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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.

DOCKET NO. SW-01428A-09-0103

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

DOCKET NO. W-01427A-09-0104

IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR AUTHORITY (1) TO ISSUE EVIDENCE OF INDEBTEDNESS IN AN AMOUNT NOT TO EXCEED \$1,755,000 IN CONNECTION WITH (A) THE CONSTRUCTION OF TWO RECHARGE WELL INFRASTRUCTURE IMPROVEMENTS AND (2) TO ENCUMBER ITS REAL PROPERTY AND PLANT AS SECURITY FOR SUCH INDEBTEDNESS.

DOCKET NO. W-01427A-09-0116

Arizona Corporation Commission

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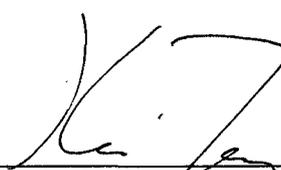
IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR AUTHORITY (1) TO ISSUE EVIDENCE OF INDEBTEDNESS IN AN AMOUNT NOT TO EXCEED \$1,170,000 IN CONNECTION WITH (A) THE CONSTRUCTION OF ONE 200 KW ROOF MOUNTED SOLAR GENERATOR INFRASTRUCTURE IMPROVEMENTS AND (2) TO ENCUMBER ITS REAL PROPERTY AND PLANT AS SECURITY FOR SUCH INDEBTEDNESS.

DOCKET NO. W-01427A-09-0120

STAFF'S
NOTICE OF FILING
SURREBUTTAL TESTIMONY

1 The Utilities Division of the Arizona Corporation Commission ("Staff") hereby files the
2 Surrebuttal Testimony of Staff Witnesses Jeffrey M. Michlik, Pedro M. Chaves, Juan C. Manrique,
3 and Marlin Scott, Jr. in the above-referenced matter.

4 RESPECTFULLY SUBMITTED this 17th day of December, 2009.

6
7
8 
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13 Original and thirteen (13) copies
14 of the foregoing were filed this
15 17th day of December, 2009, with:

15 Docket Control
16 Arizona Corporation Commission
17 1200 West Washington Street
18 Phoenix, Arizona 85007

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BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF)	DOCKET NO. W-01427A-09-0104
LITCHFIELD PARK SERVICE COMPANY, AN)	DOCKET NO. W-01427A-09-0116
ARIZONA CORPORATION, FOR A)	DOCKET NO. W-01427A-09-0120
DETERMINATION OF THE FAIR VALUE OF)	
ITS UTILITY PLANTS AND PROPERTY AND)	
FOR INCREASES IN ITS WATER RATES, AND)	
CHARGES FOR UTILITY SERVICE BASED)	
THERON, AND APPROVAL OF ASSOCIATED)	
FINANCINGS)	
_____)	

WATER
SURREBUTTAL
TESTIMONY
OF
JEFFREY M. MICHLIK
PUBLIC UTILITIES ANALYST V
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

DECEMBER 17, 2009

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**EXECUTIVE SUMMARY
LITCHFIELD PARK SERVICE COMPANY
WATER DIVISION
DOCKET NOS. W-01427A-09-0104, W-01427A-09-0116, AND W-01427A-09-0120**

As compared to Direct Testimony, Staff's Surrebuttal position decreases its recommended revenue requirement by \$22,438, from \$11,803,750 to \$11,781,312. Staff recommends revised rates that would increase operating revenues from test year by \$4,902,602 to produce operating revenues of \$11,781,312 resulting in operating income of \$3,234,150 or a 71.27 percent increase over test year revenues of \$6,878,710. Staff also recommends a revised FVRB of \$37,174,137.

Revenue Requirement

Staff recommends its revised revenue requirement, revised revenue increase, and revised percentage of revenue increase.

Rate Base

Staff recommends a revised rate base, and responds to Litchfield Park Service Company's ("LPSCO" or "Company") comments to Staff's customer security deposits, and further comments on why Staff continues to recommend disallowance of the Company's deferred regulatory assets.

Income Statement

Staff recommends revised operating income, and responds to the Company's comments on corporate expense allocation expense. Based on new information, Staff now recommends disallowance of employee bonuses.

Financings

Staff has updated its financing numbers to reflect the changes made in its Surrebuttal Testimony.

1 **INTRODUCTION**

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

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

6
7 **Q. Are you the same Jeffrey M. Michlik who filed Direct Testimony in this case?**

8 A. Yes, I am.

9
10 **Q. What is the purpose of your Surrebuttal Testimony in this proceeding?**

11 A. The purpose of my Surrebuttal Testimony in this proceeding is to respond, on behalf of
12 Staff, to the Rebuttal Testimony of Litchfield Park Service Company’s (“LPSCO” or
13 “Company”) witnesses, Mr. Thomas J. Bourassa and Mr. Greg Sorensen, regarding
14 revenue requirement, rate base, and operating revenues and expenses.

15
16 **Q. Did you attempt to address every issue the Company raised in its Rebuttal
17 Testimony?**

18 A. No. Staff limited its discussion to the specific issues as outlined below. Staff’s lack of
19 response to any issue in this proceeding should not be construed as agreement with the
20 Company’s position in its Rebuttal Testimony; rather, where there is no response, Staff
21 relies on its original Direct Testimony.

22
23 **Q. Please explain how Staff’s Surrebuttal Testimony is organized.**

24 A. Staff’s Surrebuttal Testimony is generally organized to present issues that Mr. Bourassa
25 and Mr. Sorensen present in their Rebuttal Testimonies.

1 **REVENUE REQUIREMENT**

2 **Q. Has Staff reviewed Mr. Bourassa's and Mr. Sorensen's Rebuttal Testimony**
3 **regarding revenue requirement for the Water Division?**

4 A. Yes.

5
6 **Q. Has Staff revised its recommendations from its direct testimony?**

7 A. Yes. As compared to DIRECT TESTIMONY, Staff's Surrebuttal position decreases its
8 recommended revenue requirement by \$22,438, from \$11,803,750 to \$11,781,312. This
9 decrease reflects Staff's Surrebuttal adjustments as discussed herein.

10

11 **Q. Please summarize the proposed and recommended revenue requirement, revenue**
12 **increase, and percentage increase.**

13 A. The proposed and recommended revenue requirement, revenue increase, and percentage
14 increase are as follows:

15

	<u>Revenue Requirement</u>	<u>Revenue Increase</u>	<u>Percentage Increase</u>
17 Company-Direct	\$13,983,149	\$7,508,146	115.96 percent
18 Staff-Direct	\$11,803,750	\$5,328,747	81.82 percent
19 RUCO-Direct	\$10,923,684	\$4,044,974	58.80 percent
20 Company-Rebuttal	\$13,637,738	\$6,759,028	98.26 percent
21 Staff-Surrebuttal	\$11,781,312	\$4,902,602	71.27 percent

22

1 **RATE BASE**

2 **Q. Has Staff reviewed Mr. Bourassa's and Mr. Sorensen's Rebuttal Testimony**
3 **regarding rate base for the Water Division?**

4 A. Yes.

5
6 **Q. Has Staff revised its recommendations from its direct testimony?**

7 A. Yes. As compared to Direct Testimony, Staff's Surrebuttal position decreases its
8 recommended rate base by \$44,045, from \$37,218,182 to \$37,174,137. This decrease
9 reflects Staff's Surrebuttal adjustments as discussed herein.

10

11 **Q. Would Staff please identify each party's respective rate base recommendations?**

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

13

	<u>OCRB</u>	<u>FVRB</u>
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
Company-Direct	\$37,924,592	\$37,924,592
Staff-Direct	\$37,218,182	\$37,218,182
RUCO-Direct	\$37,222,878	\$37,222,878
Company-Rebuttal	\$37,502,569	\$37,502,569
Staff-Surrebuttal	\$37,174,137	\$37,174,137

21 **Q. Are there any adjustments to plant in service that Staff did not make in Direct**
22 **Testimony, but would like to make now for the Water Division?**

23 A. Yes.

24

1 **Q. Please provide a summary of adjustments that you have accepted from the Company**
2 **and/or RUCO, and on which schedule the adjustments have been made.**

3 A. Staff has made the following adjustments to rate base for the Water Division:
4

5 *Plant-in-Service*

6 Staff has added \$21,000 to account no. 301 organization cost, as shown on Surrebuttal
7 Schedule JMM-W7. Based on review of supporting documentation, Staff has accepted the
8 Company's and RUCO's adjustment.

9
10 Staff has capitalized expenses in the amount of \$1,114 for Account No. 307 Wells and
11 Springs, and \$8,600 for Account No. 331 Distribution Mains, as shown on Surrebuttal
12 Schedule JMM-W7. Based on review of supporting documentation, Staff has accepted the
13 Company's and RUCO's adjustment.

14
15 Staff has removed \$7,072 related to office rent that was included in Account No. 307
16 Wells and Springs, as shown on Surrebuttal Schedule JMM-W7. Based on review of
17 supporting documentation, Staff has accepted the Company's and RUCO's adjustment.
18

19 *Accumulated Depreciation*

20 Staff adjusted accumulated depreciation to reflect Plant-In-Service that has been fully
21 depreciated in the amount of \$78,879, accumulated depreciation of Capitalized Plant in
22 the amount of \$119, and the removal of accumulated depreciation related to the removal
23 of the office rent in the amount of \$1,449. See Surrebuttal Schedule JMM-W8. Staff
24 made these adjustments to accumulated depreciation based on review of the Company's
25 Rebuttal Testimony.

1 *Reclassification of Advances-in-aid of Construction to Customer Meter Deposits*

2 Staff removed \$2,238,022 from Advances-In-Aid of Construction and reclassified this
3 amount as customer meter deposits. See Surrebuttal Schedule JMM-W9. Based on review
4 of the Company's rebuttal testimony, Staff has accepted the Company's adjustment.

5
6 *Deferred Income Taxes and Credits*

7 Staff increased deferred income taxes and credits to the Company's proposed amount of
8 \$448,160. See Surrebuttal Schedule JMM-W10. Based on review of the Company's
9 Rebuttal Testimony, Staff has accepted the Company's adjustment.

10

11 **Q. Please review the remaining contested issues related to rate base for the Water**
12 **Division.**

13 A. Certainly.

14

15 *Security Deposits*

16 **Q. Does Staff still believe security deposits should be included in rate base?**

17 A. Yes. By definition customer security deposits are customer deposits.

18

19 **Q. What do customer deposits represent?**

20 A. Customer deposits represent funds received from ratepayers as security against potential
21 losses arising from failure to pay for service. These funds are similar in nature to
22 customer advances for construction. Both represent a liability to repay the funds received
23 either after a specified period or upon satisfaction of certain requirements. Like customer
24 advances, the deposits are available to the utility for use in support of its rate base
25 investment.

1 **Q. Does Staff include customer deposits in rate base?**

2 A. Yes.

3

4 *Accumulated Deferred Income Taxes*

5 **Q. Has Staff determined its final position regarding the issue of deferred income taxes?**

6 A. Staff is still reviewing Mr. Bourassa's proposal and rebuttal adjustment for this item.

7 While Staff agrees with the methodology used by Mr. Bourassa, Staff believes that the
8 substantiation for the underlying calculations warrants an in-depth review and analysis.

9 Staff is provisionally including the Company's adjustment pending completion of its
10 analysis.

11

12 *Deferred Regulatory Assets*

13 **Q. Has Staff changed its position regarding the Company's deferred regulatory assets
14 related to potential contamination of the Company's wells?**

15 A. No. Staff continues to recommend exclusion of the assets from the Company's rate base.

16

17 **Q. Does Staff believe that the increased water testing costs and legal costs were
18 unnecessary or unreasonable?**

19 A. No. These costs were incurred as part of the Company's efforts to monitor the
20 groundwater for possible contamination from the TCE plume and therefore benefit the
21 ratepayers by enhancing customer safety.

22

1 **Q. Has the Company sought recovery of these expenses from the party or parties**
2 **responsible for the potential contamination of their water supplies?**

3 A. No. The Company's responses to a series of data requests indicate that the Company has
4 taken no legal action against the responsible party and, in fact, has not even asked the
5 responsible party for reimbursement of these costs.

6
7 **Q. How does Staff recommend these costs be treated at this time?**

8 A. Staff believes that the Company should continue to defer these costs until a future rate
9 case. The Company stated in its data responses that it would initiate legal action against
10 the responsible party when any well-site contamination occurs. At this time, it is
11 unknown whether or not the Company's well-site may eventually be contaminated or
12 whether the Company will have any of the costs recovered. It is premature to pass these
13 costs on to the ratepayers and, therefore, Staff recommends that the costs continue to be
14 deferred.

15
16 **OPERATING INCOME**

17 **Q. Are there any adjustments to plant in service that Staff did not make in Direct**
18 **Testimony, but would like to make now for the Water Division?**

19 A. Yes.

20
21 **Q. Please provide a summary of adjustments that you have accepted from the Company**
22 **and/or RUCO, and on which schedules the adjustments have been made.**

23 A. Staff has made the following adjustments to operating income for the Water Division:
24

1 *Revenue Annualization for the City of Goodyear*

2 Staff has added \$403,707 to test year metered water revenues, as shown on Surrebuttal
3 Schedule JMM-W15. Based on review of supporting documentation, Staff has accepted
4 the Company's and RUCO's adjustment.

5
6 *Fuel for Purchased Power*

7 Staff has removed \$20,309 from fuel for power production, as shown on Surrebuttal
8 Schedule JMM-W16. Based on review of the Company's Rebuttal Testimony, Staff has
9 accepted the Company's adjustment.

10
11 *Chemical Expense*

12 Staff has removed \$305 from chemical expense, as shown on Surrebuttal Schedule JMM-
13 W17. Based on review of supporting documentation, Staff has accepted the Company's
14 and RUCO's adjustment.

15
16 *Capitalized Expenses*

17 Staff has removed \$9,714 in capitalized expenses and \$3,191 in unnecessary expenses
18 from outside services, as shown on Surrebuttal Schedule JMM-W18. Based on review of
19 supporting documentation, Staff has accepted the Company's and RUCO's adjustment.

20
21 *Depreciation Expense*

22 Staff has recalculated its amortization of contributions using a specific rate rather than a
23 composite rate, as shown on Surrebuttal Schedule JMM-W22. Based on review of the
24 Company's Rebuttal Testimony, Staff has accepted the Company's adjustment.

25

1 **Q. Please review the remaining contested issues related to operating income for the**
2 **Water Division.**

3 A. Certainly.
4

5 *Corporate Expense Allocation*

6 **Q. How does the Algonquin Power Income Fund (“Fund” or “APIF”) produce income**
7 **for its shareholders?**

8 A. The Fund, according to its 2008 annual report, produces earnings for its shareholders
9 through a diversified portfolio of renewable energy and utility assets.
10

11 **Q. What was the APIF’s business strategy?**

12 A. The Fund’s 2008 annual report states the following concerning its business strategy:

13 *Algonquin’s business strategy is to maximize long term unitholder value*
14 *by strengthening its position as a strong renewable energy and*
15 *infrastructure company. **The Company is focused on growth in cash flow***
16 ***and earnings in the business segments in which it operates.** (emphasis*
17 *added)*
18

19
20 **Q. What was the APIF’s income for 2008?**

21 A. The APIF generated \$57 million in income before taxes according to its 2008 audited
22 financial statements.
23

1 **Q. Does Staff agree with the Company’s statement that “APIF incurs the central office**
2 **cost for the benefit of its subsidiary businesses” and “but for the subsidiary**
3 **businesses, APIF would not have central offices costs” (Bourassa Rebuttal, page**
4 **33, lines 19 through 33)?**

5 A. No, Staff does not. The APIF is an unregulated for-profit business that incurs costs
6 primarily for the benefit of its shareholders. Making a profit is the ultimate reason any
7 for-profit company incurs expenses. The Fund is focused on “*growth in cash flow and*
8 *earnings*” as evidenced from its business strategy. Since shareholders seek a profit and
9 the APIF incurs expenses (e.g. central office costs) in order to generate that profit, it is
10 obvious that the central office costs are incurred primarily for the benefit of the
11 shareholders rather than for LPSCO as the Company indicates. The central office costs
12 would have been incurred even if the Fund did not own LPSCO because the central office
13 costs were incurred to make a profit for the shareholders and not to operate LPSCO. The
14 benefit to LPSCO is only incidental.

15
16 **Q. Please comment on the Company’s statement that the Company only owns 63**
17 **companies and not 71 as stated in the Staff Report.**

18 A. According to the Company’s financial report, the Company has interest in the other eight
19 companies, and accordingly it generates expenses from them. Therefore, Staff included
20 them in its calculation.

21

1 *Employee Bonus Expense*

2 **Q. Since the time of filing Direct Testimony, are there any adjustments that Staff would**
3 **like to make in its Surrebuttal filing?**

4 A. Yes. Staff recommends that \$52,954 be removed for employee bonuses. Of that amount,
5 Staff recommends \$26,477 be allocated to water and \$26,477 be allocated to wastewater
6 based on Staff's allocation of corporate expenses.

7
8 **Q. Why is Staff making this adjustment now?**

9 A. Upon reviewing the Company's response to a later data request regarding bonuses, Staff
10 determined that this amount had been incurred for performance incentives paid to
11 employees, which Staff believes should not be passed on to the ratepayers.

12
13 **Q. What is Staff recommending?**

14 A. Staff recommends removing \$26,477 from contractual services, as shown on Surrebuttal
15 Schedule JMM-W18.

16
17 **FINANCINGS**

18 **Q. Has Staff updated its times interest earned ratio and debt service coverage ratio, to**
19 **reflect the adjustments Staff has made to in its Surrebuttal Testimony?**

20 A. Yes, the updated calculations are shown in Schedule JMM-W25.

21
22 **Q. Does this conclude your Surrebuttal Testimony?**

23 A. Yes.

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 37,924,592	\$ 37,174,137
2	Adjusted Operating Income (Loss)	\$ (282,890)	\$ 258,240
3	Current Rate of Return (L2 / L1)	-0.75%	0.69%
4	Required Rate of Return	11.41%	8.70%
5	Required Operating Income (L4 * L1)	\$ 4,327,196	\$ 3,234,150
6	Operating Income Deficiency (L5 - L2)	\$ 4,610,086	\$ 2,975,910
7	Gross Revenue Conversion Factor	1.6286	1.6474
8	Required Revenue Increase (L7 * L6)	\$ 7,508,146	\$ 4,902,602
9	Adjusted Test Year Revenue	\$ 6,475,003	\$ 6,878,710
10	Proposed Annual Revenue (L8 + L9)	\$ 13,983,149	\$ 11,781,312
11	Required Increase in Revenue (%)	115.96%	71.27%

References:

Column (A): Company Schedule A-1

Column (B): Staff Schedules JMM-W3 and JMM-W13

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.2994%			
5	Subtotal (L3 - L4)	60.7006%			
6	Revenue Conversion Factor (L1 / L5)	1.647430			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 23)	38.4795%			
9	One Minus Combined Income Tax Rate (L7 - L8)	61.5205%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 55)	33.8717%			
16	Effective Federal Income Tax Rate (L14 x L15)	31.5115%			
17	Combined Federal and State Income Tax Rate (L13 + L16)		38.4795%		
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	38.4795%			
20	One Minus Combined Income Tax Rate (L18-L19)	61.5205%			
21	Property Tax Factor (JMM-W18, L27)	1.3326%			
22	Effective Property Tax Factor (L20*L21)		0.8198%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.2994%	
24	Required Operating Income (Schedule JMM-W1, Line 5)	\$ 3,234,150			
25	Adjusted Test Year Operating Income (Loss) (Schedule JMM-W11, Line 35)	258,240			
26	Required Increase in Operating Income (L24 - L25)		\$ 2,975,910		
27	Income Taxes on Recommended Revenue (Col. [E], L52)	\$ 1,776,041			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	(85,318)			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		1,861,359		
30	Recommended Revenue Requirement (Schedule JMM-W1, Line 10)	\$ 11,781,312			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)				
35	Property Tax with Recommended Revenue (JMM-W11, Col B, L31)	\$ 338,453			
36	Property Tax on Test Year Revenue (JMM-W18, Col A, L17)	273,120			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		65,333		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$ 4,902,602		
<u>Calculation of Income Tax:</u>					
39	Revenue (Schedule JMM-W11, Col. [C], Line 5 & Sch. JMM-W1, Col. [D] Line 10)	\$ 6,878,710	\$ 4,902,602	\$ 11,781,312	
40	Operating Expenses Excluding Income Taxes	\$ 6,705,788		\$ 6,771,121	
41	Synchronized Interest (L56)	\$ 408,916		\$ 408,916	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ (235,994)		\$ 4,601,275	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L42 x L43)	\$ (16,444)		\$ 320,617	
45	Federal Taxable Income (L42 - L44)	\$ (219,550)		\$ 4,280,658	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ (7,500)		\$ 7,500	
47	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ (6,250)		\$ 6,250	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ (8,500)		\$ 8,500	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ (46,624)		\$ 91,650	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ 1,341,524	
51	Total Federal Income Tax	\$ (68,874)		\$ 1,455,424	
52	Combined Federal and State Income Tax (L44 + L51)	\$ (85,318)		\$ 1,776,041	
53	Applicable Federal Income Tax Rate [Col. [E], L51 - Col. [B], L51] / [Col. [E], L45 - Col. [B], L45]			33.8717%	
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base (Schedule JMM-WV3, Col. (C), Line 17)	\$ 37,174,137			
55	Weighted Average Cost of Debt (Schedule JMM-WV19)	1.1000%			
56	Synchronized Interest (L45 X L46)	\$ 408,916			

Litchfield Park Service Company - Water Division
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Surrebuttal Schedule JMM-W3

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 73,731,815	\$ (36,433)	1,2,3	\$ 73,695,382
2	Less: Accumulated Depreciation	9,107,141	(80,209)	4	9,026,932
3	Net Plant in Service	<u>\$ 64,624,674</u>	<u>\$ 43,776</u>		<u>\$ 64,668,450</u>
<u>LESS:</u>					
4	Contributions in Aid of Construction (CIAC)	\$ 3,104,068	\$ (7,888)	2	\$ 3,096,180
5	Less: Accumulated Amortization	860,706	-		\$ 860,706
6	Net CIAC	<u>2,243,362</u>	<u>(7,888)</u>		<u>\$ 2,235,474</u>
7	Advances in Aid of Construction (AIAC)	24,583,673	(2,246,699)	5	22,336,974
8	Customer Deposits	68,685	2,405,020	5	2,473,705
9	Deferred Income Tax Credits	21,451	426,709	6	448,160
<u>ADD:</u>					
9	Unamortized Debt Issuance Costs	134,528	(134,528)	7	-
10	Deffered Regulatory Assets	82,561	(82,561)	8	-
11	Original Cost Rate Base	<u>\$ 37,924,592</u>	<u>\$ (750,455)</u>		<u>\$ 37,174,137</u>

References:

Column [A]: Company as Filed

Column [B]: Schedule JMM-W4

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

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ #1 Post-Test Year Plant	(C) ADJ #2 Plant Not Used And Useful	(D) ADJ #3 Company Rebutal Adjustments to Plant	(E) ADJ #4 Accumulated Depreciation	(F) ADJ #5 Customer Deposits	(G) ADJ #6 Deferred Income Taxes	(H) ADJ #7 Unamortized Finance Charges	(I) ADJ #8 Deferred Asset	(J) STAFF ADJUSTED
PLANT IN SERVICE:			Ref: Sch JMM-W5	Ref: Sch JMM-W6	Ref: Sch JMM-W7	Ref: Sch JMM-W8	Ref: Sch JMM-W9	Ref: Sch JMM-W10	Ref: Sch JMM-W11	Ref: Sch JMM-W12		
1	301	Organization Cost	100			21,000						21,100
2	302	Franchise Cost										1,284,595
3	303	Land and Land Rights	1,284,595									24,656,322
4	304	Structures and Improvements	24,656,323	(41,971)								
5	305	Collecting and Impounding Res.										
6	306	Lake River and Other Intakes										
7	307	Wells and Springs										
8	308	Infiltration Galleries and Tunnels	2,382,102			(5,958)						2,376,144
9	309	Supply Mains										
10	310	Power Generation Equipment	202,269									202,269
11	311	Electric Pumping Equipment	948,213									917,055
12	312	Water Treatment Plant	1,337,824	(31,156)								1,337,824
13	320	Water Treatment Plant										
14	330	Distribution Reservoirs & Standpipe	430,644			8,600						430,644
15	331	Transmission and Distribution Mains	28,929,171									28,937,771
16	332	Meters	4,249,744									4,249,744
17	333	Hydrants	4,138,752									4,138,752
18	334	Backflow Prevention Devices	2,065,761									2,065,761
19	335	Other Plant and Miscellaneous Equipment	38,387									38,387
20	336	Office Furniture and Fixtures	265,281	(5,750)								259,531
21	339	Transportation Equipment	551,757									551,757
22	340	Stores Equipment	177,165									177,165
23	341	Tools and Work Equipment	31,711									31,711
24	342	Laboratory Equipment	23,350									23,350
25	343	Power Operated Equipment										
26	344	Communications Equipment										
27	345	Miscellaneous Equipment	119,710									119,710
28	346	Other Tangible Plant										
29	347	Total Plant in Service - Actual	71,864,850									71,809,612
30	348	Post-Test-Year Plant	18,605									1,865,770
31	349	Total Plant in Service	73,731,615			23,642	(80,209)					73,695,382
32	350	Less: Accumulated Depreciation	9,107,141									9,026,932
33	351	Net Plant in Service	64,624,474			23,642	80,209					64,668,450
34	352	Less: Contributions in Aid of Construction (CIAC)										
35	353	Less: Accumulated Amortization										
36	354	Less: Net CIAC (L25 - L26)										
37	355	Advances in Aid of Construction (AIAC)	3,104,068									3,086,180
38	356	Customer Deposits	680,706									860,706
39	357	Deferred Income Taxes	2,943,362									2,235,474
40	358	Unamortized Debt Issuance Costs	24,583,673									22,336,974
41	359	Deferred Regulatory Assets	68,685									2,473,705
42	360	Original Cost Rate Base	21,451									448,160
43	361	ADD:										
44	362	Unamortized Debt Issuance Costs	134,528									
45	363	Deferred Regulatory Assets	82,561									
46	364	Original Cost Rate Base	37,924,592			23,642	80,209					37,174,137
47	365	Less: Accumulated Depreciation										
48	366	Net Plant in Service	37,924,592			23,642	80,209					37,174,137
49	367	Less: Contributions in Aid of Construction (CIAC)										
50	368	Less: Accumulated Amortization										
51	369	Less: Net CIAC (L25 - L26)										
52	370	Advances in Aid of Construction (AIAC)										
53	371	Customer Deposits										
54	372	Deferred Income Taxes										
55	373	Unamortized Debt Issuance Costs										
56	374	Deferred Regulatory Assets										
57	375	Original Cost Rate Base	37,924,592			23,642	80,209					37,174,137
58	376	Less: Accumulated Depreciation										
59	377	Net Plant in Service	37,924,592			23,642	80,209					37,174,137
60	378	Less: Contributions in Aid of Construction (CIAC)										
61	379	Less: Accumulated Amortization										
62	380	Less: Net CIAC (L25 - L26)										
63	381	Advances in Aid of Construction (AIAC)										
64	382	Customer Deposits										
65	383	Deferred Income Taxes										
66	384	Unamortized Debt Issuance Costs										
67	385	Deferred Regulatory Assets										
68	386	Original Cost Rate Base	37,924,592			23,642	80,209					37,174,137
69	387	Less: Accumulated Depreciation										
70	388	Net Plant in Service	37,924,592			23,642	80,209					37,174,137
71	389	Less: Contributions in Aid of Construction (CIAC)										
72	390	Less: Accumulated Amortization										
73	391	Less: Net CIAC (L25 - L26)										
74	392	Advances in Aid of Construction (AIAC)										
75	393	Customer Deposits										
76	394	Deferred Income Taxes										
77	395	Unamortized Debt Issuance Costs										
78	396	Deferred Regulatory Assets										
79	397	Original Cost Rate Base	37,924,592			23,642	80,209					37,174,137
80	398	Less: Accumulated Depreciation										
81	399	Net Plant in Service	37,924,592			23,642	80,209					37,174,137
82	400	Less: Contributions in Aid of Construction (CIAC)										
83	401	Less: Accumulated Amortization										
84	402	Less: Net CIAC (L25 - L26)										
85	403	Advances in Aid of Construction (AIAC)										
86	404	Customer Deposits										
87	405	Deferred Income Taxes										
88	406	Unamortized Debt Issuance Costs										
89	407	Deferred Regulatory Assets										
90	408	Original Cost Rate Base	37,924,592			23,642	80,209					37,174,137
91	409	Less: Accumulated Depreciation										
92	410	Net Plant in Service	37,924,592			23,642	80,209					37,174,137
93	411	Less: Contributions in Aid of Construction (CIAC)										
94	412	Less: Accumulated Amortization										
95	413	Less: Net CIAC (L25 - L26)										
96	414	Advances in Aid of Construction (AIAC)										
97	415	Customer Deposits										
98	416	Deferred Income Taxes										
99	417	Unamortized Debt Issuance Costs										
100	418	Deferred Regulatory Assets										
101	419	Original Cost Rate Base	37,924,592			23,642	80,209					37,174,137
102	420	Less: Accumulated Depreciation										
103	421	Net Plant in Service	37,924,592			23,642	80,209					37,174,137
104	422	Less: Contributions in Aid of Construction (CIAC)										
105	423	Less: Accumulated Amortization										
106	424	Less: Net CIAC (L25 - L26)										
107	425	Advances in Aid of Construction (AIAC)										
108	426	Customer Deposits										
109	427	Deferred Income Taxes										
110	428	Unamortized Debt Issuance Costs										
111	429	Deferred Regulatory Assets										
112	430	Original Cost Rate Base	37,924,592			23,642	80,209					37,174,137
113	431	Less: Accumulated Depreciation										
114	432	Net Plant in Service	37,924,592			23,642	80,209					37,174,137
115	433	Less: Contributions in Aid of Construction (CIAC)										
116	434	Less: Accumulated Amortization										
117	435	Less: Net CIAC (L25 - L26)										
118	436	Advances in Aid of Construction (AIAC)										
119	437	Customer Deposits										
120	438	Deferred Income Taxes										
121	439	Unamortized Debt Issuance Costs										
122	440	Deferred Regulatory Assets										
123	441	Original Cost Rate Base	37,924,592			23,642	80,209					37,174,137
124	442	Less: Accumulated Depreciation										

Litchfield Park Service Company - Water Division
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Surrebuttal Schedule JMM-W5

RATE BASE ADJUSTMENT NO. 1 - POST-TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1		Post-Test Year Plant	\$ 1,866,965	\$ 18,805	\$ 1,885,770

Based on Staff Engineering Report Table I-1.

REFERENCES:

Column [A]: Company Filing
Column [B]: Direct Testimony JMM
Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 2 - PLANT NOT USED AND USEFUL

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	304	Structures & Improvements	\$ 24,698,293	\$ (41,971)	\$ 24,656,322
2	311	Electric Pumping Equipment	948,213	(31,158)	917,055
3	339	Other Plant & Miscellaneous Equipment	265,281	(5,750)	259,531
4			<u>\$ 25,911,787</u>	<u>\$ (78,879)</u>	<u>25,832,908</u>

5

6 Based on Staff Engineering Report Table H-1.

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DESCRIPTION	[A]	[B]	[C]
	COMPANY AIAC & CIAC AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
Advances in Aid of Construction (AIAC)	<u>\$ 24,583,673</u>	<u>\$ (8,677)</u>	<u>\$ 24,574,996</u>
Contributions in Aid of Construction (CIAC)	<u>\$ 3,104,068</u>	<u>\$ (7,888)</u>	<u>\$ 3,096,180</u>

REFERENCES:

- Column [A]: Company Filing
- Column [B]: Direct Testimony JMM
- Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 3 - COMPANY REBUTTAL ADJUSTMENTS TO PLANT IN SERVICE THAT STAFF ACCEPTS

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	301	Organization Costs	\$ 100	\$ 21,000	\$ 21,100
2	307	Wells and Springs	2,382,102	(5,958)	2,376,144
3	331	Distribution Mains	28,929,171	8,600	28,937,771
4			<u>\$ 31,311,273</u>	<u>\$ 23,642</u>	<u>31,334,915</u>
5					
6	307	Wells and Springs - Hydro Controls and Pump Systems		\$ 1,114	
7	307	Wells and Springs - Suncor Development Company (2002)		(7,072)	
				<u>\$ (5,958)</u>	

REFERENCES:

- Column [A]: Company Filing
- Column [B]: Surrebuttal Testimony JMM
- Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 4 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Accumulated Depreciation	\$ 9,107,141	\$ (80,209)	\$9,071,918
	A/D Plant Retirements			
	304 Structures and improvements	\$ (41,971)		
	311 Electric Pumping Equipment	(31,158)		
	339 Other Plant and Miscellaneous Equipment	(5,750)		
		\$ (78,879)		
	A/D on Capitalized Plant			
	307 Wells and Springs	\$ 54		
	331 Transmission and Distribution Mains	65		
		\$ 119		
	A/D on Removed Capitalized Office Rent			
	307 Wells and Springs	\$ (1,449)		

References:

- Column [A]: Company Application
- Column [B]: Surrebuttal Testimony JMM
- Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 5 - CUSTOMER DEPOSITS

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1		Customer Deposits	\$ 68,685	\$ 2,405,020	\$ 2,473,705

Staff Calculation:

8600-2-0100-20-2117-0000 Hydrant Meter Deposits	\$ 85,200
8600-2-0000-20-2113-0000 Customer Deposits	73,568
8600-2-0000-20-2112-0002 Customer Security Deposits	8,230
	<u>\$ 166,998</u>

Company reclass of AIAC \$ 2,238,022

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1		Advances in Aid of Construction (AIAC)	\$ 24,583,673	\$ (2,238,022)	\$ 22,345,651

REFERENCES:

- Column [A]: Company Filing
- Column [B]: Direct and Surrebuttal Testimony JMM
- Column [C]: Column [A] + Column [B]

Litchfield Park Service Company - Water Division
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Surrebuttal Schedule JMM-W10

RATE BASE ADJUSTMENT NO. 6 - DEFERRED INCOME TAXES

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1		Deferred Income Taxes	\$ 21,451	\$ 426,709	\$ 448,160

Staff accepts Company's rebuttal position

REFERENCES:

- Column [A]: Company Filing
- Column [B]: Direct Testimony JMM
- Column [C]: Column [A] + Column [B]

Litchfield Park Service Company - Water Division
Docket No. WS-2987-08-0180
Test Year Ended: December 31, 2007

Surrebuttal Schedule JMM-W11

RATE BASE ADJUSTMENT NO. 7 - UNAMORTIZED DEBT ISSUANCE COSTS

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1		Unamortized Debt Issuance Costs	\$ 134,528	\$ (134,528)	\$ -

To Remove Unamortized Debt Issuance Costs

REFERENCES:

Column [A]: Company Filing

Column [B]: Direct Testimony JMM

Column [C]: Column [A] + Column [B]

Litchfield Park Service Company - Water Division
Docket No. WS-2987-08-0180
Test Year Ended: December 31, 2007

Surrebuttal Schedule JMM-W12

RATE BASE ADJUSTMENT NO. 8 - DEFERRED REGULATORY ASSETS

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1		Deferred Regulatory Assets	\$ 82,561	\$ (82,561)	\$ -

To remove Deferred Regulatory Assets

REFERENCES:

- Column [A]: Company Filing
- Column [B]: Direct Testimony JMM
- Column [C]: Column [A] + Column [B]

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	Adj. No.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	REVENUES:						
2	Metered Water Sales	\$ 6,347,481	\$ 403,707	1	\$ 6,751,188	\$ 4,902,602	\$ 11,653,790
3	Water Sales-Unmetered	-	-		-	-	-
4	Other Operating Revenue	127,522	-		127,522	-	127,522
5	Intentionally Left Blank	-	-		-	-	-
6	Total Operating Revenues	\$ 6,475,003	\$ 403,707		\$ 6,878,710	\$ 4,902,602	\$ 11,781,312
7							
8	OPERATING EXPENSES:						
9	Salaries and Wages	\$ -	\$ -		\$ -	\$ -	\$ -
10	Purchased Wastewater Treatment	5,011	-		5,011	-	5,011
11	Sludge Removal Expense	1,013,811	-		1,013,811	-	1,013,811
12	Purchased Power	58,147	(20,309)	2	37,838	-	37,838
13	Fuel for Power Production	503,278	(305)	3	502,973	-	502,973
14	Chemicals	44,001	-		44,001	-	44,001
15	Materials & Supplies	-	-		-	-	-
16	Contractual Services, Legal&Engr	12,469	-		12,469	-	12,469
17	Contractual Services - Other	2,382,976	(289,564)	4	2,093,412	-	2,093,412
18	Contractual Services - Testing	14,317	-		14,317	-	14,317
19	Equipment Rental	28,365	-		28,365	-	28,365
20	Rents - Building	10,647	-		10,647	-	10,647
21	Transportation	151,879	-		151,879	-	151,879
22	General Liability Insurance	95,469	-		95,469	-	95,469
23	Insurance - Other	3,319	-		3,319	-	3,319
24	Regulatory Commission Expense	63,662	-		63,662	-	63,662
25	Regulatory Commission Expense - Rate Case	70,000	(28,000)	5	42,000	-	42,000
26	Misceallenous Exp	81,664	(827)	6	80,837	-	80,837
27	Bad Debt Expense	3,264	5,284	7	8,548	-	8,548
28	Depreciation Expense	2,291,982	(67,873)	8	2,224,109	-	2,224,109
29	Depreciation	-	-		-	-	-
30	Taxes other than Income	-	-		-	-	-
31	Property Taxes	373,338	(100,218)	9	273,120	65,333	338,453
32	Income Taxes	(449,705)	364,387	10	(85,318)	1,861,359	1,776,041
33	Intentionally Left Blank	-	-		-	-	-
34	Total Operating Expenses	\$ 6,757,893	\$ (137,424)		\$ 6,620,470	\$ 1,926,692	\$ 8,547,162
35	Operating Income (Loss)	\$ (282,890)	\$ 541,131		\$ 258,240	\$ 2,975,910	\$ 3,234,150

References:

- Column (A): Company Schedule C-1
- Column (B): Schedule JMM-W14
- Column (C): Column (A) + Column (B)
- Column (D): Schedules JMM-W23 and JMM-W24
- Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) Revenue Amortization Goodyear ADJ.#1	(C) Normalize Fuel for Purchased Power ADJ.#2	(D) Chemicals Expense ADJ.#3	(E) Outside Service Expense ADJ.#4	(F) Rate Case Expense ADJ.#5	(G) Meals and Ent. Expense ADJ.#6	(H) Bad Debt Expense ADJ.#7	(I) Depreciation Expense ADJ.#8	(J) Property Tax Expense ADJ.#9	(K) Income Tax Expense ADJ.#10	(L) STAFF ADJUSTED
		Ref. Sch JMM-W15	Ref. Sch JMM-W16	Ref. Sch JMM-W17	Ref. Sch JMM-W18	Ref. Sch JMM-W19	Ref. Sch JMM-W20	Ref. Sch JMM-W21	Ref. Sch JMM-W22	Ref. Sch JMM-W23	Ref. Sch JMM-W24		
1	REVENUES:												
2	Metered Water Sales	\$6,347,481											
3	Water Sales-Unmetered												
4	Other Operating Revenue												
5	Intentionally Left Blank												
6	Total Operating Revenues	\$403,707	\$403,707										\$6,751,188
7	OPERATING EXPENSES:												
8	Salaries and Wages												127,522
9	Purchased Water												
10	Purchased Power	5,011											
11	Fuel for Power Production	1,013,811											
12	Fuel for Power Production	58,147											
13	Chemicals	503,278	(20,309)	(305)									
14	Repairs and Maintenance	44,001											
15	Office Supplies and Expense												
16	Outside Services	12,469											
17	Outside Services - Other	2,382,976	(289,564)										
18	Outside Services - Legal	14,317											
19	Water Testing	28,365											
20	Rents	10,647											
21	Transportation Expenses	151,879											
22	Insurance - General Liability	95,469											
23	Insurance - Health and Life	3,319											
24	Regulatory Commission Expense	63,662											
25	Regulatory Commission Expense - Rate Case	70,000											
26	Miscellaneous Expense	81,664											
27	Bad Debt Expense	3,264											
28	Depreciation Expense	2,291,982								(67,873)			
29	Amortization of CIAC												
30	Taxes Other than Income												
31	Property Taxes	373,338									(100,218)		
32	Income Taxes	(449,705)										364,387	
33	Intentionally Left Blank												
34	Total Operating Expenses	\$6,757,893	(20,309)	(305)	(289,564)	(28,000)	(827)	5,284	(67,873)	(100,218)			
35	Operating Income (Loss)	\$ (282,890)	\$ 20,309	\$ 305	\$ 289,564	\$ 28,000	\$ 827	\$ (5,284)	\$ 67,873	\$ 100,218	\$ (364,387)	\$ 6,620,470	\$ 258,240

Litchfield Park Service Company - Water Division
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Test Year Ended September 30, 2008

Surrebuttal Schedule JMM-W15

OPERATING INCOME ADJUSTMENT NO. 1 - REVENUE ANNUALIZATION CITY OF GOODYEAR

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Metered Water Sales	\$ 6,347,481	\$ 403,707	\$ 6,751,188

Company has agreed to increased Metered Water Sales by \$403,707.

REFERENCES:

- Column [A]: Company Filing
- Column [B]: Surrebuttal Testimony JMM
- Column [C]: Column [A] + Column [B]

Litchfield Park Service Company - Water Division
Docket No. W-01427A-09-0104
Test Year Ended September 30, 2008

Surrebuttal Schedule JMM-W16

OPERATING INCOME ADJUSTMENT NO. 2 - NORMALIZE FUEL FOR POWER PRODUCTION

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Fuel for Power Production	\$ 58,147	\$ (20,309)	\$ 37,838

Company has agreed to reduce its Fuel for Power Production by \$20,309.

REFERENCES:

- Column [A]: Company Filing
- Column [B]: Surrebuttal Testimony JMM
- Column [C]: Column [A] + Column [B]

Litchfield Park Service Company - Water Division
Docket No. W-01427A-09-0104
Test Year Ended September 30, 2008

Surrebuttal Schedule JMM-W17

OPERATING INCOME ADJUSTMENT NO. 3 - CHEMICAL EXPENSES

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Chemicals	\$ 503,278	\$ (305)	\$ 502,973

Company has agreed to reduce its Fuel for Power Production by \$305.

REFERENCES:

- Column [A]: Company Filing
- Column [B]: Surrebuttal Testimony JMM
- Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 4 - OUTSIDE SERVICE EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS (Col C - Col A)	[C] STAFF AS ADJUSTED
1	Contractual Services - Other	\$ 2,357,032	\$ (39,382)	\$ 2,317,650
2	Corporate Expense Allocation	250,979	(250,182)	797
3	Total Contractual Services - Other	\$ 2,382,976	\$ (289,564)	\$ 2,318,447
4				
5	Expenses Company has agreed to reduce in its rebuttal testimony:			
6	Capitalized Expenses	\$ 9,714		
7	Remove Unnecessary Expenses	3,191		
8		\$ 12,905		
9	Staff adjustment:			
10	Remove Bonuses	\$ 26,477		
11	Total	\$ 39,382		

[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]
COSTS TO BE ALLOCATED TO LPSCO							
Description	Amount	Unallowable Costs	Direct Costs of Unregulated Affiliate(s)	Allowable Common Costs Allocated to All 71 Companies	Allocation ⁵ %	Costs to be Allocated to LPSCO (Col I x Col J)	
21 Rent	\$ 430,739	\$ -	\$ (430,739)	\$ -	1.41%	\$ -	
22 Audit ¹	\$ 507,000	\$ -	\$ (456,300)	\$ 50,700	1.41%	\$ 714.08	
23 Tax Services ²	\$ 265,000	\$ -	\$ (238,500)	\$ 26,500	1.41%	\$ 373.24	
24 Legal-General ³	\$ 300,000	\$ -	\$ (284,400)	\$ 15,600	1.41%	\$ 219.72	
25 Other Professional Services	\$ 455,000	\$ -	\$ (455,000)	\$ -	1.41%	\$ -	
26 Management Fee	\$ 636,619	\$ -	\$ (636,619)	\$ -	1.41%	\$ -	
27 Unit Holder Communications	\$ 314,100	\$ -	\$ (314,100)	\$ -	1.41%	\$ -	
28 Trustee Fees	\$ 204,000	\$ -	\$ (204,000)	\$ -	1.41%	\$ -	
29 Office Costs	\$ 254,100	\$ (46,186)	\$ (207,914)	\$ -	1.41%	\$ -	
30 Licenses/Fees and Permits	\$ 305,000	\$ (145,642)	\$ (159,358)	\$ -	1.41%	\$ -	
31 Escrow and Transfer Fees	\$ 75,000	\$ -	\$ (75,000)	\$ -	1.41%	\$ -	
32 Depreciation Expense ⁴	\$ 204,242	\$ -	\$ (183,818)	\$ 20,424	1.41%	\$ 287.66	
33	\$ 3,950,800	\$ (191,828)	\$ (3,645,748)	\$ 113,224		\$ 1,594.71	
34							
35							
36							Water \$ 797.35
37							Waste Water \$ 797.35
38							\$ 1,594.71

39 Foot Note 1: Audit - As the parent company's lenders require the APIF to have annual financial audits, Staff assigned the majority of the cost (i.e., 90 percent) to APIF and the remaining 10 percent to its 71 companies/interests.

40

41

42 Foot Note 2: Tax Services - Given the tax complexity of the APIF's many holdings and transactions, Staff assigned the majority of the cost (i.e., 90 percent) to APIF and the remaining 10 percent to its 71 companies/interests.

43

44

45 Foot Note 3: Legal, General - Staff reviewed the legal invoices and found that the very large majority of the legal invoices pertained to the APIF.

46

47

48

49 Foot Note 4: Depreciation Expense - Given that most of APIF's plant costs benefit primarily APIF, Staff assigned the majority of the cost (i.e., 90 percent) to APIF and the remaining 10 percent to its 71 companies/interests.

50

51

52 Foot Note 5: Allocation Percentage - Calculated as follows: 1 / 71 companies = 1.41%.

References:
Column A: Company Schedule
Column B: Testimony JMM
Column C: Column [A] + Column [B]

LINE NO.	Category	Description of Unallowable Cost	Amount
2	Office Fees and Expenses	Wind Analysis & Planning Software	\$15,056
3	Office Fees and Expenses	Gold Watches and Clocks	\$16,864
4	Office Fees and Expenses	Pilsner Beer Glasses	\$5,700
5	Office Fees and Expenses	Leafs-Raptors Season Tickets	\$5,066
6	Office Fees and Expenses	Super Bowl XLII Tickets	\$3,500
7		Subtotal for Office Expenses	\$46,186
8			
9	Licenses and Fees	Donation - Wind Project Develop	\$25,000
10	Licenses and Fees	Donation - Water Project in Africa	\$25,000
11	Licenses and Fees	Donation - Cancer Society	\$13,350
12	Licenses and Fees	Donation - Multiple Myeloma	\$5,000
13	Licenses and Fees	Wind Development	\$7,887
14	Licenses and Fees	U.S. Trustee	\$9,375
15	Licenses and Fees	St. Leon Wind Energy	\$12,556
16	Licenses and Fees	Algonquin Power Fund Inc Taxes	\$6,891
17	Licenses and Fees	Algonquin Power Fund Inc Taxes	\$6,794
18	Licenses and Fees	Tax Ruling Request for KMS America & Subs	\$10,000
19	Licenses and Fees	Algonquin Power Fund Inc Taxes	\$23,789
20		Subtotal for Licenses & Fees	\$145,642

OPERATING INCOME ADJUSTMENT NO. 5 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Rate Case Expense	\$ 70,000	\$ (28,000)	\$ 42,000

Staff Calculation:

Estimated Rate Case Cost	\$	210,000
Normalized Over Five Years		5
		<u>42,000</u>

References:

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

Litchfield Park Service Company - Water Division
Docket No. W-01427A-09-0104
Test Year Ended September 30, 2008

Surrebuttal Schedule JMM-W20

OPERATING INCOME ADJUSTMENT NO. 6 - MEALS AND ENTERTAINMENT

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	775.00	Miscellaneous Expense	\$ 81,664	\$ (827)	\$ 80,837

References:

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

Litchfield Park Service Company - Water Division
 Docket No. W-01427A-09-0104
 Test Year Ended September 30, 2008

Surrebuttal Schedule JMM-W21

OPERATING INCOME ADJUSTMENT NO. 7 - BAD DEBT

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1		Bad Debt Expense	\$ 3,264	\$ 5,284	\$ 8,548

Staff Calculation:

Test Year	\$3,264
2007	1,898
2006	20,483
	\$25,645
Normalized over 3 years	3
	\$ 8,548

References:

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

OPERATING INCOME ADJUSTMENT NO. 8 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]	[D]	[E]
			PLANT In SERVICE Per Staff	NonDepreciable or Fully Depreciated PLANT	DEPRECIABLE PLANT (Col A - Col B)	DEPRECIATION RATE	DEPRECIATION EXPENSE (Col C x Col D)
1	301	Organization Cost	\$ 21,100	\$ 100	\$ 21,000	0.00%	\$ -
2	302	Franchise Cost	\$ -	\$ -	\$ -	0.00%	\$ -
3	303	Land and Land Rights	\$ 1,284,595	\$ 1,284,595	\$ -	0.00%	\$ -
4	304	Structures and Improvements	\$ 24,656,322	\$ -	\$ 24,656,322	3.33%	\$ 821,056
5	305	Collecting and Impounding Res.	\$ -	\$ -	\$ -	2.50%	\$ -
6	306	Lake River and Other Intakes	\$ -	\$ -	\$ -	2.50%	\$ -
7	307	Wells and Springs	\$ 2,376,144	\$ -	\$ 2,376,144	3.33%	\$ 79,126
8	308	Infiltration Galleries and Tunnels	\$ -	\$ -	\$ -	6.67%	\$ -
9	309	Supply Mains	\$ -	\$ -	\$ -	2.00%	\$ -
10	310	Power Generation Equipment	\$ 202,269	\$ -	\$ 202,269	5.00%	\$ 10,113
11	311	Electric Pumping Equipment	\$ 917,055	\$ -	\$ 917,055	12.50%	\$ 114,632
12	320	Water Treatment Equipment	\$ 1,337,824	\$ -	\$ 1,337,824	3.33%	\$ 44,550
13	320	Water Treatment Plant	\$ -	\$ -	\$ -	3.33%	\$ -
14	330	Distribution Reservoirs & Standpipe	\$ 430,644	\$ -	\$ 430,644	2.22%	\$ 9,560
15	331	Transmission and Distribution Mains	\$ 28,937,771	\$ -	\$ 28,937,771	2.00%	\$ 578,755
16	333	Services	\$ 4,249,744	\$ -	\$ 4,249,744	3.33%	\$ 141,516
17	334	Meters	\$ 4,138,752	\$ -	\$ 4,138,752	8.33%	\$ 344,758
18	335	Hydrants	\$ 2,055,781	\$ -	\$ 2,055,781	2.00%	\$ 41,116
19	336	Backflow Prevention Devices	\$ 38,387	\$ -	\$ 38,387	6.67%	\$ 2,560
20	339	Other Plant and Miscellaneous Equipment	\$ 259,531	\$ -	\$ 259,531	6.67%	\$ 17,311
21	340	Office Furniture and Fixtures	\$ 551,757	\$ -	\$ 551,757	6.67%	\$ 36,802
22	341	Transportation Equipment	\$ 177,165	\$ -	\$ 177,165	20.00%	\$ 35,433
23	342	Stores Equipment	\$ 31,711	\$ -	\$ 31,711	4.00%	\$ 1,268
24	343	Tools and Work Equipment	\$ 23,350	\$ -	\$ 23,350	5.00%	\$ 1,168
25	344	Laboratory Equipment	\$ -	\$ -	\$ -	10.00%	\$ -
26	345	Power Operated Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
27	346	Communications Equipment	\$ 119,710	\$ -	\$ 119,710	10.00%	\$ 11,971
28	347	Miscellaneous Equipment	\$ -	\$ -	\$ -	10.00%	\$ -
29	348	Other Tangible Plant	\$ -	\$ -	\$ -	10.00%	\$ -
30		Total Plant	\$ 71,809,612	\$ 1,284,695	\$ 70,524,917		\$ 2,291,695
31							
32		Less: Amortization of Contributions					
33	311	Electric Pumping Equipment	\$ 15,219			12.50%	\$ (1,902)
34	331	Transmission and Distribution Mains	\$ 2,854,613			2.00%	\$ (57,092)
35	333	Services	\$ 151,402			3.33%	\$ (5,042)
36	334	Meters	\$ 29,899			8.33%	\$ (2,491)
37	335	Hydrants	\$ 52,935			2.00%	\$ (1,059)
38			\$ 3,104,068				\$ (67,586)
39							
41		Total Depreciation Expense					\$ 2,224,109
42							
43		Depreciation Expense - Company					\$ 2,291,982
44							
45		Staff's Adjustment to Depreciation Expense					\$ (67,873)
46							

References:

- Column [A]: Schedule JMM-W4
- Column [B]: From Column [A]
- Column [C]: Column [A] - Column [B]
- Column [D]: Engineering Staff Report
- Column [E]: Column [C] x Column [D]

OPERATING INCOME ADJUSTMENT NO. 9 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 6,878,710	\$ 6,878,710
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	13,757,420	\$ 13,757,420
4	Staff Recommended Revenue, Per Schedule JMM-W1	6,878,710	\$ 11,781,313
5	Subtotal (Line 4 + Line 5)	20,636,130	25,538,733
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	6,878,710	\$ 8,512,911
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	13,757,420	\$ 17,025,822
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	94,101	\$ 94,101
12	Full Cash Value (Line 9 + Line 10 - Line 11)	13,663,319	\$ 16,931,721
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	2,869,297	\$ 3,555,661
15	Composite Property Tax Rate (Per Company Schedule)	9.5187%	9.5187%
16			\$ -
17	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 273,120	
18	Company Proposed Property Tax	373,338	
19			
20	Staff Test Year Adjustment (Line 16-Line 17)	\$ (100,218)	
21	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 338,453
22	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 273,120
23	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 65,333
24			
25	Increase to Property Tax Expense		\$ 65,333
26	Increase in Revenue Requirement		4,902,603
27	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.332618%

OPERATING INCOME ADJUSTMENT NO. 10 - TEST YEAR INCOME TAXES

LINE NO.	<u>DESCRIPTION</u>	Test Year
1		
2		
3		
4	<i>Calculation of Income Tax:</i>	
5	Revenue (Schedule JMM-11)	\$ 6,878,710
6	Operating Expenses Excluding Income Taxes	\$ 6,705,788
7	Synchronized Interest (L17)	<u>\$ 408,916</u>
8	Arizona Taxable Income (L1 - L2 - L3)	\$ (235,994)
9	Arizona State Income Tax Rate	6.9680%
10	Arizona Income Tax (L4 x L5)	<u>\$ (16,444)</u>
11	Federal Taxable Income (L4 - L6)	\$ (219,550)
12	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ (7,500)
13	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ (6,250)
14	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ (8,500)
15	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ (46,624)
16	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -
17	Total Federal Income Tax	<u>\$ (68,874)</u>
18	Combined Federal and State Income Tax (L44 + L51)	<u>\$ (85,318)</u>
19		
20		
21	<i>Calculation of Interest Synchronization:</i>	
22	Rate Base (Schedule JMM-W4)	\$ 37,174,137
23	Weighted Average Cost of Debt	1.10%
24	Synchronized Interest (L16 x L17)	<u>\$ 408,916</u>
25		
26		
27	Income Tax - Per Staff	\$ (85,318)
28	Income Tax - Per Company	<u>\$ (449,705)</u>
29	Staff Adjustment	<u>\$ 364,387</u>

FINANCIAL ANALYSIS

Selected Financial Information
Pro forma Includes Immediate Effects of the Proposed Long-term Debt

	[A] 9/30/2008 Test Year Operating Results <u>Without Loan</u>		[B] 11/4/2009 With Staff Recommended Operating Income and Staff Recommended Loan Amount of \$2,925,000 <u>Pro Forma</u>	
1 Operating Income/(Loss)	\$ 258,240		\$ 3,234,150	
2 Depreciation Expense	2,224,109		2,224,109	
3 Income Tax Expense	(85,318)		1,776,041	
4 Interest Expense	747,446	Note 1	898,983	Note 3
5 Principal Repayment	230,000	Note 2	314,982	Note 4

TIER & DSC Calculation

TIER				
6	[1+3] ÷ [4]	0.23		5.57
DSC				
7	[1+2+3] ÷ [4+5]	2.45		5.96

Note 1: This information was taken from the Company's 2008 annual report:

1999 IDA Loan Interest	\$ 256,782
2001 IDA Loan Interest	490,664
Total	<u>\$ 747,446</u>

Note 2: This information was taken from the Company's 2008 annual report:

1999 IDA Loan Principle	\$ 170,000
2001 IDA Loan Principle	60,000
Total	<u>\$ 230,000</u>

Note 3: This pro-forma information is based on a 20 year WIFA loan at 5.25 percent annual interest:

Total Interest of Old Loans	\$ 747,446
Interest on New Loans	151,537
	<u>\$ 898,983</u>

Note 4: This pro-forma information is based on a 20 year WIFA loan at 5.25 percent annual interest:

Total Principle of Old Loans	\$ 230,000
Principle on New Loans	84,982
	<u>\$ 314,982</u>

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF)
LITCHFIELD PARK SERVICE COMPANY, AN)
ARIZONA CORPORATION, FOR A)
DETERMINATION OF THE FAIR VALUE OF)
ITS UTILITY PLANTS AND PROPERTY AND)
FOR INCREASES IN ITS WASTEWATER)
RATES AND CHARGES FOR UTILITY)
SERVICE BASED THERON.)
_____)

DOCKET NO. WS-01428A-09-0103

WASTEWATER
SURREBUTTAL
TESTIMONY
OF
JEFFREY M. MICHLIK
PUBLIC UTILITIES ANALYST V
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

DECEMBER 17, 2009

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**EXECUTIVE SUMMARY
LITCHFIELD PARK SERVICE COMPANY
WASTEWATER DIVISION
DOCKET NOS. WS-01427A-09-0103**

As compared to direct testimony, Staff's surrebuttal position increases its recommended revenue requirement by \$200,633, from \$9,197,992 to \$9,398,625. Staff recommends revised rates that would increase operating revenues from test year by \$3,042,251 to produce operating revenues of \$9,398,625 resulting in operating income of \$2,423,991 or a 47.86 percent increase over test year revenues of \$6,356,374. Staff also recommends a revised FVRB of \$27,861,961.

Revenue Requirement:

Staff recommends its revised revenue requirement, revised revenue increase, and revised percentage of revenue increase.

Rate Base:

Staff recommends a revised rate base, and responds to Litchfield Park Service Company's ("LPSCO" or "Company") comments to Staff's customer security deposits.

Income Statement:

Staff recommends revised operating income, and responds to the Company's comments on corporate expense allocation expense. Based on new information, Staff now recommends disallowance of employee bonuses.

1 **INTRODUCTION**

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

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

6
7 **Q. Are you the same Jeffrey M. Michlik who filed Direct Testimony in this case?**

8 A. Yes, I am.

9
10 **Q. What is the purpose of your Surrebuttal Testimony in this proceeding?**

11 A. The purpose of my Surrebuttal Testimony in this proceeding is to respond, on behalf of
12 Staff, to the Rebuttal Testimony of Litchfield Park Service Company’s (“LPSCO” or
13 “Company”) witnesses, Mr. Thomas J. Bourassa and Mr. Greg Sorensen, regarding
14 revenue requirement, rate base, and operating revenues and expenses.

15
16 **Q. Did you attempt to address every issue the Company raised in its Rebuttal
17 Testimony?**

18 A. No. Staff limited its discussion to the specific issues as outlined below. Staff’s lack of
19 response to any issue in this proceeding should not be construed as agreement with the
20 Company’s position in its Rebuttal Testimony; rather, where there is no response, Staff
21 relies on its original Direct Testimony.

22
23 **Q. Please explain how Staff’s Surrebuttal Testimony is organized.**

24 A. Staff’s Surrebuttal Testimony is generally organized to present issues that Mr. Bourassa
25 and Mr. Sorensen present in their Rebuttal Testimonies.

1 **REVENUE REQUIREMENT**

2 **Q. Has Staff reviewed Mr. Bourassa's and Mr. Sorensen's Rebuttal Testimony**
3 **regarding revenue requirement for the Wastewater Division?**

4 A. Yes.

5
6 **Q. Has Staff revised its recommendations from its Direct Testimony?**

7 A. Yes. As compared to Direct Testimony, Staff's Surrebuttal position increases its
8 recommended revenue requirement by \$200,633, from \$9,197,992 to \$9,398,625. This
9 decrease reflects Staff's Surrebuttal adjustments as discussed herein.

10
11 **Q. Please summarize the proposed and recommended revenue requirement, revenue**
12 **increase, and percentage increase.**

13 A. The proposed and recommended revenue requirement, revenue increase, and percentage
14 increase are as follows:

15
16

	<u>Revenue Requirement</u>	<u>Revenue Increase</u>	<u>Percentage Increase</u>
17 Company-Direct	\$11,347,975	\$4,991,601	78.53 percent
18 Staff-Direct	\$9,197,992	\$2,841,618	44.71 percent
19 RUCO-Direct	\$8,169,592	\$1,810,405	28.47 percent
20 Company-Rebuttal	\$11,132,993	\$4,776,618	75.15 percent
21 Staff-Surrebuttal	\$9,398,625	\$3,042,251	47.86 percent

22

1 **RATE BASE**

2 **Q. Has Staff reviewed Mr. Bourassa's and Mr. Sorensen's Rebuttal Testimony**
3 **regarding rate base for the Wastewater Division?**

4 A. Yes.

5
6 **Q. Has Staff revised its recommendations from its Direct Testimony?**

7 A. Yes. As compared to Direct Testimony, Staff's Surrebuttal position increases its
8 recommended rate base by \$389,647, from \$27,472,314 to \$27,861,961. This increase
9 reflects Staff's Surrebuttal adjustments as discussed herein.

10

11 **Q. Would Staff please identify each party's respective rate base recommendations?**

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

13

	<u>OCRB</u>	<u>FVRB</u>
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
Company-Direct	\$28,296,903	\$28,296,903
Staff-Direct	\$27,472,314	\$27,472,314
RUCO-Direct	\$21,248,950	\$21,248,950
Company-Rebuttal	\$28,034,855	\$28,034,855
Staff-Surrebuttal	\$27,861,961	\$27,861,961

21 **Q. Are there any adjustments to plant in service that Staff did not make in Direct**
22 **Testimony, but would like to make now for the Wastewater Division?**

23 A. Yes.

24

1 **Q. Please provide a summary of adjustments that you have accepted from the Company**
2 **and/or RUCO, and on which schedules the adjustments have been made.**

3 A. Staff has made the following adjustments to rate base for the Wastewater Division:
4

5 *Plant-in-Service*

6 Staff has capitalized expenses in the amount of \$3,725 for Account No. 354 Structures and
7 Improvements, \$5,004 for Account No. 355 Power Generation Equipment, \$6,394 for
8 Account No. 371 Pumping Equipment, and \$2,000 for Account No. 389 Other Plant and
9 Miscellaneous Equipment, as shown on Surrebuttal Schedule JMM-WW7. Staff made
10 these adjustments to accumulated depreciation based on review of the Company's
11 Rebuttal Testimony.
12

13 *Accumulated Depreciation*

14 Staff adjusted accumulated depreciation to reflect plant-in-service that has been fully
15 depreciated in the amount of \$554,977, and accumulated depreciation of capitalized plant
16 in the amount of \$491, as shown on Surrebuttal Schedule JMM-WW8. Based on review of
17 the Company's Rebuttal Testimony, Staff has adjusted accumulated depreciation.
18

19 *Deferred Income Taxes and Credits*

20 Staff decreased deferred income taxes and credits to the Company's proposed amount of
21 \$335,020, as shown on Surrebuttal Schedule JMM-WW10.
22

23 **Q. Please review the remaining contested issues related to the rate base for the**
24 **Wastewater Division.**

25 A. Certainly.

1 *Security Deposits*

2 **Q. Does Staff still believe security deposits should be included in rate base?**

3 A. Yes. By definition customer security deposits are customer deposits.

4
5 **Q. What do customer deposits represent?**

6 A. Customer deposits represent funds received from ratepayers as security against potential
7 losses arising from failure to pay for service. These funds are similar in nature to
8 customer advances for construction. Both represent a liability to repay the funds received
9 either after a specified period or upon satisfaction of certain requirements. Like customer
10 advances, the deposits are available to the utility for use in support of its rate base
11 investment.

12
13 **Q. Does Staff include customer deposits in rate base?**

14 A. Yes.

15
16 *Accumulated Deferred Income Taxes*

17 **Q. The Company mentions that Staff agrees with its methodology for calculating**
18 **deferred income taxes; please comment on this.**

19 A. Staff is still reviewing Mr. Bourassa's proposal and rebuttal adjustment for this item.
20 While Staff agrees with the methodology used by Mr. Bourassa, Staff believes that the
21 substantiation for the underlying calculations warrants an in-depth review and analysis.
22 Staff is provisionally including the Company's adjustment pending completion of its
23 analysis.

24

1 **OPERATING INCOME**

2 **Q. Are there any adjustments to plant in service that Staff did not make in Direct**
3 **Testimony, but would like to make now for the Wastewater Division?**

4 A. Yes.

5
6 **Q. Please provide a summary of adjustments that you have accepted from the Company**
7 **and/or RUCO, and on which schedules the adjustments have been made.**

8 A. Staff has made the following adjustments to operating income for the Wastewater
9 Division:

10

11 *Removal of Aerotek Contractual Services*

12 Staff has removed \$42,200 for contractual services costs (Aerotek) that were actually
13 incurred by Black Mountain Sewer Company, as shown on Surrebuttal Schedule JMM-
14 WW15. Based on review of the Company's Rebuttal Testimony, Staff has accepted the
15 Company's adjustment.

16

17 *Capitalized Expenses*

18 Staff has removed \$17,124 in capitalized expenses and \$3,128 in unnecessary expenses
19 from outside services, as shown on Surrebuttal Schedule JMM-WW15. Based on review
20 of supporting documentation, Staff has accepted the Company's and RUCO's adjustment.

21

1 *Rate Case Expense*

2 Staff has removed \$1,136 from regulatory commission expense, as shown on Surrebuttal
3 Schedule JMM-WW19. Based on review of supporting documentation, Staff has accepted
4 the Company's and RUCO's adjustment.

5
6 *Depreciation Expense*

7 Staff has recalculated its amortization of contributions using a specific rate rather than a
8 composite rate, as shown on Surrebuttal Schedule JMM-WW19. Based on review of the
9 Company's Rebuttal Testimony, Staff has accepted the Company's adjustment.

10

11 **Q. Please review the remaining contested issues related to operating income for the**
12 **Wastewater Division.**

13 A. Certainly.

14

15 *Corporate Expense Allocation*

16 **Q. How does the Algonquin Power Income Fund ("Fund" or "APIF") produce income**
17 **for its shareholders?**

18 A. The Fund, according to its 2008 annual report, produces earnings for its shareholders
19 through a diversified portfolio of renewable energy and utility assets.

20

21 **Q. What was the APIF's business strategy?**

22 A. The Fund's 2008 annual report states the following concerning its business strategy:

23

24 *Algonquin's business strategy is to maximize long term unitholder value*
25 *by strengthening its position as a strong renewable energy and*
26 *infrastructure company. **The Company is focused on growth in cash flow***
27 ***and earnings in the business segments in which it operates.** (emphasis*
28 *added)*

1 **Q. What was the APIF's income for 2008?**

2 A. The APIF generated \$57 million in income before taxes according to its 2008 audited
3 financial statements.

4
5 **Q. Does Staff agree with the Company's statement that "APIF incurs the central office
6 cost for the benefit of its subsidiary businesses" and "but for the subsidiary
7 businesses, APIF would not have central offices costs" (Bourassa Rebuttal, page
8 33, lines 19 through 33)?**

9 A. No, Staff does not. The APIF is an unregulated for-profit business that incurs costs
10 primarily for the benefit of its shareholders. Making a profit is the ultimate reason any
11 for-profit company incurs expenses. The Fund is focused on "*growth in cash flow and*
12 *earnings*" as evidenced from its business strategy. Since shareholders seek a profit and
13 the APIF incurs expenses (e.g. central office costs) in order to generate that profit, it is
14 obvious that the central office costs are incurred primarily for the benefit of the
15 shareholders rather than for LPSCO as the Company indicates. The central office costs
16 would have been incurred even if the Fund did not own LPSCO because the central office
17 costs were incurred to make a profit for the shareholders and not to operate LPSCO. The
18 benefit to LPSCO is only incidental.

19
20 **Q. Please comment on the Company's statement that the Company only owns 63
21 companies and not 71 as stated in the Staff report.**

22 A. According to the Company's financial report, the Company has interest in the other eight
23 companies, and accordingly it generates expenses from them, and that's why Staff
24 included them in its calculation.

25

1 *Employee Bonus Expense*

2 **Q. Since the time of filing Direct Testimony, are there any adjustments that Staff would**
3 **like to make in its Surrebuttal filing?**

4 A. Yes. Staff recommends that \$52,954 be removed for employee bonuses. Of that amount,
5 Staff recommends \$26,447 be allocated to water and \$26,447 be allocated to wastewater
6 based on Staff's allocation of corporate expenses.

7
8 **Q. Why is Staff making this adjustment now?**

9 A. Upon reviewing the Company's response to a later data request regarding bonuses, Staff
10 determined that this amount had been incurred for performance incentives paid to
11 employees, which Staff believes should not be passed on to the ratepayers.

12
13 **Q. What is Staff recommending?**

14 A. Staff recommends removing \$26,477 from contractual services, as shown on Surrebuttal
15 Schedule JMM-WW15.

16
17 **Q. Does this conclude your Surrebuttal Testimony?**

18 A. Yes.

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 28,296,903	\$ 27,861,961
2	Adjusted Operating Income (Loss)	\$ 163,778	\$ 566,857
3	Current Rate of Return (L2 / L1)	0.58%	2.03%
4	Required Rate of Return	11.41%	8.70%
5	Required Operating Income (L4 * L1)	\$ 3,228,677	\$ 2,423,991
6	Operating Income Deficiency (L5 - L2)	\$ 3,064,899	\$ 1,857,134
7	Gross Revenue Conversion Factor	1.6286	1.6381
8	Required Revenue Increase (L7 * L6)	\$ 4,991,601	\$ 3,042,251
9	Adjusted Test Year Revenue	\$ 6,356,374	\$ 6,356,374
10	Proposed Annual Revenue (L8 + L9)	\$ 11,347,975	\$ 9,398,625
11	Required Increase in Revenue (%)	78.53%	47.86%

References:

Column (A): Company Schedule A-1

Column (B): Staff Schedules JMM-W3 and JMM-W12

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	38.9553%			
5	Subtotal (L3 - L4)	61.0447%			
6	Revenue Conversion Factor (L1 / L5)	1.638143			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 23)	38.5989%			
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 55)	34.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%			
17	Combined Federal and State Income Tax Rate (L13 + L16)		38.5989%		
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	38.5989%			
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%			
21	Property Tax Factor (JMM-WW18, L27)	0.5804%			
22	Effective Property Tax Factor (L20*L21)		0.3564%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			38.9553%	
24	Required Operating Income (Schedule JMM-WW1, Line 5)	\$ 2,423,991			
25	Adjusted Test Year Operating Income (Loss) (Schedule JMM-WW11, Line 34)	566,857			
26	Required Increase in Operating Income (L24 - L25)		\$ 1,857,134		
27	Income Taxes on Recommended Revenue (Col. [E], L52)	\$ 1,331,140			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	163,681			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		1,167,459		
30	Recommended Revenue Requirement (Schedule JMM-WW1, Line 10)	\$ 9,398,625			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)				
35	Property Tax with Recommended Revenue (JMM-WW18, Col B, L18)	\$ 128,547			
36	Property Tax on Test Year Revenue (JMM-WW18, Col A, L17)	110,889			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		17,658		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$ 3,042,251		

	Test Year	Staff Recommended		
39	Revenue (Schedule JMM-11, Col. [C], Line 5 & Sch. JMM-1, Col. [D] Line 10)	\$ 6,356,374	\$ 3,042,251	\$ 9,398,625
40	Operating Expenses Excluding Income Taxes	\$ 5,625,836		\$ 5,643,494
41	Synchronized Interest (L56)	\$ 306,482		\$ 306,482
42	Arizona Taxable Income (L39 - L40 - L41)	\$ 424,056		\$ 3,448,649
43	Arizona State Income Tax Rate	6.9680%		6.9680%
44	Arizona Income Tax (L42 x L43)	\$ 29,548		\$ 240,302
45	Federal Taxable Income (L42 - L44)	\$ 394,508		\$ 3,208,347
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 7,500		\$ 7,500
47	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ 6,250		\$ 6,250
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ 8,500		\$ 8,500
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ 91,650		\$ 91,650
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ 20,233		\$ 976,938
51	Total Federal Income Tax	\$ 134,133		\$ 1,090,838
52	Combined Federal and State Income Tax (L44 + L51)	\$ 163,681		\$ 1,331,140

53 Applicable Federal Income Tax Rate [Col. [E], L51 - Col. [B], L51] / [Col. [E], L45 - Col. [B], L45] 34.0000%

<u>Calculation of Interest Synchronization:</u>	
54	Rate Base (Schedule JMM-3)
55	Weighted Average Cost of Debt (Schedule JMM-WW19)
56	Synchronized Interest (L45 X L46)

Litchfield Park Service Company - Wastewater Division
Docket No. WS-01428A-09-0103
Test Year Ended September 30, 2008

Surrebuttal Schedule JMM-WW3

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 60,394,260		\$ 59,818,156
2	Less: Accumulated Depreciation	8,475,991		7,910,465
3	Net Plant in Service	<u>\$ 51,918,269</u>		<u>\$ 51,907,691</u>
<u>LESS:</u>				
4	Contributions in Aid of Construction (CIAC)	\$ 18,737,132		\$ 18,642,786
5	Less: Accumulated Amortization	2,072,117		\$ 2,072,117
6	Net CIAC	<u>16,665,015</u>		<u>\$ 16,570,669</u>
7	Advances in Aid of Construction (AIAC)	7,006,208		6,989,559
8	Customer Deposits	68,685		150,483
9	Deferred Income Tax Credits	15,987		335,020
<u>ADD:</u>				
9	Unamortized Debt Issuance Costs	134,528		-
10	Cash Working Capital	-		-
11	Original Cost Rate Base	<u>\$ 28,296,903</u>		<u>\$ 27,861,961</u>

References:

Column [A]: Company as Filed

Column [B]: Schedule JMM-WW4

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

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ.#1 Plant Not Used and Useful [Ref. Sch JMM-WW3]	[C] ADJ.#2 Transfer of Plant [Ref. Sch JMM-WW6]	[D] ADJ.#3 Company Rebuttal Adjustments to Plant [Ref. Sch JMM-WW7]	[E] ADJ.#4 Accumulated Depreciation [Ref. Sch JMM-WW8]	[F] ADJ.#5 Customer Deposits [Ref. Sch JMM-WW9]	[G] ADJ.#6 Deferred Taxes [Ref. Sch JMM-WW10]	[H] ADJ.#7 Unamortized Debt Issuance Costs [Ref. Sch JMM-WW11]	[I] STAFF ADJUSTED
1	351	Organization									
2	352	Franchises									
3	353	Land and Land Rights	1,783,426								1,783,426
4	354	Structures and Improvements	19,319,421	(388,834)							18,934,312
5	355	Power Generation Equipment	543,670			3,725					548,674
6	360	Collection Services - Force	1,161,105			5,004					1,161,105
7	361	Collection Services - Gravity	23,113,391	(18,730)							23,094,661
8	362	Special Collecting Structures									
9	363	Services to Customers									
10	364	Flow Measuring Devices	47,019								47,019
11	365	Flow Measuring Installations									
12	366	Reuse Services	3,789,468								3,789,468
13	367	Reuse Meters and Installations	860,393								860,393
14	370	Receiving Wells	1,898,411	(103,992)							1,794,419
15	371	Effluent Pumping Equipment	62,825			6,394					69,219
16	374	Reuse Trans. And Dist. System	414,315								414,315
17	375	Reuse T&D	5,469,478		(38,250)						5,431,228
18	380	Treatment and Disposal Equipment	47,788								47,788
19	381	Plant Sewers	343,681								343,681
20	382	Outfall Sewer Lines	644,609	(43,421)		2,000					603,188
21	389	Other Plant & Misc. Equipment	198,772								198,772
22	390	Office Furniture & Equipment	26,078								26,078
23	391	Transportation Equipment	8,968								8,968
24	392	Stores Equipment	56,167								56,167
25	393	Tools, Shop & Garage Equipment	173,948								173,948
26	394	Laboratory Equipment									
27	395	Power Operated Equipment									
28	396	Communication Equipment									
29	398	Other Tangible Plant	418,996								418,996
30											
31											
32											
33		Total Plant in Service	\$ 60,394,260	\$ (554,977)	\$ (38,250)	\$ 17,123	\$ (554,486)				\$ 59,818,156
34		Less: Accumulated Depreciation	8,475,991		(11,040)						7,910,465
35											
36		Net Plant in Service (L59 - L 60)	\$ 51,918,269	\$ (554,977)	\$ (27,210)	\$ 17,123	\$ 554,486				\$ 51,907,691
37											
38		LESS:									
39		Contributions in Aid of Construction (CIAC)									
40		Less: Accumulated Amortization									
41		Net CIAC (L25 - L26)	16,665,015	(94,346)							16,570,669
42		Advances in Aid of Construction (AIAC)	7,006,208	(16,649)							6,989,559
43		Customer Deposits	15,987					81,798			150,483
44		Deferred Income Taxes						319,033			335,020
45											
46											
47		ADD:									
48		Unamortized Debt Issuance Costs	134,528							(134,528)	
49		Cash Working Capital									
50											
51		Original Cost Rate Base	\$ 28,296,903	\$ (443,982)	\$ (27,210)	\$ 17,123	\$ 554,486	\$ (81,798)	\$ (319,033)	\$ (134,528)	\$ 27,861,961

RATE BASE ADJUSTMENT NO. 1 - PLANT NOT USED AND USEFUL

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	354	Structures & Improvements	\$ 19,319,421	\$ (388,834)	\$ 18,930,587
2	361	Collection Sewer - Gravity	23,113,391	(18,730)	23,094,661
3	371	Pumping Equipment	1,858,411	(103,992)	1,754,419
4	389	Other Plant & Miscellaneous Equipment	644,609	(43,421)	601,188
5			<u>\$ 44,935,832</u>	<u>\$ (554,977)</u>	<u>\$ 44,380,855</u>

6
 7 Based on Staff Engineering Report Table G-1.
 8

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AIAC & CIAC AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
13	Advances in Aid of Construction (AIAC)	\$ 7,006,208	\$ (16,649)	\$ 6,989,559
15	Contributions in Aid of Construction (CIAC)	\$ 18,737,132	\$ (94,346)	\$ 18,642,786

REFERENCES:

- Column [A]: Company Filing
- Column [B]: Direct Testimony JMM
- Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 2 - TRANSFER OF PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1		Plant in Service	\$ 59,839,283	\$ (38,250)	\$ 59,801,033
2					
3					
4			[A]	[B]	[C]
5			COMPANY AIAC & CIAC AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
6		DESCRIPTION			
7		Accumulated Depreciation	\$ 8,475,991	\$ (11,040)	\$ 8,464,951
8					
9					

REFERENCES:

- Column [A]: Company Filing
- Column [B]: Direct Testimony JMM
- Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 3 - COMPANY ADJUSTMENTS TO PLANT THAT STAFF ACCEPTS

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	354	Structures and Improvements	\$ 19,319,421	\$ 3,725	\$ 19,323,146
2	355	Power Generation Equipment	543,670	5,004	548,674
3	371	Pumping Equipment	1,858,411	6,394	1,864,805
4	389	Other Plant & Misc. Equipment	644,609	2,000	646,609
			<u>\$ 22,366,111</u>	<u>\$ 17,123</u>	<u>\$ 22,383,234</u>
354 Dean Fence and Gate			\$ 3,725		
355 Loftin Equipment Co.			\$ 5,004		
371 Precision Electric			\$ 1,530		
371 Precision Electric			4,864		
			<u>\$ 6,394</u>		
389 Keogh Engineering			\$ 1,450		
389 Keogh Engineering			550		
			<u>\$ 2,000</u>		

References:

Column [A]: Company Filing
Column [B]: Surrebuttal Testimony JMM
Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 4 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Accumulated Depreciation	\$ 8,464,843	\$ (554,486)	\$ 8,282,147
	A/D Plant Retirements			
	354 Structures and improvements	\$ (388,834)		
	361 Collection Sewer - Gravity	(18,730)		
	371 Pumping Equipment	(103,992)		
	339 Other Plant and Miscellaneous Equipment	(43,421)		
		\$ (554,977)		
	A/D on Capitalized Plant			
	354 Structures and Improvements	\$ 47		
	355 Power Generation	94		
	371 Pumping Equipment	300		
	389 Other Sewer Plant and Equipment	50		
		\$ 491		

References:
 Column [A]: Company Filing
 Column [B]: Surrebuttal Testimony JMM
 Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 5 - CUSTOMER DEPOSITS

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1		Customer Deposits	\$ 68,685	\$ 81,798	\$ 150,483
2					
3		<u>Staff Calculation:</u>			
4		8600-2-0000-20-2113-0000 Customer Deposits	73,568		
5		8600-2-0000-20-2112-0002 Customer Security Deposits	8,230		
			<u>\$ 81,798</u>		

REFERENCES:

- Column [A]: Company Filing
- Column [B]: Direct Testimony JMM
- Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 6 - DEFERRED INCOME TAXES

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1		Deferred Income Taxes	\$ 15,987	\$ 319,033	\$ 335,020

To reverse the Company's pro-forma adjustment.

REFERENCES:

- Column [A]: Company Filing
- Column [B]: Direct Testimony JMM
- Column [C]: Column [A] + Column [B]

Litchfield Park Service Company - Wastewater Division
 Docket No. WS-01428A-09-0103
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Surrebuttal Schedule JMM-WW11

RATE BASE ADJUSTMENT NO. 7 - UNAMORTIZED DEBT ISSUANCE COSTS

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1		Unamortized Debt Issuance Costs	\$ 134,528	\$ (134,528)	\$ -

To Remove Unamortized Debt Issuance Costs.

REFERENCES:

- Column [A]: Company Filing
- Column [B]: Direct Testimony JMM
- Column [C]: Column [A] + Column [B]

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	Adj. No.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	REVENUES:						
2	Flat Rate Revenues	\$ 6,164,589	\$ -		\$ 6,164,589	\$ 3,042,251	\$ 9,206,840
3	Measured Revenues	92,030	-		92,030	-	92,030
4	Other Wastewater Revenues	99,755	-		99,755	-	99,755
5	Intentionally Left Blank	-	-		-	-	-
6	Total Operating Revenues	\$ 6,356,374	\$ -		\$ 6,356,374	\$ 3,042,251	\$ 9,398,625
7							
8	OPERATING EXPENSES:						
9	Salaries and Wages	\$ -	\$ -		\$ -	\$ -	\$ -
10	Purchased Wastewater Treatment	1,205	-		1,205	-	1,205
11	Sludge Removal Expense	267,554	-		267,554	-	267,554
12	Purchased Power	632,064	-		632,064	-	632,064
13	Fuel for Power Production	2,076	-		2,076	-	2,076
14	Chemicals	279,749	-		279,749	-	279,749
15	Materials & Supplies	75,579	(5,975)	1	69,604	-	69,604
16	Contractual Services, Legal&Engr	24,084	-		24,084	-	24,084
17	Contractual Sevices - Other	2,719,118	(355,594)	2	2,363,524	-	2,363,524
18	Contractual Services - Testing	33,348	-		33,348	-	33,348
19	Equipment Rental	78,309	-		78,309	-	78,309
20	Rents - Building	18,976	-		18,976	-	18,976
21	Transportation	69,551	-		69,551	-	69,551
22	General Liability Insurance	32,133	-		32,133	-	32,133
23	Insurance - Other	2,213	-		2,213	-	2,213
24	Reg Commission Expense	19,133	(1,136)	3	17,997	-	17,997
25	Reg Commission Expense - Rate Case	70,000	(28,000)	3	42,000	-	42,000
26	Miscellaneous Expense	36,656	(494)	4	36,162	-	36,162
27	Bad Debt Expense	43,889	(21,791)	5	22,098	-	22,098
28	Intentionally Left Blank	-	-		-	-	-
29	Depreciation	1,550,237	(27,936)	6	1,522,301	-	1,522,301
30	Taxes other than Income	-	-		-	-	-
31	Property Taxes	336,629	(225,740)	7	110,889	17,658	128,547
32	Income Taxes	(99,906)	263,587	8	163,681	1,167,459	1,331,140
33	Intentionally Left Blank	-	-		-	-	-
34	Total Operating Expenses	\$ 6,192,596	\$ (403,080)		\$ 5,789,517	\$ 1,185,117	\$ 6,974,634
35	Operating Income (Loss)	\$ 163,778	\$ 403,080		\$ 566,857	\$ 1,857,134	\$ 2,423,991

References:

- Column (A): Company Schedule C-1
- Column (B): Schedule JMM-WW13
- Column (C): Column (A) + Column (B)
- Column (D): Schedules JMM-WW20 and JMM-WW21
- Column (E): Column (C) + Column (D)

Litchfield Park Service Company - Wastewater Division

Docket No. WS-01428A-09-0103

Test Year Ended September 30, 2008

Surrebuttal Schedule JMM-WW13

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) Materials and Supplies Expense ADJ #1	(C) Outside Service Expense ADJ #2	(D) Rate Case Expense ADJ #3	(E) Meals and Ent. Expense ADJ #4	(F) Bad Debt Expense ADJ #5	(G) Depreciation Expense ADJ #6	(H) Property Tax Expense ADJ #7	(I) Income Tax Expense ADJ #8	(J) STAFF
		Ref. Sch JMM-WW14	Ref. Sch JMM-WW15	Ref. Sch JMM-WW16	Ref. Sch JMM-WW17	Ref. Sch JMM-WW18	Ref. Sch JMM-WW19	Ref. Sch JMM-WW20	Ref. Sch JMM-WW21	Ref. Sch JMM-WW21	ADJUSTED
1	REVENUES:										
2	Fiat Rate Revenues	\$ 6,164,589	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,164,589
3	Measured Revenues	92,030	-	-	-	-	-	-	-	-	92,030
4	Other Wastewater Revenues	99,755	-	-	-	-	-	-	-	-	99,755
5	Intentionally Left Blank	-	-	-	-	-	-	-	-	-	-
6	Total Operating Revenues	\$ 6,356,374	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,356,374
7											
8	OPERATING EXPENSES:										
9	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10	Purchased Wastewater Tmrit	1,205	-	-	-	-	-	-	-	-	1,205
11	Sludge Removal Expense	267,554	-	-	-	-	-	-	-	-	267,554
12	Purchased Power	632,064	-	-	-	-	-	-	-	-	632,064
13	Fuel for Power Production	2,076	-	-	-	-	-	-	-	-	2,076
14	Chemicals	279,749	-	-	-	-	-	-	-	-	279,749
15	Materials & Supplies	75,579	(5,975)	-	-	-	-	-	-	-	69,604
16	Contractual Services, Legal&Engr	24,084	-	-	-	-	-	-	-	-	24,084
17	Contractual Services - Other	2,719,118	-	(355,594)	-	-	-	-	-	-	2,363,524
18	Contractual Services - Testing	33,348	-	-	-	-	-	-	-	-	33,348
19	Equipment Rental	78,309	-	-	-	-	-	-	-	-	78,309
20	Rents - Building	18,976	-	-	-	-	-	-	-	-	18,976
21	Transportation	69,551	-	-	-	-	-	-	-	-	69,551
22	General Liability Insurance	32,133	-	-	-	-	-	-	-	-	32,133
23	Insurance - Other	2,213	-	-	-	-	-	-	-	-	2,213
24	Reg Commission Expense	19,133	(1,136)	-	-	-	-	-	-	-	17,997
25	Reg Commission Expense - Rate Case	70,000	(28,000)	-	-	-	-	-	-	-	42,000
26	Miscellaneous Expense	36,656	-	-	(494)	-	-	-	-	-	36,162
27	Bad Debt Expense	43,889	-	-	-	(21,791)	-	-	-	-	22,098
28	Intentionally Left Blank	-	-	-	-	-	-	-	-	-	-
29	Depreciation	1,550,237	-	-	-	-	(27,936)	-	-	-	1,522,301
30	Taxes other than Income	-	-	-	-	-	-	-	(225,740)	-	110,889
31	Property Taxes	336,629	-	-	-	-	-	-	-	-	336,629
32	Income Taxes	(99,906)	-	-	-	-	-	-	-	263,587	163,681
33	Intentionally Left Blank	-	-	-	-	-	-	-	-	-	-
34	Total Operating Expenses	\$ 6,192,596	(5,975)	(355,594)	(29,136)	(494)	(21,791)	(27,936)	(225,740)	263,587	\$ 5,789,517
35	Operating Income (Loss)	\$ 163,778	5,975	355,594	29,136	494	21,791	27,936	225,740	(263,587)	\$ 566,857

OPERATING INCOME ADJUSTMENT NO. 1 - MATERIALS AND SUPPLIES

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Materials and Supplies	\$ 75,579	\$ (5,975)	\$ 69,604

References:

Column (A), Company Schedule C-1

Column (B): Testimony JMM

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

OPERATING INCOME ADJUSTMENT NO. 2 - OUTSIDE SERVICE EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Contractual Services - Other	\$ 2,451,656	\$ (88,929)	\$ 2,362,727
2	Corporate Expense Allocation	267,462	(266,665)	797
3	Total Contractual Services - Other	\$ 2,719,118	\$ (355,594)	\$ 2,363,524
4				
5				
6	Expenses Company has agreed to reduce in its rebuttal testimony:			
7	Contractual Service Aerotek	\$ 42,200		
8	Remove Capitalized Expenses	17,124		
9	Remove Unnecessary Expenses	3,128		
10		<u>62,452</u>		
11	Staff adjustment:			
12	Remove Bonuses	26,477		
13		<u>\$ 88,929</u>		

[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]
COSTS TO BE ALLOCATED TO LPSCO							
Description	Amount	Unallowable Costs (Sch JMM-6, P2)	Direct Costs of Unregulated Affiliate(s)	Allowable Common Costs Allocated to All 71 Companies	Allocation ⁵ %	Costs to be Allocated to LPSCO (Col I x Col J)	
22 Rent	\$ 430,739	\$ -	\$ (430,739)	\$ -	1.41%	\$ -	
23 Audit ¹	\$ 507,000	\$ -	\$ (456,300)	\$ 50,700	1.41%	\$ 714.08	
24 Tax Services ²	\$ 265,000	\$ -	\$ (238,500)	\$ 26,500	1.41%	\$ 373.24	
25 Legal-General ³	\$ 300,000	\$ -	\$ (284,400)	\$ 15,600	1.41%	\$ 219.72	
26 Other Professional Services	\$ 455,000	\$ -	\$ (455,000)	\$ -	1.41%	\$ -	
27 Management Fee	\$ 636,619	\$ -	\$ (636,619)	\$ -	1.41%	\$ -	
28 Unit Holder Communications	\$ 314,100	\$ -	\$ (314,100)	\$ -	1.41%	\$ -	
29 Trustee Fees	\$ 204,000	\$ -	\$ (204,000)	\$ -	1.41%	\$ -	
30 Office Costs	\$ 254,100	\$ (46,186)	\$ (207,914)	\$ -	1.41%	\$ -	
31 Licenses/Fees and Permits	\$ 305,000	\$ (145,642)	\$ (159,358)	\$ -	1.41%	\$ -	
32 Escrow and Transfer Fees	\$ 75,000	\$ -	\$ (75,000)	\$ -	1.41%	\$ -	
33 Depreciation Expense ⁴	\$ 204,242	\$ -	\$ (183,818)	\$ 20,424	1.41%	\$ 287.66	
34	\$ 3,950,800	\$ (191,828)	\$ (3,645,748)	\$ 113,224		\$ 1,594.71	
35							
36					Water	\$ 797.35	
37					Waste Water	\$ 797.35	
38						\$ 1,594.71	
39							

40 Foot Note 1: Audit - As the parent company's lenders require the APIF to have annual financial audits, Staff assigned the majority of the cost (i.e., 90 percent) to APIF and the remaining 10 percent to its 71 companies/interests.

41

42

43 Foot Note 2: Tax Services - Given the tax complexity of the APIF's many holdings and transactions, Staff assigned the majority of the cost (i.e., 90 percent) to APIF and the remaining 10 percent to its 71 companies/interests.

44

45

46 Foot Note 3: Legal, General - Staff reviewed the legal invoices and found that the very large majority of the legal invoices pertained to the APIF.

47

48

49

50 Foot Note 4: Depreciation Expense - Given that most of APIF's plant costs benefit primarily APIF, Staff assigned the majority of the cost (i.e., 90 percent) to APIF and the remaining 10 percent to its 71 companies/interests.

51

52

53 Foot Note 5: Allocation Percentage - Calculated as follows: 1 / 71 companies = 1.41%.

References:
Column A: Company Schedule
Column B: Testimony
Column C: Column [A] + Column [B]

LINE NO.	Category	Description of Unallowable Cost	Amount
2	Office Fees and Expenses	Wind Analysis & Planning Software	\$15,056
3	Office Fees and Expenses	Gold Watches and Clocks	\$16,864
4	Office Fees and Expenses	Pilsner Beer Glasses	\$5,700
5	Office Fees and Expenses	Leafs-Raptors Season Tickets	\$5,066
6	Office Fees and Expenses	Super Bowl XLII Tickets	\$3,500
7		Subtotal for Office Expenses	\$46,186
8			
9	Licenses and Fees	Donation - Wind Project Develop	\$25,000
10	Licenses and Fees	Donation - Water Project in Africa	\$25,000
11	Licenses and Fees	Donation - Cancer Society	\$13,350
12	Licenses and Fees	Donation - Multiple Myeloma	\$5,000
13	Licenses and Fees	Wind Development	\$7,887
14	Licenses and Fees	U.S. Trustee	\$9,375
15	Licenses and Fees	St. Leon Wind Energy	\$12,556
16	Licenses and Fees	Algonquin Power Fund Inc Taxes	\$6,891
17	Licenses and Fees	Algonquin Power Fund Inc Taxes	\$6,794
18	Licenses and Fees	Tax Ruling Request for KMS America & Subs	\$10,000
19	Licenses and Fees	Algonquin Power Fund Inc Taxes	\$23,789
20		Subtotal for Licenses & Fees	\$145,642

OPERATING INCOME ADJUSTMENT NO. 3 - RATE CASE EXPENSE AND REGULATORY COMMISSION EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Rate Case Expense	\$ 70,000	\$ (28,000)	\$ 42,000

Staff Calculation:

Estimated Rate Case Cost	\$	210,000
Normalized Over Five Years		5
		<u>42,000</u>

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Regulatory Commission Expense	\$ 19,133	\$ (1,136)	\$ 17,997

References:

- Column (A), Company Schedule C-1
- Column (B): Direct and Surrebuttal Testimony JMM
- Column (C): Column (A) + Column (B)

Litchfield Park Service Company - Wastewater Division
Docket No. WS-01428A-09-0103
Test Year Ended September 30, 2008

Surrebuttal Schedule JMM-WW17

OPERATING INCOME ADJUSTMENT NO. 4 - MEALS AND ENTERTAINMENT

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	775.00	Miscellaneous Expense	\$ 36,656	\$ (494)	\$ 36,162

References:

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

Litchfield Park Service Company - Wastewater Division
 Docket No. WS-01428A-09-0103
 Test Year Ended September 30, 2008

Surrebuttal Schedule JMM-WW18

OPERATING INCOME ADJUSTMENT NO. 5 - BAD DEBT

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1		Bad Debt Expense	\$ 43,889	\$ (21,791)	\$ 22,098

Staff Calculation:

Test Year	\$43,889
2007	19,632
2006	2,773
	<u>\$66,294</u>
Normalized over 3 years	3
	<u>\$ 22,098</u>

References:

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

OPERATING INCOME ADJUSTMENT NO. 6 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]	[D]	[E]
			PLANT In SERVICE Per Staff	NonDepreciable or Fully Depreciated PLANT	DEPRECIABLE PLANT (Col A - Col B)	DEPRECIATION RATE	DEPRECIATION EXPENSE (Col C x Col D)
1	351	Organization	\$ -	\$ -	\$ -	0.00%	\$ -
2	352	Franchises	\$ -	\$ -	\$ -	0.00%	\$ -
3	353	Land and Land Rights	\$ 1,783,426	\$ 1,783,426	\$ -	0.00%	\$ -
4	354	Structures and Improvements	\$ 18,934,312	\$ -	\$ 18,934,312	3.33%	\$ 630,513
5	355	Power Generation Equipment	\$ 548,674	\$ -	\$ 548,674	5.00%	\$ 27,434
6	360	Collection Services - Force	\$ 1,161,105	\$ -	\$ 1,161,105	2.00%	\$ 23,222
7	361	Collection Services - Gravity	\$ 23,094,661	\$ -	\$ 23,094,661	2.00%	\$ 461,893
8	362	Special Collecting Structures	\$ -	\$ -	\$ -	2.00%	\$ -
9	363	Services to Customers	\$ -	\$ -	\$ -	2.00%	\$ -
10	364	Flow Measuring Devices	\$ 47,019	\$ -	\$ 47,019	10.00%	\$ 4,702
11	365	Flow Measuring Installations	\$ -	\$ -	\$ -	10.00%	\$ -
12	366	Reuse Services	\$ 3,789,468	\$ -	\$ 3,789,468	2.00%	\$ 75,789
13	367	Reuse Meters and Installations	\$ 52,331	\$ -	\$ 52,331	8.33%	\$ 4,359
14	370	Receiving Wells	\$ 860,393	\$ -	\$ 860,393	3.33%	\$ 28,651
15	371	Effluent Pumping Equipment	\$ 1,760,813	\$ -	\$ 1,760,813	12.50%	\$ 220,102
16	374	Reuse Trans. And Dist. System	\$ 62,825	\$ -	\$ 62,825	2.50%	\$ 1,571
17	375	Reuse T&D	\$ 414,315	\$ -	\$ 414,315	2.50%	\$ 10,358
18	380	Treatment and Disposal Equipment	\$ 5,431,228	\$ -	\$ 5,431,228	5.00%	\$ 271,561
19	381	Plant Sewers	\$ 47,788	\$ -	\$ 47,788	5.00%	\$ 2,389
20	382	Outfall Sewer Lines	\$ 343,681	\$ -	\$ 343,681	3.33%	\$ 11,445
21	389	Other Plant & Misc. Equipment	\$ 603,188	\$ -	\$ 603,188	6.67%	\$ 40,233
22	390	Office Furniture & Equipment	\$ 198,772	\$ -	\$ 198,772	6.67%	\$ 13,258
23	391	Transportation Equipment	\$ 26,078	\$ -	\$ 26,078	20.00%	\$ 5,216
24	392	Stores Equipment	\$ 8,968	\$ -	\$ 8,968	4.00%	\$ 359
25	393	Tools, Shop & Garage Equipment	\$ 56,167	\$ -	\$ 56,167	5.00%	\$ 2,808
26	394	Labratory Equipment	\$ 173,948	\$ -	\$ 173,948	10.00%	\$ 17,395
27	395	Power Operated Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
28	396	Communication Equipment	\$ 418,996	\$ -	\$ 418,996	10.00%	\$ 41,900
29	398	Other Tangible Plant	\$ -	\$ -	\$ -	10.00%	\$ -
30		Total Plant	\$ 59,818,156	\$ 1,783,426	\$ 58,034,730		\$ 1,895,156
31							
32		Less: Amortization of Contributions					
33	361	Collection Sewers Gravity	\$ 18,642,786			2.00%	\$ (372,856)
39							
40		Total Depreciation Expense					\$ 1,522,301
41							
42		Depreciation Expense - Company					\$ 1,550,237
43							
44		Staff's Adjustment to Depreciation Expense					\$ (27,936)

References:

- Column [A]: Schedule JMM-WW4
- Column [B]: From Column [A]
- Column [C]: Column [A] - Column [B]
- Column [D]: Engineering Staff Report
- Column [E]: Column [C] x Column [D]

OPERATING INCOME ADJUSTMENT No. 7 - Property Tax Expense

LINE NO.	Property Tax Calculation	STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 6,356,374	\$ 6,356,374
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	12,712,748	\$ 12,712,748
4	Staff Recommended Revenue, Per Schedule JMM-WW1	6,356,374	\$ 9,398,625
5	Subtotal (Line 4 + Line 5)	19,069,122	22,111,373
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	6,356,374	\$ 7,370,458
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	12,712,748	\$ 14,740,915
10	Plus: 10% of CWIP -	39,301	39,301
11	Less: Net Book Value of Licensed Vehicles	15,573	\$ 15,573
12	Full Cash Value (Line 9 + Line 10 - Line 11)	12,736,476	\$ 14,764,643
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	2,674,660	\$ 3,100,575
15	Composite Property Tax Rate (Per Company Schedule C-2)	4.1459%	4.1459%
16			
17	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 110,889	
18	Company Proposed Property Tax	336,629	
19			
20	Staff Test Year Adjustment (Line 17-Line 18)	\$ (225,740)	
21	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 128,547
22	Staff Test Year Adjusted Property Tax Expense (Line 17)		\$ 110,889
23	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 17,658
24			
25	Increase to Property Tax Expense		\$ 17,658
26	Increase in Revenue Requirement		3,042,251
27	Increase to Property Tax per Dollar Increase in Revenue (Line 25/Line 26)		0.580426%

OPERATING INCOME ADJUSTMENT NO. 8 - TEST YEAR INCOME TAXES

LINE
NO.

DESCRIPTION

	<u>Test Year</u>
<i>Calculation of Income Tax:</i>	
1 Revenue (Schedule CSB-11)	\$ 6,356,374
2 Operating Expenses Excluding Income Taxes	\$ 5,625,836
3 Synchronized Interest (L17)	<u>\$ 306,482</u>
4 Arizona Taxable Income (L1 - L2 - L3)	\$ 424,056
5 Arizona State Income Tax Rate	6.9680%
6 Arizona Income Tax (L4 x L5)	<u>\$ 29,548</u>
7 Federal Taxable Income (L4 - L6)	\$ 394,508
8 Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 7,500
9 Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ 6,250
10 Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ 8,500
11 Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ 91,650
12 Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ 20,233
13 Total Federal Income Tax	<u>\$ 134,133</u>
14 Combined Federal and State Income Tax (L44 + L51)	<u>\$ 163,681</u>
15	
16	
<i>Calculation of Interest Synchronization:</i>	
17 Rate Base (Schedule JMM-WW4)	\$ 27,861,961
18 Weighted Average Cost of Debt	1.10%
19 Synchronized Interest (L16 x L17)	<u>\$ 306,482</u>
20	
21	
22	
23	Income Tax - Per Staff \$ 163,681
24	Income Tax - Per Company \$ <u>(99,906)</u>
25	Staff Adjustment \$ 263,587

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF)
LITCHFIELD PARK SERVICE COMPANY, AN)
ARIZONA CORPORATION, FOR A)
DETERMINATION OF THE FAIR VALUE OF)
ITS UTILITY PLANTS AND PROPERTY AND)
FOR INCREASES IN ITS WASTEWATER)
RATES AND CHARGES FOR UTILITY)
SERVICE BASED THEREON.)

DOCKET NO. SW-01428A-09-0103

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

DOCKET NO. SW-01428A-09-0104

IN THE MATTER OF THE APPLICATION OF)
LITCHFIELD PARK SERVICE COMPANY FOR)
APPROVAL (1) TO ISSUE EVIDENCE OF)
INDEBTEDNESS IN AN AMOUNT NOT TO)
EXCEED \$1,755,000 IN CONNECTION WITH)
(A) THE CONSTRUCTION OF TWO)
RECHARGE WELL INFRASTRUCTURE)
IMPROVEMENTS AND (2) TO ENCUMBER)
ITS REAL PROPERTY AND PLANT AS)
SECURITY FOR SUCH INDEBTEDNESS)

DOCKET NO. SW-01428A-09-0116

IN THE MATTER OF THE APPLICATION OF)
LITCHFIELD PARK SERVICE COMPANY FOR)
APPROVAL (1) TO ISSUE EVIDENCE OF)
INDEBTEDNESS IN AN AMOUNT NOT TO)
EXCEED \$1,170,000 IN CONNECTION WITH)
(A) THE CONSTRUCTION ON ONE 200KW)
ROOF MOUNTED SOLAR GENERATOR)
INFRASTRUCTURE IMPROVEMENTS AND)
(2) TO ENCUMBER ITS REAL PROPERTY)
AND PLANT AS SECURITY FOR SUCH)
INDEBTEDNESS)

DOCKET NO. SW-01428A-09-0120

SURREBUTTAL

TESTIMONY

OF

PEDRO M. CHAVES

PUBLIC UTILITIES ANALYST III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

DECEMBER 17, 2009

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**EXECUTIVE SUMMARY
LITCHFIELD PARK SERVICE COMPANY
DOCKET NOS. SW-01428A-09-0103 ET AL.**

The Surrebuttal Testimony of Staff witness Pedro M. Chaves addresses the following issues:

Water Division

Response to the Rebuttal Testimony of Applicant's witness Thomas J. Bourassa – The Company's conclusion that Staff's rate design produces approximately \$800,000 less revenue than the revenue requirement is erroneous. Further, Staff responds to the Company's conclusion that Staff agrees entirely with the findings of the cost of service study.

Staff's Updated Rate Design – Staff's recommended rate design would generate Staff's recommended \$11,781,312 revenue requirement. The typical 3/4-inch meter residential bill with median use of 7,000 gallons would increase by \$5.23, or 34.21 percent, from \$15.29 to \$20.52.

Wastewater Division

Response to the Rebuttal Testimony of Applicant's witness Thomas J. Bourassa – The Company's conclusion that Staff's rate design produces approximately \$120,000 less revenue than the revenue requirement is erroneous.

Staff's updated rate design – Staff's recommended rate design would generate Staff's recommended \$9,398,625 revenue requirement. The typical residential bill would increase by \$12.28, or 45.15 percent, from \$27.20 to \$39.48.

1 **I. INTRODUCTION**

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

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

6
7 **Q. Are you the same Pedro M. Chaves that filed Direct Testimony regarding rate design
8 in this case?**

9 A. Yes, I am.

10
11 **Q. What matters are addressed in your rate design Surrebuttal Testimony?**

12 A. This rate design Surrebuttal Testimony addresses comments contained in the Rebuttal
13 Testimony of Litchfield Park Service Company’s (“LPSCO” or “Company”) Water and
14 Wastewater Divisions witness Mr. Thomas J. Bourassa, regarding rate design. This
15 Surrebuttal presents rates designed to generate Staff’s Surrebuttal revenue requirement for
16 LPSCO’s Water and Wastewater Divisions (Surrebuttal Schedules PMC-1 W and PMC-1
17 WW, respectively). Staff also presents an updated typical billing analysis for LPSCO’s
18 Water and Wastewater Divisions (Surrebuttal Schedules PMC-2 W and PMC-2 WW,
19 respectively).

20
21 **Q. Please explain how Staff’s rate design Surrebuttal Testimony is organized.**

22 A. Staff’s rate design Surrebuttal Testimony is presented in five sections. Section I is this
23 introduction. Section II discusses the revenue requirement produced by Staff’s rate
24 design. Section III addresses cost of service. Section IV discusses Staff’s updated rate
25 design. Lastly, Section V contains Staff’s recommendations.

26

1 **II. REVENUE REQUIREMENT**

2 *Water Division*

3 **Q. What is Staff's response to the Company's assertion that Staff's rate design produces**
4 **approximately \$750,000 to \$800,000 less revenue than its recommended revenue**
5 **requirement?¹**

6 A. Staff's rate design does produce its revenue requirement. The primary reason for the
7 approximately \$800,000 discrepancy pertains to the treatment of 8-inch meter
8 customers/billing determinants. Staff's billing determinants include 24 bills from the test
9 year. The Company's billing determinants exclude these 24 bills.

10
11 **Q. Why does LPSCO exclude the billing determinants for the 8-inch meter customers in**
12 **calculation of the revenue generated by its rate design?**

13 A. According to the Company, it had removed the revenues from the City of Goodyear (its
14 only 8-inch meter customer during the test year) via its revenue annualization adjustment
15 for purposes of determining the revenue requirement.²

16
17 **Q. Does the Company continue to assume that the City of Goodyear will no longer be a**
18 **customer?**

19 A. No. LPSCO is now recognizing the City of Goodyear billing determinants; however,
20 instead of treating those sales under its 8-inch meter tariff it recognizes the City of
21 Goodyear sales under its newly proposed "Bulk Water" customer class with a proposed
22 lower commodity rate.

23

¹ Rebuttal Testimony of Thomas J. Bourassa, Pages 51 and 52.

² Direct Testimony of Thomas J. Bourassa, Page 14.

1 **Q. Does Staff continue to recommend treating the City of Goodyear as an 8-inch**
2 **customer?**

3 A. Yes, it does.
4

5 *Wastewater Division*

6 **Q. What is Staff's response to the Company's assertion that Staff's rate design produces**
7 **approximately \$120,000 less revenue than its recommended revenue requirement?**³

8 A. Staff's rate design does produce its revenue requirement. Staff reviewed its calculations
9 and found no errors indicating that its rate design does not produce its revenue
10 requirement. Staff has provided the Company with its calculations, and the Company has
11 not identified any specific error in Staff's calculations.
12

13 **III. COST OF SERVICE**

14 *Water Division*

15 **Q. Does Staff have any comments on Mr. Bourassa's assessment that Staff agrees**
16 **entirely with the findings on the Company's Cost of Service Study ("COSS")?**

17 A. Yes. As indicated below, while Staff utilized the Company's COSS findings as a
18 guideline, COSS is only one of various factors considered in the development of a rate
19 design.
20

21 **Q. What is a COSS?**

22 A. In simple terms, a COSS is an estimation of cost-causation by customer class, i.e., how
23 much does it cost the utility to provide its service to each specific customer class. The
24 reason for determining the costs incurred by the utility to serve each customer class is to
25 assist in allocating the revenue requirement for each customer class.

³ Rebuttal Testimony of Thomas J. Bourassa, Pages 59 and 60.

1 **Q. Is rate design synonymous with COSS?**

2 A. No. Rate design should not be mistaken with a COSS. As indicated above, a COSS is the
3 assignment of costs to serve each customer class. Rate design involves developing the
4 specific rates that generate the revenues from each customer class, taking into
5 consideration the results of the COSS.

6
7 **Q. Should the COSS be the only factor used when developing a rate design?**

8 A. No. The COSS is only one of various factors considered in the development of a rate
9 design.

10
11 **Q. What other factors did Staff consider to develop its rate design?**

12 A. In addition to using the results of the COSS as a general guideline, Staff also considered
13 factors such as gradualism, promotion of efficient water usage and uniformity of rates
14 among customer classes.

15
16 **Q. How did Staff use the COSS as a guide in its rate design?**

17 A. Staff utilized the COSS as a basic tool, starting point or first step in its rate design.
18 However, Staff also used the other factors cited above to develop its rate design.

19
20 **Q. In Staff's opinion, was it necessary in this case for Staff to perform an additional
21 COSS?**

22 A. No. First, LPSCO's customer base is predominantly composed of residential (over 90
23 percent). Second, as indicated above, Staff employed the Company's COSS as a starting
24 point in its rate design; however, Staff incorporated other important factors.

25

1 **IV. UPDATED RATE DESIGN**

2 *Water Divison*

3 **Q. Has Staff updated its recommended rate design to reflect its Surrebuttal revenue**
4 **requirement?**

5 A. Yes. Staff's Surrebuttal rate design presented in Schedule PMC-1 W is revised to reflect
6 Staff's \$11,781,312 Surrebuttal revenue requirement.

7
8 *Wastewater Division*

9 **Q. Has Staff updated its recommended rate design to reflect its Surrebuttal revenue**
10 **requirement?**

11 A. Yes. Staff's Surrebuttal rate design presented in Schedule PMC-1 WW is revised to
12 reflect Staff's \$9,398,625 Surrebuttal revenue requirement.

13
14 **V. SUMMARY OF RECOMMENDATION**

15 *Water Division*

16 **Q. Please provide a brief summary of Staff's recommendation.**

17 A. Staff recommends approval of its recommended rates shown in Schedule PMC-1 W.

18
19 *Wastewater Division*

20 **Q. Please provide a brief summary of Staff's recommendation.**

21 A. Staff recommends approval of its recommended rates shown in Schedule PMC-1 WW.

22

1 **Q. Does your silence on any of the issues, matters or findings addressed in the testimony**
2 **of any of the witnesses for LPSCO constitute your acceptance of their positions on**
3 **such issues, matters or findings?**

4 A. No. Staff limited its discussion to the specific issues outlined above. Staff's lack of
5 response to any issue in this proceeding should not be construed as agreement with the
6 Company's position in its Rebuttal Testimony; rather, where there is no response Staff
7 relies on its original Direct Testimony.

8
9 **Q. Does this conclude your Surrebuttal Testimony?**

10 A. Yes, it does.

WATER DIVISION RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed	Staff Recommended
5/8 x3/4" Meter - All Classes	\$ 6.75	\$ 10.32	\$ 10.00
3/4" Meter - All Classes	8.30	26.32	10.00
1" Meter - All Classes	14.60	43.86	25.00
1½" Meter - All Classes	28.60	54.08	50.00
2" Meter - All Classes	56.50	66.56	80.00
3" Meter - All Classes	NT	133.12	160.00
4" Meter - All Classes	132.00	208.00	250.00
6" Meter - All Classes	NT	416.00	500.00
8" Meter - All Classes	225.00	499.20	825.00
10" Meter - All Classes	330.00	956.80	1,150.00
12" Meter - All Classes	450.00	1,248.00	2,150.00
Construction Water - Hydrants	100.00	By Meter Size	-
Commodity Rates			
5/8 x3/4" Meter (Residential)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 3,000 Gallons		\$ 1.22	\$ 1.00
3,001 to 9,000 Gallons		\$ 1.82	\$ 1.88
Over 9,000 Gallons		\$ 2.42	\$ 2.88
3/4" Meter (Residential)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 3,000 Gallons		\$ 1.22	\$ 1.00
3,001 to 9,000 Gallons		\$ 1.82	\$ 1.88
Over 9,000 Gallons		\$ 2.42	\$ 2.88
5/8 x3/4" and 3/4" Meter (Commercial, Industrial, Irrigation)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 10,000 Gallons		\$ 1.82	\$ 1.88
Over 10,000 Gallons		\$ 2.42	\$ 2.88
1" Meter (Residential, Commercial, Industrial, Irrigation)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 20,000 Gallons		\$ 1.82	\$ 1.88
Over 20,000 Gallons		\$ 2.42	\$ 2.88
1½" Meter (Residential, Commercial, Industrial, Irrigation)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 30,000 Gallons		\$ 1.82	\$ 1.88
Over 30,000 Gallons		\$ 2.42	\$ 2.88

WATER DIVISION RATE DESIGN

	Present Rates	Company Proposed	Staff Recommended
2" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 50,000 Gallons		\$ 1.82	\$ 1.88
Over 50,000 Gallons		\$ 2.42	\$ 2.88
3" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 120,000 Gallons		\$ 1.82	\$ 1.88
Over 120,000 Gallons		\$ 2.42	\$ 2.88
4" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 180,000 Gallons		\$ 1.82	\$ 1.88
Over 180,000 Gallons		\$ 2.42	\$ 2.88
6" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 360,000 Gallons		\$ 1.82	\$ 1.88
Over 360,000 Gallons		\$ 2.42	\$ 2.88
8" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 670,000 Gallons		\$ 1.82	\$ 1.88
Over 670,000 Gallons		\$ 2.42	\$ 2.88
10" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 940,000 Gallons		\$ 1.82	\$ 1.88
Over 940,000 Gallons		\$ 2.42	\$ 2.88
12" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 1,248,000 Gallons		\$ 1.82	\$ 1.88
Over 1,248,000 Gallons		\$ 2.42	\$ 2.88
Construction Water			
All Gallons	\$ 2.50	\$ 2.42	\$ 2.88

WATER DIVISION RATE DESIGN

Service Line and Meter Installation Charges	Present Rates			Company Proposed			Staff Recommended		
	Line	Meter	Total	Line	Meter	Total	Line	Meter	Total
5/8" x 3/4" Meter			\$ 300	\$ 385	\$ 135	\$ 520	\$ 385	\$ 135	\$ 520
3/4" Meter			300	385	215	600	385	215	600
1" Meter			325	435	255	690	435	255	690
1½" Meter			500	470	465	935	470	465	935
2"			675	-	-	-	-	-	-
Over 2"			At Cost	-	-	-	-	-	-
2" Turbine Meter			NT	630	965	1,595	630	965	1,595
2" Compound Meter			NT	630	1,690	2,320	630	1,690	2,320
3" Turbine Meter			NT	805	1,470	2,275	805	1,470	2,275
3" Compound Meter			NT	845	2,265	3,110	845	2,265	3,110
4" Turbine Meter			NT	1,170	2,350	3,520	1,170	2,350	3,520
4" Compound Meter			NT	1,230	3,245	4,475	1,230	3,245	4,475
6" Turbine Meter			NT	1,730	4,545	6,275	1,730	4,545	6,275
6" Compound Meter			NT	1,770	6,280	8,050	1,770	6,280	8,050
8" & Larger			NT	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

Service Charges

Establishment (a)	\$ 20.00	\$ 20.00	\$ 20.00
Establishment (After Hours) (a)	40.00	40.00	40.00
Re-Establishment of Service (a)	(b)	(b)	(b)
Reconnection (Regular Hours) (a)	50.00	50.00	50.00
Reconnection (After Hours) (a)	65.00	65.00	65.00
Meter Test (if correct) (c)	25.00	25.00	25.00
Meter Re-Read (if correct)	5.00	5.00	5.00
NSF Check	25.00	25.00	25.00
Deferred Payment, Per Month	1.50%	1.50%	1.50%
Late Charge	(d)	(d)	(d)
Service Calls - Per Hour/After Hours (e)	40.00	40.00	40.00
Deposit Requirement	(f)	(f)	(f)
Deposit Interest	3.50%	3.50%	3.50%

* Hydrant Meter Deposit:

5/8" x 3/4" Meter	\$ 1,500.00	\$ 1,500.00	\$ 135.00
3/4" Meter	1,500.00	1,500.00	215.00
1" Meter	1,500.00	1,500.00	255.00
1½" Meter	1,500.00	1,500.00	465.00
2" Turbine Meter	1,500.00	1,500.00	965.00
2" Compound Meter	1,500.00	1,500.00	1,690.00
3" Turbine Meter	1,500.00	1,500.00	1,470.00
3" Compound Meter	1,500.00	1,500.00	2,265.00
4" Turbine Meter	1,500.00	1,500.00	2,350.00
4" Compound Meter	1,500.00	1,500.00	3,245.00
6" Turbine Meter	1,500.00	1,500.00	4,545.00
6" Compound Meter	1,500.00	1,500.00	6,280.00
8" & Larger	NT	At Cost	At Cost

NT = No Tariff

(a) Service charges for customers taking both water and sewer service are not duplicative.

(b) Minimum charge times number of months disconnected.

(c) \$25 plus cost of test.

(d) Greater of \$5.00 or 1.5% of unpaid balance.

(e) No charge for service calls during normal working hours.

(f) Per Rule R14-2-403(B): Residential - two times the average bill. Commercial - two and one-half times the average bill.

* Shall have a non-interest bearing deposit of the amount indicated, refundable in its entirety upon return of the meter in good condition and payment of final bill.

Typical Bill Analysis
3/4" Residential

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	9,537	\$ 18.64	\$ 42.20	\$ 23.56	126.41%
Median Usage	7,000	15.29	37.26	\$ 21.97	143.69%
Staff Recommended					
Average Usage	9,537	\$ 18.64	\$ 25.83	\$ 7.19	38.56%
Median Usage	7,000	15.29	20.52	\$ 5.23	34.21%

Present & Proposed Rates (Without Taxes)
3/4" Residential

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 8.30	\$ 26.32	217.11%	\$ 10.00	20.48%
1,000	9.17	27.54	200.33%	11.00	19.96%
2,000	10.04	28.76	186.45%	12.00	19.52%
3,000	10.91	29.98	174.79%	13.00	19.16%
4,000	11.78	31.80	169.95%	14.88	26.32%
5,000	12.65	33.62	165.77%	16.76	32.49%
6,000	13.97	35.44	153.69%	18.64	33.43%
7,000	15.29	37.26	143.69%	20.52	34.21%
8,000	16.61	39.08	135.28%	22.40	34.86%
9,000	17.93	40.90	128.11%	24.28	35.42%
9,537	18.64	42.20	126.41%	25.83	38.56%
10,000	19.25	43.32	125.04%	27.16	41.09%
11,000	20.57	45.74	122.36%	30.04	46.04%
12,000	21.89	48.16	120.01%	32.92	50.39%
13,000	23.21	50.58	117.92%	35.80	54.24%
14,000	24.53	53.00	116.06%	38.68	57.68%
15,000	25.85	55.42	114.39%	41.56	60.77%
16,000	27.17	57.84	112.88%	44.44	63.56%
17,000	28.49	60.26	111.51%	47.32	66.09%
18,000	29.81	62.68	110.27%	50.20	68.40%
19,000	31.13	65.10	109.12%	53.08	70.51%
20,000	32.45	67.52	108.07%	55.96	72.45%
25,000	39.05	79.62	103.89%	70.36	80.18%
30,000	45.65	91.72	100.92%	84.76	85.67%
35,000	52.25	103.82	98.70%	99.16	89.78%
40,000	58.85	115.92	96.98%	113.56	92.97%
45,000	65.45	128.02	95.60%	127.96	95.51%
50,000	72.05	140.12	94.48%	142.36	97.59%
75,000	105.05	200.62	90.98%	214.36	104.06%
100,000	138.05	261.12	89.15%	286.36	107.43%

WASTEWATER DIVISION RATE DESIGN

Monthly Usage Charge	Present	Company Proposed	Staff Recommended
Residential	\$ 27.20	\$ 48.21	\$ 39.48
Multiple Unit Service - Per Unit / Month	25.25	44.76	\$ 36.65
Small Comm. ¹	46.00	81.54	\$ 66.77
Regular Domestic ²	25.75	45.64	\$ 37.38
Restaurants, Motels, Grocery, DC	25.75	45.64	\$ 37.38
Wig. Resort/ Room	25.25	44.76	\$ 36.65
Wig. Resort/ Main	1,000.00	1,772.50	\$ 1,451.50
Element. School	680.00	1,205.30	\$ 987.02
Mid. & High School	800.00	1,418.00	\$ 1,161.20
Community College	1,240.00	2,197.90	\$ 1,799.86
Effluent Sales ³	Market	Market	Market

¹ Small commercial is a wastewater commercial customer that averages a maximum of 10,000 gallons of water usage per month.

² Regular Domestic is a wastewater commercial customer that averages a minimum of 10,000 gallons of 10,000 gallons of water usage per month.

³ Market Rate - Maximum effluent rate shall not exceed \$430 per acre foot based on a potable water rate of \$1.32 per thousand gallons and shall not be less than \$ 0.87 per thousand gallons.

Commodity Charge (per 1,000 gallons of water)			
Regular Domestic	\$ 2.25	\$ 3.99	\$ 3.27
Restaurants, Motels, Grocery, DC	3.00	5.32	4.35

WASTEWATER DIVISION RATE DESIGN

Service Charges	Present	Company Proposed	Staff Recommended
Establishment (a)	\$ 20.00	\$ 20.00	\$ 20.00
Establishment (After Hours) (a)	\$ 40.00	\$ 40.00	\$ 40.00
Re-Establishment of Service (a)	(b)	(b)	(b)
Reconnection (Regular Hours) (a)	50.00	50.00	50.00
Reconnection (After Hours) (a)	65.00	65.00	65.00
NSF Check	\$ 25.00	\$ 25.00	\$ 25.00
Deferred Payment, Per Month	1.50%	1.50%	1.50%
Late Charge	(c)	(c)	(c)
Service Calls - Per Hour/After Hours (d)	40.00	40.00	40.00
Deposit Requirement	(e)	(e)	(e)
Deposit Interest	3.50%	3.50%	3.50%
Service Lateral Connection Charge- All Sizes	(f)	(f)	(f)
Main Extension Tariff	(g)	(g)	(g)

- (a) Service charges for customers taking both water and sewer service are not duplicative.
- (b) Minimum charge times number of months disconnected.
- (c) Greater of \$5.00 or 1.5% of unpaid balance.
- (d) No charge for service calls during normal working hours.
- (e) Per Rule R14-2-603B: Residential - two times the average bill.
Non-residential - two and one-half times the average bill.
- (f) At cost. Customer/Developer shall install or cause to be installed all Service Laterals as a non-refundable contribution-in-aid of construction.
- (g) All Main Extensions shall be completed at cost and shall be treated as non-refundable contribution-in-aid of construction.

Typical Bill Analysis

Residential

<u>Company Proposed</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
	\$ 27.20	\$ 48.21	\$ 21.01	77.24%
<u>Staff Recommended</u>				
	27.20	39.48	\$ 12.28	45.15%

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF) DOCKET NOS. SW-01428A-09-0103
LITCHFIELD PARK SERVICE COMPANY,) W-01427A-09-0104
AN ARIZONA CORPORATION, FOR A)
DETERMINATION OF THE FAIR VALUE OF)
ITS UTILITY PLANTS AND PROPERTY AND)
FOR INCREASES IN ITS WATER AND)
WASTEWATER RATES AND CHARGES FOR)
UTILITY SERVICE BASED THEREON)

SURREBUTTAL
TESTIMONY
OF
JUAN C. MANRIQUE
PUBLIC UTILITIES ANALYST I
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

DECEMBER 17, 2009

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**EXECUTIVE SUMMARY
LITCHFIELD PARK SERVICE COMPANY
DOCKET NOS. SW-01428A-09-0103 AND
W-01427A-09-0104**

The Surrebuttal Testimony of Staff witness Juan C. Manrique addresses the following issues:

Capital Structure – Staff recommends that the Arizona Corporation Commission (“Commission”) adopt a capital structure for Litchfield Park Service Company (“LPSCO” or “Applicant”) for this proceeding consisting of 17.2 percent debt and 82.8 percent equity.

Cost of Equity – Staff recommends that the Commission adopt a 9.2 percent return on equity (“ROE”) for the Applicant. Staff’s estimated ROE for the Applicant is based on cost of equity estimates for the sample companies ranging from 9.8 percent for the discounted cash flow method (“DCF”) to 10.1 percent for the capital asset pricing model (“CAPM”). Staff’s ROE recommendation includes a 0.8 percent downward adjustment to reflect a lower financial risk in the Applicant’s capital structure compared to that of the sample companies.

Overall Rate of Return – Staff recommends that the Commission adopt an overall rate of return (“ROR”) of 8.7 percent.

Response to the Rebuttal Testimony of Applicant’s witness Mr. Thomas J. Bourassa – The Commission should reject the Company’s proposals to allow for a firm size adjustment, to selectively eliminate inputs in Staff’s cost of equity estimation with unfavorable outputs resulting in an imbalance in Staff’s cost of equity estimation, and to rely exclusively on analyst’s forecasts for DCF estimates.

1 **I. INTRODUCTION**

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

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

6
7 **Q. Are you the same Juan C. Manrique who filed direct testimony in this case?**

8 A. Yes, I am.

9
10 **Q. What is the purpose of your Surrebuttal Testimony in this rate proceeding?**

11 A. The purpose of my Surrebuttal Testimony in this rate proceeding is to report on Staff's
12 updated cost of capital analysis with its recommendations regarding Litchfield Park
13 Service Corporation's ("LPSCO" or "Applicant") cost of capital and to respond to the cost
14 of capital portion of the Rebuttal Testimony of LPSCO's witness Mr. Thomas J. Bourassa
15 ("Mr. Bourassa's Rebuttal").

16
17 **Q. Please explain how Staff's Surrebuttal Testimony is organized.**

18 A. Staff's Surrebuttal Testimony is presented in four sections. Section I is this introduction.
19 Section II discusses Staff's updated cost of capital analysis. Section III presents Staff's
20 comments on Mr. Bourassa's Rebuttal. Lastly, Section IV presents Staff's
21 recommendations.

22
23 **II. COST OF EQUITY AND OVERALL RATE OF RETURN**

24 **Q. Did Staff update its analysis concerning the Applicant's cost of equity ("COE") since**
25 **it filed its Direct Testimony?**

26 A. Yes. Staff updated its analysis to include the most updated data available.

1 **Q. What is Staff's updated COE?**

2 A. Staff's updated analysis resulted in no change to its recommended COE. Staff continues
3 to recommend a COE of 9.2 percent.

4
5 **Q. What is Staff recommending for LPSCO's COE?**

6 A. Staff is recommending a COE of 9.2 percent derived from its updated cost of equity
7 estimated range from 9.8 percent to 10.1 percent with a downward financial risk
8 adjustment of 80 basis points (0.8 percent).

9
10 **Q. Did Staff update its analysis concerning the Applicant's overall rate of return?**

11 A. Yes.

12
13 **Q. What is Staff's updated overall rate of return?**

14 A. Staff's updated overall rate of return remains 8.7 percent.

15
16 **Q. What is Staff recommending for LPSCO's overall rate of return?**

17 A. Staff is recommending an overall rate of return of 8.7 percent. Staff's recommendation is
18 based on a COE of 9.2 percent, a cost of debt at 6.4 percent and a capital structure of 82.8
19 percent equity and 17.2 percent debt, as shown on Surrebuttal Schedule JCM-1.

20

1 **III. RESPONSE TO THE REBUTTAL TESTIMONY OF THE APPLICANT'S COST OF**
2 **CAPITAL WITNESS**

3 *Mr. Bourassa's Rebuttal*

4 **Q. Does Staff have a response to Mr. Bourassa's citation that "[i]n Chapter 7 of**
5 **Morningstar's Ibbotson SBBI 2009 Valuation Yearbook, for example, Ibbotson**
6 **reports that when betas are properly estimated, betas are larger for smaller**
7 **companies than for larger companies"¹?**

8 A. Yes. It is generally understood that smaller companies tend to have higher betas than
9 larger companies due to larger variations in earnings, thus making the smaller companies
10 more risky. However, the Ibbotson report pertains to a broad spectrum of stocks that are
11 not specific to the utilities industry. A utility industry specific study² to determine
12 whether the firm size phenomenon exists in the public utility industry concluded that there
13 is no need to adjust for firm size in utility rate regulation. Also, much of the higher
14 variance in small stocks has been attributed to the "January effect" that is expected to have
15 a larger impact on smaller stocks than larger stocks because smaller stocks are less likely
16 to be in the portfolios of tax-exempt institutional investors and pension funds.

17
18 **Q. Does Staff agree with Mr. Bourassa then that LPSCO should receive a higher cost of**
19 **equity estimate because of its smaller size through a "small firm risk premium"³?**

20 A. No. Company size is a firm-specific risk which can be eliminated through diversification.
21 Consequently, fully diversified investors, like LPSCO's Parent Company (Algonquin
22 Power Income Fund) would not expect additional compensation due to firm size.

23

¹ Mr. Bourassa's Rebuttal, page 5-6, lines 21-22 and 1-2, respectively.

² Wong, Annie. "Utility Stocks and the Size Effect: An Empirical Analysis." *Journal of the Midwest Finance Association*. 1993. pp. 95-101.

³ Mr. Bourassa's Rebuttal, page 6 line 18

1 **Q. What is Staff's response to Mr. Bourassa's criticism of Staff's use of the Hamada**
2 **risk adjustment on book value of equity since Professor Hamada developed his**
3 **method using market values?**⁴

4 A. Staff acknowledges that the Hamada methodology was developed using market values of
5 equity for estimating a financial risk adjustment. However, Staff believes that the use of
6 book values to estimate a financial risk adjustment is prudent and reasonable.

7
8 **Q. Please respond to Mr. Bourassa's argument that "...Staff's historical DPS growth**
9 **rates produce indicated costs of equity below the cost of debt for 3 of the 6 publicly**
10 **traded water utilities in Staff's water proxy group – one as low as 3.9 percent."**⁵

11 A. Staff uses a balanced approach to cost of equity model which takes into account both high
12 and low outcomes. Mr. Bourassa suggests that inputs that have outcomes that produce
13 unfavorable results should be selectively eliminated. Such selective exclusions are
14 inconsistent with the fundamental concept of Staff's cost of equity estimation model to
15 include a balance among inputs.

16
17 **Q. Does Staff have a response to Mr. Bourassa's assertion that "[i]f investors rely on**
18 **analysts' growth rate forecasts, those are the forecasts of relevance to the**
19 **determination of equity costs"**⁶?

20 A. Yes. Mr. Bourassa makes this assertion as if the *only* factor investors look at is analysts'
21 growth rates. Investors do rely on analysts forecasts as one factor in investment decisions;
22 however, other factors such as historical data also factor into investors' investment
23 decisions.

24

⁴ Mr. Bourassa's Rebuttal, page 8 lines 11-18

⁵ Mr. Bourassa's Rebuttal, page 13, lines 6-8

⁶ Mr. Bourassa's Rebuttal, page 11, lines 16-18

1 **IV. STAFF RECOMMENDATIONS**

2 **Q. What are Staff's recommendations for LPSCO's cost of capital?**

3 A. Staff makes the following recommendations for LPSCO's cost of capital:

4

5 1. Staff recommends a capital structure of 17.2 percent debt and 82.8 percent equity.

6 2. Staff recommends a cost of debt of 6.4 percent.

7 3. Staff recommends a cost of equity of 9.2 percent.

8 4. Staff recommends an overall rate of return of 8.7 percent.

9

10 **Q. Does this conclude your Testimony?**

11 A. Yes, it does.

Litchfield Park Service Company Cost of Capital Calculation
Capital Structure
And Weighted Average Cost of Capital
Staff Recommended and Company Proposed

[A]	[B]	[C]	[D]
<u>Description</u>	<u>Weight (%)</u>	<u>Cost</u>	<u>Weighted Cost</u>
Staff Recommended Structure	17.2%	6.4%	1.1%
Debt			7.6%
Common Equity	82.8%	9.2%	8.7%
Weighted Average Cost of Capital			
Company Proposed Structure	17.9%	6.4%	1.1%
Debt			9.9%
Common Equity	82.1%	12.0%	11.0%
Weighted Average Cost of Capital			

[D] : [B] x [C]
Supporting Schedules: JCM-3 and JCM-4.

SW-01428A-09-0103
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Surrebuttal Schedule JCM-2

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Litchfield Park Service Company Cost of Capital Calculation
Final Cost of Equity Estimates
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
DCF Method				
Constant Growth DCF Estimate		$\frac{D_1/P_0}{1}$	+	g^2
Multi-Stage DCF Estimate		3.6%	+	5.8%
Average of DCF Estimates			=	k
			=	9.4%
			=	<u>10.2%</u>
			=	9.8%
CAPM Method				
Historical Market Risk Premium ³	R_f	β^5	x	(R_p)
Current Market Risk Premium ⁴	2.7%	0.80	x	6.9% ⁶
Average of CAPM Estimates	4.3%	0.80	x	9.4% ⁷
			=	k
			=	8.3%
			=	<u>11.8%</u>
			=	10.1%
			Average	10.0%
			Financial risk adjustment	<u>-0.8%</u>
			Total	9.2%

1 MSN Money and Value Line
2 Schedule JCM-8
3 Risk-free rate (Rf) for 5, 7, and 10 year Treasury rates from the U.S. Treasury Department at www.ustreas.gov
4 Risk-free rate (Rf) for 30 Year Treasury bond rate from the U.S. Treasury Department at www.ustreas.gov
5 Value Line
6 Historical Market Risk Premium (Rp) calculated from Ibbotson Associates SBBI 2009 Yearbook data
7 Testimony

Litchfield Park Service Company Cost of Capital Calculation
Average Capital Structure of Sample Water Utilities

[A]	[B]	[C]	[D]
<u>Company</u>	<u>Debt</u>	Common <u>Equity</u>	<u>Total</u>
American States Water	48.4%	51.6%	100.0%
California Water	47.9%	52.1%	100.0%
Aqua America	52.7%	47.3%	100.0%
Connecticut Water	50.7%	49.3%	100.0%
Middlesex Water	53.2%	46.8%	100.0%
SJW Corp	<u>48.6%</u>	<u>51.4%</u>	<u>100.0%</u>
Average Sample Water Utilities	50.2%	49.8%	100.0%
LPSCO - Actual Capital Structure	17.2%	82.8%	100.0%

Source:
Sample Water Companies from Value Line

Litchfield Park Service Company Cost of Capital Calculation
Growth in Earnings and Dividends
Sample Water Utilities

[A] Company	[B] Dividends Per Share 1998 to 2008 <u>DPS¹</u>	[C] Dividends Per Share Projected <u>DPS¹</u>	[D] Earnings Per Share 1998 to 2008 <u>EPS¹</u>	[E] Earnings Per Share Projected <u>EPS¹</u>
American States Water	1.8%	4.6%	3.7%	10.9%
California Water	0.9%	2.8%	2.7%	6.9%
Aqua America	7.0%	5.0%	6.2%	11.4%
Connecticut Water	1.3%	No Projection	1.0%	No Projection
Middlesex Water	2.1%	No Projection	2.9%	No Projection
SJW Corp	5.5%	No Projection	3.0%	No Projection
Average Sample Water Utilities	3.1%	4.1%	3.4%	9.7%

Litchfield Park Service Company Cost of Capital Calculation
Sustainable Growth
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
<u>Company</u>	Retention Growth 1999 to 2008 <u>br</u>	Retention Growth Projected <u>br</u>	Stock Financing Growth <u>vs</u>	Sustainable Growth 1999 to 2008 <u>br + vs</u>	Sustainable Growth Projected <u>br + vs</u>
American States Water	3.0%	6.4%	1.4%	4.4%	7.8%
California Water	2.0%	6.1%	4.1%	6.1%	10.2%
Aqua America	4.8%	5.7%	3.8%	8.5%	9.4%
Connecticut Water	2.6%	No Projection	0.8%	3.4%	No Projection
Middlesex Water	1.4%	No Projection	2.8%	4.2%	No Projection
SJW Corp	4.5%	No Projection	0.1%	4.5%	No Projection
Average Sample Water Utilities	3.0%	6.1%	2.2%	5.2%	9.1%

[B]: Value Line
[C]: Value Line
[D]: Value Line and MSN Money
[E]: [B]+[D]
[F]: [C]+[D]

Litchfield Park Service Company Cost of Capital Calculation
Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Company	Symbol	Spot Price 12/2/2009	Book Value	Mkt To Book	Value Line Beta β	Raw Beta β_{raw}
American States Water	AWR	33.77	17.80	1.9	0.80	0.67
California Water	CWT	37.19	20.21	1.8	0.75	0.60
Aqua America	WTR	16.85	8.26	2.0	0.65	0.45
Connecticut Water	CTWS	23.28	12.67	1.8	0.85	0.75
Middlesex Water	MSEX	16.91	10.98	1.5	0.80	0.67
SJW Corp	SJW	21.43	14.84	1.4	0.95	0.90
Average				1.8	0.80	0.67

[C]: Msn Money

[D]: Value Line

[E]: [C] / [D]

[F]: Value Line

[G]: (-0.35 + [F]) / 0.67

Litchfield Park Service Company Cost of Capital Calculation
Calculation of Expected Infinite Annual Growth in Dividends
Sample Water Utilities

[A]	[B]
<u>Description</u>	<u>g</u>
DPS Growth - Historical ¹	3.1%
DPS Growth - Projected ¹	4.1%
EPS Growth - Historical ¹	3.4%
EPS Growth - Projected ¹	9.7%
Sustainable Growth - Historical ²	5.2%
<u>Sustainable Growth - Projected²</u>	<u>9.1%</u>
Average	5.8%

1 Schedule JCM-5

2 Schedule JCM-5

Litchfield Park Service Company Cost of Capital Calculation
Multi-Stage DCF Estimates
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[H]	[I]
Company	Current Mkt. Price (P_0) ¹ 12/2/2009	Projected Dividends ² (Stage 1 growth) (D_t)				Stage 2 growth ³ (g_n)	Equity Cost Estimate (K) ⁴
		d_1	d_2	d_3	d_4		
American States Water	33.8	1.06	1.12	1.18	1.25	6.7%	9.7%
California Water	37.2	1.23	1.30	1.38	1.46	6.7%	9.9%
Aqua America	16.9	0.57	0.60	0.64	0.68	6.7%	10.0%
Connecticut Water	23.3	0.93	0.98	1.03	1.09	6.7%	10.6%
Middlesex Water	16.9	0.75	0.79	0.84	0.89	6.7%	11.0%
SJW Corp	21.4	0.69	0.73	0.77	0.81	6.7%	9.8%

Average 10.2%

$$P_0 = \sum_{t=1}^n \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K-g_n} \left[\frac{1}{(1+K)} \right]^n$$

Where : P_0 = current stock price

D_t = dividends expected during stage 1

K = cost of equity

n = years of non - constant growth

D_n = dividend expected in year n

g_n = constant rate of growth expected after year n

1 [B] see Schedule JCM-7

2 Derived from Value Line Information

3 Average annual growth in GDP 1929 - 2008 in current dollars.

4 Internal Rate of Return of Projected Dividends

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF)
LITCHFIELD PARK SERVICE COMPANY, AN)
ARIZONA CORPORATION, FOR A)
DETERMINATION OF THE FAIR VALUE OF ITS)
UTILITY PLANTS AND PROPERTY AND FOR)
INCREASES IN ITS WASTEWATER RATES)
AND CHARGES FOR UTILITY SERVICE)
BASED THEREON.)

DOCKET NO. SW-01428A-09-0103

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

DOCKET NO. W-01427A-09-0104

IN THE MATTER OF THE APPLICATION OF)
LITCHFIELD PARK SERVICE COMPANY, AN)
ARIZONA CORPORATION, FOR AUTHORITY)
(1) TO ISSUE EVIDENCE OF INDEBTEDNESS IN)
AN AMOUNT OT TO EXCEED \$1,755,000 IN)
CONNECTION WITH (A) THE CONSTRUCTION)
OF TWO RECHARGE WELL INFRASTRUCTURE)
IMPROVEMENTS AND (2) TO ENCUMBER ITS)
REAL PROPERTY AND PLANT AS SECURITY)
FOR SUCH INDEBTEDNESS.)

DOCKET NO. W-01427A-09-0116

IN THE MATTER OF THE APPLICATION OF)
LITCHFIELD PARK SERVICE COMPANY, AN)
ARIZONA CORPORATION, FOR AUTHORITY)
(1) TO ISSUE EVIDENCE OF INDEBTEDNESS IN)
AN AMOUNT OT TO EXCEED \$1,170,000 IN)
CONNECTION WITH (A) THE CONSTRUCTION)
OF ONE 200 KW ROOF MOUNTED SOLAR)
GENERATOR INFRASTRUCTURE)
IMPROVEMENTS AND (2) TO ENCUMBER ITS)
REAL PROPERTY AND PLANT AS SECURITY)
FOR SUCH INDEBTEDNESS.)
_____)

DOCKET NO. W-01427A-09-0120

SURREBUTTAL TESTIMONY

OF

MARLIN SCOTT, JR

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

DECEMBER 17, 2009

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EXHIBIT MSJ -1

Engineering Memorandum for Financing Applications

**EXECUTIVE SUMMARY
LITCHFIELD PARK SERVICE COMPANY
DOCKET NO. SW-01428A-09-0103, ET AL**

Conclusion

- A. Staff concludes that the Litchfield Park Service Company ("Company") financing applications for capital projects in the amount of \$1,755,000 for a recharge well project and \$1,170,000 for a solar project are appropriate and the cost estimates are reasonable.

Recommendation

1. Staff recommends that the Company file with Docket Control, as a compliance item in the docket, by June 30, 2011, a copy of the Certificate for Approval to Construct for the recharge well project.

1 **INTRODUCTION**

2 **Q. Please state your name, place of employment and job title.**

3 A. My name is Marlin Scott, Jr. My place of employment is the Arizona Corporation
4 Commission ("Commission"), Utilities Division, 1200 West Washington Street, Phoenix,
5 Arizona 85007. My job title is Utilities Engineer.

6
7 **Q. Are you the same Marlin Scott, Jr. who submitted Direct Testimony on behalf of the**
8 **Utilities Division?**

9 A. Yes.

10
11 **Q. What was the purpose of that testimony?**

12 A. My Direct Testimony provided the Utilities Division Staff's ("Staff") engineering
13 evaluations of Litchfield Park Service Company – Water and Wastewater Divisions
14 ("Company") for the rate case proceedings.

15
16 **PURPOSE OF SURREBUTTAL**

17 **Q. What is the purpose of your Surrebuttal Testimony?**

18 A. At the time of Staff's Direct Testimony filing on November 4, 2009, I did not include the
19 engineering memorandum for the financing applications for Docket Nos. W-01427A-09-
20 0116 and W-0127A-09-0120. These financing cases were not consolidated with the rate
21 cases until November 23, 2009. Although Staff Witness – Jeff Michlik provided a
22 discussion of the financing applications in his Direct Testimony, beginning on Page 25, I
23 did not include my engineering memorandum. The filing of this Surrebuttal Testimony
24 will include my engineering memorandum for the financing cases.

25

1 **Q. What is the conclusion and recommendation for the financing cases?**

2 A. Staff concludes that the capital projects in the amount of \$1,755,000 for a recharge well
3 project and \$1,170,000 for a solar project are appropriate and the cost estimates are
4 reasonable.

5
6 Staff recommends that the Company file with Docket Control, as a compliance item in the
7 docket, by June 30, 2011, a copy of the Certificate for Approval to Construct for the
8 recharge well project.

9
10 **Q. Does this conclude your Surrebuttal Testimony?**

11 A. Yes.

MEMORANDUM

DATE: November 4, 2009

TO: Jeff Michlik
Public Utilities Analyst V
Utilities Division

FROM: Marlin Scott, Jr.
Utilities Engineer
Utilities Division

RE: Litchfield Park Service Company
Docket No. W-01427A-09-0116 (Financing for Recharge Wells)
Docket No. W-01427A-09-0120 (Financing for Solar Generator)

Introduction

On March 13, 2009, Litchfield Park Service Company ("Company") submitted two financing applications to assist in funding certain capital projects. One project, under Docket No. 09-0116 for the construction of two recharge wells, is estimated at \$1,755,000 and another project, under Docket No. 09-0120 for the construction of a 200 kW roof mounted solar generator, is estimated at \$1,170,000. The Company is requesting approval of funding for these two projects through the use of Water Infrastructure Financing Authority ("WIFA") indebtedness. The Company operates water and wastewater systems in Litchfield Park in Maricopa County.

Existing Systems

The existing water system consists of 12 wells (totaling 13,100 gallons per minute), two storage tanks (totaling 10.6 million gallons), three booster systems and a distribution system serving approximately 15,600 service connections.

The existing wastewater system consists of a 4.1 million gallon per day Water Reclamation Facility, two lift stations and a collection system serving approximately 14,400 service laterals.

Financing Applications

The Company is requesting WIFA financing approval in the amount of \$1,755,000 for a recharge well project and \$1,170,000 for a solar project with a cost breakdown for each capital project as follows:

A. Recharge Well Project:

1. Irrigation well purchases		\$700,000
a. Well 19E – 20” casing x 1,218 feet		
b. Well 19D – 16” casing x 992 feet		
2. Wellhead upgrades		\$400,000
a. Patch work	\$25,000	
b. Modify well seal	\$15,000	
c. Column, tube & shaft	\$80,000	
d. Electrical pump	\$50,000	
e. Electrical service	\$100,000	
f. Vault structure	\$60,000	
g. Control/SCADA	\$40,000	
h. Fencing	\$30,000	
3. Monitoring wells and samples		\$140,000
a. For Aquifer Protection Permits		
4. Engineering		\$40,000
5. Hydrogeology		\$50,000
6. Permitting – MCESD		\$5,000
7. Permitting – ADEQ/APP		\$60,000
8. Permitting – ADWR		\$35,000
9. Land purchase		\$40,000
a. 0.057 acres per site		
10. Permitting – Goodyear		\$60,000
11. Project management		\$59,500
12. Contingency at 10%		\$165,500

	Total:	\$1,755,000

Since the proposed Recharge Well Project will be used to recharge effluent, Staff asked why the Company filed its application through the water side and not the wastewater side. In response to a Staff data request, the Company stated that according to WIFA, if the application were viewed as a wastewater project under the Clean Water Act, no funding would be available. However, if the project were viewed as a water-related project, funding could be made available.

B. Solar Project:

1. Design		\$10,000
2. Solar panels		\$750,000
a. 1000 panels with a 200 kW generator		
3. Inverters		\$200,000
4. Electrical materials		\$50,000
5. Labor		\$50,000
6. General conditions		\$10,000
7. Profit		\$80,000

8. Contingency	\$20,000

Total:	\$1,170,000

For the above Solar Project, the Company is proposing to construct a 200 kW solar roof mounted power generation facility and associated electrical work to be located on the roof of the Airline Reservoir in order to reduce operating costs.

Staff concludes that the above two capital projects are appropriate and the cost estimate for each project is reasonable.

Compliance

The Maricopa County Environmental Services Department has reported the Company's water system has no major deficiencies and determined that this system is currently delivering water that meets water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4.

The Arizona Department of Environmental Quality ("ADEQ") has reported the Company's wastewater system was in total compliance with ADEQ regulations.

The Company is located in the Arizona Department of Water Resources' Phoenix Active Management Area and reported the Company's system is in compliance with its requirements governing water providers and/or community water systems.

The Utilities Division Compliance Section reported that the Company had no delinquent Commission compliance issues.

Conclusion/Recommendation

Staff concludes that the capital projects in the amount of \$1,755,000 for a recharge well project and \$1,170,000 for a solar project are appropriate and the cost estimates are reasonable. No "used and useful" determination of the proposed project items were made and no particular treatment should be inferred for rate making or rate base purposes in the future.

Staff recommends that the Company file with Docket Control, as a compliance item in the docket, by June 30, 2011, a copy of the Certificate for Approval to Construct for the recharge well project.