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BEFORE THE ARIZONA CORPORATION COMMISSION  
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- 1 KRISTIN K. MAYES, Chairman
- 2 GARY PIERCE
- 3 PAUL NEWMAN
- 4 SANDRA D. KENNEDY
- 5 BOB STUMP

ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

6 IN THE MATTER OF THE APPLICATION OF  
 7 RIO RICO UTILITIES, INC. FOR A  
 8 DETERMINATION OF THE FAIR VALUE OF  
 9 ITS UTILITY PLANT AND PROPERTY AND  
 10 FOR INCREASES IN ITS WATER AND  
 WASTEWATER RATES AND CHARGES FOR  
 UTILITY SERVICE THEREON.

DOCKET NO. WS-02676A-09-0257

**STAFF'S NOTICE OF FILING  
DIRECT TESTIMONY**

11 The Utilities Division of the Arizona Corporation Commission ("Staff") hereby files the  
 12 Direct Testimony related to revenue requirement of Staff Witness Gerald W. Becker in the above-  
 13 referenced matter.

RESPECTFULLY submitted this 30<sup>th</sup> day of December, 2009.

Arizona Corporation Commission  
**DOCKETED**

DEC 30 2009

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1 Copy of the foregoing mailed this  
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BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF )  
RIO RICO UTILITIES, INC, )  
FOR A DETERMINATION OF THE FAIR VALUE )  
OF ITS UTILITY PLANTS AND PROPERTY )  
AND FOR INCREASES IN ITS WATER AND )  
WASTEWATER RATES AND )  
CHARGES FOR UTILITY SERVICE BASED )  
THEREON. )  
\_\_\_\_\_ )

DOCKET NO. WS-02676A-09-0257

DIRECT  
TESTIMONY  
OF  
GERALD W. BECKER  
PUBLIC UTILITIES ANALYST V  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

DECEMBER 30, 2009

## TABLE OF CONTENTS

	<u>Page</u>
Introduction.....	1
Background.....	2
Consumer Service.....	3
Compliance.....	4
Summary of Proposed Revenues.....	4
Rate base.....	9
<i>Fair Value Rate Base</i> .....	9
Water Division.....	9
<i>Rate Base Summary</i> .....	9
<i>Rate Base Adjustment No. 1 – Reclassification of Plant</i> .....	10
<i>Rate Base Adjustment No. 2 – Contributions in Aid of Construction (“CIAC”)</i> .....	10
<i>Rate Base Adjustment No. 3 – Accumulated Deferred Income Taxes (“ADIT”) Both Systems</i> .....	11
<i>ADIT-General Information</i> .....	11
<i>ADIT-Fixed Asset Component</i> .....	14
<i>ADIT-AIAC Associated Component</i> .....	17
<i>ADIT-Net Operating Loss Carryforward</i> .....	19
<i>Rate Base Adjustment No. 4 – Advances In Aid of Construction</i> .....	20
Operating Income Water Division.....	21
<i>Operating Income Summary</i> .....	21
<i>Operating Income Adjustment No. 1 – Purchased Power Expense</i> .....	21
<i>Operating Income Adjustment No. 2 – Depreciation Expense</i> .....	22
<i>Operating Income Adjustment No. 3 – Regulatory Commission Expense</i> .....	22
<i>Operating Income Adjustment No. 4 – Property Taxes</i> .....	23
<i>Operating Income Adjustment No. 5 – Income Taxes</i> .....	24
<i>Operating Income Adjustment No. 6 – ACC Assessment included in Expense</i> .....	24
<i>Operating Income Adjustment No. 7 – Out of Period Expenses</i> .....	25
<i>Operating Income Adjustment No. 8 – Foreign Exchange Adjustment</i> .....	25
<i>Operating Income Adjustment No. 9 – Corporate Expense Allocation</i> .....	26
Wastewater Division.....	32
<i>Rate Base Adjustment No. 1 – Accumulated Deferred Income Taxes (“ADIT”)</i> .....	32
<i>Rate Base Adjustment No. 2 – Advances In Aid of Construction</i> .....	33
Operating Income Wastewater Division.....	33
<i>Operating Income Summary</i> .....	33
<i>Operating Income Adjustment No. 1 – Purchased Power Expense</i> .....	34
<i>Operating Income Adjustment No. 2 – Depreciation Expense</i> .....	34
<i>Operating Income Adjustment No. 3 – Foreign Exchange Adjustment</i> .....	35
<i>Operating Income Adjustment No. 4 – Property Taxes</i> .....	35
<i>Operating Income Adjustment No. 5 – Income Taxes</i> .....	37
<i>Operating Income Adjustment No. 6 – Regulatory Commission Expense</i> .....	37
<i>Operating Income Adjustment No. 7 – Corporate Expense Allocation</i> .....	38
Other Considerations.....	38

**SCHEDULES**

**WATER DIVISION**

REVENUE REQUIREMENT .....	GWB-1
GROSS REVENUE CONVERSION FACTOR.....	GWB-2
RATE BASE - ORIGINAL COST .....	GWB-3
SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS.....	GWB-4
RATE BASE ADJUSTMENT #1 - TO RECLASSIFY PLANT.....	GWB-5
RATE BASE ADJUSTMENT #2 - CIAC NOT RECORDED .....	GWB-6
RATE BASE ADJUSTMENT #3 - ACCUMULATED DEFERRED INCOME TAXES .....	GWB-7
RATE BASE ADJUSTMENT #4 - ADVANCES IN AID OF CONSTRUCTION .....	GWB-8
Not Used .....	GWB-9
OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED .....	GWB-10
SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR.....	GWB-11
OPERATING INCOME ADJUSTMENT #1 - RECLASSIFY POWER FROM WASTEWATER .....	GWB-12
OPERATING INCOME ADJUSTMENT #2- DEPRECIATION EXPENSE.....	GWB-13
OPERATING INCOME ADJUSTMENT #3 - RATE CASE EXPENSE.....	GWB-14
OPERATING INCOME ADJUSTMENT #4 - PROPERTY TAX EXPENSE.....	GWB-15
OPERATING INCOME ADJUSTMENT #5 - INCOME TAXES .....	GWB-16
OPERATING INCOME ADJUSTMENT #6 - ACC FEE INLCUED IN EXPENSE.....	GWB-17
OPERATING INCOME ADJUSTMENT #7 - OUT OF PERIOD EXPENSE .....	GWB-18
OPERATING INCOME ADJUSTMENT #8 - FOREIGN EXCHANGE ADJUSTMENT.....	GWB-19
OPERATING INCOME ADJUSTMENT #9 - CORPORATE EXPENSE ALLOCATION .....	GWB-20

**WASTEWATER SCHEDULES**

REVENUE REQUIREMENT .....	GWB-1
GROSS REVENUE CONVERSION FACTOR.....	GWB-2
RATE BASE - ORIGINAL COST .....	GWB-3
SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS.....	GWB-4
RATE BASE ADJUSTMENT #1 - ACCUMULATED DEFERRED INCOME TAXES .....	GWB-5
RATE BASE ADJUSTMENT #2 - ADVANCES IN AID OF CONSTRUCTION .....	GWB-6
Not Used .....	GWB-7
Not Used .....	GWB-8
Not Used .....	GWB-9
OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED .....	GWB-10
SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR.....	GWB-11
OPERATING INCOME ADJUSTMENT #1 - RECLASSIFY POWER TO WATER.....	GWB-12
OPERATING INCOME ADJUSTMENT #2- DEPRECIATION EXPENSE.....	GWB-13
OPERATING INCOME ADJUSTMENT #3 - FOREIGN EXCHANGE ADJUSTMENT.....	GWB-14
OPERATING INCOME ADJUSTMENT #4 - PROPERTY TAX EXPENSE .....	GWB-15
OPERATING INCOME ADJUSTMENT #5 - INCOME TAXES .....	GWB-16
OPERATING INCOME ADJUSTMENT #6 - RATE CASE EXPENSE.....	GWB-17
OPERATING INCOME ADJUSTMENT #7 - CORPORATE EXPENSE ALLOCATION .....	GWB-18

**ATTACHMENT**

Consumer Services Report.....	A
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**EXECUTIVE SUMMARY**  
**RIO RICO UTILITIES, INC., INC.**  
**DOCKET NO. WS-02676A-09-0257**

Rio Rico Utilities, Inc. ("Rio Rico" or "Company") is a public service corporation certificated to provide water and wastewater utility service. Rio Rico provides service to approximately 4,000 water-only customers and 2,000 combined water and wastewater customers in Santa Cruz County, Arizona.

On May 21, 2009, Rio Rico filed an application for a permanent rate increase for both its water and wastewater systems. For its water division, the Company states that it incurred an adjusted test year operating loss of \$214,606 resulting in a negative 2.54 percent rate of return. For its wastewater division, the Company reports a test year operating income of \$490,676, for a 13.96 percent rate of return.

For its water division, Rio Rico proposes a \$2,057,112, or 111.36 percent, revenue increase from \$1,847,256 to \$3,904,368. The proposed revenue increase would produce an operating income of \$1,048,484 for a 12.40 percent rate of return on an original cost rate base of \$8,455,517. The Company's proposed rates would increase the typical residential bill by \$22.22, or 111.45 percent, from \$19.94 to \$42.17.

For the water division, Staff recommends a \$1,052,240, or 56.96 percent, revenue increase from \$1,847,256 to \$2,899,496. Staff's proposed revenue increase would produce an operating income of \$610,795 for a 9.20 percent rate of return on an original cost rate base of \$6,639,072. The impact of Staff's recommended rates on the typical residential bill will be discussed in subsequent rate design testimony.

For its wastewater division, Rio Rico proposes a \$89,061, or 4.87 percent, revenue decrease from \$1,829,976 to \$1,740,915. The proposed revenue decrease would produce an operating income of \$435,994 for a 12.40 percent rate of return on an original cost rate base of \$3,516,078. The Company's proposed rates would decrease the typical residential bill by \$2.71, or 4.80 percent, from \$56.36 to \$53.65.

For the wastewater division, Staff recommends a \$364,303, or 19.91 percent, revenue decrease from \$1,829,976 to \$1,465,673. Staff's proposed revenue decrease would produce an operating income of \$280,746 for a 9.20 percent rate of return on an original cost rate base of \$2,994,399. The impact of Staff's recommended rates on the typical residential bill will be discussed in subsequent rate design testimony.

1     **INTRODUCTION**

2     **Q.     Please state your name, occupation, and business address.**

3     A.     My name is Gerald Becker. I am a Public Utilities Analyst V employed by the Arizona  
4            Corporation Commission (“ACC” or “Commission”) in the Utilities Division (“Staff”).  
5            My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

6  
7     **Q.     Briefly describe your responsibilities as a Public Utilities Analyst V.**

8     A.     I am responsible for the examination and verification of financial and statistical  
9            information included in utility rate applications. In addition, I develop revenue  
10           requirements, prepare written reports, testimonies, and schedules that include Staff  
11           recommendations to the Commission. I am also responsible for testifying at formal  
12           hearings on these matters.

13  
14    **Q.     Please describe your educational background and professional experience.**

15    A.     I received a Masters of Business Administration with an emphasis in Accounting from  
16            Pace University. I am a Certified Public Accountant and a Certified Internal Auditor.

17  
18            I have participated in multiple rate, financing and other regulatory proceedings. I attended  
19            the National Association of Regulatory Utility Commissioners (“NARUC”) Utilities Rate  
20            School.

21  
22            I began employment with the Commission as a utilities regulatory analyst in April 2006.  
23            Prior to joining the Commission, I worked as an Auditor at the Department of Economic  
24            Security and Department of Revenue in the Taxpayer Assistance Section. Prior to those  
25            jobs, I worked for 15 years as an Auditor, Analyst, Financial Analyst, and Budget  
26            Manager at United Illuminating, an investor owned electric company in New Haven, CT.

1 **Q. What is the scope of your testimony in this case?**

2 A. I am presenting Staff's analysis and recommendations in the areas of rate base and revenue  
3 requirement, Staff's analysis of operating revenues and expenses regarding Rio Rico  
4 Utilities, Inc. ("Rio Rico" or "Company") application for a permanent rate increase. At a  
5 later date, I will also present Staff's recommendations regarding the Company's rate  
6 design.

7  
8 **Q. What is the basis of your recommendations?**

9 A. I performed a regulatory audit of Rio Rico's application to determine whether sufficient,  
10 relevant, and reliable evidence exists to support the Company's requested rate increase.  
11 The regulatory audit consisted of examining and testing the financial information,  
12 accounting records, and other supporting documentation and verifying that the accounting  
13 principles applied were in accordance with the Commission-adopted NARUC Uniform  
14 System of Accounts ("USOA").  
15

16 **BACKGROUND**

17 **Q. Please review the background of this application.**

18 A. Rio Rico is a public service corporation certificated to provide water and wastewater  
19 utility service. Rio Rico provides service to approximately 4,000 water-only customers  
20 and 2,000 combined water and wastewater customers in Santa Cruz County, Arizona.

21  
22 In December 2005, Rio Rico became a wholly-owned subsidiary of Algonquin Water  
23 Resources. Algonquin Water Resources is Rio Rico's only shareholder. Algonquin Water  
24 Resources is a wholly-owned subsidiary of Algonquin Power Income Fund<sup>1</sup> (Algonquin

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<sup>1</sup> Algonquin Power Income Fund is an investment trust that owns or has interests in 71 companies in the United States and Canada, including 41 hydroelectric facilities, 5 natural gas cogeneration facilities, and 15 water and sewer facilities.

1 Water Resources and Algonquin Power Income Fund are collectively referred to as  
2 “Algonquin”).

3

4 In addition to Rio Rico, Algonquin owns seven other companies located in Arizona:  
5 Litchfield Park Service Company, Gold Canyon Sewer Company, Black Mountain Sewer  
6 Corporation, Entrada Del Oro Sewer Company, Northern Sunrise Water Company, Inc.,  
7 Southern Sunrise Water Company, Inc., and Bella Vista Water Company. Algonquin has  
8 a contract to manage and operate Rio Rico. Algonquin also owns and/or operates utility  
9 systems in Illinois and Texas.

10

11 **Q. What are the primary reasons for the Company’s requested permanent rate**  
12 **increase?**

13 A. According to the Company, the primary reasons for the requested increase of water rates  
14 are to recover increased operating expenses and to earn its authorized rate of return on its  
15 rate base, which has increased significantly since the last rate case.

16

17 **CONSUMER SERVICE**

18 **Q. Please provide a brief history of customer complaints received by the Commission**  
19 **regarding Rio Rico.**

20 A. A review of the Commission’s Consumer Services database revealed the following for Rio  
21 Rico:

22

23 2006: four complaints - one billing, three new service; ten inquiries - five billing, one new  
24 service, one rates/tariffs, three construction; zero opinions.

25

26 2007: two complaints - billing; six inquiries - two billing, one quality of service, one  
27 rates/tariffs, two other; and one opinion - rates/tariffs.

28

1 2008: nine complaints - three billing, two deposits, two new service, one quality of  
2 service, one disconnect/terminations; eight inquiries - two billing, two new service, one  
3 disconnect/terminations, one rates/tariffs, two construction; and zero opinions.  
4

5 2009: eight complaints - five billing, one deposits, one new service, one service; five  
6 inquiries - one billing, two deposits, one disconnect/terminations, one miscellaneous; zero  
7 opinions.  
8

9 All complaints have been resolved and closed.  
10

## 11 COMPLIANCE

12 **Q. Please provide a summary of the compliance status of Rio Rico .**

13 A. A check of the ACC's Compliance Database indicates that there are currently no  
14 delinquencies for Rio Rico.  
15

## 16 SUMMARY OF PROPOSED REVENUES

17 **Q. Please summarize the Company's filing.**

18 A. For its water division, Rio Rico proposes a \$2,057,112, or 111.36 percent, revenue  
19 increase from \$1,847,256 to \$3,904,368. The proposed revenue increase would produce  
20 an operating income of \$1,048,484 for a 12.40 percent rate of return on an original cost  
21 rate base of \$8,455,517. The Company's proposed rates would increase the typical  
22 residential bill by \$22.22, or 111.45 percent, from \$19.94 to \$42.17.  
23

24 For its wastewater division, Rio Rico proposes a \$89,061, or 4.87 percent, revenue  
25 decrease from \$1,829,976 to \$1,740,915. The proposed revenue decrease would produce  
26 an operating income of \$435,994 for a 12.40 percent rate of return on an original cost rate  
27 base of \$3,516,078. The Company's proposed rates would decrease the typical residential  
28 bill by \$2.71, or 4.80 percent, from \$56.36 to \$53.65.  
29

1 **Q. Please summarize Staff's recommended revenue.**

2 A. For the water division, Staff recommends a \$1,052,240, or 56.96 percent, revenue increase  
3 from \$1,847,256 to \$2,899,496. Staff's proposed revenue increase would produce an  
4 operating income of \$610,795 for a 9.20 percent rate of return on an original cost rate base  
5 of \$6,639,072. The impact of Staff's recommended rates on the typical residential bill  
6 will be discussed in subsequent rate design testimony.

7

8 For the wastewater division, Staff recommends a \$364,303, or 19.91 percent, revenue  
9 decrease from \$1,829,976 to \$1,465,673. Staff's proposed revenue decrease would  
10 produce an operating income of \$280,746 for a 9.20 percent rate of return on an original  
11 cost rate base of \$2,994,399. The impact of Staff's recommended rates on the typical  
12 residential bill will be discussed in subsequent rate design testimony.

13

14 **Q. What test year did Rio Rico use in this filing?**

15 A. Rio Rico's rate filing is based on the twelve months ended December 31, 2008 ("test  
16 year").

17

18 **Q. Please summarize the rate base and operating income recommendations and  
19 adjustments addressed in your testimony for Rio Rico.**

20 A. My testimony addresses the following issues:

21

22 **Water Division**

23 Plant in Service – This adjustment has no net effect on Plant in Service but reclassifies  
24 plant between accounts to accommodate application of the correct depreciation rates.

25

1           Contributions in Aid of Construction (“CIAC”) – This adjustment increases CIAC by  
2           \$1,087,409 from \$20,188,921 to \$21,276,330 to reflect additions to CIAC not recorded in  
3           2006 and 2008.

4  
5           Accumulated Deferred Income Taxes (“ADIT”) – This adjustment reduces the ADIT debit  
6           (receivable) balance by \$680,314 from \$778,203 to \$97,889 based on Staff’s review of the  
7           Company’s supporting documentation.

8  
9           Advances in Aid of Construction (“AIAC”) – This adjustment increases the AIAC balance  
10          by \$48,724 from \$73,648 to \$122,372. This adjustment restates the account balance to  
11          agree with the supporting records for this account.

12  
13          Purchased Power Expense – This adjustment reduces the Purchased Power amount by  
14          \$48,005 from \$441,501 to \$393,496 for amounts that should have been charged to the  
15          wastewater division. A complementary adjustment is posted to increase the Purchased  
16          Power expense in the wastewater division.

17  
18          Depreciation Expense – This adjustment increases operating expenses by \$891 from  
19          \$463,297 to \$464,188 to reflect application of Staff’s recommended depreciation rates by  
20          account to Staff’s recommended account balances.

21  
22          Regulatory Commission Expense – This adjustment decreases expenses by \$17,564 from  
23          \$17,564 to \$0 to remove non-ongoing costs that are in excess of the estimated cost of the  
24          current proceeding.

25

1           Property Tax Expense – This adjustment decreases operating expense by \$42,163 from  
2           \$130,373 to \$88,210 to reflect application of the revenue dependent modified Arizona  
3           Department of Revenue method normally adopted by the Commission.

4  
5           Income Tax Expense – This adjustment increases operating expenses by \$126,374 from  
6           negative \$134,909 to \$8,535 to reflect the statutory income tax obligation on Staff's  
7           adjusted test year taxable income.

8  
9           Outside Services and Outside Services-Other – This adjustment removes \$27,820 and  
10          \$17,190, respectively, for a total of \$45,010 for Arizona Corporation Commission  
11          assessments collected by the Company. Staff recommends "pass-through" treatment of  
12          these assessments as opposed to recovery as operating expenses.

13  
14          Outside Services-Other – This adjustment decreases operating expenses by \$14,477 for  
15          expenses that were incurred outside of the test year.

16          Foreign Exchange Adjustment – This adjustment decreases operating expenses by  
17          removing \$46,692 to revalue cost allocations from Canada by reflecting the relative  
18          strength of the US dollar versus the Canadian dollar.

19  
20          Corporate Expense Allocations – This adjustment decreases test year operating expenses  
21          by \$95,704 for amounts incurred but not considered to benefit captive customers of the  
22          Rio Rico system.

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**Wastewater Division**

Advances in Aid of Construction (“AIAC”) – This adjustment increases the AIAC balance by \$238,782 from negative \$861 to \$237,921. This adjustment restates the account balance to be in agreement with the supporting records for this account.

Accumulated Deferred Income Taxes (“ADIT”) – This adjustment reduces the ADIT debit (receivable) balance by \$282,897 from \$323,602 to \$40,705 based on Staff’s review of the Company’s supporting documentation.

Purchased Power Expense – This adjustment increases the Purchased Power amount by \$48,005 from \$17,426 to \$65,431 for amounts that were charged to the water division in error. A complementary adjustment is posted to decrease the Purchased Power expense in the water division.

Depreciation Expense – This adjustment decreases operating expenses by \$848 from \$252,672 to \$251,824 to reflect application of Staff’s recommended depreciation rates by account to Staff’s recommended account balances.

Foreign Exchange Adjustment – This adjustment decreases operating expensing by \$17,284 to revalue cost allocations from Canada by reflecting the relative strength of the US dollar versus the Canadian dollar.

Property Tax Expense – This adjustment decreases operating expense by \$4,637 from \$91,705 to \$87,068 to reflect application of the revenue dependent modified Arizona Department of Revenue method normally adopted by the Commission.

1            Income Tax Expense – This adjustment increases operating expenses by \$3,110 from  
2            \$308,456 to \$311,566 to reflect the income tax obligation on Staff's adjusted test year  
3            taxable income.

4  
5            Regulatory Commission Expense – This adjustment decreases expenses by \$994 from  
6            \$994 to \$0 to remove non-ongoing costs that are in excess of the estimated cost of the  
7            current proceeding.

8  
9            Corporate Expense Allocations – This adjustment decreases test year operating expenses  
10           by \$32,298 for amounts incurred but not considered to benefit the captive customers of the  
11           Rio Rico system.

12  
13        **RATE BASE**

14        Fair Value Rate Base

15        **Q.     Did the Company prepare a Schedule showing the elements of Reconstruction Cost**  
16        **New Rate Base?**

17        A.     No, the Company did not. The Company requested that its original cost rate base  
18        (“OCRB”) be treated as its fair value rate base.

19  
20        **WATER DIVISION**

21        Rate Base Summary

22        **Q.     Please summarize Staff's adjustments to Rio Rico's rate base shown on Schedules**  
23        **GWB-3 and GWB-4.**

24        A.     Staff's adjustments to Rio Rico's rate base resulted in a net decrease of \$1,816,447 from  
25        \$8,455,519 to \$6,639,072. This decrease reflects Staff's recalculation of Accumulated

1           Deferred Income Taxes (“ADIT”), Contributions in Aid of Construction (“CIAC”), and  
2           Advances in Aid of Construction (“AIAC”).

3

4           Rate Base Adjustment No. 1 – Reclassification of Plant

5           **Q.    Does Staff have concerns regarding the Company proposed grouping of plant**  
6           **account balances?**

7           A.    The Company is proposing \$372,910 and \$759,861 on accounts 320 and 330, respectively,  
8           as shown on Schedule GWB-4.  Accounts 320 and 330 are capstone accounts for  
9           subsidiary accounts 320.1, 320.2 and 330.1 and 330.2, respectively.  Accordingly, these  
10          groupings of accounts do not bear a unique depreciation rate for all of the respective sub-  
11          accounts.

12

13          **Q.    What is Staff’s recommendation?**

14          A.    Staff recommends reclassifying the balance in account 320 to account 320.1 and the  
15          balance in account 330 to account 330.1, as shown on Schedules GWB-4 and GWB-5.

16

17          Rate Base Adjustment No. 2 – Contributions in Aid of Construction (“CIAC”)

18          **Q.    What amount is the Company proposing for gross CIAC?**

19          A.    The Company is proposing CIAC of \$20,188,921, as shown on Schedule GWB-6.

20

21          **Q.    Does the Company’s proposed CIAC balance reflect all of the CIAC that it has**  
22          **received?**

23          A.    No.

1 **Q. Please explain.**

2 A. Staff's review of the Company's calculation of CIAC revealed that the Company did not  
3 record all of its CIAC. In the years 2006 and 2008, the unrecorded amounts are \$797,060  
4 and \$290,349, respectively. Staff identified unrecorded CIAC on an overall Company  
5 basis. Staff has provisionally assigned \$797,060 and \$290,349, for the years 2006 and  
6 2008, respectively, to the water division, since the water division has the larger rate base  
7 and large CIAC balances. At the time of this filing, a response from the Company to  
8 properly assign the portions of the unrecorded CIAC to the water and wastewater systems  
9 is pending. Further adjustments may be addressed in Staff's Surrebuttal testimony.

10

11 **Q. What is Staff's recommendation?**

12 A. Staff recommends increasing the CIAC balance by \$1,087,409 to reflect CIAC received,  
13 as shown on Schedules GWB-4 and GWB-6.

14

15 Rate Base Adjustment No. 3 – Accumulated Deferred Income Taxes (“ADIT”) Both Systems

16

17 **Note: The following testimony on ADIT applies to both the water and wastewater divisions**  
18 **and will not be repeated in the wastewater section.**

19

20 ADIT-General Information

21 **Q. What is the Company proposing for ADIT?**

22 A. The Company proposes that it has a \$1,101,805 total deferred income tax debit and  
23 proposes to allocate to its water and wastewater divisions at 70.63 percent and 29.37  
24 percent, for allocated amounts of \$778,203 and \$323,602, respectively.

1 **Q. What are ADITs?**

2 A. ADITs are the accumulated temporary tax differences between income taxes calculated for  
3 rate-making purposes and the actual income taxes that a company pays to the United  
4 States Treasury and the State of Arizona.

5  
6 **Q. What is the primary cause of the temporary income tax differences?**

7 A. The primary cause of the income tax difference is the straight line depreciation method  
8 used for rate making purposes as compared to the accelerated depreciation method used  
9 for federal and state income tax reporting purposes.

10

11 The NARUC USOA requires utilities to use straight line depreciation. Straight line  
12 depreciation, in the early years of an asset's life, typically results in a lower depreciation  
13 expense which, in turn, results in a higher income tax. Conversely, the Internal Revenue  
14 Service allows companies to use accelerated depreciation. Accelerated depreciation, in  
15 the early years of an asset's life, typically results in a higher depreciation expense which,  
16 in turn, results in lower income taxes. In the later years of an asset life, the book  
17 depreciation expense the tax depreciation and the temporary differences begin to reverse.  
18 Eventually, the ADIT balance reduces to zero when the asset is fully depreciated under  
19 straight line depreciation.

20

21 **Q. Would you provide an example of how depreciation expense affects income taxes?**

22 A. Yes. In the example that follows, income taxes are calculated for a plant asset costing  
23 \$6,000 with a five year useful life. The difference in income taxes is reflected in the  
24 ADIT balance.

- 1           \$6,000 Asset
- 2           Accelerated Tax Recovery Period = 3 years
- 3           Accelerated Depreciation Expense Used for IRS = \$6,000 / 3 years = \$2,000
- 4           Ratemaking Life = 5 years
- 5           Ratemaking Depreciation Expense = \$6,000 / 5 years = \$1,200
- 6           Tax Rate = 40%
- 7

Year	Income Tax Effect of Depreciation Expense on State and Federal Income Taxes	Income Tax Effect of Depreciation Expense on Books for Rate Making Purposes	Current Year Deferred Income Tax	Accumulated Deferred Income Tax Balance
1	\$2,000 x 40% = \$800	\$1,200 x 40% = \$480	\$800 - \$480 = \$320	\$320
2	\$2,000 x 40% = \$800	\$1,200 x 40% = \$480	\$800 - \$480 = \$320	\$320 + \$320 = \$640
3	\$2,000 x 40% = \$800	\$1,200 x 40% = \$480	\$800 - \$480 = \$320	\$640 + \$320 = \$960
4	\$ 0 x 40% = \$ 0	\$1,200 x 40% = \$480	\$ 0 - \$480 = (\$480)	\$960 - \$480 = \$480
5	\$ 0 x 40% = \$ 0	\$1,200 x 40% = \$480	\$ 0 - \$480 = (\$480)	\$480 - \$480 = \$ 0

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**Q. Why is ADIT normally a reduction to rate base?**

A. ADIT is normally a reduction to rate base to reflect that in the early years of an asset's life customers are providing more in cash for income taxes than the company actually has to pay. While the company has this additional cash, it represents cost-free capital provided by the ratepayers. In the example above, the ADIT balances by year are: year 1, \$320 credit; year 2, \$640 credit; year 3, \$960 credit, year 4, \$480 credit; year 5, zero balance. A credit balance is a deduction from rate base, and a debit balance is an addition to rate base.

**Q. If ADITs normally have credit balances that are deducted from rate base, why is the Company proposing to add the ADIT to rate base?**

A. The Company is proposing to add the ADIT to rate base because the Company has calculated a debit ADIT.



1 \$45,888,844 less Accumulated Depreciation of \$17,582,689, less CIAC of \$16,993,123, to  
2 derive an net book basis value of \$11,313,032. The Company further proposes that the  
3 difference between the \$13,584,404 and adjusted book value of \$11,313,032, or  
4 \$2,271,372 represents future tax depreciation in excess of book depreciation that is  
5 expected to be realized. The Company multiplies the difference of \$2,271,372 times a tax  
6 rate of 38.6 percent to calculate a tax asset of \$876,750 (\$2,271,372 times 38.6 percent)  
7

8 **Q. Please provide a summary of the Company's calculation for the fixed asset**  
9 **component of its ADIT calculation.**

10 **A.** The Company's calculation is as follows:

11

Company's Filing	Book Basis	Tax Basis	Difference
Plant	\$ 45,888,844	\$ 25,520,685	
Accumulated Depreciation	\$ (17,582,689)	\$ (11,936,282)	
CIAC Net	<u>\$ (16,993,123)</u>		
Net	\$ 11,313,032	\$ 13,584,404	\$ 2,271,372
Tax Rate			38.60%
Est. ADIT debit			\$ 876,750

12

13 **Q. Does Staff agree with the Company's calculation?**

14 **A.** No.

15

16 **Q. Did Staff find any errors in the Company's calculation of ADIT associated with its**  
17 **fixed assets?**

18 **A.** Yes. Staff found numerous errors in the Company's calculation.

19

20 **Q. Please explain.**

21 **A.** Staff reviewed the calculation of the book and tax values proposed by the Company. Staff  
22 noted that in the years from 2000-2005, the Company's book basis plant additions

1 included both transfers from Construction Work in Progress ("CWIP") and contributed  
2 property ("CIAC Property"). However, in comparing the amounts recorded as additions  
3 to the book and the amounts recorded as additions to tax values, Staff noted that the  
4 Company improperly included the value of its CIAC property as an addition to its tax  
5 basis amounts, i.e. the Company included CIAC funded plant, which has no tax basis in  
6 its tax basis plant value. The excess amounts included in tax basis additions by year are:  
7

**CIAC incorrectly  
recorded in Tax Basis:**

Year	Amount
2000	\$ 1,942
2001	\$ 16,264
2002	\$ 480,374
2003	\$ 106,542
2004	\$ 694,986
2005	\$ <u>2,059,913</u>
Total	\$ 3,360,021

8 **Q. What is the net result of the incorrect inclusion of CIAC funded plant in the**  
9 **Company's tax basis?**

10 A. The Company's tax basis value is overstated by \$3,360,021.

11  
12 **Q. Are there other concerns regarding the book versus tax additions?**

13 A. Yes. Staff investigated further and determined that in the years 2006 and 2008, the  
14 Company failed to record \$1,087,409 million of CIAC to its CIAC account. This  
15 adjustment to CIAC reduces the rate base by a corresponding amount as shown on  
16 Schedule GWB-4.  
17

1 **Q. Based upon the above concerns, what does Staff recommend for the fixed assets**  
2 **component of ADIT?**

3 A. Staff recommends a \$479 ADIT credit for the fixed asset component. This is a liability  
4 (reduction to rate base) and its calculation is summarized below:

5

Company's Filing:	Book Basis	Tax Basis	Difference
Plant	\$45,888,844	\$ 25,520,685	
Accumulated Depreciation	\$ (17,582,689)	\$ (11,936,282)	
CIAC Net	<u>\$ (16,993,123)</u>		
Net	\$ 11,313,032	\$ 13,584,404	\$ 2,271,372
Less: CIAC in Tax Basis			
2000		\$ (1,942)	\$ (1,942)
2001		\$ (16,264)	\$ (16,264)
2002		\$ (480,374)	\$(480,374)
2003		\$ (106,542)	\$(106,542)
2004		\$(694,986)	\$(694,986)
2005		<u>\$(2,059,913)</u>	<u>\$(2,059,913)</u>
Subtotal	\$11,313,032	\$10,224,383	\$ (1,088,649)
Less CIAC not recorded on Books			
2006	\$797,060		\$ 797,060
2008	<u>\$290,349</u>		<u>\$ 290,349</u>
Subtotal	\$10,225,623	\$10,224,383	\$ (1,240)
Tax Rate			38.60%
<b>Staff recommended ADIT for Fixed Assets Component</b>			<b>\$ (479)</b>

6

7 ADIT-AIAC Associated Component

8 **Q. What are the other two components of ADIT?**

9 A. The Company also requests ADIT treatment for its AIAC balance of \$72,787 and the  
10 expected future tax benefits of Net Operating Loss Carryforward of \$510,259, for  
11 expected benefits of \$28,096 and \$196,960, respectively.

1 **Q. Does Staff agree with ADIT treatment for its AIAC balance?**

2 A. No.

3  
4 **Q. Please explain.**

5 A. Staff does not agree with the AIAC balance itself (see Schedules GWB-4 and GWB-6),  
6 but agrees with the Company's basic methodology (see next paragraph). In response to  
7 Staff DR 2.3, the Company reported that its total AIAC should be \$122,372 for its water  
8 division and \$237,921 for its wastewater division, or \$360,293 for both, for a total  
9 increase of \$287,506 over the \$72,787 combined AIAC balance in its application.

10

11 Regarding the basic methodology, Staff agrees that to the extent that Company pays taxes  
12 on AIAC's received, a future tax benefit is created. That is, a temporary difference or  
13 ADIT balance that is created by the Company paying taxes before it makes any AIAC  
14 refunds which create a tax basis in the plant constructed, which then entitles the Company  
15 to record tax basis depreciation on that plant. Thus, the AIAC balance on the Company's  
16 books represents the unrefunded AIAC received and can be used in this instance as the  
17 basis for calculation of the future tax benefit, or ADIT debit.

18

19 **Q. What does Staff recommend regarding the ADIT treatment for its AIAC balance?**

20 A. Staff recommends a combined water and wastewater ADIT debit of \$139,073 (Staff  
21 recommended AIAC balance for both systems of \$360,293 times 38.6% tax rate) for the  
22 computation of ADIT related to the Company's AIAC balance.

1 ADIT-Net Operating Loss Carryforward

2 **Q. The third and remaining component of the Company's ADIT calculation is**  
3 **associated with its Net Operating Loss ("NOL") Carryforward. Does Staff agree**  
4 **with the Company's proposed treatment of NOL's for inclusion in its ADIT**  
5 **calculation?**

6 A. No, the NOL represents losses incurred by the Company when the Company failed to earn  
7 its authorized rate of return or any other taxable profit in previous years. In past  
8 proceedings, the Commission authorized rates included an income tax component and the  
9 Company recovered those amounts from ratepayers, regardless of whether the Company  
10 earned a profit. The inclusion of a NOL component in the ADIT calculation means that  
11 ratepayers would essentially be paying a carrying charge on the Company's expected  
12 future recovery of a tax benefit, and this would be unfair to ratepayers since they have  
13 already paid their share of income tax expense in rates.

14  
15 **Q. Are there other considerations?**

16 A. Yes. Even though, the Company is entitled under certain accounting pronouncements to  
17 record the benefit of NOLs on its books, the Company should not be allowed to use that  
18 benefit for ratemaking purposes if it is inequitable to ratepayers.

19  
20 **Q. What does Staff recommend?**

21 A. Staff recommends that the value of NOLs not be considered in the Company's ADIT  
22 calculation.

23

1 **Q. In summary, what amount does Staff recommend for total ADIT to be allocated to**  
2 **the Company's two divisions?**

3 A. Staff recommends a net ADIT debit of \$138,594 comprised of a \$479 ADIT credit  
4 associated with the fixed assets component, offset by a \$139,073 ADIT debit associated  
5 with the Company's AIAC balance.

6  
7 To summarize:

	<u>Per Company</u>	<u>Per Staff</u>
8 Fixed Asset Component	\$ 876,750	\$ (479)
9 AIAC Component	\$ 28,096	\$139,073
10 NOL Component	<u>\$ 196,960</u>	<u>\$ -0-</u>
11 Total	\$1,101,805	\$138,594

12  
13  
14 Staff recommends an overall combined water and wastewater ADIT debit of \$138,594 be  
15 allocated to each system as follows:

	<u>ADIT</u>	<u>As Filed</u>	<u>Staff</u> <u>Adjustment</u>	<u>Staff</u> <u>Recommended</u>
16 Water		\$ 778,203	\$ (680,314)	\$ 97,889
Wastewater		<u>\$ 323,602</u>	<u>\$ (282,897)</u>	<u>\$ 40,705</u>
Total		\$1,101,805	\$ (963,211)	\$ 138,594

17  
18 Rate Base Adjustment No. 4 – Advances In Aid of Construction

19 **Q. What does the Company propose?**

20 A. The Company proposes AIAC in the amount of \$73,648 for its water division.

1 **Q. What adjustments did Staff make to AIAC?**

2 A. Based on Staff's review, Staff recommends increasing AIAC by \$48,724 to \$122,372 to  
3 reflect the amounts per the Company's supporting documentation.

4  
5 **Q. What is Staff's recommendation?**

6 A. Staff recommends AIAC of \$122,372, as shown on Schedules GWB-4 and GWB-8.  
7

8 **OPERATING INCOME WATER DIVISION**

9 Operating Income Summary

10 **Q. What are the results of Staff's analysis of Test Year revenues, expenses and**  
11 **operating income?**

12 A. As shown in Schedules GWB-10 and GWB-11, Staff's analysis resulted in Test Year  
13 revenues of \$1,847,256, expenses of \$1,879,512 and operating income (loss) of (\$32,256).  
14

15 Operating Income Adjustment No. 1 – Purchased Power Expense

16 **Q. What did the Company propose for Purchased Power expense?**

17 A. The Company proposed \$441,501 for Purchased Power, as shown on Schedule GWB-11.  
18

19 **Q. What adjustment did Staff make to Purchased Power expense?**

20 A. Staff reduced the Purchased Power expense by \$48,005 from \$441,501 to \$393,496 for  
21 amounts that should have been charged to the wastewater division. A complementary  
22 adjustment is posted to increase the Purchased Power expense in the wastewater division.  
23

24 **Q. What is Staff's recommendation?**

25 A. Staff recommends decreasing operating expenses by \$48,005, as shown on Schedules  
26 GWB-11 and GWB-12.

1 Operating Income Adjustment No. 2 – Depreciation Expense

2 **Q. What is Rio Rico proposing for depreciation expense?**

3 A. Rio Rico is proposing depreciation expense of \$463,297.

4

5 **Q. What adjustment did Staff make to depreciation expense?**

6 A. Staff adjusted depreciation expense to reflect application of the Staff-recommended  
7 depreciation rates to the Staff-recommended plant balances by account.

8

9 **Q. What is Staff's recommendation?**

10 A. Staff recommends increasing depreciation expense by \$891, from \$463,297 to \$464,188,  
11 as shown on Schedules GWB-11 and GWB-13.

12

13 Operating Income Adjustment No. 3 – Regulatory Commission (Rate Case) Expense

14 **Q. What Regulatory Commission (Rate Case) Expense is the Company proposing?**

15 A. The Company proposes \$70,000 per year for the instant rate case expense for its water  
16 division, plus \$17,564 of residual rate case expense, as shown in Schedule GWB-11, lines  
17 21 and 20, respectively.

18

19 **Q. What adjustment did Staff make to Regulatory Commission (Rate Case) Expense?**

20 A. Staff reduced Regulatory Commission Expense by \$17,564, as this amount is not an on-  
21 going cost.

22

23 **Q. What is Staff's recommendation?**

24 A. Staff recommends decreasing Regulatory Commission Expense by \$17,564 to \$0, as  
25 shown on Schedules GWB-11 and GWB-14.

26

1 Operating Income Adjustment No. 4 – Property Taxes

2 **Q. What is Rio Rico proposing for Test Year Property Taxes for its water division?**

3 A. Rio Rico is proposing \$130,373 for Test Year property taxes. The Company's proposed  
4 property taxes are calculated on the modified Arizona Department of Revenue ("ADOR")  
5 methodology typically adopted by the Commission for water and wastewater utilities. The  
6 results from using this methodology are primarily dependent upon the test year and  
7 proposed revenues. In other words, each revenue requirement has its own property tax  
8 expense in the same manner as each operating income has its own income tax expenses.  
9 Although the results for this methodology are frequently referred to as Test Year amounts,  
10 in fact, the results are representative of the average expected property tax over a  
11 subsequent three-year period based partially on proposed revenues. The Company's  
12 calculation of proposed property taxes is representative of proposed revenues. Therefore,  
13 if the Commission adopts any revenue requirement other than that proposed by the  
14 Company, the Company's proposed property tax would not correspond with the adopted  
15 revenues.

16  
17 **Q. Has Staff developed a solution to address the dependent relationship between**  
18 **Property Tax Expense and revenues?**

19 A. Yes. Staff has included a factor for property taxes in the Gross Revenue Conversion  
20 Factor ("GRCF") (see Schedule GWB-2) that automatically adjusts the revenue  
21 requirement for changes in revenue in the same way that income taxes are adjusted for  
22 changes in operating income. This flexible method will accurately reflect Property Tax  
23 Expense at any authorized revenue level. This refinement removes the need to include  
24 proposed revenues in the calculation of Test Year Property Tax Expense and allows for  
25 accurate calculation of Property Tax Expense at the Test Year revenue level.

1 **Q. What did Staff calculate for Test Year Property Tax Expense?**

2 A. Staff calculated \$88,210 for Test Year Property Tax Expense as shown in Schedule GWB-  
3 15.<sup>3</sup>

4  
5 **Q. What is Staff recommending?**

6 A. Staff recommends decreasing Test Year Property Tax Expense by \$42,163 from \$130,373  
7 to \$88,210 as shown on Schedule GWB-15. Staff further recommends adoption of its  
8 GRCF that includes a factor for Property Tax Expense as shown in Schedule GWB-2.

9  
10 Operating Income Adjustment No. 5 – Income Taxes

11 **Q. What is the Company proposing for test year Income Tax Expense?**

12 A. Rio Rico is proposing a negative \$134,909 for test year Income Tax Expense.

13  
14 **Q. Did Staff make any adjustments to test year Income Tax Expense?**

15 A. Yes. Staff's adjustment reflects Staff's calculation of the income tax expense based upon  
16 Staff's adjusted test year taxable income, as shown on Schedule GWB-16.

17  
18 **Q. What is Staff's recommendation?**

19 A. Staff recommends increasing test year Income Tax Expense by \$126,374, from negative  
20 \$134,909 to negative \$8,535, as shown on Schedules GWB-11 and GWB-16.

21  
22 Operating Income Adjustment No. 6 – ACC Assessment included in Expense

23 **Q. What is the Company proposing?**

24 A. Rio Rico is proposing amounts that include \$45,010 of ACC assessments in its expenses.

25

---

<sup>3</sup> Schedule GWB-15 also shows calculations for Property Tax Expense for Staff's recommended revenue.

1 **Q. Did Staff make any adjustments to the related accounts?**

2 A. Yes. Staff recommends "pass-through" treatment of ACC assessments, as opposed to  
3 recovery as operating expenses. Staff's adjustments are reflected in accounts Outside  
4 Services and Outside Services-Other.

5  
6 **Q. What is Staff's recommendation?**

7 A. Staff recommends decreasing Outside Services by \$27,820 and Outside Services-Other by  
8 \$17,190, for a total of \$45,010, as shown in Schedules GWB-11 and GWB-17.

9  
10 Operating Income Adjustment No. 7 – Out of Period Expenses

11 **Q. Do the Company's proposed expenses include costs incurred outside of the test year?**

12 A. Yes, Staff's examination revealed that the Company's Outside Services-Other account  
13 includes \$14,477 of expenses that were incurred outside of the test year.

14  
15 **Q. Did Staff make any adjustments to remove these amounts?**

16 A. Yes. Staff's adjustment removes \$14,477 from the Outside Services-Other account.

17  
18 **Q. What is Staff's recommendation?**

19 A. Staff recommends decreasing Outside Services-Other by \$14,477, as shown in Schedules  
20 GWB-11 and GWB-18.

21  
22 Operating Income Adjustment No. 8 – Foreign Exchange Adjustment

23 **Q. What is the Company proposing?**

24 A. Rio Rico is proposing to include amounts spent in Canadian dollars at par with American  
25 dollars.

26

1 **Q. Did Staff make any adjustments to the related accounts?**

2 A. Yes. Staff determined that the recent exchange rate indicates that the Canadian dollar is  
3 worth approximately 94.2 cents, or 5.8 percent less than the US dollar.<sup>4</sup> Staff concludes  
4 that substantially all of the \$805,032 of Outside Services proposed by the Company  
5 originated in Canada, and should be revalued using a US dollar denomination.

6  
7 **Q. What is Staff's recommendation?**

8 A. Staff recommends decreasing Outside Services by \$46,692, as shown in Schedules GWB-  
9 11 and GWB-19.

10

11 Operating Income Adjustment No. 9 – Corporate Expense Allocation

12 **Q. What is the Algonquin Power Income Fund (“Fund” or “APIF”)?**

13 A. The Algonquin Power Income Fund, the ultimate parent of Rio Rico, is an unregulated  
14 company whose primary business activity is the acquisition and ownership of generation  
15 and infrastructure companies through security investments. At year-end 2007, APIF  
16 consisted of four main divisions as follows (2008 information not available):

---

<sup>4</sup> Based on currency exchange information on Yahoo Finance, December 15, 2009.

2007		
Divisions		
	Types of Facilities in Divisions	No. of Facilities
1	Hydroelectric	41
2	Cogeneration – Equity Interest Only	2
	Cogeneration – Own/Operate	3
3	Alternative Fuels – Equity Interest Only	3
	Alternative Fuels – Own/Operate	5
4	Infrastructure (Water & Sewer)	17
	<b>Total Number of Facilities</b>	<b>71</b>

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**Q. Please describe the position of Rio Rico within APIF's organizational structure.**

A. According to the organizational chart provided by the Company, Algonquin Power Income Fund owns Algonquin Holdco, who in turn, owns Algonquin Power Fund Canada, who in turn, owns Algonquin Power Income Fund, who in turn, owns Algonquin Power Fund America, who in turn, owns Algonquin Water Resources of America, who in turn, owns Rio Rico Utilities, Inc.

**Q. What is the primary goal of cost allocation between an unregulated affiliate and a regulated affiliate?**

A. The primary goal is the fair distribution of costs between the unregulated and regulated affiliate through proper allocation bases.

1 **Q. What effect do incorrectly allocated costs have on rate payers?**

2 A. When costs incurred primarily for the benefit of an unregulated affiliate's business are  
3 identified and allocated as overhead/common costs, then costs of the unregulated affiliate  
4 are shifted to the captive customers of the regulated utility. This cost shifting results in the  
5 captive customers of the regulated utility subsidizing the business operations of the  
6 unregulated affiliate. This harms customers by creating artificially higher rates. The costs  
7 of a regulated utility, such as Rio Rico, should only include those costs that would have  
8 been incurred on a "stand-alone basis;" in other words, only those costs that the regulated  
9 utility would have incurred by itself in the provision of service.

10

11 **Q. What is the amount of expense that was allocated from the APIF unregulated  
12 business operations to Rio Rico during the test year?**

13 A. The Company proposes to allocate \$137,703 to Rio Rico. Of the \$137,703, the Company  
14 proposes to allocate \$102,960 to its water division and \$34,747 to its wastewater division.

15

16 **Q. What is the basis of the allocation?**

17 A. The Company proposes to allocate approximately 3.49 percent of its 2008 budgeted  
18 expenditures of \$3,950,700, or \$137,703, to both Rio Rico systems.

19

20 **Q. How did the Company propose to make its allocation to Rio Rico?**

21 A. First, \$3.95 million in expenses from the unregulated affiliate were allocated to the  
22 infrastructure division based on a single allocation factor of 26.98 percent. Those costs  
23 were then allocated to each company within the infrastructure division based upon  
24 customer count.

1 **Q. Did Staff review the amounts comprising the \$3.95 million of expenses allocated from**  
2 **the unregulated affiliate to Rio Rico?**

3 A. Yes.  
4

5 **Q. Does Staff agree that rates should be set on budgeted amounts?**

6 A. No, Staff believes that any allocation should be based on actual results.  
7

8 **Q. According to the Company, what was the actual amount of monies spent in 2008**  
9 **subject to allocation?**

10 A. In response to Staff DR 4.2, the Company stated that 2008 expenses were \$5.27 million  
11 and that the corrected amount of allocated expenses to Rio Rico is \$168,464.  
12

13 **Q. Did the Company charge or allocate the \$5.27 million appropriately?**

14 A. No. First, there are computational errors in the Company's revised allocation of \$168,424.  
15 Staff has recalculated the revised allocation of \$168,424 to be \$183,683. Further, Staff  
16 reviewed the underlying invoices for the costs and determined that the Company did not  
17 identify the costs as direct costs (i.e., costs that can be identified with a particular service)  
18 or indirect costs (costs that cannot be identified with a particular service) consistent with  
19 the NARUC Guidelines for Cost Allocation and Affiliate Transactions. These guidelines  
20 require that the costs primarily attributable to a business operation should be, to the extent  
21 appropriate, directly assigned to that business operation.  
22

23 **Q. What amount of the \$5.27 million did Staff determine was attributable to (i.e., direct**  
24 **costs of) APIF or an affiliate?**

25 A. Based upon review of the actual supporting invoices provided by the Company, Staff  
26 determined that almost all of the costs were obviously attributable to the operations of the

1           APIF or one of its affiliates; therefore, Staff assigned 90 percent of the costs to APIF. The  
2           remaining 10 percent recognizes that the other affiliates receive a benefit from the  
3           common costs, and therefore, should be allocated a percentage greater than zero.

4  
5           **Q. Does Staff agree that all of the \$5.27 million of expenses allocated from the**  
6           **unregulated affiliate are allowable costs?**

7           A. No, Staff does not. As shown in wastewater schedule <sup>5</sup>GWB-20, Staff identified \$245,506  
8           in unallowable costs. For example, Staff identified \$94,197 for Canadian tax services,  
9           \$5,000 for charitable donations, and \$7,800 for a “hootenanny.”

10  
11           **Q. Does Staff agree with the Company’s calculation of the factor to allocate common**  
12           **costs?**

13           A. No, Staff does not.

14  
15           **Q. What allocation formula did the Company use to allocate common costs?**

16           A. The Company used the following formula: 17 utilities / 63 total facilities = 26.98%.

17  
18           **Q. Does Staff agree with the number of total facilities that the Company used in its**  
19           **formula?**

20           A. No, Staff does not. Staff attempted to match the number used in the formula to the  
21           information in the 2006 and 2007 Algonquin Power Income Fund Annual Reports;  
22           however, the numbers did not agree. The information in the 2006 and 2007 annual reports  
23           is as follows:

24  
25  

---

<sup>5</sup> Wastewater Schedule GWB-20 is the same as water schedule GWB-18.

Line No	Type of Facility	Year-End	Year-End	Average
		2006	2007	
1	Hydroelectric	48	41	44.5
2	Cogeneration – Equity Interest Only	2	2	2.0
3	Cogeneration – Own/Operate	3	3	3.0
4	Alternative Fuels – Equity Interest Only	3	3	3.0
5	Alternative Fuels – Own/Operate	14	5	9.5
6	Infrastructure (Water & Sewer)	15	17	16.0
7	<b>Total Number of Facilities</b>	<b>85</b>	<b>71</b>	<b>78</b>
8	<b>Allocation Percentage (1 / L7)</b>	<b>1.18%</b>	<b>1.42%</b>	<b>1.28%</b>

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**Q. Have the above relationships changed in 2008?**

A. The 2008 report for APIF contains less detail than indicated above, but does indicate the APIF now owns 42 renewable energy facilities, 11 thermal energy facilities, and 17 water and wastewater (infrastructure) facilities, for a total of 70 facilities. Staff recommends that the year-end information per the Algonquin Power 2008 annual report be used to determine the number of total facilities.

**Q. What data should the Company use for its common cost allocation formula?**

A. For the purposes of determining a fair allocation rate, Staff recommends an allocation rate of 1/70 or 1.43 percent to be applied to expenses that are appropriately included in the amounts subject to allocation.

1 **Q. Did Staff prepare a schedule of its recommended common costs and allocation**  
2 **factor?**

3 A. Yes. Staff's calculations are shown on wastewater Schedule GWB-20. Staff's  
4 recommended adjustment to each division is shown below:

	<u>As Filed</u>	<u>Staff Recomm.</u>	<u>Can \$ Adjustment</u>	<u>US \$\$ Adjustment</u>
Water	\$ 102,960	\$ 1,363	\$ (101,597)	\$ (95,704)
Wastewater	<u>\$ 34,747</u>	<u>\$ 460</u>	<u>\$ (34,287)</u>	<u>\$ (32,298)</u>
Total	\$ 137,707	\$ 1,823	\$ (135,884)	\$(128,002)

6  
7 **WASTEWATER DIVISION**

8 Rate Base Adjustment No. 1 – Accumulated Deferred Income Taxes (“ADIT”)

9 **Q. Is Staff's analysis of the ADIT for the wastewater division the same as for the water**  
10 **division, as discussed above?**

11 A. Yes, the Company calculated its ADIT for both divisions and allocates the ADIT based on  
12 relative rate base.

13  
14 **Q. Please restate the final recommendation as more fully described above for ADIT.**

15 A. Staff recommends a net ADIT debit of \$138,594 comprised of an ADIT credit of \$479  
16 associated with the fixed assets component offset by an ADIT debit of \$139,073  
17 associated with the Company's AIAC balance.

18 To summarize:

<u>ADIT</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>
Fixed Asset Component	\$ 876,750	\$ (479)
AIAC Component	\$ 28,096	\$ 139,073
NOL Component	<u>\$ 196,960</u>	<u>\$ -0-</u>
Total	\$1,101,805	\$ 138,594

1 Staff recommends that the net ADIT receivable of \$139,073 be allocated to each system as  
2 follows:

3

<u>ADIT</u>	<u>As Filed</u>	<u>Staff Adjustment</u>	<u>Staff Recommended</u>
Water	\$ 778,203	\$ (680,314)	\$ 97,889
Wastewater	<u>\$ 323,602</u>	<u>\$ (282,897)</u>	<u>\$ 40,705</u>
Total	\$1,101,805	\$ (963,211)	\$ 138,594

4

5 Rate Base Adjustment No. 2 – Advances In Aid of Construction

6 **Q. What does the Company propose?**

7 A. The Company proposes AIAC in the amount of negative \$861 for its wastewater division.

8

9 **Q. What adjustments did Staff make to AIAC?**

10 A. Based on Staff's review, Staff recommends increasing AIAC by \$238,782 to \$237,921 to  
11 reflect the amounts per the Company's supporting documentation.

12

13 **Q. What is Staff's recommendation?**

14 A. Staff recommends AIAC of \$237,921, as shown in Schedules GWB-4 and GWB-6.

15

16 **OPERATING INCOME WASTEWATER DIVISION**

17 Operating Income Summary

18 **Q. What are the results of Staff's analysis of test year revenues, expenses and operating  
19 income?**

20 A. As shown on Schedules GWB-10 and GWB-11, Staff's analysis resulted in test year  
21 revenues of \$1,829,976, expenses of \$1,334,353 and operating income of \$495,623.

1 Operating Income Adjustment No. 1 – Purchased Power Expense

2 **Q. What did the Company propose for Purchased Power expense?**

3 A. The Company proposed \$17,426 for Purchased Power, as shown in Schedule GWB-11.

4

5 **Q. What adjustment did Staff make to Purchased Power expense?**

6 A. Staff increased the Purchased Power amount by \$48,005 from \$17,426 to \$65,431 for  
7 amounts that were charged to the water division in error. A complementary adjustment is  
8 posted to decrease the Purchased Power expense in the water division.

9

10 **Q. What is Staff's recommendation?**

11 A. Staff recommends increasing operating expenses by \$48,005, from \$17,426 to \$65,431, as  
12 shown on Schedules GWB-11 and GWB-12.

13

14 Operating Income Adjustment No. 2 – Depreciation Expense

15 **Q. What is Rio Rico proposing for depreciation expense?**

16 A. Rio Rico is proposing depreciation expense of \$252,672 for its wastewater division.

17

18 **Q. What adjustment did Staff make to depreciation expense?**

19 A. Staff adjusted depreciation expense to reflect application of the Staff-recommended  
20 depreciation rates to the Staff recommended plant balances by account.

21

22 **Q. What is Staff's recommendation?**

23 A. Staff recommends decreasing depreciation expense by \$848, from \$252,672 to \$251,824,  
24 as shown in Schedules GWB-11 and GWB-13.

1 Operating Income Adjustment No. 3 – Foreign Exchange Adjustment

2 **Q. What is the Company proposing?**

3 A. Rio Rico is proposing to include amounts spent in Canadian dollars at par with American  
4 dollars.

5  
6 **Q. Did Staff make any adjustments to the related accounts?**

7 A. Yes. Staff determined that the recent exchange rate indicates that the Canadian dollar is  
8 worth approximately 94.2 cents, or 5.8 percent less than the US dollar.<sup>6</sup> Staff concludes  
9 that substantially all of the \$298,008 of Outside Services proposed by the Company  
10 originated in Canada, and should be revalued using a US dollar denomination.

11  
12 **Q. What is Staff's recommendation?**

13 A. Staff recommends decreasing Outside Services by \$17,284, as shown in Schedules GWB-  
14 11 and GWB-14.

15  
16 Operating Income Adjustment No. 4 – Property Taxes

17 **Q. What is Rio Rico proposing for Test Year Property Taxes for it wastewater division?**

18 A. Rio Rico is proposing \$91,705 for Test Year property taxes. The Company's proposed  
19 property taxes are calculated on the modified Arizona Department of Revenue ("ADOR")  
20 methodology typically adopted by the Commission for water and wastewater utilities. The  
21 results from using this methodology are primarily dependent upon the test year and  
22 proposed revenues. In other words, each revenue requirement has its own property tax  
23 expense in the same manner as each operating income has its own income tax expenses.  
24 Although the results for this methodology are frequently referred to as Test Year amounts,  
25 in fact, the results are representative of the average expected property tax over a

---

<sup>6</sup> Based on currency exchange information on Yahoo Finance, December 15, 2009.

1 subsequent three-year period based partially on proposed revenues. The Company's  
2 calculation of proposed property taxes is representative of proposed revenues. Therefore,  
3 if the Commission adopts any revenue requirement other than that proposed by the  
4 Company, the Company's proposed property tax would not correspond with the adopted  
5 revenues.

6  
7 **Q. Has Staff developed a solution to address the dependent relationship between**  
8 **Property Tax Expense and revenues?**

9 A. Yes. Staff has included a factor for property taxes in the Gross Revenue Conversion  
10 Factor ("GRCF") (See Schedule GWB-2) that automatically adjusts the revenue  
11 requirement for changes in revenue in the same way that income taxes are adjusted for  
12 changes in operating income. This flexible method will accurately reflect Property Tax  
13 Expense at any authorized revenue level. This refinement removes the need to include  
14 proposed revenues in the calculation of Test Year Property Tax Expense and allows for  
15 accurate calculation of Property Tax Expense at the Test Year revenue level.

16  
17 **Q. What did Staff calculate for Test Year Property Tax Expense?**

18 A. Staff calculated \$87,068 for Test Year Property Tax Expense as shown in Schedule GWB-  
19 15.<sup>7</sup>

20  
21 **Q. What is Staff recommending?**

22 A. Staff recommends decreasing Test Year Property Tax Expense by \$4,637 from \$91,705 to  
23 \$87,068 as shown on Schedule GWB-15. Staff further recommends adoption of its GRCF  
24 that includes a factor for Property Tax Expense as shown in Schedule GWB-2.

---

<sup>7</sup> Schedule GWB-15 also shows calculations for Property Tax Expense for Staff's recommended revenue.

1 Operating Income Adjustment No. 5 – Income Taxes

2 **Q. What is the Company proposing for test year Income Tax Expense?**

3 A. Rio Rico is proposing \$308,456 for test year Income Tax Expense.

4

5 **Q. Did Staff make any adjustments to test year Income Tax Expense?**

6 A. Yes. Staff's adjustment reflects Staff's calculation of the income tax expense based upon  
7 Staff's adjusted test year taxable income, as shown on Schedule GWB-16.

8

9 **Q. What is Staff's recommendation?**

10 A. Staff recommends increasing test year Income Tax Expense by \$3,110, from \$308,456 to  
11 \$311,566, as shown in Schedules GWB-11 and GWB-16.

12

13 Operating Income Adjustment No. 6 – Regulatory Commission (Rate Case) Expense

14 **Q. What Regulatory Commission (Rate Case) Expense is the Company proposing?**

15 A. For this proceeding, the Company proposes \$41,667 per year for the instant case expense  
16 for its wastewater division, plus \$994 of residual rate case expense, as shown on the  
17 Schedule GWB-11, lines 24 and 23, respectively.

18

19 **Q. What adjustment did Staff make to Regulatory Commission (Rate Case) Expense?**

20 A. Staff reduced Regulatory Commission Expense by \$994, as these amounts are not on-  
21 going costs.

22

23 **Q. What is Staff's recommendation?**

24 A. Staff recommends decreasing Regulatory Commission Expense by \$994 to \$0, as shown  
25 on Schedules GWB-11 and GWB-17.

1 **Q. Why is Staff recommending a relatively minor adjustment of \$994?**

2 A. Staff recommends this adjustment because it is important that unrecovered rate case  
3 expenses from prior proceedings not be included in prospective rates. The appropriate  
4 ratemaking treatment of rate case expense is to normalize rather than amortize these  
5 expenses. Accordingly, utilities are not entitled to rollover any rate case expenses to  
6 subsequent proceedings.

7

8 Operating Income Adjustment No. 7 – Corporate Expense Allocation

9 **Q. Is Staff's analysis of the Corporate Expense Allocation for the wastewater division**  
10 **the same as for the water division, as discussed above.**

11 A. Yes, the Company calculated its allocated costs for the combined divisions and then  
12 allocated the expense based on relative customer counts.

13

14 **Q. Please restate the recommended adjustment described above.**

15 A. Yes, Staff's calculations for wastewater are shown on Schedule GWB-18. Staff's  
16 recommended adjustment to each division is shown below:

17

	<u>As Filed</u>	<u>Staff</u>	<u>Canadian \$</u>	<u>US \$\$</u>
		<u>Recomm.</u>	<u>Adjustment</u>	<u>Adjustment</u>
Water	\$ 102,960	\$ 1,363	\$ (101,597)	\$ (95,704)
Wastewater	\$ 34,747	\$ 460	\$ (34,287)	\$ (32,298)
Total	\$ 137,707	\$ 1,823	\$ (135,884)	\$ (128,002)

18

19 **OTHER CONSIDERATIONS**

20 **Q. Does Staff have other concerns?**

21 A. Yes, it does.

1 **Q. Please describe Staff's other concerns.**

2 A. At the time of filing this testimony, Staff is aware that the Company recently recalculated  
3 the ADIT balances that it filed. Staff has unresolved concerns regarding the relationship  
4 between the Company's book and tax basis values (including the calculation of its tax  
5 basis Accumulated Depreciation) that the Company has assigned to its fixed assets, the  
6 reconciliation between the book and tax values including, and the correct allocation of  
7 unrecorded CIAC. Staff reserves the right to address this, as necessary, through data  
8 requests and/or future testimony. Also, Staff is aware of some possible bonuses paid to  
9 certain employees and charged to Rio Rico. Staff also reserves the right to address this, as  
10 necessary, through data requests and/or future testimony. Staff requests that the Company  
11 address these concerns no later than the date it files its rebuttal testimony.

12  
13 **Q. Does this conclude your Direct Testimony?**

14 A. Yes, it does.

**RIO RICO UTILITIES, INC. WATER DIVISION**

Docket No. WS-02676A-09-0257

Test Year Ended December 31, 2008

**DIRECT TESTIMONY OF GERALD BECKER**

TABLE OF CONTENTS TO SCHEDULES :

<u>SCH #</u>	<u>TITLE</u>
GWB- 1	REVENUE REQUIREMENT
GWB- 2	GROSS REVENUE CONVERSION FACTOR
GWB- 3	RATE BASE - ORIGINAL COST
GWB- 4	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
GWB- 5	RATE BASE ADJUSTMENT #1 - TO RECLASSIFY PLANT
GWB- 6	RATE BASE ADJUSTMENT #2 - CIAC NOT RECORDED
GWB- 7	RATE BASE ADJUSTMENT #3 - ACCUMULATED DEFERRED INCOME TAXES
GWB- 8	RATE BASE ADJUSTMENT #4 - ADVANCES IN AID OF CONSTRUCTION
GWB- 9	Not Used
GWB- 10	OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED
GWB- 11	SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR
GWB- 12	OPERATING INCOME ADJUSTMENT #1 - RECLASSIFY POWER FROM WASTEWATER
GWB- 13	OPERATING INCOME ADJUSTMENT #2- DEPRECIATION EXPENSE
GWB- 14	OPERATING INCOME ADJUSTMENT #3 - RATE CASE EXPENSE
GWB- 15	OPERATING INCOME ADJUSTMENT #4 - PROPERTY TAX EXPENSE
GWB- 16	OPERATING INCOME ADJUSTMENT #5 - INCOME TAXES
GWB- 17	OPERATING INCOME ADJUSTMENT #6 - ACC FEE INLCUDED IN EXPENSE
GWB- 18	OPERATING INCOME ADJUSTMENT #7 - OUT OF PERIOD EXPENSE
GWB- 19	OPERATING INCOME ADJUSTMENT #8 - FOREIGN EXCHANGE ADJUSTMENT
GWB- 20	OPERATING INCOME ADJUSTMENT #9 - CORPORATE EXPENSE ALLOCATION

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 8,455,519	\$ 8,455,519	\$ 6,639,072	\$ 6,639,072
2	Adjusted Operating Income (Loss)	\$ (214,606)	\$ (214,606)	\$ (32,256)	\$ (32,256)
3	Current Rate of Return (L2 / L1)	-2.54%	-2.54%	-0.49%	-0.49%
4	Required Rate of Return	12.40%	12.40%	9.20%	9.20%
5	Required Operating Income (L4 * L1)	\$ 1,048,484	\$ 1,048,484	\$ 610,795	\$ 610,795
6	Operating Income Deficiency (L5 - L2)	\$ 1,263,090	\$ 1,263,090	\$ 643,051	\$ 643,051
7	Gross Revenue Conversion Factor	1.6286	1.6286	1.6363	1.6363
8	Required Revenue Increase (L7 * L6)	\$ 2,057,065	\$ 2,057,065	<b>\$ 1,052,240</b>	<b>\$ 1,052,240</b>
9	Adjusted Test Year Revenue	\$ 1,847,256	\$ 1,847,256	\$ 1,847,256	\$ 1,847,256
10	Proposed Annual Revenue (L8 + L9)	\$ 3,904,321	\$ 3,904,321	\$ 2,899,496	\$ 2,899,496
11	Required Increase in Revenue (%)	111.36%	111.36%	56.96%	56.96%
12	Rate of Return on Common Equity (%)	12.40%	12.40%	9.20%	9.20%

References:

Column [A]: Company Schedule A-1  
Column (B): Company Schedule A-1  
Column (C): Staff Schedules GWB-2, GWB-3, and GWB-10

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Gross Revenue Conversion Factor:</u>							
1	Revenue	100.0000%					
2	Uncollectible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	38.8875%					
5	Subtotal (L3 - L4)	61.1125%					
6	Revenue Conversion Factor (L1 / L5)	1.636326					
<u>Calculation of Uncollectible Factor:</u>							
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (Line 17)	37.9026%					
9	One Minus Combined Income Tax Rate (L7 - L8)	62.0974%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
<u>Calculation of Effective Tax Rate:</u>							
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	6.9680%					
14	Federal Taxable Income (L12 - L13)	93.0320%					
15	Applicable Federal Income Tax Rate (Line 44)	33.2516%					
16	Effective Federal Income Tax Rate (L14 x L15)	30.9346%					
17	Combined Federal and State Income Tax Rate (L13 + L16)		37.9026%				
<u>Calculation of Effective Property Tax Factor:</u>							
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	37.9026%					
20	One Minus Combined Income Tax Rate (L18-L19)	62.0974%					
21	Property Tax Factor (GTM-14, L24)	1.5860%					
22	Effective Property Tax Factor (L20*L21)		0.9848%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			38.8875%			
24	Required Operating Income (Schedule GWB-1, Line 5)	\$ 610,795					
25	Adjusted Test Year Operating Income (Loss) (Schedule GWB-10, Line 42)	\$ (32,256)					
26	Required Increase in Operating Income (L24 - L25)		\$ 643,051				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	\$ 383,966					
28	Income Taxes on Test Year Revenue (Col. (C), L52)	\$ (8,535)					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 392,501				
30	Recommended Revenue Requirement (Schedule GWB-1, Line 10)	\$ 2,899,496					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -					
33	Adjusted Test Year Uncollectible Expense	\$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		\$ -				
35	Property Tax with Recommended Revenue (GTM-15, 20)	\$ 104,898					
36	Property Tax on Test Year Revenue (GTM-15, Col A, L16)	\$ 88,210					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		\$ 16,688				
38	Total Required Increase in Revenue (L26 + L29 + L37)		\$ 1,052,239				

	(A) (B) (C)			(D) (E) (F)			
	Total	Rio Rico Water	Rio Rico WW	Total	Rio Rico Water	Rio Rico WW	
<u>Calculation of Income Tax:</u>							
39	Revenue (Sch GWB-9, Col.(C) L5, GWB-1, Col. (D), L9)	\$ 3,677,232	\$ 1,847,256	\$ 1,829,976	\$ 4,365,166	\$ 2,899,493	\$ 1,465,673
40	Operating Expenses Excluding Income Taxes	\$ 2,910,834	\$ 1,888,047	\$ 1,022,787	\$ 2,921,744	\$ 1,904,735	\$ 1,017,010
41	Synchronized Interest (L47)						
42	Arizona Taxable Income (L30 - L31 - L32)	\$ 766,398	\$ (40,791)	\$ 807,189	\$ 1,443,423	\$ 994,759	\$ 448,664
43	Arizona State Income Tax Rate		6.9680%	6.9680%	6.9680%	6.9680%	6.9680%
44	Arizona Income Tax (L33 x L34)	\$ 53,403	\$ (2,842)	\$ 56,245	\$ 100,578	\$ 69,315	\$ 31,263
45	Federal Taxable Income (L33 - L35)	\$ 712,995	\$ (37,948)	\$ 750,944	\$ 1,342,845	\$ 925,445	\$ 417,401
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 1,808	\$ (5,692)	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500
47	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$ 6,250		\$ 6,250	\$ 6,250	\$ 6,250	\$ 6,250
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ 8,500		\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,500
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ 91,650		\$ 91,650	\$ 91,650	\$ 91,650	\$ 91,650
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ 141,421		\$ 141,421	\$ 342,667		
51	Total Federal Income Tax	\$ 249,629	\$ (5,692)	\$ 255,321	\$ 456,567	\$ 314,651	\$ 141,916
52	Combined Federal and State Income Tax (L35 + L42)	\$ 303,031	\$ (8,535)	\$ 311,566	\$ 557,145	\$ 383,966	\$ 173,179
53	COMBINED Applicable Federal Income Tax Rate [Col. (D), L51 - Col. (A), L51] / [Col. (D), L45 - Col. (A), L45]				32.8553%		
54	WATER Applicable Federal Income Tax Rate [Col. (E), L51 - Col. (B), L51] / [Col. (E), L45 - Col. (B), L45]					33.2516%	
55	WASTEWATER Applicable Federal Income Tax Rate [Col. (F), L51 - Col. (C), L51] / [Col. (F), L45 - Col. (C), L45]						34.0001%
<u>Calculation of Interest Synchronization:</u>							
56	Rate Base (Schedule GWB-3, Col. (C), Line 18)	N/A			314,651.30		
57	Weighted Average Cost of Debt	0.0000%			173,178.98		
58	Synchronized Interest (L45 X L46)	\$ -			0.18		
					543.953%		

**RATE BASE - ORIGINAL COST**

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 34,059,804	\$ -	\$ 34,059,804
2	Less: Accumulated Depreciation	12,472,661	-	12,472,661
3	Net Plant in Service	<u>\$ 21,587,143</u>	<u>\$ -</u>	<u>\$ 21,587,143</u>
<u>LESS:</u>				
4	Contributions in Aid of Construction (CIAC)	\$ 20,188,921	\$ 1,087,409	\$ 21,276,330
5	Less: Accumulated Amortization	6,628,197	-	6,628,197
6	Net CIAC	<u>13,560,724</u>	<u>1,087,409</u>	<u>14,648,133</u>
7	Advances in Aid of Construction (AIAC)	73,648	48,724	122,372
8	Imputed Reg AIAC	-	-	-
9	Imputed Reg CIAC	-	-	-
10	Deferred Income Tax Credits (Debits)	(778,203)	680,314	(97,889)
	Customer Meter Deposits	275,455		275,455
<u>ADD:</u>				
11	Cash Working Capital		-	-
12	Prepayments		-	-
13	Supplies Inventory		-	-
14	Projected Capital Expenditures		-	-
15	Deferred Debits		-	-
16	Purchase Wastewater Treatment Charges		-	-
17	<b>Original Cost Rate Base</b>	<u>\$ 8,455,519</u>	<u>\$ (1,816,447)</u>	<u>\$ 6,639,072</u>

References:  
Column (A), Company Schedule B-2  
Column (B): Schedule GWB-4  
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1	[C] ADJ #2	[D] ADJ #3	[E] ADJ #4	[E] ADJ #5	[F] ADJ #6	[F] STAFF ADJUSTED
<i>PLANT IN SERVICE:</i>										
1	301	Organization Cost	5,785							\$ 5,785
2	302	Franchise Cost	417							\$ 417
3	303	Land and Land Rights	44,194							\$ 44,194
4	304	Structures and Improvements	2,732,833							\$ 2,732,833
5	305	Collecting and Impounding Res.	-							\$ -
6	306	Lake River and Other Intakes	-							\$ -
7	307	Wells and Springs	563,512							\$ 563,512
8	308	Infiltration Galleries and Tunnels	-							\$ -
9	309	Supply Mains	279,154							\$ 279,154
10	310	Power Generation Equipment	197,120							\$ 197,120
11	311	Electric Pumping Equipment	2,591,971							\$ 2,591,971
12	320	Water Treatment Equipment	372,970	(372,970)						\$ 0
13	320.1	Water Treatment Equipment	-		372,970					\$ 372,970
14	320.2	Chemical Solution Feeders	-							\$ -
15	330	Distribution Reservoirs & Standpipe	759,861	(759,861)						\$ 0
16	330.1	Storage tanks	-		759,861.00					\$ 759,861
17	330.2	Pressure Tanks	-							\$ -
18	331	Transmission and Distribution Mains	22,089,150							\$ 22,089,150
19	333	Services	2,209,274							\$ 2,209,274
20	334	Meters	956,605							\$ 956,605
21	335	Hydrants	568,578							\$ 568,578
22	336	Backflow Prevention Devices	3,848							\$ 3,848
23	339	Other Plant and Miscellaneous Equipment	121,843							\$ 121,843
24	340	Office Furniture and Fixtures	22,986							\$ 22,986
25	340.1	Computers and Software	76,919							\$ 76,919
26	341	Transportation Equipment	218,945							\$ 218,945
27	342	Stores Equipment	-							\$ -
28	343	Tools and Work Equipment	15,035							\$ 15,035
29	344	Laboratory Equipment	3,061							\$ 3,061
30	345	Power Operated Equipment	-							\$ -
31	346	Communications Equipment	218,041							\$ 218,041
32	347	Miscellaneous Equipment	7,701							\$ 7,701
33	348	Other Tangible Plant	-							\$ -
34										\$ -
35		<b>Total Plant in Service</b>	<u>34,059,804</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	\$ 34,059,804
36										
37		Accumulated Depreciation	12,472,661							12,472,661
38		Net Plant in Service (L58 - L 59)	<u>\$ 21,587,143</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	\$ 21,587,143
39										
40		<i>LESS:</i>								
41		Contributions in Aid of Construction (CIAC)	\$ 20,188,921		\$ 1,087,409		\$ -	\$ -		\$ 21,276,330
42		Less: Accumulated Amortization	6,628,197							6,628,197
43		Net CIAC (L63 - L64)	13,560,724		1,087,409					14,648,133
44		Advances in Aid of Construction (AIAC)	73,648				48,724			122,372
45		Imputed Reg Advances	-							-
46		Imputed Reg CIAC	-							-
47		Deferred Income Tax Credits (Debits)	(778,203)			680,314				(97,889)
48		Customer Meter Deposits	275,455							275,455
49		<i>ADD:</i>								
50		Working Capital Allowance	-							-
51		Pumping Power	-							-
52		Purchase Wastewater Treatment Charges	-							-
53		Material and Supplies Inventory	-							-
54		Prepayments	-							-
55		Projected C	1847256							-
56		Deferred D	1888046.524							-
57		<b>Original Cost Rate Base</b>	<u>\$ 8,455,519</u>	<u>\$ -</u>	<u>\$ (1,087,409)</u>	<u>\$ (680,314)</u>	<u>\$ (48,724)</u>	<u>\$ -</u>	<u>\$ -</u>	\$ 6,639,072

ADJ #	References:
1	To reclassify plant to correct acct. Schedule GWB-5
2	CIAC not recorded Schedule GWB-6
3	Accumulated Deferred Income Taxes Schedule GWB-7
4	AIAC Correction Schedule GWB-8

RATE BASE ADJUSTMENT #1 - TO RECLASSIFY PLANT

LINE NO.	ACCT NO.	Description <u>Gross Additions</u>	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	320	Water Treatment Equipment	372,970	(372,970)	-
2	320.1	Water Treatment Equipment	-	372,970	372,970
3	330	Distribution Reservoirs & Standpipe	759,861	(759,861)	-
4	330.1	Storage tanks	-	759,861	759,861

References:

Column (A): Amounts included in plant balances per filing.

Column (B): Per Testimony GWB

Column (C): Column (A) less Column (B)

RATE BASE ADJUSTMENT #2 - CIAC NOT RECORDED

ACCT NO.	Description	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	CIAC 2006		\$ 797,060	
2	CIAC 2008	<u>20,188,921</u>	<u>\$ 290,349</u>	<u>\$21,276,330</u>
3	As adjusted	20,188,921	1,087,409	21,276,330

References:

Column [A]: Amounts included Per filing.  
Column (B): Per Testimony GWB  
Column (C): Column [A] plus Column [B]

RATE BASE ADJUSTMENT #3 - ACCUMULATED DEFERRED INCOME TAXES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	At December 31, 2008	(778,203)	680,314	(97,889)
2		<u>\$ (778,203)</u>	<u>\$ 680,314</u>	<u>\$ (97,889)</u>

REFERENCES:

Columns [A]: Company schedules  
 Column [B]: Column [C] less Column [A]  
 Column [C]: See testimony GWB

RATE BASE ADJUSTMENT #4 - ADVANCES IN AID OF CONSTRUCTION

<u>LINE</u> <u>NO.</u>	<u>ACCT</u> <u>NO.</u>	<u>Description</u>	<u>[A]</u> <u>COMPANY</u> <u>AS</u> <u>FILED</u>	<u>[B]</u> <u>STAFF</u> <u>ADJUSTMENTS</u>	<u>[C]</u> <u>STAFF</u> <u>AS</u> <u>ADJUSTED</u>
1	AIAC		73,648	48,724	122,372

References:

Column [A]: Amounts included in plant balances per filing.  
Column [B]: Per Testimony GWB  
Column [C]: Column [A] less Column [B]

RIO RICO UTILITIES, INC. WATER DIVISION  
Docket No. WS-02676A-09-0257  
Test Year Ended December 31, 2008

Schedule GWB-9

Schedule GWB-9 NOT used

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
1	Water Revenues	\$ 1,802,584	\$ -	\$ 1,802,584	\$ 1,052,240	\$ 2,854,824
2	Other Revenues	44,672	-	44,672	-	44,672
3	Other	-	-	-	-	-
4	<b>Total Operating Revenues</b>	<u>\$ 1,847,256</u>	<u>\$ -</u>	<u>\$ 1,847,256</u>	<u>\$ 1,052,240</u>	<u>\$ 2,899,496</u>
5	Salaries and Wages	\$ -	\$ -	-	\$ -	\$ -
6	Purchased Water	\$ -	\$ -	-	\$ -	\$ -
7	Purchased Power	\$ 441,501	(48,005)	393,496	-	\$ 393,496
8	Fuel for Power Production	\$ -	-	-	-	\$ -
9	Chemicals	\$ 9,347	-	9,347	-	\$ 9,347
10	Materials & Supplies	\$ 23,150	-	23,150	-	\$ 23,150
11	Outside Services	\$ 805,032	(170,216)	634,816	-	\$ 634,816
12	Outside Services- Other	\$ 76,859	(31,667)	45,192	-	\$ 45,192
13	Outside Services- Legal	\$ 487	-	487	-	\$ 487
14	Water Testing (incl in line 13)	\$ -	-	-	-	\$ -
15	Rents	\$ 26,954	-	26,954	-	\$ 26,954
16	Transportation Expenses	\$ 79,315	-	79,315	-	\$ 79,315
17	Insurance - General Liability	\$ 37,699	-	37,699	-	\$ 37,699
18	Insurance - Health and Life	\$ -	-	-	-	\$ -
19	Reg. Comm. Exp.	\$ 17,564	(17,564)	-	-	\$ -
20	Reg. Comm. Exp. - Rate Case	\$ 70,000	-	70,000	-	\$ 70,000
21	Miscellaneous Expense	\$ 14,822	-	14,822	-	\$ 14,822
22	Bad Debt Expense	\$ 371	-	371	-	\$ 371
23	Depreciation Expense	\$ 463,297	891	464,188	-	\$ 464,188
24	Taxes Other Than Income	\$ -	-	-	-	\$ -
25	Property Taxes	\$ 130,373	(42,163)	88,210	16,688	\$ 104,898
26	Income Tax	\$ (134,909)	126,374	(8,535)	392,501	\$ 383,966
27						
28	<b>Total Operating Expenses</b>	<u>\$ 2,061,862</u>	<u>(182,350)</u>	<u>1,879,512</u>	<u>409,189</u>	<u>\$ 2,288,701</u>
29	<b>Operating Income (Loss)</b>	<u>\$ (214,606)</u>	<u>\$ 182,350</u>	<u>\$ (32,256)</u>	<u>\$ 643,051</u>	<u>\$ 610,795</u>

References:

- Column (A): Company Schedule C-1
- Column (B): Schedule GWB 11
- Column (C): Column (A) + Column (B)
- Column (D): Schedules GWB 2
- Column (E): Column (C) + Column (D)

**SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) Purchased Power ADJ #1 X(fer to WW)	(C) Depreciation Exp. ADJ #2	(D) Rate Case Exp ADJ #3	(E) Property Taxes ADJ #4	(F) Income Taxes ADJ #5	(G) ACC ADJ #6	(H) Out of Period ADJ #7	(J) Foreign Exchange ADJ #8	(K) Corporate Exp ADJ #9	(L) Mgmt Fees ADJ #10	(U) Rate Case ADJ #11	(G) STAFF ADJUSTED
1	2 Water Revenues	\$ 1,802,584												\$ 1,802,584
2	3 Other Revenues	44,672												44,672
3	4 Other													
5	<b>Total Operating Revenues</b>	<b>\$ 1,847,256</b>												<b>\$ 1,847,256</b>
6	6 Salaries and Wages													
7	7 Purchased Water													
8	8 Purchased Power		\$ (48,005)											
9	9 Fuel for Power Production													
10	10 Chemicals	9,347												9,347
11	11 Materials & Supplies	23,150												23,150
12	12 Outside Services	805,032												805,032
13	13 Outside Services- Other	76,859						(27,820)						634,816
14	14 Outside Services- Legal	487						(17,190)	(14,477)	(46,692)	(95,704)			45,192
15	15 Water Testing (incl in line 13)													487
16	16 Rents	26,954												26,954
17	17 Transportation Expenses	79,315												79,315
18	18 Insurance - General Liability	37,699												37,699
19	19 Insurance - Health and Life													
20	20 Reg. Comm. Exp. - Rate Case	17,564			(17,564)									
21	21 Reg. Comm. Exp. -	70,000												70,000
22	22 Miscellaneous Expense	14,822												14,822
23	23 Bad Debt Expense	371												371
24	24 Depreciation Expense	463,297		891										464,188
25	25 Taxes Other Than Income													
26	26 Property Taxes	130,373				(42,163)	126,374							88,210
27	27 Income Tax	(134,909)												(8,535)
28														
29														
30	<b>Total Operating Expenses</b>	<b>\$ 2,061,862</b>	<b>\$ (48,005)</b>	<b>\$ 891</b>	<b>\$ (17,564)</b>	<b>\$ (42,163)</b>	<b>\$ 126,374</b>	<b>\$ (45,010)</b>	<b>\$ (14,477)</b>	<b>\$ (46,692)</b>	<b>\$ (95,704)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,879,512</b>
31	<b>Operating Income (Loss)</b>	<b>\$ (214,606)</b>	<b>\$ 48,005</b>	<b>\$ (891)</b>	<b>\$ 17,564</b>	<b>\$ 42,163</b>	<b>\$ (126,374)</b>	<b>\$ 45,010</b>	<b>\$ 14,477</b>	<b>\$ 46,692</b>	<b>\$ 95,704</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (32,256)</b>

**References:**

1	Reclassify Power Exp from Wastewater
2	Depreciation Expense
3	Rate Case
4	Property Taxes
5	Income Taxes
6	ACC Fee
7	Out of Period Adjustments
8	Foreign Exchange Adjustment
9	Corporate Expense Allocation

RIO RICO UTILITIES, INC. WATER DIVISION  
Docket No. WS-02676A-09-0257  
Test Year Ended December 31, 2008

Schedule GWB-12

OPERATING INCOME ADJUSTMENT #1 - RECLASSIFY POWER FROM WASTEWATER

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
8	Purchased Power	<u>\$ 441,501</u>	<u>\$ (48,005)</u>	<u>\$ 393,496</u>

References:

Column (A), Company Schedule C-1  
Column (B): Testimony GWB  
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT #2- DEPRECIATION EXPENSE

LINE NO.	ACCT. NO.	DESCRIPTION	[A] PLANT BALANCE	[B] DEPRECIATION RATE	[C] DEPRECIATION EXPENSE
1		<u>PLANT IN SERVICE:</u>			
2	301	Organization Cost	5,785	0.00%	-
3	302	Franchise Cost	417	0.00%	-
4	303	Land and Land Rights	44,194	0.00%	-
5	304	Structures and Improvements	2,732,833	3.33%	91,003
6	305	Collecting and Impounding Res.	-	2.50%	-
7	306	Lake River and Other Intakes	-	2.50%	-
8	307	Wells and Springs	563,512	3.33%	18,765
9	308	Infiltration Galleries and Tunnels	-	6.67%	-
10	309	Supply Mains	279,154	2.00%	5,583
11	310	Power Generation Equipment	197,120	5.00%	9,856
12	311	Electric Pumping Equipment	2,591,971	12.50%	323,996
13	320.0	Water Treatment Equipment	0	3.33%	0
14	320.1	Water Treatment Equipment	372,970	20.00%	74,594
15	320	Chemical Solution Feeders	-	0.00%	-
16	330.0	Distribution Reservoirs & Standpipe	0	0.00%	-
17	330.1	Storage tanks	759,861	2.22%	16,869
18	330.2	Pressure Tanks	-	5.00%	-
19	331	Transmission and Distribution Mains	22,089,150	2.00%	441,783
20	333	Services	2,209,274	3.33%	73,569
21	334	Meters	956,605	8.33%	79,685
22	335	Hydrants	568,578	2.00%	11,372
23	336	Backflow Prevention Devices	3,848	6.67%	257
24	339	Other Plant and Miscellaneous Equipment	121,843	6.67%	8,127
25	340.0	Office Furniture and Fixtures	22,986	6.67%	1,533
26	340.1	Computers and Software	76,919	20.00%	15,384
27	341	Transportation Equipment	218,945	20.00%	43,789
28	342	Stores Equipment	-	4.00%	-
29	343	Tools and Work Equipment	15,035	5.00%	752
30	344	Laboratory Equipment	3,061	10.00%	306
31	345	Power Operated Equipment	-	5.00%	-
32	346	Communications Equipment	218,041	10.00%	21,804
33	347	Miscellaneous Equipment	7,701	10.00%	770
34	348	Other Tangible Plant	-	0.00%	-
35		<b>Total Plant in Service</b>	<b>34,059,804</b>		<b>1,239,797</b>
36					
37					
38		Less Non Depreciable Plant			
39	301.00	Organization Cost	5,785	0.00%	-
40	303.00	Land and Land Rights	44,194	0.00%	-
41	306.00	Lake River and Other Intakes	-	0.00%	-
42					
43		Net Depreciable Plant and Depreciation Amounts	\$ 34,009,825		\$ 1,239,797
44		Composite Depreciation Rate		3.65%	
45		Less			
46		Amortization of Regulatory CIAC at Settlement Rate			-
47		Amortization of CIAC at Composite Rate	\$ 21,276,330		\$ 775,609
48		Staff Recommended Depreciation Expense			\$ 464,188
49		Company Proposed Depreciation Expense			463,297
50		Staff Adjustment			\$ 891

<u>References:</u>	
Col A	Schedule GWB-4
Col B	Rate per Engineering Report
Col C	Col A time Col B

OPERATING INCOME ADJUSTMENT #3 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Rate Case Expense	<u>\$ 17,564</u>	<u>\$ (17,564)</u>	<u>\$ -</u>

References:

- Column (A), Company Schedule C-1
- Column (B): Testimony GWB
- Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT #4 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]
		STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2007	\$ 1,847,256	\$ 1,847,256
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	3,694,512	3,694,512
4	Staff Recommended Revenue	1,847,256	2,899,496
5	Subtotal (Line 4 + Line 5)	5,541,768	6,594,008
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	1,847,256	2,198,003
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	3,694,512	4,396,005
10	Plus: 10% of CWIP - 2005	13,454	13,454
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	3,707,966	4,409,459
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	778,673	925,986
15	Composite Property Tax Rate - Obtained from ADOR	11.33%	11.33%
16	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 88,210	
17	Company Proposed Property Tax	\$ 130,373	
18	Staff Test Year Adjustment (Line 16 - Line 17)	<u>\$ (42,163)</u>	
19	Property Tax on Staff Recommended Revenue (Line 14 * Line 15)		\$ 104,898
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 88,210
21	Increase in Property Tax Due to Increase in Revenue Requirement		<u>\$ 16,688</u>
22	Increase in Property Tax Due to Increase in Revenue Requirement (Line 21)		\$ 16,688
23	Increase in Revenue Requirement		\$ 1,052,240
24	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		1.58596%

REFERENCES:

- 0  
Line 15: Composite Tax Rate obtained from Arizona Department of Revenue  
Line 17: Company Schedule C-1, Line 27  
Line 21: Line 19 - Line 20  
Line 23: Schedule GWB-1, Line 8

RIO RICO UTILITIES, INC. WATER DIVISION  
Docket No. WS-02676A-09-0257  
Test Year Ended December 31, 2008

Schedule GWB-16

OPERATING INCOME ADJUSTMENT #5 - INCOME TAXES

LINE ACCT NO. NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Income Taxes	<u>\$ (134,909)</u>	<u>\$ 126,374</u>	<u>\$ (8,535)</u>

References:

Column (A), Company Schedule C-2

Column (B): Testimony GTM

Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT #6 - ACC FEE INLCUDED IN EXPENSE

LINE ACCT NO. NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Outside Services	\$ 805,032		
2	ACC Fees		\$ (27,820)	
3	Foreign Exchange Adj GWB-19		\$ (46,692)	
4	Corporate Expense Allocation GWB-20		\$ (95,704)	
5	Totals	\$ 805,032	\$ (170,216)	\$ 634,816
6	Outside Services- Other	\$ 76,859	\$ (17,190)	
7	Out of period Adj. #7 GWB-18		\$ (14,477)	
8	Totals	\$ 76,859	\$ (31,667)	45,192

References:

Column (A), Company Schedule C-2  
 Column (B): Testimony GWB  
 Column (C): Column (A) + Column (B)

RIO RICO UTILITIES, INC. WATER DIVISION  
Docket No. WS-02676A-09-0257  
Test Year Ended December 31, 2008

Schedule GWB-18

OPERATING INCOME ADJUSTMENT #7 - OUT OF PERIOD EXPENSE

LINE	ACCT		[A]	[B]	[C]
NO.	NO.	DESCRIPTION	COMPANY	STAFF	STAFF
			PROPOSED	ADJUSTMENTS	RECOMMENDED
1		Outside Services- Other	\$ 14,477	\$ (14,477)	\$ -

References:

Column (A), Company Schedule C-2  
Column (B): Testimony GWB  
Column (C): Column (A) + Column (B)

RIO RICO UTILITIES, INC. WATER DIVISION  
Docket No. WS-02676A-09-0257  
Test Year Ended December 31, 2008

Schedule GWB-19

OPERATING INCOME ADJUSTMENT #8 - FOREIGN EXCHANGE ADJUSTMENT

LINE ACCT NO. NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Outside Services	\$ 46,692	\$ (46,692)	\$ -

References:

Column (A), Company Schedule C-2

Column (B): Testimony GWB

Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT #9 - CORPORATE EXPENSE ALLOCATION

LINE NO.		[A] Corporate Costs		[B]	[C]	[D]
		As Filed Total Budget 2008	Per DR 4.2 Total Actual \$ 2,008	Rio Rico Total Budget 2008	Total Actual	2008
1	Audit	507,000	1,021,609	17,672	35,608	
2	Tax Services	265,000	322,446	9,237	11,239	
3	Legal	300,000	767,451	10,457	26,750	
4	Other Professional Services	455,000	565,649	15,859	22,404	
5	Management Fee - Total	636,619	642,771	22,190	10,101	
6	Unit Holder Communications	314,100	289,796	10,948	4,496	
7	Trustee Fees	204,000	129,000	7,110	4,496	
8	Escrow & Transfer Agent Fees	75,000	71,366	2,614	2,487	
9	Rent	430,739	299,586	15,014	10,442	
10	Licenses/Fees & Permits	305,000	140,852	10,631	4,909	
11	Office Expenses	254,000	808,101	8,853	28,167	
12	Depreciation	204,242	211,253	7,119	7,363	
13						
14	Total Admin Costs	3,950,700	5,269,882	137,703	168,464	
15						
16	Variance from Budget		1,319,182		30,761	
17						
18	Total Amount Charged in case		137,703			
19						
20	Percentage		3.49%			

	[E] Total Actuals 2008	[F] Disallowance Amount	[G] Costs Allocable to APIF	[H] Allowable Common costs to 70 Companies	[I] Allocation (1/70)	[J] Cost to be Allocated to Rio Rico	[K] Amount in Filing	[L] Adjustment	Note	
23										
24										
25										
26	<b>Staff Disallowances</b>									
27	Audit	1,021,609	-	(919,448)	91,945	1.43%	1,313	17,672	(16,358)	
28	Tax Services	322,446	190,849	(118,437)	11,844	1.43%	169	9,237	(9,067)	(1)
29	Legal	767,451	10,457	(681,295)	68,130	1.43%	973	10,457	(9,483)	(2)
30	Other Professional Services	565,649	-	(565,649)	-	1.43%	-	15,859	(15,859)	(3)
31	Management Fee - Total	642,771	-	(642,771)	-	1.43%	-	22,190	(22,190)	
32	Unit Holder Communications	289,796	-	(289,796)	-	1.43%	-	10,948	(10,948)	
33	Trustee Fees	129,000	-	(129,000)	-	1.43%	-	7,110	(7,110)	
34	Escrow & Transfer Agent Fees	71,366	-	(71,366)	-	1.43%	-	2,614	(2,614)	
35	Rent	299,586	-	(299,586)	-	1.43%	-	15,014	(15,014)	
36	Licenses/Fees & Permits	140,852	140,852	(0)	-	1.43%	-	10,631	(10,631)	(4)
37	Office Expenses	808,101	-	(808,101)	-	1.43%	-	8,853	(8,853)	
38	Depreciation	211,253	-	(190,128)	19,013	1.43%	272	7,119	(6,847)	
39										
40	Total Admin Costs	5,269,882	342,158	(4,715,579)	190,931		2,728	137,703	(134,975)	
41										
42										
43										
44										
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References:

- Column (A), Company Schedule C-2 Based on \$3.95 M
- Column (B): Company Response to DR GWB 4.2 Based on \$5.27 M
- Column (C): Company's Original Estimate of allocated cost, based on Budget, per filing
- Column (D): Company's Revised Original Estimate of allocated costs, based on 2008 Actuals, per Company Response to DR GWB 4.2
- Column (E), Staff Recommended Disallowance
- Column (F), Company Revised amount subject to allocation, less Staff Recommended disallowance
- Column (G), Per testimony GWB, Staff's estimate of common costs benefitting unregulated parties
- Column (H): Rio Rico is 1 of 70 companies held by the parent (APIF)
- Column (I): Total amount allocable to Infrastructure
- Column (J): Per Company response to Staff DR 4.2, Based on Budget Amounts
- Column (K): Total amount allocable to infrastructure

	As Filed	Staff Recomm.	Can \$ Adjustment	US \$\$ Adj.
Restated amounts:				
Water	102,960	2,039	(100,921)	(95,067)
Wastewater	34,747	688	(34,059)	(32,083)
Total	137,707	2,728	(134,979)	(127,150)
Per Direct Testimony:				
Water	102,960	1,363	(101,597)	(95,704)
Wastewater	34,747	460	(34,287)	(32,298)
Total	137,707	1,823	(135,884)	(128,002)
Adjustment to be made in Surrebuttal:				
Water	102,960	676	637	
Wastewater	34,747	228	215	
Total	137,707	904	852	

Note:

- (1) Cost specific to Canadian Tax Service
- (2) No indication on ledger that costs benefited AZ
- (3) This account is used mostly for business development
- (4) Account used for charity, entertainment, etc

Note: At 'the last minute', Staff noted a minor computational error whereby the allocations to Water and Wastewater should have been \$2,039 and \$688, respectively, for a total of \$2,728, instead of the \$1,363 and \$460, respectively, for a total of \$1,823 used in Staff Direct Testimony, for differences of \$676 and \$228, respectively, and a total difference of \$904 (all in Can dollars). The net adjustment, or increase to expenses is \$852 in US dollars, which is not considered material but will be corrected in the surrebuttal testimony.

**RIO RICO UTILITIES, INC. WASTEWATER DIVISION**

Docket No. WS-02676A-09-0257

Test Year Ended December 31, 2008

**DIRECT TESTIMONY OF GERALD BECKER**

TABLE OF CONTENTS TO SCHEDULES :

<u>SCH #</u>	<u>TITLE</u>
GWB- 1	REVENUE REQUIREMENT
GWB- 2	GROSS REVENUE CONVERSION FACTOR
GWB- 3	RATE BASE - ORIGINAL COST
GWB- 4	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
GWB- 5	RATE BASE ADJUSTMENT #1 - ACCUMULATED DEFERRED INCOME TAXES
GWB- 6	RATE BASE ADJUSTMENT #2 - ADVANCES IN AID OF CONSTRUCTION
GWB- 7	Not Used
GWB- 8	Not Used
GWB- 9	Not Used
GWB- 10	OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED
GWB- 11	SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR
GWB- 12	OPERATING INCOME ADJUSTMENT #1 - RECLASSIFY POWER TO WATER
GWB- 13	OPERATING INCOME ADJUSTMENT #2- DEPRECIATION EXPENSE
GWB- 14	OPERATING INCOME ADJUSTMENT #3 - FOREIGN EXCHANGE ADJUSTMENT
GWB- 15	OPERATING INCOME ADJUSTMENT #4 - PROPERTY TAX EXPENSE
GWB- 16	OPERATING INCOME ADJUSTMENT #5 - INCOME TAXES
GWB- 17	OPERATING INCOME ADJUSTMENT #6 - RATE CASE EXPENSE
GWB- 18	OPERATING INCOME ADJUSTMENT #7 - CORPORATE EXPENSE ALLOCATION

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 3,516,077	\$ 3,516,077	\$ 2,994,399	\$ 2,994,399
2	Adjusted Operating Income (Loss)	\$ 490,676	\$ 490,676	\$ 495,623	\$ 495,623
3	Current Rate of Return (L2 / L1)	13.96%	13.96%	16.55%	16.55%
4	Required Rate of Return	12.40%	12.40%	9.20%	9.20%
5	Required Operating Income (L4 * L1)	\$ 435,994	\$ 435,994	\$ 275,485	\$ 275,485
6	Operating Income Deficiency (L5 - L2)	\$ (54,683)	\$ (54,683)	\$ (220,138)	\$ (220,138)
7	Gross Revenue Conversion Factor	1.6286	1.6286	1.6549	1.6549
8	Required Revenue Increase (L7 * L6)	\$ (89,061)	\$ (89,061)	<b>\$ (364,303)</b>	<b>\$ (364,303)</b>
9	Adjusted Test Year Revenue	\$ 1,829,976	\$ 1,829,976	\$ 1,829,976	\$ 1,829,976
10	Proposed Annual Revenue (L8 + L9)	\$ 1,740,915	\$ 1,740,915	\$ 1,465,673	\$ 1,465,673
11	Required Increase in Revenue (%)	-4.87%	-4.87%	-19.91%	-19.91%
12	Rate of Return on Common Equity (%)	12.40%	12.40%	9.20%	9.20%

References:

Column [A]: Company Schedule A-1  
Column (B): Company Schedule A-1  
Column (C): Staff Schedules GWB-2, GWB-3, and GWB-10

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Gross Revenue Conversion Factor:</u>							
1	Revenue	100.0000%					
2	Uncollectible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.5727%					
5	Subtotal (L3 - L4)	60.4273%					
6	Revenue Conversion Factor (L1 / L5)	1.654882					
<u>Calculation of Uncollectible Factor:</u>							
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (Line 17)	38.5989%					
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
<u>Calculation of Effective Tax Rate:</u>							
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	6.9680%					
14	Federal Taxable Income (L12 - L13)	93.0320%					
15	Applicable Federal Income Tax Rate (Line 44)	34.0000%					
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%					
17	Combined Federal and State Income Tax Rate (L13 + L16)		38.5989%				
<u>Calculation of Effective Property Tax Factor:</u>							
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	38.5989%					
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%					
21	Property Tax Factor (GTM-14, L24)	1.5860%					
22	Effective Property Tax Factor (L20*L21)		0.9738%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.5727%			
24	Required Operating Income (Schedule GWB-1, Line 5)	\$ 275,485					
25	Adjusted Test Year Operating Income (Loss) (Schedule GWB-10, Line 42)	\$ 495,623					
26	Required Increase in Operating Income (L24 - L25)		\$ (220,138)				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	\$ 173,180					
28	Income Taxes on Test Year Revenue (Col. (C), L52)	\$ 311,566					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ (138,386)				
30	Recommended Revenue Requirement (Schedule GWB-1, Line 10)	\$ 1,465,673					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -					
33	Adjusted Test Year Uncollectible Expense	\$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		\$ -				
35	Property Tax with Recommended Revenue (GTM-15, 20)	\$ 81,290					
36	Property Tax on Test Year Revenue (GTM-15, Col A, L16)	\$ 87,068					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		\$ (5,778)				
38	Total Required Increase in Revenue (L26 + L29 + L37)		\$ (364,302)				

	(A) Test Year			(B) Staff Recommended		
	Total	Rio Rico Water	Rio Rico WW	Total	Rio Rico Water	Rio Rico WW
39 Revenue (Sch GWB-9, Col.(C) L5, GWB-1, Col. (D), L9)	\$ 3,677,232	\$ 1,847,256	\$ 1,829,976	\$ 4,365,166	\$ 2,899,493	\$ 1,465,673
40 Operating Expenses Excluding Income Taxes	\$ 2,910,834	\$ 1,888,047	\$ 1,022,787	\$ 2,921,744	\$ 1,904,735	\$ 1,017,010
41 Synchronized Interest (L47)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
42 Arizona Taxable Income (L30 - L31 - L32)	\$ 766,398	\$ (40,791)	\$ 807,189	\$ 1,443,423	\$ 994,758	\$ 448,664
43 Arizona State Income Tax Rate	6.9680%	6.9680%	6.9680%	6.9680%	6.9680%	6.9680%
44 Arizona Income Tax (L33 x L34)	\$ 53,403	\$ (2,842)	\$ 56,245	\$ 100,578	\$ 69,315	\$ 31,263
45 Federal Taxable Income (L33 - L35)	\$ 712,995	\$ (37,948)	\$ 750,944	\$ 1,342,845	\$ 925,444	\$ 417,401
46 Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 1,808	\$ (5,692)	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500
47 Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$ 6,250	\$ -	\$ 6,250	\$ 6,250	\$ 6,250	\$ 6,250
48 Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ 8,500	\$ -	\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,500
49 Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ 91,650	\$ -	\$ 91,650	\$ 91,650	\$ 91,650	\$ 91,650
50 Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ 141,421	\$ -	\$ 141,421	\$ 342,667	\$ 342,667	\$ 342,667
51 Total Federal Income Tax	\$ 249,629	\$ (5,692)	\$ 255,321	\$ 456,567	\$ 314,651	\$ 141,916
52 Combined Federal and State Income Tax (L35 + L42)	\$ 303,031	\$ (8,535)	\$ 311,566	\$ 557,145	\$ 383,966	\$ 173,180

53 Effective Tax Rate 32.8553% 33.2516% 34.0000%

<u>Calculation of Interest Synchronization:</u>		N/A
56 Rate Base (Schedule GWB-3, Col. (C), Line 18)	\$ -	
57 Weighted Average Cost of Debt	0.0000%	
58 Synchronized Interest (L45 X L46)	\$ -	

**RATE BASE - ORIGINAL COST**

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	\$ 11,829,041	\$ -	\$ 11,829,041
2	5,110,028	-	5,110,028
3	<u>\$ 6,719,013</u>	<u>\$ -</u>	<u>\$ 6,719,013</u>
<u>LESS:</u>			
4	\$ 5,376,456	\$ -	\$ 5,376,456
5	1,944,057	-	1,944,057
6	<u>3,432,399</u>	<u>-</u>	<u>3,432,399</u>
7	(861)	238,782	237,921
8	-	-	-
9	-	-	-
10	(323,602)	282,897	(40,705)
	Customer Meter Deposits 95,000		95,000
<u>ADD:</u>			
11	-	-	-
12	-	-	-
13	-	-	-
14	-	-	-
15	-	-	-
16	-	-	-
17	<u>\$ 3,516,077</u>	<u>\$ (521,679)</u>	<u>\$ 2,994,399</u>

References:

Column (A), Company Schedule B-2  
Column (B): Schedule GWB-4  
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1	[C] ADJ #2	[D] ADJ #3	[F] STAFF ADJUSTED
<i>PLANT IN SERVICE:</i>							
1	351	Organization	5,785				\$ 5,785
2	352	Franchises	417				\$ 417
3	353	Land	7,545				\$ 7,545
4	354	Structures & Improvements	28,548				\$ 28,548
5	355	Power Generation	-				\$ -
6	360	Collection Sewer Forced	636,023				\$ 636,023
7	361	Collection Sewers Gravity	5,945,962				\$ 5,945,962
8	362	Special Collecting Structures	-				\$ -
9	363	Customer Services	1,145,530				\$ 1,145,530
10	364	Flow Measuring Devices	55,988				\$ 55,988
11	365	Flow Measuring Installation	-				\$ -
12	366	Reuse Services	-				\$ -
13	367	Reuse Meters And Installation	-				\$ -
14	370	Receiving Wells	867,120				\$ 867,120
15	371	Pumping Equipment	1,504,181				\$ 1,504,181
16	374	Reuse Distribution Reservoirs	-				\$ -
17	375	Reuse Trans. and Dist. System	-				\$ -
18	380	Treatment & Disposal Equipment	1,006,848				\$ 1,006,848
19	381	Plant Sewers	-				\$ -
20	382	Outfall Sewer Lines	-				\$ -
21	389	Other Sewer Plant & Equipment	68,869				\$ 68,869
22	390	Office Furniture & Equipment	110,454				\$ 110,454
23	390.1	Computers and Software	4,025				\$ 4,025
24	391	Transportation Equipment	-				\$ -
25	392	Stores Equipment	-				\$ -
26	393	Tools, Shop And Garage Equip	4,897				\$ 4,897
27	394	Laboratory Equip	-				\$ -
28	396	Communication Equip	5,936				\$ 5,936
29	398	Other Tangible Plant	3,913				\$ 3,913
30	398	Nogales WW Trmnt Capacity	427,000				\$ 427,000
31							\$ -
32		<b>Total Plant in Service</b>	<u>11,829,041</u>	<u>-</u>	<u>-</u>	<u>-</u>	\$ 11,829,041
33							
34		Accumulated Depreciation	5,110,028				5,110,028
35		Net Plant in Service (L58 - L 59)	<u>\$ 6,719,013</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,719,013</u>
36							
37		<i>LESS:</i>					
38		Contributions in Aid of Construction (CIAC)	\$ 5,376,456		\$ -		\$ 5,376,456
39		Less: Accumulated Amortization	1,944,057		-		1,944,057
40		Net CIAC (L63 - L64)	3,432,399		-		3,432,399
41		Advances in Aid of Construction (AIAC)	(861)		238,782		237,921
42		Imputed Reg Advances	-		-		-
43		Imputed Reg CIAC	-		-		-
44		Deferred Income Tax Credits (Debits)	(323,602)	282,897	-		(40,705)
45		Customer Meter Deposits	95,000				95,000
46		<i>ADD:</i>					
47		Working Capital Allowance	-				-
48		Pumping Power	-				-
49		Purchase Wastewater Treatment Charges	-				-
50		Material and Supplies Inventory	-				-
51		Prepayments	-				-
52		Projected Capital Expenditures	-				-
53		Deferred Debits	-				-
54		<b>Original Cost Rate Base</b>	<u>\$ 3,516,077</u>	<u>\$ (282,897)</u>	<u>\$ (238,782)</u>	<u>\$ -</u>	<u>\$ 2,994,399</u>

ADJ #	References:
1	Accumulated Deferred Income Taxes Schedule GWB-5
2	AIAC Correction Schedule GWB-6

RATE BASE ADJUSTMENT #1 - ACCUMULATED DEFERRED INCOME TAXES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	[C] STAFF AS ADJUSTED
1	At December 31, 2008	(323,602)	282,897	(40,705)
2		<u>\$ (323,602)</u>	<u>\$ 282,897</u>	<u>\$ (606,499)</u>

REFERENCES:

Columns [A]: Company schedules  
 Column [B]: Column [C] less Column [A]  
 Column [C]: See testimony GWB

RIO RICO UTILIES, INC. WASTEWATER DIVISION  
Docket No. WS-02676A-09-0257  
Test Year Ended December 31, 2008

Schedule GWB - 6

RATE BASE ADJUSTMENT #2 - ADVANCES IN AID OF CONSTRUCTION

LINE NO.	Description	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	AIAC	(861)	238,782	237,921

References:

Column [A]: Amounts included in plant balances per filing.

Column (B): Per Testimony GWB

Column (C): Column [A] less Column [B]

RIO RICO UTILITIES, INC. WASTEWATER DIVISION  
Docket No. WS-02676A-09-0257  
Test Year Ended December 31, 2008

Schedules GWB - 7, 8, & 9

Schedules GWB-7, -8, & -9 are not used

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
1	Water Revenues	\$ 1,829,726	\$ -	\$ 1,829,726	\$ (364,303)	\$ 1,465,423
2	Other Revenues	250	-	250	-	250
3	Other	-	-	-	-	-
4	<b>Total Operating Revenues</b>	<b>\$ 1,829,976</b>	<b>\$ -</b>	<b>\$ 1,829,976</b>	<b>\$ (364,303)</b>	<b>\$ 1,465,673</b>
5	Salaries and Wages	\$ -	\$ -	-	\$ -	\$ -
6	Purchased Water and WW Treatment	\$ -	-	-	\$ -	\$ -
7	Sludge Removal Expense	\$ -	-	-	\$ -	\$ -
8	Purchased Power	\$ 17,426	48,005	65,431	-	\$ 65,431
9	Fuel for Power Production	\$ -	-	-	\$ -	\$ -
10	Chemicals	\$ 9,644	-	9,644	-	\$ 9,644
11	Materials and Supplies	\$ 14,304	-	14,304	-	\$ 14,304
12	Contractual Services	\$ 298,008	(49,583)	248,425	-	\$ 248,425
13	Contractual Services- Testing	\$ -	-	-	\$ -	\$ -
14	Contractual Services - Other	\$ 175,196	-	175,196	-	\$ 175,196
15	Contractual Services - Legal	\$ 367	-	367	-	\$ 367
16	Equipment Rental	\$ 25,781	-	25,781	-	\$ 25,781
17	Rents - Building	\$ -	-	-	\$ -	\$ -
18	Transportation Expenses	\$ 26,817	-	26,817	-	\$ 26,817
19	Insurance - General Liability	\$ 12,021	-	12,021	-	\$ 12,021
20	Insurance - Vehicle	\$ -	-	-	\$ -	\$ -
21	Regulatory Commission Expense	\$ 994	(994)	-	-	-
22	Reg. Comm. Exp. - Rate Case	\$ 41,667	-	41,667	-	\$ 41,667
23	Miscellaneous Expense	\$ 155	-	155	-	\$ 155
24	Bad Debt Expense	\$ 64,087	-	64,087	-	\$ 64,087
25	Depreciation and Amortization	\$ 252,672	(848)	251,824	-	\$ 251,824
26	Taxes Other Than Income	\$ -	-	-	-	-
27	Property Taxes	\$ 91,705	(4,637)	87,068	(5,778)	\$ 81,290
28	Income Tax	\$ 308,456	3,110	311,566	(138,386)	\$ 173,180
29						
30	<b>Total Operating Expenses</b>	<b>\$ 1,339,300</b>	<b>(4,947)</b>	<b>1,334,353</b>	<b>(144,163)</b>	<b>\$ 1,190,190</b>
31	<b>Operating Income (Loss)</b>	<b>\$ 490,676</b>	<b>\$ 4,947</b>	<b>\$ 495,623</b>	<b>\$ (220,139)</b>	<b>\$ 275,484</b>

References:

- Column (A): Company Schedule C-1
- Column (B): Schedule GWB 11
- Column (C): Column (A) + Column (B)
- Column (D): Schedules GWB 2, Lines 29 and 37
- Column (E): Column (C) + Column (D)

RIO RICO UTILITIES, INC. WASTEWATER DIVISION

Docket No. WS-02676A-09-0257

Test Year Ended December 31, 2008

Schedule GWB-11

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) Purchased Power ADJ #1	(C) Depreciation Exp. ADJ #2	(D) Foreign Exchange ADJ #3	(E) Property Taxes ADJ #4	(F) Income Taxes ADJ #5	(G) Rate Case ADJ #6	(I) Corporate Allocation ADJ #7	(G) STAFF ADJUSTED
1	Water Revenues	\$ 1,829,726	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,829,726
2	Other Revenues	250	-	-	-	-	-	-	-	250
3	Other	-	-	-	-	-	-	-	-	-
4	<b>Total Operating Revenues</b>	<b>\$ 1,829,976</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,829,976</b>
5	Salaries and Wages	-	-	-	-	-	-	-	-	-
6	Purchased Water and WW Treatment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7	Sludge Removal Expense	-	-	-	-	-	-	-	-	-
8	Purchased Power	17,426	48,005	-	-	-	-	-	-	65,431
9	Fuel for Power Production	-	-	-	-	-	-	-	-	-
10	Chemicals	9,644	-	-	-	-	-	-	-	9,644
11	Materials and Supplies	14,304	-	-	-	-	-	-	-	14,304
12	Contractual Services	298,008	-	-	(17,284)	-	-	-	(32,298)	248,425
13	Contractual Services - Testing	-	-	-	-	-	-	-	-	-
14	Contractual Services - Other	175,196	-	-	-	-	-	-	-	175,196
15	Contractual Services - Legal	367	-	-	-	-	-	-	-	367
16	Equipment Rental	25,781	-	-	-	-	-	-	-	25,781
17	Rents - Building	-	-	-	-	-	-	-	-	-
18	Transportation Expenses	26,817	-	-	-	-	-	-	-	26,817
19	Insurance - General Liability	12,021	-	-	-	-	-	-	-	12,021
20	Insurance - Vehicle	-	-	-	-	-	-	-	-	-
21	Regulatory Commission Expense	994	-	-	-	-	-	(994)	-	-
22	Reg. Comm. Exp. - Rate Case	41,667	-	-	-	-	-	-	-	41,667
23	Miscellaneous Expense	155	-	-	-	-	-	-	-	155
24	Bad Debt Expense	64,087	-	-	-	-	-	-	-	64,087
25	Depreciation and Amortization	252,672	-	(848)	-	-	-	-	-	251,824
26	Taxes Other Than Income	-	-	-	-	-	-	-	-	-
27	Property Taxes	91,705	-	-	-	(4,637)	-	-	-	87,068
28	Income Tax	308,456	-	-	-	-	3,110	-	-	311,566
29										
30										
31	<b>Total Operating Expenses</b>	<b>\$ 1,339,300</b>	<b>\$ 48,005</b>	<b>\$ (848)</b>	<b>\$ (17,284)</b>	<b>\$ (4,637)</b>	<b>\$ 3,110</b>	<b>\$ (994)</b>	<b>\$ (32,298)</b>	<b>\$ 1,334,353</b>
32	<b>Operating Income (Loss)</b>	<b>\$ 490,676</b>	<b>\$ (48,005)</b>	<b>\$ 848</b>	<b>\$ 17,284</b>	<b>\$ 4,637</b>	<b>\$ (3,110)</b>	<b>\$ 994</b>	<b>\$ 32,298</b>	<b>\$ 495,623</b>

References:

ADJ #	1	Reclassify Power Exp from Wastewater
	2	Depreciation Expense
	3	Foreign Exchange Adjustment
	4	Property Taxes
	5	Income Taxes
	6	Rate Case
	7	Corporate Expense Allocation
	12	GWB 12
	13	GWB 13
	14	GWB 14
	15	GWB 15
	16	GWB 16
	17	GWB 17
	18	GWB 18

OPERATING INCOME ADJUSTMENT #1 - RECLASSIFY POWER TO WATER

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
1	Purchased Power	<u>\$ 17,426</u>	<u>\$ 48,005</u>	<u>\$ 65,431</u>

References:

Column (A), Company Schedule C-1

Column (B): Testimony GWB

Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT #2- DEPRECIATION EXPENSE

LINE NO.	ACCT. NO.	DESCRIPTION	[A] PLANT BALANCE	[B] DEPRECIATION RATE	[C] DEPRECIATION EXPENSE
1		<u>PLANT IN SERVICE:</u>			
2	351	Organization	5,785	0.00%	-
3	352	Franchises	417	0.00%	-
4	353	Land	7,545	0.00%	-
5	354	Structures & Improvements	28,548	3.33%	951
6	355	Power Generation	-	5.00%	-
7	360	Collection Sewer Forced	636,023	2.00%	12,720
8	361	Collection Sewers Gravity	5,945,962	2.00%	118,919
9	362	Special Collecting Structures	-	2.00%	-
10	363	Customer Services	1,145,530	2.00%	22,911
11	364	Flow Measuring Devices	55,988	10.00%	5,599
12	365	Flow Measuring Installation	-	10.00%	-
13	366	Reuse Services	-	2.00%	-
14	367	Reuse Meters And Installation	-	8.33%	-
15	370	Receiving Wells	867,120	3.33%	28,875
16	371	Pumping Equipment	1,504,181	12.50%	188,023
17	374	Reuse Distribution Reservoirs	-	2.50%	-
18	375	Reuse Trans. and Dist. System	-	2.50%	-
19	380	Treatment & Disposal Equipment	1,006,848	5.00%	50,342
20	381	Plant Sewers	-	5.00%	-
21	382	Outfall Sewer Lines	-	3.33%	-
22	389	Other Sewer Plant & Equipment	68,869	6.67%	4,594
23	390	Office Furniture & Equipment	110,454	6.67%	7,367
24	390.1	Computers and Software	4,025	20.00%	805
25	391	Transportation Equipment	-	20.00%	-
26	392	Stores Equipment	-	4.00%	-
27	393	Tools, Shop And Garage Equip	4,897	5.00%	245
28	394	Laboratory Equip	-	10.00%	-
29	396	Communication Equip	5,936	10.00%	594
30	398	Other Tangible Plant	3,913	0.00%	-
31	398	Nogales WW Trmnt Capacity	427,000	4.72%	20,154
32		<b>Total Plant in Service</b>	<u>11,829,041</u>	3.91%	<u>462,099</u>
33					
34					
35		Less Non Depreciable Plant			
36	351	Organization	5,785	0.00%	-
37	352	Franchises	417	0.00%	-
38	353	Land	7,545	0.00%	-
39					
40		Net Depreciable Plant and Depreciation Amounts	\$ 11,815,295		\$ 462,099
41		Composite Depreciation Rate		3.91%	
42		Less			
43		Amortization of Regulatory CIAC at Settlement Rate			-
44		Amortization of CIAC at Composite Rate	\$ 5,376,456		\$ 210,274
45		Staff Recommended Depreciation Expense			\$ 251,824
46		Company Proposed Depreciation Expense			<u>252,672</u>
47		Staff Adjustment			\$ (848)

<u>References:</u>	
Col A	Schedule GWB-4
Col B	Proposed Rates per Staff Engineering Report for Non Allocated Plant
Col C	Col [A] times Col [B]

OPERATING INCOME ADJUSTMENT #3 - FOREIGN EXCHANGE ADJUSTMENT

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
1	Outside Services	\$ 298,008		
2	Foreign Exchange Adj GWB-14		\$ (17,284)	
3	Corporate Expense Allocation GWB-18		\$ (32,298)	
4	<u>Total</u>	\$ 298,008	\$ (49,583)	\$ 248,425

References:

Column (A), Company Schedule C-2  
Column (B): Testimony GWB  
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT #4 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]
		STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2007	\$ 1,829,976	\$ 1,829,976
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	3,659,952	3,659,952
4	Staff Recommended Revenue	1,829,976	1,465,673
5	Subtotal (Line 4 + Line 5)	5,489,928	5,125,625
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	1,829,976	1,708,542
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	3,659,952	3,417,084
10	Plus: 10% of CWIP - 2008		
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	3,659,952	3,417,084
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	768,590	717,588
15	Composite Property Tax Rate - Obtained from ADOR	11.33%	11.33%
16	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 87,068	
17	Company Proposed Property Tax	\$ 91,705	
18	Staff Test Year Adjustment (Line 16 - Line 17)	<u>\$ (4,637)</u>	
19	Property Tax on Staff Recommended Revenue (Line 14 * Line 15)		\$ 81,290
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 87,068
21	Increase in Property Tax Due to Increase in Revenue Requirement		<u>\$ (5,778)</u>
22	Increase in Property Tax Due to Increase in Revenue Requirement (Line 21)		\$ (5,778)
23	Increase in Revenue Requirement		\$ (364,303)
24	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		1.58596%

REFERENCES:

- 0
- Line 15: Composite Tax Rate obtained from Arizona Department of Revenue
- Line 17: Company Schedule C-1, Line 27
- Line 21: Line 19 - Line 20
- Line 23: Schedule GWB-1, Line 8

RIO RICO UTILITIES, INC. WASTEWATER DIVISION  
Docket No. WS-02676A-09-0257  
Test Year Ended December 31, 2008

Schedule GWB-16

OPERATING INCOME ADJUSTMENT #5 - INCOME TAXES

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
1	Income Taxes	<u>\$ 308,456</u>	<u>\$ 3,110</u>	<u>\$ 311,566</u>

References:

Column (A), Company Schedule C-2

Column (B): Testimony GTM

Column (C): Column (A) + Column (B)

**OPERATING INCOME ADJUSTMENT #6 - RATE CASE EXPENSE**

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
1	Rate Case Expense	\$ 994	\$ (994)	\$ -

References:

Column (A), Company Schedule C-1  
Column (B): Testimony GWB  
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT #7 - CORPORATE EXPENSE ALLOCATION

LINE NO.		[A] [B]		[C]	[D]					
		As Filed Total Budget 2008	Per DR 4.2 Total Actual 2,008	Rio Rico Total Budget 2008	Total Actual	2008				
1	Audit	507,000	1,021,609	17,672	35,608					
2	Tax Services	265,000	322,446	9,237	11,239					
3	Legal	300,000	767,451	10,457	26,750					
4	Other Professional Services	455,000	565,649	15,859	22,404					
5	Management Fee - Total	636,619	642,771	22,190	10,101					
6	Unit Holder Communications	314,100	289,796	10,948	4,496					
7	Trustee Fees	204,000	129,000	7,110	4,496					
8	Escrow & Transfer Agent Fees	75,000	71,366	2,614	2,487					
9	Rent	430,739	299,586	15,014	10,442					
10	Licenses/Fees & Permits	305,000	140,852	10,631	4,909					
11	Office Expenses	254,000	808,101	8,853	28,167					
12	Depreciation	204,242	211,253	7,119	7,363					
13										
14	Total Admin Costs	3,950,700	5,269,882	137,703	168,464					
15										
16	Variance from Budget		1,319,182		30,761					
17										
18	Total Amount Charged in case		137,703							
19										
20	Percentage		3.49%							
21										
22										
23		[E]	[F]	[G]	[H]	[I]	[J]	[K]	[L]	Note
24		Total	Disallowance	Costs Allocable	Allowable Common	Allocation	Cost to be	Amount	Adjustment	
25		Actuals	Amount	to APIF	costs to 70 Companies	(1/70)	Allocated to	in Filing		
26		2008					Rio Rico			
27	<b>Staff Disallowances</b>									
28	Audit	1,021,609		(919,448)	91,945	1.43%	1,313	17,672	(16,358)	
29	Tax Services	322,446	190,849	(118,437)	11,844	1.43%	169	9,237	(9,067)	(1)
30	Legal	767,451	10,457	(681,295)	68,130	1.43%	973	10,457	(9,483)	(2)
31	Other Professional Services	565,649	-	(565,649)	-	1.43%	-	15,859	(15,859)	(3)
32	Management Fee - Total	642,771	-	(642,771)	-	1.43%	-	22,190	(22,190)	
33	Unit Holder Communications	289,796	-	(289,796)	-	1.43%	-	10,948	(10,948)	
34	Trustee Fees	129,000	-	(129,000)	-	1.43%	-	7,110	(7,110)	
35	Escrow & Transfer Agent Fees	71,366	-	(71,366)	-	1.43%	-	2,614	(2,614)	
36	Rent	299,586	-	(299,586)	-	1.43%	-	15,014	(15,014)	
37	Licenses/Fees & Permits	140,852	140,852	(140,852)	-	1.43%	-	10,631	(10,631)	(4)
38	Office Expenses	808,101	-	(808,101)	-	1.43%	-	8,853	(8,853)	
39	Depreciation	211,253	-	(190,128)	19,013	1.43%	272	7,119	(6,847)	
40	Total Admin Costs	5,269,882	342,158	(4,856,431)	190,931		2,728	137,703	(134,975)	
41										
42							Currency Adj.		(7,829)	
43							US Dollars		(127,147)	
44	<b>References:</b>									
45	Column (A): Company Schedule C-2 Based on \$3.95 M						Staff	Can \$	US \$	
46	Column (B): Company Response to DR GWB 4.2 Based on \$5.27 M						Recomm.	Adjustment	Adj.	
47	Column (C): Company's Original Estimate of allocated cost, based on Budget, per filing					Restated amounts:	As Filed			
48						Water	\$ 102,960	\$ 2,039	\$ (100,921)	\$ (95,067)
49						Wastewater	\$ 34,747	\$ 688	\$ (34,059)	\$ (32,083)
50						Total	\$ 137,707	\$ 2,728	\$ (134,979)	\$ (127,150)
51	Column (D): Company's Revised Original Estimate of allocated costs, based on 2008 Actuals, per Company Response to DR GWB 4.2									
52	Column (E): Staff Recommended Disallowance					<b>Per Direct Testimony:</b>				
53	Column (F): Company Revised amount subject to allocation, less Staff Recommended disallowance					Water	102,960	1,363	(101,597)	(95,704)
54	Column (G): Per testimony GWB, Staff's estimate of common costs benefitting unregulated parties					Wastewater	34,747	460	(34,287)	(32,298)
55						Total	137,707	1,823	(135,884)	(128,002)
56	Column (H): Rio Rico is 1 of 70 companies held by the parent (APIF)					Adjustment to be made in Surrebuttal:		Can \$	US \$	
57	Column (I): Total amount allocable to Infrastructure					Water	102,960	676	637	
58	Column (J): Per Company response to Staff DR 4.2, Based on Budget Amounts					Wastewater	34,747	228	215	
59	Column (K): Total amount allocable to Infrastructure					Total	137,707	904	852	

Note:

- 61 (1) Cost specific to Canadian Tax Service
- 62 (2) No indication on ledger that costs benefitted AZ
- 63 (3) This account is used mostly for business development
- 64 (4) Account used for charity, entertainment, etc

Note: At 'the last minute', Staff noted a minor computational error whereby the allocations to Water and Wastewater should have been \$2,039 and \$688, respectively, for a total of \$2,728, instead of the \$1,363 and \$460, respectively, for a total of \$1,823 used in Staff Direct Testimony, for differences of \$676 and \$228, respectively, and a total difference of \$904 (all in Can dollars). The net adjustment, or increase to expenses is \$852 in US dollars, which is not considered material but will be corrected in the surrebuttal testimony.

MEMORANDUM

**TO:** **Gerald Becker**  
Public Utilities Analyst V  
Utilities Division

**FROM:** Carmen Madrid  
Public Utility Consumer Analyst  
Utilities Division *CJM*

**DATE:** December 9, 2009

**RE:** **Rio Rico Utilities, Inc.**  
**Docket No. WS-02676A-09-0257**

Rio Rico Utilities, Inc. has applied for approval of a rate increase for services provided in Santa Cruz County, Arizona.

Per information received from the Corporations Section of the Arizona Corporation Commission on December 9, 2009, this company is in good standing.

A search of Consumer Services complaint files reveals the following customer complaints against Rio Rico:

- 2006 - four complaints - billing, three new service; ten inquiries - five billing, new service, rates/tariffs, three construction; zero opinions
- 2007 - two complaints - billing; six inquiries - two billing, quality of service, rates/tariffs, two other; one opinion - rates/tariffs
- 2008 - nine complaints- three billing, two deposits, two new service, quality of service, disconnect/terminations; eight inquiries - two billing, two new service, disconnect/terminations, rates/tariffs, two construction; and zero opinions
- 2009 - eight complaints - five billing, deposits, new service, service; five inquiries - billing, two deposits, disconnect/terminations, miscellaneous: zero opinions

All complaints have been resolved and closed.