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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 WITNESS SUMMARIES**

Black Mountain Sewer Corporation ("Company") hereby submits this Notice of Filing in the above-referenced matter. Specifically filed herewith are the summaries of the pre-filed testimony of the following witnesses:

1. Gregory S. Sorensen (summary attached hereto as **Exhibit A**);
2. Thomas J. Bourassa (summary attached hereto as **Exhibit B**);

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
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Copy of the foregoing was hand delivered
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Exhibit A

Black Mountain Sewer Corporation
Docket No. SW-02361A-08-0609

Greg Sorensen
Testimony Summary

Mr. Sorensen is employed by Liberty Water, formerly known as Algonquin Water Services, as Director of Operations for the Western Group. He oversees the operations and business management functions for Liberty Water's utility holdings in Arizona. Liberty Water manages and operates 20 utilities in Arizona, Texas, Missouri, and Illinois. Mr. Sorensen has the responsibility for the daily operations of all the Arizona utilities, for the financial operating results for each utility, for capital and operating cost budgeting, for rate case planning and oversight and rate setting policies and procedures as they relate to the operations under his responsibility.

Mr. Sorensen will testify regarding the Company's need for rate relief as well as the significant improvements made by the Company to its plant and facilities, including those related to odor control and those improvements ordered to be completed in the last rate case Decision. He will also address some of the issues raised in the testimony of Staff and intervenors RUCO, Boulders Home Owners Association ("BHOA"), Town of Carefree ("Town"), and Dennis E. Doelle, D.D.S. ("Doelle").

Specifically, in response to the Town, Mr. Sorensen will testify that the remedy suggested before by the Town, RUCO and the Company, a small debit to those already receiving refunds and a credit to the additional 33 members of the CIE HOA is acceptable because it is revenue and capital neutral to BMSC.

In response to Dr. Doelle's request for a new rate design for BMSC, Mr. Sorensen will explain that the Company cannot support Dr. Doelle's request because it does not have access to water usage data for its sewer utility customers, and that BMSC is asking that the existing special rates be eliminated. However, it is the Company's position that if the Commission believes Dr. Doelle should receive a new, special rate for his dental office, the Company does not oppose it as long as it does not impact its ability to collect its revenue requirement.

With respect to the testimony by the BHOA, Mr. Sorensen is the signatory to the Settlement Agreement between BMSC and the BHOA regarding the BHOA's request to close the Company's 40 year old, 120,000 gallon per day wastewater treatment plant, located in a residential resort community. Mr. Sorensen will testify to the Company's willingness to remove this used and necessary asset from service, the changes to its collection system that will be necessitated and the required purchase of additional capacity from the City of Scottsdale. Mr. Sorensen will also testify as to the reasons the Company insists on approval of a recovery mechanism before it will make the capital investment needed to remove used and useful plant from service. Mr. Sorensen will explain the Company's view that this is an extraordinary matter that should be met by the Commission with the necessary relief to effectuate the wishes of the Company's customer base.

Related to RUCO's testimony, Mr. Sorensen will respond to RUCO's position that the cost of cleaning up unexpected discharges is an unnecessary expense that will not reoccur. He will testify that spills, while regrettable, do occur periodically and the costs of clean up of said spills are necessary and recurring operating expenses that should be included in allowable operating expenses at a reasonable level, such as that advocated by Staff and supported by the Company. Given that the event at issue was not the result of negligence by the Company, the failure to allow any cost recovery would communicate to wastewater utilities that clean up costs are not a necessary expense of doing business as a wastewater utility provider. Further in response to RUCO, Mr. Sorensen will testify to his concern that the adoption of RUCO's proposed hypothetical capital structure and extremely low ROE will severely restrict or eliminate further investment in Arizona by BMSC's shareholder. Mr. Sorensen will testify that Mr. Rigsby has not taken into consideration the overall impact of his capital recommendations, and the fact that there are 49 other states in which investors can direct their money and earn much more appropriate and favorable returns.

With regard to Staff's testimony, Mr. Sorensen will address the reason that certain operating expenses proposed to be excluded by Staff should actually be included as proper, recurring, necessary costs of the Company. These costs include wastewater testing expenses that are required by the City of Scottsdale, even under the current agreement, the lease costs of a truck used by two operators solely at BMSC, and the compensation paid to employees, which includes some component of incentive or pay at risk, which Staff has elected to exclude. The Company's view is that the amount of total compensation, not the apportionment of said compensation between base and incentive pay, is the proper evaluated metric, and that incentives are not inherently "evil" and excludable on that basis alone. Mr. Sorensen will also address Staff's adjustment to exclude a significant portion of the Company's operating expenses because they have been incurred at the parent company level as part of the shared services model utilized. As Mr. Sorensen will testify, the Company's shared services model has been substantially modified to address previous concerns by the Commission and all profit has been eliminated. Now, Staff seeks a second bite at the apple and is excluding costs that are reasonable, necessary for the operation of BMSC as a reliable and safe utility service provider and of benefit to ratepayers. Finally, Mr. Sorensen will address Staff's shifting opposition to the Company's proposed new HUF tariff explaining why BMSC believes the tariff is an appropriate vehicle to fund a portion of future backbone plant costs.

Exhibit B

Black Mountain Sewer Corporation
Docket No. SW-02361A-08-0609

WITNESS SUMMARY

Thomas J. Bourassa

Thomas J. Bourassa is a Certified Public Accountant who provides consulting services to public utilities. He has testified on numerous occasions before the Arizona Corporation Commission ("the Commission") on behalf of Arizona water and wastewater utilities. In this case he is testifying on behalf of Black Mountain Sewer Company ("the Company") on the topics of the Company's rate base, its income statement (i.e., revenue and operating expenses), its required increase in revenue and its rate design and proposed rates and charges for service.

Overview of the Company's Request Rate Relief

The Company is requesting a gross revenue increase of $953,002, which is an increase of approximately 60.3 percent over test year (June 30, 2008) revenues. The following is a summary of the Company's revenue requirement:

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		12.40%
Operating Income Deficiency	$	585,166
Gross Revenue Conversion Factor		1.6286
Increase in Gross Revenues	$	953,002

The Company is adopting the same rate design approved by the Commission in the Company's prior rate case, with the exception of eliminating the special rates, which rates are antiquated and potentially inequitable to the Company. Under the Company's proposed rates, a typical residential customer would experience an increase of $26.59 (about 58.3 percent), from $45.64 per month to $72.23 per month.

There are a number of issues in dispute in this case. The Company has accepted many of the adjustments proposed by Staff and RUCO in order to reduce disputes and simplify the rate case. The following is a brief summary of the major unresolved issues.

Rate Base Issues

1. Odor Control Unit. In 2008, the Company transferred an odor control unit costing $38,625 from Litchfield Park Service Company ("LPSCo"). The Company had not recorded the transfer during the test year and has proposed to include the costs in plant-in service along with related accumulated depreciation of $11,148.

2. Deferred Income Taxes ("DIT"). The Company proposes a DIT asset of $195,906. The Company's DIT is based on the requirements of Statement of Financial Standards No. 109 – Accounting for Income Taxes ("FAS 109"). As in the Company's prior rate case, the Company has a net DIT asset rather than a liability. RUCO proposes a DIT asset while Staff reduces DIT to zero. However, as Mr. Bourassa will testify, Staff's position is contrary to the guidelines and precedent, as well as simply unsupportable.

3. Cash Working Capital and Related Adjustments. In order to simplify the case and to eliminate issues between the parties, the Company is proposing zero working capital consistent with RUCO's position on working capital. The Company did prepare a lead/lag study in its rebuttal filing (updated in the rejoinder filing) which indicates positive cash flow. Staff proposes negative working capital which is based on a flawed analysis that Mr. Bourassa addresses in his testimony.

Revenue and Income Statement Issues

1. Depreciation Expense. The Company criticizes Staff's depreciation expense computation which uses an incorrect composite rate for the amortization of contributions-in-aid of construction.

2. Testing Expense. The Company proposes to include additional testing expenses totaling $12,094 which are related to the wastewater flows treated by the City of Scottsdale. Staff has not accepted these additional costs because it does not believe that the costs are required by contract.

3. Contractual Services - Bonuses. The Company includes employee payroll bonuses in operating expenses totaling $14,945. RUCO is in agreement with the Company on the inclusion of incentive pay. Staff removes the bonuses as inherently unreasonable.

4. Contractual Services – Central Office Costs. The Company includes $33,778 of allocated Central Office Costs. The Central Office costs arise from the Company's participation in an actual cost based shared services model that results in more services at lower cost. These costs are necessary and prudent for the operation of BMSC, and ratepayers benefit from these costs from the use of a shared services model overall. RUCO has accepted the Company's proposed Central Office Costs. Staff

reduces the Central Office Costs to $1,452, not because the amounts include any profit, but rather, because they are incurred by a for-profit enterprise.

5. Contractual Services – Sewer Discharge Clean-up Costs. The Company accepts Staff's recommendation to include $13,920 of clean-up costs. The $13,920 represents a 3-year "normalized" expense based on a test year cost of $39,870. In an instance where these costs occur in the course of business but the exact amount cannot be ascertained, Staff's normalization reflects proper ratemaking. RUCO excludes these costs as unnecessary and non-recurring.

6. Contractual Services – Legal and Survey Costs. The Company includes $4,723 of legal and survey costs incurred during the test year. RUCO proposes to remove these costs from operating expenses. Staff and the Company are in agreement.

The Company includes $42,200 of contractual service costs from vendor Aerotek. These prudent and necessary costs were discovered to have been erroneously booked in the expenses of LPSCo. RUCO agrees with the Company to include these costs in operating expenses while Staff does not despite the fact that the costs are known and measurable.

7. Contractual Services – Normalization of Legal and Engineering Expense. While the Company agrees with Staff's "normalization" of legal and engineering expenses, the Company has identified an error in Staff's computation totaling $1,500. Staff has failed to correct the error.

8. Transportation Expense. The Company proposes to include in operating expense $5,375 of transportation expense for a leased truck used exclusively by the Company for the provision of service. RUCO is in agreement with the Company while Staff recommends removal of these costs from operating expenses, primarily because it was leased under an account in the name of an affiliate.

9. Income Taxes. The Company's computation of income taxes excludes the Scottsdale Capacity Costs from deductable expenses. This complies with the method authorized in the Company's prior rate case. Staff is in agreement with the Company. RUCO expressly rejects the prior decision and consequently computes income taxes incorrectly.

Rate Design and Proposed Rates

The Company's rate design is based on the flat rate design for residential customers and a charge per rated gallon per day for commercial customers.

The only area of disagreement on the rate design concerns the special rate customers. Staff proposes to continue special rates while RUCO and the Company propose to eliminate special rates. There does not appear to be any basis for multiple rates for different commercial customers and they should be eliminated to ensure that no subsidization of these special commercial customers is occurring.

The Company proposes a hook-up fee ("HUF") based on Staff's proposed alternative fee schedule. While Staff has recommended no HUF, it has proposed an alternative fee schedule if the Commission decides to approve a HUF. The Company accepts Staff's alternative HUF levels and recommends a form consistent with that recommended by Staff in another pending rate case.

At the Company's proposed revenue level, rates will increase by approximately 58 percent for residential customers and commercial customers. Special rate customers will see a higher increase due to the elimination of the special rates. Special rate customers will be charged at the standard rate for commercial customers. The average bill for a residential customer will increase from \$45.38 per month to \$72.23 per month, an increase of 58.26 percent. The average bill for a commercial customer will increase from \$103.41 per month to \$163.64 per month, an increase of 58.25 percent. Residential customers make up about 94 percent of the Company's total customer base.

Cost of Equity and WACC

Mr. Bourassa performed estimates of the cost of equity using the Commission's preferred models, the Discounted Cash Flow ("DCF") model and the Capital Asset Pricing Model ("CAPM"). Mr. Bourassa's updated estimate of the cost of equity is 12.4 percent. While the Company has debt in its capital structure, the debt service payments are included in operating expenses as lease expense (the Scottsdale Capacity Costs). Consequently, the Company proposes a 100% equity capital structure for rate making purposes. Accordingly, weighted cost of capital ("WACC") is 12.4 percent.

Staff recommends a WACC of 9.4 percent based on a 100% capital structure. Staff's unadjusted cost of equity is 10.2 percent. Staff proposes an 80 basis point reduction to the cost of equity for financial risk. The Company's primary areas of disagreement with Staff concern its growth estimates for the DCF model and its financial risk adjustment.

RUCO, in contrast, proposes a WACC of 7.43 percent using a hypothetical capital structure consisting of 40 percent debt and 60 percent equity. RUCO recommends a cost of debt of 6.25 percent and a cost of equity of only 8.22 percent. RUCO used much different inputs to estimate the cost of equity than Staff and the Company. RUCO used different sample water utilities eliminating Connecticut Water Service, Middlesex Water Company and SJW Corporation which are used by both Staff and the Company.

RUCO also used a group of publicly traded gas utilities, which depressed the cost of equity. RUCO's gas utility sample has an average beta of 0.75, while RUCO's water utility sample has an average beta of 0.67. Consequently, the gas utilities have substantially less risk and are not directly comparable to the water utilities. To make the gas utilities comparable, an upward risk adjustment of between 160 basis points would need to be added to the gas utilities' cost of equity.

RUCO also uses inputs to its CAPM which depress the indicated cost of equity. RUCO's DCF results average 10.28 percent. However, RUCO's CAPM results are less than the cost of debt at 6.15 percent. The current cost of Baa investment grade bonds is 6.4 percent.

Hypothetical Capital Structure

RUCO proposes the use of a hypothetical capital structure consisting of 40 percent debt and 60 percent equity. RUCO estimates that the Company's debt cost is 6.26 percent using an average cost of debt of publicly traded water utilities. This is less than the current cost of Baa investment grade bonds. Further, there is no credible evidence in this case that the Company could borrow capital at 6.26 percent. In fact, the evidence in the instant case is that the Company's affiliate borrowing costs are currently 7.7 percent. RUCO's 7.43 WACC is less than 7.7 percent, the minimum indicated borrowing costs for the Company. By using a hypothetical capital structure, RUCO's effective equity return is less than its WACC of 7.43 percent due to reduced income taxes from hypothetical interest expense and even further below the indicated current borrowing costs of affiliates.

Adjustment for Financial Risk

BMSC opposes an adjustment to its cost of equity based on financial risk. The Company's actual capital structure consists of approximately 20 percent debt and 80 percent equity. The Commission has not typically reduced the cost of equity in situations like this, where approximately one-fifth of the utility's capital structure consists of debt. In fact, in the Company's prior case, Staff did not propose a financial risk adjustment. *See* Decision No. 69164 (Dec. 5, 2006) (no financial risk adjustment based on capital structure consisting of 100 percent equity). Where downward adjustments have been made, the utility's capital structure has typically contained 100 percent equity and no debt. Here, approximately one-fifth of the Company's capital consists of debt. Moreover, Staff only considers financial risk and does not consider the additional business and operational risks of small utilities like BMSC.

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