

**ORIGINAL**



0000107135

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24

KRISTIN K. MAYES  
CHAIRMAN  
GARY PIERCE  
COMMISSIONER  
SANDRA D. KENNEDY  
COMMISSIONER  
PAUL NEWMAN  
COMMISSIONER  
BOB STUMP  
COMMISSIONER

2010 FEB -4 1P 1:40

AZ CORP COMMISSION  
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF  
RIO RICO UTILITIES, INC., 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.

Docket No. WS-02676A-09-0257

Arizona Corporation Commission

**DOCKETED**

FEB - 4 2010

DOCKETED BY *MW*

**NOTICE OF ERRATA**

The Residential Utility Consumer Office ("RUCO") hereby files this Notice of Errata to the Direct Required Revenue Testimony of Timothy J. Coley, which was filed December 23, 2009, in the above-referenced matter.

Please substitute the attached corrected schedules (TJC-1, TJC-6, TJC-7, TJC-11 and TJC-16), and testimony pages (7, 42, 43 and 52-57).

RESPECTFULLY SUBMITTED this 4<sup>th</sup> day of February, 2010.

Daniel W. Pozefsky  
Chief Counsel

1 AN ORIGINAL AND THIRTEEN COPIES  
2 of the foregoing filed this 4<sup>th</sup> day  
3 of February, 2010 with:

3 Docket Control  
4 Arizona Corporation Commission  
5 1200 West Washington  
6 Phoenix, Arizona 85007

5 COPIES of the foregoing hand delivered/  
6 mailed this 4<sup>th</sup> day of February, 2010 to:

7 Jane L. Rodda  
8 Administrative Law Judge  
9 Hearing Division  
10 Arizona Corporation Commission  
11 100 W. Congress  
12 Tucson, Arizona 85701

10 Janice Alward, Chief Counsel  
11 Robin Mitchell, Counsel  
12 Legal Division  
13 Arizona Corporation Commission  
14 1200 West Washington  
15 Phoenix, Arizona 85007

14 Steven M. Olea, Director  
15 Utilities Division  
16 Arizona Corporation Commission  
17 1200 West Washington  
18 Phoenix, Arizona 85007

17 Jay L. Shapiro, Esq.  
18 Todd C. Wiley, Esq.  
19 Fennemore Craig, P.C.  
20 3003 N. Central Avenue  
21 Suite 2600  
22 Phoenix, AZ 85012

20 Michael Patten  
21 Roshka Heyman & DeWulf, PLC  
22 One Arizona Center  
23 400 E. Van Buren St. - 800  
24 Phoenix, Arizona 85004

BY   
Ernestine Gamble

1 **REVENUE REQUIREMENTS**

2 Q. Please summarize the results of RUCO's analysis of the Company's filing  
3 and state RUCO's recommended revenue requirement.

4 A. RUCO's analysis found many of the Company's financial statements (i.e.  
5 balance sheets) filed with the application and invoices provided in data  
6 responses to the various intervenors in the Algonquin related cases  
7 unreliable and without sufficient detail.

8  
9 RUCO's recommended fair value rate base is \$7,045,555 for the Water  
10 Division and \$2,937,595 for the Wastewater Division. Mr. Rigsby  
11 recommends a 9 percent return on common equity and an overall rate of  
12 return on fair value rate base of 7.90 percent.

13  
14 RUCO's recommended revenue requirements increase gross revenues by  
15 \$936,172 for the Water Division and decrease gross revenues in the  
16 amount of \$512,396 for the Wastewater Division. RUCO's recommended  
17 increase (decrease) in gross revenues represents a 49.95 percent  
18 increase and a (27.70) percent decrease in the Water and Wastewater  
19 Divisions respectively. The details are shown on Schedules TJC-1 and  
20 TJC-17.

1 Q. Are there any differences between RUCO's calculation of Property Tax  
2 Expense and the Company's calculation?

3 A. Yes. There are three differences. First, RUCO's adjusted test-year gross  
4 revenues are not the same as the Company due to an adjustment for  
5 Revenue Annualization nor is the proposed level of gross revenues the  
6 same because RUCO recommends a lower amount of an increase in  
7 rates. Second, RUCO's calculation includes an addition of 10 percent of  
8 the amount of Construction Work in Progress ("CWIP") that was booked  
9 during the test-year. Finally, RUCO has deducted a different amount of  
10 test-year net book value (See Schedule TJC-4, page 7) of the Company's  
11 vehicles.

12  
13 Q. What adjustments were necessary to reflect RUCO's differences in  
14 calculating the Property Tax Expense?

15 A. RUCO's adjustments decrease the Company's Property Tax Expense by  
16 \$30,780 and \$11,739 for the Water and Wastewater Divisions  
17 respectively.

18

19 **Operating Income Adj. #5 – Rate Case Expense**

20 Q. What level of Rate Case Expense is RRUI estimating in this case?

21 A. RRUI is estimating its Rate Case Expense to be \$210,000 for the Water  
22 Division and \$125,000 for the Wastewater Division. The Company

1 proposes that the Rate Case Expense be recovered over a three-year  
2 period.

3

4 Q. What level of rate case expense is RUCO recommending?

5 A. The last updated amount of invoiced Rate Case Expense that RUCO is  
6 aware of was \$41,307 through October 2009. That is approximately 12  
7 percent of the total \$335,000 estimated by the Company. At this time,  
8 RUCO has made an adjustment of 25 percent to the Company's total  
9 estimated Rate Case Expense for both the Water and Wastewater  
10 Divisions. RUCO is reserving its right to make further adjustments to the  
11 Company's estimates in surrebuttal testimony and final schedules. I will  
12 review the final rate case invoices and make a reasonable adjustment as  
13 this case proceeds.

14

15 Q. What adjustments are necessary to reflect RUCO's reasonable Rate  
16 Case Expense recommendations?

17 A. RUCO recommended three-year normalization of Rate Case Expense  
18 decreases the annual recovery by \$17,500 for the Water Division and  
19 \$10,417 for the Wastewater Division. The adjustments can be seen on  
20 Schedules TJC-12 for both the Water and Wastewater Divisions.

21

22

23

1 Q. What adjustments were necessary to smooth out the wide fluctuations  
2 reported in the Wastewater Division and to normalize the Water Division's  
3 Bad Debt Expense?

4 A. RUCO decreased the Wastewater Bad Debt Expense by \$30,315 and  
5 increased the Water Division's Bad Debt Expense by \$799. These  
6 adjustments are shown on Schedules TJC-15.

7

8 **Operating Income Adj. #10 – Income Tax Expense**

9 Q. Have you calculated the Income Tax Expenses based on RUCO's  
10 recommended adjusted operating incomes?

11 A. Yes. These adjustments are shown on Schedules TJC-16 for both the  
12 Water and Wastewater Divisions.

13

14 **OTHER ISSUES**

15 **Low-Income Program ("LIP")**

16 Q. Did RRUI propose a LIP for its service territory in this case?

17 A. Yes.

18

19 Q. Does RUCO support the Company's LIP as proposed?

20 A. RUCO generally supports LIP's and has reviewed RRUI's proposed LIP in  
21 this case. RUCO found the proposed program to be similar to what was  
22 approved in the most recent Chaparral City rate case. RUCO supports

1 the Company's proposed LIP in this case. The Company stated that all  
2 customers would have to subsidize the program accordingly.

3

4 **Hook Up Fee**

5 Q. What is RUCO's position on the Company's proposed new HUF tariff?

6 A. RUCO is in general agreement with most HUF tariffs that are intended to  
7 fund new infrastructure created by growth and assists in equitably  
8 apportioning the cost of off-site facilities. However, RUCO does not  
9 support the Company's proposed HUF tariff as filed.

10

11 Q. Why doesn't RUCO support the Company's proposed hook up fee ("HUF")  
12 tariff?

13 A. RUCO does not support the Company's HUF tariff because of certain  
14 language contained in the tariff and the Wastewater tariff is inconsistent  
15 with the amount of the HUF in the Company's testimony.

16

17 Q. What language in the HUF tariff is RUCO opposed?

18 A. Both the Water and Wastewater Divisions tariff state, "The Company shall  
19 not record amounts collected under this tariff as CIAC until such amounts  
20 have been expended for plant."

21

22 ...

1 Q. Please give RUCO's reasoning for which it is in opposition to that  
2 particular language.

3 A. CIAC is non-investor funded capital. From the day the Company collects  
4 the CIAC from the developer or customer, the Company has use of those  
5 funds to expend them as it wishes. CIAC also frees up the investor  
6 supplied capital to be expended on other investments. The CIAC balance  
7 at any given point in time is the amount that has been collected up to that  
8 point in time. Arizona ratemaking does not defer CIAC to be recorded at a  
9 later time in the future.

10

11 Q. Hasn't the Commission granted accounting orders that allowed a  
12 Company to not record CIAC until a particular item of plant that the CIAC  
13 is funding is fully constructed, operational, and in gross utility plant in  
14 service?

15 A. Yes. The Commission has approved accounting orders that allowed a  
16 company to not record CIAC until a "specific" piece of plant is fully  
17 constructed, operational, and in gross utility plant in service. Normally, the  
18 Commission approves such an accounting order only in extraordinary  
19 circumstances. RRUI's request is far from an extraordinary circumstance.  
20 In fact, the Company's request for this special treatment of CIAC is for  
21 quite ordinary purposes.

22 ...

1 Q. When did the Commission approve an accounting order that delayed the  
2 recording of collecting CIAC from non-investors?

3 A. A case that comes to mind is an Arizona-American Water Company's  
4 ("Arizona-American" or "AZ-AM") proceeding that involved construction of  
5 the White Tank Regional Treatment Plant?

6  
7 Q. What was the parties' positions regarding delaying the recording of CIAC  
8 until the plant was fully constructed, operational, and in gross utility plant  
9 in service?

10 A. Arizona-American requested an accounting order to delay the recording of  
11 CIAC associated only with the White Tank Water Treatment Plant, which  
12 was estimated to cost approximately \$74.8 Million and originally to be  
13 funded predominantly with CIAC. AZ-AM had planned on filing a rate  
14 case several years before the completion of the White Tank Plant that  
15 included the White Tank System. If the CIAC associated with the White  
16 Tank Plant had been recorded when collected, it would distort White  
17 Tanks' rate base because of the magnitude of the CIAC balance related to  
18 the specific plant item in question. The Commission granted approval of  
19 the accounting order, which delayed the recording of the associated CIAC,  
20 based primarily on the fact that it was indeed an extraordinary  
21 circumstance. RUCO was in support of the Company's request in that  
22 extraordinary instance.

23 ...

1 Q. Then, is it RUCO's position that without some extraordinary circumstance,  
2 which does not exist in RRUI's situation, the Commission should reject the  
3 Company's request to not record CIAC on its books until the CIAC has  
4 been expended for some generic plant?

5 A. Yes.

6

7 Q. If RRUI were to strike that sentence from its proposed HUF tariff, would  
8 RUCO be in support of the Company's HUF to be treated as CIAC?

9 A. Yes, with one clarification. The Company's proposed HUF tariffs for both  
10 the Water and Wastewater Divisions show the HUF to be \$1,800 for a 5/8  
11 inch meter. However, Mr. Sorensen's testimony indicates the Wastewater  
12 HUF to be \$2,000 on page 10, line 23 of his testimony. RUCO would like  
13 the Company to clarify if it is \$1,800 or \$2,000.

14

15 **Other Tariff Changes**

16 Q. What changes to new service line installations charges has RRUI  
17 proposed?

18 A. The Company proposed a change in the cost of new service lines. RRUI  
19 has proposed that all service line installation charges be at "cost" rather  
20 than the current stated tariff rates.

21

22 ...

1 Q. What is RUCO's position regarding that all service line installation charges  
2 be at "cost" rather than current stated tariff rates.

3 A. RUCO prefers that the current rates in the tariff be maintained. RUCO will  
4 defer this issue to Commission Staff engineers.

5

6 **Late Payment Finance Charge**

7 Q. Has the Company proposed a 1.5 percent late payment charge to be  
8 included in its tariff?

9 A. Yes.

10

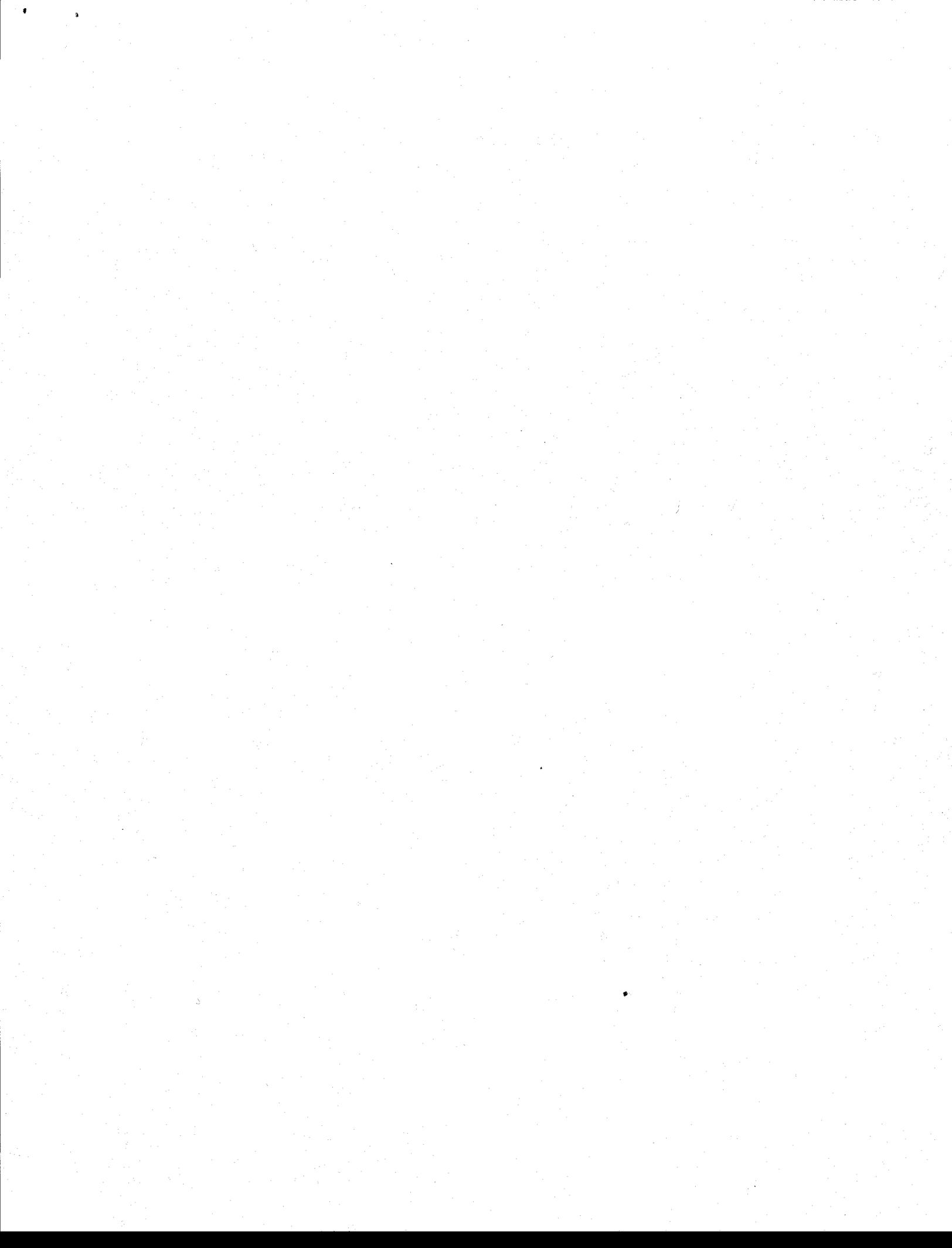
11 Q. Is RUCO in support of the Company's proposed 1.5 percent late payment  
12 charge?

13 A. Yes. This is a common charge found in many utility bills.

14

15 Q. Does this conclude your testimony?

16 A. Yes, it does.



REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Adjusted Original Cost/Fair Value Rate Base	\$ 3,516,078	\$ 2,937,595
2	Adjusted Operating Income (Loss)	\$ 490,676	\$ 546,804
3	Current Rate of Return (L2 / L1)	13.96%	18.61%
4	Required Operating Income (L5 X L1)	\$ 435,994	\$ 232,187
5	Required Rate of Return on Fair Value Rate Base	12.40%	7.90%
6	Operating Income Deficiency (L4 - L2)	\$ (54,682)	\$ (314,617)
7	Gross Revenue Conversion Factor (TJC-1, Page 2)	1.6286	1.6286
8	Required Increase in Gross Revenue Requirement (L7 X L6)	\$ (89,058)	\$ (512,396)
9	Adjusted Test Year Revenue	\$ 1,829,976	\$ 1,850,101
10	Proposed Annual Revenue (L8 + L9)	\$ 1,740,918	\$ 1,337,705
15	Required Percentage Increase in Revenue (L8 / L9)	-4.87%	-27.70%
16	Rate of Return on Common Equity	12.40%	9.00%

References:

Column (A): Company Schedules A-1 and C-1

Column (B): RUCO Schedule TJC-2, TJC-6, and TJC-17

**GROSS REVENUE CONVERSION FACTOR**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<b>CALCULATION OF GROSS REVENUE CONVERSION FACTOR:</b>					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.3860			
3	Subtotal (L1 - L2)	0.6140			
4	<b>Revenue Conversion Factor (L1 / L3)</b>	<b>1.6286</b>			
<b>CALCULATION OF EFFECTIVE TAX RATE:</b>					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	34.0000%			
9	Effective Federal Income Tax Rate (L7 X L8)	31.6309%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	38.5989%			
11	Required Operating Income (Sch. TJC-1, Pg 1, C (B), L4)	\$ 232,187			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. TJC-1, Pg 1, C (B), L2)	546,804			
13	Required Increase In Operating Income (L11 - L12)		\$ (314,617)		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 99,720			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	297,499			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ (197,779)		
17	Total Required Increase In Revenue (L13 + L16)		\$ (512,396)		
<b>RUCO</b>					
<b>Recommended</b>					
18	Revenue (Sch. TJC-1, Pg 1, Col. (B), L12)			\$ 1,337,705	
19	Operating Expense Excluding Income Tax (TJC-7, Col. (E), L27 - L22 - L23)			1,005,797	
20	Synchronized Interest (Col. (C), L37)			73,557	
21	Arizona Taxable Income (L18 - L19 - L20)			\$ 258,351	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				\$ 18,002
24	Fed. Taxable Income (L21 - L23)			\$ 240,349	
25	Fed. Tax on 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ -	
26	Fed. Tax on 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			\$ -	
27	Fed. Tax on 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			\$ -	
28	Fed. Tax on 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			\$ -	
29	Fed. Tax on 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			\$ 81,719	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)			\$ 81,719	
31	Combined Federal and State Income Tax (L23 + L30)			\$ 99,720	
32	Test Year Combined Income Tax, RUCO as Adjusted (TJC-7, Col. (C), L22 + L23)			\$ 297,499	
33	RUCO Adjustment (L31 - L32) (See TJC-6, Col. (D), L23)			\$ (197,779)	
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				34.00%
<b>CALCULATION OF INTEREST SYNCHRONIZATION:</b>					
35	Rate Base (Sch. TJC-2, Col. (C), L17)			\$ 2,937,595	
				2.50%	
				\$ 73,557	

**OPERATING INCOME**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJM'TS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
<b>Revenues:</b>						
1	Metered Water Revenues	\$ 1,829,726	\$ 20,125	\$ 1,849,851	\$ (512,396)	\$ 1,337,455
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Water Revenues	250	-	250	-	250
4	<b>Total Revenues</b>	<b>\$ 1,829,976</b>	<b>\$ 20,125</b>	<b>\$ 1,850,101</b>	<b>\$ (512,396)</b>	<b>\$ 1,337,705</b>
<b>Operating Expenses:</b>						
5	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -
6	Purchased Water and WW Treatment	-	-	-	-	-
7	Purchased Power	17,426	49,699	67,125	-	67,125
8	Fuel for Power Production	-	-	-	-	-
9	Chemicals	9,644	-	9,644	-	9,644
10	Materials & Supplies	14,304	-	14,304	-	14,304
11	Contractual Services	298,008	(31,637)	266,371	-	266,371
12	Outside Services - Other	175,196	-	175,196	-	175,196
13	Outside Services - Legal	367	-	367	-	367
14	Equipment Rental	25,781	-	25,781	-	25,781
15	Rents - Building	-	-	-	-	-
16	Transportation Expenses	26,817	-	26,817	-	26,817
17	Insurance - General Liability	12,021	-	12,021	-	12,021
18	Insurance - Vehicle	-	-	-	-	-
19	Regulatory Commission Expense	994	-	994	-	994
20	Reg. Comm. Exp. - Rate Case	41,667	(10,417)	31,250	-	31,250
21	Miscellaneous Expense	155	-	155	-	155
22	Bad Debt Expense	64,087	(30,315)	33,772	-	33,772
23	Depreciation and Amortization	252,672	9,361	262,033	-	262,033
24	Taxes Other Than Income	-	-	-	-	-
25	Property Taxes	91,705	(11,739)	79,966	-	79,966
26	Federal Income Tax	252,773	(8,979)	243,794	(162,075)	81,719
27	State Income Tax	55,684	(1,978)	53,706	(35,704)	18,002
28	<b>Total Operating Expenses</b>	<b>\$ 1,339,300</b>	<b>\$ (36,003)</b>	<b>\$ 1,303,296</b>	<b>\$ (197,779)</b>	<b>\$ 1,105,517</b>
29	<b>Operating Income</b>	<b>\$ 490,676</b>	<b>\$ 56,128</b>	<b>\$ 546,804</b>	<b>\$ (314,617)</b>	<b>\$ 232,187</b>

**References:**

- Column (A): Company Schedule C-1
- Column (B): Schedule TJC-7, Columns (B) Thru (K)
- Column (C): Column (A) + Column (B)
- Column (D): TJC-1, pages 1 and 2
- Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS  
TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJMT NO. 1 REVENUE ANNUAL/TN	(C) ADJMT NO. 2 PURCHASED POWER	(D) ADJMT NO. 3 DEPRECIATION EXPENSE	(E) ADJMT NO. 4 PROPERTY TAX	(F) ADJMT NO. 5 RATE CASE EXPENSE	(G) ADJMT NO. 6 MISCELL EXPENSE	(H) ADJMT NO. 7 PURCH. POWER PER GB 3.8	(I) ADJMT NO. 8 CORPORATE ALLOCATION	(J) ADJMT NO. 9 BAD DEBT EXPENSE	(K) ADJMT NO. 10 INCOME TAXES	(L) RUCO AS ADJTD.
1	Revenues:												
2	Metered Water Revenues	\$ 1,829,726	\$ 20,125										\$ 1,849,851
3	Unmetered Water Revenues	250											250
4	Other Water Revenues	\$ 1,829,976	\$ 20,125										\$ 1,850,101
5	Operating Expenses:												
6	Salaries and Wages												
7	Purchased Water and WW Treatment												
8	Purchased Power	17,426		1,664					48,005				
9	Fuel for Power Production												
10	Chemicals	9,644											67,125
11	Materials & Supplies	14,304											9,644
12	Maintenance Services	298,008											14,304
13	Outside Services - Other	175,186											286,371
14	Outside Services - Legal	367											175,186
15	Equipment Rental	25,781											367
16	Rents - Building	26,817											25,781
17	Transportation Expenses	12,021											26,817
18	Insurance - General Liability	984											12,021
19	Insurance - Vehicle	41,667											984
20	Regulatory Commission Expense	155											41,667
21	Reg. Comm. Exp. - Rate Case	84,087					(10,417)						155
22	Miscellaneous Expense	252,672											84,087
23	Bad Debt Expense	91,705			8,381						(30,315)		252,672
24	Depreciation and Amortization	252,773											91,705
25	Taxes Other Than Income	55,684				(11,739)							252,773
26	Property Taxes	1,694		1,694									55,684
27	Federal Income Tax	487,676		(1,694)	9,381		(10,417)		48,005	(31,637)		(8,979)	487,676
28	State Income Tax			(1,694)	(9,381)				(48,005)			(10,957)	
29	Total Operating Expenses	\$ 487,676	\$ 20,125	\$ (1,694)	\$ (9,381)	\$ (11,739)	\$ (10,417)	\$ -	\$ (48,005)	\$ (31,637)	\$ (30,315)	\$ (10,957)	\$ 1,303,296
	Operating Income												\$ 546,804

- ADJUSTMENTS:
- 1 - Revenue Annualization
  - 2 - Purchased Power Expense Increase and Annualization
  - 3 - Depreciation Expense
  - 4 - Property Tax Expense
  - 5 - Rate Case Expense
  - 6 - Intentionally Left Blank
  - 7 - Purchased Power Expense Per Staff DR GB 3.8
  - 8 - Corporate Allocations
  - 9 - Bad Debt Expense
  - 10 - Income Taxes

REFERENCE:

- TJC Testimony and Schedule TJC-9 Pages 1 thru 16
- TJC Testimony and Schedule TJC-9
- TJC Testimony and Schedule TJC-10
- TJC Testimony and Schedule TJC-11
- TJC Testimony and Schedule TJC-12
- TJC Testimony and Schedule TJC-12
- TJC Testimony and Schedule TJC-12
- TJC Testimony and Schedule TJC-14
- TJC Testimony and Schedule TJC-15
- TJC Testimony and Schedule TJC-16

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 4  
PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Adjusted Revenues In Year Ended December 2007	Sch. TJC-7, Col (C), Ln 8	\$ 1,850,101	
2	Adjusted Revenues In Year Ended December 2007	Sch. TJC-7, Col (C), Ln 8	1,850,101	
3	Proposed Revenues	Sch. TJC-7, Col (E), Ln 8	1,337,705	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 5,037,906	
5	Average Annual Operating Revenues	Line 4 / 3	1,679,302	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 3,358,604
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Company Schedule E	\$ 28,150	
8	10% Of CWIP	Line 7 X 10%		\$ 2,815
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	RUCO Plant Schedule TJC-4	\$ -	
10	Acc. Dep. Of Transportation Equipment	RUCO Plant Schedule TJC-4	-	
11	Net Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 3,361,419
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	21.0%	
14	Assessed Value	Line 12 X Line 13	\$ 705,898	
Property Tax Rates:				
15	Primary Tax Rate	Company Workpapers	11.3283%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	11.33%	
	Property Tax			\$ 79,966
	Tax On Parcel			-
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 79,966
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		91,705
20	Decrease In Property Tax Expense	Line 18 - Line 19		\$ (11,739)
		Line 20		\$ (11,739)

**OPERATING INCOME ADJUSTMENT #10  
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
<b>FEDERAL INCOME TAXES:</b>			
1	Operating Income Before Taxes	Sch. TJC-7, Column (C), L28 + L22 + L23	\$ 844,304
LESS:			
2	Arizona State Tax	Line 11	53,706
3	Interest Expense	Note (A) Line 21	73,557
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ 717,041
5	Federal Tax Rate	Sch. TJC-1, Pg 2, Col. (D), L34	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	\$ 243,794
<b>STATE INCOME TAXES:</b>			
7	Operating Income Before Taxes	Line 1	\$ 844,304
LESS:			
8	Interest Expense	Note (A) Line 21	73,557
9	State Taxable Income	Line 7 - Line 8	\$ 770,746
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ 53,706
<b>TOTAL INCOME TAX EXPENSE:</b>			
12	Federal Income Tax Expense	Line 6	\$ 243,794
13	State Income Tax Expense	Line 11	53,706
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ 297,499
15	Total Federal Income Tax Expense Per Company (Per Company Sch. C-1, L28)		252,773
16	Total State Income Tax Expense Per Company (Per Company Sch. C-1, L28)		55,684
17	RUCO Federal Income Tax Adjustment	Line 12 - Line 15	\$ (8,979)
18	RUCO State Income Tax Adjustment	Line 13 - Line 16	\$ (1,978)

NOTE (A):

Interest Synchronization:

19	Adjusted Rate Base (Sch. TJC-2, Col. (H), L17)	\$ 2,937,595
20	Weighted Cost Of Debt (Sch. TJC-16 Col. (F), L1)	2.50%
		\$ 73,557