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BEFORE THE ARIZONA CORPORATION COMMISSION

12 IN THE MATTER OF THE APPLICATION
13 OF ARIZONA WATER COMPANY, AN
14 ARIZONA CORPORATION, FOR A
15 DETERMINATION OF THE FAIR VALUE
16 OF ITS UTILITY PLANT AND PROPERTY,
17 AND FOR ADJUSTMENTS TO ITS RATES
AND CHARGES FOR UTILITY SERVICE
AND FOR CERTAIN RELATED
APPROVALS BASED THEREON

DOCKET NO. W-01445A-08-0440

**NOTICE OF FILING
RATE DESIGN AND COST OF SERVICE
REJOINDER TESTIMONY**

18 Applicant, Arizona Water Company, hereby files the Rate Design and Cost of Service
19 Rejoinder Testimony of Joseph D. Harris and Joel M. Reiker.

20 DATED this 26th day of August, 2009.

ARIZONA WATER COMPANY

By: Norm D. James

Robert W. Geake
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Arizona Corporation Commission
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An original and thirteen (13) copies of the foregoing were delivered this 26th day of August, 2009 to:

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A copy of the foregoing was mailed this 26th day of August, 2009 to:

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ARIZONA WATER COMPANY



Docket No. W-01445A-08-0440

2008 RATE HEARING
For Test Year Ending 12/31/07

PREPARED
RATE DESIGN AND COST OF SERVICE
REJOINDER TESTIMONY
OF
Joseph D. Harris

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1 **ARIZONA WATER COMPANY**

2
3 **Rejoinder Testimony of**
4 **Joseph D. Harris**
5

6 **I. Introduction and Purpose of Testimony**

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

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

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

12 A. Yes.

13 **Q. HAVE YOU REVIEWED THE SURREBUTTAL TESTIMONY ON RATE DESIGN**
14 **FILED BY THE OTHER PARTIES TO THIS PROCEEDING?**

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

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

19 A. The purpose of my rejoinder testimony is to respond to the surrebuttal testimony
20 on Rate Design of RUCO witness Jodi Jerich.

21 **II. RUCO's Rate Design**

22 **Q. DOES THE COMPANY AGREE WITH RUCO'S PROPOSED RATE DESIGN**
23 **OPTION "F", AS PRESENTED BY MS. JERICH?**

24 A. No. This is not to say that the Company doesn't support further consolidation of
25 its water systems in the long-term. The Company discussed its long-term goal of
26 rate consolidation in its response to Staff data request EA 9-4.
27
28

1 Q. **WHAT ASPECTS OF RUCO'S PROPOSAL DOES THE COMPANY**
2 **DISAGREE WITH?**

3 A. RUCO's proposal lacks a clearly defined path to the full rate consolidation of
4 certain or all of the Company's systems in subsequent rate proceedings. Ms.
5 Jerich's testimony is unclear as to whether RUCO supports the eventual full rate
6 consolidation of any of the Company's systems, but her testimony (p. 13, lines 6-
7 8) that RUCO's proposal would require the Company to maintain separate
8 accounting information for each system would indicate that RUCO does not
9 support the type of true rate consolidation the Company proposed.
10

11 Q. **WHAT DO YOU MEAN BY "TRUE" RATE CONSOLIDATION?**

12 A. The attachment to Ms. Jerich's surrebutal testimony, which is a 1999 study
13 published by the U.S. Environmental Protection Agency (the "EPA Study"), at
14 page 1, describes rate consolidation as follows: "Consolidated rates or single-
15 tariff pricing is the use of a unified rate structure for multiple (or other) utility
16 systems that are owned or operated by a single utility, but that may or may not
17 be contiguous systems or physically interconnected." As I explained on pages
18 12 (lines 25 - 26) and 13 (lines 1 - 3) of my direct testimony, the Company
19 proposes to consolidate the accounting records and billing tariffs of those
20 systems that are fully consolidated in this proceeding. For systems where the
21 Company proposes partial, or phased consolidation, the accounting records
22 would be consolidated, but all billing information would remain separate until the
23 systems are fully consolidated in the next rate proceeding. This process was
24 approved by the Commission in Decision No. 66849, dated March 19, 2004 for
25 the Company's Apache Junction and Superior systems, and allows the Company
26 and the Commission to realize the administrative benefits cited by Ms. Jerich on
27
28

1 pages 7 (lines 19 and 21) and 19 (lines 8 – 14) of her surrebuttal testimony.
2 Absent such a process these benefits could not be realized.

3 Under RUCO's proposal, in contrast, each Company system would
4 continue to have its own set of regulatory books and accounts, its own rate base,
5 its own income statement, and its own particular rate design. This isn't "true"
6 rate consolidation as described in the EPA study. And as a result, it will not
7 achieve the benefits of rate consolidation discussed by Ms. Jerich on pages 7 to
8 8 of her testimony. It will not simplify rate cases and other regulatory
9 proceedings, nor will it lower administrative costs to either the Commission or the
10 Company.
11

12 **Q. DO YOU HAVE A RESPONSE TO THE CONCERNS RAISED BY RUCO ON**
13 **PAGES 20 (LINES 21-25) AND 21 (LINES 1-15) OF MS. JERICH'S**
14 **TESTIMONY REGARDING THE CONSOLIDATION OF ACCOUNTING**
15 **INFORMATION?**

16 **A.** Yes. Ms. Jerich claims that consolidating the books of individual systems could
17 lead to the Company "over-building" a system which would unnecessarily inflate
18 its rate base. While Ms. Jerich theorizes that this over-building could occur, the
19 facts show otherwise. The Company already has four separate but consolidated
20 water systems: Sedona/Valley Vista, Lakeside/Pinetop Lakes, Apache
21 Junction/Superior and Casa Grande/Tierra Grande. These systems have been
22 consolidated for a number of years, neither RUCO nor Staff has taken the
23 position that the Company has engaged in over-building any of these systems
24 and there is no evidence of any such over-building.
25

26 The reality is that plant additions are subject to prudence reviews by both
27 RUCO and Staff in the process of setting rates. In this case, for example, Staff
28

1 engineering witness, Katrin Stukov, conducted site visits to every plant facility the
2 Company owns, which is over 200 individual sites, as part of Staff's prudency
3 review. Such reviews occurred regardless of whether the systems were
4 consolidated for rate purposes or not.

5 **Q. MS. JERICH ALSO CLAIMS ON PAGES 21-22 OF HER TESTIMONY THAT IT**
6 **IS NECESSARY TO RETAIN INDIVIDUAL SYSTEM COMMODITY CHARGES**
7 **FOR EACH SYSTEM IN ORDER TO REFLECT DIFFERENT SYSTEM**
8 **CHALLENGES. DO YOU AGREE?**

9
10 A. No. The Company considered system challenges when it developed its
11 consolidation groups that are proposed in this case. All of the Company's
12 proposed consolidation groups share common source and water quality issues
13 which naturally lead to consolidated rate designs that reflect these challenges.
14 For example, scarce water supplies are a challenge for both Overgaard and
15 Pinetop/Lakeside. Under the Company's proposal these two systems are
16 combined with the resulting rate not only achieving rate consolidation but also
17 reflecting their combined system challenges.

18
19 **Q. IS MS. JERICH CORRECT THAT EACH SYSTEM MUST HAVE ITS OWN**
20 **COMMODITY RATE TO "MAINTAIN THE INTEGRITY OF PRICE SIGNALS"?**

21 A. No. Consolidated rates can be designed to provide an appropriate price signal.
22 The Company's approach has combined systems with similar challenges to
23 create consolidated system rates that reflect those challenges and therefore
24 maintain the appropriate price signal.

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

26 A. Yes.
27
28

ARIZONA WATER COMPANY



Docket No. W-01445A-08-0440

2008 RATE HEARING
For Test Year Ending 12/31/07

PREPARED
REJOINDER TESTIMONY
RATE DESIGN AND COST OF SERVICE
OF
Joel M. Reiker

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1 **ARIZONA WATER COMPANY**

2

3 **Rejoinder Testimony of**

4 **Joel M. Reiker**

5 **I. Introduction**

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

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

9 **Q. ARE YOU THE SAME JOEL M. REIKER THAT PREVIOUSLY PROVIDED**
10 **DIRECT, REBUTTAL AND REJOINDER TESTIMONY IN THIS PROCEEDING?**

11 A. Yes.

12 **Q. WHAT IS THE PURPOSE OF THIS REJOINDER TESTIMONY?**

13 A. The purpose of this testimony is to respond to the rate design surrebuttal
14 testimony of Jeffery M. Michlik on behalf of the Utilities Division ("Staff") of the
15 Arizona Corporation Commission ("Commission). I also address RUCO's typical
16 bill increases, and provide a supplemental response to Staff witness Mr. Igwe
17 regarding tank maintenance.

18 **Q. HAVE YOU REVIEWED THE RATE DESIGN/COST OF SERVICE**
19 **SURREBUTTAL TESTIMONY FILED BY THE OTHER PARTIES TO THIS**
20 **PROCEEDING?**

21 A. Yes. I have reviewed the surrebuttal testimony of Abbott Laboratories ("Abbott")
22 and the Residential Utility Consumer Office ("RUCO"), as well as Mr. Michlik's
23 testimony. Mr. Harris will respond to the surrebuttal rate design proposed by
24 RUCO. The Company generally agrees with the testimony of Mr. Neidlinger on
25 behalf of Abbott, which addresses the Company's cost of service study ("COSS")
26 and appropriate rate design for the Casa Grande system.

1 **Q. BEFORE ADDRESSING MR. MICHLIK'S SURREBUTTAL TESTIMONY,**
2 **PLEASE DISCUSS STAFF'S POSITION CONCERNING THE REVISED COSS**
3 **ATTACHED TO YOUR REBUTTAL RATE DESIGN TESTIMONY.**

4 A. Staff did not address the Company's revised COSS (Schedules RB-G1 to RB-
5 G7) in its surrebuttal testimony. However, Mr. Olea testified in his direct
6 testimony that the methodology used in the COSS is appropriate. As explained
7 in my rebuttal rate design testimony at pages 4-5, the revised COSS reflects the
8 Company's updated adjusted test year operating results and updated revenue
9 requirement and proposed rate design, and uses the allocation factors suggested
10 by Mr. Olea in his direct testimony. Therefore, I assume that Staff has accepted
11 the revised COSS as reflecting a reasonable estimate of the cost of providing
12 service to the various customer classes in each of the Company's systems.

13 **Q. WHAT IS RUCO'S POSITION CONCERNING THE COMPANY'S REVISED**
14 **COSS?**

15 A. RUCO did not address the Company's revised COSS in its surrebuttal testimony.
16 However, Ms. Jerich, RUCO's Director, testifies on page 4 of her surrebuttal
17 testimony (lines 19-20) that "the principle of traditional cost of service
18 ratemaking" should be used to "ensure that those who use the utility services pay
19 for them." Based on Ms. Jerich's testimony, I assume that RUCO supports the
20 use of the Company's revised COSS to develop fair and equitable rates.

21 **Q. DID ABBOTT ACCEPT THE COMPANY'S REVISED COSS?**

22 A. Abbot's witness, Mr. Neidlinger, discusses the Company's revised COSS in his
23 surrebuttal testimony, and appears to agree with our methodology and cost
24 allocations. Consequently, all parties have accepted the revised COSS as
25 reflecting a reasonable estimate of the cost of providing service to the various
26 customer classes.

1 Q. ARE THERE ANY ASPECTS OF THE COMPANY'S REVISED COSS THAT
2 YOU WOULD LIKE TO ADDRESS AT THIS TIME?

3 A. Yes. The Company's revised COSS at proposed rates (Schedule RB-G2), as it
4 relates to the Miami, Stanfield, and Rimrock systems reflect an anomaly related
5 to the allocation of income taxes, which results in a misleading rate of return
6 calculation.

7 Q. PLEASE EXPLAIN THIS ANOMALY.

8 A. In rebuttal Schedule RB-G2, the level of income taxes shown for each system is
9 calculated on a stand-alone basis (i.e. assuming no rate consolidation), while
10 revenues are based on the Company's proposed rate design, which reflects
11 revenue shifting resulting from the Company's proposed consolidations. As
12 shown in rebuttal Schedule RB-G2, pages 12, 14, and 22 (Miami, Stanfield, and
13 Rimrock), the level of revenues produced by the Company's proposed rate
14 design results in negative taxable income, as shown on line 15, for these
15 systems. Because the COSS allocates a level of income taxes that would be
16 incurred assuming there was no rate consolidation, the resulting rates of return
17 for these three systems are not reliable estimates. This flaw in the COSS only
18 occurs in the Miami, Stanfield, and Rimcock systems.

19 II. Response to Mr. Michlik

20 *Industrial Rate Increase*

21 Q. DOES MR. MICHLIK EXPLAIN IN HIS SURREBUTTAL TESTIMONY WHY
22 STAFF PROPOSES TO INCREASE INDUSTRIAL RATES IN THE CASA
23 GRANDE SYSTEM WHEN THOSE CUSTOMERS ARE ALREADY PAYING
24 RATES THAT ARE APPROXIMATELY 40% HIGHER THAN COST?

25 A. No. On page 5 (lines 2 – 21) of his surrebuttal testimony Mr. Michlik briefly
26 touches on the factors Staff took into consideration when developing its proposed
27 rate design in this proceeding. On lines 14 – 17 Mr. Michlik states, "[i]n addition
28

1 to using the results of the COSS as a general guideline, Staff also considered
2 factors such as promotion of efficient water usage, gradualism in rate increases
3 to mitigate rate shock, and *uniformity of rates between customer classes*"
4 (emphasis supplied). The goal of achieving uniformity between customer classes
5 appears to be the basis for Staff's industrial class rate design, which results in
6 Casa Grande industrial customers providing a 90% rate of return.

7 **Q. DOES MR. MICHLIK EXPLAIN WHY STAFF BELIEVES UNIFORMITY OF**
8 **RATES AMONG CLASSES SHOULD OVERRIDE COST OF SERVICE**
9 **PRINCIPLES WHEN THE RESULT OF SUCH UNIFORMITY IS ONE CLASS**
10 **PROVIDING A 90% RATE OF RETURN?**

11 A. No. The American Water Works Association's ("AWWA") Manual of Water
12 Supply Practices M1 – Principles of Water Rates, Fees, and Charges even warns
13 of the rate inequities that can result from system-wide application of the type of
14 rate Staff proposes, and recommends that such rates be specifically tailored for
15 each customer class. The AWWA Manual M1 is a respected source regarding
16 water rate design. It states:

17 Systemwide application of a single increasing block rate
18 structure is likely to result in cost-of-service inequities,
19 especially to commercial and industrial customers with
20 relatively constant consumption patterns (low peak demands
21 but high total usage). These customers may not impose
22 costs on a water system proportional to the costs implied by
23 increasing block rates. Additionally, assigning large price
24 increases on these customer classes, known to have the
25 most price-elastic demand, can make it difficult to predict
26 decreases in consumption. A single systemwide increasing
27 block rate design applied to a customer base with diverse

1 consumption patterns is more difficult to justify on a cost-of-
2 service basis than increasing block rates targeted to specific
3 customer classes with relatively homogenous consumption
4 patterns.¹

5
6 For this reason, the Company prepared a fully-allocated class cost of service
7 study in this proceeding. While I agree with Mr. Michlik's statement on page 5 of
8 his surrebuttal testimony that the Commission should not rely solely on the
9 COSS to design rates, the COSS should not be ignored in the interest of
10 uniformity when the resulting rate increase to a particular customer class is
11 unfair. Unfortunately, it became apparent in Mr. Michlik's response to Company
12 data request 4.15 that Staff does not believe the subsidies that Casa Grande
13 industrial customers will provide under its proposed rate design are excessive:

14
15 Question: Admit that under Staff's proposed rate design,
16 larger industrial users will subsidize customers in the
17 commercial and residential user classes.

18
19 Response: Deny.

20
21 Supplemental Response: Based on Staff's analysis there is
22 no *undue* subsidization between customer classes. This
23 topic will be addressed further in Staff's surrebuttal
24 testimony. (emphasis supplied)

25
26
27 ¹ American Water Works Association, *Manual of Water Supply Practices M1 –*
28 *Principles of Water Rates, Fees, and Charges* 99-100 (5th ed. 2000).

1 Q. DOES STAFF EXPLAIN IN ITS SURREBUTTAL TESTIMONY WHY IT
2 BELIEVES THERE IS NO UNDUE SUBSIDIZATION PROVIDED BY THE
3 INDUSTRIAL CLASS UNDER ITS PROPOSE RATE DESIGN?

4 A. No. Rate subsidies that occur both within and between customer classes can be
5 justified and warranted if the resulting rates are in the public interest, However,
6 Staff has not shown that its proposed rates (for all customer classes) are in the
7 public interest any more than they would be under a rate structure that holds
8 industrial rates at their current level. In other words, Staff hasn't shown that
9 holding industrial rates at their current level would create unfair or inequitable
10 rates for any other class.

11 *Industrial Flat Rate*

12 Q. MR. MICHLIK CLAIMS ON PAGE 6 OF HIS SURREBUTTAL TESTIMONY
13 THAT THE USE OF A FLAT RATE FOR INDUSTRIAL CUSTOMERS FAILS TO
14 SEND THE CORRECT PRICE SIGNAL. DO YOU AGREE?

15 A. No. As stated in AWWA Manual M-1, "[a] uniform rate also sends customers a
16 usage-based price signal. Although the unit price is constant, customer bills will
17 increase with increased water usage."² With an industrial customer such as
18 Abbott, which uses substantial quantities of water, a strong usage-based price
19 signal is sent under a flat rate design: the more water used, the higher the
20 monthly bill. This creates an incentive to conserve in order to lower operating
21 expenses.

22 Q. DOES THE EXAMPLE MR. MICHLIK PROVIDES ON PAGE 6 (LINES 1 – 31)
23 OF HIS SURREBUTTAL TESTIMONY DEMONSTRATE THAT IT IS
24 NECESSARY TO SEND AN ADDITIONAL PRICE SIGNAL TO INDUSTRIAL
25 CUSTOMERS IN THE FORM OF AN INCREASING BLOCK RATE DESIGN?
26

27
28 ² AWWA Manual M-1, supra, at 85.

1 A. No. In his example, Mr. Michlik compares the rates proposed by the Company
2 and Staff for *5/8-inch* industrial customers to those proposed for *5/8-inch*
3 residential customers. This example focuses on customers with *5/8-inch* meters
4 and ignores the Company's largest industrial customers (4-inch meters and
5 above) who account for over 90% of industrial sales. Mr. Michlik also discusses
6 the "inherent value of water as a scarce resource" and claims that it is necessary
7 to create an "additional financial incentive" to industrial customers like Abbott and
8 Frito Lay – both of which have already implemented conservation measures and
9 have significantly reduced their water use and have stated that that they intend to
10 make further reductions.

11 **Q. DOES THE COMPANY'S RATE DESIGN "DISREGARD THE INHERENT**
12 **VALUE OF WATER AS A SCARCE RESOURCE," AS MR. MICHLIK STATES**
13 **ON PAGE 6 OF HIS SURREBUTTAL TESTIMONY?**

14 A. No. Basic economic theory tells us that if prices are lower than cost, consumers
15 will be encouraged to consume more, and if prices are above cost, perhaps
16 because the seller has monopoly power, consumers will be encouraged to
17 consume less. In the case of the Company's residential customers, it is
18 appropriate to send a price signal that encourages customers to conserve water.
19 This price signal is accomplished through the use of an increasing block rate
20 design, under which at some level of consumption the consumer will decide that
21 purchasing one additional unit is not worth the sacrifice of other goods and
22 services that can be purchased. This decision will occur at a lower level of
23 consumption than it would under a flat rate.

24 **Q. WHAT ABOUT THE COMPANY'S INDUSTRIAL CUSTOMERS?**

25 A. The Company's largest industrial customers are already paying rates that are
26 significantly higher than their cost of service. Economics tells us that these
27 consumers are already encouraged to consume less. In fact, not only have
28

1 Abbott and Frito Lay already begun to consume significantly less, but have made
2 long-term plans to further reduce usage. Perhaps this is because they have
3 determined that the price of the Company's water is higher than the average cost
4 of an available alternative. It is for this reason that an additional price signal in
5 the form of an increasing block rate design is simply not warranted for those
6 customers.

7 *Residential Increasing Block/Inverted Tier Rates*

8 **Q. HOW DO YOU RESPOND TO MR. MICHLIK'S SURREBUTTAL TESTIMONY**
9 **REGARDING THE DECLINE IN RESIDENTIAL USAGE IN THOSE SYSTEMS**
10 **WHERE INCREASING BLOCK RATES HAVE BEEN IMPLEMENTED?**

11 **A.** Mr. Michlik states that the Company should have identified other factors, such as
12 foreclosures, that may have contributed to the decline in residential usage. I
13 agree with Mr. Michlik that vacant houses that are still receiving service would
14 contribute to the decline in average residential usage. However, if this
15 phenomenon played a measurable role in the reduction in average residential
16 usage, we would observe significant reductions in winter months as well as in the
17 summer. Using the data I relied upon in Exhibit JMR-RBEX3 attached to my rate
18 design/cost of service rebuttal testimony for those systems where increasing
19 block rates are currently in effect, I separated winter months (November - April)
20 and summer months (May - October) and conducted multiple regression
21 analyses of each group separately. The results of those analyses are
22 summarized below:

	Avg. Monthly Usage (M Gals)	Avg. Decline/Month (MGals)	t-Statistic
Nov. – Apr.	7.7	-0.018	-1.60
May – Oct.	10.9	-0.045	-3.84

As shown in the table above, the t-statistic for Nov. – Apr. is -1.60. In statistics, the t-statistic is used to test hypotheses about the value of a coefficient. In this case, that coefficient is the estimated average decline in average gallons consumed per month, shown in the above table. Assuming there was actually no reduction in the average number of gallons consumed per month, the true value of the coefficient would be zero. If this "null" hypothesis that the true reduction in average gallons consumed per month is zero, the absolute value of the calculated t-statistic will be less than the critical value of 1.96. Because the absolute value of the t-statistic is less than 1.96, we conclude that the average decline per month is not different than zero gallons. In other words, there is no statistically significant reduction in average residential usage from November through April. On the other hand, we conclude that there *is* a statistically significant reduction in average residential usage in May through October. This makes sense because during the summer months customers usually have higher levels of discretionary consumption (e.g., exterior landscape irrigation, swimming pools, and other outdoor water uses), and "when coupled with higher unit pricing, customers tend to curtail consumption."³

³ AWWA Manual M-1, *supra*, at 100.

1 Given the Company's history with increasing block rates, the Company is likely to
2 experience a revenue shortfall if no adjustment is made to account for the
3 imposition of increasing block rates for its Northern Group systems. The
4 Company does not understand why Staff and RUCO do not acknowledge this
5 fact. The purpose of increasing block rates is to encourage water conservation.
6 If such rate designs did not do so, there would be no point in using them. In
7 contrast, increasing block rates tend to result in revenue volatility and make it
8 more difficult for water utilities to recover their cost of service. Staff has
9 presented no evidence suggesting otherwise.

10 *Typical Bill Increases*

11 **Q. AT PAGE 8 (LINES 1 – 6) OF HIS SURREBUTTAL MR. MICHLIK CLAIMS**
12 **THAT STAFF "LEFT OUT" THE ARSENIC COST RECOVERY SURCHARGES**
13 **WHEN COMPUTING ITS 5/8-INCH TYPICAL BILL INCREASES "IN ORDER**
14 **TO NOT MISLEAD CUSTOMERS." DO YOU HAVE A RESPONSE?**

15 **A.** Yes. Mr. Michlik would have 5/8-inch residential customers in Apache Junction
16 believe they will experience a 32.12% rate increase under Staff's proposed rates
17 when in reality they will only experience a 6.03% rate increase. Mr. Michlik
18 would also have 5/8-inch residential customers in Superior believe they will
19 experience a 23.07% increase under Staff's proposed rates, when in reality they
20 will experience a 0.83% rate *decrease*. As shown in the following table, Staff
21 repeats this error in six other systems where the arsenic surcharge is currently in
22 effect:

1 TYPICAL BILL INCREASE – STAFF PROPOSED

2 (Average Usage)

3

4

System	Staff - Incorrect		Staff - Actual	
	\$	%	\$	%
6 Apache Junction	\$8.68	32.12%	\$2.05	6.03%
7 Superior	\$6.63	23.07%	(\$0.27)	-0.83%
8 San Manuel	\$12.08	34.66%	\$3.17	7.25%
9 Casa Grande	\$5.98	27.00%	\$1.37	5.10%
10 Stanfield	(\$3.67)	-9.52%	(\$7.73)	-18.14%
11 White Tank	\$5.67	11.12%	(\$4.12)	-6.78%
12 Sedona	\$11.75	35.89%	\$8.06	22.13%
13 Rimrock	\$0.19	0.59%	(\$14.71)	-31.7%

14

15 Customers deserve accurate information regarding potential rate increases (and
16 decreases) for utility services, and they shouldn't be misled by typical bill
17 increases that bear no relation to the actual increases that may be approved by
18 the Commission.

19 **III. Response to RUCO Witness Moore**

20 *Typical Bill Increases*

21 **Q. DO YOU HAVE ANY COMMENT ON THE TYPICAL BILL ANALYSES
22 ATTACHED TO MR. MOORE'S TESTIMONY?**

23 **A.** Yes. Although Mr. Moore included the effect of the ACRM surcharge on RUCO's
24 typical bill increases, he only included the Step-1 ACRM surcharge for Casa
25 Grande. Additionally, the ACRM surcharge for Stanfield shown on page 62 of
26 Mr. Moore's Schedule RD-2 is incorrect.

1 **IV. Summary of Overall Revenue Increases**

2 **Q. HAVE YOU SUMMARIZED THE OVERALL REVENUE INCREASES OF THE**
 3 **PARTIES WHILE ACCOUNTING FOR THE EFFECT OF THE ACRM AND**
 4 **PURCHASED POWER ADJUSTER MECHANISM SURCHARGES?**

5 **A. Yes. The Company's proposed increases by system are:**

6

7 **Company Proposed**

	<u>Current</u>	<u>Proposed</u>	<u>Less:</u>	<u>Net</u>	<u>%</u>
	<u>Revenues</u>	<u>Increase</u>	<u>Surcharges</u>	<u>Increase</u>	<u>Increase</u>
8 Superstition	\$ 11,939,904	\$ 4,427,916	\$ 2,474,101	\$ 1,953,815	16.4%
9 Bisbee	1,723,475	344,737	-	344,737	20.0%
Sierra Vista	1,461,897	11,745	-	11,745	0.8%
10 San Manuel	812,359	383,695	193,478	190,217	23.4%
Oracle	1,126,215	46,696	-	46,696	4.1%
11 Winkelman	98,722	30,193	-	30,193	30.6%
12 Miami	1,850,678	(204)	-	(204)	0.0%
Casa Grande	10,934,895	4,976,271	1,902,034	3,074,237	28.1%
13 Stanfield	131,926	8,331	11,382	(3,051)	-2.3%
White Tank	1,244,735	321,593	231,069	90,524	7.3%
14 Ajo	470,994	88,105	-	88,105	18.7%
15 Coolidge	2,214,952	488,803	-	488,803	22.1%
Lakeside	2,588,943	201,349	(35,711)	237,060	9.2%
16 Overgaard	1,686,342	(62,249)	1,550	(63,799)	-3.8%
17 Sedona	3,521,124	2,177,283	390,233	1,787,049	50.8%
Pinewood	1,047,463	118,503	7,420	111,083	10.6%
18 Rimrock	507,981	253,382	235,950	17,432	3.4%
19	<u>\$ 43,362,605</u>	<u>\$ 13,816,149</u>	<u>\$ 5,411,507</u>	<u>\$ 8,404,643</u>	<u>19.4%</u>

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21 **Staff's proposed increases by system are:**

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Staff Proposed

	Current	Proposed	Less:	Net	%
	<u>Revenues</u>	<u>Increase</u>	<u>Surcharges</u>	<u>Increase</u>	<u>Increase</u>
Superstition	\$ 11,939,904	\$ 3,364,063	\$ 2,474,101	\$ 889,962	7.5%
Bisbee	1,723,475	209,895	-	209,895	12.2%
Sierra Vista	1,461,897	12,337	-	12,337	0.8%
San Manuel	812,359	337,401	193,478	143,923	17.7%
Oracle	1,126,215	(36,270)	-	(36,270)	-3.2%
Winkelman	98,722	23,087	-	23,087	23.4%
Miami	1,850,678	(140,384)	-	(140,384)	-7.6%
Casa Grande	10,934,895	3,873,405	1,902,034	1,971,371	18.0%
Stanfield	131,926	(10,396)	11,382	(21,778)	-16.5%
White Tank	1,244,735	193,884	231,069	(37,185)	-3.0%
Ajo	470,994	74,025	-	74,025	15.7%
Coolidge	2,214,952	162,515	-	162,515	7.3%
Lakeside	2,588,943	(40,927)	(35,711)	(5,216)	-0.2%
Overgaard	1,686,342	(225,184)	1,550	(226,733)	-13.4%
Sedona	3,521,124	2,014,822	390,233	1,624,589	46.1%
Pinewood	1,047,463	(194,410)	7,420	(201,830)	-19.3%
Rimrock	507,981	35,767	235,950	(200,183)	-39.4%
	<u>\$ 43,362,605</u>	<u>\$ 9,653,631</u>	<u>\$ 5,411,507</u>	<u>\$ 4,242,124</u>	<u>9.8%</u>

And RUCO's proposed increases by system are:

RUCO Proposed

	Current	Proposed	Less:	Net	%
	<u>Revenues</u>	<u>Increase</u>	<u>Surcharges</u>	<u>Increase</u>	<u>Increase</u>
Superstition	\$ 11,939,904	\$ 2,110,097	\$ 2,474,101	\$ (364,004)	-3.0%
Bisbee	1,723,475	275,855	-	275,855	16.0%
Sierra Vista	1,461,897	(140,506)	-	(140,506)	-9.6%
San Manuel	812,359	321,629	193,478	128,151	15.8%
Oracle	1,126,215	(54,952)	-	(54,952)	-4.9%
Winkelman	98,722	10,913	-	10,913	11.1%
Miami	1,850,678	265,861	-	265,861	14.4%
Casa Grande	10,934,895	3,625,115	1,902,034	1,723,081	15.8%
Stanfield	131,926	23,175	11,382	11,793	8.9%
White Tank	1,244,735	312,786	231,069	81,717	6.6%
Ajo	470,994	51,665	-	51,665	11.0%
Coolidge	2,214,952	(41,763)	-	(41,763)	-1.9%
Lakeside	2,588,943	(106,497)	(35,711)	(70,786)	-2.7%
Overgaard	1,686,342	(250,510)	1,550	(252,060)	-14.9%
Sedona	3,521,124	952,966	390,233	562,733	16.0%
Pinewood	1,047,463	21,781	7,420	14,361	1.4%
Rimrock	507,981	362,746	235,950	126,796	25.0%
	<u>\$ 43,362,605</u>	<u>\$ 7,740,361</u>	<u>\$ 5,411,507</u>	<u>\$ 2,328,854</u>	<u>5.4%</u>

V. Supplemental Response to Mr. Igwe

Tank Maintenance Expense

Q. WHY ARE YOU ADDRESSING TANK MAINTENANCE EXPENSE IN THIS PHASE OF YOUR REJOINER TESTIMONY?

A. I am addressing the issue of tank maintenance expense in this phase of my rejoinder testimony because, given the short time period allotted for preparing rejoinder, the Company was unable to complete an analysis of tank maintenance costs in response to Staff's testimony regarding this issue in time to include it in the revenue requirement phase of rejoinder.

Q. WHAT DOES THE COMPANY'S ANALYSIS SHOW?

A. The Company's analysis, attached hereto as rejoinder Schedule JMR-RJ5 and supported by rejoinder Exhibit JMR-RJ7, shows that the Company's proposed

1 per-square foot cost of tank painting is reasonable. One of Staff's reasons for
2 rejecting the Company's proposed tank maintenance accrual is Mr. Igwe's claim
3 that the Company's proposed per-square foot cost of tank painting is based on a
4 single vendor's estimate that was not subject to competitive bidding (see Igwe
5 sb, p. 11, at 21 – 23). However, the analysis shown in rejoinder Schedule JMR-
6 RJ5 shows that the Company's proposed per-square foot painting costs in this
7 proceeding are equal to, or less, than the actual contractual per-square foot
8 painting costs the Company incurred during the test year.

9 **Q. PLEASE EXPLAIN SCHEDULE JMR-RJ5.**

10 A. Schedule JMR-RJ5 provides the details of three tank painting contracts executed
11 by the Company in 2007. These contracts, as well as other tank painting
12 contracts for prior years, were provided to Staff in response to Staff data request
13 GTM 8-5, and are attached as Exhibit JMR-RJ7. Column D of Schedule JMR-
14 RJ5 shows the total 2007 contractual tank painting costs for four of the
15 Company's tanks. Columns E through I of Schedule JMR-RJ5 show the
16 calculation of an estimate of the cost of painting these tanks based on the
17 Company's proposed per-square foot tank painting costs in this proceeding. To
18 summarize, column D, line 10 shows the actual contractual costs, and column I,
19 line 10 shows what the costs would be based on the Company's proposed tank
20 painting costs in this proceeding. As shown in the schedule, the Company's
21 proposed tank painting costs are approximately \$13,600 less than the 2007
22 actual contractual costs.

23 **Q. SHOULD THE ANALYSIS SHOWN IN SCHEDULE JMR-RJ5 ALLEVIATE ANY**
24 **CONCERNS STAFF HAS REGARDING THE REASONABLENESS OF THE**
25 **COMPANY'S PROPOSED PER-UNIT TANK PAINTING COSTS IN THIS**
26 **PROCEEDING?**

1 A. Yes. The analysis shows that the actual 2007 contractual tank painting costs
2 were greater than, or equal to the Company's proposed costs embedded in its
3 revised accruals in this proceeding.

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

5 A. Yes.

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Schedule

JMR-RJ5

ARIZONA WATER COMPANY
 Test Year Ended December 31, 2007
 Comparison of Company Proposed Tank Painting Costs vs. Actual

[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	
Line No.	Contract Date	Vendor Name	Service Provided	Total Cost Per Contract	Interior Sq. Feet	Exterior Sq. Feet	Estimated Cost - Interior	Estimated Cost - Exterior	Total Estimated Cost	Difference - Actual Cost minus Estimated Cost
1										
2	10/3/2007	Arizona Coating Applicators	Coat interior of County Line Tank #1 - 1,000,000 gal.	\$ 70,552	18,421	12,094	\$ 3.83	\$ 1.58	\$ 70,552	\$ (0)
3										
4	10/3/2007	Southwest Industrial, Inc.	Coat interior & exterior of Red Cliff Tank - 100,000 gal.	\$ 24,255	3,498	2,655	\$ 4.22	\$ 1.68	\$ 19,222	\$ 5,033
5										
6	10/3/2007	Southwest Industrial, Inc.	Coat interior & exterior of Unit 11A Tank - 100,000 gal.	\$ 41,904	3,523	3,014	\$ 4.22	\$ 1.68	\$ 33,281	\$ 8,623
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				<u>\$ 136,711</u>					<u>\$ 123,056</u>	<u>\$ 13,655</u>

Exhibit
JMR-RJ7



ARIZONA WATER COMPANY

**WATER STORAGE
TANK COATING
CONTRACT**

CONTRACTOR: Arizona Coating Applicators, Inc. DATE OF CONTRACT: October 3, 2007
 Address: 3531 West Lower Buckeye Road SYSTEM: APACHE JUNCTION
Phoenix, Arizona 85009 W.A. #: N/A

DESCRIPTION OF WORK: Coat interior of County Line Tank #1 Tank, in Apache Junction, AZ, 1,000,000-gallon, 32' H X 74' D. Near white abrasive blast cleaning.

WORK SHALL BE COMPLETED ON OR BEFORE 90 CALENDAR DAYS AFTER COMMENCEMENT NOTICE IS ISSUED.

(See Paragraph 3, below.)

TOTAL COST (including taxes): \$70,552.00
--

THIS CONTRACT is made by and between ARIZONA WATER COMPANY, an Arizona corporation (the "Company"), and the CONTRACTOR named above.

1. The Contractor hereby certifies that it has read the attached copies of the Company's *General Conditions of Contract for Tank Coating* ("General Conditions of Contract") and *Water Storage Tank Coating Specifications* ("Specifications"), and understands that all provisions of said General Conditions of Contract and Specifications apply to work covered under this Contract, and which, by this reference, are incorporated herein.
2. The Contractor agrees, as an independent contractor, to furnish all of the labor, tools and certain materials required to perform the work described above for the Company, in accordance with the General Conditions of Contract and the Specifications.
3. Work shall not commence under this Contract until a written Commencement Notice has been given to the Contractor by the Company. In the event the Commencement Notice is not given to the Contractor by the Company within ninety (90) calendar days from the date of this Contract, the Contractor has the option to cancel the Contract by giving written notice of cancellation to the Company.
4. Except as otherwise herein provided, no charge for any extra work and/or material will be allowed unless the same has been ordered in writing by the Company's Authorized Representative, and the price stated in such order.

Upon the satisfactory completion of the work within the Contract time limit, the Company agrees to pay the Contractor as provided in the General Conditions of Contract.

SPECIAL CONDITIONS:

Interior coating inspections shall be made by an Independent Coating Inspector specified by the Company. The Contractor shall be responsible for the scheduling of inspections. Payment will not be made until the final report from the Independent Coating Inspector detailing the satisfactory completion of the work is received in the Company's Phoenix office.

ARIZONA WATER COMPANY
 Company
 By: Richard W. Nordstrom
 Title: VP- OPERATIONS

ARIZONA COATING APPLICATORS, INC.
 Contractor
 By: [Signature]
 Title: President



ARIZONA LICENSE
#082593 #082594
CALIFORNIA LICENSE
#640702
NEVADA LICENSE
#45764 #45818
NACE INSPECTOR
#3943

Invoice

BILL TO
Arizona Water Company PO BOX 29006 Phoenix, AZ 85038-9006

DATE	INVOICE #
1/3/2008	2906

P.O. NO.	TERMS	PROJECT
Contract	Net 30	07-091 Apache Jet 74'x32' I.

QUANTITY	DESCRIPTION	RATE	AMOUNT
	Contract dated October 3, 2007 System: Apache Junction W/A#: N/A Description of Work: Coat interior of County Line Tank #1 Tank in Apache Junction, AZ 1,000,000 gallon, 32' H x 74' D. Near white abrasive blast cleaning. 100% Completion 01-03-2008 Thank you for your business.	70,552.00	70,552.00
Remit Payment To: P.O. Box 27425 Phoenix, AZ 85061-7425		Total	\$70,552.00

PD 1/3/08



ARIZONA WATER COMPANY

WATER STORAGE TANK COATING CONTRACT

CONTRACTOR: Southwest Industrial Coatings, Inc. DATE OF CONTRACT: October 3, 2007
Address: 755 South Rainbow Trail SYSTEM: PINEWOOD
Cottonwood, Arizona 86326 W.A. #: N/A

DESCRIPTION OF WORK: Coat exterior of Unit 11A Tank, in Pinewood, AZ, 100,000-gallon, 40' H X 21' D. Level 2 surface preparation per attached specifications.
Coat interior of Unit 11A Tank, in Pinewood, AZ, 100,000-gallon, 40' H X 21' D. Near white abrasive blast cleaning.
Coat exterior of Northern Aire Tank, in Pinewood, AZ, 40,000-gallon, 8' H X 30' D. Level 2 surface preparation per attached specifications.
Coat interior of Northern Aire Tank, in Pinewood, AZ, 40,000-gallon, 8' H X 30' D. Near white abrasive blast cleaning.

WORK SHALL BE COMPLETED ON OR BEFORE 90 CALENDAR DAYS AFTER COMMENCEMENT NOTICE IS ISSUED.

(See Paragraph 3, below.)

TOTAL COST (including taxes): \$41,904.05

THIS CONTRACT is made by and between ARIZONA WATER COMPANY, an Arizona corporation (the "Company"), and the CONTRACTOR named above.

- 1. The Contractor hereby certifies that it has read the attached copies of the Company's General Conditions of Contract for Tank Coating ("General Conditions of Contract") and Water Storage Tank Coating Specifications ("Specifications"), and understands that all provisions of said General Conditions of Contract and Specifications apply to work covered under this Contract, and which, by this reference, are incorporated herein.
2. The Contractor agrees, as an independent contractor, to furnish all of the labor, tools and certain materials required to perform the work described above for the Company, in accordance with the General Conditions of Contract and the Specifications.
3. Work shall not commence under this Contract until a written Commencement Notice has been given to the Contractor by the Company. In the event the Commencement Notice is not given to the Contractor by the Company within ninety (90) calendar days from the date of this Contract, the Contractor has the option to cancel the Contract by giving written notice of cancellation to the Company.
4. Except as otherwise herein provided, no charge for any extra work and/or material will be allowed unless the same has been ordered in writing by the Company's Authorized Representative, and the price stated in such order.

Upon the satisfactory completion of the work within the Contract time limit, the Company agrees to pay the Contractor as provided in the General Conditions of Contract.

SPECIAL CONDITIONS:

Interior coating inspections shall be made by an Independent Coating Inspector specified by the Company. The Contractor shall be responsible for the scheduling of inspections. Payment will not be made until the final report from the Independent Coating Inspector detailing the satisfactory completion of the work is received in the Company's Phoenix office.

ARIZONA WATER COMPANY
Company
By: Richard W. Nordstrom
Title: VP - OPERATIONS

SIC INC.
Contractor
By: Richard Church
Title: President



755 S. Rainbow Trail
Cottonwood, AZ 86326

Invoice

Date	Invoice #
12/5/2007	401

Bill To
Arizona Water Company Attn: Tom Harrell PO Box 29006 Phoenix, AZ 85038

P.O. No.	Terms	Project
Pinewood, AZ	Net 15	Munds Park/Pinewo...

Description	Qty	Rate	Amount
Sandblasting & Painting the interior of one (1) 100,000 gallon water storage tank.	1	13,675.00	13,675.00
Hydroblast & Painting the exterior of one (1) 100,000 gallon water storage tank.	1	4,925.00	4,925.00
Bonding at 2.5%	1	465.00	465.00
Repair on interior floor per estimate number 242	1	8,435.37	8,435.37

*PD 12/20/07 (approx)
STILL OWED \$12,948
FOR 40K TANK.*

Thanks again for your business.

Subtotal	\$27,500.37
Sales Tax (6.89%)	\$0.00
Total	\$27,500.37
Payments/Credits	\$0.00
Balance Due	\$27,500.37



755 S. Rainbow Trail
Cottonwood, AZ 86326

Invoice

Date	Invoice #
1/2/2008	405

Bill To
Arizona Water Company Attn: Tom Harrell PO Box 29006 Phoenix, AZ 85038

P.O. No.	Terms	Project
	Net 15	Munds Park/Pinewo...

Description	Qty	Rate	Amount
Sandblasting & painting of one 40 K water storage tank in Pinewood, AZ per specifications given. Bonding at 2.5%		12,948.00	12,948.00
		323.70	323.70
<p>PD 1/08</p> <p>PAID IN FULL FOR PL</p>			

Thanks again for your business.

Subtotal	\$13,271.70
Sales Tax	\$0.00
Total	\$13,271.70
Payments/Credits	\$0.00
Balance Due	\$13,271.70



ARIZONA WATER COMPANY

WATER STORAGE TANK COATING CONTRACT

CONTRACTOR: Southwest Industrial Coatings, Inc. DATE OF CONTRACT: October 3, 2007
Address: 755 South Rainbow Trail SYSTEM: SEDONA
Cottonwood, Arizona 86326 W.A. #: N/A

DESCRIPTION OF WORK: Coat exterior of Red Cliff Tank, in Sedona, AZ, 100,000-gallon, 24' H X 27' D. Level 2 surface preparation per attached specifications.
Coat interior of Red Cliff Tank, in Sedona, AZ, 100,000-gallon, 24' H X 27' D. Near white abrasive blast cleaning.

WORK SHALL BE COMPLETED ON OR BEFORE 90 CALENDAR DAYS AFTER COMMENCEMENT NOTICE IS ISSUED.

(See Paragraph 3, below.)

TOTAL COST (including taxes): \$24,254.58

THIS CONTRACT is made by and between ARIZONA WATER COMPANY, an Arizona corporation (the "Company"), and the CONTRACTOR named above.

- 1. The Contractor hereby certifies that it has read the attached copies of the Company's General Conditions of Contract for Tank Coating ("General Conditions of Contract") and Water Storage Tank Coating Specifications ("Specifications")...
2. The Contractor agrees, as an independent contractor, to furnish all of the labor, tools and certain materials required to perform the work described above...
3. Work shall not commence under this Contract until a written Commencement Notice has been given to the Contractor by the Company...
4. Except as otherwise herein provided, no charge for any extra work and/or material will be allowed unless the same has been ordered in writing by the Company's Authorized Representative...

Upon the satisfactory completion of the work within the Contract time limit, the Company agrees to pay the Contractor as provided in the General Conditions of Contract.

SPECIAL CONDITIONS:

Interior coating inspections shall be made by an Independent Coating Inspector specified by the Company. The Contractor shall be responsible for the scheduling of inspections. Payment will not be made until the final report from the Independent Coating Inspector detailing the satisfactory completion of the work is received in the Company's Phoenix office.

ARIZONA WATER COMPANY
Company
By: Richard W. Henderson
Title: VP- OPERATIONS

SIC INC.
Contractor
By: Richard Church
Title: President

APPROVED
 3/18/2008 03:56 PM
 Joe Harris



755 S. Rainbow Trail
 Cottonwood, AZ 86326

APPROVED
 3/18/2008 06:28 PM
 Rick Henderson

Invoice

Date	Invoice #
3/11/2008	416

Bill To
Arizona Water Company PO Box 29006 Phoenix, AZ 85038

P.O. No.	Terms	Project
Red Cliff	Net 15	Red Cliff Sedona 2...

Description	Qty	Rate	Amount
Sandblasting & Painting the interior of one (1) 27' Dia x 24' High Water Storage Tank.	1	13,883.00	13,883.00
Hydroblast & Painting the exterior of one (1) 27' Dia x 24' High Water Storage Tank.	1	4,303.00	4,303.00
Bonding @ 2.5%	1	454.65	454.65
CHANGE ORDER ITEMS PER GREG SPRINKLES REQUEST AND APPROVAL Re-blast interior floor & 6' of bottom ring due to leaky valve. *Note: SIC had to completely remove all existing "Wet" abrasives off the floor to continue with the re-blast.	1	3,226.00	3,226.00
Replace float bowls and guide cables on Munds Park Tank & Red Cliff Tank.	2	825.00	1,650.00
Apply -5-7 mils of primer on the exterior roof due to excessive oxidation and rust.	1	525.00	525.00

Thank you for your business. We truly appreciate it and enjoy working for you!

Subtotal	\$24,041.65
Sales Tax	\$0.00
Total	\$24,041.65
Payments/Credits	\$0.00
Balance Due	\$24,041.65