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**BEFORE THE ARIZONA CORPORATION COMMISSION**

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8 IN THE MATTER OF THE APPLICATION OF  
 9 RIO RICO UTILITIES, INC., AN ARIZONA  
 10 CORPORATION, FOR A DETERMINATION  
 11 OF THE FAIR VALUE OF ITS UTILITY  
 12 PLANTS AND PROPERTY AND FOR  
 13 INCREASES IN ITS WATER AND  
 14 WASTEWATER RATES AND CHARGES  
 15 FOR UTILITY SERVICE BASED THEREON.

Docket No. WS-02676A-09-0257

Arizona Corporation Commission  
**DOCKETED**

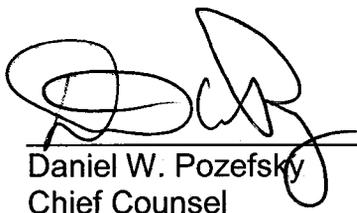
FEB 24 2010



**NOTICE OF FILING  
SURREBUTTAL TESTIMONY**

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the Surrebittal Testimony of William A. Rigsby, CRRA, and Timothy J. Coley, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 24<sup>th</sup> day of February, 2010.

21 

22 \_\_\_\_\_

23 Daniel W. Pozefsky

24 Chief Counsel

1 AN ORIGINAL AND THIRTEEN COPIES  
2 of the foregoing filed this 24<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 24<sup>th</sup> day of February, 2010 to:

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By   
Ernestine Gamble

**RIO RICO UTILITIES, INC.**

**DOCKET NO. WS-02676A-08-09-0257**

**SURREBUTTAL TESTIMONY**

**OF**

**WILLIAM A. RIGSBY, CRRA**

**ON BEHALF OF**

**THE**

**RESIDENTIAL UTILITY CONSUMER OFFICE**

**FEBRUARY 24, 2010**

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ATTACHMENT A

1 **INTRODUCTION**

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

3 A. My name is William A. Rigsby. I am a Public Utilities Analyst V employed  
4 by the Residential Utility Consumer Office ("RUCO") located at 1110 W.  
5 Washington, Suite 220, Phoenix, Arizona 85007.

6

7 Q. Please state the purpose of your surrebuttal testimony.

8 A. The purpose of my testimony is to respond to Rio Rico Utilities, Inc.'s  
9 ("RRUI" or "Company") rebuttal testimony on RUCO's recommended rate  
10 of return on invested capital (which includes RUCO's recommended  
11 capital structure, cost of long-term debt and cost of common equity) for the  
12 Company's water and wastewater operations in Santa Cruz County,  
13 Arizona.

14

15 Q. Have you filed any prior testimony in this case on behalf of RUCO?

16 A. Yes, on December 15, 2009, I filed direct testimony with the Arizona  
17 Corporation Commission ("ACC" or "Commission") on the cost of capital  
18 issues associated with this case.

19

20 Q. How is your surrebuttal testimony on cost of capital organized?

21 A. My surrebuttal testimony contains seven parts: the introduction that I have  
22 just presented; a summary of RRUI's rebuttal testimony; a section on my  
23 sample utilities; a section on my CAPM analysis; a section on my

1 recommended capital structure; a section on my recommended cost of  
2 debt; and, a section on my DCF analysis.

3

4 **SUMMARY OF RRUI's REBUTTAL TESTIMONY**

5 Q. Have you reviewed RRUI's rebuttal testimony?

6 A. Yes. I have reviewed the rebuttal testimony of Company witnesses  
7 Thomas J. Bourassa, filed on February 1, 2010, which addresses the cost  
8 of capital issues in this case.

9

10 Q. Please summarize the Company's rebuttal testimony.

11 A. In his rebuttal testimony, Mr. Bourassa argues that my cost of equity figure  
12 should not be adopted by the Commission because he believes that it is  
13 too low for a "small" utility such as RRUI. Mr. Bourassa is critical of the  
14 utilities used in my proxy groups and the CAPM analysis that I conducted  
15 in order to arrive at my recommended cost of common equity for RRUI in  
16 this case. Mr. Bourassa also takes issue with my recommended  
17 hypothetical capital structure, my hypothetical cost of debt and the internal  
18 sustainable growth estimates used in my DCF analysis.

19

20 Q. Has RUCO revised its recommended cost of common equity based on  
21 your review of the Company's rebuttal testimony?

22 A. No.

23

1 Q. Has Mr. Bourassa made any changes to his recommended cost of equity  
2 capital?

3 A. Yes. Mr. Bourassa has decreased his original recommended return on  
4 common equity from 12.40 percent to 11.70 percent.

5

6 Q. What costs of equity capital are the parties to the case recommending?

7 A. The costs of common equity presently being recommended by RRUI, ACC  
8 Staff and RUCO are as follows:

9

10	RRUI	11.70%
11	ACC Staff	9.20%
12	RUCO	9.00%

13

14 Q. What are the weighted average costs of capital ("WACC") presently being  
15 recommended by the Company, ACC Staff and RUCO?

16 A. The WACC presently being recommended by the RRUI, ACC Staff and  
17 RUCO are as follows:

18

19	RRUI	11.70%
20	ACC Staff	9.20%
21	RUCO	7.90%

22

1 As can be seen above, there is presently a 380 basis point difference  
2 between the Company-proposed 11.70 percent WACC and RUCO's  
3 recommended WACC of 7.90 percent. The difference between ACC Staff  
4 witness Juan C. Manrique's recommended WACC and my  
5 recommendation is 130 basis points.

6

7 Q. Has there been any recent activity in regard to interest rates?

8 A. Yes. On January 27, 2010, the Federal Reserve decided not to increase  
9 or decrease the federal funds rate and kept it between zero and 0.25  
10 percent. According to an article<sup>1</sup> that appeared in The Wall Street Journal  
11 on Wednesday, January 27, 2010, the Federal Reserve affirmed its plan  
12 to keep interest rates near zero for an extended period, possibly meaning  
13 several more months.

14

15 **SAMPLE UTILITIES**

16 Q. Do you believe, as Mr. Bourassa does, that Southwest Water Company  
17 ("SWWC") should have been excluded from your sample based on its  
18 percentage of revenues from water utility services as pointed out by  
19 Company witness Bourassa?

20 A. No. I disagree with Mr. Bourassa's assertion that my estimates are biased  
21 downward because I have included SWWC. While it is true that Value  
22 Line suspended SWWC from its water industry segment for a period of

---

<sup>1</sup> Hilsenrath, Jon, "More Upbeat Fed Keeps Rates Low," The Wall Street Journal, January 27, 2010.

1 time while it restated its financials for prior operating periods, Value Line is  
2 now including SWWC in its regular quarterly updates. The fact that  
3 SWWC is not doing as well financially as the other companies in my proxy  
4 is not a valid reason to ignore it, since all companies vary to some degree  
5 in their ability to generate earnings. In fact, SWWC's higher beta actually  
6 contributes to a higher expected return in the CAPM model. SWWC's  
7 revenues and earnings from its non-regulated services group are derived  
8 from activities that are closely related to the provision of regulated water  
9 and wastewater services (i.e. equipment maintenance and repair, sewer  
10 pipeline cleaning, billing and collection services, and state-certified water  
11 and wastewater laboratory analysis on a contract basis) as opposed to  
12 highly speculative activities that are totally unrelated to the water and  
13 wastewater industry. It should be pointed out that American States Water  
14 Company, which Mr. Bourassa and I included in our water company  
15 samples, is not a pure water provider either. American States Water  
16 Company not only provides electric service in California's Big Bear area,  
17 but also provides unregulated contract water and wastewater services to  
18 various military installations around the country.

19  
20 Q. Do you still believe that your use of a sample of natural gas LDC's is  
21 appropriate despite Mr. Bourassa's arguments to the contrary?

22 Y. Yes.

23

1 Q. Please explain why you believe it is appropriate to use a sample group of  
2 natural gas LDC's to estimate the cost of equity capital in a water utility  
3 rate case proceeding.

4 A. For the most part, natural gas LDC's have very similar operating  
5 and distribution characteristics with water companies such as RRUI  
6 and are therefore a good proxy for water and wastewater utility cost  
7 of capital studies. Their inclusion also provides a larger sample to  
8 obtain an estimate from.

9

10 Q. Have other analysts used natural gas LDC's as proxies in water utility rate  
11 case proceedings before the ACC?

12 A. Yes, in the Arizona-American Water Company (Arizona-American) rate  
13 case that is now pending before the Commission, the cost of capital  
14 witness for Arizona-American also relied on a sample group of natural gas  
15 LDC's.

16

17 Q. Do you believe that an upward adjustment is needed for your  
18 recommended cost of equity given your use of a sample group of LDC's  
19 that have a lower average beta than the one calculated for your sample  
20 group of water utilities?

21 A. No. Given the current state of the economy (an issue which Mr. Bourassa  
22 also believes justifies higher rates of return) I believe that my  
23 recommended 9.00 percent cost of equity is actually generous.

1 Q. Please explain why you believe that your recommended 9.00 percent cost  
2 of equity is actually generous.

3 A. It is no secret that since the recent downturn in the economy has occurred  
4 there has been a "flight to quality" by investors who have pulled their funds  
5 out of the equity markets and have put them into U.S. Treasury  
6 instruments, which are yielding next to nothing, in order to avoid any  
7 further loss of capital. If investors are willing to accept lower yields on  
8 Treasury instruments that are ranging from 0.06 percent, on a 91-day T-  
9 bill, to 4.26 percent, on a long-term 30-year Treasury bond (Attachment  
10 A), then Mr. Bourassa's proposed 12.40 percent cost of equity figure is  
11 clearly excessive given that water utilities and natural gas LDC's are  
12 currently being viewed as safe investments for income oriented investors.

13  
14 Q. Can you back up your statement that water utilities and natural gas LDC's  
15 are currently being viewed as safe investments during an economic  
16 downturn that is just now showing signs of recovery?

17 A. Yes. In the October 23, 2009 Value Line update on the water utility  
18 industry, analyst Andre J. Costanza had this to say:

19 This industry is a good place for cautious investors looking to park  
20 themselves until a sustained market recovery is evident. Water  
21 utility stocks are historically more recession proof than the broader  
22 market, with their steady dividend growth reducing turbulence in  
23 share price and padding returns.  
24  
25

26 ...

27

1 Q. What is Value Line's view on natural gas LDC's?

2 A. Value Line analyst Richard Gallagher had this to say in the September 11,  
3 2009 natural gas utility update:

4 Still, risk-averse investors may want to consider this group if the  
5 economic recovery stalls. Natural gas utilities tend to be a solid  
6 defensive play when the stock market is faltering.  
7

8 While it is true that some investors will look for higher returns as the  
9 economy improves, utility stocks will still remain attractive to income-  
10 oriented investors who place more importance on dividends over capital  
11 appreciation.  
12

13 Q. Are there other reasons you can cite as to why you think that a higher  
14 return is not needed to attract investors?

15 A. Yes. One has to take into consideration that the investment community at  
16 large is well aware of the fact that regulated utilities, such as RRUI, are  
17 indeed different from non-regulated entities in terms of how they recover  
18 their costs. This information is taken into account when institutions and  
19 individual investors make their decisions on where to place their funds.  
20 The best example of this can be seen in an MSN Money/CNBC article<sup>2</sup>  
21 authored by Jon D. Markman, a weekly columnist for CNBC (Attachment  
22 B). In his article, Mr. Markman pitched his suggestions for investing in

---

<sup>2</sup> Markman, Jon D, "Invest in the Coming Global Water Shortage," MSN.com, January 12, 2005, <http://moneycentral.msn.com/content/P102152.asp>.



1 Q. Can you provide an example to illustrate the differences between the two  
2 averages?

3 A. Yes. The following example may help. Suppose you invest \$100 and  
4 realize a 20.0 percent return over the course of a year. So at the end of  
5 year 1, your original \$100 investment is now worth \$120. Now let's say  
6 that over the course of a second year you are not as fortunate and the  
7 value of your investment falls by 20.0 percent. As a result of this, the  
8 \$120 value of your original \$100 investment falls to \$96. An arithmetic  
9 mean of the return on your investment over the two-year period is zero  
10 percent calculated as follows:

11  
12 
$$(\text{year 1 return} + \text{year 2 return}) \div \text{number of periods} =$$

13 
$$(20.0\% + -20.0\%) \div 2 =$$

14 
$$(0.0\%) \div 2 = \underline{0.0\%}$$

15  
16 The arithmetic mean calculated above would lead you to believe that you  
17 didn't gain or lose anything over the two-year investment period and that  
18 your original \$100 investment is still worth \$100. But in reality, your  
19 original \$100 investment is only worth \$96. A geometric mean on the  
20 other hand calculates a compound return of negative 2.02 percent as  
21 follows:

22

23

1                   ( year 2 value ÷ original value )<sup>1/number of periods</sup> - 1 =  
2   ( \$96 ÷ \$100 )<sup>1/2</sup> - 1 =  
3   ( 0.96 )<sup>1/2</sup> - 1 =  
4   ( 0.9798 ) - 1 =  
5   -0.0202 = -2.02%  
6

7                   The geometric mean calculation illustrated above provides a truer picture  
8                   of what happened to your original \$100 over the two-year investment  
9                   period.

10                   As can be seen in the preceding example, in a situation where return  
11                   variability exists, a geometric mean will always be lower than an arithmetic  
12                   mean, which probably explains why utility consultants typically put up a  
13                   strenuous argument against the use of a geometric mean.

14  
15                   Q.    Has the Commission authorized rates of return that were derived through  
16                   the use of both arithmetic and geometric means in prior decisions?

17                   A.    Yes.  A case that specifically comes to mind involved another UniSource  
18                   Energy subsidiary, UNS Gas Inc., in which Decision No. 70011, dated  
19                   November 27, 2007, stated the following:

20   "We agree with the Staff and RUCO witnesses that it is appropriate  
21   to consider the geometric returns in calculating a comparable  
22   company CAPM because to do otherwise would fail to give  
23   recognition to the fact that many investors have access to such  
24   information for purposes of making investment decisions."  
25

1           In the UNS Gas, Inc. case, the ACC Staff witness was Mr. David C.  
2           Parcell, who, as I do, consistently relies on both arithmetic and geometric  
3           means in our CAPM analyses.

4

5   Q.    Can you cite any other evidence that supports your use of both a  
6           geometric and an arithmetic mean?

7   A.    Yes. In the third edition of their book, Valuation: Measuring and Managing  
8           the Value of Companies, authors Tom Copeland, Tim Koller and Jack  
9           Murrin ("CKM") make the point that, while the arithmetic mean has been  
10          regarded as being more forward-looking in determining market risk  
11          premiums, a true market risk premium may lie somewhere between the  
12          arithmetic and geometric averages published in Morningstar's SBBI  
13          yearbook.

14

15   Q.    Please explain.

16   A.    In order to believe that the results produced by the arithmetic mean are  
17          appropriate, you have to believe that each return possibility included in the  
18          calculation is an independent draw. However research conducted by  
19          CKM demonstrates that year-to-year returns are not independent and are  
20          actually auto correlated (i.e. a relationship that exists between two or more  
21          returns, such that when one return changes, the other, or others, also  
22          change), meaning that the arithmetic mean has less credence. CKM also  
23          explains two other factors that would make the Morningstar arithmetic

1 mean too high. The first factor deals with the holding period. The  
2 arithmetic mean depends on the length of the holding period and there is  
3 no "law" that says that holding periods of one year are the "correct"  
4 measure. When longer periods (e.g. 2 years, 3 years etc.) are observed,  
5 the arithmetic mean drops about 100 basis points. The second factor  
6 deals with a situation known as survivor bias. According to CKM, this is a  
7 well-documented problem with the Morningstar historical return series in  
8 that it only measures the returns of successful firms. That is, those firms  
9 that are listed on stock exchanges. The Morningstar historical return  
10 series does not measure the failures, of which there are many. Therefore,  
11 the return expectations in the future are likely to be lower than the  
12 Morningstar historical averages. After conducting their analysis, CKM  
13 conclude that 4.0 percent to 5.5 percent is a reasonable forward-looking  
14 market risk premium. Adding my 2.26 percent risk free yield on a 5-year  
15 Treasury instrument to these two estimates indicate a cost of equity of  
16 6.26 percent to 7.76 percent which is lower than my recommended cost of  
17 equity of 9.00 percent. Given the fact that utilities generally exhibit less  
18 risk than industrials, a return in the low end of this range could be  
19 considered reasonable.

20  
21  
22 ...  
23

1 Q. Is Mr. Bourassa correct in his assertion that you did not use the  
2 appropriate inputs to calculate a market risk premium in your CAPM  
3 model?

4 A. No. Despite Mr. Bourassa's assertion, I have used an appropriate  
5 Treasury instrument to calculate the risk premium in my CAPM model.  
6 The risk premium that I have calculated has also been calculated in the  
7 same manner by both ACC Staff and other cost of capital witnesses  
8 whose cost of capital recommendations have been adopted by the  
9 Commission. Mr. Bourassa's assertion that I should not have used total  
10 returns in the market risk premium component of the CAPM is unfounded.  
11 While it is true that investors are typically attracted to utility stocks for their  
12 income needs, it is simply not rational to think that they would not expect  
13 some capital gains as well. The use of income returns totally ignores the  
14 fact that bond prices do indeed fluctuate as a result of interest rate  
15 changes – as do interest sensitive utility stock prices. For this reason I  
16 believe Mr. Bourassa's reliance on income returns is unrealistic at best.

17  
18 Q. Please address Mr. Bourassa's criticism of your use of a 5-year Treasury  
19 yields and intermediate-term securities in your CAPM analysis.

20 A. Mr. Bourassa believes that long-term treasury instruments, with higher  
21 yields, should be used in the CAPM. However, Utilities do not apply for  
22 rate relief every thirty years and regulators do not set rates for thirty-year  
23 periods. The simple fact is that utilities generally apply for rate relief every

1 three to five years and utility investors are aware of this fact. For this  
2 reason I believe the use of long-term treasury yields overstate the cost of  
3 equity capital.

4

5 Q. Please comment on Mr. Bourassa's argument that you have ignored the  
6 current risk premium?

7 A. The fact that we are now experiencing an improving economy and a  
8 resurgence in the equity markets pretty much makes this argument passé.

9 As I have argued in prior cases, the historical market risk premium that I  
10 have relied on takes into account a wide range of economic conditions  
11 from 1926 through 2008. In short, the economy is slowly getting back to  
12 normal and there is no good reason to believe that the excessive market  
13 risk premium of 13.1 percent that Mr. Bourassa is proposing is realistic for  
14 setting rates in this case. As I stated earlier, the analysis conducted by  
15 CKM concluded that 4.0 percent to 5.5 percent is a reasonable forward-  
16 looking market risk premium.

17

18 Q. Can you name any other sources that support CKM's conclusion that 4.0  
19 percent to 5.5 percent is a reasonable market risk premium on a forward-  
20 looking basis?

21 A. Yes. During the 39<sup>th</sup> annual Financial Forum of the Society of Utility and  
22 Regulatory Financial Analysts, which was held at Georgetown University  
23 in Washington D.C. on April 19 and 20, 2007, I had the opportunity to hear

1 the views of Aswarth Damodaran, Ph. D. and Felicia C. Marston, Ph. D.,  
2 professors of finance from New York University and the University of  
3 Virginia respectively, who have conducted empirical research on this  
4 subject. Dr. Damodaran and Dr. Marston supported CKM's 4.0 to 5.5  
5 percent estimates during a panel discussion that provided both professors  
6 with the opportunity to explain their research on the equity risk premium  
7 and to answer questions from other financial analysts in attendance. Each  
8 of the panelists<sup>3</sup> stated that they believed that a reasonable market risk  
9 premium fell between 4.0 percent and 5.0 percent when asked to provide  
10 estimates based on their research.

11  
12 Q. If market risk premiums of 4.0 percent to 5.0 percent were used in your  
13 CAPM model what would the results be?

14 A. Using market risk premiums ( $r_m - r_f$ ) of 4.0 percent to 5.0 percent in my  
15 CAPM model, using a proxy of water companies, produces the following  
16 expected returns (k):

17  
18 Water Company Sample using 4.0 percent

19 
$$k = r_f + [ \beta (r_m - r_f) ]$$

20 
$$k = 2.26\% + [ 0.83 (4.0\%) ]$$

21 
$$k = 5.58\%$$

<sup>3</sup> Other analysts taking part in the panel discussion included Stephen G. Hill, CRRA, Principal, Hill Associates and moderator Farris M. Maddox, Principal Financial Analyst, Virginia State Corporation Commission.

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Water Company Sample using 5.0 percent

$$k = r_f + [ \beta (r_m - r_f) ]$$

$$k = 2.26\% + [ 0.83 (5.0\%) ]$$

$$k = 6.41\%$$

As can be seen above, my CAPM model, using a water company sample average beta ( $\beta$ ) of 0.83 and the yield on a 5-year Treasury instrument of 2.26 percent for the risk free rate of return ( $r_f$ ), produces an expected return ( $k$ ) of 5.58 percent to 6.41 percent. My LDC sample, using an average beta of 0.67, produces expected returns of 4.94 percent to 5.61 percent. All of which makes my recommended 9.00 percent cost of common equity appear to be more than generous.

Q. Do you have any data that supports a 4.00 percent to 5.0 percent equity risk premium during the market crises which unfolded in September of 2008?

A. Yes. In September 2008 Dr. Damodaran, who I noted earlier in my testimony, presented a paper titled Equity Risk Premium (ERP): Determinants, Estimation and Implications, which contained an October update that presented data on the swings in implied equity risk premium that occurred between September 12, 2008 and October 16, 2008. During that time frame, implied equity risk premiums ranged from 4.20 percent to 6.39 percent. The 5.30 percent mean average of that range is only 15

1 basis points higher than the 5.15 percent average of my market risk  
2 premium using both geometric and arithmetic means.

3

4 Q. Please respond to Mr. Bourassa's argument that your overall CAPM  
5 results are below the current yields on Baa/BBB debt instruments.

6 A. I am not recommending that the Commission adopt my CAPM results but I  
7 am not recommending that the Commission ignore my CAPM results  
8 either. What I am recommending is a cost of common equity of 9.00  
9 percent which is 202 to 269 basis points over the most recent yields of  
10 6.34 percent to 5.80 percent for Baa/BBB-rated and A-rated utility bonds  
11 respectively. The results of my CAPM analyses (using both arithmetic and  
12 geometric means) are simply reflecting the current environment of low  
13 interest rates which cannot be ignored. From the perspective that public  
14 utilities have traditionally been viewed as safe investments, and all things  
15 being equal, it is not reasonable to believe that their costs of equity capital  
16 should be at the 11.70 percent level advocated by Mr. Bourassa.

17

18 Q. Isn't it also true that common shareholders bear a higher risk than bond  
19 holders and expect a higher return than the yields of utility debt  
20 instruments?

21 A. Yes. I do not disagree on this point. However, the question is how much  
22 more of a risk premium is merited for a low risk regulated monopoly such  
23 as RRUI, particularly at a time when interest rates are still at historic lows.

1 **CAPITAL STRUCTURE**

2 Q. Have you made any changes to your recommended hypothetical capital  
3 structure?

4 A. No. For the reasons explained in my direct testimony, I am still  
5 recommending that the Commission adopt my recommended hypothetical  
6 capital structure for RRUI.

7  
8 Q. Please compare the capital structure recommendations of RRUI, ACC  
9 Staff and RUCO.

10 A. A comparison of RRUI, ACC Staff and RUCO's capital structures are as  
11 follows:

12  
13

	<u>RRUI</u>	<u>ACC Staff</u>	<u>RUCO</u>
14 Long-Term Debt	0.00%	0.00%	40.00%
15 Common Equity	100.00%	100.00%	60.00%

16  
17

18 ...

19

20

1 Q. Has Mr. Bourassa's rebuttal testimony persuaded you to change your  
2 recommended hypothetical capital structure?

3 A. No.

4  
5 Q. Why are you recommending a hypothetical capital structure as opposed to  
6 using the Hamada method used by ACC Staff?

7 A. Because the Hamada adjustment fails to produce a weighted cost of debt  
8 that can be used in an interest synchronization calculation to determine an  
9 appropriate level of income tax expense. As a result of this situation,  
10 ratepayers will pay for income taxes that do not recognize any of the  
11 benefits of debt financing.

12  
13 Q. Please explain why you believe that income tax expense should reflect the  
14 effects of hypothetical debt?

15 A. I believe it is a question of fairness to ratepayers. The use of the Hamada  
16 methodology does not produce an appropriate interest deduction that is  
17 reflective of a capital structure that contains debt. The use of debt to  
18 reduce income taxes is often referred to as a tax shield and one of the  
19 reasons that firms assume debt is because of the tax advantages  
20 associated with debt financing. By being able to deduct the interest  
21 associated with debt, firms are able to lower their income tax liabilities and  
22 increase their earnings. This is something that cannot be done with  
23 dividend payments on shares of common stock, because dividends cannot

1 be deducted from income taxes. While the Hamada methodology  
2 produces a recommended cost of equity that theoretically reflects a capital  
3 structure comprised of both debt and equity, the use of the Company-  
4 proposed 100 percent capital structure has no real impact on the level of  
5 income taxes that are calculated for ratemaking purposes. Again, this is  
6 because the Hamada methodology does not produce a weighted cost of  
7 debt that is used to calculate an appropriate interest expense deduction to  
8 income taxes. As a result of this, the Company benefits from additional  
9 cash flows associated with a higher level of income tax expense  
10 calculated for ratemaking purposes which does not accurately reflect a  
11 balanced capital structure that contains debt. Consequently, ratepayers  
12 are harmed from the standpoint that they will have to pay higher rates to  
13 cover a level of income tax expense that should be lower as a result of a  
14 more balanced capital structure.

15  
16 Q. You stated that you believe that the use of a hypothetical capital structure  
17 would be fair to the Company's ratepayers. Can you explain how a  
18 regulated utility can also benefit from the adoption of a hypothetical capital  
19 structure?

20 A. Yes. The best example involved Tucson Electric Power Company  
21 ("TEP"). According to information contained on pages 28 through 31 in  
22 Decision No. 67454, dated January 4, 2005, the Commission decided it  
23 was in the public interest to adopt a hypothetical capital structure to

1 improve TEP's financial condition as a result of poor management  
2 decisions which almost resulted in bankruptcy. Decision No. 58497  
3 adopted a hypothetical capital structure for TEP comprised of 56 percent  
4 debt and 44 percent equity. At the time of the Decision, TEP had an  
5 actual capital structure comprised of 100 percent debt. The Commission  
6 subsequently adopted another hypothetical capital structure comprised of  
7 62.5 percent debt and 37.5 percent equity in Decision No. 59594, dated  
8 March 26, 1996. In these two cases, TEP benefited from the hypothetical  
9 capital structures because they contained more equity than what TEP  
10 actually had. Thus, the inclusion of higher cost equity capital in the  
11 aforementioned capital structures provided TEP with higher operating  
12 income in both cases. In addition to the higher levels of operating income,  
13 TEP also received higher levels of income tax expense, which provided it  
14 with additional cash since the levels of income tax expense resulting from  
15 the hypothetical capital structures were higher than what they would have  
16 been had the interest deductions on the actual levels of debt been  
17 deducted in the income tax calculations that were made for ratemaking  
18 purposes. As a result of this, ratepayers paid higher rates that allowed  
19 TEP to recover the higher levels of operating income and higher levels of  
20 income tax expense that were calculated for ratemaking purposes.

21  
22 ...

1 Q. But isn't the example you've cited different because TEP was financially  
2 stressed?

3 A. No, not at all. TEP's distressed condition was ultimately the result of  
4 imprudent decisions made by its management to finance assets with large  
5 amounts of debt. In this case a reverse situation exists. RRUI's  
6 management has made the imprudent decision to finance the Company's  
7 assets with nothing but equity. As a result of RRUI's management's  
8 decision to finance with 100 percent equity, the Company's ratepayers will  
9 pay higher rates to cover higher levels of operating income and income  
10 tax expense.

11  
12 Q. Would the adoption of your recommended capital structure deny RRUI of  
13 an appropriate level of income tax expense because of the interest  
14 deduction that is associated with your recommended weighted cost of  
15 debt.

16 A. No. The fact is that RRUI will be granted an appropriate level of income  
17 tax expense that is the result of the capital structure that the Commission  
18 chooses to adopt. In this respect, the appropriate level of income tax  
19 expense calculated for ratemaking purposes in this case is no different  
20 than a situation in which a specific operating expense is found to be  
21 imprudent and is denied recovery in rates.

22

1 Q. Can you provide an example that compares the disallowance of an  
2 imprudent operating expense to the appropriate level of income tax  
3 expense for ratemaking purposes that RRUI should be entitled to in this  
4 case?

5 A. Yes. The situation in this case is no different than if a utility were to seek  
6 recovery of an operating expense, associated with a legally binding  
7 contract requiring specified annual payments, which has been found to be  
8 imprudent by a regulator. Even though the recovery of the imprudent  
9 operating expense in rates has been denied by the regulator, the utility is  
10 still legally obligated to make the payments under the contract that it  
11 entered into. The actions of the regulator results in lower profits to the  
12 utility, because the payments associated with the contract must now be  
13 paid as an unrecoverable below-the-line expense.

14 Again, RRUI's ratepayers are being harmed by the Company's imprudent  
15 decision to finance assets with nothing but high cost equity capital when  
16 the opportunity existed to obtain lower cost capital through debt financing.  
17 As in the example just given, RRUI would have to cover any  
18 unrecoverable taxes calculated for ratemaking purposes as a below the  
19 line expense.

20

21

22 ...

23

1 Q. Do you agree with Mr. Bourassa's characterization of RRUI as a small  
2 water and sewer Company?

3 A. No. As I stated in my direct testimony RRUI is a subsidiary of the  
4 Algonquin Power Income Fund, a large publicly traded firm that has direct  
5 access to the capital markets. RRUI cannot, on the one hand, say that the  
6 allocated overhead costs from its ultimate parent benefits its ratepayers  
7 and then, on the other hand, act as if that large publicly traded parent  
8 doesn't even exist and then make the argument that it is a "small" utility  
9 when it comes to the issue of obtaining lower cost debt financing that  
10 would benefit to ratepayers in the form of lower rates.

11  
12 **COST OF DEBT**

13 Q. Have you made any changes to your recommended hypothetical cost of  
14 long-term debt?

15 A. No.

16 Q. Do you agree with Mr. Bourassa's position that RRUI could not raise debt  
17 in the capital markets because of the Company's size?

18 A. No. As I stated above RRUI's ultimate parent has access to the capital  
19 markets and could obtain debt financing if it wanted to much the same  
20 way that American Water obtains debt financing for its Arizona  
21 subsidiaries.

22

1 **DCF ANALYSIS**

2 Q. Please Comment on Mr. Bourassa's position that the results of your DCF  
3 analysis should be rejected by the Commission because of the method  
4 that you used to determine the internal growth rates in your DCF model.

5 A. The method that I have used to determine internal sustainable growth in  
6 the DCF model is identical to the DCF analysis performed by ACC Staff  
7 witness Stephen Hill, whose cost of equity recommendation was adopted  
8 by the Commission in a prior Southwest Gas proceeding that I cited in my  
9 direct testimony. The method is also consistent with the DCF analysis that  
10 I performed in a prior Gold Canyon Sewer Company proceeding in which  
11 the Commission adopted my recommended cost of capital. I am not  
12 aware of any proceeding before the ACC in which Mr. Bourassa's  
13 recommended costs of capital or the methods by which he arrived at those  
14 recommendations were adopted by the Commission.

15

16 Q. Does your silence on any of the issues or positions addressed in the  
17 rebuttal testimony of the Mr. Bourassa or any of the Company's other  
18 witnesses constitute acceptance?

19 A. No, it does not.

20

21 Q. Does this conclude your surrebuttal testimony on RRUI?

22 A. Yes, it does.

# **ATTACHMENT A**



Jon Markman

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## SuperModels

### Invest in the coming global water shortage

Fresh water's getting scarce, and it has no substitutes. For investors in companies that can supply our increasingly thirsty planet, that spells opportunity.

By [Jon D. Markman](#)

Ten years ago next Monday, a massive earthquake rolled under the Japanese city of Kobe at dawn, toppling 140,000 buildings, causing 300 major fires, killing more than 5,000 people and leaving 300,000 homeless.

To help cover the story for the L.A. Times, I left my wife to care for our 10-day-old daughter and 2-year-old son and flew into the city with a small team of Los Angeles-based trauma doctors and nurses. We found a surreal, smoking ruin of a city with roads twisted like coils of rope, high-rises tilted at Dr. Seuss angles and thousands of middle-class families jammed into dingy, ice-cold rooms in the few public buildings left standing.

Just as in the tsunami zone of South Asia this month, the immediate health danger, besides a possible outbreak of disease, was a lack of fresh water. More than 75% of the city's water supply was destroyed when underground pipes fractured. As much as they desired pallets of drugs, food, blankets and tents sent from throughout Japan and abroad, the Kobe survivors coveted -- and needed -- clean, bottled water for cooking, drinking and bathing.

Both incidents are a stark reminder that water is our most precious resource. Because it is seemingly ubiquitous in the United States, it is taken for granted.

Massive snowstorms in California this month have loaded up the snowpack that provides water there, and rains in the Southeast are filling reservoirs in that part of the country.

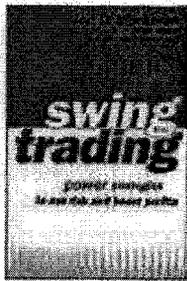
The rest of the world, however, is not so fortunate.

### Not making any more water

There is no more fresh water on Earth today than there was a million years ago. Yet today, 6 billion people share it. Since 1950, the world population has doubled, but water use has tripled, notes John Dickerson, an analyst and fund manager based in San Diego. Unlike petroleum, he adds, no technological innovation can ever replace water.

China, which is undergoing a vast rural-to-urban population migration, is emblematic of the places where water has become scarce. It has about as much

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water as Canada but 100 times more people. Per-capita water reserves are only about a fourth the global average, according to experts. Of its 669 cities, 440 regularly suffer moderate to critical water shortages.

Although not widely appreciated, water has been recognized by conservative investors as an investment opportunity -- and it has rewarded them. Over the past 10 years, the Media General water utilities index is up 133%, double the return of the **Dow Jones Utilities Index** (\$UTIL). Over the past five years, water utilities are up 32% -- clobbering the flat returns of both the Dow Jones Utilities and the **Dow Industrials** (\$INDU). One of water's key long-term value drivers as an investment, according to Dickerson: Demand is not affected by inflation, recession, interest rates or changing tastes.

Virtually all of the U.S. water utility stocks are regulated by states and counties, which makes them pretty dull. Governmental entities typically give utilities a monopoly in a geographic region, then set their profit margin a smidge above costs. Just about the only distinguishing factor among them are the growth rates of their regions and their ability to efficiently manage their underground pipe and pumping infrastructure. Among the best are **Aqua America** (WTR, news, msgs) of Philadelphia, **Southwest Water** (SWWC, news, msgs) of Los Angeles; **California Water Service Group** (CWT, news, msgs), based in San Jose, Calif.; and **American States Water** (AWR, news, msgs) of San Dimas, Calif.

In a moment, I'll offer a couple of potentially more impactful ways to invest in water, but first let's look a little more broadly at world demand.

### Aquifers in India are being sucked dry

The tsunami has focused attention on water demand in South Asia -- and it's a good thing, as it was already reaching critical status in rural areas. Several decades ago, farmers in the Indian state of Gujarat used oxen to haul water in buckets from a few feet below the surface. Now they pump it from 1,000 feet below the surface. That may sound good, but they have been drawing water from the earth to feed a mushrooming population at such a terrific rate that ancient aquifers have been sucked dry -- turning once-fertile fields slowly into sand.

According to New Scientist magazine, farmers using crude oilfield technology in India have drilled 21 million "tube wells" into the strata beneath the fields, and every year millions more wells throughout the region -- all the way to Vietnam -- are being dug to service water-needy crops like rice and sugar cane. The magazine quoted research from the annual Stockholm Water Symposium that the pumps that transformed Indian farming are drawing 200 cubic kilometers of water to the surface each year, while only a fraction is replaced by monsoon

rains. At this rate, the research suggested, groundwater supplies in some areas will be exhausted in five to 10 years, and millions of Indians will see their farmland turned to desert.

In China, the magazine reported, 30 cubic kilometers more water is being pumped to the surface each year than is replaced by rain -- one of the reasons that the country has become dependent on grain imports from the West. This is not just an issue for agriculture. Earlier this year, the Indian state of Kerala ordered the **PepsiCo** (PEP, news, msgs) and **Coca-Cola** (KO, news, msgs) bottling plants closed due to water shortages, costing the companies millions of dollars.

In this country, shareholder activists already are lobbying companies to share water-dependency concerns worldwide with their stakeholders in their financial statements.

#### **Water, water everywhere, but . . .**

The central problem is that less than 2% of the world's ample store of water is fresh. And that amount is bombarded by industrial pollution, disease and cyclical shifts in rain patterns. Its increasing scarcity has impelled private companies and countries to attempt to lock up rights to key sources. In an article last month, the Christian Science Monitor suggested that the next decade may see a cartel of water-exporting countries rivaling the Organization of Petroleum Exporting Countries for dominance in the world economy.

"Water is blue gold; it's terribly precious," Maude Barlow, chair of the Council of Canadians, told the Monitor. "Not too far in the future, we're going to see a move to surround and commodify the world's fresh water. Just as they've divvied up the world's oil, in the coming century, there's going to be a grab."

Besides the domestic water utilities listed above -- and similarly plodding foreign utilities such as **United Utilities** (UU, news, msgs) of the United Kingdom, which sports a 6.9% dividend yield, and **Suez** (SZE, news, msgs) of France -- investors interested in the sector can consider a number of variant plays. None are extremely exciting, but my guess is that, over the next few years, some more interesting purification technologies will emerge, along with, perhaps, a vibrant attempt at worldwide industry consolidation.

One current idea is Tennessee-based copper pipe and valve maker **Mueller Industries** (MLI, news, msgs), a \$1 billion business with a trailing price/earnings multiple of 15 that is still not expensive despite a 47% run-up in the past year. Its leading outside investor is **Berkshire Hathaway** (BRK.A, news, msgs), the

investment vehicle of legendary investor Warren Buffett.

Another is flow-control products maker **Watts Water**

**Technologies** ([WTS](#), [news](#), [msgs](#)), which is a little richer at a \$975 million market cap and a trailing P/E multiple of 19, but is still owned by several leading value managers, including Mario Gabelli.

And possibly the most interesting is **Consolidated Water** ([CWCO](#), [news](#), [msgs](#)), a \$160 million company based in the Cayman Islands that specializes in developing and operating ocean-water desalinization plants and water-distribution systems in areas where natural supplies of drinking water are scarce, such as the Caribbean and South America. It currently supplies water to Belize, Barbados, the British Virgin Islands and the Bahamas, and it has expansion plans. It is the most expensive, but it may also have the greatest growth prospects. Of all of these, it is up the most over the past five years, a relatively steady 355%.

Of course, there is one other benefit to water investing: When these companies say they're going to do a dilutive deal, it's not something to worry about.

#### **Fine Print**

Dickerson runs a hedge fund in San Diego strictly focused on water investing, the Summit Water Equity Fund. . . To learn more about Southwest Water, [click here](#). . . . To learn more about California Water Service Group, which runs systems in New Mexico, Hawaii and Washington State, as well as California, [click here](#). . . . To learn more about American States Water, [click here](#). . . To learn more about Mueller, [click here](#), and, for Consolidated Water, [click here](#). . . Seems like talk is cheap. Since mid-December, the value of the company radio personality Howard Stern is leaving, **Viacom** ([VIA.B](#), [news](#), [msgs](#)), has risen 9% while the value of the company he's headed to, **Sirius Satellite Radio** ([SIRI](#), [news](#), [msgs](#)), is down 13.5%. . . . For background on the Kobe earthquake, approaching its 10th anniversary, [click here](#) and [here](#).

*Jon D. Markman is publisher of [StockTactics Advisor](#), an independent weekly investment newsletter, as well as senior strategist and portfolio manager at Pinnacle Investment Advisors. While he cannot provide personalized investment advice or recommendations, he welcomes column critiques and comments at [jon.markman@gmail.com](mailto:jon.markman@gmail.com); put COMMENT in the subject line. At the time of publication he held positions in the following stocks mentioned in this column: Coca-Cola.*

**RIO RICO UTILITIES, INC.**

**DOCKET NO. WS-02676A-08-09-0257**

**SURREBUTTAL TESTIMONY**

**OF**

**TIMOTHY J. COLEY**

**ON BEHALF OF**

**THE**

**RESIDENTIAL UTILITY CONSUMER OFFICE**

**FEBRUARY 24, 2010**

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1 **INTRODUCTION**

2 Q. Please state your name, position, employer and address.

3 A. My Name is Timothy J. Coley. I am a Public Utilities Analyst V employed  
4 by the Residential Utility Consumer Office ("RUCO") located at 1110 W.  
5 Washington, Suite 220, Phoenix, Arizona 85007.

6

7 Q. Have you previously filed testimony in this docket?

8 A. Yes, I have. I filed direct testimony in this docket on December 23, 2009  
9 and RUCO's rate design testimony on January 4, 2010. On February 4,  
10 2010, I filed a notice of errata to my direct testimony accompanied with the  
11 appropriate schedules as needed.

12

13 Q. What is the purpose of your surrebuttal testimony?

14 A. My surrebuttal testimony will address the Company's rebuttal comments  
15 pertaining to adjustments I recommended in my direct testimony. I will  
16 also discuss RUCO's changes in position regarding certain adjustments  
17 along with any new adjustments that RUCO made or adopted here in  
18 surrebuttal testimony. In addition, RUCO has provided a study (Exhibit 1)  
19 comparing wages/labor and contractual/corporate costs per utility  
20 customer of various Arizona water and wastewater companies to support  
21 RUCO's position on Algonquin Power Trust's ("APT") allocated costs.

22

23

24

1 **SUMMARY OF RUCO's RECOMMENDED REVENUE REQUIREMENTS**

2 Q. What are RUCO's recommended surrebuttal revenue requirements for  
3 RRUI Water and Wastewater Divisions?

4 A. For RRUI Water Division, RUCO recommends a fair value rate base in the  
5 amount of \$7,175,864 compared to the Company's requested adjusted  
6 rebuttal amount of \$7,992,279. RUCO recommends a required operating  
7 income of \$567,180, which is \$367,917 less than the Company's  
8 requested amount of \$935,097. RUCO's recommended required increase  
9 in gross revenue is \$929,413, which is \$898,189 less than the Company's  
10 adjusted rebuttal request of \$1,827,602. RUCO's recommendations  
11 represent a 50.18 percent increase to total revenues. RUCO  
12 recommends a 7.90 percent rate of return on the Company's fair value  
13 rate base (See RUCO witness Mr. Rigsby's testimony as filed) compared  
14 to RRUI's adjusted rebuttal request of 11.70 percent.

15  
16 For RRUI Wastewater Division, RUCO recommends a fair value rate base  
17 in the amount of \$2,983,957 compared to the Company's adjusted rebuttal  
18 amount of \$3,323,449. RUCO recommends a required operating income  
19 of \$235,852, which is \$152,992 less than the Company's requested  
20 amount of \$388,844. RUCO's recommended required decrease in gross  
21 revenue is (\$493,946), which is (\$374,815) less than the Company's  
22 adjusted rebuttal decrease of (\$133,135). RUCO's recommendations  
23 represent a (26.93) percent decrease to total revenues. RUCO

1 recommends a 7.90 percent rate of return on the Company's fair value  
2 rate base (See RUCO witness Mr. Rigsby's testimony as filed) compared  
3 to RRUI's adjusted rebuttal request of 11.70 percent.  
4

5 **SUMMARY OF RUCO's RATE BASE ADJUSTMENTS**

6 Q. What areas will you address in RUCO's surrebuttal testimony?

7 A. RUCO's surrebuttal testimony will address its recommended rate base  
8 and operating income adjustments to RRUI's Water and Wastewater  
9 Divisions as follows:

10  
11 RUCO's RATE BASE ADJUSTMENTS TO RRUI's REBUTTAL  
12 POSITIONS

13 NOTE: All adjustments are common to both the Company's Water and  
14 Wastewater Divisions unless otherwise noted.

- 15  
16 1. RUCO Surrebuttal Rate Base Adjustment No. 1 – Plant and  
17 Accumulated Depreciation: After a phone conversation with the  
18 Company's rate consultant, RUCO reviewed its plant schedules and  
19 identified a computation error in the accumulated depreciation excel  
20 sheet. RUCO corrected the formula, which eliminated the need for this  
21 adjustment in surrebuttal testimony.

22 ...

1           2. Rate Base Adjustment No. 2 – Accumulated Deferred Income Tax  
2           (“ADIT”): This adjustment allocates RRUI’s parent company’s,  
3           Algonquin Power Income Fund’s (“APIF”), net ADIT liability balance  
4           based on RRUI’s asset value to APIF total asset value. The  
5           adjustment decreases the Company’s ADIT asset by \$1,279,653 for  
6           the Water Division and by \$532,121 for the Wastewater Division.

7  
8           3. RUCO Surrebuttal Rate Base Adjustment No. 3 – Advances in Aid of  
9           Construction (“AIAC”) and Contributions in Aid of Construction  
10          (“CIAC”): This adjustment increases AIAC by \$48,724 and decreases  
11          CIAC by the same \$48,724 for the Water Division. For the Wastewater  
12          Division, this adjustment increases AIAC by \$238,783 and decreases  
13          CIAC by the same \$238,783.

14  
15          All those rate base adjustments are shown on RUCO’s Surrebuttal  
16          Schedules TJC-2 and TJC-3. The supporting detail for RUCO’s ADIT  
17          adjustment is shown on RUCO’s Surrebuttal Schedule TJC-5.

18  
19          **SUMMARY OF RUCO’s OPERATING INCOME ADJUSTMENTS**

20          RUCO’s RATE BASE ADJUSTMENTS TO RRUI’s REBUTTAL  
21          POSITIONS

22          NOTE: All adjustments are common to both the Company’s Water and  
23          Wastewater Divisions unless otherwise noted.

1           1. RUCO Surrebuttal Operating Income Adjustment No.1 – Revenue

2           Annualization: This adjustment reverses the Company's downward  
3           adjustment to test year revenues. It increases revenues by \$4,794 for  
4           the Water Division and by \$4,505 for the Wastewater Division.

5  
6           2. RUCO Surrebuttal Operating Income Adjustment No.2 – Purchased

7           Power and Chemicals Expense Annualization: This is an  
8           accompanying adjustment to RUCO rate base adjustment #1. The  
9           adjustment increases purchased power expense by \$2,334 for the  
10          Water Division to account for the additional pumping costs. For the  
11          Wastewater Division, it increases purchased power expense by \$388  
12          and by \$212 for chemical expenses.

13  
14          3. RUCO Surrebuttal Operating Income Adjustment No.3 – Depreciation

15          Expense: This adjustment increases depreciation expense for the  
16          Water Division by \$1,687 due primarily to an adjustment that increased  
17          AIAC depreciable plant. For the Wastewater Division, this adjustment  
18          increased depreciation expense by \$9,361 due primarily to an  
19          adjustment that increased AIAC depreciable plant.

20  
21          4. RUCO Surrebuttal Operating Income Adjustment No.4 – Property Tax

22          Expense: This adjustment decreases property tax expense for both  
23          the Water and Wastewater Divisions by \$31,900 and \$12,189

1           respectively. The adjustments are due to the different levels of gross  
2           revenues proposed by RUCO and the Company.

3  
4           5. RUCO Surrebuttal Operating Income Adjustment No. 5 – Rate Case

5           Expense: This adjustment reduces rate case expense by \$17,500 for  
6           the Water Division and reduces the Wastewater Division's rate case  
7           expense by \$10,417. The adjustment is due to RUCO's 25 percent  
8           overall reduction in rate case expense.

9  
10          6. RUCO Surrebuttal Operating Income Adjustment No.6 – Miscellaneous

11          Expense: This adjustment is specific to only RRUI's Water Division  
12          and reduces miscellaneous expense by \$1,363.

13  
14          7. RUCO Surrebuttal Operating Income Adjustment No.7 – Purchased

15          Power Expense: This adjustment reduces the purchased power  
16          expense for the Water Division and increases the Wastewater  
17          Division's purchased power expense by the same \$48,005 due to the  
18          Company recording the purchased power expense to the wrong  
19          division.

20  
21          8. RUCO Surrebuttal Operating Income Adjustment No.8 –Transportation

22          Expense: This adjustment was proposed by the Company in rebuttal

1 testimony and decreases transportation expense for both Water and  
2 Wastewater by \$6,725 and \$2,242 respectively.

3  
4 9. RUCO Surrebuttal Operating Income Adjustment No.9 – Out of Test  
5 Year Contractual Services Expense: This adjustment is specific to the  
6 Company's Water Division only and reduces the contractual services  
7 account by \$14,477.

8  
9 10. RUCO Surrebuttal Operating Income Adjustment No. 10 – Additional  
10 Actual Algonquin Power Trust ("APT") Costs: This adjustment  
11 increases the contractual services account by \$3,274 for the Water  
12 Division and by \$1,346 for the Wastewater Division due to truing up  
13 estimated costs to actual costs.

14  
15 11. RUCO Surrebuttal Operating Income Adjustment No. 11 – APT  
16 Corporate Allocation Costs: This adjustment removes excessive  
17 corporate expenses for the provisioning of utility services. It reduces  
18 the contractual services account by \$96,643 and \$31,604 for the Water  
19 and Wastewater Divisions respectively.

20  
21 12. RUCO Surrebuttal Operating Income Adjustment No.12 –  
22 Unamortized Rate Case Expense: This adjustment is specific to  
23 RRUI's Water Division only and reduces the regulatory commission

1 expense account by \$17,564 for what appears to be unamortized rate  
2 case expense from a prior rate case.

3  
4 13. RUCO Surrebuttal Operating Income Adjustment No.13 – Bad Debt

5 Expense: This adjustment normalizes bad debt expense and  
6 increases it by \$799 for the Water Division and decreases it by  
7 \$30,315 for the Wastewater Division.

8  
9 14. RUCO Surrebuttal Operating Income Adjustment No.14 – Income Tax

10 Expense: This adjustment reflects RUCO's recommended operating  
11 income before income taxes and increases the Water Division's  
12 income tax expense by \$19,760 and decreases the Wastewater  
13 Division's income tax expense by \$16,504.

14  
15 These operating income adjustments are shown on RUCO's Surrebuttal  
16 Schedules TJC-6 and TJC-7. The supporting details are shown on  
17 RUCO's Surrebuttal Schedule TJC-8 thru TJC-19.

1 **RUCO's ORIGINAL COST RATE BASE ADJUSTMENTS**

2 **RUCO Surrebuttal OCRB Adjustment No. 1 – Plant and Accumulated**

3 **Depreciation:**

4 Q. Please explain RUCO's surrebuttal rate base adjustment #1 for plant and  
5 accumulated depreciation.

6 A. This adjustment was recommended in RUCO's direct testimony schedules  
7 but was eliminated in RUCO's surrebuttal testimony schedules. The  
8 Company's witness, Mr. Bourassa, phoned me with some concerns  
9 regarding my direct testimony plant schedules. Mr. Bourassa stated that  
10 he thought my plant schedules were over-depreciating some accounts that  
11 should have been fully depreciated and in the year of a retirement, he  
12 didn't think I was taking the half-year convention when calculating that  
13 year's depreciation expense.

14  
15 After reviewing my plant schedules, I agreed with Mr. Bourassa that a few  
16 accounts had been fully depreciated and thus, no further depreciation  
17 should be taken on those accounts. The retirements, however, had been  
18 treated properly using the half-year convention. The primary problem in  
19 RUCO's direct plant schedules was the failure to remove the retirements  
20 from the accumulated depreciation balances. Once that was corrected,  
21 RUCO was in substantial agreement with the Company. RUCO

1 recommends eliminating that direct testimony adjustment in its surrebuttal  
2 testimony for both RRUI's Water and Wastewater Divisions;

3  
4 RUCO Surrebuttal OCRB Adjustment No. 2 – Accumulated Deferred  
5 Income Tax (“ADIT”)

6 Q. Please explain RUCO's surrebuttal rate base adjustment #2 for ADIT.

7 A. The adjustment to ADIT is fully explained in RUCO's direct testimony.  
8 This adjustment is the same in both RUCO's direct and surrebuttal  
9 schedules.

10  
11 Q. Does the Company agree with RUCO's ADIT calculation?

12 A. No.

13  
14 Q. How did the Company respond to RUCO's methodology used to calculate  
15 its ADIT balance?

16 A. Primarily, the Company claims that RUCO's approach to calculating  
17 RRUI's ADIT balance fails to use both the assets and liabilities method as  
18 prescribed by SFAS No. 109.

19  
20 Q. Do you agree with the Company that RUCO's method fails to use both the  
21 assets and liabilities as prescribed by SFAS No. 109?

22 A. No. RUCO's method for calculating ADIT does use both assets and  
23 liabilities because RUCO netted the total ADIT assets and liabilities that

1 are on the parent company's, Algonquin Power Trust Fund ("APTF"),  
2 books. Therefore, both assets and liabilities are used in RUCO's ADIT  
3 calculation.

4  
5 Q. Has the Company changed its ADIT balance in rebuttal testimony?

6 A. Yes. The Company recalculated its ADIT balance in its rebuttal testimony.  
7 The new calculation reduces the Company's original ADIT asset balance  
8 by roughly 60 percent from approximately \$1.1 million to \$445,000.

9  
10 Q. Are there any other issues regarding ADIT that RUCO would like to  
11 address?

12 A. Yes. The Company claims that the large AIAC balances on its books are  
13 a major reason for contributing to its ADIT asset balance, which is an  
14 addition to rate base. RUCO performed a study that included Black  
15 Mountain Sewer, Litchfield Park Service Water and Wastewater Divisions,  
16 Rio Rico Water and Wastewater Divisions, Bella Vista Water, and the  
17 Northern and Southern Water Companies, which are all owned by APTF.  
18 RUCO compared all APTF's referenced companies to Arizona Water  
19 Company's ("AWC") seventeen systems and determined that AWC's total  
20 rate base is comprised of 49 percent AIAC whereas the APTF's  
21 referenced companies are comprised of 44 percent AIAC to total rate  
22 base.

23 ...

1 Q. Did AWC have an ADIT balance in its last rate application?

2 A. Yes.

3

4 Q. What was AWC's ADIT balance in its last rate application?

5 A. AWC had a \$19 million ADIT liability balance, which is the natural balance  
6 that reduces rate base accordingly. Not the reverse of what RRUI  
7 proposes for an addition to rate base in this case. RUCO finds it  
8 perplexing that AWC's total rate base is funded by similar means and  
9 shows a \$19 million ADIT liability balance while APTF's Arizona utilities  
10 claim an ADIT asset balance that increases rate base.

11

12 **RUCO's OPERATING INCOME ADJUSTMENTS**

13 RUCO Surrebuttal Operating Income Adjustment No. 1 – Revenue  
14 Annualization

15 Q. Does RUCO continue to recommend annualizing revenues to the average  
16 test year customer count here in its surrebuttal testimony?

17 A. No. RUCO now recommends reversing the Company's revenue  
18 annualization that decreases revenue. RUCO also recommends reversing  
19 the Company's adjustment that decreases the purchased power and  
20 chemical expenses associated with RRUI revenue annualization expense  
21 adjustment.

22 ...

1 Q. Why did RUCO change its position on revenue annualization to average  
2 test year customer count?

3 A. In the spirit of compromise and an attempt to reach some agreement with  
4 the Company, RUCO proposes a position that should be more amiable to  
5 the Company and to eliminate some of contested issues in the case.

6

7 Q. Why does RUCO disagree with RRUI's proposed customer annualization  
8 adjustment that reduces revenues?

9 A. RUCO disagrees with the Company's proposed customer annualization  
10 adjustment because it does not make sense to reduce test year revenue  
11 when RRUI has continued, through the test year, to experience year after  
12 year customer growth. Consequently, RUCO has recommended that the  
13 test year revenue be used to set rates and to reverse the Company's  
14 proposed annualization adjustment. In my direct testimony, RUCO  
15 illustrated, in detail, comparisons of total average customers and customer  
16 counts historically and through the test year.

17

18 Q. What is the purpose of a revenue annualization adjustment normally in a  
19 utility rate case?

20 A. When a utility is growing and having to add plant during a test year to  
21 serve additional customers, a revenue annualization adjustment is  
22 typically utilized in order to capture the impact on revenue from customer  
23 growth that has occurred, and to better match the revenue with the test

1           year plant that has been added to serve the new customers. The revenue  
2           growth that relates to the addition of customers is captured in a revenue  
3           annualization adjustment to increase revenue related to the increased  
4           plant which has been added to serve additional customers during the test  
5           year. Moreover, the decrease in revenue produced by the Company's  
6           calculation appears to be related to customer seasonality rather than a  
7           permanent decline in customer count during the test year, and therefore  
8           should not be adopted because it would understate test year and going-  
9           forward revenues.

10  
11           RRUI has added, on average, both residential and commercial customers  
12           in each and every year, including the test year. Consequently, an  
13           adjustment to decrease test year revenue would be inappropriate by  
14           understating test year and going-forward revenues. Test year revenue of  
15           \$4,794 and \$4,505 for the Company's Water and Wastewater Divisions  
16           respectively should not be removed as proposed by the Company.  
17           RUCO's adjustments restore revenues to test year levels.

18  
19  
20  
21    ...

1           RUCO Surrebuttal Operating Income Adjustment No. 2 – Expense  
2           Annualization

3 Q.    Has RUCO made adjustments to reverse the expenses associated with  
4        the Company's proposed downward revenue annualization?

5 A.    Yes. Adjustments have been made to increase the Company's purchased  
6        power expenses in the amount of \$2,334 and \$388 respectively for RRUI's  
7        Water and Wastewater Divisions. An additional adjustment to increase  
8        chemical expenses by \$212 was made for the Company's Wastewater  
9        Division. These adjustments are shown on RUCO's Schedules TJC-7.

10  
11           RUCO Surrebuttal Operating Income Adjustment No. 3 – Depreciation  
12           Expense

13 Q.    Are RUCO and the Company in general agreement on the appropriate  
14        levels of depreciation expense?

15 A.    Yes. There is a slight difference in the amount of CIAC amortization to be  
16        removed from depreciation expense. This appears to be due to a  
17        rounding issue of the amortization rate utilized by the parties.

18  
19  
20  
21 ...

1           RUCO Surrebuttal Operating Income Adjustment No. 4 – Property Tax  
2           Expense

3   Q.    Are RUCO and the Company in general agreement on the methodology to  
4        calculate property tax expense?

5   A.    Yes. RUCO and the Company use the same methodology and inputs with  
6        the exception of the adjusted levels of test year revenues and proposed  
7        levels of revenues. This is due to the parties' different levels of  
8        recommended revenue requirements. Once the Commission approves  
9        the levels of revenues to set rates, either RUCO's or the Company's  
10       property tax model should produce the same level of property tax expense  
11       to be embedded in rates.

12  
13           RUCO Surrebuttal Operating Income Adjustment No. 5 – Rate Case  
14           Expense

15   Q.    How did the Company respond to RUCO's 25 percent downward  
16        adjustment to rate case expense?

17   A.    The Company did not explicitly express an opinion either way to RUCO's  
18        25 percent downward adjustment to rate case expense. However, the  
19        Company did address RUCO's rate case adjustment as follows:

20           RUCO appears to base its 25 percent reduction on  
21           the fact that through October 2009, the Company has  
22           only incurred about \$41,000 of rate case expense. It  
23           is entirely premature to make any meaningful  
24           determinations about the ultimate level of rate case  
25           expense that will be incurred in the instant case. This  
26           is obviously true, given that at the time of Mr. Coley's  
27           testimony the Company had yet to incur the costs for

1 the preparation of its rebuttal testimonies, rejoinder  
2 testimonies, any discovery, hearing preparation and  
3 hearings, post hearing briefs, and final decision.  
4

5 In this light, RRUI continues to estimate rate case  
6 expense of \$210,000 for the water division. But this is  
7 still an estimate, which the Company will true-up at a  
8 later date when more of the costs are known, as  
9 needed.  
10

11 Q. How did the Company respond concerning RUCO's downward adjustment  
12 to rate case expense for the Wastewater Division?

13 A. The Company made reference to what it had previously stated (See  
14 statement above) in the water section of its rebuttal testimony. The  
15 Company further stated, "As discussed above, RUCO is recommending a  
16 downward adjust [sic] of 25 percent to the company's proposed level of  
17 rate case expense. This translated to a reduction to total rate case  
18 expense of \$31,250, or a total rate case expense of \$93,750. For the  
19 reasons I identified above, RUCO's adjustment is premature, at best."  
20

21 Q. Does RUCO maintain its 25 percent downward adjustment to rate case  
22 expense in surrebuttal testimony?

23 A. Yes. Until further updates are provided by the Company to be reviewed  
24 by RUCO, RUCO, like the Company seems to be doing, reserves the right  
25 to adjust its rate case expense adjustment prior to hearing.  
26

27 ...  
28

1           RUCO Surrebuttal Operating Income Adjustment No. 6 – Miscellaneous  
2           Expense

3   Q.   Did the Company accept RUCO's adjustment to remove \$1,363 of  
4       miscellaneous expense relating to charitable contributions and donations  
5       from RRUI's Water Division?

6   A.   Yes. This adjustment applies only to the Water Division.

7  
8           RUCO Surrebuttal Operating Income Adjustment No. 7 – Purchased  
9           Power Expense

10   Q.   Did the Company accept RUCO's adjustment to reclassify \$48,005 of  
11       purchased power expense from the Company's Water Division to the  
12       Wastewater Division?

13   A.   Yes. This adjustment was agreed upon during the discovery period.  
14       RRUI inadvertently charged the purchased power expense to the  
15       Company's Water Division when it was actually attributable to the  
16       Company's Wastewater Division.

17  
18           RUCO Surrebuttal Operating Income Adjustment No. 8 – Transportation  
19           Expense

20   Q.   Please explain RRUI's rebuttal adjustment to transportation expense?

21   A.   This adjustment originated in the Company's Litchfield Park Service  
22       Company's hearing when it was discovered that the corporate parent has  
23       a fleet of corporate executive jets and the costs were being allocated to

1 the various affiliates. The Company agreed to remove the costs  
2 associated with its Airlink affiliate in that case. This is merely an  
3 accommodating adjustment proposed by the Company.

4  
5 Q. Does RUCO accept the Company's proposed adjustment to transportation  
6 expense?

7 A. Yes.

8  
9 RUCO Surrebuttal Operating Income Adjustment No. 9 – Out of Test Year  
10 Contractual Services' Costs

11 Q. Please explain RUCO's surrebuttal adjustment that removes contractual  
12 services' costs that were identified as costs incurred that were out of the  
13 test year.

14 A. Staff identified \$14,477 of contractual services' costs that were incurred by  
15 the Company but not in the 2008 test year. RRUI accepted Staff's  
16 adjustment in rebuttal testimony.

17  
18 Q. Does RUCO accept the Company's rebuttal adjustment in RUCO's  
19 surrebuttal testimony?

20 A. Yes.

21  
22 ...

23

1           RUCO Surrebuttal Operating Income Adjustment No. 10 – Actual  
2           Additional Algonquin Power Trust (“APT”) Central Office Costs

3   Q.   Please explain the Company’s rebuttal adjustment that increases the APT  
4       central office cost pool to contractual services account.

5   A.   This particular adjustment arose after the Company filed its rate  
6       application. As the rate proceeding progressed, the Company determined  
7       that its original rate application, which contained a cost pool of APT costs  
8       in the amount of \$3,950,800 that are allocated 100 percent to its affiliates,<sup>1</sup>  
9       failed to include all of APT’s actual costs. In rebuttal testimony, the  
10      Company added an additional \$1,319,082 for a total APT cost pool of  
11      \$5,269,882 that it deemed as its actual APT costs. RRUI received an  
12      additional APT cost allocation of \$27,574 for the Water Division and  
13      \$8,474 for the Wastewater Division per the Company’s allocation  
14      methodology.

15  
16   Q.   Please explain RUCO’s adjustment to the additional APT cost pool  
17      allocations that the Company added in its rebuttal testimony.

18   A.   As discussed in detail in RUCO’s direct testimony and further here in  
19      surrebuttal testimony, RUCO disallowed the majority of the APT costs in  
20      direct testimony. RUCO included the additional “actual” APT costs in  
21      RUCO Surrebuttal Schedule TJC-15 and determined that an additional

---

<sup>1</sup> See RUCO witness Timothy J. Coley’s Direct Testimony for a full explanation of APT cost allocations.

1           \$3,274 and \$1,361 should be allocated to RRUI's Water and Wastewater  
2           Divisions respectively using RUCO's allocation methodology.

3

4   Q.    Does RUCO disagree with the Company's additional APT cost pool  
5           allocation adjustments?

6   A.    Yes. As I stated earlier, RUCO disallowed a majority of the APT cost pool  
7           allocations and allowed only 25 percent of some of the costs (See Coley  
8           Direct Testimony). RUCO's additional APT allocation adjustments are  
9           much smaller than the Company's, as discussed earlier.

10

11           RUCO Surrebuttal Operating Income Adjustment No. 11 – APT Central  
12           Office Cost Allocations

13   Q.    Did the Company accept RUCO's APT cost pool allocation adjustments?

14   A.    No.

15

16   Q.    Does RUCO maintain its original direct testimony position regarding the  
17           APT cost allocations?

18   A.    Yes.

19

20   Q.    Does RUCO provide any further analysis or studies in surrebuttal that  
21           support its conclusions regarding the APT cost allocations?

22   A.    Yes. RUCO Surrebuttal Exhibit 1, as attached, is a study of a number of  
23           other Arizona water and wastewater companies. The study's focus is the

1 amount of total labor, wages, and corporate costs per customer on an  
2 annual and monthly basis. The results support RUCO's conclusions and  
3 position regarding the APT cost pool allocations.

4  
5 RUCO Surrebuttal Operating Income Adjustment No. 12 – Prior Rate  
6 Case Unamortized Rate Case Expense

7 Q. Please explain RUCO's adjustment that removes the prior rate case  
8 expense from RRUI's Water Division that was not fully amortized.

9 A. This adjustment was overlooked in RUCO's direct testimony. It appears  
10 that the amount in the Regulatory Commission Expense account for  
11 \$17,564 is nearly identical to the amount of annual rate case expense  
12 authorized in the prior Rio Rico rate case for the Company's Water  
13 Division. RUCO routinely recommends disallowance of any unamortized  
14 prior rate case expense when new rates are established in a current  
15 proceeding.

16  
17 Q. Did Staff make a similar adjustment to remove this expense in its direct  
18 testimony?

19 A. Yes.

20  
21  
22 ...

1 Q. How did the Company respond to Staff regarding the disallowance of the  
2 unamortized rate case expense?

3 A. The Company's rebuttal response to the adjustment claimed that it was  
4 not unamortized rate case expense from a prior proceeding "at all." The  
5 Company adds, "These costs are related to ADEQ annual registration  
6 fees, ADOT registration fees, annual software license fees, right of way  
7 permit fees, and some membership dues to organizations like the  
8 American Water Works Association and the Arizona Water Pollution  
9 Control Association."

10

11 Q. What is RUCO's surrebuttal position regarding the costs in the Regulatory  
12 Commission Expense account in the Company's Water Division?

13 A. RUCO is taking a conservative approach and recommends removal of  
14 these expenses until the nature of the costs can be verified.

15

16 Q. Does RUCO plan on issuing discovery for these related expenses?

17 A. Yes.

18

19

20

21 ...

22

23

1           RUCO Surrebuttal Operating Income Adjustment No. 13 – Normalize Bad  
2           Debt Expense

3   Q.    Did the Company accept RUCO's normalization of bad debt expense  
4           adjustment?

5   A.    Yes.  However, the Company made an erroneous entry for the Water  
6           Division's bad debt adjustment.

7  
8   Q.    Please explain the Company's erroneous entry for the Water Division's  
9           bad debt expense adjustment.

10  A.    When the Company made its adjustment, RRUI reduced bad debt  
11           expense for the Water Division.  The correct entry would increase bad  
12           debt expense in the amount of \$799 rather than decrease it.

13  
14           RUCO Surrebuttal Operating Income Adjustment No. 14 – Income Tax  
15           Expense

16  Q.    Please explain RUCO's income tax expense adjustment and the  
17           Company's position on this adjustment.

18  A.    This adjustment is a function of RUCO's recommended level of operating  
19           income before income taxes.  The Company did not raise any issue with  
20           the adjustment to income taxes in rebuttal.

21  
22  ...

1 Q. After RUCO filed its direct testimony and schedules, did RUCO identify a  
2 problem with its recommended income taxes?

3 A. Yes. RUCO reviewed its Direct Schedules TJC-1, TJC-2, and TJC-6 and  
4 found an error in the gross revenue conversion factor schedule (TJC-1,  
5 page 2).

6

7 Q. Did RUCO correct the income tax problem?

8 A. Yes. RUCO filed errata to its direct testimony that corrected the problem.

9

10 **OTHER ISSUES**

11 Q. Is it true that the version of your direct testimony filed on December 23,  
12 2009, contained RUCO's positions regarding other issues that were  
13 incorrect at that time?

14 A. Yes. RUCO filed a notice of errata to correct its position regarding the  
15 other issues addressed in that version of my direct testimony.

16

17 Q. Would you please clarify for the record what RUCO's positions are  
18 concerning the other issues in this case?

19 A. Yes.

20

21 Low-Income Program ("LIP")

22 RUCO does not oppose the LIP as proposed by the Company.

23

1           Hook Up Fee ("HUF")

2           RUCO does not support the Company's HUF as proposed by the  
3           Company for the reason given in its errata filing.

4

5           New Service Line Installations

6           RUCO prefers that the current rates in the tariff be maintained.

7

8           Late Payment Finance Charge

9           RUCO supports the late payment finance charge as proposed by RRUI.

10

11   **RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**

12   Q.    Have you revised your surrebuttal schedules presenting your surrebuttal  
13        recommended rate designs?

14   A.    Yes, as shown on Schedules SURR TJC-RD1, the rate design is  
15        consistent with RUCO's recommended revenue allocations and  
16        requirement as in RUCO's direct rate design testimonies.

17

18   Q.    Have you updated your Schedules presenting proof of your recommended  
19        revenue?

20   A.    Yes, I have. As shown on Schedules SURR TJC-RD1, my recommended  
21        rate design will produce the recommended required revenue as  
22        recommended in my surrebuttal testimony.

23

1 **TYPICAL RESIDENTIAL BILL ANALYSIS**

2 Q. Has RUCO revised its Schedules representing the financial impact of  
3 RUCO's surrebuttal recommended rate designs on the typical residential  
4 customer?

5 A. Yes. The impact of RUCO's surrebuttal recommended revenues is  
6 presented on the divisions Surrebuttal Schedules TJC-RD2. This typical  
7 bill analysis for residential customers shows the financial impact with  
8 various levels of usage.

9

10 Q. Does your silence on any issues or matters pertaining to the Company's  
11 application constitute RUCO's acceptance of the Company's position?

12 A. No.

13

14 Q. Does this conclude your surrebuttal testimony?

15 A. Yes, it does.

16

**RUCO'S SURREBUTAL**

**EXHIBIT 1**

## A Synopsis for RUCO Surrebuttal Exhibit 1

RUCO Exhibit 1 is a study that analyzed various Arizona utilities, both water and wastewater, to determine the levels of labor/wages expense, including outside contractual services, per each utility customer. The results are then compared to the Arizona Algonquin Water and Wastewater Utilities. The results are shown on the following seven pages and are segregated by water and wastewater utility services. Some of the utilities that were used in RUCO's study employ the shared services concept, as Algonquin's Liberty Water does, and others are stand-alone utilities. The utilities that have shared services are shown on separate pages from those that are stand-alone companies. I will briefly describe what each of the seven pages represents.

Page 1 – This page shows RRUI's Wastewater Division's cost of labor/wages expense, including outside contractual services, per each utility customer. It then shows the same costs for three of Arizona American's ("AZ-AM") Wastewater Districts that utilize the shared services concept. A comparison can then be drawn between RRUI and AZ-AM's costs for labor/wages expense, including outside contractual services, per each utility customer. The average cost for the utility groupings are shown on each page.

Page 2 – The same information is provided on page 2 for RRUI Wastewater Division but the comparable companies used in RUCO's study are stand-alone companies that do not utilize the shared services concept. Again, comparisons between the costs can be made. The average cost for the utility groupings are shown on each page.

Page 3 - This page shows RRUI's Water Division's cost of labor/wages expense, including outside contractual services, per each utility customer. It then shows the same costs for five of Arizona Water Company's ("AWC") Water Systems and a total of all AWC's systems, which consist of seventeen systems, cost of labor/wages expense, including outside contractual services, per each utility customer. A second group of AZ-AM Water Districts are shown which consist of five more water districts. All 22 systems on this page, consisting of AWC's total seventeen systems and AZ-AM's five districts, utilize the shared services concept. A comparison can then be drawn between RRUI, AWC, and AZ-AM's costs for labor/wages expense, including outside contractual services, per each utility customer. The average cost for the utility groupings are shown on each page.

Page 4 – This page shows the same information as provided on page 3 but for an American States Water affiliate, Chaparral City Water Company. Chaparral also utilizes the shared services concept. The same comparisons can be drawn between RRUI and Chaparral.

Page 5 - This page shows the same information as provided on the previous pages but for three various Arizona stand-alone water companies for a comparison to be made to RRUI. The average cost for the utility groupings are shown on this page too.

Page 6 - This page shows RRUI's rebuttal position regarding its costs of labor/wages expense, including outside contractual services, per each utility customer. A comparison can then be drawn between RRUI to the other 32 Arizona utility companies' costs associated with labor/wages expense, including outside contractual services, per each utility customer that is included in this study. The average cost for the Algonquin Water and Wastewater groupings are shown on this page.

Page 7 - The same information for RRUI is provided on this page that was shown on page 6 but with all of the APT costs removed. The average cost, after removing all APT costs, for the Algonquin Water and Wastewater groupings are shown on this page.

### **Results of the Study**

Page 1 and 6 of the study shows Algonquin's sewer operations' cost of labor/wages expense, including outside contractual services, per each utility customer is on average 95 percent higher than the other three sewer companies in RUCO's study that utilize the shared services concept. Page 2 and 6 shows Algonquin's sewer operations' cost of labor/wages expense, including outside contractual services, per each utility customer is on average 115 percent higher than the other three stand-alone sewer companies that was included in RUCO's study. When combining RUCO's study samples of three shared services sewer companies (Page 1) and the three stand-alone sewer companies (Page 2), Algonquin on average is higher than the six sample companies by 104 percent.

Page 3, 4, and 6 of the study shows Algonquin's water operations' cost of labor/wages expense, including outside contractual services, per each utility customer is on average 50 percent higher than the eleven water companies in RUCO's study that utilize the shared services concept. Page 5 and of the study shows Algonquin's water operations' cost of labor/wages expense, including outside contractual services, per each utility customer is on average 66 percent higher than the three stand-alone water companies that was included in RUCO's study. When combining RUCO's study samples of seventeen AWC systems, five AZ-AM Districts, and a single Chaparral system that all utilize the shared services concept and the three stand-alone water companies, Algonquin on average is higher than the 26 sample companies by 54 percent.

When all of the APT costs are removed, as shown on page 7 of RUCO's study, Algonquin's sewer operations' cost of labor/wages expense, including outside contractual services, per each utility customer on average decreases from 95 percent higher than the three sewer companies (Page 1) included in RUCO's

study that utilize the shared services concept to 77 percent higher than the three companies in RUCO's study. Page 2 and 7 of the study shows Algonquin's sewer operations' cost of labor/wages expense, including outside contractual services, per each utility customer on average decreases from 115 percent higher to 96 percent higher than the three stand-alone sewer companies that was included in RUCO's study. When combining RUCO's study samples of three shared services sewer companies and three stand-alone sewer companies, Algonquin on average is higher than the six sample companies by 86 percent.

When the APT costs are removed, as shown on page 7 of RUCO's study, Algonquin's water operations' cost of labor/wages expense, including outside contractual services, per each utility customer on average decreases from 50 to 30 percent higher than RUCO's 23 sample water systems (Page 3 and 4) that utilize the shared services concept. When the APT costs are removed, Algonquin's water operations' cost of labor/wages expense, including outside contractual services, per each utility customer on average decreases from 66 percent higher to 44 percent higher than the three stand-alone water companies (Page 5) that was included in RUCO's study. When combining RUCO's study samples of seventeen AWC systems, five AZ-AM districts, and a single Chaparral system that all utilize the shared services concept and the three stand-alone water companies, Algonquin on average is higher than the 26 sample companies by 34 percent.

**SEWER COMPANIES IN ARIZONA  
TOTAL LABOR / WAGE DOLLARS PER CUSTOMER ANALYSIS  
COMPARISON OF ALGONQUIN UTILITIES WITH OTHER ARIZONA WASTEWATER COMPANIES WITH SHARED SERVICES**

Algonquin Wastewater Services

Line No.	Note	2008 Pro-Forma Wages Expensed	2008 Average Customer Count	Annual Wage Cost Per Customer	Monthly Wage Cost Per Customer
1	Rio Rico Utilities, Inc Sewer	1 \$ 482,045	2,071	\$ 232.76	\$ 19.40

Arizona American Water Company

<u>Individual Systems:</u>	Note	As Company Filed	Note	As Company Filed	Annual Wage Cost Per Customer	Monthly Wage Cost Per Customer	Average Cost for AZ-AM
2 Sun City - Sewer	2	1,387,684	3	21,965	63.18	5.26	
3 Sun City West - Sewer	2	1,556,363	3	14,968	103.98	8.66	
4 Mohave Sewer	4	232,661	4	1,235	188.39	15.70	
5 Average Labor and Wage Cost per Customer per Month for AZ-AM Sewer Companies							9.88

Notes:

1. As Filed by the Company in Rebuttal in Docket No. WS-02676A-09-0257
2. As Originally Filed by the Company in Docket No. SW-01303A-09-0343 - 2008 Test Year
3. Water Infrastructure Finance Authority of Arizona (WIFA) 2008 Water and Wastewater Residential Rate Survey for the State of Arizona
4. As Originally Filed by the Company in Docket No. SW-01303A-08-0227 - 2007 Test Year

**SEWER COMPANIES IN ARIZONA**  
**TOTAL LABOR / WAGE DOLLARS PER CUSTOMER ANALYSIS**  
**COMPARISON OF ALGONQUIN UTILITIES WITH OTHER ARIZONA STAND-ALONE WASTEWATER COMPANIES WITHOUT SHARED SERVICES**

Algonquin Wastewater Services

Line No.	Note	2008 Pro-Forma Wages Expensed	2008 Average Customer Count	Annual Wage Cost Per Customer	Monthly Wage Cost Per Customer
1	Rio Rico Utilities, Inc Sewer	1 \$ 482,045	2,071	\$ 232.76	\$ 19.40

Various Arizona Wastewater Companies

Line No.	Note	2008 Annual Report Wages Expensed	2008 Annual Report Customer Count	Annual Wage Cost Per Customer	Monthly Wage Cost Per Customer	Average Cost for Various Co.
2	Ajo Improvement Co. - Sewer	5 87,645	5 1,065	82.32	6.86	
3	Rio Verde Utilities, Inc. - Sewer	5 224,012	5 1,622	138.07	11.51	
4	Far West Sewer	5 724,159	5 7,166	101.05	8.42	
5	Average Labor and Wage Cost per Customer per Month for Various Stand-Alone Arizona Sewer Companies					<u>8.93</u>
6	Average Labor and Wage Cost per Customer each Month for All 6 Companies on Pages 1 & 2					<u>9.40</u>

Notes:

1. As Filed by the Company in Rebuttal in Docket No. WS-02676A-09-0257
5. As Filed by the Various Wastewater Companies in its 2008 Annual Report Filed with the Commission

**WATER COMPANIES IN ARIZONA**  
**TOTAL LABOR / WAGE DOLLARS PER CUSTOMER ANALYSIS**  
**COMPARISON OF ALGONQUIN UTILITIES WITH OTHER ARIZONA WATER COMPANIES WITH SHARED SERVICES**

Algonquin Water Services

	<u>Note</u>	2008 Pro-Forma <u>Wages Expensed</u>	2008 Pro-Forma <u>Customer Count</u>	Annual Wage Cost <u>Per Customer</u>	Monthly Wage Cost <u>Per Customer</u>
Rio Rico Utilities, Inc Water	1	\$ 895,475	6,025	\$ 148.63	\$ 12.39

Arizona Water Company

Line No.	<u>Individual Systems:</u>	<u>Note</u>	2007 Pro-Forma <u>Wages Expensed</u>	2007 Pro-Forma <u>Customer Count</u>	Annual Wage Cost <u>Per Customer</u>	Monthly Wage Cost <u>Per Customer</u>	Average Cost for <u>AZ Water</u>
1	Coolidge Water	2	\$ 352,652	4,703	\$ 74.98	\$ 6.25	
2	Lakeside Water	2	369,614	4,954	74.61	6.22	
3	Sedona Water	2	523,727	6,298	83.16	6.93	
4	Casa Grande	2	1,786,887	22,529	79.31	6.61	
5	Winkelman	2	18,962	168	112.87	9.41	
6	Total Arizona Water Company for All AWC 17 Water Systems	2	8,933,310	82,886	107.78		<u>7.08</u>
							<u>8.98</u>

Arizona American Water Company

	<u>Note</u>	2007 Pro-Forma <u>Wages Expensed</u>	2007 Pro-Forma <u>Customer Count</u>	Annual Wage Cost <u>Per Customer</u>	Monthly Wage Cost <u>Per Customer</u>	Average Cost for <u>AZ-AM</u>
7	Agua Fria Water	3	\$ 4,216,281	34,402	\$ 122.56	\$ 10.21
8	Havasu Water	3	371,202	2,565	144.72	12.06
9	Mohave Water	3	1,840,872	16,635	110.66	9.22
10	Sun City Water	4	2,734,992	23,140	118.19	9.85
11	Sun City West Water	3	1,703,120	15,465	110.13	9.18
12	Average Cost for the 5 AZ-AM Districts listed Above					<u>10.10</u>
13	Average Cost per Month for All 10 Systems on Page 3					<u>9.54</u>

Notes:

1. As Filed by the Company in Rebuttal in Docket No. WS-02676A-09-0257
2. As Originally Filed by the Company in Docket No. W-01445A-08-0440
3. As Originally Filed by the Company in Docket No. W-01303A-08-0227
4. As Originally Filed by the Company in Docket No. W-01303A-09-0343

**WATER COMPANIES IN ARIZONA**  
**TOTAL LABOR / WAGE DOLLARS PER CUSTOMER ANALYSIS**  
**COMPARISON OF ALGONQUIN UTILITIES WITH OTHER ARIZONA WATER COMPANIES WITH SHARED SERVICES**

Algonquin Water Services

	<u>Note</u>	<u>2008 Pro-Forma Wages Expensed</u>	<u>2008 Pro-Forma Customer Count</u>	<u>Annual Wage Cost Per Customer</u>	<u>Monthly Wage Cost Per Customer</u>
Rio Rico Utilities, Inc Water	1	\$ 895,475	6,025	\$ 148.63	\$ 12.39

American States Water

	<u>Note</u>	<u>2006 Pro-Forma Wages Expensed</u>	<u>2006 Average Customer Count</u>	<u>Annual Wage Cost Per Customer</u>	<u>Monthly Wage Cost Per Customer</u>
12 Chaparral City Water Company	5	\$ 1,197,740	13,333	\$ 89.83	\$ 7.49
13 Total Average Costs for Total AWC 17 systems, 5 AZ-AM districts, and 1 Chaparral System that utilize the Shared Services Concept					<u>\$ 8.86</u>

Notes:

1. As Filed by the Company in Rebuttal in Docket No. WS-02676A-09-0257
5. As Originally Filed by the Company in Docket No. W-02113A-07-0551

TOTAL LABOR / WAGE DOLLARS PER CUSTOMER ANALYSIS (continued)  
 COMPARISON OF ALGONQUIN UTILITIES WITH OTHER ARIZONA STAND-ALONE WATER COMPANIES WITHOUT SHARED SERVICES

Algonquin Water Services

	Note	2008 Pro-Forma Wages Expensed	2008 Pro-Forma Customer Count	Annual Wage Cost Per Customer	Monthly Wage Cost Per Customer
Rio Rico Utilities, Inc Water	1	\$ 895,475	6,025	\$ 148.63	\$ 12.39

Various Stand-Alone Water Companies

Line No.	Individual Systems:	Note	2008 Annual Report Wages Expensed	2008 Annual Report Customer Count	Annual Wage Cost Per Customer	Monthly Wage Cost Per Customer	Average Cost for Various Co.
1	Rio Verde Utilities, Inc. - Water	2	\$ 239,802	1,688	\$ 142.06	\$ 11.84	
2	Bermuda Water Company	2	810,371	7,672	105.63	8.80	
3	Lago Del Oro Water Company	2	242,391	6,046	40.09	3.34	
4	Average Cost per Month for the 3 Systems listed Above						7.99
5	Average for Pages 3, 4, and 5						8.64

Notes:

1. As Filed by the Company in Rebuttal in Docket No. WS-02676A-09-0257
2. As Filed by the Company in its 2008 Annual Report Filed with the Commission

**TOTAL LABOR / WAGE DOLLARS PER CUSTOMER ANALYSIS  
INCLUDING APT COSTS AS PROPOSED BY ALGONQUIN UTILITY SERVICES**

Arizona's Algonquin Utility Services

Line No.	Note	Test Year Company Proposed Wages Expensed	Test Year Average Customer Count	Annual Wage Cost Proposed Per Customer	Monthly Wage Cost Proposed Per Customer
1	Black Mountain Sewer	1 \$ 560,744	2,106	\$ 266.26	\$ 22.19
2	LIPSCO Water Division	2 2,405,353	15,594	154.25	12.85
3	LIPSCO Sewer Division	3 2,816,007	14,589	193.02	16.09
4	Rio Rico Utilities, Inc Water	4 895,475	6,025	148.63	12.39
5	Rio Rico Utilities, Inc Sewer	5 482,045	2,071	232.76	19.40
6	Bella Vista Consolidated	6 1,646,008	9,400	175.11	14.59
7	Average for Algonquin Water Companies Above				<u>13.28</u>
8	Average for Algonquin Sewer Companies Above				<u>19.22</u>

Notes:

1. As Filed by the Company in Rejoinder in Docket No. SW-02361A-08-0609
2. As Filed by the Company in Rejoinder in Docket No. SW-01428A-09-0103
2. As Filed by the Company in Rejoinder in Docket No. SW-01428A-09-0103
4. As Filed by the Company in Rebuttal in Docket No. WS-02676A-09-0257
5. As Filed by the Company in Rebuttal in Docket No. WS-02676A-09-0257
6. As Originally Filed by the Company in Direct in Docket No. W-02465A-09-0414, W-20453A-09-0414, and W-20454A-09-0414

**TOTAL LABOR / WAGE DOLLARS PER CUSTOMER ANALYSIS  
WITHOUT THE APT CENTRAL OFFICE COSTS**

Arizona's Algonquin Utility Services

Line No.	Note	Test Year Company Proposed Wages Expensed	Test Year Average Customer Count	Annual Wage Cost Proposed Per Customer	Monthly Wage Cost Proposed Per Customer
1	Black Mountain Sewer	1 \$ 525,277	2,106	\$ 249.42	\$ 20.78
2	LIPSCO Water Division	2 2,094,874	15,594	134.34	11.19
3	LIPSCO Sewer Division	3 2,472,319	14,589	169.46	14.12
4	Rio Rico Utilities, Inc Water	4 764,941	6,025	126.96	10.58
5	Rio Rico Utilities, Inc Sewer	5 438,989	2,071	211.97	17.66
6	Bella Vista Consolidated	6 1,447,487	9,400	153.99	12.83
7	Average for Algonquin Water Companies Above				<u>11.54</u>
8	Average for Algonquin Sewer Companies Above				<u>17.52</u>

Notes:

1. As Filed by the Company in Rejoinder in Docket No. SW-02361A-08-0609
2. As Filed by the Company in Rejoinder in Docket No. SW-01428A-09-0103
2. As Filed by the Company in Rejoinder in Docket No. SW-01428A-09-0103
4. As Filed by the Company in Rebuttal in Docket No. WS-02676A-09-0257
5. As Filed by the Company in Rebuttal in Docket No. WS-02676A-09-0257
6. As Originally Filed by the Company in Direct in Docket No. W-02465A-09-0414, W-20453A-09-0414, and W-20454A-09-0414

**TABLE OF CONTENTS TO TJC SCHEDULES**

SCHEDULE NO.	PAGE NO.	TITLE
TJC-1	1 & 2	REVENUE REQUIREMENT AND GROSS REVENUE CONVERSION FACTOR
TJC-2	1	RATE BASE
TJC-3	1	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
TJC-4 DIRECT PLANT	1	RATE BASE ADJUSTMENT NO. 1 - INTENTIONALLY LEFT BLANK
TJC-5	1	RATE BASE ADJUSTMENT NO. 2 - ACCUMULATED DEFERRED INCOME TAXES
TESTIMONY		RATE BASE ADJUSTMENT NO. 3 - AIAC & CIAC BALANCES PER RUCO DR 1.08 & 1.09
		RATE BASE ADJUSTMENT NO. 4 - INTENTIONALLY LEFT BLANK
		RATE BASE ADJUSTMENT NO. 5 - INTENTIONALLY LEFT BLANK
		RATE BASE ADJUSTMENT NO. 6 - INTENTIONALLY LEFT BLANK
TJC-6	1	OPERATING INCOME
TJC-7	1	SUMMARY OF OPERATING INCOME ADJUSTMENTS
TESTIMONY		OPERATING INCOME ADJUSTMENT NO. 1 - REVENUE ANNUALIZATION
TESTIMONY	1	OPERATING INCOME ADJUSTMENT NO. 2 - PURCHASED POWER INCREASE & EXPENSE ANNUALIZATION
TJC-8	1	OPERATING INCOME ADJUSTMENT NO. 3 - DEPRECIATION EXPENSE
TJC-9	1	OPERATING INCOME ADJUSTMENT NO. 4 - PROPERTY TAX EXPENSE
TJC-10	1	OPERATING INCOME ADJUSTMENT NO. 5 - RATE CASE EXPENSE
TJC-11	1	OPERATING INCOME ADJUSTMENT NO. 6 - MISCELLANEOUS EXPENSE
TJC-12	1	OPERATING INCOME ADJUSTMENT NO. 7 - PURCHASED POWER EXPENSE ADJUSTMENT
TJC-13	1	OPERATING INCOME ADJUSTMENT NO. 8 - TRANSPORTATION EXPENSE
TJC-14	1	OPERATING INCOME ADJUSTMENT NO. 9 - OUT OF TEST YEAR CORPORATE EXPENSES
TJC-15	1	OPERATING INCOME ADJUSTMENT NO. 10 - ACTUAL CORPORATE APT COSTS
TJC-16	1	OPERATING INCOME ADJUSTMENT NO. 11 - APT CORPORATE COSTS ADJUSTMENT
TJC-17	1	OPERATING INCOME ADJUSTMENT NO. 12 - REMOVE UNAMORTIZED RATE CASE EXPENSE
TJC-18	1	OPERATING INCOME ADJUSTMENT NO. 13 - NORMALIZE BAD DEBT EXPENSE
TJC-19	1	OPERATING INCOME ADJUSTMENT NO. 14 - INCOME TAX EXPENSE
TJC-20 & WAR TESTIMONY	1	COST OF CAPITAL

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Adjusted Original Cost/Fair Value Rate Base	\$ 8,455,517	\$ 7,175,864
2	Adjusted Operating Income (Loss)	\$ (214,606)	\$ (3,490)
3	Current Rate of Return (L2 / L1)	-2.54%	-0.05%
4	Required Operating Income (L5 X L1)	\$ 1,048,484	\$ 567,180
5	Required Rate of Return on Fair Value Rate Base	12.40%	7.90%
6	Operating Income Deficiency (L4 - L2)	\$ 1,263,090	\$ 570,670
7	Gross Revenue Conversion Factor (TJC-1, Page 2)	1.6286	1.6286
8	Required Increase in Gross Revenue Requirement (L7 X L6)	<b>\$ 2,057,112</b>	<b>\$ 929,413</b>
9	Adjusted Test Year Revenue	\$ 1,847,256	\$ 1,852,050
10	Proposed Annual Revenue (L8 + L9)	\$ 3,904,369	\$ 2,781,463
15	Required Percentage Increase in Revenue (L8 / L9)	111.36%	50.18%
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	Revenue Conversion Factor (L1 / L3)	<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)	\$ 567,180			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. TJC-1, Pg 1, C (B), L2)	(3,490)			
13	Required Increase In Operating Income (L11 - L12)		\$ 570,670		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 243,594			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	(115,149)			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 358,743		
17	Total Required Increase In Revenue (L13 + L16)		<b>\$ 929,413</b>		
<b>CALCULATION OF INCOME TAX</b>					
<b>RUCO</b>					
<b>Recommended</b>					
18	Revenue (Sch. TJC-1, Pg 1, Col. (B), L12)			\$ 2,781,463	
19	Operating Expense Excluding Income Tax (TJC-7, Col. (E), L27 - L22 - L23)			1,970,689	
20	Synchronized Interest (Col. (C), L37)			179,684	
21	Arizona Taxable Income (L18 - L19 - L20)			\$ 631,091	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				\$ 43,974
24	Fed. Taxable Income (L21 - L23)			\$ 587,116	
25	Fed. Tax on 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax on 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			\$ 6,250	
27	Fed. Tax on 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			\$ 8,500	
28	Fed. Tax on 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			\$ 91,650	
29	Fed. Tax on 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			\$ 85,719	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 199,619
31	Combined Federal and State Income Tax (L23 + L30)				\$ 243,594
32	Test Year Combined Income Tax, RUCO as Adjusted (TJC-7, Col. (C), L22 + L23)				\$ (115,149)
33	RUCO Adjustment (L31 - L32) (See TJC-6, Col. (D), L23)				\$ 358,743
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)			\$ 7,175,864	
				2.50%	
				<b>\$ 179,684</b>	

**RATE BASE - ORIGINAL COST**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant in Service	\$ 34,059,801	\$ -	\$ 34,059,801
2	Less: Accumulated Depreciation	(12,472,661)	-	(12,472,661)
3	Net Utility Plant In Service (Sum L1 & L2)	\$ 21,587,140	\$ -	\$ 21,587,140
	<u>Less:</u>			
4	Advances in Aid of Construction	(73,648)	(48,724)	(122,372)
5	Contribution in Aid of Construction	(20,188,921)	48,724	(20,140,197)
6	Accumulated Amortization of CIAC	6,628,197	-	6,628,197
7	NET CIAC (L5 + L6)	\$ (13,560,724)	\$ 48,724	\$ (13,512,000)
8	Customer Meter Deposits	(275,455)	-	(275,455)
9	Deferred Income Taxes & Credits	778,203	(1,279,653)	(501,450)
	<u>Plus:</u>			
10	Unamortized Debt Issuance Costs	-	-	-
11	Deferred Regulatory Assets	-	-	-
12	Allowance For Working Capital	-	-	-
13	Rounding	1	-	1
14	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	\$ 8,455,517	\$ (1,279,653)	\$ 7,175,864

References:

Column (A): Company Schedule B-1  
Column (B): Schedule TJC-3  
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) ADJMT NO. 1 PLANT & ACCUM DEP.	(C) ADJMT NO. 2 DEFERRED INCOME TAXES	(D) ADJMT NO. 3 PER RUCO DR 1.08	(E) ADJMT NO. 4	(F) ADJMT NO. 5	(G) ADJMT NO. 6	(H) RUCO ADJUSTED OCRB/FVRB
1	Gross Utility Plant in Service	\$ 34,059,801	-	-	-	-	-	-	\$ 34,059,801
2	Less: Accumulated Depreciation	(12,472,661)	-	-	-	-	-	-	(12,472,661)
3	Net Utility Plant in Service (Sum L1 & L2)	<u>\$ 21,587,140</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 21,587,140</u>
4	Less: Advances in Aid of Construction	\$ (73,648)	-	-	(48,724)	-	-	-	\$ (122,372)
5	Contribution in Aid of Construction	(20,188,921)	-	-	48,724	-	-	-	(20,140,197)
6	Accumulated Amortization of CIAC	6,628,197	-	-	-	-	-	-	6,628,197
7	NET CIAC (L5 + L6)	<u>\$ (13,560,724)</u>	<u>-</u>	<u>-</u>	<u>48,724</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ (13,512,000)</u>
8	Customer Meter Deposits	(275,455)	-	-	-	-	-	-	(275,455)
9	Deferred Income Taxes & Credits	778,203	-	(1,279,653)	-	-	-	-	(501,450)
10	Plus: Unamortized Debt Issuance Costs	-	-	-	-	-	-	-	-
11	Deferred Regulatory Assets	-	-	-	-	-	-	-	-
12	Allowance For Working Capital	-	-	-	-	-	-	-	-
13	Rounding	1	-	-	-	-	-	-	1
14	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	<u>\$ 8,455,517</u>	<u>-</u>	<u>\$ (1,279,653)</u>	<u>\$</u>	<u>-</u>	<u>\$</u>	<u>-</u>	<u>\$ 7,175,864</u>

Column (A): Company Schedule B-2  
Column (B): Adjustment #1 - See TJC Testimony  
Column (C): Adjustment No. 2 - Deferred Income Taxes (See Schedule TJC-5)  
Column (D): Adjustment No. 3 - To Adjust AIAC & CIAC Balances Per Company Response to RUCO DR 1.08 and Discussed in TJC Testimony  
Column (E): Adjustment No. 4 - Intentionally Left Blank  
Column (F): Adjustment No. 5 - Intentionally Left Blank

Rio Rico Utilities, Inc.  
Docket No. WS-02676A-09-0257  
Test Year Ended December 31, 2008

Water Division - Surrebuttal Schedules  
Schedule TJC-4  
Page 1 of 1

**RATE BASE ADJUSTMENT NO. 1  
PLANT & ACCUMULATED DEPRECIATION**

Intentionally Left Blank - See TJC Testimony

**RATE BASE ADJUSTMENT NO. 2  
ACCUMULATED DEFERRED INCOME TAXES**

Line No.		<u>Amount</u>	<u>Reference</u>
1	<b><u>Deferred Income Taxes:</u></b>		
2			
3	Algonquin Accumulated Deferred Income Tax Assets	\$ 23,032,000	2008 Algonquin Annual Report
4			
5	Algonquin Accumulated Deferred Income Tax Liabilities	<u>(106,983,000)</u>	2008 Algonquin Annual Report
6			
7	Net Accumulated Deferred Income Tax Assets (Liabilities)	\$ (83,951,000)	Line 3 + Line 5
8			
9	Rio Rico Allocation	<u>0.8997%</u>	Note (A)
10			
11	Rio Rico ADIT Liabilities Allocation	\$ (755,287)	Line 7 X Line 9
12			
13	Convert to US Dollars	<u>0.9400</u>	Note (B)
14			
15	Allocated ADIT Liabilites Balance	\$ (709,970)	Line 11 X Line 13
16			
17	Rio Rico Water Allocation Factor	0.70630	Note (C)
18			
19	Rio Rico Wastewater Allocation Factor	0.29370	Note (C)
20			
21	Rio Rico Water Allocation	<span style="border: 1px solid black; padding: 2px;">\$ (501,450)</span>	Line 15 X Line 17
22			
23	Rio Rico Wastewater Allocation	<span style="border: 1px solid black; padding: 2px;">\$ (208,519)</span>	Line 15 X Line 19
24			
25			
26			
27			
28	<b><u>NOTES:</u></b>		
29	(A) Purchase Price of Rio Rico Utilities, Inc.	\$ 8,800,000	
30	Algonquin Total Assets	978,130,000	
31			
32	Ratio	0.8997%	
33			
34			
35	(B) www.bank-banque-canada.ca on 11/19/2009	0.9400	
36			
37			
38	(C) Rio Rico Water Allocation	0.7063	
39			
40	Rio Rico Wastewater Allocation	0.2937	
41			
42			
43	<b><u>SUPPORTING SCHEDULES</u></b>		
44	2008 Algonquin Power Income Fund Annual Report		

**OPERATING INCOME**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJMTS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
<b>Revenues:</b>						
1	Metered Water Revenues	\$ 1,802,584	\$ 4,794	\$ 1,807,378	\$ 929,413	\$ 2,736,791
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Water Revenues	44,672	-	44,672	-	44,672
4	<b>Total Revenues</b>	<b>\$ 1,847,256</b>	<b>\$ 4,794</b>	<b>\$ 1,852,050</b>	<b>\$ 929,413</b>	<b>\$ 2,781,463</b>
<b>Operating Expenses:</b>						
5	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -
6	Purchased Water	-	-	-	-	-
7	Purchased Power	441,501	(45,671)	395,830	-	395,830
8	Fuel for Power Production	-	-	-	-	-
9	Chemicals	9,347	-	9,347	-	9,347
10	Materials & Supplies	23,150	-	23,150	-	23,150
11	Outside Services	805,032	(107,846)	697,186	-	697,186
12	Outside Services - Other	76,859	-	76,859	-	76,859
13	Outside Services - Legal	487	-	487	-	487
14	Water Testing	-	-	-	-	-
15	Rents	26,954	-	26,954	-	26,954
16	Transportation Expenses	79,315	(6,725)	72,590	-	72,590
17	Insurance - General Liability	37,699	-	37,699	-	37,699
18	Insurance - Health and Life	-	-	-	-	-
19	Regulatory Commission Expense	17,564	(17,564)	-	-	-
20	Reg. Comm. Exp. - Rate Case	70,000	(17,500)	52,500	-	52,500
21	Miscellaneous Expense	14,822	(1,363)	13,459	-	13,459
22	Bad Debt Expense	371	799	1,170	-	1,170
23	Depreciation Expense	463,297	1,687	464,984	-	464,984
24	Taxes Other Than Income	-	-	-	-	-
25	Property Taxes	130,373	(31,900)	98,474	-	98,474
26	Federal Income Tax	(110,555)	16,193	(94,362)	293,982	199,619
27	State Income Tax	(24,354)	3,567	(20,787)	64,761	43,974
28	<b>Total Operating Expenses</b>	<b>\$ 2,061,862</b>	<b>\$ (206,322)</b>	<b>\$ 1,855,540</b>	<b>\$ 358,743</b>	<b>\$ 2,214,283</b>
29	<b>Operating Income</b>	<b>\$ (214,606)</b>	<b>\$ 211,116</b>	<b>\$ (3,490)</b>	<b>\$ 570,670</b>	<b>\$ 567,180</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 ANNUALTYN	(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 PERIOD 3.3.	(I) ADJMT NO. 8 TRANSPORTATION EXPENSE	(J) ADJMT NO. 9 OUT OF PERIOD EXP.	(K) ADJMT NO. 10 CENTRAL OFFICE COSTS	(L) ADJMT NO. 11 CORPORATE ALLOCATION	(M) ADJMT NO. 12 RATE CASE EXPENSE	(N) ADJMT NO. 13 BAD DEBT EXPENSE	(O) ADJMT NO. 14 INCOME TAXES	(P) RICO AS ADJTD.	
1	Revenues:																	
2	Maintain Water Revenues	\$ 1,802,594	\$ 4,794	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,807,378
3	Other Water Revenues	44,632	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	44,632
4	Total Revenues	\$ 1,847,226	\$ 4,794	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,852,050
5	Operating Expenses:																	
6	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7	Purchased Power	441,591	-	2,334	-	-	-	(48,005)	-	-	-	-	-	-	-	-	-	395,830
8	Fuel for Power Production	5,917	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,917
9	Chemicals	23,140	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	23,140
10	Supplies	805,032	-	-	-	-	-	-	-	-	(14,477)	3,274	(88,843)	-	-	-	-	697,186
11	Outside Services - Other	78,859	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	78,859
12	Outside Services - Legal	487	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	487
13	Travel	26,954	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	26,954
14	Telephone	79,315	-	-	-	-	-	-	-	(6,725)	-	-	-	-	-	-	-	72,590
15	Insurance - General Liability	37,899	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	37,899
16	Insurance - Workers Compensation	17,594	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17,594
17	Regulatory Committed Expense	70,000	-	-	-	-	(17,500)	-	-	-	-	-	-	-	-	-	-	52,500
18	Reg. Comm. Exp. - Rate Case	14,822	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	14,822
19	Bad Debt Expense	463,207	-	-	-	-	-	-	-	-	-	-	-	-	192	-	-	463,399
20	Depreciation	130,373	-	-	-	(31,000)	-	-	-	-	-	-	-	-	-	-	-	99,373
21	Property Taxes	7,651,852	-	2,334	1,987	(31,000)	(17,500)	(1,363)	(48,005)	(6,725)	(14,477)	(3,274)	(88,843)	(17,564)	792	18,182	7,552,540	
22	Other Income	(24,354)	-	(2,334)	(1,987)	31,000	17,500	1,363	48,005	6,725	14,477	3,274	88,843	17,564	(792)	(18,182)	(20,731)	
23	Total Operating Expenses	\$ 7,651,852	\$ -	\$ (2,334)	\$ (1,987)	\$ (31,000)	\$ (17,500)	\$ (1,363)	\$ (48,005)	\$ (6,725)	\$ (14,477)	\$ (3,274)	\$ (88,843)	\$ (17,564)	\$ 792	\$ (18,182)	\$ -	\$ 1,855,540
24	Operating Income	\$ (74,626)	\$ 4,794	\$ (2,334)	\$ (1,987)	\$ (31,000)	\$ (17,500)	\$ (1,363)	\$ (48,005)	\$ (6,725)	\$ (14,477)	\$ (3,274)	\$ (88,843)	\$ (17,564)	\$ 792	\$ (18,182)	\$ -	\$ (79,800)

ADJUSTMENTS:  
 1 - Revenue Annualization  
 2 - Purchased Power Expense Increase and Annualization  
 3 - Fuel for Power Production  
 4 - Property Tax Expense  
 5 - Rate Case Expense  
 6 - Miscellaneous Expense  
 7 - Purchased Power Expense Per Staff DR GR 3.3

REFERENCE:  
 TJC Testimony and Schedule TJC-8 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-13  
 TJC Testimony and Schedule TJC-14

ADJUSTMENTS:  
 6 - Transportation Expense  
 7 - Actual Central Office Cost Allocations  
 10 - Actual Central Office Cost Allocations  
 11 - Corporate Allocations  
 12 - Prior Rate Case Unamortized Expense  
 13 - Bad Debt Expense  
 14 - Income Taxes

REFERENCE:  
 Schedule TJC-15 - See TJC Testimony and Schedule TJC-16  
 TJC Testimony and Schedule TJC-17  
 TJC Testimony and Schedule TJC-18  
 TJC Testimony and Schedule TJC-19  
 TJC Testimony and Schedule TJC-20  
 TJC Testimony and Schedule TJC-21

**OPERATING INCOME ADJUSTMENT NO. 3  
TEST YEAR DEPRECIATION EXPENSE**

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) RUCO PLANT VALUE	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301	Organization	\$ 5,785	0.00%	\$ -
2	302	Franchises	417	0.00%	-
3	303	Land and Land Rights	44,194	0.00%	-
4	304	Structures and Improvements	2,732,833	3.33%	91,003
5	305	Collecting and Impounding Res.	-	2.50%	-
6	306	Lake, River and Other Intakes	-	2.50%	-
7	307	Wells and Springs	563,511	3.33%	18,765
8	308	Infiltration Galleries and Tunnels	-	6.67%	-
9	309	Supply Mains	279,153	2.00%	5,583
10	310	Power Generation Equipment	197,120	5.00%	9,856
11	311	Electric Pumping Equipment	2,591,970	12.50%	323,996
12	320	Water Treatment Equipment	372,970	3.33%	12,420
13	320	Water Treatment Equipment	-	3.33%	-
14	320	Chemical Solution Feeders	-	20.00%	-
15	330	Distribution Reservoirs & Standpipe	759,861	2.22%	16,869
16	330	Storage Tanks	-	2.22%	-
17	330	Pressure Tanks	-	5.00%	-
18	331	Transmission & Distribution Mains	22,089,150	2.00%	441,783
19	333	Services	2,209,274	3.33%	73,569
20	334	Meters	956,605	8.33%	79,685
21	335	Hydrants	568,577	2.00%	11,372
22	336	Backflow Prevention Devices	3,848	6.67%	257
23	339	Other Plant and Miscellaneous Equipment	121,843	6.67%	8,127
24	340	Office Furniture and Fixtures	22,986	6.67%	1,533
25	340	Computers and Software	76,919	20.00%	-
26	341	Transportation Equipment	218,945	20.00%	43,789
27	342	Stores Equipment	-	4.00%	-
28	343	Tools and Work Equipment	15,035	5.00%	752
29	344	Laboratory Equipment	3,061	10.00%	306
30	345	Power Operated Equipment	-	5.00%	-
31	346	Communication Equipment	218,040	10.00%	21,804
32	347	Miscellaneous Equipment	7,701	10.00%	770
33	348	Other Tangible Plant	-	10.00%	-
34					
35		TEST YEAR GROSS PLANT AND DEPRECIATION EXPENSE	<u>\$ 34,059,801</u>		<u>\$ 1,162,239</u>
36					
37					
38		AMORTIZATION OF CONTRIBUTIONS	(20,140,197)	3.46%	(697,254)
39					
40		Rounding			(1)
41					
42		<b>TOTAL DEPRECIATION EXPENSE</b>			<u>\$ 464,984</u>
43					
44		Company As Filed			463,297
45		Difference			<u>\$ 1,687</u>
46					
47		RUCO Adjustment			<u>\$ 1,687</u>

**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	\$ 1,852,050	
2	Adjusted Revenues In Year Ended December 2007	Sch. TJC-7, Col (C), Ln 8	1,852,050	
3	Proposed Revenues	Sch. TJC-7, Col (E), Ln 8	<u>2,781,463</u>	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 6,485,564	
5	Average Annual Operating Revenues	Line 4 / 3	<u>2,161,855</u>	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 4,323,709
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Company Schedule E	\$ 95,024	
8	10% Of CWIP	Line 7 X 10%		\$ 9,502
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	RUCO Plant Schedule TJC-4	\$ 218,945	
10	Acc. Dep. Of Transportation Equipment	RUCO Plant Schedule TJC-4	<u>(25,112)</u>	
11	Net Book Value Of Transportation Equipment	Line 9 + Line 10		\$ 193,833
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		<u>\$ 4,139,378</u>
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	\$ 869,269	
Property Tax Rates:				
15	Primary Tax Rate	Company Workpapers	11.3283%	
16	Secondary Tax Rate	Company Workpapers	<u>0.00%</u>	
17	Estimated Tax Rate Liability	Line 15 + Line 16	11.33%	
	Property Tax			\$ 98,473
	Tax On Parcel			-
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		<u>\$ 98,473</u>
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		130,373
20	Decrease In Property Tax Expense	Line 18 - Line 19		\$ (31,900)
		Line 20		<u>\$ (31,900)</u>

**OPERATING INCOME ADJUSTMENT NO. 5  
RATE CASE EXPENSE**

LINE NO.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total	<u>\$ 210,000</u>	<u>\$ (52,500)</u>	<u>\$ 157,500</u>
2	Allocation Factor			100%
3	Water Division - Surrebuttal Schedules (Line 1 X Line 2)			<u>\$ 157,500</u>
4	Normalization Period - 3 Years			3
5	RUCO Adjusted Rate Case Expense (Line 3 / 3 Years)			<u>\$ 52,500</u>
6	Company Rate Case Expenses As Filed (Company Sch. C-2)			<u>\$ 70,000</u>
7	RUCO Pro Forma Rate Case Expense (Lines 5 - 6)			<u>\$ (17,500)</u>
8	RUCO Adjustment (Line 7)			<u>\$ (17,500)</u>

**OPERATING INCOME ADJUSTMENT NO. 6  
MISCELLANEOUS EXPENSE**

LINE NO.	DESCRIPTION	(A) AMOUNT		
1	<u>Miscellaneous Expense - Disallowed:</u>			
2				
3	Family Traditions - Outreach Program	\$ 643		
4	Family Traditions - Outreach Program	450		
5	Arizona Highway Patrol - Donation	150		
6	Rio Rico Rotary Tickets	120		
7				
8	RUCO Miscellaneous Adjustment	<table border="1"><tr><td>\$</td><td>1,363</td></tr></table>	\$	1,363
\$	1,363			
9				
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34	<u>SUPPORTING SCHEDULES</u>			
35	RUCO Work Paper - Miscellaneous Expense Adjustment - Water			
36				
37				
38				
39				
40				
41				

Rio Rico Utilities, Inc.  
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Water Division - Surrebuttal Schedules  
Schedule TJC-12  
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**OPERATING INCOME ADJUSTMENT NO. 7  
PURCHASED POWER**

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Rio Rico Utilities, Inc.  
Docket No. WS-02676A-09-0257  
Test Year Ended December 31, 2008

Water Division - Surrebuttal Schedules  
Schedule TJC-13  
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**OPERATING INCOME ADJUSTMENT NO. 8  
TRANSPORTATION EXPENSE**

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Rio Rico Utilities, Inc.  
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Test Year Ended December 31, 2008

Water Division - Surrebuttal Schedules  
Schedule TJC-14  
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**OPERATING INCOME ADJUSTMENT NO. 9  
OUT OF PERIOD CENTRAL OFFICE COSTS**

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**OPERATING INCOME ADJUSTMENT #10 - ACTUAL CORPORATE COST ALLOCATIONS**

Line No.	Description	Company Actual Costs	RUCO Disallowed Costs	RUCO Other Disallowed Costs	RUCO Allowable Costs	RUCO 2008 Allocation Factor	RUCO Allowed Costs	Allocation % To Rio Rico	RUCO Amount Allocated To Rio Rico
1	Rent	299,586		(299,586)	-	24.29%	-	12.92%	-
2	Audit	1,021,609		(766,207)	255,402	24.29%	62,026	12.92%	8,011.91
3	Tax Services	322,446		(241,835)	80,612	24.29%	19,577	12.92%	2,528.76
4	Legal - General	767,451	(113,853) Note A	(575,588)	78,010	24.29%	18,945	12.92%	2,447.15
5	Other Professional Services	565,649		(565,649)	-	24.29%	-	12.92%	-
6	Management Fee	642,771		(642,771)	-	24.29%	-	12.92%	-
7	Unit Holder Communications	289,796		(289,796)	-	24.29%	-	12.92%	-
8	Trustee Fees	129,000		(129,000)	-	24.29%	-	12.92%	-
9	Office Costs	808,101	(74,847) Note A	(733,254)	-	24.29%	-	12.92%	-
10	Licenses/Fees and Permits	140,852	(140,852) Note A	-	-	24.29%	-	12.92%	-
11	Escrow and Transfer Fees	71,366		(71,366)	-	24.29%	-	12.92%	-
12	Depreciation Expense	211,253		(158,440)	52,813	24.29%	12,826	12.92%	1,656.74
<b>Total</b>		<b>5,269,882</b>	<b>(329,552)</b>	<b>(4,473,492)</b>	<b>466,837</b>		<b>113,375</b>		<b>14,645</b>

RUCO Direct Testimony Amount of APT Costs Allowed 10,009

RUCO Surrebuttal Testimony Additional Amount of Actual APT Costs Allowed 4,636

RUCO Allocation To Rio Rico Water Division (Based on Total Ratio of Rate Base) 0.7063

RUCO Allocation To Rio Rico Wastewater Division (Based on Total Ratio of Rate Base) 0.2937

RUCO's Additional APT Cost Allocation Allowed for Water Division 3,274

RUCO's Additional APT Cost Allocation Allowed for Wastewater Division 1,361

**Note A:**

Per Company Rebuttal Schedule C-2 \$ (113,853)  
Per Company Rebuttal Schedule C-2 (74,847)  
Per Company Rebuttal Schedule C-2 (140,852)

**SUPPORTING SCHEDULES**

2008 Algonquin Power Income Fund Annual Report  
Company's Response to Staff GB 3.2 and 3.10 APT Affiliate Charges - Rio Rico  
Company's Response to Staff GB 3.7 and 3.15

**OPERATING INCOME ADJUSTMENT #11 - CORPORATE ALLOCATIONS**

Line No.	Description	Company Total Cost	RUCO Disallowed Costs	RUCO Other Disallowed Costs	RUCO Allowable Costs	RUCO 2008 Allocation Factor	RUCO Allowed Allocated Costs	Allocation % To Rio Rico	RUCO Amount Allocated To Rio Rico
1	Rent	430,739		(430,739)	-	24.29%	-	12.92%	-
2	Audit	507,000		(380,250)	126,750	24.29%	30,782	12.92%	3,976.12
3	Tax Services	265,000		(198,750)	66,250	24.29%	16,089	12.92%	2,078.25
4	Legal - General	300,000		(225,000)	75,000	24.29%	18,214	12.92%	2,352.73
5	Other Professional Services	455,000		(455,000)	-	24.29%	-	12.92%	-
6	Management Fee	636,619		(636,619)	-	24.29%	-	12.92%	-
7	Unit Holder Communications	314,100		(314,100)	-	24.29%	-	12.92%	-
8	Trustee Fees	204,000		(204,000)	-	24.29%	-	12.92%	-
9	Office Costs	254,100	(49,686) Note A	(204,414)	-	24.29%	-	12.92%	-
10	Licenses/Fees and Permits	305,000	(145,642) Note B	(159,358)	-	24.29%	-	12.92%	-
11	Escrow and Transfer Fees	75,000		(75,000)	-	24.29%	-	12.92%	-
12	Depreciation Expense	204,242		(153,182)	51,061	24.29%	12,400	12.92%	1,601.76
<b>Total</b>		<b>3,950,800</b>	<b>(195,328)</b>	<b>(3,436,412)</b>	<b>319,061</b>		<b>77,486</b>		<b>10,009</b>

RUCO Allocation To Rio Rico Water Division (Based on Total Ratio of Rate Base)

70.9536%

RUCO Allocation To Rio Rico Wastewater Division (Based on Total Ratio of Rate Base)

29.0464%

Company's APT Cost Allocation for Water Division (Per Staff DR GB 3.7 & GB 3.15)

\$ 103,745

RUCO's APT Cost Allocation Allowed for Water Division

7,102

RUCO's APT Cost Allocation Adjustment for Water Division

(96,643)

Company's APT Cost Allocation for Wastewater Division (Per Staff DR GB 3.7 & GB 3.15)

\$ 34,582

RUCO's APT Cost Allocation Allowed for Wastewater Division

2,907

RUCO's APT Cost Allocation Adjustment for Wastewater Division

(31,675)

**Note A:**

Description	Amount
Office Costs	Wind Analysis Software \$ 15,056
Office Costs	Gold Watches & Clocks 16,864
Office Costs	Pilsner Beer Glasses 5,700
Office Costs	Leafs/Raptors Tickets 5,066
Office Costs	Super Bowl Tickets 7,000
<b>Total</b>	<b>\$ (49,686)</b>

**Note B:**

Description	Amount
Licenses/Fees and Permits	Donation \$ 25,000
Licenses/Fees and Permits	Donation 25,000
Licenses/Fees and Permits	Donation 13,350
Licenses/Fees and Permits	Donation 5,000
Licenses/Fees and Permits	Wind Developm 7,887
Licenses/Fees and Permits	US Trustee 9,375
Licenses/Fees and Permits	Wind Energy 12,556
Licenses/Fees and Permits	APF Inc Taxes 6,891
Licenses/Fees and Permits	APF Inc Taxes 6,794
Licenses/Fees and Permits	APF Inc Taxes 23,789
Licenses/Fees and Permits	KMS Tax Ruling 10,000

Total

\$ (145,642)

**SUPPORTING SCHEDULES**

2008 Algonquin Power Income Fund Annual Report  
Company's Response to Staff GB 3.2 and 3.10 APT Affiliate Charges - Rio Rico  
Company's Response to Staff GB 3.7 and 3.15

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**OPERATING INCOME ADJUSTMENT NO. 12  
REMOVE UNAMORTIZED PRIOR RATE CASE EXPENSE**

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**OPERATING INCOME ADJUSTMENT NO. 13  
BAD DEBT EXPENSE**

LINE NO.	DESCRIPTION	(A) AMOUNT
1	<u>Normalize Bad Debt Expense:</u>	
2		
3	2008 Bad Debt Expense	\$ 371
4	2007 Bad Debt Expense	-
5	2006 Bad Debt Expense	3,140
6		
7	3 Year Normalization	\$ 1,170
8		
9	Company As Filed	371
10		
11	RUCO Adjustment	\$ 799
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38	<u>SUPPORTING SCHEDULES</u>	
39	Company Schedule E-2	
40		
41		

**OPERATING INCOME ADJUSTMENT #14  
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	\$ (118,639)
LESS:			
2	Arizona State Tax	Line 11	(20,787)
3	Interest Expense	Note (A) Line 21	179,684
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ (277,535)
5	Federal Tax Rate	Sch. TJC-1, Pg 2, Col. (D), L34	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	\$ (94,362)
<b>STATE INCOME TAXES:</b>			
7	Operating Income Before Taxes	Line 1	\$ (118,639)
LESS:			
8	Interest Expense	Note (A) Line 21	179,684
9	State Taxable Income	Line 7 - Line 8	\$ (298,322)
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ (20,787)
<b>TOTAL INCOME TAX EXPENSE:</b>			
12	Federal Income Tax Expense	Line 6	\$ (94,362)
13	State Income Tax Expense	Line 11	(20,787)
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ (115,149)
15	Total Federal Income Tax Expense Per Company (Per Company Sch. C-1, L28)		(110,555)
16	Total State Income Tax Expense Per Company (Per Company Sch. C-1, L28)		(24,354)
17	RUCO Federal Income Tax Adjustment	Line 12 - Line 15	\$ 16,193
18	RUCO State Income Tax Adjustment	Line 13 - Line 16	\$ 3,567
<b>NOTE (A):</b>			
Interest Synchronization:			
19	Adjusted Rate Base (Sch. TJC-2, Col. (H), L17)	\$ 7,175,864	
20	Weighted Cost Of Debt (Sch. TJC-16 Col. (F), L1)	2.50%	
		\$ 179,684	

**COST OF CAPITAL**

LINE NO.	DESCRIPTION	(B) CAPITAL RATIO	(C) COST RATE	(D) WEIGHTED COST RATE
1	Long-Term Debt	40.00%	6.26%	2.50%
2	Common Equity	<u>60.00%</u>	9.00%	<u>5.40%</u>
3	Total Capitalization	<u>100.00%</u>		
4	WEIGHTED AVERAGE COST OF CAPITAL			<b>7.90%</b>

References:

Columns (A) Thru (D): Testimony, WAR

**TABLE OF CONTENTS TO TJC SCHEDULES**

SCHEDULE NO.	PAGE NO.	TITLE
TJC-1	1 & 2	REVENUE REQUIREMENT AND GROSS REVENUE CONVERSION FACTOR
TJC-2	1	RATE BASE
TJC-3	1	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
TJC-4 DIRECT PLANT	1	RATE BASE ADJUSTMENT NO. 1 - INTENTIONALLY LEFT BLANK
TJC-5	1	RATE BASE ADJUSTMENT NO. 2 - ACCUMULATED DEFERRED INCOME TAXES
TESTIMONY		RATE BASE ADJUSTMENT NO. 3 - AIAC & CIAC BALANCES PER RUCO DR 1.08 & 1.09
		RATE BASE ADJUSTMENT NO. 4 - INTENTIONALLY LEFT BLANK
		RATE BASE ADJUSTMENT NO. 5 - INTENTIONALLY LEFT BLANK
		RATE BASE ADJUSTMENT NO. 6 - INTENTIONALLY LEFT BLANK
TJC-6	1	OPERATING INCOME
TJC-7	1	SUMMARY OF OPERATING INCOME ADJUSTMENTS
TESTIMONY		OPERATING INCOME ADJUSTMENT NO. 1 - REVENUE ANNUALIZATION
TESTIMONY	1	OPERATING INCOME ADJUSTMENT NO. 2 - PURCHASED POWER INCREASE & EXPENSE ANNUALIZATION
TJC-8	1	OPERATING INCOME ADJUSTMENT NO. 3 - DEPRECIATION EXPENSE
TJC-9	1	OPERATING INCOME ADJUSTMENT NO. 4 - PROPERTY TAX EXPENSE
TJC-10	1	OPERATING INCOME ADJUSTMENT NO. 5 - RATE CASE EXPENSE
TJC-11	1	OPERATING INCOME ADJUSTMENT NO. 6 - MISCELLANEOUS EXPENSE
TJC-12	1	OPERATING INCOME ADJUSTMENT NO. 7 - PURCHASED POWER EXPENSE ADJUSTMENT
TJC-13	1	OPERATING INCOME ADJUSTMENT NO. 8 - TRANSPORTATION EXPENSE
TJC-14	1	OPERATING INCOME ADJUSTMENT NO. 9 - OUT OF TEST YEAR CORPORATE EXPENSES
TJC-15	1	OPERATING INCOME ADJUSTMENT NO. 10 - ACTUAL CORPORATE APT COSTS
TJC-16	1	OPERATING INCOME ADJUSTMENT NO. 11 - APT CORPORATE COSTS ADJUSTMENT
TJC-17	1	OPERATING INCOME ADJUSTMENT NO. 12 - REMOVE UNAMORTIZED RATE CASE EXPENSE
TJC-18	1	OPERATING INCOME ADJUSTMENT NO. 13 - NORMALIZE BAD DEBT EXPENSE
TJC-19	1	OPERATING INCOME ADJUSTMENT NO. 14 - INCOME TAX EXPENSE
TJC-20 & WAR TESTIMONY	1	COST OF CAPITAL

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	\$ 2,983,957
2	Adjusted Operating Income (Loss)	\$ 490,676	\$ 539,140
3	Current Rate of Return (L2 / L1)	13.96%	18.07%
4	Required Operating Income (L5 X L1)	\$ 435,994	\$ 235,852
5	Required Rate of Return on Fair Value Rate Base	12.40%	7.90%
6	Operating Income Deficiency (L4 - L2)	\$ (54,682)	\$ (303,288)
7	Gross Revenue Conversion Factor (TJC-1, Page 2)	1.6286	1.6286
8	Required Increase in Gross Revenue Requirement (L7 X L6)	<b>\$ (89,058)</b>	<b>\$ (493,946)</b>
9	Adjusted Test Year Revenue	\$ 1,829,976	\$ 1,834,481
10	Proposed Annual Revenue (L8 + L9)	\$ 1,740,918	\$ 1,340,535
15	Required Percentage Increase in Revenue (L8 / L9)	-4.87%	-26.93%
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)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
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>			
CALCULATION OF EFFECTIVE TAX RATE:					
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)	\$ 235,852			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. TJC-1, Pg 1, C (B), L2)	539,140			
13	Required Increase In Operating Income (L11 - L12)		\$ (303,288)		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 101,294			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	291,952			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ (190,657)		
17	Total Required Increase In Revenue (L13 + L16)		\$ (493,946)		
RUCO					
CALCULATION OF INCOME TAX					
18	Revenue (Sch. TJC-1, Pg 1, Col. (B), L12)			Recommended	
19	Operating Expense Excluding Income Tax (TJC-7, Col. (E), L27 - L22 - L23)			\$ 1,340,535	
20	Synchronized Interest (Col. (C), L37)			1,003,389	
21	Arizona Taxable Income (L18 - L19 - L20)			74,718	
22	Arizona State Income Tax Rate			\$ 262,428	
23	Arizona Income Tax (L21 X L22)			6.9680%	\$ 18,286
24	Fed. Taxable Income (L21 - L23)			\$ 244,142	
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%			\$ 83,008	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)			\$ 83,008	
31	Combined Federal and State Income Tax (L23 + L30)			\$ 101,294	
32	Test Year Combined Income Tax, RUCO as Adjusted (TJC-7, Col. (C), L22 + L23)			\$ 291,952	
33	RUCO Adjustment (L31 - L32) (See TJC-6, Col. (D), L23)			\$ (190,657)	
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				34.00%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. TJC-2, Col. (C), L17)			\$ 2,983,957	
				2.50%	
				\$ 74,718	

**RATE BASE - ORIGINAL COST**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant in Service	\$ 11,829,043	\$ -	\$ 11,829,043
2	Less: Accumulated Depreciation	<u>(5,110,028)</u>	<u>-</u>	<u>(5,110,028)</u>
3	Net Utility Plant In Service (Sum L1 & L2)	\$ 6,719,014	\$ -	\$ 6,719,014
	<u>Less:</u>			
4	Advances in Aid of Construction	861	(238,783)	(237,922)
5	Contribution in Aid of Construction	(5,376,456)	238,783	(5,137,673)
6	Accumulated Amortization of CIAC	<u>1,944,057</u>	<u>-</u>	<u>1,944,057</u>
7	NET CIAC (L5 + L6)	\$ <u>(3,432,399)</u>	\$ <u>238,783</u>	\$ <u>(3,193,616)</u>
8	Customer Meter Deposits	(95,000)	-	(95,000)
9	Deferred Income Taxes & Credits	323,602	(532,121)	(208,519)
	<u>Plus:</u>			
10	Unamortized Debt Issuance Costs	-	-	-
11	Deferred Regulatory Assets	-	-	-
12	Allowance For Working Capital	-	-	-
13	Rounding	<u>-</u>	<u>-</u>	<u>-</u>
14	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	\$ <u>3,516,078</u>	\$ <u>(532,121)</u>	\$ <u>2,983,957</u>

References:  
Column (A): Company Schedule B-1  
Column (B): Schedule TJC-3  
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) ADJMT NO. 1 PLANT & ACCUM DEP.	(C) ADJMT NO. 2 DEFERRED INCOME TAXES	(D) ADJMT NO. 3 PER RUCO DR 1.08	(E) ADJMT NO. 4	(F) ADJMT NO. 5	(G) ADJMT NO. 6	(H) RUCO ADJUSTED OCRB/FVRB
1	Gross Utility Plant in Service	\$ 11,829,043	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,829,043
2	Less: Accumulated Depreciation	(5,110,028)	-	-	-	-	-	-	(5,110,028)
3	Net Utility Plant in Service (Sum L1 & L2)	<u>\$ 6,719,014</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,719,014</u>
4	Less:								
4	Advances in Aid of Construction	\$ 861	\$ -	\$ (238,783)	\$ -	\$ -	\$ -	\$ -	\$ (237,922)
5	Contribution in Aid of Construction	(5,376,456)	-	238,783	-	-	-	-	(5,137,673)
6	Accumulated Amortization of CIAC	1,944,057	-	-	-	-	-	-	1,944,057
7	NET CIAC (L5 + L6)	<u>\$ (3,432,399)</u>	<u>\$ -</u>	<u>\$ 238,783</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,193,616)</u>
8	Customer Meter Deposits	(95,000)	-	-	-	-	-	-	(95,000)
9	Deferred Income Taxes & Credits	323,602	-	(532,121)	-	-	-	-	(208,519)
10	Plus:								
10	Unamortized Debt Issuance Costs	-	-	-	-	-	-	-	-
11	Deferred Regulatory Assets	-	-	-	-	-	-	-	-
12	Allowance For Working Capital	-	-	-	-	-	-	-	-
13	Rounding	-	-	-	-	-	-	-	-
14	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	<u>\$ 3,516,078</u>	<u>\$ -</u>	<u>\$ (532,121)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,983,957</u>

Column (A): Company Schedule B-2  
 Column (B): Adjustment #1 - See TJC Testimony  
 Column (C): Adjustment No. 2 - Deferred Income Taxes (See Schedule TJC-5)  
 Column (D): Adjustment No. 3 - To Adjust AIAC & CIAC Balances Per Company Response to RUCO DR 1.08 and Discussed in TJC Testimony  
 Column (E): Adjustment No. 4 - Intentionally Left Blank  
 Column (F): Adjustment No. 5 - Intentionally Left Blank

**RATE BASE ADJUSTMENT NO. 1  
PLANT & ACCUMULATED DEPRECIATION**

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>(A) AMOUNT</u>
1	Intentionally Left Blank - See TJC Testimony	
2		
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**RATE BASE ADJUSTMENT NO. 2  
ACCUMULATED DEFERRED INCOME TAXES**

Line No.		<u>Amount</u>	<u>Reference</u>
1	<b><u>Deferred Income Taxes:</u></b>		
2			
3	Algonquin Accumulated Deferred Income Tax Assets	\$ 23,032,000	2008 Algonquin Annual Report
4			
5	Algonquin Accumulated Deferred Income Tax Liabilities	<u>(106,983,000)</u>	2008 Algonquin Annual Report
6			
7	Net Accumulated Deferred Income Tax Assets (Liabilities)	\$ (83,951,000)	Line 3 + Line 5
8			
9	Rio Rico Allocation	<u>0.8997%</u>	Note (A)
10			
11	Rio Rico ADIT Liabilities Allocation	\$ (755,287)	Line 7 X Line 9
12			
13	Convert to US Dollars	<u>0.9400</u>	Note (B)
14			
15	Allocated ADIT Liabilites Balance	\$ (709,970)	Line 11 X Line 13
16			
17	Rio Rico Water Allocation Factor	0.70630	Note (C)
18			
19	Rio Rico Wastewater Allocation Factor	0.29370	Note (C)
20			
21	Rio Rico Water Allocation	<u>\$ (501,450)</u>	Line 15 X Line 17
22			
23	Rio Rico Wastewater Allocation	<u>\$ (208,519)</u>	Line 15 X Line 19
24			
25			
26			
27			
28	<b><u>NOTES:</u></b>		
29	(A) Purchase Price of Rio Rico Utilities, Inc.	\$ 8,800,000	
30	Algonquin Total Assets	978,130,000	
31			
32	Ratio	0.8997%	
33			
34			
35	(B) www.bank-banque-canada.ca on 11/19/2009	0.9400	
36			
37			
38	(C) Rio Rico Water Allocation	0.70630	
39			
40	Rio Rico Wastewater Allocation	0.29370	
41			
42			
43	<b><u>SUPPORTING SCHEDULES</u></b>		
44	2008 Algonquin Power Income Fund Annual Report		

**OPERATING INCOME**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJ'MTS	(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	\$ 4,505	\$ 1,834,231	\$ (493,946)	\$ 1,340,285
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Water Revenues	250	-	250	-	250
4	Total Revenues	\$ 1,829,976	\$ 4,505	\$ 1,834,481	\$ (493,946)	\$ 1,340,535
<b>Operating Expenses:</b>						
5	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -
6	Purchased Water and WW Treatment	-	-	-	-	-
7	Purchased Power	17,426	48,393	65,819	-	65,819
8	Fuel for Power Production	-	-	-	-	-
9	Chemicals	9,644	212	9,856	-	9,856
10	Materials & Supplies	14,304	-	14,304	-	14,304
11	Contractual Services	298,008	(30,258)	267,750	-	267,750
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	(2,242)	24,575	-	24,575
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	(12,189)	79,516	-	79,516
26	Federal Income Tax	252,773	(13,525)	239,248	(156,239)	83,008
27	State Income Tax	55,684	(2,979)	52,704	(34,418)	18,286
28	<b>Total Operating Expenses</b>	<b>\$ 1,339,300</b>	<b>\$ (43,959)</b>	<b>\$ 1,295,341</b>	<b>\$ (190,657)</b>	<b>\$ 1,104,683</b>
29	<b>Operating Income</b>	<b>\$ 490,676</b>	<b>\$ 48,464</b>	<b>\$ 539,140</b>	<b>\$ (303,288)</b>	<b>\$ 235,852</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 ANNUALIZED	(C) ADJMT NO. 2 EXPENSE ANNUALIZED	(D) ADJMT NO. 3 DEPRECIATION EXPENSE	(E) ADJMT NO. 4 PROPERTY TAX	(F) ADJMT NO. 5 RATE CASE EXPENSE	(G) ADJMT NO. 6 BLANK	(H) ADJMT NO. 7 PURCH POWER PER GB3.8	(I) ADJMT NO. 8 TRANSPORTATION EXPENSE	(J) ADJMT NO. 9 BLANK	(K) ADJMT NO. 10 CENTRAL OFFICE COSTS	(L) ADJMT NO. 11 CORPORATE ALLOCATION	(M) ADJMT NO. 12 BLANK	(N) ADJMT NO. 13 BAD DEBT EXPENSE	(O) ADJMT NO. 14 INCOME TAXES	(P) RUCO AS ADJUTD.	
1	Revenues:																	
2	Mixed Water Revenues	\$ 1,829,128	\$ 4,505															\$ 1,833,633
3	Unmetered Water Revenues	252																252
4	Other Water Revenues	1,829,380	4,505															1,833,882
	Total Revenues	\$ 3,658,760	\$ 9,010															\$ 3,667,964
5	Operating Expenses:																	
6	Salaries and Wages	17,408																17,408
7	Travel and Entertainment	8,944																8,944
8	Fuel for Power Production	388							48,005									48,393
9	Chemicals	212																212
10	Repairs	289,008																289,008
11	Contractual Services	175,188										1,346	(31,804)					143,730
12	Outside Services - Other	387																387
13	Outside Services - Legal	25,181																25,181
14	Equipment Rental	26,817																26,817
15	Building	12,021																12,021
16	Transportation Expenses	884																884
17	Insurance - General Liability	41,887																41,887
18	Insurance - Vehicle	155																155
19	Insurance - Workers Compensation	252,872																252,872
20	Roy. Comm. Exp. - Rate Case	9,281					(10,417)											(1,136)
21	Miscellaneous Expense	54,177																54,177
22	Bad Debt Expense	252,872																252,872
23	Interest on Debt	9,705																9,705
24	Taxes Other Than Income	52,164																52,164
25	Property Taxes	1,339,300																1,339,300
26	Federal Income Tax	49,095																49,095
27	Total Operating Expenses	\$ 3,658,760	\$ (9,010)				\$ (10,417)		\$ (48,005)			\$ (1,346)	\$ (31,804)		\$ (30,315)			\$ 3,568,973
28	Operating Income						\$ (10,417)		\$ (48,005)			\$ (1,346)	\$ (31,804)		\$ (30,315)			\$ 1,098,991

ADJUSTMENTS:

- Revenue Annualization
- Purchased Power Expense Increase and Annualization
- Property Tax Expense
- Rate Case Expense
- Intentionally Left Blank
- Purchased Power Expense Per Staff DR 03 2.8

REFERENCE:

- TJC Testimony and Schedule TJC-8 Pages 1 thru 15
- TJC Testimony and Schedule TJC-9
- TJC Testimony and Schedule TJC-10
- TJC Testimony and Schedule TJC-11
- TJC Testimony and Schedule TJC-12
- Schedule TJC-13 - Intentionally Left Blank
- Schedule TJC-14 - See TJC Testimony

ADJUSTMENTS:

- Transportation Expense
- Intentionally Left Blank
- Corporate Allocations
- Intentionally Left Blank
- Bad Debt Expense
- Income Taxes

REFERENCE:

- Schedule TJC-14 - See TJC Testimony
- Intentionally Left Blank
- TJC Testimony and Schedule TJC-17
- TJC Testimony and Schedule TJC-18
- Intentionally Left Blank
- Schedule TJC-20 - See TJC Testimony
- TJC Testimony and Schedule TJC-21

**OPERATING INCOME ADJUSTMENT NO. 3  
TEST YEAR DEPRECIATION EXPENSE**

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) RUCO PLANT VALUE	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	351	Organization	\$ 5,785	0.00%	\$ -
2	352	Franchises	417	0.00%	-
3	353	Land	7,545	0.00%	-
4	354	Structures and Improvements	28,548	3.33%	951
5	355	Power Generation	-	5.00%	-
6	360	Collection Sewer Forced	638,023	2.00%	12,720
7	361	Collection Sewers Gravity	5,945,962	2.00%	118,919
8	362	Special Collecting Structures	-	2.00%	-
9	363	Customer Services	1,145,530	2.00%	22,911
10	364	Flow Measuring Devices	55,989	10.00%	5,599
11	365	Flow Measuring Installation	-	10.00%	-
12	366	Reuse Services	-	2.00%	-
13	367	Reuse Meters And Installation	-	8.33%	-
14	370	Receiving Wells	867,120	3.33%	28,875
15	371	Pumping Equipment	1,504,181	12.50%	188,023
16	374	Reuse Distribution Reservoirs	-	2.50%	-
17	375	Reuse Trans. and Dist. System	-	2.50%	-
18	380	Treatment & Disposal Equipment	1,006,848	5.00%	50,342
19	381	Plant Sewers	-	5.00%	-
20	382	Outfall Sewer Lines	-	3.33%	-
21	389	Other Sewer Plant & Equipment	68,869	6.67%	4,594
22	390	Office Furniture & Equipment	110,454	6.67%	7,367
23	390	Computers and Software	4,025	20.00%	805
24	391	Transportation Equipment	-	20.00%	-
25	392	Stores Equipment	-	4.00%	-
26	393	Tools, Shop And Garage Equip	4,897	5.00%	245
27	394	Laboratory Equip	-	10.00%	-
28	396	Communication Equip	5,936	10.00%	594
29	398	Other Tangible Plant	3,913	4.00%	157
30	398	Nogales WW Trmnt Capacity	427,000	5.00%	21,350
31	346	Rounding	1		
32					
33		TEST YEAR GROSS PLANT AND DEPRECIATION EXPENSE	<u>\$ 11,829,043</u>		<u>\$ 463,451</u>
34					
35					
36		AMORTIZATION OF CONTRIBUTIONS	(5,137,673)	3.92%	(201,418)
37					
38		Rounding			
39					
40		<b>TOTAL DEPRECIATION EXPENSE</b>			<u>\$ 262,033</u>
41					
42		Company As Filed			252,672
43		Difference			<u>\$ 9,361</u>
44					
45		RUCO Adjustment			<u>\$ 9,361</u>
46					
47					

**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	\$ 1,834,481	
2	Adjusted Revenues In Year Ended December 2007	Sch. TJC-7, Col (C), Ln 8	1,834,481	
3	Proposed Revenues	Sch. TJC-7, Col (E), Ln 8	<u>1,340,535</u>	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 5,009,497	
5	Average Annual Operating Revenues	Line 4 / 3	<u>1,669,832</u>	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 3,339,664
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		<u>\$ 3,342,479</u>
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	\$ 701,921	
Property Tax Rates:				
15	Primary Tax Rate	Company Workpapers	11.3283%	
16	Secondary Tax Rate	Company Workpapers	<u>0.00%</u>	
17	Estimated Tax Rate Liability	Line 15 + Line 16	11.33%	
	Property Tax			\$ 79,516
	Tax On Parcel			-
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		<u>\$ 79,516</u>
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		\$ (12,189)
		Line 20		<u>\$ (12,189)</u>

**OPERATING INCOME ADJUSTMENT NO. 5  
 RATE CASE EXPENSE**

LINE NO.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total	<u>\$ 125,000</u>	<u>\$ (31,250)</u>	<u>\$ 93,750</u>
2	Allocation Factor			100%
3	Wastewater Division - Surrebuttal Schedule (Line 1 X Line 2)			<u>\$ 93,750</u>
4	Normalization Period - 3 Years			3
5	RUCO Adjusted Rate Case Expense (Line 3 / 3 Years)			<u>\$ 31,250</u>
6	Company Rate Case Expenses As Filed (Company Sch. C-2)			<u>\$ 41,667</u>
7	RUCO Pro Forma Rate Case Expense (Lines 5 - 6)			<u>\$ (10,417)</u>
8	RUCO Adjustment (Line 7)			<u>\$ (10,417)</u>

**OPERATING INCOME ADJUSTMENT NO. 6  
MISCELLANEOUS EXPENSE**

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>(A) AMOUNT</u>
1	Intentionally Left Blank - See TJC Testimony	
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Rio Rico Utilities, Inc.  
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Test Year Ended December 31, 2008

Wastewater Division - Surrebuttal Schedules  
Schedule TJC-12  
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**OPERATING INCOME ADJUSTMENT NO. 7  
PURCHASED POWER**

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Rio Rico Utilities, Inc.  
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Test Year Ended December 31, 2008

Wastewater Division - Surrebuttal Schedules  
Schedule TJC-13  
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**OPERATING INCOME ADJUSTMENT NO. 8  
TRANSPORTATION EXPENSE**

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Rio Rico Utilities, Inc.  
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Test Year Ended December 31, 2008

Wastewater Division - Surrebuttal Schedules  
Schedule TJC-14  
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**OPERATING INCOME ADJUSTMENT NO. 9  
OUT OF PERIOD CENTRAL OFFICE COSTS**

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**OPERATING INCOME ADJUSTMENT #10 - ACTUAL CORPORATE COST ALLOCATIONS**

Line No.	Description	Company Actual Costs	RUCO Disallowed Costs	RUCO Other Disallowed Costs	RUCO Allowable Costs	RUCO 2008 Allocation Factor	RUCO Allowed Costs	Allocation % To Rio Rico	RUCO Amount Allocated To Rio Rico
1	Rent	299,586		(299,586)	-	24.29%	-	12.92%	-
2	Audit	1,021,609		(766,207)	255,402	24.29%	62,026	12.92%	8,011.91
3	Tax Services	322,446		(241,835)	80,612	24.29%	19,577	12.92%	2,528.76
4	Legal - General	767,451	(113,853) Note A	(575,588)	78,010	24.29%	18,945	12.92%	2,447.15
5	Other Professional Services	565,649		(565,649)	-	24.29%	-	12.92%	-
6	Management Fee	642,771		(642,771)	-	24.29%	-	12.92%	-
7	Unit Holder Communications	289,796		(289,796)	-	24.29%	-	12.92%	-
8	Trustee Fees	129,000		(129,000)	-	24.29%	-	12.92%	-
9	Office Costs	808,101	(74,847) Note A	(733,254)	-	24.29%	-	12.92%	-
10	Licenses/Fees and Permits	140,852	(140,852) Note A	-	-	24.29%	-	12.92%	-
11	Escrow and Transfer Fees	71,366		(71,366)	-	24.29%	-	12.92%	-
12	Depreciation Expense	211,253		(158,440)	52,813	24.29%	12,826	12.92%	1,656.74
<b>Total</b>		<b>5,269,882</b>	<b>(329,552)</b>	<b>(4,473,492)</b>	<b>466,837</b>		<b>113,375</b>		<b>14,645</b>

RUCO Direct Testimony Amount of APT Costs Allowed	10,009
RUCO Surrebuttal Testimony Additional Amount of Actual APT Costs Allowed	4,636
RUCO Allocation To Rio Rico Water Division (Based on Total Ratio of Rate Base)	70.9536%
RUCO Allocation To Rio Rico Wastewater Division (Based on Total Ratio of Rate Base)	29.0464%
RUCO's Additional APT Cost Allocation Allowed for Water Division	3,289
RUCO's Additional APT Cost Allocation Allowed for Wastewater Division	1,346

**Note A:**

Per Company Rebuttal Schedule C-2	\$ (113,853)
Per Company Rebuttal Schedule C-2	(74,847)
Per Company Rebuttal Schedule C-2	(140,852)

**SUPPORTING SCHEDULES**

2008 Algonquin Power Income Fund Annual Report  
Company's Response to Staff GB 3.2 and 3.10 APT Affiliate Charges - Rio Rico  
Company's Response to Staff GB 3.7 and 3.15

**OPERATING INCOME ADJUSTMENT #11- CORPORATE ALLOCATIONS**

Line No.	Description	Company Total Cost	RUCO Disallowed Costs	RUCO Other Disallowed Costs	RUCO Allowable Costs	RUCO 2008 Allocation Factor	RUCO Allowed Allocated Costs	Allocation % To Rio Rico	RUCO Amount Allocated To Rio Rico
1	Rent	430,739		(430,739)	-	24.29%	-	12.92%	-
2	Audit	507,000		(380,250)	126,750	24.29%	30,782	12.92%	3,976.12
3	Tax Services	265,000		(198,750)	66,250	24.29%	16,089	12.92%	2,078.25
4	Legal - General	300,000		(225,000)	75,000	24.29%	18,214	12.92%	2,352.73
5	Other Professional Services	455,000		(455,000)	-	24.29%	-	12.92%	-
6	Management Fee	636,619		(636,619)	-	24.29%	-	12.92%	-
7	Unit Holder Communications	314,100		(314,100)	-	24.29%	-	12.92%	-
8	Trustee Fees	204,000		(204,000)	-	24.29%	-	12.92%	-
9	Office Costs	254,100	(46,186) <b>Note A</b>	(207,914)	-	24.29%	-	12.92%	-
10	Licenses/Fees and Permits	305,000	(145,642) <b>Note B</b>	(159,358)	-	24.29%	-	12.92%	-
11	Escrow and Transfer Fees	75,000		(75,000)	-	24.29%	-	12.92%	-
12	Depreciation Expense	204,242		(153,182)	51,061	24.29%	12,400	12.92%	1,601.76
<b>Total</b>		<b>3,950,800</b>	<b>(191,828)</b>	<b>(3,439,912)</b>	<b>319,061</b>		<b>77,486</b>		<b>10,009</b>

RUCO Allocation To Rio Rico Water Division (Based on Total Ratio of Rate Base)

70.2482%

RUCO Allocation To Rio Rico Wastewater Division (Based on Total Ratio of Rate Base)

29.7518%

Company's APT Cost Allocation for Water Division (Per Staff DR GB 3.7 & GB 3.15)

\$ 103,745

RUCO's APT Cost Allocation Allowed for Water Division

7,031

RUCO's APT Cost Allocation Adjustment for Water Division

(96,714)

Company's APT Cost Allocation for Wastewater Division (Per Staff DR GB 3.7 & GB 3.15)

\$ 34,582

RUCO's APT Cost Allocation Allowed for Wastewater Division

2,978

RUCO's APT Cost Allocation Adjustment for Wastewater Division

(31,604)

**Note A:**

Description	Amount
Office Costs	Wind Analysis Software \$ 15,056
Office Costs	Gold Watches & Clocks 16,864
Office Costs	Pilsner Beer Glasses 5,700
Office Costs	Leafs/Raptors Tickets 5,066
Office Costs	Super Bowl Tickets 3,500
<b>Total</b>	<b>\$ 46,186</b>

**Note B:**

Description	Amount
Licenses/Fees and Permits	Donation \$ 25,000
Licenses/Fees and Permits	Donation 25,000
Licenses/Fees and Permits	Donation 13,350
Licenses/Fees and Permits	Donation 5,000
Licenses/Fees and Permits	Wind Developm 7,887
Licenses/Fees and Permits	US Trustee 9,375
Licenses/Fees and Permits	Wind Energy 12,556
Licenses/Fees and Permits	APF Inc Taxes 6,891
Licenses/Fees and Permits	APF Inc Taxes 6,794
Licenses/Fees and Permits	APF Inc Taxes 23,789
Licenses/Fees and Permits	KMS Tax Ruling 10,000
<b>Total</b>	<b>\$ 145,642</b>

**SUPPORTING SCHEDULES**

2008 Algonquin Power Income Fund Annual Report  
Company's Response to Staff GB 3.2 and 3.10 APT Affiliate Charges - Rio Rico  
Company's Response to Staff GB 3.7 and 3.15

Rio Rico Utilities, Inc.  
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Wastewater Division - Surrebuttal Schedules  
Schedule TJC-17  
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**OPERATING INCOME ADJUSTMENT NO. 12  
REMOVE UNAMORTIZED PRIOR RATE CASE EXPENSE**

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**OPERATING INCOME ADJUSTMENT NO. 13  
 BAD DEBT EXPENSE**

LINE NO.	DESCRIPTION	(A) AMOUNT
1	<u>Normalize Bad Debt Expense:</u>	
2		
3	2008 Bad Debt Expense	\$ 64,087
4	2007 Bad Debt Expense	28,498
5	2006 Bad Debt Expense	8,732
6		
7	3 Year Normalization	\$ 33,772
8		
9	Company As Filed	64,087
10		
11	RUCO Adjustment	<b>\$ (30,315)</b>
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38	<u>SUPPORTING SCHEDULES</u>	
39	Company Schedule E-2	
40		
41		

**OPERATING INCOME ADJUSTMENT #14  
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	\$ 831,092
LESS:			
2	Arizona State Tax	Line 11	52,704
3	Interest Expense	Note (A) Line 21	74,718
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ 703,669
5	Federal Tax Rate	Sch. TJC-1, Pg 2, Col. (D), L34	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	\$ 239,248
<b>STATE INCOME TAXES:</b>			
7	Operating Income Before Taxes	Line 1	\$ 831,092
LESS:			
8	Interest Expense	Note (A) Line 21	74,718
9	State Taxable Income	Line 7 - Line 8	\$ 756,373
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ 52,704
<b>TOTAL INCOME TAX EXPENSE:</b>			
12	Federal Income Tax Expense	Line 6	\$ 239,248
13	State Income Tax Expense	Line 11	52,704
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ 291,952
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	\$ (13,525)
18	RUCO State Income Tax Adjustment	Line 13 - Line 16	\$ (2,979)

NOTE (A):

Interest Synchronization:

19	Adjusted Rate Base (Sch. TJC-2, Col. (H), L17)	\$ 2,983,957
20	Weighted Cost Of Debt (Sch. TJC-16 Col. (F), L1)	2.50%
		\$ 74,718

**COST OF CAPITAL**

LINE NO.	DESCRIPTION	(B) CAPITAL RATIO	(C) COST RATE	(D) WEIGHTED COST RATE
1	Long-Term Debt	40.00%	6.26%	2.50%
2	Common Equity	60.00%	9.00%	5.40%
3	Total Capitalization	100.00%		
4	WEIGHTED AVERAGE COST OF CAPITAL			7.90%

References:  
Columns (A) Thru (D): Testimony, WAR

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

Water Division - Surrebuttal Rate Design Schedules

**TJC-RD1**

**RATE DESIGN AND PROOF OF RECOMMENDED REVENUE  
RUCO SURREBUTTAL RECOMMENDED REVENUE**

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMIN'TS	(B) RUCO ANN'ZED ADJTM'TS	(C) RUCO ADJUSTED DETERMIN'TS	(D) RUCO RECOMND'ED RATES	(E) RUCO PROPOSED REVENUES	(F) RUCO TOTAL REVENUES
<b>RESIDENTIAL CUSTOMERS</b>							
1	5/8" Commodity Usage	68,940	1,344	70,284	\$ 9.43	\$ 662,823	\$ 662,823
2	First Tier - First 4,000 Gals.	235,875	5,804	241,679	\$ 2.02	\$ 487,092	
3	Second Tier - Next 6,000 Gals.	198,643	4,015	202,658	\$ 2.53	\$ 512,996	
4	Third Tier - Over 10,000 Gals.	154,775	1,648	156,423	\$ 2.88	\$ 449,761	\$ 1,449,849
5	3/4" Commodity Usage	95	1	96	\$ 14.11	\$ 1,354	\$ 1,354
6	First Tier - First 6,000 Gals.	334	3	337	\$ 2.53	\$ 854	
7	Second Tier - Over 6,000 Gals.	4	2	6	\$ 2.88	\$ 16	
8	1" Commodity Usage	432	168	600	\$ 25.00	\$ 14,998	\$ 14,998
9	First Tier - First 15,000 Gals.	3,417	1,976	5,393	\$ 2.53	\$ 13,651	
10	Second Tier - Over 15,000 Gals.	1,476	13	1,489	\$ 2.88	\$ 4,281	\$ 17,933
11	1.5" Commodity Usage	43	53	96	\$ 50.72	\$ 4,869	\$ 4,869
12	First Tier - First 20,000 Gals.	600	1,050	1,650	\$ 2.53	\$ 4,177	
13	Second Tier - Over 20,000 Gals.	265	192	457	\$ 2.88	\$ 1,314	\$ 5,491
14	2" Commodity Usage	48	12	60	\$ 78.93	\$ 4,736	\$ 4,736
15	First Tier - First 57,000 Gals.	872	246	1,118	\$ 2.53	\$ 2,830	
16	Second Tier - Over 57,000 Gals.	85	(0)	85	\$ 2.88	\$ 244	\$ 3,075
17	Total Residential Customers	<u>69,558</u>	<u>1,578</u>	<u>71,136</u>			
18	Total Residential Usage	<u>596,346</u>	<u>14,949</u>	<u>611,295</u>			
19	TOTAL RESIDENTIAL CUSTOMERS REVENUE						<u>\$ 2,165,998</u>
<b>COMMERCIAL CUSTOMERS</b>							
20	5/8" Commodity Usage	1,163	229	1,392	\$ 9.43	\$ 13,127	\$ 13,127
21	First Tier - First 4,000 Gals.	3,255	1,193	4,448	\$ 2.02	\$ 8,965	
22	Second Tier - Next 6,000 Gals.	3,111	673	3,784	\$ 2.53	\$ 9,578	
23	Third Tier - Over 10,000 Gals.	7,096	861	7,957	\$ 2.88	\$ 22,879	\$ 41,421
24	1" Commodity Usage	515	37	552	\$ 25.00	\$ 13,798	\$ 13,798
25	First Tier - First 15,000 Gals.	4,169	540	4,709	\$ 2.53	\$ 11,919	
26	Second Tier - Over 15,000 Gals.	5,000	83	5,083	\$ 2.88	\$ 14,615	\$ 26,534
27	1-1/2" Commodity Usage	124	(4)	120	\$ 50.72	\$ 6,087	\$ 6,087
28	First Tier - First 20,000 Gals.	1,867	(80)	1,787	\$ 2.53	\$ 4,524	
29	Second Tier - Over 20,000 Gals.	3,054	(64)	2,990	\$ 2.88	\$ 8,596	\$ 13,120
30	2" Commodity Usage	393	27	420	\$ 78.93	\$ 33,152	\$ 33,152
31	First Tier - First 57,000 Gals.	12,341	1,539	13,880	\$ 2.53	\$ 35,135	
32	Second Tier - Over 57,000 Gals.	48,381	1,351	49,732	\$ 2.88	\$ 142,993	\$ 178,129
33	3" Commodity Usage	161	(17)	144	\$ 154.07	\$ 22,186	\$ 22,186
34	First Tier - First 57,000 Gals.	4,188	(969)	3,219	\$ 2.53	\$ 8,148	
35	Second Tier - Over 57,000 Gals.	38,661	(3,403)	35,258	\$ 2.88	\$ 101,377	\$ 109,525

**RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**  
**RUCO SURREBUTTAL RECOMMENDED REVENUE**

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMINANTS	(B) RUCO ANN'ZED ADJTM'TS	(C) RUCO ADJUSTED DETERMINANTS	(D) RUCO RECOMND'ED RATES	(E) RUCO PROPOSED REVENUES	(F) RUCO TOTAL REVENUES
1	4" Commodity Usage	61	11	72	\$ 253.61	\$ 18,260	\$ 18,260
2	First Tier - First 57,000 Gals.	3,063	627	3,690	\$ 2.53	\$ 9,341	
3	Second Tier - Over 57,000 Gals.	14,765	2,805	17,570	\$ 2.88	\$ 50,518	
4	6" Commodity Usage	12	-	12	\$ 469.58	\$ 5,635	\$ 5,635
5	First Tier - First 125,000 Gals.	1,500	-	1,500	\$ 2.53	\$ 3,797	
6	Second Tier - Over 125,000 Gals.	6,200	-	6,200	\$ 2.88	\$ 17,827	
							\$ 21,624
7	Total Commercial Customers	<u>2,429</u>	<u>283</u>	<u>2,712</u>			
8	Total Commercial Usage	156,651	5,155	161,806			
9	TOTAL COMMERCIAL CUSTOMERS REVENUE						<u>\$ 562,456</u>
	<b>Multi-Family</b>						
10	5/8" Commodity Usage	117	(9)	108	\$ 9.43	\$ 1,019	\$ 1,019
11	First Tier - First 4,000 Gals.	433	(33)	400	\$ 2.02	\$ 806	
12	Second Tier - Next 6,000 Gals.	439	(32)	407	\$ 2.53	\$ 1,030	
13	Third Tier - Over 10,000 Gals.	382	(30)	352	\$ 2.88	\$ 1,013	
							\$ 2,849
14	1-1/2" Commodity Usage	12	-	12	\$ 50.72	\$ 609	\$ 609
15	First Tier - First 20,000 Gals.	89	-	89	\$ 2.53	\$ 225	
16	Second Tier - Over 20,000 Gals.	0	-	0	\$ 2.88	\$ -	
							\$ 225
17	Total Multi-Family Customers	<u>129</u>	<u>(9)</u>				
18	Total Commercial Usage	1,343	(95)				
19	TOTAL MULTI-FAMILY CUSTOMER REVENUE						<u>\$ 4,702</u>
	<b>PRIVATE FIRE PROTECTION CUSTOMERS</b>						
20	Fire Lines Up to 8"	185	79	264	\$ 13.77	\$ 3,635	\$ 3,635
21	Commodity Usage	0	-	-	No Charge		
22	TOTAL PRIVATE FIRE PROTECTION CUSTOMERS REVENUE						<u>\$ 3,635</u>
23	<b>COMPANY TOTAL PROPOSED REVENUE PER BILL DETERMINANTS</b>						\$ 3,859,697
24	Other Revenue						44,672
25	<b>COMPANY PROPOSED TOTAL REVENUES</b>						<u>\$ 3,904,369</u>
26	<b>RUCO TOTAL SURREBUTTAL RECOMMENDED REVENUE PER BILL DETERMINANTS</b>						\$ 2,736,791
27	Other Revenue						44,672
28	<b>TOTAL RUCO SURREBUTTAL RECOMMENDED REVENUE PER TJC-1</b>						<u>\$ 2,781,463</u>

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

Water Division - Surrebuttal Rate Design Schedules

**TJC-RD2**

**TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
<b>TOTAL REVENUES</b>							
1	RESIDENTIAL	\$ 1,440,833	79.66%	\$ 3,067,443	79.29%	\$ 2,165,998	79.14%
2	COMMERCIAL	363,332	20.09%	791,256	20.45%	562,456	20.55%
3	MULTI-FAMILY	3,418	0.19%	7,297	0.19%	4,702	0.17%
	PRIVATE FIRE	1,199	0.07%	2,547	0.07%	3,635	0.13%
	TOTAL	<u>\$ 1,808,782</u>	<u>100.00%</u>	<u>\$ 3,868,544</u>	<u>100.00%</u>	<u>\$ 2,736,791</u>	<u>100.00%</u>
<b>ALLOCATION RATIOS</b>							
4	FIX REVENUE	\$ 532,661	29.45%	\$ 1,133,658	29.38%	\$ 806,288	29.46%
5	VARIABLE REVENUE	1,276,120	70.55%	2,725,445	70.62%	1,930,503	70.54%
6	TOTAL	<u>\$ 1,808,782</u>	<u>100.00%</u>	<u>\$ 3,859,103</u>	<u>100.00%</u>	<u>\$ 2,736,791</u>	<u>100.00%</u>
<b>RES. G-1 (5/8" X 3/4") RATE DESIGN</b>							
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
7	BASIC MONTHLY CHARGE	\$ 6.45		\$ 13.71		\$ 9.43	
	COMMODITY CHARGE						
		PRESENT	PROPOSED				
8	First Tier - First 4,000 Gals.	\$ 1,4400		\$ 2,9300		\$ 2,0154	
9	Second Tier - Next 6,000 Gals.	\$ 1,7000		\$ 3,6800		\$ 2,5313	
10	Third Tier - Over 10,000 Gals.	\$ 1,9000		\$ 4,1800		\$ 2,8753	
<b>RESIDENTIAL BILL COMPARISONS</b>							
	COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL	% OF AVERAGE MONTH USAGE OF 8,548 Gal.	GALLONS USED AT VARIOUS USAGE	PRESENT MONTHLY WATER COST	RUCO PROP'D MONTHLY WATER COST	RUCO PROP'D MONTHLY INCREASE	RUCO PROP'D MONTHLY % INCREASE
11		25.00%	2,137	\$ 9.53	\$ 13.74	\$ 4.21	44.19%
12		50.00%	4,274	\$ 12.68	\$ 18.19	\$ 5.51	43.47%
13		100.00%	8,548	\$ 19.94	\$ 29.00	\$ 9.06	45.45%
14		150.00%	12,822	\$ 27.77	\$ 40.79	\$ 13.02	46.89%
15		200.00%	17,096	\$ 35.89	\$ 53.08	\$ 17.19	47.90%

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

Wastewater Division - Surrebuttal Rate Design Schedules

**TJC-RD1**

**RATE DESIGN AND PROOF OF RECOMMENDED REVENUE  
RUCO SURREBUTTAL PROPOSED REVENUE**

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMIN'TS	(B) RUCO ANN'ZED ADJTM'TS	(C) RUCO ADJUSTED DETERMIN'TS	(D) RUCO RECOMND'ED RATES	(E) RUCO PROPOSED REVENUES	(F) RUCO TOTAL REVENUES
<b>RESIDENTIAL CUSTOMERS</b>							
1	5/8" Commodity Usage	22,848	16	22,864	\$ 40.84	\$ 933,676	\$ 933,676
2	First Tier - First 7,000 Gals.	0	0	0	\$ -	\$ -	\$ -
3	Second Tier - Over 7,000 Gals.	0	0	0	\$ -	\$ -	\$ -
4	3/4" Commodity Usage	98	(2)	96	\$ 46.57	\$ 4,471	\$ 4,471
5	First Tier - First 7,000 Gals.	0	0	0	\$ -	\$ -	\$ -
6	Second Tier - Over 7,000 Gals.	0	0	0	\$ -	\$ -	\$ -
7	1" Commodity Usage	104	2	106	\$ 57.53	\$ 6,076	\$ 6,076
8	First Tier - First 7,000 Gals.	0	0	0	\$ -	\$ -	\$ -
9	Second Tier - Over 7,000 Gals.	0	0	0	\$ -	\$ -	\$ -
10	1.5" Commodity Usage	0	0	0	\$ 84.95	\$ -	\$ -
11	First Tier - First 7,000 Gals.	0	0	0	\$ -	\$ -	\$ -
12	Second Tier - Over 7,000 Gals.	0	0	0	\$ -	\$ -	\$ -
13	2" Commodity Usage	12	0	12	\$ 117.83	\$ 1,414	\$ 1,414
14	First Tier - First 7,000 Gals.	0	0	0	\$ -	\$ -	\$ -
15	Second Tier - Over 7,000 Gals.	0	0	0	\$ -	\$ -	\$ -
16	Total Residential Usage	<u>23,062</u>	<u>15</u>	<u>23,077</u>			
17	Total Residential Usage	<u>0</u>	<u>0</u>	<u>0</u>			
18	<b>TOTAL RESIDENTIAL CUSTOMERS REVENUE</b>						<u>\$ 945,637</u>
<b>COMMERCIAL CUSTOMERS</b>							
19	5/8" Commodity Usage	831	105	936	\$ 40.84	\$ 38,223	\$ 38,223
20	First Tier - First 7,000 Gals.	3,681	735	4,416	\$ -	\$ -	
21	Second Tier - Over 7,000 Gals.	5,459	377	5,836	\$ 4.14	\$ 24,145	\$ 24,145
22	1" Commodity Usage	437	55	492	\$ 57.53	\$ 28,305	\$ 28,305
23	First Tier - First 7,000 Gals.	2,079	385	2,464	\$ -	\$ -	
24	Second Tier - Over 7,000 Gals.	4,640	507	5,147	\$ 4.14	\$ 21,293	\$ 21,293
25	1-1/2" Commodity Usage	87	(3)	84	\$ 84.95	\$ 7,136	\$ 7,136
26	First Tier - First 7,000 Gals.	545	(23)	522	\$ -	\$ -	
27	Second Tier - Over 7,000 Gals.	2,970	(122)	2,848	\$ 4.14	\$ 11,784	\$ 11,784
28	2" Commodity Usage	238	2	240	\$ 117.83	\$ 28,279	\$ 28,279
29	First Tier - First 7,000 Gals.	1,511	14	1,525	\$ -	\$ -	
30	Second Tier - Over 7,000 Gals.	24,496	178	24,674	\$ 4.14	\$ 102,085	\$ 102,085
31	3" Commodity Usage	12	0	12	\$ 205.27	\$ 2,463	\$ 2,463
32	First Tier - First 7,000 Gals.	77	0	77	\$ -	\$ -	
33	Second Tier - Over 7,000 Gals.	790	0	790	\$ 4.14	\$ 3,268	\$ 3,268

**RATE DESIGN AND PROOF OF RECOMMENDED REVENUE  
RUCO SURREBUTTAL PROPOSED REVENUE**

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMINANTS	(B) RUCO ANN'ZED ADJTM'TS	(C) RUCO ADJUSTED DETERMINANTS	(D) RUCO RECOMND'ED RATES	(E) RUCO PROPOSED REVENUES	(F) RUCO TOTAL REVENUES
1	4" Commodity Usage	48	0	48	\$ 304.25	\$ 14,604	\$ 14,604
2	First Tier - First 7,000 Gals.	336	0	336	\$ -	\$ -	
3	Second Tier - Over 7,000 Gals.	16,015	90	16,105	\$ 4.14	\$ 66,633	\$ 66,633
4	6" Commodity Usage	12	0	12	\$ 578.17	\$ 6,938	\$ 6,938
5	First Tier - First 7,000 Gals.	84	0	84	\$ -	\$ -	
6	Second Tier - Over 7,000 Gals.	7,707	0	7,707	\$ 4.14	\$ 31,886	\$ 31,886
7	Total Commercial Customers	<u>1,665</u>	<u>159</u>	<u>1,824</u>		\$ -	\$ -
8	Total Commercial Usage	70,390	2,142	72,532			
9	<b>TOTAL COMMERCIAL CUSTOMERS REVENUE</b>						<u>\$ 387,043</u>
<b>Multi-Family</b>							
10	5/8" Commodity Usage	113	(5)	108	\$ 40.84	\$ 4,410	\$ 4,410
11	First Tier - First 7,000 Gals.	660	(35)	625	\$ -	\$ -	
12	Second Tier - Over 7,000 Gals.	528	(20)	508	\$ 4.14	\$ 2,101	\$ 2,101
13	1-1/2" Commodity Usage	12	0	12	\$ 84.95	\$ 1,019	\$ 1,019
14	First Tier - First 7,000 Gals.	73	0	73	\$ -	\$ -	
15	Second Tier - Over 7,000 Gals.	18	0	18	\$ 4.14	\$ 74	\$ 74
16	Total Multi-Family Customers	<u>125</u>	<u>(5.00)</u>	<u>120</u>			
17	Total Commercial Usage	1,279	(55)	1,224			
18	<b>TOTAL MULTI-FAMILY CUSTOMER REVENUE</b>						<u>\$ 7,605</u>
23	<b>COMPANY TOTAL PROPOSED REVENUE PER BILL DETERMINANTS</b>						\$ 1,740,668
24	Other Revenue						250
25	<b>COMPANY PROPOSED TOTAL REVENUES</b>						<u>\$ 1,740,918</u>
26	<b>RUCO TOTAL SURREBUTTAL RECOMMENDED REVENUE PER BILL DETERMINANTS</b>						\$ 1,340,285
27	Other Revenue						250
28	<b>TOTAL RUCO SURREBUTTAL RECOMMENDED REVENUE PER TJC-1</b>						<u>\$ 1,340,535</u>

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

Wastewater Division - Surrebuttal Rate Design Schedules

**TJC-RD2**

TYPICAL RESIDENTIAL BILL ANALYSIS

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
<b>REVENUE ALLOCATION</b>							
1	RESIDENTIAL	\$ 1,304,221	71.10%	\$ 1,241,618	71.15%	\$ 945,637	70.55%
2	COMMERCIAL	518,027	28.24%	493,162	28.26%	387,043	28.88%
3	MULTI-FAMILY	10,893	0.59%	10,370	0.59%	7,605	0.57%
	Unreconciled Difference	1,090	0.06%	-	0.00%	-	0.00%
	TOTAL	<u>\$ 1,834,231</u>	<u>100.00%</u>	<u>\$ 1,745,150</u>	<u>100.00%</u>	<u>\$ 1,340,285</u>	<u>100.00%</u>
<b>ALLOCATION RATIOS</b>							
4	FIXED REVENUE	\$ 1,475,564	80.45%	\$ 1,414,966	80.36%	\$ 1,077,014	80.36%
5	VARIABLE REVENUE	357,577	19.49%	345,878	19.64%	263,270	19.64%
	Unreconciled Difference	1,090	0.06%	-	0.00%	-	0.00%
6	TOTAL	<u>\$ 1,834,231</u>	<u>100.00%</u>	<u>\$ 1,760,844</u>	<u>100.00%</u>	<u>\$ 1,340,285</u>	<u>100.00%</u>
<b>RESIDENTIAL 5/8" METER RATE DESIGN</b>							
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
7	BASIC MONTHLY CHARGE	\$ 56.36		\$ 53.65		\$ 40.84	
	COMMODITY CHARGE: (Commercial & Multi-Family Only)						
		PRESENT	PROPOSED				
8	First Tier - 0 Gals. To & 7,000 Gals.	\$ -	First Tier - 0 Gals. To & 7,000 Gals.	\$ -		\$ -	
9	Second Tier - Over 7,000 Gals.	\$ 5.71	Second Tier - Over 7,000 Gals.	\$ 5.44		\$ 4.14	