM
11 formula is the sum of a risk-free rate plus a risk premium. It quantifies the
12 additional return required by investors for bearing incremental risk. The risk-free
13 rate is the reward for postponing consumption by investing in the market. The risk
14 premium is the additional return compensation for assuming risk.

15 The CAPM formula provides a formal risk-return relationship premised on
16 the idea that only market risk matters, as measure by beta. The CAPM formula is:

$$17 \quad (7) \quad k = R_f + \beta(R_m - R_f)$$

18 where k is the expected return, R_f is the risk-free rate, R_m is the market return, $(R_f -$
19 $R_m)$ is the market risk premium, and β is beta.

20 The difficulty with the CAPM is that it is a prospective or forward-looking
21 model, while most of the capital market data required to match the input variables
22 above is historical.

23 **Q. WHAT IS THE RISK-FREE RATE?**

24 A. It is the return on an investment with no risk. The U.S. Treasury rate serves as the
25 basis for the risk-free rate because the yields are directly observable in the market
26 and are backed by the U.S. government. Practically speaking, short-term rates are

1 volatile, fluctuate widely and are subject to more random disturbances than long-
2 term rates. In short, long-term Treasury rates are preferred for these reasons and
3 because long-term rates are more appropriately matched to securities with an
4 indefinite life or long-term investment horizon.

5 **Q. WHAT IS BETA AND WHAT DOES IT MEASURE?**

6 A. Beta is a measure of the relative risk of a security and the market. In other words,
7 it is a measure of the sensitivity of a security to the market as a whole. This
8 sensitivity is also known as systematic risk. It is estimated by regressing a
9 security's excess returns against a market portfolio's excess returns. The slope of
10 the regression line is the beta.

11 Beta for the market is 1.0. A security with a beta greater than 1.0 is
12 considered riskier than the market. A security with a beta less than 1.0 is
13 considered less risky than the market.

14 There are computational problems surrounding beta. It depends on the
15 return data, the time period used, its duration, the choice of the market index, and
16 whether annual, monthly, or weekly return figures are used. Betas are estimated
17 with error. Based on empirical evidence, high betas will tend to have a positive
18 error (risk is overestimated) and low betas will have a negative error (risk is
19 underestimated).⁵

20 **Q. WHAT DID YOU USE AS THE PROXY OF THE BETA FOR SSWC?**

21 A. I used the average beta of the sample water utility companies. Betas were obtained
22 from *Value Line Investment Analyzer* (August 21, 2009). *Value Line* is the source
23 for estimated betas that I regularly employ along with Arizona Commission Staff
24 and is widely accepted by financial analysts. The average beta as shown on

25 ⁵ Eugene F. Fama and Kenneth R. French, "The Capital Asset Pricing Model: Theory and
26 Evidence," *Journal of Economic Perspectives* (Summer 2004) 25-46.

1 Schedule D-4.13 is 0.82. I should note that because SSWC is not publicly traded,
2 SSWC has no beta. I believe that SSWC, if it were publicly traded, would have a
3 higher beta than the sample water utility companies.

4 **Q. WHY?**

5 A. Smaller companies are more risky than larger companies. In Chapter 7 of
6 Morningstar's *Ibbotson SBBI 2009 Valuation Yearbook*, for example, Ibbotson
7 reports that when betas are properly estimated, betas are larger for small companies
8 than for larger companies. As I will explain later, Ibbotson also finds that even
9 after accounting for differences in beta risk, small firms require an additional risk
10 premium over and above the added risk premium indicated by differences in beta
11 risk.

12 **Q. PLEASE EXPLAIN THE MARKET RISK PREMIUM?**

13 A. The market-risk premium ($R_m - R_f$) is the return an investor expects to receive as
14 compensation for market risk. It is the expected market return minus the risk-free
15 rate. Approaches for estimating the market risk premium can be historical or
16 prospective.

17 Since expected returns are not directly observable, historical realized returns
18 are often used as a proxy for expected returns on the basis that the historical market
19 risk premium follows what is known in statistics as a "random walk." If the
20 historical risk premium does follow the random walk, then one should expect the
21 risk premium to remain at its historical mean. Based on this argument, the best
22 estimate of the future market risk premium is the historical mean. Morningstar's
23 *SBBI Valuation Edition 2009 Yearbook* provides historical market returns for
24 various asset classes from 1926 to 2008. This publication also provides market risk
25 premiums over U.S. Treasury bonds, which make it an excellent source for
26 historical market risk premiums.

1 Prospective market risk premium estimation approaches necessarily require
2 examining the returns expected from common equities and bonds. One method
3 employs applying the DCF model to a representative market index such as the
4 Value Line 1700 stocks (the *Value Line* Composite Index). The expected return
5 from the DCF is measured for a number of periods of time, and then subtracted
6 from the prevailing risk-free rate for each period to arrive at market risk premium
7 for each period. The market risk premium subsequently employed in the CAPM is
8 the average market risk premium of the overall period.

9 **Q. HOW MANY MARKET RISK PREMIUM ESTIMATES DID YOU**
10 **PREPARE IN CONNECTION WITH YOUR ASSIGNMENT FOR SSWC?**

11 A. I prepared two market risk premium estimates: An historical market risk premium
12 and a current market risk premium.

13 **Q. HOW DID YOU ESTIMATE THE HISTORICAL MARKET RISK**
14 **PREMIUM?**

15 A. I used the Morningstar's *Ibbotson S&P 500 2009 Valuation Yearbook* measure of the
16 average premium of the market over long-term treasury securities from 1926
17 through 2008. The average historical market risk premium over long-term treasury
18 securities is 6.5 percent.

19 **Q. HOW DID YOU ESTIMATE THE CURRENT MARKET RISK PREMIUM?**

20 A. I derived a market risk premium by, first, using the DCF model to compute an
21 expected market return for each of the past 12 months using *Value Line's*
22 projections of the average dividend yield and average price appreciation (growth)
23 on the *Value Line* 1700 Composite Index. I then subtracted the average 30-year
24 Treasury yield for each month from the expected market returns to arrive at the
25 expected market risk premiums. Finally, I averaged the computed market risk
26 premiums to determine the current market risk premium. The data and

1 computations are shown on Schedule D-4.11. The average current market risk
2 premium is 19.76 percent. Estimates of the current market risk premium have
3 increased significantly over the past 6-12 months. In fact, the 6 and 12 month
4 average of the market risk premium is 24.02 and 26.2, respectively. The 24 month
5 estimate is more conservative at 19.76 percent. The increase in the market risk is
6 not surprising given the financial markets and economic conditions of the past
7 couple of years and the continued uncertainty expected in the capital markets in the
8 future.

9 **Q. HAS THE COMMISSION STAFF EMPLOYED A CURRENT MARKET**
10 **RISK PREMIUM IN THE PAST?**

11 A. Yes. However, Staff's estimation of the current market risk premium is somewhat
12 different. Staff uses a DCF model to compute the current market risk premium as I
13 do. However, Staff uses the median annualized projected 3-5 year price
14 appreciation on the *Value Line* 1700 stocks in conjunction the median dividend
15 yield on the *Value Line* 1700 stocks on a specific date.

16 **Q. WHAT DO YOU ADOPT AS THE RETURN FOR THE RISK-FREE RATE?**

17 A. I use long-term Treasury bond rates as the measure of the risk-free return for use
18 with both CAPM and cost of equity estimates. Morningstar's *Ibbotson SBBI 2009*
19 *Valuation Yearbook* explains on page 47 that the appropriate choice for the risk-
20 free rate is a return that is no less than the expected return for long-term Treasury
21 securities. Thus, when determining an estimate of the risk-free rate, it is
22 appropriate to adopt a return that is no less than the expected return on the long-
23 term Treasury bond rate. Both of my CAPM estimates are based on a projected
24 estimate of the long-term treasury rates for 2011-2012 of 4.80% as shown on
25 Schedule D-4.10. The 2011-2012 timeframe is the period when new rates will be
26 put in place for SSWC.

1 **E. Financial Risk Adjustment**

2 **Q. PLEASE EXPLAIN YOUR FINANCIAL RISK ADJUSTMENT TO**
3 **REFLECT SSWC'S LOWER LEVEL OF DEBT IN ITS CAPITAL**
4 **STRUCTURE AS COMPARED TO THE SAMPLE WATER UTILITIES?**

5 A. My financial risk estimation is based upon the methodology developed by
6 Professor Hamada of the University of Chicago, which incorporates the beta of a
7 levered firm to that of its unlevered counterpart. The equation is

8
$$\beta_L = \beta_U[1 + (1 - T)\phi]$$

9 where β_L and β_U are the levered and unlevered betas, respectively, T is the tax rate,
10 and ϕ the leverage, defined as the ratio of debt and equity of the firm. In simple
11 terms, I unlever the average beta of the six publicly traded water utilities in my
12 sample using a ratio of the market value of debt and the market value of equity.
13 While I can compute the market value of equity of the sample water utilities based
14 on the current number of shares outstanding and the current stock price, estimating
15 the market value of debt is much more difficult. For purposes of my analysis, I
16 assume the market value of debt is the book value. This is a reasonable assumption
17 and is conservative. Once the unlevered beta is determined, I relever the beta using
18 the capital structure of SSWC. For the market value of equity I multiplied SSWC's
19 book value of equity times the average market-to-book ratio of the sample water
20 utilities. For SSWC's debt, I assume the market value of debt is equal to the book
21 value.

22 The relevered beta is then used in my CAPM models, and the new CAPM
23 results are compared to my original CAPM results. The computed difference is the
24 basis of my financial risk adjustment. My computation of the financial risk
25 adjustment can be found in tables D-4.13, D-4.14, and D-4.15.

26

1 **Q. WHAT IS THE COMPUTED FINANCIAL RISK ADJUSTMENT?**

2 A. A downward adjustment of 160 basis points.

3 **Q. DO YOU HAVE ANY CONCERNS ABOUT THE HAMADA METHOD?**

4 A. Yes. In order to use this method, I have made the assumption that the average beta
5 of the sample water utilities is the beta for SSWC. Since SSWC is a much smaller
6 firm than the sample water utilities, I would expect the beta to be higher.
7 Consequently, the financial risk adjustment is likely overstated.

8 **F. Company Specific Risk Premium**

9 **Q. PLEASE DISCUSS YOUR COMPANY SPECIFIC RISK PREMIUM.**

10 A. As I testified earlier, SSWC is not directly comparable to the sample water utilities
11 because of its small size and the regulatory environment in Arizona. The
12 characteristics such as small size, lack of diversification, limited revenue and cash
13 flow, small customer base, lack of liquidity, as well as the magnitudes of regulatory
14 and construction risk are common to smaller water utilities regardless of the
15 regulatory jurisdiction. These characteristics and magnitudes of risk are unique
16 only in the sense that the large publicly traded water utilities (including the
17 companies in the proxy group) do not possess these same characteristics and
18 magnitudes of risk. With respect to Arizona regulation, the use of historical test
19 year with limited out of period adjustments and the lack of adjuster mechanism
20 increases to the risk of SSWC.

21 **Q. PLEASE DISCUSS SIZE RISK FOR SMALL UTILITY COMPANIES.**

22 A. Investment risk increases as the firm size decreases, all else remaining constant.
23 There is a great deal of empirical evidence that firm size phenomenon exists.
24 Morningstar's *Ibbotson SBBI 2009 Valuation Yearbook* (Chapter 7) reports that
25 smaller companies have experienced higher returns that are not fully explainable
26 by their higher betas and that beta is inversely related to company size. In other

1 words, smaller companies not only have higher betas but higher returns than larger
2 ones. Even after accounting for differences in beta risk, small companies require
3 an additional risk premium over and above the added risk premium indicated by
4 differences in beta risk. Dr. Zepp also reported evidence that the stocks of small
5 water utilities, like SSWC, are more risky than the stocks of larger water utilities,
6 such as those in the water utilities sample.⁶ Even the California PUC conducted a
7 study that showed smaller water utilities are more risky than larger ones.⁷ Based on
8 the evidence it is clear that investors require higher returns on small company
9 stocks than on large company stocks.

10 I have included in Schedule D-4.16 the results of an *Ibbotson* study using
11 annual data reporting the size premium based upon firm size and return data
12 provided in Morningstar *Ibbotson SBBI 2009 Valuation Yearbook* and information
13 contained in a published work by Dr. Thomas M. Zepp. I have estimated that a
14 small company risk premium in the range of 99 to 181 basis points is appropriate.

15 **Q. WHAT COMPANY SPECIFIC RISK PREMIUM DO YOU RECOMMEND**
16 **FOR SSWC?**

17 A. To be conservative, I conclude that a company specific risk premium of no less
18 than 110 basis points is warranted for SSWC to account for its smaller size and
19 regulatory risk.

20 **G. Summary and Conclusions**

21 **Q. HAVE YOU PREPARED A SCHEDULE WHICH SUMMARIZES YOUR**
22 **EQUITY COST ESTIMATES AND PRESENTS YOUR**
23 **RECOMMENDATIONS?**

24 ⁶ Thomas M. Zepp, "Utility Stocks and the Size Effect – Revisited", *The Quarterly Review*
25 *Economics and Finance*, Vol. 43, Issue 3, Autumn 2003, 578-582.

26 ⁷ Staff Report on Issues Related to Small Water Utilities, June 10, 1991 and CPUC Decision 92-03-093.

1 A. Yes. The equity cost estimates and my recommendations are summarized in
2 Schedule D-4.1.

3 In the first part of my analysis, I applied two versions of the constant growth
4 DCF model. One uses analyst estimates of growth and the other uses historical
5 growth and analyst expectations. See Schedules D-4.8. The DCF models produce
6 an indicated equity cost in the range of 11.1 percent to 13.0 percent, with a
7 midpoint of 12.1 percent.

8 In the second part of my analysis, I applied two versions of the CAPM – a
9 historical risk premium CAPM and a current market risk premium CAPM. The
10 CAPM analyses appear in Schedule D-4.12 and produce an indicated cost of equity
11 in the range of 10.1 percent to 21.0 percent, with a midpoint of 15.6 percent.

12 In the third part of my analysis, I compute a financial risk adjustment to
13 account for the lower level of debt in SSWC's capital structure compared to the
14 sample water utilities. My recommendation is that a downward financial risk
15 adjustment of no more than 160 basis points be applied to SSWC's cost of equity.
16 My financial risk adjustment analysis is shown in schedules D-4.13, D-4.14, and
17 D-4.15.

18 In the fourth part of my analysis, I reviewed the financial literature on the
19 small firm size effect and determined that an appropriate small company size
20 premium for small utilities like SSWC is in the range of 99 to 181 basis points.
21 See Schedule D-4.16. I also considered the risks for SSWC from Arizona's
22 regulatory scheme. My recommendation is that an upward adjustment for
23 company specific risk of no less than 110 basis points be applied to SSWC's cost
24 of equity.

25
26

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

The range of results of both my DCF and CAPM analyses and other risk adjustments is 10.2 percent to 16.5 percent, with a mid-point of 13.3 percent. See Schedule D-4.1.

Q. WHAT EQUITY RETURN DO YOU RECOMMEND?

A. My recommended return on equity based on SSWC's capital structure is 12.8. It is the mid-point of the range of my over-all results and reflects the application of my expertise and informed judgment to reach a recommendation that I felt I could defend in this proceeding.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY ON COST OF CAPITAL?

A. Yes.

Southern Sunrise Water Company Inc.

Application for a Determination of the
Fair Value of Its Utility Plants and Property and for
Increases in Its Water Rates and Charges

August 31, 2009

Bourassa COC Direct Testimony

Attachment 1

Attachment 1

Southern Sunrise Water Company
 Discounted Cash Flow Analysis (Water)
 Constant Growth DCF Model - Historical
 Using 5 Year Historical Dividend Growth

Line No.	[1]	[2]	[3]	[4]	[5]
	Current Dividend Yield (D_0/P_0) ¹	Expected Dividend Yield (D_1/P_0) ²	Historical Div. Growth (g) ³	Indicated Equity Cost k=Div Yld + G (Cols 2+3)	Indicated Equity Cost k=Div Yld + G (Cols 2+3)
1	2.95%	3.03%	2.90%	5.9%	*
2	2.92%	3.16%	8.29%	11.5%	11.5%
3	3.05%	3.08%	0.88%	4.0%	*
4	3.88%	3.92%	1.18%	5.1%	*
5	4.57%	4.63%	1.51%	6.1%	*
6	2.90%	3.07%	6.02%	9.1%	9.1%
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					
21					
22					
23					
24					
25					
26					
27					
28					
29					
30					
31					
32					

* Indicated equity cost below current cost of debt (Baa) or negative growth.

¹ Spot Dividend Yield = D_0/P_0 . See Table 9.

² Expected Dividend Yield = $D_1/P_0 = D_0/P_0 * (1+g)$.

³ Growth rate (g). Value Line Analyzer Data (August 21, 2009)

⁴ Federal Reserve. Baa investment grade bonds.

⁵ Blue Chip Financial Forecast (June 2009)

GROUP AVERAGE
 GROUP MEDIAN
 Current Baa interest rate (August 20, 2009)⁴

Blue Chip Forecast Baa Corporate Bond Interest Rate 2012 Top 10⁵
 Blue Chip Forecast Baa Corporate Bond Interest Rate 2012 Bottom 10⁵
 Blue Chip Forecast Baa Corporate Bond Interest Rate 2012 Consensus⁵

Southern Sunrise Water Company Inc.

Application for a Determination of the
Fair Value of Its Utility Plants and Property and for
Increases in Its Water Rates and Charges

August 31, 2009

Schedule D

Southern Sunrise Water Company
Test Year Ended March 31, 2009
Summary of Cost of Capital

Exhibit
Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	<u>End of Test Year</u>			<u>End of Projected Year</u>		
		Dollar Amount	Percent of Total	(e) Cost Rate	Dollar Amount	Percent of Total	(e) Cost Rate
1	Long-Term Debt	-	0.00%	0.00%	-	0.00%	0.00%
3	Stockholder's Equity ¹	1,408,804	100.00%	12.80%	1,606,492	100.00%	12.80%
5	Totals	<u>\$ 1,408,804</u>	<u>100.00%</u>	<u>12.80%</u>	<u>\$ 1,606,492</u>	<u>100.00%</u>	<u>12.80%</u>

¹ Adjustments to equity

9	Accum. depreciation adjustment	\$ 64,303
10	CIAC adjustment	\$ 15
11	Deferred Income Tax Adjustment	\$ (51,588)

SUPPORTING SCHEDULES:

- D-1
- D-2
- D-3
- D-4
- E-1

RECAP SCHEDULES:
A-3

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33

Southern Sunrise Water Company
 Test Year Ended March 31, 2009
 Cost of Long Term Debt

Exhibit
 Schedule D-2
 Page 1
 Witness: Bourassa

Line No.	Description of Debt	End of Test Year			End of Projected Year			Interest Rate	Weighted Cost	Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost
		Amount Outstanding ¹	Annual Interest	Interest Rate	Amount Outstanding	Annual Interest	Interest Rate						
1		-	-	6.10%	-	-	6.10%	0.00%	-	-	-	6.10%	0.00%
2		-	-	6.26%	-	-	6.26%	0.00%	-	-	-	6.26%	0.00%
3		-	-	8.56%	-	-	8.56%	0.00%	-	-	-	8.56%	0.00%
4		-	-	7.30%	-	-	7.30%	0.00%	-	-	-	7.30%	0.00%
5		-	-	6.91%	-	-	6.91%	0.00%	-	-	-	6.91%	0.00%
6		-	-	7.16%	-	-	7.16%	0.00%	-	-	-	7.16%	0.00%
7		-	-	0.00%	-	-	0.00%	0.00%	-	-	-	0.00%	0.00%
8		-	-	0.00%	-	-	0.00%	0.00%	-	-	-	0.00%	0.00%
9		-	-	0.00%	-	-	0.00%	0.00%	-	-	-	0.00%	0.00%
10		-	-	0.00%	-	-	0.00%	0.00%	-	-	-	0.00%	0.00%
11		-	-	0.00%	-	-	0.00%	0.00%	-	-	-	0.00%	0.00%
12		-	-	0.00%	-	-	0.00%	0.00%	-	-	-	0.00%	0.00%
13	Totals	\$ -	\$ -		\$ -	\$ -		0.00%	\$ -	\$ -	\$ -		0.00%

14
 15 SUPPORTING SCHEDULES:
 16 E-1
 17
 18
 19
 20

Southern Sunrise Water Company
Test Year Ended March 31, 2009
Cost of Preferred Stock

Exhibit
Schedule D-3
Page 1
Witness: Bourassa

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

Southern Sunrise Water Company
Test Year Ended March 31, 2009
Cost of Common Equity

Exhibit
Schedule D-4
Page 1
Witness: Bourassa

Line
No.

1
2 The Company is proposing a cost of common equity of 12.80% .
3
4
5
6
7
8
9
10
11
12
13
14
15
16

17 SUPPORTING SCHEDULES:
18 E-1
19
20

RECAP SCHEDULES:
D-1

**Southern Sunrise Water Company
Summary of Results**

**Exhibit
Schedule D-4.1
Page 1**

Line No.	<u>Method</u>	<u>Low</u>	<u>High</u>	<u>Midpoint</u>
1				
2				
3				
4				
5				
6	Range DCF Constant Growth Estimates ¹	11.2%	13.0%	12.1%
7				
8	Range of CAPM Estimates ²	10.1%	21.0%	15.6%
9				
10				
11	Average of DCF and CAPM midpoint estimates	10.7%	17.0%	13.8%
12				
13				
14	Financial Risk Adjustment ³	-1.6%	-1.6%	-1.6%
15				
16	Small Company Risk Premium ⁴	1.1%	1.1%	1.1%
17				
18	Indicated Cost of Equity	10.2%	16.5%	13.3%
19				
20				
21				
22	Recommended Cost of Equity			12.8%
23				
24				
25				

¹ See Schedule D-4-8

² See Schedule D-4.12

³ See Schedule D-4.17

⁴ See testimony.

Southern Sunrise Water Company
Selected Characteristics of Sample Group of Water Utilities

Exhibit
Schedule D-4.2

Line No.		% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating
3	<u>Company¹</u>					
4	1. American States	77%	\$ 329.4	\$ 735.8	A	A2
5	2. Aqua America	96%	\$ 642.2	\$ 2,600.8	AA-	NR
6	3. California Water	98%	\$ 424.0	\$ 1,005.0	AA-	NR
7	4. Connecticut Water	93%	\$ 67.0	\$ 254.1	AAA	NR
8	5. Middlesex	89%	\$ 90.8	\$ 323.0	A	NR
9	6. SJW Corp.	95%	\$ 219.1	\$ 501.0	NR	NR
10						
11	Average	91%	\$ 295.4	\$ 903.3		
12						
13	Southern Sunrise Water Company	100%	\$ 0.44	\$ 1.66	NR	NR
14	(adjusted as of March 31, 2009)					
15						
16						
17						
18						
19						
20						
21						
22						
23						
24						
25						

¹AUS Utility Reports (August 2009).

**Southern Sunrise Water Company
Capital Structures**

**Exhibit
Schedule D-4.3**

No.	Company	Book Value ¹		Market Value ¹	
		Long-Term <u>Debt</u>	Common <u>Equity</u>	Long-Term <u>Debt</u>	Common <u>Equity</u>
1	1. American States	46.2%	53.8%	31.2%	68.8%
2	2. Aqua America	54.1%	45.9%	34.5%	65.5%
3	3. California Water	41.7%	58.3%	26.6%	73.4%
4	4. Connecticut Water	47.0%	53.0%	32.3%	67.7%
5	5. Middlesex	46.2%	53.8%	36.5%	63.5%
6	6. SJW Corp.	46.0%	54.0%	34.7%	65.3%
7					
8					
9					
10					
11	Average	46.9%	53.1%	32.6%	67.4%
12					
13	Southern Sunrise Water Company	0.0%	100.0%	N/A	N/A
14	(as of March 31, 2009)				
15					
16					
17					
18					
19					
20					
21					
22					
23					
24					
25					
26					
27					
28					

¹ Value Line Analyzer Data (August 21, 2009)

Exhibit
Schedule D-4.4

Southern Sunrise Water Company
Comparisons of Past and Future Estimates of Growth

Line No.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	Five-year historical average annual changes						
		Book			Average		Average of
	<u>Price</u> ¹	<u>Value</u> ²	<u>EPS</u> ²	<u>DPS</u> ²	<u>Col 1-3</u>	<u>Future Growth</u> ³	<u>Future and Historical Growth</u>
1	7.34%	4.87%	15.71%	2.90%	7.71%	6.88%	7.29%
2	4.58%	7.27%	5.21%	8.29%	6.34%	8.62%	7.48%
3	11.74%	5.67%	12.22%	0.88%	7.63%	8.13%	7.88%
4	0.19%	3.07%	0.45%	1.18%	1.22%	12.00%	6.61%
5	Negative	5.76%	8.16%	1.51%	5.14%	7.33%	6.24%
6	12.50%	8.16%	4.37%	6.02%	7.76%	12.63%	10.19%
7							
8							
9							
10							
11							
12							
13							
14							
15							
16	GROUP AVERAGE	5.80%	7.69%	3.46%	5.97%	9.26%	7.61%
17	GROUP MEDIAN	5.72%	6.69%	2.20%	6.98%	8.37%	7.38%
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							

¹ Average of changes in year-end stock prices ending in 2008. Data from Yahoo Finance website.

² Data derived from Value Line Investment Survey and/or 10K Reports for period 2004 to 2008.

³ See Schedule D-4.6.

Southern Sunrise Water Company
Comparisons of Past and Future Estimates of Growth

Exhibit
Schedule D-4.5

Line No.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
3	Ten-year historical average annual changes						
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							

Price¹
Value²
Book
EPS²
DPS²
Average Col 1-3
Average Future Growth³
Average of Future and Historical Growth Col 5-6

1. American States
2. Aqua America
3. California Water
4. Connecticut Water
5. Middlesex
6. SJW Corp.

GROUP AVERAGE
GROUP MEDIAN

¹ Average of changes in year-end stock prices ending in 2008. Data from Yahoo Finance website.
² Data derived from Value Line Investment Survey and/or 10K Reports for period 1999 to 2008.
³ See Schedule D-4.6.

Southern Sunrise Water Company
Analysts Forecasts of Earnings Per Share Growth **Exhibit**
Schedule D-4.6

Line No.	[1]	[2]	[3]	[4]	[5]
	ESTIMATES OF EARNINGS GROWTH				
	<u>Company</u>	<u>Zacks</u> ¹	<u>Morningstar</u> ¹	<u>Yahoo</u> ¹	<u>Value Line</u> ¹
1	1. American States	7.00%	7.00%	4.00%	9.50%
2	2. Aqua America	8.00%	8.29%	8.17%	10.00%
3	3. California Water	8.00%	7.75%	7.75%	9.00%
4	4. Connecticut Water	9.00%		15.00%	12.00%
5	5. Middlesex	7.00%		8.00%	7.33%
6	6. SJW Corp.	13.00%	15.00%	10.00%	12.63%
7					6.88%
8					8.62%
9					8.13%
10					12.00%
11					7.33%
12					12.63%
13					
14					
15					9.26%
16					8.37%
17					
18					
19					
20					
21					
22					
23					
24					
25					
26					
27					
28					

¹ Data as of August 21, 2009

² Where no data available, average of other utilities assumed to estimate for utility.

Southern Sunrise Water Company
Current Dividend Yields for Water Utility Sample Group

Exhibit
Schedule D-4.7

Line No.	Company	Current Stock Price (P ₀) ¹	Current Dividend (D ₀) ¹	Current Dividend Yield (D ₀ /P ₀) ¹	Average Annual Dividend Yield (D ₀ /P ₀) ^{1,2}
1	1. American States	\$ 33.95	\$ 1.00	2.95%	2.86%
2	2. Aqua America	\$ 17.47	\$ 0.51	2.92%	2.80%
3	3. California Water	\$ 38.35	\$ 1.17	3.05%	3.12%
4	4. Connecticut Water	\$ 22.70	\$ 0.88	3.88%	3.58%
5	5. Middlesex	\$ 15.33	\$ 0.70	4.57%	3.99%
6	6. SJW Corp.	\$ 22.44	\$ 0.65	2.90%	2.27%
7	Average			3.38%	3.10%
8	Median			3.00%	2.99%

¹ Value Line Analyzer Data. Stock prices as of August 21, 2009.

² Average Annual Dividend is dividends declared per share for a year divided by the average annual price of the stock in the same year. expressed as a percentage. For comparison purposes only.

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25

Southern Sunrise Water Company
Discounted Cash Flow Analysis
DCF Constant Growth

Exhibit
Schedule D-4.8

Line No.	[1] Average Spot Dividend Yield $(D_0/P_0)^1$	[2] Expected Dividend Yield $(D_1/P_0)^2$	[3] Growth (g)	[4] Indicated Cost of Equity $k = \text{Div Yield} + g$ (Cols 2+3)
8	3.38%	3.63%	7.61% ³	11.2%
10	3.38%	3.69%	9.26% ⁴	13.0%
12				12.1%

¹ Spot Dividend Yield = D_0/P_0 . See Schedule D-4.7.

² Expected Dividend Yield = $D_1/P_0 = D_0/P_0 * (1+g)$.

³ Growth rate (g). Average of Past and Future Growth. See Schedule D-4.4, column 7

⁴ Growth rate (g). Average of Analyst Estimates Future Growth. See Schedule D-4.6.

**Southern Sunrise Water Company
Market Betas**

**Exhibit
Schedule D-4.9**

Line No.	Company	Beta (β) ¹
1	American States	0.80
2	Aqua America	0.65
3	California Water	0.80
4	Connecticut Water	0.85
5	Middlesex	0.80
6	SJW Corp.	1.00
7		
8		
9	Average	0.82
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		

¹ Value Line Investment Analyzer data (August 21, 2009)

Note: Beta is a relative measure of the historical sensitivity of a stock's price to overall fluctuations in the New York Stock Exchange Composite Index. A Beta of 1.50 indicates a stock tends to rise (or fall) 50% more than the New York Stock Exchange Composite Index. The "Beta coefficient" is derived from a regression analysis of the relationship between weekly percent-age changes in the price of a stock and weekly percentage changes in the NYSE Index over a period of five years. In the case of shorter price histories, a smaller time period is used, but two years is the minimum. The Betas are adjusted for their long-term tendency to converge toward 1.00.

**Southern Sunrise Water Company
Forecasts of Long-Term Interest Rates
2010-2011**

**Exhibit
Schedule D-4.10**

Line No.	Description	<u>2011</u>	<u>2012</u>	<u>Average</u>
1				
2				
3				
4				
5				
6	Blue Chip Consensus Forecasts ¹	4.5%	5.1%	4.8%
7				
8	Value Line ²	4.5%	5.0%	4.8%
9				
10	Average			4.8%
11				
12				
13				
14				

¹ June 2009 Blue Chip Financial Forecasts consensus forecast of 30 Year U.S. Treasury

² Value Line Quarterly forecast, dated August 28, 2009 Long-Term U.S Treasury

15
16
17
18
19
20
21
22
23
24

Southern Sunrise Water Company
Computation of Current Market Risk Premium

Exhibit
Schedule D-4.11

Line

No.

Line No.	Month	Dividend Yield (D/P) _{0,t} ¹	Expected Dividend Yield (D/P) _{0,t} ²	Expected Market Return (k)	Monthly Average 30 Year Treasury Rate ³	Market Risk Premium (MRP)
1						
2						
3						
4	Aug 2006	2.20%	+ 2.20%	= 13.89%	= 5.00%	= 8.89%
5	Sept	2.20%	+ 2.20%	= 13.54%	= 4.85%	= 8.69%
6	Oct	2.15%	+ 2.15%	= 11.90%	= 4.85%	= 7.05%
7	Nov	2.10%	+ 2.10%	= 11.82%	= 4.68%	= 7.13%
8	Dec 2006	2.09%	+ 2.09%	= 11.50%	= 4.68%	= 6.82%
9	Jan 2007	2.05%	+ 2.05%	= 11.62%	= 4.85%	= 6.77%
10	Feb	2.10%	+ 2.10%	= 12.57%	= 4.82%	= 7.75%
11	March	2.10%	+ 2.10%	= 12.17%	= 4.72%	= 7.45%
12	April	2.09%	+ 2.09%	= 11.38%	= 4.87%	= 6.51%
13	May	2.08%	+ 2.08%	= 11.23%	= 4.90%	= 6.33%
14	Jun	2.17%	+ 2.17%	= 11.88%	= 5.20%	= 6.68%
15	Jul	2.27%	+ 2.27%	= 13.18%	= 5.11%	= 8.07%
16	Aug	2.37%	+ 2.37%	= 14.29%	= 4.93%	= 9.36%
17	Sept	2.31%	+ 2.31%	= 13.47%	= 4.79%	= 8.68%
18	Oct	2.45%	+ 2.45%	= 14.35%	= 4.77%	= 9.58%
19	Nov	2.60%	+ 2.60%	= 16.01%	= 4.52%	= 11.49%
4	Dec 2007	2.61%	+ 2.61%	= 16.12%	= 4.52%	= 11.60%
5	Jan 2008	2.67%	+ 2.67%	= 17.86%	= 4.33%	= 13.53%
4	Feb	2.74%	+ 2.74%	= 19.66%	= 4.52%	= 15.14%
5	Mar	2.85%	+ 2.85%	= 20.99%	= 4.39%	= 16.60%
6	April	2.69%	+ 2.69%	= 18.64%	= 4.44%	= 14.20%
7	May	2.73%	+ 2.73%	= 18.66%	= 4.60%	= 14.06%
8	Jun	3.13%	+ 3.13%	= 22.22%	= 4.69%	= 17.53%
9	Jul	3.15%	+ 3.15%	= 22.35%	= 4.57%	= 17.78%
10	Aug	3.05%	+ 3.05%	= 20.67%	= 4.50%	= 16.17%
11	Sept	3.07%	+ 3.07%	= 22.96%	= 4.27%	= 18.69%
12	Oct	4.31%	+ 4.31%	= 36.16%	= 4.17%	= 31.99%
13	Nov	4.97%	+ 4.97%	= 41.73%	= 4.00%	= 37.73%
14	Dec 2008	4.44%	+ 4.44%	= 35.38%	= 2.87%	= 32.51%
15	Jan 2009	4.86%	+ 4.86%	= 36.34%	= 3.13%	= 33.21%
16	Feb	5.00%	+ 5.00%	= 42.56%	= 3.59%	= 38.97%
17	Mar	4.21%	+ 4.21%	= 32.59%	= 3.64%	= 29.05%
18	April	3.66%	+ 3.66%	= 26.52%	= 3.76%	= 22.76%
19	May	3.46%	+ 3.46%	= 23.61%	= 4.23%	= 19.56%
20	Jun	3.25%	+ 3.25%	= 23.03%	= 4.52%	= 18.51%
21	Jul	2.90%	+ 2.90%	= 19.68%	= 4.41%	= 15.27%
22						
23						
24	Recent 24 Mon Avg	3.33%	+ 3.33%	= 24.01%	= 4.26%	= 19.76%
25						
26						
27						
28	Short-term Trends					
29						
30	Recent Twelve Months Avg	3.97%	+ 5.03%	= 30.13%	= 3.92%	= 26.20%
31	Recent Nine Months Avg	4.14%	+ 5.27%	= 31.30%	= 3.79%	= 27.51%
32	Recent Six Months Avg	3.83%	+ 4.77%	= 28.05%	= 4.03%	= 24.02%
33	Recent Three Months Avg	3.20%	+ 3.80%	= 22.18%	= 4.39%	= 17.75%
34						
35						

¹ Average Current Dividend Yield (D/P)_{0,t} of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

² Expected Dividend Yield (D/P)_{0,t} equals average current dividend yield (D/P)_{0,t} times one plus growth rate(g).

³ Average 3-5 year price appreciation (annualized). Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

⁴ Monthly average 30 year U.S. Treasury. Federal Reserve.

40

**Southern Sunrise Water Company
Capital Asset Pricing Model (CAPM)**

**Exhibit
Schedule D-4.12**

Line No.		Rf ¹	+	beta ³	x	Rp	=	
1								k
2								
3	Historical Market Risk Premium CAPM	4.8%	+	0.82	x	6.5%	=	10.1%
4								
5	Current Market Risk Premium CAPM	4.8%	+	0.82	x	19.8%	=	21.0%
6								
7	Average							15.6%
8								
9								
10								
11								

¹ Forecasts of long-term treasury yields. See Schedule D-4.10.

² Value Line Investment Analyzer data. See Schedule D.4.9.

³ Historical Market Risk Premium from (Rp) MorningStar S&P 500 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2008

⁴ Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.11.

17
18
19
20

**Southern Sunrise Water Company
Financial Risk Computation**

**Exhibit
Schedule D-4.13**

Line								
	<u>No.</u>							
	1	<u>CAPM</u>						
	2		+	β	x	<u>(Rp)</u>	=	<u>k</u>
	3	Historical Market Risk Premium	1	0.82	2	6.5%	3	10.1%
	4	Current Market Risk Premium	1	0.82	2	19.8%	4	21.0%
	5							
	6	Average						15.6%
	7							
	8							
	9							
	10	<u>CAPM Relevered Beta</u>						
	11	Historical Market Risk Premium	1	β	x	<u>(Rp)</u>	=	<u>k</u>
	12	Current Market Risk Premium	1	0.70	5	6.5%	3	9.4%
	13		1	0.70	5	19.8%	4	18.6%
	14	Average						14.0%
	15							
	16	Financial Risk Adjustment						<u>-1.6%</u>
	17							
	18							
	19							
	20							
	21							
	22							
	23							
	24							
	25							

¹ Forecast of long-term treasury yields. See Table 15.

² Value Line Investment Analyzer data. See Table 13.

³ Historical Market Risk Premium from (Rp) MorningStar S&P 500 2009 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2008

⁴ Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Table 14.

⁵ Relevered beta found on Table 19.

Southern Sunrise Water Company
Financial Risk Computation
Unlevered Beta

Exhibit
Schedule D-4.14

Line No.	Company	VL Beta β_{L1} ¹	Raw Beta β_{U2} ²	Tax Rate t^3	MV Debt D^4	MV Equity E^4	Unlevered Raw Beta β_{U5}
1	American States	0.80	0.70	37.8%	31.2%	68.8%	0.55
2	Aqua America	0.65	0.48	39.7%	34.5%	65.5%	0.36
3	California Water	0.80	0.70	37.7%	26.6%	73.4%	0.57
4	Connecticut Water	0.85	0.78	27.2%	32.3%	67.7%	0.58
5	Middlesex	0.80	0.70	33.2%	36.5%	63.5%	0.51
6	SJW Corp.	1.00	1.00	38.1%	34.7%	65.3%	0.75
11							
12							
13	Sample Water Utilities	0.82	0.73	35.6%	32.6%	67.4%	0.55
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							

¹ Value Line Investment Analyzer data. See Table 13.
 Value Line uses the historical data of the stock, but assumes that a security's beta moves toward the market average over time. The formula is as follows:
 Adjusted beta = $.33 + (.67) * \text{Raw beta}$
² Raw Beta = $(\text{VL beta} - .33) / (.67)$
³ Effective tax rates for year ended December 31, 2008.
⁴ See Table 3.
⁵ Raw $B_U = \text{Raw } B_L / (1 + (1-t)*D/E)$

Southern Sunrise Water Company
Financial Risk Computation
Relevered Beta

Line No.	Unlevered Raw Beta β_{UL}^1	MV Book Debt $\frac{BD^2}{EC^2}$	MV Equity Capital $\frac{EC^2}{EC^2}$	Tax Rate t^3	Relevered Raw Beta $\beta_{RL} = \beta_{UL} (1 + (1-t)BD/EC)$	Adjusted Relevered Beta $\beta_{RAL} = .33 + .67(Raw Beta)$
1	0.55	0.0%	100.0%	38.60%	0.55	0.70
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						

¹ Unlevered Beta from Table 18.

² Capital Structure of Company (As of December 31, 2008).

	BV (in 1,000's)	MV (in 1,000's)	%
Long-term Debt	\$ -	\$ -	0.0%
Preferred Stock	-	-	0.0%
Common Stock	1,435	2,642 (a)	100.0%
Total Capital	\$ 1,435	\$ 2,642	100.0%

(a) Current market-to-book ratio of sample water utilities. See work papers.

³ Current Tax rate based on test year ending 2008. See Schedule D-1.

Southern Sunrise Water Company
Size Premium¹

Exhibit
Schedule D-4.16

Line No.	Beta(β)	Size Premium	Risk Premium for Small Water Utilities ⁷
1			
2			
3			
4			
5			
6	1.12	0.90%	
7			
8	1.25	1.56%	
9			
10	1.50	2.83%	
11			
12	1.62	4.43%	1.81%
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			
26			
27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41			
42			
43			

Estimated Risk Premium for small water utilities⁶

0.99%

¹ Data from Table 7-11 of Morningstar, *Ibbotson S&P 2009 Valuation Yearbook*.

² Mid-Cap companies includes companies with market capitalization between \$1,850 million and \$7,360 million.

³ Low-Cap companies includes companies with market capitalization between \$454 million and \$1,849 million.

⁴ Micro-Cap companies includes companies with market capitalization less than \$453 million.

⁵ Decile 10 includes companies with market capitalization between \$1.6 million and \$219 million.

⁶ From Table 2, Thomas M. Zepp, "Utility Stocks and the Size Effect Revisited," *The Quarterly Review of Economics and Finance*, 43 (2003), 578-582.

⁷ Computed as the weighted differences between the Decile 10 risk premium and the indicated risk premiums for the sample water utilities as shown below. Excludes risk due to differences in beta.

Market Cap. (Millions)	Class	Size Premium	Difference to Decile 10	Weight	Weighted Size Premium
\$ 587	Low-Cap	1.56%	2.87%	0.1666667	0.48%
\$ 2,365	Mid-Cap	0.90%	3.53%	0.1666667	0.59%
\$ 794	Low-Cap	1.56%	2.87%	0.1666667	0.48%
\$ 193	Decile 10	4.43%	0.00%	0.1666667	0.00%
\$ 205	Decile 10	4.43%	0.00%	0.1666667	0.00%
\$ 408	Micro-Cap	2.83%	1.60%	0.1666667	0.27%
Weighted Size Premium for small companies					1.81%