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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF BLACK MOUNTAIN SEWER CORPORATION, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-02361A-08-0609 **NOTICE OF FILING REJOINDER TESTIMONY**

Black Mountain Sewer Corporation ("Company") hereby submits this Notice of Filing Rejoinder Testimony in the above-referenced matter. Specifically filed herewith is Company's Rejoinder Testimony, which includes the following testimonies, along with supporting schedules and/or attachments:

1. Rejoinder Testimony of Gregory S. Sorensen;
2. Rejoinder Testimony of Thomas J. Bourassa (Rate Base); and
3. Rejoinder Testimony of Thomas J. Bourassa (Cost of Capital).

DATED this 16th day of November, 2009.

FENNEMORE CRAIG, P.C.

By [signature]
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Arizona Corporation Commission
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ORIGINAL and thirteen (13) copies
of the foregoing were filed
this 16th day of November, 2009, with:

Docket Control
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Phoenix, AZ 85007

Copy of the foregoing was hand delivered
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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF BLACK MOUNTAIN SEWER CORPORATION, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-02361A-08-0609

REJOINDER TESTIMONY OF

GREGORY S. SORENSEN

November 16, 2009

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I. INTRODUCTION AND PURPOSE OF TESTIMONY.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THE INSTANT CASE?

A. Yes, my direct and rebuttal testimony were submitted in support of the initial application and the rebuttal filing in this docket by Black Mountain Sewer Corporation ("BMSC" or "Company").

Q. WHAT IS THE PURPOSE OF YOUR REJOINDER TESTIMONY?

A. To further support BMSC's application for rate relief by responding to certain aspects of the surrebuttal testimony of Utilities Division Staff ("Staff"), and the Intervenors, RUCO, Dr. Doelle and Boulders Home Owners Association ("BHOA").

Q. PLEASE SUMMARIZE YOUR REJOINDER TESTIMONY?

A. First, I will address the BHOA testimony of Mr. Peterson, including the gain share on the future sale of land and the rate impact on customers. Second, I will address Dr. Doelle's testimony his requested "special rate." Additionally, I will discuss RUCO's choice to exclude properly incurred costs related to a regrettable spill, and I will further address RUCO's position on the BHOA proposed plant closure. Finally, I will address Staff's positions on the HUF, wastewater testing costs, and a few of Ms. Brown's positions, including those on the transfer of an odor scrubber from an affiliate, incentive compensation, transportation expense, and the Company's shared services model and the related costs thereof.

II. REJOINDER TO BHOA TESTIMONY

Q. HAVE YOU REVIEWED THE TESTIMONY BY LES PETERSON ON BEHALF OF THE BHOA?

A. Yes, I have.

Q. DO YOU AGREE WITH MR. PETERSON'S TESTIMONY REGARDING THE SHARING OF THE GAIN ON THE SALE OF THE LAND WHERE THE PLANT IS LOCATED?

A. Yes, Mr. Peterson has accurately described our agreement concerning selling the land and how it would be treated.[1] Like Mr. Peterson, BMSC hopes that we can sell the parcel at the highest possible price, and that such sale would eventually reduce the rate impacts of the plant closure project. However, we do not know when we can complete such a sale, nor do we know the final sales price.

Q. WOULDN'T IT REDUCE THE RATE IMPACT FURTHER IF BMSC ALLOWED ALL OF THE GAIN TO INURE TO THE BENEFIT OF THE RATEPAYERS?

A. Yes, but why would BMSC agree to sell its property solely for the benefit of third-parties? It wouldn't, which is why the agreement between BMSC and the BHOA provides that the parties' parcels will be joined together, sold, and the profit from the proceeds shared. This seems very fair to us.

Q. THANK YOU MR. SORENSEN. WHAT ABOUT MR. PETERSON'S TESTIMONY THAT THE RATE IMPACT WOULD BE LOWER IF BMSC EXPERIENCES CUSTOMER GROWTH?

A. Mr. Peterson is right. But, the rate impact could be higher too, if we experience a loss of customers. Which is really our central point – we do not know what this

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[1] Surrebuttal Testimony of Les Peterson at 3:4-16.

project is going to cost for certain, and we do not know the rate impact. We can identify factors that will affect the final rate impact on our ratepayers, and we can estimate the costs, as we have done. In the end though, it will cost what it costs and the rate impact will follow directly from that cost, and that is the investment we expect to earn a return on in accordance with our agreement.

Q. SO BMSC REALLY CAN SPEND WHATEVER IT WANTS AND IT WILL AUTOMATICALLY GET A RETURN?

A. Of course not. As I testified in my rebuttal, we are not asking for a blank check, and we do not intend to spend a dollar more than we need to spend to complete the project and maintain service to all of our ratepayers. But, we are asking for a recovery mechanism that allows us to obtain a return on and of our reasonable and prudent investment without the usual ratemaking lag. We fully expect to have to justify that what we spent was in fact reasonable and prudent if Staff, RUCO and/or the BHOA, or the Commission, believe otherwise.

III. REJOINDER TO DR. DOELLE

Q. HAVE YOU REVIEWED DR. DOELLE'S TESTIMONY DATED NOVEMBER 9, 2009?

A. Yes.

Q. DR. DOELLE TESTIFIED THAT YOU APPEAR TO AGREE WITH HIM THAT THE RATE HE IS PAYING IS "UNREASONABLE AND NEEDS TO BE RECONSIDERED."[2] IS THAT ACCURATE?

A. No, BMSC in no way believes that the rates Dr. Doelle is paying for service to his business are unreasonable. The Commission sets the rates and we charge them. My only point is that it is up to the Commission, not BMSC, to decide whether Dr.

[2] Dr. Doelle Testimony (November 9, 2009) at 1.

Doelle deserves special treatment, and then how to provide it to him without adversely impacting our ability to earn our revenue requirement.

Q. BUT ISN'T BMSC ASKING THE COMMISSION TO ELIMINATE THE SPECIAL RATES IT HAS FOR CERTAIN COMMERCIAL CUSTOMERS?

A. Yes, because the other customers on the system are subsidizing these "special rate" customers and we have no idea how they originated. Additionally, these different commercial rates are harder to administer, and if 14 customers have special rates, then there is always a 15^{th} customer that also wants special treatment.

Q. THEN WHY NOT JUST OPPOSE DR. DOELLE'S REQUEST TO BE A SPECIAL RATE CUSTOMER?

A. Dr. Doelle is a customer and he pays his bill every month. He has taken the time to intervene in this case and have his concerns heard. Also, we are not in a position to respond to the Doctor's discussion of modern dental technology, and I surely was not going add to the rate case expense by hiring an expert. As such, we left it to the Commission to decide whether Dr. Doelle deserves special treatment.

Q. BUT THE COMPANY STILL ASKS THAT THE COMMISSION ELIMINATE THE EXISTING SPECIAL RATES?

A. Absolutely. There is no evidence in the record to support continuation of these special rates therefore, as I explain in further detail below in rejoinder to Ms. Brown, they should be eliminated.

Q. DO YOU HAVE ANY OTHER REJOINDER TO DR. DOELLE?

A. Yes. Dr. Doelle continues to advocate sewer rates based on water usage.[3] But this position ignores my testimony that we have multiple water providers in our service

[3] *Id.* at 2-3.

area and we do not have any access to water usage information.[4] We simply cannot bill Dr. Doelle or any other customer based on water usage.

IV. REJOINDER TO RUCO

Q. HAVE YOU REVIEWED THE SURREBUTTAL TESTIMONY FILED BY RUCO?

A. I have reviewed Mr. Rigsby's testimony on cost of capital but will let Mr. Bourassa respond. All I can say, again, is that adoption of Mr. Rigsby's recommended cost of capital will reduce the amount of capital we have available for investment in Arizona.[5] I have also reviewed Mr. Rigsby's testimony in response to the BHOA and I will address that here.

Q. WHAT ABOUT MR. MOORE'S SURREBUTTAL TESTIMONY?

A. I have reviewed his testimony and I will respond to his rejoinder testimony regarding "unnecessary and non-recurring" expenses. I also want to express our gratitude to Mr. Moore. In our rebuttal, we went a long way to provide additional information and explanation regarding several of the other parties' adjustments, and we invited the other parties to use that information to reduce the number of issues in dispute. Mr. Moore did that and we commend him for his cooperative efforts. It shows that the parties can work together to reduce disputes, which benefits all of the stakeholders in a rate case.

Q. THANK YOU MR. SORENSEN. WOULD YOU PLEASE RESPOND TO MR. MOORE'S SURREBUTTAL TESTIMONY THAT $39,870 OF CLEAN-UP COSTS WERE "UNNECESSARY"?

[4] Rebuttal Testimony of Gregory S. Sorensen ("Sorensen Rb.") at 5:15-21.

[5] Sorensen Rb. at 9-11.

A. Yes. I assume Mr. Moore is not suggesting that the clean-up of an unexpected discharge of wastewater was unnecessary, but rather that the spill was unnecessary. But I don't think "unnecessary" properly characterizes the circumstances. Of course, unexpected wastewater discharges are not necessary or desirable. They are also unfortunate and regrettable, but they are part of operating any wastewater collection and treatment system. Agencies such as ADEQ and MCESD recognize the fact that unexpected wastewater discharges do occur. They evaluate the cause of the spill and the clean-up effort. In our case, as a result of our prompt and thorough remediation, we were not issued an NOV for the aforementioned spill.

In other words, discharges happen, and what is necessary and proper is immediate response and remediation. We did that, and now RUCO wants BMSC to eat all costs of clean-up as just a cost of doing business for the shareholders. In contrast, Staff's recommended expense levels recognize these costs as a cost of BMSC's normal operations, which is why we support the adjustment by Ms. Brown to Contractual Services expense.

Q. YOU TESTIFIED THAT YOU ALSO WISH TO RESPOND TO MR. RIGSBY'S TESTIMONY REGARDING THE AGREEMENT WITH THE BHOA?

A. Yes. For starters, Mr. Rigsby does not seem to understand the process to close the plant.

Q. WHY DO YOU SAY THAT?

A. Because RUCO's recommendation is that "the Commission allow BMSC to retire the treatment facility and require the Company to file a general rate case application twelve months after the retirement."[6] Retiring plant is a bookkeeping

[6] Surrebuttal Testimony of William A. Rigsby ("Rigsby Sb.") at 9:6-8.

entry. In order to close the plant, we need to remove infrastructure and comply with all of the closure requirements under law. We also need to reroute flows by making modifications to our collection and transmission system and we need to buy $720,000 of additional capacity from Scottsdale. This is not simply about writing the plant off the books and then seeing what happens.

Q. MR. RIGSBY TESTIFIES THAT RUCO IS CONCERNED THAT THE PLANT CLOSURE WON'T SOLVE THE ODOR PROBLEM. HOW DO YOU RESPOND?

A. That Mr. Rigsby does not know what he is talking about. He has not conducted any discovery, visited the plant, nor talked to our engineers or the members of the BHOA, to my knowledge. All Mr. Rigsby bases his testimony on is alleged correspondence with parties' lawyers.[7] Clearly, Mr. Rigsby does not have sufficient evidence to support his belief that closing the plant will not eliminate odor emissions.

Q. BUT HOW CAN BMSC BE SURE THAT REMOVAL OF THE PLANT WILL ADDRESS THE ODOR PROBLEM THE BHOA MEMBERS ARE COMPLAINING ABOUT?

A. The current plant operates within all regulatory requirements. However, as with any operating wastewater plant, it does emit odors from time to time. The odors are emitted as part of the treatment process. This treatment process is what the plant does. If the plant is eliminated, there will be no more treatment process on the site. Also, the lift station on the plant site will be eliminated. Currently, this lift station "lifts" sewage from the collection lines to the plant for treatment. If the plant is eliminated, some additional pipes will be placed underground connecting

[7] Rigsby Sb. at 4.

and essentially bypassing the plant site (lines will be along the current roadway in front of plant site). These pipes will be underground, with little chance for odors to escape. All that would remain is a collection system.

Q. BUT MR. SORENSEN, WASN'T THE COMPANY HAVING TROUBLE WITH ODORS FROM THE COLLECTION SYSTEM IN THE LAST RATE CASE?

A. Yes, and we have resolved those concerns. But it is appropriate to qualify my testimony because in any collection system, odors are emitted periodically from manholes (which we try to keep sealed) and occasionally a lift station will have a mechanical failure that can result in odor emission. Those types of odors won't be eliminated by removal of the plant, but with the plant gone and collection lines on that property buried, there would not be odors coming from that location.

Q. MR. RIGSBY ALSO EXPRESSES CONCERN OVER "THE BROADER RATEMAKING IMPACTS AND PRECEDENTS" OF THE RATE RATEMAKING RELIEF CALLED FOR IN THE SETTLEMENT AGREEMENT. HOW DO YOU RESPOND?

A. That I doubt that the approvals sought by BMSC and the BHOA will have a detrimental impact on all of Arizona's ratepayers.[8] This is an extraordinary circumstance and it calls for extraordinary measures. In this case, our residential utility consumers are asking for something, and are willing to pay for it. The Company has agreed to oblige the request if certain conditions are met. I view this as an overall "positive" example of a utility company and its customers working together. Perhaps that is the precedent we should be trying to set.

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[8] *See* Rigsby Sb. at 4-7.

Q. WHY DO YOU BELIEVE THIS IS AN EXTRAORDINARY CIRCUMSTANCE?

A. Our customers have intervened in this rate case because they want a part of our system to be removed. The plant is currently used and necessary for service, but the Company would prefer to work with its customers to meet their desires where possible. Ironically, the perception that we were not listening to our customers lead to substantial criticism by the Commission in the last rate case. Since then we have worked very hard to be a part of the community we serve. The agreement with the BHOA is a significant step, and all the ratepayers and Company need is Commission approval of the ratemaking provisions of the settlement agreement.

Q. CAN THE COMMISSION GRANT THE NECESSARY APPROVALS?

A. I am not a lawyer, but I am aware that the Commission has authorized adjuster mechanisms and surcharges in other cases. Mr. Rigsby recognizes this too, and he does not assert that the Commission cannot grant the needed relief. He testifies that the Commission shouldn't because such relief is reserved for extraordinary circumstances.[9] As I testified, these are extraordinary circumstances, and it is simply unfortunate that RUCO doesn't see that based on the concerns expressed by its constituents in this case.

V. REJOINDER TO STAFF

Q. HAVE YOU REVIEWED THE SURREBUTTAL TESTIMONIES FILED BY COMMISSION STAFF IN THIS RATE CASE?

A. I have read the testimonies of Ms. Brown and Ms. Hains. I am also familiar with the positions expressed by Mr. Manrique in his surrebuttal. As with Mr. Rigsby's cost of capital recommendations, I will let Mr. Bourassa provide the Company's

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[9] *See* Rigsby Sb. at 7-8.

specific responses. For my part, while Mr. Manrique's recommended ROE is certainly preferable to Mr. Rigsby's, the returns BMSC would realize if Staff's ROE were approved still do not compare favorably with the returns on other assets by APIF. This means that we will have a very difficult time competing for capital beyond the smallest amount needed to maintain the bare minimum level of service.

Q. **BUT MR. SORENSEN, HASN'T BMSC COMMITTED TO SPEND AN ESTIMATED $1.5 MILLION TO $2 MILLION ON THE PLANT CLOSURE PROJECT?**

A. Yes, but the shareholder's willingness to supply the necessary capital is contingent on the recovery mechanism. If the shareholder isn't assured that it will earn a return on and of its investment, there is no way I am going to get that kind of money to take a used and useful asset out of service. This mindset is the direct result of the regulatory lag inherent in Arizona's ratemaking process, the low rates of return that are being authorized by the Commission, and decisions by this Commission, like the recent decision for BMSC's affiliate Gold Canyon Sewer, that make investing capital here a poor investment decision.

Q. **DOES STAFF ADDRESS THE BHOA-BMSC AGREEMENT?**

A. No.

Q. **THEN WHAT RESPONSE DO YOU HAVE TO MS. HAINS' SURREBUTTAL?**

A. Ms. Hains again addresses Staff's recommended reduction in testing costs and Staff's recommended denial of the requested hook-up fee or HUF tariff in her surrebuttal. I will address both of these issues.

Q. **DIDN'T YOU TESTIFY IN YOUR REBUTTAL THAT STAFF SUPPORTED THE COMPANY'S PROPOSED HUF DESPITE THE OPPOSITION EXPRESSED IN MS. HAINS' DIRECT?**

A. Yes, I did because that is what Staff told the Company its position was shortly after we contacted them about Ms. Hains' direct testimony and explained that we do not already have 1 million gallons of treatment capacity from Scottsdale. This was Ms. Hains' reasoning for recommending denial of the HUF tariff in her direct testimony.[10] I was pretty surprised when I read Ms. Hains' surrebuttal testimony and saw that Staff's position had changed again.

Q. WHAT REASON DOES MS. HAINS GIVE NOW FOR DENIAL OF THE HUF TARIFF?

A. As best I can tell, Ms. Hains thinks our proposed HUF level is too high.[11] To be honest, I can't really follow Ms. Hains' calculation, but I do not agree that our proposed HUF tariff amount is too high. However, Ms. Hains has also submitted an alternative recommendation with different HUF amounts than our proposed HUF tariff. We are willing to accept Staff's recommended HUF amounts, and we will agree to use the HUF form of tariff Mr. Scott recently recommended in the rate case for BMSC's affiliate, LPSCO.[12] However, in the LPSCO case (or others) we may still address concerns with that form of tariff, including perhaps reworking the language in Section IV so as to ensure HUF funds can be used to purchase capacity.

Q. THANK YOU MR. SORENSEN. WOULD YOU PLEASE ADDRESS MS. HAINS' POSITION ON TESTING COSTS?

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[10] Direct Testimony of Dorothy Hains ("Hains Dt.") at Engineering Report Section H.

[11] Surrebuttal Testimony of Dorothy Hains ("Hains Sb.") at 1-2.

[12] Attached as **Sorensen Rejoinder Exhibit 1** is a form of HUF tariff identical to that proposed by Staff in the recent filing it made in the LPSCO rate case, Docket No. SW-01428A-09-0103, but with Ms. Hains' alternative recommended HUF amounts.

A. Yes, although Ms. Hains has corrected some mistakes in her costs, she still recommends a reduction in testing costs because she does not believe that the additional testing that we have been conducting is "required."[13]

Q. DO YOU AGREE?

A. No. Although we do not yet have a new agreement with the City of Scottsdale codifying the City's new sampling plant, the City has made it clear that it wants us to follow this testing plan today. According to Ms. Hains though, we should just refuse the City's certain request because it is not yet written into an agreement as a requirement. We trust the Commission will not be so cavalier with the City's wishes to protect the public health.

Q. WHAT ABOUT MS. BROWN'S SURREBUTTAL. WHAT ISSUES DO YOU WISH TO ADDRESS?

A. I will provide rejoinder to Ms. Brown's surrebuttal testimony on (1) the inclusion of BMSC's odor control unit in rate base; (2) on the reduction of operating expenses to remove "bonuses"; and (3) transportation expense. Additionally, I will address Ms. Brown's adjustments to contractual services in conjunction with Mr. Bourassa's rejoinder on this issue.

Q. WHAT IS YOUR CONCERN WITH STAFF'S POSITION ON THE ODOR CONTROL UNIT?

A. My concern is that while Ms. Brown claims she does not have sufficient information to place the unit in rate base, her colleague removed the plant from LPSCO's rate base because it was transferred to BMSC.[14] This kind of

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[13] Hains Dt. at 4.

[14] *Compare* Surrebuttal Testimony of Crystal S. Brown ("Brown Sb.") at 3 *with* Direct Testimony of Jeffrey M. Michlik (wastewater) (Docket No. SW-01428A-09-0103) at 8-9.

inconsistency makes it hard for us to transfer assets between affiliates when it is very evident that such transfer is a benefit to the receiving utility.

Q. WHY IS THIS BENEFIT "VERY EVIDENT" MR. SORENSEN?

A. We took something one of our affiliates didn't need any more and moved it to another system where it was needed, and obtained a substantial savings. Now, the lesson we will take from Staff's two different adjustments is next time we will just buy new odor control equipment for BMSC at several times the cost. This harms the customers by increasing rates when not otherwise necessary because of Staff's inconsistent treatment of these types of transfers.

Q. BUT WHAT ABOUT MS. BROWN'S CONCERN THAT SHE CANNOT VERIFY THE PLANT ITEM?

A. Staff did not have any problem verifying it for removal from LPSCO's rate base, so I fail to see the problem here. Moreover, what Ms. Brown asks for is extremely difficult to produce. The odor control unit was purchased as part of a major plant upgrade project at LPSCO. While we have tried very hard with the vendor to produce the requested documentation, what Ms. Brown has asked the Company to do is similar to asking a car dealership to give a customer a separate invoice for tires when it purchases a car. It simply does not happen. The tires can be transferred between cars and have standalone value, but were purchased as part of a car. And again, the evidence was sufficient in another rate case. It should be here as well.

Q. YOU ALSO MENTIONED STAFF'S REMOVAL OF THE COST OF BONUSES.

A. Yes, to begin with, Ms. Brown is absolutely wrong in asserting that bonuses harm our ratepayers because the costs are not needed in the provision of service.[15] With

[15] Brown Sb. at 24:15-20.

all due respect, Ms. Brown does not seem to understand much about performance based compensation and how it works in a real business.

Q. WHY DO YOU SAY THAT, MR. SORENSEN?

A. Whether we pay an employee $42,000 a year base salary with a $3,000 bonus for performance, or we pay him/her $45,000 a year base salary, the impact on operating expenses is the same. However, we have found that by paying part of the salary as an incentive or "bonus" that can be taken away for inadequate performance, overall employee productivity increases. This is a benefit, not a detriment to customers, and it shows that Staff's adjustment is based on form, not substance.

Q. WHY DO YOU SAY THAT?

A. Because it seems that Ms. Brown is offended by the word "bonus." The $3,000 in the above example could be recharacterized as "pay at risk" if that is more palatable. We strive to pay our employees at "market rates." In the above example, the employee's TOTAL compensation would be compared to comparable jobs in the local/national job market to ensure the total amount paid is fair. Then, the amount of bonus, or pay at risk, is determined and is broken out from the market rate, with the remainder being paid as the base wage. Again, the ratepayer is not harmed because at worst, if the employee's performance is good, the customer is paying for the market rate. If the performance isn't up to par, the employee is paid less. Essentially, the customer is getting what they paid for in terms of employee performance.

Q. WOULD YOU PLEASE ADDRESS MS. BROWN'S ADJUSTMENT FOR TRANSPORTATION EXPENSE?

A. Yes, like the odor control unit transferred from LPSCO to BMSC, this issue seems to be another lesson in no good deed goes unpunished.

Q. PLEASE EXPLAIN WHAT YOU MEAN?

A. Ms. Brown is of the belief that because BMSC's truck was leased in the name of an affiliate, Gold Canyon, the truck could be used for another utility.[16] Ms. Brown is not following the facts. The vehicle was leased in Gold Canyon's name because Liberty Water has an open account with a lessor in that affiliate's name. This made the purchase easier and ensured we got the best deal possible. That is the extent of Gold Canyon's involvement. The truck is BMSC's, it is used exclusively for BMSC and no other utility, and the expense belongs 100 percent in BMSC's operating expenses.

Q. HAS THE COMPANY PROVIDED STAFF WITH EVIDENCE TO SUPPORT ITS POSITION?

A. Yes. We have provided Ms. Brown with evidence including health/safety and vehicle inspection logs which show that this is a BMSC vehicle.

Q. WHAT ABOUT MS. BROWN'S CONCERN THAT THE TRUCK COULD BE SHARED WITH GOLD CANYON?

A. There is no evidence that the truck is shared. The fact that the truck was leased in Gold Canyon's name does not make it any more likely that the truck would be shared with Gold Canyon any more so than that it would be shared with LPSCO, or Rio Rico Utilities in far southern, Arizona. Gold Canyon and BMSC are 40 miles apart, they don't routinely share trucks no matter whose name was on the original title. In fact, our BMSC operators were unaware of the fact that the truck was in the name of the affiliate until it was brought to their attention as a result of Ms. Brown's inquiries in this case. Again, this revelation was due to the fact that they had used the truck, since lease inception, exclusively for service at BMSC.

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[16] Brown Sb. at 32-33.

Q. YOU ALSO SAID YOU HAVE REJOINDER TESTIMONY ON CONTRACTUAL SERVICES EXPENSE. WHAT DO YOU WISH TO SAY?

A. In the last rate case for BMSC, the Company and Algonquin heard "loud and clear" that this Commission preferred a shared-service model in which the utility did not use a "market based rates" approach that includes a profit. According to the Commission, it was a no-no for an unregulated affiliate to earn a profit providing services to another regulated affiliate.

After Decision No. 69164, and then the same ratemaking treatment in Gold Canyon Sewer's 2007 rate decision, we restructured our shared services model to a true cost-based approach. This was consistent with the testimony in opposition to our prior shared services model voiced by Ms. Brown in both cases, and consistent we believed with similar models employed with approval by other holding companies regulated by the Commission.

Now, with this rate case, and five other Liberty Water utility providers in for rates, rather than welcoming our efforts to follow Staff's recommendations and the Commission's directive by redesigning our model, it appears Staff is looking for even more costs to strip out.

Q. THAT MAY BE TRUE MR. SORENSEN, BUT MS. BROWN DOES ASSERT THAT THESE ALLOCATED COSTS SIMPLY DO NOT BENEFIT RATEPAYERS.

A. Well, that is her testimony, but she is focused primarily on where the costs originate.[17] As Mr. Bourassa explains, the fact that APIF pursues a profit is

[17] Brown Sb. at 27.

immaterial,[18] as well as obviously not in dispute. As a result, Ms. Brown is not looking at the actual benefits from these costs, or their applicability to the utility.

Q. OKAY, LET'S START WITH WHY LIBERTY WATER USES A SHARED SERVICES MODEL?

A. Because a shared services approach centralizes common costs and spreads them across many companies. This is similar to how growth in a utility's customers can lower the per customer impact, and almost always yields a lower-cost result compared to a stand-alone. Staff agrees with the shared services model. In fact, Ms. Brown's opinion in the last rate case was that it would not be reasonable and prudent to operate each of our utilities on a stand alone basis.[19] In other words, I think everyone agrees that economies of scale are achieved.

Q. SO WHAT IS THE PROBLEM?

A. I think Ms. Brown views a shared services model as providing the same services as a stand-alone utility requires. Unfortunately, Ms. Brown does not see that the shared services model allows BMSC, and all of Liberty Water's affiliates in Arizona, to obtain more and better services than they ever could on a stand alone basis. For instance, the shared services model provides smaller companies, like BMSC, access to higher level personnel and expertise that it otherwise wouldn't be able to access easily. These personnel, at the Liberty Water and APIF level, include billing clerks, telephone operators, plant operators, engineers, environmental experts, accountants, tax experts, and strategic management professionals. Because the costs of all of these people's expertise are shared, every

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[18] Rejoinder Testimony of Thomas J. Bourassa – Rate Base, Income Statement and Rate Design ("Bourassa Rj.") at 23-24.

[19] Transcript from June 20, 2006 hearing at 778-779, *Black Mountain Sewer Corporation*, Docket No. SW-02361A-05-0657.

utility and every utility's ratepayers benefit. This is as much a part of a shared services model as saving money on paper and paper clips.

Q. WHAT ABOUT THE SPECIFIC COSTS MS. BROWN RECOMMENDS FOR DISALLOWANCE IN THIS CASE?

A. The starting point is a pool of roughly $4 million dollars allocated from APIF to all its facilities. The amount allocated to BMSC is 0.66% of this amount. This cost pool was supported to Staff by an itemized list of every item and providing invoices for all items over $5,000. We agree with Staff that approximately $190,000 of these costs likely should be excluded.[20] The rest of these costs, roughly $3.8 million, are beneficial in the provision of service to the ratepayers of BMSC and to the rest of the APIF facilities that share in these costs and benefits.

For example, many of the costs Staff proposes to exclude are related to the parent company's costs of being a publicly traded company. However, those costs also represent costs incurred to raise capital, including the capital that is raised for projects at BMSC. When the Commission ordered us in the last rate case to remove the CIE Lift Station and fix the odor issues on Boulders Drive, these projects cost well over $1 million. The BHOA is requesting that we undertake a $2 million project to close the sewer plant. Funds have to be raised somehow. And the costs Ms. Brown is excluding are, in large part, related to raising funds for projects necessary for this utility. If you take away the costs to raise funding for the utility, you will take away the Company's access to much needed investment capital.

[20] These costs include what can be loosely described as corporate perks, things like hockey tickets, and other gifts. While these things are clearly part of any large business expenses, we have no intention of arguing these costs should be passed down to the ratepayers.

The APIF cost component of the shared services model also provides the benefits of ensuring proper corporate governance and strategic planning. Mr. Bourassa also addresses the benefits of audits and tax professionals in his rejoinder.[21] All of these benefits inure to the ratepayers, but at a fraction of the cost if they were obtained by BMSC on a stand alone basis, if they could be obtained at all.

Q. MR. SORENSEN, WITH ALL THIS BENEFIT, COULDN'T THE ABSENCE OF SUCH A SHARED SERVICE MODEL LEAVE A UTILITY LESS HEALTHY?

A. Absolutely, and this is also part of the big picture that Ms. Brown's narrow view misses. That smaller, standalone "mom and pop" utilities don't enjoy these benefits is a good reason to encourage utility consolidation. Companies like the former McLain systems would never have had access to much needed capital to repair those systems and bring them back to acceptable operating utilities; not the third-world systems we initially acquired. They also lacked the management and oversight Liberty Water brings to its assets in Arizona, and APIF requires of all the utilities it owns. And I won't hesitate to point out that it was our shared services model that saved these assets and their ratepayers from a desperate situation. If our shared services model is going to be attacked again, and this time the consequence will be the inability to reimburse APIF for the costs of the benefits it provides, we are going to lose those benefits. This just makes a bad situation worse.

Q. THANK YOU MR. SORENSEN, DO YOU HAVE ANY OTHER COMMENTS ON THE DISPUTE OVER ALLOCATION OF CENTRAL OFFICE COSTS?

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[21] Bourassa Rj. at 25.

A. As a final note, while these costs are incurred in a non-regulated entity, that should be seen as further benefit. While I have never bought into the argument that regulated utilities do not control their costs because they have captive ratepayers, especially before this Commission, non-regulated entities are constantly trying to cut their costs as each dollar cut falls to the bottom line as profit. This has never been more true than during the recent economic downturn. So, it is in APIF's interest to keep a close eye on its costs, including those in this shared services model, as those costs are allocated to other non-regulated facilities as well. Again, BMSC and its ratepayers get the most possible benefit at the lowest possible cost. That Staff does not see this is unfortunate, but it would be far more unfortunate to gut our shared services model. Unlike last time, there will be no way to restructure and retain all of the benefits.

Q. DOES THAT CONCLUDE YOUR REJOINDER TESTIMONY?

A. Yes.

SORENSEN REJOINDER EXHIBIT 1

TARIFF SCHEDULE

UTILITY: Black Mountain Sewer Corporation | DECISION NO. ______
DOCKET NO. SW-02361A-08-0609 | EFFECTIVE DATE:. __

OFF-SITE FACILITIES HOOK-UP FEE (WASTEWATER)

I. Purpose and Availability

The purpose of the off-site facilities hook-up fees payable to **Black Mountain Sewer Corporation** ("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities to provide wastewater treatment and disposal facilities among all new service laterals. These charges are applicable to all new service laterals undertaken via Collection Main Extension Agreements, or requests for service not requiring a Collection Main Extension Agreement, entered into after the effective date of this tariff. The charges are one-time charges and are payable as a condition to Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-601 of the Arizona Corporation Commission's ("Commission") rules and regulations governing sewer utilities shall apply interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of wastewater facilities to serve new service laterals, and may include Developers and/or Builders of new residential subdivisions, and industrial or commercial properties.

"Company" means Black Mountain Sewer Corporation.

"Collection Main Extension Agreement" means an agreement whereby an Applicant, Developer and/or Builder agrees to advance the costs of the installation of wastewater facilities necessary to serve new service laterals, or install wastewater facilities to serve new service laterals and transfer ownership of such wastewater facilities to the Company, which agreement does not require the approval of the Commission pursuant to A.A.C. R-14-2-606, and shall have the same meaning as "Wastewater Facilities Agreement."

"Off-Site Facilities" means the wastewater treatment plant, sludge disposal facilities, effluent disposal facilities and related appurtenances necessary for proper operation, including engineering and design costs. Off-site facilities may also include lift stations, force mains, transportation mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the Applicant and benefit the entire wastewater system.

"Service Lateral" means and includes all service laterals for single-family residential, commercial, industrial or other uses.

III. <u>Wastewater Hook-up Fee</u>

For each new service lateral, the Company shall collect an off-site facilities hook-up fee as listed in the following table:

TREATMENT PLANT HOOK-UP FEE TARIFF TABLE		
Service Lateral Size	Factor	Fee
4-inch	1	$1,734
6-inch	2.25	$3,901
8-inch	4	$6,936
10-inch	6.25	$10,837

IV. <u>Terms and Conditions</u>

(A) <u>Assessment of One Time Off-Site Facilities Hook-up Fee</u>: The off-site facilities hook-up fee may be assessed only once per parcel, service lateral, or lot within a subdivision (similar to a service lateral installation charge).

(B) <u>Use of Off-Site Facilities Hook-up Fee</u>: Off-site facilities hook-up fees may only be used to pay for capital items of off-site facilities, or for repayment of loans obtained to fund the cost of installation of off-site facilities. Off-site hook-up fees shall not be used to cover repairs, maintenance, or operational costs.

(C) <u>Time of Payment</u>:

(1) In the event that the person or entity that will be constructing improvements ("Applicant," "Developer," or "Builder") is otherwise required to enter into a Collection Main Extension Agreement, payment of the fees required hereunder shall be made by the Applicant, Developer or Builder when operational acceptance is issued for the on-site wastewater facilities constructed to serve the improvement.

(2) In the event that the Applicant, Developer or Builder for service is not required to enter into a Collection Main Extension Agreement, the hook-up fee charges hereunder shall be due and payable at the time wastewater service is requested for the property.

(D) <u>Off-Site Facilities Construction by Developer</u>: Company and Applicant, Developer, or Builder may agree to construction of off-site facilities necessary to serve a particular development by Applicant, Developer or Builder, which facilities are then conveyed to Company. In that event, Company shall credit the total cost of such off-site facilities as an offset to off-site hook-up fees due under this Tariff. If the total cost of the off-site facilities constructed by Applicant, Developer or Builder and conveyed to Company is less than the applicable off-site hook-up fees under this Tariff, Applicant, Developer or Builder shall pay the remaining amount of off-site hook-up fees owed hereunder. If the total cost of the off-site facilities contributed by Applicant, Developer or Builder and conveyed to Company is more than the applicable off-site hook-up fees under this Tariff, Developer or Builder shall be the difference upon acceptance of the off-site facilities by the Company.

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

(F) Off-Site Hook-Up Fees Non-refundable: The amounts collected by the Company pursuant to the off-site hook-up fee tariff shall be non-refundable contributions in aid of construction.

(G) Use of Off-Site Hook-Up Fees Received: All funds collected by the Company as off-site facilities hook-up fees shall be deposited into a separate account and bear interest and shall be used solely for the purposes of paying for the costs of installation of off-site facilities, including repayment of loans previously obtained for the installation of off-site facilities.

(H) Off-Site Facilities Hook-Up Fee in Addition to On-site Facilities: The off-site facilities hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Collection Main Extension Agreement.

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

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

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF BLACK MOUNTAIN SEWER CORPORATION, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-02361A-08-0609

REJOINDER TESTIMONY OF

THOMAS J. BOURASSA

(Rate Base, Income Statement And Rate Design)

November 16, 2009

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2255833.3

I. INTRODUCTION AND PURPOSE OF TESTIMONY.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?

A. On behalf of the applicant, Black Mountain Sewer Corporation ("BMSC" or the "Company").

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THE INSTANT CASE?

A. Yes, my direct testimony was submitted in support of the initial application in this docket. There were two volumes, one addressing rate base, income statement and rate design, and the other addressing cost of capital. My rebuttal testimony was also submitted in two separate volumes.

Q. WHAT IS THE PURPOSE OF THIS REJOINDER TESTIMONY?

A. I will provide rejoinder testimony in response to the surrebuttal filings by Staff and RUCO. More specifically, this first volume of my rejoinder testimony relates to rate base, income statement and rate design for BMSC. I will also address the testimony by the Boulders Home Owners Association ("BHOA"). In a second, separate volume of my testimony, I will also provide responses to Staff and RUCO on the cost of capital and rate of return applied to the fair value rate base, and the determination of operating income.

II. SUMMARY OF BMSC'S REJOINDER POSITION.

Q. WHAT IS THE REVENUE INCREASE THAT THE COMPANY IS PROPOSING IN THIS REJOINDER TESTIMONY?

A. The Company is proposing a total revenue requirement of $2,533,172, which constitutes an increase in revenues of $953,002, or 60.31% over test year revenues.

Q. PLEASE SUMMARIZE THE PROPOSED REVENUE REQUIREMENTS AND RATE INCREASES FOR THE COMPANY, STAFF, AND RUCO AT THIS STAGE OF THE PROCEEDING?

A. The proposed revenue requirements and proposed rate increases are as follows:

	Revenue Requirement	Revenue Incr.	% Increase
Company - Rebuttal	$2,541,508	$961,338	60.84%
Staff - Surrebuttal	$2,124,105	$543,935	34.42%
RUCO - Surrebuttal	$2,071,997	$491,827	31.12%
Company Rejoinder	$2,533,172	$953,002	60.31%

There are several other interveners but none of them have submitted evidence on the revenue requirement.

Q. WHY IS THE COMPANY'S REJOINDER PROPOSED REVENUE AND RATE INCREASE LOWER THAN IN ITS REBUTTAL FILING?

A. As with the rebuttal filing, the Company continues to accept adjustments offered by Staff and RUCO where reasonable to do so. The reduction in the revenue requirement at rejoinder is primarily due to the Company's acceptance of RUCO's proposal for zero working capital. I will discuss the Company's position on working capital later in my rejoinder testimony.

III. RATE BASE

Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE BASE RECOMMENDATIONS AT THIS STAGE OF THE PROCEEDING?

A. The rate bases proposed by all parties in the case are as follows:

	OCRB/FVRB[1]
Company-Rebuttal	$ 3,716,649
Staff – Surrebuttal	$ 3,365,416
RUCO - Surrebuttal	$ 3,680,911
Company Rejoinder	$ 3,682,905

Q. WHY IS THE COMPANY'S REJOINDER PROPOSED RATE BASE LOWER THAN ITS REBUTTAL PROPOSED RATE BASE?

A. Again, the reduction in the rate base is primarily due to the Company's acceptance of RUCO's proposal for zero working capital.

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S REJOINDER PROPOSED ORIGINAL COST RATE BASE, AND IDENTIFY ANY REMAINING DISAGREEMENTS BETWEEN THE PARTIES?

A. The Company's rate base adjustments to OCRB are detailed on rejoinder schedules B-2, pages 3 through 6. Rejoinder Schedule B-2, page 1 and 2, summarize the Company's proposed adjustments and the rejoinder OCRB. BMSC's adjustments to its direct OCRB have been explained in detail in my rebuttal testimony. Further adjustments to OCRB or revisions of prior adjustments are explained below.

A. <u>Plant in Service.</u>

Q. STARTING WITH PLANT-IN-SERVICE, PLEASE DISCUSS THE COMPANY'S REJOINDER PROPOSED UTILITY PLANT-IN-SERVICE ADJUSTMENTS TO ORIGINAL COST RATE BASE.

A. BMSC and RUCO are in agreement on a plant-in-service balance of $11,646,544. Staff recommends a slightly lower plant-in-service balance of $11,607,919. The difference is the Company's proposed inclusion of an odor control unit costing

[1] The parties agree to use OCRB and FVRB in this rate case.

$38,625 that was transferred from Litchfield Park Service Company ("LPSCO"). Staff recommends disallowing this cost because it has not verified the cost as of its surrebuttal filing.[2]

Q. HAS STAFF RECOMMENDED REMOVING THE COST OF THE ODOR CONTROL UNIT FROM PLANT-IN-SERVICE IN THE PENDING LPSCO RATE CASE?

A. Yes, because the unit was transferred to BMSC.[3] The positions of two Staff auditors on the same piece of plant are contradictory.[4]

B. <u>Accumulated Depreciation.</u>

Q. HAS THE COMPANY MADE ANY ADDITIONAL ADJUSTMENTS TO ACCUMULATED DEPRECIATION?

A. Yes. I have made a small correction to accumulated depreciation of $482 related to the odor control unit discussed above. I have also made a small correction to accumulated depreciation of $2,127 for the New Trade Center Lift Station in order to match RUCO's proposed additional deprecation. These changes are reflected in the Company's B-2 adjustment 2 – D on Rejoinder Schedule B-2, page 3.

Q. PLEASE IDENTIFY THE PARTIES' RESPECTIVE PROPOSED ACCUMULATED DEPRECIATION BALANCES AND IDENTIFY THE DIFFERENCES BETWEEN THE PARTIES?

A. The Company recommends an accumulated depreciation balance of $5,725,275, Staff recommends an accumulated depreciation balance of $5,714,143, and RUCO recommends an accumulated depreciation balance of $5,726,261. The roughly $11,000 difference in the accumulated depreciation balances between Staff and the

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[2] *See* Surrebuttal Testimony of Crystal S. Brown ("Brown Sb.") at 3.

[3] *See* Direct Testimony of Jeffrey M. Michlik in Docket SW-01428A-09-0103 at 8.

[4] *See also* Rejoinder Testimony of Gregory S. Sorensen ("Sorensen Rj.") at 12-13.

Company arises for three reasons. First, Staff includes post test year plant from the prior rate case totaling $85,699 in the starting plant balance of plant-in-service when re-computing accumulated depreciation.[5] This error causes additional accumulated depreciation of $2,142.

Q. WHY DO YOU BELIEVE THIS IS AN ERROR?

A. Because the post test year plant is placed into service in the year following the test year and therefore it is not included in the starting balance of plant, but rather as an addition in the following year. The first year that plant is placed into service there should be only one half the depreciation (using half-year convention). But, by virtue of including this plant in Staff's starting balance, Staff computes a full year of depreciation on the first year this plant was placed into service. In the prior rate case neither Staff nor the Company proposed to include any additional depreciation related to post test year plant in accumulated depreciation, and the Commission approved accumulated depreciation balance in the last case did not include depreciation on post test year plant.[6] If the Commission intended to treat this plant as having been placed into service during the last test year, it would have included a half year of depreciation in the accumulated depreciation balance that was approved. As a consequence, Staff's accumulated depreciation balance is over stated by $2,142.

Q. THANK YOU. WHAT ABOUT THE SECOND AND THIRD FACTORS CAUSING THE DIFFERENCE IN ACCUMULATED DEPRECIATION BETWEEN THE COMPANY AND STAFF?

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[5] Brown Sb. at 5.

[6] *See* BMSC Final Schedule B-2, page 3 and Staff Final CSB-0b in Docket SW-02361A-05-0657. The only accumulated depreciation adjustment for post test year plant was for the retirement of a chlorinator that was replaced by a new chlorinator included in post test year plant. There was no accumulated depreciation added for the new chlorinator.

A. The second item is accumulated depreciation related to the odor control unit that was transferred from LPSCO to BMSC and discussed previously. Staff's accumulated depreciation balance does not reflect $11,148 of accumulated depreciation because Ms. Brown refuses to include this plant in rate base.

The third item is the additional depreciation of $2,127 the Company includes in the accumulated depreciation related to the New Trade Center Lift Station.

Q. WHAT MAKES UP THE SLIGHT DIFFERENCE BETWEEN THE COMPANY AND RUCO WITH RESPECT TO ACCUMULATED DEPRECIATION?

A. The difference between the accumulated depreciation balances is $986 and appears to be related to additional depreciation on the odor control unit transferred from LPSCO that is contained in RUCO's computation. RUCO has already accounted for the $11,148 of accumulated depreciation at the end of the test year and should not have added more. The remaining $20 difference is unidentified at this time.

C. <u>Deferred Income Taxes.</u>

Q. HAS THE COMPANY MADE ANY ADDITIONAL ADJUSTMENTS TO DEFERRED INCOME TAXES?

A. Yes. The Company has increased the deferred income tax ("DIT") balance slightly, from $194,898 to $195,906 or approximately $1,008. This is due to the change in the Company's proposed accumulated depreciation balance as discussed above. This change is reflected in Company B-2 adjustment 5 as shown on Rejoinder Schedule B-2, page 6.

Q. ARE RUCO AND THE COMPANY IN AGREEMENT ON THE DEFERRED INCOME TAX BALANCE?

A. We are in material agreement. RUCO proposes a DIT balance that is approximately $795 lower at $194,898.[7] However, in its surrebuttal filing, RUCO agreed to the Company's rebuttal proposed DIT and revised its recommended DIT to match BMSC's rebuttal amount. RUCO has not yet had a chance to review the Company rejoinder proposal.

Q. DOES STAFF CONTINUE TO PROPOSE A DIT BALANCE?

A. No. Staff has reduced its recommended DIT balance to zero.[8]

Q. WHY?

A. Because Ms. Brown erroneously asserts that because the net DIT balance in the instant case is an asset rather than a liability, that there is either an error in the computation or that there is some unusual treatment of depreciation expense by the Commission or the IRS.[9]

Q. DOES MS. BROWN OFFER ANY EVIDENCE TO SUPPORT HER CONCLUSION?

A. None, she simply assumes an erroneous result because a mathematical calculation produced a particular result. Ironically, a similar argument was made by RUCO in the Company's prior rate case and rejected by this Commission.[10] RUCO asserted that utilities "unfailingly create net deferred tax liabilities."[11] However, as I explained in the prior rate case, "when a significant amount of plant has been financed with CIAC and AIAC, or when there are net operating losses, DIT assets

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[7] *See* RUCO Surrebuttal Schedule RLM-2.

[8] Brown Sb. at 9.

[9] *Id.* at 8.

[10] *See* Decision No. 69164 at 6.

[11] *Id.*

are common."[12] Amazingly, in that case, Ms. Brown agreed with my calculation of a deferred tax asset.[13]

Q. ARE YOU USING THE SAME METHOD TO COMPUTING DITS AS YOU USED IN THE PRIOR RATE CASE?

A. Yes, except that it is updated to the end of the test year in the instant case. This is not "art," it is math. I simply follow the requirements of the Statement of Financial Accounting Standards No. 109 – Accounting for Income Taxes ("FAS 109"). And, as in the last case, the computation shows a net DIT asset – the $195,906 discussed earlier. This is not surprising since BMSC assets are still significantly funded with CIAC and AIAC.

Q. WAS STAFF PROVIDED RELEVANT TAX DOCUMENTATION TO VERIFY THE COMPANY'S TAX BASIS OF BMSC'S ASSETS?

A. Yes. Staff was provided the tax depreciation report from the 2007 tax return and was provided information to bring the tax basis of assets to end of the test year. It appears that Ms. Brown chose to ignore this information and assume facts that are not in evidence and adopt an argument that was rejected already by the Commission.

Q. BUT MS. BROWN CLAIMS THERE WAS AN ERROR IN THE COMPANY'S DIT COMPUTATION?

A. Yes, she asserts that because the Commission does not recognize AIAC as revenue, that only AIAC recognized for tax purposes as revenue should be included in the

[12] *Id.*

[13] *Id.*

Company's DIT computation.[14] This view that only AIAC recognized as income for tax purposes creates a book-tax timing difference is simply wrong.[15]

Q. WHY IS THIS VIEW WRONG?

A. Because the book-tax timing difference is not created because of the recognition or non-recognition of AIAC as revenues by the IRS. The book-tax timing difference exists because depreciation on AIAC funded plant is recognized for book purposes, but not recognized for tax purposes. In other words, for book purposes, a lower taxable income is recognized because of the depreciation expense on AIAC funded plant. But because the Company cannot recognize a depreciation deduction for tax purposes, it pays higher income taxes as a result. Thus, a deferred tax asset is created by this book-tax timing difference.

Q. WHY IS AIAC NOT RECOGNIZED FOR INCOME TAX PURPOSES BY THE IRS?

A. The Company has no tax basis in the plant because it did not fund the plant with its own money. This plant was funded by contributed capital from others. The Company will receive recognition of AIAC funded plant for tax purposes when it makes refunds and can begin to take a tax depreciation deduction. CIAC funded plant also has no tax basis for the same reasons. The difference between AIAC and CIAC funded plant is that for both book and tax purposes there is no depreciation recognized for CIAC funded plant. Therefore, there is no book-tax timing difference created for CIAC funded plant.

Q. WHEN AIAC IS TREATED AS REVENUE FOR INCOME TAX PURPOSES IS THE PLANT FUNDED WITH THIS AIAC RECOGNIZED FOR INCOME TAX PURPOSES?

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[14] Brown Sb. at 9.

[15] *Id.*

A. Yes. Accordingly, AIAC recognized for income tax purposes as revenue should be excluded from the AIAC component in the Company's DIT computation as this plant will be recognized in both the book and tax basis plant components of the Company's DIT computation. This is the exact opposite of the argument Staff makes.

Q. DID STAFF PERFORM A DIT COMPUTATION OF ITS OWN?

A. No. Staff could have prepared its own computation from the information it was provided. Instead, Staff simply reduced the DIT to zero.

Q. DOES THE COMPANY HAVE AIAC RELATED TO SERVICE LINE CONNECTION FEES THAT HAS BEEN TREATED AS REVENUE FOR INCOME TAX PURPOSES?

A. No. BMSC, like most wastewater utilities, does not have service line connection fees. Service line connection fees are typically found with water utilities.

Q. WHAT IS THE NET IMPACT OF MS. BROWN'S RECOMMENDATION FOR DEFERRED INCOME TAXES ON THE REVENUE REQUIREMENT?

A. Approximately $40,000. As it did last time, the Commission should simply reject the position that deferred tax assets do not exist.

D. <u>Working Capital.</u>

Q. HAS THE COMPANY MADE ANY ADDITIONAL ADJUSTMENTS TO WORKING CAPITAL?

A. Yes. In order to help eliminate issues between the parties, the Company is reducing its working capital request to zero. Both the Company and RUCO are now in agreement on working capital.

Q. BUT MR. BOURASSA, ISN'T THIS ANOTHER CHANGE IN BMSC'S POSITION ON WORKING CAPITAL?

A. Not really. I recommended zero working capital in my direct. Then in rebuttal, in direct response to what were serious flaws in Ms. Brown's position on working capital, I did a lead-lag analysis that showed a small, positive amount of working capital. Given the additional and significant errors in Ms. Brown's position on working capital, I remain of the view that a zero working capital allowance is appropriate in this rate case.

Q. HAS STAFF MODIFIED ITS RECOMMENDED WORKING CAPITAL AMOUNT?

A. Yes. Staff has increased its recommended working capital amount from a negative $127,713 in its direct filing to a negative $101,242 in its surrebuttal filing.[16]

Q. DID STAFF PREPARE A LEAD-LAG STUDY OF ITS OWN?

A. No. Ms. Brown used my rebuttal lead-lag study and modified the expense components as well as the revenue and expense lag day components based on her own views. However, Staff's modifications to the lead-lag study contain at least 4 significant errors. These errors include: 1) use of a materially understated revenue lag day, 2) the double counting of interest expense, 3) failure to reflect actual timing of payment of expenses based on the practices of the Company in its expense lags, and 4) failure to include rate case expense.

Q. PLEASE DISCUSS STAFF'S ERROR IN THE COMPUTATION OF THE REVENUE LAG DAYS.

A. Staff computes a revenue lag of 9.6 days by averaging the revenue lag days from the last rate case of 7.83 days with the 11.4 days the Company proposes.[17] There are three problems with this. First, the revenue lag from the last rate case is outdated and cannot be used unless it is shown to still be applicable. Ms. Brown

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[16] *See* Direct testimony of Crystal S. Brown ("Brown Dt.") at 11; Brown Sb. at 17.

[17] Brown Sb. at 15.

made no attempt to reconcile nearly 5-year old customer data. Second, the revenue lag in the last case was computed using a sample of 10 customer bills, which is hardly a representative sample. In the instant case, the revenue lag was computed using thousands of customer billing records from 2008 and 2009. Third, Staff has the customer data to compute revenue lag and should have computed a revenue lag according to according to the method it prefers. As I will discuss later, had Staff used the method employed in the last rate case, the revenue lag would have been significantly higher than the 9.6 days Staff computed.

Q. HOW DO YOU RESPOND TO MS. BROWN'S CRITICISM THAT YOU DID MEASURE THE REVENUE LAG FROM THE MIDPOINT OF THE SERVICE PERIOD?

A. My approach does measure the revenue lag from the midpoint of the service period by including a service lag component in my revenue lag computation.

Q. WHAT IS REVENUE LAG AND HOW IS IT COMPUTED?

A. Revenue lag is a term used to describe the measured period from the point of service to customer payment. Revenue lag days consist of 3 components – a service lag, a billing lag, and a payment lag. The service lag for a water utility is measured from the mid-point of the service period to the point in time the customer meter is read. For a wastewater company, the service lag is measured from the midpoint of the service period to the end of the service period. Assuming a 30 day service period, the midpoint would be 15 days. Thus, there is a 15 day service lag. When a wastewater company bills in advance of service, like BMSC, the service lag is negative. Thus, the service lag component for BMSC is a negative 15 days.

The billing lag component is measured from the end of the service period to the billing date. It is positive for BMSC because it bills customers after the beginning of the month of service. The dollar weighted average billing lag determined from the customer billing data is 4.65 days. The payment lag is measured from the customer bill date to the customer payment date. It is nearly always positive because customers generally do not prepay their bills. The weighted average payment lag days determined from BMSC's customer billing data is 21.75 days. Combined, the revenue lag is 11.40 days (-15 days service lag plus 4.65 days billing lag and 21.75 days payment lag).

Q. IS THE 11.4 DAY REVENUE LAG CONSISTENT WITH STAFF'S TESTIMONY ON THE TYPICAL PAYMENT PATTERN OF UTILITY CUSTOMERS?

A. Yes. Ms. Brown testifies that customers typically pay their bills 4 to 5 days before the end of the service period.[18] If the midpoint of the service period is the 15th of the month and the revenue lag days is 11.4 days, the expected payment of the customer bill is around the 26th or 27th of the month (15 plus 11.4 equals 26.4). This is within 4 to 5 days of the end of the month.

Q. IS STAFF'S REVENUE LAG CONSISTENT WITH ITS TESTIMONY THAT CUSTOMERS TYPICALLY PAY THEIR BILLS 4 TO 5 DAYS BEFORE THE END OF THE MONTH?

A. No. A revenue lag of 9.6 days implies the customer bills are paid on the 24th or 25th of the month. Using the illustration previously, if the midpoint of the service period is the 15th of the month and the revenue lag days is 9.6 days, the expected payment of the customer bill is around the 24th or 25th of the month (15 plus 9.6 equals 24.6). This is 6 to 7 days before the end of the month.

[18] *Id.* at 12.

Q. RATHER THAN DETERMINING THE INDIVIDUAL COMPONENTS OF REVENUE LAG, IS THERE ANOTHER METHOD FOR DETERMINING REVENUE LAG?

A. Yes. One can simply measure the period from the midpoint of service to the customer payment date. For example, assuming a June 2008 billing, one would assume a June 15, 2008 midpoint of service date. If the customer pays the bill on June 27, 2008, the revenue lag is 12 days. This was the method employed by RUCO in the last case.

Q. HAVE YOU COMPUTED THE REVENUE LAG USING THE METHOD USED IN THE LAST CASE?

A. Yes, using the data from the instant case. The result is 12.78 days. This is significantly higher than Staff's 9.6 days.

Q. LET'S MOVE ON TO THE SECOND ERROR IN STAFF'S LEAD-LAG COMPUTATION. PLEASE EXPLAIN.

A. The second error in Staff's lead-lag computation is that Staff double counts interest expense. Ms. Brown added an interest expense component for synchronized interest.[19] However, the Scottsdale capacity lease payment already reflects the interest on debt. As you will recall, the Scottsdale capacity was financed, in part, by long-term debt. In an earlier rate case, the debt service (principle and interest payments) were treated as lease payments and included in operating expenses for rate making purposes. By adding an additional interest expense component in its computation, Ms. Brown is double counting interest expense.

Q. IS THE LONG-TERM DEBT USED TO FINANCE THE SCOTTSDALE CAPACITY THE ONLY LONG-TERM DEBT FOR THE COMPANY?

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[19] *Id.* at 17.

A. Yes. So, there is no other source of interest expense to serve as the basis for the addition of an interest expense component.

Q. DO YOU HAVE ANY OTHER CONCERNS ABOUT STAFF'S INTEREST EXPENSE COMPONENT?

A. Yes. Putting aside Staff's double counting of interest expense, Ms. Brown assumes 4 quarterly payments for interest. Debt payments (interest and principle) are made monthly, not quarterly. There is no basis to assume quarterly interest payments.

Q. SO YOU BELIEVE STAFF'S COMPUTATION OF 91.25 EXPENSE LAG DAYS FOR QUARTERLY INTEREST PAYMENTS IS WRONG?

A. Yes, because Ms. Brown does not measure expense lag from the midpoint of the service period. The correct number of expense lag days is 46.50, not 91.25 as suggested by Ms. Brown.[20]

Q. PLEASE EXPLAIN.

A. To compute the expense lag that assumes 4 quarterly payments over a year, you begin with a service period of 12 months (January 1 to December 31). The midpoint of the service period is June 30. The first payment is made on March 31. Measuring the lag from the midpoint of June 30 to March 31, the expense lag is a negative 92.5 days. The second payment is made on June 30. Measuring the lag from the midpoint of June 30 to June 30, the expense lag is a negative 0.5 days. The third payment is made on September 30. Measuring the lag from September 30 to the midpoint of June 30, the expense lag is a positive 93.5 days. Finally, the fourth payment is made on December 31. Measuring the lag from December 31 to the midpoint of June 30, the expense lag is a positive 185.5 days.

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[20] *Id.*

Using the data above, the weighted average expense lag for quarterly payments is computed as follows:

Interest Payment Date	Percent Of Liability	(Lead) Lag Days	Weighted Days
March 31	25%	-92.5	(23.13)
June 30	25%	-0.5	(0.13)
September 30	25%	93.5	23.38
December 31	25%	185.5	46.38
			46.50

Q. LET'S MOVE ON TO THE THIRD ERROR IN STAFF'S LEAD-LAG COMPUTATION. PLEASE EXPLAIN.

A. The third error in Staff computation is that Ms. Brown ignores the payment practices of the Company to determine expense lags and instead contrives her own. There are several examples. First, she asserts that because the debt payments for Scottsdale capacity are treated as an operating expense, the expense lag days should be increased to 45 because the Company proposes a 45 day expense lag for "other operating expenses."[21] However, the Scottsdale Capacity lease payments are more similar to the allocated contractual services costs than to other operating expenses. The expense lag for allocated contractual services is 15 days.

Q. WHY ARE THE SCOTTSDALE LEASE PAYMENTS MORE SIMILAR TO THE ALLOCATED CONTRACTUAL SERVICES EXPENSE?

[21] *Id.* at 15.

A. Because the debt financing for the Scottsdale Capacity is paid to the parent company. The debt payments are due on the 1st of the month following the service period. Since the allocation occurs at the end of the month, it is similar in terms of timing.

Q. IF BMSC INCURRED THE COSTS INCLUDED IN THE ALLOCATED EXPENSES AS A STAND ALONE COMPANY, WOULD THE EXPENSE LAG BE MUCH DIFFERENT THAN 15 DAYS.

A. No, it would likely be less because the allocated expense consists primarily of payroll related costs that are paid by Liberty Water and its parent during the service period[22] and not at the end of the service period (end of month) as is assumed in the 15 day expense lag. Using a 15 day expense lag is conservative.

Q. PLEASE CONTINUE.

A. Second, Staff used 212 days for the payment of property taxes based on an amount used in another rate case.[23] I do not know the circumstances under which a 212 day expense lag was used, but strictly based on the due dates for property taxes, I find that the weighted average expense lag days is 170 days.

Q. PLEASE EXPLAIN.

A. To compute the expense lag that assumes 2 property tax payments over a year, you begin with a service period of 12 months (January 1 to December 31). The midpoint of the service period is June 30. The first property tax payment is due on October 1. Measuring the lag from October 1 to the midpoint of June 30, the expense lag is a positive 94.5 days. The second property tax payment is due on March 1 of the following year. Measuring the lag from March 1 of the following year to the midpoint of June 30, the expense lag is a negative 245.5 days.

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[22] Bi-weekly net pay lag is typically 13 days.

[23] *Id.* at 16.

Using the data above, the weighted average expense lag for property taxes is computed as follows:

Payment Date	Percent Of Liability	(Lead) Lag Days	Weighted Days
October 1	50%	94.5	47.25
March 1 following year	50%	245.5	122.75
			170.00

Q. WAIT A MINUTE, MR. BOURASSA, ISN'T THE 2ND HALF PROPERTY TAX DUE ON MAY 1 OF THE FOLLOWING YEAR?

A. No. May 1 is the delinquent date. The due date is March 1. I inadvertently put the delinquent date of May 1 in my footnote in my rebuttal lead-lag study (Rebuttal Schedule B-5, page 2), but it is really March 1.

Q. WHEN DID THE COMPANY ACTUALLY PAY ITS 2008 PROPERTY TAX BILLS?

A. I have found that the Company paid its 2008 property taxes well in advance of the due dates. For example, the 1st half property tax payment for 2008 that was due on October 1, 2008 was paid on September 12, 2008. The 2nd half property tax payment for 2008 that was due on March 1, 2009 was paid on February 17, 2009. The weighted average expense lag is 154.5 days.

Q. WHY DIDN'T YOU USE 154.5 DAYS AS YOUR EXPENSE LAG FOR PROPERTY TAXES?

A. To be conservative.

Q. PLEASE CONTINUE.

A. Another example of Staff ignoring the Company's current payment practices is for general insurance. The Company pays its insurance annually. It records the insurance payment as a prepaid and then expenses 1/12 of the total amount monthly. Nevertheless, Ms. Brown set the insurance expense lag to a negative 15 days which assumes that insurance is paid monthly. This is contrary to reality.

Q. LET'S MOVE ON TO THE FOURTH ERROR IN STAFF'S LEAD-LAG COMPUTATION. PLEASE EXPLAIN.

A. The fourth error in Staff's lead-lag computation is the failure to include rate case expense. This expense, like insurance, is paid up-front before the service period. In fact, rate case expense is paid well in advance of service because it is recovered over several years. In the instant case, the proposal is for a 3 year recovery. Rate case expense is a cash outlay requiring working cash capital and should not be ignored in a lead-lag study.

Q. WHY DOES STAFF EXCLUDE RATE CASE EXPENSE?

A. Staff removed rate case expense so that customers would not be required to pay a rate of return on any portion of rate case expense.[24] This is not a valid reason. The cash outlays for rate case expense tie up <u>cash</u> until recovered. Accordingly, it should be included in a <u>cash</u> working capital computation.

IV. <u>INCOME STATEMENT</u>

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?

A. The Company's rejoinder adjustments are detailed on Rejoinder Schedule C-2, pages 1-20. The rejoinder income statement with adjustments is summarized on Rejoinder Schedule C-1, page 1-2. The Company's revenue and expense adjustments to the direct filing adjusted test year results have been explained in

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[24] Brown Sb. at 11.

detail in my rebuttal testimony. Further adjustments to revenue and expenses or revisions of prior adjustments are explained below.

A. <u>Depreciation Expense</u>

Q. HAS THE COMPANY PROPOSED ANY CHANGES TO DEPRECIATION EXPENSE?

A. No. The Company continues to propose depreciation expense of $243,986.[25]

Q. HOW DO THE PROPOSED LEVELS OF DEPRECIATION EXPENSE DIFFER BETWEEN THE PARTIES?

A. All the parties use account specific depreciation rates. Both the Company and RUCO agree on the level of depreciation expense of $243,986. Staff proposes a lower level of depreciation expense of $234,035. Staff's depreciation expense is lower for two reasons. First, Staff does not include the costs of the odor control unit, as discussed earlier. Second, Staff uses an overstated composite rate for computing amortization of CIAC. Staff computes the composite rate using only depreciable plant.[26] But the composite rate should reflect all plant, not just depreciable plant. Non-depreciable assets, such as land, can be funded with CIAC and so land costs should be included. Under the concept of using a composite rate for amortization of CIAC, a key assumption is that CIAC is used to fund all plant, not just depreciable plant.

B. <u>Property Taxes</u>

Q. IS STAFF NOW IN AGREEMENT WITH THE COMPANY ON THE PROPERTY TAX ASSESSMENT RATIO?

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[25] *See* Rejoinder Schedule C-2, page 1.

[26] *See* Staff Surrebuttal Schedule CSB-26.

A. Yes. Staff has adopted the Company proposed assessment ratio of 21%.[27] Each parties' recommended expense level is different due to different revenue requirements, but there is no dispute over the methodology and inputs to determine property taxes.

C. **Purchased Wastewater Treatment**

Q. HAS THE COMPANY PROPOSED A CHANGE TO PURCHASED WASTEWATER TREATMENT IN ITS REJOINDER FILING?

A. Yes. The Company is proposing two corrections to purchased wastewater treatment. The first correction is to reduce the Scottsdale treatment cost from $2.61 per 1,000 gallons to $2.60 per 1,000 gallons. This change is reflected in adjustment number 4 as shown on Rejoinder Schedule C-2, page 5. The second correction is to the annualization of purchased wastewater treatment. This change is reflected in adjustment number 5 on Rejoinder Schedule C-2, page 6.

Q. PLEASE IDENTIFY STAFF AND RUCO'S POSITION ON THE SCOTTSDALE TREATMENT COST AND THE LEVEL OF PURCHASED WASTEWATER TREATMENT?

A. RUCO and the Company propose wastewater treatment expense that is within $1 of each other at $335,513 and $336,514, respectively. Staff proposes $338,380 for purchased wastewater treatment expense. This is because Ms. Brown adopted the Company's rate of $2.61 per 1,000 gallons from the Company's rebuttal filing.[28] This was the rate that was provided to the Company by the City of Scottsdale at the time. After further inquiry with the City of Scottsdale, it turns out the rate was 1 cent too high and should be $2.60 per 1,000 gallons.

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[27] Brown Sb. at 33.

[28] Brown Sb. at 20.

D. Testing Expense

Q. PLEASE DISCUSS THE DIFFERENCE BETWEEN THE PARTIES WITH RESPECT TO TESTING EXPENSE?

A. Both RUCO and the Company are in agreement on the level of testing expense.[29] Staff rejects the Company's additional testing expense that is necessary to comply with the City of Scottsdale's requirements.[30] Mr. Sorensen addresses this issue in greater detail in his rejoinder testimony.[31]

E. Bad Debt Expense

Q. PLEASE DISCUSS THE DIFFERENCE BETWEEN THE PARTIES WITH RESPECT TO BAD DEBT EXPENSE?

A. The Company proposes bad debt expense of $14,374. Staff's proposed level of bad debt expense at this stage of the proceeding is $7,895. While Staff has not adopted the Company's adjustment to bad debt expense in its surrebuttal filing, Ms. Brown is seeking additional documentation, and therefore may change her position.[32]

Q. DOES STAFF AGREE THAT BAD DEBT SHOULD INCLUDE TEST YEAR RELATED WRITE-OFFS?

A. Yes.[33]

Q. WHAT IS RUCO'S POSITION ON BAD DEBT EXPENSE?

A. Thus far, RUCO has not proposed to adjust the test year bad debt expense.[34] RUCO's proposed level of bad debt expense is $11,962.

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[29] *See* Surrebuttal Testimony of Rodney L. Moore ("Moore Sb.") at 16.

[30] *See* Surrebuttal Testimony of Dorothy Hains ("Hains Sb.") at 4; Brown Sb. at 21

[31] Sorensen Rj. at 11-12.

[32] Brown Sb. at 23.

[33] *Id.*

[34] Moore Sb. at 5.

F. **<u>Rent Expense</u>**

Q. DOES STAFF NOW AGREE WITH THE COMPANY ON THE LEVEL OF RENT EXPENSE?

A. Yes.[35] All of the parties now agree on a rent expense of $38,362.[36]

G. **<u>Chemical Expense</u>**

Q. DOES STAFF NOW AGREE ON THE LEVEL OF CHEMICAL EXPENSE PROPOSED BY THE COMPANY?

A. Yes.[37] All the parties now agree on chemicals expense of $40,813.[38]

H. **<u>Contractual Services- Bonuses</u>**

Q. DOES STAFF CONTINUE TO DENY RECOVERY OF BONUSES PAID DURING THE TEST YEAR?

A. Yes.[39] But this is really an operations issue now, so BMSC's position is addressed by Mr. Sorensen in his rejoinder testimony.[40]

I. **<u>Contractual Services- Central Office Costs</u>**

Q. PLEASE COMMENT ON STAFF'S SURREBUTTAL TESTIMONY CONCERNING CENTRAL OFFICE COSTS?

A. Ms. Brown claims that the central office costs allocated to BMSC exist solely to benefit investors because APIF is a for-profit enterprise.[41] This is an extreme and distorted view of the role of APIF.

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[35] Brown Sb. at 21-22.

[36] *Id.*; Moore Sb. at 13.

[37] Brown Sb. at 21.

[38] *Id.*; Moore Sb. at 14.

[39] Brown Sb. at 24-25.

[40] Sorensen Rj. at 13-14.

[41] Brown Sb. at 27.

Q. YOU BETTER EXPLAIN THAT TESTIMONY MR. BOURASSA.

A. APIF now owns and operates some 71 different assets in North America. APIF oversees these subsidiary companies in a manner intended to ensure proper and cost efficient management of these assets, individually and collectively. And yes, it seeks a profit. So what? But for that pursuit of a profit through the efficient operation of utility subsidiaries like BMSC and others, APIF would not need to exist.[42] Under Ms. Brown's view, a for-profit enterprise would not spend money to make its business operate efficiently and cost effectively. This is not how businesses in the real world operate. And the fact of a profit-motive does not mean ratepayers are not benefiting.

Q. IS IT MORE REASONABLE TO USE A SHARED SERVICES MODEL UNDER THE OWNERSHIP OF A PARENT COMPANY WITH MORE THAN ONE SUBSIDIARY THAN TO HAVE EACH SUBSIDIARY INCUR COSTS ON A STAND ALONE BASIS?

A. Yes. The reason should be clear. When costs are shared, no individual entity incurs the full cost of the shared service while at the same time achieving the same or higher level of benefit as would be achieved by the individual entity alone. I believe Ms. Brown will also agree that, where possible, a shared services model is more reasonable and cost effective than a stand-alone model.[43]

Q. CAN YOU PROVIDE AN EXAMPLE?

A. I believe I already have. In my rebuttal testimony, I pointed out that the allocated cost for audit services to BMSC was less than $7,700.[44] On a stand-alone basis this

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[42] *See also* Rebuttal Testimony of Thomas J. Bourassa – Rate Base, Income Statement and Rate Design ("Bourassa Rb.") at 18-23 (discussing the nature and benefits of the management of APIF to both BMSC and its rate papers).

[43] Transcript from June 20, 2006 hearing at 778-779, *Black Mountain Sewer Corporation*, Docket No. SW-02361A-05-0657.

[44] Bourassa Rb. at 21.

cost would be at least $20,000.[45] Also in my rebuttal testimony, I pointed out that the allocated cost to BMSC for tax services is less than $2,000.[46] On a stand-alone basis this cost would be at least $5,000.[47] These are just ready examples, because these services have been criticized by Ms. Brown, but there are others as well.

Q. BUT MS. BROWN SAYS BMSC IS NOT REQUIRED TO HAVE AN AUDIT?

A. BMSC would likely be required to have an audit if it were to raise capital on its own. The terms of debt or equity issuances would likely require it. So although it doesn't need one today, if it were standalone and needed capital it probably would need one. Putting that aside, BMSC wasn't "required" to work with its various customer groups to become a better corporate citizen in its community either, nor is it strictly required by its contract to conduct additional testing. But this does not mean these things are not reasonable and appropriate. Stand-alone small utilities often cannot afford things like audits or the services of qualified tax professionals, but this does not mean that they would not benefit. In fact Staff and RUCO benefit when these professionals improve the utility's record-keeping. In other words, just because a stand-alone utility cannot afford something also does not mean if it could it does provide a benefit.

In short, a well run utility is a benefit to ratepayers, and the costs allocated by APIF to its subsidiaries are the costs needed to operate a well-run utility. They should not be excluded just because they were incurred by a for-profit shareholder as part of a shared services model. And that is Ms. Brown's only real reason for removing more than $25,000 from the Company's operating expenses.

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[45] *Id.*

[46] *Id.* at 20.

[47] *Id.*

Q. ARE THE COSTS RELATED TO THE APIF CENTRAL OFFICE SIMILAR IN NATURE TO CORPORATE COSTS ALLOCATED TO OTHER UTILITIES IN ARIZONA WHO ARE OWNED AND OPERATED BY PARENT COMPANIES?

A. Yes. Chaparral City Water Company ("CCWC"), for example, is allocated similar costs in the corporate allocation from American States Water Company ("American States") through Golden State Water Company. In the recent CCWC rate case (Decision), the corporate allocation pool was over $34 million of which CCWC was allocated approximately $1.3 million (approximately 4%). Among the costs in the allocation pool used in the CCWC case were costs for corporate office rent, office expense, management, accounting and financial services (tax and audit).

Q. DID STAFF RECOMMEND DISALLOWANCE OF THESE CORPORATE COSTS ALLOCATED TO CCWC BECAUSE AMERICAN STATES IS A FOR-PROFIT ENTERPRISE?

A. No.

Q. DO YOU HAVE ANY FURTHER COMMENTS?

A. Yes. Smaller utilities are more likely to run into operational and financial problems. These problems were recognized in the 1999 Water Task Force Report.[48] In fact, this Commission recognized the problems of small utilities and the benefits of consolidation within the water industry (Decision No. 62993). The McLain Systems matter[49] is a perfect example of a small mom and pop utility that ran into significant financial and operational problems.

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[48] *See* Interim Report of the Arizona Corporation Commission's Water Task Force, Docket W-00000C-98-0153, October 28, 1999, at 4; Decision No. 62993, November 3, 2000.

[49] Decision No. 68826 (June 29, 2006).

The benefits to consolidation are numerous and the shared services models employed by the parent company of Arizona utilities such as Liberty Water, CCWC, Arizona-American Water, and Arizona Water, should not be discouraged by this Commission through the disallowance of prudent, necessary, and beneficial costs under such arrangements. The shared service model used by Liberty Water promotes efficiency, cost control, access to capital, high quality water and wastewater services, value-added customer service, and the long-term financial health and stability of its utilities.

J. <u>Contractual Services- Sewer Clean-Up Costs</u>

Q. PLEASE COMMENT ON RUCO'S RECOMMENDATION TO DENY RECOVERY OF SEWER SPILL CLEAN-UP COSTS?

A. RUCO continues to recommend that the Company not be allowed to recover costs arising from the clean up of unintended discharges of wastewater.[50] Both Staff and the Company agree to include these costs in operating expenses.[51] Inclusion of the clean-up costs in operating expenses recognizes that these costs are a necessary and recurring expense related to the provision of wastewater service. Mr. Sorensen addresses this expense in more detail in his rejoinder testimony.[52]

K. <u>Contractual Services- Legal and Survey Costs</u>

Q. PLEASE COMMENT ON RUCO'S RECOMMENDATION TO REMOVE LEGAL AND SURVEY COSTS FROM TEST YEAR EXPENSES.

A. RUCO recommends removing legal and survey costs related to an easement dispute totaling $4,723 from operating expenses.[53] The Company disagrees. Legal

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[50] Moore Sb. at 11.

[51] Bourassa Rb. at 14.

[52] Sorensen Rj. at 5-6.

[53] Moore Sb. at 11.

expenses are incurred every year, although by nature, the cost of any particular specific legal matter may or may not reoccur. The Company believes the test year level of expense represents the costs it expects to incur on a going-forward basis for legal needs.

L. Contractual Services- Aerotek

Q. DO STAFF AND THE COMPANY CONTINUE TO DISAGREE ON THE INCLUSION OF $42,200 OF CONTRACTUAL SERVICES EXPENSE FROM AEROTEK IN OPERATING EXPENSE?

A. Yes. Staff continues to recommend the disallowance of the $42,200 of expense because it is included in the operating expenses of pending rate case for LPSCO.[54]

Q. DO YOU KNOW WHETHER LPSCO OR THE COMPANY WAS AWARE OF THE BOOKKEEPING ERROR THAT OCCURRED WHEN LPSCO FILED ITS RATE CASE?

A. I know that the bookkeeping error was only discovered after the LPSCO rate case filing, so LPSCO could not make an adjustment to operating expenses.

Q. IS IT THE INTENTION OF LPSCO TO EXCLUDE THIS EXPENSE FROM ITS OPERATING EXPENSES IN LPSCO'S PENDING RATE CASE?

A. Yes. The LPSCO rate case is at the rebuttal stage, and I will be filing my rebuttal testimony early next month. I will make the adjustment at that time.

Q. DOES STAFF ARGUE THAT THE EXPENSE IS NOT LEGITIMATE?

A. No, so there is no valid reason at this point to deny BMSC recovery of a legitimate operating expense.

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[54] Brown Sb. at 25.

Q. DOES RUCO CONTINUE TO PROPOSE THE INCLUSION OF THE $42,200 IN THE COMPANY'S OPERATING EXPENSES?

A. Yes.[55]

M. Contractual Services - Normalization

Q. DOES STAFF'S NORMALIZATION OF CONTRACTUAL SERVICES EXPENSE STILL CONTAIN AN ERROR?

A. Yes. I pointed out that Ms. Brown erroneously includes $1,500 of capitalized expense in her normalization adjustment computation.[56] Now, Ms. Brown appears to misunderstand the Company's testimony and believes that it did remove the $1,500 before computing its adjustment.[57] However, Staff continues to make the error.

I will try to explain further. I agree with Staff that the $1,500 was removed before computing its 3 year average for Contractual Services – Legal and Engineering of $7,862. However, Staff did not remove the $1,500 before computing its net adjustment. Staff first removed the $1,500 of capitalized expense from Contractual Service – Legal and Engineering in its capitalized expenses adjustment number 7 on Staff Surrebuttal Schedule CSB-19, line 1. The expense was adjusted from the test year amount of $9,362 to $7,862. Subsequently, in Staff's normalization adjustment number 8 on Staff Surrebuttal Schedule CSB-20 Staff used the $9,362 (line 31) to compute its adjustment rather than the adjusted amount of $7,862. Hopefully, Staff will correct this error, and I apologize if my prior testimony on this subject wasn't clear enough.

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[55] Moore Sb. at 12.

[56] Bourassa Rb. at 15.

[57] Brown Sb. at 22.

N. **Transportation Expense**

Q. DOES STAFF CONTINUE TO DISAGREE WITH THE COMPANY ON THE TRUCK LEASE COSTS?

A. Yes.[58]

Q. WHAT REASONS DOES STAFF PROVIDE?

A. Staff states several reasons.[59] First, Staff asserts that because of some bookkeeping errors made by the Company on its general ledger (e.g. failure to record odor control unit transfer, error in recording the Aerotek invoice) that the truck lease costs should be disallowed. Second, Staff asserts that the truck could be subsequently transferred to another utility, like Gold Canyon Sewer Company ("GCSC"), who then files a rate case to get double recovery. Third, the Company did not maintain mileage logs.

Q. LET'S START WITH STAFF'S FIRST REASON. ARE BOOKKEEPING ERRORS FOUND DURING THE COURSE OF A RATE CASE?

A. In my experience, yes. Bookkeeping errors are not uncommon. One of the elements of any rate case is a thorough examination of the books and records. Inevitably mistakes are found. That is good because one of the goals of the rate case process is to identify legitimate expenses that are included in the cost of service and rates. In other words, errors occur and this is the best time to find them and fix them. But a readily correctible bookkeeping error should not be the basis for the exclusion of a legitimate expense. Mr. Sorensen addresses Staff's second reason in his rejoinder testimony.[60]

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[58] Brown Sb. at 32.

[59] *Id.* at 32-33.

[60] Sorensen Rj. at 14-15.

Q. CAN YOU ADDRESS STAFF'S THIRD REASON PLEASE?

A. The IRS does not require mileage logs to be kept unless the vehicle is used for personal and business. The function of a mileage log for IRS purposes is to help establish business use percentage. The State of Arizona is required to keep mileage logs on its vehicles because the vehicles are part on an interagency vehicle pool. Without the logs, the State would not know how to allocate vehicle expense among its agencies. The evidence in the instant case is that the truck is used exclusively by BMSC, so there is no need to maintain mileage logs. There is simply no reason to exclude this expense.

O. <u>Income Taxes</u>

Q. PLEASE DISCUSS THE POSITIONS OF THE PARTIES WITH RESPECT TO THE COMPUTATION OF INCOME TAXES?

A. Staff has now excluded the Scottsdale Capacity lease costs from expense when computing its income taxes. This treatment is now consistent with the Company and the prior decision.[61] RUCO, on the other hand, has not computed income taxes consistent with the prior decision.[62] Indeed, RUCO expressly rejects the Commission's prior ratemaking treatment.[63]

Q. ON WHAT BASIS?

A. RUCO asserts that the Scottsdale Capacity lease costs are like any other operating expense and do not require further treatment for tax purposes.[64]

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[61] Decision No. 69164 at 9.

[62] Moore Sb. at 17.

[63] *Id.*

[64] *Id.*

Q. PLEASE RESPOND.

A. The Scottsdale Capacity leases costs are not like other operating expenses because they are in reality debt payments and RUCO knows this to be the case from the last rate cases for the Company. Mr. Moore should also know that only the interest portion of the debt payment is tax deductable. The income tax treatment provided in the prior case insures the Company will be provided with the full debt service payment after tax.

RUCO's position on income tax treatment should be rejected by the Commission, just as RUCO's position of eliminating the Scottsdale Capacity costs from operating expense was rejected in the prior decision.[65] Even before the last rate order,[66] the Commission concluded that the debt service on the debt financing for the Scottsdale Capacity should be treated as an operating expense. RUCO sought to change this treatment in the last rate case and its recommendation was rejected.[67] What RUCO is doing now is seeking a second bite at the apple in order to reduce the revenue requirement for BMSC. This effort should again be rejected.

V. RATE DESIGN

Q. WHAT ARE THE COMPANY'S REJOINDER PROPOSED RATES?

A. The proposed rates are:

Residential Charge:	$72.23
Commercial – Std. Rate (Per gallon)[68]:	$0.28957
Commercial – Special Rate (Per gallon)[69]:	

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[65] *See* Decision No. 69164 at 8.

[66] *See* Decision No. 59944, January 4, 1997.

[67] *Id.*

[68] Per prior Commission order, commercial wastewater flows are based on the average daily flows set forth in Engineering Bulletin No. 12, Table 1, published by the Arizona Department of Environmental Quality (June 1989).

B-H Enterprises (7518 Elbow Bend West)	N/A
B-H Enterprises (7518 Elbow Bend East)	N/A
Barb's Pet Grooming	N/A
Boulders Resort	$0.28957
Carefree Dental	N/A
Ridgecrest Realty	N/A
Desert Forest	$0.28957
Desert Hills Pharmacy	N/A
El Pedegral	$0.28957
Lemon Tree	N/A
Body Shop	N/A
Spanish Village	$0.28957
Boulders Club	$0.28957
Anthony Vuitaggio	N/A

In addition, the proposed charge for reclaimed (non-potable) water is $150 per acre-foot.

Q. DOES STAFF CONTINUE TO RECOMMEND SPECIAL RATES?

A. Yes.[70] Mr. Sorensen addresses this issue in his rejoinder testimony.[71]

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[69] Per prior Commission order, wastewater flows are based on Engineering Bulletin No. 12, Table 1. A one-bedroom dwelling is assumed to generate 200 gallons per day, each additional bedroom is assumed to generate an additional 100 gallons per day.

[70] Brown Sb. at 35.

[71] Sorensen Rj. at 3-4.

Q. HAS STAFF REVISED ITS RECOMMENDATION FOR THE EFFLUENT RATE?

A. Yes. Staff agrees with the Company to set the effluent rate to $150 per acre foot or $0.46051 per thousand gallons.[72] All the parties are now in agreement on the proposed effluent rate.

Q. DOES STAFF RECOMMEND THE APPROVAL OF A HOOK-UP FEE?

A. No.[73] However, Staff has proposed an alternative in case the Commission disagrees with Staff.[74]

Q. HAS THE COMPANY MODIFIED ITS PROPOSAL FOR HOOK-UP FEES?

A. Yes. The Company has revised its proposed HUF fees to match Staff's schedule of fees in Exhibit 1 of Ms. Hains' surrebuttal testimony. Mr. Sorensen addresses the Company's position in more detail in his rejoinder testimony.[75]

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes.

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[72] Brown Sb. at 36.

[73] Hains Sb. at 1.

[74] *Id.* at 2.

[75] Sorensen Rj at 10-11.

BOURASSA
RATE BASE, INCOME STATEMENT
& RATE DESIGN SCHEDULES

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Rejoinder Schedule A-1
Page 1
Witness: Bourassa

Fair Value Rate Base	$	3,682,905
Adjusted Operating Income		(128,486)
Current Rate of Return		-3.49%
Required Operating Income	$	456,680
Required Rate of Return on Fair Value Rate Base		12.40%
Operating Income Deficiency	$	585,166
Gross Revenue Conversion Factor		1.6286
Increase in Gross Revenue Revenue Requirement	$	953,002
Test Year Revenues	$	1,580,170
Increase in Gross Revenue Revenue Requirement	$	953,002
Proposed Revenue Requirement	$	2,533,172
% Increase		60.31%

Customer Classification	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Residential	$ 1,077,880	$ 1,705,856	$ 627,976	58.26%
Commercial (Standard Rate)	378,678	599,266	220,588	58.25%
Commercial (Special Rate)	98,964	198,820	99,856	100.90%
Effluent Sales	15,917	19,578	3,661	23.00%
Annualization	2,145	3,395	1,250	58.26%
			-	0.00%
Subtotal	$ 1,573,584	$ 2,526,915	$ 953,331	60.58%
Other Wastewater Revenues	6,915	6,915	-	0.00%
Reconciling Amount H-1 to C-1	(329)	(658)	(329)	100.00%
Total of Water Revenues	$ 1,580,499	$ 2,533,830	$ 953,002	60.30%

SUPPORTING SCHEDULES:
Rejoinder B-1
Rejoinder C-1
Rejoinder C-3
Rejoinder H-1

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Summary of Rate Base

Exhibit
Rejoinder Schedule B-1
Page 1
Witness: Bourassa

	Original Cost Rate base	Fair Value Rate Base
Gross Utility Plant in Service	$ 11,646,544	$ 11,646,544
Less: Accumulated Depreciation	5,725,275	5,725,275
Net Utility Plant in Service	$ 5,921,269	$ 5,921,269
Less:		
Advances in Aid of Construction	1,711,260	1,711,260
Contributions in Aid of Construction	5,232,139	5,232,139
Accumulated Amortization of CIAC	(4,214,384)	(4,214,384)
Customer Meter Deposits	94,290	94,290
Deferred Income Taxes & Credits	(195,906)	(195,906)
	-	-
Plus:		
Unamortized Finance Charges	-	-
Deferred Regulatory Assets	389,035	389,035
Allowance for Working Capital	-	-
Total Rate Base	$ 3,682,905	$ 3,682,905

SUPPORTING SCHEDULES:
Rejoinder B-2

RECAP SCHEDULES:
A-1

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Original Cost Rate Base Proforma Adjustments

Exhibit
Rejoinder Schedule B-2
Page 1
Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustments Amount	Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 11,357,735	288,809	$ 11,646,544
4	**Less:**			
5	Accumulated			
6	Depreciation	5,625,025	100,250	5,725,275
9	Net Utility Plant			
10	in Service	$ 5,732,710		$ 5,921,269
12	**Less:**			
13	Advances in Aid of			
14	Construction	$ 1,457,009	254,251	$ 1,711,260
16	Contributions in Aid of			
17	Construction (CIAC)	5,232,139	-	5,232,139
19	Accumulated Amortization of CIAC	(4,214,384)	-	(4,214,384)
21	Customer Deposits	94,290	-	94,290
22	Deferred Income Taxes	(170,554)	(25,351)	(195,906)
25	**Plus:**			
26	Unamortized Finance			
27	Charges	-	-	-
28	Deferred Regulatory Assets	389,035	-	389,035
29	Allowance for Working Capital	-	-	-
31	Total	$ 3,723,245		$ 3,682,905

35 SUPPORTING SCHEDULES:
36 Rejoinder B-2, pages 1-6

RECAP SCHEDULES:
Rejoinder B-1

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Original Cost Rate Base Proforma Adjustments

Exhibit
Rejoinder Schedule B-2
Page 2
Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustments 1 Plant in Service	2 Accum. Depr.	3 AIAC	4 Deferred Income Taxes	5 Working Capital	Rejoinder Adjusted at end of Test Year
1	Gross Utility							
2	Plant in Service	$ 11,357,735	288,809					$ 11,646,544
4	**Less:**							
5	Accumulated							
6	Depreciation	5,625,025		100,250				5,725,275
9	Net Utility Plant							
10	in Service	$ 5,732,710	$ 288,809	$ (100,250)		$ -	$ -	$ 5,921,269
12	**Less:**							
13	Advances in Aid of							
14	Construction	1,457,009			254,251			1,711,260
16	Contributions in Aid of							
17	Construction (CIAC)	5,232,139						5,232,139
19	Accumulated Amort of CIAC	(4,214,384)						(4,214,384)
21	Customer Deposits	94,290						94,290
22	Deferred Income Taxes	(170,554)				(25,351)		(195,906)
25	**Plus:**							
26	Unamortized Finance							
27	Charges	-						-
28	Deferred Reg. Assets	389,035						389,035
29	Allowance for Working Capital	-					$ -	-
31	Total	$ 3,723,245	$ 288,809	$ (100,250)	$ (254,251)	$ 25,351	$ -	$ 3,682,905

35 SUPPORTING SCHEDULES:
36 Rejoinder B-2, pages 3-6
37 Rejoinder B-5

RECAP SCHEDULES:
Rejoinder B-1

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1

Exhibit
Schedule B-2
Page 3
Witness: Bourassa

Line No.	Acct. No.	Description	Adjusted Orginal Cost	Adjustments: A New Trade Center Lift Sta. Plant Addition	B Old Trade Center Lift Sta. Plant Retirement	C Capitalized Expenses	D 2002 Odor Control Unit	E	F	Rejoinder Adjusted Original Cost
1	Plant-in-Service									
5	351	Organization	-							-
6	352	Franchises	-							-
7	353	Land and Land Rights	461,300							461,300
8	354	Structures and Improvements	2,557,920			2,300				2,560,220
9	355	Power Generation Equipment	-							-
10	360	Collection Sewers - Force	706,292			1,600				707,892
11	361	Collection Sewers - Gravity	4,284,948							4,284,948
12	362	Special Collecting Structures	-							-
13	363	Services to Customers	198,723							198,723
14	364	Flow Measuring Devices	31,512							31,512
15	365	Flow Measuring Installations	179,622							179,622
16	370	Receiving Wells	690,628	254,251	(13,208)	1,200				932,871
17	371	Effluent Pumping Equipment	654,844			2,803				657,647
18	380	Treatment and Disposal Equip.	143,578				38,625			182,203
19	381	Plant Sewers	123,289			1,238				124,527
20	382	Outfall Sewer Lines	-							-
21	389	Other Plant and Misc. Equipment	939,432							939,432
22	390	Office Furniture and Equipment	224,587							224,587
23	391	Transportation Equipment	107,367							107,367
24	393	Tools, Shop and Garage Equip.	5,754							5,754
25	394	Laboratory Equipment	7,488							7,488
26	395	Power Operated Equipment	-							-
27	396	Communication Equipment	40,451							40,451
28	398	Other Tangible Plant	-							-
29			-							-
30		TOTALS	$ 11,357,735	$ 254,251	$ (13,208)	$ 9,141	$ 38,625	$ -	$ -	$ 11,646,544
31										
32	Adjusted Plant-in-Service per Direct									$ 11,357,735
33										
34	Increase (decrease) in Plant-in-Service									$ 288,809
35										
36	Adjustment to Plant-in-Service									$ 288,809

38 SUPPORTING SCHEDULES
39 Rejoinder B-2, pages 3.1-3.4

ADJUSTMENTS
Adj. A - Staff Adj. #1 New Trade Center Lift Sta.
Adj. B - Staff Adj. #1 Old Trade Center Lift Sta.
Adj. C - Staff Adj. #2 Capitalized Expenses
Adj. D - Ordor Control Unit RUCO - see Schedule RLM-4

Black Mountain Sewer Corporation
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.1

Account No.	Description	Deprec. Rate Before Dec-06	Deprec. Rate After Dec-06	Per Decision 69164 Plant At 12/31/2004	Per Decision 69164 2004 Accum. Depr.	2005 Plant Additions	2005 Plant Adjustments[1]	2005 Adjusted Plant Additions	2005 Plant Retirements	2005 Plant Balance	2005 Deprec.
351	Organization	0.0000%	0.00%	-	-			-		-	-
352	Franchises	0.0000%	0.00%	-	-			-		-	-
353	Land and Land Rights	0.0000%	0.00%	461,300	-			-		461,300	-
354	Structures and Improvements	5.0000%	3.33%	1,239,905	888,015	56,562	(1,917)	54,645		1,294,549	63,361
355	*Power Generation Equipment*	5.0000%	5.00%	-	706			-		-	(706)
360	Collection Sewers - Force	5.0000%	2.00%	568,413	154,483	94,624	(5,062)	89,562		657,976	30,660
361	Collection Sewers - Gravity	5.0000%	2.00%	3,614,544	2,488,740	297,571	(21,880)	275,691		3,890,235	187,619
362	Special Collecting Structures	5.0000%	2.00%	-	-			-		-	-
363	Services to Customers	5.0000%	2.00%	157,218	128,612	19,337		19,337		176,555	8,344
364	Flow Measuring Devices	5.0000%	10.00%	39,829	23,004		(8,135)	(8,135)		31,694	1,788
365	Flow Measuring Installations	5.0000%	10.00%	156,204	3,959	19,404		19,404		175,608	8,295
370	Receiving Wells	5.0000%	3.33%	696,137	199,051			-		696,137	34,807
371	Effluent Pumping Equipment	5.0000%	12.50%	453,558	244,706	11,119		11,119		464,677	22,956
380	Treatment and Disposal Equipment	5.0000%	5.00%	-	-	6,288		6,288		6,288	157
381	Plant Sewers	5.0000%	5.00%	123,289	84,017			-		123,289	6,164
382	Outfall Sewer Lines	5.0000%	3.33%	-	-			-		-	-
389	Other Plant and Misc. Equipment	5.0000%	6.67%	719,140	80,678	99,447	(7,527)	91,920		811,059	38,255
390	Office Furniture and Equipment	5.0000%	6.67%	220,360	27,165	1,465		1,465		221,825	11,055
391	Transportation Equipment	5.0000%	20.00%	87,811	7,642			-		87,811	4,391
393	Tools, Shop and Garage Equipment.	5.0000%	5.00%	-	-			-		-	-
394	Laboratory Equipment	5.0000%	10.00%	7,279	352	209		209		7,488	369
395	Power Operated Equipment	5.0000%	5.00%	-	-			-		-	-
396	Communication Equipment	5.0000%	10.00%	-	-			-		-	-
398	Other TangiblePlant	5.0000%	10.00%	-	-			-		-	-
								-		-	-
	Plant Held for Future Use										
	TOTAL WATER PLANT			8,544,987	4,331,129	606,025	(44,521)	561,504	-	9,106,490	417,516

[1] Affiliate Profit

Black Mountain Sewer Corporation
Plant Additions and Retirements

Account No.	Description	Deprec. Rate Before Dec-06	Deprec. Rate After Dec-06	2006 Plant Additions	2006 Plant Adjustments[1]	2006 Plant Adjustments	2006 Adjusted Plant Additions	2006 Plant Retirements	2006 Plant Balance	2006 Deprec.
351	Organization	0.0000%	0.00%				-		-	-
352	Franchises	0.0000%	0.00%				-		-	-
353	Land and Land Rights	0.0000%	0.00%				-		461,300	-
354	Structures and Improvements	5.0000%	3.33%	3,625			3,625		1,298,175	63,014
355	Power Generation Equipment	5.0000%	5.00%				-		-	-
360	Collection Sewers - Force	5.0000%	2.00%	3,592			3,592		661,568	31,339
361	Collection Sewers - Gravity	5.0000%	2.00%	112,559	(22,710)		89,849		3,980,083	186,920
362	Special Collecting Structures	5.0000%	2.00%				-		-	-
363	Services to Customers	5.0000%	2.00%	10,429			10,429		186,983	8,634
364	Flow Measuring Devices	5.0000%	10.00%		(182)		(182)		31,512	1,712
365	Flow Measuring Installations	5.0000%	10.00%	3,740			3,740		179,348	9,613
370	Receiving Wells	5.0000%	3.33%	2,141			2,141		698,278	33,890
371	Effluent Pumping Equipment	5.0000%	12.50%	44,676			44,676		509,353	27,395
380	Treatment and Disposal Equipment	5.0000%	5.00%	12,184			12,184		18,472	619
381	Plant Sewers	5.0000%	5.00%				-		123,289	6,164
382	Outfall Sewer Lines	5.0000%	3.33%				-		-	-
389	Other Plant and Misc. Equipment	5.0000%	6.67%	53,055	(740)		52,315		863,374	43,026
390	Office Furniture and Equipment	5.0000%	6.67%				-		221,825	11,400
391	Transportation Equipment	5.0000%	20.00%				-		87,811	5,488
393	Tools, Shop and Garage Equipment.	5.0000%	5.00%				-		-	-
394	Laboratory Equipment	5.0000%	10.00%				-		7,488	406
395	Power Operated Equipment	5.0000%	5.00%				-		-	-
396	Communication Equipment	5.0000%	10.00%				-		-	-
398	Other TangiblePlant	5.0000%	10.00%				-		-	-
							-		-	-
	Plant Held for Future Use									
	TOTAL WATER PLANT			246,000	(23,632)		222,368	-	9,328,859	429,620

[1] Affiliate Profit

Black Mountain Sewer Corporation
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.3

Account No.	Description	Deprec. Rate Before Dec-06	Deprec. Rate After Dec-06	2007 Plant Additions	2007 Plant Adjustments[1]	2007 Adjusted Plant Additions	2007 Plant Retirements	2007 Plant Balance	2007 Deprec.
351	Organization	0.0000%	0.00%			-		-	-
352	Franchises	0.0000%	0.00%			-		-	-
353	Land and Land Rights	0.0000%	0.00%			-		461,300	-
354	Structures and Improvements	5.0000%	3.33%	1,539	(20,391)	(18,852)		1,279,322	42,915
355	Power Generation Equipment	5.0000%	5.00%			-		-	-
360	Collection Sewers - Force	5.0000%	2.00%	34,935	(2,469)	32,466		694,034	13,556
361	Collection Sewers - Gravity	5.0000%	2.00%	211,268	(32,273)	178,995		4,159,078	81,392
362	Special Collecting Structures	5.0000%	2.00%			-		-	-
363	Services to Customers	5.0000%	2.00%			-		186,983	3,740
364	Flow Measuring Devices	5.0000%	10.00%			-		31,512	3,151
365	Flow Measuring Installations	5.0000%	10.00%			-		179,348	17,935
370	Receiving Wells	5.0000%	3.33%			-		698,278	23,253
371	Effluent Pumping Equipment	5.0000%	12.50%	74,764	(5,336)	69,428		578,780	68,008
380	Treatment and Disposal Equipment	5.0000%	5.00%	4,387		4,387		22,859	1,033
381	Plant Sewers	5.0000%	5.00%			-		123,289	6,164
382	Outfall Sewer Lines	5.0000%	3.33%			-		-	-
389	Other Plant and Misc. Equipment	5.0000%	6.67%	784	(942)	(158)		863,216	57,582
390	Office Furniture and Equipment	5.0000%	6.67%	2,763		2,763		224,587	14,888
391	Transportation Equipment	5.0000%	20.00%	19,556		19,556		107,367	19,518
393	Tools, Shop and Garage Equipment.	5.0000%	5.00%	3,493		3,493		3,493	87
394	Laboratory Equipment	5.0000%	10.00%			-		7,488	749
395	Power Operated Equipment	5.0000%	5.00%			-		-	-
396	Communication Equipment	5.0000%	10.00%			-		-	-
398	Other TangiblePlant	5.0000%	10.00%			-		-	-
						-		-	
	Plant Held for Future Use								
	TOTAL WATER PLANT			353,488	(61,411)	292,077	-	9,620,936	353,971

[1] Affiliate Profit

Black Mountain Sewer Corporation
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.4

Account No.	Description	Deprec. Rate Before Dec-06	Deprec. Rate After Dec-06	Jun.-Jun. 2008 Plant Additions	Jun.-Jun. 2008 Plant Adjustments[1]	Staff Jun.-Jun. 2008 Plant Adjustments	Jun.-Jun. 2008 Adjusted Plant Additions	2002 Odor Control Unit	Jun.-Jun. 2008 Plant Retirements	Staff Jun.-Jun. 2008 Plant Retirements	2002 to Dec. 2007 A/D Adjustment	June 30 2008 Plant Balance	Jun.-Jun. 2008 Deprec.
351	Organization	0.0000%	0.00%				-					-	-
352	Franchises	0.0000%	0.00%				-					-	-
353	Land and Land Rights	0.0000%	0.00%				-					461,300	-
354	Structures and Improvements	5.0000%	3.33%	1,290,255	(11,658)	2,300	1,280,897					2,560,220	31,964
355	Power Generation Equipment	5.0000%	5.00%				-					-	-
360	Collection Sewers - Force	5.0000%	2.00%	12,595	(337)	1,600	13,858					707,892	7,010
361	Collection Sewers - Gravity	5.0000%	2.00%	130,250	(4,380)		125,870					4,284,948	42,220
362	Special Collecting Structures	5.0000%	2.00%				-					-	-
363	Services to Customers	5.0000%	2.00%	11,739			11,739					198,723	1,929
364	Flow Measuring Devices	5.0000%	10.00%				-					31,512	1,576
365	Flow Measuring Installations	5.0000%	10.00%	430	(156)		274					179,622	8,974
370	Receiving Wells	5.0000%	3.33%	544	(311)	255,451	255,684		(7,883)	(13,208)		932,871	15,706
371	Effluent Pumping Equipment	5.0000%	12.50%	78,862	(2,798)	2,803	78,867					657,647	38,638
380	Treatment and Disposal Equipment	5.0000%	5.00%	129,937	(9,218)		120,719	38,625			11,148	182,203	2,080
381	Plant Sewers	5.0000%	5.00%			1,238	1,238					124,527	3,098
382	Outfall Sewer Lines	5.0000%	3.33%				-					-	-
389	Other Plant and Misc. Equipment	5.0000%	6.67%	79,092	(2,876)		76,216					939,432	30,059
390	Office Furniture and Equipment	5.0000%	6.67%				-					224,587	7,490
391	Transportation Equipment	5.0000%	20.00%				-					107,367	10,737
393	Tools, Shop and Garage Equipment.	5.0000%	5.00%	2,262			2,262					5,754	116
394	Laboratory Equipment	5.0000%	10.00%				-					7,488	374
395	Power Operated Equipment	5.0000%	5.00%				-					-	-
396	Communication Equipment	5.0000%	10.00%	40,451			40,451					40,451	1,011
398	Other TangiblePlant	5.0000%	10.00%				-					-	-
							-					-	-
	Plant Held for Future Use												
	TOTAL WATER PLANT			1,776,417	(31,734)	263,392	2,008,075		(7,883)	(13,208)	11,148	11,646,544	202,982

[1] Affiliate Profit

Black Mountain Sewer Corporation
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.5

Account No.	Description	Deprec. Rate Before Dec-06	Deprec. Rate After Dec-06	Year End Accumulated Depreciation by Account 2004	2005	2006	2007	2008
351	Organization	0.0000%	0.00%	-	-	-	-	-
352	Franchises	0.0000%	0.00%	-	-	-	-	-
353	Land and Land Rights	0.0000%	0.00%	-	-	-	-	-
354	Structures and Improvements	5.0000%	3.33%	888,015	951,376	1,014,390	1,057,305	1,089,269
355	Power Generation Equipment	5.0000%	5.00%	706	-	-	-	-
360	Collection Sewers - Force	5.0000%	2.00%	154,483	185,143	216,482	230,038	237,047
361	Collection Sewers - Gravity	5.0000%	2.00%	2,488,740	2,676,359	2,863,279	2,944,671	2,986,891
362	Special Collecting Structures	5.0000%	2.00%	-	-	-	-	-
363	Services to Customers	5.0000%	2.00%	128,612	136,957	145,591	149,330	151,259
364	Flow Measuring Devices	5.0000%	10.00%	23,004	24,792	26,504	29,655	31,230
365	Flow Measuring Installations	5.0000%	10.00%	3,959	12,254	21,868	39,802	48,777
370	Receiving Wells	5.0000%	3.33%	199,051	233,858	267,748	291,001	285,616
371	Effluent Pumping Equipment	5.0000%	12.50%	244,706	267,662	295,057	363,065	401,703
380	Treatment and Disposal Equipment	5.0000%	5.00%	-	157	776	1,810	15,038
381	Plant Sewers	5.0000%	5.00%	84,017	90,181	96,346	102,510	105,608
382	Outfall Sewer Lines	5.0000%	3.33%	-	-	-	-	-
389	Other Plant and Misc. Equipment	5.0000%	6.67%	80,678	118,933	161,959	219,541	249,600
390	Office Furniture and Equipment	5.0000%	6.67%	27,165	38,219	49,619	64,507	71,997
391	Transportation Equipment	5.0000%	20.00%	7,642	12,032	17,521	37,038	47,775
393	Tools, Shop and Garage Equipment.	5.0000%	5.00%	-	-	-	87	203
394	Laboratory Equipment	5.0000%	10.00%	352	721	1,126	1,875	2,250
395	Power Operated Equipment	5.0000%	5.00%	-	-	-	-	-
396	Communication Equipment	5.0000%	10.00%	-	-	-	-	1,011
398	Other TangiblePlant	5.0000%	10.00%	-	-	-	-	-
				-	-	-	-	-
	Plant Held for Future Use			-				
	TOTAL WATER PLANT			4,331,129	4,748,645	5,178,265	5,532,236	5,725,275

Black Mountain Sewer Corporation
Plant Reconciliation to Prior Rate Case

Exhibit
Rejoinder Schedule B-2
Page 3.6

Line No.	Account No.	Description	Balance Per Company Per 2004 Filing Before Adj.	PTY Plant	Capitalized Profits	Adjustments per Decision 69164 Capitalized Expenses	Plant AIAC/CIAC	Retire Chlorinator	Allocated Computer Equip	Plant per Decision 69164	Remove PTY Plant	Initial Balance
5												
6	351	Organization	-							-		-
7	352	Franchises	-							-		-
8	353	Land and Land Rights	461,446		(146)					461,300		461,300
9	354	Structures and Improvements	1,245,292		(5,387)					1,239,905		1,239,905
10	355	Power Generation Equipment	-							-		-
11	360	Collection Sewers - Force	228,785		(205)		339,833			568,413		568,413
12	361	Collection Sewers - Gravity	3,608,619		(1,361)	7,286				3,614,544		3,614,544
13	362	Special Collecting Structures	-							-		-
14	363	Services to Customers	158,802		(1,584)					157,218		157,218
15	364	Flow Measuring Devices	39,878		(49)					39,829		39,829
16	365	Flow Measuring Installations	158,358		(2,154)					156,204		156,204
17	370	Receiving Wells	696,506		(369)					696,137		696,137
18	371	Effluent Pumping Equipment	451,705		(360)	2,213				453,558		453,558
19	380	Treatment and Disposal Equipment	-							-		-
20	381	Plant Sewers	121,651		(1,152)	2,790				123,289		123,289
21	382	Outfall Sewer Lines	-							-		-
22	389	Other Plant and Misc. Equipment	738,804	85,699	(5,185)	5,059		(19,539)		804,839	(85,699)	719,140
23	390	Office Furniture and Equipment	365,512		(2,920)				(142,232)	220,360		220,360
24	391	Transportation Equipment	87,811							87,811		87,811
25	393	Tools, Shop and Garage Equipment.	-							-		-
26	394	Laboratory Equipment	7,279							7,279		7,279
27	395	Power Operated Equipment	-							-		-
28	398	Other TangiblePlant	-							-		-
29										-		-
30										-		-
31												
32		TOTAL	8,370,448	85,699	(20,872)	17,348	339,833	(19,539)	(142,232)	8,630,686	(85,699)	8,544,987
33												

Black Mountain Sewer Corporation
A/D Reconciliation to Prior Rate Case

Exhibit
Rejoinder Schedule B-2
Page 3.7

Line No.	Account No.	Description	Balance Per Company Per 2004 Filing Before Adj.	Adjustments per Decision 69164 Affiliate A/D	Retire Chlorinator	Blank	A/D per Decision 69164	PTY A/D	Initial Balance
1									
2									
3									
4									
5	351	Organization	-				-		-
6	352	Franchises	-				-		-
7	353	Land and Land Rights	-				-		-
8	354	Structures and Improvements	888,015				888,015		888,015
9	355	Power Generation Equipment	706				706		706
10	360	Collection Sewers - Force	154,483				154,483		154,483
11	361	Collection Sewers - Gravity	2,488,740				2,488,740		2,488,740
12	362	Special Collecting Structures	-				-		-
13	363	Services to Customers	128,612				128,612		128,612
14	364	Flow Measuring Devices	23,004				23,004		23,004
15	365	Flow Measuring Installations	3,959				3,959		3,959
16	370	Receiving Wells	199,051				199,051		199,051
17	371	Effluent Pumping Equipment	244,706				244,706		244,706
18	380	Treatment and Disposal Equipment	-				-		-
19	381	Plant Sewers	84,017				84,017		84,017
20	382	Outfall Sewer Lines	-				-		-
21	389	Other Plant and Misc. Equipment	100,217		(19,539)		80,678		80,678
22	390	Office Furniture and Equipment	42,876	(15,711)			27,165		27,165
23	391	Transportation Equipment	7,642				7,642		7,642
24	393	Tools, Shop and Garage Equipment.	-				-		-
25	394	Laboratory Equipment	352				352		352
26	395	Power Operated Equipment	-				-		-
27	398	Other TangiblePlant	-				-		-
28							-		-
29							-		-
30									
31		TOTAL	4,366,379	(15,711)	(19,539)	-	4,331,129	-	4,331,129
32									

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2

Exhibit
Schedule B-2
Page 4
Witness: Bourassa

Line No.	Acct. No.	Description	Direct Adjusted Accum. Depr.	A New Trade Center Lift Sta. Plant Addition	B Old Trade Center Lift Sta. Plant Retirement	C Capitalized Expense Additional Test Year Depr	D Transfer A/D 2002 Odor Control Unit	F Difference To Computed Amount	Rejoinder Adjusted Accum. Depr.
1		Accumulated Depreciation							
2									
3									
4									
5	351	Organization	-					-	-
6	352	Franchises	-					-	-
7	353	Land and Land Rights	-					-	-
8	354	Structures and Improvements	1,067,642			38		21,590	1,089,269
9	355	Power Generation Equipment	-					-	-
10	360	Collection Sewers - Force	217,363			16		19,669	237,047
11	361	Collection Sewers - Gravity	2,869,293					117,598	2,986,891
12	362	Special Collecting Structures	-					-	-
13	363	Services to Customers	145,843					5,416	151,259
14	364	Flow Measuring Devices	32,828					(1,597)	31,230
15	365	Flow Measuring Installations	57,602					(8,826)	48,777
16	370	Receiving Wells	283,038	4,233	(13,208)	20		11,532	285,616
17	371	Effluent Pumping Equipment	437,968			175		(36,439)	401,703
18	380	Treatment and Disposal Equipment	3,890				11,148	-	15,038
19	381	Plant Sewers	105,592			31		(15)	105,608
20	382	Outfall Sewer Lines	-					-	-
21	389	Other Plant and Misc. Equipment	263,481					(13,881)	249,600
22	390	Office Furniture and Equipment	75,700					(3,703)	71,997
23	391	Transportation Equipment	60,947					(13,172)	47,775
24	393	Tools, Shop and Garage Equipment	203					-	203
25	394	Laboratory Equipment	2,624					(374)	2,250
26	395	*Power Operated Equipment*	-					-	-
27	396	Communication Equipment	1,011					-	1,011
28	398	Other TangiblePlant	-					-	-
29			-						-
30		TOTALS	$ 5,625,025	$ 4,233	$ (13,208)	$ 280	$ 11,148	$ 97,796	$ 5,725,275
31									
32		Adjusted Accumulated Depreciation per Direct							$ 5,625,025
33									
34		Increase (decrease) in Plant-in-Service							$ 100,250
35									
36		Adjustment to Plant-in-Service							$ 100,250
37									
38		SUPPORTING SCHEDULES							
39		Rejoinder B-2, pages 3.5							
40									

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Original Cost Rate Base Proforma Adjustments
Adjustment Number 3

Exhibit
Rejoinder Schedule B-2
Page 5
Witness: Bourassa

Advances in aid of construction

Test Year Adjusted Balance	Adjustment	Rejoinder Test Year Adjusted Balance
$ 1,457,009	254,251 [1]	$ 1,711,260

[1] Line Extension Agreement for New Trade Lift Station

SUPPORTING SCHEDULE
See Testimony

Exhibit
Rejoinder Schedule B-2
Page 6
Witness: Bourassa

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Original Cost Rate Base Proforma Adjustments
Adjustment 5

Line No.		Adjusted Book Value[1]	Tax Value	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Tax Rate	Future Tax Asset Current	Future Tax Asset Non Current	Future Tax Liability Current	Future Tax Liability Non Current
1	**Deferred Income Tax as of June 30, 2008**									
2										
3										
4										
5										
6	Plant-in-Service	$ 11,646,544								
7	Accum. Deprec.	(5,725,275)								
8	CIAC	(1,017,755)								
9	Fixed Assets	$ 4,903,514	$ 3,699,796	100.0%	$ (1,203,718)	38.6%				$ (464,622)
10	AIAC	$ (1,711,260)	-	100.0%	$ 1,711,260	38.6%		$ 660,527		
11										
12							$ -	$ 660,527	$ -	$ (464,622)
13										
14					Net Asset (Liability)		$ 195,906			
15										
16					DIT Asset per Direct		$ 170,554			
17										
18					Adjustment to DIT		$ (25,351)			
19										
20										
21										
22										
23	1 Adjusted per Rejoinder B-2									
24										
25										
26										

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Computation of Working Capital

Exhibit
Rejoinder Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1			
2	Cash Working Capital - Lead-Lag Study	$	5,252
3	Prepayments (Excluding Prepaid Insurance)		8,292
4	Materials & Supplies		-
5			
6			
7			
8			
9	Total Working Capital Allowance	$	13,544
10			
11			
12	Working Capital Requested	$	-
13			
14			
15	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
16	Rejoinder B-5, page 2	Rejoinder B-1	
17			

Black Mountain Sewer Corporation
Lead/Lag Study
Cash Working Capital

Exhibit
Rejoinder Schedule B-5
Page 2
Witness: Bourassa

	A	B	C	D	E	F
Description (A)	Proforma TY Expense (B)	Revenue Lag Days[1] (C)	Expense Lag Days (D)	Net Lag Days (E)	Lead/Lag Factor (Col. E/365) (F)	Cash Working Capital Required (Col. B x Col. F) (G)
Salaries and Wages						
Net Pay	-	NA	NA	NA	NA	-
Income Taxes Withheld	-	NA	NA	NA	NA	-
Payroll taxes Withheld	-	NA	NA	NA	NA	-
Pensions and Benefits	-	NA	NA	NA	NA	-
Purchased Power[2]	54,690	12.87	39.79	(26.92)	-0.07375	(4,033)
Purchased Wastewater Treatment[3]	336,514	12.87	38.01	(25.14)	-0.06887	(23,176)
Rents- Building[4]	38,262	12.87	(15.00)	27.87	0.07636	2,922
Scottsdale Capacity Lease[5]	164,522	12.87	15.00	(2.13)	-0.00584	(961)
Contractual Services - Allocated Expense[6]	514,028	12.87	15.00	(2.13)	-0.00584	(3,002)
Regulatory Commission Expense[7]	76,667	12.87	(360.00)	372.87	1.02156	78,320
Insurance[8]	18,704	12.87	(180.00)	192.87	0.52841	9,883
Other Operating Expenses[9]	201,953	12.87	45.00	(32.13)	-0.08803	(17,778)
Taxes						
Employer's Payroll Taxes	-	NA	NA	NA	NA	-
Property Taxes[10]	32,651	12.87	170.00	(157.13)	-0.43049	(14,056)
Income Taxes[11]	345,898	12.87	37.00	(24.13)	-0.06611	(22,867)
Total Cash Working Capital						**$ 5,252**

[1] Computed from customer billing data. Measured from midpoint of service period to customer payment date. See testimony

[2] Power bill expense lag days equals 15 days to mid-point of service period plus 24.79 days from billing date to the paid date.

[3] Wastewater treatment expense lag days equals 15 days to mid-point of service period plus 23.01 days from billing date to the due date.

[4] Rents - building payment due 1st of month of serivce period. Expense lag days equals -15 days to mid point of service period.

[5] Scottsdale lease (debt) payment due 1st of month following service period. Expense lag days equals 15 days to mid point of service period.

[6] Contractual Services allocation lag days equals 15 days to mid-point of service period.

[7] Rate case expense lag days is paid before new rates are put into effect and recovered over 3 years. Weighted average expense lag days is -36(

[8] Insurance is paid once annually. Expense lag days equals weighted average expense lag days is -270 days.

[9] Other operating expenses (excludes depreciation, amortization, purchased power, ww treatment, Scottsdale capcity lease, property taxes, rent - buliding, insurance, allocated contractual services, and income taxes. Lag days equals 15 days to mid-point of service period plus average 30 days to due date of bill.

[10] Property tax expense lag days equals the weighted average lag days for payment of property taxes due on Oct 1 of current year and March 1 of following year. See testimony.

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Income Statement

Exhibit
Rejoinder Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Book Results	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**					
2	Flat Rate Revenues	$ 1,557,337	$ -	$ 1,557,337	$ 953,002	$ 2,510,339
3	Measured Revenues	15,917	-	15,917	-	15,917
4	Other Wastewater Revenues	6,916	-	6,916	-	6,916
5		$ 1,580,170	$ -	$ 1,580,170	$ 953,002	$ 2,533,172
6	**Operating Expenses**					
7	Salaries and Wages	$ -	-	$ -	-	$ -
8	Purchased Wastewater Treatment	335,255	1,259	336,514	-	336,514
9	Sludge Removal Expense	706	-	706	-	706
10	Purchased Power	54,690	-	54,690	-	54,690
11	Fuel for Power Production	928	-	928	-	928
12	Chemicals	37,489	3,324	40,813	-	40,813
13	Materials and Supplies	11,224	-	11,224	-	11,224
14	Contractual Services	9,362	37,354	46,716	-	46,716
15	Contractual Services- Testing	16,955	12,094	29,049	-	29,049
16	Contractual Services - Other	553,043	(39,015)	514,028	-	514,028
17	Equipment Rental	1,863	-	1,863	-	1,863
18	Rents - Building	19,830	18,432	38,262	-	38,262
19	Transportation Expenses	34,445	-	34,445	-	34,445
20	Insurance - General Liability	18,704	-	18,704	-	18,704
21	Insurance - Other	990	-	990	-	990
22	Regulatory Commission Expense	60,000	16,667	76,667	-	76,667
23	Miscellaneous Expense	20,845	-	20,845	-	20,845
24	Bad Debt Expense	11,962	2,412	14,374	-	14,374
25	Scottsdale Capacity (Operating Lease)	164,522	-	164,522	-	164,522
26	Amort. of Additional Scottsdale Cap.	48,629	-	48,629	-	48,629
27	Depreciation and Amortization	224,818	19,168	243,986	-	243,986
28	Taxes Other Than Income	(1,780)	1,780	-	-	-
29	Property Taxes	32,414	237	32,651	-	32,651
30	Income Tax	7,760	(29,710)	(21,951)	367,848	345,898
31				-		-
32	**Total Operating Expenses**	$ 1,664,655	$ 44,002	$ 1,708,656	$ 367,848	$ 2,076,504
33	**Operating Income**	$ (84,485)	$ (44,002)	$ (128,486)	$ 585,154	$ 456,668
34	**Other Income (Expense)**					
35	Interest Income	-	-	-	-	-
36	Other income	-	-	-	-	-
37	Interest Expense	(67,693)	(3,260)	(70,954)	-	(70,954)
38	Other Expense	-	-	-	-	-
39						
40	**Total Other Income (Expense)**	$ (67,693)	$ (3,260)	$ (70,954)	$ -	$ (70,954)
41	**Net Profit (Loss)**	$ (152,178)	$ (47,262)	$ (199,440)	$ 585,154	$ 385,714
42						
43	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
44	Rejoinder C-1, page 2				Rejoinder A-1	
45						
46						

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Income Statement

Exhibit
Rejoinder Schedule C-1
Page 2.1
Witness: Bourassa

Continued on Page 2.2

Line No.		Direct Adjusted Test Year Book Results	1 Depreciation	2 Property Taxes	3 Expensed Plant	4 Scottsdale Treatment	5 Annualize WW Treatment	6 Chemicals Expense	7 Annualize Chemicals Expense	8 Testing Expense	9 Rent Expense	10 Normalize Contractual Services	11 Bad Debt Expense
1	**Revenues**												
2	Flat Rate Revenues	$ 1,557,337											
3	Measured Revenues	15,917											
4	Other Wastewater Revenues	6,916											
5		$ 1,580,170	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6	**Operating Expenses**												
7	Salaries and Wages	$ -											
8	Purchased Wastewater Treatment	335,255				1,255	4						
9	Sludge Removal Expense	706											
10	Purchased Power	54,690											
11	Fuel for Power Production	928											
12	Chemicals	37,489						3,191	133				
13	Materials and Supplies	11,224											
14	Contractual Services	9,362			(1,500)							(1,861)	
15	Contractual Services- Testing	16,955								12,094			
16	Contractual Services - Other	553,043			(7,641)							(26,580)	
17	Equipment Rental	1,863											
18	Rents - Building	19,830									18,432		
19	Transportation Expenses	34,445											
20	Insurance - General Liability	18,704											
21	Insurance - Other	990											
22	Regulatory Commission Expense	60,000											
23	Miscellaneous Expense	20,845											
24	Bad Debt Expense	11,962											2,412
25	Scottsdale Capacity (Operating Lease)	164,522											
26	Amort. of Additional Scottsdale Cap.	48,629											
27	Depreciation and Amortization	224,818	19,168										
28	Taxes Other Than Income	(1,780)											
29	Property Taxes	32,414		237									
30	Income Tax	7,760											
31													
32	**Total Operating Expenses**	$ 1,664,655	$ 19,168	$ 237	$ (9,141)	$ 1,255	$ 4	$ 3,191	$ 133	$ 12,094	$ 18,432	$ (28,441)	$ 2,412
33	**Operating Income**	$ (84,485)	$ (19,168)	$ (237)	$ 9,141	$ (1,255)	$ (4)	$ (3,191)	$ (133)	$ (12,094)	$ (18,432)	$ 28,441	$ (2,412)
34	***Other Income (Expense)***												
35	Interest Income	-											
36	Other income	-											
37	Interest Expense	(67,693)											
38	Other Expense	-											
39													
40	**Total Other Income (Expense)**	$ (67,693)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
41	**Net Profit (Loss)**	$ (152,178)	$ (19,168)	$ (237)	$ 9,141	$ (1,255)	$ (4)	$ (3,191)	$ (133)	$ (12,094)	$ (18,432)	$ 28,441	$ (2,412)
42													
43	SUPPORTING SCHEDULES:												
44	Rejoinder C-2												
45													
46													

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Income Statement

Exhibit
Rejoinder Schedule C-1
Page 2.2
Witness: Bourassa

Continued From Page 2.1

Line No.		Direct Adjusted Test Year Book Results	12 Meals Beverages Contributions	13 Contractual Services	14 Taxes Other Than Income	15 Expense Allocation	16 Contractual Services	17 Rate Case Expense	18 Interest Synch.	19 Income Tax	Rejoinder Test Year Adjusted Results	Rejoinder Proposed Rate Increase	Rejoinder Adjusted with Rate Increase
1	**Revenues**												
2	Flat Rate Revenues	$ 1,557,337									$ 1,557,337	$ 953,002	$ 2,510,339
3	Measured Revenues	15,917									15,917		15,917
4	Other Wastewater Revenues	6,916									6,916		6,916
5		$ 1,580,170	$ -	$ -	$ -	$ -	$ -		$ -	$ -	$ 1,580,170	$ 953,002	$ 2,533,172
6	**Operating Expenses**												
7	Salaries and Wages	$ -									$ -		$ -
8	Purchased Wastewater Treatment	335,255									336,514		336,514
9	Sludge Removal Expense	706									706		706
10	Purchased Power	54,690									54,690		54,690
11	Fuel for Power Production	928									928		928
12	Chemicals	37,489									40,813		40,813
13	Materials and Supplies	11,224									11,224		11,224
14	Contractual Services	9,362	(1,485)	42,200							46,716		46,716
15	Contractual Services- Testing	16,955									29,049		29,049
16	Contractual Services - Other	553,043				1,490	(6,284)				514,028		514,028
17	Equipment Rental	1,863									1,863		1,863
18	Rents - Building	19,830									38,262		38,262
19	Transportation Expenses	34,445									34,445		34,445
20	Insurance - General Liability	18,704									18,704		18,704
21	Insurance - Other	990									990		990
22	Regulatory Commission Expense	60,000						16,667			76,667		76,667
23	Miscellaneous Expense	20,845									20,845		20,845
24	Bad Debt Expense	11,962									14,374		14,374
25	Scottsdale Capacity (Operating Lease)	164,522									164,522		164,522
26	Amort. of Additional Scottsdale Cap.	48,629									48,629		48,629
27	Depreciation and Amortization	224,818									243,986		243,986
28	Taxes Other Than Income	(1,780)			1,780						-		-
29	Property Taxes	32,414									32,651		32,651
30	Income Tax	7,760								(29,710)	(21,951)	367,848	345,898
31													-
32	**Total Operating Expenses**	$ 1,664,655	$ (1,485)	$ 42,200	$ 1,780	$ 1,490	$ (6,284)	$ 16,667	$ -	$ (29,710)	$ 1,708,656	$ 367,848	$ 2,076,504
33	**Operating Income**	$ (84,485)	$ 1,485	$ (42,200)	$ (1,780)	$ (1,490)	$ 6,284	$ (16,667)	$ -	$ 29,710	$ (128,486)	$ 585,154	$ 456,668
34	**Other Income (Expense)**												
35	Interest Income	-									-		-
36	Other income	-									-		-
37	Interest Expense	(67,693)							(3,260)		(70,954)		(70,954)
38	Other Expense	-									-		-
39													
40	**Total Other Income (Expense)**	$ (67,693)	$ -	$ -	$ -	$ -	$ -	$ -	$ (3,260)	$ -	$ (70,954)	$ -	$ (70,954)
41	**Net Profit (Loss)**	$ (152,178)	$ 1,485	$ (42,200)	$ (1,780)	$ (1,490)	$ 6,284	$ (16,667)	$ (3,260)	$ 29,710	$ (199,440)	$ 585,154	$ 385,714
42													
43	SUPPORTING SCHEDULES:										RECAP SCHEDULES:		
44	Rejoinder C-2										Rejoinder A-1		
45													
46													

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Adjustments to Revenues and Expenses

Exhibit
Schedule C-2
Page 1
Witness: Bourassa

Line No.		Adjustments to Revenues and Expenses						
1								
3		1	2	3	4	5	6	Subtotal
4		Depreciation	Property	Expensed	Scottsdale	Annualize	Chemicals	
5		Expense	Taxes	Plant	Treatment	WW Treatment	Expense	
6	Revenues							-
7								
8	Expenses	19,168	237	(9,141)	1,255	4	3,191	14,714
9								
10	Operating							
11	Income	(19,168)	(237)	9,141	(1,255)	(4)	(3,191)	(14,714)
12								
13	Interest							-
14	Expense							-
15	Other							
16	Income /							-
17	Expense							
18								
19	Net Income	(19,168)	(237)	9,141	(1,255)	(4)	(3,191)	(14,714)
20								

Line No.		Adjustments to Revenues and Expenses						
22		7	8	9	10	11	12	Subtotal
23		Ann. Chemicals	Testing	Rent	Contractual	Bad Debt	Meals, Beverages,	
24		Expense	Expense	Expense	Services	Expense	Contributions	
25	Revenues							-
26								
27	Expenses	133	12,094	18,432	(28,441)	2,412	(1,485)	17,859
28								
29	Operating							
30	Income	(133)	(12,094)	(18,432)	28,441	(2,412)	1,485	(17,859)
31								
32	Interest							
33	Expense							-
34	Other							
35	Income /							-
36	Expense							
37								
38	Net Income	(133)	(12,094)	(18,432)	28,441	(2,412)	1,485	(17,859)

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Adjustments to Revenues and Expenses

Exhibit
Schedule C-2
Page 1 (Continued)
Witness: Bourassa

Line No.								
1								
2		Adjustments to Revenues and Expenses						
3		13	14	15	16	17	18	Total
4		Contractual	Taxes Other	Expense	Contractual	Rate	Interest	
5		Services	Tan Income	Allocation	Services	Case Exp.	Synch.	
6	Revenues							-
7								
8	Expenses	42,200	1,780	1,490	(6,284)	16,667		73,712
9								
10	Operating							
11	Income	(42,200)	(1,780)	(1,490)	6,284	(16,667)	-	(73,712)
12								
13	Interest							
14	Expense						(3,260)	(3,260)
15	Other							
16	Income /							-
17	Expense							
18								
19	Net Income	(42,200)	(1,780)	(1,490)	6,284	(16,667)	(3,260)	(76,972)
20								
21		Adjustments to Revenues and Expenses						
22		19	20	21	22	23	24	Subtotal
23		Income						
24		Tax	Blank	Blank	Blank	Blank	Blank	
25	Revenues							-
26								
27	Expenses	(29,710)						44,002
28								
29	Operating							
30	Income	29,710	-	-	-	-	-	(44,002)
31								
32	Interest							
33	Expense							(3,260)
34	Other							
35	Income /							-
36	Expense							
37								
38	Net Income	29,710	-	-	-	-	-	(47,262)

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Rejoinder Schedule C-2
Page 2
Witness: Bourassa

Line No.	Acct. No.	Description	Adjusted Original Cost	Proforma Adjustments 1 Unrecorded Plant	2 Plant Retirement	3 Expensed Plant	4 Odor Control Unit	Rejoinder Adjusted Original Cost	Proposed Rates	Depreciation Expense
1	Depreciation Expense									
2										
3										
4										
5	351	Organization	-	-	-	-	-	-	0.00%	-
6	352	Franchises	-	-	-	-	-	-	0.00%	-
7	353	Land and Land Rights	461,300	-	-	-	-	461,300	0.00%	-
8	354	Structures and Improvements	2,557,920	-	-	2,300	-	2,560,220	3.33%	85,255
9	355	Power Generation Equipment	-	-	-	-	-	-	5.00%	-
10	360	Collection Sewers - Force	706,292	-	-	1,600	-	707,892	2.00%	14,158
11	361	Collection Sewers - Gravity	4,284,948	-	-	-	-	4,284,948	2.00%	85,699
12	362	Special Collecting Structures	-	-	-	-	-	-	2.00%	-
13	363	Services to Customers	198,723	-	-	-	-	198,723	2.00%	3,974
14	364	Flow Measuring Devices	31,512	-	-	-	-	31,512	10.00%	3,151
15	365	Flow Measuring Installations	179,622	-	-	-	-	179,622	10.00%	17,962
16	370	Receiving Wells	690,628	254,251	(13,208)	1,200	-	932,871	3.33%	31,065
17	371	Effluent Pumping Equipment	654,844	-	-	2,803	-	657,647	12.50%	82,206
18	380	Treatment and Disposal Equipment	143,578	-	-	-	38,625	182,203	5.00%	9,110
19	381	Plant Sewers	123,289	-	-	1,238	-	124,527	5.00%	6,226
20	382	Outfall Sewer Lines	-	-	-	-	-	-	3.33%	-
21	389	Other Plant and Misc. Equipment	939,432	-	-	-	-	939,432	6.67%	62,660
22	390	Office Furniture and Equipment	224,587	-	-	-	-	224,587	6.67%	14,980
23	391	Transportation Equipment	107,367	-	-	-	-	107,367	20.00%	21,473
24	393	Tools, Shop and Garage Equipment.	5,754	-	-	-	-	5,754	5.00%	288
25	394	Laboratory Equipment	7,488	-	-	-	-	7,488	10.00%	749
26	395	Power Operated Equipment	-	-	-	-	-	-	5.00%	-
27	396	Communication Equipment	40,451	-	-	-	-	40,451	10.00%	4,045
28	398	Other TangiblePlant	-	-	-	-	-	-	10.00%	-
29		TOTALS	$ 11,357,735	$ 254,251	$ (13,208)	$ 9,141	$ 38,625	$ 11,646,544		$ 443,002
30										
31	Less: Amortization of Contributions		$ 5,232,139					$ 5,232,139	3.8037%	$ (199,016)
32										
33	Total Depreciation Expense									$ 243,986
34										
35	Test Year Depreciation Expense									224,818
36										
37	Increase (decrease) in Depreciation Expense									19,168
38										
39	Adjustment to Revenues and/or Expenses									$ 19,168
40										
41	SUPPORTING SCHEDULE									
42	Rejoinder B-2, page 3									

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 2

Exhibit
Rejoinder Schedule C-2
Page 3
Witness: Bourassa

Line No.			As Adjusted With Rate Incr.
1	Adjust Property Taxes to Reflect Proposed Revenues:		
2			
3	Adjusted Revenues in year ended 06/30/2008	$	1,580,170
4	Adjusted Revenues in year ended 06/30/2008		1,580,170
5	Proposed Revenues		2,533,172
6	Average of three year's of revenue	$	1,897,837
7	Average of three year's of revenue, times 2	$	3,795,675
8	Add:		
9	Construction Work in Progess at 10%	$	14,202
10	Deduct:		
11	Book Value of Transportation Equipment		59,592
12			
13	Full Cash Value	$	3,750,285
14	Assessment Ratio		21%
15	Assessed Value		787,560
16	Property Tax Rate		4.1459%
17			
18	Computed Property Tax		32,651
19	Tax on Parcels		0
20			
21	Total Property Tax at Proposed Rates	$	32,651
22	Property Taxes (Adjusted Direct and Adjusted Rejoinder)		32,414
23	Change in property taxes	$	237
24			
25			
26	Adjustment to Revenues and/or Expenses	$	237
27			
28			
29			
30			
31			
32			
33			

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 3

Exhibit
Rejoinder Schedule C-2
Page 4
Witness: Bourassa

Line No.				
1	Expensed Plant			
2				Label
3	Contractual Services - Legal and Engineering	$	(1,500)	3a
4				
5	Contractual Services - Other	$	(7,641)	3b
6				
7				
8				
9				
10				
11				
12	Adjustment to Revenues and/or Expenses	$	(9,141)	
13				
14				
15				
16				
17	SUPPORTING SCHEDULES			
18	Staff Adj. #3 Schedule CSB-14			
19				
20				

Exhibit
Rejoinder Schedule C-2
Page 5
Witness: Bourassa

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 4

Line No.										
1	City of Scottsdale Purchased Wastewater Treatment									
2										
3	Computation of Test Year Billings									
4				**Sewage**	**Cost per**	**Raw**	**Environmental**	**Subject to**	**Sales tax**	**Scottsdale**
5	**Month**	**Year**	**Read Date**	**Flow (in gals)**	**1,000 gal**	**Billing**	**18.953%**	**Sales tax**	**1.65%**	**Billing**
6										
7	July	2007	1-Aug-07	6,126,317	$ 2.39	$ 14,641.90	$ 2,775.08	$ 17,416.98	$ 287.38	$ 17,704.36
8	Aug	2007	1-Sep-07	7,000,000	$ 2.39	$ 16,730.00	$ 3,170.84	$ 19,900.84	$ 328.36	$ 20,229.20
9	Sept	2007	1-Oct-07	8,507,019	$ 2.39	$ 20,331.78	$ 3,853.48	$ 24,185.26	$ 399.06	$ 24,584.31
10	Oct	2007	1-Nov-07	8,800,000	$ 2.39	$ 21,032.00	$ 3,986.19	$ 25,018.19	$ 412.80	$ 25,431.00
11	Nov	2007	1-Dec-07	8,703,535	$ 2.39	$ 20,801.45	$ 3,942.50	$ 24,743.95	$ 408.28	$ 25,152.22
12	Dec	2007	1-Jan-08	8,936,845	$ 2.39	$ 21,359.06	$ 4,048.18	$ 25,407.24	$ 419.22	$ 25,826.46
13	Jan	2008	1-Feb-08	9,500,000	$ 2.26	$ 21,470.00	$ 4,069.21	$ 25,539.21	$ 421.40	$ 25,960.61
14	Feb	2008	1-Mar-08	11,347,179	$ 2.26	$ 25,644.62	$ 4,860.43	$ 30,505.05	$ 503.33	$ 31,008.38
15	Mar	2008	1-Apr-08	11,644,059	$ 2.26	$ 26,315.57	$ 4,987.59	$ 31,303.16	$ 516.50	$ 31,819.67
16	April	2008	1-May-08	9,597,371	$ 2.26	$ 21,690.06	$ 4,110.92	$ 25,800.98	$ 425.72	$ 26,226.69
17	May	2008	1-Jun-08	7,261,758	$ 2.26	$ 16,411.57	$ 3,110.49	$ 19,522.06	$ 322.11	$ 19,844.17
18	June	2008	1-Jul-08	6,333,090	$ 2.26	$ 14,312.78	$ 2,712.70	$ 17,025.49	$ 280.92	$ 17,306.41
19										
20	Test Year Totals			103,757,173		$ 240,740.79	$ 45,627.60	$ 286,368.40	$ 4,725.08	$ 291,093.48
21										
22										
23	Computation of Billings under rate change effecive (7/1/2009)									
24										
25	City of Scottsdale billing with new rate			103,757,173	$ 2.60	$ 269,768.65	$ 51,129.25	$ 320,897.90	$ 5,294.82	$ 326,192.72
26										
27	Adjusted Test Year Wastewater Treatment Expenses (before annualization)									$ 324,938.13
28										
29	Increase(decrease) in City of Scottsdale purchased wastewater treatment									$ 1,254.59
30										
31	Adjustment to Revenues and/or Expenses									$ 1,255
32										
33										
34	SUPPORTING SCHEDULES									
35	Direct Schedule C-2, page 7									
36										
37										

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 5

Exhibit
Rejoinder Schedule C-2
Page 6
Witness: Bourassa

Annualize Purchased Wastewater Treatment		
Adjusted Year Purchased Wastewater Treatment (Scottsdale)	$	326,193
Gallons Treated By Scottsdale (in 1000's)		103,757
Cost per 1,000 gallons	$	3.1438
Additional Wasterwater gallons (in 1,000's) from revenue annualization		451
Percent diverted to Scottsdale		70.94%
Additonal gallons treated by Scottsdale (in 1,000's)		320
Annualization of Purchased WW Treatment per Rejoinder	$	1,006
WW Treatment Annualization per Direct	$	1,002
Increase (decrease) in annualization	$	4
Adjustment to Revenue and/or Expense	$	4

SUPPORTING SCHEDULE
Rejoinder C-2, page 5
Direct C-2, page 8

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 6

Exhibit
Rejoinder Schedule C-2
Page 7
Witness: Bourassa

Line No.					
1					
2	<u>Chemicals Expense</u>				
3					
4	Thoigard used from July to November 2007			$	8,169
5	Sodium Hydroxide (ordor control chemical)				
6	Gallons used during test year (approx. 7 months)		6,997		
7	Cost per Gallons	$	1.65		
8	Cost of Sodium Hydroxide			$	11,545
9	Delivery costs (14 deliveries at $45 per)				630
10	Sales tax at 8.5%				1,035
11	Total Cost			$	21,378
12					
13					
14	Sodium Hydroxide (ordor control chemical)				
15	Projected gallons (test year gallons annualized to 12 months)		11,995		
16	Cost per Gallons	$	2.05		
17	Total Cost			$	24,590
18	Delivery costs (24 deliveries at $32 per)				768
19	Sales tax at 8.5%				2,155
20	Total Cost			$	27,513
21					
22					
23	Increase (decrease) in Chemicals Expense per Rejoinder			$	6,135
24					
25	Increase (decrease) in Chemicals Expense per Direct			$	2,943
26					
27	Rejoinder Increase (decrease) in Chemicals Expenses			$	3,191
28					
29					
30	Adjustment to Revenue and/or Expense			$	3,191
31					
32					
33					
34					
35					
36	<u>SUPPORTING SCHEDULE</u>				
37	RUCO Adj. #8 SCHEDULE RLM-13				
38					
39					

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 7

Exhibit
Rejoinder Schedule C-2
Page 8
Witness: Bourassa

<u>Annualize Chemicals Expense</u>		
Test Year Chemicals plus Adjustment #6	$	49,584
Gallons Treated By BMSC (in 1000's)		42,510
Cost per 1,000 gallons	$	1.17
Additonal Wasterwater gallons (in 1,000's) from revenue annualization		451
Additonal cost based on revenue annualization per Rejoinder	$	526
Additonal cost based on revenue annualization per Direct	$	394
Rejoinder Increase (decrease) in Chemicals Expense	$	133
Adjustment to Revenue and/or Expense	$	133

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Adjustment to Revenues and Expenses
Adjustment Number 8

Exhibit
Rejoinder Schedule C-2
Page 9
Witness: Bourassa

Line No.			
1			
2	Testing Expense		
3			
4	Revised Test Year Test Year	$	15,689
5			
6	Incremental Costs Required By City of Scottsdale	$	13,360
7			
8	Total Proposed testing cost per Rejoinder	$	29,049
9			
10	Testing Costs per Direct	$	16,955
11			
12	Increase (decrease) in Testing Costs	$	12,094
13			
14	Adjustment to Revenue and/or Expense	$	12,094
15			
16			
17			
18	SUPPORTING SCHEDULES		
19	Rejoinder C-2, page 9.1		
20			

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Adjustment Number 8

Exhibit
Rejoinder Schedule C-2
Page 9.1

Testing Costs

Test name or number	Test Year Costs: Tests/yr	Test Year Costs: Price/test	Test Year Costs: Yearly Total	City of Scottsdale Incremental Tests	Co. Recommended Costs: Tests/yr	Co. Recommended Costs: Price/test	Co. Recommended Costs: Yearly Total	Staff Recommended Cost
515- chemical water test	2	$ 175	$ 350		2	$ 175	$ 350	$ 350
525- chemical water test	2	$ 290	$ 580		2	$ 290	$ 580	$ 580
624- chemical water test	3	$ 160	$ 480		2	$ 160	$ 320	$ 320
Antimony, GFAA	3	$ 15	$ 44		4	$ 15	$ 58	$ -
Antimony, Total	1	$ 17	$ 17		4	$ 17	$ 67	$ 67
Arsenic, GFAA	3	$ 15	$ 44	16	20	$ 15	$ 290	$ -
Arsenic, Total	1	$ 17	$ 17		4	$ 17	$ 67	$ 67
Barium, total	2	$ 10	$ 20		4	$ 10	$ 40	$ 40
Barium, total	2	$ 10	$ 19		4	$ 10	$ 38	$ -
Beryllium, total	2	$ 10	$ 20		4	$ 10	$ 40	$ 40
Beryllium, total	2	$ 10	$ 19	16	20	$ 10	$ 192	$ -
BOD	59	$ 36	$ 2,124	0	52	$ 36	$ 1,872	$ 1,008
Cadmium GFAA	2	$ 14	$ 29	16	20	$ 14	$ 288	$ -
Cadmium GFAA	1	$ 15	$ 15		4	$ 15	$ 60	$ 60
Cadmium Total	1	$ 17	$ 17		4	$ 17	$ 66	$ -
Chromium, Total	2	$ 10	$ 20		4	$ 10	$ 40	$ 40
Chromium, Total	2	$ 10	$ 19	16	20	$ 10	$ 192	$ -
Cyanide,	4	$ 56	$ 224		4	$ 56	$ 224	$ 224
Cyanide, Total	4	$ 44	$ 176	16	20	$ 44	$ 880	$ -
Fecal Coliforms	259	$ 15	$ 3,885		255	$ 15	$ 3,825	$ 5,475
Fecal Coliforms, Soil/Sludge	10	$ 68	$ 680		10	$ 68	$ 680	$ -
Mercury	4	$ 32	$ 128	16	20	$ 32	$ 640	$ 128
Nickel, Total	2	$ 10	$ 19	16	20	$ 10	$ 192	$ -
Nickel, Total	2	$ 10	$ 20		4	$ 10	$ 40	$ 40
Nitrogen 2	12	$ 64	$ 768		12	$ 64	$ 768	$ -
Nitrogen 3	12	$ 52	$ 624		12	$ 52	$ 624	$ 624
Nitrogen, NO3NO2	24	$ 20	$ 480	28	52	$ 20	$ 1,040	$ -
Nitrogen, Nitrite	2	$ 12	$ 24		2	$ 12	$ 24	$ -
Nitrogen, Total Kjeldahl	24	$ 32	$ 768	28	52	$ 32	$ 1,664	$ -
Oil and Grease	35	$ 88	$ 3,080		28	$ 88	$ 2,464	$ -
Flouride	4	$ 16	$ 64	16	20	$ 16	$ 320	$ 64
ICP Digestion	4	$ 16	$ 64		4	$ 16	$ 64	$ 16
ICP-MS Digestion	1	$ 16	$ 16		1	$ 16	$ 16	$ 15
Lead GFAA	1	$ 15	$ 15		4	$ 15	$ 60	$ 60
Lead GFAA	2	$ 14	$ 29	16	20	$ 14	$ 288	$ -
Lead, Total	1	$ 17	$ 17		4	$ 17	$ 67	$ -
Ph	24	$ 12	$ 288		24	$ 12	$ 288	$ -
Selenium GFAA	1	$ 15	$ 15		4	$ 15	$ 60	$ 60
Selenium GFAA	1	$ 14	$ 14	16	20	$ 14	$ 288	$ -
Selenium Total	1	$ 17	$ 17		4	$ 17	$ 67	$ -
Selenium- Subcontract	1	$ 24	$ 24		1	$ 24	$ 24	$ -
Thallium GFAA	2	$ 14	$ 29		4	$ 14	$ 58	$ -
Thallium GFAA	1	$ 15	$ 15		4	$ 15	$ 60	$ 60
Thallium Total	1	$ 17	$ 17		4	$ 17	$ 67	$ -
Boron				16	16	$ 9	$ 144	
COD				84	84	$ 38	$ 3,192	
Copper				16	16	$ 9	$ 144	
VOC GC/MS 624				2	2	$ 320	$ 640	
VOC GC/MS 625				2	2	$ 312	$ 624	
VOC GC/MS 608				2	2	$ 160	$ 320	
Molybdenum				16	16	$ 9	$ 144	
Silver				16	16	$ 14	$ 224	
Nitrate - N				28	28	$ 32	$ 896	
Nitrite - N				28	28	$ 32	$ 896	
TDS				84	84	$ 12	$ 1,008	
Zinc				16	16	$ 9	$ 144	
Total Suspended Solids	46	$ 12	$ 552	56	84	$ 12	$ 1,008	$ -
Total Suspended Solids	13	$ 13	$ 169		24	$ 13	$ 312	$ 364
Enteric Virus monthly					0	$ 460	$ -	$ 5,520
Unknown Cost								
			Company				Company	Staff
Total	588		$ 16,053	582	1201		$ 29,049	15,222 [1]

Total Recommended	$ 29,049
Original Filing test year costs	$ 16,955
Increase (decrease) in Test Year Testing Costs	$ 12,094

Reconciliation

Testing Costs Per Direct	$ 16,955
Less: Costs outside test year	$ (1,266)
Adjusted Test Year Costs	$ 15,689
Incremental COS tests required by City of Scottsdale	$ 13,360
Rejoinder Testing Costs	$ 29,049

1 Staff Schedule contains a math error of $860.

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Adjustment to Revenues and Expenses
Adjustment Number 9

Exhibit
Rejoinder Schedule C-2
Page 10
Witness: Bourassa

Line No.			
2	Rent Expense		
4	Additional Test Year Rent Expense	$	18,432
9	Adjustment to Revenue and/or Expense	$	18,432
16	SUPPORTING SCHEDULE		
17	RUCO Adj. # 6 Schedule RLM-12		

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Adjustment to Revenues and Expenses
Adjustment Number 10

Exhibit
Rejoinder Schedule C-2
Page 11
Witness: *Bourassa*

Line No.				Label
1				
2	Normalization of Maintenance, Legal and Engineering			
3				
4				Label
5	Contractual Services - Other	$	(26,580)	10a
6				
7	Contractual Services - Legal and Engineering		(1,861)	10b
8				
9	Total	$	(28,441)	
10				
11				
12	Adjustment to Revenue and/or Expense	$	(28,441)	
13				
14				
15				
16				
17	SUPPORTING SCHEDULE			
18	Staff Adj. # 4 Schedule CSB-15 (corrected for errors - see testimony)			
19				
20				

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Adjustment to Revenues and Expenses
Adjustment Number 11

Exhibit
Rejoinder Schedule C-2
Page 12
Witness: Bourassa

Line No.			
1			
2	Bad Debt Expense		
3			
4			
5	Remove Write-offs from prior year revenues (per Staff Adj. #5)	$	(4,067)
6			
7	Write-offs for test year revenues occuring post test year		6,479
8			
9	Total	$	2,412
10			
11			
12	Adjustment to Revenue and/or Expense	$	2,412
13			
14			
15			
16			
17	SUPPORTING SCHEDULE		
18	Staff Adj. # 5 Schedule CSB-16		
19	Testimony		
20			

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Adjustment to Revenues and Expenses
Adjustment Number 12

Exhibit
Rejoinder Schedule C-2
Page 13
Witness: Bourassa

Remove Meals, Beverages, Charitable Contributions		
Meals (per Staff Adj. # 9 Schedule CSB-20)	$	(526)
Beverages (per Staff Adj. # 9 Schedule CSB-20)		(907)
Charitable Contributions(per Staff Adj. # 9 Schedule CSB-20)		(52)
Total Adjustment to Contractual Services - Other	$	(1,485)
Adjustment to Revenue and/or Expense	$	(1,485)

Black Mountain Sewer Corporation	Exhibit
Test Year Ended June 30, 2008	Rejoinder Schedule C-2
Adjustment to Revenues and Expenses	Page 14
Adjustment Number 13	Witness: Bourassa

Contractual Services		
Contractual Services Costs[1] (per RUCO Adj. #5 Schedule RLM-12)	$	42,200
Adjustment to Revenue and/or Expense	$	42,200

[1]BMSC cost incorrectly recorded on books of LPSCo. See testimony.

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Adjustment to Revenues and Expenses
Adjustment Number 14

Exhibit
Rejoinder Schedule C-2
Page 15
Witness: Bourassa

Line No.		
2	Taxes Other Than Income	
5	Remove negative expense	$ 1,780
12	Adjustment to Revenue and/or Expense	$ 1,780
17	SUPPORTING SCHEDULES	
18	Staff Adj. #11 Schedule CSB-22	

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Adjustment to Revenues and Expenses
Adjustment Number 15

Exhibit
Rejoinder Schedule C-2
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Witness: Bourassa

Line No.		Actual Total Cost Pool[1]	Adjustments	Rejoinder Total Cost Pool	Utility Infrastructure Group Allocation %	Utility Infrastructure Group Allocated Cost Pool	BMSC Allocation by Customer Count	Rejoinder BMSC Allocation
1								
2	**Cental Office Costs - Infrastructure Allocation**							
6								
7	Audit	$ 940,719		$ 940,719	26.98%	$ 253,845	3.18%	8,072
8	Tax Services	235,582		$ 235,582	26.98%	63,570	3.18%	2,022
9	Legal	485,980		$ 485,980	26.98%	131,138	3.18%	4,170
10	Other Professional Services	177,762		$ 177,762	26.98%	47,968	3.18%	1,525
11	Management Fee - Total	629,738		$ 629,738	26.98%	169,929	3.18%	5,404
12	Unit Holder Communications	196,509		$ 196,509	26.98%	53,026	3.18%	1,686
13	Trustee Fees	225,052		$ 225,052	26.98%	60,728	3.18%	1,931
14	Escrow & Transfer Agent Fees	61,115		$ 61,115	26.98%	16,491	3.18%	524
15	Rent	295,881		$ 295,881	26.98%	79,841	3.18%	2,539
16	Licenses/Fees & Permits	131,619	(128,380) [1]	$ 3,239	26.98%	874	3.18%	28
17	Office Expenses	726,427	(63,448) [1]	$ 662,979	26.98%	178,899	3.18%	5,689
18	Depreciation	218,613		$ 218,613	26.98%	58,991	3.18%	1,876
19								
20	**Total (Candadian dollars CAD)**	**$ 4,324,998**	**$ (191,828)**	**$ 4,133,170**		**$ 1,115,300**		**$ 35,467**
21	Factor	1.05	1.05	1.05		1.05		1.05
22	**Total (US dollars USD**	$ 4,119,045	$ (182,693)	$ 3,936,352		$ 1,062,190		$ 33,778
23								
24	Infrastructure Cost Allocation per Direct (USD)[2]							$ 32,287
25								
26	Increase (decrease) in Infrastructure Allocated Costs (USD)							$ 1,490
27								
28								
29	Adjustment to Revenues and/or Expenses							$ 1,490
30								

31 [1] Per Response to CSB 9.1 (in Canadian dollars)
32 [2] $3,950,800 budgeted allocation pool times 26.98% times 3.18% divided by 1.05
33

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Adjustment to Revenues and Expenses
Adjustment Number 16

Exhibit
Rejoinder Schedule C-2
Page 17
Witness: Bourassa

Contractual Services				
Increase in direct allocated Operations costs			$	3,474
Increase in allocated Accounting/Billing costs	$	254,381		
Allocation Factor based on Year-end Customers		3.18%		
			$	8,098
Increase in allocated Overhead costs		717,339		
Allocation Factor based on 4-factor allocation		4.52%		
			$	32,446
Increase (decrease) in Contractual Services per Rejoinder			$	44,018
Increase (decrease) in Contractual Services per Direct				50,302
Increase (decrease) in Contractual Services			$	(6,284)
Adjustment to Revenue and/or Expense			$	(6,284)

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Adjustment to Revenues and Expenses
Adjustment Number 17

Exhibit
Rejoinder Schedule C-2
Page 18
Witness: Bourassa

Line No.			
1			
2	Rate Case Expense		
3			
4	Rate Case Expense Request per Direct	$	180,000
5			
6	Additional Rate Case Expense		50,000
7			
8	Rate Case Expense Request per Rejoinder	$	230,000
9			
10			
11	Amortization Period (years)		3.00
12			
13			
14	Rate Case Expense to be included in Expense	$	76,667
15			
16	Rate Case Expense per Direct	$	60,000
17			
18	Increase (decrease) in Rate Case Expense	$	16,667
19			
20			
21	Adjustment to Revenue and/or Expense	$	16,667

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Adjustment to Revenues and Expenses
Adjustment Number 18

Exhibit
Rejoinder Schedule C-2
Page 19
Witness: Bourassa

Line No.						
1	Interest Synchronization					
2						
3						
4	Fair Value Rate Base			$3,682,905		
5	Weighted Cost of Debt			1.93%		
6	Interest Expense					$ 70,954
7						
8	Test Year Interest Expense					$ 67,693
9						
10	Increase (decrease) in Interest Expense					3,260
11						
12						
13						
14	Adjustment to Revenue and/or Expense					$ (3,260)
15						
16						
17	Weighted Cost of Debt Computation					
18						Weighted
19			Amount	Percent	Cost	Cost
20	Debt	$	1,010,649	20.50%	9.40%	1.93%
21	Equity	$	3,920,456	79.50%	12.40%	9.86%
22	Total	$	4,931,105	100.00%		11.79%
23						
24						

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 19

Exhibit
Rejoinder Schedule C-2
Page 20
Witness: Bourassa

Line No.			Test Year Adjusted Results	Adjusted with Rate Increase	
1	Income Tax Computation				
2					
3					
4					
5					
6					
7	Taxable Income before Scottsdale Operating Lease		$ (221,390)	$ 731,612	
8	Plus: Scottsdale Operating Lease		164,522	164,522	
9	Taxable Income		$ (56,868)	$ 896,134	
10					
11	Income Before Taxes			$ 896,134	
12					
13	Arizona Income Before Taxes			$ 896,134	
14					
15	Less Arizona Income Tax			$ 62,443	
16	Rate =	6.968%			
17	Arizona Taxable Income			$ 833,691	
18					
19	Arizona Income Taxes			$ 62,443	
20					
21	Federal Income Before Taxes			$ 896,134	
22					
23	Less Arizona Income Taxes			$ 62,443	
24					
25	Federal Taxable Income			$ 833,691	
26					
27					
28					
29	FEDERAL INCOME TAXES:				
30	15% BRACKET			$ 7,500	
31	25% BRACKET			$ 6,250	
32	34% BRACKET			$ 8,500	Federal
33	39% BRACKET			$ 91,650	Effective
34	34% BRACKET			$ 169,555	Tax
35					Rate
36	Federal Income Taxes			$ 283,455	31.63%
37					
38	State Income Tax Rate at Proposed Rates		6.9680%		
39	Federal Effective Tax Rate at Proposed Rates		31.6309%		
40	Total Federal and State Income Tax Effective Rate		38.5989%	$ 345,898	
41					
42	Taxable Income		$ (56,868)		
43	State and Federal Income Taxes at Effective Rate		$ (21,951)		
44	Adjusted Test Year Income Tax per Direct		$ 7,760		
45	Adjusted Test Year Income Tax per Rejoinder			(21,951)	
46	Increase (decrease) in Income Taxes		$ (29,710)	367,848	
47					

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Computation of Gross Revenue Conversion Factor

Exhibit
Rejoinder Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Tax Factor	31.6309%
2		
3	State Income Tax Factor	6.9680%
4		
5	Other Tax Factor	0.0000%
6		
7		
8	Total Tax Percentage	38.5989%
9		
10	Operating Income % = 100% - Tax Percentage	61.4011%
11		
12		
13		
14		
15	1 = Gross Revenue Conversion Factor	
16	Operating Income %	1.6286
17		
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
19		Rejoinder A-1
20		

Exhibit
Rebuttal Schedule H-1
Witness: Bourassa

Black Mountain Sewer Corporation
Revenue Summary
With Annualized Revenues to Year End Number of Customers
Test Year Ended June 30, 2008

Line No.	Customer Classification	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Sewer Revenues	Percent of Proposed Sewer Revenues
1	Residential	1,077,880	1,705,856	627,976	58.26%	68.59%	67.60%
2	Commercial (Standard Rate)	378,678	599,266	220,588	58.25%	24.10%	23.75%
3	Commercial (Special Rate)						
4	Boulders Resort	50,085	101,969	51,884	103.59%	3.19%	4.04%
5	Desert Forest	13,729	24,324	10,595	77.17%	0.87%	0.96%
6	El Pedegral	26,587	54,857	28,271	106.33%	1.69%	2.17%
7	Boulders Club	168	347	179	106.33%	0.01%	0.01%
8	Spanish Village	8,395	17,322	8,927	106.33%	0.53%	0.69%
9	Effluent Sales	15,917	19,578	3,661	23.00%	1.01%	0.78%
10	Subtotal	1,571,439	2,523,520	952,081	60.59%	100.00%	100.00%
11							
12	Revenue Annualization						
13	Residential	2,145	3,395	1,250	58.26%	0.14%	0.13%
14							
15	Misc Service Revenues						
16	Misc Revenues	6,915	6,915	-	0.00%	0.44%	0.27%
17	Reconciling Amount to C-1	(329)	(658)	(329)	100.00%	-0.02%	-0.03%
18	Totals	1,580,170	2,533,172	953,002	60.31%	99.98%	99.97%
19							
20							
21							
22							
23							
24							
25							

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Analysis of Revenue by Detailed Class
Special Rate Commercial Customers Pay Standard Commerical Rate

Rebuttal Schedule H-2
Page 1
Witness: Bourassa

Line No.	Customer Classification	Average Number of Customers at 6/30/2008	Average Effluent	Average Bill Present Rates	Average Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	Residential	1,972	N/A	$ 45.64	$ 72.23	$ 26.59	58.260%
2	Commercial (Standard Rate)	124	N/A	103.41	163.64	60.24	58.252%
3	Commercial (Special Rate)						
4	B-H Enterprises (West)	-	N/A	$ -	N/A		
5	B-H Enterprises (East)	1	N/A	-	N/A		
6	Barb's Per Grooming	-	N/A	-	N/A		
7	Boulders Resort	1	N/A	4,173.74	8,497.43	4,323.69	103.593%
8	Carefree Dental	-	N/A	-	N/A		
9	Ridgecrest Realty	1	N/A	-	N/A		
10	Desert Forest	1	N/A	1,144.08	2,026.99	882.91	77.172%
11	Desert Hills Pharmacy	1	N/A	-	N/A		
12	El Pedregal	1	N/A	2,215.55	4,571.44	2,355.89	106.335%
13	Lemon Tree	1	N/A	-	N/A		
14	Body Shop	1	N/A	-	N/A		
15	Spanish Village	-	N/A	-	0.28957		
16	Boulders Club	-	N/A	168.41	347.48	179.08	106.335%
17	Anthony Vuitaggio	1	N/A	-	N/A		
18							
19	Effluent	1	3,542,780	$ 1,326.42	$ 1,631.49	305.08	23.000%
20							
21	Total	2,106					
22							
23							
24							
25							

Black Mountain Sewer Corporation
Present and Proposed Rates
Test Year Ended June 30, 2008

Exhibit
Rebuttal Schedule H-3
Page 1
Witness: Bourassa

Customer Classification		Present Rates	Present Rates	Proposed Rates	Proposed Rates	Percent Change
Monthly Charge for:						
Residential			$ 45.64		$ 72.23	58.26%
Commercial (Standard Rate), per gallon per day[1]			0.18298		0.28957	58.25%
		per acre foot		per acre foot		
Effluent Sales (per 1,000 gallons)		$ 122.00	0.37440	$ 150.00	0.46051	23.00%
Commercial (Special Rate), per gallon per day[1]						
Customer[2]	Gallons Per Day[1]	Monthly Billing	Rate per Gallon	Monthly Billing	Rate per Gallon [2]	Percent Change
B-H Enterprises	2,525	$ 354.36	0.14034	N/A	N/A	
B-H Enterprises	1,400	$ 196.48	0.14034	N/A	N/A	
Barb's Per Grooming	250	$ 35.09	0.14034	N/A	N/A	
Boulders Resort	29,345	$ 4,173.74	0.14223	$ 8,497.43	0.28957	103.59%
Carefree Dental	1,625	$ 228.05	0.14034	N/A	N/A	
Ridgecrest Realty	450	$ 63.87	0.14193	N/A	N/A	
Desert Forest	7,000	$ 1,144.08	0.16344	$ 2,026.99	0.28957	77.17%
Desert Hills Pharmacy	800	$ 136.49	0.17061	N/A	N/A	
El Pedregal	15,787	$ 2,215.55	0.14034	$ 4,571.44	0.28957	106.33%
Lemon Tree	300	$ 41.07	0.13691	N/A	N/A	
Body Shop	1,000	$ 176.47	0.17647	N/A	N/A	
Spanish Village	4,985	$ 699.59	0.14034	$ 1,443.51	0.28957	106.33%
Boulders Club	1,200	$ 168.41	0.14034	$ 347.48	0.28957	106.33%
Anthony Vuitaggio	300	$ 46.79	0.15597	N/A	N/A	

[1] Commercial wastewater flows are based on the average daily flows set forth in Engineering Bulletin 12, Table 1 published by the Arizona Department of Environmental Quality

[2] Company is proposing to set the special rate commercial customers at the same rate ase the standard commerical rate customers.

Black Mountain Sewer Corporation
Present and Proposed Rates
Test Year Ended June 30, 2008

Exhibit
Rebuttal Schedule H-3
Page 2
Witness: Bourassa

Other Service Charges	Present Rates	Proposed Rates
Establishment	$ 25.00	$ 25.00
Re-Establishment	$ 25.00	$ 25.00
Reconnection	no charge	[4]
After hours service	N/A	$ 25.00
Min Deposit Requirement (Residential)	[1]	[1]
Min Deposit Requirement (Non-Residential)	[1]	[1]
NSF Check	10.00	10.00
Deferred Payment finance charge, Per Month	1.50%	1.50%
Late Payment Charge, Per Month	1.50%	1.50%
Main Extension Tariff [2]	Cost	Cost
Purchased Wastewater Surcharge	NT	[3]

[1] Per A.C.C. R14-2-603B Residential - two times the average bill. Non-residential - two and one-half times the average bill.

[2] Per A.C.C. R14-2-606(B)

[3] For increases in wastewater treatment costs from City of Scottsdale. See Testimony of Thomas J. Bourassa.

[4] Actual cost of physical disconnection and reconnection (if same customer) and there shall be no charge if there is no physical work performed.

IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE TAX. PER COMMISSION RULE (14-2-608.D 5).
ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS, AND ALL APPLICABLE TAXES, INCLUDING ALL GROSS-UP TAXES FOR INCOME TAXES.
COST TO INCLUDE LABOR, MATERIALS AND PARTS, OVERHEADS AND ALL APPLICABLE TAXES.

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Capacity Reservation Charges

Exhibit
Rejoinder Schedule H-3
Page 3
Witness: Bourassa

Off-site Capacity Reservation Charge (Hook-up Fee)

Lateral Service Size	Present	Proposed
4 Inch	NT	$ 1,734.00
6 Inch and larger	NT	$ 3,901.00
8 Inch	NT	$ 6,936.00
10 Inch	NT	$ 10,837.00

N/T = No Tariff

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF BLACK MOUNTAIN SEWER CORPORATION, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-02361A-08-0609

REJOINDER TESTIMONY OF

THOMAS J. BOURASSA

(Cost of Capital)

November 16, 2009

TABLE OF CONTENTS

2255878.3

I. INTRODUCTION AND PURPOSE OF TESTIMONY.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?

A. On behalf of the applicant, Black Mountain Sewer Corporation ("BMSC" or the "Company").

Q. ARE YOU THE SAME THOMAS J. BOURASSA THAT FILED DIRECT AND REBUTTAL TESTIMONY ON RATE BASE, INCOME STATEMENT, REVENUE REQUIREMENT AND RATE DESIGN IN THIS CASE?

A. Yes. My background and qualifications are discussed in my direct testimony on those aspects of the case.

Q. DID YOU ALSO PREPARE DIRECT AND REBUTTAL TESTIMONY ON COST OF CAPITAL ON BEHALF OF BMSC IN THIS CASE?

A. Yes, I also provided direct and rebuttal testimony on the cost of capital in this case.

II. SUMMARY OF REJOINDER TESTIMONY AND THE PROPOSED COST OF CAPITAL FOR THE COMPANY.

A. Summary of Company's Rejoinder Recommendation.

Q. WHAT IS THE PURPOSE OF THIS REJOINDER TESTIMONY?

A. I will respond as appropriate to the surrebuttal testimonies of Mr. Manrique on behalf of Staff and Mr. Rigsby on behalf of RUCO.

Q. HAVE YOU UPDATED YOUR COST OF CAPITAL ANALYSIS.

A. No. I updated my cost of capital analysis on my rebuttal testimony filed on October 20, 2009. I updated my cost of capital in my rebuttal testimony because for the significant period of time between the Company's direct filing and its rebuttal filing, I did not feel the need to provide an additional update at this time as my rebuttal update is less than 1 month old.

Q. PLEASE SUMMARIZE YOUR RECOMMENDED REJOINDER COST OF DEBT AND EQUITY, AND YOUR RECOMMENDED REJOINDER RATE OF RETURN ON RATE BASE.

A. I continue to recommend a cost of equity of 12.4% based on my most recent cost of capital analysis. The results of my cost of capital analysis can be found in my rebuttal testimony.[1] The Company's recommended capital structure consists of 100 percent common equity as shown on Rejoinder Schedule D-1. While the Company has long-term debt, the debt service is being treated as an operating lease and is therefore excluded from the capital structure for purposes of computing a weighted average cost of capital ("WACC").[2] This debt does, of course, confers risk on the Company, however, it is risk that cannot be eliminated by creative accounting. Based on my 12.4 percent recommended cost of equity, the Company's weighted cost of capital ("WACC") is 12.4 percent, as shown on Rejoinder Schedule D-1.

B. <u>Summary of the Recommendations of Staff and RUCO.</u>

Q. PLEASE SUMMARIZE THE COST OF DEBT AND EQUITY RECOMMENDED BY STAFF AND RUCO, AND THEIR RESPECTIVE RECOMMENDATIONS FOR THE RATE OF RETURN ON FAIR VALUE RATE BASE.

A. Staff has updated its cost of capital analysis in its surrebuttal testimony and has determined a cost of equity of 9.4 percent based on the average cost of equity

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[1] *See* Rebuttal Testimony of Thomas J. Bourassa - Cost of Capital ("Bourassa Rb.") at 2.

[2] *See* Direct Testimony of Thomas J. Bourassa Bourassa – Rate Base, Income Statement and Rate Design at 2.

produced by its DCF and CAPM models (10.2 percent) and an 80 basis point downward adjustment for BMSC's lower financial risk as compared to the publicly traded water utilities in Staff's sample group.[3] Staff continues to ignore BMSC's firm-specific risks, focusing solely on financial risk. Like the Company, Staff continues to recommend a capital structure consisting of 100 percent equity.[4] Based on a capital structure of 0 percent debt and 100 percent equity, Staff determined the WACC for BMSC to be 9.4 percent.[5]

RUCO has not updated its cost of capital analysis and continues to recommend a cost of equity of 8.22 percent, based on the average cost of equity of its DCF and CAPM results.[6] RUCO also continues to recommend a hypothetical capital structure of 40 percent debt and 60 percent equity.[7] RUCO's recommended cost of debt is 6.26 percent, based the average cost of debt for seven publicly traded water companies followed by Value Line.[8] Based on a hypothetical capital structure of 40 percent debt and 60 percent equity, RUCO computed a WACC of 7.43 percent, which is RUCO's recommended rate of return on FVRB.[9] RUCO also continues to ignore firm-specific risks other than financial risk.

III. <u>RESPONSE TO STAFF'S COST OF CAPITAL ANALYSIS</u>

A. <u>Staff's Financial Risk Adjustment</u>

Q. DOES STAFF CONTINUE TO RECOMMEND A FINANCIAL RISK ADJUSTMENT BASED ON THE HAMADA METHOD?

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[3] *See* Surrebuttal Testimony of Juan C. Manrique ("Manrique Sb.") at 2.

[4] *Id.*

[5] *Id.*

[6] *See* Surrebuttal Testimony of William A. Rigsby ("Rigsby Sb.") at 12.

[7] *Id.* at 10.

[8] *Id.*

[9] *Id.* at 11.

A. Yes.[10] Staff's financial risk adjustment increased from 70 basis points in its direct testimony to 80 basis points in its surrebuttal testimony.

Q. DID STAFF RESPOND TO YOUR TESTIMONY CRITICIZING STAFF'S FINANCIAL RISK ADJUSTMENT?

A. No. I pointed out Staff uses the average beta of the publicly traded water utility companies as the beta for BMSC because the Company has no beta.[11] If it did have a beta, empirical financial data would indicate that BMSC's beta would be much higher than the average beta of a bunch of huge utility companies. This would lower the indicated financial risk adjustment substantially. But Mr. Manrique ignored my testimony entirely, and as a result Staff financial risk adjustment of 80 basis points is even more overstated than the 70 point reduction to the ROE Staff recommended in direct.

Q. SO THERE ARE OTHER REASONS WHY STAFF'S FINANCIAL RISK ADJUSTMENT IS TOO HIGH?

A. Yes. Putting aside BMSC's beta would be higher if it were publicly traded, Staff uses book values in its Hamada method. This results in an overstatement of the financial risk adjustment. The Hamada method should be based on market values rather than book values.

Q. PLEASE EXPLAIN.

A. Professor Hamada developed his methodology using market values of the firm. Market values are relevant.[12] Other authorities in the subject of finance recognize that market values of the firm are relevant when it comes to leverage and financial

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[10] Manrique Sb. at 2.

[11] Bourassa Rb. at 5-6.

[12] "Effects of the Firm's Capital structure on Systematic Risk of Common Stock," *Journal of Finance*, Vol. 27 No. 2 (May 1972) 435-453.

risk.[13] This is logical given that Professor Hamada's formula is an extension of the CAPM, which is a market-based model that does not consider book or accounting data.

Q. HAS STAFF PROVIDED ANY SUPPORT FOR USING BOOK DEBT AND EQUITY?

A. No. Staff's discussion on the subject other than their financial risk adjustment is sparse.[14] It is difficult to address this subject adequately at this time without knowing Staff's rationale and authoritative support for the use of book values. I have been unable to find any authority for using book value in the Hamada formula.

Q. WHAT FINANCIAL RISK ADJUSTMENT HAVE YOU COMPUTED USING STAFF'S MODELS AND MARKET VALUES?

A. I computed a downward financial risk adjustment of 40 basis points. I used the market value of equity for the publicly traded water utilities, which I computed using their market-to-book ratios as set forth in Staff's testimony. For debt, I used the book value of debt as the market value. According to Dr. Morin, this is an appropriate assumption.[15] To compute the market value of BMSC's equity, I used the market value of BMSC's equity using the average market-to-book ratio of the sample publicly traded utility companies.

Q. SO STAFF'S HAMADA ADJUSTMENT IS OVERSTATED BY AT LEAST 40 BASIS POINTS?

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[13] Shannon, P. Pratt, *Cost of Capital – Estimations and Applications*, John Wiley & Sons 83-85, Roger A. Morin. *New Regulatory Finance* (2006) 221-25.

[14] Manrique Dt. at 33-34.

[15] Morin, *supra* at 224.

A. Yes, but that still does not account for the problem with using the average betas as I discussed above. BMSC's small size compared to those sample companies taints the use of the beta in the first place, then Staff has overstated it in the second place. Under these circumstances I simply do not believe the evidence supports a financial risk adjustment in the range of 40-80 basis points.

Q. IS THE IMPACT ON THE REVENUE REQUIREMENT OF BMSC'S 100% EQUITY CAPITAL STRUCTURE HIGHER THAN THAT OF THE PUBLICLY TRADED WATER UTILITIES WITH APPROXIMATELY 50% DEBT AND 50% EQUITY?

A. No. It is lower. Despite BMSC's higher equity ratio and lower debt ratio compared to my sample of publicly traded water utilities, the impact on the revenue requirement (the cost to ratepayers) is still less than my sample of publicly traded water utilities. This is because BMSC has a much higher ratio of zero cost capital funding its plant-in-service. A utility's total capitalization consists of AIAC, CIAC, debt and equity. AIAC and CIAC funded plant receives no recognition in rate base and thus there is no rate of return dollar component for this plant "investment" in the revenue requirement. By virtue of BMSC's reliance on a high proportion of zero cost capital to fund plant, the ultimate impact on rate payers per $100 of plant-in-service "investment" recognized in rate base is far less on average than the water utility companies in my sample group.

I have illustrated this in a schedule attached hereto at **Rejoinder Attachment 1**. To make things simpler, I assumed the same debt costs and equity costs for BMSC and for my sample water utilities. As shown, the weighted cost of capital from a total capitalization perspective is 8.23% for my sample water utilities and 7.31% for BMSC. As one would expect, the impact on the revenue requirement per $100 of plant investment for my sample water utilities is $13.41 while that for BMSC is $11.91.

Q. DOES THE FACT THAT STAFF IS APPLYING A FINANCIAL RISK ADJUSTMENT TO A RATE OF RETURN THAT IS BEING APPLIED TO A BOOK VALUE CAPITAL STRUCTURE PROVIDE A BASIS FOR USING BOOK VALUES IN THE HAMADA METHOD?

A. No. Again, putting aside the fact that the Hamada method is supposed to use market returns, a market based return should not be adjusted using a financial risk adjustment measured by book values. Staff is mixing apples and oranges.

B. Response to Staff' Criticisms of BMSC'S Cost of Capital Analysis

Q. PLEASE RESPOND TO MR. MANRIQUE'S TESTIMONY THAT THE IBBOTSON DATA INDICATING HIGHER BETAS FOR SMALLER COMPANIES IS NOT UTILITY INDUSTRY SPECIFIC.

A. Mr. Manrique asserts that because the Ibbotson data is market wide it is not useful for determining utility industry specific risk premia.[16] This is not true. In fact, the Ibbotson data contains industry specific risk premia data used as a component to the buildup method of estimating the cost of equity. The Ibbotson industry risk premium in conjunction with the Ibbotson small company risk premium can be used to estimate the premium over and above the Ibbotson market risk premium on large stocks.

Let me explain. One of the methods for determining cost of equity is the buildup method.[17] In fact, according to Ibbotson, it is one of the most commonly used and effective methods to estimate the cost of equity.[18] Put simply, the buildup

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[16] Manrique Sb. at 3.

[17] *See* Morningstar *Ibbotson SBBI 2009 Valuation Yearbook* ("Ibbotson") at 29.

[18] *Id.*

method is an additive model in which the return on an asset is estimated as the sum of a risk-free rate and one or more risk premia. The equation for the buildup method is as follows:[19]

Riskless Rate

+ Equity Risk Premium (large stocks)

+ Industry Risk Premium

+ Size Premium

= Cost of Equity Estimate

The Industry Risk Premium and the Size Premium data are published by Ibbotson[20] and can be combined to estimate the additional risk premium for small water utility company stocks over large company stocks. For example, Ibbotson identifies a market risk premium for the water supply industry as a negative 3.64% percent. The Ibbotson small company risk premium for the Decile 10 stocks[21] is 5.81%. Based in this data, the additional indicated risk premium required over and above large company stocks risk premium for small utilities, like BMSC, is 217 basis points (5.84% minus 3.64%).

Q. THE 217 BASIS POINT SMALL UTILITY RISK PREMIUM IS OVER LARGE COMPANY STOCKS, BUT ARE THE PUBLICLY TRADED WATER UTILITY COMPANIES IN THE SAMPLE USED IN YOUR COST OF EQUITY ANALYSIS CONSIDERED LARGE COMPANY STOCKS BY IBBOTSON?

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[19] *Ibbotson* at 33.

[20] Industry risk premium can be found in Table 3-5 of *Ibbotson*. Small company risk premium for Decile 10 can be found in Appendix C of *Ibbotson*.

[21] BMSC would be considered in the smallest.

A. No. My cost of equity analysis is based on a sample of publicly traded water utilities of different market capitalizations (from Decile 10 for Middlesex Water and Connecticut Water to Mid-cap for Aqua America). Recognizing this, a small utility risk premium can be further refined to identify the additional risk premium over and above the cost of equity for the sample water utilities. If we assume the water industry risk premium is the same for all the sample water utilities as well as BMSC, then the additional risk premium is only related to the relative size of each utility to BMSC. This is exactly what I have done in my size premium study present in my rebuttal testimony.[22] The study indicates a risk premium over and above the returns of the publicly traded utility companies of 1.81%.

Q. THIS SIZE RISK PREMIUM IS NOT RELATED TO FINANCIAL RISK?

A. Correct. Measures on financial risk are contained within the beta estimate. The 1.81% risk premium is based upon a beta adjusted size premium.[23] In other words, the additional risk premium for size is the risk premium not explained by beta. Ibbotson devotes an entire chapter on firm size and return.[24]

Q. THE 181 BASIS POINT INDICATED RISK PREMIUM FOR BMSC WOULD MORE THAN OFFSET STAFF'S 80 BASIS POINT FINANCIAL RISK ADJUSTMENT. CORRECT?

A. Yes. And, Staff's indicated cost of equity would be 11.21% (10.2% minus 0.8% plus 1.81%). As I have suggested, Staff's financial risk is overstated so Staff's indicated cost of equity would be much higher.

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[22] *See* Rebuttal Attachment 1.

[23] Beta adjusted size premium

[24] Ibbotson Chapter 7 – Firm Size and Return.

Q. DOES THE "JANUARY EFFECT" DISPROVE THE NOTION THAT THERE IS NO RISK PREMIUM ON SMALL COMPANY STOCKS OVER LARGE COMPANY STOCKS?

A. No. Mr. Manrique presents this as an argument against any size premium.[25] However, while Ibbotson acknowledges the "January effect" in discussing size premia, Ibbotson states that "... simply demonstrating that the size premium is largely produced by the January effect does nothing to refute the existence of such a premium."[26]

Ibbotson specifically concludes:[27]

> Most criticisms of the use of a size premia do not address the underlying reason for the existence of size premia. Small capitalization stocks are still considered riskier investments that large company stocks. Investors require an additional reward, in the form of an additional return, to take on the added risk of an investment in small-capitalization stock. It is unlikely that future investors will require no compensation for taking on this additional risk.....
>
> ... Most criticisms presented to date...have not provided sufficient evidence to disprove the existence of a size premia.

Q. DOES THE ANNIE WONG STUDY CITED BY MR. MANRIQUE DISPROVE THE EXISTENCE OF A SIZE PREMIUM FOR SMALL UTILITY STOCKS?

A. No. As Dr. Zepp concluded in his review of Ms. Wong's study, "[her] weak evidence provides little support for a small firm effect existing or not existing in either the industrial or utility sector.[28] As I testified in my rebuttal testimony, even

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[25] Manrique Sb. at 3.

[26] *Ibbotson* at 101.

[27] *Id.* at 105.

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

the California PUC conducted a study that showed smaller water utilities are more risky than larger ones.[29]

IV. RESPONSE TO RUCO'S COST OF CAPITAL ANALYSIS

Q. PLEASE RESPOND TO MR. RIGSBY'S TESTIMONY THAT AN 8.22 PERCENT RETURN ON EQUITY IS ATTRACTIVE TO INVESTORS CONSIDERING THE VALUE LINE PROJECTED RETURNS FOR THE WATER UTILITY INDUSTRY OF 7.5 PERCENT?

A. There are several problems contained in this testimony. First, we have unrefuted, real world evidence in this case that BMSC's shareholder is not going to be attracted to Mr. Rigsby's recommended returns because it can earn higher returns every where else it does business. Until Mr. Rigsby's fictitious investors buy BMSC, the evidence is that his ROE is not going to attract capital from the only investor that matters.

Second, in a lovely piece of irony, Mr. Rigsby appears to justify his recommended cost of equity using a Comparable Earnings approach. This is an approach I have advocated in the past before this Commission, unsuccessfully.[30] If a Comparable Earnings approach is now considered appropriate by this Commission, the comparison certainly can't be the Value Line ("VL") projected book return of 7.5%. The VL Water Industry includes companies that have not (and should not) be used in a cost of capital analysis, like Southwest Water, which even Mr. Rigsby has stopped including Southwest Water (SWWC) in his analysis because it is financially distressed and less than 50 percent of its revenues are from regulated business. American Water Works (AWK) is also a financially distressed

[29] Bourassa Rb. at 6.

[30] Decision No. 69164. Mr. Bourassa used comparable earnings on book equity and authorized equity returns. In addition, Mr. Bourassa used a bond risk premium analysis using book equity returns and authorized equity returns.

utility as VL reports that a large shareholder (RWE) is liquidating its stake from just over 45% to 25%. VL further reports that AWK "has been trading for little over a year and lacks a track record to accurately track trading habits." Pennichuck Water (PNNW) is the focus of a condemnation proceeding and has been for several years. Sun Hydraulics (SHNY) is not a regulated utility. It designs, manufactures and sells cartridge valves and manifolds used in hydraulic systems. In short, Mr. Rigsby's comparable companies are anything but comparable to BMSC.

Third, Mr. Rigsby's recommended cost of equity does not square with the VL projected book returns on the sample companies he uses in his cost of equity analysis. In fact, Mr. Risgby's recommended cost of equity in the instant case of 8.22% is 300 to 380 basis points below the projected book returns on the sample companies he includes in his analysis. As shown below, the average VL projected book return for his water utility sample group and his gas utility sample group are 11.8% and 11.2%, respectively.

RUCO Water Utility Sample Group

Stock Symbol	Company	Value Line Projected Book Return on Equity[31]
AWR	American States Water Co.	12.0
WTR	Aqua America	11.5
CWT	California Water Services Group	12.0
	Average	11.8

[31] Value Line Investment Survey October 23, 2009.

RUCO Gas Utility Sample Group

Stock Symbol	Company	Value Line Projected Book Return on Equity[32]
AGL	AGL Resources, Inc.	14.0
ATO	Atmos Energy Corp.	9.5
LG	Laclede Group, Inc.	11.0
NJR	New Jersey Resources Corp.	10.0
GAS	Nicor, Inc.	12.0
NWN	Northwest Natural Gas	11.0
PNY	Piedmont Natural Gas Company	12.5
SJI	South Jersey Industry	13.5
SWX	Southwest Gas Corp.	8.0
WGL	WGL Holdings, Inc.	10.5
	Average	11.2

Again, if Mr. Rigsby is going to do a comparable analysis, he shouldn't ignore the lack of comparison between his comparables and his subject when it comes to the ROE.

Q. **WHAT WILL BE THE RETURN ON EQUITY ON THE ACTUAL EQUITY BALANCE IN THE COMPANY'S CAPITAL STRUCTURE UNDER RUCO'S RECOMMENDATION?**

A. 5.5 percent.[33] This is the appropriate number to compare to projected book returns because the projected book returns by VL are on the balances of equity and not on

[32] Value Line Investment Survey October 23, 2009.

[33] RUCO required operating income is $307,492 per RUCO Surrebuttal Schedule RLM-1, page 1 of 1, less synchronized interest of $92,023 per RUCO Surrebuttal Schedule RLM-1, page 2 of 2 divided by adjusted book equity of $3,920,456 per Company Rejoinder Schedule D-1.

rate base. In the instant case, the Company has over $3.9 million of equity capital but the rate base is only about $3.6 million. This is far below the 7.5% Mr. Rigsby professes to be a comparable return on book equity and even farther below the projected book returns of the utility companies Mr. Rigsby uses to estimate the cost of equity.

Q. BASED ON THE COMPANY'S RECOMMENDATIONS, WHAT IS THE COMPANY'S RETURN ON EQUITY on THE ACTUAL EQUITY CAPITAL IN THE COMPANY'S CAPITAL STRUCTURE?

A. 9.84%.[34] Even the Company's book equity return is far below the projected book returns of VL of the utility companies is Mr. Rigsby water and gas samples of 11.8 percent and 11.2 percent, respectively. If a Comparable Earnings approach is now acceptable, then it is the 9.83% return that should be used as a measure of reasonableness. By this measure, the Company's recommendations on the cost of capital in the instant case are more than reasonable.

A. <u>Criticisms of RUCO's Cost of Debt</u>

Q. PLEASE RESPOND TO MR. RIGSBY'S TESTIMONY THAT THERE IS NO REASON WHY BMSC COULD NOT OBTAIN DEBT AT A COST OF 6.21 PERCENT.

A. There are two significant problems with Mr. Rigsby's assertion that BMSC could borrow at a cost of 6.21%. The first is that the cost of borrowing is based on the credit risk of BMSC and not its parent company, Algonquin. Small utility companies, like BMSC, have a higher credit risk compared to a large publicly traded utilities company. This is because small utilities typically do not have the

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[34] Company required operating income is $456,680 per Rejoinder Schedule A-1 less synchronized interest of $70,954 per Rejoinder Schedule C-1, page 2 of 2 divided by adjusted book equity of $3,920,456 per Company Rejoinder Schedule D-1.

earnings and cash flow cushion to help address unexpected changes in operating expenses and to help fund capital expenditures. Second, Algonquin's current cost of borrowing is currently much higher than 6.21%. Recently Algonquin Power and Utilities Corp. announced that it will issue convertible debentures at a cost of 7.0 percent. *See* **Rejoinder Attachment 2**. I have also been provided information which indicates Algonquin intends to borrow approximately $63 million. The debt issuance costs will be approximately $3 million which will mean that the effective interest rate will be 7.7%. *See* **Rejoinder Attachment 3**.

Q. HAS MR. RIGSBY RESPONDED TO YOUR TESTIMONY THAT HIS CAPM ESTIMATES PRODUCE INDICATED RETURNS BELOW THE COST OF DEBT?

A. No. As you will recall, I showed that Mr. Rigsby's CAPM estimates produced indicated returns less than the cost of Baa investment grade bonds as well as BBB utility bonds.[35] Mr. Rigsby CAPM estimates range from 5.3% to 7.08% with an over-all average of 6.15%.[36] The current cost of Baa investment grade bonds is 6.4 percent.[37] The information on Algonquin's current borrowing cost (7.7%) as discussed previously makes his CAPM results even more suspect.

B. Criticisms of RUCO's Hypothetical Capital Structure

Q. DO YOU HAVE ANY FURTHER COMMENTS ON RUCO'S HYPOTHETICAL CAPITAL STRUCTURE?

A. Yes. RUCO's use of a hypothetical capital structure results in a WACC of 7.43%. This is below the 7.7 percent current cost of debt discussed earlier. And, despite RUCO recommended equity return of 8.22%, RUCO's effective return on equity is

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[35] Bourassa Rb. at 21.

[36] *Id.*

[37] Federal Reserve, November 12, 2009.

well below its WACC of 7.43%. This is because RUCO imputes additional hypothetical interest expense which lowers the income taxes. RUCO's approach not only utilizes hypothetical debt and hypothetical cost of debt but further imputes hypothetical interest expense. This parade of hypotheticals is all fiction and should be rejected by this Commission as results oriented. So, in other words, the Company would not even have the opportunity to earn its authorized ROE if RUCO's recommendation is accepted.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes.

REJOINDER ATTACHMENT 1

Black Mountain Sewer Company
Comparison of Total Capitalization and Return $ Impact on Revenue Requirement

Total Capitalization	Sample Group Average Percentage	Cost	Weighted Cost	BMSC	Cost	Weighted Cost
Refundable Advances for Construction (AIAC)	10.53%	0.0%	0.0%	25.74%	0.0%	0.0%
Contributions-in-aid of Construction (CIAC)	14.41%	0.0%	0.0%	15.31%	0.0%	0.0%
Debt	35.95%	9.4%	3.4%	0.00%	9.4%	0.0%
Equity (Common and Preferred)	39.11%	12.4%	4.8%	58.96%	12.4%	7.3%
Totals	100.00%		8.23%	100.00%		7.31%

Capital Structure	Sample Group Average Percentage	Cost	Weighted Cost	BMSC	Cost	Weighted Cost
Debt	47.7%	9.4%	4.5%	0.0%	9.4%	0.0%
Equity (Common and Preferred)	52.3%	12.4%	6.5%	100.0%	12.4%	12.4%
Totals	100.0%		11.0%	100.0%		12.4%

Rate Base	Sample Group	BMSC
Net Plant-in-service	$ 100.00	$ 100.00
AIAC	(10.53)	(25.74)
CIAC	(14.41)	(15.31)
Implied Rate Base (per $100)[1]	$ 75.06	$ 58.96
WACC	11.0%	12.4%
Required Return (per $100)	$ 8.23	$ 7.31
Income Tax Factor[2]	1.6287	1.6287
Impact on Revenue Requirement (per $100)	$ 13.41	$ 11.91

[1] Assumes plant is funded with AIAC, CIAC, debt and equity and only debt and equity funded plant receive recognition in rate base.
[2] Assumes 38.6 percent tax rate. Income tax factor is equal to 1/(1-tax rate)

REJOINDER ATTACHMENT 2

The following news about Algonquin was issued today. / Les informations suivantes sur Algonquin ont été diffusées aujourd'hui.

ALGONQUIN POWER & UTILITIES CORP. ANNOUNCES ACQUISITION OF HYDROELECTRIC GENERATION ASSETS

Acquisition Expected to Grow Renewable Energy Business by more than 10%

TORONTO, ONTARIO – November 10, 2009 – Algonquin Power & Utilities Corp. (TSX: AQN) is pleased to announce that it and its affiliates ("Algonquin") have entered into definitive agreements (the "Purchase Agreements") with Integrys Energy Services Inc. and its subsidiaries to purchase certain electrical generating facility assets, most notably 36.8MW of hydroelectric generating capacity located in New Brunswick and Maine.

Pursuant to the Purchase Agreements, Algonquin has agreed to acquire, through the purchase of shares and assets, three hydroelectric generating stations including the 34.5MW Tinker Hydroelectric station located on the Aroostook River near the Town of Perth-Andover, New Brunswick. Additionally, Algonquin will acquire five legacy thermal generating stations (together with the hydroelectric plants, the "Hydro Plants") and certain regulated NB ISO transmission lines located in proximity to the generating facilities. Closing of the acquisition is subject to satisfaction of certain conditions including regulatory approval, and is anticipated to occur within approximately 60 days. For additional information on the acquired assets, please refer to the fact sheet posted on Algonquin's website.

The Hydro Plants are interconnected to access the northeastern electricity markets of Northern Maine, New Brunswick, and New England. Historically, the primary market for the energy and capacity produced by the Hydro Plants has been New Brunswick and Northern Maine and the Hydro Plants are under firm energy and capacity sale contracts continuing through February 2011, with several future contract opportunities available beyond the existing contract expiries. The transaction also builds on the previously announced strategic partnership with Emera Inc. through an energy marketing alliance with Emera Energy Services Inc. for off-take management and marketing services.

Due to confidentiality provisions with the seller, the purchase price was not disclosed. The acquisition will be financed with $20 million of new equity and the balance with long term convertible debentures, consistent with Algonquin's objective of achieving superior returns within a moderate risk profile and balanced capital structure.

"The earnings and cash flow accretion generated by these long lived, utility grade hydroelectric generating facilities supports Algonquin's commitment to providing total shareholder return through a combination of predictable and growing earnings and dividends together with capital appreciation" commented Ian Robertson, a senior officer with Algonquin. "The addition of these assets is expected to deliver growth of more than 10% in our renewable energy business, reinforcing Algonquin's strategic focus on the renewable energy sector", he continued.

Algonquin Power & Utilities Corp. Announces $75 Million Offering of Common Shares and Convertible Debentures

Not for distribution to U.S. newswire services or for dissemination in the United States. Any failure to comply with this restriction may constitute a violation of U.S. securities law.

OAKVILLE, Ontario – November 10, 2009 - Algonquin Power & Utilities Corp. ("Algonquin") (TSX : AQN) today announced that it has entered into an agreement to sell to a syndicate of underwriters led by CIBC World Markets Inc. and BMO Capital Markets, on a bought deal basis, 5,980,000 common shares (the "Common Shares") at $3.35 per common share for gross proceeds of $20 million and $55 million principal amount of 7% convertible unsecured subordinated debentures due June 30, 2017 (the "Debentures"). Algonquin has granted the Underwriters an option, exercisable in whole or in part at any time up until 30 days after the Closing Date, to purchase an additional 897,000 common shares and $8.25 million principal amount of Debentures, on the same terms. If such option is exercised in full, the total gross proceeds of the financing will be approximately $86 million.

Proceeds of approximately $35 million from the Debenture offering will be used to reduce existing senior short term bank credit facilities. The proceeds of the Common Share offering and the balance of the Debenture offering will be used to finance the recently announced hydroelectric generating facility acquisition and for other general corporate purposes.

"The assets being acquired are long lived, utility grade hydroelectric generating facilities which support Algonquin's commitment to providing total shareholder return through a combination of predictable and growing earnings and dividends together with capital appreciation and are expected to be accretive to both earnings and cash flow per share" commented Ian Robertson, a senior officer with Algonquin. "The addition of these assets is expected to deliver growth of more than 10% in our renewable energy business, reinforcing Algonquin's strategic focus on the renewable energy sector", he continued.

The Debentures will bear interest at a rate of 7% per annum payable semi-annually in arrears on the last day of June and December in each year commencing on June 30, 2010, and will mature on June 30, 2017. The Debentures will be convertible at the holder's option into common shares of Algonquin at any time prior to the earlier of the Maturity Date and the date fixed for redemption at a conversion price of $4.20 per common shares (the "Conversion Price"). The Debentures will not be redeemable on or before December 31, 2012. After December 31, 2012 and on or before December 31, 2014, the Debentures may be redeemed in whole or in part from time to time at Algonquin's option provided that the volume weighted average trading price for the common shares is not less than 125% of the Conversion Price. On and after December 31, 2014 and prior to the Maturity Date, the Debentures may be redeemed in whole or in part from time to time at Algonquin's option at a price equal to their principal amount plus accrued interest. Subject to regulatory approval, Algonquin may elect to satisfy its obligations to repay the principal amount and accrued interest of the Debentures which are to be redeemed or which have matured by issuing Common Shares to the holders. The offering will be made in all provinces of Canada and is expected to close on or about December 2, 2009, subject to regulatory approval. The Common Shares and Debentures have not been and will not be registered under the United States Securities Act of 1933 and may not be offered or sold in the United States.

About Algonquin Power & Utilities Corp.

Through its distinct operating subsidiaries, Algonquin owns and operates a diversified approximately $1 billion North American portfolio of clean renewable electric generation and sustainable utility distribution businesses. Algonquin's electric generation subsidiary includes 42 renewable energy facilities and 11 high efficiency thermal energy facilities representing more than 400 MW of installed capacity. Through its wholly owned subsidiary, Liberty Water Co., Algonquin provides regulated utility services to more than 70,000 customers with a portfolio of 18 water distribution and wastewater treatment utility systems. Pursuant to a previously announced agreement, Algonquin is committed to acquiring the California based regulated utility electric distribution and generation assets of NV Energy which serve approximately 47,000 retail electricity distribution customers. Algonquin and its operating subsidiaries deliver continuing growth through an expanding pipeline of greenfield and expansion renewable power and clean energy projects, organic growth within its regulated utilities and the aggressive pursuit of accretive acquisition opportunities. Algonquin's common shares and convertible debentures are traded on the Toronto Stock Exchange under the symbols AQN, AQN.DB and AQN.DB.A. Visit Algonquin Power & Utilities Corp. on the web at www.AlgonquinPower.com.

For Further Information contact:

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Algonquin Power & Utilities Corp.

Forward Looking Information

Certain statements in this news release, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect Algonquin's and its subsidiaries' current expectations. Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, priorities, ongoing objectives, strategies and outlook of Algonquin and its subsidiaries' for the current fiscal year and subsequent periods. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "will" and "may". This information is based upon certain material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking statements, including the perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. Although these forward-looking statements are based upon management's current reasonable expectations and assumptions, they are subject to numerous risks and uncertainties, including those set out in the management's discussion and analysis section of Algonquin's 2008 annual report, Algonquin's Annual Information Form dated March 31, 2009, Algonquin's Management Information Circular dated March 20, 2009. Algonquin's actual results could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or what benefits, including the amount of dividends, Algonquin and shareholders will derive therefrom.

The forward-looking statements contained in this news release are made as of the date hereof for the purpose of providing readers with Algonquin's expectations for the coming year. The forward-looking statements may not be appropriate for other purposes. Other than as specifically required by law, Algonquin undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

REJOINDER ATTACHMENT 3

Algonquin Power
Series 3 - Effective Interest Rate
New - October 27, 2009

Facts	
Issue Date	10-Nov-09
Series I Debt	$63,250,000
Add: Premium	$0
Total Series 3 Debt	$63,250,000
Less: Unamortized Issue Costs	
Add: Issue Costs	**-$2,530,000**
Add: Additional Issue Costs	**-$366,505**
New Equity portion	
Less: Premium on Series I	$0
Book Value	$60,353,495
Coupon Rate	7.00%
Frequency of coupon	Semi Annual
Term (Maturity)	Bond maturing June 30, 2017
Effective Interest rate	7.6796%

BOURASSA
COST OF CAPITAL SCHEDULES

Exhibit
Rejoinder Schedule D-1
Page 1
Witness: Bourassa

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Summary of Cost of Capital

	End of Test Year				End of Projected Year			
Item of Capital	Dollar Amount	Percent of Total	Cost Rate	Weighted Cost	Dollar Amount	Percent of Total	Cost Rate	Weighted Cost
Long-Term Debt[1]	-	0.00%	9.40%	0.00%	-	0.00%	9.40%	0.00%
Stockholder's Equity[2]	3,920,456	100.00%	12.40%	12.40%	4,306,170	100.00%	12.40%	12.40%
Totals	$ 3,920,456	100.00%		12.40%	$ 4,306,170	100.00%		12.40%

[1] Excluded long-term debt for Scottsdale Treatment Capacity	$	1,010,649	. See D-2
[2] Adjusted for correction to accummulated depreciation of	$	322,862	. See Direct B-2 Page 2
[3] Adjusted for correction to accummulated depreciation of	$	(100,250)	. See Rejoinder B-2, page 2
[4] Adjusted for correction to accummulated amortization	$	(271,031)	. See Direct B-2 Page 2
[5] Adjusted for deferred income taxes	$	170,554	. See Direct B-2 Page 6
[7] Adjusted for deferred income taxes	$	25,351	. See Rejoinder B-2, page 6

SUPPORTING SCHEDULES:
Rejoinder D-2
Rejoinder D-3
Rejoinder D-4

RECAP SCHEDULES:

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Cost of Long Term Debt

Exhibit
Rejoinder Schedule D-2
Page 1
Witness: Bourassa

		End of Test Year				End of Projected Year			
Line No.	Description of Debt	Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost	Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost
1	Loan for Scottsdale Treatment Capacity	659,546	74,518	9.40%	6.13%	613,181	71,388	9.40%	6.13%
2	Loan for Scottsdale Treatment Capacity	351,103	39,325	9.40%	3.27%	327,694	36,010	9.40%	3.27%
3			-		0.00%	-	-	0.00%	0.00%
4			-		0.00%	-	-	0.00%	0.00%
5									
6									
7									
8									
9									
10									
11									
12									
13	Totals	$ 1,010,649	$ 113,843		9.40%	$ 940,875	$ 107,398		9.40%
14									
15	Supporting Schdules:								
16	E-2								
17									
18									
19									
20									
21									

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Cost of Preferred Stock

Exhibit
Rejoinder Schedule D-3
Page 1
Witness: Bourassa

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

Black Mountain Sewer Corporation
Test Year Ended June 30, 2008
Cost of Common Equity

Exhibit
Rejoinder Schedule D-4
Page 1
Witness: Bourassa

The Company is proposing a cost of common equity of 12.4%.

SUPPORTING SCHEDULES:	RECAP SCHEDULES:
Rebuttal D-4.0 to D-4.13	Rejoinder D-1