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BEFORE THE ARIZONA CORPORATION COMMISSION

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

DOCKET NO: WS-02676A-09-0257

**NOTICE OF FILING REJOINER
TESTIMONY**

18 Rio Rico Utilities, Inc. ("RRUI" or "the Company") hereby submits this Notice of
19 Filing Rejoinder Testimony in the above-referenced matter. Specifically filed herewith
20 are the Company's Rejoinder Testimonies, which include the following testimonies, along
21 with supporting schedules and/or attachments:

- 22 1. Rejoinder Testimony of Gregory S. Sorensen;
- 23 2. Rejoinder Testimony of Peter Eichler;
- 24 3. Rejoinder Testimony of Thomas J. Bourassa (Rate Base); and
- 25 4. Rejoinder Testimony of Thomas J. Bourassa (Cost of Capital).

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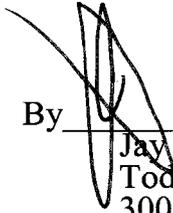
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DATED this 9th day of March, 2010.

FENNEMORE CRAIG, P.C.

By



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ORIGINAL and thirteen (13) copies
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COPY of the foregoing hand-delivered
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SERVICE BASED THEREON.

DOCKET NO: WS-02676A-09-0257

13
14
15 **REJOINDER TESTIMONY OF**

16 **GREG SORENSEN**

17
18 **March 9, 2010**
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1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

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

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

7 A. Yes, my direct and rebuttal testimony were submitted in support of the initial
8 application and the rebuttal filing in this docket by Rio Rico Utilities, Inc. (“RRUI”
9 or “Company”).

10 **Q. WHAT IS THE PURPOSE OF YOUR REJOINDER TESTIMONY?**

11 A. To further support RRUI’s application for rate relief by responding to testimony by
12 the other parties on unaccounted for water, hook up fee tariffs and the proposed
13 low income tariff.

14 **II. NON-ACCOUNT FOR WATER**

15 **Q. HAS STAFF MODIFIED ITS POSITION REGARDING NON-ACCOUNT**
16 **WATER?**

17 A. Yes, it appears that Staff is no longer recommending a series of measures to
18 address non-account water; rather, after reading my rebuttal testimony Mr. Liu now
19 suggests that RRUI merely make an annual filing reporting that its water loss is
20 under 10 percent.¹ We still do not agree with Staff’s one-size fits all standard for
21 non-account water. Our situation actually reflects why it doesn’t work. RRUI has
22 had one year over 10 percent since the last rate case test year of 2002, the test year
23 at 10.2 percent. In other words, we never had a water loss problem in the first
24

25 ¹ Compare Direct Testimony of Jian W. Liu (“Liu Dt.”) at 4, Recommendation 4 with Surrebuttal
26 Testimony of Jian W. Liu (“Liu Sb.”) at 2:1-16.

1 place. Nevertheless, we will accept Staff's surrebuttal recommendation regarding
2 non-account water.

3 **Q. WHAT ABOUT STAFF'S REQUEST THAT RRUI BE ORDERED TO**
4 **EXPLAIN IN DETAIL BY MARCH 8, 2010 HOW IT USED ROUGHLY 30**
5 **MILLION GALLONS OF WATER THAT WAS PUMPED BUT NOT**
6 **SOLD?**

7 A. Well, I don't see how we can be ordered to do something by the day before our
8 rejoinder is due, but I have attached 14 pages of documents that reflect our use of
9 this amount of water.² The 30 million gallons of water was pumped and not sold,
10 but it is **not** unaccounted for water as we can clearly account for its use.

11 **III. LOW INCOME TARIFF**

12 **Q. HAVE ANY OF THE OTHER PARTIES ADDRESSED THE PROPOSED**
13 **LOW INCOME TARIFF IN THEIR SURREBUTTAL FILINGS?**

14 A. Mr. Coley testified that RUCO does not oppose the tariff as filed.³ Mr. Becker
15 testifies that "Staff recommends approval consistent with its conclusions and
16 recommendations."⁴

17 **Q. IS THIS POSITION CONSISTENT WITH STAFF'S DIRECT FILING?**

18 A. Sort of. In his direct testimony, Mr. Becker testified that Staff supports adoption of
19 a low income tariff but that "additional consideration was required."⁵ Staff never
20 explained how we were supposed to respond to these "additional considerations," a
21 problem exacerbated by the short time period between the receipt of surrebuttal
22 testimony and the filing of our rejoinder testimony and timing of the hearing.

23
24 ² Exhibit GS-RJ1 attached hereto.

25 ³ Surrebuttal Testimony of Timothy J. Coley ("Coley Sb.") at 25:22.

26 ⁴ Surrebuttal Testimony of Gerald W. Becker ("Becker Sb.") at 9:4-6.

⁵ Direct Testimony of Gerald W. Becker (Rate Design) at 7:7-13.

1 Meanwhile, it appears that Mr. Becker still has not conducted a thorough analysis
2 of the record.

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

4 A. Because Mr. Becker testifies that RRUI “has not supported or explained its
5 proposal to use 100 percent of the federal poverty level as the eligibility cutoff.”⁶
6 This statement ignores my rebuttal testimony where I explained that we raised the
7 qualification threshold relative to our other rate cases because RRUI has large
8 pockets of low income customers.⁷ Before adopting another Staff witness’
9 testimony on the subject of low income tariffs, I would have hoped Mr. Becker
10 took the time to make sure it applied to this rate case.⁸

11 **Q. DOES STAFF MAKE ANY OTHER CRITICISMS OF RRUI’S PROPOSED**
12 **LOW INCOME TARIFF?**

13 A. Yes, Mr. Becker is also critical because RRUI did not present any demographic
14 studies to support its low income tariff.⁹ That’s true, but I am also informed that’s
15 true of Chaparral City Water, whose low income tariff we modeled ours after. It
16 needs to be remembered that low income tariffs greatly benefit customers who are
17 in need; they are not proposed for the benefit of the utility and its shareholders. In
18 fact, the utility has the added administrative burden of implementing the tariff, as
19 well as the possible customer relations issues that may come with the tariff.

20 **Q. THE ADMINISTRATIVE FEE WILL COMPENSATE RRUI FOR SOME**
21 **OF THOSE COSTS, WON’T IT?**

22 A. Yes, but it may not compensate us for them fully.

23

24 ⁶ Becker Sb. at 6:7-10.

25 ⁷ Rebuttal Testimony of Greg Sorensen (“Sorensen Rb.”) at 10:15 – 11:2.

26 ⁸ Compare Becker Sb. at 3:7 – 9:6 with Direct Testimony of Gary T. McMurry (“McMurry Dt.”), filed
February 12, 2010 in Docket No. SW-04305A-09-0291, at 17:1 – 23:10.

⁹ Becker Sb. at 5:18-23.

1 **Q. HOW DO YOU RESPOND TO MR. BECKER'S TESTIMONY THAT THE**
2 **FEE AND SURCHARGE MECHANISMS ARE NOT CLEARLY**
3 **EXPLAINED?**

4 A. Again, I would direct Mr. Becker to the record, in this case Mr. Bourassa's direct
5 testimony. Mr. Bourassa explained the fee and surcharge mechanism in detail in
6 his direct testimony.¹⁰ Most importantly, he testified that it is the same thing as the
7 Commission approved in Chaparral City's recent rate case. Frankly, I don't know
8 why Staff has a problem with something that is consistent with recent precedent
9 and which Staff has supported without concern in our other recent rate case for
10 LPSCO. I also have a lot of concern over Mr. Becker's very confusing discussion
11 of the fee and surcharge and what should and should not be recovered.¹¹
12 Mr. Becker's vague recommendations do not provide a basis for modification of
13 our proposal, which is intended to be helpful to customers in need, and revenue
14 neutral to the Company, while being consistent with recent Commission approval.
15 We see no need to reinvent the wheel.

16 **Q. BUT YOU DID TESTIFY THAT RRUI WAS OPEN TO SUGGESTIONS ON**
17 **LOW INCOME TARIFFS, DIDN'T YOU?**

18 A. Yes. We recognize these low income tariffs are new and we welcome suggestions
19 to improve the tariff.¹² We are committed to working with our customers and
20 providing high levels of service, including low-income customers.

24 ¹⁰ Direct Testimony of Thomas J. Bourassa (Rate Base, Income Statement and Rate Design) ("Bourassa
Dt.") at 18-21.

25 ¹¹ See Becker Sb. at 7:1 – 8:18.

26 ¹² Sorensen Rb. at 11:3-9.

1 **Q. WHAT ABOUT STAFF'S RECOMMENDED CAP ON THE NUMBER OF**
2 **PARTICIPANTS?**

3 A. I understand Staff's position. But I am also concerned about how we might explain
4 to the first and second and "nth" person rejected for the low income tariff program
5 why they were rejected. Still, since these programs are new and largely untested,
6 we do not oppose Staff's recommended participation caps.

7 **Q. WHAT ABOUT STAFF'S OTHER RECOMMENDED CHANGES?**

8 A. Staff's recommendation for recertification is a good idea.¹³ I believe they
9 recommend an annual certification be filed by each enrollee in the program, and
10 that is acceptable to the Company.

11 **IV. HOOK-UP FEE TARIFF**

12 **Q. WHAT ARE THE POSITIONS OF STAFF, RUCO AND THE**
13 **INTERVENOR RRPI ON THE COMPANY'S REQUESTED HUF TARIFF?**

14 A. Staff and RUCO oppose the HUF, which generally surprises me as I would have
15 thought that both Staff and RUCO supported the idea that growth should pay for
16 itself in order to keep rates as low as reasonably possible. RRPI's position is less
17 clear.

18 **Q. WHY IS THAT?**

19 A. Mr. Rowell testifies that Avatar, the developer's parent company, is not "opposed
20 to funding some portion of necessary new capacity through a HUF or through
21 contributed plant or contributed capacity," but Avatar does not want to pay more
22 than a "reasonable" portion of that cost.¹⁴ Unfortunately, Mr. Rowell never says
23 what RRPI's recommendation actually is – no HUF or their HUF. If it is the latter,
24 I hope the Commission isn't going to allow the developer of some 95 percent of the

25 ¹³ McMurry Dt. at 20:12-15.

26 ¹⁴ Surrebuttal Testimony of Matthew J. Rowell ("Rowell Sb.") at 11:4-9.

1 land within our CCN to decide its own “reasonable” level of contribution to off-site
2 plant. This is especially true given that Mr. Rowell’s testimony is largely
3 erroneous as I explain below.

4 **Q. OKAY, LET’S TURN TO THE SPECIFIC POSITIONS OF THE PARTIES.**
5 **WHAT REASON DOES RUCO GIVE FOR OPPOSING THE HUF**
6 **TARIFF?**

7 A. RUCO opposes the language in our proposed tariff providing that amounts
8 collected under the HUF will not be recorded as CIAC until expended.¹⁵

9 **Q. WHY IS THIS PROVISION IN RRUI’S PROPOSED HUF TARIFF?**

10 A. Because we understand that the Commission now views unexpended HUF funds as
11 a deduction from rate base.

12 **Q. BUT ISN’T CIAC ALWAYS A DEDUCTION FROM RATE BASE?**

13 A. When there is offsetting plant recorded in plant in service, yes. But until the plant
14 is built and included in plant in service, deducting CIAC from rate base simply
15 punishes the utility for having a HUF.

16 **Q. DOES RRUI HAVE ANY AUTHORITY TO SUPPORT ITS POSITION?**

17 A. Yes, our reading of the NARUC definition supports our view that HUF funds are
18 not “CIAC” until the money has been expended for plant. I have attached a copy
19 of the relevant section of the NARUC Guidelines to my testimony as **Exhibit**
20 **GS-RJ2**. Specifically, we are focused on the language that says that something is
21 CIAC when it is “utilized to **offset** the acquisition, improvement or construction”
22 (emphasis added). In sum, I don’t see how anyone can complain that CIAC
23 shouldn’t be recorded until it is expended. What else can NARUC mean by
24 “offset”?

25
26 ¹⁵ Coley Sb. at 26:1-3 *referencing* Direct Testimony of Timothy J. Coley (Required Revenue) at 53 – 56.

1 **Q. WHAT ABOUT RUCO'S POINT THAT RRUI BENEFITS BY HAVING**
2 **USE OF NON-INVESTOR FUNDS?**

3 A. I don't see how we have any tangible benefit. The interest on the funds stays with
4 the HUF account. The funds are used to build plant needed by a developer with no
5 assurance that the development will be timely built. And, as RUCO itself says, if
6 we don't spend them, we lose an equivalent amount of rate base. I don't see that as
7 a benefit that justifies penalizing the utility for trying to better ensure growth pays
8 for itself.

9 **Q. THANK YOU MR. SORENSEN. LET'S TURN NOW TO STAFF'S**
10 **OPPOSITION TO THE HUF. IN DIRECT, MR. LIU COMPLAINED THAT**
11 **THE COMPANY FAILED TO ANSWER DATA REQUESTS. IS THAT**
12 **STILL HIS POSITION?**

13 A. It is our understanding that Mr. Liu isn't saying we never responded to data
14 requests; rather he is saying we could not provide the specific information he
15 requested.

16 **Q. WHAT INFORMATION DID HE WANT THAT RRUI COULD NOT**
17 **PROVIDE?**

18 A. Mr. Liu testifies that Staff "must know" what plant items will be funded with
19 HUFs.¹⁶

20 **Q. WHY "MUST" STAFF HAVE THIS INFORMATION?**

21 A. Mr. Liu provides an example of a situation where the HUFs could be used for plant
22 that does not benefit the system as a whole.¹⁷

23

24

25 ¹⁶ Liu Sb. at 3:8-9.

26 ¹⁷ *Id.* at 3:10-12.

1 **Q. DO YOU AGREE WITH THIS TESTIMONY?**

2 A. No, for several reasons. For starters, I do not see any basis for Mr. Liu to testify
3 that it is “very likely” that we will use HUFs to build booster stations that do not
4 benefit the entire system. Mr. Liu is speculating because booster stations are one
5 of the items included in the tariff. Other plant items for RRUI’s water division
6 include piping, storage, treatment and wells. For all we know, booster stations for
7 new development on the mountains would be part of line extension agreements.

8 **Q. WAIT A MINUTE, MR. SORENSEN. WHAT ABOUT MR. LIU’S**
9 **TESTIMONY THAT THE HUF SHOULD COVER EVERYTHING?**

10 A. Mr. Liu testifies that “the hookup fee should be calculated to cover all necessary
11 Off-site facilities.”¹⁸ If Mr. Liu is claiming that all costs for all off-site plant,
12 including things like wells and wastewater treatment capacity, are to be funded
13 solely with CIAC from HUFs, obviously we disagree. There are a number of
14 problems with such a scenario, like availability of funds when needed, not to
15 mention that a utility funded solely with CIAC will end up with no rate base, an
16 unhealthy financial predicament.

17 **Q. OKAY, THANK YOU. PLEASE CONTINUE WITH YOUR DISCUSSION**
18 **OF WHY YOU DISAGREE WITH MR. LIU’S TESTIMONY REGARDING**
19 **THE NEED TO IDENTIFY SPECIFIC PLANT ITEMS TO BE FUNDED**
20 **WITH HUFs?**

21 A. As I mentioned, facilities that we do not have and would not need but for a new
22 applicant for service, including specifically facilities for “pressure” can be covered
23 by main extension agreements.¹⁹ This further undermines Mr. Liu’s speculation
24 that HUFs will be used to build plant that does not benefit the whole system.

25 ¹⁸ *Id.* at 5:5-6.

26 ¹⁹ R14-2-406.B.1.

1 **Q. DO YOU AGREE THAT HUF FUNDS ARE LIMITED TO**
2 **EXPENDITURES THAT BENEFIT THE ENTIRE SYSTEM?**

3 A. Not in a strict sense. For instance, if a sewer utility provider has a 500,000 gallon
4 treatment plant, and builds another 500,000 gallon treatment plant on the other side
5 of its CCN, do the customers whose wastewater flows to the first plant benefit from
6 the new plant? Not directly. But isn't the goal to spread the costs of service over
7 the entire system in a non-discriminatory manner? We do not charge our
8 customers in the hills higher rates because it requires more power to push water
9 uphill. I think the idea is that we use HUF funds as part of the cost of funding
10 backbone plant, which is one more way for growth to pay for growth, which keeps
11 rates down because CIAC does not add to rate base.

12 **Q. OKAY, BUT IS MR. LIU CORRECT THAT, EVEN IF A HUF IS**
13 **APPROVED, RRUI STILL INTENDS TO REQUIRE ADDITIONAL FUNDS**
14 **FROM DEVELOPERS AND OTHER APPLICANTS FOR SERVICE?**

15 A. Mr. Liu is correct.²⁰ We do not agree that HUFs should be the sole source of
16 funding for off-site or backbone plant; nor do we agree that a HUF should be the
17 sole means of requiring applicants to fund plant upgrades needed to serve new
18 development. We are not aware of any authority that says a HUF tariff abridges
19 our rights under the main extension rules, R14-2-406 and -606, and the idea is
20 inconsistent with the idea that growth should pay for growth.

21 **Q. HOW DO YOU RESPOND TO MR. LIU'S TESTIMONY THAT RRUI**
22 **DOES NOT NEED A HUF BECAUSE IT ALREADY HAS ADEQUATE**
23 **TREATMENT CAPACITY FOR SEWER AND ADEQUATE STORAGE**
24 **AND PRODUCTION CAPACITY FOR WATER?**

25
26 ²⁰ Liu Sb. at 5:1-6.

1 A. I can't even begin to respond to Mr. Liu's claim that we have adequate wastewater
2 treatment capacity because all he says is that we send most of our wastewater to the
3 NIWTP for treatment.²¹ That is true, but we only have the right to 550,000 gpd of
4 treatment and we do not know if more will be available and at what price. The
5 peak month average flow to the NIWTP during the test year was approximately
6 461,000 gpd, or roughly 84 percent of our purchased capacity. The total *committed*
7 capacity (existing homes connected to our system but currently vacant) is currently
8 86%, excluding peak flows. Without a HUF to secure additional treatment
9 capacity for new connections, RRUI's existing customers would be essentially
10 paying the way for developers to build in Rio Rico. We do not wish to burden our
11 existing ratepayers with the cost of new development.

12 On the water side, I have reviewed Mr. Liu's calculation,²² discussed them
13 with our engineers and operators, and must disagree with his results. His analysis
14 utilizes ADEQ Bulletin 10 storage and supply sizing, which is a good generic
15 basis, in absence of better, more system-specific information. Based on actual data
16 and RRUI's Master Plan criteria, existing supply capacity at the end of the Test
17 Year was 5.112 MG, excluding fire flow and with the largest well out of service.
18 RRUI's *committed* capacity requirement (demand) at the end of the test year
19 equaled 5.185 MG, resulting in a supply shortage of 73,000 gallons. RRUI's
20 Storage capacity, again based on actual data and Master Plan criteria, resulted in a
21 storage shortage of 680,000 gallons. The key is that our analysis (attached) uses
22 system specific information contained in the Master Plan for the utility. In absence
23 of this information, I could understand Mr. Liu using the generic analysis
24 methodology of Bulletin 10 as he did. However, Bulletin 10 even states:

25 ²¹ *Id.* at 4:10-25.

26 ²² Liu Sb at Attachment 4.

1 *The policy of the Department is to encourage, rather than obstruct*
2 *new methods and equipment for water supply systems. For this*
3 *reason, guidance documentation is included in the engineering*
4 *bulletin to furnish the basis for the criteria. If it is proposed to*
5 *deviate from the criteria, the exact nature of the proposed*
6 *differences shall be noted in the Design Report. The scientific basis*
7 *for the proposed change, including computations, and available*
8 *practical experience on similar installations, shall be included. The*
9 *justification and burden of proof for deviations from standards shall*
10 *be the responsibility of the applicant.*²³

11 Our October 2008 Master Plan, developed by Westland Resources (Tucson),
12 provides the basis and assumptions regarding the capacity requirements for the
13 RRUI Water System. Mr. Liu's analysis is inconsistent with our Master Plan
14 ("MP"). For example, the MP converts commercial connections to EDU
15 (equivalent dwelling units) to recognize that not all connections generate equal
16 demands on the system water supply and storage (see page 13 from MP - Rio Rico
17 Water System, Master Plan (Revision No. 1), attached as **Exhibit GS-RJ4**,
18 WestLand Resources, Inc., October 2008). Mr. Liu's analysis treats all
19 connections equally. The MP uses historical system averages for water use per
20 capita and number of people per home to arrive at demand figures. There is also a
21 difference between using a peaking factor of 1.25 times average peak-month
22 demand per Mr. Liu and using 2.0 times average annual day demand (MP). For
23 storage, Mr. Liu excluded fire flow storage from his calculations, while the MP
24 states that "new system developments will most likely be regulated by fire
25 jurisdiction under more current requirements which may require upsizing some
26 facilities (MP page 21, section 3.2). Overall, using the MP methodology, we
 actually have a slight storage and water supply deficit. I fear that if we tried to
 double our number of customers (demand) while keeping the same storage and

²³ See *Engineering Bulletin No. 10, Guidelines for the Construction of Water Systems*, ADEQ, May 1978, pp. 1-12, copy attached as **Exhibit GS-RJ3**.

1 supply infrastructure, as Mr. Liu states we could, I wouldn't be able to find any
2 licensed operators willing to run the system as they would fear losing their license
3 due to the almost certain outages and water shortages which would occur.

4 **Q. WHY DIDN'T STAFF CONSIDER THE MASTER PLAN?**

5 A. Staff never asked us for it, so I assume they didn't have it. And frankly, we had no
6 idea it was germane until a week ago when we saw Mr. Liu's calculation attached
7 to his surrebuttal testimony.

8 **Q. FINALLY, WITH RESPECT TO MR. ROWELL'S SURREBUTTAL, DO**
9 **YOU AGREE THAT RRUI ALREADY HAS TOO MUCH CIAC?**

10 A. No. Mr. Rowell seems to have high-jacked the term we used – "balance" – in
11 order to suggest that we simply meant a 50/50 equal proportion between equity and
12 debt. We meant absolutely nothing of the sort. I think what we have said all along
13 is, as simply as we can make it, as follows.

14 The total cost of providing service to homes will vary dramatically
15 depending on a number of factors like density, topography, remoteness, lot sizes,
16 distance to treatment or supply source, environmental factors, scale, suitable
17 technology, and more additional factors than I could possibly think of myself. At
18 the same time, everyone, the utility, the ratepayers, the regulators, even RUCO and
19 the developers, desire that monthly utility bills fall within an "acceptable" range.
20 Now, the thing most likely to impact the monthly bill in a significant manner is the
21 portion of the revenue requirement needed to provide the return on and of
22 investment in rate base. This presents us with the opportunity to "balance" who
23 funds plant investment, when and how. That is what I believe I have testified to
24 and the position Liberty Water has maintained in three rate cases running now.

25
26

1 Q. THANK YOU FOR THAT CLARIFICATION, MR. SORENSEN. I DO
2 HAVE TWO FOLLOW-UP QUESTIONS. FIRST, CAN YOU DEFINE
3 “ACCEPTABLE” RANGE AS YOU USED THE TERMS?

4 A. Yes, I am speaking in a “macro” sense. By that I mean, I am not speaking about
5 the ever present debate over cost of capital, DITs, rate case expense, or any other
6 single or even combined rate base component or expense. What we mean by an
7 acceptable range is reflected in the balancing act we have to do to avoid using 100
8 percent investor supplied capital, in any form. In this case, we have more than \$46
9 million of total plant in service, over \$25 million of which was funded with
10 developer-capital.²⁴ Can you imagine how much the rates would be if we had an
11 additional \$25 million of investor funded plant in rate base? We have envisioned
12 these higher rates, and that is why Liberty Water has sought similar HUF tariffs in
13 every one of its pending rate cases — to maximize our ability to fund plant
14 additions with a balance of capital that ensures rates stay within an acceptable
15 range. And your second follow-up question, counselor?

16 Q. AREN'T OPERATING EXPENSES A SIGNIFICANT DETERMINATE OF
17 THE REVENUE REQUIREMENT?

18 A. Of course, but we pay for them out of revenues from sales of utility service, and
19 they do not tend to change “dramatically” over short periods of time absent
20 external forces. Therefore, while they are important to ratemaking, they are not
21 really germane to the HUF tariff.

22 Q. OKAY, CONTINUING WITH YOUR RESPONSE TO MR. ROWELL, CAN
23 YOU PROVIDE AN ILLUSTRATION OF WHAT YOU MEAN BY USING
24 HUFs TO BALANCE THE COST OF FUNDING PLANT?
25

26 ²⁴ Company Rejoinder Schedules B-1 (water and wastewater).

1 A. Yes, in this rate case, I believe our total asset base per customer is \$5,418 for
2 wastewater and \$5,156 for water, of which \$3,022 and \$2,065 respectively is
3 equity or rate base, and the remaining \$2,198 and \$3,091 is CIAC and/or AIAC.
4 This is roughly a 56/44 split for sewer and 40/60 split for water. If we rely less on
5 CIAC and bring this ratio to 70/30, and assuming no depreciation, and that taxes
6 and operating expenses remain the same, our rates for utility service would
7 increase by 25% for sewer and 75% for water over our current proposal. In other
8 words, if we receive less money from the developer, our ratepayers pay higher
9 rates.

10 And that is really the fundamental difference between RRUI and RRPI on
11 this issue. We are trying to keep the rates as low as we reasonably can, and CIAC
12 and AIAC funding is a way to do this without the level of service suffering. In
13 contrast, it appears that RRPI wants to pay as little as possible at the expense of the
14 shareholder first and then the ratepayers.

15 **Q. EVEN ASSUMING EVERYTHING YOU SAID IS CORRECT MR.**
16 **SORENSEN, HOW DO YOU RECONCILE MR. ROWELL'S TESTIMONY**
17 **THAT YOU ALREADY HAVE 43 PERCENT AND 59 PERCENT CIAC IN**
18 **YOUR TOTAL CAPITALIZATION, WHICH AMOUNT IS HIGHER THAN**
19 **A NUMBER OF COMPARABLE UTILITIES?**

20 A. Mr. Rowell is focusing on the amount of CIAC per customer. As a person
21 representing a developer, his perspective is understandable. However, the focus
22 shouldn't be on CIAC per customer, but on investment (or non-CIAC per
23 customer) per customer. As I discussed above, the amount of shareholder
24 investment per customer is what can most substantially impact the rates our
25 customers pay. This means that the utility and the regulators must work together to
26

1 ensure that the investment per customer is kept at a level where the resulting rates
2 are within an “acceptable” range.

3 I have also attached a schedule (**Exhibit GS-RJ5**) which demonstrated that
4 the Company’s non-CIAC and non-AIAC per customer is in line with other
5 utilities, as selected by Mr. Rowell, in the state. In contrast to Mr. Rowell’s views,
6 we believe that having the developer supply the difference between the total cost of
7 providing service to the lot and the company target investment component is
8 entirely appropriate, and we cannot achieve the right balance for this utility without
9 a HUF tariff.

10 **Q. WHAT ABOUT MR. ROWELL’S TESTIMONY THAT RRUI WAS**
11 **SUPPOSED TO FILE A REVISED HUF TARIFF?**

12 A. Mr. Rowell’s suggestion was based upon discussions between our lawyers.²⁵
13 While RRUI and RRPI have had discussions, and I assume if those discussions had
14 borne any fruit, a revised HUF tariff might have been filed. To date, however, all
15 we see is that RRPI, the developer, wants to reduce the applicability of the HUF,
16 likely in an attempt to pay as little as possible for the costs of additional plant
17 needed to serve their continued development in our CCN.

18 **Q. WHAT’S WRONG WITH THAT?**

19 A. Nothing, if you are the developer trying to develop at as low a cost as possible to
20 maximize profit. That is clearly Mr. Rowell’s client’s motivation, as Mr. Rowell
21 says himself – “it is the utility’s responsibility, not the developer’s, to provide off-
22 site plant.”²⁶ Mr. Rowell ignores that HUF and extension agreements are common
23 means of making the developer responsible for funding plant, including off-site
24 plant, needed to serve new applicants for service within a CCN, and that funding

25 ²⁵ Rowell Sb. at 6:8-15.

26 ²⁶ *Id.* at 9:18-19.

1 comes before the design, build and operate phases. We do not believe we are
2 obligated to take “build out risk” by building plant for development that might
3 happen. I certainly have not heard of the Commission considering these risks in
4 the cost of equity analysis. And I do know that this Commission does not believe it
5 has to allow such plant investment to go into rate base if the growth does not
6 occur.²⁷ Mr. Rowell may not be aware of the Commission’s recent decision for
7 RRUI’s affiliate, Gold Canyon Sewer, even though I discussed it in my rebuttal
8 testimony.²⁸

9 In any event, what Mr. Rowell is really advocating is that we take the risk
10 by funding the entire cost of off-site plant needed to serve new development by
11 RRPI. Then, if the growth does not occur such that the plant is used and useful,
12 either we lose our investment until it is, or our ratepayers pick up the tab for the
13 risk of RRPI’s investments. Again, what’s good for the developer is not
14 necessarily good for the utility and its ratepayers.

15 **Q. DOESN’T MR. ROWELL ALSO TESTIFY THAT IF A HUF TARIFF IS**
16 **APPROVED, RRUI SHOULD NOT BE ALLOWED TO ALSO REQUIRE**
17 **FUNDING UNDER AN EXTENSION AGREEMENT?**

18 **A.** Like Mr. Liu, Mr. Rowell does not provide any authority for this “growth does not
19 pay for growth” philosophy.²⁹ Our disagreement with this position is discussed
20 above.

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²⁷ See *Gold Canyon Sewer Company*, Docket No. SW-02519A-06-0015.

25 ²⁸ Sorensen Rb. at 8:10-20.

26 ²⁹ Rowell Sb. at 6:17-24.

1 **Q. WHAT ABOUT MR. ROWELL'S PROPOSED LIMITATIONS ON WHO**
2 **PAYS THE HUF?**

3 A. I think they are overly broad. First, let me say, we have no intention of "double
4 dipping." For example, if RRPI secured wells or treatment capacity, we do not see
5 why they cannot contribute those in lieu of HUFs or funding under an extension
6 agreement.³⁰ They know this to be our position. As for subdivisions where an
7 extension agreement predates the approval of the HUF tariff, or a subdivision
8 where some lots are already being served, we do not support some sort of total
9 prohibition as Mr. Rowell suggests.³¹

10 **Q. WHY DO YOU DISAGREE?**

11 A. Because what Mr. Rowell is suggesting is that a developer can enter into an
12 extension agreement and then wait decades to finish his development all the while
13 claiming he has already funded what is needed. How do we know that the facilities
14 he built or funded way back when are still adequate to accept new connections,
15 whether they be in-fill lots or new subdivisions? Things change, like the manner in
16 which facilities are built, the materials, the regulatory requirements and the cost.
17 So, while I agree with Mr. Rowell that a utility should not be able to make
18 developers pay for the same facilities twice, that does not mean that they can keep
19 things on-hold indefinitely. However, we have not been provided a listing of what
20 extension agreements RRPI believes are outstanding and for what areas they
21 believe they have already advanced or contributed off-site facilities. Normally, the
22 utility should track all that type of information, but in this case, it is RRPI's parent
23 company who was the previous owner of RRUI as well. As such, I would think
24 they certainly are aware of what they believe is covered. I would be interested in

25 ³⁰ *Id.* at 8:6-8.

26 ³¹ *Id.* at 1-4.

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seeing such a listing, although even with an adequate listing of what they have contributed or advanced though, I would find it difficult to accept that an extension agreement from 1992 between the affiliated developer and utility should bind the utility to provide off-site facilities for all-time, regardless of actual build-out timeframe.

Q. GIVEN WHAT APPEAR TO BE FUNDAMENTAL DIFFERENCES OF VIEW WITH RRPI, ARE ANY OF RRPI'S PROPOSED HUF TARIFF CHANGES ACCEPTABLE TO RRUI?

A. Yes, as I mentioned, making it explicit that a developer can do an in-kind or in-lieu contribution of plant rather than cash, under a HUF or an extension agreement, is entirely appropriate.

Q. DOES THIS CONCLUDE YOUR REJOINDER TESTIMONY?

A. Yes.

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

GREG SORENSEN
REJOINDER TESTIMONY
March 9, 2010

Exhibit GS-RJ1

RRUI Accounted For Lost Water, 2008

January	1.0344 MG
February	1.0248 MG
March	0.942 MG
April	4.307 MG
May	1.362 MG
June	1.066 MG
July	1.125 MG
August	2.393 MG
September	2.353 MG
October	5.291 MG
November	5.844 MG
December	3.781 MG
2008 Total	30.5232 MG

WATER		LOSS		Jan-08	
Breaks, Mains, Services & Hydrants					Amount
1" SVC	FRONTERA	10GPMX	24 HRS		0.0144
1" SVC	CICUTA	10GPMX	24 HRS		0.0288
1" SVC	CALANDRIA	15GPMX	5 HRS		0.005
SEAL	WP 30	1GPMX	30 HRS		0.002
1" SVC	SYKES	10GPMX	3 HRS		0.002
1" SVC	SALSA	15GPMX	24 HRS		0.0216
1" SVC	CHOLULA	10GPMX	48 HRS		0.0288
1" SVC	AGOSTO	10GPMX	48 HRS		0.0288
Total					0.1314
Flushing					Amount
Hydrants					
RIO RICO	FIRE DEPT				0.025
TUBAC	FIRE DEPT				0.04
Total					0.065
Lift Stations					Amount
#1					0.22
#2					0.27
#3					0.28
#4					0.004
Total					0.774
Other					Amount
VARIOUS ARVS					0.016
VARIOUS HYDRANTS					0.013
OFFICE					0.004
AIR CHARGERS					0.028
WP29	IRRIGAT				0.001
WELL8	IRRIGAT				0.001
WP56	IRRIGAT				0.001
Total					0.064
SYSTEM TOTAL					1.0344

WATER LOSS		Feb-08	
Breaks, Mains, Services & Hydrants			Amount
1" SVC	VEREDA PATRL	10GPMX 24 HRS	0.0144
1" SVC	CAM CANGREJC	10GPMX 18 HRS	0.0108
2 1/2" SVC	SYKES	100GPMX 1 HRS	0.006
6" MAIN	W FRONT	400GPMX 1 HRS	0.024
6" MAIN	W FRONT	300GPMX 1 HRS	0.018
3/4" SVC	MENTA	50GPMX 3 HRS	0.009
3/4" SVC	VIA PUEBLA	50GPMX 2 HRS	0.006
3/4" SVC	YAVAPAI	50GPMX 1 HRS	0.003
3" SVC	WELL 8	300GPMX 1 HRS	0.018
1" SVC	ESPUELAS	40GPMX 4HRS	0.0096
Total			0.1188
Flushing			Amount
Hydrants			
RIO RICO	FIRE DEPT		0.024
TUBAC	FIRE DEPT		0.035
Total			0.059
Lift Stations			Amount
#1			0.21
#2			0.26
#3			0.31
#4			0.004
Total			0.784
Other			Amount
VARIOUS ARVS			0.015
VARIOUS HYDRANTS			0.014
OFFICE			0.004
AIR CHARGERS			0.027
WP29	IRRIGAT		0.001
WELL8	IRRIGAT		0.001
WP56	IRRIGAT		0.001
Total			0.063
SYSTEM TOTAL			1.0248

WATER LOSS		Mar-08		
Breaks, Mains, Services & Hydrants				Amount
1" SVC	MARTINETTE	3GPMX	6 HRS	0.001
1" SVC	RUTA CAMEROI	5GPMX	3.5 HRS	0.001
4" MAIN	RAMANOTE	20GPMX	4.5 HRS	0.005
1" SVC	AGULAR	2GPMX	8 HRS	0.001
1" SVC	RIO RICO DR	2GPMX	8 HRS	0.001
1" SVC	HOPKINS	5GPMX	6 HRS	0.002
1" SVC	FEO CT	3GPMX	6 HRS	0.001
1" SVC	PINO CT	1GPMX	16 HRS	0.001
1" SVC	PENDLETON	3GPMX	6 HRS	0.001
2" ARV	AGOSTO	20GPMX	4.5 HRS	0.005
Total				0.019
Flushing				Amount
Hydrants				
RIO RICO FIRE DEPT				0.024
TUBAC FIRE DEPT				0.035
Total				0.059
Lift Stations				Amount
#1				0.23
#2				0.25
#3				0.31
#4				0.004
Total				0.794
Other				Amount
VARIOUS ARVS				0.022
VARIOUS HYDRANTS				0.014
OFFICE				0.004
AIR CHARGERS				0.027
WP29 IRRIGAT				0.001
WELL8 IRRIGAT				0.001
WP56 IRRIGAT				0.001
Total				0.07
SYSTEM TOTAL				0.942

WATER	LOSS	Apr-08
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Breaks, Mains, Services & Hydrants			Amount
1" SVC	MONTOSA	25GPMX 6 HRS	0.009
4" MAIN	DINGO	300GPMX 6 HRS	0.108
3/4" SVC	GLORIOSA	15GPMX 72 HRS	0.065
1" SVC	GILBERTO	5GPMX 48 HRS	0.014
1" SVC	PALENQUE	25GPMX 6 HRS	0.009
1" SVC	MAGNIFICO	10GPMX 16 HRS	0.009
2" ARV	AGOSTO	20GPMX 5hrs	0.006
1" SVC	BELLOTA	25GPMX 16 HRS	0.024
1" SVC	GINA	30GPMX 16 HRS	0.029
1" SVC	MARGARITA	20GPMX 12 HRS	0.014
16" MAIN	W FRONTAGE	350GPMX 9HRS	0.189
16" MAIN	W FRONTAGE	250GPMX 6HRS	0.105
1" SVC	DURA	15GPMX 8HRS	0.007
16" MAIN	COATMUNDI	200GPMX 2HRS	0.024
2" ARV	PEND/MAR	10GPMX 8HRS	0.005
1" SVC	ALONDRA	25GPMX 6HRS	0.009
1" SVC	CARALAMPI	75GPMX 2HRS	0.009
1" SVC	PATIO	25GPMX 2HRS	0.003
1" SVC	COMA	75GPMX 2HRS	0.009
1" SVC	COATMUNDI	75GPMX 1HR	0.005

Total		0.652
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Flushing	Amount
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Hydrants	
RIO RICO FIRE DEPT	0.026
TUBAC FIRE DEPT	0.038
Wildfires	1.6
Total	1.664

Lift Stations	Amount
#1	0.23
#2	0.25
#3	0.31
#4	0.004
Total	0.794

Other	Amount
VARIOUS ARVS	0.042
VARIOUS HYDRANTS	0.021
OFFICE	0.004
AIR CHARGERS	0.027
WP29 IRRIGAT	0.001
WELL8 IRRIGAT	0.001
WP56 IRRIGAT	0.001
WP81 FILL & FLUSHING	1.1

Total	1.197
SYSTEM TOTAL	4.307

WATER		LOSS	May-08	
Breaks, Mains, Services & Hydrants				Amount
1" SVC	444 Soda Lane	10GPMX	10 HRS	0.006
1" SVC	1235 Gloriosa	10GPMX	5 HRS	0.003
1" SVC	1214 Aguilar	10GPMX	4.5 IIRS	0.004
1" SVC	Calle Capela	10GPMX	5 IIRS	0.003
1" SVC	Iloyos Ct	5GPMX	10 IIRS	0.003
1" SVC	565 Arviso	10GPMX	5 HRS	0.003
1" SVC	353 Magnifico	40GPMX	5 IIRS	0.012
1" SVC	27 Rene	10GPMX	7 HRS	0.004
1" SVC	1408 Cuervo	5GPMX	7 HRS	0.002
1" SVC	1413 Cuervo	15GPMX	3.5 HRS	0.005
1" SVC	1360 Martinette	10GPMX	3.5 HRS	0.002
1" SVC	Bellota	15GPMX	3.5 HRS	0.005
1" SVC	Pinzon	5GPMX	17 HRS	0.002
1" SVC	Plexes	5GPMX	8 HRS	0.001
1" SVC	1020 Aventura	20GPMX	2.5 HRS	0.003
1" SVC	1372 Martinette	15GPMX	3.5 HRS	0.005
1" SVC	450 Lechuza	5GPMX	17 HRS	0.002
1" SVC	Sykes Cir	25GPMX	5 IIRS	0.008
1" SVC	Picogordo	5GPMX	17 IIRS	0.002
	WP56&81 overflow			0.35
Total				0.425
Flushing				Amount
Hydrants				
	RIO RICO	FIRE DEPT		0.024
	TUBAC	FIRE DEPT		0.035
Total				0.059
Lift Stations				Amount
	#1			0.24
	#2			0.25
	#3			0.3
	#4			0.004
Total				0.794
Other				Amount
	VARIOUS ARVS			0.03
	VARIOUS HYDRANTS			0.018
	OFFICE			0.004
	AIR CHARGERS			0.029
	WP29	IRRIGAT		0.001
	WELL8	IRRIGAT		0.001
	WP56	IRRIGAT		0.001
Total				0.084
SYSTEM TOTAL				1.362

WATER LOSS		Jun-08		
Breaks, Mains, Services & Hydrants				Amount
1" SVC	Leno/Willow	10GPMX	8.5 HRS	0.005
1" SVC	Victoria Lane	10GPMX	48 HRS	0.029
1" SVC	315 Magnifico	10GPMX	4.5 HRS	0.004
1" SVC	919 Rosamorada	10GPMX	5 HRS	0.003
1" SVC	1216 Aguilar	5GPMX	10 HRS	0.003
1" SVC	Urano Ct	10GPMX	6 HRS	0.004
1" SVC	1293 Tubutana	10GPMX	25 HRS	0.015
1" SVC	1299 Tubutana	10GPMX	25 HRS	0.015
12" Main	WP 81	200GPMX	2 HRS	0.025
1" SVC	420 Oriol	15GPMX	3.5 HRS	0.005
1" SVC	891 Los Mochis	10GPMX	5 HRS	0.003
1" SVC	Malena Prod.	15GPMX	9 HRS	0.008
1" SVC	50 Pesquiera	10GPMX	17 HRS	0.004
	WP56&81 overflow			0.015
Total				0.138
Flushing				Amount
Hydrants				
	RIO RICO	FIRE DEPT		0.025
	TUBAC	FIRE DEPT		0.034
Total				0.059
Lift Stations				Amount
	#1			0.25
	#2			0.24
	#3			0.29
	#4			0.005
Total				0.785
Other				Amount
	VARIOUS ARVS			0.03
	VARIOUS HYDRANTS			0.018
	OFFICE			0.004
	AIR CHAIRS			0.029
	WP29	IRRIGAT		0.001
	WELL8	IRRIGAT		0.001
	WP56	IRRIGAT		0.001
Total				0.084
SYSTEM TOTAL				1.066

WATER		LOSS		Jul-08	
Breaks, Mains, Services & Hydrants					Amount
1" SVC	Ave Gutierrez	20GPMX	5 HRS		0.006
1" SVC	15 Kents	10GPMX	10 HRS		0.006
1" SVC	Cam Vencejo	20GPMX	6 HRS		0.007
1" SVC	1029 Cir Aventur	10GPMX	5 HRS		0.003
1" SVC	1172 Ave Leon	25GPMX	7 HRS		0.011
1" SVC	1176 Ave Leon	15GPMX	6 HRS		0.005
1" SVC	529 Pso Petirojo	10GPMX	25 HRS		0.015
1" SVC	Embarcadero/Cabr	30GPMX	25 HRS		0.045
1" SVC	Yeso Ct	20GPMX	12 HRS		0.015
1" SVC	1404 Calle Cuerv	15GPMX	5 HRS		0.006
1" SVC	434 Ave Garza	10GPMX	5 HRS		0.003
1" SVC	Robalo	15GPMX	9 HRS		0.008
1" SVC	1206 Cir Aguilar	10GPMX	27 HRS		0.016
1" SVC	916 Pso Los Moch	15GPMX	16 HRS		0.015
1" SVC	433 Cam Vencejo	10GPMX	10 HRS		0.006
1" SVC	1188 Ave Leon	10GPMX	8 HRS		0.005
1" SVC	1186 Ave Leon	10GPMX	8 HRS		0.005
Total					0.177
Flushing					Amount
Hydrants					
	RIO RICO	FIRE DEPT			0.026
	TUBAC	FIRE DEPT			0.033
Total					0.059
Lift Stations					Amount
#1					0.25
#2					0.26
#3					0.29
#4					0.005
Total					0.805
Other					Amount
	VARIOUS ARVS				0.03
	VARIOUS HYDRANTS				0.018
	OFFICE				0.004
	AIR CHAIGERS				0.029
	WP29	IRRIGAT			0.001
	WELL8	IRRIGAT			0.001
	WP56	IRRIGAT			0.001
Total					0.084
SYSTEM TOTAL					1.125

WATER		LOSS	Aug-08	
Breaks, Mains, Services & Hydrants				Amount
1" SVC	113 Pisis Ct	75GPMX	3 DAYS	0.324
1 1/2" Nipf	WP1	170GPMX	3 HRS	0.028
16" Main	Coatimundi	1740GPMX	5 HRS	0.522
1 1/2" SVC	Ave Garza	170GPMX	3 HRS	0.028
1 1/2" SVC	Cumpas	170GPMX	3 HRS	0.028
1" SVC	491 Alondra	60GPMX	6 HRS	0.025
1" SVC	457 Chalet	50GPMX	5 HRS	0.015
1" SVC	313 Magnifico	60GPMX	6 HRS	0.022
1" SVC	1176 Leon	200GPMX	12 HRS	0.144
1" SVC	374 Sorrento	125GPMX	8 HRS	0.062
1" SVC	173 Embarcadero	50GPMX	18 HRS	0.054
1" SVC	556 Kansas	75GPMX	5 HRS	0.023
1" SVC	91 Cir Aguilar	75GPMX	12 HRS	0.054
1" SVC	880 Zapotec	75GPMX	7 HRS	0.032
1" SVC	Via Papatla	75GPMX	5 HRS	0.023
1" SVC	1268 Chubasco	75GPMX	8 HRS	0.036
1" SVC	1203 Juan Legarra	75GPMX	6 HRS	0.027
1" SVC	46 Pesquiera	75GPMX	8 HRS	0.036
Total				1.483
Flushing				Amount
Hydrants				
RIO RICO	FIRE DEPT			0.026
TUBAC	FIRE DEPT			0.033
Total				0.059
Lift Stations				Amount
#1				0.26
#2				0.23
#3				0.27
#4				0.005
Total				0.765
Other				Amount
VARIOUS ARVS				0.03
VARIOUS HYDRANTS				0.021
OFFICE				0.004
AIR CHARGERS				0.028
WP29	IRRIGAT			0.001
WELL 8	IRRIGAT			0.001
WP56	IRRIGAT			0.001
Total				0.086
SYSTEM TOTAL				2.393

WATER		LOSS	Sep-08	
Breaks, Mains, Services & Hydrants				Amount
1" SVC	435 Sendero Loro	75GPMX	18 HRS	0.081
1" SVC	1240 Salsa Ct	75GPMX	8 HRS	0.036
1" SVC	1411 Cam Milano	75GPMX	12 HRS	0.054
1" SVC	407 Hopkins	35GPMX	36 HRS	0.076
1" SVC	434 Gorrion Ct	65GPMX	24 HRS	0.094
1" SVC	314 Cam Magnifico	60GPMX	16 HRS	0.058
1" SVC	1083 Cir Montosa	75GPMX	48 HRS	0.216
1" SVC	1432 Podar Ct	60GPMX	12 HRS	0.044
1" SVC	283 Cam Josefina	75GPMX	12 HRS	0.054
1" SVC	1235 S Pendleton	55GPMX	16 HRS	0.053
1" SVC	444 Soda Lane	50GPMX	36 HRS	0.108
1" SVC	1245 Bellota Ct	75GPMX	16 HRS	0.072
1" SVC	909 Calle Calabasas	75GPMX	12 HRS	0.054
1" SVC	1360 Cam Faja	65GPMX	36 HRS	0.14
1" SVC	1475 Via San Cayetano	75GPMX	24 HRS	0.108
1" SVC	415 Bury Ct	75GPMX	36 HRS	0.162
1" SVC	144 Via Orquidea	75GPMX	12 HRS	0.054
Total				1.464
Flushing				Amount
Hydrants				
	RIO RICO FIRE DEPT			0.026
	TUBAC FIRE DEPT			0.033
Total				0.059
Lift Stations				Amount
	#1			0.25
	#2			0.23
	#3			0.26
	#4			0.005
Total				0.745
Other				Amount
	VARIOUS ARVS			0.03
	VARIOUS HYDRANTS			0.021
	OFFICE			0.004
	AIR CHAI GERS			0.027
	WP29 IRRIGAT			0.001
	WELL8 IRRIGAT			0.001
	WP56 IRRIGAT			0.001
Total				0.085
SYSTEM TOTAL				2.353

WATER		LOSS	Oct-08	
Breaks, Mains, Services & Hydrants				Amount
1" SVC	1290 Ice Ct	75GPMX	8 HRS	0.036
1" SVC	871 Via Frontera	75GPMX	12 HRS	0.054
1" SVC	195 Vereda Patria	75GPMX	72 HRS	0.324
6" MAIN	Placita Gitano/Okra Ct	200GPMX	96 HRS	1.152
1" SVC	1292 Ice Ct	75GPMX	10 HRS	0.045
1" SVC	1218 Circulo Aguilar	45GPMX	144 HRS	0.389
1" SVC	1026 Cir Golondrina	50GPMX	10 HRS	0.03
1" SVC	1882 N Pendleton	300GPMX	3 HRS	0.054
1" SVC	1511 Via San Cayetano	75GPMX	18 HRS	0.081
1" SVC	95 Pasco Mexico	80GPMX	6 HRS	0.029
1" SVC	147 Ave Lirio	55GPMX	8 HRS	0.026
1" SVC	1181 Yesal Ct	75GPMX	36 HRS	0.162
1" SVC	1882 N Pendleton	300GPMX	4 HRS	0.072
1" SVC	402 Wrightson	75GPMX	14 HRS	0.063
1" SVC	Camino Patio	65GPMX	36 HRS	0.14
1" SVC	155 Camino Maricopa	75GPMX	18 HRS	0.081
1" SVC	Via Mandan	45GPMX	3 WEEKS	1.361
1" SVC	1798 Go Ct	75GPMX	18 HRS	0.081
1" SVC	Gardinias Ct	75GPMX	36 HRS	0.162
Total				4.342
Flushing				Amount
Hydrants				
	RIO RICO	FIRE DEPT		0.026
	TUBAC	FIRE DEPT		0.034
Total				0.06
Lift Stations				Amount
	#1			0.25
	#2			0.24
	#3			0.28
	#4			0.004
Total				0.774
Other				Amount
	VARIOUS ARVS			0.06
	VARIOUS HYDRANTS			0.022
	OFFICE			0.003
	AIR CHARGERS			0.027
	WP29	IRRIGAT		0.001
	WELL8	IRRIGAT		0.001
	WP56	IRRIGAT		0.001
Total				0.115
SYSTEM TOTAL				5.291

WATER		LOSS	Nov-08	
Breaks, Mains, Services & Hydrants				Amount
1" SVC	1312 Ave Gutierrez	75GPMX	72 HRS	0.324
1" SVC	890 Roma Ct	55GPMX	48 HRS	0.158
8" MAIN	70 E Ruby Rd	40GPMX	72 HRS	0.173
1" SVC	Bus Barn	100GPMX	6 HRS	0.036
1" SVC	317 Via Papagayo	75GPMX	24 HRS	0.108
6" MAIN	Via San Cayetano	120GPMX	96 HRS	0.691
1" SVC	Espeso Ct	50GPMX	192 HRS	0.576
1" SVC	Beatriz	50GPMX	25 DAYS	1.8
1" SVC	Tie in @ WP 59			0.144
6" MAIN	San Cayetano	80GPMX	16 HRS	0.077
1" SVC	441 Calle Azulejo	30GPMX	8 HRS	0.014
1" SVC	Camino Canoa	70GPMX	48 HRS	0.202
1" SVC	Ave Papalote	55GPMX	18 HRS	0.059
1" SVC	478 Caribe	50GPMX	48 HRS	0.144
1" SVC	432 Ave Garza	40GPMX	36 HRS	0.086
1" SVC	1356 Soza	45GPMX	18 HRS	0.049
1" SVC	Roma Ct	45GPMX	3 DAYS	0.194
1" SVC	Gull Ct	40GPMX	12 HRS	0.029
Total				4.864
Flushing				Amount
Hydrants				
	RIO RICO FIRE DEPT			0.025
	TUBAC FIRE DEPT			0.036
Total				0.061
Lift Stations				Amount
	#1			0.24
	#2			0.28
	#3			0.27
	#4			0.004
Total				0.794
Other				Amount
	VARIOUS ARVS			0.07
	VARIOUS HYDRANTS			0.022
	OFFICE			0.003
	AIR CHAIRS			0.027
	WP29 IRRIGAT			0.001
	WELL8 IRRIGAT			0.001
	WP56 IRRIGAT			0.001
Total				0.125
SYSTEM TOTAL				5.844

WATER		LOSS	Dec-08	
Breaks, Mains, Services & Hydrants				Amount
1" SVC	1411 Cam Milano	60GPMX	5 DAYS	0.432
1" SVC	1253 Paseo Chubasco	55GPMX	4 DAYS	0.317
ARV	Beatriz/Rodolpho	20GPMX	72 HRS	0.086
1" SVC	1419 Via Halcon	50GPMX	6 HRS	0.018
1" SVC	478 Caribe	35GPMX	24 HRS	0.05
1" SVC	428 Circulo Cisne	60GPMX	2 HRS	0.007
1" SVC	Providencia/Sofia	40GPMX	72 HRS	0.173
1" SVC	Ave Papalote	35GPMX	5 DAYS	0.252
1" SVC	430 Ave Garza	55GPMX	72 HRS	0.238
1" SVC	888 Via Esmerelda	50GPMX	4 DAYS	0.288
1" SVC	986 Arco Lane	70GPMX	72 HRS	0.302
1" SVC	1346 Paseo Militar	70GPMX	18 HRS	0.076
1" SVC	1264 Paseo Chubasco	70GPMX	72 HRS	0.302
Total				2.541
Flushing				Amount
Hydrants				
	RIO RICO FIRE DEPT			0.025
	TUBAC FIRE DEPT			0.041
Total				0.066
Lift Stations				Amount
	#1			0.25
	#2			0.3
	#3			0.27
	#4			0.004
Total				0.824
Other				Amount
	VARIOUS ARVS			0.07
	VARIOUS HYDRANTS			0.022
	OFFICE			0.003
	AIR CHAIRS			0.027
	WP29 IRRIGAT			0.001
	WELL8 IRRIGAT			0.001
	WP56 IRRIGAT			0.001
	Well 86 Flushing			0.225
Total				0.35
SYSTEM TOTAL				3.781

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

GREG SORENSEN
REJOINDER TESTIMONY
March 9, 2010

Exhibit GS-RJ2

**UNIFORM SYSTEM OF ACCOUNTS
FOR CLASS A
WATER UTILITIES**

1996



**NATIONAL ASSOCIATION OF
REGULATORY UTILITY COMMISSIONERS**

1201 Constitution Avenue, N.W., Suite 1102

Post Office Box 684

Washington, DC 20044-0684

Telephone No. (202) 898-2200

Facsimile No. (202) 898-2213

Price: \$25.00

BALANCE SHEET ACCOUNTS

B. Amounts paid by the utility for the purposes for which this reserve is established shall be charged hereto.

C. A separate account shall be kept for each kind of reserve included herein.

Note:--If employee pension or benefit plan funds are not included among the assets of the utility but are held by outside trustees, payments into such funds, or accruals therefor shall not be included in this account unless required payments are made on a periodic and timely basis to the outside trustees of the various funds.

265. Miscellaneous Operating Reserves

A. This account shall include all operating reserves maintained by the utility which are not provided for elsewhere.

B. This account shall be maintained in such manner as to show the amount of each separate reserve and the nature and amounts of the debits and credits thereto.

Note:--This account includes only such reserves as may be created for operating purposes and does not include any reservations of income the credits for which should be carried in account 214 - Appropriated Retained Earnings.

Contributions in Aid of Construction

271. Contributions in Aid of Construction

A. This account shall include:

1. Any amount or item of money, services or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, which represents an addition or transfer to the capital of the utility, and which is utilized to offset the acquisition, improvement or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public.

2. Amounts transferred from account 252 - Advances for Construction, representing unrefunded balances of expired contracts or discounts resulting from termination of contracts in accordance with the Commission's rules and regulations.

3. Compensation received from governmental agencies and others for relocation of water mains or other plants.

BALANCE SHEET ACCOUNTS

4) Any amount of money received by a utility, any portion of which is provided at no cost to the utility, which represents an addition or transfer to the capital of the utility and which is utilized to offset the federal, state or local income tax effect of taxable contributions in aid of construction, taxable amounts transferred from Account 252 - Advances for Construction, and taxable compensation received from governmental agencies and others for relocation of water mains or other plants shall be reflected in a sub-account of this account.

B. The credits to this account shall not be transferred to any other account without the approval of the Commission.

C. The records supporting the entries to this account shall be so kept that the utility can furnish information as to the purpose of each donation, the conditions, if any, upon which it was made, the amount of donations from (a) states, (b) municipalities, (c) customers, and (d) others, and the amount applicable to each utility department.

Note:--There shall not be included in this account advances for construction which are ultimately to be repaid wholly or in part (See account 252 - Advances for Construction).

272. Accumulated Amortization of Contributions in Aid of Construction

A. This account shall reflect the amortization accumulated on account 271 - Contributions in Aid of Construction, if recognized by the Commission.

B. Specifically, balances in account 271 which represent contributions of depreciable plant shall be amortized by charges to this account over a period equal to the estimated service life of the related contributed asset. A group or overall composite rate may be used for contributed balances that cannot be directly related to a plant asset.

C. The concurrent credit for the amortization recorded in this account shall be made to account 403 - Depreciation Expense.

D. If a regulatory body allows the amortization of any portion of the monies collected to pay the tax obligation caused by the receipt of CIAC, such amortization shall also be reflected in a sub-account of this account. Specifically, balances in account 271 which represent monies collected for the gross-up of CIAC (See Definition 15.) shall be amortized by charges to this account over a period determined by the regulatory body.

Rio Rico Utilities, Inc.
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GREG SORENSEN
REJOINDER TESTIMONY
March 9, 2010

Exhibit GS-RJ3

O. CERTIFICATE TO OPERATE

A Certificate to Operate will be issued by the Arizona Department of Health Services upon completion of the applicable requirements.

P. OTHER APPROVAL REQUIREMENTS

As previously noted, the Arizona Department of Health Services requires approvals as noted herein. The State Land Department requires submittals on wells, and the Arizona Water Commission requires submittals on water sources developed for subdivisions. Additionally, the following submittals or approvals are required for water systems:

1. ARIZONA CORPORATION COMMISSION. Land areas including water systems serving the public in Arizona, except publicly owned systems, must be certified as Public Service Corporation by the Corporation Commission. Requirements include a description of the area by metes and bounds, and a County Franchise. The Corporation Commission will issue a "Certificate of Convenience and Necessity" for the area. Before a change is made to a water system, approval must be obtained from the Corporation Commission.

Project development may be expedited by applying for the request for change to the Corporation Commission as soon as possible after issuance of the Approval to Construct by the Department of Health Services or County.

2. FEDERAL AID PROJECT. If federal funds are to be used on a project, the agency furnishing the funds shall be contacted directly to determine what specific submittals it requires. However, all Federal projects require Clearinghouse approval. Clearinghouse applications are made to the Arizona Office of Economic Planning and Development. Application should be made as early as possible in project development.

Q. DEVIATION FROM GUIDELINES AND NEW PROCESSES AND EQUIPMENT

The policy of the Department is to encourage, rather than obstruct new methods and equipment for water supply systems. For this reason, guidance documentation is included in the engineering bulletin to furnish the basis for the criteria. If it is proposed to deviate from the criteria, the exact nature of the proposed differences shall be noted in the Design Report. The scientific basis for the proposed change, including computations, and available practical experience on similar installations, shall be included. The justification and burden of proof for deviations from standards shall be the responsibility of the applicant.

Rio Rico Utilities, Inc.
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GREG SORENSEN
REJOINDER TESTIMONY
March 9, 2010

Exhibit GS-RJ4

Committed Water Capacity based on 7,589 calculated Connections at end of Test Year

Assumptions:

2.09 MG Storage available (Excludes Forebay Tanks-40k gallons)
 6,605 Meter Connections as of December 2008
 14.9% Calculated Connections Factor (RRUI Master Plan (MP) Table 3.4, pg 13) converts connections (including commercial) to EDUs
 7,589 Calculated Connections (Meter Connections (6605) x Calculated Connection Factor (14.9%))
 122 GPCD (gallons per capita per day) (MP pg 21, based on historical data) - Average Annual figure
 2.8 PPHU (Persons per housing unit) (MP pg 21, based on historical data)
 341.6 Gallons per housing unit equivalent unit per day Average Annual
 2 Peak Day Demand Factor (PF) (MP pg 21, based on historical data)

Calculations:

Total Committed* Supply Capacity: 5,185 MGD (7589EDUs*122gpcd*2.8pphu*2PF=5,185MG) (Excluding Fire Flow)
 Supply deficit: 5,112 MGD (Pumping Capacity with Largest Well out of service)
 -0.073 MGD (5,112MGD (available pump capacity) minus 5,185MGD)

Equivalent Connections w/available supply: NA

Storage Requirement for RRUI
 EDUs 7,589
 GFCPD 122
 People/Home 2.8
 Fire Protection 2.59 MG
 0.18 MG
 Total Storage Required for RRUI 2.77
 Actual Storage 2.09
 Storage deficit: (0.68) MGD

(7589EDUs*122gpcd*2.8pphu/1000000)-2.09MGD=) (Per MP data)
 1,500gpm for 2 hours

Conclusion: Based on MP criteria, supply and storage capacities are insufficient for future growth

500 gpm Well 5
 1,300 gpm Well 6
 500 gpm Well 8
 750 gpm Well 15
 600 gpm Well 52
 1,200 gpm Well 86
 4,850 gpm Total Well Pumping Capacity RRUI

6,984 MGD (Pumping Capacity) (4850Gal/Min*1440Min/Day/1000000)
 5,112 MGD (Pumping Capacity with Largest Well out of service) ((4850Gal/Min-1300)*1440Min/Day/1000000)

*Active plus inactive accounts



Table 3.3. Equivalent Dwelling Unit Meter Factors

Meter Size (inches)	EDU Ratio
5/8 x 3/4	1.0
3/4	1.2
1	2.5
1-1/2	5.0
2	8.0
3	15.0
4	25.0
6	50.0

Table 3.4 provides the number and meter types within the existing system by rate, class, and size. As of May 2008, there were 6,494 active water meters within the RRU Water System. The meters range in size from 5/8-inch x 3/4-inch to 6-inch.

Table 3.4. 2008 Meter Summary (May 2008)

Rate Class	Meter Size (inches)	Number	EDUs
Residential	5/8 x 3/4	6,194	6,194
	3/4	8	9.6
	1	41	102.5
	1-1/2	6	30
	2	4	32
Subtotal	-	6,253	6,368
Multi-Family	5/8 x 3/4	7	9
	1-1/2	1	5
Subtotal	-	8	12
Commercial	5/8 x 3/4	108	108
	1	45	112.5
	1-1/2	11	55
	2	45	360
	3	18	270
	4	5	125
Subtotal	-	233	1080.5
TOTAL	-	6,494	7,463

The existing meter connection to EDU ratio as of May 2008 is calculated to be approximately 1.15 (7,463 EDUs ÷ 6,494 total meters). This calculation is used to estimate the historical EDU's later in this report (See Table 3.8).

The RRU Water System is divided into seven pressure zones at 150-foot intervals. Table 3.5 identifies the high water elevations, elevation boundaries, and static pressure ranges for each pressure zone. The 150-foot intervals were established in the original approved water system master plan prepared by Cella, Barr, Evans and Associates in 1972.

WestLand Resources, Inc.

Engineering and Environmental Consultants



The service area with the greatest water demand is within the 3650 pressure zone which is served directly from the existing wells. It is estimated that approximately 55 percent of the total system water use occurs within the 3650 pressure zone. The 3650 pressure zone is the lowest zone within the system and tends to follow the Santa Cruz River alignment. Water storage for the 3650 pressure zone is provided by existing reservoirs at Water Plant Nos. 1, 29, 38, 56, and 81 which float directly on the 3650 pressure zone. In addition, these reservoirs, along with the existing 10,000 tanks at Water Plant Nos. 7, 10, 44, and 60 serve as forebays for booster pumps that lift water to other service areas throughout the water distribution system.

3.1.3. Existing Distribution System Summary

It is estimated that the existing RRU water system includes over 320 miles of water mains. These pipes range in size from 4-inches through 16-inches in diameter. The distribution system has been continuously expanded with growth over the past 35-plus years of the systems existence.

3.2. EXISTING SYSTEM DESIGN CRITERIA

Current system design criteria for the RRU Water System are described below, in terms of demand, supply, storage, and distribution system assumptions.

RRU has not historically been required to provide fire flow for the water system. New developments will most likely be regulated by the fire jurisdiction under more current requirements which may require upsizing of some facilities.

3.2.1. Demand Criteria

Demand flow and population estimates are based on RRU Water System estimated water use data and existing parcel connection information.

- Average daily per capita water usage for equivalent dwelling units.....122 gpcd
- Average number of persons per equivalent housing unit.....2.8 pphu
- Ratio of peak day to average day.....2.0
- Ratio of peak hour to average day.....3.5
- Equivalent RAC for Industrial and Commercial Areas.....2 RAC



3.2.2. Supply Criteria

The criteria for the evaluation of supply projections to each individual service area are listed as follows:

- Well capacity to meet Peak Day Demand (PDD) with the largest well out of service
- Minimum supply from well and boosters pumping to elevated storage shall meet PDD
- Minimum booster capacity to service areas without elevated storage shall meet peak hour demand (PHD) or instantaneous demand (ADEQ Bulletin No. 10, Chapter 5, Table 3), whichever is greater

3.2.3. Storage Criteria

The criteria for storage capacity requirements for the water system are based upon the following:

- Provide storage volume equal to a minimum of the ADD

As previously stated, ADEQ may allow for a reduction in aboveground storage by accounting for aquifer storage.

3.2.4. Distribution System Criteria

The design criteria for the distribution system are generally used to size and arrange the distribution lines to provide the required flows while meeting the ADEQ requirement to maintain 20 psi under all conditions of flow. The standard water main-sizing criteria limit velocities to a maximum of 5 feet per second under peak-day conditions. Velocities should not exceed 10 feet per second under any condition. The maximum friction head loss for lines up to and including 8 inches in size should be 8 feet or less per 1,000 feet. Head loss for lines over 8 inches in size is 5 feet or less per 1,000 feet, according to pipe size. For main transmission lines, a friction loss of 2 feet per 1,000 feet is recommended.

3.3. SYSTEM DEMANDS

The existing water system, as shown in Exhibit 1 is divided into seven pressure zones. Table 3.13 estimates the ADD, PDD, and PHD for each service sub-area within the RRU Water System.

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GREG SORENSEN
REJOINDER TESTIMONY
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Exhibit GS-RJ5

	Gross Plant	CIAC	CIAC/Plant
Pima Water	\$ 16,921,138	\$ 632,418	4%
Lago Del Oro	\$ 13,845,207	\$617,102	4%
Pima Sewer	\$ 19,295,663	\$937,694	5%
AZ American	\$727,024,593	\$86,050,209	12%
AZ Water	\$377,813,049	\$51,041,945	14%
Litchfield Park Water	\$ 71,703,441	\$11,343,809	16%
Litchfield Park Sewer	\$ 61,635,652	\$11,343,809	18%
Chap City	\$ 63,230,809	\$12,878,686	20%
Black Mountain Sewer	\$ 13,715,669	\$5,341,461	39%
Johnson Sewer	\$131,484,976	\$51,485,187	39%
Johnson Water	\$ 80,634,561	\$33,943,376	42%
Rio Rico Wastewater	\$ 11,829,043	\$5,137,673	43%
Rio Rico Water	\$ 34,059,801	\$20,140,197	59%

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4 Attorneys for Rio Rico Utilities, Inc.

5
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7
8
9 IN THE MATTER OF THE
APPLICATION OF RIO RICO
10 UTILITIES, INC., AN ARIZONA
CORPORATION, FOR A
11 DETERMINATION OF THE FAIR
VALUE OF ITS UTILITY PLANTS AND
PROPERTY AND FOR INCREASES IN
12 ITS WATER AND WASTEWATER
RATES AND CHARGES FOR UTILITY
13 SERVICE BASED THEREON.

DOCKET NO: WS-02676A-09-0257

14
15
16 **REJOINDER TESTIMONY OF**

17 **PETER EICHLER**

18
19 **March 9, 2010**
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2289190.3

1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Peter Eichler. My business address is 2485 Bristol Circle, Oakville,
4 Ontario L6A 7H7.

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

7 A. Yes, my rebuttal testimony was submitted in support of the rebuttal filing in this
8 docket by Rio Rico Utilities, Inc. (“RRUI” or “Company”).

9 **Q. WHAT IS THE PURPOSE OF YOUR REJOINER TESTIMONY?**

10 A. The purpose of my rejoinder testimony is to further support RRUI’s application for
11 rate relief by responding to testimony by the other parties regarding Liberty
12 Water’s affiliate cost allocation methodology. Neither Staff nor RUCO voice any
13 objections to the cost allocations from Liberty Water to RRUI. Staff and RUCO
14 both oppose the Central Office Cost allocations from Algonquin Power Trust
15 (“APT”) to RRUI. In this testimony, I respond to the surrebuttal testimony of
16 Mr. Coley for RUCO and Mr. Becker for Staff relating to the Central Office Cost
17 allocations from APT.

18 **II. REJOINER TO STAFF AND RUCO ADJUSTMENTS TO CENTRAL**
19 **OFFICE COST ALLOCATIONS.**

20 **A. Rejoinder to Staff.**

21 **Q. WHAT ARE YOUR OVERALL THOUGHTS ABOUT THE TESTIMONY**
22 **OF MR. BECKER REGARDING YOUR CORPORATE COSTS?**

23 A. I have examined Mr. Becker’s surrebuttal testimony and it is not persuasive.
24 Unfortunately, Mr. Becker’s testimony is premised on incorrect factual
25 assumptions and unsupported conclusions. I recognize and understand
26 Mr. Becker’s concerns relating to the APT cost allocations. Even so, Mr. Becker

1 has not supported his disallowance of the APT costs allocations with substantial
2 evidence. Rather, he applies a presumption that the APT costs do not benefit
3 RRUI's ratepayers. Liberty Water understands that Staff must scrutinize the APT
4 cost allocations, but we do not believe it is fair to presume that the APT costs are
5 improper. To the contrary, I assert that the costs and services related to the APT
6 allocations provide substantial benefits to RRUI's ratepayers, and I attempt to
7 address Mr. Becker's concerns in my testimony below. I also think it is important
8 to emphasize that the Central Office Costs are necessary costs of doing business
9 under the APIF business model as a publicly traded income fund, which makes
10 those costs recoverable operating expenses under established rate making
11 principles.

12 We appreciate Staff's concerns about unnecessary costs and potential
13 subsidization by ratepayers, but the evidentiary record does not substantiate such
14 concerns. Rather, the record shows that RRUI's operating costs, with the APT cost
15 allocations, are reasonable and cost-effective and RRUI is providing high-quality
16 utility service. The charts attached to my Rebuttal Testimony as Exhibit PE-RB3
17 demonstrate that RRUI's operating costs compare very favorably to the operating
18 costs of numerous other Arizona water and wastewater companies. Those charts
19 demonstrate that the Liberty Water shared services model allows RRUI to provide
20 high quality service at a reasonable price. Neither Staff nor RUCO mention, let
21 alone, refute those operating cost comparisons. I would hope that Staff's concerns
22 will not override the underlying facts.

23 I also would like to take this opportunity to perhaps increase the level of
24 communication with Staff and RUCO in general. I hope that increased
25 communication regarding Liberty Water's operations on an ongoing basis can
26 reduce disputes and rate case expenses for all parties going forward. We truly want

1 Staff and RUCO to understand and appreciate APIF's cost-effective and efficient
2 business model for providing utility service. We believe Staff's and RUCO's
3 recognition of this business model will serve the best interests of Arizona
4 customers by allowing Liberty Water to provide high quality service at reasonable
5 prices.

6 **Q. ON PAGE 10 OF HIS TESTIMONY, MR. BECKER STATES THAT "THE**
7 **OVERALL OBJECTIVES OF THE PARENT COMPANY FUND SHOULD**
8 **FIRST BE CONSIDERED IN APPRAISING THE NEED FOR THESE**
9 **COSTS." HOW DO YOU RESPOND TO THAT ASSERTION?**

10 A. I agree with Mr. Becker to the extent that necessary business costs under the APIF
11 business model should be considered in analyzing operating expenses. But
12 Mr. Becker seems to imply that APIF's desire to obtain a profit means that APT
13 costs are improper. I disagree with that notion completely. I also would note that
14 the objectives of the parent company are not relevant to the question of whether the
15 APT expenses are a necessary cost of doing business. Mr. Becker does not cite any
16 rule, regulation or ratemaking principle for this statement. Finally, I would assert
17 that the overall objectives of the parent company are to effectively run and operate
18 the facilities it owns. The growth of the parent company has nothing to do with the
19 Central Office Costs incurred. In fact, the growth of the parent, if anything, helps
20 keep Central Office Costs low by taking advantage of larger scale and spreading
21 the costs over more utilities and/or facilities. In short, it would be counterintuitive
22 for the objectives of the parent to be incurring costs which do not derive a benefit
23 for its facilities. I also would add that the fact that APIF is in the business of
24 making a profit is very healthy and, in fact, provides additional incentive to tightly
25 control these corporate costs considering that approximately 73% of the APT costs
26 are allocated to the non regulated business. APT does not have any operating

1 business, except to provide services to the facilities owned, including the utilities.
2 These are administration costs of the business model employed by APIF. If APIF
3 did not own any facilities, APT would not incur these costs, so it is illogical to
4 assume that the shareholders benefit from these costs. Simply put, if these costs
5 were not incurred, there would be no investment capital available to APT to
6 purchase and continue to own utilities. Mr. Becker's claim that APT would incur
7 those costs even if APIF did not own RRUI or the other Arizona utilities is wrong.

8 **Q. ON PAGE 11 OF HIS TESTIMONY, MR. BECKER STATES "SINCE**
9 **SHAREHOLDERS SEEK A PROFIT AND THE APIF INCURS EXPENSES**
10 **(E.G. CENTRAL OFFICE COSTS) IN ORDER TO GENERATE THAT**
11 **PROFIT, THEN A REASONABLE CONCLUSION IS THAT THE**
12 **CENTRAL OFFICE COSTS ARE INCURRED PRIMARILY FOR THE**
13 **BENEFIT OF THE SHAREHOLDERS RATHER THAN FOR RIO RICO**
14 **AS THE COMPANY INDICATES. THE CENTRAL OFFICE COSTS**
15 **WOULD HAVE BEEN INCURRED EVEN IF THE FUND DID NOT OWN**
16 **RIO RICO BECAUSE THE CENTRAL OFFICE COSTS WERE**
17 **INCURRED TO MAKE A PROFIT FOR THE SHAREHOLDERS AND**
18 **NOT TO OPERATE RIO RICO. THE BENEFIT TO RIO RICO IS ONLY**
19 **INCIDENTAL." CAN YOU RESPOND TO THAT TESTIMONY?**

20 **A.** Yes, that testimony is incorrect on several fronts. Staff's and RUCO's approach to
21 the cost allocation issue is fundamentally flawed. Read closely, Mr. Becker's
22 testimony does nothing more than state his beliefs or generic opinions that the APT
23 costs do not benefit ratepayers. With respect to the APT costs, RRUI has shown
24 that the contractual services expenses were actually incurred by APT/RRUI, that
25 those costs are reasonable and that the APT costs are necessary expenses under the
26 APIF business model, which allows RRUI to provide quality utility service at a low

1 cost. Mr. Becker does not really address these issues, but instead contends that the
2 APT costs should be disallowed because they primarily benefit APIF, and not
3 RRUI. I do not agree with that sentiment.

4 As noted above, APT exists solely for the benefit of the utilities and other
5 facilities APIF owns. APT does not have any business operations, other than to
6 provide administrative services to the facilities owned by APIF. If those utilities
7 and other facilities did not exist, APT and all of these indirect corporate
8 administrative costs would not exist. Put another way, the costs incurred by APT
9 do not generate revenue or income for APIF because those costs are provided
10 solely for the benefit of APIF's facilities, including RRUI. Allocation of those
11 costs simply allows APIF to recover those necessary operating costs from the
12 utilities, like RRUI, that use and benefit from the APT services. Mr. Becker's
13 claims to the contrary are unfounded. To illustrate this point, let's say APT pays
14 KPMG \$100,000 for audit services relating to all 63 facilities owned by APIF. In
15 turn, 26.98% of that cost is allocated to the 17 regulated utilities (\$26,980) with
16 12% then allocated to RRUI or \$3,237.60. Allocating that \$3,237.60 to RRUI
17 doesn't generate additional revenue for APIF; rather, such allocation pays for
18 RRUI's portion of the audit costs paid by APT. Recovery of the costs of doing
19 business under APIF's business model is not generation of shareholder revenue.
20 Finally, I would note that Mr. Becker's disallowance of the APT costs because they
21 "primarily" benefit APIF is contrary to the definition of "common costs" in the
22 NARUC Guidelines,¹ which establishes that recoverable common costs can benefit
23 both the regulated utility and unregulated affiliate.

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25
26 ¹ NARUC Guidelines at 2, ¶ 5.

1 Q. ON PAGE 12-13 OF HIS TESTIMONY, MR. BECKER DISCUSSES SOME
2 OF THE COSTS INCLUDED IN THE APT COST POOL AND CLAIMS
3 THAT THEY ARE UNSUPPORTED, OUT OF PERIOD, OR CAN BE
4 DIRECTLY ATTRIBUTABLE TO NON-UTILITY OPERATIONS. HOW
5 DO YOU RESPOND?

6 A. I will respond to this question by independently addressing each of Mr. Becker's
7 claims.

8 1. Directly Attributable Costs:

9 After further reviewing the responses to GWB 4.2., I agree with Mr. Becker
10 that some costs that we allocated to RRUI are inappropriate. These costs include
11 some payments to the Government of Quebec, donations, and some litigation costs
12 that can be directly attributed to non-utility operations. RRUI has adjusted its
13 central allocation pool in the amounts of \$98,775 for licenses and fees, and \$46,367
14 for legal costs. These adjustments are reflected in adjustments made by
15 Mr. Bourassa in his Rejoinder Schedule C-2 (Water) at 9 and C-2 (Wastewater) at
16 7. As stated in my prior testimony, we have directly charged any and all costs to
17 the extent practicable.

18 2. Unsupported Costs:

19 I disagree with Mr. Becker that a lot of costs are unsupported. As
20 Mr. Becker points out, the Company provided every invoice over \$5,000, and
21 offered to provide those under \$5,000 if requested by any party. Unfortunately,
22 neither Staff nor Mr. Becker explain exactly what additional information they need
23 in terms of invoicing. Staff's failure to define, let alone apply, a consistent
24 standard is unfair to RRUI and other utilities. Staff's and RUCO's use of alleged
25 lack of documentation as a means to deny the APT costs also places form over
26 substance. Whether or not an invoice from APT or a vendor mentions RRUI does

1 not change the nature of the service provided or the actual use of the APT services
2 by RRUI. Even if RRUI could PE-write the invoices (which it can't) to mention
3 RRUI, the services provided by APT would remain the same. While it is
4 understood that some of the audit cost invoices do not meet that criteria (i.e. over
5 \$5,000), that does not make them inappropriate expenditures. For example, over
6 \$247,000 of the audit expenses relate to invoices from 2 companies, AccuSource
7 and Contract Control Services. Both of these companies provided extensive
8 services during the test year evaluating and testing internal financial controls
9 related to financial reporting. The internal financial controls are regulatory
10 requirements of Bill 198, which is very similar to the Sarbanes Oxley Act and
11 compliance requirements in the United States. Some examples include:

- 12 1) Revenue Controls – These controls ensure items such as segregation
13 of duties to ensure that those who collect cash do not record entries to
14 the general ledger, that revenues are recorded correctly, and that
15 management checks are in place.
- 16 2) Audit controls – These controls ensure that journal entries have
17 evidence of approval and support, review of key account
18 reconciliations, determining the adequacy of accruals, assignment of
19 information access with segregation of duties in mind.
- 20 3) Information Technology Controls – These controls ensure that the
21 server room is adequately protected, that electronic files are stored
22 off site with restricted access,
- 23 4) Purchasing controls – These controls ensure that purchasing policies
24 are in place, and include sampling wire transfers to ensure
25 appropriate approvals have been received, ensuring a purchasing
26

1 policy is in place and up to date, sampling invoices for evidence of
2 approval of variances from Purchase orders, etc.

3 To state that these types of costs don't benefit customers would be a very difficult
4 argument to make.

5 The majority of the other audit costs relating to KPMG annual audit costs
6 have been supported. I would like to further note that while RRUI does view
7 producing every invoice as overly burdensome, if Mr. Becker would like to select a
8 sample of invoices he is unsure about, I would be happy to provide them in a
9 timely manner.

10 3. Out of Period Costs

11 In reviewing the billings from KPMG, some invoices that were received
12 during 2008 relate to the 2007 annual audit; however, due to the lagging nature of
13 audits, portions of the work related to a 2007 audit is usually not performed until
14 2008. Similarly, the Company would incur 2008 audit costs during 2009, etc. This
15 is not out of period and is a consistently applied methodology throughout Liberty
16 Water's rate cases. While in-period accruals are made for such costs, only the
17 actual costs were reflected in this application.

18 **Q. WHAT ABOUT MR. BECKER'S ASSERTION THAT THE COST**
19 **ALLOCATION METHODOLOGY DOES NOT COMPLY WITH THE**
20 **NARUC GUIDELINES?**

21 **A.** The NARUC guidelines simply recommend that utilities directly allocate as much
22 cost as possible where possible. RRUI conforms to this principle. While I
23 understand Mr. Becker's concerns stated above, the Company does strive to
24 allocate directly where at all possible and to the extent practicable. The removal of
25 some of the legal costs and some of the Licenses and Fees costs is a recognition of
26 Liberty Water's commitment to allocate appropriately and charge directly where

1 appropriate. We have complied with the NARUC Guidelines as set forth in my
2 rebuttal testimony.

3 **Q. ON PAGE 11 OF HIS SURREBUTTAL, MR. BECKER STATES THAT HE**
4 **DISAGREES THAT THE COST POOL WOULD BE LOWER IF**
5 **ALGONQUIN POWER DID NOT OWN THE UTILITIES DIVISION. DO**
6 **YOU AGREE WITH MR. BECKER?**

7 A. No. APIF would not exist and would not incur any costs if it did not own any
8 facilities. APT has no other business than to operate the facilities APIF owns.
9 Further, to contextualize the amount of effort required to run the utilities division,
10 the power generation group, for the most part, has one customer per facility,
11 meanwhile, the utilities group has over 60,000 customers to look after. Even with
12 that disparity, it receives less than 27% of the overall costs. This is something that
13 can only be done with a significant amount of scale. While the business structure
14 of being a publicly traded company does drive a significant portion of the Central
15 Office Costs, these costs are still incurred to the benefit of the utilities it owns.
16 Again, most of these costs are associated with good corporate governance. These
17 costs ensure that the entire corporate family remains viable for the long run. The
18 APT costs and services are a necessary requirement for RRUI to receive equity
19 capital funding from APIF, which absolutely benefits RRUI and its ratepayers.

20 In our view, this Commission should be encouraging larger companies to be
21 acquiring smaller utilities and consolidating operations under shared services
22 models like we have implemented in Arizona. In addition to access to capital,
23 something increasingly critical in down economies where the need for critical
24 infrastructure remains constant, larger companies provide good corporate
25 governance, reducing the risk of smaller utility financial problems. There are no
26 McLain or Far West messes under a corporate structure like ours. But, this has a

1 cost, as I have testified to above, and as Mr. Bourassa and Mr. Sorensen have tried
2 to explain in their testimonies in this case and the recent BMSC rate case.
3 However, under our model, there is a shared cost/benefit.

4 **Q. ON PAGE 12 OF HIS TESTIMONY, MR. BECKER POINTS TO THE**
5 **GROWTH OF ALGONQUIN POWER IN RELATION TO THE GROWTH**
6 **OF RRUI TO SUPPORT HIS CLAIMS THAT THE APT COSTS BENEFIT**
7 **THE SHAREHOLDER. HOW DO YOU RESPOND TO THAT?**

8 A. I respond by stating that the costs incurred by APT are likely much lower due to
9 the current size of the company. As the parent grows, it gains economies of scale
10 and is able to procure services such as audits, tax management, and other costs for
11 a lower incremental price on a consolidated basis. If the fund had not grown in the
12 period from 2001 to 2007, it is conceivable that these costs would be higher today
13 than they are. I also would hope that Staff agrees that larger companies can often
14 run utilities more efficiently than standalone utilities.

15 **Q. CAN BEING A MEMBER OF A LARGE COMPANY PROVIDE BENEFIT**
16 **FOR BOTH SHAREHOLDERS AND RATEPAYERS?**

17 A. Absolutely. A large company can provide many benefits to customers, such as
18 access to capital and the ability to provide high quality service at the lowest
19 possible cost leaving the utility with a fair and reasonable return on its investment
20 after the recovery of the costs needed to provide that level of service. Everyone
21 wins. Again, that general principle is reflected in the definition of "common costs"
22 under the NARUC Guidelines.

23 **Q. WHAT ABOUT MR. BECKER'S ASSERTION THAT MANAGEMENT**
24 **COSTS ARE DUPLICATIVE?**

25 A. The Management services received from APT are very different from the labor
26 incurred at the Liberty Water level. The APT costs are Strategic Management

1 costs designed to provide benefit to the facilities owned by APUC, including the
2 utilities.

3 Strategic management decisions are critical for any public utility. The need
4 for strategic management is even more pronounced for RRUI as a regulated utility
5 that depends on access to capital for ongoing operational and capital needs.
6 Algonquin Power seeks to hire talented strategic managers that aid in running each
7 facility owned by the fund, including RRUI, as efficiently and effectively as
8 possible. This ensures the long term health of each utility and ensures that rates are
9 kept as low as possible without compromising the level of service. It also
10 facilitates each Regulated Utility's access to necessary capital funding at reduced
11 costs.

12 **B. Rejoinder to RUCO**

13 **Q. LET'S SWITCH OVER TO RUCO'S TESTIMONY. PLEASE PROVIDE**
14 **YOUR INITIAL THOUGHTS ON MR. COLEY'S SURREBUTTAL**
15 **TESTIMONY REGARDING CENTRAL OFFICE COSTS**

16 A. My initial thoughts on Mr. Coley's testimony is that while I admire his attempt to
17 compare Rio Rico with other utilities in Arizona, the analysis he has provided is
18 flawed in several ways. Mr. Coley confuses the issue of corporate costs with that
19 of wages and labor expense, and then he performs some severely flawed analyses
20 to support his predetermined conclusion. Mr. Coley's testimony and analysis
21 should be disregarded relating to the APT costs.

22 **Q. PLEASE EXPLAIN THE FLAWS IN MR. COLEY'S TESTIMONY AND**
23 **ANALYSIS?**

24 A. Mr. Coley seeks to prove that non-labor costs, such as the APT costs, should be
25 disallowed based on comparing wages per customer. Mr. Coley does not disallow
26 any of the Liberty Water costs, which are where all the labor is contained. Instead,

1 Mr. Coley seeks to disallow the Central Office Costs relating to access to capital
2 and corporate governance (non-labor costs) by comparing them to other utilities'
3 labor costs. Mr. Coley's analysis is flawed because he is comparing apples to
4 oranges, so to speak. Mr. Coley's Surrebuttal Exhibit 1 is flawed because he does
5 not analyze comparable numbers between the various utilities in his analysis. In
6 his analysis, Mr. Coley sums only the labor and wages costs of various utilities,
7 and then compares those numbers to the total contractual services costs of RRUI.
8 Unfortunately, Mr. Coley does not recognize that the contractual services costs for
9 RRUI include various non-labor/wages costs, including insurance, benefits and
10 other items. In short, Mr. Coley has understated the costs for the other utilities and
11 overstated the costs for RRUI in this analysis. To illustrate that point, the charts
12 attached to my testimony as Exhibit PE-RJ1 correct the errors in Mr. Coley's
13 analysis and demonstrate that RRUI's labor and wages costs compare very
14 favorably to other utilities. Mr. Coley's claims to the contrary are not supported by
15 actual data.

16 **Q. DO YOU AGREE WITH THE REST OF MR. COLEY'S ANALYSIS?**

17 A. No. I do not.

18 **Q. TAKE US THROUGH SOME OF THE FLAWS THAT YOU HAVE FOUND**
19 **IN MR. COLEY'S ANALYSIS.**

20 A. As stated above, my biggest concern with Mr. Coley's analysis is that he is
21 comparing non-labor costs to labor costs, in an effort to disallow costs that don't
22 have labor in them. That does not make sense.

23 **Q. PLEASE PROVIDE SOME EXAMPLES OF WHAT YOU MEAN.**

24 A. The following are some examples of the errors in Mr. Coley's testimony.

- 25 • In the Wastewater division, payments to the City of Nogales for treatment of
26 wastewater totaling over \$130,000 are included in Contractual Services

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accounts, and therefore Mr. Coley's calculation of labor costs. Clearly, these are non-labor costs.

- As previously mentioned, APT costs are non-labor but included anyway by Mr. Coley for both the Water and Wastewater divisions.
- Rio Rico's Contractual Services category includes labor for accounting staff and customer service staff as well as administrative costs. The Arizona Water Companies, for example, record these costs on separate line items. Mr. Coley did not include these costs for the Arizona Water Companies. To give an order of magnitude of these costs, Coolidge Water incurs \$645,651 of these costs, or \$137.28 per customer; Lakeside Water \$782,552 or \$157.96 per customer. Needless to say, these numbers would significantly impact Mr. Coley's analysis.
- Mr. Coley ignores that Liberty Water labor costs include 35% burdens for items such as medical insurance, 401k's, etc. These costs were included for Liberty Water companies, but not for some of the other companies in the analysis which record medical insurance costs on separate lines.
- Mr. Coley assumes that all costs labeled "Contractual Services" are Liberty Water labor costs. This is not true. In both divisions, there are costs included in Contractual Services that include ground maintenance, meter testing, janitorial services, alarm monitoring, office cleaning, armored car service, and other administrative costs. In the administrative cost allocation accounts, only approximately 35% of the total is labor related, including burdens such as medical insurance, etc. as described above.

1 **Q. ARE THERE ANY POSITIVES THAT YOU CAN POINT TO IN MR.**
2 **COLEY'S ANALYSIS?**

3 A. Yes. Mr. Coley's attempted analysis actually supports the APT costs allocations
4 on several fronts. I do not, however, necessarily agree with Mr. Coley's choice of
5 comparable utilities. For example Mr. Coley compared RRUI's sewer division to
6 three stand-alone sewer companies, including Ajo Improvement, Rio Verde and
7 Far West. I believe that Ajo Improvement is subsidized by its parent company,
8 which means that the numbers used by Mr. Coley don't reflect actual costs. Also,
9 as established in a recent docket before the Commission, Far West is not providing
10 adequate service and has substantial financial problems, which Mr. Coley did not
11 address in his testimony. Even so, I have used these companies to develop my
12 rejoinder schedules and charts attached as Exhibit PE-RJ1, in which I outlined the
13 breakdown of RRUI's contractual services accounts and compared RRUI's
14 labor/wages costs to the other Arizona sewer/water utilities cited by Mr. Coley.

15 **Q. PLEASE EXPLAIN YOUR REJOINDER SCHEDULES PE-RJ1.**

16 A. My rejoinder schedules attached as **Exhibit PE-RJ1** seek to correct the flaws in
17 Mr. Coley's analysis and provide an apples to apples comparison of labor costs.
18 As demonstrated, Rio Rico's labor costs per customer are not only well within the
19 range of the other utilities, but in fact a lot lower than most of the utilities in the
20 sample group. When accurately compared to 17 other water utilities, Rio Rico
21 Utilities is the third lowest labor cost per customer. On the wastewater front, when
22 compared to nine other wastewater companies, only three are lower in labor cost
23 per customer than Rio Rico Utilities. This further proves the efficiency of the
24 shared services model.

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1 Q. BUT MR. EICHLER, DIDN'T YOU SAY THAT THE LABOR COSTS
2 SHOULDN'T BE USED TO DISCUSS APT COSTS?

3 A. That is correct. I supplied the above analysis to only confirm the benefits of
4 Liberty Water's shared services model.

5 Q. SO HOW SHOULD WE COMPARE RIO RICO'S COSTS TO OTHER
6 UTILITIES?

7 A. During my rebuttal testimony, I provided a schedule which demonstrates that Rio
8 Rico's overall controllable costs per customer were well within line of other
9 utilities, in some cases being among the lowest. I have now expanded that analysis
10 to include some of Mr. Coley's sample group. My analysis can be seen in the
11 schedules attached as **Exhibit PE-RJ2**.

12 Q. PLEASE DISCUSS YOUR EXHIBIT PE-RJ2 IN MORE DETAIL.

13 A. As discussed above, the schedules attached as **Exhibit PE-RJ2** seek to compare
14 various sample utilities, including those picked by Mr. Coley, to RRUI on an
15 overall cost per customer basis. I have compared on a per customer basis both total
16 costs, and total costs less taxes, depreciation, purchased power, and chemicals.
17 The results speak for themselves.

18 Q. PLEASE DISCUSS THE RESULTS OF YOUR ANALYSIS FURTHER.

19 A. On an overall cost per customer basis, Rio Rico compares very favorably other
20 Arizona utilities. For the water division, Rio Rico Utilities ranks sixth out of 23
21 companies compared. Further, on a controllable cost per customer (costs less
22 taxes, depreciation, purchased power, and chemicals), Rio Rico ranks fourth out of
23 23. On the wastewater side, Rio Rico Utilities is in the middle of the pack, ranking
24 fifth out of eleven utilities on a total cost basis and sixth out of eleven on a
25 controllable cost per customer basis. I also would note that neither Staff nor
26 RUCO objected or responded to the operating cost comparisons, Exhibit PE-RB3,

1 in my rebuttal testimony. Those charts compared Rio Rico's total operating
2 expenses to various other Arizona utilities.

3 **Q. WHY SHOULD THIS BE THE WAY TO MEASURE UTILITIES AGAINST**
4 **EACH OTHER?**

5 A. As suggested in my testimony, different utilities have different ways of recording
6 certain costs. Utilities may also choose to operate in different ways. For example,
7 some will outsource certain work while others will choose to perform it in house.
8 The only way to truly measure cost levels against each other is on an overall
9 controllable cost per customer basis.

10 **Q. DO YOU HAVE ANY OTHER OBJECTIONS TO MR. COLEY'S**
11 **TESTIMONY?**

12 A. Yes. On page 18-19 of his testimony, Mr. Coley describes the adjustment that the
13 company made to transportation expense as the removal of costs related to
14 evidence from the Litchfield Park hearing that the "corporate parent has a fleet of
15 corporate executive jets and the costs were being allocated to the utilities".

16 **Q. WHAT IS YOUR OBJECTION TO THAT STATEMENT?**

17 A. That statement is factually incorrect. The parent company does not have a fleet, let
18 alone a single corporate executive jet. Certain staff from APT/APIF occasionally
19 use business travel service from a company called Algonquin Airlink, which is not
20 owned by APIF. The suggestion that APIF owns a fleet of corporate jets is false.
21 In LPSCO's rate case, after the Administrative Law Judge expressed concerns
22 about those charges, we agreed to remove those costs in an effort settle an issue
23 and avoid additional rate case expense and hearing time necessary to debate the
24 merits of those charges. We also took it upon ourselves to remove those charges
25 from RRUI's case to avoid increased hearing time.

26

1 **III. OTHER ANALYSIS**

2 **Q. MR. EICHLER, DID YOU UNDERTAKE ANY OTHER ANALYSIS TO**
3 **SHOW THE REASONABLENESS OF THE APT ALLOCATIONS?**

4 A. Yes. My rejoinder schedule **Exhibit PE-RJ3** is a comparison of some other large
5 publicly traded corporations and their corporate costs.

6 **Q. WHAT DID YOU FIND?**

7 A. As my analysis shows, the cost per customer of some of the categories that I was
8 able to find indicates that the services provided by APT are the second lowest in
9 the peer group. This includes audit fees, tax services, board of director costs, and
10 services received from CEO's (management services in the case of Rio Rico). This
11 further demonstrates that not only is the overall cost per customer reasonable, but
12 that the APT costs themselves are extremely reasonable.

13 **Q. PLEASE CONTINUE.**

14 A. The availability of comparable data for most of the categories also shows that the
15 types of costs incurred are incurred by other publicly traded corporations as well
16 and have benefit to rate payers of those companies.

17 **Q. DOES THIS CONCLUDE YOUR REJOINDER TESTIMONY?**

18 A. Yes.

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

PETER EICHLER
REJOINDER TESTIMONY
March 9, 2010

Exhibit PE-RJ1

COMPARISON OF RIO RICO'S LABOR/WAGES COSTS TO OTHER ARIZONA SEWER UTILITIES

	Sun City Wastewater 12/31/2008	Sun City West Wastewater 12/31/2008	Global Water 12/31/2008	Rio Rico Wastewater 12/31/2008	Rio Verde 12/31/1999	Ajo Improvement 12/31/2002	Far West 12/31/2007	Az-Am (Anthem) 12/31/2007	Coronado Utilities 12/31/2008	Az-Am (Mohave Wastewater) 12/31/2007	Az-Am (Agua Fria) 12/31/2007
Test Year											
Customers	47,260	31,209	15,152	2,071	1,193	1,089	7,166	8,456	1,281	1,235	13,038
Total Revenue	\$5,940,381	\$5,654,504	\$6,521,201	\$1,829,976	\$611,278	\$95,505	\$2,139,964	\$6,395,183	\$883,530	\$796,161	\$8,637,123
Total Expenses	\$5,991,974	\$5,040,379	\$6,376,014	\$1,387,305	\$427,853	\$164,038	\$2,999,582	\$5,438,217	\$729,033	\$780,542	\$8,828,909
Salary/Wages	\$454,529	\$766,759	\$924,853		\$113,551.00	\$29,012	\$870,122	\$439,668.00	\$52,500	\$108,996	\$1,335,278.00
Pension/Benefits	\$75,595	\$150,285	\$215,792		\$7,399.00	\$19,741				\$18,447	\$221,650.00
Customer Accounting	\$145,686	\$123,968	\$99,923							\$16,497	\$242,170.00
Contractual Services- Testing						\$103,637	\$158,510		\$3,676.00		
Contractual Services [1]			\$183,263	\$204,603.35	\$35,142.00	\$4,343	\$77,754		\$141,386.00		
Contract Services-Other					\$6,498		\$29,671		\$41,341.00		
Management Fees	\$933,155	\$789,604				\$15,020		\$890,005.00		\$123,665	\$1,528,005
Group/Other Insurance	\$198,849	\$315,850	\$4,320					\$49,453		\$24,046	\$396,599
Total Labor/Wages Costs [2]	\$2,146,466	\$2,146,466	\$1,428,151	\$204,603.35	\$162,590.00	\$171,753	\$1,136,057	\$1,379,126	\$238,903	\$291,651	\$3,481,532
Yearly Labor/Wages Cost Per Customer [3]	\$45.42	\$68.78	\$94.25	\$98.79	\$136.29	\$157.72	\$158.53	\$163.09	\$186.50	\$236.15	\$267.03
Rank Among All Listed Utilities	1	2	3	4	5	5	6	7	8	9	10
Monthly Labor/Wage Cost Per Customer [4]	\$3.78	\$5.73	\$7.85	\$8.23	\$11.36	\$13.14	\$13.21	\$13.59	\$15.54	\$19.68	\$22.25
Rank Among All Listed Utilities	1	2	3	4	5	5	6	7	8	9	10
											Rio Rico: \$8.23

NOTES:

[1] Rio Rico's Contractual Services include only labor related costs and does not include rent, depreciation, computer equipment and any other non-labor related costs. The Contractual Services amount for Rio Rico includes \$96,241 in operations labor (Liberty Water), \$79,390 in administrative labor (Liberty Water) and \$28,972.35 in administrative allocations from Liberty Water under a 4-Factor methodology.

[2] The total labor/wages costs is the sum of salary/wages, pension/benefits, customer accounting, contractual services, management fees and group/other insurance.

[3] The yearly labor/wages cost per customer is the total labor/wages costs divided by the total number of customers.

[4] The monthly labor/wage cost per customer is the yearly labor/wages cost per customer divided by twelve (12). This chart illustrates that Rio Rico's labor/wages costs compare very favorably to this comparable group of utilities and Rio Rico's yearly and monthly labor/wages costs per customer are well below the group average for all 10 utilities, which includes comparable utilities used by RUCO in Mr. Coley's Surrebuttal Exhibit 1.

SOURCE: The data on this chart originates from C-1 and H-2 schedules filed by the various companies in recent rate cases in the test years as noted.

COMPARISON OF RIO RICO'S LABOR/WAGES COSTS TO OTHER ARIZONA WATER COMPANIES

	Lago Del Oro	Global Water	Rio Rico Water	Arizona Water (Sierra Vista)	Arizona Water (Overgaard)	Bermuda Water	Arizona Water (Coolidge)	Sun City West	H2O, Inc.	Arizona Water (Sedona)	Arizona Water (Manuel)	Arizona Water (Lakeside)	Sun City Water	Arizona Water (Oracle)	Willow Valley (Global)	AZ-AM (Anthem)	AZ-AM (Paradise Valley)	Sunrise Water
Test Year	12/31/2008	12/31/2008	12/31/2008	12/31/2007	12/31/2007	12/31/1997	12/31/2007	12/31/2008	12/31/2008	12/31/2007	12/31/2007	12/31/2007	12/31/2008	12/31/2007	12/31/2008	12/31/2007	12/31/2007	12/31/2007
Customers	6,346	15,371	6,052	2,900	4,124	3,854	4,656	15,465	6,300	6,419	1,573	4,953	23,140	1,524	1,554	8,764	4,884	1,324
Total Revenue	\$1,905,111	\$9,110,720	\$1,847,256	\$1,461,327	\$1,686,342	\$1,489,722	\$2,214,952	\$5,701,431	\$3,383,145	\$3,521,124	\$812,359	\$2,588,942	\$9,283,101	\$1,115,109	\$473,327	\$9,357,346	\$7,848,732	\$1,304,363
Total Expenses	\$1,666,701	\$7,141,309	\$2,061,862	\$1,186,838	\$1,316,453	\$1,391,989	\$1,935,319	\$5,114,006	\$3,026,826	\$3,096,417	\$859,882	\$2,071,226	\$8,422,016	\$931,966	\$569,035	\$7,215,051	\$6,296,235	\$1,364,627
Salary/Wages	\$186,384	\$181,051.00				\$414,555		\$103,217	\$790,693				\$1,225,676		\$226,369	\$801,914	\$715,859	\$414,480
Pension/Benefits						\$62,750		\$137,699					\$251,435					
Customer Accounting							\$267,290			\$323,108	\$104,642	\$275,893		\$100,428				
Contractual Services-Testing	\$34,435	\$56,113						\$133,476										
Contractual Services [1]	\$56,007	\$67,911	\$570,723															
Contract Services-Other			\$2,809			46,761			\$72,107						\$12,787			\$45,163
Management Fees																		
Group/Other Insurance		\$4,647				\$7,943	\$378,361	\$99,903		\$641,077	\$140,854	\$506,659	\$1,809,322	\$151,590		\$1,132,699	\$923,778	\$50,775
Total Labor/Wages Costs	\$276,826	\$1,079,705	\$573,532.43	\$286,759	\$486,871	\$532,009	\$645,651	\$2,224,037	\$924,013	\$964,185.00	\$245,496	\$782,532	\$3,665,516	\$252,018	\$290,121	\$1,934,613	\$1,639,637	\$310,418
[2] Yearly Labor/Wages Cost Per Customer [3]	\$43.62	\$70.24	\$94.77	\$98.88	\$118.06	\$138.04	\$138.67	\$143.81	\$146.67	\$150.21	\$156.07	\$158.00	\$158.58	\$163.37	\$186.69	\$220.75	\$335.72	\$385.51
Rank Among All Listed Util	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
Monthly Labor/Wage Cost Per Customer [4]	\$3.64	\$5.85	\$7.90	\$8.24	\$9.84	\$11.50	\$11.56	\$11.98	\$12.22	\$12.52	\$13.01	\$13.17	\$13.21	\$13.78	\$15.56	\$18.40	\$27.98	\$32.13
Rank Among All Listed Utilities	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
												\$158.00	\$158.58	\$163.37	\$186.69	\$220.75	\$335.72	\$385.51
																		Average
																		\$161.65
																		Rico Rico: \$94.77
																		\$13.47
																		\$7.90

NOTES:
 [1] Rio Rico's Contractual Services includes only labor related costs and does not include rent, depreciation, computer equipment and any other non-labor related costs. The Contractual Services amount for Rio Rico's water division includes \$264,195 in operations labor (Liberty Water), \$242,221 in administrative labor (Liberty Water) and \$63,307.43 in administrative allocations from Liberty Water under a 4-Factor methodology.

[2] The total labor/wages costs is the sum of salary/wages, pension/benefits, customer accounting, contractual services, management fees and group/other insurance.

[3] The yearly labor/wages cost per customer is the total labor/wages costs divided by the total number of customers.

[4] The monthly labor/wage cost per customer is the yearly labor/wages cost per customer divided by twelve (12). This chart illustrates that Rio Rico's labor/wages costs compare very favorably to this comparable group of utilities and Rio Rico's yearly and monthly labor/wages costs per customer are well below the group average for all 18 utilities, which includes comparable utilities used by RUCO in Mr. Coley's Surrebuttal Exhibit 1.

SOURCE: The data on this chart originates from C-1 and H-2 schedules filed by the various companies in recent rate case

RICO RICO WATER DIVISION CONTRACTUAL SERVICES BREAKDOWN

<u>Contractual Services (\$805,032)</u>	<u>TOTAL</u>	<u>LABOR COSTS</u>
1. Operations Labor (Liberty Water):	\$264,195 ¹	\$264,195
2. Administrative Labor (Liberty Water):	\$242,221 ²	\$242,221
3. Administrative Allocation (Liberty Water):	\$194,871 ³	\$64,307.43
4. Central Office Costs (APT):	\$103,745 ⁴	\$0.00
<u>Contractual Services Other (\$76,859)</u>		
1. Technical Services Labor:	\$2,809	\$2,809
2. Contract Services Miscellaenous	\$24,142 ⁵	\$0.00
3. Contract Services	\$45,231 ⁶	\$0.00
4. Contract Services	\$4,677 ⁷	\$0.00
TOTAL COSTS FOR CONTRACTUAL SERVICES:		\$805,032.00
TOTAL LABOR COSTS FOR CONTRACTUAL SERVICES:		\$570,723.43
TOTAL NON-LABOR COSTS FOR CONTRACT SERVICES:		\$234,308.57
RICO RICO 2008 CUSTOMER COUNT FOR WATER SERVICE:		6,025
RIO RICO ANNUAL LABOR/WAGE COST PER CUSTOMER:		\$94.77
RIO RICO MONTHLY LABOR/WAGE COST PER CUSTOMER:		\$7.89

2289391.1

¹ These costs are direct charges from Liberty Water for operations and engineering. The labor rate charged by Liberty Water is the dollar hourly rate per employee as recorded in Liberty Water's payroll system, grossed up by roughly 35% for burdens such as payroll taxes, health benefits, retirement plans, and other insurance provided to employees. Engineering technical labor, which is capitalized, is charged on the same basis, plus a 10% allocation for corporate overheads incurred by Liberty Water, including rent, materials, supplies and other similar overhead costs.

² These costs are labor costs for accounting, billing, customer service and human resources. These labor costs incurred by Liberty Water are allocated to the Regulated Utilities based on customer count. The labor rate charged by Liberty Water is the dollar hourly rate per employee as recorded in Liberty Water's payroll system, grossed up by roughly 35% for burdens such as payroll taxes, health benefits, retirement plans, and other insurance provided to employees.

³ These costs are incurred by Liberty Water for rent, administrative costs, depreciation of office furniture, depreciation of computers, and other labor that cannot be directly attributed to a specific Regulated Utility. Those administrative costs are allocated to RRUI by use of the "four factor" methodology. Other costs in this category include insurance, janitorial services and other general non-payroll costs. The methodology used by Liberty Water involves (1) Rate Base, (2) Total Customers, (3) Non-Labor Expenses and (3) Labor as allocating factors, with each factor assigned a specific weight. In total, the Administrative Allocation is 67% non-labor and 33% labor.

⁴ The Central Office Costs from APT do not include any direct labor costs. Instead, these costs include professional services like third-party legal services, accounting services, tax planning and filings, and required auditing that are done for the benefit of all of the Liberty Water Regulated Utilities, including RRUI.

⁵ These costs are non-labor costs for construction, alarm services, imaging, copiers and related services.

⁶ These costs are non-labor costs for testing, ground maintenance, blue staking, septic services and other similar services.

⁷ These costs relate to non-labor costs for painting and other relating services.

RICO RICO SEWER DIVISION CONTRACTUAL SERVICES BREAKDOWN

<u>Contractual Services (\$298,008)</u>	<u>TOTAL</u>	<u>LABOR COSTS</u>
1. Operations Labor (Liberty Water):	\$96,241 ¹	\$96,241
2. Administrative Labor (Liberty Water):	\$79,390 ²	\$79,390
3. Administrative Allocation (Liberty Water):	\$87,795 ³	\$28,972.35
4. Central Office Costs (APT):	\$34,582 ⁴	\$0.00
<u>Contractual Services Other (\$175,196)</u>	<u>TOTAL</u>	<u>LABOR COSTS</u>
1. Contract Services	\$1,353	\$0.00
2. Contract Services	\$171,316 ⁵	\$0.00
3. Contract Services	\$2,527 ⁶	\$0.00
TOTAL COSTS FOR CONTRACTUAL SERVICES:		\$473,204.00
TOTAL LABOR COSTS FOR CONTRACTUAL SERVICES:		\$204,603.35
TOTAL NON-LABOR COSTS FOR CONTRACT SERVICES:		\$268,600.65
RICO RICO 2008 CUSTOMER COUNT FOR WATER SERVICE:		2,071
RIO RICO ANNUAL LABOR/WAGE COST PER CUSTOMER:		\$98.79
RIO RICO MONTHLY LABOR/WAGE COST PER CUSTOMER:		\$8.1

¹ These costs are direct charges from Liberty Water for operations and engineering. The labor rate charged by Liberty Water is the dollar hourly rate per employee as recorded in Liberty Water's payroll system, grossed up by roughly 35% for burdens such as payroll taxes, health benefits, retirement plans, and other insurance provided to employees. Engineering technical labor, which is capitalized, is charged on the same basis, plus a 10% allocation for corporate overheads incurred by Liberty Water, including rent, materials, supplies and other similar overhead costs.

² These costs are labor costs for accounting, billing, customer service and human resources. These labor costs incurred by Liberty Water are allocated to the Regulated Utilities based on customer count. The labor rate charged by Liberty Water is the dollar hourly rate per employee as recorded in Liberty Water's payroll system, grossed up by roughly 35% for burdens such as payroll taxes, health benefits, retirement plans, and other insurance provided to employees.

³ These costs are incurred by Liberty Water for rent, administrative costs, depreciation of office furniture, depreciation of computers, and other labor that cannot be directly attributed to a specific Regulated Utility. Those administrative costs are allocated to RRUI by use of the "four factor" methodology. Other costs in this category include insurance, janitorial services and other general non-payroll costs. The methodology used by Liberty Water involves (1) Rate Base, (2) Total Customers, (3) Non-Labor Expenses and (3) Labor as allocating factors, with each factor assigned a specific weight. In total, the Administrative Allocation is 67% non-labor and 33% labor.

⁴ The Central Office Costs from APT do not include any direct labor costs. Instead, these costs include professional services like third-party legal services, accounting services, tax planning and filings, and required auditing that are done for the benefit of all of the Liberty Water Regulated Utilities, including RRUI.

⁵ These costs are non-labor costs for construction work and related services.

⁶ These costs are non-labor costs for construction work and payments to the City of Nogales for wastewater disposal. The City of Nogales payment was \$156,975.

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

PETER EICHLER
REJOINDER TESTIMONY
March 9, 2010

Exhibit PE-RJ2

COMPARISON OF RIO RICO'S OPERATING COSTS TO OTHER ARIZONA WATER UTILITIES

Year	Leap Day One Water Co. (1)	Rio Rico Utilities, Inc.	Az-Am Water Co. (Molave)	Az-Am Water Co. (Sun City West)	Az-Am Water Co. (Sun City)	Wilcox Valley Water Co. (Sun City)	Arizona Water Co. (Coolidge)	Arizona Water Co. (Lakeside)	Az-Am Water Co. (Havas)	Arizona Water Co. (Casa Grande)	Global Water Co. (Santa Cruz)	Az-Am Water Co. (Agua Fria)	Arizona Water Co. (Strom)	Chaparral City Water Co.	Arizona Water Co. (Winkelman)	Arizona Water Co. (San Manuel)	Arizona Water Co. (Oracle)	H2O, Inc.	Rio Verde Utilities, Inc.	Az-Am Water Co. (Antelope)	Az-Am Water Co. (Pinnacle Valley)	
12/31/2008	12/31/2008	12/31/2008	12/31/2008	12/31/2008	12/31/2008	12/31/2008	12/31/2008	12/31/2008	12/31/2008	12/31/2008	12/31/2008	12/31/2008	12/31/2008	12/31/2008	12/31/2008	12/31/2008	12/31/2008	12/31/2008	12/31/2008	12/31/2008	12/31/2008	
Customer(2)	6,346	16,635	7,072	4,124	15,465	1,554	4,656	4,933	2,565	21,455	15,371	34,402	6,419	13,423	171	1,573	1,524	6,300	1,688	8,764	4,884	
Total Revenue	\$1,905,111	\$5,112,631	\$3,103,252	\$1,686,342	\$5,701,431	\$9,283,101	\$2,214,932	\$2,388,943	\$1,026,587	\$10,934,895	\$9,453,438	\$18,818,613	\$3,521,124	\$7,471,697	\$98,722	\$812,539	\$1,115,109	\$3,934,320.46	\$1,402,646	\$9,357,346	\$7,848,732	
Total Expenses	\$1,666,701	\$5,076,491	\$2,410,387	\$1,316,453	\$5,114,006	\$8,422,016	\$1,938,319	\$2,071,226	\$1,158,005	\$10,277,900	\$7,196,180	\$16,217,325	\$3,096,417	\$6,656,065	\$88,524	\$359,882	\$91,996	\$4,263,281.58	\$1,176,153	\$7,215,051	\$6,296,235	
Salary/Wages	\$186,384	\$899,973	\$752,628	\$708,217	\$708,217	\$1,225,670	\$248,567	\$304,471	\$1,440,677	\$857,540	\$205,327	\$901,467	\$982,169	\$802,168	\$11,129	\$241,318	\$138,403.02	\$66,561	\$444,337	\$693,068	\$715,859	
Pension/Benefits		\$44,384		\$58																		
Purchased Water	\$376,962	\$39,090	\$501,877	\$71,171	\$830,074	\$1,722,562	\$33,979	\$192,581	\$181,940	\$1,387,878	\$386,793	\$1,954,815	\$518,834	\$609,412	\$7,310	\$38,338	\$149,736	\$354,337.27	\$217,417	\$965,412	\$603,068	
Chemicals	\$12,570	\$7,846	\$61,759	\$14,733	\$227,889	\$37,037	\$33,911	\$28,463	\$88,249	\$531,617	\$3,505	\$1,121,555	\$319,722	\$116,571	\$1,372	\$40,816	\$15,542	\$5,633.36	\$11,430	\$90,637	\$236,992	
Materials/Supp.	\$34,435	\$103,944	\$56,770	\$57,226	\$57,226	\$78,546	\$18,274	\$13,616	\$161,107	\$41,783	\$16,113	\$21,358	\$21,358	\$47,072				\$20,266.77	\$11,443	\$64,824	\$87,860	
Contracting	\$56,007	\$132,002	\$706	\$133,476	\$5,401	\$335,348	\$275,893	\$22,062	\$909,384	\$99,384	\$16,113	\$70,806	\$323,108	\$11,332	\$1,332	\$104,428	\$106,428.00	\$455,818.27	\$93,990	\$14,739	\$21,467	
Admin/General	\$940,899	\$15,559	\$8,229	\$486,871	\$99,303	\$1,509,322	\$9,185	\$6,016	\$63,217	\$94,639	\$67,741	\$2,775,604	\$64,077	\$368,977	\$16,116	\$15,590	\$151,590.00	\$30,895.47	\$1,132,609	\$923,778	\$923,778	
Transportation	\$183,339	\$206,312	\$69,678	\$58,622	\$232,408	\$93,255	\$1,058	\$9,936	\$8,974	\$43,326	\$53,083	\$396,645	\$29,241	\$74,600	\$39,453.09	\$39,453.09	\$13,868.00	\$185,890.68	\$9,475	\$240,221	\$184,827	
Insurance-GL	\$7,409	\$554,017	\$79,663	\$232,408	\$232,408	\$93,255	\$1,058	\$9,936	\$8,974	\$43,326	\$53,083	\$396,645	\$29,241	\$74,600	\$39,453.09	\$39,453.09	\$13,868.00	\$185,890.68	\$9,475	\$240,221	\$184,827	
Insurance-Other	\$665,880	\$883,235	\$666,306	\$314,780	\$1,323,541	\$292,752	\$126,911	\$426,056	\$416,943	\$291,351	\$143,687.00	\$4,397,190	\$731,033	\$2,051,748	\$19,928	\$106,134	\$181,393	\$958,802.67	\$177,320	\$1,979,883	\$1,615,824	
Depreciation	\$109,419	\$196,677	\$185,211	\$154,685	\$324,959	\$9,746	\$73,220	\$158,301	\$158,301	\$924,207	\$824,207	\$118,756	\$153,125	\$111,401	\$1,170	\$77,577	\$65,869	\$98,268	\$88,268	\$228,400	\$228,400	
Income Taxes	\$107,226	\$221,795	\$48,114	\$65,159	\$179,896	\$156,074	\$94,912	\$21,944	\$17,638	\$219,346	\$423,523	\$903,071	\$125,837	\$187,217	\$10,675	\$68,170	\$53,921	\$158,746.98	\$91,443.43	\$26,959	\$268,996	
Property Taxes	\$75,809	\$50,154	\$22,756	\$65,832	\$65,832	\$363,96	\$377,40	\$416,31	\$418,18	\$457,71	\$468,17	\$471,41	\$442,38	\$510,77	\$517,68	\$546,65	\$611,55	\$676,71	\$696,77	\$823,26	\$1,289,16	
Other Taxes	\$362,64	\$305,17	\$314,18	\$319,22	\$330,68	\$363,96	\$377,40	\$416,31	\$418,18	\$457,71	\$468,17	\$471,41	\$442,38	\$510,77	\$517,68	\$546,65	\$611,55	\$676,71	\$696,77	\$823,26	\$1,289,16	
Cost/Customer(3)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22
Rank Out of 23																						
Total Expenses/Leas	\$844,076	\$4,092,579	\$1,466,602	\$859,073.00	\$3,868,796	\$6,395,578	\$479,133	\$1,234,835	\$1,344,181	\$964,743	\$2,499,940	\$11,026,897	\$2,344,827	\$4,457,346	\$57,856	\$754,073	\$618,255	\$3,054,188.50	\$865,300	\$4,670,100	\$4,115,043	
Depreciation	\$133,01	\$246,02	\$190,38	\$208,31	\$250,16	\$386,03	\$508,32	\$265,72	\$271,39	\$376,12	\$156,78	\$320,53	\$365,29	\$332,07	\$338,34	\$479,39	\$405,74	\$444,79	\$512,62	\$522,87	\$842,56	
Depreciation/Leas	\$454,544	\$3,598,472	\$1,099,753	\$773,110.00	\$2,813,253	\$4,835,959	\$445,140.00	\$1,008,363	\$1,132,545	\$765,355	\$1,775,859	\$7,049,060	\$1,506,271	\$2,928,995	\$49,174	\$433,581.00	\$453,077.00	\$2,555,814.85	\$367,892	\$3,169,714.00	\$3,097,133.00	
Cost/Cust - Tax	\$71,63	\$212,71	\$135,53	\$187,47	\$181,93	\$209,99	\$286,46	\$216,57	\$228,66	\$298,38	\$315,53	\$204,90	\$234,66	\$218,21	\$287,57	\$275,64	\$297,29	\$405,68	\$453,63	\$361,67	\$634,14	
Depreciation/Leas																						

[1] Data is based on each company's 2008 utility annual report on file with the Arizona Corporation Commission, with the exception of the Arizona-American Water Company systems included on this chart, which data is based on the C-1 and H-2 schedules attached to the applications filed in the recent rate cases.
 [2] The customer numbers are as of December 2008 as reported in the 2008 utility annual report, or come from Arizona-American Water Company's and Arizona Water Company's H-2 schedules attached to the applications filed in the recent rate cases.
 [3] This row equals Total Operating Expenses divided by the total number of customers.
 [4] This row equals Total Operating Expenses minus Taxes and Depreciation, Purchased Water and Chemicals divided by the total number of customers.
 [5] This row equals Total Operating Expenses minus Taxes, Depreciation, Purchased Water and Chemicals divided by the total number of customers.

COMPARISON OF RIO RICO'S OPERATING COSTS TO OTHER ARIZONA SEWER UTILITIES

	Az-Am Water Co. (Sun City) [1]	Ajo Improvement[6]	Az-Am Water Co. (Sun City West)	Rio Rico Utilities, Inc.	Global Water (Palo Verde)	Rio Verde Utilities, Inc.	Far West Water & Sewer, Inc.	Coronado Utilities	Az-Am Water Co. (Mohave)	Az-Am (Authem-Agua Fria)
Test Year	12/31/2008	12/31/2008	12/31/2008	12/31/2008	12/31/2008	12/31/2008	12/31/2008	12/31/2008	12/31/2007	12/31/2007
Customers[2]	47,260	1,053	31,209	2,183	15,152	1,622	7,166	1,281	1,235	8,456
Total Revenue	\$5,940,381	\$223,879	\$5,654,504	\$1,834,481	\$6,605,305	\$961,414	\$2,098,426	\$899,226	\$796,161	\$6,395,183
Total Expenses	\$5,991,974	\$257,588	\$5,040,379	\$825,158	\$6,412,203	\$760,668	\$3,377,272	\$685,635	\$780,542	\$5,438,217
Salary/Wages (601)	\$454,529	\$87,645	\$766,759	\$991,267	\$991,267	\$121,659	\$584,440	\$22,570	\$108,596	\$439,668
Pension/Benefits (604)				\$228,670						
Purchased Water (610)		\$931								
Purchased Power (615)	\$15,804	\$410	\$315,512	\$17,482	\$534,930	\$81,237	\$245,610	\$53,814	\$73,650	\$352,338
Fuel for Power					\$7,004					
Chemicals (618)	\$4,885		\$401,862	\$9,856	\$160,523	\$40,168	\$272,924	\$28,079	\$9,214	\$101,456
Materials/Supplies (620/620.08)	\$44,944	\$47,593	\$49,950	\$14,504	\$263,090	\$9,718	\$49,574	\$2,978	\$7,874	\$49,707
Contract Services- Testing (635)					\$99,923	\$2,129	\$133,233	\$3,676		
Contract Services Other (636)				\$452,687	\$477,939	\$93,991	\$24,241	\$291,374		
Rent (641)	\$46,868	\$16,568	\$38,079	\$57,811	\$93,111	\$192,693	\$1,613	\$18,363	\$18,363	\$84,483
Management Fees	\$933,155		\$789,604				\$123,665	\$890,005	\$123,665	\$1,528,005
Transportation (650)				\$36,817	\$31,222	\$12,037	\$68,279	\$209		
Insurance-GL (657)	\$141,193		\$267,064	\$12,021		\$9,475	\$29,734		\$24,046	\$90,870
Insurance Other (659)	\$57,456		\$48,786		\$56,553			\$11,066	\$7,294	\$49,453
Misc. (675)	\$104,503	\$172,701	\$243,174	\$83,226,00	\$55,422,00	\$192,220,00	\$753,136		\$16,726	\$259,385
Depreciation (403)	\$679,999	(\$7,612)	\$1,238,799	(\$14,104)	\$2,883,976	\$76,977	\$598,772	\$175,111	\$248,398	\$1,988,462
Income Taxes	(\$310,869)		\$49,967	\$138,350	\$89,215	\$44,443		(\$3,335)	(\$76,894)	\$173,361
Property Taxes	\$157,456	\$6,111	\$135,000	\$49,415	\$280,937	\$24,241	\$78,255	\$13,194	\$37,922	\$512,237
Other Taxes	\$34,880	\$709	\$38,909		\$4,814	\$20,289	\$1,303		\$9,778	\$36,982
Cost/Customer[3]	\$126.79	\$244.62	\$161.50	\$377.99	\$423.19	\$468.97	\$471.29	\$535.23	\$632.02	\$643.12
Rank Out of 11	1	2	3	4	5	6	7	8	9	10
Total Expenses - Taxes/Deprec:	\$5,430,508	\$258,380	\$3,557,704	\$651,497	\$1,153,261	\$594,718	\$2,696,942	\$500,665	\$561,338	\$2,727,175
Cost/Cust. Less- Taxes[4]	\$114.91	\$245.38	\$114.00	\$398.44	\$208.11	\$366.66	\$376.35	\$390.84	\$454.52	\$322.51
Total Expenses- Tax/Dep./Power/Chem:	\$5,409,819	\$257,970	\$2,840,330	\$624,159	\$2,611,327	\$473,313	\$2,178,408	\$472,586	\$478,474	\$2,273,381
Cost/Cust. Less Tax/Dep./Power/Chem[5]	\$114.47	\$244.99	\$91.01	\$385.92	\$172.34	\$291.81	\$303.99	\$368.92	\$387.43	\$387.52
Cost/Cust. Less Tax/Dep./Power/Chem per month	\$9.54	\$20.42	\$7.58	\$23.83	\$14.36	\$24.32	\$25.33	\$30.74	\$32.29	\$32.29

[1] Data is based on each company's 2008 utility annual report on file with the Arizona Corporation Commission, with the exception of the Arizona-American Water Company systems included on this chart, which data is based on the C-1 and H-2 schedules attached to the applications file.
 [2] The customer numbers are as of December 2008 as reported in the 2008 utility annual report, or come from Arizona-American Water Company's and Arizona Water Company's H-2 schedules attached to the applications filed in the recent rate cases.
 [3] This row equals Total Operating Expenses divided by the total number of customers.
 [4] This row equals Total Operating Expenses minus Taxes and Depreciation divided by the total number of customers.
 [5] This row equals Total Operating Expenses minus Taxes, Depreciation, Purchased Power, Purchased Water and Chemicals divided by the total number of customers.
 [6] Ajo Improvement Company is not comparable to Rio Rico because it is heavily subsidized by its parent company Phelps Dodge.

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

PETER EICHLER
REJOINDER TESTIMONY
March 9, 2010

Exhibit PE-RJ3

Corporate Cost Allocation
Comparative Cost per Customer Analysis

	2008		2008		2008		2008		2008		2008					
	Connecticut Water	San Jose Water	American States	Aqua America	California Water	Middlesex water	Liberty Water	Rio Rico	Connecticut Water	San Jose Water	American States	Aqua America	California Water	Middlesex water	Liberty Water	Rio Rico
Revenue	61,270,000	220,347,000	318,718,000	626,972,000	410,312,000	91,038,000	35,233,000	5,367,969	100%	97%	78%	100%	92%	89%	100%	100%
% of revenue from Regulated Water/Sewer	87,361	234,300	291,077	945,540	490,493	104,200	69,190	8,788								
Service Connections	9	7	8	8	8	8	-	-								
Number of Board of Directors	188,000	710,250	718,457	483,975	911,379	266,150	60,728	4,496								
Director Fees Paid	367,000	652,500	1,141,536	1,218,134	842,350	330,200	266,462	35,608								
Audit Fees	70,000	15,279	146,471	28,500	-	14,350	103,603	11,239								
Tax Services	344,992	455,000	592,192	486,808	791,523	352,574	171,688	22,404								
CEO Base Salary	644,597	1,166,082	1,445,371	2,401,514	3,307,304	430,147	171,688	22,404								
CEO Total Compensation																
Source	2009 Proxy Statement 2008 annual report Per Schedule															
<u>Cost per customer</u>	0.18	0.25	0.21	0.04	0.15	0.21	0.07	0.04								
Director Fees Paid	0.35	0.23	0.33	0.11	0.14	0.26	0.32	0.34								
Audit Fees	0.07	0.01	0.04	0.00	-	0.01	0.12	0.11								
Tax Fees	0.61	0.41	0.41	0.21	0.56	0.34	0.21	0.21								
CEO Total Compensation																
Total	1.21	0.90	0.99	0.36	0.86	0.83	0.73	0.70								

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5
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7
8 IN THE MATTER OF THE
APPLICATION OF RIO RICO
9 UTILITIES, INC., AN ARIZONA
CORPORATION, FOR A
10 DETERMINATION OF THE FAIR
VALUE OF ITS UTILITY PLANTS AND
PROPERTY AND FOR INCREASES IN
11 ITS WATER AND WASTEWATER
RATES AND CHARGES FOR UTILITY
12 SERVICE BASED THEREON.

DOCKET NO: WS-02676A-09-0257

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18 **REJOINDER TESTIMONY OF**
19 **THOMAS J. BOURASSA**
20 **(RATE BASE, INCOME STATEMENT AND RATE DESIGN)**

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22 **March 9, 2010**
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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

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

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. I am testifying in this proceeding on behalf of the applicant, Rio Rico Utilities, Inc.
7 ("RRUI" or the "Company").

8 **Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE**
9 **INSTANT CASE?**

10 A. Yes, my direct testimony was submitted in support of the initial application in this
11 docket. There were two volumes, one addressing rate base, income statement and
12 rate design, and the other addressing cost of capital. My rebuttal testimony was
13 also submitted in two separate volumes. Each of those testimonies included my
14 associated schedules.

15 **Q. WHAT IS THE PURPOSE OF THIS REJOINDER TESTIMONY?**

16 A. I will provide rejoinder testimony in response to the surrebuttal filings by Staff and
17 RUCO. More specifically, this first volume of my rejoinder testimony relates to
18 rate base, income statement and rate design for RRUI. In a second, separate
19 volume of my testimony, I will also provide responses to Staff and RUCO on the
20 cost of capital and rate of return applied to the fair value rate base, and the
21 determination of operating income.

22 **II. SUMMARY OF RRUI'S REJOINDER POSITION**

23 **Q. WHAT ARE THE REVENUE INCREASES FOR THE WATER AND**
24 **WASTEWATER DIVISIONS THAT THE COMPANY IS PROPOSING IN**
25 **THIS REJOINDER TESTIMONY?**

26

1 A. For the water division, the Company is proposing a total revenue requirement of
2 \$3,672,682, which constitutes an increase in revenues of \$1,825,426, or 98.82%
3 over adjusted test year revenues. For the wastewater division, RRUI is proposing
4 a total revenue requirement of \$1,695,587, which constitutes a decrease in revenues
5 of \$134,389, or -7.34% over adjusted test year revenues.

6 **Q. HOW DO THESE COMPARE WITH THE REBUTTAL FILING?**

7 A. There are very minor differences. In the rebuttal filing for the water division, the
8 Company requested a total revenue requirement of \$3,674,859, which required an
9 increase in revenues of \$1,827,602, or 98.94%. In the rebuttal filing for the
10 wastewater division, the Company requested a total revenue requirement of
11 \$1,696,840, which required a decrease in revenues of \$133,135, or -7.28%. As
12 with the rebuttal, the differences arise because RRUI has adopted or proposed
13 additional adjustments in rejoinder to Staff and RUCO.

14 For the water division, the net result of these adjustments is: (1) proposed
15 operating expenses have decreased by \$1,337, from \$2,034,328 in the rebuttal
16 filing to \$2,032,991; and (2) rate base remains the same as in the rebuttal filing at
17 \$7,992,279. For the wastewater division, the net result of these adjustments is:
18 (1) the Company's proposed operating expenses have increased by \$770, from
19 \$1,359,386 in the rebuttal filing to \$1,358,616; and (2) rate base remains the same
20 as in the rebuttal filing at \$3,323,449. For both the water and wastewater divisions,
21 the primary reason for the reduction in operating expenses is the removal of
22 additional central office costs from operating expenses. I will discuss this later in
23 my testimony.

24 **Q. HAVE YOU CHANGED YOUR COST OF EQUITY?**

25 A. The Company has not changed its recommended cost of equity of 11.7%.

26

1 Q. SO WHAT ARE THE PROPOSED REVENUE REQUIREMENTS AND
 2 RATE INCREASES FOR THE COMPANY, STAFF, AND RUCO AT THIS
 3 STAGE OF THE PROCEEDING?

4 A. At this rejoinder stage, the proposed revenue requirements and proposed rate
 5 increases for the water division are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Incr.</u>	<u>% Increase</u>
6 Staff Surrebuttal	\$3,174,527	\$1,327,371	71.85%
7 RUCO Surrebuttal	\$2,781,463	\$ 929,413	50.18%
8 Company Rejoinder	\$3,672,682	\$1,825,426	98.82%

9
 10 For the wastewater division, the proposed revenue requirements and
 11 proposed rate decreases at this stage of the rate case are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Incr.</u>	<u>% Decrease</u>
12 Staff Surrebuttal	\$1,526,064	\$ (303,912)	(16.61)%
13 RUCO Surrebuttal	\$1,340,535	\$ (493,946)	(26.93)%
14 Company Rejoinder	\$1,695,587	\$ (134,389)	(7.34)%

15
 16 **III. RATE BASE**

17 **A. Water Division Rate Base**

18 Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE
 19 BASE RECOMMENDATIONS FOR THE WATER DIVISION?

20 A. Yes, for the water division the rate bases proposed by the parties proposing a rate
 21 base in the case, the Company, Staff and RUCO, are as follows:

	<u>OCRB</u>	<u>FVRB</u>
22 Staff Surrebuttal	\$ 6,639,072	\$ 6,639,072
23 RUCO Surrebuttal	\$ 7,045,555	\$ 7,045,555
24 Company Rejoinder	\$ 7,992,279	\$ 7,992,279

1 Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED
2 ORIGINAL COST RATE BASE FOR THE WATER DIVISION, AND
3 IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF
4 AND/OR RUCO?

5 A. The Company's adjustments to the water division original cost rate base ("OCRB")
6 are detailed on Rejoinder Schedule B-2, pages 3 through 6. Rejoinder Schedule
7 B-2, page 1 and 2, summarize the Company's proposed adjustments and the
8 rejoinder OCRB. I have previously testified on these proposed adjustments and, as
9 mentioned above, nothing has changed from rebuttal to rejoinder with respect to
10 either rate base.¹

11 1. Plant-in-Service and Accumulated Depreciation.

12 Q. PLEASE DISCUSS THE PARTIES RESPECTIVE PLANT-IN-SERVICE
13 AND ACCUMULATED DEPRECIATION?

14 A. While there is some minor rounding differences, particularly between Staff and the
15 Company (<\$3), the Company, Staff, and RUCO are in substantial agreement on
16 the balance of plant-in-service of \$34,059,801.² With respect to accumulated
17 depreciation, both the Company and RUCO in agreement with an accumulated
18 depreciation balance of \$12,472,661.³ This is true because RUCO corrected its
19 accumulated depreciation based on errors in RUCO's computations that I pointed
20 out in my rebuttal testimony.⁴ Staff's proposed accumulated depreciation balance
21

22 ¹ See Rebuttal Testimony of Thomas J. Bourassa (Rate Base, Income Statement and Rate Design)
23 ("Bourassa Rb.") at 4 – 18.

24 ² Compare Company Water Division Rejoinder Schedule B-2, page 1, Staff Water Division Surrebuttal
Schedule GWB-3, and RUCO Water Division Surrebuttal Schedule TJC-2, page 1 of 1.

25 ³ Compare Company Water Division Rejoinder Schedule B-2, page 1 and RUCO Water Division
Surrebuttal Schedule TJC-2, page 1 of 1.

26 ⁴ Bourassa Rb. at 19; see also Surrebuttal Testimony of Timothy J. Coley ("Coley Sb.") at 9 – 10.

1 is \$12,423,937 - \$48,724 lower than the Company's balance.⁵ It is unclear why
2 Staff proposes this adjustment as Staff has provided no explanation for it. This is
3 made even more puzzling because Staff and the Company were in agreement on
4 the balance of accumulated depreciation as of the rebuttal stage of the proceeding.⁶
5 Perhaps this is an error related to the reclassification of \$48,724 of CIAC to AIAC
6 which the Company, Staff and RUCO are in agreement. I will discuss the
7 reclassification of CIAC and AIAC next.

8 2. AIAC and CIAC.

9 **Q. PLEASE DISCUSS THE COMPANY'S PROPOSED AIAC AND CIAC AND**
10 **ANY REMAINING DISAGREEMENTS BETWEEN THE PARTIES?**

11 A. The Company, Staff, and RUCO agree on the balance of AIAC totaling \$122,372
12 and CIAC totaling 20,140,197.⁷ As you will recall in rebuttal, the Company
13 adopted RUCO's proposed reclassification of \$48,724 of CIAC to AIAC.⁸ In its
14 direct filing, Staff proposed a one-sided adjustment to increase AIAC by \$48,724
15 but failed to decrease CIAC by the same amount. Staff has corrected its
16 adjustment in its surrebuttal filing and it is now in agreement with the Company.⁹

17 **Q. STAFF IS NO LONGER PROPOSING TO INCREASE CIAC BY NEARLY**
18 **\$1.1 MILLION FOR UNRECORDED CIAC?**

19 A. Correct, Staff has fixed its prior \$1 million error.
20
21

22 ⁵ See Staff Water Division Surrebuttal Schedule GWB-3.

23 ⁶ Compare Company Water Division Rebuttal Schedule B-2, page 1 and Staff Water Division Schedule
GWB-3. Both schedules show \$12,472,661 for accumulated depreciation.

24 ⁷ Compare Company Water Division Rejoinder Schedule B-2, page 1, Staff Water Division Surrebuttal
Schedule GWB-3, and RUCO Water Division Surrebuttal Schedule TJC-2, page 1 of 1.

25 ⁸ Bourassa Rb. at 5 - 6.

26 ⁹ See Surrebuttal Testimony of Gerald W. Becker ("Becker Sb.") at 18.

1 **Q. DO THE COMPANY, STAFF, AND RUCO AGREE ON THE BALANCE**
2 **OF ACCUMULATED AMORTIZATION?**

3 A. Yes. All three parties agree on the accumulated amortization balance of
4 \$6,628,197.¹⁰

5 3. Deferred Income Taxes (DITs)

6 **Q. PLEASE DISCUSS THE DIFFERENCES BETWEEN THE PARTIES WITH**
7 **RESPECT TO DITS FOR THE WATER DIVISION?**

8 A. The Company continues to propose a DIT balance of \$275,455 (a net DIT asset).¹¹
9 Staff proposes a DIT balance \$82,782 (a net DIT asset)¹² whereas RUCO proposes
10 a DIT balance of \$501,057 (a net DIT liability)¹³. As a reminder, net DIT assets
11 increase rate base and net DIT liabilities decrease rate base.

12 **Q. WHY DO WE MAKE ADJUSTMENTS TO RATE BASE BECAUSE OF**
13 **DITS?**

14 A. Because there are differences in the actual income taxes paid and the income taxes
15 allowed in rates. A DIT asset results when the utility has lost the use of its monies
16 as a result of this timing difference; conversely, when the utility benefited from the
17 timing difference, a net DIT liability arises. This is the tax normalization process
18 that I discussed in my rebuttal testimony.¹⁴

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23 ¹⁰ Compare Company Water Division Rejoinder Schedule B-2, page 1, Staff Water Division Surrebuttal
Schedule GWB-3, and RUCO Water Division Surrebuttal Schedule TJC-2, page 1 of 1.

24 ¹¹ See Company Water Division Rejoinder Schedule B-2, page 6.

25 ¹² See Staff Water Division Surrebuttal Schedule GWB-3.

26 ¹³ See RUCO Water Division Surrebuttal Schedule TJC-2, page 1.

¹⁴ Bourassa Rb. at 12.

1 **Q. WHAT ARE THE AREAS OF AGREEMENT AND DISAGREEMENT**
2 **BETWEEN STAFF AND THE COMPANY ON THE DIT BALANCE?**

3 A. Staff does not agree with the fixed asset component of the Company's DIT
4 computation¹⁵ because it includes a \$105,049 amount for an "unidentified"
5 difference between the book and tax basis of plant.¹⁶ Consequently, Staff believes
6 that the fixed asset component should be \$21,868 (a net DIT liability) rather than
7 the Company proposed \$18,681 (a net DIT asset).¹⁷ I respectfully disagree with the
8 exclusion of the \$105,049.

9 **Q. WHY DO YOU DISAGREE?**

10 A. This amount reflects plant-in-service amount that is not reflected in the tax basis of
11 plant. This means excluding it would create a mismatch. My reconciliation
12 accounts for all the differences between the book basis and tax basis of plant
13 through the end of the test year, and we know that the \$105,049 represents plant
14 not reflected in the tax basis of plant because we have accounted for all other
15 differences. This is either because of a timing difference or a simple failure to
16 reflect this cost in the tax basis. Either way, it should be included.

17 **Q. WHAT ABOUT THE FACT THAT A SPECIFIC PLANT ITEM COULD**
18 **NOT BE IDENTIFIED?**

19 A. While I could not identify a specific plant item, I am able to conduct a full
20 reconciliation. This is no different than the situation with CIAC where I did not
21 identify the specific plant item(s) for the CIAC amounts identified in the
22
23

24 _____
¹⁵ See Company Water Division Rejoinder Schedule B-2, page 6.

25 ¹⁶ Becker Sb. at 15.

26 ¹⁷ *Id.*

1 reconciliation. Yet, Staff has no problem with accepting the CIAC amounts and
2 rejecting the \$105,049 of plant.¹⁸

3 **Q. WHAT OTHER AREAS OF AGREEMENT/DISAGREEMENT ARE**
4 **THERE WITH STAFF ON THE COMPANY'S PROPOSED DIT?**

5 A. Staff agrees with the Company's AIAC component of the DIT computation.¹⁹
6 However, Staff does not agree with the inclusion of the net operating Loss
7 ("NOL") related to bonus depreciation.²⁰

8 **Q. WHAT IS STAFF'S BASIS FOR THAT POSITION?**

9 A. Staff merely asserts that rate payers would be paying a carrying charge on the
10 unused bonus depreciation and thus it should be excluded.²¹ I rebutted this claim
11 in my rebuttal testimony and will not repeat that testimony here.²² Staff witness
12 Becker failed to respond, although I note that he does not dispute the existence of a
13 tax asset from the NOL related to bonus depreciation. Staff simply seeks to
14 exclude it. As I stated in my rebuttal testimony, discriminating between DIT
15 liabilities and DIT assets for the inclusion or the exclusion from the ratemaking
16 process simply because one may reduce rate base while another may increase rate
17 base, is inherently unfair.²³ To put it in Staff's terms, the Company "pays" a
18 carrying cost to ratepayers for DIT liabilities as reduction to rate base. It's only
19 fair that the rate payers "pay" a carrying cost on DIT assets as an addition to rate
20 base.

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¹⁸ *Id.* at 14.
¹⁹ *Id.* at 5.
²⁰ *Id.*
²¹ *Id.* at 16.
²² Bourassa Rb. at 11 – 12.
²³ *Id.* at 12.

1 **Q. WOULD THERE BE A RATE BASE MISMATCH IF STAFF IS ALLOWED**
2 **TO MAKE THIS EXCLUSION?**

3 A. Yes. This is because, like all the other components in the Company's proposed
4 DIT computation, the NOL from bonus depreciation component is directly related
5 to plant-in-service included in the rate base. Therefore, to exclude the NOL
6 component results in a mismatch.

7 **Q. WHAT ABOUT THE CLAIM THAT THE COMPANY'S DIT**
8 **COMPUTATION IS SUSPECT BECAUSE THE COMPANY DID NOT**
9 **PROVIDE THE PARENT COMPANY'S TAX RETURN?**

10 A. This is a red-herring.²⁴ The Company provided all the relevant information from
11 the parent's tax return related to RRUI's plant. Further, the book and tax amounts
12 were reconciled. There are no other components of rate base which impact the DIT
13 and require further disclosure of tax information. For example, there is no
14 acquisition adjustment or goodwill included in rate base which might create book
15 and tax timing differences.

16 **Q. WOULD PROVIDING THE PARENT'S M-1 SCHEDULE HELP STAFF**
17 **IDENTIFY ADDITIONAL ADJUSTMENTS NOT CONTEMPLATED BY**
18 **STAFF OR PRESENTED BY RRUI?**

19 A. No. Frankly, I don't know what those might be that would be relevant to RRUI's
20 DIT in the instant case and Staff has not identified and/or suggested what those
21 might be. Hence, my calling it a red-herring.

22 **Q. PLEASE RESPOND TO RUCO'S TESTIMONY ON DITS.**

23 A. RUCO continues to assert that its method of computed DIT's complies with SFAS
24 109.²⁵ RUCO further explains that because it netted the DIT assets and liabilities at

25 ²⁴ Becker Sb. at 16 – 17.

26 ²⁵ See Coley Sb. at 10.

1 the parent company, Algonquin Power Income Fund (“APIF”), that both assets and
2 liabilities are used in RUCO’s calculation.²⁶

3 **Q. WHAT’S WRONG WITH THAT?**

4 A. It’s nonsense. SFAS 109 requires that the allocation method comply with the
5 provisions of the statement. Merely netting the parent company’s DIT assets and
6 liabilities then allocating does not bring RUCO’s computation into compliance
7 with SFAS 109. I discussed why RUCO’s method does not comply with SFAS
8 109 in my rebuttal, to which RUCO has provided little by way of a response.²⁷
9 Notably, a major flaw in RUCO’s method is that RUCO uses a stale 2005
10 acquisition cost of RRUI relative to APIF’s total assets at the end of 2008 as the
11 basis for its allocation factor, a 3 year difference. There has been significant
12 investment in plant for RRUI since 2005, and there have been significant changes
13 to the book and tax basis assets of RRUI since 2005, and for that matter, for all of
14 the entities owned by APIF.

15 **Q. ANY OTHER PROBLEMS WITH RUCO’S METHOD?**

16 A. Yes. Another serious flaw in RUCO’s allocation of APIF’s DIT to RRUI is that
17 APIF’s DIT reflects book and tax timing differences from numerous other APIF
18 entities which arguably reflect, among other things, different tax depreciation rates
19 and different tax provisions related to plant investment. Some of those entities, for
20 example, are energy related with energy related plant investments and not water
21 and/or wastewater plant investments. Further, putting aside the differences in the
22 magnitudes of plant investment among the various APIF owned entities, some of
23 those entities may have newer plant than others. Still further, some of those
24 entities are based in Canada and are subject to Canadian tax laws while others are

25 ²⁶ *Id.*

26 ²⁷ Bourassa Rb. at 14 – 17.

1 subject to U.S. tax laws. Together, these factors cause the differences in resulting
2 DIT for each entity to vary widely from one entity to another. In other words, the
3 DIT for any single entity owned by APIF is not the result of any one single factor,
4 which is what RUCO's approach would suggest by its allocation method.

5 **Q. DOES THE FACT THAT ARIZONA WATER COMPANY HAS A NET DIT**
6 **LIABILITY HAVE ANY RELEVANCE TO WHETHER RRUI HAS A NET**
7 **DIT LIABILITY OR A NET DIT ASSET?**

8 A. No, Mr. Coley's attempt to make this argument to support RUCO's proposed DIT
9 liability of over \$500,000 fails.²⁸ The balance of DIT for any entity depends on the
10 specific facts and circumstances for that entity. There are several components to
11 DIT and each contributes to the net DIT balance which may ultimately be a net
12 DIT liability or a net DIT asset. I do not know the specific facts and circumstances
13 for Arizona Water Company ("AWC") which results in AWC having a net DIT
14 liability balance and RUCO did not provide them. Therefore, Mr. Coley's
15 conclusions on whether RRUI should have a net DIT liability are mere speculation.
16 This is why RUCO has admitted that its approach was already rejected in the Black
17 Mountain Sewer Corporation rate case.²⁹

18 **B. Wastewater Division Rate Base**

19 **Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE**
20 **BASE RECOMMENDATIONS FOR THE WASTEWATER DIVISION?**

21 A. Yes, for the wastewater division the rate bases proposed are as follows:

	<u>OCRB</u>	<u>FVRB</u>
Staff Surrebuttal	\$ 3,226,899	\$ 3,226,899

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25 ²⁸ Coley Sb. at 11 – 12.

26 ²⁹ RUCO Response to Company Data Request 3.14 (copy attached as **Exhibit TB-RJ1**), referring to *Black Mountain Sewer Corporation*, Decision No. 69164 (December 5, 2006) at 6.

1	RUCO Surrebuttal	\$ 2,983,957	\$ 2,983,957
2	Company Rejoinder	\$ 3,323,449	\$ 3,323,449

3 1. Plant-in-Service and Accumulated Depreciation.

4 **Q. PLEASE DISCUSS THE PARTIES RESPECTIVE PLANT-IN-SERVICE**
5 **AND ACCUMULATED DEPRECIATION?**

6 A. While there is some minor rounding differences, particularly between Staff and the
7 Company (<\$2), the Company, Staff, and RUCO are in substantial agreement on
8 the balance of plant-in-service of \$11,829,043.³⁰ With respect to accumulated
9 depreciation, all three parties are in agreement with an accumulated depreciation
10 balance of \$5,110,028.³¹ RUCO corrected its accumulated depreciation based on
11 the error I identified in RUCO’s computations.

12 2. AIAC and CIAC.

13 **Q. PLEASE DISCUSS THE COMPANY’S PROPOSED AIAC AND CIAC AND**
14 **ANY REMAINING DISAGREEMENTS BETWEEN THE PARTIES FOR**
15 **THE WASTEWATER DIVISION?**

16 A. The Company, Staff, and RUCO agree on the balance of AIAC totaling \$237,922
17 and gross CIAC totaling 5,137,673.³² As you will recall in rebuttal, the Company
18 adopted RUCO’s proposed reclassification of \$238,783 of CIAC to AIAC.³³ In his
19 direct filing, Mr. Becker proposed a one-sided adjustment to increase AIAC by
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22 ³⁰ Compare Company Wastewater Division Rejoinder Schedule B-2, page 1, Staff Wastewater Division
23 Surrebuttal Schedule GWB-3, and RUCO Wastewater Division Surrebuttal Schedule TJC-2, page 1 of 1.

24 ³¹ Compare Company Water Division Rejoinder Schedule B-2, page 1, Staff Wastewater Division
Surrebuttal Schedule GWB-3, and RUCO Water Division Surrebuttal Schedule TJC-2, page 1 of 1.

25 ³² Compare Company Wastewater Division Rejoinder Schedule B-2, page 1, Staff Wastewater Division
Surrebuttal Schedule GWB-3, and RUCO Wastewater Division Surrebuttal Schedule TJC-2, page 1 of 1.

26 ³³ Bourassa Rb. at 20.

1 \$238,783, but he failed to decrease CIAC by the same amount. Staff has corrected
2 it adjustment in it surrebuttal filing and is now in agreement with the Company.³⁴

3 **Q. DO THE COMPANY, STAFF, AND RUCO AGREE ON THE BALANCE**
4 **OF ACCUMULATED AMORTIZATION?**

5 A. Yes. All three parties agree on the accumulated amortization balance of
6 \$1,944,057.³⁵

7 1. DITs

8 **Q. ARE THERE ALSO DIFFERENCES BETWEEN THE PARTIES WITH**
9 **RESPECT TO DEFERRED INCOME TAXES FOR THE WASTEWATER**
10 **DIVISION?**

11 A. The Company continues to propose a deferred income tax (“DIT”) balance of
12 \$130,973 (a net DIT asset).³⁶ Staff proposes a DIT balance \$34,423 (a net DIT
13 asset),³⁷ whereas RUCO proposes a DIT balance of \$208,519 (a net DIT
14 liability).³⁸

15 **Q. DO YOU HAVE THE SAME COMMENTS REGARDING THE STAFF**
16 **AND RUCO DIT COMPUTATIONS FOR THE WASTEWATER DIVISION**
17 **AS YOU MADE PREVIOUSLY?**

18 A. Yes, my concerns with Staff and RUCO’s positions apply to both the water and
19 wastewater rate bases.

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³⁴ Becker Sb. at 18.
³⁵ Compare Company Water Division Rejoinder Schedule B-2, page 1, Staff Water Division Surrebuttal Schedule GWB-3, and RUCO Water Division Surrebuttal Schedule TJC-2, page 1 of 1.
³⁶ See Company Wastewater Division Rejoinder Schedule B-2, page 6.
³⁷ See Staff Wastewater Division Surrebuttal Schedule GSB-3.
³⁸ See RUCO Wastewater Division Surrebuttal Schedule TJC-2, page 1.

1 **IV. INCOME STATEMENT**

2 **A. Water Division Revenue and Expenses.**

3 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
4 **ADJUSTMENTS TO REVENUES AND EXPENSES FOR THE WATER**
5 **DIVISION AND IDENTIFY ANY ADJUSTMENTS YOU HAVE**
6 **ACCEPTED FROM STAFF AND/OR RUCO?**

7 A. The Company's rejoinder adjustments for the Water Division's revenue and
8 expenses are detailed on Rejoinder Schedule C-2, pages 1-10. The rejoinder
9 income statement with adjustments is summarized on Rejoinder Schedule C-1,
10 pages 1-2. I have previously testified to the Company's proposed adjustments to
11 revenues and expenses in my rebuttal testimony. The Company's does not propose
12 any additional adjustments to revenue and expenses, but is proposing some
13 revisions as described below.

14 The Company's property tax adjustment (Adjustment Number 2) has been
15 revised to reflect the Company's rejoinder proposed revenues. The detail of the
16 Company's proposed property tax adjustment is detailed on Rejoinder Schedule C-
17 2, page 3.

18 The Company has corrected its adjustment to bad debt expense (Adjustment
19 Number 7). The Company adopted RUCO's annualization adjustment in its
20 rebuttal filing³⁹ but decreased bad debt expense rather than increased bad debt
21 expense. RUCO correctly pointed this out in its surrebuttal testimony.⁴⁰ The
22 Company and RUCO are now in agreement on the level of bad debt expense. Staff
23 has not proposed any adjustment to bad debt expense. The detail of RRUI's
24

25 ³⁹ Bourassa Rb. at 24.

26 ⁴⁰ Coley Sb. at 24.

1 proposed bad debt expense adjustment is detailed on Rejoinder Schedule C-2, page
2 8.

3 The Company has also revised its central office cost allocation. The
4 changes are reflected in Adjustment Number 8 and detailed on Rejoinder Schedule
5 C-2, page 9. The Company has identified and removed from the central office cost
6 allocation additional costs that the Company considers unnecessary. The
7 adjustment to reduce the central office costs before allocation has increased from
8 \$204,509 in the Company's rebuttal filing to \$349,651 in the Company's rejoinder
9 filing. The allocated portion of the central office costs has been reduced from
10 \$130,534 in the Company's rebuttal filing to \$126,794 in the Company's rejoinder
11 filing. Mr. Eichler discusses the disputes with Staff and RUCO over these costs in
12 more detail in his rejoinder testimony.

13 Finally, the Company's income tax adjustment has been revised to reflect
14 the rejoinder revenues and expenses. The details of the Company's income tax
15 adjustment are detailed on Rejoinder Schedule C-2, page 10.

16 **Q. PLEASE COMMENT ON THE ANY ADDITIONAL REVENUE AND**
17 **EXPENSE ISSUES THAT HAVE BEEN RESOLVED BETWEEN THE**
18 **PARITIES AT THIS STAGE OF THE PROCEEDING?**

19 A. Both Staff and RUCO have adopted the Company's proposed adjustment to reduce
20 transportation expense by \$6,725.⁴¹ As a result, all three parties are in agreement
21 on the level of transportation expense of \$72,590.⁴²

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23
24
25 ⁴¹ *Id.* at 18; Becker Sb. at 19; Bourassa Rb. at 23.

26 ⁴² Compare Company Water Division Rejoinder Schedule C-2, page 1, Staff Water Division Surrebuttal Schedule GWB-10, and RUCO Water Division Surrebuttal Schedule TJC-6.

1 Staff has also removed its adjustment to outside services of \$27,820 which
2 was based on the misinterpretation by Staff that accounting fees were ACC fees.⁴³
3 The Company and Staff are now in agreement on this issue.

4 1. Remaining Revenue and Expense Issues.

5 **Q. PLEASE IDENTIFY ANY REMAINING ISSUES IN DISPUTE WITH**
6 **RUCO AND/OR STAFF.**

7 A. The Company also disagrees with Staff's and RUCO's adjustment to regulatory
8 commission expense for \$17,554.⁴⁴ Both Staff and RUCO identify these costs as
9 "residual rate case expenses".⁴⁵ However, this seems hard to believe considering
10 the Company has provided the parties the general ledger detail and copies of
11 invoices, both of which clearly indicate that these expenses are not rate case
12 expense related.⁴⁶ In fact, as I indicated in my rebuttal these expenses are
13 comprised of costs for ADEQ annual registration fees, ADOT registration fees,
14 annual software license fees, annual memberships, right of way permit fees, and
15 some membership dues to organizations like the American Water Works
16 Association and the Arizona Water Pollution Control Association.⁴⁷ All RUCO
17 offers is supposition because the number is close to previously approved rate case
18 expense.⁴⁸ Staff on the other hand simply concludes the amount is residual rate
19 case expense.⁴⁹

20
21 ⁴³ Becker Sb. at 19.

22 ⁴⁴ Coley Sb. at 22; Becker Sb. at 18.

23 ⁴⁵ *Id.*

24 ⁴⁶ See Company Response to RUCO Data Request 7.01. (Company data request responses referenced
25 herein are not attached, but have been previously provided to Staff and the intervenors who requested
26 them.)

⁴⁷ Bourassa Rb. at 26.

⁴⁸ Coley Sb. at 22.

⁴⁹ Becker Sb. at 18.

1 **Q. ANY OTHER REVENUE AND/OR EXPENSE ISSUES BETWEEN THE**
2 **COMPANY AND RUCO?**

3 A. Yes. In response to the Company's rebuttal testimony, RUCO has withdrawn its
4 proposal to annualize the revenues based on the average number of customers.⁵⁰
5 Instead, RUCO proposes to use test year revenues without adjustment.⁵¹ The
6 Company continues to believe that the downward revenue annualization
7 adjustment of approximately \$5,000 the Company proposed in its direct filing is
8 appropriate. Based on a review of the 2009 revenues, it appears that revenues
9 actually declined by far more than \$5,000 for the Water Division.⁵² So, it would
10 appear that the Company's downward adjustment is likely understated.
11 Eliminating the adjustment altogether would only make matters worse.

12 **Q. DOES THERE CONTINUE TO BE DISAGREEMENT OVER THE**
13 **AMORTIZATION RATE FOR CIAC BETWEEN STAFF AND THE**
14 **COMPANY?**

15 A. Yes. Staff still computes a higher composite amortization rate for CIAC by
16 excluding non-depreciable plant in its computation.⁵³ The higher amortization rate
17 results in a lower depreciation expense. The Company continues to believe that the
18 composite amortization rate reflect all plant, not just depreciable plant.⁵⁴

19 **Q. DOES RUCO CONTINUE TO RECOMMEND A DOWNWARD**
20 **ADJUSTMENT TO OVERALL RATE CASE EXPENSE OF 25 PERCENT?**

21 A. Yes.⁵⁵ But no real reasoning is provided.

22 _____
⁵⁰ Coley Sb. at 12.

23 ⁵¹ *Id.* at 14.

24 ⁵² See Company Response to RUCO Data Request 8.01.

25 ⁵³ Bourassa Rb. at 23.

26 ⁵⁴ *Id.*

⁵⁵ Coley Sb. at 16 – 17.

1 **Q. DO YOU HAVE A CURRENT ESTIMATE OF THE RATE CASE**
2 **EXPENSE TO BE INCURRED?**

3 A. Through the end of February 2010, RRUI had incurred roughly \$150,000 of rate
4 case expense. This amount does not include review of all of the surrebuttal and
5 subsequent discovery, preparation of rejoinder, preparation for trial, 3 days of trial
6 in Tucson, final schedules, briefing and a ROO and final decision. In other words,
7 I think our initial estimate is tracking fairly well at this point. This means there is
8 no basis, either stated or otherwise that I am aware of, to reduce rate case expense.
9 This discussion covers both divisions.

10 **Q. DOES THERE CONTINUE TO BE DISAGREEMENT OVER THE**
11 **ALLOCATION OF CENTRAL OFFICE COSTS AND THE ALLOCATION**
12 **METHODOLOGY?**

13 A. Yes, as noted above, this issue is discussed in greater detail in the rejoinder
14 testimony of Peter Eichler. However, I would like to note again that Staff has
15 imposed a "foreign exchange" adjustment to the central office costs.⁵⁶ This
16 effectively results in an additional 5% reduction in Staff's allocated costs. Since
17 the Company has reported all of its central office costs in U.S. dollars, already
18 incorporating the difference in the monetary exchange and the appropriate measure
19 for a U.S. based company, there is no justification for this adjustment.

20 **B. Wastewater Division Revenue and Expenses.**

21 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S WASTEWATER**
22 **DIVISION PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES**
23 **AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM**
24 **STAFF AND/OR RUCO?**

25
26 ⁵⁶ Direct Testimony of Gerald W. Becker at 35.

1 A. The Company rejoinder adjustments for the wastewater division's revenue and
2 expenses are detailed on Rejoinder Schedule C-2, pages 1-8. The rejoinder income
3 statement with adjustments is summarized on Rejoinder Schedule C-1, page 1-2. I
4 have previously testified to the Company's proposed adjustments to revenues and
5 expenses in my rebuttal testimony. The Company's does not propose any
6 additional adjustments to revenue and expenses, but is proposing some revisions as
7 described below.

8 The Company property tax adjustment (Adjustment Number 2) has been
9 revised to reflect the Company's rejoinder proposed revenues. The detail of the
10 Company's proposed property tax adjustment is detailed on Rejoinder Schedule C-
11 2, page 3.

12 The Company has also revised its central office cost allocation. The
13 changes are reflected in Adjustment Number 6 and detailed on Rejoinder Schedule
14 C-2, page 7. As with the water division, the Company has identified and removed
15 from the central cost additional central office costs that the Company considers
16 unnecessary. The adjustment to reduce the central office costs before allocation
17 has increased from \$204,509 in the Company's rebuttal filing to \$349,651 in the
18 Company's rejoinder filing. The allocated portion of the central office costs has
19 been reduced from \$43,056 in the Company's rebuttal filing to \$41,822 in the
20 Company's rejoinder filing.

21 Finally, RRUI's income tax adjustment has been revised to reflect the
22 rejoinder revenues and expenses. The details of the Company's income tax
23 adjustment are detailed on Rejoinder Schedule C-2, page 8.

24 **Q. PLEASE COMMENT ON THE ANY ADDITIONAL REVENUE AND**
25 **EXPENSE ISSUES THAT HAVE BEEN RESOLVED BETWEEN THE**
26 **PARITIES AT THIS STAGE OF THE PROCEEDING?**

1 A. Both Staff and RUCO have adopted RRUI's proposed adjustment to reduce
2 transportation expense by \$2,242.⁵⁷ All three parties are in agreement on the level
3 of transportation expense of \$24,575.⁵⁸ Staff has also removed its adjustment to
4 outside services of \$17,190 which was based on the misinterpretation of accounting
5 fees as ACC fees.⁵⁹ The Company and Staff are now in agreement on this issue.

6 1. Remaining Revenue and Expense Issues.

7 **Q. PLEASE IDENTIFY ANY REMAINING ISSUES IN DISPUTE WITH**
8 **RUCO AND/OR STAFF.**

9 A. The Company also disagrees with Staff's adjustment to regulatory commission
10 expense for \$994.⁶⁰ Staff identifies these costs as residual rate case expenses.⁶¹ As
11 I stated previously, these expenses are not rate case expense related.

12 **Q. HAS RUCO MADE A SIMILAR ADJUSTMENT?**

13 A. No.

14 **Q. PLEASE CONTINUE.**

15 A. In response to the Company's rebuttal testimony, RUCO has withdrawn its
16 proposal to annualize the revenues based on the average number of customers.⁶²
17 Instead, as I discussed above, RUCO proposes to use test year revenues without
18 adjustment.⁶³ The Company continues to believe that the downward revenue
19 annualization adjustment of approximately \$4,500 the Company proposed in its
20 direct filing is appropriate. Based on a review of the 2009 revenues, it appears that

21 ⁵⁷ *Id.* at 18; Becker Sb. at 19; Bourassa Rb. at 29.

22 ⁵⁸ *Compare* Company Wastewater Division Rejoinder Schedule C-2, page 1, Staff Wastewater Division
Surrebuttal Schedule GWB-10, *and* RUCO Wastewater Division Surrebuttal Schedule TJC-6.

23 ⁵⁹ Becker Sb. at 19.

24 ⁶⁰ *Id.* at 18.

25 ⁶¹ *Id.*

26 ⁶² Coley Sb. at 12.

⁶³ *Id.* at 14.

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revenues actually declined by far more than \$4,500 for the wastewater division.⁶⁴

So, again, Company's downward adjustment is conservative.

Q. DOES THERE CONTINUE TO BE DISAGREEMENT OVER THE AMORTIZATION RATE FOR CIAC FOR THE WASTEWATER DIVISION BETWEEN STAFF AND THE COMPANY?

A. Yes. I have testified above on this point for the water division and it does not need to be repeated.

Q. DOES THERE CONTINUE TO BE DISAGREEMENT OVER THE ALLOCATION OF CENTRAL OFFICE COSTS AND THE ALLOCATION METHODOLOGY?

A. Yes, and as with water, this issue is discussed in greater detail in the rejoinder testimony of Peter Eichler.

V. RATE DESIGN

A. Water Division

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

A. RRUI's proposed rates are:

MONTHLY SERVICE CHARGES

5/8" x 3/4" meters	\$13.09
3/4" Meters	\$19.64
1" Meters	\$32.73
1 1/2" Meters	\$65.45
2" Meters	\$104.72
3" Meters	\$209.44

⁶⁴ See Company Response to RUCO Data Request 8.01.

1	4" Meters	\$327.25
2	6" Meters	\$654.50
3	8" Meters	\$1047.20
4	10" Meters	\$1,505.35
5	12" Meters	\$1,963.50
6	Fire Lines up to 8 Inch	\$13.00
7	Fire Lines 10 Inch	\$15.00
8	Fire Lines 12 Inch	\$30.00

9 COMMODITY RATES

10	5/8" X 3/4" Meters	1 to 4,000	\$ 2.78
11		4,001 to 10,000	\$ 3.48
12		Over 10,000	\$ 3.88
13	3/4" Meters	1 to 6,000	\$ 3.48
14		Over 6,000	\$ 3.88
15	1" Meters	1 to 15,000	\$ 3.48
16		Over 15,000	\$ 3.88
17	1 1/2" Meters	1 to 20,000	\$ 3.48
18		Over 20,000	\$ 3.88
19	2" Meters	1 to 57,000	\$ 3.48
20		Over 57,000	\$ 3.88
21	3" Meters	1 to 57,000	\$ 3.48
22		Over 57,000	\$ 3.88
23	4" Meters	1 to 57,000	\$ 3.48
24		Over 57,000	\$ 3.88
25	6" Meters	1 to 125,000	\$ 3.48
26		Over 125,000	\$ 3.88

1	8" Meters	1 to 125,000	\$ 3.48
2		Over 125000	\$ 3.88
3	10" Meters	1 to 125,000	\$ 3.48
4		Over 125,000	\$ 3.88
5	12" Meters	1 to 125,000	\$ 3.48
6		Over 125,000	\$ 3.88

7 **Q. HAVE YOU MADE ANY CHANGES TO THE RATE DESIGN?**

8 A. No.

9 **Q. WHAT WILL BE THE AVERAGE 5/8 INCH RESIDENTIAL CUSTOMER**
10 **AVERAGE MONTHLY BILL UNDER THE NEW RATES?**

11 A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates
12 for a 5/8 inch residential customer using an average 8,548 gallons is \$40.04 – a
13 \$20.10 increase over the present monthly bill or a 100.77 percent increase.

14 **Q. PLEASE COMMENT ON THE STAFF'S PROPOSED WATER RATE**
15 **DESIGN.**

16 A. Staff did not submit any surrebuttal testimony on rate design in its surrebuttal, so I
17 have nothing to add to my rebuttal testimony regarding the rate design for water
18 service. As I explained, Staff's rate design is really about revenue shifting.⁶⁵

19 **Q. PLEASE COMMENT ON THE RUCO'S PROPOSED RATE DESIGN FOR**
20 **THE WATER DIVISION.**

21 A. RUCO continues to recommend the same basic rate design it proposed in its direct
22 filing.⁶⁶ I also have no additional comments on RUCO's proposed rate design.⁶⁷

24 ⁶⁵ Bourassa Rb. at 34 – 37.

25 ⁶⁶ Compare RUCO Water Division Schedule TJC-RD1 and RUCO Water Division Surrebuttal Schedule
TJC-RD1.

26 ⁶⁷ Bourassa Rb. at 37 – 38.

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B. Wastewater Division

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

A. The Company's proposed rates are:

MONTHLY SERVICE CHARGES

5/8" x 3/4" meters	\$52.25
3/4" Meters	\$59.58
1" Meters	\$73.60
1 1/2" Meters	\$108.68
2" Meters	\$150.75
3" Meter	\$262.62
4" Meters	\$389.26
6" Meter	\$739.71
8" Meters	\$1,161.71
10" Meters	\$1,651.85
12" Meters	\$3,055.18

COMMODITY RATES

Commercial and Multi-tenant only

0 to 7,000 gallons	\$0.00
Over 7,000 gallons	\$5.29

Q. WHAT WILL BE THE AVERAGE 5/8 INCH RESIDENTIAL CUSTOMER MONTHLY BILL UNDER THE NEW RATES?

A. As shown on Wastewater Schedule H-2, page 1, the monthly bill under proposed rates for a 5/8 inch residential customer is \$52.25 – a \$4.11 decrease from the present monthly bill or a 7.3 percent decrease.

1 Q. DOES THAT CONCLUDE YOUR REJOINDER TESTIMONY ON RATE
2 BASE, INCOME STATEMENT AND RATE DESIGN?

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

THOMAS J. BOURASSA
REJOINDER TESTIMONY
(RATE BASE, INCOME STATEMENT AND RATE DESIGN)
March 9, 2010

Exhibit TJB-RJ1

**RESIDENTIAL UTILITY CONSUMER OFFICE'S (RUCO)
RESPONSE TO RIO RICO UTILITIES, INC. 'S
THIRD SET OF DATA REQUESTS**

DOCKET NO. WS-02676A-09-0257

February 5, 2010

- 3.14. Admit that the Commission concluded in BMSC Decision No. 69164 that BMSC's ultimate parent, APIF, controls a myriad of companies, and the fact that its Annual Report reflects a net deferred tax liability is not necessarily indicative of whether its individual subsidiaries have a net liability or asset on their respective books.

RESPONSE: Admit.

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

THOMAS J. BOURASSA
REJOINDER TESTIMONY
(RATE BASE)
March 9, 2010

SCHEDULES
(Water Division)

Rio Rico Utilities - Water Division
 Test Year Ended December 31, 2008
 Computation of Increase in Gross Revenue
 Requirements As Adjusted

Exhibit
 Rejoinder Schedule A-1
 Page 1
 Witness: Bourassa

Line No.					
1	Fair Value Rate Base	\$	7,992,279		
2					
3	Adjusted Operating Income		(185,735)		
4					
5	Current Rate of Return		-2.32%		
6					
7	Required Operating Income	\$	935,097		
8					
9	Required Rate of Return on Fair Value Rate Base		11.70%		
10					
11	Operating Income Deficiency	\$	1,120,832		
12					
13	Gross Revenue Conversion Factor		1.6286		
14					
15	Increase in Gross Revenue Revenue Requirement		1,825,426		
16					
17	Adjusted Test Year Revenues	\$	1,847,256		
18	Increase in Gross Revenue Revenue Requirement	\$	1,825,426		
19	Proposed Revenue Requirement	\$	3,672,682		
20	% Increase		98.82%		
21					
22	Customer				
23	Classification	Present	Proposed	Dollar	
		Rates	Rates	Increase	
				Percent	
				Increase	
24	5/8 Inch Residential	\$ 1,416,089	\$ 2,849,962	\$ 1,433,873	101.26%
25	3/4 Inch Residential	1,492	3,043	1,551	103.94%
26	1 Inch Residential	16,001	31,755	15,755	98.46%
27	1.5 Inch Residential	3,016	5,931	2,915	96.66%
28	2 Inch Residential	4,236	8,401	4,165	98.34%
29		-	-	-	0.00%
30	Subtotal	\$ 1,440,833	\$ 2,899,092	\$ 1,458,259	101.21%
31					
32	5/8 Inch Commercial	\$ 30,960	\$ 62,631	\$ 31,672	102.30%
33	1 Inch Commercial	25,394	50,761	25,368	99.90%
34	1.5 Inch Commercial	13,279	26,462	13,183	99.28%
35	2 Inch Commercial	134,126	272,232	138,106	102.97%
36	3 Inch Commercial	97,545	196,157	98,612	101.09%
37	4 Inch Commercial	43,844	86,182	42,338	96.56%
38	6 Inch Commercial	18,185	36,530	18,345	100.88%
39		-	-	-	0.00%
40	Subtotal	\$ 363,332	\$ 730,955	\$ 367,623	101.18%
41					0.00%
42					
43	5/8 Inch Multi-family	\$ 2,850	\$ 5,745	2,895	101.57%
44	1.5 Inch Multi-family	568	1,095	527	92.90%
45	Subtotal	\$ 3,418	\$ 6,840	\$ 3,422	100.13%
46					
47	Fire Lines up to 8 Inch	\$ 1,199	\$ 2,405	1,206	100.62%
48					
49	Subtotal Revenues before Annualization	\$ 1,808,782	\$ 3,639,293	\$ 1,830,511	101.20%
50	Revenue Annualization	(4,794)	(9,834)	(5,041)	105.15%
51	Miscellaneous Revenues	44,672	44,672	-	0.00%
52	Reconciling Amount H-1 to C-1	(1,404)	(1,448)	(44)	3.14%
53	Total of Water Revenues (a)	\$ 1,847,256	\$ 3,672,682	\$ 1,825,426	98.82%

SUPPORTING SCHEDULES:

- 56 Rejoinder B-1
- 57 Rejoinder C-1
- 58 Rejoinder C-3
- 59 Rejoinder H-1

Rio Rico Utilities - Water Division
 Test Year Ended December 31, 2008
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Rejoinder Schedule B-2
 Page 1
 Witness: Bourassa

Line No.		Actual at End of <u>Test Year</u>	Proforma Adjustment <u>Amount</u>	Adjusted at end of <u>Test Year</u>
1	Gross Utility			
2	Plant in Service	\$ 34,059,801	-	\$ 34,059,801
3				
4	Less:			
5	Accumulated			
6	Depreciation	12,472,661	-	12,472,661
7				
8				
9	Net Utility Plant			
10	in Service	\$ 21,587,140		\$ 21,587,140
11				
12	Less:			
13	Advances in Aid of			
14	Construction	73,648	48,724	122,372
15				
16	Contributions in Aid of			
17	Construction	20,188,921	(48,724)	20,140,197
18				
19	Accumulated Amort of CIAC	(6,628,197)	-	(6,628,197)
20				
21	Customer Meter Deposits	275,455	-	275,455
22	Deferred Income Taxes & Credits	(778,203)	463,238	(314,965)
23				
24				
25				
26	Plus:			
27	Unamortized Debt issuance			
28	Costs	-		-
29	Deferred Reg. Assets	-	-	-
30	Working capital	-	-	-
31				
32				
33				
34				
35	Total	<u>\$ 8,455,517</u>		<u>\$ 7,992,279</u>

39 SUPPORTING SCHEDULES:
 40 Rejoinder B-2, pages 2

RECAP SCHEDULES:
 Rejoinder B-1

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Rio Rico Utilities - Water Division
 Test Year Ended December 31, 2008
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Rejoinder Schedule B-2
 Page 2
 Witness: Bourassa

Line No.	Description	Actual at End of Test Year	Proforma Adjustments			Adjusted at end of Test Year
			1 Plant-in-Service	2 Accumulated Depreciation	3 AIAC	
1	Gross Utility Plant in Service	\$ 34,059,801	-			\$ 34,059,801
2						
3						
4	Less:					
5	Accumulated Depreciation	12,472,661				12,472,661
6						
7						
8						
9	Net Utility Plant in Service	\$ 21,587,140	\$ -	\$ -	\$ -	\$ 21,587,140
10						
11						
12	Less:					
13	Advances in Aid of Construction	73,648		48,724		122,372
14						
15						
16	Contributions in Aid of Construction (CIAC)	20,188,921		(48,724)		20,140,197
17						
18						
19	Accumulated Amort of CIAC	(6,628,197)				(6,628,197)
20						
21	Customer Meter Deposits	275,455				275,455
22	Deferred Income Taxes & Credits	(778,203)			463,238	(314,965)
23						
24						
25	Plus:					
26	Unamortized Finance Charges	-				-
27						
28						
29	Allowance for Working Capital	-				-
30						
31	Total	\$ 8,455,517	\$ -	\$ -	\$ (463,238)	\$ 7,992,279
32						
33						
34						

SUPPORTING SCHEDULES:
 Rejoinder B-2, pages 3-6

Line No.	Plant-in-Service	Acct. No.	Description	Adjusted Original Cost	Adjustments				Rejoinder Adjusted Original Cost
					A	B	C	D	
				Plant Reclassification	Intentionally Left Blank				
1			Organization Cost	5,785					5,785
2		301	Franchise Cost	417					417
3		302	Land and Land Rights	44,194					44,194
4		303	Structures and Improvements	2,732,833					2,732,833
5		304	Collecting and Improving Res.	-					-
6		305	Lake River and Other Intakes	-					-
7		306	Wells and Springs	563,511					563,511
8		307	Infiltration Galleries and Tunnels	-					-
9		308	Supply Mains	279,153					279,153
10		309	Power Generation Equipment	197,120					197,120
11		310	Electric Pumping Equipment	2,591,970					2,591,970
12		311	Water Treatment Plant	372,970	(372,970)				-
13		320	Water Treatment Plant	-	372,970				372,970
14		320.1	Chemical Solution Feeders	-	(759,861)				-
15		320.2	Dist. Reservoirs & Standpipe	-	759,861				-
16		330.1	Storage tanks	-	-				-
17		330.2	Pressure Tanks	-	-				-
18		331	Trans. and Dist. Mains	22,089,150					22,089,150
19		332	Services	2,209,274					2,209,274
20		333	Meters	956,605					956,605
21		334	Hydrants	568,577					568,577
22		335	Backflow Prevention Devices	3,848					3,848
23		336	Other Plant and Misc. Equip.	121,843					121,843
24		337	Office Furniture and Fixtures	22,986					22,986
25		340	Computers and Software	76,919					76,919
26		340.1	Transportation Equipment	218,945					218,945
27		341	Stores Equipment	-					-
28		342	Tools and Work Equipment	15,035					15,035
29		343	Laboratory Equipment	3,061					3,061
30		344	Power Operated Equipment	-					-
31		345	Communications Equipment	218,040					218,040
32		346	Miscellaneous Equipment	7,701					7,701
33		347	Other Tangible Plant	-					-
34		348	Other Tangible Plant	-					-
35			TOTALS	\$ 34,059,801	\$ -	\$ -	\$ -	\$ -	\$ 34,059,801
36			Plant-in-Service per Books						\$ 34,059,801
37			Increase (decrease) in Plant-in-Service						\$ -
38			Adjustment to Plant-in-Service						\$ -

1 Computed Balance as shown on B-2, page 3.8

Rio Rico - Water Division
Plant Additions and Retirements

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	Plant At 12/31/2002	2002 Accum. Depr.	2003 Plant Additions	2003 Plant Adjustments	2003 Adjusted Plant Additions	2003 Plant Retirements	2003 Salvage A/D Only	2003 Plant Balance	2003 Deprec.
301	Organization Cost	0.00%	0.00%	5,785	-	-	-	-	-	-	5,785	-
302	Franchise Cost	0.00%	0.00%	417	-	-	-	-	-	-	417	-
303	Land and Land Rights	0.00%	0.00%	44,194	-	-	-	-	-	-	44,194	-
304	Structures and Improvements	1.99%	3.33%	435,181	104,047	253,614	-	253,614	-	-	686,795	11,184
305	Collecting and Impounding Res.		2.50%	-	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes		2.50%	-	-	-	-	-	-	-	-	-
307	Wells and Springs		3.33%	272,063	78,656	-	-	-	-	-	272,063	9,005
308	Infiltration Galleries and Tunnels		6.67%	-	-	-	-	-	-	-	-	-
309	Supply Mains		2.00%	29,881	(3,617)	249,272	-	249,272	-	-	279,153	2,565
310	Power Generation Equipment		3.96%	52,636	19,077	134,736	-	134,736	-	-	187,371	4,752
311	Electric Pumping Equipment		3.96%	1,504,459	508,421	151,098	-	151,098	-	-	1,655,557	62,568
320	Water Treatment Equipment		3.99%	268,685	74,460	-	-	-	-	-	268,685	10,721
320.1	Water Treatment Equipment		3.99%	-	-	-	-	-	-	-	-	-
320.2	Water Treatment Equipment		3.99%	-	-	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders		3.99%	-	-	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe		2.00%	353,111	106,812	50,494	-	50,494	-	-	403,605	7,567
330.1	Storage tanks		2.00%	-	-	-	-	-	-	-	-	-
330.2	Pressure Tanks		2.00%	-	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains		1.66%	19,116,148	5,859,199	134,818	-	134,818	(17,464)	-	19,233,502	318,447
333	Services		2.49%	1,465,553	483,437	47,278	-	47,278	-	-	1,512,831	37,081
334	Meters		2.49%	519,191	82,474	42,569	-	42,569	(12,864)	-	548,896	13,458
335	Hydrants		1.99%	459,227	92,050	1,875	-	1,875	(1,352)	-	459,750	9,157
336	Backflow Prevention Devices		4.01%	-	-	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment		6.67%	-	-	-	-	-	-	-	-	-
340	Office Furniture and Fixtures		4.80%	22,986	9,507	-	-	-	-	-	22,986	1,103
340.1	Computers and Software		4.80%	69,494	18,780	-	-	-	-	-	69,494	3,336
341	Transportation Equipment		33.33%	2,925	4,954	-	-	-	-	-	2,925	(2,029)
342	Stores Equipment		4.00%	-	-	-	-	-	-	-	-	-
343	Tools and Work Equipment		4.00%	15,035	5,054	-	-	-	-	-	15,035	601
344	Laboratory Equipment		4.00%	3,061	1,378	-	-	-	-	-	3,061	122
345	Power Operated Equipment		5.00%	-	-	-	-	-	-	-	-	-
346	Communications Equipment		5.03%	141,858	19,381	-	-	-	-	-	141,858	7,135
347	Miscellaneous Equipment		10.00%	7,701	2,709	-	-	-	-	-	7,701	377
348	Other Tangible Plant		10.00%	-	-	-	-	-	-	-	-	-
	Rounding			-	-	-	-	-	-	-	-	-
	Plant Held for Future Use			-	-	-	-	-	-	-	-	-
	TOTAL WATER PLANT			24,789,890	7,506,779	1,065,754	-	1,065,754	(31,680)	-	25,823,664	497,151

Rio Rico - Water Division
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.2

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2004 Plant Additions	2004 Plant Adjustments	2004 Adjusted Additions	2004 Plant Retirements	2004 Salvages/Adj. AMD Only	2004 Plant Balance	2004 Deprec.
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	5,785	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	417	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	44,194	-
304	Structures and Improvements	1.99%	3.33%	-	-	-	-	-	688,795	16,014
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-
306	Lake River and Other Intakes	3.31%	3.33%	128,294	-	128,294	-	-	400,357	11,145
307	Wells and Springs	6.67%	6.67%	-	-	-	-	-	-	-
308	Infiltration Galleries and Tunnels	1.66%	2.00%	-	-	-	-	-	279,153	4,871
309	Supply Mains	3.96%	5.00%	-	-	-	-	-	187,371	7,907
310	Power Generation Equipment	3.96%	12.50%	236,327	-	236,327	-	-	1,891,884	108,108
311	Electric Pumping Equipment	3.99%	3.33%	65,200	-	65,200	-	-	333,885	11,524
320	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	-
320.1	Water Treatment Equipment	3.99%	20.00%	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	2.00%	2.22%	37,838	-	37,838	-	-	441,443	8,663
330	Distribution Reservoirs & Standpipe	2.00%	2.22%	-	-	-	-	-	-	-
330.1	Storage Tanks	2.00%	5.00%	-	-	-	-	-	-	-
330.2	Pressure Tanks	1.66%	2.00%	431,726	-	431,726	-	-	19,665,227	339,391
331	Transmission and Distribution Mains	2.49%	3.33%	54,211	-	54,211	-	-	1,567,042	41,578
333	Services	1.99%	8.33%	51,537	-	51,537	(20,725)	-	579,708	22,290
334	Meters	1.99%	2.00%	15,453	-	15,453	-	-	475,203	9,314
335	Hydrants	4.01%	6.67%	-	-	-	-	-	-	-
336	Backflow Prevention Devices	4.80%	6.67%	-	-	-	-	-	22,966	1,211
339	Other Plant and Miscellaneous Equipment	4.80%	20.00%	1,320	-	1,320	-	-	70,814	6,033
340	Office Furniture and Fixtures	33.33%	20.00%	-	-	-	-	-	2,925	-
340.1	Computers and Software	4.00%	4.00%	-	-	-	-	-	-	-
341	Transportation Equipment	4.00%	5.00%	-	-	-	-	-	15,035	639
342	Stores Equipment	4.00%	10.00%	-	-	-	-	-	3,061	168
343	Tools and Work Equipment	5.03%	10.00%	-	-	-	-	-	141,858	8,898
344	Laboratory Equipment	4.89%	10.00%	-	-	-	-	-	7,701	475
345	Power Operated Equipment	-	-	-	-	-	-	-	-	-
346	Communications Equipment	-	-	-	-	-	-	-	-	-
347	Miscellaneous Equipment	-	-	-	-	-	-	-	-	-
348	Other Tangible Plant	-	-	-	-	-	-	-	-	-
	Rounding	-	-	-	-	-	-	-	-	-
	Plant Held for Future Use	-	-	-	-	1,021,906	(20,725)	-	26,824,845	598,252
	TOTAL WATER PLANT	-	-	1,021,906	-	1,021,906	(20,725)	-	26,824,845	598,252

Rio Rico - Water Division
Plant Additions and Retirements

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2005 Plant Additions	2005 Plant Adjustments	2005 Plant Adjustments	2005 Adjusted Plant Additions	2005 Plant Retirements	2005 Salvage A/D Only	2005 Plant Balance	2005 Deprec.
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	5,785	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	417	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	44,194	-
304	Structures and Improvements	1.99%	3.33%	-	-	-	-	-	-	688,795	22,937
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes	3.31%	3.33%	-	-	-	-	-	-	400,357	13,332
307	Wells and Springs	6.67%	6.67%	-	-	-	-	-	-	-	-
308	Infiltration Galleries and Tunnels	1.66%	2.00%	-	-	-	-	-	-	279,153	5,583
309	Supply Mains	3.96%	5.00%	-	-	-	-	-	-	187,371	9,369
310	Power Generation Equipment	3.96%	12.50%	507,953	-	-	507,953	(2,008)	-	2,397,829	268,107
311	Electric Pumping Equipment	3.99%	3.33%	34,253	-	-	34,253	(749)	-	367,389	11,676
320	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	-	-
320.1	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	2.00%	20.00%	-	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.00%	2.22%	318,417	-	-	318,417	-	-	759,861	13,334
330.1	Storage Tanks	2.00%	2.22%	-	-	-	-	-	-	-	-
330.2	Pressure Tanks	2.00%	5.00%	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	1.66%	2.00%	736,273	-	-	736,273	(44,284)	-	20,357,216	400,224
333	Services	2.49%	3.33%	153,500	-	-	153,500	-	-	1,720,542	54,738
334	Meters	2.49%	8.33%	82,087	-	-	82,087	(12,138)	-	649,657	51,203
335	Hydrants	1.99%	2.00%	20,516	-	-	20,516	(1,645)	-	494,074	9,693
336	Backflow Prevention Devices	4.01%	6.67%	-	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	4.80%	6.67%	-	-	-	-	-	-	22,986	1,533
340	Office Furniture and Fixtures	4.80%	20.00%	6,105	-	-	6,105	-	-	76,919	14,773
340.1	Computers and Software	33.33%	20.00%	-	-	-	-	-	-	2,925	-
341	Transportation Equipment	4.00%	4.00%	-	-	-	-	-	-	-	-
342	Stores Equipment	4.00%	5.00%	-	-	-	-	-	-	15,035	752
343	Tools and Work Equipment	4.00%	10.00%	-	-	-	-	-	-	3,061	306
344	Laboratory Equipment	5.03%	5.00%	-	-	-	-	-	-	-	-
345	Power Operated Equipment	4.89%	10.00%	55,958	-	-	55,958	-	-	197,816	16,984
346	Communications Equipment	4.89%	10.00%	-	-	-	-	-	-	7,701	770
347	Miscellaneous Equipment	10.00%	10.00%	-	-	-	-	-	-	-	-
348	Other Tangible Plant Rounding	-	-	-	-	-	-	-	-	-	-
<p>Plant Held for Future Use</p> <p>TOTAL WATER PLANT</p>											
<p>1,915,062 - - - - - 1,915,062 (60,824) - - - - - 28,679,084 895,315</p>											

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2006 Plant Additions	2006 Plant Adjustments ¹	2006 Adjusted Plant Additions	2006 Plant Retirements	2006 Salvage A/D Only	2006 Plant Balance	2006 Deprec.
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	5,785	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	417	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	44,194	-
304	Structures and Improvements	1.99%	3.33%	545,966	-	545,966	-	-	1,234,761	32,027
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-
306	Lake River and Other Intakes	3.31%	3.33%	53,611	(147)	53,464	-	-	453,821	14,222
307	Wells and Springs	6.67%	6.67%	-	-	-	-	-	-	-
308	Infiltration Galleries and Tunnels	2.00%	2.00%	-	-	-	-	-	279,153	5,583
309	Supply Mains	1.66%	5.00%	-	-	-	-	-	187,371	9,369
310	Power Generation Equipment	3.96%	12.50%	-	-	-	-	-	2,493,652	305,718
311	Electric Pumping Equipment	3.96%	3.33%	95,823	-	95,823	-	-	372,970	12,327
320	Water Treatment Equipment	3.99%	3.33%	5,581	-	5,581	-	-	-	-
320.1	Water Treatment Equipment	3.99%	20.00%	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	3.99%	2.22%	-	-	-	-	-	759,861	16,869
330	Distribution Reservoirs & Standpipe	2.00%	2.22%	-	-	-	-	-	-	-
330.1	Distribution Reservoirs & Standpipe	2.00%	2.22%	-	-	-	-	-	-	-
330.2	Pressure Tanks	2.00%	5.00%	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	1.66%	2.00%	741,193	(1,901)	739,292	-	-	21,096,508	414,537
333	Services	2.49%	3.33%	86,384	-	86,384	-	-	1,806,926	58,732
334	Meters	2.49%	8.33%	60,552	-	60,552	-	-	710,209	96,638
335	Hydrants	1.99%	2.00%	-	-	-	-	-	494,074	9,881
336	Backflow Prevention Devices	4.01%	6.67%	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	-	-	-	-	-	22,986	1,533
340	Office Furniture and Fixtures	4.80%	20.00%	-	-	-	-	-	76,919	15,384
340.1	Computers and Software	4.80%	20.00%	-	-	-	-	-	2,925	-
341	Transportation Equipment	33.33%	20.00%	-	-	-	-	-	-	-
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-	15,035	752
343	Tools and Work Equipment	4.00%	5.00%	-	-	-	-	-	3,061	306
344	Laboratory Equipment	4.00%	10.00%	-	-	-	-	-	-	-
345	Power Operated Equipment	5.00%	5.00%	-	-	-	-	-	-	-
346	Communications Equipment	5.03%	10.00%	3,547	-	3,547	-	-	201,363	19,959
347	Miscellaneous Equipment	4.89%	10.00%	-	-	-	-	-	7,701	770
348	Other Tangible Plant	10.00%	10.00%	-	-	-	-	-	-	-
	Rounding			-	-	-	-	-	-	-
	Plant Held for Future Use									
	TOTAL WATER PLANT			1,592,656	(2,048)	1,590,607	-	-	30,269,691	974,608

¹ Affiliate Profit

Rio Rico - Water Division
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.5

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2007 Plant Additions	2007 Plant Adjustments ¹	2007 Adjusted Additions	2007 Plant Retirements	2007 Salvage A/D Only	2007 Plant Balance	2007 Deprec.
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	5,785	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	417	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	44,194	-
304	Structures and Improvements	1.99%	3.33%	389,176	-	389,176	-	-	1,623,937	47,597
305	Collecting and Impounding Res.	2.50%	3.33%	-	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	3.33%	-	-	-	-	-	-	-
307	Wells and Springs	3.31%	3.33%	53,242	(1,830)	51,413	-	-	505,234	15,968
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-	-	-	-	-	-	-
309	Supply Mains	1.66%	2.00%	-	-	-	-	-	279,153	5,583
310	Power Generation Equipment	3.96%	5.00%	5,589	-	5,589	-	-	192,970	9,509
311	Electric Pumping Equipment	3.96%	12.50%	20,220	-	20,220	-	-	2,513,872	312,970
320	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	372,970	12,420
320.1	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	-
320.2	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	3.99%	20.00%	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.00%	2.22%	-	-	-	-	-	-	-
330.1	Distribution Reservoirs & Standpipe	2.00%	2.22%	-	-	-	-	-	-	-
330.2	Distribution Reservoirs & Standpipe	2.00%	2.22%	-	-	-	-	-	759,861	16,869
331	Pressure Tanks	2.00%	5.00%	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	1.66%	2.00%	-	(2,010)	(2,010)	-	-	21,094,498	421,910
333	Services	2.49%	3.33%	100,765	-	100,765	-	-	1,907,691	61,848
334	Meters	2.49%	8.33%	129,225	-	129,225	-	-	839,434	64,543
335	Hydrants	1.99%	2.00%	56,833	-	56,833	-	-	550,907	10,450
336	Backflow Prevention Devices	4.01%	6.67%	3,848	-	3,848	-	-	3,848	128
339	Other Plant and Miscellaneous Equipment	4.80%	6.67%	12,160	(3,415)	8,745	-	-	8,745	292
340	Office Furniture and Fixtures	4.80%	20.00%	-	-	-	-	-	22,986	1,533
340.1	Computers and Software	33.33%	20.00%	-	-	-	-	-	76,919	15,384
341	Transportation Equipment	4.00%	4.00%	-	-	-	-	-	2,925	-
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-	-	-
343	Tools and Work Equipment	4.00%	5.00%	-	-	-	-	-	15,035	752
344	Laboratory Equipment	4.00%	10.00%	-	-	-	-	-	3,061	306
345	Power Operated Equipment	5.03%	5.00%	-	-	-	-	-	-	-
346	Communications Equipment	4.89%	10.00%	-	-	-	-	-	201,363	20,136
347	Miscellaneous Equipment	10.00%	10.00%	-	-	-	-	-	7,701	770
348	Other Tangible Plant	10.00%	10.00%	-	-	-	-	-	-	-
	Rounding								-	-
	Plant Held for Future Use									
	TOTAL WATER PLANT			771,069	(7,255)	763,814	-	-	31,033,505	1,018,968

¹ Affiliate Profit

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2008 Plant		2008 Plant		2008 Salvage A/D Only	2008 Plant		2008 Deprec.
				Additions	Adjustments	Adjustments ¹	Retirements		Balance	Balance	
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	5,785	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	417	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	44,194	-
304	Structures and Improvements	3.33%	3.33%	839,316	269,580	1,108,896	-	-	-	2,732,833	72,540
305	Collecting and Impounding Res.	1.99%	2.50%	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	2.50%	-	-	-	-	-	-	-	-
307	Wells and Springs	3.31%	3.33%	3,718	57,101	(2,542)	58,278	-	-	563,511	17,795
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-	-	-	-	-	-	-	-
309	Supply Mains	1.66%	2.00%	-	-	-	-	-	-	279,153	5,583
310	Power Generation Equipment	3.96%	5.00%	4,150	-	4,150	-	-	-	197,120	9,752
311	Electric Pumping Equipment	3.96%	12.50%	65,771	12,498	(170)	78,098	-	-	2,591,970	319,115
320	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	372,970	12,420
320.1	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	3.99%	20.00%	-	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.00%	2.22%	-	-	-	-	-	-	759,861	16,869
330.1	Storage Tanks	2.00%	2.22%	-	-	-	-	-	-	-	-
330.2	Pressure Tanks	2.00%	5.00%	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	1.66%	2.00%	980,746	17,464	(3,558)	994,652	-	-	22,089,150	431,836
333	Services	2.49%	3.33%	298,637	42,945	-	301,582	-	-	2,209,274	68,547
334	Meters	2.49%	8.33%	117,171	-	-	117,171	-	-	956,605	74,805
335	Hydrants	1.99%	2.00%	17,671	-	-	17,671	-	-	568,577	11,195
336	Backflow Prevention Devices	4.01%	6.67%	-	-	-	-	-	-	3,848	257
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	118,069	-	(4,971)	113,098	-	-	121,843	4,355
340	Office Furniture and Fixtures	4.80%	6.67%	-	-	-	-	-	-	22,986	1,533
340.1	Computers and Software	4.80%	20.00%	-	-	-	-	-	-	76,919	3,229
341	Transportation Equipment	33.33%	20.00%	108,010	108,010	-	216,020	-	-	218,945	22,187
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-	-	-	-
343	Tools and Work Equipment	4.00%	5.00%	-	-	-	-	-	-	15,035	752
344	Laboratory Equipment	4.00%	10.00%	-	-	-	-	-	-	3,061	306
345	Power Operated Equipment	5.03%	5.00%	-	-	-	-	-	-	-	-
346	Communications Equipment	4.89%	10.00%	16,678	-	-	16,678	-	-	218,040	20,970
347	Miscellaneous Equipment	4.89%	10.00%	-	-	-	-	-	-	7,701	770
348	Other Tangible Plant	10.00%	10.00%	-	-	-	-	-	-	-	-
	Rounding			-	-	-	-	-	-	-	-

Plant Held for Future Use
TOTAL WATER PLANT

2,529,938	507,598	(11,241)	3,026,295	-	34,059,801	1,094,817
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¹ Affiliate Profit

Line No.	Account No.	Description	Balance Per Company Per 2002 Filing Before Adj.	PTY Plant	Rounding	Intentionally Left Blank	Per Decision 67279 Prior Case Adjusted Plant	PTY Plant	Rounding	Initial Balance
6	301	Organization Cost	5,785				5,785	-		5,785
7	302	Franchise Cost	417				417			417
8	303	Land and Land Rights	44,194				44,194			44,194
9	304	Structures and Improvements	435,181				435,181			435,181
10	305	Collecting and Impounding Res.	-				-			-
11	306	Lake River and Other Intakes	-				-			-
12	307	Wells and Springs	272,063				272,063			272,063
13	308	Infiltration Galleries and Tunnels	-				-			-
14	309	Supply Mains	29,881	36,582			66,463	(36,582)		29,881
15	310	Power Generation Equipment	52,635	134,736			187,371	(134,736)		52,635
16	311	Electric Pumping Equipment	1,504,459	146,219			1,650,678	(146,219)		1,504,459
17	320	Water Treatment Equipment	268,685				268,685			268,685
18	320.1	Water Treatment Plants	-				-			-
19	320.2	Chemical Solution Feeders	-				-			-
20	330	Distribution Reservoirs & Standpipe	353,111	50,494			403,605	(50,494)		353,111
21	330.1	Storage tanks	-				-			-
22	330.2	Pressure Tanks	-				-			-
23	331	Transmission and Distribution Mains	19,116,148	227,626			19,343,774	(227,626)		19,116,148
24	333	Services	1,465,553	-			1,465,553			1,465,553
25	334	Meters	519,191	-			519,191			519,191
26	335	Hydrants	459,227	-			459,227			459,227
27	336	Backflow Prevention Devices	-				-			-
28	339	Other Plant and Miscellaneous Equipment	-				-			-
29	340	Office Furniture and Fixtures	22,986				22,986			22,986
30	340.1	Computers and Software	69,494				69,494			69,494
31	341	Transportation Equipment	2,925				2,925			2,925
32	342	Stores Equipment	-				-			-
33	343	Tools and Work Equipment	15,035				15,035			15,035
34	344	Laboratory Equipment	3,061				3,061			3,061
35	345	Power Operated Equipment	-				-			-
36	346	Communications Equipment	141,858				141,858			141,858
37	347	Miscellaneous Equipment	7,701				7,701			7,701
38	348	Other Tangible Plant	-				-			-
39		Rounding	-		(2)		-			-
40		TOTAL	24,789,592	595,657	(2)	-	25,385,247	(595,657)	-	24,789,590

Rio Rico - Water Division
A/D Reconciliation to Prior Rate Case

Line No.	Account No.	Description	Balance Per Company Per 2002 Filing Before Adj.	PTY Plant	Intentionally Left Blank	Intentionally Left Blank	Per Decision Prior Case Adjusted A/D	PTY Plant	Initial Balance
1									
2									
3									
4									
5	301	Organization Cost							
6	302	Franchise Cost							
7	303	Land and Land Rights							
8	304	Structures and Improvements	104,047				104,047		104,047
9	305	Collecting and Impounding Res.							
10	306	Lake River and Other Intakes							
11	307	Wells and Springs	78,656				78,656		78,656
12	308	Infiltration Galleries and Tunnels							
13	309	Supply Mains	(3,617)	366			(3,251)	(366)	(3,617)
14	310	Power Generation Equipment	19,077	3,369			22,446	(3,369)	19,077
15	311	Electric Pumping Equipment	508,421	9,139			517,560	(9,139)	508,421
16	320	Water Treatment Equipment	74,460				74,460		74,460
17	320.1	Water Treatment Plants							
18	320.2	Chemical Solution Feeders							
19	330	Distribution Reservoirs & Standpipe	106,812	561			107,373	(561)	106,812
20	330.1	Storage tanks							
21	330.2	Pressure Tanks							
22	331	Transmission and Distribution Mains	5,899,199	2,277			5,901,476	(2,277)	5,899,199
23	333	Services	483,437				483,437		483,437
24	334	Meters	82,474				82,474		82,474
25	335	Hydrants	92,050				92,050		92,050
26	336	Backflow Prevention Devices							
27	339	Other Plant and Miscellaneous Equipment							
28	340	Office Furniture and Fixtures	9,507				9,507		9,507
29	340.1	Computers and Software	18,780				18,780		18,780
30	341	Transportation Equipment	4,954				4,954		4,954
31	342	Stores Equipment							
32	343	Tools and Work Equipment	5,054				5,054		5,054
33	344	Laboratory Equipment	1,378				1,378		1,378
34	345	Power Operated Equipment							
35	346	Communications Equipment	19,381				19,381		19,381
36	347	Miscellaneous Equipment	2,709				2,709		2,709
37	348	Other Tangible Plant							
38		Rounding							
39									
40									
41									
		TOTAL	7,506,779	15,710			7,522,489	(15,710)	7,506,779

Rio Rico Utilities - Water Division
Test Year Ended December 31, 2008
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2

Line No.	Plant-in-Service	Per Books Accum. Depr.	A Difference to Computed Balance	B Intentionally Left Blank	C Intentionally Left Blank	D Intentionally Left Blank	E Intentionally Left Blank	Rejoinder Adjusted Accum. Depr.
1								
2								
3								
4								
5								
6								
7								
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40								
41								
42								
43								
44								
45								
46								
47								
48								
49								
	TOTALS	\$ 12,472,661	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,472,661
	Accumulated Depreciation per Direct							\$ 12,472,661
	Increase (decrease) in Accumulated Depreciation							\$ -
	Adjustment to Accumulated Depreciation							\$ -
	SUPPORTING SCHEDULES							
	Rejoinder B-2, pages 3.1 to 3.9							

Rio Rico Utilities - Water Division
Test Year Ended December 31, 2008
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Rejoinder Schedule B-2
Page 5
Witness: Bourassa

Line

No.

1	<u>Reclassification of AIAC and CIAC</u>		
2			
3			
4	CIAC	\$	(48,724)
5			
6	AIAC	\$	48,724
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17	See Testimony		
18			
19	<u>SUPPORTING SCHEDULES</u>		
20			
21			
22			
23			
24			
25			
26			
27			
28			
29			
30			
31			
32			
33			
34			
35			

Rio Rico Utilities - Water Division
 Test Year Ended December 31, 2008
 Original Cost Rate Base Proforma Adjustments
 Adjustment 4

Exhibit
 Rejoinder Schedule B-2
 Page 6
 Witness: Bourassa

Line No.	Adjusted		Probability of Realization of Future	Deductible TD (Taxable TD) Expected to be Realized	Tax Rate	Future Tax Asset		Future Tax Liability	
	Book Value ¹	Tax Value ²	Tax Benefit			Current	Non Current	Current	Non Current
1	Deferred Income Tax as of December 31, 2008 (Water and Wastewater Divisions)								
6	Plant-in-Service	\$ 45,888,844							
7	Accum. Deprec.	(17,582,689)							
8	CIAC	(16,705,616)							
9	Fixed Assets	\$ 11,600,539	\$ 11,648,936	100.0%	\$ 48,397		18,681		-
10	AIAC		360,294	100.0%	\$ 360,294		\$ 139,073		
11	Tax Benefits from O.L. Carry Forward.			100.0%	\$ 746,589 ³	38.6%		\$ 288,183	
						\$ -	\$ 445,938	\$ -	\$ -
				Net Asset (Liability)		\$ 445,938			
						0.70630			
	Water Division allocation factor (based on relative rate bases)								
	Allocated DIT Asset (Liability)					\$ 314,965			
	DIT Asset (Liability) per Direct					\$ 778,203			
	Adjustment to DIT					\$ 463,238			
24	1 Adjusted Water and Wastewater - per Rejoinder B-2, page 2 (Water Division) and Rejoinder B-2, page 2 (Wastewater Division)								
25	² Computation of Net Tax Value at December 31, 2008 (Water and Wastewater)								
26	Based on 2008 Tax Depreciation report (December 31, 2008)								
27	Unadjusted Cost per 2008 Tax Depr. Report				\$ 25,520,835				
28	Reconciling Items not on tax report:								
29	Land costs not on tax, on books				51,739				
30	2008 Plant recorded on books not on tax,				809,876				
31	2006 Plant recorded on books not on tax,				779,709				
32	CIAC funded plant reflected in tax plant-in-service				(3,942,540)				
33	Reconciling difference				105,049				
34	Net Unadjusted Cost tax Basis						\$ 23,324,668		
35	Affiliate Profit								
36	Affiliate Profit removed				(24,780)				
37	Affiliate A/D at tax rates				1,011				
38	Net Reduction in tax basis due to affiliate profit						\$ (23,769)		
39	Basis Reduction								
40	Basis Reduction 2007 and Prior Years (from 2007 Tax Depr. Report)								
41	Accumulated Depreciation 2007 and prior (2007 Tax Depr Report)				(10,233,311)				
42	Tax Accum. Depr. from CIAC funded plant in tax plant-in-service to 2007				616,408				
43	Net Basis Reduction 2007 and Prior years						(9,616,903)		
44	Bonus Depreciation Computation 2008								
45	Bonus Depr. for 12 months of 2008 per Tax Depr. Report				\$ 1,030,227				
46	Less: Bonus Depr. on CIAC funded plant				-				
47	Net 12 months of Bonus Depr for plant				\$ 1,030,227				
48	Factor				1.00				
49	Bonus Depreciation for 12 months 2008						(1,030,227)		
50	2008 Depreciation Computation 2008								
51	2008 Tax Depreciation (12 Months) per Tax Depr. Report								
52	Less: 2008 Depr on CIAC funded plant in tax plant				\$ 1,162,611				
53	Net 12 months of depr. for plant added Jan. to Dec. 2008				(157,779)				
54	Factor				\$ 1,004,832				
55	Tax Depreciation for 12 months of 2008				1.00				
56	Net 2008 Depreciation						(1,004,832)		
57	Net tax value of plant-in-service at December 31, 2008						\$ 11,648,936		
58	³ Tax Benefits from bonus depreciation								
61	Net Income before tax								
62		\$ 1,004,175	(from E-2 for both Water and Wastewater)						
63	Add: Book Depreciation								
64		284,295	(from E-2 for both Water and Wastewater)						
65	Less: Bonus Depreciation								
66	Tax Depreciation		(1,030,227) (from above)						
67			(1,004,832) (from above)						
68	Taxable Income/(loss)								
69		\$ (746,589)							

Rio Rico Utilities
Deferred Income Taxes
Reconciliation of Book and Tax

Line No.	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Totals
1	\$ 27,801,072	\$ 1,198,144	\$ 1,715,104	\$ 446,639	\$ 395,222	\$ 2,808,605	\$ 1,374,693	\$ 918,259	\$ 3,276,005	\$ 2,134,754	\$ 818,495	\$ 3,197,370	\$ 46,676,102
2	(14,930)	(20,402)	(50,993)	(63,377)	(19,431)	(438,801)	(51,487)	(20,725)	(83,330)	-	-	-	(762,477)
3	(8,375)	(17,201)	(2,625)	1,070	1,106	1,442	(349,952)	2,707	5,520	7,642	6,984	49,762	(362,995)
4	(69,747)	(65,960)	(488,491)	(141,114)	(16,264)	(480,374)	(110,714)	(732,724)	(2,210,805)	(7,705)	(15)	-	(25,565,377)
5	\$ 21,241,464	\$ 1,105,092	\$ 1,172,985	\$ 243,217	\$ 365,634	\$ 1,890,873	\$ 862,540	\$ 167,517	\$ 987,389	\$ 2,134,692	\$ 825,464	\$ 3,247,132	\$ 19,985,263
6	\$ 6,498,532	\$ 504,579	\$ 1,223,988	\$ 306,584	\$ 384,065	\$ 2,329,674	\$ 914,027	\$ 188,242	\$ 1,070,719	\$ 2,134,692	\$ 825,464	\$ 3,247,132	\$ 20,747,730
7	\$ 9,023,128	\$ 1,136,773	\$ 1,228,828	\$ 303,593	\$ 395,223	\$ 2,808,605	\$ 1,374,693	\$ 918,259	\$ 3,276,004	\$ 1,337,695	\$ 820,770	\$ 2,554,792	\$ 25,520,835
8	\$ (2,524,596)	\$ (16,751)	\$ (4,840)	\$ 3,011	\$ (15,158)	\$ (478,931)	\$ (460,666)	\$ (730,017)	\$ (2,205,285)	\$ 796,997	\$ 4,694	\$ 892,340	\$ (4,773,105)
9	\$ (2,524,596)	\$ (16,751)	\$ (4,840)	\$ 3,011	\$ (15,158)	\$ (478,931)	\$ (460,666)	\$ (730,017)	\$ (2,205,285)	\$ 796,997	\$ 4,694	\$ 892,340	\$ (4,773,105)
10	\$ 2,524,596	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
15	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
18	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
19	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
20	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
21	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
22	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
23	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
24	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
25	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
26	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
27	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
28	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
29	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Plant Adds (per B-2)
Plant Retirements
Net AIA (per AIAIC sched prior case and G9 2.3)
CIAC (per CIAC sched prior case and B-2 pb)
Indicated Tax Basis (Sum of [1] to [5])
Book Adds net of AIAIC and CIAC ([1]+[4]+[5])
Plant Adds Per 2008 Depreciation Report
Difference book to tax
Difference
Land costs not on Tax Report
Plant Added to tax in 2009, but booked in 2006 (timing)
Plant Added to tax in 2009, but booked in 2008 (timing)
CIAC booked to tax
Unreconciled Difference (timing)
Total Reconciling Items
Difference basis

Rio Rico Utilities - Water Division
Test Year Ended December 31, 2008
Computation of Working Capital

Exhibit
 Rejoinder Schedule B-5
 Page 1
 Witness: Bourassa

Line
No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	145,458
3	Pumping Power (1/24 of Pumping Power)		16,396
4	Purchased Water (1/24 of Purchased Water)		-
5	Materials and Supplies		-
6	Prepays		10,289
7			
8			
9	Total Working Capital Allowance	<u>\$</u>	<u>172,143</u>
10			
11			
12	Working Capital Requested	<u>\$</u>	<u>-</u>
13			

15 SUPPORTING SCHEDULES:

16 E-1

RECAP SCHEDULES:

Rejoinder B-1

17			
18			
19	<u>Cash Working Capital Detail</u>		<u>Adjusted</u>
20			<u>Test Year Results</u>
21	Total Operating Expense	\$	2,032,991
22	Less:		
23	Income Tax		(116,760)
24	Property Tax		126,699
25	Depreciation		465,889
26	Purchased Water		-
27	Pumping Power		393,496
28	Allowable Expenses	<u>\$</u>	<u>1,163,668</u>
29	1/8 of allowable expenses	<u>\$</u>	<u>145,458</u>
30			
31			

Rio Rico Utilities - Water Division
Test Year Ended December 31, 2008
Income Statement

Exhibit
 Rejoinder Schedule C-1
 Page 1
 Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjustment	Rejoinder Adjusted Results	Proposed Rate Increase	Rejoinder Adjusted with Rate Increase
1	Revenues					
2	Metered Water Revenues	\$ 1,802,584	\$ -	\$ 1,802,584	\$ 1,825,426	\$ 3,628,010
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	44,672	-	44,672		44,672
5		<u>\$ 1,847,256</u>	<u>\$ -</u>	<u>\$ 1,847,256</u>	<u>\$ 1,825,426</u>	<u>\$ 3,672,682</u>
6	Operating Expenses					
7	Salaries and Wages	\$ -	-	-		-
8	Purchased Water	-	-	-		-
9	Purchased Power	441,501	(48,005)	393,496		393,496
10	Fuel for Power Production	-	-	-		-
11	Chemicals	9,347	-	9,347		9,347
12	Materials & Supplies	23,150	-	23,150		23,150
13	Outside Services	805,032	9,357	814,389		814,389
14	Outside Services- Other	76,859	-	76,859		76,859
15	Outside Services- Legal	487	-	487		487
16	Water Testing	-	-	-		-
17	Rents	26,954	-	26,954		26,954
18	Transportation Expenses	79,315	(6,725)	72,590		72,590
19	Insurance - General Liability	37,699	-	37,699		37,699
20	Insurance - Health and Life	-	-	-		-
21	Reg. Comm. Exp.	17,564	-	17,564		17,564
22	Reg. Comm. Exp. - Rate Case	70,000	-	70,000		70,000
23	Miscellaneous Expense	14,822	(1,363)	13,459		13,459
24	Bad Debt Expense	371	799	1,170		1,170
25	Depreciation Expense	463,297	2,592	465,889		465,889
26	Taxes Other Than Income	-	-	-		-
27	Property Taxes	130,373	(3,674)	126,699		126,699
28	Income Tax	(134,909)	18,149	(116,760)	704,594	587,834
29	Total Operating Expenses	<u>\$ 2,061,862</u>	<u>\$ (28,871)</u>	<u>\$ 2,032,991</u>	<u>\$ 704,594</u>	<u>\$ 2,737,585</u>
30	Operating Income	<u>\$ (214,606)</u>	<u>\$ 28,871</u>	<u>\$ (185,735)</u>	<u>\$ 1,120,832</u>	<u>\$ 935,097</u>
31	Other Income (Expense)					
32	Interest Income	-	-	-		-
33	Other income (loss)	-	-	-		-
34	Interest Expense	-	-	-		-
35	Other Expense	-	-	-		-
36		-	-	-		-
37	Total Other Income (Expense)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
38	Net Profit (Loss)	<u>\$ (214,606)</u>	<u>\$ 28,871</u>	<u>\$ (185,735)</u>	<u>\$ 1,120,832</u>	<u>\$ 935,097</u>

40 SUPPORTING SCHEDULES:
 41 Rejoinder C-1, page 2
 42

RECAP SCHEDULES:
 Rejoinder A-1

Rio Rico Utilities - Water Division
 Test Year Ended December 31, 2008
 Income Statement

Exhibit
 Rejoinder Schedule C-1
 Page 2
 Witness: Bourassa

Line No.	1	2	3	4	5	6	7	8	9	Rejoinder Adjusted Results	Proposed Rate Increase	Rejoinder Adjusted with Rate Increase
	Test Year Adjusted Results	Depreciation Expense	Property Taxes	Purchased Power	Transport. Expense	Out of Period Exp.	Misc. Expense	Bad Debt Exp.	Central Office Costs	Income Tax		
1	\$ 1,802,584	-	-	-	-	-	-	-	-	-	\$ 1,802,584	\$ 3,628,010
2	-	-	-	-	-	-	-	-	-	-	-	-
3	44,672	-	-	-	-	-	-	-	-	44,672	-	44,672
4	\$ 1,847,256	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,847,256	\$ 1,825,426	\$ 3,672,682
5												
6												
7												
8												
9												
10												
11												
12												
13												
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39												
40												
41												
42												

RECAP SCHEDULES:
 Rejoinder C-1

SUPPORTING SCHEDULES:
 Rejoinder C-2

Rio Rico Utilities - Water Division
Test Year Ended December 31, 2008
Adjustments to Revenues and Expenses

Line No.	1	2	3	4	5	6	Subtotal
	Depreciation Expense	Property Taxes	Purchased Power	Transport. Expense	Out of Period Exp.	Misc. Expense	
2	2,592	(3,674)	(48,005)	(6,725)	(14,477)	(1,363)	(71,653)
7	(2,592)	3,674	48,005	6,725	14,477	1,363	71,653
16	(2,592)	3,674	48,005	6,725	14,477	1,363	71,653
17							
18							
19							
20							
21							
22							
23							
24	799	23,834	18,149				(28,871)
25							
26							
27	(799)	(23,834)	(18,149)	-	-	-	28,871
28							
29							
30							
31							
32							
33							
34							
35	(799)	(23,834)	(18,149)	-	-	-	28,871

Adjustments to Revenues and Expenses

Line No.	7	8	9	10	11	12	Subtotal
	Bad Debt	Central Office Allocation	Income Tax	Blank	Blank	Blank	
20							
21							
22							
23							
24	799	23,834	18,149				(28,871)
25							
26							
27	(799)	(23,834)	(18,149)	-	-	-	28,871
28							
29							
30							
31							
32							
33							
34							
35	(799)	(23,834)	(18,149)	-	-	-	28,871

Rio Rico Utilities - Water Division
 Test Year Ended December 31, 2008
 Adjustments to Revenues and Expenses
 Adjustment Number 1

Exhibit
 Rejoinder Schedule C-2
 Page 2
 Witness: Bourassa

Line No.	Acct.	Description	Adjusted Original Cost	Proposed Rates	Depreciation Expense
1		<u>Depreciation Expense</u>			
2					
3					
4					
5	301	Organization Cost	5,785	0.00%	-
6	302	Franchise Cost	417	0.00%	-
7	303	Land and Land Rights	44,194	0.00%	-
8	304	Structures and Improvements	2,732,833	3.33%	91,003
9	305	Collecting and Impounding Res.	-	2.50%	-
10	306	Lake River and Other Intakes	-	2.50%	-
11	307	Wells and Springs	563,511	3.33%	18,765
12	308	Infiltration Galleries and Tunnels	-	6.67%	-
13	309	Supply Mains	279,153	2.00%	5,583
14	310	Power Generation Equipment	197,120	5.00%	9,856
15	311	Electric Pumping Equipment	2,591,970	12.50%	323,996
16	320	Water Treatment Equipment	-	3.33%	-
17	320.1	Water Treatment Plant	372,970	3.33%	12,420
18	320.2	Chemical Solution Feeders	-	20.00%	-
19	330	Dist. Reservoirs & Standpipe	-	2.22%	-
20	330.1	Storage tanks	759,861	2.22%	16,869
21	330.2	Pressure Tanks	-	5.00%	-
22	331	Trans. and Dist. Mains	22,089,150	2.00%	441,783
23	333	Services	2,209,274	3.33%	73,569
24	334	Meters	956,605	8.33%	79,685
25	335	Hydrants	568,577	2.00%	11,372
26	336	Backflow Prevention Devices	3,848	6.67%	257
27	339	Other Plant and Misc. Equip.	121,843	6.67%	8,127
28	340	Office Furniture and Fixtures	22,986	6.67%	1,533
29	340.1	Computers and Software	76,919	20.00%	-
30	341	Transportation Equipment	218,945	20.00%	43,789
31	342	Stores Equipment	-	4.00%	-
32	343	Tools and Work Equipment	15,035	5.00%	752
33	344	Laboratory Equipment	3,061	10.00%	306
34	345	Power Operated Equipment	-	5.00%	-
35	346	Communications Equipment	218,040	10.00%	21,804
36	347	Miscellaneous Equipment	7,701	10.00%	770
37	348	Other Tangible Plant	-	10.00%	-
38					
39		TOTALS	\$ 34,059,801		\$ 1,162,239
40					
41					
42		Less: Amortization of Contributions	\$ 20,140,197	3.4575%	\$ (696,350)
43					
44					
45					
46		Total Depreciation Expense			\$ 465,889
47					
48		Adjusted Test Year Depreciation Expense			463,297
49					
50		Increase (decrease) in Depreciation Expense			2,592
51					
52		Adjustment to Revenues and/or Expenses			\$ 2,592
53					
54		<u>SUPPORTING SCHEDULE</u>			
55		Rejoinder B-2, page 3			
56					

* Fully Depreciated

Rio Rico Utilities - Water Division
 Test Year Ended December 31, 2008
 Adjustment to Revenues and Expenses
 Adjustment Number 2

Exhibit
 Rejoinder Schedule C-2
 Page 3
 Witness: Bourassa

Line
No.

1	<u>Property Taxes:</u>		
2			
3	Adjusted Revenues in year ended 12/31/08	\$	1,847,256
4	Adjusted Revenues in year ended 12/31/08		1,847,256
5	Proposed Revenues		<u>3,672,682</u>
6	Average of three year's of revenue	\$	2,455,731
7	Average of three year's of revenue, times 2	\$	4,911,463
8	Add:		
9	Construction Work in Progress at 10%	\$	-
10	Deduct:		
11	Book Value of Transportation Equipment		<u>193,833</u>
12			
13	Full Cash Value	\$	4,717,630
14	Assessment Ratio		21%
15	Assessed Value		<u>990,702</u>
16	Property Tax Rate		11.3283%
17			
18	Property Tax		112,229
19	Plus: Tax on Parcels		14,470
20			
21	Total Property Tax at Proposed Rates	\$	<u>126,699</u>
22	Adjusted Property Taxes		<u>130,373</u>
23	Change in Property Taxes	\$	<u>(3,674)</u>
24			
25			
26	Adjustment to Revenues and/or Expenses	\$	<u>(3,674)</u>
27			
28			

Rio Rico Utilities - Water Division
Test Year Ended December 31, 2008
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 3

Exhibit
Rejoinder Schedule C-2
Page 4
Witness: Bourassa

Line

No.

1	<u>Purchased Power</u>		
2			
3	Reclassify purchased power expense to sewer division	\$	(48,005)
4			
5			
6			
7			
8			
9	Increase (decrease) in Purchased Power Expense	\$	<u>(48,005)</u>
10			
11	Adjustment to Revenue and/or Expense	\$	<u>(48,005)</u>
12			
13			
14			
15			
16			
17	<u>SUPPORTING SCHEDULE</u>		
18	Staff Schedule GWB-12		
19			
20			
21			
22			
23			
24			

Rio Rico Utilities - Water Division
Test Year Ended December 31, 2008
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Rejoinder Schedule C-2
Page 5
Witness: Bourassa

Line

No.

1	<u>Transportation Expense</u>		
2			
3			
4	Remove Airlink costs	\$	(6,725)
5			
6			
7			
8	Increase (decrease) in Transportation Expense	<u>\$</u>	<u>(6,725)</u>
9			
10			
11	Adjustment to Revenue and/or Expense	<u>\$</u>	<u>(6,725)</u>
12			
13			
14			
15			
16			
17			
18			
19			
20			

Rio Rico Utilities - Water Division
 Test Year Ended December 31, 2008
 Adjustment to Revenues and Expenses
 Adjustment Number 5

Exhibit
 Rejoinder Schedule C-2
 Page 6
 Witness: Bourassa

Line

No.

1					
2	<u>Remove Out of Period Expense</u>				
3					
4	DEC 19 2007 - A	Rio Rico Properties	DEC 19 2007 - A	NOV 2006	\$ (7,671)
5	12.19.07 - A	Rio Rico Properties	12.19.07 - A	DEC 2006	<u>(6,806)</u>
6	Total				\$ <u>(14,477)</u>
7					
8					
9					
10	Increase (decrease) in Outside Services				\$ <u>(14,477)</u>
11					
12					
13	Adjustment to Revenue and/or Expense				\$ <u><u>(14,477)</u></u>
14					
15					
16					
17					
18					
19					
20					

Rio Rico Utilities - Water Division
Test Year Ended December 31, 2008
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Rejoinder Schedule C-2
Page 7
Witness: Bourassa

Line

No.

1	<u>Miscellaneous Expense</u>		
2			
3	Remove charitable contributions	\$	(1,363)
4			
5			
6	Increase (decrease) in Miscellaneous Expense	\$	<u>(1,363)</u>
7			
8			
9			
10	Adjustment to Revenue and/or Expense	\$	<u>(1,363)</u>
11			
12			
13			
14			
15			
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18			
19			
20			
21			

Rio Rico Utilities - Water Division
Test Year Ended December 31, 2008
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Rejoinder Schedule C-2
Page 8
Witness: Bourassa

Line

No.

1	<u>Bad Debt Expense</u>	
2		
3		
4	Normalize Bad Debt Expense	799
5		
6		
7	Increase (decrease) in Purchased Power	\$ 799
8		
9	Adjustment to Revenue and/or Expense	<u>\$ 799</u>
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		

Rio Rico Utilities - Water Division
 Test Year Ended December 31, 2008
 Adjustment to Revenues and/or Expenses
 Adjustment Number 9

Exhibit
 Schedule C-2
 Page 10
 Witness: Bourassa

Line No.		Test Year Book Results	Test Year Adjusted Results	Adjusted with Rate Increase
1	<u>Income Tax Computation</u>			
2				
3				
4				
5				
6				
7	Taxable Income	\$ (349,515)	\$ (302,495)	\$ 1,522,931
8				
9	Taxable Income	<u>\$ (349,515)</u>	<u>\$ (302,495)</u>	<u>\$ 1,522,931</u>
10				
11				
12				
13	Income Before Taxes			<u>\$ 1,522,931</u>
14				
15	Arizona Income Before Taxes			\$ 1,522,931
16				
17	Less Arizona Income Tax			<u>\$ 106,118</u>
18	Rate =	6.97%		
19	Arizona Taxable Income			<u>\$ 1,416,813</u>
20				
21	Arizona Income Taxes			\$ 106,118
22				
23	Federal Income Before Taxes			\$ 1,522,931
24				
25	Less Arizona Income Taxes			<u>\$ 106,118</u>
26				
27	Federal Taxable Income			<u>\$ 1,416,813</u>
28				
29				
30				
31	FEDERAL INCOME TAXES:			
32	15% BRACKET			\$ 7,500
33	25% BRACKET			\$ 6,250
34	34% BRACKET			\$ 8,500
35	39% BRACKET			\$ 91,650
36	34% BRACKET			\$ 367,816
37				Federal Effective Tax Rate
38	Federal Income Taxes			<u>\$ 481,716</u> 31.63%
39				
40				
41	Total Income Tax			<u>\$ 587,834</u>
42				
43	Overall Tax Rate			<u>38.60%</u>
44				
45	Income Tax at Proposed Rates Effective Rate		<u>\$ (116,760)</u>	
46				

Rio Rico Utilities - Water Division
 Test Year Ended December 31, 2008
 Computation of Gross Revenue Conversion Factor

Exhibit
 Rejoinder Schedule C-3
 Page 1
 Witness: Bourassa

Line		Percentage of Incremental Gross <u>Revenues</u>
<u>No.</u>	<u>Description</u>	
1	Federal Income Taxes	31.63%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	<u>0.00%</u>
6		
7		
8	Total Tax Percentage	38.60%
9		
10	Operating Income % = 100% - Tax Percentage	61.40%
11		
12		
13		
14		
15	<u>1</u> = Gross Revenue Conversion Factor	
16	Operating Income %	1.6286
17		
18	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
19		Rejoinder A-1
20		

Rio Rico Utilities, Inc. - Water Division
 Test Year Ended December 31, 2008
 Revenue Summary
 With Annualized Revenues to Year End Number of Customers

Exhibit
 Rejoinder Schedule H-1
 Page 3
 Witness: Bourassa

Line No.	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1						
2						
3	\$ 1,808,782	\$ 3,639,293	\$ 1,830,511	101.20%	100.00%	100.00%
4	(4,794)	(9,834)	(5,041)	105.15%	-0.27%	-0.27%
5	\$ 1,803,988	\$ 3,629,458	\$ 1,825,470	101.19%		
6						
7	\$ 44,672	\$ 44,672	-	0.00%	2.47%	1.23%
8	(1,404)	(1,448)	(44)	0.00%	-0.08%	-0.04%
9	\$ 1,847,256	\$ 3,672,682	\$ 1,825,426	98.82%	0.00%	0.00%
10						
11						
12	<u>Revenue Reconciliation</u>					
13						
14	Revenue per bill count before revenue annualization	\$ 1,808,782				
15	Revenue per GL (metered water revenues)	\$ 1,807,378				
16	Difference	\$ 1,404				
17	Difference %	0.08%				
18	Tolerance %	0.50%				
19	Tolerance Amount + or -	\$ 9,037				
20						
21	Acceptable?					YES
22						
23						
24						
25						
26						
27						
28						
29						
30						
31						
32						
33						
34						
35						
36						
37						
38						
39						
40						

Rio Rico Utilities, Inc. - Water Division
 Test Year Ended December 31, 2008
 Customer Summary

Exhibit
 Rejoinder Schedule H-2
 Page 1
 Witness: Bourassa

Line No.	Meter Size Class	(a)		Average Bill		Proposed Increase	
		Average Number of Customers at 12/31/2008	Average Consumption	Present Rates	Proposed Rates	Dollar Amount	Percent
1	5/8X3/4 Inch Residential	5,745	8,548 \$	19.94 \$	40.04	20.10	100.77%
2	3/4 Inch Residential	8	3,558	15.70	32.02	16.32	103.95%
3	1 Inch Residential	36	11,326	36.35	72.14	35.79	98.44%
4	1 1/2 Inch Residential	4	20,116	68.92	135.50	66.58	96.60%
5	2 Inch Residential	4	19,938	87.89	174.10	86.21	98.08%
6	Subtotal	5,797					
7	Commercial	97	11,575 \$	25.40 \$	51.20	25.80	101.56%
8	1 Inch Commercial	43	17,804	47.93	95.80	47.88	99.89%
9	1 1/2 Inch Commercial	10	39,685	106.10	211.43	105.33	99.27%
10	2 Inch Commercial	33	154,509	336.17	684.21	348.05	103.53%
11	3 Inch Commercial	13	266,143	599.67	1,178.07	578.40	96.45%
12	4 Inch Commercial	5	292,262	717.40	1,397.23	679.83	94.76%
13	6 Inch Commercial	1	641,667	1,515.42	3,044.17	1,528.75	100.88%
14	Subtotal	202					
15	Multi-family	10	10,718 \$	23.77 \$	47.88	24.10	101.38%
16	1 1/2 Inch Multi-family	1	7,417	47.31	91.26	43.95	92.90%
17	Subtotal	11					
18	Fire Lines up to 8 Inch	15	- \$	6.48 \$	13.00	6.52	100.62%
19							
20							
21							
22							
23							
24	Total	6,025					
25							

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Line No.	Meter Size, Class	(a) Average Number of Customers at 12/31/2008	Median Consumption	Median Bill		Proposed Rates	Proposed Increase Percent
				Present Rates	Proposed Rates		
1	5/8X3/4 Inch Residential	5,745	7,000 \$	17.31 \$	34.65	17.34	100.17%
2	3/4 Inch Residential	8	3,000	14.75	30.08	15.33	103.90%
3	1 Inch Residential	36	7,000	29.00	57.09	28.09	96.84%
4	1 1/2 Inch Residential	4	20,000	68.70	135.05	66.35	96.58%
5	2 Inch Residential	4	16,500	82.05	162.14	80.09	97.61%
6	Subtotal	5,797					
7							
8	5/8X3/4 Inch Commercial	97	5,000 \$	13.91 \$	27.69	13.78	99.07%
9	1 Inch Commercial	43	8,000	30.70	60.57	29.87	97.28%
10	1 1/2 Inch Commercial	10	32,500	92.45	183.55	91.10	98.54%
11	2 Inch Commercial	33	30,000	105.00	209.12	104.12	99.16%
12	3 Inch Commercial	13	7,000	117.30	233.80	116.50	99.32%
13	4 Inch Commercial	5	210,000	561.10	1,078.05	516.95	92.13%
14	6 Inch Commercial	1	511,000	1,267.15	2,537.18	1,270.03	100.23%
15	Subtotal	202					
16							
17	5/8X3/4 Inch Multi-family	10	9,000 \$	20.71 \$	41.61	20.90	100.92%
18	1 1/2 Inch Multi-family	1	8,500	49.15	95.03	45.88	93.35%
19	Subtotal	11					
20							
21	Fire Lines up to 8 Inch	15	- \$	6.48 \$	13.00	6.52	100.62%
22							
23							
24	Total	6,025					

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Rio Rico Utilities, Inc. - Water Division
 Test Year Ended December 31, 2008
 Present and Proposed Rates

Exhibit
 Rejoinder Schedule H-3
 Page 1
 Witness: Bourassa

Line No.	Monthly Usage Charge for: Meter Size (All Classes):	Present Rates	Proposed Rates	Change	Percent Change
1	5/8 Inch	\$ 6.45	\$ 13.09	\$ 6.64	102.95%
2	3/4 Inch	9.65	19.64	9.99	103.47%
3	1 Inch	17.10	32.73	15.63	91.37%
4	1 1/2 Inch	34.70	65.45	30.75	88.62%
5	2 Inch	54.00	104.72	50.72	93.93%
6	3 Inch	105.40	209.44	104.04	98.71%
7	4 Inch	173.50	327.25	153.75	88.62%
8	6 Inch	321.25	654.50	333.25	103.74%
9	8 Inch	514.00	1,047.20	533.20	103.74%
10	10 Inch	745.30	1,505.35	760.05	101.98%
11	12 Inch	1,395.00	1,963.50	568.50	40.75%
12					
13	Fire Lines up to 8 Inch	\$ 6.48	\$ 13.00	6.52	100.62%
14	Fire Lines 10 Inch	\$ 7.45	\$ 15.00	7.55	101.34%
15	Fire Lines 12 Inch	\$ 14.00	\$ 30.00	16.00	114.29%
16					
17					
18	<u>Gallons In Minimum (All Zones and Classes)</u>				
19					
20					
21	<u>Commodity Rates</u>				
22	<u>(All Classes)</u>				
23					
24	5/8 Inch				
25	0 gallons to 4,000 gallons	\$ 1.44	\$ 1.44	\$ 2.78	
26	4,001 gallons to 10,000 gallons	\$ 1.70	\$ 1.70	\$ 3.48	
27	over 10,000 gallons	\$ 1.90	\$ 1.90	\$ 3.88	
28					
29	3/4 Inch Meter				
30	0 gallons to 6,000 gallons	\$ 1.70	\$ 1.70	\$ 3.48	
31	over 6,000 gallons	\$ 1.90	\$ 1.90	\$ 3.88	
32					
33					
34					
35					
36					
37	NT = No Tariff				
38					

Rio Rico Utilities, Inc. - Water Division
 Test Year Ended December 31, 2008
 Present and Proposed Rates

Line No.	Commodity Rates (All Classes)	(Per 1,000 gallons)	
		Present Rate	Proposed Rate
1			
2			
3	1 Inch Meter		
4	0 gallons to 15,000 gallons	\$ 1.70	\$ 3.48
5	over 15,000 gallons	\$ 1.90	\$ 3.88
6			
7			
8	1.5 Inch Meter		
9	0 gallons to 20,000 gallons	\$ 1.70	\$ 3.48
10	over 20,000 gallons	\$ 1.90	\$ 3.88
11			
12	2 Inch Meter		
13	0 gallons to 50,000 gallons	\$ 1.70	\$ 3.48
14	over 50,000 gallons	\$ 1.90	\$ 3.88
15			
16	3 Inch Meter		
17	0 gallons to 80,000 gallons	\$ 1.70	\$ 3.48
18	over 80,000 gallons	\$ 1.90	\$ 3.88
19			
20	4 Inch Meter		
21	0 gallons to 160,000 gallons	\$ 1.70	\$ 3.48
22	over 160,000 gallons	\$ 1.90	\$ 3.88
23			
24	6 Inch Meter		
25	0 gallons to 250,000 gallons	\$ 1.70	\$ 3.48
26	over 250,000 gallons	\$ 1.90	\$ 3.88
27			
28	8 Inch Meter		
29	0 gallons to 500,000 gallons	\$ 1.70	\$ 3.48
30	over 500,000 gallons	\$ 1.90	\$ 3.88
31			
32	10 Inch Meter		
33	0 gallons to 800,000 gallons	\$ 1.70	\$ 3.48
34	over 800,000 gallons	\$ 1.90	\$ 3.88
35			
36	12 Inch Meter		
37	0 gallons to 1,150,000 gallons	\$ 1.70	\$ 3.48
38	over 1,150,000 gallons	\$ 1.90	\$ 3.88
39	NT = No Tariff		

Rio Rico Utilities, Inc. - Water Division
 Changes in Representative Rate Schedules
 Test Year Ended December 31, 2008

Exhibit
 Rejoinder Schedule H-3
 Page 3
 Witness: Bourassa

Line No.	<u>Other Service Charges</u>	Present Rates	Proposed Rates
1	Establishment	\$ 15.00	\$ 15.00
2	Establishment (After Hours)	\$ 25.00	\$ 25.00
3	Reconnection (Delinquent)	\$ 15.00	\$ 15.00
4	Reconnection (Delinquent) - After Hours	\$ 25.00	\$ 25.00
5	Meter test (If Correct)	\$ 15.00	\$ 15.00
6	Deposit	*	*
7	Deposit Interest	**	**
8	Reestablishment (within 12 months)	***	***
9	NSF Check	\$ 15.00	\$ 15.00
10	Meter Reread (if Correct)	NT	\$ 20.00
11	Late Payment Penalty	NT	1.5% per month
12	Deferred Payment	NT	1.5% per month
13	Moving meter at customer request	NT	at Cost
14	Service Calls - Per Hour/After Hours(a)	NT	\$ 40.00
15			
16			
17			
18			
19			
20			
21	* Per Commission Rule A.A.C. R-14-2-403(B)		
22	** Per Commission Rule A.A.C. R-14-2-403(B)		
23	*** Per Commission Rule A.A.C. R14-2-403(D) - Months off the system times the monthly minimum.		
24			
25	(a) No charge for service calls during normal working hours.		
26			
27	IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM		
28	ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE		
29	TAX. PER COMMISSION RULE 14-2-409D(5).		
30			
31			
32			
33			
34			

Rio Rico Utilities, Inc. - Water Division
 Test Year Ended December 31, 2008
 Meter and Service Line Charges

Exhibit
 Rejoinder Schedule H-3
 Page 4
 Witness: Bourassa

Line No.		Present Service Line Charge	Present Meter Install- ation Charge	Total Present Charge	Proposed Service Line Charge	Proposed Meter Install- ation Charge	Total Proposed Charge
1							
2	<u>Refundable Meter and Service Line Charges</u>						
3							
4							
5							
6							
7							
8							
9	5/8 x 3/4 Inch	\$ 370.00	\$ 130.00	\$ 500.00	At Cost	At Cost	At Cost
10	3/4 Inch	370.00	205.00	575.00	At Cost	At Cost	At Cost
11	1 Inch	420.00	240.00	660.00	At Cost	At Cost	At Cost
12	1 1/2 Inch	450.00	450.00	900.00	At Cost	At Cost	At Cost
13	2 Inch	580.00	1,640.00	2,220.00	At Cost	At Cost	At Cost
14	3 Inch	765.00	2,195.00	2,960.00	At Cost	At Cost	At Cost
15	4 Inch	1,120.00	3,145.00	4,265.00	At Cost	At Cost	At Cost
16	6 inch	1,630.00	6,120.00	7,750.00	At Cost	At Cost	At Cost
17	8 Inch			At Cost	At Cost	At Cost	At Cost
18	10 Inch			At Cost	At Cost	At Cost	At Cost
19	12 Inch			At Cost	At Cost	At Cost	At Cost
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							
31							
32							
33							
34							
35							

Rio Rico Utilities, Inc. - Water Division
Test Year Ended December 31, 2008
Hook-Up Fees

Exhibit
Rejoinder Schedule H-3
Page 5
Witness: Bourassa

Line

No.

1

2 **Off-site Facilities Hook-up Fee**

3

4

Present
Charge

Proposed
Charge

5

6 5/8 x 3/4 Inch

NT

\$ 1,800

7 3/4 Inch

NT

2,700

8 1 Inch

NT

4,500

9 1 1/2 Inch

NT

9,000

10 2 Inch

NT

14,400

11 3 Inch

NT

28,800

12 4 Inch

NT

45,000

13 6 Inch or larger

NT

90,000

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29 NT = no tariff

30

31

32

33

34

35

36

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

THOMAS J. BOURASSA
REJOINDER TESTIMONY
(RATE BASE)
March 9, 2010

SCHEDULES
(Sewer Division)

Rio Rico Utilities - Wastewater Division
 Test Year Ended December 31, 2008
 Computation of Increase in Gross Revenue
 Requirements As Adjusted

Exhibit
 Rejoinder Schedule A-1
 Page 1
 Witness: Bourassa

Line

No.

1	Fair Value Rate Base			\$	3,323,449	
2						
3	Adjusted Operating Income				471,360	
4						
5	Current Rate of Return				14.18%	
6						
7	Required Operating Income			\$	388,844	
8						
9	Required Rate of Return on Fair Value Rate Base				11.70%	
10						
11	Operating Income Deficiency			\$	(82,516)	
12						
13	Gross Revenue Conversion Factor				1.6286	
14						
15	Increase in Gross Revenue Revenue Requirement			\$	(134,389)	
16						
17	Adjusted Test Year Revenues			\$	1,829,976	
18	Increase in Gross Revenue Revenue Requirement			\$	(134,389)	
19	Proposed Revenue Requirement			\$	1,695,587	
20	% Increase				-7.34%	
21						
22	Customer		Present		Proposed	Dollar
23	Classification		Rates		Rates	Increase
24	5/8 Inch Residential	\$	1,287,713	\$	1,193,710	\$ (94,003)
25	3/4 Inch Residential		6,298		5,839	(460)
26	1 Inch Residential		8,258		7,655	(603)
27	1.5 Inch Residential		-		-	-
28	2 Inch Residential		1,951		1,809	(142)
29						
30	Subtotal	\$	1,304,221	\$	1,209,013	\$ (95,208)
31						
32	5/8 Inch Commercial	\$	78,006	\$	72,312	\$ (5,694)
33	1 Inch Commercial		61,192		56,725	(4,467)
34	1.5 Inch Commercial		27,159		25,176	(1,983)
35	2 Inch Commercial		178,576		165,540	(13,036)
36	3 Inch Commercial		7,911		7,333	(577)
37	4 Inch Commercial		111,601		103,454	(8,147)
38	6 Inch Commercial		53,582		49,671	(3,912)
39						
40	Subtotal	\$	518,027	\$	480,211	\$ (37,816)
41						-
42						0.00%
43	5/8 Inch Multi-tenant	\$	9,384	\$	8,699	\$ (685)
44	1.5 Inch Multi-tenant		1,510		1,399	(110)
45			-		-	-
46	Subtotal	\$	10,893	\$	10,098	\$ (795)
47						
48						0.00%
49	Subtotal Revenues before Annualization	\$	1,833,141	\$	1,699,322	\$ (133,819)
50	Revenue Annualization		(4,505)		(4,176)	329
51	Miscellaneous Revenues		250		250	-
52	Reconciling Amount H-1 to C-1		1,090		192	(898)
53	Total of Water Revenues (a)	\$	1,829,976	\$	1,695,587	\$ (134,388)

SUPPORTING SCHEDULES:

56 Rejoinder B-1
 57 Rejoinder C-1
 58 Rejoinder C-3
 59 Rejoinder H-1

60

Rio Rico Utilities - Wastewater Division
 Test Year Ended December 31, 2008
 Summary of Rate Base

Exhibit
 Rejoinder Schedule B-1
 Page 1
 Witness: Bourassa

Line No.	<u>Original Cost</u> <u>Rate base</u>	<u>Fair Value</u> <u>Rate Base</u>
1		
2	\$ 11,829,043	\$ 11,829,043
3	Less: Accumulated Depreciation	5,110,028
4	<hr/>	<hr/>
5	Net Utility Plant in Service	\$ 6,719,014
6		
7	<u>Less:</u>	
8	Advances in Aid of	
9	Construction	237,922
10	Contributions in Aid of	
11	Construction	5,137,673
12	Accumulated Amortization of CIAC	(1,944,057)
13		
14	Refundable Service Line Chgs	95,000
15	Deferred Income Taxes & Credits	(130,973)
16		-
17		
18		
19	<u>Plus:</u>	
20	Unamortized Finance	
21	Charges	-
22		
23	Allowance for Working Capital	-
24		
25		
26	Total Rate Base	<hr/>
27	\$ 3,323,449	\$ 3,323,449
28		
29		
30	<u>SUPPORTING SCHEDULES:</u>	
31	Rejoinder B-2	
32	Rejoinder B-3	
33	Rejoinder B-5	
34		
35		

Rio Rico Utilities - Wastewater Division
 Test Year Ended December 31, 2008
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Rejoinder Schedule B-2
 Page 1
 Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustments Amount	Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	\$ 11,829,043	-	\$ 11,829,043
3				
4	Less:			
5	Accumulated			
6	Depreciation	5,110,028	-	5,110,028
7		<hr/>		<hr/>
8				
9	Net Utility Plant			
10	in Service	\$ 6,719,014		\$ 6,719,014
11				
12	Less:			
13	Advances in Aid of			
14	Construction	(861)	238,783	237,922
15				
16	Contributions in Aid of			
17	Construction (CIAC)	5,376,456	(238,783)	5,137,673
18				
19	Accumulated Amortization of CIAC	(1,944,057)	-	(1,944,057)
20				
21	Refundable Service Line Chgs	95,000	-	95,000
22	Deferred Income Taxes	(323,602)	192,629	(130,973)
23				
24				
25	Plus:			
26	Unamortized Finance			
27	Charges	-	-	-
28				
29	Allowance for Working Capital	-	-	-
30				
31	Total	<u>\$ 3,516,078</u>		<u>\$ 3,323,449</u>

SUPPORTING SCHEDULES:
 Rejoinder B-2, page 2

RECAP SCHEDULES:
 Rejoinder B-1

32
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 44

Rio Rico Utilities - Wastewater Division
 Test Year Ended December 31, 2008
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Rejoinder Schedule B-2
 Page 2
 Witness: Bourassa

Line No.	Adjusted at End of Test Year	1	Plant-in-Service	2	Accumulated Depreciation	3	AIAC/CIAC	4	DIT	Rejoinder Adjusted at end of Test Year
1	Gross Utility Plant in Service	\$ 11,829,043	-							\$ 11,829,043
4	Less: Accumulated Depreciation	5,110,028								5,110,028
9	Net Utility Plant in Service	\$ 6,719,014	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,719,014
13	Less: Advances in Aid of Construction	(861)				238,783				237,922
17	Contributions in Aid of Construction (CIAC)	5,376,456				(238,783)				5,137,673
19	Accumulated Amort of CIAC	(1,944,057)								(1,944,057)
21	Refundable Service Line Chgs	95,000								95,000
22	Deferred Income Taxes	(323,602)						192,629		(130,973)
25	Plus: Unamortized Finance Charges	-								-
29	Allowance for Working Capital	-								-
31	Total	\$ 3,516,078	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (192,629)		\$ 3,323,449

SUPPORTING SCHEDULES:
 Rejoinder B-2, pages 3-6

Rio Rico - Wastewater Division
 Plant Additions and Retirements

Exhibit
 Rejoinder Schedule B-2
 Page 3.1

Account No.	Description	Deprec.	Deprec.	Plant AI 12/31/2002	2002 Accum. Depr.	2003 Plant Additions	2003 Plant Adjustments	2003 Adjusted Plant Additions	2003 Plant Retirements	2003 Salvage A/D Only	2003 Plant Balance	2003 Deprec.
		Rate Before Oct-04	Rate After Oct-04									
351	Organization	0.00%	0.00%	5,785	-	-	-	-	-	-	5,785	-
352	Franchises	0.00%	0.00%	417	-	-	-	-	-	-	417	-
353	Land	0.00%	0.00%	7,545	-	-	-	-	-	-	7,545	-
354	Structures & Improvements	5.15%	3.33%	28,548	20,590	-	-	-	-	-	28,548	1,470
355	Power Generation	5.00%	5.00%	-	-	-	-	-	-	-	-	-
360	Collection Sewer Forced	2.06%	2.00%	355,144	(99,427)	295,950	-	295,950	(13,062)	-	638,032	10,364
361	Collection Sewers Gravity	2.03%	2.00%	4,387,284	1,584,087	5,247	-	5,247	(6,745)	-	4,385,786	89,115
362	Special Collecting Structures	3.31%	2.00%	-	-	-	-	-	-	-	-	-
363	Customer Services	3.04%	2.00%	-	-	-	-	-	-	-	-	-
364	Flow Measuring Devices	5.03%	10.00%	1,085,957	441,720	7,742	-	7,742	-	-	1,093,699	33,131
365	Flow Measuring Installation	5.03%	10.00%	36,057	10,881	-	-	-	-	-	36,057	1,814
366	Reuse Services	5.03%	2.00%	-	-	-	-	-	-	-	-	-
367	Reuse Meters And Installation	8.33%	2.00%	-	-	-	-	-	-	-	-	-
370	Receiving Wells	3.96%	3.33%	982,546	48,548	-	-	-	-	-	982,546	39,305
371	Pumping Equipment	5.27%	12.50%	1,593,905	309,912	-	-	-	-	-	1,593,905	83,999
374	Reuse Distribution Reservoirs	2.50%	2.50%	-	-	-	-	-	-	-	-	-
375	Reuse Trans. and Dist. System	2.50%	2.50%	-	-	-	-	-	-	-	-	-
380	Treatment & Disposal Equipment	5.26%	5.00%	972,166	367,586	-	-	-	-	-	972,166	51,136
381	Plant Sewers	2.00%	5.00%	-	-	-	-	-	-	-	-	-
382	Outfall Sewer Lines	1.66%	3.33%	-	-	-	-	-	-	-	-	-
389	Other Sewer Plant & Equipment	5.30%	6.67%	71,243	38,620	-	-	-	-	-	71,243	3,776
390	Office Furniture & Equipment	2.00%	6.67%	5,514	2,587	-	-	-	-	-	5,514	110
390.1	Computers and Software	4.80%	20.00%	4,025	2,790	-	-	-	-	-	4,025	193
391	Transportation Equipment	33.33%	20.00%	-	-	-	-	-	-	-	-	-
392	Stores Equipment	4.00%	4.00%	-	-	-	-	-	-	-	-	-
393	Tools, Shop And Garage Equip	4.76%	5.00%	4,015	2,771	-	-	-	-	-	4,015	191
394	Laboratory Equip	2.56%	10.00%	-	-	-	-	-	-	-	-	-
396	Communication Equip	5.03%	10.00%	5,936	4,224	-	-	-	-	-	5,936	299
398	Other Tangible Plant	5.13%	4.00%	3,913	1,798	-	-	-	-	-	3,913	201
398	Nogales WW Trmnt Capacity	5.00%	5.00%	-	-	1	-	-	-	-	-	(1)
	Rounding			-	-	-	-	-	-	-	-	-
	Plant Held for Future Use			-	-	-	-	-	-	-	-	-
	TOTAL WASTEWATER PLANT			9,560,000	2,736,688	308,939	-	308,939	(19,807)	-	9,849,132	315,102

Rio Rico - Wastewater Division
Plant Additions and Retirements

Exhibit
Remainder Schedule B-2
Page 3.2

Account No.	Description	Deprec.	Deprec.	2004		2004		2004		2004 Plant Balance	2004 Deprac.
		Rate Before Oct-04	Rate After Oct-04	Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Salvage/Adj. A/D Only			
351	Organization	0.00%	0.00%	-	-	-	-	-	-	5,785	-
352	Franchises	0.00%	0.00%	-	-	-	-	-	-	417	-
353	Land	0.00%	0.00%	-	-	-	-	-	-	7,545	-
354	Structures & Improvements	5.15%	3.33%	-	-	-	-	-	-	28,548	1,340
355	Power Generation	-	5.00%	-	-	-	-	-	-	-	-
360	Collection Sewer Forced	2.06%	2.00%	(4,971)	-	(4,971)	-	-	-	633,061	12,997
361	Collection Sewers Gravity	2.03%	2.00%	100,106	-	100,106	-	-	-	4,485,892	88,715
362	Special Collecting Structures	3.31%	2.00%	-	-	-	-	-	-	-	-
363	Customer Services	3.04%	2.00%	20,057	-	20,057	-	-	-	1,113,756	30,684
364	Flow Measuring Devices	5.03%	10.00%	-	-	-	-	-	-	36,057	2,262
365	Flow Measuring Installation	5.03%	10.00%	-	-	-	-	-	-	-	-
366	Reuse Services	5.03%	2.00%	-	-	-	-	-	-	-	-
367	Reuse Meters And Installation	-	8.33%	-	-	-	-	-	-	-	-
370	Receiving Wells	3.96%	3.33%	(125,426)	-	(125,426)	-	-	-	867,120	35,357
371	Pumping Equipment	5.27%	12.50%	(94,296)	-	(94,296)	-	-	-	1,499,609	109,472
374	Reuse Distribution Reservoirs	-	2.50%	-	-	-	-	-	-	-	-
375	Reuse Trans. and Dist. System	-	2.50%	-	-	-	-	-	-	972,166	50,504
380	Treatment & Disposal Equipment	5.26%	5.00%	-	-	-	-	-	-	-	-
381	Plant Sewers	2.00%	5.00%	-	-	-	-	-	-	-	-
382	Outfall Sewer Lines	1.66%	3.33%	-	-	-	-	-	-	-	-
389	Other Sewer Plant & Equipment	5.30%	6.67%	-	-	-	-	-	-	71,243	4,020
390	Office Furniture & Equipment	2.00%	6.67%	-	-	-	-	-	-	5,514	175
390.1	Computers and Software	4.80%	20.00%	-	-	-	-	-	-	4,025	346
391	Transportation Equipment	33.33%	20.00%	-	-	-	-	-	-	-	-
392	Stores Equipment	-	4.00%	-	-	-	-	-	-	-	-
393	Tools, Shop And Garage Equip	4.76%	5.00%	882	-	882	-	-	-	4,897	215
394	Laboratory Equip	2.56%	10.00%	-	-	-	-	-	-	-	-
396	Communication Equip	5.03%	10.00%	-	-	-	-	-	-	5,936	372
398	Other Tangible Plant	5.13%	4.00%	-	-	-	-	-	-	3,913	190
398	Nogales WW Trmnt Capacity Rounding	-	5.00%	-	-	-	-	-	-	-	-
	Plant Held for Future Use										
	TOTAL WASTEWATER PLANT			(103,647)	-	(103,647)	-	-	-	9,745,484	337,648

Rio Rico - Wastewater Division
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.3

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2005 Plant Additions	2005 Plant Adjustments ¹	2005 Adjusted Plant Additions	2005 Plant Retirements	2005 Salvage A/D Only	2005 Plant Balance	2005 Deprec.
351	Organization	0.00%	0.00%	-	-	-	-	-	5,785	-
352	Franchises	0.00%	0.00%	-	-	-	-	-	417	-
353	Land	0.00%	0.00%	-	-	-	-	-	7,545	-
354	Structures & Improvements	5.15%	3.33%	-	-	-	-	-	28,548	951
355	Power Generation	5.00%	5.00%	-	-	-	-	-	-	-
360	Collection Sewer Forced	2.06%	2.00%	-	-	-	-	-	633,061	12,661
361	Collection Sewers Gravity	2.03%	2.00%	1,331,572	-	1,331,572	-	-	5,817,464	103,034
362	Special Collecting Structures	3.31%	2.00%	-	-	-	-	-	-	-
363	Customer Services	3.04%	2.00%	2,293	-	2,293	-	-	1,116,049	22,298
364	Flow Measuring Devices	5.03%	10.00%	-	-	-	-	-	36,057	3,606
365	Flow Measuring Installation	5.03%	10.00%	-	-	-	-	-	-	-
366	Reuse Meters And Installation	5.03%	2.00%	-	-	-	-	-	-	-
367	Reuse Meters And Installation	8.33%	8.33%	-	-	-	-	-	-	-
370	Receiving Wells	3.96%	3.33%	-	-	-	-	-	867,120	28,875
371	Pumping Equipment	5.27%	12.50%	27,078	-	27,078	(22,506)	-	1,504,181	187,737
374	Reuse Distribution Reservoirs	-	2.50%	-	-	-	-	-	-	-
375	Reuse Trans. and Dist. System	-	2.50%	-	-	-	-	-	-	-
380	Treatment & Disposal Equipment	5.26%	5.00%	-	-	-	-	-	972,166	48,608
381	Plant Sewers	2.00%	5.00%	-	-	-	-	-	-	-
382	Outfall Sewer Lines	1.66%	3.33%	-	-	-	-	-	-	-
389	Other Sewer Plant & Equipment	5.30%	6.67%	-	-	-	-	-	71,243	4,752
390	Office Furniture & Equipment	2.00%	6.67%	-	-	-	-	-	5,514	368
390.1	Computers and Software	4.80%	20.00%	-	-	-	-	-	4,025	696
391	Transportation Equipment	33.33%	20.00%	-	-	-	-	-	-	-
392	Stores Equipment	-	4.00%	-	-	-	-	-	-	-
393	Tools, Shop And Garage Equip	4.76%	5.00%	-	-	-	-	-	4,897	245
394	Laboratory Equip	2.56%	10.00%	-	-	-	-	-	-	-
396	Communication Equip	5.03%	10.00%	-	-	-	-	-	5,936	594
398	Other Tangible Plant	5.13%	4.00%	-	-	-	-	-	3,913	157
398	Nogales WW Trmnt Capacity Rounding	-	5.00%	-	-	-	-	-	-	-
Plant Held for Future Use										
TOTAL WASTEWATER PLANT										
				1,360,942	-	1,360,942	(22,506)	-	11,083,921	414,580

¹ Affiliate Profit

Rio Rico - Wastewater Division
Plant Additions and Retirements

Exhibit
 Rejoinder Schedule B-2
 Page 3.4

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2006 Plant Additions	2006 Plant Adjustments ¹	2006 Adjusted Plant Additions	2006 Plant Retirements	2006 Salvage A/D Only	2006 Plant Balance	2006 Deprec.
351	Organization	0.00%	0.00%	-	-	-	-	-	5,785	-
352	Franchises	0.00%	0.00%	-	-	-	-	-	417	-
353	Land	0.00%	0.00%	-	-	-	-	-	7,545	-
354	Structures & Improvements	5.15%	3.33%	-	-	-	-	-	28,548	951
355	Power Generation	-	5.00%	-	-	-	-	-	-	-
360	Collection Sewer Forced	2.06%	2.00%	1,147	-	1,147	-	-	634,208	12,673
361	Collection Sewers Gravity	2.03%	2.00%	100,371	-	100,371	-	-	5,917,835	117,353
362	Special Collecting Structures	3.31%	2.00%	-	-	-	-	-	-	-
363	Customer Services	3.04%	2.00%	-	-	-	-	-	-	-
364	Flow Measuring Devices	5.03%	10.00%	12,716	-	12,716	-	-	1,128,765	22,448
365	Flow Measuring Installation	5.03%	10.00%	-	-	-	-	-	36,057	3,606
366	Reuse Services	5.03%	2.00%	-	-	-	-	-	-	-
367	Reuse Meters And Installation	5.03%	2.00%	-	-	-	-	-	-	-
370	Receiving Wells	3.96%	3.33%	-	-	-	-	-	-	-
371	Pumping Equipment	5.27%	12.50%	-	-	-	-	-	867,120	28,875
374	Reuse Distribution Reservoirs	-	2.50%	-	-	-	-	-	1,504,181	188,023
375	Reuse Trans. and Dist. System	-	2.50%	-	-	-	-	-	-	-
380	Treatment & Disposal Equipment	-	5.00%	-	-	-	-	-	972,166	48,608
381	Plant Sewers	2.00%	5.00%	-	-	-	-	-	-	-
382	Outfall Sewer Lines	1.66%	3.33%	-	-	-	-	-	-	-
389	Other Sewer Plant & Equipment	5.30%	6.67%	-	-	-	-	-	71,243	4,752
390	Office Furniture & Equipment	2.00%	6.67%	864	-	864	-	-	6,378	397
390.1	Computers and Software	4.80%	20.00%	-	-	-	-	-	4,025	-
391	Transportation Equipment	33.33%	20.00%	-	-	-	-	-	-	-
392	Stores Equipment	-	4.00%	-	-	-	-	-	-	-
393	Tools, Shop And Garage Equip	4.76%	5.00%	-	-	-	-	-	4,897	245
394	Laboratory Equip	2.56%	10.00%	-	-	-	-	-	-	-
396	Communication Equip	5.03%	10.00%	-	-	-	-	-	5,936	447
398	Other Tangible Plant	5.13%	4.00%	-	-	-	-	-	3,913	157
398	Nogales WW Trmnt Capacity Rounding	-	5.00%	427,000	-	427,000	-	-	427,000	10,675
Plant Held for Future Use										
TOTAL WASTEWATER PLANT										
				542,089	-	542,089	-	-	11,825,019	439,209

¹ Affiliate Profit

El Paso - Wastewater Division
 Plant Additions and Retirements

Exhibit
 Rejoinder Schedule B-2
 Page 3.5

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2007 Plant Additions	2007 Plant Adjustments ¹	2007 Adjusted Plant Additions	2007 Plant Retirements	2007 Salvage A/D Only	2007 Plant Balance	2007 Deprec.
351	Organization	0.00%	0.00%	-	-	-	-	-	5,785	-
352	Franchises	0.00%	0.00%	-	-	-	-	-	417	-
353	Land	0.00%	0.00%	-	-	-	-	-	7,545	-
354	Structures & Improvements	5.15%	3.33%	-	-	-	-	-	28,548	951
355	Power Generation	2.06%	5.00%	1,815	-	1,815	-	-	-	-
360	Collection Sewer Forced	2.03%	2.00%	-	-	-	-	-	636,023	12,702
361	Collection Sewers Gravity	3.31%	2.00%	-	-	-	-	-	5,917,835	118,357
362	Special Collecting Structures	3.04%	2.00%	12,881	(16)	12,865	-	-	-	-
363	Customer Services	5.03%	10.00%	6,667	-	6,667	-	-	1,141,630	22,704
364	Flow Measuring Devices	5.03%	10.00%	-	-	-	-	-	42,725	3,939
365	Flow Measuring Installation	5.03%	10.00%	-	-	-	-	-	-	-
366	Reuse Services	5.03%	2.00%	-	-	-	-	-	-	-
367	Reuse Meters And Installation	8.33%	8.33%	-	-	-	-	-	-	-
370	Receiving Wells	3.96%	3.33%	-	-	-	-	-	867,120	28,875
371	Pumping Equipment	5.27%	12.50%	-	-	-	-	-	1,504,181	188,023
374	Reuse Distribution Reservoirs	-	2.50%	-	-	-	-	-	-	-
375	Reuse Trans. and Dist. System	-	2.50%	-	-	-	-	-	-	-
380	Treatment & Disposal Equipment	5.26%	5.00%	25,125	-	25,125	-	-	987,291	49,236
381	Plant Sewers	2.00%	5.00%	-	-	-	-	-	-	-
382	Outfall Sewer Lines	1.66%	3.33%	-	-	-	-	-	-	-
389	Other Sewer Plant & Equipment	5.30%	6.67%	-	(1,509)	(1,509)	-	-	69,734	4,702
390	Office Furniture & Equipment	2.00%	6.67%	938	-	938	-	-	7,315	457
390.1	Computers and Software	4.80%	20.00%	-	-	-	-	-	4,025	-
391	Transportation Equipment	33.33%	20.00%	-	-	-	-	-	-	-
392	Stores Equipment	-	4.00%	-	-	-	-	-	-	-
393	Tools, Shop And Garage Equip	4.76%	5.00%	-	-	-	-	-	4,897	245
394	Laboratory Equip	2.56%	10.00%	-	-	-	-	-	-	-
396	Communication Equip	5.03%	10.00%	-	-	-	-	-	5,936	-
398	Other Tangible Plant	5.13%	4.00%	-	-	-	-	-	3,913	157
398	Nogales WW Trmnt Capacity Rounding	5.00%	5.00%	-	-	-	-	-	427,000	21,350
	Plant Held for Future Use			47,426	(1,525)	45,901	-	-	11,671,920	451,696
	TOTAL WASTEWATER PLANT									

¹ Affiliate Profit

Rio Rico - Wastewater Division
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.6

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2008 Plant Additions	2008 Plant Adjustments	2008 Plant Adjustments ¹	2008 Adjusted Plant	2008 Plant Retirements	2008 Salvage A/D Only	2008 Plant Balance	2008 Deprec.
351	Organization	0.00%	0.00%	-	-	-	-	-	-	5,785	-
352	Franchises	0.00%	0.00%	-	-	-	-	-	-	417	-
353	Land	0.00%	0.00%	-	-	-	-	-	-	7,545	-
354	Structures & Improvements	5.15%	3.33%	-	-	-	-	-	-	28,548	951
355	Power Generation	2.06%	2.00%	-	-	-	-	-	-	636,023	12,720
360	Collection Sewer Forced	2.03%	2.00%	27,713	415	-	28,127	-	-	5,945,962	118,638
361	Collection Sewers Gravity	3.31%	2.00%	-	-	-	-	-	-	-	-
362	Special Collecting Structures	3.04%	2.00%	3,900	-	-	3,900	-	-	1,145,530	22,872
363	Customer Services	5.03%	10.00%	3,447	9,818	-	13,264	-	-	55,989	4,936
364	Flow Measuring Devices	5.03%	10.00%	-	-	-	-	-	-	-	-
365	Flow Measuring Installation	5.03%	2.00%	-	-	-	-	-	-	-	-
366	Reuse Services	5.03%	2.00%	-	-	-	-	-	-	-	-
367	Reuse Meters And Installation	3.96%	8.33%	-	-	-	-	-	-	867,120	28,875
370	Receiving Wells	5.27%	3.33%	-	-	-	-	-	-	1,504,181	188,023
371	Pumping Equipment	-	12.50%	-	-	-	-	-	-	-	-
374	Reuse Distribution Reservoirs	-	2.50%	-	-	-	-	-	-	-	-
375	Reuse Trans. and Dist. System	-	2.50%	-	-	-	-	-	-	-	-
380	Treatment & Disposal Equipment	5.26%	5.00%	9,557	-	-	9,557	-	-	1,006,848	50,103
381	Plant Sewers	2.00%	5.00%	-	-	-	-	-	-	-	-
382	Outfall Sewer Lines	1.66%	3.33%	-	-	-	-	-	-	-	-
389	Other Sewer Plant & Equipment	5.30%	6.67%	150	1,697	(2,712)	(865)	-	-	68,869	4,622
390	Office Furniture & Equipment	2.00%	6.67%	103,139	-	-	103,139	-	-	110,454	3,928
390.1	Computers and Software	4.80%	20.00%	-	-	-	-	-	-	4,025	-
391	Transportation Equipment	33.33%	20.00%	-	-	-	-	-	-	-	-
392	Stores Equipment	-	4.00%	-	-	-	-	-	-	-	-
393	Tools, Shop And Garage Equip	4.76%	5.00%	-	-	-	-	-	-	4,897	245
394	Laboratory Equip	2.56%	10.00%	-	-	-	-	-	-	5,936	-
396	Communication Equip	5.03%	10.00%	-	-	-	-	-	-	3,913	157
398	Other Tangible Plant	5.13%	4.00%	-	-	-	-	-	-	427,000	21,350
398	Nogales WW Trmnt Capacity Rounding	-	5.00%	-	-	-	-	-	-	-	-
Plant Held for Future Use											
TOTAL WASTEWATER PLANT											
				147,905	11,929	(2,712)	157,122	-	-	11,829,042	457,419

¹ Affiliate Profit

Rio Rico - Wastewater Division
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.7

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	Year End Accumulated Depreciation by Account												
				2002	2003	2004	2005	2006	2007	2008						
351	Organization	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
352	Franchises	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
353	Land	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
354	Structures & Improvements	5.15%	3.33%	20,590	22,060	23,401	24,351	25,302	26,252	27,203	-	-	-	-	-	-
355	Power Generation	2.06%	2.00%	(99,427)	(102,125)	(89,128)	(76,467)	(63,794)	(51,092)	(38,371)	-	-	-	-	-	-
360	Collection Sewer Forced	2.03%	2.00%	1,584,087	1,666,457	1,756,172	1,859,206	1,976,559	2,094,915	2,213,553	-	-	-	-	-	-
361	Collection Sewers Gravity	3.31%	2.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
362	Special Collecting Structures	3.04%	2.00%	441,720	474,851	505,534	527,832	550,281	572,985	595,656	-	-	-	-	-	-
363	Customer Services	5.03%	10.00%	10,881	12,695	14,956	18,562	22,168	26,107	31,043	-	-	-	-	-	-
364	Flow Measuring Devices	5.03%	10.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
365	Flow Measuring Installation	5.03%	10.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
366	Reuse Services	5.03%	2.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
367	Reuse Meters And Installation	5.03%	2.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
370	Receiving Wells	3.96%	3.33%	48,548	87,853	123,210	152,065	180,960	209,835	238,710	-	-	-	-	-	-
371	Pumping Equipment	5.27%	12.50%	309,912	393,911	503,383	668,613	856,636	1,044,658	1,232,681	-	-	-	-	-	-
374	Reuse Distribution Reservoirs	2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-	-	-
375	Reuse Trans. and Dist. System	2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-	-	-
380	Treatment & Disposal Equipment	5.26%	5.00%	367,586	418,722	469,226	517,834	566,443	615,679	665,783	-	-	-	-	-	-
381	Plant Sewers	2.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
382	Outfall Sewer Lines	1.66%	3.33%	-	-	-	-	-	-	-	-	-	-	-	-	-
389	Other Sewer Plant & Equipment	5.30%	6.67%	38,620	42,396	46,416	51,168	55,920	60,621	65,244	-	-	-	-	-	-
390	Office Furniture & Equipment	2.00%	6.67%	2,587	2,697	2,872	3,240	3,636	4,093	4,621	-	-	-	-	-	-
390.1	Computers and Software	4.80%	20.00%	2,790	2,983	3,329	4,025	4,025	4,025	4,025	-	-	-	-	-	-
391	Transportation Equipment	33.33%	20.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
392	Stores Equipment	4.00%	4.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
393	Tools, Shop And Garage Equip	4.76%	5.00%	2,771	2,962	3,177	3,422	3,667	3,911	4,156	-	-	-	-	-	-
394	Laboratory Equip	2.56%	10.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
396	Communication Equip	5.03%	10.00%	4,224	4,523	4,895	5,489	5,936	6,386	6,833	-	-	-	-	-	-
398	Other Tangible Plant	5.13%	4.00%	1,798	1,999	2,188	2,345	2,501	2,658	2,815	-	-	-	-	-	-
398	Nogales WW Trmnt Capacity	5.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-
398	Rounding	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-
				2,735,686	3,031,983	3,369,631	3,761,705	4,200,913	4,652,610	5,110,028						

Plant Held for Future Use
TOTAL WASTEWATER PLANT

Rio Rico Utilities - Wastewater Division
Test Year Ended December 31, 2008
Original Cost Rate Base Proforma Adjustments

Exhibit
Rejoinder Schedule B-2
Page 5
Witness: Bourassa

Line

No.

1 Reclassification of AIAC and CIAC

2

3

4 CIAC

\$ (238,783)

5

6 AIAC

\$ 238,783

7

8

9

10

11

12

13

14

15

16

17 See Testimony

18

19 SUPPORTING SCHEDULES

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Rio Rico Utilities - Wastewater Division
 Test Year Ended December 31, 2008
 Computation of Working Capital

Exhibit
 Rejoinder Schedule B-5
 Page 1
 Witness: Bourassa

Line
No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	80,466
3	Pumping Power (1/24 of Pumping Power)		3,791
4	Purchased Water (1/24 of Purchased Water)		-
5	Prepays		3,430
6	Materials & Supplies		-
7			
8			
9	Total Working Capital Allowance	<u>\$</u>	<u>87,686</u>
10			
11			
12	Working Capital Requested	<u>\$</u>	<u>-</u>
13			
14			

SUPPORTING SCHEDULES:

16 Rejoinder C-1
 17 E-1

RECAP SCHEDULES:

Rejoinder B-1

18			Adjusted
19	<u>Cash Working Capital Detail</u>		<u>Test Year Results</u>
20			
21	Total Operating Expense	\$	1,358,616
22	Less:		
23	Income Tax		296,313
24	Property Tax		90,986
25	Depreciation		262,162
26	Purchased Water		-
27	Pumping Power		65,431
28	Allowable Expenses		<u>643,724</u>
29	1/8 of allowable expenses	<u>\$</u>	<u>80,466</u>
30			

Rio Rico Utilities - Wastewater Division
 Test Year Ended December 31, 2008
 Income Statement

Exhibit
 Rejoinder Schedule C-1
 Page 1
 Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjustment	Rejoinder Test Year Adjusted Results	Proposed Rate Increase	Rejoinder Adjusted with Rate Increase
1	Revenues					
2	Flat Rate Revenues	\$ 1,829,726	\$ -	\$ 1,829,726	\$ (134,389)	\$ 1,695,337
3	Measured Revenues	-	-	-		-
4	Other Wastewater Revenues	250	-	250		250
5		<u>\$ 1,829,976</u>	<u>\$ -</u>	<u>\$ 1,829,976</u>	<u>\$ (134,389)</u>	<u>\$ 1,695,587</u>
6	Operating Expenses					
7	Salaries and Wages	\$ -	-	\$ -		\$ -
8	Purchased Water and WW Treatment	-	-	-		-
9	Sludge Removal Expense	-	-	-		-
10	Purchased Power	17,426	48,005	65,431		65,431
11	Fuel for Power Production	-	-	-		-
12	Chemicals	9,644	-	9,644		9,644
13	Materials and Supplies	14,304	-	14,304		14,304
14	Contractual Services	298,008	7,240	305,248		305,248
15	Contractual Services- Testing	-	-	-		-
16	Contractual Services - Other	175,196	-	175,196		175,196
17	Contractual Services - Legal	367	-	367		367
18	Equipment Rental	25,781	-	25,781		25,781
19	Rents - Building	-	-	-		-
20	Transportation Expenses	26,817	(2,242)	24,575		24,575
21	Insurance - General Liability	12,021	-	12,021		12,021
22	Insurance - Vehicle	-	-	-		-
23	Regulatory Commission Expense	994	-	994		994
24	Reg.Comm. Exp. - Rate Case	41,667	-	41,667		41,667
25	Miscellaneous Expense	155	-	155		155
26	Bad Debt Expense	64,087	(30,315)	33,772		33,772
27	Depreciation and Amortization	252,672	9,490	262,162		262,162
28	Taxes Other Than Income	-	-	-		-
29	Property Taxes	91,705	(719)	90,986		90,986
30	Income Tax	308,456	(12,143)	296,313	(51,873)	244,441
31				-		-
32	Total Operating Expenses	<u>\$ 1,339,300</u>	<u>\$ 19,316</u>	<u>\$ 1,358,616</u>	<u>\$ (51,873)</u>	<u>\$ 1,306,743</u>
33	Operating Income	<u>\$ 490,676</u>	<u>\$ (19,316)</u>	<u>\$ 471,360</u>	<u>\$ (82,516)</u>	<u>\$ 388,844</u>
34	Other Income (Expense)					
35	Interest Income	-		-		-
36	Other income	-		-		-
37	Interest Expense	-	8	-		-
38	Other Expense	-		-		-
39						
40	Total Other Income (Expense)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
41	Net Profit (Loss)	<u>\$ 490,676</u>	<u>\$ (19,316)</u>	<u>\$ 471,360</u>	<u>\$ (82,516)</u>	<u>\$ 388,844</u>

SUPPORTING SCHEDULES:
 Rejoinder C-1, page 2

RECAP SCHEDULES:
 Rejoinder A-1

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Rio Rico Utilities - Wastewater Division
 Test Year Ended December 31, 2008
 Income Statement

Exhibit
 Rejoinder Schedule C-1
 Page 2
 Witness: Bourassa

Line No.	1	2	3	4	5	6	7	Rejoinder Test Year Adjusted Results	Proposed Rate Increase	Rejoinder Adjusted with Rate Increase
Revenues										
1 Flat Rate Revenues	\$ 1,829,726							\$ 1,829,726	\$ (134,389)	\$ 1,695,337
2 Measured Revenues	250						250	250		250
3 Other Wastewater Revenues	\$ 1,829,976	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,829,976	\$ (134,389)	\$ (134,389)	\$ 1,695,587
Operating Expenses										
4 Salaries and Wages										
5 Purchased Water and WW Treatment										
6 Sludge Removal Expense										
7 Purchased Power	17,426		48,005				65,431	65,431		65,431
8 Fuel for Power Production										
9 Chemicals	9,644						9,644	9,644		9,644
10 Materials and Supplies	14,304					7,240	14,304	14,304		14,304
11 Contractual Services	298,008						305,248	305,248		305,248
12 Contractual Services - Testing										
13 Contractual Services - Other	175,196						175,196	175,196		175,196
14 Contractual Services - Legal	367						367	367		367
15 Equipment Rental	25,781						25,781	25,781		25,781
16 Rents - Building										
17 Transportation Expenses	26,817			(2,242)			24,575	24,575		24,575
18 Insurance - General Liability	12,021						12,021	12,021		12,021
19 Insurance - Vehicle										
20 Regulatory Commission Expense	994						994	994		994
21 Reg. Comm. Exp. - Rate Case	41,667						41,667	41,667		41,667
22 Miscellaneous Expense	155						155	155		155
23 Bad Debt Expense	64,087				(30,315)		33,772	33,772		33,772
24 Depreciation and Amortization	252,672	9,490					262,162	262,162		262,162
25 Taxes Other Than Income										
26 Property Taxes	91,705	(719)				(12,143)	90,986	90,986	(51,873)	244,441
27 Income Tax	308,456						296,313	296,313		296,313
Total Operating Expenses	\$ 1,339,300	\$ 9,490	\$ 48,005	\$ (2,242)	\$ (30,315)	\$ 7,240	\$ 1,358,616	\$ 1,358,616	\$ (51,873)	\$ 1,306,743
Operating Income	\$ 490,676	\$ (9,490)	\$ 719	\$ 2,242	\$ 30,315	\$ (7,240)	\$ 471,360	\$ 471,360	\$ (82,516)	\$ 388,844
Other Income (Expense)										
28 Interest Income										
29 Other Income										
30 Interest Expense										
31 Other Expense										
Total Other Income (Expense)										
Net Profit (Loss)	\$ 490,676	\$ (9,490)	\$ 719	\$ 2,242	\$ 30,315	\$ (7,240)	\$ 471,360	\$ 471,360	\$ (82,516)	\$ 388,844

SUPPORTING SCHEDULES:
 Rejoinder C-2

RECAP SCHEDULES:
 Rejoinder C-1, page 1

Rio Rico Utilities - Wastewater Division
 Test Year Ended December 31, 2008
 Adjustments to Revenues and Expenses

Exhibit
 Rejoinder Schedule C-2
 Page 1
 Witness: Bourassa

Line No.	Adjustments to Revenues and Expenses						Subtotal
	1	2	3	4	5	6	
	Depreciation Expense	Property Taxes	Purchased Power	Transport. Expense	Bad Debt	Central Office Allocation	
2							-
3							
4	9,490	(719)	48,005	(2,242)	(30,315)	7,240	31,459
5							
6							
7	(9,490)	719	(48,005)	2,242	30,315	(7,240)	(31,459)
8							
9							
10							-
11							-
12							-
13							-
14							-
15							-
16	(9,490)	719	(48,005)	2,242	30,315	(7,240)	(31,459)
17							
18							
19							
20							
21							
22							
23							
24	(12,143)						19,316
25							
26							
27	12,143	-	-	-	-	-	(19,316)
28							
29							
30							-
31							-
32							-
33							-
34	12,143	-	-	-	-	-	(19,316)
35							

Adjustments to Revenues and Expenses

Line No.	8	9	10	11	12	Subtotal
	Income Taxes	Blank	Blank	Blank	Blank	
7						
8						
9						
10						
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14						
15						
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Rio Rico Utilities - Wastewater Division
 Test Year Ended December 31, 2008
 Adjustments to Revenues and Expenses
 Adjustment Number 1

Exhibit
 Rejoinder Schedule C-2
 Page 2
 Witness: Bourassa

Line No.	Acct. No.	Description	Adjusted Original Cost	Proposed Rates	Depreciation Expense
1		<u>Depreciation Expense</u>			
2					
3					
4					
5	351	Organization	5,785	0.00%	-
6	352	Franchises	417	0.00%	-
7	353	Land	7,545	0.00%	-
8	354	Structures & Improvements	28,548	3.33%	951
9	355	Power Generation	-	5.00%	-
10	360	Collection Sewer Forced	636,023	2.00%	12,720
11	361	Collection Sewers Gravity	5,945,962	2.00%	118,919
12	362	Special Collecting Structures	-	2.00%	-
13	363	Customer Services	1,145,530	2.00%	22,911
14	364	Flow Measuring Devices	55,989	10.00%	5,599
15	365	Flow Measuring Installation	-	10.00%	-
16	366	Reuse Services	-	2.00%	-
17	367	Reuse Meters And Installation	-	8.33%	-
18	370	Receiving Wells	867,120	3.33%	28,875
19	371	Pumping Equipment	1,504,181	12.50%	188,023
20	374	Reuse Distribution Reservoirs	-	2.50%	-
21	375	Reuse Trans. and Dist. System	-	2.50%	-
22	380	Treatment & Disposal Equipment	1,006,848	5.00%	50,342
23	381	Plant Sewers	-	5.00%	-
24	382	Outfall Sewer Lines	-	3.33%	-
25	389	Other Sewer Plant & Equipment	68,869	6.67%	4,594
26	390	Office Furniture & Equipment	110,454	6.67%	7,367
27	390.1	Computers and Software	4,025	20.00%	805
28	391	Transportation Equipment	-	20.00%	-
29	392	Stores Equipment	-	4.00%	-
30	393	Tools, Shop And Garage Equip	4,897	5.00%	245
31	394	Laboratory Equip	-	10.00%	-
32	396	Communication Equip	5,936	10.00%	594
33	398	Other Tangible Plant	3,913	4.00%	157
34	398	Nogales Capacity	427,000	5.00%	21,350
35		TOTALS	\$ 11,829,042		\$ 463,451
36					
37		Less: Amortization of Contributions	\$ 5,137,673	3.92%	\$ (201,289)
38					
39					
40		Total Depreciation Expense			\$ 262,162
41					
42		Test Year Depreciation Expense			252,672
43					
44		Increase (decrease) in Depreciation Expense			9,490
45					
46		Adjustment to Revenues and/or Expenses			\$ 9,490
47					
48		<u>SUPPORTING SCHEDULE</u>			
49		Rejoinder B-2, page 3			

Rio Rico Utilities - Wastewater Division
 Test Year Ended December 31, 2008
 Adjustment to Revenues and/or Expenses
 Adjustment Number 2

Exhibit
 Rejoinder Schedule C-2
 Page 3
 Witness: Bourassa

Line No.			
1	<u>Adjust Property Taxes to Reflect Proposed Revenues:</u>		
2			
3	Adjusted Revenues in year ended 12/31/2008	\$	1,829,976
4	Adjusted Revenues in year ended 12/31/2008		1,829,976
5	Proposed Revenues		<u>1,695,587</u>
6	Average of three year's of revenue	\$	1,785,179
7	Average of three year's of revenue, times 2	\$	3,570,359
8	Add:		
9	Construction Work in Progress at 10%	\$	-
10	Deduct:		
11	Book Value of Transportation Equipment		<u>-</u>
12			
13	Full Cash Value	\$	3,570,359
14	Assessment Ratio		<u>21%</u>
15	Assessed Value		749,775
16	Property Tax Rate		11.3283%
17			
18	Property Tax		84,936
19	Plus: Tax on Parcels		6,050
20			
21	Total Property Tax at Proposed Rates	\$	<u>90,986</u>
22	Property Taxes recorded during the test year		91,705
23	Change in property taxes	\$	<u><u>(719)</u></u>
24			
25			
26	Adjustment to Revenues and/or Expenses	\$	<u><u>(719)</u></u>
27			
28			

Rio Rico Utilities - Wastewater Division
Test Year Ended December 31, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 3

Exhibit
Rejoinder Schedule C-2
Page 4
Witness: Bourassa

Line
No.

1	<u>Purchased Power</u>	
2		
3	Reclassify purchased power expense from water division	\$ 48,005
4		
5		
6		
7		
8		
9	Increase(decrease) Purchased Power Expense	<u>\$ 48,005</u>
10		
11	Adjustment to Revenue and/or Expense	<u>\$ 48,005</u>
12		
13		
14		
15		
16		
17	<u>SUPPORTING SCHEDULE</u>	
18	Staff Schedule GWB-12	
19		
20		

Rio Rico Utilities - Wastewater Division
Test Year Ended December 31, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 4

Exhibit
Rejoinder Schedule C-2
Page 5
Witness: Bourassa

Line
No.

1	<u>Transportation Expense</u>	
2		
3		
4	Remove Airlink costs	\$ (2,242)
5		
6		
7		
8	Increase (decrease) in Transportation Expense	<u>\$ (2,242)</u>
9		
10		
11	Adjustment to Revenue and/or Expense	<u>\$ (2,242)</u>
12		
13		
14		
15		
16		
17		
18		
19		
20		

Rio Rico Utilities - Wastewater Division
Test Year Ended December 31, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 5

Exhibit
Rejoinder Schedule C-2
Page 6
Witness: Bourassa

Line
No.

1	<u>Bad Debt Expense</u>	
2		
3		
4	Normalize Bad Debt Expense	(30,315)
5		
6		
7	Increase (decrease) in Purchased Power	<u>\$ (30,315)</u>
8		
9	Adjustment to Revenue and/or Expense	<u>\$ (30,315)</u>
10		
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20		
21		
22		

Rio Rico Utilities - Wastewater Division
 Test Year Ended December 31, 2008
 Adjustment to Revenues and Expenses
 Adjustment Number 6

Exhibit
 Rejoinder Schedule C-2
 Page 7
 Witness: Bourassa

Line No.	Actual Total Cost Pool	Adjustments	Rejoinder Total Cost Pool	Utility Infrastructure Group Allocation %	Utility Infrastructure Group Allocated Cost Pool	RRUI Sewer Allocation by Customer Count	Rejoinder LPSCO Allocation
8	\$ 1,021,609		\$ 1,021,609	26.98%	\$ 275,672	3.15%	8,684
9	Audit						
10	Tax Services		322,446	26.98%	87,009	3.15%	2,741
11	Legal	(160,220)	767,451	26.98%	163,856	3.15%	5,161
12	Other Professional Services		565,649	26.98%	152,636	3.15%	4,808
13	Management Fee - Total	(98,775)	642,771	26.98%	146,793	3.15%	4,624
14	Unit Holder Communications		289,796	26.98%	78,199	3.15%	2,463
15	Trustee Fees		129,000	26.98%	34,810	3.15%	1,097
16	Escrow & Transfer Agent Fees		71,366	26.98%	19,258	3.15%	607
17	Rent		299,586	26.98%	80,841	3.15%	2,546
18	Licenses/Fees & Permits	(15,808)	140,852	26.98%	33,742	3.15%	1,063
19	Office Expenses	(74,847)	808,101	26.98%	197,862	3.15%	6,233
20	Depreciation		211,253	26.98%	57,005	3.15%	1,796
21							
22	Total (US dollars USD)	\$ (349,651)	\$ 5,269,882		\$ 1,327,681		\$ 41,822
23							
24							
25							
26	Infrastructure Cost Allocation per Direct (USD)						\$ 34,582
27							
28	Increase (decrease) in Infrastructure Allocated Costs (USD)						\$ 7,240
29							
30							
31	Adjustment to Revenues and/or Expenses						\$ 7,240
32							
33							
34							
35							

Rio Rico Utilities - Wastewater Division
 Test Year Ended December 31, 2008
 Adjustment to Revenues and/or Expenses
 Adjustment Number 7

Exhibit
 Rejoinder Schedule C-2
 Page 8
 Witness: Bourassa

Line No.	<u>Income Tax Computation</u>	Test Year Book Results	Test Year Adjusted Results	Adjusted with Rate Increase
1	<u>Income Tax Computation</u>			
2				
3				
4				
5				
6				
7	Taxable Income before Scottsdale Operating	\$ 799,132	\$ 767,673	\$ 633,284
8	Plus: Scottsdale Operating Lease	-	-	-
9	Taxable Income	<u>\$ 799,132</u>	<u>\$ 767,673</u>	<u>\$ 633,284</u>
10				
11				
12				
13	Income Before Taxes			<u>\$ 633,284</u>
14				
15	Arizona Income Before Taxes			\$ 633,284
16				
17	Less Arizona Income Tax			<u>\$ 44,127</u>
18	Rate =	6.97%		
19	Arizona Taxable Income			\$ 589,157
20				
21	Arizona Income Taxes			\$ 44,127
22				
23	Federal Income Before Taxes			\$ 633,284
24				
25	Less Arizona Income Taxes			<u>\$ 44,127</u>
26				
27	Federal Taxable Income			<u>\$ 589,157</u>
28				
29				
30				
31	FEDERAL INCOME TAXES:			
32	15% BRACKET			\$ 7,500
33	25% BRACKET			\$ 6,250
34	34% BRACKET			\$ 8,500
35	39% BRACKET			\$ 91,650
36	34% BRACKET			\$ 86,413
37				Federal Effective Tax Rate
38	Federal Income Taxes			<u>\$ 200,313</u> 31.63%
39				
40				
41	Total Income Tax			<u>\$ 244,441</u>
42				
43	Overall Tax Rate			<u>38.60%</u>
44				
45	Income Tax at Proposed Rates Effective Rate		<u>\$ 296,313</u>	
46				

Rio Rico Utilities - Wastewater Division
 Test Year Ended December 31, 2008
 Computation of Gross Revenue Conversion Factor

Exhibit
 Rejoinder Schedule C-3
 Page 1
 Witness: Bourassa

Line No.	<u>Description</u>	Percentage of Incremental Gross <u>Revenues</u>
1	Federal Income Taxes	31.63%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	<u>0.00%</u>
6		
7		
8	Total Tax Percentage	38.60%
9		
10	Operating Income % = 100% - Tax Percentage	61.40%
11		
12		
13		
14		
15	<u>1</u> = Gross Revenue Conversion Factor	
16	Operating Income %	1.6286
17		
18	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
19		Rejoinder A-1
20		

Rio Rico Utilities, Inc. - Wastewater Division
 Test Year Ended December 31, 2008
 Revenue Summary
 With Annualized Revenues to Year End Number of Customers

Line No.	Meter Size	Class	Present Revenues \$	Proposed Revenues \$	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8X3/4 Inch	Residential	1,287,713	1,193,710	(94,003)	-7.30%	70.25%	70.25%
2	3/4 Inch	Residential	6,298	5,839	(460)	-7.30%	0.34%	0.34%
3	1 Inch	Residential	8,258	7,655	(603)	-7.30%	0.45%	0.45%
4	1 1/2 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
5	2 Inch	Residential	1,951	1,809	(142)	-7.30%	0.11%	0.11%
6		Subtotal	1,304,221	1,209,013	(95,208)	-7.30%	71.15%	71.15%
7		Commercial	78,006	72,312	(5,694)	-7.30%	4.26%	4.26%
8	5/8X3/4 Inch	Commercial	61,192	56,725	(4,467)	-7.30%	3.34%	3.34%
9	1 Inch	Commercial	27,159	25,176	(1,983)	-7.30%	1.48%	1.48%
10	1 1/2 Inch	Commercial	178,576	165,540	(13,036)	-7.30%	9.74%	9.74%
11	3 Inch	Commercial	7,911	7,333	(577)	-7.30%	0.43%	0.43%
12	4 Inch	Commercial	111,601	103,454	(8,147)	-7.30%	6.09%	6.09%
13	6 Inch	Commercial	53,582	49,671	(3,912)	-7.30%	2.92%	2.92%
14		Subtotal	518,027	480,211	(37,816)	-7.30%	28.26%	28.26%
15	5/8X3/4 Inch	Multi-tenant	9,384	8,699	(685)	-7.30%	0.51%	0.51%
16	1 1/2 Inch	Multi-tenant	1,510	1,399	(110)	-7.30%	0.08%	0.08%
17		Subtotal	10,893	10,098	(795)	-7.30%	0.59%	0.59%
18		Total Revenues Before Annualization	1,833,141	1,699,322	(133,819)	-7.30%	100.00%	100.00%
19								
20								
21								
22								
23								
24								
25								
26								
27								
28								
29								

Exhibit
 Rejoinder Schedule H-1
 Page 1
 Witness: Bourassa

Rio Rico Utilities, Inc. - Wastewater Division
 Test Year Ended December 31, 2008
 Revenue Summary

Exhibit
 Rejoinder Schedule H-1
 Page 3
 Witness: Bourassa

With Annualized Revenues to Year End Number of Customers

Line No.	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1						
2	\$ 1,833,141	\$ 1,699,322	\$(133,819)	-7.30%	100.00%	100.00%
3						
4	Subtotal Revenues					
5	\$ 1,828,636	\$ 1,695,145	\$(133,490)	-7.30%	-0.25%	-0.25%
6						
7	Misc. Revenues	\$ 250	\$ -	0.00%	0.01%	0.01%
8	Reconciling Amount to GL	\$ 1,090	\$(898)	-82.39%	0.06%	0.01%
9	Total Water Revenues	\$ 1,829,976	\$ 1,695,587	\$(134,388)	-7.34%	0.00%
10						
11						
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Rio Rico Utilities, Inc. - Wastewater Division
 Test Year Ended December 31, 2008
 Customer Summary

Exhibit
 Rejoinder Schedule H-2
 Page 1
 Witness: Bourassa

Line No.	Meter Size, Class	(a) Average Number of Customers at 12/31/2008	Average Bill		Average Consumption	Proposed Increase	
			Present Rates	Proposed Rates		Dollar Amount	Percent Amount
1	5/8X3/4 Inch Residential	1,904	\$ 56.36	\$ 52.25	-	(4.11)	-7.30%
2	3/4 Inch Residential	8	64.27	59.58	-	(4.69)	-7.30%
3	1 Inch Residential	9	79.40	73.60	-	(5.80)	-7.30%
4	1 1/2 Inch Residential	-	117.24	108.68	-	(8.56)	-7.30%
5	2 Inch Residential	1	162.62	150.75	-	(11.87)	-7.30%
6	Subtotal	1,922					
7							
8	5/8X3/4 Inch Commercial	69	\$ 79.19	\$ 73.41	10,999	(5.78)	-7.30%
9	1 Inch Commercial	36	127.22	117.94	15,375	(9.29)	-7.30%
10	1 1/2 Inch Commercial	7	307.97	285.49	40,402	(22.48)	-7.30%
11	2 Inch Commercial	20	746.60	692.10	109,273	(54.50)	-7.30%
12	3 Inch Commercial	1	655.88	608.00	72,250	(47.88)	-7.30%
13	4 Inch Commercial	4	2,325.03	2,155.30	340,646	(169.73)	-7.30%
14	6 Inch Commercial	1	4,465.21	4,139.25	649,250	(325.96)	-7.30%
15	Subtotal	139					
16							
17	5/8X3/4 Inch Multi-tenant	9	\$ 76.42	\$ 70.84	10,513	(5.58)	-7.30%
18	1 1/2 Inch Multi-tenant	1	120.57	111.77	7,583	(8.80)	-7.30%
19	Subtotal	10					
20							
21							
22							
23							
24	Total	2,071					
25							
26							
27							

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Line No.	Meter Size, Class	Average Number of Customers at 12/31/2008	Median Bill		Proposed Increase	
			Present Rates	Proposed Rates	Dollar Amount	Percent
1	5/8X3/4 Inch Residential	1,904	\$ 56.36	\$ 52.25	(4.11)	-7.30%
2	3/4 Inch Residential	8	64.27	59.58	(4.69)	-7.30%
3	1 Inch Residential	9	79.40	73.60	(5.80)	-7.30%
4	1 1/2 Inch Residential	-	117.24	108.68	(8.56)	-7.30%
5	2 Inch Residential	1	162.62	150.75	(11.87)	-7.30%
6	Subtotal	1,922				
7						
8	5/8X3/4 Inch Commercial	69	56.36	52.25	(4.11)	-7.30%
9	1 Inch Commercial	36	79.40	73.60	(5.80)	-7.30%
10	1 1/2 Inch Commercial	7	242.86	225.13	(17.73)	-7.30%
11	2 Inch Commercial	20	288.24	267.20	(21.04)	-7.30%
12	3 Inch Commercial	1	71.500	604.03	(47.57)	-7.30%
13	4 Inch Commercial	4	2,064.39	1,913.69	(150.70)	-7.30%
14	6 Inch Commercial	1	3,675.80	3,407.47	(268.33)	-7.30%
15	Subtotal	139				
16						
17	5/8X3/4 Inch Multi-tenant	9	56.36	52.25	(4.11)	-7.30%
18	1 1/2 Inch Multi-tenant	1	125.81	116.62	(9.18)	-7.30%
19	Subtotal	10				
20						
21						
22						
23						
24	Total	2,071				

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Rio Rico Utilities, Inc. - Wastewater Division
 Test Year Ended December 31, 2008
 Present and Proposed Rates

Exhibit
 Rejoinder Schedule H-3
 Page 1
 Witness: Bourassa

Line No.	Monthly Minimum Charge for: Meter Size (All Classes):	Present Rates	Proposed Rates	Change	Percent Change
1		\$	\$		
2	5/8 Inch	56.36	52.25	(4.11)	-7.30%
3	3/4 Inch	64.27	59.58	(4.69)	-7.30%
4	1 Inch	79.40	73.60	(5.80)	-7.30%
5	1 1/2 Inch	117.24	108.68	(8.56)	-7.30%
6	2 Inch	162.62	150.75	(11.87)	-7.30%
7	3 Inch	283.30	262.62	(20.68)	-7.30%
8	4 Inch	419.91	389.26	(30.65)	-7.30%
9	6 Inch	797.96	739.71	(58.25)	-7.30%
10	8 Inch	1,252.11	1,160.71	(91.40)	-7.30%
11	10 Inch	1,781.93	1,651.85	(130.08)	-7.30%
12	12 Inch	3,295.77	3,055.18	(240.59)	-7.30%

Commodity Rates (Commercial and Multi-tenant Only)	Block	Present Rate	Proposed Rate
All Meter Sizes	0 gallons to 7,000 gallons	\$	\$
	over 7,000 gallons	5.71	5.29

NT = No Tariff

Rio Rico Utilities, Inc. - Wastewater Division
 Changes in Representative Rate Schedules
 Test Year Ended December 31, 2008

Exhibit
 Rejoinder Schedule H-3
 Page 2
 Witness: Bourassa

Line No.	<u>Other Service Charges</u>	Present Rates	Proposed Rates
1	Establishment	\$ 15.00	\$ 15.00
2	Establishment (After Hours)	\$ 25.00	\$ 25.00
3	Reconnection (Delinquent)	\$ 15.00	\$ 15.00
4	Reconnection (Delinquent) - After Hours	\$ 25.00	\$ 25.00
5	Deposit	*	*
6	Deposit Interest	**	**
7	Reestablishment (within 12 months)	***	***
8	NSF Check	\$ 15.00	\$ 15.00
9	Late Payment Penalty	NT	1.5% per month
10	Deferred Payment	NT	1.5% per month
11	Service Calls - Per Hour/After Hours(a)	NT	\$ 40.00

12
 13
 14
 15

16 * Per Commission Rule A.A.C. R-14-2-603(B)
 17 ** Per Commission Rule A.A.C. R-14-2-603(B)
 18 *** Per Commission Rule A.A.C. R14-2-603(D) - Months off the system times the monthly minimum.

19
 20 (a) No charge for service calls during normal working hours.

21
 22 IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM
 23 ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE
 24 TAX. PER COMMISSION RULE 14-2-608D(5).

25
 26
 27
 28
 29
 30
 31
 32
 33
 34

Rio Rico Utilities, Inc. - Wastewater Division
Test Year Ended December 31, 2008
Meter and Service Line Charges

Exhibit
Rejoinder Schedule H-3
Page 3
Witness: Bourassa

Line
No.

1
2 Service Line Installation Charges

3
4
5
6

7		Present	Proposed
8	<u>Service Line Size</u>	<u>Charge</u>	<u>Charge</u>
9	4 Inch	\$ 500.00	At Cost
10	6 Inch	650.00	At Cost
11	8 Inch	800.00	At Cost
12	10 Inch	1,000.00	At Cost
13	12 Inch	1,200.00	At Cost

14
15
16
17
18
19
20
21
22
23
24
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31

32 N/T = No Tariff

33
34
35
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37
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39
40

Rio Rico Utilities, Inc. - Wastewater Division
Test Year Ended December 31, 2008
Hook-Up Fees

Exhibit
Rejoinder Schedule H-3
Page 4
Witness: Bourassa

Line
No.

1

2 Off-site Facilities Hook-up Fee

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21 NT = No tariff

22

23

24 ¹ Equivalent Residential Unit is based on 320 gallons per day (gpd)

25

26

27

28

29

30

31

32

33

34

35

36

Present
Charge

Proposed
Charge

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\$ 1,800

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5
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7
8 IN THE MATTER OF THE
APPLICATION OF RIO RICO
9 UTILITIES, INC., AN ARIZONA
CORPORATION, FOR A
10 DETERMINATION OF THE FAIR
VALUE OF ITS UTILITY PLANTS AND
11 PROPERTY AND FOR INCREASES IN
ITS WATER AND WASTEWATER
12 RATES AND CHARGES FOR UTILITY
SERVICE BASED THEREON.

DOCKET NO: WS-02676A-09-0257

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14
15 **REJOINDER TESTIMONY OF**

16 **THOMAS J. BOURASSA**

17 **(COST OF CAPITAL)**

18 **March 9, 2010**
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1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

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

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

6 A. On behalf of the applicant, Rio Rico Utilities, Inc. ("RRUI" or the "Company").

7 **Q. ARE YOU THE SAME THOMAS J. BOURASSA THAT FILED DIRECT
8 AND REBUTTAL TESTIMONY IN THIS DOCKET?**

9 A. Yes. I am submitting separately bound rejoinder testimony on rate base, income
10 statement, revenue requirement and rate design, along with this rejoinder testimony
11 on the cost of capital.

12 **I. SUMMARY OF REBUTTAL TESTIMONY AND THE PROPOSED COST
13 OF CAPITAL FOR THE COMPANY**

14 **A. Summary of Company's Final Position**

15 **Q. WHAT IS THE COMPANY'S FINAL POSITION ON THE COST OF
16 CAPITAL?**

17 A. The Company's position regarding the cost of equity has not changed since my
18 rebuttal testimony was filed on February 1. The Company's proposed capital
19 structure is its actual capital structure, which consists of 100 percent common
20 equity. I continue to recommend a cost of equity of 11.7 percent, which results in a
21 weighted cost of capital ("WACC") of 11.7 percent.

22 As I explained in my rebuttal testimony, I believe that a return on equity of
23 11.7 percent is fair and reasonable, and properly takes into account RRUI's
24 financial and business risk. It is based on applying the Discounted Cash Flow
25 ("DCF") model and the Capital Asset Pricing Model ("CAPM") to the sample
26 group of publicly traded water utilities normally used by Staff and approved by the

1 Commission in setting rates for numerous water and wastewater utilities, including
 2 affiliates of RRUI. The return produced by those models is adjusted downward by
 3 100 basis points to account for the absence of debt in the Company's capital
 4 structure and then upward by 50 basis points to account for the Company's
 5 extremely small size, lack of investment liquidity, and the additional risk that
 6 results from the particular rate-making methods employed in Arizona. The table
 7 below summarizes the Company's final position:

8	<u>Method</u>	<u>Low</u>	<u>High</u>	<u>Midpoint</u>
9	Range DCF Constant Growth Estimates	10.8%	12.2%	11.5%
10	Range of CAPM Estimates	<u>10.3%</u>	<u>15.6%</u>	<u>13.0%</u>
11	Average of DCF and CAPM midpoint			
12	estimates	<u>10.6%</u>	<u>13.9%</u>	<u>12.2%</u>
13	Financial Risk Adjustment	-1.0%	-1.0%	-1.0%
14	Specific Company Risk Premium	<u>0.5%</u>	<u>0.5%</u>	<u>0.5%</u>
15	Indicated Cost of Equity	10.1%	13.4%	11.7%

16
 17 The schedules containing the cost of capital analysis are attached to my cost of
 18 capital rebuttal testimony. There have been no significant changes in the financial
 19 markets that affect that analysis, which was performed approximately five weeks
 20 ago.

21 **B. Summary of the Final Positions of Staff and RUCO.**

22 **Q. PLEASE SUMMARIZE THE COMPANY'S FINAL POSITION**
 23 **REGARDING STAFF'S RECOMMENDED EQUITY RETURN AND**
 24 **WACC.**

1 A. Staff's cost of capital witness, Mr. Manrique, continues to recommend that RRUI's
2 actual capital structure be used.¹ He also continues to propose a return on equity of
3 9.2 percent. That return is based on the average cost of equity produced by its DCF
4 and CAPM models – 10.3 percent – and a 110 basis-point downward adjustment
5 for RRUI's financial risk.² Based on its 100 percent equity capital structure, he is
6 again proposing the WACC for RRUI to be 9.2 percent.³ The most serious
7 problems with Staff's recommendation, in summary, are:

8 (1) Staff's downward adjustment for financial risk is overstated. First,
9 Mr. Manrique has misapplied the Hamada formula by using the book value of the
10 sample utilities' equity rather than the conceptually correct market value of their
11 equity. Moreover, he has assumed that the average beta of the sample utilities can
12 be applied to RRUI, even though RRUI is much smaller and is riskier than the
13 publicly traded utilities.

14 (2) Staff ignores the fact that RRUI is riskier than the publicly traded
15 utilities in the sample group, despite RRUI's small size, lack of liquidity and
16 Arizona's unfavorable regulatory climate. No rational investor would agree with
17 Staff's position, which violates the comparable earnings standard.

18 (3) Staff improperly double-counts historic growth rates in estimating the
19 future dividend growth rate – g – in the DCF model, and fails to properly utilize the
20 best estimate of expected dividend growth, analysts' forecasts. Historic growth is
21 already reflected in the current stock prices of the publicly traded sample utilities
22 and is considered by analysts in developing their growth rate forecasts. This error
23 depresses the result produced by the DCF model.

24 _____
25 ¹ Surrebuttal Testimony of Juan C. Manrique ("Manrique Sb.") at 2.

26 ² *Id.*

³ *Id.*

1 Q. PLEASE SUMMARIZE THE COMPANY'S FINAL POSITION
2 REGARDING RUCO'S RECOMMENDED EQUITY RETURN AND
3 WACC.

4 A. RUCO did not revise its cost of equity recommendation or its recommended
5 WACC – 7.9 percent – in its surrebuttal testimony.⁴ As I discussed in my rebuttal
6 testimony, RUCO's witness, Mr. Rigsby, estimated that the cost of equity for its
7 sample utilities is only 7.9 percent, based on the results of its DCF and CAPM
8 methods.⁵ RUCO's cost of equity is driven by its extraordinarily low CAPM
9 estimate, 6.1 percent, which is lower than the current yield on an investment grade
10 bond and, moreover, lower RUCO's own hypothetical debt cost. Mr. Rigsby
11 obviously utilized techniques that greatly bias downward his cost of equity
12 estimates and, for this reason, has actually recommended a cost of equity that is 9.0
13 percent – 110 basis points greater than the results produced by his models. The
14 most serious errors in RUCO's cost of equity estimate, in summary, are:

15 (1) RUCO relies on a sample group of publicly traded gas utilities to
16 estimate RRUI's cost of equity, and estimates that this industry's group's cost of
17 equity is only 7.6 percent. In contrast, the Commission recently authorized a
18 10.0% return on equity for Southwest Gas Corporation.⁶ The water industry
19 sample group has significantly more market risk than the gas industry sample
20 group, as estimated by each industry group's beta, and therefore has a significantly
21 higher cost of equity than 10.0%.

22 (2) RUCO used a sample of only four water utilities when useful data for
23 three other water utilities that Staff includes in its sample group are available.

24 _____
25 ⁴ Surrebuttal Testimony of William A. Rigsby ("Rigsby Sb.") at 2 – 3.

26 ⁵ Direct Testimony of William A. Rigsby Dt. ("Rigsby Dt.") at 4 – 5.

⁶ *Southwest Gas Corporation*, Decision No. 70665 (December 24, 2008).

1 Moreover, RUCO included Southwest Water Company in its water sample group,
2 despite the fact that less than 50% of Southwest Water's revenues are derived from
3 regulated activities. In addition, Southwest Water is a financially distressed
4 company and should not be considered in determining RRUI's return on equity.

5 (3) RUCO erroneously relies on geometric annual averages in his CAPM
6 estimates instead of conceptually correct arithmetic annual averages to compute the
7 historic market risk premium.

8 (4) RUCO did not compute a current risk premium in estimating the cost of
9 equity using the CAPM, notwithstanding the fact that Staff has consistently
10 presented, and the Commission has consistently approved, CAPM estimates that
11 rely on a current market risk premium.

12 (5) RUCO erroneously uses total returns on Treasury securities to estimate
13 the historic market risk premium in its CAPM estimates, rather than the
14 conceptually correct income returns.

15 (6) RUCO erroneously uses the yield on a 5-year Treasury note as the risk-
16 free rate in its CAPM estimates rather than the conceptually correct expected yield
17 on a long-term Treasury bond.

18 This unrealistic result is exacerbated by RUCO's use of a hypothetical
19 capital structure of 40 percent debt and 60 percent equity.⁷ This results in an
20 effective overall return on equity of **only 6.9 percent** when RUCO's fictitious
21 income tax deduction is considered. A similar RUCO proposal was rejected by the
22 Commission as "results-oriented" in Black Mountain's recent rate case.⁸ The most
23 serious problems with RUCO's hypothetical capital structure, in summary, are:
24

25 ⁷ *Id.*

26 ⁸ *Black Mountain Sewer Corporation*, Decision No. 69164 (December 5, 2006) at 19 – 20.

1 (1) RUCO effectively reclassifies 40 percent of RRUI's equity investment
2 into debt.

3 (2) RUCO provides a low debt cost of just 6.26 percent on 40 percent of
4 RRUI's equity investment.

5 (3) RUCO imputes fictional interest expense into its income tax
6 computation which penalizes RRUI by a loss of operating expenses of nearly
7 \$100,000.

8 **Q. MR. BOURASSA, STAFF AND RUCO BOTH HAVE RECOMMENDED A**
9 **DISALLOWANCE OF VIRTUALLY THE ENTIRE AMOUNT OF**
10 **CENTRAL OFFICE COSTS INCURRED BY APT AND ALLOCATED TO**
11 **RRUI. IF ADOPTED BY THE COMMISSION, WOULD THAT**
12 **DISALLOWANCE OF THE APT CENTRAL OFFICE COSTS HAVE ANY**
13 **IMPACT ON THE COST OF EQUITY FOR RRUI AND, IF SO, PLEASE**
14 **EXPLAIN.**

15 A. Yes, a denial of the APT Central Office Costs would deprive RRUI of the
16 opportunity to earn the rate of return as set by Staff and RUCO based on the
17 sample group of publicly traded utilities. Specifically, Staff and RUCO have
18 disallowed the costs incurred by APIF, through APT, as a publicly traded income
19 fund, including costs for escrow fees, shareholder communications, securities
20 filings, Board of Director/Trustee fees, auditing and financial requirements
21 imposed on publicly traded companies (such as Sarbanes-Oxley or its Canadian
22 equivalent), and other similar costs. In disallowing those costs, however, Staff and
23 RUCO have failed to address the impact of denying the APT costs on their cost of
24 capital analyses.

25 **Q. HOW SO?**

26

1 A. In developing information on cost of equity, both Staff and RUCO rely on data
2 from publicly traded companies in deriving their cost of equity calculations. Those
3 companies include San Jose Water, Connecticut Water, American States, Aqua
4 America, California Water and Middlesex Water, among others. Essentially, Staff
5 and RUCO use financial information from Value Line, which is based on the
6 annual reports filed by the various companies in the sample group. In those annual
7 reports, the companies in the sample group report the various costs of being
8 publicly traded on their respective exchanges as expenses, including director fees,
9 taxes and audits. For example, companies such as San Jose Water, Connecticut
10 Water, American States, Aqua America, California Water and Middlesex Water
11 incur expenses associated with boards of directors, audit fees, and tax services as a
12 result of being publicly traded. Unfortunately, however, Staff and RUCO do not
13 adjust for denial of those expenses in their cost of capital analyses.

14 It is arbitrary and unfair for Staff and RUCO to set RRUI's cost of equity
15 based on net earnings of the sample companies, which reflect corporate expenses
16 of being publicly traded, but disallow RRUI from recovering those costs in this
17 case. Staff and RUCO have not produced any evidence showing that the regulatory
18 jurisdictions for the sample companies have disallowed those corporate costs from
19 inclusion in operating expenses of those companies. If those jurisdictions allow
20 recovery of such corporate costs as operating expenses for the sample companies,
21 then, by denying those same costs for RRUI, Staff and RUCO would prevent RRUI
22 from earning its authorized rate of return. In fact, I am aware that the California
23 PUC has authorized recovery of these types of expenses.⁹

24 ⁹ See, e.g., *In Re San Jose Water Co.*, 2004 WL 1947074 at ¶4.8 (Cal. P.U.C. 2004) (approving settlement
25 which "includes an additional \$141,000 for 2004 and \$143,000 for 2005 for expenses related to
26 compliance with the Sarbanes-Oxley Act. In 2002, Congress enacted the Sarbanes-Oxley Act. Among
other things, section 404 of the Act requires companies to establish and certify their internal financial
control systems by developing risk assessments and an internal audit plan....The new requirements of the

1 **II. REJOINDER TO STAFF'S COST OF CAPITAL ANALYSIS, TESTIMONY**
2 **AND RECOMMENDATIONS**

3 **A. Staff's Financial Risk Adjustment**

4 **Q. PLEASE COMMENT ON STAFF'S FINANCIAL RISK ADJUSTMENT?**

5 A. Because Staff incorrectly uses book values in its Hamada approach, for the reasons
6 set forth in my direct testimony¹⁰, Staff's recommended surrebuttal financial risk
7 adjustment of 110 basis points is overstated by at least 50 basis points.
8 Accordingly, Staff's cost of equity estimate would increase from 9.2% to at least
9 9.7% if market values rather than book values were used in the Hamada method.¹¹

10 **Q. WHAT REASON DOES STAFF GIVE TO SUPPORT THE USE OF BOOK**
11 **VALUES?**

12 A. Rather than providing any authoritative support for using of book values in the
13 Hamada method, Staff simply claims that the use of book values is "prudent and
14 reasonable in a regulatory environment".¹² Following Staff's reasoning it should
15 also be prudent and reasonable in a regulatory environment to use current book
16 values rather than current stock prices in the DCF model to determine the dividend
17 yield and the cost of equity. After all, we are applying a return to an original cost
18 rate base (book value) for the determination of the return dollars available to
19 investors.

20 **Q. WHAT WOULD BE THE RESULTS OF STAFF'S MODELS IF BOOK**
21 **VALUES ARE USED RATHER THAN STOCK PRICES?**

22
23

Sarbanes-Oxley Act also have increased the audit fees associated with the standard financial auditing
24 required of a publicly traded company.")

25 ¹⁰ Direct Testimony of Thomas J. Bourassa (Cost of Capital) ("Bourassa COC Dt.") at 8 – 12.

26 ¹¹ Staff unadjusted cost of equity of 10.3% less 50 basis points.

¹² Manrique Sb. at 3.

1 A. If book values are used rather than stock prices, Staff's dividend yield increases to
2 6.3% and Staff's cost of equity estimate for the DCF constant growth method
3 would increase from 9.4% to 12.0%. Further, Staff multi-stage DCF estimate
4 would increase from 10.3% to 12.6%. The average of Staff's DCF method would
5 increase to 12.3% from 9.9%.

6 **Q. WHY IS IT REASONABLE TO USE BOOK VALUES RATHER THAN**
7 **STOCK PRICES IN THE DCF?**

8 A. As I pointed out in my direct testimony, the application of the DCF model
9 produces estimates of the cost of equity that are consistent with investor
10 expectations only when the market price of a stock and the stock's book value are
11 approximately the same. The DCF model will understate the cost of equity when
12 the market-to-book ratio ("M/B") exceeds 1.0 and conversely will overstate the
13 cost of equity when the M/B is less than 1.0.¹³ Staff has not disputed this point.

14 Dr. Morin points out that one of most important reasons for caution and
15 skepticism in the application of the DCF model is that it "produces estimates of
16 common equity cost that are consistent with investors' expected return only when
17 stock price and book value are reasonably similar, that is, when the M/B is close to
18 unity".¹⁴ In fact, Dr. Morin provides an illustration which shows that when a
19 market based return is applied to a book value figure it will produce insufficient
20 earnings necessary to provide the indicated dividend and indicated growth.¹⁵ Over
21 time, earnings will be insufficient to pay dividends and both earnings and book
22 value will necessarily decline.

23
24 ¹³ Bourassa COC Dt. at 27.

25 ¹⁴ Roger A. Morin, *New Regulatory Finance* 223-24 (Public Utility Reports, Inc. 2006) ("Morin") at 434-
436.

26 ¹⁵ *Id.* at 434.

1 **Q. IS THERE A WAY TO RESTATE STAFF'S CAPM RESULTS IN TERMS**
2 **OF BOOK VALUE?**

3 A. Yes. A book value return from the CAPM can be obtained using a derivation of
4 the DCF model.¹⁶ The equation is

5
6
$$r = M/B(k-g) + g$$

7
8 Where r = book return on equity
9 M/B = the market-to-book ratio
10 k = market cost of equity
11 g = growth rate

12 Using the average of Staff's CAPM results of 10.6% as k, the average M/B ratio of
13 1.7 for Staff sample group as M/B, and an implied growth rate of 6.9%¹⁷ as g, the
14 indicated book equity return for Staff's models using the equation above is 13.2%
15 and is computed as follows:

16
$$13.2\% = 1.7(10.6\% - 6.9\%) + 6.9\%$$

17
18 Thus, Staff's CAPM estimate would increase to 13.2% from 10.6%.

19 **Q. WHAT WOULD BE STAFF'S OVERALL COST OF EQUITY ESTIMATE**
20 **USING THE BOOK VALUE BASED DCF AND CAPM DESCRIBED**
21 **ABOVE?**

22 A. The average of Staff's DCF and CAPM estimates would increase to 12.8% from
23 10.3%. Applying Staff's book value based financial risk adjustment of 110 basis

24 ¹⁶ Morin at 364.

25 ¹⁷ Solving for g (growth rate) in the DCF equation, $g = k - D_1/P_0$ where K = return on equity and $D_1/P_0 =$
26 expected dividend yield. The average of Staff's CAPM estimates is 10.6% and Staff's dividend yield is 3.7%, thus the implied growth rate is 10.6% less 3.7% or 6.9%.

1 points to Staff's book value based cost of equity estimate would result in an
 2 indicated cost of equity of 11.7% as shown below:

3						
4	<u>DCF Method</u>	$\frac{D_1}{B_0}$	+	g^1	=	k
5	Constant Growth DCF estimate (book value)	6.3%	+	5.7%	=	12.0%
6	Multi-stage DCF estimate (book value)					<u>12.6%</u>
7	Average of DCF estimates					12.3%
8	<u>CAPM Method</u>					k
9	CAPM (book value)					13.2%
10				Average		12.8%
11				Financial Risk Adjustment ¹		<u>-1.1%</u>
12				Total		11.7%

13 ¹ From Staff Surrebuttal Schedule JCM-3

14 **Q. WHAT IS THE AVERAGE PERCENTAGE PROJECTED RATE OF**
 15 **RETURN ON BOOK COMMON EQUITY FOR THE WATER UTILITIES**
 16 **SAMPLE MR. MANRIQUE USES TO DETERMINE BENCHMARK**
 17 **COSTS OF EQUITY ESTIMATES?**

18 A. Based Mr. Manrique's water industry sample and for which Value Line provides
 19 projected book returns, the average ROE is 12.0%. It is found as the average of
 20 Value Line's projected ROEs for American States of 12.0%, for Aqua America of
 21 12.0% and California Water of 12.0%.¹⁸ This compares favorably with the 11.7%
 22 estimate shown above and like the 11.7%, it is much higher than the 10.3%
 23 estimate of Staff.¹⁹

24 **B. Firm Specific Risk**

25 **Q. PLEASE RESPOND TO MR. MANRIQUE'S TESTIMONY ON PAGE 3**
 26 **THAT YOU HAVE "CHERRY PICKED" CERTAIN ASPECTS OF OTHER**

¹⁸ Value Line Investment Survey, January 22, 2010.

¹⁹ The unadjusted average of Staff's DCF and CAPM results as shown on Staff Surrebuttal Schedule PCM-3 is 10.3%.

1 **REGULATORY ENVIRONMENTS TO DISPUTE HIS TESTIMONY THAT**
2 **DOING BUSINESS IN ARIZONA IS NO LESS RISKY THAT OTHER**
3 **STATES.**

4 A. The accusation that I “cherry picked” certain attributes of other regulatory
5 environments is simply not true. Mr. Manrique has not provided specific examples
6 of attributes of other regulatory jurisdictions that I have over looked nor has he
7 disputed my testimony concerning the attributes of other regulatory environments
8 that reduce regulatory and investment risk.²⁰ I could similarly accuse
9 Mr. Manrique of “cherry picking” his so-called “attractive” Arizona regulatory
10 attributes that he cited in his testimony.²¹ The important difference between
11 Mr. Manrique and me is that I addressed and refuted each one of the Arizona
12 attributes he cited with specific responses and examples as to why they did not
13 make Arizona more attractive than other jurisdictions.²² Mr. Manrique has not
14 disputed that testimony. Consequently, Mr. Manrique fails to support his assertion
15 that Arizona is no different than other jurisdictions because as he states, “it is the
16 overall effect that is relevant”.²³

17 **Q. PLEASE RESPOND TO MR. MANRIQUE’S TESTIMONY ON PAGE 4**
18 **THAT REGULATORY RISK IS A FIRM-SPECIFIC RISK AND**
19 **INVESTORS CANNOT EXPECT TO BE COMPENSATED FOR FIRM-**
20 **SPECIFIC RISKS.**

21 A. Mr. Manrique’s assertion is undermined by the fact that the *Bluefield* standard
22 requires the return on equity be commensurate with returns on enterprises with

23
24 ²⁰ Rebuttal Testimony of Thomas J. Bourassa (Cost of Capital) (“Bourassa COC Rb.”) at 18 – 20.
25 ²¹ Direct Testimony of Juan C. Manrique (“Manrique Dt.”) at 41.
26 ²² Bourassa COC Rb. at 14 – 18.
 ²³ Manrique Sb. at 3.

1 comparable risks (the “comparable earning standard”). The impact of the various
2 factors on investment risk that I have discussed throughout my testimony, such as
3 small size, construction risk, regulatory risk, lack of diversification, small customer
4 base, liquidity risk, etc., are factors which make RRUI more risky and therefore not
5 comparable to the large publicly traded water companies.

6 Mr. Manrique admits, for example, that smaller companies tend to have
7 higher betas than larger companies making smaller companies more risky.²⁴ It
8 stands to reason that RRUI would have higher beta than the sample water
9 companies.²⁵ Yet, Mr. Manrique blindly accepts that the average beta of the much
10 larger publicly traded water utilities as the beta for RRUI.²⁶ Further, Mr. Manrique
11 does not dispute the data contained in Morningstar supporting small company risk
12 premiums.²⁷ Yet again, Mr. Manrique ignores this evidence.

13 The only firm-specific risk Staff acknowledges is financial risk. Other risks
14 that would obviously be considered by any rational investor are simply ignored.
15 Would a rational investor really regard an equity investment in RRUI as presenting
16 less risk than an equity investment in Aqua America or in Connecticut Water
17 Services, which have AA- and AAA bond ratings, respectively, for example,
18 notwithstanding the lack of debt in RRUI’s capital structure? The answer is a
19 resounding “no”.

20
21
22
23

²⁴ Manrique Dt. at 42.

24 ²⁵ Bourassa COC Rb. at 8.

25 ²⁶ Manrique Dt. at 28.

26 ²⁷ Small company risk premiums are the risk premiums not explained by the higher betas for small companies.

1 **C. Estimates of Growth**

2 **Q. ON PAGE 4, MR. MANRIQUE STATES THAT YOU MAKE THE**
3 **ASSERTION THAT THE ONLY FACTOR INVESTORS LOOK AT IS**
4 **ANALYSTS' ESTIMATES OF GROWTH. DO YOU HAVE A COMMENT?**

5 **A.** Yes. First, let me state that I do not use analyst estimates exclusively in my cost of
6 capital analysis.²⁸ Second, Mr. Manrique has misunderstood my testimony and
7 misses the point. That is, if analysts' estimates already consider past growth, then
8 Staff vastly overstates the impact of past growth rates in its DCF model.²⁹ And,
9 because Staff overstates the impact of historical growth rates in its estimate of
10 growth, Staff's models reflect a type of "double-counting" that produces extremely
11 low results.³⁰ And, as I have stated, Staff gives less weight to what is arguably the
12 best estimate of growth.³¹

13 **III. REJOINDER TO RUCO'S COST OF CAPITAL ANALYSIS, TESTIMONY**
14 **AND RECOMMENDATIONS**

15 **A. Use of Southwest Water to Develop Cost of Equity**

16 **Q. MR. RIGSBY CLAIMS THAT IT IS APPROPRIATE TO INCLUDE**
17 **SOUTHWEST WATER IN HIS SAMPLE, WHILE EXCLUDING THE**
18 **REMAINING THREE PUBLICLY TRADED WATER UTILITIES USED**
19 **BY THE COMPANY AND STAFF. HOW DO YOU RESPOND?**

20 **A.** As I have explained in my rebuttal testimony, Southwest Water is not comparable
21 to RRUI. Southwest Water derives less than 50 percent of its revenues from
22 regulated utility services, while the other three utilities on average derive nearly 89

23
24 ²⁸ Bourassa COC Dt. at 28 – 29.

25 ²⁹ Bourassa COC Rb. at 24.

26 ³⁰ *Id.*

³¹ Bourassa COC Rb. at 23.

1 percent of revenues from regulated activities.³² The fact that some of the
2 unregulated services are “closely related” to the water industry doesn’t change the
3 fact that these activities aren’t regulated. Although the other utilities are engaged
4 in some unregulated activities, they still derive most of their revenues from
5 activities that are regulated.

6 **Q. MR. RIGSBY CLAIMS THAT SOUTHWEST WATER’S POOR**
7 **EARNINGS HISTORY AND OTHER FINANCIAL PROBLEMS SHOULD**
8 **BE IGNORED BECAUSE ALL COMPANIES HAVE VARIATIONS IN**
9 **THEIR EARNINGS. IT THAT A LEGITIMATE BASIS TO USE**
10 **UTILITIES IN A WEAK FINANCIAL CONDITION?**

11 A. No. While it is certainly true that earnings fluctuate, Southwest Water’s earnings
12 have been consistently poor and its dividends have been reduced. Southwest
13 Water’s equity returns for the period 2004 through 2008 averaged 3.6 percent, and
14 Value Line projects earnings of 3.5 percent in 2009. None of the utilities have had
15 this sort of earnings history, nor do they have C+ financial strength ratings.

16 **B. Use of Publicly traded Gas Utilities**

17 **Q. DOES THE COMPANY OBJECT TO THE USE OF THE PUBLICLY**
18 **TRADED GAS UTILITIES TO ESTIMATE THE COST OF EQUITY, AS**
19 **MR. RIGSBY CLAIMS IN HIS TESTIMONY?**

20 A. No. Mr. Rigsby has misunderstood my rebuttal testimony. The point is that the
21 sample gas utilities are less risky and therefore not comparable to water utilities.
22 The gas utilities can be used if the results produced by the DCF and CAPM models
23 are adjusted upward to reflect the water utilities’ additional risk. Mr. Rigsby made
24 no such adjustment.

25
26 ³² Based on information contained in AUS Utility Reports (January 2010).

1 However, the gas sample does provide useful information, which
2 demonstrates that RUCO's recommended return on equity is unfair and
3 unreasonable.

4 **Q. HOW DO THE GAS UTILITIES SUPPORT A HIGHER EQUITY RETURN**
5 **FOR RRUI?**

6 A. The Commission recently authorized a 10.0 percent return on equity for Southwest
7 Gas Corporation, based on the recommendation of Staff's cost of capital witness,
8 Mr. Parcell.³³ Moreover, in August 2009, Mr. Parcell provided cost of capital
9 testimony for Staff in the pending rate case for UNS Gas, Inc., again
10 recommending a 10.0 percent return on equity.³⁴ A decision should be used in the
11 UNS Gas case in the next 60 days. While I don't know what equity return will be
12 approved for the utility, I expect that it will be approximately 10 percent.

13 Based on these cases, we know that a return on equity of 10 percent is just
14 and reasonable for an Arizona gas utility. As I explained in my rebuttal testimony,
15 Mr. Rigsby's water industry sample has a beta of 0.83, while his gas industry
16 sample has a beta of just 0.67.³⁵ That means that the equity cost for a water utility
17 is greater than a gas utility, based on their relative riskiness. In my rebuttal
18 testimony, I estimated that the cost of equity for the water industry sample should
19 be 120 basis points greater than the gas industry sample, using the methodology
20 employed by Staff in the Arizona Water Company Eastern Group case.³⁶

21 Consequently, if gas utilities are used, a significant upward adjustment above the

22 ³³ Decision No. 70665.

23 ³⁴ See Direct Testimony of David C. Parcell, filed June 8, 2009 in Docket No. G-04204A-08-0571.

24 ³⁵ See RUCO Schedule WAR-7, page 1 of 2.

25 ³⁶ In that case, Staff estimated that the cost of equity for the gas utilities was 10.4% using the CAPM,
26 while the cost of equity for the water utilities was 9.4% – a difference of 100 basis points. See Direct
Testimony of Joel M. Reiker, filed July 8, 2003 in Docket No. W-01445A-02-0619 ("Reiker Dt."), at
Schedule JMR-7 and JMR-18.

1 10 percent floor established in the Southwest Gas case must be made to properly
2 reflect the water industry's higher risk.

3 **Q. SO THE POINT IS NOT WHETHER IT'S IS APPROPRIATE TO USE A**
4 **SAMPLE OF GAS UTILITIES, BUT HOW THEY ARE USED?**

5 A. Exactly. Mr. Rigsby has failed to properly use the gas industry sample by ignoring
6 the differences in risk between the water and gas industries, as estimated by beta.
7 It is a simple matter to adjust the 10 percent return on equity for an Arizona gas
8 utility upward to account for the additional risk associated with a water utility, as
9 Staff has done in previous cases. With this adjustment, the indicated cost of equity
10 for an Arizona water utility (unadjusted for other risks) is 11.2 percent, not 7.9
11 percent, as Mr. Rigsby has estimated.

12 **C. RUCO's Purported Generosity**

13 **Q. MR. RIGSBY TESTIFIES ON PAGE 6 OF HIS SURREBUTTAL**
14 **TESTIMONY THAT RUCO'S RECOMMENDED RETURN ON EQUITY**
15 **OF 9.0 PERCENT "IS ACTUALLY GENEROUS." DO YOU AGREE WITH**
16 **THIS CHARACTERIZATION OF RUCO'S POSITION?**

17 A. It is preposterous. But we all need a good laugh now and then, and Mr. Rigsby's
18 testimony kept me laughing out loud for several minutes.

19 **Q. WHY IS MR. RIGSBY'S TESTIMONY PREPOSTEROUS?**

20 A. For a number of reasons. First, Mr. Rigsby is not proposing a return on RRUI's
21 equity of even 9.0 percent. When RUCO's hypothetical capital structure is
22 considered, the resulting return on equity is only 6.9 percent – a return that is very
23 nearly equal to an investment grade bond. Such a return would be confiscatory, not
24 generous.

25 Second, the Commission has consistently relied on market-based finance
26 models such as the DCF and CAPM models to estimate the current cost of equity,

1 with adjustments for firm-specific risk. For example, in a recent decision setting
2 rates for Arizona Water Company, the Commission stated:

3 In estimating its cost of equity, Arizona Water relied on a risk
4 premium analysis methodology used by the [California] PUC
5 staff, which uses comparisons to actual or authorized returns
6 on equity. This sort of “comparable earnings” analysis has
7 long been discredited for several reasons, Market-based
8 methods like the DCF model and the CAPM provide more
9 reliable estimates of equity cost, because it is capital markets,
10 not regulatory commissions that determine the cost of equity.
11 Use of the risk premium analysis urged by the Company
12 would circumvent the market forces that regulation attempts,
13 as much as possible, to replicate. . . . The risk premium
14 analysis methodology erroneously assumes that accounting-
15 based “actual” ROEs are equal to the cost of equity.³⁷

16 In this case, all of the parties relied on the DCF and CAPM models to estimate
17 RRUI’s cost of equity, using as proxies much larger, publicly traded utilities. The
18 results of the parties’ models are:

<u>Party</u>	<u>DCF</u>	<u>CAPM</u>	<u>Average</u>
RRUI	10.1%	13.4%	11.7%
Staff	9.9%	11.0%	10.5%
RUCO	9.7%	6.10%	7.9%

19 RUCO’s extremely low estimate is obviously driven by its 6.1 percent CAPM
20 estimate. If that estimate is excluded – as it must be, given that it is less than the
21 cost of debt – the average of the parties’ DCF estimates is 9.9 percent, while the
22 average of their CAPM estimates is 11.1 percent, resulting in an average equity
23 cost of 10.5 percent. I believe that 10.5 percent is too low for RRUI. But 10.5
24 percent is certainly greater than RUCO’s 9.0 percent equity cost for the sample
25 utilities and RUCO’s effective return of 6.9 percent for RRUI.

26 ³⁷ *Arizona Water Company (Western Group)*, Decision No. 68302 (November 14, 2005) at 37 – 38.

1 Third, as I just discussed, the equity returns being authorized for Arizona
2 gas utilities is approximately 10 percent. Water utilities are riskier and have a
3 higher cost of equity than gas utilities. This indicates that RRUI's cost of equity is
4 much higher than either 6.9 percent or 9.0 percent.

5 Finally, Mr. Rigsby's contention that RRUI's cost of equity should be less
6 than the DCF and CAPM models indicate because water utilities are viewed as
7 "safe investments for income oriented investors" ignores the fact that water utility
8 stocks are nevertheless a risky investment at present. For example, Value Line's
9 water utility industry analyst, Andre J. Costanza, recently warned investors that the
10 "risk profiles of [the water utility stocks] are higher than one might think," and
11 stated that investors "with a more conservative bent and an affinity for income can
12 do better by looking elsewhere, specifically the Electric Utility segment."³⁸ This
13 indicates that the water utility industry is currently viewed by investors as being
14 riskier than both the electric and gas utility industries, and requires higher equity
15 returns to compete for investor capital. Yet RUCO's effective return for RRUI is
16 approaching the current yield on investment grade bonds. Obviously, RUCO's
17 approach fails to recognize the risk inherent in an investment in the common stock
18 of a publicly traded water utility, and would produce a return for RRUI that is
19 unlawful.

20 **Q. DID MR. RIGSBY EVALUATE THE COST OF EQUITY FOR ELECTRIC**
21 **UTILITIES?**

22 **A.** No. I suspect he did not do so because it would have supported an even higher cost
23 of equity. He selected the gas industry because its beta is lower and, therefore, the
24 gas industry produces a lower CAPM estimate. It is important to remember that
25

26 ³⁸ Value Line, Water Utility Industry (January 22, 2010).

1 RUCO's goal is to force the cost of equity as low as possible, and a fair and honest
2 assessment of the cost of equity for companies than are truly comparable to RRUI
3 is not consistent with that goal.

4 **D. RUCO's Implementation of the CAPM**

5 **Q. PLEASE SUMMARIZE YOUR CONCERNS WITH MR. RIGBY'S CAPM**
6 **ANALYSIS.**

7 A. In my rebuttal testimony, I described five problems with Mr. Rigsby's CAPM
8 analysis. Perhaps most importantly, three out of four of Mr. Rigsby's CAPM
9 estimates (one for the water industry and two for the gas industry), as well as his
10 overall CAPM result, are at or below the current cost of Baa investment grade
11 bonds, which is approximately 6.3 percent.³⁹ The following are the results of
12 Mr. Rigsby's CAPM as shown on WAR-1, page 3 of 3:

13	Geometric mean CAPM estimate - water industry	5.72%
14	Arithmetic mean CAPM estimate - water industry	7.29%
15	Geometric mean CAPM estimate - gas industry	5.05%
16	Arithmetic mean CAPM estimate - gas industry	<u>6.32%</u>
17	Overall CAPM result	6.10%

18
19 In contrast, the Company's CAPM estimates average 13.4 percent, while Staff's
20 CAPM estimates average 11.0 percent. Clearly, something is wrong with the
21 methods and inputs Mr. Rigsby has selected. The most serious problems with
22 RUCO's CAPM, in summary, are

23 (1) RUCO uses geometric means to estimate the market risk premium which are
24 conceptually incorrect and result in very low CAPM estimates.

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26 ³⁹ Federal Reserve, January 15, 2010.

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(2) RUCO uses conceptually incorrect 5 year U.S. Treasuries for its risk-free rate.
(3) RUCO's CAPM results of RUCO's are at or below the cost of investment grade bonds.

Q. AT PAGE 9 OF HIS TESTIMONY, MR. RIGSBY ARGUES THAT BOTH THE GEOMETRIC AS WELL AS THE ARITHMETIC ANNUAL AVERAGES SHOULD BE CONSIDERED WHEN ESTIMATING THE MARKET RISK PREMIUM. DO YOU HAVE A RESPONSE?

A. I addressed this in my rebuttal testimony.⁴⁰ I also attached an excerpt from Dr. Morin's textbook in my Exhibit TJB-COC-RB3 to that testimony to show why no weight should be given to geometric annual averages when computing the market risk premium ("MRP"). At page 8, lines 22-24, Mr. Rigsby says that consideration of geometric annual averages is "particularly relevant in the case of the return on the stock market, which has had its share of ups and downs." He is correct that the stock market has been volatile. In fact, the stock market has been unusually volatile in the past 5 years. But such volatility is only recognized by the arithmetic annual average. By contrast, the geometric annual average simply compares two observations – the one at the start of the period and the one at the end of the period. It ignores the variability in returns that occurred between the beginning and ending points, and therefore understates the risk associated with the market. A good illustration of this point is found in Dr. Morin's textbook on page 134, attached to my rebuttal testimony as Exhibit TJB-COC-RB3, which compares the historical returns of two stocks calculated using arithmetic and geometric averages.

⁴⁰ Bourassa COC Rb. at 36 – 37.

1 **Q. DOES MR. RIGSBY'S EXAMPLE ON PAGES 10 AND 11 OF HIS**
2 **SURREBUTTAL TESTIMONY JUSTIFY USING GEOMETRIC ANNUAL**
3 **AVERAGES TO FORECAST THE FUTURE?**

4 **A.** No. His example correctly shows that the geometric annual average is the best way
5 to describe what has happened in the past, but our goal is to forecast what may
6 happen in the future. When we are determining a forecast of the future from past
7 data, we never know what the final outcome will be when we hold risky assets.
8 Therefore, we look at an average of all of the annual returns from the past to try
9 and glean what may happen. If we actually know what is going to happen – as
10 Mr. Rigsby assumes – the asset would be risk-less and not a risky asset like a
11 common stock.

12 **Q. AT PAGE 12, MR. RIGSBY CITES A BOOK BY COPELAND, KOLLER**
13 **AND MURRIN ("CKM") TO SUPPORT HIS CLAIM THAT A TRUE**
14 **MARKET RISK PREMIUM MAY LIE SOMEWHERE BETWEEN THE**
15 **ARITHMETIC AND GEOMETRIC ANNUAL AVERAGES. DOES IT?**

16 **A.** No. At page 219, the authors state:

17 The arithmetic average is the best estimate of future expected
18 returns because all possible paths are given equal weighting.
19 The simple geometric average return is 0 percent [in exhibit
20 10.6], but this is the historical return along a single path that
 was realized by chance. Although the geometric return is the
 correct measure of historical performance, it is not forward-
 looking.

21 **Q. AT PAGE 12, LINES 18-22, MR. RIGSBY ALSO CLAIMS THE CKM**
22 **BOOK SHOWS THAT YEAR-TO-YEAR RETURNS ARE NOT**
23 **INDEPENDENT, WHICH MEANS THAT THE ARITHMETIC AVERAGE**
24 **BASED ON AN AVERAGE OF ANNUAL RETURNS HAS LESS**
25 **CREDENCE. WHAT DOES CURRENT RESEARCH SHOW ON THIS**
26 **POINT?**

1 A. Morningstar provides updated evidence on this point. Morningstar has determined
2 that the yearly difference between the stock market total return and the income
3 return on long-term Treasury securities in any particular year is random, i.e., there
4 is no serial correlation.⁴¹ Therefore, the arithmetic average of those annual returns
5 provides the best estimate of the average of all “possible paths” of concern to
6 CKM. Also, if annual returns are independent of each other, it is appropriate to use
7 annual periods, rather than a longer period such as two years or three years, as is
8 suggested by Mr. Rigsby at page 13, to compute arithmetic averages.

9 **Q. AT PAGE 13 OF HIS TESTIMONY, MR. RIGSBY ALSO DISCUSSES**
10 **OTHER POTENTIAL DATA PROBLEMS RAISED BY CKM AND**
11 **STATES THAT AFTER CKM CONSIDERED THOSE PROBLEMS, THEIR**
12 **ESTIMATE OF THE MRP WAS IN THE RANGE OF 4.0% TO 5.5%. IS**
13 **HE CORRECT?**

14 A. No. Based on the data in CKM Exhibit 10.8, they determined that the MRP based
15 on arithmetic annual averages was 7.5%, which is consistent with Morningstar,
16 Morin and other reliable sources. They then arbitrarily substitute an average based
17 on two-year periods, 6.5%, and combine that average with a negative adjustment of
18 1.5% to 2.0% to account for their subjective view that U. S. stock markets will not
19 do as well during the next 100 years as they have in the past, to determine a MRP
20 range of 4.5% to 5.0%. Given the updated analysis in Morningstar, which shows
21 that annual market returns are random and are not influenced by returns in the prior
22 year, the correct MRP estimated by these authors is 7.5% if we do not apply their
23 subjective downward adjustment. Mr. Rigsby should have relied upon the 7.5%
24 MRP in his CAPM estimate.

25
26 ⁴¹ Morningstar, Ibbotson SBBI 2009 Valuation Yearbook, p 60.

1 **Q. ARE THERE OTHER PROBLEMS WITH MR. RIGSBY'S**
2 **CALCULATIONS AT PAGE 13?**

3 A. Yes. He adds the risk premium range determined by CKM to a 5-year Treasury
4 bond rate, when the MRP range computed by CKM was based on differences
5 between returns for large company stocks and long-term government bonds. This
6 inconsistency must be corrected if data from CKM are used to make the CAPM
7 estimate. Without the correction, his choice of a 5-year Treasury bond rate biases
8 downward the equity cost range.

9 **Q. WHAT HAPPENS TO HIS CAPM EQUITY COST ESTIMATE AT PAGE**
10 **13, LINE 17 IF YOU MAKE THE TWO CORRECTIONS YOU HAVE**
11 **IDENTIFIED?**

12 A. It increases the equity cost, which Mr. Rigsby determined to fall in a range of
13 6.26% to 7.76%⁴², to 11.9%. The 11.9% is found by adding together a current
14 long-term Treasury rate of 4.4% and the 7.5% MRP actually estimated by CKM.
15 Mr. Rigsby notes that since utilities are generally somewhat less risky than the
16 market as a whole and suggests his 9.0% cost of equity is too high.⁴³ If we
17 combine his beta of 0.83⁴⁴ to account for this lower utility risk, his revised CAPM
18 indicates the cost of equity for a typical water utility is 10.6%, found as

$$\text{Equity cost} = 4.4\% + (0.83 \times 7.5\%) = 10.6\%$$

19
20 **Q. ON PAGE 14 OF HIS TESTIMONY, MR. RIGSBY SUGGESTS THAT YOU**
21 **WERE INCORRECT IN YOUR CRITICISM OF HIS USE OF TOTAL**
22 **RETURNS ON BONDS TO COMPUTE HIS MARKET RISK PREMIUM.**
23 **PLEASE COMMENT.**

24 _____
⁴² Rigsby Sb. at 13.

25 ⁴³ *Id.*

26 ⁴⁴ See RUCO Schedule WAR-1, page 3 of 3.

1 A. As I testified, if the total return on a Treasury security is used, additional risk from
2 capital loss or gain is injected into the CAPM estimate, which is inconsistent with
3 treating the Treasury security as a riskless asset.⁴⁵ Thus, income returns rather than
4 total returns should be used in the estimation of the equity risk premium.⁴⁶
5 Mr. Rigsby admits that Treasury security income returns ignore the fluctuations in
6 the price of the bonds - which is exactly what is required for treating the security as
7 a riskless asset. I would note that, in the instant case, Staff does not use a MRP
8 based upon total returns in its CAPM estimates, presumably for the same reasons.⁴⁷

9 **Q. DOES THE FACT THAT UTILITY RATES ARE NOT SET EVERY**
10 **THIRTY YEARS HAVE ANYTHING TO DO WITH THE PROPER**
11 **CHOICE OF THE LENGTH OF THE TREASURY THAT SHOULD BE**
12 **USED IN THE CAPM AS SUGGESTED BY MR. RIGSBY ON PAGE 14 OF**
13 **HIS TESTIMONY?**

14 A. No. This is nonsense. As I explained in my rebuttal testimony, the expected stock
15 return is based upon long-term cash flows, regardless of an individual's holding
16 period.⁴⁸ Moreover, short term rates are volatile, fluctuate widely, and are subject
17 to more random disturbances leading to volatile and unreliable equity returns.⁴⁹

18 **Q. DOES THE ARGUMENT THAT THE ECONOMY IS IMPROVING MAKE**
19 **THE USE OF A CURRENT MARKET RISK PREMIUM PASSE?**

20 A. Again, no. I find it odd that Mr. Rigsby now seeks to dismiss any consideration of
21 the current economic conditions. After all, he acknowledges the importance of

22 _____
23 ⁴⁵ Bourassa COC Rb. at 37 – 38.

24 ⁴⁶ Id. at 38.

25 ⁴⁷ Manrique Dt. at 29. Staff uses historical market risk premium calculated from Ibbotson Associates
26 SBBI 2009 Yearbook data.

⁴⁸ Bourassa COC Rb. at 38 – 39.

⁴⁹ Id. at 39.

1 considering current economic conditions.⁵⁰ As I have testified, changes in the
2 current market risk premium have been a significant factor in the cost of equity
3 authorized by the Commission in the past.⁵¹ And, the current market risk premium
4 has had impact on the cost of equity in both directions over the years.⁵² My current
5 market equity risk premium of 13.1% in the instant case is no larger than current
6 market risk premiums employed by Staff and relied upon when adopting Staff cost
7 of equity in the past.⁵³ Further, while economic conditions have improved since
8 the start of the recession in 2008, unemployment remains high and the economic
9 outlook is still uncertain. Value Line recently commented that “the strength and
10 sustainability of the economic recovery are open questions at this time”.⁵⁴

11 **Q. ON PAGE 15 AND 16, MR. RIGSBY STATES HIS RECOLLECTION OF**
12 **COMMENTS MADE BY PROFESSOR DAMODARAN AND PROFESSOR**
13 **MARSTON AT A 2007 CONFERENCE HE SAYS HE ATTENDED. DO**
14 **STUDIES MADE BY THOSE PROFESSORS LEAD YOU TO QUESTION**
15 **WHETHER THEY WOULD ENDORSE A RANGE OF MRPS OF 4.0% TO**
16 **5.5% IN 2010?**

17 **A.** Yes. I was not at the 2007 conference and do not know what was actually said and
18 in what context. I am also not aware of the studies upon which the panelists relied.
19 I am aware of a 2009 estimate of the current MRP estimated by Professor
20 Damodaran and I am also aware of a paper written by Dr. Marston which suggests
21 these two would not say the current MRP falls in a range of 4.0% to 5.0%. First,
22 with respect to Professor Damodaran, I am aware that his current estimate of the

23 ⁵⁰ Rigsby Dt. at 38 – 39.

24 ⁵¹ Bourassa COC Rb. at 41 – 42.

25 ⁵² *Id.* at 42.

26 ⁵³ *Id.* at 40.

⁵⁴ Value Line *Selection and Opinion*, February 26, 2010.

1 MRP is 6.43%. Work papers supporting that estimate were provided by
2 Department of Ratepayer Advocates witness Professor J.R. Woolridge in
3 California PUC Application 09-05-001, et al., which went to hearing in August
4 2009. I was a witness in that case for Valencia Water (Application 09-05-002) and
5 reviewed the work papers supporting the Damodaran estimate. It is possible that
6 Professor Damodaran presented a lower MRP estimate in 2007.

7 Second, with respect to Professor Marston, I am aware of a paper, "Ex Ante
8 Cost of Equity Estimates of S&P 500 Firms: The Choice between Global and
9 Domestic CAPM, published in Financial Management (Autumn 2003), co-authored
10 with Robert Harris, Dev Mishra and Thomas O'Brien, Professor Marston estimated
11 the MRP to be 7.3% based on data for a 16 year period ending in 1998. Given her
12 past published study, I am puzzled she would state that the MRP has dropped to
13 less than 5.5% at a conference. As with Professor Damoradan, it is possible that
14 Professor Martson presented a lower estimate in 2007, but I am not sure on what
15 basis Professor Martson would have based her opinion.

16 **Q. WERE CURRENT MARKET RISK PREMIUMS LOWER DURING THIS**
17 **TIME PERIOD?**

18 A. As I discussed in my rebuttal testimony, during the Black Mountain Company rate
19 case in 2006, Staff computed a current MRP of 5.7%, which was much lower than
20 earlier estimates which over 13%.⁵⁵ The 5.7% is near the range allegedly offered
21 by the panelists mentioned by Mr. Rigsby.

22 **Q. DO YOU HAVE ANY RESPONSE TO THE CAPM CALCULATIONS**
23 **PRESENTED AT PAGE 16 AND 17 BY MR. RIGSBY?**

24
25
26 ⁵⁵ Bourassa COC Rb. at 40.

1 A. Yes. These calculations are simply mechanical applications of the simple version
2 of the CAPM. They rely on the wrong interest rate concept and MRPs attributed to
3 someone who is not a witness in this case. There is no reason to believe the 4% or
4 the 5% MRPs are reasonable at this time. Notwithstanding the fact that there is no
5 support for either of these calculations, there are serious problems with
6 Mr. Rigsby's claim that equity cost estimates of 5.58% and 6.41% are reasonable
7 when the cost of Baa bonds was 6.48%. A reasonable estimate of the cost of equity
8 must be higher than the cost of Baa bonds.

9 **E. RUCO's Hypothetical Capital Structure**

10 **Q. PLEASE SUMMARIZE THE FINAL POSITIONS OF THE PARTIES**
11 **CONCERNING THE COMPANY'S CAPITAL STRUCTURE AND WHAT,**
12 **IF ANY ADJUSTMENTS TO THAT CAPITAL STRUCTURE ARE**
13 **APPROPRIATE FOR RRUI.**

14 A. RRUI's actual capital structure consists of 100 percent equity. RRUI and Staff
15 propose the use of the Company's actual capital structure to develop the WACC
16 and required rate of return on rate base, which is consistent with RRUI's prior rate
17 case and other water and wastewater utility rate cases in this jurisdiction. Staff
18 proposes a direct, downward adjustment to the cost of equity of 110 basis points in
19 order to account for the Company's reduced financial risk that is calculated using
20 the Hamada formula. I also propose such a reduction, but of a smaller magnitude.
21 As I have explained, Staff's adjustment is incorrectly calculated and erroneously
22 assumes the RRUI would have the same beta as the water utility sample.

23 RUCO, however, has taken a much different tack, and argues that a
24 hypothetical capital structure should be imputed to RRUI, containing 40 percent
25 hypothetical debt at a hypothetical interest rate of 6.26 percent. This produces a
26

1 WACC of 7.9 percent (which happens to also equal the cost of equity produced
2 Mr. Rigsby's DCF and CAPM models). In his direct testimony, Mr. Rigsby
3 justified this unusual regulatory treatment by claiming it is necessary to properly
4 account for RRUI's lower level of financial risk, resulting from the absence of debt
5 in RRUI's capital structure as compared to the amount of debt in the capital
6 structures of the large, publicly traded utilities used in the his DCF and CAPM
7 models.⁵⁶ Now, in his surrebuttal testimony, Mr. Rigsby has brought out a new
8 argument: A hypothetical capital structure is needed to reduce the Company's
9 earnings. In other words, RRUI should be punished for not having a capital
10 structure that is similar to the capital structure of a large, publicly traded utility.

11 As I stated in my rebuttal testimony, this is unfair and confiscatory.
12 Mr. Rigsby effectively turns 40 percent of the investor's equity investment into
13 debt and then provides a return on that equity investment equal to only 6.26
14 percent. Moreover, Mr. Rigsby creates fictional interest expense resulting from
15 fictional debt with a fictional interest rate to eliminate income tax expense and,
16 ultimately, lower RRUI's test year operating expenses by nearly \$100,000. That
17 reduction reduced the Company's actual rate of return on rate base to
18 approximately 6.9 percent – a return that is hundreds of basis points less than the
19 cost of equity indicated by the parties finance models.

20 **Q. WHY IS THE REGULATORY TREATMENT ADVOCATED BY RUCO**
21 **UNUSUAL, MR. BOURASSA?**

22 **A.** In recent decisions involving water and sewer utilities, the Commission has used
23 the utility's actual capital structure and, in some cases, has adjusted the return on
24 equity to account for financial risk. When it has made an adjustment for financial
25

26 ⁵⁶ Rigsby Dt. at 54 – 55.

1 risk, the Commission has done so by adding or subtracting basis points from the
2 cost of equity. The use of a hypothetical capital structure has been rarely used, and
3 normally only in unusual cases such as the Tucson Electric Power Company case,
4 discussed in Mr. Rigsby's surrebuttal testimony, where the utility was insolvent
5 and had a capital structure consisting of 100 percent debt.⁵⁷

6 For example, in a recent rate case for Arizona-American Water Company's
7 ("Arizona-American") Paradise Valley District, the Commission adopted Staff's
8 10.4 percent return on common equity, which included an upward adjustment of 50
9 basis points to account for the high percentage of debt in that utility's capital
10 structure.⁵⁸ In approving this approach, the Commission explained: "RUCO and
11 Staff appropriately addressed the Company's higher debt ratio *by the generally*
12 *accepted regulatory means of accounting for financial risk*, adding basis points to
13 the results of their CAPM and DCF analyses."⁵⁹ Notably, in that case, Mr. Rigsby
14 "added 50 basis points to his cost of equity estimate to account for the increased
15 financial risk faced by Arizona-American as a result of the Company's debt-heavy
16 capital structure," just as he did in Arizona-American's prior rate case, decided in
17 2004.⁶⁰ RUCO did not propose a hypothetical capital structure.

18 In other recent cases involving larger-sized Arizona water and wastewater
19 utilities, the Commission has made an adjustment for financial risk in some cases
20 but not in others.⁶¹ In RRUI's previous case, for example, the utility had a capital

21 ⁵⁷ Rigsby Sb. at 21 – 22.

22 ⁵⁸ *Arizona-American Water Company*, Decision No. 68858 (July 28, 2006) at 28.

23 ⁵⁹ *Id.* (emphasis supplied).

24 ⁶⁰ *Id.* at 25.

25 ⁶¹ *See, e.g.*, Decision No. 68302 at 30, 34 – 36 (73.4 percent equity; no financial risk adjustment);
26 *Chaparral City Water Company*, Decision No. 68176 (September 30, 2005) at 16, 25 – 26 (58.7 percent
equity; no financial risk adjustment); *Arizona Water Company* (Eastern Group), Decision No. 66849
(March 19, 2004) at 23 – 24, (66.2 percent common equity; Staff's 20 basis point downward adjustment
for financial risk rejected).

1 structure consisting of 100 percent equity and no debt, but no adjustment was made
2 for financial risk.⁶² More recently, in Black Mountain Sewer Corporation's rate
3 case, the utility and Staff recommended the use of the utility's 100 percent equity
4 capital structure, while RUCO proposed a hypothetical capital structure containing
5 57 percent equity and 43 percent debt.⁶³ The rationale provided by RUCO for
6 using a hypothetical capital structure in Black Mountain's case is the same
7 rationale that RUCO provided in this case:

8 The water utilities in my sample, from which I derived an
9 estimated cost of common equity of 9.49 percent, would be
10 considered as having a higher level of financial risk (i.e. the
11 risk associated with debt repayment) because of their higher
12 levels of debt. The additional financial risk due to debt
13 leverage is embedded in the cost of equities [sic] derived for
14 those companies through the DCF analysis. Thus, the 9.49
15 percent cost of equity derived in my DCF analysis is
16 applicable to companies that are more leveraged and,
17 theoretically speaking, riskier than a utility with no debt in its
18 capital structure.⁶⁴

19 The Commission rejected RUCO's proposed hypothetical capital structure,
20 concluding that a capital structure comprised of 100 percent equity should be used
21 in calculating Black Mountain's cost of equity. The Commission stated: "We
22 believe RUCO's hypothetical capital structure recommendation *is results oriented*
23 *and is not consistent with the Company's actual capital structure.*"⁶⁵ Instead, the
24 Commission adopted the utility's actual capital structure containing 100 percent
25 equity, and explained "that adoption of Staff's recommendation results in a just and
26 reasonable return for [Black Mountain]."⁶⁶

23 ⁶² *Rio Rico Utilities, Inc.*, Decision No. 67279 (October 5, 2004) at 11.

24 ⁶³ Decision No. 69164 at 19.

25 ⁶⁴ Direct Testimony of William A. Rigsby, filed March 9, 2006 in Docket No. SW-02361A-05-0657, at 52.

26 ⁶⁵ Decision No. 69164 at 20 (emphasis supplied).

⁶⁶ *Id.* at 27, 39 (finding of fact 19).

1 In short, as these examples show, the Commission does not consider using a
2 hypothetical capital structure to account for financial risk, absent unusual
3 circumstances, such as the Tucson Electric case and, in fact, does not always adjust
4 the utility's cost of equity, even when its capital structure contains no debt.

5 **Q. IF, AS THE COMMISSION HAS STATED, THE "GENERALLY**
6 **ACCEPTED REGULATORY MEANS OF ACCOUNTING FOR**
7 **FINANCIAL RISK" IS ADJUSTING THE CAPM AND DCF ANALYSES,**
8 **HOW DO YOU EXPLAIN THE COMMISSION'S DECISION IN THE**
9 **GOLD CANYON SEWER COMPANY RATE CASE?**

10 A. I can't. That decision⁶⁷, which is discussed in Mr. Rigsby's direct testimony⁶⁸, is
11 best viewed as outlier. It conflicts with the decisions described above and contains
12 no explanation of why the Commission rejected use of the Hamada formula, which,
13 as explained, is the method normally used to account for financial risk.⁶⁹ That is
14 one of the reasons why the utility appealed the Commission's decision. Given the
15 lack of any explanation or reasoning for what the Commission did, it certainly
16 doesn't alter the fact that the Commission normally adjusts the cost of equity
17 upward or downward to account for financial risk and, in a number of cases, has
18 made no adjustment at all.

19 **Q. SINCE WE ARE DEALING IN HYPOTHETICALS, IF A FICTITIOUS**
20 **CAPITAL STRUCTURE WITH FICTITIOUS DEBT WERE IMPUTED TO**
21 **RRUI, DOES THAT MEAN THAT RRUI'S INCOME TAX EXPENSE**
22 **SHOULD BE REDUCED?**

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⁶⁷ *Gold Canyon Sewer Company*, Decision No. 70624 (November 9, 2008).

25 ⁶⁸ Rigsby Dt. at 54 – 55.

26 ⁶⁹ Decision No. 70624 at 14 (finding of fact 32).

1 A. Absolutely not. As Mr. Rigsby explained in his direct testimony, the purpose of
2 using a hypothetical capital structure is to account for financial risk, not as an
3 excuse to lower operating expenses.⁷⁰

4 However, in his surrebuttal testimony, Mr. Rigsby now contends that the
5 Hamada formula should not be used because it fails to produce a weighted cost of
6 debt that can be used in an interest synchronization calculation.⁷¹

7 **Q. I AM CONFUSED, MR. BOURASSA. WHAT DOES INTEREST**
8 **SYNCHRONIZATION HAVE TO DO WITH WHETHER AN**
9 **ADJUSTMENT TO COST OF EQUITY IS APPROPRIATE TO ACCOUNT**
10 **FOR FINANCIAL RISK?**

11 A. I understand your confusion. Interest synchronization has nothing to do with
12 developing an appropriate cost of equity. It is instead intended to match a utility's
13 interest expense with the portion of the utility's rate base financed by debt. RRUI,
14 however, has no debt in its capital structure and thus has no interest to synchronize
15 with its rate base. RUCO's adjustment is entirely fictitious and, frankly, punitive
16 in nature.

17 **Q. WHY IS IT PUNITIVE?**

18 A. Because as Mr. Rigsby's surrebuttal testimony shows, RUCO is actually using its
19 recommended hypothetical structure to lower RRUI's operating expenses, not to
20 develop an appropriate cost of equity. In effect, RRUI and its shareholder are
21 being punished because they have financed their plant with equity. The penalty
22 being imposed is the loss of almost \$100,000 of operating expenses, in addition to
23 having the WACC reduced by the imputation of fictional debt at an unrealistic cost.
24 This penalty will discourage investment in Arizona, and ensure that RRUI cannot

25 ⁷⁰ Rigsby Dt. at 54 – 55.

26 ⁷¹ Rigsby Sb. at 20.

1 earn a reasonable return on its invested capital. Thus, it is both bad policy and
2 unlawful.

3 The new argument presented by Mr. Rigsby also cannot be squared with the
4 Commission decisions I discussed earlier. In the Black Mountain rate case, for
5 example, Staff's cost of capital witness, in explaining why no adjustment to the
6 utility's return on equity was appropriate, stated:

7 Staff's ROE recommendation does not reflect a financial risk
8 adjustment due to the lower financial risk reflected in the
9 Applicant's capital structure in relation to that of the sample
10 companies because *the Applicant's capital structure is reasonable and the Applicant should be encouraged, not discouraged, to maintain a healthy capital structure.*⁷²

11 As I stated, in that case, the Commission adopted Black Mountain's actual capital
12 structure containing 100 percent equity, and explained that adoption of Staff's
13 recommendation results in a just and reasonable return.

14 The bottom line is that both the Hamada formula and a hypothetical capital
15 structure are tools to develop an appropriate cost of equity. Neither is intended to
16 be used to manipulate a utility's income tax expense, and thereby prevent the utility
17 from actually earning its authorized rate of return.

18 **F. RUCO's Unrealistic Cost of Debt**

19 **Q. PLEASE COMMENT ON MR. RIGSBY'S HYPOTHETICAL COST OF**
20 **DEBT.**

21 **A.** As already mentioned, Mr. Rigsby's hypothetical cost of debt, applicable to 40
22 percent of his hypothetical capital structure, is 6.26 percent. He bases this debt
23 cost on the average weighted cost of debt for the large, publicly traded water
24 utilities in his water proxy group. As I previously discussed, those water utilities

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26 ⁷² Surrebuttal Testimony of Pedro M. Chaves, filed May 4, 2006 in Docket No. SW-02361A-05-0657, at 2 (emphasis supplied).

1 have, on average, net plant of \$1.47 billion and revenue of \$488 million.
2 Moreover, because of their size and the fact that they issue debt in the public
3 markets, these utilities have published bond ratings. Mr. Rigsby assumes that
4 RRUI could raise debt capital at the same cost as these entities. I seriously doubt
5 that it could, and note that Mr. Rigsby has presented no evidence to support his
6 assumption.

7 **Q. DO YOU HAVE ANY ADDITIONAL COMMENTS ON MR. RIGSBY'S**
8 **UNREALISTIC HYPOTHETICAL DEBT COST?**

9 A. Yes. Mr. Rigsby continues to assert that because the Company's parent has access
10 to the capital markets, the Company can obtain debt financing at a cost of 6.26
11 percent per annum, i.e., the current yield on a Baa bond. This debt cost is based on
12 the average weighted cost of debt for the large, publicly traded water utilities in his
13 water proxy group. As I have discussed in my previous testimony, those water
14 utilities have, on average, net plant of \$1.47 billion and revenue of \$488 million.
15 Moreover, because of their size and the fact that they issue debt in the public
16 markets, these utilities have published bond ratings. They are much different from
17 RRUI in terms of operating income, cash flow, investment in plant, and other
18 criteria that would be considered by a lender.

19 Mr. Rigsby apparently acknowledges that RRUI could not borrow the
20 equivalent of 40 percent of its capitalization – about \$4.5 million – at an interest
21 rate approaching 6.26 percent. He argues instead that the Company's parent should
22 obtain debt financing for the Company. This is illogical. An equity investor is not
23 required to provide debt financing to the firm by virtue of holding the firm's
24 common stock. To my knowledge, the shareholders of Aqua America and
25 California Water Service aren't required to secure debt financing for those utilities.

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If that were the case, the return on equity would have to be increased substantially in order to compensate shareholders for acting as lenders.

Q. HAS MR. RIGSBY PROPOSED TO ADD A PREMIUM TO THE AUTHORIZED RETURN ON EQUITY TO COMPENSATE FOR THE ADDITIONAL RISK OF PROCURING DEBT FINANCING FOR RRUI?

A. No. The authorized return on equity must compensate investors for the risks they have assumed by investing their capital in the enterprise. If those risks also include providing debt financing, a higher return on equity is required. Yet RUCO proposes an effective return on equity of 6.9 percent for RRUI, which is barely above an investment grade bond and far less than equity return estimated by the parties for the industry sample groups. Again, RUCO's recommendations are punitive and should be rejected.

Q. DOES THAT CONCLUDE YOUR REJOINDER TESTIMONY ON COST OF CAPITAL?

A. Yes.