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**BEFORE THE ARIZONA CORPORATION COMMISSION**

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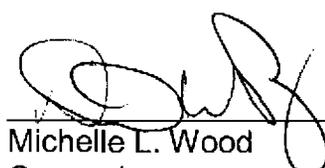
8 IN THE MATTER OF THE APPLICATION OF  
 9 CHAPARRAL CITY WATER COMPANY,  
 10 INC., AN ARIZONA CORPORATION, FOR A  
 11 DETERMINATION OF THE FAIR VALUE OF  
 ITS UTILITY PLANT AND PROPERTY AND  
 FOR INCREASES IN ITS RATES AND  
 CHARGES FOR UTILITY SERVICE BASED  
 THEREON.

Docket No. W-02113A-07-0551

**NOTICE OF FILING**

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the Direct Rehearing Testimony of William A. Rigsby in the above-referenced matter.

RESPECTFULLY SUBMITTED this 5<sup>th</sup> day of April, 2010

18   
 19 \_\_\_\_\_  
 Michelle L. Wood  
 Counsel

Arizona Corporation Commission  
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1 AN ORIGINAL AND THIRTEEN COPIES  
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2 of April, 2010 with:

3 Docket Control  
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4 1200 West Washington  
Phoenix, Arizona 85007

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

7 Teena Wolfe  
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8 Hearing Division  
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9 1200 West Washington  
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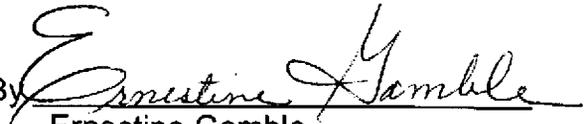
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By   
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**CHAPARRAL CITY WATER COMPANY, INC.**

**DOCKET NO. W-02113A-07-0551**

**DIRECT REHEARING TESTIMONY**

**OF**

**WILLIAM A. RIGSBY**

**ON BEHALF OF**

**THE**

**RESIDENTIAL UTILITY CONSUMER OFFICE**

**APRIL 5, 2010**

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1 **INTRODUCTION**

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

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

6

7 Q. Please describe your qualifications in the field of utilities regulation and  
8 your educational background.

9 A. Appendix 1 of my direct testimony describes my educational background  
10 and also includes a list of the rate cases and regulatory matters that I have  
11 been involved with.

12

13 Q. Please state the purpose of your testimony.

14 A. The purpose of my testimony is to present RUCO's positions and  
15 recommendations on two issues that the Arizona Corporation Commission  
16 ("ACC" or "Commission") ruled on in Decision No. 71308, dated October  
17 21, 2009, which are now being reheard under A.R.S. § 40-252 and A.R.S.  
18 § 40-253 ("Rehearing").

19

20 Q. What two issues are the subjects of this Rehearing?

21 A. The first issue involves the recovery of legal expenses associated with  
22 Chaparral's appeal of Decision No. 68176, dated September 30, 2005,

1 and a subsequent remand hearing<sup>1</sup> ("Remand Proceeding") which  
2 resulted in Decision No. 70441, dated July 28, 2008. The second issue  
3 involves the ratemaking treatment of monetary proceeds that were  
4 received by Chaparral as part of a settlement agreement that was reached  
5 between the Company and the Fountain Hills Sanitary District ("FHSD").  
6

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

8 A. Yes I have. On September 30, 2008, I filed direct testimony on  
9 Chaparral's application for a permanent rate increase<sup>2</sup> ("Application")  
10 which was filed with the Commission on September 26, 2007. My direct  
11 testimony addressed Chaparral's request for the recovery of legal  
12 expenses in connection with the appeal of Decision No. 68176, which is  
13 one of the two issues being reheard in this proceeding. On November 20,  
14 2008 I filed surrebuttal testimony on this same issue and I also testified on  
15 it during the evidentiary hearing which was held at the ACC's Phoenix  
16 Office on December 8, 9 and 10, 2008, and January 8 and 9, 2009. I was  
17 also present during the March 18, 2010 ACC Staff meeting when the  
18 Commission voted to proceed with this rehearing under both A.R.S. § 40-  
19 252 and A.R.S. § 40-253.

---

<sup>1</sup> Docket No. W-02113A-04-0616

<sup>2</sup> Docket No. W-02113A-07-0551

1 Q. Did RUCO also file testimony on the FHSD settlement agreement issue?

2 A. Yes. That issue was addressed in the surrebuttal testimony of RUCO  
3 witness Timothy J. Coley, who also testified on behalf of RUCO during the  
4 evidentiary hearing on Chaparral's Application.

5

6 Q. Will Mr. Coley be testifying in this proceeding?

7 A. No. For the purposes of this rehearing I have adopted Mr. Coley's prior  
8 surrebuttal testimony that pertains to the FHSD settlement agreement and  
9 will address both issues during this Rehearing.

10

11 Q. How is your Rehearing testimony organized?

12 A. My Rehearing testimony contains four parts: the introduction that I have  
13 just presented; a summary of RUCO's recommendations on the two  
14 issues that are being addressed in this proceeding; a section on the  
15 recovery of legal expenses in connection with the Remand Proceeding;  
16 and a section on the ratemaking treatment of monetary proceeds that  
17 were received by Chaparral under the FHSD settlement agreement.

18

19

20

21

22

1 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

2 Q. Please summarize the recommendations that you will address in your  
3 Rehearing testimony.

4 A. RUCO contends that the Commission appropriately and accurately  
5 decided the two issues pending in this Rehearing. Decision No. 71308  
6 should not be further amended.

7  
8 Recovery of Legal Expenses Associated with the Appeal of Decision No.

9 68176 – I am recommending that the Commission continue to reject  
10 Chaparral's request for recovery of legal expenses attributed to both the  
11 Appeal of Decision No. 68176 and the subsequent Remand Proceeding.  
12 This recommendation is consistent with RUCO's position during  
13 Chaparral's rate case proceeding and was adopted by the Commission in  
14 Decision No. 71308.

15  
16 FHSD Settlement Agreement Proceeds – I am recommending that the

17 Commission continue to treat 100 percent of the FHSD settlement  
18 proceeds as a regulatory liability in the amount of \$1,216,000 to be  
19 deducted from the Company's rate base. This recommendation is  
20 consistent with ACC Staff's original recommendation prior to the  
21 evidentiary hearing on the Company's Application, is consistent with

1 RUCO's position since the surrebuttal phase of Chaparral's rate case  
2 proceeding, and was adopted by the Commission in Decision No. 71308.

3  
4 **RECOVERY OF LEGAL EXPENSES ASSOCIATED WITH THE APPEAL OF**  
5 **DECISION NO. 68176**

6  
7 Q. When was the issue of the recovery of legal expenses associated with the  
8 appeal of Decision No. 68176 originally addressed?

9 A. The issue was originally addressed during the Remand Proceeding of  
10 Docket No. W-02113A-04-0616, that was conducted as a result of  
11 Chaparral's appeal of Decision No. 68176 and which resulted in Decision  
12 No. 70441. During the Remand Proceeding the Company sought  
13 recovery of \$100,000 in legal expenses incurred after the Commission  
14 issued Decision No. 68176. In Decision No. 70441 (the Remand  
15 Decision), the Commission elected not to adopt Chaparral's request,  
16 concluding that the Company could seek recovery of the legal expenses  
17 associated with the appeal of Docket No. W-02113A-04-0616 in  
18 Chaparral's pending permanent rate case proceeding (Docket No. W-  
19 02113A-07-0551), which had been suspended pending the outcome of the  
20 Remand Proceeding.

21 Upon the resumption of the Company's permanent rate case proceeding,  
22 Chaparral filed supplemental testimony seeking to recover \$258,511 out of  
23 a total amount of \$520,000 in legal expenses attributed to both the  
24 Company's appeal of Decision No. 68176 and the subsequent Remand

1 Proceeding. In addition to the \$258,511, the Company sought \$280,000  
2 of rate case expense for the permanent rate case, Docket No. W-02113A-  
3 07-0551 and testified to having spent \$30,000 for negotiation of the FHSD  
4 settlement.

5  
6 Q. What was RUCO's recommendation regarding the Company's request?

7 A. Although RUCO did not oppose the Company's request for \$280,000 rate  
8 case expense for the permanent rate case, or the \$30,000 award of rate  
9 case expense for negotiation of the FHSD settlement, RUCO  
10 recommended that the Commission reject Chaparral's request for  
11 recovery of an additional \$258,111 in legal expenses attributed to both the  
12 appeal of Decision No. 68176 and the subsequent Remand Proceeding.  
13 RUCO believed then, as it still does now, that Chaparral made a  
14 conscious business decision to appeal Decision No. 68176 for the sole  
15 benefit of its shareholders and that the Company should have weighed all  
16 of the possible risks associated in obtaining a satisfactory decision from  
17 both the Court of Appeals and the ACC. RUCO took the position that  
18 Chaparral should have also taken into consideration what a possible  
19 outcome could mean in terms of obtaining its desired level of operating  
20 income. The chain of events that caused Chaparral to incur the legal  
21 expenses that it sought to recover from captive ratepayers was directly

1 attributed to the Company's business decision to appeal Decision No.  
2 68176.

3  
4 Q. Did the Administrative Law Judge ("ALJ") assigned to the case adopt  
5 RUCO's recommendation in her Recommended Opinion and Order?

6 A. No. In her Recommended Opinion and Order issued on November 25,  
7 2009, the ALJ assigned to the case adopted ACC Staff's recommendation  
8 that Chaparral be permitted to recover \$100,000 in legal fees attributed to  
9 both the appeal of Decision No. 68176 and the Remand Proceeding.

10  
11 Q. Did RUCO file exceptions to the Recommended Opinion and Order?

12 A. Yes. In RUCO's exceptions, filed on October 2, 2009, RUCO argued that  
13 permitting utilities to recover their rate case expense for an appeal  
14 intended solely to benefit shareholders leaves utilities with the expectation  
15 that they can pursue any lawsuit with no worry of the costs associated  
16 therewith because captive ratepayers will pick up the tab.

17 RUCO also argued that a policy which compensates utilities for the pursuit  
18 of shareholder lawsuits encourages a lack of restraint and undermines the  
19 appropriate cost benefit analysis of the risks and benefits of litigation. The  
20 fact that the Company spent \$500,000 to recover an additional \$12,000 in  
21 required revenue could not be clearer proof of RUCO's concerns.

1 RUCO further argued that since the Court of Appeals did not award  
2 attorneys fees to Chaparral, the Company should not be allowed to do so  
3 as rate case expense.

4  
5 Q. Did the Commission adopt the ALJ's recommendation in their final  
6 Decision on the Chaparral rate case proceeding?

7 A. Partly. The Commission granted the Company \$280,000 in rate case  
8 expense for the permanent rate case. The Commission rejected the ALJ's  
9 recommendation of \$100,000 of rate case expense for the appeal and  
10 remand proceedings, but granted \$30,000 for fees and expenses  
11 associated with negotiation of the FHSD settlement. During the Regular  
12 Open Meeting held on October 8, 2009, an amendment to the  
13 Recommended Opinion and Order was introduced by Commissioner Gary  
14 Pierce which adopted RUCO's recommendation to reject Chaparral's  
15 request for recovery of legal expenses associated with both the appeal of  
16 Decision No. 68176 and the Remand Proceeding. The amendment  
17 offered the following language:

18 "Although we find that the Commission has authority to award attorneys  
19 fees to the Company for the appeal and the remand proceeding, we  
20 decline to do so under these circumstances. The Company spent more  
21 than \$500,000 to recover an additional \$12,000 in operating income.  
22 While no one disputes the Company's right to pursue whatever legal  
23 recourse it wants to pursue, we believe the Company should maintain a  
24 proper perspective of the costs and benefits associated therewith. In  
25 order to ensure the Company undertakes the appropriate analysis of the  
26 risks and benefits of litigation, we will not allow the Company to impose  
27 the costs of its appeal upon captive ratepayers."  
28

1 Q. Did the Commission adopt Commissioner Pierce's proposed amendment?

2 A. Yes. By a vote of 4 to 1 the five ACC Commissioners adopted  
3 Commissioner Pierce's proposed amendment that denied Chaparral the  
4 recovery of legal expenses associated with both the appeal of Decision  
5 No. 68176 and the Remand Proceeding. The language from the  
6 amendment cited above can be seen on lines 5 through 12 of page 28 in  
7 Decision No. 71308 dated October 21, 2009.

8

9 Q. Has RUCO changed its position on the recovery of legal expenses  
10 associated with both the appeal of Decision No. 68176 and the Remand  
11 Proceeding?

12 A. No. For all of the reasons stated in RUCO's prior testimony, legal briefs  
13 and exceptions cited above, RUCO believes that the Commission made  
14 the correct decision to deny Chaparral the recovery of legal expenses  
15 associated with both the appeal of Decision No. 68176 and the Remand  
16 Proceeding. Furthermore, as stated in my direct testimony filed during the  
17 rate case proceeding, RUCO believes that Chaparral's Decision to appeal  
18 Decision No. 68176 was made strictly to increase the Company's  
19 operating income for the benefit of Chaparral's shareholders. Therefore, it  
20 is not reasonable for the Company to ask ratepayers to pay the expenses  
21 associated with the appeal and Remand Proceeding. In addition, the  
22 \$258,511 rate case expense that the Company seeks to recover in this

1 rehearing is excessive and not reasonable for the appeal and Remand  
2 Proceeding.

3 RUCO also believes that Chaparral's rate case proceeding produced a  
4 complete record and a body of evidence that allowed the Commission to  
5 set rates that would generate an appropriate level of revenue to cover the  
6 Company's operating expenses and provide Chaparral with the  
7 opportunity to realize its authorized rate of return. As I stated in my direct  
8 testimony, if the Company had not pursued an appeal of Decision No.  
9 68176, it would have realized \$520,000 in funds that would not have been  
10 spent on costly litigation that only provided Chaparral with \$12,143 more  
11 than what was originally authorized in Decision No. 68176. RUCO  
12 believes that the Commission should continue to deny the Company's  
13 request for recovery of the legal expenses associated with both the appeal  
14 of Decision No. 68176 and the Remand proceeding.

15  
16 Q. But doesn't a company have the due process right to appeal a  
17 Commission decision if it believes the Commission made the wrong  
18 decision?

19 A. Absolutely.

20  
21 Q. And aren't these costs associated with such an appeal?

22 A. Yes.

1 Q. So why shouldn't the party recover those expenses?

2 A. RUCO supports a Commission's decision to allow a company to recover  
3 reasonably incurred expenses. However, it is impossible for RUCO to  
4 conclude that it was reasonable for the company to incur over \$500,000 in  
5 legal fees for \$12,000 in additional operating income. The imbalance of  
6 risk versus reward is staggering. Furthermore, allowing recovery of the  
7 appeal and remand costs will signal to every utility that they can get a  
8 "second bite of the (ratemaking) apple" without any financial repercussion.

9

10 Q. But didn't the Company win on appeal?

11 A. I wouldn't call it a win. The Court remanded the matter to the Commission  
12 for further determination. The Court stated that "if the cost of capital  
13 analysis is not the appropriate methodology to determine the rate of return  
14 to be applied to FVRB, the Commission has the discretion to determine  
15 the appropriate methodology".

16

17 Q. Didn't the Commission in Decision No. 70441 indicate it would allow  
18 recovery of these costs in the permanent rate case?

19 A. The Commission did not bind itself to awarding these costs, while  
20 Decision No. 70441 deferred any decision on cost recovery and did allow  
21 the Company to seek recovery of these costs in the permanent rate case,

1 the Order clearly states that the Commission would have to make “a  
2 determination to their appropriateness and reasonableness”.<sup>3</sup>

3  
4 The Commission determined these costs – which incidentally grew from  
5 \$100,000 to \$258,111 since the conclusion of the Remand proceeding –  
6 were neither appropriate nor reasonable.

7  
8 RUCO believes the Commission made the right decision.

9  
10 **FHSD SETTLEMENT AGREEMENT PROCEEDS**

11 Q. Please provide a brief background on this issue.

12 A. This issue involved FHSD’s need to drill an aquifer storage and recovery  
13 well in close proximity to Chaparral’s well #9, requiring Chaparral to take  
14 well #9 out of service. According to the direct testimony of Company  
15 witness Robert N. Hanford, Chaparral’s prior owner subsequently entered  
16 into negotiations with FHSD to arrive at a well exchange agreement.  
17 Under this agreement, FHSD would supply Chaparral with a new well with  
18 similar production and water quality to well #9. According to the  
19 Company, well #9 was to be taken off-line and physically isolated from the  
20 system when FHSD’s new aquifer storage and recovery well came online.

---

<sup>3</sup> Decision No. 70441 p. 39

1           Unfortunately, FHSD was unable to provide Chaparral with a well that  
2           could provide the Company with satisfactory production. The Company  
3           eventually reached a settlement agreement with FHSD for \$1.52 million.  
4           Under the terms of the settlement agreement, Chaparral agreed to stop  
5           using two wells: well #9, and well #8, which, according to Mr. Hanford,  
6           was never used as a potable source of water. The Company also gave  
7           the FHSD an option to purchase approximately 10,000 square feet of real  
8           property on which well #8 is located.

9  
10       Q.     How did Chaparral propose to treat the \$1.52 million in proceeds of the  
11           settlement agreement?

12       A.     Chaparral proposed that the \$1.52 million in settlement agreement  
13           proceeds be shared on a 50/50 basis with the Company's ratepayers over  
14           a ten-year period. This resulted in a reduction of \$760,000 to the  
15           Company's proposed rate base.

16  
17       Q.     Did RUCO initially oppose Chaparral's proposal?

18       A.     Initially no. RUCO did not address the issue in the direct testimony of Mr.  
19           Timothy J. Coley. In making its decision not to oppose Chaparral's  
20           proposal during the direct testimony phase of the proceeding, RUCO had

1           relied on a prior Commission decision<sup>4</sup> which had adopted RUCO's  
2           recommendation for a 50/50 sharing of the proceeds of a settlement  
3           agreement between Arizona Water Company and a consortium of copper  
4           mining companies, known as the Pinal Creek Group, that had entered into  
5           a consent decree with the Arizona Department of Environmental Quality  
6           ("ADEQ") over water contamination in the Miami, Arizona area.

7  
8   Q.    What position did ACC Staff take on Chaparral's proposed treatment of  
9           the \$1.52 million in settlement agreement proceeds?

10   A.    In his direct testimony, ACC Staff witness Marvin E. Millsap recommended  
11           that the Company's ratepayers receive 100 percent of the \$1.52 million in  
12           settlement agreement proceeds over a ten-year period beginning in 2005.  
13           Mr. Millsap's recommendation was reflected in his Rate Base Adjustment  
14           #1, displayed on Schedule MEM - 5, which took into account two prior  
15           years of amortization and reduced the Company-proposed rate base by  
16           an additional \$570,000, thus providing ratepayers with the full amount of  
17           the \$1.52 million in settlement proceeds over the remaining eight years of  
18           the amortization period. Mr. Millsap also made the appropriate  
19           corresponding adjustment to Chaparral's depreciation and amortization  
20           expense to reflect the annual amortization of the reduction to rate base.

---

<sup>4</sup> Decision No. 66849, dated March 19, 2004

1 Q. What was ACC Staff's rationale for allowing Chaparral's ratepayers to  
2 receive 100 percent of the \$1.52 million in settlement agreement  
3 proceeds?

4 A. Mr. Millsap stated on page 5 of his direct testimony that a close  
5 examination of the transaction between Chaparral and FHSD revealed  
6 that no transfer of property had occurred (typically, gains or losses on the  
7 sale of utility assets are shared on a 50/50 basis between ratepayers and  
8 a utility). Mr. Millsap went on to state that in ACC Staff's opinion, the  
9 transaction was not a sale of assets, and that a 50/50 sharing of the  
10 settlement proceeds was inappropriate. On pages 13 through 15 of his  
11 direct testimony, Mr. Millsap supported this rationale by explaining how  
12 Chaparral continued to own well #8 and well #9 which are fully  
13 depreciated (meaning that the Company had fully recovered their costs  
14 through depreciation expense that was included in rates), and how the  
15 \$1.52 million in settlement proceeds represented compensation for an  
16 equivalent cost of water to replace the amount that well #9 would have  
17 produced over the remainder of its useful life (a cite from Company  
18 witness Hanford's direct testimony). Mr. Millsap further explained how the  
19 loss of lower cost groundwater from well #9 would have to be replaced  
20 with higher cost Central Arizona Project ("CAP") water.

21  
22

1 Q. What was RUCO's reaction to ACC Staff's recommendation during the  
2 rebuttal phase of the proceeding?

3 A. RUCO found ACC Staff's recommendation compelling. RUCO re-  
4 evaluated its decision opposing Chaparral's proposed treatment of the  
5 settlement proceeds and decided to adopt ACC Staff's position. RUCO's  
6 adoption of ACC Staff's position was subsequently presented in the  
7 surrebuttal testimony of RUCO witness Timothy J. Coley.

8  
9 Q. What was ACC Staff's position on the treatment of the settlement  
10 proceeds during the rebuttal phase of the proceeding?

11 A. In Mr. Millsap's surrebuttal testimony, ACC Staff rejected the arguments  
12 presented in Mr. Hanson's rebuttal testimony, and continued to  
13 recommend that the Company's ratepayers receive 100 percent of the  
14 \$1.52 million in settlement agreement proceeds.

15  
16 Q. Did RUCO support the position presented in ACC Staff's pre-filed  
17 testimony during the evidentiary hearing on Chaparral's Application?

18 A. Yes. During the evidentiary hearing on Chaparral's Application, RUCO's  
19 witness Mr. Coley testified under oath that RUCO had adopted the  
20 position presented in ACC Staff's pre-filed testimony.

21

1 Q. Did ACC Staff's witness Mr. Millsap testify in support of the position, that  
2 the Company's ratepayers receive 100 percent of the \$1.52 million in  
3 settlement agreement proceeds, during the evidentiary hearing on  
4 Chaparrals' Application?

5 A. No. During direct examination by ACC Staff's attorney, Mr. Millsap stated  
6 under oath that a "policy decision" had been made for ACC Staff to adopt  
7 the Company-proposed sharing of the \$1.52 million in settlement  
8 proceeds and that any profit on the sale of wells #8 and #9 would be split  
9 on a 50/50 basis between Chaparral and its ratepayers<sup>5</sup>. On the second  
10 day of his appearance as a witness for ACC Staff, Mr. Millsap stated  
11 during cross-examination by RUCO's attorney that he had been informed  
12 of the policy decision from the Director's Office during the afternoon of the  
13 first day that he appeared as a witness.

14  
15 Q. Did Mr. Millsap provide any rationale as to why the Company's position  
16 had been adopted by the Director's Office just prior to his appearance as a  
17 witness?

18 A. No, he did not.  
19

---

<sup>5</sup> Hearing transcript Volume II, pages 351 and 352

1 Q. Did the ALJ adopt ACC Staff's revised position on the \$1.52 million in  
2 settlement proceeds?

3 A. Yes. In her Recommended Opinion and Order issued on November 25,  
4 2009, the ALJ adopted ACC Staff's revised position that split the \$1.52  
5 million in settlement proceeds on a 50/50 basis.

6

7 Q. Did RUCO file exceptions to the Recommended Opinion and Order?

8 A. Yes. On October 2, 2009, RUCO filed exceptions to the Recommended  
9 Opinion and Order. RUCO argued in its exceptions that the Company has  
10 received the full return of its investment of wells #8 and #9 through  
11 depreciation expense. Although Company witness Mr. Hanford, may have  
12 testified inconsistently on the issue in his response to Staff Data Request  
13 MEM 7.3, Mr. Hanford admitted unequivocally:

14 *"...both wells were constructed over 36 years ago and have been fully*  
15 *depreciated and have no impact on rate base in the instant case."*  
16

17 RUCO also argued that the Company had acknowledged that it has been  
18 receiving a return on its investment in Wells 8 and 9 for more than a 30-  
19 year depreciation period. Mr. Hanford admitted that both wells are fully  
20 depreciated; the Company has received its return on and of the  
21 investment. Mr. Hanford admitted that the \$1.52 million dollars was  
22 compensation for the cost to replace the amount Well 9 would have  
23 produced over the remainder of its useful life.

1 RUCO further argued that unlike the Pinal Creek Group settlement noted  
2 earlier, which provided with Arizona Water Company ratepayers with the  
3 benefit of future quantities of water for a number of years, the settlement  
4 agreement reached between Chaparral and FHSD did not provide the  
5 Company's ratepayers with replacement wells or an assurance of the  
6 benefit of future quantities of water. As a result, Chaparral's ratepayers  
7 will have to pay for replacement water.

8  
9 Q. Are Chaparral's ratepayers paying for additional CAP water in this case?

10 A. Yes.

11  
12 Q. Did the Commission adopt the Company-proposed sharing of the \$1.52  
13 million in FHSD settlement proceeds?

14 A. No. During the Regular Open Meeting held on October 8, 2009, an  
15 amendment to the Recommended Opinion and Order was introduced by  
16 Commissioner Gary Pierce which adopted RUCO's recommendation to  
17 provide Chaparral's ratepayers with 100 percent of the \$1.52 million in  
18 FHSD settlement proceeds. Commissioner Pierce's amendment offered  
19 the following language:

20 "As RUCO points out and the Company admits, Wells 8 and 9 are fully  
21 depreciated. The Company and its shareholders have received the full  
22 return of and on their investment in Wells 8 and 9 and are entitled to no  
23 more. We are cognizant, however, that the Company spent \$30,000 in  
24 attorneys' fees and costs in pursuing the resolution with the FHSD. We  
25 hereby grant \$30,000 of the proceeds to the Company for pursuing the

1 matter on behalf of ratepayers and allocate the remaining settlement  
2 proceeds to the ratepayers.”  
3

4 Q. Are the ratepayers paying for replacement water?

5 A. Yes, since the closing of well #9 residential ratepayers have paid for  
6 replacement CAP water.  
7

8 Q. Did the Commission adopt Commissioner Pierce's proposed amendment  
9 which adopted RUCO's position?

10 A. Yes. The amendment was passed by the Commission and the language  
11 appears in Decision No. 71308, dated October 21, 2009.  
12

13 Q. Does RUCO continue to believe that Chaparral's ratepayers should  
14 continue to receive 100 percent of the \$1.52 million in FHSD settlement  
15 proceeds?

16 A. Yes. RUCO's position has not changed. For all of the reasons cited  
17 above RUCO believes that the facts presented during Chaparral's rate  
18 case proceeding support the Commission's decision to allow Chaparral's  
19 ratepayers to receive 100 percent of the \$1.52 million in FHSD settlement  
20 proceeds.  
21

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

4 A. No, it does not.

5

6 Q. Does this conclude your testimony?

7 A. Yes, it does.

**Qualifications of William A. Rigsby, CRRA**

**EDUCATION:**

University of Phoenix  
Master of Business Administration, Emphasis in Accounting, 1993

Arizona State University  
College of Business  
Bachelor of Science, Finance, 1990

Mesa Community College  
Associate of Applied Science, Banking and Finance, 1986

Society of Utility and Regulatory Financial Analysts  
38th Annual Financial Forum and CRRA Examination  
Georgetown University Conference Center, Washington D.C.  
Awarded the Certified Rate of Return Analyst designation  
after successfully completing SURFA's CRRA examination.

Michigan State University  
Institute of Public Utilities  
N.A.R.U.C. Annual Regulatory Studies Program, 1997 &1999

Florida State University  
Center for Professional Development & Public Service  
N.A.R.U.C. Annual Western Utility Rate School, 1996

**EXPERIENCE:**

Public Utilities Analyst V  
Residential Utility Consumer Office  
Phoenix, Arizona  
April 2001 – Present

Senior Rate Analyst  
Accounting & Rates - Financial Analysis Unit  
Arizona Corporation Commission, Utilities Division  
Phoenix, Arizona  
July 1999 – April 2001

Senior Rate Analyst  
Residential Utility Consumer Office  
Phoenix, Arizona  
December 1997 – July 1999

Utilities Auditor II and III  
Accounting & Rates – Revenue Requirements Analysis Unit  
Arizona Corporation Commission, Utilities Division  
Phoenix, Arizona  
October 1994 – November 1997

Tax Examiner Technician I / Revenue Auditor II  
Arizona Department of Revenue  
Transaction Privilege / Corporate Income Tax Audit Units  
Phoenix, Arizona  
July 1991 – October 1994

**RESUME OF RATE CASE AND REGULATORY PARTICIPATION**

<b><u>Utility Company</u></b>	<b><u>Docket No.</u></b>	<b><u>Type of Proceeding</u></b>
ICR Water Users Association	U-2824-94-389	Original CC&N
Rincon Water Company	U-1723-95-122	Rate Increase
Ash Fork Development Association, Inc.	E-1004-95-124	Rate Increase
Parker Lakeview Estates Homeowners Association, Inc.	U-1853-95-328	Rate Increase
Mirabell Water Company, Inc.	U-2368-95-449	Rate Increase
Bonita Creek Land and Homeowner's Association	U-2195-95-494	Rate Increase
Pineview Land & Water Company	U-1676-96-161	Rate Increase
Pineview Land & Water Company	U-1676-96-352	Financing
Montezuma Estates Property Owners Association	U-2064-96-465	Rate Increase
Houghland Water Company	U-2338-96-603 et al	Rate Increase
Sunrise Vistas Utilities Company – Water Division	U-2625-97-074	Rate Increase
Sunrise Vistas Utilities Company – Sewer Division	U-2625-97-075	Rate Increase
Holiday Enterprises, Inc. dba Holiday Water Company	U-1896-97-302	Rate Increase
Gardener Water Company	U-2373-97-499	Rate Increase
Cienega Water Company	W-2034-97-473	Rate Increase
Rincon Water Company	W-1723-97-414	Financing/Auth. To Issue Stock
Vail Water Company	W-01651A-97-0539 et al	Rate Increase
Bermuda Water Company, Inc.	W-01812A-98-0390	Rate Increase
Bella Vista Water Company	W-02465A-98-0458	Rate Increase
Pima Utility Company	SW-02199A-98-0578	Rate Increase

**RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)**

<b><u>Utility Company</u></b>	<b><u>Docket No.</u></b>	<b><u>Type of Proceeding</u></b>
Pineview Water Company	W-01676A-99-0261	WIFA Financing
I.M. Water Company, Inc.	W-02191A-99-0415	Financing
Marana Water Service, Inc.	W-01493A-99-0398	WIFA Financing
Tonto Hills Utility Company	W-02483A-99-0558	WIFA Financing
New Life Trust, Inc. dba Dateland Utilities	W-03537A-99-0530	Financing
GTE California, Inc.	T-01954B-99-0511	Sale of Assets
Citizens Utilities Rural Company, Inc.	T-01846B-99-0511	Sale of Assets
MCO Properties, Inc.	W-02113A-00-0233	Reorganization
American States Water Company	W-02113A-00-0233	Reorganization
Arizona-American Water Company	W-01303A-00-0327	Financing
Arizona Electric Power Cooperative	E-01773A-00-0227	Financing
360networks (USA) Inc.	T-03777A-00-0575	Financing
Beardsley Water Company, Inc.	W-02074A-00-0482	WIFA Financing
Mirabell Water Company	W-02368A-00-0461	WIFA Financing
Rio Verde Utilities, Inc.	WS-02156A-00-0321 et al	Rate Increase/ Financing
Arizona Water Company	W-01445A-00-0749	Financing
Loma Linda Estates, Inc.	W-02211A-00-0975	Rate Increase
Arizona Water Company	W-01445A-00-0962	Rate Increase
Mountain Pass Utility Company	SW-03841A-01-0166	Financing
Picacho Sewer Company	SW-03709A-01-0165	Financing
Picacho Water Company	W-03528A-01-0169	Financing
Ridgeview Utility Company	W-03861A-01-0167	Financing
Green Valley Water Company	W-02025A-01-0559	Rate Increase
Bella Vista Water Company	W-02465A-01-0776	Rate Increase
Arizona Water Company	W-01445A-02-0619	Rate Increase

**RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)**

<b><u>Utility Company</u></b>	<b><u>Docket No.</u></b>	<b><u>Type of Proceeding</u></b>
Arizona-American Water Company	W-01303A-02-0867 et al.	Rate Increase
Arizona Public Service Company	E-01345A-03-0437	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-03-0434	Rate Increase
Qwest Corporation	T-01051B-03-0454	Renewed Price Cap
Chaparral City Water Company	W-02113A-04-0616	Rate Increase
Arizona Water Company	W-01445A-04-0650	Rate Increase
Tucson Electric Power	E-01933A-04-0408	Rate Review
Southwest Gas Corporation	G-01551A-04-0876	Rate Increase
Arizona-American Water Company	W-01303A-05-0405	Rate Increase
Black Mountain Sewer Corporation	SW-02361A-05-0657	Rate Increase
Far West Water & Sewer Company	WS-03478A-05-0801	Rate Increase
Gold Canyon Sewer Company	SW-02519A-06-0015	Rate Increase
Arizona Public Service Company	E-01345A-05-0816	Rate Increase
Arizona-American Water Company	W-01303A-05-0718	Transaction Approval
Arizona-American Water Company	W-01303A-05-0405	ACRM Filing
Arizona-American Water Company	W-01303A-06-0014	Rate Increase
UNS Gas, Inc.	G-04204A-06-0463	Rate Increase
Arizona-American Water Company	WS-01303A-06-0491	Rate Increase
UNS Electric, Inc.	E-04204A-06-0783	Rate Increase
Arizona-American Water Company	W-01303A-07-0209	Rate Increase
Tucson Electric Power	E-01933A-07-0402	Rate Increase
Southwest Gas Corporation	G-01551A-07-0504	Rate Increase
Chaparral City Water Company	W-02113A-07-0551	Rate Increase
Arizona Public Service Company	E-01345A-08-0172	Rate Increase
Johnson Utilities, LLC	WS-02987A-08-0180	Rate Increase
Arizona-American Water Company	W-01303A-08-0227 et al.	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
UNS Gas, Inc.	G-04204A-08-0571	Rate Increase
Arizona Water Company	W-01445A-08-0440	Rate Increase
Far West Water & Sewer Company	WS-03478A-08-0608	Interim Rate Increase
Black Mountain Sewer Corporation	SW-02361A-08-0609	Rate Increase
Global Utilities	SW-02445A-09-0077 et al.	Rate Increase
Litchfield Park Service Company	SW-01428A-09-0104 et al.	Rate Increase
UNS Electric, Inc.	E-04204A-09-0206	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-08-09-0257	Rate Increase
Arizona-American Water Company	W-01303A-09-0343	Rate Increase

# **ATTACHMENT A**

BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON  
Chairman  
WILLIAM A. MUNDELL  
Commissioner  
JEFF HATCH-MILLER  
Commissioner  
KRISTIN K. MAYES  
Commissioner  
GARY PIERCE  
Commissioner

IN THE MATTER OF THE APPLICATION OF )  
CHAPARRAL CITY WATER COMPANY, INC., )  
AN ARIZONA CORPORATION, FOR A )  
DETERMINATION OF THE CURRENT FAIR )  
VALUE OF ITS UTILITY PLANT AND )  
PROPERTY AND FOR INCREASES IN ITS )  
RATES AND CHARGES FOR UTILITY )  
BASED THEREON )  
\_\_\_\_\_ )

DOCKET NO. W-02113A-07-0551

DIRECT  
TESTIMONY  
OF  
MARVIN E. MILLSAP  
PUBLIC UTILITIES ANALYST IV  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

OCTOBER 03, 2008

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**EXECUTIVE SUMMARY  
CHAPARRAL CITY WATER COMPANY, INC.  
DOCKET NO. W-02113A-07-0551**

Chaparral City Water Company, Inc. ("Chaparral City" or "Company") is an Arizona-based corporation that provides water utility service to the Town of Fountain Hills which is located along the eastern city limits of Scottsdale within Maricopa County. The Company served approximately 13,500 customers during the test year ended December 31, 2006. The Company's current rates were approved in Decision No. 68176, dated September 30, 2005, and became effective on October 1, 2005. Chaparral City's sole shareholder is American States Water Company, which is publicly traded on the New York Stock Exchange.

The Company proposes rates that would produce operating revenue of \$10,515,017 and operating income of \$2,681,268 for a 9.32 percent rate of return on a fair value rate base ("FVRB") of \$28,768,975. The Company's proposal would increase annual operating revenues by \$3,068,317, or 41.20 percent, over test year revenues of \$7,446,700. Under the Company's proposed rates, the average residential ¾-inch meter customer consuming 8,450 gallons per month would experience an \$11.79, or 36.41 percent, increase in his/her monthly bill from \$32.37 to \$44.16.

Staff recommends total annual operating revenue of \$9,181,965 and operating income of \$2,055,831 for a 7.60 percent rate of return on a FVRB of \$27,050,414. Staff's recommended revenue represents an increase of \$1,735,265, or 23.30 percent, over test year revenues of \$7,446,700. Under Staff's recommended rates, the average residential ¾-inch meter customer consuming 8,450 gallons per month would experience a \$4.09, or 12.63 percent, increase in his/her monthly bill from \$32.37 to \$36.46.

Staff's recommended rates would have a residential ¾-inch meter customer consuming the median usage of 5,500 gallons per month paying \$27.85, or \$2.91 more than the current \$24.94 for a 11.67 percent increase. By comparison, a residential ¾-inch meter customer consuming the median usage of 5,500 gallons per month under the Company's proposed rates would be billed \$34.03, or \$9.09 more than the current \$24.94 for a 36.43 percent increase.

1    **INTRODUCTION**

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

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

6  
7    **Q.    Briefly describe your responsibilities as a Public Utilities Analyst IV.**

8    A.    In my capacity as a Public Utilities Analyst IV, I analyze and examine accounting,  
9           financial, statistical and other information and prepare reports based on my analyses that  
10          present Staff's recommendations to the Commission on utility revenue requirements, rate  
11          design and other matters.

12  
13   **Q.    Please describe your educational background and professional experience.**

14   A.    In 1991, I received a Masters degree in Business Administration, with a major in  
15          management. My studies included courses in economics, finance, research, information  
16          systems, entrepreneurship and marketing. In 1970, I graduated from Arizona State  
17          University, receiving a Bachelor of Science degree in Accounting. I am a Certified Public  
18          Accountant licensed to practice Public Accounting with the Arizona State Board of  
19          Accountancy. I have previously been licensed to practice Public Accounting with the  
20          Kansas and South Carolina State Boards of Accountancy. In addition, I am a Certified  
21          Government Financial Manager ("CGFM") as designated by the Association of  
22          Government Accountants ("AGA"). I have attended various seminars and classes on such  
23          subjects as accounting, auditing, financial reporting, management of people and  
24          organizations, taxation, financing of water and wastewater systems and utility regulatory  
25          issues sponsored by the National Association of Regulatory Utility Commissioners',  
26          American Institute of Certified Public Accountants and the AGA. I am a member of the

1 American Institute of Certified Public Accountants and the Association of Government  
2 Accountants. I have also attained the designations of "Competent Communicator" and  
3 "Competent Leader" with Toastmasters, International.  
4

5 I joined the Commission as a Public Utilities Analyst in October of 2007. Previously, I  
6 was employed by the Kansas Corporation Commission from May 1993 to May 1997, as a  
7 Managing Regulatory Utility Auditor and the Arizona Corporation Commission from  
8 November 1989 through May 1993, first as a Utilities Auditor and subsequently as a Rate  
9 Analyst and Senior Rate Analyst. In May 1997, I began working as a Senior Auditor with  
10 the Federal Communications Commission in Washington, DC, and subsequently became a  
11 Public Utilities Specialist with the Western Area Power Administration in Phoenix where I  
12 worked in Power Marketing and purchased power contract management. Most recently I  
13 worked for the U. S. State Department in Charleston, SC, as a Post Allotment Accountant  
14 and assisted with training of the Budget and Finance Staff at several Embassies in Europe,  
15 Africa and South America.  
16

17 Prior to accepting State regulatory positions, I was employed with national and local  
18 Certified Public Accounting firms for approximately 12 years performing financial and  
19 operational audits, as well as providing tax and accounting services. Additionally, I was  
20 involved with municipal electric, natural gas, water and waste water utility system operations  
21 and accounting for approximately 8 years at the City of Mesa and the Town of Wickenburg,  
22 Arizona. My experience includes being Chief Financial Officer of a construction company  
23 and a real estate development company, as well as managing commercial and residential  
24 construction projects. I have also been a Business Law instructor for the Lambers CPA  
25 Review Course.

1 Q. **Have you previously testified as an expert witness?**

2 A. Yes. I have testified before the Kansas Corporation Commission in several electric and gas  
3 utilities' rate cases, and regarding telecommunications issues. In addition, I have testified  
4 before the Arizona Corporation Commission. I have also testified as an expert witness before  
5 the Interstate Commerce Commission.

6  
7 Q. **What is the scope of your testimony in this case?**

8 A. I am presenting Staff's analysis and recommendations regarding Chaparral City Water  
9 Company, Inc.'s ("CCWC," "Chaparral City" or "Company") application for a  
10 determination of the current fair value of its utility plant and property and a permanent rate  
11 increase. I am presenting testimony and schedules addressing rate base, operating  
12 revenues and expenses, revenue requirement, and rate design. Staff witness Mr. Pedro M.  
13 Chaves is presenting Staff's cost of capital and capital structure analysis and  
14 recommendations. Mr. Marlin Scott, Jr. is presenting Staff's engineering analysis and  
15 recommendations.

16  
17 Q. **What is the basis of your testimony in this case?**

18 A. I performed a regulatory audit of the Company's application and records. The regulatory  
19 audit consisted of examining and testing financial information, accounting records, and  
20 other supporting documentation and verifying that the accounting principles applied were  
21 in accordance with the Commission adopted National Association of Regulatory Utility  
22 Commissioners ("NARUC") Uniform System of Accounts ("USOA").

1 **BACKGROUND**

2 **Q. Would you please provide the background of this application?**

3 A. Chaparral City is an Arizona-based corporation that provides water utility service to the  
4 Town of Fountain Hills which is located along the eastern city limits of Scottsdale within  
5 Maricopa County. The Company served approximately 13,500 customers during the test  
6 year ended December 31, 2006. The Company's last full rate case resulted in Decision  
7 No. 68176, dated September 30, 2005, which became effective on October 1, 2005. An  
8 Appeal and Remand case resulted in Decision No. 70441, dated July 17, 2008, which  
9 granted CCWC \$12,143 in additional revenues. Chaparral City's sole shareholder is  
10 American States Water Company, which is publicly traded on the New York Stock  
11 Exchange.

12  
13 On September 26, 2007, Chaparral City filed an application requesting determination of  
14 the current fair value of its utility plant and property and a permanent rate increase. On  
15 October 26, 2007, Staff filed a letter declaring the application sufficient and classifying  
16 the Company as a Class A utility.

17  
18 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

19 **Q. Please summarize the Company's filing.**

20 A. The Company proposes rates that would produce operating revenue of \$10,515,017 and  
21 operating income of \$2,681,268 for a 9.32 percent rate of return on a fair value rate base  
22 ("FVRB") of \$28,768,975. The Company's proposal would increase annual operating  
23 revenues by \$3,068,317, or 41.20 percent, over test year revenues of \$7,446,700. It  
24 should be noted that \$32,536 in adjustments to plant in service per Decision No. 68176  
25 had to be added to original cost rate base ("OCRB") and FVRB because this amount did  
26 not get carried forward from Exhibit Schedule B-2, Page 3c, where it was included in the

1 beginning balance from the Decision, to Exhibit Schedule B-2, Page 1. Exhibit Schedule  
2 B-2, Page 1 develops the Company's OCRB that is reflected in Exhibit Schedule B-1,  
3 Page 1, which also develops the Company's FVRB. FVRB then flows through to Exhibit  
4 Schedule A-1, Page 1, where it is used to calculate the gross revenue requirement. The  
5 Company acknowledged the omission of the \$32,536.

6  
7 **Q. Please summarize Staff's recommendations.**

8 **A.** Staff recommends total annual operating revenue of \$9,181,965 and operating income of  
9 \$2,055,831 for a 7.60 percent fair value rate of return on a FVRB of \$27,050,414. Staff's  
10 recommended revenue represents an increase of \$1,735,265, or 23.30 percent, over test  
11 year revenues of \$7,446,700.

12  
13 **Q. Please summarize the rate base recommendations and adjustments addressed in**  
14 **your testimony.**

15 **A.** My testimony addresses the following issues:

16  
17 Shared Gain on Well – This adjustment increases the unamortized portion (\$646,000) of  
18 the settlement proceeds by \$570,000. The settlement proceeds received from Fountain  
19 Hills Sanitation District for discontinuing the use of Wells 8 and 9 ("Wells"), which are  
20 fully depreciated, have been characterized as a gain on the sale of property. However,  
21 close examination of the transaction indicates that no transfer of property occurred. The  
22 Company proposed an equal sharing with the ratepayers and a ten-year amortization. In  
23 Staff's opinion, the transaction is not a sale, so a 50 – 50 sharing is not appropriate. Thus  
24 the entire settlement proceeds should be recognized in such a way as to benefit ratepayers  
25 and amortize the proceeds over a ten-year period beginning in 2005. This adjustment is  
26 the same for OCRB and the reconstruction cost rate base ("RCRB").

1           Deferred Regulatory Assets – This adjustment decreases deferred regulatory assets related  
2           to OCRB by \$1,280,000 and the RCRB by \$1,280,000. This adjustment removes the  
3           Company’s pro forma adjustment that added the cost of the additional Central Arizona  
4           Project (“CAP”) allocation acquired in 2007. Staff recommends reclassifying the cost of  
5           the additional CAP allocation as a water right in Land and Land Rights due to its attribute  
6           of existing into perpetuity.

7  
8           General Office Plant Allocation – This adjustment increases the General Office plant  
9           allocation OCRB by \$124,299 and RCRB by \$174,963. This adjustment removes a  
10          portion of the Company’s pro forma adjustment for General Office (“GO”) plant relating  
11          to studies mandated by the California Public Utilities Commission or California Statutes  
12          and made before the acquisition of CCWC, thus benefiting only California operations.  
13          This adjustment also removes the cost of luxury vehicles from GO plant. This adjustment  
14          also reflects an increase from 3.21% to 4.0% in the allocation percentage used to allocate  
15          GO plant.

16  
17          Accumulated Depreciation – This adjustment increases Accumulated Depreciation related  
18          to the GO plant allocation percentage. CCWC plant accumulated depreciation is reduced  
19          due to the retirement of plant and increased for the capitalization of plant items that had  
20          been expensed in error for a net decrease of \$2,031,950. This adjustment decreases  
21          Accumulated Depreciation related to the RCRB by \$2,506,970. This adjustment reflects  
22          the difference between Staff’s and the Company’s calculation of RCND Accumulated  
23          Depreciation and the additions and retirements of CCWC plant and the changes related to  
24          GO plant mentioned above.

1           Elimination of Working Capital Components – This adjustment decreases Unamortized  
2           Debt Issuance Costs, Prepayments and Materials and Supplies Inventory related to OCRB  
3           by \$424,010, \$192,485 and \$14,521, respectively. These items are normally considered  
4           working capital components. This adjustment decreases these items as related to the  
5           RCRB by \$424,010, \$192,485 and \$14,521, respectively. The Company has not requested  
6           a cash working capital allowance and did not submit a lead/lag study to determine what  
7           allowance should be made for cash working capital, so including other components of  
8           working capital in rate base is inappropriate.

9  
10          Capitalize Outside Services Expenses – This adjustment increases plant-in-service by  
11          \$37,673 to reclassify test year expenditures that had been included in operating expenses.  
12          It was determined that these purchases would benefit more than one accounting period and,  
13          thus, should be capitalized and depreciated ratably over their estimated useful lives.

14  
15          Retire Wells and Other Plant Not-In-Use – This adjustment reduces plant-in-service by  
16          \$2,118,334 to remove plant items which are not used and useful. Among these items are  
17          Wells and a water treatment facility. For RCRB purposes these two OCRB adjustments  
18          have been combined, along with the CAP allocation purchase, into one adjustment that  
19          also incorporates the retirements and reclassifications discussed in Marlin Scott, Jr.'s  
20          testimony.

1 Q. Please summarize the operating income recommendations and adjustments  
2 addressed in your testimony.

3 A. My testimony addresses the following issues:  
4

5 Well Settlement Proceeds – This adjustment increases the Company’s negative expense by  
6 a negative \$76,000, to a negative \$152,000. This adjustment reflects recognition of the  
7 allocation of one hundred percent of the proceeds from the settlement with Fountain Hills  
8 Sanitation District for removing two wells from service to ratepayers, not providing a  
9 replacement well and amortizing the proceeds over ten years.  
10

11 Purchased Water – This adjustment decreases expenses by \$20,306. This adjustment  
12 accounts for known and measurable changes in rates from the Central Arizona Project and  
13 Central Arizona Groundwater Replenishment District (“CAGR”) and the expenses  
14 related to the additional CAP water allotment that is fifty-percent used and useful.  
15

16 Depreciation Expense – This adjustment decreases expenses by \$86,188 to reflect the  
17 retirement of plant, capitalization of plant items expensed in the test year, increase in the  
18 GO plant allocation from 3.21 percent to 4.0 percent and application of Staff’s composite  
19 depreciation rate to contributions in aid of construction (“CIAC”).  
20

21 Miscellaneous Expense – This adjustment increases expenses by \$38,164 to reflect an  
22 increase in the GO expense allocation from 3.74 percent to 4.0 percent, and removes \$950  
23 of lobbying costs included in membership dues paid during the test year for a net increase  
24 of \$37,214.

**RATE BASE ADJUSTMENT #1 - Adjustment to recognize the Well Settlement Proceeds as a regulatory liability that is allocated 100 percent to the ratepayers and subject of a ten year amortization period.**

Line No.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Well settlement proceeds mischaracterized as "Shared gain on well."	\$ 646,000	\$ 570,000	\$ 1,216,000
2				
3				
4	<u>References:</u>			
5	Col [A]: Company Schedule B-2			
6	Col [B]: Col [C] - Col [A]			
7	Col [C]: Explanation below. Testimony - MEM.			
8				
9				
10				
11				
12				
13				
14				
15	<u>Explanation of Adjustment:</u>			
16	Agreement signed 02/05/2005 with Fountain Hills Sanitation District to take Wells 8 & 9 out of service due to			
17	possible contamination from sewage treatment facility in exchange for \$1,520,000. Proceeds to be allocated 100% to ratepay			
18	because the wells were fully depreciated, thus the original cost had been paid by the depreciation included in rates throughout			
19	the 30 year useful life assigned, which expired in 2001 and 2002.- To be amortized over 10 years.			
20				
21				
22	Original Amount of settlement proceeds.			\$ 1,520,000
23	2005 amortization			(152,000)
24	2006 amortization			(152,000)
25				<u>1,216,000</u>
26	Test year-end balance			<u>\$ 1,216,000</u>

**RATE BASE ADJUSTMENT #1 - Adjustment to recognize the Well Settlement Proceeds as a regulatory liability that is allocated 100 percent to the ratepayers and subject of a ten year amortization period.**

Line No.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Well settlement proceeds mischaracterized as "Shared gain on well."	\$ 646,000	\$ 570,000	\$ 1,216,000
2				
3				
4	<u>References:</u>			
5	Col [A]: Company Schedule B-2			
6	Col [B]: Col [C] - Col [A]			
7	Col [C]: Explanation below. Testimony - MEM.			
8				
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10				
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13				
14				
15	<u>Explanation of Adjustment:</u>			
16	Agreement signed 02/05/2005 with Fountain Hills Sanitation District to take Wells 8 & 9 out of service due to			
17	possible contamination from sewage treatment facility in exchange for \$1,520,000. Proceeds to be allocated 100% to ratepay			
18	because the wells were fully depreciated, thus the original cost had been paid by the depreciation included in rates throughout			
19	the 30 year useful life assigned, which expired in 2001 and 2002. To be amortized over 10 years.			
20				
21				
22	Original Amount of settlement proceeds.			\$ 1,520,000
23	2005 amortization			(152,000)
24	2006 amortization			(152,000)
25				
26	Test year-end balance			\$ 1,216,000

**RATE BASE ADJUSTMENTS #2 - Reclassify additional CAP Allocation purchased that is an intangible asset in the form of a water right.**

Line No.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Deferred Regulatory Assets	\$ 1,280,000	\$ (1,280,000)	\$ -

References:

- 6 Col [A]: Company Schedule B-1
- 7 Col [B]: Col [C] - Col [A]
- 8 Col [C]: Testimony - MEM.

Explanation of Staff Adjustment

Staff has determined that approximately 50% of the additional CAP Allocation of 1,931 acre feet of water purchased in 2007 will be used and useful by 2012. The contract with CAWCD and CAP for water deliveries is 100 years with renewal provisions so the purchase has the characteristics of an intangible asset similar to water rights associated with land. Given its attributes, this purchase should not be treated as having a value which is consumed over time and benefits future periods. The purpose of this adjustment is to reclassify the cost of the CAP Allocation to NARUC Account #303, Land and Land Rights.

NOTE: This adjustment also applies to the RCN schedules.

**RATE BASE ADJUSTMENT #3 - Reduce General Office plant for disallowed items and increase four-factor allocation to 4%.**

LINE NO.	ACCT NO.	DESCRIPTION	(A) COMRANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF RECOMMENDED	(D)	(E)
1		General office plant allocation	\$ 751,171	\$ 124,289	875,459		
2		Totals	\$ 751,171	\$ 124,289	875,459		

(A): Company Schedule B-2, Page 3 and B-3, Page 3 and below Line 26, Column C.  
 (B): Testimony - MEM and below calculations and Line 47, Column E.  
 (C): Col (B) + Col (A)

**Explanation of Staff Adjustment**

As Originally Filed:

LINE NO.	DESCRIPTION	Per Exhibit Schedule B-2, Page 3	Allocation Factor	Original Allocation
12	Home Office Plant Allocated			
13	301 Organization	16,452	3.21%	628
14	302 Franchise Cost and Other Intangible Plant	1,089,237	3.21%	34,966
15	304 Structures & Improvements	5,802,813	3.21%	186,270
16	811 Electric Pumping Equipment	(916)	3.21%	(29)
17	339 Other Plant & Misc. Equipment	847,382	3.21%	27,201
18	340 Office Furniture & Equipment	14,268,765	3.21%	458,027
19	341 Transportation Equipment	582,719	3.21%	17,742
20	343 Tools, Ship & Garage Equipment	405,843	3.21%	13,021
21	344 Laboratory Equipment	4,081	3.21%	130
22	345 Power Operated Equipment	249,281	3.21%	8,001
23	346 Communication Equipment	165,561	3.21%	5,316
24	Note Below		3.21%	-
25		<u>23,400,978</u>		<u>751,171</u>

As Adjusted:

LINE NO.	DESCRIPTION	Per Exhibit Schedule B-2, Page 3	Staff Adjustment A	Adjusted for Allocation	Allocation Factor	Staff Recommended
29	Home Office Plant Allocated					
30	301 Organization	16,452		16,452	4.00%	658
31	302 Franchise Cost and Other Intangible Plant	1,089,237	(420,000)	669,237	4.00%	26,769
32	304 Structures & Improvements	5,802,813		5,802,813	4.00%	232,113
33	311 Electric Pumping Equipment	(916)		(916)	4.00%	(37)
34	339 Other Plant & Misc. Equipment	847,382	(620,254)	227,128	4.00%	9,085
35	340 Office Furniture & Equipment	14,268,765		14,268,765	4.00%	570,751
36	341 Transportation Equipment	582,719	(274,001)	308,718	4.00%	11,149
37	343 Tools, Ship & Garage Equipment	405,843		405,843	4.00%	16,226
38	344 Laboratory Equipment	4,081		4,081	4.00%	162
39	345 Power Operated Equipment	249,281		249,281	4.00%	9,870
40	346 Communication Equipment	165,561		165,561	4.00%	6,622
41	Note Below				4.00%	-
42		<u>23,400,978</u>	<u>(1,514,255)</u>	<u>21,886,723</u>		<u>875,459</u>
43					As original filed	<u>751,171</u>

Staff Adjustment to Increase General Office Plant

124,289

Items Removed from General Office Plant in Staff Adjustment:

48	CPUC Management Audit - Completed in 1998, thus not applicable to CCWC.	420,000
49	Water Management Plans - Completed in 1998, thus not applicable to CCWC.	820,254
50	Luxury Vehicles - Detail listed below.	274,001
51		<u>1,514,255</u>

Note: Consultant's schedule of GO Plant is \$7,979 less than the listing in AWR's GL as furnished by the Company. Due to its immateriality Staff did not investigate this difference.

LINE NO.	Vehicles Found by Staff to be Imprudent	Date Acquired	Price	Accum. Depr.
60	Ford Explorer - 2004	3/29/2004	\$ 45,639	Per MEM DR 7.5 5,968
61	Infiniti GX35 - 2004	8/13/2004	\$ 40,039	Per MEM DR 7.5 5,253
62	Ford Expedition - 2004	8/13/2004	\$ 40,786	Per MEM DR 7.5 5,351
63	Acura MDX 2001	11/21/2002	\$ 38,319	Per MEM DR 7.5 10,055
64	Infiniti QX4	12/11/2002	\$ 50,077	Per MEM DR 7.5 13,140
65	Audi S4 Avant - 2008	7/8/2005	\$ 59,143	Per MEM DR 7.5 3,980
66			<u>\$ 274,001</u>	<u>\$ 43,687</u>

RATE BASE ADJUSTMENT #4 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A]	[B]	[C]	[D]	[E]
		COMPANY AS FILED	STAFF ADJUSTMENT A	STAFF ADJUSTMENT B	TOTAL OF STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	General office plant allocation	\$ 15,877,022	\$ 84,561	\$ 2,116,511	\$ (2,031,950)	\$ 13,845,072
2	Totals	\$ 15,877,022	\$ 84,561	\$ 2,116,511	\$ (2,031,950)	\$ 13,845,072

[A]: Company Schedule B-2, Page 3 and B-3, Page 3 and below Line 63, Column C.  
[B]: Testimony - MEM and below calculations and Line 99, Column E.  
[C]: Testimony - MEM and below calculations and line 175, Column E.  
[D]: Col [B] + Col [C]  
[E]: Testimony - MEM

Acct. No.	Description	CCWC Plant OCN Accum. Depr. Per Exh. Sch. B-2 Page 3d
15 301	Organization	-
16 302	Franchises	-
17 303	Land and Land Rights	-
18 304	Structures & Improvements	357,961
19 305	Collecting & Impounding Reservoirs	573
20 306	Lakes, Rivers, Other Intakes	-
21 307	Wells and Springs	183,252
22 308	Infiltration Galleries and Tunnels	-
23 309	Supply Mains	-
24 310	Power Generation Equipment	-
25 311	Pumping Equipment	879,458
26 320	Water Treatment Plant	2,304,464
27 330	Distribution Reservoirs & Standpipes	1,996,014
28 331	Transmission & Distribution Mains	7,154,728
29 333	Services	1,080,764
30 334	Meters & Meter Installation	990,763
31 335	Hydrants	235,514
32 336	Backflow Prevention Devices	-
33 339	Other Plant & Misc. Equipment	135,982
34 340	Office Furniture & Equipment	45,958
35 341	Transportation Equipment	80,636
36 342	Stores Equipment	-
37 343	Tools, Shop & Garage Equipment	34,980
38 344	Laboratory Equipment	25
39 345	Power Operated Equipment	-
40 346	Communication Equipment	883
41 347	Miscellaneous Equipment	31,899
42 348	Other Tangible Plant	-
43		15,473,832
44	Rounding	2
45	Total CCWC Plant Accumulated Depreciation Per Exhibit Schedule B-2, Page 3d.	15,473,834

	Per Exhibit Schedule B-4-A	Allocation Factor	Allocation	
49	General Office Plant Allocated - Accum Depr OCN			
50 301	Organization	3,046	3.21%	98
51 302	Franchise Cost and Other Intangible Plant	211,596	3.21%	6,792
52 304	Structures & Improvements	2,354,430	3.21%	75,577
53 311	Electric Pumping Equipment		3.21%	-
54 339	Other Plant & Misc. Equipment	182,569	3.21%	5,218
55 340	Office Furniture & Equipment	6,664,647	3.21%	278,135
56 341	Transportation Equipment	352,718	3.21%	17,742
57 343	Tools, Shop & Garage Equipment	192,488	3.21%	8,179
58 344	Laboratory Equipment	4,062	3.21%	130
59 345	Power Operated Equipment	249,257	3.21%	8,001
60 346	Communication Equipment	165,561	3.21%	5,315
61	Total GO Accum. Depr. - Exh. Sch. B-2, Pg 4, Line 33.	12,560,374		403,186
62				
63	Total Accumulated Depreciation Per Exhibit Schedule B-2, Page 1, Line 6.			15,877,022

64 Explanation of Staff Adjustment A

65 As Originally Filed:

	Per Exhibit Sch. B-2, Page 4	Allocation Factor	Original Allocation
66			
67 Home Office Plant Accumulated Depreciation			
68 301 Organization	3,046	3.21%	98
69 302 Franchise Cost and Other Intangible Plant	211,596	3.21%	6,792
70 304 Structures & Improvements	2,354,430	3.21%	75,577
71 311 Electric Pumping Equipment	-	3.21%	-
72 339 Other Plant & Misc. Equipment	162,569	3.21%	5,218
73 340 Office Furniture & Equipment	8,664,647	3.21%	278,135
74 341 Transportation Equipment	552,718	3.21%	17,742
75 343 Tools, Ship & Garage Equipment	192,488	3.21%	6,179
76 344 Laboratory Equipment	4,062	3.21%	130
77 345 Power Operated Equipment	249,257	3.21%	8,001
78 346 Communication Equipment	165,561	3.21%	5,315
79	<u>12,560,374</u>		<u>403,188</u>

80  
81  
82

	Per Exhibit Schedule B-2, Page 4	Staff Adjustment A	Adjusted for Allocation	Allocation Factor	Staff Recommended
83 Home Office Plant Accumulated Depreciation					
84 301 Organization	3,046	(3,046)	-	4.00%	-
85 302 Franchise Cost and Other Intangible Plant	211,596	(153,888)	57,708	4.00%	2,308
86 304 Structures & Improvements	2,354,430		2,354,430	4.00%	94,177
87 311 Electric Pumping Equipment	-		-	4.00%	-
88 339 Other Plant & Misc. Equipment	162,569	(166,019)	(3,450)	4.00%	(138)
89 340 Office Furniture & Equipment	8,664,647		8,664,647	4.00%	346,586
90 341 Transportation Equipment	552,718	(43,867)	508,851	4.00%	20,362
91 343 Tools, Ship & Garage Equipment	192,488		192,488	4.00%	7,700
92 344 Laboratory Equipment	4,062		4,062	4.00%	162
93 345 Power Operated Equipment	249,257		249,257	4.00%	9,970
94 346 Communication Equipment	165,561		165,561	4.00%	6,622
95	<u>12,560,374</u>	<u>(366,620)</u>	<u>12,193,754</u>		<u>487,750</u>
96			As originally filed		<u>403,188</u>
97	Add the rounding difference required to agree with the Exhibit				2
98	Staff Adjustment A to increase General Office Plant Accumulated depreciation to Column B, above				<u>64,561</u>

Items Removed from General Office Plant Accumulated Depreciation in Staff Adjustment A:	Accum Depr
101 CRC Valuation - Inappropriate accumulated depreciation for intangible	3,046 Per DR MEM 7.4 & 7.5
102 CPUC Management Audit - Completed in 1995, thus not applicable to CCWC.	153,888
103 Water Management Plans - Completed in 1998, thus not applicable to CCWC.	166,019
104 Luxury Vehicles - Detail listed below.	43,667
105	<u>366,620</u>

Vehicles Found by Staff to be	Date Acquired	Price	Accum. Depr.
109 Ford Explorer - 2004	3/28/2004	\$ 45,839	5,988
110 Infiniti GX35 - 2004	8/13/2004	\$ 40,039	5,253
111 Ford Expedition - 2004	8/13/2004	\$ 40,785	5,351
114 Acura MDX 2001	11/21/2002	\$ 38,319	10,055
117 Infiniti QX4	12/11/2002	\$ 50,077	13,140
119 Audi S4 Avant - 2005	7/8/2005	\$ 58,143	3,860
120		<u>\$ 274,001</u>	<u>\$ 43,667</u>

121

122 Explanation of Staff Adjustment B

123 Explanation of Adjustment:  
124 Agreement signed 02/05/2005 with Fountain Hills Sanitation District to take Wells 8 & 9 out of service and retire other  
125 Plant Identified by Staff as not being used and useful. Also to reclassify plant and accumulated depreciation.

126  
127 Acct

128 No.	Description	Cost	Accum Depr
129 304	Staff adjustment to Structures and addition to accum depr based on half-year conv	11,590	(193)
130 304	Well No. 9 - Install exhaust fan	596	596
131	Subtotal	<u>12,186</u>	<u>403</u>
132			
133 307	Fully depreciated Cost of Well #8 per response to DR MEM-7.3	\$ 48,329	\$ 49,329
134 307	Fully depreciated Cost of Well #9 per response to DR MEM-7.3	54,139	54,139
135 307	Engine Well	3,348	3,348
136	Subtotal	<u>106,816</u>	<u>106,816</u>
137			
138 311	Staff adjustment to pumping equipment and addition to accum depr based on half-	26,083	(1,830)
139	Subtotal	<u>26,083</u>	<u>(1,830)</u>
140			
141 320	CAP Plant #1 1986	1,320,562	1,320,562
142 320	CAP Plant #1 - Treatment Equipment 1987	288,612	288,612
143 320	CAP Plant #1 - Treatment Equipment 1988	397,339	397,339
144 320	CAP Plant #1 - Treatment Equipment 1988	4,409	4,409
145	Subtotal	<u>2,010,922</u>	<u>2,010,922</u>
146			
147 305	Collecting and Impounding Reservoirs	(6,548)	(1,801)
148 307	Wells and Springs (250 hp sub.)	(85,622)	(18,727)
149 311	Pumping Equipment (250 hp sub. in 1996 Less Fire hydrant in 1996 and DIP in 200	55,254	24,434
150 320	Water Treatment Equipment (Water Treatment Study in 2004)	34,062	2,908
151 330	Distribution Reservoirs and Standpipes (Water Services in 1996 and mains in 2005	(1,858,272)	(104,710)
152 331	Transmission and Distribution Mains (16" main in 2005 and fh Blvd main in 2006)	1,502,420	46,451
153 333	Services (Water Services in 1996 less Conference Room Table and Chairs in 1993	109,409	30,253
154 334	Meters and Meter Installation (Meter installation in 1973 less service line in 1994)	11,193	18,154
155 335	Hydrants (Fire hydrant in 1996 and DIP in 2005)	53,352	10,440
156 340	Office Furniture and Equipment (Conference Room Table and Chairs in 1993)	1,814	585
157 303	Land and Land Rights (A/C #348 for RCN)	<u>(34,052)</u>	<u>(6,487)</u>
158			
159 338	Other Plant & Misc. Equip.	108,542	31,888
160 347	Miscellaneous Equipment	<u>(108,542)</u>	<u>(31,888)</u>
161			
162		<u>\$ 2,156,007</u>	<u>\$ 2,118,511</u>

163 Summary of Staff Adjustment B

164	Plant Additions -	Line 132	Structures and improvements	(193)
165		Line 141	Pumping equipment	(1,830)
166			Subtotal of Additions	<u>(1,823)</u>
167	Plant Retirements -	Line 133	Structures and improvements	596
168		Line 139	Wells and Springs	106,816
169		Line 148	Water Treatment Equipment	2,010,922
170			Subtotal of Retirements	<u>2,118,334</u>
171			Total reduction to Column C above	<u>2,118,511</u>
172				

CHAPARRAL CITY WATER COMPANY, INC.  
 Docket No. W-02113A-07-0551  
 Test Year Ended December 31, 2006

Schedule MEM-9

**RATE BASE ADJUSTMENT #5 - Eliminate Working Capital Elements**

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Unamortized Debt Issuance Costs	\$ 424,010	\$ (424,010)	\$ -
2	Prepayments	192,485	(192,485)	-
3	Materials and Supplies	14,521	(14,521)	-
		<u>\$ 631,016</u>	<u>\$ (631,016)</u>	<u>\$ -</u>

References:

Col [A]: Company Schedule B-2

Col [B]: Col [C] - Col [A]

Col [C]: MEM Testimony

**RATE BASE ADJUSTMENT #6 - Capitalize Outside Services Expenses**

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	304	Structures and Improvements	\$ -	\$ 11,590	\$ 11,590
2	311	Electric Pumping Equipment	\$ -	\$ 26,084	\$ 26,084
3		TOTAL	\$ -	\$ 37,674	\$ 37,674
4					
5					
6					
7					
8		<u>References:</u>			
9		Col [A]: Company Schedule B-2			
10		Col [B]: Col [C] - Col [A]			
11		Col [C]: MEM Testimony			
12					
13		<b>PLANT COSTS REMOVED FROM OUTSIDE SERVICES (MEM 8.1)</b>			
14	Acct. No.	Description			<u>Amount</u>
15	304-Struct & Imprmnts	New irrigation installation			\$ 2,500
16	304-Struct & Imprmnts	Installation of 30' x 6' fencing w/pane			\$ 4,375
17	304-Struct & Imprmnts	Professional survey for new fence lin			\$ 4,715
18		Total for Structures and Improvements			\$ 11,590
19					
20	311 - Elec Pumping Equip	Recondition motor			\$ 7,448
21	311 - Elec Pumping Equip	Removal & repair of pump			\$ 5,513
22	311 - Elec Pumping Equip	Removal & repair of motor and pump			\$ 13,123
23		Total for Electric Pumping Equipment			\$ 26,084
24					
25		Total expensed plant			\$ 37,674

**RATE BASE ADJUSTMENT #7 - Retire Wells #8 and #9 and Other Plant that is not used and useful.**  
**Also reclassify plant into more appropriate NARUC account categories.**

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENT	[C] STAFF RECOMMENDED
1	304	Structures and Improvements	\$ -	\$ (596)	\$ (596)
2	307	Wells and Springs	\$ -	\$ (106,816)	\$ (106,816)
3	320	Water Treatment Equipment	\$ -	(2,010,922)	\$ (2,010,922)
4	305	Collecting and Impounding Reservoirs	\$ -	(6,548)	\$ (6,548)
5	307	Wells and Springs	\$ -	(66,622)	\$ (66,622)
6	311	Pumping Equipment	\$ -	55,254	\$ 55,254
7	320	Water Treatment Equipment	\$ -	34,062	\$ 34,062
8	330	Distribution Reservoirs and Standpipes	\$ -	(1,658,272)	\$ (1,658,272)
9	331	Transmission and Distribution Mains	\$ -	1,502,420	\$ 1,502,420
10	333	Services	\$ -	106,409	\$ 106,409
11	334	Meters and Meter Installation	\$ -	11,193	\$ 11,193
12	335	Hydrants	\$ -	53,352	\$ 53,352
13	340	Office Furniture and Equipment	\$ -	1,814	\$ 1,814
14	303	Land and Land Rights (A/C #348 for RCN)	\$ -	(34,062)	\$ (34,062)
15	339	Other Plant & Misc. Equip.	\$ -	106,542	\$ 106,542
16	347	Miscellaneous Equipment	\$ -	(106,542)	\$ (106,542)
17		TOTAL	\$ -	\$ (2,118,334)	\$ (2,118,334)

References:

- 22 Col [A]: Company Schedule B-2
- 23 Col [B]: Col [C] - Col [A]
- 24 Col [C]: MEM Testimony

28 Explanation of Adjustment:

- 27 Agreement signed 02/05/2005 with Fountain Hills Sanitation District to take Wells 8 & 9 out of service and retire other
- 28 Plant identified by Staff as not being used and useful. Also to reclassify plant and accumulated depreciation.

30 Acct.

31 No.	Description	Cost	Accum Depr
32	Fully depreciated Cost of Well #8 per response to DR MEM-7.3	\$ 49,329	\$ 49,329
33	Fully depreciated Cost of Well #9 per response to DR MEM-7.3	54,139	54,139
34	Engine Well	3,348	3,348
35	Subtotal	106,816	106,816
36	320 CAP Plant #1 1988	1,320,562	1,320,562
37	320 CAP Plant #1 - Treatment Equipment 1987	288,612	288,612
38	320 CAP Plant #1 - Treatment Equipment 1989	397,339	397,339
39	320 CAP Plant #1 - Treatment Equipment 19889	4,409	4,409
40	Subtotal	2,010,922	2,010,922
41	304 Well No. 9 - Install exhaust fan	596	596
42			
43	305 Collecting and Impounding Reservoirs	(6,548)	(1,801)
44	307 Wells and Springs (250 hp sub.)	(66,622)	(18,727)
45	311 Pumping Equipment (250 hp sub. In 1996 Less Fire hydrant in 1996 and DIP in	55,254	24,434
46	320 Water Treatment Equipment (Water Treatment Study in 2004)	34,062	2,908
47	330 Distribution Reservoirs and Standpipes (Water Services in 1996 and mains in 20	(1,658,272)	(104,710)
48	331 Transmission and Distribution Mains (16" main in 2005 and in Blvd main in 200	1,502,420	48,451
49	333 Services (Water Services in 1996 less Conference Room Table and Chairs in 1	106,409	30,253
50	334 Meters and Meter Installation (Meter installation in 1973 less service line in 199	11,193	16,154
51	335 Hydrants (Fire hydrant in 1996 and DIP in 2005)	53,352	10,940
52	340 Office Furniture and Equipment (Conference Room Table and Chairs in 1993)	1,814	585
53	303 Land and Land Rights (A/C #348 for RCN)	(34,062)	(6,487)
54			
55	339 Other Plant & Misc. Equip.	106,542	31,889
56	347	(106,542)	(31,889)
57			
58		\$ 2,118,334	\$ 2,118,334
59			

CHAPARRAL CITY WATER COMPANY, INC.  
Docket No. W-02113A-07-0551  
Test Year Ended December 31, 2006

Schedule MEM RCN -1

RATE BASE - RECONSTRUCTION COST NEW

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 80,816,104		\$ 78,478,520
2	Less: Accumulated Depreciation	25,894,686		23,387,716
3	Net Plant in Service	<u>\$ 54,921,418</u>		<u>\$ 55,090,804</u>
4				
5	<u>LESS:</u>			
6				
7	Contributions in Aid of Construction (CIAC)	\$ -		\$ -
8	Less: Accumulated Amortization	-		-
9	Net CIAC	<u>9,441,352</u>		<u>\$ 9,441,352</u>
10				
11	Advances in Aid of Construction (AIAC)	10,231,760		\$ 10,231,760
12				
13	Customer Meter Deposits	819,845		\$ 819,845
14				
15	Deferred Income Tax Credits	925,896		925,896
16				
17	Shared Gain on Well	646,000	570,000 1	1,216,000
18				
19	<u>ADD:</u>			
20				
21	Unamortized Debt Issuance Costs	424,010	(424,010) 5	-
22				
23	Prepayments	192,485	(192,485) 5	-
24				
25	Materials and Supplies	14,521	(14,521) 5	-
26				
27	Deferred Regulatory Assets	1,280,000	(1,280,000) 2	-
28				
29	Working Capital	-	-	-
30				
31				
32		<u>\$ 34,767,581</u>		<u>\$ 32,455,951</u>
33				
34				
35	<u>References:</u>			
36	Column (A), Company Schedule B-3			
37	Column (B): Schedule MEM RCN-2			
38	Column (C): Column (A) + Column (B)			



**RCN RATE BASE ADJUSTMENT #3 - Reduce General Office plant allocation for disallowed items and increase four-factor allocation to 4%.**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENT	STAFF RECOMMENDED
1	General office plant allocation @ RCN	\$ 992,128	\$ 174,963	1,167,091
2	Totals	\$ 992,128	\$ 174,963	\$ 1,167,091

[A]: Company Schedule B-3, Page 3 and B-4 and below Line 27, Column C.  
[B]: Testimony - MEM and below calculations and Line 48, Column E.  
[D]: Col [B] + Col [C]

**Explanation of Staff Adjustment**

12 As Originally Filed:

RCN Per Exhibit Schedule B-4-A	Allocation Factor	RCN Original Allocation
14 Home Office Plant Allocated		
15 308 Land	3.21%	8,521
16 301 Organization	3.21%	528
17 303 Franchise Cost and Other Intangible Plant	3.21%	29,443
18 304 Structures & Improvements	3.21%	301,089
19 311 Electric Pumping Equipment	3.21%	(60)
20 339 Other Plant & Misc. Equipment	3.21%	33,878
21 340 Office Furniture & Equipment	3.21%	561,742
22 341 Transportation Equipment	3.21%	19,471
23 343 Tools, Shop & Garage Equipment	3.21%	21,292
24 344 Laboratory Equipment	3.21%	483
25 345 Power Operated Equipment	3.21%	20,357
26 346 Communication Equipment	3.21%	8,372
27		\$ 992,128

RCN Per Exhibit Schedule B-4-A	Staff Adjustment	Adjusted for Allocation	Allocation Factor	Staff Recommended
32 Home Office Plant Allocated				
33 308 Land		172,003	4.00%	8,880
34 301 Organization		18,452	4.00%	658
35 303 Franchise Cost and Other Intangible Plant	(420,000)	497,234	4.00%	19,969
36 304 Structures & Improvements		9,379,730	4.00%	375,189
37 311 Electric Pumping Equipment		(1,860)	4.00%	(74)
38 339 Other Plant & Misc. Equipment	(1,015,148)	49,257	4.00%	1,810
39 340 Office Furniture & Equipment		17,188,237	4.00%	687,529
40 341 Transportation Equipment	(295,002)	311,673	4.00%	12,483
41 343 Tools, Shop & Garage Equipment		683,298	4.00%	28,532
42 344 Laboratory Equipment		15,358	4.00%	614
43 345 Power Operated Equipment		834,172	4.00%	25,367
44 346 Communication Equipment		280,818	4.00%	10,433
45		\$ 30,907,420		1,167,091

As originally filed

992,128

**Staff Adjustment to Increase General Office Plant**

174,964

Items Removed from General Office Plant in Staff Adjustment A:	OCN	Cost RCN
51 CPUC Management Audit - Completed in 1995, thus not applicable to CCW	420,000	420,000
52 Water Management Plans - Completed in 1998, thus not applicable to CCW	820,254	1,015,148
53 Luxury Vehicles - Detail listed below.	274,001	285,002
54	1,514,255	1,730,148

Vehicles Found by Staff to be Imprudent	Date Acquired	RCN Per Exhibit Schedule B-4-A
60 Ford Explorer - 2004	3/28/2004	\$ 48,815
61 Infiniti GX35 - 2004	8/13/2004	\$ 43,242
62 Ford Expedition - 2004	8/13/2004	\$ 43,444
63 Acura MDX 2001	11/21/2002	\$ 42,917
64 Infiniti QX4	12/11/2002	\$ 58,086
65 Audi S4 Avant - 2005	7/8/2005	\$ 60,898
66		\$ 295,002

RCNO RATE BASE ADJUSTMENT #4 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT A	(C) STAFF ADJUSTMENT B	(D) TOTAL OF STAFF ADJUSTMENTS	(E) STAFF RECOMMENDED
1	RCN Accumulated Depreciation	\$ 25,894,686	\$ 113,818	\$ (2,620,789)	\$ (2,506,970)	23,867,718
2	Totals	\$ 25,894,686	\$ 113,818	\$ (2,620,789)	\$ (2,506,970)	23,387,718

[A]: Company Schedule B-2, B-3 and B-4 and below Line 65, Column E.  
[B]: Testimony - MEM and below calculations and Line 145, Column E.  
[C]: Testimony - MEM and below calculations and line 193, Column E.  
[D]: Col [B] + Col [C]  
[E]: Col [A] + Col [D], and line 199, Column E.

LINE NO.	DESCRIPTION	CCWC Plant Accum. Depr. Per Exh. Sch. B-2 Page 3d	CCWC Plant Accum. Depr. Per Exh. Sch. B-4	Ratio of RCN to Original Cost Per Exh. Sch. B-4	RCN Accum. Depr. Per Exh. Sch. B-4
14	Acct.				
15	No.				
16	301 Organization	-	-	-	-
17	302 Franchises	-	-	-	-
18	303 Land and Land Rights	-	-	-	-
19	304 Structures & Improvements	357,961	376,155	1.2942	486,820
20	305 Collecting & Impounding Reservoirs	673	-	-	-
21	306 Lakes, Rivers, Other Intakes	-	-	-	-
22	307 Wells and Springs	183,252	54,932	2.7353	150,265
23	308 Infiltration Galleries and Tunnels	-	-	-	-
24	309 Supply Mains	-	-	-	-
25	310 Power Generation Equipment	-	-	-	-
26	311 Pumping Equipment	879,455	834,457	2.0976	1,750,363
27	320 Water Treatment Plant	2,304,464	2,099,307	1.2841	2,695,725
28	330 Distribution Reservoirs & Standpipes	1,986,014	1,431,816	1.5902	2,276,817
29	331 Transmission & Distribution Mains	7,154,728	7,103,657	1.8292	12,993,907
30	333 Services	1,080,763	1,228,978	1.2590	1,547,309
31	334 Meters & Meter Installation	990,783	1,032,186	1.4809	1,607,882
32	335 Hydrants	235,514	248,174	1.8718	460,745
33	336 Backflow Prevention Devices	-	-	-	-
34	338 Other Plant & Misc. Equipment	135,962	262,340	1.0564	277,127
35	340 Office Furniture & Equipment	45,958	65,702	1.2825	86,215
36	341 Transportation Equipment	60,636	140,176	1.2395	173,753
37	342 Stores Equipment	-	-	-	-
38	343 Tools, Shop & Garage Equipment	34,880	43,635	1.3106	57,187
39	344 Laboratory Equipment	25	-	-	-
40	345 Power Operated Equipment	-	-	-	-
41	346 Communication Equipment	883	25,603	1.4612	37,410
42	347 Miscellaneous Equipment	31,899	-	-	-
43	348 Other Tangible Plant	-	639	1.0000	639
44		16,473,832	14,946,757		24,502,155
45	Rounding	2	-		(12)
46	Total CCWC Plant Accumulated Depreciation	16,473,834	14,946,757		24,502,143

LINE NO.	DESCRIPTION	Per Exhibit Schedule B-4-A	Allocation Factor	Allocation	Ratio of RCN to Original Cost Per Exh. Sch. B-4-A	G. O. RCN Accum. Depr.
50	General Office Plant Allocated - Accum Depr OCN					
51	301 Organization	3,046	3.21%	98	1.0000	98
52	302 Franchise Cost and Other Intangible Plant	211,568	3.21%	6,792	1.0000	6,792
53	304 Structures & Improvements	2,354,430	3.21%	75,577	1.8184	122,164
54	311 Electric Pumping Equipment	-	3.21%	-	0.0000	-
55	339 Other Plant & Misc. Equipment	182,599	3.21%	5,218	1.2455	6,500
56	340 Office Furniture & Equipment	8,084,847	3.21%	278,135	1.2046	335,043
57	341 Transportation Equipment	552,718	3.21%	17,742	1.0974	19,471
58	343 Tools, Shop & Garage Equipment	192,488	3.21%	6,179	1.5352	10,104
59	344 Laboratory Equipment	4,052	3.21%	130	3.7818	493
60	345 Power Operated Equipment	249,257	3.21%	8,001	2.5442	20,357
61	346 Communication Equipment	185,581	3.21%	5,315	1.6764	8,372
62	Total GO Accum. Depr. - Exh. Sch. B-2, Pg 4, Line 33.	12,580,374		403,188		629,393
63				15,877,022		25,031,536
64	Company Pro-forma RCN Rate Base Adjustment No. 1 for difference between General Ledger and Depreciation Detail Schedules.					863,150
65	Total RCN Accumulated Depreciation Per Exhibit Schedule B-2, Page 1, Line 7 - To Line 1, Column A above					25,894,688

66 **Explanation of Staff Adjustment A**

67 As Originally Filed:

	Per Exhibit Sch. B-2, Page 4	Allocation Factor	Original Allocation
69 Home Office Plant Accumulated Depreciation			
70 301 Organization	3,048	3.21%	98
71 302 Franchise Cost and Other Intangible Plant	211,588	3.21%	6,792
72 304 Structures & Improvements	2,354,430	3.21%	75,577
73 311 Electric Pumping Equipment	-	3.21%	-
74 339 Other Plant & Misc. Equipment	162,569	3.21%	5,218
75 340 Office Furniture & Equipment	8,864,647	3.21%	278,135
76 341 Transportation Equipment	552,718	3.21%	17,742
77 343 Tools, Ship & Garage Equipment	192,488	3.21%	6,179
78 344 Laboratory Equipment	4,062	3.21%	130
79 345 Power Operated Equipment	249,257	3.21%	8,001
80 346 Communication Equipment	165,581	3.21%	5,315
81	<u>12,560,374</u>		<u>403,188</u>

	Per Exhibit Schedule B-2, Page 3	Staff Adjustment A	Adjusted for Allocation	Allocation Factor
85 Home Office Plant Accumulated Depreciation				
86 301 Organization	3,048	(3,048)	-	4.00%
87 302 Franchise Cost and Other Intangible Plant	211,588	(153,888)	57,708	4.00%
88 304 Structures & Improvements	2,354,430		2,354,430	4.00%
89 311 Electric Pumping Equipment	-		-	4.00%
90 339 Other Plant & Misc. Equipment	162,569	(188,019)	(3,450)	4.00%
91 340 Office Furniture & Equipment	8,864,647		8,864,647	4.00%
92 341 Transportation Equipment	552,718	(43,887)	509,051	4.00%
93 343 Tools, Ship & Garage Equipment	192,488		192,488	4.00%
94 344 Laboratory Equipment	4,062		4,062	4.00%
95 345 Power Operated Equipment	249,257		249,257	4.00%
96 346 Communication Equipment	165,581		165,581	4.00%
97	<u>12,560,374</u>	<u>(366,620)</u>	<u>12,193,754</u>	

102 Items Removed from General Office Plant Accumulated Depreciation in Staff Adjustment A:

	Accum Depr Per DR MEM 7.4 & 7.5
103 CRC Valuation - inappropriate accumulated depreciation for intangible	3,048
104 CPUC Management Audit - Completed in 1998, thus not applicable to CCWC.	153,888
105 Water Management Plans - Completed in 1998, thus not applicable to CCWC.	166,018
106 Luxury Vehicles - Detail listed below.	43,667
107	<u>366,620</u>

Vehicles Found by Staff to be Imprudent	Date Acquired	Price	Accum. Depr.
111 Ford Explorer - 2004	3/25/2004	\$ 45,639	5,988
113 Infiniti GX35 - 2004	8/13/2004	\$ 40,039	5,263
115 Ford Expedition - 2004	8/13/2004	\$ 40,785	5,361
117 Acura MDX 2001	11/21/2002	\$ 36,319	10,065
119 Infiniti QX4	12/11/2002	\$ 50,077	13,140
121 Audi S4 Avant - 2005	7/8/2005	\$ 58,143	3,880
122		<u>\$ 274,001</u>	<u>\$ 43,687</u>

	Staff Adjusted	Ratio of RCN to Original Cost Per Exh. Sch. B-4-A	Staff Recommended G. O. RCN Accum. Depr.
129 301 Organization	-	1.0000	-
130 302 Franchise Cost and Other Intangible Plant	2,308	1.0000	2,308
131 304 Structures & Improvements	94,177	1.8184	152,228
132 311 Electric Pumping Equipment	-	0.0000	-
133 339 Other Plant & Misc. Equipment	(138)	1.2456	(172)
134 340 Office Furniture & Equipment	346,586	1.2046	417,497
135 341 Transportation Equipment	20,362	1.0974	22,345
136 343 Tools, Ship & Garage Equipment	7,700	1.6352	12,580
137 344 Laboratory Equipment	182	3.7818	814
138 345 Power Operated Equipment	9,870	2.5442	25,386
139 346 Communication Equipment	5,622	1.5754	10,433
140	<u>487,750</u>		<u>643,211</u>
141 As originally filed Per Exhibit Schedule B-3, Page 4, Line 37			<u>529,383</u>

143 Staff Adjustment A to Reduce General Office Plant Accumulated depreciation for disallowed items and increase  
144 allocation to 4 percent. To line 1, Column B 113,818

145 Explanation of Staff Adjustment B

		CCWC Plant OCN			Staff		Difference - Staff Adjustment B	
146	147	CCWC Plant OCN Accum. Depr. Per Exh. Sch. B-2, Page 3	Accum. Depr. Adjustments Per Staff Sched. MEM-8	Ratio of RCN to Original Cost Per Exh. Sch. B-4	Recommended CCWC RCN Accum. Depr.	RCN Accum. Depr. Per Exh. Sch. B-4		
149	150	Description						
151	301	Organization	-	-	-	-	-	
152	302	Franchises	-	-	-	-	-	
153	303	Land and Land Rights	-	-	-	-	-	
154	304	Structures & Improvements	357,961	(403)	1.2942	462,752	496,620	(24,068)
155	305	Collecting & Impounding Reservoirs	573	(573)	1.0000	-	-	-
156	306	Lakes, Rivers, Other Intakes	-	-	-	-	-	-
157	307	Wells and Springs	183,252	(125,543)	2.7353	157,851	150,256	7,596
158	308	Infiltration Galleries and Tunnels	-	-	-	-	-	-
159	309	Supply Mains	-	-	-	-	-	-
160	310	Power Generation Equipment	-	-	-	-	-	-
161	311	Pumping Equipment	879,456	26,064	2.0976	1,899,419	1,750,363	149,056
162	320	Water Treatment Plant	2,304,464	(2,008,014)	1.2841	380,871	2,696,726	(2,315,054)
163	330	Distribution Reservoirs & Standpipes	1,998,014	(104,710)	1.6902	3,007,552	2,276,817	730,736
164	331	Transmission & Distribution Mains	7,154,728	46,451	1.8292	13,172,397	12,983,907	178,489
165	333	Services	1,060,764	30,263	1.2580	1,373,590	1,547,309	(173,719)
166	334	Meters & Meter Installation	990,763	18,154	1.4609	1,471,005	1,507,882	(36,878)
167	335	Hydrants	235,514	10,940	1.8716	461,263	460,745	518
168	338	Backflow Prevention Devices	-	-	-	-	-	-
169	339	Other Plant & Misc. Equipment	135,962	-	1.0564	143,830	277,127	(138,497)
170	340	Office Furniture & Equipment	45,958	889	1.2825	60,167	86,215	(26,059)
171	341	Transportation Equipment	60,636	-	1.2395	75,159	173,753	(98,595)
172	342	Stores Equipment	-	-	-	-	-	-
173	343	Tools, Shop & Garage Equipment	34,980	-	1.3108	45,845	57,187	(11,342)
174	344	Laboratory Equipment	25	-	1.0000	25	-	25
175	345	Power Operated Equipment	-	-	-	-	-	-
176	346	Communication Equipment	683	-	1.4612	1,290	37,410	(36,120)
177	347	Miscellaneous Equipment	31,899	-	1.0000	31,899	-	31,899
178	348	Other Tangible Plant	-	-	1.0000	-	639	(639)
179			<u>16,473,932</u>			<u>22,744,506</u>	<u>24,502,143</u>	<u>(1,757,637)</u>
180		Rounding	2			-	(12)	12
181			<u>16,473,934</u>					
182		Total CCWC Plant RCN Accumulated Depreciation				<u>22,744,506</u>	<u>24,502,143</u>	
183		Difference between detail plant schedules and General Ledger accumulated depreciation balances and						(1,757,639)
184		Company RCN ratios applied to detail balances.						
185		Less Company RCND Rate Base pro-forma adjustment No. 1 to account for the difference between General						
186		Ledger A/D and detail schedules.						863,150
187		Staff Adjustment B to decrease CCWC Plant RCN Accumulated Depreciation Based on Company Supplied						
188		RCN Rates. To Line 1, Column C						<u>(2,620,789)</u>
189								
190								
191		Summary of Staff Recommended RCN Accumulated Depreciation:						
192		Staff recommended CCWC RCN Accumulated Depreciation Calculated Below				22,744,506		
193		Staff recommended General Office RCN Accumulated Depreciation				643,211		
194		Staff recommended Total RCN Accumulated Depreciation to Column E, Line 1 above				<u>23,387,716</u>		

RCN RATE BASE ADJUSTMENT #6 - Record Plant Additions and Retirements per Staff Adjustments

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENT	STAFF RECOMMENDED
1	301 Organization	\$ -	-	-
2	302 Franchises	-	-	-
3	303 Land and Land Rights	305,920	1,245,937	1,551,857
4	304 Structures & Improvements	1,965,394	10,793	1,976,187
5	305 Collecting & Impounding Reservoirs	-	-	-
6	306 Lakes, Rivers, Other Intakes	-	-	-
7	307 Wells and Springs	908,287	(528,244)	380,043
8	308 Infiltration Galleries and Tunnels	-	-	-
9	309 Supply Mains	-	-	-
10	310 Power Generation Equipment	-	-	-
11	311 Pumping Equipment	3,180,902	105,725	3,286,627
12	320 Water Treatment Plant	9,989,130	(3,226,536)	6,762,594
13	330 Distribution Reservoirs & Standpipes	13,002,689	(1,932,296)	11,070,393
14	331 Transmission & Distribution Mains	31,920,448	1,601,082	33,521,530
15	333 Services	9,304,078	146,911	9,450,989
16	334 Meters & Meter Installation	3,981,833	16,310	3,998,143
17	335 Hydrants	2,192,853	77,763	2,270,616
18	338 Backflow Prevention Devices	-	-	-
19	339 Other Plant & Misc. Equipment	1,814,021	-	1,814,021
20	340 Office Furniture & Equipment	349,448	2,544	351,993
21	341 Transportation Equipment	663,541	-	663,541
22	342 Stores Equipment	-	-	-
23	343 Tools, Shop & Garage Equipment	195,755	-	195,755
24	344 Laboratory Equipment	-	-	-
25	345 Power Operated Equipment	-	-	-
26	346 Communication Equipment	57,138	-	57,138
27	347 Miscellaneous Equipment	-	-	-
28	348 Other Tangible Plant	-	-	-
29		<u>79,791,438</u>	<u>(2,480,011)</u>	<u>77,311,427</u>

[A]: Company Schedule B-4, and below Line 29 - 26, Column A.  
[B]: Testimony - MEM and Schedule MEM-6 and Schedule MEM-23.  
[C]: Col [B] + Col [C]

Company	RCN Per Exhibit Schedule B-4	Per Below Analysis Staff Adjusted RCN	Difference - Staff Adjustment
40 301 Organization	\$ -	-	\$ -
41 302 Franchises	-	-	-
42 303 Land and Land Rights	305,920	1,551,857	(1,245,937)
43 304 Structures & Improvements	1,965,394	1,976,187	(10,793)
44 305 Collecting & Impounding Reservoirs	-	-	-
45 306 Lakes, Rivers, Other Intakes	-	-	-
46 307 Wells and Springs	908,287	380,043	528,244
47 308 Infiltration Galleries and Tunnels	-	-	-
48 309 Supply Mains	-	-	-
49 310 Power Generation Equipment	-	-	-
50 311 Pumping Equipment	3,180,902	3,286,627	(105,725)
51 320 Water Treatment Plant	9,989,130	6,762,594	3,226,536
52 330 Distribution Reservoirs & Standpipes	13,002,689	11,070,393	1,932,296
53 331 Transmission & Distribution Mains	31,920,448	33,521,530	(1,601,082)
54 333 Services	9,304,078	9,450,989	(146,911)
55 334 Meters & Meter Installation	3,981,833	3,998,143	(16,310)
56 335 Hydrants	2,192,853	2,270,616	(77,763)
57 338 Backflow Prevention Devices	-	-	-
58 339 Other Plant & Misc. Equipment	1,814,021	1,814,021	-
59 340 Office Furniture & Equipment	349,448	351,993	(2,544)
60 341 Transportation Equipment	663,541	663,541	-
61 342 Stores Equipment	-	-	-
62 343 Tools, Shop & Garage Equipment	195,755	195,755	-
63 344 Laboratory Equipment	-	-	-
64 345 Power Operated Equipment	-	-	-
65 346 Communication Equipment	57,138	57,138	-
66 347 Miscellaneous Equipment	-	-	-
67 348 Other Tangible Plant	-	-	-
	<u>79,791,438</u>	<u>77,311,427</u>	<u>2,480,011</u>

	Staff Adjusted RCN Per MSJ	From Sch MEM 23	From Sch MEM-6	Staff Adjusted RCN
68 301 Organization	-			-
69 302 Franchises	-			-
70 303 Land and Land Rights	271,857		1,280,000	1,551,857
71 304 Structures & Improvements	1,964,897	11,590		1,976,187
72 305 Collecting & Impounding Reservoirs	-			-
73 306 Lakes, Rivers, Other Intakes	-			-
74 307 Wells and Springs	380,043			380,043
75 308 Infiltration Galleries and Tunnels	-			-
76 309 Supply Mains	-			-
77 310 Power Generation Equipment	-			-
78 311 Pumping Equipment	3,240,544	26,083		3,266,627
79 320 Water Treatment Plant	6,742,594			6,742,594
80 330 Distribution Reservoirs & Standpipes	11,070,393			11,070,393
81 331 Transmission & Distribution Mains	33,521,530			33,521,530
82 333 Services	8,450,989			8,450,989
83 334 Meters & Meter Installation	3,898,143			3,898,143
84 335 Hydrants	2,270,616			2,270,616
85 336 Backflow Prevention Devices	-			-
86 339 Other Plant & Misc. Equipment	1,814,021			1,814,021
87 340 Office Furniture & Equipment	351,993			351,993
88 341 Transportation Equipment	683,541			683,541
89 342 Stores Equipment	-			-
90 343 Tools, Shop & Garage Equipment	195,755			195,755
91 344 Laboratory Equipment	-			-
92 345 Power Operated Equipment	-			-
93 346 Communication Equipment	57,138			57,138
94 347 Miscellaneous Equipment	-			-
95 348 Other Tangible Plant	-			-
96	<u>75,993,754</u>	<u>37,673</u>	<u>1,280,000</u>	<u>77,311,427</u>

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	Adj. No.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	<b>REVENUES:</b>						
2	Metered Water Sales	\$ 7,364,411	\$ -		\$ 7,364,411	\$ 1,735,265	\$ 9,099,676
3	Water Sales - Unmetered	82,289	-		82,289	-	82,289
4	Intentionally Left Blank	-	-		-	-	-
5	Total Operating Revenues	<u>\$ 7,448,700</u>	<u>\$ -</u>		<u>\$ 7,448,700</u>	<u>\$ 1,735,265</u>	<u>\$ 9,181,965</u>
6	<b>OPERATING EXPENSES:</b>						
7	Salaries and Wages	\$ 969,244	\$ -		\$ 969,244	\$ -	\$ 969,244
10	Purchased Water	831,656	(20,306)	2	811,351	-	811,351
11	Purchased Power	602,982	-		602,982	-	602,982
13	Chemicals	127,457	(27,830)	7	99,627	-	99,627
14	Repairs and Maintenance	104,809	(19,018)	8	85,791	-	85,791
15	Office Supplies and Expense	19,800	-		19,800	-	19,800
16	Outside Services	266,544	(38,048)	10	228,496	-	228,496
17	Water Testing	43,458	(17,820)	11	25,638	-	25,638
18	Transportation	70,430	-		70,430	-	70,430
19	General Liability Insurance	(1,294)	3,654	9	2,360	-	2,360
20	Insurance - Health and Life	-	-		-	-	-
21	Regulatory Commission/Rate Case Expense	144,871	(61,538)	6	83,333	-	83,333
22	Miscellaneous Expense	1,259,948	37,214	4	1,297,162	-	1,297,162
23	Depreciation	1,608,019	(86,188)	3	1,521,831	-	1,521,831
24	Amortization of Gain on Well (Settlement Proc	(76,000)	(76,000)	1	(152,000)	-	(152,000)
25	Amortization of Additional CAP Allocation	64,000	(64,000)	5	-	-	-
26	Taxes other than income	47,873	-		47,873	-	47,873
27	Property Taxes	295,813	(33,413)	12	262,400	20,731	283,131
28	Income Taxes	270,020	197,275	13	467,295	661,791	1,129,086
29	Intentionally Left Blank	-	-		-	-	-
30	Total Operating Expenses	<u>\$ 6,849,430</u>	<u>\$ (205,818)</u>		<u>\$ 6,443,612</u>	<u>\$ 682,522</u>	<u>\$ 7,126,134</u>
31	Operating Income (Loss)	<u>\$ 797,270</u>	<u>\$ 205,818</u>		<u>\$ 1,003,088</u>	<u>\$ 1,052,744</u>	<u>\$ 2,055,831</u>

References:

- Column (A): Company Schedule C-1
- Column (B): Schedule MEM-13
- Column (C): Column (A) + Column (B)
- Column (D): Schedules MEM-1 and MEM-2
- Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) Weld Settlement ADJ./E.	(C) Purchased Water ADJ./E.	(D) Depreciation ADJ./E.	(E) Misc. Exp. ADJ./E.	(F) CAP Amort. ADJ./E.	(G) Pork Case Exp. ADJ./E.	(H) Chemicals ADJ./E.	(I) Repairs & Maint. ADJ./E.	(J) Insurance ADJ./E.	(K) Custody Services ADJ./E.	(L) Water Testing ADJ./E.	(M) Lic. Tax ADJ./E.	(N) STAFF ADJ./E.
1	REVENUES:														
2	Measured Water Sales	\$ 7,266,411													\$ 7,266,411
3	Water Sales - Unmetered														
4	Other Operating Revenues	82,389													82,389
5	Intentionally Left Blank														
6	Total Operating Revenues	\$ 7,348,800													\$ 7,431,179
7	OPERATING EXPENSES:														
8	Measured Water	\$ 800,244													\$ 800,244
9	Unmetered Water	831,658													831,658
10	Purchased Water	602,862		(20,308)											602,862
11	Chemicals	127,457							(27,430)						100,027
12	Repairs and Maintenance	104,490							(16,018)						88,472
13	Other Supplies and Expenses	19,008													19,008
14	Vehicle Services	208,544								(38,044)					170,500
15	Water Testing	76,430										(17,200)			59,230
16	Transportation	(1,264)								3,264					2,000
17	General Liability Insurance	144,673													144,673
18	Increases - Health and Life	1,269,048						(91,230)							1,177,818
19	Regulatory Contributions Case Expense	1,608,018													1,608,018
20	Depreciation Expense	(76,000)			(69,184)										(145,184)
21	Amortization of G&S as Weld Settlement Proceeds	64,000					(64,000)								
22	Amortization of Additional CAP Allocation	47,873													47,873
23	Property Taxes	296,613													296,613
24	Intentionally Left Blank	270,000													270,000
25	Total Operating Expenses	\$ 8,649,458		(75,608)		(86,184)		(91,230)	(27,430)	(16,018)		(38,044)	(17,200)	(3,264)	\$ 8,431,179
26	Operating Income (Loss)	\$ 707,210													\$ 707,210

ADJ/E	DESCRIPTION	SCHEDULE
1	Weld settlement allocated to ratepayers.	Schedule MEM-14
2	Purchased Water Expense	Schedule MEM-15
3	Depreciation Expense	Schedule MEM-16
4	Microdeposits Expense	Schedule MEM-17
5	Additional CAP Allocation Amortization Reversal	Schedule MEM-18
6	Normalization of Rate Case Expense	Schedule MEM-19
7	Normalization of Chemicals Expense	Schedule MEM-20
8	Normalization of Repairs and Maintenance Expense	Schedule MEM-21
9	Normalization of Insurance Expense	Schedule MEM-22
10	Vehicle Services Expense	Schedule MEM-23
11	Water Testing Expense	Schedule MEM-24
12	Property Tax Expense	Schedule MEM-25
13	Interest Expense	Schedule MEM-26

**OPERATING INCOME ADJUSTMENT #1 - Well settlement proceeds allocated 100% to ratepayers.**

<u>Line No.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
1	Well Settlement Proceeds Amortized	\$ (76,000)	\$ (76,000)	\$ (152,000)

References:

Col [A]: Company Schedule C-1  
 Col [B]: Col [C] - Col [A]  
 Col [C]: Testimony - MEM and worksheet MEM-5.

Explanation of Adjustment:

Agreement signed 02/05/2005 with Fountain Hills Sanitation District to take Wells 8 & 9 out of service due to possible contamination from sewage treatment facility in exchange for \$1,520,000. Gain to be allocated 100% to ratepayers because the wells were fully depreciated, thus the original cost had been paid by the depreciation included in rates through 2002.

Ratepayers share of proceeds

\$ 1,520,000

Based on a ten year amortization, the amount included in instant rate case revenue requirement as "Amortization of Well Settlement Proceeds".

(152,000)

OPERATING INCOME ADJUSTMENT #2 - Decrease Purchased Water Cost

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED	
1	Purchased Water Cost	\$ 831,656	\$ (20,306)	\$ 811,350	
2	From Exhibit Schedule C-2, Page 6 (Proforma Adj #5)				
3					
4	CAP water allocation (acre feet)		Company	Staff	
5	Additional CAP allocation		6,978	6,978	
6			1,931	965.5	
7	2008 capital cost per acre foot		8,908	7,944	
8	Total capital cost		\$ 21	\$ 21	
9			\$ 187,089	\$ 168,814	
10					
11	CAP water delivered (acre feet) - 6,500 scheduled, 6,978 was delivered		6,978	6,978	
12	Excess CAP water delivered		280	260	
13	Additional acre feet in annualization		(705)	(705)	
14			6,533	6,533	
15	2008 delivery cost per acre foot		\$ 92	\$ 92	
16	Total M&I cost		\$ 601,036	\$ 601,036	
17					
18	Total CAP purchased water		788,125	787,850	
19					
20	Ground water pumper in acre feet		280	260	
21	Excess capacity percentage		0.67	0.67	
22	Total projected gallons pumped		174	174	
23	CAP Replenishment District assessment fee		\$ 250	\$ 250	
24			\$ 43,550	\$ 43,500	
25					
26	Total purchased water cost		\$ 831,656	\$ 811,350	
27	Test year purchased water cost per GL		\$ 934,095	\$ 934,095	
28	Increase(decrease)		(102,439)	(122,746)	
29				(102,439)	
30	Staff Adjustment to eliminate portion of expense not used and useful			(20,307)	Round to \$20,306
31					
32					
33					
34	Purchased Water Expense per Company		\$ 831,656		
35	Staff Adjustment to eliminate portion of expense not used and useful		(20,307)		
36	Adjusted Purchased Water Expense		\$ 811,350		
37					
38					

OPERATING INCOME ADJUSTMENT #3 - DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Depreciation Expense	\$ 1,808,018	\$ (88,188)	\$ 1,521,831

Explanation of Adjustment:

Line No.	Account No.	Description	Original Cost Amount	Depreciable Amount	Projected Rate	Expense
<b>Plant In Service</b>						
2	301	Organization	-	\$ -	0.00%	\$ -
3	302	Franchises	-	-	0.00%	-
4	303	Land and Land Rights	-	-	0.00%	-
5	304	Structures & Improvements	1,551,858	1,551,858	3.33%	50,937
6	305	Collecting & Impounding Reservoirs	1,529,842	1,529,842	2.50%	-
7	306	Lakes, Rivers, Other Intakes	-	-	2.50%	-
8	307	Wells and Springs	-	-	3.33%	-
9	308	Infiltration Galleries and Tunnels	159,827	159,827	8.67%	5,318
10	309	Supply Mains	-	-	2.00%	-
11	310	Power Generation Equipment	-	-	5.00%	-
12	311	Pumping Equipment	1,588,246	1,588,246	12.50%	198,531
13	320	Water Treatment Plant	5,788,640	5,788,640	3.33%	192,585
14	330	Distribution Reservoirs & Standpipes	6,512,148	6,512,148	2.22%	144,570
15	331	Transmission & Distribution Mains	18,953,054	17,450,634	2.00%	349,013
16	333	Services	7,496,338	7,388,930	3.33%	246,065
17	334	Meters & Meter Installation	2,736,868	2,736,868	6.33%	227,981
18	335	Hydrants	1,224,985	1,224,985	2.00%	24,500
19	336	Backflow Prevention Devices	-	-	8.67%	-
20	339	Other Plant & Misc. Equipment	1,717,229	1,717,229	8.67%	114,539
21	340	Office Furniture & Equipment	272,173	272,173	8.67%	18,154
22	341	Transportation Equipment	535,315	535,315	20.00%	107,063
23	342	Stores Equipment	-	-	4.00%	-
24	343	Tools, Ship & Garage Equipment	149,365	149,365	5.00%	7,468
25	344	Laboratory Equipment	-	-	10.00%	-
26	345	Power Operated Equipment	-	-	5.00%	-
27	346	Communication Equipment	39,105	39,105	10.00%	3,911
28	347	Miscellaneous Equipment	-	106,542	10.00%	10,654
29	348	Other Tangible Plant	-	-	10.00%	-
30	Subtotal General		\$ 50,252,592	\$ 48,750,305		\$ 1,701,415
31	Less: Non-depreciable Account(s) (L4)		1,551,858	1,551,858		
32	Depreciable Plant (L30-L31)		\$ 48,700,734	\$ 47,198,447		

Home Office Plant Allocated

Line No.	Account No.	Description	Adjusted Allocation	Projected Rate	Expense
33	301	Organization	699	0.00%	\$ -
34	302	Franchise Cost and Other Intangible Plant	26,769	0.00%	-
35	304	Structures & Improvements	232,113	3.33%	7,729
36	311	Electric Pumping Equipment	(37)	0.00%	-
37	339	Other Plant & Misc. Equipment	1,095	8.67%	72
38	340	Office Furniture & Equipment	670,751	8.67%	38,089
39	341	Transportation Equipment	11,149	20.00%	2,230
40	343	Tools, Ship & Garage Equipment	18,228	5.00%	811
41	344	Laboratory Equipment	162	10.00%	16
42	345	Power Operated Equipment	6,970	5.00%	489
43	346	Communication Equipment	6,822	10.00%	-
44	Subtotal General		\$ 875,469		\$ 49,427
45	Less: Non-depreciable Account(s) (L33 and L34)		34,013		
46	Depreciable Plant (L44-L45)		\$ 841,456		

47	Total Depreciable Plant and Depr. Expense before CIAC		\$ 48,073,918		\$ 1,750,842
48	Contributions-In-Aid-of-Construction (CIAC)		\$ 6,288,097		
49	Composite Depreciation/Amortization Rate		0.0364		
50	Less: Amortization of CIAC (L48 x L49)				\$ 228,011
51	Depreciation Expense - STAFF [Col. (C), L48 - L49]				\$ 1,521,831

OPERATING INCOME ADJUSTMENT #4 - MISCELLANEOUS EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT A	(C) STAFF ADJUSTMENT B	(D) TOTAL OF STAFF ADJUSTMENTS	(E) STAFF RECOMMENDED
1	Miscellaneous Expense	\$ 1,259,948	\$ 38,164	\$ (850)	\$ 37,214	\$ 1,297,162
2	Totals	\$ 1,259,948	\$ 38,164	\$ (850)	\$ 37,214	\$ 1,297,162

[A]: Company Schedule B-2, Page 3 and B-3, Page 3 and below Line 26, Column C.

[B]: Testimony - MEM and below calculations and Line 48, Column E.

[C]: Testimony - MEM and below calculations and line 94, Column E.

[D]: Col (B) + Col (C)

[E]: Testimony - MEM and below Line 91, Column E.

Explanation of Staff Adjustment A

12	Total Allocation Pool per worksheet from CCWC		34,557,114			
13	Subtract Membership dues that only benefit California ratapayers and the dues used for lobbying listed below		(251,536)			
14	Investor related expenses listed below		(1,040,585)			
17	Adjusted allocation pool		33,264,991			
18	Revised allocation factor		4.00%	Same percentage used to allocate GO plant. Discussed in MEM Testimony.		
20	Revised allocation of GO Expenses		1,330,800			

GO Expense Allocation Distribution by Account

		Company	Staff Adjustment A	Staff Recommended
26	A&G Other XFR	8880.21	883,799	25,507
27	Cust Other XFR	8885.21	43,252	1,277
28	A&G Labor XFR	8880.00	237,614	7,016
29	Cust Labor XFR	8885.00	68,137	2,012
30	Miscellaneous	8700.00	79,634	2,351
31			1,282,436	38,164
				1,330,800

Miscellaneous expense is being charged for all of this adjustment because this is where the Company made its last adjustment for the GO allocation.

List of Investor related expenses:

GL Acct No.		TYE Account Balance
7031.15	Printing Shareholder	93,342
7124.15	Supplies Shareholder	2,898
7134.15	OS Other Shareholder	298,598
7153.00	Postage Shareholder	58,478
8301.15	T&E Tran Shareholder	1,462
8301.15	T&E Tran Directors	2,938
8302.15	T&E Meal Directors	11,520
8303.15	T&E Meal Shareholder	2,794
8303.15	T&E Meal Directors	1,738
8304.15	T&E Other Directors	404
8700.15	Other Misc - Director's Fee	568,817
	Total Investor related expenses	1,040,585

List of Membership dues that only benefit California ratapayers and dues used for lobbying:

7081.00	Membership Dues Company:	
	NAWC - 18% lobbying (\$119,202x18%)	22,648
	California Water Association	48,824
	California Foundation	15,000
	California Urban Water Cons	13,745
	California Chamber of Commerce	2,849
	Los Angeles Chamber of Commerce	2,230
		251,568

Explanation of Staff Adjustment B

	Staff Adjustment B
68	Per Co. response to MEM DR #1.125, lobbying expenses of approximately \$850 were included in dues paid to Investor Owned Water Utility Association and Water Utility Association of Arizona.
69	
70	\$ 850
71	\$ 850

CHAPARRAL CITY WATER COMPANY, INC.  
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Schedule MEM-18

**OPERATING INCOME ADJUSTMENT #5 - Reversal of Company pro forma Adjustment #13,  
Amortizing Additional CAP Allocation**

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Amortization of Additional CAP Allocation	\$ 64,000	\$ (64,000)	\$ -

References:

Col [A]: Company Schedule C-1

Col [B]: Col [C] - Col [A]

Col [C]: MEM Testimony

OPERATING INCOME ADJUSTMENT #8 - Rate Case Expense

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1		\$ 144,871	\$ (61,538)	\$ 83,333

References:

Col [A]: Company Schedule C-1  
 Col [B]: Col [C] - Col [A]  
 Col [C]: MEM Testimony - Normalized Rate Case Expense (3yrs.)

Rate case expense was amortized in the prior rate case, thus there is an unrecovered amount in the test year but this will have been fully absorbed by the time the rates for the current case become effective so no recognition is warranted.

2 Per Company:

3	Remaining unrecovered rate case expense from the prior case per Exhibit Schedule C-2, Page 5:	154,613		
4	Current Estimated rate case expense per C-2, Page 5	280,000		
5		<u>434,613</u>		
6				
7	Amortized over 3 years	<u>144,871</u>		

9 Per Staff:

10	Remaining unrecovered rate case expense from the prior case is not recognized because the cost will have been fully recovered by the time rates for this case become effective.	-		
11				
12				
13	Remand case expenses per Company	100,000		
14	Estimated current rate case expense based on the actual billings of \$75,032 through October, 2007:	150,000		
15				
16	Normalized over 3 years as this has historically been the Company's rate increase request frequency:	<u>83,333</u>		
17				
18				
19				
20				
21				
22				

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Schedule MEM-20

**OPERATING INCOME ADJUSTMENT #7 - Normalization of Chemicals Expense**

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
1	Normalization of Chemicals Expenses	\$ 127,457	\$ (27,630)	\$ 99,827
2	Chemicals expenses - 2004			\$ 66,210
3	Chemicals expenses - 2005			105,814
4	Chemicals expenses - 2006			<u>127,457</u>
5	Normalization of Chemicals Expenses - 3-Year Average			<u>\$ 99,827</u>

References:

Col [A]: Company Schedule C-1

Col [B]: Col [C] - Col [A]

Col [C]: Normalized Chemicals Expense Col [C] L5.

Chemicals for 2007 are \$88,968. Two invoices were dated in 12/2006 for the test year.

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Schedule MEM-21

**OPERATING INCOME ADJUSTMENT #8 - Repairs and Maintenance**

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Repairs and Maintenance Expense	\$ 104,609	\$ (19,018)	\$ 85,591

References:

Col [A]: Company Schedule C-1  
 Col [B]: Col [C] - Col [A]  
 Col [C]: MEM Testimony

Explanation of Staff Adjustment - To Normalize

R&M - 2004	96,152
R&M - 2005	72,640
R&M - 2006	104,609
Staff recommended R & M expense - Normalized.	<u>91,134</u>

Explanation of Staff Adjustment - To Remove the cost of Pepsi purchased as an employee benefit.

Payments to Pepsi Cola Company of Dallas	\$ 5,543
Normalized expense net of Pepsi.	<u>85,591</u>

**OPERATING INCOME ADJUSTMENT #9 - Normalization of General Liability Insurance Expense.**

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED.</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
1	Normalization of Insurance - General Liability Expense	\$ (1,294)	\$ 3,654	\$ 2,360
2	2003 Insurance - General Liability Expense			-
3	2004 Insurance - General Liability Expense			\$ 775
4	2005 Insurance - General Liability Expense			1,860
5	2006 Insurance - General Liability Expense			-
6	2007 Insurance - General Liability Expense			9,157
7	Normalization of Insurance - General Liability Expense - 5-Year Average			\$ 2,360

References:

Col [A]: Company Schedule C-1

Col [B]: Col [C] - Col [A]

Col [C]: Normalized General Liability Insurance Expense Col [C] L5.

Claim paid for 2006 is \$2,682 per CCWC response to DR 1.44.

OPERATING INCOME ADJUSTMENT #10 -Outside Services Expense

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Outside Services Expense	\$ 266,544		\$ 266,544
2	Expensed plant	-	(37,673)	(37,673)
3	Late Filing Penalty for 2005 ACC Annual Report	-	(45)	(45)
4	Rate case expense for appellate court	-	(330)	(330)
5		<u>\$ 266,544</u>	<u>\$ (38,048)</u>	<u>\$ 228,496</u>

7 References:

- 8 Column A: Company Schedule C-1  
9 Column B: Testimony, MEM, Company Data Request Responses MEM 8.1, MEM 16.2  
10 Column C: Column [A] + Column [B]

12  
13 **PLANT COSTS REMOVED FROM OUTSIDE SERVICES (MEM 8.1)**

LINE NO.	Acct. No.	Description	Amount
14			
15	304-Struct & Imprvmnts	New irrigation installation	\$ 2,500.00
16	304-Struct & Imprvmnts	Installation of 30' x 6' fencing w/panels	\$ 4,375.00
17	304-Struct & Imprvmnts - See (A) below.	Professional survey for new fence line	\$ 4,715.00
18		Total for Structures and Improvements	\$ 11,590.00
19			
20	311 - Elec Pumping Equip	Recondition motor	\$ 7,448.00
21	311 - Elec Pumping Equip	Removal & repair of pump	\$ 5,512.62
22	311 - Elec Pumping Equip	Removal & repair of motor and pump	\$ 13,122.67
23		Total for Electric Pumping Equipment	\$ 26,083.29
24			
25		<b>Total expensed plant</b>	<b>\$ 37,673.29</b>

28 **DISALLOWED COSTS REMOVED FROM OUTSIDE SERVICES (MEM 8.1)**

LINE NO.	Type of Documentation	Description	Amount
29			
30	Check request - See (B) below.	Penalty for late filing ACC report	\$ 45.00
31	Invoice	Rate case expense for appellate court	\$ 330.00
32		<b>Total Disallowed Costs</b>	<b>\$ 375.00</b>

- 34 (A) Fee paid to Morrison, Maierle, Inc. for property line surveying services that is a one-time expenditure.  
35 (B) Late filing penalty for 2005 Annual Report to the AZ Corporation Commission

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Schedule MEM-24

**OPERATING INCOME ADJUSTMENT #11 - Water Testing Expense**

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
1	Normalization of Water Testing Expense per MSJ	<u>\$ 43,458</u>	<u>\$ (17,820)</u>	<u>\$ 25,638</u>

References:

Col [A]: Company Schedule C-1

Col [B]: Col [C] - Col [A]

Col [C]: Normalized Water Testing Expense Col [C] L1.

CHAPARRAL CITY WATER COMPANY, INC.  
Docket No. W-02113A-07-0551  
Test Year Ended December 31, 2006

Schedule MEM-25

OPERATING INCOME ADJUSTMENT #12 - Property Tax Expense

LINE NO.	Property Tax Calculation	(C)	
		STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2006	\$ 7,446,700	\$ 7,446,700
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	14,893,400	\$ 14,893,400
4	Staff Recommended Revenue, Per Schedule MEM-1	7,446,700	\$ 9,181,965
5	Subtotal (Line 4 + Line 5)	22,340,100	24,075,365
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	7,446,700	\$ 8,025,122
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	14,893,400	\$ 16,050,244
10	Plus: 10% of CWIP -	224,140	224,140
11	Less: Net Book Value of Licensed Vehicles	474,678	\$ 474,678
12	Full Cash Value (Line 9 + Line 10 - Line 11)	14,642,862	\$ 15,799,706
13	Assessment Ratio	23.0%	23.0%
14	Assessment Value (Line 12 * Line 13)	3,367,858	\$ 3,633,932
15	Composite Property Tax Rate (Per Company Schedule C-2, Page 3, Line 1)	7.7913%	7.7913%
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 262,400	\$ -
17	Company Proposed Property Tax	295,813	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ (33,413)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 283,131
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 262,400
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 20,731
22	Increase to Property Tax Expense		\$ 20,731
23	Increase in Revenue Requirement		1,735,265
24	Increase to Property Tax per Dollar Increase in Revenue (Line 19/Line 20)		1.194666%

CHAPARRAL CITY WATER COMPANY, INC.  
Docket No. W-02113A-07-0551  
Test Year Ended December 31, 2006

Schedule MEM-26

OPERATING INCOME ADJUSTMENT #13 - TEST YEAR INCOME TAXES

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
1	Income Tax Expense	<u>\$ 270,020</u>	<u>\$ 197,275</u>	<u>\$ 467,295</u>

References:

Col [A]: Company Schedule C-1  
Col [B]: Col [C] - Col [A]  
Col [C]: Schedule MEM-2, Line 52.

**RATE DESIGN**

Line No.		Present Rates	Company Proposed	Staff Recommended	
1	Monthly Minimum				
2	3/4-inch Meter	\$ 13.80	\$ 18.56	\$ 19.00	
3	1-inch Meter	\$ 22.70	\$ 30.97	\$ 25.00	
4	1 1/2-inch Meter	\$ 45.40	\$ 71.95	\$ 48.00	
5	2-inch Meter	\$ 73.00	\$ 99.81	\$ 77.00	
6	3-inch Meter	\$ 146.00	\$ 199.21	\$ 150.00	
7	4-inch Meter	\$ 227.00	\$ 308.74	\$ 230.00	
8	6-inch Meter	\$ 454.00	\$ 618.47	\$ 460.00	
9	8-inch Meter	\$ 730.00	\$ 988.07	\$ 825.00	
10	10-inch Meter	\$ 1,043.00	\$ 1,423.16	\$ 1,300.00	
11	12-inch Meter	\$ 1,980.00	\$ 2,701.67	\$ 2,300.00	
12					
13	Fire Hydrants Basic Service				
14					
15	Fire Hydrants Used for Irrigation	Per Meter Size	Per Meter Size	Per Meter Size	
16					
17	Monthly Service Charge for Fire Sprinkler				
18	4-inch or Smaller Meter	\$ 10.00	\$ 10.00	\$ 10.00	
19	6-inch Meter	\$ 10.00	\$ 10.00	\$ 10.00	
20	8-inch Meter	\$ 10.00	\$ 10.00	\$ 10.00	
21	10-inch Meter	\$ 10.00	\$ 10.00	\$ 10.00	
22	Larger than 10-inch Meter	\$ 10.00	\$ 10.00	\$ 10.00	
23					
24					
25	Gallons in the Minimum				
26					
27					
28	Commodity Rates				
29	(Residential, Commercial, Industrial)	Block	Per 1,000 Gallons		
30					
31	3/4-inch Meter Residential	0 - 3,000 Gallons	\$ 1.68	\$ 2.282	\$ 1.85
32		3,001 - 9,000 Gallons	\$ 2.52	\$ 3.438	\$ 2.92
33		Over 9,000 Gallons	\$ 3.03	\$ 4.134	\$ 3.33
34					
35	3/4-inch Meter Commercial and Industrial	0 to 9,000 Gallons	\$ 2.52	\$ 3.438	\$ 2.92
36		Over 9,000 Gallons	\$ 3.03	\$ 4.134	\$ 3.33
37					
38	1-inch Meter	0 to 24,000 Gallons	\$ 2.52	\$ 3.438	\$ 2.92
39		Over 24,000 Gallons	\$ 3.03	\$ 4.134	\$ 3.33
40					
41	1 1/2-inch Meter	0 to 60,000 Gallons	\$ 2.52	\$ 3.438	\$ 2.92
42		Over 60,000 Gallons	\$ 3.03	\$ 4.134	\$ 3.33
43					
44	2-inch Meter	0 to 100,000 Gallons	\$ 2.52	\$ 3.438	\$ 2.92
45		Over 100,000 Gallons	\$ 3.03	\$ 4.134	\$ 3.33
46					
47	3-inch Meter	0 to 225,000 Gallons	\$ 2.52	\$ 3.438	\$ 2.92
48		Over 225,000 Gallons	\$ 3.03	\$ 4.134	\$ 3.33
49					
50	4-inch Meter	0 to 350,000 Gallons	\$ 2.52	\$ 3.438	\$ 2.92
51		Over 350,000 Gallons	\$ 3.03	\$ 4.134	\$ 3.33
52					
53	6-inch Meter	0 to 725,000 Gallons	\$ 2.52	\$ 3.438	\$ 2.92
54		Over 725,000 Gallons	\$ 3.03	\$ 4.134	\$ 3.33
55					
56	8-inch Meter	0 to 1,125,000 Gallons	\$ 2.52	\$ 3.438	\$ 2.92
57		Over 1,125,000 Gallons	\$ 3.03	\$ 4.134	\$ 3.33
58					
59	10-inch Meter	0 to 1,500,000 Gallons	\$ 2.52	\$ 3.438	\$ 2.92
60		Over 1,500,000 Gallons	\$ 3.03	\$ 4.134	\$ 3.33
61					
62	12-inch Meter	0 to 2,250,000 Gallons	\$ 2.52	\$ 3.438	\$ 2.92
63		Over 2,250,000 Gallons	\$ 3.03	\$ 4.134	\$ 3.33
64					
65	Irrigation/Bulk	All Gallons	\$ 1.58	\$ 3.438	\$ 2.75
66					
67	Fire Hydrant Irrigation/Construction	All Gallons	\$ 1.58	\$ 3.438	\$ 2.75
68					
69	Standpipe (Fire Hydrants)	All Gallons	\$ 2.62	\$ 3.438	\$ 2.75
70					
71	Fire Sprinklers	All Gallons	\$ 2.52	\$ 3.438	\$ 2.75
72					
73					
74	Service Charges	Present Rates	Company Proposed	Staff Recommended	
75	Establishment of Service				
76	Regular Hours	\$ 25.00	\$ 25.00	\$ 25.00	
77	After Hours	\$ 35.00	\$ 35.00	\$ 35.00	
78	Re-establishment of Service within 12 Months				
79	Monthly Minimum times Months Disconnected				
80	From the Water System [Per ACC Rule 14-2-403(D)]				
81	Reconnection of Service (Delinquent)				
82	Regular Hours	\$ 35.00	\$ 35.00	\$ 35.00	
83	After Hours	\$ 50.00	\$ 50.00	\$ 50.00	
84	Water Meter Test (If Correct)	\$ 15.00	\$ 15.00	\$ 15.00	
85	Water Meter relocation as Customer Request [Per ACC Rule 14-2-405(B)]	Cost	Cost	Cost	
86	Meter Re-Read (If Correct)	\$ 25.00	\$ 25.00	\$ 25.00	
87	NSF Check Charge	\$ 25.00	\$ 25.00	\$ 25.00	
88	Late Fee Charge	1.5% Per Mon	1.5% Per Month	1.5% Per Month	
89	Deferred Payment Finance Charge	1.5% Per Mon	1.5% Per Month	1.5% Per Month	
90	Service Call - After Hours [Per ACC Rule 14-2-403(D)]	Refer to above charges	Refer to above charges	Refer to above charges	
91					
92					
93	Deposit Requirements Residential	**	**	**	
94	Deposit Requirements Non-Residential	**	**	**	
95	Deposit Interest	***	***	***	
96					
97	** Residential - two times the average bill, Non-residential - two and one-half times the estimated maximum bill.				
98					
99	*** Interest per [Per ACC Rule 14-2-403(B)]				

100 Off-site Facilities Hook-up Fee:

101	5/8 x 3/4-inch Meter	----	\$ 1,000.00	----
102	3/4-inch Meter	----	\$ 1,500.00	----
103	1-inch Meter	----	\$ 2,500.00	----
104	1 1/2-inch Meter	----	\$ 5,000.00	----
105	2-inch Meter	----	\$ 8,000.00	----
106	3-inch Meter	----	\$ 18,000.00	----
107	4-inch Meter	----	\$ 25,000.00	----
108	6-inch or Larger Meter	----	\$ 50,000.00	----

110 ---- The fee shall be variable, fixed on January 1 of each calendar year, computed by dividing \$369,404.50 by the number of hook-ups during the previous calendar year, however, in no event shall the hook-up fee be higher than \$1,000 nor less than \$500.

111 2008 fitting - New water installations. May be assessed only once per parcel, service connection, or lot within a subdivision.

112 Purpose is to equitably apportion the costs of constructing additional off-site facilities to provide water production, delivery, storage, and pressure among all new service connections.

113 CAP Hook-up Fee:

NONE

114 New water installations. May be assessed only once per parcel, service connection, or lot within a subdivision.

115 Purpose is to recover the costs of additional 1,831 s.f. of CAP allocation. Fee will be recaptured annually to take into account carrying costs of unrecovered balance and annual payment.

	Present Service Line Charge	Present Meter Installation Charge	Total Present Charge	Proposed Service Line Charge	Proposed Meter Installation Charge	(n) Total Proposed Charge	Staff Proposed Service Line Charge	Staff Proposed Meter Installation Charge	Staff Total Proposed Charge
120 Meter and Service Line Installation Charges									
121 5/8 x 3/4-inch Meter	\$ 385.00	\$ 135.00	\$ 520.00	\$ 385.00	\$ 135.00	\$ 520.00	\$ 385.00	\$ 135.00	\$ 520.00
122 3/4-inch Meter	\$ 385.00	\$ 215.00	\$ 600.00	\$ 385.00	\$ 215.00	\$ 600.00	\$ 385.00	\$ 215.00	\$ 600.00
123 1-inch Meter	\$ 435.00	\$ 255.00	\$ 690.00	\$ 435.00	\$ 255.00	\$ 690.00	\$ 435.00	\$ 255.00	\$ 690.00
124 1 1/2-inch Meter	\$ 470.00	\$ 465.00	\$ 935.00	\$ 470.00	\$ 465.00	\$ 935.00	\$ 470.00	\$ 465.00	\$ 935.00
125 2-inch Turbine Meter	\$ 630.00	\$ 865.00	\$ 1,595.00	\$ 630.00	\$ 865.00	\$ 1,595.00	\$ 630.00	\$ 865.00	\$ 1,595.00
126 2-inch Compound Meter	\$ 630.00	\$ 1,890.00	\$ 2,520.00	\$ 630.00	\$ 1,890.00	\$ 2,520.00	\$ 630.00	\$ 1,890.00	\$ 2,520.00
127 3-inch Turbine Meter	\$ 805.00	\$ 1,470.00	\$ 2,275.00	\$ 805.00	\$ 1,470.00	\$ 2,275.00	\$ 805.00	\$ 1,470.00	\$ 2,275.00
128 3-inch Compound Meter	\$ 845.00	\$ 2,265.00	\$ 3,110.00	\$ 845.00	\$ 2,265.00	\$ 3,110.00	\$ 845.00	\$ 2,265.00	\$ 3,110.00
129 4-inch Turbine Meter	\$ 1,170.00	\$ 2,350.00	\$ 3,520.00	\$ 1,170.00	\$ 2,350.00	\$ 3,520.00	\$ 1,170.00	\$ 2,350.00	\$ 3,520.00
130 4-inch Compound Meter	\$ 1,230.00	\$ 3,245.00	\$ 4,475.00	\$ 1,230.00	\$ 3,245.00	\$ 4,475.00	\$ 1,230.00	\$ 3,245.00	\$ 4,475.00
131 6-inch Turbine Meter	\$ 1,730.00	\$ 4,545.00	\$ 6,275.00	\$ 1,730.00	\$ 4,545.00	\$ 6,275.00	\$ 1,730.00	\$ 4,545.00	\$ 6,275.00
132 6-inch Compound Meter	\$ 1,770.00	\$ 6,280.00	\$ 8,050.00	\$ 1,770.00	\$ 6,280.00	\$ 8,050.00	\$ 1,770.00	\$ 6,280.00	\$ 8,050.00
133 8-inch or Larger	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

141 (a) As meters and service line are now taxable income for income purposes, the Company shall collect income taxes on the meter and service line charges. Any tax collected will be refunded each year as the meter deposit is refunded.

NONE NONE NONE

145 IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM IT CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE TAX, PER COMMISSION RULE 14-2-020(s).

146 ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS, AND ALL APPLICABLE TAXES, INCLUDING ALL GROSS-UP TAXES FOR INCOME TAXES, IF APPLICABLE.

150

Typical Bill Analysis  
 General Service 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	8,450	\$ 32.37	\$ 44.16	\$ 11.79	36.41%
Median Usage	5,500	24.94	34.03	\$ 9.09	36.43%
<b>Staff Recommended</b>					
Average Usage	8,450	\$ 32.37			
Median Usage	5,500	24.94			

Present & Proposed Rates (Without Taxes)  
 General Service 3/4-Inch Meter

Gallons Consumption	Company Proposed		Staff Recommended	
	Present Rates	% Increase	Staff Recommended Rates	% Increase
1,000	\$ 13.60	18.56		
2,000	15.28	20.85		
3,000	16.96	23.14		
4,000	18.64	25.44		
5,000	20.32	27.73		
5,500	21.99	30.02		
6,000	23.67	32.31		
7,000	25.34	34.60		
8,000	27.02	36.89		
8,450	28.69	39.18		
9,000	30.37	41.47		
10,000	32.04	43.76		
11,000	33.72	46.05		
12,000	35.39	48.34		
13,000	37.07	50.63		
14,000	38.74	52.92		
15,000	40.42	55.21		
16,000	42.09	57.50		
17,000	43.77	59.79		
18,000	45.44	62.08		
19,000	47.12	64.37		
20,000	48.79	66.66		
25,000	57.07	77.92		
30,000	65.35	89.18		
35,000	73.63	100.44		
40,000	81.91	111.70		
45,000	90.19	122.96		
50,000	98.47	134.22		
75,000	149.11	202.50		
100,000	199.75	270.78		

TYPICAL BILL ANALYSIS AVERAGE AND MEDIAN COST COMPARISONS

LINE NO.	CUSTOMER CLASS	CURRENT RATES			
		AVERAGE		MEDIAN	
		USAGE	DOLLARS	USAGE	DOLLARS
1	Residential 3/4"	8,450	\$ 32.37	5,500	\$ 24.94
2	Residential 1"	10,095	\$ 48.14	7,500	\$ 99.58
3	Residential 1.5"	29,821	\$ 148.15	21,500	\$ 303.58
4	Residential 2"	72,924	\$ 258.77	91,500	\$ 303.58
5	Residential 3"	70,226	\$ 322.97	83,000	\$ 355.16
6					
6	Commerical 3/4"	11,528	\$ 43.94	4,501	\$ 24.94
7	Commerical 1"	17,907	\$ 67.83	5,500	\$ 36.56
8	Commerical 1.5"	47,736	\$ 165.69	13,500	\$ 79.42
9	Commerical 2"	68,389	\$ 245.34	21,500	\$ 127.18
10	Commerical 3"	34,550	\$ 233.07	11,500	\$ 174.98
11	Commerical 4"	186,146	\$ 896.09	79,500	\$ 427.34
12					
13	Industrial 3/4"	5,375	\$ 153.65	3,500	\$ 13.60
14	Industrial 1"	-	\$ 217.68	-	\$ 22.70
15	Industrial 1.5"	8,000	\$ 132.57	-	\$ 45.50
16					
17	Irrigation 3/4"	18,732	\$ 39.70	8,500	\$ 26.88
18	Irrigation 1"	41,781	\$ 87.88	15,500	\$ 46.88
19	Irrigation 1.5"	76,173	\$ 164.23	24,500	\$ 83.62
20	Irrigation 2"	116,346	\$ 254.50	63,000	\$ 171.28
21	Irrigation 4"	1,813,070	\$ 3,055.39	157,000	\$ 471.92
22	Irrigation 6"	5,451,042	\$ 8,957.63	1,312,000	\$ 2,500.72
23					
24	Construction 3/4"	959	\$ 15.10	-	\$ 13.60
25	Construction 1"	11,803	\$ 41.11	11,500	\$ 40.64
26	Construction 2"	36,000	\$ 129.16	59,000	\$ 165.04
27	Construction 3"	180,662	\$ 427.83	19,500	\$ 176.42
28	Construction 4"	94,500	\$ 374.42	106,000	\$ 392.36
29					
30	Fire Hydrant (Standpipe) 3"	26,121	\$ 211.82	9,500	\$ 169.94
31	Fire Hydrant (Standpipe) 4"	516,917	\$ 1,529.63	561,500	\$ 1,841.98
32					
33	Fire Sprinkler 3/4"	3	\$ 10.01	-	\$ 10.00
34	Fire Sprinkler 1"	83	\$ 10.16	-	\$ 10.00
35	Fire Sprinkler 1.5"	28	\$ 10.07	-	\$ 10.00

LINE NO.	CUSTOMER CLASS	COMPANY PROPOSED RATES			
		AVERAGE		MEDIAN	
		USAGE	DOLLARS	USAGE	DOLLARS
1	Residential 3/4"	8,450	\$ 44.17	5,500	\$ 34.03
2	Residential 1"	10,095	\$ 65.68	7,500	\$ 145.87
3	Residential 1.5"	29,821	\$ 202.13	21,500	\$ 414.19
4	Residential 2"	72,924	\$ 350.32	91,500	\$ 414.19
5	Residential 3"	70,226	\$ 440.65	83,000	\$ 484.56
6					
6	Commerical 3/4"	11,528	\$ 59.95	4,501	\$ 34.03
7	Commerical 1"	17,907	\$ 92.53	5,500	\$ 49.88
8	Commerical 1.5"	47,736	\$ 236.07	13,500	\$ 118.38
9	Commerical 2"	68,389	\$ 334.73	21,500	\$ 173.53
10	Commerical 3"	34,550	\$ 317.99	11,500	\$ 238.75
11	Commerical 4"	186,146	\$ 949.71	79,500	\$ 583.06
12					
13	Industrial 3/4"	5,375	\$ 209.64	3,500	\$ 18.56
14	Industrial 1"	-	\$ 298.99	-	\$ 30.97
15	Industrial 1.5"	8,000	\$ 190.73	-	\$ 71.95
16					
17	Irrigation 3/4"	16,732	\$ 76.08	8,500	\$ 47.78
18	Irrigation 1"	41,781	\$ 174.81	16,500	\$ 84.28
19	Irrigation 1.5"	76,173	\$ 333.83	24,500	\$ 156.18
20	Irrigation 2"	118,346	\$ 499.61	63,000	\$ 316.20
21	Irrigation 4"	1,813,070	\$ 6,543.07	157,000	\$ 849.51
22	Irrigation 8"	5,451,042	\$ 19,360.15	1,312,000	\$ 5,130.13
23					
24	Construction 3/4"	959	\$ 21.86	-	\$ 18.56
25	Construction 1"	11,803	\$ 71.55	11,500	\$ 70.51
26	Construction 2"	36,000	\$ 223.38	59,000	\$ 302.45
27	Construction 3"	180,662	\$ 820.33	19,500	\$ 266.25
28	Construction 4"	94,500	\$ 634.63	106,000	\$ 674.17
29					
30	Fire Hydrant (Standpipe) 3"	26,121	\$ 289.01	9,500	\$ 231.87
31	Fire Hydrant (Standpipe) 4"	516,917	\$ 2,086.90	561,500	\$ 2,240.18
32					
33	Fire Sprinkler 3/4"	3	\$ 10.01	-	\$ 10.00
34	Fire Sprinkler 1"	63	\$ 10.22	-	\$ 10.00
35	Fire Sprinkler 1.5"	28	\$ 10.10	-	\$ 10.00

LINE NO.	CUSTOMER CLASS	STAFF RECOMMENDED RATES			
		AVERAGE		MEDIAN	
		USAGE	DOLLARS	USAGE	DOLLARS
1	Residential 3/4"	8,450	\$ 36.46	5,500	\$ 27.85
2	Residential 1"	10,095	\$ 54.48	7,500	\$ 110.78
3	Residential 1.5"	29,821	\$ 164.08	21,500	\$ 344.18
4	Residential 2"	72,924	\$ 269.94	91,500	\$ 344.18
5	Residential 3"	70,226	\$ 355.06	83,000	\$ 392.36
6					
8	Commerical 3/4"	11,528	\$ 49.70	4,501	\$ 28.14
7	Commerical 1"	17,907	\$ 77.29	5,500	\$ 41.06
8	Commerical 1.5"	47,736	\$ 187.39	13,500	\$ 87.42
9	Commerical 2"	68,389	\$ 276.70	21,500	\$ 139.78
10	Commerical 3"	34,550	\$ 250.89	11,500	\$ 163.58
11	Commerical 4"	186,146	\$ 773.55	79,500	\$ 462.14
12					
13	Industrial 3/4"	5,375	\$ 170.27	3,500	\$ 15.00
14	Industrial 1"	-	\$ 242.90	-	\$ 25.00
15	Industrial 1.5"	8,000	\$ 148.89	-	\$ 48.00
16					
17	Irrigation 3/4"	16,732	\$ 63.88	8,500	\$ 39.82
18	Irrigation 1"	41,781	\$ 147.00	15,500	\$ 70.26
19	Irrigation 1.5"	76,173	\$ 270.43	24,500	\$ 119.54
20	Irrigation 2"	116,346	\$ 416.73	63,000	\$ 260.96
21	Irrigation 4"	1,813,070	\$ 5,524.16	157,000	\$ 688.44
22	Irrigation 6"	5,451,042	\$ 16,377.04	1,312,000	\$ 4,291.04
23					
24	Construction 3/4"	959	\$ 17.80	-	\$ 15.00
25	Construction 1"	11,803	\$ 59.46	11,500	\$ 58.58
26	Construction 2"	36,000	\$ 163.12	59,000	\$ 220.28
27	Construction 3"	180,662	\$ 604.53	19,500	\$ 133.94
28	Construction 4"	94,500	\$ 425.94	106,000	\$ 459.52
29					
30	Fire Hydrant (Standpipe) 3"	26,121	\$ 226.27	9,500	\$ 177.74
31	Fire Hydrant (Standpipe) 4"	516,917	\$ 1,739.40	561,500	\$ 1,869.58
32					
33	Fire Sprinkler 3/4"	3	\$ 10.01	-	\$ 10.00
34	Fire Sprinkler 1"	63	\$ 10.18	-	\$ 10.00
35	Fire Sprinkler 1.5"	28	\$ 10.08	-	\$ 10.00

1           CAP Amortization – This adjustment decreases expenses by \$64,000. This adjustment  
2 removes \$64,000 related to the purchase of the additional CAP allocation that has been  
3 determined to be an intangible asset not eligible for amortization.

4  
5           Rate Case Expense – This adjustment decreases expenses by \$61,538 to reflect a  
6 normalized amount of \$83,333.

7  
8           Chemicals Expense – This adjustment decreases expenses by \$27,630 to reflect a  
9 normalized amount of \$99,827.

10  
11           Repairs & Maintenance – This adjustment decreases expenses by \$19,018. This amount  
12 includes the disallowance of \$5,543 in expenses related to the purchase of beverages as an  
13 employee benefit and to reflect a normalized amount of \$85,591.

14  
15           Insurance – This adjustment increases expenses by \$3,654 to reflect a normalized amount  
16 of \$2,360.

17  
18           Outside Services – This adjustment decreases expenses by \$38,048 to remove disallowed  
19 expenses and capitalize costs expensed that should have been classified as plant-in-  
20 service.

21  
22           Water Testing Expense – This adjustment decreases expenses by \$17,820 to reflect a  
23 normalized amount of \$25,638.

24

1           Property Tax Expense – This adjustment decreases expenses by \$33,413 to reflect Staff's  
2           calculation using the modified Arizona Department of Revenue property tax calculation  
3           methodology.

4  
5           Income Tax Expense – This adjustment increases expenses by \$197,275 to reflect  
6           application of statutory state and federal income tax rates to Staff's taxable income.

7  
8           **RATE BASE**

9           **Q.     Please review Chaparral City's proposed rate base.**

10          A.     The Company is proposing a FVRB of \$28,768,975 based upon an equal weighting of its  
11          OCRB and RCRB as shown on Schedule MEM FVRB-2.

12  
13          **Q.     Is Staff recommending any changes to the Company's proposed rate base?**

14          A.     Yes. Staff recommends a FVRB of \$27,050,414 based upon an equal weighting of Staff's  
15          OCRB and RCRB as shown on Schedule MEM FVRB-2, a reduction of \$1,718,560 from  
16          the Company's proposed FVRB.

17  
18          **Q.     How many rate base adjustments is Staff recommending?**

19          A.     Staff recommends seven adjustments to rate base as shown on Schedules MEM-3 and  
20          MEM-4. Each adjustment described below is made to the OCRB, with a corresponding  
21          adjustment made to the RCRB as shown on Schedules MEM RCN-1 and MEM RCN-2.  
22          A detailed explanation of Staff's adjustments follows below.

1 **Rate Base Adjustment No. 1 – Settlement Proceeds for Wells Taken Out-of-Service.**

2 **Q. What are the circumstances which resulted in the settlement with the Fountain Hills**  
3 **Sanitation District for taking Wells 8 and 9 (“Wells”) out of service?**

4 **A. Fountain Hills Sanitary District (“District”) needed an aquifer storage and recovery well**  
5 **(“effluent storage well”) to pump and store its effluent. The effluent storage well would**  
6 **be located near the Wells, a potable water source. The close proximity of the effluent**  
7 **storage well to the potable water source posed a contamination risk, so the prior owners of**  
8 **CCWC, MCO Properties (“MCO”), and the District began negotiations in order to remove**  
9 **any possible adverse consequences to the Company’s customers.**

10  
11 MCO and the District reached an agreement to exchange wells. One of the key terms of  
12 the agreement was that the District would provide a new replacement well with similar  
13 water quality and production capacity as the Wells. After the replacement well was built  
14 and the new effluent storage well became operational, the Wells would be taken out of  
15 service and physically isolated from the system. Unfortunately, the District was unable to  
16 construct an adequate replacement well and a new agreement had to be negotiated.

17  
18 **Q. What was the new agreement?**

19 **A. In February, 2005, CCWC and the District reached an agreement wherein the District paid**  
20 **CCWC \$1,520,000 in exchange for the Wells no longer being used to provide potable**  
21 **water service.**

22  
23 **Q. When were Wells 8 and 9 put in service?**

24 **A. Wells 8 and 9 were put in service in 1971 and 1972, respectively.**

25

1 **Q. Are these Wells fully depreciated?**

2 A. Yes, they became fully depreciated in 2001 and 2002 according to the Company's  
3 response to Data Request MEM 7.3. The useful life assigned to "Wells and Springs" is 30  
4 years but, because CCWC uses the group depreciation method, the cost of the wells is still  
5 included in the calculation of depreciation expense and the determination of rate base until  
6 new rates become effective as a result of the instant rate case.

7  
8 **Q. Has CCWC been compensated for the risk it incurred in making the investment in  
9 the Wells?**

10 A. Yes, the ratepayers, through the depreciation expense and return on rate base included in  
11 their water service rates, have paid the Company for the original cost of the Wells, and  
12 have continued to pay because CCWC uses the "group depreciation method", which will  
13 be addressed later in my testimony.

14  
15 **Q. Does the \$1.52 million payment represent a gain on the sale of utility property?**

16 A. No, it does not. The Company did not sell the Wells. The Company continues to own the  
17 wells. Therefore, no gain was realized. The \$1.52 million payment is the proceeds from a  
18 settlement agreement. Consequently, any characterization of the settlement proceeds as a  
19 "gain" is incorrect. Additionally, the Company could potentially sell the Wells at some  
20 point in the future. Although the agreement gives the District an option to acquire well 8  
21 for no additional consideration, this had not occurred at the time of Staff's on-site visit on  
22 April 3, 2008.

1 **Q. How was the settlement amount of \$1.52 million determined?**

2 A. According to the testimony of Mr. Robert N. Hanford, District Manager of CCWC, the  
3 \$1.52 million represents the "equivalent cost of water to replace that amount the Wells  
4 would have produced over the remainder of its useful life" (page 10, at line 12).

5  
6 **Q. Has the Company replaced the water supply that would have served customers from  
7 the Wells with more expensive CAP water?**

8 A. Yes. The Company has replaced the water that would have been pumped from Well 9 to  
9 serve customers with part of the 6,978 acre feet of CAP water from its 1984 CAP contract.  
10 CAP water, which is significantly more expensive than the cost of using water from Well  
11 9. Moreover, the customers have fully paid for the well and the approximately \$1.52  
12 million in water contained in it. The \$1.52 million was meant to compensate the  
13 Company for an equal amount of water regardless of where the Company actually  
14 obtained the water. The \$1.52 million would effectively lower the cost of the more  
15 expensive CAP water to that of the less expensive water that would have been pumped  
16 from Well 9; therefore, making the customers whole.

17  
18 **Q. Why was the well water replaced with the CAP water?**

19 A. The Company's 6,978 acre feet of CAP water, in most prior years, was actually more than  
20 that needed to serve its test year customers. Therefore, since it had an excess of water  
21 from its underutilized CAP allocation, and would have had to pay the same amount for the  
22 CAP water regardless of the amount it used, the Company made a management decision to  
23 stop using water from well 9. This decision effectively replaced Well 9 water with CAP  
24 water.

1 Q. Will the CCWC customers have to pay higher rates because CAP water is used?

2 A. Yes, because CAP water is more expensive than pumping ground water.  
3

4 Q. Is there another reason for utilizing CAP water?

5 A. Yes, CAP water is a renewable resource and its use is encouraged by the Arizona  
6 Department of Water Resources ("ADWR") as being in the public interest.  
7

8 Q. What ratemaking treatment does the Company propose for the \$1.52 million in  
9 settlement proceeds?

10 A. The Company proposes a 50 - 50 sharing between the ratepayers and the shareholders.  
11 Specifically, the Company proposes to set up a regulatory liability to reduce rate base by  
12 one-half of the \$1.52 million (or \$760,000). The regulatory liability would be amortized  
13 over 10 years and would have the effect of reducing operating expenses by one-tenth (or  
14 approximately \$76,000) each year for ten years. The total amount the Company has  
15 proposed is \$646,000 which represents the \$760,000 amortized over two years [i.e.,  
16  $\$760,000 - (\$76,000/2) - \$76,000 = \$646,000$ ].  
17

18 Q. What is the basis for the Company's proposal?

19 A. The Company states that "There is precedent by this Commission to share extraordinary  
20 gains equally between the Company's shareholders and its rate payers." See Arizona  
21 Water Company - Eastern Group Decision No. 66849 (March 19, 2004) at 32-35 . . ."  
22 (Bourassa, page 11, at line 5).

1 Q. Does Staff believe that this settlement is similar or identical to the Arizona Water  
2 case cited above?

3 A. No. Although both involve a settlement, the Arizona Water case results in a monetary  
4 payment being received in addition to replacement water. In the CCWC case, the  
5 settlement proceeds represent the anticipated cost of replacement water.

6  
7 Q. For ratemaking purposes, how should the \$1.52 million be treated?

8 A. Staff is recommending that all of the \$1.52 million in settlement proceeds (which  
9 represents the cost to replace the Wells' water supply that customers had fully paid for)  
10 flow through to rate payers to compensate them for the higher rates they are paying and  
11 will continue to pay for the CAP water that replaced the Wells' water supply.

12  
13 Q. What is Staff's adjustment to rate base?

14 A. Staff recommends reducing rate base by \$1.52 million less the amortization expense for  
15 2005 and 2006 leaving a regulatory liability balance of \$1,216,000.

16  
17 **Rate Base Adjustment No. 2 – Deferred Regulatory Assets**

18 Q. Briefly discuss the Company's Central Arizona Project ("CAP") water allocations.

19 A. The Company has two CAP allocations. One is a 6,978 acre feet allocation that was  
20 purchased in 1984 and used to serve test year customers. The other is a 1,931 acre feet  
21 allocation purchased in 2007.

22  
23 Q. What is the Company proposing regarding Deferred Regulatory Assets?

24 A. The Company has made a pro-forma adjustment to include in rate base, at the end of the  
25 2006 test year, the cost of the additional allotment of 1,931 acre feet of Municipal and  
26 Industrial ("M&I") water that has been purchased from the United States Bureau of

1 Reclamation and Central Arizona Water Conservation District in 2007. A payment of  
2 \$1,280,000 for prior capital charges was required by December 1, 2007. As an alternative,  
3 CCWC could have selected an interest-free five-year installment payment plan.  
4

5 **Q. What ratemaking treatment is the Company proposing for its 2007 CAP allocation?**

6 **A.** The Company is proposing to include the 2007 CAP allocation in rate base as a regulatory  
7 asset to be amortized to expense over a twenty-year period (\$64,000 per year).  
8

9 **Q. What are the Company's reasons for including the 2007 CAP allocation in rate base?**

10 **A.** The Company claims that the 2007 CAP allocation is revenue neutral and used and useful.  
11

12 **Q. Does Staff agree that the Commission should recognize the cost of the additional**  
13 **CAP allotment as a regulatory asset?**

14 **A.** No. Staff believes that the additional CAP Allotment should be recognized as part of  
15 "post test year" ("PTY") plant rather than a deferred asset. Further, the Company is in  
16 agreement with Staff that the CAP allotment purchased in 2007 is PTY plant (Bourassa  
17 Direct, page 11, at line 25).  
18

19 **Q. What is Staff's recommendation regarding the rate base treatment of the additional**  
20 **CAP allotment?**

21 **A.** Staff recommends that the Company's pro-forma adjustment to increase rate base by  
22 \$1,280,000 be reversed on the basis that the allocation has properties more associated with  
23 a water right and, thus, should be reclassified to plant-in-service as an intangible asset not  
24 subject to amortization.

1 Q. Why does Staff believe the additional CAP allotment is a water right?

2 A. Because CCWC has entered into a contract with the United States Bureau of Reclamation  
3 and Central Arizona Water Conservation District for delivery of 8,909 acre feet of water  
4 (the original 6,978 plus the additional 1,931) dated March 7, 2007, "for a period of 100  
5 years beginning January 1 of the Year following that which the subcontract becomes  
6 effective," per Article 4.2 of the subcontract. This Article also provides for annual  
7 renewals of the contract at the option of CCWC. The 8,909 acre feet quantity is described  
8 in Article 4.12(a) of the contract as an: "Entitlement to Project M & I Water". The term  
9 of the contract and renewal provisions indicates that CCWC can receive 8,909 acre feet of  
10 water per year forever, or into perpetuity

11  
12 Q. Why does Staff believe that the cost of the additional allotment should not be  
13 amortized?

14 A. Staff believes that the cost of the additional allotment is an intangible asset that will not  
15 decline or diminish in value. The value of the allocation may increase but the Bureau of  
16 Reclamation prohibits CAP allocations from being sold for more than the accumulated M  
17 & I charges.

18  
19 Q. Is the additional CAP water used and useful?

20 A. Partially. A detailed explanation can be found on page 9 of the Engineering Report of  
21 Staff witness Mr. Marlin Scott, Jr.'s direct testimony. He has determined that fifty-percent  
22 of the additional CAP allocation of 1,931 acre feet of water is used and useful.

1 Q. Has the Commission previously allowed recovery of PTY plant costs?

2 A. Yes. However, the Commission typically does not allow recovery of PTY plant costs  
3 when there is no plan for use in the near future, especially when the plant is not used to  
4 serve test year customers.

5  
6 Q. Does Staff believe that CCWC has acted prudently in the purchase of the additional  
7 CAP allotment?

8 A. Yes, because the reallocation of CAP water occurs infrequently, and because the CAP  
9 water is oversubscribed, it becomes imperative to secure an allotment when it is available.  
10 Another factor in considering the purchase prudent is that CAP reallocations have to be  
11 taken in whole as presented – it is an all or none situation. Also, the additional allotment  
12 of 1,931 acre feet will allow CCWC to limit, or eliminate, the use of groundwater to serve  
13 its customers.

14  
15 Q. Does Staff characterize the CAP entitlement as a renewable resource?

16 A. Yes.

17  
18 Q. What is Staff's adjustment regarding the cost of the additional CAP allocation  
19 purchased in 2007?

20 A. Staff has reclassified the "Deferred Regulatory Assets" balance of \$1,280,000 to NARUC  
21 USOA number 303, Land and Land Rights, as a plant-in-service component.

22  
23 **Rate Base Adjustment No. 3 - Test Year General Office ("GO") Plant Allocation**

24 Q. What is the Company proposing for Plant in Service?

25 A. The Company is proposing a total of \$51,053,252 for Plant in Service relating to its  
26 OCRB. The Company is proposing all plant, property and equipment that were in service

1           during the test year, plus an allocation of \$751,171 related to GO plant for a total of  
2           \$51,804,423.

3  
4           **Q.   Is Staff in agreement with the Company's proposed amount of Plant in Service,**  
5           **including the GO plant?**

6           A.   No, during its regulatory audit of GO plant, several luxury vehicles were discovered, as  
7           well as two studies that originated before acquisition of CCWC and, based on the  
8           Company's response to a data request, relate strictly to the parent company's California  
9           operations. At the 3.21 percentage allocation rate used by the Company, the value of  
10          these items amounts to \$48,608 that Staff proposes to remove from GO plant.

11  
12          **Q.   Is Staff in agreement with the Company's proposed allocation percentage for the GO**  
13          **plant?**

14          A.   No, during Staff's review of the allocation percentage assigned to CCWC relative to all of  
15          American States Water Company's ("AWR") operations it was determined that it should  
16          be 4.0 percent for the test year 2006 using the same four factor formula proposed by the  
17          Company. The Company has proposed an allocation of GO plant of 3.21 percent based on  
18          a four factor formula consisting of (1) number of customers; (2) value of utility plant-in-  
19          service; (3) operating expenses; and (4) labor costs. Staff discovered that the 3.21 percent  
20          was based on using data as of September, 2005, in the four factor formula. Staff requested  
21          data as of the end of the test year and believes that this is more accurate given the  
22          expansion of non-regulated operations and the inconsistency of the Company's proposed  
23          GO allocation percentage – 3.21 percent for plant and 3.74 percent for operating expenses,  
24          which will be discussed later in my testimony.

1 Q. Why is Staff recommending removal of the cost of studies included in GO plant?

2 A. In both cases the studies were completed before the acquisition of CCWC and were  
3 ordered by the CPUC or mandated by California Statutes. One is a management audit  
4 ordered by the CPUC that was completed in 1995 and cost \$420,000. The other cost,  
5 \$820,254, to be excluded is for water management plans completed in 1998 in conjunction  
6 with California Water Code Sections 10610 through 10657.

7  
8 Q. What is the amount of Staff's adjustment to increase the allocation of GO plant to  
9 CCWC?

10 A. After removing the cost of the luxury vehicles and the studies that do not benefit Arizona  
11 ratepayers and applying the 4.0 allocation percentage, GO plant in service original cost is  
12 increased by \$124,299, or \$174,963 RCN. Thus, \$875,470, or \$1,167,091 RCN, of GO  
13 plant is included in CCWC's rate base. The details of this adjustment are presented on  
14 Schedule MEM-7.

15  
16 **Rate Base Adjustment No. 4 – Accumulated Depreciation**

17 Q. Would you please explain Staff's rate base adjustment No. 4.

18 A. Staff's adjustment reduces Accumulated Depreciation by \$2,031,950 from the Company's  
19 amount of \$15,877,022 to reflect Staff's calculated Accumulated Depreciation of  
20 \$13,845,072. The reason for this difference is related to Staff using the 4.0 GO plant  
21 allocation percentage and the plant additions and retirements discussed in Rate Base  
22 Adjustments No. 6 and No. 7. Changing the GO allocation increased accumulated  
23 depreciation by \$84,561. Plant additions increased accumulated depreciation by \$1,823  
24 and retirements decreased accumulated depreciation by \$2,118,334 as shown on Schedule  
25 MEM-8. Plant additions and retirements are discussed on Schedule MEM-10 and MEM-  
26 11.

1 **Q. What additional adjustment has Staff included on Schedule MEM-8?**

2 A. Staff witness Mr. Marlin Scott, Jr.'s direct testimony indicates that several plant items  
3 have been incorrectly classified in the Company's records and describes the correct  
4 category for these items. Part of Staff's adjustment on Schedule MEM-8 reclassifies the  
5 accumulated depreciation for the listed items into the proper NARUC account numbers.

6  
7 **Q. How did Staff determine the amount of accumulated depreciation to reclassify?**

8 A. Staff used the acquisition dates mentioned in Staff witness Mr. Marlin Scott, Jr.'s direct  
9 testimony and recalculated the annual depreciation expense for each year since then  
10 through the test year, which was then summed to derive the accumulated depreciation  
11 balance. Since the reclassification entailed the reduction of some account balances and  
12 increases in others by the exact same amounts, there is no impact on the overall  
13 accumulated depreciation balance.

14  
15 **Q. What is Staff's recommendation?**

16 A. Staff recommends reducing Original Cost New ("OCN") Accumulated Depreciation by  
17 \$2,031,950, from \$15,877,022 to \$13,845,072 as shown on Schedule MEM-8.

18  
19 **Q. What additional recommendation is Staff making regarding OCN plant accounting  
20 and accumulated depreciation?**

21 A. Staff recommends that CCWC adopt, on a going forward basis, the "Group Depreciation"  
22 method in which the additions for each year and for each plant account are considered a  
23 separate "group." This will facilitate the identification of the cost of specific assets, and  
24 their associated accumulated depreciation, so that the proper amounts can be retired when  
25 appropriate.

1 **Q. Is there a corresponding adjustment for Reconstruction Cost New plant?**

2 **A.** Yes. Staff discovered that the OCN accumulated depreciation totals by NARUC Account  
3 Number presented in on Exhibit Schedule B-2, Page 3d did not agree with the OCN totals  
4 used on Exhibit Schedule B-4, the RCN calculation schedule. Staff proposes two  
5 adjustments to RCN: the first is a decrease of \$2,620,789, as shown on Schedule MEM-  
6 RCN-2, which results from additions and retirements of plant. The second adjustment is  
7 an increase of \$113,818 resulting from the change in GO allocation percentage but this is  
8 offset by the decrease of \$2,620,789 so the net decrease in RCN accumulated depreciation  
9 is \$2,506,970.

10

11 **Q. What is Staff's recommendation regarding RCN accumulated depreciation?**

12 **A.** Staff recommends decreasing RCN Accumulated Depreciation by \$2,506,970, from  
13 \$25,894,686 per Exhibit Schedule B-3, Page 1 to \$23,387,716 as shown on Schedule  
14 MEM-RCN-2.

15

16 **Rate Base Adjustment No. 5 – Removal of Working Capital Components.**

17 **Q. Would you please explain Staff's rate base adjustment No. 5?**

18 **A.** Yes. Staff's adjustment accounts for a decrease to rate base by removing Unamortized  
19 Debt Issuance Costs, \$424,010, Prepayments, \$192,485, and Materials and Supplies  
20 Inventory, \$14,521. These balances are considered in working capital calculations along  
21 with a cash working capital component derived from a lead/lag study, for overall inclusion  
22 in rate base.

1 **Q. Why did Staff disallow the Unamortized Debt Issuance Costs from being included in**  
2 **rate base?**

3 A. Debt issuance costs are a "below the line" expense the same as interest and, thus, should  
4 be paid from the return on rate base portion of the charges to ratepayers. Consequently,  
5 the unamortized debt issuance costs are attributable to the shareholders, did not require an  
6 outlay of cash by the shareholders and from a ratemaking standpoint should not be  
7 allowed to earn a rate of return by being included in ratebase.

8

9 **Q. Did CCWC request a cash working capital allowance as part of its rate base?**

10 A. No, and the Company did not prepare a lead/lag study to determine what the amount of  
11 cash working capital should be.

12

13 **Q. What is Staff's rationale for its recommendation to disallow Prepayments and**  
14 **Material and Supplies Inventory from rate base?**

15 A. The Company failed to provide a lead/lag study to determine the cash working capital  
16 component. Since the vital portion of working capital is missing, it is inappropriate to  
17 consider other components of working capital.

18

19 **Q. What is Staff's recommendation?**

20 A. Staff recommends that Unamortized Debt Issuance Costs, \$424,010, Prepayments,  
21 \$192,485, and Materials and Supplies Inventory, \$14,521 be excluded from the rate base.

1 Q. Does Staff have additional recommendations regarding a cash working capital  
2 allowance?

3 A. Yes, Staff recommends that the Company be ordered to perform and submit a Lead/Lag  
4 Study in conjunction with its next rate adjustment request application in order to meet the  
5 sufficiency requirement of that filing.  
6

7 **Rate Base Adjustment No. 6. – Expensed Plant (Capitalize Charges to Outside Services)**

8 Q. Please provide guidelines that companies should use in determining whether a cost  
9 should be capitalized by recording it in a plant account or treated as an operating  
10 expense.

11 A. The Arizona Administrative Code R14-2-411 D.2 requires water companies to maintain  
12 their accounting records in accordance with the NARUC USOA. It states that “Each  
13 utility shall maintain its books and records in conformity with the Uniform System of  
14 Accounts for Class A, B, C and D Water Utilities” (emphasis added).  
15

16 Further, the NARUC USOA provides a listing of plant accounts and the types of costs that  
17 should be recorded in each account. Utilities should use the plant account listing and  
18 Accounting Instruction No. 14 “Utility Plant – Components of Construction Costs” to  
19 determine what costs should be recorded as plant.  
20

21 Q. Did CCWC propose to expense costs that should be recorded in plant accounts?

22 A. Yes, according to the NARUC USOA, the Company expensed plant costs incurred for  
23 irrigation installation, fence installation, and pumps as shown on Schedule MEM-10 and  
24 MEM-23.

1 Q. What is the effect of expensing plant?

2 A. If the NARUC USOA is not complied with, the result is an overstatement of operating  
3 expenses and understatement of rate base. Adherence to the matching principle and the  
4 NARUC USOA requires that the cost of an asset that benefits more than one accounting  
5 period be capitalized (by recording it in a plant account) and depreciated over the asset's  
6 useful life.

7

8 Q. What is Staff's recommendation?

9 A. Staff recommends increasing plant in service by \$37,673 to reclassify plant that was  
10 incorrectly recorded as an operating expense as shown on Schedule MEM-23. This  
11 adjustment to OCRB is reflected on Schedule MEM - 10, and the adjustment to RCRB is  
12 presented on Schedule MEM RCN-5, page 2 of 2.

13

14 **Rate Base Adjustment No. 7 – Utility Plant-In-Service, Wells and Other Plant to be Retired**

15 Q. Were the Wells discussed in Rate Base Adjustment No. 1 used and useful during the  
16 test year?

17 A. No, they were not. As Staff discussed earlier, the wells were taken out of service in  
18 accordance with the well settlement agreement. Further, there are no pumps on the wells  
19 so they cannot be used as a back-up source of water when the CAP water is shut down  
20 for repair and maintenance.

21

22 Q. What is the Company's proposed treatment of the Wells?

23 A. The Company proposes to include the Wells in plant in service.

1 **Q. What is the effect of CCWC's proposal to include the Wells in rate base?**

2 A. CCWC's proposal to include the Wells, with a combined cost for OCRB purposes of  
3 \$103,468, or RCRB of \$434,984, in rate base over-states the revenue requirement, and  
4 ultimately, the rates paid by the Company's customers.

5  
6 **Q. Does CCWC have other plant in service which is not considered used and useful?**

7 A. Yes. As described on Table 8 of Exhibit MSJ, attached to Marlin Scott, Jr.'s Testimony,  
8 there is an additional \$2,014,866 of plant not used and useful. This plant is primarily  
9 related to the water treatment facility acquired in 1986 through 1989. The RCN of this  
10 non-used and useful plant is \$3,269,076.

11  
12 **Q. What is the appropriate ratemaking treatment for plant that is not used and useful  
13 in the test year?**

14 A. For ratemaking purposes, plant that is not used to provide service to customers during the  
15 test year should be removed from rate base.

16  
17 **Q. What is Staff's recommendation?**

18 A. Staff recommends decreasing plant in service by \$2,118,334, RCN \$2,480,011, to remove  
19 the wells and other plant that is not used and useful from rate base as shown on Schedules  
20 MEM-11 and MEM RCN-5.

1 **OPERATING INCOME**

2 **Operating Income Summary**

3 **Q. What are the results of Staff's analysis of test year revenues, expenses, and operating**  
4 **income?**

5 **A. Staff's analysis resulted in adjusted test year revenues of \$7,446,700, expenses of**  
6 **\$6,443,612, and operating income of \$1,003,088 as shown on Schedules MEM-12 and**  
7 **MEM-13. Staff made thirteen adjustments to operating income.**

8  
9 **Operating Income Adjustment No. 1 – Amortization of Well Settlement Proceeds.**

10 **Q. Would you please explain Staff's operating income adjustment No. 1?**

11 **A. Staff's adjustment increases the negative amortization expense related to the "Gain on**  
12 **Well" by \$76,000, from \$76,000 to \$152,000, as discussed in Rate Base Adjustment No.**  
13 **1. As discussed in Staff's rate base adjustment, the Company has mischaracterized the**  
14 **settlement proceeds as a "gain" but they are actually from the settlement to remove the**  
15 **Wells from service. Staff's calculation of the "Amortization of Well Settlement Proceeds"**  
16 **is shown on Schedule MEM-14 and MEM 5.**

17  
18 **Q. What is Staff's recommendation?**

19 **A. Staff recommends increasing "Amortization of the Well Settlement Proceeds" by \$76,000,**  
20 **from \$76,000 to \$152,000, which will allocate all of the proceeds received by CCWC for**  
21 **taking the Wells out of service to the ratepayers and amortize the proceeds over ten years.**

22  
23 **Operating Income Adjustment No. 2 – Purchased Water Expense.**

24 **Q. Would you please explain Staff's operating income adjustment No. 2?**

25 **A. Staff's adjustment reduces Purchased Water Expense by \$20,306, from \$831,656 to**  
26 **\$811,351. Staff removed \$20,306 due to the finding that the additional CAP allocation is**

1           only fifty percent used and useful. The Company's Pro Forma Adjustment No. 5 included  
2           an increase for the operating expenses related to the additional CAP allocation but did not  
3           isolate that portion of the adjustment so it cannot simply be reversed. Schedule MEM-15  
4           shows Staff's calculation of this adjustment.

5  
6       **Q.    What is Staff's recommendation?**

7       **A.    Staff recommends reducing Purchased Water Expense by \$20,306, from \$831,656 to**  
8           **\$811,351.**

9  
10       **Operating Income Adjustment No. 3 – Depreciation Expense**

11       **Q.    Would you please explain Staff's operating income adjustment No. 3?**

12       **A.    Staff's adjustment decreases Depreciation Expense by \$86,188, from \$1,608,019 to**  
13           **\$1,521,831. The primary difference in depreciation expense is related to Staff's GO**  
14           **allocation percentage increase and the retirement of CCWC Wells 8 and 9 plus**  
15           **capitalization of outside services per rate base adjustments discussed in that portion of my**  
16           **testimony. Additionally, a portion of the difference is related to Staff's calculated CIAC**  
17           **amortization, which results from a larger composite depreciation rate. Schedule MEM-16**  
18           **shows Staff's calculation of Depreciation Expense.**

19  
20       **Q.    What is Staff's recommendation?**

21       **A.    Staff recommends decreasing Depreciation Expense by \$86,188, from \$1,608,019 to**  
22           **\$1,521,831.**

1 **Operating Income Adjustment No. 4 – Miscellaneous Expenses**

2 **Q. Would you please explain Staff's operating income adjustment no. 4?**

3 A. Staff's adjustment increases Miscellaneous Expense by \$37,214, from \$1,259,948 to  
4 \$1,297,162. There are two components that comprise this adjustment: the allocation of  
5 GO expenses and membership dues.

6  
7 **Q. Please discuss Staff's adjustments to the GO Expense Allocation.**

8 A. First, \$251,538 was removed from the GO expense pool of \$34,557,114 because it  
9 represented the cost of memberships in organizations that only benefited California  
10 ratepayers, and/or portions of membership dues which Staff could identify as being for  
11 lobbying costs. Also, the GO expense pool was reduced by \$1,040,585 to disallow  
12 expenses incurred for the exclusive benefit of the shareholders. Third, as discussed in  
13 Rate Base Adjustment 3, Staff believes that the 4.0 percent allocation based on the four  
14 factor methodology is more appropriate than the 3.74 percent allocation proposed by the  
15 Company, thus 4.0 percent was applied to the revised GO expense pool of \$33,264,981 to  
16 derive \$1,330,600. Schedule MEM-17 shows Staff's calculation of this adjustment. The  
17 difference between the Company's proposed GO expense allocation of \$1,292,436 and  
18 Staff's \$1,330,600 is \$38,164. Although Miscellaneous Expense is not where most of the  
19 GO expense was accounted for during the test year in CCWC's records, Staff has chosen  
20 to use it because this is the account to which the Company's year-end adjustment was  
21 posted.

22  
23 **Q. Did the Company and Staff use the same test year for the components of the four  
24 factor allocation methodology used to calculate the GO expense amount?**

25 A. No, during Staff's review of the Company's derivation of the 3.74 percent allocation  
26 submitted in response to Staff Data Request No. 4.1, it was discovered that the four factors

1 used were based on a 2001 test year. This will result in a mismatch of revenues and  
2 expenses in the 2006 test year and is incorrect to use. Staff used the 2006 test year.  
3

4 **Q. Please discuss Staff's remaining adjustment to Miscellaneous Expenses.**

5 A. CCWC is a member of the Investor Owned Water Utility Association and the Water  
6 Utility Association of Arizona, both organizations conduct lobbying activities and the  
7 amount included in the dues paid in the test year was \$950 based on the Company's  
8 response to Data Request No. 125. Staff recommends that miscellaneous expenses be  
9 reduced by the \$950.  
10

11 **Q. What is Staff's recommendation?**

12 A. Staff recommends increasing Miscellaneous Expenses of CCWC by \$37,214 (the sum of  
13 \$38,164 less \$950) from \$1,259,948 to \$1,297,162.  
14

15 **Operating Income Adjustment No. 5 – Reversal of Company Pro Forma Adjustment No. 13,**  
16 **which amortizes the cost of the additional CAP Allotment.**

17 **Q. Would you please explain Staff's operating income adjustment No. 5?**

18 A. Staff's adjustment reduces the amortization expense related to the additional CAP  
19 allotment by \$64,000, from \$64,000 to \$0.00. As discussed in Rate Base Adjustment No.  
20 2, the additional CAP allotment purchased in 2007 is an intangible asset and not subject to  
21 amortization. Consequently, the Company's Pro Forma Adjustment No. 13 is reversed by  
22 Staff Adjustment No. 5. Schedule MEM-18 shows Staff's calculation of this adjustment.  
23

24 **Q. What is Staff's recommendation?**

25 A. Staff recommends reducing Amortization of Additional CAP Allotment by \$64,000, from  
26 \$64,000 to \$0.

1 **Operating Income Adjustment No. 6 – Rate Case Expense.**

2 **Q. Would you please explain Staff's operating income adjustment No. 6?**

3 **A.** Staff's adjustment reduces the Rate Case Expense by \$61,558 from \$144,871 to \$83,333.  
4 Schedule MEM-19 shows Staff's calculation of this adjustment.

5  
6 **Q. Did CCWC include Rate Case Expense only for the instant case?**

7 **A.** No, part of CCWC's rate case expense in the current case is an "un-recovered" portion of  
8 from the prior rate case.

9  
10 **Q. What is the amount of "un-recovered" Rate Case Expense proposed by the**  
11 **Company?**

12 **A.** The Company claimed that it is \$154,613.

13  
14 **Q. Please explain the difference between normalizing and amortizing?**

15 **A.** When a cost is amortized, it is prorated over the number of accounting periods it is  
16 expected to benefit. Normalizing is a term used in ratemaking to flatten the effects of  
17 operating expense levels that fluctuate from year to year. The amount included in the  
18 revenue requirement for a "test year" is an amount which represents an average of several  
19 years' experience of a given expense, which then represents the amount "normally"  
20 incurred annually by the Company.

21  
22 **Q. Was normalizing versus amortizing of rate case expense specifically addressed in the**  
23 **prior rate case?**

24 **A.** No. Staff recommended and the Commission approved the Company's requested amount.  
25 Amortization is used for capital items. However, this and other operating expenses are  
26 normalized therefore there is no unamortized portion.

1 **Q. What has the Company proposed for Rate Case Expense in the instant case.**

2 A. CCWC has projected rate case expense for the current case to be \$280,000.  
3

4 **Q. What is Staff recommending for current Rate Case Expense?**

5 A. Based on the rate case expense approved by the Commission in cases of comparable sized  
6 utilities, Staff believes that \$150,000 is an appropriate amount for recovery through just  
7 and reasonable rates in the instant rate case.  
8

9 **Discussion of Appeal and Remand ("Remand") Rate Case Expense.**

10 **Q. What has the Company proposed for the Appeal and Remand of Commission**  
11 **Decision No. 68176 Remand Rate Case Expense?**

12 A. In a recent "Notice of Filing" (Docketed September 8, 2008) the Company has requested  
13 recovery of \$258,511 for expenses incurred for the Remand proceeding, which it alleges is  
14 approximately fifty-percent of the total.  
15

16 **Q. Did CCWC revise its proposed Remand rate case expense?**

17 A. Yes, prior to its filing of September 8, 2008, the Company had agreed to only seek  
18 recovery of \$100,000 of the \$300,000 in claimed expenses. Staff recommends normalizing  
19 this \$100,000 cost over three-years, the same as the cost of the instant case.  
20

21 **Q. How is CCWC proposing recovery of Remand rate case expense?**

22 A. Through a surcharge of \$0.124 per one-thousand gallons added to the Company's  
23 proposed commodity rate until the \$258,511 has been collected. CCWC has estimated  
24 that the surcharge would be effective for twelve months.

1 **Q. Does Staff agree with CCWC's proposed recovery methodology?**

2 **A.** No, because the additional revenues that will be generated from the result of the Remand  
3 Case will benefit CCWC into perpetuity a twelve-month recovery period is a mis-match.  
4 Staff recommends the three-year normalization period recommended in the instant case.

5  
6 **Q. What is Staff's recommendation for normalizing the current Rate Case Expense?**

7 **A.** Staff recommends Rate Case Expense of \$150,000 for the instant case and \$100,000 for  
8 the Remand Case, which equals \$250,000. Normalized over a three-year period this will  
9 result in \$83,333 being included in the revenue requirement for the instant case. Schedule  
10 MEM-19 shows Staff's calculation of this adjustment.

11  
12 **Operating Income Adjustment No. 7 – Normalization of Chemicals Expenses**

13 **Q. Would you please explain Staff's operating income adjustment No. 7?**

14 **A.** Staff's adjustment reduces Chemicals Expenses by \$27,630, from \$127,457 to \$99,827.  
15 Staff's regulatory audit found that Chemicals Expenses have more than doubled since  
16 2003, the prior rate case test year. Because of the fluctuation, Staff believes it is  
17 appropriate to normalize Chemicals Expenses by taking an average of the previous three-  
18 year's expenses to mitigate any extenuating circumstances which may have lead to this  
19 significant increase. Staff's regulatory audit also found that the expense balance included  
20 two large invoices for chemicals delivered in late December, 2006. Schedule MEM-20  
21 shows Staff's calculation of this adjustment.

22  
23 **Q. What is Staff's recommendation?**

24 **A.** Staff recommends reducing Chemicals Expenses by \$27,630, from \$127,457 to \$99,827.  
25

1 **Operating Income Adjustment No. 8 – Normalization of Repairs and Maintenance.**

2 **Q. Would you please explain Staff's operating income adjustment No. 8?**

3 A. Staff's adjustment decreases Repairs and Maintenance Expense by \$19,018, from  
4 \$104,609 to \$85,591. Since Repairs and Maintenance Expenses have fluctuated from  
5 \$96,152 in 2004, to \$72,640 in 2005, to \$104,609 in the test year; Staff took the three-year  
6 average of Repairs and Maintenance Expense to mitigate any extenuating circumstances  
7 which may have lead to this significant increase over 2005. Staff's regulatory audit found  
8 that \$5,543 of Pepsi Cola products were purchased in the test year for employees of the  
9 Company. In the prior rate case, the Company stated this is the type of benefit that allows  
10 the Company to attract and maintain qualified and motivated staff to better serve customer  
11 needs. Staff does not argue that this may be the case; however, Staff believes this is a cost  
12 of doing business that the shareholders should be paying for rather than the ratepayers.  
13 Thus, Staff's adjustment consists of two parts: \$13,475 to normalize Repairs and  
14 Maintenance Expense and \$5,543 to remove the cost of beverages provided to employees.  
15 Staff's calculation of this \$19,018 adjustment is shown on Schedule MEM-21.

16  
17 **Q. What is Staff's recommendation?**

18 A. Staff recommends reducing Repairs and Maintenance Expense by \$19,018, from \$104,609  
19 to \$85,591.

20  
21 **Operating Income Adjustment No. 9 – Normalization of General Liability Insurance**  
22 **Expense**

23 **Q. Would you please explain Staff's operating income adjustment No. 9?**

24 A. Staff's adjustment increases General Liability Insurance Expense by \$3,654, from  
25 \$(1,294) to \$2,360. In response to Staff's data request MEM 1.44, the Company stated  
26 that it is self insured for deductibles less than \$500,000 and \$350,000 for general liability

1 and automobile liability, respectively, per occurrence. A Third Party Administrator  
2 ("TPA") is used to administer and pay claims on behalf of American States Water  
3 Company, CCWC's parent. The parent company, AWR, maintains an "Injuries and  
4 Damages Reserve" that is adjusted monthly based on loss reports received from the TPA.  
5 Incurred but not reported claims are also estimated and used in setting the reserve balance.  
6 Although the reserve balance was zero at the end of the test year, a claim of \$2,682 was  
7 paid during 2006, and Staff believes that General Liability Insurance Expense should be  
8 normalized to take into consideration the fact that, on an average, claims will be made and  
9 paid. For the purposes of normalizing General Liability Insurance Expense, Staff used the  
10 period 2003 – 2007. Schedule MEM-22 shows Staff's calculation of this adjustment.

11  
12 **Q. What is Staff's recommendation?**

13 **A. Staff recommends increasing General Liability Insurance Expense by \$3,654, from**  
14 **\$(1,294) to \$2,360.**

15  
16 **Operating Income Adjustment No. 10 – Outside Services Expenses**

17 **Q. What did the Company propose for outside services expense?**

18 **A. The Company proposed \$266,544 as shown on Schedule MEM-23.**

19  
20 **Q. Did the Company include in outside services, costs that should have been capitalized**  
21 **and depreciated?**

22 **A. Yes, as Staff discussed in Rate Base Adjustment No. 6, Expensed Plant, CCWC recorded**  
23 **as operating expenses \$37,673 in costs which, according to the NARUC USOA and the**  
24 **matching principle, should be capitalized and depreciated as shown on Schedule MEM-23.**

1 **Q. What is Staff's recommendation?**

2 A. Staff recommends decreasing outside services expense by \$37,673 representing plant that  
3 should be capitalized, as shown on Schedule MEM-23.

4  
5 **Q. What is the effect of expensing plant?**

6 A. If the NARUC USOA is not complied with, the result is an overstatement of operating  
7 expenses and understatement of rate base. Adherence to the matching principle and the  
8 NARUC USOA requires that the cost of an asset that benefits more than one accounting  
9 period be capitalized (by recording it in a plant account) and depreciated over the asset's  
10 useful life.

11  
12 **Q. Did CCWC also include in outside services, non-recurring costs that are not  
13 representative of an average year?**

14 A. Yes, Staff discovered payments charged to outside services for an ACC penalty related to  
15 filing its Annual Report late and an appellate court filing fee. The ACC penalty was \$45  
16 for late filing of the 2005 Annual Report and the appellate court cost was \$330, which  
17 sums to \$375.

18  
19 **Q. What is Staff's recommendation?**

20 A. Staff recommends decreasing outside services expense by \$375 for non-recurring  
21 expenses.

22  
23 **Q. What is Staff's overall recommendation for this account?**

24 A. Staff recommends reducing Outside Services Expenses by \$38,048, from \$266,544 to  
25 \$228,496.

1 **Operating Income Adjustment No. 11 – Water Testing Expense**

2 **Q. Would you please explain Staff's operating income adjustment No. 11?**

3 A. Staff's adjustment reduces Water Testing by \$17,820, from \$43,458 to \$25,638. An  
4 explanation of this adjustment can be found in Table E-1 on page 17 of Staff witness Mr.  
5 Marlin Scott, Jr.'s direct testimony.

6  
7 **Q. What is Staff's recommendation?**

8 A. Staff recommends reducing Water Testing by \$17,820, from \$43,458 to \$25,638 as shown  
9 on Schedule MEM-24.

10  
11 **Operating Income Adjustment No. 12 – Property Taxes**

12 **Q. Would you please explain Staff's operating income adjustment No. 12?**

13 A. Staff's adjustment reduces Property Taxes by \$33,413, from \$295,813 to \$262,400. The  
14 primary difference between the Company's and Staff's Property Taxes is due to the  
15 differences in the proposed and recommended revenue requirements. Schedule MEM-25  
16 shows Staff's calculation of Property Taxes.

17  
18 **Q. What is Staff's recommendation?**

19 A. Staff recommends reducing Property Taxes by \$33,413, from \$295,813 to \$262,400.

20  
21 **Operating Income Adjustment No. 13 – Income Taxes**

22 **Q. Would you please explain Staff's operating income adjustment No. 13?**

23 A. Staff's adjustment increases Income Taxes by \$197,275, from \$270,020 to \$467,295. The  
24 two main reasons for the difference between Staff's and the Company's calculation of  
25 Income Taxes is the difference in test year operating expenses and that the Company  
26 applied its weighted cost of debt to the FVRB. The appropriate calculation of

1           synchronized interest expense is made by applying the weighted cost of debt to the OCRB.  
2           A company's debts do not increase due to inflation or an increase in value of the property  
3           related to the debt. Therefore, applying the weighted cost of debt to the FVRB is  
4           inappropriate for calculating the synchronized interest expense. Staff's calculation of  
5           Income Taxes and synchronized interest expense are shown in Schedule MEM-2, Line 52,  
6           Column A and Schedule MEM-2, Line 56, Column A respectively. Schedule MEM-26  
7           shows Staff's calculation of the adjustment.  
8

9           **Q.    What is Staff's recommendation?**

10          A.    Staff recommends increasing Income Taxes by \$197,275, from \$270,020 to \$467,295.  
11

12           **REVENUE REQUIREMENT**

13          **Q.    Would you please summarize the Company's proposed revenue requirement?**

14          A.    The Company's rate filing proposes annual revenues of \$10,515,017, an increase of  
15               \$3,068,317, or 41.20 percent, over test year adjusted revenues of \$7,446,700 as shown on  
16               Schedule MEM-1.  
17

18          **Q.    Would you please summarize Staff's recommended revenue requirement?**

19          A.    Staff recommends annual revenue of \$9,181,965, an increase of \$1,735,265, or 23.30  
20               percent, over test year adjusted revenues of \$7,446,700, as shown on Schedule MEM-1.  
21

22           **BASIS FOR REVENUE REQUIREMENT**

23          **Q.    How did Staff calculate its recommended revenue requirement?**

24          A.    The appropriate revenue requirement is the result of multiplying the Staff recommended  
25               FVRB (as per Schedule MEM FVRB-2) by the Staff recommended Fair Value Rate of  
26               Return.

1 **RATE DESIGN**

2 **Q. Have you prepared a schedule summarizing the present, Company proposed, and**  
3 **Staff recommended rates and service charges?**

4 **A. Yes. A summary of the present, Company proposed, and Staff recommended rates and**  
5 **service charges are provided on Schedule MEM-27.**

6  
7 **Q. Would you please summarize the present rate design?**

8 **A. The present monthly minimum charges by meter size are as follows: 3/4-inch \$13.60; 1-**  
9 **inch \$22.70; 1 1/2-inch \$45.40; 2-inch \$73.00; 3-inch \$146.00; 4-inch \$227.00; 6-inch**  
10 **\$454.00; 8-inch \$730.00; 10-inch \$1,043.00; and 12-inch \$1,980.00. No gallons are**  
11 **included in the monthly minimum charge. The present residential commodity rate is**  
12 **\$1.68 per thousand gallons for zero to 3,000 gallons, \$2.52 per thousand gallons for 3,001**  
13 **to 9,000 gallons, and \$3.03 per thousand gallons for any consumption over 9,000 gallons.**  
14 **The present commercial and industrial commodity rate tiers vary by meter size, but are**  
15 **generally \$2.52 per thousand gallons for the first tier, and \$3.03 per thousand gallons for**  
16 **any consumption over the first tier.**

17  
18 **For irrigation customers, the monthly minimum charge is the same based upon meter size**  
19 **with zero gallons included in the monthly minimum charge and a commodity rate of \$1.56**  
20 **per thousand gallons.**

21  
22 **The charge for fire sprinkler service is \$10.00 per month regardless of meter size. The**  
23 **commodity rates for sprinkler service is the same as residential, commercial and**  
24 **industrial. There are zero gallons included in the monthly minimum charge.**

1 Q. Would you please summarize the Company's proposed rate design?

2 A. The Company's proposed monthly minimum charges by meter size are as follows: 3/4-  
3 inch \$18.56; 1-inch \$30.97; 1 1/2-inch \$71.95; 2-inch \$99.61; 3-inch \$199.21; 4-inch  
4 \$309.74; 6-inch \$619.47; 8-inch \$996.07; 10-inch \$1,423.15; and 12-inch \$2,701.67.  
5 Zero gallons are included in the monthly minimum charge. The Company proposes a  
6 residential commodity rate of \$2.292 per thousand gallons for zero to 3,000 gallons,  
7 \$3.438 per thousand gallons for 3,001 to 9,000 gallons, and \$4.134 per thousand gallons  
8 for any consumption over 9,000 gallons. The proposed commercial and industrial  
9 commodity rate tiers vary by meter size, but are generally \$3.438 per thousand gallons for  
10 the first tier, and \$4.134 per thousand gallons for any consumption over the first tier.

11  
12 For irrigation customers, the Company's proposed monthly minimum charge is the same  
13 based upon meter size with zero gallons included in the monthly minimum charge and a  
14 commodity rate of \$3.438 per thousand gallons.

15  
16 The proposed charge for fire sprinkler service remains at \$10.00 per month regardless of  
17 meter size. The commodity rate for fire sprinkler service for all consumption is \$3.438  
18 per thousand gallons. There are zero gallons included in the monthly minimum charge.

19  
20 The Company is proposing that customers that use fire hydrants as a source of water for  
21 irrigation or construction should also pay a meter charge. This results in a substantial  
22 increase as the customer would pay the 3-inch monthly minimum of \$199.21.

1 Q. Does Staff agree with the Company's proposal that fire hydrant meters be charged a  
2 monthly minimum based on meter size?

3 A. No, unless the customer owns, or retains possession of the meter. A customer using a  
4 meter on a fire hydrant is usually only connected to the system for a short time period and  
5 pays the same rate for all gallons consumed and this is intended to compensate for the  
6 additional demand placed on the system.

7  
8 Q. Does the Company currently have a hook-up fee charge?

9 A. Yes.

10

11 Q. Does the CCWC propose any changes to the current hook-up fee?

12 A. CCWC proposes to maintain the same level of fee but to treat all funds collected as CIAC.

13

14 Q. What is Staff's recommendation?

15 A. Staff recommends that the amounts collected by the Company pursuant to the off-site  
16 hook-up fee charge shall be non-refundable CIAC, as this is the typical regulatory  
17 treatment of hook-up fee charges of this nature. Staff also recommends that all funds  
18 collected by the Company as off-site hook-up fees be deposited into a separate interest  
19 bearing account and used solely for the purposes of paying for the costs of the off-site  
20 facilities, including repayment of loans obtained for the installation of off-site facilities  
21 that will benefit the entire water system, and that the Company shall annually file, by  
22 February 28<sup>th</sup>, a calendar year report with Docket Control of the ACC, detailing all  
23 changes in the account.

1 Q. In addition to including the 2008 CAP allocation in rate base and earning a return on  
2 it, has the Company also proposed a hook-up fee to recover costs related to the  
3 allocation?

4 A. Yes. The Company has proposed a "CAP Hook-up Fee" on new water installations as  
5 shown on Schedule H-3, page 3, lines 22 and 30.  
6

7 Q. Is it appropriate to use a hook-up fee to reimburse the Company for a CAP  
8 allocation?

9 A. No, it is not. Hook up fees are intended to fund back-bone plant. The CAP allocation has  
10 been fully paid for by the Company and is not back-bone plant. Additionally, if CCWC  
11 decides to give up this allotment, it will be reimbursed by CAWCD and U. S. Bureau of  
12 Reclamation for the capital costs paid during the time the allotment was held. The CAP  
13 hook-up fee would allow the Company to potentially receive the CAP allocation cost  
14 twice, thus, its use as a reimbursement mechanism is not appropriate.  
15

16 Q. What is Staff recommending?

17 A. Staff recommends denial of the CAP hook-up fee tariff.  
18

19 Q. Has the Company also proposed any other inappropriate charges?

20 A. Yes. The Company has proposed that gross-up taxes be included with service line and  
21 meter installation charges as shown on Schedule H-3, page 4, lines 27 - 29.  
22

23 Q. Has the Company given a justification for this proposal?

24 A. Yes. The Company has made the following statement: "As meters and service lines are  
25 now taxable income for income purposes, the Company shall collect income taxes on the

1 meter and service line charges. Any tax collected will be refunded each year as the meter  
2 deposit is refunded.”  
3

4 **Q. Does Staff agree with the Company’s proposal?**

5 **A.** No. The Company has not cited the authority for declaring that meter and service lines are  
6 now taxable income and Staff is not aware of any ACC rules changes or changes in the  
7 Internal Revenue Service Regulations mandating this treatment.  
8

9 **Q. What is Staff recommending?**

10 **A.** Staff recommends denial of the tariff provision allowing meter and service line installation  
11 charges to be grossed-up for income taxes.  
12

13 **Q. Would you please summarize Staff’s recommended rate design?**

14 **A.** Yes. Staff recommends the Staff’s rates and charges presented on Schedule MEM-27.  
15 Briefly, Staff’s recommended monthly minimum charges by meter size are as follows:  
16 3/4-inch \$15.00; 1-inch \$25.00; 1 1/2-inch \$48.00; 2-inch \$77.00; 3-inch \$150.00; 4-inch  
17 \$230.00; 6-inch \$460.00; 8-inch \$925.00; 10-inch \$1,300.00; and 12-inch \$2,300.00.  
18 Zero gallons are included in the monthly minimum charge. Staff recommends an inverted  
19 tier rate design that consists of three tiers for the residential commodity rate of \$1.85 per  
20 thousand gallons for zero to 3,000 gallons, \$2.92 per thousand gallons for 3,001 to 9,000  
21 gallons, and \$3.33 per thousand gallons for any consumption over 9,000 gallons. The  
22 additional tier for the residential 3/4-inch meters is for the first 3,000 gallons, an estimate  
23 of residential non-discretionary use. Except for the 3,000 gallon break-over point for the  
24 non-discretionary tier, break-over points increase by meter size. Staff’s recommended  
25 commercial and industrial commodity rate tiers vary by meter size, but are generally \$2.92

1 per thousand gallons for the first tier, and \$3.33 per thousand gallons for any consumption  
2 over the first tier.

3  
4 Also, Staff's recommended rates have increased the irrigation rate to \$2.75 for all gallons.  
5 This rate is a smaller increase than that proposed by the Company and moves irrigation  
6 customers' rates closer to the commodity rates paid by other customers.

7  
8 Efficiency in water use is encouraged by producing a higher customer bill with increased  
9 consumption or use of a larger meter. A typical bill analysis for residential 3/4 inch meter  
10 customer is provided in Schedule MEM-28, and typical bills for average and median use  
11 under present, Company proposed, and Staff recommended rates are presented on  
12 Schedule MEM-29.

13  
14 **Q. What is the rate impact on a 3/4-inch meter residential customer using an average**  
15 **consumption of 8,450 gallons?**

16 **A.** The average usage of residential 3/4-inch meter customers is 8,450 gallons per month.  
17 The average residential 3/4-inch meter customer would experience an \$11.79 or 36.41  
18 percent increase in his/her monthly bill from \$32.37 to \$44.16 under the Company's  
19 proposed rates and a \$4.09 or 12.63 percent increase in his/her monthly bill from \$32.37  
20 to \$36.46 under Staff's recommended rates.

21  
22 **Q. What is the rate impact on a 3/4-inch meter residential customer using a median**  
23 **consumption of 5,500 gallons?**

24 **A.** The median usage of residential 3/4-inch meter customers is 5,500 gallons per month. The  
25 average residential 3/4-inch meter customer would experience a \$9.09 or 36.43 percent  
26 increase in his or her monthly bill from \$24.94 to \$34.03 under the Company's proposed

1 rates and a \$2.91 or 11.67 percent increase in his/her monthly bill from \$24.94 to \$27.85  
2 under Staff's recommended rates.

3  
4 **Q. Did Decision No. 70441 authorize a surcharge allowing CCWC to collect the**  
5 **additional revenues not collected during the time period of the Appeal and Remand**  
6 **process?**

7 **A. Yes, and Staff will address this in Surrebuttal Testimony.**  
8

9 **CONSUMER SERVICES**

10 **Q. Please provide a brief history of customer complaints received by the Commission**  
11 **regarding the Company. Additionally, please discuss customer responses to**  
12 **Chaparral City's proposed rate increase.**

13 **A. Staff reviewed the Commission's records and found 12 complaints, 8 inquiries and 26**  
14 **opinions during the past three and three quarters' years. The complaints concerned 12**  
15 **billing issues. The Company is in good standing with the Corporations Division of the**  
16 **Commission. Consumer Services has received 26 opinions through September 11, 2008,**  
17 **all opposed to the Company's proposed rate increases.**

18  
19 **Q. Does this conclude your direct testimony?**

20 **A. Yes, it does.**

CHAPARRAL CITY WATER COMPANY, INC.  
Docket No. W-02113A-07-0551  
Test Year Ended December 31, 2006

DIRECT TESTIMONY OF MARVIN MILLSAP

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REVENUE REQUIREMENT

<u>LINE NO.</u>	<u>DESCRIPTION</u>	(A) COMPANY <u>FAIR VALUE</u>	(B) STAFF <u>FAIR VALUE</u>
1	Adjusted Rate Base	\$ 28,768,975	\$ 27,050,414
2	Adjusted Operating Income (Loss)	\$ 797,271	\$ 1,003,088
3	Current Rate of Return (L2 / L1)	2.77%	3.71%
4	Required Rate of Return	9.32%	7.60%
5	Required Operating Income (L4 * L1)	\$ 2,681,268	\$ 2,055,831
6	Operating Income Deficiency (L5 - L2)	\$ 1,883,997	\$ 1,052,744
7	Gross Revenue Conversion Factor	1.6286	1.6483
8	Required Revenue Increase (L7 * L6)	\$ 3,068,317	<b>\$ 1,735,265</b>
9	Adjusted Test Year Revenue	\$ 7,446,700	\$ 7,446,700
10	Proposed Annual Revenue (L8 + L9)	\$ 10,515,017	\$ 9,181,965
11	Required Increase in Revenue (%)	41.20%	23.30%

References:

Column (A): Company Schedule A-1

Column (B): Staff Schedule MEM-3.1

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.3324%			
5	Subtotal (L3 - L4)	60.6676%			
6	Revenue Conversion Factor (L1 / L5)	1.648327			
<u>Calculation of Uncollectible Factor</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 23)	38.5989%			
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
<u>Calculation of Effective Tax Rate</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 55)	34.0000%			
16	Effective Federal Income Tax Rate (L14 * L15)	31.6309%			
17	Combined Federal and State Income Tax Rate (L13 + L16)		38.5989%		
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	38.5989%			
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%			
21	Property Tax Factor (MEM-16, L21)	1.1947%			
22	Effective Property Tax Factor (L20*L21)		0.7335%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.3324%	
24	Required Operating Income (Schedule MEM-1, Line 5)	\$ 2,055,831			
25	Adjusted Test Year Operating Income (Loss) (Schedule MEM-11, Line 28)	1,003,088			
26	Required Increase in Operating Income (L24 - L25)		\$ 1,052,744		
27	Income Taxes on Recommended Revenue (Col. [E], L52)	\$ 1,129,086			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	467,295			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		661,791		
30	Recommended Revenue Requirement (Schedule MEM-1, Line 10)	\$ 9,181,965			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)				
35	Property Tax with Recommended Revenue (MEM-16, Col B, L16)	\$ 283,131			
36	Property Tax on Test Year Revenue (MEM-16, Col A, L16)	262,400			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		20,731		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$ 1,735,265		
<u>Calculation of Income Tax</u>					
39	Revenue (Schedule MEM-11, Col. [C], Line 5 & Sch. MEM-1, Col. [D] Line 10)	\$ 7,446,700	\$ 1,735,285	\$ 9,181,965	
40	Operating Expenses Excluding Income Taxes	\$ 5,976,317		\$ 5,997,048	
41	Synchronized Interest (L56)	\$ 259,739		\$ 259,739	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ 1,210,644		\$ 2,925,179	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L42 * L43)	\$ 84,358		\$ 203,827	
45	Federal Taxable Income (L42 - L44)	\$ 1,126,287		\$ 2,721,353	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 7,500		\$ 7,500	
47	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ 8,250		\$ 8,250	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ 8,500		\$ 8,500	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ 91,650		\$ 91,650	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ 269,038		\$ 811,360	
51	Total Federal Income Tax	\$ 382,938		\$ 925,260	
52	Combined Federal and State Income Tax (L44 + L51)	\$ 467,295		\$ 1,129,086	
53	Applicable Federal Income Tax Rate (Col. [E], L51 - Col. [B], L51) / (Col. [E], L45 - Col. [B], L45)				34.0000%
<u>Calculation of Interest Synchronization</u>					
54	Rate Base (Schedule MEM-3, Col. (C), Line 17)	\$ 21,644,877			
55	Weighted Average Cost of Debt (Schedule MEM-17, Col. (F), L1 + L2)	1.2000%			
56	Synchronized Interest (L45 X L46)	\$ 259,739			

CHAPARRAL CITY WATER COMPANY, INC.  
Docket No. W-02113A-07-0551  
Test Year Ended December 31, 2006

Schedule MEM FVRB -1

FAIR VALUE RATE BASE COMPARISON - COMPANY VS STAFF

LINE NO.	(A) COMPANY AS FILED	(B) STAFF AS ADJUSTED	(C) DIFFERENCE	
1	Plant in Service	\$ 66,310,296	\$ 64,803,291	\$ (1,507,005)
2	Less: Accumulated Depreciation	20,885,854	18,616,394	(2,269,460)
3	Net Plant in Service	<u>\$ 45,424,442</u>	<u>\$ 46,186,897</u>	<u>\$ 762,455</u>
4				
5	<u>LESS:</u>			
6				
7	Contributions in Aid of Construction (CIAC)			
8	Less: Accumulated Amortization			
9	Net CIAC	\$ 7,780,241	\$ 7,780,241	\$ (0)
10				
11	Advances in Aid of Construction (AIAC)	8,394,501	8,394,501	(0)
12				
13	Customer Meter Deposits	819,845	819,845	-
14				
15	Deferred Income Tax Credits	925,896	925,896	-
16				
17	Shared Gain on Well	646,000	1,216,000	570,000
18				
19	<u>ADD:</u>			
20				
21	Unamortized Debt Issuance Costs	424,010	-	(424,010)
22				
23	Prepayments	192,485	-	(192,485)
24				
25	Materials and Supplies	14,521	-	(14,521)
26				
27	Deferred Regulatory Assets	1,280,000	-	(1,280,000)
28				
29	Working Capital	-	-	-
30				
31				
32	Original Cost Rate Base	<u>\$ 28,768,975</u>	<u>\$ 27,050,414</u>	<u>\$ (1,718,560)</u>

References:

Column (A): Company Schedule B-1  
Column (B): Schedule MEM FVRB-2  
Column (C): Column (A) - Column (B)

CHAPARRAL CITY WATER COMPANY, INC.  
Docket No. W-02113A-07-0551  
Test Year Ended December 31, 2006

Schedule MEM FVRB -2

FAIR VALUE RATE BASE COMPUTATION - COMPANY AND STAFF

<u>LINE NO.</u>	(A) COMPANY AS <u>FILED</u>	(B) STAFF AS <u>ADJUSTED</u>
1 OCN Rate Base per MEM-3	\$ 22,770,304	\$ 21,644,877
2 RCN Rate Base per MEM RCN -1	34,767,581	32,455,951
3		
4	<u>\$ 57,537,885</u>	<u>\$ 54,100,828</u>
5 OCN and RCN weighted 50% each to		
6 calculate Fair Value Rate Base (FVRB)	<u>\$ 28,768,943</u>	<u>\$ 27,050,414</u>

References:

Column (A), Schedule MEM 3

Column (B): Schedule MEM RCN-1

FAIR VALUE RATE BASE COMPUTATION - STAFF

LINE NO.	(A) STAFF OCN AS <u>ADJUSTED</u>	(B) STAFF RCN AS <u>ADJUSTED</u>	(C) STAFF FAIR VALUE RATE BASE
1 Plant in Service	\$ 51,128,062	\$ 78,478,520	\$ 64,803,291
2 Less: Accumulated Depreciation	13,845,072	23,387,716	18,616,394
3 Net Plant in Service	<u>\$ 37,282,990</u>	<u>\$ 55,090,804</u>	<u>\$ 46,186,897</u>
4			
5 <u>LESS:</u>			
6			
7 Contributions in Aid of Construction (CIAC)	\$ -		\$ -
8 Less: Accumulated Amortization	-		-
9 Net CIAC	<u>\$ 6,119,129</u>	<u>\$ 9,441,352</u>	<u>\$ 7,780,241</u>
10	\$ -		
11 Advances in Aid of Construction (AIAC)	6,557,243	10,231,760	8,394,502
12	-		
13 Customer Meter Deposits	819,845	819,845	819,845
14	-		
15 Deferred Income Tax Credits	925,896	925,896	925,896
16	-		
17 Well Settlement Proceeds	1,216,000	1,216,000	1,216,000
18			
19 <u>ADD:</u>			
20			
21 Unamortized Debt Issuance Costs	-	-	-
22			
23 Prepayments	-	-	-
24			
25 Materials and Supplies	-	-	-
26			
27 Deferred Regulatory Assets	-	-	-
28			
29 Working Capital	-	-	-
30			
31			
32	<u>\$ 21,644,877</u>	<u>\$ 32,455,951</u>	<u>\$ 27,050,414</u>

References:

Column (A), Schedule MEM 3.2

Column (B): Schedule MEM RCN-1

Column (C): Column (A) + Column (B) divided by 2

CHAPARRAL CITY WATER COMPANY, INC.  
Docket No. W-02113A-07-0551  
Test Year Ended December 31, 2006

Schedule MEM-3

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	\$ 51,804,423	\$ (676,361)	2, 3, 6, 7	\$ 51,128,062
2	15,877,022	(2,031,950)	4	13,845,072
3	<u>\$ 35,927,401</u>	<u>\$ 1,355,589</u>		<u>\$ 37,282,990</u>
<u>LESS:</u>				
4	\$ -	\$ -		\$ 6,288,097
5	-	-		168,968
6	<u>6,119,129</u>	<u>0</u>		<u>\$ 6,119,129</u>
7	6,557,243	-		6,557,243
8	819,845	-		819,845
9	925,896	-		925,896
10	646,000	570,000	1	1,216,000
<u>ADD:</u>				
11	424,010	(424,010)	5	-
12	192,485	(192,485)	5	-
13	14,521	(14,521)	5	-
14	1,280,000	(1,280,000)	2	-
15	-	-		-
16	<u>\$ 22,770,304</u>	<u>\$ (1,125,427)</u>		<u>\$ 21,644,877</u>

References:

Column (A), Company Schedule B-1

Column (B): Schedule MEM-4

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



# **ATTACHMENT B**

**BEFORE THE ARIZONA CORPORATION COMMISSION**

**MIKE GLEASON**  
Chairman  
**WILLIAM A. MUNDELL**  
Commissioner  
**JEFF HATCH-MILLER**  
Commissioner  
**KRISTIN K. MAYES**  
Commissioner  
**GARY PIERCE**  
Commissioner

IN THE MATTER OF THE APPLICATION OF )  
CHAPARRAL CITY WATER COMPANY, INC., )  
AN ARIZONA CORPORATION, FOR A )  
DETERMINATION OF THE CURRENT FAIR )  
VALUE OF ITS UTILITY PLANT AND )  
PROPERTY AND FOR INCREASES IN ITS )  
RATES AND CHARGES FOR UTILITY )  
BASED THEREON )

---

DOCKET NO. W-02113A-07551

**SURREBUTTAL**

**TESTIMONY**

**OF**

**MARVIN E. MILLSAP**

**PUBLIC UTILITIES ANALYST IV**

**UTILITIES DIVISION**

**ARIZONA CORPORATION COMMISSION**

**NOVEMBER 20, 2008**

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**EXECUTIVE SUMMARY  
CHAPARRAL CITY WATER COMPANY, INC.  
DOCKET NO. W-02113A-07-0551**

The surrebuttal testimony of Staff witness Marvin E. Millsap responds to various parts of Mr. Hanford's and Mr. Bourassa's rebuttal testimonies. Staff is making one change to the recommendations presented in its direct testimony.

1     **INTRODUCTION**

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

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

6  
7     **Q.     Are you the same Marvin E. Millsap who filed direct testimony in this case?**

8     A.     Yes I am.

9  
10    **Q.     What is the purpose of your surrebuttal testimony in this proceeding?**

11    A.     The purpose of my surrebuttal testimony in this proceeding is to respond to the  
12           Company’s proposed surcharge allowing Chaparral City Water Company, Inc. (“CCWC”)  
13           to collect the additional revenues not collected during the time period of the Appeal and  
14           Remand process authorized by Decision No. 70441. Further, to respond to Company  
15           witnesses Mr. Hanford and Mr. Bourassa rebuttal testimonies.

16  
17    **Q.     What is the dollar amount the Company requested in its tariff filing?**

18    A.     \$51,542.00.

19  
20    **Q.     Does Staff agree with the amount requested?**

21    A.     No. Staff calculates that the un-recovered balance of additional revenues resulting from  
22           the remand decision is \$38,562 (\$36,396 plus interest of \$2,166) through December 1,  
23           2008, Staff calculates the accumulated interest on \$36,396 to be \$2,166.

1 Q. How many thousands of gallons of water were sold in 2007 per CCWC's annual  
2 report?

3 A. 2,005,550.  
4

5 Q. What is Staff's recommended surcharge amount?

6 A. The surcharge should be \$0.19228 per thousand gallons sold until the \$38,562 has been  
7 collected in full.  
8

9 **RESPONSE TO MR. HANFORD'S REBUTTAL TESTIMONY**

10 Q. Has Staff reviewed Mr. Hanford's rebuttal testimony concerning Staff's  
11 recommendation that all of the proceeds from the Settlement with the Fountain Hills  
12 Sanitation District ("FHSD") be allocated to the ratepayers?

13 A. Yes.  
14

15 Q. Does Staff agree with Mr. Hanford's rebuttal testimony?

16 A. No.  
17

18 Q. Is Staff's recommendation consistent with prior Commission decisions?

19 A. Every case that comes before the Commission is different and is considered upon the  
20 merits, facts and circumstances related to that case and that case alone.  
21

22 Q. Did CCWC seek Commission guidance on how the settlement proceeds should be  
23 treated?

24 A. No.

1 **Q. Please respond to Mr. Hanford's rebuttal testimony that "The bottom line appears**  
2 **that Mr. Millsap cannot explain the basis for his explanation". ("Hanford Rb") at 9.**

3 **A. Mr. Millsap's recommendation for rate case expense is based on the classification of the**  
4 **utilities involved and also mentions other water companies in Arizona so this is a**  
5 **mischaracterization of Mr. Millsap's response to CCWC's data request.**

6  
7 **Q. Please respond to Mr. Hanford's rebuttal testimony that "For one thing, Staff**  
8 **bombarded us with discovery in this rate case, serving more than 300 data requests**  
9 **(counting subparts)". ("Hanford Rb") at 9.**

10 **A. Staff has an obligation to the Administrative Law Judge, and the Commission expects,**  
11 **Staff to perform adequate analysis and review in order for it to make appropriate**  
12 **recommendations. There are no rules or regulations that limit the amount of discovery. In**  
13 **the instant case many follow-up questions were required.**

14  
15 **Q. What is the Company's position concerning rate case expense?**

16 **A. That it should be amortized.**

17  
18 **Q. What is the Staff's position concerning rate case expense?**

19 **A. Staff believes that it should be normalized.**

20  
21 **RESPONSE TO MR. BOURASSA'S REBUTTAL TESTIMONY**

22 **Q. Has Staff reviewed Mr. Bourassa's changes in CCWC's revenue requirement**  
23 **outlined in his rebuttal testimony? ("Bourassa Rb") at 1-3.**

24 **A. Yes.**

1 Q. Does Staff agree with Mr. Bourassa's changes?

2 A. No, Staff believes that a fifty-fifty sharing of the settlement proceeds is not appropriate.

3  
4 Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony "However, Staff understates  
5 its adjustment to accumulated depreciation for transportation equipment"?  
6 ("Bourassa Rb") at 11.

7 A. Yes.

8  
9 Q. Does Staff agree with Mr. Bourassa's rebuttal testimony?

10 A. No, CCWC's response to data request MEM-7.5 lists the original cost and accumulated  
11 depreciation for each vehicle, which totals \$43,666.60 rather than equals the original cost  
12 of \$274,001 as would be the case if these vehicles were fully depreciated.

13  
14 Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony that "... I computed  
15 amortization (referring to the FHSD settlement proceeds) for 2005 and 2006 using a  
16 half-year convention, whereas Staff computed amortization for 2005 and 2006 using  
17 a full-year convention"? ("Bourassa Rb") at 13.

18 A. Yes.

19  
20 Q. Does Staff agree with Mr. Bourassa's rebuttal testimony?

21 A. No. The half-year convention is appropriate for current year additions to asset classes in  
22 which the exact acquisition date is either not known or if it is convenient to just assume  
23 that all additions were at mid-year on the premise that half of the cost occurred before and  
24 half after mid-year so the average depreciation or amortization would be the same as  
25 computing it from the actual acquisition date. This is not appropriate for the FHSD  
26 settlement payment because there is only one date involved – the date the proceeds were

1 received. Since the proceeds were received early in February of 2005, Staff began  
2 amortization from January 1<sup>st</sup>, which increased the amortization for 2005 by \$12,667 more  
3 than it would have been if February 1<sup>st</sup> had been used, but had no 2006 test year effect.  
4

5 **Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony statement: "Is Staff's**  
6 **depreciation expense different than the company's?" ("Bourassa Rb") at 16.**

7 A. Yes.  
8

9 **Q. Does Staff agree with Mr. Bourassa's rebuttal testimony?**

10 A. Staff agrees that this difference is attributable to the 2.8 percent General Office Plant  
11 allocation rather than the 4.0 percent used by Staff, which it still considers to more  
12 appropriately match test year revenues, operating expenses and plant.  
13

14 **Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony concerning Staff's**  
15 **adjustments to normalize chemicals, repairs and maintenance and insurance**  
16 **expenses? ("Bourassa Rb") at 31 - 32.**

17 A. Yes.  
18

19 **Q. Does Staff agree with Mr. Bourassa's rebuttal testimony?**

20 A. No. Normalizing is a basic ratemaking principle. Its purpose is to make the test year as  
21 normal as possible for the purpose of setting rates that are just and reasonable for the  
22 ratepayers and investors.  
23

24 **Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony concerning Staff's**  
25 **adjustments to normalize insurance expense?**

26 A. Yes.

1 Q. What does Staff recommend regarding insurance expense?

2 A. Staff recommends that the negative \$1,294 be used for the test year instead of a  
3 normalized amount.

4  
5 Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony concerning Staff's  
6 adjustments to normalize chemicals expense?

7 A. Yes.

8  
9 Q. Does Staff agree with Mr. Bourassa's rebuttal testimony?

10 A. No.

11  
12 Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony concerning Staff's  
13 adjustments to normalize repairs and maintenance expense?

14 A. Yes.

15  
16 Q. Does Staff agree with Mr. Bourassa's rebuttal testimony?

17 A. No.

18  
19 Q. Does this conclude your surrebuttal testimony?

20 A. Yes, it does.

# **ATTACHMENT C**

**CHAPARRAL CITY WATER COMPANY, INC.**

**DOCKET NO. W-02113A-07-0551**

**SURREBUTTAL TESTIMONY  
ON REQUIRED REVENUE AND RATE DESIGN**

**OF**

**TIMOTHY J. COLEY**

**ON BEHALF OF**

**THE**

**RESIDENTIAL UTILITY CONSUMER OFFICE**

**NOVEMBER 20, 2008**

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1 **INTRODUCTION**

2 Q. Please state your name and business address.

3 A. My name is Timothy J. Coley. My business address is 1110 W. Washington,  
4 Suite 220, Phoenix, Arizona 85007.

5

6 Q. In what capacity and by who are you employed?

7 A. I am a Public Utilities Analyst V employed by the Residential Utility Consumer  
8 Office ("RUCO").

9

10 Q. Please state your educational background and qualifications in utility regulation.

11 A. Appendix 1, attached to my direct testimony, describes my educational  
12 background and includes a list of the rate cases and regulatory matters in which I  
13 have participated.

14

15 Q. Have you previously testified in rate proceedings before the Arizona Corporation  
16 Commission ("ACC")?

17 A. Yes. I have previously presented testimony regarding revenue requirements in  
18 rate case proceedings before the Arizona Corporation Commission (hereafter  
19 referred to as "ACC" or "Commission").

20

21 Q. Are you the same Timothy J. Coley who previously filed direct testimony in this  
22 case?

23 A. Yes.

1 Q. Please state the purpose of your surrebuttal testimony in this case.

2 A. The purpose of my surrebuttal testimony in this case is to present RUCO's  
3 responses and positions to Chaparral City Water Company's, Inc. (hereafter  
4 referred to as "Chaparral", or "Company") rebuttal testimony filed on October 31,  
5 2008 for a permanent rate increase for Chaparral City Water.

6  
7 I will also respond to certain Commission Staff ("Staff") adjustments accepted by  
8 the Company in its rebuttal testimony filing.

9  
10 Q. What specific areas will your testimony address?

11 A. I will sponsor RUCO's recommended overall revenue requirements, rate base  
12 adjustments, operating income and expense adjustments, a proposed low-  
13 income program, other remaining issues, and the rate design pertaining to the  
14 Company.

15  
16 Q. Are there other RUCO witnesses that will provide testimony and sponsor other  
17 areas of this rate proceeding?

18 A. Yes. RUCO witness Mr. William A. Rigsby is providing testimony and sponsoring  
19 RUCO's recommended cost of capital and capital structure issues. He will also  
20 address rate case expense pertaining to the legal fees associated with the  
21 Company's Appeal and Remand of Commission Decision No. 68176.

22

1 Q. Please identify the exhibits and schedules that you are sponsoring in this  
2 testimony.

3 A. The schedules are labeled TJC-1 through TJC-36 respectively. The exhibits that  
4 support my testimony follow immediately after my schedules and are labeled  
5 RUCO Exhibit 1 through RUCO Exhibit X.

6  
7 Q. Does your silence on any issues or matters pertaining to the Company's rebuttal  
8 testimony constitute RUCO's acceptance of the Company's position?

9 A. No.

10

11 **SURREBUTTAL REVENUE REQUIREMENTS**

12 Q. Please summarize your surrebuttal response to Chaparral City Water's rebuttal  
13 testimony and your recommended surrebuttal revenue requirements.

14 A. Chaparral's revenue should be increased by \$1,144,478. This recommendation  
15 is summarized on Schedule TJC-1. My recommended fair value rate base  
16 ("FVRB") is \$27,498,329 for the Company. This information is shown on  
17 Schedule TJC-2, and the detail supporting the original cost rate base is  
18 presented on Schedule TJC-3. My recommended proposed operating income for  
19 Chaparral City Water should be no more than \$1,754,393 as shown on Schedule  
20 TJC-27.

21

22

23

1 **SUMMARY**

2 Q. Please summarize what areas your surrebuttal will address in this proceeding.

3 A. My surrebuttal testimony addresses the following areas:

4

5 **Original Cost Rate Base (“OCRB”) Adjustments:**

6 Adj. #1 – Intentionally Left Blank<sup>1</sup>

7

8 Adj. #2 – Intentionally Left Blank

9

10 Adj. #3 – Remove Wells 8 & 9 – These two wells are no longer in service. This  
11 adjustment removes well numbers 8 & 9 from Gross Utility Plant in Service  
12 (“GUPIS”) and reduces plant by \$107,412. A corresponding adjustment of  
13 \$107,412 to accumulated depreciation is necessary to eliminate the related  
14 accumulated depreciation.

15

16 Adj. #4 – Intentionally Left Blank

17

18 Adj. #5 – Remove Shea Treatment Plant #1 - The Shea Treatment Plant #1 has  
19 not been in service since 2003. This adjustment removes Shea Treatment Plant  
20 #1 from GUPIS and reduces plant by \$2,010,923. A corresponding adjustment

---

<sup>1</sup> Adjustments are labeled “Intentionally Left Blank” for one of the following reasons: 1) the adjustment does not pertain to this particular section of adjustments or 2) the adjustment is simply a place holder for a future adjustment.

1 to accumulated depreciation is necessary in the amount of \$2,010,923 to  
2 eliminate the related accumulated depreciation.

3  
4 Adj. #6 – Capitalize Expensed Plant Items – This adjustment increases GUPIS  
5 by \$80,891. The Company expensed some plant items that are more  
6 appropriately capitalized as agreed to by the Company. RUCO accepts the  
7 Company's corresponding adjustment to increase accumulated depreciation by  
8 \$3,265. The adjustment to decrease the appropriate expenses will be discussed  
9 later in the operating income section.

10  
11 Adj. #7 – Intentionally Left Blank

12  
13 Adj. #8 – Intentionally Left Blank

14  
15 Adj. #9 – Direct Plant – This adjustment increases GUPIS by \$32,536. The  
16 Company agrees that it failed to carry these plant items forward to the  
17 appropriate schedules in its rate application.

18  
19 Adj. #10 – General Office Plant and Accumulated Depreciation – This adjustment  
20 reduces General Office Plant by \$95,944 and Accumulated Depreciation by  
21 \$51,498. The adjustment corrects the Company's 4-Factor General Office  
22 allocation factor from 3.21 percent to 2.8 percent.

1        Adj. #11 – Remove Post-test year General Office Plant – This adjustment  
2 removes post-test year plant and reduces General Office plant by \$15,434.

3  
4        Adj. #12 – Well Settlement Proceeds – This adjustment recognizes 100 percent  
5 of the settlement proceeds as a regulatory liability in the amount of \$1,216,000  
6 and is consistent with Staff's recommendation.

7  
8        Adj. #13 – Intentionally Left Blank

9  
10       Adj. #14 – Contributions in Aid of Construction ("CIAC") – This adjustment  
11 increases CIAC and OCRB by \$1,523. The Company used an amortization rate  
12 that was different than authorized in Commission Decision No. 68176.

13  
14       Adj. #15 – Additional Central Arizona Project ("CAP") Allocation – This  
15 adjustment removes the 50 percent of the additional CAP allocation as not used  
16 and useful. It removes 100 percent of the deferred regulatory asset and places  
17 50 percent, \$640,000, of it into a non-depreciable plant account.

18  
19       Adj. #16 – Working Capital – This adjustment reduces working capital in the  
20 amount of \$100,122 by including a cash working capital calculation that the  
21 Company agreed to in its rebuttal testimony.

1 **Reconstruction Cost New Less Depreciation ("RCND") Rate Base Adjustments:**

2 Adj. #1 – Reconstruction Cost New ("RCND") Factor Rounding – The adjustment  
3 decreases RCND direct plant by \$118 and corrects the Company's truncating of  
4 the RCND factor when trending the plant up to reconstruction cost new values.

5  
6 Adj. #2 – Correct Plant Account 304 RCND Index Factors on Three Line Items –  
7 This adjustment reduces both GUPIS and accumulated depreciation by \$17,807  
8 and \$4,411 respectively. It corrects the RCND Index Factors for three direct  
9 plant line items in account 304 as agreed to by the Company in its rebuttal  
10 testimony.

11  
12 Adj. #3 – Remove Wells 8 & 9 – This adjustment removes well numbers 8 & 9  
13 from RCND GUPIS. It reduces both plant and accumulated depreciation by  
14 \$441,470, because these two wells are no longer in service.

15  
16 Adj. #4 – Intentionally Left Blank

17  
18 Adj. #5 – Remove Shea Treatment Plant #1 - This adjustment removes Shea  
19 Treatment Plant #1 from RCND GUPIS and reduces plant and accumulated  
20 depreciation by \$3,262,891. This plant has not been in service since 2003.

21  
22 Adj. #6 – Capitalize Expensed Plant Items – This adjustment increases GUPIS  
23 by \$80,891. The Company expensed some plant items that are more

1 appropriately capitalized as agreed to by the Company. RUCO accepts the  
2 Company's corresponding adjustment to increase accumulated depreciation by  
3 \$3,265. The adjustment to decrease the appropriate expenses will be discussed  
4 later in the operating income section.

5  
6 Adj. #7 – Intentionally Left Blank

7  
8 Adj. #8 – Intentionally Left Blank

9  
10 Adj. #9 – Intentionally Left Blank

11  
12 Adj. #10 – General Office RCND Plant and Accumulated Depreciation – This  
13 adjustment decreases both plant and accumulated depreciation by \$126,720 and  
14 \$67,617, respectively. It corrects the Company's 4-Factor General Office  
15 allocation factor from 3.21 percent to 2.8 percent as agreed to by the Company in  
16 its rebuttal testimony.

17  
18 Adj. #11 – Remove Post-Test Year General Office Plant – This adjustment  
19 removes post-test year plant, reduces General Office plant by \$15,434, and  
20 increases accumulated depreciation by \$1,404.

21  
22 Adj. #12 – Well Settlement Proceeds – This adjustment recognizes 100 percent  
23 of the settlement proceeds as a regulatory liability in the amount of \$1,216,000.

1           Adj. #13 – Advances in Aid of Construction (“AIAC”) – This adjustment reduces  
2           AIAC and RCND rate base by \$109,513 because any adjustment to GUPIS will  
3           cause a change to the AIAC RCND Factor. This will be discussed later in my  
4           testimony.

5  
6           Adj. #14 – Contributions in Aid of Construction (“CIAC”) – This adjustment  
7           increases CIAC and RCND GUPIS by \$2,351. The Company used an  
8           amortization rate that was different than authorized in Commission Decision No.  
9           68176.

10  
11           Adj. #15 – Additional Central Arizona Project (“CAP”) Allocation – This  
12           adjustment removes the 50 percent of the additional CAP allocation as not used  
13           and useful. It removes 100 percent of the deferred regulatory asset and places  
14           50 percent, \$640,000, of it into a non-depreciable plant account.

15  
16           Adj. #16 – Working Capital – This adjustment reduces working capital in the  
17           amount of \$100,122 by including a cash working capital calculation that the  
18           Company agreed to in its rebuttal testimony.

19  
20           **Operating Income Adjustments:**

21           Adj. #1 – Depreciation & Amortization Expense – This adjustment determines the  
22           level of depreciation and amortization expense that should be allowed on a going

1 forward basis. Chaparral requires an adjustment that reduced the level of  
2 depreciation and amortization expense by \$67,021.

3  
4 Adj. #2 – Property Tax Expense – This adjustment reduces property tax expense  
5 by adjusting two factors: 1) the three years of revenue used in the Arizona  
6 Department of Revenue (“ADOR”) tax valuation formula and 2) the net book  
7 value of the vehicles. The adjustment reduced property tax expense by \$77,724.

8  
9 Adj. #3 – Miscellaneous Expense – This adjustment reflects Staff’s  
10 recommendation to increase miscellaneous expense by \$38,164 that the  
11 Company agreed to in its rebuttal testimony.

12  
13 Adj. #4 – Rate Case Expense – This adjustment reduces the Company’s level of  
14 rate case expense requested by \$51,538. The adjustment removes unamortized  
15 rate case expense related to the Company’s previous rate case. RUCO witness,  
16 Mr. Rigsby, will address the issue of additional rate case expense requested by  
17 the Company associated with the prior rate case appeal.

18  
19 Adj. #5 – Purchased Water – This adjustment reduces purchased water expense  
20 by \$10,186. The adjustment reflects the Company’s rebuttal position.

21

1        Adj. #6 – Outside Services Expense – This adjustment decreases outside  
2        services expense by \$71,000 because of a non-recurring expense on a going  
3        forward basis.

4  
5        Adj. #7 – Water Revenues – This adjustment increases water revenues by  
6        \$58,310 due to actual gallons being used rather than estimates used by the  
7        Company in its direct testimony in annualizing its revenue. RUCO accepts the  
8        Company's rebuttal position regarding this adjustment.

9  
10       Adj. #8 – Remove Expensed Plant Items and Capitalize – This adjustment  
11       decreases Repairs & Maintenance Expenses by \$43,217 and adopts Staff's  
12       adjustment to decrease Outside Services Expense by \$38,049 for a total  
13       adjustment of \$81,266. The Company expensed some plant items that are more  
14       appropriately capitalized as discussed in the rate base sections of my testimony.

15  
16       Adj. #9 – Water Testing Expense – This adjustment adopts Staff's adjustment to  
17       normalize water testing expense. It decreases the expense by \$17,820, which  
18       the Company accepted in its rebuttal testimony.

19  
20       Adj. #10 – Purchased Power Expense – This adjustment increases purchased  
21       power expense by \$11,619 to pump additional gallons of water derived from the  
22       revenue annualization calculation. It is the same adjustment proposed by the  
23       Company in its rebuttal testimony.

1           Adj. #11 – Amortization of Additional CAP Allocation – This adjustment removes  
2           the deferred regulatory asset amortization expense of \$64,000, which is  
3           consistent with the Company's rebuttal position.

4  
5           Adj. #12 – Income Tax Expense – This adjustment increases income tax  
6           expense by \$194,666 to reflect RUCO's recommended taxable income.

7  
8           **Other Remaining Issues**

9           Low-Income Program – The Company suggested that it would propose a Low-  
10          Income Program ("LIP") prior to the hearing for the parties to review. RUCO  
11          generally supports LIP's and will review it once it is available. The Company  
12          stated that all customers would have to subsidize the program accordingly.

13  
14          CAP Hook-up Fee – RUCO recommends that the language on Company  
15          Schedule H-3, page 3, line 22 and lines 30 through 32 be struck. The Company  
16          never addresses this issue in either its direct or rebuttal testimonies.

17  
18          Grossing-up Taxes for Service Lines /Meter Installations – The Company has  
19          proposed that service line and meter installations are now taxable income for  
20          income purposes. RUCO is not aware of any changes that substantiate that  
21          claim.

1 Q. Did the Company propose that service lines and meter installations be grossed-  
2 up for taxes?

3 A. Yes. The Company made this request on Company Schedule H-3, page 4 but  
4 was silent on the issue in written testimony.

5  
6 Q. What recommendation is RUCO making regarding this proposed treatment to  
7 gross these service lines and meter installations up for taxes?

8  
9 A. RUCO recommends the Commission deny the request unless the Company can  
10 cite some change in ACC rules and/or Internal Revenue Service Regulations  
11 identifying a change that would allow such treatment.

12  
13 Interest Synchronization – RUCO has adopted the Company's position on  
14 interest synchronization and has multiplied Chaparral's FVRB times RUCO's  
15 recommended weighted cost of debt to calculate an appropriate interest expense  
16 deduction which is reflected in RUCO's recommended level of test year adjusted  
17 income tax expense.

18

19 **RATE DESIGN**

20 Q. Is RUCO filing a new rate design in surrebuttal testimony?

21 A. Not at this time. As a result of RUCO's modified position, it will be filing revised  
22 rate design schedules prior to the hearing that reflect RUCO's surrebuttal

1 revenue recommendation. RUCO's surrebuttal revenue recommendation is  
2 approximately 7.4 percent more than its direct testimony recommendation.

3

4 **ORIGINAL COST RATE BASE ("OCRB")**

5 **OCRB Adjustment #1 – Intentionally Left Blank**

6

7 **OCRB Adjustment #2 – Intentionally Left Blank**

8

9 **OCRB Adjustment #3 – Remove Wells 8 and 9**

10

11 Q. Has the Company agreed to remove Wells 8 and 9 from rate base that are no  
12 longer in service?

13 A. Yes.

14

15 Q. What adjustment did RUCO make to remove the two wells from OCRB that are  
16 no longer in service?

17 A. RUCO accepted the Company's position to adopt Staff's recommendation and  
18 removed \$107,412 from GUPIS. A corresponding adjustment to accumulated  
19 depreciation was also adopted by RUCO that decreased accumulated  
20 depreciation by \$107,412.

21 ..

22 ..

23 ..

1 Q. Is this a different adjustment than RUCO recommended in its direct testimony?

2 A. RUCO's surrebuttal adjustment is essentially the same as its direct testimony  
3 adjustment. The only difference in RUCO's two recommendations is the amount.  
4 Staff identified an additional \$3,944 that was related to an electric pump on one  
5 of the wells. The Company adopted Staff's number in rebuttal testimony. RUCO  
6 also adopts Staff's number of \$107,412 to remove the two wells in surrebuttal  
7 testimony.

8

9 **OCRB Adjustment #4 – Intentionally Left Blank**

10 **OCRB Adjustment #5 – Remove Shea Water Treatment Plant 1**

11 Q. Did the Company adopt RUCO's adjustment to remove Shea Water Treatment  
12 Plant 1 from OCRB because it is no longer in service?

13 A. Yes.

14

15 Q. What adjustment is necessary to remove the Shea Water Treatment Plant 1 from  
16 OCRB?

17 A. A corresponding adjustment to decrease GUPIS and accumulated depreciation  
18 in the amount of \$2,010,923 was necessary to remove the Shea Water  
19 Treatment Plant from OCRB.

20 ..

21 ..

22 ..

23

1 **OCRB Adjustment #6 -- Capitalize Plant Items Previously Expensed**

2 Q. Did the Company accept RUCO's adjustment to capitalize plant items that were  
3 previously expensed?

4 A. Yes. The Company not only accepted RUCO's adjustment but also accepted  
5 Staff's adjustment to capitalize additional plant that was previously expensed.  
6 RUCO adopts the Company's proposal in surrebuttal testimony.

7  
8 Q. What adjustment did the Company propose in adopting both Staff and RUCO's  
9 adjustment to more appropriately capitalize plant items rather than expensing  
10 them?

11 A. The Company capitalized both RUCO and Staff's adjustments to add an  
12 additional \$80,891 to GUPIS and increased accumulated depreciation by \$3,265  
13 relating to the plant items. A corresponding adjustment is made on the income  
14 statement to remove the expensed items and will be discussed later.

15  
16 **OCRB Adjustment #7 -- Intentionally Left Blank**

17

18 **OCRB Adjustment #8 -- Intentionally Left Blank**

19

20 ..

21 ..

22 ..

1 **OCRB Adjustment #9 – Additional Plant that was not carried forward to Company**

2 **Schedule B-2**

3 Q. Does RUCO accept the Company's adjustment to properly reflect additional plant  
4 in service, which the Company failed to carry forward to its Schedule B-2?

5 A. Yes. RUCO made an adjustment to account for the plant.

6

7 Q. What adjustment did RUCO make to account for the additional plant?

8 A. RUCO made an adjustment in the amount of \$32,536 to increase GUPIS to  
9 account for the additional plant.

10

11 **OCRB Adjustment #10 – To Correct General Office Plant Allocation Factor**

12 Q. Did the Company accept RUCO's adjustment to correct the general office plant  
13 allocation factor?

14 A. Yes. The Company accepted RUCO's adjustment that corrects the general  
15 office plant allocation factor to 2.8 percent rather than the 3.21 percent utilized by  
16 the Company in its rate application.

17

18 Q. What adjustment did RUCO make to correct the general office allocation factor?

19 A. General office plant in service should be decreased by \$95,944 and accumulated  
20 depreciation should be decreased by \$51,498 based on the 2.8 percent  
21 allocation factor mentioned above as shown on Schedule TJC-10, pages 1 and  
22 2.

23

1 **OCRB Adjustment #11 – To Remove Post Test Year General Office Plant from**  
2 **Accounts 303 and 340**

3 Q. Did the Company accept RUCO's adjustment to remove post test year general  
4 office plant?

5 A. The Company did not address RUCO's adjustment to remove the post test year  
6 general office plant from OCRB.

7  
8 Q. What is RUCO's position regarding this post test year general office plant in  
9 surrebuttal testimony?

10 A. RUCO maintains its same direct testimony position to remove \$15,434 of 2007  
11 post test year general office plant from accounts 303 and 340.

12  
13 **OCRB Adjustment #12 – Treatment of Wells Proceeds**

14 Q. Does RUCO maintain its direct testimony position of a 50/50 sharing of the well  
15 proceeds between the shareholders and ratepayers?

16 A. No. After reading Staff's direct testimony rationale that ratepayers should receive  
17 100 percent of the settlement proceeds, RUCO is compelled to adopt Staff's  
18 reasoning and support its position.

19  
20 ..

21 ..

1 Q. Does RUCO agree with the Company's reasoning that the proceeds should be  
2 treated the same as the Arizona Water Company – Eastern Group's Pinal Creek  
3 Group Settlement proceeds, Commission Decision No. 66849?

4 A. There is a definite distinction between that case and Chaparral's Fountain Hill  
5 Sanitary District ("FHSD") case. Here, the wells are fully depreciated. In the  
6 Arizona Water Company situation, the Company's assets were not fully  
7 depreciated.

8  
9 Q. What accounting treatment is RUCO recommending for the settlement  
10 proceeds?

11 A. RUCO recommends the same accounting treatment that Staff recommends. The  
12 proceeds should be treated as a regulatory liability.

13  
14 Q. What adjustment does RUCO recommend to treat the settlement proceeds as a  
15 regulatory liability?

16 A. RUCO recommends reducing rate base by \$1.52 million less Staff's calculated  
17 amortization expense for 2005 and 2006, which leaves a regulatory liability  
18 balance of \$1,216,000

19  
20 **OCRB Adjustment #13 – Intentionally Left Blank**

21 ..

22 ..

23 ..

1 **OCRB Adjustment #14 – To Correct Amortization Rate of Contributions in Aid of**  
2 **Construction (“CIAC”)**

3 Q. Did the Company address RUCO's adjustment that corrects the CIAC  
4 amortization rate?

5 A. No. The Company did not address this adjustment in its rebuttal testimony.

6  
7 Q. What position does RUCO take in its surrebuttal testimony regarding the CIAC  
8 amortization rate?

9 A. RUCO maintains its direct testimony position that Commission Decision No.  
10 68176 authorized a CIAC amortization rate of 3.3588 percent. The Company  
11 utilized a composite rate of all the Company's accounts. RUCO does not believe  
12 that is the correct method to determine an amortization rate.

13  
14 Q. Why do you believe that a total Company composite rate is improper?

15 A. CIAC consists primarily of mains, services, and meters with 2-3 percent  
16 depreciation rates - not higher depreciable plant like transportation equipment at  
17 a 20 percent rate and communication equipment at a 10 percent rate. RUCO  
18 believes the Commission establishes the CIAC amortization rate in rate case  
19 decisions, and that rate will remain constant going forward until the next rate  
20 case decision. If the Commission disagrees with that understanding, another  
21 way to derive a composite amortization rate for CIAC would be to use only the  
22 accounts in which CIAC resides rather than a composite rate for all plant  
23 accounts.

1 Q. Did you do an analysis using just the accounts that CIAC exists in?

2 A. Yes.

3

4 Q. What composite rate did you derive when using only accounts in which CIAC  
5 exists?

6 A. I derived at a 2.96 percent composite CIAC amortization rate.

7

8 Q. If the Commission decides to set CIAC amortization rates in rate decisions, what  
9 adjustment is RUCO recommending?

10 A. RUCO recommends increasing CIAC by \$1,523 as shown on Schedule TJC-12.

11

12 **OCRB Adjustment #15 – Treatment of Additional CAP Allocation**

13 Q. Does RUCO maintain its direct testimony position in surrebuttal regarding the  
14 100 percent disallowance of an additional Central Arizona Project (“CAP”) water  
15 allocation of 1,931 acre-feet?

16 A. No. RUCO’s surrebuttal position regarding the additional CAP allocation has  
17 been modified.

18

19 Q. Please explain RUCO’s surrebuttal position regarding the additional CAP  
20 allocation.

21 A. RUCO is recommending that 50 percent of the cost of the additional CAP  
22 allocation be placed in a non-depreciable plant account – Account 303 – Land  
23 and Land Rights.

1 Q. Why is RUCO recommending that 50 percent be placed in a non-depreciable  
2 plant account?

3 A. RUCO recognizes and commends the Company's decision to help reduce and  
4 conserve groundwater usage with surface water.

5  
6 Q. Why is RUCO only allowing 50 percent of the total \$1.28 million cost of the  
7 additional CAP allocation to be included in UPIS in a non-depreciable plant  
8 account?

9 A. RUCO originally did not regard the CAP allocation as used and useful in the  
10 provision of water service. However, in deference to the Company's future  
11 source of supply concerns, RUCO now recognizes that some portion of the CAP  
12 allocation should be given rate base treatment. Accordingly, RUCO is now  
13 recommending that 50 percent of the CAP allocation should be given rate base  
14 treatment. For these reasons, RUCO has partially adopted the Staff's position on  
15 this issue and is recommending that 50 percent of the CAP allocation be booked  
16 into a non-depreciable plant account. RUCO believes that the remaining 50  
17 percent should be included in rate base at a future point in time when it is  
18 deemed used and useful (See Bourassa Rebuttal at 29-30, Millsap Direct at 17,  
19 and Scott at 11).

20 ..

21 ..

22 ..

23

1 **OCRB Adjustment #16 – Working Capital**

2 Q. Did the Company accept RUCO's working capital adjustment and thus its  
3 lead/lag study to calculate cash working capital?

4 A. Yes.

5  
6 Q. What adjustment did RUCO make for cash working capital?

7 A. RUCO's adjusted working capital to reflect the cash working capital requirements  
8 decrease working capital by \$100,122. This number fluctuates as adjustments  
9 are made and/or accepted because it is dependent on operating expense levels.

10  
11 **RECONSTRUCTION COST NEW LESS DEPRECIATION RATE BASE ("RCND"):**

12 **RCND Adjustment #1 – RCND Factor Rounding**

13  
14 Q. Did the Company address RUCO's adjustment to eliminate the truncation issue  
15 for the RCND Factor that is used to trend UPIS up to its reconstruction cost new  
16 value?

17 A. No. The Company did not address this adjustment in its rebuttal testimony.

18  
19 Q. Would you please explain RUCO's RCND Factor rounding adjustment?

20 A. Yes. The Company's Schedule B-4, pages 1-7, truncates the RCND Factor. To  
21 correct this problem, RUCO inserted a mathematical formula into the RCND  
22 Factor cells to carry out the proper multiplication.

23

1 Q. Is RUCO proposing the same recommendation in surrebuttal testimony that it did  
2 in direct testimony to eliminate the Company's truncating?

3 A. Yes. RUCO recommends reducing the RCND plant in service by \$118 and  
4 increasing accumulated depreciation by \$1 as shown on Schedule TJC-16.  
5

6 **RCND Adjustment #2 – Correct Account 304 Index Factors**

7 Q. Did the Company accept RUCO's adjustment that corrects the index factor for  
8 the three plant line items in Account 304?

9 A. Yes. The Company accepts RUCO's adjustment and adjusted its RCND plant  
10 value downward by \$17,805 in its rebuttal testimony.  
11

12 **RCND Adjustment #3 – Remove Wells 8 and 9 – Not In Service**

13 Q. Did the Company agree with RUCO's RCND adjustment #3 to remove Wells 8  
14 and 9 from UPIS?

15 A. Yes. This adjustment is discussed in RUCO's OCRB section of surrebuttal  
16 testimony. Many of the RCND adjustments are mere reflections of the same  
17 adjustments in RUCO's OCRB section with the exception being that the RCND  
18 adjustments are trended up to a RCND value.  
19

20 Q. Does RUCO agree with the amount of the Company's adjustment?

21 A. Yes. RUCO agrees with the Company's adjustment that removes UPIS and  
22 accumulated depreciation in the amount of \$441,470.  
23

1 **RCND Adjustment #4 – Remove Double Count of RCND Plant Transfers from ACC**

2 **Decision 68176**

3 Q. Did RUCO reconsider its RCND adjustment #4 that removed what RUCO  
4 characterized as a double count of UPIS authorized in Decision No. 68176?

5 A. Yes. RUCO is now in agreement with the Company regarding this adjustment.  
6

7 Q. What adjustment was necessary to correct RUCO's direct testimony position on  
8 this possible double count of UPIS?

9 A. RUCO removed its adjustment in the surrebuttal schedules. However, it was  
10 necessary to make the same adjustment, an addition, in the OCRB schedules to  
11 account for UPIS the Company did not bring forward to its B-1 and B-2  
12 Schedules. This adjustment is shown in RUCO's OCRB adjustment #9, which  
13 increased UPIS by \$32,536.  
14

15 **RCND Adjustment #5 – Remove Shea Water Treatment Plant 1**

16 Q. Did the Company accept RUCO's adjustment to remove the Shea Water  
17 Treatment Plant 1 from RCND rate base?

18 A. Yes. Again, this adjustment is a mirror reflection of the same adjustment in  
19 RUCO's OCRB section. The only difference here is it has been trended up to a  
20 RCND value. The adjustment decreases the RCND UPIS and accumulated  
21 depreciation by \$3,262,891. This plant has not been in service since 2003.  
22  
23

1 **RCND Adjustment #6 – Capitalize Expensed Plant Items**

2 Q. Did the Company accept RUCO's RCND adjustment #6 to capitalize expensed  
3 plant items?

4 A. Yes. This adjustment is explained in RUCO's OCRB section of this testimony.  
5

6 **RCND Adjustment #7 – Intentionally Left Blank**  
7

8 **RCND Adjustment #8 - RCND Trended Direct Plant Accumulated Depreciation**

9 Q. Has the Company accepted RUCO's RCND adjustment that reconciles the  
10 accumulated depreciation balance to RUCO's recommended level of  
11 accumulated depreciation?

12 A. The Company does not explicitly address this adjustment to accumulated  
13 depreciation. After reviewing both the Company's Schedule B-1, page 1 and  
14 RUCO's Schedule TJC-2, which provide the same information, RUCO has come  
15 to the conclusion that many of the Company's accepted adjustments from both  
16 Staff and RUCO has largely accounted for this adjustment. In an effort to  
17 eliminate some issues in dispute, RUCO has removed this adjustment.  
18

19 **RCND Adjustment #9 – Intentionally Left Blank**

20 ..

21 ..

22 ..

1 **RCND Adjustment #10 – Correct General Office 4-Factor Plant & Accumulated**  
2 **Depreciation Allocator**

3 Q. Did the Company accept RUCO's adjustment to correct the general office 4-  
4 Factor Allocator for plant and accumulated depreciation?

5 A. Yes. This adjustment was fully explained in RUCO's direct testimony. It is also  
6 briefly discussed in this testimony at the OCRB section. This adjustment is  
7 merely trended up to a RCND value.

8

9 **RCND Adjustment #11 – Remove Post-Test Year General Office Plant**

10 Q. Did the Company address RUCO's adjustment to remove post test year general  
11 office plant?

12 A. No. A discussion regarding this adjustment was provided in the OCRB section of  
13 this testimony.

14

15 Q. What adjustment is necessary to recognize and remove the post-test year  
16 general office plant?

17 A. Since this is post-test year plant, the adjustment is identical in both OCRB and  
18 RCND rate base adjustments because there is no RCND trending factor to  
19 consider. This adjustment reduces GUPIS by \$15,434 and increases  
20 accumulated depreciation by \$1,404 for both OCRB and RCND rate bases.

21 ..

22 ..

23 ..

1 **RCND Adjustment #12 – Treatment of the Fountain Hills Sanitary District**  
2 **(“FHSD”) Wells Settlement Proceeds**

3 Q. What is RUCO’s position regarding the FHSD Settlement proceeds with the  
4 Company?

5 A. RUCO explained its position regarding the FHSD Settlement proceeds in the  
6 OCRB section of this testimony.

7  
8 **RCND Adjustment #13 – Advances in Aid of Construction (“AIAC”) Adjustment**

9 Q. Did the Company address RUCO’s adjustment to AIAC in rebuttal testimony?

10 A. No.

11  
12 Q. What is RUCO’s position to this adjustment since the Company did not address it  
13 in its rebuttal testimony?

14 A. As explained in RUCO’s direct testimony, “any adjustment to plant in service will  
15 cause the AIAC factor to change because the AIAC factor is the ratio of the  
16 RCND plant in service to the original cost plant in service. All of RUCO’s  
17 adjustments to either RCND or OCRB plant in service caused a minor  
18 modification to the AIAC factor. Thus, RUCO’s AIAC factor is slightly larger than  
19 the Company’s factor.”

20  
21 ..  
22 ..

1 Q. Did the Company make any adjustment for AIAC when accepting any of Staff or  
2 RUCO's rate base adjustments?

3 A. Yes. The Company's RCND AIAC balance changed from its direct to rebuttal  
4 testimonies. The amount of change authorized by the Commission in this case  
5 will be determined by the adjustments approved in its Decision. RUCO's  
6 recommended plant levels are different than the Company's resulting in different  
7 levels of RCND AIAC balances.

8

9 **RCND Adjustment #14 - Contributions in Aid of Construction ("CIAC")**

10 Q. Did the Company address RUCO's adjustment to CIAC?

11 A. No. However, the only difference in this adjustment and the same OCRB CIAC  
12 balance adjustment is this adjustment has been trended up to a RCND value.  
13 Please see RUCO's OCRB section for its rationale for the adjustment.

14

15 **RCND Adjustment #15 - Remove the Deferred Asset and Record 50 Percent in a  
16 Non-Depreciable Plant Account - Additional CAP Allocation")**

17 Q. Is this the same adjustment that RUCO made in its OCRB section of this  
18 testimony?

19 A. Yes. Please see that section of RUCO's testimony for a complete discussion.

20

21

22

23

1 **RCND Adjustment #16 – Working Capital**

2 Q. Did the Company accept RUCO's working capital adjustment and thus its  
3 lead/lag study to calculate cash working capital?

4 A. Yes.

5  
6 Q. What adjustment did RUCO make for cash working capital?

7 A. RUCO's adjustment to working capital to reflect the cash working capital  
8 requirements decreases working capital by \$100,122. This number fluctuates as  
9 adjustments are made and/or accepted because it is dependent on operating  
10 expense levels.

11

12 **OPERATING INCOME & EXPENSES:**

13 **Operating Adjustment #1 – Depreciation & Amortization Expense**

14 Q. What is the difference between RUCO's and the Company's depreciation  
15 expense recommendations?

16 A. The primary difference between RUCO's direct schedules and the Company's  
17 rebuttal schedules is that RUCO inadvertently utilized "Test Year Book Results"  
18 rather than the adjusted test year depreciation balance as a basis for its  
19 adjustment. RUCO has corrected its Depreciation Expense Schedule. That  
20 correction alone accounted for approximately \$25,000 of the reduction to  
21 RUCO's direct testimony schedules. A second reason RUCO's depreciation  
22 expense differed from the Company's is because RUCO had not made the plant  
23 reclassification adjustment recommended by Staff and adopted by the Company.

1 RUCO does not object to the reclassification adjustment. The remaining  
2 discrepancy results from slight differences in recommended plant balances.

3  
4 Q. If RUCO doesn't object to the plant reclassification adjustment, why hasn't RUCO  
5 made the adjustment in surrebuttal?

6 A. The primary reason was time. RUCO had not completed any analysis or review  
7 of the adjustment. The Company and RUCO are within a \$3,000 difference of  
8 depreciation expense without having made the reclassification adjustment.

9  
10 **Operating Adjustment #2 – Property Tax Expense**

11 Q. What are the primary difference in RUCO's direct and the Company's direct  
12 position regarding property tax expense?

13 A. RUCO used an alternative methodology rather than three years of historical  
14 gross revenues. RUCO's alternative methodology uses two years of historical  
15 revenues and one year of RUCO's proposed level of revenue.

16  
17 Q. Did RUCO provide any empirical evidence in its direct testimony indicating the  
18 Company has over-collected on its property tax expense that was last authorized  
19 on September 30, 2005?

20 A. Yes. RUCO obtained the property tax expense for years 2004 through 2006  
21 from the Company's rate application. The actual property tax expense for years  
22 2007 and 2008 was obtained from Arizona Department of Revenue ("ADOR") as  
23 shown below:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Property Tax Expense	\$ 280,537	\$ 279,529	\$ 241,774	\$ 207,162	\$ 187,214

Commission Decision No. 68176 made an allowance for property tax expense in the amount of \$299,495. In none of those years was that level of property tax expense achieved. Actually, the disparity is growing between what was authorized and the property tax expense actually incurred.

**Operating Adjustment #3 – Miscellaneous Expense**

Q. What is RUCO's adjustment to miscellaneous expense?

A. RUCO adopts Staff's recommended miscellaneous expense adjustment that was accepted by the Company in rebuttal testimony.

**Operating Adjustment #4 – Rate Case Expense**

Q. Did the Company make any concessions in its rebuttal testimony concerning rate case expense?

A. Yes. The Company decided to forgo any unamortized rate case expense resulting from Decision 68176.

Q. Is RUCO's position the same as in its direct testimony regarding the Appeal and Remand of Decision 68176?

A. Yes. This is discussed in RUCO witness, Mr. Rigsby's testimony.

1 **Operating Adjustment #5 – Purchased Water Expense**

2 Q. Did RUCO accept the Company's rebuttal adjustment to purchased water  
3 expense?

4 A. Yes.

5

6 **Operating Adjustment #6 – Outside Services Expense**

7 Q. Did the Company address RUCO's adjustment to outside services?

8 A. No.

9

10 Q. What is RUCO's surrebuttal position regarding its outside services adjustment?

11 A. RUCO's surrebuttal position is the same as in its direct testimony. RUCO's audit  
12 of outside service invoices determined that the Company eliminated an outside  
13 service person on May 22 of the test year that provided water supply  
14 superintendent services for the Company. The Company replaced these  
15 services with an employee. The charges in the test year for the outside service  
16 person are a nonrecurring expense on a going forward basis. All associated  
17 charges for those outside services should be removed from adjusted test year  
18 outside services account. This information is provided in Company work paper  
19 titled "CCWC Employees – 06." The charge for the services was \$3,500 per  
20 week. RUCO recommends reducing the outside service expense account by  
21 \$71,000 to remove the nonrecurring expense as shown on Schedule TJC-37.

22

23

1 **Operating Adjustment #7 – Water Revenues**

2 Q. Has RUCO accepted the Company's adjustment to water revenues due to less  
3 loss of water sales from the golf courses than the Company originally estimated?

4 A. Yes. RUCO has accepted the Company's calculated adjustment.

5  
6 **Operating Adjustment #8 – Remove Expenses Charged to Repairs & Maintenance  
7 and Outside Services and Capitalize**

8 Q. Has RUCO accepted the Company's adjustment to capitalize expensed plant  
9 items?

10 A. Yes. RUCO had made a portion of the adjustment in its direct testimony, which  
11 was accepted by the Company in its rebuttal testimony. The Company accepted  
12 another adjustment recommended by Staff, which RUCO adopts in its surrebuttal  
13 testimony.

14  
15 Q. Please identify the total adjustment that RUCO accepts.

16 A. RUCO initially removed \$43,217 from the repairs & maintenance expense  
17 account and capitalized it accordingly. Then, RUCO removed \$38,049 from  
18 outside services and capitalized the expense as recommended by Staff and  
19 accepted by the Company.

20  
21 ..

22 ..  
23

1 **Operating Adjustment #9 – Water Testing Expense**

2 Q. Please explain RUCO's adjustment to water testing expense.

3 A. RUCO adopts Staff's adjustment to water testing expense, which was also  
4 accepted by the Company in rebuttal testimony.

5

6 **Operating Adjustment #10 – Purchased Power**

7 Q. Does RUCO accept the Company's adjustment to purchased power expense?

8 A. Yes.

9

10 **Operating Adjustment #11 – Amortization of the Additional CAP Allocation**

11 Q. Please explain RUCO's adjustment that removes the amortization associated  
12 with the deferred regulatory asset – Additional CAP Allocation.

13 A. RUCO agrees with Staff's recommended treatment of the additional CAP  
14 allocation. However, RUCO does not believe that the CAP allocation is currently  
15 used and useful. As explained in the OCRB section, RUCO recognizes 50  
16 percent of the allocation may be a non-depreciable plant account as suggested  
17 by Staff and accepted by the Company in recognition that the CAP allocation  
18 may help the Company reduce groundwater usage. Removal of the amortization  
19 expense associated with the CAP allocation is consistent with Staff's  
20 recommendation and accepted by the Company.

21 ..

22 ..

1 **Operating Adjustment #12 – Income Taxes**

2 Q. Please explain RUCO's adjustment to the Company's Income Tax Expense.

3 A. This adjustment results from RUCO's recommended level of taxable operating  
4 income.

5

6 **Other Remaining Issues**

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

8 Q. Has the Company presented a LIP in this case?

9 A. No. However, the Company has proposed to present a LIP prior to the hearing  
10 for the parties to review.

11

12 Q. What is RUCO's position regarding LIP's?

13 A. RUCO generally supports LIP's and will review it once it is available. The  
14 Company stated that all customers would have to subsidize the program  
15 accordingly.

16

17 **CAP Hook-Up Fee**

18 Q. Has the Company proposed a CAP Hook-up Fee to recover costs associated  
19 with the additional CAP allocation?

20 A. Yes. The Company has proposed a "CAP Hook-up Fee" on new water  
21 installations. This is shown on Company Schedule H-3, page 3, line 22 and lines  
22 30 through 32.

23

1 Q. Does RUCO believe this is an appropriate hook-up fee to reimburse the  
2 Company for its additional CAP allocation?

3 A. No. Hook-up fees are generally used to fund back-bone plant. RUCO believes  
4 that the additional CAP allocation is not back-bone plant. The Company's  
5 proposal would allow Chaparral to recover the cost of the allocation when both  
6 Staff and RUCO are recommending that the CAP allocation be booked in a non-  
7 depreciable account and the Company be permitted to earn a return on it in  
8 perpetuity. For this reason, RUCO does not believe that Chaparral should be  
9 permitted to recover the CAP allocation costs through the Company-proposed  
10 hook-up fee on new water installations.

11  
12 Q. Did the Company address this hook-up fee issue in either its direct or rebuttal  
13 testimonies?

14 A. No.

15  
16 Q. What is RUCO's recommendation concerning the Company's proposed CAP  
17 hook-up fee?

18 A. RUCO recommends the Commission deny this hook-up fee and the language be  
19 struck on the referenced Company H-3 Schedule.

20  
21 ..

22 ..

23

1 **GROSSING-UP SERVICE LINE /METER INSTALLATION TAXES**

2 Q. Did the Company propose that service lines and meter installations be grossed-  
3 up for taxes?

4 A. Yes. The Company made this request on Company Schedule H-3, page 4, but  
5 was silent on the issue in written testimony.

6  
7 Q. What recommendation is RUCO making regarding this proposed treatment to  
8 gross these service lines and meter installations up for taxes?

9 A. RUCO recommends the Commission deny the request unless the Company can  
10 cite some change in ACC rules and/or Internal Revenue Service Regulations that  
11 would allow such treatment.

12

13 **INTEREST SYNCHRONIZATION**

14 Q. Has RUCO recalculated interest expense based on FVRB rather than OCRB?

15 A. RUCO has adopted the Company's position on interest synchronization and has  
16 multiplied Chaparral's FVRB times RUCO's recommended weighted cost of debt  
17 to calculate an appropriate interest expense deduction. The deduction is  
18 reflected in RUCO's recommended level of test year adjusted income tax  
19 expense.

20

21 ..

22 ..

23

1 **RATE DESIGN**

2 Q. Is RUCO filing a new rate design in surrebuttal testimony?

3 A. Not at this time. As a result of RUCO's modified position and the Company's  
4 proposed LIP, it will be filing revised rate design schedules prior to the hearing  
5 that reflect RUCO's pre-hearing position revenue recommendation. RUCO's  
6 surrebuttal revenue recommendation is approximately 7.4 percent more than its  
7 direct testimony recommendation.

8  
9 Q. Does RUCO believe that its rate design will mirror that filed in its direct  
10 schedules?

11 A. RUCO believes its rate design will be substantially similar with an upward  
12 adjustment to account for the additional revenue recommendation.

13

14 Q. Does that conclude your surrebuttal testimony at this time?

15 A. Yes, it does.

**CHAPARRAL CITY WATER COMPANY, INC.  
DOCKET NO. W-02113A-07-0551  
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REVENUE REQUIREMENTS

LINE NO.	DESCRIPTION	(A) COMPANY REQUESTED	(B) RUCO RECOMMENDED
1	ADJUSTED FAIR VALUE RATE BASE (FVRB)	\$ 28,736,406	\$ 27,498,329
2	ADJUSTED OPERATING INCOME	797,271	1,051,686
3	CURRENT RATE OF RETURN (L2 / L1)	2.77%	3.82%
4	REQUIRED RATE OF RETURN ON FVRB	9.32%	6.38%
5	REQUIRED OPERATING INCOME (L4 * L1)	2,678,233	1,754,393
6	OPERATING INCOME DEFICIENCY (L5 - L2)	1,880,962	702,707
7	GROSS REVENUE CONVERSION FACTOR	1.6286	1.6287
8	GROSS REVENUE INCREASE	\$ 3,063,335	\$ 1,144,478
9	CURRENT REVENUES T/Y ADJUSTED	7,446,700	7,505,010
10	PROPOSED ANNUAL REVENUE (L8 + L9)	10,510,035	8,649,488
11	PERCENTAGE AVERAGE INCREASE	41.14%	15.25%
12	COST OF COMMON EQUITY	10.50%	6.83%

REFERENCES:

COLUMN (A): COMPANY SCHEDULE A-1

COLUMN (B): SCHEDULE TJC-1, PG. 2, TJC-2, TJC-3, TJC-30 AND TJC-43

CHAPARRAL CITY WATER COMPANY, INC.  
 TEST YEAR ENDED DECEMBER 31, 2006  
 GROSS REVENUE CONVERSION FACTOR

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-1  
 PAGE 2 OF 2  
 SURREBUTTAL TESTIMONY

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>	<u>REFERENCE</u>
1	REVENUE	1.0000	
2	UNCOLLECTIBLES	<u>0.00000</u>	COMPANY SCH. C-3
3	SUB-TOTAL	1.0000	LINE 1 - LINE 2
4	LESS: TAX RATE	<u>38.60%</u>	NOTE (a)
5	TOTAL	0.6140	LINE 3 - LINE 4
6	REVENUE CONVERSION FACTOR	<span style="border: 1px solid black; padding: 2px;">1.62867</span>	LINE 1/LINE 5

NOTE (a):  
 CALCULATION OF EFFECTIVE TAX RATE

OPERATING INCOME BEFORE TAXES	100.00%
LESS: ARIZONA STATE TAX	<u>6.97%</u>
TAXABLE INCOME FEDERAL	93.03%
TIMES: FEDERAL INCOME TAX RATE	<u>34.00%</u>
SUBTOTAL	31.63%
ADD STATE TAX RATE	38.60%
LINE 3 ABOVE	<u>100.00%</u>
EFFECTIVE TAX RATE	38.60%

CHAPARRAL CITY WATER COMPANY, INC.  
 TEST YEAR ENDED DECEMBER 31, 2006  
 SUMMARY OF RATE BASE

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-2  
 SURREBUTTAL TESTIMONY

Line No.	RUCO Original Cost Rate base	RUCO RCND Rate base	RUCO Fair Value Rate Base (50/50)
1			
2	\$ 50,295,600	\$ 77,640,019	\$ 63,967,809
3	(13,710,454)	(22,122,967)	(17,916,711)
4			
5	\$ 36,585,146	\$ 55,517,052	\$ 46,051,099
6			
7	<u>Less:</u>		
8	Advances in Aid of		
9	Construction (6,557,243)	(10,122,247)	(8,339,745)
10	Contributions in Aid of		
11	Construction - Net of amortization (6,120,652)	(9,443,703)	(7,782,178)
12	Customer Meter Deposits (819,845)	(819,845)	(819,845)
13	Deferred Income Taxes & Credits (925,896)	(925,896)	(925,896)
14	Investment tax Credits -	-	-
15	Shared Gain on Well (1,216,000)	(1,216,000)	(1,216,000)
16			
17	<u>Plus:</u>		
18	Unamortized Debt Issuance		
19	Costs 424,010	424,010	424,010
20	Working Capital 106,884	106,884	106,884
21	Deferred Regulatory Assets -	-	-
22			
23			
24			
25			
26	<u>\$ 21,476,403</u>	<u>\$ 33,520,255</u>	<u>\$ 27,498,329</u>
27			
28			
29			

SUPPORTING SCHEDULES:  
 31 Schedules TJC-4, pages 1 and 2  
 32 Schedules TJC-5  
 33 Schedules TJC-6, pages 1, 2, and 3  
 34 Schedules TJC-14, pages 1 and 2  
 35 Schedule TJC-15

RECAP SCHEDULES:  
 Schedule TJC-1

CHAPARRAL CITY WATER COMPANY, INC.  
 TEST YEAR ENDED DECEMBER 31, 2006  
 RATE BASE - ORIGINAL COST

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-3  
 SURREBUTTAL TESTIMONY

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED
1	PLANT IN SERVICE	\$ 51,771,885	\$ (1,476,285)	\$ 50,295,600
2	ACCUMULATED DEPRECIATION	<u>(15,877,022)</u>	<u>2,166,568</u>	<u>(13,710,454)</u>
3	NET PLANT IN SERVICE	\$ 35,894,863	\$ 690,283	\$ 36,585,146
4	CONSTRUCTION WORK IN PROGRESS (CWIP)	<u>-</u>	<u>-</u>	<u>-</u>
5	TOTAL NET PLANT	\$ 35,894,863	\$ 690,283	\$ 36,585,146
<b>Less:</b>				
6	ADVANCES IN AID OF CONSTRUCTION (AIAC)	(6,557,243)	-	(6,557,243)
7	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) - NET	(6,119,129)	(1,523)	(6,120,652)
8	CUSTOMER METER DEPOSITS	(819,845)	-	(819,845)
9	DEFERRED INCOME TAXES	(925,896)	-	(925,896)
10	INVESTMENT TAX CREDITS	-	-	-
11	SHARED GAIN ON WELL	(646,000)	(570,000)	(1,216,000)
<b>Plus:</b>				
12	UNAMORTIZED DEBT ISSUANCE COSTS	424,010	-	424,010
13	WORKING CAPITAL	207,006	(100,122)	106,884
14	DEFERRED REGULATORY ASSETS	1,280,000	(1,280,000)	-
15	TOTAL RATE BASE	<u>\$ 22,737,766</u>	<u>\$ (1,261,363)</u>	<u>\$ 21,476,403</u>

REFERENCES:

COLUMN (A): COMPANY SCHEDULE B-1  
 COLUMN (B): SCHEDULE TJC-4, PAGES 1 and 2  
 COLUMN (C): COLUMN (A) + COLUMN (B)

CHAPARRAL CITY WATER COMPANY, INC.  
 TEST YEAR ENDED DECEMBER 31, 2006  
 SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

DOCKET NO. W-02713A-07-0551  
 SCHEDULE TJC-4  
 SURREBUTTAL TESTIMONY  
 PAGE 1 of 2

LINE NO.	DESCRIPTION	(A) COMPANY PROPOSED	(B) ADJ.#1	(C) ADJ.#2	(D) ADJ.#3	(E) ADJ.#4	(F) ADJ.#5	(G) ADJ.#6	(H) ADJ.#7	(I) ADJ.#8
1	PLANT IN SERVICE	\$51,771,886			\$ (107,412)		\$ (2,010,923)	\$ 80,891		
2	ACCUMULATED DEPRECIATION	(15,877,022)			107,412		2,010,923	(3,205)		
3	NET PLANT IN SERVICE	\$35,894,863	\$ -	\$ -	\$ -	\$ -	\$ 0	\$ 77,626	\$ -	\$ -
4	CONSTRUCTION WORK IN PROGRESS (CWIP)									
5	TOTAL NET PLANT	\$35,894,863	\$ -	\$ -	\$ -	\$ -	\$ 0	\$ 77,626	\$ -	\$ -
	Less:									
6	ADVANCES IN AID OF CONSTRUCTION (A/C)	(6,557,243)								
7	CONTRIBUTIONS IN AID OF CONSTRUCTION (C/A/C) - NET	(6,119,129)								
8	CUSTOMER METER DEPOSITS	(819,845)								
9	DEFERRED INCOME TAXES	(825,896)								
10	INVESTMENT TAX CREDITS	-								
11	SHARED GAIN ON WELL	(646,000)								
	Plus:									
12	UNAMORTIZED DEBT ISSUANCE COSTS	424,010								
13	WORKING CAPITAL	207,006								
14	DEFERRED REGULATORY ASSETS	1,280,000								
15	TOTAL RATE BASE	\$22,737,766	\$ -	\$ -	\$ -	\$ -	\$ 0	\$ 77,626	\$ -	\$ -

REFERENCE:

SCHEDULE TJC-7

SCHEDULE TJC-8

SCHEDULE TJC-8

ADJUSTMENT #

1. Intentionally Left Blank
2. Intentionally Left Blank
3. Remove Wells 6 & 9 - Out of Service
4. Intentionally Left Blank
5. Remove Shea Water Treatment Plant 1 - Taken Out of Service
6. Remove Expensed Plant Items and Capitalize
7. Intentionally Left Blank
8. Intentionally Left Blank

CHAPARRAL CITY WATER COMPANY, INC.  
 TEST YEAR ENDED DECEMBER 31, 2006  
 SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-4  
 SURREBUTTAL TESTIMONY  
 PAGE 2 of 2

LINE NO.	DESCRIPTION	(J) ADJ #9	(K) ADJ #10	(L) ADJ #11	(M) ADJ #12	(N) ADJ #13	(O) ADJ #14	(P) ADJ #15	(Q) ADJ #16	(R) RUCO ADJUSTED
1	PLANT IN SERVICE	32,536	\$ (95,944)	\$ (15,434)	\$ -	\$ -	\$ -	\$ 640,000	\$ -	\$ 50,295,600
2	ACCUMULATED DEPRECIATION	\$ 51,498								(13,710,454)
3	NET PLANT IN SERVICE	\$ 32,536	\$ (44,446)	\$ (15,434)	\$ -	\$ -	\$ -	\$ 640,000	\$ -	\$ 36,585,146
4	CONSTRUCTION WORK IN PROGRESS (CWIP)									
5	TOTAL NET PLANT	\$ 32,536	\$ (44,446)	\$ (15,434)	\$ -	\$ -	\$ -	\$ 640,000	\$ -	\$ 36,585,146
<b>Less:</b>										
6	ADVANCES IN AID OF CONSTRUCTION (AIAC)									(6,557,243)
7	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) - NET						(1,523)			(6,120,852)
8	CUSTOMER METER DEPOSITS									(819,845)
9	DEFERRED INCOME TAXES									(925,896)
10	INVESTMENT TAX CREDITS									-
11	SHARED GAIN ON WELL				(570,000)					(1,216,000)
<b>Plus:</b>										
12	UNAMORTIZED DEBT ISSUANCE COSTS									424,010
13	WORKING CAPITAL								(100,122)	106,884
14	DEFERRED REGULATORY ASSETS							(1,280,000)		-
15	TOTAL RATE BASE	\$ 32,536	\$ (44,446)	\$ (15,434)	\$ (570,000)	\$ -	\$ (1,523)	\$ (640,000)	\$ (100,122)	\$ 21,476,403

**ADJUSTMENT #:**

9. To Adjust OCRB Direct Plant to Carry Plant Forward that was not recorded by the Company
10. Correct 4-Factor General Office Plant & Accumulated Depreciation Allocation Factor
11. Remove Post Test Year GO Plant in Account 303 & 340
12. FHSD Settlement Proceeds
13. Intentionally Left Blank
14. To correct CIAC amortization rate authorized in Decision No. 88176 per Bourassa Rebuttal Schedule C-2, page 2
15. To Remove Deferred Regulatory Asset and Place 1/2 in UPIS - Additional CAP Allocation
16. Working Capital

**REFERENCE:**

- SCHEDULE TJC-6
- SCHEDULE TJC-10, PAGES 1 and 2
- SCHEDULE TJC-11
- TJC TESTIMONY
- SCHEDULE TJC-12
- TJC TESTIMONY
- SCHEDULE TJC-29, PAGES 1 thru 15

CHAPARRAL CITY WATER COMPANY, INC.  
 TEST YEAR ENDED DECEMBER 31, 2006  
 RE-COMPUTATION OF TOTAL UTILITY PLANT IN SERVICE (UPIS)  
 AND ACCUMULATED DEPRECIATION FROM DECISION NO. 68176

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-5  
 SURREBUTTAL TESTIMONY

Total Chaparral City Water UPIS:

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
1	Chaparral City Water Direct Plant Per Company	\$51,020,714
2	Chaparral City Water Direct Plant Per RUCO	51,053,250
3	RUCO's Direct Plant Adjustment	<u>\$ 32,536</u>
4	Chaparral City Water General Office Plant Allocation Per Company	\$ 751,171
5	Chaparral City Water General Office Plant Allocation Per RUCO	639,794
6	RUCO's General Office Plant Allocation Adjustment	<u>\$ (111,377)</u>
7	Total Chaparral City Water Gross UPIS Per Company	\$51,771,885
8	Total Chaparral City Water Gross UPIS Per RUCO	51,693,044
9	Total RUCO Gross UPIS Adjustment	<u>\$ (78,841)</u>

Total Chaparral City Water Accumulated Depreciation:

10	Chaparral City Water Direct Plant Accumulated Depreciation Per Company	\$15,473,834
11	Chaparral City Water Direct Plant Accumulated Depreciation Per RUCO	15,479,021
12	RUCO's Direct Plant Accumulated Depreciation Adjustment	<u>5,187</u>
13	Chaparral City Water General Office Allocation of Accumulated Depreciation Per Company	403,188
14	Chaparral City Water General Office Allocation of Accumulated Depreciation Per RUCO	351,690
15	RUCO's General Office Allocation of Accumulated Depreciation Adjustment	<u>(51,498)</u>
16	Total Chaparral City Water Accumulated Depreciation Per Company	15,877,022
17	Total Chaparral City Water Accumulated Depreciation Per RUCO	15,830,712
18	Total RUCO Accumulated Depreciation Adjustment	<u>\$ (46,310)</u>

Supporting Schedules:  
 \TJC-4(a)Schedules\Pages1-5\DirectPlant\AZ-CorpPlant\CentralDivisionPlant\  
 Regarding RUCO's Eastern Div. treatment see Company response to RUCO DR 2.06

December 31, 2004

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) DEP. RATE Thru SEP. 05	(B) DEP. RATE After SEP. 05	(C) 12/31/2003 PLANT BALANCE Per DECISION 68176	(D) 12/31/2003 ACCUM. DEPRE. Per DECISION 68176	(E) 2004 PLANT ADDITNS	(F) 2004 PLANT RETIRMTS	(G) 2004 PLANT ADJUSTMT	(H) TOTAL PLANT VALUE 12/31/2004	(I) 2004 DEPRECN EXPENSE	(J) ENDING ACCUM. DEPRE. 12/31/2004	(K) NET PLANT VALUE 12/31/2004
1	301	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost and Other Intangible Plant	0.00%	0.00%	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	271,857	-	-	-	-	271,857	-	-	271,857
4	304	Structures and Improvements	2.50%	3.33%	654,407	260,483	331,000	-	-	985,407	20,488	280,991	704,426
5	305	Collecting and Impounding RRs	2.50%	2.50%	6,348	62	-	-	-	6,348	164	246	6,303
6	306	Lake River and Other Intakes	2.50%	3.33%	332,065	154,900	-	-	-	332,065	8,302	163,202	168,063
7	307	Wells and Springs	2.50%	3.33%	-	-	-	-	-	-	-	-	-
8	308	Infiltration Galleries and Tunnels	2.50%	3.33%	-	-	-	-	-	-	-	-	-
9	309	Supply Means	2.50%	2.00%	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	2.50%	3.00%	-	-	-	-	-	-	-	-	-
11	311	Electric Pumping Equipment	2.50%	12.50%	1,294,389	816,467	53,926	-	-	1,348,324	32,969	848,416	699,908
12	312	Water Treatment Equipment	2.50%	2.25%	5,680,673	1,871,920	1,361,051	-	-	7,622,424	166,037	1,837,957	5,784,467
13	320	Distribution Reservoirs & Standpipe	2.50%	2.25%	6,020,014	1,487,474	-	-	(1,296)	6,020,718	150,534	1,648,008	4,372,710
14	330	Transmission and Distribution Means	2.50%	2.00%	15,894,782	6,020,309	348,845	-	-	16,340,626	404,555	6,424,684	9,916,162
15	331	Service	2.50%	3.33%	4,878,133	501,319	1,423,193	-	-	6,402,326	142,268	843,587	5,558,738
16	334	Hydrants	2.50%	3.33%	2,163,197	616,611	251,973	-	-	2,415,169	57,200	667,841	1,747,328
17	335	Hydrants	2.50%	2.00%	323,178	183,356	84,716	-	-	607,893	14,138	187,504	410,389
18	336	Backflow Prevention Devices	2.50%	6.67%	-	-	-	-	-	-	-	-	-
19	339	Other Plant and Miscellaneous Equipment	2.50%	6.67%	182,911	19,162	43,730	-	-	228,540	5,117	24,309	202,232
20	340	Office Furniture and Fixtures	2.50%	20.00%	406,775	(1,732)	95,984	(65,224)	-	437,535	10,554	(56,402)	483,938
21	341	Transmission Equipment	2.50%	4.00%	-	-	-	-	-	-	-	-	-
22	342	Stores Equipment	2.50%	6.00%	86,004	21,609	4,936	-	-	92,940	2,262	23,871	69,069
23	343	Tools and Work Equipment	2.50%	10.00%	-	25	-	-	-	-	-	25	(25)
24	344	Laboratory Equipment	2.50%	5.00%	-	-	-	-	-	-	-	-	-
25	345	Power Operated Equipment	2.50%	10.00%	38,105	(5,716)	-	-	-	38,105	970	(4,738)	43,443
26	346	Communications Equipment	2.50%	10.00%	67,303	18,832	16,445	-	-	83,748	1,866	18,720	65,028
27	347	Miscellaneous Equipment	2.50%	10.00%	-	-	34,063	-	-	34,063	428	428	33,638
28	348	Other Tangible Plant	2.50%	10.00%	-	-	-	-	-	-	-	-	-
29	349	Plant Held for Future Use	0.00%	0.00%	-	-	-	-	-	-	-	-	-
30	350												
31	351												
Total Gross Water Plant in Service & Accumulated Depreciation													
					\$ 39,680,149	\$ 11,566,130	\$ 4,650,859	\$ (65,224)	\$ (1,296)	\$ 43,284,288	\$ 1,917,306	\$ 12,518,415	\$ 30,765,874

YEAR 2005

LINE NO.	ACCT. NO.	ACCOUNT NAME	YEAR 2005					(D) TOTAL PLANT VALUE 12/31/2005	(E) DEPREC'N EXPENSE	(F) ENDING ACCUM. DEPRE. 12/31/2005	(G) NET PLANT VALUE 12/31/2005
			BEGINNING PLANT BALANCES ON JAN. 1, 2005	(A) 2005 PLANT ADDTNS	(B) 2005 RETIRMTS	(C) 2005 PLANT ADJUSTMT	(D) TOTAL PLANT VALUE 12/31/2005				
1	301	Organization Cost	-	-	-	-	-	-	-	-	
2	302	Franchise Cost and Other Intangible Plant	-	-	-	-	-	-	-	-	
3	303	Land and Land Rights	271,857	-	-	-	271,857	-	-	271,857	
4	304	Structures and Improvements	895,407	468,548	-	-	1,453,952	33,023	314,003	1,139,949	
5	305	Collecting and Impounding Res.	6,548	-	-	-	6,548	164	409	6,139	
6	306	Lake River and Other Intakes	-	-	-	-	-	-	-	-	
7	307	Wells and Springs	332,065	-	-	-	332,065	8,991	172,163	159,873	
8	308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-	-	
9	309	Supply Mains	-	-	-	-	-	-	-	-	
10	310	Power Generation Equipment	1,345,324	106,361	(21,889)	-	1,429,796	69,378	695,905	733,891	
11	311	Electric Pumping Equipment	7,622,424	130,344	-	-	7,752,767	208,142	2,046,089	5,706,689	
12	320	Water Treatment Equipment	6,020,718	2,031,945	(3,000)	-	8,049,263	170,850	1,815,988	6,233,305	
13	330	Distribution Reservoirs & Standpipe	16,340,626	181,947	-	-	16,522,274	380,366	6,814,830	9,717,444	
14	331	Transmission and Distribution Mains	6,402,326	536,187	-	-	6,938,513	180,602	824,189	6,114,324	
15	333	Services	2,415,169	215,171	-	-	2,630,341	99,838	767,679	1,862,662	
16	334	Meters	607,993	263,983	-	-	871,977	17,572	215,077	656,800	
17	335	Hydrants	-	-	-	-	-	-	-	-	
18	336	Backflow Prevention Devices	-	-	-	-	-	-	-	-	
19	338	Other Plant and Miscellaneous Equipment	(6)	1,610,987	-	-	1,610,987	28,529	28,528	1,582,157	
20	340	Office Furniture and Fixtures	226,540	24,735	(4,006)	-	247,269	6,392	28,695	218,574	
21	341	Transportation Equipment	437,535	120,595	(23,389)	-	534,742	33,422	(46,369)	581,111	
22	342	Stores Equipment	-	-	-	-	-	-	-	-	
23	343	Tools and Work Equipment	92,940	52,874	-	-	145,814	3,731	27,601	118,213	
24	344	Laboratory Equipment	-	-	-	-	-	-	25	(25)	
25	345	Power Operated Equipment	-	-	-	-	-	-	-	-	
26	346	Communications Equipment	39,105	-	-	-	39,105	1,711	(3,027)	42,132	
27	347	Miscellaneous Equipment	83,748	-	-	-	83,748	3,664	22,364	61,384	
28	348	Other Tangible Plant	34,063	-	-	-	34,063	1,490	1,916	32,147	
29		Plant Held for Future Use	-	-	-	-	-	-	-	-	
30			-	-	-	-	-	-	-	-	
31		Total Gross Water Plant in Service & Accumulated Depreciation	43,264,288	5,752,677	(52,284)	-	48,964,681	1,259,964	13,726,094	35,238,586	

YEAR 2006

LINE NO.	ACCT. NO.	ACCOUNT NAME	BEGINNING PLANT BALANCES ON JAN. 1, 2006	(A) 2006 PLANT ADDITNS	(B) 2006 PLANT RETIRMTS	(C) 2006 PLANT ADJUSTMT	(D) TOTAL PLANT VALUE 12/31/2006	(E) DEPRECN EXPENSE	(F) ENDING ACCUM. DEPREC. 12/31/2006	(G) NET PLANT VALUE 12/31/2006
1	301	Organization Cost	-	-	-	-	-	-	-	-
2	302	Franchise Cost and Other Intangible Plant	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	271,857	-	-	-	271,857	-	-	271,857
4	304	Structures and Improvements	1,453,952	70,236	(5,540)	-	1,518,648	49,494	357,958	1,160,691
5	305	Collecting and Impounding Res.	6,548	-	-	-	6,548	164	573	5,975
6	306	Lake River and Other Inlakes	-	-	-	-	-	-	-	-
7	307	Wells and Springs	332,065	-	-	-	332,065	11,058	183,250	148,815
8	308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-	-
9	309	Supply Mains	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	-	-	-	-	-	-	-	-
11	311	Electric Pumping Equipment	1,429,796	77,112	-	-	1,506,908	183,544	879,449	627,459
12	320	Water Treatment Equipment	7,752,767	10,793	-	-	7,763,560	258,346	2,304,445	5,459,055
13	330	Distribution Reservoirs & Standpipe	8,049,263	121,166	-	-	8,170,419	180,038	1,995,997	6,174,423
14	331	Transmission and Distribution Mains	16,532,274	918,380	-	-	17,450,634	339,829	7,154,659	10,295,975
15	333	Services	6,936,513	453,417	(2,000)	-	7,389,929	238,569	1,060,758	6,329,172
16	334	Meters	2,630,341	95,332	-	-	2,725,672	223,078	990,757	1,734,916
17	335	Hydrants	871,877	299,756	-	-	1,171,632	20,435	235,512	936,121
18	336	Backflow Prevention Devices	-	-	-	-	-	-	-	-
19	339	Other Plant and Miscellaneous Equipment	1,610,687	-	-	-	1,610,687	107,433	135,982	1,474,725
20	340	Office Furniture and Fixtures	247,269	23,090	-	-	270,359	17,263	45,958	224,401
21	341	Transportation Equipment	534,742	573	-	-	535,315	107,006	60,636	474,679
22	342	Stores Equipment	-	-	-	-	-	-	-	-
23	343	Tools and Work Equipment	145,814	3,551	-	-	149,365	7,379	34,981	114,384
24	344	Laboratory Equipment	-	-	-	-	-	-	25	(25)
25	345	Power Operated Equipment	39,105	-	-	-	39,105	3,910	683	38,222
26	346	Communications Equipment	89,748	22,794	-	-	106,542	9,514	31,898	74,644
27	347	Miscellaneous Equipment	34,063	-	-	-	34,063	3,406	5,322	28,741
28	348	Other Tangible Plant	-	-	-	-	-	-	-	-
29		Plant Held for Future Use	-	-	-	-	-	-	-	-
30			48,964,681	2,096,109	(7,540)	-	51,053,250	1,760,466	15,479,021	35,574,229
31		RUCO Total Gross Water Plant in Service & Accumulated Depreciation					51,020,714		15,473,834	
32										
33		Company Gross Water Plant in Service & Accumulated Depreciation								
34										
35		RUCO Adjustment					32,536		5,187	

Chaparral City Water Company  
 Test Year Ended December 31, 2006  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment 3

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-7  
 SURREBUTTAL TESTIMONY

Line			
<u>No.</u>			
1	<u>OCRB Direct Plant - Remove Wells 8 &amp; 9 - Out of Service</u>		
2			
3	Company OCRB Direct Plant - Remove Wells 8 & 9 from Account 304	\$	-
4	Company OCRB Direct Plant - Remove Wells 8 & 9 from Account 307		-
5	RUCO OCRB Direct Plant - Remove Wells 8 & 9 from Account 304		(596)
6	RUCO OCRB Direct Plant - Remove Wells 8 & 9 from Account 307		(106,816)
7	RUCO Adjustment		<u>(107,412)</u>
8			
9			
10	Increase (Decrease) to OCRB Direct Plant	\$	<u>(107,412)</u>
11			
12			
13			
14	Company OCRB Direct Plant Accumulated Depreciation - A/C 304	\$	-
15	Company OCRB Direct Plant Accumulated Depreciation - A/C 307		-
16	RUCO OCRB Direct Plant Accumulated Depreciation - A/C 304		(596)
17	RUCO OCRB Direct Plant Accumulated Depreciation - A/C 307		(106,816)
18	RUCO Adjustment		<u>(107,412)</u>
19			
20			
21	Increase (Decrease) to OCRB Accumulated Depreciation	\$	<u>(107,412)</u>
22			
23			
24	Net Adjustment	\$	<u>-</u>

Chaparral City Water Company  
Test Year Ended December 31, 2006  
Original Cost Rate Base Proforma Adjustments  
Adjustment 5

DOCKET NO. W-02113A-07-0551  
SCHEDULE TJC-8  
SURREBUTTAL TESTIMONY

Line  
No.

1	<u>OCRB Direct Plant - Remove Shea Water Treatment Plant 1 - Out of Service</u>		
2			
3	Company OCRB Direct Plant - Account 320	\$ 7,763,500	
4	RUCO OCRB Direct Plant - Account 320	5,752,577	
5	RUCO Adjustment	<u>(2,010,923)</u>	
6			
7			
8	Increase (Decrease) to OCRB Direct Plant	<u>\$ (2,010,923)</u>	
9			
10			
11	Company OCRB Direct Plant Accumulated Depreciation - A/C 320	\$ 2,099,307	
12	RUCO OCRB Direct Plant Accumulated Depreciation - A/C 320	88,384	
13	RUCO Adjustment	<u>(2,010,923)</u>	
14			
15			
16	Increase (Decrease) to OCRB Accumulated Depreciation	<u>\$ (2,010,923)</u>	
17			
18			
19	Net Adjustment	<table border="1"><tr><td>0</td></tr></table>	0
0			
20			
21			
22			
23			
24	<u>SUPPORTING SCHEDULE</u>		
25	rcn_plant_Remove Shea Water Treatment Plant 1.xls		
26	ocrb_plant_Remove Shea Water Treatment Plant 1.xls		

Chaparral City Water Company  
Test Year Ended December 31, 2006  
Original Cost Rate Base Proforma Adjustments  
Adjustment 6

DOCKET NO. W-02113A-07-0551  
SCHEDULE TJC-9  
SURREBUTTAL TESTIMONY

Line  
No.

1	<u>OCRB Direct Plant - Remove Expensed Items and Capitalize</u>		
2			
3	RUCO OCRB Direct Plant - Account 304	\$	11,590
4	RUCO OCRB Direct Plant - Account 311		26,084
5	RUCO OCRB Direct Plant - Account 339		43,217
6	RUCO Adjustment		<u>80,891</u>
7			
8	Increase (Decrease) to OCRB Direct Plant	\$	<u>80,891</u>
9			
10			
11	Accept Company's Adjustment to Accumulated Depreciation		<u>3,265</u>
12			
13	Increase (Decrease) to OCRB Accumulated Depreciation	\$	3,265
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

CHAPARRAL CITY WATER COMPANY, INC.  
 TEST YEAR ENDED DECEMBER 31, 2006  
 RATE BASE ADJUSTMENT #10 - GENERAL OFFICE ALLOCATED PLANT  
 ORIGINAL COST

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-10  
 PAGE 1 of 2  
 SURREBUTTAL TESTIMONY

December 31, 2006

Line No.	General Office Plant Allocation - Plant-in-Service	Per Company Orig. Cost	4 Factor Allocation %	4 Factor Allocated Orig. Cost
1	301 Organization Cost	16,452	2.80%	461
2	302 Franchise Cost and Other Intangible Plant	1,089,237	2.80%	30,499
3	303 Land and Land Rights	-	2.80%	-
4	304 Structures and Improvements	5,802,813	2.80%	162,479
5	305 Collecting and Impounding Res.	-	2.80%	-
6	306 Lake River and Other Intakes	-	2.80%	-
7	307 Wells and Springs	-	2.80%	-
8	308 Infiltration Galleries and Tunnels	-	2.80%	-
9	309 Supply Mains	-	2.80%	-
10	310 Power Generation Equipment	-	2.80%	-
11	311 Electric Pumping Equipment	(916)	2.80%	(26)
12	320 Water Treatment Equipment	-	2.80%	-
13	330 Distribution Reservoirs & Standpipe	-	2.80%	-
14	331 Transmission and Distribution Mains	-	2.80%	-
15	333 Services	-	2.80%	-
16	334 Meters	-	2.80%	-
17	335 Hydrants	-	2.80%	-
18	336 Backflow Prevention Devices	-	2.80%	-
19	339 Other Plant and Miscellaneous Equipment	847,382	2.80%	23,727
20	340 Office Furniture and Fixtures	14,268,765	2.80%	399,525
21	341 Transportation Equipment	552,719	2.80%	15,476
22	342 Stores Equipment	-	2.80%	-
23	343 Tools and Work Equipment	405,643	2.80%	11,358
24	344 Laboratory Equipment	4,061	2.80%	114
25	345 Power Operated Equipment	249,261	2.80%	6,979
26	346 Communications Equipment	165,561	2.80%	4,636
27	347 Miscellaneous Equipment	-	2.80%	-
28	348 Other Tangible Plant	-	2.80%	-
29				
30	Company Requested Level of Total General Office Plant	\$ 23,400,978		<u>\$ 655,227</u>
31				
32	Less:			
33	RUCO OCRB Adjustment #11 - Remove Post Test Year Plant	<u>551,208</u>		
34				
35	RUCO Recommended Level of Total General Office Plant	\$ 22,849,770		
36	4 Factor Allocation Factor	<u>2.80%</u>		
37				
38	RUCO Recommended Level of Allocated General Office Plant - See TJC-5	<u>\$ 639,794</u>		
39				
40	Company Increase (Decrease) to General Office Plant-in-Service Allocation			\$ 751,171
41	RUCO Increase (Decrease) to General Office Plant-in-Service Allocation			\$ 655,227
42	RUCO Adjustment			<b>\$ (95,944)</b>

CHAPARRAL CITY WATER COMPANY, INC.  
 TEST YEAR ENDED DECEMBER 31, 2006  
 RATE BASE ADJUSTMENT #10 - ACCUMULATED DEPRECIATION  
 ORIGINAL COST

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-10  
 PAGE 2 of 2  
 SURREBUTTAL TESTIMONY

Line No.	General Office Plant Allocation - Accumulated Depreciation	RUCO Accumulated Depreciation	4 Factor Allocation %	Allocated Accumulated Depreciation
1	301 Organization Cost	3,046	2.80%	85
2	302 Franchise Cost and Other Intangible Plant	211,596	2.80%	5,925
3	303 Land and Land Rights	-	2.80%	-
4	304 Structures and Improvements	2,354,430	2.80%	65,924
5	305 Collecting and Impounding Res.	-	2.80%	-
6	306 Lake River and Other Intakes	-	2.80%	-
7	307 Wells and Springs	-	2.80%	-
8	308 Infiltration Galleries and Tunnels	-	2.80%	-
9	309 Supply Mains	-	2.80%	-
10	310 Power Generation Equipment	-	2.80%	-
11	311 Electric Pumping Equipment	-	2.80%	-
12	320 Water Treatment Equipment	-	2.80%	-
13	330 Distribution Reservoirs & Standpipe	-	2.80%	-
14	331 Transmission and Distribution Mains	-	2.80%	-
15	333 Services	-	2.80%	-
16	334 Meters	-	2.80%	-
17	335 Hydrants	-	2.80%	-
18	336 Backflow Prevention Devices	-	2.80%	-
19	339 Other Plant and Miscellaneous Equipment	162,569	2.80%	4,552
20	340 Office Furniture and Fixtures	8,664,647	2.80%	242,610
21	341 Transportation Equipment	552,718	2.80%	15,476
22	342 Stores Equipment	-	2.80%	-
23	343 Tools and Work Equipment	192,488	2.80%	5,390
24	344 Laboratory Equipment	4,062	2.80%	114
25	345 Power Operated Equipment	249,257	2.80%	6,979
26	346 Communications Equipment	165,561	2.80%	4,636
27	347 Miscellaneous Equipment	-	2.80%	-
28	348 Other Tangible Plant	-	2.80%	-
29		<u>\$ 12,560,374</u>		<u>\$ 351,690</u>
30				
31	Company Increase (Decrease) to General Office Accumulated Depreciation			\$ 403,188
32	RUCO Increase (Decrease) to General Office Accumulated Depreciation			\$ 351,690
33	RUCO Adjustment to General Office Accumulated Depreciation			<b>\$ (51,498)</b>

Chaparral City Water Company  
 Test Year Ended December 31, 2006  
 OCRB Rate Base Proforma Adjustments  
 Adjustment 11

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-11  
 SURREBUTTAL TESTIMONY

Line  
 No.

1	<u>OCRB General Office Plant - Remove Post Test Year Plant</u>	
2		
3	Company OCRB 2007 Post Test Year Plant - Account 303	\$ 159,087
4	Company OCRB 2007 Post Test Year Plant - Account 340	<u>392,121</u>
5		
6	Total Company Post Test Year - General Office Plant	551,208
7		
8	Chaparral General Office Plant Allocator	<u>2.80%</u>
9		
10	Increase (Decrease) to OCRB General Office Plant	<u>\$ (15,434)</u>
11		
12		
13	Company OCRB GO Plant Accumulated Depreciation - A/C	\$ 12,560,374
14	RUCO OCRB Direct Plant Accumulated Depreciation	<u>12,560,374</u>
15	RUCO Adjustment	<u>-</u>
16		
17	Chaparral General Office Plant Allocator	2.80%
18		
19		
20	Increase (Decrease) to Accumulated Depreciation	<u>\$ -</u>
21		
22		
23	Net Adjustment	<b>\$ (15,434)</b>
24		
25		

SUPPORTING SCHEDULE

rcn\_go\_plant\_Remove PTY Plant Adj.xls

Chaparral City Water Company  
 Test Year Ended December 31, 2006  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment 14

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-12  
 SURREBUTTAL TESTIMONY

Line  
 No.

1	<u>Computation of CIAC Balances</u>		
2			
3	Balance at 12/31/2003 per Decision		\$ 273,476
4	Additions 2004		272,024
5	Balance at 12/31/2004		<u>545,500</u>
6	Additions 2005		405,152
7	Balance at 12/31/2005		<u>950,652</u>
8	Additions 2006		5,337,445
9	Balance at 12/31/2006		<u>\$ 6,288,097</u>
10			
11	<u>Computation of Accumulated Amortization CIAC Balances (Half-year Convention)</u>		
12			
13	Balance at 12/31/2003 per Decision		\$ 15,334
14	2004 Amortization at composite rate	2.500%	<u>10,237</u>
15	Balance at 12/31/2004		25,571
16	2005 Amortization at composite rate	2.500% (9 months)	14,026
17	2005 Amortization at composite rate	3.3588% (3 months)	<u>6,282</u>
18	Balance at 12/31/2005		45,879
19	2006 Amortization at composite rate	3.3588%	<u>121,568</u>
20	Balance at 12/31/2006		<u>\$ 167,447</u>
21			
22	A.A. Balance per Computation		\$ 167,447
23	Balance at End of Test Year		<u>99,136</u>
24	Adjustment to A.A. CIAC		<u>68,311</u>
25			
26			
27	Company Adjustment		\$ 69,834
28	RUCO Adjustment		<u>68,311</u>
29			
30			
31			
32	Increase (Decrease) to Contributions-in-aid, Net		<u>\$ 1,523</u>

Reference:

Line 17 and 19 utilizes amortization rate authorized in Decision No. 68176 per Bourassa Rebuttal Schedule C-2, page 2.

CHAPARRAL CITY WATER COMPANY, INC.  
 TEST YEAR ENDED DECEMBER 31, 2006  
 RATE BASE - RCND

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-13  
 SURREBUTTAL TESTIMONY

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED
1	PLANT IN SERVICE	\$ 80,783,568	\$ (3,143,549)	\$ 77,640,019
2	ACCUMULATED DEPRECIATION	<u>(25,894,686)</u>	<u>3,771,719</u>	<u>(22,122,967)</u>
3	NET PLANT IN SERVICE	\$ 54,888,882	\$ 628,170	\$ 55,517,052
4	CONSTRUCTION WORK IN PROGRESS (CWIP)	<u>-</u>	<u>-</u>	<u>-</u>
5	TOTAL NET PLANT	\$ 54,888,882	\$ 628,170	\$ 55,517,052
	<b>Less:</b>			
6	ADVANCES IN AID OF CONSTRUCTION (AIAC)	(10,231,760)	109,513	(10,122,247)
7	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) - NET	(9,441,352)	(2,351)	(9,443,703)
8	CUSTOMER METER DEPOSITS	(819,845)	-	(819,845)
9	DEFERRED INCOME TAXES	(925,896)	-	(925,896)
10	INVESTMENT TAX CREDITS	-	-	-
11	SHARED GAIN ON WELL	(646,000)	(570,000)	(1,216,000)
	<b>Plus:</b>			
12	UNAMORTIZED DEBT ISSUANCE COSTS	424,010	-	424,010
13	WORKING CAPITAL	207,006	(100,122)	106,884
14	DEFERRED REGULATORY ASSETS	1,280,000	(1,280,000)	-
15	TOTAL RATE BASE	<u>\$ 34,735,045</u>	<u>\$ (1,214,790)</u>	<u>\$ 33,520,255</u>

**REFERENCES:**

COLUMN (A): COMPANY SCHEDULE B-4 and B-4-A  
 COLUMN (B): SCHEDULE TJC-14, PAGES 1 and 2  
 COLUMN (C): COLUMN (A) + COLUMN (B)

LINE NO.	DESCRIPTION	(A) COMPANY PROPOSED	(B) ADJ #1	(C) ADJ #2	(D) ADJ #3	(E) ADJ #4	(F) ADJ #5	(G) ADJ #6	(H) ADJ #7	(I) ADJ #8
1	PLANT IN SERVICE	\$ 80,783,568	\$ (118)	\$ (17,807)	\$ (441,470)	\$ -	\$ (3,262,891)	\$ 80,891	\$ -	\$ -
2	ACCUMULATED DEPRECIATION	(25,894,886)	(1)	4,411	441,470	-	3,282,891	(3,285)	-	-
3	NET PLANT IN SERVICE	\$ 54,888,682	\$ (119)	\$ (13,396)	\$ (0)	\$ -	\$ 0	\$ 77,626	\$ -	\$ -
4	CONSTRUCTION WORK IN PROGRESS (CWIP)	-	-	-	-	-	-	-	-	-
5	TOTAL NET PLANT	\$ 54,888,682	\$ (119)	\$ (13,396)	\$ (0)	\$ -	\$ 0	\$ 77,626	\$ -	\$ -
Less:										
6	ADVANCES IN AID OF CONSTRUCTION (AIAC)	(10,231,760)								
7	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) - NET	(9,441,352)								
8	CUSTOMER METER DEPOSITS	(819,845)								
9	DEFERRED INCOME TAXES	(925,896)								
10	INVESTMENT TAX CREDITS	-								
11	SHARED GAIN ON WELL	(646,000)								
Plus:										
12	UNAMORTIZED DEBT ISSUANCE COSTS	424,010								
13	WORKING CAPITAL	207,006								
14	DEFERRED REGULATORY ASSETS	1,280,000								
15	TOTAL RATE BASE	\$ 34,735,045	\$ (119)	\$ (13,396)	\$ (0)	\$ -	\$ 0	\$ 77,626	\$ -	\$ -

ADJUSTMENT #:  
 Adjustment #1: RCN Factor Rounding Adjustment  
 Adjustment #2: Correct Account 304 Index Factors on 3 Line Items  
 Adjustment #3: Remove Wells 8 & 9 from Plant-in-Service and Accumulated Depreciation  
 Adjustment #4: Intentionally Left Blank  
 Adjustment #5: Remove Shea Water Treatment Plant - Out of Service  
 Adjustment #6: Remove Expensed Plant Items and Capitalize  
 Adjustment #7: Intentionally Left Blank  
 Adjustment #8: Intentionally Left Blank

REFERENCE:  
 SCHEDULE TJC-16  
 SCHEDULE TJC-17  
 SCHEDULE TJC-18  
 SCHEDULE TJC-19  
 SCHEDULE TJC-20

LINE NO.	DESCRIPTION	(J) ADJ.#9	(K) ADJ.#10	(L) ADJ.#11	(M) ADJ.#12	(N) ADJ.#13	(O) ADJ.#14	(P) ADJ.#15	(Q) ADJ.#16	(R) RUCO ADJUSTED
1	PLANT IN SERVICE		\$ (126,720)	\$ (15,434)	\$ -	\$ -	\$ -	\$ 640,000	\$ -	\$ 77,640,019
2	ACCUMULATED DEPRECIATION	67,617	(1,404)							(22,122,967)
3	NET PLANT IN SERVICE	\$ -	\$ (59,103)	\$ (16,837)	\$ -	\$ -	\$ -	\$ 640,000	\$ -	\$ 55,517,052
4	CONSTRUCTION WORK IN PROGRESS (CWIP)									
5	TOTAL NET PLANT	\$ -	\$ (59,103)	\$ (16,837)	\$ -	\$ -	\$ -	\$ 640,000	\$ -	\$ 55,517,052
	Less:					109,513				(10,122,247)
6	ADVANCES IN AID OF CONSTRUCTION (AIAC)									(9,443,703)
7	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) - NET						(2,351)			(819,845)
8	CUSTOMER METER DEPOSITS									(925,898)
9	DEFERRED INCOME TAXES									
10	DEFERRED INCOME TAX CREDITS									
11	SHARED GAIN ON WELL				(570,000)					(1,216,000)
	Plus:									
12	UNAMORTIZED DEBT ISSUANCE COSTS									424,010
13	WORKING CAPITAL								(100,122)	106,884
14	DEFERRED REGULATORY ASSETS							(1,280,000)		
15	TOTAL RATE BASE	\$ -	\$ (59,103)	\$ (16,837)	\$ (670,000)	\$ 109,513	\$ (2,351)	\$ (640,000)	\$ (100,122)	\$ 33,520,255

REFERENCE:

- ADJUSTMENT #9: Intentionally Left Blank
- Adjustment #10: Correct 4-Factor General Office Plant & Accumulated Depreciation Allocation Factor
- Adjustment #11: Remove Post Test Year GO Plant in Account 303 & 340
- Adjustment #12: Well Settlement Proceeds
- Adjustment #13: AIAC RCN Factor Adjustment
- Adjustment #14: To correct CIAC amortization rate authorized in Decision No. 68176 per Bourassa Rebuttal Schedule C-2, page 2.
- Adjustment #15: To Remove Deferred Regulatory Asset - Additional CAP Allocation

CHAPARRAL CITY WATER COMPANY, INC.  
 TEST YEAR ENDED DECEMBER 31, 2006  
 OPERATING ADJ. #1 - TOTAL RCND UTILITY PLANT IN SERVICE (UPIS)  
 AND ACCUMULATED DEPRECIATION

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-15  
 SURREBUTTAL TESTIMONY

Total Chaparral City Water RCND UPIS:

Line No.	Description	Amount
1	Chaparral City Water Direct Plant Per Company	\$ 79,791,440
2	Chaparral City Water Direct Plant Per RUCO	76,741,731
3	RUCO's Direct Plant Adjustment	<u>\$ (3,049,709)</u>
4	Chaparral City Water General Office Plant Allocation Per Company	\$ 992,128
5	Chaparral City Water General Office Plant Allocation Per RUCO	849,978
6	RUCO's General Office Plant Allocation Adjustment	<u>\$ (142,150)</u>
7	Total Chaparral City Water Gross RCN UPIS Per Company	\$ 80,783,568
8	Total Chaparral City Water Gross UPIS Per RUCO	77,591,709
9	Total RUCO Gross UPIS Adjustment	<u>\$ (3,191,859)</u>

Total Chaparral City Water RCND Accumulated Depreciation:

10	Chaparral City Water Direct Plant Accumulated Depreciation Per Company	\$ 25,365,293
11	Chaparral City Water Direct Plant Accumulated Depreciation Per RUCO	21,267,651
12	RUCO's Direct Plant Accumulated Depreciation Adjustment	<u>(4,077,642)</u>
13	Chaparral City Water General Office Allocation of Accumulated Depreciation Per Company	529,393
14	Chaparral City Water General Office Allocation of Accumulated Depreciation Per RUCO	463,180
15	RUCO's General Office Allocation of Accumulated Depreciation Adjustment	<u>(66,213)</u>
16	Total Chaparral City Water Accumulated Depreciation Per Company	25,894,686
17	Total Chaparral City Water Accumulated Depreciation Per RUCO	21,750,830
18	Total RUCO Accumulated Depreciation Adjustment	<u>\$ (4,143,856)</u>
19	RUCO's Chaparral City Water Plant Adjustment - Net of Accumulated Depreciation	<b>\$ 951,996</b>

Supporting Schedules:  
 {TJC-4(a)Schedules(Pages 1-5)\DirectPlant\AZ-CorpPlant\CentralDivisionPlant}  
 Regarding RUCO's Eastern Div. treatment see Company response to RUCO DR 2.06

Chaparral City Water Company  
 Test Year Ended December 31, 2006  
 RCND Rate Base Proforma Adjustments  
 Adjustment 1

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-16  
 SURREBUTTAL TESTIMONY

Line  
 No.

1	<u>RCN Direct Plant - Rounding Adjustment</u>	
2		
3	Company RCN Trended Direct Plant	\$ 79,791,440
4	RUCO RCN Trended Direct Plant	79,791,322
5	RUCO Adjustment	<u>(118)</u>
6		
7		
8	Increase (Decrease) to RCN Direct Plant	<u>\$ (118)</u>
9		
10		
11	Company RCN Trended Direct Plant Accumulated Depreciation	\$ 24,502,143
12	RUCO RCN Trended Direct Plant Accumulated Depreciation	24,502,143
13	RUCO Adjustment	<u>1</u>
14		
15		
16	Increase (Decrease) to Accumulated Depreciation	<u>\$ 1</u>
17		
18		
19	Net Adjustment	<b>\$ (119)</b>
20		
21		
22		
23		
24	<u>SUPPORTING SCHEDULE</u>	
25	rcn_plant_correct_RCND Factor Rounding.xls	

Chaparral City Water Company  
Test Year Ended December 31, 2006  
RCND Rate Base Proforma Adjustments  
Adjustment 2

DOCKET NO. W-02113A-07-0551  
SCHEDULE TJC-17  
SURREBUTTAL TESTIMONY

Line  
No.

1	<u>RCN Direct Plant - Correct Account 304 Index Factor</u>	
2		
3	Company RCN Trended Direct Plant - Account 304	\$ 1,965,394
4	RUCO RCN Trended Direct Plant - Account 304	1,947,587
5	RUCO Adjustment	<u>(17,807)</u>
6		
7		
8	Increase (Decrease) to RCN Direct Plant	<u>\$ (17,807)</u>
9		
10		
11	Company RCN Trended Direct Plant Accumulated Depreciation - A/C 304	\$ 486,810
12	RUCO RCN Trended Direct Plant Accumulated Depreciation - A/C 304	482,399
13	RUCO Adjustment	<u>(4,411)</u>
14		
15		
16	Increase (Decrease) to Accumulated Depreciation	<u>\$ (4,411)</u>
17		
18		
19	Net Adjustment	<u>\$ (13,396)</u>
20		
21		
22		
23		
24	<u>SUPPORTING SCHEDULE</u>	
25	rcn_plant_correct_Acct 304_Index.xls	

Chaparral City Water Company  
 Test Year Ended December 31, 2006  
 RCND Rate Base Proforma Adjustments  
 Adjustment 3

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-18  
 SURREBUTTAL TESTIMONY

Line  
 No.

1	<u>RCN Direct Plant - Remove Wells 8 &amp; 9 - Out of Service</u>	
2		
3	Company RCN Trended Direct Plant - Wells 8 & 9 from Account 307	\$ 441,470
4	RUCO RCN Trended Direct Plant - Wells 8 & 9 from Account 307	-
5	RUCO Adjustment	<u>(441,470)</u>
6		
7		
8	Increase (Decrease) to RCN Direct Plant	<u>\$ (441,470)</u>
9		
10		
11	Company RCN Trended Direct Plant Accumulated Depreciation - A/C 307	\$ 150,254
12	RUCO RCN Trended Direct Plant Accumulated Depreciation - A/C 307	(291,216)
13	RUCO Adjustment	<u>(441,470)</u>
14		
15		
16	Increase (Decrease) to Accumulated Depreciation	<u>\$ (441,470)</u>
17		
18		
19	Net Adjustment	<u>\$ (0)</u>
20		
21		
22		
23		
24	<u>SUPPORTING SCHEDULE</u>	
25	rcn_plant_Remove Well 8_9.xls	

Chaparral City Water Company  
 Test Year Ended December 31, 2006  
 RCN Rate Base Proforma Adjustments  
 Adjustment 5

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-19  
 SURREBUTTAL TESTIMONY

Line				
<u>No.</u>				
1	<u>RCND Direct Plant - Remove Shea Water Treatment Plant 1 - Out of Service</u>			
2				
3	Company RCN Direct Plant - Account 320	\$ 9,969,130		
4	RUCO RCN Direct Plant - Account 320	6,706,239		
5	RUCO Adjustment	<u>(3,262,891)</u>		
6				
7				
8	Increase (Decrease) to RCN Direct Plant	<u>\$ (3,262,891)</u>		
9				
10				
11	Company RCN Direct Plant Accumulated Depreciation - A/C 320	\$ 2,695,725		
12	RUCO RCN Direct Plant Accumulated Depreciation - A/C 320	(567,166)		
13	RUCO Adjustment	<u>(3,262,891)</u>		
14				
15				
16	Increase (Decrease) to Accumulated Depreciation	<u>\$ (3,262,891)</u>		
17				
18				
19	Net Adjustment	<table border="1" style="display: inline-table; vertical-align: middle;"><tr><td style="text-align: center;">\$</td><td style="text-align: center;">0</td></tr></table>	\$	0
\$	0			
20				
21				
22				
23				
24	<u>SUPPORTING SCHEDULE</u>			
25	rcn_plant_Remove Shea Water Treatment Plant 1.xls			

Chaparral City Water Company  
 Test Year Ended December 31, 2006  
 RCN Rate Base Proforma Adjustments  
 Adjustment 6

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-20  
 SURREBUTTAL TESTIMONY

Line No.			
1	<u>RCRB Direct Plant - Remove Expensed Items and Capitalize</u>		
2			
3	RUCO RCRB Direct Plant - Account 304	\$	11,590
4	RUCO RCRB Direct Plant - Account 311		26,084
5	RUCO RCRB Direct Plant - Account 339		43,217
6	RUCO Adjustment		<u>80,891</u>
7			
8	Increase (Decrease) to RCRB Direct Plant	\$	<u>80,891</u>
9			
10			
11	Accept Company's Adjustment to Accumulated Depreciation		<u>3,265</u>
12			
13	Increase (Decrease) to RCRB Accumulated Depreciation	\$	<u>3,265</u>
14			
15			
16	Net Adjustment	\$	<b>77,626</b>
17			
18			
19			
20			
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23			
24	<u>SUPPORTING SCHEDULE</u>		
25	rcn_plant_Remove Expensed Items & Capitalize.xls		

Chaparral City Water Company  
 Test Year Ended December 31, 2006  
 RCND Rate Base Proforma Adjustments  
 Adjustment 10

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-21  
 PAGE 1 of 2  
 SURREBUTTAL TESTIMONY

Line No.			Company	RUCO	
			Trended	4 Factor	4 Factor
			RCN Value	Allocation %	Allocated
	<u>NARUC</u>	<u>NARUC Description</u>			Trended RCN
1	<u>General Office Plant Allocation - Plant-in-service</u>				
2					
3					
4	301	Organization Cost	16,452	2.80%	461
5	302	Franchise Cost and Other Intangible Plant	1,089,237	2.80%	30,499
6	303	Land and Land Rights	-	2.80%	-
7	304	Structures and Improvements	9,379,730	2.80%	262,632
8	305	Collecting and Impounding Res.	-	2.80%	-
9	306	Lake River and Other Intakes	-	2.80%	-
10	307	Wells and Springs	-	2.80%	-
11	308	Infiltration Galleries and Tunnels	-	2.80%	-
12	309	Supply Mains	-	2.80%	-
13	310	Power Generation Equipment	-	2.80%	-
14	311	Electric Pumping Equipment	(1,860)	2.80%	(52)
15	320	Water Treatment Equipment	-	2.80%	-
16	330	Distribution Reservoirs & Standpipe	-	2.80%	-
17	331	Transmission and Distribution Mains	-	2.80%	-
18	333	Services	-	2.80%	-
19	334	Meters	-	2.80%	-
20	335	Hydrants	-	2.80%	-
21	336	Backflow Prevention Devices	-	2.80%	-
22	339	Other Plant and Miscellaneous Equipment	1,055,403	2.80%	29,551
23	340	Office Furniture and Fixtures	17,188,237	2.80%	481,271
24	341	Transportation Equipment	606,575	2.80%	16,984
25	342	Stores Equipment	-	2.80%	-
26	343	Tools and Work Equipment	663,298	2.80%	18,572
27	344	Laboratory Equipment	15,358	2.80%	430
28	345	Power Operated Equipment	634,172	2.80%	17,757
29	346	Communications Equipment	260,818	2.80%	7,303
30	347	Miscellaneous Equipment	-	2.80%	-
31	348	Other Tangible Plant	-	2.80%	-
32					
33			<u>\$ 30,907,420</u>		<u>\$ 865,408</u>
34					
35					
36		Company Computed General Office Plant			\$ 992,128
37		RUCO Computed General Office Plant			865,408
38					
39		Increase (Decrease) to Plant -in-service			<u>(126,720)</u>

SUPPORTING SCHEDULE

rcn\_plant\_correct\_RCN Factor Rounding.xls

**Chaparral City Water Company**  
 Test Year Ended December 31, 2006  
 RCND Rate Base Proforma Adjustments  
 Adjustment 10

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-21  
 PAGE 2 of 2  
 SURREBUTTAL TESTIMONY

Line  
 No.

<u>General Office Plant Allocation - Accumulated Depreciation</u>		<b>Company Trended RCN Value</b>	<b>4 Factor Allocation %</b>	<b>4 Factor Allocated Trended RCN Accum. Depr.</b>	
<u>NARUC</u>	<u>NARUC Description</u>	<u>Accum. Depr.</u>		<u>Accum. Depr.</u>	
1					
2					
3					
4					
5					
6	301	Organization Cost	3,046	2.80%	85
7	302	Franchise Cost and Other Intangible Plant	211,596	2.80%	5,925
8	303	Land and Land Rights	-	2.80%	-
9	304	Structures and Improvements	3,805,726	2.80%	106,560
10	305	Collecting and Impounding Res.	-	2.80%	-
11	306	Lake River and Other Intakes	-	2.80%	-
12	307	Wells and Springs	-	2.80%	-
13	308	Infiltration Galleries and Tunnels	-	2.80%	-
14	309	Supply Mains	-	2.80%	-
15	310	Power Generation Equipment	-	2.80%	-
16	311	Electric Pumping Equipment	-	2.80%	-
17	320	Water Treatment Equipment	-	2.80%	-
18	330	Distribution Reservoirs & Standpipe	-	2.80%	-
19	331	Transmission and Distribution Mains	-	2.80%	-
20	333	Services	-	2.80%	-
21	334	Meters	-	2.80%	-
22	335	Hydrants	-	2.80%	-
23	336	Backflow Prevention Devices	-	2.80%	-
24	339	Other Plant and Miscellaneous Equipment	202,477	2.80%	5,669
25	340	Office Furniture and Fixtures	10,437,484	2.80%	292,250
26	341	Transportation Equipment	606,574	2.80%	16,984
27	342	Stores Equipment	-	2.80%	-
28	343	Tools and Work Equipment	314,752	2.80%	8,813
29	344	Laboratory Equipment	15,362	2.80%	430
30	345	Power Operated Equipment	634,162	2.80%	17,757
31	346	Communications Equipment	260,818	2.80%	7,303
32	347	Miscellaneous Equipment	-	2.80%	-
33	348	Other Tangible Plant	-	2.80%	-
34					
35			<u>\$ 16,491,997</u>		<u>\$ 461,776</u>
36					
37		Company Computed General Office Accumulated Depreciation			\$ 529,393
38		RUCO Computed General Office Accumulated Depreciation			461,776
39					
40		Increase (Decrease) to Accumulated Depreciation			<u>\$ (67,617)</u>

Chaparral City Water Company  
 Test Year Ended December 31, 2006  
 RCND Rate Base Proforma Adjustments  
 Adjustment 11

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-22  
 SURREBUTTAL TESTIMONY

Line No.			
1	<u>RCN General Office Plant - Remove Post Test Year Plant</u>		
2			
3	Company RCN Trended 2007 Post Test Year Plant - Account 303	\$	159,087
4	Company RCN Trended 2007 Post Test Year Plant - Account 340		<u>392,121</u>
5			
6	Total Company Post Test Year - General Office Plant		551,208
7			
8	4-Factor Allocator		<u>2.80%</u>
9			
10	Increase (Decrease) to RCN General Office Plant	\$	<u>(15,434)</u>
11			
12			
13	Company RCN Trended GO Plant Accumulated Depreciation	\$	16,491,997
14	RUCO RCN Trended Direct Plant Accumulated Depreciation		<u>16,542,128</u>
15	RUCO Adjustment		<u>50,131</u>
16			
17	Chaparral General Office Plant Allocator		2.80%
18			
19			
20	Increase (Decrease) to Accumulated Depreciation	\$	<u>1,404</u>
21			
22			
23	Net Adjustment	\$	<b>(16,837)</b>
24			
25			

SUPPORTING SCHEDULE  
 rcn\_go\_plant\_Remove PTY Plant Adj.xls

Chaparral City Water Company  
Test Year Ended December 31, 2006  
RCND Rate Base Proforma Adjustments  
Adjustment 13

DOCKET NO. W-02113A-07-0551  
SCHEDULE TJC-23  
SURREBUTTAL TESTIMONY

Line  
No.

1	<u>RCN General Office Plant - Adjust AIAC RCN Factor Balance</u>	
2		
3	Company RCN Trended AIAC Balance	\$ (10,231,760)
4	RUCO RCN Trended AIAC Balance	<u>(10,122,247)</u>
5		
6	Difference in Accum. Depre. - Line 7 minus Line 4	(109,513)
7		
8		
9	Increase (Decrease) to RCN AIAC Balance	<u>\$ (109,513)</u>
10		
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SUPPORTING SCHEDULE  
SCHEDULE TJC-2

Chaparral City Water Company  
Test Year Ended December 31, 2006  
RCN Rate Base Proforma Adjustments  
Adjustment 14

DOCKET NO. W-02113A-07-0551  
SCHEDULE TJC-24  
SURREBUTTAL TESTIMONY

Line

No.

1	<u>RCN Computation of CIAC Balance</u>		
2			
3	Company CIAC Balance Per OCRB Schedule TJC-2	\$	(6,119,129)
4			
5	RUCO CIAC Balance Per OCRB Schedule TJC-2		<u>(6,120,652)</u>
6			
7	Increase (Decrease) to OCRB CIAC Balance	\$	1,523
8			
9	RUCO RCN CIAC Trended Factor		<u>1.5437</u>
10			
11	Increase (Decrease) to RCN CIAC Balance	\$	<u>2,351</u>

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29 Reference:  
30 SCHEDULE TJC-2  
31 Line 17 and 19 utilizes amortization rate authorized in Decision No. 68176  
32 per Bourassa Rebuttal Schedule C-2, page 2.

Chaparral City Water Company  
Test Year Ended December 31, 2006  
RCND Rate Base Proforma Adjustments  
Adjustment 15

DOCKET NO. W-02113A-07-0551  
SCHEDULE TJC-25  
SURREBUTTAL TESTIMONY

Line  
No.

1	<u>Remove Deferred Regulatory Asset and Place 1/2 in UPIS - Additional CAP Allocation</u>	
2		
3	Company Deferred Regulatory Asset	\$ 1,280,000
4		
5	RUCO Adjustment	<u>(1,280,000)</u>
6		
7	Increase (Decrease) to RCN Rate Base	<u><u>\$(1,280,000)</u></u>

CHAPARRAL CITY WATER COMPANY, INC.  
TEST YEAR ENDED DECEMBER 31, 2006  
RATE BASE ADJ. #16 - WORKING CAPITAL ADJUSTMENT  
WORKING CAPITAL ADJUSTMENT SUMMARY

DOCKET NO. W-02113A-07-0551  
SCHEDULE TJC-26  
PAGE 1 OF 15  
SURREBUTTAL TESTIMONY

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
1	Cash Working Capital per Company	\$ -
2	Cash Working Capital per RUCO	(100,122)
3	RUCO Adjustment	<u>(100,122)</u>
4	Materials & Supplies Inventories per Company	\$ 14,521
5	Materials & Supplies Inventories per RUCO	14,521
6	RUCO Adjustment	<u>-</u>
7	Prepayments per Company	\$ 192,485
8	Prepayments per RUCO	192,485
9	RUCO Adjustment	<u>-</u>
10	Total Working Capital Adjustment	<b>\$ (100,122)</b>

**REFERENCES:**

Lines 1, 4, and 7: Company Schedule B-1, Page 1  
Line 2: See RUCO Schedule TJC-29, Page 2 of 14  
Line 10: Line 3 + Line 6 + Line 9

CHAPARRAL CITY WATER COMPANY, INC.  
 TEST YEAR ENDED DECEMBER 31, 2006  
 RATE BASE ADJ. #16 - WORKING CAPITAL ADJUSTMENT  
 LEAD/LAG CALCULATION

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-26  
 PAGE 2 OF 15  
 SURREBUTTAL TESTIMONY

LINE NO.	DESCRIPTION	(A) EXPENSES PER COMPANY	(B) RUCO ADJUSTMENTS	(C) RUCO ADJUSTED EXPENSES	(D) RUCO (LEAD)/LAG DAYS	(E) RUCO \$ DAYS
1	SALARIES and WAGES	\$ 969,244	\$ -	969,244 *	12.00	\$ 11,630,928
2	PURCHASED WATER	831,656	(10,186)	821,470 *	(36.88)	(30,295,639)
3	PURCHASED POWER	602,982	11,619	614,601 *	35.05	21,544,177
4	CHEMICALS	127,457	-	127,457 *	(50.91)	(6,488,529)
5	REPAIRS & MAINTENANCE	104,609	(43,217)	61,392 *	30.00	1,841,760
6	OFFICE SUPPLIES & EXPENSE	19,800	-	19,800 *	22.70	449,550
7	OUTSIDE SERVICES	266,544	(109,049)	157,495 *	29.09	4,581,765
8	WATER TESTING	43,458	(17,820)	25,638 *	15.72	402,954
9	TRANSPORTATION EXPENSES	70,430	-	70,430 *	30.00	2,112,900
10	INSURANCE - GENERAL LIABILITY	(1,294)	-	(1,294) *	30.00	(38,820)
11	RENTS	-	-	- *	0.00	-
12	MISCELLANEOUS EXPENSE	1,259,948	38,164	1,298,112 *	30.00	38,943,360
13	TAXES OTHER THAN INCOME	47,873	-	47,873 *	75.62	3,620,156
14	PROPERTY TAXES	295,813	(77,724)	218,089 *	212.50	46,343,887
15	STATE INCOME TAXES	48,745	114,912	163,657 *	62.65	10,253,093
16	FEDERAL INCOME TAXES	221,275	521,525	742,800	37.50	27,854,986
17	INTEREST	367,737	(55,249)	312,488 *	90.00	28,123,944
18	TOTAL OPERATING EXPENSES	<u>\$ 5,276,277</u>	<u>\$ 372,974</u>	<u>\$ 5,649,251</u>		<u>\$ 160,880,473</u>
19	EXPENSE LAG				28.48	
20	REVENUE LAG				22.01	
21	NET LAG				(6.47)	
22	CASH WORKING CAPITAL	<u>\$ (100,122)</u>				

**NOTE**

\* RUCO RECOMMENDED LEVEL OF CASH WORKING CAPITAL EXPENSES

ARIZONA-AMERICAN WATER COMPANY  
 TEST YEAR ENDED DECEMBER 31, 2006  
 RATE BASE ADJ. #16 - WORKING CAPITAL  
 REVENUE LEAD/LAG ANALYSIS

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-26  
 PAGE 3 OF 15  
 SURREBUTTAL TESTIMONY

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	
	SERVICE PERIOD										
LINE NO.	BEGINNING	ENDING	MID-POINT SERVICE PERIOD	BILL DATE	BILLING LAG	DUE DATE	PAY LAG	REVENUE LAG DAYS	AMOUNT OF BILL	RUCO \$ DAYS	
1	3/1/2006	3/31/2006	15.00	3/14/2006	-17.00	4/4/2006	21.00	19.00	\$ 34.07	\$ 647	
2	3/1/2006	3/31/2006	15.00	3/21/2006	-10.00	4/11/2006	21.00	26.00	28.57	743	
3	3/1/2006	3/31/2006	15.00	3/14/2006	-17.00	4/4/2006	21.00	19.00	25.82	491	
4	3/1/2006	3/31/2006	15.00	3/22/2006	-9.00	4/12/2006	21.00	27.00	25.82	697	
5	3/1/2006	3/31/2006	15.00	3/22/2006	-9.00	4/12/2006	21.00	27.00	25.82	697	
6	3/1/2006	3/31/2006	15.00	3/20/2006	-11.00	4/10/2006	21.00	25.00	31.33	783	
7	3/1/2006	3/31/2006	15.00	3/13/2006	-18.00	4/3/2006	21.00	18.00	52.24	940	
8	3/1/2006	3/31/2006	15.00	3/13/2006	-18.00	4/3/2006	21.00	18.00	82.49	1,485	
9	3/1/2006	3/31/2006	15.00	3/6/2006	-25.00	3/27/2006	21.00	11.00	52.24	575	
10	3/1/2006	3/31/2006	15.00	3/14/2006	-17.00	4/4/2006	21.00	19.00	57.74	1,097	
11	3/1/2006	3/31/2006	15.00	3/21/2006	-10.00	4/11/2006	21.00	26.00	41.22	1,072	
12	3/1/2006	3/31/2006	15.00	3/3/2006	-28.00	3/24/2006	21.00	8.00	63.23	506	
13	3/1/2006	3/31/2006	15.00	3/7/2006	-24.00	3/28/2006	21.00	12.00	41.22	495	
14	3/1/2006	3/31/2006	15.00	3/15/2006	-16.00	4/5/2006	21.00	20.00	301.83	6,037	
15	3/1/2006	3/31/2006	15.00	3/22/2006	-9.00	4/12/2006	21.00	27.00	549.86	14,846	
16											
17									\$ 1,414	\$ 31,110	
18											
19											
20	RUCO REVENUE LAG DAYS										
										22.01	

REFERENCES:  
 15 Chaparral City Water Bills

CHAPARRAL CITY WATER COMPANY, INC.  
 TEST YEAR ENDED DECEMBER 31, 2006  
 RATE BASE ADJ. #16 - WORKING CAPITAL  
 INTEREST EXPENSE (LEAD)/LAG ANALYSIS

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-28  
 PAGE 4 OF 15  
 SURREBUTTAL TESTIMONY

LINE NO.	DESCRIPTION	(A) SERVICE PERIOD		(C)	(D)	(E)	(F)	(G)		
		BEGINNING	ENDING	MID-POINT SERVICE PERIOD	PAYMENT DATE	PAYMENT (LEAD)/LAG	PAYMENT AMOUNT	DOLLAR	DAYS	
1	Bond due 2007	1/1/2006	12/31/2006	7/2/2006	6/30/2006 12/31/2006	(2.00) 182.00	1.75% 1.75%	\$	(0) 3	
2	Bond due 2011	1/1/2006	12/31/2006	7/2/2006	6/30/2006 12/31/2006	(2.00) 182.00	7.28% 7.28%		(0) 13	
3	Bond due 2022	1/1/2006	12/31/2006	7/2/2006	6/30/2006 12/31/2006	(2.00) 182.00	33.58% 33.58%		(1) 61	
4	Bond due 2022	1/1/2006	12/31/2006	7/2/2006	6/30/2006 12/31/2006	(2.00) 182.00	7.39% 7.39%		(0) 13	
5	TOTAL PAYMENTS & DOLLAR DAYS							100.00%	\$	90
6	INTEREST EXPENSE LAG DAYS									90.00

CHAPARRAL CITY WATER COMPANY, INC.  
 TEST YEAR ENDED DECEMBER 31, 2006  
 RATE BASE ADJ. #16 - WORKING CAPITAL  
 PROPERTY TAX LAG DAYS ANALYSIS

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-26  
 PAGE 5 OF 15  
 SURREBUTTAL TESTIMONY

LINE NO.	(A) (B) SERVICE PERIOD		(C)	(D)	(E)
	BEGINNING	ENDING	MID-POINT SERVICE PERIOD	DUE DATE	EXPENSE LAG DAYS
1	1/1/2005	12/31/2005	7/1/2005	10/31/2005	61.00
2				4/30/2006	151.50
3	TOTAL PROPERTY TAX LAG DAYS				212.50

CHAPARRAL CITY WATER COMPANY, INC.  
 TEST YEAR ENDED DECEMBER 31, 2006  
 RATE BASE ADJ. #16 - WORKING CAPITAL  
 CALCULATION OF FEDERAL INCOME TAX LAG

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-26  
 PAGE 6 OF 15  
 SURREBUTTAL TESTIMONY

LINE NO.	(A) PAYMENT DATE	(B) SERVICE PERIOD MIDPOINT	(C) (LEAD)/LAG DAYS	(D) PAYMENT AMOUNT	(E) DOLLAR DAYS
1	04/15/05	07/01/05	(77.00)	25.00%	(19.25)
2	06/15/05	07/01/05	(16.00)	25.00%	(4.00)
3	09/15/05	07/01/05	76.00	25.00%	19.00
4	12/15/05	07/01/05	167.00	25.00%	41.75
5	TOTALS			100.00%	37.50
6	INCOME TAX LAG		37.50		

CHAPARRAL CITY WATER COMPANY, INC.  
 TEST YEAR ENDED DECEMBER 31, 2006  
 RATE BASE ADJ. #16 - WORKING CAPITAL  
 CALCULATION OF STATE INCOME TAX LAG

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-26  
 PAGE 7 OF 15  
 SURREBUTTAL TESTIMONY

LINE NO.	(A) PAYMENT DATE	(B) SERVICE PERIOD MIDPOINT	(C) (LEAD)/LAG DAYS	X	(D) PAYMENT AMOUNT	=	(E) DOLLAR DAYS
1	04/15/99	07/01/99	(77.00)		22.50%	\$	(17)
2	06/15/99	07/01/99	(16.00)		22.50%		(4)
3	09/15/99	07/01/99	76.00		22.50%		17
4	12/15/99	07/01/99	167.00		22.50%		38
5	04/15/00	07/01/99	289.00		10.00%		29
6	TOTALS				1.00		62.65
7	INCOME TAX LAG		62.65				

CHAPARRAL CITY WATER COMPANY, INC.  
 TEST YEAR ENDED DECEMBER 31, 2006  
 RATE BASE ADJ. #16 - WORKING CAPITAL  
 OUTSIDE SERVICES EXPENSE LEAD/LAG ANALYSIS

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-26  
 PAGE 8 OF 15  
 SURREBUTTAL TESTIMONY

LINE NO.	DESCRIPTION	(A) SERVICE PERIOD		(C)	(D)	(E)	(F)	(G)
		BEGINNING	ENDING	MID-POINT SERVICE PERIOD	PAYMENT DATE	PAYMENT (LEAD)/LAG	PAYMENT AMOUNT	DOLLAR DAYS
1	TNT Technology Co.	12/18/2006	12/24/2006	12/21/2006	1/25/2007	35.00	\$ 1,060	\$ 37,100
2	NYE Tru Landscape	11/1/2005	11/30/2005	11/15/2005	12/30/2005	44.50	22,875	1,017,938
3	Quadna	2/6/2006	2/10/2006	2/8/2006	2/23/2006	15.00	35,433	531,495
4	TMV	5/1/2006	5/31/2006	5/16/2006	6/15/2006	30.00	500	15,000
5	Workplace Safety	9/23/2005	9/30/2005	9/26/2005	9/29/2005	2.50	244	610
6	Fennemore Craig	7/1/2006	7/31/2006	7/16/2006	8/21/2006	36.00	21,221	763,956
7	Total						\$ 81,333	\$ 2,366,099
8	Lead/Lag Days						29.09	

CHAPARRAL CITY WATER COMPANY, INC.  
 TEST YEAR ENDED DECEMBER 31, 2006  
 RATE BASE ADJ. #16 - WORKING CAPITAL  
 PURCHASED POWER EXPENSE LEAD/LAG ANALYSIS

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-26  
 PAGE 9 OF 15  
 SURREBUTTAL TESTIMONY

LINE NO.	DESCRIPTION	(A) SERVICE PERIOD		(C)	(D)	(E)	(F)	(G)
		BEGINNING	ENDING	MID-POINT SERVICE PERIOD	PAYMENT DATE	PAYMENT (LEAD)/LAG	PAYMENT AMOUNT	DOLLAR DAYS
<b>APS:</b>								
1	Jan-08	12/11/2007	1/9/2008	12/25/2007	1/31/2008	36.50	\$ 17,136.95	\$ 625,499
2	Dec-07	11/8/2007	12/11/2007	11/24/2007	12/31/2007	36.50	22,160.38	808,854
3	Nov-07	10/10/2007	11/8/2007	10/24/2007	11/30/2007	36.50	29,886.99	1,090,875
4	Oct-07	9/11/2007	10/10/2007	9/25/2007	10/29/2007	33.50	30,158.30	1,010,303
5	Total						99,342.62	3,535,530.73
6	Lead/Lag Days						35.59	
<b>SRP:</b>								
7	Dec-07			15.5	23.5	39.00	\$ 18,238.75	\$ 711,311
8	Oct-07			15	21	36.00	13,647.95	491,325
9	Sep-07			16.5	16.5	33.00	13,996.67	461,890
10	Aug-07			15	13	28.00	12,379.76	346,633
11	Total						\$ 58,263.13	\$ 2,011,161
12	Lead/Lag Days						34.52	
13	Average Lead/Lag Days						35.05	

CHAPARRAL CITY WATER COMPANY, INC.  
TEST YEAR ENDED DECEMBER 31, 2006  
RATE BASE ADJ. #16 - WORKING CAPITAL  
CALCULATION OF STATE INCOME TAX LAG

DOCKET NO. W-02113A-07-0551  
SCHEDULE TJC-26  
PAGE 10 OF 15  
SURREBUTTAL TESTIMONY

<u>LINE NO.</u>	(A) <u>SERVICE PERIOD</u>	(B) <u>SERVICE PERIOD MIDPOINT</u>	(C) <u>PAY DATE</u>	(D) <u>LAG DAYS</u>
1	14 Days	7 Days	5	12 Days

CHAPARRAL CITY WATER COMPANY, INC.  
TEST YEAR ENDED DECEMBER 31, 2006  
RATE BASE ADJ. #16 - WORKING CAPITAL  
TAXES OTHER THAN INCOME

DOCKET NO. W-02113A-07-0551  
SCHEDULE TJC-26  
PAGE 11 OF 15  
SURREBUTTAL TESTIMONY

<u>LINE NO.</u>	(A) <u>SERVICE PERIOD</u>	(B) <u>SERVICE PERIOD MIDPOINT</u>	(C) <u>PAY DATE</u>	(D) <u>LAG DAYS</u>
1	91.25 Days	45.62 Days	30	75.62

CHAPARRAL CITY WATER COMPANY, INC.  
 TEST YEAR ENDED DECEMBER 31, 2006  
 RATE BASE ADJ. #16 - WORKING CAPITAL  
 OFFICE SUPPLIES EXPENSE LEAD/LAG ANALYSIS

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-26  
 PAGE 12 OF 15  
 SURREBUTTAL TESTIMONY

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)	(G)
		BEGINNING	ENDING	MID-POINT SERVICE PERIOD	PAYMENT DATE	PAYMENT (LEAD)/LAG	PAYMENT AMOUNT	DOLLAR DAYS
1	lkon	11/8/2005	2/8/2006	12/24/2005	2/18/2006	56.00	\$ 350.98	\$ 19,655
2	lkon	5/8/2006	8/8/2006	6/23/2006	8/18/2006	56.00	336.79	18,860
3	lkon	8/8/2006	11/8/2006	9/23/2006	11/18/2006	56.00	382.83	21,438
4	Robertson Consulting	7/6/2006	7/24/2006	7/15/2006	7/24/2006	9.00	300.00	2,700
5	Robertson Consulting	8/25/2006	9/22/2006	9/8/2006	9/22/2006	14.00	725.89	10,162
6	Laser Pros	1/23/2006	1/26/2006	1/24/2006	1/26/2006	1.50	160.85	241
7	OPACS	1/9/2006	2/8/2006	1/24/2006	2/8/2006	15.00	395.01	5,925
8	Laser Pros	9/19/2006	9/20/2006	9/19/2006	9/20/2006	0.50	139.26	70
9	OPACS	1/20/2006	2/19/2006	2/4/2006	2/19/2006	15.00	460.07	6,901
10	OPACS	5/12/2006	6/11/2006	5/27/2006	6/11/2006	15.00	178.54	2,678
11	OPACS	7/28/2006	8/27/2006	8/12/2006	8/27/2006	15.00	309.78	4,647
12	OPACS	8/7/2006	9/6/2006	8/22/2006	9/6/2006	15.00	338.59	5,079
13	Pitney Bowes	8/24/2006	8/30/2006	8/27/2006	8/30/2006	3.00	189.99	570
14	OPACS	9/22/2006	10/22/2006	10/7/2006	10/22/2006	15.00	175.70	2,636
15	Network Supply Resource	9/12/2006	10/23/2006	10/2/2006	10/23/2006	20.50	298.00	6,109
5	Total						4,742.28	107,671.29
6	Lead/Lag Days						22.70	

CHAPARRAL CITY WATER COMPANY, INC.  
 TEST YEAR ENDED DECEMBER 31, 2006  
 RATE BASE ADJ. #16 - WORKING CAPITAL  
 WATER TESTING EXPENSE LEAD/LAG ANALYSIS

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-26  
 PAGE 13 OF 15  
 SURREBUTTAL TESTIMONY

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)	(G)
		BEGINNING	ENDING	MID-POINT SERVICE PERIOD	PAYMENT DATE	PAYMENT (LEAD)/LAG	PAYMENT AMOUNT	DOLLAR DAYS
1	Del Mar Analytical	6/15/2006	7/17/2006	7/1/2006	7/17/2006	16.00	\$ 1,800.00	\$ 28,800
2	Del Mar Analytical	2/28/2006	3/30/2006	3/15/2006	3/30/2006	15.00	1,800.00	27,000
3	Test America	8/14/2006	9/13/2006	8/29/2006	9/13/2006	15.00	4,450.56	66,758
4	Water Trax	1/17/2006	2/18/2006	2/2/2006	2/18/2006	16.00	4,205.62	67,290
5	MWH Laboratories	1/24/2006	3/1/2006	2/11/2006	3/1/2006	18.00	1,865.00	33,570
6	MWH Laboratories	1/24/2006	2/13/2006	2/3/2006	2/13/2006	10.00	130.00	1,300
7	Test America	8/14/2006	9/13/2006	8/29/2006	9/13/2006	15.00	1,020.00	15,300
5	Total						15,271.18	240,018.33
8	Lead/Lag Days						15.72	

CHAPARRAL CITY WATER COMPANY, INC.  
 TEST YEAR ENDED DECEMBER 31, 2006  
 RATE BASE ADJ. #16 - WORKING CAPITAL  
 CHEMICAL EXPENSE LEAD/LAG ANALYSIS

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-26  
 PAGE 14 OF 15  
 SURREBUTTAL TESTIMONY

LINE NO.	DESCRIPTION	(A) SERVICE PERIOD		(C)	(D)	(E)	(F)	(G)
		BEGINNING	ENDING	MID-POINT SERVICE PERIOD	PAYMENT DATE	PAYMENT (LEAD)/LAG	PAYMENT AMOUNT	DOLLAR DAYS
1	Hill Brothers	12/8/2005	1/9/2006	12/24/2005	1/7/2006	14.00	\$ 1,513.00	\$ 21,182
2	Hill Brothers	1/9/2006	1/19/2006	1/14/2006	2/8/2006	25.00	1,406.00	35,150
3	Hill Brothers	1/19/2006	2/2/2006	1/26/2006	2/18/2006	23.00	1,406.00	32,338
4	Hill Brothers	2/2/2006	2/13/2006	2/7/2006	3/1/2006	21.50	1,406.00	30,229
5	Hill Brothers	2/13/2006	2/24/2006	2/18/2006	3/12/2006	21.50	1,620.00	34,830
6	Hill Brothers	2/24/2006	3/8/2006	3/2/2006	3/23/2006	21.00	1,406.00	29,526
7	Hill Brothers	3/8/2006	3/24/2006	3/16/2006	4/7/2006	22.00	1,406.00	30,932
8	Hill Brothers	3/24/2006	4/6/2006	3/30/2006	4/23/2006	23.50	1,406.00	33,041
9	Hill Brothers	4/6/2006	4/17/2006	4/11/2006	5/5/2006	23.50	1,620.00	38,070
10	Hill Brothers	4/17/2006	5/3/2006	4/25/2006	5/16/2006	21.00	1,620.00	34,020
11	Hill Brothers	5/3/2006	5/10/2006	5/6/2006	6/2/2006	26.50	1,299.00	34,424
12	Hill Brothers	5/10/2006	5/17/2006	5/13/2006	6/9/2006	26.50	1,620.00	42,930
13	Hill Brothers	5/17/2006	5/31/2006	5/24/2006	6/16/2006	23.00	1,620.00	37,260
14	Hill Brothers	5/31/2006	6/6/2006	6/3/2006	6/30/2006	27.00	2,155.00	58,185
15	Hill Brothers	6/6/2006	6/14/2006	6/10/2006	7/5/2006	25.00	2,155.00	53,875
16	Hill Brothers	6/14/2006	6/23/2006	6/18/2006	7/13/2006	24.50	2,155.00	52,798
17	Hill Brothers	6/23/2006	6/30/2006	6/26/2006	7/22/2006	25.50	2,155.00	54,953
18	NTU Technologies	2/23/2006	8/3/2006	5/14/2006	3/22/2006	(53.50)	14,229.60	(761,284)
19	NTU Technologies	8/3/2006	12/14/2006	10/8/2006	9/2/2006	(36.50)	13,261.60	(484,048)
20	Thatcher	1/1/2006	12/31/2006	7/2/2006	1/31/2006	(152.00)	21,066.97	(3,202,179)
21	Engineered Sales	1/1/2006	12/31/2006	7/2/2006	1/31/2006	(152.00)	1,008.91	(153,354)
22	Total						77,535.08	(3,947,124.26)
23	Lead/Lag Days						(50.91)	

LINE NO.	DESCRIPTION	(A) SERVICE PERIOD BEGINNING	(B) SERVICE PERIOD ENDING	(C) MID-POINT SERVICE PERIOD	(D) PAYMENT DATE	(E) PAYMENT (LEAD)/LAG	(F) PAYMENT AMOUNT	(G) DOLLAR DAYS
1	CAP - Capital Charge #1	1/1/2008	6/30/2008	3/31/2008	11/20/2007	(132.50)	\$ 73,269.00	\$ (9,708,143)
2	CAP - M&I	1/1/2008	1/31/2008	1/16/2008	12/20/2007	(27.00)	54,061.58	(1,459,663)
3	CAP - M&I	2/1/2008	2/29/2008	2/15/2008	1/20/2008	(26.00)	54,061.58	(1,405,601)
4	CAP - M&I	3/1/2008	3/31/2008	3/16/2008	2/20/2008	(25.00)	54,061.58	(1,351,540)
5	CAP - M&I	4/1/2008	4/30/2008	4/15/2008	3/20/2008	(26.50)	27,286.58	(723,094)
6	CAP - Capital Charge #2	7/1/2008	12/31/2008	9/30/2008	5/20/2008	(133.50)	93,544.50	(12,488,191)
7	CAP - M&I	5/1/2008	5/31/2008	5/16/2008	4/20/2008	(26.00)	54,061.58	(1,405,601)
8	CAP - M&I	6/1/2008	6/30/2008	6/15/2008	5/20/2008	(26.50)	54,061.58	(1,432,632)
9	CAP - M&I	7/1/2008	7/31/2008	7/16/2008	6/20/2008	(26.00)	54,061.58	(1,405,601)
10	CAP - M&I	8/1/2008	8/31/2008	8/16/2008	7/20/2008	(27.00)	54,061.58	(1,459,663)
11	CAP - M&I	9/1/2008	9/30/2008	9/15/2008	8/20/2008	(26.50)	54,061.58	(1,432,632)
12	CAP - M&I	10/1/2008	10/31/2008	10/16/2008	9/20/2008	(26.00)	54,061.58	(1,405,601)
13	CAP - M&I	11/1/2008	11/30/2008	11/15/2008	10/20/2008	(26.50)	54,061.58	(1,432,632)
14	CAP - M&I	12/1/2008	12/31/2008	12/16/2008	11/20/2008	(26.00)	54,061.58	(1,405,601)
15	CAP - CAGR	1/1/2007	12/31/2007	7/2/2007	10/15/2008	471.00	18,560.00	8,741,760
16	Total						807,337.46	(29,774,433.45)
17	Lead/Lag Days						(36.88)	

CHAPARRAL CITY WATER COMPANY, INC.  
 TEST YEAR ENDED DECEMBER 31, 2006  
 OPERATING INCOME - TEST YEAR AND RUCO PROPOSED

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-27  
 SURREBUTTAL TESTIMONY

LINE NO.	DESCRIPTION	(A) COMPANY TEST YEAR AS FILED	(B) RUCO TEST YEAR ADJUSTMENTS	(C) RUCO TEST YEAR AS ADJUSTED	(D) RUCO PROPOSED CHANGES	(E) RUCO RECOMMENDED
<b>REVENUES - WATER:</b>						
1	WATER REVENUES	\$ 7,364,411	\$ 58,310	\$ 7,422,721	\$ 1,144,478	\$ 8,567,199
2	UNMETERED WATER REVENUES	-	-	-	-	-
3	OTHER WATER REVENUES	82,289	-	82,289	-	82,289
4	TOTAL REVENUES	<u>\$ 7,446,700</u>	<u>\$ 58,310</u>	<u>\$ 7,505,010</u>	<u>\$ 1,144,478</u>	<u>\$ 8,649,488</u>
<b>OPERATING EXPENSES:</b>						
5	SALARIES AND WAGES	\$ 969,244	\$ -	\$ 969,244	\$ -	\$ 969,244
6	PURCHASED WATER	831,656	(10,186)	821,470	-	821,470
7	PURCHASED POWER	602,982	11,619	614,601	-	614,601
8	CHEMICALS	127,457	-	127,457	-	127,457
9	REPAIRS AND MAINTENANCE	104,609	(43,217)	61,392	-	61,392
10	OFFICE SUPPLIES AND EXPENSE	19,800	-	19,800	-	19,800
11	OUTSIDE SERVICES	266,544	(109,049)	157,495	-	157,495
12	WATER TESTING	43,458	(17,820)	25,638	-	25,638
13	RENTS	-	-	-	-	-
14	TRANSPORTATION EXPENSES	70,430	-	70,430	-	70,430
15	INSURANCE - GENERAL LIABILITY	(1,294)	-	(1,294)	-	(1,294)
16	INSURANCE - HEALTH AND LIFE	-	-	-	-	-
17	REG. COMMISSION EXP. - RATE CASE	144,871	(51,538)	93,333	-	93,333
18	MISCELLANEOUS EXPENSE	1,259,948	38,164	1,298,112	-	1,298,112
19	DEPRECIATION & AMORTIZATION EXP.	1,608,019	(67,021)	1,540,998	-	1,540,998
20	AMORT. OF GAIN ON WELL	(76,000)	-	(76,000)	-	(76,000)
21	AMORT. OF CAP	64,000	(64,000)	-	-	-
22	TAXES OTHER THAN INCOME	47,873	-	47,873	-	47,873
23	PROPERTY TAXES	295,813	(77,724)	218,089	-	218,089
24	INCOME TAXES	270,020	194,666	464,686	441,771	906,456
25	TOTAL OPERATING EXPENSES	<u>\$ 6,649,430</u>	<u>\$ (196,106)</u>	<u>\$ 6,453,324</u>	<u>\$ 441,771</u>	<u>\$ 6,895,094</u>
26	UTILITY OPERATING INCOME	<u>\$ 797,270</u>	<u>\$ 254,416</u>	<u>\$ 1,051,686</u>	<u>\$ 702,707</u>	<u>\$ 1,754,393</u>

**REFERENCES:**

COLUMN (A): CO. SCH. C-1  
 COLUMN (B): SCH. TJC-31  
 COLUMN (C): COLUMN (A) + COLUMN (B)  
 COLUMN (D): SCH. TJC-1, PAGE 1 OF 2  
 COLUMN (E): COLUMN (C) + COLUMN (D)

CHAPARRAL CITY WATER COMPANY, INC.  
 TEST YEAR ENDED DECEMBER 31, 2008  
 SUMMARY OF OPERATING ADJUSTMENTS

DOCKET NO. W-02113A-07-0851  
 SCHEDULE T.J.C.-28  
 SURREBUTTAL TESTIMONY

LINE NO.	DESCRIPTION	(A) COMPANY PROPOSED	(B) ADJ. #1	(C) ADJ. #2	(D) ADJ. #3	(E) ADJ. #4	(F) ADJ. #5	(G) ADJ. #6	(H) ADJ. #7	(I) ADJ. #8	(J) ADJ. #9	(K) ADJ. #10	(L) ADJ. #11	(M) ADJ. #12	(N) R/UCO ADJUSTED
<b>REVENUES - WATER:</b>															
1	WATER REVENUES	\$ 7,364,411	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 58,310	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,422,721
2	UNMETERED WATER REVENUES	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	OTHER WATER REVENUES	82,289	-	-	-	-	-	-	-	-	-	-	-	-	82,289
4	TOTAL REVENUES	<u>\$ 7,446,700</u>	<u>\$ -</u>	<u>\$ 58,310</u>	<u>\$ -</u>	<u>\$ 7,505,010</u>									
<b>OPERATING EXPENSES:</b>															
5	SALARIES AND WAGES	\$ 969,244	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 969,244
6	PURCHASED WATER	831,656	-	-	-	-	(10,186)	-	-	-	-	-	-	-	821,470
7	PURCHASED POWER	602,982	-	-	-	-	-	-	-	(40,217)	-	11,619	-	-	614,601
8	CHEMICALS	127,457	-	-	-	-	-	-	-	-	-	-	-	-	127,457
9	REPAIRS AND MAINTENANCE	104,609	-	-	-	-	-	-	-	-	-	-	-	-	104,609
10	OFFICE SUPPLIES AND EXPENSE	19,800	-	-	-	-	-	-	-	-	-	-	-	-	19,800
11	OUTSIDE SERVICES	286,544	-	-	-	-	(71,000)	-	-	(36,049)	-	-	-	-	157,495
12	WATER TESTING	43,459	-	-	-	-	-	-	-	(17,820)	-	-	-	-	25,638
13	RENTS	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	TRANSPORTATION EXPENSES	70,430	-	-	-	-	-	-	-	-	-	-	-	-	70,430
15	INSURANCE - GENERAL LIABILITY	(1,294)	-	-	-	-	-	-	-	-	-	-	-	-	(1,294)
16	INSURANCE - HEALTH AND LIFE	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	REG. COMMISSION EXP. - RATE CP	144,871	-	-	-	(51,538)	-	-	-	-	-	-	-	-	93,333
18	MISCELLANEOUS EXPENSE	1,259,948	-	-	36,164	-	-	-	-	-	-	-	-	-	1,296,112
19	DEPRECIATION & AMORTIZATION	1,608,019	(87,021)	-	-	-	-	-	-	-	-	-	-	-	1,520,998
20	AMORT. OF GAIN ON WELL	(76,000)	-	-	-	-	-	-	-	-	-	-	(64,000)	-	(76,000)
21	AMORT. OF CAP	64,000	-	-	-	-	-	-	-	-	-	(64,000)	-	-	-
22	TAXES OTHER THAN INCOME	47,873	-	-	-	-	-	-	-	-	-	-	-	-	47,873
23	PROPERTY TAXES	295,813	(77,724)	-	-	-	-	-	-	-	-	-	-	-	218,089
24	INCOME TAXES	270,020	-	-	-	-	-	-	-	-	-	-	184,668	-	454,688
25	TOTAL OPERATING EXPENSES	<u>\$ 6,849,430</u>	<u>\$ (87,021)</u>	<u>\$ (77,724)</u>	<u>\$ (38,164)</u>	<u>\$ (51,538)</u>	<u>\$ (10,186)</u>	<u>\$ (71,000)</u>	<u>\$ -</u>	<u>\$ (81,266)</u>	<u>\$ (17,820)</u>	<u>\$ (11,619)</u>	<u>\$ (64,000)</u>	<u>\$ (184,668)</u>	<u>\$ 6,453,324</u>
26	UTILITY OPERATING INCOME	\$ 797,270	\$ 87,021	\$ 77,724	\$ (38,164)	\$ 51,538	\$ 10,186	\$ 71,000	\$ 58,310	\$ 81,266	\$ 17,820	\$ (11,619)	\$ 64,000	\$ (184,668)	\$ 1,051,656

10.71%

ADJUSTMENT #:  
 1. Depreciation & Amortization Expense  
 2. Property Tax Expense  
 3. Miscellaneous Expense  
 4. Rate Case Expense  
 5. Purchased Water  
 6. Outiside Services

ADJUSTMENT #:  
 7. Revenue Amortization  
 8. Remove Expensed Plant Items and Capitalize  
 9. Water Testing Expense  
 10. Purchased Power  
 11. Remove CAP Amortization  
 12. Income Taxes

REFERENCE:  
 Schedule T.J.C.-38, pages 1 thru 31  
 Schedule T.J.C.-39  
 Staff Testimony  
 Schedule T.J.C.-41  
 Testimony of T.J.C.  
 Schedule T.J.C.-43

CHAPARRAL CITY WATER COMPANY, INC.  
 TEST YEAR ENDED DECEMBER 31, 2006  
 OPERATING ADJ. #1 - DEPRECIATION AND AMORTIZATION EXPENSE

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-29  
 SURREBUTTAL TESTIMONY

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	(A) ADJUSTED TEST YEAR BALANCE PER COMPANY	(B) RUCO ADJUSTMENTS	(C) RUCO ADJUSTED BALANCE	(D) COMPONENT DEPRECIATION RATES	(E) RUCO RECOMMENDED DEPRECIATION EXPENSE
1	301	Organization Cost	-	\$ -	\$ -	0.00%	\$ -
2	302	Franchise Cost and Other Intangible Plant	-	-	-	0.00%	-
3	303	Land and Land Rights	305,920	605,937	911,857	0.00%	-
4	304	Structures and Improvements	1,518,648	10,994	1,529,642	3.33%	50,937
5	305	Collecting and Impounding Res.	6,548	0	6,548	2.50%	164
6	306	Lake River and Other Intakes	-	-	-	2.50%	-
7	307	Wells and Springs	332,065	(107,412)	224,653	3.33%	7,481
8	308	Infiltration Galleries and Tunnels	-	-	-	6.67%	-
9	309	Supply Mains	-	-	-	2.00%	-
10	310	Power Generation Equipment	-	-	-	5.00%	-
11	311	Electric Pumping Equipment	1,506,908	0	1,506,908	12.50%	188,364
12	320	Water Treatment Equipment	7,763,500	(2,010,923)	5,752,577	3.33%	191,561
13	330	Distribution Reservoirs & Standpipe	8,170,420	6,547	8,176,967	2.22%	181,529
14	331	Transmission and Distribution Mains	17,450,634	0	17,450,634	2.00%	349,013
15	333	Services	7,389,930	(0)	7,389,930	3.33%	246,085
16	334	Meters	2,725,673	(0)	2,725,673	8.33%	227,049
17	335	Hydrants	1,171,633	(1)	1,171,633	2.00%	23,433
18	336	Backflow Prevention Devices	-	-	-	6.67%	-
19	339	Other Plant and Miscellaneous Equipment	1,610,687	149,760	1,760,447	6.67%	117,422
20	340	Office Furniture and Fixtures	270,359	(1)	270,358	6.67%	18,033
21	341	Transportation Equipment	535,315	0	535,315	20.00%	107,063
22	342	Stores Equipment	-	-	-	4.00%	-
23	343	Tools and Work Equipment	149,365	0	149,365	5.00%	7,468
24	344	Laboratory Equipment	-	-	-	10.00%	-
25	345	Power Operated Equipment	-	-	-	5.00%	-
26	346	Communications Equipment	39,105	(0)	39,105	10.00%	3,910
27	347	Miscellaneous Equipment	106,542	(106,542)	-	10.00%	-
28	348	Other Tangible Plant	-	34,063	34,063	0.00%	-
29							
30		TOTAL DIRECT PLANT IN SERVICE	\$ 51,053,253	\$ (1,417,576)	\$ 49,635,677		\$ 1,719,510
31							
32							
33							
34		<b>General Office Plant Allocated</b>	<b>Per Company</b>	<b>Correct for 4 Factor Alloc.</b>	<b>RUCO Adjusted</b>		
35	301	Organization Cost	528	(67)	461	0.00%	-
36	302	Other Intangible Plant	-	26,044*	26,044	0.00%	-
37	304	Structures and Improvements	186,270	(23,791)	162,479	3.33%	5,411
38	311	Electric Pumping Equipment	-	(26)	(26)	12.50%	(3)
39	339	Other Plant and Miscellaneous Equipment	27,201	(3,474)	23,727	3.33%	790
40	340	Office Furniture and Fixtures	458,027	(69,481)*	388,546	6.67%	25,916
41	341	Transportation Equipment	17,742	(2,266)	15,476	20.00%	- Fully Depreciated
42	343	Tools and Work Equipment	13,021	(1,663)	11,358	5.00%	568
43	344	Laboratory Equipment	130	(17)	114	10.00%	11
44	345	Power Operated Equipment	8,001	(1,022)	6,979	5.00%	- Fully Depreciated
45	346	Communications Equipment	5,315	(679)	4,636	10.00%	- Fully Depreciated
46							
47		TOTAL GENERAL OFFICE PLANT ALLOCATION	716,236		639,794		\$ 32,693
48							
49		Less: Amortization of Contributions - Year End Bal.	\$ 6,288,097			3.8568%	\$ (211,205)
50							
51		Total Depreciation Expense					\$ 1,540,998
52							
53		Adjusted Test Year Depreciation Expense					\$ 1,608,019
54							
55		Increase (Decrease) in Depreciation Expense					\$ (67,021)
56							
57		Adjustment to Revenues and/or Expenses					\$ (67,021)

Note: Column B, line 36 and 40 adjusts for both the 4 Factor Allocator (2.8%) and Removal of \$159,067 and \$392,121 of Post Test Year Plant in Account 303 and 340 respectively.  
 \* Amortization Rate approved in Commission Decision No. 68176.

CHAPARRAL CITY WATER COMPANY, INC.  
 TEST YEAR ENDED DECEMBER 31, 2006  
 OPERATING ADJ. #2 - PROPERTY TAX EXPENSE

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-30  
 SURREBUTTAL TESTIMONY

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	REVENUES - 2004	\$ 6,544,219	COMPANY SCHEDULE E-1
2	REVENUES - 2005	7,019,051	COMPANY SCHEDULE E-1
3	RUCO PROPOSED REVENUES	<u>8,649,468</u>	SCHEDULE TJC-30
4	TOTAL	\$ 22,212,758	SUM LINES 1, 2, & 3
5	3 YEAR AVERAGE	\$ 7,404,253	LINE 4/3 YEARS
6	MULTIPLIER FOR REVENUES (2 X LAST 3 YRS. AVERAGE REVENUE)	<u>x 2</u>	ADOR VALUATION FACTOR
7	REVENUES FOR FULL CASH VALUE	\$ 14,808,505	LINE 5 X 2 (MULTIPLIER FOR REVENUES)
8	ADD: 10% OF CWIP BALANCE	\$ -	COMPANY TRIAL BALANCE
9	LESS: NET BOOK VALUE OF VEHICLES	<u>474,679</u>	SCHEDULE TJC-6, PAGE 3 OF 3
10	FULL CASH VALUE	\$ 14,333,826	LINE 7 + LINE 8 MINUS LINE 9
11	ASSESSMENT RATIO	<u>22.0%</u>	PER HOUSE BILL 2779
12	ASSESSED VALUE	\$ 3,153,442	LINE 10 X LINE 11
13	PROPERTY TAX RATE	<u>6.9159%</u>	PER TAX BILLS
14	PROPERTY TAXES PAYABLE PER RUCO	\$ 218,089	LINE 12 X LINE 13
15	PROPERTY TAXES PER COMPANY	<u>295,813</u>	PER COMPANY
16	RUCO ADJUSTMENT	<u>\$ (77,724)</u>	LINE 14 MINUS LINE 15

Chaparral City Water Company  
 TEST YEAR ENDED DECEMBER 31, 2006  
 ADJUSTMENTS TO REVENUES AND/OR EXPENSES  
 Adjustment Number 4

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-31  
 SURREBUTTAL TESTIMONY

Line  
 No.

1	<u>Rate Case Expense</u>	
2		
3	Estimated Rate Case Expense	\$ 280,000
4	Unrecovered Rate Case Expense (Prior Case) <sup>1</sup>	\$ -
5	Rate Case Expense	<u>\$ 280,000</u>
6		
7	Estimated Amortization Period (in Years)	3.0
8		
9	Annual Rate Case Expense	<u>\$ 93,333</u>
10		
11	Test Year Adjusted Rate Case Expense	\$ 144,871
12		
13	Increase(decrease) Rate Case Expense	<u>\$ (51,538)</u>
14		
15	Adjustment to Revenue and/or Expense	<u>\$ (51,538)</u>
16		
17		
18	<sup>1</sup> Computation of Unrecovered Rate Case Amount	
19	Rate Case Expense	\$ 285,000 [1]
20	Amortization Period (yrs)	4 [2]
21	Annual Amortization amount	\$ 71,250 [3] = [1] divided by [2]
22	Amortization (years)	1.83 [4]
23	Total Amortization	\$ 130,388 [5] = [4] times [3]
24	Remaining Unrecovered Rate Case Expense	\$ 154,613 [6] = [1] minus [5]

**Chaparral City Water Company**  
Test Year Ended December 31, 2006  
Adjustment to Revenues and Expenses  
Adjustment Number 6

DOCKET NO. W-02113A-07-0551  
SCHEDULE TJC-32  
SURREBUTTAL TESTIMONY

Outside Services Expense

1 Weekly Charge	\$ 3,500
2 January 1, 2006 thru May 22, 2006	<u>20.28571</u> Number of Weeks
3	
4 Increase(decrease) Miscellaneous Expense	\$(71,000)
5	
6 Adjustment to Revenue and/or Expense	<b>\$(71,000)</b>
7	
8	
9	

Chaparral City Water Company  
Test Year Ended December 31, 2006  
Operating Income & Expense Adjustments  
Adjustment 8

DOCKET NO. W-02113A-07-0551  
SCHEDULE TJC-33  
SURREBUTTAL TESTIMONY

Line  
No.

1	<u>Remove Expensed Items and Capitalize</u>		
2			
3	Per RUCO Outside Services	\$	(11,590)
4	Per RUCO Outside Services		(26,084)
5	Per RUCO Repairs and Maintenance Expense		(43,217)
6	Per RUCO Late Filing Penalty		(45)
7	Per RUCO Outside Services		(330)
8	RUCO Adjustment		<u>(81,266)</u>
9			
10	Increase (Decrease) to Expenses	\$	(81,266)
11			
12			
13	Adjustment to Revenue and/or Expense	\$	<b>(81,266)</b>
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24	<u>SUPPORTING SCHEDULE</u>		
25	rcn_plant_Remove Expensed Items & Capitalize.xls		

CHAPARRAL CITY WATER COMPANY, INC.  
TEST YEAR ENDED DECEMBER 31, 2006  
OPERATING ADJUSTMENT 11 - REMOVE CAP AMORTIZATION

DOCKET NO. W-02113A-07-0551  
SCHEDULE TJC-34  
SURREBUTTAL TESTIMONY

See TJC Direct Testimony

CHAPARRAL CITY WATER COMPANY, INC.  
 TEST YEAR ENDED DECEMBER 31, 2006  
 OPERATING ADJ. #12 - INCOME TAXES

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-35  
 SURREBUTTAL TESTIMONY

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>	<u>REFERENCE</u>
	<u>FEDERAL INCOME TAXES:</u>		
1	OPERATING INCOME BEFORE INCOME TAXES	\$ 1,516,372	SCH. TJC-28
	LESS:		
2	ARIZONA STATE TAX	83,887	LINE 11
3	INTEREST EXPENSE	<u>312,488</u>	NOTE (a)
4	FEDERAL TAXABLE INCOME	\$ 1,119,997	LINE 1 - LINES 2 & 3
5	FEDERAL INCOME TAX RATE	<u>34.00%</u>	TAX RATE
6	FEDERAL INCOME TAX EXPENSE	\$ 380,799	LINE 4 X LINE 5
	<u>STATE INCOME TAXES:</u>		
7	OPERATING INCOME BEFORE INCOME TAXES	\$ 1,516,372	LINE 1
	LESS:		
8	INTEREST EXPENSE	<u>312,488</u>	NOTE (A)
9	STATE TAXABLE INCOME	\$ 1,203,884	LINE 7 - LINE 8
10	STATE TAX RATE	<u>6.968%</u>	TAX RATE
11	STATE INCOME TAX EXPENSE	\$ 83,887	LINE 9 X LINE 10
12	TOTAL INCOME TAX PER RUCO	464,686	LINE 6 + 11
13	INCOME TAXES PER COMPANY FILING	270,020	COMPANY SCHEDULE C-1
14	RUCO INCOME TAX ADJUSTMENT	<u>\$ 194,666</u>	
	<u>NOTE (a):</u>		
	INTEREST SYNCHRONIZATION		
	ADJUSTED RATE BASE	\$ 27,498,329	
	WEIGHTED COST OF DEBT	<u>1.14%</u>	
		<u>\$ 312,488</u>	

CHAPARRAL CITY WATER COMPANY, INC.  
 TEST YEAR ENDED DECEMBER 31, 2006  
 COST OF CAPITAL

DOCKET NO. W-02113A-07-0551  
 SCHEDULE TJC-36  
 SURREBUTTAL TESTIMONY

OCRB WEIGHTED COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) AMOUNT	(B) RUCO ADJUSTMENT	(C) ADJUSTED BALANCE	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST
1	SHORT-TERM DEBT	\$ 1,400,000		\$ 1,400,000	4.10%	2.71%	0.11%
2	LONG-TERM DEBT	6,865,000	(280,000)	6,585,000	19.20%	5.34%	1.03%
3	COMMON EQUITY	27,002,476	(640,000)	26,362,476	76.80%	8.83%	6.78%
4	TOTAL CAPITALIZATION	\$ 35,267,476	\$ (920,000)	\$ 34,347,476	100.10%		
5	OCRB WEIGHTED COST OF CAPITAL						<u>7.92%</u>

FVRB WEIGHTED COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) AMOUNT	(B) RUCO ADJUSTMENT	(C) ADJUSTED BALANCE	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST
6	SHORT-TERM DEBT	\$ 1,400,000		\$ 1,400,000	4.10%	2.71%	0.11%
7	LONG-TERM DEBT	6,865,000	(280,000)	6,585,000	19.20%	5.34%	1.03%
8	COMMON EQUITY	27,002,476	(640,000)	26,362,476	76.80%	6.83%	5.25%
9	TOTAL CAPITALIZATION	\$ 35,267,476	\$ (920,000)	\$ 34,347,476	100.10%		
10	FVRB WEIGHTED COST OF CAPITAL						<u>6.38%</u>

REFERENCES:  
 COLUMN (A): COMPANY SCH. D - 1  
 COLUMN (B): TESTIMONY, WAR  
 COLUMN (C): COLUMN (A) + COLUMN (B)  
 COLUMN (D): COLUMN (C) + COLUMN (C), LINE 5  
 COLUMN (E): TESTIMONY, WAR  
 COLUMN (F): COLUMN (D) x COLUMN (E)