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**Transcript Exhibit(s)**

Docket #(s): WS-02676A-09-0257

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Exhibit #: See attached Exhibit List for the  
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To: Docket Control  
  
Date: April 6, 2010  
  
Re: Rio Rico Utilities / Rates  
WS-02676A-09-0257  
Volumes I through V, Concluded  
March 10 through 30, 2010

### STATUS OF ORIGINAL EXHIBITS

#### *FILED WITH DOCKET CONTROL*

Rio Rico Properties (I Exhibits)

I-1, I-3, I-4, I-5

Rio Rico Utilities (A Exhibits)

A-1 through A-28

Residential Utility Consumer Office (R Exhibits)

R-1 through R-5, R-7 through R-15, R-17, R-18, R-19

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Staff (S Exhibits)

S-1 through S-14

***EXHIBITS NOT OFFERED BY DESIGN OR OVERSIGHT***

Residential Utility Consumer Office (R Exhibits)

R-6

R-16           Returned to RUCO

***EXHIBITS NOT UTILIZED***

Rio Rico Properties (I Exhibits)

I-2

Copy to:

Ms. Jane L. Rodda, Administrative Law Judge  
Mr. Jay Shapiro – Rio Rico Utilities  
Mr. Daniel Pozefsky – RUCO  
Mr. Tim Sabo – Rico Rico Properties  
Ms. Robin Mitchell - Staff

**RIO RICO UTILITIES INC.  
DOCKET NO. WS-02676A-09-0257  
RESPONSE TO RIO RICO PROPERTIES, INC.'S  
SECOND SET OF DATA REQUESTS**

November 10, 2009

Response provided by: Greg Sorensen  
Title: Director of Operations  
Company Name: Liberty Water  
Address: 12725 W Indian School Rd D-101  
Avondale, AZ 85392

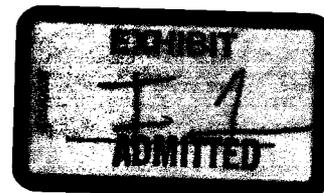
Company Response Number: 2.3

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- Q. At page 11 lines 19-20 of his Direct Testimony, Mr. Sorensen states “many of the assets utilized within this system are older assets, which need refurbishment or replacement.”
- a. Does Rio Rico currently have plans for this “refurbishment or replacement” of assets? If yes please provide a schedule showing Rio Rico’s “refurbishment or replacement” plan including dates when work is expected to be done and estimated costs.
  - b. Please explain how this “refurbishment or replacement” was factored into the calculation of the proposed water and waste water Hook Up Fees.
  - c. Is this “refurbishment or replacement” necessary with or without further development in Rio Rico’s service territory. Please provide documentation to back up your response.

RESPONSE:

- a. The Company has plans, but not with specific dates, for several more significant undertakings, such as the refurbishment of the Water Plant 58 storage and booster station system at an estimated cost of over \$1,000,000. More generally, the Company’s assets, like many utility systems in the state, contain significant amounts of aging plant. This does not mean such plant must be replaced tomorrow, in fact, it is impossible to know when the



components of an entire water and wastewater system will finally reach the age where they can no longer be used to provide service. As a result, the Company must consistently invest in replacement and refurbishment of its utility plant and system. In this light, Mr. Sorensen's testimony simply reflects the general notion that much of the Company's system will have to be refurbished and replaced in the foreseeable future. And since the costs of replacing infrastructure will be substantial and the Company cannot simply wait until the bill comes to determine how major plant improvements will be funded, it is proposing a hook up fee in order to utilize one of the many sources of funding available.

The following is a schedule of expected refurbishments and replacements:

<b>RRUI Wastewater</b>		
<b>North Sewer Basin:</b>		
1. Collection System Rehabilitation	2013	\$85,000
2. Convert General Permit to Individual Permit. Villas 12 ponds	2014	\$55,000
<b>South Sewer Basin:</b>		
3. Collection system rehabilitation	2011	\$325,000
	<b>Sub Total</b>	<b>\$465,000</b>
<b>RRUI Water</b>		
1. Water plant 58 rehab to include dual zone VFD booster station and 250k storage tank	2010	\$200,000
2. Water plant 58 rehab to include dual zone VFD booster station and 250k storage tank	2011	\$800,000
3. Water Plant 7 rehab to include new VFD booster station, 250k storage tank, 12" feed and misc appurtenances	2013 2014	\$150,000 \$1,000,000
4. Water Plant 38 rehab to include single zone VFD booster station.	2014	\$550,000
	<b>Sub Total</b>	<b>\$2,700,000</b>
	<b>5 Year Total</b>	<b>\$3,165,000</b>

- b. The refurbishment and replacement was not factored into the calculation of the proposed water and wastewater hook up fee. Hook up fee funds are for new capacity required to provide service. The Company recognized that it must invest capital into the utility, but in this case, the capital may be needed more for replacement/refurbishment, while new capacity should be funded, at least in part, by developers who are creating the need for additional capacity.

- c. In the Company's view, yes, and there are no documents to back up the Company's response.

**RIO RICO UTILITIES INC.  
DOCKET NO. WS-02676A-09-0257  
RESPONSE TO RIO RICO PROPERTIES, INC.'S  
SECOND SET OF DATA REQUESTS**

November 10, 2009

Response provided by: Greg Sorensen  
Title: Director of Operations  
Company Name: Liberty Water  
Address: 12725 W Indian School Rd D-101  
Avondale, AZ 85392

Company Response Number: 2.11

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**Q. Use of reclaimed water.**

- (A) What rights, if any, does RRUI have to the reclaimed water generated by its wastewater flows?
- (B) RRUI's schedule C-1 shows no revenue from reclaimed water sales. Does RRUI or any of its affiliates generate any revenue from reclaimed water sales? If yes, please specify.
- (C) Did RRUI evaluate possible reclaimed water sales as a potential source of revenue to fund any needed off-site construction? If yes, please provide a copy of the analysis. If no, please explain why not.

**RESPONSE:** RRUI's wastewater treatment is primarily provided in the Nogales International Wastewater Treatment Plant. The wastewaters of RRUI, the City of Nogales, and Nogales, Mexico are commingled in the facility which is owned by the City of Nogales and the International Boundary and Water Commission (IBC). The effluent produced from the facility is the property of the IBC. Wastewater treated in the North Basin evaporative ponds "evaporates" and creates no marketable effluent. As such, there is no revenue from effluent sales in RRUI's rate application. The Company did not evaluate the possible reclaimed water sales as a potential revenue source to fund off-site construction, as there is no effluent available to it to sell.

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DOCKET NO. WS-02676A-09-0257  
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November 10, 2009

Response provided by: Greg Sorensen  
Title: Director of Operations  
Company Name: Liberty Water  
Address: 12725 W Indian School Rd D-101  
Avondale, AZ 85392

Company Response Number: 2.12

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Q. Does RRUI believe that the requested water and wastewater hook-up fees are justified, in whole or in part, by RRUI's inability to raise capital? If yes, please specify all efforts to raise capital in the last 24 months and the results thereof. If no, please explain any other justification for the hook-up fees.

RESPONSE: No. The Company believes that the HUF is justified for the reasons noted above and in the Company's testimony.

**RIO RICO UTILITIES INC.  
DOCKET NO. WS-02676A-09-0257  
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SECOND SET OF DATA REQUESTS**

November 10, 2009

Response provided by: Greg Sorensen  
Title: Director of Operations  
Company Name: Liberty Water  
Address: 12725 W Indian School Rd D-101  
Avondale, AZ 85392

Company Response Number: 2.16

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- Q. Section IV.B of RRUI's proposed water hook-up fee tariff states that RRUI "shall not record" hook-up fees as CIAC until "such amounts have been expended for plant"
- (A) Is RRUI aware of any other Arizona utility with the authorization to "not record" CIAC in this manner?
- (B) Please explain why RRUI believes this accounting treatment is proper.

RESPONSE:

- (A) RRUI does not know how unaffiliated utilities approach this recordation requirement.
- (B) RRUI believes that this method is appropriate, as the assets needed to connect a new customer will not be added to rate base until they are deemed used and useful. The CIAC needs to offset these additions, but cannot offset them until the amounts have been spent. To treat the hook up fee as CIAC from the moment it is received, and offset it against the preexisting plant, puts the utility right back in the position where it has to advance the funds to build the infrastructure, which may not be used for ten years (depending on builders' schedule) without any method for earning a return on the investment. The Company does not believe it should be taking "build out risk" and not "used and useful" investment risk, and

certainly the Commission has not considered such risk in its cost of capital determinations in the past 10-15 years, if not longer. Essentially, if the Company receives hook up fee money from a developer and that development will take ten years to build-out, the Company can either collect the funds, build the full capacity now, and face a used and useful argument to reduce its rate base, or collect the funds and delay building the capacity until needed, but in the interim will have a reduction in rate base for funds received but not expended. Alternatively, in the event that the Company assumes such risks, then the Company should be able to require the developer to pay for the entire cost of such plant up front as advances in aid of construction.

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SECOND SET OF DATA REQUESTS**

November 10, 2009

Response provided by: Greg Sorensen  
Title: Director of Operations  
Company Name: Liberty Water  
Address: 12725 W Indian School Rd D-101  
Avondale, AZ 85392

Company Response Number: 2.17

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Q. Please confirm that the proposed water hook-up fee, if approved, would be the only assessment of any type (including main extension agreement payments) that would be required for off-site water facilities, including any water production or treatment capacity. If this statement is not correct, please explain.

RESPONSE: The Company cannot confirm the statement. Additional financing may be required pursuant to the Commission's main extension rules for water and sewer utilities. See R14-2-406 and R14-2-606.

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November 10, 2009

Response provided by: Greg Sorensen  
Title: Director of Operations  
Company Name: Liberty Water  
Address: 12725 W Indian School Rd D-101  
Avondale, AZ 85392

Company Response Number: 2.18

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Q. Please confirm that the proposed wastewater hook-up fee, if approved, would be the only assessment of any type (including main extension agreement payments) that would be required for off-site wastewater facilities, including any treatment capacity. If this statement is not correct, please explain.

RESPONSE: This is incorrect. Please see the Company's response to data request 2.17.

**RIO RICO UTILITIES INC.  
DOCKET NO. WS-02676A-09-0257  
RESPONSE TO RIO RICO PROPERTIES, INC.'S  
SECOND SET OF DATA REQUESTS**

November 10, 2009

Response provided by: Greg Sorensen  
Title: Director of Operations  
Company Name: Liberty Water  
Address: 12725 W Indian School Rd D-101  
Avondale, AZ 85392

Company Response Number: 2.22

---

Q. Please confirm that the proposed water and wastewater hook-up fees will not apply to any subdivisions with executed main extension agreements. If this statement is not correct, please explain.

RESPONSE: RRUI confirms that this is what the Company intends, but the ultimate disposition of the hook up fee tariff is for the Commission to decide.

**RIO RICO UTILITIES INC.  
DOCKET NO. WS-02676A-09-0257  
RESPONSE TO RIO RICO PROPERTIES, INC.'S  
SECOND SET OF DATA REQUESTS**

November 10, 2009

Response provided by: Greg Sorensen  
Title: Director of Operations  
Company Name: Liberty Water  
Address: 12725 W Indian School Rd D-101  
Avondale, AZ 85392

Company Response Number: 2.23

---

Q. Please confirm that the proposed water and wastewater hook-up fees will not apply to any subdivisions where RRUI is presently providing service to one or more lots. If this statement is not correct, please explain.

RESPONSE: RRUI cannot confirm this statement. If service is being provided to a subdivision pursuant to an existing LXA (at the time the hook up fee tariff becomes effective), the Company does not intend to apply the hook up fees. However, if single lots not pursuant to a LXA hook onto the system after the effective date of the hook up fee tariff, they would have to pay the hook up fees. Of course, the ultimate disposition of the hook up fee tariff is for the Commission to decide.

**RIO RICO UTILITIES INC.  
DOCKET NO. WS-02676A-09-0257  
RESPONSE TO RIO RICO PROPERTIES, INC.'S  
SECOND SET OF DATA REQUESTS**

November 10, 2009

Response provided by: Greg Sorensen  
Title: Director of Operations  
Company Name: Liberty Water  
Address: 12725 W Indian School Rd D-101  
Avondale, AZ 85392

Company Response Number: 2.24

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Q. Please confirm that the proposed water and wastewater hook-up fees will not apply to any subdivisions where RRUI has accepted the on-site facilities regardless of whether RRUI is providing service to the subdivision. If this statement is not correct, please explain.

RESPONSE: This is correct, assuming those on-site facilities were accepted as part of a LXA executed prior to the effective date of the hook up fee tariff. Please see the Company's response to data request 2.23. Again, ultimate disposition of the hook up fee tariff is subject to Commission approval.

**RIO RICO UTILITIES INC.  
DOCKET NO. WS-02676A-09-0257  
RESPONSE TO RIO RICO PROPERTIES, INC.'S  
SECOND SET OF DATA REQUESTS**

November 10, 2009

Response provided by: Greg Sorensen  
Title: Director of Operations  
Company Name: Liberty Water  
Address: 12725 W Indian School Rd D-101  
Avondale, AZ 85392

Company Response Number: 2.25

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Q. Please confirm that the proposed water and wastewater hook-up fees will not apply to any subdivisions with will serve letters from RRUI.

RESPONSE: The Company cannot confirm this statement because will serve letters are not unqualified offers to provide services.

BEFORE THE ARIZONA CORPORATION COMMISSION

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**COMMISSIONERS**

KRISTEN K. MAYES - CHAIRMAN  
GARY PIERCE  
PAUL NEWMAN  
SANDRA D. KENNEDY  
BOB STUMP

IN THE MATTER OF THE APPLICATION OF ) DOCKET NO. WS-02676A-09-0257  
RIO RICO UTILITIES, INC., AN ARIZONA )  
CORPORATION, FOR A DETERMINATION OF )  
THE FAIR VALUE OF ITS UTILITY PLANT )  
AND PROPERTY AND FOR INCREASES IN ITS )  
WATER AND WASTEWATER RATES AND )  
CHARGES FOR UTILITY SERVICE BASED )  
THEREON. )

Direct Testimony of

Matthew J. Rowell

on Behalf of

Rio Rico Properties, Inc.

January 14, 2010



**TABLE OF CONTENTS**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
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I. Introduction.....1

II. Overview and Purpose of Hook Up Fees .....2

III. The Company's Proposed Hook Up Fee Tariffs .....3

1 **I. INTRODUCTION.**

2

3 **Q. Please state your name and business address.**

4 A. My name is Matthew Rowell. My business address is 9808 South 45<sup>th</sup> Place, Phoenix,  
5 Arizona.

6

7 **Q. By whom are you employed and what are your duties and responsibilities?**

8 A. I am a member of Desert Mountain Analytical Services ("DMAS") a consulting firm  
9 specializing in utility regulatory matters. In that capacity I have provided testimony  
10 regarding various utility regulatory issues before the Arizona Corporation Commission  
11 ("Commission").

12

13 **Q. Please state your background and qualifications in the field of utility regulation.**

14 A. A statement of my qualifications is attached as Exhibit 1 to this testimony.

15

16 **Q. What is the purpose of your testimony?**

17 A. I am providing testimony on behalf of Avatar Holdings and Rio Rico Properties  
18 ("Avatar"). Avatar owns substantial real estate that is in various stages of development  
19 within Rio Rico Utilities Inc's ("Company") certificated area. My testimony is limited to  
20 addressing Avatar's issues with the Company's proposed hook up fee ("HUF") tariff.

21

22 **Q. What differences are there between the Company's proposed water and wastewater  
23 hook-up tariffs?**

24 A. According to the Company, other than the amounts, there are no material differences  
25 between these tariffs.<sup>1</sup> Accordingly, my testimony addresses both tariffs jointly.

26

27

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<sup>1</sup> Company Response to Avatar Data Request 2.15.

1 **II. OVERVIEW AND PURPOSE OF HUFs.**

2  
3 **Q. Please provide some background on the purpose of HUFs.**

4 A. For ratemaking purposes, funds received through HUFs are treated as contributions in aid  
5 of construction ("CIAC"). Like all contributions, HUFs are intended to fund the  
6 utility's investment in plant, not the utility's operating expenses. Funds used for the  
7 extension of mains to a particular developing area are typically provided through a main  
8 extension agreement and are treated (per A.A.C. R14-2-406) as advances in aid of  
9 construction ("AIAC.") This plant needed to extend service to a particular developing  
10 area is referred to as "on-site" plant. In contrast, "off-site" plant is plant needed to  
11 increase the capacity of the system as a whole (such as new wells for a water company or  
12 new or expanded wastewater treatment plants for a wastewater company.) Contributions  
13 are intended to fund a portion of this offsite plant. That is, typically, CIAC is used to  
14 fund off-site plant and AIAC is used for on-site plant.

15  
16 **Q. Does the Arizona Administrative Code contain any rules regarding HUFs?**

17 A. No. A.A.C. R14-2-406 provides explicit directions on how main extension agreements  
18 shall be conducted. On the subject of HUFs, however, the rules are silent. Additionally,  
19 HUFs are not subject to negotiation as main extension agreements are. The Commission  
20 has accepted HUFs in some instances and they are recognized as an appropriate means to  
21 raise some of the funds necessary for a needed expansion in capacity. However, since  
22 HUFs are covered only in a utility's tariff, the language contained in a company's HUF  
23 tariff is extremely important. Ambiguous language in the tariff could be detrimental to  
24 the utility, its customers and/or developers operating in the utility's service territory.

1 **Q. What is the regulatory justification for HUFs?**

2 A. Until 10-15 years ago, the Commission rarely approved HUFs.<sup>2</sup> More recently, the  
3 Commission has accepted HUFs in some instances. Typically, the Commission's support  
4 is based on the concept of "growth paying for growth." Or as the Company states,  
5 "[h]ook-up fee funds are for new capacity required to provide service."<sup>3</sup> Thus, HUFs  
6 may be appropriate where growth is causing the utility to make capital investments for  
7 off-site capacity. Conversely, in situations where the utility has existing capacity, or  
8 existing obligations to provide capacity, a HUF is not justified.

9  
10 Excessive reliance on HUFs or other sources of developer capital can result in financial  
11 weakness for the utility.<sup>4</sup> However, HUFs do provide some advantages. By providing a  
12 set amount, they prevent possible disagreements over developer responsibilities for off-  
13 site infrastructure. In order to realize this advantage, however, the HUF tariff must be  
14 clear and potential ambiguities or sources of dispute eliminated.

15  
16 **III. THE COMPANY'S PROPOSED HUF TARIFFS.**

17  
18 **Q. What is Staff's position concerning the Company's requested HUFs tariffs?**

19 A. According to Staff witness Gerald W. Becker, Staff recommends disapproval because the  
20 "Company refused to provide support" for the HUF tariff in response to Staff data  
21 requests.<sup>5</sup>

22  
23  
24  
25 <sup>2</sup> Interim Report of the Arizona Corporation Commission's Water Task Force, dated October 28,  
1999) at p. 16 (Docket No. W-00000C-98-0153).

26 <sup>3</sup> Company Response to Avatar Data Request 2.3.b.

27 <sup>4</sup> See e.g. Decision No. 71414 (December 8, 2009) at 8-10 (describing problems associated with  
excessive use of HUFs).

<sup>5</sup> Direct Testimony of Gerald W. Becker (Rate Design) filed January 6, 2010 at 3,6.

1 **Q. What is your response to Staff's testimony?**

2 A. I agree with Staff that the Company's proposed HUF tariff should be denied unless the  
3 Company provides support for its proposal.

4  
5 **Q. Did Staff make other relevant findings?**

6 A. Yes, Staff engineer Jian W. Liu reports that the Company has adequate capacity to "serve  
7 the existing customer base and reasonable growth."<sup>6</sup> If this finding is correct, it would  
8 call into doubt the need for the HUF tariff because the purpose of HUFs is to pay for  
9 additional off-site capacity. Any issues concerning the Company's capacity needs should  
10 be resolved before a HUF is approved.

11  
12 **Q. Does Avatar have concerns beyond those expressed by Staff?**

13 A. Yes. The original tariffs filed with the Company's rate case contained ambiguous  
14 language that was a concern. At several points, those proposed tariffs reference  
15 additional payments that may be required from the applicant.<sup>7</sup> These ambiguous  
16 references to potential additional payments create an environment of uncertainty that  
17 makes planning for development unnecessarily difficult. I understand that the Company  
18 will be filing revised tariffs similar to those filed by its affiliate Litchfield Park Service  
19 Company (LPSCO) on December 31, 2009 in Docket Nos. SW-01428A-09-0103. The  
20 LPSCO HUF fee tariffs appear to eliminate these references to additional payments. If  
21 the Company files similar tariffs, it would be an improvement, but Avatar believes that  
22 additional clarity on the issue of potential additional payments is necessary. Further it  
23 appears that the scope of the proposed tariffs is overly broad. In their current form the  
24 proposed tariffs appear to require HUFs in instances when additional offsite facilities are

25 <sup>6</sup> Direct Testimony of Jian W. Liu, December 15, 2009, at 4:7-8 and 5:14-15.

26 <sup>7</sup> The Company's proposed water division HUF tariff defines "applicant" as "any party entering  
27 into an agreement with Company for the installation of water facilities to serve new service  
connections, and may include Developers and/or Builders of new residential subdivisions and/or  
commercial and industrial properties."

1 not necessary. Should the Company continue to pursue the filed HUF tariffs and not  
2 submit revised tariffs that are similar to the revised LPSCO tariffs, I will provide  
3 additional comments and concerns in my surrebuttal testimony on the ambiguous and  
4 overbroad of the currently proposed HUF tariffs.

5  
6 **Q. You stated above that additional clarity on the issue of potential additional**  
7 **payments is necessary. Please explain.**

8 **A.** The HUF tariffs filed by LPSCO eliminate the explicit references to potential additional  
9 payments but they do not explicitly state that there will be no additional contributions  
10 required by the applicant. In order to provide certainty and clarity on this issue, Avatar  
11 believes the tariffs should contain a specific statement that the amount due under the  
12 HUF tariffs (and any applicable charges for on-site facilities under Line or Main  
13 Extension Agreements) is the total amount due from the applicant and that no additional  
14 charges will be assessed.

15  
16 I have also seen proposed main extension agreements from LPSCO (these were provided  
17 in the pending LPSCO rate case as exhibits to intervenor testimony) that appeared to  
18 include a "capacity" charge in addition to the HUFs. Given the purpose of HUFs, that  
19 suggests a potential double recovery depending on how such provisions are interpreted.  
20 The potential for such "capacity" charges to appear in main extension agreements is an  
21 additional reason why the HUF tariff should clearly indicate that the amount due under  
22 the HUF tariffs (and any applicable charges for *on-site* facilities under Line or Main  
23 Extension Agreements) is the total amount due from the applicant and that no additional  
24 charges will be assessed.

25  
26 **Q. Did Company provide additional information on the potential additional payments?**

27 **A.** Yes, in response to Avatar Data Requests 2.17 and 2.18, Company refused to give any

1 assurance additional payments would not be required. Company indicated that  
2 “[a]dditional financing may be required pursuant to the Commission’s main extension  
3 rules” even for off-site facilities. This language appears to indicate that Company  
4 believes it can charge additional amounts for off-site facilities over and above any HUFs.  
5 Such a practice would be inconsistent with the Commission’s historical practice  
6 concerning HUFs. If other developer funds are required for off-site investments, why  
7 have a HUF? In addition, this possibility eliminates the clarity and ease of administration  
8 that are some of the major benefits of HUFs. If the Commission approves a HUF, the  
9 Commission should expressly state that the HUFs are the sole source of developer or  
10 landowner funding for off-site infrastructure.

11  
12 **Q. You also stated above that the scope of the above tariffs may be overly broad.**  
13 **Please explain.**

14 **A.** As written the proposed tariffs would potentially apply in subdivisions where there is  
15 already a Main Extension Agreement in place, subdivisions where Company is already  
16 providing service and subdivisions where Company has accepted on-sites.

17  
18 **Q. Why is that a problem?**

19 **A.** In each of the above instances capacity to serve the relevant subdivision should already  
20 be in place and thus there should be no need for additional payments to fund capacity  
21 expansion.

22  
23 **Q. What does Avatar propose regarding this issue?**

24 **A.** Specific language should be added to the proposed tariffs that clearly indicates that the  
25 HUFs will not apply to subdivisions that satisfy any of the following conditions at the  
26 time the HUF tariffs are approved by the Commission:

- 27
- a Main Extension Agreement is in place for the subdivision,

- 1 • Company is already providing service in the subdivision,
- 2 • Company had accepted on-sites in the subdivision.

3  
4 **Q. Does the Company agree with Avatar that the HUFs should not apply in**  
5 **subdivisions where an MXA is already in place?**

6 A. Yes. In response to Avatar Data Request 2.22, Company indicates that it does not intend  
7 for the hook-up to apply to subdivisions for which there is already a main extension  
8 agreement in place. Thus, adding specific language to that effect to the tariffs should not  
9 be controversial.

10  
11 **Q. Does the Company agree with Avatar that the HUFs should not apply in**  
12 **subdivisions where Company is already providing service?**

13 A. In response to Avatar Data Request 2.23, the Company indicated that within such a  
14 subdivision lots covered by a Main Extension Agreement would not be subject to the  
15 HUFs but lots not covered by a Main Extension Agreement will be subject to the HUFs.  
16 Avatar disagrees with the Company on this point and believes the HUFs should not apply  
17 to any lot within a subdivision where service is already being provided.

18  
19 **Q. Does the Company agree with Avatar that the HUFs should not apply in**  
20 **subdivisions where Company has accepted on-sites?**

21 A. The Company's response to Avatar Data Request 2.24 indicates that the Company agrees  
22 that HUFs should not apply in subdivisions where the Company has accepted on-sites  
23 subject to a Main Extension Agreement but they should apply absent a Main Extension  
24 Agreement.

25  
26  
27

1 **Q. Do you have any other comments on HUFs?**

2 A. Yes. Assuming the Staff recommendation is not accepted, the HUF should have a  
3 provision that expressly provides for an offset against the HUF for any developer-  
4 provided off-site facilities, including water production capacity or wastewater treatment  
5 capacity. For example, if a developer turns over a well to the Company, the value of that  
6 well should reduce the amount of HUFs the developer needs to pay.

7  
8 **Q. Please summarize your recommendations.**

9 A. A HUF should not be approved until the Company provides adequate documentation to  
10 Staff supporting the need for a HUF. If a HUF is approved, it should provide that HUFs  
11 are the sole source of developer or landowner funding for off-site infrastructure. In  
12 addition, if a HUF is approved, it should not apply where (at the time the HUF is  
13 approved): (1) a main extension agreement has been executed for the subdivision; (2) the  
14 Company has started providing service to the subdivision; or (3) the Company has  
15 accepted on-site facilities within the subdivision. There should also be a provision that  
16 allows an offset where a developer provides offsite facilities, including production or  
17 treatment capacity, to the Company.

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**Qualifications of Matthew Rowell**

**Professional History**

**Desert Mountain Analytical Services, PLLC 2007 – Present**

*Member*

Prepare testimony and analysis for utilities regarding regulatory issues. Most recently I prepared and sponsored testimony on behalf of Global Water regarding their multi-system rate case, Docket No. W-20446A-09-0080 and their Notice of Intent to Restructure, Docket No. W-20446A-08-0247. Also, provided testimony of behalf of RUCO in the ongoing LPSCO rate case, Docket No. SW-01428A-09-0103 et. al.

**Arizona Corporation Commission 1996 to 2007**

*Chief Economist (July 2001 to February 2007)*

Was responsible for supervising a staff of nine professionals who analyzed and produced testimony or staff reports on a wide variety of energy and telecommunications issues. Recent cases for which I provided testimony myself include:

APS Rate Case E-01345A-05-0816: Provided testimony on staff's position on APS' proposed Environmental Improvement Charge. I also acted as the overall case manager and was responsible for coordinating all of staff's testimony.

APS Application to acquire a power plant in the Yuma area E-01345A-06-0464: Provided testimony in support of APS' application. Interveners in this case raised a variety of complex issues that needed to be addressed.

Southern California Edison's application to build a high voltage power line linking Arizona to Southern California L-00000A-06-0295-00130: Provided testimony detailing the potential economic effects of SCE's proposed power line.

Accipiter's complaint against Cox Communications regarding the Vistancia development T-03471A-05-0064: Provided written testimony regarding Accipiter's allegations concerning Cox's dealings with the developers of Vistancia.

Significant past responsibilities included managing staff's case (including negotiating a settlement agreement) in APS' 2003 rate case, negotiating the settlement between staff and Qwest regarding three enforcement dockets, supervising the "independent monitor" of APS' and Tucson Electric Power's (TEP) wholesale power procurement, providing testimony on Qwest's noncompliance with the Commission's wholesale rate order, managing staff's case regarding Qwest's alleged noncompliance with the Federal Telecommunications Act, and acting as staff's lead witness in the Commission's reevaluation of the electric competition rules which resulted in the suspension of APS' and TEP's obligation to divest their generation assets.

*Economist (October 1996 to July 2001)*

Significant responsibilities included supervising the testing of Qwest's operational support systems (OSS), analyzing Qwest's compliance with Section 271 of the Federal Telecommunications Act, providing testimony on the geographic de-averaging of Qwest's Unbundled Network Element prices, and acting as Chairman of the Commission's Water Task Force.

**Arizona Department of Transportation, Phoenix, AZ 1996, 1998, and 1999**

*Research Analyst*

Authored research reports on the costs and benefits of traffic demand management policies, the relative merit of various highway-financing techniques, and air pollution reduction technologies.

**Arizona State University, Tempe, AZ 1992-1996.**

*Lecturer-economics 1994-1996*

Responsible for teaching microeconomics classes requiring the creation of lectures and tests as well as full responsibility for assigning grades.

*Teaching assistant 1992-1994*

Responsible for assisting professors in administering tests, grading, and teaching.

**Education**

**Master of Science and ABD Economics, 1995, Arizona State University.**

I have successfully completed all course work and exams necessary for a Ph.D. Course work included an emphasis in industrial organization and extensive experience with statistical analysis, public sector economics, and financial economics.

**Bachelor of Science Economics, 1992, Florida State University.**

Minors: Philosophy, Statistics

BEFORE THE ARIZONA CORPORATION COMMISSION

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**COMMISSIONERS**

KRISTEN K. MAYES - CHAIRMAN  
GARY PIERCE  
PAUL NEWMAN  
SANDRA D. KENNEDY  
BOB STUMP

IN THE MATTER OF THE APPLICATION OF ) DOCKET NO. WS-02676A-09-0257  
RIO RICO UTILITIES, INC., AN ARIZONA )  
CORPORATION, FOR A DETERMINATION OF )  
THE FAIR VALUE OF ITS UTILITY PLANT )  
AND PROPERTY AND FOR INCREASES IN ITS )  
WATER AND WASTEWATER RATES AND )  
CHARGES FOR UTILITY SERVICE BASED )  
THEREON. )

Surrebuttal Testimony of

Matthew J. Rowell

on Behalf of

Rio Rico Properties, Inc.

February 24, 2010



**TABLE OF CONTENTS**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
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22  
23  
24  
25  
26  
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I. Introduction..... 1  
II. Response to Company's Rebuttal Testimony..... 1

1 **I. Introduction.**

2  
3 **Q. Are you the same Matthew Rowell that provided Direct Testimony in this Docket?**

4 **A. Yes.**

5  
6 **Q. What is the purpose of your Surrebuttal Testimony?**

7 **A. This Surrebuttal Testimony will respond to the Rebuttal Testimony of Greg Sorensen on**  
8 **behalf of Rio Rico Utilities, Inc. ("Rio Rico" or "Company") and will lay out Rio Rico**  
9 **Properties, Inc. ("Avatar") position on Company's proposed Hook-Up Fee tariff ("HUF.")**

10  
11 **II. Response to Company's Rebuttal Testimony**

12  
13 **Q. Mr. Sorensen seems to insinuate that you are not qualified to testify regarding HUFs.<sup>1</sup>**  
14 **How do you respond?**

15 **A. I spent 10 years of my career as a member of the Arizona Corporation Commission's**  
16 **Utility Division Staff. For about half that time I managed a section of analysts that dealt**  
17 **with a wide range of utility regulatory issues. I provided testimony in rate cases myself**  
18 **and oversaw several other Staff members who also provided testimony in rate (and other)**  
19 **cases. I also lead the Commission's Water Task Force and authored the Staff Report in**  
20 **that matter; HUFs were a major topic of the Water Task Force. More recently I provided**  
21 **testimony on behalf of a major Arizona water/wastewater utility on the subject of the**  
22 **regulatory treatment of developer provided funds.<sup>2</sup> Given the above, I believe that Mr.**  
23 **Sorensen's insinuations regarding my qualifications are without merit.**

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27 <sup>1</sup> Sorensen Rebuttal at 5:6-19.

<sup>2</sup> Docket No. SW-20445A-09-0077 et. al.

1 Q. Mr. Sorensen argues that a HUF is an appropriate tool that a utility can use to  
2 “balance its total capitalization” regardless of whether new capacity is needed or not.<sup>3</sup>

3 How do you respond?

4 A. First, I do not agree that HUFs (or contributions generally) should be used solely to  
5 balance a utility’s capital structure in the absence of any need for capacity. The purpose of  
6 contributions is to offset some of the cost of additional capacity necessitated by new  
7 development. If a HUF is imposed in the absence of a need for capacity, new customers  
8 will essentially be subsidizing existing customers. Second, a review of Rio Rico’s capital  
9 structure indicates that there is no need for such “balancing.” Rio Rico’s current combined  
10 water and wastewater capital structure is summarized below:

11 **Table 1 Rio Rico’s Current Capital Structure<sup>4</sup>**

Type	Amount	Percent
Debt	\$ 0	0%
Equity	\$ 12,132,312	32%
AIAC	\$ 360,294	1%
CIAC	\$ 25,277,870	67%
Total	\$ 37,770,476	100%

20  
21 Table 1 clearly shows that Rio Rico’s current CIAC balance is more than double its equity  
22 balance. Thus adding more CIAC to the capital structure will not provide any “balance.”  
23 Rather, additional CIAC will serve to further imbalance the current capital structure which  
24 is already heavily weighted towards CIAC.

25  
26 <sup>3</sup> Sorensen Rebuttal at 5:24-6:4.

27 <sup>4</sup> Debt and Equity: Bourassa Schedule D-1 and Rebuttal at 2; AIAC and CIAC: Bourassa Rebuttal  
Schedule B-1.

1 **Q. Do you believe that a capital structure consisting of 67% CIAC is inappropriate?**

2 A. As I explained in my direct testimony, excessive CIAC in a utility's capital structure can  
3 be a serious problem. Ultimately, how much CIAC is "excessive" or "too much" is a partly  
4 subjective determination based on experience, judgment and the particular circumstances  
5 of a utility. Historically, Commission Staff has recommended that utilities have no more  
6 than 30% AIAC and CIAC as part of their capital structure.<sup>5</sup> In addition, historically Staff  
7 has believed that new utilities require "higher levels of equity" and will typically  
8 recommend that they have 100% equity.<sup>6</sup> As shown in a recent National Association of  
9 Water Companies Report, in the industry, overreliance on CIAC is widely regarded as  
10 being problematic.<sup>7</sup> My point here is that there is no need to add additional CIAC to Rio  
11 Rico's capital structure simply for the sake of "balance."

12  
13 **Q. In addition to the above, is there additional evidence that no additional CIAC is  
14 necessary simply to "balance" the amount of CIAC in Rio Rico's capital structure?**

15 A. Yes. Comparing Rio Rico's CIAC balance with other water and wastewater utilities  
16 reveals that Rio Rico currently has a high level of CIAC relative to its industry peers.  
17 Figure 1 and Table 2 below show gross plant and CIAC balances for a sample of Arizona  
18 Water and Wastewater Utilities:

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24  
25 <sup>5</sup> Staff Report dated October 2006 in Docket No. W-00000C-06-0149 at 6; Staff Report dated  
26 Nov. 21, 2007 in Docket No. SW-20494A-06-0769 et al., Exhibit 3 at 5; Decision No. 71414  
(Dec. 8, 2009) at 9:4-7.

27 <sup>6</sup> Staff Report dated October 2006 in Docket No. W-00000C-06-0149 at 7.

<sup>7</sup> See 2009 NAWC Water Policy Forum, Summary Report, April 2009 at 26.

Figure 1: CIAC as a percentage of gross plant for selected AZ utilities

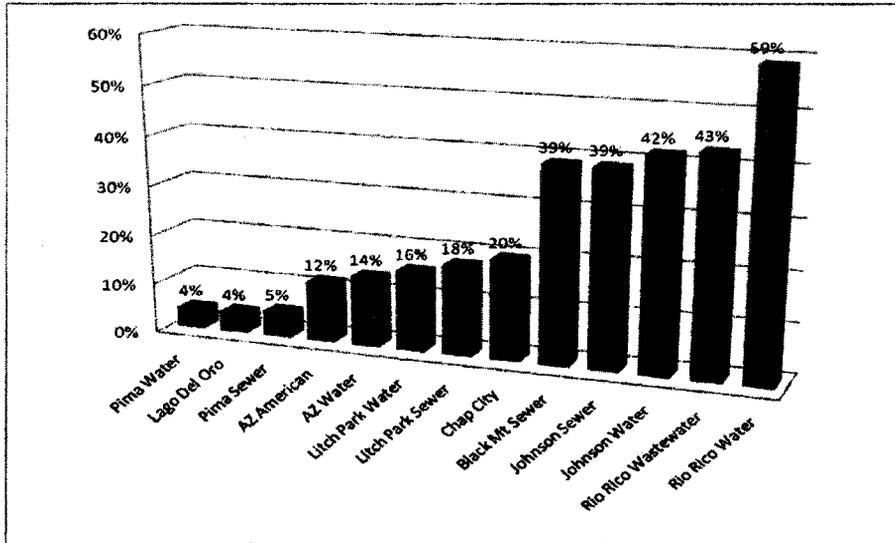


Table 2: Relative CIAC balances of selected AZ utilities

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

1 Table 2 shows that relative to total plant installed, the Rio Rico utilities have extremely  
2 high levels of CIAC relative to their peers. Figure 1 shows the same information  
3 graphically. This is further evidence that additional CIAC is not necessary solely to  
4 provide "balance."

5  
6 **Q. Is the use of the HUF to "balance" the Company's capital structure consistent with  
7 the language of the Company's proposed HUF?**

8 A. No. Section IV. (B) of the proposed water HUF states:<sup>8</sup>

9  
10 Hook-Up Fees *only* may be used to pay for capital items of Off  
11 Site Facilities, or for repayment of loans obtained to fund the cost  
12 of installation of Off Site Facilities. (Emphasis added.)

13 So the proposed HUF itself precludes the use of the HUF funds for purposes other than  
14 paying for necessary Off Site Facilities. Therefore, using the funds solely to provide  
15 "balance" to the Company's capital structure appears to be precluded by the language of  
16 the Company's proposed HUF.

17 **Q. Is there evidence that Rio Rico's commitment to a balanced capital structure is  
18 questionable?**

19 A. Yes. Mr. Sorensen states: "...the utility should be allowed to charge the developer for the  
20 *full cost* of central plant required to serve the development through a combination of HUFs  
21 and LXAs."<sup>9</sup> (Emphasis added.) If Rio Rico plans on using CIAC to fund the *full cost* of  
22 all additional off-site plant, that can hardly be referred as a policy of "balancing" the  
23 source of capital for such facilities.

24  
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26  
27 <sup>8</sup> Identical language is included at section V.(B) of the proposed wastewater HUF.

<sup>9</sup> Sorensen Rebuttal at page 8 lines 18-19 (emphasis added).

1 **Q. Is Mr. Sorensen's contention that the HUF be used to "balance" the Company's**  
2 **capital structure consistent with the Company's responses to Data Requests in the**  
3 **case?**

4 **A. No.** In response to Avatar Data Request 2.3b, the Company indicates that "hook-up fees  
5 are for new capacity required to provide service." No mention is made of using the HUF  
6 to "balance" the Company's capital structure.

7  
8 **Q. In your Direct Testimony you indicated that Rio Rico would be filing a revised HUF**  
9 **tariff. Was the revised HUF tariff ever filed?**

10 **A. No.** Discussions between Company and Avatar council had led us to believe that a revised  
11 tariff similar to the Commission's standard HUF as had been proposed by the Company in  
12 the pending Litchfield Park Service Company rate case (Docket Nos. SW-01428A-09-  
13 0103, W-01427A-09-0104) would be filed and thus my Direct Testimony did not include a  
14 discussion of the problems with the Company's proposed HUF. However, the revised  
15 HUF was never filed.

16  
17 **Q. Please discuss the problematic ambiguities included in Rio Rico's proposed HUF.**

18 **A. At several points in the Company's proposed HUF references are made to potential**  
19 **undefined future payments that may be required in addition to the HUF. These references**  
20 **to potential future payments are highly problematic because of the uncertainty they create.**  
21 **If the Commission ultimately decides a HUF is appropriate for Rio Rico, the HUF should**  
22 **be amended to remove this uncertainty and specific language should be added to the HUF**  
23 **to insure that additional payments will not be required.**

24  
25 **Q. Please indicate each instance where references are made to potential future payments**  
26 **in the proposed HUFs.**

27 **A. First, Section IV(A) of the proposed water HUF states that a "supplemental assessment**

1 may apply” if the intended use of a parcel is altered.<sup>10</sup> This language is highly ambiguous;  
2 it is not clear how much the “supplemental assessment” will be or how it will be  
3 calculated. It is also not clear what events would trigger the “supplemental assessment.”  
4

5 **Second**, Section IV(D) of the proposed water HUF makes reference to “additional  
6 facilities required by the Company” and to “additional requirements imposed by the  
7 Company.”<sup>11</sup> Again, this language is highly ambiguous and problematic. The proposed  
8 HUFs contain no explanation of what these additional facilities and requirements might be  
9 or under what circumstances the Company can impose them. These vague and unclear  
10 provisions could be read to allow the Company to charge as much as it wants regardless of  
11 what the Commission found to be a reasonable HUF – a result that is wholly at odds with  
12 one of the main benefits of HUFs – certainty.

13  
14 **Third**, Section IV(H) of the proposed water HUF indicates that the hook up fee “may not  
15 cover the total costs to be borne by Applicant for necessary Off-Site Facilities...”<sup>12</sup> Again,  
16 this is an ambiguous reference to potential obligations in addition to those contained in the  
17 HUF.

18  
19 In order to provide certainty and to ensure that the HUF is utilized appropriately all of the  
20 above listed references should be eliminated from the HUF.

21  
22 **Q. Are there other necessary clarifications to the proposed HUF?**

23 **A.** Yes. Language should also be added to the HUF indicating that the HUF does not apply to  
24 service connections that meet the following criteria:  
25

26 <sup>10</sup> Section V(A) of the proposed wastewater HUF contains identical language.

27 <sup>11</sup> Section V(D) of the proposed wastewater HUF contains identical language.

<sup>12</sup> Section V(H) of the proposed wastewater HUF contains identical language.

- 1 • A Main Extension Agreement for the connection was in place at the time the HUF tariff was approved by the Commission.
- 2 • Service connections in a subdivision that was receiving service from the company at the time this HUF tariff was approved by the Commission.
- 3 • Service connections in a subdivision for which the Company has accepted on-sites at the time this HUF tariff was approved by the Commission.

4  
5  
6 Additionally, the HUF should be amended to make it clear that wastewater treatment  
7 capacity purchased from a third party will count as a credit against the HUF in the same  
8 manner as contributed plant.

9  
10 **Q. Have you prepared a revised HUF tariff for the Commission's consideration?**

11 A. Yes. Attachments 1 and 2 to this Surrebuttal Testimony are proposed revised HUFs for  
12 water and wastewater, respectively. Attachments 1 and 2 are red-lined versions of the  
13 HUF tariffs proposed by the Company's affiliate, Litchfield Park Service Co. in Docket  
14 Nos. SW-01428A-09-0103, W-01427A-09-0104 (filed as part of a Stipulation on  
15 December 31, 2009), which were based on the Commission's standard form HUF.

16  
17 **Q. Mr. Sorensen indicates that Rio Rico has attempted to explain the ambiguities in the  
18 proposed HUF in its responses to Avatar's data requests.<sup>13</sup> How do you respond?**

19 A. Data request responses do not provide the necessary assurances to Avatar. In order to  
20 provide certainty and avoid future disputes, clarifying language should be added to the  
21 HUFs, should they be approved by the Commission. As I stated in my Direct Testimony,  
22 the Arizona Administrative Code is silent on Hook Up Fees. Thus, the language contained  
23 in a utility's HUF is extremely important.

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<sup>13</sup> Sorensen Direct at 9.

1 Q. Mr. Sorensen argues that the Company will be forced to bear risks commensurate  
2 with those born by the development business if the Company is not permitted to  
3 collect the full cost of off-site facilities as contributions.<sup>14</sup> How do you respond?

4 A. Mr. Sorensen's statements concerning risk are overblown. Utilities like Rio Rico do not  
5 face the same risk profile as developers. It is unlikely that developers will incur the  
6 expense of MXAs and HUF payments unless they are reasonably sure that development  
7 will actually occur. That is especially true now given that the recent real estate downturn  
8 has created caution in the development community. Further, unlike developers, utilities  
9 have a captive base of customers that provide a regular revenue stream. Thus it is very  
10 difficult to understand how a utility like Rio Rico could have the same risk profile of a  
11 developer. This is evidenced by the fact that the recent real estate downturn has resulted in  
12 the bankruptcy of several well established developers and builders in Arizona, yet I am not  
13 aware of any Arizona utilities that were forced into bankruptcy as a result of the same  
14 circumstances.

15  
16 The Company's overblown concerns regarding risk appear to be an attempt to evade its  
17 responsibility to make the investments necessary to provide service within its CC&N  
18 territory. It is the utility's responsibility, not the developer's, to provide off-site plant  
19 necessary to provide service within the CC&N area. In response to Avatar Data Request  
20 2.3.b the Company acknowledges that "it must invest capital into the utility." Yet now it  
21 appears that the Company seeks to avoid any additional investments in the utility and  
22 would have developers bear the full costs of any additional necessary plant.

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<sup>14</sup> Sorensen Rebuttal at 8:7-9.

1 **Q. Mr. Sorensen agrees that a credit to the HUF would be “reasonable” when off-site**  
2 **plant is contributed directly by the developer but only if an MXA is in place.<sup>15</sup> How**  
3 **do you respond?**

4 A. I see no reason to limit such credits to instances where MXAs are in place. Mr. Sorensen  
5 acknowledges that many future customers may connect to Rio Rico’s systems without the  
6 need for a MXA.<sup>16</sup> If a developer contributes plant or capacity necessary to serve such  
7 customers there is no reason why such a contribution should not be credited against the  
8 HUF.

9  
10 **Q. Why is it important that contributions for off-site plant in addition to those required**  
11 **by the HUF be prohibited?**

12 A. It is unreasonable to subject developers to the uncertainty of not knowing how much will  
13 ultimately be required of them to fund off-site plant. It is also unreasonable to expect  
14 developers to cover the “full cost” of necessary off-site plant additions. This would run  
15 counter to the Company’s stated goal of maintaining a balanced capital structure. Also, in  
16 the long run, requiring developers to fund the full cost of off-site infrastructure will result  
17 in undercapitalized utilities.

18  
19 **Q. Are you suggesting that a HUF be denied until the last second before backbone plant**  
20 **is needed, as Mr. Sorensen suggests?<sup>17</sup>**

21 A. No. It would be appropriate to put a HUF in place prior to the need for more capacity.  
22 However, the need for additional capacity should be reasonably foreseeable. Additionally,  
23 specific projects should be identified so that the cost justification for the HUF can be  
24 reviewed. That is not the situation in the current case – the Company has not identified  
25 any specific projects intended to increase capacity. Rather, the cost back up for the HUF is

26 <sup>15</sup> Sorensen Rebuttal at 9:16-23.

27 <sup>16</sup> Sorensen Rebuttal at 6:9-11.

<sup>17</sup> Sorensen Rebuttal at 6:16-21.

1 based on historical overall capital costs per customer and estimates of future overall capital  
2 costs per customer.<sup>18</sup>  
3

4 **Q. Is Avatar opposed to developers paying their fair share of growth-related costs?**

5 A. No. Avatar recognizes that some level of contribution is appropriate to fund plant  
6 necessary to serve new growth. Avatar is not opposed to funding some portion of  
7 necessary new capacity through a HUF or through contributed plant or contributed  
8 capacity. Avatar's concern is that its obligations be clearly defined and limited to a  
9 reasonable portion of necessary new infrastructure.  
10

11 **Q. You have presented recommendations for changes to the Companies' proposed HUF.  
12 Do you have any recommendations in the event that the Commission denies the HUF?**

13 A. Yes. Predictability is a key concern for Avatar. If the HUF is denied, the Company may  
14 attempt to force Avatar to pay similar fees as non-HUF contributions. That would be  
15 especially problematic if the Commission found that the Company has sufficient existing  
16 capacity to serve projected near-term growth (3-5 years). If the Commission denies a  
17 HUF, I recommend that the Commission order the Company not to assess any off-site  
18 CIAC charges until the Commission either: (1) approves a HUF; or (2) the Commission  
19 issues a finding that additional off-site capacity will be needed in the near-term.  
20

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

22 A. Yes.  
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<sup>18</sup> Rio Rico response to Avatar Data Request 2.1.

# ATTACHMENT

"1"

**A T T A C H M E N T 1**  
**T A R I F F S C H E D U L E**

UTILITY: Rio Rico Utilities, Inc.- Water

DECISION NO.

DOCKET NO. 09-0104

EFFECTIVE DATE:

**WATER HOOK-UP FEE**

**I. Purpose and Applicability**

The purpose of the off-site hook-up fees payable to Rio Rico Utilities, Inc.-Water Division ("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities necessary to provide water production, delivery, storage and pressure among all new service connections. These charges are applicable to all new service connections undertaken via Main Extension Agreements or requests for service not requiring a Main Extension Agreement entered into after the effective date of this tariff. These charges are not applicable to new service connections that satisfy any of the following conditions:

- A Main Extension Agreement for the service connection was in place at the time this HUF tariff was approved by the Arizona Corporation Commission ("Commission.")
- The service connection is in a subdivision that was receiving service from the Company at the time this HUF tariff was approved by the Commission.
- The service connection is in a subdivision for which the Company has accepted on-sites at the time this HUF tariff was approved by the Commission.

-The charges are one-time charges and are payable as a condition to Company's establishment of service, as more particularly provided below. These hook-up fees are the total amount due (per connection) to the Company for funding off-site facilities. No additional charges shall be assessed by the company associated with the construction of off-site facilities or capacity.

**II. Definitions**

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's ("Commission") rules and regulations governing water utilities shall apply in interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of water facilities to serve new service connections, and may include Developers and/or Builders of new residential subdivisions and/or commercial and industrial properties.

"Company" means Rio Rico Utilities, Inc. – Water Division.

"Main Extension Agreement" means any agreement whereby an Applicant, Developer and/or Builder agrees to advance the costs of the installation of water facilities necessary to the Company to serve new service connections within a development, or installs such water facilities necessary to serve new service connections and transfers ownership of such water facilities to the Company, which agreement shall require the approval of the Commission pursuant to A.A.C. R-14-2-406, and shall have the same meaning as "Water Facilities Agreement" or "Line Extension Agreement."

"Off-site Facilities" means wells, storage tanks and related appurtenances necessary for proper operation, including engineering and design costs. Off-site facilities may also include booster pumps, pressure tanks, transmission mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the applicant and will benefit the entire water system.

"Service Connection" means and includes all service connections for single-family residential, commercial, industrial or other uses, regardless of meter size.

**III. Water Hook-up Fee**

For each new service connection, the Company shall collect an off-site hook-up fee derived from the following table:

<b>OFF-SITE WATER HOOK-UP FEE TABLE</b>		
<b>METER SIZE</b>	<b>SIZE FACTOR</b>	<b>TOTAL FEE(A)</b>
5/8" x 3/4"	1	\$1,800
3/4"	1.5	\$2,700
1"	2.5	\$4,500
1-1/2"	5	\$9,000
2"	8	\$14,400
3"	16	\$28,800
4"	25	\$45,000
6" or larger	50	\$90,000

(A) For "Active Adult" communities with demonstrated age-restricted zoning and/or CCRs providing for age-restricted living, the Total Fee shall be Two-Thirds (2/3) of the Total Fee shown above, based on an ERU factor of 190 gallons per day.

**IV. Terms and Conditions**

(A) Assessment of One Time Off-Site Hook-up Fee: Subject to the restrictions in Section I above, the off-site hook-up fee may be assessed only once per parcel, service connection, or lot within a subdivision (similar to meter and service line installation charge).

**(B) Use of Off-Site Hook-up Fee:** Off-site hook-up fees may only be used to pay for capital items of Off-site Facilities, or for repayment of loans obtained to fund the cost of installation of off-site facilities. Off-site hook-up fees shall not be used to cover repairs, maintenance, or operational costs.

**(C) Time of Payment:**

- 1) **For those requiring a Main Extension Agreement:** In the event that the person or entity that will be constructing improvements ("Applicant", "Developer" or "Builder") is otherwise required to enter into a Main Extension Agreement, whereby the Applicant, Developer or Builder agrees to advance the costs of installing mains, valves, fittings, hydrants and other on-site improvements in order to extend service in accordance with R-14-2-406(B), payment of the Hook-Up Fees required hereunder shall be made by the Applicant, Developer or Builder no later than within 15 calendar days after receipt of notification from the Company that the Utilities Division of the Arizona Corporation Commission has approved the Main Extension Agreement in accordance with R-14-2-406(M).
- 2) **For those connecting to an existing main:** In the event that the Applicant, Developer or Builder for service is not required to enter into a Main Extension Agreement, the Hook-Up Fee charges hereunder shall be due and payable at the time the meter and service line installation fee is due and payable.

**(D) Off-Site Facilities Construction By Developer:** Company and Applicant, Developer, or Builder may agree to construction or acquisition of off-site facilities including water production capacity, necessary to serve a particular development by Applicant, Developer or Builder, which facilities are then conveyed to Company. In that event, Company shall credit the total cost of such off-site facilities as an offset to off-site hook-up fees due under this Tariff. If the total cost of the off-site facilities constructed by Applicant, Developer or Builder and conveyed to Company is less than the applicable off-site hook-up fees under this Tariff, Applicant, Developer or Builder shall pay the remaining amount of off-site hook-up fees owed hereunder. If the total cost of the off-site facilities contributed by Applicant, Developer or Builder and conveyed to Company is more than the applicable off-site hook-up fees under this Tariff, Applicant, Developer or Builder shall be refunded the difference upon acceptance of the off-site facilities by the Company.

**(E) Failure to Pay Charges; Delinquent Payments:** The Company will not be obligated to make an advance commitment to provide or actually provide water service to any Developer, Builder or other applicant for service in the event that the Developer, Builder or other applicant for service has not paid in full all charges hereunder. Under no circumstances will the Company set a meter or otherwise allow service to be established if the entire amount of any payment due hereunder has not been paid.

**(F) Large Subdivision/Development Projects:** In the event that the Applicant, Developer or Builder is engaged in the development of a residential subdivision and/or development containing more than 150 lots, the Company may, in its reasonable

discretion, agree to payment of off-site hook-up fees in installments. Such installments may be based on the residential subdivision and/or development's phasing, and should attempt to equitably apportion the payment of charges hereunder based on the Applicant's, Developer's or Builder's construction schedule and water service requirements. In the alternative, the Applicant, Developer, or Builder shall post an irrevocable letter of credit in favor of the Company in a commercially reasonable form, which may be drawn by the Company consistent with the actual or planned construction and hook up schedule for the subdivision and/or development.

**(G) Off-Site Hook-Up Fees Non-refundable:** The amounts collected by the Company as Hook-Up Fees pursuant to the off-site hook-up fee tariff shall be non-refundable contributions in aid of construction.

**(H) Use of Off-Site Hook-Up Fees Received:** All funds collected by the Company as off-site hook-up fees shall be deposited into a separate interest bearing trust account and used solely for the purposes of paying for the costs of installation of off-site facilities, including repayment of loans obtained for the installation of off-site facilities that will benefit the entire water system.

**(I) Off-Site Hook-up Fee in Addition to On-site Facilities:** The off-site hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Main Extension Agreement.

**(J) Disposition of Excess Funds:** After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site hook-up fees, or if the off-site hook-up fee has been terminated by order of the Arizona Corporation Commission, any funds remaining in the trust shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

**(K) Fire Flow Requirements:** In the event the applicant for service has fire flow requirements that require additional facilities beyond those facilities whose costs were included in the off-site hook-up fee, and which are contemplated to be constructed using the proceeds of the off-site hook-up Fee, the Company may require the applicant to install such additional facilities as are required to meet those additional fire flow requirements, as a non-refundable contribution, in addition to the off-site hook-up fee.

**(L) Status Reporting Requirements to the Commission:** The Company shall submit a calendar year Off-Site Hook-Up Fee status report each January to Docket Control for the prior twelve (12) month period, beginning January 2011, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the physical location/address of the property in respect of which such fee was paid, the amount of money spent from the account, the amount of interest earned on the funds within the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.

# ATTACHMENT

"2"

## ATTACHMENT 2

### TARIFF SCHEDULE

UTILITY: Rio Rico Utilities, Inc.– Wastewater  
DOCKET NO.: 09-0103

DECISION NO. \_\_\_\_\_  
EFFECTIVE DATE: \_\_\_\_

### WASTEWATER HOOK-UP FEE

#### I. Purpose and Applicability

The purpose of the off-site facilities hook-up fees payable to Rio Rico Utilities, Inc.–Wastewater Division ("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities to provide wastewater treatment and disposal facilities among all new service laterals. These charges are applicable to all new service laterals undertaken via Collection Main Extension Agreements, or requests for service not requiring a Collection Main Extension Agreement, entered into after the effective date of this tariff. These charges are not applicable to new service connections that satisfy any of the following conditions:

- A Main Extension Agreement for the service connection was in place at the time this HUF tariff was approved by the Arizona Corporation Commission ("Commission.")
- The service connection is in a subdivision that was receiving service from the company at the time this HUF tariff was approved by the Commission.
- The service connection is in a subdivision for which the Company has accepted on-sites at the time this HUF tariff was approved by the Commission.

The charges are one-time charges and are payable as a condition to Company's establishment of service, as more particularly provided below. These hook-up fees are the total amount due (per connection) to the Company for funding off-site facilities. No additional charges shall be assessed by the company associated with the construction of off-site facilities or capacity.

#### II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-601 of the Arizona Corporation Commission's ("Commission") rules and regulations governing sewer utilities shall apply interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of wastewater facilities to serve new service laterals, and may include Developers and/or Builders

of new residential subdivisions, and industrial or commercial properties.

"Company" means Rio Rico Utilities, Inc.— Wastewater Division.

"Collection Main Extension Agreement" means an agreement whereby an Applicant, Developer and/or Builder agrees to advance the costs of the installation of wastewater facilities necessary to serve new service laterals, or install wastewater facilities to serve new service laterals and transfer ownership of such wastewater facilities to the Company, which agreement does not require the approval of the Commission pursuant to A.A.C. R-14-2-606, and shall have the same meaning as "Wastewater Facilities Agreement".

"Off-site Facilities" means the wastewater treatment plant, sludge disposal facilities, effluent disposal facilities and related appurtenances necessary for proper operation, including engineering and design costs. Offsite facilities may also include lift stations, force mains, transportation mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the applicant and benefit the entire wastewater system. "Service Lateral" means and includes all service laterals for single-family residential, commercial, industrial or other uses.

### **III. Wastewater Hook-up Fee**

For each new residential service lateral, the Company shall collect a Hook-Up Fee of \$1,800 based on the Equivalent Residential Unit ("ERU") of 320 gallons per day. Commercial and industrial applicants shall pay based on the total ERUs of their development calculated by dividing the estimated total daily wastewater capacity usage needed for service using standard engineering standards and criteria by the ERU factor of 320 gallons per day. For "Active Adult" communities with demonstrated age-restricted zoning and/or CCRs providing for age-restricted living, the Hook-Up Fee shall be \$1,070, based on an ERU factor of 190 gallons per day.

### **IV. Terms and Conditions**

(A) Assessment of One Time Off-Site Facilities Hook-up Fee: Subject to the restrictions in Section I above, ~~T~~the off-site facilities hook-up fee may be assessed only once per parcel, service lateral, or lot within a subdivision (similar to a service lateral installation charge).

(B) Use of Off-Site Facilities Hook-up Fee: Off-site facilities hook-up fees may only be used to pay for capital items of Off-site Facilities, or for repayment of loans obtained to fund the cost of installation of off-site facilities. Off-site hook-up fees shall not be used to cover repairs, maintenance, or operational costs.

(C) Time of Payment:

- (1) In the event that the person or entity that will be constructing improvements ("Applicant", "Developer" or "Builder") is otherwise required to enter into a Collection Main Extension Agreement, payment of the fees required hereunder shall be made by the Applicant, Developer or Builder within 15 days of execution of a Main Extension Agreement.

(2) In the event that the Applicant, Developer or Builder for service is not required to enter into a Collection Main Extension Agreement, the Hook-Up Fee charges hereunder shall be due and payable at the time wastewater service is requested for the property.

(D) Off-Site Facilities Constructed or Acquired by Developer: Company and Applicant, Developer, or Builder may agree to construction of off-site facilities necessary to serve a particular development by Applicant, Developer or Builder, which facilities are then conveyed to Company. Additionally, Company and Applicant, Developer, or Builder may agree to the acquisition of wastewater treatment capacity (i.e., a right to use a third party's wastewater treatment capacity) from a third party, which is then conveyed to Company. In either that event, Company shall credit the total cost of such off-site facilities or capacity as an offset to off-site hook-up fees due under this Tariff. If the total cost of the off-site facilities constructed by Applicant, Developer or Builder or capacity acquired by Applicant, Developer or Builder and conveyed to Company is less than the applicable off-site hook-up fees under this Tariff, Applicant, Developer or Builder shall pay the remaining amount of off-site hook-up fees owed hereunder. If the total cost of the off-site facilities and/or treatment capacity constructed or acquired by Applicant, Developer or Builder and conveyed to Company is more than the applicable off-site hook-up fees under this Tariff, Developer or Builder shall be refunded the difference upon acceptance of the off-site facilities by the Company.

(E) Failure to Pay Charges; Delinquent Payments: The Company will not be obligated to make an advance commitment to provide or actually provide wastewater service to any Developer, Builder or other applicant for service in the event that the Developer, Builder or other applicant for service has not paid in full all charges hereunder. Under no circumstances will the Company connect service or otherwise allow service to be established if the entire amount of any payment has not been paid.

(F) Large Subdivision and/or Development Projects: In the event that the Applicant, Developer or Builder is engaged in the development of a residential subdivision and/or development containing more than 150 lots, the Company may, in its reasonable discretion, agree to payment of off-site hook-up fees in installments. Such installments may be based on the residential subdivision and/or development's phasing, and should attempt to equitably apportion the payment of charges hereunder based on the Applicant's, Developer's or Builder's construction schedule and water service requirements. In the alternative, the Applicant, Developer, or Builder shall post an irrevocable letter of credit in favor of the Company in a commercially reasonable form, which may be drawn by the Company consistent with the actual or planned construction and hook up schedule for the subdivision and/or development.

(G) Off-Site Hook-Up Fees Non-refundable: The amounts collected by the Company pursuant to the off-site facilities hook-up fee tariff shall be non-refundable contributions in aid of construction.

(H) Use of Off-Site Hook-Up Fees Received: All funds collected by the Company as off-site facilities hook-up fees shall be deposited into a separate account and bear interest and shall be used solely for the purposes of paying for the costs of installation of off-site facilities, including

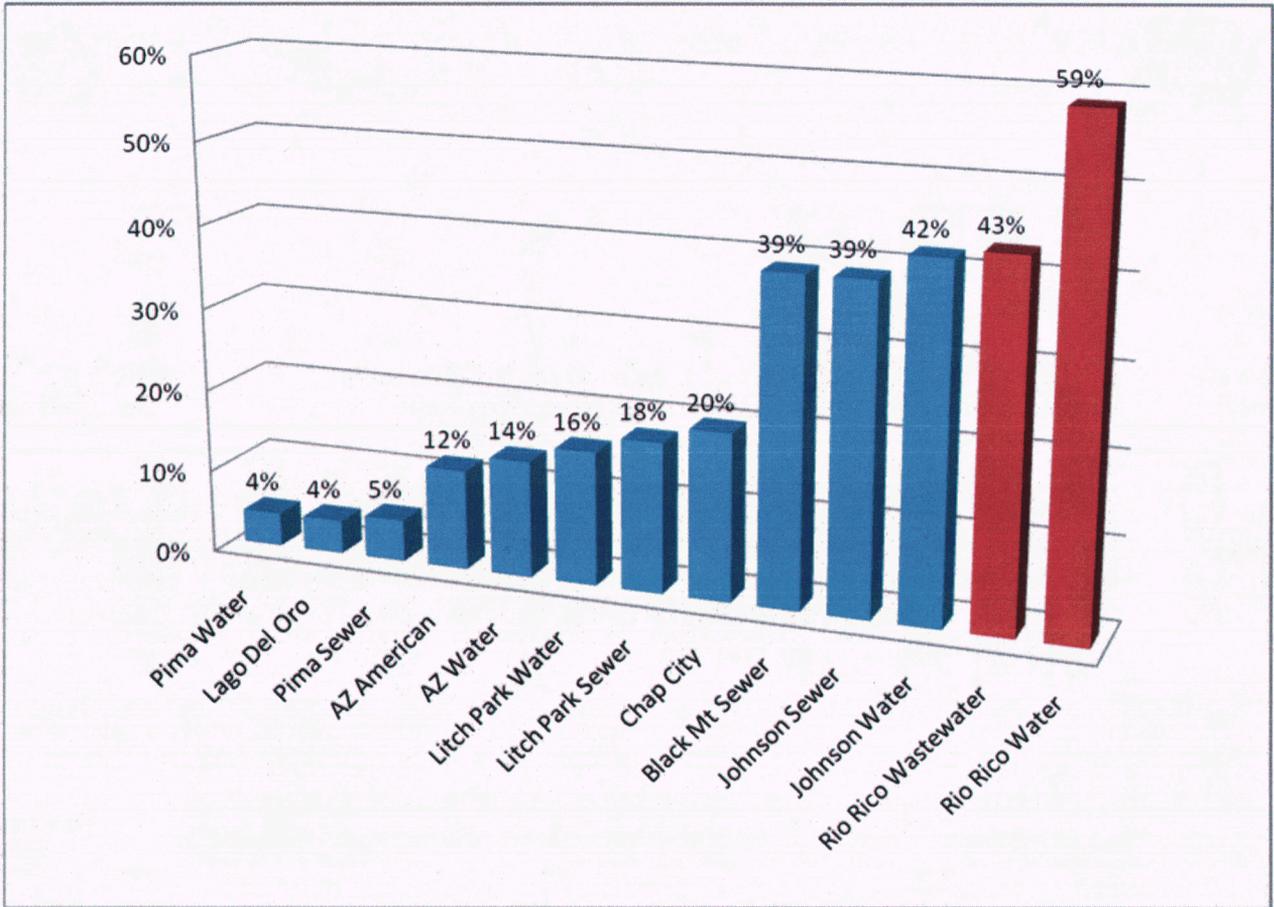
repayment of loans obtained for the installation of off-site facilities.

(I) Off-Site Facilities Hook-up Fee in Addition to On-site Facilities: The off-site facilities hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Collection Main Extension Agreement.

(J) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site facilities hook-up fees, or if the off-site facilities hook-up fee has been terminated by order of the Arizona Corporation Commission, any funds remaining in the trust shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

(K) Status Reporting Requirements to the Commission: The Company shall submit a calendar year Off-Site Facilities Hook-Up Fee status report each January to Docket Control for the prior twelve (12) month period, beginning January 2011, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the physical location/address of the property in respect of which such fee was paid, the amount of money spent from the account, the amount of interest earned on the funds within the tariff account, and an itemization of all facilities that have been installed using the tariff funds during the 12 month period.

Attachment 1: CIAC as a percentage of gross plant for selected AZ utilities



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4 Attorneys for Rio Rico Utilities, Inc.

5  
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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

DOCKET NO: WS-02676A-09-\_\_\_\_\_

14  
15  
16 **DIRECT TESTIMONY OF**  
17  
18 **GREG SORENSEN**

19 **May 21, 2009**  
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21  
22  
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25  
26



TABLE OF CONTENTS

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

II. OVERVIEW OF RIO RICO UTILITIES, INC.....2

III. SUMMARY OF SIGNIFICANT SYSTEM IMPROVEMENTS AND OTHER  
CHANGES SINCE THE LAST TEST YEAR.....6

    A. Low Income Tariff and Other General Changes. ....9

    B. HUF Tariffs.....10

    C. Other Tariff Changes .....12

IV. MISCELLANEOUS ISSUES.....12

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1  
2  
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4  
5  
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10  
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1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

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

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

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

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

7 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8 A. I am employed by Algonquin Water Services ("AWS") as Director of Operations  
9 for the Western Group. AWS is an affiliate, through common ownership, of RRUI  
10 and RRUI's parent, Algonquin Water Resources of America ("AWRA").

11 **Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES IN THESE**  
12 **POSITIONS?**

13 A. I oversee the operations and business management functions for AWRA's utility  
14 holdings in Arizona. AWS manages and operates 18 utilities in Arizona, Texas,  
15 Missouri, and Illinois and operates several others. I have the responsibility for the  
16 daily operations and administration of all the Arizona utilities, for the financial and  
17 operating results for each utility, for capital and operating cost budgeting, for rate  
18 case planning and oversight and rate setting policies and procedures as they relate  
19 to the operations under my responsibility.

20 **Q. WHAT WAS YOUR EDUCATIONAL AND EMPLOYMENT**  
21 **BACKGROUND BEFORE GOING TO WORK FOR AWS?**

22 A. I earned a Bachelor's degree in Accounting from Wake Forest University in 1993.  
23 I worked for Arthur Andersen as a staff and then senior auditor for 5 years, after  
24 which I was a Director of Financial Reporting & Analysis, Controller, and VP  
25 Finance for Excel Agent Services, an international call center company. I am a  
26 Certified Public Accountant in the State of Georgia (license # CPA017709). I have

1 worked for AWS since November 2005 in the capacity of Controller and Director  
2 of Operations.

3 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?**

4 A. Yes, I have testified in Commission proceedings involving Gold Canyon Sewer  
5 Company, and Northern Sunrise and Southern Sunrise water companies. My  
6 testimony has also been prefiled in Black Mountain Sewer Corporation's pending  
7 rate case, Docket No. SW-02361A-08-0609, and Litchfield Park Service  
8 Company's pending rate cases, Docket Nos. SW-01428A-09-0103 and W-01427A-  
9 09-0104. These aforementioned entities are all affiliates of RRUI. Bella Vista  
10 Water Company is the other affiliated utility in Arizona.

11 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

12 A. To support RRUI's application for rate relief. Specifically, I will provide  
13 background on the Company and its operations. I will also summarize significant  
14 capital improvements completed by the Company and other operating cost changes  
15 that are contributing to the need for a rate increase. Finally, I will address certain  
16 aspects of the relief being requested in this case, including approval of certain  
17 changes to our tariff of rates and charges for water and wastewater service.

18 **II. OVERVIEW OF RIO RICO UTILITIES, INC.**

19 **Q. PLEASE PROVIDE AN OVERVIEW OF RRUI.**

20 A. The Company provides both water and wastewater service to its customers. The  
21 Company's service area is located in Santa Cruz County, Arizona, north of the City  
22 of Nogales. The Company's water and wastewater CCN are geographically the  
23 same. However, due to varied terrain, wastewater service is generally concentrated  
24 in the central portion of the service area, and as such, serves fewer customers.  
25 Those who are not provided sewer service by the Company utilize septic tanks.

26 Our water customers include a number of commercial, a few industrial and

1 several irrigation customers. The 5/8 metered residential class, which is the largest  
2 customer class, uses an average of 8,546 gallons per month. See Bourassa  
3 Schedule H-2, page 1. RRUI has received several awards in the past few years,  
4 including the AWPCA Small Water Distribution System of the year for 2003 and  
5 2005, and the 2005 Small Wastewater Collection System of the year. These  
6 awards are given for significant efforts to provide safe drinking water and protect  
7 public health.

8 **Q. PLEASE DESCRIBE THE COMPANY'S WATER RESOURCES?**

9 A. The Company's water supply comes from groundwater. The groundwater is  
10 pumped from 6 wells directly into the distribution system or into one of five  
11 storage facilities for later distribution to customers. All water supply is chlorinated  
12 prior to delivery to customers for disinfection purposes. The Company and  
13 residents are fortunate that the groundwater in the area does not require treatment  
14 for any constituents such as arsenic or nitrates. However, due to the vast elevation  
15 differences within the distribution system, which includes 7 different 150 foot  
16 pressure zones, the Company utilizes 27 booster stations to maintain proper  
17 pressure for its customers. RRUI's service territory is within the Santa Cruz Active  
18 Management Area. As such, and as part of our provider profile due to ADWR in  
19 June 2009 and in an effort to promote conservation, the Company is in the process  
20 of proposing and implementing 10 Best Management Practices (BMPs), which is  
21 double the required compliance level of five. I will ensure that a copy of our  
22 Provider Profile is submitted to the Commission as a supplement to this testimony.

23 **Q. DOES THE COMPANY PROVIDE WATER SERVICE FOR IRRIGATION,  
24 INCLUDING ANY SCHOOLS, PARKS, GOLF COURSES OR OTHER  
25 ORNAMENTAL WATER FEATURES?**

26 A. Yes. The Company does supply water to three school complexes, one hotel, and

1 two parks, including the one used for the local little league. The Company also  
2 supplies water to Rio Rico Properties for use in irrigating medians, common areas  
3 and drip irrigation, and provides separate irrigation water to a few residential  
4 customers who requested a dedicated irrigation line. There is one golf course in  
5 our service area, but RRUI only supplies domestic water for their use. We do not  
6 provide water for landscape irrigation to any golf courses at this time.

7 **Q. PLEASE DESCRIBE THE COMPANY'S PRIMARY WASTEWATER**  
8 **TREATMENT FACILITIES.**

9 A. The Company has purchased 550,000 gallons per day of treatment capacity from  
10 the City of Nogales. The Company also has two sets of three evaporative ponds.  
11 The first set of three ponds has a general permit to treat up to 20,000 gallons per  
12 day of sewage. The second set of three ponds is permitted to treat up to 20,000  
13 gallons per day of sewage on an emergency basis only. The collection system  
14 includes five lift stations, four of which pump wastewater for treatment under our  
15 agreement with the City, and the remaining pump to the aforementioned  
16 evaporative ponds.

17 **Q. WHEN DID THE CURRENT RATES GO INTO EFFECT?**

18 A. The Company's current rates were approved in Decision No. 67279 (October 5,  
19 2004). These rates were based on a test year ending December 31, 2002. Because  
20 the Company is utilizing a December 31, 2008 test year in this filing, it will be six  
21 years between test years.

22 **Q. IN THE LAST RATE CASE THE COMPANY WAS EXPERIENCING**  
23 **SIGNIFICANT GROWTH. IS THAT STILL THE CASE?**

24 A. In its last rate case, the Company used a December 31, 2002 test year. At that  
25 time, the Company had approximately 4,164 water customers and 1,482  
26 wastewater customers. At the end of our current test year, we had over 6,605

1 water customers and over 2,183 wastewater customers. The average annualized  
2 growth rate for water was almost 8 percent, and was just over 6.5 percent for  
3 wastewater. However, growth has slowed significantly since mid-2008.

4 **Q. WHY IS RRUI FILING FOR NEW RATES AT THIS TIME?**

5 A. As I testify below, and as can be noted by reviewing Mr. Bourassa's testimony and  
6 schedules, the Company has invested over \$4 million dollars since the last rate case  
7 test year (2002), and is currently earning less than a 2.5% return on water and  
8 sewer combined, which is far below any fair and reasonable return on its  
9 investment. Of course, the losses are occurring entirely on the water side of our  
10 combined entity. RRUI's provision of sewer service is actually earning a return  
11 above its authorized return in the last rate order, which has led to our request for a  
12 rate decrease.

13 **Q. EXCUSE ME, MR. SORENSEN, BUT WAS RRUI ORDERED TO**  
14 **INCLUDE ITS WASTEWATER RATES IN THIS RATE CASE?**

15 A. No, although I can imagine it is unusual for public service corporations to seek rate  
16 decreases. We are filing this case for two reasons primarily—we are losing money  
17 on the provision of water utility service, and it has been far too long between rate  
18 cases. The fact that the use of the appropriate ratemaking formula results in a  
19 decrease for our wastewater utility service is immaterial—that is just the way it is.  
20 We do not want to delay going through the process. Moreover, the moderate  
21 decrease in our rates for sewer service will help ameliorate the significant increases  
22 we need in our rates for water, as well as soften the impact of the rate increases that  
23 will inevitably be needed for our sewer rates at some time in the future.

24 **Q. DO YOU AGREE THAT THESE ARE CHALLENGING ECONOMIC**  
25 **TIMES TO BE SEEKING RATE INCREASES?**

26 A. Of course. We feel it too through increased expenses, decreased access to capital,

1 and higher costs for capital and debt, if it can be obtained. But we are an operating  
2 business providing necessary services. We were here when times are good, are still  
3 needed when times are bad, and we will be here when things improve. Meanwhile,  
4 we are losing money on water utility service. Whatever the times, RRUI simply  
5 seeks an opportunity to earn a reasonable return on the property it devotes to public  
6 service.

7 **III. SUMMARY OF SIGNIFICANT SYSTEM IMPROVEMENTS AND OTHER**  
8 **CHANGES SINCE THE LAST TEST YEAR**

9 **Q. WOULD YOU PLEASE DISCUSS THE SIGNIFICANT IMPROVEMENTS**  
10 **THAT RRUI HAS MADE TO ITS WATER AND WASTEWATER UTILITY**  
11 **SYSTEMS SINCE ITS LAST TEST YEAR ENDED ON DECEMBER 31,**  
12 **2002?**

13 A. Certainly. On the wastewater side, we purchased an additional 100,000 gallons per  
14 day (gpd) of treatment capacity from the City pursuant to our 1996 agreement. The  
15 cost of this capacity purchased in 2005 was \$300,000. The minimum incremental  
16 capacity purchase per the agreement is 100,000 gpd. This purchase was required at  
17 that time as we had reached 90% utilization of our then-existing capacity.

18 **Q. WHAT WERE THE COMPANY'S AVERAGE DAILY AND PEAK FLOWS**  
19 **DURING THE TEST YEAR?**

20 A. During 2007 and 2008, the company delivered approximately 430,000 gallons per  
21 day, annual average, to the City of Nogales for treatment, a peak month flow of  
22 approximately 452,000 gpd in May 2008 and a peak day flow of 514,000 gpd  
23 during April 2008. During 2008, the Company delivered approximately 12,000  
24 gpd to the North Sewer Basin evaporative ponds on an average annual basis.

25  
26

1 **Q. WERE THERE ANY OTHER SIGNIFICANT CAPITAL EXPENDITURES**  
2 **ON THE WASTEWATER SIDE?**

3 A. Yes, RRUI was required by the City of Nogales to pay \$427,000 to the City to  
4 cover the Company's pro rata share of the cost of upgrading the shared treatment  
5 facilities. These upgrades are for the current capacity utilized by the Company,  
6 and are not related to any increased growth or additional planned flows in the  
7 future.

8 **Q. THANK YOU. WHAT ABOUT THE WATER UTILITY SYSTEM?**

9 A. Yes, there have been several capital improvements, and these are a big reason for  
10 the requested rate increase for our water service. Specifically, since the last rate  
11 case, we have drilled two new wells (Well #6 in 2007 and Well #15 in 2003) and  
12 refurbished another of the Company's wells (Well #86 in 2008). The two new  
13 wells cost approximately \$1.2 million, and account for approximately 14% of the  
14 requested increase in rates for water service. The renovation of Well #86 cost  
15 approximately \$425,000 and accounts for approximately 5% of the requested  
16 increase in the water rates. This renovation was required because the electrical  
17 controls were at the end of their useful life and had become a safety hazard. Also,  
18 the pump had significantly lost production thus negatively affecting the ability to  
19 provide proper service in our northeastern service area.

20 We also refurbished three water plants, which include booster stations and  
21 storage facilities. In 2003, we expended approximately \$830,000 to increase the  
22 storage and replace the two booster station pumping facilities at Water Plant #1. In  
23 2008, the Company expended approximately \$550,000 to replace Water Plant #59  
24 booster station, including the pumps, motors, electrical controls, and telemetry, all  
25 of which had been originally placed in service for 25 years and had reached the end  
26 of its operating life.

1           Also, in 2008, the Company completed the renovation of Water Plant #81,  
2           which included replacement of the 25 year old booster station and addition of a  
3           1,000,000 gallon storage facility which was necessary to provide service and fire  
4           flow to our customers in the northeast section of our service territory. This project  
5           cost approximately \$1.1 million. The combined \$2.48 million expended for these  
6           three water plant refurbishments account for a 30% requested increase in rates.

7   **Q.    ANY OTHER SIGNIFICANT CHANGES OR INCREASES IN**  
8   **OPERATING EXPENSES SINCE THE LAST TEST YEAR?**

9   A.    As I testified, there was six years between test years, and assuming a standard  
10       three percent annual increase in general operating and administrative costs, one  
11       would expect that operating costs would have increased by roughly 19 percent  
12       since the 2002 test year. And that really is a minimum based on general  
13       inflationary impacts. In actuality, certain costs have increased more significantly  
14       than that. For example, as our customer population increased, our water sampling  
15       requirements for bacteriological testing doubled. Also, power rates increased by  
16       approximately 22% in August 2003 and approximately 14% in June 2008. The  
17       utility also added 3 full time AWS contractors/employees dedicated to RRUI since  
18       2002 in order to provide proper service to its customers. Fortunately, since  
19       Algonquin acquired these systems, we have managed costs through our shared  
20       services model.

21   **IV.   PROPOSED TARIFF CHANGES**

22   **Q.    IS RRUI PROPOSING ANY CHANGES OF ITS TARIFF OF RATES AND**  
23   **CHARGES?**

24   A.    Yes. We are proposing a low income tariff (copy attached to the Application at  
25       Attachment 1), a change in the cost of new service lines, and hook up fee (“HUF”)  
26       tariff (copy attached to the Application at Attachment 2).

1           A.     Low Income Tariff and Other General Changes.

2     **Q.     DOES THE COMPANY CURRENTLY HAVE A LOW INCOME TARIFF?**

3     A.     No. The proposed tariff is entirely new to RRUI. *See* Application, Attachment 1.

4     **Q.     WHY IS THE COMPANY PROPOSING THAT A LOW INCOME TARIFF**  
5     **BE APPROVED IN THIS RATE CASE?**

6     A.     We understand that low income tariffs are a regulatory tool used to provide some  
7     relief to lower income ratepayers and, with the recent downturn in our economy,  
8     we understand that the Commission has focused even more on the need for these  
9     tariffs. As a result, RRUI wants to provide an opportunity for those customers that  
10    truly need assistance to lower the cost of water utility service. Mr. Bourassa  
11    explains in detail how the Company's proposed low income tariff will work.  
12    Direct Testimony of Thomas J. Bourassa (Rate Base, Income Statement and Rate  
13    Design) at 18-19. We understand that this model was recently proposed by  
14    Mr. Bourassa for Chaparral City Water, with support from Staff and RUCO, and  
15    that it is similar to the model used in California by Golden State Water. The same  
16    model was also proposed in the case recently filed by RRUI's affiliate, LPSCO.

17    **Q.     DOES THE LOW INCOME TARIFF IMPACT THE COMPANY'S**  
18    **REVENUE REQUIREMENT?**

19    A.     No. The low income tariff shifts the recovery of the revenue requirement between  
20    customers. Those customers that pay the normal rates for water utility service are  
21    subsidizing those customers that obtain a discount on the cost.

22    **Q.     HOW DOES THE COMPANY CURRENTLY HANDLE CUSTOMERS**  
23    **WHO GET BEHIND ON PAYMENTS OR CAN'T PAY THEIR BILL?**

24    A.     Our tariff currently does not allow for a finance charge. However, we are  
25    requesting the Commission to authorize a 1.5% per month finance charge in our  
26    tariff, commensurate with other tariffs that RRUI's affiliates have. I believe this

1 charge possibly may encourage some customers to stay current on their bills, rather  
2 than waiting to pay just before disconnect, then letting the same situation occur  
3 again, and again. The Company handles these on a case-by-case basis. The  
4 general practice is to try to get the payment for past due amounts, and extend the  
5 deadline for current amounts until the customer can catch-up. There are certainly  
6 other approaches we utilize, including payment plans to allow customers to become  
7 current on their bills. Such payment plans usually involve committed payment  
8 amounts on specific dates and usually do not extend beyond 90 days. Shutting off  
9 service is our last resort, but sometimes must be done.

10 **B. HUF Tariffs**

11 **Q. DOES RRUI CURRENTLY HAVE A HOOK UP FEE (“HUF”) TARIFF?**

12 A. No. In this case, we are proposing a hook up fee for both water and wastewater.

13 **Q. WHY IS THE COMPANY PROPOSING HUF TARIFFS IN THIS RATE**  
14 **CASE?**

15 A. To assist the Company in equitably apportioning the cost of constructing additional  
16 off-site facilities to provide water production, delivery, storage and pressure among  
17 new service connections. As a result, we are proposing HUFs for both divisions to  
18 address part of the costs for off-site facilities for new service connections.

19 **Q. WHAT WILL BE THE AMOUNT OF THE HUF?**

20 A. For water, the HUFs will be based on meter size. As set forth in the proposed  
21 Water HUF, the HUFs will be \$1,800 for a 5/8” meter, and \$2,000 for 3/4” and 1”  
22 meters. See Application, Attachment 2. For the Wastewater Division, the HUF  
23 will be \$2,000 per Equivalent Residential Unit (“ERU”). The developer could also  
24 provide the Company off-site facilities of equal or greater amount in lieu of the  
25 HUF. *Id.*

26

1 Q. WHAT FACTORS DID THE COMPANY CONSIDER TO ARRIVE AT  
2 THESE AMOUNTS?

3 A. There are basically three factors that we considered. First, we desire to keep  
4 customer rates within a reasonable range, while allowing the Company an  
5 opportunity to recover its operating costs and earn a reasonable return on the fair  
6 value of its rate base. We considered the historical average cost of plant per  
7 customer, we also considered our estimated reasonable costs for increased capacity  
8 and off-site facilities for new service connections based on our ongoing experience  
9 with capital investment.

10 The second factor is fairness. Ideally, all customers within a class should  
11 pay the same amount because each customer is contributing to the same extent to  
12 the operating and administrative costs of the utility and each customer is providing  
13 a like amount in support of the return on rate base. In other words, each customer  
14 within that class is paying his or her cost of service. Each customer (old and new)  
15 should have approximately the same amount of utility investment dedicated to its  
16 needs, with the balance of the capital required to furnish service funded by the  
17 developer.

18 The third factor is that of balancing invested capital versus contributed  
19 capital. Many of the assets utilized within this system are older assets, which need  
20 refurbishment or replacement. These types of assets necessitate capital investment  
21 by the Company. These investments likely result in the need for additional rates.  
22 Therefore, in this instance, we view a HUF with required CIAC or zero-cost capital  
23 a favorable situation to allow development to pay the bill, or at least a significant  
24 part of it, for growth and allow the utility to invest the funds for system  
25 maintenance capital.  
26

1           **C.     Other Tariff Changes**

2       **Q.     YOU ALSO MENTIONED A CHANGE IN THE COST OF NEW SERVICE**  
3       **LINES. WHAT CHANGE IS BEING PROPOSED?**

4       **A.**     Yes, as shown in Mr. Bourassa's H Schedules, RRUI proposes that all Service Line  
5       installation charges be at "cost," as opposed to the current stated rates of between  
6       \$370 and \$1,630 for water based on meter size and between \$500 and \$1,200 for  
7       sewer based on line size. The reason for this request is that we are finding the  
8       actual cost of installation far exceeds the existing tariff amounts, and can vary  
9       widely based upon the length of the line installation. This results in subsidization  
10      by those with shorter service line installation to those with long runs for  
11      installation. Currently, water service lines 8 inches or greater are at cost per our  
12      existing tariff, so the concept is not new to the utility, we are just requesting that it  
13      be expanded, and that in this instance, growth pays directly for itself.

14      **IV.    MISCELLANEOUS ISSUES**

15      **Q.     WHAT IS RRUI'S COMPLIANCE STATUS?**

16      **A.**     To the best of our knowledge, RRUI is currently in compliance with the rules and  
17      regulations of ADEQ, ADWR, and the ACC. Right before we filed this rate case,  
18      we submitted requests for evidence of current compliance to these agencies. We  
19      will provide such evidence to Staff upon receipt.

20      **Q.     DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

21      **A.**     Yes.  
22  
23  
24  
25  
26

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5  
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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

DOCKET NO: WS-02676A-09-0257

14  
15  
16 **REBUTTAL TESTIMONY OF**

17 **GREG SORENSEN**

18  
19 **February 1, 2010**  
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TABLE OF CONTENTS

I. INTRODUCTION AND PURPOSE OF TESTIMONY ..... 1  
II. UNACCOUNTED FOR WATER ..... 1  
III. HOOK UP FEE TARIFFS ..... 4  
IV. LOW INCOME TARIFF ..... 10

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

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

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

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

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

7 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8 A. I am employed by Algonquin Water Services ("AWS") dba Liberty Water, as  
9 Director of Operations for the Western Group. AWS and RRUI are both wholly  
10 owned subsidiaries of Liberty Water, Inc. (formerly Algonquin Water Resources of  
11 America).

12 **Q. DID YOU PREVIOUSLY PROVIDE TESTIMONY ON BEHALF OF THE  
13 COMPANY IN THIS CASE?**

14 A. Yes, my direct testimony was filed on May 21, 2009, with the Company's  
15 application.

16 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

17 A. To further support RRUI's application for rate relief by responding to testimony by  
18 the other parties on unaccounted for water, hook up fee tariffs and the proposed  
19 low income tariff.

20 **II. UNACCOUNTED FOR WATER**

21 **Q. WHAT IS UNACCOUNTED FOR WATER?**

22 A. In simple terms, it is water that we know we pumped but which we also know we  
23 did not sell or otherwise utilize. It is also often referred to as "lost" or "non-  
24 account" water. We prefer to avoid the label "lost" water because it implies that  
25 there is something wrong with the system, such as an unrepaired leak, or that we do  
26 not know why any of the water is unaccounted for.

1 **Q. WELL THEN, WHY IS THERE ANY UNACCOUNTED FOR WATER?**

2 A. Typical sources of non-account water include: Flushing of Fire Hydrants (either by  
3 Staff or Fire Department) for training or firefighting purposes, Flushing of Air  
4 Release Valves (necessary due to the varied elevation of the RRUI system), Main  
5 and Service leaks, testing of new mains, and non-functioning meters. Another less  
6 common source is theft of service.

7 **Q. WHAT DOES RRUI DO TO MINIMIZE UNACCOUNTED FOR WATER?**

8 A. RRUI works closely with the local Fire Departments in order to ensure any water  
9 used for firefighting or training is reported, other sources of non-account water are  
10 monitored and tracked closely, and repairs are scheduled as quickly as possible  
11 when a leak is discovered. When a non-functioning meter is found, it is changed  
12 out immediately. All staff are trained to report and record main and service leaks  
13 immediately, and commence the procedure for scheduling repairs, which include  
14 Blue Staking and obtaining necessary permits.

15 **Q. WHAT LEVEL OF UNACCOUNTED WATER DO YOU BELIEVE IS**  
16 **ACCEPTABLE?**

17 A. Due to the diverse and dynamic nature of water systems, it is difficult to create one  
18 standard that applies across the board. RRUI strives to keep its non-account water  
19 to a minimum and I think our water loss should be measured in the context of our  
20 system and with consideration of any factors that might impact the levels of non-  
21 account water.

22 **Q. MR. SORENSEN, ARE YOU AN ENGINEER OR OPERATOR?**

23 A. No, but I supervise the operations of 7 water and wastewater systems in Arizona.  
24 In my job, I work with and rely on our operators and engineers daily. My  
25 testimony on unaccounted for water is based on my experience and my  
26 consultation with our operators for RRUI.

1 **Q. WHAT IS THE LEVEL OF RRUI'S UNACCOUNTED FOR WATER?**

2 A. During the last 7 years since our last test year, RRUI's unaccounted for water has  
3 averaged 6.6 percent annually.<sup>1</sup> In 2009, the most current year, RRUI's water loss  
4 was 6.3 percent.

5 **Q. THEN WHY ARE YOU ADDRESSING THIS ISSUE IN YOUR REBUTTAL**  
6 **TESTIMONY?**

7 A. Because Staff's engineer has focused solely on the unaccounted for water for 2008,  
8 which was 10.22 percent, in making recommendations that will require us to  
9 undertake unnecessary monitoring and reporting.<sup>2</sup> This was the ONLY year since  
10 the last test year in which unaccounted for water was greater than 10 percent, and  
11 then it was only 10.22 percent.

12 **Q. WHY ARE THE STEPS RECOMMENDED BY STAFF "UNNECESSARY"?**

13 A. Because we do not have a water loss problem. One year out of seven barely above  
14 10 percent constitutes an anomaly, not a problem, and certainly not a basis for  
15 measures that will increase operating expenses. As I testified, it isn't like we are  
16 ignoring water loss. This is why I do not agree to a one-size fits all standard like  
17 Staff advocates. Some additional analysis should be undertaken before  
18 recommendations are made, especially when the one year Staff looked at was  
19 barely above Staff's 10 percent threshold.

20 **Q. DOES THE COMPANY HAVE AN EXPLANATION FOR WHY WATER**  
21 **LOSS WAS HIGHER IN 2008 THAN IN OTHER YEARS?**

22 A. Our belief is that the volume of water used for fire suppression and training by the  
23 Fire Departments, as well as the amount of water estimated for some large main  
24 breaks was understated.

25 <sup>1</sup> See Exhibit GS-RB1.

26 <sup>2</sup> Direct Testimony of Jian Liu ("Liu Dt."), Engineering Report for Water ("Water Report") at 5-6.

1 **III. HOOK UP FEE TARIFFS**

2 **Q. DID RRUI PROPOSE A HUF TARIFF IN ITS DIRECT FILING?**

3 A. Yes, and I testified in support of that tariff in my direct testimony.<sup>3</sup>

4 **Q. DOES STAFF SUPPORT THE PROPOSED HUF?**

5 A. No, according to Staff witnesses Liu and Becker, RRUI refused and failed to  
6 respond to data requests regarding the HUF, therefore Staff claims it could not  
7 make a determination of whether the HUF is reasonable.<sup>4</sup>

8 **Q. DID RRUI REFUSE TO RESPOND TO DATA REQUEST BY STAFF ON  
9 THE HUF TARIFF?**

10 A. No. Neither Staff witness provides any details about the alleged failure to answer  
11 data requests.

12 **Q. DID STAFF SEND DATA REQUESTS REGARDING THE HUF?**

13 A. Yes, and RRUI timely responded in accordance with the applicable procedural  
14 order. Unfortunately, we still do not know why Staff lacks the information it needs  
15 to evaluate the proposed HUF. Between our data request responses and my  
16 testimony, we have more than supported the proposed HUF.<sup>5</sup>

17 **Q. WHAT ABOUT THE OTHER PARTIES?**

18 A. RUCO does not take a position on the HUF tariff. Rio Rico Properties, Inc.  
19 (“Developer”) does.

20 **Q. WHAT IS THE DEVELOPER’S POSITION?**

21 A. That a HUF should not be approved until Staff gets the information it requested.<sup>6</sup>  
22 But as I testified, Staff was given the information it needed to evaluate the

23 <sup>3</sup> Direct Testimony of Greg Sorensen at 10-12; Application at Attachment 2.

24 <sup>4</sup> Liu Dt., Water Report at 8-9 and Engineering Report for Sewer at 6-7; Direct Testimony on rate design  
of Gerald Becker (“Becker Rate Design Dt.”) at 3, 6.

25 <sup>5</sup> See Company responses to Staff data requests 1.3, 1.11, and 1.14. (Copies of these responses have been  
provided to Staff and the intervenors who requested them.)

26 <sup>6</sup> Direct Testimony of Matthew J. Rowell (“Rowell Dt.”) at 4:1-3.

1 Company's request. I do not know why Staff did not evaluate the information we  
2 provided. It does appear though that Mr. Rowell relied exclusively on Staff's  
3 testimony rather than conducting an independent investigation of whether Staff's  
4 testimony was accurate. As I've testified, it is not correct.

5 **Q. ARE YOU FAMILIAR WITH MR. ROWELL?**

6 A. Yes, he was recently a witness for RUCO in LPSCO's pending rate case. In that  
7 rate case, he relied exclusively on his lay interpretation of my testimony to  
8 conclude that there were design and construction issues with LPSCO's wastewater  
9 treatment plant, and that was clearly not what I had testified to. We now know that  
10 Mr. Rowell is not an engineer, is not an operator, is not an accountant, is not a  
11 lawyer, and he has absolutely no experience running a water or wastewater utility.  
12 Mr. Rowell is an "economist" who appears to be testifying on a variety of different  
13 issues in rate cases for utilities, agencies and developers.

14 **Q. ARE YOU SUGGESTING THAT MR. ROWELL IS NOT QUALIFIED TO**  
15 **OFFER EXPERT TESTIMONY ON HUFs?**

16 A. That is not my decision. However, I am troubled by the notion that someone with  
17 virtually no experience in operating a utility can be called to testify to issues as  
18 important as those raised in Mr. Rowell's direct testimony and that his testimony  
19 could have such a detrimental impact on our operations.

20 **Q. OKAY, FAIR ENOUGH MR. SORENSEN. WHAT ISSUES IS**  
21 **MR. ROWELL RAISING THAT YOU'RE CONCERNED OVER?**

22 A. First, Mr. Rowell testifies that a HUF is not necessary where the utility has existing  
23 capacity or existing obligations to provide capacity.<sup>7</sup> We do not agree. We believe  
24 that a utility should work to balance its total capitalization, and that includes CIAC,  
25

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26 <sup>7</sup> *Id.* at 3:7-8, 4:7-9.

1 which we would raise through the HUF. The presence of a HUF will assist the  
2 Company to ensure that "growth pays for growth." Obviously, that means that the  
3 developer will be paying more, which is why I imagine RRPI and Mr. Rowell are  
4 opposing the HUF in this case.

5 However, we believe that approval of a HUF today will reduce customer  
6 rates in the future compared to what they would be otherwise without a HUF.  
7 Additionally, while one could argue that the utility could charge a developer under  
8 a main extension agreement (MXA) for central plant needed to provide service, we  
9 anticipate that many additional future customers may connect to the system without  
10 the need for line extension agreements due to their property's location near existing  
11 mains. As such, we couldn't collect funds from them under the MXA, but could  
12 under a HUF. While we may not have to acquire sewer treatment capacity  
13 immediately after this rate case, the funds received from a HUF would help offset  
14 the cost to provide service to those new customers by reducing future rate base in  
15 the context of the next rate case.

16 **Q. SHOULDN'T YOU WAIT UNTIL YOU HAVE SPECIFIC PROJECTS YOU**  
17 **NEED TO START CHARGING A HUF?**

18 A. No. By way of illustration, if we waited until we absolutely need to purchase  
19 capacity to get a HUF in place, then we wouldn't have received funds to purchase  
20 such capacity. In other words, for backbone plant like treatment capacity or water  
21 supply, we need the funds in advance of purchase.

22 **Q. WHAT ABOUT MR. ROWELL'S CONCERN OVER "EXCESSIVE**  
23 **RELIANCE" ON HUFs?**

24 A. I agree that this is a theoretical concern with HUFs, but it is not a concern for  
25 RRUI. The HUF has been designed to ensure that the Company's equity  
26 investment per customer remains approximately the same for new customers as it

1 was for historically connected customers. This means that the Company will  
2 continue to make investments, and not rely exclusively on HUFs to fund  
3 development because the Company agrees that over-reliance on HUF's/CIAC can  
4 create a weak utility.

5 **Q. WHO WOULD PAY FOR PLANT THAT RRPI DOES NOT WANT TO**  
6 **FUND?**

7 A. Presumably the shareholder, which would lead to higher rates for all customers,  
8 something we are trying to avoid. Implementation of a HUF would assist in this  
9 endeavor.

10 **Q. WHAT OTHER ISSUES DO YOU BELIEVE ARE RAISED BY**  
11 **MR. ROWELL'S DIRECT TESTIMONY?**

12 A. Mr. Rowell's recommendation that a HUF, if approved, be specified as the only  
13 source of developer funding for off site infrastructure is of great concern to us.<sup>8</sup>

14 **Q. WHY IS THAT, MR. SORENSEN?**

15 A. Because under this scenario, the utility would be forced to take unnecessary build  
16 out risk which is more appropriately borne by the developer. In a "normal"  
17 utility/developer situation, the parties enter into a line extension agreement far in  
18 advance of the development actually starting, let alone building out. At the time of  
19 such agreement, the developer would pay the HUF for say, 500 lots in his  
20 development. At that moment, the utility has the full obligation to provide service  
21 to all 500 lots, and the responsibility to be able to provide service to those 500  
22 customers whether they come online in 10 months or 10 years. I think we can all  
23 agree that the exact timing of a development build-out is uncertain at best.  
24  
25

26 <sup>8</sup> *Id.* at 5:10-14, 8:10-11.

1           However, the amount paid would only account for a portion of the total cost of  
2           central plant necessary to provide service to those 500 lots.

3           Since the HUF is designed to only cover a portion of total plant costs,  
4           Mr. Rowell would have the utility exposed for the difference of the total capacity  
5           cost less the HUF. We are not in the development business, do not want significant  
6           build-out risk, and certainly aren't compensated for accepting such risk by this  
7           Commission. Even the most utility-friendly regulatory environments do not grant  
8           ROE's commensurate with the business risk associated with the "development"  
9           business.

10   **Q. DO YOU HAVE ANY RELEVANT EXAMPLES YOU CAN PROVIDE?**

11   A. Yes, the recent Gold Canyon Sewer Company case, where the company  
12   constructed sewer treatment plant capacity for a bargain price in appropriate  
13   quantities to address the planned growth of the area for 5 years, based on all  
14   information available to it at the time. However, as we all know, growth slowed  
15   down after the capacity was constructed, and with the advantage of hindsight, the  
16   Commission deemed certain parts of that capacity as "excess," and reduced the  
17   utility's rate base by \$1 million. This is just another reason it is RRUI's and  
18   Liberty Water's position that the utility should be allowed to charge the developer  
19   for the full cost of central plant required to serve the development through a  
20   combination of HUFs and LXAs.

21   **Q. BUT ISN'T RIO RICO PROPERTIES' CONCERN PREDICATED ON**  
22   **ALLEGED CONCERN OVER THE SCOPE OF THE TARIFF AND**  
23   **AMBIGUITY OVER WHAT ADDITIONAL PAYMENTS WILL BE**  
24   **REQUIRED?**

25

26

1 A. That is what Mr. Rowell claims in his testimony, but he also declined to explain his  
2 position in full until a later date.<sup>9</sup> I certainly do not agree that the tariff is  
3 overbroad or ambiguous. In fact, Mr. Rowell's references to our data request  
4 responses<sup>10</sup> reflect that we have sought to explain these alleged ambiguities in our  
5 tariff.

6 **Q. WHAT ABOUT MR. ROWELL'S CLAIM THAT THE HUF WOULD**  
7 **APPLY TO EXISTING SUBDIVISIONS?**

8 A. I believe that most HUF tariffs I've seen apply to customers who don't require a  
9 line extension agreement (for example a single family dwelling adjacent to an  
10 existing line) and who hook-up after the effective date of the tariff, and to those  
11 developments requiring a line extension agreement, but entered into after the  
12 effective date of the HUF tariff. So, provided that the existing subdivision  
13 Mr. Rowell refers to in his testimony has an executed line extension agreement  
14 (approved by the Commission if required) prior to the effective date of the HUF  
15 Tariff, then that subdivision wouldn't apply to the HUF Tariff.

16 **Q. DO YOU AGREE THAT DEVELOPERS SHOULD GET CREDIT**  
17 **AGAINST THE HUF FOR ANY OFF-SITE FACILITIES THE**  
18 **DEVELOPER HAS CONTRIBUTED?**

19 A. I believe that absent some other requirement of the developer to put in certain  
20 offsite facilities, that if the developer constructs offsite facilities pursuant to an  
21 LXA entered into and subject to the HUF tariff, it would be reasonable to credit  
22 that HUF for developer constructed offsite facilities necessary for that development  
23 to receive service.

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25 <sup>9</sup> *Id.* at 5:2-4.

26 <sup>10</sup> *Id.* at 5:27.

1 **IV. LOW INCOME TARIFF**

2 **Q. HAS THE COMPANY PROPOSED A LOW INCOME TARIFF IN THIS**  
3 **RATE CASE?**

4 A. Yes.

5 **Q. WHAT POSITIONS HAVE THE OTHER PARTIES TAKEN REGARDING**  
6 **THE LOW INCOME TARIFF?**

7 A. RUCO and Rio Rico Properties are silent on the issue. Staff supports a low income  
8 tariff but wants to undertake "additional consideration" because low income tariffs  
9 are new and because the proposed tariff in this case is "different" from those  
10 recently proposed by other utilities.<sup>11</sup>

11 **Q. DOES STAFF EXPLAIN WHY IT BELIEVES THE LOW INCOME**  
12 **TARIFF PROPOSED BY RRUI IS "DIFFERENT" THAN THOSE**  
13 **RECENTLY PROPOSED BY OTHER UTILITIES?**

14 A. Not at all, which makes it very difficult for us to address their concerns.

15 **Q. IS THE LOW INCOME TARIFF DIFFERENT THAN OTHERS?**

16 A. The low income tariff proposed here is modeled after the one used in California by  
17 American States, and the one approved by the Commission last year for Chaparral  
18 City Water Company.<sup>12</sup> It is also similar to the low income tariffs we have  
19 proposed in our pending LPSCO and Bella Vista Water rate cases. The only  
20 material difference I am aware of is that we have raised the threshold for  
21 qualification in this case.

22 **Q. WHY IS THAT MR. SORENSEN?**

23 A. Because we do have certain pockets of lower income housing in our service areas  
24 and we felt it appropriate to raise the qualification limit to minimize the chance of

25 <sup>11</sup> Becker Rate Design Dt. at 7:9-11.

26 <sup>12</sup> Direct Testimony of Thomas J. Bourassa – Rate Base, Income Statement and Rate Design at 18-20.

1 those that do not qualify being overburdened by paying for those that do. Still, the  
2 proposed qualification level is 100 percent of the federal poverty line.

3 **Q. WHAT IF STAFF RECOMMENDS AN ALTERNATIVE, AS MR. BECKER**  
4 **SUGGESTS STAFF MIGHT DO IN HIS DIRECT TESTIMONY?**

5 A. As long as the tariff remains revenue neutral, we welcome suggestions on ways to  
6 improve what we have proposed. Mr. Becker is correct that these tariffs are  
7 relatively new to the Commission, which is why we followed the model  
8 Mr. Bourassa successfully advocated for Chaparral City Water Company in its  
9 recently concluded rate case.

10 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

11 A. Yes.

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

**GREG SORENSEN  
REBUTTAL TESTIMONY  
February 1, 2010**

# **Exhibit GS-RB1**

RRUI Non-Account Water Percentage by Year

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Average</u>
Unaccounted for Water %	3.59%	7.68%	6.21%	6.81%	4.87%	10.22%	6.31%	6.60%
ACC Guideline	10%	10%	10%	10%	10%	10%	10%	

**Rio Rico Utilities Inc., Sold and Unaccounted for Water, 2003**

Month	Total Pumped		Total Sold		Comm. Sold		Residential Sold		Company Use		Accounted For		Unaccounted For		Unacct. %
	MG's	Ac. Ft	MG's	Ac. Ft.	MG's	Ac. Ft	MG's	Ac. Ft.	MG	Ac. Ft.	MG's	Ac. Ft.	MG's	Ac. Ft.	
Jan	47,436	145,58	47,907	147,02	10,850	33,30	37,057	113,72	1,751	5,37	49,658	152,39	-2,222	-6,82	-4.68
Feb	40,145	123,20	44,350	136,11	10,235	31,41	34,115	104,70	1,225	3,76	45,575	139,86	-5,430	-16,66	-13.53
Mar	48,674	149,38	36,112	110,82	8,850	27,16	27,262	83,66	1,153	3,54	37,265	114,36	11,409	35,01	23.44
Apr	53,235	163,37	47,980	147,25	10,160	31,18	37,820	116,07	0,543	1,67	48,523	148,91	4,712	14,46	8.85
May	71,954	220,82	59,959	184,01	11,006	33,78	48,953	150,23	2,126	6,52	62,085	190,53	9,869	30,29	13.72
June	78,945	242,27	71,209	218,53	16,071	49,32	55,138	169,21	1,817	5,58	73,026	224,11	5,919	18,16	7.50
July	62,357	191,37	74,040	227,22	15,795	48,47	58,245	178,75	2,405	7,38	76,445	234,60	-14,088	-43,23	-22.59
Aug	54,093	166,01	54,742	168,00	12,428	38,14	42,314	129,86	0,512	1,57	55,254	169,57	-1,161	-3,56	-2.15
Sept	59,595	182,89	51,105	156,84	11,943	36,65	39,162	120,18	0,620	1,90	51,725	158,74	7,870	24,15	13.21
Oct	58,822	180,52	53,616	164,54	13,331	40,91	40,285	123,63	0,513	1,57	54,129	166,12	4,693	14,40	7.98
Nov	53,390	163,85	53,386	163,84	14,306	43,90	39,080	119,93	1,608	4,93	54,994	168,77	-1,604	-4,92	-3.00
Dec	53,093	162,94	46,757	143,49	12,404	38,07	34,353	105,42	1,809	5,55	48,566	149,04	4,527	13,89	8.53
<b>Totals</b>	<b>681,739</b>	<b>2092,18</b>	<b>641,163</b>	<b>1967,66</b>	<b>147,379</b>	<b>452,29</b>	<b>493,784</b>	<b>1515,36</b>	<b>16,082</b>	<b>49,35</b>	<b>657,245</b>	<b>2017,01</b>	<b>24,494</b>	<b>75,17</b>	<b>3.59</b>

Rio Rico Utilities Inc., Sold and Unaccounted for Water, 2004

Month	Total Pumped		Total Sold		Comm. Sold		Residential Sold		Company Use		Accounted For		Unaccounted For		Unacct. %
	MG's	Ac. Ft.	MG's	Ac. Ft.	MG's	Ac. Ft.	MG's	Ac. Ft.	MG	Ac. Ft.	MG's	Ac. Ft.	MG's	Ac. Ft.	
Jan	52,916	162.39	49,829	152.92	12,964	39.79	36,865	113.13	0.591	1.81	50,420	154.73	2,496	7.66	4.72
Feb	49,940	153.26	43,159	132.45	11,573	35.52	31,586	96.93	0.636	1.95	43,795	134.40	6,145	18.86	12.30
Mar	57,411	176.19	45,586	139.90	12,168	37.34	33,418	102.56	0.740	2.27	46,326	142.17	11,085	34.02	19.31
Apr	57,621	176.83	54,377	166.88	13,992	42.94	40,385	123.94	0.503	1.54	54,880	168.42	2,741	8.41	4.76
May	81,598	250.42	66,375	203.70	15,685	48.14	50,690	155.56	0.276	0.85	66,651	204.54	14,947	45.87	18.32
June	91,397	280.49	81,987	251.61	17,249	52.94	64,738	198.67	1.885	5.78	83,872	257.39	7,525	23.09	8.23
July	77,483	237.79	75,764	232.51	22,092	67.80	53,672	164.71	1.892	5.81	77,656	238.32	-0.173	-0.53	-0.22
Aug	65,483	200.96	61,687	189.31	15,433	47.36	46,254	141.95	1.360	4.17	63,047	193.48	2,436	7.48	3.72
Sept	74,265	227.91	66,932	205.41	17,784	54.58	49,148	150.83	0.832	2.55	67,764	207.96	6,501	19.95	8.75
Oct	63,410	194.60	62,375	191.42	14,130	43.36	48,245	148.06	0.595	1.83	62,970	193.25	0,440	1.35	0.69
Nov	53,819	165.16	49,666	152.42	11,188	34.33	38,478	118.08	0.766	2.35	50,432	154.77	3,387	10.39	6.29
Dec	51,252	157.29	48,539	148.96	12,046	36.97	36,493	111.99	0.624	1.91	49,163	150.88	2,089	6.41	4.08
<b>Totals</b>	<b>776,595</b>	<b>2383.28</b>	<b>706,276</b>	<b>2167.48</b>	<b>176,304</b>	<b>541.06</b>	<b>529,972</b>	<b>1626.42</b>	<b>10,700</b>	<b>32.84</b>	<b>716,976</b>	<b>2200.32</b>	<b>59,619</b>	<b>182.96</b>	<b>7.68</b>

Rio Rico Utilities Inc., Sold and Unaccounted for Water, 2005

Month	Total Pumped		Total Sold		Comm. Sold		Residential Sold		Company Use		Accounted For		Unaccounted For		Unacct. %
	MG's	Ac. Ft.	MG's	Ac. Ft.	MG's	Ac. Ft.	MG's	Ac. Ft.	MG	Ac. Ft.	MG's	Ac. Ft.	MG's	Ac. Ft.	
Jan	47,688	146.35	59,855	183.69	11,189	34.34	48,666	149.35	0.414	1.27	60,269	184.96	-12,581	-38.61	-26.38
Feb	42,973	131.88	41,453	127.21	10,207	31.32	31,246	95.89	0.499	1.53	41,952	128.75	1,021	3.13	2.38
Mar	57,422	176.22	43,410	133.22	11,385	34.94	32,025	98.28	0.749	2.30	44,159	135.52	13,263	40.70	23.10
Apr	68,557	210.39	56,890	174.59	15,637	47.99	41,253	126.60	0.333	1.02	57,223	175.61	11,334	34.78	16.53
May	79,011	242.48	67,892	208.35	17,278	53.02	50,614	155.33	0.896	2.75	68,788	211.10	10,223	31.37	12.94
June	85,917	263.67	77,701	238.46	18,878	57.93	58,823	180.52	1.487	4.56	79,188	243.02	6,729	20.65	7.83
July	80,410	246.77	76,911	236.03	16,531	50.73	60,380	185.30	1.504	4.62	78,415	240.65	1,995	6.12	2.48
Aug	59,076	181.30	61,611	189.08	12,362	37.94	49,249	151.14	1.060	3.25	62,671	192.33	-3,595	-11.03	-6.09
Sept	69,910	214.55	57,235	175.65	12,833	39.38	44,402	136.26	1.412	4.33	58,647	179.98	11,263	34.56	16.11
Oct	66,224	203.23	58,853	180.61	12,225	37.52	46,628	143.10	0.320	0.98	59,173	181.60	7,051	21.64	10.65
Nov	60,926	186.98	61,336	188.23	13,321	40.88	48,015	147.35	0.425	1.30	61,761	189.54	-0,835	-2.56	-1.37
Dec	56,346	172.92	53,805	165.12	11,435	35.09	42,370	130.02	0.327	1.00	54,132	166.13	2,214	6.79	3.93
<b>Totals</b>	<b>774,460</b>	<b>2376.73</b>	<b>716,952</b>	<b>2200.24</b>	<b>163,281</b>	<b>501.09</b>	<b>553,671</b>	<b>1699.15</b>	<b>9,426</b>	<b>28.93</b>	<b>726,378</b>	<b>2229.17</b>	<b>48,082</b>	<b>147.56</b>	<b>6.21</b>

Rio Rico Utilities Inc., Sold and Unaccounted for Water, 2006

Month	Total Pumped		Total Sold		Comm. Sold		Residential Sold		Company Use		Accounted For		Unaccounted For		Unacct. %
	MG's	Ac. Ft.	MG's	Ac. Ft.	MG's	Ac. Ft.	MG's	Ac. Ft.	MG	Ac. Ft.	MG's	Ac. Ft.	MG's	Ac. Ft.	
Jan	57.757	177.25	56.608	173.72	12.693	38.95	43.915	134.77	1.881	5.77	58.489	179.50	-0.732	-2.25	-1.27
Feb	54.557	167.43	49.015	150.42	12.089	37.10	36.926	113.32	0.444	1.36	49.459	151.78	5.098	15.65	9.34
Mar	58.133	178.40	52.533	161.22	12.581	38.61	39.952	122.61	1.265	3.88	53.798	165.10	4.335	13.30	7.46
Apr	69.352	212.83	57.798	177.38	13.283	40.76	44.515	136.61	1.711	5.25	59.509	182.63	9.843	30.21	14.19
May	89.198	273.74	74.200	227.71	17.208	52.81	52.809	162.06	2.288	7.02	76.488	234.73	12.710	39.01	14.25
June	87.037	267.11	80.304	246.44	17.492	53.68	62.812	192.76	0.494	1.52	80.798	247.96	6.239	19.15	7.17
July	72.643	222.93	78.705	241.54	17.037	52.28	61.668	189.25	0.971	2.98	79.676	244.52	-7.033	-21.58	-9.68
Aug	61.438	188.55	55.683	170.88	9.094	27.91	46.589	142.98	1.064	3.27	56.747	174.15	4.691	14.40	7.64
Sept	60.421	185.43	51.060	156.70	8.785	26.96	42.275	129.74	0.891	2.73	51.951	159.43	8.470	25.99	14.02
Oct	66.266	203.36	59.275	181.91	11.150	34.22	48.125	147.69	0.629	1.93	59.904	183.84	6.362	19.52	9.60
Nov	65.112	199.82	56.848	174.46	10.236	31.41	46.612	143.05	1.180	3.62	58.028	178.08	7.084	21.74	10.88
Dec	59.338	182.10	61.078	187.44	10.153	31.16	50.925	156.28	0.775	2.38	61.853	189.82	-2.515	-7.72	-4.24
<b>Totals</b>	<b>801.252</b>	<b>2458.95</b>	<b>733.107</b>	<b>2249.82</b>	<b>151.801</b>	<b>465.86</b>	<b>577.123</b>	<b>1771.13</b>	<b>13.593</b>	<b>41.72</b>	<b>746.700</b>	<b>2291.54</b>	<b>54.552</b>	<b>167.41</b>	<b>6.81</b>

Rio Rico Utilities Inc., Sold and Unaccounted for Water, 2007

Month	Total Pumped		Total Sold		Comm. Sold		Residential Sold		Company Use		Accounted For		Unaccounted For		Unacct. %
	MG's	Ac. Ft.	MG's	Ac. Ft.	MG's	Ac. Ft.	MG's	Ac. Ft.	MG	Ac. Ft.	MG's	Ac. Ft.	MG's	Ac. Ft.	
Jan	55.748	171.08	60.021	184.20	11.144	34.20	48.877	150.00	0.800	2.46	60.821	186.65	-5.073	-15.57	-9.10
Feb	52.617	161.48	45.735	140.36	8.996	27.61	36.739	112.75	0.438	1.34	46.173	141.70	6.444	19.78	12.25
Mar	66.987	205.58	49.773	152.75	9.881	30.32	39.698	121.83	4.582	14.06	54.355	166.81	12.632	38.77	18.86
Apr	72.244	221.71	67.018	205.67	11.874	36.44	54.877	168.41	0.092	0.28	67.110	205.95	5.134	15.76	7.11
May	87.574	268.75	66.581	204.33	12.034	36.93	54.318	166.70	3.376	10.36	69.957	214.69	17.617	54.06	20.12
June	97.621	299.59	79.242	243.18	13.220	40.57	66.022	202.61	13.190	40.48	92.432	283.66	5.189	15.92	5.32
July	79.486	243.93	95.540	293.20	17.647	54.16	77.483	237.79	0.469	1.44	96.009	294.64	-16.523	-50.71	-20.79
Aug	69.418	213.04	57.659	176.95	8.928	27.40	48.731	149.55	1.869	5.74	59.528	182.68	9.890	30.35	14.25
Sept	72.306	221.90	61.425	188.51	8.816	27.06	52.609	161.45	1.850	5.68	63.275	194.18	9.031	27.72	12.49
Oct	67.858	208.25	58.228	178.70	8.347	25.62	49.881	153.08	5.286	16.22	63.514	194.92	4.344	13.33	6.40
Nov	64.050	196.56	55.743	171.07	8.338	25.59	47.405	145.48	8.151	25.01	63.894	196.08	0.156	0.48	0.24
Dec	56.789	174.28	62.525	191.88	8.001	24.55	54.524	167.33	2.032	6.24	64.557	198.12	-7.768	-23.84	-13.68
<b>Totals</b>	<b>842.698</b>	<b>2586.15</b>	<b>759.490</b>	<b>2330.79</b>	<b>127.226</b>	<b>390.44</b>	<b>631.164</b>	<b>1936.97</b>	<b>42.135</b>	<b>129.31</b>	<b>801.625</b>	<b>2460.10</b>	<b>41.073</b>	<b>126.05</b>	<b>4.87</b>

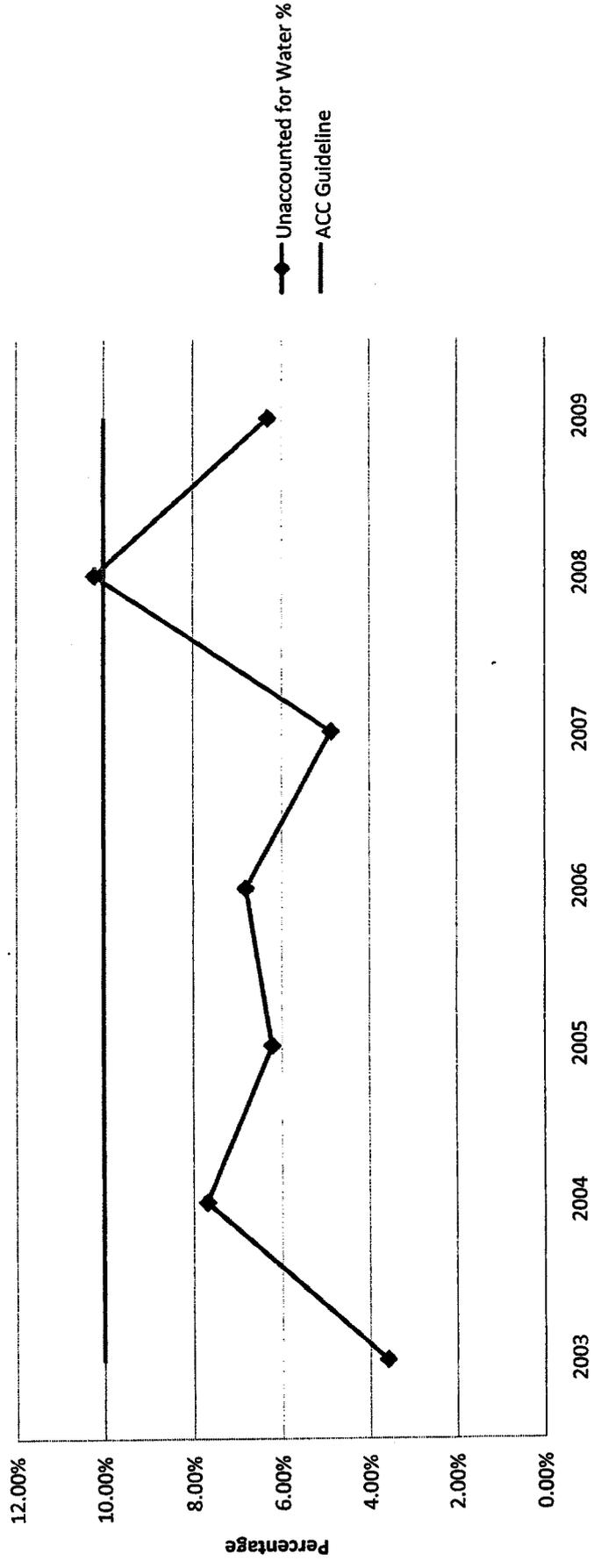
Rio Rico Utilities Inc., Sold and Unaccounted for Water, 2008

Month	Total Pumped		Total Sold		Comm. Sold		Residential Sold		Company Use		Accounted For		Unaccounted For		Unacct. %
	MG's	Ac. Ft.	MG's	Ac. Ft.	MG's	Ac. Ft.	MG's	Ac. Ft.	MG	Ac. Ft.	MG's	Ac. Ft.	MG's	Ac. Ft.	
Jan	59,615	182,95	51,640	158,48	9,392	28,82	42,248	129,65	1,034	3,17	52,674	161,65	6,941	21,30	11.64
Feb	55,860	171,43	49,138	150,80	8,935	27,42	40,203	123,38	1,025	3,15	50,163	153,94	5,697	17,48	10.20
Mar	67,686	207,72	47,924	147,07	9,347	28,68	38,577	118,39	0,942	2,89	48,866	149,96	18,820	57,76	27.80
Apr	78,475	240,83	65,739	201,75	14,157	43,45	51,582	158,30	4,307	13,22	70,046	214,96	8,429	25,87	10.74
May	86,180	264,48	66,500	204,08	20,391	62,58	46,109	141,50	1,362	4,18	67,862	208,26	18,318	56,22	21.26
June	93,385	286,59	87,027	267,08	22,190	68,10	64,837	198,98	1,066	3,27	88,093	270,35	5,292	16,24	5.67
July	65,792	201,91	74,998	230,16	18,141	55,67	56,857	174,49	1,125	3,45	76,123	233,61	-10,331	-31,70	-15.70
Aug	72,031	221,06	59,955	184,00	20,468	62,81	39,487	121,18	2,393	7,34	62,348	191,34	9,683	29,72	13.44
Sept	73,199	224,64	57,964	177,88	12,631	38,76	45,333	139,12	2,353	7,22	60,317	185,11	12,882	39,53	17.60
Oct	73,549	225,71	58,038	178,11	13,391	41,10	44,647	137,02	5,291	16,24	63,329	194,35	10,220	31,36	13.90
Nov	68,563	210,41	64,345	197,47	15,630	47,97	48,715	149,50	5,844	17,93	70,189	215,40	-1,626	-4,99	-2.37
Dec	60,872	186,81	54,001	165,72	11,255	34,54	42,746	131,18	3,781	11,60	57,782	177,33	3,090	9,48	5.08
<b>Totals</b>	<b>855,207</b>	<b>2,624,53</b>	<b>737,269</b>	<b>2,262,60</b>	<b>175,928</b>	<b>539,90</b>	<b>561,341</b>	<b>1,722,69</b>	<b>30,523</b>	<b>93,67</b>	<b>767,792</b>	<b>2,356,27</b>	<b>87,415</b>	<b>268,27</b>	<b>10.22</b>

Rio Rico Utilities Inc., Sold and Unaccounted for Water, 2009

Month	Total Pumped		Total Sold		Comm. Sold		Residential Sold		Company Use		Accounted For		Unaccounted For		Unacct. %
	MG's	Ac. Ft.	MG's	Ac. Ft.	MG's	Ac. Ft.	MG's	Ac. Ft.	MG	Ac. Ft.	MG's	Ac. Ft.	MG's	Ac. Ft.	
Jan	61,249	187,97	52,593	161,40	10,762	33,03	41,831	128,37	4,760	14,61	57,353	176,01	3,896	11,96	6.36
Feb	57,854	177,55	44,809	137,51	7,288	22,37	37,521	115,15	3,061	9,39	47,870	146,91	9,984	30,64	17.26
Mar	82,946	254,55	51,760	158,85	9,619	29,52	42,141	129,33	6,118	18,78	57,878	177,62	25,068	76,93	30.22
Apr	75,803	232,63	60,918	186,95	10,735	32,94	50,183	154,01	5,760	17,68	66,678	204,63	9,125	28,00	12.04
May	89,563	274,86	68,246	209,44	12,023	36,90	56,223	172,54	9,149	28,08	77,395	237,52	12,168	37,34	13.59
June	88,936	272,93	80,618	247,41	14,793	45,40	65,825	202,01	10,760	33,02	91,378	280,43	-2,442	-7,49	-2.75
July	79,091	242,72	70,680	216,91	11,722	35,97	58,985	181,02	16,293	50,00	86,973	266,91	-7,882	-24,19	-9.97
Aug	89,391	274,33	68,699	210,83	12,736	39,09	55,963	171,74	11,731	36,00	80,430	246,83	8,961	27,50	10.02
Sept	79,619	244,34	66,963	205,50	12,685	38,93	54,278	166,57	18,660	57,27	85,623	262,77	-6,004	-18,43	-7.54
Oct	76,218	233,90	63,813	195,83	10,617	32,58	53,196	163,25	14,962	45,92	78,775	241,75	-2,557	-7,85	-3.35
Nov	67,833	208,17	57,489	176,43	8,667	26,60	48,822	149,83	14,908	45,75	72,397	222,18	-4,564	-14,01	-6.73
Dec	62,763	192,61	45,254	138,88	7,628	23,41	37,626	115,47	5,800	17,80	51,054	156,68	11,709	35,93	18.66
<b>Totals</b>	<b>911,266</b>	<b>2,796,57</b>	<b>731,842</b>	<b>2,245,94</b>	<b>129,275</b>	<b>396,73</b>	<b>602,594</b>	<b>1,849,29</b>	<b>121,962</b>	<b>374,29</b>	<b>853,804</b>	<b>2,620,23</b>	<b>57,462</b>	<b>176,34</b>	<b>6.31</b>

# RRUI Non-Account Water



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5 **BEFORE THE ARIZONA CORPORATION COMMISSION**

6  
7  
8 IN THE MATTER OF THE  
APPLICATION OF RIO RICO  
9 UTILITIES, INC., AN ARIZONA  
CORPORATION, FOR A  
10 DETERMINATION OF THE FAIR  
VALUE OF ITS UTILITY PLANTS AND  
11 PROPERTY AND FOR INCREASES IN  
ITS WATER AND WASTEWATER  
12 RATES AND CHARGES FOR UTILITY  
SERVICE BASED THEREON.

DOCKET NO: WS-02676A-09-0257

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14  
15 **REJOINDER TESTIMONY OF**  
16 **GREG SORENSEN**

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18 **March 9, 2010**  
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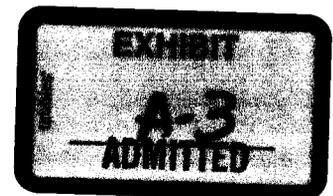


TABLE OF CONTENTS

1  
2 I. INTRODUCTION AND PURPOSE OF TESTIMONY ..... 1  
3 II. NON-ACCOUNT FOR WATER ..... 1  
4 III. LOW INCOME TARIFF ..... 2  
5 IV. HOOK-UP FEE TARIFF ..... 5  
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1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

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

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

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

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

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

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

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

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

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

25  
26 <sup>1</sup> Compare Direct Testimony of Jian W. Liu ("Liu Dt.") at 4, Recommendation 4 with Surrebuttal  
Testimony of Jian W. Liu ("Liu Sb.") at 2:1-16.

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

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

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

11 **III. LOW INCOME TARIFF**

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

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

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

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

23  
24 <sup>2</sup> Exhibit GS-RJ1 attached hereto.

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

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

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

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

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

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

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

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

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

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

23 <sup>6</sup> Becker Sb. at 6:7-10.

24 <sup>7</sup> Rebuttal Testimony of Greg Sorensen (“Sorensen Rb.”) at 10:15 – 11:2.

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

26 <sup>9</sup> Becker Sb. at 5:18-23.

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

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

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

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

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

25 <sup>11</sup> See Becker Sb. at 7:1 – 8:18.

26 <sup>12</sup> Sorensen Rb. at 11:3-9.

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

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

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

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

11 IV. HOOK-UP FEE TARIFF

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

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

18 Q. WHY IS THAT?

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

25 <sup>13</sup> McMurry Dt. at 20:12-15.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

23  
24  
25 <sup>16</sup> Liu Sb. at 3:8-9.

26 <sup>17</sup> *Id.* at 3:10-12.

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

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

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

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

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

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

25 <sup>18</sup> *Id.* at 5:5-6.

26 <sup>19</sup> R14-2-406.B.1.

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

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

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

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

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

25  
26 <sup>20</sup> Liu Sb. at 5:1-6.

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

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

25 <sup>21</sup> *Id.* at 4:10-25.

26 <sup>22</sup> Liu Sb at Attachment 4.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

25  
26 <sup>24</sup> Company Rejoinder Schedules B-1 (water and wastewater).

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

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

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

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

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

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

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

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

18 **Q. WHAT'S WRONG WITH THAT?**

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

25 <sup>25</sup> Rowell Sb. at 6:8-15.

26 <sup>26</sup> *Id.* at 9:18-19.

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

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

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

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

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

25 <sup>28</sup> Sorensen Rb. at 8:10-20.

26 <sup>29</sup> Rowell Sb. at 6:17-24.

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

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

10 Q. WHY DO YOU DISAGREE?

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

25 <sup>30</sup> *Id.* at 8:6-8.

26 <sup>31</sup> *Id.* at 1-4.

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

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

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

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

13 A. Yes.

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

**GREG SORENSEN**  
**REJOINDER TESTIMONY**  
**March 9, 2010**

# **Exhibit GS-RJ1**

**RRUI Accounted For Lost Water, 2008**

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

WATER LOSS		Jan-08	
Breaks, Mains, Services & Hydrants			Amount
1" SVC	FRONTERA	10GPMX 24 HRS	0.0144
1" SVC	CICUTA	10GPMX 24 HRS	0.0288
1" SVC	CALANDRIA	15GPMX 5 HRS	0.005
SEAL	WP 30	1GPMX 30 HRS	0.002
1" SVC	SYKES	10GPMX 3 HRS	0.002
1" SVC	SALSA	15GPMX 24 HRS	0.0216
1" SVC	CHOLULA	10GPMX 48 HRS	0.0288
1" SVC	AGOSTO	10GPMX 48 HRS	0.0288
<b>Total</b>			<b>0.1314</b>
Flushing			Amount
Hydrants			
	RIO RICO	FIRE DEPT	0.025
	TUBAC	FIRE DEPT	0.04
<b>Total</b>			<b>0.065</b>
Lift Stations			Amount
#1			0.22
#2			0.27
#3			0.28
#4			0.004
<b>Total</b>			<b>0.774</b>
Other			Amount
	VARIOUS ARVS		0.016
	VARIOUS HYDRANTS		0.013
	ORFICE		0.004
	AIR CHARGERS		0.028
	WP29 IRRIGAT		0.001
	WP418 IRRIGAT		0.001
	WP56 IRRIGAT		0.001
<b>Total</b>			<b>0.064</b>
<b>SYSTEM TOTAL</b>			<b>1.0344</b>

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

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

WATER		LOSS		Apr-08
<b>Breaks, Mains, Services &amp; Hydrants</b>				<b>Amount</b>
1" SVC	MONTOSA	25GPMX	6 HRS	0.009
4" MAIN	DINGO	300GPMX	6 HRS	0.108
3/4" SVC	GLORIOSA	15GPMX	72 HRS	0.065
1" SVC	GILBERTO	5GPMX	48 HRS	0.014
1" SVC	PALENQUE	25GPMX	6 HRS	0.009
1" SVC	MAGNIFICO	10GPMX	16 HRS	0.009
2" ARV	AGOSTO	20GPMX	5hrs	0.006
1" SVC	BELLOTA	25GPMX	16 HRS	0.024
1" SVC	GINA	30GPMX	16 HRS	0.029
1" SVC	MARGARITA	20GPMX	12 HRS	0.014
16" MAIN	W FRONTAGE	350GPMX	9HRS	0.189
16" MAIN	W FRONTAGE	250GPMX	6HRS	0.105
1" SVC	DURA	15GPMX	8HRS	0.007
16" MAIN	COATIMUNDI	200GPMX	2HRS	0.024
2" ARV	PEND/MAR	10GPMX	8HRS	0.005
1" SVC	ALONDRA	25GPMX	6HRS	0.009
1" SVC	CARALAMPI	75GPMX	2HRS	0.009
1" SVC	PATIO	25GPMX	2HRS	0.003
1" SVC	COMA	75GPMX	2HRS	0.009
1" SVC	COATIMUNDI	75GPMX	1HR	0.005
<b>Total</b>				<b>0.652</b>
<b>Flushing</b>				<b>Amount</b>
<b>Hydrants</b>				
RIO RICO FIRE DEPT				0.026
TUBAC FIRE DEPT				0.038
<b>Wildfires</b>				<b>1.6</b>
<b>Total</b>				<b>1.664</b>
<b>Lift Stations</b>				<b>Amount</b>
#1				0.23
#2				0.25
#3				0.31
#4				0.004
<b>Total</b>				<b>0.794</b>
<b>Other</b>				<b>Amount</b>
VARIOUS ARVS				0.042
VARIOUS HYDRANTS				0.021
OFFICE				0.004
AIR CHARGERS				0.027
WP29 IRRIGAT				0.001
WELLER IRRIGAT				0.001
WP56 IRRIGAT				0.001
WP81 FILL & FLUSHING				1.1

Total	1.197
SYSTEM TOTAL	4.307

WATER		LOSS		May-08	
<b>Breaks, Mains, Services &amp; Hydrants</b>					Amount
1" SVC	444 Soda Lane	10GPMX	10 HRS		0.006
1" SVC	1235 Gloriosa	10GPMX	5 HRS		0.003
1" SVC	1214 Aguilar	10GPMX	4.5 IIRS		0.004
1" SVC	Calle Capela	10GPMX	5 IIRS		0.003
1" SVC	Hoyos Ct	5GPMX	10 IIRS		0.003
1" SVC	565 Arviso	10GPMX	5 HRS		0.003
1" SVC	353 Magnifico	40GPMX	5 IIRS		0.012
1" SVC	27 Rene	10GPMX	7 HRS		0.004
1" SVC	1408 Cuervo	5GPMX	7 HRS		0.002
1" SVC	1413 Cuervo	15GPMX	3.5 HRS		0.005
1" SVC	1360 Martinette	10GPMX	3.5 HRS		0.002
1" SVC	Bellota	15GPMX	3.5 HRS		0.005
1" SVC	Pinzon	5GPMX	17 HRS		0.002
1" SVC	Plexes	5GPMX	8 HRS		0.001
1" SVC	1020 Aventura	20GPMX	2.5 HRS		0.003
1" SVC	1372 Martinette	15GPMX	3.5 HRS		0.005
1" SVC	450 Lechuza	5GPMX	17 HRS		0.002
1" SVC	Sykes Cir	25GPMX	5 IIRS		0.008
1" SVC	Picogordo	5GPMX	17 IIRS		0.002
	WP56&81 overflow				0.35
<b>Total</b>					<b>0.425</b>
<b>Flushing</b>					Amount
<b>Hydrants</b>					
	RIO RICO FIRE DEPT				0.024
	TUBAC FIRE DEPT				0.035
<b>Total</b>					<b>0.059</b>
<b>Lift Stations</b>					Amount
#1					0.24
#2					0.25
#5					0.3
#4					0.004
<b>Total</b>					<b>0.794</b>
<b>Other</b>					Amount
	VARIOUS ARVS				0.03
	VARIOUS HYDRANTS				0.018
	OFFICE				0.004
	AIR CHANGERS				0.029
	WP29 IRRIGAT				0.001
	WP118 IRRIGAT				0.001
	WP56 IRRIGAT				0.001
<b>Total</b>					<b>0.084</b>
<b>SYSTEM TOTAL</b>					<b>1.362</b>

WATER		LOSS		Jun-08
<b>Breaks, Mains, Services &amp; Hydrants</b>				<b>Amount</b>
1" SVC	Leno/Willow	10GPMX	8.5 HRS	0.005
1" SVC	Victoria Lane	10GPMX	48 HRS	0.029
1" SVC	315 Magnifico	10GPMX	4.5 HRS	0.004
1" SVC	919 Rosamorada	10GPMX	5 HRS	0.003
1" SVC	1216 Aguilar	5GPMX	10 HRS	0.003
1" SVC	Urano Ct	10GPMX	6 HRS	0.004
1" SVC	1293 Tubutana	10GPMX	25 HRS	0.015
1" SVC	1299 Tubutana	10GPMX	25 HRS	0.015
12" Main	WP 81	200GPMX	2 HRS	0.025
1" SVC	420 Oriol	15GPMX	3.5 HRS	0.005
1" SVC	891 Los Mochis	10GPMX	5 HRS	0.003
1" SVC	Malena Prod.	15GPMX	9 HRS	0.008
1" SVC	50 Pesquiera	10GPMX	17 HRS	0.004
	WP56&81 overflow			0.015
<b>Total</b>				<b>0.138</b>
<b>Flushing</b>				<b>Amount</b>
Hydrants				
	RIO RICO FIRE DEPT			0.025
	TUBAC FIRE DEPT			0.034
<b>Total</b>				<b>0.059</b>
<b>Lift Stations</b>				<b>Amount</b>
	#1			0.25
	#2			0.24
	#3			0.29
	#4			0.005
<b>Total</b>				<b>0.785</b>
<b>Other</b>				<b>Amount</b>
	VARIOUS ARVS			0.03
	VARIOUS HYDRANTS			0.018
	OFFICE			0.004
	AIR CHARGERS			0.029
	WP29 IRRIGAT			0.001
	WELL 8 IRRIGAT			0.001
	WP56 IRRIGAT			0.001
<b>Total</b>				<b>0.084</b>
<b>SYSTEM TOTAL</b>				<b>1.066</b>

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

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

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

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

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

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

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

**GREG SORENSEN**  
**REJOINDER TESTIMONY**  
**March 9, 2010**

# **Exhibit GS-RJ2**

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

**1996**



**NATIONAL ASSOCIATION OF  
REGULATORY UTILITY COMMISSIONERS  
1201 Constitution Avenue, N.W., Suite 1102  
Post Office Box 684  
Washington, DC 20044-0684  
Telephone No. (202) 898-2200  
Facsimile No. (202) 898-2213**

**Price: \$25.00**

## BALANCE SHEET ACCOUNTS

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

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

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

### 265. Miscellaneous Operating Reserves

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

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

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

### Contributions in Aid of Construction

### 271. Contributions in Aid of Construction

A. This account shall include:

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

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

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

## BALANCE SHEET ACCOUNTS

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

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

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

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

### 272. Accumulated Amortization of Contributions in Aid of Construction

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

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

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

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

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

**GREG SORENSEN**  
**REJOINDER TESTIMONY**  
**March 9, 2010**

# **Exhibit GS-RJ3**

O. CERTIFICATE TO OPERATE

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

P. OTHER APPROVAL REQUIREMENTS

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

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

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

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

Q. DEVIATION FROM GUIDELINES AND NEW PROCESSES AND EQUIPMENT

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

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

**GREG SORENSEN**  
**REJOINDER TESTIMONY**  
**March 9, 2010**

**Exhibit GS-RJ4**

Committed Water Capacity based on 7589 calculated Connections at end of Test Year

Assumptions:

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

Calculations:

Total Committed\* Supply Capacity: 5.185 MGD (7589EDUs\*122gpcd\*2.8pphu\*2PF=5.185MG) (Excluding Fire Flow)  
 5.112 MGD (Pumping Capacity with Largest Well out of service)  
 -0.073 MGD (5.112MGD (available pump capacity) minus 5.185MGD)

Supply deficit: NA

Equivalent Connections w/available supply: NA

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

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

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

500 gpm	Well 5
1,300 gpm	Well 6
500 gpm	Well 8
750 gpm	Well 15
600 gpm	Well 52
1,200 gpm	Well 86
4,850 gpm	Total Well Pumping Capacity RRUI
6,984 MGD	(Pumping Capacity) (4850Gal/Min*1440Min/Day/1000000)
5.112 MGD	(Pumping Capacity with Largest Well out of service) ((4850Gal/Min-1300)*1440Min/Day/1000000)

\*Active plus inactive accounts



Table 3.3. Equivalent Dwelling Unit Meter Factors

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

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

Table 3.4. 2008 Meter Summary (May 2008)

Rate Class	Meter Size (inches)	Number	EDUs
Residential	5/8 x 3/4	6,194	6,194
	3/4	8	9.6
	1	41	102.5
	1-1/2	6	30
	2	4	32
<b>Subtotal</b>	-	<b>6,253</b>	<b>6,368</b>
Multi-Family	5/8 x 3/4	7	9
	1-1/2	1	5
<b>Subtotal</b>	-	<b>8</b>	<b>12</b>
Commercial	5/8 x 3/4	108	108
	1	45	112.5
	1-1/2	11	55
	2	45	360
	3	18	270
	4	5	125
	6	1	50
<b>Subtotal</b>	-	<b>233</b>	<b>1080.5</b>
<b>TOTAL</b>	-	<b>6,494</b>	<b>7,463</b>

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

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



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

**3.1.3. Existing Distribution System Summary**

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

**3.2. EXISTING SYSTEM DESIGN CRITERIA**

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

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

**3.2.1. Demand Criteria**

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

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



### 3.2.2. Supply Criteria

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

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

### 3.2.3. Storage Criteria

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

- Provide storage volume equal to a minimum of the ADD

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

### 3.2.4. Distribution System Criteria

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

## 3.3. SYSTEM DEMANDS

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

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

**GREG SORENSEN**  
**REJOINDER TESTIMONY**  
**March 9, 2010**

# **Exhibit GS-RJ5**

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



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4 Attorneys for RRUI Utilities Company

5 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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

DOCKET NO:

WS-02676A-09-\_\_\_\_\_

13  
14  
15  
16  
17  
18 **DIRECT TESTIMONY OF**  
19 **THOMAS J. BOURASSA**  
20 **(RATE BASE, INCOME STATEMENT AND RATE DESIGN)**  
21

22 **May 21, 2009**  
23  
24  
25  
26



TABLE OF CONTENTS

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

I. INTRODUCTION AND QUALIFICATIONS .....1

II. OVERVIEW OF THE COMPANY’S REQUEST FOR RATE RELIEF.....2

III. RRUI’S WATER DIVISION .....4

    A. Summary of A, E and F Schedules. ....4

    B. Rate Base (B Schedules).....6

    C. Income Statement (C Schedules).....9

    D. Rate Design (H Schedules).....13

        1. Off-site Facilities Hook-up Fee. ....17

        2. Other Tariff Changes. ....18

IV. WASTEWATER DIVISION.....21

    A. Summary of A, E and F Schedules. ....21

    B. Rate Base (B Schedules).....23

    C. Income Statement (C Schedules).....25

    D. Wastewater Division Rate Design (H Schedules). ....27

        1. Off-site Facilities Hook-up Fee. ....28

        2. Other Tariff Changes. ....28

        3. Rate Design Based on Water Consumption.....29

2198998.1

1 **I. INTRODUCTION AND QUALIFICATIONS**

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

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

5 **Q. WHAT IS YOUR PROFESSION AND BACKGROUND?**

6 A. I am a Certified Public Accountant and am self-employed, providing consulting  
7 services to utility companies as well as general accounting services. I have a B.S.  
8 in Chemistry and Accounting from Northern Arizona University (1980) and an  
9 M.B.A. with an emphasis in Finance from the University of Phoenix (1991).

10 **Q. COULD YOU BRIEFLY SUMMARIZE YOUR PRIOR WORK AND  
11 REGULATORY EXPERIENCE?**

12 A. Yes. Prior to becoming a private consultant, I was employed by High-Tech  
13 Institute, Inc., and served as controller and chief financial officer. Prior to working  
14 for High-Tech Institute, I worked as a division controller for the Apollo Group,  
15 Inc. Before joining the Apollo Group, I was employed at Kozoman & Kermode,  
16 CPAs. In that position, I prepared compilations and other write-up work for water  
17 and wastewater utilities, as well as tax returns.

18 In my private practice, I have prepared and/or assisted in the preparation of  
19 several water and wastewater utility rate applications before the Arizona  
20 Corporation Commission ("Commission").

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

22 A. I am testifying in this proceeding on behalf of the applicant, Rio Rico Utilities, Inc.  
23 ("RRUI" or the "Company"). RRUI is seeking changes in its rates and charges for  
24 water and wastewater utility service in its certificated service area, which area is  
25 located in Santa Cruz, Arizona. Specifically, the Company seeks a decrease in its  
26 rates for sewer service and an increase in its rates for water utility service.

1 **II. OVERVIEW OF THE COMPANY'S REQUEST FOR RATE RELIEF**

2 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

3 A. I will testify in support of the Company's proposed adjustments to its rates and  
4 charges for water and wastewater utility service. I am sponsoring the direct  
5 schedules, which are filed concurrently herewith in support of the Company's  
6 application. I was responsible for the preparation of these schedules based on my  
7 investigation and review of RRUI's relevant books and records.

8 For convenience, the two portions of my direct testimony, each with the  
9 relevant schedules attached, are being filed separately in this case. In this volume  
10 of my direct testimony, I address the rate bases, income statements (revenue and  
11 operating expenses), required increases in revenue, and rate designs and proposed  
12 rates and charges for service for the Company's water and wastewater division.  
13 Schedules A through C, E-F and H, labeled separately as "Water Division" and  
14 "Wastewater Division," are attached to this portion of my direct testimony. The  
15 Company has not prepared a cost of service study (G schedules) for either division.  
16 Consequently, the G Schedules are omitted.

17 **Q. WHY DIDN'T THE COMPANY PREPARE A COST OF SERVICE**  
18 **STUDY?**

19 A. Primarily because they are very expensive to prepare, the Commission does not set  
20 rates for water and wastewater utility service based on cost of service in my  
21 lengthy experience, and because we are not proposing a change in the rate design  
22 for either water or sewer.

23 **Q. BUT DIDN'T THE COMMISSION DIRECT RRUI TO ADDRESS THE**  
24 **POSSIBILITY OF A CONSUMPTION BASED RATE FOR**  
25 **WASTEWATER SERVICE?**

26 A. Yes, and I address that in this testimony.

1 **Q. THANK YOU. PLEASE CONTINUE.**

2 A. In the second volume of my direct testimony, to which the D schedules are  
3 attached, I address cost of capital. RRUI is requesting a return on common equity  
4 of 12.4 percent. As shown on Schedule D-1, the Company's capital structure for  
5 ratemaking purposes consists of 100 percent equity and 0 percent debt. The  
6 weighted cost of capital is 12.4 percent.

7 **Q. PLEASE SUMMARIZE THE COMPANY'S APPLICATION.**

8 A. The Company is seeking a rate increase for the Water Division and a decrease in  
9 revenues for its Wastewater Division. The test year used by RRUI is the 12-month  
10 period ending December 31, 2008. The Company is requesting a 12.4 percent  
11 return on its fair value rate base ("FVRB"). The Company has also proposed  
12 certain pro forma adjustments to take into account known and measurable changes  
13 to rate base, expenses and revenues for each division. These pro forma  
14 adjustments are consistent with normal ratemaking and are contemplated by the  
15 Commission's rules and regulations governing rate applications. *See* R14-2-103.  
16 These adjustments are necessary to obtain a normal or realistic relationship  
17 between revenues, expenses and rate base on a going-forward basis.

18 The Company's fair value rate base for the Water Division is \$8,455,517.  
19 The increase in revenues to provide for recovery of operating expenses and a 12.4  
20 percent return on rate base is approximately \$2,057,112, an increase of  
21 approximately 111.36 percent over the adjusted and annualized test year revenues.

22 The Company's fair value rate base for the Wastewater Division is  
23 \$3,516,078. The decrease in revenues to provide for recovery of operating  
24 expenses and a 12.4 percent return on rate base is approximately \$89,058, a  
25 decrease of approximately 4.8 percent over the adjusted and annualized test year  
26 revenues.

1 **Q. WHY IS THE COMPANY FILING FOR NEW RATE AT THIS TIME?**

2 A. For the water division, RRUI is no longer earning a return on the fair value of its  
3 water plant devoted to service. This is largely due to the substantial investments in  
4 plant (nearly \$9.4 million) necessary to serve water customers that RRUI has made  
5 since the last rate case in October, 2004 (Decision 67279, October 5 2004). Rate  
6 base for the Water Division has increased by over \$5.97 million since the last case.  
7 Further, the prior case was based on a test year ending December 31, 2002, so  
8 various operating expenses have also increased. As a consequence, the Company's  
9 current rate of return for the Water Division, based on the adjusted test year data, is  
10 a negative 2.54 percent.

11 For the Wastewater Division, RRUI is slightly over-earning. While the  
12 Company has made substantial plant investments (over \$2.3 million) since the last  
13 rate case, the rate base for the Wastewater Division has decreased by nearly  
14 \$570,000. This is partly due to the Company funding a significant portion (nearly  
15 64 percent) of its wastewater plant since the last case with contributions-in-aid of  
16 construction ("CIAC"). While operating expenses have increased since the last  
17 case, increases in revenues have resulted in a higher operating income. The higher  
18 operating income combined with a lower rate base indicate that a moderate rate  
19 reduction is necessary at this time. The Company's current rate of return for the  
20 Wastewater Division, based on the adjusted test year data, is 13.96 percent.

21 **III. RRUI'S WATER DIVISION**

22 A. **Summary of A, E and F Schedules.**

23 **Q. MR. BOURASSA, LET'S TURN TO THE COMPANY'S WATER**  
24 **DIVISION SCHEDULES. PLEASE DESCRIBE THE SCHEDULES**  
25 **LABELED AS A, E, AND F.**

26 A. The A-1 Schedule is a summary of the Water Division rate base, operating income,

1 current operating margin, required operating margin, operating income deficiency,  
2 and the increase in gross revenue. A 12.4 percent return on FVRB is requested.  
3 The increase in the revenue requirement is \$2,057,112. Revenues at present and  
4 proposed and customer classifications are also shown on this schedule.

5 The A-2 Schedule is a summary of results of operations for the test year,  
6 prior years, and a projected year at present rates and proposed rates.

7 Schedule A-3 contains the Company's capital structure for the test year and  
8 the two prior years.

9 Schedule A-4 contains the plant construction, and plant-in-service for the  
10 test year and prior years. The projected plant additions are also shown on this  
11 schedule.

12 Schedule A-5 is the summary of the Company's changes in financial  
13 position (cash flow) for the prior two years, the test year at present rates, and a  
14 projected year at present and proposed rates.

15 The E Schedules are based on the Company's actual operating results, as  
16 reported by the Company in annual reports filed with the Commission. The E-1  
17 Schedule contains the comparative balance sheet data for the years 2006, 2007,  
18 and 2008 ending on December 31.

19 Schedule E-2, page 1, contains the income statement for the years 2006,  
20 2007, and 2008 ending on December 31.

21 Schedule E-3 contains the statements of changes in the Company's financial  
22 position for the test year and the two prior years.

23 Schedule E-4 provides the changes in membership equity.

24 Schedule E-5 contains the Company's plant-in-service at the end of the test  
25 year, and one year prior to the end of the test year.

26 Schedule E-7 contains operating statistics for the years ended 2006, 2007,

1 and 2008 ending on December 31.

2 Schedule E-8 contains the taxes charged to operations.

3 The accountant's notes to the financial statements and the financial  
4 assumptions used in preparing the rate filing schedules are shown on Schedules  
5 E-9 and F-4, respectively, in accordance with the Commission's standard filing  
6 requirements. The Company does not prepare audited financial statements.

7 Schedule F-1 contains the results of operations at the present rates (actual  
8 and adjusted), and at proposed rates.

9 Schedule F-2 contains the summary of changes in financial position (cash  
10 flow) for the prior two years, the test year at present rates, and a projected year at  
11 present and proposed rates.

12 Schedule F-3 shows the Company's projected construction requirements for  
13 2009, 2010, and 2011.

14 Schedule F-4 contains the assumptions used in developing the adjustments  
15 and projections contained in the rate filing.

16 **B. Rate Base (B Schedules).**

17 **Q. WOULD YOU EXPLAIN THE RATE BASE SCHEDULES, WHICH ARE**  
18 **LABELED AS THE B SCHEDULES?**

19 A. Yes. I will start with Schedule B-5, which is the working capital allowance. I  
20 used the "formula method" of computing the working capital allowance to reduce  
21 costs. However, the Company is not requesting a working capital allowance for  
22 either division.

23 **Q. WHY DIDN'T THE COMPANY PREPARE A LEAD-LAG STUDY AND**  
24 **USE THE RESULTS OF THAT STUDY TO COMPUTE WORKING**  
25 **CAPITAL?**

26 A. Because the costs to prepare a lead-lag study outweigh the benefits. By way of

1 illustration, in a recent case for Chaparral City Water Company (W-02113A-07-  
2 0551), the Residential Utility Consumer Office prepared a lead-lag study and  
3 computed a negative \$111,000 of cash working capital. RRUI's Water Division is  
4 one-third the size in terms of the level of expenses. So, let's assume for  
5 argument's sake that a lead-lag study would produce negative working capital of  
6 \$37,000 for the Water Division. If the negative \$37,000 were included in rate  
7 base, the impact on the revenue requirement would be a negative \$7,472 (-\$37,000  
8 times 12.4 percent return times the tax factor of 1.6286). I would argue for the  
9 inclusion of rate case expense in prepaid expenses or alternatively using rate case  
10 expense in the computation of lead-lag days in the study, both approaches would  
11 lead to a much less negative or even positive working capital.

12 In the meantime, the Company would have incurred \$10,000 just to have the  
13 study prepared. Plus, the Company could easily incur more than \$15,000  
14 defending its working capital calculation, all of which increases rate case expense.

15 **Q. THANK YOU. PLEASE CONTINUE.**

16 **A.** The Company did not file Schedules B-3 and B-4. To limit issues in dispute and  
17 reduce rate case expense, RRUI is requesting that its original cost rate base  
18 ("OCRB") be used as its FVRB for its Water Division.

19 **Q. HAVE YOU PREPARED SCHEDULES SHOWING ADJUSTMENTS TO**  
20 **THE WATER DIVISION'S ORIGINAL COST RATE BASE?**

21 **A.** Yes. Schedule B-2 shows adjustments to the Water Division's OCRB cost rate  
22 base proposed by the Company. Schedule B-2, pages 2 through 6, provides the  
23 supporting information. These adjustments are, in summary:

24 B-2 adjustment number 1, as shown on Schedule B-2, page 2, adjusts plant-  
25 in-service. There are a number of plant-in-service adjustments included in  
26 Adjustment 1. These are shown on Schedule B-2, page 3, and are labeled as

1 adjustments "A," "B," and "C".

2 Adjustment A of B-2 adjustment number 1 adjusts plant-in-service to  
3 remove affiliated profit from plant-in-service that was recorded in plant-in-service  
4 during the years since the Company's last rate case.

5 Adjustment B of B-2 adjustment number 1 adjusts plant-in-service to reflect  
6 the reconciliation of the Company's plant-in-service detail to its amount recorded  
7 at the end of the test year and as reflected on the E-1 schedule.

8 Adjustment C of B-2 adjustment number 1 adjusts plant-in-service to reflect  
9 the costs of a well renovation that was completed in 2008 but incorrectly booked to  
10 2009.

11 **Q. IS THIS POST TEST YEAR PLANT?**

12 A. No. This was plant completed and placed into service during the test year.

13 **Q. PLEASE CONTINUE.**

14 A. Adjustment B-2 shown on Schedule B-2, page 2, adjusts accumulated depreciation.  
15 The details of the accumulated depreciation adjustment are shown on Schedule B-  
16 2, page 4. There is only one adjustment shown on this schedule and it is labeled as  
17 adjustment "A". This adjustment reflects the re-computed amounts per the  
18 Company's B-2 plant schedule and takes into consideration both the removed  
19 affiliate profit and the plant that should have been booked in 2008.

20 **Q. DO THE PLANT AND ACCUMULATED DEPRECIATION SHOWN ON**  
21 **B-2 REFLECT THE LAST COMMISSION RATE ORDER?**

22 A. Yes. *See* Decision No. 67279. A reconciliation of the starting balances for plant-  
23 in-service in the instant case is shown on Schedule B-2, page 3.9.

24 For accumulated depreciation, a reconciliation of the starting balances for  
25 accumulated depreciation in the instant case is shown on Schedule B-2, page 3.10.

26 The plant shown on Schedule B-2 started with the plant-in-service balances

1 from the last rate case as described above. Plant additions and retirements since  
2 the test year in that case have been added to and deducted from total plant shown  
3 on Schedule B-2, pages 3.1 to 3.8. As mentioned above, capitalized affiliate  
4 recorded in the plant additions for each year have been deducted from the plant.  
5 Pages 3.1 to 3.8 of the schedule show the details for the accumulated depreciation  
6 through the end of the test year using the half-year convention for depreciation.

7 **Q. THANK YOU. PLEASE CONTINUE.**

8 A. Adjustment number 3 adjusts deferred income taxes. The Company's computation  
9 is based on the adjusted plant-in-service, accumulated depreciation, and CIAC in  
10 the instant case and the tax basis of its assets using the tax rate found on Schedule  
11 C-3. The detail of the Company's deferred income tax computation is shown on  
12 Schedule B-2, page 5.

13 Adjustment number 4, labeled as 4a and 4b, adjusts contributions in aid of  
14 construction ("CIAC") and amortization for CIAC recorded since the prior rate  
15 case. The detail of the Company's proposed CIAC adjustments can be found on  
16 Schedule B-2, page 6 and 6.1 to 6.3.

17 **Q. HOW WAS THE PROPOSED "FAIR VALUE" RATE BASE SHOWN ON**  
18 **A-1 DETERMINED?**

19 A. As stated, the FVRB shown on Schedule A-1 is based on OCRB, with no  
20 adjustment for the current values of the Company's plant and property.

21 **C. Income Statement (C Schedules).**

22 **Q. PLEASE EXPLAIN THE ADJUSTMENTS YOU ARE PROPOSING TO**  
23 **THE WATER DIVISION INCOME STATEMENT AS SHOWN ON**  
24 **SCHEDULES C-1 AND C-2.**

25 A. The following is a summary of adjustments shown on Schedule C-1:

26 Adjustment 1 annualizes depreciation expense. The proposed depreciation

1 rate for each component of utility plant is shown on Schedule C-2, page 2. The  
2 depreciation rates approved in the Company's last rate case were account specific  
3 rates. The Company proposes to continue to use these rates.

4 Adjustment 2 increases the property taxes based on proposed revenues. The  
5 Company has recognized the reduction in the assessment ratio contained in A.R.S.  
6 § 42-15001, entitled "Assessed Valuation of Class One Property". By law, the  
7 assessment ratio will be reduced through tax year 2011 to 20 percent. The  
8 Company has proposed a two-year reduction in the assessment ratio or a reduction  
9 from the 23 percent employed for the 2008 property tax year to 21 percent for  
10 2010 property tax year.

11 **Q. HOW DID YOU COMPUTE THE PROPERTY TAXES AT PROPOSED**  
12 **RATES?**

13 A. To determine full cash value, I used the method employed by the Arizona  
14 Department of Revenue - Centrally Valued Properties ("ADOR" or "the  
15 Department"). This method determines full cash value by using twice the average  
16 of three years of revenue, plus an addition for CWIP and a deduction for the book  
17 value of transportation equipment. In the instant case, I used two times the  
18 adjusted revenues for the year ending December 31, 2008, and one year of  
19 revenues at proposed rates. The assessed value (21 percent of full cash value) was  
20 then multiplied by the property tax rate to determine adjusted property tax expense.

21 **Q. IS THIS CONSISTENT WITH PRIOR COMMISSION DECISIONS?**

22 A. Yes. *E.g., Chaparral City Water Company*, Decision No. 68176 (September 30,  
23 2005) at 13, *Black Mountain Sewer Corporation*, Decision No. 69164  
24 (December 5, 2006) at 10-11. It is also consistent with the methodology adopted  
25 in the last case for RRUI. *See* Decision No. 67279 at 7-8.  
26

1 **Q. IS THIS SYNCHRONIZATION OF PROPERTY TAX EXPENSE WITH**  
2 **REVENUES PROPER RATE MAKING?**

3 A. Yes. Like income taxes, property taxes must be adjusted to ensure that the new  
4 rates are sufficient to produce the revenue requirement. For this reason, the  
5 Commission has repeatedly approved the use of proposed revenues to determine an  
6 appropriate level of property tax expense to be recovered through rates.

7 **Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE INCOME**  
8 **STATEMENT ADJUSTMENTS.**

9 A. Adjustment 3 shows the rate case expense estimated by the Company. The  
10 Company estimates rate case expense for the Water Division of \$210,000. The  
11 Company proposes that rate case expense be recovered over three years because it  
12 believes a three-year cycle for future rate cases is reasonable given this utility's  
13 circumstances. While the Company's last rate case was six years ago, the current  
14 shareholder, Algonquin Water Resources, acquired the Company in November  
15 2005 and intends to file cases on a regular basis.

16 **Q. HOW DID YOU ARRIVE AT THIS AMOUNT?**

17 A. Based on my experience with rate cases before the Commission, and that of the  
18 Company's counsel. Had the Water Division been filing this case alone, given its  
19 size and the anticipated nature, length and complexity of the proceedings, I would  
20 have estimated \$260,000 for the matter. In this rate case however, we also have the  
21 Wastewater Division. Although in many ways it is like two separate rate cases,  
22 including filing two sets of schedules, there are economies of scale achieved.  
23 Therefore, I reduced that rate case expense estimate by \$50,000 to come up with  
24 my estimated \$210,000.

1 Q. PLEASE EXPLAIN WHY YOU REFER TO THIS AMOUNT AS AN  
2 "ESTIMATE"?

3 A. Because I can't see the future, I can only make some guesses based on my  
4 experience. The specifics of who may intervene, what unique issues may come  
5 into dispute, what kind of procedural problems we will encounter, etc., I cannot  
6 predict. I know rate cases are lengthy and expensive, but I still have to start with  
7 an estimate. If things turn out more complicated than anticipated, the Company  
8 will modify its request to account for that increased expense. Conversely, if the  
9 case proceeds and rate case expense is lower than expected, we would make an  
10 appropriate adjustment downward.

11 Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE INCOME  
12 STATEMENT ADJUSTMENTS?

13 A. Adjustment 4 annualizes revenues to the year-end number of customers. The  
14 annualization of revenues is based on the number of customers at the end of the test  
15 year, compared to the actual number of customers during each month of the test  
16 year. Average revenues by month were computed for the test year. The average  
17 revenues were then multiplied by the increase (or decrease) in number of  
18 customers for each month of the test year.

19 Adjustment 5 reflects an anticipated increase in power costs from a recently  
20 authorized rate increase for APS, the Company's electric power provider.

21 Adjustment 6 annualizes purchased power expense based on the additional  
22 gallons sold from annualizing revenues to the year-end number of customers in  
23 Adjustment 4, above. This adjustment is intended to match the additional expense  
24 associated with the revenue annualization.

25 Adjustment 7 annualizes chemicals expense based on the additional gallons  
26 sold from annualizing revenues to the year-end number of customers in

1 Adjustment 4, above. This adjustment is intended to match the additional expense  
2 associated with the revenue annualization.

3 Adjustment 8 synchronizes interest expense with rate base.

4 Adjustment 9 reflects income taxes on taxable income based on the tax rate  
5 under proposed revenues.

6 **Q. DO THE CONTRACTUAL COSTS THE COMPANY HAS RECORDED IN**  
7 **EXPENSE FOR THE TEST YEAR INCLUDE AFFILIATE PROFIT?**

8 A. No. The test year costs reflect actual costs. No profit is included consistent with  
9 Commission decisions for RRUI affiliates, *Black Mountain Sewer Corporation* and  
10 *Gold Canyon Sewer Company*. However, this reflects a very different approach  
11 than in RRUI's last rate case. Since acquisition, the Company's parent has  
12 developed methodologies consistent with rate making practices used by similarly  
13 situated holding companies where the parent company owns more than one  
14 subsidiary utility to allocate and record shared costs.

15 For example, under the allocation methodology, operation labor costs are  
16 directly allocated based on operator time, accounting and billing costs are allocated  
17 based on a customer allocation factor, and corporate overhead is allocated based  
18 upon a 4-factor methodology. RRUI's parent has compared the amounts recorded  
19 in expense on the books of RRUI and the allocated cost based on its methodology  
20 and has determined that the amounts recorded in expense for the test year were  
21 correct.

22 **D. Rate Design (H Schedules).**

23 **Q. WHAT ARE THE COMPANY'S PRESENT RATES FOR WATER**  
24 **SERVICE?**

25 A. The Company's present rates are:  
26

1 MONTHLY SERVICE CHARGES

2	5/8" x 3/4" meters	\$6.45
3	3/4" Meters	\$9.65
4	1" Meters	\$17.10
5	1 1/2" Meters	\$34.70
6	2" Meters	\$54.00
7	3" Meter	\$105.40
8	4" Meters	\$173.50
9	6" Meter	\$321.25
10	8" Meters	\$514.00
11	10" Meters	\$745.30
12	12" Meters	\$1,395.00
13	Fire Lines up to 8 Inch	\$6.48
14	Fire Lines 10 Inch	\$7.45
15	Fire Lines 12 Inch	\$14.00

16 COMMODITY RATES

17	5/8" X 3/4" Meters	1 to 4,000	\$ 1.44
18		4,001 to 10,000	\$ 1.70
19		Over 10,000	\$ 1.90
20	3/4" Meters	1 to 6,000	\$ 1.70
21		Over 6,000	\$ 1.90
22	1" Meters	1 to 15,000	\$ 1.70
23		Over 15,000	\$ 1.90
24	1 1/2" Meters	1 to 20,000	\$ 1.70
25		Over 20,000	\$ 1.90
26	2" Meters	1 to 57,000	\$ 1.70

1		Over 57,000	\$ 1.90
2	3" Meters	1 to 57,000	\$ 1.70
3		Over 57,000	\$ 1.90
4	4" Meters	1 to 57,000	\$ 1.70
5		Over 57,000	\$ 1.90
6	6" Meters	1 to 125,000	\$ 1.70
7		Over 125,000	\$ 1.90
8	8" Meters	1 to 125,000	\$ 1.70
9		Over 125,000	\$ 1.90
10	10" Meters	1 to 125,000	\$ 1.70
11		Over 125,000	\$ 1.90
12	12" Meters	1 to 125,000	\$ 1.70
13		Over 125,000	\$ 1.90

14 **Q. WHAT ARE THE COMPANY'S PROPOSED RATES FOR WATER**  
15 **SERVICE?**

16 A. The Company's proposed rates are:  
17 MONTHLY SERVICE CHARGES

18	5/8" x 3/4" meters	\$13.71
19	3/4" Meters	\$20.51
20	1" Meters	\$36.34
21	1 1/2" Meters	\$73.74
22	2" Meters	\$114.75
23	3" Meters	\$223.98
24	4" Meters	\$368.69
25	6" Meters	\$682.66
26	8" Meters	\$1092.25

1	10" Meters	\$1,583.76
2	12" Meters	\$2,964.38
3	Fire Lines up to 8 Inch	\$13.77
4	Fire Lines 10 Inch	\$15.83
5	Fire Lines 12 Inch	\$29.75

6        **COMMODITY RATES**

7	5/8" Meters	0 to 4,000	\$ 2.93
8		4,001 to 10,000	\$ 3.68
9		Over 10,000	\$ 4.18
10	3/4" Meters	0 to 6,000	\$ 3.68
11		Over 6,000	\$ 4.18
12	1" Meters	0 to 15,000	\$ 3.68
13		Over 15,000	\$ 4.18
14	1 1/2" Meters	0 to 20,000	\$ 3.68
15		Over 20,000	\$ 4.18
16	2" Meters	0 to 57,000	\$ 3.68
17		Over 57,000	\$ 4.18
18	3" Meters	0 to 57,000	\$ 3.68
19		Over 57,000	\$ 4.18
20	4" Meters	0 to 57,000	\$ 3.68
21		Over 57,000	\$ 4.18
22	6" Meters	0 to 125,000	\$ 3.68
23		Over 125,000	\$ 4.18
24	8" Meters	0 to 125,000	\$ 3.68
25		Over 125,000	\$ 4.18
26	10" Meters	0 to 125,000	\$ 3.68

1		Over 125,000	\$ 4.18
2	12" Meters	0 to 125,000	\$ 3.68
3		Over 125,000	\$ 4.18

4 **Q. WHAT METER SIZE ARE THE MAJORITY OF CUSTOMERS ON AND**  
5 **WHAT WAS THE AVERAGE MONTHLY BILL DURING THE TEST**  
6 **YEAR ?**

7 A. The largest customer class is the 5/8 inch residential class. As shown on Schedule  
8 H-2, page 1, the average monthly bill under present rates for a 5/8 inch residential  
9 customer using an average 8,548 gallons is \$19.94.

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

13 A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates  
14 for a 5/8 inch residential customer using an average 8,548 gallons is \$42.17 – a  
15 \$22.23 increase over the present monthly bill or a 111.45 percent increase.

16 **Q. IS THE COMPANY'S RATE DESIGN A CONSERVATION ORIENTED**  
17 **RATE DESIGN?**

18 A. Yes. Inverted tier rate designs are conservation oriented. The smaller residential  
19 meters (5/8") are on an inverted three-tier rate design and all other meter sizes are  
20 on an inverted two-tier design.

21 **1. Off-site Facilities Hook-up Fee.**

22 **Q. IS THE COMPANY PROPOSING AN OFF-SITE FACILITIES HOOK-UP**  
23 **FEE (HUF)?**

24 A. Yes. The proposed tariff is attached to the application at Attachment 2. A  
25 discussion of the proposed HUF tariff is contained in Greg Sorensen's direct  
26 testimony. See the Direct Testimony of Greg Sorensen ("Sorensen DT") at 10-11.

1                   2.     **Other Tariff Changes.**

2     **Q.    IS THE COMPANY PROPOSING A LOW INCOME TARIFF?**

3     A.    Yes, a copy is attached to the Application at Attachment 1. The proposed low  
4       income tariff is modeled after one I recently proposed for Chaparral City Water  
5       Company, which in turn, modeled its low income tariff after one used by its  
6       affiliate in California, Golden States Water Company.

7     **Q.    HOW DOES THE LOW INCOME TARIFF WORK?**

8     A.    Customers meeting the qualifications as set forth in the proposed tariff would  
9       receive a 15 percent discount off their water bill. The primary criteria would be  
10      based on the combined gross annual income of all persons living in the household.  
11      For example, as shown on the proposed tariff, a 4-person household with a total  
12      gross annual income of less than or equal to \$22,050, which amount is 100% of the  
13      2009 federal poverty level, would meet the criteria. As defined in the proposed  
14      tariff, gross annual household income means all money and non-cash benefits,  
15      available for living expenses, from all sources, both taxable and non-taxable, for all  
16      people who live in the home.

17    **Q.    HOW WOULD A CUSTOMER SIGN UP FOR THE PROGRAM?**

18    A.    By completing an application and eligibility declaration and submitting proof of  
19       income to the Company. The form of the application and eligibility declaration  
20       would be approved by the Commission.

21    **Q.    WOULD THE GROSS ANNUAL INCOME LIMITS BE UPDATED**  
22       **ANNUALLY?**

23    A.    Yes. Federal poverty guidelines are updated annually and published in the Federal  
24       Register (January). Accordingly, the Company would update its gross annual  
25       household income limits annually.

26

1 Q. HOW WOULD CUSTOMERS BE MADE AWARE OF THE LOW INCOME  
2 TARIFF PROGRAM?

3 A. Providing customers with information about the low income tariff program will be  
4 an ongoing process. Notice of the new rates implemented in this rate case would  
5 include information about the low income tariff. In addition, new customers would  
6 be made aware of the program upon signing up for new service.

7 Q. HOW WOULD THE COMPANY TRACK THE PROGRAM COSTS AND  
8 PROGRAM COST RECOVERY?

9 A. The program costs (the discounts given to participants plus a 10% fee for  
10 administration and carrying costs) would be recovered from non-participants via a  
11 commodity surcharge. The Company would maintain a balancing account to keep  
12 track of the program costs and the collections made from non-participants. The  
13 surcharge would be computed annually based on the prior year costs and  
14 collections.

15 Q. WHEN WOULD THE COMMODITY SURCHARGE TO NON-  
16 PARTICIPANTS BEGIN?

17 A. One year after the program begins. In order to determine a basis for the first  
18 surcharge computation, RRUI will track the program costs for 12 months. Upon  
19 completion of the 12-month period, the Company will compute a surcharge  
20 intended to collect the prior year's program costs over the next 12 months.  
21 Accordingly, the first <sup>12</sup>~~six~~-month surcharge will be computed by dividing the  
22 program costs by the gallons sold to non-participants during the 12-month period.  
23 Subsequently, the program costs and surcharge collections will be accumulated in  
24 the balancing account for the next <sup>12</sup>~~six~~-month period. The next ~~six~~ month's  
25 surcharge will be computed by dividing the balancing account balance by the  
26 gallons sold to non-participants during most recent 12-month period.

1 **Q. CAN YOU PLEASE PROVIDE AN ILLUSTRATION?**

2 A. Yes. Assume that during the first 12 months of the program \$10,000 in costs are  
3 incurred (including the administrative fee and carrying costs) and 250,000  
4 thousand gallons were sold to non-participants during that 12-month period. The  
5 commodity surcharge for the second year would be \$0.04 per 1,000 gallons  
6 (\$10,000 divided by 250,000 thousand gallons). If during the second 12-month  
7 period, \$12,500 in program costs are incurred, \$10,000 is recovered via the  
8 surcharge to non-participants, and 300,000 thousand gallons are sold to non-  
9 participants, then the commodity surcharge for the third 12-month period would be  
10 \$0.05 per 1,000 gallons (\$12,500 program costs for first 12 months less \$10,000 in  
11 surcharge collections plus \$12,500 programs costs for the second 12 months)  
12 divided by 300,000 thousand gallons).

13 **Q. WOULD THE COMPANY BE WILLING TO SUBMIT AN ANNUAL**  
14 **REPORT TO THE COMMISSION?**

15 A. Yes. RRUI expects that it will need to submit an annual report showing the  
16 number of participants for the <sup>12</sup> ~~six~~-month period, the discounts given to participants,  
17 administration fee and carrying costs, and the collections made from non-  
18 participants through the surcharge. The Company would also report the balance of  
19 the low income balancing accounts and show a computation of the next 12-month  
20 commodity surcharge and submit updated gross annual income guidelines as  
21 updated by the federal government.

22 **Q. WOULD THE SURCHARGE APPEAR SEPARATELY ON CUSTOMER**  
23 **BILLS?**

24 A. Yes. The surcharge would be identified as "Low Income Assistance Charge."  
25  
26

1 Q. IS THE COMPANY PROPOSING ANY CHANGES TO ITS METER AND  
2 SERVICE LINE INSTALLATION CHARGES?

3 A. Yes. As shown on Schedule H-3, page 4, the Company is proposing that meter and  
4 service line installation charges be based on actual costs. See Sorensen DT at 12.

5 Q. IS THE COMPANY PROPOSING ANY CHANGES TO MISCELLANEOUS  
6 SERVICE CHARGES FOR THE WATER DIVISION?

7 A. No.

8 **IV. WASTEWATER DIVISION**

9 **A. Summary of A, E and F Schedules.**

10 Q. MR. BOURASSA, LET'S TURN TO THE COMPANY'S WASTEWATER  
11 DIVISION SCHEDULES. PLEASE DESCRIBE THE SCHEDULES  
12 LABELED AS A, E, AND F.

13 A. The A-1 Schedule is a summary of the Wastewater Division rate base, operating  
14 income, current operating margin, required operating margin, operating income  
15 deficiency, and the increase in gross revenue. A 12.4 percent return on FVRB is  
16 requested. The decrease in the revenue requirement is \$89,058. Revenues at  
17 present and proposed and customer classifications are also shown on this schedule.

18 The A-2 Schedule is a summary of results of operations for the test year,  
19 prior years, and a projected year at present rates and proposed rates.

20 Schedule A-3 contains the Company's capital structure for the test year and  
21 the two prior years.

22 Schedule A-4 contains the plant construction, and plant-in-service for the  
23 test year and prior years. The projected plant additions are also shown on this  
24 schedule.

25 Schedule A-5 is the summary of the Company's changes in financial  
26 position (cash flow) for the prior two years, the test year at present rates, and a

1 projected year at present and proposed rates.

2 The E Schedules are based on the Company's actual operating results, as  
3 reported by the Company in annual reports filed with the Commission. The E-1  
4 Schedule contains the comparative balance sheet data for the years 2006, 2007,  
5 and 2008 ending on December 31.

6 Schedule E-2, page 1, contains the income statement for the years 2006,  
7 2007, and 2008 ending on December 31.

8 Schedule E-3 contains the statements of changes in the Company's financial  
9 position for the test year and the two prior years.

10 Schedule E-4 provides the changes in membership equity.

11 Schedule E-5 contains the Company's plant-in-service at the end of the test  
12 year, and one year prior to the end of the test year.

13 Schedule E-7 contains operating statistics for the years ended 2006, 2007,  
14 and 2008 ending on December 31.

15 Schedule E-8 contains the taxes charged to operations.

16 The accountant's notes to the financial statements and the financial  
17 assumptions used in preparing the rate filing schedules are shown on Schedules  
18 E-9 and F-4, respectively, in accordance with the Commission's standard filing  
19 requirements. The Company does not prepare audited financial statements.

20 Schedule F-1 contains the results of operations at the present rates (actual  
21 and adjusted), and at proposed rates.

22 Schedule F-2 contains the summary of changes in financial position (cash  
23 flow) for the prior two years, the test year at present rates, and a projected year at  
24 present and proposed rates.

25 Schedule F-3 shows the Company's projected construction requirements for  
26 2009, 2010, and 2011.

1 Schedule F-4 contains the assumptions used in developing the adjustments  
2 and projections contained in the rate filing.

3 **B. Rate Base (B Schedules).**

4 **Q. WOULD YOU EXPLAIN THE RATE BASE SCHEDULES, WHICH ARE**  
5 **LABELED AS THE B SCHEDULES?**

6 A. Yes. I will start with Schedule B-5, which is the working capital allowance. My  
7 rationale for not doing a lead-lag study, and the reasons for my recommendation of  
8 zero working capital are explained above with respect to the Water Division. See  
9 pages 6-7 of my testimony.

10 **Q. PLEASE CONTINUE.**

11 A. The Company did not file Schedules B-3 and B-4. As I stated above, RRUI is  
12 requesting that its OCRB be used as its FVRB for its Wastewater Division.

13 **Q. HAVE YOU PREPARED SCHEDULES SHOWING ADJUSTMENTS TO**  
14 **THE WASTEWATER DIVISION'S ORIGINAL COST RATE BASE?**

15 A. Yes. Schedule B-2 shows adjustments to the Wastewater Division's OCRB cost  
16 rate base proposed by RRUI. Schedules B-2, pages 2 through 6, provide the  
17 supporting information. These adjustments are, in summary:

18 B-2 adjustment number 1, as shown on Schedule B-2, page 2, adjusts plant-  
19 in-service. There are a number of plant-in-service adjustments included  
20 Adjustment 1. These are shown on Schedule B-2, page 3, and are labeled as  
21 adjustments "A" and "B".

22 Adjustment A of B-2 adjustment number 1 adjusts plant-in-service to  
23 remove affiliated profit from plant-in-service that was recorded in plant-in-service  
24 during the years since the Company's last rate case.

25 Adjustment B of B-2 adjustment number 1 adjusts plant-in-service to reflect  
26 the reconciliation of the Company's plant-in-service detail to its amount recorded

1 at the end of the test year and as reflected on the E-1 schedule.

2 **Q. PLEASE CONTINUE.**

3 A. B-2 adjustment number 2 as shown on Schedule B-2, page 2, adjusts accumulated  
4 depreciation. The details of the accumulated depreciation adjustment are shown  
5 on Schedule B-2, page 4. There is only one adjustment shown on this schedule  
6 and it is labeled as adjustment "A". This adjustment reflects the re-computed  
7 amounts per the Company's B-2 plant schedule (Schedule B-2 pages 3.1 to 3.8).

8 **Q. DO THE PLANT AND ACCUMULATED DEPRECIATION SHOWN ON**  
9 **B-2 REFLECT THE LAST COMMISSION RATE ORDER?**

10 A. Yes. *See* Decision No. 67279. A reconciliation of the starting balances for plant-  
11 in-service in the instant case is shown on Schedule B-2, page 3.9.

12 For accumulated depreciation, a reconciliation of the starting balances for  
13 accumulated depreciation in the instant case is shown on Schedule B-2, page 3.10.

14 The plant shown on Schedule B-2 started with the plant-in-service balances  
15 from the last rate case as described above. Plant additions and retirements since  
16 the test year in that case have been added to and deducted from total plant shown  
17 on Schedule B-2, pages 3.1 to 3.8. As mentioned above, capitalized affiliate profit  
18 recorded in the plant additions for each year have been deducted from the plant.  
19 Pages 3.1 to 3.8 of the schedule show the details for the accumulated depreciation  
20 through the end of the test year using the half-year convention for depreciation.

21 **Q. THANK YOU. PLEASE CONTINUE.**

22 A. Adjustment number 3 adjusts deferred income taxes. The Company's computation  
23 is based on the adjusted plant-in-service, accumulated depreciation, and CIAC in  
24 the instant case and the tax basis of its assets using the tax rate found on Schedule  
25 C-3. The detail of the Company's deferred income tax computation is shown on  
26 Schedule B-2, page 5.

1 Adjustment number 4, labeled as 4a and 4b, adjusts CIAC and amortization  
2 based on additional CIAC recorded since the since the prior rate case. The detail  
3 of the Company's proposed CIAC adjustments can be found on Schedule B-2, page  
4 6 and 6.1 to 6.3.

5 **Q. HOW WAS THE PROPOSED "FAIR VALUE" RATE BASE SHOWN ON**  
6 **A-1 DETERMINED?**

7 A. As stated, the FVRB shown on Schedule A-1 is based on OCRB, with no  
8 adjustment for the current values of the Company's plant and property.

9 **C. Income Statement (C Schedules).**

10 **Q. PLEASE EXPLAIN THE ADJUSTMENTS YOU ARE PROPOSING TO**  
11 **THE WASTEWATER DIVISION INCOME STATEMENT AS SHOWN ON**  
12 **SCHEDULES C-1 AND C-2.**

13 A. The following is a summary of adjustments shown on Schedule C-1:

14 Adjustment 1 annualizes depreciation expense. The proposed depreciation  
15 rate for each component of utility plant is shown on Schedule C-2, page 2. The  
16 depreciation rates approved in the Company's last rate case were account specific  
17 rates. The Company proposes to continue to use these rates.

18 Adjustment 2 increases the property taxes based on proposed revenues. My  
19 analysis for the Wastewater Division is identical to that used for the Water  
20 Division. See pages 9-11 of my testimony.

21 **Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE INCOME**  
22 **STATEMENT ADJUSTMENTS.**

23 A. Adjustment 3 shows the rate case expense proposed by the Company. The  
24 Company estimates rate case expense for the Wastewater Division of \$125,000  
25 [\$175,000-\$50,000]. This is less than the \$210,000 of estimated rate case expense  
26

1 for the Water Division I discussed above, but I used the same approach. See pages  
2 11-12 of my testimony.

3 **Q. OKAY, THANK YOU. PLEASE CONTINUE WITH YOUR DISCUSSION**  
4 **OF THE INCOME STATEMENT ADJUSTMENTS?**

5 **Q.** Adjustment 4 annualizes revenues to the year-end number of customers. The  
6 annualization of revenues is based on the number of customers at the end of the test  
7 year, compared to the actual number of customers during each month of the test  
8 year. Average revenues by month were computed for the test year. The average  
9 revenues were then multiplied by the increase (or decrease) in number of  
10 customers for each month of the test year.

11 Adjustment 5 reflects an anticipated increase in power costs from a recently  
12 authorized rate increase for APS, the Company's electric power provider.

13 Adjustment 6 annualizes purchased power expense based on the additional  
14 gallons treated from annualizing revenues to the year-end number of customers in  
15 Adjustment 4, above. This adjustment is intended to match the additional expense  
16 associated with the revenue annualization.

17 Adjustment 7 annualizes chemicals expense based on the additional gallons  
18 treated from annualizing revenues to the year-end number of customers in  
19 Adjustment 4, above. This adjustment is intended to match the additional expense  
20 associated with the revenue annualization.

21 Adjustment 8 synchronizes interest expense with rate base.

22 Adjustment 9 reflects income taxes on taxable income based on the tax rate  
23 under proposed revenues.

24 **Q. AGAIN, THE CONTRACTUAL COSTS INCLUDED IN OPERATING**  
25 **EXPENSES EXCLUDE ALL AFFILIATE PROFIT?**

26 **A.** Yes.

1 **D. Wastewater Division Rate Design (H Schedules).**

2 **Q. WHAT ARE THE COMPANY'S PRESENT RATES FOR WASTEWATER**  
3 **SERVICE?**

4 A. The Company's present rates are:

5 **MONTHLY SERVICE CHARGES**

6	5/8" x 3/4" meters	\$56.36
7	3/4" Meters	\$64.27
8	1" Meters	\$79.40
9	1 1/2" Meters	\$117.24
10	2" Meters	\$162.62
11	3" Meter	\$283.30
12	4" Meters	\$419.91
13	6" Meter	\$797.96
14	8" Meters	\$1,252.11
15	10" Meters	\$1,781.93
16	12" Meters	\$3,295.77

17 **COMMODITY RATES**

18 **Commercial and Multi-tenant only**

19	0 to 7,000 gallons	\$0.00
20	Over 7,000 gallons	\$5.71

21 **Q. WHAT ARE THE COMPANY'S PROPOSED RATES FOR**  
22 **WASTEWATER SERVICE?**

23 A. The Company's proposed rates are:

24 **MONTHLY SERVICE CHARGES**

25	5/8" x 3/4" meters	\$53.65
26	3/4" Meters	\$61.19

1	1" Meters	\$75.59
2	1 1/2" Meters	\$111.61
3	2" Meters	\$154.81
4	3" Meter	\$269.70
5	4" Meters	\$399.75
6	6" Meter	\$759.66
7	8" Meters	\$1,192.01
8	10" Meters	\$1,696.40
9	12" Meters	\$3,137.57

10 **COMMODITY RATES**

11 **Commercial and Multi-tenant only**

12	0 to 7,000 gallons	\$0.00
13	Over 7,000 gallons	\$5.44

14 **1. Off-site Facilities Hook-up Fee.**

15 **Q. IS THE COMPANY PROPOSING AN OFF-SITE FACILITIES HOOK-UP**  
 16 **FEE (HUF)?**

17 **A.** Yes. The proposed tariff is attached to the application at Attachment 2. A  
 18 discussion of the proposed HUF tariff is contained in Greg Sorensen's direct  
 19 testimony. See Sorensen DT at 10-11.

20 **2. Other Tariff Changes.**

21 **Q. WILL THERE BE A LOW INCOME TARIFF FOR WASTEWATER AS**  
 22 **WELL?**

23 **A.** Yes, it will be the same as the one proposed for water which I discussed above.  
 24 See pages 17-20 of my testimony.

25  
 26

1 Q. IS THE COMPANY PROPOSING ANY CHANGES TO MISCELLANEOUS  
2 SERVICE CHARGES FOR THE WASTEWATER DIVISION?

3 A. No.

4 3. Rate Design Based on Water Consumption.

5 Q. WHY IS THE COMPANY PRESENTING INFORMATION ON  
6 WASTEWATER RATE DESIGNS BASED ON WATER CONSUMPTION?

7 A. Because in Decision 67279, the Commission ordered RRUI to present information  
8 on: 1) whether wastewater rates based on water consumption encourage  
9 conservation; 2) whether higher bills for those who use the system is a fairer way  
10 to collect revenue; and 3) what tiered wastewater rates based on water consumption  
11 would look like compared to a flat rate design. Decision 67279 at 25.

12 Q. HOW ARE WASTEWATER RATES TYPICALLY DESIGNED?

13 A. Other than flat rate designs based on meter size, typical wastewater rate designs  
14 include rates in which the unit rate is the same across all units of service (uniform  
15 rates); rates in which the unit rate increases as the quantity of units purchased  
16 increases (increasing block rates); rates in which the unit rate is based upon the  
17 long-run marginal cost or the cost of adding the next unit of capacity to the sewer  
18 system.

19 Within the context of the various rate designs, two approaches are typically  
20 taken: 1) Quantity/quality rates and 2) Extra-strength surcharges. Some utilities  
21 mix these two approaches to enhance the equitability of their system of rates.

22 Under the quantity/quality rate structure, specific rates are developed for  
23 individual customer classes based on the estimated strength of the wastewater  
24 contributed by that class. Utilities may use multiple sources of data to obtain  
25 strength-based information in order to classify their commercial and industrial  
26 customers. But, regardless of the manner of estimating wastewater strengths for

1 each customer class, the quantity/quality approach categorizes customers according  
2 to estimated strengths and sets rates that recover the cost of serving those  
3 customers.

4 Under the extra-strength surcharge approach, costs associated with high-  
5 strength wastewater are separated from the total costs, and what remains is  
6 recovered in a common domestic-strength wastewater rate. Under this approach,  
7 all customers subject to the extra-strength surcharges are charged the common  
8 domestic-strength wastewater rate and a surcharge to recover the additional cost  
9 incurred to treat their high-strength waste. The levels of pollutants measured in the  
10 wastewater determine the level of the surcharge. These measures of the level of  
11 pollutants for the extra-strength surcharge are generally based on sampling  
12 programs implemented by the utility.

13 **Q. DO FLAT RATE DESIGNS ENCOURAGE CONSERVATION?**

14 A. Rates that charge customers a fixed amount per billing cycle (flat rates) for sewer  
15 service regardless of the units of service consumed do not satisfy the definition of  
16 conservation pricing of sewer service. However, conservation pricing for sewer  
17 service should provide incentives to reduce average or peak use, not to directly  
18 reduce water consumption. Reduced average or peak use has benefits in reducing  
19 the need to add capacity on the system which has very high capital costs.  
20 Conservation pricing of water consumption in water rates rather than sewer rates is  
21 a more direct way to promote conservation of water. But, arguably, sewer rates  
22 based on water consumption do send an additional price signal to customers who  
23 use more water.

24 **Q. PLEASE COMMENT ON THE ALTERNATIVE RATE DESIGN SHOWN**  
25 **IN ATTACHMENT A.**

26 A. The rate design shown in attachment A (provided along with my wastewater

1 schedules) is a simplified approach to setting wastewater rates based on water  
2 consumption. The design employs a monthly fixed charge is that applies to all  
3 classes of customers and a volumetric rate (commodity rate) for each class of  
4 customers.

5 The Company's customers can be classified into three classes: Single-  
6 Family Residential ("SFR"), Multi-family Residential ("MFR"), and Commercial.  
7 The rates produced by the method set forth in Attachment A are as follows:

8	9	10	11
	<u>Customer Class</u>	<u>Fixed Monthly Fee</u>	<u>Charge per 1,000 gallons of water consumption</u>
10	SFR	\$43.00	\$2.25
11	MFR	\$43.00	\$4.04
12	Commercial	\$43.00	\$4.04

13  
14 **Q. PLEASE EXPLAIN HOW THE WASTEWATER RATES IN**  
15 **ATTACHMENT A WERE DETERMINED?**

16 A. Basically, there were 3 steps. In the first step, the amount of the revenue  
17 requirement to be recovered from the fixed monthly charge and the amount of  
18 revenue from the volumetric charges are determined. I used 60 percent for the  
19 proportion of revenues to be recovered from the fixed charges and 40 percent for  
20 the proportion of revenues to be recovered from the volumetric rate. Under the  
21 current rate design, approximately 85 percent of the revenue requirement is  
22 recovered from the fixed charges. The fixed charges are a source of stable  
23 revenues. As the proportion of the revenues recovered from the fixed charges  
24 decreases, revenue instability increases. Revenue instability increases risk and  
25 undermines the financial health of the utility. I believe that 60 percent of the  
26 revenues from the fixed charges, which is lower than the current 85 percent, would

1 be at the low end of what I would recommend given the high fixed costs of  
2 wastewater utilities.

3 In the second step, the computation of the fixed monthly charge is  
4 determined using the revenues to be computed by dividing the revenues to be  
5 recovered from the fixed charges by the annualized number of bills. This fixed  
6 charge is the same for all customer classes.

7 In the third step, a wastewater unit charge (per 1,000 gallons) based on  
8 wastewater flow is determined and then converted to water use rate (per 1,000  
9 gallons). The wastewater unit charge is computed by first determining the total  
10 wastewater flows. Wastewater flows from each class of customers is computed  
11 using an assumed flow through factor (water returned to sewer system) for water  
12 consumed and then totaled. The revenues to be recovered from the commodity  
13 rates are then divided by the total wastewater flows to derive the wastewater unit  
14 charge.

15 **Q. PLEASE EXPLAIN HOW WASTEWATER FLOW THROUGH FACTORS**  
16 **ARE TYPICALLY DETERMINED.**

17 A. Typically, wastewater flows are estimated based on 95-100 percent winter water  
18 usage for SFR users and as a percentage return of water usage for MFR and most  
19 commercial/industrial users. SFR water consumption consists of two types of  
20 water usage: domestic use (water used inside the home) and irrigation use (water  
21 used in the yard). During the winter months, it is assumed that there is very little  
22 irrigation use and that all water use is within the home. This may or may not be  
23 realistic depending on the water use characteristics in the area and other  
24 circumstances, but certain general assumptions have to be made. For the MFR, it  
25 is assumed that most water is predominantly domestic use since most complexes  
26 have separate irrigation meters to water green areas. For Commercial, wastewater

1 flows can vary significantly among different types of commercial businesses.  
2 Typically, a wastewater flow through rate is assigned to an individual business  
3 based on the type of business and it is assumed that there are separate irrigation  
4 meters.

5 **Q. HOW DID YOU DETERMINE THE FLOW THROUGH FACTORS?**

6 A. Rather than use 95-100 percent of the winter water usage for the SFR class, a 50  
7 percent flow through factor is assumed for all water consumption. For MFR, a 90  
8 percent flow through rate is assumed. A 90 percent flow through factor for  
9 Commercial customers is also assumed as no formal study of flow through factors  
10 for the Company's commercial customers has been conducted.

11 **Q. PLEASE CONTINUE.**

12 A. As shown in Attachment A, the wastewater unit charge is \$4.49 per 1,000 gallons.  
13 To convert the wastewater unit charge to a water consumption charge, the  
14 wastewater unit charge is multiplied by the assumed flow through rate for each  
15 customer class. As shown, the SFR charge per 1,000 gallons is \$2.25 while the  
16 charge per 1,000 gallons for MFR and Commercial is \$4.04.

17 **Q. DOES THE RATE DESIGN SET FORTH IN ATTACHMENT A GIVE ANY**  
18 **CONSIDERATION TO WASTEWATER STRENGTH?**

19 A. No. It is assumed that all classes place the same load on the sewer system in terms  
20 of wastewater strength.

21 **Q. WHAT ARE THE AVERAGE MONTHLY BILLS BY CUSTOMER CLASS**  
22 **BASED ON THE RATE DESIGN?**

23 A. They are as follows:

<u>Customer Class</u>	<u>Average Water Consumption (in 1,000 gallons)</u>	<u>Average Monthly Bill</u>
SFR	7.97	\$60.89

<u>Customer Class</u>	<u>Average Water Consumption (in 1,000 gallons)</u>	<u>Average Monthly Bill</u>
MFR	10.23	\$84.35
Commercial	42.28	\$213.84

1  
2  
3  
4  
5  
6 **Q. HAVE YOU PREPARED A BILL COMPARISON FOR THE PROPOSED**  
7 **RATES UNDER THE CURRENT RATE DESIGN AND THE RATE**  
8 **DESIGN SHOWN IN ATTACHMENT A?**

9 A. Yes. A bill comparison can be found in Attachment A. Notably, a 5/8 inch  
10 metered residential customer using an average 7,936 gallons per month will have  
11 an average monthly bill of \$63.23 compared to a monthly bill of \$53.65 under the  
12 current rate design (under proposed rates) – a difference of \$9.57 per month. All of  
13 the other customer classes have lower rates based on water usage.

14 **Q. IS THE RATE DESIGN SET FORTH IN ATTACHMENT A, A FAIRER**  
15 **WAY TO COLLECT REVENUES THAN THE CURRENT RATE DESIGN?**

16 A. In theory, yes, charging customers based on the load placed on the wastewater  
17 system is a more fair way to collect revenues. Presumably, the more water a  
18 customer uses, the more load is placed on the wastewater system for that customer  
19 and he/she should pay more.

20 **Q. DOESN'T THE COMPANY'S CURRENT RATE DESIGN INCLUDE A**  
21 **VOLUMETRIC RATE?**

22 A. Yes. For the Commercial and Multi-tenant customer classes, the rate design  
23 includes a fixed monthly charge which varies by meter size and a commodity rate  
24 applies for water usage over 7,000 gallons. The residential customer class has no  
25 commodity charge, rather it is a fixed monthly charge which varies by meter size.  
26

1 **Q. THEN WHY AREN'T YOU RECOMMENDING THE RATE DESIGN**  
2 **REFLECTED IN ATTACHMENT A?**

3 A. I have several concerns. First, the rate design set forth in Attachment A is a  
4 simplified approach which includes assumptions about wastewater flow through  
5 rates and wastewater strengths. It would take some time and be very expensive to  
6 obtain the information necessary to avoid those assumptions.

7 Second, significant rate design changes should be prepared in conjunction  
8 with a cost of service study which includes a study of wastewater flow through  
9 rates and wastewater strengths (such as biological oxygen demand ("BODY") and  
10 total suspended solids ("TOSS")), particularly for the commercial customers to  
11 insure the rate design is fair and equitable to all customer classes.

12 Third, water conservation should not be the primary driver in setting  
13 conservation based rates for sewer service. As I testified, the primary driver should  
14 be to reduce average and peak use of the wastewater system. While conservation  
15 based sewer rates may have a secondary benefit of promoting water conservation, I  
16 suspect that a great deal more discretionary water use occurs outside the home  
17 (irrigation, washing cars, etc.) rather than inside the home. Many homes already  
18 have low flow toilets, low flow shower heads, and other water saving devices as  
19 mandated by local building codes. Outside water use does not place any additional  
20 load on the sewer system and is better targeted in conservation oriented water rate  
21 designs.

22 For these reasons, while I have compiled the information and conducted the  
23 analysis required by the Commission, the Company does not propose and cannot  
24 support a consumption based rate for wastewater service at this time.

25 **Q. WHY DIDN'T YOU PREPARE A COST OF SERVICE STUDY?**

26 A. Cost. A formal cost of service study would be not only time consuming but very

1 expensive. Given that water and wastewater utilities, in my experience, rarely  
2 recover all of their rate case expense in this jurisdiction, I understand why the  
3 Company was reluctant to have me prepare one. More importantly, conservation  
4 rates, particularly for water utilities, are rarely if ever based on cost of service, so I  
5 suspect the same would apply to wastewater rates.

6 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

7 **A. Yes.**

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26

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5  
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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

DOCKET NO: WS-02676A-09-\_\_\_\_\_

19 **DIRECT TESTIMONY OF**

20 **THOMAS J. BOURASSA**

21 **SCHEDULES**

22 **A through C, E, F, H**  
23  
24  
25  
26

# **Schedules**

---

**A through C, E, F, H  
Water Division**

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

Exhibit  
 Schedule A-1  
 Page 1  
 Witness: Bourassa

Line No.					
1	Fair Value Rate Base			\$	8,455,517
2					
3	Adjusted Operating Income				(214,606)
4					
5	Current Rate of Return				-2.54%
6					
7	Required Operating Income			\$	1,048,484
8					
9	Required Rate of Return on Fair Value Rate Base				12.40%
10					
11	Operating Income Deficiency			\$	1,263,090
12					
13	Gross Revenue Conversion Factor				1.6286
14					
15	Increase in Gross Revenue Revenue Requirement				2,057,112
16					
17	Adjusted Test Year Revenues			\$	1,847,256
18	Increase in Gross Revenue Revenue Requirement			\$	2,057,112
19	Proposed Revenue Requirement			\$	3,904,369
20	% Increase				111.36%
21					
22	<b>Customer</b>		<b>Present</b>	<b>Proposed</b>	<b>Dollar</b>
23	<b>Classification</b>		<b>Rates</b>	<b>Rates</b>	<b>Increase</b>
24	5/8 Inch Residential	\$	1,416,089	\$	3,014,247
25	3/4 Inch Residential		1,492		3,194
26	1 Inch Residential		16,001		34,443
27	1.5 Inch Residential		3,016		6,487
28	2 Inch Residential		4,236		9,072
29			-		-
30	<b>Subtotal</b>	\$	1,440,833	\$	3,067,443
31				\$	1,626,610
32	5/8 Inch Commercial	\$	30,960	\$	66,592
33	1 Inch Commercial		25,394		54,957
34	1.5 Inch Commercial		13,279		28,780
35	2 Inch Commercial		134,126		292,744
36	3 Inch Commercial		97,545		213,076
37	4 Inch Commercial		43,844		95,480
38	6 Inch Commercial		18,185		39,628
39			-		-
40	<b>Subtotal</b>	\$	363,332	\$	791,256
41				\$	427,924
42					-
43	5/8 Inch Multi-family	\$	2,850	\$	6,085
44	1.5 Inch Multi-family		568		1,212
45	<b>Subtotal</b>	\$	3,418	\$	7,297
46				\$	3,879
47	Fire Lines up to 8 Inch	\$	1,199	\$	2,547
48					1,349
49	<b>Subtotal Revenues before Annualization</b>	\$	1,808,782	\$	3,868,544
50	<b>Revenue Annualization</b>		(4,794)		(9,508)
51	Miscellaneous Revenues		44,672		44,672
52	Reconciling Amount H-1 to C-1		(1,404)		660
53	<b>Total of Water Revenues (a)</b>	\$	1,847,256	\$	3,904,368
54				\$	2,057,112
55	<u>SUPPORTING SCHEDULES:</u>				
56	B-1				
57	C-1				
58	C-3				
59	H-1				

Rio Rico Utilities - Water Division  
 Test Year Ended December 31, 2008  
 Summary of Results of Operations

Exhibit  
 Schedule A-2  
 Page 1  
 Witness: Bourassa

Line No.	Description	Prior Years Ended		Test Year		Projected Year	
		12/31/2006	12/31/2007	Actual 12/31/2008	Adjusted 12/31/2008	Present Rates 12/31/2009	Proposed Rates 12/31/2009
1	Gross Revenues	\$ 1,801,618	\$ 1,820,691	\$ 1,852,050	\$ 1,847,256	\$ 1,847,256	\$ 3,904,369
2							
3	Revenue Deductions and	1,647,784	1,675,498	1,946,227	2,061,862	2,061,862	2,855,884
4	Operating Expenses						
5							
6	Operating Income	\$ 153,834	\$ 145,193	\$ (94,177)	\$ (214,606)	\$ (214,606)	\$ 1,048,484
7							
8	Other Income and	-	-	-	-	-	-
9	Deductions						
10							
11	Interest Expense	(9,515)	(6,658)	(9,120)	-	-	-
12							
13	Net Income	\$ 144,319	\$ 138,535	\$ (103,297)	\$ (214,606)	\$ (214,606)	\$ 1,048,484
14							
15	Earned Per Average						
16	Common Share	144.32	138.54	(103.30)	(214.61)	(214.61)	1,048.48
17							
18	Dividends Per						
19	Common Share	159.03	-	-	-	-	-
20							
21	Payout Ratio	1.10	-	-	-	-	-
22							
23	Return on Average						
24	Invested Capital	0.64%	0.59%	-0.42%	-0.89%	-0.90%	4.39%
25							
26	Return on Year End						
27	Capital	0.63%	0.58%	-0.40%	-0.89%	-0.90%	4.42%
28							
29	Return on Average						
30	Common Equity	2.46%	1.96%	-1.19%	-2.73%	-2.02%	9.30%
31							
32	Return on Year End						
33	Common Equity	2.33%	1.74%	-1.10%	-2.77%	-1.80%	7.95%
34							
35	Times Bond Interest Earned						
36	Before Income Taxes	25.69	31.31	(10.33)	-	-	-
37							
38	Times Total Interest and						
39	Preferred Dividends Earned						
40	After Income Taxes	16.17	21.81	(10.33)	-	-	-
41							
42							
43	<u>SUPPORTING SCHEDULES</u>						
44	C-1						
45	E-2						
46	F-1						

**Rio Rico Utilities, Inc.**  
 Test Year Ended December 31, 2008  
 Summary of Capital Structure

Exhibit  
 Schedule A-3  
 Page 1  
 Witness: Bourassa

Line No.	Description:	Prior Years Ended		Test Year	Projected Year
		12/31/2006	12/31/2007	12/31/2008	12/31/2009
1					
2					
3	Short-term Debt	\$ -	\$ -	\$ -	\$ -
4					
5	Long-Term Debt	\$ -	\$ -	\$ -	\$ -
6					
7	Total Debt	\$ -	\$ -	\$ -	\$ -
8					
9	Preferred Stock	-	-	-	-
10					
11	Common Equity	10,058,640	12,257,855	12,132,312	13,616,790
12					
13					
14	Total Capital & Debt	\$ 10,058,640	\$ 12,257,855	\$ 12,132,312	\$ 13,616,790
15					
16					
17	Capitalization Ratios:				
18					
19	Short-term Debt	-	-	-	-
20					
21	Long-Term Debt	0.00%	0.00%	0.00%	0.00%
22					
23	Total Debt	0.00%	0.00%	0.00%	0.00%
24					
25	Preferred Stock	-	-	-	-
26					
27	Common Equity	100.00%	100.00%	100.00%	100.00%
28					
29					
30	Total Capital	100.00%	100.00%	100.00%	100.00%
31					
32	Weighted Cost of				
33	Short-Term Debt	0.00%	0.00%	0.00%	0.00%
34					
35	Weighted Cost of				
36	Long-Term Debt	0.00%	0.00%	0.00%	0.00%
37					
38	Weighted Cost of				
39	Senior Capital	0.00%	0.00%	0.00%	0.00%
40					
41					
42	<u>SUPPORTING SCHEDULES:</u>				
43	E-1				
44	D-1				

Rio Rico Utilities - Water Division  
Test Year Ended December 31, 2008  
Construction Expenditures  
and Gross Utility Plant in Service

Exhibit  
Schedule A-4  
Page 1  
Witness: Bourassa

Line No.		<u>Construction Expenditures</u>	<u>Net Plant Placed in Service</u>	<u>Gross Utility Plant in Service</u>
1				
4	Prior Year Ended 12/31/2006	1,423,016	1,590,607	30,269,691
5				
6	Prior Year Ended 12/31/2007	1,013,251	763,814	31,033,505
7				
8	Test Year Ended 12/31/2008	2,437,529	3,026,295	34,023,226
9				
10	Projected Year Ended 12/31/2009	175,400	175,400	34,198,626
11				
12				
13				
14				
15	<u>SUPPORTING SCHEDULES:</u>			
16	B-2			
17	E-5			
18	F-3			
19				
20				

Rio Rico Utilities - Water Division  
Test Year Ended December 31, 2008  
Summary Statements of Cash Flows

Exhibit  
Schedule A-5  
Page 1  
Witness: Bourassa

Line No.	Prior Year Ended 12/31/2006	Prior Year Ended 12/31/2007	Test Year Ended 12/31/2008	Projected Year Present Rates 12/31/2009	Projected Year Proposed Rates 12/31/2009
5	Cash Flows from Operating Activities				
6	\$ 144,319	\$ 138,535	\$ (103,297)	\$ (214,606)	\$ 1,048,484
7	Adjustments to reconcile net income to net cash provided by operating activities:				
9	344,046	209,368	270,733	463,297	463,297
10	(70,533)	(93,444)	(95,654)	-	-
11	-	-	-	-	-
12	Changes in Certain Assets and Liabilities:				
13	(27,875)	10,712	(36,859)	-	-
14	-	-	-	-	-
15	-	-	-	-	-
16	(1,335)	(15,234)	7,760	-	-
17	680,700	(348,790)	687,043	-	-
18	50,483	(50,483)	-	-	-
19	46,042	16,110	77,566	-	-
20	968	349	(113)	-	-
21	-	-	-	-	-
22	(471,458)	(478,035)	205,350	-	-
23	\$ 695,356	\$ (610,912)	\$ 1,012,529	\$ 248,691	\$ 1,511,781
24	Cash Flow From Investing Activities:				
25	(1,423,016)	(1,013,251)	(2,437,529)	(175,400)	(175,400)
26	-	-	-	-	-
27	-	-	-	-	-
28	\$ (1,423,016)	\$ (1,013,251)	\$ (2,437,529)	\$ (175,400)	\$ (175,400)
29	Cash Flow From Financing Activities				
30	-	-	-	-	-
31	1,750	4,450	-	-	-
32	7,705	15	(61,839)	-	-
33	-	-	-	-	-
34	(159,034)	-	-	-	-
35	-	-	-	-	-
36	672,575	1,629,901	1,489,971	-	-
37	\$ 522,996	\$ 1,634,366	\$ 1,428,132	\$ -	\$ -
38	(204,664)	10,203	3,132	73,291	1,336,381
39	275,661	70,997	81,200	84,332	84,332
40	\$ 70,997	\$ 81,200	\$ 84,332	\$ 157,623	\$ 1,420,713
41					
42					

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

Exhibit  
 Schedule B-1  
 Page 1  
 Witness: Bourassa

Line No.		<u>Original Cost</u> <u>Rate base</u>	<u>Fair Value</u> <u>Rate Base</u>
1			
2	Gross Utility Plant in Service	\$ 34,059,801	\$ 34,059,801
3	Less: Accumulated Depreciation	<u>12,472,661</u>	<u>12,472,661</u>
4			
5	Net Utility Plant in Service	\$ 21,587,140	\$ 21,587,140
6			
7	<u>Less:</u>		
8	Advances in Aid of		
9	Construction	73,648	73,648
10	Contributions in Aid of		
11	Construction	20,188,921	20,188,921
12			
13	Accumulated Amortization of CIAC	(6,628,197)	(6,628,197)
14			
15	Customer Meter Deposits	275,455	275,455
16	Deferred Income Taxes & Credits	(778,203)	(778,203)
17			
18			
19			
20	<u>Plus:</u>		
21	Unamortized Debt Issuance		
22	Costs	-	-
23	Deferred Reg. Assets	-	-
24	Working capital	-	-
25			
26			
27			
28			
29	Total Rate Base	<u>\$ 8,455,517</u>	<u>\$ 8,455,517</u>
30			
31			
32			
33	<u>SUPPORTING SCHEDULES:</u>		<u>RECAP SCHEDULES:</u>
34	B-2		A-1
35	B-3		
36	B-5		
37	E-1		
38			

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

Exhibit  
 Schedule B-2  
 Page 1  
 Witness: Bourassa

Line No.		Actual at End of <u>Test Year</u>	Proforma Adjustment <u>Amount</u>	Adjusted at end of <u>Test Year</u>
1	Gross Utility			
2	Plant in Service	\$ 34,023,226	36,575	\$ 34,059,801
3				
4	<b>Less:</b>			
5	Accumulated			
6	Depreciation	10,986,265	1,486,396	12,472,661
7				
8				
9	Net Utility Plant			
10	in Service	\$ 23,036,961		\$ 21,587,140
11				
12	<b>Less:</b>			
13	Advances in Aid of			
14	Construction	73,648	-	73,648
15				
16	Contributions in Aid of			
17	Construction	20,188,921	0	20,188,921
18				
19	Accumulated Amort of CIAC	(6,635,014)	6,817	(6,628,197)
20				
21	Customer Meter Deposits	275,455	-	275,455
22	Deferred Income Taxes & Credits	-	(778,203)	(778,203)
23				
24				
25				
26	<b>Plus:</b>			
27	Unamortized Debt Issuance			
28	Costs	-		-
29	Deferred Reg. Assets	-	-	-
30	Working capital	-	-	-
31				
32				
33				
34				
35	Total	\$ 9,133,951		\$ 8,455,517

39 SUPPORTING SCHEDULES:  
 40 B-2, pages 2  
 41 E-1

RECAP SCHEDULES:  
 B-1

42  
 43  
 44  
 45  
 46  
 47  
 48

Rio Rico Utilities - Water Division  
 Test Year Ended September 30, 2008  
 Original Cost Rate Base Proforma Adjustments

Exhibit  
 Schedule B-2  
 Page 2  
 Witness: Bourassa

Line No.	Actual at End of Test Year	1	Plant	2	Accumulated Depr.	3	DII	4	CIAC	Adjusted at end of Test Year
1										
2	\$ 34,023,226		36,575							\$ 34,059,801
3										
4										
5										
6	10,986,265				1,486,396					12,472,661
7										
8										
9										
10	\$ 23,036,961	\$	36,575	\$	(1,486,396)	\$	-	\$	-	\$ 21,587,140
11										
12										
13										
14	73,648									73,648
15										
16										
17	20,188,921								0	20,188,921
18										
19	(6,635,014)								6,817	(6,628,197)
20										
21	275,455									275,455
22									(778,203)	(778,203)
23										
24										
25										
26										
27										
28										
29										
30										
31	\$ 9,133,951	\$	36,575	\$	(1,486,396)	\$	778,203	\$	(6,817)	\$ 8,455,517
32										
33										
34										
35										
36										
37										

SUPPORTING SCHEDULES:

B-2, pages 3-6  
 E-1

Rio Rico Utilities - Water Division  
 Test Year Ended December 31, 2008  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment Number 1

Exhibit  
 Schedule B-2  
 Page 3  
 Witness: Bourassa

Line No.	Plant-in-Service	Acct. No.	Description	Per Books Original Cost	A Affiliate Profit	B Reconciliation of Plant Detail to Amount Booked	Adjustments				Adjusted Original Cost
							C 2008 Well Renovation Completed in 2008 Booked in 2009	D Intentionally Left Blank	E Intentionally Left Blank	F Intentionally Left Blank	
5		301	Organization Cost	5,785	-	0					5,785
6		302	Franchise Cost	417	-	-					417
7		303	Land and Land Rights	44,194	-	0					44,194
8		304	Structures and Improvements	2,732,833	-	0					2,732,833
9		305	Collecting and Impounding Res.	-	-	-					-
10		306	Lake River and Other Intakes	-	-	-					-
11		307	Wells and Springs	510,929	(4,518)	0		57,101			563,511
12		308	Infiltration Galleries and Tunnels	-	-	-					-
13		309	Supply Mains	279,154	-	(0)					279,153
14		310	Power Generation Equipment	197,120	-	0					197,120
15		311	Electric Pumping Equipment	2,592,141	(170)	(0)					2,591,970
16		320	Water Treatment Equipment	372,950	-	19					372,970
17		320.1	Water Treatment Plant	-	-	-					-
18		320.2	Chemical Solution Feeders	-	-	-					-
19		330	Dist. Reservoirs & Standpipe	759,861	-	(1)					759,861
20		330.1	Storage tanks	-	-	-					-
21		330.2	Pressure Tanks	-	-	-					-
22		331	Trans. and Dist. Mains	22,096,619	(7,469)	(0)					22,089,150
23		333	Services	2,209,274	-	0					2,209,274
24		334	Meters	956,605	-	1					956,605
25		335	Hydrants	568,578	-	(0)					568,577
26		336	Backflow Prevention Devices	3,848	-	-					3,848
27		339	Other Plant and Misc. Equip.	130,229	(8,386)	-					121,843
28		340	Office Furniture and Fixtures	22,673	-	313					22,986
29		340.1	Computers and Software	77,232	-	(313)					76,919
30		341	Transportation Equipment	218,945	-	0					218,945
31		342	Stores Equipment	-	-	-					-
32		343	Tools and Work Equipment	15,035	-	(0)					15,035
33		344	Laboratory Equipment	3,061	-	0					3,061
34		345	Power Operated Equipment	-	-	-					-
35		346	Communications Equipment	218,041	-	(1)					218,040
36		347	Miscellaneous Equipment	7,701	-	-					7,701
37		348	Other Tangible Plant	-	-	-					-
38											
39			TOTALS	\$ 34,023,226	\$ (20,544)	\$ 18	\$ 57,101	\$ -	\$ -	\$ -	\$ 34,059,801
40											
41			Plant-in-Service per Books								\$ 34,023,226
42											
43			Increase (decrease) in Plant-in-Service								\$ 36,575
44											
45			Adjustment to Plant-in-Service								\$ 36,575
46											
47			SUPPORTING SCHEDULES								
48			B-2, pages 3.1-3.10								

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



Rio Rico - Water Division  
Plant Additions and Retirements

Exhibit  
Schedule B-2  
Page 3.2

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2004 Plant Additions		2004 Plant Adjustments		2004 Plant Retirements		2004 Salvage/Adj. A/D Only	2004 Plant Balance	2004 Deprec.
				2004 Plant Additions	2004 Plant Adjustments	2004 Plant Retirements	2004 Salvage/Adj. A/D Only					
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	5,785	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	417	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	-	44,194	-
304	Structures and Improvements	1.99%	3.33%	-	-	-	-	-	-	-	688,795	16,014
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes	3.31%	3.33%	-	-	-	-	-	-	-	400,357	11,145
307	Wells and Springs	3.31%	3.33%	128,294	-	-	-	-	-	-	-	-
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-	-	-	-	-	-	-	-	-
309	Supply Mains	1.66%	2.00%	-	-	-	-	-	-	-	279,153	4,871
310	Power Generation Equipment	3.96%	5.00%	-	-	-	-	-	-	-	187,371	7,907
311	Electric Pumping Equipment	3.96%	12.50%	236,327	-	-	-	-	-	-	1,891,884	108,108
320	Water Treatment Equipment	3.99%	3.33%	65,200	-	-	-	-	-	-	333,885	11,524
320.1	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	3.99%	20.00%	-	-	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.00%	2.22%	37,838	-	-	-	-	-	-	441,443	8,683
330.1	Storage tanks	2.00%	2.22%	-	-	-	-	-	-	-	-	-
330.2	Pressure Tanks	2.00%	5.00%	-	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	1.66%	2.00%	431,726	-	-	-	-	-	-	19,665,227	339,391
333	Services	2.49%	3.33%	54,211	-	-	-	-	-	-	1,967,042	41,578
334	Meters	2.49%	8.33%	51,537	-	-	-	(20,725)	-	-	579,708	22,290
335	Hydrants	1.99%	2.00%	15,453	-	-	-	-	-	-	475,203	9,314
336	Backflow Prevention Devices	4.01%	6.67%	-	-	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	4.80%	6.67%	-	-	-	-	-	-	-	22,986	1,211
340	Office Furniture and Fixtures	4.80%	20.00%	-	-	-	-	-	-	-	70,814	6,033
340.1	Computers and Software	4.80%	20.00%	1,320	-	-	-	-	-	-	-	-
341	Transportation Equipment	33.33%	20.00%	-	-	-	-	-	-	-	2,925	-
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-	-	-	-	-
343	Tools and Work Equipment	4.00%	5.00%	-	-	-	-	-	-	-	15,035	639
344	Laboratory Equipment	4.00%	10.00%	-	-	-	-	-	-	-	3,061	168
345	Power Operated Equipment	5.00%	5.00%	-	-	-	-	-	-	-	-	-
346	Communications Equipment	5.03%	10.00%	-	-	-	-	-	-	-	141,858	8,898
347	Miscellaneous Equipment	4.89%	10.00%	-	-	-	-	-	-	-	7,701	475
348	Other Tangible Plant Rounding		10.00%	-	-	-	-	-	-	-	-	-
				1,021,906	-	-	-	(20,725)	-	-	26,824,845	598,252
Plant Held for Future Use												
TOTAL WATER PLANT				1,021,906	-	-	-	(20,725)	-	-	26,824,845	598,252



Account No.	Description	Deprec.	2006	2006	2006	2006	2006	2006	2006	2006
		Rate Before Oct-04	Plant Additions	Plant Adjustments <sup>1</sup>	Adjusted Plant Additions	Plant Retirements	Salvage A/D Only	Plant Balance		
301	Organization Cost	0.00%	-	-	-	-	-	-	5,785	-
302	Franchise Cost	0.00%	-	-	-	-	-	-	417	-
303	Land and Land Rights	0.00%	-	-	-	-	-	-	44,194	-
304	Structures and Improvements	1.99%	545,966	-	545,966	-	-	-	1,234,761	32,027
305	Collecting and Impounding Res.	2.50%	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	-	-	-	-	-	-	-	-
307	Wells and Springs	3.33%	53,611	(147)	53,464	-	-	-	453,821	14,222
308	Infiltration Galleries and Tunnels	6.67%	-	-	-	-	-	-	-	-
309	Supply Mains	2.00%	-	-	-	-	-	-	279,153	5,583
310	Power Generation Equipment	3.96%	-	-	-	-	-	-	187,371	9,369
311	Electric Pumping Equipment	12.50%	95,823	-	95,823	-	-	-	2,493,652	305,718
320	Water Treatment Equipment	3.99%	5,581	-	5,581	-	-	-	372,970	12,327
320.1	Water Treatment Equipment	3.99%	-	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	3.99%	-	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.00%	-	-	-	-	-	-	759,861	16,869
330.1	Storage tanks	2.00%	-	-	-	-	-	-	-	-
330.2	Pressure Tanks	2.00%	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	1.66%	741,193	(1,901)	739,292	-	-	-	21,096,508	414,537
333	Services	2.49%	86,384	-	86,384	-	-	-	1,806,926	58,732
334	Meters	2.49%	60,552	-	60,552	-	-	-	710,209	56,638
335	Hydrants	1.99%	-	-	-	-	-	-	494,074	9,881
336	Backflow Prevention Devices	4.01%	-	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	6.67%	-	-	-	-	-	-	-	-
340	Office Furniture and Fixtures	4.80%	-	-	-	-	-	-	22,986	1,533
340.1	Computers and Software	4.80%	-	-	-	-	-	-	76,919	15,384
341	Transportation Equipment	33.33%	-	-	-	-	-	-	2,925	-
342	Stores Equipment	4.00%	-	-	-	-	-	-	-	-
343	Tools and Work Equipment	4.00%	-	-	-	-	-	-	15,035	752
344	Laboratory Equipment	4.00%	-	-	-	-	-	-	3,061	306
345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-
346	Communications Equipment	5.03%	3,547	-	3,547	-	-	-	201,363	19,959
347	Miscellaneous Equipment	4.89%	-	-	-	-	-	-	7,701	770
348	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-
	Rounding	10.00%	-	-	-	-	-	-	-	-
	Plant Held for Future Use		-	-	-	-	-	-	-	-
	TOTAL WATER PLANT		1,592,656	(2,048)	1,590,607	-	-	-	30,269,691	974,608

<sup>1</sup> Affiliate Profit

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2007 Plant Additions	2007 Plant Adjustments <sup>1</sup>	2007 Adjusted Additions	2007 Plant Retirements	2007 Salvage A/D Only	2007 Plant Balance	2007 Deprec.
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	5,785	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	417	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	44,194	-
304	Structures and Improvements	1.99%	3.35%	389,176	-	389,176	-	-	1,623,937	47,597
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-
306	Lake River and Other Intakes	3.31%	3.33%	-	-	-	-	-	-	-
307	Wells and Springs	3.31%	3.33%	53,242	(1,830)	51,413	-	-	505,234	15,968
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-	-	-	-	-	-	-
309	Supply Mains	1.66%	2.00%	-	-	-	-	-	279,153	5,583
310	Power Generation Equipment	3.96%	5.00%	5,589	-	5,589	-	-	192,970	9,509
311	Electric Pumping Equipment	3.96%	12.50%	20,220	-	20,220	-	-	2,513,872	312,970
320	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	372,970	12,420
320.1	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	3.99%	20.00%	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.00%	2.22%	-	-	-	-	-	759,861	16,869
330.1	Storage tanks	2.00%	2.22%	-	-	-	-	-	-	-
330.2	Pressure Tanks	2.00%	5.00%	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	1.66%	2.00%	-	(2,010)	(2,010)	-	-	21,094,498	421,910
333	Services	2.49%	3.33%	100,765	-	100,765	-	-	1,907,691	61,848
334	Meters	2.49%	8.33%	129,225	-	129,225	-	-	839,434	64,543
335	Hydrants	1.99%	2.00%	56,833	-	56,833	-	-	550,907	10,450
336	Backflow Prevention Devices	4.01%	6.67%	3,848	-	3,848	-	-	3,848	128
339	Other Plant and Miscellaneous Equipment	4.80%	6.67%	12,160	(3,415)	8,745	-	-	8,745	292
340	Office Furniture and Fixtures	4.80%	6.67%	-	-	-	-	-	22,986	1,533
340.1	Computers and Software	4.80%	20.00%	-	-	-	-	-	76,919	15,384
341	Transportation Equipment	33.33%	20.00%	-	-	-	-	-	2,925	-
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-	-	-
343	Tools and Work Equipment	4.00%	5.00%	-	-	-	-	-	15,035	752
344	Laboratory Equipment	4.00%	10.00%	-	-	-	-	-	3,061	306
345	Power Operated Equipment	5.00%	5.00%	-	-	-	-	-	-	-
346	Communications Equipment	5.03%	10.00%	-	-	-	-	-	201,363	20,136
347	Miscellaneous Equipment	4.89%	10.00%	-	-	-	-	-	7,701	770
348	Other Tangible Plant		10.00%	-	-	-	-	-	-	-
	Rounding			-	-	-	-	-	-	-
	Plant Held for Future Use									
	TOTAL WATER PLANT			771,069	(7,255)	763,814	-	-	31,033,505	1,018,968

<sup>1</sup> Affiliate Profit



Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	Year End Accumulated Depreciation by Account				
				2002	2003	2004	2005	
301	Organization Cost	0.00%	0.00%	-	-	-	-	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-
304	Structures and Improvements	1.99%	3.33%	104,047	115,231	131,245	154,182	
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-
306	Lake River and Other Intakes	3.31%	3.33%	78,656	87,661	98,807	112,139	
307	Wells and Springs	6.67%	6.67%	(3,617)	(1,052)	3,819	9,402	
308	Infiltration Galleries and Tunnels	1.66%	2.00%	19,077	23,829	31,736	41,105	
309	Supply Mains	3.96%	5.00%	508,421	570,989	679,098	945,197	
310	Power Generation Equipment	3.99%	3.33%	74,460	85,181	96,705	107,632	
311	Electric Pumping Equipment	3.99%	3.33%	-	-	-	-	-
312	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-
320.1	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-
320.2	Chemical Solution Feeders	3.99%	20.00%	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.00%	2.22%	106,812	114,379	123,062	136,397	
330.1	Storage tanks	2.00%	2.22%	-	-	-	-	-
330.2	Pressure Tanks	2.00%	5.00%	-	-	-	-	-
331	Transmission and Distribution Mains	1.66%	2.00%	5,899,199	6,200,182	6,539,573	6,895,514	
333	Services	2.49%	3.33%	483,437	520,518	562,096	616,834	
334	Meters	2.49%	8.33%	82,474	83,068	84,633	123,698	
335	Hydrants	1.99%	2.00%	92,050	99,855	109,170	117,217	
336	Backflow Prevention Devices	4.01%	6.67%	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	4.80%	6.67%	9,507	10,610	11,821	13,354	
340	Office Furniture and Fixtures	4.80%	20.00%	18,780	22,116	28,149	42,922	
340.1	Computers and Software	33.33%	20.00%	4,954	2,925	2,925	2,925	
341	Transportation Equipment	4.00%	4.00%	-	-	-	-	-
342	Stores Equipment	4.00%	5.00%	5,054	5,655	6,294	7,046	
343	Tools and Work Equipment	4.00%	10.00%	1,378	1,500	1,669	1,975	
344	Laboratory Equipment	5.03%	5.00%	-	-	-	-	-
345	Power Operated Equipment	4.89%	10.00%	19,381	26,516	35,415	52,398	
346	Communications Equipment	4.89%	10.00%	2,709	3,086	3,561	4,331	
347	Miscellaneous Equipment		10.00%	-	-	-	-	-
348	Other Tangible Plant		10.00%	-	-	-	-	-
	Rounding			-	-	-	-	-
				7,506,179	7,972,250	8,549,777	9,384,268	

Plant Held for Future Use  
TOTAL WATER PLANT

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	Year End Accumulated Depreciation by Account		
				2006	2007	2008
301	Organization Cost	0.00%	0.00%	-	-	-
302	Franchise Cost	0.00%	0.00%	-	-	-
303	Land and Land Rights	0.00%	0.00%	-	-	-
304	Structures and Improvements	1.99%	3.33%	186,209	233,806	306,347
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-
306	Lake River and Other Intakes	3.31%	3.33%	126,361	142,329	160,123
307	Wells and Springs	6.67%	6.67%	-	-	-
308	Infiltration Galleries and Tunnels	1.66%	2.00%	14,985	20,568	26,151
309	Supply Mains	3.96%	5.00%	50,473	59,982	69,734
310	Power Generation Equipment	3.96%	12.50%	1,250,914	1,563,864	1,882,999
311	Electric Pumping Equipment	3.99%	3.33%	119,959	132,379	144,799
320	Water Treatment Equipment	3.99%	3.33%	-	-	-
320.1	Water Treatment Equipment	3.99%	20.00%	153,265	170,134	187,003
320.2	Chemical Solution Feeders	2.00%	2.22%	-	-	-
330	Distribution Reservoirs & Standpipe	2.00%	5.00%	-	-	-
330.1	Storage tanks	1.66%	2.00%	7,310,051	7,731,961	8,163,798
330.2	Pressure Tanks	2.49%	3.33%	675,567	737,415	805,963
331	Transmission and Distribution Mains	2.49%	8.33%	180,336	244,879	319,684
333	Services	1.99%	2.00%	127,099	137,549	148,744
334	Meters	4.01%	6.67%	-	128	385
335	Hydrants	6.67%	6.67%	292	464	464
336	Backflow Prevention Devices	6.67%	6.67%	14,887	16,421	17,954
339	Other Plant and Miscellaneous Equipment	4.80%	20.00%	58,306	73,690	76,919
340	Office Furniture and Fixtures	4.80%	20.00%	2,925	2,925	25,112
340.1	Computers and Software	33.33%	4.00%	-	-	-
341	Transportation Equipment	4.00%	5.00%	7,798	8,550	9,301
342	Stores Equipment	4.00%	10.00%	2,281	2,587	2,893
343	Tools and Work Equipment	4.00%	5.00%	-	-	-
344	Laboratory Equipment	5.03%	10.00%	72,357	92,483	113,464
345	Power Operated Equipment	4.89%	10.00%	5,101	5,871	6,641
346	Communications Equipment	-	-	-	-	-
347	Miscellaneous Equipment	-	-	-	-	-
348	Other Tangible Plant	-	-	-	-	-
	Rounding	-	-	-	-	-

Plant Held for Future Use  
TOTAL WATER PLANT

10,358,875 11,377,844 12,472,661







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

Exhibit  
 Schedule B-2  
 Page 5  
 Witness: Bourassa

Line No.	Deferred Income Tax as of December 31, 2008 (Water and Wastewater Divisions)	Adjusted Book Value <sup>1</sup>	Tax Value <sup>3</sup>	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Tax Rate	Future Tax Asset Current	Future Tax Asset Non Current	Future Tax Liability Current	Future Tax Liability Non Current
1										
2										
3										
4										
5										
6	Plant-in-Service	\$ 45,888,844								
7	Accum. Deprec.	(17,582,689)								
8	CIAC	(16,993,123)								
9	Fixed Assets	<u>\$ 11,313,032</u>	\$ 13,584,404	100.0%	2,271,372	38.6%		876,750		-
10	AIAC		72,787	100.0%	72,787	38.6%		28,096		-
11	Tax Benefits from O.L. Carry Forward			100.0%	510,259	38.6%		196,960		-
12								<u>\$ -</u>	<u>\$ 1,101,805</u>	<u>\$ -</u>
13										
14										
15										
16	Water Division allocation factor (based on relative rate bases)								\$ 1,101,805	
17										
18	Allocated DIT Asset (Liability)									0.70630
19										
20	DIT Asset (Liability) per books									\$ 778,203
21										
22	Adjustment to DIT									\$ -
23										
24										
25										
26										

<sup>1</sup> Adjusted Water and Wastewater - per B-2, page 2 (Water Division) and B-2, page 2 (Wastewater Division);  
<sup>2</sup> Based on water division rate base relative to total of both water and wastewater division rate bases  
<sup>3</sup> Adjusted for post-test year plant (water and wastewater)

\$ (778,203)

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

Exhibit  
 Schedule B-2  
 Page 6  
 Witness: Bourassa

Line  
No.  
 1  
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CIAC and Accumulated Amortization

Computed balance at 12/31/2008	\$	20,188,921	\$	6,628,197
Book balance at 12/31/2008	\$	<u>20,188,921</u>	\$	<u>6,635,014</u>
Increase (decrease)	\$	0	\$	(6,817)
Adjustment to CIAC	\$	<u>0</u>	\$	<u>6,817</u>
Label		4a		4b

SUPPORTING SCHEDULES

B-2, page 6.1 to 6.4

Rio Rico Utilities - Water Division  
 Test Year Ended December 31, 2008  
 Original Cost Rate Base Performance Adjustments  
 Contributions-in-aid of Construction and Amortization  
 Adjustment 4

Exhibit  
 Schedule B-2  
 Page 6.1  
 Witness: Bourassa

Line No.		Balance at 12/31/2002	2003 Activity	Balance at 12/31/2003	2004 Activity	Balance at 12/31/2004
1						
2						
3						
4	CIAC	8134,20100.10.1640.0100	110,714	18,710,092	591,876	19,301,968
5						
6						
7	Amortization		359,141		423,872	
8	Accum Amort.	8134,20100.10.1641.0100	359,141	3,626,299	423,872	4,050,171
9						
10	Composite Amortization Rate		1.9252%		2.2302%	
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						
21						
22						
23						
24						
25						
26						
27						
28						
29						
30						
31						
32						
33						
34						
35	Total CIAC Water	18,599,378		18,710,092		19,301,968
22						
23						
24	Total Accum Amort.	3,267,158		3,626,299		4,050,171
25						
26						

Rio Rico Utilities - Water Division  
 Test Year Ended December 31, 2008  
 Original Cost Rate Base Proforma Adjustments  
 Contributions-in-aid of Construction and Amortization  
 Adjustment 4

Exhibit  
 Schedule B-2  
 Page 6.2  
 Witness: Bourassa

Line No.		2005 Activity	Balance at 12/31/2005	2006 Activity	Balance at 12/31/2006
3	CIAC	879,233	20,181,201	7,705	20,188,906
7	Amortization	616,293		649,898	
8	Accum Amort.	616,293	4,666,464	649,898	5,316,362
10	Composite Amortization Rate	3.1218%		3.2197%	
22	Total CIAC Water		20,181,201		20,188,906
25	Total Accum Amort.		4,666,464		5,316,362

Rio Rico Utilities - Water Division  
 Test Year Ended December 31, 2008  
 Original Cost Rate Base Proforma Adjustments  
 Contributions-in-aid of Construction and Amortization  
 Adjustment 4

Exhibit  
 Schedule B-2  
 Page 6.3  
 Witness: Bourassa

Line No.		2007 Activity	Balance at 12/31/2007	2008 Activity	Balance at 12/31/2008
1					
2					
3					
4	CIAC	8134,20100.10.1640.0100	20,188,921	15	20,188,921
5					
6					
7	Amortization	662,883		648,952	
8	Accum Amort.	8134,20100.10.1641.0100	5,979,245	648,952	6,628,197
9					
10	Composite Amortization Rate	3.2834%		3.2144%	
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					
21					
22					
23					
24					
25					
26					
27					
28					
29					
30					
31					
32					
33					
34					
35	Total CIAC Water		20,188,921		20,188,921
22					
23					
24	Total Accum Amort.		5,979,245		6,628,197
25					
26					

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

Exhibit  
Schedule B-5  
Page 1  
Witness: Bourassa

Line  
No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	145,200
3	Pumping Power (1/24 of Pumping Power)		18,396
4	Purchased Water (1/24 of Purchased Water)		-
5			
6			
7			
8			
9	Total Working Capital Allowance	<u>\$</u>	<u>163,596</u>
10			
11			
12	Working Capital Requested	<u>\$</u>	<u>-</u>
13			

14

15 SUPPORTING SCHEDULES:

16 E-1

17

RECAP SCHEDULES:

B-1

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

Exhibit  
 Schedule C-1  
 Page 1  
 Witness: Bourassa

Line No.		Test Year Book Results	Label	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	<b>Revenues</b>						
2	Metered Water Revenues	\$ 1,807,378	4	\$ (4,794)	\$ 1,802,584	\$ 2,057,112	\$ 3,859,697
3	Unmetered Water Revenues	-			-		-
4	Other Water Revenues	44,672			44,672		44,672
5		<u>\$ 1,852,050</u>		<u>\$ (4,794)</u>	<u>\$ 1,847,256</u>	<u>\$ 2,057,112</u>	<u>\$ 3,904,369</u>
6	<b>Operating Expenses</b>						
7	Salaries and Wages	\$ -			\$ -		\$ -
8	Purchased Water	-			-		-
9	Purchased Power	435,559	5/6	5,942	441,501		441,501
10	Fuel for Power Production	-			-		-
11	Chemicals	9,387	7	(40)	9,347		9,347
12	Materials & Supplies	23,150			23,150		23,150
13	Outside Services	805,032			805,032		805,032
14	Outside Services- Other	76,859			76,859		76,859
15	Outside Services- Legal	487			487		487
16	Water Testing	-			-		-
17	Rents	26,954			26,954		26,954
18	Transportation Expenses	79,315			79,315		79,315
19	Insurance - General Liability	37,699			37,699		37,699
20	Insurance - Health and Life	-			-		-
21	Reg. Comm. Exp.	17,564			17,564		17,564
22	Reg. Comm. Exp. - Rate Case	-	3	70,000	70,000		70,000
23	Miscellaneous Expense	14,822			14,822		14,822
24	Bad Debt Expense	371			371		371
25	Depreciation Expense	270,733	1	192,564	463,297		463,297
26	Taxes Other Than Income	-			-		-
27	Property Taxes	148,295	2	(17,922)	130,373		130,373
28	Income Tax	-	9	(134,909)	(134,909)	794,022	659,114
29	<b>Total Operating Expenses</b>	<u>\$ 1,946,227</u>		<u>\$ 115,635</u>	<u>\$ 2,061,862</u>	<u>\$ 794,022</u>	<u>\$ 2,855,884</u>
30	<b>Operating Income</b>	<u>\$ (94,177)</u>		<u>\$ (120,429)</u>	<u>\$ (214,606)</u>	<u>\$ 1,263,090</u>	<u>\$ 1,048,484</u>
31	<b>Other Income (Expense)</b>						
32	Interest Income	-			-		-
33	Other income (loss)	-			-		-
34	Interest Expense	(9,120)	8	9,120	-		-
35	Other Expense	-			-		-
36		-			-		-
37	<b>Total Other Income (Expense)</b>	<u>\$ (9,120)</u>		<u>\$ 9,120</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
38	<b>Net Profit (Loss)</b>	<u>\$ (103,297)</u>		<u>\$ (111,309)</u>	<u>\$ (214,606)</u>	<u>\$ 1,263,090</u>	<u>\$ 1,048,484</u>
39							
40	<u>SUPPORTING SCHEDULES:</u>					<u>RECAP SCHEDULES:</u>	
41	C-2					A-1	
42	E-2						

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

Exhibit  
 Schedule C-2  
 Page 1  
 Witness: Bourassa

Line No.	1	2	3	4	5	6	Subtotal
	Depreciation Expense	Property Taxes	Rate Case Expense	Revenue Annualization	Purchased Power Expense	Purchased Power Expense	
1							
2							
3				(4,794)			(4,794)
4							
5	192,564	(17,922)	70,000		8,276	(2,334)	250,584
6							
7							
8				(4,794)	(8,276)	2,334	(255,378)
9							
10							
11							
12							
13							
14							
15							
16	(192,564)	17,922	(70,000)	(4,794)	(8,276)	2,334	(255,378)
17							
18							
19							
20							
21							
22							
23							
24	(40)		(134,909)				115,635
25							
26							
27	40		134,909				(120,429)
28							
29							
30							
31							
32							
33							
34							
35	40	9,120	134,909	-	-	-	(111,309)

Adjustments to Revenues and Expenses

Line No.	7	8	9	10	11	12	Subtotal
	Annualize Chemicals Expense	Interest Synchronization	Income Taxes	Blank	Blank	Blank	
1							
2							
3							
4							
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34							
35							

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

Exhibit  
 Schedule C-2  
 Page 2  
 Witness: Bourassa

Line  
 No.

1	<u>Depreciation Expense</u>		
2		<b>Adjusted</b>	
3	<b>Acct.</b>	<b>Original</b>	<b>Proposed</b>
4	<b>No.</b>	<b>Cost</b>	<b>Rates</b>
5	<b>Description</b>		<b>Depreciation</b>
6			<b>Expense</b>
5	301	5,785	0.00%
6	302	417	0.00%
7	303	44,194	0.00%
8	304	2,732,833	3.33%
9	305	-	2.50%
10	306	-	2.50%
11	307	563,511	3.33%
12	308	-	6.67%
13	309	279,153	2.00%
14	310	197,120	5.00%
15	311	2,591,970	12.50%
16	320	372,970	3.33%
17	320.1	-	3.33%
18	320.2	-	20.00%
19	330	759,861	2.22%
20	330.1	-	2.22%
21	330.2	-	5.00%
22	331	22,089,150	2.00%
23	333	2,209,274	3.33%
24	334	956,605	8.33%
25	335	568,577	2.00%
26	336	3,848	6.67%
27	339	121,843	6.67%
28	340	22,986	6.67%
29	340.1	76,919	20.00%
30	341	218,945	20.00%
31	342	-	4.00%
32	343	15,035	5.00%
33	344	3,061	10.00%
34	345	-	5.00%
35	346	218,040	10.00%
36	347	7,701	10.00%
37	348	-	10.00%
38			
39	TOTALS	\$ 34,059,801	\$ 1,162,239
40			
41			
42	Less: Amortization of Contributions	\$ 20,188,921	3.4620% \$ (698,942)
43			
44			
45			
46	Total Depreciation Expense		\$ 463,297
47			
48	Test Year Depreciation Expense		270,733
49			
50	Increase (decrease) in Depreciation Expense		192,564
51			
52	Adjustment to Revenues and/or Expenses		\$ 192,564
53			

54 SUPPORTING SCHEDULE

55 B-2, page 3  
 56 B-2, page 6.4

\* Fully Depreciated

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

Exhibit  
 Schedule C-2  
 Page 3  
 Witness: Bourassa

Line No.		
1	Property Taxes:	
2		
3	Adjusted Revenues in year ended 12/31/08	\$ 1,847,256
4	Adjusted Revenues in year ended 12/31/08	1,847,256
5	Proposed Revenues	<u>3,904,369</u>
6	Average of three year's of revenue	\$ 2,532,960
7	Average of three year's of revenue, times 2	\$ 5,065,921
8	Add:	
9	Construction Work in Progress at 10%	\$ -
10	Deduct:	
11	Book Value of Transportation Equipment	<u>193,833</u>
12		
13	Full Cash Value	\$ 4,872,088
14	Assessment Ratio	21%
15	Assessed Value	<u>1,023,138</u>
16	Property Tax Rate	11.3283%
17		
18	Property Tax	115,904
19	Plus: Tax on Parcels	14,470
20		
21	Total Property Tax at Proposed Rates	\$ 130,373
22	Property Taxes recorded during the test year	<u>148,295</u>
23	Change in Property Taxes	<u>\$ (17,922)</u>
24		
25		
26	Adjustment to Revenues and/or Expenses	<u>\$ (17,922)</u>
27		
28		

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

Exhibit  
Schedule C-2  
Page 4  
Witness: Bourassa

Line

No.

1	<u>Rate Case Expense</u>		
2			
3	Estimated Rate Case Expense	\$	210,000
4			
5	Rate Case Expense	\$	210,000
6			
7	Estimated Amortization Period (in Years)		3.0
8			
9	Annual Rate Case Expense	\$	70,000
10			
11	Test Year Rate Case Expense	\$	-
12			
13	Increase(decrease) Rate Case Expense	\$	70,000
14			
15	Adjustment to Revenue and/or Expense	\$	70,000
16			
17			
18			
19			
20			
21			
22			
23			
24			

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

Exhibit  
Schedule C-2  
Page 5  
Witness: Bourassa

Line

No.

1	<u>Revenue Annualization</u>	
2		
3		
4	Revenue Annualization	\$ (4,794)
5		
6		
7		
8	Total Revenue from Annualization	<u>\$ (4,794)</u>
9		
10		
11	Adjustment to Revenue and/or Expense	<u>\$ (4,794)</u>
12		
13	<u>SUPPORTING SCHEDULES</u>	
14	C-2 pages 5.1 to 5.12	
15	H-1	
16		
17		
18		
19		
20		

Rio Rico Utilities, Inc. - Water Division  
 5/8 Inch Residential  
 Customers to Year End Levels  
 Test Year Ended December 31, 2008

Exhibit  
 Schedule C-2  
 Page 5.1  
 Witness: Bourassa

Line No.	Month of	Month of	Month of	Month of	Month of	Month of	Month of	Total Year
1	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	
2	5,633	5,633	5,633	5,633	5,633	5,633	5,633	
3	5,628	5,753	5,721	5,934	5,786	5,964	5,822	
4	5	(120)	(88)	(301)	(153)	(331)	(189)	
5	19.72	19.99	17.23	20.18	20.70	25.43	21.77	
6	99	(2,399)	(1,516)	(6,074)	(3,168)	(8,418)	(4,114)	
7	5	(120)	(88)	(301)	(153)	(331)	(189)	
8	41.70	42.27	36.29	42.68	43.81	54.16	46.12	
9	208	(5,072)	(3,194)	(12,846)	(6,704)	(17,926)	(8,716)	
10	42,099	(1,029,063)	(611,801)	(2,614,804)	(1,376,339)	(3,836,414)	(1,818,484)	
11								
12	Month of	Month of	Month of	Month of	Month of	Month of	Month of	Total Year
13	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08			
14	5,633	5,633	5,633	5,633	5,633			
15	5,769	5,662	5,621	5,647	5,633			
16	(136)	(29)	12	(14)	-			(1,344)
17	18.56	20.16	19.77	19.86	15.92			
18	(2,524)	(585)	237	(278)	-			(28,738)
19								
20								
21	(136)	(29)	12	(14)	-			
22	39.17	42.65	41.80	41.98	33.46			
23	(2,524)	(585)	237	(278)	-			(60,900)
24	(1,051,837)	(251,688)	101,386	(118,971)	-			(12,565,917)





Rio Rico Utilities, Inc. - Water Division  
 1 1/2 Inch Residential  
 Customers to Year End Levels  
 Test Year Ended December 31, 2008

Exhibit  
 Schedule C-2  
 Page 5.4  
 Witness: Bourassa

Line No.	Month of	Month of	Month of	Month of	Month of	Month of	Total of Year
1	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08
2	8	8	8	8	8	8	8
3	5	5	5	5	5	5	4
4	\$ 68.13	\$ 69.33	\$ 68.13	\$ 69.33	\$ 73.13	\$ 72.03	\$ 73.45
5	\$ 341	\$ 347	\$ 341	\$ 347	\$ 366	\$ 288	\$ 294
6	3	3	3	3	3	3	4
7	5	5	5	5	5	5	4
8	\$ 146.11	\$ 148.73	\$ 146.11	\$ 148.73	\$ 157.09	\$ 154.66	\$ 157.79
9	\$ 731	\$ 744	\$ 731	\$ 744	\$ 785	\$ 619	\$ 631
10	98,333	101,667	98,333	101,667	111,667	87,000	90,000
11	Month of	Month of	Month of	Month of	Month of	Month of	Total of Year
12	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08		
13	8	8	8	8	8		
14	3	3	3	3	3		
15	5	5	5	5	5		53
16	\$ 66.43	\$ 85.80	\$ 99.73	\$ 81.37	\$ 45.11		\$ 3,989
17	\$ 332	\$ 429	\$ 499	\$ 407	\$ -		
18	5	5	5	5	5		
19	\$ 142.43	\$ 184.96	\$ 215.61	\$ 175.21	\$ 96.28		\$ 8,575
20	\$ 332	\$ 429	\$ 499	\$ 407	\$ -		
21	5	5	5	5	5		
22	\$ 93,333	\$ 145,000	\$ 181,667	\$ 133,333	\$ -		\$ 1,242,000
23							
24							



Rio Rico Utilities, Inc. - Water Division  
 5/8 Inch Commercial  
 Customers to Year End Levels  
 Test Year Ended December 31, 2008

Exhibit  
 Schedule C-2  
 Page 5.6  
 Witness: Bourassa

Line No.	Month of	Total Year					
1	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08
2	116	116	116	116	116	116	116
3	94	98	94	98	93	100	94
4	22	18	22	18	23	16	22
5	\$ 24.49	\$ 28.59	\$ 24.49	\$ 28.59	\$ 28.87	\$ 32.77	\$ 27.75
6	\$ 539	\$ 515	\$ 539	\$ 515	\$ 664	\$ 524	\$ 610
7	22	18	22	18	23	16	22
8	\$ 52.09	\$ 61.12	\$ 52.09	\$ 61.12	\$ 61.71	\$ 70.29	\$ 59.25
9	\$ 1,146	\$ 1,100	\$ 1,146	\$ 1,100	\$ 1,419	\$ 1,125	\$ 1,303
10	244,106	238,592	244,106	238,592	308,151	247,200	281,787
11	Month of	Total Year					
12	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08		
13	116	116	116	116	116		229
14	98	91	99	88	116		
15	18	25	17	28	-		
16	\$ 21.56	\$ 24.21	\$ 22.72	\$ 24.22	\$ 18.39		\$ 5,963
17	\$ 388	\$ 605	\$ 386	\$ 678	\$ -		
18	18	25	17	28	-		
19	\$ 45.67	\$ 51.46	\$ 48.19	\$ 51.50	\$ 38.82		\$ 12,709
20	\$ 388	\$ 605	\$ 386	\$ 678	\$ -		
21	171,000	273,626	172,747	306,727	-		2,726,635
22							
23							
24							



Rio Rico Utilities, Inc. - Water Division  
 1 1/2 Inch Commercial  
 Customers to Year End Levels  
 Test Year Ended December 31, 2008

Exhibit  
 Schedule C-2  
 Page 5.8  
 Witness: Bourassa

Line No.	Month of	Total Year						
1	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	
2	10	10	10	10	10	10	10	
3	10	11	10	11	11	11	15	
4	10	10	10	10	10	10	10	
5	10	11	10	11	11	11	15	
6	10	11	10	11	11	11	15	
7	10	11	10	11	11	11	15	
8	10	11	10	11	11	11	15	
9	10	11	10	11	11	11	15	
10	10	11	10	11	11	11	15	
11	10	11	10	11	11	11	15	
12	10	11	10	11	11	11	15	
13	10	11	10	11	11	11	15	
14	10	11	10	11	11	11	15	
15	10	11	10	11	11	11	15	
16	10	11	10	11	11	11	15	
17	10	11	10	11	11	11	15	
18	10	11	10	11	11	11	15	
19	10	11	10	11	11	11	15	
20	10	11	10	11	11	11	15	
21	10	11	10	11	11	11	15	
22	10	11	10	11	11	11	15	
23	10	11	10	11	11	11	15	
24	10	11	10	11	11	11	15	

Year End Number of Customers  
 Actual Customers  
 Increase in Number of Customers/Bills  
 Average Revenue / Present Rates  
 Revenue Annualization / Present Rates

Increase in Number of Customers  
 Average Revenue / Proposed Rates  
 Revenue Annualization / Proposed Rates  
 Additional Gallons to be Produced

Year End Number of Customers  
 Actual Customers  
 Increase in Number of Customers/Bills  
 Average Revenue / Present Rates  
 Revenue Annualization / Present Rates

Increase in Number of Customers  
 Average Revenue / Proposed Rates  
 Revenue Annualization / Proposed Rates  
 Additional Gallons to be Produced

Month of Aug-08  
 Month of Sep-08  
 Month of Oct-08  
 Month of Nov-08  
 Month of Dec-08

Month of Jan-08  
 Month of Feb-08  
 Month of Mar-08  
 Month of Apr-08  
 Month of May-08  
 Month of Jun-08  
 Month of Jul-08

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15

Rio Rico Utilities, Inc. - Water Division  
 2 Inch Commercial  
 Customers to Year End Levels  
 Test Year Ended December 31, 2008

Exhibit  
 Rejoinder Schedule C-2  
 Page 5.9  
 Witness: Bourassa

Line No.	Month of	Month of	Month of	Month of	Month of	Month of	Month of	Total Year
1	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	
2	35	35	35	35	35	35	35	
3	29	28	30	30	34	35	33	
4	6	7	5	5	1	1	2	
5	\$ 183,333	\$ 267,000	\$ 196,566	\$ 281,877	\$ 451,944	\$ 468,800	\$ 228,922	
6	\$ 1,100	\$ 1,869	\$ 983	\$ 1,409	\$ 452	\$ -	\$ 458	
7	6	7	5	5	1	-	2	
8	\$ 395,866	\$ 579,944	\$ 424,977	\$ 612,655	\$ 986,799	\$ 1,023,888	\$ 496,144	
9	\$ 2,375	\$ 4,060	\$ 2,125	\$ 3,063	\$ 987	\$ -	\$ 992	
10	444,414	826,750	405,167	629,667	215,441	-	196,121	
11	Month of	Month of	Month of	Month of	Month of	Month of	Month of	Total Year
12	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08			
13	35	35	35	35	35			
14	35	33	34	37	35			
15	-	2	1	(2)	-			27
16	\$ 358,111	\$ 412,066	\$ 430,422	\$ 442,111	\$ 243,299			\$ 6,641
17	-	\$ 824	\$ 430	\$ (884)	-			
18	Increase in Number of Customers/Bills							
19	Average Revenue / Present Rates							
20	Revenue Annualization / Present Rates							
21	Increase in Number of Customers							
22	Average Revenue / Proposed Rates							
23	Revenue Annualization / Proposed Rates							
24	Additional Gallons to be Produced							

Rio Rico Utilities, Inc. - Water Division  
 3 Inch Commercial  
 Customers to Year End Levels  
 Test Year Ended December 31, 2008

Exhibit  
 Schedule C-2  
 Page 5 of 10  
 Witness: Bourassa

Line No.	Month of	Month of	Month of	Month of	Month of	Month of	Month of	Total Year
1	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	
2	12	12	12	12	12	12	12	
3	13	14	14	14	14	14	15	
4	13	14	14	18	14	15	15	
5	(614)	(987)	(854)	(3,496)	(1,760)	(2,614)	(1,309)	
6	(1)	(2)	(2)	(6)	(2)	(3)	(3)	
7	(1)	(2)	(2)	(6)	(2)	(3)	(3)	
8	\$ 1,339.84	\$ 1,074.77	\$ 928.17	\$ 1,270.44	\$ 1,924.21	\$ 1,905.94	\$ 948.44	
9	\$ (1,340)	\$ (2,150)	\$ (1,856)	\$ (7,623)	\$ (3,848)	\$ (5,718)	\$ (2,845)	
10	(273,769)	(420,714)	(350,571)	(1,543,000)	(827,143)	(1,227,600)	(540,400)	
11								
12	Month of	Month of	Month of	Month of	Month of	Month of	Month of	Total Year
13	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08			
14	12	12	12	12	12			
15	11	10	13	12	12			
16	1	2	(1)	-	-			(17)
17	\$ 638.95	\$ 675.59	\$ 260.62	\$ 678.25	\$ 661.78			\$ (9,905)
18	\$ 639	\$ 1,351	\$ (261)	\$ -	\$ -			
19								
20								
21	1	2	(1)	-	-			
22	\$ 1,394.38	\$ 1,474.98	\$ 562.03	\$ 1,480.83	\$ 1,444.60			\$ (21,598)
23	\$ 639	\$ 1,351	\$ (261)	\$ -	\$ -			\$ (4,371,872)
24	286,818	612,200	(87,692)	-	-			

Rio Rico Utilities, Inc. - Water Division  
 4 Inch Commercial  
 Customers to Year End Levels  
 Test Year Ended December 31, 2008

Exhibit  
 Schedule C-2  
 Page 5.11  
 Witness: Bourassa

Line No.	Month of	Total Year						
1	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	
2	6	6	6	6	6	6	6	
3	5	5	5	5	5	5	5	
4	1	1	1	1	1	1	1	
5	586	778.84	718.04	719.94	803.16	1,019.00	710.44	
6	586	779	718	720	803	1,019	710	
7	1	1	1	1	1	1	1	
8	1,273.17	1,697.02	1,563.26	1,567.44	1,750.52	2,225.37	1,546.54	
9	1,273	1,697	1,563	1,567	1,751	2,225	1,547	
10	223,200	324,600	292,600	293,600	337,400	451,000	288,600	
11								
12	Month of	Total Year						
13	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08			
14	6	6	6	6	6			
15	5	6	4	5	6			
16	1	-	2	1	-			11
17	759.08	638.37	790.05	628.74	525.63			
18	759	-	1,580	629	-			8,304
19								
20								
21	1	-	2	1	-			
22	1,653.55	1,387.98	1,721.68	1,366.80	1,139.96			18,087
23	759	-	1,580	629	-			
24	314,200	-	661,000	245,600	-			3,431,800



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

Exhibit  
Schedule C-2  
Page 6  
Witness: Bourassa

Line  
No.  
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Increase in Purchased Power Cost (APS)

Test Year Purchased Power Expense

\$ 435,559

Test Year Purchased Power Expense

\$ 435,559

Estimated % Increase due to APS Interim Rate Increase

1.90%

Increase in Purchased Power Expense

\$ 8,276

Adjustment to Revenue and/or Expense

\$ 8,276

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

Exhibit  
Schedule C-2  
Page 7  
Witness: Bourassa

Line

No.

1	<u>Annualize Purchase Power Expense</u>		
2			
3	Test Year Purchased Power Expense	\$	435,559
4	Increase in Purchased Power Expense (Adjustment 5)		8,276
5			
6	Total Adjusted Purchased Power Expense	\$	<u>435,559</u>
7			
8	Gallon Sold during Test Year (in 1,000's)		754,340
9			
10	Cost per 1,000 gallons	\$	0.58
11			
12	Additional Gallons from Revenue Annualization (in 1,000's)		(4,024)
13			
14			
15	Increase (decrease) in Purchased Power	\$	<u>(2,334)</u>
16			
17	Adjustment to Revenue and/or Expense	\$	<u>(2,334)</u>
18			
19			
20			
21			

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

Exhibit  
Schedule C-2  
Page 8  
Witness: Bourassa

Line

No.

1	<u>Annualize Chemicals Expense</u>		
2			
3	Test Year Chemicals Expense	\$	9,387
4			
5	Gallon Sold during Test Year (in 1,000's)		754,340
6			
7	Cost per 1,000 gallons	\$	0.01
8			
9	Additional Gallons from Revenue Annualization		(4,024)
10			
11			
12	Increase (decrease) in Purchased Power	\$	<u>(40)</u>
13			
14	Adjustment to Revenue and/or Expense	\$	<u><u>(40)</u></u>
15			
16			
17			
18			
19			
20			

Rio Rico Utilities - Water Division  
 Test Year Ended December 31, 2008  
 Adjustment to Revenues and Expenses  
 Adjustment Number 8

Exhibit  
 Schedule C-2  
 Page 9  
 Witness: Bourassa

Line  
 No.

1	<u>Interest Synchronization</u>			
2				
3				
4	Fair Value Rate Base	\$	8,455,517	
5	Weighted Cost of Debt		0.00%	
6	Interest Expense		\$	-
7				
8	Test Year Interest Expense		\$	<u>9,120</u>
9				
10	Increase (decrease) in Interest Expense			(9,120)
11				
12				
13				
14	Adjustment to Revenue and/or Expense		\$	<u><u>9,120</u></u>

17 Weighted Cost of Debt Computation

	<u>Amount</u>	<u>Percent</u>	<u>Cost</u>	<u>Weighted Cost</u>
20 Debt	\$ -	0.00%	0.00%	0.00%
21 Equity	\$ 12,132,312	100.00%	12.40%	<u>12.40%</u>
22 Total	\$ 12,132,312	100.00%		12.40%

23  
 24

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

Exhibit  
 Schedule C-2  
 Page 10  
 Witness: Bourassa

Line No.		Test Year Book Results	Test Year Adjusted Results	Adjusted with Rate Increase	
1	<u>Income Tax Computation</u>				
2					
3					
4					
5					
6					
7	Taxable Income	\$ (103,297)	\$ (349,515)	\$ 1,707,598	
8					
9	Taxable Income	<u>\$ (103,297)</u>	<u>\$ (349,515)</u>	<u>\$ 1,707,598</u>	
10					
11					
12					
13	Income Before Taxes	<u>\$ (103,297)</u>	<u>\$ (349,515)</u>	<u>\$ 1,707,598</u>	
14					
15	Arizona Income Before Taxes	\$ (103,297)	\$ (349,515)	\$ 1,707,598	
16					
17	Less Arizona Income Tax	\$ (7,198)	\$ (24,354)	\$ 118,985	
18	Rate =	6.97%			
19	Arizona Taxable Income	\$ (96,099)	\$ (325,161)	\$ 1,588,612	
20					
21	Arizona Income Taxes	\$ (7,198)	\$ (24,354)	\$ 118,985	
22					
23	Federal Income Before Taxes	\$ (103,297)	\$ (349,515)	\$ 1,707,598	
24					
25	Less Arizona Income Taxes	<u>\$ (7,198)</u>	<u>\$ (24,354)</u>	<u>\$ 118,985</u>	
26					
27	Federal Taxable Income	<u>\$ (96,099)</u>	<u>\$ (325,161)</u>	<u>\$ 1,588,612</u>	
28					
29					
30					
31	FEDERAL INCOME TAXES:				
32	15% BRACKET	\$ (14,415)	\$ (48,774)	\$ 7,500	
33	25% BRACKET	\$ -	\$ -	\$ 6,250	
34	34% BRACKET	\$ -	\$ -	\$ 8,500	Federal
35	39% BRACKET	\$ -	\$ -	\$ 91,650	Effective
36	34% BRACKET	\$ -	\$ -	\$ 426,228	Tax
37		Rate	Rate	Rate	
38	Federal Income Taxes	<u>\$ (14,415)</u> 13.95%	<u>\$ (48,774)</u> 13.95%	<u>\$ 540,128</u> 31.63%	
39					
40					
41	Total Income Tax	<u>\$ (21,613)</u>	<u>\$ (73,128)</u>	<u>\$ 659,114</u>	
42					
43	Overall Tax Rate	<u>20.92%</u>	<u>20.92%</u>	<u>38.60%</u>	
44					
45	Income Tax at Proposed Rates Effective Rate	→			<u>\$ (134,909)</u>
46					

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

Exhibit  
 Schedule C-3  
 Page 1  
 Witness: Bourassa

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

**Rio Rico Utilities - Water Division**  
 Test Year Ended December 31, 2008  
 Comparative Balance Sheets

Exhibit  
 Schedule E-1  
 Page 1  
 Witness: Bourassa

Line No.	Test Year Ended <u>12/31/2008</u>	Year Ended <u>12/31/2007</u>	Year Ended <u>12/31/2006</u>
1	<b>ASSETS</b>		
2	\$ 34,023,226	\$ 31,033,505	\$ 30,269,691
3	-	-	-
4	95,024	647,216	397,779
5	(10,986,265)	(10,312,729)	(9,698,350)
6	<u>\$ 23,131,985</u>	<u>\$ 21,367,992</u>	<u>\$ 20,969,120</u>
7			
8			
9	\$ -	\$ -	\$ -
10			
11	<b>CURRENT ASSETS</b>		
12	\$ 84,332	\$ 81,200	\$ 70,997
13	-	-	-
14	-	-	-
15	336,968	300,109	310,821
16	-	-	-
17	-	-	-
18	10,289	18,049	2,815
19	1,457,163	1,870,488	1,539,567
20	<u>\$ 1,888,752</u>	<u>\$ 2,269,845</u>	<u>\$ 1,924,200</u>
21			
22	\$ (491,447)	\$ (422,974)	\$ (345,977)
23			
24	\$ 1,029,413	\$ 752,965	\$ 528,854
25			
26	<u>\$ 25,558,703</u>	<u>\$ 23,967,828</u>	<u>\$ 23,076,196</u>
27			
28	<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
29	\$ 9,356,741	\$ 7,970,067	\$ 6,201,629
30			
31	\$ -	\$ -	\$ -
32			
33	<b>CURRENT LIABILITIES</b>		
34	\$ 2,291,807	\$ 1,604,763	\$ 1,953,554
35	-	-	-
36	-	-	-
37	-	-	50,483
38	-	-	-
39	7,145	7,258	6,909
40	-	-	-
41	-	-	-
42	-	-	-
43	<u>\$ 2,298,952</u>	<u>\$ 1,612,021</u>	<u>\$ 2,010,946</u>
44	<b>DEFERRED CREDITS</b>		
45	\$ 275,455	\$ 197,889	\$ 181,779
46	73,648	135,487	131,037
47	-	-	-
48	20,188,921	20,188,921	20,188,906
49	(6,635,014)	(6,136,557)	(5,638,101)
50			
51	<u>\$ 13,903,010</u>	<u>\$ 14,385,740</u>	<u>\$ 14,863,621</u>
52			
53	<u>\$ 25,558,703</u>	<u>\$ 23,967,828</u>	<u>\$ 23,076,196</u>
54			

55 SUPPORTING SCHEDULES:  
 56 E-5

RECAP SCHEDULES:  
 A-3

57  
 58

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

Exhibit  
 Schedule E-2  
 Page 1  
 Witness: Bourassa

Line No.		Test Year Ended 12/31/2008	Prior Year Ended 12/31/2007	Prior Year Ended 12/31/2006
1	<b>Revenues</b>			
2	Metered Water Revenues	\$ 1,807,378	\$ 1,779,582	\$ 1,737,758
3	Unmetered Water Revenues	-	-	-
4	Other Water Revenues	44,672	41,109	63,860
5	<b>Total Revenues</b>	<u>\$ 1,852,050</u>	<u>\$ 1,820,691</u>	<u>\$ 1,801,618</u>
6	<b>Operating Expenses</b>			
7	Salaries and Wages	\$ -	\$ -	\$ -
8	Purchased Water	-	-	-
9	Purchased Power	435,559	378,942	322,910
10	Fuel For Power Production	-	-	-
11	Chemicals	9,387	4,375	3,096
12	Materials and Supplies	23,150	20,666	48,755
13	Outside Services	805,032	621,910	540,775
14	Outside Services- Other	76,859	83,762	54,276
15	Outside Services- Legal	487	-	455
16	Water Testing	-	-	-
17	Rents	26,954	18,783	23,660
18	Transportation Expenses	79,315	92,031	68,629
19	Insurance - General Liability	37,699	34,701	31,853
20	Insurance - Vehicle	-	-	-
21	Reg. Comm. Exp. - Other	17,564	28,055	11,758
22	Reg. Comm. Exp. - Rate Case	-	-	-
23	Miscellaneous Expense	14,822	10,609	12,545
24	Bad Debt Expense	371	-	3,140
25	Depreciation Expense	270,733	209,368	344,046
26	Taxes Other Than Income	-	-	-
27	Property Taxes	148,295	109,054	91,295
28	Income Tax	-	63,242	90,592
29				
30	<b>Total Operating Expenses</b>	<u>\$ 1,946,227</u>	<u>\$ 1,675,498</u>	<u>\$ 1,647,784</u>
31	<b>Operating Income</b>	<u>\$ (94,177)</u>	<u>\$ 145,193</u>	<u>\$ 153,834</u>
32	<b>Other Income (Expense)</b>			
33	Interest Income	-	-	-
34	Other income (loss)	-	-	-
35	Interest Expense	(9,120)	(6,658)	(9,515)
36	Other Expense	-	-	-
37				
38	<b>Total Other Income (Expense)</b>	<u>\$ (9,120)</u>	<u>\$ (6,658)</u>	<u>\$ (9,515)</u>
39	<b>Net Profit (Loss)</b>	<u>\$ (103,297)</u>	<u>\$ 138,535</u>	<u>\$ 144,319</u>

SUPPORTING SCHEDULES:

RECAP SCHEDULES:

A-2

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**Rio Rico Utilities - Water Division**  
 Test Year Ended December 31, 2008  
 Comparative Statements of Cash Flows

Exhibit  
 Schedule E-3  
 Page 1  
 Witness: Bourassa

Line No.	Test Year Ended <u>12/31/2008</u>	Prior Year Ended <u>12/31/2007</u>	Prior Year Ended <u>12/31/2006</u>
1			
2			
3	Cash Flows from Operating Activities		
4	\$ (103,297)	\$ 138,535	\$ 144,319
5	Adjustments to reconcile net income to net cash		
6	provided by operating activities:		
7	270,733	209,368	344,046
8	(95,654)	(93,444)	(70,533)
9	Other		
10	Changes in Certain Assets and Liabilities:		
11	(36,859)	10,712	(27,875)
12	Accounts Receivable, Other		
13	Materials and Supplies Inventory		
14	7,760	(15,234)	(1,335)
15	687,043	(348,790)	680,700
16	Intercompany payable		
17	77,566	16,110	46,042
18	(113)	349	968
19	Deferred Income Taxes		
20	205,350	(478,035)	(471,458)
21	Other assets and liabilities		
21	<u>\$ 1,012,529</u>	<u>\$ (610,912)</u>	<u>\$ 695,356</u>
22	Cash Flow From Investing Activities:		
23	(2,437,529)	(1,013,251)	(1,423,016)
24	Capital Expenditures		
25	Plant Held for Future Use		
26	<u>\$ (2,437,529)</u>	<u>\$ (1,013,251)</u>	<u>\$ (1,423,016)</u>
27	Cash Flow From Financing Activities		
28	Change in Restricted Cash		
29		4,450	1,750
30	(61,839)	15	7,705
31	Net Receipts of Advances-in-Aid of Construction		
32	Net Receipts of Contributions-in-Aid of Construction		
33	Repayments of Long-Term Debt		
34	Dividends Paid		
35	Deferred Financing Costs		
36	1,489,971	1,629,901	672,575
37	<u>\$ 1,428,132</u>	<u>\$ 1,634,366</u>	<u>\$ 522,996</u>
38	Net Cash Flows Provided by Financing Activities		
39	3,132	10,203	(204,664)
40	Increase(decrease) in Cash and Cash Equivalents		
41	81,200	70,997	275,661
	<u>\$ 84,332</u>	<u>\$ 81,200</u>	<u>\$ 70,997</u>

SUPPORTING SCHEDULES:

RECAP SCHEDULES:  
 A-5

**Rio Rico Utilities - Water Division**  
 Test Year Ended December 31, 2008  
 Statement of Changes in Stockholder's Equity

Exhibit  
 Schedule E-4  
 Page 1  
 Witness: Bourassa

Line No.	Common Stock	Paid-In-Capital	Retained Earnings	Total
1				
2				
3				
4	\$ 1	\$ 5,175,333	\$ 368,438	\$ 5,543,771
5		672,575		672,575
6			(159,034)	(159,034)
7			144,319	144,319
8	<u>\$ 1</u>	<u>\$ 5,847,908</u>	<u>\$ 353,723</u>	<u>\$ 6,201,631</u>
9		1,629,902		1,629,902
10				-
11			138,535	138,535
12	<u>\$ 1</u>	<u>\$ 7,477,810</u>	<u>\$ 492,258</u>	<u>\$ 7,970,068</u>
13		1,489,971		1,489,971
14				-
15			(103,298)	(103,298)
16	<u>\$ 1</u>	<u>\$ 8,967,781</u>	<u>\$ 388,960</u>	<u>\$ 9,356,741</u>

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SUPPORTING SCHEDULES:

RECAP SCHEDULES:

**Rio Rico Utilities - Water Division**  
 Test Year Ended December 31, 2008  
 Detail of Plant in Service

Exhibit  
 Schedule E-5  
 Page 1  
 Witness: Bourassa

Line No.	Acct. No.	Plant Description	Plant Balance at 12/31/2007	Plant Additions, Reclassifications or Retirements	Plant Balance at 12/31/2008
1					
2	301	Organization Cost	\$ 5,785	\$ (0)	\$ 5,785
3	302	Franchise Cost	417	-	417
4	303	Land and Land Rights	44,194	(0)	44,194
5	304	Structures and Improvements	1,623,937	1,108,896	2,732,833
6	305	Collecting and Impounding Res.	-	-	-
7	306	Lake River and Other Intakes	-	-	-
8	307	Wells and Springs	507,210	3,718	510,929
9	308	Infiltration Galleries and Tunnels	-	-	-
10	309	Supply Mains	279,153	0	279,154
11	310	Power Generation Equipment	187,371	9,749	197,120
12	311	Electric Pumping Equipment	2,513,872	78,269	2,592,141
13	320	Water Treatment Equipment	372,970	(19)	372,950
14	320.1	Water Treatment Equipment	-	-	-
15	320.2	Chemical Solution Feeders	-	-	-
16	330	Distribution Reservoirs & Standpipe	759,861	1	759,861
17	330.1	Storage tanks	-	-	-
18	330.2	Pressure Tanks	-	-	-
19	331	Transmission and Distribution Mains	21,098,409	998,210	22,096,619
20	333	Services	1,907,691	301,582	2,209,274
21	334	Meters	839,434	117,170	956,605
22	335	Hydrants	550,907	17,671	568,578
23	336	Backflow Prevention Devices	144	3,704	3,848
24	339	Other Plant and Miscellaneous Equipment	12,160	118,069	130,229
25	340	Office Furniture and Fixtures	22,986	(313)	22,673
26	340.1	Computers and Software	76,919	313	77,232
27	341	Transportation Equipment	2,925	216,020	218,945
28	342	Stores Equipment	-	-	-
29	343	Tools and Work Equipment	15,035	0	15,035
30	344	Laboratory Equipment	3,061	(0)	3,061
31	345	Power Operated Equipment	-	-	-
32	346	Communications Equipment	201,363	16,679	218,041
33	347	Miscellaneous Equipment	7,701	0	7,701
34	348	Other Tangible Plant	-	-	-
35					
36		TOTAL WATER PLANT	\$ 31,033,505	\$ 2,989,721	\$ 34,023,226

SUPPORTING SCHEDULES

RECAP SCHEDULES:

A-4

E-1

41

**Rio Rico Utilities - Water Division**  
 Test Year Ended December 31, 2008  
 Operating Statistics

Exhibit  
 Schedule E-7  
 Page 1  
 Witness: Bouras

Line No.		Test Year Ended <u>12/31/2008</u>	Prior Year Ended <u>12/31/2007</u>	Prior Year Ended <u>12/31/2006</u>
1	<u>WATER STATISTICS:</u>			
2				
3				
4				
5	Total Gallons Sold (in Thousands)	754,340	767,418	733,107
6				
7				
8				
9	Water Revenues from Customers:	\$ 1,852,050	\$ 1,820,691	\$ 1,801,618
10				
11				
12				
13				
14	Year End Number of Customers	5,633	6,239	5,939
15				
16				
17	Annual Gallons (in Thousands)			
18	Sold Per Year End Customer	134	123	123
19				
20				
21				
22	Annual Revenue per Year End Customer	\$ 328.79	\$ 291.82	\$ 303.35
23				
24	Pumping Cost Per 1,000 Gallons	\$ 0.5774	\$ 0.4938	\$ 0.4405
25	Purchased Water Cost per 1,000 Gallons	\$ -	\$ -	\$ -

**Rio Rico Utilities - Water Division**  
Test Year Ended December 31, 2008  
Taxes Charged to Operations

Exhibit  
Schedule E-8  
Page 1  
Witness: Bourassa

Line No.	Description	Test Year Ended <u>12/31/2008</u>	Prior Year Ended <u>12/31/2007</u>	Prior Year Ended <u>12/31/2006</u>
1				
2				
3	Federal Income Taxes*	\$ -	\$ 49,723	\$ 74,853
4	State Income Taxes*	-	13,519	15,739
5	Payroll Taxes	-	-	-
6	Property Taxes	148,295	109,054	91,295
7				
8	Totals	<u>\$ 148,295</u>	<u>\$ 172,296</u>	<u>\$ 181,887</u>
9				
10				
11	*Computed			
12				
13				
14				

**Rio Rico Utilities - Water Division**  
Test Year Ended December 31, 2008  
Notes To Financial Statements

Exhibit  
Schedule E-9  
Page 1  
Witness: Bourassa

Company does not conduct independent audits

**Rio Rico Utilities - Water Division**  
 Test Year Ended December 31, 2008  
 Projected Income Statements - Present & Proposed Rates

Exhibit  
 Schedule F-1  
 Page 1  
 Witness: Bourassa

Line No.		Test Year Actual Results	At Present Rates Year Ended 12/31/2009	At Proposed Rates Year Ended 12/31/2009
1	<b>Revenues</b>			
2	Metered Water Revenues	\$ 1,807,378	\$ 1,802,584	\$ 3,859,697
3	Unmetered Water Revenues	-	-	-
4	Other Water Revenues	44,672	44,672	44,672
5		<u>\$ 1,852,050</u>	<u>\$ 1,847,256</u>	<u>\$ 3,904,369</u>
6	<b>Operating Expenses</b>			
7	Salaries and Wages	\$ -	\$ -	\$ -
8	Purchased Water	-	-	-
9	Purchased Power	435,559	441,501	441,501
10	Fuel For Power Production	-	-	-
11	Chemicals	9,387	9,347	9,347
12	Materials and Supplies	23,150	23,150	23,150
13	Outside Services	805,032	805,032	805,032
14	Outside Services- Other	76,859	76,859	76,859
15	Outside Services- Legal	487	487	487
16	Water Testing	-	-	-
17	Rents	26,954	26,954	26,954
18	Transportation Expenses	79,315	79,315	79,315
19	Insurance - General Liability	37,699	37,699	37,699
20	Insurance - Vehicle	-	-	-
21	Reg. Comm. Exp. - Other	17,564	17,564	17,564
22	Reg. Comm. Exp. - Rate Case	-	70,000	70,000
23	Miscellaneous Expense	14,822	14,822	14,822
24	Bad Debt Expense	371	371	371
25	Depreciation Expense	270,733	463,297	463,297
26	Taxes Other Than Income	-	-	-
27	Property Taxes	148,295	130,373	130,373
28	Income Tax	-	(134,909)	659,114
29				
30	<b>Total Operating Expenses</b>	<u>\$ 1,946,227</u>	<u>\$ 2,061,862</u>	<u>\$ 2,855,884</u>
31	<b>Operating Income</b>	<u>\$ (94,177)</u>	<u>\$ (214,606)</u>	<u>\$ 1,048,484</u>
32	<b>Other Income (Expense)</b>			
33	Interest Income	-	-	-
34	Other income	-	-	-
35	Interest Expense	(9,120)	-	-
36	Other Expense	-	-	-
37	Gain/Loss Sale of Fixed Assets	-	-	-
38	<b>Total Other Income (Expense)</b>	<u>\$ (9,120)</u>	<u>\$ -</u>	<u>\$ -</u>
39	<b>Net Profit (Loss)</b>	<u>\$ (103,297)</u>	<u>\$ (214,606)</u>	<u>\$ 1,048,484</u>
40				

**Rio Rico Utilities - Water Division**  
 Test Year Ended December 31, 2008  
 Projected Statements of Changes in Financial Position  
 Present and Proposed Rates

Exhibit  
 Schedule F-2  
 Page 1  
 Witness: Bourassa

Line No.	Test Year Ended <u>12/31/2008</u>	At Present Rates Year Ended <u>12/31/2009</u>	At Proposed Rates Year Ended <u>12/31/2009</u>
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**Rio Rico Utilities - Water Division**  
 Test Year Ended December 31, 2008  
 Projected Construction Requirements

Exhibit  
 Schedule F-3  
 Page 1  
 Witness: Bourassa

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Account	Plant Asset:	<u>2009</u>	<u>2010</u>	<u>2011</u>
Number		\$	\$	\$
301	Organization Cost	-	-	-
302	Franchise Cost	-	-	-
303	Land and Land Rights	-	-	-
304	Structures and Improvements	-	3,500	3,500
305	Collecting and Impounding Res.	-	-	-
306	Lake River and Other Intakes	-	-	-
307	Wells and Springs	-	20,000	20,000
308	Infiltration Galleries and Tunnels	-	-	-
309	Supply Mains	-	-	-
310	Power Generation Equipment	-	-	-
311	Electric Pumping Equipment	15,000	15,000	15,000
320	Water Treatment Equipment	-	-	-
320.1	Water Treatment Equipment	-	-	-
320.2	Chemical Solution Feeders	-	-	-
330	Distribution Reservoirs & Standpipe	-	-	-
330.1	Storage tanks	-	-	-
330.2	Pressure Tanks	-	-	-
331	Transmission and Distribution Mains	20,000	20,000	20,000
333	Services	95,000	60,000	65,000
334	Meters	40,400	515,000	465,000
335	Hydrants	3,000	3,000	3,000
336	Backflow Prevention Devices	-	-	-
339	Other Plant and Miscellaneous Equipment	-	800,000	-
340	Office Furniture and Fixtures	-	4,500	5,000
340.1	Computers and Software	-	-	-
341	Transportation Equipment	-	45,000	-
342	Stores Equipment	-	-	-
343	Tools and Work Equipment	-	5,000	5,000
344	Laboratory Equipment	-	-	-
345	Power Operated Equipment	-	-	-
346	Communications Equipment	-	-	-
347	Miscellaneous Equipment	2,000	5,000	5,000
348	Other Tangible Plant	-	-	-
<b>Total</b>		<u>\$ 175,400</u>	<u>\$ 1,496,000</u>	<u>\$ 606,500</u>

**Rio Rico Utilities - Water Division**  
Test Year Ended December 31, 2008  
Assumptions Used in Rate Filing

Exhibit  
Schedule F-4  
Page 1  
Witness: Bourassa

Line  
No.

- 1 Property Taxes were computed using the method used by the Arizona Department
- 2 of Revenue
- 3
- 4 Projected construction expenditures are shown on Schedule A-4.
- 5
- 6 Expense adjustments are shown on Schedule C2, and are explained in the testimony.
- 7
- 8 Accumulated depreciation and depreciation expense were computed at Arizona Corporation
- 9 Commission allowed rated in Prior Commission Decision.
- 10
- 11 Income taxes were computed using statutory state and federal income tax rates.
- 12
- 13
- 14
- 15





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

Exhibit  
 Schedule H-1  
 Page 3  
 Witness: Bourassa

Line No.	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1						
2						
3	\$ 1,808,782	\$ 3,868,544	\$ 2,059,762	113.88%	100.00%	100.00%
4	Subtotal Metered Revenues					
5	Subtotal Revenue Annualization					
6	Total Metered Revenues	\$ 1,803,988	\$ 3,859,036	\$ 2,055,048	113.92%	-0.25%
7	Misc. Revenues	\$ 44,672	\$ 44,672	\$ -	0.00%	1.15%
8	Reconciling Amount to GL	(1,404)	660	2,064	0.00%	0.02%
9	Total Water Revenues	\$ 1,847,256	\$ 3,904,368	\$ 2,057,112	111.36%	0.00%
10						
11						
12	<u>Revenue Reconciliation</u>					
13						
14	Revenue per bill count before revenue annualization	\$ 1,808,782				
15	Revenue per GL (metered water revenues)	\$ 1,807,378				
16	Difference	\$ 1,404				
17	Difference %	0.08%				
18	Tolerance %	0.50%				
19	Tolerance Amount + or -	\$ 9,037				
20						
21	Acceptable?				YES	
22						
23						
24						
25						
26						
27						
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37						
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Rio Rico Utilities, Inc. - Water Division  
 Test Year Ended December 31, 2008  
 Customer Summary

Exhibit  
 Schedule H-2  
 Page 1  
 Witness: Bourassa

Line No.	Meter Size, Class	Average Number of Customers at 12/31/2008	Average Consumption	Average Bill		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	5/8 Inch Residential	5,745	8,548	19.94	42.17	22.22	111.45%
2	3/4 Inch Residential	8	3,558	15.70	33.60	17.90	114.05%
3	1 Inch Residential	36	11,326	36.35	78.02	41.67	114.61%
4	1.5 Inch Residential	4	20,116	68.92	147.83	78.91	114.49%
5	2 Inch Residential	4	19,938	87.89	188.12	100.23	114.03%
6	Subtotal	5,797					
7							
8	5/8 Inch Commercial	97	11,575	25.40	54.09	28.69	112.95%
9	1 Inch Commercial	43	17,804	47.93	103.26	55.33	115.45%
10	1.5 Inch Commercial	10	39,685	106.10	229.63	123.52	116.42%
11	2 Inch Commercial	33	154,509	336.17	732.10	395.93	117.78%
12	3 Inch Commercial	13	266,143	599.67	1,307.96	708.29	118.11%
13	4 Inch Commercial	5	292,282	717.40	1,561.85	844.45	117.71%
14	6 Inch Commercial	1	641,667	1,515.42	3,302.33	1,786.91	117.92%
15	Subtotal	202					
16							
17	5/8 Inch Multi-family	10	10,718	23.77	50.51	26.74	112.46%
18	1.5 Inch Multi-family	1	7,417	47.31	101.03	53.73	113.56%
19	Subtotal	11					
20							
21	Fire Lines up to 8 Inch	15	-	6.48	13.77	7.29	112.50%
22							
23							
24	Total	6,025					
25							
26							
27							

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

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

Exhibit  
 Schedule H-2  
 Page 2  
 Witness: Bourassa

Line No.	Meter Size, Class	Average Number of Customers at 12/31/2008	Median Consumption	Median Bill		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent
1	5/8 Inch Residential	5,745	7,000	17.31	36.47	19.16	110.69%
2	3/4 Inch Residential	8	3,000	14.75	31.55	16.80	113.90%
3	1 Inch Residential	36	7,000	29.00	62.10	33.10	114.14%
4	1.5 Inch Residential	4	20,000	68.70	147.34	78.64	114.47%
5	2 Inch Residential	4	16,500	82.05	175.47	93.42	113.86%
6	Subtotal	5,797					
7							
8	5/8 Inch Commercial	97	5,000	13.91	29.11	15.20	109.27%
9	1 Inch Commercial	43	8,000	30.70	65.78	35.08	114.27%
10	1.5 Inch Commercial	10	32,500	92.45	199.59	107.14	115.89%
11	2 Inch Commercial	33	30,000	105.00	225.15	120.15	114.43%
12	3 Inch Commercial	13	7,000	117.30	249.74	132.44	112.91%
13	4 Inch Commercial	5	210,000	561.10	1,217.99	656.89	117.07%
14	6 Inch Commercial	1	511,000	1,267.15	2,756.14	1,488.99	117.51%
15	Subtotal	202					
16							
17	5/8 Inch Multi-family	10	9,000	20.71	43.83	23.12	111.64%
18	1.5 Inch Multi-family	1	8,500	49.15	105.02	55.87	113.67%
19	Subtotal	11					
20							
21	Fire Lines up to 8 Inch	15	-	6.48	13.77	7.29	112.50%
22							
23							
24							
25							
26							
27							
	Total	6,025					

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

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

Exhibit  
 Schedule H-3  
 Page 1  
 Witness: Bourassa

Line No.	Monthly Usage Charge for: Meter Size (All Classes):	Present Rates	Proposed Rates	Change	Percent Change
1	5/8 Inch	\$ 6.45	\$ 13.71	\$ 7.26	112.56%
2	3/4 Inch	9.65	20.51	10.86	112.54%
3	1 Inch	17.10	36.34	19.24	112.51%
4	1 1/2 Inch	34.70	73.74	39.04	112.51%
5	2 Inch	54.00	114.75	60.75	112.50%
6	3 Inch	105.40	223.98	118.58	112.50%
7	4 Inch	173.50	368.69	195.19	112.50%
8	6 Inch	321.25	682.66	361.41	112.50%
9	8 Inch	514.00	1,092.25	578.25	112.50%
10	10 Inch	745.30	1,583.76	838.46	112.50%
11	12 Inch	1,395.00	2,964.38	1,569.38	112.50%
12	Fire Lines up to 8 Inch	\$ 6.48	\$ 13.77	\$ 7.29	0.00%
13	Fire Lines 10 Inch	\$ 7.45	\$ 15.83	\$ 8.38	0.00%
14	Fire Lines 12 Inch	\$ 14.00	\$ 29.75	\$ 15.75	0.00%
15					
16					
17					
18	<u>Gallons In Minimum (All Zones and Classes)</u>				
19					
20					
21	<u>Commodity Rates</u>				
22	<u>(All Classes)</u>				
23					
24	5/8 Inch				
25					
26					
27					
28					
29	3/4 Inch Meter				
30					
31					
32					
33					
34					
35					
36					
37	NT = No Tariff				
38					
39					

Block	(Per 1,000 gallons)		
	Present Rate	Proposed Rate	Change
0 gallons to 4,000 gallons	\$ 1.44	\$ 2.93	\$ 1.49
4,001 gallons to 10,000 gallons	\$ 1.70	\$ 3.68	\$ 1.98
over 10,000 gallons	\$ 1.90	\$ 4.18	\$ 2.28
0 gallons to 6,000 gallons	\$ 1.70	\$ 3.68	\$ 1.98
over 6,000 gallons	\$ 1.90	\$ 4.18	\$ 2.28

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

Exhibit  
 Schedule H-3  
 Page 2  
 Witness: Bourassa

Line No.	Commodity Rates (All Classes)	Block	(Per 1,000 gallons)	
			Present Rate	Proposed Rate
1				
2				
3				
4	1 Inch Meter	0 gallons to 15,000 gallons	\$ 1.70	\$ 3.68
5		over 15,000 gallons	\$ 1.90	\$ 4.18
6				
7				
8	1.5 Inch Meter	0 gallons to 20,000 gallons	\$ 1.70	\$ 3.68
9		over 20,000 gallons	\$ 1.90	\$ 4.18
10				
11				
12	2 Inch Meter	0 gallons to 57,000 gallons	\$ 1.70	\$ 3.68
13		over 57,000 gallons	\$ 1.90	\$ 4.18
14				
15				
16	3 Inch Meter	0 gallons to 57,000 gallons	\$ 1.70	\$ 3.68
17		over 57,000 gallons	\$ 1.90	\$ 4.18
18				
19				
20	4 Inch Meter	0 gallons to 57,000 gallons	\$ 1.70	\$ 3.68
21		over 57,000 gallons	\$ 1.90	\$ 4.18
22				
23				
24	6 Inch Meter	0 gallons to 125,000 gallons	\$ 1.70	\$ 3.68
25		over 125,000 gallons	\$ 1.90	\$ 4.18
26				
27				
28	8 Inch Meter	0 gallons to 125,000 gallons	\$ 1.70	\$ 3.68
29		over 125,000 gallons	\$ 1.90	\$ 4.18
30				
31				
32	10 Inch Meter	0 gallons to 125,000 gallons	\$ 1.70	\$ 3.68
33		over 125,000 gallons	\$ 1.90	\$ 4.18
34				
35				
36	12 Inch Meter	0 gallons to 125,000 gallons	\$ 1.70	\$ 3.68
37		over 125,000 gallons	\$ 1.90	\$ 4.18
38				
39	NT = No Tariff			

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

Exhibit  
Schedule H-3  
Page 3  
Witness: Bourassa

Line No.	<u>Other Service Charges</u>	Present Rates	Proposed Rates
1	Establishment	\$ 15.00	\$ 15.00
2	Establishment (After Hours)	\$ 25.00	\$ 25.00
3	Reconnection (Delinquent)	\$ 15.00	\$ 15.00
4	Reconnection (Delinquent) - After Hours	\$ 25.00	\$ 25.00
5	Meter test (If Correct)	\$ 15.00	\$ 15.00
6	Deposit	*	*
7	Deposit Interest	**	**
8	Reestablishment (within 12 months)	***	***
9	NSF Check	\$ 15.00	\$ 15.00
10	Meter Reread (if Correct)	NT	\$ 20.00
11	Late Payment Penalty	NT	1.5% per month
12	Deferred Payment	NT	1.5% per month
13	Moving meter at customer request	NT	at Cost
14	Service Calls - Per Hour/After Hours(a)	NT	\$ 40.00

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\* Per Commission Rule A.A.C. R-14-2-403(B)  
\*\* Per Commission Rule A.A.C. R-14-2-403(B)  
\*\*\* Per Commission Rule A.A.C. R14-2-403(D) - Months off the system times the monthly minimum.

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

IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE TAX. PER COMMISSION RULE 14-2-409D(5).

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

Exhibit  
 Schedule H-3  
 Page 4  
 Witness: Bourassa

Line

No.

1  
2  
3  
4  
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**Refundable Meter and Service Line Charges**

	Present	Present		Proposed	Proposed	
	Service	Meter	Total	Service	Meter	Total
	Line	Install-	Present	Line	ation	Proposed
	<u>Charge</u>	<u>ation</u>	<u>Charge</u>	<u>Charge</u>	<u>Charge</u>	<u>Charge</u>
	<u>Charge</u>	<u>Charge</u>	<u>Charge</u>	<u>Charge</u>	<u>Charge</u>	<u>Charge</u>
9 5/8 x 3/4 Inch	\$ 370.00	\$ 130.00	\$ 500.00	At Cost	At Cost	At Cost
10 3/4 Inch	370.00	205.00	575.00	At Cost	At Cost	At Cost
11 1 Inch	420.00	240.00	660.00	At Cost	At Cost	At Cost
12 1 1/2 Inch	450.00	450.00	900.00	At Cost	At Cost	At Cost
13 2 Inch	580.00	1,640.00	2,220.00	At Cost	At Cost	At Cost
14 3 Inch	765.00	2,195.00	2,960.00	At Cost	At Cost	At Cost
15 4 Inch	1,120.00	3,145.00	4,265.00	At Cost	At Cost	At Cost
16 6 inch	1,630.00	6,120.00	7,750.00	At Cost	At Cost	At Cost
17 8 Inch			At Cost	At Cost	At Cost	At Cost
18 10 Inch			At Cost	At Cost	At Cost	At Cost
19 12 Inch			At Cost	At Cost	At Cost	At Cost

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

Exhibit  
Schedule H-3  
Page 5  
Witness: Bourassa

Line

No.

1			
2	<b><u>Off-site Facilities Hook-up Fee</u></b>		
3			
4		Present	Proposed
5		<u>Charge</u>	<u>Charge</u>
6	5/8 x 3/4 Inch	NT	\$ 1,800
7	3/4 Inch	NT	2,700
8	1 Inch	NT	4,500
9	1 1/2 Inch	NT	9,000
10	2 Inch	NT	14,400
11	3 Inch	NT	28,800
12	4 Inch	NT	45,000
13	6 Inch or larger	NT	90,000
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			
26			
27			
28			
29	NT = no tariff		
30			
31			
32			
33			
34			
35			
36			

**Rio Rico Utilities, Inc. - Water Division**  
**Bill Comparison Present and Proposed Rates**  
**5/8 Inch Residential**

Exhibit  
Schedule H-4  
Page 1  
Witness: Bourassa

<u>Usage</u>	<u>Present Bill</u>	<u>Proposed Bill</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
1,000	6.45	13.71	7.26	112.56%
2,000	7.89	16.64	8.75	110.90%
3,000	9.33	19.57	10.24	109.75%
4,000	10.77	22.50	11.73	108.91%
5,000	12.21	25.43	13.22	108.27%
6,000	13.91	29.11	15.20	109.27%
7,000	15.61	32.79	17.18	110.06%
8,000	17.31	36.47	19.16	110.69%
9,000	19.01	40.15	21.14	111.20%
10,000	20.71	43.83	23.12	111.64%
12,000	22.41	47.51	25.10	112.00%
14,000	26.21	55.87	29.66	113.16%
16,000	30.01	64.23	34.22	114.03%
18,000	33.81	72.59	38.78	114.70%
20,000	37.61	80.95	43.34	115.24%
25,000	41.41	89.31	47.90	115.67%
30,000	50.91	110.21	59.30	116.48%
35,000	60.41	131.11	70.70	117.03%
40,000	69.91	152.01	82.10	117.44%
45,000	79.41	172.91	93.50	117.74%
50,000	88.91	193.81	104.90	117.98%
60,000	98.41	214.71	116.30	118.18%
70,000	117.41	256.51	139.10	118.47%
80,000	136.41	298.31	161.90	118.69%
90,000	155.41	340.11	184.70	118.85%
100,000	174.41	381.91	207.50	118.97%
	193.41	423.71	230.30	119.07%

**Present Rates:**  
Monthly Minimum:  
Gallons in Minimum  
Charge Per 1,000 Gallons  
Up to 4,000 \$ 1.44  
Up to 10,000 \$ 1.70  
Over 10,000 \$ 1.90

**Proposed Rates:**  
Monthly Minimum:  
Gallons in Minimum  
Charge Per 1,000 Gallons  
Up to 4,000 \$ 2.93  
Up to 10,000 \$ 3.68  
Over 10,000 \$ 4.18

Over

Average Usage	8,548	\$ 19.94	\$ 42.17	\$ 22.22	111.45%
Median Usage	7,000	\$ 17.31	\$ 36.47	\$ 19.16	110.69%

**Rio Rico Utilities, Inc. - Water Division**  
**Bill Comparison Present and Proposed Rates**  
 Meter Size: 3/4 Inch Residential

Exhibit H-4  
 Schedule Page 2  
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1,000	9.65	20.51	10.86	112.54%
2,000	11.35	24.19	12.84	113.13%
3,000	13.05	27.87	14.82	113.56%
4,000	14.75	31.55	16.80	113.90%
5,000	16.45	35.23	18.78	114.16%
6,000	18.15	38.91	20.76	114.38%
7,000	19.85	42.59	22.74	114.56%
8,000	21.75	46.77	25.02	115.03%
9,000	23.65	50.95	27.30	115.43%
10,000	25.55	55.13	29.58	115.77%
12,000	27.45	59.31	31.86	116.07%
14,000	31.25	67.67	36.42	116.54%
16,000	35.05	76.03	40.98	116.92%
18,000	38.85	84.39	45.54	117.22%
20,000	42.65	92.75	50.10	117.47%
25,000	46.45	101.11	54.66	117.67%
30,000	55.95	122.01	66.06	118.07%
35,000	65.45	142.91	77.46	118.35%
40,000	74.95	163.81	88.86	118.56%
45,000	84.45	184.71	100.26	118.72%
50,000	93.95	205.61	111.66	118.85%
60,000	103.45	226.51	123.06	118.96%
70,000	122.45	268.31	145.86	119.12%
80,000	141.45	310.11	168.66	119.24%
90,000	160.45	351.91	191.46	119.33%
100,000	179.45	393.71	214.26	119.40%
	198.45	435.51	237.06	119.46%

Average Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
3,558	15.70	33.60	17.90	114.05%
Median Usage	14.75	31.55	16.80	113.90%

**Present Rates:**  
 Monthly Minimum: \$ 9.65  
 Gallons in Minimum Charge Per 1,000 Gallons  
 Up to 6,000 \$ 1.70  
 Over 6,000 \$ 1.90

**Proposed Rates:**  
 Monthly Minimum: \$ 20.51  
 Gallons in Minimum Charge Per 1,000 Gallons  
 Up to 6,000 \$ 3.68  
 Over 6,000 \$ 4.18

**Rio Rico Utilities, Inc. - Water Division**  
 Bill Comparison Present and Proposed Rates  
 Meter Size: 1 Inch Residential

Exhibit H-4  
 Schedule Page 3  
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1,000	17.10	36.34	19.24	112.51%
2,000	18.80	40.02	21.22	112.87%
3,000	20.50	43.70	23.20	113.17%
4,000	22.20	47.38	25.18	113.42%
5,000	23.90	51.06	27.16	113.64%
6,000	25.60	54.74	29.14	113.83%
7,000	27.30	58.42	31.12	113.99%
8,000	29.00	62.10	33.10	114.14%
9,000	30.70	65.78	35.08	114.27%
10,000	32.40	69.46	37.06	114.38%
12,000	34.10	73.14	39.04	114.49%
14,000	37.50	80.50	43.00	114.67%
16,000	40.90	87.86	46.96	114.82%
18,000	44.50	95.72	51.22	115.10%
20,000	48.30	104.08	55.78	115.49%
25,000	52.10	112.44	60.34	115.82%
30,000	61.60	133.34	71.74	116.46%
35,000	71.10	154.24	83.14	116.93%
40,000	80.60	175.14	94.54	117.30%
45,000	90.10	196.04	105.94	117.58%
50,000	99.60	216.94	117.34	117.81%
60,000	109.10	237.84	128.74	118.00%
70,000	128.10	279.64	151.54	118.30%
80,000	147.10	321.44	174.34	118.52%
90,000	166.10	363.24	197.14	118.69%
100,000	185.10	405.04	219.94	118.82%
	204.10	446.84	242.74	118.93%

**Present Rates:**  
 Monthly Minimum: \$ 17.10  
 Gallons in Minimum Charge Per 1,000 Gallons  
 Up to 15,000 \$ 1.70  
 Over 15,000 \$ 1.90

**Proposed Rates:**  
 Monthly Minimum: \$ 36.34  
 Gallons in Minimum Charge Per 1,000 Gallons  
 Up to 15,000 \$ 3.68  
 Over 15,000 \$ 4.18

Average Usage	11,326	\$ 36.35	\$ 78.02	\$ 41.67	114.61%
Median Usage	7,000	\$ 29.00	\$ 62.10	\$ 33.10	114.14%

**Rio Rico Utilities, Inc. - Water Division**  
**Bill Comparison Present and Proposed Rates**  
 Meter Size: 1 1/2 Inch Residential

Exhibit  
 Schedule H-4  
 Page 4  
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase	
1,000	\$ 34.70	\$ 73.74	\$ 39.04	112.51%	
2,000	36.40	77.42	41.02	112.69%	
3,000	38.10	81.10	43.00	112.86%	
4,000	39.80	84.78	44.98	113.02%	
5,000	41.50	88.46	46.96	113.16%	
6,000	43.20	92.14	48.94	113.29%	
7,000	44.90	95.82	50.92	113.41%	
8,000	46.60	99.50	52.90	113.52%	
9,000	48.30	103.18	54.88	113.62%	
10,000	50.00	106.86	56.86	113.72%	
12,000	51.70	110.54	58.84	113.81%	
14,000	55.10	117.90	62.80	113.97%	
16,000	58.50	125.26	66.76	114.12%	
18,000	61.90	132.62	70.72	114.25%	
20,000	65.30	139.98	74.68	114.36%	
25,000	68.70	147.34	78.64	114.47%	
30,000	78.20	168.24	90.04	115.14%	
35,000	87.70	189.14	101.44	115.67%	
40,000	97.20	210.04	112.84	116.09%	
45,000	106.70	230.94	124.24	116.44%	
50,000	116.20	251.84	135.64	116.73%	
60,000	125.70	272.74	147.04	116.98%	
70,000	144.70	314.54	169.84	117.37%	
80,000	163.70	356.34	192.64	117.68%	
90,000	182.70	398.14	215.44	117.92%	
100,000	201.70	439.94	238.24	118.12%	
	220.70	481.74	261.04	118.28%	

**Present Rates:**  
 Monthly Minimum: \$ 34.70  
 Gallons in Minimum Charge Per 1,000 Gallons: -  
 Up to 20,000 \$ 1.70  
 Over 20,000 \$ 1.90

**Proposed Rates:**  
 Monthly Minimum: \$ 73.74  
 Gallons in Minimum Charge Per 1,000 Gallons: -  
 Up to 20,000 \$ 3.68  
 Over 20,000 \$ 4.18

Average Usage 20,116 \$ 68.92 \$ 147.83 \$ 78.91 114.49%  
 Median Usage 20,000 \$ 68.70 \$ 147.34 \$ 78.64 114.47%

**Rio Rico Utilities, Inc. - Water Division**  
**Bill Comparison Present and Proposed Rates**  
**2 Inch Residential**

Exhibit  
Schedule H-4  
Page 5  
Witness: Bourassa

Usage	Present	Proposed	Dollar	Percent	
	Bill	Bill	Increase	Increase	
1,000	\$ 54.00	\$ 114.75	\$ 60.75	112.50%	<b>Present Rates:</b> Monthly Minimum: Gallons in Minimum Charge Per 1,000 Gallons Up to Over  <b>Proposed Rates:</b> Monthly Minimum: Gallons in Minimum Charge Per 1,000 Gallons Up to Over
2,000	55.70	118.43	62.73	112.62%	
3,000	57.40	122.11	64.71	112.74%	
4,000	59.10	125.79	66.69	112.84%	
5,000	60.80	129.47	68.67	112.94%	
6,000	62.50	133.15	70.65	113.04%	
7,000	64.20	136.83	72.63	113.13%	
8,000	65.90	140.51	74.61	113.22%	
9,000	67.60	144.19	76.59	113.30%	
10,000	69.30	147.87	78.57	113.38%	
12,000	71.00	151.55	80.55	113.45%	
14,000	72.70	155.23	82.53	113.52%	
16,000	74.40	158.91	84.51	113.59%	
18,000	76.10	162.59	86.49	113.66%	
20,000	77.80	166.27	88.47	113.71%	
25,000	81.20	173.63	92.43	113.83%	
30,000	84.60	180.99	96.39	113.94%	
35,000	88.00	188.35	100.35	114.03%	
40,000	96.50	206.75	110.25	114.25%	
45,000	105.00	225.15	120.15	114.43%	
50,000	113.50	243.55	130.05	114.58%	
60,000	122.00	261.95	139.95	114.71%	
70,000	130.50	280.35	149.85	114.83%	
80,000	139.00	298.75	159.75	114.93%	
90,000	156.60	337.05	180.45	115.23%	
100,000	175.60	378.85	203.25	115.75%	
	194.60	420.65	226.05	116.16%	
	213.60	462.45	248.85	116.50%	
	232.60	504.25	271.65	116.79%	

Average Usage \$ 87.89 \$ 188.12 \$ 100.23 114.03%  
Median Usage \$ 82.05 \$ 175.47 \$ 93.42 113.86%

**Rio Rico Utilities, Inc. - Water Division**  
**Bill Comparison Present and Proposed Rates**  
 Meter Size: 5/8 Inch Commercial

Exhibit H-4  
 Schedule Page 6  
 Witness: Bourassa

Usage	Present		Proposed		Dollar Increase	Percent Increase	
	Bill	Rate	Bill	Rate			
1,000	6.45	\$ 7.89	13.71	\$ 16.64	7.26	112.56%	Present Rates: Monthly Minimum: Gallons in Minimum
2,000	9.33	19.57	22.50	25.43	10.24	109.75%	\$ 6.45
3,000	10.77	12.21	29.11	32.79	11.73	108.91%	Charge Per 1,000 Gallons
4,000	12.21	13.91	36.47	40.15	13.22	109.27%	Up to 4,000 \$ 1.44
5,000	13.91	15.61	43.83	47.51	15.20	110.06%	Up to 10,000 \$ 1.70
6,000	17.31	19.01	55.87	64.23	17.18	110.69%	Over 10,000 \$ 1.90
7,000	19.01	20.71	64.23	72.59	19.16	111.20%	
8,000	20.71	22.41	89.31	110.21	21.14	111.64%	
9,000	22.41	26.21	131.11	152.01	23.12	112.00%	
10,000	26.21	30.01	152.01	172.91	25.10	113.16%	<b>Proposed Rates:</b>
12,000	30.01	33.81	180.95	214.71	29.66	114.03%	Monthly Minimum: \$ 13.71
14,000	33.81	37.61	214.71	256.51	34.22	114.70%	Gallons in Minimum
16,000	37.61	41.41	256.51	298.31	38.78	115.24%	Charge Per 1,000 Gallons
18,000	41.41	50.91	298.31	340.11	43.34	115.67%	Up to 4,000 \$ 2.93
20,000	50.91	60.41	340.11	381.91	47.90	116.48%	Up to 10,000 \$ 3.68
25,000	60.41	69.91	381.91	423.71	59.30	117.03%	Over 10,000 \$ 4.18
30,000	69.91	79.41	423.71		70.70	117.44%	
35,000	79.41	88.91			82.10	117.74%	
40,000	88.91	98.41			93.50	117.98%	
45,000	98.41	117.41			104.90	117.98%	
50,000	117.41	136.41			116.30	118.18%	
60,000	136.41	155.41			139.10	118.47%	
70,000	155.41	174.41			161.90	118.69%	
80,000	174.41	193.41			184.70	118.85%	
90,000	193.41				207.50	118.97%	
100,000					230.30	119.07%	

Average Usage \$ 25.40 \$ 54.09 \$ 28.69 112.95%  
 Median Usage \$ 13.91 \$ 29.11 \$ 15.20 109.27%

**Rio Rico Utilities, Inc. - Water Division**  
**Bill Comparison Present and Proposed Rates**  
 Meter Size: 1 Inch Commercial

Exhibit H-4  
 Schedule 7  
 Page 7  
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1,000	17.10	36.34	19.24	112.51%
2,000	18.80	40.02	21.22	112.87%
3,000	20.50	43.70	23.20	113.17%
4,000	22.20	47.38	25.18	113.42%
5,000	23.90	51.06	27.16	113.64%
6,000	25.60	54.74	29.14	113.83%
7,000	27.30	58.42	31.12	113.99%
8,000	29.00	62.10	33.10	114.14%
9,000	30.70	65.78	35.08	114.27%
10,000	32.40	69.46	37.06	114.38%
12,000	34.10	73.14	39.04	114.49%
14,000	37.50	80.50	43.00	114.67%
16,000	40.90	87.86	46.96	114.82%
18,000	44.50	95.72	51.22	115.10%
20,000	48.30	104.08	55.78	115.49%
25,000	52.10	112.44	60.34	115.82%
30,000	61.60	133.34	71.74	116.46%
35,000	71.10	154.24	83.14	116.93%
40,000	80.60	175.14	94.54	117.30%
45,000	90.10	196.04	105.94	117.58%
50,000	99.60	216.94	117.34	117.81%
60,000	109.10	237.84	128.74	118.00%
70,000	128.10	279.64	151.54	118.30%
80,000	147.10	321.44	174.34	118.52%
90,000	166.10	363.24	197.14	118.69%
100,000	185.10	405.04	219.94	118.82%
	204.10	446.84	242.74	118.93%

Average Usage 17,804 \$ 47.93 \$ 103.26 \$ 55.33 115.45%  
 Median Usage 8,000 \$ 30.70 \$ 65.78 \$ 35.08 114.27%

**Present Rates:**  
 Monthly Minimum: \$ 17.10  
 Gallons in Minimum Charge Per 1,000 Gallons  
 Up to 15,000 \$ 1.70  
 Over 15,000 \$ 1.90

**Proposed Rates:**  
 Monthly Minimum: \$ 36.34  
 Gallons in Minimum Charge Per 1,000 Gallons  
 Up to 15,000 \$ 3.68  
 Over 15,000 \$ 4.18

**Rio Rico Utilities, Inc. - Water Division**  
**Bill Comparison Present and Proposed Rates**  
 Meter Size: 1 1/2 Inch Commercial

Exhibit H-4  
 Schedule Page 8  
 Witness: Bourassa

Usage	Present		Proposed		Dollar Increase	Percent Increase
	Bill	Bill	Bill	Bill		
1,000	\$ 34.70	\$ 73.74	\$ 39.04	\$ 112.51%		
2,000	36.40	77.42	41.02	112.69%		
3,000	38.10	81.10	43.00	112.86%		
4,000	39.80	84.78	44.98	113.02%		
5,000	41.50	88.46	46.96	113.16%		
6,000	43.20	92.14	48.94	113.29%		
7,000	44.90	95.82	50.92	113.41%		
8,000	46.60	99.50	52.90	113.52%		
9,000	48.30	103.18	54.88	113.62%		
10,000	50.00	106.86	56.86	113.72%		
12,000	51.70	110.54	58.84	113.81%		
14,000	55.10	117.90	62.80	113.97%		
16,000	58.50	125.26	66.76	114.12%		
18,000	61.90	132.62	70.72	114.25%		
20,000	65.30	139.98	74.68	114.36%		
25,000	68.70	147.34	78.64	114.47%		
30,000	78.20	168.24	90.04	115.14%		
35,000	87.70	189.14	101.44	115.67%		
40,000	97.20	210.04	112.84	116.09%		
45,000	106.70	230.94	124.24	116.44%		
50,000	116.20	251.84	135.64	116.73%		
60,000	125.70	272.74	147.04	116.98%		
70,000	144.70	314.54	169.84	117.37%		
80,000	163.70	356.34	192.64	117.68%		
90,000	182.70	398.14	215.44	117.92%		
100,000	201.70	439.94	238.24	118.12%		
	220.70	481.74	261.04	118.28%		

**Present Rates:**  
 Monthly Minimum: \$ 34.70  
 Gallons in Minimum Charge Per 1,000 Gallons: -

**Proposed Rates:**  
 Monthly Minimum: \$ 73.74  
 Gallons in Minimum Charge Per 1,000 Gallons: -

Up to 20,000 \$ 3.68  
 Over 20,000 \$ 4.18

Average Usage 39,685 \$ 106.10 \$ 229.63 \$ 123.52 116.42%  
 Median Usage 32,500 \$ 92.45 \$ 199.59 \$ 107.14 115.89%

**Rio Rico Utilities, Inc. - Water Division**  
**Bill Comparison Present and Proposed Rates**  
**2 Inch Commercial**

Exhibit H-4  
 Schedule 9  
 Page 9  
 Witness: Bourassa

Usage	Present		Proposed		Dollar Increase	Percent Increase	
	Bill	Bill	Bill	Bill			
1,000	\$ 54.00	\$ 114.75	\$ 60.75	112.50%			
2,000	55.70	118.43	62.73	112.62%			
3,000	57.40	122.11	64.71	112.74%			
4,000	59.10	125.79	66.69	112.84%			
5,000	60.80	129.47	68.67	112.94%			
6,000	62.50	133.15	70.65	113.04%			
7,000	64.20	136.83	72.63	113.13%			
8,000	65.90	140.51	74.61	113.22%			
9,000	67.60	144.19	76.59	113.30%			
10,000	69.30	147.87	78.57	113.38%			
12,000	71.00	151.55	80.55	113.45%			
14,000	74.40	158.91	84.51	113.59%			
16,000	77.80	166.27	88.47	113.71%			
18,000	81.20	173.63	92.43	113.83%			
20,000	84.60	180.99	96.39	113.94%			
25,000	88.00	188.35	100.35	114.03%			
30,000	96.50	206.75	110.25	114.25%			
35,000	105.00	225.15	120.15	114.43%			
40,000	113.50	243.55	130.05	114.58%			
45,000	122.00	261.95	139.95	114.71%			
50,000	130.50	280.35	149.85	114.83%			
60,000	139.00	298.75	159.75	114.93%			
70,000	147.50	317.15	169.65	115.03%			
80,000	156.00	335.55	179.55	115.13%			
90,000	164.50	353.95	189.45	115.23%			
100,000	173.00	372.35	199.35	115.33%			
	213.60	462.45	248.85	116.50%			
	232.60	504.25	271.65	116.79%			

Average Usage 154,509 \$ 336.17 \$ 732.10 \$ 395.93 117.78%  
 Median Usage 30,000 \$ 105.00 \$ 225.15 \$ 120.15 114.43%

**Present Rates:**  
 Monthly Minimum: \$ 54.00  
 Gallons in Minimum Charge Per 1,000 Gallons: -  
 Up to 57,000 \$ 1.70  
 Over 57,000 \$ 1.90

**Proposed Rates:**  
 Monthly Minimum: \$ 114.75  
 Gallons in Minimum Charge Per 1,000 Gallons: -  
 Up to 57,000 \$ 3.68  
 Over 57,000 \$ 4.18

**Rio Rico Utilities, Inc. - Water Division**  
**Bill Comparison Present and Proposed Rates**  
 Meter Size: 3 Inch Commercial

Exhibit H-4  
 Schedule 10  
 Page 10  
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 105.40	\$ 223.98	\$ 118.58	112.50%
1,000	107.10	227.66	120.56	112.57%
2,000	108.80	231.34	122.54	112.63%
3,000	110.50	235.02	124.52	112.69%
4,000	112.20	238.70	126.50	112.75%
5,000	113.90	242.38	128.48	112.80%
6,000	115.60	246.06	130.46	112.85%
7,000	117.30	249.74	132.44	112.91%
8,000	119.00	253.42	134.42	112.96%
9,000	120.70	257.10	136.40	113.01%
10,000	122.40	260.78	138.38	113.06%
12,000	125.80	268.14	142.34	113.15%
14,000	129.20	275.50	146.30	113.24%
16,000	132.60	282.86	150.26	113.32%
18,000	136.00	290.22	154.22	113.40%
20,000	139.40	297.58	158.18	113.47%
25,000	147.90	315.98	168.08	113.64%
30,000	156.40	334.38	177.98	113.80%
35,000	164.90	352.78	187.88	113.94%
40,000	173.40	371.18	197.78	114.06%
45,000	181.90	389.58	207.68	114.17%
50,000	190.40	407.98	217.58	114.28%
60,000	208.00	446.28	238.28	114.56%
70,000	227.00	488.08	261.08	115.01%
80,000	246.00	529.88	283.88	115.40%
90,000	265.00	571.68	306.68	115.73%
100,000	284.00	613.48	329.48	116.01%

**Present Rates:**  
 Monthly Minimum: \$ 105.40  
 Gallons in Minimum Charge Per 1,000 Gallons: -  
 Up to 57,000 \$ 1.70  
 Over 57,000 \$ 1.90

**Proposed Rates:**  
 Monthly Minimum: \$ 223.98  
 Gallons in Minimum Charge Per 1,000 Gallons: -  
 Up to 57,000 \$ 3.68  
 Over 57,000 \$ 4.18

Average Usage 266,143 \$ 599.67 \$ 1,307.96 \$ 708.29 118.11%  
 Median Usage 7,000 \$ 117.30 \$ 249.74 \$ 132.44 112.91%

**Rio Rico Utilities, Inc. - Water Division**  
**Bill Comparison Present and Proposed Rates**  
 Meter Size: 4 Inch Commercial

Exhibit H-4  
 Schedule Page 11  
 Witness: Bourassa

Usage	Present		Proposed		Dollar Increase	Percent Increase	
	Bill		Bill				
1,000	173.50	\$	368.69	\$	195.19	112.50%	
2,000	175.20		372.37		197.17	112.54%	
3,000	176.90		376.05		199.15	112.58%	
4,000	178.60		379.73		201.13	112.61%	
5,000	180.30		383.41		203.11	112.65%	
6,000	182.00		387.09		205.09	112.69%	
7,000	183.70		390.77		207.07	112.72%	
8,000	185.40		394.45		209.05	112.76%	
9,000	187.10		398.13		211.03	112.79%	
10,000	188.80		401.81		213.01	112.82%	
12,000	190.50		405.49		214.99	112.86%	
14,000	193.90		412.85		218.95	112.92%	
16,000	197.30		420.21		222.91	112.98%	
18,000	200.70		427.57		226.87	113.04%	
20,000	204.10		434.93		230.83	113.10%	
25,000	207.50		442.29		234.79	113.15%	
30,000	216.00		460.69		244.69	113.28%	
35,000	224.50		479.09		254.59	113.40%	
40,000	233.00		497.49		264.49	113.52%	
45,000	241.50		515.89		274.39	113.62%	
50,000	250.00		534.29		284.29	113.72%	
60,000	258.50		552.69		294.19	113.81%	
70,000	276.10		590.99		314.89	114.05%	
80,000	295.10		632.79		337.69	114.43%	
90,000	314.10		674.59		360.49	114.77%	
100,000	333.10		716.39		383.29	115.07%	
	352.10		758.19		406.09	115.33%	

**Present Rates:**  
 Monthly Minimum: \$ 173.50  
 Gallons in Minimum Charge Per 1,000 Gallons -

**Proposed Rates:**  
 Monthly Minimum: \$ 368.69  
 Gallons in Minimum Charge Per 1,000 Gallons -

Up to 57,000 \$ 3.68  
 Over 57,000 \$ 4.18

Average Usage 292,262 \$ 717.40 \$ 1,561.85 \$ 844.45 117.71%  
 Median Usage 210,000 \$ 561.10 \$ 1,217.99 \$ 656.89 117.07%

**Rio Rico Utilities, Inc. - Water Division**  
 Bill Comparison Present and Proposed Rates  
 Meter Size: 6 Inch Commercial

Exhibit  
 Schedule H-4  
 Page 12  
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase	
1,000	\$ 321.25	\$ 682.66	\$ 361.41	112.50%	<b>Present Rates:</b> Monthly Minimum: Gallons in Minimum Charge Per 1,000 Gallons Up to 125,000 \$ 1.70 Over 125,000 \$ 1.90
2,000	322.95	686.34	363.39	112.52%	
3,000	324.65	690.02	365.37	112.54%	
4,000	326.35	693.70	367.35	112.56%	
5,000	328.05	697.38	369.33	112.58%	
6,000	329.75	701.06	371.31	112.60%	
7,000	331.45	704.74	373.29	112.62%	
8,000	333.15	708.42	375.27	112.64%	
9,000	334.85	712.10	377.25	112.66%	
10,000	336.55	715.78	379.23	112.68%	
12,000	338.25	719.46	381.21	112.70%	<b>Proposed Rates:</b> Monthly Minimum: Gallons in Minimum Charge Per 1,000 Gallons Up to 125,000 \$ 3.68 Over 125,000 \$ 4.18
14,000	341.65	726.82	385.17	112.74%	
16,000	345.05	734.18	389.13	112.77%	
18,000	348.45	741.54	393.09	112.81%	
20,000	351.85	748.90	397.05	112.85%	
25,000	355.25	756.26	401.01	112.88%	
30,000	363.75	774.66	410.91	112.96%	
35,000	372.25	793.06	420.81	113.04%	
40,000	380.75	811.46	430.71	113.12%	
45,000	389.25	829.86	440.61	113.19%	
50,000	397.75	848.26	450.51	113.26%	
60,000	406.25	866.66	460.41	113.33%	
70,000	423.25	903.46	480.21	113.46%	
80,000	440.25	940.26	500.01	113.57%	
90,000	457.25	977.06	519.81	113.68%	
100,000	474.25	1,013.86	539.61	113.78%	
	491.25	1,050.66	559.41	113.87%	

Average Usage 641,667 \$ 1,515.42 \$ 3,302.33 \$ 1,786.91 117.92%  
 Median Usage 511,000 \$ 1,267.15 \$ 2,756.14 \$ 1,488.99 117.51%

**Rio Rico Utilities, Inc. - Water Division**  
**Bill Comparison Present and Proposed Rates**  
 Meter Size: 5/8 Inch Multi-Family

Exhibit H-4  
 Schedule Page 13  
 Witness: Bourassa

Usage	Present		Proposed		Dollar Increase		Percent Increase	
	Usage	Bill	Usage	Bill	Dollar	Percent	Dollar	Percent
1,000	7.89	6.45	13.71	16.64	7.26	112.56%		
2,000	9.33	6.45	19.57	16.64	10.24	110.90%		
3,000	10.77	6.45	22.50	16.64	11.73	109.75%		
4,000	12.21	6.45	25.43	16.64	13.22	108.91%		
5,000	13.91	6.45	29.11	16.64	15.20	108.27%		
6,000	15.61	6.45	32.79	16.64	17.18	109.27%		
7,000	17.31	6.45	36.47	16.64	19.16	110.06%		
8,000	19.01	6.45	40.15	16.64	21.14	110.69%		
9,000	20.71	6.45	43.83	16.64	23.12	111.20%		
10,000	22.41	6.45	47.51	16.64	25.10	111.64%		
12,000	26.21	6.45	55.87	16.64	29.66	112.00%		
14,000	30.01	6.45	64.23	16.64	34.22	113.16%		
16,000	33.81	6.45	72.59	16.64	38.78	114.03%		
18,000	37.61	6.45	80.95	16.64	43.34	114.70%		
20,000	41.41	6.45	89.31	16.64	47.90	115.24%		
25,000	50.91	6.45	110.21	16.64	59.30	115.67%		
30,000	60.41	6.45	131.11	16.64	70.70	116.48%		
35,000	69.91	6.45	152.01	16.64	82.10	117.03%		
40,000	79.41	6.45	172.91	16.64	93.50	117.44%		
45,000	88.91	6.45	193.81	16.64	104.90	117.74%		
50,000	98.41	6.45	214.71	16.64	116.30	117.98%		
60,000	117.41	6.45	256.51	16.64	139.10	118.18%		
70,000	136.41	6.45	298.31	16.64	161.90	118.47%		
80,000	155.41	6.45	340.11	16.64	184.70	118.69%		
90,000	174.41	6.45	381.91	16.64	207.50	118.85%		
100,000	193.41	6.45	423.71	16.64	230.30	118.97%		

**Present Rates:**  
 Monthly Minimum: \$ 6.45  
 Gallons in Minimum Charge Per 1,000 Gallons: 4,000

**Proposed Rates:**  
 Monthly Minimum: \$ 13.71  
 Gallons in Minimum Charge Per 1,000 Gallons: 4,000

Up to 10,000 \$ 2.93  
 Up to 10,000 \$ 3.68  
 Over 10,000 \$ 4.18

Average Usage \$ 23.77 \$ 50.51 \$ 26.74 112.46%  
 Median Usage \$ 20.71 \$ 43.83 \$ 23.12 111.64%

**Rio Rico Utilities, Inc. - Water Division**  
**Bill Comparison Present and Proposed Rates**  
 Meter Size: 1 1/2 Inch Multi-Family

Exhibit H-4  
 Schedule Page 14  
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1,000	\$ 34.70	\$ 73.74	\$ 39.04	112.51%
2,000	36.40	77.42	41.02	112.69%
3,000	38.10	81.10	43.00	112.86%
4,000	39.80	84.78	44.98	113.02%
5,000	41.50	88.46	46.96	113.16%
6,000	43.20	92.14	48.94	113.29%
7,000	44.90	95.82	50.92	113.41%
8,000	46.60	99.50	52.90	113.52%
9,000	48.30	103.18	54.88	113.62%
10,000	50.00	106.86	56.86	113.72%
12,000	51.70	110.54	58.84	113.81%
14,000	55.10	117.90	62.80	113.97%
16,000	58.50	125.26	66.76	114.12%
18,000	61.90	132.62	70.72	114.25%
20,000	65.30	139.98	74.68	114.36%
25,000	68.70	147.34	78.64	114.47%
30,000	78.20	168.24	90.04	115.14%
35,000	87.70	189.14	101.44	115.67%
40,000	97.20	210.04	112.84	116.09%
45,000	106.70	230.94	124.24	116.44%
50,000	116.20	251.84	135.64	116.73%
60,000	125.70	272.74	147.04	116.98%
70,000	144.70	314.54	169.84	117.37%
80,000	163.70	356.34	192.64	117.68%
90,000	182.70	398.14	215.44	117.92%
100,000	201.70	439.94	238.24	118.12%
100,000	220.70	481.74	261.04	118.28%

Average Usage 7,417 \$ 47.31 \$ 101.03 \$ 53.73 113.56%  
 Median Usage 8,500 \$ 49.15 \$ 105.02 \$ 55.87 113.67%

**Present Rates:**  
 Monthly Minimum: \$ 34.70  
 Gallons in Minimum Charge Per 1,000 Gallons  
 Up to 20,000 \$ 1.70  
 Over 20,000 \$ 1.90

**Proposed Rates:**  
 Monthly Minimum: \$ 73.74  
 Gallons in Minimum Charge Per 1,000 Gallons  
 Up to 20,000 \$ 3.68  
 Over 20,000 \$ 4.18

**Rio Rico Utilities, Inc. - Water Division**  
**Bill Comparison Present and Proposed Rates**  
 Meter Size: **Fire Lines Up to 8 Inch**

Exhibit **H-4**  
 Schedule **15**  
 Page **15**  
 Witness: **Bourassa**

Usage	Present Bill	Proposed Bill	Dollar		Percent	
			Increase	Increase		
1,000	6.48	13.77	7.29	112.50%	Present Rates: Monthly Minimum: \$ 6.48	
2,000	6.48	13.77	7.29	112.50%		
3,000	6.48	13.77	7.29	112.50%		
4,000	6.48	13.77	7.29	112.50%		
5,000	6.48	13.77	7.29	112.50%		
6,000	6.48	13.77	7.29	112.50%		
7,000	6.48	13.77	7.29	112.50%		
8,000	6.48	13.77	7.29	112.50%		
9,000	6.48	13.77	7.29	112.50%		
10,000	6.48	13.77	7.29	112.50%		
12,000	6.48	13.77	7.29	112.50%	Proposed Rates: Monthly Minimum: \$ 13.77	
14,000	6.48	13.77	7.29	112.50%		
16,000	6.48	13.77	7.29	112.50%		
18,000	6.48	13.77	7.29	112.50%		
20,000	6.48	13.77	7.29	112.50%		
25,000	6.48	13.77	7.29	112.50%		
30,000	6.48	13.77	7.29	112.50%		
35,000	6.48	13.77	7.29	112.50%		
40,000	6.48	13.77	7.29	112.50%		
45,000	6.48	13.77	7.29	112.50%		
50,000	6.48	13.77	7.29	112.50%		
60,000	6.48	13.77	7.29	112.50%		
70,000	6.48	13.77	7.29	112.50%		
80,000	6.48	13.77	7.29	112.50%		
90,000	6.48	13.77	7.29	112.50%		
100,000	6.48	13.77	7.29	112.50%		
Average Usage	\$ 6.48	\$ 13.77	7.29	112.50%		
Median Usage	\$ 6.48	\$ 13.77	7.29	112.50%		

Rio Rico Utilities, Inc. - Water Division  
 Test Year Ended December 31, 2008  
 5/8 Inch Residential

Exhibit  
 Schedule H-5  
 Page 1  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing (in 1,000's)	Cumulative Gallons
1,000	1,000	183	287	287	397	277	418	367	340	222	175	149	1,248	4,350	4,350	-
2,000	2,000	306	264	304	247	264	248	275	327	284	306	296	240	3,361	7,711	3,361
3,000	3,000	304	317	381	293	317	239	284	365	324	304	346	267	3,741	11,452	10,843
4,000	4,000	423	421	514	380	421	310	386	453	406	423	423	360	4,920	16,372	25,603
5,000	5,000	513	460	592	442	460	332	401	555	452	513	493	470	5,683	22,055	48,335
6,000	6,000	560	495	645	519	495	413	476	567	481	560	544	486	6,241	28,296	79,540
7,000	7,000	489	492	532	472	492	375	428	457	494	489	529	453	7,022	33,998	113,752
8,000	8,000	475	442	488	463	442	327	386	428	446	475	442	346	8,160	39,158	149,872
9,000	9,000	417	385	402	404	385	338	374	419	405	417	392	330	9,160	43,826	187,216
10,000	10,000	316	320	324	370	320	301	299	326	348	316	329	269	10,000	47,664	221,758
11,000	11,000	274	296	273	296	296	295	289	256	301	274	268	215	11,000	50,997	255,088
12,000	12,000	199	220	207	254	220	259	244	196	246	199	242	181	12,000	53,664	284,425
13,000	13,000	144	186	140	214	186	249	206	178	195	144	188	145	13,000	55,839	310,525
14,000	14,000	155	143	126	172	143	222	156	143	152	155	129	117	14,000	57,652	334,094
15,000	15,000	116	137	91	151	137	173	158	107	150	116	142	69	15,000	59,199	355,752
16,000	16,000	120	127	78	123	127	149	142	95	99	120	100	72	16,000	60,551	376,032
17,000	17,000	101	108	56	94	108	125	126	83	101	101	83	38	17,000	61,675	394,016
18,000	18,000	52	80	36	100	80	105	111	70	60	52	58	42	18,000	62,521	408,398
19,000	19,000	64	82	37	74	82	92	67	45	68	64	72	35	19,000	63,303	422,474
20,000	20,000	44	65	27	66	65	87	69	44	52	44	43	38	20,000	63,947	434,710
21,000	21,000	43	60	21	47	60	82	62	39	51	43	50	24	21,000	64,529	446,350
22,000	22,000	38	30	19	38	30	69	54	34	40	38	35	29	22,000	64,983	455,864
23,000	23,000	29	40	19	46	40	65	41	22	30	29	42	21	23,000	65,407	465,212
24,000	24,000	27	38	15	26	38	53	45	32	25	27	32	14	24,000	65,779	473,768
25,000	25,000	23	30	12	32	30	48	27	16	24	23	20	9	25,000	66,073	480,824
26,000	26,000	14	24	7	29	24	65	28	15	19	14	20	10	26,000	66,347	487,674
27,000	27,000	17	25	6	18	25	41	24	15	8	17	14	15	27,000	66,608	494,460
28,000	28,000	17	25	6	15	25	42	21	17	14	17	14	11	28,000	66,832	500,508
29,000	29,000	10	19	10	16	19	36	35	18	16	17	17	5	29,000	67,057	506,808
30,000	30,000	12	15	3	9	15	31	21	11	14	10	9	7	30,000	67,206	511,129
31,000	31,000	11	11	5	7	11	19	16	9	14	11	8	10	31,000	67,360	515,749
32,000	32,000	8	12	2	9	12	23	15	7	14	8	10	8	32,000	67,496	519,965
33,000	33,000	9	11	4	11	11	29	14	6	14	9	4	3	33,000	67,610	523,613
34,000	34,000	7	16	4	8	11	22	13	5	12	7	4	3	34,000	67,735	527,738
35,000	35,000	3	10	7	8	16	22	13	5	7	7	8	7	35,000	67,858	531,920
36,000	36,000	9	7	4	8	10	21	9	5	10	3	5	2	36,000	67,959	535,455
37,000	37,000	5	7	1	4	7	14	9	7	4	9	6	3	37,000	68,039	538,335
38,000	38,000	3	3	3	5	6	13	4	8	4	5	5	4	38,000	68,111	540,999
							21	4	3	5	3	3			68,170	543,241

Rio Rico Utilities, Inc. - Water Division  
 Test Year Ended December 31, 2008  
 5/8 Inch Residential

Exhibit  
 Schedule H-5  
 Page 1  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (In 1,000's)
39,000	39,000	2	2	2	5	3	15	3	1	1	2	4	2	42	68,212	544,879
40,000	40,000	5	2	2	8	4	7	9	1	2	5	1	3	49	68,261	546,839
41,000	41,000	3	2	2	1	3	14	4	2	2	3	2	-	38	68,299	548,397
42,000	42,000	4	-	-	3	3	8	3	1	-	4	3	-	29	68,328	549,615
43,000	43,000	2	-	-	2	2	13	6	-	-	2	4	-	31	68,359	550,948
44,000	44,000	1	-	-	2	2	3	1	-	-	1	1	-	9	68,368	551,344
45,000	45,000	4	3	3	-	1	7	5	2	-	4	2	-	24	68,392	552,424
46,000	46,000	3	-	-	3	1	4	4	2	1	3	3	2	27	68,419	553,666
47,000	47,000	4	2	2	2	3	8	6	4	3	4	2	-	40	68,459	555,546
48,000	48,000	4	2	2	5	4	2	1	-	4	3	1	3	30	68,489	556,986
49,000	49,000	3	1	1	1	3	2	2	1	4	1	3	1	20	68,509	557,966
50,000	50,000	1	-	-	-	2	4	4	1	1	2	1	1	16	68,529	558,966
51,000	51,000	1	-	-	1	2	6	1	1	1	1	-	-	20	68,545	559,782
52,000	52,000	3	1	1	3	1	3	6	1	3	3	2	1	26	68,571	561,134
53,000	53,000	-	-	-	2	1	2	3	3	4	-	-	2	17	68,588	562,035
54,000	54,000	1	-	-	1	3	4	2	-	1	1	1	2	14	68,602	562,791
55,000	55,000	1	1	1	3	-	3	2	1	2	1	-	-	15	68,617	563,616
56,000	56,000	1	3	3	-	1	3	2	1	1	1	3	-	19	68,636	564,680
57,000	57,000	2	1	1	2	-	1	1	1	2	2	2	1	13	68,649	565,421
58,000	58,000	1	1	1	1	2	3	1	-	-	1	2	-	13	68,662	566,175
59,000	59,000	2	1	1	1	3	-	3	1	1	2	2	-	14	68,676	567,001
60,000	60,000	1	-	-	1	-	2	4	-	-	1	1	-	7	68,683	567,421
61,000	61,000	1	-	-	2	3	2	2	2	1	1	1	-	12	68,695	568,153
62,000	62,000	1	-	-	1	1	3	1	-	2	-	2	-	6	68,701	568,525
63,000	63,000	-	-	-	1	1	-	-	2	-	-	2	-	10	68,711	569,155
64,000	64,000	1	1	1	1	3	3	-	1	-	1	2	-	11	68,722	569,859
65,000	65,000	1	-	-	-	1	2	-	1	1	1	1	1	8	68,730	570,379
66,000	66,000	-	-	-	-	1	2	-	1	2	-	1	1	7	68,737	570,841
67,000	67,000	-	-	-	-	-	4	-	2	-	-	1	-	7	68,744	571,310
68,000	68,000	1	-	-	1	-	-	-	2	-	1	1	-	5	68,749	571,650
69,000	69,000	-	1	1	-	1	2	2	1	1	-	2	1	11	68,760	572,409
70,000	70,000	-	-	-	1	1	1	-	1	-	-	2	1	4	68,764	572,689
71,000	71,000	-	1	1	-	-	1	2	1	1	-	2	1	9	68,773	573,328
72,000	72,000	-	-	-	-	2	1	-	1	-	-	1	-	6	68,779	573,760
73,000	73,000	1	-	-	-	-	1	1	1	-	1	1	1	6	68,785	574,198
74,000	74,000	1	-	-	-	1	3	1	1	-	1	1	-	11	68,796	575,012
75,000	75,000	2	-	-	-	2	2	2	1	3	2	-	-	11	68,807	575,837
76,000	76,000	-	-	-	-	-	1	2	1	-	-	-	-	4	68,811	576,141
77,000	77,000	-	-	-	-	-	1	1	1	3	-	-	2	8	68,819	576,757

Rio Rico Utilities, Inc. - Water Division  
 Test Year Ended December 31, 2008  
 5/8 Inch Residential

Exhibit  
 Schedule H-5  
 Page 1  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
78,000	79,000	-	-	-	-	-	1	1	-	1	-	-	1	4	68,823	577,069
79,000	80,000	-	-	-	1	-	2	2	1	-	-	-	-	5	68,828	577,464
80,000	81,000	-	-	-	1	-	3	-	2	2	-	1	-	9	68,837	578,184
81,000	82,000	-	-	-	-	-	1	1	-	-	-	-	-	2	68,839	578,346
82,000	83,000	-	-	-	1	1	2	-	-	-	-	1	-	5	68,844	578,756
83,000	84,000	1	-	-	-	1	1	1	-	-	1	-	-	5	68,849	579,171
84,000	85,000	-	-	-	-	3	1	1	-	-	-	-	1	6	68,855	579,675
85,000	86,000	-	1	1	-	1	1	1	-	-	-	-	-	5	68,860	580,100
86,000	87,000	-	-	-	1	-	2	-	-	-	-	-	-	3	68,863	580,358
87,000	88,000	-	-	-	-	-	1	-	-	-	-	-	-	1	68,864	580,445
88,000	89,000	1	-	-	1	-	1	-	-	-	1	-	-	3	68,867	580,709
89,000	90,000	-	-	-	-	-	2	1	-	1	-	-	-	4	68,871	581,065
90,000	91,000	-	-	-	-	-	4	-	-	-	-	-	-	4	68,875	581,425
91,000	92,000	-	-	-	-	1	2	-	-	-	-	-	-	2	68,877	581,607
92,000	93,000	1	-	-	-	-	1	-	-	-	1	-	-	4	68,881	581,975
93,000	94,000	-	-	-	-	-	1	-	-	-	-	-	-	1	68,882	582,068
94,000	95,000	-	-	-	-	-	2	-	-	-	-	-	-	2	68,884	582,256
95,000	96,000	-	-	-	1	-	1	-	-	-	-	-	-	2	68,886	582,446
96,000	97,000	-	-	-	1	-	1	-	-	-	-	-	-	1	68,887	582,542
97,000	98,000	1	-	-	1	-	1	-	-	-	1	1	-	5	68,892	583,027
98,000	99,000	-	-	-	-	-	1	-	-	-	-	-	-	1	68,893	583,125
99,000	100,000	-	-	-	-	-	-	-	-	-	-	-	-	1	68,893	583,125
100,000	103,000	-	-	-	-	-	-	1	-	-	-	-	-	1	68,894	583,225
103,000	104,000	-	-	-	-	1	-	-	-	-	-	-	-	1	68,895	583,328
104,000	105,000	-	-	-	-	-	-	-	-	-	1	-	-	1	68,896	583,432
105,000	106,000	-	-	-	-	1	1	-	-	-	-	-	-	2	68,898	583,642
106,000	108,000	-	-	-	3	-	1	-	-	1	-	-	-	4	68,902	584,066
108,000	109,000	-	-	-	1	-	-	-	-	-	-	-	-	1	68,903	584,174
109,000	111,000	-	-	-	-	-	1	-	-	-	-	1	-	2	68,905	584,392
111,000	114,000	1	-	-	-	-	1	-	-	-	1	-	-	3	68,908	584,725
114,000	116,000	-	-	-	-	-	-	-	-	-	-	2	-	3	68,911	585,067
116,000	117,000	-	-	-	-	-	1	-	-	1	-	-	-	2	68,915	585,299
117,000	119,000	1	-	-	-	-	1	-	-	-	1	-	-	2	68,915	585,533
119,000	120,000	-	-	-	-	-	1	-	-	-	-	-	-	1	68,916	585,652
120,000	121,000	-	-	-	-	-	1	-	-	-	-	1	-	2	68,918	585,892
121,000	126,000	-	-	-	-	1	-	-	-	-	-	-	-	1	68,919	586,013
126,000	127,000	-	-	-	-	-	1	-	-	-	-	-	-	1	68,920	586,139
127,000	129,000	-	-	-	-	-	1	-	-	1	-	-	-	1	68,921	586,266
129,000		-	-	-	-	-	1	-	-	-	-	-	-	1	68,922	586,395

Rio Rico Utilities, Inc. - Water Division  
 Test Year Ended December 31, 2008  
 5/8 Inch Residential

Exhibit  
 Schedule H-5  
 Page 1  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons
130,000	130,000	-	-	-	-	-	1	-	-	-	-	-	-	1	68,923	566,525
131,000	131,000	-	-	-	-	-	-	1	-	-	-	-	-	1	68,924	586,656
132,000	132,000	-	-	-	-	-	-	1	-	-	-	-	-	1	68,925	586,788
133,000	133,000	-	-	-	-	1	-	-	-	-	-	-	-	1	68,926	586,921
135,000	135,000	-	-	-	-	-	1	-	-	-	-	-	-	1	68,927	587,056
136,000	136,000	-	-	-	-	-	-	1	-	-	-	-	-	1	68,929	587,328
138,000	138,000	-	1	1	-	-	-	-	-	-	-	-	1	2	68,931	587,604
148,000	148,000	-	-	-	-	-	-	-	-	-	-	-	-	1	68,932	587,752
162,000	162,000	-	-	-	-	-	-	-	-	-	-	-	-	1	68,932	587,752
163,000	163,000	-	-	-	1	-	-	-	-	-	-	-	-	1	68,933	587,915
166,000	166,000	-	-	-	-	-	-	-	-	-	-	-	-	1	68,934	588,081
167,000	167,000	-	-	-	-	-	1	-	-	-	-	-	-	1	68,935	588,248
191,000	191,000	-	-	-	-	-	1	-	-	-	-	-	-	1	68,936	588,439
207,000	207,000	-	-	-	-	-	1	-	-	1	-	-	-	1	68,937	588,646
211,000	211,000	-	-	-	-	-	-	-	-	-	-	-	-	1	68,938	588,857
215,000	215,000	-	-	-	-	-	1	-	-	-	-	-	-	1	68,939	589,072
221,000	221,000	-	-	-	-	-	-	1	-	-	-	-	-	1	68,940	589,293

Totals	5,628	5,753	5,721	5,934	5,786	5,964	5,822	5,769	5,662	5,621	5,647	5,633	68,940	Average Usage	8,548
														Median Usage	7,000





Rio Rico Utilities, Inc. - Water Division  
 Test Year Ended December 31, 2008  
 3/4 Inch Residential

Exhibit  
 Schedule H-5  
 Page 2  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
82,000	82,000	-	-	-	-	-	-	-	-	-	-	-	-	-	95	338
83,000	83,000	-	-	-	-	-	-	-	-	-	-	-	-	-	95	338
84,000	84,000	-	-	-	-	-	-	-	-	-	-	-	-	-	95	338
85,000	85,000	-	-	-	-	-	-	-	-	-	-	-	-	-	95	338
86,000	86,000	-	-	-	-	-	-	-	-	-	-	-	-	-	95	338
87,000	87,000	-	-	-	-	-	-	-	-	-	-	-	-	-	95	338
88,000	88,000	-	-	-	-	-	-	-	-	-	-	-	-	-	95	338
89,000	89,000	-	-	-	-	-	-	-	-	-	-	-	-	-	95	338
90,000	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	95	338
91,000	91,000	-	-	-	-	-	-	-	-	-	-	-	-	-	95	338
92,000	92,000	-	-	-	-	-	-	-	-	-	-	-	-	-	95	338
93,000	93,000	-	-	-	-	-	-	-	-	-	-	-	-	-	95	338
94,000	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-	95	338
95,000	95,000	-	-	-	-	-	-	-	-	-	-	-	-	-	95	338
96,000	96,000	-	-	-	-	-	-	-	-	-	-	-	-	-	95	338
97,000	97,000	-	-	-	-	-	-	-	-	-	-	-	-	-	95	338
98,000	98,000	-	-	-	-	-	-	-	-	-	-	-	-	-	95	338
99,000	99,000	-	-	-	-	-	-	-	-	-	-	-	-	-	95	338
100,000	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	95	338

Totals 7 7 10 7 8 8 8 8 8 8 8 8 8 8 95  
 Average Usage 3,558  
 Median Usage 3,000

Rio Rico Utilities, Inc. - Water Division  
 Test Year Ended December 31, 2008  
 1 Inch Residential

Exhibit  
 Schedule H-5  
 Page 3  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
1,000	1,000	2	2	2	2	3	7	1	3	2	1	1	18	36	36	-
2,000	2,000	2	2	2	2	2	1	1	1	-	2	2	-	17	53	17
3,000	3,000	2	1	2	1	1	1	3	2	1	3	3	6	25	78	67
4,000	4,000	3	2	3	2	3	4	3	4	2	4	1	3	25	103	142
5,000	5,000	3	3	3	3	4	1	3	3	4	1	6	3	37	140	290
6,000	6,000	4	4	4	4	2	-	2	-	2	3	2	2	27	167	425
7,000	7,000	3	3	3	3	2	3	2	5	1	3	2	2	33	200	623
8,000	8,000	2	-	2	-	3	1	3	1	1	1	1	3	27	227	812
9,000	9,000	1	2	1	2	2	1	2	-	4	-	1	-	15	242	932
10,000	10,000	2	3	2	3	1	4	-	2	1	2	2	1	19	261	1,103
11,000	11,000	-	1	-	1	2	2	2	1	-	2	1	2	22	283	1,323
12,000	12,000	-	-	-	-	3	1	1	3	-	2	-	1	13	296	1,466
13,000	13,000	1	3	1	3	-	1	3	-	3	-	2	2	15	311	1,646
14,000	14,000	2	1	2	1	2	2	-	1	-	-	1	1	16	327	1,854
15,000	15,000	1	1	1	1	1	-	1	-	-	1	-	-	12	339	2,022
16,000	16,000	-	-	-	-	1	-	-	2	-	-	-	-	6	345	2,112
17,000	17,000	1	-	1	-	1	-	1	-	-	1	1	1	5	350	2,192
18,000	18,000	-	-	-	-	-	1	-	-	-	-	2	-	4	354	2,260
19,000	19,000	-	-	-	-	-	-	-	1	-	-	-	-	6	360	2,368
20,000	20,000	1	-	1	-	-	-	-	-	1	-	1	-	2	362	2,406
21,000	21,000	-	-	-	-	-	-	-	1	-	1	-	1	5	367	2,506
22,000	22,000	1	-	1	-	-	-	-	-	-	-	-	-	2	369	2,548
23,000	23,000	-	-	-	-	-	-	-	-	-	1	-	-	3	372	2,614
24,000	24,000	-	-	-	-	-	2	-	-	-	1	-	-	2	374	2,660
25,000	25,000	1	-	1	-	-	-	-	1	-	1	-	-	5	379	2,780
26,000	26,000	-	2	-	-	-	-	-	-	-	-	1	-	4	383	2,880
27,000	27,000	1	2	-	2	1	1	-	-	1	-	-	-	6	389	3,036
28,000	28,000	-	-	-	-	2	-	-	-	-	-	-	-	7	396	3,225
29,000	29,000	-	-	-	-	2	1	-	-	1	-	-	-	4	400	3,337
30,000	30,000	-	-	-	-	-	-	1	-	-	-	1	-	3	403	3,424
31,000	31,000	-	-	-	-	-	-	-	-	-	-	-	-	1	404	3,454
32,000	32,000	-	-	-	-	-	-	-	-	1	-	-	-	1	405	3,485
33,000	33,000	-	1	-	-	-	-	-	-	-	-	-	-	1	406	3,517
34,000	34,000	-	-	-	1	-	-	1	-	-	-	-	-	2	408	3,583
35,000	35,000	-	-	-	-	-	-	-	-	-	-	-	-	2	410	3,651
36,000	36,000	1	-	1	-	-	-	-	-	-	-	-	-	2	412	3,723
37,000	37,000	-	-	-	-	2	-	-	-	-	-	1	-	4	416	3,871
38,000	38,000	-	-	-	-	-	1	-	-	-	-	-	-	1	417	3,909
39,000	39,000	-	-	-	-	-	-	-	-	-	-	-	-	1	417	3,909
40,000	40,000	-	-	-	-	-	-	1	-	-	-	-	-	1	418	3,949

Rio Rico Utilities, Inc. - Water Division  
 Test Year Ended December 31, 2008  
 1 Inch Residential

Exhibit  
 Schedule H-5  
 Page 3  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
41,000	41,000	-	-	-	-	-	1	1	-	-	-	-	-	2	420	4,031
42,000	42,000	-	-	-	-	-	-	-	-	-	1	-	-	2	422	4,115
43,000	43,000	-	-	-	-	-	-	-	-	-	-	-	-	-	422	4,115
44,000	44,000	-	-	-	-	-	-	-	-	-	-	-	-	-	422	4,115
45,000	45,000	-	-	-	-	-	-	-	-	-	-	-	-	-	422	4,115
46,000	46,000	-	1	-	-	-	-	-	-	-	-	-	-	2	424	4,207
47,000	47,000	-	-	-	1	-	1	-	-	-	-	-	-	3	427	4,348
48,000	48,000	-	-	-	-	-	-	-	-	-	-	-	-	-	427	4,348
49,000	49,000	-	-	-	-	-	-	-	-	-	-	-	-	-	427	4,348
50,000	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	427	4,348
51,000	51,000	-	-	-	-	-	-	-	-	-	-	-	-	-	427	4,348
52,000	52,000	-	-	-	-	-	-	-	-	-	-	-	-	-	427	4,348
53,000	53,000	-	-	-	-	-	-	-	-	-	-	-	-	-	427	4,348
54,000	54,000	-	-	-	-	-	-	-	-	-	-	-	-	-	427	4,348
55,000	55,000	-	-	-	-	-	-	-	-	-	-	-	-	-	427	4,348
56,000	56,000	-	-	-	-	-	-	-	-	-	-	-	-	-	427	4,348
57,000	57,000	-	-	-	-	-	-	-	-	-	-	-	-	-	427	4,348
58,000	58,000	-	-	-	-	-	-	-	-	-	-	-	-	-	427	4,348
59,000	59,000	-	-	-	-	-	-	-	-	-	-	-	-	-	427	4,348
60,000	60,000	-	-	-	-	-	-	-	-	-	-	-	-	-	427	4,348
61,000	61,000	-	-	-	-	-	-	-	-	-	-	-	-	-	427	4,348
62,000	62,000	-	-	-	-	-	-	-	-	-	-	-	-	-	427	4,348
63,000	63,000	-	-	-	-	-	-	-	-	-	-	-	-	-	427	4,348
64,000	64,000	-	-	-	-	-	-	-	-	-	-	-	-	-	427	4,348
65,000	65,000	-	-	-	-	-	-	-	-	-	-	-	-	-	427	4,348
66,000	66,000	-	-	-	-	-	-	-	-	-	-	-	-	-	427	4,348
67,000	67,000	-	-	-	-	-	-	-	-	-	-	-	-	-	428	4,415
68,000	68,000	-	-	-	-	-	-	-	-	1	-	-	-	1	428	4,415
69,000	69,000	-	-	-	-	-	-	-	-	-	-	-	-	-	428	4,415
70,000	70,000	-	-	-	-	-	-	-	-	-	-	-	-	-	428	4,415
71,000	71,000	-	-	-	-	-	-	-	-	-	-	-	-	-	428	4,415
72,000	72,000	-	-	-	-	-	1	-	-	-	-	-	-	-	428	4,415
73,000	73,000	-	-	-	-	-	-	-	-	-	-	-	-	-	429	4,488
74,000	74,000	-	-	-	-	-	-	-	-	-	-	-	-	-	429	4,488
75,000	75,000	-	-	-	-	-	-	-	-	-	-	-	-	-	429	4,488
76,000	76,000	-	-	-	-	-	-	-	-	-	-	-	-	-	429	4,488
77,000	77,000	-	-	-	-	-	-	-	-	-	-	-	-	-	429	4,488
78,000	78,000	-	-	-	-	-	-	-	-	-	-	-	-	-	429	4,488
79,000	79,000	-	-	-	-	-	-	-	-	-	-	-	-	-	429	4,488
80,000	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	429	4,488
81,000	81,000	-	-	-	-	-	-	-	-	-	-	-	-	-	429	4,488



Rio Rico Utilities, Inc. - Water Division  
 Test Year Ended December 31, 2008  
 1 1/2 Inch Residential

Exhibit  
 Schedule H-5  
 Page 4  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
1,000	1,000	-	-	-	-	-	-	-	-	-	-	-	-	7	7	-
2,000	2,000	-	-	-	-	-	-	-	-	-	-	-	-	7	7	-
3,000	3,000	-	-	-	-	-	-	-	-	-	-	-	-	7	7	-
4,000	4,000	-	-	-	-	-	-	-	-	-	-	-	-	7	7	-
5,000	5,000	-	-	-	-	-	-	-	-	-	-	-	-	7	7	-
6,000	6,000	-	-	-	-	-	-	-	-	-	-	-	-	7	7	-
7,000	7,000	-	-	-	-	-	-	-	-	-	-	-	-	7	7	-
8,000	8,000	-	1	-	-	-	-	-	1	-	-	-	-	4	11	32
9,000	9,000	-	-	-	-	-	-	-	-	-	-	-	-	4	11	32
10,000	10,000	-	-	-	-	-	-	-	-	-	-	-	-	5	16	87
11,000	11,000	1	-	-	-	1	-	-	-	-	-	1	-	3	19	123
12,000	12,000	-	-	-	-	-	1	-	-	-	-	-	-	5	24	221
13,000	13,000	-	-	-	-	-	-	1	-	-	-	-	-	2	26	265
14,000	14,000	-	-	-	-	-	-	-	-	-	-	-	-	2	28	311
15,000	15,000	-	-	-	-	-	-	-	-	-	-	-	-	2	29	335
16,000	16,000	-	-	-	-	-	-	-	-	-	-	-	-	2	29	335
17,000	17,000	-	-	-	-	-	-	-	-	-	-	-	-	1	30	362
18,000	18,000	-	-	-	-	-	-	-	-	-	-	-	-	1	32	418
19,000	19,000	-	-	-	-	-	-	-	-	-	-	-	-	1	32	418
20,000	20,000	-	1	-	-	-	-	-	-	-	-	-	-	2	33	448
21,000	21,000	-	-	-	-	-	-	-	-	-	-	-	-	2	33	448
22,000	22,000	-	-	1	-	-	-	-	-	-	-	-	-	1	36	541
23,000	23,000	-	1	-	-	-	-	-	-	-	-	-	-	1	36	541
24,000	24,000	-	-	-	-	1	-	-	-	-	-	-	-	3	36	541
25,000	25,000	-	-	-	-	-	-	-	-	-	-	-	-	1	36	541
26,000	26,000	-	-	-	-	-	-	-	-	-	-	-	-	1	36	541
27,000	27,000	-	-	-	-	-	-	-	-	-	-	-	-	1	36	541
28,000	28,000	-	1	-	-	-	-	-	-	-	-	-	-	2	37	574
29,000	29,000	-	-	-	-	-	-	-	-	-	-	-	-	1	37	574
30,000	30,000	-	-	-	-	-	-	-	-	-	-	-	-	1	37	574
31,000	31,000	-	1	-	-	-	1	-	-	-	-	-	-	1	37	574
32,000	32,000	-	-	-	-	-	-	-	-	-	-	-	-	1	37	574
33,000	33,000	-	-	-	-	-	-	-	-	-	-	-	-	1	37	574
34,000	34,000	-	-	-	-	-	-	-	-	-	-	-	-	1	37	574
35,000	35,000	-	-	-	-	-	-	-	-	-	-	-	-	1	37	574
36,000	36,000	-	-	-	-	-	-	-	-	-	-	-	-	1	38	611
37,000	37,000	-	-	-	-	-	-	-	-	-	-	-	-	1	38	611
38,000	38,000	-	-	-	-	-	-	-	-	-	-	-	-	1	38	611

Rio Rico Utilities, Inc. - Water Division  
 Test Year Ended December 31, 2008  
 1 1/2 Inch Residential

Exhibit  
 Schedule H-5  
 Page 4  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
39,000	39,000	-	-	-	-	-	-	-	-	1	-	-	-	1	39	650
40,000	40,000	-	-	-	-	-	-	-	-	-	-	-	-	-	39	650
41,000	41,000	-	-	-	-	-	-	-	-	-	-	-	-	-	39	650
42,000	42,000	-	-	-	-	-	-	-	-	-	-	-	-	-	39	650
43,000	43,000	-	-	-	-	-	-	-	-	-	-	-	-	-	39	650
44,000	44,000	-	-	-	-	-	-	-	-	-	-	-	-	-	39	650
45,000	45,000	-	-	-	-	-	1	-	-	-	-	-	-	-	40	695
46,000	46,000	-	-	-	-	-	-	-	-	-	-	1	-	-	41	741
47,000	47,000	-	-	-	-	-	-	-	-	-	-	-	-	-	41	741
48,000	48,000	-	-	-	-	-	-	-	-	-	-	-	-	-	41	741
49,000	49,000	-	-	-	-	-	-	-	-	-	-	-	-	-	41	741
50,000	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	41	741
51,000	51,000	-	-	-	-	-	-	-	-	-	-	-	-	-	41	741
52,000	52,000	-	-	-	-	-	-	-	-	-	-	-	-	-	41	741
53,000	53,000	-	-	-	-	-	-	-	-	-	-	-	-	-	41	741
54,000	54,000	-	-	-	-	-	-	1	-	-	-	-	-	-	42	795
55,000	55,000	-	-	-	-	-	-	-	-	-	-	-	-	-	42	795
56,000	56,000	-	-	-	-	-	-	-	-	-	-	-	-	-	42	795
57,000	57,000	-	-	-	-	-	-	-	-	-	-	-	-	-	42	795
58,000	58,000	-	-	-	-	-	-	-	-	-	-	-	-	-	42	795
59,000	59,000	-	-	-	-	-	-	-	-	-	-	-	-	-	42	795
60,000	60,000	-	-	-	-	-	-	-	-	-	-	-	-	-	42	795
61,000	61,000	-	-	-	-	-	-	-	-	-	-	-	-	-	42	795
62,000	62,000	-	-	-	-	-	-	-	-	-	-	-	-	-	42	795
63,000	63,000	-	-	-	-	-	-	-	-	-	-	-	-	-	42	795
64,000	64,000	-	-	-	-	-	-	-	-	-	-	-	-	-	42	795
65,000	65,000	-	-	-	-	-	-	-	-	-	-	-	-	-	42	795
66,000	66,000	-	-	-	-	-	-	-	-	-	-	-	-	-	42	795
67,000	67,000	-	-	-	-	-	-	-	-	-	-	-	-	-	42	795
68,000	68,000	-	-	-	-	-	-	-	-	-	-	-	-	-	42	795
69,000	69,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
70,000	70,000	-	-	-	-	-	-	-	-	-	1	-	-	-	43	865
71,000	71,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
72,000	72,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
73,000	73,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
74,000	74,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
75,000	75,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
76,000	76,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
77,000	77,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865

Rio Rico Utilities, Inc. - Water Division  
 Test Year Ended December 31, 2008  
 1 1/2 Inch Residential

Exhibit  
 Schedule H-5  
 Page 4  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
78,000	78,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
79,000	79,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
80,000	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
81,000	81,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
82,000	82,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
83,000	83,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
84,000	84,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
85,000	85,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
86,000	86,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
87,000	87,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
88,000	88,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
89,000	89,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
90,000	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
91,000	91,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
92,000	92,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
93,000	93,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
94,000	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
95,000	95,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
96,000	96,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
97,000	97,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
98,000	98,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
99,000	99,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865
100,000	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	865

Totals	3	3	3	3	3	3	4	4	3	3	3	3	8	43		
	Average Usage														20,116	
	Median Usage														20,000	





**Rio Rico Utilities, Inc. - Water Division**  
 Test Year Ended December 31, 2008  
 2 Inch Residential

Exhibit  
 Schedule H-5  
 Page 5  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
84,000	84,000	-	-	-	-	-	-	-	-	-	-	-	-	-	47	822
85,000	85,000	-	-	-	-	-	-	-	-	-	-	-	-	-	47	822
86,000	86,000	-	-	-	-	-	-	-	-	-	-	-	-	-	47	822
87,000	87,000	-	-	-	-	-	-	-	-	-	-	-	-	-	47	822
88,000	88,000	-	-	-	-	-	-	-	-	-	-	-	-	-	47	822
89,000	89,000	-	-	-	-	-	-	-	-	-	-	-	-	-	47	822
90,000	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	47	822
91,000	91,000	-	-	-	-	-	-	-	-	-	-	-	-	-	47	822
92,000	92,000	-	-	-	-	-	-	-	-	-	-	-	-	-	47	822
93,000	93,000	-	-	-	-	-	-	-	-	-	-	-	-	-	47	822
94,000	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-	47	822
95,000	95,000	-	-	-	-	-	-	-	-	-	-	-	-	-	47	822
96,000	96,000	-	-	-	-	-	-	-	-	-	-	-	-	-	47	822
97,000	97,000	-	-	-	-	-	-	-	-	-	-	-	-	-	47	822
98,000	98,000	-	-	-	-	-	-	-	-	-	-	-	-	-	47	822
99,000	99,000	-	-	-	-	-	-	-	-	-	-	-	-	-	47	822
100,000	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	48	957
135,000	135,000	-	-	-	-	-	-	-	-	1	-	-	-	-	48	957
<b>Totals</b>														48	957	
														Average Usage	19,938	
														Median Usage	16,500	

Meter Size:

**Rio Rico Utilities, Inc. - Water Division**  
**Test Year Ended December 31, 2008**  
**5/8 Inch Commercial**

Exhibit  
 Schedule H-5  
 Page 6  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
1,000	1,000	12	17	12	17	10	16	13	18	12	18	11	35	191	191	-
2,000	2,000	5	5	5	5	10	9	6	14	10	12	8	13	120	311	120
3,000	3,000	11	5	11	5	4	11	13	10	12	13	6	6	101	412	322
4,000	4,000	2	5	2	5	5	5	5	5	6	2	6	6	71	483	535
5,000	5,000	8	3	8	3	5	2	4	4	4	5	7	7	52	535	743
6,000	6,000	4	10	4	10	3	1	1	2	3	6	4	4	48	583	983
7,000	7,000	4	5	4	5	3	2	3	5	2	1	3	4	51	634	1,289
8,000	8,000	3	3	3	3	2	2	5	2	3	2	2	5	43	677	1,580
9,000	9,000	3	3	3	3	5	2	2	2	3	3	5	1	26	703	1,798
10,000	10,000	2	2	2	2	3	2	2	4	1	2	3	3	32	735	2,086
11,000	11,000	1	2	1	2	4	5	2	4	1	3	3	4	33	768	2,416
12,000	12,000	3	3	3	3	2	2	2	3	4	4	2	2	25	793	2,691
13,000	13,000	1	3	1	3	1	1	2	2	1	3	5	3	31	824	3,063
14,000	14,000	1	3	1	3	2	2	1	1	4	2	1	1	16	840	3,271
15,000	15,000	1	1	1	1	-	1	1	2	-	1	1	2	21	861	3,565
16,000	16,000	1	1	1	1	1	4	6	1	-	1	4	1	12	873	3,745
17,000	17,000	3	3	3	3	1	1	1	1	-	1	2	1	18	891	4,033
18,000	18,000	1	1	1	1	3	3	1	1	4	4	1	1	20	911	4,373
19,000	19,000	2	1	2	1	2	4	1	1	1	1	-	1	14	925	4,625
20,000	20,000	2	2	2	2	1	3	2	1	1	1	1	1	18	943	4,967
21,000	21,000	2	1	2	1	2	1	1	-	1	3	-	1	12	955	5,207
22,000	22,000	2	1	2	1	1	1	2	1	2	1	1	-	17	972	5,564
23,000	23,000	-	2	-	-	1	-	4	1	2	-	2	2	12	984	5,828
24,000	24,000	1	1	1	2	1	3	-	3	-	1	2	2	16	1,000	6,196
25,000	25,000	1	1	1	1	-	3	1	2	2	-	1	2	15	1,015	6,556
26,000	26,000	1	1	1	1	1	1	2	1	2	-	-	-	11	1,026	6,831
27,000	27,000	1	1	1	1	1	1	2	-	2	-	2	-	6	1,032	6,987
28,000	28,000	2	1	2	1	-	1	1	1	1	1	-	-	8	1,039	7,176
29,000	29,000	-	1	-	-	1	1	-	-	-	-	1	-	5	1,047	7,400
30,000	30,000	-	1	-	1	-	1	-	-	-	-	1	-	8	1,052	7,545
31,000	31,000	1	-	-	1	1	1	2	-	2	-	-	1	9	1,061	7,815
32,000	32,000	-	-	1	-	1	-	-	1	-	-	1	1	6	1,067	8,001
33,000	33,000	-	1	-	-	1	1	1	1	1	-	-	-	6	1,073	8,193
34,000	34,000	-	1	-	-	-	-	-	1	-	-	-	-	4	1,077	8,325
35,000	35,000	-	-	-	1	-	-	-	-	-	-	1	-	4	1,080	8,427
36,000	36,000	-	-	-	-	1	-	-	-	-	2	-	-	4	1,084	8,567
37,000	37,000	1	-	1	-	-	2	-	-	-	1	-	-	3	1,087	8,675
38,000	38,000	-	1	-	1	-	-	1	-	-	1	-	-	3	1,090	8,786
														4	1,094	8,938

Meter Size:

**Rio Rico Utilities, Inc. - Water Division**  
**Test Year Ended December 31, 2008**  
 5/8 Inch Commercial

Exhibit  
 Schedule H-5  
 Page 6  
 Witness: Bourassa

Usage	Usage	Month	Total	Cumulative	Cumulative											
From:	To:	of	Year	Billing	Gallons											
39,000	39,000	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08		(in 1,000's)	
40,000	40,000	1	1	1	1	1	1	1	1	1	1	1	1	4	1,098	9,094
41,000	41,000	-	-	-	-	-	-	-	1	-	-	-	-	7	1,105	9,374
42,000	42,000	-	-	-	-	-	-	-	-	-	-	-	-	1	1,106	9,415
43,000	43,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,106	9,415
44,000	44,000	1	-	1	-	1	-	-	-	-	1	-	-	4	1,110	9,587
45,000	45,000	-	-	-	-	-	-	-	-	-	-	1	-	2	1,112	9,675
46,000	46,000	-	-	-	-	-	-	-	1	-	-	-	-	2	1,114	9,765
47,000	47,000	-	-	-	-	-	-	-	-	1	-	-	-	1	1,115	9,811
48,000	48,000	-	1	-	1	-	1	-	-	-	-	-	-	3	1,118	9,952
49,000	49,000	-	-	-	-	-	-	-	-	-	-	-	-	1	1,119	10,000
50,000	50,000	1	-	1	-	-	-	-	-	1	-	-	-	3	1,122	10,147
51,000	51,000	-	-	-	-	-	-	-	-	-	-	-	1	1,122	10,147	
52,000	52,000	-	-	-	-	-	-	-	-	-	-	1	-	1	1,119	10,000
53,000	53,000	-	-	-	-	-	-	-	-	-	-	-	1	1,122	10,147	
54,000	54,000	1	-	1	-	1	-	1	-	-	-	-	-	3	1,122	10,147
55,000	55,000	-	-	-	-	-	-	-	-	-	-	-	1	1,122	10,147	
56,000	56,000	-	1	-	1	-	-	-	-	-	-	-	-	2	1,124	10,249
57,000	57,000	-	-	-	-	-	-	-	-	-	-	-	1	1,125	10,301	
58,000	58,000	-	-	-	-	-	-	-	-	-	-	-	1	1,128	10,460	
59,000	59,000	-	-	-	-	-	-	-	-	-	-	-	3	1,131	10,622	
60,000	60,000	-	-	-	-	-	-	-	-	-	-	-	2	1,133	10,732	
61,000	61,000	-	-	-	-	-	-	-	-	-	-	-	1	1,133	10,732	
62,000	62,000	-	-	-	-	-	-	-	-	-	-	-	1	1,133	10,732	
63,000	63,000	-	-	-	-	-	-	-	-	-	-	-	1	1,133	10,732	
64,000	64,000	-	-	-	-	-	-	-	-	-	-	-	1	1,133	10,732	
65,000	65,000	-	-	-	-	-	-	-	-	-	-	-	1	1,134	10,794	
66,000	66,000	-	-	-	-	-	-	-	-	-	-	-	1	1,134	10,794	
67,000	67,000	-	-	-	-	-	-	-	-	-	-	-	1	1,135	10,858	
68,000	68,000	-	-	-	-	-	-	-	-	-	-	-	2	1,135	10,858	
69,000	69,000	-	-	-	-	-	-	-	-	-	-	-	3	1,137	10,990	
70,000	70,000	-	-	-	-	-	-	-	-	-	-	-	1	1,140	11,191	
71,000	71,000	-	-	-	-	-	-	-	-	-	-	-	1	1,140	11,191	
72,000	72,000	-	-	-	-	-	-	-	-	-	-	-	1	1,140	11,191	
73,000	73,000	-	-	-	-	-	-	-	-	-	-	-	1	1,141	11,261	
74,000	74,000	-	-	-	-	-	-	-	-	-	-	-	1	1,141	11,261	
75,000	75,000	-	1	-	-	-	-	-	-	-	-	-	1	1,141	11,261	
76,000	76,000	-	-	-	-	-	-	-	-	-	-	-	2	1,142	11,334	
77,000	77,000	-	-	-	-	-	-	-	-	-	-	-	1	1,142	11,334	
		-	-	-	-	-	-	-	-	-	-	-	1	1,144	11,334	
		-	-	-	-	-	-	-	-	-	-	-	2	1,144	11,484	
		-	-	-	-	-	-	-	-	-	-	-	1	1,145	11,560	
		-	-	-	-	-	-	-	-	-	-	-	1	1,145	11,560	





Rio Rico Utilities, Inc. - Water Division  
 Test Year Ended December 31, 2008  
 1 Inch Commercial

Exhibit  
 Schedule H-5  
 Page 7  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
1,000	1,000	7	9	5	4	8	5	5	2	4	4	3	8	64	64	-
2,000	2,000	2	2	2	2	2	2	1	5	3	5	8	4	38	102	38
3,000	3,000	3	2	3	2	3	2	3	5	6	7	3	4	43	145	124
4,000	4,000	5	3	5	3	2	2	4	2	4	2	2	2	36	181	232
5,000	5,000	3	4	3	4	3	1	4	-	2	3	2	3	32	213	360
6,000	6,000	-	1	-	1	2	3	1	2	2	2	1	2	17	230	445
7,000	7,000	2	1	2	1	-	2	-	1	1	-	1	2	13	243	523
8,000	8,000	1	1	1	1	3	-	-	1	2	-	3	1	14	257	621
9,000	9,000	-	2	-	2	2	-	2	4	1	1	1	-	12	269	717
10,000	10,000	2	2	2	2	-	1	2	-	1	-	1	1	18	287	879
11,000	11,000	2	1	2	1	-	1	2	3	1	1	1	2	13	300	1,009
12,000	12,000	-	-	-	-	-	2	1	-	-	1	1	1	9	309	1,108
13,000	13,000	2	-	2	-	-	-	-	1	-	1	-	-	5	314	1,168
14,000	14,000	1	-	1	-	-	1	1	1	-	1	1	-	6	320	1,246
15,000	15,000	-	-	-	-	-	-	-	-	-	-	-	1	2	322	1,274
16,000	16,000	-	-	-	-	-	-	-	-	-	-	-	1	4	326	1,334
17,000	17,000	-	-	-	-	2	1	-	-	-	-	-	2	4	330	1,398
18,000	18,000	-	-	-	-	1	2	-	-	-	-	1	-	4	334	1,466
19,000	19,000	-	-	-	-	2	-	1	-	1	-	1	2	7	341	1,592
20,000	20,000	-	-	-	-	-	-	-	3	-	-	-	-	4	345	1,668
21,000	21,000	1	-	1	-	1	-	-	-	-	1	-	-	4	349	1,748
22,000	22,000	-	-	-	-	-	-	1	-	-	-	-	-	4	349	1,748
23,000	23,000	2	-	2	-	-	-	-	-	-	1	-	-	4	349	1,748
24,000	24,000	1	1	1	1	2	-	-	-	1	1	1	3	3	352	1,811
25,000	25,000	-	-	-	-	-	-	-	-	-	-	-	-	6	358	1,943
26,000	26,000	-	-	-	-	-	-	-	-	-	-	-	-	11	369	2,196
27,000	27,000	1	1	1	1	-	1	-	-	1	-	-	3	4	373	2,292
28,000	28,000	-	-	-	-	-	-	1	-	-	1	-	-	4	376	2,292
29,000	29,000	1	1	1	1	-	-	1	-	1	1	-	2	3	380	2,367
30,000	30,000	-	-	-	-	-	-	-	-	-	-	-	-	4	380	2,367
31,000	31,000	1	-	-	-	-	-	-	-	-	-	-	-	8	388	2,687
32,000	32,000	-	-	-	-	-	-	-	-	-	-	-	-	3	388	2,687
33,000	33,000	2	1	2	1	1	1	1	-	1	1	1	-	3	391	2,771
34,000	34,000	-	-	-	-	-	-	-	-	-	-	-	-	3	394	2,858
35,000	35,000	-	-	-	-	-	-	-	-	-	-	-	-	3	394	2,858
36,000	36,000	-	-	-	-	-	-	-	-	-	-	-	-	3	397	2,948
37,000	37,000	-	1	-	-	-	-	-	-	-	-	-	-	9	406	3,227
		-	-	-	-	-	-	-	-	-	-	-	-	6	412	3,419
		-	-	-	-	-	-	-	-	-	-	-	-	6	418	3,617
		-	-	-	-	-	-	-	-	-	-	-	-	4	422	3,753
		-	-	-	-	-	-	-	-	-	-	-	-	3	425	3,858
		-	-	-	-	-	-	-	-	-	-	-	-	2	427	3,930
		-	-	-	-	-	-	-	-	-	-	-	-	3	430	4,041

Rio Rico Utilities, Inc. - Water Division  
 Test Year Ended December 31, 2008  
 1 Inch Commercial

Exhibit  
 Schedule H-5  
 Page 7  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
38,000	38,000	-	-	-	-	-	1	1	1	-	-	-	1	6	436	4,269
39,000	39,000	1	1	1	1	-	-	-	-	-	2	-	1	4	440	4,425
40,000	40,000	1	-	1	-	-	-	-	-	-	1	-	-	3	443	4,545
41,000	41,000	-	-	-	-	-	-	-	1	-	-	-	-	2	445	4,627
42,000	42,000	-	1	-	1	1	-	1	-	-	-	-	1	4	449	4,795
43,000	43,000	-	-	-	-	-	-	-	-	1	-	-	-	2	451	4,881
44,000	44,000	-	-	-	-	-	-	-	-	-	-	1	-	2	451	4,881
45,000	45,000	-	-	-	-	-	-	-	-	-	-	-	-	2	451	4,881
46,000	46,000	-	1	-	1	-	-	1	-	1	-	-	-	3	453	4,971
47,000	47,000	-	2	1	1	-	-	-	-	-	-	-	1	3	456	5,109
48,000	48,000	-	-	-	-	-	-	1	-	-	-	-	-	7	463	5,438
49,000	49,000	-	-	-	-	-	-	-	1	1	-	-	-	2	465	5,534
50,000	50,000	-	-	-	-	1	1	-	-	-	-	-	-	2	467	5,632
51,000	51,000	1	1	1	1	1	-	-	-	-	1	-	-	3	470	5,782
52,000	52,000	-	1	-	1	1	1	-	-	-	-	-	-	5	475	6,037
53,000	53,000	-	-	-	-	-	-	-	1	-	-	-	-	4	479	6,245
54,000	54,000	-	-	-	-	-	-	-	-	-	-	-	-	1	480	6,298
55,000	55,000	-	-	-	-	1	-	-	-	-	-	-	-	1	480	6,298
56,000	56,000	-	-	-	-	-	-	-	-	-	-	-	-	1	481	6,353
57,000	57,000	-	1	-	1	-	-	-	-	-	1	-	-	3	481	6,353
58,000	58,000	-	-	-	-	-	-	-	-	-	-	-	-	1	481	6,353
59,000	59,000	-	-	-	-	-	-	-	-	-	-	-	-	1	481	6,353
60,000	60,000	-	-	-	-	-	-	-	-	-	-	-	-	1	481	6,353
61,000	61,000	-	-	-	-	-	-	1	-	-	-	-	-	1	484	6,524
62,000	62,000	-	-	-	-	-	2	-	-	-	-	-	-	2	485	6,585
63,000	63,000	-	-	-	-	-	-	-	-	-	-	-	-	2	487	6,709
64,000	64,000	-	-	-	-	1	-	-	-	-	-	-	1	2	489	6,835
65,000	65,000	-	-	-	-	-	-	-	-	-	-	-	-	2	489	6,835
66,000	66,000	-	2	-	-	-	-	-	-	-	-	-	-	5	489	6,835
67,000	67,000	-	-	-	2	-	-	-	-	-	-	-	-	5	494	7,165
68,000	68,000	-	1	-	-	1	-	-	-	-	-	-	-	4	494	7,165
69,000	69,000	-	-	-	-	-	-	-	-	-	-	1	-	4	498	7,437
70,000	70,000	-	-	-	-	-	-	-	-	-	-	-	-	2	500	7,575
71,000	71,000	-	-	-	-	-	-	-	-	-	-	-	-	2	500	7,575
72,000	72,000	-	-	-	-	-	-	-	-	-	-	-	-	2	500	7,575
73,000	73,000	-	-	-	-	-	-	-	-	-	-	-	-	2	500	7,575
74,000	74,000	-	-	-	-	-	-	-	-	-	-	-	-	2	500	7,575
75,000	75,000	-	-	-	-	-	-	-	-	-	-	-	-	2	500	7,575

Rio Rico Utilities, Inc. - Water Division  
 Test Year Ended December 31, 2008  
 1 Inch Commercial

Exhibit  
 Schedule H-5  
 Page 7  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
76,000	76,000	-	-	-	-	-	-	1	-	-	-	-	-	1	501	7,651
77,000	77,000	-	-	-	-	-	-	-	-	-	-	-	-	-	501	7,651
78,000	78,000	-	-	-	-	-	-	-	-	-	-	-	-	-	501	7,651
79,000	79,000	-	-	-	-	-	-	-	-	-	-	-	-	-	501	7,651
80,000	80,000	-	-	-	-	-	-	-	-	-	-	1	-	1	502	7,731
81,000	81,000	-	-	-	-	-	-	-	-	-	-	-	-	-	502	7,731
82,000	82,000	-	-	-	-	-	-	-	-	-	-	-	-	-	502	7,731
83,000	83,000	-	-	-	-	-	-	-	-	-	-	-	-	-	502	7,731
84,000	84,000	-	-	-	-	-	-	-	-	-	-	-	-	-	502	7,731
85,000	85,000	-	-	-	-	-	-	-	-	-	-	-	-	-	502	7,731
86,000	86,000	-	-	-	-	-	-	-	-	-	-	-	-	-	502	7,731
87,000	87,000	-	-	-	-	-	-	-	-	-	-	-	-	-	502	7,731
88,000	88,000	-	-	-	-	-	-	-	-	-	-	-	-	-	502	7,731
89,000	89,000	-	-	-	-	-	-	-	-	-	-	-	-	-	502	7,731
90,000	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	502	7,731
91,000	91,000	-	-	-	-	-	1	-	-	-	-	-	-	1	503	7,822
92,000	92,000	-	-	-	-	1	-	-	-	-	-	-	-	1	504	7,914
93,000	93,000	-	-	-	-	-	-	-	-	-	-	-	-	-	504	7,914
94,000	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-	504	7,914
95,000	95,000	-	-	-	-	-	1	-	-	-	-	-	-	1	505	8,009
96,000	96,000	-	-	-	-	-	-	1	-	-	-	-	-	1	506	8,105
97,000	97,000	-	-	-	-	-	-	-	1	-	-	-	-	1	506	8,105
98,000	98,000	-	-	-	-	-	-	-	-	-	-	-	-	-	506	8,105
99,000	99,000	-	-	-	-	-	-	-	-	-	-	-	-	-	506	8,105
100,000	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	506	8,105
101,000	101,000	-	-	-	-	-	-	-	-	-	-	-	-	-	506	8,105
104,000	104,000	-	-	-	-	-	-	1	-	-	-	-	-	1	507	8,206
105,000	105,000	-	-	-	-	1	-	-	-	-	-	-	-	1	508	8,310
106,000	106,000	-	-	-	-	-	1	-	-	-	-	-	-	1	509	8,415
118,000	118,000	-	-	-	-	-	-	1	-	-	-	-	-	1	510	8,521
131,000	131,000	-	-	-	-	-	-	-	1	-	-	-	-	1	511	8,639
132,000	132,000	-	-	-	-	1	-	-	-	-	-	-	-	2	513	8,901
136,000	136,000	-	-	-	-	-	1	-	-	-	-	-	-	1	514	9,033
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	515	9,169
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	515	9,169
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	515	9,169
Totals		45	46	43	41	45	48	42	38	41	40	42	46	515		9,169

**Rio Rico Utilities, Inc. - Water Division**  
 Test Year Ended December 31, 2008  
 1 Inch Commercial

Exhibit  
 Schedule H-5  
 Page 7  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
										Average Usage				17,804		
										Median Usage				8,000		

Rio Rico Utilities, Inc. - Water Division  
 Test Year Ended December 31, 2008  
 1 1/2 Inch Commercial

Exhibit  
 Schedule H-5  
 Page 8  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
1,000	1,000	1	-	-	-	-	6	-	-	-	1	1	1	9	9	4
2,000	2,000	-	1	-	1	1	-	-	-	-	-	-	1	4	13	4
3,000	3,000	-	-	-	-	-	-	-	1	-	-	1	-	3	16	10
4,000	4,000	-	-	-	-	-	-	-	-	1	-	-	-	2	18	16
5,000	5,000	-	1	-	1	-	-	-	-	1	-	-	-	1	19	20
6,000	6,000	-	-	-	-	-	1	-	1	-	-	-	-	3	22	35
7,000	7,000	-	-	-	-	-	-	-	-	1	1	-	-	2	24	47
8,000	8,000	1	-	1	-	-	1	-	-	-	-	1	1	3	27	68
9,000	9,000	-	1	-	1	-	-	-	-	-	-	1	1	3	30	92
10,000	10,000	-	-	-	-	-	-	-	-	-	-	-	1	3	33	119
11,000	11,000	-	-	-	-	-	-	-	-	-	-	-	-	-	33	119
12,000	12,000	-	-	-	-	-	1	-	1	-	-	-	-	3	33	119
13,000	13,000	-	-	-	-	-	-	-	-	1	-	1	-	3	36	155
14,000	14,000	1	-	-	-	-	-	-	-	1	-	-	-	1	37	168
15,000	15,000	-	-	1	-	-	-	1	-	-	-	-	1	2	39	196
16,000	16,000	-	1	-	1	-	-	-	-	-	-	-	-	2	41	226
17,000	17,000	-	-	-	-	-	-	-	-	-	-	-	-	4	45	290
18,000	18,000	-	-	-	-	-	-	1	-	-	-	-	-	1	45	290
19,000	19,000	-	-	-	-	-	-	-	-	-	1	-	-	1	46	308
20,000	20,000	-	-	-	-	-	-	1	-	-	-	-	-	1	47	327
21,000	21,000	-	-	-	-	-	-	-	-	-	1	-	-	2	49	367
22,000	22,000	-	-	-	-	1	-	-	1	-	-	-	-	2	49	367
23,000	23,000	-	-	-	-	-	-	-	-	-	-	-	-	2	51	411
24,000	24,000	-	1	-	-	-	-	-	-	-	-	-	-	2	51	411
25,000	25,000	-	-	-	1	-	-	-	-	-	1	-	-	1	53	459
26,000	26,000	-	-	-	-	-	-	-	-	-	-	-	-	1	54	484
27,000	27,000	1	-	-	-	-	-	-	-	-	-	-	1	3	54	484
28,000	28,000	-	1	-	1	-	-	-	-	-	-	-	-	3	57	565
29,000	29,000	-	-	-	-	-	-	-	-	1	-	-	-	2	60	649
30,000	30,000	-	-	-	-	-	-	-	-	-	-	-	1	2	62	707
31,000	31,000	-	-	-	-	-	-	-	-	-	-	-	-	2	62	707
32,000	32,000	-	-	-	-	-	-	-	-	-	-	-	-	2	62	707
33,000	33,000	-	-	-	-	-	-	-	-	-	-	-	1	2	62	707
34,000	34,000	-	-	-	-	-	-	-	-	-	-	1	-	2	64	707
35,000	35,000	-	-	-	-	1	-	-	-	-	-	-	-	1	64	773
36,000	36,000	-	-	-	-	-	-	-	-	-	1	-	-	1	65	808
37,000	37,000	1	-	1	-	-	-	-	-	-	-	-	-	2	66	844
38,000	38,000	-	1	-	1	-	-	-	-	-	-	-	-	2	68	918
														2	70	994

Rio Rico Utilities, Inc. - Water Division  
 Test Year Ended December 31, 2008  
 1 1/2 Inch Commercial

Exhibit  
 Schedule H-5  
 Page 8  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
39,000	39,000	1	-	-	-	-	-	-	-	-	-	-	-	3	73	1,111
40,000	40,000	-	-	-	-	-	-	-	-	-	1	-	-	1	74	1,151
41,000	41,000	-	-	-	-	-	-	-	-	-	-	-	-	-	74	1,151
42,000	42,000	-	-	-	-	-	-	-	-	-	-	-	-	-	74	1,151
43,000	43,000	-	-	-	-	-	1	-	1	-	-	-	-	2	76	1,237
44,000	44,000	-	-	-	-	1	-	-	-	-	-	-	-	1	77	1,281
45,000	45,000	-	-	-	-	-	-	-	-	-	-	-	-	-	77	1,281
46,000	46,000	-	-	-	-	-	-	-	-	-	-	1	-	1	78	1,327
47,000	47,000	-	-	-	-	-	-	-	-	-	-	-	-	-	78	1,327
48,000	48,000	-	-	-	-	-	1	-	-	-	-	-	-	1	79	1,375
49,000	49,000	-	-	-	-	-	-	-	-	-	1	-	-	1	80	1,424
50,000	50,000	-	-	-	-	-	-	-	-	-	-	-	-	1	81	1,474
51,000	51,000	-	-	-	-	-	-	1	-	-	-	-	-	-	81	1,474
52,000	52,000	-	-	-	-	-	-	-	-	-	-	-	-	-	81	1,474
53,000	53,000	1	-	-	-	-	-	-	-	-	-	-	-	4	85	1,474
54,000	54,000	-	1	-	1	-	-	-	-	-	-	-	-	-	85	1,686
55,000	55,000	-	-	-	-	-	-	-	-	-	-	-	-	-	85	1,686
56,000	56,000	-	-	-	-	-	-	1	-	-	-	-	-	2	87	1,798
57,000	57,000	-	-	-	-	-	-	-	1	-	-	-	-	4	91	2,026
58,000	58,000	-	1	-	1	-	-	1	-	-	-	-	-	5	96	2,316
59,000	59,000	-	-	-	-	-	-	-	-	-	1	-	-	1	97	2,375
60,000	60,000	-	-	-	-	-	-	-	-	-	-	-	-	-	97	2,375
61,000	61,000	-	-	-	-	-	-	-	-	-	-	-	-	-	97	2,375
62,000	62,000	-	-	-	-	-	-	-	1	-	-	-	-	-	97	2,375
63,000	63,000	-	-	-	-	-	-	-	-	-	-	-	-	-	98	2,438
64,000	64,000	-	-	-	-	-	1	-	-	-	-	-	-	1	99	2,502
65,000	65,000	-	-	-	-	-	-	-	-	1	-	-	-	1	100	2,567
66,000	66,000	-	-	-	-	1	-	-	-	-	-	-	-	1	101	2,633
67,000	67,000	-	-	-	-	-	-	-	-	-	-	-	-	-	101	2,633
68,000	68,000	-	-	-	-	-	-	-	-	-	-	-	-	-	101	2,633
69,000	69,000	-	-	-	-	-	-	-	-	-	-	-	-	-	101	2,633
70,000	70,000	-	-	-	-	-	-	-	-	-	-	-	-	-	101	2,633
71,000	71,000	1	-	-	-	-	-	-	-	-	-	-	-	2	103	2,775
72,000	72,000	-	-	1	-	-	-	-	-	-	-	-	-	-	103	2,775
73,000	73,000	-	-	-	-	-	-	-	-	-	-	-	-	-	103	2,775
74,000	74,000	-	-	-	-	1	-	-	-	-	-	-	-	1	104	2,775
75,000	75,000	-	-	-	-	-	1	-	-	-	-	-	-	1	104	2,849
76,000	76,000	-	-	-	-	-	-	1	-	-	-	-	-	1	105	2,924
77,000	77,000	-	1	-	-	-	-	-	-	-	-	-	-	2	106	3,000
		-	-	-	1	-	-	-	-	-	-	-	-	2	108	3,154



Rio Rico Utilities, Inc. - Water Division  
 Test Year Ended December 31, 2008  
 Meter Size: 1 1/2 Inch Commercial

Exhibit  
 Schedule H-5  
 Page 8  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	124	4,921
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	124	4,921
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	124	4,921
Totals														124	39,685	32,500
Average Usage														124	39,685	
Median Usage														124	32,500	

Rio Rico Utilities, Inc. - Water Division  
 Test Year Ended December 31, 2008  
 2 Inch Commercial

Exhibit  
 Schedule H-5  
 Page 9  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
1,000	1,000	1	-	1	-	2	3	2	3	2	2	2	5	23	23	-
2,000	2,000	1	-	-	-	-	1	-	2	1	3	-	3	10	33	10
3,000	3,000	1	1	2	1	-	1	-	1	3	1	1	2	8	41	26
4,000	4,000	2	1	3	1	-	1	1	4	1	2	2	3	13	54	65
5,000	5,000	1	2	-	2	2	-	1	1	-	1	1	1	20	74	145
6,000	6,000	1	1	1	1	-	1	-	1	1	-	2	-	12	86	205
7,000	7,000	1	1	1	1	2	-	2	2	-	-	-	-	9	95	259
8,000	8,000	-	-	-	-	-	-	-	1	-	-	-	-	11	106	336
9,000	9,000	1	-	1	-	2	1	1	-	-	-	1	1	8	107	344
10,000	10,000	1	-	1	2	-	1	-	-	-	-	2	-	5	115	416
11,000	11,000	-	2	-	-	-	1	1	-	-	-	-	-	6	120	466
12,000	12,000	-	-	-	-	-	1	1	-	-	-	-	-	3	126	532
13,000	13,000	-	1	-	1	1	1	-	-	-	-	1	-	8	129	568
14,000	14,000	1	1	1	1	-	-	-	1	1	1	-	2	4	137	672
15,000	15,000	-	1	-	1	-	-	1	1	-	1	-	1	4	141	728
16,000	16,000	-	-	-	-	2	-	-	-	-	-	1	-	6	147	818
17,000	17,000	-	-	-	-	-	-	-	1	-	-	1	1	3	150	866
18,000	18,000	-	-	-	-	-	-	-	-	1	-	-	1	3	153	917
19,000	19,000	-	-	-	-	-	-	-	-	-	-	-	1	3	155	953
20,000	20,000	1	-	1	-	-	-	1	-	1	1	-	1	4	158	1,010
21,000	21,000	1	1	1	1	-	-	-	-	-	1	-	-	4	162	1,090
22,000	22,000	-	1	-	1	-	1	-	-	-	-	1	-	3	165	1,153
23,000	23,000	-	-	1	1	-	1	2	-	-	-	-	-	4	169	1,241
24,000	24,000	-	1	-	1	2	-	1	-	-	1	-	1	6	175	1,379
25,000	25,000	1	1	1	1	-	-	-	-	-	-	-	-	4	179	1,475
26,000	26,000	-	-	-	-	-	1	-	-	1	-	-	-	4	183	1,575
27,000	27,000	1	-	1	-	-	1	-	-	-	-	-	-	2	185	1,627
28,000	28,000	-	-	-	-	1	-	-	1	-	-	-	-	3	188	1,708
29,000	29,000	1	-	1	-	-	1	-	1	1	-	-	-	3	191	1,792
30,000	30,000	-	-	-	-	-	-	-	-	1	-	-	-	3	194	1,879
31,000	31,000	-	-	-	-	1	-	1	2	-	-	1	-	5	199	2,029
32,000	32,000	1	-	1	-	-	-	-	-	1	1	-	-	1	200	2,060
33,000	33,000	-	1	-	1	-	-	1	-	-	-	-	-	4	204	2,188
34,000	34,000	-	-	-	1	-	1	-	-	-	1	-	-	4	208	2,320
35,000	35,000	-	-	-	-	1	-	-	1	-	-	-	-	1	209	2,354
36,000	36,000	2	-	-	2	-	-	-	-	-	-	-	-	2	211	2,424
37,000	37,000	-	-	-	-	-	-	-	-	-	-	-	-	4	215	2,568
38,000	38,000	1	-	-	-	-	-	-	-	-	-	-	-	2	217	2,568
39,000	39,000	1	-	1	-	-	-	-	-	-	-	-	-	2	219	2,644
40,000	40,000	-	-	-	-	-	1	-	1	-	-	-	-	2	221	2,722
														2	221	2,802

Rio Rico Utilities, Inc. - Water Division  
 Test Year Ended December 31, 2008  
 2 Inch Commercial

Exhibit  
 Schedule H-5  
 Page 9  
 Witness: Bourassa

Usage From:	Usage To:	Month of	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)									
41,000	41,000	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	
42,000	42,000	-	1	-	-	1	-	-	-	-	-	2	223	2,884
43,000	43,000	-	-	-	-	1	-	-	-	-	-	-	225	2,968
44,000	44,000	1	-	1	-	-	-	-	-	-	-	-	226	3,011
45,000	45,000	-	-	-	-	-	-	-	-	-	-	-	228	3,099
46,000	46,000	-	1	1	1	-	-	1	-	-	-	-	230	3,189
47,000	47,000	-	-	-	-	-	1	-	-	-	-	-	235	3,419
48,000	48,000	-	-	-	-	-	-	-	-	-	-	-	236	3,466
49,000	49,000	1	-	1	-	-	-	-	-	-	-	-	237	3,514
50,000	50,000	-	1	-	1	-	-	-	-	-	-	-	239	3,612
51,000	51,000	-	-	-	-	-	-	-	1	-	-	-	242	3,762
52,000	52,000	-	1	-	1	-	-	1	-	-	-	-	243	3,813
53,000	53,000	-	-	-	-	-	-	-	1	-	-	-	247	4,021
54,000	54,000	-	-	-	-	-	-	-	-	-	-	-	247	4,021
55,000	55,000	-	-	-	-	-	-	-	-	-	1	-	248	4,076
56,000	56,000	-	-	-	-	-	-	-	-	-	1	-	248	4,076
57,000	57,000	-	1	-	1	-	-	-	1	-	-	-	252	4,304
58,000	58,000	-	-	-	-	-	-	-	-	-	-	-	252	4,304
59,000	59,000	-	-	-	-	-	-	-	-	-	-	-	252	4,304
60,000	60,000	-	-	-	-	-	-	-	-	-	-	-	252	4,304
61,000	61,000	-	-	-	-	-	-	-	-	-	-	-	252	4,304
62,000	62,000	-	-	-	-	1	-	-	-	-	-	-	253	4,366
63,000	63,000	-	-	-	-	-	-	-	-	-	1	-	254	4,429
64,000	64,000	-	1	-	1	-	-	-	-	-	-	-	256	4,557
65,000	65,000	-	-	-	-	1	-	-	-	-	-	-	259	4,752
66,000	66,000	-	-	-	-	-	-	-	1	-	-	-	260	4,818
67,000	67,000	-	-	-	-	-	-	-	-	1	-	-	261	4,885
68,000	68,000	-	-	-	-	-	-	-	-	-	1	-	262	4,953
69,000	69,000	-	-	-	-	-	-	-	-	-	-	-	262	4,953
70,000	70,000	-	-	-	-	-	-	-	-	-	-	-	263	5,023
71,000	71,000	-	-	-	-	-	-	1	-	-	-	-	264	5,094
72,000	72,000	-	-	-	-	-	1	-	-	-	-	-	265	5,166
73,000	73,000	-	-	-	-	-	-	-	-	1	-	-	267	5,312
74,000	74,000	-	-	-	-	-	-	-	-	-	1	-	268	5,386
75,000	75,000	-	-	-	-	-	-	-	-	-	1	-	269	5,461
76,000	76,000	-	-	-	-	-	-	-	-	-	-	-	269	5,461
77,000	77,000	-	-	-	-	-	-	-	-	-	-	-	270	5,538
78,000	78,000	-	-	-	-	-	-	-	-	-	-	-	270	5,538
79,000	79,000	-	-	-	-	-	-	-	-	-	1	-	272	5,696
80,000	80,000	-	-	-	-	-	-	-	-	-	-	-	274	5,856
81,000	81,000	-	-	-	-	2	-	-	-	-	-	-	274	5,856

Rio Rico Utilities, Inc. - Water Division  
 Test Year Ended December 31, 2008  
 2 Inch Commercial

Exhibit  
 Schedule H-5  
 Page 9  
 Witness: Bourassa

Usage From:	Usage To:	Month of	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)										
		Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08		
82,000	82,000	-	-	-	-	-	-	-	-	-	-	-	-	275	5,938
83,000	83,000	-	1	-	1	-	-	-	-	-	-	-	-	277	6,104
84,000	84,000	-	-	-	-	-	1	-	-	-	-	-	-	278	6,188
85,000	85,000	-	1	-	1	-	-	-	-	1	-	-	-	281	6,443
86,000	86,000	-	-	-	-	1	-	-	-	-	-	-	-	284	6,701
87,000	87,000	-	1	-	1	-	-	-	-	-	-	-	1	287	6,962
88,000	88,000	-	-	-	-	-	-	-	-	-	-	-	-	287	6,962
89,000	89,000	-	-	-	-	-	-	-	-	-	1	-	-	289	7,140
90,000	90,000	-	1	-	1	-	-	-	-	-	-	-	-	291	7,320
91,000	91,000	-	-	-	-	-	-	-	-	-	-	-	-	291	7,320
92,000	92,000	1	-	-	-	-	-	1	-	-	-	-	-	294	7,596
93,000	93,000	-	-	1	-	-	-	-	-	-	-	-	-	294	7,596
94,000	94,000	-	-	-	-	-	-	-	1	-	-	-	-	296	7,784
95,000	95,000	-	-	-	-	-	-	-	-	-	-	-	-	296	7,784
96,000	96,000	-	-	-	-	-	-	-	-	-	-	-	-	296	7,784
97,000	97,000	-	-	-	-	-	-	-	-	-	-	-	-	297	7,881
98,000	98,000	-	-	-	-	-	-	-	-	1	-	-	-	299	8,077
99,000	99,000	-	-	-	-	-	-	-	-	-	1	-	1	299	8,077
100,000	100,000	-	-	-	-	-	-	-	-	-	-	-	-	299	8,077
101,000	101,000	-	-	-	-	-	1	-	-	-	-	-	-	300	8,178
103,000	103,000	-	-	-	-	-	-	-	-	-	1	-	-	302	8,384
107,000	107,000	-	-	-	-	-	-	-	-	-	-	1	-	303	8,491
111,000	111,000	-	-	1	-	-	-	-	-	-	-	1	-	305	8,713
112,000	112,000	-	-	-	-	-	1	-	-	-	-	-	-	306	8,825
116,000	116,000	-	-	-	-	1	-	-	-	-	-	-	-	307	8,941
117,000	117,000	-	-	-	-	-	-	-	-	-	-	-	-	308	9,058
120,000	120,000	-	-	-	-	-	-	1	-	-	-	-	-	309	9,178
121,000	121,000	-	-	-	-	-	-	-	-	-	-	-	-	310	9,299
130,000	130,000	-	-	-	-	1	-	-	-	-	-	1	-	311	9,429
131,000	131,000	-	-	-	-	-	-	-	-	-	-	-	-	312	9,560
132,000	132,000	-	-	-	-	-	-	-	1	-	-	-	-	314	9,824
134,000	134,000	-	-	-	-	-	1	-	-	-	-	1	-	315	9,958
135,000	135,000	-	-	-	-	-	-	-	-	-	-	-	-	316	10,093
138,000	138,000	-	1	-	-	-	-	-	-	-	-	1	-	317	10,231
140,000	140,000	-	-	-	-	-	-	-	-	-	-	-	-	318	10,371
142,000	142,000	-	-	-	-	1	-	-	-	-	1	-	-	320	10,655
143,000	143,000	-	-	-	-	-	-	1	-	-	-	-	-	321	10,798
146,000	146,000	-	-	-	-	-	1	-	-	-	-	-	-	322	10,944
152,000	152,000	-	-	-	1	-	-	-	-	-	-	-	-	323	11,096
153,000	153,000	-	-	-	-	-	-	-	-	-	1	-	-	324	11,249
156,000	156,000	-	-	-	-	-	-	-	-	1	-	-	-	325	11,405

Rio Rico Utilities, Inc. - Water Division  
 Test Year Ended December 31, 2008  
 2 Inch Commercial

Exhibit  
 Schedule H-5  
 Page 9  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
167,000	167,000	-	-	-	-	-	-	-	-	-	-	-	-	1	326	11,572
169,000	169,000	-	-	-	-	-	-	-	-	-	-	-	1	1	327	11,741
171,000	171,000	-	-	-	-	-	-	-	-	-	-	1	-	1	328	11,912
179,000	179,000	-	-	-	-	-	-	-	-	-	-	1	-	1	329	12,091
180,000	180,000	-	-	-	-	-	-	1	-	-	-	-	-	1	330	12,271
189,000	189,000	-	-	-	-	-	-	-	1	-	-	-	-	1	331	12,460
190,000	190,000	-	-	-	-	-	-	-	-	1	-	-	-	1	332	12,650
191,000	191,000	-	-	-	-	-	1	-	-	-	-	-	-	2	334	13,032
194,000	194,000	-	-	-	-	-	-	1	-	-	-	-	-	1	335	13,226
199,000	199,000	-	-	-	-	-	-	-	-	-	1	-	-	1	336	13,425
206,000	206,000	-	-	-	-	-	-	-	-	-	-	1	-	1	337	13,631
220,000	220,000	-	-	-	-	-	-	-	-	1	-	-	-	1	338	13,851
221,000	221,000	-	-	-	-	-	-	-	-	-	1	-	-	1	338	13,851
228,000	228,000	-	-	-	-	-	-	1	-	-	-	-	-	1	339	14,079
233,000	233,000	-	-	-	-	-	-	-	-	-	-	1	-	1	340	14,312
235,000	235,000	-	-	-	-	-	-	-	-	-	-	-	1	1	341	14,547
241,000	241,000	-	-	1	-	-	-	-	-	-	1	-	-	1	342	14,788
249,000	249,000	-	-	-	-	-	-	-	-	-	-	-	1	1	343	15,037
257,000	257,000	1	-	-	-	-	1	-	-	-	-	-	-	1	344	15,294
258,000	258,000	-	-	-	-	-	-	-	-	-	-	-	-	1	345	15,552
263,000	263,000	1	-	-	-	-	-	-	-	-	-	-	-	1	346	15,815
270,000	270,000	-	-	-	-	-	-	1	-	-	-	-	-	1	347	16,085
277,000	277,000	-	-	-	-	-	-	-	-	-	1	-	-	1	348	16,362
283,000	283,000	-	-	-	1	-	-	-	-	-	-	-	-	1	349	16,645
294,000	294,000	-	-	-	-	-	-	-	-	-	-	-	-	1	350	16,939
297,000	297,000	-	1	-	-	-	1	-	-	-	-	-	-	1	351	17,236
307,000	307,000	-	-	-	-	-	-	-	-	-	-	-	-	1	352	17,543
314,000	314,000	-	-	-	-	1	-	-	-	-	-	-	-	1	353	17,857
336,000	336,000	-	1	-	-	-	-	-	-	-	-	-	-	1	354	18,193
340,000	340,000	-	-	-	-	1	-	-	-	-	-	-	-	1	355	18,533
358,000	358,000	-	-	-	-	-	-	-	-	-	1	-	-	1	356	18,891
383,000	383,000	-	-	-	-	-	-	-	-	-	-	-	-	1	357	19,274
385,000	385,000	-	-	-	-	1	-	-	-	-	-	-	-	1	358	19,659
388,000	388,000	-	-	-	-	-	-	-	-	-	-	-	-	1	359	20,047
458,000	458,000	-	-	-	1	-	-	-	-	-	-	-	-	1	359	20,047
467,000	467,000	-	-	-	-	-	-	1	-	-	-	-	-	1	360	20,514
487,000	487,000	-	-	-	-	-	1	-	-	-	-	-	-	1	361	21,001
499,000	499,000	-	-	-	-	-	-	-	1	-	-	-	-	1	362	21,500
548,000	548,000	-	-	1	-	-	-	-	-	-	-	-	-	1	363	22,048
560,000	560,000	-	-	-	-	-	-	-	-	-	-	1	-	1	364	22,608
589,000	589,000	-	-	-	-	-	-	-	1	-	-	-	-	1	365	23,197





Rio Rico Utilities, Inc. - Water Division  
 Test Year Ended December 31, 2008  
 3 Inch Commercial

Exhibit  
 Schedule H-5  
 Page 10  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
41,000	41,000	-	-	-	-	-	-	-	-	-	-	-	-	-	95	443
42,000	42,000	-	-	-	-	-	-	-	-	-	-	-	-	-	95	443
43,000	43,000	-	-	-	-	-	-	-	-	-	-	-	-	-	95	443
44,000	44,000	-	-	-	-	-	-	-	-	-	-	-	-	-	95	443
45,000	45,000	-	-	-	-	-	-	-	-	-	-	-	-	-	95	443
46,000	46,000	-	-	-	-	-	-	-	-	-	-	-	-	-	95	443
47,000	47,000	-	-	-	-	-	-	-	-	-	1	-	-	1	96	490
48,000	48,000	-	-	-	-	-	-	-	-	-	-	-	-	-	96	490
49,000	49,000	-	-	-	-	-	-	-	-	-	-	-	-	-	96	490
50,000	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	97	540
51,000	51,000	-	-	-	-	-	-	-	-	-	-	1	-	1	97	540
52,000	52,000	-	-	-	-	-	-	-	-	-	-	-	-	-	97	540
53,000	53,000	-	-	-	-	-	-	-	-	-	-	-	-	-	97	540
54,000	54,000	-	-	-	-	-	-	-	-	-	-	-	-	-	97	540
55,000	55,000	-	-	-	-	-	-	-	-	-	-	-	-	-	97	540
56,000	56,000	-	-	-	-	-	-	-	-	-	-	-	-	-	97	540
57,000	57,000	-	-	-	-	-	-	-	-	-	-	-	-	-	97	540
58,000	58,000	-	-	-	-	-	-	-	-	-	-	-	-	-	97	540
59,000	59,000	-	-	-	-	-	-	-	-	-	-	-	-	-	97	540
60,000	60,000	-	-	-	-	-	-	-	-	-	-	-	-	1	98	600
61,000	61,000	-	-	1	-	-	-	-	-	-	-	-	-	-	98	600
62,000	62,000	-	-	-	-	-	-	-	-	-	-	-	-	-	98	600
63,000	63,000	-	-	-	-	-	-	-	-	-	-	-	-	-	98	600
64,000	64,000	-	-	-	-	-	-	-	-	-	-	-	-	-	98	600
65,000	65,000	-	-	-	-	-	-	-	-	-	-	-	-	-	98	600
66,000	66,000	-	-	-	-	-	-	-	-	-	-	-	-	-	98	600
67,000	67,000	-	-	-	-	-	-	-	-	-	-	-	-	-	98	600
68,000	68,000	-	1	-	-	-	-	-	-	-	-	-	-	2	100	736
69,000	69,000	-	-	-	-	-	-	-	-	-	-	-	-	-	100	736
70,000	70,000	-	-	-	-	-	-	-	-	-	-	-	-	-	102	776
71,000	71,000	-	-	-	-	-	-	-	1	-	-	-	-	2	102	876
72,000	72,000	-	-	-	-	-	-	-	-	-	-	-	-	-	102	876
73,000	73,000	-	-	-	-	-	-	-	-	-	-	-	-	-	103	949
74,000	74,000	-	-	-	-	-	-	-	-	-	-	1	-	1	103	949
75,000	75,000	-	-	-	-	-	-	-	-	-	-	-	-	-	103	949
76,000	76,000	-	-	-	-	-	-	-	-	-	-	-	-	-	103	949
77,000	77,000	-	-	-	-	-	-	-	-	-	-	-	-	-	103	949
78,000	78,000	-	-	-	-	-	-	-	-	1	-	-	-	1	104	1,027
79,000	79,000	-	-	-	-	-	-	-	-	-	-	-	-	-	104	1,027
80,000	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	104	1,027
81,000	81,000	-	-	-	-	-	-	-	-	-	-	-	-	-	104	1,027

Rio Rico Utilities, Inc. - Water Division  
 Test Year Ended December 31, 2008  
 3 Inch Commercial

Exhibit  
 Schedule H-5  
 Page 10  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
82,000	82,000	-	-	-	-	-	-	-	-	-	-	-	-	-	104	1,027
83,000	83,000	-	-	-	-	-	-	-	-	-	-	-	1	1	105	1,110
84,000	84,000	-	-	-	-	-	-	-	-	-	-	-	-	-	105	1,110
85,000	85,000	-	-	-	-	-	1	-	-	-	-	-	-	1	106	1,195
86,000	86,000	-	-	-	-	-	-	-	-	-	-	-	-	-	106	1,195
87,000	87,000	-	-	-	-	-	-	-	-	-	-	-	-	-	106	1,195
88,000	88,000	-	-	-	-	-	-	-	-	-	-	1	-	1	107	1,283
89,000	89,000	-	-	-	-	-	-	-	-	-	-	-	-	-	107	1,283
90,000	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	107	1,283
91,000	91,000	-	-	-	-	-	-	-	-	-	-	-	-	-	107	1,283
92,000	92,000	-	-	-	-	-	-	-	-	-	-	-	1	1	108	1,375
93,000	93,000	-	-	-	-	-	-	-	-	-	-	-	-	-	108	1,375
94,000	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-	108	1,375
95,000	95,000	-	-	-	-	-	-	-	-	-	-	-	-	-	108	1,375
96,000	96,000	-	-	-	-	-	-	-	-	-	-	-	-	-	108	1,375
97,000	97,000	-	-	-	-	-	-	-	-	-	-	-	1	1	109	1,472
98,000	98,000	-	-	-	-	-	-	-	-	-	-	-	-	-	109	1,472
99,000	99,000	-	-	-	-	-	-	-	-	-	-	-	-	-	109	1,472
100,000	100,000	-	-	-	-	-	-	-	-	-	-	-	1	1	110	1,472
118,000	118,000	-	-	-	-	-	-	-	-	-	1	-	-	2	111	1,708
119,000	119,000	-	-	-	-	-	-	1	-	-	-	-	-	1	112	1,827
122,000	122,000	-	-	-	-	-	-	-	-	-	1	-	-	1	113	1,949
128,000	128,000	-	-	-	-	-	-	-	-	-	-	-	1	1	114	2,077
134,000	134,000	-	1	-	-	1	-	-	-	-	-	-	-	2	116	2,345
159,000	159,000	-	-	1	-	-	-	-	-	-	-	-	-	2	118	2,663
160,000	160,000	-	-	-	-	-	-	-	1	-	-	-	-	1	119	2,823
182,000	182,000	-	-	-	-	-	-	-	-	-	-	-	1	1	120	2,985
188,000	188,000	-	-	-	-	-	-	-	-	-	-	-	-	1	121	3,167
222,000	222,000	-	-	-	-	-	-	-	-	-	-	-	-	6	122	3,355
237,000	237,000	-	3	-	-	-	-	-	-	-	-	-	-	1	128	4,687
238,000	238,000	-	-	2	-	-	-	-	-	-	-	-	-	5	129	4,924
252,000	252,000	-	-	-	-	3	-	-	-	-	-	-	-	1	134	6,114
315,000	315,000	-	-	-	-	-	1	-	-	-	-	-	-	1	135	6,366
537,000	537,000	-	-	-	-	-	-	-	-	-	-	1	-	1	136	6,681
609,000	609,000	-	-	-	-	-	-	-	-	-	1	-	-	1	137	7,218
614,000	614,000	-	-	-	-	-	-	-	-	-	-	-	-	1	138	7,827
655,000	655,000	-	-	-	-	-	-	1	-	-	-	-	-	1	139	8,441
665,000	665,000	-	-	-	-	-	-	-	-	-	-	-	-	2	141	9,751
729,000	729,000	-	-	-	-	-	1	-	-	-	-	-	-	1	142	10,416
737,000	737,000	-	-	-	-	-	-	-	-	-	-	-	-	2	144	11,874
		-	-	-	-	-	-	-	-	-	-	-	-	1	145	12,611



Meter Size:

**Rio Rico Utilities, Inc. - Water Division**  
Test Year Ended December 31, 2008  
4 Inch Commercial

Exhibit  
Schedule H-5  
Page 11  
Witness: Bourassa

Usage From:	Usage To:	Month of	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)											
1,000	1,000	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	2	2	-
2,000	2,000	-	-	-	-	-	-	-	-	-	-	-	-	2	2	-
3,000	3,000	-	-	-	-	-	-	-	-	-	-	-	-	2	2	-
4,000	4,000	-	-	-	-	-	-	-	-	-	-	-	-	2	2	-
5,000	5,000	-	-	-	-	-	-	-	-	-	-	-	-	2	2	-
6,000	6,000	-	-	-	-	-	-	-	-	-	-	-	-	2	2	-
7,000	7,000	-	-	-	-	-	-	-	-	-	-	-	-	2	2	-
8,000	8,000	-	-	-	-	-	-	-	-	-	-	-	-	2	2	-
9,000	9,000	-	-	-	-	-	-	-	-	-	-	-	-	2	2	-
10,000	10,000	-	-	-	-	-	-	-	-	-	-	-	-	2	2	-
11,000	11,000	-	-	-	-	-	-	-	-	-	-	-	-	2	2	-
12,000	12,000	-	-	-	-	-	-	-	-	-	-	-	-	2	2	-
13,000	13,000	-	-	-	-	-	-	-	-	-	-	-	-	2	2	-
14,000	14,000	-	-	-	-	-	-	-	-	-	-	-	-	2	2	-
15,000	15,000	-	-	-	-	-	-	-	-	-	-	-	-	1	3	15
16,000	16,000	-	-	-	-	-	-	-	-	-	-	-	-	1	4	31
17,000	17,000	-	-	-	-	-	-	-	-	-	-	-	-	4	4	31
18,000	18,000	-	1	-	-	-	-	-	-	-	-	-	-	6	6	67
19,000	19,000	-	-	-	-	-	-	-	-	-	-	-	-	2	6	67
20,000	20,000	-	-	-	-	-	-	-	-	-	-	-	-	6	6	67
21,000	21,000	-	-	-	-	-	-	-	-	-	-	-	-	6	6	67
22,000	22,000	-	-	1	-	-	-	-	-	-	-	-	-	6	6	67
23,000	23,000	-	-	-	1	-	-	-	-	-	-	-	-	8	8	111
24,000	24,000	-	-	-	-	-	-	-	-	-	-	-	-	8	8	111
25,000	25,000	-	-	-	-	-	-	-	-	-	-	-	-	8	8	111
26,000	26,000	-	-	-	-	-	-	-	-	-	-	-	-	8	8	111
27,000	27,000	-	-	-	-	-	-	-	-	-	-	-	-	8	8	111
28,000	28,000	-	-	-	-	-	-	-	-	-	-	-	-	8	8	111
29,000	29,000	-	-	-	-	-	-	-	-	-	-	-	-	8	8	111
30,000	30,000	-	-	-	-	-	-	-	-	-	-	-	-	8	8	111
31,000	31,000	-	-	-	-	-	-	-	-	-	-	-	-	8	8	111
32,000	32,000	-	-	-	-	-	-	-	-	-	-	-	-	8	8	111
33,000	33,000	-	-	-	-	-	-	-	-	-	-	-	-	8	8	111
34,000	34,000	-	-	-	-	-	-	-	-	-	-	-	-	8	8	111
35,000	35,000	-	-	-	-	-	-	-	-	-	-	-	-	8	8	111
36,000	36,000	-	-	-	-	-	-	-	-	-	-	-	-	8	8	111
37,000	37,000	-	-	-	-	-	-	-	-	-	-	-	-	8	8	111
38,000	38,000	-	-	-	-	-	-	-	-	-	-	-	-	9	9	149
39,000	39,000	-	-	-	-	-	-	-	-	-	-	-	-	9	9	149
40,000	40,000	-	-	-	-	-	-	-	-	-	-	-	-	9	9	149
41,000	41,000	-	-	-	-	-	-	-	-	-	-	-	-	1	10	190



Meter Size:

**Rio Rico Utilities, Inc. - Water Division**  
 Test Year Ended December 31, 2008  
 4 Inch Commercial

Exhibit  
 Schedule H-5  
 Page 11  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
84,000	84,000	-	-	-	-	-	-	-	-	-	-	-	-	-	17	588
85,000	85,000	-	-	-	-	-	-	-	-	-	-	-	-	-	17	588
86,000	86,000	-	-	-	-	-	-	-	-	-	-	-	-	-	17	588
87,000	87,000	-	-	-	-	-	-	-	-	-	-	-	-	-	17	588
88,000	88,000	-	-	-	-	-	-	-	-	-	-	-	-	-	18	676
89,000	89,000	-	-	-	-	-	-	-	-	-	-	-	-	-	18	676
90,000	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	18	676
91,000	91,000	-	-	-	-	-	-	-	-	-	-	-	-	-	18	676
92,000	92,000	-	-	-	-	-	-	-	-	-	-	-	-	-	18	676
93,000	93,000	-	-	-	-	-	-	-	-	-	-	-	-	-	18	676
94,000	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-	18	676
95,000	95,000	-	-	-	-	-	-	-	-	-	-	-	-	-	18	676
96,000	96,000	-	-	-	-	-	-	-	-	-	-	-	-	-	18	676
97,000	97,000	-	-	-	-	-	-	-	-	-	-	-	-	-	19	772
98,000	98,000	-	-	-	-	-	-	-	-	-	-	-	-	-	19	772
99,000	99,000	-	-	-	-	-	-	-	-	-	-	-	-	-	19	772
100,000	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	20	872
148,000	148,000	1	-	-	-	-	-	-	-	-	-	-	-	-	22	1,168
149,000	149,000	-	-	-	-	-	-	-	-	-	-	-	-	-	23	1,317
151,000	151,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	1,468
155,000	155,000	-	-	-	-	-	-	-	-	-	-	-	-	-	25	1,623
168,000	168,000	-	-	-	-	-	-	-	-	-	-	-	-	-	27	1,959
175,000	175,000	-	-	-	-	-	-	-	-	-	-	-	-	-	28	2,134
178,000	178,000	-	-	-	-	-	-	-	-	-	-	-	-	-	29	2,312
199,000	199,000	-	-	-	-	-	-	-	-	-	-	-	-	-	30	2,511
210,000	210,000	-	-	-	-	-	-	-	-	-	-	-	-	-	31	2,721
224,000	224,000	-	-	-	-	-	-	-	-	-	-	-	-	-	32	2,945
233,000	233,000	-	-	-	-	-	-	-	-	-	-	-	-	-	34	3,411
283,000	283,000	-	-	-	-	-	-	-	-	-	-	-	-	-	35	3,694
291,000	291,000	-	-	-	-	-	-	-	-	-	-	-	-	-	37	4,276
299,000	299,000	-	-	-	-	-	-	-	-	-	-	-	-	-	38	4,575
310,000	310,000	-	-	-	-	-	-	-	-	-	-	-	-	-	40	5,195
311,000	311,000	-	-	-	-	-	-	-	-	-	-	-	-	-	41	5,506
335,000	335,000	-	-	-	-	-	-	-	-	-	-	-	-	-	42	5,841
373,000	373,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	6,214
377,000	377,000	-	-	-	-	-	-	-	-	-	-	-	-	-	44	6,591
388,000	388,000	-	-	-	-	-	-	-	-	-	-	-	-	-	45	6,979
394,000	394,000	-	-	-	-	-	-	-	-	-	-	-	-	-	46	7,373
415,000	415,000	-	-	-	-	-	-	-	-	-	-	-	-	-	47	7,788
422,000	422,000	-	-	-	-	-	-	-	-	-	-	-	-	-	48	8,210
455,000	455,000	-	-	-	-	-	-	-	-	-	-	-	-	-	49	8,665
579,000	579,000	-	-	-	-	-	-	-	-	-	-	-	-	-	50	9,244

Rio Rico Utilities, Inc. - Water Division  
 Test Year Ended December 31, 2008  
 4 Inch Commercial

Exhibit Schedule H-5  
 Page 11  
 Witness: Bourassa

Usage From:	Usage To:	Month of	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)									
		Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	
624,000	624,000	-	-	-	-	-	-	1	-	-	-	-	-	1
667,000	667,000	-	-	-	-	-	-	-	-	-	-	-	-	1
674,000	674,000	-	-	-	-	-	1	-	-	-	-	-	-	1
687,000	687,000	-	-	-	-	-	-	-	-	-	-	-	-	1
754,000	754,000	-	-	-	-	-	-	-	-	-	-	-	-	2
824,000	824,000	-	-	-	-	-	-	-	-	-	-	-	-	1
831,000	831,000	-	-	-	-	-	-	-	-	-	-	-	-	1
832,000	832,000	-	-	-	-	-	-	-	-	-	-	-	-	2
878,000	878,000	-	-	-	-	-	1	-	-	-	-	-	-	1
914,000	914,000	-	-	-	-	-	-	-	-	-	-	-	-	1

Totals

5	5	5	5	5	5	5	5	5	5	6	4	5	6	61
Average Usage														292,262
Median Usage														210,000





Rio Rico Utilities, Inc. - Water Division  
 Test Year Ended December 31, 2008  
 6 Inch Commercial

Exhibit  
 Schedule H-5  
 Page 12  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
82,000	82,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
83,000	83,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
84,000	84,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
85,000	85,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
86,000	86,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
87,000	87,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
88,000	88,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
89,000	89,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
90,000	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
91,000	91,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
92,000	92,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
93,000	93,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
94,000	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
95,000	95,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
96,000	96,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
97,000	97,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
98,000	98,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
99,000	99,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100,000	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
255,000	255,000	1	-	-	-	-	-	-	-	-	-	-	-	1	1	255
326,000	326,000	-	1	-	-	-	-	-	-	-	-	-	-	2	2	581
332,000	332,000	-	-	-	-	-	-	1	-	-	-	-	-	3	3	913
346,000	346,000	-	-	1	-	-	-	-	-	-	-	-	-	4	4	1,259
483,000	483,000	-	-	-	-	-	-	-	-	-	-	-	-	5	5	1,742
495,000	495,000	-	-	-	-	-	-	-	-	-	-	-	-	6	6	2,237
527,000	527,000	-	-	-	1	-	-	-	-	-	-	-	-	7	7	2,764
682,000	682,000	-	-	-	-	1	-	-	-	-	-	-	-	8	8	3,446
743,000	743,000	-	-	-	-	-	-	-	1	-	-	-	-	9	9	4,189
953,000	953,000	-	-	-	-	-	-	-	-	-	1	-	-	10	10	5,142
1,028,000	1,028,000	-	-	-	-	-	-	-	-	-	-	1	-	11	11	6,170
1,530,000	1,530,000	-	-	-	-	-	1	-	-	-	-	-	-	12	12	7,700
Totals														12	641,667	641,667
Average Usage														12	511,000	511,000
Median Usage														12		

**Rio Rico Utilities, Inc. - Water Division**  
 Test Year Ended December 31, 2008  
 5/8 Inch Multi-Family

Exhibit  
 Schedule H-5  
 Page 13  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons
1,000	1,000	1	-	1	1	-	-	1	-	-	-	1	-	1	1	5
2,000	2,000	-	-	-	-	-	-	1	-	1	-	-	-	2	8	9
3,000	3,000	2	1	1	2	1	1	-	1	1	-	1	2	12	20	45
4,000	4,000	-	-	-	-	-	-	-	1	1	2	-	-	4	24	61
5,000	5,000	-	-	1	-	-	-	2	1	1	1	-	-	7	31	96
6,000	6,000	1	1	1	1	2	-	2	-	1	1	1	1	12	43	168
7,000	7,000	-	2	-	-	2	-	-	1	-	-	-	-	6	49	210
8,000	8,000	-	-	1	-	-	1	-	-	1	1	1	-	5	54	250
9,000	9,000	1	2	-	1	2	-	-	-	1	-	-	1	8	62	322
10,000	10,000	-	-	-	1	-	-	1	-	-	-	-	1	4	66	362
11,000	11,000	1	-	-	1	-	-	2	1	-	-	-	-	6	72	428
12,000	12,000	-	-	-	1	-	1	-	1	-	1	-	-	6	78	500
13,000	13,000	-	-	-	-	-	-	-	1	-	2	-	-	5	83	565
14,000	14,000	-	-	-	-	-	-	-	1	-	-	1	1	4	87	621
15,000	15,000	1	-	-	1	-	1	-	1	-	-	-	-	3	90	666
16,000	16,000	-	1	-	-	1	2	-	-	-	-	-	1	4	94	730
17,000	17,000	-	-	-	-	-	-	-	1	2	-	-	1	4	98	798
18,000	18,000	-	-	-	-	-	-	-	-	-	-	1	-	1	99	816
19,000	19,000	-	-	-	-	-	-	-	-	1	-	-	-	1	100	835
20,000	20,000	-	-	-	-	-	-	-	-	-	-	-	-	1	100	835
21,000	21,000	-	1	-	1	-	-	-	-	-	1	-	-	4	104	919
22,000	22,000	-	-	-	-	-	-	-	-	-	-	-	1	1	105	941
23,000	23,000	-	2	-	-	2	-	1	-	-	-	-	-	6	111	1,079
24,000	24,000	-	-	1	-	-	2	-	-	-	-	-	-	2	113	1,127
25,000	25,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,127
26,000	26,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,127
27,000	27,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,127
28,000	28,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,127
29,000	29,000	-	-	1	-	-	-	-	-	1	-	-	-	1	114	1,155
30,000	30,000	-	-	-	-	-	-	-	-	-	-	-	-	-	115	1,184
31,000	31,000	-	-	-	-	-	-	-	-	-	-	-	-	-	115	1,184
32,000	32,000	-	-	-	-	-	-	-	-	-	-	-	-	-	115	1,184
33,000	33,000	-	-	-	-	-	-	-	-	-	-	-	-	-	115	1,184
34,000	34,000	-	-	-	-	-	-	-	-	-	-	-	-	-	115	1,184
35,000	35,000	1	-	-	1	-	-	-	-	-	-	-	-	2	117	1,254
36,000	36,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
37,000	37,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
38,000	38,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254

**Rio Rico Utilities, Inc. - Water Division**  
 Test Year Ended December 31, 2008  
 5/8 Inch Multi-Family

Exhibit  
 Schedule H-5  
 Page 13  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
39,000	39,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
40,000	40,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
41,000	41,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
42,000	42,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
43,000	43,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
44,000	44,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
45,000	45,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
46,000	46,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
47,000	47,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
48,000	48,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
49,000	49,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
50,000	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
51,000	51,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
52,000	52,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
53,000	53,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
54,000	54,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
55,000	55,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
56,000	56,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
57,000	57,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
58,000	58,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
59,000	59,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
60,000	60,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
61,000	61,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
62,000	62,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
63,000	63,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
64,000	64,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
65,000	65,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
66,000	66,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
67,000	67,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
68,000	68,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
69,000	69,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
70,000	70,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
71,000	71,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
72,000	72,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
73,000	73,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
74,000	74,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
75,000	75,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
76,000	76,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
77,000	77,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254

Rio Rico Utilities, Inc. - Water Division  
 Test Year Ended December 31, 2008  
 5/8 Inch Multi-Family

Exhibit  
 Schedule H-5  
 Page 13  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
78,000	79,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
79,000	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
80,000	81,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
81,000	82,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
82,000	83,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
83,000	84,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
84,000	85,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
85,000	86,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
86,000	87,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
87,000	88,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
88,000	89,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
89,000	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
90,000	91,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
91,000	92,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
92,000	93,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
93,000	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
94,000	95,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
95,000	96,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
96,000	97,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
97,000	98,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
98,000	99,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
99,000	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254
100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	117	1,254

Totals	10	9	9	10	10	10	11	10	10	10	9	10	9	117	Average Usage	10,718
															Median Usage	9,000





Rio Rico Utilities, Inc. - Water Division  
 Test Year Ended December 31, 2008  
 1 1/2 Inch Multi-Family

Exhibit  
 Schedule H-5  
 Page 14  
 Witness: Bourassa

Meter Size:

Usage From:	Usage To:	Month of	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)											
		Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08			
82,000	82,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	89
83,000	83,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	89
84,000	84,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	89
85,000	85,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	89
86,000	86,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	89
87,000	87,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	89
88,000	88,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	89
89,000	89,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	89
90,000	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	89
91,000	91,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	89
92,000	92,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	89
93,000	93,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	89
94,000	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	89
95,000	95,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	89
96,000	96,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	89
97,000	97,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	89
98,000	98,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	89
99,000	99,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	89
100,000	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	89
Totals		1	1	1	1	1	1	1	1	1	1	1	1	12	Median Billing	89
															Average Usage	7,417
															Median Usage	8,500







# **Schedules**

**A through C, E, F, H  
Wastewater Division**

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

Exhibit  
 Schedule A-1  
 Page 1  
 Witness: Bourassa

Line No.				
1	Fair Value Rate Base	\$	3,516,078	
2				
3	Adjusted Operating Income		490,676	
4				
5	Current Rate of Return		13.96%	
6				
7	Required Operating Income	\$	435,994	
8				
9	Required Rate of Return on Fair Value Rate Base		12.40%	
10				
11	Operating Income Deficiency	\$	(54,682)	
12				
13	Gross Revenue Conversion Factor		1.6286	
14				
15	Increase in Gross Revenue Revenue Requirement	\$	(89,058)	
16				
17	Adjusted Test Year Revenues	\$	1,829,976	
18	Increase in Gross Revenue Revenue Requirement	\$	(89,058)	
19	Proposed Revenue Requirement	\$	1,740,918	
20	% Increase		-4.87%	
21				
22	<b>Customer</b>	<b>Present</b>	<b>Proposed</b>	<b>Dollar</b>
23	<b>Classification</b>	<b>Rates</b>	<b>Rates</b>	<b>Increase</b>
24	5/8 Inch Residential	\$ 1,287,713	\$ 1,225,903	\$ (61,810)
25	3/4 Inch Residential	6,298	5,996	(302)
26	1 Inch Residential	8,258	7,861	(396)
27	1.5 Inch Residential	-	-	-
28	2 Inch Residential	1,951	1,858	(94)
29				
30	<b>Subtotal</b>	<b>\$ 1,304,221</b>	<b>\$ 1,241,618</b>	<b>\$ (62,603)</b>
31				-4.80%
32	5/8 Inch Commercial	\$ 78,006	\$ 74,262	\$ (3,744)
33	1 Inch Commercial	61,192	58,255	(2,937)
34	1.5 Inch Commercial	27,159	25,855	(1,304)
35	2 Inch Commercial	178,576	170,004	(8,572)
36	3 Inch Commercial	7,911	7,531	(380)
37	4 Inch Commercial	111,601	106,244	(5,357)
38	6 Inch Commercial	53,582	51,011	(2,572)
39				
40	<b>Subtotal</b>	<b>\$ 518,027</b>	<b>\$ 493,162</b>	<b>\$ (24,865)</b>
41				-4.80%
42				0.00%
43	5/8 Inch Multi-tenant	\$ 9,384	\$ 8,933	\$ (450)
44	1.5 Inch Multi-tenant	1,510	1,437	(72)
45		-	-	-
46	<b>Subtotal</b>	<b>\$ 10,893</b>	<b>\$ 10,370</b>	<b>\$ (523)</b>
47				-4.80%
48				0.00%
49	<b>Subtotal Revenues before Annualization</b>	<b>\$ 1,833,141</b>	<b>\$ 1,745,150</b>	<b>\$ (87,991)</b>
50	<b>Revenue Annualization</b>	<b>(4,505)</b>	<b>(4,289)</b>	<b>216</b>
51	Miscellaneous Revenues	250	250	-
52	Reconciling Amount H-1 to C-1	1,090	(193)	(1,283)
53	<b>Total of Water Revenues (a)</b>	<b>\$ 1,829,976</b>	<b>\$ 1,740,918</b>	<b>\$ (89,058)</b>
54				-4.87%

**SUPPORTING SCHEDULES:**

- 56 B-1
- 57 C-1
- 58 C-3
- 59 H-1
- 60

Rio Rico Utilities - Wastewater Division  
 Test Year Ended December 31, 2008  
 Summary of Results of Operations

Exhibit  
 Schedule A-2  
 Page 1  
 Witness: Bourassa

Line No.	Description	Prior Years Ended		Test Year		Projected Year	
		12/31/2006	12/31/2007	Actual 12/31/2008	Adjusted 12/31/2008	Present Rates 12/31/2009	Proposed Rates 12/31/2009
1	Gross Revenues	\$ 1,615,669	\$ 1,825,165	\$ 1,834,481	\$ 1,829,976	\$ 1,829,976	\$ 1,740,918
2							
3	Revenue Deductions and	1,067,060	947,092	1,095,657	1,339,300	1,339,300	1,304,924
4	Operating Expenses						
5							
6	Operating Income	\$ 548,609	\$ 878,073	\$ 738,824	\$ 490,676	\$ 490,676	\$ 435,994
7							
8	Other Income and	-	-	-	-	-	-
9	Deductions						
10							
11	Interest Expense	(5,008)	(6,393)	(18,964)	-	-	-
12							
13	Net Income	\$ 543,601	\$ 871,680	\$ 719,860	\$ 490,676	\$ 490,676	\$ 435,994
14							
15	Earned Per Average						
16	Common Share	543.60	871.68	719.86	490.68	490.68	435.99
17							
18	Dividends Per						
19	Common Share	53.01	-	-	-	-	-
20							
21	Payout Ratio	0.10	-	-	-	-	-
22							
23	Return on Average						
24	Invested Capital	6.56%	10.72%	8.93%	6.03%	6.09%	5.41%
25							
26	Return on Year End						
27	Capital	6.70%	10.70%	9.01%	6.03%	6.14%	5.46%
28							
29	Return on Average						
30	Common Equity	13.77%	21.40%	17.22%	10.82%	11.36%	10.16%
31							
32	Return on Year End						
33	Common Equity	14.09%	20.33%	17.67%	10.27%	10.75%	9.67%
34							
35	Times Bond Interest Earned						
36	Before Income Taxes	177.68	199.59	59.40	-	-	-
37							
38	Times Total Interest and						
39	Preferred Dividends Earned						
40	After Income Taxes	109.55	137.35	38.96	-	-	-
41							
42							
43	<u>SUPPORTING SCHEDULES</u>						
44	C-1						
45	E-2						
46	F-1						

**Rio Rico Utilities, Inc.**  
 Test Year Ended December 31, 2008  
 Summary of Capital Structure

Exhibit  
 Schedule A-3  
 Page 1  
 Witness: Bourassa

Line No.	Description:	Prior Years Ended		Test Year	Projected Year
		12/31/2006	12/31/2007	12/31/2008	12/31/2009
1					
2					
3	Short-Term Debt	\$ -	\$ -	\$ -	\$ -
4					
5	Long-Term Debt	-	-	-	-
6					
7	Total Debt	\$ -	\$ -	\$ -	\$ -
8					
9					
10	Preferred Stock	-	-	-	-
11					
12	Common Equity	10,058,640	12,257,855	12,132,312	13,616,790
13					
14					
15	Total Capital & Debt	\$ 10,058,640	\$ 12,257,855	\$ 12,132,312	\$ 13,616,790
16					
17					
18	Capitalization Ratios:				
19					
20	Short-Term Debt	0.00%	0.00%	0.00%	0.00%
21					
22	Long-Term Debt	0.00%	0.00%	0.00%	0.00%
23					
24	Total Debt	0.00%	0.00%	0.00%	0.00%
25					
26	Preferred Stock	-	-	-	-
27					
28	Common Equity	100.00%	100.00%	100.00%	100.00%
29					
30					
31	Total Capital	100.00%	100.00%	100.00%	100.00%
32					
33	Weighted Cost of				
34	Short-Term Debt	0.00%	0.00%	0.00%	0.00%
35					
36	Weighted Cost of				
37	Long-Term Debt	0.00%	0.00%	0.00%	0.00%
38					
39	Weighted Cost of				
40	Senior Capital	0.00%	0.00%	0.00%	0.00%
41					
42					
43					
44					
45					
46					
47	<u>SUPPORTING SCHEDULES:</u>				
48	E-1				

**Rio Rico Utilities - Wastewater Division**  
Test Year Ended December 31, 2008  
Construction Expenditures  
and Gross Utility Plant in Service

Exhibit  
Schedule A-4  
Page 1  
Witness: Bourassa

Line No.		<u>Construction Expenditures</u>	<u>Net Plant Placed in Service</u>	<u>Gross Utility Plant in Service</u>
1				
2	Prior Year Ended 12/31/2006	105,592	542,099	11,626,019
3				
4	Prior Year Ended 12/31/2007	89,842	45,901	11,673,445
5				
6	Test Year Ended 12/31/2008	145,286	157,122	11,833,279
7				
8	Projected Year Ended 12/31/2009	99,000	99,000	11,932,279
9				
10				
11				
12				
13	<u>SUPPORTING SCHEDULES:</u>			
14	B-2			
15	E-5			
16	F-3			
17				
18				

Rio Rico Utilities - Wastewater Division  
 Test Year Ended December 31, 2008  
 Summary Statements of Cash Flows

Exhibit  
 Schedule A-5  
 Page 1  
 Witness: Bourassa

Line No.	Prior Year Ended 12/31/2006	Prior Year Ended 12/31/2007	Test Year Ended 12/31/2008	Projected Year Present Rates 12/31/2009	Projected Year Proposed Rates 12/31/2009
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					
21					
22					
23					
24					
25					
26					
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28					
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30					
31					
32					
33					
34					
35					
36					
37					
38					
39					
40					
41					
42					
43					
44					

41 SUPPORTING SCHEDULES:

- 42 E-3
- 43 F-2
- 44

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

Exhibit  
 Schedule B-1  
 Page 1  
 Witness: Bourassa

Line No.	<u>Original Cost</u> <u>Rate base</u>	<u>Fair Value</u> <u>Rate Base</u>
1		
2	\$ 11,829,043	\$ 11,829,043
3	Less: Accumulated Depreciation	5,110,028
4		
5	Net Utility Plant in Service	\$ 6,719,014
6		
7	<u>Less:</u>	
8	Advances in Aid of	
9	Construction	(861)
10	Contributions in Aid of	
11	Construction	5,376,456
12	Accumulated Amortization of CIAC	(1,944,057)
13		
14	Customer Meter Deposits	95,000
15	Deferred Income Taxes & Credits	(323,602)
16		
17		
18		
19	<u>Plus:</u>	
20	Unamortized Finance	
21	Charges	-
22		
23	Allowance for Working Capital	-
24		
25		
26	Total Rate Base	\$ 3,516,078
27		
28		
29		
30	<u>SUPPORTING SCHEDULES:</u>	
31	B-2	
32	B-3	
33	B-5	
34	E-1	
35		

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

Exhibit  
 Schedule B-2  
 Page 1  
 Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustments Amount	Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	\$ 11,833,279	(4,236)	\$ 11,829,043
3				
4	<b>Less:</b>			
5	Accumulated			
6	Depreciation	4,582,943	527,085	5,110,028
7				
8				
9	Net Utility Plant			
10	in Service	\$ 7,250,336		\$ 6,719,014
11				
12	<b>Less:</b>			
13	Advances in Aid of			
14	Construction	(861)	-	(861)
15				
16	Contributions in Aid of			
17	Construction (CIAC)	5,376,456	-	5,376,456
18				
19	Accumulated Amortization of CIAC	(2,325,014)	380,957	(1,944,057)
20				
21	Customer Meter Deposits	95,000	-	95,000
22	Deferred Income Taxes	-	(323,602)	(323,602)
23				
24				
25	<b>Plus:</b>			
26	Unamortized Finance			
27	Charges	-	-	-
28				
29	Allowance for Working Capital	-	-	-
30				
31	Total	\$ 4,104,755		\$ 3,516,078

35 SUPPORTING SCHEDULES:  
 36 B-2, page 2  
 37 E-1

RECAP SCHEDULES:  
 B-1

38  
 39  
 40  
 41  
 42  
 43  
 44

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

Exhibit  
 Schedule B-2  
 Page 2  
 Witness: Bourassa

Line No.	Description	Proforma Adjustments					Adjusted at end of Test Year
		1	2	3	4	5	
	Actual at End of Test Year	Plant	Accum. Depr.	DIT	CIAC		
1	Gross Utility						
2	Plant in Service	\$ 11,833,279	(4,236)			\$ 11,829,043	
3							
4	<b>Less:</b>						
5	Accumulated						
6	Depreciation	4,582,943	527,085			5,110,028	
7							
8							
9	Net Utility Plant						
10	in Service	\$ 7,250,336	\$ (4,236)	\$ -	\$ -	\$ 6,719,014	
11							
12	<b>Less:</b>						
13	Advances in Aid of						
14	Construction	(861)				(861)	
15							
16	Contributions in Aid of						
17	Construction (CIAC)	5,376,456				5,376,456	
18							
19	Accumulated Amort of CIAC	(2,325,014)			380,957	(1,944,057)	
20							
21	Customer Meter Deposits	95,000				95,000	
22	Deferred Income Taxes	-		(323,602)		(323,602)	
23							
24							
25	<b>Plus:</b>						
26	Unamortized Finance						
27	Charges						
28							
29	Allowance for Working Capital						
30							
31	Total	\$ 4,104,755	\$ (4,236)	\$ (527,085)	\$ 323,602	\$ (380,957)	
32						\$ 3,516,078	
33							
34							

SUPPORTING SCHEDULES:  
 B-2, pages 3-6  
 E-1

RECAP SCHEDULES:  
 B-1



Account No.	Description	Deprec. Rate Before Oct.04	Deprec. Rate After Oct.04	Plant At 12/31/2002	2002 Accum. Depr.	2003 Plant Additions	2003 Plant Adjustments	2003 Adjusted Plant Additions	2003 Plant Retirements	2003 Salvage A/D Only	2003 Plant Balance	2003 Deprac.
351	Organization	0.00%	0.00%	5,785	-	-	-	-	-	-	5,785	-
352	Franchises	0.00%	0.00%	417	-	-	-	-	-	-	417	-
353	Land	0.00%	0.00%	7,545	-	-	-	-	-	-	7,545	-
354	Structures & Improvements	5.15%	3.33%	28,548	20,590	-	-	-	-	-	28,548	1,470
355	Power Generation	5.00%	5.00%	-	-	-	-	-	-	-	-	-
360	Collection Sewer Forced	2.06%	2.00%	355,144	(99,427)	295,950	-	295,950	(13,062)	-	638,032	10,364
361	Collection Sewers Gravity	2.03%	2.00%	4,387,284	1,584,087	5,247	-	5,247	(6,745)	-	4,385,786	89,115
362	Special Collecting Structures	3.31%	2.00%	-	-	-	-	-	-	-	-	-
363	Customer Services	3.04%	2.00%	1,085,957	441,720	7,742	-	7,742	-	-	1,093,699	33,131
364	Flow Measuring Devices	5.03%	10.00%	36,057	10,881	-	-	-	-	-	36,057	1,814
365	Flow Measuring Installation	5.03%	10.00%	-	-	-	-	-	-	-	-	-
366	Reuse Services	5.03%	2.00%	-	-	-	-	-	-	-	-	-
367	Reuse Meters And Installation	8.33%	2.00%	-	-	-	-	-	-	-	-	-
370	Receiving Wells	3.96%	3.33%	992,546	48,548	-	-	-	-	-	992,546	39,305
371	Pumping Equipment	5.27%	12.50%	1,593,905	309,912	-	-	-	-	-	1,593,905	83,999
374	Reuse Distribution Reservoirs	-	2.50%	-	-	-	-	-	-	-	-	-
375	Reuse Trans. and Dist. System	-	2.50%	-	-	-	-	-	-	-	-	-
380	Treatment & Disposal Equipment	5.26%	5.00%	972,166	367,586	-	-	-	-	-	972,166	51,136
381	Plant Sewers	2.00%	5.00%	-	-	-	-	-	-	-	-	-
382	Outfall Sewer Lines	1.66%	3.33%	-	-	-	-	-	-	-	-	-
389	Other Sewer Plant & Equipment	5.30%	6.67%	71,243	38,620	-	-	-	-	-	71,243	3,776
390	Office Furniture & Equipment	2.00%	6.67%	5,514	2,587	-	-	-	-	-	5,514	110
390.1	Computers and Software	4.80%	20.00%	4,025	2,790	-	-	-	-	-	4,025	193
391	Transportation Equipment	33.33%	20.00%	-	-	-	-	-	-	-	-	-
392	Stores Equipment	-	4.00%	-	-	-	-	-	-	-	-	-
393	Tools, Shop And Garage Equip	4.76%	5.00%	4,015	2,771	-	-	-	-	-	4,015	191
394	Laboratory Equip	2.56%	10.00%	-	-	-	-	-	-	-	-	-
396	Communication Equip	5.03%	10.00%	5,936	4,224	-	-	-	-	-	5,936	299
398	Other Tangible Plant	5.13%	4.00%	3,913	1,798	-	-	-	-	-	3,913	201
398	Nogales WW Trmnt Capacity Rounding	5.00%	5.00%	-	-	-	-	-	-	-	-	(1)
Plant Held for Future Use												
TOTAL WASTEWATER PLANT												
				9,560,000	2,736,688	308,939	-	308,939	(19,807)	-	9,849,132	315,102

Account No.	Description	Deprec.	Deprec.	2004		2004 Salvage/Adj. A/D Only	2004 Plant Balance	2004 Deprec.
		Rate Before Oct-04	Rate After Oct-04	Plant Additions	Plant Adjustments			
351	Organization	0.00%	0.00%	-	-	-	5,785	-
352	Franchises	0.00%	0.00%	-	-	-	417	-
353	Land	0.00%	0.00%	-	-	-	7,545	-
354	Structures & Improvements	5.15%	3.33%	-	-	-	28,548	1,340
355	Power Generation	5.00%	5.00%	-	-	-	-	-
360	Collection Sewer Forced	2.06%	2.00%	(4,971)	-	-	633,061	12,997
361	Collection Sewers Gravity	2.03%	2.00%	100,106	-	-	4,485,892	89,715
362	Special Collecting Structures	3.31%	2.00%	-	-	20,057	-	-
363	Customer Services	3.04%	2.00%	20,057	-	-	1,113,756	30,684
364	Flow Measuring Devices	5.03%	10.00%	-	-	-	-	-
365	Flow Measuring Installation	5.03%	10.00%	-	-	-	36,057	2,262
366	Reuse Services	5.03%	2.00%	-	-	-	-	-
367	Reuse Meters And Installation	8.33%	8.33%	-	-	-	-	-
370	Receiving Wells	3.96%	3.33%	(125,426)	-	-	867,120	35,357
371	Pumping Equipment	5.27%	12.50%	(94,296)	-	-	1,499,609	109,472
374	Reuse Distribution Reservoirs	2.50%	2.50%	-	-	-	-	-
375	Reuse Trans. and Dist. System	2.50%	2.50%	-	-	-	-	-
380	Treatment & Disposal Equipment	5.26%	5.00%	-	-	-	972,166	50,504
381	Plant Sewers	2.00%	5.00%	-	-	-	-	-
382	Outfall Sewer Lines	1.66%	3.33%	-	-	-	-	-
389	Other Sewer Plant & Equipment	5.30%	6.67%	-	-	-	71,243	4,020
390	Office Furniture & Equipment	2.00%	6.67%	-	-	-	5,514	175
390.1	Computers and Software	4.80%	20.00%	-	-	-	4,025	346
391	Transportation Equipment	33.33%	20.00%	-	-	-	-	-
392	Stores Equipment	4.00%	4.00%	-	-	-	-	-
393	Tools, Shop And Garage Equip	4.76%	5.00%	882	-	-	4,897	215
394	Laboratory Equip	2.56%	10.00%	-	-	-	-	-
396	Communication Equip	5.03%	10.00%	-	-	-	5,936	372
398	Other Tangible Plant	5.13%	4.00%	-	-	-	3,913	190
398	Nogales WW Trmnt Capacity Rounding	5.00%	5.00%	-	-	-	-	-
Plant Held for Future Use								-
TOTAL WASTEWATER PLANT								337,648
							(103,647)	9,745,484
							(103,647)	337,648

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

<sup>1</sup> Affiliate Profit

Rio Rico - Wastewater Division  
Plant Additions and Retirements

Exhibit  
Schedule B-2  
Page 3.4

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2006 Plant Additions	2006 Plant Adjustments <sup>1</sup>	2006 Adjusted Plant Additions	2006 Plant Retirements	2006 Salvage A/D Only	2006 Plant Balance	2006 Deprec.
351	Organization	0.00%	0.00%	-	-	-	-	-	5,785	-
352	Franchises	0.00%	0.00%	-	-	-	-	-	417	-
353	Land	0.00%	0.00%	-	-	-	-	-	7,545	-
354	Structures & Improvements	5.15%	3.33%	-	-	-	-	-	28,548	951
355	Power Generation	5.00%	5.00%	-	-	-	-	-	-	-
360	Collection Sewer Forced	2.06%	2.00%	1,147	-	1,147	-	-	634,208	12,673
361	Collection Sewers Gravity	2.03%	2.00%	100,371	-	100,371	-	-	5,917,835	117,353
362	Special Collecting Structures	3.31%	2.00%	-	-	-	-	-	-	-
363	Customer Services	3.04%	2.00%	-	-	-	-	-	1,128,765	22,448
364	Flow Measuring Devices	5.03%	10.00%	-	-	-	-	-	36,057	3,606
365	Flow Measuring Installation	5.03%	10.00%	-	-	-	-	-	-	-
366	Reuse Services	5.03%	2.00%	-	-	-	-	-	-	-
367	Reuse Meters And Installation	8.33%	8.33%	-	-	-	-	-	-	-
370	Receiving Wells	3.96%	3.33%	-	-	-	-	-	-	-
371	Pumping Equipment	5.27%	12.50%	-	-	-	-	-	867,120	28,875
374	Reuse Distribution Reservoirs	-	2.50%	-	-	-	-	-	1,504,181	188,023
375	Reuse Trans. and Dist. System	-	2.50%	-	-	-	-	-	-	-
380	Treatment & Disposal Equipment	5.26%	5.00%	-	-	-	-	-	972,166	48,608
381	Plant Sewers	2.00%	5.00%	-	-	-	-	-	-	-
382	Outfall Sewer Lines	1.66%	5.00%	-	-	-	-	-	-	-
389	Other Sewer Plant & Equipment	5.30%	3.33%	-	-	-	-	-	71,243	4,752
390	Office Furniture & Equipment	2.00%	6.67%	864	-	864	-	-	6,378	397
390.1	Computers and Software	4.80%	20.00%	-	-	-	-	-	4,025	-
391	Transportation Equipment	33.33%	20.00%	-	-	-	-	-	-	-
392	Stores Equipment	4.00%	4.00%	-	-	-	-	-	-	-
393	Tools, Shop And Garage Equip	4.76%	5.00%	-	-	-	-	-	4,897	245
394	Laboratory Equip	2.56%	10.00%	-	-	-	-	-	-	-
396	Communication Equip	5.03%	10.00%	-	-	-	-	-	5,936	447
398	Other Tangible Plant	5.13%	4.00%	-	-	-	-	-	3,913	157
398	Nogales WW Trmnt Capacity Rounding	-	5.00%	427,000	-	427,000	-	-	427,000	10,675
Plant Held for Future Use										
TOTAL WASTEWATER PLANT										
				542,099	-	542,099	-	-	11,626,019	439,209

<sup>1</sup> Affiliate Profit

Rio Rico - Wastewater Division  
Plant Additions and Retirements

Exhibit  
Schedule B-2  
Page 3.5

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2007 Plant Additions	2007 Plant Adjustments <sup>1</sup>	2007 Adjusted Plant	2007 Plant Retirements	2007 Salvage AD Only	2007 Plant Balance	2007 Deprec.
351	Organization	0.00%	0.00%	-	-	-	-	-	5,785	-
352	Franchises	0.00%	0.00%	-	-	-	-	-	417	-
353	Land	0.00%	0.00%	-	-	-	-	-	7,545	-
354	Structures & Improvements	5.15%	3.33%	-	-	-	-	-	28,548	951
355	Power Generation	5.00%	5.00%	-	-	-	-	-	-	-
360	Collection Sewer Forced	2.06%	2.00%	1,815	-	1,815	-	-	636,023	12,702
361	Collection Sewers Gravity	2.03%	2.00%	-	-	-	-	-	5,917,835	118,357
362	Special Collecting Structures	3.31%	2.00%	-	-	-	-	-	-	-
363	Customer Services	3.04%	2.00%	-	-	-	-	-	-	-
364	Flow Measuring Devices	5.03%	10.00%	12,881	(16)	12,865	-	-	1,141,630	22,704
365	Flow Measuring Installation	5.03%	10.00%	6,667	-	6,667	-	-	42,725	3,939
366	Reuse Services	5.03%	10.00%	-	-	-	-	-	-	-
367	Reuse Meters And Installation	5.03%	10.00%	-	-	-	-	-	-	-
370	Receiving Wells	3.96%	8.33%	-	-	-	-	-	-	-
371	Pumping Equipment	3.33%	3.33%	-	-	-	-	-	867,120	28,875
374	Reuse Distribution Reservoirs	5.27%	12.50%	-	-	-	-	-	1,504,181	188,023
375	Reuse Trans. and Dist. System	2.50%	2.50%	-	-	-	-	-	-	-
380	Treatment & Disposal Equipment	5.26%	5.00%	25,125	-	25,125	-	-	997,291	49,236
381	Plant Sewers	2.00%	5.00%	-	-	-	-	-	-	-
382	Outfall Sewer Lines	1.66%	3.33%	-	-	-	-	-	-	-
389	Other Sewer Plant & Equipment	5.30%	6.67%	-	(1,509)	(1,509)	-	-	69,734	4,702
390	Office Furniture & Equipment	2.00%	6.67%	938	-	938	-	-	7,315	457
390.1	Computers and Software	4.80%	20.00%	-	-	-	-	-	4,025	-
391	Transportation Equipment	33.33%	20.00%	-	-	-	-	-	-	-
392	Stores Equipment	4.00%	4.00%	-	-	-	-	-	-	-
393	Tools, Shop And Garage Equip	4.76%	5.00%	-	-	-	-	-	4,897	245
394	Laboratory Equip	2.56%	10.00%	-	-	-	-	-	-	-
396	Communication Equip	5.03%	10.00%	-	-	-	-	-	5,936	-
398	Other Tangible Plant	5.13%	4.00%	-	-	-	-	-	3,913	157
398	Nogales WW Trmt Capacity	5.00%	5.00%	-	-	-	-	-	427,000	21,350
	Rounding			-	-	-	-	-	-	-
	Plant Held for Future Use									
	TOTAL WASTEWATER PLANT			47,426	(1,525)	45,901	-	-	11,671,920	451,686

<sup>1</sup> Affiliate Profit

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2008 Plant Additions	2008 Plant Adjustments	2008 Plant Adjustments <sup>1</sup>	2008 Adjusted Plant Additions	2008 Plant Retirements	2008 Salvage A/D Only	2008 Plant Balance	2008 Deprec.
351	Organization	0.00%	0.00%	-	-	-	-	-	-	5,785	-
352	Franchises	0.00%	0.00%	-	-	-	-	-	-	417	-
353	Land	0.00%	0.00%	-	-	-	-	-	-	7,545	-
354	Structures & Improvements	5.15%	3.33%	-	-	-	-	-	-	28,548	951
355	Power Generation	-	5.00%	-	-	-	-	-	-	-	-
360	Collection Sewer Forced	2.06%	2.00%	-	-	-	-	-	-	636,023	12,720
361	Collection Sewers Gravity	2.03%	2.00%	27,713	415	-	28,127	-	-	5,945,962	118,638
362	Special Collecting Structures	3.31%	2.00%	-	-	-	-	-	-	-	-
363	Customer Services	3.04%	2.00%	3,900	-	-	3,900	-	-	1,145,530	22,872
364	Flow Measuring Devices	5.03%	10.00%	3,447	9,818	-	13,264	-	-	55,989	4,936
365	Flow Measuring Installation	5.03%	10.00%	-	-	-	-	-	-	-	-
366	Reuse Services	5.03%	2.00%	-	-	-	-	-	-	-	-
367	Reuse Meters And Installation	-	2.00%	-	-	-	-	-	-	-	-
370	Receiving Wells	3.96%	8.33%	-	-	-	-	-	-	-	-
371	Pumping Equipment	5.27%	3.33%	-	-	-	-	-	-	867,120	28,875
374	Reuse Distribution Reservoirs	-	12.50%	-	-	-	-	-	-	1,504,181	188,023
375	Reuse Trans. and Dist. System	-	2.50%	-	-	-	-	-	-	-	-
380	Treatment & Disposal Equipment	5.26%	5.00%	9,557	-	-	9,557	-	-	1,006,848	50,103
381	Plant Sewers	2.00%	5.00%	-	-	-	-	-	-	-	-
382	Outfall Sewer Lines	1.66%	3.33%	-	-	-	-	-	-	-	-
389	Other Sewer Plant & Equipment	5.30%	6.67%	150	1,697	(2,712)	(665)	-	-	68,869	4,622
390	Office Furniture & Equipment	2.00%	6.67%	103,139	-	-	103,139	-	-	110,454	3,928
390.1	Computers and Software	4.80%	20.00%	-	-	-	-	-	-	4,025	-
391	Transportation Equipment	33.33%	20.00%	-	-	-	-	-	-	-	-
392	Stores Equipment	-	4.00%	-	-	-	-	-	-	-	-
393	Tools, Shop And Garage Equip	4.76%	5.00%	-	-	-	-	-	-	4,897	245
394	Laboratory Equip	2.56%	10.00%	-	-	-	-	-	-	-	-
396	Communication Equip	5.03%	10.00%	-	-	-	-	-	-	5,936	-
398	Other Tangible Plant	5.13%	4.00%	-	-	-	-	-	-	3,913	157
398	Nogales WW Trmnt Capacity Rounding	-	5.00%	-	-	-	-	-	-	427,000	21,350
Plant Held for Future Use											
TOTAL WASTEWATER PLANT				147,905	11,929	(2,712)	157,122	-	-	11,829,042	457,419

<sup>1</sup> Affiliate Profit





Rio Rico - Wastewater Division  
Plant Reconciliation to Prior Rate Case

Exhibit  
Schedule B-2  
Page 3.9

Line No.	Account No.	Description	Balance Per Company Per 2002 Filing Before Adj.	PTY Plant	Rounding	Intentionally Left Blank	Per Decision Prior Case Adjusted Plant	PTY Plant	Initial Balance
6	351	Organization	5,785				5,785		5,785
7	352	Franchises	417				417		417
8	353	Land	7,545				7,545		7,545
9	354	Structures & Improvements	28,548				28,548		28,548
10	355	Power Generation	-				-		-
11	360	Collection Sewer Forced	355,144	293,417			648,561	(293,417)	355,144
12	361	Collection Sewers Gravity	4,387,284				4,387,284		4,387,284
13	362	Special Collecting Structures	-				-		-
14	363	Customer Services	1,085,957				1,085,957		1,085,957
15	364	Flow Measuring Devices	36,057				36,057		36,057
16	365	Flow Measuring Installations	-				-		-
17	366	Reuse Services	-				-		-
18	367	Reuse Meters And Installation	-				-		-
19	370	Receiving Wells	992,546				992,546		992,546
20	371	Pumping Equipment	1,593,905				1,593,905		1,593,905
21	374	Reuse Distribution Reservoirs	-				-		-
22	375	Reuse Trans. and Dist. System	-				-		-
23	380	Treatment & Disposal Equipment	972,166				972,166		972,166
24	381	Plant Sewers	-				-		-
25	382	Outfall Sewer Lines	-				-		-
26	389	Other Sewer Plant & Equipment	71,243				71,243		71,243
27	390	Office Furniture & Equipment	5,514				5,514		5,514
28	390.1	Computers and Software	4,025				4,025		4,025
29	391	Transportation Equipment	-				-		-
30	392	Stores Equipment	-				-		-
31	393	Tools, Shop And Garage Equip	4,015				4,015		4,015
32	394	Laboratory Equip	-				-		-
33	396	Communication Equip	5,936				5,936		5,936
34	398	Other Tangible Plant	3,913				3,913		3,913
35		Plant Held for Future Use (Land)	-				-		-
36		Rounding	1		(1)		-		-
37									
38		TOTAL	9,560,001	293,417	(1)	-	9,853,417	(293,417)	9,560,000



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

Exhibit  
 Schedule B-2  
 Page 4  
 Witness: Bourassa

Line No.	Plant-in-Service	Per Books Accum. Depr.	A Difference to Computed Balance	B Intentionally Left Blank	C Intentionally Left Blank	D Intentionally Left Blank	E Intentionally Left Blank	Adjusted Accum. Depr.
1								
2								
3	Acct.							
4	No. Description							
5	351 Organization							
6	352 Franchises							
7	353 Land							
8	354 Structures & Improvements	11,484	15,719					27,203
9	355 Power Generation							
10	360 Collection Sewer Forced	255,857	(294,228)					(38,371)
11	361 Collection Sewers Gravity	2,391,918	(178,365)					2,213,553
12	362 Special Collecting Structures							
13	363 Customer Services	460,819	135,037					595,856
14	364 Flow Measuring Devices	22,529	8,513					31,043
15	365 Flow Measuring Installation							
16	366 Reuse Services							
17	367 Reuse Meters And Installation							
18	370 Receiving Wells	348,822	(110,112)					238,710
19	371 Pumping Equipment	605,096	627,585					1,232,681
20	374 Reuse Distribution Reservoirs							
21	375 Reuse Trans. and Dist. System							
22	380 Treatment & Disposal Equipment	405,031	260,752					665,783
23	381 Plant Sewers							
24	382 Outfall Sewer Lines							
25	389 Other Sewer Plant & Equipment	27,704	37,539					65,244
26	390 Office Furniture & Equipment	46,131	(38,110)					8,021
27	390.1 Computers and Software	1,619	2,406					4,025
28	391 Transportation Equipment							
29	392 Stores Equipment							
30	393 Tools, Shop And Garage Equip	1,970	2,186					4,156
31	394 Laboratory Equip							
32	396 Communication Equip	2,388	3,548					5,936
33	398 Other Tangible Plant	1,574	1,240					2,815
34	398 Nogales Capacity		53,375					53,375
35	TOTALS	\$ 4,582,943	\$ 527,085	\$ -	\$ -	\$ -	\$ -	\$ 5,110,028
36								
37	Accumulated Depreciation per Books							\$ 4,582,943
38								
39	Increase (decrease) in Plant-in-Service							\$ 527,085
40								
41	Adjustment to Plant-in-Service							\$ 527,085
42								

43 SUPPORTING SCHEDULES  
 44 B-2, pages 3.1 to 3.10

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

Exhibit  
 Schedule B-2  
 Page 5  
 Witness: Bourassa

Line No.	Deferred Income Tax as of September 30, 2008 (Water and Wastewater Divisions)	Adjusted Book Value <sup>1</sup>	Tax Value <sup>3</sup>	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Tax Rate	Future Tax Asset Current	Future Tax Asset Non Current	Future Tax Liability Current	Future Tax Liability Non Current
1	Plant-in-Service	\$ 45,888,844								
2	Accum. Deprec.	(17,582,689)								
3	CIAC	(16,993,123)								
4	Fixed Assets	\$ 11,313,032	\$ 13,584,404	100.0%	\$ 2,271,372	38.6%		876,750		
5	AIAC		72,787	100.0%	72,787	38.6%		\$ 28,096		
6	Tax Benefits from O.L. Carry Forward.			100.0%	510,259	38.6%		\$ 196,960		
7							\$ -	\$ 1,101,805	\$ -	\$ -
8							\$ 1,101,805			
9								0.29370		
10	Wastewater Division allocation factor <sup>2</sup>								\$ 323,602	
11	Allocated DIT Asset (Liability)									\$ -
12	DIT Asset (Liability) per books									\$ (323,602)
13	Adjustment to DIT									
14										
15										
16										
17										
18										
19										
20										
21										
22										
23										
24										
25										
26										

<sup>1</sup> Adjusted Water and Wastewater - per B-2, page 2 (Water Division) and B-2, page 2 (Wastewater Division).  
<sup>2</sup> Based on wastewater division rate base relative to total of both water and wastewater division rate bases  
<sup>3</sup> Adjusted for post-test year plant (water and wastewater). Also adjusted for excluded affiliate profit.

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

Exhibit  
 Schedule B-2  
 Page 6  
 Witness: Bourassa

Line  
No.  
 1  
 2  
 3  
 4  
 5  
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 7  
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 34  
 35  
 36

CIAC and Accumulated Amortization

Computed balance at 12/31/2008	\$ 5,376,456	\$ 1,944,057
Book balance at 12/31/2008	<u>\$ 5,376,456</u>	<u>\$ 2,325,014</u>
Increase (decrease)	\$ -	\$ (380,957)
Adjustment to CIAC	<u>\$ -</u>	<u>\$ 380,957</u>
Label	4a	4b

SUPPORTING SCHEDULES

B-2, page 6.1 to 6.4

Rio Rico Utilities - Wastewater Division  
 Test Year Ended September 30, 2008  
 Original Cost Rate Base Proforma Adjustments  
 Contributions-in-aid of Construction and Amortization  
 Adjustment 4

Exhibit  
 Schedule B-2  
 Page 6.1  
 Witness: Bourassa

Line No.		Balance at 12/31/2002	2003 Activity	Balance at 12/31/2003	2004 Activity	Balance at 12/31/2004
4	CIAC	3,904,036		3,904,036	140,848	4,044,884
			124,901		137,701	
		886,177	124,901	1,011,078	137,701	1,148,780
			3.1993%		3.4647%	
	Total CIAC Sewer	3,904,036		3,904,036		4,044,884
	Total Accum Amort.	886,177		1,011,078		1,148,780

Line No.	2005 Activity	Balance at 12/31/2005	2006 Activity	Balance at 12/31/2006
1				
2				
3				
4	1,331,572	5,376,456		5,376,456
5				
6				
7	176,197		203,112	
8	176,197	1,324,976	203,112	1,528,089
9				
10	3.7404%		3.7778%	
11				
12				
13				
14				
15		5,376,456		5,376,456
16				
17				
18		<u>1,324,976</u>		<u>1,528,089</u>
19				
20				
21				
22				
23				
24				
25				

Rio Rico Utilities - Wastewater Division  
 Test Year Ended September 30, 2008  
 Original Cost Rate Base Proforma Adjustments  
 Contributions-in-aid of Construction and Amortization  
 Adjustment 4

Line No.	2007 Activity	Balance at 12/31/2007	2008 Activity	Balance at 12/31/2008
1				
2				
3				
4				
5				
6				
7				
8	81342.0200	10,1640.0100		
9				
10				
11				
12				
13	81342.0200	10,1641.0100		
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
	208,066	5,376,456	207,903	5,376,456
	<u>208,066</u>	<u>5,376,456</u>	<u>207,903</u>	<u>5,376,456</u>
	3.8699%		3.8669%	
		1,736,154		1,944,057
		<u>1,736,154</u>		<u>1,944,057</u>
		5,376,456		5,376,456
		<u>1,736,154</u>		<u>1,944,057</u>

Exhibit Schedule B-2  
 Page 6.3  
 Witness: Bourassa

Exhibit Schedule B-2  
 Page 6.3  
 Witness: Bourassa

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

Exhibit  
Schedule B-5  
Page 1  
Witness: Bourassa

Line  
No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	117,268
3	Pumping Power (1/24 of Pumping Power)		-
4	Purchased Water (1/24 of Purchased Water)		-
5	Prepays		3,430
6	Materials & Supplies		-
7			
8			
9	Total Working Capital Allowance	<u>\$</u>	<u>120,698</u>
10			
11			
12	Working Capital Requested	<u>\$</u>	<u>-</u>
13			
14			

15 SUPPORTING SCHEDULES:

16 E-1

17

RECAP SCHEDULES:

B-1

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

Exhibit  
 Schedule C-1  
 Page 1  
 Witness: Bourassa

Line No.		Test Year Book Results	Label	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	<b>Revenues</b>						
2	Flat Rate Revenues	\$ 1,834,231	4	\$ (4,505)	\$ 1,829,726	\$ (89,058)	\$ 1,740,668
3	Measured Revenues	-			-		-
4	Other Wastewater Revenues	250			250		250
5		<u>\$ 1,834,481</u>		<u>\$ (4,505)</u>	<u>\$ 1,829,976</u>	<u>\$ (89,058)</u>	<u>\$ 1,740,918</u>
6	<b>Operating Expenses</b>						
7	Salaries and Wages	\$ -			\$ -		\$ -
8	Purchased Water and WW Treatment	-			-		-
9	Sludge Removal Expense	-			-		-
10	Purchased Power	17,482	5/6	(56)	17,426		17,426
11	Fuel for Power Production	-			-		-
12	Chemicals	9,856	7	(212)	9,644		9,644
13	Materials and Supplies	14,304			14,304		14,304
14	Contractual Services	298,008			298,008		298,008
15	Contractual Services- Testing	-			-		-
16	Contractual Services - Other	175,196			175,196		175,196
17	Contractual Services - Legal	367			367		367
18	Equipment Rental	25,781			25,781		25,781
19	Rents - Building	-			-		-
20	Transportation Expenses	26,817			26,817		26,817
21	Insurance - General Liability	12,021			12,021		12,021
22	Insurance - Vehicle	-			-		-
23	Regulatory Commission Expense	994			994		994
24	Reg. Comm. Exp. - Rate Case	-	3	41,667	41,667		41,667
25	Miscellaneous Expense	155			155		155
26	Bad Debt Expense	64,087			64,087		64,087
27	Depreciation and Amortization	13,562	1	239,110	252,672		252,672
28	Taxes Other Than Income	-			-		-
29	Property Taxes	49,415	2	42,290	91,705		91,705
30	Income Tax	387,612	9	(79,156)	308,456	(34,375)	274,081
31					-		-
32	<b>Total Operating Expenses</b>	<u>\$ 1,095,657</u>		<u>\$ 243,643</u>	<u>\$ 1,339,300</u>	<u>\$ (34,375)</u>	<u>\$ 1,304,924</u>
33	<b>Operating Income</b>	<u>\$ 738,824</u>		<u>\$ (248,148)</u>	<u>\$ 490,676</u>	<u>\$ (54,682)</u>	<u>\$ 435,994</u>
34	<b>Other Income (Expense)</b>						
35	Interest Income	-			-		-
36	Other income	-			-		-
37	Interest Expense	(18,964)	8	18,964	-		-
38	Other Expense	-			-		-
39					-		-
40	<b>Total Other Income (Expense)</b>	<u>\$ (18,964)</u>		<u>\$ 18,964</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
41	<b>Net Profit (Loss)</b>	<u>\$ 719,860</u>		<u>\$ (229,184)</u>	<u>\$ 490,676</u>	<u>\$ (54,682)</u>	<u>\$ 435,994</u>

SUPPORTING SCHEDULES:

C-2

E-2

RECAP SCHEDULES:

A-1



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

Exhibit  
 Schedule C-2  
 Page 2  
 Witness: Bourassa

Line  
 No.

<u>Depreciation Expense</u>				
Acct.		<u>Adjusted</u>	<u>Proposed</u>	<u>Depreciation</u>
<u>No.</u>	<u>Description</u>	<u>Original</u>	<u>Rates</u>	<u>Expense</u>
		<u>Cost</u>		
5	351 Organization	5,785	0.00%	-
6	352 Franchises	417	0.00%	-
7	353 Land	7,545	0.00%	-
8	354 Structures & Improvements	28,548	3.33%	951
9	355 Power Generation	-	5.00%	-
10	360 Collection Sewer Forced	636,023	2.00%	12,720
11	361 Collection Sewers Gravity	5,945,962	2.00%	118,919
12	362 Special Collecting Structures	-	2.00%	-
13	363 Customer Services	1,145,530	2.00%	22,911
14	364 Flow Measuring Devices	55,989	10.00%	5,599
15	365 Flow Measuring Installation	-	10.00%	-
16	366 Reuse Services	-	2.00%	-
17	367 Reuse Meters And Installation	-	8.33%	-
18	370 Receiving Wells	867,120	3.33%	28,875
19	371 Pumping Equipment	1,504,181	12.50%	188,023
20	374 Reuse Distribution Reservoirs	-	2.50%	-
21	375 Reuse Trans. and Dist. System	-	2.50%	-
22	380 Treatment & Disposal Equipment	1,006,848	5.00%	50,342
23	381 Plant Sewers	-	5.00%	-
24	382 Outfall Sewer Lines	-	3.33%	-
25	389 Other Sewer Plant & Equipment	68,869	6.67%	4,594
26	390 Office Furniture & Equipment	110,454	6.67%	7,367
27	390.1 Computers and Software	4,025	20.00%	805
28	391 Transportation Equipment	-	20.00%	-
29	392 Stores Equipment	-	4.00%	-
30	393 Tools, Shop And Garage Equip	4,897	5.00%	245
31	394 Laboratory Equip	-	10.00%	-
32	396 Communication Equip	5,936	10.00%	594
33	398 Other Tangible Plant	3,913	4.00%	157
34	398 Nogales Capacity	427,000	5.00%	21,350
35	TOTALS	\$ 11,829,042		\$ 463,451
37	Less: Amortization of Contributions	\$ 5,376,456	3.92%	\$ (210,779)
40	Total Depreciation Expense			\$ 252,672
42	Test Year Depreciation Expense			13,562
44	Increase (decrease) in Depreciation Expense			239,110
46	Adjustment to Revenues and/or Expenses			\$ 239,110
48	<u>SUPPORTING SCHEDULE</u>			
49	B-2, page 3			

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

Exhibit  
 Schedule C-2  
 Page 3  
 Witness: Bourassa

Line No.		
1	<u>Adjust Property Taxes to Reflect Proposed Revenues:</u>	
2		
3	Adjusted Revenues in year ended 12/31/2008	\$ 1,829,976
4	Adjusted Revenues in year ended 12/31/2008	1,829,976
5	Proposed Revenues	<u>1,740,918</u>
6	Average of three year's of revenue	\$ 1,800,290
7	Average of three year's of revenue, times 2	\$ 3,600,580
8	Add:	
9	Construction Work in Progress at 10%	\$ -
10	Deduct:	
11	Book Value of Transportation Equipment	<u>-</u>
12		
13	Full Cash Value	\$ 3,600,580
14	Assessment Ratio	<u>21%</u>
15	Assessed Value	756,122
16	Property Tax Rate	11.3283%
17		
18	Property Tax	85,655
19	Plus: Tax on Parcels	6,050
20		
21	Total Property Tax at Proposed Rates	<u>\$ 91,705</u>
22	Property Taxes recorded during the test year	<u>49,415</u>
23	Change in property taxes	<u>\$ 42,290</u>
24		
25		
26	Adjustment to Revenues and/or Expenses	<u>\$ 42,290</u>
27		
28		

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

Exhibit  
Schedule C-2  
Page 4  
Witness: Bourassa

Line  
No.

1	<u>Rate Case Expense</u>		
2			
3	Estimated Rate Case Expense	\$	125,000
4			
5	Estimated Amortization Period in Years		3
6			
7	Annual Rate Case Expense	\$	<u>41,667</u>
8			
9	Test Year Rate Case Expense	\$	-
10			
11	Increase(decrease) Rate Case Expense	\$	<u>41,667</u>
12			
13	Adjustment to Revenue and/or Expense	\$	<u>41,667</u>
14			
15			
16			
17			
18			
19			
20			

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

Exhibit  
Schedule C-2  
Page 5  
Witness: Bourassa

Line  
No.

1	<u>Revenue Annualization</u>		
2			
3			
4	Revenue Annualization	\$	(4,505)
5			
6			
7			
8	Total Revenue from Annualization	<u>\$</u>	<u>(4,505)</u>
9			
10			
11	Adjustment to Revenue and/or Expense	<u>\$</u>	<u>(4,505)</u>
12			
13	<u>SUPPORTING SCHEDULES</u>		
14	C-2 pages 5.1 to 5.12		
15	H-1		
16			
17			
18			
19			
20			

Rio Rico Utilities, Inc. - Wastewater Division  
 5/8 Inch Residential  
 Customers to Year End Levels  
 Test Year Ended December 31, 2008

Exhibit  
 Schedule C-2  
 Page 5.1  
 Witness: Bourassa

Line No.		Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08
1	Year End Number of Customers	1,878	1,878	1,878	1,878	1,878	1,878	1,878
2	Actual Customers	1,942	1,942	1,943	1,940	1,940	1,917	1,880
3	Increase in Number of Customers/Bills	(64)	(64)	(65)	(62)	(62)	(39)	(2)
4	Average Revenue / Present Rates	\$ 56.36	\$ 56.36	\$ 56.36	\$ 56.36	\$ 56.36	\$ 56.36	\$ 56.36
5	Revenue Annualization / Present Rates	\$ (3,607)	\$ (3,607)	\$ (3,663)	\$ (3,494)	\$ (3,494)	\$ (2,198)	\$ (113)
6								
7	Increase in Number of Customers	(64)	(64)	(65)	(62)	(62)	(39)	(2)
8	Average Revenue / Proposed Rates	\$ 53.65	\$ 53.65	\$ 53.65	\$ 53.65	\$ 53.65	\$ 53.65	\$ 53.65
9	Revenue Annualization / Proposed Rates	\$ (3,434)	\$ (3,434)	\$ (3,488)	\$ (3,327)	\$ (3,327)	\$ (2,093)	\$ (107)
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12								
13								
14								
15	Year End Number of Customers	1,878	1,878	1,878	1,878	1,878	1,878	1,878
16	Actual Customers	1,863	1,849	1,874	1,880	1,878	1,880	1,878
17	Increase in Number of Customers/Bills	15	29	4	(2)	-	-	(312)
18	Average Revenue / Present Rates	\$ 56.36	\$ 56.36	\$ 56.36	\$ 56.36	\$ 56.36	\$ 56.36	\$ 56.36
19	Revenue Annualization / Present Rates	\$ 845	\$ 1,634	\$ 225	\$ (113)	\$ -	\$ -	\$ (17,584)
20								
21	Increase in Number of Customers	15	29	4	(2)	-	-	-
22	Average Revenue / Proposed Rates	\$ 53.65	\$ 53.65	\$ 53.65	\$ 53.65	\$ 53.65	\$ 53.65	\$ 53.65
23	Revenue Annualization / Proposed Rates	\$ 845	\$ 1,634	\$ 225	\$ (113)	\$ -	\$ -	\$ (16,740)
24	Additional Gallons to be Produced	-	-	-	-	-	-	-

Rio Rico Utilities, Inc. - Wastewater Division  
 1 Inch Residential  
 Customers to Year End Levels  
 Test Year Ended December 31, 2008

Exhibit  
 Schedule C-2  
 Page 5.3  
 Witness: Bourassa

Line No.		Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08
1	Year End Number of Customers	6	6	6	6	6	6	6
2	Actual Customers	10	10	10	10	12	9	8
3	Increase in Number of Customers/Bills	(4)	(4)	(4)	(4)	(6)	(3)	(2)
4	Average Revenue / Present Rates	\$ 79.40	\$ 79.40	\$ 79.40	\$ 79.40	\$ 79.40	\$ 79.40	\$ 79.40
5	Revenue Annualization / Present Rates	\$ (318)	\$ (318)	\$ (318)	\$ (318)	\$ (476)	\$ (238)	\$ (159)
6								
7	Increase in Number of Customers	(4)	(4)	(4)	(4)	(6)	(3)	(2)
8	Average Revenue / Proposed Rates	\$ 75.59	\$ 75.59	\$ 75.59	\$ 75.59	\$ 75.59	\$ 75.59	\$ 75.59
9	Revenue Annualization / Proposed Rates	\$ (302)	\$ (302)	\$ (302)	\$ (302)	\$ (454)	\$ (227)	\$ (151)
10	Additional Gallons to be Produced	-	-	-	-	-	-	-

Line No.		Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year
11	Year End Number of Customers	6	6	6	6	6	
12	Actual Customers	10	7	6	6	6	
13	Increase in Number of Customers/Bills	(4)	(1)	-	-	-	(32)
14	Average Revenue / Present Rates	\$ 79.40	\$ 79.40	\$ 79.40	\$ 79.40	\$ 79.40	
15	Revenue Annualization / Present Rates	\$ (318)	\$ (79)	\$ -	\$ -	\$ -	\$ (2,541)
16							
17	Increase in Number of Customers	(4)	(1)	-	-	-	
18	Average Revenue / Proposed Rates	\$ 75.59	\$ 75.59	\$ 75.59	\$ 75.59	\$ 75.59	
19	Revenue Annualization / Proposed Rates	\$ (318)	\$ (79)	\$ -	\$ -	\$ -	\$ (2,419)
20	Additional Gallons to be Produced	-	-	-	-	-	



Rio Rico Utilities, Inc. - Wastewater Division  
 2 Inch Residential  
 Customers to Year End Levels  
 Test Year Ended December 31, 2008

Exhibit  
 Schedule C-2  
 Page 5.5  
 Witness: Bourassa

Line No.

	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08
1	1	1	1	1	1	1	1
2	1	1	1	1	1	1	1
3	1	1	1	1	1	1	1
4	1	1	1	1	1	1	1
5	1	1	1	1	1	1	1
6	1	1	1	1	1	1	1
7	1	1	1	1	1	1	1
8	1	1	1	1	1	1	1
9	1	1	1	1	1	1	1
10	1	1	1	1	1	1	1
11	1	1	1	1	1	1	1
12	1	1	1	1	1	1	1
13	1	1	1	1	1	1	1
14	1	1	1	1	1	1	1
15	1	1	1	1	1	1	1
16	1	1	1	1	1	1	1
17	1	1	1	1	1	1	1
18	1	1	1	1	1	1	1
19	1	1	1	1	1	1	1
20	1	1	1	1	1	1	1
21	1	1	1	1	1	1	1
22	1	1	1	1	1	1	1
23	1	1	1	1	1	1	1
24	1	1	1	1	1	1	1

	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year
1	1	1	1	1	1	1
2	1	1	1	1	1	1
3	1	1	1	1	1	1
4	1	1	1	1	1	1
5	1	1	1	1	1	1
6	1	1	1	1	1	1
7	1	1	1	1	1	1
8	1	1	1	1	1	1
9	1	1	1	1	1	1
10	1	1	1	1	1	1
11	1	1	1	1	1	1
12	1	1	1	1	1	1
13	1	1	1	1	1	1
14	1	1	1	1	1	1
15	1	1	1	1	1	1
16	1	1	1	1	1	1
17	1	1	1	1	1	1
18	1	1	1	1	1	1
19	1	1	1	1	1	1
20	1	1	1	1	1	1
21	1	1	1	1	1	1
22	1	1	1	1	1	1
23	1	1	1	1	1	1
24	1	1	1	1	1	1

	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08
1	1	1	1	1	1	1	1
2	1	1	1	1	1	1	1
3	1	1	1	1	1	1	1
4	1	1	1	1	1	1	1
5	1	1	1	1	1	1	1
6	1	1	1	1	1	1	1
7	1	1	1	1	1	1	1
8	1	1	1	1	1	1	1
9	1	1	1	1	1	1	1
10	1	1	1	1	1	1	1
11	1	1	1	1	1	1	1
12	1	1	1	1	1	1	1
13	1	1	1	1	1	1	1
14	1	1	1	1	1	1	1
15	1	1	1	1	1	1	1
16	1	1	1	1	1	1	1
17	1	1	1	1	1	1	1
18	1	1	1	1	1	1	1
19	1	1	1	1	1	1	1
20	1	1	1	1	1	1	1
21	1	1	1	1	1	1	1
22	1	1	1	1	1	1	1
23	1	1	1	1	1	1	1
24	1	1	1	1	1	1	1

	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year
1	1	1	1	1	1	1
2	1	1	1	1	1	1
3	1	1	1	1	1	1
4	1	1	1	1	1	1
5	1	1	1	1	1	1
6	1	1	1	1	1	1
7	1	1	1	1	1	1
8	1	1	1	1	1	1
9	1	1	1	1	1	1
10	1	1	1	1	1	1
11	1	1	1	1	1	1
12	1	1	1	1	1	1
13	1	1	1	1	1	1
14	1	1	1	1	1	1
15	1	1	1	1	1	1
16	1	1	1	1	1	1
17	1	1	1	1	1	1
18	1	1	1	1	1	1
19	1	1	1	1	1	1
20	1	1	1	1	1	1
21	1	1	1	1	1	1
22	1	1	1	1	1	1
23	1	1	1	1	1	1
24	1	1	1	1	1	1

Rio Rico Utilities, Inc. - Wastewater Division  
 5/8 Inch Commercial  
 Customers to Year End Levels  
 Test Year Ended December 31, 2008

Exhibit  
 Schedule C-2  
 Page 5.6  
 Witness: Bourassa

Line No.	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08
1	78	78	78	78	78	78	78
2	70	52	70	74	66	78	67
3	8	26	8	4	12	-	11
4	\$ 80.67	\$ 60.31	\$ 80.67	\$ 80.36	\$ 95.38	\$ 95.74	\$ 84.40
5	\$ 645	\$ 1,568	\$ 645	\$ 321	\$ 1,145	\$ -	\$ 928
6							
7	8	26	8	4	12	-	11
8	\$ 76.80	\$ 57.42	\$ 76.80	\$ 76.50	\$ 90.80	\$ 91.15	\$ 80.35
9	\$ 614	\$ 1,493	\$ 614	\$ 306	\$ 1,090	\$ -	\$ 884
10	90,057	200,000	90,057	44,811	166,000	-	131,015
11							
12	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	
13	78	78	78	78	78		
14	73	65	74	64	78		
15	5	13	4	14	-	105	
16	\$ 76.15	\$ 81.66	\$ 70.02	\$ 78.22	\$ 63.61		
17	\$ 381	\$ 1,062	\$ 280	\$ 1,095	\$ -	\$ 8,071	
18							
19	5	13	4	14	-		
20	\$ 72.49	\$ 77.74	\$ 66.66	\$ 74.46	\$ 60.55		
21	\$ 381	\$ 1,062	\$ 280	\$ 1,095	\$ -	\$ 7,683	
22	52,329	148,600	37,568	151,594	-	1,112,030	
23							
24							

**Rio Rico Utilities, Inc. - Wastewater Division**  
 1 Inch Commercial  
 Customers to Year End Levels  
 Test Year Ended December 31, 2008

Exhibit  
 Schedule C-2  
 Page 5.7  
 Witness: Bourassa

Line No.	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08
1	41	41	41	41	41	41	41
2	38	38	44	32	38	39	35
3	3	3	(3)	9	3	2	6
4	\$ 113.36	\$ 113.51	\$ 103.28	\$ 160.05	\$ 137.40	\$ 190.23	\$ 155.10
5	\$ 340	\$ 341	\$ (310)	\$ 1,440	\$ 412	\$ 380	\$ 931
6							
7	3	3	(3)	9	3	2	6
8	\$ 107.92	\$ 108.06	\$ 98.32	\$ 152.37	\$ 130.81	\$ 181.10	\$ 147.65
9	\$ 324	\$ 324	\$ (295)	\$ 1,371	\$ 392	\$ 362	\$ 886
10	\$ 38,842	\$ 38,921	\$ (33,545)	\$ 190,125	\$ 51,474	\$ 52,821	\$ 121,543
11							
12							
13							
14							
15	41	41	41	41	41	41	41
16	31	34	31	36	41	41	41
17	10	7	10	5	-	-	55
18	\$ 128.21	\$ 106.61	\$ 112.37	\$ 114.77	\$ 98.20		
19	\$ 1,282	\$ 746	\$ 1,124	\$ 574	\$ -		
20							
21	10	7	10	5	-	-	55
22	\$ 122.06	\$ 101.49	\$ 106.98	\$ 109.26	\$ 93.49		
23	\$ 1,282	\$ 746	\$ 1,124	\$ 574	\$ -		\$ 6,912
24	\$ 155,484	\$ 82,353	\$ 127,742	\$ 65,972	\$ -		\$ 891,731





Rio Rico Utilities, Inc. - Wastewater Division  
 3 Inch Commercial  
 Customers to Year End Levels  
 Test Year Ended December 31, 2008

Exhibit  
 Schedule C-2  
 Page 5.10  
 Witness: Bourassa

Line No.	Year End Number of Customers	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08
1	Actual Customers	1	1	1	1	1	1	1
2	Increase in Number of Customers/Bills	-	-	-	-	-	-	-
3	Average Revenue / Present Rates	\$ 643.03	\$ 660.16	\$ 585.93	\$ 631.61	\$ 283.30	\$ 391.79	\$ 922.82
4	Revenue Annualization / Present Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Line No.	Increase in Number of Customers	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year
5	Average Revenue / Proposed Rates	\$ 612.16	\$ 628.47	\$ 557.81	\$ 601.29	\$ 269.70	\$ 372.98
6	Revenue Annualization / Proposed Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7	Additional Gallons to be Produced	-	-	-	-	-	-

Line No.	Year End Number of Customers	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year
8	Actual Customers	1	1	1	1	1	-
9	Increase in Number of Customers/Bills	-	-	-	-	-	-
10	Average Revenue / Present Rates	\$ 643.03	\$ 688.71	\$ 917.11	\$ 745.81	\$ 797.20	\$ -
11	Revenue Annualization / Present Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Line No.	Increase in Number of Customers	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year
12	Average Revenue / Proposed Rates	\$ 612.16	\$ 655.65	\$ 873.09	\$ 710.01	\$ 758.93	\$ -
13	Revenue Annualization / Proposed Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	Additional Gallons to be Produced	-	-	-	-	-	-



Rio Rico Utilities, Inc. - Wastewater Division  
 5/8 Inch Multi-Tenant  
 Customers to Year End Levels  
 Test Year Ended December 31, 2008

Exhibit  
 Schedule C-2  
 Page 5.12  
 Witness: Bourassa

Line No.		Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08
1	Year End Number of Customers	9	9	9	9	9	9	9
2	Actual Customers	9	6	9	10	10	10	11
3	Increase in Number of Customers/Bills	-	3	-	(1)	(1)	(1)	(2)
4	Average Revenue / Present Rates	\$ 77.93	\$ 69.68	\$ 77.93	\$ 82.63	\$ 78.63	\$ 98.61	\$ 64.15
5	Revenue Annualization / Present Rates	\$ -	\$ 209	\$ -	\$ (83)	\$ (79)	\$ (99)	\$ (128)
6								
7	Increase in Number of Customers	-	3	-	(1)	(1)	(1)	(2)
8	Average Revenue / Proposed Rates	\$ 74.19	\$ 66.34	\$ 74.19	\$ 78.66	\$ 74.85	\$ 93.88	\$ 61.07
9	Revenue Annualization / Proposed Rates	\$ -	\$ 199	\$ -	\$ (79)	\$ (75)	\$ (94)	\$ (122)
10	Additional Gallons to be Produced	-	28,000	-	(11,600)	(10,900)	(14,400)	(16,727)
11								
12								
13								
14								
15	Year End Number of Customers	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08		Total Year
16	Actual Customers	9	10	9	9	9		
17	Increase in Number of Customers/Bills	(1)	(1)	-	(1)	-		(5)
18	Average Revenue / Present Rates	\$ 72.35	\$ 82.63	\$ 70.95	\$ 62.64	\$ 77.30		
19	Revenue Annualization / Present Rates	\$ (72)	\$ (83)	\$ -	\$ (63)	\$ -		\$ (397)
20								
21	Increase in Number of Customers	(1)	(1)	-	(1)	-		
22	Average Revenue / Proposed Rates	\$ 68.88	\$ 78.66	\$ 67.55	\$ 59.63	\$ 73.59		
23	Revenue Annualization / Proposed Rates	\$ (72)	\$ (83)	\$ -	\$ (63)	\$ -		\$ (378)
24	Additional Gallons to be Produced	(9,800)	(11,600)	-	(8,100)	-		(55,127)

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

Exhibit  
Schedule C-2  
Page 6  
Witness: Bourassa

Line  
No.

1  
2  
3  
4  
5  
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7  
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18  
19  
20

Increase in Purchased Power Cost (APS)

Test Year Purchased Power

\$ 17,482

Estimated % Increase due to APS Interim Rate Increase

1.90%

Increase in Purchased Power Costs

\$ 332

Adjustment to Revenue and/or Expense

\$ 332

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

Exhibit  
Schedule C-2  
Page 7  
Witness: Bourassa

Line No.		
1	<u>Annualize Purchase Power Expense</u>	
2		
3	Test Year Purchased Power	\$ 17,482
4	Increase in Purchased Power (Adjustment 7)	<u>(212)</u>
5	Test Year Purchased Power Expense	\$ 17,270
6		
7	Gallon Treated (in 1,000's)	155,443
8		
9	Cost per 1,000 gallons	\$ 0.11
10		
11	Number of bills during test year (excluding effluent)	24,852
12		
13	Average flow per bill per month (in 1,000's)	6.25
14		
15	Increase (decrease) in number of bills (excluding effluent)	(565)
16		
17	Increase (decrease) in flows (in 1,000's)	(3,529)
18		
19	Increase (decrease) in Purchased Power	<u>\$ (388)</u>
20		
21	Adjustment to Revenue and/or Expense	<u>\$ (388)</u>
22		

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

Exhibit  
Schedule C-2  
Page 8  
Witness: Bourassa

Line No.			
1	<u>Annualize Chemicals Expense</u>		
2			
3	Test Year Chemicals Expense	\$	9,856
4			
5	Gallon Treated (in 1,000's)		155,443
6			
7	Cost per 1,000 gallons	\$	0.06
8			
9	Number of bills during test year (excluding effluent)		24,852
10			
11	Average flow per bill per month (in 1,000's)		6.25
12			
13	Increase (decrease) in number of bills (excluding effluent)		(565)
14			
15	Increase (decrease) in flows (in 1,000's)		(3,529)
16			
17	Increase (decrease) in Sludge Removal	\$	<u>(212)</u>
18			
19	Adjustment to Revenue and/or Expense	\$	<u><u>(212)</u></u>
20			

**Rio Rico Utilities - Wastewater Division**  
 Test Year Ended December 31, 2008  
 Adjustment to Revenues and Expenses  
 Adjustment Number 8

Exhibit  
 Schedule C-2  
 Page 9  
 Witness: Bourassa

Line  
 No.

1	<u>Interest Synchronization</u>				
2					
3					
4	Fair Value Rate Base		\$	3,516,078	
5	Weighted Cost of Debt			0.00%	
6	Interest Expense		\$	-	
7					
8	Test Year Interest Expense		\$	<u>18,964</u>	
9					
10	Increase (decrease) in Interest Expense			(18,964)	
11					
12					
13					
14	Adjustment to Revenue and/or Expense		\$	<u>18,964</u>	
15					
16					
17	<u>Weighted Cost of Debt Computation</u>				
18					Weighted
19		<u>Amount</u>	<u>Percent</u>	<u>Cost</u>	<u>Cost</u>
20	Debt	\$ -	0.00%	0.00%	0.00%
21	Equity	\$ 12,132,312	100.00%	12.40%	<u>12.40%</u>
22	Total	\$ 12,132,312	100.00%		12.40%
23					
24					

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

Exhibit  
 Schedule C-2  
 Page 10  
 Witness: Bourassa

Line No.		Test Year Book Results	Test Year Adjusted Results	Adjusted with Rate Increase
1	<u>Income Tax Computation</u>			
2				
3				
4				
5				
6				
7	Taxable Income before Scottsdale Operating	\$ 1,107,472	\$ 799,132	\$ 710,075
8	Plus: Scottsdale Operating Lease	-	-	-
9	Taxable Income	<u>\$ 1,107,472</u>	<u>\$ 799,132</u>	<u>\$ 710,075</u>
10				
11				
12				
13	Income Before Taxes	<u>\$ 1,107,472</u>	<u>\$ 799,132</u>	<u>\$ 710,075</u>
14				
15	Arizona Income Before Taxes	\$ 1,107,472	\$ 799,132	\$ 710,075
16				
17	Less Arizona Income Tax	<u>\$ 77,169</u>	<u>\$ 55,684</u>	<u>\$ 49,478</u>
18	Rate = 6.97%			
19	Arizona Taxable Income	\$ 1,030,303	\$ 743,449	\$ 660,597
20				
21	Arizona Income Taxes	\$ 77,169	\$ 55,684	\$ 49,478
22				
23	Federal Income Before Taxes	\$ 1,107,472	\$ 799,132	\$ 710,075
24				
25	Less Arizona Income Taxes	<u>\$ 77,169</u>	<u>\$ 55,684</u>	<u>\$ 49,478</u>
26				
27	Federal Taxable Income	<u>\$ 1,030,303</u>	<u>\$ 743,449</u>	<u>\$ 660,597</u>
28				
29				
30				
31	FEDERAL INCOME TAXES:			
32	15% BRACKET	\$ 7,500	\$ 7,500	\$ 7,500
33	25% BRACKET	\$ 6,250	\$ 6,250	\$ 6,250
34	34% BRACKET	\$ 8,500	\$ 8,500	\$ 8,500
35	39% BRACKET	\$ 91,650	\$ 91,650	\$ 91,650
36	34% BRACKET	\$ 236,403	\$ 138,873	\$ 110,703
37		Rate	Rate	Rate
38	Federal Income Taxes	<u>\$ 350,303</u> 31.63%	<u>\$ 252,773</u> 31.63%	<u>\$ 224,603</u> 31.63%
39				
40				
41	Total Income Tax	<u>\$ 427,472</u>	<u>\$ 308,456</u>	<u>\$ 274,081</u>
42				
43	Overall Tax Rate	<u>38.60%</u>	<u>38.60%</u>	<u>38.60%</u>
44				
45	Income Tax at Proposed Rates Effective Rate	→	<u>\$ 308,456</u>	
46				

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

Exhibit  
 Schedule C-3  
 Page 1  
 Witness: Bourassa

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

Rio Rico Utilities - Wastewater Division  
 Test Year Ended December 31, 2008  
 Comparative Balance Sheets

Exhibit  
 Schedule E-1  
 Page 1  
 Witness: Bourassa

Line No.	Test Year Ended 12/31/2008	Year Ended 12/31/2007	Year Ended 12/31/2006
1	<b>ASSETS</b>		
2	\$ 11,833,279	\$ 11,673,445	\$ 11,626,019
3	-	-	-
4	28,150	42,698	282
5	(4,582,943)	(4,335,487)	(4,095,278)
6	<u>\$ 7,278,486</u>	<u>\$ 7,380,656</u>	<u>\$ 7,531,023</u>
7			
8	\$ -	\$ -	\$ -
9			
10	<b>CURRENT ASSETS</b>		
11	\$ 28,111	\$ 27,067	\$ 23,666
12	-	-	-
13	-	-	-
14	112,323	100,036	103,607
15	(27,468)	110,307	-
16	-	-	-
17	3,430	6,016	938
18	405,852	405,852	405,852
19	<u>\$ 522,247</u>	<u>\$ 649,278</u>	<u>\$ 534,063</u>
20			
21	\$ (156,951)	\$ (137,762)	\$ (127,097)
22			
23	<u>\$ 343,138</u>	<u>\$ 250,988</u>	<u>\$ 176,285</u>
24			
25	<u>\$ 7,986,919</u>	<u>\$ 8,143,160</u>	<u>\$ 8,114,273</u>
26			
27			
28	<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
29			
30	\$ 4,075,021	\$ 4,287,788	\$ 3,857,011
31			
32	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
33			
34	<b>CURRENT LIABILITIES</b>		
35	\$ 763,936	\$ 534,921	\$ 651,185
36	-	-	-
37	-	-	16,828
38	-	-	-
39	-	-	-
40	2,382	2,419	2,303
41	-	-	-
42	-	-	-
43	<u>\$ 766,317</u>	<u>\$ 537,340</u>	<u>\$ 670,315</u>
44	<b>DEFERRED CREDITS</b>		
45	\$ 95,000	\$ -	\$ -
46	(861)	4,447	11,219
47	-	-	-
48	5,376,456	5,376,456	5,376,456
49	(2,325,014)	(2,062,871)	(1,800,728)
50			
51	<u>\$ 3,145,581</u>	<u>\$ 3,318,032</u>	<u>\$ 3,586,947</u>
52			
53	<u>\$ 7,986,919</u>	<u>\$ 8,143,160</u>	<u>\$ 8,114,273</u>

54  
 55 SUPPORTING SCHEDULES:  
 56 E-5

RECAP SCHEDULES:  
 A-3

57  
 58  
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Rio Rico Utilities - Wastewater Division  
 Test Year Ended December 31, 2008  
 Comparative Income Statements

Exhibit  
 Schedule E-2  
 Page 1  
 Witness: Bourassa  
 Revised

Line No.		Test Year Ended 12/31/2008	Prior Year Ended 12/31/2007	Prior Year Ended 12/31/2006
1	<b>Revenues</b>			
2	Revenues	\$ 1,834,231	\$ 1,814,437	\$ 1,607,376
3	Effluent Revenues	-	-	-
4	Other Wastewater Revenues	250	10,728	8,293
5	<b>Total Revenues</b>	<b>\$ 1,834,481</b>	<b>\$ 1,825,165</b>	<b>\$ 1,615,669</b>
6	<b>Operating Expenses</b>			
7	Salaries and Wages	\$ -	\$ -	\$ -
8	Purchased Wastewater Treatment	-	-	-
9	Sludge Removal Expense	-	-	-
10	Purchased Power	17,482	9,238	54,933
11	Fuel for Power Production	-	-	-
12	Chemicals	9,856	7,376	2,090
13	Materials and Supplies	14,304	9,545	14,242
14	Contractual Services	298,008	188,912	175,333
15	Contractual Services- Testing	-	-	-
16	Contractual Services - Other	175,196	195,428	181,852
17	Contractual Services - Legal	367	-	3,862
18	Equipment Rental	25,781	31,563	29,109
19	Rents - Building	-	-	-
20	Transportation Expenses	26,817	17,094	8,963
21	Insurance - General Liability	12,021	11,077	12,812
22	Insurance - Vehicle	-	-	-
23	Regulatory Commission Expense	994	3,040	2,657
24	Reg. Comm. Exp. - Rate Case	-	-	-
25	Miscellaneous Expense	155	357	2,516
26	Bad Debt Expense	64,087	28,498	8,732
27	Depreciation and Amortization	13,562	(4,162)	186,708
28	Taxes Other Than Income	-	-	-
29	Property Taxes	49,415	51,200	42,021
30	Income Tax	387,612	397,926	341,230
31				
32	<b>Total Operating Expenses</b>	<b>\$ 1,095,657</b>	<b>\$ 947,092</b>	<b>\$ 1,067,060</b>
33	<b>Operating Income</b>	<b>\$ 738,824</b>	<b>\$ 878,073</b>	<b>\$ 548,609</b>
34	<b>Other Income (Expense)</b>			
35	Interest Income	\$ -	\$ -	\$ -
36	Other income	-	-	-
37	Interest Expense	(18,964)	(6,393)	(5,008)
38	Other Expense	-	-	-
39				
40	<b>Total Other Income (Expense)</b>	<b>\$ (18,964)</b>	<b>\$ (6,393)</b>	<b>\$ (5,008)</b>
41	<b>Net Profit (Loss)</b>	<b>\$ 719,860</b>	<b>\$ 871,680</b>	<b>\$ 543,601</b>

SUPPORTING SCHEDULES:

RECAP SCHEDULES:

A-2

**Rio Rico Utilities - Wastewater Division**  
 Test Year Ended December 31, 2008  
 Comparative Statements of Cash Flows

Exhibit  
 Schedule E-3  
 Page 1  
 Witness: Bourassa

Line No.	Test Year Ended <u>12/31/2008</u>	Prior Year Ended <u>12/31/2007</u>	Prior Year Ended <u>12/31/2006</u>
1			
2			
3	Cash Flows from Operating Activities		
4	\$ 719,860	\$ 871,680	\$ 543,601
5	Adjustments to reconcile net income to net cash		
6	provided by operating activities:		
7	13,562	(4,162)	186,708
8	(28,249)	(17,772)	(27,991)
9	Other		
10	Changes in Certain Assets and Liabilities:		
11	(12,287)	3,571	(9,292)
12	137,775	(110,307)	
13	Materials and Supplies Inventory		
14	2,586	(5,078)	(445)
15	229,015	(116,264)	226,900
16	Intercompany payable		
17		(16,828)	16,828
18	Customer Deposits		
19	(37)	116	323
20	Deferred Income Taxes		
21	(72,961)	(64,038)	(172,152)
22	Other assets and liabilities		
23	\$ 989,264	\$ 540,918	\$ 764,480
24	Net Cash Flow provided by Operating Activities		
25	Cash Flow From Investing Activities:		
26	(145,286)	(89,842)	(105,592)
27	Capital Expenditures		
28	Plant Held for Future Use		
29	Change In Short-term Investments		
30	\$ (145,286)	\$ (89,842)	\$ (105,592)
31	Net Cash Flows from Investing Activities		
32	Cash Flow From Financing Activities		
33	Change in Restricted Cash		
34	89,692	(6,772)	(1,526)
35	Net Receipts of Advances-in-Aid of Construction		
36	Net Receipts of Contributions-in-Aid of Construction		
37	Repayments of Long-Term Debt		
38	Dividends Paid		
39	(53,011)		
40	Deferred Financing Costs		
41	(932,626)	(440,903)	(672,572)
42	Paid in Capital		
43	\$ (842,934)	\$ (447,675)	\$ (727,109)
44	Net Cash Flows Provided by Financing Activities		
45	1,044	3,401	(68,221)
46	Increase(decrease) in Cash and Cash Equivalents		
47	27,067	23,666	91,887
48	Cash and Cash Equivalents at Beginning of Year		
49	\$ 28,111	\$ 27,067	\$ 23,666
50	Cash and Cash Equivalents at End of Year		

**Rio Rico Utilities - Wastewater Division**  
 Test Year Ended December 31, 2008  
 Statement of Changes in Stockholder's Equity

Exhibit  
 Schedule E-4  
 Page 1  
 Witness: Bourassa

Line No.		<u>Common</u> <u>Stock</u>	<u>Additional</u> <u>Paid-In-Capital</u>	<u>Retained</u> <u>Earnings</u>	<u>Total</u>
1					
2					
3					
4	Balance, December 31, 2005	\$ 1	\$ 3,822,181	\$ 216,812	\$ 4,038,993
5	Addnl Paid In Capital		(672,572)		(672,572)
6	Dividends			(53,011)	(53,011)
7	Net Income			543,601	543,601
8					
9	Balance, December 31, 2006	\$ 1	\$ 3,149,609	\$ 707,402	\$ 3,857,011
10	Addnl Paid In Capital		(440,903)		(440,903)
11	Dividends				-
12	Net Income			871,680	871,680
13					
14	Balance, December 31, 2007	\$ 1	\$ 2,708,706	\$ 1,579,082	\$ 4,287,788
15	Addnl Paid In Capital		(932,626)		(932,626)
16	Dividends				-
17	Net Income			719,859	719,859
18					
19	Balance, December 31, 2008	\$ 1	\$ 1,776,080	\$ 2,298,941	\$ 4,075,021

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SUPPORTING SCHEDULES:

RECAP SCHEDULES:

**Rio Rico Utilities - Wastewater Division**  
 Test Year Ended December 31, 2008  
 Detail of Plant in Service

Exhibit  
 Schedule E-5  
 Page 1  
 Witness: Bourassa

Line No.	Acct. No.	Plant Description	Plant Balance at 12/31/2007	Plant Additions, Reclassifications or Retirements	Plant Balance at 12/31/2008
1					
2	351	Organization	\$ 5,785	\$ -	\$ 5,785
3	352	Franchises	417	-	417
4	353	Land	7,545	-	7,545
5	354	Structures & Improvements	28,548	-	28,548
6	355	Power Generation	-	-	-
7	360	Collection Sewer Forced	636,023	-	636,023
8	361	Collection Sewers Gravity	5,917,835	28,127	5,945,962
9	362	Special Collecting Structures	-	-	-
10	363	Customer Services	1,141,646	3,884	1,145,530
11	364	Flow Measuring Devices	42,725	13,280	56,004
12	365	Flow Measuring Installation	-	-	-
13	366	Reuse Services	-	-	-
14	367	Reuse Meters And Installation	-	-	-
15	370	Receiving Wells	867,120	-	867,120
16	371	Pumping Equipment	1,504,181	-	1,504,181
17	374	Reuse Distribution Reservoirs	-	-	-
18	375	Reuse Trans. and Dist. System	-	-	-
19	380	Treatment & Disposal Equipment	997,291	9,557	1,006,848
20	381	Plant Sewers	-	-	-
21	382	Outfall Sewer Lines	-	-	-
22	389	Other Sewer Plant & Equipment	71,243	338	71,581
23	390	Office Furniture & Equipment	7,315	104,648	111,963
24	390.1	Computers and Software	4,025	-	4,025
25	391	Transportation Equipment	-	-	-
26	392	Stores Equipment	-	-	-
27	393	Tools, Shop And Garage Equip	4,897	-	4,897
28	394	Laboratory Equip	-	-	-
29	396	Communication Equip	5,936	-	5,936
30	398	Other Tangible Plant	3,913	-	3,913
31	398	Nogales WW Trmnt Capacity	427,000	-	427,000
32		TOTAL WATER PLANT	<u>\$ 11,673,445</u>	<u>\$ 159,834</u>	<u>\$ 11,833,279</u>

SUPPORTING SCHEDULES

B-2, pages 3.5 to 3.6

RECAP SCHEDULES:

A-4

E-1

33  
34  
35  
36  
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**Rio Rico Utilities - Wastewater Division**  
 Test Year Ended December 31, 2008  
 Operating Statistics

Exhibit  
 Schedule E-7  
 Page 1  
 Witness: Bouras

Line No.		<u>Test Year Ended 12/31/2008</u>	<u>Prior Year Ended 12/31/2007</u>	<u>Prior Year Ended 12/31/2006</u>
1	<u>WASTEWATER STATISTICS:</u>			
2				
3				
4				
5	Sewer Revenues from Customer:	\$ 1,834,481	\$ 1,825,165	\$ 1,615,669
6				
7				
8				
9				
10	Year End Number of Customers	2,055	2,084	1,997
11				
12				
13				
14	Annual Revenue per Year End Customer	\$ 892.69	\$ 875.80	\$ 809.05
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				

Rio Rico Utilities - Wastewater Division  
Test Year Ended December 31, 2008  
Taxes Charged to Operations

Exhibit  
Schedule E-8  
Page 1  
Witness: Bourassa

Line No.	Description	Test Year Ended <u>12/31/2008</u>	Prior Year Ended <u>12/31/2007</u>	Prior Year Ended <u>12/31/2006</u>
1	<u>Description</u>			
2				
3	Federal Income Taxes*	\$ 310,421	\$ 309,435	\$ 279,557
4	State Income Taxes*	77,191	88,492	61,673
5	Payroll Taxes	-	-	-
6	Property Taxes	49,415	51,200	42,021
7				
8	Totals	<u>\$ 437,027</u>	<u>\$ 449,126</u>	<u>\$ 383,251</u>
9				
10				
11	*Computed			
12				
13				
14				

**Rio Rico Utilities - Wastewater Division**  
Test Year Ended December 31, 2008  
Notes To Financial Statements

Exhibit  
Schedule E-9  
Page 1  
Witness: Bourassa

The Company does not have outside auditors

**Rio Rico Utilities - Wastewater Division**  
 Test Year Ended December 31, 2008  
 Projected Income Statements - Present & Proposed Rates

Exhibit  
 Schedule F-1  
 Page 1  
 Witness: Bourassa

Line No.		Test Year Actual Results	At Present Rates Year Ended 12/31/2009	At Proposed Rates Year Ended 12/31/2009
1	<b>Revenues</b>			
2	Flat Rate Revenues	\$ 1,834,231	\$ 1,829,726	\$ 1,740,668
3	Measured Revenues	-	-	-
4	Other Wastewater Revenues	250	250	250
5		<u>\$ 1,834,481</u>	<u>\$ 1,829,976</u>	<u>\$ 1,740,918</u>
6	<b>Operating Expenses</b>			
7	Salaries and Wages	\$ -	\$ -	\$ -
8	Purchased Water and Wastewater Treatment	-	-	-
9	Sludge Removal Expense	-	-	-
10	Purchased Power	17,482	17,426	17,426
11	Fuel for Power Production	-	-	-
12	Chemicals	9,856	9,644	9,644
13	Materials and Supplies	14,304	14,304	14,304
14	Contractual Services	298,008	298,008	298,008
15	Contractual Services- Testing	-	-	-
16	Contractual Services - Other	175,196	175,196	175,196
17	Contractual Services - Legal	367	367	367
18	Equipment Rental	25,781	25,781	25,781
19	Rents - Building	-	-	-
20	Transportation Expenses	26,817	26,817	26,817
21	Insurance - General Liability	12,021	12,021	12,021
22	Insurance - Vehicle	-	-	-
23	Regulatory Commission Expense	994	994	994
24	Reg. Comm. Exp. - Rate Case	-	41,667	41,667
25	Miscellaneous Expense	155	155	155
26	Bad Debt Expense	64,087	64,087	64,087
27	Depreciation and Amortization	13,562	252,672	252,672
28	Taxes Other Than Income	-	-	-
29	Property Taxes	49,415	91,705	91,705
30	Income Tax	387,612	308,456	274,081
31				
32	<b>Total Operating Expenses</b>	<u>\$ 1,095,657</u>	<u>\$ 1,339,300</u>	<u>\$ 1,304,924</u>
33	<b>Operating Income</b>	<u>\$ 738,824</u>	<u>\$ 490,676</u>	<u>\$ 435,994</u>
34	<b>Other Income (Expense)</b>			
35	Interest Income	-	-	-
36	Other income	-	-	-
37	Interest Expense	(18,964)	-	-
38	Other Expense	-	-	-
39	Gain/Loss Sale of Fixed Assets	-	-	-
40	<b>Total Other Income (Expense)</b>	<u>\$ (18,964)</u>	<u>\$ -</u>	<u>\$ -</u>
41	<b>Net Profit (Loss)</b>	<u>\$ 719,860</u>	<u>\$ 490,676</u>	<u>\$ 435,994</u>
42				

**Rio Rico Utilities - Wastewater Division**  
 Test Year Ended December 31, 2008  
 Projected Statements of Changes in Financial Position  
 Present and Proposed Rates

Exhibit  
 Schedule F-2  
 Page 1  
 Witness: Bourassa

Line No.	Test Year Ended <u>12/31/2008</u>	At Present Rates Year Ended <u>12/31/2009</u>	At Proposed Rates Year Ended <u>12/31/2009</u>
1			
2			
3			
4			
5	Cash Flows from Operating Activities		
6	\$ 719,860	\$ 490,676	\$ 435,994
7	Adjustments to reconcile net income to net cash provided by operating activities:		
8	provided by operating activities:		
9	13,562	252,672	252,672
10	(28,249)		
11	-		
12	Changes in Certain Assets and Liabilities:		
13	(12,287)		
14	137,775		
15	-		
16	2,586		
17	229,015		
18	-		
19	-		
20	(37)		
21	-		
22	(72,961)		
23	\$ 989,264	\$ 743,348	\$ 688,666
24	Cash Flow From Investing Activities:		
25	(145,286)	(99,000)	(99,000)
26	-		
27	-		
28	\$ (145,286)	\$ (99,000)	\$ (99,000)
29	Cash Flow From Financing Activities		
30	-	-	-
31	89,692	-	-
32	-	-	-
33	-	-	-
34	-	-	-
35	-	-	-
36	(932,626)	-	-
37	\$ (842,934)	\$ -	\$ -
38	1,044	644,348	589,666
39	27,067	28,111	28,111
40	\$ 28,111	\$ 672,459	\$ 617,776
41	F-3		
42			
43			

**Rio Rico Utilities - Wastewater Division**  
 Test Year Ended December 31, 2008  
 Projected Construction Requirements

Exhibit  
 Schedule F-3  
 Page 1  
 Witness: Bourassa

Line No.	Account	<u>2009</u>	<u>2010</u>	<u>2011</u>
1				
2	Account			
3	Number Plant Asset:			
4	351 Organization	\$ -	\$ -	\$ -
5	353 Land	-	-	-
6	354 Structures & Improvements	-	50,000	50,000
7	355 Power Generation	-	-	-
8	360 Collection Sewer Forced	-	-	-
9	361 Collection Sewers Gravity	16,000	-	5,000
10	362 Special Collecting Structures	-	-	-
11	363 Customer Services	32,000	8,000	8,000
12	364 Flow Measuring Devices	-	-	-
13	366 Reuse Services	-	-	-
14	367 Reuse Meters And Installation	-	-	-
15	370 Receiving Wells	-	-	-
16	371 Pumping Equipment	50,000	45,000	50,000
17	374 Reuse Distribution Reservoirs	-	-	-
18	375 Reuse Trans. and Dist. System	-	-	-
19	380 Treatment & Disposal Equipment	-	1,600,000	-
20	381 Plant Sewers	-	-	-
21	382 Outfall Sewer Lines	-	-	-
22	389 Other Sewer Plant & Equipment	-	-	-
23	390 Office Furniture & Equipment	-	3,000	3,500
24	390.1 Computers and Software	-	-	-
25	391 Transportation Equipment	-	-	-
26	392 Stores Equipment	-	-	-
27	393 Tools, Shop And Garage Equip	-	3,000	3,000
28	394 Laboratory Equip	-	-	-
29	396 Communication Equip	-	-	-
30	397 Misc. Equipment	1,000	3,000	3,000
31				
32	Total	<u>\$ 99,000</u>	<u>\$ 1,712,000</u>	<u>\$ 122,500</u>
33				
34				
35				

**Rio Rico Utilities - Wastewater Division**  
Test Year Ended December 31, 2008  
Assumptions Used in Rate Filing

Exhibit  
Schedule F-4  
Page 1  
Witness: Bourassa

Line  
No.

- 1 Property Taxes were computed using the method used by the Arizona Department
- 2 of Revenue
- 3
- 4 Projected construction expenditures are shown on Schedule A-4.
- 5
- 6 Expense adjustments are shown on Schedule C2, and are explained in the testimony.
- 7
- 8 Accumulated depreciation was computed using depreciation rates authorized
- 9 in prior Commission decision.
- 10
- 11 Income taxes were computed using statutory state and federal income tax rates.
- 12
- 13
- 14
- 15





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

Exhibit  
 Schedule H-1  
 Page 3  
 Witness: Bourassa

Line No.	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
3	\$ 1,833,141	\$ 1,745,150	\$(87,991)	-4.80%	100.00%	100.00%
4	(4,505)	(4,289)	216.25	-4.80%	-0.25%	-0.25%
5	\$ 1,828,636	\$ 1,740,861	\$(87,775)	-4.80%		
7	\$ 250	\$ 250	-	0.00%	0.01%	0.01%
8	1,090	(193)	(1,283)	-117.71%	0.06%	-0.01%
9	\$ 1,829,976	\$ 1,740,918	\$(89,058)	-4.87%	0.00%	0.00%
12	<u>Revenue Reconciliation</u>					
14		\$ 1,833,141				
15		\$ 1,834,231				
16		\$(1,090)				
17		-0.06%				
18		0.50%				
19		\$ 9,171				
21	Acceptable? YES					

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

Exhibit  
 Schedule H-2  
 Page 1  
 Witness: Bourassa

Line No.	Meter Size, Class	(a) Average Number of Customers at 12/31/2008	Average Bill		Proposed Increase	
			Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	5/8 Inch Residential	1,904	\$ 56.36	\$ 53.65	(2.71)	-4.80%
2	3/4 Inch Residential	8	64.27	61.19	(3.08)	-4.80%
3	1 Inch Residential	9	79.40	75.59	(3.81)	-4.80%
4	1.5 Inch Residential	-	117.24	111.61	(5.63)	-4.80%
5	2 Inch Residential	1	162.62	154.81	(7.81)	-4.80%
6	Subtotal	1,922				
7						
8	5/8 Inch Commercial	69	79.19	75.39	(3.80)	-4.80%
9	1 Inch Commercial	36	127.22	121.12	(6.11)	-4.80%
10	1.5 Inch Commercial	7	307.97	293.18	(14.78)	-4.80%
11	2 Inch Commercial	20	746.60	710.76	(35.84)	-4.80%
12	3 Inch Commercial	1	655.88	624.40	(31.48)	-4.80%
13	4 Inch Commercial	4	2,325.03	2,213.43	(111.60)	-4.80%
14	6 Inch Commercial	1	4,465.21	4,250.88	(214.33)	-4.80%
15	Subtotal	139				
16						
17	5/8 Inch Multi-tenant	9	76.42	72.75	(3.67)	-4.80%
18	1.5 Inch Multi-tenant	1	120.57	114.78	(5.79)	-4.80%
19	Subtotal	10				
20						
21						
22						
23						
24	Total	2,071				
25						

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

Line No.	Meter Size, Class	(a) Average Number of Customers at 12/31/2008	Median Consumption	Median Bill		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	5/8 Inch Residential	1,904	-	\$ 56.36	\$ 53.65	(2.71)	-4.80%
2	3/4 Inch Residential	8	-	64.27	61.19	(3.08)	-4.80%
3	1 Inch Residential	9	-	79.40	75.59	(3.81)	-4.80%
4	1.5 Inch Residential	-	-	117.24	111.61	(5.63)	-4.80%
5	2 Inch Residential	1	-	162.62	154.81	(7.81)	-4.80%
6	Subtotal	1,922					
7							
8	5/8 Inch Commercial	69	6,000	\$ 56.36	\$ 53.65	(2.71)	-4.80%
9	1 Inch Commercial	36	7,000	79.40	75.59	(3.81)	-4.80%
10	1.5 Inch Commercial	7	29,000	242.86	231.20	(11.66)	-4.80%
11	2 Inch Commercial	20	29,000	288.24	274.40	(13.84)	-4.80%
12	3 Inch Commercial	1	71,500	651.60	620.32	(31.28)	-4.80%
13	4 Inch Commercial	4	295,000	2,064.39	1,965.30	(99.09)	-4.80%
14	6 Inch Commercial	1	511,000	3,675.80	3,499.36	(176.44)	-4.80%
15	Subtotal	139					
16							
17	5/8 Inch Multi-tenant	9	4,000	\$ 56.36	\$ 53.65	(2.71)	-4.80%
18	1.5 Inch Multi-tenant	1	8,500	125.81	119.77	(6.04)	-4.80%
19	Subtotal	10					
20							
21							
22							
23							
24	Total	2,071					

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

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

Exhibit  
 Schedule H-3  
 Page 1  
 Witness: Bourassa

Line No.	Monthly Minimum Charge for: Meter Size (All Classes):	Present Rates	Proposed Rates	Change	Percent Change
1	5/8 Inch	\$ 56.36	\$ 53.65	\$(2.71)	-4.80%
2	3/4 Inch	64.27	61.19	\$(3.08)	-4.80%
3	1 Inch	79.40	75.59	\$(3.81)	-4.80%
4	1 1/2 Inch	117.24	111.61	\$(5.63)	-4.80%
5	2 Inch	162.62	154.81	\$(7.81)	-4.80%
6	3 Inch	283.30	269.70	\$(13.60)	-4.80%
7	4 Inch	419.91	399.75	\$(20.16)	-4.80%
8	6 Inch	797.96	759.66	\$(38.30)	-4.80%
9	8 Inch	1,252.11	1,192.01	\$(60.10)	-4.80%
10	10 Inch	1,781.93	1,696.40	\$(85.53)	-4.80%
11	12 Inch	3,295.77	3,137.57	\$(158.20)	-4.80%
12					
13					
14					
15					
16					
17					
18					
19					
20					
21	Commodity Rates				
22	(Commercial and Multi-tenant Only)				
23	Block				
24	All Meter Sizes				
25	0 gallons to 7,000 gallons	\$ -	\$ -	\$ -	
26	over 7,000 gallons	\$ 5.71	\$ 5.71	\$ 5.44	
27					
28					
29					
30					
31					
32					
33					
34					
35					
36					
37	NT = No Tariff				
38					

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

Exhibit  
 Schedule H-3  
 Page 2  
 Witness: Bourassa

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

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

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

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

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

Exhibit  
Schedule H-3  
Page 3  
Witness: Bourassa

Line

No.

1

2 Service Line Installation Charges

3

4

5

6

7

Present

Proposed

8 Service Line Size

Charge

Charge

9 4 Inch

\$ 500.00

At Cost

10 6 Inch

650.00

At Cost

11 8 Inch

800.00

At Cost

12 10 Inch

1,000.00

At Cost

13 12 Inch

1,200.00

At Cost

14

15

16

17

18

19

20

21

22

23

24

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32 N/T = No Tariff

33

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

Exhibit  
Schedule H-3  
Page 4  
Witness: Bourassa

Line

No.

1

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

3

4

Present

Proposed

5

Charge

Charge

6

Equivalent Residential Unit<sup>1</sup>

NT

\$ 1,800

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21 NT = No tariff

22

23

24 <sup>1</sup> Equivalent Residential Unit is based on 320 gallons per day (gpd)

25

26

27

28

29

30

31

32

33

34

35

36

**Rio Rico Utilities, Inc. - Wastewater Division**  
 Bill Comparison Present and Proposed Rates  
 5/8 Inch Residential

Exhibit  
 Schedule H-4  
 Page 1  
 Witness: Bourassa

Meter Size:

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
\$ 56.36	\$ 53.65	\$ (2.71)	-4.80%

**Present Rates:**  
 Monthly Minimum: \$ 56.36

**Proposed Rates:**  
 Monthly Minimum: \$ 53.65

Average Usage	\$	56.36	\$	53.65	\$	(2.71)	-4.80%
Median Usage	\$	56.36	\$	53.65	\$	(2.71)	-4.80%

**Rio Rico Utilities, Inc. - Wastewater Division**  
 Bill Comparison Present and Proposed Rates  
 3/4 Inch Residential

Exhibit Schedule H-4  
 Page 2  
 Witness: Bourassa

Meter Size:

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
\$ 64.27	\$ 61.19	\$ (3.08)	-4.80%
Average Usage	\$ 64.27	\$ 61.19	(3.08) -4.80%
Median Usage	\$ 64.27	\$ 61.19	(3.08) -4.80%

**Present Rates:**  
 Monthly Minimum: \$ 64.27

**Proposed Rates:**  
 Monthly Minimum: \$ 61.19

Rio Rico Utilities, Inc. - Wastewater Division  
 Bill Comparison Present and Proposed Rates  
 1 Inch Residential

Exhibit  
 Schedule H-4  
 Page 3  
 Witness: Bourassa

Meter Size:

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
\$ 79.40	\$ 75.59	\$ (3.81)	-4.80%
Average Usage			
\$ -	\$ 75.59	\$ (3.81)	-4.80%
Median Usage			
\$ -	\$ 75.59	\$ (3.81)	-4.80%

**Present Rates:**  
 Monthly Minimum: \$ 79.40

**Proposed Rates:**  
 Monthly Minimum: \$ 75.59

**Rio Rico Utilities, Inc. - Wastewater Division**  
 Bill Comparison Present and Proposed Rates

Meter Size: 1 1/2 Inch Residential

Exhibit  
 Schedule H-4  
 Page 4  
 Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
\$ 117.24	\$ 111.61	\$ (5.63)	-4.80%

**Present Rates:**  
 Monthly Minimum: \$ 117.24

**Proposed Rates:**  
 Monthly Minimum: \$ 111.61

Average Usage	\$ 117.24	\$ 111.61	\$ (5.63)	-4.80%
Median Usage	\$ 117.24	\$ 111.61	\$ (5.63)	-4.80%

**Rio Rico Utilities, Inc. - Wastewater Division**  
 Bill Comparison Present and Proposed Rates

Meter Size: 2 Inch Residential

Exhibit Schedule H-4  
 Page 5  
 Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
\$ 162.62	\$ 154.81	\$ (7.81)	-4.80%

**Present Rates:**  
 Monthly Minimum: \$ 162.62

**Proposed Rates:**  
 Monthly Minimum: \$ 154.81

Average Usage	\$	162.62	\$	154.81	\$	(7.81)	-4.80%
Median Usage	\$	162.62	\$	154.81	\$	(7.81)	-4.80%

**Rio Rico Utilities, Inc. - Wastewater Division**  
 Bill Comparison Present and Proposed Rates  
 Meter Size: 5/8 Inch Commercial

Exhibit  
 Schedule H-4  
 Page 6  
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 56.36	\$ 53.65	\$ (2.71)	-4.80%
1,000	56.36	53.65	(2.71)	-4.80%
2,000	56.36	53.65	(2.71)	-4.80%
3,000	56.36	53.65	(2.71)	-4.80%
4,000	56.36	53.65	(2.71)	-4.80%
5,000	56.36	53.65	(2.71)	-4.80%
6,000	56.36	53.65	(2.71)	-4.80%
7,000	56.36	53.65	(2.71)	-4.80%
8,000	62.07	59.09	(2.98)	-4.80%
9,000	67.78	64.53	(3.25)	-4.80%
10,000	73.49	69.96	(3.53)	-4.80%
12,000	84.91	80.83	(4.08)	-4.80%
14,000	96.33	91.71	(4.62)	-4.80%
16,000	107.75	102.58	(5.17)	-4.80%
18,000	119.17	113.45	(5.72)	-4.80%
20,000	130.59	124.32	(6.27)	-4.80%
25,000	159.14	151.50	(7.64)	-4.80%
30,000	187.69	178.68	(9.01)	-4.80%
35,000	216.24	205.86	(10.38)	-4.80%
40,000	244.79	233.04	(11.75)	-4.80%
45,000	273.34	260.22	(13.12)	-4.80%
50,000	301.89	287.40	(14.49)	-4.80%
60,000	358.99	341.76	(17.23)	-4.80%
70,000	416.09	396.12	(19.97)	-4.80%
80,000	473.19	450.48	(22.71)	-4.80%
90,000	530.29	504.84	(25.45)	-4.80%
100,000	587.39	559.20	(28.19)	-4.80%
<b>Average Usage</b>	\$ 79.19	\$ 75.39	\$ (3.80)	-4.80%
<b>Median Usage</b>	\$ 56.36	\$ 53.65	\$ (2.71)	-4.80%

**Present Rates:**  
 Monthly Minimum:  
 Gallons in Minimum  
 Charge Per 1,000 Gallons  
 Up to 7,000 \$ -  
 Over 7,000 \$ 5.71

**Proposed Rates:**  
 Monthly Minimum:  
 Gallons in Minimum  
 Charge Per 1,000 Gallons  
 Up to 7,000 \$ -  
 Over 7,000 \$ 5.44

Rio Rico Utilities, Inc. - Wastewater Division  
 Bill Comparison Present and Proposed Rates  
 1 Inch Commercial

Exhibit H-4  
 Schedule H-4  
 Page 7  
 Witness: Bourassa

Meter Size:

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase	
-	\$ 79.40	\$ 75.59	\$ (3.81)	-4.80%	
1,000	79.40	75.59	(3.81)	-4.80%	
2,000	79.40	75.59	(3.81)	-4.80%	
3,000	79.40	75.59	(3.81)	-4.80%	
4,000	79.40	75.59	(3.81)	-4.80%	
5,000	79.40	75.59	(3.81)	-4.80%	
6,000	79.40	75.59	(3.81)	-4.80%	
7,000	79.40	75.59	(3.81)	-4.80%	
8,000	85.11	81.02	(4.09)	-4.80%	
9,000	90.82	86.46	(4.36)	-4.80%	
10,000	96.53	91.90	(4.63)	-4.80%	
12,000	107.95	102.77	(5.18)	-4.80%	
14,000	119.37	113.64	(5.73)	-4.80%	
16,000	130.79	124.51	(6.28)	-4.80%	
18,000	142.21	135.38	(6.83)	-4.80%	
20,000	153.63	146.26	(7.37)	-4.80%	
25,000	182.18	173.44	(8.74)	-4.80%	
30,000	210.73	200.61	(10.12)	-4.80%	
35,000	239.28	227.79	(11.49)	-4.80%	
40,000	267.83	254.97	(12.86)	-4.80%	
45,000	296.38	282.15	(14.23)	-4.80%	
50,000	324.93	309.33	(15.60)	-4.80%	
60,000	382.03	363.69	(18.34)	-4.80%	
70,000	439.13	418.05	(21.08)	-4.80%	
80,000	496.23	472.41	(23.82)	-4.80%	
90,000	553.33	526.77	(26.56)	-4.80%	
100,000	610.43	581.13	(29.30)	-4.80%	
Average Usage	15,375	127.22	\$ 121.12	\$ (6.11)	-4.80%
Median Usage	7,000	79.40	\$ 75.59	\$ (3.81)	-4.80%

**Present Rates:**  
 Monthly Minimum: \$ 79.40  
 Gallons in Minimum -  
 Charge Per 1,000 Gallons  
 Up to 7,000 \$ -  
 Over 7,000 \$ 5.71

**Proposed Rates:**  
 Monthly Minimum: \$ 75.59  
 Gallons in Minimum -  
 Charge Per 1,000 Gallons  
 Up to 7,000 \$ -  
 Over 7,000 \$ 5.44

**Rio Rico Utilities, Inc. - Wastewater Division**  
**Bill Comparison Present and Proposed Rates**

Meter Size: 1 1/2 Inch Commercial

Exhibit  
 Schedule H-4  
 Page 8  
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 117.24	\$ 111.61	\$ (5.63)	-4.80%
1,000	117.24	111.61	(5.63)	-4.80%
2,000	117.24	111.61	(5.63)	-4.80%
3,000	117.24	111.61	(5.63)	-4.80%
4,000	117.24	111.61	(5.63)	-4.80%
5,000	117.24	111.61	(5.63)	-4.80%
6,000	117.24	111.61	(5.63)	-4.80%
7,000	117.24	111.61	(5.63)	-4.80%
8,000	122.95	117.05	(5.90)	-4.80%
9,000	128.66	122.48	(6.18)	-4.80%
10,000	134.37	127.92	(6.45)	-4.80%
12,000	145.79	138.79	(7.00)	-4.80%
14,000	157.21	149.66	(7.55)	-4.80%
16,000	168.63	160.54	(8.09)	-4.80%
18,000	180.05	171.41	(8.64)	-4.80%
20,000	191.47	182.28	(9.19)	-4.80%
25,000	220.02	209.46	(10.56)	-4.80%
30,000	248.57	236.64	(11.93)	-4.80%
35,000	277.12	263.82	(13.30)	-4.80%
40,000	305.67	291.00	(14.67)	-4.80%
45,000	334.22	318.18	(16.04)	-4.80%
50,000	362.77	345.36	(17.41)	-4.80%
60,000	419.87	399.72	(20.15)	-4.80%
70,000	476.97	454.08	(22.89)	-4.80%
80,000	534.07	508.43	(25.64)	-4.80%
90,000	591.17	562.79	(28.38)	-4.80%
100,000	648.27	617.15	(31.12)	-4.80%
Average Usage	\$ 307.97	\$ 293.18	\$ (14.78)	-4.80%
Median Usage	\$ 242.86	\$ 231.20	\$ (11.66)	-4.80%

**Present Rates:**  
 Monthly Minimum:  
 Gallons in Minimum Charge Per 1,000 Gallons  
 Up to 7,000 \$ -  
 Over 7,000 \$ 5.71

**Proposed Rates:**  
 Monthly Minimum:  
 Gallons in Minimum Charge Per 1,000 Gallons  
 Up to 7,000 \$ -  
 Over 7,000 \$ 5.44

**Rio Rico Utilities, Inc. - Wastewater Division**  
 Bill Comparison Present and Proposed Rates

Exhibit  
 Schedule H-4  
 Page 9  
 Witness: Bourassa

Meter Size: 2 Inch Commercial

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 162.62	\$ 154.81	\$ (7.81)	-4.80%
1,000	162.62	154.81	(7.81)	-4.80%
2,000	162.62	154.81	(7.81)	-4.80%
3,000	162.62	154.81	(7.81)	-4.80%
4,000	162.62	154.81	(7.81)	-4.80%
5,000	162.62	154.81	(7.81)	-4.80%
6,000	162.62	154.81	(7.81)	-4.80%
7,000	162.62	154.81	(7.81)	-4.80%
8,000	168.33	160.25	(8.08)	-4.80%
9,000	174.04	165.69	(8.35)	-4.80%
10,000	179.75	171.12	(8.63)	-4.80%
12,000	191.17	181.99	(9.18)	-4.80%
14,000	202.59	192.87	(9.72)	-4.80%
16,000	214.01	203.74	(10.27)	-4.80%
18,000	225.43	214.61	(10.82)	-4.80%
20,000	236.85	225.48	(11.37)	-4.80%
25,000	265.40	252.66	(12.74)	-4.80%
30,000	293.95	279.84	(14.11)	-4.80%
35,000	322.50	307.02	(15.48)	-4.80%
40,000	351.05	334.20	(16.85)	-4.80%
45,000	379.60	361.38	(18.22)	-4.80%
50,000	408.15	388.56	(19.59)	-4.80%
60,000	465.25	442.92	(22.33)	-4.80%
70,000	522.35	497.28	(25.07)	-4.80%
80,000	579.45	551.64	(27.81)	-4.80%
90,000	636.55	606.00	(30.55)	-4.80%
100,000	693.65	660.35	(33.30)	-4.80%
<b>Average Usage</b>	<b>746.60</b>	<b>710.76</b>	<b>(35.84)</b>	<b>-4.80%</b>
109,273	\$	\$	\$	
<b>Median Usage</b>	<b>288.24</b>	<b>274.40</b>	<b>(13.84)</b>	<b>-4.80%</b>
29,000	\$	\$	\$	

**Present Rates:**  
 Monthly Minimum:  
 Gallons in Minimum - \$ 162.62  
 Charge Per 1,000 Gallons -  
 Up to 7,000 \$ -  
 Over 7,000 \$ 5.71

**Proposed Rates:**  
 Monthly Minimum:  
 Gallons in Minimum - \$ 154.81  
 Charge Per 1,000 Gallons -  
 Up to 7,000 \$ -  
 Over 7,000 \$ 5.44

**Rio Rico Utilities, Inc. - Wastewater Division**  
 Bill Comparison Present and Proposed Rates  
 3 Inch Commercial

Exhibit  
 Schedule H-4  
 Page 10  
 Witness: Bourassa

Meter Size:

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase	Present Rates:
-	\$ 283.30	\$ 269.70	\$ (13.60)	-4.80%	Monthly Minimum: \$ 283.30
1,000	283.30	269.70	(13.60)	-4.80%	Gallons in Minimum Charge Per 1,000 Gallons -
2,000	283.30	269.70	(13.60)	-4.80%	Up to 7,000 \$ -
3,000	283.30	269.70	(13.60)	-4.80%	Over 7,000 \$ 5.71
4,000	283.30	269.70	(13.60)	-4.80%	
5,000	283.30	269.70	(13.60)	-4.80%	
6,000	283.30	269.70	(13.60)	-4.80%	
7,000	283.30	269.70	(13.60)	-4.80%	
8,000	289.01	275.14	(13.87)	-4.80%	
9,000	294.72	280.57	(14.15)	-4.80%	
10,000	300.43	286.01	(14.42)	-4.80%	
12,000	311.85	296.88	(14.97)	-4.80%	
14,000	323.27	307.75	(15.52)	-4.80%	
16,000	334.69	318.62	(16.07)	-4.80%	Proposed Rates: \$ 269.70
18,000	346.11	329.50	(16.61)	-4.80%	Monthly Minimum: -
20,000	357.53	340.37	(17.16)	-4.80%	Gallons in Minimum Charge Per 1,000 Gallons -
25,000	386.08	367.55	(18.53)	-4.80%	Up to 7,000 \$ -
30,000	414.63	394.73	(19.90)	-4.80%	Over 7,000 \$ 5.44
35,000	443.18	421.91	(21.27)	-4.80%	
40,000	471.73	449.09	(22.64)	-4.80%	
45,000	500.28	476.27	(24.01)	-4.80%	
50,000	528.83	503.45	(25.38)	-4.80%	
60,000	585.93	557.81	(28.12)	-4.80%	
70,000	643.03	612.16	(30.87)	-4.80%	
80,000	700.13	666.52	(33.61)	-4.80%	
90,000	757.23	720.88	(36.35)	-4.80%	
100,000	814.33	775.24	(39.09)	-4.80%	
Average Usage	\$ 655.88	\$ 624.40	\$ (31.48)	-4.80%	
Median Usage	\$ 651.60	\$ 620.32	\$ (31.28)	-4.80%	

**Rio Rico Utilities, Inc. - Wastewater Division**  
 Bill Comparison Present and Proposed Rates  
 4 Inch Commercial

Exhibit  
 Schedule H-4  
 Page 11  
 Witness: Bourassa

Meter Size:

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 419.91	\$ 399.75	\$ (20.16)	-4.80%
1,000	419.91	399.75	(20.16)	-4.80%
2,000	419.91	399.75	(20.16)	-4.80%
3,000	419.91	399.75	(20.16)	-4.80%
4,000	419.91	399.75	(20.16)	-4.80%
5,000	419.91	399.75	(20.16)	-4.80%
6,000	419.91	399.75	(20.16)	-4.80%
7,000	419.91	399.75	(20.16)	-4.80%
8,000	425.62	405.19	(20.43)	-4.80%
9,000	431.33	410.63	(20.70)	-4.80%
10,000	437.04	416.06	(20.98)	-4.80%
12,000	448.46	426.93	(21.53)	-4.80%
14,000	459.88	437.81	(22.07)	-4.80%
16,000	471.30	448.68	(22.62)	-4.80%
18,000	482.72	459.55	(23.17)	-4.80%
20,000	494.14	470.42	(23.72)	-4.80%
25,000	522.69	497.60	(25.09)	-4.80%
30,000	551.24	524.78	(26.46)	-4.80%
35,000	579.79	551.96	(27.83)	-4.80%
40,000	608.34	579.14	(29.20)	-4.80%
45,000	636.89	606.32	(30.57)	-4.80%
50,000	665.44	633.50	(31.94)	-4.80%
60,000	722.54	687.86	(34.68)	-4.80%
70,000	779.64	742.22	(37.42)	-4.80%
80,000	836.74	796.58	(40.16)	-4.80%
90,000	893.84	850.94	(42.90)	-4.80%
100,000	950.94	905.29	(45.65)	-4.80%
Average Usage	\$ 2,325.03	\$ 2,213.43	\$ (111.60)	-4.80%
Median Usage	\$ 2,064.39	\$ 1,965.30	\$ (99.09)	-4.80%

**Present Rates:**  
 Monthly Minimum: \$ 419.91  
 Gallons in Minimum -  
 Charge Per 1,000 Gallons -  
 Up to 7,000 \$ -  
 Over 7,000 \$ 5.71

**Proposed Rates:**  
 Monthly Minimum: \$ 399.75  
 Gallons in Minimum -  
 Charge Per 1,000 Gallons -  
 Up to 7,000 \$ -  
 Over 7,000 \$ 5.44

**Rio Rico Utilities, Inc. - Wastewater Division**  
**Bill Comparison Present and Proposed Rates**

Meter Size: 6 Inch Commercial

Exhibit Schedule H-4  
 Page 12  
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase	Present Rates:
-	\$ 797.96	\$ 759.66	\$ (38.30)	-4.80%	Monthly Minimum:
1,000	797.96	759.66	(38.30)	-4.80%	Gallons in Minimum
2,000	797.96	759.66	(38.30)	-4.80%	Charge Per 1,000 Gallons
3,000	797.96	759.66	(38.30)	-4.80%	Up to
4,000	797.96	759.66	(38.30)	-4.80%	Over
5,000	797.96	759.66	(38.30)	-4.80%	
6,000	797.96	759.66	(38.30)	-4.80%	
7,000	797.96	759.66	(38.30)	-4.80%	
8,000	803.67	765.09	(38.58)	-4.80%	
9,000	809.38	770.53	(38.85)	-4.80%	
10,000	815.09	775.97	(39.12)	-4.80%	
12,000	826.51	786.84	(39.67)	-4.80%	
14,000	837.93	797.71	(40.22)	-4.80%	
16,000	849.35	808.58	(40.77)	-4.80%	
18,000	860.77	819.45	(41.32)	-4.80%	
20,000	872.19	830.32	(41.87)	-4.80%	
25,000	900.74	857.50	(43.24)	-4.80%	
30,000	929.29	884.68	(44.61)	-4.80%	
35,000	957.84	911.86	(45.98)	-4.80%	
40,000	986.39	939.04	(47.35)	-4.80%	
45,000	1,014.94	966.22	(48.72)	-4.80%	
50,000	1,043.49	993.40	(50.09)	-4.80%	
60,000	1,100.59	1,047.76	(52.83)	-4.80%	
70,000	1,157.69	1,102.12	(55.57)	-4.80%	
80,000	1,214.79	1,156.48	(58.31)	-4.80%	
90,000	1,271.89	1,210.84	(61.05)	-4.80%	
100,000	1,328.99	1,265.20	(63.79)	-4.80%	
Average Usage	\$ 4,465.21	\$ 4,250.88	\$ (214.33)	-4.80%	
Median Usage	\$ 3,675.80	\$ 3,499.36	\$ (176.44)	-4.80%	

**Present Rates:**  
 Monthly Minimum:  
 Gallons in Minimum  
 Charge Per 1,000 Gallons  
 Up to 7,000 \$ -  
 Over 7,000 \$ 5.71

**Proposed Rates:**  
 Monthly Minimum:  
 Gallons in Minimum  
 Charge Per 1,000 Gallons  
 Up to 7,000 \$ -  
 Over 7,000 \$ 5.44

**Rio Rico Utilities, Inc. - Wastewater Division**  
 Bill Comparison Present and Proposed Rates  
 5/8 Inch Multi-Tenant

Exhibit H-4  
 Schedule Page 13  
 Witness: Bourassa

Meter Size:

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 56.36	\$ 53.65	\$ (2.71)	-4.80%
1,000	56.36	53.65	(2.71)	-4.80%
2,000	56.36	53.65	(2.71)	-4.80%
3,000	56.36	53.65	(2.71)	-4.80%
4,000	56.36	53.65	(2.71)	-4.80%
5,000	56.36	53.65	(2.71)	-4.80%
6,000	56.36	53.65	(2.71)	-4.80%
7,000	56.36	53.65	(2.71)	-4.80%
8,000	62.07	59.09	(2.98)	-4.80%
9,000	67.78	64.53	(3.25)	-4.80%
10,000	73.49	69.96	(3.53)	-4.80%
12,000	84.91	80.83	(4.08)	-4.80%
14,000	96.33	91.71	(4.62)	-4.80%
16,000	107.75	102.58	(5.17)	-4.80%
18,000	119.17	113.45	(5.72)	-4.80%
20,000	130.59	124.32	(6.27)	-4.80%
25,000	159.14	151.50	(7.64)	-4.80%
30,000	187.69	178.68	(9.01)	-4.80%
35,000	216.24	205.86	(10.38)	-4.80%
40,000	244.79	233.04	(11.75)	-4.80%
45,000	273.34	260.22	(13.12)	-4.80%
50,000	301.89	287.40	(14.49)	-4.80%
60,000	358.99	341.76	(17.23)	-4.80%
70,000	416.09	396.12	(19.97)	-4.80%
80,000	473.19	450.48	(22.71)	-4.80%
90,000	530.29	504.84	(25.45)	-4.80%
100,000	587.39	559.20	(28.19)	-4.80%
Average Usage	\$ 76.42	\$ 72.75	\$ (3.67)	-4.80%
Median Usage	\$ 56.36	\$ 53.65	\$ (2.71)	-4.80%

**Present Rates:**  
 Monthly Minimum: \$ 56.36  
 Gallons in Minimum Charge Per 1,000 Gallons  
 Up to 7,000 \$ -  
 Up to 99,999,999 \$ 5.71  
 Over 99,999,999 \$ -

**Proposed Rates:**  
 Monthly Minimum: \$ 53.65  
 Gallons in Minimum Charge Per 1,000 Gallons  
 Up to 7,000 \$ -  
 Up to 99,999,999 \$ 5.44  
 Over 99,999,999 \$ -

**Rio Rico Utilities, Inc. - Wastewater Division**  
 Bill Comparison Present and Proposed Rates  
 1 1/2 Inch Multi-Tenant

Exhibit  
 Schedule H-4  
 Page 14  
 Witness: Bourassa

Meter Size:

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 117.24	\$ 111.61	\$ (5.63)	-4.80%
1,000	117.24	111.61	(5.63)	-4.80%
2,000	117.24	111.61	(5.63)	-4.80%
3,000	117.24	111.61	(5.63)	-4.80%
4,000	117.24	111.61	(5.63)	-4.80%
5,000	117.24	111.61	(5.63)	-4.80%
6,000	117.24	111.61	(5.63)	-4.80%
7,000	117.24	111.61	(5.63)	-4.80%
8,000	122.95	117.05	(5.90)	-4.80%
9,000	128.66	122.48	(6.18)	-4.80%
10,000	134.37	127.92	(6.45)	-4.80%
12,000	145.79	138.79	(7.00)	-4.80%
14,000	157.21	149.66	(7.55)	-4.80%
16,000	168.63	160.54	(8.09)	-4.80%
18,000	180.05	171.41	(8.64)	-4.80%
20,000	191.47	182.28	(9.19)	-4.80%
25,000	220.02	209.46	(10.56)	-4.80%
30,000	248.57	236.64	(11.93)	-4.80%
35,000	277.12	263.82	(13.30)	-4.80%
40,000	305.67	291.00	(14.67)	-4.80%
45,000	334.22	318.18	(16.04)	-4.80%
50,000	362.77	345.36	(17.41)	-4.80%
60,000	419.87	399.72	(20.15)	-4.80%
70,000	476.97	454.08	(22.89)	-4.80%
80,000	534.07	508.43	(25.64)	-4.80%
90,000	591.17	562.79	(28.38)	-4.80%
100,000	648.27	617.15	(31.12)	-4.80%

**Present Rates:**  
 Monthly Minimum: \$ 117.24  
 Gallons in Minimum Charge Per 1,000 Gallons  
 Up to 7,000 \$ -  
 Over 7,000 \$ 5.71

**Proposed Rates:**  
 Monthly Minimum: \$ 111.61  
 Gallons in Minimum Charge Per 1,000 Gallons  
 Up to 7,000 \$ -  
 Over 7,000 \$ 5.44

Average Usage	7,583	\$ 120.57	\$ 114.78	\$ (5.79)	-4.80%
Median Usage	8,500	\$ 125.81	\$ 119.77	\$ (6.04)	-4.80%











Rio Rico Utilities, Inc. - Wastewater Division  
 Test Year Ended December 31, 2008  
 5/8 Inch Commercial

Exhibit  
 Schedule H-5  
 Page 6  
 Witness: Bourassa

Meter Size:

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
1,000	1,000	5	9	5	10	3	12	4	9	4	10	5	17	93	93	-
2,000	2,000	9	8	9	7	7	10	6	12	7	10	6	9	100	193	100
3,000	3,000	5	6	5	4	6	8	11	9	10	12	5	5	86	279	272
4,000	4,000	8	3	8	4	4	3	4	4	5	1	5	5	54	333	434
5,000	5,000	2	6	2	4	4	2	3	3	4	5	4	6	45	378	614
6,000	6,000	7	2	7	3	2	-	1	1	3	3	4	3	36	414	794
7,000	7,000	3	3	3	8	3	1	2	2	1	1	2	3	32	446	986
8,000	8,000	4	4	4	4	2	2	3	3	1	1	2	5	35	481	1,231
9,000	9,000	2	1	2	-	2	2	1	2	3	2	6	1	24	505	1,423
10,000	10,000	3	-	3	3	4	2	1	1	3	2	-	2	24	529	1,639
11,000	11,000	1	1	1	2	3	4	2	1	-	3	1	3	22	551	1,859
12,000	12,000	1	-	1	-	2	1	2	3	4	4	1	2	21	572	2,090
13,000	13,000	1	-	1	1	1	-	2	2	1	3	5	2	20	592	2,330
14,000	14,000	-	1	-	3	1	1	1	1	-	2	1	-	11	603	2,473
15,000	15,000	1	-	1	1	2	2	-	3	2	-	-	1	13	616	2,655
16,000	16,000	1	-	1	1	-	1	2	1	-	1	2	-	10	626	2,805
17,000	17,000	-	1	-	-	1	3	5	1	-	1	1	-	14	640	3,029
18,000	18,000	2	-	2	2	1	-	-	1	-	1	1	1	11	651	3,216
19,000	19,000	-	-	-	-	2	3	1	1	-	1	-	1	12	663	3,432
20,000	20,000	2	1	2	1	1	3	1	1	3	1	-	1	14	677	3,698
21,000	21,000	-	-	-	2	-	1	-	-	1	1	-	-	6	683	3,818
22,000	22,000	2	-	2	1	1	-	2	-	2	1	1	-	13	696	4,091
23,000	23,000	-	1	-	-	1	-	4	1	-	1	-	1	8	704	4,267
24,000	24,000	-	-	-	1	1	1	-	3	-	-	2	2	10	714	4,497
25,000	25,000	1	1	1	1	-	2	-	1	-	-	1	1	9	723	4,713
26,000	26,000	1	-	1	1	1	1	2	1	2	-	-	-	10	733	4,963
27,000	27,000	-	-	-	-	1	1	1	-	-	-	-	-	4	737	5,067
28,000	28,000	1	1	1	1	-	-	1	-	1	1	-	-	6	743	5,229
29,000	29,000	1	-	-	-	1	1	-	-	-	-	1	-	6	749	5,397
30,000	30,000	-	1	-	1	-	1	-	-	-	-	-	1	4	753	5,513
31,000	31,000	-	-	1	1	-	1	1	-	2	-	-	1	7	760	5,723
32,000	32,000	1	-	-	-	1	-	-	1	-	-	1	1	6	766	5,909
33,000	33,000	-	-	-	-	1	1	-	-	1	-	-	-	4	770	6,037
34,000	34,000	-	-	-	1	-	-	-	-	1	-	-	-	2	772	6,103
35,000	35,000	-	-	-	1	-	-	-	-	-	1	-	-	2	774	6,171
36,000	36,000	-	-	-	-	1	-	-	-	-	2	1	-	4	778	6,311
37,000	37,000	-	-	-	-	-	1	-	-	-	1	-	-	2	780	6,383
38,000	38,000	-	-	-	-	-	-	1	-	-	-	-	-	1	781	6,420
		-	-	-	-	-	-	-	-	-	1	-	-	2	783	6,496

Rio Rico Utilities, Inc. - Wastewater Division  
 Test Year Ended December 31, 2008  
 5/8 Inch Commercial

Exhibit  
 Schedule H-5  
 Page 6  
 Witness: Bourassa

Meter Size:

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
39,000	39,000	1	-	1	-	1	-	-	-	-	-	-	-	3	786	6,813
40,000	40,000	1	1	-	1	-	-	-	-	-	-	-	-	7	793	6,893
41,000	41,000	-	-	-	-	-	-	-	1	-	-	-	-	1	794	6,934
42,000	42,000	-	-	-	-	-	-	-	-	-	-	-	-	-	794	6,934
43,000	43,000	1	-	1	-	-	-	-	-	-	1	-	-	3	797	7,063
44,000	44,000	-	-	-	-	1	-	-	-	-	-	-	-	2	799	7,151
45,000	45,000	-	-	-	-	-	-	-	-	-	-	-	1	2	801	7,241
46,000	46,000	-	-	-	1	-	-	-	-	1	-	-	-	1	802	7,287
47,000	47,000	-	-	-	-	-	-	-	-	-	-	-	-	1	803	7,334
48,000	48,000	-	-	-	-	-	-	-	-	-	-	-	-	1	803	7,334
49,000	49,000	1	-	1	-	-	-	-	-	-	-	-	-	3	806	7,481
50,000	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	806	7,481
51,000	51,000	-	-	-	-	-	-	-	-	-	-	-	-	-	806	7,481
52,000	52,000	-	-	-	-	-	-	-	-	-	-	-	-	1	807	7,532
53,000	53,000	1	-	-	-	-	-	1	-	-	-	-	-	1	808	7,584
54,000	54,000	-	-	1	-	-	-	-	-	-	-	-	-	3	811	7,743
55,000	55,000	-	-	-	-	1	-	-	-	-	-	-	-	3	814	7,905
56,000	56,000	-	-	-	-	-	-	-	-	-	-	-	-	1	815	7,960
57,000	57,000	-	-	-	-	-	-	-	-	-	-	-	-	-	815	7,960
58,000	58,000	-	-	-	-	-	-	-	-	-	-	-	-	-	815	7,960
59,000	59,000	-	-	-	-	-	-	-	-	-	-	-	-	-	815	7,960
60,000	60,000	-	-	-	-	-	-	-	-	-	-	-	-	-	815	7,960
61,000	61,000	-	-	-	-	-	-	-	-	-	-	-	-	-	815	7,960
62,000	62,000	-	-	-	-	1	-	-	-	-	-	-	-	-	815	7,960
63,000	63,000	-	-	-	-	-	-	-	-	-	-	-	-	1	816	8,022
64,000	64,000	-	-	-	-	-	-	-	-	-	-	-	-	-	816	8,022
65,000	65,000	-	-	-	-	-	-	-	-	-	-	-	-	1	817	8,086
66,000	66,000	-	-	-	-	-	-	-	-	-	-	-	-	-	817	8,086
67,000	67,000	-	-	-	-	1	-	-	-	-	-	-	-	2	819	8,218
68,000	68,000	-	-	-	-	1	-	-	1	-	-	-	-	3	822	8,419
69,000	69,000	-	-	-	-	-	-	-	-	-	-	-	-	-	822	8,419
70,000	70,000	-	-	-	-	1	-	-	-	-	-	-	-	-	822	8,419
71,000	71,000	-	-	-	-	-	-	-	-	-	-	-	-	1	823	8,489
72,000	72,000	-	-	-	-	-	-	-	-	-	-	-	-	-	823	8,489
73,000	73,000	-	-	-	-	-	-	-	-	-	-	-	-	-	823	8,489
74,000	74,000	-	-	-	-	-	1	-	-	-	-	-	-	1	824	8,562
75,000	75,000	-	-	-	-	-	-	-	-	-	-	-	-	-	824	8,562
76,000	76,000	-	-	-	1	-	-	-	-	-	-	-	-	1	825	8,637
77,000	77,000	-	-	-	-	-	-	-	-	-	-	-	-	-	825	8,637

Rio Rico Utilities, Inc. - Wastewater Division  
 Test Year Ended December 31, 2008  
 5/8 Inch Commercial

Exhibit  
 Schedule H-5  
 Page 6  
 Witness: Bourassa

Meter Size:

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
78,000	78,000	1		1										2	827	8,793
79,000	79,000														827	8,793
80,000	80,000														827	8,793
81,000	81,000		1											1	828	8,874
82,000	82,000														828	8,874
83,000	83,000														828	8,874
84,000	84,000								1					1	829	8,958
85,000	85,000														829	8,958
86,000	86,000														829	8,958
87,000	87,000														829	8,958
88,000	88,000														829	8,958
89,000	89,000														829	8,958
90,000	90,000									1					829	8,958
91,000	91,000														830	9,048
92,000	92,000					1									830	9,048
93,000	93,000														831	9,140
94,000	94,000														831	9,140
95,000	95,000														831	9,140
96,000	96,000														831	9,140
97,000	97,000														831	9,140
98,000	98,000														831	9,140
99,000	99,000														831	9,140
100,000	100,000														831	9,140

Totals	70	52	70	74	66	78	67	73	65	74	64	78	831
	Average Usage												10,999
	Median Usage												6,000

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

Exhibit  
 Schedule H-5  
 Page 7  
 Witness: Bourassa

Meter Size:  
 1 Inch Commercial

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
1,000	1,000	5	4	11	-	6	3	3	-	2	-	1	7	42	42	-
1,000	2,000	2	3	2	2	2	2	1	5	3	4	8	4	38	80	38
2,000	3,000	2	2	2	2	2	2	3	4	5	6	3	4	37	117	112
3,000	4,000	5	5	5	3	2	2	4	2	3	2	2	2	37	154	223
4,000	5,000	3	3	3	3	3	1	3	-	2	3	1	3	28	182	335
5,000	6,000	-	-	-	1	2	3	1	1	2	2	1	1	14	196	405
6,000	7,000	2	2	2	1	-	2	-	1	1	-	1	1	13	209	483
7,000	8,000	1	1	1	1	3	-	-	1	2	-	3	1	14	223	581
8,000	9,000	-	-	-	2	2	1	2	-	1	1	1	-	10	233	661
9,000	10,000	1	1	1	2	-	1	2	5	1	-	1	1	16	249	805
10,000	11,000	2	2	2	1	-	1	2	-	1	-	1	2	14	263	945
11,000	12,000	-	-	-	-	-	1	1	3	-	1	1	1	8	271	1,033
12,000	13,000	2	2	2	-	-	-	-	-	-	1	-	-	7	278	1,117
13,000	14,000	1	1	1	-	-	1	-	-	-	1	1	-	7	285	1,208
14,000	15,000	-	-	-	-	-	-	1	-	-	-	-	1	2	287	1,236
15,000	16,000	-	-	-	-	-	-	-	-	1	-	-	2	4	291	1,296
16,000	17,000	-	-	-	-	2	1	-	-	-	-	-	1	4	295	1,360
17,000	18,000	-	-	-	-	-	1	-	-	-	-	1	-	2	297	1,394
18,000	19,000	1	1	1	-	2	-	-	-	1	-	1	-	8	305	1,538
19,000	20,000	-	-	-	-	-	1	-	3	-	-	1	-	5	310	1,633
20,000	21,000	1	1	1	-	1	-	-	-	-	1	-	-	5	315	1,733
21,000	22,000	-	-	-	-	-	1	-	-	-	-	-	-	4	319	1,817
22,000	23,000	1	1	1	-	1	-	-	-	2	1	-	1	5	324	1,927
23,000	24,000	1	1	1	-	-	1	-	-	1	-	-	3	11	335	2,180
24,000	25,000	-	-	-	-	2	-	-	-	1	-	-	-	3	338	2,252
25,000	26,000	-	-	-	-	-	1	-	-	1	-	-	-	2	340	2,302
26,000	27,000	-	-	-	1	-	-	-	1	-	-	-	1	3	343	2,380
27,000	28,000	1	1	1	1	-	1	1	-	1	1	-	-	8	351	2,596
28,000	29,000	-	-	-	-	-	-	1	-	-	2	1	-	4	355	2,708
29,000	30,000	1	1	1	-	-	-	-	-	-	-	-	-	3	358	2,795
30,000	31,000	-	-	-	-	1	-	-	2	-	-	-	-	3	361	2,885
31,000	32,000	-	-	-	-	-	1	-	-	1	-	-	-	5	366	3,040
32,000	33,000	-	-	-	-	-	1	2	-	-	-	-	-	2	368	3,104
33,000	34,000	2	2	2	1	1	-	-	-	-	-	-	-	8	376	3,368
34,000	35,000	-	-	-	1	-	-	-	-	-	1	-	-	2	378	3,436
35,000	36,000	1	1	1	-	1	-	2	1	-	-	-	-	7	385	3,681
36,000	37,000	-	-	-	-	-	-	-	-	-	-	-	-	1	386	3,717
37,000	38,000	-	-	-	1	-	1	-	-	-	-	-	-	2	388	3,791

Rio Rico Utilities, Inc. - Wastewater Division  
 Test Year Ended December 31, 2008  
 1 Inch Commercial

Exhibit  
 Schedule H-5  
 Page 7  
 Witness: Bourassa

Meter Size:

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
38,000	38,000	-	-	-	-	-	-	1	-	-	1	-	-	3	391	3,905
39,000	39,000	-	-	-	1	-	-	-	-	-	-	-	-	1	392	3,944
40,000	40,000	1	1	1	-	-	-	-	-	-	-	-	-	3	395	4,064
41,000	41,000	-	-	-	-	-	-	-	-	-	-	-	1	1	396	4,105
42,000	42,000	-	-	-	1	1	-	-	-	-	-	-	-	3	399	4,231
43,000	43,000	-	-	-	-	-	-	1	-	-	-	-	-	1	400	4,274
44,000	44,000	-	-	-	1	-	-	-	-	-	-	-	-	1	401	4,318
45,000	45,000	-	-	-	-	-	-	-	-	-	-	-	-	-	401	4,318
46,000	46,000	-	-	-	-	-	-	-	-	-	-	-	-	-	401	4,318
47,000	47,000	2	2	2	1	-	-	-	-	-	-	-	-	8	409	4,694
48,000	48,000	-	-	-	-	-	-	1	-	-	-	-	-	1	410	4,742
49,000	49,000	-	-	-	-	1	-	-	-	-	-	-	-	2	412	4,840
50,000	50,000	-	-	-	1	-	-	-	-	-	-	-	-	1	413	4,890
51,000	51,000	-	-	-	1	1	-	-	-	-	-	-	-	2	415	4,992
52,000	52,000	-	-	-	-	-	1	-	-	-	-	1	-	2	417	5,096
53,000	53,000	-	-	-	-	-	-	-	1	-	-	-	-	1	418	5,149
54,000	54,000	-	-	-	-	-	-	-	-	-	-	-	-	-	418	5,149
55,000	55,000	-	-	-	-	-	-	-	-	-	-	-	-	-	418	5,149
56,000	56,000	-	-	-	-	-	-	-	-	-	-	-	-	-	418	5,149
57,000	57,000	-	-	-	-	-	-	-	-	-	1	-	-	1	419	5,206
58,000	58,000	-	-	-	-	-	-	-	-	-	-	-	-	-	419	5,206
59,000	59,000	-	-	-	-	-	-	-	-	-	-	-	-	-	419	5,206
60,000	60,000	-	-	-	-	-	-	-	-	-	-	-	-	-	419	5,206
61,000	61,000	-	-	-	-	-	-	-	-	-	-	-	2	2	421	5,328
62,000	62,000	-	-	-	-	1	-	-	-	-	-	-	-	1	422	5,390
63,000	63,000	-	-	-	-	1	1	-	-	-	-	-	-	2	424	5,516
64,000	64,000	-	-	-	-	-	-	-	-	-	-	-	-	-	424	5,516
65,000	65,000	-	-	-	-	-	-	-	-	-	-	-	-	-	424	5,516
66,000	66,000	-	-	-	-	1	-	-	-	-	-	1	-	2	426	5,648
67,000	67,000	-	-	-	-	-	-	-	-	-	-	-	-	-	426	5,648
68,000	68,000	-	-	-	1	1	-	-	-	-	-	-	-	2	428	5,784
69,000	69,000	-	-	-	-	-	-	-	-	-	-	-	-	-	428	5,784
70,000	70,000	-	-	-	-	-	-	-	-	-	-	-	-	-	428	5,784
71,000	71,000	-	-	-	-	-	-	-	-	-	-	-	-	-	428	5,784
72,000	72,000	-	-	-	-	-	-	-	-	-	-	-	-	-	428	5,784
73,000	73,000	-	-	-	-	-	-	-	-	-	-	-	-	-	428	5,784
74,000	74,000	-	-	-	-	1	-	-	-	-	-	-	-	1	429	5,858
75,000	75,000	-	-	-	-	-	-	-	-	-	-	-	-	-	429	5,858



Rio Rico Utilities, Inc. - Wastewater Division  
 Test Year Ended December 31, 2008  
 1 1/2 Inch Commercial

Exhibit  
 Schedule H-5  
 Page 8  
 Witness: Bourassa

Meter Size:

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
1,000	1,000	1	1	1										2	2	5
2,000	2,000				1									5	7	7
3,000	3,000					1								1	8	13
4,000	4,000						1							2	10	17
5,000	5,000							1						1	11	22
6,000	6,000								1					1	12	34
7,000	7,000									1				2	14	55
8,000	8,000	1			1									3	17	87
9,000	9,000					1								4	21	105
10,000	10,000													2	23	105
11,000	11,000													-	23	105
12,000	12,000													-	23	129
13,000	13,000						1							2	25	142
14,000	14,000	1								1				1	26	184
15,000	15,000													3	29	199
16,000	16,000													1	30	263
17,000	17,000	1			1									4	34	263
18,000	18,000													-	34	281
19,000	19,000													1	35	300
20,000	20,000										1			1	36	320
21,000	21,000													1	37	320
22,000	22,000													-	37	342
23,000	23,000													1	38	342
24,000	24,000													-	38	366
25,000	25,000													1	39	391
26,000	26,000													1	40	391
27,000	27,000	1			1									-	40	472
28,000	28,000													3	43	472
29,000	29,000													-	43	501
30,000	30,000												1	1	44	501
31,000	31,000													-	44	501
32,000	32,000													-	44	501
33,000	33,000													-	44	534
34,000	34,000												1	1	45	534
35,000	35,000													-	45	569
36,000	36,000													1	46	569
37,000	37,000	1			1									-	46	680
38,000	38,000													3	49	680

Rio Rico Utilities, Inc. - Wastewater Division  
 Test Year Ended December 31, 2008  
 1 1/2 Inch Commercial

Exhibit  
 Schedule H-5  
 Page 8  
 Witness: Bourassa

Meter Size:

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
39,000	39,000													1	50	719
40,000	40,000										1			1	51	759
41,000	41,000														51	759
42,000	42,000														51	759
43,000	43,000						1							2	53	845
44,000	44,000														53	845
45,000	45,000														53	845
46,000	46,000													1	54	891
47,000	47,000											1			54	891
48,000	48,000						1							1	55	939
49,000	49,000										1			1	56	988
50,000	50,000							1						1	57	1,038
51,000	51,000														57	1,038
52,000	52,000														57	1,038
53,000	53,000	1												4	61	1,250
54,000	54,000														61	1,250
55,000	55,000														61	1,250
56,000	56,000														61	1,250
57,000	57,000											1		1	62	1,306
58,000	58,000								1					3	65	1,477
59,000	59,000													3	68	1,651
60,000	60,000													1	69	1,710
61,000	61,000														69	1,710
62,000	62,000														69	1,710
63,000	63,000														69	1,710
64,000	64,000								1					1	70	1,773
65,000	65,000														70	1,773
66,000	66,000									1				1	71	1,838
67,000	67,000													1	72	1,904
68,000	68,000														72	1,904
69,000	69,000														72	1,904
70,000	70,000														72	1,904
71,000	71,000														72	1,904
72,000	72,000														72	1,904
73,000	73,000														72	1,904
74,000	74,000														72	1,904
75,000	75,000													1	73	1,979
76,000	76,000													1	74	2,055
77,000	77,000													1	75	2,132



Rio Rico Utilities, Inc. - Wastewater Division  
 Test Year Ended December 31, 2008  
 2 Inch Commercial

Exhibit  
 Schedule H-5  
 Page 9  
 Witness: Bourassa

Meter Size:

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
1,000	1,000	-	-	-	-	-	-	-	2	1	-	-	-	3	3	-
2,000	2,000	-	-	-	-	-	-	-	1	1	2	-	-	4	7	4
3,000	3,000	-	-	-	-	-	-	-	-	-	1	1	-	4	11	12
4,000	4,000	1	1	1	1	1	1	2	1	-	2	1	2	10	21	42
5,000	5,000	1	1	2	-	-	-	-	2	-	-	2	1	9	30	78
6,000	6,000	1	1	1	1	1	1	-	1	-	-	1	1	8	38	118
7,000	7,000	1	1	1	1	1	1	1	-	1	-	1	1	7	45	160
8,000	8,000	-	-	-	-	-	-	-	1	-	-	-	-	4	49	188
9,000	9,000	-	-	-	-	-	-	-	1	-	-	-	-	1	50	196
10,000	10,000	-	-	-	-	-	-	-	-	-	-	-	-	7	57	259
11,000	11,000	-	-	-	-	-	-	-	-	-	-	-	-	3	60	289
12,000	12,000	-	-	-	-	-	-	-	-	-	-	-	-	2	62	311
13,000	13,000	-	-	-	-	-	-	-	-	-	-	-	-	4	66	359
14,000	14,000	-	-	-	-	-	-	-	-	-	-	-	-	6	72	437
15,000	15,000	1	1	1	1	1	1	1	-	1	1	-	1	5	77	507
16,000	16,000	-	-	-	-	-	-	-	1	-	-	-	-	4	81	567
17,000	17,000	-	-	-	-	-	-	-	-	-	-	-	-	3	84	615
18,000	18,000	-	-	-	-	-	-	-	-	-	-	-	-	3	87	666
19,000	19,000	-	-	-	-	-	-	-	-	-	-	-	-	1	88	684
20,000	20,000	-	-	-	-	-	-	-	-	-	-	-	-	1	89	703
21,000	21,000	1	1	1	1	1	1	1	-	-	-	-	-	4	93	783
22,000	22,000	1	1	1	1	1	1	1	-	-	-	-	-	4	97	867
23,000	23,000	-	-	-	-	-	-	-	-	-	-	-	-	3	100	933
24,000	24,000	-	-	-	-	-	-	-	-	-	-	-	-	3	103	1,002
25,000	25,000	-	-	-	-	-	-	-	-	-	-	-	-	5	108	1,122
26,000	26,000	1	1	1	1	1	1	1	2	1	1	-	-	4	112	1,222
27,000	27,000	-	-	-	-	-	-	-	-	-	-	-	-	2	114	1,274
28,000	28,000	-	-	-	-	-	-	-	-	-	-	-	-	2	114	1,274
29,000	29,000	1	1	1	1	1	1	1	-	-	-	-	-	2	116	1,330
30,000	30,000	-	-	-	-	-	-	-	-	-	-	-	-	4	120	1,446
31,000	31,000	-	-	-	-	-	-	-	1	-	-	1	-	5	125	1,596
32,000	32,000	1	1	1	1	1	1	1	-	-	-	-	-	3	128	1,596
33,000	33,000	-	-	-	-	-	-	-	-	-	-	-	-	3	128	1,596
34,000	34,000	-	-	-	-	-	-	-	-	-	-	-	-	3	131	1,791
35,000	35,000	-	-	-	-	-	-	-	-	-	-	-	-	1	132	1,825
36,000	36,000	-	-	-	-	-	-	-	-	-	-	-	-	3	135	1,930
37,000	37,000	-	-	-	-	-	-	-	-	-	-	-	-	-	135	1,930
38,000	38,000	-	-	-	-	-	-	-	-	-	-	-	-	-	135	1,930
39,000	39,000	-	-	-	-	-	-	-	-	-	-	-	-	3	135	1,930
40,000	40,000	1	1	1	1	1	1	1	-	-	-	-	-	3	138	2,047
		-	-	-	-	-	-	-	-	-	-	-	-	1	139	2,087

Rio Rico Utilities, Inc. - Wastewater Division  
 Test Year Ended December 31, 2008  
 2 Inch Commercial

Exhibit  
 Schedule H-5  
 Page 9  
 Witness: Bourassa

Meter Size:

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
41,000	41,000													1	140	2,128
42,000	42,000													-	140	2,128
43,000	43,000					1								1	141	2,171
44,000	44,000	1	1											3	144	2,303
45,000	45,000												1	1	145	2,348
46,000	46,000	1	1	1										4	149	2,532
47,000	47,000					1								1	150	2,579
48,000	48,000												1	1	151	2,627
49,000	49,000	1	1	1										3	154	2,774
50,000	50,000				1									1	155	2,824
51,000	51,000													1	155	2,824
52,000	52,000				1				1					2	157	2,928
53,000	53,000													-	157	2,928
54,000	54,000													-	157	2,928
55,000	55,000													-	157	2,928
56,000	56,000													-	157	2,928
57,000	57,000													-	157	2,928
58,000	58,000				1									1	158	2,985
59,000	59,000													-	158	2,985
60,000	60,000													-	158	2,985
61,000	61,000													-	158	2,985
62,000	62,000													-	158	2,985
63,000	63,000					1								1	159	3,047
64,000	64,000				1									1	160	3,111
65,000	65,000													1	161	3,176
66,000	66,000								1					1	162	3,242
67,000	67,000													-	162	3,242
68,000	68,000													-	162	3,242
69,000	69,000													-	162	3,242
70,000	70,000													-	162	3,242
71,000	71,000											1		1	163	3,313
72,000	72,000													-	163	3,313
73,000	73,000													1	164	3,386
74,000	74,000						1							1	165	3,460
75,000	75,000									1				1	166	3,535
76,000	76,000													-	166	3,535
77,000	77,000													-	166	3,535
78,000	78,000													-	166	3,535
79,000	79,000													-	166	3,535
80,000	80,000													1	167	3,615
81,000	81,000													-	167	3,615

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

Meter Size: 2 Inch Commercial

Exhibit  
 Schedule H-5  
 Page 9  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
82,000	82,000	-	-	-	-	-	-	-	-	-	-	-	-	-	167	3,615
83,000	83,000	-	-	-	-	-	-	-	-	-	-	-	-	-	167	3,615
84,000	84,000	-	-	-	-	1	-	-	-	-	-	-	-	1	168	3,699
85,000	85,000	-	-	-	-	-	1	-	-	-	-	-	-	1	169	3,784
86,000	86,000	-	-	-	1	-	-	-	-	-	-	-	-	1	170	3,870
87,000	87,000	-	-	-	-	1	-	-	-	-	-	-	-	1	171	3,957
88,000	88,000	-	-	-	-	-	-	-	-	-	1	-	-	1	172	4,046
89,000	89,000	-	-	-	1	-	-	-	-	-	-	-	-	1	173	4,136
90,000	90,000	-	-	-	-	-	-	-	-	-	-	-	-	1	173	4,136
91,000	91,000	-	-	-	-	-	-	1	-	-	-	-	-	1	174	4,228
92,000	92,000	-	-	-	-	-	-	-	-	-	-	-	-	1	174	4,228
93,000	93,000	-	-	-	-	-	-	-	1	-	-	-	-	1	175	4,322
94,000	94,000	-	-	-	-	-	-	-	-	-	-	-	-	1	175	4,322
95,000	95,000	-	-	-	-	-	-	-	-	-	-	-	-	1	175	4,322
96,000	96,000	-	-	-	-	-	-	-	-	-	-	-	-	1	175	4,322
97,000	97,000	-	-	-	-	-	-	1	-	-	-	-	-	1	176	4,419
98,000	98,000	-	-	-	-	-	-	-	-	-	-	-	-	1	177	4,517
99,000	99,000	-	-	-	-	-	-	-	-	-	-	-	-	1	177	4,517
100,000	100,000	-	-	-	-	-	-	-	-	-	1	-	-	1	178	4,617
101,000	101,000	-	-	-	-	-	1	-	-	-	-	-	-	1	179	4,718
107,000	107,000	-	-	-	-	-	-	-	-	-	-	-	-	1	180	4,825
111,000	111,000	-	-	-	-	-	-	-	-	-	-	1	-	1	181	4,936
112,000	112,000	-	-	-	-	-	-	-	-	-	-	1	-	1	182	5,048
114,000	114,000	-	-	-	-	-	-	-	-	-	-	-	-	1	183	5,162
116,000	116,000	-	-	-	-	1	-	-	-	-	-	-	-	1	184	5,278
121,000	121,000	-	-	-	-	-	-	-	-	-	-	-	-	1	185	5,399
131,000	131,000	-	-	-	-	-	-	-	1	-	-	-	-	1	186	5,530
132,000	132,000	-	-	-	-	-	-	-	-	-	-	-	-	1	187	5,662
142,000	142,000	-	-	-	-	-	-	-	-	-	-	-	-	1	188	5,804
143,000	143,000	-	-	-	-	-	-	1	-	-	-	-	-	1	189	5,947
144,000	144,000	-	-	-	-	-	-	-	-	-	-	-	-	1	190	6,091
146,000	146,000	-	-	-	-	-	1	-	-	-	-	-	-	1	191	6,237
148,000	148,000	-	-	-	-	-	-	-	-	-	-	-	-	1	191	6,237
156,000	156,000	-	-	-	-	-	-	-	-	1	-	-	-	1	192	6,393
169,000	169,000	-	-	-	-	-	-	-	-	-	-	-	-	2	194	6,731
176,000	176,000	1	1	1	-	-	-	-	-	-	-	-	-	3	197	7,259
179,000	179,000	-	-	-	-	-	-	-	-	-	-	-	-	1	198	7,438
180,000	180,000	-	-	-	-	-	-	1	-	-	-	-	-	1	199	7,618
190,000	190,000	-	-	-	-	-	-	-	1	-	-	-	-	1	200	7,808
191,000	191,000	-	-	-	-	-	1	-	-	-	-	-	-	2	202	8,190
199,000	199,000	-	-	-	-	-	-	-	-	-	1	-	-	1	203	8,389







Rio Rico Utilities, Inc. - Wastewater Division  
 Test Year Ended December 31, 2008  
 3 Inch Commercial

Exhibit  
 Schedule H-5  
 Page 10  
 Witness: Bourassa

Meter Size:

Usage From:	Usage To:	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
82,000	82,000	-	-	-	-	-	-	-	-	-	-	-	-	-	8	445
83,000	83,000	-	-	-	-	-	-	-	-	-	-	-	-	-	8	445
84,000	84,000	-	-	-	-	-	-	-	-	-	-	-	-	-	8	445
85,000	85,000	-	-	-	-	-	-	-	-	-	-	-	-	-	8	445
86,000	86,000	-	-	-	-	-	-	-	-	-	-	-	-	-	8	445
87,000	87,000	-	-	-	-	-	-	-	-	-	-	-	-	-	8	445
88,000	88,000	-	-	-	-	-	-	-	-	-	-	1	-	1	9	533
89,000	89,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9	533
90,000	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9	533
91,000	91,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9	533
92,000	92,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9	533
93,000	93,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9	533
94,000	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9	533
95,000	95,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9	533
96,000	96,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9	533
97,000	97,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9	533
98,000	98,000	-	-	-	-	-	-	-	-	-	-	-	1	1	10	630
99,000	99,000	-	-	-	-	-	-	-	-	-	-	-	-	-	10	630
100,000	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	10	630
119,000	119,000	-	-	-	-	-	-	1	-	-	-	-	-	1	11	749
118,000	118,000	-	-	-	-	-	-	-	-	-	1	-	-	1	12	867
		1	1	1	1	1	1	1	1	1	1	1	1	-	12	867

Totals  
 Average Usage 72,250  
 Median Usage 71,500





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

Meter Size: 4 Inch Commercial

Exhibit Schedule H-5  
 Page 11  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
86,000	86,000														13	556
87,000	87,000														13	556
88,000	88,000														13	556
89,000	89,000														13	556
90,000	90,000														13	556
91,000	91,000														13	556
92,000	92,000														13	556
93,000	93,000														13	556
94,000	94,000														13	556
95,000	95,000														13	556
96,000	96,000														13	556
97,000	97,000														13	556
98,000	98,000														13	556
99,000	99,000														13	556
100,000	100,000				1									1	14	704
148,000	148,000								1					1	15	853
149,000	149,000				1									2	17	1,189
168,000	168,000	1												1	18	1,364
175,000	175,000									1				1	19	1,563
199,000	199,000													1	20	1,787
224,000	224,000													1	21	2,020
233,000	233,000										1			1	22	2,303
283,000	283,000													1	25	3,176
291,000	291,000					1								3	26	3,475
299,000	299,000	1												1	27	3,785
310,000	310,000				1									1	28	4,096
311,000	311,000													1	29	4,431
335,000	335,000													1	30	4,804
373,000	373,000													1	31	5,181
377,000	377,000													1	32	5,569
388,000	388,000													1	33	5,963
394,000	394,000													1	34	6,378
415,000	415,000													1	35	6,800
422,000	422,000													1	36	7,255
455,000	455,000													1	37	7,834
579,000	579,000													1	38	8,458
624,000	624,000													1	39	9,125
667,000	667,000													1	40	9,799
674,000	674,000													1	41	10,486
687,000	687,000													1	42	11,240
754,000	754,000													1	43	
824,000	824,000													1	44	
831,000	831,000													1	44	

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

Exhibit  
 Schedule H-5  
 Page 11

Witness: Bourassa

Meter Size: 4 Inch Commercial

Usage From:	Usage To:	Month	Total Year	Cumul- ative Billing	Cumul- ative Gallons (in 1,000's)											
		Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08			
832,000	832,000	1	-	-	1	-	-	-	-	-	-	-	-	2	46	
878,000	878,000	-	-	-	-	1	-	-	-	-	-	-	-	1	47	
914,000	914,000	-	-	-	-	-	1	-	-	-	-	-	-	1	48	
<b>Totals</b>																
4 4 3 5 4 4 4 4 4 4 4 4 4 4 48																
Average Usage 340,646																
Median Usage 295,000																







Rio Rico Utilities, Inc. - Wastewater Division  
 Test Year Ended December 31, 2008  
 5/8 Inch Multi-Tenant

Exhibit  
 Schedule H-5  
 Page 13  
 Witness: Bourassa

Meter Size:

Usage From:	Usage To:	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
1,000	1,000	1												1	1	5
2,000	2,000													5	6	9
3,000	3,000	1												2	8	19
4,000	4,000													11	19	42
5,000	5,000	1												4	23	58
6,000	6,000	1												8	31	98
7,000	7,000	1												12	43	170
8,000	8,000	1												4	47	198
9,000	9,000	1												7	54	254
10,000	10,000	1												5	59	299
11,000	11,000	1												5	64	349
12,000	12,000	1												6	70	415
13,000	13,000	1												5	75	475
14,000	14,000	1												7	82	566
15,000	15,000	1												4	86	622
16,000	16,000	1												3	89	667
17,000	17,000	1												3	92	715
18,000	18,000	1												4	96	783
19,000	19,000	1												1	97	801
20,000	20,000	1												1	98	820
21,000	21,000	1												1	98	820
22,000	22,000	1												3	101	883
23,000	23,000	1												1	102	905
24,000	24,000	1												5	107	1,020
25,000	25,000	1												2	109	1,068
26,000	26,000	1												109	1,068	1,068
27,000	27,000	1												109	1,068	1,068
28,000	28,000	1												109	1,068	1,068
29,000	29,000	1												2	111	1,124
30,000	30,000	1												1	112	1,153
31,000	31,000	1												112	1,153	1,153
32,000	32,000	1												112	1,153	1,153
33,000	33,000	1												112	1,153	1,153
34,000	34,000	1												112	1,153	1,153
35,000	35,000	1												1	113	1,188
36,000	36,000	1												113	1,188	1,188
37,000	37,000	1												113	1,188	1,188
38,000	38,000	1												113	1,188	1,188
39,000	39,000	1												113	1,188	1,188
40,000	40,000	1												113	1,188	1,188

Rio Rico Utilities, Inc. - Wastewater Division  
 Test Year Ended December 31, 2008  
 5/8 Inch Multi-Tenant

Exhibit  
 Schedule H-5  
 Page 13  
 Witness: Bourassa

Meter Size:

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
41,000	41,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
42,000	42,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
43,000	43,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
44,000	44,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
45,000	45,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
46,000	46,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
47,000	47,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
48,000	48,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
49,000	49,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
50,000	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
51,000	51,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
52,000	52,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
53,000	53,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
54,000	54,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
55,000	55,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
56,000	56,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
57,000	57,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
58,000	58,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
59,000	59,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
60,000	60,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
61,000	61,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
62,000	62,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
63,000	63,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
64,000	64,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
65,000	65,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
66,000	66,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
67,000	67,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
68,000	68,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
69,000	69,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
70,000	70,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
71,000	71,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
72,000	72,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
73,000	73,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
74,000	74,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
75,000	75,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
76,000	76,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
77,000	77,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
78,000	78,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
79,000	79,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
80,000	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
81,000	81,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188

Rio Rico Utilities, Inc. - Wastewater Division  
 Test Year Ended December 31, 2008  
 5/8 Inch Multi-Tenant

Exhibit  
 Schedule H-5  
 Page 13  
 Witness: Bourassa

Meter Size:

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
82,000	82,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
83,000	83,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
84,000	84,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
85,000	85,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
86,000	86,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
87,000	87,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
88,000	88,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
89,000	89,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
90,000	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
91,000	91,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
92,000	92,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
93,000	93,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
94,000	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
95,000	95,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
96,000	96,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
97,000	97,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
98,000	98,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
99,000	99,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
100,000	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	113	1,188

Totals	9	6	9	10	10	10	10	11	10	10	10	9	10	9	113
Average Usage															10,513
Median Usage															4,000





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

Exhibit  
 Schedule H-5  
 Page 14  
 Witness: Bourassa

Meter Size:  
 1 1/2 Inch Multi-Tenant

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
84,000	84,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	91
85,000	85,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	91
86,000	86,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	91
87,000	87,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	91
88,000	88,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	91
89,000	89,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	91
90,000	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	91
91,000	91,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	91
92,000	92,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	91
93,000	93,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	91
94,000	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	91
95,000	95,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	91
96,000	96,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	91
97,000	97,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	91
98,000	98,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	91
99,000	99,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	91
100,000	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	91
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Totals</b>														12	91	
														7,583	Average Usage	
														8,500	Median Usage	

# **Attachment A**

## **Alternative Rate Design On Metered Water Usage**

Rio Rico Utilities, Inc. - Wastewater Division  
 Test Year Ended December 31, 2008  
 Alternate Design Based on Metered Water Usage

Attachment A

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78

**STEP 1 - Compute Revenues from Fixed Charge and Commodity Charge**

Proposed Revenue Requirement <sup>1</sup>	Revenue Collected from Fixed Monthly Charge	Revenues Collected from Fixed Monthly Charge	Revenue Collected from Commodity Charge	Revenues Collected from Commodity Charge
\$ 1,740,668	60%	\$ 1,044,401	40%	\$ 696,267

**STEP 2 - Compute Fixed Monthly Charge for All Customer Classes**

Revenues to be Collected From Fixed Monthly Charge	\$ 1,044,401
Number of bills (including annualization)	24,287
Fixed Monthly Charge	\$ 43.00

**STEP 3 - Computation of Volumetric Charge Based on Metered Water Usage**

	Metered Water Usage (in 1,000 gals)	Flow through Rate	Wastewater Flow (in 1,000 gals)
Single-Family Residential	180,981	50%	90,491
Multi-family Residential	1,279	90%	1,151
Commercial	70,390	90%	63,351
<b>Total</b>	<b>252,650</b>		<b>154,993</b>

Revenues to be Collected From Volumetric Charge	\$ 696,267
Wastewater Flow (in 1,000 gals)	154,993
Charge per 1,000 gallons	\$ 4.49

Rate per Metered Water Usage	Charge per 1,000 gallons of WW Flow	Flow through Rate	Charge per 1,000 gallons of Water Usage
Single-Family Residential	\$ 4.49	50%	\$ 2.25
Multi-family Residential	\$ 4.49	90%	\$ 4.04
Commercial	\$ 4.49	90%	\$ 4.04

**Monthly Bills Based on Average Use**

	Metered Water Usage (in 1,000 gals)	Number of Bills	Average Usage (in 1,000 gals)	Average Usage (in 1,000 gals)	Fixed Monthly Charge	Total Commodity Charges	Total Monthly Bill
Single-Family Residential	180,981	22,716	7.97	7.97	\$ 43.00	\$ 17.89	\$ 60.89
Multi-family Residential	1,279	125	10.23	10.23	\$ 43.00	\$ 41.35	\$ 84.35
Commercial	70,390	1,665	42.28	42.28	\$ 43.00	\$ 170.84	\$ 213.84

**Bill Comparison Based on Meter Size and Class**

Meter Size and Class	Average Usage (in 1,000 gals)	Proposed Bill Under Current Rate Design	Proposed Bill Under Alternative Rate Design	Difference
5/8 Inch Residential	7.936	\$ 53.65	\$ 63.23	\$ 9.57
3/4 Inch Residential	3.644	\$ 61.19	\$ 29.03	\$ (32.15)
1 Inch Residential	7.687	\$ 75.59	\$ 61.24	\$ (14.35)
1.5 Inch Residential	N/A	N/A	N/A	N/A
2 Inch Residential	18.1	\$ 154.81	\$ 144.20	\$ (10.61)
5/8 Multi-family	10.513	\$ 72.75	\$ 42.48	\$ (30.27)
1.5 Inch Multi-family	7.583	\$ 114.78	\$ 30.64	\$ (84.14)
5/8 Inch Commercial	10.999	\$ 75.39	\$ 44.45	\$ (30.94)
1 Inch Commercial	15.375	\$ 121.12	\$ 62.13	\$ (58.99)
1.5 Inch Commercial	40.402	\$ 293.18	\$ 163.26	\$ (129.92)
2 Inch Commercial	109.273	\$ 710.76	\$ 441.57	\$ (269.19)
3 Inch Commercial	72.250	\$ 624.40	\$ 291.96	\$ (332.43)
4 Inch Commercial	340.646	\$ 2,213.43	\$ 1,376.55	\$ (836.88)
6 Inch Commercial	649.250	\$ 4,250.88	\$ 2,623.62	\$ (1,627.26)

<sup>1</sup> Proposed revenues from rates. See Schedule C-1, page 1, line 2, column labeled as "Adjusted with Rate Increase"

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3 Suite 2600  
Phoenix, Arizona 85012  
4 Attorneys for Rio Rico Utilities, Inc.

5 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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

DOCKET NO:

WS-02676A-09-\_\_\_\_\_

13  
14  
15  
16  
17 **DIRECT TESTIMONY OF**  
18 **THOMAS J. BOURASSA**  
19 **(COST OF CAPITAL)**

20 **MAY 21, 2009**  
21  
22  
23  
24  
25  
26



TABLE OF CONTENTS

I. INTRODUCTION .....1

II. SUMMARY OF TESTIMONY AND THE PROPOSED COST OF CAPITAL FOR THE COMPANY .....1

III. OVERVIEW OF THE RELATIONSHIP BETWEEN RISK AND THE EXPECTED RETURN ON AN INVESTMENT .....3

IV. THE MEANING OF “JUST AND REASONABLE” RATE OF RETURN .....14

V. THE ESTIMATED COST OF EQUITY FOR RRUI .....15

    A. The Publicly Traded Utilities That Comprise the Sample Group Used to Estimate the Company’s Cost of Equity.....15

    B. Overview of the DCF and CAPM Methodologies.....23

    C. Explanation of the DCF Model and Its Inputs.....24

    D. Explanation of the CAPM and Its Inputs.....31

    E. Financial Risk Adjustment.....36

    F. Company Specific Risk Premium.....37

    G. Summary and Conclusions .....39

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1 **I. INTRODUCTION**

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

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

5 **Q. ARE YOU THE SAME THOMAS J. BOURASSA THAT FILED DIRECT**  
6 **TESTIMONY ON RATE BASE, INCOME STATEMENT, REVENUE**  
7 **REQUIREMENT AND RATE DESIGN IN THIS DOCKET?**

8 A. Yes, and all of my background information and testimony regarding my  
9 qualifications is contained in that portion of my direct testimony.

10 **II. SUMMARY OF TESTIMONY AND THE PROPOSED COST OF CAPITAL**  
11 **FOR THE COMPANY**

12 **Q. WHAT IS THE PURPOSE OF THIS PORTION OF YOUR DIRECT**  
13 **TESTIMONY?**

14 A. This portion of my direct testimony will focus on cost of capital issues. I will  
15 testify in support of Rio Rico Utilities, Inc.'s ("RRUI" or "the Company")  
16 proposed rate of return on its fair value rate base. I am sponsoring the Company's  
17 D Schedules, which are attached to this testimony. As noted above, I am also  
18 sponsoring direct testimony that addresses the Company's rate base, income  
19 statement (revenue and operating expenses), required increase in revenue, and its  
20 rate design and proposed rates and charges for service. For the convenience of the  
21 Commission and the parties, that testimony and my related schedules are being  
22 filed separately in this case.

23 **Q. HAVE YOU PREPARED ANY SCHEDULES AND ATTACHMENTS TO**  
24 **ACCOMPANY YOUR TESTIMONY?**

25 A. Yes. I have prepared 20 schedules that support my testimony and 1 attachment.  
26

1 **Q. PLEASE SUMMARIZE YOUR COST OF CAPITAL TESTIMONY.**

2 A. I determine the Company's cost of equity falls in the range of 10.0 percent to 15.4  
3 percent with the midpoint of the range of 12.4 percent. I am recommending a  
4 return on equity ("ROE") of 12.4 percent. My recommendation is based on (i) cost  
5 of equity estimates using constant growth and multi-stage growth discounted cash  
6 flow ("DCF") models and the capital asset pricing model ("CAPM") for the sample  
7 group of publicly traded utilities, (ii) my review of the economic conditions  
8 expected to prevail during the period in which new rates will be in effect, (iii) my  
9 judgments about the risks associated with small utilities like RRUI not captured by  
10 the market data for publicly traded water utilities used in my study, (iv) the  
11 financial risk associated with the level of debt in RRUI's capital structure, and  
12 (v) additional specific business and operational risks faced by RRUI Company.

13 **Q. PLEASE SUMMARIZE THE APPROACH YOU USED TO ESTIMATE**  
14 **THE COST OF EQUITY FOR THE COMPANY.**

15 A. The cost of equity for RRUI cannot be estimated directly because RRUI's common  
16 stock is not publicly traded and there is no market data for RRUI. Consequently, I  
17 applied the DCF and CAPM models using data from a sample of water utilities  
18 selected from the Value Line Investment Survey. There are six water utilities in  
19 my sample: American States Water, Aqua America, California Water, Connecticut  
20 Water, Middlesex Water, and SJW Corp. As explained later in my testimony, these  
21 companies aren't really comparable to RRUI, but they are water utilities for which  
22 market data are available and because the Arizona Commission's Utilities Division  
23 Staff has relied on data for these water utilities in a number of recent water and  
24 sewer utility rate cases.

25 My DCF analyses indicate ROE's in the range of 11.1 percent to 12.6  
26 percent with a midpoint of 11.9 percent. The CAPM analysis, again using the

1 same sample group, indicates ROE's in the range of 10.1 percent to 19.5 percent is  
2 appropriate with a midpoint of 14.8 percent. Both the DCF and CAPM ranges are  
3 before consideration of company specific risks.

4 My ROE estimates after consideration of company specific risks is in the  
5 range of 10.0 percent to 15.4 percent with a midpoint of 12.4 percent. Given  
6 RRUI's relatively small size compared to the large publicly traded utilities used in  
7 my sample, the regulatory methods and policies used in this jurisdiction, and other  
8 firm-specific factors, it is my opinion that at the present time, a cost of equity of no  
9 less than 12.4 percent is warranted.

10 My recommendation of 12.4 percent balances my judgment about the  
11 degree of financial and business risk associated with an investment in RRUI as  
12 well as consideration of the current economic environment. A summary of my cost  
13 of equity analysis result is shown on Schedule D-4.1.

14 **III. OVERVIEW OF THE RELATIONSHIP BETWEEN RISK AND THE**  
15 **EXPECTED RETURN ON AN INVESTMENT**

16 **Q. HOW IS THE COST OF EQUITY TYPICALLY ANALYZED?**

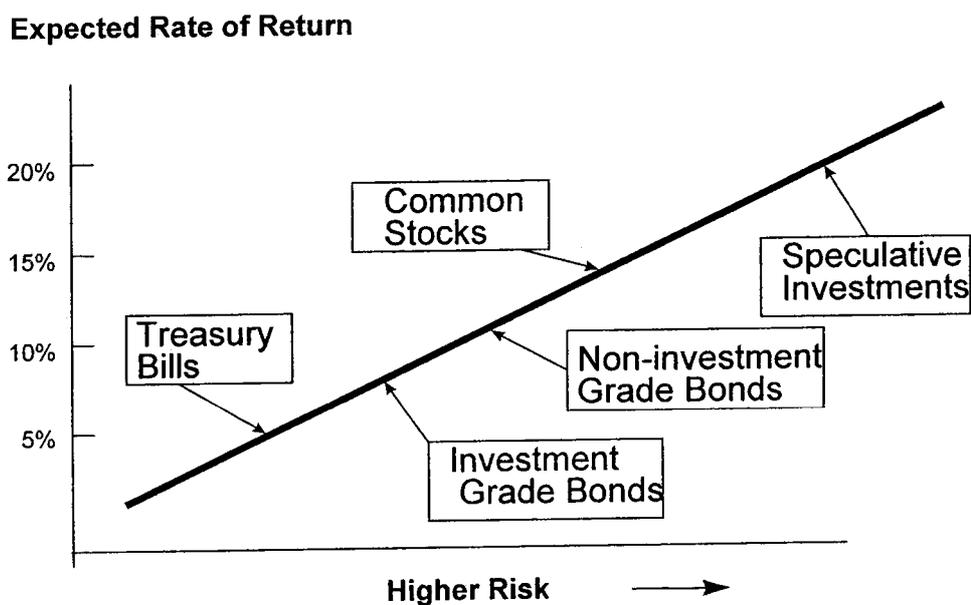
17 A. The cost of equity is the rate of return that equity investors expect to receive on  
18 their investment. Investors can choose to invest in many types of assets, not simply  
19 publicly traded stock. Each investment will have varying degrees of risk, ranging  
20 from relatively low risk assets such as Treasury securities to somewhat higher risk  
21 corporate bonds to even higher risk common stocks. As the level of risk increases,  
22 investors require higher returns on their investment. Finance models that are used  
23 to estimate the cost of equity often rely on this basic concept.

24 **Q. CAN YOU ILLUSTRATE THE CAPITAL MARKET RISK-RETURN**  
25 **CONCEPT?**

26 A. Yes. The following graph depicts the risk-return relationship that has become

1 widely known as the Capital Market Line ("CML"). The CML illustrates in a  
2 general way the risk-return relationship.

## 3 4 The Capital Market Line (CML)



17 The CML can be viewed as a continuum of the available investment opportunities  
18 for investors. Investment risk increases moving upward and to the right along the  
19 CML. Again, the expected return increases with the risk.

20 **Q. HOW DOES THE RISK-RETURN TRADE-OFF CONCEPT WORK IN**  
21 **THE CAPITAL MARKET?**

22 **A.** As already suggested by the CML, the allocation of capital in a free market  
23 economy is based upon the relative risk of, and expected return from, an  
24 investment. In general, investors rank investment opportunities in the order of their  
25 relative risks. Investment alternatives in which the expected return is  
26 commensurate with the perceived risk become viable investment options. If all

1 other factors remain equal, the greater the risk, the higher the rate of return  
2 investors will require to compensate investors for the possibility of loss of either  
3 the principal amount invested or the expected annual income from such investment.

4 Short-term Treasury bills provide a high degree of certainty and in nominal  
5 terms (after considering inflation) are considered virtually risk free. Long-term  
6 bonds and preferred stocks, having priority claims to assets and fixed income  
7 payments, are relatively low risk, but are not risk free. The market values of long-  
8 term bonds often fluctuate when government policies or other factors cause interest  
9 rates to change. Common stocks are higher and to the right on the CML continuum  
10 because they are exposed to more risk. Common stock risk includes the nature of  
11 the underlying business and financial strength of the issuing corporation as well as  
12 market-wide factors, such as general changes in capital costs.

13 The capital markets reflect investor expectations and requirements each day  
14 through market prices. Prices for stocks and bonds change to reflect investor  
15 expectations and the relative attractiveness of one investment versus another.  
16 While the example provided above seems straightforward, returns on common  
17 stocks are not directly observable in advance, in contrast to debt or preferred stocks  
18 with fixed payment terms. This means that these returns must be estimated from  
19 market data. Estimating the cost of equity capital is a matter of informed judgment  
20 about the relative risk of the company in question and the expected rate of return  
21 characteristics of other alternative investments.

22 **Q. HOW IS THE COST OF EQUITY FOR A PARTICULAR UTILITY**  
23 **DETERMINED?**

24 A. The estimation of a utility's cost of equity is complex. It requires an analysis of the  
25 factors influencing the cost of various types of capital, such as interest on long-  
26 term debt, dividends on preferred stock, and earnings on common equity. The data

1 for such an analysis comes from highly competitive capital markets, where the firm  
2 raises funds by issuing common stock, selling bonds, and by borrowing (both long-  
3 and short-term) from banks and other financial institutions. In the capital markets,  
4 the cost of capital, whether the capital is in the form of debt or equity, is  
5 determined by two important factors:

- 6 1) The pure or real rate of interest, often called the risk-free rate of  
7 interest; and,
- 8 2) The uncertainty or risk premium (the compensation the investor  
9 requires over and above the real or pure rate of interest for subjecting  
10 his capital to additional risk).

11 **Q. PLEASE DISCUSS THESE FACTORS IN GREATER DETAIL.**

12 A. The pure rate of interest essentially reflects both the time preference for and the  
13 productivity of capital. From the standpoint of the individual, it is the rate of  
14 interest required to induce the individual to forgo present consumption and offer  
15 the funds thus saved to others for a specified length of time. Moreover, the pure  
16 rate of interest concept is based on the assumption that no uncertainty affects the  
17 investment undertaken by the individual, i.e., there is no doubt that the periodic  
18 interest payments will be made and the principal returned at the end of the time  
19 period. In reality, investments without risk do not exist. Every commitment of  
20 funds involves some degree of uncertainty.

21 Turning to the second factor affecting the cost of capital, it is generally  
22 accepted that the higher the degree of uncertainty, the higher the cost of capital.  
23 Investors are regarded as risk adverse and require that the rate of return increase as  
24 the risk (uncertainty) associated with an investment increase.

1 Q. CAN YOU PROVIDE SOME PERSPECTIVE ON YOUR PREVIOUS  
2 DISCUSSION WITH RESPECT TO RETURNS ON COMMON STOCKS?

3 A. Yes. Conceptually,

4 [1] Required Return for Common Stocks = Return on a risk-free asset + Risk Premium

5  
6 where the risk premium investors require for common stocks will be higher than  
7 the risk premium they require for investment grade bonds. This relationship is  
8 depicted in the graph of the CML above. As I will discuss later in this testimony,  
9 this concept is the basis of risk premium methods, such as the CAPM, that are used  
10 to estimate the cost of equity.

11 Q. WHAT HAS BEEN THE RECENT EXPERIENCE IN THE U.S. CAPITAL  
12 MARKETS?

13 A. In the past 10 years, inflation and capital market costs have generally declined.  
14 Interest rates have been lower than in previous decades. Past inflation, as  
15 measured by the Consumer Price Index, has been at relatively low levels in the past  
16 10 years.

17 The roughly 6 year span of economic expansion after the 2001 recession  
18 began to wane in 2007. Year-over-year Gross Domestic Product ("GDP") growth<sup>1</sup>  
19 for 2004, 2005, and 2006 was 3.6 percent, 2.9 percent, and 2.8 percent,  
20 respectively. GDP growth was, in part, spurred on by low interest rates during this  
21 period. The Federal Reserve, having lowered the target Federal Funds rate to 1.0  
22 percent by the end of 2003, began raising interest rates in 2004 to help keep the  
23 economy from overheating and to help keep inflation in check. By mid-2006, the  
24 Federal Reserve had raised the target Federal Funds rate to 5.25 percent.

25 The economic expansion was broad, taking in the major consumer and

26 <sup>1</sup> GDP percentage change based on current dollars (1930-2008).

1 industrial sectors over its span. However, economic expansion also brought  
2 excesses, particularly in housing, lending practices, and the financial markets.

3 Economic growth slowed in 2007. For 2007, the year-over-year GDP  
4 growth had dropped to 2.0 percent with the last quarter of 2007 at a negative 0.2  
5 percent. The slow economic growth combined with the excesses during the  
6 economic expansion of the previous 6 years has created turmoil in the credit,  
7 financial, and housing markets. This turmoil continues to have a significant drag  
8 on the economy. Federal Reserve Chairman Ben Bernanke noted in Congressional  
9 testimony late last year that financial markets are currently under considerable  
10 stress and that broader retrenchment in the willingness of investors to bear risk,  
11 troubles in the credit markets and a weaker outlook of economic growth have  
12 added to the stresses on economic growth.

13 In order to address the weakening economy, the Federal Reserve, starting in  
14 September 2007, has taken a series of rate cut actions (525 basis points). The  
15 reductions in interest rates by the Federal Open Market Committee ("FMOc")  
16 were taken in order to promote economic growth and to mitigate risks to economic  
17 activity. The target Federal Funds rate stands at zero to .25 percent.

18 GDP growth for the first three quarters of 2008 was 0.9 percent, 2.8 percent,  
19 and a negative 0.5 percent, respectively. The Bureau of Economic Analysis of the  
20 U.S. Department of Commerce recently released its final estimate of 2008 fourth  
21 quarter GDP growth at a negative 6.2 percent. According to a recent Blue Chip  
22 Financial forecast (February 1, 2009), many economists now assume the current  
23 recession will be the longest and deepest recession in Post-World War II history.  
24 The Blue Chip Financial Forecast ("Blue Chip") consensus forecasts (April 1,  
25 2009) of real GDP growth for the first and second quarter of 2009 are expected to  
26 be a negative 5.7 percent and a negative 2.4 percent, respectively. While economic

1 growth is expected to turn positive by second half of 2009, recovery is expected to  
2 be slow as there are risks to the U.S. economy from a far more serious worldwide  
3 recession, the failure of the housing market to stabilize in the year ahead, and  
4 continued weakness in business and consumer spending.

5 **Q. WHAT ABOUT THE STATUS OF THE CREDIT MARKETS?**

6 A. One of the biggest risks to the economy stems from the conditions in the credit  
7 markets. Without increased access and more affordable credit for consumers and  
8 businesses, the prospects for a meaningful economic recovery are dim. The stock  
9 market has had the worst year since 1931 and 1926 and this has produced a  
10 massive safe haven bid for Treasury debt. Recently, the three month Treasury bill  
11 yields dropped to near zero, and yields on the two, five, ten and thirty year yield  
12 treasuries fell to the lowest levels since the Treasury began regular sales of the  
13 securities. More recently, yields on longer dated Treasury yields have begun to  
14 rise better than 50 basis points over their December 2008 levels. Some analysts  
15 attribute the run up in yields to rising jitters among investors about the tidal wave  
16 of Federal debt issued earlier this year and to the expected debt to be issued to fund  
17 the massive \$800 billion "stimulus" package recently enacted by Congress and  
18 signed by the President and to the expected additional billions of dollars above the  
19 already authorized \$750 billion Trouble Asset Repurchase Program ("TARP")  
20 passed last year to address the weaknesses in the credit markets.

21 In short, the current capital markets reflect the uncertainty and low  
22 confidence of investors in the financial markets and in the future prospects of  
23 economic growth and concerns over higher inflation over the next several years.  
24 Naturally, despite relatively low U.S. Treasury yields over the past several years,  
25 the premiums required for investors to hold and buy securities is much higher than  
26 in the recent past due to this uncertainty.

1 **Q. IS THERE A RELATIONSHIP BETWEEN THE COST OF EQUITY AND**  
2 **INTEREST RATES?**

3 A. Yes. All things being equal, the cost of equity moves in the same direction as  
4 interest rates. Lower interest rates on U.S. Treasuries ("risk-free" rate) imply  
5 lower equity returns and visa versa. However, as indicated by Equation 1 above,  
6 the risk premium required to compensate investors also impacts the cost of equity.  
7 Higher risk premiums required by investors imply higher equity costs and visa  
8 versa. Risk premiums are impacted by uncertainty in future interest rates, business  
9 and economic conditions, expected inflation, and other risk factors including  
10 interest rate risk, business risk, regulatory risk, financial risk, construction risk, and  
11 liquidity risk.

12 **Q. EVERYDAY WE SEEM TO HEAR MORE SOUR ECONOMIC NEWS.**  
13 **HOW DOES ALL THIS BAD NEWS IMPACT INVESTORS?**

14 A. It makes investors want to hold on to their money and put it in low risk  
15 investments. The flight to quality and low risk investments as the stock market  
16 began to tumble last year drove treasury yields to very low levels. But, as noted  
17 earlier, the federal government has and is expected to significantly increase its  
18 borrowing in order to "stimulate" the economy and address systemic problems in  
19 the credit markets. This in turn, has resulted in increasing yields on Treasuries as  
20 investors get jittery about the risks of the massive debt load the federal government  
21 is taking on.

22 **Q. IS RRUI AFFECTED BY THESE SAME MARKET UNCERTAINTIES AND**  
23 **CONCERNS?**

24 A. Yes, in general, all investors are impacted by bad economic news, and the  
25 Company's investors are not immune to uncertainty. In the current economic  
26 environment, even large publicly traded companies are feeling the impact.

1 Investment grade bond (Baa) yields rose to over 9 percent towards the end of last  
2 year and are currently at around 8.4 percent (April 16, 2009). Recent yields on  
3 investment grade bonds have been similar to the yields during the 2001 recession.  
4 Utilities are not immune to the higher capital costs of the current economic  
5 environment either. The average beta (a measurement of market risk) for the water  
6 utility sample companies has risen significantly over the past couple of years.  
7 Borrowing costs for utilities have also risen sharply. In November 2008, American  
8 Water Capital Corp., the credit facility for American Water (AWK), issued \$75  
9 million of senior debt at 10%.

10 As discussed above, capital costs have risen significantly over the past year  
11 or so. And, smaller utilities like RRUI generally feel the impact worse because  
12 they are small, with a small customer base and an inability to attract capital.

13 **Q. WHAT ARE THE RECENT DEVELOPMENTS IN THE WATER UTILITY**  
14 **INDUSTRY AFFECTING UTILITY INVESTMENTS AND THE MARKET?**

15 **A.** On the whole, the water utility industry is expected to continue to confront  
16 increasing infrastructure demand. According to the *Value Line Investment Survey*,  
17 many utilities have facilities that are decades old and in need of significant  
18 maintenance and, in some cases, massive renovation and replacement. In addition,  
19 the EPA and state and local regulators continue to impose more stringent  
20 environmental quality and operational standards, such as new maximum  
21 contaminant levels for public drinking water systems. Additional operational  
22 requirements have also been imposed to address the threat of bio-terrorism on U.S.  
23 water systems. As infrastructure costs continue to climb, many smaller companies  
24 are at a serious disadvantage. Without sufficient resources to fund improvements  
25 to meet new and more stringent requirements, many smaller companies are being  
26

1 forced to sell to larger utilities, which have greater operational flexibility and  
2 resources, as well as access to capital.

3 **Q. WOULD YOU PLEASE DISCUSS IN MORE DETAIL THE IMPACT OF**  
4 **RISK ON CAPITAL COSTS?**

5 A. With reference to specific utilities, risk is often discussed as consisting of two  
6 separate types of risk: business risk and financial risk.

7 Business risk, the basic risk associated with any business undertaking, is the  
8 uncertainty associated with the enterprise's day-to-day operations. In essence, it is  
9 a function of the normal day-to-day business environment, both locally and  
10 nationally. Business risks include the condition of the economy and capital  
11 markets, the state of labor markets, regional stability, government regulation,  
12 technological obsolescence, and other similar factors that may impact demand for  
13 the business product and its cost of production. For utilities, business risk also  
14 includes the volatility of revenues due to abnormal weather conditions, degree of  
15 operational leverage, regulation, and regulatory climate. Regulation, for example,  
16 can compound the business risk if it is unpredictable in reacting to cost increases  
17 both in terms of the time lag and magnitude. Regulatory lag makes it difficult to  
18 earn a reasonable return particularly in an inflationary environment and/or when  
19 there is significant lag between the timing of investment in capital projects and its  
20 recognition in rates. Put simply, the greater the degree of uncertainty regarding the  
21 various factors affecting a company's business, the greater the risk of an  
22 investment in a company and the greater the compensation required by the  
23 investor.

24 Financial risk, on the other hand, concerns the distribution of business risk  
25 to the various capital investors in the utility. As I discussed earlier, permanent  
26 capital is normally divided into three categories: long-term debt, preferred stock,

1 and common equity. Because common equity owners have only a residual claim  
2 on earnings after debt and preferred stockholders are paid, financial risk tends to be  
3 concentrated in that element of the firm's capital. Thus, a decision by management  
4 to raise additional capital by issuing additional debt concentrates even more of the  
5 financial risk of the utility in the common equity owners.

6 An important component of financial risk is construction risk. Construction  
7 risk refers to the magnitude of a company's capital budget. If a company has a  
8 large construction budget relative to internally generated cash flows it will require  
9 external financing. It is important that companies have access to capital funds on  
10 reasonable terms and conditions. Utilities are more susceptible to construction risk  
11 for two reasons. First, utilities generally have high capital requirements to build  
12 plant to serve customers. Second, utilities have a mandated obligation to serve  
13 leaving less flexibility both in the timing and discretion of scheduling capital  
14 projects. This is compounded by the limited ability to wait for more favorable  
15 market conditions to raise the capital necessary to fund the capital projects.

16 Although often discussed separately, the two types of risks (business and  
17 financial) are interrelated. Specifically, a common equity investor may seek to  
18 offset exposure to high financial risk by investing in a firm perceived to have a low  
19 degree of business risk. In other words, the total risk to an investor would be high  
20 if the enterprise was characterized as a high business risk with a large portion of its  
21 permanent capital financed with senior debt. To attract capital under these  
22 circumstances, the firm would have to offer higher rates of return to its common  
23 equity investors.

1 **IV. THE MEANING OF "JUST AND REASONABLE" RATE OF RETURN**

2 **Q. HAVE THE COURTS SET FORTH ANY CRITERIA THAT GOVERN THE**  
3 **RATE OF RETURN THAT A UTILITY'S RATES SHOULD PRODUCE?**

4 A. Yes. The U.S. Supreme Court set forth the following criteria for determining  
5 whether a rate of return is reasonable in *Bluefield Water Works and Improvement*  
6 *Co. v. Public Service Commission of West Virginia*, 262 U.S. 679, 692-93 (1923):

7 A public utility is entitled to such rates as will permit it to earn a  
8 return on the value of the property which it employs for the  
9 convenience of the public equal to that generally being made at the  
10 same time and in the same general part of the country on investments  
11 on other business undertaking which are attended by corresponding  
12 risks and uncertainties .... The return should be reasonably sufficient  
13 to assure confidence in the financial soundness of the utility and  
14 should be adequate, under efficient and economical management to  
15 maintain and support its credit and enable it to raise money necessary  
16 for the proper discharge of its public duties. A rate of return may be  
17 reasonable at one time and become too high or too low by changes  
18 affecting opportunities for investment, the money market, and  
19 business conditions generally.

20 In summary, under *Bluefield Water Works*:

- 21 (1) The rate of return should be similar to the return in businesses with  
22 similar or comparable risks;
- 23 (2) The return should be sufficient to ensure the confidence in the  
24 financial integrity of the utility; and
- 25 (3) The return should be sufficient to maintain and support the utility's  
26 credit.

27 **Q. HOW HAVE THESE CRITERIA BEEN APPLIED IN REGULATORY**  
28 **PROCEEDINGS?**

29 A. Yes, but the application of the "reasonableness" criteria laid down by the Supreme  
30 Court has resulted in controversy. The typical method of computing the overall  
31 cost of capital is quite straightforward: it is the composite, weighted cost of the  
32 various classes of capital (debt, preferred stock, and common equity), used by the

1 utility. The weighting is done by calculating the proportion that each class of  
2 capital bears to total capital. However, there is no consensus regarding the best  
3 method of estimating the cost of equity capital. The increasing regulatory  
4 emphasis on objectivity in determining the rate of return has resulted in a  
5 proliferation of market-based finance models that are used in equity return  
6 determination. As will be discussed more fully below, however, none of these  
7 models are universally accepted as the "correct" means of estimating the ROE.

8 **V. THE ESTIMATED COST OF EQUITY FOR RRUI**

9 **A. The Publicly Traded Utilities That Comprise the Sample Group Used to**  
10 **Estimate the Company's Cost of Equity.**

11 **Q. PLEASE BRIEFLY DESCRIBE THE APPROACH YOU FOLLOWED IN**  
12 **YOUR COST OF CAPITAL ANALYSIS FOR RRUI.**

13 A. As I have stated, estimating the cost of equity is a matter of informed judgment.  
14 The development of an appropriate rate of return for a regulated enterprise involves  
15 a determination of the level of risk associated with that enterprise and the  
16 determination of an appropriate return for that risk level. Practitioners employ  
17 various techniques that provide a link to actual capital market data and assist in  
18 defining the various relationships that underlie the equity cost estimation process.

19 Since RRUI is not publicly traded, the information required to directly  
20 estimate RRUI's cost of equity is not available. Accordingly, I used a sample  
21 group of water utilities as a starting point to develop an appropriate cost of equity  
22 for RRUI. There are six water utilities included in the sample group: American  
23 States Water, Aqua America, California Water, Connecticut Water, Middlesex  
24 Water, and SJW Corp. All these companies are followed by the *Value Line*  
25 *Investment Survey*.

26

1 **Q. ARE THE WATER UTILITIES IN YOUR SAMPLE DIRECTLY**  
2 **COMPARABLE TO RRUI?**

3 A. No, but they are utilities for which market data is available. All of them are  
4 regulated, they primarily provide water service, although some provide both water  
5 and wastewater services, and their primary source of revenues is from regulated  
6 services. Therefore, they provide a useful starting point for developing a cost of  
7 equity for RRUI. I emphasized "starting point" because RRUI is not publicly  
8 traded. Additionally, there is no market data available for smaller utilities, like  
9 RRUI, that can be used to develop cost of equity estimates.

10 **Q. DOES THE MARKET DATA PROVIDED BY THE WATER UTILITY**  
11 **SAMPLE CAPTURE ALL OF THE MARKET RISKS THAT RRUI MIGHT**  
12 **FACE IF IT WERE PUBLICLY TRADED?**

13 A. In my opinion, no. As I stated, there is no comparable market data for utility  
14 companies the size of RRUI. The average revenue of the water utility sample  
15 companies is over 78 times that of RRUI, and the average net plant of the water  
16 utility sample companies is 29 times that of RRUI. Even the smallest company in  
17 the sample group, Connecticut Water, has over 8 times the net plant of RRUI, and  
18 nearly 16.5 times the revenues.

19 **Q. PLEASE PROVIDE A GENERAL DESCRIPTION OF THE WATER**  
20 **UTILITIES IN YOUR SAMPLE.**

21 A. Schedule D-4.2 lists the operating revenues and net plant for the six water utilities  
22 as reported by AUS Utility Reports (formerly C.A. Turner Utility Reports) and  
23 RRUI. In addition, below is a general description of each of the companies:

- 24 (1) American States Water (AWR) primarily serves the California  
25 market through Golden State Water Company, which provides water  
26 services to over 254,000 customers within 75 communities in 10

1 counties in the State of California, primarily in Los Angeles, San  
2 Bernardino, and Orange counties. It has one subsidiary serving the  
3 Arizona market with approximately 13,000 customers in Fountain  
4 Hills and Scottsdale. AWR also owns an electric utility service  
5 provider with over 23,000 customers, but approximately 91 percent  
6 of its revenues were derived from commercial and residential water  
7 customers. Revenues for American States were \$318.7 million in  
8 2008 and net plant nearly \$724 million at the end of 2008.

9 (2) Aqua America (WTR) owns regulated utilities in Pennsylvania,  
10 Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana,  
11 Virginia, Maine, Missouri, New York, and South Carolina, serving  
12 over 945,000 customers at the end of 2008. WTR's utility base is  
13 diversified among residential water, commercial water, fire  
14 protection, industrial water, other water, and wastewater customers.  
15 Total revenues for WTR were nearly \$627 million in 2008 and net  
16 plant was nearly \$2.58 billion at the end of 2008.

17 (3) California Water Service Group (CWT) owns subsidiaries in  
18 California, New Mexico, Washington, and Hawaii serving over  
19 180,000 customers. The California operations account for over 95  
20 percent of customers and over 96 percent of operating revenues.  
21 Revenues for CWT were over \$410 million in 2008 and net plant  
22 nearly \$1 billion at the end of 2008.

23 (4) Connecticut Water Services (CTWS) owns subsidiaries in  
24 Connecticut and Massachusetts serving over 87,000 customers.  
25 Revenues for CTWS were over \$61 million in 2008 and net plant  
26 over \$250 million at the end of 2008.

1 (5) Middlesex Water (MSEX) owns subsidiaries in New Jersey and  
2 Delaware serving over 105,000 customers and provides water service  
3 under contract to municipalities in central New Jersey to a population  
4 of over 267,000. Revenues for MSEX were over \$91 million in 2008  
5 and net plant was over \$312 million at the end of 2008.

6 (6) SJW Corp. (SJW) owns San Jose Water, which provides water  
7 service in a 138 square mile area in San Jose, California, and  
8 surrounding communities. Revenues for SJW were over \$220  
9 million in 2008 and net plant was over \$492 million at the end of  
10 2008.

11 **Q. HOW DOES RRUI COMPARE TO THE SAMPLE WATER UTILITIES?**

12 A. It is smaller. At the end of the test year, RRUI had approximately 6,000 customers  
13 (4,000 water only customers and 2,000 water and wastewater customers). Its  
14 revenues totaled under \$3.8 million, and its water and wastewater net plant-in-  
15 service was approximately \$30.6 million. RRUI is located in the Santa Clarita  
16 valley and has a relatively small service territory compared to the sample water  
17 companies.

18 **Q. ARE THERE ANY OTHER CHARACTERISTICS WHICH DISTINGUISH**  
19 **RRUI FROM THE SAMPLE WATER UTILITIES?**

20 A. Yes. RRUI has 2-3 times as much zero cost capital (advances-in-aid of  
21 construction and contributions-in-aid of construction) in its capitalization<sup>2</sup> as do the  
22 sample water utilities. This is not surprising as smaller utilities, having less access  
23 to debt and equity capital, fund more of their utility plant with developer funds.  
24 All things being equal, rates are lower as a result. While this is a benefit to

25 \_\_\_\_\_  
26 <sup>2</sup> Total capitalization equals debt plus equity plus advances-in-aid of construction plus  
contributions-in-aid of construction. This is the capital funding the utility's plant-in-service.

1 ratepayers, a high proportion of zero cost capital increases risk to RRUI and its  
2 stockholders. RRUI has an obligation to refund advances, and like debt  
3 obligations, refund payments take priority on cash flows over distributions to  
4 shareholders or utilizing cash to cover operating expenses or internally fund capital  
5 improvements. And while advanced plant receives depreciation recovery in rates  
6 providing cash flows to make refunds, contributed plant does not and neither type  
7 of zero cost capital plant contributes to earnings. Ultimately, however, both types  
8 of zero cost capital have detrimental impacts on the long-term cash flows of the  
9 Company. Advanced plant and contributed plant still has to be maintained and  
10 eventually has to be replaced. This places additional stress on earnings and  
11 increases risk to the Company as the eventual plant replacements will require the  
12 Company to raise additional capital to fund the replacements.

13 **Q. ARE THERE OTHER FACTORS OF SMALLER UTILITIES, LIKE RRUI,**  
14 **WHICH INCREASE RISK?**

15 A. Yes. Because smaller utilities, like RRUI, are not publicly traded they have less  
16 financial flexibility which in turn increases risk. The Company does not have  
17 access to the public equity markets and this lack of financial flexibility increases  
18 risk because it has no choice but to rely on retained earnings, short-term debt, and  
19 privately placed bonds to provide capital for plant improvements and additions  
20 necessary to ensure safe and reliable water service to its customers. Further, the  
21 Company does not have a market to issue common stock to the public to raise  
22 capital.

23 Water utilities are capital intensive and typically have large construction  
24 budgets. RRUI's construction budget for the next three years is over \$4.2 million.  
25 As discussed on page 14 of my testimony, firms with large capital budgets face  
26 construction risk (a form of financial risk). The size of a utility's capital budget

1 relative to the size of the utility itself often increases construction risk. Larger  
2 utilities may be able to fund large capital budgets from earnings and short-term  
3 borrowings. For smaller utilities, like RRUI, the ability to fund relatively large  
4 capital budgets from earnings and short-term debt is difficult to obtain, requiring  
5 that additional capital be raised. However, the ability to raise additional capital is  
6 in and of itself challenging and compounded by a limited ability to access capital,  
7 an obligation to serve, and a limited ability to wait for more favorable market  
8 conditions to raise the capital necessary to fund necessary capital projects.

9 **Q. WHAT OTHER RISK FACTORS DISTINGUISH RRUI FROM THE**  
10 **LARGER SAMPLE WATER UTILITIES?**

11 A. There are a number of state specific factors that increase the risk to Arizona water  
12 and wastewater utilities.

13 First, the regulatory environment in which RRUI operates is much different  
14 than that of the sample water utilities. Arizona water and wastewater utilities face  
15 legal constraints that limit their ability to obtain rate relief outside of a general rate  
16 case in which the "fair value" of the utility's property is determined and used to set  
17 rates. The Arizona Constitution, as interpreted in court decisions, limits the ability  
18 of Arizona utilities to utilize adjustment mechanisms, advice letter filings and other  
19 streamlined procedures to obtain recovery of costs outside a general rate case, in  
20 contrast to many other jurisdictions.

21 Second, the Commission requires the use of an historic test year with  
22 limitations on the amount of out-of-period adjustments. This process creates  
23 another state-specific factor that increases risk and thus required ROEs for utilities  
24 in Arizona. In fact, three out of the six sample water companies operate primarily  
25 in California – American States, California Water and SJW Corp. California uses  
26 future test years to help better match plant investment and revenues and expenses

1 going forward - the period in which rates will be in effect. California also allows  
2 the use of balancing accounts on major operating expenses like purchased power  
3 and purchased water to help utilities recover expenses that are beyond their control.  
4 A fourth utility in the sample group, Aqua America, has regulatory mechanisms  
5 available to it to help lessen risk. In six states in which Aqua America operates  
6 water utilities, and two states in which Aqua America operates wastewater utilities,  
7 regulatory bodies permit it to add a surcharge to water or wastewater bills to offset  
8 the additional depreciation and capital costs associated with certain capital  
9 expenditures related to replacing and rehabilitating infrastructure systems. Aqua  
10 America also operates in jurisdictions in which it may bill utility customers in  
11 accordance with a rate filing that is pending before the respective regulatory  
12 commission as well as jurisdictions that authorize the use of expense deferrals and  
13 amortization in order to provide for an impact on its operating income by an  
14 amount that approximates the requested amount in a rate request. In addition,  
15 certain states in which Aqua America operates use a surcharge or credit on bills to  
16 reflect changes in certain costs, such as changes in state tax rates, other taxes and  
17 purchased water, until such time as the costs are incorporated into base rates.

18 **Q. IT DOESN'T APPEAR THAT RRUI IS ACTUALLY COMPARABLE TO**  
19 **THE SAMPLE WATER UTILITIES.**

20 **A.** It really isn't, for the reasons I have stated. Constraints on the rate making process  
21 in Arizona make it difficult to obtain approval of rates that allow Arizona water  
22 and wastewater utilities to recover the costs of service it will actually incur during  
23 the period when new rates are put in place, which can be several years beyond the  
24 test year. Risks are higher for RRUI and the required return on equity should be  
25 above the level required by water utilities that operate in states that do not have  
26 such limitations imposed, either by law or by agency policy, on the rate-setting

1 system. Unfortunately, as I testified, the approaches commonly used to estimate a  
2 utility's cost of equity require market data, which is not available for smaller  
3 companies and utilities operating exclusively in Arizona, like RRUI. As a result,  
4 much larger, public companies must be used as proxies.

5 But the emphasis on proxy is very important. The criteria established by the  
6 Supreme Court in decisions such as *Bluefield Water Works* require the use of  
7 comparable companies, i.e., companies that would be viewed by investors as  
8 having similar risks. A rational investor would not regard RRUI as having the  
9 same level of risk as Aqua America or even Connecticut Water. Consequently, the  
10 results produced by the DCF and CAPM methodologies, utilizing data for the  
11 sample utilities, often understates the appropriate return on equity for a regulated  
12 water utility provider.

13 **Q. YOU PREVIOUSLY DISCUSSED FINANCIAL RISK, WHICH IS**  
14 **RELATED TO A FIRM'S CAPITAL STRUCTURE. HOW DO THE**  
15 **CAPITAL STRUCTURES OF THE SAMPLE WATER UTILITIES**  
16 **COMPARE TO RRUI?**

17 A. Schedule D-4.3 shows that the capital structure of RRUI at December 31, 2008  
18 contains 0 percent debt and 100 percent equity, compared to the average of the  
19 water utility sample of 46.9 percent debt and 53.1 percent equity.

20 **Q. IS THERE A RELATIONSHIP BETWEEN A UTILITY'S CAPITAL**  
21 **STRUCTURE AND ITS COST OF CAPITAL?**

22 A. Yes. Generally, when a firm engages in debt financing, it exposes itself to greater  
23 risk. Once debt becomes significant relative to the total capital structure, the risk  
24 increases in a geometric fashion compared to the linear percentage increase in the  
25 debt ratio itself. This risk is illustrated by considering the effect of leverage on net  
26 earnings. For example, as leverage increases, the equity ratio falls. This creates

1 two adverse effects on the investor. First, equity earnings decline rapidly and may  
2 even disappear. Second, the "cushion" of equity protection for debt falls. A  
3 decline in the protection afforded debt holders, or the possibility of a serious  
4 decline in debt protection, will act to increase the cost of debt financing.  
5 Therefore, one may conclude that each new financing, whether through debt or  
6 equity, impacts the marginal cost of future financing by any alternative method.  
7 For a firm already perceived as being over-leveraged, this additional borrowing  
8 would cause the marginal cost of both equity and debt to increase. On the other  
9 hand, if the same firm instead employed equity funding, this could actually reduce  
10 the real marginal cost of additional borrowing, even if the particular equity  
11 issuance occurred at a higher unit cost than an equivalent amount of debt.

12 Having less debt in its capital structure implies that RRUI has less financial  
13 risk than the water utility sample, which may offset the other factors that make  
14 RRUI more risky than the sample group. However, smaller utilities cannot support  
15 the same level of debt as larger utilities and smaller utilities tend to have less debt  
16 in their capital structures as a result. Smaller utilities face higher business and  
17 operational risk as compared to larger utilities which magnify the financial risk of  
18 higher debt levels in their capital structures.

19 **B. Overview of the DCF and CAPM Methodologies**

20 **Q. PLEASE EXPLAIN THE GENERAL APPROACHES TO ESTIMATING**  
21 **THE COST OF CAPITAL.**

22 **A.** There two broad approaches:

- 23 1) identify comparable-risk sample companies and estimate the cost of  
24 capital directly, and,
- 25 2) find the location of the CML and estimate the relative risk of the  
26 company that jointly determines the cost of capital.

1           The DCF model is an example of a method falling into the first general  
2 approach. It is a direct method, but uses only a subset of the total capital market  
3 evidence. The DCF model rests on the premise that the fundamental value of an  
4 asset (stock) is its ability to generate future cash flows to the owner of that asset  
5 (stock). I will explain the DCF model in more detail later. For now, the DCF is  
6 simply the sum of a stock's expected dividend yield and the expected long-term  
7 growth rate. Dividend yields are readily available, but long-term growth estimates  
8 are more difficult to obtain.

9           The CAPM is an example of a method falling into the second general  
10 approach. It uses information on all securities rather than a small subset. I will  
11 explain the CAPM in more detail later. For now, the CAPM is a risk-return  
12 relationship, often depicted graphically as the CML. The CAPM is the sum of a  
13 risk-free return and a risk premium.

14           Each of these two methods has their own way of measuring investor  
15 expectations. In the final analysis, ROE estimates are subjective and should be  
16 based on sound, informed judgment rationally articulated and supported by  
17 competent evidence. I have applied several versions of the DCF, and two versions  
18 of the CAPM to "bracket" the fair cost of equity capital for RRUI, but without  
19 taking into account the additional risks that RRUI possesses.

20           **C. Explanation of the DCF Model and Its Inputs**

21           **Q. PLEASE EXPLAIN THE DCF METHOD OF ESTIMATING THE COST OF**  
22           **EQUITY.**

23           **A.** The DCF model is based on the concept that the current price of a share of stock is  
24 equal to the present value of future cash flows from the purchase of the stock. In  
25 other words, the DCF model is an attempt to replicate the market valuation process  
26 that sets the price investors are willing to pay for a share of a company's stock. It

1 rests on the assumption that investors rely on the expected returns (i.e., cash flow  
2 they expect to receive) to set the price of a security. The DCF model in its most  
3 general form is:

$$4 \quad [2] \quad P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \dots + CF_n/(1+k)^n$$

5 where k is the cost of equity; n is a very large number; P<sub>0</sub> is the current stock price;  
6 and, CF<sub>1</sub>, CF<sub>2</sub>,...CF<sub>n</sub> are all the expected future cash flows expected to be received  
7 in periods 1, 2, ... n.

8 Equation (2) can be written to show that the current price (P<sub>0</sub>) is also equal  
9 to

$$10 \quad [3] \quad P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \dots + P_t/(1+k)^t$$

11 where P<sub>t</sub> is the price expected to be received at the end of the period t. If the future  
12 price (P<sub>t</sub>) included a premium (an expected increase in the stock price or capital  
13 gain), the price the investor would pay today in anticipation of receiving that  
14 premium would increase. In other words, by estimating the cash flows from the  
15 purchase of a stock in the form of dividends and capital gains, we can calculate the  
16 investor's required rate of return, i.e., the rate of return an investor presumptively  
17 used in bidding the current price to the stock (P<sub>0</sub>) to its current level.

18 Equation [3] is a Market Price version of the DCF model. As with the  
19 general form of the DCF model in equation [2], in the Market Price approach the  
20 current stock price (P<sub>0</sub>) is the present value of the expected cash inflows. The cash  
21 flows are comprised of dividends and the final selling price of the stock. The  
22 estimated cost of equity (k) is the rate of return investors expect if they bought the  
23 stock at today's price, held the stock and received dividends through the transition  
24 period, and then sold it for price (P<sub>t</sub>).

1 **Q. CAN YOU PROVIDE AN EXAMPLE TO ILLUSTRATE THE MARKET**  
2 **PRICE VERSION OF THE DCF MODEL?**

3 A. Yes. Assume an investor buys a share of common stock for \$40. If the expected  
4 dividend during the coming year is \$2.00, then the expected dividend yield is 5  
5 percent ( $\$2.00/\$40 = 5.0$  percent). If the stock price is also expected to increase to  
6 \$43.00 after one year, this \$3.00 expected gain adds an additional 7.5 percent to the  
7 expected total rate of return ( $\$3.00/\$40 = 7.5$  percent). Thus, the investor buying  
8 the stock at \$40 per share, expects a total return of 12.5 percent (5 percent dividend  
9 yield plus 7.5 percent price appreciation). The total return of 12.5 percent is the  
10 appropriate measure of the cost of capital because this is the rate of return that  
11 caused the investor to commit \$40 of his capital by purchasing the stock.

12 **Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE DCF**  
13 **MODEL.**

14 A. Under the assumption that future cash flows are expected to grow at a constant rate  
15 (“g”), equation [2] can be solved for k and rearranged into the simple form:

16 [4]  $k = CF_1/P_0 + g$

17 where  $CF_1/P_0$  is the expected dividend yield and g is the expected long term  
18 dividend (price) growth rate (“g”). The expected dividend yield is computed as the  
19 ratio of next period’s expected dividend (“ $CF_1$ ”) divided by the current stock price  
20 (“ $P_0$ ”). This form of the DCF model is known as the constant growth DCF model  
21 and recognizes that investors expect to receive a portion of their total return in the  
22 form of current dividends and the remainder through future dividends and capital  
23 (price) appreciation. A key assumption of this form of the model is that investors  
24 expect that same rate of return (k) every year and that market price grows at the  
25 same rate as dividends. This has not been historically true for the water utility  
26 sample, as shown by the data in Schedule D-4.4 and Schedule D.4.5. As a result,

1 estimates of long-term growth rates (g) should take this into account.

2 **Q. ARE THERE ANY GENERAL CONCERNS ABOUT APPLYING THE DCF**  
3 **MODEL TO UTILITY STOCKS?**

4 A. There are a number of reasons why caution must be used when applying the DCF  
5 model to utility stocks. First, the stock price and dividend yield component may be  
6 unduly influenced by structural changes in the industry, such as mergers and  
7 acquisitions, which influence investor expectations. Second, the DCF model is  
8 based on a number of assumptions which may not be realistic given the current  
9 capital market environment. The traditional DCF model assumes that the stock  
10 price, book value, dividends, and earnings all grow at the same rate. This has not  
11 been historically true for the sample water utility companies. Third, the application  
12 of the DCF model produces estimates of the cost of equity that are consistent with  
13 investor expectations only when the market price of a stock and the stock's book  
14 value are approximately the same. The DCF model will understate the cost of  
15 equity when the market-to-book ratio exceeds 1.0 and conversely will overstate the  
16 cost of equity when the market-to-book ratio is less than 1.0. The reason for this is  
17 that the market-derived return produced by the DCF is often applied to book value  
18 rate base by regulators. Fourth, the assumption of a constant growth rate may be  
19 unrealistic, and there may be difficulty in finding an adequate proxy for the growth  
20 rate. Historical growth rates can be downward based as a result of the impact of  
21 anemic historical growth rates in earnings, mergers and acquisitions, restructuring,  
22 unfavorable regulatory decisions, and even abnormal weather patterns. Further, by  
23 placing too much emphasis on the past, the estimation of future growth becomes  
24 circular.

1 Q. LET'S TURN TO THE SPECIFIC INPUTS USED IN YOUR DCF MODELS.  
2 WHAT DATA HAVE YOU USED TO COMPUTE THE EXPECTED  
3 DIVIDEND YIELD ( $CF_1/P_0$ ) IN YOUR MODELS?

4 A. First, I computed a current dividend yield ( $CF_0/P_0$ ). The expected dividend yield  
5 ( $CF_1/P_0$ ) is the current dividend yield ( $CF_0/P_0$ ) times one plus the growth rate ( $g$ ). I  
6 used the spot price for each of the stocks of the water utilities in the sample group  
7 as reported by the Value Line Investment Analyzer for April 16, 2009 for  $P_0$ . The  
8 current dividend ( $CF_0$ ) is the dividend for the next year as reported by Value Line.  
9 In my schedules, the current dividend yield is denoted as ( $D_0/P_0$ ), where  $D_0$  is the  
10 current dividend and  $P_0$  is the spot stock price. ( $D_1/P_0$ ) is used to denote the  
11 expected dividend yield in the schedules.

12 Q. WHAT MEASURES OF GROWTH ("g") HAVE YOU USED?

13 A. For my primary DCF growth estimate, I have used analyst growth forecasts, where  
14 available, from four different, widely-followed sources: *Zack's Investment*  
15 *Research*, *Morningstar*, *Yahoo Finance*<sup>3</sup>, and *Value Line Investment Survey*.  
16 Schedule D-4.6 reflects the analyst estimates of growth. The currently available  
17 estimates from these four sources provide at least two estimates for each of the  
18 sample water utility companies with the exception of Connecticut Water.  
19 Connecticut Water's single estimate of 15 percent from Yahoo Finance was  
20 excluded leaving no estimates for Connecticut Water. When there is no estimate of  
21 forward-looking growth for a utility in the water utilities sample, as in the case of  
22 Connecticut Water, I have assumed investors expect the growth for that utility to  
23 equal the average of growth rates for the other water utilities in the sample.  
24  
25

26 <sup>3</sup> Yahoo Finance analyst estimates provided by Thompson Financial.

1 **Q. WHY DID YOU USE FORECASTED GROWTH RATES AS YOUR**  
2 **PRIMARY ESTIMATE OF GROWTH?**

3 A. The DCF model requires estimates of growth that investors expect in the future and  
4 not past estimates of growth that have already occurred. Accordingly, I use as a  
5 primary estimate of growth analysts' forecasts of growth. Logically, in estimating  
6 future growth, financial institutions and analysts have taken into account all  
7 relevant historical information on a company as well as other more recent  
8 information.<sup>4</sup> To the extent that past results provide useful indications of future  
9 growth prospects, analysts' forecasts would already incorporate that information.  
10 In addition, a stock's current price reflects known historic information on that  
11 company, including its past earnings history. Any further recognition of the past  
12 will double count what has already occurred. Therefore, forward-looking growth  
13 rates should be used.

14 **Q. WHAT OTHER ESTIMATES OF GROWTH DID YOU USE?**

15 A. I used the 5-year historical average growth rates in the stock price, book value per  
16 share ("BVPS"), earnings per share ("EPS") and dividends per share ("DPS")  
17 along with the average of analyst expectations. Using the historical average of  
18 price, BVPS, EPS, and EPS is reasonable because investors know that, in  
19 equilibrium, common stock prices, BVPS, EPS and DPS will all grow at the same  
20 rate and would take information about changes in stock prices and growth in BVPS  
21 into account when they price utilities' stocks. As I stated earlier, a basic  
22 assumption of the DCF model is that the stock price, BVPS, EPS and DPS all grow

23  
24 <sup>4</sup> David A. Gordon, Myron J. Gordon and Lawrence I. Gould, "Choice Among Methods of Estimating Share Yield,"  
25 *Journal of Portfolio Management* (Spring 1989) 50-55. Gordon, Gordon and Gould found that a consensus of  
26 analysts' forecasts of earnings per share growth for the next five years provides a more accurate estimate of growth  
required in the DCF model than three different historical measures of growth (historical EPS, historical DPS, and  
historical retention growth). They explain that this result makes sense because analysts would take into account such  
past growth as indicators of future growth as well as any new information.

1 at the same rate. While I believe this growth rate gives further recognition to the  
2 past that is already incorporated into analyst estimates of growth, I have been  
3 criticized by Staff in the past for not giving direct consideration to past growth  
4 rates in my estimate of growth.

5 **Q. WHAT OTHER CONCERNS DO YOU HAVE ON THE USE OF**  
6 **HISTORICAL DPS GROWTH IN YOUR DCF ESTIMATE OF GROWTH?**

7 A. Although I have used historical DPS growth in my estimate, I believe the use of  
8 historical DPS growth depresses the growth rate. Attachment 1 shows the constant  
9 growth DCF results using historical DPS growth. The result is 7.05 percent, well  
10 below the current cost of investment grade bonds at 8.4 percent and is even below  
11 the cost of Baa/BBB utility bonds at 7.5 percent. It is important to keep in mind  
12 that there is a great deal of empirical evidence demonstrating that, on average,  
13 stocks are riskier than bonds and achieve higher returns. Morningstar, for example,  
14 annually publishes a comprehensive study of historical returns on both.<sup>5</sup>

15 Putting aside the potential distortions to the result produced by the DCF  
16 model caused by structural changes to the industry and abnormal weather  
17 conditions, it does not make sense to employ growth rates that result in indicated  
18 equity returns less than the cost of debt, especially when those results fly in the  
19 face of a large body of empirical evidence. Investors would not bid up the price of  
20 a utility stock if the expected return is equivalent to returns on bonds and other debt  
21 investments. As the CML depicted previously illustrates, common stocks are  
22 higher and to the right of investment grade bonds on the CML continuum because  
23 they are riskier investments. Again, the empirical evidence supports this  
24 conclusion. The results using historical DPS growth are unreasonable.

25  
26 <sup>5</sup> Morningstar, *Ibbotson SBBi 2009 Valuation Yearbook*.

1           **D.    Explanation of the CAPM and Its Inputs**

2   **Q.    PLEASE EXPLAIN THE CAPM METHODOLOGY FOR ESTIMATING**  
3   **THE COST OF EQUITY.**

4   A.    As I already indicated, the CAPM is a type of risk premium methodology that is  
5   often depicted graphically in a form identical to the CML. Put simply, the CAPM  
6   formula is the sum of a risk-free rate plus a risk premium. It quantifies the  
7   additional return required by investors for bearing incremental risk. The risk-free  
8   rate is the reward for postponing consumption by investing in the market. The risk  
9   premium is the additional return compensation for assuming risk.

10           The CAPM formula provides a formal risk-return relationship premised on  
11   the idea that only market risk matters, as measure by beta. The CAPM formula is:

12           (7)  $k = R_f + \beta(R_m - R_f)$

13   where k is the expected return,  $R_f$  is the risk-free rate,  $R_m$  is the market return, ( $R_f -$   
14    $R_m$ ) is the market risk premium, and  $\beta$  is beta.

15           The difficulty with the CAPM is that it is a prospective or forward-looking  
16   model while most of the capital market data required to match the input variables  
17   above is historical.

18   **Q.    WHAT IS THE RISK-FREE RATE?**

19   A.    It is the return on an investment with no risk. The U.S. Treasury rate serves as the  
20   basis for the risk-free rate because the yields are directly observable in the market  
21   and are backed by the U.S. government. Practically speaking, short-term rates are  
22   volatile, fluctuate widely and are subject to more random disturbances than long-  
23   term rates. In short, long-term Treasury rates are preferred for these reasons and  
24   because long-term rates are more appropriately matched to securities with an  
25   indefinite life or long-term investment horizon.

26

1 **Q. WHAT IS BETA AND WHAT DOES IT MEASURE?**

2 A. Beta is a measure of the relative risk of a security and the market. In other words,  
3 it is a measure of the sensitivity of a security to the market as a whole. This  
4 sensitivity is also known as systematic risk. It is estimated by regressing a  
5 security's excess returns against a market portfolio's excess returns. The slope of  
6 the regression line is the beta.

7 Beta for the market is 1.0. A security with a beta greater than 1.0 is  
8 considered riskier than the market. A security with a beta less than 1.0 is  
9 considered less risky than the market.

10 There are computational problems surrounding beta. It depends on the  
11 return data, the time period used, its duration, the choice of the market index, and  
12 whether annual, monthly, or weekly return figures are used. Betas are estimated  
13 with error. Based on empirical evidence, high betas will tend to have a positive  
14 error (risk is overestimated) and low betas will have a negative error (risk is  
15 underestimated).<sup>6</sup>

16 **Q. WHAT DID YOU USE AS THE PROXY OF THE BETA FOR RRUI?**

17 A. I used the average beta of the sample water utility companies. Betas were obtained  
18 from *Value Line Investment Analyzer* (April 16, 2009). *Value Line* is the source for  
19 estimated betas that I regularly employ along with Arizona Commission Staff and  
20 is widely accepted by financial analysts. The average beta as shown on Schedule  
21 D-4.13 is 0.84. I should note that because RRUI is not publicly traded, RRUI has  
22 no beta. I believe that RRUI, if it were publicly traded, would have a higher beta  
23 than the sample water utility companies.

24  
25  
26 <sup>6</sup> Eugene F. Fama and Kenneth R. French, "The Capital Asset Pricing Model: Theory and Evidence," *Journal of Economic Perspectives* (Summer 2004) 25-46.

1 **Q. WHY?**

2 A. Smaller companies are more risky than larger companies. In Chapter 7 of  
3 Morningstar's *Ibbotson SBBI 2009 Valuation Yearbook*, for example, Ibbotson  
4 reports that when betas are properly estimated, betas are larger for small companies  
5 than for larger companies. As I will explain later, Ibbotson also finds that even  
6 after accounting for differences in beta risk, small firms require an additional risk  
7 premium over and above the added risk premium indicated by differences in beta  
8 risk.

9 **Q. PLEASE EXPLAIN THE MARKET RISK PREMIUM?**

10 A. The market-risk premium ( $R_m - R_f$ ) is the return an investor expects to receive as  
11 compensation for market risk. It is the expected market return minus the risk-free  
12 rate. Approaches for estimating the market risk premium can be historical or  
13 prospective.

14 Since expected returns are not directly observable, historical realized returns  
15 are often used as a proxy for expected returns on the basis that the historical market  
16 risk premium follows what is known in statistics as a "random walk." If the  
17 historical risk premium does follow the random walk, then one should expect the  
18 risk premium to remain at its historical mean. Based on this argument, the best  
19 estimate of the future market risk premium is the historical mean. Morningstar's  
20 *SBBI Valuation Edition 2008 Yearbook* provides historical market returns for  
21 various asset classes from 1926 to 2008. This publication also provides market risk  
22 premiums over U.S. Treasury bonds, which make it an excellent source for  
23 historical market risk premiums.

24 Prospective market risk premium estimation approaches necessarily require  
25 examining the returns expected from common equities and bonds. One method  
26 employs applying the DCF model to a representative market index such as the

1 Value Line 1700 stocks (the *Value Line* Composite Index). The expected return  
2 from the DCF is measured for a number of periods of time, and then subtracted  
3 from the prevailing risk-free rate for each period to arrive at market risk premium  
4 for each period. The market risk premium subsequently employed in the CAPM is  
5 the average market risk premium of the overall period.

6 **Q. HOW MANY MARKET RISK PREMIUM ESTIMATES DID YOU**  
7 **PREPARE IN CONNECTION WITH YOUR ASSIGNMENT FOR RRUI?**

8 A. I prepared two market risk premium estimates: An historical market risk premium  
9 and a current market risk premium.

10 **Q. HOW DID YOU ESTIMATE THE HISTORICAL MARKET RISK**  
11 **PREMIUM?**

12 A. I used the Morningstar's *Ibbotson SBBI 2009 Valuation Yearbook* measure of the  
13 average premium of the market over long-term treasury securities from 1926  
14 through 2008. The average historical market risk premium over long-term treasury  
15 securities is 6.5 percent.

16 **Q. HOW DID YOU ESTIMATE THE CURRENT MARKET RISK PREMIUM?**

17 A. I derived a market risk premium by, first, using the DCF model to compute an  
18 expected market return for each of the past 24 months using *Value Line's*  
19 projections of the average dividend yield and average price appreciation (growth)  
20 on the *Value Line* 1700 Composite Index. I then subtracted the average 30-year  
21 Treasury yield for each month from the expected market returns to arrive at the  
22 expected market risk premiums. Finally, I averaged the computed market risk  
23 premiums to determine the current market risk premium. The data and  
24 computations are shown on Schedule D-4.11. The average current market risk  
25 premium is 17.74 percent. Estimates of the current market risk premium have  
26 increased significantly over the past 6-12 months. In fact, the 6 and 12 month

1 average of the market risk premium is 33.91 and 25.17, respectively. My 24 month  
2 estimate is more conservative at 17.74 percent. The increase in the market risk is  
3 not surprising given the financial markets and economic conditions of the past 12  
4 months and the continued uncertainty expected in the capital markets in the future.

5 **Q. HAS THE COMMISSION STAFF EMPLOYED A CURRENT MARKET**  
6 **RISK PREMIUM IN THE PAST?**

7 A. Yes. However, Staff's estimation of the current market risk premium is somewhat  
8 different. Staff uses a DCF model to compute the current market risk premium as I  
9 do. However, Staff uses the median annualized projected 3-5 year price  
10 appreciation on the *Value Line* 1700 stocks in conjunction the median dividend  
11 yield on the *Value Line* 1700 stocks. Based on data from April 16, 2009, including  
12 the current yield on 30 year U.S. Treasury bonds, the current market risk premium  
13 under Staff's method would be approximately 18.8 percent. Arguably, my method  
14 is more conservative at 17.7 percent.

15 **Q. WHAT DO YOU ADOPT AS THE RETURN FOR THE RISK-FREE RATE?**

16 A. I use long-term Treasury bond rates as the measure of the risk-free return for use  
17 with both CAPM and cost of equity estimates. Morningstar's *Ibbotson SBB* 2009  
18 *Valuation Yearbook* explains on page 47 that the appropriate choice for the risk-  
19 free rate is a return that is no less than the expected return for long-term Treasury  
20 securities. Thus, when determining an estimate of the risk-free rate, it is  
21 appropriate to adopt a return that is no less than the expected return on the long-  
22 term Treasury bond rate. Both of my CAPM estimates are based on a projected  
23 estimate of the long-term treasury rates for 2010-2011 of 4.60% as shown on  
24 Schedule D-4.10. The 2010-2011 timeframe is the period when new rates will be  
25 put in place for the Company.  
26

1           **E.    Financial Risk Adjustment**

2   **Q.    PLEASE EXPLAIN YOUR FINANCIAL RISK ADJUSTMENT TO**  
3       **REFLECT RRUI'S LOWER LEVEL OF DEBT IN ITS CAPITAL**  
4       **STRUCTURE AS COMPARED TO THE SAMPLE WATER UTILITIES?**

5   **A.**   My financial risk estimation is based upon the methodology developed by  
6       Professor Hamada of the University of Chicago, which incorporates the beta of a  
7       levered firm to that of its unlevered counterpart. The equation is

8                   
$$\beta_L = \beta_U[1 + (1 - T)\phi]$$

9       where  $\beta_L$  and  $\beta_U$  are the levered and unlevered betas, respectively, T is the tax rate,  
10      and  $\phi$  the leverage, defined as the ratio of debt and equity of the firm. In simple  
11      terms, I unlever the average beta of the six publicly traded water utilities in my  
12      sample using a ratio of the market value of debt and the market value of equity.  
13      While I can compute the market value of equity of the sample water utilities based  
14      on the current number of shares outstanding and the current stock price, estimating  
15      the market value of debt is much more difficult. For purposes of my analysis, I  
16      assume the market value of debt is the book value. This is a reasonable assumption  
17      and is conservative. Once the unlevered beta is determined, I relever the beta using  
18      the capital structure of RRUI. For the market value of equity I multiplied RRUI's  
19      book value of equity times the average market-to-book ratio of the sample water  
20      utilities. For RRUI's debt, I assume the market value of debt is equal to the book  
21      value.

22           The relevered beta is then used in my CAPM models, and the new CAPM  
23      results are compared to my original CAPM results. The computed difference is the  
24      basis of my financial risk adjustment. My computation of the financial risk  
25      adjustment can be found in tables D-4.13, D-4.14, and D-4.15.

26

1 **Q. WHAT IS THE COMPUTED FINANCIAL RISK ADJUSTMENT?**

2 A. A downward adjustment of 140 basis points. However, in my opinion, the beta for  
3 RRUI would be higher than that of the sample water utilities which would have  
4 resulted in a lower financial risk adjustment.

5 **Q. DO YOU HAVE ANY CONCERNS ABOUT THE HAMADA METHOD?**

6 A. Yes. In order to use this method, I have made the assumption that the average beta  
7 of the sample water utilities is the beta for RRUI. Since RRUI is a much smaller  
8 firm than the sample water utilities, I would expect the beta to be higher.  
9 Consequently, the financial risk adjustment is likely overstated.

10 **F. Company Specific Risk Premium**

11 **Q. PLEASE DISCUSS YOUR COMPANY SPECIFIC RISK PREMIUM.**

12 A. As I testified earlier, RRUI is not directly comparable to the sample water utilities  
13 because of its small size and the regulatory environment in Arizona. The  
14 characteristics such as small size, lack of diversification, limited revenue and cash  
15 flow, small customer base, lack of liquidity, as well as the magnitudes of regulatory  
16 and construction risk are common to smaller water utilities regardless of the  
17 regulatory jurisdiction. These characteristics and magnitudes of risk are unique  
18 only in the sense that the large publicly traded water utilities (including the  
19 companies in the proxy group) do not possess these same characteristics and  
20 magnitudes of risk. With respect to Arizona regulation, the use of historical test  
21 year with limited out of period adjustments and the lack of adjuster mechanism  
22 increases to the risk of RRUI.

23 **Q. PLEASE DISCUSS SIZE RISK FOR SMALL UTILITY COMPANIES.**

24 A. Investment risk increases as the firm size decreases, all else remaining constant.  
25 There is a great deal of empirical evidence that firm size phenomenon exists.  
26 Morningstar's *Ibbotson SBBI 2009 Valuation Yearbook* (Chapter 7) reports that

1 smaller companies have experienced higher returns that are not fully explainable  
2 by their higher betas and that beta is inversely related to company size. In other  
3 words, smaller companies not only have higher betas but higher returns than larger  
4 ones. Even after accounting for differences in beta risk, small companies require  
5 an additional risk premium over and above the added risk premium indicated by  
6 differences in beta risk. Dr. Zepp also reported evidence that the stocks of small  
7 water utilities, like RRUI, are more risky than the stocks of larger water utilities,  
8 such as those in the water utilities sample.<sup>7</sup> Even the California PUC conducted a  
9 study that showed smaller water utilities are more risky than larger ones.<sup>8</sup> Based on  
10 the evidence it is clear that investors require higher returns on small company  
11 stocks than on large company stocks.

12 I have included in Schedule D-4.16 the results of an *Ibbotson* study using  
13 annual data reporting the size premium based upon firm size and return data  
14 provided in Morningstar *Ibbotson SBBI 2009 Valuation Yearbook* and information  
15 contained in a published work by Dr. Thomas M. Zepp. I have estimated that a  
16 small company risk premium in the range of 99 to 181 basis points is appropriate.

17 **Q. WHAT COMPANY SPECIFIC RISK PREMIUM DO YOU RECOMMEND**  
18 **FOR RRUI?**

19 A. To be conservative, I conclude that a company specific risk premium of no less  
20 than 50 basis points is warranted for RRUI to account for its smaller size and  
21 regulatory risk.

22  
23  
24 <sup>7</sup> Thomas M. Zepp, "Utility Stocks and the Size Effect – Revisited", *The Quarterly Review*  
25 *Economics and Finance*, Vol. 43, Issue 3, Autumn 2003, 578-582.

26 <sup>8</sup> Staff Report on Issues Related to Small Water Utilities, June 10, 1991 and CPUC Decision 92-  
03-093.

1           **G.    Summary and Conclusions**

2   **Q.    HAVE YOU PREPARED A SCHEDULE WHICH SUMMARIZES YOUR**  
3   **EQUITY    COST    ESTIMATES    AND    PRESENTS    YOUR**  
4   **RECOMMENDATIONS?**

5   **A.**    Yes.    The equity cost estimates and my recommendations are summarized in  
6    Schedule D-4.1.

7            In the first part of my analysis, I applied two versions of the constant growth  
8    DCF model.    One uses analyst estimates of growth and the other uses historical  
9    growth and analyst expectations.    *See Schedules D-4.8.*    The DCF models produce  
10   an indicated equity cost in the range of 11.1 percent to 12.6 percent, with a  
11   midpoint of 11.9 percent.

12           In the second part of my analysis, I applied two versions of the CAPM – a  
13   historical risk premium CAPM and a current market risk premium CAPM.    The  
14   CAPM analyses appear in Schedule D-4.12 and produce an indicated cost of equity  
15   in the range of 10.1 percent to 19.5 percent, with a midpoint of 14.8 percent.

16           In the third part of my analysis, I compute a financial risk adjustment to  
17   account for the lower level of debt in RRUI's capital structure compared to the  
18   sample water utilities.    My recommendation is that a downward financial risk  
19   adjustment of no more than 140 basis points be applied to RRUI's cost of equity.  
20   My financial risk adjustment analysis is shown in schedules D-4.13, D-4.14, and  
21   D-4.15.

22           In the fourth part of my analysis, I reviewed the financial literature on the  
23   small firm size effect and determined that an appropriate small company size  
24   premium for small utilities like RRUI is in the range of 99 to 181 basis points.    *See*  
25   Schedule D-4.16.    I also considered the risks for RRUI from Arizona regulation.  
26   My recommendation is that an upward adjustment for company specific risk of no

1 less than 50 basis points be applied to RRUI's cost of equity.

2 The range of results of both my DCF and CAPM analyses and other risk  
3 adjustments is 9.7 percent to 15.4 percent, with a mid-point of 12.4 percent. See  
4 Schedule D-4.1.

5 **Q. WHAT EQUITY RETURN DO YOU RECOMMEND?**

6 A. My recommended return on equity based on RRUI's capital structure is 12.4. It is  
7 the mid-point of the range of my over-all results and reflects the application of my  
8 expertise and informed judgment to reach a recommendation that I felt I could  
9 defend in this proceeding.

10 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY ON COST OF**  
11 **CAPITAL?**

12 A. Yes.

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5  
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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

DOCKET NO: WS-02676A-09-\_\_\_\_\_

14  
15  
16 **DIRECT TESTIMONY OF**

17 **THOMAS J. BOURASSA**

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19 **SCHEDULES**

20  
21 **D**  
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Rio Rico Utilities, Inc.  
 Test Year Ended December 31, 2008  
 Summary of Cost of Capital

Exhibit  
 Schedule D-1  
 Page 1  
 Witness: Bourassa

Line No.	Item of Capital	End of Test Year			End of Projected Year					
		Dollar Amount	Percent of Total	Cost Rate	Weighted Cost	Dollar Amount	Percent of Total	Cost Rate	Weighted Cost	
1	Long-Term Debt	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	0.00%	
2	Stockholder's Equity	12,132,312	100.00%	12.40%	12.40%	12,568,306	100.00%	12.40%	12.40%	
3	Totals	\$ 12,132,312	100.00%	12.40%	12.40%	\$ 12,568,306	100.00%	12.40%	12.40%	
4	<u>Adjustments to equity</u>									
5	Accum. depreciation adjustments (Water and Wastewater)			\$ (2,013,481)						
6	CIAC adjustments (Water and Wastewater)			\$ (387,774)						
7	Deferred Income Tax Adjustments (Water and Wastewater)			\$ 1,101,805						

SUPPORTING SCHEDULES:

- D-1
- D-3
- D-4
- E-1

RECAP SCHEDULES:  
 A-3



Rio Rico Utilities, Inc.  
Test Year Ended December 31, 2008  
Cost of Preferred Stock

Exhibit  
Schedule D-3  
Page 1  
Witness: Bourassa

Line No.	Description of Issue	<u>End of Test Year</u>			<u>End of Projected Year</u>		
		Shares Outstanding	Amount	Dividend Requirement	Shares Outstanding	Amount	Dividend Requirement
1							
2							
3	NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING						
4							
5							
6							
7							
8							
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16							
17	<u>SUPPORTING SCHEDULES:</u>				<u>RECAP SCHEDULES:</u>		
18	E-1				D-1		
19							
20							

Rio Rico Utilities, Inc.  
Test Year Ended December 31, 2008  
Cost of Common Equity

Exhibit  
Schedule D-4  
Page 1  
Witness: Bourassa

Line  
No.

1  
2 The Company is proposing a cost of common equity of 12.40% .  
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4  
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SUPPORTING SCHEDULES:

E-1  
D-4.1 to D-4.16

RECAP SCHEDULES:

D-1

Rico Rio Utilities, Inc.  
Summary of Results

Exhibit  
Schedule D-4.1

Line No.	Method	Low	High	Midpoint
1				
2				
3				
4				
5				
6	Range DCF Constant Growth Estimates <sup>1</sup>	11.1%	12.6%	11.9%
7				
8	Range of CAPM Estimates <sup>2</sup>	10.1%	19.5%	14.8%
9				
10				
11	Average of DCF and CAPM midpoint estimates	10.6%	16.0%	13.3%
12				
13				
14	Financial Risk Adjustment <sup>3</sup>	-1.4%	-1.4%	-1.4%
15				
16	Specific Company Risk Premium <sup>4</sup>	0.5%	0.5%	0.5%
17				
18	Indicated Cost of Equity	9.7%	15.1%	12.4%
19				
20				
21				
22	Recommended Cost of Equity			12.4%
23				
24				
25				
26				
27				
28				
29				

<sup>1</sup> See Schedule D-4.8

<sup>2</sup> See Schedule D-4.12

<sup>3</sup> See Schedule D-4.17

<sup>4</sup> See testimony.

Rico Rio Utilities, Inc.  
 Selected Characteristics of Sample Group of Water Utilities

Exhibit  
 Schedule D-4.2

Line No.	Company <sup>1</sup>	% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating
1	1. American States	78%	\$ 318.7	\$ 723.7	A	A2
2	2. Aqua America	98%	\$ 627.0	\$ 2,577.7	AA-	NR
3	3. California Water	98%	\$ 410.3	\$ 994.8	NR	NR
4	4. Connecticut Water	93%	\$ 61.3	\$ 249.8	AAA	NR
5	5. Middlesex	89%	\$ 91.0	\$ 312.4	NR	NR
6	6. SJW Corp.	95%	\$ 220.3	\$ 492.1	NR	NR
11	Average	92%	\$ 288.1	\$ 891.8		
13	Rico Rio Utilities, Inc. (as of December 31, 2008)	50%	\$ 3.7	\$ 30.4	NR	NR

<sup>1</sup>AUS Utility Reports (April 2009).

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Rico Rio Utilities, Inc.  
Capital Structures

Exhibit  
Schedule D-4.3

No.	Company	Book Value <sup>1</sup>		Market Value <sup>1</sup>	
		Long-Term Debt	Common Equity	Long-Term Debt	Common Equity
1	1. American States	46.2%	53.8%	31.6%	68.4%
2	2. Aqua America	54.1%	45.9%	32.8%	67.2%
3	3. California Water	41.7%	58.3%	27.6%	72.4%
4	4. Connecticut Water	47.0%	53.0%	35.0%	65.0%
5	5. Middlesex	46.2%	53.8%	38.3%	61.7%
6	6. SJW Corp.	46.0%	54.0%	32.7%	67.3%
7	Average	46.9%	53.1%	33.0%	67.0%
8	Rico Rio Utilities, Inc. (as of December 31, 2008)	0.0%	100.0%	N/A	N/A

<sup>1</sup> Value Line Analyzer Data (April 16, 2009)

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28

**Rico Rio Utilities, Inc.**  
**Comparisons of Past and Future Estimates of Growth**

**Exhibit**  
**Schedule D-4.4**

Line No.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	<b>Five-year historical average annual changes</b>						
	Company	Price <sup>1</sup>	Book Value <sup>2</sup>	EPS <sup>2</sup>	DPS <sup>2</sup>	Average <sup>3</sup> Col 1-3	Average Future Growth <sup>4</sup> Col 5-6
1	1. American States	7.34%	4.87%	15.71%	2.90%	7.71%	7.79%
2	2. Aqua America	4.58%	7.27%	5.21%	8.29%	6.34%	7.29%
3	3. California Water	11.74%	5.67%	12.22%	0.88%	7.63%	7.57%
4	4. Connecticut Water	0.19%	3.07%	0.45%	1.18%	1.22%	5.04%
5	5. Middlesex	Negative	5.76%	8.16%	1.51%	5.14%	6.57%
6	6. SJW Corp.	12.50%	8.16%	4.37%	6.02%	7.76%	10.19%
7							
8							
9							
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12							
13							
14							
15							
16	GROUP AVERAGE	7.27%	5.80%	7.69%	3.46%	5.97%	8.85%
17	GROUP MEDIAN	7.34%	5.72%	6.69%	2.20%	6.98%	8.13%
18							
19							
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28							
29							

<sup>1</sup> Average of changes in year-end stock prices ending in 2008. Data from Yahoo Finance website.

<sup>2</sup> Data derived from Value Line Investment Survey and/or 10K Reports for period 2004 to 2008.

<sup>3</sup> Average excludes historical DPS growth rate for reasons stated in testimony at page 31.

<sup>4</sup> See Schedule D-4.6.



Rico Rio Utilities, Inc. Exhibit  
 Analysts Forecasts of Earnings Per Share Growth Schedule D-4.6

Line No.	[1]	[2]	[3]	[4]	[5]
	<b>ESTIMATES OF EARNINGS GROWTH</b>				
	<u>Zacks</u> <sup>1</sup>	<u>Morningstar</u> <sup>1</sup>	<u>Yahoo</u> <sup>1</sup>	<u>Value Line</u> <sup>1</sup>	Average Growth (G) (Cols 1-4) <sup>2</sup>
1. American States	11.00%	7.00%	4.00%	9.50%	7.88%
2. Aqua America	8.00%	7.50%	7.50%	10.00%	8.25%
3. California Water	8.00%	6.70%	6.33%	9.00%	7.51%
4. Connecticut Water					8.85%
5. Middlesex	8.00%		8.00%	8.00%	8.00%
6. SJW Corp.	13.00%	15.00%	10.00%	12.50%	12.63%
					8.85%
					8.13%

<sup>1</sup> Data as of April 16, 2009

<sup>2</sup> Where no data available, average of other utilities assumed to estimate for utility.

Rico Rio Utilities, Inc.  
 Current Dividend Yields for Water Utility Sample Group

Exhibit  
 Schedule D-4.7

Line No.	Company	Current Stock Price (P <sub>0</sub> ) <sup>1</sup>	Current Dividend (D <sub>0</sub> ) <sup>1</sup>	Current Dividend Yield (D <sub>0</sub> /P <sub>0</sub> ) <sup>1</sup>	Average Annual Dividend Yield (D <sub>0</sub> /P <sub>0</sub> ) <sup>1,2</sup>
1	American States	\$ 33.40	\$ 1.00	2.99%	2.86%
2	Aqua America	\$ 18.88	\$ 0.51	2.70%	2.80%
3	California Water	\$ 36.46	\$ 1.17	3.21%	3.12%
4	Connecticut Water	\$ 20.17	\$ 0.88	4.36%	3.58%
5	Middlesex	\$ 14.21	\$ 0.70	4.93%	3.99%
6	SJW Corp.	\$ 24.53	\$ 0.65	2.65%	2.27%
13	Average			3.47%	3.10%
14	Median			3.10%	2.99%

<sup>1</sup> Value Line Analyzer Data. Stock prices as of April 16, 2009.

<sup>2</sup> Average Annual Dividend is dividends declared per share for a year divided by the average annual price of the stock in the same year, expressed as a percentage. For comparison purposes only.

Rico Rio Utilities, Inc.  
 Discounted Cash Flow Analysis  
 DCF Constant Growth

Exhibit  
 Schedule D-4.8

Line No.	[1] Average Spot Dividend Yield $(D_0/P_0)^1$	[2] Expected Dividend Yield $(D_1/P_0)^2$	[3] Growth (g)	[4] Indicated Cost of Equity $k = \text{Div Yld} + g$ (Cols 2+3)
8	3.47%	3.73%	7.41% <sup>3</sup>	11.1%
10	3.47%	3.78%	8.85% <sup>4</sup>	12.6%
11				11.9%

<sup>1</sup> Spot Dividend Yield =  $D_0/P_0$ . See Schedule D-4.7.

<sup>2</sup> Expected Dividend Yield =  $D_1/P_0 = D_0/P_0 * (1+g)$ .

<sup>3</sup> Growth rate (g). Average of Past and Future Growth. See Schedule D-4.4, column 7

<sup>4</sup> Growth rate (g). Average of Analyst Estimates Future Growth. See Schedule D-4.6.

Rico Rio Utilities, Inc.  
Market Betas

Exhibit  
Schedule D-4.9

Line No.	Company	Beta (B) <sup>1</sup>
1	American States	0.85
2	Aqua America	0.75
3	California Water	0.85
4	Connecticut Water	0.80
5	Middlesex	0.80
6	SJW Corp.	1.00
7		
8		
9	Average	0.84
10		
11		
12		
13		

<sup>1</sup> Value Line Investment Analyzer data (April 16, 2009)

Note: Beta is a relative measure of the historical sensitivity of a stock's price to overall fluctuations in the New York Stock Exchange Composite Index. A Beta of 1.50 indicates a stock tends to rise (or fall) 50% more than the New York Stock Exchange Composite Index. The "Beta coefficient" is derived from a regression analysis of the relationship between weekly percentage changes in the price of a stock and weekly percentage changes in the NYSE Index over a period of five years. In the case of shorter price histories, a smaller time period is used, but two years is the minimum. The Betas are adjusted for their long-term tendency to converge toward 1.00.

**Rico Rio Utilities, Inc.**  
**Forecasts of Long-Term Interest Rates**  
**2010-2011**

**Exhibit**  
**Schedule D-4.10**

Line No.	Description	<u>2010</u>	<u>2011</u>	<u>Average</u>
1				
2				
3				
4				
5				
6	Blue Chip Consensus Forecasts <sup>1</sup>	4.7%	5.1%	4.9%
7				
8	Value Line <sup>2</sup>	3.7%	4.8%	4.3%
9				
10	Average			4.6%
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				

<sup>1</sup> December 2008 Blue Chip Financial Forecasts consensus forecast of 30 Year U.S. Treasury

<sup>2</sup> Value Line Quarterly forecast, dated February 20, 2009 20 year U.S Treasury

Exhibit  
Schedule D-4.11

Rico Rio Utilities, Inc.  
Computation of Current Market Risk Premium

Line No.	Dividend Yield (D <sub>t</sub> /P <sub>t</sub> ) <sup>1</sup>	Expected Dividend Yield (D <sub>t</sub> /P <sub>t</sub> ) <sup>2</sup>	Growth (g) <sup>3</sup>	Expected Market Return (k)	Monthly Average 30 Year Treasury Rate <sup>4</sup>	Market Risk Premium (MRP)
1						
2						
3	Month					
4	Aug 2006	2.20%	2.20%	13.89%	5.00%	8.89%
5	Sept	2.20%	2.20%	13.54%	4.85%	8.69%
6	Oct	2.15%	2.15%	11.90%	4.85%	7.05%
7	Nov	2.10%	2.10%	11.82%	4.69%	7.13%
8	Dec 2006	2.09%	2.09%	11.50%	4.68%	6.82%
9	Jan 2007	2.05%	2.05%	11.62%	4.85%	6.77%
10	Feb	2.10%	2.10%	12.57%	4.82%	7.75%
11	March	2.10%	2.10%	12.17%	4.72%	7.45%
12	April	2.09%	2.09%	11.38%	4.87%	6.51%
13	May	2.08%	2.08%	11.23%	4.90%	6.33%
14	Jun	2.17%	2.17%	11.88%	5.20%	6.68%
15	Jul	2.27%	2.27%	13.18%	5.11%	8.07%
16	Aug	2.37%	2.37%	14.29%	4.93%	9.36%
17	Sept	2.31%	2.31%	13.47%	4.79%	8.68%
18	Oct	2.45%	2.45%	14.35%	4.77%	9.58%
19	Nov	2.60%	2.60%	16.01%	4.52%	11.49%
4	Dec 2007	2.61%	2.61%	16.12%	4.52%	11.60%
5	Jan 2008	2.67%	2.67%	17.86%	4.33%	13.53%
4	Feb	2.74%	2.74%	19.66%	4.52%	15.14%
5	Mar	2.85%	3.35%	20.99%	4.39%	16.60%
6	April	2.69%	3.11%	18.84%	4.44%	14.40%
7	May	2.73%	3.15%	18.66%	4.60%	14.06%
8	Jun	3.13%	3.71%	22.22%	4.69%	17.53%
9	Jul	3.15%	3.74%	22.35%	4.57%	17.78%
10	Aug	3.06%	3.59%	20.67%	4.50%	16.17%
11	Sept	3.07%	3.66%	22.96%	4.27%	18.69%
12	Oct	4.31%	5.63%	36.16%	4.17%	31.99%
13	Nov	4.97%	6.71%	41.73%	4.00%	37.73%
14	Dec 2008	4.44%	5.76%	35.02%	4.00%	32.51%
15	Jan 2009	4.86%	6.32%	36.34%	2.87%	33.21%
16	Feb	5.50%	7.43%	42.56%	3.13%	38.97%
17	Mar	4.21%	5.36%	32.69%	3.59%	29.05%
18					3.84%	
19	Recent 24 Mon Avg	3.14%	3.68%	22.12%	4.39%	17.74%
23						
24	Short-term Trends					
25	Recent Twelve Months Avg	3.84%	4.85%	29.21%	4.04%	25.17%
26	Recent Nine Months Avg	4.17%	5.35%	32.31%	3.86%	28.45%
27	Recent Six Months Avg	4.72%	6.20%	37.48%	3.57%	33.91%
28	Recent Three Months Avg	4.86%	6.37%	37.20%	3.45%	33.74%
29						
30						

<sup>1</sup> Average Current Dividend Yield (D<sub>t</sub>/P<sub>t</sub>) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

<sup>2</sup> Expected Dividend Yield (D<sub>t</sub>/P<sub>t</sub>) equals average current dividend yield (D<sub>t</sub>/P<sub>t</sub>) times one plus growth rate(g).

<sup>3</sup> Average 3-5 year price appreciation (annualized). Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

<sup>4</sup> Monthly average 30 year U.S. Treasury. Federal Reserve.

Rico Rio Utilities, Inc.  
 Capital Asset Pricing Model (CAPM)

Exhibit  
 Schedule D-4.12

Line No.	Rf <sup>1</sup>	+	beta <sup>3</sup>	x	Rp	=	k
1							
2							
3	Historical Market Risk Premium CAPM	+	0.84	x	6.5%	=	10.1%
4							
5	Current Market Risk Premium CAPM	+	0.84	x	17.7%	=	19.5%
6							
7	Average						14.8%
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							

<sup>1</sup> Forecasts of long-term treasury yields. See Schedule D-4.10.

<sup>2</sup> Value Line Investment Analyzer data. See Schedule D.4.9.

<sup>3</sup> Historical Market Risk Premium from (Rp) MorningStar SBBi 2009 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2008

<sup>4</sup> Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.11.

Rico Rio Utilities, Inc.  
 Financial Risk Computation

Exhibit  
 Schedule D-4.13

Line No.									
1	<u>CAPM</u>								
2		Rf	+	β	x	(Rp)	=	k	
3	Historical Market Risk Premium	4.6%	1	0.84	2	6.5%	3	10.1%	
4	Current Market Risk Premium	4.6%	1	0.84	2	17.7%	4	19.5%	
5									
6	Average							14.8%	
7									
8									
9	<u>CAPM Relevered Beta</u>								
10		Rf	+	β	x	(Rp)	=	k	
11	Historical Market Risk Premium	4.6%	1	0.72	5	6.5%	3	9.3%	
12	Current Market Risk Premium	4.6%	1	0.72	5	17.7%	4	17.4%	
13									
14	Average							13.4%	
15									
16	Financial Risk Adjustment							<u>-1.4%</u>	
17									

<sup>1</sup> Forecast of long-term treasury yields. See Table 15.

<sup>2</sup> Value Line Investment Analyzer data. See Table 13.

<sup>3</sup> Historical Market Risk Premium from (Rp) MorningStar S&P 500 2009 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2008

<sup>4</sup> Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Table 14.

<sup>5</sup> Relevered beta found on Table 19.

Rico Rio Utilities, Inc.  
Financial Risk Computation  
Unlevered Beta

Exhibit  
Schedule D-4.14

Line No.	Company	VL Beta $\beta_1$	Raw Beta $\beta_{Raw}$ <sup>2</sup>	Tax Rate $t^3$	MV Debt $\frac{D^4}{E^4}$	MV Equity $\frac{E^4}{E^4}$	Unlevered Raw Beta $\beta_{UL}^5$
1	American States	0.85	0.78	37.8%	31.6%	68.4%	0.61
2	Aqua America	0.75	0.63	39.7%	32.8%	67.2%	0.49
3	California Water	0.85	0.78	37.7%	27.6%	72.4%	0.63
4	Connecticut Water	0.80	0.70	27.2%	35.0%	65.0%	0.50
5	Middlesex	0.80	0.70	33.2%	38.3%	61.7%	0.49
6	SJW Corp.	1.00	1.00	38.1%	32.7%	67.3%	0.77
11							
12							
13	Sample Water Utilities	0.84	0.77	35.6%	33.0%	67.0%	0.58
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
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30							

<sup>1</sup> Value Line Investment Analyzer data. See Table 13.  
<sup>2</sup> Value Line uses the historical data of the stock, but assumes that a security's beta moves toward the market average over time. The formula is as follows:  
Adjusted beta = .33 + (.67) \* Raw beta  
<sup>3</sup> Raw Beta = (VL beta - .33)/(.67)  
<sup>4</sup> Effective tax rates for year ended December 31, 2008.  
<sup>5</sup> See Table 3.  
<sup>6</sup> Raw  $B_u = \text{Raw } B_u / (1 + (1-t)D/E)$

Rico Rio Utilities, Inc.  
Financial Risk Computation  
Relevered Beta

Line No.	Unlevered Raw Beta $\beta_{UL}^1$	MV Book Debt $BD^2$	MV Equity Capital $EC^2$	Tax Rate $t^3$	Relevered Raw Beta $\beta_{RL} = \beta_{UL} (1 + (1-t)BD/EC)$	Adjusted Relevered Beta $\beta_{RL}$
5	0.58	0.0%	100.0%	38.90%	0.58	0.72
13	1 Unlevered Beta from Table 18.					
14	2 Capital Structure of Company (As of December 31, 2008).					
16		BV (in Millions)	MV (in Millions)	%		
17	Long-term Debt	\$ -	\$ -	0.0%		
18	Preferred Stock	-	-	0.0%		
19	Common Stock	12,132	22,112	100.0%		
20	Total Capital	\$ 12,132	\$ 22,112	100.0%		
22	(a) Current market-to-book ratio of sample water utilities. See work papers.					
24	3 Current Tax rate based on test year ending 2008. See Schedule D-1.					

(a) Current market-to-book ratio of sample water utilities. See work papers.

3 Current Tax rate based on test year ending 2008. See Schedule D-1.

Rico Rio Utilities, Inc.  
Size Premium<sup>1</sup>

Exhibit  
Schedule D-4.16

Line No.	Beta(β)	Size Premium	Risk Premium for Small Water Utilities <sup>7</sup>
1			
2			
3			
4			
5			
6	1.12	0.90%	
7			
8	1.25	1.56%	
9			
10	1.50	2.83%	
11			
12	1.62	4.43%	1.81%
13			
14			
15			
16			
17			
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Estimated Risk Premium for small water utilities<sup>6</sup>

0.99%

<sup>1</sup> Data from Table 7-11 of Morningstar, *Ibbotson S&P 500 2009 Valuation Yearbook*.

<sup>2</sup> Mid-Cap companies includes companies with market capitalization between \$1,850 million and \$7,360 million.

<sup>3</sup> Low-Cap companies includes companies with market capitalization between \$454 million and \$1,849 million.

<sup>4</sup> Micro-Cap companies includes companies with market capitalization less than \$453 million.

<sup>5</sup> Decile 10 includes companies with market capitalization between \$1.6 million and \$219 million.

<sup>6</sup> From Table 2, Thomas M. Zepp, "Utility Stocks and the Size Effect Revisited," *The Quarterly Review of Economics and Finance*, 43 (2003), 578-582.

<sup>7</sup> Computed as the weighted differences between the Decile 10 risk premium and the indicated risk premiums for the sample water utilities as shown below. Excludes risk due to differences in beta.

Market Cap. (Millions)	Class	Size Premium	Difference to Decile 10	Weight	Weighted Size Premium
\$ 578	Low-Cap	1.56%	2.87%	0.1666667	0.48%
\$ 2,556	Mid-Cap	0.90%	3.53%	0.1666667	0.59%
\$ 755	Low-Cap	1.56%	2.87%	0.1666667	0.48%
\$ 171	Decile 10	4.43%	0.00%	0.1666667	0.00%
\$ 190	Decile 10	4.43%	0.00%	0.1666667	0.00%
\$ 446	Micro-Cap	2.83%	1.60%	0.1666667	0.27%
Weighted Size Premium for small companies					1.81%

Attachment 1

Rico Rio Utilities, Inc.  
 Discounted Cash Flow Analysis (Water)  
 Constant Growth DCF Model  
 Using Analyst Estimates of DPS Growth

Line No.	[1]	[2]	[3]	[4]	[5]	
	Current Dividend Yield (D <sub>0</sub> /P <sub>0</sub> ) <sup>1</sup>	Expected Dividend Yield (D <sub>1</sub> /P <sub>0</sub> ) <sup>2</sup>	Expected Dividend Growth (g) <sup>3</sup>	Indicated Equity Cost k=Div Yld + G (Cols 2+3)	Indicated Equity Cost k=Div Yld + G (Cols 2+3)	
1.	American States	2.99%	3.14%	5.00%	8.1%	*
2.	Aqua America	2.70%	2.85%	5.50%	8.3%	*
3.	California Water	3.21%	3.27%	2.00%	5.3%	*
4.	Connecticut Water	4.36%		Not Available		
5.	Middlesex	4.93%		Not Available		
6.	SJW Corp.	2.65%		Not Available		
7.						
8.						
9.						
10.						
11.						
12.						
13.						
14.						
15.	GROUP AVERAGE					
16.	GROUP MEDIAN					
17.						
18.						
19.	Current Baa interest rate (April 16, 2009) <sup>4</sup>					
20.						
21.	Blue Chip Forecast Baa Corporate Bond Interest Rate 2011 Top 10 <sup>5</sup>					
22.	Blue Chip Forecast Baa Corporate Bond Interest Rate 2011 Bottom 10 <sup>5</sup>					
23.	Blue Chip Forecast Baa Corporate Bond Interest Rate 2011 Consensus <sup>5</sup>					
24.						
25.						
26.						
27.						
28.						
29.						
30.						
31.						
32.						

\* Indicated equity cost below current cost of debt (Baa) or negative growth.

<sup>1</sup> Spot Dividend Yield = D<sub>0</sub>/P<sub>0</sub>. See Table 9.

<sup>2</sup> Expected Dividend Yield = D<sub>1</sub>/P<sub>0</sub> = D<sub>0</sub>/P<sub>0</sub> \* (1+g).

<sup>3</sup> Growth rate (g). Value Line Analyzer Data (April 16, 2009)

<sup>4</sup> Federal Reserve. Baa investment grade bonds.

<sup>5</sup> Blue Chip Financial Forecast (December 2008)

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5 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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

DOCKET NO: WS-02676A-09-0257

13  
14  
15  
16  
17  
18 **REBUTTAL ~~DIRECT~~ TESTIMONY OF**  
19 **THOMAS J. BOURASSA**  
20 **(RATE BASE, INCOME STATEMENT AND RATE DESIGN)**  
21

22 **February 1, 2010**



TABLE OF CONTENTS

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

I. INTRODUCTION AND QUALIFICATIONS ..... 1

II. SUMMARY OF RRUI'S REBUTTAL POSITION..... 1

III. RATE BASE ..... 4

    A. Water Division Rate Base..... 4

        1. Plant-in-service ..... 4

        2. Advances-in-aid of Construction (AIAC) and Contributions-in-aid of Construction (CIAC) ..... 5

        3. Deferred Income Taxes (DIT) ..... 6

        4. Remaining Rate Bases Issues..... 19

    B. Wastewater Division Rate Base ..... 19

        1. Plant-in-Service and Accumulated Depreciation..... 20

        2. AIAC and CIAC ..... 20

        3. Deferred Income Taxes (DIT) ..... 20

        4. Remaining Rate Bases Issues..... 22

IV. INCOME STATEMENT ..... 22

    A. Water Division Revenue and Expenses ..... 22

        1. Remaining Revenue and Expense Issues..... 25

    B. Wastewater Division Revenue and Expenses ..... 28

        1. Remaining Revenue and Expense Issues..... 30

V. RATE DESIGN..... 31

    A. Water Division ..... 31

    B. Wastewater Division ..... 38

    C. Miscellaneous Issues ..... 39

2280370

1 **I. INTRODUCTION AND QUALIFICATIONS**

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

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

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

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

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

10 A. Yes, my direct testimony was submitted in support of the initial application in this  
11 docket. There were two volumes, one addressing rate base, income statement and  
12 rate design, and the other addressing cost of capital.

13 **Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?**

14 A. I will provide rebuttal testimony in response to the direct filings by Staff and  
15 RUCO. More specifically, this first volume of my rebuttal testimony relates to rate  
16 base, income statement and rate design for RRUI. In a second, separate volume of  
17 my rebuttal testimony, I will also present an update to the Company’s requested  
18 cost of capital as well as provide responses to Staff and RUCO on the cost of  
19 capital and rate of return applied to the fair value rate base, and the determination  
20 of operating income.

21 **II. SUMMARY OF RRUI’S REBUTTAL POSITION**

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

25 A. For the water division the Company is proposing a total revenue requirement of  
26 \$3,647,859, which constitutes an increase in revenues of \$1,827,602, or 98.94%

1 over adjusted test year revenues. For the wastewater division, RRUI is proposing a  
2 total revenue requirement of \$1,696,840, which constitutes a decrease in revenues  
3 of \$133,135, or -7.28% over adjusted test year revenues.

4 **Q. HOW DO THESE COMPARE WITH THE COMPANY'S DIRECT**  
5 **FILING?**

6 A. They are both lower. In the direct filing for the water division, the Company  
7 requested a total revenue requirement of \$3,904,369, which required an increase in  
8 revenues of \$2,057,112, or 111.36%. In the direct filing for the wastewater  
9 division, the Company requested a total revenue requirement of \$1,740,918, which  
10 required a decrease in revenues of \$89,058, or -4.87%.

11 **Q. WHAT'S DIFFERENT?**

12 A. In its rebuttal filing, RRUI has adopted a number of adjustments recommended by  
13 Staff and/or RUCO, as well as proposed a number of adjustments of its own based  
14 on known and measurable changes to the test year.

15 For the water division, the net result of these adjustments is: (1) the  
16 Company's proposed operating expenses have decreased by \$27,534, from  
17 \$2,061,862 in the direct filing to \$2,034,328; and a net decrease of \$463,238 in rate  
18 base from the direct filing of \$8,455,517 to \$7,992,279.

19 For the wastewater division, the net result of these adjustments is: (1) the  
20 Company's proposed operating expenses have increased by \$20,086, from  
21 \$1,339,300 in the direct filing to \$1,359,386; and a net decrease of \$192,629 in rate  
22 base from the direct filing of \$3,516,078 to \$3,323,449.

23 In addition, the Company has reduced its recommended cost of equity from  
24 12.4% in its direct filing to 11.7% in its rebuttal filing. This has resulted in a lower  
25 requested weighted cost of capital from 12.40% in the Company's direct filing to  
26 11.7% in its rebuttal filing.

1 Q. PLEASE SUMMARIZE THE REASON FOR THE DECREASE IN THE  
2 RATE BASES?

3 A. For the water division, the primary reason for the reduction in rate base is that the  
4 Company is proposing a change to the water division's deferred income taxes  
5 (DIT) of \$463,238 based on a revision to its DIT computation. The net rate base  
6 impact of this adjustment is \$(463,238). The same is true for the wastewater  
7 division, where RRUI is proposing a change to the wastewater division's deferred  
8 income taxes (DIT) of \$192,629 based on a revision to its DIT computation. The  
9 net rate base impact of this adjustment is \$(196,629).

10 Q. WHAT ARE THE PROPOSED REVENUE REQUIREMENTS AND RATE  
11 INCREASES FOR THE COMPANY, STAFF, AND RUCO AT THIS STAGE  
12 OF THE PROCEEDING?

13 A. For the water division, the proposed revenue requirements and proposed rate  
14 increases are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Incr.</u>	<u>% Increase</u>
15 Company-Direct	\$3,904,369	\$2,057,112	111.36%
16 Staff	\$2,899,496	\$1,052,240	56.96%
17 RUCO	\$2,810,229	\$ 936,172	49.95%
18 Company Rebuttal	\$3,674,859	\$1,827,602	98.94%

19  
20 For the wastewater division, the proposed revenue requirements and  
21 proposed rate increases are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Incr.</u>	<u>% Increase</u>
22 Company-Direct	\$1,740,918	\$ (89,058)	(4.87)%
23 Staff	\$1,465,673	\$ (364,303)	(19.91)%
24 RUCO	\$1,300,774	\$ (549,328)	(29.69)%
25 Company Rebuttal	\$1,696,840	\$ (133,135)	(7.28)%

1 **III. RATE BASE**

2 **A. Water Division Rate Base**

3 **Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE**  
4 **BASE RECOMMENDATIONS FOR THE WATER DIVISION?**

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

	<u>OCRB</u>	<u>FVRB</u>
7 Company-Direct	\$ 8,455,517	\$ 8,455,517
8 Staff	\$ 6,639,072	\$ 6,639,072
9 RUCO	\$ 7,045,555	\$ 7,045,555
10 Company Rebuttal	\$ 7,992,279	\$ 7,992,279

11 **1. Plant-in-service**

12 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**  
13 **ORIGINAL COST RATE BASE FOR THE WATER DIVISION, AND**  
14 **IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF**  
15 **AND/OR RUCO?**

16 **A. The Company's rebuttal rate base adjustments to the water division's OCRB are**  
17 **detailed on rebuttal schedules B-2, pages 3 through 6. Rebuttal Schedule B-2, page**  
18 **1 and 2, summarize the Company's proposed adjustments and the rebuttal OCRB.**

19 Rebuttal B-2 adjustment 1, as summarized on Rebuttal Schedule B-2, page  
20 2, consists of one adjustment labeled as "A" on Rebuttal Schedule B-2, page 3.

21 Adjustment A reflects a reclassification of PIS. This is primarily a  
22 "housekeeping" adjustment. The Company has adopted Staff's proposal to  
23 reclassify amounts from account 320 to account 320.1 and from account 330 to  
24 account 330.1.<sup>1</sup> RUCO has not proposed a similar adjustment.

25 <sup>1</sup> See Direct Testimony on revenue requirement of Gerald W. Becker ("Becker Dt.") at 10.  
26

1 Rebuttal B-2 adjustment 2, as summarized on Rebuttal Schedule B-2,  
2 page 2, and as detailed on Rebuttal Schedule B-2, page 4, is zero as there are no  
3 proposed changes to accumulated depreciation.

4 **2. Advances-in-aid of Construction (AIAC) and Contributions-in-**  
5 **aid of Construction (CIAC)**

6 **Q. PLEASE DISCUSS THE COMPANY'S ADJUSTMENT TO AIAC AND**  
7 **CIAC.**

8 A. In rebuttal B-2 adjustment 3, as shown on Schedule B-2, page 2, the Company  
9 proposes a decrease to AIAC of \$48,724 and a decrease to CIAC of \$48,724. The  
10 net impact on rate base is zero. This reclassification of AIAC and CIAC is based  
11 upon information provided to the parties in the instant case concerning the  
12 reconciliation of AIAC and CIAC.<sup>2</sup> RUCO proposes a similar adjustment.<sup>3</sup> Staff  
13 has proposed an increase to AIAC for \$48,724, but has not proposed a  
14 corresponding decrease to CIAC.<sup>4</sup> Staff's adjustment is incomplete because it fails  
15 to also adjust CIAC. Rather than a net zero impact on rate base, Staff's adjustment  
16 results in net decrease in rate base of \$48,724.

17 **Q. DID STAFF ALSO PROPOSE AN INCREASE TO CIAC?**

18 A. Yes.<sup>5</sup> However, the Company disagrees with Staff's adjustment. Staff's assertion  
19 that there were unrecorded amounts of CIAC in 2006 and 2008 totaling \$1,087,409  
20 (\$797,060 for 2006 and \$290,349) is incorrect.<sup>6</sup> The CIAC balance has been  
21

22 <sup>2</sup> See Company response to Staff data request GB 2.3 (worksheet "RRUI AIAC Reconciliation.xls"). The  
23 data request responses referenced herein are not attached, but were previously provided to Staff and the  
24 intervenors who requested them.

25 <sup>3</sup> See Direct Testimony on revenue requirement of Timothy J. Coley ("Coley Dt.") at 32.

26 <sup>4</sup> Becker Dt. at 21.

<sup>5</sup> *Id.* at 11.

<sup>6</sup> *Id.*

1 reconciled to the end of the test year and the Company's rebuttal balances reflect  
2 the correct amount of CIAC.<sup>7</sup>

3 **Q. THEN WHY DOES STAFF INCREASE CIAC?**

4 A. It appears that Staff's proposal is based upon its review of the Company's book and  
5 tax values for its DIT computation. As I will discuss below, Staff has incorrectly  
6 concluded that the Company failed to record CIAC, and as a result of this error,  
7 Staff substantially understates rate base and the revenue requirement.

8 **3. Deferred Income Taxes (DIT)**

9 **Q. HAS THE COMPANY PROPOSED A REBUTTAL ADJUSTMENT TO**  
10 **DEFERRED INCOME TAXES FOR THE WATER DIVISION?**

11 A. Yes. In rebuttal B-2 adjustment 4, as shown on Schedule B-2, page 2, the  
12 Company's deferred income tax asset, an addition to rate base, is decreased by  
13 \$463,238 to \$314,965. The decrease reflects (1) the Company's rebuttal proposed  
14 changes to PIS, accumulated depreciation, AIAC and CIAC, and (2) recognition  
15 that some CIAC funded PIS in prior years was included in the tax basis of PIS.  
16 The details of the Company's rebuttal proposed DIT adjustment is shown on  
17 Schedule B-2, page 6 and 6.1.

18 **Q. WHAT CHANGES OR UPDATES HAVE YOU MADE TO THE**  
19 **COMPANY'S DIT COMPUTATION?**

20 A. There are three primary changes/updates to the DIT computation. First, in the  
21 direct filing, the DIT computation rolled forward the tax basis of PIS using the tax  
22 asset information from the 2007 tax returns and estimates of tax additions, tax  
23 depreciation, and special ("bonus") depreciation through the end of 2008. A roll-

24  
25 <sup>7</sup> See Company response to Staff data request GB 2.3 (worksheet "GB 2.3 RRUI AIAC  
26 Reconciliation.xls") and Company response to Staff data request GB 3.4 (worksheets "GB 3.4 and 3.12  
CIAC Schedule.xls" and "GB 3.4 and 3.12 RRUI AIAC Schedule.xls").

1 forward approach was done because the 2008 tax returns were not finalized at the  
2 time the DIT computation was prepared. The rebuttal DIT computation starts with  
3 the tax asset information contained in the 2008 tax returns that are now finalized.

4 The second change/update was made in response to issues raised by Staff in  
5 the recent Black Mountain Sewer Corporation (“BMSC”)<sup>8</sup> and Litchfield Park  
6 Service Company (“LPSCO”)<sup>9</sup> rate cases. To address those concerns, I conducted  
7 a review of the book and tax values from 1996 through the end of 2008 and  
8 prepared a reconciliation to identify differences between book and tax values.  
9 These differences were then accounted for in the Company’s rebuttal DIT  
10 computation. Finally, the Company’s rebuttal DIT computation reflects the impact  
11 of Company proposed rebuttal changes to PIS, accumulated depreciation, and  
12 AIAC and CIAC.

13 **Q. WHAT IS THE PRIMARY REASON FOR THE DECREASE IN THE**  
14 **DEFERRED INCOME TAX ASSET?**

15 **A.** Removal of CIAC funded plant-in-service (“PIS”) from the tax basis of PIS  
16 including associated tax depreciation. As you will find on Schedule B-2, page 6.1,  
17 which shows the details of the book and tax values from 1996 through the end of  
18 2008, the prior owners of RRUI, Avatar, included PIS funded with CIAC in the tax  
19 basis of PIS. Algonquin acquired RRUI at the end of 2005. Since then, the  
20 differences between book and tax have been due the timing differences between the  
21 time the PIS was recorded on the books and when the PIS was recorded for tax  
22 purposes.

23  
24  
25 <sup>8</sup> See Docket No. SW-02361A-08-0609.

26 <sup>9</sup> See Docket Nos. SW-01428A-09-0103, W-01427A-09-0104, W-01427A-09-0116, and W-01427A-09-0120 (consolidated).

1 **Q. IS THE REMOVAL OF THE CIAC FUNDED PIS FROM THE TAX BASIS**  
2 **THE PROPER WAY TO ACCOUNT FOR THESE DIFFERENCES?**

3 A. Yes, and Staff correctly removed the CIAC amounts it identified from the tax basis  
4 of plant.<sup>10</sup> However, I am not sure whether Staff included the prior tax  
5 depreciation as part of its adjustment because Staff is silent on this aspect of the  
6 adjustment.

7 **Q. DID STAFF IDENTIFY THE SAME DIFFERENCES IN THE TAX AND**  
8 **BOOK VALUES RELATED TO CIAC FOR THE YEARS 2000 TO 2005?**

9 A. No. Staff identified \$3,360,021 of CIAC,<sup>11</sup> and I identified \$3,887,046. As shown  
10 on Schedule B-2, page 5.1 the CIAC amounts for 2000 - 2005 are as follows:

11

<u>Year</u>	<u>Amount</u>
2000	\$ -
2001	\$ 12,147
2002	\$ 478,931
2003	\$ 460,666
2004	\$ 730,017
2005	\$ 2,205,285
Total	<u>\$ 3,887,046</u>

12  
13  
14  
15  
16

17  
18 **Q. ARE THERE OTHER DIFFERENCES IN THE TAX AND BOOK VALUES**  
19 **RELATED TO CIAC?**

20 A. Yes. For 1997 through 1999, I identified additional CIAC that was recognized for  
21 tax purposes totaling \$55,494. As can be found on Schedule B-2, page 5.1 the  
22 CIAC amounts for 2000 through 2005 are as follows:

23  
24  
25 <sup>10</sup> Becker Dt. at 16.

26 <sup>11</sup> *Id.*

<u>Year</u>	<u>Amount</u>
1997	\$ 16,751
1998	\$ 33,903
1999	\$ 4,840
Total	<u>\$ 55,494</u>

1  
2  
3  
4  
5 **Q. HAVE YOU REMOVED THE \$3,887,046 AND THE \$55,494 FROM THE**  
6 **TAX BASIS OF THE COMPANY'S DIT COMPUTATION?**

7 A. Yes. The details of the amounts removed can be found in footnote 2 on Schedule  
8 B-2, page 5. The net adjustment to the tax basis of PIS is summarized as follows:

<u>Description</u>	<u>Reference</u>	<u>Amount</u>
Gross CIAC funded tax assets 1996 to 1999	Line 36, B-2 p. 5	\$ (55,494)
Gross CIAC funded tax assets 2000 to 2005	Line 36, B-2 p. 5	\$ (3,887,046)
Tax Depreciation on CIAC funded tax assets through 2007	Line 46, B-2 p. 5	\$ 616,408
Tax Depreciation for 2008	Line 57, B-2 p. 5	\$ 157,779
Net CIAC funded tax assets adjustment to tax value		<u>\$ (3,168,353)</u>

9  
10  
11  
12  
13  
14 **Q. ARE THERE OTHER DIFFERENCES IN THE TAX AND BOOK VALUES**  
15 **RELATED TO CIAC THAT YOU IDENTIFIED?**

16 A. Yes. I identified a book and tax difference for 1996 and prior totaling \$2,576,335.  
17 However, since certain amounts of CIAC for 1996 and prior were treated as taxable  
18 income upon which the Company has paid income taxes, the Company has a  
19 legitimate tax basis in this plant. No adjustment to the tax basis in the DIT  
20 computation is required.

21 **Q. ARE THERE ANY OTHER DIFFERENCES BETWEEN STAFF AND THE**  
22 **COMPANY CONCERNING CIAC RELATED BOOK-TAX TIMING**  
23 **DIFFERENCES?**

24 A. Yes. Staff has erroneously assumed that the book and tax timing difference for  
25 2006 and 2008 totaling \$1,087,409 are related to CIAC. Furthermore, Staff  
26

1 assumed that the differences for these years were the result of the Company's  
2 failure to record CIAC on its books.<sup>12</sup>

3 **Q. HOW DO YOU RESPOND TO STAFF'S ASSERTION THAT CIAC**  
4 **TOTALING \$1,087,409 WAS NOT RECORDED ON THE BOOKS?**

5 A. Staff's assumption is severely flawed. As I stated earlier, the CIAC balance was  
6 reconciled to the end of the test year. Further, and more importantly, the timing  
7 difference in 2006 and 2008 was due to the recognition of plant costs for book  
8 purposes, but not for tax purposes. It was not the result of failure to record CIAC  
9 on its books. As is shown on Schedule B-2, page 5.1, the Company has identified  
10 \$797,709 of 2006 booked plant additions and \$809,876 of booked plant additions  
11 that were not reflected in the tax basis of plant for those years.

12 **Q. BUT THAT ADDS UP TO OVER \$1.6 MILLION – STAFF'S**  
13 **“UNRECORDED” CIAC WAS JUST OVER \$1 MILLION STAFF**  
14 **ALLEGEDLY IDENTIFIED. CAN YOU EXPLAIN?**

15 A. I can explain the roughly \$1.6 million timing difference I identified, but I cannot  
16 explain how Staff derived its roughly \$1 million.

17 **Q. HOW WERE YOU ABLE TO IDENTIFY THE ROUGHLY \$1.6 MILLION**  
18 **OF UNRECORDED TAX ADDITIONS?**

19 A. I compared the tax work papers<sup>13</sup> which contained both the book and tax additions  
20 for 2006 and 2008 and compared the total additions with the Company's B-2 plant  
21 additions schedules and discovered the differences. I then asked the Company to  
22 explain. Subsequently, I asked the Company to provide me the details which the  
23 Company was able to do.<sup>14</sup>

24 <sup>12</sup> *Id.* at 11.

25 <sup>13</sup> See Company response to Staff data requests GB 3.3 and 3.11 (worksheet “GB 3.3 and 3.11 Tax Value  
Build-up.xls”).

26 <sup>14</sup> See RRUI rebuttal work papers (worksheet “#3 Rio Rico Fixed Asset Schedule – Rec for Tom.xls”).

1 Q. WAIT A MINUTE, MR. BOURASSA. DOESN'T STAFF IDENTIFY THE  
2 CONTRIBUTOR OF THIS CIAC, THE ASSOCIATED NEW  
3 DEVELOPMENT AND RELATED UTILITY FACILITIES?

4 A. No. Mr. Becker has created CIAC out of thin air. All I can say at this point is that  
5 the timing difference is *not* the failure to record CIAC. Therefore, Staff lacks any  
6 legitimate basis to increase either the CIAC balance in its DIT computation and,  
7 just as important, increase the CIAC balance and thereby reduce rate base.

8 Q. THANK YOU. WOULD YOU PLEASE COMMENT ON STAFF'S  
9 RECOMMENDED DIT BALANCE?

10 A. Like the Company, Staff is recommending a net DIT asset for the water division.  
11 However, Staff's recommendation is \$73,648<sup>15</sup> for the water division compared to  
12 the Company's rebuttal recommendation of \$314,965 as shown on Schedule B-2,  
13 page 5.

14 Q. DOES STAFF ELIMINATE THE NET OPERATING LOSS COMPONENT  
15 FROM ITS COMPUTATION?

16 A. Yes.<sup>16</sup> Staff claims the inclusion of a net operating loss ("NOL") component (a  
17 DIT asset) would be unfair to ratepayers since the ratepayers would essentially be  
18 paying a carrying charge on the Company's expected future tax benefit and thus  
19 would be unfair to rate payers since they have already paid their fair share of  
20 income tax expense through rates.<sup>17</sup>

21 Q. HAVE YOU SEEN THIS ADJUSTMENT MADE BEFORE?

22 A. No, and I disagree with Staff assertions for several reasons. First, the NOL carry-  
23 forward represents the unused portion of the special depreciation allowance the

24 \_\_\_\_\_  
<sup>15</sup> Becker Dt. at 20.

25 <sup>16</sup> *Id.*

26 <sup>17</sup> *Id.* at 19.

1 Company elected to take during the test year. Ratepayers have not already paid  
2 income taxes related to the book and tax depreciation timing differences on this  
3 unused depreciation. Staff is just wrong. Nor has the Company offset any taxable  
4 income and paid lower income taxes related to the unused depreciation as of the  
5 end of the test year. The unused depreciation deduction will provide future tax  
6 benefits as an offset to future taxable income.

7 The second reason I disagree with Staff's assessment is that the NOL carry-  
8 forward is directly related to the book and tax depreciation timing difference from  
9 which deferred income taxes arise. These book and tax timing differences create  
10 net DIT liabilities or net DIT assets depending on the circumstances.  
11 Discriminating between DIT liabilities and DIT assets for the inclusion or the  
12 exclusion from the ratemaking process simply because one may reduce rate base  
13 while another may increase rate base, is inherently unfair. Consistent treatment  
14 will ultimately be fair to both the utility and to its ratepayers. But, just as  
15 important, recognizing portions of deferred income taxes while not recognizing  
16 others, particularly with respect to capital investments, would violate the tax  
17 normalization requirements of the Internal Revenue Code for ratemaking and  
18 financial reporting. Failure to follow the normalization as prescribed by the Code  
19 results in the possible loss of eligibility to utilize the tax benefits associated with  
20 accelerated depreciation and investment tax credits.

21 **Q. WHAT IS TAX NORMALIZATION?**

22 **A.** Tax normalization refers to the accounting and regulatory process that recognizes  
23 that there may be temporary tax timing differences in the amount of the tax paid in  
24 early years that will reverse themselves in later years. Normalization is similar to  
25 accrual accounting, which generally requires the effects on assets and liabilities to  
26 be shown on the books in the time period in which they occur rather than when

1 cash is received or paid. Accordingly, the difference between the allowed income  
2 taxes in rates and the actual income taxes paid is recognized in a company's  
3 accounts as deferred taxes.

4 **Q. HOW IS THE NOL CARRY-FORWARD DIRECTLY RELATED TO**  
5 **PLANT-IN-SERVICE?**

6 A. The NOL carry-forward is created due to a special depreciation allowance provided  
7 to businesses as part of the Economic Stimulus Act of 2008. Under the law, a  
8 taxpayer is entitled to depreciate 50 percent of the adjusted basis of certain  
9 qualified property during the year that the property is placed in service. This is  
10 similar to the special depreciation allowance that was previously available for  
11 certain property placed in service generally before Jan. 1, 2005, often referred to as  
12 "bonus depreciation."

13 **Q. PLEASE CONTINUE WITH YOUR REASONS FOR DISAGREEING**  
14 **WITH STAFF.**

15 A. The third reason I disagree with Staff's assessment is that the net DIT asset balance  
16 (and rate base) would have been higher had the Company not elected to take the  
17 special depreciation allowance. This would have increased rate base and ultimately  
18 led to higher rates.

19 **Q. WHY IS THAT?**

20 A. Because the tax basis of the Company's PIS would have been higher by amount of  
21 the foregone special depreciation allowance. The resulting higher tax basis of PIS  
22 would alter the difference between the book and tax basis values of PIS which  
23 would more than offset the net DIT asset that was otherwise created by the NOL  
24 carry-forward. To show this, I have included as **Exhibit TJB-RB1** a DIT  
25 computation that excludes the special depreciation allowance taken by the  
26 Company in 2008. Before discussing the result, I first wish to point out the net

1 DIT for both divisions (water and wastewater) as shown on Schedule B-2, page 5 is  
2 a net DIT asset of \$445,938. As shown on the DIT computation in my Exhibit  
3 **TJB-RB1**, the net DIT asset would have increased to \$555,422 had the Company  
4 not elected to take special depreciation allowance – an increase of over \$100,000.  
5 Ultimately, the rate base would also be higher by over \$100,000.

6 **Q. WHY DID THE COMPANY TAKE THE SPECIAL DEPRECIATION**  
7 **DEDUCTION IF IT COULD NOT TAKE FULL ADVANTAGE OF IT BY**  
8 **THE END OF 2008?**

9 A. Because according to the Law, the special depreciation allowance must be taken in  
10 the first year the plant is placed into service. If a business does not elect to take the  
11 special depreciation allowance, it is lost forever.<sup>18</sup>

12 **Q. PLEASE COMMENT ON RUCO'S RECOMMENDED DIT BALANCE?**

13 A. Unlike the Company and Staff, RUCO is recommending a DIT liability of  
14 \$501,057 for the water division.<sup>19</sup> RUCO's recommended DIT is based on an  
15 allocation of the Algonquin Power Income Fund's ("APIF") deferred income taxes  
16 as reported in its 2008 annual report. The allocation factor is based the 2005  
17 acquisition cost of RRUI relative to the total assets of APIF in 2008.<sup>20</sup> RUCO  
18 asserts that this complies with the Statement of Financial Accounting Standards  
19 No. 109 – Accounting for Income Taxes ("SFAS No. 109").<sup>21</sup>

20 **Q. DOES RUCO'S METHOD COMPLY WITH THE REQUIREMENTS OF**  
21 **SFAS NO. 109?**

22  
23  
24 <sup>18</sup> Possible exception is an amended return..

25 <sup>19</sup> Coley Dt. at 31.

26 <sup>20</sup> *Id.*

<sup>21</sup> *Id.*

1 A. No. I agree with RUCO that Section 40 of SFAS No. 109 requires that any method  
2 adopted for allocating deferred income taxes must be systematic, rationale and  
3 consistent with the broad principles of SFAS No. 109.<sup>22</sup> However, RUCO has  
4 ignored Section 40(b) of SFAS No. 109, which states that methods that are not  
5 consistent with SFAS No. 109 includes any method that allocates deferred income  
6 taxes to a member of the group that is fundamentally different from the asset and  
7 liability method described in the statement. RUCO's method is flawed because it  
8 allocates deferred income taxes based on the 2005 acquisition cost of RRUI which  
9 is fundamentally inconsistent with the asset and liability method as prescribed by  
10 the statement. The deferred tax amount for a group that files a consolidated  
11 income tax return must be the equal to sum of the individual companies' deferred  
12 income taxes based on the asset and liability method prescribed by SFAS No. 109.  
13 As a consequence, RUCO's recommended DIT should be rejected.

14 **Q. HAVE YOU SEEN THIS ALLOCATION METHOD BEFORE?**

15 A. Only once. The same method was advanced by RUCO in the most recently  
16 decided Black Mountain Sewer Company rate case.<sup>23</sup> The Commission rejected  
17 this method and correctly concluded:

18  
19 Whether other utilities normally report net deferred tax  
20 liabilities is not a controlling factor in determining whether  
21 BMSC should have a net asset or liability in this case.  
22 BMSC's ultimate parent, APIF, controls myriad companies  
(see, *e.g.* Ex. S-13) and the fact that its Annual Report reflects  
23 a net deferred tax liability is not necessarily indicative of  
24 whether its individual subsidiaries have a net liability or asset  
25 on their respective books.<sup>24</sup>

24  
25 <sup>22</sup> *Id.* at 30.

26 <sup>23</sup> *Black Mountain Sewer Corporation*, Decision No. 69164 (December 5, 2006) at 6.

<sup>24</sup> *Id.* at 6.

1 In contrast, the method employed by BMSC in its rate case, the same as  
2 employed by RRUI in this case, is consistent with SFAS No. 109 because it is  
3 based on the amounts of assets and liabilities on the books of the Company that  
4 result in the deferred taxes of the Company's parent.

5 **Q. WEREN'T YOU THE WITNESS FOR BMSC IN THAT CASE?**

6 A. Yes, and I can personally testify to the fact that the method used by RRUI in the  
7 instant case is the same as the method used in the BMSC.

8 **Q. DOES THE FACT THE COMMISSION DID NOT AUTHORIZE A DIT  
9 BALANCE IN RRUI'S LAST RATE CASE HAVE ANY BEARING ON THE  
10 COMPANY'S REQUEST TO RECOGNIZE A DIT IN THE INSTANT  
11 CASE?**

12 A. No. Mr. Coley's mention of this is perplexing for several reasons.<sup>25</sup> First, it is  
13 unclear why Mr. Coley includes this testimony since he does not seem to make any  
14 point from it. Second, in the BMSC rate case mentioned earlier, BMSC had never  
15 been granted recognition of DIT in any prior rate case. In fact, when BMSC  
16 initially filed its rate case, it did not include a proposal to include DIT. It was  
17 RUCO who proposed a DIT for BMSC. The Company responded with its own  
18 proposal which was ultimately adopted by the Commission.<sup>26</sup>

19 **Q. PLEASE RESPOND TO MR. COLEY'S TESTIMONY ON PAGE 27 THAT  
20 THE BONUS DEPRECIATION CREATES A DEFERRED INCOME TAX  
21 LIABILITY?**

22 A. I agree with Mr. Coley that a DIT liability would be created for the plant for which  
23 a special depreciation allowance was taken but only to the extent of the special  
24 depreciation allowance that reduced the Company's 2008 taxable income to zero.

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25 <sup>25</sup> Coley Dt. at 16.

26 <sup>26</sup> Decision No. 69164 at 6.

1 For that portion of the special depreciation allowance, the tax basis in plant is less  
2 than that for book thereby creating a DIT liability for this plant. Where Mr. Coley  
3 and I disagree is with respect to the portion of the special depreciation allowance  
4 that reduced the taxable income to below zero thereby creating a net operating loss  
5 (“NOL”). The NOL creates a DIT asset. As I stated earlier, the NOL creates a  
6 future tax benefit that can be used to offset future tax liabilities. Putting that aside,  
7 the recognition of the NOL as a DIT asset is not inconsistent with the 2008  
8 Prentice Hall publication tax book slide show presentation which Mr. Coley  
9 includes at RUCO Exhibit 4 in support of his claim that all of the special  
10 depreciation allowance creates a deferred income tax liability.<sup>27</sup>

11 **Q. PLEASE EXPLAIN.**

12 A. On page 1 of 2 the Prentice Hall presentation it correctly states that deferred tax  
13 liabilities occur when tax basis of assets are less than the book basis of assets (last  
14 bullet point on the page). On page 2 of 2, it also states that deferred tax assets  
15 occur when loss/credit carry-forwards exist (last bullet point on the page).

16 **Q. DOES THE QUOTE FROM MR. LARKIN’S TESTIMONY IN THE HOPE**  
17 **GAS CASE ON PAGE 28 OF MR. COLEY’S TESTIMONY CHANGE**  
18 **YOUR OPINION REGARDING THE SPECIAL DEPRECIATION**  
19 **ALLOWANCE?**

20 A. No. Frankly, I have no idea what factual circumstances were in that in that case or  
21 in what context Mr. Larkin concluded Hope Gas incorrectly increased deferred  
22 income taxes. Perhaps Hope Gas simply made an error. I do not know because  
23 Mr. Coley fails to provide such circumstances and context or even explain why this  
24 quote is meaningful.

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25  
26 <sup>27</sup> Coley Dt. at 27.

1 Q. PLEASE RESPOND TO MR. COLEY'S TESTIMONY ON PAGE 29 THAT  
2 THE INCLUSION OF AIAC AS A COMPONENT IN THE COMPANY'S  
3 DIT COMPUTATION IS ERRONEOUS.

4 A. Mr. Coley asserts that for AIAC funded PIS the Company does not have a book  
5 basis nor a tax basis.<sup>28</sup> Mr. Coley is half correct. The Company does have a book  
6 basis in the AIAC funded PIS as depreciation is included in the cost of service.  
7 The Company does not have a tax basis in the AIAC funded PIS as no tax  
8 depreciation is allowed. As refunds are made, however, the Company will receive  
9 a tax basis in PIS to the extent of the refunds.

10 Q. WHY IS A DIT ASSET CREATED FOR AIAC FUNDED PLANT-IN-  
11 SERVICE?

12 A. Because a book-tax timing difference exists. Depreciation on AIAC funded PIS is  
13 recognized for book purposes (and rate making purposes), but not recognized for  
14 tax purposes. As a result, for book purposes (and ratemaking purposes), a lower  
15 taxable income is recognized in rates because of the depreciation expense on the  
16 AIAC funded PIS. But because the Company cannot recognize a depreciation  
17 deduction for tax purposes, it pays higher income taxes as a result. Thus, a book-  
18 tax timing difference and a resulting deferred tax asset. This book-tax timing  
19 difference will reverse itself in the future as refunds are made and the Company  
20 receives a tax basis and takes tax depreciation.

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<sup>28</sup> *Id.* at 29.

1                   4.     **Remaining Rate Bases Issues**

2     **Q.     PLEASE DISCUSS THE REMAINING RATE BASE ISSUES BETWEEN**  
3     **THE PARTIES.**

4     A.     The Company does not agree with RUCO's proposed adjustments to accumulated  
5     depreciation. The reason for the disagreement is that RUCO's re-computation of  
6     accumulated depreciation contains errors. If these errors are corrected, RUCO and  
7     the Company should be in substantial agreement on the balance of accumulated  
8     depreciation.

9     **Q.     WHAT ARE THOSE ERRORS?**

10    A.     First, RUCO failed to properly account for retirements. Second, RUCO does not  
11    take half year depreciation on retirements. Finally, RUCO over-depreciated  
12    account 340.1 Computers and Software.

13    **Q.     ARE THERE ANY OTHER RATE BASE ISSUES BETWEEN THE PARTIES**  
14    **FOR THE WATER DIVISION?**

15    A.     No.

16                   **B.     Wastewater Division Rate Base**

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

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

	<u>OCRB</u>	<u>FVRB</u>
Company-Direct	\$ 3,516,078	\$ 3,516,078
Staff	\$ 2,994,399	\$ 2,994,399
RUCO	\$ 2,937,595	\$ 2,937,595
Company Rebuttal	\$ 3,323,449	\$ 3,323,449

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

2 **Q. PLEASE DISCUSS THE COMPANY'S ADJUSTMENT TO PLANT-IN-**  
3 **SERVICE AND ACCUMULATED DEPRECIATION?**

4 A. The Company proposes no additional changes to plant-in-service or to accumulated  
5 depreciation. Rebuttal B-2 adjustments 1 and 2, as shown on Schedule B-2, page  
6 2, show no changes to plant-in-service and accumulated depreciation.

7                   **2. AIAC and CIAC**

8 **Q. PLEASE DISCUSS THE COMPANY'S ADJUSTMENT TO AIAC AND**  
9 **CIAC.**

10 A. In rebuttal B-2 adjustment 3, as shown on Schedule B-2, page 2, the Company  
11 proposes a decrease to AIAC of \$238,783 and a decrease to CIAC of \$238,783.  
12 The net impact on rate base is zero. This reclassification of AIAC and CIAC is  
13 based upon information provided to the parties in the instant case concerning the  
14 reconciliation of AIAC and CIAC.<sup>29</sup> RUCO proposes a similar adjustment.<sup>30</sup> Staff  
15 has proposed an increase to AIAC for \$238,783, but has not proposed a  
16 corresponding decrease to CIAC.<sup>31</sup> Staff's adjustment is incomplete because it  
17 fails to also adjust CIAC. Rather than a net zero impact on rate base, Staff's  
18 adjustment results in net decrease in rate base of \$238,783.

19                   **3. Deferred Income Taxes (DIT)**

20 **Q. HAS THE COMPANY PROPOSED A REBUTTAL ADJUSTMENT TO**  
21 **DEFERRED INCOME TAXES FOR THE WATER DIVISION?**

22 A. Yes. In rebuttal B-2 adjustment 4, as shown on Schedule B-2, page 2, the  
23 Company's deferred income tax asset is decreased by \$192,629 to \$130,973. The

24 \_\_\_\_\_  
25 <sup>29</sup> See Company response to Staff data request GB 2.3 (worksheet "RRUI AIAC Reconciliation.xls").

26 <sup>30</sup> Coley Dt. at 32.

<sup>31</sup> Becker Dt. at 8.

1 increase reflects the Company's rebuttal proposed changes to PIS, accumulated  
2 depreciation, AIAC and CIAC as well as recognition that some CIAC funded PIS  
3 in prior years was included in the tax basis of PIS. The details of the Company's  
4 rebuttal proposed DIT adjustment is shown on Wastewater Schedule B-2, page 6.

5 **Q. ARE THE CHANGES OR UPDATES HAVE YOU MADE TO THE**  
6 **COMPANY'S DIT COMPUTATION THE SAME AS DISCUSSED**  
7 **PREVIOUSLY?**

8 A. Yes.

9 **Q. IS THE REASON FOR THE DECREASE IN THE DEFERRED INCOME**  
10 **TAX ASSET THE SAME AS YOU DISCUSSED PREVIOUSLY?**

11 A. Yes.

12 **Q. PLEASE COMMENT ON STAFF'S RECOMMENDED DIT BALANCE?**

13 A. Like the Company, Staff is recommending a net DIT asset for the wastewater  
14 division. However, Staff's recommendation is \$40,705<sup>32</sup> for the wastewater  
15 division compared to the Company's rebuttal recommendation of \$130,973 as  
16 shown on Wastewater Schedule B-2, page 6.

17 **Q. DO YOU HAVE THE SAME COMMENTS REGARDING STAFF'S**  
18 **APPROACH TO THE COMPUTATION OF ITS PROPOSED DIT**  
19 **BALANCE FOR THE WASTEWATER DIVISION AS YOU MADE**  
20 **PREVIOUSLY?**

21 A. Yes.

22 **Q. PLEASE COMMENT ON RUCO'S RECOMMENDED DIT BALANCE?**

23 A. Unlike the Company and Staff, RUCO is recommending a DIT liability of  
24 \$208,912 for the wastewater division.<sup>33</sup> As with the water division, RUCO's

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25 <sup>32</sup> *Id.*

26 <sup>33</sup> Coley Dt. at 31.

1 recommended DIT for the wastewater division is based on an allocation of the  
2 Algonquin Power Income Fund's ("APIF") deferred income taxes as reported in its  
3 2008 annual report. Please refer to my previous comments in this area to why  
4 RUCO's method does not comply with SFAS No. 109 and should be rejected.

5 **4. Remaining Rate Bases Issues**

6 **Q. PLEASE DISCUSS THE REMAINING RATE BASE ISSUES BETWEEN**  
7 **THE PARTIES.**

8 **A.** Again, the Company does not agree with RUCO's proposed adjustments to  
9 accumulated depreciation because it contains errors. If RUCO corrects these errors,  
10 we should be in substantial agreement on the balance of accumulated depreciation.  
11 I have already discussed these errors above and they do not need to be repeated.

12 **Q. ARE THERE ANY OTHER RATE BASE ISSUES BETWEEN THE**  
13 **PARTIES FOR THE WASTEWATER DIVISION?**

14 **A.** No.

15 **IV. INCOME STATEMENT**

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

17 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**  
18 **ADJUSTMENTS TO REVENUES AND EXPENSES FOR THE WATER**  
19 **DIVISION AND IDENTIFY ANY ADJUSTMENTS YOU HAVE**  
20 **ACCEPTED FROM STAFF AND/OR RUCO?**

21 **A.** The Company rebuttal adjustments for the Water Division are detailed on Rebuttal  
22 Schedule C-2, pages 1-10. The rebuttal income statement with adjustments is  
23 summarized on Rebuttal Schedule C-1, page 1-2.

24 Rebuttal adjustment 1 increases depreciation expense. Depreciation expense  
25 is slightly higher, primarily due to the impacts of the Company's proposed rebuttal  
26 adjustments to plant-in-service. The Company and RUCO are in substantial

1 agreement on the computed level of depreciation expense. The difference appears  
2 to be related to a slight difference the amortization rate for CIAC. The difference  
3 in depreciation expense compared to Staff is due to a difference in the respective  
4 party's balance of CIAC and in the CIAC amortization rate. As discussed earlier,  
5 Staff's CIAC balance includes an upward adjustment of \$1,087,409, an adjustment  
6 RRUI strongly opposes. For the amortization rates, Staff uses a composite  
7 depreciation rate for all depreciable PIS where as the Company uses a composite  
8 depreciation rate for all PIS. The Company believes the composite rate should  
9 reflect all plant, not just depreciable plant. Non-depreciable assets, such as land,  
10 can be funded with CIAC, and so land costs should be included. Under the concept  
11 of using a composite rate for amortization of CIAC, a key assumption is that CIAC  
12 is used to fund all plant, not just depreciable plant.

13 **Q. PLEASE CONTINUE.**

14 **A.** Rebuttal adjustment number 2 increases property tax expense and reflects the  
15 rebuttal proposed revenues. Staff, RUCO, and the Company are in agreement on  
16 the method of computing property taxes. This method utilized the ADOR formula  
17 and inputs two years of adjusted revenues plus one year of proposed revenues. I  
18 computed the property taxes based on the Company's proposed revenues, and then  
19 used the property tax rate and assessment ratio that was used in the direct filing.

20 Rebuttal adjustment number 3 removes purchased power expense that is  
21 attributed to the wastewater division and was incorrectly reflected in the water  
22 division's purchased power expense. Staff, RUCO, and the Company are in  
23 agreement on this adjustment.

24 Rebuttal adjustment number 4 removes \$6,725 of unnecessary costs from  
25 transportation expense. Neither Staff nor RUCO propose this adjustment at this  
26 stage of the proceeding.

1           Rebuttal adjustment number 5 removes costs from outside services that were  
2 identified as out of period (test year) costs. This adjustment reflects the adoption  
3 of Staff's proposed adjustment for \$14,477.<sup>34</sup> RUCO has not proposed a similar  
4 adjustment at this stage of the proceeding.

5           Rebuttal adjustment 6 removes charitable contributions from miscellaneous  
6 expense. This adjustment reflect the adoption of RUCO propose adjustment to  
7 miscellaneous expense.<sup>35</sup>

8           Rebuttal adjustment 7 reduces bad debt expense reflecting a normalized  
9 level of bad debt expense proposed by RUCO.<sup>36</sup> The Company's acceptance of  
10 this adjustment is to help eliminate issues between the parties. Staff has not  
11 proposed a similar adjustment.

12           Rebuttal adjustment 8 reflects an increase to the allocated affiliate central  
13 office costs and reflects adjusted actual costs incurred by the central office for the  
14 test year of \$5,065,373.<sup>37</sup> The Company's adjustment is detailed on Rebuttal  
15 Schedule C-2, page 9. As shown, the central office cost allocated to and included in  
16 RRUI outside service expense is \$130,534.

17 **Q. DID THE COMPANY REMOVE UNNECESSARY COSTS FROM ITS**  
18 **CENTRAL OFFICE ALLOCATION POOL?**

19 **A.** Yes. The Company removed \$204,508 of costs identified as unnecessary to the  
20 provision of service.

21 **Q. PLEASE COMMENT ON STAFF'S RECOMMENDED FOR ALLOCATED**  
22 **CENTRAL OFFICE COSTS?**

23  
24 <sup>34</sup> Becker Dt. at 25; see Staff Schedule GWB-11, Adjustment #7.

25 <sup>35</sup> Coley Dt. at 44.

26 <sup>36</sup> *Id.* at 51.

<sup>37</sup> See Company response to Staff data request GWB 4.2a.

1 A. Staff is recommending an expense level of \$1,363 based on an adjusted central  
2 office allocation pool of \$190,931 and an allocation factor of 1.43 percent.<sup>38</sup>

3 **Q. PLEASE COMMENT ON RUCO'S RECOMMENDED LEVEL OF**  
4 **ALLOCATED CENTRAL OFFICE COSTS?**

5 A. RUCO is recommending an expense level of \$7,064 based on an adjusted central  
6 office allocation pool of \$319,061.<sup>39</sup>

7 **Q. DO YOU HAVE ANY ADDITIONAL COMMENTS REGARDING STAFF'S**  
8 **OR RUCO'S TESTIMONY ON CENTRAL OFFICE COSTS?**

9 A. No, this issue is addressed in great detail in the rebuttal testimony of Peter Eichler.

10 **Q. PLEASE CONTINUE.**

11 A. Rebuttal adjustment 9 reflects income taxes at Company's proposed rates.

12 **1. Remaining Revenue and Expense Issues**

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

15 A. The Company disagrees with Staff's proposal to remove ACC assessment fee from  
16 outside services totaling \$45,010 (\$27,820 plus \$17,190).<sup>40</sup> The reason for the  
17 disagreement is that these amounts Staff identified are not related to ACC  
18 assessment fees, but rather cost related to accounting fees provided by Liberty  
19 Water. ACC assessment fees are not recorded to expense, they are directly  
20 reflected to accounts payable.

21 The Company also disagrees with Staff's foreign exchange adjustment for  
22 allocated costs from the central office.<sup>41</sup> All of the Company's expenses are  
23

24 <sup>38</sup> Becker Dt. at 31-32; see Staff Water Schedule GWB-20.

25 <sup>39</sup> Coley Dt. at 51; see RUCO Water Schedule TJC-14.

26 <sup>40</sup> Becker Dt. at 24; see Staff Water Schedule GWB-11 and Staff Water Schedule GWB-17.

<sup>41</sup> Becker Dt. at 25-26.

1 recorded in U.S. dollars and reported in U.S. Dollars. Therefore, this is an  
2 unnecessary and inappropriate adjustment.

3 The Company also disagrees with Staff's adjustment to regulatory  
4 commission expense for \$17,554.<sup>42</sup> Staff identifies these costs as residual rate case  
5 expenses.<sup>43</sup> However, the Company has reviewed these expenses and they do not  
6 relate to rate case expense at all.

7 **Q. WHAT DO THESE COSTS RELATE TO, MR. BOURASSA?**

8 A. These costs are related to ADEQ annual registration fees, ADOT registration fees,  
9 annual software license fees, right of way permit fees, and some membership dues  
10 to organizations like the American Water Works Association and the Arizona  
11 Water Pollution Control Association. These are typical and necessary expenses  
12 and should be allowed operating expenses.

13 **Q. ARE THERE ANY REMAINING REVENUE AND/OR EXPENSE ISSUES**  
14 **BETWEEN THE COMPANY AND RUCO?**

15 A. Yes. The Company disagrees with RUCO's proposed revenue annualization  
16 adjustment. RUCO's asserts that its revenue annualization adjustment is  
17 appropriate because it believes that the Company has a seasonal customer base,  
18 particularly for the 5/8 inch customer class.

19 **Q. ON WHAT BASIS DOES MR. COLEY TESTIFY THAT RRUI'S**  
20 **CUSTOMER BASE IS SEASONAL?**

21 A. No basis whatsoever. All we have is Mr. Coley's testimony. However, I have  
22 examined the test year data, including the level of reconnection fees that occurred  
23 during the test year, and there is no indication that RRUI customer base is seasonal  
24 in nature. The economic downturn that occurred in 2008 may explain why the

25 <sup>42</sup> *Id.* at 22.

26 <sup>43</sup> *Id.*

1 customer counts (billings) in the middle of 2008 were higher than that at the end of  
2 2008, which might explain some customer loss and return, but there is simply  
3 nothing in the record to justify RUCO's revenue annualization adjustment based on  
4 average number of customers. I find the typical annualization, which annualizes  
5 revenue to the year-end number of customers, is entirely appropriate.

6 **Q. PLEASE COMMENT ON DIFFERENCES BETWEEN THE PARTIES ON**  
7 **RATE CASE EXPENSE.**

8 A. At this stage of the proceeding Staff has not proposed any adjustments to the  
9 Company proposed rate case expense. RUCO is recommending a downward adjust  
10 of 25 percent to the Company's proposed level of rate case expense.<sup>44</sup>

11 **Q. WHAT LEVEL OF RATE CASE EXPENSE IS RRUI ESTIMATING AT**  
12 **THIS STAGE?**

13 A. Same as in direct because not enough has happened yet to alter our original  
14 estimate. The Company is proposing rate case expense for the water division of  
15 \$210,000 amortized over 3 years for an annual expense of \$70,000. As a result,  
16 RUCO's reduced rate case "estimate" would result in an annual expense of  
17 \$52,500.

18 **Q. WHAT IS RUCO'S BASIS FOR REDUCING RATE CASE EXPENSE?**

19 A. RUCO appears to base its 25 percent reduction on the fact that through October  
20 2009, the Company has only incurred about \$41,000 of rate case expense.<sup>45</sup> It is  
21 entirely premature to make any meaningful determinations about the ultimate level  
22 of rate case expense that will be incurred in the instant case. This is obviously true,  
23 given that at the time of Mr. Coley's testimony the Company had yet to incur the  
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25 <sup>44</sup> Coley Dt. at 43.

26 <sup>45</sup> *Id.*

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

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

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

7 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S WASTEWATER**  
8 **DIVISION PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES**  
9 **AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM**  
10 **STAFF AND/OR RUCO?**

11 **A.** The Company rebuttal adjustments for the Wastewater Division are detailed on  
12 Rebuttal Schedule C-2, pages 1-8. The rebuttal income statement with adjustments  
13 is summarized on Rebuttal Schedule C-1, page 1-2.

14 Rebuttal adjustment 1 increases depreciation expense. Depreciation expense  
15 is slightly higher primarily due to the impacts of the Company proposed rebuttal  
16 adjustments to plant-in-service. The Company and RUCO are in substantial  
17 agreement on the computed level of depreciation expense. The difference appears  
18 to be related to a slight difference the amortization rate for CIAC. The difference  
19 in depreciation expense compared to Staff is primary due to a difference in the in  
20 the CIAC amortization rate, which I discussed immediately above for the water  
21 division.

22 **Q. PLEASE CONTINUE.**

23 **A.** Rebuttal adjustment number 2 increases property tax expense and reflects the  
24 rebuttal proposed revenues. As stated, Staff, RUCO, and the Company are in  
25 agreement on the method of computing property taxes.  
26

1           Rebuttal adjustment number 3 removes purchased power expense that is  
2 attributed to the wastewater division and was incorrectly reflected in the water  
3 division's purchased power expense. Staff, RUCO, and the Company are in  
4 agreement on this adjustment.

5           Rebuttal adjustment number 4 removes \$2,242 unnecessary costs from  
6 transportation expense. This is also a new adjustment proposed by the Company at  
7 this rebuttal stage.

8           Rebuttal adjustment 5 reduces bad debt expense reflecting a normalized  
9 level of bad debt expense proposed by RUCO.<sup>46</sup> The Company's acceptance of  
10 this adjustment is to help eliminate issues between the parties. Staff has not  
11 proposed a similar adjustment.

12           Rebuttal adjustment 6 reflects an increase to the allocated affiliate central  
13 office costs and reflects adjusted actual costs incurred by the central office for the  
14 test year of \$5,065,373.<sup>47</sup> The Company's adjustment is detailed on Rebuttal  
15 Schedule C-2, page 7. As shown, the central office cost allocated to and included  
16 in RRUI outside service expense is \$43,056.

17 **Q. DID THE COMPANY REMOVE UNNECESSARY COSTS FROM ITS**  
18 **CENTRAL OFFICE ALLOCATION POOL?**

19 **A.** Yes. The Company removed \$204,508 of costs it identified as unnecessary to the  
20 provision of service.

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<sup>46</sup> *Id.* at 51.

26 <sup>47</sup> See Company response to Staff data request GWB 4.2a.

1 Q. PLEASE COMMENT ON STAFF'S RECOMMENDED FOR ALLOCATED  
2 CENTRAL OFFICE COSTS?

3 A. Staff is recommending an expense level of \$460 based on an adjusted central office  
4 allocation pool of \$190,931 and an allocation factor of 1.43 percent.<sup>48</sup>

5 Q. PLEASE COMMENT ON RUCO'S RECOMMENDED LEVEL OF  
6 ALLOCATED CENTRAL OFFICE COSTS?

7 A. RUCO is recommending an expense level of \$2,943 based on an adjusted central  
8 office allocation pool of \$319,061.<sup>49</sup>

9 Q. PLEASE CONTINUE.

10 A. Rebuttal adjustment 7 reflects income taxes at Company's proposed rates.

11 1. Remaining Revenue and Expense Issues

12 Q. PLEASE IDENTIFY ANY REMAINING ISSUES IN DISPUTE WITH  
13 RUCO AND/OR STAFF.

14 A. The Company also disagrees with Staff's foreign exchange adjustment for  
15 allocated costs from the central office.<sup>50</sup> I addressed the reasons for our  
16 disagreement above. I also discussed RUCO's proposed revenue annualization  
17 adjustment. The Company does not have a seasonal customer base, therefore  
18 RUCO's proposed modification of the annualization is groundless.

19 Q. PLEASE COMMENT ON DIFFERENCES BETWEEN THE PARTIES ON  
20 RATE CASE EXPENSE.

21 A. For the wastewater division, the Company is proposing rate case expense of  
22 \$125,000 amortized over 3 years for an annual expense of \$41,667. As discussed  
23 above, RUCO is recommending a downward adjust of 25 percent to the

24 <sup>48</sup> Becker Dt. at 31-32; see Staff Water Schedule GWB-20.

25 <sup>49</sup> Coley Dt. at 51; see RUCO Water Schedule TJC-14.

26 <sup>50</sup> Becker Dt. at 35.

1 Company's proposed level of rate case expense.<sup>51</sup> This translated to a reduction to  
2 total rate case expense of \$31,250, or a total rate case expense of \$93,750. For the  
3 reasons I identified above, RUCO's adjustment is premature, at best.

4 **V. RATE DESIGN**

5 **A. Water Division**

6 **Q. WHAT ARE THE COMPANY'S REBUTTAL PROPOSED RATES FOR**  
7 **WATER SERVICE?**

8 **A. The Company's proposed rates are:**

9 **MONTHLY SERVICE CHARGES**

10	5/8" x 3/4" meters	\$13.09
11	3/4" Meters	\$19.64
12	1" Meters	\$32.73
13	1 1/2" Meters	\$65.45
14	2" Meters	\$104.72
15	3" Meters	\$209.44
16	4" Meters	\$327.25
17	6" Meters	\$654.50
18	8" Meters	\$1047.20
19	10" Meters	\$1,505.35
20	12" Meters	\$1,963.50
21	Fire Lines up to 8 Inch	\$13.00
22	Fire Lines 10 Inch	\$15.00
23	Fire Lines 12 Inch	\$30.00

24  
25  
26 

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<sup>51</sup> Coley Dt. at 43.

1            COMMODITY RATES

2	5/8" X 3/4" Meters	1 to 4,000	\$ 2.78
3		4,001 to 10,000	\$ 3.48
4		Over 10,000	\$ 3.88
5	3/4" Meters	1 to 6,000	\$ 3.48
6		Over 6,000	\$ 3.88
7	1" Meters	1 to 15,000	\$ 3.48
8		Over 15,000	\$ 3.88
9	1 1/2" Meters	1 to 20,000	\$ 3.48
10		Over 20,000	\$ 3.88
11	2" Meters	1 to 57,000	\$ 3.48
12		Over 57,000	\$ 3.88
13	3" Meters	1 to 57,000	\$ 3.48
14		Over 57,000	\$ 3.88
15	4" Meters	1 to 57,000	\$ 3.48
16		Over 57,000	\$ 3.88
17	6" Meters	1 to 125,000	\$ 3.48
18		Over 125,000	\$ 3.88
19	8" Meters	1 to 125,000	\$ 3.48
20		Over 125,000	\$ 3.88
21	10" Meters	1 to 125,000	\$ 3.48
22		Over 125,000	\$ 3.88
23	12" Meters	1 to 125,000	\$ 3.48
24		Over 125,000	\$ 3.88
25			
26			

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

2 A. Yes. I have scaled the break-over points for the 1 inch and larger meters based  
3 upon the 2nd tier of the 5/8 inch metered customers. The break-over points under  
4 the present rate design are not scaled. The 2 inch through 4 inch meter sizes, for  
5 example, all have a 57,000 gallon break-over point. The 6 inch through 12 inch  
6 meter sizes all have a 125,000 gallon break-over point. In its direct filing, the  
7 Company proposed no change to the break-over points and proposed to keep the  
8 same basic rate design as is. However, in response to Staff's rate design proposal,  
9 which increases the break-over points as the meter size increases, the Company is  
10 proposing these changes.

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

13 A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates  
14 for a 5/8 inch residential customer using an average 8,548 gallons is \$40.04 – a  
15 \$20.10 increase over the present monthly bill or a 100.77 percent increase.

16 **Q. PLEASE COMMENT ON THE PROPOSED RATE DESIGN OF STAFF.**

17 A. Like the Company, Staff is proposing an inverted three tier design for the 5/8  
18 metered customers and an inverted two tier design for the 3/4 inch and larger  
19 metered customers.<sup>52</sup> Staff's break-over points increase with meter size, but Staff  
20 are different than the Company's. The first tier commodity rate for 1 inch and  
21 larger metered customers is the same as the second tier of the 5/8 inch metered  
22 customers. The second tier of the 3/4 inch and larger metered customers is the same  
23 as the third tier of the 5/8 inch metered customers.<sup>53</sup> Staff also proposes that the  
24

25 <sup>52</sup> See Staff Schedule GWB-1.

26 <sup>53</sup> *Id.*

1 fire line charges be equivalent to 2% of the average monthly bill for that meter size,  
2 but not less than \$10 per month.

3 **Q. WHAT CONCERNS DO YOU HAVE WITH STAFF'S PROPOSED RATE**  
4 **DESIGN?**

5 A. The first 3,000 gallons for the 5/8 inch metered customers are priced at \$1.50 per  
6 thousand gallons, which is the first major problem with Staff's rate design. The  
7 present commodity rate is \$1.44 per thousand. Thus, even though Staff is  
8 recommending an increase in water revenues of about 57%, the commodity rate in  
9 the first tier will be increased by only about 4%. The second 6,000 gallons for the  
10 5/8 inch metered customers are priced at \$2.75 per thousand. The present  
11 commodity rate is \$1.70 per thousand. The commodity rate in the second tier will  
12 be increased by about 62 percent. Finally, gallons in the third tier are priced at  
13 \$3.42 per thousand gallons. The present commodity rate is \$1.90 per thousand.  
14 The commodity rate in the third tier will be increased by about 80 percent.

15 **Q. SO WHAT'S WRONG WITH THAT, MR. BOURASSA?**

16 A. It's blatant revenue shifting. Staff is discounting water service and generating a  
17 subsidy (i.e., selling water below cost in the first rate block) for the 5/8 inch  
18 metered customers. As a result, customers that use large amounts of water for  
19 various residential and non-residential purposes will be required to pay more than  
20 the cost of service in order to subsidize the low use residential customers.

21 **Q. HAVE YOU PREPARED A SCHEDULE TO ILLUSTRATE THIS?**

22 A. Yes, **Exhibit TJB-RB2** is similar to the H-2 schedule contained in the Company's  
23 rebuttal filing. The H-2 shows the average bill at present and proposed rates. As I  
24 stated, Staff is recommending a revenue increase of 57 percent. But, as shown on  
25 the schedule, Staff is providing only a 49 percent increase on the average 5/8 inch  
26 residential metered customers. In fact, the 5/8 inch metered customer class

1 receives the lowest increase at the average of all the customer classes. Further, at  
2 the average usage, the larger metered commercial class receives increases well  
3 above the 57 percent revenue increase Staff recommends. In other words, Staff's  
4 rates provide less revenue recovery from the residential class relative to the total  
5 revenues under its proposed rates than under present rates. For example, the 5/8  
6 inch metered residential customer class provides approximately 78.3 percent of  
7 water revenues under present rates. Under Staff's proposed rates, the 5/8 inch  
8 meter customer provides approximately 77.0 percent of water revenues. The  
9 majority of the revenue shift is to larger commercial metered customers.

10 **Q. DOESN'T THE 5/8 INCH CUSTOMER CLASS COMPRISE THE BULK OF**  
11 **THE CUSTOMERS?**

12 **A.** Yes. The 5/8 inch residential customer class comprises nearly 95 percent of the  
13 customers and uses over 78 percent of the water.

14 **Q. DO YOU HAVE AN EXHIBIT SHOWING THE PERCENTAGES OF**  
15 **REVENUES DERIVED FROM EACH CUSTOMER CLASS UNDER**  
16 **PRESENT RATES AND STAFF PROPOSED RATES?**

17 **A.** Yes. Exhibit TJB-RB3 is a revenue summary similar to the H-1 schedule  
18 contained the Company's rebuttal schedules which shows the revenues under  
19 present rates and Staff's proposed rates.

20 **Q. DOESN'T THE COMPANY'S RATE DESIGN SHIFT REVENUES AWAY**  
21 **FROM THE 5/8 INCH RESIDENTIAL CLASS?**

22 **A.** Only slightly, this reflects my effort to balance all of the factors that go into rate  
23 design. As you will find on Rebuttal Schedule H-1, the percent of revenues under  
24 the Company proposed rates is about 78.1 percent. Compare this to about 78.3  
25 percent under present rates.

26

1 **Q. YOU SAID THAT THERE ARE OTHER PROBLEMS WITH THE STAFF**  
2 **RATES. WHAT ARE THEY?**

3 A. Staff is also shifting revenue recovery away from the monthly minimums on to the  
4 commodity rates. Under present rates, approximately 29.6 percent of revenues are  
5 derived from the monthly minimums. However, under Staff's proposed rates, the  
6 percentage drops to 28.8 percent. This shift results in more revenue instability as  
7 less revenue from the monthly minimums exposes the Company to less revenues  
8 when water sales are affected by conservation.

9 **Q. HOW DOES THE COMPANY'S RATE DESIGN COMPARE?**

10 A. The Company proposed rate design continues to derive approximately 29.6 percent  
11 revenue recovery from the monthly minimums, the same as under present rates. I  
12 should note that based upon my experience, Staff typically recommends revenue  
13 recovery between 30 and 40 percent of the monthly minimums. So, RRUI's  
14 current rate design is already riskier than most that I have seen. Shifting revenue  
15 recovery further away from the monthly minimums will only increase revenue  
16 instability.

17 **Q. PLEASE CONTINUE.**

18 A. Staff's revenue shift can also be found by comparing the revenues from monthly  
19 minimum to the revenues from the first tier commodity rates. Under present rates,  
20 approximately 34.6 percent of revenues are recovered from these two components  
21 of metered revenues. Under Staff's rate design, this percentage drops to about 33.2  
22 percent.

23 **Q. HAVE YOU PREPARED SCHEDULES ILLUSTRATING THE REVENUE**  
24 **RECOVERY FROM THE MONTHLY MINIMUMS AND FROM EACH**  
25 **TIER?**

26

1 A. Yes. Exhibit TJB-RB4 contains schedules showing the revenue breakdown by  
2 customer class under present rates, Company proposed rates and Staff proposed  
3 rates.

4 Q. THANK YOU, CAN YOU PLEASE COMMENT ON RUCO'S RATE  
5 DESIGN?

6 A. RUCO is proposing an inverted three tier design for the 5/8 inch metered  
7 residential and an inverted two tier design for the 3/4 inch and larger metered  
8 customers.<sup>54</sup> RUCO's break-over points are the same as under present rates.

9 Like the Company's rate design, RUCO's rate design spreads the rate  
10 increase more evenly than Staff's rate design, and while RUCO's rate design does  
11 shift revenue from the monthly minimums, it is less of a shift than Staff's rate  
12 design. However, when comparing the revenues from the monthly minimums plus  
13 the first tier commodity revenues, RUCO's proposed rate provide about the same  
14 level as under present rates.

15 Q. HAVE YOU PREPARED A SCHEDULE TO ILLUSTRATE THE  
16 AVERAGE INCREASE BY CUSTOMER CLASS UNDER RUCO'S  
17 PROPOSED RATES?

18 A. Yes. Exhibit TJB-RB2 is similar to the H-2 schedule contained in the Company's  
19 rebuttal filing. The H-2 shows the average bill at present and proposed rates.  
20 RUCO is recommending a revenue increase of about 50 percent. As shown on the  
21 schedule, RUCO is providing only a 47.7 percent increase on the average 5/8 inch  
22 residential metered customers. The larger metered commercial customers on  
23 average will see a rate increase of 50 to 51 percent.

24  
25  
26 <sup>54</sup> See RUCO Water Schedule TJC-RD1.

1 Q. DOES RUCO'S RATE DESIGN SHIFT REVENUE AWAY FROM THE 5/8  
2 INCH METERED RESIDENTIAL CLASS?

3 A. Yes. But, to a far less extent than does Staff's rate design.

4 Q. DO YOU HAVE AN EXHIBIT SHOWING THE PERCENTAGES OF  
5 REVENUES DERIVED FROM EACH CUSTOMER CLASS UNDER  
6 PRESENT RATES AND RUCO PROPOSED RATES?

7 A. Yes. Exhibit TJB-RB3 is a revenue summary similar to the H-1 schedule  
8 contained the Company's rebuttal schedules, which show the revenues under  
9 present rates and RUCO's proposed rates.

10 B. Wastewater Division

11 Q. WHAT ARE THE COMPANY'S REBUTTAL PROPOSED RATES FOR  
12 WASTEWATER SERVICE?

13 A. The Company's proposed rates are:

14 MONTHLY SERVICE CHARGES

15	5/8" x 3/4" meters	\$52.30
16	3/4" Meters	\$59.64
17	1" Meters	\$73.68
18	1 1/2" Meters	\$108.80
19	2" Meters	\$150.91
20	3" Meter	\$262.90
21	4" Meters	\$389.68
22	6" Meter	\$740.51
23	8" Meters	\$1,161.96
24	10" Meters	\$1,653.63
25	12" Meters	\$3,058.47

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**Q. DO YOU HAVE ANY RESPONSE TO STAFF'S RECOMMENDATIONS CONCERNING THE COMPANY PROPOSED HOOK-UP FEE?**

A. No. Response to Staff's testimony can be found on the rebuttal testimony of Greg Sorensen.<sup>57</sup>

**Q. DO YOU HAVE ANY RESPONSE TO STAFF'S AND/OR RECOMMENDATIONS CONCERNING THE COMPANY PROPOSED LOW INCOME TARIFF?**

A. No. Response to Staff's testimony can be found on the rebuttal testimony of Greg Sorensen.<sup>58</sup>

**Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**

A. Yes.

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<sup>57</sup> Rebuttal Testimony of Greg Sorensen at 4-9.

<sup>58</sup> *Id.* at 10-11.

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

**THOMAS J. BOURASSA**  
**REBUTTAL TESTIMONY**  
**(RATE BASE, INCOME STATEMENT AND RATE DESIGN)**  
**February 1, 2010**

**Exhibit TJB-RB1**



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

**THOMAS J. BOURASSA**  
**REBUTTAL TESTIMONY**  
**(RATE BASE, INCOME STATEMENT AND RATE DESIGN)**  
**February 1, 2010**

**Exhibit TJB-RB2**

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

Attachment

Line No.	Meter Size, Class	(a) Average Number of Customers at 12/31/2008	Average Consumption	Present Rates	Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	5/8 Inch Residential	5,745	8,548 \$	19.94 \$	29.76	9.82	49.22%
2	3/4 Inch Residential	8	3,558	15.70	24.78	9.09	57.88%
3	1 Inch Residential	36	11,326	36.35	56.15	19.79	54.44%
4	1.5 Inch Residential	4	20,116	68.92	105.40	36.48	52.93%
5	2 Inch Residential	4	19,938	87.89	134.83	46.93	53.40%
6	Subtotal	5,797					
7							
8	5/8 Inch Commercial	97	11,575 \$	25.40 \$	39.81	14.40	56.70%
9	1 Inch Commercial	43	17,804	47.93	75.84	27.91	58.24%
10	1.5 Inch Commercial	10	39,685	106.10	172.32	66.22	62.41%
11	2 Inch Commercial	33	154,509	336.17	570.23	234.06	69.63%
12	3 Inch Commercial	13	266,143	599.67	968.37	368.70	61.48%
13	4 Inch Commercial	5	282,262	717.40	1,147.70	430.30	59.98%
14	6 Inch Commercial	1	641,667	1,515.42	2,490.82	975.40	64.37%
15	Subtotal	202					
16							
17	5/8 Inch Multi-family	10	10,718 \$	23.77 \$	36.88	13.10	55.11%
18	1.5 Inch Multi-family	1	7,417	47.31	70.40	23.09	48.80%
19	Subtotal	11					
20							
21	Fire Lines up to 8 Inch	15	- \$	6.48 \$	10.00	3.52	54.32%
22							
23							
24	Total	6,025					
25							

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

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

Attachment

Line No.	Meter Size, Class	(a) Average Number of Customers at 12/31/2008	Average Consumption	Average Bill		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	5/8 Inch Residential	5,745	8,548 \$	19.94 \$	29.33	9.39	47.09%
2	3/4 Inch Residential	8	3,558	15.70	23.37	7.67	48.86%
3	1 Inch Residential	36	11,326	36.35	54.26	17.90	49.24%
4	1.5 Inch Residential	4	20,116	68.92	102.80	33.88	49.15%
5	2 Inch Residential	4	19,938	87.89	130.80	42.91	48.82%
6	Subtotal	5,797					
7							
8	5/8 Inch Commercial	97	11,575 \$	25.40 \$	37.63	12.23	48.15%
9	1 Inch Commercial	43	17,804	47.93	71.82	23.89	49.85%
10	1.5 Inch Commercial	10	39,685	106.10	159.74	53.64	50.56%
11	2 Inch Commercial	33	154,509	336.17	509.43	173.26	51.54%
12	3 Inch Commercial	13	266,143	599.67	910.22	310.54	51.79%
13	4 Inch Commercial	5	292,262	717.40	1,086.81	369.41	51.49%
14	6 Inch Commercial	1	641,667	1,515.42	2,298.02	782.60	51.64%
15	Subtotal	202					
16							
17	5/8 Inch Multi-family	10	10,718 \$	23.77 \$	35.14	11.37	47.80%
18	1.5 Inch Multi-family	1	7,417	47.31	70.25	22.94	48.49%
19	Subtotal	11					
20							
21	Fire Lines up to 8 Inch	15	- \$	6.48 \$	13.77	7.29	112.50%
22							
23							
24	Total	6,025					

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

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

**THOMAS J. BOURASSA**  
**REBUTTAL TESTIMONY**  
**(RATE BASE, INCOME STATEMENT AND RATE DESIGN)**  
**February 1, 2010**

**Exhibit TJB-RB3**





Revenue Summary

With Annualized Revenues to Year End Number of Customers

Line No.	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1						
2						
3	\$ 1,808,782	\$ 2,856,874	\$ 1,048,092	57.94%	100.00%	100.00%
4	(4,794)	(5,785)	(991)	20.67%	-0.27%	-0.20%
5	\$ 1,803,988	\$ 2,851,089	\$ 1,047,101	58.04%		
6						
7	\$ 44,672	\$ 44,672	-	0.00%	2.47%	1.56%
8	(1,404)		1,404	0.00%	-0.08%	0.00%
9	\$ 1,847,256	\$ 2,895,761	\$ 1,048,505	56.76%	0.00%	0.00%
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With Annualized Revenues to Year End Number of Customers

Line No.	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1						
2						
3	\$ 1,808,782	\$ 2,692,351	\$ 883,569	48.85%	100.00%	100.00%
4	22,007	33,141	11,135	50.60%	1.22%	1.23%
5	\$ 1,830,789	\$ 2,725,493	\$ 894,704	48.87%		
6						
7	\$ 44,672	\$ 44,672	-	0.00%	2.47%	1.66%
8	(1,404)		1,404	0.00%	-0.08%	0.00%
9	\$ 1,874,057	\$ 2,770,165	\$ 896,108	47.82%	0.00%	0.00%
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**Rio Rico Utilities, Inc.**  
**Docket No. WS-02676A-09-0257**

**THOMAS J. BOURASSA**  
**REBUTTAL TESTIMONY**  
**(RATE BASE, INCOME STATEMENT AND RATE DESIGN)**  
**February 1, 2010**

**Exhibit TJB-RB4**

Rio Rico Utilities, Inc. - Water Division  
Revenue Breakdown Summary  
Present Rates

Attachment  
Page 1

		Current Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
5/8 Inch Residential	\$	435,994	\$ 61,861	\$ 310,052	\$ 579,443	\$ 1,387,350
3/4 Inch Residential	\$	926	\$ 536	\$ 48		\$ 1,511
1 Inch Residential	\$	10,260	\$ 6,950	\$ 5,048		\$ 22,257
1.5 Inch Residential	\$	3,331	\$ 2,125	\$ 1,548		\$ 7,005
2 Inch Residential	\$	3,240	\$ 1,707	\$ 355		\$ 5,302
Subtotal						
5/8 Inch Commercial	\$	8,978	\$ 2,389	\$ 4,922	\$ 20,633	\$ 36,923
1 Inch Commercial	\$	9,439	\$ 3,185	\$ 14,477		\$ 27,101
1.5 Inch Commercial	\$	4,164	\$ 488	\$ 8,230		\$ 12,882
2 Inch Commercial	\$	22,680	\$ 9,933	\$ 108,154		\$ 140,767
3 Inch Commercial	\$	15,178	\$ (729)	\$ 73,192		\$ 87,640
4 Inch Commercial	\$	12,492	\$ 1,622	\$ 38,034		\$ 52,148
6 Inch Commercial	\$	3,855	\$ -	\$ 14,330		\$ 18,185
Subtotal						
5/8 Inch Multi-family	\$	697	\$ 36	\$ 385	\$ 1,521	\$ 2,639
1.5 Inch Multi-family	\$	416	\$ 151	\$ -	\$ -	\$ 568
Subtotal						
Fire Lines up to 8 Inch	\$	1,711				\$ 1,711
<b>TOTALS</b>	<b>\$</b>	<b>533,362</b>	<b>\$ 90,253</b>	<b>\$ 578,777</b>	<b>\$ 601,596</b>	<b>\$ 1,803,988</b>
Percent of Total		29.57%	5.00%	32.08%	33.35%	100.00%
Cummulative %		29.57%	34.57%	66.65%	100.00%	

Rio Rico Utilities, Inc. - Water Division  
Revenue Breakdown Summary  
Proposed Rates

Attachment  
Page 2

		Proposed Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
5/8 Inch Residential	\$	884,832	\$ 119,426	\$ 615,274	\$ 1,172,661	\$ 2,792,192
3/4 Inch Residential	\$	1,885	\$ 1,097	\$ 99		\$ 3,081
1 Inch Residential	\$	19,635	\$ 14,226	\$ 10,319		\$ 44,180
1.5 Inch Residential	\$	6,283	\$ 4,350	\$ 3,165		\$ 13,798
2 Inch Residential	\$	6,283	\$ 3,105	\$ 1,127		\$ 10,515
Subtotal						
5/8 Inch Commercial	\$	18,221	\$ 4,612	\$ 9,920	\$ 41,902	\$ 74,655
1 Inch Commercial	\$	18,064	\$ 6,520	\$ 29,588		\$ 54,172
1.5 Inch Commercial	\$	7,854	\$ 999	\$ 16,820		\$ 25,673
2 Inch Commercial	\$	43,982	\$ 17,790	\$ 223,960		\$ 285,732
3 Inch Commercial	\$	30,159	\$ (5,640)	\$ 152,173		\$ 176,692
4 Inch Commercial	\$	23,562	\$ 12,949	\$ 65,882		\$ 102,393
6 Inch Commercial	\$	7,854	\$ -	\$ 28,676		\$ 36,530
Subtotal						
5/8 Inch Multi-family	\$	1,414	\$ 70	\$ 761	\$ 3,075	\$ 5,319
1.5 Inch Multi-family	\$	785	\$ 310	\$ -		\$ 1,095
Subtotal						
Fire Lines up to 8 Inch	\$	3,432				\$ 3,432
<b>TOTALS</b>						
	\$	<u>1,074,246</u>	\$ <u>179,812</u>	\$ <u>1,157,763</u>	\$ <u>1,217,637</u>	\$ <u>3,629,458</u>
Percent of Total		29.60%	4.95%	31.90%	33.55%	100.00%
Cummulative %		29.60%	34.55%	66.45%	100.00%	

Rio Rico Utilities, Inc. - Water Division - Staff Proposed  
 Revenue Breakdown Summary  
 Proposed Rates

Attachment  
 Page 3

		Proposed Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
5/8 Inch	Residential	\$ 675,960	\$ 73,558	\$ 441,484	\$ 964,164	\$ 2,155,167
3/4 Inch	Residential	\$ 1,440	\$ 867	\$ 80		\$ 2,386
1 Inch	Residential	\$ 15,000	\$ 11,242	\$ 8,681		\$ 34,923
1.5 Inch	Residential	\$ 4,800	\$ 3,438	\$ 2,663		\$ 10,900
2 Inch	Residential	\$ 4,800	\$ 2,761	\$ 604		\$ 8,166
Subtotal						
5/8 Inch	Commercial	\$ 13,920	\$ 2,210	\$ 7,528	\$ 36,191	\$ 59,848
1 Inch	Commercial	\$ 13,800	\$ 5,152	\$ 25,180		\$ 44,132
1.5 Inch	Commercial	\$ 6,000	\$ 789	\$ 14,350		\$ 21,139
2 Inch	Commercial	\$ 33,600	\$ 16,068	\$ 192,185		\$ 241,854
3 Inch	Commercial	\$ 23,040	\$ (480)	\$ 127,606		\$ 150,166
4 Inch	Commercial	\$ 18,000	\$ 6,996	\$ 59,841		\$ 84,837
6 Inch	Commercial	\$ 6,000	\$ 1,612	\$ 22,310		\$ 29,923
Subtotal						
5/8 Inch	Multi-family	\$ 1,080	\$ 56	\$ 530	\$ 2,497	\$ 4,164
1.5 Inch	Multi-family	\$ 600	\$ 245	\$ -		\$ 845
Subtotal						
Fire Lines up to 8 Inch		\$ 2,640				\$ 2,640
<b>TOTALS</b>						
		<u>\$ 820,680</u>	<u>\$ 124,514</u>	<u>\$ 903,042</u>	<u>\$ 1,002,853</u>	<u>\$ 2,851,089</u>
	Percent of Total	28.78%	4.37%	31.67%	35.17%	100.00%
	Cummulative %	28.78%	33.15%	64.83%	100.00%	

Rio Rico Utilities, Inc. - Water Division - RUCO Proposed Rates  
 Revenue Breakdown Summary  
 Proposed Rates

Attachment  
 Page 4

		Proposed Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
5/8 Inch	Residential	\$ 656,998	\$ 98,603	\$ 467,167	\$ 871,401	\$ 2,094,169
3/4 Inch	Residential	\$ 1,369	\$ 807	\$ 73		\$ 2,249
1 Inch	Residential	\$ 15,156	\$ 10,465	\$ 7,674		\$ 33,295
1.5 Inch	Residential	\$ 4,921	\$ 3,200	\$ 2,354		\$ 10,475
2 Inch	Residential	\$ 4,786	\$ 2,571	\$ 539		\$ 7,895
Subtotal						
5/8 Inch	Commercial	\$ 13,266	\$ 3,384	\$ 7,293	\$ 31,237	\$ 55,179
1 Inch	Commercial	\$ 13,944	\$ 4,796	\$ 22,049		\$ 40,789
1.5 Inch	Commercial	\$ 6,151	\$ 735	\$ 12,540		\$ 19,426
2 Inch	Commercial	\$ 33,499	\$ 14,958	\$ 165,295		\$ 213,752
3 Inch	Commercial	\$ 22,419	\$ (1,098)	\$ 111,940		\$ 133,261
4 Inch	Commercial	\$ 18,452	\$ 2,442	\$ 58,132		\$ 79,027
6 Inch	Commercial	\$ 5,694	\$ -	\$ 21,882		\$ 27,576
Subtotal						
5/8 Inch	Multi-family	\$ 1,029	\$ 51	\$ 559	\$ 2,282	\$ 3,921
1.5 Inch	Multi-family	\$ 615	\$ 228	\$ -		\$ 843
Subtotal						
Fire Lines up to 8 Inch		\$ 3,635				\$ 3,635
TOTALS		\$ 801,935	\$ 141,142	\$ 877,496	\$ 904,919	\$ 2,725,493
Percent of Total		29.42%	5.18%	32.20%	33.20%	100.00%
Cummulative %		29.42%	34.60%	66.80%	100.00%	

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

**THOMAS J. BOURASSA**  
**REBUTTAL TESTIMONY**  
**(RATE BASE, INCOME STATEMENT AND RATE DESIGN)**  
**February 1, 2010**

# **SCHEDULES**

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

Exhibit  
 Rebuttal Schedule A-1  
 Page 1  
 Witness: Bourassa

Line  
 No.

1	Fair Value Rate Base	\$ 7,992,279
2		
3	Adjusted Operating Income	(187,072)
4		
5	Current Rate of Return	-2.34%
6		
7	Required Operating Income	\$ 935,097
8		
9	Required Rate of Return on Fair Value Rate Base	11.70%
10		
11	Operating Income Deficiency	\$ 1,122,168
12		
13	Gross Revenue Conversion Factor	1.6286
14		
15	Increase in Gross Revenue Revenue Requirement	1,827,602
16		
17	Adjusted Test Year Revenues	\$ 1,847,256
18	Increase in Gross Revenue Revenue Requirement	\$ 1,827,602
19	Proposed Revenue Requirement	\$ 3,674,859
20	% Increase	98.94%
21		

		<u>Present</u>	<u>Proposed</u>	<u>Dollar</u>	<u>Percent</u>
	<u>Customer</u>	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>	<u>Increase</u>
22					
23	<b>Classification</b>				
24	5/8 Inch Residential	\$ 1,416,089	\$ 2,849,962	\$ 1,433,873	101.26%
25	3/4 Inch Residential	1,492	3,043	1,551	103.94%
26	1 Inch Residential	16,001	31,755	15,755	98.46%
27	1.5 Inch Residential	3,016	5,931	2,915	96.66%
28	2 Inch Residential	4,236	8,401	4,165	98.34%
29		-	-	-	0.00%
30	<b>Subtotal</b>	<b>\$ 1,440,833</b>	<b>\$ 2,899,092</b>	<b>\$ 1,458,259</b>	<b>101.21%</b>
31					
32	5/8 Inch Commercial	\$ 30,960	\$ 62,631	\$ 31,672	102.30%
33	1 Inch Commercial	25,394	50,761	25,368	99.90%
34	1.5 Inch Commercial	13,279	26,462	13,183	99.28%
35	2 Inch Commercial	134,126	272,232	138,106	102.97%
36	3 Inch Commercial	97,545	196,157	98,612	101.09%
37	4 Inch Commercial	43,844	86,182	42,338	96.56%
38	6 Inch Commercial	18,185	36,530	18,345	100.88%
39		-	-	-	0.00%
40	<b>Subtotal</b>	<b>\$ 363,332</b>	<b>\$ 730,955</b>	<b>\$ 367,623</b>	<b>101.18%</b>
41					0.00%
42					
43	5/8 Inch Multi-family	\$ 2,850	\$ 5,745	2,895	101.57%
44	1.5 Inch Multi-family	568	1,095	527	92.90%
45	<b>Subtotal</b>	<b>\$ 3,418</b>	<b>\$ 6,840</b>	<b>\$ 3,422</b>	<b>100.13%</b>
46					
47	Fire Lines up to 8 Inch	\$ 1,199	\$ 2,405	1,206	100.62%
48					
49	<b>Subtotal Revenues before Annualization</b>	<b>\$ 1,808,782</b>	<b>\$ 3,639,293</b>	<b>\$ 1,830,511</b>	<b>101.20%</b>
50	Revenue Annualization	(4,794)	(9,834)	(5,041)	105.15%
51	Miscellaneous Revenues	44,672	44,672	-	0.00%
52	Reconciling Amount H-1 to C-1	(1,404)	728	2,132	-151.86%
53	<b>Total of Water Revenues (a)</b>	<b>\$ 1,847,256</b>	<b>\$ 3,674,858</b>	<b>\$ 1,827,602</b>	<b>98.94%</b>
54					

**SUPPORTING SCHEDULES:**

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

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

Exhibit  
 Rebuttal Schedule B-1  
 Page 1  
 Witness: Bourassa

Line No.		<u>Original Cost</u> <u>Rate base</u>	<u>Fair Value</u> <u>Rate Base</u>
1			
2	Gross Utility Plant in Service	\$ 34,059,801	\$ 34,059,801
3	Less: Accumulated Depreciation	<u>12,472,661</u>	<u>12,472,661</u>
4			
5	Net Utility Plant in Service	\$ 21,587,140	\$ 21,587,140
6			
7	<u>Less:</u>		
8	Advances in Aid of		
9	Construction	122,372	122,372
10	Contributions in Aid of		
11	Construction	20,140,197	20,140,197
12			
13	Accumulated Amortization of CIAC	(6,628,197)	(6,628,197)
14			
15	Customer Meter Deposits	275,455	275,455
16	Deferred Income Taxes & Credits	(314,965)	(314,965)
17			
18			
19			
20	<u>Plus:</u>		
21	Unamortized Debt Issuance		
22	Costs	-	-
23	Deferred Reg. Assets	-	-
24	Working capital	-	-
25			
26			
27			
28			
29	Total Rate Base	<u>\$ 7,992,279</u>	<u>\$ 7,992,279</u>
30			
31			
32			
33	<u>SUPPORTING SCHEDULES:</u>		<u>RECAP SCHEDULES:</u>
34	Rebuttal B-2		Rebuttal A-1
35	Rebuttal B-3		
36	Rebuttal B-5		
37			
38			

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

Exhibit  
 Rebuttal Schedule B-2  
 Page 1  
 Witness: Bourassa

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

SUPPORTING SCHEDULES:  
 Rebuttal B-2, pages 2

RECAP SCHEDULES:  
 Rebuttal B-1

41  
42  
43  
44  
45  
46  
47  
48

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

Exhibit  
 Rebuttal Schedule B-2  
 Page 2  
 Witness: Bourassa

Line No.	Description	Proforma Adjustments			
		1 Actual at End of Test Year	2 Plant-in-Service	3 Accumulated Depreciation	4 DIT
1	Gross Utility Plant in Service	\$ 34,059,801	-		Adjusted at end of Test Year
2					\$ 34,059,801
3					
4	Less:				
5	Accumulated Depreciation	12,472,661			12,472,661
6					
7					
8					
9	Net Utility Plant in Service	\$ 21,587,140	\$ -	\$ -	\$ 21,587,140
10					
11					
12	Less:				
13	Advances in Aid of Construction	73,648		48,724	122,372
14					
15					
16	Contributions in Aid of Construction (CIAC)	20,188,921		(48,724)	20,140,197
17					
18					
19	Accumulated Amort of CIAC	(6,628,197)			(6,628,197)
20					
21	Customer Meter Deposits	275,455			275,455
22	Deferred Income Taxes & Credits	(778,203)		463,238	(314,965)
23					
24					
25	Plus:				
26	Unamortized Finance Charges	-			-
27					
28					
29	Allowance for Working Capital	-			-
30					
31	Total	\$ 8,455,517	\$ -	\$ (463,238)	\$ 7,992,279
32					
33					
34					
35					
36					
37					

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

Line No.	Plant-in-Service	Acct. No.	Description	Adjusted Original Cost	Adjustments						Rebuttal Adjusted Original Cost
					A	B	C	D	E	F	
					Plant Reclassification	Intentionally Left Blank					
1		301	Organize Cost	5,785							5,785
2		302	Franchise Cost	417							417
3		303	Land and Land Rights	44,194							44,194
4		304	Structures and Improvements	2,732,833							2,732,833
5		305	Collecting and Impounding Res.	-							-
6		306	Lake River and Other Intakes	-							-
7		307	Wells and Springs	563,511							563,511
8		308	Infiltration Galleries and Tunnels	-							-
9		309	Supply Mains	279,153							279,153
10		310	Power Generation Equipment	197,120							197,120
11		311	Electric Pumping Equipment	2,591,970							2,591,970
12		320	Water Treatment Equipment	372,970	(372,970)						-
13		320.1	Water Treatment Plant	-	372,970						372,970
14		320.2	Chemical Solution Feeders	-							-
15		330	Dist. Reservoirs & Standpipe	759,861	(759,861)						-
16		330.1	Storage tanks	-	759,861						759,861
17		330.2	Pressure Tanks	-							-
18		331	Trans. and Dist. Mains	22,089,150							22,089,150
19		333	Services	2,209,274							2,209,274
20		334	Meters	956,605							956,605
21		335	Hydrants	568,577							568,577
22		336	Backflow Prevention Devices	3,848							3,848
23		339	Other Plant and Misc. Equip.	121,843							121,843
24		340	Office Furniture and Fixtures	22,986							22,986
25		340.1	Computers and Software	76,919							76,919
26		341	Transportation Equipment	218,945							218,945
27		342	Stores Equipment	-							-
28		343	Tools and Work Equipment	15,035							15,035
29		344	Laboratory Equipment	3,061							3,061
30		345	Power Operated Equipment	-							-
31		346	Communications Equipment	218,040							218,040
32		347	Miscellaneous Equipment	7,701							7,701
33		348	Other Tangible Plant	-							-
34			TOTALS	\$ 34,059,801	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,059,801
35			Plant-in-Service per Books								\$ 34,059,801
36			Increase (decrease) in Plant-in-Service								\$ -
37			Adjustment to Plant-in-Service								\$ -

<sup>1</sup> Computed Balance as shown on B-2, page 3.8

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	Plant AI 12/31/2002	2002 Accum. Depr.	2003 Plant Additions	2003 Plant Adjustments	2003 Adjusted Plant Additions	2003 Plant Refirements	2003 Salvage A/D Only	2003 Plant Balance	2003 Deprec.
301	Organization Cost	0.00%	0.00%	5,785	-	-	-	-	-	-	5,785	-
302	Franchise Cost	0.00%	0.00%	417	-	-	-	-	-	-	417	-
303	Land and Land Rights	0.00%	0.00%	44,194	-	-	-	-	-	-	44,194	-
304	Structures and Improvements	1.99%	3.33%	435,181	104,047	253,614	-	253,614	-	-	688,795	11,184
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	2.50%	-	-	-	-	-	-	-	-	-
307	Wells and Springs	3.33%	3.33%	272,063	78,656	-	-	-	-	-	272,063	9,005
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-	-	-	-	-	-	-	-	-
309	Supply Mains	1.66%	2.00%	29,881	(3,617)	249,272	-	249,272	-	-	279,153	2,565
310	Power Generation Equipment	3.96%	5.00%	52,635	19,077	134,736	-	134,736	-	-	187,371	4,752
311	Electric Pumping Equipment	3.96%	12.50%	1,504,459	508,421	151,098	-	151,098	-	-	1,655,557	62,568
320	Water Treatment Equipment	3.99%	3.33%	268,685	74,460	-	-	-	-	-	268,685	10,721
320.1	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	3.99%	20.00%	-	-	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.00%	2.22%	353,111	106,812	50,494	-	50,494	-	-	403,605	7,567
330.1	Storage tanks	2.00%	2.22%	-	-	-	-	-	-	-	-	-
330.2	Pressure Tanks	2.00%	5.00%	-	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	1.66%	2.00%	19,116,148	5,898,199	134,818	-	134,818	(17,464)	-	19,233,502	318,447
333	Services	2.49%	3.33%	1,465,553	483,437	47,278	-	47,278	-	-	1,512,831	37,081
334	Meters	2.49%	8.33%	519,191	82,474	42,569	-	42,569	(12,864)	-	548,896	13,458
335	Hydrants	1.99%	2.00%	459,227	92,050	1,875	-	1,875	(1,352)	-	459,750	9,157
336	Backflow Prevention Devices	4.01%	6.67%	-	-	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	4.80%	6.67%	22,988	9,507	-	-	-	-	-	22,986	1,103
340	Office Furniture and Fixtures	4.80%	20.00%	69,484	18,780	-	-	-	-	-	69,484	3,336
340.1	Computers and Software	33.33%	20.00%	2,925	4,954	-	-	-	-	-	2,925	(2,029)
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-	-	-	-	-
343	Tools and Work Equipment	4.00%	5.00%	15,035	5,054	-	-	-	-	-	15,035	601
344	Laboratory Equipment	4.00%	10.00%	3,061	1,378	-	-	-	-	-	3,061	122
345	Power Operated Equipment	5.03%	5.00%	-	-	-	-	-	-	-	-	-
346	Communications Equipment	4.89%	10.00%	141,858	19,381	-	-	-	-	-	141,858	7,135
347	Miscellaneous Equipment	10.00%	10.00%	7,701	2,709	-	-	-	-	-	7,701	377
348	Other Tangible Plant Rounding	10.00%	10.00%	-	-	-	-	-	-	-	-	-
Plant Held for Future Use												-
TOTAL WATER PLANT												24,789,590
												7,506,779
												1,065,754
												(31,680)
												25,823,664
												497,151



**Exhibit**  
**Rebuttal Schedule B-2**  
**Page 3.3**

**Exhibit**  
**Rebuttal Schedule B-2**  
**Page 3.3**

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2005 Plant Additions	2005 Plant Adjustments	2005 Plant Adjustments <sup>1</sup>	2005 Plant Adjustments	2005 Adjusted Plant Additions	2005 Plant Retirements	2005 Salvage A/D Only	2005 Plant Balance	2005 Deprec.	
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	5,785	-	
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	417	-	
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	-	44,194	-	
304	Structures and Improvements	1.99%	3.33%	-	-	-	-	-	-	-	688,795	22,937	
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-	-	-	
306	Lake River and Other Intakes	2.50%	3.33%	-	-	-	-	-	-	-	400,357	13,332	
307	Wells and Springs	3.31%	3.33%	-	-	-	-	-	-	-	-	-	
308	Infiltration Galleries and Tunnels	3.31%	6.67%	-	-	-	-	-	-	-	-	-	
309	Supply Mains	1.66%	2.00%	-	-	-	-	-	-	-	279,153	5,583	
310	Power Generation Equipment	3.96%	5.00%	-	-	-	-	-	-	-	187,371	9,369	
311	Electric Pumping Equipment	3.96%	12.50%	507,953	-	-	(2,008)	507,953	(2,008)	-	2,397,829	268,107	
320	Water Treatment Equipment	3.99%	3.33%	34,253	-	-	(749)	34,253	(749)	-	567,389	11,676	
320.1	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	-	-	-	
320.2	Chemical Solution Feeders	3.99%	20.00%	-	-	-	-	-	-	-	-	-	
330	Distribution Reservoirs & Standpipe	2.00%	2.22%	318,417	-	-	-	318,417	-	-	759,861	13,334	
330.1	Storage tanks	2.00%	2.22%	-	-	-	-	-	-	-	-	-	
330.2	Pressure Tanks	2.00%	5.00%	-	-	-	-	-	-	-	-	-	
331	Transmission and Distribution Mains	1.66%	2.00%	736,273	-	-	(44,284)	736,273	(44,284)	-	20,357,216	400,224	
333	Services	2.49%	3.33%	153,500	-	-	-	153,500	-	-	1,720,542	54,738	
334	Meters	2.49%	8.33%	82,087	-	-	-	82,087	(12,138)	-	649,657	51,203	
335	Hydrants	1.99%	2.00%	20,516	-	-	-	20,516	(1,645)	-	494,074	9,693	
336	Backflow Prevention Devices	4.01%	6.67%	-	-	-	-	-	-	-	-	-	
339	Other Plant and Miscellaneous Equipment	4.80%	6.67%	-	-	-	-	-	-	-	22,986	1,533	
340	Office Furniture and Fixtures	4.80%	20.00%	6,105	-	-	-	6,105	-	-	76,919	14,773	
340.1	Computers and Software	33.33%	20.00%	-	-	-	-	-	-	-	2,925	-	
341	Transportation Equipment	4.00%	4.00%	-	-	-	-	-	-	-	-	-	
342	Stores Equipment	4.00%	5.00%	-	-	-	-	-	-	-	15,035	752	
343	Tools and Work Equipment	4.00%	10.00%	-	-	-	-	-	-	-	3,061	306	
344	Laboratory Equipment	5.03%	5.00%	-	-	-	-	-	-	-	-	-	
345	Power Operated Equipment	4.89%	10.00%	55,958	-	-	-	55,958	-	-	197,816	16,984	
346	Communications Equipment	4.89%	10.00%	-	-	-	-	-	-	-	7,701	770	
347	Miscellaneous Equipment	4.89%	10.00%	-	-	-	-	-	-	-	-	-	
348	Other Tangible Plant Rounding	-	-	-	-	-	-	-	-	-	-	-	
Plant Held for Future Use													
TOTAL WATER PLANT													
				1,915,062	-	-	-	1,915,062	(60,824)	-	-	28,679,084	895,315

Account	No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2006 Plant Additions	2006 Plant Adjustments <sup>1</sup>	2006 Adjusted Plant Additions	2006 Plant Retirements	2006 Salvage A/D Only	2006 Plant Balance	2006 Deprec.
	301	Organization Cost	0.00%	0.00%	-	-	-	-	-	5,785	-
	302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	417	-
	303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	44,194	-
	304	Structures and Improvements	1.99%	2.50%	545,966	-	545,966	-	-	1,234,761	32,027
	305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-
	306	Lake River and Other Intakes	3.31%	3.33%	-	(147)	53,464	-	-	453,821	14,222
	307	Wells and Springs	3.33%	6.67%	53,611	-	-	-	-	-	-
	308	Infiltration Galleries and Tunnels	1.66%	2.00%	-	-	-	-	-	279,153	5,583
	309	Supply Mains	3.96%	5.00%	-	-	-	-	-	187,371	9,369
	310	Power Generation Equipment	3.96%	12.50%	-	-	-	-	-	2,493,652	305,718
	311	Electric Pumping Equipment	3.99%	3.33%	95,823	-	95,823	-	-	372,970	12,327
	320	Water Treatment Equipment	3.99%	3.33%	5,581	-	5,581	-	-	-	-
	320.1	Water Treatment Equipment	3.99%	20.00%	-	-	-	-	-	-	-
	320.2	Chemical Solution Feeders	2.00%	2.22%	-	-	-	-	-	-	-
	330	Distribution Reservoirs & Standpipe	2.00%	2.22%	-	-	-	-	-	759,861	16,869
	330.1	Storage tanks	2.00%	2.22%	-	-	-	-	-	-	-
	330.2	Pressure Tanks	2.00%	5.00%	-	-	-	-	-	-	-
	331	Transmission and Distribution Mains	1.66%	2.00%	741,193	(1,901)	739,292	-	-	21,096,508	414,537
	333	Services	2.49%	3.33%	86,384	-	86,384	-	-	1,806,926	58,732
	334	Meters	2.49%	8.33%	60,552	-	60,552	-	-	710,209	56,638
	335	Hydrants	1.99%	2.00%	-	-	-	-	-	494,074	9,861
	336	Backflow Prevention Devices	4.01%	6.67%	-	-	-	-	-	-	-
	339	Other Plant and Miscellaneous Equipment	4.80%	6.67%	-	-	-	-	-	22,986	1,533
	340	Office Furniture and Fixtures	4.80%	20.00%	-	-	-	-	-	76,919	15,384
	340.1	Computers and Software	33.33%	20.00%	-	-	-	-	-	2,925	-
	341	Transportation Equipment	4.00%	4.00%	-	-	-	-	-	-	-
	342	Stores Equipment	4.00%	5.00%	-	-	-	-	-	15,035	752
	343	Tools and Work Equipment	4.00%	10.00%	-	-	-	-	-	3,081	306
	344	Laboratory Equipment	4.00%	5.00%	-	-	-	-	-	-	-
	345	Power Operated Equipment	5.03%	10.00%	3,547	-	3,547	-	-	201,363	19,959
	346	Communications Equipment	4.89%	10.00%	-	-	-	-	-	7,701	770
	347	Miscellaneous Equipment			-	-	-	-	-	-	-
	348	Other Tangible Plant Rounding			-	-	-	-	-	-	-
<p>Plant Held for Future Use</p> <p>TOTAL WATER PLANT</p>											
					1,592,656	(2,048)	1,590,607	-	-	30,269,691	974,608

<sup>1</sup> Affiliate Profit

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2007 Plant Additions	2007 Plant Adjustments <sup>1</sup>	2007 Adjusted Plant Additions	2007 Plant Retirements	2007 Salvage AMD Only	2007 Plant Balance	2007 Deprec.
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	5,785	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	417	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	44,194	-
304	Structures and Improvements	1.99%	3.33%	389,176	-	389,176	-	-	1,623,937	47,597
305	Collecting and Impounding Res.	3.33%	2.50%	-	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	2.50%	-	-	-	-	-	-	-
307	Wells and Springs	3.31%	3.33%	53,242	(1,830)	51,413	-	-	505,234	15,968
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-	-	-	-	-	-	-
309	Supply Mains	1.66%	2.00%	-	-	-	-	-	279,153	5,583
310	Power Generation Equipment	3.96%	5.00%	5,599	-	5,599	-	-	192,970	9,509
311	Electric Pumping Equipment	3.96%	12.50%	20,220	-	20,220	-	-	2,513,872	312,970
320	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	372,970	12,420
320.1	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	3.99%	20.00%	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.00%	2.22%	-	-	-	-	-	-	-
330.1	Storage tanks	2.00%	2.22%	-	-	-	-	-	759,861	16,869
330.2	Pressure Tanks	2.00%	5.00%	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	1.66%	2.00%	-	(2,010)	(2,010)	-	-	21,084,488	421,910
333	Services	2.49%	3.33%	100,765	-	100,765	-	-	1,907,691	61,848
334	Meters	2.49%	8.33%	129,225	-	129,225	-	-	839,434	64,543
335	Hydrants	1.99%	2.00%	56,833	-	56,833	-	-	550,907	10,450
336	Backflow Prevention Devices	4.01%	6.67%	3,848	-	3,848	-	-	3,848	128
339	Other Plant and Miscellaneous Equipment	4.80%	6.67%	12,160	(3,415)	8,745	-	-	8,745	292
340	Office Furniture and Fixtures	4.80%	20.00%	-	-	-	-	-	22,988	1,533
340.1	Computers and Software	33.33%	20.00%	-	-	-	-	-	76,919	15,384
341	Transportation Equipment	4.00%	4.00%	-	-	-	-	-	2,925	-
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-	-	-
343	Tools and Work Equipment	4.00%	5.00%	-	-	-	-	-	15,035	752
344	Laboratory Equipment	4.00%	10.00%	-	-	-	-	-	3,081	306
345	Power Operated Equipment	5.03%	5.00%	-	-	-	-	-	-	-
346	Communications Equipment	4.89%	10.00%	-	-	-	-	-	201,363	20,136
347	Miscellaneous Equipment	4.89%	10.00%	-	-	-	-	-	7,701	770
348	Other Tangible Plant Rounding			-	-	-	-	-	-	-
<p>Plant Held for Future Use</p> <p>TOTAL WATER PLANT</p>										
				771,069	(7,255)	763,814	-	-	31,033,505	1,018,968

<sup>1</sup> Affiliate Profit

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2008 Plant Additions	2008 Plant Adjustments	2008 Plant Retirements	2008 Salvage A/D Only	2008 Plant Balance	2008 Deprec.
301	Organization Cost	0.00%	0.00%	-	-	-	-	5,785	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	417	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	44,194	-
304	Structures and Improvements	1.99%	2.50%	839,316	269,580	1,108,866	-	2,732,833	72,540
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-
306	Lake River and Other Intakes	3.31%	3.33%	3,718	57,101	(2,542)	-	583,511	17,795
307	Wells and Springs	6.67%	6.67%	-	-	-	-	-	-
308	Infiltration Galleries and Tunnels	1.66%	2.00%	-	-	-	-	279,153	5,583
309	Supply Mains	3.96%	5.00%	4,150	-	4,150	-	197,120	9,782
310	Power Generation Equipment	3.96%	12.50%	65,771	12,498	(170)	-	2,591,970	319,115
311	Electric Pumping Equipment	3.99%	3.33%	-	-	-	-	372,970	12,420
320	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-
320.1	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-
320.2	Chemical Solution Feeders	2.00%	2.22%	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.00%	2.22%	-	-	-	-	759,861	16,869
330.1	Storage tanks	2.00%	2.22%	-	-	-	-	-	-
330.2	Pressure Tanks	1.66%	5.00%	-	-	-	-	-	-
331	Transmission and Distribution Mains	2.49%	2.00%	980,746	17,464	(3,558)	-	22,089,150	431,836
333	Services	2.49%	3.33%	258,637	42,945	301,582	-	2,209,274	68,547
334	Meters	1.99%	8.33%	117,171	-	117,171	-	956,605	74,805
335	Hydrants	4.01%	2.00%	17,671	-	17,671	-	568,577	11,195
336	Backflow Prevention Devices	4.80%	6.67%	-	-	(4,971)	-	3,648	257
339	Other Plant and Miscellaneous Equipment	4.80%	6.67%	118,069	-	113,098	-	121,843	4,355
340	Office Furniture and Fixtures	33.33%	20.00%	-	-	-	-	22,986	1,533
340.1	Computers and Software	33.33%	20.00%	108,010	108,010	216,020	-	76,919	3,229
341	Transportation Equipment	4.00%	4.00%	-	-	-	-	218,945	22,187
342	Stores Equipment	4.00%	4.00%	-	-	-	-	15,035	752
343	Tools and Work Equipment	4.00%	4.00%	-	-	-	-	3,061	306
344	Laboratory Equipment	5.03%	5.00%	-	-	-	-	-	-
345	Power Operated Equipment	4.89%	10.00%	16,678	-	16,678	-	218,040	20,970
346	Communications Equipment	10.00%	10.00%	-	-	-	-	7,701	770
347	Miscellaneous Equipment	10.00%	10.00%	-	-	-	-	-	-
348	Other Tangible Plant	10.00%	10.00%	-	-	-	-	-	-
	Rounding								
	Plant Held for Future Use								
	TOTAL WATER PLANT			2,529,938	507,598	(11,241)	3,026,295	34,059,801	1,094,817

<sup>1</sup> Affiliate Profit

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	Year End Accumulated Depreciation by Account		Year End Accumulated Depreciation by Account		Year End Accumulated Depreciation by Account		
				2002	2003	2004	2005	2006	2007	2008
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	
304	Structures and Improvements	1.99%	3.33%	104,047	115,231	131,245	154,182	186,209	233,806	
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	
306	Lake River and Other Intakes	3.31%	3.33%	78,656	87,661	98,807	112,139	126,361	160,123	
307	Wells and Springs	6.67%	6.67%	-	-	-	-	-	-	
308	Infiltration Galleries and Tunnels	1.66%	2.00%	(3,617)	(1,052)	3,819	9,402	14,985	20,568	
309	Supply Mains	3.96%	5.00%	19,077	23,829	31,736	41,105	50,473	59,982	
310	Power Generation Equipment	3.96%	12.50%	508,421	570,989	679,098	945,197	1,250,914	1,563,884	
311	Electric Pumping Equipment	3.99%	3.33%	74,460	85,181	96,705	107,632	119,959	132,379	
320	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	
320.1	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	
320.2	Chemical Solution Feeders	2.00%	2.22%	106,812	114,379	123,062	136,387	153,265	170,134	
330	Distribution Reservoirs & Standpipe	2.00%	2.22%	-	-	-	-	-	-	
330.1	Storage tanks	2.00%	2.22%	-	-	-	-	-	-	
330.2	Pressure Tanks	1.66%	2.00%	5,889,199	6,200,182	6,539,573	6,885,514	7,310,051	7,731,961	
331	Transmission and Distribution Mains	2.49%	3.33%	483,497	520,518	562,096	616,834	675,567	737,415	
333	Services	1.99%	2.00%	82,474	83,068	84,633	123,698	180,336	244,879	
334	Meters	4.01%	6.67%	92,060	99,855	109,170	117,217	127,089	137,549	
335	Hydrants	6.67%	6.67%	-	-	-	-	-	-	
336	Backflow Prevention Devices	4.80%	6.67%	-	-	-	-	-	-	
339	Other Plant and Miscellaneous Equipment	4.80%	6.67%	9,507	10,610	11,821	13,354	14,887	16,421	
340	Office Furniture and Fixtures	33.33%	20.00%	18,780	22,116	28,149	42,922	58,306	73,690	
340.1	Computers and Software	4.00%	4.00%	4,954	2,925	2,925	2,925	2,925	2,925	
341	Transportation Equipment	4.00%	4.00%	-	-	-	-	-	-	
342	Stores Equipment	5.03%	5.00%	5,054	5,655	6,294	7,046	7,798	8,550	
343	Tools and Work Equipment	4.89%	10.00%	1,378	1,500	1,669	1,975	2,281	2,587	
344	Laboratory Equipment	5.03%	10.00%	19,381	26,516	35,415	52,398	72,357	92,493	
345	Power Operated Equipment	4.89%	10.00%	2,709	3,086	3,561	4,331	5,101	5,871	
346	Communications Equipment	-	-	-	-	-	-	-	-	
347	Miscellaneous Equipment	-	-	-	-	-	-	-	-	
347	Miscellaneous Equipment	-	-	-	-	-	-	-	-	
348	Other Tangible Plant	-	-	-	-	-	-	-	-	
348	Rounding	-	-	-	-	-	-	-	-	
Plant Held for Future Use				-	-	-	-	-	-	-
TOTAL WATER PLANT				7,506,779	7,972,250	8,549,777	9,384,268	10,358,875	11,377,844	12,472,661



Rio Rico Utilities - Water Division  
Test Year Ended December 31, 2008  
Original Cost Rate Base Proforma Adjustments  
Adjustment 1

Exhibit  
Rebuttal Schedule B-2  
Page 5  
Witness: Bourassa

Line  
No.

1 Reclassification of AIAC and CIAC

2

3

4 CIAC

\$ (48,724)

5

6 AIAC

\$ 48,724

7

8

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13

14

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16

17 See Testimony

18

19 SUPPORTING SCHEDULES

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

Exhibit  
 Rebuttal Schedule B-5  
 Page 1  
 Witness: Bourassa

Line  
 No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	145,726
3	Pumping Power (1/24 of Pumping Power)		16,396
4	Purchased Water (1/24 of Purchased Water)		-
5	Materials and Supplies		-
6	Prepays		10,289
7			
8			
9	Total Working Capital Allowance	\$	<u>172,411</u>
10			
11			
12	Working Capital Requested	\$	<u>-</u>
13			

15 SUPPORTING SCHEDULES:  
 16 E-1

RECAP SCHEDULES:  
 Rebuttal B-1

17			
18			
19	<u>Cash Working Capital Detail</u>		<u>Adjusted</u>
20			<u>Test Year Results</u>
21	Total Operating Expense	\$	2,034,328
22	Less:		
23	Income Tax		(117,600)
24	Property Tax		126,733
25	Depreciation		465,889
26	Purchased Water		-
27	Pumping Power		393,496
28	Allowable Expenses	\$	<u>1,165,810</u>
29	1/8 of allowable expenses	\$	<u>145,726</u>
30			
31			

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

Exhibit  
 Rebuttal Schedule C-1  
 Page 1  
 Witness: Bourassa

Line No.	Test Year Adjusted Results	Adjustment	Rebuttal Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	<b>Revenues</b>				
2	\$ 1,802,584	\$ -	\$ 1,802,584	\$ 1,827,602	\$ 3,630,187
3	-	-	-		-
4	44,672	-	44,672		44,672
5	<u>\$ 1,847,256</u>	<u>\$ -</u>	<u>\$ 1,847,256</u>	<u>\$ 1,827,602</u>	<u>\$ 3,674,859</u>
6	<b>Operating Expenses</b>				
7	\$ -	-	-		-
8	-	-	-		-
9	441,501	(48,005)	393,496		393,496
10	-	-	-		-
11	9,347	-	9,347		9,347
12	23,150	-	23,150		23,150
13	805,032	13,097	818,129		818,129
14	76,859	-	76,859		76,859
15	487	-	487		487
16	-	-	-		-
17	26,954	-	26,954		26,954
18	79,315	(6,725)	72,590		72,590
19	37,699	-	37,699		37,699
20	-	-	-		-
21	17,564	-	17,564		17,564
22	70,000	-	70,000		70,000
23	14,822	(1,363)	13,459		13,459
24	371	(799)	(428)		(428)
25	463,297	2,592	465,889		465,889
26	-	-	-		-
27	130,373	(3,640)	126,733		126,733
28	(134,909)	17,309	(117,600)	705,434	587,834
29	<u>\$ 2,061,862</u>	<u>\$ (27,534)</u>	<u>\$ 2,034,328</u>	<u>\$ 705,434</u>	<u>\$ 2,739,762</u>
30	<u>\$ (214,606)</u>	<u>\$ 27,534</u>	<u>\$ (187,072)</u>	<u>\$ 1,122,168</u>	<u>\$ 935,097</u>
31	<b>Other Income (Expense)</b>				
32	-	-	-		-
33	-	-	-		-
34	-	-	-		-
35	-	-	-		-
36	-	-	-		-
37	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
38	<u>\$ (214,606)</u>	<u>\$ 27,534</u>	<u>\$ (187,072)</u>	<u>\$ 1,122,168</u>	<u>\$ 935,097</u>

SUPPORTING SCHEDULES:  
 Rebuttal C-1, page 2.1 and 2.2

RECAP SCHEDULES:  
 Rebuttal A-1

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

Exhibit  
 Rebuttal Schedule C-1  
 Page 2  
 Witness: Bourassa

Line No.	1	2	3	4	5	6	7	8	9	Proposed Rate Increase	Adjusted with Rate Increase	
	Test Year Adjusted Results	Property Taxes	Purchased Power	Transport. Expense	Out of Period Exp.	Misc. Expense	Bad Debt Exp.	Central Office Costs	Income Tax	Rebuttal Adjusted Results	Proposed Rate Increase	
1	Revenues											
2	Metered Water Revenues									\$ 1,802,584	\$ 1,827,602	\$ 3,630,187
3	Unmetered Water Revenues											
4	Other Water Revenues											
5		\$ 44,672								\$ 44,672		\$ 44,672
6	Operating Expenses											
7	Salaries and Wages											
8	Purchased Water											
9	Fuel for Power Production		(48,005)							393,496		393,496
10	Chemicals	441,501										
11	Materials & Supplies	9,347								9,347		9,347
12	Outside Services	23,150								23,150		23,150
13	Outside Services- Other	805,032			(14,477)			27,574		818,129		818,129
14	Outside Services- Legal	76,859								76,859		76,859
15	Water Testing	487								487		487
16	Rents											
17	Transportation Expenses	26,954								26,954		26,954
18	Insurance - General Liability	79,315		(6,725)						72,590		72,590
19	Insurance - Health and Life	37,699								37,699		37,699
20	Reg. Comm. Exp. - Rate Case											
21	Reg. Comm. Exp. - Rate Case	17,564								17,564		17,564
22	Miscellaneous Expense	70,000				(1,363)				70,000		70,000
23	Depreciation Expense	14,822					(799)			13,459		13,459
24	Bad Debt Expense	371								(428)		(428)
25	Taxes Other Than Income	463,297	2,592							465,889		465,889
26	Property Taxes											
27	Income Tax	130,373	(3,640)						17,309	126,733		126,733
28	Total Operating Expenses	(134,909)								(117,600)	705,434	567,834
29	Operating Income	\$ 2,061,862	\$ (3,640)	\$ (48,005)	\$ (6,725)	\$ (1,363)	\$ (799)	\$ 27,574	\$ 17,309	\$ 2,034,328	\$ 705,434	\$ 2,739,762
30	Other Income (Expense)	\$ (214,806)	\$ 3,640	\$ 48,005	\$ 6,725	\$ 1,363	\$ 799	\$ (27,574)	\$ (17,309)	\$ (187,072)	\$ 1,122,168	\$ 935,097
31	Interest Income											
32	Other Income (loss)											
33	Interest Expense											
34	Other Expense											
35	Total Other Income (Expense)											
36	Net Profit (Loss)	\$ (214,806)	\$ 3,640	\$ 48,005	\$ 6,725	\$ 1,363	\$ 799	\$ (27,574)	\$ (17,309)	\$ (187,072)	\$ 1,122,168	\$ 935,097

RECAP SCHEDULES:  
 Rebuttal C-1

SUPPORTING SCHEDULES:  
 Rebuttal C-2

Line No.	<u>Adjustments to Revenues and Expenses</u>						Subtotal
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	
	Depreciation Expense	Property Taxes	Purchased Power	Transport. Expense	Out of Period Exp.	Misc. Expense	
1	2,592	(3,640)	(48,005)	(6,725)	(14,477)	(1,363)	(71,618)
2							
3							
4							
5							
6							
7							
8	(2,592)	3,640	48,005	6,725	14,477	1,363	71,618
9							
10							
11							
12							
13							
14							
15							
16	(2,592)	3,640	48,005	6,725	14,477	1,363	71,618
17							
18							
19							
20							
21							
22							
23							
24	(799)	27,574	17,309				(27,534)
25							
26							
27	799	(27,574)	(17,309)				27,534
28							
29							
30							
31							
32							
33							
34							
35	799	(27,574)	(17,309)				27,534

Adjustments to Revenues and Expenses

7 Bad Debt

8 Central Office Allocation

9 Income Tax

10 Blank

11 Blank

12 Blank

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

Exhibit  
 Rebuttal Schedule C-2  
 Page 2  
 Witness: Bourassa

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

54 SUPPORTING SCHEDULE

55 Rebuttal B-2, page 3

\* Fully Depreciated

56

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

Exhibit  
 Rebuttal Schedule C-2  
 Page 3  
 Witness: Bourassa

Line No.			
1	<b>Property Taxes:</b>		
2			
3	Adjusted Revenues in year ended 12/31/08	\$	1,847,256
4	Adjusted Revenues in year ended 12/31/08		1,847,256
5	Proposed Revenues		<u>3,674,859</u>
6	Average of three year's of revenue	\$	2,456,457
7	Average of three year's of revenue, times 2	\$	4,912,914
8	Add:		
9	Construction Work in Progress at 10%	\$	-
10	Deduct:		
11	Book Value of Transportation Equipment		<u>193,833</u>
12			
13	Full Cash Value	\$	4,719,081
14	Assessment Ratio		21%
15	Assessed Value		<u>991,007</u>
16	Property Tax Rate		11.3283%
17			
18	Property Tax		112,264
19	Plus: Tax on Parcels		14,470
20			
21	Total Property Tax at Proposed Rates	\$	<u>126,733</u>
22	Adjusted Property Taxes		<u>130,373</u>
23	Change in Property Taxes	\$	<u>(3,640)</u>
24			
25			
26	Adjustment to Revenues and/or Expenses	\$	<u>(3,640)</u>
27			
28			

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

Exhibit  
Rebuttal Schedule C-2  
Page 4  
Witness: Bourassa

Line

No.

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

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

Exhibit  
Rebuttal Schedule C-2  
Page 5  
Witness: Bourassa

Line  
No.  
1  
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20

Transportation Expense

Remove Airlink costs

\$ (6,725)

Increase (decrease) in Transportation Expense

\$ (6,725)

Adjustment to Revenue and/or Expense

\$ (6,725)

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

Exhibit  
Rebuttal Schedule C-2  
Page 6  
Witness: Bourassa

Line

No.

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

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

Exhibit  
Rebuttal Schedule C-2  
Page 7  
Witness: Bourassa

Line

No.

1 Miscellaneous Expense

2

3 Remove charitable contributions

\$ (1,363)

4

5

6 Increase (decrease) in Miscellaneous Expense

\$ (1,363)

7

8

9

10 Adjustment to Revenue and/or Expense

\$ (1,363)

11

12

13

14

15

16

17

18

19

20

21

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

Exhibit  
Rebuttal Schedule C-2  
Page 8  
Witness: Bourassa

Line No.		
1	<u>Bad Debt Expense</u>	
2		
3		
4	Normalize Bad Debt Expense	(799)
5		
6		
7	Increase (decrease) in Purchased Power	<u>\$ (799)</u>
8		
9	Adjustment to Revenue and/or Expense	<u>\$ (799)</u>
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		

Line No.	2008 Actual Total	Adjustments	Rejoinder Total Cost Pool	Utility Infrastructure Group Allocation %	Utility Infrastructure Group Allocated Cost Pool	RRUI Water Allocation by Customer Count	Rejoinder LPSCo Allocation
1							
2							
3							
4							
5							
6							
7							
8							
9	\$ 1,021,609		\$ 1,021,609	26.98%	\$ 275,672	9.55%	26,327
10	322,446		322,446	26.98%	87,009	9.55%	8,309
11	767,451	(113,853)	653,598	26.98%	176,368	9.55%	16,843
12	565,849		565,849	26.98%	152,636	9.55%	14,577
13	642,771		642,771	26.98%	173,446	9.55%	16,564
14	289,796		289,796	26.98%	78,199	9.55%	7,468
15	129,000		129,000	26.98%	34,810	9.55%	3,324
16	71,366		71,366	26.98%	19,258	9.55%	1,839
17	299,586		299,586	26.98%	80,841	9.55%	7,720
18	140,852	(15,808)	125,044	26.98%	33,742	9.55%	3,222
19	808,101	(74,847)	733,254	26.98%	197,862	9.55%	18,896
20	211,253		211,253	26.98%	57,005	9.55%	5,444
21							
22	\$ 5,269,882	\$ (204,509)	\$ 5,065,373		\$ 1,366,847		\$ 130,534
23							
24							
25							
26							
27							
28							
29							
30							
31							
32							
33							
34							
35							

Infrastructure Cost Allocation per Direct (USD)

Increase (decrease) in Infrastructure Allocated Costs (USD)

Adjustment to Revenues and/or Expenses

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

Exhibit  
 Schedule C-2  
 Page 10  
 Witness: Bourassa

Line No.		Test Year Book Results	Test Year Adjusted Results	Adjusted with Rate Increase
1	<u>Income Tax Computation</u>			
2				
3				
4				
5				
6				
7	Taxable Income	\$ (349,515)	\$ (304,671)	\$ 1,522,931
8				
9	Taxable Income	<u>\$ (349,515)</u>	<u>\$ (304,671)</u>	<u>\$ 1,522,931</u>
10				
11				
12				
13	Income Before Taxes			<u>\$ 1,522,931</u>
14				
15	Arizona Income Before Taxes			\$ 1,522,931
16				
17	Less Arizona Income Tax			<u>\$ 106,118</u>
18	Rate =	6.97%		
19	Arizona Taxable Income			\$ 1,416,813
20				
21	Arizona Income Taxes			\$ 106,118
22				
23	Federal Income Before Taxes			\$ 1,522,931
24				
25	Less Arizona Income Taxes			<u>\$ 106,118</u>
26				
27	Federal Taxable Income			<u>\$ 1,416,813</u>
28				
29				
30				
31	FEDERAL INCOME TAXES:			
32	15% BRACKET			\$ 7,500
33	25% BRACKET			\$ 6,250
34	34% BRACKET			\$ 8,500 Federal
35	39% BRACKET			\$ 91,650 Effective
36	34% BRACKET			\$ 367,816 Tax
37				Rate
38	Federal Income Taxes			<u>\$ 481,716</u> 31.63%
39				
40				
41	Total Income Tax			<u>\$ 587,834</u>
42				
43	Overall Tax Rate			<u>38.60%</u>
44				
45	Income Tax at Proposed Rates Effective Rate		<u>\$ (117,600)</u>	
46				

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

Exhibit  
Rebuttal Schedule C-3  
Page 1  
Witness: Bourassa

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





Line No.	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1						
2						
3	\$ 1,808,782	\$ 3,639,293	\$ 1,830,511	101.20%	100.00%	100.00%
4	(4,794)	(9,834)	(5,041)	105.15%	-0.27%	-0.27%
5	\$ 1,803,988	\$ 3,629,458	\$ 1,825,470	101.19%		
6						
7	\$ 44,672	\$ 44,672	-	0.00%	2.47%	1.23%
8	(1,404)	728	2,132	0.00%	-0.08%	0.02%
9	\$ 1,847,256	\$ 3,674,858	\$ 1,827,602	98.94%	0.00%	0.00%
10						
11						
12	<u>Revenue Reconciliation</u>					
13						
14						
15		\$ 1,808,782				
16		\$ 1,807,378				
17		\$ 1,404				
18		0.08%				
19		0.50%				
20		\$ 9,037				
21	Acceptable? YES					
22						
23						
24						
25						
26						
27						
28						
29						
30						
31						
32						
33						
34						
35						
36						
37						
38						
39						
40						

Line No.	Meter Size, Class	(a) Average Number of Customers at 12/31/2008	Average Bill		Proposed Increase		
			Average Consumption	Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	5/8 Inch Residential	5,745	8,548 \$	19.94 \$	40.04	20.10	100.77%
2	3/4 Inch Residential	8	3,558	15.70	32.02	16.32	103.95%
3	1 Inch Residential	36	11,326	36.35	72.14	35.79	98.44%
4	1.5 Inch Residential	4	20,116	68.92	135.50	66.58	96.60%
5	2 Inch Residential	4	19,938	87.89	174.10	86.21	98.08%
6	Subtotal	5,797					
7							
8	5/8 Inch Commercial	97	11,575 \$	25.40 \$	51.20	25.80	101.56%
9	1 Inch Commercial	43	17,804	47.93	95.80	47.88	99.89%
10	1.5 Inch Commercial	10	39,685	106.10	211.43	105.33	99.27%
11	2 Inch Commercial	33	154,509	336.17	684.21	348.05	103.53%
12	3 Inch Commercial	13	266,143	599.67	1,178.07	578.40	96.45%
13	4 Inch Commercial	5	292,262	717.40	1,397.23	679.83	94.76%
14	6 Inch Commercial	1	641,667	1,515.42	3,044.17	1,528.75	100.88%
15	Subtotal	202					
16							
17	5/8 Inch Multi-family	10	10,718 \$	23.77 \$	47.88	24.10	101.38%
18	1.5 Inch Multi-family	1	7,417	47.31	91.26	43.95	92.90%
19	Subtotal	11					
20							
21	Fire Lines up to 8 Inch	15	- \$	6.48 \$	13.00	6.52	100.62%
22							
23							
24	Total	6,025					

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

Line No.	Meter Size Class	(a)		Median Bill		Proposed Increase	
		Average Number of Customers at 12/31/2008	Median Consumption	Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	5/8 Inch Residential	5,745	7,000 \$	17.31 \$	34.65	17.34	100.17%
2	3/4 Inch Residential	8	3,000	14.75	30.08	15.33	103.90%
3	1 Inch Residential	36	7,000	29.00	57.09	28.09	96.84%
4	1.5 Inch Residential	4	20,000	68.70	135.05	66.35	96.58%
5	2 Inch Residential	4	16,500	82.05	162.14	80.09	97.61%
6	Subtotal	5,797					
7							
8	5/8 Inch Commercial	97	5,000 \$	13.91 \$	27.69	13.78	99.07%
9	1 Inch Commercial	43	8,000	30.70	60.57	29.87	97.28%
10	1.5 Inch Commercial	10	32,500	92.45	183.55	91.10	98.54%
11	2 Inch Commercial	33	30,000	105.00	209.12	104.12	99.16%
12	3 Inch Commercial	13	7,000	117.30	233.80	116.50	99.32%
13	4 Inch Commercial	5	210,000	561.10	1,078.05	516.95	92.13%
14	6 Inch Commercial	1	511,000	1,267.15	2,537.18	1,270.03	100.23%
15	Subtotal	202					
16							
17	5/8 Inch Multi-family	10	9,000 \$	20.71 \$	41.61	20.90	100.92%
18	1.5 Inch Multi-family	1	8,500	49.15	95.03	45.88	93.35%
19	Subtotal	11					
20							
21	Fire Lines up to 8 Inch	15	- \$	6.48 \$	13.00	6.52	100.62%
22							
23							
24	Total	6,025					

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

Line No.	Monthly Usage Charge for:	Present Rates	Proposed Rates	Change	Percent Change
1	<u>Meter Size (All Classes):</u>				
2	5/8 Inch	\$ 6.45	\$ 13.09	\$ 6.64	102.95%
3	3/4 Inch	9.65	19.64	9.99	103.47%
4	1 Inch	17.10	32.73	15.63	91.37%
5	1 1/2 Inch	34.70	65.45	30.75	88.62%
6	2 Inch	54.00	104.72	50.72	93.93%
7	3 Inch	105.40	209.44	104.04	98.71%
8	4 Inch	173.50	327.25	153.75	88.62%
9	6 Inch	321.25	654.50	333.25	103.74%
10	8 Inch	514.00	1,047.20	533.20	103.74%
11	10 Inch	745.30	1,505.35	760.05	101.98%
12	12 Inch	1,395.00	1,963.50	568.50	40.75%
13	Fire Lines up to 8 Inch	\$ 6.48	\$ 13.00	6.52	100.62%
14	Fire Lines 10 Inch	\$ 7.45	\$ 15.00	7.55	101.34%
15	Fire Lines 12 Inch	\$ 14.00	\$ 30.00	16.00	114.29%

Gallons In Minimum (All Zones and Classes)

Block	Present Rate	Proposed Rate
(Per 1,000 gallons)		
0 gallons to 4,000 gallons	\$ 1.44	\$ 2.78
4,001 gallons to 10,000 gallons	\$ 1.70	\$ 3.48
over 10,000 gallons	\$ 1.90	\$ 3.88
0 gallons to 6,000 gallons	\$ 1.70	\$ 3.48
over 6,000 gallons	\$ 1.90	\$ 3.88

Commodity Rates (All Classes)

5/8 Inch	
3/4 Inch Meter	

NT = No Tariff

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

Exhibit  
 Rebuttal Schedule H-3  
 Page 2  
 Witness: Bourassa

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

NT = No Tariff

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

Exhibit  
 Rebuttal Schedule H-3  
 Page 3  
 Witness: Bourassa

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

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

Exhibit  
 Rebuttal Schedule H-3  
 Page 4  
 Witness: Bourassa

Line  
No.  
 1  
 2  
 3  
 4  
 5  
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 7  
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 35

**Refundable Meter and Service Line Charges**

	Present	Present		Proposed	Proposed	
	Service	Meter	Total	Service	Meter	Total
	Line	Install-	Present	Line	ation	Proposed
	<u>Charge</u>	<u>Charge</u>	<u>Charge</u>	<u>Charge</u>	<u>Charge</u>	<u>Charge</u>
9	\$ 370.00	\$ 130.00	\$ 500.00	At Cost	At Cost	At Cost
10	370.00	205.00	575.00	At Cost	At Cost	At Cost
11	420.00	240.00	660.00	At Cost	At Cost	At Cost
12	450.00	450.00	900.00	At Cost	At Cost	At Cost
13	580.00	1,640.00	2,220.00	At Cost	At Cost	At Cost
14	765.00	2,195.00	2,960.00	At Cost	At Cost	At Cost
15	1,120.00	3,145.00	4,265.00	At Cost	At Cost	At Cost
16	1,630.00	6,120.00	7,750.00	At Cost	At Cost	At Cost
17			At Cost	At Cost	At Cost	At Cost
18			At Cost	At Cost	At Cost	At Cost
19			At Cost	At Cost	At Cost	At Cost

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

Exhibit  
Rebuttal Schedule H-3  
Page 5  
Witness: Bourassa

Line

No.

1

2 Off-site Facilities Hook-up Fee

3

4

Present  
Charge

Proposed  
Charge

5

6 5/8 x 3/4 Inch

NT

\$ 1,800

7 3/4 Inch

NT

2,700

8 1 Inch

NT

4,500

9 1 1/2 Inch

NT

9,000

10 2 Inch

NT

14,400

11 3 Inch

NT

28,800

12 4 Inch

NT

45,000

13 6 Inch or larger

NT

90,000

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

**THOMAS J. BOURASSA**  
**REBUTTAL TESTIMONY**  
**(RATE BASE, INCOME STATEMENT AND RATE DESIGN)**  
**February 1, 2010**

# **SCHEDULES**

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

Exhibit  
 Rebuttal Schedule A-1  
 Page 1  
 Witness: Bourassa

Line No.					
1	Fair Value Rate Base		\$	7,992,279	
2					
3	Adjusted Operating Income			(187,072)	
4					
5	Current Rate of Return			-2.34%	
6					
7	Required Operating Income		\$	935,097	
8					
9	Required Rate of Return on Fair Value Rate Base			11.70%	
10					
11	Operating Income Deficiency		\$	1,122,168	
12					
13	Gross Revenue Conversion Factor			1.6286	
14					
15	Increase in Gross Revenue Revenue Requirement			1,827,602	
16					
17	Adjusted Test Year Revenues		\$	1,847,256	
18	Increase in Gross Revenue Revenue Requirement		\$	1,827,602	
19	Proposed Revenue Requirement		\$	3,674,859	
20	% Increase			98.94%	
21					
22	<b>Customer</b>	<b>Present</b>	<b>Proposed</b>	<b>Dollar</b>	<b>Percent</b>
23	<b>Classification</b>	<b>Rates</b>	<b>Rates</b>	<b>Increase</b>	<b>Increase</b>
24	5/8 Inch Residential	\$ 1,416,089	\$ 2,849,962	\$ 1,433,873	101.26%
25	3/4 Inch Residential	1,492	3,043	1,551	103.94%
26	1 Inch Residential	16,001	31,755	15,755	98.46%
27	1.5 Inch Residential	3,016	5,931	2,915	96.66%
28	2 Inch Residential	4,236	8,401	4,165	98.34%
29		-	-	-	0.00%
30	<b>Subtotal</b>	<b>\$ 1,440,833</b>	<b>\$ 2,899,092</b>	<b>\$ 1,458,259</b>	<b>101.21%</b>
31					
32	5/8 Inch Commercial	\$ 30,960	\$ 62,631	\$ 31,672	102.30%
33	1 Inch Commercial	25,394	50,761	25,368	99.90%
34	1.5 Inch Commercial	13,279	26,462	13,183	99.28%
35	2 Inch Commercial	134,126	272,232	138,106	102.97%
36	3 Inch Commercial	97,545	196,157	98,612	101.09%
37	4 Inch Commercial	43,844	86,182	42,338	96.56%
38	6 Inch Commercial	18,185	36,530	18,345	100.88%
39		-	-	-	0.00%
40	<b>Subtotal</b>	<b>\$ 363,332</b>	<b>\$ 730,955</b>	<b>\$ 367,623</b>	<b>101.18%</b>
41					0.00%
42					
43	5/8 Inch Multi-family	\$ 2,850	\$ 5,745	2,895	101.57%
44	1.5 Inch Multi-family	568	1,095	527	92.90%
45	<b>Subtotal</b>	<b>\$ 3,418</b>	<b>\$ 6,840</b>	<b>\$ 3,422</b>	<b>100.13%</b>
46					
47	Fire Lines up to 8 Inch	\$ 1,199	\$ 2,405	1,206	100.62%
48					
49	<b>Subtotal Revenues before Annualization</b>	<b>\$ 1,808,782</b>	<b>\$ 3,639,293</b>	<b>\$ 1,830,511</b>	<b>101.20%</b>
50	Revenue Annualization	(4,794)	(9,834)	(5,041)	105.15%
51	Miscellaneous Revenues	44,672	44,672	-	0.00%
52	Reconciling Amount H-1 to C-1	(1,404)	728	2,132	-151.86%
53	<b>Total of Water Revenues (a)</b>	<b>\$ 1,847,256</b>	<b>\$ 3,674,858</b>	<b>\$ 1,827,602</b>	<b>98.94%</b>

**SUPPORTING SCHEDULES:**

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

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

Exhibit  
 Rebuttal Schedule B-1  
 Page 1  
 Witness: Bourassa

Line No.	<u>Original Cost Rate base</u>	<u>Fair Value Rate Base</u>
1		
2	\$ 34,059,801	\$ 34,059,801
3	Less: Accumulated Depreciation	
4	12,472,661	12,472,661
5	Net Utility Plant in Service	
6	\$ 21,587,140	\$ 21,587,140
7	<u>Less:</u>	
8	Advances in Aid of	
9	Construction	
10	122,372	122,372
11	Contributions in Aid of	
12	Construction	
13	20,140,197	20,140,197
14	Accumulated Amortization of CIAC	
15	(6,628,197)	(6,628,197)
16	Customer Meter Deposits	
17	275,455	275,455
18	Deferred Income Taxes & Credits	
19	(314,965)	(314,965)
20	<u>Plus:</u>	
21	Unamortized Debt Issuance	
22	Costs	
23	-	-
24	Deferred Reg. Assets	
25	-	-
26	Working capital	
27	-	-
28		
29	Total Rate Base	\$ 7,992,279
30		
31		
32		
33	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
34	Rebuttal B-2	Rebuttal A-1
35	Rebuttal B-3	
36	Rebuttal B-5	
37		
38		

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

Exhibit  
 Rebuttal Schedule B-2  
 Page 1  
 Witness: Bourassa

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

SUPPORTING SCHEDULES:  
 Rebuttal B-2, pages 2

RECAP SCHEDULES:  
 Rebuttal B-1

41  
42  
43  
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Rio Rico Utilities - Water Division  
 Test Year Ended December 31, 2008  
 Original Cost Rate Base Proforma Adjustments

Exhibit  
 Rebuttal Schedule B-2  
 Page 2  
 Witness: Bourassa

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

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

Line No.	Plant-in-Service	Acct. No.	Description	Adjusted Original Cost	A		B		C		D		E		F		Rebuttal Adjusted Original Cost
					Plant Reclassification	Intentionally Left Blank											
1				5,785													5,785
2			Organization Cost														417
3			Franchise Cost	417													417
4			Land and Land Rights	44,194													44,194
5			Structures and Improvements	2,732,833													2,732,833
6			Collecting and Impounding Res.	-													-
7			Lake River and Other Intakes	-													-
8			Wells and Springs	563,511													563,511
9			Infiltration Galleries and Tunnels	-													-
10			Supply Mains	279,153													279,153
11			Power Generation Equipment	197,120													197,120
12			Electric Pumping Equipment	2,591,970													2,591,970
13			Water Treatment Equipment	372,970	(372,970)												-
14			Water Treatment Plant	-	372,970												372,970
15			Chemical Solution Feeders	-													-
16			Dist. Reservoirs & Standpipe	759,861	(759,861)												-
17			Storage tanks	-	759,861												759,861
18			Pressure Tanks	-													-
19			Trans. and Dist. Mains	22,089,150													22,089,150
20			Services	2,209,274													2,209,274
21			Meters	956,605													956,605
22			Hydrants	568,577													568,577
23			Backflow Prevention Devices	3,848													3,848
24			Other Plant and Misc. Equip.	121,843													121,843
25			Office Furniture and Fixtures	22,986													22,986
26			Computers and Software	76,919													76,919
27			Transportation Equipment	218,945													218,945
28			Stores Equipment	-													-
29			Tools and Work Equipment	15,035													15,035
30			Laboratory Equipment	3,061													3,061
31			Power Operated Equipment	-													-
32			Communications Equipment	218,040													218,040
33			Miscellaneous Equipment	7,701													7,701
34			Other Tangible Plant	-													-
35				-													-
36				-													-
37				-													-
38				-													-
39			TOTALS	\$ 34,059,801	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,059,801
40																	
41			Plant-in-Service per Books														\$ 34,059,801
42																	
43			Increase (decrease) in Plant-in-Service														\$ -
44																	\$ -
45			Adjustment to Plant-in-Service														\$ -
46																	\$ -

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

47 SUPPORTING SCHEDULES  
 48 Rebuttal B-2, pages 3.1-3.9

**W.L. PICO - WATER DIVISION**  
**Plant Additions and Retirements**

Exhibit  
 Rebuttal Schedule B-2  
 Page 3.1

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	Plant AI 12/31/2002	2002 Accum. Depr.	2003 Plant		2003 Adjusted Plant Additions	2003 Plant		2003 Salvage A/D Only	2003 Plant Balance	2003 Deprec.
						Additions	Retirements		Retirements	Balance			
301	Organization Cost	0.00%	0.00%	5,785	-	-	-	-	-	-	-	5,785	-
302	Franchise Cost	0.00%	0.00%	417	-	-	-	-	-	-	-	417	-
303	Land and Land Rights	0.00%	0.00%	44,194	-	-	-	-	-	-	-	44,194	-
304	Structures and Improvements	1.99%	3.33%	435,181	104,047	253,614	253,614	-	-	-	-	688,795	11,184
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes	3.31%	3.33%	272,063	78,656	-	-	-	-	-	-	272,063	9,005
307	Wells and Springs	6.67%	6.67%	-	-	-	-	-	-	-	-	-	-
308	Infiltration Galleries and Tunnels	1.66%	2.00%	29,881	(3,617)	249,272	249,272	-	-	-	-	279,153	2,565
309	Supply Mains	3.96%	5.00%	52,635	19,077	134,736	134,736	-	-	-	-	187,371	4,752
310	Power Generation Equipment	3.96%	12.50%	1,504,459	508,421	151,098	151,098	-	-	-	-	1,655,557	62,568
311	Electric Pumping Equipment	3.99%	3.33%	268,685	74,460	-	-	-	-	-	-	268,685	10,721
320	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	-	-	-	-
320.1	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	3.99%	20.00%	-	-	-	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.00%	2.22%	353,111	106,812	50,494	50,494	-	-	-	-	403,605	7,567
330.1	Storage tanks	2.00%	2.22%	-	-	-	-	-	-	-	-	-	-
330.2	Pressure Tanks	2.00%	5.00%	-	-	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	1.66%	2.00%	19,116,148	5,898,199	134,818	134,818	134,818	(17,464)	-	-	19,233,502	318,447
333	Services	2.49%	3.33%	1,465,553	483,437	47,278	47,278	-	-	-	-	1,512,831	37,081
334	Meters	2.49%	8.33%	519,191	82,474	42,569	42,569	42,569	(12,864)	-	-	548,896	13,458
335	Hydrants	1.99%	2.00%	459,227	92,050	1,875	1,875	1,875	(1,352)	-	-	459,750	9,157
336	Backflow Prevention Devices	4.01%	6.67%	-	-	-	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	4.80%	6.67%	22,986	9,507	-	-	-	-	-	-	22,986	1,103
340	Office Furniture and Fixtures	4.80%	20.00%	69,484	18,780	-	-	-	-	-	-	69,484	3,386
340.1	Computers and Software	33.33%	20.00%	2,925	4,954	-	-	-	-	-	-	2,925	(2,029)
341	Transportation Equipment	4.00%	4.00%	-	-	-	-	-	-	-	-	-	-
342	Stores Equipment	4.00%	5.00%	15,035	5,054	-	-	-	-	-	-	15,035	601
343	Tools and Work Equipment	4.00%	10.00%	3,061	1,378	-	-	-	-	-	-	3,061	122
344	Laboratory Equipment	5.03%	5.00%	-	-	-	-	-	-	-	-	-	-
345	Power Operated Equipment	4.89%	10.00%	141,858	19,381	-	-	-	-	-	-	141,858	7,135
346	Communications Equipment	10.00%	10.00%	7,701	2,709	-	-	-	-	-	-	7,701	377
347	Miscellaneous Equipment	10.00%	10.00%	-	-	-	-	-	-	-	-	-	-
348	Other Tangible Plant	10.00%	10.00%	-	-	-	-	-	-	-	-	-	-
	Rounding			-	-	-	-	-	-	-	-	-	-

Plant Held for Future Use  
 TOTAL WATER PLANT

24,789,590	7,506,779	1,065,754	-	1,065,754	(31,660)	-	25,823,664	497,151
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Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2004 Plant Additions		2004 Plant Adjustments		2004 Plant Retirements		2004 Salvage/Adj.		2004 Plant Balance		2004 Deprec.
				2004 Plant Additions	2004 Plant Adjustments	2004 Plant Retirements	2004 Salvage/Adj.	2004 Plant Balance	2004 Deprec.					
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	5,785	-	
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	417	-	
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	-	-	44,194	-	
304	Structures and Improvements	1.99%	3.33%	-	-	-	-	-	-	-	-	688,795	16,014	
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	
306	Lake River and Other Intakes	2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	
307	Wells and Springs	3.31%	3.33%	128,294	-	-	-	-	-	-	-	400,357	11,145	
308	Infiltration Galleries and Tunnels	1.66%	6.67%	-	-	-	-	-	-	-	-	-	-	
309	Supply Mains	2.00%	2.00%	-	-	-	-	-	-	-	-	279,153	4,871	
310	Power Generation Equipment	3.96%	5.00%	-	-	-	-	-	-	-	-	187,371	7,907	
311	Electric Pumping Equipment	3.96%	12.50%	236,327	-	-	-	-	-	-	-	1,891,884	108,108	
320	Water Treatment Equipment	3.99%	3.33%	65,200	-	-	-	-	-	-	-	333,885	11,524	
320.1	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	-	-	-	-	
320.2	Chemical Solution Feeders	3.99%	20.00%	-	-	-	-	-	-	-	-	-	-	
330	Distribution Reservoirs & Standpipe	2.00%	2.22%	37,838	-	-	-	-	-	-	-	441,443	8,683	
330.1	Storage tanks	2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	
330.2	Pressure Tanks	2.00%	5.00%	-	-	-	-	-	-	-	-	-	-	
331	Transmission and Distribution Mains	1.66%	2.00%	431,726	-	-	-	-	-	-	-	19,665,227	339,381	
333	Services	2.49%	3.33%	54,211	-	-	-	-	-	-	-	1,567,042	41,578	
334	Meters	2.49%	8.33%	51,537	-	-	-	-	-	-	-	579,708	22,290	
335	Hydrants	1.99%	2.00%	15,453	-	-	-	-	-	-	-	475,203	9,314	
336	Backflow Prevention Devices	4.01%	6.67%	-	-	-	-	-	-	-	-	-	-	
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	-	-	-	-	-	-	-	-	-	-	
340	Office Furniture and Fixtures	4.80%	6.67%	-	-	-	-	-	-	-	-	22,986	1,211	
340.1	Computers and Software	4.80%	20.00%	1,320	-	-	-	-	-	-	-	70,814	6,033	
341	Transportation Equipment	33.33%	20.00%	-	-	-	-	-	-	-	-	2,925	-	
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-	-	-	-	-	-	
343	Tools and Work Equipment	4.00%	5.00%	-	-	-	-	-	-	-	-	15,035	639	
344	Laboratory Equipment	4.00%	10.00%	-	-	-	-	-	-	-	-	3,061	168	
345	Power Operated Equipment	5.03%	5.00%	-	-	-	-	-	-	-	-	-	-	
346	Communications Equipment	4.89%	10.00%	-	-	-	-	-	-	-	-	141,858	8,898	
347	Miscellaneous Equipment	4.89%	10.00%	-	-	-	-	-	-	-	-	7,701	475	
348	Other Tangible Plant	10.00%	10.00%	-	-	-	-	-	-	-	-	-	-	
	Rounding			-	-	-	-	-	-	-	-	-	-	
	Plant Held for Future Use			-	-	-	-	-	-	-	-	-	-	
	TOTAL WATER PLANT			1,021,908	-	-	1,021,908	(20,725)	-	-	-	26,824,845	598,252	

Account No.	Description	Deprec. Rate		2005 Plant Additions	2005 Plant Adjustments	2005 Plant Adjustments	2005 Adjusted Plant	2005 Plant Retirements	2005 Salvage A/D Only	2005 Plant Balance	2005 Deprec.
		Before Oct-04	After Oct-04								
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	5,785	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	417	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	44,194	-
304	Structures and Improvements	1.99%	3.33%	-	-	-	-	-	-	688,795	22,937
305	Collecting and Impounding Res.	2.50%	3.33%	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	3.33%	-	-	-	-	-	-	-	-
307	Wells and Springs	3.31%	3.33%	-	-	-	-	-	-	400,357	13,332
308	Infiltration Galleries and Tunnels	3.31%	3.33%	-	-	-	-	-	-	-	-
309	Supply Mains	1.66%	2.00%	-	-	-	-	-	-	279,153	5,583
310	Power Generation Equipment	3.96%	5.00%	-	-	-	-	-	-	187,371	9,369
311	Electric Pumping Equipment	3.96%	12.50%	507,953	-	-	507,953	(2,008)	-	2,397,829	288,107
320	Water Treatment Equipment	3.99%	3.33%	34,253	-	-	34,253	(749)	-	367,389	11,676
320.1	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	3.99%	20.00%	-	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.00%	2.22%	318,417	-	-	318,417	-	-	759,861	13,334
330.1	Storage tanks	2.00%	2.22%	-	-	-	-	-	-	-	-
330.2	Pressure Tanks	2.00%	5.00%	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	1.66%	2.00%	736,273	-	-	736,273	(44,284)	-	20,357,216	400,224
333	Services	2.49%	3.33%	153,500	-	-	153,500	-	-	1,720,542	54,738
334	Meters	2.49%	8.33%	82,087	-	-	82,087	(12,138)	-	649,657	51,203
335	Hydrants	1.99%	2.00%	20,516	-	-	20,516	(1,845)	-	494,074	9,693
336	Backflow Prevention Devices	4.01%	6.67%	-	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	4.80%	6.67%	-	-	-	-	-	-	22,986	1,533
340	Office Furniture and Fixtures	4.80%	20.00%	6,105	-	-	6,105	-	-	76,919	14,773
340.1	Computers and Software	33.33%	20.00%	-	-	-	-	-	-	2,925	-
341	Transportation Equipment	4.00%	4.00%	-	-	-	-	-	-	-	-
342	Stores Equipment	4.00%	5.00%	-	-	-	-	-	-	15,035	752
343	Tools and Work Equipment	4.00%	10.00%	-	-	-	-	-	-	3,061	306
344	Laboratory Equipment	4.00%	5.00%	-	-	-	-	-	-	-	-
345	Power Operated Equipment	5.03%	5.00%	-	-	-	-	-	-	-	-
346	Communications Equipment	4.89%	10.00%	55,958	-	-	55,958	-	-	197,816	16,984
347	Miscellaneous Equipment	4.89%	10.00%	-	-	-	-	-	-	7,701	770
348	Other Tangible Plant Rounding		10.00%	-	-	-	-	-	-	-	-
										1,915,062	
										1,915,062	(50,824)
										28,679,084	895,315

Plant Held for Future Use  
TOTAL WATER PLANT

**Rio Rico - Water Division**  
**Plant Additions and Retirements**

Exhibit  
 Rebuttal Schedule B-2  
 Page 3.4

Account No.	Description	Deprec.	Deprec.	2006 Plant Additions	2006 Plant Adjustments <sup>1</sup>	2006 Adjusted Plant Additions	2006 Plant Retirements	2006 Salvage A/D Only	2006 Plant Balance	2006 Deprec.
		Rate Before Oct-04	Rate After Oct-04							
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	5,785	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	417	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	44,194	-
304	Structures and Improvements	1.99%	3.33%	545,966	-	545,966	-	-	1,234,761	32,027
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	2.50%	-	-	-	-	-	-	-
307	Wells and Springs	3.31%	3.33%	53,611	(147)	53,464	-	-	463,821	14,222
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-	-	-	-	-	-	-
309	Supply Mains	1.68%	2.00%	-	-	-	-	-	279,153	5,583
310	Power Generation Equipment	3.96%	5.00%	-	-	-	-	-	187,371	9,369
311	Electric Pumping Equipment	3.96%	12.50%	95,823	-	95,823	-	-	2,493,652	305,718
320	Water Treatment Equipment	3.99%	3.33%	5,581	-	5,581	-	-	372,970	12,327
320.1	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	3.99%	20.00%	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.00%	2.22%	-	-	-	-	-	759,861	16,869
330.1	Storage tanks	2.00%	2.22%	-	-	-	-	-	-	-
330.2	Pressure Tanks	2.00%	5.00%	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	1.68%	2.00%	741,193	(1,901)	739,292	-	-	21,066,508	414,537
333	Services	2.49%	3.33%	86,384	-	86,384	-	-	1,806,926	56,732
334	Meters	2.49%	8.33%	60,552	-	60,552	-	-	710,209	56,638
335	Hydrants	1.99%	2.00%	-	-	-	-	-	494,074	9,881
336	Backflow Prevention Devices	4.01%	6.67%	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	-	-	-	-	-	-	-
340	Office Furniture and Fixtures	4.80%	6.67%	-	-	-	-	-	22,986	1,533
340.1	Computers and Software	4.80%	20.00%	-	-	-	-	-	76,919	15,384
341	Transportation Equipment	33.33%	20.00%	-	-	-	-	-	2,925	-
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-	-	-
343	Tools and Work Equipment	4.00%	5.00%	-	-	-	-	-	15,035	752
344	Laboratory Equipment	4.00%	10.00%	-	-	-	-	-	3,061	306
345	Power Operated Equipment	5.00%	5.00%	-	-	-	-	-	-	-
346	Communications Equipment	5.03%	10.00%	3,547	-	3,547	-	-	201,363	19,959
347	Miscellaneous Equipment	4.89%	10.00%	-	-	-	-	-	7,701	770
348	Other Tangible Plant	10.00%	10.00%	-	-	-	-	-	-	-
	Rounding			-	-	-	-	-	-	-
	Plant Held for Future Use			1,592,656	(2,048)	1,590,607	-	-	30,269,691	974,608
	TOTAL WATER PLANT									

<sup>1</sup> Affiliate Profit

Account No.	Description	Deprec. Rate		2007 Plant Additions	2007 Plant Adjustments <sup>1</sup>	2007 Adjusted Plant Additions	2007 Plant Retirements	2007 Salvage A/D Only	2007 Plant Balance	2007 Deprec.
		Before Oct-04	After Oct-04							
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	5,785	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	417	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	44,194	-
304	Structures and Improvements	1.99%	3.33%	389,176	-	389,176	-	-	1,623,937	47,597
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	2.50%	-	-	-	-	-	-	-
307	Wells and Springs	3.31%	3.33%	53,242	(1,830)	51,413	-	-	505,234	15,968
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-	-	-	-	-	-	-
309	Supply Mains	1.66%	2.00%	-	-	-	-	-	279,153	5,583
310	Power Generation Equipment	3.96%	5.00%	5,599	-	5,599	-	-	192,970	9,509
311	Electric Pumping Equipment	3.96%	12.50%	20,220	-	20,220	-	-	2,513,872	312,970
320	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	372,970	12,420
320.1	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	3.99%	20.00%	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.00%	2.22%	-	-	-	-	-	-	-
330.1	Storage tanks	2.00%	2.22%	-	-	-	-	-	759,891	16,869
330.2	Pressure Tanks	2.00%	5.00%	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	1.66%	2.00%	-	(2,010)	(2,010)	-	-	21,094,498	421,910
333	Services	2.49%	3.33%	100,765	-	100,765	-	-	1,907,691	61,848
334	Meters	2.49%	8.33%	129,225	-	129,225	-	-	839,434	64,543
335	Hydrants	1.99%	2.00%	56,833	-	56,833	-	-	550,907	10,450
336	Backflow Prevention Devices	4.01%	6.67%	3,848	-	3,848	-	-	3,848	128
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	12,160	(3,415)	8,745	-	-	8,745	292
340	Office Furniture and Fixtures	4.80%	6.67%	-	-	-	-	-	22,986	1,533
340.1	Computers and Software	4.80%	20.00%	-	-	-	-	-	76,919	15,384
341	Transportation Equipment	33.33%	20.00%	-	-	-	-	-	2,925	-
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-	-	-
343	Tools and Work Equipment	4.00%	5.00%	-	-	-	-	-	15,035	752
344	Laboratory Equipment	4.00%	10.00%	-	-	-	-	-	3,061	306
345	Power Operated Equipment	5.00%	5.00%	-	-	-	-	-	-	-
346	Communications Equipment	5.03%	10.00%	-	-	-	-	-	201,363	20,136
347	Miscellaneous Equipment	4.89%	10.00%	-	-	-	-	-	7,701	770
348	Other Tangible Plant	10.00%	10.00%	-	-	-	-	-	-	-
	Rounding			-	-	-	-	-	-	-
	Plant Held for Future Use									
	TOTAL WATER PLANT			771,069	(7,255)	763,814	-	-	31,033,505	1,018,968

<sup>1</sup> Affiliate Profit

**Rio Rico - Water Division**  
**Plant Additions and Retirements**

Exhibit  
 Rebuttal Schedule B-2  
 Page 3.6

Account No.	Description	Deprec.	2008	2008	2008	2008	2008	2008	2008	2008
		Rate Before Oct-04	Plant Additions	Plant Adjustments	Plant Adjustments <sup>1</sup>	Adjusted Plant Additions	Plant Retirements	Salvage A/D Only	Plant Balance	
301	Organization Cost	0.00%	-	-	-	-	-	-	5,785	-
302	Franchise Cost	0.00%	-	-	-	-	-	417	-	-
303	Land and Land Rights	0.00%	-	-	-	-	-	44,194	-	-
304	Structures and Improvements	1.99%	839,316	269,580	-	1,108,896	-	2,732,833	-	72,540
305	Collecting and Impounding Res.	2.50%	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	-	-	-	-	-	-	-	-
307	Wells and Springs	3.33%	3,718	57,101	(2,542)	58,278	-	563,511	-	17,795
308	Infiltration Galleries and Tunnels	6.67%	-	-	-	-	-	-	-	-
309	Supply Mains	2.00%	-	-	-	-	-	279,153	-	5,583
310	Power Generation Equipment	3.96%	4,150	-	-	4,150	-	197,120	-	9,752
311	Electric Pumping Equipment	3.96%	65,771	12,498	(170)	78,098	-	2,591,970	-	319,115
320	Water Treatment Equipment	3.99%	-	-	-	-	-	372,970	-	12,420
320.1	Water Treatment Equipment	3.99%	-	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	3.99%	-	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.00%	-	-	-	-	-	-	-	-
330.1	Storage tanks	2.00%	-	-	-	-	-	759,861	-	16,869
330.2	Pressure Tanks	2.00%	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	1.66%	980,746	17,464	(3,558)	994,652	-	22,089,150	-	431,836
333	Services	2.49%	259,637	42,945	-	301,582	-	2,209,274	-	68,547
334	Meters	2.49%	117,171	-	-	117,171	-	956,605	-	74,805
335	Hydrants	1.99%	17,871	-	-	17,871	-	568,577	-	11,195
336	Backflow Prevention Devices	4.01%	-	-	-	-	-	3,848	-	257
339	Other Plant and Miscellaneous Equipment	6.67%	118,069	-	(4,971)	113,098	-	121,843	-	4,355
340	Office Furniture and Fixtures	4.80%	-	-	-	-	-	22,986	-	1,533
340.1	Computers and Software	4.80%	-	-	-	-	-	76,919	-	3,229
341	Transportation Equipment	33.33%	108,010	108,010	-	216,020	-	218,945	-	22,187
342	Stores Equipment	4.00%	-	-	-	-	-	-	-	-
343	Tools and Work Equipment	4.00%	-	-	-	-	-	15,035	-	752
344	Laboratory Equipment	4.00%	-	-	-	-	-	3,061	-	306
345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-
346	Communications Equipment	5.03%	16,678	-	-	16,678	-	218,040	-	20,970
347	Miscellaneous Equipment	4.89%	-	-	-	-	-	7,701	-	770
348	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-
	Rounding		-	-	-	-	-	-	-	-
			2,529,338	507,598	(11,241)	3,026,295	-	34,059,801	-	1,094,817

Plant Held for Future Use  
**TOTAL WATER PLANT**

<sup>1</sup> Affiliate Profit

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	Year End Accumulated Depreciation by Account		Year End Accumulated Depreciation by Account					
				2002	2003	2004	2005	2006	2007	2008	
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	-	-
304	Structures and Improvements	1.99%	3.33%	104,047	115,231	131,245	154,182	186,209	233,806	306,347	-
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes	3.31%	3.33%	-	-	-	-	-	-	-	-
307	Wells and Springs	3.31%	3.33%	78,666	87,661	98,807	112,139	126,361	142,329	160,123	-
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-	-	-	-	-	-	-	-
309	Supply Mains	1.66%	2.00%	(3,617)	(1,052)	3,819	9,402	14,985	20,568	26,151	-
310	Power Generation Equipment	3.96%	5.00%	19,077	23,829	31,736	41,105	50,473	59,982	69,734	-
311	Electric Pumping Equipment	3.96%	12.50%	508,421	570,989	679,098	945,197	1,250,914	1,563,884	1,882,999	-
320	Water Treatment Equipment	3.99%	3.33%	74,460	85,181	96,705	107,632	119,959	132,379	144,799	-
320.1	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	3.99%	20.00%	-	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.00%	2.22%	106,812	114,379	123,062	136,397	153,265	170,134	187,003	-
330.1	Storage tanks	2.00%	2.22%	-	-	-	-	-	-	-	-
330.2	Pressure Tanks	2.00%	5.00%	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	1.66%	2.00%	5,899,199	6,200,182	6,539,573	6,895,514	7,310,051	7,731,961	8,163,798	-
333	Services	2.49%	3.33%	483,437	520,518	562,096	616,834	675,567	737,415	805,963	-
334	Meters	2.49%	8.33%	82,474	83,068	84,633	123,698	180,336	244,879	319,684	-
335	Hydrants	1.99%	2.00%	92,050	99,855	109,170	117,217	127,099	137,549	148,744	-
336	Backflow Prevention Devices	4.01%	6.67%	-	-	-	-	-	128	385	-
339	Other Plant and Miscellaneous Equipment	4.80%	6.67%	9,507	10,610	11,821	13,354	14,887	16,421	17,954	-
340	Office Furniture and Fixtures	4.80%	20.00%	18,780	22,116	28,149	42,922	58,306	73,680	76,919	-
340.1	Computers and Software	33.33%	20.00%	4,954	2,925	2,925	2,925	2,925	2,925	2,925	-
341	Transportation Equipment	4.00%	4.00%	-	-	-	-	-	-	-	-
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-	-	-	-
343	Tools and Work Equipment	4.00%	5.00%	5,054	5,655	6,294	7,046	7,798	8,550	9,301	-
344	Laboratory Equipment	4.00%	4.00%	1,378	1,500	1,669	1,975	2,281	2,587	2,893	-
345	Power Operated Equipment	5.03%	10.00%	19,381	26,516	35,415	52,398	72,357	92,493	113,464	-
346	Communications Equipment	4.89%	10.00%	2,709	3,086	3,561	4,331	5,101	5,871	6,641	-
347	Miscellaneous Equipment	-	-	-	-	-	-	-	-	-	-
348	Other Tangible Plant	-	-	-	-	-	-	-	-	-	-
	Rounding	-	-	-	-	-	-	-	-	-	-
	TOTAL WATER PLANT			7,506,779	7,972,250	8,549,777	9,364,268	10,358,875	11,377,844	12,472,661	-

Plant Held for Future Use



Rio Rico Utilities - Water Division  
Test Year Ended December 31, 2008  
Original Cost Rate Base Proforma Adjustments  
Adjustment 1

Exhibit  
Rebuttal Schedule B-2  
Page 5  
Witness: Bourassa

Line  
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Reclassification of AIAC and CIAC

CIAC	\$	(48,724)
AIAC	\$	48,724

See Testimony

SUPPORTING SCHEDULES





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

Exhibit  
 Rebuttal Schedule B-5  
 Page 1  
 Witness: Bourassa

Line  
 No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	145,726
3	Pumping Power (1/24 of Pumping Power)		16,396
4	Purchased Water (1/24 of Purchased Water)		-
5	Materials and Supplies		-
6	Prepays		10,289
7			
8			
9	Total Working Capital Allowance	\$	<u>172,411</u>
10			
11			
12	Working Capital Requested	\$	<u>-</u>
13			

15 SUPPORTING SCHEDULES:

16 E-1

RECAP SCHEDULES:

Rebuttal B-1

19	<u>Cash Working Capital Detail</u>		<u>Adjusted</u> <u>Test Year Results</u>
20			
21	Total Operating Expense	\$	2,034,328
22	Less:		
23	Income Tax		(117,600)
24	Property Tax		126,733
25	Depreciation		465,889
26	Purchased Water		-
27	Pumping Power		393,496
28	Allowable Expenses	\$	<u>1,165,810</u>
29	1/8 of allowable expenses	\$	<u>145,726</u>
30			
31			

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

Exhibit  
 Rebuttal Schedule C-1  
 Page 1  
 Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjustment	Rebuttal Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	<b>Revenues</b>					
2	Metered Water Revenues	\$ 1,802,584	\$ -	\$ 1,802,584	\$ 1,827,602	\$ 3,630,187
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	44,672	-	44,672		44,672
5		<u>\$ 1,847,256</u>	<u>\$ -</u>	<u>\$ 1,847,256</u>	<u>\$ 1,827,602</u>	<u>\$ 3,674,859</u>
6	<b>Operating Expenses</b>					
7	Salaries and Wages	\$ -	-	-		-
8	Purchased Water	-	-	-		-
9	Purchased Power	441,501	(48,005)	393,496		393,496
10	Fuel for Power Production	-	-	-		-
11	Chemicals	9,347	-	9,347		9,347
12	Materials & Supplies	23,150	-	23,150		23,150
13	Outside Services	805,032	13,097	818,129		818,129
14	Outside Services- Other	76,859	-	76,859		76,859
15	Outside Services- Legal	487	-	487		487
16	Water Testing	-	-	-		-
17	Rents	26,954	-	26,954		26,954
18	Transportation Expenses	79,315	(6,725)	72,590		72,590
19	Insurance - General Liability	37,699	-	37,699		37,699
20	Insurance - Health and Life	-	-	-		-
21	Reg. Comm. Exp.	17,564	-	17,564		17,564
22	Reg. Comm. Exp. - Rate Case	70,000	-	70,000		70,000
23	Miscellaneous Expense	14,822	(1,363)	13,459		13,459
24	Bad Debt Expense	371	(799)	(428)		(428)
25	Depreciation Expense	463,297	2,592	465,889		465,889
26	Taxes Other Than Income	-	-	-		-
27	Property Taxes	130,373	(3,640)	126,733		126,733
28	Income Tax	(134,909)	17,309	(117,600)	705,434	587,834
29	<b>Total Operating Expenses</b>	<u>\$ 2,061,862</u>	<u>\$ (27,534)</u>	<u>\$ 2,034,328</u>	<u>\$ 705,434</u>	<u>\$ 2,739,762</u>
30	<b>Operating Income</b>	<u>\$ (214,606)</u>	<u>\$ 27,534</u>	<u>\$ (187,072)</u>	<u>\$ 1,122,168</u>	<u>\$ 935,097</u>
31	<b>Other Income (Expense)</b>					
32	Interest Income	-	-	-		-
33	Other income (loss)	-	-	-		-
34	Interest Expense	-	-	-		-
35	Other Expense	-	-	-		-
36		-	-	-		-
37	<b>Total Other Income (Expense)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
38	<b>Net Profit (Loss)</b>	<u>\$ (214,606)</u>	<u>\$ 27,534</u>	<u>\$ (187,072)</u>	<u>\$ 1,122,168</u>	<u>\$ 935,097</u>

SUPPORTING SCHEDULES:  
 Rebuttal C-1, page 2.1 and 2.2

RECAP SCHEDULES:  
 Rebuttal A-1

42

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

Exhibit  
 Rebuttal Schedule C-1  
 Page 2  
 Witness: Bourassa

Line No.	Revenues	1	2	3	4	5	6	7	8	9	Rebuttal Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
		Test Year Adjusted Results	Property Taxes	Purchased Power	Transport. Expense	Out of Period Exp.	Misc. Expense	Bad Debt Exp.	Central Office Costs	Income Tax			
1	Revenues												
2	Metered Water Revenues	\$ 1,802,584									\$ 1,802,584	\$ 1,827,602	\$ 3,630,187
3	Unmetered Water Revenues	-									-	-	-
4	Other Water Revenues	44,672									44,672	1,827,602	3,674,859
5		\$ 1,847,256	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,847,256	\$ 1,827,602	\$ 3,674,859
6	Operating Expenses												
7	Salaries and Wages	-									-	-	-
8	Purchased Water	-									-	-	-
9	Purchased Power	441,501		(48,005)							383,496		383,496
10	Fuel for Power Production	-									-		-
11	Chemicals	9,347									9,347		9,347
12	Materials & Supplies	23,150									23,150		23,150
13	Outside Services	805,032									818,129		818,129
14	Outside Services- Other	76,859			(14,477)				27,574		76,859		76,859
15	Outside Services- Legal	487									487		487
16	Water Testing	-									-		-
17	Rents	26,954									26,954		26,954
18	Transportation Expenses	79,315			(6,725)						72,590		72,590
19	Insurance - General Liability	37,699									37,699		37,699
20	Insurance - Health and Life	-									-		-
21	Reg. Comm. Exp.	17,564									17,564		17,564
22	Reg. Comm. Exp. - Rate Case	70,000									70,000		70,000
23	Miscellaneous Expense	14,822				(1,363)					13,459		13,459
24	Bad Debt Expense	371						(799)			(428)		(428)
25	Depreciation Expense	463,297	2,592								465,889		465,889
26	Taxes Other Than Income	-									-		-
27	Property Taxes	130,373	(3,640)								126,733		126,733
28	Income Tax	(134,906)								17,309	(117,600)	705,434	587,834
29	Total Operating Expenses	\$ 2,061,862	\$ (3,640)	\$ (48,005)	\$ (6,725)	\$ (14,477)	\$ (1,363)	\$ (799)	\$ 27,574	\$ 17,309	\$ 2,034,328	\$ 705,434	\$ 2,739,762
30	Operating Income	\$ (214,606)	\$ 3,640	\$ 48,005	\$ 6,725	\$ 14,477	\$ 1,363	\$ 799	\$ (27,574)	\$ (17,309)	\$ (187,072)	\$ 1,122,168	\$ 935,097
31	Other Income (Expense)												
32	Interest Income	-									-		-
33	Other Income (loss)	-									-		-
34	Interest Expense	-									-		-
35	Other Expense	-									-		-
36													
37	Total Other Income (Expense)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
38	Net Profit (Loss)	\$ (214,606)	\$ 3,640	\$ 48,005	\$ 6,725	\$ 14,477	\$ 1,363	\$ 799	\$ (27,574)	\$ (17,309)	\$ (187,072)	\$ 1,122,168	\$ 935,097
39													
40													
41													
42													

SUPPORTING SCHEDULES:  
 Rebuttal C-2

RECAP SCHEDULES:  
 Rebuttal C-1

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

Line No.	1 Depreciation Expense	2 Property Taxes	3 Purchased Power	4 Transport. Expense	5 Out of Period Exp.	6 Misc. Expense	Subtotal
1	2,592	(3,640)	(48,005)	(6,725)	(14,477)	(1,363)	(71,618)
2							
3							
4							
5							
6							
7							
8	(2,592)	3,640	48,005	6,725	14,477	1,363	71,618
9							
10							
11							
12							
13							
14							
15							
16	(2,592)	3,640	48,005	6,725	14,477	1,363	71,618
17							
18							
19							
20							
21							
22							
23							
24	(799)	27,574	17,309				(27,534)
25							
26							
27	799	(27,574)	(17,309)				27,534
28							
29							
30							
31							
32							
33							
34							
35	799	(27,574)	(17,309)				27,534

7  
Bad Debt

8  
Central Office Allocation

9  
Income Tax

10  
Blank

11  
Blank

12  
Blank

Adjustments to Revenues and Expenses

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

Exhibit  
 Rebuttal Schedule C-2  
 Page 2  
 Witness: Bourassa

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

54 SUPPORTING SCHEDULE

55 Rebuttal B-2, page 3

\* Fully Depreciated

56

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

Exhibit  
 Rebuttal Schedule C-2  
 Page 3  
 Witness: Bourassa

Line No.			
1	<u>Property Taxes:</u>		
2			
3	Adjusted Revenues in year ended 12/31/08	\$	1,847,256
4	Adjusted Revenues in year ended 12/31/08		1,847,256
5	Proposed Revenues		<u>3,674,859</u>
6	Average of three year's of revenue	\$	2,456,457
7	Average of three year's of revenue, times 2	\$	4,912,914
8	Add:		
9	Construction Work in Progress at 10%	\$	-
10	Deduct:		
11	Book Value of Transportation Equipment		<u>193,833</u>
12			
13	Full Cash Value	\$	4,719,081
14	Assessment Ratio		21%
15	Assessed Value		<u>991,007</u>
16	Property Tax Rate		11.3283%
17			
18	Property Tax		112,264
19	Plus: Tax on Parcels		14,470
20			
21	Total Property Tax at Proposed Rates	\$	<u>126,733</u>
22	Adjusted Property Taxes		<u>130,373</u>
23	Change in Property Taxes	\$	<u>(3,640)</u>
24			
25			
26	Adjustment to Revenues and/or Expenses	\$	<u>(3,640)</u>
27			
28			

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

Exhibit  
Rebuttal Schedule C-2  
Page 4  
Witness: Bourassa

Line		
<u>No.</u>		
1	<u>Purchased Power</u>	
2		
3	Reclassify purchased power expense to sewer division	\$ (48,005)
4		
5		
6		
7		
8		
9	Increase (decrease) in Purchased Power Expense	<u>\$ (48,005)</u>
10		
11	Adjustment to Revenue and/or Expense	<u>\$ (48,005)</u>
12		
13		
14		
15		
16		
17	<u>SUPPORTING SCHEDULE</u>	
18	Staff Schedule GWB-12	
19		
20		
21		
22		
23		
24		

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

Exhibit  
Rebuttal Schedule C-2  
Page 5  
Witness: Bourassa

Line

No.

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

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

Exhibit  
 Rebuttal Schedule C-2  
 Page 6  
 Witness: Bourassa

Line

No.

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

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

Exhibit  
Rebuttal Schedule C-2  
Page 7  
Witness: Bourassa

Line

No.

1	<u>Miscellaneous Expense</u>	
2		
3	Remove charitable contributions	\$ (1,363)
4		
5		
6	Increase (decrease) in Miscellaneous Expense	<u>\$ (1,363)</u>
7		
8		
9		
10	Adjustment to Revenue and/or Expense	<u>\$ (1,363)</u>
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		

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

Exhibit  
Rebuttal Schedule C-2  
Page 8  
Witness: Bourassa

Line

No.

1 Bad Debt Expense

2

3

4

Normalize Bad Debt Expense

(799)

5

6

7

Increase (decrease) in Purchased Power

\$ (799)

8

9

Adjustment to Revenue and/or Expense

\$ (799)

10

11

12

13

14

15

16

17

18

19

20

Line No.	2008 Actual Total	Adjustments	Rejoinder Total Cost Pool	Utility Infrastructure Group Allocation %	Utility Infrastructure Group Allocated Cost Pool	RRUI Water Allocation by Customer Count	Rebuttal Rejoinder <del>TPSCo RRUI</del> Allocation	
1								
2	<u>Central Office Costs - Infrastructure Allocation</u>							
3								
4	2008 Actual Total							
5								
6								
7								
8								
9	Audit	\$ 1,021,609	\$ 1,021,609	26.98%	\$ 275,672	9.55%	26,327	
10	Tax Services	322,446	322,446	26.98%	87,009	9.55%	8,309	
11	Legal	767,451	(113,853)	26.98%	176,368	9.55%	16,843	
12	Other Professional Services	565,649		26.98%	152,636	9.55%	14,577	
13	Management Fee - Total	642,771		26.98%	173,446	9.55%	16,564	
14	Unit Holder Communications	289,796		26.98%	78,199	9.55%	7,468	
15	Trustee Fees	129,000		26.98%	34,810	9.55%	3,324	
16	Escrow & Transfer Agent Fees	71,366		26.98%	19,258	9.55%	1,839	
17	Rent	299,586		26.98%	80,841	9.55%	7,720	
18	Licenses/Fees & Permits	140,852	(15,808)	26.98%	33,742	9.55%	3,222	
19	Office Expenses	808,101	(74,847)	26.98%	197,862	9.55%	18,896	
20	Depreciation	211,253		26.98%	57,005	9.55%	5,444	
21								
22	<b>Total (US dollars USD)</b>	<b>\$ 5,269,882</b>	<b>\$ (204,509)</b>		<b>\$ 1,366,847</b>		<b>\$ 130,534</b>	
23								
24								
25								
26	Infrastructure Cost Allocation per Direct (USD)						\$ 102,960	
27	Increase (decrease) in Infrastructure Allocated Costs (USD)						\$ 27,574	
28								
29								
30								
31	Adjustment to Revenues and/or Expenses						\$ 27,574	
32								
33								
34								
35								

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

Exhibit  
 Schedule C-2  
 Page 10  
 Witness: Bourassa

Line No.		<u>Test Year Book Results</u>	<u>Test Year Adjusted Results</u>	<u>Adjusted with Rate Increase</u>	
1	<u>Income Tax Computation</u>				
2					
3					
4					
5					
6					
7	Taxable Income	\$ (349,515)	\$ (304,671)	\$ 1,522,931	
8					
9	Taxable Income	<u>\$ (349,515)</u>	<u>\$ (304,671)</u>	<u>\$ 1,522,931</u>	
10					
11					
12					
13	Income Before Taxes			<u>\$ 1,522,931</u>	
14					
15	Arizona Income Before Taxes			\$ 1,522,931	
16					
17	Less Arizona Income Tax			<u>\$ 106,118</u>	
18	Rate =	6.97%			
19	Arizona Taxable Income			\$ 1,416,813	
20					
21	Arizona Income Taxes			\$ 106,118	
22					
23	Federal Income Before Taxes			\$ 1,522,931	
24					
25	Less Arizona Income Taxes			<u>\$ 106,118</u>	
26					
27	Federal Taxable Income			<u>\$ 1,416,813</u>	
28					
29					
30					
31	FEDERAL INCOME TAXES:				
32	15% BRACKET			\$ 7,500	
33	25% BRACKET			\$ 6,250	
34	34% BRACKET			\$ 8,500	Federal
35	39% BRACKET			\$ 91,650	Effective
36	34% BRACKET			\$ 367,816	Tax
37					Rate
38	Federal Income Taxes			<u>\$ 481,716</u>	31.63%
39					
40					
41	Total Income Tax			<u>\$ 587,834</u>	
42					
43	Overall Tax Rate			<u>38.60%</u>	
44					
45	Income Tax at Proposed Rates Effective Rate		<u>\$ (117,600)</u>		
46					

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

Exhibit  
Rebuttal Schedule C-3  
Page 1  
Witness: Bourassa

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





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

Exhibit  
 Rebuttal Schedule H-1  
 Page 3  
 Witness: Bourassa

Revenue Summary

With Annualized Revenues to Year End Number of Customers

Line No.	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1						
2						
3	\$ 1,808,782	\$ 3,639,293	\$ 1,830,511	101.20%	100.00%	100.00%
4	(4,794)	(9,834)	(5,041)	105.15%	-0.27%	-0.27%
5	\$ 1,803,988	\$ 3,629,458	\$ 1,825,470	101.19%		
6						
7	\$ 44,672	\$ 44,672	-	0.00%	2.47%	1.23%
8	(1,404)	728	2,132	0.00%	-0.08%	0.02%
9	\$ 1,847,256	\$ 3,674,858	\$ 1,827,602	98.94%	0.00%	0.00%
10						
11						
12	<u>Revenue Reconciliation</u>					
13						
14	Revenue per bill count before revenue annualization	\$ 1,808,782				
15	Revenue per GL (metered water revenues)	\$ 1,807,378				
16	Difference	\$ 1,404				
17	Difference %	0.08%				
18	Tolerance %	0.50%				
19	Tolerance Amount + or -	\$ 9,037				
20						
21	Acceptable?					YES
22						
23						
24						
25						
26						
27						
28						
29						
30						
31						
32						
33						
34						
35						
36						
37						
38						
39						
40						

Line No.	Meter Size Class	(a) Average Number of Customers at 12/31/2008	Average Bill		Proposed Increase		
			Average Consumption	Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	5/8 Inch Residential	5,745	8,548 \$	19.94 \$	40.04	20.10	100.77%
2	3/4 Inch Residential	8	3,558	15.70	32.02	16.32	103.95%
3	1 Inch Residential	36	11,326	36.35	72.14	35.79	98.44%
4	1.5 Inch Residential	4	20,116	68.92	135.50	66.58	96.60%
5	2 Inch Residential	4	19,938	87.89	174.10	86.21	98.08%
6	Subtotal	5,797					
7							
8	5/8 Inch Commercial	97	11,575 \$	25.40 \$	51.20	25.80	101.56%
9	1 Inch Commercial	43	17,804	47.93	95.80	47.88	99.89%
10	1.5 Inch Commercial	10	39,685	106.10	211.43	105.33	99.27%
11	2 Inch Commercial	33	154,509	336.17	684.21	348.05	103.53%
12	3 Inch Commercial	13	266,143	599.67	1,178.07	578.40	96.45%
13	4 Inch Commercial	5	292,262	717.40	1,397.23	679.83	94.76%
14	6 Inch Commercial	1	641,667	1,515.42	3,044.17	1,528.75	100.88%
15	Subtotal	202					
16							
17	5/8 Inch Multi-family	10	10,718 \$	23.77 \$	47.88	24.10	101.38%
18	1.5 Inch Multi-family	1	7,417	47.31	91.26	43.95	92.90%
19	Subtotal	11					
20							
21	Fire Lines up to 8 Inch	15	- \$	6.48 \$	13.00	6.52	100.62%
22							
23							
24	Total	6,025					
25							

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

Line No.	Meter Size, Class	(a)		Median Bill		Proposed Increase	
		Average Number of Customers at 12/31/2008	Median Consumption	Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	5/8 Inch Residential	5,745	7,000 \$	17.31 \$	34.65	17.34	100.17%
2	3/4 Inch Residential	8	3,000	14.75	30.08	15.33	103.90%
3	1 Inch Residential	36	7,000	29.00	57.09	28.09	96.84%
4	1.5 Inch Residential	4	20,000	68.70	135.05	66.35	96.58%
5	2 Inch Residential	4	16,500	82.05	162.14	80.09	97.61%
6	Subtotal	5,797					
7							
8	5/8 Inch Commercial	97	5,000 \$	13.91 \$	27.69	13.78	99.07%
9	1 Inch Commercial	43	8,000	30.70	60.57	29.87	97.28%
10	1.5 Inch Commercial	10	32,500	92.45	183.55	91.10	98.54%
11	2 Inch Commercial	33	30,000	105.00	209.12	104.12	99.16%
12	3 Inch Commercial	13	7,000	117.30	233.80	116.50	99.32%
13	4 Inch Commercial	5	210,000	561.10	1,078.05	516.95	92.13%
14	6 Inch Commercial	1	511,000	1,267.15	2,537.18	1,270.03	100.23%
15	Subtotal	202					
16							
17	5/8 Inch Multi-family	10	9,000 \$	20.71 \$	41.61	20.90	100.92%
18	1.5 Inch Multi-family	1	8,500	49.15	95.03	45.88	93.35%
19	Subtotal	11					
20							
21	Fire Lines up to 8 Inch	15	- \$	6.48 \$	13.00	6.52	100.62%
22							
23							
24	Total	6,025					
25							

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

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

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

Exhibit  
 Rebuttal Schedule H-3  
 Page 2  
 Witness: Bourassa

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

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

Exhibit  
 Rebuttal Schedule H-3  
 Page 3  
 Witness: Bourassa

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

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

Exhibit  
 Rebuttal Schedule H-3  
 Page 4  
 Witness: Bourassa

Line  
No.  
 1  
 2  
 3  
 4  
 5  
 6  
 7  
 8  
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 35

Refundable Meter and Service Line Charges

	Present Service Line Charge	Present Meter Install- ation Charge	Total Present Charge	Proposed Service Line Charge	Proposed Meter Install- ation Charge	Total Proposed Charge
5/8 x 3/4 Inch	\$ 370.00	\$ 130.00	\$ 500.00	At Cost	At Cost	At Cost
3/4 Inch	370.00	205.00	575.00	At Cost	At Cost	At Cost
1 Inch	420.00	240.00	660.00	At Cost	At Cost	At Cost
1 1/2 Inch	450.00	450.00	900.00	At Cost	At Cost	At Cost
2 Inch	580.00	1,640.00	2,220.00	At Cost	At Cost	At Cost
3 Inch	765.00	2,195.00	2,960.00	At Cost	At Cost	At Cost
4 Inch	1,120.00	3,145.00	4,265.00	At Cost	At Cost	At Cost
6 inch	1,630.00	6,120.00	7,750.00	At Cost	At Cost	At Cost
8 Inch			At Cost	At Cost	At Cost	At Cost
10 Inch			At Cost	At Cost	At Cost	At Cost
12 Inch			At Cost	At Cost	At Cost	At Cost

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

Exhibit  
Rebuttal Schedule H-3  
Page 5  
Witness: Bourassa

Line

No.

1

2 Off-site Facilities Hook-up Fee

3

4

5

Present  
Charge

Proposed  
Charge

6 5/8 x 3/4 Inch

NT

\$ 1,800

7 3/4 Inch

NT

2,700

8 1 Inch

NT

4,500

9 1 1/2 Inch

NT

9,000

10 2 Inch

NT

14,400

11 3 Inch

NT

28,800

12 4 Inch

NT

45,000

13 6 Inch or larger

NT

90,000

14

15

16

17

18

19

20

21

22

23

24

25

26

27

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29 NT = no tariff

30

31

32

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36

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

Exhibit  
 Rebuttal Schedule A-1  
 Page 1  
 Witness: Bourassa

Line No.						
1	Fair Value Rate Base			\$	3,323,449	
2						
3	Adjusted Operating Income				470,590	
4						
5	Current Rate of Return				14.16%	
6						
7	Required Operating Income			\$	388,844	
8						
9	Required Rate of Return on Fair Value Rate Base				11.70%	
10						
11	Operating Income Deficiency			\$	(81,747)	
12						
13	Gross Revenue Conversion Factor				1.6286	
14						
15	Increase in Gross Revenue Revenue Requirement			\$	(133,135)	
16						
17	Adjusted Test Year Revenues			\$	1,829,976	
18	Increase in Gross Revenue Revenue Requirement			\$	(133,135)	
19	Proposed Revenue Requirement			\$	1,696,840	
20	% Increase				-7.28%	
21						
22	<b>Customer</b>		<b>Present</b>		<b>Proposed</b>	<b>Dollar</b>
23	<b>Classification</b>		<b>Rates</b>		<b>Rates</b>	<b>Increase</b>
24	5/8 Inch Residential	\$	1,287,713	\$	1,194,998	\$ (92,715)
25	3/4 Inch Residential		6,298		5,845	(453)
26	1 Inch Residential		8,258		7,663	(595)
27	1.5 Inch Residential		-		-	-
28	2 Inch Residential		1,951		1,811	(141)
29						
30	<b>Subtotal</b>	\$	1,304,221	\$	1,210,317	\$ (93,904)
31						-7.20%
32	5/8 Inch Commercial	\$	78,006	\$	72,390	\$ (5,616)
33	1 Inch Commercial		61,192		56,786	(4,406)
34	1.5 Inch Commercial		27,159		25,203	(1,955)
35	2 Inch Commercial		178,576		165,718	(12,857)
36	3 Inch Commercial		7,911		7,341	(570)
37	4 Inch Commercial		111,601		103,566	(8,035)
38	6 Inch Commercial		53,582		49,725	(3,858)
39						
40	<b>Subtotal</b>	\$	518,027	\$	480,729	\$ (37,298)
41						-7.20%
42						0.00%
43	5/8 Inch Multi-tenant	\$	9,384	\$	8,708	\$ (676)
44	1.5 Inch Multi-tenant		1,510		1,401	(109)
45			-		-	-
46	<b>Subtotal</b>	\$	10,893	\$	10,109	\$ (784)
47						-7.20%
48						0.00%
49	<b>Subtotal Revenues before Annualization</b>	\$	1,833,141	\$	1,701,155	\$ (131,986)
50	<b>Revenue Annualization</b>		(4,505)		(4,181)	324
51	<b>Miscellaneous Revenues</b>		250		250	-
52	<b>Reconciling Amount H-1 to C-1</b>		1,090		(383)	(1,473)
53	<b>Total of Water Revenues (a)</b>	\$	1,829,976	\$	1,696,841	\$ (133,135)
54						-7.28%

55 **SUPPORTING SCHEDULES:**  
 56 Rebuttal B-1  
 57 Rebuttal C-1  
 58 Rebuttal C-3  
 59 Rebuttal H-1  
 60

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

Exhibit  
 Rebuttal Schedule B-1  
 Page 1  
 Witness: Bourassa

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

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

**Exhibit**  
**Rebuttal Schedule B-2**  
**Page 1**  
**Witness: Bourassa**

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

**SUPPORTING SCHEDULES:**  
**Rebuttal B-2, page 2**

**RECAP SCHEDULES:**  
**Rebuttal B-1**

37  
38  
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Rio Rico Utilities - Wastewater Division  
 Test Year Ended December 31, 2008  
 Original Cost Rate Base Proforma Adjustments

Exhibit  
 Rebuttal Schedule B-2  
 Page 2  
 Witness: Bourassa

Line No.	Description	Adjusted at End of Test Year	Proforma Adjustments			Intentionally Left Blank	Rebuttal Adjusted at end of Test Year
			1 Plant-in-Service	2 Accumulated Depreciation	3 AIAC/CIAC		
1	Gross Utility Plant in Service	\$ 11,829,043	-	-	-	-	\$ 11,829,043
2							
3							
4	Less:						
5	Accumulated Depreciation	5,110,028	-	-	-	-	5,110,028
6							
7							
8							
9	Net Utility Plant in Service	\$ 6,719,014	\$ -	\$ -	\$ -	\$ -	\$ 6,719,014
10							
11							
12	Less:						
13	Advances in Aid of Construction	(861)		238,783			237,922
14							
15							
16	Contributions in Aid of Construction (CIAC)	5,376,456		(238,783)			5,137,673
17							
18							
19	Accumulated Amort of CIAC	(1,944,057)					(1,944,057)
20							
21	Refundable Service Line Chgs	95,000					95,000
22	Deferred Income Taxes	(323,602)			192,629		(130,973)
23							
24							
25	Plus:						
26	Unamortized Finance Charges	-					-
27							
28							
29	Allowance for Working Capital	-					-
30							
31	Total	\$ 3,516,078	\$ -	\$ -	\$ (192,629)	\$ -	\$ 3,323,449
32							
33							
34							

RECAP SCHEDULES:  
 Rebuttal B-1

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

Line No.	Plant-in-Service	Acct. No.	Description	Adjusted Original Cost	Adjustments				Rebuttal Adjusted Original Cost
					A	B	C	D	
					Intentionally Left Blank				
1				5,785					5,785
2			Organization	417					417
3			Franchises	7,545					7,545
4			Land	28,548					28,548
5			Structures & Improvements	-					-
6			Power Generation	636,023					636,023
7			Collection Sewer Forced	5,945,962					5,945,962
8			Collection Sewers Gravity	-					-
9			Special Collecting Structures	1,145,530					1,145,530
10			Customer Services	55,989					55,989
11			Flow Measuring Devices	-					-
12			Flow Measuring Installation	-					-
13			Reuse Services	-					-
14			Reuse Meters And Installation	-					-
15			Receiving Wells	867,120					867,120
16			Pumping Equipment	1,504,181					1,504,181
17			Reuse Distribution Reservoirs	-					-
18			Reuse Trans. and Dist. System	-					-
19			Treatment & Disposal Equipment	1,006,848					1,006,848
20			Plant Sewers	-					-
21			Outfall Sewer Lines	-					-
22			Other Sewer Plant & Equipment	68,869					68,869
23			Office Furniture & Equipment	110,454					110,454
24			Computers and Software	4,025					4,025
25			390.1 Transportation Equipment	-					-
26			Stores Equipment	4,897					4,897
27			Tools, Shop And Garage Equip	-					-
28			Laboratory Equip	5,936					5,936
29			Communication Equip	3,913					3,913
30			Other Tangible Plant	427,000					427,000
31			Nogales Capacity	-					-
32			TOTALS	\$ 11,829,042	\$ -	\$ -	\$ -	\$ -	\$ 11,829,042
33			Adjusted Plant-in-Service per Direct						\$ 11,829,042
34			Increase (decrease) in Plant-in-Service						\$ -
35			Adjustment to Plant-in-Service						\$ -
36			SUPPORTING SCHEDULES						
37			Rebuttal B-2, pages 3.1-3.9						

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	Plant At 12/31/2002	2002 Accum. Depr.	2003 Plant Additions	2003 Plant Adjustments	2003 Adjusted Plant	2003 Plant Retirements	2003 Salvage A/D Only	2003 Plant Balance	2003 Deprec.	
351	Organization	0.00%	0.00%	5,785	-	-	-	-	-	-	5,785	-	
352	Franchises	0.00%	0.00%	417	-	-	-	-	-	-	417	-	
353	Land	0.00%	0.00%	7,545	-	-	-	-	-	-	7,545	-	
354	Structures & Improvements	5.15%	3.33%	28,548	20,590	-	-	-	-	-	28,548	1,470	
355	Power Generation	5.00%	5.00%	-	-	-	-	-	-	-	-	-	
360	Collection Sewer Forced	2.06%	2.00%	355,144	(99,427)	295,950	-	295,950	(13,062)	-	638,032	10,364	
361	Collection Sewers Gravity	2.03%	2.00%	4,387,284	1,584,087	5,247	-	5,247	(6,745)	-	4,385,786	89,115	
362	Special Collecting Structures	3.31%	2.00%	-	-	-	-	-	-	-	-	-	
363	Customer Services	3.04%	2.00%	1,085,957	441,720	7,742	-	7,742	-	-	1,083,699	33,131	
364	Flow Measuring Devices	5.03%	10.00%	36,057	10,881	-	-	-	-	-	36,057	1,814	
365	Flow Measuring Installation	5.03%	10.00%	-	-	-	-	-	-	-	-	-	
366	Reuse Services	5.03%	2.00%	-	-	-	-	-	-	-	-	-	
367	Reuse Meters And Installation	8.33%	8.33%	-	-	-	-	-	-	-	-	-	
370	Receiving Wells	3.96%	3.33%	982,546	48,548	-	-	-	-	-	982,546	39,305	
371	Pumping Equipment	5.27%	12.50%	1,593,905	309,912	-	-	-	-	-	1,593,905	63,999	
374	Reuse Distribution Reservoirs	2.50%	2.50%	-	-	-	-	-	-	-	-	-	
375	Reuse Trans. and Dist. System	2.50%	2.50%	-	-	-	-	-	-	-	-	-	
380	Treatment & Disposal Equipment	5.28%	5.00%	972,166	367,586	-	-	-	-	-	972,166	51,136	
381	Plant Sewers	2.00%	5.00%	-	-	-	-	-	-	-	-	-	
382	Outfall Sewer Lines	1.66%	3.33%	-	-	-	-	-	-	-	-	-	
389	Other Sewer Plant & Equipment	5.30%	6.67%	71,243	38,620	-	-	-	-	-	71,243	3,776	
390	Office Furniture & Equipment	2.00%	6.67%	5,514	2,587	-	-	-	-	-	5,514	110	
390.1	Computers and Software	4.80%	20.00%	4,025	2,790	-	-	-	-	-	4,025	193	
391	Transportation Equipment	33.33%	20.00%	-	-	-	-	-	-	-	-	-	
392	Stores Equipment	-	4.00%	-	-	-	-	-	-	-	-	-	
393	Tools, Shop And Garage Equip	4.76%	5.00%	4,015	2,771	-	-	-	-	-	4,015	191	
394	Laboratory Equip	2.56%	10.00%	-	-	-	-	-	-	-	-	-	
396	Communication Equip	5.03%	10.00%	5,936	4,224	-	-	-	-	-	5,936	299	
398	Other Tangible Plant	5.13%	4.00%	3,913	1,798	-	-	-	-	-	3,913	201	
398	Nogales WW Trmnt Capacity Rounding	5.00%	5.00%	-	1	-	-	-	-	-	-	(1)	
Plant Held for Future Use													
TOTAL WASTEWATER PLANT													
						9,560,000	2,735,688	308,939	308,939	(19,807)	-	9,849,132	315,102

Plant Held for Future Use

9,560,000 2,735,688 308,939 308,939 (19,807) 9,849,132 315,102

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2004 Plant Additions	2004 Plant Adjustments	2004 Adjusted Plant Additions	2004 Plant Retirements	2004 Salvage/Adj. A/D Only	2004 Plant Balance	2004 Deprec.
351	Organizational	0.00%	0.00%	-	-	-	-	-	5,785	-
352	Franchises	0.00%	0.00%	-	-	-	-	-	417	-
353	Land	0.00%	0.00%	-	-	-	-	-	7,545	-
354	Structures & Improvements	5.15%	3.33%	-	-	-	-	-	28,548	1,340
355	Power Generation	5.00%	5.00%	-	-	-	-	-	-	-
360	Collection Sewer Forced	2.06%	2.00%	(4,971)	-	(4,971)	-	-	633,061	12,997
361	Collection Sewers Gravity	2.03%	2.00%	100,106	-	100,106	-	-	4,485,892	89,715
362	Special Collecting Structures	3.31%	2.00%	-	-	-	-	-	-	-
363	Customer Services	3.04%	2.00%	20,057	-	20,057	-	-	1,113,756	30,684
364	Flow Measuring Devices	5.03%	10.00%	-	-	-	-	-	36,057	2,262
365	Flow Measuring Installation	5.03%	10.00%	-	-	-	-	-	-	-
366	Reuse Services	5.03%	2.00%	-	-	-	-	-	-	-
367	Reuse Meters And Installation	8.33%	8.33%	-	-	-	-	-	-	-
370	Receiving Wells	3.96%	3.33%	(125,426)	-	(125,426)	-	-	867,120	35,357
371	Pumping Equipment	5.27%	12.50%	(94,296)	-	(94,296)	-	-	1,499,609	109,472
374	Reuse Distribution Reservoirs	-	2.50%	-	-	-	-	-	-	-
375	Reuse Trans. and Dist. System	-	2.50%	-	-	-	-	-	-	-
380	Treatment & Disposal Equipment	5.26%	5.00%	-	-	-	-	-	972,166	50,504
381	Plant Sewers	2.00%	5.00%	-	-	-	-	-	-	-
382	Outfall Sewer Lines	1.66%	3.33%	-	-	-	-	-	-	-
389	Other Sewer Plant & Equipment	5.30%	6.67%	-	-	-	-	-	71,243	4,020
390	Office Furniture & Equipment	2.00%	6.67%	-	-	-	-	-	5,514	175
390.1	Computers and Software	4.80%	20.00%	-	-	-	-	-	4,025	346
391	Transportation Equipment	33.33%	20.00%	-	-	-	-	-	-	-
392	Stores Equipment	-	4.00%	-	-	-	-	-	-	-
393	Tools, Shop And Garage Equip	4.76%	5.00%	882	-	882	-	-	4,897	215
394	Laboratory Equip	2.56%	10.00%	-	-	-	-	-	-	-
396	Communication Equip	5.03%	10.00%	-	-	-	-	-	5,936	372
398	Other Tangible Plant	5.13%	4.00%	-	-	-	-	-	3,913	190
398	Nogales WW Trmnt Capacity Rounding	-	5.00%	-	-	-	-	-	-	-
Plant Held for Future Use										
TOTAL WASTEWATER PLANT										
(103,647)										
(103,647)										
9,745,484										
337,648										



Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2006 Plant Additions	2006 Plant Adjustments <sup>1</sup>	2006 Adjusted Plant Additions	2006 Plant Retirements	2006 Salvage AD Only	2006 Plant Balance	2006 Deprec.
361	Organization	0.00%	0.00%	-	-	-	-	-	5,785	-
362	Franchises	0.00%	0.00%	-	-	-	-	-	417	-
363	Land	0.00%	0.00%	-	-	-	-	-	7,545	-
364	Structures & Improvements	5.15%	3.33%	-	-	-	-	-	28,548	951
365	Power Generation	-	5.00%	-	-	-	-	-	-	-
366	Collection Sewer Forced	2.06%	2.00%	1,147	-	1,147	-	-	634,208	12,673
361	Collection Sewers Gravity	2.03%	2.00%	100,371	-	100,371	-	-	5,917,835	117,353
362	Special Collecting Structures	3.31%	2.00%	-	-	-	-	-	-	-
363	Customer Services	3.04%	2.00%	-	-	-	-	-	-	-
364	Flow Measuring Devices	5.03%	10.00%	12,716	-	12,716	-	-	1,128,765	22,448
365	Flow Measuring Installation	5.03%	10.00%	-	-	-	-	-	38,057	3,606
366	Reuse Services	5.03%	2.00%	-	-	-	-	-	-	-
367	Reuse Meters And Installation	8.33%	8.33%	-	-	-	-	-	-	-
370	Receiving Wells	3.96%	3.33%	-	-	-	-	-	867,120	28,875
371	Pumping Equipment	5.27%	12.50%	-	-	-	-	-	1,504,181	188,023
374	Reuse Distribution Reservoirs	-	2.50%	-	-	-	-	-	-	-
375	Reuse Trans. and Dist. System	5.26%	2.50%	-	-	-	-	-	972,166	48,606
380	Treatment & Disposal Equipment	2.00%	5.00%	-	-	-	-	-	-	-
381	Plant Sewers	1.66%	5.00%	-	-	-	-	-	-	-
382	Outfall Sewer Lines	5.30%	3.33%	-	-	-	-	-	-	-
389	Other Sewer Plant & Equipment	2.00%	6.67%	-	-	-	-	-	71,243	4,752
390	Office Furniture & Equipment	4.80%	6.67%	864	-	864	-	-	6,378	397
390.1	Computers and Software	33.33%	20.00%	-	-	-	-	-	4,025	-
391	Transportation Equipment	-	20.00%	-	-	-	-	-	-	-
392	Stores Equipment	-	4.00%	-	-	-	-	-	-	-
393	Tools, Shop And Garage Equip	4.76%	5.00%	-	-	-	-	-	4,897	245
394	Laboratory Equip	2.56%	10.00%	-	-	-	-	-	-	-
396	Communication Equip	5.03%	10.00%	-	-	-	-	-	5,936	447
398	Other Tangible Plant	5.13%	4.00%	-	-	-	-	-	3,913	157
398	Nogales WW Trmnt Capacity Rounding	-	5.00%	427,000	-	427,000	-	-	427,000	10,675
Plant Held for Future Use										
TOTAL WASTEWATER PLANT										
				542,099	-	542,099	-	-	11,626,019	439,209

<sup>1</sup> Affiliate Profit

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2007 Plant Additions	2007 Plant Adjustments <sup>1</sup>	2007 Adjusted Plant Additions	2007 Plant Retirements	2007 Salvage A/D Only	2007 Plant Balance	2007 Deprec.
351	Organization	0.00%	0.00%	-	-	-	-	-	5,785	-
352	Franchises	0.00%	0.00%	-	-	-	-	-	417	-
353	Land	0.00%	0.00%	-	-	-	-	-	7,545	-
354	Structures & Improvements	5.15%	3.33%	-	-	-	-	-	28,548	951
355	Power Generation	5.00%	5.00%	-	-	-	-	-	-	-
360	Collection Sewer Forced	2.06%	2.00%	1,815	-	1,815	-	-	636,023	12,702
361	Collection Sewers Gravity	2.03%	2.00%	-	-	-	-	-	5,917,835	118,357
362	Special Collecting Structures	3.31%	2.00%	-	-	-	-	-	-	-
363	Customer Services	3.04%	2.00%	-	(16)	12,865	-	-	1,141,630	22,704
364	Flow Measuring Devices	5.03%	10.00%	6,667	-	6,667	-	-	42,725	3,939
365	Flow Measuring Installation	5.03%	10.00%	-	-	-	-	-	-	-
366	Reuse Services	5.03%	10.00%	-	-	-	-	-	-	-
367	Reuse Meters And Installation	8.33%	8.33%	-	-	-	-	-	-	-
370	Receiving Wells	3.96%	3.33%	-	-	-	-	-	867,120	28,875
371	Pumping Equipment	5.27%	12.50%	-	-	-	-	-	1,504,181	188,023
374	Reuse Distribution Reservoirs	-	2.50%	-	-	-	-	-	-	-
375	Reuse Trans. and Dist. System	5.26%	2.50%	25,125	-	25,125	-	-	997,291	49,236
380	Treatment & Disposal Equipment	2.00%	5.00%	-	-	-	-	-	-	-
391	Plant Sewers	1.66%	3.33%	-	-	-	-	-	-	-
382	Outfall Sewer Lines	5.30%	6.67%	-	-	-	-	-	69,734	4,702
389	Other Sewer Plant & Equipment	2.00%	6.67%	938	(1,509)	(1,509)	-	-	7,315	457
390	Office Furniture & Equipment	4.80%	20.00%	-	-	-	-	-	4,025	-
380.1	Computers and Software	33.33%	20.00%	-	-	-	-	-	-	-
391	Transportation Equipment	-	4.00%	-	-	-	-	-	-	-
392	Stores Equipment	-	4.00%	-	-	-	-	-	-	-
393	Tools, Shop And Garage Equip	4.76%	5.00%	-	-	-	-	-	4,897	245
394	Laboratory Equip	2.96%	10.00%	-	-	-	-	-	-	-
396	Communication Equip	5.03%	10.00%	-	-	-	-	-	5,936	-
398	Other Tangible Plant	5.13%	4.00%	-	-	-	-	-	3,913	157
398	Nogales WW Trmnt Capacity Rounding	-	5.00%	-	-	-	-	-	427,000	21,350
	Plant Held for Future Use									
	TOTAL WASTEWATER PLANT			47,426	(1,525)	45,901	-	-	11,871,920	451,686

<sup>1</sup> Affiliate Profit

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2008 Plant Additions	2008 Plant Adjustments	2008 Plant Adjustments <sup>1</sup>	2008 Adjusted Plant	2008 Plant Retirements	2008 Salvage A/D Only	2008 Plant Balance	2008 Deprec.
351	Organization	0.00%	0.00%	-	-	-	-	-	-	5,785	-
352	Franchises	0.00%	0.00%	-	-	-	-	-	-	417	-
353	Land	0.00%	0.00%	-	-	-	-	-	-	7,545	-
354	Structures & Improvements	5.15%	3.33%	-	-	-	-	-	-	28,548	951
355	Power Generation	-	5.00%	-	-	-	-	-	-	-	-
360	Collection Sewer Force	2.06%	2.00%	-	-	-	-	-	-	636,023	12,720
361	Collection Sewers Gravity	2.03%	2.00%	27,713	415	-	28,127	-	-	5,945,962	118,638
362	Special Collecting Structures	3.31%	2.00%	-	-	-	-	-	-	-	-
363	Customer Services	3.04%	2.00%	3,900	-	-	3,900	-	-	-	-
364	Flow Measuring Devices	5.03%	10.00%	3,447	9,818	-	13,264	-	-	1,145,530	22,872
365	Flow Measuring Installation	5.03%	10.00%	-	-	-	-	-	-	55,989	4,936
366	Reuse Services	5.03%	2.00%	-	-	-	-	-	-	-	-
367	Reuse Meters And Installation	-	8.33%	-	-	-	-	-	-	-	-
370	Receiving Wells	3.96%	3.33%	-	-	-	-	-	-	887,120	28,875
371	Pumping Equipment	5.27%	12.50%	-	-	-	-	-	-	1,504,181	189,023
374	Reuse Distribution Reservoirs	-	2.50%	-	-	-	-	-	-	-	-
375	Reuse Trans. and Dist. System	-	2.50%	-	-	-	-	-	-	-	-
380	Treatment & Disposal Equipment	5.26%	5.00%	9,557	-	-	9,557	-	-	1,006,848	50,103
381	Plant Sewers	2.00%	5.00%	-	-	-	-	-	-	-	-
382	Outfall Sewer Lines	1.66%	3.33%	-	-	-	-	-	-	-	-
389	Other Sewer Plant & Equipment	5.30%	6.67%	150	1,697	(2,712)	(865)	-	-	68,869	4,622
390	Office Furniture & Equipment	2.00%	6.67%	103,139	-	-	103,139	-	-	110,454	3,928
390.1	Computers and Software	4.80%	20.00%	-	-	-	-	-	-	4,025	-
391	Transportation Equipment	33.33%	20.00%	-	-	-	-	-	-	-	-
392	Stores Equipment	-	4.00%	-	-	-	-	-	-	-	-
393	Tools, Shop And Garage Equip	4.76%	5.00%	-	-	-	-	-	-	4,897	245
394	Laboratory Equip	2.56%	10.00%	-	-	-	-	-	-	-	-
396	Communication Equip	5.03%	10.00%	-	-	-	-	-	-	5,936	-
398	Other Tangible Plant	5.13%	4.00%	-	-	-	-	-	-	3,913	157
398	Nogales WW Tmmt Capacity Rounding	-	5.00%	-	-	-	-	-	-	427,000	21,350
				147,905	11,929	(2,712)	157,122	-	-	11,929,042	457,419

<sup>1</sup> Affiliate Profit

Plant Held for Future Use  
TOTAL WASTEWATER PLANT

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	Year End Accumulated Depreciation by Account								
				2002	2003	2004	2005	2006	2007	2008		
351	Organization	0.00%	0.00%	-	-	-	-	-	-	-	-	-
352	Franchises	0.00%	0.00%	-	-	-	-	-	-	-	-	-
353	Land	0.00%	0.00%	-	-	-	-	-	-	-	-	-
354	Structures & Improvements	5.15%	3.33%	20,590	22,060	23,401	24,351	25,302	26,252	27,203	-	-
355	Power Generation	5.00%	2.00%	(99,427)	(102,125)	(89,128)	(76,467)	(63,794)	(51,092)	(38,371)	-	-
360	Collection Sewer Force	2.03%	2.00%	1,584,087	1,665,457	1,756,172	1,859,206	1,976,559	2,094,915	2,213,563	-	-
361	Collection Sewers Gravity	3.31%	2.00%	-	-	-	-	-	-	-	-	-
362	Special Collecting Structures	3.04%	2.00%	441,720	474,851	505,534	527,832	550,281	572,985	595,856	-	-
363	Customer Services	5.03%	10.00%	10,981	12,695	14,956	18,562	22,168	26,107	31,043	-	-
364	Flow Measuring Devices	5.03%	10.00%	-	-	-	-	-	-	-	-	-
365	Flow Measuring Installation	5.03%	10.00%	-	-	-	-	-	-	-	-	-
366	Reuse Services	5.03%	10.00%	-	-	-	-	-	-	-	-	-
367	Reuse Meters And Installation	8.33%	8.33%	-	-	-	-	-	-	-	-	-
370	Receiving Wells	3.96%	3.33%	48,548	87,853	123,210	152,085	180,960	209,835	238,710	-	-
371	Pumping Equipment	5.27%	5.27%	309,912	393,911	503,383	668,613	856,636	1,044,658	1,232,681	-	-
374	Reuse Distribution Reservoirs	2.50%	2.50%	-	-	-	-	-	-	-	-	-
375	Reuse Trans. and Dist. System	2.50%	2.50%	367,586	418,722	469,226	517,834	566,443	615,679	665,783	-	-
380	Treatment & Disposal Equipment	5.28%	5.00%	-	-	-	-	-	-	-	-	-
381	Plant Sewers	2.00%	5.00%	-	-	-	-	-	-	-	-	-
382	Outfall Sewer Lines	1.66%	3.33%	-	-	-	-	-	-	-	-	-
389	Other Sewer Plant & Equipment	5.30%	6.67%	38,620	42,396	46,416	51,168	55,920	60,621	65,244	-	-
390	Office Furniture & Equipment	2.00%	2.00%	2,587	2,697	2,872	3,240	3,636	4,083	4,521	-	-
390.1	Computers and Software	4.80%	20.00%	2,790	2,983	3,329	4,025	4,025	4,025	4,025	-	-
391	Transportation Equipment	33.33%	20.00%	-	-	-	-	-	-	-	-	-
392	Stores Equipment	4.00%	4.00%	-	-	-	-	-	-	-	-	-
393	Tools, Shop And Garage Equip	4.76%	5.00%	2,771	2,962	3,177	3,422	3,667	3,911	4,156	-	-
394	Laboratory Equip	2.56%	10.00%	-	-	-	-	-	-	-	-	-
396	Communication Equip	5.03%	10.00%	4,224	4,523	4,895	5,489	5,936	6,383	6,830	-	-
398	Other Tangible Plant	5.13%	4.00%	1,798	1,999	2,188	2,345	2,501	2,658	2,815	-	-
398	Nogales WW Trmnt Capacity Rounding	5.00%	5.00%	1	-	-	-	10,675	32,025	53,375	-	-
				2,736,688	3,031,983	3,369,631	3,761,705	4,200,913	4,652,610	5,110,028	-	-

Plant Held for Future Use  
TOTAL WASTEWATER PLANT

Line No.	Account No.	Description	Balance Per Company Per 2002 Filing Before Adj.	PTY Plant	Rounding	Intentionally Left Blank	Per Decision 67279 Prior Case Adjusted Plant	PTY Plant	Initial Balance
6	351	Organization	5,785				5,785		5,785
7	352	Franchises	417				417		417
8	353	Land	7,545				7,545		7,545
9	354	Structures & Improvements	28,548				28,548		28,548
10	355	Power Generation	-				-		-
11	360	Collection Sewer Forced	355,144		293,417		648,561	(293,417)	355,144
12	361	Collection Sewers Gravity	4,387,284				4,387,284		4,387,284
13	362	Special Collecting Structures	-				-		-
14	363	Customer Services	1,085,957				1,085,957		1,085,957
15	364	Flow Measuring Devices	36,057				36,057		36,057
16	365	Flow Measuring Installations	-				-		-
17	366	Reuse Services	-				-		-
18	367	Reuse Meters And Installation	-				-		-
19	370	Receiving Wells	992,546				992,546		992,546
20	371	Pumping Equipment	1,593,905				1,593,905		1,593,905
21	374	Reuse Distribution Reservoirs	-				-		-
22	375	Reuse Trans. and Dist. System	-				-		-
23	380	Treatment & Disposal Equipment	972,166				972,166		972,166
24	381	Plant Sewers	-				-		-
25	382	Outfall Sewer Lines	-				-		-
26	389	Other Sewer Plant & Equipment	71,243				71,243		71,243
27	390	Office Furniture & Equipment	5,514				5,514		5,514
28	390.1	Computers and Software	4,025				4,025		4,025
29	391	Transportation Equipment	-				-		-
30	392	Stores Equipment	-				-		-
31	393	Tools, Shop And Garage Equip	4,015				4,015		4,015
32	394	Laboratory Equip	-				-		-
33	396	Communication Equip	5,936				5,936		5,936
34	398	Other Tangible Plant	3,913				3,913		3,913
35		Plant Held for Future Use (Land)	-				-		-
36		Rounding	1		(1)		-		-
37									
38		TOTAL	9,560,001	293,417	(1)	-	9,853,417	(293,417)	9,560,000





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

**Exhibit**  
**Rebuttal Schedule B-2**  
**Page 5**  
**Witness: Bourassa**

Line  
No.

1	<u>Reclassification of AIAC and CIAC</u>	
2		
3		
4	CIAC	\$ (238,783)
5		
6	AIAC	\$ 238,783
7		
8		
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16		
17	See Testimony	
18		
19	<u>SUPPORTING SCHEDULES</u>	
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Rio Rico Utilities - Wastewater Division  
 Test Year Ended December 31, 2008  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment 2

Exhibit  
 Rebuttal Schedule B-2  
 Page 6  
 Witness: Bourassa

Line  
 No.

1 <u>Deferred Income Tax as of September 30, 2008 (Water and Wastewater Divisions)</u>						Future Tax Asset		Future Tax Liability		
	Adjusted	Tax Value <sup>2</sup>	Probability of Realization of Future	Deductible TD (Taxable TD) Expected to be Realized	Tax Rate	Current	Non Current	Current	Non Current	
6	Plant-in-Service	\$ 45,888,844								
7	Accum. Deprec.	(17,582,689)								
8	CIAC	(16,705,616)								
9	Fixed Assets	\$ 11,600,539	\$ 11,648,936	100.0%	\$ 48,397		18,681		-	
10	ALAC		360,294	100.0%	\$ 360,294		\$ 139,073		-	
11	Tax Benefits from O.L. Carry Forward.			100.0%	\$ 746,589		\$ 288,183		-	
						\$ -	\$ 445,938	\$ -	\$ -	
				Net Asset (Liability)		\$ 445,938				
16	Wastewater Division allocation factor <sup>2</sup>					0.29370				
18	Allocated DIT Asset (Liability)					\$ 130,973				
20	DIT Asset (Liability) per Direct					\$ 323,602				
22	Adjustment to DIT					\$ 192,629				
24	<sup>1</sup> Adjusted Water and Wastewater - per Direct B-2, page 2 (Water Division) and Direct B-2, page 2 (Wastewater Division)									
25	<sup>2</sup> Computation of Net Tax Value at December 31, 2008 (Water and Wastewater)									
26	Based on 2008 Tax Depreciation report (December 31, 2008)									
27	Unadjusted Cost per 2008 Tax Depr. Report					\$ 25,520,835				
28	Reconciling Items not on tax report:									
29	Land costs not on tax, on books					51,739				
30	2008 Plant recorded on books not on tax,					809,876				
31	2006 Plant recorded on books not on tax,					779,709				
32	CIAC funded plant reflected in tax plant-in-service					(3,942,540)				
33	Reconciling difference					105,049				
34	Net Unadjusted Cost tax Basis							\$ 23,324,668		
35	Affiliate Profit									
36	Affiliate Profit removed					(24,780)				
37	Affiliate A/D at tax rates					1,011				
38	Net Reduction in tax basis due to affiliate profit							\$ (23,769)		
39	Basis Reduction									
40	Basis Reduction 2007 and Prior Years (from 2007 Tax Depr. Report)									
41	Accumulated Depreciation 2007 and prior (2007 Tax Depr Report)					(10,233,311)				
42	Tax Accum. Depr. from CIAC funded plant in tax plant-in-service to 2007					616,408				
43	Net Basis Reduction 2007 and Prior years							(9,616,903)		
44	Bonus Depreciation Computation 2008									
45	Bonus Depr. for 12 months of 2008 per Tax Depr. Report					\$ 1,030,227				
46	Less: Bonus Depr. on CIAC funded plant					-				
47	Net 12 months of Bonus Depr for plant					\$ 1,030,227				
48	Factor					1.00				
49	Bonus Depreciation for 12 months 2008							(1,030,227)		
50	2008 Depreciation Computation 2008									
51	2008 Tax Depreciation (12 Months) per Tax Depr. Report									
52	Less: 2008 Depr on CIAC funded plant in tax plant					\$ 1,162,611				
53	Net 12 months of depr. for plant added Jan. to Dec. 2008					(157,779)				
54	Factor					\$ 1,004,832				
55	Tax Depreciation for 12 months of 2008					1.00				
56	Net 2008 Depreciation							(1,004,832)		
57	Net tax value of plant-in-service at December 31, 2008							\$ 11,648,936		
59	<sup>3</sup> Tax Benefits from bonus depreciation									
62	Net Income before tax									
63	Add: Book Depreciation	\$ 1,004,175	(from E-2 for both Water and Wastewater)							
64	Less: Bonus Depreciation		284,295	(from E-2 for both Water and Wastewater)						
65	Tax Depreciation		(1,030,227)	(from above)						
66	Tax Depreciation		(1,004,832)	(from above)						
68	Taxable Income /(loss)	\$	(746,589)							

Rio Rico Utilities  
 Deferred Income Taxes  
 Reconciliation of Book and Tax

Line No.	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
1	\$ 27,801,072	\$ 1,198,144	\$ 967,741	\$ 1,715,104	\$ 446,639	\$ 396,222	\$ 2,806,605	\$ 1,374,693	\$ 918,259	\$ 3,276,005	\$ 2,134,764	\$ 818,495	\$ 3,197,370	\$ 46,676,102
2	(14,930)	(6,375)	(20,402)	(50,993)	(63,377)	(16,431)	(436,801)	(51,487)	(20,725)	(63,330)	-	-	-	(782,477)
3	(61,076)	(6,375)	(17,201)	(2,625)	1,070	1,106	1,442	(346,952)	2,707	5,520	7,642	6,984	48,782	(362,995)
4	(21,241,464)	(66,747)	(65,960)	(488,451)	(141,114)	(16,264)	(480,374)	(110,714)	(732,724)	(2,210,805)	(7,705)	(15)	-	(25,665,377)
5	\$ 6,468,532	\$ 1,105,092	\$ 484,177	\$ 1,172,995	\$ 243,217	\$ 365,634	\$ 1,890,873	\$ 862,540	\$ 167,517	\$ 987,389	\$ 2,134,692	\$ 825,464	\$ 3,247,132	\$ 18,665,253
6	\$ 6,468,532	\$ 1,120,022	\$ 504,579	\$ 1,223,988	\$ 306,594	\$ 364,065	\$ 2,329,674	\$ 914,027	\$ 188,242	\$ 1,070,719	\$ 2,134,692	\$ 825,464	\$ 3,247,132	\$ 20,747,730
7	\$ 9,023,128	\$ 1,136,773	\$ 538,482	\$ 1,226,828	\$ 303,583	\$ 396,223	\$ 2,809,605	\$ 1,374,693	\$ 918,259	\$ 3,276,004	\$ 1,337,695	\$ 820,770	\$ 2,354,782	\$ 25,520,535
8	\$ (2,524,596)	\$ (16,751)	\$ (33,903)	\$ (4,840)	\$ 3,011	\$ (15,156)	\$ (478,931)	\$ (460,666)	\$ (730,017)	\$ (2,205,285)	\$ 796,997	\$ 4,694	\$ 892,340	\$ (4,773,105)
9	\$ (2,524,596)	\$ (16,751)	\$ (33,903)	\$ (4,840)	\$ 3,011	\$ (15,156)	\$ (478,931)	\$ (460,666)	\$ (730,017)	\$ (2,205,285)	\$ 796,997	\$ 4,694	\$ 892,340	\$ (4,773,105)
10	(51,799)	-	-	-	-	-	-	-	-	(779,709)	-	-	-	(61,799)
11	2,576,335	-	-	-	-	-	478,931	-	-	-	-	-	(909,273)	(609,273)
12	-	-	-	-	-	-	-	460,666	730,017	2,205,285	-	-	-	478,931
13	-	-	-	-	-	-	-	-	-	-	-	-	-	460,666
14	-	-	-	-	-	-	-	-	-	-	-	-	-	730,017
15	-	-	-	-	-	-	-	-	-	-	-	-	-	460,666
16	-	-	-	-	-	-	-	-	-	-	-	-	-	2,205,285
17	-	-	-	-	-	-	-	-	-	-	-	-	-	67,641
18	-	-	-	-	-	-	-	-	-	-	-	-	-	2,205,285
19	-	-	-	-	-	-	-	-	-	-	-	-	-	67,641
20	-	-	-	-	-	-	-	-	-	-	-	-	-	(105,049)
21	-	-	-	-	-	-	-	-	-	-	-	-	-	(892,340)
22	-	-	-	-	-	-	-	-	-	-	-	-	-	0
23	-	-	-	-	-	-	-	-	-	-	-	-	-	0
24	-	-	-	-	-	-	-	-	-	-	-	-	-	0
25	-	-	-	-	-	-	-	-	-	-	-	-	-	0
26	-	-	-	-	-	-	-	-	-	-	-	-	-	0
27	-	-	-	-	-	-	-	-	-	-	-	-	-	0
28	-	-	-	-	-	-	-	-	-	-	-	-	-	0

1 Book  
 2 Plant Adds (per B-2)  
 3 Plant Retirements  
 4 Net AMAC (per AMAC sched prior case and GB 2.3)  
 5 CAC (per CAC sched prior case and B-2 pt)  
 6 Indicated Tax Base (Sum of 1 to 5)  
 7  
 8 Book Adds net of AMAC and CAC [(1)-(4)+(5)]  
 9 Plant Adds Per 2008 Depreciation Report  
 10  
 11 Difference book to tax  
 12  
 13 Difference  
 14  
 15 Land costs not on Tax Report  
 16 Plant Added to tax in 2006, but booked in 2008 (timing)  
 17 Plant Added to tax in 2006, but booked in 2008 (timing)  
 18 CAC booked to tax  
 19 CAC booked to tax  
 20 CAC booked to tax  
 21 CAC booked to tax  
 22 CAC booked to tax  
 23 CAC booked to tax  
 24 CAC booked to tax  
 25 Unreconciled Difference (timing)  
 26 Total Reconciling Items  
 27  
 28 Difference basis

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

Exhibit  
 Rebuttal Schedule B-5  
 Page 1  
 Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	80,620
3	Pumping Power (1/24 of Pumping Power)		3,792
4	Purchased Water (1/24 of Purchased Water)		-
5	Prepays		3,430
6	Materials & Supplies		-
7			
8			
9	Total Working Capital Allowance	<u>\$</u>	<u>87,841</u>
10			
11			
12	Working Capital Requested	<u>\$</u>	<u>-</u>
13			
14			
15	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>	
16	Rebuttal C-1	Rebuttal B-1	
17	E-1		
18		Adjusted	
19	<u>Cash Working Capital Detail</u>	<u>Test Year Results</u>	
20			
21	Total Operating Expense	\$	1,359,386
22	Less:		
23	Income Tax		295,829
24	Property Tax		91,006
25	Depreciation		262,162
26	Purchased Water		-
27	Pumping Power		65,431
28	Allowable Expenses		<u>644,958</u>
29	1/8 of allowable expenses	<u>\$</u>	<u>80,620</u>
30			

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

Exhibit  
 Rebuttal Schedule C-1  
 Page 1  
 Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjustment	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	<b>Revenues</b>					
2	Flat Rate Revenues	\$ 1,829,726	\$ -	\$ 1,829,726	\$ (133,135)	\$ 1,696,590
3	Measured Revenues	-	-	-		-
4	Other Wastewater Revenues	250	-	250		250
5		<u>\$ 1,829,976</u>	<u>\$ -</u>	<u>\$ 1,829,976</u>	<u>\$ (133,135)</u>	<u>\$ 1,696,840</u>
6	<b>Operating Expenses</b>					
7	Salaries and Wages	\$ -	-	-		-
8	Purchased Water and WW Treatment	-	-	-		-
9	Sludge Removal Expense	-	-	-		-
10	Purchased Power	17,426	48,005	65,431		65,431
11	Fuel for Power Production	-	-	-		-
12	Chemicals	9,644	-	9,644		9,644
13	Materials and Supplies	14,304	-	14,304		14,304
14	Contractual Services	298,008	8,474	306,482		306,482
15	Contractual Services- Testing	-	-	-		-
16	Contractual Services - Other	175,196	-	175,196		175,196
17	Contractual Services - Legal	367	-	367		367
18	Equipment Rental	25,781	-	25,781		25,781
19	Rents - Building	-	-	-		-
20	Transportation Expenses	26,817	(2,242)	24,575		24,575
21	Insurance - General Liability	12,021	-	12,021		12,021
22	Insurance - Vehicle	-	-	-		-
23	Regulatory Commission Expense	994	-	994		994
24	Reg.Comm. Exp. - Rate Case	41,667	-	41,667		41,667
25	Miscellaneous Expense	155	-	155		155
26	Bad Debt Expense	64,087	(30,315)	33,772		33,772
27	Depreciation and Amortization	252,672	9,490	262,162		262,162
28	Taxes Other Than Income	-	-	-		-
29	Property Taxes	91,705	(699)	91,006		91,006
30	Income Tax	308,456	(12,627)	295,829	(51,389)	244,441
31		-	-	-		-
32	<b>Total Operating Expenses</b>	<u>\$ 1,339,300</u>	<u>\$ 20,086</u>	<u>\$ 1,359,386</u>	<u>\$ (51,389)</u>	<u>\$ 1,307,997</u>
33	<b>Operating Income</b>	<u>\$ 490,676</u>	<u>\$ (20,086)</u>	<u>\$ 470,590</u>	<u>\$ (81,747)</u>	<u>\$ 388,844</u>
34	<b>Other Income (Expense)</b>					
35	Interest Income	-	-	-		-
36	Other income	-	-	-		-
37	Interest Expense	-	8	-		-
38	Other Expense	-	-	-		-
39		-	-	-		-
40	<b>Total Other Income (Expense)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
41	<b>Net Profit (Loss)</b>	<u>\$ 490,676</u>	<u>\$ (20,086)</u>	<u>\$ 470,590</u>	<u>\$ (81,747)</u>	<u>\$ 388,844</u>

SUPPORTING SCHEDULES:  
 Rebuttal C-1, page 2

RECAP SCHEDULES:  
 Rebuttal A-1

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

Exhibit  
 Rebuttal Schedule C-1  
 Page 2  
 Witness: Bourassa

Line No.	1	2	3	4	5	6	7	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Test Year Adjusted Results	Depreciation Expense	Property Taxes	Purchased Power	Transport. Expense	Bad Debt	Central Office Costs	Income TAX		
2	\$ 1,829,726	-	-	-	-	-	-	\$ 1,829,726	(133,135)	\$ 1,696,590
3	250	-	-	-	-	-	250	-	-	250
4	\$ 1,829,976	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,829,976	\$ (133,135)	\$ -	\$ 1,696,840
5	Operating Expenses									
6	Salaries and Wages	-	-	-	-	-	-	-	-	-
7	Purchased Water and WW Treatment	-	-	-	-	-	-	-	-	-
8	Sludge Removal Expense	-	-	-	-	-	65,431	-	-	65,431
9	Fuel for Power Production	17,426	48,005	-	-	-	-	-	-	65,431
10	Chemicals	9,644	-	-	-	-	-	-	-	9,644
11	Materials and Supplies	14,304	-	-	-	-	9,644	-	-	14,304
12	Contractual Services	298,008	-	-	-	8,474	308,482	-	-	308,482
13	Contractual Services - Testing	-	-	-	-	-	-	-	-	-
14	Contractual Services - Other	175,196	-	-	-	-	175,196	-	-	175,196
15	Contractual Services - Legal	367	-	-	-	-	367	-	-	367
16	Equipment Rental	25,781	-	-	-	-	25,781	-	-	25,781
17	Rents - Building	-	-	-	-	-	-	-	-	-
18	Transportation Expenses	28,817	-	(2,242)	-	-	24,575	-	-	24,575
19	Insurance - General Liability	12,021	-	-	-	-	12,021	-	-	12,021
20	Insurance - Vehicle	-	-	-	-	-	-	-	-	-
21	Regulatory Commission Expense	994	-	-	-	-	994	-	-	994
22	Reg. Comm. Exp. - Rate Case	41,667	-	-	-	-	41,667	-	-	41,667
23	Miscellaneous Expense	155	-	-	-	-	155	-	-	155
24	Bad Debt Expense	64,087	-	-	(90,315)	-	33,772	-	-	33,772
25	Depreciation and Amortization	252,672	9,490	-	-	-	262,162	-	-	262,162
26	Taxes Other Than Income	-	-	-	-	-	-	-	-	-
27	Property Taxes	91,705	(699)	-	-	-	91,006	-	-	91,006
28	Income Tax	308,458	-	-	-	-	286,829	(51,389)	-	244,441
29		-	-	-	-	-	-	(12,627)	-	-
30	Total Operating Expenses	\$ 1,339,300	\$ 9,490	\$ (2,242)	\$ (30,315)	\$ 8,474	\$ 1,359,386	\$ (51,389)	\$ -	\$ 1,307,997
31	Operating Income	\$ 490,676	\$ (9,490)	\$ 2,242	\$ 30,315	\$ (8,474)	\$ 470,590	\$ (81,747)	\$ -	\$ 388,844
32	Other Income (Expense)	-	-	-	-	-	-	-	-	-
33	Interest Income	-	-	-	-	-	-	-	-	-
34	Interest Expense	-	-	-	-	-	-	-	-	-
35	Other Expense	-	-	-	-	-	-	-	-	-
36	Total Other Income (Expense)	-	-	-	-	-	-	-	-	-
37	Net Profit (Loss)	\$ 490,676	\$ (9,490)	\$ 2,242	\$ 30,315	\$ (8,474)	\$ 470,590	\$ (81,747)	\$ -	\$ 388,844
38		-	-	-	-	-	-	-	-	-
39		-	-	-	-	-	-	-	-	-
40		-	-	-	-	-	-	-	-	-
41		-	-	-	-	-	-	-	-	-
42		-	-	-	-	-	-	-	-	-
43		-	-	-	-	-	-	-	-	-
44		-	-	-	-	-	-	-	-	-
45		-	-	-	-	-	-	-	-	-

RECAP SCHEDULES:  
 Rebuttal C-1, page 1

SUPPORTING SCHEDULES:  
 Rebuttal C-2

Line No.	1	2	3	4	5	6	7	8	9	10	11	12
	Depreciation Expense	Property Taxes	Purchased Power	Transport. Expense	Bad Debt	Central Office Allocation	Operating Income	Interest Expense	Other Income / Expense	Net Income	Subtotal	Subtotal
1	9,490	(699)	48,005	(2,242)	(30,315)	8,474	32,713					
2	(9,490)	699	(48,005)	2,242	30,315	(8,474)	(32,713)					
3												
4												
5												
6												
7												
8												
9												
10												
11												
12												
13												
14												
15												
16	(9,490)	699	(48,005)	2,242	30,315	(8,474)	(32,713)					
17												
18												
19												
20												
21												
22												
23												
24	(12,627)						20,086					
25												
26												
27	12,627						(20,086)					
28												
29												
30												
31												
32												
33												
34												
35	12,627						(20,086)					

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

Exhibit  
 Rebuttal Schedule C-2  
 Page 2  
 Witness: Bourassa

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

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

Exhibit  
 Rebuttal Schedule C-2  
 Page 3  
 Witness: Bourassa

Line No.			
1	<u>Adjust Property Taxes to Reflect Proposed Revenues:</u>		
2			
3	Adjusted Revenues in year ended 12/31/2008	\$	1,829,976
4	Adjusted Revenues in year ended 12/31/2008		1,829,976
5	Proposed Revenues		<u>1,696,840</u>
6	Average of three year's of revenue	\$	1,785,597
7	Average of three year's of revenue, times 2	\$	3,571,195
8	Add:		
9	Construction Work in Progress at 10%	\$	-
10	Deduct:		
11	Book Value of Transportation Equipment		<u>-</u>
12			
13	Full Cash Value	\$	3,571,195
14	Assessment Ratio		21%
15	Assessed Value		<u>749,951</u>
16	Property Tax Rate		11.3283%
17			
18	Property Tax		84,956
19	Plus: Tax on Parcels		6,050
20			
21	Total Property Tax at Proposed Rates	\$	<u>91,006</u>
22	Property Taxes recorded during the test year		<u>91,705</u>
23	Change in property taxes	\$	<u>(699)</u>
24			
25			
26	Adjustment to Revenues and/or Expenses	\$	<u>(699)</u>
27			
28			

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

Exhibit  
Rebuttal Schedule C-2  
Page 4  
Witness: Bourassa

Line			
<u>No.</u>			
1	<u>Purchased Power</u>		
2			
3	Reclassify purchased power expense from water division	\$	48,005
4			
5			
6			
7			
8			
9	Increase(decrease) Purchased Power Expense	<u>\$</u>	<u>48,005</u>
10			
11	Adjustment to Revenue and/or Expense	<u>\$</u>	<u>48,005</u>
12			
13			
14			
15			
16			
17	<u>SUPPORTING SCHEDULE</u>		
18	Staff Schedule GWB-12		
19			
20			

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

**Exhibit**  
**Rebuttal Schedule C-2**  
**Page 5**  
**Witness: Bourassa**

Line		
<u>No.</u>		
1	<u>Transportation Expense</u>	
2		
3		
4	Remove Airlink costs	\$ (2,242)
5		
6		
7		
8	Increase (decrease) in Transportation Expense	<u>\$ (2,242)</u>
9		
10		
11	Adjustment to Revenue and/or Expense	<u>\$ (2,242)</u>
12		
13		
14		
15		
16		
17		
18		
19		
20		

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

Exhibit  
Rebuttal Schedule C-2  
Page 6  
Witness: Bourassa

Line		
<u>No.</u>		
1	<u>Bad Debt Expense</u>	
2		
3		
4	Normalize Bad Debt Expense	(30,315)
5		
6		
7	Increase (decrease) in Purchased Power	<u>\$ (30,315)</u>
8		
9	Adjustment to Revenue and/or Expense	<u>\$ (30,315)</u>
10		
11		
12		
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14		
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18		
19		
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21		
22		



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

Exhibit  
 Rebuttal Schedule C-2  
 Page 8  
 Witness: Bourassa

Line No.		Test Year Book Results	Test Year Adjusted Results	Adjusted with Rate Increase
1	<u>Income Tax Computation</u>			
2				
3				
4				
5				
6				
7	Taxable Income before Scottsdale Operating	\$ 799,132	\$ 766,419	\$ 633,284
8	Plus: Scottsdale Operating Lease	-	-	-
9	Taxable Income	<u>\$ 799,132</u>	<u>\$ 766,419</u>	<u>\$ 633,284</u>
10				
11				
12				
13	Income Before Taxes			<u>\$ 633,284</u>
14				
15	Arizona Income Before Taxes			\$ 633,284
16				
17	Less Arizona Income Tax			<u>\$ 44,127</u>
18	Rate = 6.97%			
19	Arizona Taxable Income			\$ 589,157
20				
21	Arizona Income Taxes			\$ 44,127
22				
23	Federal Income Before Taxes			\$ 633,284
24				
25	Less Arizona Income Taxes			<u>\$ 44,127</u>
26				
27	Federal Taxable Income			<u>\$ 589,157</u>
28				
29				
30				
31	FEDERAL INCOME TAXES:			
32	15% BRACKET			\$ 7,500
33	25% BRACKET			\$ 6,250
34	34% BRACKET			\$ 8,500 Federal
35	39% BRACKET			\$ 91,650 Effective
36	34% BRACKET			\$ 86,413 Tax
37				Rate
38	Federal Income Taxes			<u>\$ 200,313 31.63%</u>
39				
40				
41	Total Income Tax			<u>\$ 244,441</u>
42				
43	Overall Tax Rate			<u>38.60%</u>
44				
45	Income Tax at Proposed Rates Effective Rate		<u>\$ 295,829</u>	
46				

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

**Exhibit**  
**Rebuttal Schedule C-3**  
**Page 1**  
**Witness: Bourassa**

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





Revenue Summary  
 With Annualized Revenues to Year End Number of Customers

Line No.	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1						
2						
3	\$ 1,833,141	\$ 1,701,155	\$ (131,986)	-7.20%	100.00%	100.00%
4	(4,505)	(4,181)	324.38	-7.20%	-0.25%	-0.25%
5	\$ 1,828,636	\$ 1,696,974	\$ (131,662)	-7.20%		
6						
7	\$ 250	\$ 250	-	0.00%	0.01%	0.01%
8	1,090	(383)	(1,473)	-135.14%	0.06%	-0.02%
9	\$ 1,829,976	\$ 1,696,841	\$ (133,135)	-7.28%	0.00%	0.00%
10						
11						
12						
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15						
16						
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40						

Line No.	Meter Size, Class	(a) Average Number of Customers at 12/31/2008	Average Bill		Proposed Increase	
			Present Rates	Proposed Rates	Dollar Amount	Percent
1	5/8 Inch Residential	1,904	\$ 56.36	\$ 52.30	(4.06)	-7.20%
2	3/4 Inch Residential	8	64.27	59.64	(4.63)	-7.20%
3	1 Inch Residential	9	79.40	73.68	(5.72)	-7.20%
4	1.5 Inch Residential	-	117.24	108.80	(8.44)	-7.20%
5	2 Inch Residential	1	162.62	150.91	(11.71)	-7.20%
6	Subtotal	1,922				
7						
8	5/8 Inch Commercial	69	79.19	73.49	(5.70)	-7.20%
9	1 Inch Commercial	36	127.22	118.06	(9.16)	-7.20%
10	1.5 Inch Commercial	7	307.97	285.79	(22.17)	-7.20%
11	2 Inch Commercial	20	746.60	692.84	(53.76)	-7.20%
12	3 Inch Commercial	1	655.88	608.66	(47.22)	-7.20%
13	4 Inch Commercial	4	2,325.03	2,157.63	(167.40)	-7.20%
14	6 Inch Commercial	1	4,465.21	4,143.71	(321.49)	-7.20%
15	Subtotal	139				
16						
17	5/8 Inch Multi-tenant	9	76.42	70.92	(5.50)	-7.20%
18	1.5 Inch Multi-tenant	1	120.57	111.89	(8.68)	-7.20%
19	Subtotal	10				
20						
21						
22						
23						
24	Total	2,071				
25						

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

Line No.	Meter Size, Class	(a) Average Number of Customers at 12/31/2008	Median Bill		Proposed Rates	Proposed Rates	Proposed Dollar Amount	Proposed Increase Percent Amount
			Present Rates	Consumption				
1	5/8 Inch Residential	1,904	\$ 56.36	-	52.30	(4.06)	-7.20%	
2	3/4 Inch Residential	8	64.27	-	59.64	(4.63)	-7.20%	
3	1 Inch Residential	9	79.40	-	73.68	(5.72)	-7.20%	
4	1.5 Inch Residential	-	117.24	-	108.80	(8.44)	-7.20%	
5	2 Inch Residential	1	162.62	-	150.91	(11.71)	-7.20%	
6	Subtotal	1,922						
7	Commercial	69	56.36	6,000	52.30	(4.06)	-7.20%	
8	1 Inch Commercial	36	79.40	7,000	73.68	(5.72)	-7.20%	
9	1.5 Inch Commercial	7	242.86	29,000	225.37	(17.49)	-7.20%	
10	2 Inch Commercial	20	288.24	29,000	267.49	(20.75)	-7.20%	
11	3 Inch Commercial	1	651.60	71,500	604.68	(46.91)	-7.20%	
12	4 Inch Commercial	4	2,064.39	295,000	1,915.75	(148.64)	-7.20%	
13	6 Inch Commercial	1	3,675.80	511,000	3,411.14	(264.66)	-7.20%	
14	Subtotal	139						
15	Multi-tenant	9	56.36	4,000	52.30	(4.06)	-7.20%	
16	1.5 Inch Multi-tenant	1	125.81	8,500	116.75	(9.06)	-7.20%	
17	Subtotal	10						
18	Total	2,071						

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

Line No.	Monthly Minimum Charge for: Meter Size (All Classes):	Present Rates	Proposed Rates	Change	Percent Change
1	5/8 Inch	\$ 56.36	\$ 52.30	(4.06)	-7.20%
2	3/4 Inch	64.27	59.64	(4.63)	-7.20%
3	1 Inch	79.40	73.68	(5.72)	-7.20%
4	1 1/2 Inch	117.24	108.80	(8.44)	-7.20%
5	2 Inch	162.62	150.91	(11.71)	-7.20%
6	3 Inch	283.30	262.90	(20.40)	-7.20%
7	4 Inch	419.91	389.68	(30.23)	-7.20%
8	6 Inch	797.96	740.51	(57.45)	-7.20%
9	8 Inch	1,252.11	1,161.96	(90.15)	-7.20%
10	10 Inch	1,781.93	1,653.63	(128.30)	-7.20%
11	12 Inch	3,295.77	3,058.47	(237.30)	-7.20%

Line No.	Commodity Rates (Commercial and Multi-tenant Only)	Block	Present Rate	Proposed Rate
21				
22				
23				
24	All Meter Sizes	0 gallons to 7,000 gallons	\$ -	\$ -
25		over 7,000 gallons	\$ 5.71	\$ 5.30

NT = No Tariff

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

Exhibit  
 Rebuttal Schedule H-3  
 Page 2  
 Witness: Bourassa

Line No.	<u>Other Service Charges</u>	Present Rates	Proposed Rates
1	Establishment	\$ 15.00	\$ 15.00
2	Establishment (After Hours)	\$ 25.00	\$ 25.00
3	Reconnection (Delinquent)	\$ 15.00	\$ 15.00
4	Reconnection (Delinquent) - After Hours	\$ 25.00	\$ 25.00
5	Deposit	*	*
6	Deposit Interest	**	**
7	Reestablishment (within 12 months)	***	***
8	NSF Check	\$ 15.00	\$ 15.00
9	Late Payment Penalty	NT	1.5% per month
10	Deferred Payment	NT	1.5% per month
11	Service Calls - Per Hour/After Hours(a)	NT	\$ 40.00
12			
13			
14			
15			
16	* Per Commission Rule A.A.C. R-14-2-603(B)		
17	** Per Commission Rule A.A.C. R-14-2-603(B)		
18	*** Per Commission Rule A.A.C. R14-2-603(D) - Months off the system times the monthly minimum.		
19			
20	(a) No charge for service calls during normal working hours.		
21			
22	IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM		
23	ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE		
24	TAX. PER COMMISSION RULE 14-2-608D(5).		
25			
26			
27			
28			
29			
30			
31			
32			
33			
34			

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

Exhibit  
Rebuttal Schedule H-3  
Page 3  
Witness: Bourassa

Line

No.

1

2 Service Line Installation Charges

3

4

5

6

7

8 Service Line Size

Present  
Charge

Proposed  
Charge

9 4 Inch

\$ 500.00

At Cost

10 6 Inch

650.00

At Cost

11 8 Inch

800.00

At Cost

12 10 Inch

1,000.00

At Cost

13 12 Inch

1,200.00

At Cost

14

15

16

17

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31

32

N/T = No Tariff

33

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40

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

**Exhibit**  
**Rebuttal Schedule H-3**  
**Page 4**  
**Witness: Bourassa**

Line  
No.

1  
2 **Off-site Facilities Hook-up Fee**

	<u>Present</u> <u>Charge</u>	<u>Proposed</u> <u>Charge</u>
6 Equivalent Residential Unit <sup>1</sup>	NT	\$ 1,800

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33  
34  
35  
36

NT = No tariff

<sup>1</sup> Equivalent Residential Unit is based on 320 gallons per day (gpd)

1 FENNEMORE CRAIG, P.C.  
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3 Suite 2600  
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4 Attorneys for Rio Rico Utilities, Inc.

5  
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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

DOCKET NO. WS-02676A-09-0257

13  
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16  
17 **REBUTTAL TESTIMONY OF**  
18 **THOMAS J. BOURASSA**  
19 **(COST OF CAPITAL)**

20 **February 1, 2010**  
21  
22  
23  
24  
25  
26



TABLE OF CONTENTS

Page

I. INTRODUCTION..... 1

II. SUMMARY OF REBUTTAL TESTIMONY AND THE PROPOSED COST OF CAPITAL FOR THE COMPANY ..... 1

A. Summary of Company’s Rebuttal Recommendation ..... 1

B. Summary of the Recommendations of Staff and RUCO ..... 4

III. REBUTTAL TO STAFF’S COST OF CAPITAL ANALYSIS, TESTIMONY AND RECOMMENDATIONS ..... 8

A. Staff’s Financial Risk Adjustment ..... 8

B. Firm Specific Risk ..... 12

C. Risks Associated with Advances and Contributions ..... 20

D. Rebuttal to Staff’s Criticisms of Analysts’ Estimates of Growth ..... 21

E. Rebuttal to Remaining Staff’s Criticisms of RRUI DCF Analysis ..... 30

IV. REBUTTAL TO RUCO’S COST OF CAPITAL ANALYSIS, TESTIMONY AND RECOMMENDATIONS ..... 31

A. Proxies Used to Develop Cost of Equity ..... 31

B. Criticisms of RUCO’s Implementation of the CAPM ..... 36

C. Criticisms of RUCO’s Use of Hypothetical Capital Structure ..... 43

A. Criticisms of RUCO’s Implementation of the DCF ..... 48

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1 **I. INTRODUCTION**

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

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

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

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

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

9 A. Yes, my direct testimony was presented in two volumes. My background  
10 information and qualifications are set forth in the rate base and revenue  
11 requirement volume of my direct testimony.

12 **Q. DID YOU ALSO PREPARE REBUTTAL TESTIMONY ON THOSE ISSUES**  
13 **IN THIS DOCKET?**

14 A. Yes, my rebuttal testimony on rate base, income statement, revenue requirement  
15 and rate design is being filed in a separate volume at the same time as this  
16 testimony.

17 **II. SUMMARY OF REBUTTAL TESTIMONY AND THE PROPOSED COST**  
18 **OF CAPITAL FOR THE COMPANY**

19 **A. Summary of Company's Rebuttal Recommendation**

20 **Q. WHAT IS THE PURPOSE OF THIS VOLUME OF YOUR REBUTTAL**  
21 **TESTIMONY?**

22 A. I will provide updates of my cost of capital analysis and recommended rate of  
23 return using more recent financial data. I also will provide rebuttal as appropriate  
24 to the direct testimonies of Mr. Manrique on behalf of Staff and the direct  
25 testimony of Mr. Rigsby of RUCO.

26

1 **Q. HOW HAS THE INDICATED RETURN ON EQUITY CHANGED SINCE**  
2 **THE DIRECT FILING WAS MADE LAST MAY?**

3 A. The cost of equity has decreased, as indicated by the Discounted Cash Flow  
4 (“DCF”) model and the Capital Asset Pricing Model (“CAPM”). The table below  
5 summarizes the results of my updated analysis using those models:  
6

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

15 The schedules containing my updated cost of capital analysis are attached to this  
16 rebuttal testimony. Also attached are three exhibits, which are discussed below.

17 **Q. PLEASE SUMMARIZE YOUR RECOMMENDED REBUTTAL COST OF**  
18 **DEBT AND EQUITY, AND YOUR RECOMMENDED REBUTTAL RATE**  
19 **OF RETURN ON RATE BASE.**

20 A. The Company’s recommended capital structure consists of 0 percent debt and 100  
21 percent common equity as shown on Rebuttal Schedule D-1. Based on my updated  
22 cost of capital analysis, I am recommending a cost of equity of 11.7 percent. Based  
23 on my 11.7 percent recommended cost of equity, the Company’s weighted cost of  
24 capital (“WACC”) is 11.7 percent, as shown on Rebuttal Schedule D-1.  
25  
26

1 **Q. WHY IS YOUR COST OF EQUITY RECOMMENDATION LOWER IN**  
2 **YOUR REBUTTAL THAN IN YOUR DIRECT TESTIMONY?**

3 A. When I prepared my direct testimony in April 2009, the economy was still in the  
4 midst of a severe recession and a crisis was occurring in the financial markets. The  
5 Dow Jones average had fallen by 38 percent and the S&P 500 dropped by 40  
6 percent in just a couple of months. During this period, there was a “flight to  
7 quality” that led to an increase in the traditional spread between required returns on  
8 Treasury securities and other assets as investors turned away from common stocks  
9 and corporate bonds in favor of treasuries. During the past eight months, both the  
10 economy and the financial markets have improved.

11 Economists now believe the recession ended in the summer of 2009. But  
12 the same economists also project a long, sluggish recovery. As Value Line stated  
13 in October 2009, “the evolving business upturn may be a checkered affair, with a  
14 succession of peaks and valleys along the way. ... Should [the] uneven recovery  
15 unfold, the stock market might remain quite volatile.”<sup>1</sup> Value Line continues to  
16 stress this theme as the slow recovery in employment and housing continue to put  
17 pressure on the recovery process, even in light of improvements in consumer  
18 confidence and modest gains in retail and manufacturing.<sup>2</sup>

19 **Q. WHAT HAS BEEN THE EFFECT OF THESE CONDITIONS ON YOUR**  
20 **RECOMMENDED COST OF EQUITY?**

21 A. As stated, my updated analysis indicates cost of equity is 11.7 percent, which is 70  
22 basis points lower than the 12.4 percent cost of equity I proposed for RRUI in my  
23 direct testimony. The primary reason for the reduction in the cost of equity is a  
24 reduction in the current market risk premium in the CAPM estimate. Previously,

25 <sup>1</sup> Value Line Selection and Opinion, October 16, 2009.

26 <sup>2</sup> Value Line Selection and Opinion, January 15, 2009.

1 my cost of equity estimates based on the DCF model and the CAPM ranged from  
2 9.7 percent to 15.1 percent with a mid-point of 12.4 percent after adjustments for  
3 financial risk and firm-specific risks.

4 **B. Summary of the Recommendations of Staff and RUCO.**

5 **Q. PLEASE SUMMARIZE THE RESPECTIVE RECOMMENDATIONS OF**  
6 **STAFF AND RUCO FOR THE RATE OF RETURN ON FAIR VALUE**  
7 **RATE BASE.**

8 A. Staff is recommending a capital structure consisting of 0 percent debt and 100  
9 percent equity.<sup>3</sup> Staff determined a cost of equity of 9.2 percent based on the  
10 average cost of equity produced by its DCF and CAPM models (10.5 percent) and  
11 a 130 basis point downward adjustment for RRUI's lower financial risk as  
12 compared to the publicly traded water utilities in Staff's sample group.<sup>4</sup> Based on  
13 its 100 percent equity capital structure, Staff determined the WACC for RRUI to be  
14 9.2 percent.<sup>5</sup>

15 RUCO also did not consider firm-specific risks other than financial risk.  
16 RUCO determined its recommended cost of equity of 9.0 percent based on the  
17 results of its DCF and CAPM methods.<sup>6</sup> But RUCO is also recommending a  
18 hypothetical capital structure of 40 percent debt and 60 percent equity.<sup>7</sup> This  
19 results in an effective overall return on equity of 6.9 percent when RUCO's  
20 fictitious income tax deduction is factored in to the Company's bottom line. This  
21 return is clearly inadequate and does not meet the fair and reasonable standard as  
22 set out in *Hope* and *Bluefield*.

23 <sup>3</sup> *Id.*

24 <sup>4</sup> See Direct Testimony of Juan C. Manrique ("Manrique Dt.") at 32-33.

25 <sup>5</sup> *Id.* at 34.

26 <sup>6</sup> See Direct Testimony of William A. Rigsby Dt. ("Rigsby Dt.") at 7.

<sup>7</sup> *Id.*

1 Q. PLEASE SUMMARIZE THE PARTIES' RESPECTIVE COST OF EQUITY  
2 ESTIMATES.

<u>Party</u>	<u>DCF</u>	<u>CAPM</u>	<u>Average</u>
RRUI	10.1%	13.4%	11.7%
Staff	9.9%	11.0%	10.5%
RUCO	9.71%	6.10%	7.90%

3  
4  
5  
6  
7  
8 As the foregoing shows, RUCO's estimate of the cost of equity, as summarized in  
9 Schedule WAR-1, page 3 of Mr. Rigsby's testimony, is significantly lower than  
10 either the Company or Staff. The primary difference, obviously, is RUCO's  
11 extraordinarily low CAPM estimate, which is lower than RUCO's hypothetical  
12 debt cost (which is itself too low for a small utility like RRUI). Obviously,  
13 something is wrong with the methods and inputs selected by Mr. Rigsby.

14 Q. BUT THE RECOMMENDATIONS OF STAFF AND RUCO DIFFER  
15 SIGNIFICANTLY FROM THE ESTIMATES PRODUCED BY THE DCF  
16 MODEL AND CAPM MODEL.

17 A. Yes. Although Staff has estimated that the average cost of equity for the six  
18 publicly traded water utilities in its sample group is 10.5 percent, Staff's  
19 recommended cost of equity for RRUI is only 9.2 percent. As stated, this disparity  
20 results from Staff's 130 basis point downward adjustment for financial risk based  
21 on the Hamada formula. As discussed below, Staff's financial risk adjustment was  
22 incorrectly calculated and unfairly depresses RRUI's equity return. Moreover,  
23 Staff ignored RRUI's other firm-specific risks. As a result, Staff's recommended  
24 equity return for RRUI is unreasonable and should be rejected.

25 RUCO, in contrast, proposes a cost of capital of 9.0 percent, even though  
26 RUCO's models produce a cost of equity of 7.9 percent. This would make sense if

1 RUCO intends to recognize RRUI's smaller size, lack of liquidity and other firm-  
2 specific risks. However, no explanation is given by Mr. Rigsby for his higher  
3 recommendation.

4 **Q. HOWEVER, RUCO HAS PROPOSED A HYPOTHETICAL CAPITAL**  
5 **STRUCTURE FOR RRUI, AND THE RESULTING RATE OF RETURN, 7.9**  
6 **PERCENT, MATCHES MR. RIGSBY'S COST OF EQUITY ESTIMATE.**

7 A. That is correct. The average of Mr. Rigsby's DCF and CAPM estimates, which are  
8 based on data for large, publicly traded utilities, is 7.9 percent. Mr. Rigsby's  
9 recommended WACC – the weighted average cost of his hypothetical debt, 6.26  
10 percent, and his recommended cost of equity – also happens to be 7.9 percent. It is  
11 apparent that RUCO has manipulated the Company's capital structure in order to  
12 justify use of 7.9 percent as the rate of return. This sleight-of-hand should be seen  
13 by the Commission as an obvious manipulation of models, consistent with RUCO's  
14 "results-oriented" rate making methodologies as noted by this Commission in  
15 Decision No. 69164.<sup>8</sup>

16 **Q MR. BOURASSA, YOU AREN'T DISCOURAGING RUCO FROM**  
17 **SUGGESTING A HIGHER ROE THAN THEIR MODELS DICTATE, ARE**  
18 **YOU?**

19 A. Absolutely not, but it is hard to take comfort from RUCO making it seem like they  
20 are being generous by offering a higher ROE than their model indicates, when in  
21 fact they are simply being confiscatory and manipulating cost of capital theory. It  
22 is a "wolf in sheep's clothing" approach.

23  
24  
25  
26 <sup>8</sup> *Black Mountain Sewer Corporation*, Decision No. 69164 (Dec. 5, 2006) at 19-20.

1 Mr. Rigsby should instead use reasonable comparators, apply the models as  
2 they are meant to be applied, and then make his upward adjustments for company  
3 specific risk as necessary.

4 **Q. HOW DO THE PARTIES' RECOMMENDATIONS COMPARE TO**  
5 **OTHER FORECASTS OF COMMON EQUITY RETURNS?**

6 A. Value Line, a reputable publication that has been used by all of the parties' cost of  
7 capital witnesses, publishes forecasts of returns on common equity for larger  
8 publicly traded companies, including the three water utilities in RUCO's sample  
9 group. These water utilities are included in my sample group and in Staff's sample  
10 group. Value Line (January 22, 2010) projects the following returns on equity for  
11 those utilities:

American States Water	12.0%
Aqua America	12.0%
California Water	<u>12.0%</u>
Average	12.0%

16 All of these utilities are significantly larger than RRUI. AUS Utility Reports  
17 (January 2010) reports the following information for these utilities (in millions of  
18 dollars):

	<u>Net Plant</u>	<u>Revenue</u>
American States Water	\$959.8	\$358.9
Aqua America	\$2,695.6	\$662.5
California Water	<u>\$754.2</u>	<u>\$442.6</u>
Average	\$1,470 million	\$488 million

24 Moreover, these utilities operate in jurisdictions such as California and  
25 Pennsylvania that use projected or partially projected test years, and authorize  
26 surcharges and other cost recovery mechanisms which allow the recovery of

1 increases in costs outside a general rate case. Therefore, they are less risky than  
2 RRUI. These data provide an unbiased indication that the Staff and RUCO  
3 recommendations for RRUI are much too low and should not be adopted by the  
4 Commission.

5 **III. REBUTTAL TO STAFF'S COST OF CAPITAL ANALYSIS, TESTIMONY**  
6 **AND RECOMMENDATIONS**

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

8 **Q. PLEASE COMMENT ON STAFF'S RECOMMENDED FINANCIAL RISK**  
9 **ADJUSTMENT.**

10 A. Staff's financial risk adjustment is overstated for two reasons. First, the beta used  
11 in the Hamada formula is the average beta of Staff's sample publicly traded water  
12 utilities. Second, Staff's financial risk adjustment is overstated because Staff uses  
13 book values rather than conceptually correct market values for debt and equity in  
14 calculating the risk adjustment using the Hamada formula. This error overstates  
15 the adjustment.

16 **Q. WHY IS THE FIRST REASON PROBLEMATIC?**

17 A. Because the average beta of the sample water utilities does not reflect the riskiness  
18 of the Company. If RRUI had its own beta, it would have a higher beta than the  
19 sample water utility companies.<sup>9</sup>

20 **Q. WHY WOULD RRUI HAVE A HIGHER BETA?**

21 A. Beta measures the volatility, i.e., riskiness, of a security relative to the market as a  
22 whole. RRUI is a riskier investment than any of the sample utilities.  
23 Consequently, it would have a higher beta than the average of the sample group.

24  
25  
26 <sup>9</sup> See Direct Testimony of Thomas J. Bourassa – Cost of Capital (“Bourassa COC Dt.”) at 32 and 36-37.

1 Q. SO IF WE HAD A BETA FOR RRUI AND IT WAS INDEED HIGHER,  
2 WHAT IMPACT WOULD THAT HAVE ON STAFF'S HAMADA  
3 CALCULATION?

4 A. A higher beta for RRUI would result in a much lower financial risk adjustment  
5 using the Hamada formula.

6 Q. HAVEN'T YOU ALSO PROPOSED A FINANCIAL RISK ADJUSTMENT?

7 A. Yes, and in calculating that adjustment, I was forced to use the average betas of the  
8 sample companies.<sup>10</sup> RRUI's stock is not publicly traded and it has no reported  
9 beta. Therefore, like Staff, I had to assume that the average beta of the sample  
10 utilities is RRUI's beta to perform the financial risk adjustment calculation. There  
11 is a significant difference, however – I also propose a company-specific risk  
12 premium, which, to some extent, offsets the potential overstatement of my financial  
13 risk adjustment.

14 Q. WHAT IS THE CONCERN WITH STAFF'S USE OF BOOK VALUES?

15 A. Staff used the wrong inputs in unlevering and relevering the average beta of the  
16 sample group. Specifically, Staff used the book values of the sample utilities'  
17 capital structures rather than market values. Professor Hamada developed his  
18 equation using market values, not recorded book costs.<sup>11</sup> This is logical given that  
19 the Hamada formula is an extension of the CAPM, which is a market-based model  
20 that does not consider book or accounting data.<sup>12</sup> The critical component, beta, is  
21 an estimate of a security's risk based on its volatility relative to the market as a  
22 whole. Mr. Manrique admitted this in his testimony.<sup>13</sup> Therefore, it would make

23 <sup>10</sup> *Id.* at 36.

24 <sup>11</sup> "Effects of the Firm's Capital Structure on Systematic Risk of Common Stock," *Journal of Finance*,  
25 Vol. 27 No. 2 (May 1972) 435-453.

26 <sup>12</sup> See Manrique Dt. at 33 (discussing the Hamada formula).

<sup>13</sup> *Id.* at 27-28.

1 no sense to unlever and relever the sample group's average beta to account for the  
2 effect of financial leverage using book equity, as Staff has done in this case.  
3 Furthermore, numerous authorities state that market values must be used in  
4 estimating the effect of leverage on a security's risk.<sup>14</sup>

5 In short, given that the CAPM's inputs are based on market data, it is  
6 improper to substitute book capital structures, particularly when market capital  
7 structures for the sample utilities can easily be determined based on current stock  
8 prices and the number of shares outstanding.

9 **Q. HAS STAFF PROVIDED ANY SUPPORT FOR USING A CAPITAL**  
10 **STRUCTURE BASED ON BOOK VALUES?**

11 A. No, and I have been unable to find any authority for using book values in the  
12 Hamada formula.

13 **Q. WHAT FINANCIAL RISK ADJUSTMENT HAVE YOU COMPUTED**  
14 **USING STAFF'S MODELS AND MARKET VALUES?**

15 A. I computed a downward financial risk adjustment of 90 basis points – 40 basis  
16 points lower than the 130 basis points recommended by Staff. I used the market  
17 value of equity for the publicly traded water utilities, which I computed using  
18 current market-to-book ratios. For debt, I used the book value of debt as the  
19 market value. According to Dr. Morin, this is an appropriate assumption.<sup>15</sup> To  
20 compute the market value of RRUI's equity, I used the market value of RRUI's  
21 equity using the average market-to-book ratio of the sample publicly traded utility  
22

23 <sup>14</sup> See, e.g., Roger A. Morin, *New Regulatory Finance* 223-24 (Public Utility Reports, Inc. 2006)  
24 (“Morin”); Richard A. Brealey, Stewart C. Myers and Franklin Allen, *Principles of Corporate Finance*  
25 516-20 (McGraw Hill/Irwin 8th ed. 2006); Tim Koller, Marc Goedhart and David Wessels, *Valuation:*  
26 *Measuring and Managing the Value of Companies* 312-13 (John Wiley & Sons, Inc. 4th ed. 2005);  
Shannon, P. Pratt, *Cost of Capital – Estimations and Applications* 83-85 (John Wiley & Sons 2nd ed.  
2002).

<sup>15</sup> Morin, *supra* at 224.

1 companies. Using the correct financial risk adjustment of 90 basis points and  
2 Staff's unadjusted cost of equity of 10.5 percent, the result would be no less than  
3 9.6 percent – 40 basis points higher than the 9.2 percent Staff recommends.

4 **Q. WHAT DO YOU MEAN “NO LESS” THAN 9.6 PERCENT,**  
5 **MR. BOURASSA??**

6 A. We still have to account for the problem with using the average beta of the sample  
7 water utilities, which I discussed above. RRUI's small size compared to those  
8 sample companies taints the use of the average beta in the first place.

9 **Q. HOW SHOULD THIS SECOND CONCERN BE ADDRESSED?**

10 A. By taking into account the higher risk of RRUI due to its small size relative to the  
11 sample companies. If Staff is going to make a financial risk adjustment for  
12 differences in the capital structures between Staff's proxy group and RRUI, it  
13 should also consider a small firm risk premium to account for firm size  
14 differences.<sup>16</sup> It is simple economics that investors require higher returns on small  
15 company stocks like RRUI as compared to large company stocks like Aqua  
16 America and American States Water. Mr. Manrique admits that smaller firms are  
17 more risky than larger firms.<sup>17</sup> Thus, an additional risk premium should be  
18 authorized to ensure that RRUI's additional investment risk is taken into account.

19 **Q. HOW DID YOU ACCOUNT FOR ADDITIONAL RISK THIS IN YOUR**  
20 **ANALYSIS?**

21 A. As I stated earlier, my downward financial risk adjustment is offset by an upward  
22 small company risk adjustment. This compensates for the use of an overstated beta  
23 in estimating RRUI's equity cost. As a result, my net downward adjustment to the  
24

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25 <sup>16</sup> Bourassa COC Dt. at 37-38.

26 <sup>17</sup> Manrique Dt. at 42.

1 cost of equity is 50 basis points (a downward adjustment of 100 basis points for  
2 financial risk and an upward adjustment of 50 basis points for firm size).

3 I should emphasize that the small company risk premiums as reported by  
4 Morningstar are risk premiums not explained by the higher betas for small  
5 companies. Frankly, given RRUI's small size, limited customer base, lack of  
6 diversification, lack of liquidity and other factors, there should not be any  
7 downward adjustment for financial risk. So, my net downward adjustment of 50  
8 basis points is likely overstated. Clearly, the evidence doesn't support a downward  
9 adjustment to RRUI's cost of equity that is greater than 50 basis points.

10 **B. Firm Specific Risk**

11 **Q. IS MR. MANRIQUE CORRECT THAT PRIOR COMMISSION**  
12 **DECISIONS DID NOT FIND A FIRM SIZE PHENOMENON FOR**  
13 **REGULATED UTILITIES?**

14 **A.** Yes, Mr. Manrique is correct, although I do not believe the issue has come up in  
15 the context of the appropriateness of a downward adjustment for financial risk,  
16 where the failure to consider the impact of size on investment risk is exacerbated.  
17 Moreover, the Commission's failure to recognize that small firms are riskier than  
18 large firms, despite an abundance of empirical financial evidence indicating  
19 otherwise, is another reason why it is more risky for smaller utilities to do business  
20 in Arizona.

21 Putting that aside, there are many reasons why smaller utilities are more  
22 risky than larger utilities. I have discussed these reasons extensively in my direct  
23 testimony and will not repeat that testimony here.<sup>18</sup> The simple fact is that a  
24 rational investor is not going to view an equity investment in RRUI as having the  
25

26 <sup>18</sup> Bourassa COC Dt. at 15-21.

1 same risk as the purchase of publicly traded stock in a substantially larger utility  
2 such as Aqua America, American States Water or California Water Service.

3 However, I would add that an investment in the stock of a publicly traded  
4 utility is much more liquid than an investment in RRUI. If investors are unhappy  
5 with the return provided by a publicly traded stock they can sell the stock within  
6 minutes. On the contrary, an investment in RRUI does not provide the same level  
7 of liquidity. This lack of liquidity creates additional investment risk. The bottom  
8 line is that if the differences in risk between small utilities like RRUI and the large,  
9 publicly traded water utilities used to estimate the cost of equity are ignored,  
10 RRUI's equity cost will be understated and unreasonable.

11 **Q. DO INVESTORS CONSIDER SMALL FIRM RISKS AS WELL AS**  
12 **REGULATORY RISKS?**

13 A. Of course. Contrary to Mr. Manrique's assertions, the investment related to such  
14 factors as firm size and Arizona's regulatory environment are important to  
15 investors. These risks are not captured by the market data of the water utility proxy  
16 group Staff uses to estimate the cost of equity for RRUI. None of the utilities in  
17 Staff's water proxy group are of comparable size to RRUI.<sup>19</sup> In fact, RRUI is but a  
18 small fraction of the size of the water utilities in Staff's proxy group. And none of  
19 the water utilities in Staff's water proxy group operate exclusively in Arizona and  
20 are subject to this jurisdiction's regulatory requirements and policies.<sup>20</sup>

21 **Q. IS THERE A WAY TO PRECISELY QUANTIFY THE EFFECT OF THESE**  
22 **ADDITIONAL RISKS ON THE RETURN REQUIRED BY AN INVESTOR?**

23 A. No. But that does not justify ignoring the differences between the sample utilities  
24 and RRUI, as Staff proposes.

25 <sup>19</sup> Bourassa COC Dt. at 16.

26 <sup>20</sup> *Id.* at 16-22.

1 Q. HOW DO YOU RESPOND TO MR. MANRIQUE'S ASSERTION THAT  
2 THE ARIZONA REGULATORY ENVIRONMENT IS NO LESS  
3 FAVORABLE THAN THE REGULATORY ENVIRONMENTS FACED BY  
4 THE SAMPLE UTILITIES?

5 A. I disagree with him. Mr. Manrique testifies that the regulatory environment in  
6 Arizona has many "attractive attributes," including the use of a fair value rate base  
7 ("FVRB"), the ability to seek accounting orders, the recognition of known and  
8 measurable changes, the wide use of hook-up fees, and regulatory responsiveness,  
9 such as the approval of arsenic recovery mechanisms and arsenic remedial  
10 surcharge mechanisms.<sup>21</sup> I will address each of the alleged "attractive attributes"  
11 Mr. Manrique has identified.

12 Q. PLEASE START WITH FAIR VALUE RATE BASE. DO INVESTORS  
13 CONSIDER ARIZONA'S USE OF FAIR VALUE RATE BASE AN  
14 ATTRACTIVE ATTRIBUTE OF INVESTING IN ARIZONA?

15 A. To my knowledge, investors do not. This is because the Commission does not  
16 recognize the increased value when the utility's FVRB is higher than the original  
17 cost rate base. This makes fair value meaningless. And while I appreciate that  
18 Mr. Manrique is very new to Arizona rate making, Staff should know the history  
19 better. I will provide some background.

20 In the past, when Arizona utilities filed rate cases with a FVRB that was  
21 higher than original cost, the Commission authorized an operating income that was  
22 equivalent to applying the weighted average cost of capital ("WACC") to original  
23 cost rate base. This became known as the "backing-in method" because the  
24 Commission simply took the operating income produced by applying the WACC to  
25

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26 <sup>21</sup> *Id.*

1 the original cost rate base, divided it by the FVRB and came up with what it called  
2 the "fair value rate of return." In short, the backing-in method rendered the use of  
3 a FVRB meaningless because the return on rate base did not change whether fair  
4 value or original cost was used. Then, the backing-in method was challenged by  
5 Chaparral City Water Company and found by the Arizona Court of Appeals to be  
6 unconstitutional.<sup>22</sup>

7 **Q. DIDN'T THE COURT'S FINDING TURN THE USE OF FAIR VALUE**  
8 **INTO AN ATTRACTIVE ATTRIBUTE OF ARIZONA REGULATION FOR**  
9 **INVESTORS?**

10 A. No. On remand from the Court of Appeals the Commission set a new revenue  
11 requirement that produced operating income that was about \$7,400 higher than the  
12 original decision.<sup>23</sup> In other words, despite the fact that the FVRB in Chaparral  
13 City's rate case was \$3.3 million higher than its original cost rate base, the  
14 Commission granted a return of 0.22 percent on the additional value. No investor  
15 will view a regulatory body that authorizes a 0.22 percent return on more than  
16 \$3 million dollars of plant as "attractive."

17 **Q. HAVE THERE BEEN ANY SUBSEQUENT PROCEEDINGS IN THE**  
18 **CHAPARRAL CITY CASE?**

19 A. Yes. For one thing, the Commission's remand decision was appealed, in fact, it  
20 was argued before the Court of Appeals in January.<sup>24</sup> Also, in a more recent  
21 Chaparral City rate case,<sup>25</sup> the Commission provided approximately \$150,000 more  
22 operating income by use of a FVRB than would have been provided by applying  
23

24 <sup>22</sup> *Chaparral City Water Co. v. Ariz. Corp. Comm'n*, No. 1 CA-CC 05-002 (Feb. 13, 2007).

25 <sup>23</sup> *See Chaparral City Water Company*, Decision No. 70441 (July 28, 2008).

26 <sup>24</sup> *Chaparral City Water Co. v. Ariz. Corp. Comm'n*, No. 1 CA-CC 08-002 (argued January 12, 2010).

<sup>25</sup> *Chaparral City Water Company*, Decision No. 71308 (October 1, 2009).

1 the WACC to OCRB. As a result, despite the fact that FVRB was more than  
2 \$5.4 million higher than OCRB, the Company received a return of about  
3 2.8 percent on the additional value of its investment. This decision is also on  
4 appeal. Meanwhile, Arizona's use of fair value is not an attractive attribute of  
5 utility regulation in the state.

6 **Q. ARE ACCOUNTING ORDERS AN "ATTRACTIVE ATTRIBUTE" OF**  
7 **REGULATION IN ARIZONA?**

8 A. No. I am not aware that regulatory mechanisms similar to accounting orders are  
9 not available to any of the sample water utilities in the regulatory jurisdictions in  
10 which they operate. Therefore, accounting orders do not make Arizona attractive  
11 to investors relative to other investments. Besides, the nature of accounting orders  
12 limits their attractiveness.

13 **Q. WHAT DO YOU MEAN?**

14 A. In Arizona, accounting orders are narrowly tailored for specific circumstances and  
15 generally only allow utilities to track certain, specified costs. No rate recovery is  
16 authorized or assured. Rather, accounting orders issued by this Commission  
17 postpone consideration of any cost recovery until a future rate case. In fact, the  
18 uncertainty inherent in an accounting order is illustrated in the pending rate case  
19 for RRUI's affiliate, LPSCO, where Staff opposes recovery of costs incurred  
20 pursuant to a recent Commission-issued accounting order.<sup>26</sup>

21  
22  
23  
24 <sup>26</sup> See Direct Testimony of Jeffery M. Michlik (water division), filed November 4, 2009 in Docket Nos.  
25 W-01428A-09-0103, W-01427A-09-0104, W-01427A-09-0116 and W-01427A-09-0120 (consolidated), at  
26 12-14. Staff is recommending denial of recovery of costs related to the potential contamination of its  
water supply due to the proximity of a federally designated superfund site in the current rate case, although  
Staff has suggested consideration in a future rate case.

1 Q. WHAT ABOUT THE RECOGNITION OF "KNOWN AND  
2 MEASURABLE" CHANGES?

3 A. Again, this is not a regulatory attribute unique to Arizona. In fact, I am not aware  
4 of any jurisdictions that utilize an historic test year where adjustments based on  
5 known and measurable changes cannot be made to either the test year rate base or  
6 to test year revenue and expenses in order to make the test year a more "normal"  
7 representation of the costs of service during the period in which the rates will be in  
8 effect. Arguably, the failure to allow such changes would be unlawful.

9 In contrast, California, in which three of the six sample water companies  
10 (American States, California Water, and SJW Corp.) primarily operate, uses future  
11 test years in setting rates. Under that state's rate making system, future expenses  
12 can be increased to reflect expected changes including projected inflation, revenues  
13 can be adjusted to reflect expected future erosion of revenues from water  
14 conservation, and future expected capital investment can be recognized in rate  
15 base. This regulatory approach is more attractive to investors than the recognition  
16 of known and measurable changes, which is common.

17 Moreover, California allows adjuster mechanisms that permit utilities to  
18 recover increases in purchased power and purchased water costs due to increases in  
19 rates charged by power and water providers. More recently, in connection with  
20 implementing conservation-oriented rate structures, California has authorized water  
21 revenue adjustment mechanisms to be implemented in order to offset revenue  
22 erosion due to conservation. In some cases, California allows utilities to file for  
23 adjustment mechanisms when unexpected significant capital investment has to be  
24 made. By allowing revenues to change between rate cases to match known  
25 increases in investment and operating expenses, utilities are given a reasonable  
26 chance to earn their authorized return.

1 In contrast, in Arizona, adjuster mechanisms for purchased water have been  
2 uniformly opposed by Staff and RUCO over the past decade, and they have been  
3 denied by the Commission.<sup>27</sup> And, I don't believe that I have ever seen a revenue  
4 conservation adjustment adopted by the Commission for an Arizona water utility  
5 with inverted-tier rates designed to encourage water conservation.

6 **Q. DIDN'T THE COMMISSION PROVIDE ARSENIC COST RECOVERY**  
7 **MECHANISMS IN THE PAST?**

8 A. To some extent. But generally, these mechanisms have only allowed for recovery  
9 of debt service costs not capital and depreciation. That was beneficial, particularly  
10 for utilities that could not provide cash flow for the debt service without this  
11 mechanism in place. However, these mechanisms did not include recovery of  
12 increases in operating and maintenance costs associated with the arsenic facilities.  
13 And the Commission has made it clear that such mechanisms were special cases  
14 intended to address extraordinary circumstances, and their approval did not  
15 establish a precedent for adjuster mechanisms in general. Thus, while approval of  
16 the ACRMs was certainly helpful to the water utilities that obtained them, they do  
17 not make Arizona's regulatory environment more attractive to investors than other  
18 jurisdictions, which routinely authorize cost recovery mechanisms.

19 **Q. ARE THERE ANY OTHER "ATTRACTIVE ATTRIBUTES" THAT MAKE**  
20 **OTHER JURISDICTIONS ATTRACTIVE RELATIVE TO ARIZONA?**

21 A. Yes. For instance, as I discussed in my direct testimony, in many states in which  
22 Aqua America operates, utilities are permitted to implement surcharges to recover  
23 additional depreciation and capital costs outside the context of a rate case.<sup>28</sup> Aqua  
24

25 <sup>27</sup> See, e.g. *Chaparral City Water Company*, Decision No. 68176 (September 30, 2005); *Arizona Water*  
*Company (Eastern Group)*, Decision No. 66849 (March 19, 2004).

26 <sup>28</sup> Bourassa COC Dt. at 21.

1 America also operates in jurisdictions that allow utilities to implement rates before  
2 a final decision in a rate case.<sup>29</sup> In addition, in certain states in which Aqua  
3 America operates, utilities are allowed surcharges to reflect changes in certain costs  
4 until such time as the costs are incorporated into base rates.<sup>30</sup> Pennsylvania allows  
5 water utilities to collect a distribution system improvement charge ("DISC") for the  
6 replacement of mains, storage tanks and other distribution system infrastructure.  
7 Similarly, Middlesex operates utilities in Delaware, which also allows for the  
8 implementation of a DISC for the recovery of depreciation and capital costs outside  
9 the context of a rate case. Delaware also allows plant expected to be constructed  
10 within three years from the end of the test period to be included in rate base. These  
11 attributes are attractive to investors, and none of them are available in Arizona.

12 **Q. ARE YOU AWARE OF ANY STUDIES THAT SUPPORT YOUR**  
13 **TESTIMONY THAT ARIZONA IS NOT AN ATTRACTIVE**  
14 **REGULATORY ENVIRONMENT?**

15 **A.** Yes. Standard and Poor's, for example, issued a report in November 2008 that  
16 ranked Arizona among the least credit supportive regulatory environments.<sup>31</sup>  
17 Investors do recognize the overall effect of the unfavorable regulatory environment  
18 here in Arizona. Again, this is why Liberty Water's utilities in Arizona are having  
19 a hard time competing for capital with utilities in other states.

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24 <sup>29</sup> *Id.*

25 <sup>30</sup> *Id.*

26 <sup>31</sup> Assessing U.S. Utility Regulatory Environments, Rating Directs, Standard and Poor's (November 7, 2008).

1 Q. BUT LIBERTY WATER WASN'T FORCED TO BUY RRUI AND THE  
2 OTHER UTILITIES IT OWNS IN ARIZONA, WAS IT?

3 A. No. But that isn't the point. We are attempting to develop a fair and reasonable  
4 return on invested capital and, ultimately, rate of return on rate base. The  
5 Commission has broad discretion, and may choose to use historic test years with  
6 limited out-of-period adjustments, refuse to approve adjuster mechanisms for water  
7 and wastewater utilities, and impose inverted-tier water rates without considering  
8 the impact on the utility's revenues. But if it chooses to adopt these policies, it  
9 cannot also ignore the impact on investment risk. The criteria established by the  
10 Supreme Court in decisions such as *Bluefield Water Works* apply in Arizona too.

11 C. Risks Associated with Advances and Contributions

12 Q. MR. MANRIQUE ALSO TESTIFIES THAT ADVANCES AND  
13 CONTRIBUTIONS REDUCE A UTILITY'S RISK. HOW DO YOU  
14 RESPOND TO THAT ASSERTION?

15 A. I agree with Mr. Manrique that plant financed with AIAC and CIAC can provide  
16 benefits through access to zero-cost capital. This may eliminate the need to go into  
17 the capital markets to raise additional capital. As I stated, this is why many smaller  
18 utilities have higher proportions of these zero-cost capital sources.<sup>32</sup> But this has  
19 nothing to do with an equity investor's risk. The investor is concerned about  
20 earning a fair return on the funds he has invested.

21 Moreover, there are disadvantages to AIAC and CIAC. For example, a high  
22 percentage of zero-cost capital in a utility's capital structure is detrimental to the  
23 long-term cash flows of the Company because (1) the utility is not allowed to earn  
24 a return on plant financed with AIAC and CIAC, and (2) the utility is not allowed

25  
26 <sup>32</sup> Bourassa COC Dt. at 18.

1 to recover depreciation on plant financed with CIAC. Keep in mind that plant  
2 financed with AIAC and CIAC must be maintained and eventually has to be  
3 replaced. Further, advances have to be refunded, diverting the utility's cash flow.  
4 Together, these factors place additional stress on earnings, which increases risk to  
5 the Company as the eventual plant replacements will require the Company to raise  
6 additional capital to fund the replacements.

7 **Q. BUT AREN'T THE COSTS TO MAINTAIN PLANT INCLUDED IN**  
8 **RATES, AS SUGGESTED BY MR. MANRIQUE?**

9 **A.** Not necessarily. Recovery of the level of expenses included in rates for  
10 maintenance and repair expenses is not guaranteed. Further, significant emergency  
11 repairs that are not contemplated in the level approved in a rate case are not  
12 recovered, and are often characterized as non-recurring. In addition, capitalized  
13 repairs are not recovered between rate cases.

14 **D. Rebuttal to Staff's Criticisms of Analysts' Estimates of Growth**

15 **Q. MR. MANRIQUE CRITICIZES YOU FOR GIVING MORE WEIGHT TO**  
16 **ANALYSTS' ESTIMATES THAN TO HISTORICAL GROWTH RATES.**  
17 **HOW DO YOU RESPOND?**

18 **A.** First, it is important to note that Mr. Manrique does not reject analyst estimates of  
19 growth; he just disagrees with the amount of weight I gave these estimates.<sup>33</sup> Staff  
20 gives 50 percent weight to analysts' estimates and 50 percent weight to historical  
21 growth data. So the dispute between Mr. Manrique and me comes down to  
22 something between 50 percent and my "greater" emphasis. In my direct testimony  
23 I explained why weight greater than 50 percent should be given to analysts'  
24 estimates.<sup>34</sup>

25 <sup>33</sup> Manrique Dt. at 35.

26 <sup>34</sup> Bourassa COC Dt. at 26-29.

1 Q. WHAT ABOUT MR. MANRIQUE'S ASSERTION THAT ANALYSTS'  
2 ESTIMATES ARE "OVERLY OPTIMISTIC"?

3 A. First, I refer back to my direct testimony at pages 28 to 29. Gordon, Gordon, and  
4 Gould conducted a study and found analyst forecasts of growth outperformed three  
5 measures of historical growth. They explain that this result should be expected  
6 because analysts would consider historical data in making future projections. Now,  
7 Mr. Manrique characterizes the study as merely an "article" that "describes more  
8 generally the methods exclusively using analysts' forecasts are 'popular and  
9 attractive models', but the article does not support the conclusion that these  
10 forecasts should be used alone."<sup>35</sup> The authors' own words undermine  
11 Mr. Manrique's characterization, as well demonstrating his lack of expertise and  
12 dependence on Staff's off-the-shelf methodologies. In their own formal study, the  
13 authors concluded:

14 We have compared the accuracy of four methods for  
15 estimating the growth component of the discounted cash flow  
16 yield on a share: past growth in earnings (KEGR), past  
17 growth in dividends (KDGR), past retention growth rate  
18 (KBRG), and forecasts of growth by security analysts  
(KFRG). ... For our sample of utility shares, KFRG  
performed well, with KBRG, KDGR, and KEGR following in  
that order, and with KEGR a distant fourth....

19 Before closing, we have three observations to make. First,  
20 the superior performance by KFRG should come as no  
21 surprise. All four estimates of growth rely upon past data, but  
22 in the case of KFRG a larger body of past data is used,  
23 filtered through a group of security analysts who adjust for  
24 abnormalities that are not considered relevant for future  
25 growth....<sup>36</sup>

26 As I have testified, to the extent that past results provide useful indications of  
future growth prospects, analysts' forecasts of growth would already incorporate

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<sup>35</sup> Manrique Dt. at 37.

<sup>36</sup> David A. Gordon, Myron J. Gordon and Lawrence I. Gould, "Choice Among Methods of Estimating Share Yield," *Journal of Portfolio Management* (Spring 1989) 50-55.

1 that information.<sup>37</sup> In addition, a stock's current price already reflects known  
2 historic information on that company, including its past dividend and earnings  
3 history.<sup>38</sup> If investors rely on analysts' growth rate forecasts, those are the relevant  
4 forecasts for determining equity costs.

5 In summary, Mr. Manrique offers no quantitative or conceptual argument to  
6 rebut Gordon, Gordon, and Gould, and offers no evidence that any of the measures  
7 of past growth he has used – historical EPS, historical DPS, historical sustainable  
8 growth – provides a better forecast of future growth for utilities than analysts'  
9 estimates of growth. Mr. Manrique is using Staff's inputs into the DCF model  
10 mechanically and without considering the reasons for using those inputs.  
11 Unfortunately, Staff's inputs gives less weight to the best estimate of future growth  
12 in order to drive down the cost of equity.

13 **Q. DOESN'T MR. MANRIQUE'S TESTIMONY ON PAGE 38 REFERENCING**  
14 **PROFESSOR GORDON'S REMARKS AT THE 30<sup>TH</sup> ANNUAL FORUM OF**  
15 **THE SOCIETY OF UTILITY AND REGULATORY FINANCIAL**  
16 **ANALYSTS CONTRADICT WHAT THE AUTHORS HAVE**  
17 **CONCLUDED?**

18 **A.** No. For starters, we don't know the context in which Professor Gordon made his  
19 remarks. Further, in the quoted remarks, Professor Gordon does not say anything  
20 about past growth rates. There is no guidance on which past growth rates (EPS,  
21 DPS, or book value) should be used, if any, or what weight past growth rates  
22 should be given when estimating the growth rate in the DCF model.<sup>39</sup> That is the  
23 issue. Mr. Manrique agrees that "Professor Gordon would temper the typically

24 <sup>37</sup> Bourassa COC Dt. at 28-29.

25 <sup>38</sup> *Id.*

26 <sup>39</sup> Staff has not provided Professor Gordon's complete remarks in their work papers.

1 higher analysts' growth rates with the typically lower GNP growth rate."<sup>40</sup> I am  
2 sure Mr. Manrique would also agree that I have tempered my estimate by  
3 considering past growth rates that are well below the long-term GNP (or GDP)  
4 growth rate.<sup>41</sup> So, having tempered the analysts' growth rates I employ with a  
5 lower historical growth rate,<sup>42</sup> my estimate is still significantly greater than Staff's.  
6 This is the result of Staff's models being heavily weighted on low historical growth  
7 rates, which drives down the cost of equity.

8 **Q. DOES MR. MANRIQUE STATE THAT INVESTORS RELY ON ANALYST**  
9 **ESTIMATES?**

10 A. Yes.<sup>43</sup> He also states that investors rely "to some extent on past growth as well."  
11 That is true, but he does not demonstrate the extent to which investors rely on past  
12 growth rates – he simply states that they are considered. Again, if analysts'  
13 estimates already consider past growth, then Staff vastly overstates the impact of  
14 past growth rates in its DCF model. It is, basically, a type of "double-counting"  
15 that produces extremely low results.

16 **Q. DO YOU HAVE FURTHER REBUTTAL TO MR. MANRIQUE'S**  
17 **"OVERLY OPTIMISTIC" TESTIMONY?**

18 A. Yes. For my second specific response to the assertion that analysts' estimates are  
19 "overly optimistic," I point to Value Line. Value Line is in the business of selling  
20 information to investors, and all of the parties have relied on Value Line in their  
21

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22 <sup>40</sup> Manrique Dt. at 38.

23 <sup>41</sup> See Rebuttal Schedule D.4-4, column 5. The average of historical growth rates is 5.89%. The long-term  
GDP growth rate is 6.7% as shown on Staff's Schedule JCM-9.

24 <sup>42</sup> See Rebuttal Schedule D.4-4, column 6, average of historical growth rates and analyst estimates is  
25 7.25%. The DCF result using the 7.25% produces an indicated cost of equity of 10.8% as shown on  
Staff Schedule JSM-3.

26 <sup>43</sup> Manrique at Dt. 39.

1 cost of equity estimates. Value Line has every incentive to provide accurate  
2 forecasts to encourage investors to continue to subscribe to its publications. Value  
3 Line does not sell stock and has no incentive to bias upward its buy/sell  
4 recommendations and estimates of future growth. Zacks and Morningstar provide  
5 similar investment services. Neither markets stock – they sell information, which  
6 won't be purchased if it is inaccurate or biased. Yahoo Finance is a free service,  
7 but it does not earn commissions from the sales of stock. In sum, Mr. Manrique's  
8 testimony is simply wrong. None of these services have any reason to provide  
9 inaccurate information to its users.

10 **Q. DO YOU HAVE ANY FURTHER COMMENTS ON THE TOPIC OF**  
11 **STAFF'S DCF GROWTH ESTIMATES, MR. BOURASSA?**

12 A. Yes. I am attaching a copy of a document filed with the public utilities  
13 commission in a 2005 California rate case to this volume of my rebuttal  
14 testimony.<sup>44</sup> This document was prepared by Mr. Gary Hayes, a witness for San  
15 Diego and Electric Company. It lists a number of sources that further contradict  
16 Mr. Manrique's claim that analysts typically make upwardly biased forecasts of  
17 growth.

18 Additionally, to further support the use of analyst forecasts of growth, Dr.  
19 Morin states:

20 Because of the dominance of institutional investors and their  
21 influence on individual investors, analysts' forecasts of long-  
22 run growth rates provide a sound basis for estimating required  
23 returns. Financial analysts exert a strong influence on the  
24 expectations of many investors who do not possess the  
25 resources to make their own forecasts, that is, they are a cause  
26 of g. *The accuracy of these forecasts in the sense of whether  
they turn out to be correct is not at issue here, as long as they  
reflect widely held expectations.* As long as the forecasts are  
typical and/or influential in that they are consistent with

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<sup>44</sup> Exhibit TJB-COC-RB1.

1 current stock price levels, they are relevant. The use of  
2 analysts' forecasts in the DCF model is sometimes denounced  
3 on the grounds that it is difficult to forecast earnings and  
4 dividends for only one year, let alone for longer time periods.  
5 *This objection is unfounded, however, because it is present  
6 investor expectations that are being priced; it is the consensus  
7 forecast that is embedded in price and therefore in required  
8 return, and not the future as it will turn out to be.*<sup>45</sup>

9 Myron Gordon, the "father" of the standard regulatory version of the DCF  
10 model utilized by Mr. Manrique and myself in the instant case, has also recognized  
11 the significance of analysts' forecasts of growth in EPS in a speech he gave in  
12 March 1990 before the Institute for Quantitative Research and Finance. He said:

13 We have seen that earnings and growth estimates by security  
14 analysts were found by Malkiel and Cragg to be superior to  
15 data obtained from financial statements for the explanation of  
16 variation in price among common stocks. ... Estimates by  
17 security analysts available from sources such as IBES are far  
18 superior to the data available to Malkiel and Cragg. Eq (7) is  
19 not as elegant as Eq (4), but it has a good deal more intuitive  
20 appeal. It says that investors buy earnings, but what they will  
21 pay for a dollar of earnings increases with the extent to which  
22 the earnings are reflected in the dividend or in appreciation  
23 through growth.<sup>46</sup>

24 Professor Gordon recognized that total return is largely affected by the terminal  
25 price, which is mostly affected by earnings (hence the common use of  
26 price/earnings multiples in evaluating stock prices).

As noted by Dr. Gordon, studies performed by Cragg and Malkiel  
demonstrate that analysts' forecasts are superior to historical growth rate  
extrapolations. These studies show that:

Efficient market hypotheses suggest that valuation should reflect the  
information available to investors. Insofar as analysts' forecasts are  
more precise than other types we should therefore expect their  
differences from other measures to be reflected in the market. It is  
therefore noteworthy that our regression results do support the  
hypothesis that analysts' forecasts are needed even when calculated

<sup>45</sup> Morin at 298 (emphasis added).

<sup>46</sup> Gordon, Myron J., "Pricing of Common Stocks", Seminar (March 27, 1990) at 12-13.

1 growth rates are available. As we noted when we described the data,  
2 security analysts do not use simple mechanical methods to obtain  
3 their evaluations of companies. The growth-rate figures we obtained  
4 were distilled from careful examination of all aspects of the  
5 companies' records, evaluation of contingencies to which they might  
6 be subject, and whatever information about their prospects the  
7 analysts could glean from the companies themselves or from other  
8 sources. It is therefore notable that the results of their efforts are  
9 found to be so much more relevant to the valuation than the various  
10 simpler and more "objective" alternatives that we tried.<sup>47</sup>

11 Vander Weide and Carleton further note:

12 [O]ur studies affirm the superiority of analyst's forecasts over simple  
13 historical growth extrapolations in the stock price formation process.  
14 Indirectly, this finding lends support to the use of valuation models  
15 whose input includes expected growth rates.<sup>48</sup>

16 **Q. THAT'S A LOT OF EXPERT COMMENTARY, BUT WHAT DOES IT ALL  
17 MEAN IN THIS CASE?**

18 **A.** It means that the level of accuracy of analysts' forecasts is an after-the-fact  
19 evaluation with little relevance to the issues at hand here. What really matters is  
20 that analysts' forecasts strongly influence investors and hence the market prices  
21 investors are willing to pay for stocks. Therefore, they should play a prominent  
22 role in a proper equity cost determination. Staff, however, has failed to give these  
23 forecasts sufficient weight in its analysis. Even Mr. Dreman, who Mr. Manrique  
24 relies on, admits that:

25 We have also seen that in spite of high error rates being  
26 recognized for decades, neither analysts nor investors who  
reliably depend on them have altered their methods in any  
way.<sup>49</sup>

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23 <sup>47</sup> John G. Cragg and Burton G. Malkiel, "Expectations and the Structure of Share Prices" *National  
Bureau of Economic Research* (University of Chicago Press, 1982) Chapter 4.

24 <sup>48</sup> James H. Vander Weide and Willard T. Carleton, "Investor Growth Expectations: Analysts vs.  
25 History" (*The Journal of Portfolio Management*, Spring 1988) 78-82.

26 <sup>49</sup> David Dreman, *Contrarian Investment Strategies: The Next Generation* 115-116 (Simon & Schuster  
1998).

1 This is my point. If investors rely on analysts' growth rate forecasts, those  
2 forecasts should be used to determine the cost of equity, proportionate to investor  
3 reliance, not in a manner that depresses the import of that reliance. Analysts'  
4 growth rates influence the prices investors will pay for stocks and thus impact the  
5 dividend yields. The dividend yields change until the sum of the dividend yield  
6 plus the growth rate equals investors' perceived cost of equity. Had the growth  
7 forecasts been lower – as Mr. Manrique suggests they should be – the stock prices  
8 would be lower and dividend yields would be higher, but there would not  
9 necessarily be any difference in the ultimate estimate of the cost of equity.

10 **Q. HOW DO YOU RESPOND TO MR. MANRIQUE'S REFERENCE TO**  
11 **PROFESSOR JEREMY SIEGEL?**

12 A. Mr. Manrique's reliance on the quote from Jeremy Siegel that "dividends and not  
13 earnings are meaningful" is puzzling.<sup>50</sup> The DCF model assumes, among other  
14 things, that a firm will have a stable dividend payout policy and a stable return on  
15 the book value of its stock. Thus, it is assumed that the stock's price, its book  
16 value, dividends paid, and earnings all grow at the same rate. While it is  
17 appropriate to make such assumptions for forecasting purposes, these assumptions  
18 are frequently violated when examining historical data. As it turns out, the  
19 historical growth in the stock price, book value, dividends, and earnings for the  
20 water utility industry has not been the same.<sup>51</sup> Estimates of long-term growth rates  
21 should take this into account. Furthermore, I have not used earnings in my DCF  
22 model; I used earnings growth as a proxy for growth. Earnings generate the funds  
23 used to pay dividends. Growth in earnings provides more cash flows from which  
24 dividends are paid. As a consequence, earnings growth is obviously extremely

25 <sup>50</sup> Manrique Dt. at 39.

26 <sup>51</sup> See Rebuttal Schedule D.4-3 and Rebuttal Schedule D.4-4.

1 important to investors, and is therefore an entirely appropriate proxy for growth in  
2 the DCF model.

3 Of course, I'd also note that I don't disagree with Professor Siegel that the  
4 price of a stock is always equal to the present value of all future cash flows. I am  
5 sure Professor Siegel would agree that future cash flows would not only include  
6 dividends but the future sales price of the stock. The Market Price version of the  
7 DCF model measures precisely that. I described the Market Price version of the  
8 DCF model in my direct and will not repeat that testimony here.<sup>52</sup> A 5-year Market  
9 Price DCF model for the sample publicly traded utility stocks would indicate a cost  
10 of equity of 11.7 percent.

11 **Q. HAVE YOU PREPARED AN EXHIBIT ILLUSTRATING THE MARKET**  
12 **PRICE DCF FOR THE WATER UTILITY SAMPLE?**

13 A. Yes.<sup>53</sup> I have included a Market Price DCF computation for the sample publicly  
14 traded water utilities using 5-year historical dividend growth and 5-year historical  
15 stock price growth. Again, the average result is 11.7 percent (11.8 percent  
16 median), which compares far more favorably to my cost of equity estimate of 11.7  
17 percent than to Staff's cost of equity estimate of 10.5 percent.

18 **Q. DO YOU HAVE ANY FURTHER RESPONSE TO MR. MANRIQUE**  
19 **REGARDING THE ISSUE OF USING ANALYSTS' FORECASTS AND**  
20 **THE APPROPRIATE WEIGHT THEY SHOULD BE GIVEN?**

21 A. Yes, I have one more comment. I find Mr. Manrique's reliance on a quotation  
22 from Dr. Burton G. Malkiel somewhat confusing. Dr. Malkiel is the Chemical  
23 Bank Chairman's Professor of Economics at Princeton University and author of the  
24 widely read national bestseller book on investing entitled, "A Random Walk Down

25 <sup>52</sup> Bourassa COC Dt. at 25-26.

26 <sup>53</sup> Exhibit TJB-COC-RB2.

1 Wall Street.” Mr. Manrique quotes Dr. Malkiel’s apparent criticism of analysts’  
2 estimates. Yet, in November 2002, Professor Malkiel affirmed his belief in the  
3 superiority of analysts’ earnings forecasts when he testified before the South  
4 Carolina PUC:

5 With all the publicity given to tainted analysts’ forecasts and  
6 investigations instituted by the New York Attorney General,  
7 the National Association of Securities Dealers, and the  
8 Securities & Exchange Commission, I believe the upward  
9 bias that existed in the late 1990s has indeed diminished. In  
10 summary, I believe that current analysts’ forecasts are more  
11 reliable than they were during the late 1990s. *Therefore,*  
12 *analysts’ forecasts remain the proper tool to use in*  
13 *performing a Gordon Model DCF analysis.*<sup>54</sup>

14 I believe that Dr. Malkiel’s testimony should eliminate any  
15 disagreement on this issue.

16 **E. Rebuttal to Remaining Staff’s Criticisms of RRUI DCF Analysis**

17 **Q. PLEASE RESPOND TO MR. MANRIQUE’S TESTIMONY ON PAGE 40**  
18 **REGARDING YOUR USE OF A 5-YEAR TIME PERIOD TO MEASURE**  
19 **HISTORICAL GROWTH RATES.**

20 **A.** Mr. Manrique criticizes my use of 5 years of historical data to estimate growth. I  
21 can provide similar criticism of Mr. Manrique’s decision to use 10 years of  
22 historical data. I believe a 5-year historical time period is more appropriate  
23 because it includes one recent period of economic expansion and one period of  
24 economic recession. A 10-year period includes one period of economic expansion  
25 and two periods of economic recession. In my opinion, a 10-year period biases the  
26 growth rate downward as a result. Regardless of the time period, past growth rates  
may be misleading because past growth rates may reflect changes in relevant  
variables that may not be expected to continue in the future. Value Line reports

<sup>54</sup> See Rebuttal Testimony of Dr. Burton G. Malkiel, filed November 12, 2002 in Docket No. 2002-223-E, at 16-17 (emphasis added).

1 both 5- and 10-year historical growth in earnings, dividends, book value, cash flow,  
2 and revenues. Long-term analysts' forecasts are reported for 5-year periods. This  
3 information would not be reported unless it represented value to investors, whether  
4 for informational, forecasting, or analytical purposes.

5 **IV. REBUTTAL TO RUCO'S COST OF CAPITAL ANALYSIS, TESTIMONY**  
6 **AND RECOMMENDATIONS**

7 **A. Proxies Used to Develop Cost of Equity**

8 **Q. IS MR. RIGSBY'S SAMPLE GROUP DIFFERENT THAN THE**  
9 **COMPANY'S AND STAFF'S SAMPLE?**

10 **A. Yes. Mr. Rigsby uses four publicly traded water utilities. He used the three largest**  
11 **water utilities out of the six water utilities that I have used, the same ones Staff**  
12 **typically uses when performing its cost of capital analysis. Mr. Rigsby also uses a**  
13 **fourth water utility, Southwest Water in his water proxy group.**

14 **Q. DO YOU HAVE ANY CONCERNS REGARDING MR. RIGSBY'S WATER**  
15 **PROXY GROUP?**

16 **A. Yes. Southwest Water is not comparable to RRUI or the other water utilities in**  
17 **Mr. Rigsby's sample group. It derives less than 50 percent of its revenues from**  
18 **regulated utility services, while the other three utilities on average derive nearly 89**  
19 **percent of revenues from regulated activities.<sup>55</sup> Further, Southwest Water is a**  
20 **financially distressed utility. Its returns for the past several years have been very**  
21 **low. For example, the equity returns for the years 2004, 2005, 2006, 2007, and**  
22 **2008 have been 3.6%, 5.0%, 5.6%, 3.2%, and 0.8%, respectively. Also, Value**  
23 **Line<sup>56</sup> reports that the Company has been delinquent in filing its SEC reports**  
24 **because of errors made in reporting depreciation rates of assets gained through**

25 <sup>55</sup> Based on information contained in AUS Utility Reports (January 2010).

26 <sup>56</sup> Value Line Ratings and Reports, October 23, 2009.

1 acquisitions and accounting issues for revenues and related costs for water and  
2 sewer taps. These mistakes have skewed year-over-year results. Value Line also  
3 reports that the Company's dividends have been reduced from \$0.24 to \$0.01  
4 which indicates severe cash flow problems. These problems are reflected in Value  
5 Line's financial strength rating of C++. The other three utilities in Mr. Rigsby's  
6 water proxy group have financial strength rating of B+. In short, Southwest Gas  
7 should not be used to estimate the cost of equity.

8 **Q. DID MR. RIGSBY INCLUDE SOUTHWEST WATER IN HIS WATER**  
9 **UTILITY SAMPLE IN ESTIMATING THE COST OF EQUITY IN**  
10 **ARIZONA WATER COMPANY'S PENDING RATE CASE?**

11 A. No. In that case, Mr. Rigsby testified that he excluded Southwest Water because  
12 Value Line has suspended all projections and estimates for that utility due to  
13 accounting and financial statement reporting errors.<sup>57</sup>

14 **Q. DOES MR. RIGSBY ALSO USE GAS DISTRIBUTION COMPANIES TO**  
15 **DEVELOP HIS ESTIMATE OF THE COST OF EQUITY?**

16 A. Yes, he uses 10 natural gas companies. However, the sample gas utilities are less  
17 risky and therefore not comparable to water utilities. His sample water companies,  
18 for example, have an average beta of 0.83, while his sample gas companies have an  
19 average beta of just 0.67.<sup>58</sup> That means that the equity cost for the water utility  
20 sample is greater than the gas utilities sample, based on their relative riskiness.  
21 Even though the water utility sample has more systematic risk than the gas utility  
22 sample, Mr. Rigsby assumes that the gas utilities and water utility have the same  
23 systematic risk and are directly comparable. They are not.

24  
25 <sup>57</sup> Direct Testimony on Cost of Capital of William A. Rigsby, filed June 12, 2009 in Docket No. W-  
01445A-08-0440, at 19.

26 <sup>58</sup> See RUCO Schedule WAR-7, page 1 of 2.

1 Q. CAN GAS UTILITIES BE USED TO ESTIMATE RRUI'S COST OF  
2 EQUITY?

3 A. Yes, but it is only fair and proper to use gas companies if the results produced by  
4 the DCF and CAPM models are adjusted upward to reflect the water utilities'  
5 additional risk. Mr. Rigsby made no such adjustment.

6 Q. HAS THIS ISSUE EVER COME UP BEFORE?

7 A. Yes. In several prior cases, water utilities presented evidence of the cost of equity  
8 using financial data for a similar group of publicly traded gas companies, which at  
9 that time had a higher average beta than the water utility sample. In rejecting this  
10 evidence, the Commission adopted Staff's argument that because the water utility  
11 sample had a lower average beta than the gas utility sample, the cost of equity for  
12 the water utility should be lower.<sup>59</sup>

13 For example, in Arizona Water Company's Eastern Group rate case, Staff  
14 determined, based on an analysis using the CAPM, that the cost of equity for the  
15 sample gas utility group was approximately 100 basis points higher than the water  
16 utility sample group based on the average betas for each industry proxy.<sup>60</sup> The  
17 water utility sample had an average beta of 0.59, while the gas utility sample had  
18 an average beta of 0.69. Therefore, Staff's cost of capital witness in that case,  
19 Mr. Joel Reiker, testified that its estimate of the gas utilities' cost of equity "would  
20 require a *significant downward adjustment*" to make the two industry groups  
21 comparable in terms of market risk.<sup>61</sup> Here, in contrast, a significant upward  
22

23 <sup>59</sup> Decision No. 66849 at 21; *see also Arizona-American Water Company*, Decision No. 67093 (June 30,  
24 2004) at 27.

25 <sup>60</sup> Staff estimated that the cost of equity for the gas utilities was 10.4% using the CAPM, while the cost of  
26 equity for the water utilities was 9.4% – a difference of 100 basis points. *See* Direct Testimony of Joel M.  
Reiker, filed July 8, 2003 in Docket No. W-01445A-02-0619 ("Reiker Dt."), at Schedule JMR-7 and JMR-  
18.

<sup>61</sup> Reiker Dt. at 26 (*italics original*). *See also* Decision No. 66849 at 21.

1 adjustment to the gas utility sample's average cost of equity is necessary to make  
2 the gas utility sample comparable to RUCO's water utility sample.

3 **Q. CAN YOU QUANTIFY THE ADJUSTMENT NEEDED IN THIS CASE TO**  
4 **MAKE THE GAS UTILITIES SAMPLE COMPARABLE TO THE WATER**  
5 **UTILITIES SAMPLE?**

6 A. Yes. By averaging the results of his equity cost estimate for the water utility  
7 sample with his equity cost estimate for the gas utility sample, Mr. Rigsby has  
8 depressed the cost of equity estimates. For example, the average of Mr. Rigsby's  
9 CAPM estimates for the water companies and gas companies are 6.51 percent and  
10 5.69 percent, respectively. This is an 82 basis point difference, which reflects the  
11 relative riskiness of the two sample groups.

12 **Q. HOW WOULD YOU FACTOR IN THE DIFFERENCE IN RISK**  
13 **INDICATED BY THE AVERAGE BETA OF EACH UTILITY GROUP IF**  
14 **YOU WERE TO USE THE GAS UTILITIES?**

15 A. By using the CAPM, as Staff did in the Arizona Water Company case. As I  
16 explained above, the difference between the results produced by Mr. Rigsby's  
17 CAPM model is 82 basis points. Because of the method used by Mr. Rigsby to  
18 implement the CAPM, however, 82 basis points understates the required  
19 adjustment to properly reflect the gas utilities' lower investment risk. If my  
20 method and inputs are used instead, similar to the method used in the  
21 aforementioned Arizona Water Eastern Group case, the risk differential is 120  
22 basis points, calculated as follows:

	<u>Rf</u>		<u>Beta</u>		<u>Rp</u>		<u>K</u>
Historic MRP	5.2%	+	0.67	X	6.5%	=	9.6%
Current MRP	5.2%	+	0.67	X	13.1%	=	<u>14.0%</u>

	<u>Rf</u>	<u>Beta</u>	<u>Rp</u>	<u>K</u>
Average Gas Utility Sample				<u>11.8%</u>
Average Water Utility Sample <sup>62</sup>				<u>13.0%</u>
<b>Difference/Risk Adjustment</b>				<b>1.2%</b>

Given this difference, it is clearly inappropriate to simply average the gas utilities' equity cost with the water utilities' equity cost, as Mr. Rigsby has done. This error assumes that an average gas utility has the same investment risk as an average water utility, which is simply not the case at the present time. As a result, Mr. Rigsby's use of gas utilities depresses the cost of equity for RRUI.

**Q. ARE THERE ANY OTHER INDICATIONS, BASED ON RUCO'S GAS UTILITY SAMPLE, THAT RRUI'S COST OF EQUITY IS CONSIDERABLY HIGHER THAN THE RECOMMENDATIONS OF RUCO AND STAFF?**

**A.** Yes. The Commission recently authorized a 10.0 percent return on equity for Southwest Gas Corporation.<sup>63</sup> Moreover, in August, Staff recommended a 10.0 percent return on equity in the pending rate case for UNS Gas.<sup>64</sup> That case went to hearing last August, and should be decided very shortly. The water utility sample group has significantly more market risk than the gas utility sample group, and therefore has a higher cost of equity. The indicated cost of equity for RRUI, based on the Commission's recent decision for Southwest Gas and Staff's recommendation in the UNS Gas rate case, is 11.2 percent (10% + 1.2%, as shown above). That equity cost is substantially higher than the cost on equity produced by

<sup>62</sup> See Rebuttal Schedule D-4.13.

<sup>63</sup> *Southwest Gas Corporation*, Decision No. 70665 (Dec. 24, 2008).

<sup>64</sup> Surrebuttal Testimony of David C. Parcell, filed July 29, 2009 in Docket No. G-04204A-08-0571.

1 Mr. Rigsby's models, 7.9 percent, or the 9.0 percent equity return he has  
2 recommended for RRUI. Again, it is apparent that something is wrong with the  
3 methods and inputs Mr. Rigsby has used in this case.

4 **B. Criticisms of RUCO's Implementation of the CAPM**

5 **Q. WHAT OTHER CONCERNS DO YOU HAVE WITH RESPECT TO**  
6 **MR. RIGBY'S CAPM ANALYSIS?**

7 A. I have five other concerns with respect to Mr. Rigsby's CAPM analysis. First,  
8 Mr. Rigsby employs a geometric average in calculating the market risk premium in  
9 his CAPM. His choice to use geometric average depresses his cost of equity  
10 estimate downward. As various finance experts have explained, an arithmetic  
11 average is the correct approach to use in estimating the cost of capital.<sup>65</sup> In fact,  
12 the CAPM was developed on the premise of expected returns being averages and  
13 risk being measured with the standard deviation. As Dr. Morin states:

14 Since the [standard deviation] is estimated around the  
15 arithmetic average, and not the geometric average, it is logical  
16 to stay with arithmetic averages to estimate the market risk  
17 premium. In fact, annual returns are uncorrelated over time,  
18 and the objective is to estimate the market risk premium for  
19 the next year, the arithmetic average is the best unbiased  
20 estimate of the premium.<sup>66</sup>

21 My Exhibit TJB-COC-RB3 is an excerpt from Dr. Roger Morin's textbook on  
22 regulatory finance, which provides a detailed discussion of this issue.<sup>67</sup> Dr. Morin  
23 cites several academic studies that explain what the arithmetic average is and why  
24 it's the correct average to adopt when relying on past data. The conclusion of the

24 <sup>65</sup> Richard A. Brealey and Stewart C. Myers, *Principles of Corporate Finance* 156-157 (7th ed. 2003);  
25 Morin, *supra* at 156-157; *Ibbotson SBBI 2009 Valuation Yearbook* 59-62.

25 <sup>66</sup> Morin, *supra*, at 157-157.

26 <sup>67</sup> Morin at 133-43.

1 financial experts is that while the geometric mean is useful in comparing what  
2 happened in the past, it should not be used to determine estimates of expected  
3 future returns, future growth rates, or market risk premiums.

4 **Q. WHAT IS YOUR SECOND CONCERN?**

5 A. Second, Mr. Rigsby incorrectly uses the U.S. Treasury total returns rather than  
6 income returns. As I explained in my direct testimony, the market risk premium is  
7 calculated by subtracting the risk-free rate from the market return.<sup>68</sup> As shown on  
8 Schedule WAR-7, at page 2, attached to Mr. Rigsby's direct testimony, the total  
9 return used to calculate the market risk premium was 5.6 percent. This was the  
10 average total return on an intermediate-term Treasury (1926-2008) as published in  
11 the *2009 Ibbotson SBBI Valuation Edition Yearbook* (Table 2-1). By contrast, the  
12 average income return for an intermediate-term Treasury security was 4.7 percent.

13 The reason that an average income return must be used, rather than the  
14 average total return, is very simple. The CAPM is a risk premium methodology  
15 that is based on the premise that an investor expects to earn a return equal to the  
16 return on a risk-free investment, plus a premium for assuming additional risk that is  
17 proportional to the security's market risk (i.e., its beta). U.S. Treasuries are  
18 commonly used as a proxy for the risk-free rate because they are backed by the  
19 United States government, effectively eliminating default risk. The income return  
20 is the portion of the total return that results from the bond's periodic cash flow, i.e.,  
21 the interest payments. The income return provides an unbiased estimate of the  
22 riskless rate of return because an investor can hold the Treasury security to  
23 maturity and receive fixed interest payments with no capital loss or capital gain. If  
24 the total return on a Treasury security is used instead, additional risk is injected

25  
26 <sup>68</sup> Bourassa COC Dt. at 29.

1 into the CAPM estimate, which is inconsistent with treating the security as a  
2 riskless asset.

3 As explained by *Ibbotson*:

4 Another point to keep in mind when calculating the equity  
5 risk premium is that the income return on the appropriate-  
6 horizon Treasury security, rather than the total return, is used  
7 in the calculation. The total return is comprised of three  
8 return components: the income return, the capital appreciation  
9 return, and the reinvestment return. The income return is  
10 defined as the portion of the total return that results from a  
11 periodic cash flow or, in this case, the bond coupon payment.  
12 The capital appreciation return results from the price change  
13 of a bond over a specific period. Bond prices generally  
14 change in reaction to unexpected fluctuations in yields.  
15 Reinvestment return is the return on a given month's  
16 investment income when reinvested into the same asset class  
17 in the subsequent months of the year. The income return is  
18 thus used in the estimation of the equity risk premium  
19 because it represents the truly riskless portion of the return.<sup>69</sup>

20 As a consequence of incorrectly using U.S. Treasury total returns as well as  
21 geometric average, RUCO's CAPM estimate dramatically understates the cost of  
22 equity for the water utility sample. If an intermediate-term Treasury security is  
23 used as the proxy for the risk-free rate of return, the market risk premium would  
24 increase from 6.1 percent to 6.9 percent using the conceptually correct arithmetic  
25 averages.

26 Third, Mr. Rigsby incorrectly uses a 5-year U.S. Treasury rate as his risk-  
free rate. This depresses Mr. Rigsby's CAPM cost of equity estimates. Use of a  
short-term treasury rate is conceptually incorrect. As Dr. Morin states:

At the conceptual level, because common stock is a long-term  
investment and because cash flows to investors in the form of  
dividends last indefinitely, the yield on very long-term  
government bonds, namely the 30-year Treasury bonds, is the  
best measure of the risk free rate for use in the CAPM and  
risk premium methods. The expected stock return is based

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<sup>69</sup> *Ibbotson* at 75-76.

1 upon long-term cash flows, regardless of an individual's  
2 holding period. Utility asset investments generally have long-  
3 term useful lives and should be correspondingly matched with  
4 longer-term maturity financing instruments. Moreover, short-  
term Treasury bill yields reflect the impact of factors different  
from those influencing the yields on longer term securities  
such as common stock.<sup>70</sup>

5 Currently, the difference in yields between a 5-year U.S. Treasury and a 30-year  
6 U.S. Treasury is over 100 basis points.

7 **Q. WHAT ARE THE FACTORS THAT MAKE USE OF SHORTER TERM**  
8 **RATES DIFFERENT?**

9 A. According to Dr. Morin, "short-term rates are volatile, fluctuate widely, and are  
10 subject to more random disturbances than long-term rates leading to volatile and  
11 unreliable equity returns."<sup>71</sup> He goes on to state that "on grounds of stability and  
12 consistency, the yields on long-term Treasury bonds match more closely with  
13 expected common stock returns."<sup>72</sup> For example, the Federal Reserve recently  
14 announced that it will continue to hold interest rates down to support economic  
15 recovery, resulting in extremely low short- and intermediate-term Treasury rates –  
16 precisely the type of manipulation that Dr. Morin warns of in his text on regulatory  
17 finance, quoted above.<sup>73</sup>

18 **Q. WHAT IS THE FOURTH PROBLEM WITH MR. RIGSBY'S CAPM**  
19 **ESTIMATES?**

20 A. Mr. Rigsby has ignored current market risk. This Commission has consistently  
21 approved the use of a current market risk premium in implementing the CAPM in  
22 water and wastewater utility rate cases. For example, in Chaparral City Water  
23

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24 <sup>70</sup> Morin at 151-152.

25 <sup>71</sup> *Id.* at 152.

26 <sup>72</sup> *Id.*

<sup>73</sup> *See, e.g.,* "Federal Reserve holds rates steady," Yahoo Finance (January 27, 2010).

1 Company's 2005 rate case,<sup>74</sup> the Commission adopted Staff's recommended cost of  
2 equity, which used an historic market risk premium and a current market risk  
3 premium in implementing the CAPM.<sup>75</sup> In this case, Mr. Manrique has developed  
4 his CAPM estimate using a current market risk premium.<sup>76</sup> Ignoring current  
5 market risk, RUCO has relied exclusively on incorrectly calculated historic market  
6 risk premiums.

7 Changes in the current market risk premium have been a significant factor in  
8 the cost of equity authorized by the Commission for water and wastewater utilities.  
9 In Arizona Water Company's Eastern Group case, filed in 2002, Staff computed a  
10 current market risk premium of 13.1 percent in its CAPM estimate, and relied on  
11 that market risk premium in estimating a cost of equity of 9.2 percent, using the  
12 same six sample water utilities.<sup>77</sup> At that time, the country was in the midst of a  
13 recession, and, according to Staff, interest rates had fallen to the lowest levels since  
14 the 1950s.<sup>78</sup> Moreover, the average beta of Staff's water utility sample group was  
15 only 0.59 at that time, indicating that investment risk for the water utility industry  
16 was low relative to the market.<sup>79</sup>

17 Two years later, Arizona Water Company filed a rate case for its Western  
18 Group systems. Interest rates had increased from the levels in 2003, and the  
19 average beta of the Staff's sample utilities had increased as well, indicating greater  
20 investment risk. However, Staff's cost of equity estimate was virtually identical to  
21

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22 <sup>74</sup> Decision No. 68176.

23 <sup>75</sup> See Direct Testimony of Alejandro Ramirez, filed March 22, 2005 in Docket No. W-02113A-04-0616;  
Surrebuttal Testimony of Alejandro Ramirez, filed May 5, 2005 in Docket No. W-02113A-04-0616.

24 <sup>76</sup> Manrique Dt. at 29 and Schedule JMC-3.

25 <sup>77</sup> Decision No. 66849 at 21; *see also* Reiker Dt. at 24-25.

26 <sup>78</sup> See Reiker Dt. at 5.

<sup>79</sup> See *Id.* at 23; *see also* Decision No. 66849 at 20.

1 the Eastern Group case, 9.1 percent.<sup>80</sup> The primary reason was that Staff's current  
2 market risk premium had dropped from 13.1 percent to 7.8 percent.<sup>81</sup> The  
3 Commission, in adopting Staff's CAPM estimate, relied on this change, explaining  
4 that "while interest rates have gone up, the cost of equity for the market as a whole  
5 has decreased, while the cost of equity for utilities has remained relatively  
6 stable."<sup>82</sup>

7 Even more recently, in Black Mountain Sewer Corporation's rate case, the  
8 Commission relied on a further decline in the current market risk premium to  
9 support Staff's recommended 9.6 percent cost of equity.<sup>83</sup> In that case, interest  
10 rates and the average beta of the sample group were even higher than 2003 levels,  
11 and while the result produced by Staff's models was higher, the increase was not as  
12 large as would be expected.<sup>84</sup> The reason was that the current market risk premium  
13 had decreased to only 5.7 percent, reducing the result produced by the CAPM.  
14 Thus, while interest rates increased and the investment risk of the water utility  
15 sample had increased, Staff explained that those increases were offset by a decline  
16 in the current market risk premium, indicating that the overall risk of the market  
17 had declined.<sup>85</sup>

18 As these decisions show, not only has the Commission consistently  
19 considered the current market risk premium, but changes in the current market risk

20 <sup>80</sup> Surrebuttal Testimony of Alejandro Ramirez, filed May 25, 2005 in Docket No. W-01445A-04-0650, at  
21 Schedule AXR-8.

22 <sup>81</sup> *Id.*

23 <sup>82</sup> *Arizona Water Company (Western Group)*, Decision No. 68302 (Nov. 14, 2005).

24 <sup>83</sup> Decision No. 69164.

25 <sup>84</sup> In the Black Mountain case, the intermediate-term Treasury used by Staff in its CAPM was 4.8 percent,  
26 while the average beta of Staff's sample group was 0.74. Surrebuttal Testimony of Pedro M. Chaves, filed  
May 4, 2006 in Docket No. SW-02361A-05-0657 ("Chaves Sb."), at Schedule PMC-2. In Arizona  
Water's Eastern Group case, in contrast, the intermediate-term Treasury used by Staff in its CAPM was  
3.3 percent, while the average beta of Staff's sample group was 0.59. Reiker Dt. at Schedule JMR-7.

<sup>85</sup> Decision No. 69164 at 25-26.

1 premium have had a major impact on the cost of equity, offsetting changes in  
2 interest rates and water utility betas in recent cases. Even Mr. Rigsby  
3 acknowledged the importance of considering current market conditions in  
4 determining the cost of equity:

5 Consideration of the economic environment is necessary  
6 because trends in interest rates, present and projected levels  
7 of inflation, and the overall state of the U.S. economy  
8 determine the rate of return that investors earn on their  
9 invested funds. Each of these factors represent potential risks  
that must be weighed when estimating the cost of equity  
capital for a regulated utility and are, most often, the same  
factors considered by individuals who are also investing in  
non-regulated entities.<sup>86</sup>

10 In light of the current volatility in the financial markets, the failure to  
11 consider current market risk grossly distorts the CAPM result. As previously  
12 stated, Staff normally utilizes the current market risk premium in its CAPM  
13 estimate, and Mr. Manrique has done so again in this case. Consequently, RUCO's  
14 use of two historic market risk premiums (one of which is conceptually wrong for  
15 the reasons given previously) without considering the impact of current market risk  
16 on investor expectations invalidates RUCO's cost of equity estimate.

17 **Q. WHAT IS YOUR FIFTH CONCERN WITH MR. RIGSBY'S CAPM**  
18 **ANALYSIS?**

19 **A.** Fifth, and perhaps most importantly, three out of four of Mr. Rigsby's CAPM  
20 estimates (one for water and two for the gas utilities), as well as his overall CAPM  
21 result, are at or below the current cost of Baa investment grade bonds. The current  
22 cost of investment grade bonds in 6.2 percent.<sup>87</sup> The following are the results of  
23 Mr. Rigsby's CAPM as shown on WAR-1, page 3 of 3:

24 Geometric mean CAPM estimate - water companies 5.72%

25 <sup>86</sup> Rigsby Dt. at 38-39.

26 <sup>87</sup> Federal Reserve, January 15, 2010.

1	Arithmetic mean CAPM estimate - water companies	7.29%
2	Geometric mean CAPM estimate - gas companies	5.05%
3	Arithmetic mean CAPM estimate - gas companies	<u>6.32%</u>
4	Overall CAPM result	6.10%

5  
6 A simple reality check should have caused Mr. Rigsby to question his inputs to the  
7 CAPM. This further illustrates that RUCO's methods are not only biased  
8 downward, but should not be used.

9 **C. Criticisms of RUCO's Use of Hypothetical Capital Structure**

10 **Q. WHY DOES MR. RIGSBY RECOMMEND A HYPOTHETICAL CAPITAL**  
11 **STRUCTURE?**

12 A. Mr. Rigsby explains that his hypothetical capital structure is intended to account  
13 for RRUI's lower financial risk as compared to his sample of publicly traded water  
14 companies.<sup>88</sup> His sample water utilities had approximately 51.4 percent debt and  
15 48.6 percent equity.<sup>89</sup> He advocates use of a 40 percent debt and 60 percent equity  
16 rather than a 51.4 percent debt and 48.6 percent equity because he believes that the  
17 higher level of equity in his hypothetical capital structure will compensate the  
18 Company's shareholder for any perceived higher levels of business risk.<sup>90</sup> In  
19 reality, Mr. Rigsby's hypothetical capital structure in and of itself increases the risk  
20 to investors, and no amount of manipulation of the percentages of debt and equity  
21 can compensate for that risk.

22  
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24 

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<sup>88</sup> Rigsby Dt at 55.

25 <sup>89</sup> *Id.* at 54.

26 <sup>90</sup> *Id.* at 55.

1 **Q. PLEASE EXPLAIN WHAT YOU MEAN, MR. BOURASSA.**

2 A. Put bluntly, the use of a hypothetical capital structure is confiscatory. By  
3 recommending a capital structure that assumes a higher amount of debt for rate  
4 making than actually exists, Mr. Rigsby effectively turns the investor's equity  
5 investment into debt and then provides a return on that equity investment equal to  
6 only 6.26 percent, which is Mr. Rigsby's proposed hypothetical debt cost.

7 **Q. BUT DOESN'T MR. RIGSBY PROPOSE A HYPOTHETICAL CAPITAL**  
8 **STRUCTURE TO ACCOUNT FOR THE DIFFERENCE IN FINANCIAL**  
9 **RISK BETWEEN RRUI AND HIS WATER UTILITY SAMPLE GROUP?**

10 A. Yes. And Mr. Rigsby ultimately recommends a cost of equity of 9.0 percent, even  
11 though the average result produced by his models is 7.9 percent. By virtue of the  
12 hypothetical capital structure, however, Mr. Rigsby actually recommends an equity  
13 return of 7.90 percent – Mr. Rigsby's WACC. This implies a downward financial  
14 risk adjustment of 110 basis points (9.0% – 7.9%).

15 **Q. IS A FINANCIAL RISK ADJUSTMENT OF 110 BASIS POINTS**  
16 **JUSTIFIED BASED ON MR. RIGSBY'S METHODS?**

17 A. No. Had Mr. Rigsby performed a Hamada-type financial risk adjustment using his  
18 CAPM methods, his financial risk adjustment would have been about 60 basis  
19 points. Subtracting this from his overall recommended cost of equity of 9.0  
20 percent would have put his final estimate at 8.40 percent. This is 50 basis points  
21 higher than his WACC of 7.90 percent.

22 **Q. DOESN'T THE COMMISSION NORMALLY RELY ON THE HAMADA**  
23 **FORMULA TO ESTIMATE FINANCIAL RISK?**

24 A. Yes. As I previously discussed, Mr. Manrique did so in this case, although he  
25 erroneously used book values rather than market values in the formula.

26

1 **Q. WHAT ELSE IS WRONG WITH RUCO'S HYPOTHETICAL CAPITAL**  
2 **STRUCTURE?**

3 A. Another RUCO witness, Mr. Coley, imputes hypothetical interest expense of  
4 nearly \$250,000 through interest synchronization to RRUI. This fictional interest  
5 expense artificially lowers the Company's income taxes and produces a lower  
6 revenue requirement. Thus, the lower return on equity capital combined with the  
7 lower revenue requirement resulting from lower income taxes produce a 6.9  
8 percent return on equity. So, the implied financial risk adjustment based on  
9 Mr. Rigby's recommendations is actually a negative equity risk premium of 210  
10 basis points. (9.0% - 6.9%). In contrast, the Hamada formula produces a  
11 downward adjustment of 60 basis points.

12 In short, it is no secret why RUCO proposes a hypothetical capital structure  
13 as opposed to computing a financial risk adjustment using the Hamada formula.  
14 RUCO obtains a dramatically larger, downward adjustment to the cost of equity  
15 than can be justified using more straightforward methods like the Hamada formula,  
16 which does not suffer from the creation of hypothetical debt, a hypothetical debt  
17 cost, and a hypothetical interest deduction for computing income taxes. For this  
18 reason, Mr. Rigsby's recommended cost of equity of 9.0 percent is simply fiction.

19 **Q. HAS FINANCIAL RISK BEEN ACCOUNTED FOR BY USING A**  
20 **HYPOTHETICAL CAPITAL STRUCTURE IN PRIOR WATER AND**  
21 **WASTEWATER RATE CASES?**

22 A. To my knowledge, only in Gold Canyon Sewer Company's rate case, which is on  
23 appeal. In the last Black Mountain Sewer rate case, the Commission rejected the  
24 exact position advanced by RUCO in this case as "results oriented."<sup>91</sup> Instead, the  
25

26 <sup>91</sup> See Decision No. 69164 at 20.

1 “typical” method, as RUCO recognized in this case, is by a direct adjustment to the  
2 cost of equity calculated using the Hamada formula.

3 **Q. ARE DOWNWARD ADJUSTMENTS TO THE COST OF EQUITY FOR**  
4 **FINANCIAL RISK COMMON?**

5 A. No. Whether an adjustment is made often depends on whether a reasonable return  
6 on equity is afforded to the utility based on consideration of all of the evidence in  
7 the case. In some cases, even though the Hamada formula indicates a higher  
8 downward adjustment, the adjustment to the cost of equity is less than what may be  
9 indicated by the Hamada formula. In the Bella Vista Water Company case,<sup>92</sup> for  
10 example, the Hamada formula indicated an 89 basis point reduction to the cost of  
11 equity which would have resulted in an 8.4 percent return on equity. However,  
12 Staff did not recommend an 8.4 percent cost of equity, but rather recommended the  
13 low end of its cost of equity range of 9.1 percent to 9.5 percent.<sup>93</sup> The Commission  
14 ultimately adopted Staff’s recommended 9.1 percent equity return.<sup>94</sup> In the prior  
15 Black Mountain Sewer Company rate case,<sup>95</sup> Staff’s cost of equity analysis  
16 produced an indicated cost of equity of 9.60 percent (before adjusting for financial  
17 risk). Staff’s calculated financial risk adjustment using the Hamada formula was  
18 50 basis points, but Staff did not recommend a downward adjustment in that case.<sup>96</sup>  
19 Ultimately, the Commission adopted a 9.6 percent return on equity.<sup>97</sup>  
20  
21

22 <sup>92</sup> *Bella Vista Water Company*, Decision No. 65350 (November 1, 2002).

23 <sup>93</sup> See Direct Testimony of Joel M. Reiker, filed April 29, 2002 in Docket No. W-02465A-01-0776, at 26-  
27.

24 <sup>94</sup> See Decision No. 65350 at 23.

25 <sup>95</sup> See Decision No. 69164.

26 <sup>96</sup> See Chaves Sb. at Schedule PMC-2.

<sup>97</sup> Decision No. 69164 at 27.

1           The bottom line is that adjustments for financial risk must be used  
2 cautiously. Consideration must always be given to whether the result is fair and  
3 reasonable under the circumstances. One reason for this is that cost of capital  
4 analyses are based on financial data for large, publicly traded water companies,  
5 which are not directly comparable to relatively small water and sewer utilities in  
6 Arizona.<sup>98</sup> There are also considerations regarding the requirements set forth in the  
7 *Hope* and *Bluefield* cases.

8 **Q. PLEASE COMMENT ON MR. RIGSBY'S HYPOTHETICAL COST OF**  
9 **DEBT.**

10 A. As already mentioned, Mr. Rigsby's hypothetical cost of debt, applicable to 40  
11 percent of his hypothetical capital structure, is 6.26 percent. He bases this debt  
12 cost on the average weighted cost of debt for the large, publicly traded water  
13 utilities in his water proxy group. As I previously discussed, those water utilities  
14 have, on average, net plant of \$1.47 billion and revenue of \$488 million.  
15 Moreover, because of their size and the fact that they issue debt in the public  
16 markets, these utilities have published bond ratings. Mr. Rigsby assumes that  
17 RRUI could raise debt capital at the same cost as these entities. I seriously doubt  
18 that it could, and note that Mr. Rigsby has presented no evidence to support his  
19 assumption.

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23  
24 <sup>98</sup> RRUI has more zero cost capital in its capitalization than the large publicly traded water utilities. All  
25 things being equal, this results in a lower capital cost per dollar of plant-in service. As previously  
26 discussed, the higher proportions of zero cost capital do not come without risk to the Company. CIAC  
funded plant receives no recovery of depreciation in rates. This plant will have to eventually be replaced.  
Further, earnings are lower which means a lower earnings cushion to pay debt holders, absorb increases in  
operating expenses as well as lower cash flows available to make plant replacements.

1           A.     Criticisms of RUCO's Implementation of the DCF

2     Q.     DO YOU HAVE ANY CONCERNS REGARDING MR. RIGSBY'S DCF  
3     ESTIMATES?

4     A.     Yes. RUCO's method of estimating his growth rates is subjective and cannot be  
5     verified or replicated, in contrast to the methods I use. In his DCF model,  
6     Mr. Rigsby relies on projected sustainable growth in order to estimate the dividend  
7     growth rate. The difference, however, is that the key inputs necessary to estimate  
8     the internal or retention growth rate are not disclosed by Mr. Rigsby.

9     Q.     WHAT ARE THOSE INPUTS?

10    A.     Internal or retention growth is the expected growth in dividends due to the  
11    retention of earnings. Retention growth is dependent on the percentage of earnings  
12    retained (the retention ratio) and the expected return on common equity that is  
13    applied to the retained earnings. Thus, the internal growth rate formula is:

14                 Retention growth rate =  $br$

15                 Where:  $b$  = the retention ratio (1-dividend payout ratio)

16                          $r$  = the expected return on common equity

17    The problem with Mr. Rigsby's implementation of this formula is that he does not  
18    disclose the retention ratio or the expected return on common equity used to  
19    calculate the retention growth rate. As a result, it is impossible to verify the  
20    accuracy of his calculation of internal growth ( $br$ ).

21                 Mr. Rigsby lists various sources of data,<sup>99</sup> and he also attaches various  
22    materials to his direct testimony. But there is no explanation of how any of these  
23    materials were actually used. This approach effectively allows Mr. Rigsby to  
24    simply select a growth rate that falls somewhere within a broad range and cannot  
25    be verified.

26                 <sup>99</sup> Rigsby Dt. at 25-30.

1 **Q. DO YOU HAVE ANY FURTHER COMMENTS?**

2 A. Yes. Notably, Mr. Rigsby's WACC, which is based upon a 40/60 debt/equity  
3 capital structure, a cost of debt of 6.2 percent and a cost of equity of 9.0 percent, is  
4 7.90 percent. The average of his DCF and CAPM results also happens to be 7.90  
5 percent.<sup>100</sup> I don't think this is simply a remarkable coincidence. Instead, I believe  
6 that Mr. Rigsby's recommendations are contrived and results oriented. As I  
7 previously testified, the Commission should reject this transparent attempt to  
8 reduce RRUI's equity return through capital structure manipulation and fictitious  
9 interest expense.

10 **Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY ON COST OF**  
11 **CAPITAL?**

12 A. Yes.

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<sup>100</sup> See RUCO Schedule WAR-1, page 1 of 3 and Schedule WAR-1, page 3 of 3.

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

**THOMAS J. BOURASSA**  
**REBUTTAL TESTIMONY**  
**(COST OF CAPITAL)**  
**February 1, 2010**

**Exhibit TJB-COC-RB1**

Application No.: 07-05-007  
Exhibit No.: \_\_\_\_\_  
Witness: Gary H. Hayes  
Date: August 28, 2007

Exhibit	<u>4/D</u>
CPUC Proceeding	<u>A-07-05-007 ATAL</u>
Sponsor/Witness	<u>SDGE-07 HAYES</u>
Date Ident.	<u>7/12/07</u>
Recd.	<u>7/17/07</u>
Michael J. Galvin Administrative Law Judge	

Application No. 07-05-007  
Exhibit No. SDGE-5

**SAN DIEGO GAS & ELECTRIC COMPANY**  
**PREPARED REBUTTAL TESTIMONY OF**  
**GARY H. HAYES**

**BEFORE THE PUBLIC UTILITIES COMMISSION**  
**OF THE STATE OF CALIFORNIA**

August 28, 2007

## Appendix B

### Analyst Growth-Forecast Research

This survey, prepared at the request of SDG&E by Dr. James H. Vander Weide, Research Professor of Finance and Economics at Duke University, summarizes nine articles that address whether analysts' growth forecasts are overly optimistic. Seven of the nine articles reviewed find no evidence that analysts' growth forecasts are overly optimistic. Two find evidence of optimism, but also conclude that optimism has been declining significantly over time. Of these two studies, one finds that analysts' forecasts for the S&P 500 are pessimistic for the last four years of the study. The summaries are listed in chronological order.

Crichfield, T., Thomas Dyckman and Josef Lakonishok (1978). "An evaluation of security analysts' forecasts." *The Accounting Review* 53(3): 651-668.

The authors study the ability of security analyst to provide unbiased estimates of earnings per share and compare analysts' forecasts to forecasts made using simple statistical models based on historical EPS data. Their study is based on data during the period 1967 - 1976 from the *Earnings Forecaster* published by Standard & Poor's, and the final sample consists of 46 firms. The authors conclude that the analysts perform well in terms of forecast accuracy when compared to the forecasts produced by five statistical models. Their tests also support the hypothesis that analysts predict EPS changes without significant systematic bias.

Elton, E. J., Martin J. Gruber and Mustafa N. Gultekin (1984). "Professional expectations: accuracy and diagnosis of errors." *Journal of Financial and Quantitative Analysis* 19(4): 351-363.

The authors examine five questions regarding analysts' EPS forecasts: (1) what is the size and pattern of analysts' errors; (2) what is the source of errors; (3) are some firms more difficult to predict than others; and (4) is there an association between errors in forecasts and divergence of analysts' estimates. The authors use the I/B/E/S database of earnings forecasts for a sample of 414 firms for the three years 1976 through 1978, and they compare the I/B/E/S forecasts to actual earnings for each of the next two years. The authors conclude that analysts were accurate in estimating the average level of growth in

earnings for all stocks in the sample. However, analysts did have greater divergence of opinion for some industries, and the diversion in analysts' opinions is positively related to forecast error.

Givoly, D., and Josef Lakonishok (1984). "Properties of analysts' forecasts of earnings: a review and analysis of the research." *Journal of Accounting Literature*.3: 119-148.

Givoly and Lakonishok review the status of the research on security analysts' forecasts up to 1984, and they conclude that: (1) the performance of analysts' forecasts is in general superior to that of statistical models, a result that is consistent with a rational market for forecasting services, where the higher costs of financial analysts' forecasts is compensated with better performance; and (2) financial analysts' forecasts incorporate the past history of realizations and predictions in an unbiased manner.

Brown, L. D. (1997). "Analyst forecasting errors: additional evidence." *Financial Analysts Journal* November/December: 81-88.

Using data from I/B/E/S for the period 1985 - 1996, Brown studies whether: (1) analysts' forecasts are optimistic; (2) potential optimistic bias is constant over time; and (3) analysts' forecasting errors are smaller for S&P 500 firms, firms with large market capitalization, firms with greater analyst following, and firms in particular industries. For the entire period, Brown finds that model and median values of analysts' forecast errors are zero, but mean errors are negative. He finds that the negative mean forecast error results from a relatively small number of large forecast errors, indicating that these errors are associated with large accounting write-offs for a small number of firms in certain years. In addition, he finds that: (1) the mean analyst forecast error decreases significantly over the period of his study; and (2) optimistic bias of mean forecasts for S&P 500 firms is significantly less than optimistic bias for all firms, and, indeed, analysts for S&P 500 firms are, on average, pessimistic for the years 1993 - 1996; (3) optimistic bias is less for large firms than for small firms; and (4) optimistic bias is less for firms in certain industries compared to other industries, with the best forecasts for the following industries: food and related products, transportation equipment, communications, and electric, gas, sanitary services.

Keane, M. P., and David B. Runkle (1998). "Are financial analysts' forecasts of corporate profits rational." *The Journal of Political Economy* 106(4): 768-805.

Keane and Runkle demonstrate that previous inferences regarding analyst optimism are strongly affected by correlation in analyst forecast errors across forecasts and firms and by unexpected accounting write-offs and special charges. They develop a new estimator of bias that gives correct statistical inference when forecast errors are correlated, and they show that previous studies' failure to account for correlation led to a conclusion that analysts are optimistic. Using an I/B/E/S database over the period 1983 - 1991, they also demonstrate that a correct test for analyst optimism leads to the conclusion that analysts are unbiased.

In addition to problems caused by correlation in analysts' earnings forecasts, the authors also address the problems caused by unanticipated accounting accruals. Similar to Abarbanell (2003), they demonstrate that statistical tests of optimism are distorted by discretionary special accounting charges in the forecast period. Failure to adjust for discretionary special accounting charges in the company sample under study distorts statistical results in the direction of favoring the conclusion of biased analysts' forecasts. The authors conclude that the evidence in their paper strongly supports the view that professional stock market analysts make rational forecasts of earnings per share for the companies they follow.

Abarbanell, J., and Reuven Lehavy (2003). "Biased forecasts or biased earnings? The role of reported earnings in explaining apparent bias and over/underreaction in analysts' earnings forecasts." *Journal of Accounting & Economics* 36: 105-146.

Abarbanell and Lehavy investigate whether the apparent bias in analysts' earnings forecasts that appears in some research studies is explained by large accounting write-offs and special charges made by a small number of sample firms. The Abarbanell/Lehavy study is based on a large database of consensus earnings forecasts provided by Zacks for the period 1985 – 1998. When Abarbanell/Lehavy examine the distribution of analysts' forecast errors over this time period, they find that the only statistical indication that supports the argument for analyst optimism is a fairly large negative mean forecast error. In contrast, the median error is zero, suggesting unbiased forecasts, while the percentage of positive errors is significantly greater than the percentage of negative errors (48 percent versus 40 percent), suggesting apparent analyst pessimism. Similar to Brown (1997), Abarbanell/Lehavy explain this phenomenon by observing that the left tail (the optimistic tail of the distribution) contains significantly more extreme errors of greater magnitude than the right tail (the pessimistic tail) of the distribution. Abarbanell/Lehavy's conclusion is supported by a correlation study that examines the relationship between extreme negative forecast errors with extreme negative unexpected accruals. The correlation study indicates a direct connection between the extreme errors in the left tail of the error distribution and unexpected accounting accruals. Once the effect of accounting accruals is removed the study, Abarbanell/Lehavy find that the mean forecast error becomes zero, indicating that there is no tendency for analysts' forecasts to be optimistic.

Ciccone, S. J. (2005). "Trends in analyst earnings forecast properties." *International Review of Financial Analysis* 14: 1-22.

Ciccone examines trends in analysts forecast dispersion, error, and optimism using First Call 120,022 quarterly observations from 1990 – 2001. He finds that analyst optimism declined significantly over the period of his study and that analysts' forecasts for profitable firms became pessimistic in the last several years of his study period. He concludes that analyst optimism is no longer an issue and that, "[i]f anything, analysts have a new concern: earnings pessimism for profit firms."

Clarke, J., Stephen P. Ferris, Narayanan Jayaraman, and Jinsob Lee (2006). "Are analyst recommendations biased? Evidence from corporate bankruptcies." *Journal of Financial and Quantitative Analysis* 41(1): 169-196.

The authors test whether a bias exists in analysts' recommendations for firms that filed for bankruptcy in the period 1995 – 2001. Their database consists of a final set of 289 firms that filed for bankruptcy during this period and that have I/B/E/S analysts' forecasts. As a comparison sample, the authors identify a matching group of firms with the same SIC code and that have a similar likelihood of bankruptcy as measured by the Altman z-score. The authors test for optimism by comparing the analysts' recommendations for the companies in the bankrupt group to the matched sample of companies in the non-bankrupt group in five categories—strong buy, buy, hold, under-perform, and sell. They find that, on average, analysts' recommendations are significantly lower for the companies that eventually go bankrupt than for the matched companies that do not file for bankruptcy. From this comparison, the authors conclude that the hypothesis that analysts' recommendations are optimistic should be rejected.

Yang, R., and Yaw M. Mensah (2006). "The effect of the SEC's regulation fair disclosure on analyst forecast attributes." *Journal of Financial Regulation and Compliance* 14(2): 192-209.

Regulation fair disclosure ("Reg. FD"), issued on October 23, 2000, prohibits selective disclosure of material non-public information to financial analysts, institutional investors, and others prior to making it available to the general public. Before the implementation of Reg. FD, most conference calls with analysts were accessible only to certain analysts and institutional investors. The authors examine whether Reg. FD has influenced analysts' earnings forecast accuracy and forecast dispersion for companies that routinely conduct conference calls as well as for companies that do not conduct conference calls. Using I/B/E/S forecast data for the period October 1998 through September 2002 and 12,806 firm-quarter observations in pre-Reg FD period and 13,104 firm-quarter observations in the post-Reg FD period, the authors examine the descriptive statistics of analysts' forecast errors in the pre-Reg. FD and post-Reg. FD environments. They conclude that Reg. FD had little influence on analysts' forecast errors: the mean forecast error was approximately zero in both the pre-and post-Reg. FD periods.

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

**THOMAS J. BOURASSA**  
**REBUTTAL TESTIMONY**  
**(COST OF CAPITAL)**  
**February 1, 2010**

**Exhibit TJB-COC-RB2**



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

**THOMAS J. BOURASSA**  
**REBUTTAL TESTIMONY**  
**(COST OF CAPITAL)**  
**February 1, 2010**

**Exhibit TJB-COC-RB3**

**NEW  
REGULATORY  
FINANCE**

**Roger A. Morin, PhD**



## **Appendix 4-A**

### **Arithmetic versus Geometric Means in Estimating the Cost of Capital**

The use of the arithmetic mean appears counter-intuitive at first glance, because we commonly use the geometric mean return to measure the average annual achieved return over some time period. For example, the long-term performance of a portfolio is frequently assessed using the geometric mean return.

But performance appraisal is one thing, and cost of capital estimation is another matter entirely. In estimating the cost of capital, the goal is to obtain the rate of return that investors expect, that is, a target rate of return. On average, investors expect to achieve their target return. This target expected return is in effect an arithmetic average. The achieved or retrospective return is the geometric average. In statistical parlance, the arithmetic average is the unbiased measure of the expected value of repeated observations of a random variable, not the geometric mean. This appendix formally illustrates that only arithmetic averages can be used as estimates of cost of capital, and that the geometric mean is not an appropriate measure of cost of capital.

The geometric mean answers the question of what constant return you would have had to achieve in each year to have your investment growth match the return achieved by the stock market. The arithmetic mean answers the question of what growth rate is the best estimate of the future amount of money that will be produced by continually reinvesting in the stock market. It is the rate of return which, compounded over multiple periods, gives the mean of the probability distribution of ending wealth.

While the geometric mean is the best estimate of performance over a long period of time, this does not contradict the statement that the arithmetic mean compounded over the number of years that an investment is held provides the best estimate of the ending wealth value of the investment. The reason is that an investment with uncertain returns will have a higher ending wealth value than an investment which simply earns (with certainty) its compound or geometric rate of return every year. In other words, more money, or terminal wealth, is gained by the occurrence of higher than expected returns than is lost by lower than expected returns.

In capital markets, where returns are a probability distribution, the answer that takes account of uncertainty, the arithmetic mean, is the correct one for estimating discount rates and the cost of capital.

While the geometric mean is appropriate when measuring performance over a long time period, it is incorrect when estimating a risk premium to compute the cost of capital.

**TABLE 4A-1  
GEOMETRIC VS. ARITHMETIC RETURNS**

	Stock A	Stock B
1996	50.0%	11.61%
1997	-54.7%	11.61%
1998	98.5%	11.61%
1999	42.2%	11.61%
2000	-32.3%	11.61%
2001	-39.2%	11.61%
2002	153.2%	11.61%
2003	-10.0%	11.61%
2004	38.9%	11.61%
2005	20.0%	11.61%
Standard Deviation	64.9%	0.0%
Arithmetic Mean	26.7%	11.6%
Geometric Mean	11.6%	11.6%

### Theory

The geometric mean measures the magnitude of the returns, as the investor starts with one portfolio and ends with another. It does not measure the variability of the journey, as does the arithmetic mean. The geometric mean is backward looking. There is no difference in the geometric mean of two stocks or portfolios, one of which is highly volatile and the other of which is absolutely stable. The arithmetic mean, on the other hand, is forward-looking in that it does impound the volatility of the stocks.

To illustrate, Table 4A-1 shows the historical returns of two stocks, the first one is highly volatile with a standard deviation of returns of 65% while the second one has a zero standard deviation. It makes no sense intuitively that the geometric mean is the correct measure of return, one that implies that both stocks are equally risky since they have the same geometric mean. No rational investor would consider the first stock equally as risky as the second stock. Every financial model to calculate the cost of capital recognizes that investors are risk-averse and avoid risk unless they are adequately compensated for undertaking it. It is more consistent to use the mean that fully impounds risk (arithmetic mean) than the one from which risk has been removed (geometric mean). In short, the arithmetic mean recognizes the uncertainty in the stock market while the geometric mean removes the uncertainty by smoothing over annual differences.

### Empirical Evidence

If both the geometric and arithmetic mean returns over the 1926–2004 data are regressed against the standard deviation of returns for the firms in the

deciles, the arithmetic mean outperforms the geometric mean in this statistical regression. Moreover, the constant of arithmetic mean regression matches the average Treasury bond rate and therefore makes economic sense while the constant for the geometric mean matches nothing in particular. This is simply because the geometric mean is stripped of volatility information and, as a result, does a poor job of forecasting returns based on volatility.

The following illustration is frequently invoked in defense of the geometric mean. Suppose that a stock's performance over a two-year period is representative of the probability distribution, doubling in one year ( $r_1 = 100\%$ ) and halving in the next ( $r_2 = -50\%$ ). The stock's price ends up exactly where it started, and the geometric average annual return over the two-year period,  $r_g$ , is zero:

$$\begin{aligned} 1 + r_g &= [(1 + r_1)(1 + r_2)]^{1/2} \\ &= [(1 + 1)(1 - .50)]^{1/2} = 1 \\ r_g &= 0 \end{aligned}$$

confirming that a zero year-by-year return would have replicated the total return earned on the stock. The expected annual future rate of return on the stock is not zero, however. It is the arithmetic average of 100% and -50%,  $(100 - 50)/2 = 25\%$ . There are two equally likely outcomes per dollar invested: either a gain of \$1 when  $r = 100\%$  or a loss of \$0.50 when  $r = -50\%$ . The expected profit is  $(\$1 - \$0.50)/2 = \$0.25$  for a 25% expected rate of return. The profit in the good year more than offsets the loss in the bad year, despite the fact that the geometric return is zero. The arithmetic average return thus provides the best guide to expected future returns.

### What Academics Have to Say

Bodie, Kane, and Marcus (2005) cite:

Which is the superior measure of investment performance, the arithmetic average or the geometric average? The geometric average has considerable appeal because it represents the constant rate of return we would have needed to earn in each year to match actual performance over some past investment period. It is an excellent measure of *past* performance. However, if our focus is on future performance, then the arithmetic average is the statistic of interest because it is an unbiased estimate of the portfolio's expected future return (assuming, of course, that the expected return does not change over time). In contrast, because the geometric return over a sample period is always less than the arithmetic mean,

it constitutes a downward-biased estimator of the stock's expected return in any future year.

Again, the arithmetic average is the better guide to future performance.

Another way of stating the Bodie, Kane, Marcus argument in favor of the arithmetic mean is that it is the best estimate of the future value of the return distribution because it represents the expected value of the distribution. It is most useful for determining the central tendency of a distribution at a particular time, that is, for cross-sectional analysis. The geometric mean, on the other hand, is best suited for measuring an investment's compound rate of return over time, that is, for time-series analysis. This is the same argument made by Ibbotson Associates (2005) where it is shown, using probability theory, that future terminal wealth is given by compounding the arithmetic mean, and not the geometric mean. In other words, if we accept the past as prologue, the best estimate of a future year's return based on a random distribution of the prior years' returns is the arithmetic average. Statistically, it is our best guess for the holding-period return in a given year.

Brigham and Ehrhardt (2005) in their widely used corporate finance text point out that the arithmetic average is more consistent with CAPM theory, as one of its key underpinning assumptions is that investors are supposed to focus, in their portfolio decisions, upon returns in the next period and the standard deviation of this return. To the extent that this next period is one year, the preference for the arithmetic mean, which derives from a set of single one year period returns, follows. It is also noteworthy that one of the crucial assumptions inherent in the CAPM is that investors are single-period expected utility of terminal wealth maximizers who choose among alternative portfolios on the basis of each portfolio's expected return and standard deviation.

Brealey, Myers, and Allen (2006) in their leading graduate textbook in corporate finance opt strongly for the arithmetic mean. The authors illustrate the distinction between arithmetic and geometric averages and conclude that arithmetic averages are appropriate when estimating the cost of capital:

The proper uses of arithmetic and compound rates of return from past investments are often misunderstood. Therefore, we call a brief time-out for a clarifying example.

Suppose that the price of Big Oil's common stock is \$100. There is an equal chance that at the end of the year the stock will be worth \$90, \$110, or \$130. Therefore, the return could be -10 percent, +10 percent or +30 percent (we assume that Big Oil does not pay a dividend). The expected return is  $1/3(-10 + 10 + 30) = +10$  percent.

If we run the process in reverse and discount the expected cash flow by the expected rate of return, we obtain the value of Big Oil's stock:

$$PV = \frac{110}{1.10} = \$100$$

The expected return of 10 percent is therefore the correct rate at which to discount the expected cash flow from Big Oil's stock. It is also the opportunity cost of capital for investments which have the same degree of risk as Big Oil.

Now suppose that we observe the returns on Big Oil stock over a large number of years. If the odds are unchanged, the return will be -10 percent in a third of the years, +10 percent in a further third, and +30 percent in the remaining years. The arithmetic average of these yearly returns is

$$\frac{-10 + 10 + 30}{3} = +10\%$$

Thus the arithmetic average of the returns correctly measures the opportunity cost of capital for investments of similar risk to Big Oil stock.

The average compound annual return on Big Oil stock would be

$$(.9 \times 1.1 \times 1.3)^{1/3} - 1 = .088, \text{ or } 8.8\%$$

less than the opportunity cost of capital. Investors would not be willing to invest in a project that offered an 8.8 percent expected return if they could get an expected return of 10 percent in the capital markets. The net present value of such a project would be

$$NPV = -100 + \frac{108.8}{1.1} = -1.1$$

**Moral:** If the cost of capital is estimated from historical returns or risk premiums, use arithmetic averages, not compound annual rates of return (geometric averages).

(Richard A. Brealey, Stewart C. Myers, and Paul Allen, *Principles of Corporate Finance*, 8th Edition, Irwin McGraw-Hill, 2006, page 156-7.)

The widely cited Ibbotson Associates publication also contains a detailed and rigorous discussion of the impropriety of using geometric averages in estimating the cost of capital.<sup>12</sup>

<sup>12</sup> Ibbotson Associates, *Stocks, Bonds, Bills, and Inflation, 2005 Yearbook, Valuation Edition*, page 75.

The arithmetic average equity risk premium can be demonstrated to be most appropriate when discounting future cash flows. For use as the expected equity risk premium in either the CAPM or the building block approach, the arithmetic mean or the simple difference of the arithmetic means of stock market returns and riskless rates is the relevant number. This is because both the CAPM and the building block approach are additive models, in which the cost of capital is the sum of its parts. The geometric average is more appropriate for reporting past performance, since it represents the compound average return.

The argument for using the arithmetic average is quite straightforward. In looking at projected cash flows, the equity risk premium that should be employed is the equity risk premium that is expected to actually be incurred over the future time periods.

The best estimate of the expected value of a variable that has behaved randomly in the past is the average (or arithmetic mean) of its past values.

In their widely publicized research on the market risk premium, Dimson, Marsh and Staunton (2002) state

The arithmetic mean of a sequence of different returns is always larger than the geometric mean. To see this, consider equally likely returns of +25 and -20 percent. Their arithmetic mean is 2½ percent, since  $(25 - 20)/2 = 2\frac{1}{2}$ . Their geometric mean is zero, since  $(1 + 25/100) \times (1 - 20/100) - 1 = 0$ . But which mean is the right one for discounting risky expected future cash flows? For forward-looking decisions, the arithmetic mean is the appropriate measure.

To verify that the arithmetic mean is the correct choice, we can use the 2½ percent required return to value the investment we just described. A \$1 stake would offer equal probabilities of receiving back \$1.25 or \$0.80. To value this, we discount the cash flows at the arithmetic mean rate of 2½ percent. The present values are respectively  $\$1.25/1.015 = \$1.22$  and  $\$0.80/1.025 = \$0.78$ , each with equal probability, so the value is  $\$1.22 \times \frac{1}{2} + \$0.80 \times \frac{1}{2} = \$1.00$ . If there were a sequence of equally likely returns of +25 and -20 percent, the geometric mean return will eventually converge on zero. The 2½ percent forward-looking arithmetic mean is required to compensate for the year-to-year volatility of returns.

Lastly, on the practical side, Bruner, Eades, Harris, and Higgins (1998) found that 71% of the texts and tradebooks in their extensive survey of practice supported use of an arithmetic mean for estimation of the cost of equity.

## Mean Reversion Argument

Some academics have argued that if stock returns were expected to revert to a trend, this would suggest the use of a geometric mean since the geometric mean is, by definition, an estimate of a smoothed long-run trend increment. These same academics have argued that the historical estimate of the market risk premium (“MRP”) is upward-biased by the buoyant performance of the stock market prior to 2002, and because of the extraordinary and unusually high realized MRPs in those years, investors expect a return to lower MRPs in the future, bringing the average MPR to a more “normal” level.

The presence or absence of mean reversion is an empirical issue. The empirical findings are weak and highly contradictory; the empirical evidence is inconclusive and unconvincing, certainly not enough to support the “mean reversion” hypothesis. The weight of the empirical evidence on this issue is that the more sophisticated tests of mean reversion in the MRP demonstrate that the realized MRP over the last 75 years or so was almost perfectly free of mean reversion, and had no statistically identifiable time trend. It is also noteworthy that most of these studies were performed prior to the stock market’s debacle in 2000–2002, years of extraordinary and unusually low realized MRPs. The stock market’s dismal performance of 2000–2002 has certainly taken the wind out of the mean reversion school’s sails.

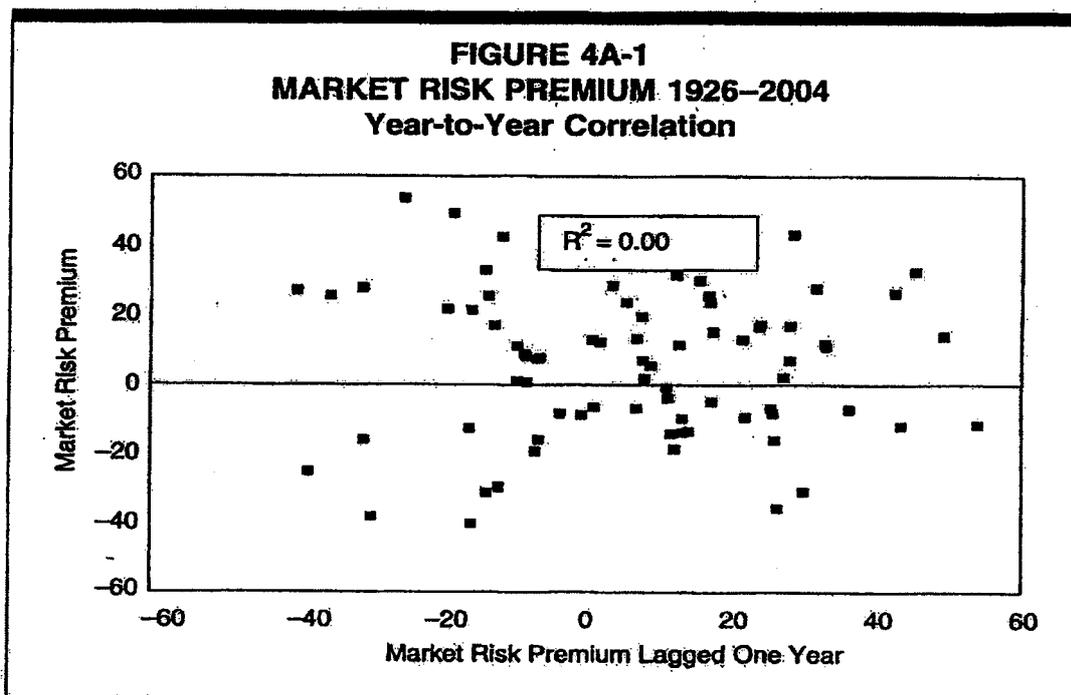
An examination of historical MRPs reveals that the MRP is random with no observable pattern. To the extent that the estimated historical equity risk premium follows what is known in statistics as a random walk, one should expect the equity risk premium to remain at its historical mean. Therefore, the best estimate of the future risk premium is the historical mean.

Ibbotson Associates (2005) find no evidence that the market price of risk or the amount of risk in common stocks has changed over time:

Our own empirical evidence suggests that the yearly difference between the stock market total return and the U.S. Treasury bond income return in any particular year is random . . . there is no discernable pattern in the realized equity risk premium. (Ibbotson Associates, *Stocks, Bonds, Bills, and Inflation, 2005 Yearbook, Valuation Edition*, pages 74–75)

In statistical parlance, there is no significant serial correlation in successive annual market risk premiums, that is, no trend. Ibbotson Associates go on to state that it is reasonable to assume that these quantities will remain stable in the future (*Id.*):

The best estimate of the expected value of a variable that has behaved randomly in the past is the average (or arithmetic mean)



of its past values. (Ibbotson Associates, *Stocks, Bonds, Bills, and Inflation, 2004 Yearbook, Valuation Edition*, page 75)

Nowhere is it suggested by Ibbotson Associates that the market risk premium has declined over time.

Because there is little evidence that the MRP has changed over time, it is reasonable to assume that these quantities will remain stable in the future. Figure 4A-1 shows the relationship, or the lack of relationship, between year-to-year MRPs reported in the Ibbotson Associates *Valuation Yearbook, 2005* edition, for the 1926–2004 period. The relationship is virtually absent, as indicated by the low  $R^2$  of zero between successive MRPs. In other words, there is no history in successive MRPs as indicated by the zero serial correlation coefficient.

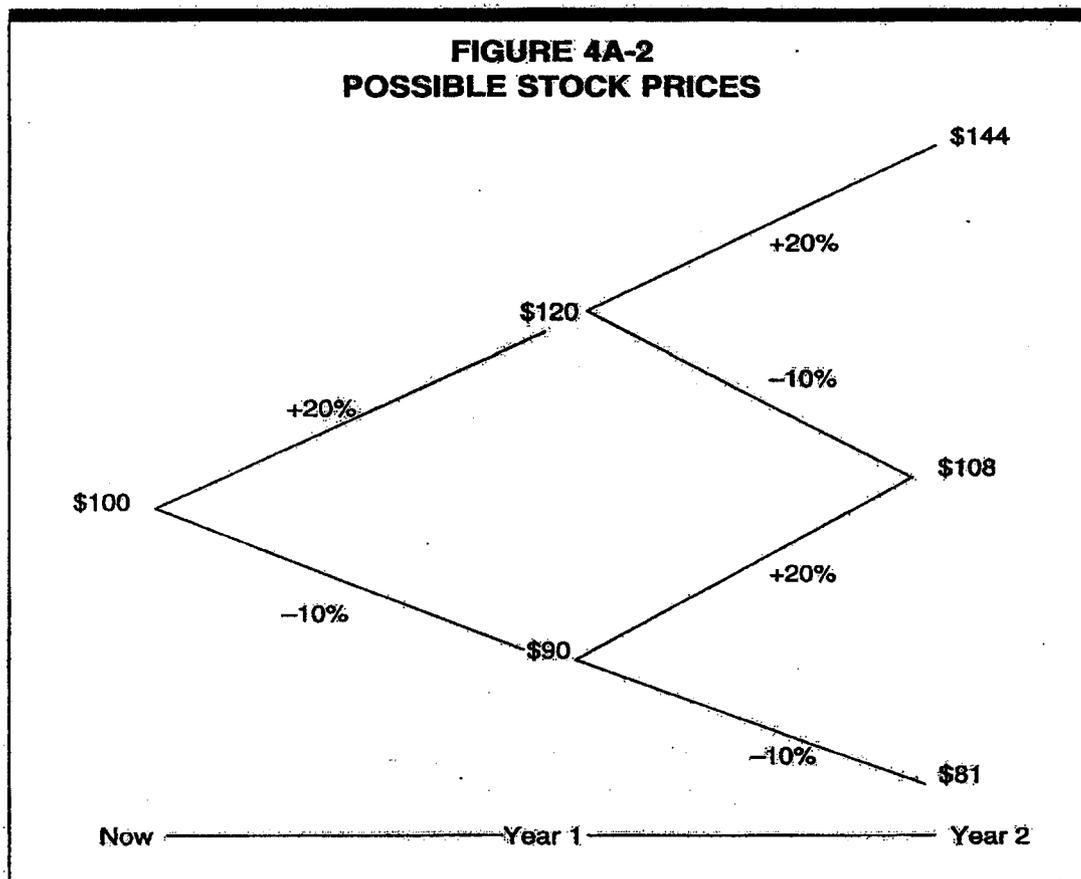
In short, the determination of the cost of capital with the CAPM requires an unbiased estimate of the expected annual return. The expected arithmetic return provides the appropriate measure for this purpose.

### Formal Demonstration

This section shows why arithmetic rather than geometric means should be used for forecasting, discounting, and estimating the cost of capital.<sup>13</sup> By

<sup>13</sup> This section is adapted from a similar treatments and demonstration in Brealey, Myers, and Allen (2006) and Ibbotson Associates (2005).

**FIGURE 4A-2  
POSSIBLE STOCK PRICES**



definition, the cost of equity capital is the annual discount rate that equates the discounted value of expected future cash flows (from dividends and the sale of the stock at the end of the investor's investment horizon) to the current market price of a share in the firm. The discount rate that equates the discounted value of future expected dividends and the end of period expected stock price to the current stock price is a prospective arithmetic, rather than a prospective geometric, mean rate of return. Since future dividends and stock prices cannot be predicted with certainty, the "expected" annual rate of return that investors require is an average "target" percentage rate around which the actual, year-by-year returns will vary. This target rate is, in effect, an arithmetic average.

A numerical illustration will clarify this important point. Consider a non-dividend paying stock trading for \$100 which has, in every year, an equal chance of appreciating by 20% or declining by 10%. Thus, after one year, there is an equal chance that the stock's price will be \$120 and an equal chance the price will be \$90. Figure 4A-2 presents all possible eventualities after two periods have elapsed (the rates of return are presented at the end of the lines in the diagram).

The possible stock prices are shown in the following table.

TABLE 4A-2 STOCK PRICES AFTER TWO PERIODS	
Price	Chance
\$144	1 chance in 4
\$108	2 chances in 4
\$ 81	1 chance in 4

The expected future stock price after two periods is then:

$$1/4 (\$144) + 2/4 (\$108) + 1/4 (\$81) = \$110.25$$

The cost of equity capital is calculated as the discount rate that equates the present value of the future expected cash flows to the current stock price. In the present simple example, the only cash flow is the gain from selling the stock after two periods have elapsed. Thus, using the expected stock price of \$110.25 calculated above, the expected rate of return is that  $r$ , which solves the following equation:

$$\text{Current Stock Price} = \frac{\text{Expected Stock Price}}{(1 + r)^2}$$

The factor  $(1 + r)^2$  discounts the expected stock price to the present. Substituting the numerical values, we have:

$$\begin{aligned} \$100 &= \frac{\$110.25}{(1 + r)^2} \\ r &= 5\% \end{aligned}$$

Thus, the cost of equity capital is 5%. This 5% cost of equity capital is equal to the prospective arithmetic mean rate of return, which is the probability-weighted average single period rate of return on equity. Since in every period there is an equal chance that the stock's return will be 20% or -10%, the probability-weighted average is:

$$1/2 (20\%) + 1/2 (-10\%) = 5\%$$

However, the 5% cost of equity capital is not equal to the prospective geometric mean rate of return, which is a probability-weighted average of the possible compounded rates of return over the two periods. Now consider the prospective geometric mean rate of return. Table 4A-3 shows the possible compounded rates of return over two periods, and the probability of each.

Thus, the prospective geometric mean rate of return is:

$$1/4 (20\%) + 2/4 (3.92\%) + 1/4 (-10\%) = 4.46\%$$

**TABLE 4A-3**  
**STOCK PRICES AND RETURNS AFTER TWO PERIODS**

Price	Chance	Compounded Return
\$144	1 chance in 4	20.00%
\$108	2 chances in 4	3.92%
\$ 81	1 chance in 4	-10.00%

This return is not equal to the 5% cost of equity capital.

The example can easily be extended to include the case of a dividend-paying company and will reach the same conclusion: the implied discount rate calculated in the DCF model is an expected arithmetic rather than an expected geometric mean rate of return.

The foregoing analysis shows that it is erroneous to use a prospective multi-year geometric mean rate of return as a "target" rate of return for each year of the period. If, for example, investors currently require an expected future rate of return on an investment of 13% each year, then 13% is the appropriate annual rate of return on equity for ratemaking purposes. Consequently, in using a risk premium approach for the purposes of rate of return regulation, the single-year annual required rate of return should be estimated using arithmetic mean risk premiums.

It should be pointed out that the use of the arithmetic mean does not imply an investment holding period of one year. Rather, it is premised on the uncertainty with respect to each year's return during the holding period, however many years that may be. When computing the arithmetic average of historic annual returns in order to calculate the average return (expected value of the return), every achieved return outcome is one possible future outcome for each year the security will be held. Each historic return has an equal probability of occurring during each year of the holding period. The resulting expected value of the risk premium is the arithmetic average of all of the past premiums considered, regardless of the length of the expected holding period.

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

**THOMAS J. BOURASSA**  
**REBUTTAL TESTIMONY**  
**(COST OF CAPITAL)**  
**February 1, 2010**

# **SCHEDULES**

**Rio Rico Utilities**  
 Test Year Ended December 31, 2008  
 Summary of Cost of Capital

Line No.	Item of Capital	End of Test Year			End of Projected Year				
		Dollar Amount	Percent of Total	(e) Cost Rate	Weighted Cost	Dollar Amount	Percent of Total	(e) Cost Rate	Weighted Cost
1	Long-Term Debt	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	0.00%
2									
3	Stockholder's Equity <sup>1</sup>	11,476,445	100.00%	11.70%	11.70%	12,800,386	100.00%	11.70%	11.70%
4									
5	Totals	\$ 11,476,445	100.00%		11.70%	\$ 12,800,386	100.00%		11.70%
6									
7									
8	<sup>1</sup> Adjustments to equity								
9	Accumm. depreciation adjustments (Water and Wastewater) per Direct	\$ (2,013,481)							
10	CIAC adjustments (Water and Wastewater) per Direct	\$ (387,774)							
11	Deferred Income Tax Adjustments (Water and Wastewater) per Direct	\$ 1,101,805							
12	Deferred Income Tax Adjustments (Water and Wastewater) per Rebuttal	\$ (655,867)							
13									
14									
15									

**SUPPORTING SCHEDULES:**

- Rebuttal D-2
- Rebuttal D-3
- Rebuttal D-4

**RECAP SCHEDULES:**

**Rio Rico Utilities - Water Division**  
 Test Year Ended December 31, 2008  
 Cost of Long Term Debt

Exhibit  
 Rebuttal Schedule D-2  
 Page 1  
 Witness: Bourassa

Line No.	Description of Debt	End of Test Year			End of Projected Year			
		Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost	Amount Outstanding	Annual Interest	Interest Rate
1		-	-	0.00%	-	-	0.00%	0.00%
2		-	-	0.00%	-	-	0.00%	0.00%
3		-	-	0.00%	-	-	0.00%	0.00%
4		-	-	0.00%	-	-	0.00%	0.00%
5		-	-	0.00%	-	-	0.00%	0.00%
6		-	-	0.00%	-	-	0.00%	0.00%
7		-	-	0.00%	-	-	0.00%	0.00%
8		-	-	0.00%	-	-	0.00%	0.00%
9		-	-	0.00%	-	-	0.00%	0.00%
10		-	-	0.00%	-	-	0.00%	0.00%
11		-	-	0.00%	-	-	0.00%	0.00%
12		-	-	0.00%	-	-	0.00%	0.00%
13	Totals	\$ -	\$ -	0.00%	\$ -	\$ -	0.00%	0.00%

**SUPPORTING SCHEDULES:**

16  
17  
18  
19  
20

Rio Rico Utilities - Water Division  
Test Year Ended December 31, 2008  
Cost of Preferred Stock

Exhibit  
Rebuttal Schedule D-3  
Page 1  
Witness: Bourassa

End of Test Year

End of Projected Year

Line No.	Description of Issue	Shares Outstanding	Amount	Dividend Requirement	Shares Outstanding	Amount	Dividend Requirement
1							
2							
3	NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING						
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17	<u>SUPPORTING SCHEDULES:</u>				<u>RECAP SCHEDULES:</u>		
18					Rebuttal D-1		
19							
20							

Rio Rico Utilities - Water Division  
Test Year Ended December 31, 2008  
Cost of Common Equity

Exhibit  
Rebuttal Schedule D-4  
Page 1  
Witness: Bourassa

Line

No.

1

2

The Company is proposing a cost of common equity of 11.70% .

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SUPPORTING SCHEDULES:

RECAP SCHEDULES:

18

Rebuttal D-1

19

20

Rico Rio Utilities, Inc.  
 Summary of Results

Exhibit  
 Rebuttal Schedule D-4.1

Line No.	Method	Low	High	Midpoint
1				
2				
3				
4				
5				
6	Range DCF Constant Growth Estimates <sup>1</sup>	10.8%	12.2%	11.5%
7				
8	Range of CAPM Estimates <sup>2</sup>	10.3%	15.6%	13.0%
9				
10				
11	Average of DCF and CAPM midpoint estimates	10.6%	13.9%	12.2%
12				
13				
14	Financial Risk Adjustment <sup>3</sup>	-1.0%	-1.0%	-1.0%
15				
16	Specific Company Risk Premium <sup>4</sup>	0.5%	0.5%	0.5%
17				
18	Indicated Cost of Equity	10.1%	13.4%	11.7%
19				
20				
21				
22	Recommended Cost of Equity			11.7%
23				
24				
25				
26				
27				
28				
29				

<sup>1</sup> See Rebuttal Schedule D-4-8  
<sup>2</sup> See Rebuttal Schedule D-4.12  
<sup>3</sup> See Rebuttal Schedule D-4.17  
<sup>4</sup> See testimony.

**Rico Rio Utilities, Inc.**  
**Selected Characteristics of Sample Group of Water Utilities**

**Exhibit**  
**Rebuttal Schedule D-4.2**

Line No.	Company <sup>1</sup>	% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating
1	1. American States	75%	\$ 358.9	\$ 959.8	A	A2
2	2. Aqua America	93%	\$ 662.5	\$ 2,695.6	AA-	NR
3	3. California Water	98%	\$ 442.6	\$ 751.2	NR	NR
4	4. Connecticut Water	90%	\$ 68.1	\$ 368.4	AAA	NR
5	5. Middlesex	89%	\$ 90.7	\$ 328.6	NR	NR
6	6. SJW Corp.	95%	\$ 217.1	\$ 517.9	NR	NR
10	Average	90%	\$ 306.7	\$ 936.9		
13	Rico Rio Utilities, Inc. (as of December 31, 2008)	50%	\$ 3.7	\$ 30.4	NR	NR

<sup>1</sup>AUS Utility Reports (December 2009).

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25

Rico Rio Utilities, Inc.  
Capital Structures

Exhibit  
Rebuttal Schedule D-4.3

No.	Company	Book Value <sup>1</sup>		Market Value <sup>1</sup>	
		Long-Term Debt	Common Equity	Long-Term Debt	Common Equity
1	1. American States	46.2%	53.8%	30.9%	69.1%
2	2. Aqua America	54.1%	45.9%	34.4%	65.6%
3	3. California Water	41.7%	58.3%	26.9%	73.1%
4	4. Connecticut Water	47.0%	53.0%	31.3%	68.7%
5	5. Middlesex	46.2%	53.8%	33.9%	66.1%
6	6. SJW Corp.	46.0%	54.0%	34.1%	65.9%
10	Average	46.9%	53.1%	31.9%	68.1%
13	Rico Rio Utilities, Inc. (as of December 31, 2008)	0.0%	100.0%	N/A	N/A

<sup>1</sup> Value Line Analyzer Data (January 15, 2010)



**Exhibit  
Rebuttal Schedule D-4.5**

**Rico Rio Utilities, Inc.  
Comparisons of Past and Future Estimates of Growth**

Line No.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	<u>Ten-year historical average annual changes</u>						
	Price <sup>1</sup>	Value <sup>2</sup>	EPS <sup>2</sup>	DPS <sup>2</sup>	Average Col 1-4	Average Future Growth <sup>3</sup>	Average of Future and Historical Growth Col 5-6
3		Book					
4							
5							
6							
7	8.16%	4.35%	5.93%	1.80%	5.06%	6.13%	5.59%
8	6.43%	8.43%	6.29%	7.22%	7.09%	8.78%	7.94%
9	7.01%	3.54%	4.38%	0.90%	3.96%	7.33%	5.64%
10	4.94%	3.53%	1.45%	1.22%	2.78%	11.00%	6.89%
11	6.18%	3.98%	3.85%	1.91%	3.98%	8.50%	6.24%
12	9.47%	5.29%	5.40%	5.63%	6.44%	10.00%	8.22%
13							
14							
15	7.03%	4.85%	4.55%	3.11%	4.89%	8.62%	6.75%
16	6.72%	4.16%	4.89%	1.86%	4.52%	8.64%	6.57%
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
	GROUP AVERAGE						
	GROUP MEDIAN						

<sup>1</sup> Average of changes in year-end stock prices ending in 2008. Data from Yahoo Finance website.

<sup>2</sup> Data derived from Value Line Investment Survey and/or 10K Reports for period 1999 to 2008.

<sup>4</sup> See Rebuttal Schedule D-4.6.

**Rico Rio Utilities, Inc.**  
**Analysts Forecasts of Earnings Per Share Growth**

**Exhibit**  
**Rebuttal Schedule D-4.6**

Line No.	[1]	[2]	[3]	[4]	[5]
	<b>ESTIMATES OF EARNINGS GROWTH</b>				
	Value				
	<u>Zacks<sup>1</sup></u>	<u>Morningstar<sup>1</sup></u>	<u>Yahoo<sup>1</sup></u>	<u>Line<sup>1</sup></u>	<u>Average Growth (G) (Cols 1-4)<sup>2</sup></u>
1.	4.00%	7.00%	4.00%	9.50%	6.13%
2.	8.00%	8.80%	8.33%	10.00%	8.78%
3.	7.00%	7.30%	6.00%	9.00%	7.33%
4.	9.00%	15.00%	15.00%	9.00%	11.00%
5.	9.00%	8.00%	8.00%	9.00%	8.50%
6.	S.J.W Corp.	10.00%	10.00%	10.00%	10.00%
	<b>GROUP AVERAGE</b>				
	<b>GROUP MEDIAN</b>				
	8.62%				
	8.64%				

<sup>1</sup> Data as of January 15, 2010

<sup>2</sup> Where no data available, average of other utilities assumed to estimate for utility.

**Rico Rio Utilities, Inc.**  
**Current Dividend Yields for Water Utility Sample Group**

**Exhibit**  
**Rebuttal Schedule D-4.7**

Line No.	Company	Current Stock Price (P <sub>0</sub> ) <sup>1</sup>	Current Dividend (D <sub>0</sub> ) <sup>1</sup>	Current Dividend Yield (D <sub>0</sub> /P <sub>0</sub> ) <sup>1</sup>	Average Annual Dividend Yield (D <sub>0</sub> /P <sub>0</sub> ) <sup>1,2</sup>
1	1. American States	\$ 34.49	\$ 1.02	2.96%	2.86%
2	2. Aqua America	\$ 17.59	\$ 0.54	3.07%	2.80%
3	3. California Water	\$ 37.70	\$ 1.18	3.13%	3.12%
4	4. Connecticut Water	\$ 23.78	\$ 0.89	3.74%	3.58%
5	5. Middlesex	\$ 17.18	\$ 0.71	4.14%	3.99%
6	6. SJW Corp.	\$ 22.96	\$ 0.69	3.00%	2.27%
13	Average			3.34%	3.10%
14	Median			3.10%	2.99%

<sup>1</sup> Value Line Analyzer Data. Stock prices as of January 15, 2010.

<sup>2</sup> Average Annual Dividend is dividends declared per share for a year divided by the average annual price of the stock in the same year, expressed as a percentage. For comparison purposes only.

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25

**Rico Rio Utilities, Inc.**  
**Discounted Cash Flow Analysis**  
**DCF Constant Growth**

**Exhibit**  
**Rebuttal Schedule D-4.8**

Line No.	[1] Average Spot Dividend Yield ( $D_0/P_0$ ) <sup>1</sup>	[2] Expected Dividend Yield ( $D_1/P_0$ ) <sup>2</sup>	[3] Growth (g)	[4] Indicated Cost of Equity $k = \text{Div Yld} + g$ (Cols 2+3)
8	DCF - Past and Future Growth	3.34%	7.25% <sup>3</sup>	10.8%
10	DCF - Future Growth	3.34%	8.62% <sup>4</sup>	12.2%
11				11.5%

1 Spot Dividend Yield =  $D_0/P_0$ . See Rebuttal Schedule D-4.7.

2 Expected Dividend Yield =  $D_1/P_0 = D_0/P_0 * (1+g)$ .

3 Growth rate (g). Average of Past and Future Growth. See Rebuttal Schedule D-4.4, column 7

3 Growth rate (g). Average of Analyst Estimates Future Growth. See Rebuttal Schedule D-4.6.

Rico Rio Utilities, Inc.  
Market Betas

Exhibit  
Rebuttal Schedule D-4.9

Line No.	Company	Beta ( $\beta$ ) <sup>1</sup>
1	American States	0.80
2	Aqua America	0.65
3	California Water	0.75
4	Connecticut Water	0.80
5	Middlesex	0.80
6	SJW Corp.	0.95
7		
8		
9	Average	0.79
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		

<sup>1</sup> Value Line Investment Analyzer data (January 15, 2010)

Note: Beta is a relative measure of the historical sensitivity of a stock's price to overall fluctuations in the New York Stock Exchange Composite Index. A Beta of 1.50 indicates a stock tends to rise (or fall) 50% more than the New York Stock Exchange Composite Index. The "Beta coefficient" is derived from a regression analysis of the relationship between weekly percent-age changes in the price of a stock and weekly percentage changes in the NYSE index over a period of five years. In the case of shorter price histories, a smaller time period is used, but two years is the minimum. The Betas are adjusted for their long-term tendency to converge toward 1.00.

Rico Rio Utilities, Inc.  
 Forecasts of Long-Term Interest Rates  
 2011-2012

Exhibit  
 Rebuttal Schedule D-4.10

Line No.	Description	2011	2012	Average
1				
2				
3				
4				
5				
6	Blue Chip Consensus Forecasts <sup>1</sup>	5.1%	5.5%	5.3%
7				
8	Value Line <sup>2</sup>	5.0%	5.1%	5.1%
9				
10	Average			5.2%
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				

<sup>1</sup> December 2009 Blue Chip Financial Forecasts consensus forecast of 30 Year U.S. Treasury

<sup>2</sup> Value Line Quarterly forecast, dated November 27, 2009 20 year U.S. Treasury

**Exhibit  
Rebuttal Schedule D-4.11**

**Rico Rio Utilities, Inc.  
Computation of Current Market Risk Premium**

Line No.	Month	Dividend Yield (D <sub>t</sub> /P <sub>t</sub> ) <sup>1</sup>	Expected Dividend Yield (D <sub>t</sub> /P <sub>t</sub> ) <sup>2</sup>	Growth (g) <sup>3</sup>	Expected Market Return (k)	Monthly Average 30 Year Treasury Rate <sup>4</sup>	Market Risk Premium (MRP)
1	Jan 2008	2.67%	+ 2.67%	+ 15.19%	= 17.86%	-	= 13.53%
2	Feb	2.74%	+ 3.19%	+ 16.47%	= 19.66%	-	= 15.14%
3	Mar	2.85%	+ 3.35%	+ 17.64%	= 20.99%	-	= 16.60%
4	Apr	2.69%	+ 3.11%	+ 15.73%	= 18.84%	-	= 14.40%
5	May	2.73%	+ 3.15%	+ 15.51%	= 18.66%	-	= 14.06%
6	Jun	3.13%	+ 3.74%	+ 18.51%	= 22.22%	-	= 17.53%
7	Jul	3.15%	+ 3.74%	+ 18.61%	= 22.35%	-	= 17.78%
8	Aug	3.06%	+ 3.59%	+ 17.08%	= 20.67%	-	= 16.17%
9	Sept	3.07%	+ 3.66%	+ 19.30%	= 22.96%	-	= 18.69%
10	Oct	4.31%	+ 5.63%	+ 30.53%	= 36.16%	-	= 31.99%
11	Nov	4.97%	+ 6.71%	+ 35.02%	= 41.73%	-	= 37.73%
12	Dec 2008	4.44%	+ 5.76%	+ 29.62%	= 35.38%	-	= 32.51%
13	Jan 2009	4.86%	+ 6.32%	+ 30.02%	= 36.34%	-	= 33.21%
14	Feb	5.50%	+ 7.43%	+ 35.13%	= 42.56%	-	= 38.97%
15	Mar	4.21%	+ 5.36%	+ 27.33%	= 32.69%	-	= 29.05%
16	Apr	3.66%	+ 4.47%	+ 22.05%	= 26.52%	-	= 22.76%
17	May	3.46%	+ 4.14%	+ 19.87%	= 23.81%	-	= 19.58%
18	Jun	3.25%	+ 3.87%	+ 19.16%	= 23.03%	-	= 18.51%
19	Jul	2.90%	+ 3.37%	+ 16.31%	= 19.68%	-	= 15.27%
20	Aug	2.82%	+ 3.22%	+ 14.21%	= 17.43%	-	= 13.06%
21	Sept	2.80%	+ 3.20%	+ 14.32%	= 17.52%	-	= 13.33%
22	Oct	2.75%	+ 3.15%	+ 14.49%	= 17.64%	-	= 13.45%
23	Nov	2.68%	+ 3.05%	+ 13.88%	= 16.93%	-	= 12.62%
24	Recommended						13.13%
25	<u>Short-term Trends</u>						
26	Recent Twelve Months Avg	3.61%	+ 4.45%	+ 21.35%	= 25.79%	-	= 21.86%
27	Recent Nine Months Avg	3.17%	+ 3.76%	+ 17.94%	= 21.70%	-	= 17.52%
28	Recent Six Months Avg	2.87%	+ 3.31%	+ 15.40%	= 18.71%	-	= 14.37%
29	Recent Three Months Avg	2.74%	+ 3.13%	+ 14.23%	= 17.36%	-	= 13.13%

<sup>1</sup> Average Current Dividend Yield (D<sub>t</sub>/P<sub>t</sub>) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks  
<sup>2</sup> Expected Dividend Yield (D<sub>t</sub>/P<sub>t</sub>) equals average current dividend yield (D<sub>t</sub>/P<sub>t</sub>) times one plus growth rate(g).  
<sup>3</sup> Average 3-5 year price appreciation (annualized). Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks  
<sup>4</sup> Monthly average 30 year U.S. Treasury. Federal Reserve.

**Rico Rio Utilities, Inc.**  
**Capital Asset Pricing Model (CAPM)** **Exhibit**  
**Rebuttal Schedule D-4.12**

Line No.							
1		Rf <sup>1</sup>	+	beta <sup>3</sup>	x	Rp	= k
2							
3		5.2%	+	0.79	x	6.5%	= 10.3%
4							
5		5.2%	+	0.79	x	13.1%	= 15.6%
6							
7							13.0%
8							
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Historical Market Risk Premium CAPM

Current Market Risk Premium CAPM

Average

<sup>1</sup> Forecasts of long-term treasury yields. See Rebuttal Schedule D-4.10.  
<sup>2</sup> Value Line Investment Analyzer data. See Rebuttal Schedule D.4.9.  
<sup>3</sup> Historical Market Risk Premium from (Rp) MorningStar S&P 500 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2008  
<sup>4</sup> Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Rebuttal Schedule D-4.11.



Rico Rio Utilities, Inc.  
Financial Risk Computation  
Unlevered Beta

Exhibit  
Rebuttal Schedule D-4.14

Line No.	Company	VL Beta $\beta_{VL}^1$	Raw Beta $\frac{Raw \beta_u^2}{(1-t)^3}$	Tax Rate $t^3$	MV Debt $\frac{D^4}{E^4}$	MV Equity $\frac{E^4}{E^4}$	Unlevered Raw Beta $\beta_{uL}^5$
1	American States	0.80	0.67	37.8%	30.9%	69.1%	0.52
2	Aqua America	0.65	0.45	39.7%	34.4%	65.6%	0.34
3	California Water	0.75	0.60	37.7%	26.9%	73.1%	0.49
4	Connecticut Water	0.80	0.67	27.2%	31.3%	68.7%	0.50
5	Middlesex	0.80	0.67	33.2%	33.9%	66.1%	0.50
6	SJW Corp.	0.95	0.90	38.1%	34.1%	65.9%	0.68
11							
12							
13	Sample Water Utilities	0.79	0.66	35.6%	31.9%	68.1%	0.51
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
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25							
26							
27							
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30							

<sup>1</sup> Value Line Investment Analyzer data. See Rebuttal Schedule D-4.9.  
Value Line uses the historical data of the stock, but assumes that a security's beta moves toward the market average over time. The formula is as follows:  
Adjusted beta = .35 + (.67) \* Raw beta  
<sup>2</sup> Raw Beta = (VL beta - .33)/(.67)  
<sup>3</sup> Effective tax rates for year ended December 31, 2008.  
<sup>4</sup> See Rebuttal Schedule D-4.3.  
<sup>5</sup> Raw  $\beta_u = Raw \beta_L / (1 + (1-t)^3 D/E)$

Exhibit  
Rebuttal Schedule D-4.15

Rico Rio Utilities, Inc.  
Financial Risk Computation  
Relevered Beta

Line No.	Unlevered Raw Beta $\beta_{UL}^1$	MV Book Debt $\frac{BD^2}{EC^2}$	MV Equity Capital $\frac{EC^2}{EC^2}$	Tax Rate $t^3$	Relevered Raw Beta $\beta_{RL} = \beta_{UL} (1 + (1-t) \frac{BD}{EC})$	VL Adjusted Relevered Beta $\beta_{RL}$
1	0.51	0.0%	100.0%	38.60%	0.51	0.69

Rico Rio Utilities, Inc.

<sup>1</sup> Unlevered Beta from Table 18.

<sup>2</sup> Capital Structure of Company (As of December 31, 2008)

	BV (in Millions)	MV (in Millions)	%
Long-term Debt	\$ -	\$ -	0.0%
Preferred Stock	-	-	0.0%
Common Stock	12,132	22,984	100.0%
Total Capital	\$ 12,132	\$ 22,984	100.0%

(a) Current market-to-book ratio of sample water utilities. See work papers.

<sup>3</sup> Current Tax rate based on test year ending 2008. See Rebuttal Schedule D-1.

Rico Rio Utilities, Inc.  
Size Premium<sup>1</sup>

Exhibit  
Rebuttal Schedule D-4.16

Line No.	Beta(β)	Size Premium	Risk Premium for Small Water Utilities <sup>7</sup>
1			
2			
3			
4			
5			
6	1.12	0.90%	
7			
8	1.25	1.56%	
9			
10	1.50	2.83%	
11			
12	1.62	4.43%	1.81%
13			
14			
15			
16			
17			
18			
19			
20			
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43			

Estimated Risk Premium for small water utilities<sup>6</sup> 0.99%

<sup>1</sup> Data from Table 7-11 of Morningstar, *Ibbotson S&P 500 Valuation Yearbook*.

<sup>2</sup> Mid-Cap companies includes companies with market capitalization between \$1,850 million and \$7,360 million.

<sup>3</sup> Low-Cap companies includes companies with market capitalization between \$454 million and \$1,849 million.

<sup>4</sup> Micro-Cap companies includes companies with market capitalization less than \$453 million.

<sup>5</sup> Decile 10 includes companies with market capitalization between \$1.6 million and \$219 million.

<sup>6</sup> From Table 2, Thomas M. Zepp, "Utility Stocks and the Size Effect Revisited," *The Quarterly Review of Economics and Finance*, 43 (2003), 578-582.

<sup>7</sup> Computed as the weighted differences between the Decile 10 risk premium and the indicated risk premiums for the sample water utilities as shown below. Excludes risk due to differences in beta.

Market Cap.	(Millions)	Class	Size Premium	Difference to Decile 10	Weight	Weighted Size Premium
1.	\$ 597	Low-Cap	1.56%	2.87%	0.1666667	0.48%
2.	\$ 2,382	Mid-Cap	0.90%	3.53%	0.1666667	0.59%
3.	\$ 780	Low-Cap	1.56%	2.87%	0.1666667	0.48%
4.	\$ 202	Decile 10	4.43%	0.00%	0.1666667	0.00%
5.	\$ 230	Decile 10	4.43%	0.00%	0.1666667	0.00%
6.	\$ 418	Micro-Cap	2.83%	1.60%	0.1666667	0.27%
		Weighted Size Premium for small companies				1.81%

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5 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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

DOCKET NO: WS-02676A-09-0257

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17  
18 **REJOINDER TESTIMONY OF**  
19 **THOMAS J. BOURASSA**  
20 **(RATE BASE, INCOME STATEMENT AND RATE DESIGN)**  
21

22 **March 9, 2010**  
23  
24  
25  
26



TABLE OF CONTENTS

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

I. INTRODUCTION AND QUALIFICATIONS ..... 1

II. SUMMARY OF RRUI'S REJOINDER POSITION ..... 1

III. RATE BASE ..... 3

    A. Water Division Rate Base ..... 3

        1. Plant-in-Service and Accumulated Depreciation..... 4

        2. AIAC and CIAC. .... 5

        3. Deferred Income Taxes (DITs) ..... 6

    B. Wastewater Division Rate Base ..... 11

        1. Plant-in-Service and Accumulated Depreciation..... 12

        2. AIAC and CIAC. .... 12

            1. DITs ..... 13

IV. INCOME STATEMENT ..... 14

    A. Water Division Revenue and Expenses. .... 14

        1. Remaining Revenue and Expense Issues..... 16

    B. Wastewater Division Revenue and Expenses. .... 18

        1. Remaining Revenue and Expense Issues..... 20

V. RATE DESIGN ..... 21

    A. Water Division ..... 21

    B. Wastewater Division ..... 24

2289184.2

1 **I. INTRODUCTION AND QUALIFICATIONS**

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

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

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

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

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

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

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

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

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

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

26

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

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

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

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

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

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

26

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

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

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

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

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

15  
 16 **III. RATE BASE**

17 **A. Water Division Rate Base**

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

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

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

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

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

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

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

14 A. While there is some minor rounding differences, particularly between Staff and the  
15 Company (<\$3), the Company, Staff, and RUCO are in substantial agreement on  
16 the balance of plant-in-service of \$34,059,801.<sup>2</sup> With respect to accumulated  
17 depreciation, both the Company and RUCO in agreement with an accumulated  
18 depreciation balance of \$12,472,661.<sup>3</sup> This is true because RUCO corrected its  
19 accumulated depreciation based on errors in RUCO's computations that I pointed  
20 out in my rebuttal testimony.<sup>4</sup> Staff's proposed accumulated depreciation balance  
21

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

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

26 <sup>3</sup> Compare Company Water Division Rejoinder Schedule B-2, page 1 and RUCO Water Division  
Surrebuttal Schedule TJC-2, page 1 of 1.

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

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

8 2. AIAC and CIAC.

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

11 A. The Company, Staff, and RUCO agree on the balance of AIAC totaling \$122,372  
12 and CIAC totaling 20,140,197.<sup>7</sup> As you will recall in rebuttal, the Company  
13 adopted RUCO's proposed reclassification of \$48,724 of CIAC to AIAC.<sup>8</sup> In its  
14 direct filing, Staff proposed a one-sided adjustment to increase AIAC by \$48,724  
15 but failed to decrease CIAC by the same amount. Staff has corrected its  
16 adjustment in its surrebuttal filing and it is now in agreement with the Company.<sup>9</sup>

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

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

22 <sup>5</sup> See Staff Water Division Surrebuttal Schedule GWB-3.

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

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

25 <sup>8</sup> Bourassa Rb. at 5 - 6.

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

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

3 A. Yes. All three parties agree on the accumulated amortization balance of  
4 \$6,628,197.<sup>10</sup>

5 3. Deferred Income Taxes (DITs)

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

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

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

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

19  
20  
21  
22  
23 <sup>10</sup> Compare Company Water Division Rejoinder Schedule B-2, page 1, Staff Water Division Surrebuttal  
Schedule GWB-3, and RUCO Water Division Surrebuttal Schedule TJC-2, page 1 of 1.

24 <sup>11</sup> See Company Water Division Rejoinder Schedule B-2, page 6.

25 <sup>12</sup> See Staff Water Division Surrebuttal Schedule GWB-3.

26 <sup>13</sup> See RUCO Water Division Surrebuttal Schedule TJC-2, page 1.

<sup>14</sup> Bourassa Rb. at 12.

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

3 A. Staff does not agree with the fixed asset component of the Company's DIT  
4 computation<sup>15</sup> because it includes a \$105,049 amount for an "unidentified"  
5 difference between the book and tax basis of plant.<sup>16</sup> Consequently, Staff believes  
6 that the fixed asset component should be \$21,868 (a net DIT liability) rather than  
7 the Company proposed \$18,681 (a net DIT asset).<sup>17</sup> I respectfully disagree with the  
8 exclusion of the \$105,049.

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

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

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

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

24 

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<sup>15</sup> See Company Water Division Rejoinder Schedule B-2, page 6.

25 <sup>16</sup> Becker Sb. at 15.

26 <sup>17</sup> *Id.*

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

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

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

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

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

21  
22 

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<sup>18</sup> *Id.* at 14.

23 <sup>19</sup> *Id.* at 5.

24 <sup>20</sup> *Id.*

25 <sup>21</sup> *Id.* at 16.

26 <sup>22</sup> Bourassa Rb. at 11 – 12.

<sup>23</sup> *Id.* at 12.

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

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

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

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

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

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

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

23 A. RUCO continues to assert that its method of computed DIT's complies with SFAS  
24 109.<sup>25</sup> RUCO further explains that because it netted the DIT assets and liabilities at

25 <sup>24</sup> Becker Sb. at 16 - 17.

26 <sup>25</sup> See Coley Sb. at 10.

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

3 **Q. WHAT’S WRONG WITH THAT?**

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

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

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

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25 <sup>26</sup> *Id.*

26 <sup>27</sup> Bourassa Rb. at 14 – 17.

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

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

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

18 **B. Wastewater Division Rate Base**

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

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

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

24  
25 <sup>28</sup> Coley Sb. at 11 – 12.

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

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

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

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

6 A.   While there is some minor rounding differences, particularly between Staff and the  
7 Company (<\$2), the Company, Staff, and RUCO are in substantial agreement on  
8 the balance of plant-in-service of \$11,829,043.<sup>30</sup> With respect to accumulated  
9 depreciation, all three parties are in agreement with an accumulated depreciation  
10 balance of \$5,110,028.<sup>31</sup> RUCO corrected its accumulated depreciation based on  
11 the error I identified in RUCO's computations.

12           2.     AIAC and CIAC.

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

16 A.   The Company, Staff, and RUCO agree on the balance of AIAC totaling \$237,922  
17 and gross CIAC totaling 5,137,673.<sup>32</sup> As you will recall in rebuttal, the Company  
18 adopted RUCO's proposed reclassification of \$238,783 of CIAC to AIAC.<sup>33</sup> In his  
19 direct filing, Mr. Becker proposed a one-sided adjustment to increase AIAC by  
20  
21

22 \_\_\_\_\_  
23 <sup>30</sup> Compare Company Wastewater Division Rejoinder Schedule B-2, page 1, Staff Wastewater Division Surrebuttal Schedule GWB-3, and RUCO Wastewater Division Surrebuttal Schedule TJC-2, page 1 of 1.

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

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

26 <sup>33</sup> Bourassa Rb. at 20.

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

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

5 A. Yes. All three parties agree on the accumulated amortization balance of  
6 \$1,944,057.<sup>35</sup>

7 1. DITs

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

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

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

18 A. Yes, my concerns with Staff and RUCO's positions apply to both the water and  
19 wastewater rate bases.  
20  
21

22 \_\_\_\_\_  
23 <sup>34</sup> Becker Sb. at 18.

24 <sup>35</sup> Compare Company Water Division Rejoinder Schedule B-2, page 1, Staff Water Division Surrebuttal  
Schedule GWB-3, and RUCO Water Division Surrebuttal Schedule TJC-2, page 1 of 1.

25 <sup>36</sup> See Company Wastewater Division Rejoinder Schedule B-2, page 6.

26 <sup>37</sup> See Staff Wastewater Division Surrebuttal Schedule GSB-3.

<sup>38</sup> See RUCO Wastewater Division Surrebuttal Schedule TJC-2, page 1.

1 **IV. INCOME STATEMENT**

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

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

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

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

18 The Company has corrected its adjustment to bad debt expense (Adjustment  
19 Number 7). The Company adopted RUCO's annualization adjustment in its  
20 rebuttal filing<sup>39</sup> but decreased bad debt expense rather than increased bad debt  
21 expense. RUCO correctly pointed this out in its surrebuttal testimony.<sup>40</sup> The  
22 Company and RUCO are now in agreement on the level of bad debt expense. Staff  
23 has not proposed any adjustment to bad debt expense. The detail of RRUI's  
24

25 <sup>39</sup> Bourassa Rb. at 24.

26 <sup>40</sup> Coley Sb. at 24.

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

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

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

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

19 **A.** Both Staff and RUCO have adopted the Company's proposed adjustment to reduce  
20 transportation expense by \$6,725.<sup>41</sup> As a result, all three parties are in agreement  
21 on the level of transportation expense of \$72,590.<sup>42</sup>

22  
23  
24  
25 <sup>41</sup> *Id.* at 18; Becker Sb. at 19; Bourassa Rb. at 23.

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

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

4 1. Remaining Revenue and Expense Issues.

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

7 A. The Company also disagrees with Staff's and RUCO's adjustment to regulatory  
8 commission expense for \$17,554.<sup>44</sup> Both Staff and RUCO identify these costs as  
9 "residual rate case expenses".<sup>45</sup> However, this seems hard to believe considering  
10 the Company has provided the parties the general ledger detail and copies of  
11 invoices, both of which clearly indicate that these expenses are not rate case  
12 expense related.<sup>46</sup> In fact, as I indicated in my rebuttal these expenses are  
13 comprised of costs for ADEQ annual registration fees, ADOT registration fees,  
14 annual software license fees, annual memberships, right of way permit fees, and  
15 some membership dues to organizations like the American Water Works  
16 Association and the Arizona Water Pollution Control Association.<sup>47</sup> All RUCO  
17 offers is supposition because the number is close to previously approved rate case  
18 expense.<sup>48</sup> Staff on the other hand simply concludes the amount is residual rate  
19 case expense.<sup>49</sup>

20  
21 <sup>43</sup> Becker Sb. at 19.

22 <sup>44</sup> Coley Sb. at 22; Becker Sb. at 18.

23 <sup>45</sup> *Id.*

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

<sup>47</sup> Bourassa Rb. at 26.

<sup>48</sup> Coley Sb. at 22.

<sup>49</sup> Becker Sb. at 18.

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

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

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

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

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

21 A. Yes.<sup>55</sup> But no real reasoning is provided.

22 <sup>50</sup> Coley Sb. at 12.

23 <sup>51</sup> *Id.* at 14.

24 <sup>52</sup> See Company Response to RUCO Data Request 8.01.

25 <sup>53</sup> Bourassa Rb. at 23.

26 <sup>54</sup> *Id.*

<sup>55</sup> Coley Sb. at 16 – 17.

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

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

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

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

20 B. Wastewater Division Revenue and Expenses.

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

25  
26 <sup>56</sup> Direct Testimony of Gerald W. Becker at 35.

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

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

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

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

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

1 A. Both Staff and RUCO have adopted RRUI's proposed adjustment to reduce  
2 transportation expense by \$2,242.<sup>57</sup> All three parties are in agreement on the level  
3 of transportation expense of \$24,575.<sup>58</sup> Staff has also removed its adjustment to  
4 outside services of \$17,190 which was based on the misinterpretation of accounting  
5 fees as ACC fees.<sup>59</sup> The Company and Staff are now in agreement on this issue.

6 1. Remaining Revenue and Expense Issues.

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

9 A. The Company also disagrees with Staff's adjustment to regulatory commission  
10 expense for \$994.<sup>60</sup> Staff identifies these costs as residual rate case expenses.<sup>61</sup> As  
11 I stated previously, these expenses are not rate case expense related.

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

13 A. No.

14 **Q. PLEASE CONTINUE.**

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

21 <sup>57</sup> *Id.* at 18; Becker Sb. at 19; Bourassa Rb. at 29.

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

23 <sup>59</sup> Becker Sb. at 19.

24 <sup>60</sup> *Id.* at 18.

25 <sup>61</sup> *Id.*

26 <sup>62</sup> Coley Sb. at 12.

<sup>63</sup> *Id.* at 14.

1 revenues actually declined by far more than \$4,500 for the wastewater division.<sup>64</sup>

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

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

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

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

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

13 **V. RATE DESIGN**

14 **A. Water Division**

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

17 A. RRUI's proposed rates are:

18 **MONTHLY SERVICE CHARGES**

19	5/8" x 3/4" meters	\$13.09
20	3/4" Meters	\$19.64
21	1" Meters	\$32.73
22	1 1/2" Meters	\$65.45
23	2" Meters	\$104.72
24	3" Meters	\$209.44

25  
26 <sup>64</sup> See Company Response to RUCO Data Request 8.01.

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

9        COMMODITY RATES

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

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

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

8 A. No.

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

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

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

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

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

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

23

24 <sup>65</sup> Bourassa Rb. at 34 – 37.

25 <sup>66</sup> Compare RUCO Water Division Schedule TJC-RD1 and RUCO Water Division Surrebuttal Schedule TJC-RD1.

26 <sup>67</sup> Bourassa Rb. at 37 – 38.

1           **B.    Wastewater Division**

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

4   **A.    The Company's proposed rates are:**

5           MONTHLY SERVICE CHARGES

6           5/8" x 3/4" meters	\$52.25
7           3/4" Meters	\$59.58
8           1" Meters	\$73.60
9           1 1/2" Meters	\$108.68
10          2" Meters	\$150.75
11          3" Meter	\$262.62
12          4" Meters	\$389.26
13          6" Meter	\$739.71
14          8" Meters	\$1,161.71
15          10" Meters	\$1,651.85
16          12" Meters	\$3,055.18

17          COMMODITY RATES

18          Commercial and Multi-tenant only

19           0 to 7,000 gallons	\$0.00
20           Over 7,000 gallons	\$5.29

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

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

26

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

3 A. Yes.  
4  
5  
6  
7  
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**Rio Rico Utilities, Inc.**  
**Docket No. WS-02676A-09-0257**

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

**Exhibit TJB-RJ1**

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

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

**February 5, 2010**

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

RESPONSE: Admit.

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

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

**SCHEDULES**  
**(Water Division)**

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

Exhibit  
 Rejoinder Schedule A-1  
 Page 1  
 Witness: Bourassa

Line  
 No.

1	Fair Value Rate Base			\$	7,992,279		
2							
3	Adjusted Operating Income				(185,735)		
4							
5	Current Rate of Return				-2.32%		
6							
7	Required Operating Income			\$	935,097		
8							
9	Required Rate of Return on Fair Value Rate Base				11.70%		
10							
11	Operating Income Deficiency			\$	1,120,832		
12							
13	Gross Revenue Conversion Factor				1.6286		
14							
15	Increase in Gross Revenue Revenue Requirement				1,825,426		
16							
17	Adjusted Test Year Revenues			\$	1,847,256		
18	Increase in Gross Revenue Revenue Requirement			\$	1,825,426		
19	Proposed Revenue Requirement			\$	3,672,682		
20	% Increase				98.82%		
21							
22	<b>Customer</b>		<b>Present</b>		<b>Proposed</b>	<b>Dollar</b>	<b>Percent</b>
23	<b>Classification</b>		<b>Rates</b>		<b>Rates</b>	<b>Increase</b>	<b>Increase</b>
24	5/8 Inch Residential	\$	1,416,089	\$	2,849,962	\$	1,433,873
25	3/4 Inch Residential		1,492		3,043		1,551
26	1 Inch Residential		16,001		31,755		15,755
27	1.5 Inch Residential		3,016		5,931		2,915
28	2 Inch Residential		4,236		8,401		4,165
29			-		-		-
30	<b>Subtotal</b>	\$	1,440,833	\$	2,899,092	\$	1,458,259
31							101.21%
32	5/8 Inch Commercial	\$	30,960	\$	62,631	\$	31,672
33	1 Inch Commercial		25,394		50,761		25,368
34	1.5 Inch Commercial		13,279		26,462		13,183
35	2 Inch Commercial		134,126		272,232		138,106
36	3 Inch Commercial		97,545		196,157		98,612
37	4 Inch Commercial		43,844		86,182		42,338
38	6 Inch Commercial		18,185		36,530		18,345
39			-		-		-
40	<b>Subtotal</b>	\$	363,332	\$	730,955	\$	367,623
41							101.18%
42							0.00%
43	5/8 Inch Multi-family	\$	2,850	\$	5,745		2,895
44	1.5 Inch Multi-family		568		1,095		527
45	<b>Subtotal</b>	\$	3,418	\$	6,840	\$	3,422
46							100.13%
47	Fire Lines up to 8 Inch	\$	1,199	\$	2,405		1,206
48							100.62%
49	<b>Subtotal Revenues before Annualization</b>	\$	1,808,782	\$	3,639,293	\$	1,830,511
50	<b>Revenue Annualization</b>		(4,794)		(9,834)		(5,041)
51	Miscellaneous Revenues		44,672		44,672		-
52	Reconciling Amount H-1 to C-1		(1,404)		(1,448)		(44)
53	<b>Total of Water Revenues (a)</b>	\$	1,847,256	\$	3,672,682	\$	1,825,426
54							98.82%

55 **SUPPORTING SCHEDULES:**  
 56 Rejoinder B-1  
 57 Rejoinder C-1  
 58 Rejoinder C-3  
 59 Rejoinder H-1

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

Exhibit  
 Rejoinder Schedule B-2  
 Page 1  
 Witness: Bourassa

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

SUPPORTING SCHEDULES:  
 Rejoinder B-2, pages 2

RECAP SCHEDULES:  
 Rejoinder B-1

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

Exhibit  
 Rejoinder Schedule B-2  
 Page 2  
 Witness: Bourassa

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

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

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

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

Bio. Pico. - Water Division  
Plant Additions and Retirements

Exhibit  
Rejoinder Schedule B-2  
Page 3.1

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	Plant Al. 12/31/2002	2002 Accum. Depr.	2003 Plant Additions	2003 Plant Adjustments	2003 Adjusted Plant Additions	2003 Plant Retirements	2003 Salvage A/D Only	2003 Plant Balance	2003 Deprec.
301	Organization Cost	0.00%	0.00%	5,785	-	-	-	-	-	-	5,785	-
302	Franchise Cost	0.00%	0.00%	417	-	-	-	-	-	-	417	-
303	Land and Land Rights	0.00%	0.00%	44,194	-	-	-	-	-	-	44,194	-
304	Structures and Improvements	1.99%	3.33%	435,181	104,047	253,614	-	253,614	-	-	688,795	11,184
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes	3.31%	3.33%	272,063	78,666	-	-	-	-	-	272,063	9,005
307	Wells and Springs	6.67%	6.67%	-	-	-	-	-	-	-	-	-
308	Infiltration Galleries and Tunnels	1.66%	2.00%	29,881	(3,617)	249,272	-	249,272	-	-	279,153	2,565
309	Supply Mains	3.96%	5.00%	52,635	19,077	134,736	-	134,736	-	-	187,371	4,752
310	Power Generation Equipment	3.96%	12.50%	1,504,459	508,421	151,098	-	151,098	-	-	1,655,557	62,568
311	Electric Pumping Equipment	3.99%	3.33%	268,685	74,460	-	-	-	-	-	268,685	10,721
320	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	-	-	-
320.1	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	3.99%	20.00%	353,111	106,812	50,494	-	50,494	-	-	403,605	7,567
330	Distribution Reservoirs & Standpipe	2.00%	2.22%	-	-	-	-	-	-	-	-	-
330.1	Storage tanks	2.00%	2.22%	-	-	-	-	-	-	-	-	-
330.2	Pressure Tanks	2.00%	5.00%	-	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	1.66%	2.00%	19,116,148	5,889,199	134,818	-	134,818	(17,464)	-	19,233,502	318,447
333	Services	2.49%	3.33%	1,465,553	483,437	47,278	-	47,278	-	-	1,512,831	37,081
334	Meters	1.99%	8.33%	519,191	82,474	42,569	-	42,569	(12,864)	-	548,896	13,458
335	Hydrants	4.01%	2.00%	459,227	92,050	1,875	-	1,875	(1,352)	-	459,750	9,157
336	Backflow Prevention Devices	6.67%	6.67%	-	-	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	4.80%	6.67%	22,986	9,507	-	-	-	-	-	22,986	1,103
340	Office Furniture and Fixtures	4.80%	20.00%	69,494	18,780	-	-	-	-	-	69,494	3,336
340.1	Computers and Software	33.33%	20.00%	2,925	4,964	-	-	-	-	-	2,925	(2,029)
341	Transportation Equipment	4.00%	4.00%	-	-	-	-	-	-	-	-	-
342	Stores Equipment	4.00%	5.00%	15,035	5,054	-	-	-	-	-	15,035	601
343	Tools and Work Equipment	4.00%	4.00%	3,061	1,378	-	-	-	-	-	3,061	122
344	Laboratory Equipment	5.03%	5.00%	-	-	-	-	-	-	-	-	-
345	Power Operated Equipment	4.89%	10.00%	141,858	19,381	-	-	-	-	-	141,858	7,135
346	Communications Equipment	10.00%	10.00%	7,701	2,709	-	-	-	-	-	7,701	377
347	Miscellaneous Equipment	-	-	-	-	-	-	-	-	-	-	-
348	Other Tangible Plant	-	-	-	-	-	-	-	-	-	-	-
	Rounding	-	-	-	-	-	-	-	-	-	-	-

Plant Held for Future Use  
TOTAL WATER PLANT

24,789,590	7,506,779	1,065,754	-	1,066,754	(31,680)	25,823,664	497,151
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Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2005 Plant Additions		2005 Plant Adjustments		2005 Plant Retirements		2005 Salvage A/D Only	2005 Plant Balance	2005 Deprec.
				2005 Plant Additions	2005 Plant Adjustments	2005 Plant Retirements	2005 Plant Retirements					
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	5,785	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	417	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	-	44,194	-
304	Structures and Improvements	1.99%	3.33%	-	-	-	-	-	-	-	688,795	22,837
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes	3.33%	3.33%	-	-	-	-	-	-	-	-	-
307	Wells and Springs	3.31%	6.67%	-	-	-	-	-	-	-	400,357	13,332
308	Infiltration Galleries and Tunnels	1.66%	2.00%	-	-	-	-	-	-	-	-	-
309	Supply Mains	3.95%	5.00%	-	-	-	-	-	-	-	279,153	5,683
310	Power Generation Equipment	3.96%	12.50%	-	-	-	-	-	-	-	187,371	9,369
311	Electric Pumping Equipment	3.95%	3.33%	507,953	-	-	-	(2,008)	-	-	2,387,829	268,107
320	Water Treatment Equipment	3.95%	3.33%	34,253	-	-	-	(749)	-	-	367,389	11,676
320.1	Water Treatment Equipment	3.95%	20.00%	-	-	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	3.99%	2.22%	-	-	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.00%	2.22%	318,417	-	-	-	-	-	-	759,861	13,334
330.1	Storage tanks	2.00%	2.00%	-	-	-	-	-	-	-	-	-
330.2	Pressure Tanks	2.00%	5.00%	-	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	1.66%	2.00%	736,273	-	-	-	(44,284)	-	-	20,357,216	400,224
333	Services	2.49%	3.33%	153,500	-	-	-	-	-	-	1,720,542	54,738
334	Meters	1.99%	8.33%	82,087	-	-	-	(12,136)	-	-	649,657	51,203
335	Hydrants	4.01%	2.00%	20,516	-	-	-	(1,645)	-	-	494,074	9,693
336	Backflow Prevention Devices	6.67%	6.67%	-	-	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	4.80%	6.67%	-	-	-	-	-	-	-	22,986	1,533
340	Office Furniture and Fixtures	4.80%	20.00%	6,105	-	-	-	-	-	-	76,919	14,773
340.1	Computers and Software	33.33%	20.00%	-	-	-	-	-	-	-	2,925	-
341	Transportation Equipment	4.00%	4.00%	-	-	-	-	-	-	-	-	-
342	Stores Equipment	4.00%	5.00%	-	-	-	-	-	-	-	15,035	752
343	Tools and Work Equipment	4.00%	10.00%	-	-	-	-	-	-	-	3,061	306
344	Laboratory Equipment	5.03%	5.00%	-	-	-	-	-	-	-	-	-
345	Power Operated Equipment	4.89%	10.00%	55,958	-	-	-	-	-	-	197,816	16,984
346	Communications Equipment	10.00%	10.00%	-	-	-	-	-	-	-	7,701	770
347	Miscellaneous Equipment	10.00%	10.00%	-	-	-	-	-	-	-	-	-
348	Other Tangible Plant	10.00%	10.00%	-	-	-	-	-	-	-	-	-
	Rounding			-	-	-	-	-	-	-	-	-
				1,915,062	-	-	-	(60,824)	-	-	28,679,084	895,315
				1,915,062	-	-	-	(60,824)	-	-	28,679,084	895,315

Plant Held for Future Use  
TOTAL WATER PLANT

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2006 Plant Additions	2006 Plant Adjustments <sup>1</sup>	2006 Adjusted Plant Additions	2006 Plant Retirements	2006 Salvage A/D Only	2006 Plant Balance	2006 Deprec.
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	5,785	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	417	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	44,194	-
304	Structures and Improvements	1.99%	3.33%	545,966	-	545,966	-	-	1,234,761	32,027
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-
306	Lake River and Other Intakes	3.31%	3.33%	53,611	(147)	53,464	-	-	453,821	14,222
307	Wells and Springs	1.66%	2.00%	-	-	-	-	-	-	-
308	Infiltration Galleries and Tunnels	3.96%	5.00%	-	-	-	-	-	279,153	5,583
309	Supply Mains	3.96%	5.00%	-	-	-	-	-	187,371	9,369
310	Power Generation Equipment	3.96%	12.50%	95,823	-	95,823	-	-	2,493,652	305,718
311	Electric Pumping Equipment	3.99%	3.33%	5,581	-	5,581	-	-	372,970	12,327
320	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	-
320.1	Water Treatment Equipment	2.00%	2.00%	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	2.00%	2.22%	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.00%	2.22%	-	-	-	-	-	759,861	16,869
330.1	Storage tanks	2.00%	2.22%	-	-	-	-	-	-	-
330.2	Pressure Tanks	2.00%	2.00%	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	1.66%	2.00%	741,193	(1,901)	739,292	-	-	21,096,508	414,537
333	Services	2.49%	3.33%	86,384	-	86,384	-	-	1,806,926	58,732
334	Meters	2.49%	8.33%	60,552	-	60,552	-	-	710,209	56,638
335	Hydrants	1.99%	2.00%	-	-	-	-	-	494,074	9,881
336	Backflow Prevention Devices	4.01%	6.67%	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	4.80%	6.67%	-	-	-	-	-	22,986	1,533
340	Office Furniture and Fixtures	4.80%	20.00%	-	-	-	-	-	76,919	15,384
340.1	Computers and Software	33.33%	20.00%	-	-	-	-	-	2,925	-
341	Transportation Equipment	4.00%	4.00%	-	-	-	-	-	-	-
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-	15,035	752
343	Tools and Work Equipment	4.00%	4.00%	-	-	-	-	-	3,061	306
344	Laboratory Equipment	5.00%	5.00%	-	-	-	-	-	-	-
345	Power Operated Equipment	5.03%	10.00%	3,547	-	3,547	-	-	201,363	19,959
346	Communications Equipment	4.89%	10.00%	-	-	-	-	-	7,701	770
347	Miscellaneous Equipment	-	-	-	-	-	-	-	-	-
348	Other Tangible Plant	-	-	-	-	-	-	-	-	-
	Rounding	-	-	-	-	-	-	-	-	-
	Plant Held for Future Use	-	-	-	-	-	-	-	-	-
	TOTAL WATER PLANT	-	-	1,592,656	(2,048)	1,590,607	-	-	30,269,691	974,608

<sup>1</sup> Affiliate Profit

**Rio Rico - Water Division**  
**Plant Additions and Retirements**

Exhibit  
 Rejoinder Schedule B-2  
 Page 3.5

Account No.	Description	Deprec.	Deprec.	2007 Plant Additions	2007 Plant Adjustments <sup>1</sup>	2007 Adjusted Plant Additions	2007 Plant Retirements	2007 Salvage A/D Only	2007 Plant Balance	2007 Deprec.
		Rate Before Oct-04	Rate After Oct-04							
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	5,785	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	417	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	44,194	-
304	Structures and Improvements	1.99%	3.33%	389,176	-	389,176	-	-	1,623,937	47,597
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-
306	Lake River and Other Intakes	3.31%	3.33%	-	(1,830)	51,413	-	-	505,234	15,968
307	Wells and Springs	3.31%	6.67%	53,242	-	-	-	-	-	-
308	Infiltration Galleries and Tunnels	1.66%	2.00%	-	-	-	-	-	279,153	5,583
309	Supply Mains	3.96%	5.00%	5,599	-	5,599	-	-	192,970	9,509
310	Power Generation Equipment	3.96%	12.50%	20,220	-	20,220	-	-	2,513,872	312,970
311	Electric Pumping Equipment	3.96%	3.33%	-	-	-	-	-	372,970	12,420
320	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	-
320.1	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	3.99%	20.00%	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.00%	2.22%	-	-	-	-	-	799,961	16,869
330.1	Storage tanks	2.00%	2.22%	-	-	-	-	-	-	-
330.2	Pressure Tanks	2.00%	5.00%	-	(2,010)	(2,010)	-	-	21,094,498	421,910
331	Transmission and Distribution Mains	1.66%	2.00%	-	-	-	-	-	1,907,691	61,848
333	Services	2.49%	3.33%	100,765	-	100,765	-	-	839,434	64,543
334	Meters	2.49%	8.33%	129,225	-	129,225	-	-	550,907	10,450
335	Hydrants	1.99%	2.00%	56,833	-	56,833	-	-	3,848	128
338	Backflow Prevention Devices	4.01%	6.67%	3,848	-	3,848	-	-	8,745	292
339	Other Plant and Miscellaneous Equipment	4.80%	6.67%	12,160	(3,415)	8,745	-	-	22,966	1,533
340	Office Furniture and Fixtures	4.80%	6.67%	-	-	-	-	-	76,919	15,384
340.1	Computers and Software	4.80%	20.00%	-	-	-	-	-	2,925	-
341	Transportation Equipment	33.33%	20.00%	-	-	-	-	-	-	-
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-	15,035	752
343	Tools and Work Equipment	4.00%	5.00%	-	-	-	-	-	3,061	306
344	Laboratory Equipment	4.00%	10.00%	-	-	-	-	-	-	-
345	Power Operated Equipment	5.03%	5.00%	-	-	-	-	-	201,363	20,136
346	Communications Equipment	4.85%	10.00%	-	-	-	-	-	7,701	770
347	Miscellaneous Equipment	4.85%	10.00%	-	-	-	-	-	-	-
348	Other Tangible Plant	4.85%	10.00%	-	-	-	-	-	-	-
	Rounding			-	-	-	-	-	-	-

Plant Held for Future Use										
<b>TOTAL WATER PLANT</b>				<b>771,069</b>	<b>(7,255)</b>	<b>763,814</b>			<b>31,033,505</b>	<b>1,018,968</b>

<sup>1</sup> Affiliate Profit

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2008 Plant Additions	2008 Plant Adjustments	2008 Adjusted Plant Additions	2008 Plant Retirements	2008 Salvage A/D Only	2008 Plant Balance	2008 Decrease
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	5,785	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	417	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	44,194	-
304	Structures and Improvements	1.99%	3.33%	839,316	269,560	1,108,896	-	-	2,732,833	72,540
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-
306	Lake River and Other Intakes	3.31%	3.33%	3,748	57,101	58,278	(2,542)	-	563,511	17,795
307	Wells and Springs	6.67%	6.67%	-	-	-	-	-	-	-
308	Infiltration Galleries and Tunnels	1.66%	2.00%	-	-	-	-	-	279,153	5,563
309	Supply Mains	3.96%	5.00%	4,150	-	4,150	-	-	197,120	9,752
310	Power Generation Equipment	3.96%	12.50%	65,771	12,498	78,098	(170)	-	2,591,970	319,115
311	Electric Pumping Equipment	3.99%	3.33%	-	-	-	-	-	372,970	12,420
320	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	-
320.1	Water Treatment Equipment	3.99%	3.33%	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	3.99%	20.00%	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.00%	2.22%	-	-	-	-	-	-	-
330.1	Storage tanks	2.00%	2.22%	-	-	-	-	-	759,861	16,669
330.2	Pressure Tanks	2.00%	5.00%	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	1.66%	2.00%	980,746	17,464	994,652	(3,558)	-	22,089,150	431,836
333	Services	2.49%	3.33%	258,637	42,945	301,582	-	-	2,209,274	68,547
334	Meters	2.49%	8.33%	117,171	-	117,171	-	-	986,605	74,805
335	Hydrants	1.99%	2.00%	17,671	-	17,671	-	-	568,577	11,195
336	Backflow Prevention Devices	4.01%	6.67%	-	-	-	-	-	3,848	257
339	Other Plant and Miscellaneous Equipment	4.80%	6.67%	119,069	-	113,098	(4,971)	-	121,843	4,355
340	Office Furniture and Fixtures	4.80%	6.67%	-	-	-	-	-	22,986	1,533
340.1	Computers and Software	33.33%	20.00%	-	-	-	-	-	76,919	3,229
341	Transportation Equipment	4.00%	20.00%	108,010	108,010	216,020	-	-	218,945	22,187
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-	15,035	752
343	Tools and Work Equipment	4.00%	5.00%	-	-	-	-	-	3,061	306
344	Laboratory Equipment	4.00%	10.00%	-	-	-	-	-	-	-
345	Power Operated Equipment	5.03%	5.00%	-	-	-	-	-	218,040	20,970
346	Communications Equipment	4.89%	10.00%	16,678	-	16,678	-	-	7,701	770
347	Miscellaneous Equipment	4.89%	10.00%	-	-	-	-	-	-	-
348	Other Tangible Plant	4.89%	10.00%	-	-	-	-	-	-	-
	Rounding			-	-	-	-	-	-	-
				2,529,938	507,598	3,026,295	(11,241)	-	34,059,801	1,094,817

<sup>1</sup> Affiliate Profit

Plant Held for Future Use  
TOTAL WATER PLANT

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	Year End Accumulated Depreciation by Account			
				2002	2003	2004	2005
301	Organization Cost	0.00%	0.00%	-	-	-	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-
304	Structures and Improvements	1.99%	3.33%	104,047	115,231	131,245	154,182
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-
306	Lake River and Other Intakes	2.50%	2.50%	-	-	-	-
307	Wells and Springs	3.33%	3.33%	78,656	87,661	98,807	112,139
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-	-	-	-
309	Supply Mains	2.00%	2.00%	(3,617)	(1,052)	3,819	9,402
310	Power Generation Equipment	3.96%	5.00%	19,077	23,829	31,736	41,105
311	Electric Pumping Equipment	3.96%	12.50%	508,421	570,989	679,098	945,187
320	Water Treatment Equipment	3.99%	3.33%	74,460	85,181	96,705	107,632
320.1	Water Treatment Equipment	3.99%	3.33%	-	-	-	-
320.2	Chemical Solution Feeders	3.99%	3.33%	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.00%	2.22%	106,812	114,379	123,062	136,397
330.1	Storage tanks	2.00%	2.22%	-	-	-	-
330.2	Pressure Tanks	2.00%	2.22%	-	-	-	-
331	Transmission and Distribution Mains	1.65%	2.00%	5,898,199	6,200,192	6,539,573	6,895,514
333	Services	2.49%	3.33%	483,437	520,518	562,096	616,834
334	Meters	2.49%	8.33%	82,474	83,068	84,633	123,698
335	Hydrants	1.99%	2.00%	92,050	99,855	109,170	117,217
336	Backflow Prevention Devices	4.01%	6.67%	-	-	-	-
339	Other Plant and Miscellaneous Equipment	-	-	-	-	-	-
340	Office Furniture and Fixtures	4.80%	6.67%	9,507	10,610	11,821	13,354
340.1	Computers and Software	4.80%	20.00%	18,780	22,116	28,149	42,922
341	Transportation Equipment	33.33%	20.00%	4,954	2,925	2,925	2,925
342	Stores Equipment	4.00%	4.00%	-	-	-	-
343	Tools and Work Equipment	4.00%	5.00%	5,054	5,655	6,294	7,046
344	Laboratory Equipment	4.00%	4.00%	1,378	1,500	1,669	1,975
345	Power Operated Equipment	5.00%	5.00%	-	-	-	-
346	Communications Equipment	5.03%	10.00%	19,381	26,516	35,415	52,398
347	Miscellaneous Equipment	4.89%	10.00%	2,709	3,088	3,561	4,331
348	Other Tangible Plant Rounding	-	-	-	-	-	-

Plant Held for Future Use	-	-	-	-	-	-	-
TOTAL WATER PLANT	7,606,779	7,972,250	8,549,777	9,384,268	10,358,875	11,377,844	12,472,661

Rio Rico - Water Division  
Plant Reconciliation to Prior Rate Case

Line No.	Account No.	Description	Balance Per Company Per 2002 Filing Before Adj.	PTY Plant	Rounding	Intentionally Left Blank	Per Decision 67279	Prior Case Adjusted Plant	PTY Plant	Rounding	Initial Balance
1	301	Organization Cost	5,785				5,785				5,785
2	302	Franchise Cost	417				417				417
3	303	Land and Land Rights	44,194				44,194				44,194
4	304	Structures and Improvements	435,181				435,181				435,181
5	305	Collecting and Impounding Res.	-				-				-
6	306	Lake River and Other Intakes	-				-				-
7	307	Wells and Springs	272,063				272,063				272,063
8	308	Infiltration Galleries and Tunnels	-				-				-
9	309	Supply Mains	29,881	36,582			66,463	(36,582)			29,881
10	310	Power Generation Equipment	52,635	134,736			187,371	(134,736)			52,635
11	311	Electric Pumping Equipment	1,504,459	146,219			1,650,678	(146,219)			1,504,459
12	312	Water Treatment Equipment	268,685	-			268,685	-			268,685
13	320.1	Water Treatment Plants	-	-			-	-			-
14	320.2	Chemical Solution Feeders	-	-			-	-			-
15	330	Distribution Reservoirs & Standpipe	353,111	50,494			403,605	(50,494)			353,111
16	330.1	Storage tanks	-	-			-	-			-
17	330.2	Pressure Tanks	-	-			-	-			-
18	331	Transmission and Distribution Mains	19,116,148	227,626			19,343,774	(227,626)			19,116,148
19	333	Services	1,465,553	-			1,465,553	-			1,465,553
20	334	Meters	519,191	-			519,191	-			519,191
21	335	Hydrants	459,227	-			459,227	-			459,227
22	336	Backflow Prevention Devices	-	-			-	-			-
23	339	Other Plant and Miscellaneous Equipment	-	-			-	-			-
24	340	Office Furniture and Fixtures	22,986	-			22,986	-			22,986
25	340.1	Computers and Software	69,494	-			69,494	-			69,494
26	341	Transportation Equipment	2,925	-			2,925	-			2,925
27	342	Stores Equipment	-	-			-	-			-
28	343	Tools and Work Equipment	15,035	-			15,035	-			15,035
29	344	Laboratory Equipment	3,061	-			3,061	-			3,061
30	345	Power Operated Equipment	-	-			-	-			-
31	346	Communications Equipment	141,858	-			141,858	-			141,858
32	347	Miscellaneous Equipment	7,701	-			7,701	-			7,701
33	348	Other Tangible Plant	-	-			-	-			-
34		Rounding	-	-	(2)		-	-	(2)		-
35		TOTAL	24,789,592	595,657	(2)		25,385,247	(595,657)			24,789,590





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

Exhibit  
Rejoinder Schedule B-2  
Page 5  
Witness: Bourassa

Line

No.

1 Reclassification of AIAC and CIAC

2

3

4 CIAC \$ (48,724)

5

6 AIAC \$ 48,724

7

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17 See Testimony

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19 SUPPORTING SCHEDULES

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

Exhibit  
 Rejoinder Schedule B-2  
 Page 6  
 Witness: Bourassa

Line No.	Adjusted		Probability of Realization of Future	Deductible TD (Taxable TD) Expected to be Realized	Tax Rate	Future Tax Asset		Future Tax Liability	
	Book Value <sup>1</sup>	Tax Value <sup>2</sup>	Tax Benefit			Current	Non Current	Current	Non Current
1	<b>Deferred Income Tax as of December 31, 2008 (Water and Wastewater Divisions)</b>								
2									
3									
4									
5									
6	Plant-in-Service	\$ 45,888,844							
7	Accum. Deprec.	(17,582,689)							
8	CIAC	(16,705,616)							
9	Fixed Assets	\$ 11,600,539	\$ 11,648,936	100.0%	\$ 48,397	38.6%		18,681	-
10	AIAC		360,294	100.0%	\$ 360,294	38.6%		\$ 139,073	
11	Tax Benefits from O.L. Carry Forward.			100.0%	\$ 746,589 <sup>3</sup>	38.6%		\$ 288,183	
12							\$ -	\$ 445,938	\$ -
13									
14									
15									
16	Water Division allocation factor (based on relative rate bases)						\$ 445,938		
17									
18	Allocated DIT Asset (Liability)						0.70630		
19									
20	DIT Asset (Liability) per Direct						\$ 314,965		
21									
22	Adjustment to DIT						\$ 778,203		
23									
24	1 Adjusted Water and Wastewater - per Rejoinder B-2, page 2 (Water Division) and Rejoinder B-2, page 2 (Wastewater Division)						\$ 463,238		
25	2 Computation of Net Tax Value at December 31, 2008 (Water and Wastewater)								
26	Based on 2008 Tax Depreciation report (December 31, 2008)								
27	Unadjusted Cost per 2008 Tax Depr. Report					\$ 25,520,835			
28	Reconciling Items not on tax report:								
29	Land costs not on tax, on books					51,739			
30	2008 Plant recorded on books not on tax,					809,876			
31	2006 Plant recorded on books not on tax,					779,709			
32	CIAC funded plant reflected in tax plant-in-service					(3,942,540)			
33	Reconciling difference					105,049			
34	Net Unadjusted Cost tax Basis							\$ 23,324,668	
35	Affiliate Profit								
36	<u>Affiliate Profit removed</u>					(24,780)			
37	Affiliate A/D at tax rates					1,011			
38	Net Reduction in tax basis due to affiliate profit							\$ (23,769)	
39	<u>Basis Reduction</u>								
40	Basis Reduction 2007 and Prior Years (from 2007 Tax Depr. Report)								
41	Accumulated Depreciation 2007 and prior (2007 Tax Depr Report)					(10,233,311)			
42	Tax Accum. Depr. from CIAC funded plant in tax plant-in-service to 2007					616,408			
43	Net Basis Reduction 2007 and Prior years								(9,616,903)
44	<u>Bonus Depreciation Computation 2008</u>								
45	Bonus Depr. for 12 months of 2008 per Tax Depr. Report					\$ 1,030,227			
46	Less: Bonus Depr. on CIAC funded plant					-			
47	Net 12 months of Bonus Depr for plant					\$ 1,030,227			
48	Factor					1.00			
49	Bonus Depreciation for 12 months 2008								(1,030,227)
50	<u>2008 Depreciation Computation 2008</u>								
51	2008 Tax Depreciation (12 Months) per Tax Depr. Report								
52	Less: 2008 Depr on CIAC funded plant in tax plant					\$ 1,162,611			
53	Net 12 months of depr. for plant added Jan. to Dec. 2008					(157,779)			
54	Factor					\$ 1,004,832			
55	Tax Depreciation for 12 months of 2008					1.00			
56	Net 2008 Depreciation								(1,004,832)
57	Net tax value of plant-in-service at December 31, 2008								\$ 11,648,936
58									
59	<sup>3</sup> Tax Benefits from bonus depreciation								
60									
61	Net Income before tax								
62		\$ 1,004,175							
63	Add: Book Depreciation								
64		284,295							
65	Less: Bonus Depreciation								
66	Tax Depreciation								
67		(1,030,227)							
68	Taxable Income /(loss)								
69		\$ (746,589)							

Rio Rico Utilities  
Deferred Income Taxes  
Reconciliation of Book and Tax

Line No.	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Totals
1	\$ 27,801,072	\$ 1,198,144	\$ 587,741	\$ 1,715,104	\$ 446,699	\$ 395,222	\$ 2,808,605	\$ 1,374,693	\$ 918,259	\$ 3,276,005	\$ 2,134,764	\$ 818,495	\$ 3,197,370	\$ 46,876,102
2	(14,930)	(8,375)	(20,402)	(50,993)	(63,377)	(18,431)	(438,801)	(51,487)	(20,725)	(83,330)	-	-	-	(782,477)
3	(61,076)	(8,375)	(17,201)	(2,623)	1,070	1,066	1,442	(349,952)	2,707	5,520	7,642	6,984	49,762	(362,995)
4	(21,241,464)	(69,747)	(65,960)	(488,481)	(141,114)	(18,264)	(480,374)	(110,714)	(732,724)	(2,210,805)	(7,705)	(15)	-	(25,565,377)
5	\$ 6,498,532	\$ 1,105,092	\$ 484,177	\$ 1,172,995	\$ 243,217	\$ 365,634	\$ 1,890,873	\$ 862,540	\$ 167,517	\$ 987,389	\$ 2,134,692	\$ 825,464	\$ 3,247,132	\$ 19,965,233
6														
7														
8	\$ 6,498,532	\$ 1,120,022	\$ 504,579	\$ 1,223,988	\$ 306,594	\$ 384,065	\$ 2,328,674	\$ 914,027	\$ 188,242	\$ 1,070,719	\$ 2,134,692	\$ 825,464	\$ 3,247,132	\$ 20,747,730
9	\$ 9,025,128	\$ 1,136,773	\$ 538,482	\$ 1,228,828	\$ 303,583	\$ 395,223	\$ 2,808,605	\$ 1,374,693	\$ 918,259	\$ 3,276,004	\$ 1,337,695	\$ 820,770	\$ 2,354,792	\$ 25,520,835
10														
11	\$ (2,524,596)	\$ (16,751)	\$ (33,903)	\$ (4,840)	\$ 3,011	\$ (15,158)	\$ (478,931)	\$ (460,866)	\$ (730,017)	\$ (2,205,285)	\$ 796,997	\$ 4,694	\$ 892,340	\$ (4,773,105)
12														
13														
14														
15														
16														
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18														
19														
20														
21														
22														
23														
24														
25														
26														
27														
28														
29														

Book Adds net of AIAC and CIAC (1)(4)(4)(5)  
Plant Adds Per 2008 Depreciation Report  
Difference book to tax  
Difference  
Land costs not on Tax Report  
Plant Added to tax in 2006, but booked in 2006 (timing)  
Plant Added to tax in 2009, but booked in 2008 (timing)  
CIAC booked to tax  
Unreconciled Difference (timing)  
Total Reconciling Items  
Difference basis

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

Exhibit  
 Rejoinder Schedule B-5  
 Page 1  
 Witness: Bourassa

Line			
<u>No.</u>			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	145,458
3	Pumping Power (1/24 of Pumping Power)		16,396
4	Purchased Water (1/24 of Purchased Water)		-
5	Materials and Supplies		-
6	Prepays		10,289
7			
8			
9	Total Working Capital Allowance	<u>\$</u>	<u>172,143</u>
10			
11			
12	Working Capital Requested	<u>\$</u>	<u>-</u>
13			
14			
15	<u>SUPPORTING SCHEDULES:</u>		<u>RECAP SCHEDULES:</u>
16	E-1		Rejoinder B-1
17			
18			Adjusted
19	<u>Cash Working Capital Detail</u>		<u>Test Year Results</u>
20			
21	Total Operating Expense	\$	2,032,991
22	Less:		
23	Income Tax		(116,760)
24	Property Tax		126,699
25	Depreciation		465,889
26	Purchased Water		-
27	Pumping Power		393,496
28	Allowable Expenses	<u>\$</u>	<u>1,163,668</u>
29	1/8 of allowable expenses	<u>\$</u>	<u>145,458</u>
30			
31			

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

Exhibit  
 Rejoinder Schedule C-1  
 Page 1  
 Witness: Bourassa

Line No.	Test Year Adjusted Results	Adjustment	Rejoinder Adjusted Results	Proposed Rate Increase	Rejoinder Adjusted with Rate Increase
1	<b>Revenues</b>				
2	\$ 1,802,584	\$ -	\$ 1,802,584	\$ 1,825,426	\$ 3,628,010
3	-	-	-	-	-
4	44,672	-	44,672	-	44,672
5	<u>\$ 1,847,256</u>	<u>\$ -</u>	<u>\$ 1,847,256</u>	<u>\$ 1,825,426</u>	<u>\$ 3,672,682</u>
6	<b>Operating Expenses</b>				
7	\$ -	-	\$ -	-	\$ -
8	-	-	-	-	-
9	441,501	(48,005)	393,496	-	393,496
10	-	-	-	-	-
11	9,347	-	9,347	-	9,347
12	23,150	-	23,150	-	23,150
13	805,032	9,357	814,389	-	814,389
14	76,859	-	76,859	-	76,859
15	487	-	487	-	487
16	-	-	-	-	-
17	26,954	-	26,954	-	26,954
18	79,315	(6,725)	72,590	-	72,590
19	37,699	-	37,699	-	37,699
20	-	-	-	-	-
21	17,564	-	17,564	-	17,564
22	70,000	-	70,000	-	70,000
23	14,822	(1,363)	13,459	-	13,459
24	371	799	1,170	-	1,170
25	463,297	2,592	465,889	-	465,889
26	-	-	-	-	-
27	130,373	(3,674)	126,699	-	126,699
28	(134,909)	18,149	(116,760)	704,594	587,834
29	<u>\$ 2,061,862</u>	<u>\$ (28,871)</u>	<u>\$ 2,032,991</u>	<u>\$ 704,594</u>	<u>\$ 2,737,585</u>
30	<u>\$ (214,606)</u>	<u>\$ 28,871</u>	<u>\$ (185,735)</u>	<u>\$ 1,120,832</u>	<u>\$ 935,097</u>
31	<b>Other Income (Expense)</b>				
32	-	-	-	-	-
33	-	-	-	-	-
34	-	-	-	-	-
35	-	-	-	-	-
36	-	-	-	-	-
37	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
38	<u>\$ (214,606)</u>	<u>\$ 28,871</u>	<u>\$ (185,735)</u>	<u>\$ 1,120,832</u>	<u>\$ 935,097</u>

39  
 40 SUPPORTING SCHEDULES:  
 41 Rejoinder C-1, page 2  
 42

RECAP SCHEDULES:  
 Rejoinder A-1

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

Line No.	1	2	3	4	5	6	7	8	9	Rejoinder Adjusted Results	Proposed Rate Increase	Rejoinder Adjusted with Rate Increase
	Test Year Adjusted Results	Depreciation Expense	Property Taxes	Purchased Power	Transport. Expense	Out of Period Exp.	Misc. Expense	Bad Debt Exp.	Central Office Costs	Income Tax		
1	\$ 1,802,584										\$ 1,825,426	\$ 3,628,010
2	-											
3	44,672											44,672
4	\$ 1,847,256										\$ 1,825,426	\$ 3,672,682
5												
6	\$ -											
7												
8												
9	441,501		(48,005)									393,496
10	-											
11	9,347											9,347
12	23,150											23,150
13	805,032				(14,477)			23,834				814,389
14	76,859											76,859
15	487											487
16	-											
17	26,954											26,954
18	79,315						(6,725)					72,590
19	37,699											37,699
20	-											
21	17,564											17,564
22	70,000						(1,363)					70,000
23	14,822											13,459
24	371							799				1,170
25	463,297	2,592										465,889
26	-											
27	130,373		(3,674)							18,149	704,594	126,699
28	(134,909)											(116,760)
29	\$ 2,061,862	\$ 2,592	\$ (3,674)	\$ (48,005)	\$ (6,725)	\$ (14,477)	\$ (1,363)	\$ 799	\$ 23,834	\$ 18,149	\$ 704,594	\$ 2,737,585
30	\$ (214,606)	\$ (2,592)	\$ 3,674	\$ 48,005	\$ 6,725	\$ 14,477	\$ 1,363	\$ (799)	\$ (23,834)	\$ (18,149)	\$ (185,735)	\$ 935,097
31												
32												
33												
34												
35												
36												
37	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
38	\$ (214,606)	\$ (2,592)	\$ 3,674	\$ 48,005	\$ 6,725	\$ 14,477	\$ 1,363	\$ (799)	\$ (23,834)	\$ (18,149)	\$ (185,735)	\$ 935,097
39												
40												
41												
42												

RECAP SCHEDULES:  
Rejoinder C-1

SUPPORTING SCHEDULES:  
Rejoinder C-2

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

Line No.	1 Depreciation Expense	2 Property Taxes	3 Purchased Power	4 Transport. Expense	5 Out of Period Exp.	6 Misc. Expense	Subtotal
1	2,592	(3,674)	(48,005)	(6,725)	(14,477)	(1,363)	(71,653)
2							
3							
4							
5							
6							
7	(2,592)	3,674	48,005	6,725	14,477	1,363	71,653
8							
9							
10							
11							
12							
13							
14							
15							
16	(2,592)	3,674	48,005	6,725	14,477	1,363	71,653
17							
18							
19							
20							
21							
22							
23							
24	799	23,834	18,149				(28,871)
25							
26	(799)	(23,834)	(18,149)				28,871
27							
28							
29							
30							
31							
32							
33							
34	(799)	(23,834)	(18,149)				28,871
35							

Adjustments to Revenues and Expenses

Adjustments to Revenues and Expenses

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

Exhibit  
 Rejoinder Schedule C-2  
 Page 2  
 Witness: Bourassa

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

54 SUPPORTING SCHEDULE

55 Rejoinder B-2, page 3

\* Fully Depreciated

56

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

Exhibit  
 Rejoinder Schedule C-2  
 Page 3  
 Witness: Bourassa

Line No.			
1	<u>Property Taxes:</u>		
2			
3	Adjusted Revenues in year ended 12/31/08	\$	1,847,256
4	Adjusted Revenues in year ended 12/31/08		1,847,256
5	Proposed Revenues		<u>3,672,682</u>
6	Average of three year's of revenue	\$	2,455,731
7	Average of three year's of revenue, times 2	\$	4,911,463
8	Add:		
9	Construction Work in Progress at 10%	\$	-
10	Deduct:		
11	Book Value of Transportation Equipment		<u>193,833</u>
12			
13	Full Cash Value	\$	4,717,630
14	Assessment Ratio		<u>21%</u>
15	Assessed Value		990,702
16	Property Tax Rate		11.3283%
17			
18	Property Tax		112,229
19	Plus: Tax on Parcels		14,470
20			
21	Total Property Tax at Proposed Rates	\$	<u>126,699</u>
22	Adjusted Property Taxes		<u>130,373</u>
23	Change in Property Taxes	\$	<u>(3,674)</u>
24			
25			
26	Adjustment to Revenues and/or Expenses	\$	<u>(3,674)</u>
27			
28			

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

Exhibit  
Rejoinder Schedule C-2  
Page 4  
Witness: Bourassa

Line No.		
1	<u>Purchased Power</u>	
2		
3	Reclassify purchased power expense to sewer division	\$ (48,005)
4		
5		
6		
7		
8		
9	Increase (decrease) in Purchased Power Expense	<u>\$ (48,005)</u>
10		
11	Adjustment to Revenue and/or Expense	<u>\$ (48,005)</u>
12		
13		
14		
15		
16		
17	<u>SUPPORTING SCHEDULE</u>	
18	Staff Schedule GWB-12	
19		
20		
21		
22		
23		
24		

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

Exhibit  
Rejoinder Schedule C-2  
Page 5  
Witness: Bourassa

Line

No.

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

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

Exhibit  
 Rejoinder Schedule C-2  
 Page 6  
 Witness: Bourassa

Line					
<u>No.</u>					
1					
2	<u>Remove Out of Period Expense</u>				
3					
4	DEC 19 2007 - A	Rio Rico Properties	DEC 19 2007 - A	NOV 2006	\$ (7,671)
5	12.19.07 - A	Rio Rico Properties	12.19.07 - A	DEC 2006	<u>(6,806)</u>
6	Total				\$ <u>(14,477)</u>
7					
8					
9					
10	Increase (decrease) in Outside Services				<u>\$ (14,477)</u>
11					
12					
13	Adjustment to Revenue and/or Expense				<u><u>\$ (14,477)</u></u>
14					
15					
16					
17					
18					
19					
20					

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

Exhibit  
Rejoinder Schedule C-2  
Page 7  
Witness: Bourassa

Line No.		
1	<u>Miscellaneous Expense</u>	
2		
3	Remove charitable contributions	\$ (1,363)
4		
5		
6	Increase (decrease) in Miscellaneous Expense	<u>\$ (1,363)</u>
7		
8		
9		
10	Adjustment to Revenue and/or Expense	<u>\$ (1,363)</u>
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		

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

Exhibit  
Rejoinder Schedule C-2  
Page 8  
Witness: Bourassa

Line		
<u>No.</u>		
1	<u>Bad Debt Expense</u>	
2		
3		
4	Normalize Bad Debt Expense	799
5		
6		
7	Increase (decrease) in Purchased Power	<u>\$ 799</u>
8		
9	Adjustment to Revenue and/or Expense	<u>\$ 799</u>
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		

Rio Rico Utilities - Water Division  
 Test Year Ended December 31, 2008  
 Adjustment to Revenues and Expenses  
 Adjustment Number 8

Exhibit  
 Rejoinder Schedule C-2  
 Page 9  
 Witness: Bourassa

Line No.	2008 Actual Total	Adjustments	Rejoinder Total Cost Pool	Utility Infrastructure Group Allocation %	Utility Infrastructure Group Allocated Cost Pool	RRUI Water Allocation by Customer Count	Rejoinder Allocation
1							
2							
3							
4							
5							
6							
7							
8							
9	\$ 1,021,609		\$ 1,021,609	26.98%	\$ 275,672	9.55%	26,327
10	322,446		322,446	26.98%	87,009	9.55%	8,309
11	767,451	(60,220)	707,231	26.98%	163,856	9.55%	15,648
12	565,649		565,649	26.98%	152,636	9.55%	14,577
13	642,771		543,996	26.98%	146,793	9.55%	14,019
14	289,796	(98,775)	191,021	26.98%	78,199	9.55%	7,468
15	129,000		129,000	26.98%	34,810	9.55%	3,324
16	71,366		71,366	26.98%	19,258	9.55%	1,839
17	299,586		299,586	26.98%	80,841	9.55%	7,720
18	140,852	(15,808)	125,044	26.98%	33,742	9.55%	3,222
19	808,101	(74,847)	733,254	26.98%	197,862	9.55%	18,896
20	211,253		211,253	26.98%	57,005	9.55%	5,444
21							
22	\$ 5,269,882	\$(349,651)	\$ 4,920,231		\$ 1,327,681		\$ 126,794
23							
24							
25							
26							
27							
28							
29							
30							
31							
32							
33							
34							
35							

Infrastructure Cost Allocation per Direct (USD)  
 Increase (decrease) in Infrastructure Allocated Costs (USD)

Adjustment to Revenues and/or Expenses

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

Exhibit  
 Schedule C-2  
 Page 10  
 Witness: Bourassa

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

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

Exhibit  
 Rejoinder Schedule C-3  
 Page 1  
 Witness: Bourassa

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





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

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

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

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

Line No.	Meter Size, Class	(a) Average Number of Customers at 12/31/2008	Median Bill		Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
			Present Rates	Proposed Rates			
1	5/8X3/4 Inch Residential	5,745	17.31 \$	34.65	17.34	100.17%	
2	3/4 Inch Residential	8	14.75	30.08	15.33	103.90%	
3	1 Inch Residential	36	29.00	57.09	28.09	96.84%	
4	1 1/2 Inch Residential	4	68.70	135.05	66.35	96.58%	
5	2 Inch Residential	4	82.05	162.14	80.09	97.61%	
6	Subtotal	5,797					
7							
8	5/8X3/4 Inch Commercial	97	13.91 \$	27.69	13.78	99.07%	
9	1 Inch Commercial	43	30.70	60.57	29.87	97.28%	
10	1 1/2 Inch Commercial	10	92.45	183.55	91.10	98.54%	
11	2 Inch Commercial	33	105.00	209.12	104.12	98.16%	
12	3 Inch Commercial	13	117.30	233.80	116.50	99.32%	
13	4 Inch Commercial	5	561.10	1,078.05	516.95	92.13%	
14	6 Inch Commercial	1	1,267.15	2,537.18	1,270.03	100.23%	
15	Subtotal	202					
16							
17	5/8X3/4 Inch Multi-family	10	20.71 \$	41.61	20.90	100.92%	
18	1 1/2 Inch Multi-family	1	49.15	95.03	45.88	93.35%	
19	Subtotal	11					
20							
21	Fire Lines up to 8 Inch	15	6.48 \$	13.00	6.52	100.62%	
22							
23							
24	Total	6,025					

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

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

Exhibit  
 Rejoinder Schedule H-3  
 Page 1  
 Witness: Bourassa

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

(Per 1,000 gallons)

Present Rate Proposed Rate

Block

0 gallons to 4,000 gallons \$ 1.44 \$ 2.78  
 4,001 gallons to 10,000 gallons \$ 1.70 \$ 3.48  
 over 10,000 gallons \$ 1.90 \$ 3.88

0 gallons to 6,000 gallons \$ 1.70 \$ 3.48  
 over 6,000 gallons \$ 1.90 \$ 3.88

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

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

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

Exhibit  
 Rejoinder Schedule H-3  
 Page 3  
 Witness: Bourassa

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

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

Exhibit  
 Rejoinder Schedule H-3  
 Page 4  
 Witness: Bourassa

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

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

Exhibit  
Rejoinder Schedule H-3  
Page 5  
Witness: Bourassa

Line

No.

1

2

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

3

4

Present  
Charge

Proposed  
Charge

5

6 5/8 x 3/4 Inch

NT

\$ 1,800

7 3/4 Inch

NT

2,700

8 1 Inch

NT

4,500

9 1 1/2 Inch

NT

9,000

10 2 Inch

NT

14,400

11 3 Inch

NT

28,800

12 4 Inch

NT

45,000

13 6 Inch or larger

NT

90,000

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29 NT = no tariff

30

31

32

33

34

35

36

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

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

**SCHEDULES**  
**(Sewer Division)**

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

Exhibit  
 Rejoinder Schedule A-1  
 Page 1  
 Witness: Bourassa

Line  
 No.

1	Fair Value Rate Base	\$	3,323,449
2			
3	Adjusted Operating Income		471,360
4			
5	Current Rate of Return		14.18%
6			
7	Required Operating Income	\$	388,844
8			
9	Required Rate of Return on Fair Value Rate Base		11.70%
10			
11	Operating Income Deficiency	\$	(82,516)
12			
13	Gross Revenue Conversion Factor		1.6286
14			
15	Increase in Gross Revenue Revenue Requirement	\$	(134,389)
16			
17	Adjusted Test Year Revenues	\$	1,829,976
18	Increase in Gross Revenue Revenue Requirement	\$	(134,389)
19	Proposed Revenue Requirement	\$	1,695,587
20	% Increase		-7.34%

Customer Classification	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
24 5/8 Inch Residential	\$ 1,287,713	\$ 1,193,710	\$ (94,003)	-7.30%
25 3/4 Inch Residential	6,298	5,839	(460)	-7.30%
26 1 Inch Residential	8,258	7,655	(603)	-7.30%
27 1.5 Inch Residential	-	-	-	0.00%
28 2 Inch Residential	1,951	1,809	(142)	-7.30%
29				
30 <b>Subtotal</b>	<b>\$ 1,304,221</b>	<b>\$ 1,209,013</b>	<b>\$ (95,208)</b>	<b>-7.30%</b>
31				
32 5/8 Inch Commercial	\$ 78,006	\$ 72,312	\$ (5,694)	-7.30%
33 1 Inch Commercial	61,192	56,725	(4,467)	-7.30%
34 1.5 Inch Commercial	27,159	25,176	(1,983)	-7.30%
35 2 Inch Commercial	178,576	165,540	(13,036)	-7.30%
36 3 Inch Commercial	7,911	7,333	(577)	-7.30%
37 4 Inch Commercial	111,601	103,454	(8,147)	-7.30%
38 6 Inch Commercial	53,582	49,671	(3,912)	-7.30%
39				
40 <b>Subtotal</b>	<b>\$ 518,027</b>	<b>\$ 480,211</b>	<b>\$ (37,816)</b>	<b>-7.30%</b>
41				0.00%
42				
43 5/8 Inch Multi-tenant	\$ 9,384	\$ 8,699	\$ (685)	-7.30%
44 1.5 Inch Multi-tenant	1,510	1,399	(110)	-7.30%
45				0.00%
46 <b>Subtotal</b>	<b>\$ 10,893</b>	<b>\$ 10,098</b>	<b>\$ (795)</b>	<b>-7.30%</b>
47				
48				0.00%
49 <b>Subtotal Revenues before Annualization</b>	<b>\$ 1,833,141</b>	<b>\$ 1,699,322</b>	<b>\$ (133,819)</b>	<b>-7.30%</b>
50 <b>Revenue Annualization</b>	<b>(4,505)</b>	<b>(4,176)</b>	<b>329</b>	<b>-7.30%</b>
51 <b>Miscellaneous Revenues</b>	<b>250</b>	<b>250</b>	<b>-</b>	<b>0.00%</b>
52 <b>Reconciling Amount H-1 to C-1</b>	<b>1,090</b>	<b>192</b>	<b>(898)</b>	<b>-82.39%</b>
53 <b>Total of Water Revenues (a)</b>	<b>\$ 1,829,976</b>	<b>\$ 1,695,587</b>	<b>\$ (134,388)</b>	<b>-7.34%</b>

54  
 55 SUPPORTING SCHEDULES:

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

60

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

Exhibit  
 Rejoinder Schedule B-1  
 Page 1  
 Witness: Bourassa

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

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

Exhibit  
 Rejoinder Schedule B-2  
 Page 1  
 Witness: Bourassa

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

SUPPORTING SCHEDULES:  
 Rejoinder B-2, page 2

RECAP SCHEDULES:  
 Rejoinder B-1

37  
 38  
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Rio Rico Utilities - Wastewater Division  
Test Year Ended December 31, 2008  
Original Cost Rate Base Proforma Adjustments

Line No.	Adjusted at End of Test Year	1	Proforma Adjustments		4	Rejoinder Adjusted at end of Test Year
			Plant-in-Service	2		
1	Gross Utility Plant in Service	\$ 11,829,043	-			\$ 11,829,043
2						
3	Less:					
4	Accumulated Depreciation	5,110,028	-			5,110,028
5						
6						
7						
8						
9	Net Utility Plant in Service	\$ 6,719,014	\$ -	\$ -	\$ -	\$ 6,719,014
10						
11	Less:					
12	Advances in Aid of Construction	(861)		238,783		237,922
13						
14	Contributions in Aid of Construction (CIAC)	5,376,456		(238,783)		5,137,673
15						
16	Accumulated Amort of CIAC	(1,944,057)				(1,944,057)
17						
18						
19	Refundable Service Line Chgs	95,000				95,000
20	Deferred Income Taxes	(323,602)			192,629	(130,973)
21						
22						
23						
24	Plus:					
25	Unamortized Finance Charges	-				-
26						
27	Allowance for Working Capital	-				-
28						
29						
30						
31	Total	\$ 3,516,078	\$ -	\$ -	\$ (192,629)	\$ 3,323,449
32						
33						
34						
35						
36						
37						

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

Line No.	Plant-in-Service	Acct. No.	Description	Adjusted Original Cost	Adjustments			Intentionally Left Blank	Rejoinder Adjusted Original Cost
					A	B	C		
					Intentionally Left	Intentionally Left	Intentionally Left		
					Blank	Blank	Blank		
1				5,785				5,785	
2			Organization	417				417	
3			Franchises	7,545				7,545	
4			Land	28,548				28,548	
5			Structures & Improvements	-				-	
6			Power Generation	636,023				636,023	
7			Collection Sewer Forced	5,945,962				5,945,962	
8			Collection Sewers Gravity	-				-	
9			Special Collecting Structures	1,145,530				1,145,530	
10			Customer Services	55,989				55,989	
11			Flow Measuring Devices	-				-	
12			Flow Measuring Installation	-				-	
13			Reuse Services	-				-	
14			Reuse Meters And Installation	-				-	
15			Reuse Meters And Installation	867,120				867,120	
16			Receiving Wells	1,504,181				1,504,181	
17			Pumping Equipment	-				-	
18			Reuse Distribution Reservoirs	-				-	
19			Reuse Trans. and Dist. System	-				-	
20			Treatment & Disposal Equipment	1,006,848				1,006,848	
21			Plant Sewers	-				-	
22			Outfall Sewer Lines	-				-	
23			Other Sewer Plant & Equipment	68,869				68,869	
24			Other Sewer Plant & Equipment	110,454				110,454	
25			Office Furniture & Equipment	4,025				4,025	
26			Computers and Software	-				-	
27			Transportation Equipment	-				-	
28			Stores Equipment	4,897				4,897	
29			Tools, Shop And Garage Equip	-				-	
30			Laboratory Equip	-				-	
31			Communication Equip	5,936				5,936	
32			Other Tangible Plant	3,913				3,913	
33			Nogales Capacity	427,000				427,000	
34			TOTALS	\$ 11,829,042	\$ -	\$ -	\$ -	\$ 11,829,042	
35									
36									
37			Adjusted Plant-in-Service per Direct					\$ 11,829,042	
38									
39			Increase (decrease) in Plant-in-Service					\$ -	
40									
41			Adjustment to Plant-in-Service					\$ -	
42									
43			SUPPORTING SCHEDULES						
44			Rejoinder B-2, pages 3.1-3.9						



Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2004 Plant Additions	2004 Plant Adjustments	Adjusted Plant	2004 Plant Retirements	2004 Salvage/Adj. A/D Only	2004 Plant Balance	2004 Deprec.
351	Organization	0.00%	0.00%	-	-	-	-	-	5,785	-
352	Franchises	0.00%	0.00%	-	-	-	-	-	417	-
353	Land	0.00%	0.00%	-	-	-	-	-	7,545	-
354	Structures & Improvements	5.15%	3.33%	-	-	-	-	-	28,548	1,340
355	Power Generation	5.00%	5.00%	-	-	-	-	-	-	-
360	Collection Sewer Forced	2.06%	2.00%	(4,971)	-	(4,971)	-	-	633,061	12,997
361	Collection Sewers Gravity	2.03%	2.00%	100,106	-	100,106	-	-	4,485,892	89,715
362	Special Collecting Structures	3.31%	2.00%	-	-	-	-	-	-	-
363	Customer Services	3.04%	2.00%	20,057	-	20,057	-	-	1,113,756	30,684
364	Flow Measuring Devices	5.03%	10.00%	-	-	-	-	-	36,057	2,262
365	Flow Measuring Installation	5.03%	10.00%	-	-	-	-	-	-	-
366	Reuse Services	5.03%	2.00%	-	-	-	-	-	-	-
367	Reuse Meters And Installation	8.33%	8.33%	-	-	-	-	-	-	-
370	Receiving Wells	3.96%	3.33%	(125,426)	-	(125,426)	-	-	867,120	35,357
371	Pumping Equipment	5.27%	12.50%	(94,296)	-	(94,296)	-	-	1,499,609	109,472
374	Reuse Distribution Reservoirs	-	2.50%	-	-	-	-	-	-	-
375	Reuse Trans. and Dist. System	-	2.50%	-	-	-	-	-	-	-
380	Treatment & Disposal Equipment	5.26%	5.00%	-	-	-	-	-	972,166	50,504
381	Plant Sewers	2.00%	5.00%	-	-	-	-	-	-	-
382	Outfall Sewer Lines	1.66%	3.33%	-	-	-	-	-	-	-
389	Other Sewer Plant & Equipment	5.30%	6.67%	-	-	-	-	-	71,243	4,020
390	Office Furniture & Equipment	2.00%	6.67%	-	-	-	-	-	5,514	175
390.1	Computers and Software	4.80%	20.00%	-	-	-	-	-	4,025	346
391	Transportation Equipment	33.33%	20.00%	-	-	-	-	-	-	-
392	Stores Equipment	-	4.00%	-	-	-	-	-	-	-
393	Tools, Shop And Garage Equip	4.76%	5.00%	882	-	882	-	-	4,897	215
394	Laboratory Equip	2.56%	10.00%	-	-	-	-	-	-	-
396	Communication Equip	5.03%	10.00%	-	-	-	-	-	5,936	372
398	Other Tangible Plant	5.13%	4.00%	-	-	-	-	-	3,913	190
398	Nogales WW Trmnt Capacity Rounding	-	5.00%	-	-	-	-	-	-	-
Plant Held for Future Use										
TOTAL WASTEWATER PLANT										
									9,745,484	337,648
									(103,647)	(103,647)

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2005 Plant Additions	2005 Plant Adjustments <sup>1</sup>	2005 Adjusted Plant Additions	2005 Plant Retirements	2005 Salvage A/D Only	2005 Plant Balance	2005 Deprec.
351	Organization	0.00%	0.00%	-	-	-	-	-	5,785	-
352	Franchises	0.00%	0.00%	-	-	-	-	-	417	-
353	Land	0.00%	0.00%	-	-	-	-	-	7,545	-
354	Structures & Improvements	5.15%	3.33%	-	-	-	-	-	28,548	951
355	Power Generation	2.08%	2.00%	-	-	-	-	-	633,061	12,661
360	Collection Sewer Forced	2.03%	2.00%	1,331,572	-	1,331,572	-	-	5,817,464	103,034
361	Collection Sewers Gravity	3.31%	2.00%	-	-	-	-	-	1,116,049	22,298
362	Special Collecting Structures	3.04%	2.00%	2,293	-	2,293	-	-	36,057	3,606
363	Customer Services	5.03%	10.00%	-	-	-	-	-	-	-
364	Flow Measuring Devices	5.03%	10.00%	-	-	-	-	-	-	-
365	Flow Measuring Installation	5.03%	2.00%	-	-	-	-	-	-	-
366	Reuse Services	3.96%	8.33%	-	-	-	-	-	-	-
367	Reuse Meters And Installation	5.27%	3.33%	-	-	-	-	-	867,120	28,875
370	Receiving Wells	12.50%	12.50%	27,078	-	27,078	(22,506)	-	1,504,181	187,737
371	Pumping Equipment	2.50%	2.50%	-	-	-	-	-	-	-
374	Reuse Distribution Reservoirs	5.26%	5.00%	-	-	-	-	-	972,166	48,608
375	Reuse Trans. and Dist. System	2.00%	5.00%	-	-	-	-	-	-	-
380	Treatment & Disposal Equipment	2.00%	5.00%	-	-	-	-	-	-	-
381	Plant Sewers	1.66%	3.33%	-	-	-	-	-	-	-
382	Outfall Sewer Lines	5.30%	6.67%	-	-	-	-	-	71,243	4,752
389	Other Sewer Plant & Equipment	2.00%	6.67%	-	-	-	-	-	5,514	368
390	Office Furniture & Equipment	4.80%	20.00%	-	-	-	-	-	4,025	696
390.1	Computers and Software	33.33%	20.00%	-	-	-	-	-	-	-
391	Transportation Equipment	4.00%	4.00%	-	-	-	-	-	-	-
392	Stores Equipment	4.76%	5.00%	-	-	-	-	-	4,897	245
393	Tools, Shop And Garage Equip	2.56%	10.00%	-	-	-	-	-	-	-
394	Laboratory Equip	5.03%	10.00%	-	-	-	-	-	5,936	594
396	Communication Equip	5.13%	4.00%	-	-	-	-	-	3,913	157
398	Other Tangible Plant	5.00%	5.00%	-	-	-	-	-	-	-
398	Nogales WW Trmnt Capacity Rounding			-	-	-	-	-	-	-
				1,360,942	-	1,360,942	(22,506)	-	11,083,921	414,580

<sup>1</sup> Affiliate Profit

Plant Held for Future Use  
TOTAL WASTEWATER PLANT



Account No.	Description	Deprec.	Deprec.	2007	2007	2007	2007	2007	2007	2007	2007
		Rate Before Oct-04	Rate After Oct-04	Plant Additions	Plant Adjustments <sup>1</sup>	Adjusted Plant Additions	Plant Retirements	Salvage A/D Only	Plant Balance	Deprec.	
351	Organization	0.00%	0.00%	-	-	-	-	-	5,785	-	-
352	Franchises	0.00%	0.00%	-	-	-	-	-	417	-	-
353	Land	0.00%	0.00%	-	-	-	-	-	7,545	-	-
354	Structures & Improvements	5.15%	3.33%	-	-	-	-	-	28,548	-	951
355	Power Generation	5.00%	5.00%	-	-	-	-	-	-	-	-
360	Collection Sewer Forced	2.06%	2.00%	1,815	-	1,815	-	-	636,023	-	12,702
361	Collection Sewers Gravity	2.03%	2.00%	-	-	-	-	-	5,917,835	-	118,357
362	Special Collecting Structures	3.31%	2.00%	-	-	-	-	-	-	-	-
363	Customer Services	3.04%	2.00%	12,861	(16)	12,865	-	-	1,141,630	-	22,704
364	Flow Measuring Devices	5.03%	10.00%	6,667	-	6,667	-	-	42,725	-	3,939
365	Flow Measuring Installation	5.03%	10.00%	-	-	-	-	-	-	-	-
366	Reuse Services	5.03%	2.00%	-	-	-	-	-	-	-	-
367	Reuse Meters And Installation	3.96%	8.33%	-	-	-	-	-	-	-	-
370	Receiving Wells	5.27%	3.33%	-	-	-	-	-	-	-	-
371	Pumping Equipment	-	12.50%	-	-	-	-	-	-	-	-
374	Reuse Distribution Reservoirs	-	2.50%	-	-	-	-	-	-	-	-
375	Reuse Trans. and Dist. System	-	2.50%	-	-	-	-	-	867,120	-	28,875
380	Treatment & Disposal Equipment	-	12.50%	-	-	-	-	-	1,504,181	-	188,023
381	Plant Sewers	-	2.50%	25,125	-	25,125	-	-	987,291	-	49,236
382	Outfall Sewer Lines	-	5.00%	-	-	-	-	-	-	-	-
389	Other Sewer Plant & Equipment	-	5.00%	-	-	-	-	-	-	-	-
390	Office Furniture & Equipment	-	1.66%	-	-	-	-	-	69,734	-	4,702
390.1	Computers and Software	-	5.30%	938	(1,509)	(561)	-	-	7,315	-	457
391	Transportation Equipment	-	2.00%	-	-	-	-	-	4,025	-	-
392	Stores Equipment	-	4.80%	-	-	-	-	-	-	-	-
393	Tools, Shop And Garage Equip	-	33.33%	-	-	-	-	-	4,897	-	245
394	Laboratory Equip	-	4.76%	-	-	-	-	-	-	-	-
396	Communication Equip	-	2.56%	-	-	-	-	-	5,936	-	-
398	Other Tangible Plant	-	5.03%	-	-	-	-	-	3,913	-	157
398	Nogales WW Trmnt Capacity	-	5.13%	-	-	-	-	-	427,000	-	21,350
398	Rounding	-	5.00%	-	-	-	-	-	-	-	-
Plant Held for Future Use				47,426	(1,525)	45,901	-	-	11,671,920	-	451,696
TOTAL WASTEWATER PLANT											

<sup>1</sup> Affiliate Profit

Account No.	Description	Deprec. Rate Before Oct-04	Deprec. Rate After Oct-04	2008 Plant Additions	2008 Plant Adjustments	2008 Plant Adjustments <sup>1</sup>	2008 Adjusted Plant Additions	2008 Plant Retirements	2008 Salvage A/D Only	2008 Plant Balance	2008 Deprec.
351	Organization	0.00%	0.00%	-	-	-	-	-	-	5,785	-
352	Franchises	0.00%	0.00%	-	-	-	-	-	-	417	-
353	Land	0.00%	0.00%	-	-	-	-	-	-	7,545	-
354	Structures & Improvements	5.15%	3.33%	-	-	-	-	-	-	28,548	951
355	Power Generation	2.06%	2.00%	-	-	-	-	-	-	636,023	12,720
360	Collection Sewer Forced	2.03%	2.00%	27,713	415	-	28,127	-	-	5,945,962	118,638
361	Collection Sewers Gravity	3.31%	2.00%	-	-	-	-	-	-	-	-
362	Special Collecting Structures	3.04%	2.00%	3,900	-	-	3,900	-	-	1,145,530	22,872
363	Customer Services	5.03%	10.00%	3,447	9,818	-	13,264	-	-	55,989	4,936
364	Flow Measuring Devices	5.03%	10.00%	-	-	-	-	-	-	-	-
365	Flow Measuring Installation	5.03%	10.00%	-	-	-	-	-	-	-	-
366	Reuse Services	3.96%	2.00%	-	-	-	-	-	-	-	-
367	Reuse Meters And Installation	3.33%	6.33%	-	-	-	-	-	-	-	-
370	Receiving Wells	5.27%	12.50%	-	-	-	-	-	-	867,120	28,875
371	Pumping Equipment	-	2.50%	-	-	-	-	-	-	1,504,181	189,023
374	Reuse Distribution Reservoirs	-	2.50%	-	-	-	-	-	-	-	-
375	Reuse Trans. and Dist. System	-	2.50%	-	-	-	-	-	-	-	-
376	Reuse Trans. and Dist. System	-	2.50%	-	-	-	-	-	-	-	-
380	Treatment & Disposal Equipment	5.26%	5.00%	9,557	-	-	9,557	-	-	1,006,848	50,103
381	Plant Sewers	2.00%	5.00%	-	-	-	-	-	-	-	-
382	Outfall Sewer Lines	1.66%	3.33%	-	-	-	-	-	-	-	-
388	Other Sewer Plant & Equipment	5.30%	6.67%	150	1,697	(2,712)	(865)	-	-	68,869	4,622
390	Office Furniture & Equipment	2.00%	6.67%	103,139	-	-	103,139	-	-	110,454	3,928
390.1	Computers and Software	4.80%	20.00%	-	-	-	-	-	-	4,025	-
391	Transportation Equipment	33.33%	20.00%	-	-	-	-	-	-	-	-
392	Stores Equipment	-	4.00%	-	-	-	-	-	-	-	-
393	Tools, Shop And Garage Equip	4.76%	5.00%	-	-	-	-	-	-	4,897	245
394	Laboratory Equip	2.56%	10.00%	-	-	-	-	-	-	-	-
396	Communication Equip	5.03%	10.00%	-	-	-	-	-	-	5,936	-
398	Other Tangible Plant	5.13%	4.00%	-	-	-	-	-	-	3,913	157
398	Nogales WW Trmnt Capacity	-	5.00%	-	-	-	-	-	-	427,000	21,350
398	Rounding	-	-	-	-	-	-	-	-	-	-
	Plant Held for Future Use	-	-	-	-	-	-	-	-	-	-
	TOTAL WASTEWATER PLANT	-	-	147,905	11,929	(2,712)	157,122	-	-	11,829,042	457,419

<sup>1</sup> Affiliate Profit



Rio Rico - Wastewater Division  
Plant Reconciliation to Prior Rate Case

Exhibit  
Rejoinder Schedule B-2  
Page 3.8

Line No.	Account No.	Description	Balance Per Company Per 2002 Filing Before Adj.	PTY Plant	Rounding	Intentionally Left Blank	Per Decision 67279 Prior Case Adjusted Plant	PTY Plant	Initial Balance
6	351	Organization	5,785				5,785		5,785
7	352	Franchises	417				417		417
8	353	Land	7,545				7,545		7,545
9	354	Structures & Improvements	28,548				28,548		28,548
10	355	Power Generation	-				-		-
11	360	Collection Sewer Forced	355,144	293,417			648,561	(293,417)	355,144
12	361	Collection Sewers Gravity	4,387,284				4,387,284		4,387,284
13	362	Special Collecting Structures	-				-		-
14	363	Customer Services	1,085,957				1,085,957		1,085,957
15	364	Flow Measuring Devices	36,057				36,057		36,057
16	365	Flow Measuring Installations	-				-		-
17	366	Reuse Services	-				-		-
18	367	Reuse Meters And Installation	-				-		-
19	370	Receiving Wells	992,546				992,546		992,546
20	371	Pumping Equipment	1,593,905				1,593,905		1,593,905
21	374	Reuse Distribution Reservoirs	-				-		-
22	375	Reuse Trans. and Dist. System	-				-		-
23	380	Treatment & Disposal Equipment	972,166				972,166		972,166
24	381	Plant Sewers	-				-		-
25	382	Outfall Sewer Lines	-				-		-
26	389	Other Sewer Plant & Equipment	71,243				71,243		71,243
27	390	Office Furniture & Equipment	5,514				5,514		5,514
28	390.1	Computers and Software	4,025				4,025		4,025
29	391	Transportation Equipment	-				-		-
30	392	Stores Equipment	-				-		-
31	393	Tools, Shop And Garage Equip	4,015				4,015		4,015
32	394	Laboratory Equip	-				-		-
33	396	Communication Equip	5,936				5,936		5,936
34	398	Other Tangible Plant	3,913				3,913		3,913
35		Plant Held for Future Use (Land)	-				-		-
36		Rounding	-		(1)		-		-
37		TOTAL	9,560,001	293,417	(1)	-	9,853,417	(293,417)	9,560,000

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

Exhibit  
Rejoinder Schedule B-2  
Page 3.9

Line No.	Account No.	Description	Balance Per Company Per 2002 Filing Before Adj.	PTY Plant	Rounding	Intentionally Left Blank	Per Decision Prior Case Adjusted A/D	PTY Plant	Initial Balance
1	351	Organization	-	-	-	-	-	-	-
2	352	Franchises	-	-	-	-	-	-	-
3	353	Land	-	-	-	-	-	-	-
4	354	Structures & Improvements	20,590	-	-	-	20,590	-	20,590
5	355	Power Generation	-	-	-	-	-	-	-
6	360	Collection Sewer Forced	(99,427)	2,934	-	-	(96,493)	(2,934)	(99,427)
7	361	Collection Sewers Gravity	1,584,087	-	-	-	1,584,087	-	1,584,087
8	362	Special Collecting Structures	-	-	-	-	-	-	-
9	363	Customer Services	441,720	-	-	-	441,720	-	441,720
10	364	Flow Measuring Devices	10,881	-	-	-	10,881	-	10,881
11	365	Flow Measuring Installations	-	-	-	-	-	-	-
12	366	Reuse Services	-	-	-	-	-	-	-
13	367	Reuse Meters And Installation	-	-	-	-	-	-	-
14	370	Receiving Wells	48,548	-	-	-	48,548	-	48,548
15	371	Pumping Equipment	309,912	-	-	-	309,912	-	309,912
16	374	Reuse Distribution Reservoirs	-	-	-	-	-	-	-
17	375	Reuse Transmission And Distribution System	-	-	-	-	-	-	-
18	380	Treatment & Disposal Equipment**	367,586	-	-	-	367,586	-	367,586
19	381	Plant Sewers	-	-	-	-	-	-	-
20	382	Outfall Sewer Lines	-	-	-	-	-	-	-
21	389	Other Sewer Plant & Equipment	38,620	-	-	-	38,620	-	38,620
22	390	Office Furniture & Equipment	2,587	-	-	-	2,587	-	2,587
23	390.1	Computers and Software	2,790	-	-	-	2,790	-	2,790
24	391	Transportation Equipment	-	-	-	-	-	-	-
25	392	Stores Equipment	-	-	-	-	-	-	-
26	393	Tools, Shop And Garage Equip	2,771	-	-	-	2,771	-	2,771
27	394	Laboratory Equip	-	-	-	-	-	-	-
28	396	Communication Equip	4,224	-	-	-	4,224	-	4,224
29	398	Other Tangible Plant	1,798	-	-	-	1,798	-	1,798
30		Rounding	-	-	1	-	-	-	1
31		TOTAL	2,736,687	2,934	-	-	2,739,622	(2,934)	2,736,688



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

Exhibit  
Rejoinder Schedule B-2  
Page 5  
Witness: Bourassa

Line  
No.

1	<u>Reclassification of AIAC and CIAC</u>	
2		
3		
4	CIAC	\$ (238,783)
5		
6	AIAC	\$ 238,783
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17	See Testimony	
18		
19	<u>SUPPORTING SCHEDULES</u>	
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Rio Rico Utilities - Wastewater Division  
 Test Year Ended December 31, 2008  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment 2

Exhibit  
 Rejoinder Schedule B-2  
 Page 6  
 Witness: Bourassa

Line No.	<u>Deferred Income Tax as of September 30, 2008 (Water and Wastewater Divisions)</u>					Tax	Future Tax Asset		Future Tax Liability	
	Adjusted	Tax Value <sup>2</sup>	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Rate	Current	Non Current	Current	Non Current	
	<u>Book Value<sup>1</sup></u>	<u>Tax Value<sup>2</sup></u>	<u>Tax Benefit</u>	<u>be Realized</u>	<u>Rate</u>	<u>Current</u>	<u>Non Current</u>	<u>Current</u>	<u>Non Current</u>	
6	Plant-in-Service	\$ 45,888,844								
7	Accum. Deprec.	(17,582,689)								
8	CIAC	<u>(16,705,616)</u>								
9	Fixed Assets	\$ 11,600,539	\$ 11,648,936	100.0%	\$ 48,397	38.6%		18,681	-	
10	AIAC		360,294	100.0%	\$ 360,294	38.6%	\$ 139,073			
11	Tax Benefits from O.L. Carry Forward.			100.0%	\$ 746,589	38.6%	\$ 288,183			
							<u>\$ -</u>	<u>\$ 445,938</u>	<u>\$ -</u>	
									<u>\$ -</u>	
				Net Asset (Liability)		\$	445,938			
16	Wastewater Division allocation factor <sup>2</sup>						0.29370			
18	Allocated DIT Asset (Liability)					\$	130,973			
20	DIT Asset (Liability) per Direct					\$	<u>323,602</u>			
22	Adjustment to DIT					\$	<u>192,629</u>			
24	<sup>1</sup> Adjusted Water and Wastewater - per Direct B-2, page 2 (Water Division) and Direct B-2, page 2 (Wastewater Division)									
25	<sup>2</sup> Computation of Net Tax Value at December 31, 2008 (Water and Wastewater)									
26	Based on 2008 Tax Depreciation report (December 31, 2008)									
27	Unadjusted Cost per 2008 Tax Depr. Report					\$	25,520,835			
28	Reconciling Items not on tax report:									
29	Land costs not on tax, on books						51,739			
30	2008 Plant recorded on books not on tax,						809,876			
31	2006 Plant recorded on books not on tax,						779,709			
32	CIAC funded plant reflected in tax plant-in-service						(3,942,540)			
33	Reconciling difference						<u>105,049</u>			
34	Net Unadjusted Cost tax Basis							\$	23,324,668	
35	Affiliate Profit						(24,780)			
36	Affiliate Profit removed						<u>1,011</u>			
37	Affiliate A/D at tax rates							\$	(23,769)	
38	Net Reduction in tax basis due to affiliate profit									
39	Basis Reduction									
40	Basis Reduction 2007 and Prior Years (from 2007 Tax Depr. Report)						(10,233,311)			
41	Accumulated Depreciation 2007 and prior (2007 Tax Depr Report)						<u>616,408</u>			
42	Tax Accum. Depr. from CIAC funded plant in tax plant-in-service to 2007								(9,616,903)	
43	Net Basis Reduction 2007 and Prior years									
44	Bonus Depreciation Computation 2008									
45	Bonus Depr. for 12 months of 2008 per Tax Depr. Report					\$	1,030,227			
46	Less: Bonus Depr. on CIAC funded plant						<u>-</u>			
47	Net 12 months of Bonus Depr for plant					\$	1,030,227			
48	Factor						1.00			
49	Bonus Depreciation for 12 months 2008								(1,030,227)	
50	2008 Depreciation Computation 2008									
51	2008 Tax Depreciation (12 Months) per Tax Depr. Report						\$ 1,162,611			
52	Less: 2008 Depr on CIAC funded plant in tax plant						<u>(157,779)</u>			
53	Net 12 months of depr. for plant added Jan. to Dec. 2008					\$	1,004,832			
54	Factor						1.00			
55	Tax Depreciation for 12 months of 2008									
56	Net 2008 Depreciation								<u>(1,004,832)</u>	
57	Net tax value of plant-in-service at December 31, 2008								<u>\$ 11,648,936</u>	
59	<sup>3</sup> Tax Benefits from bonus depreciation									
61	Net Income before tax									
62		\$	1,004,175	(from E-2 for both Water and Wastewater)						
63	Add: Book Depreciation									
64			284,295	(from E-2 for both Water and Wastewater)						
65	Less: Bonus Depreciation									
66	Tax Depreciation		(1,030,227)	(from above )						
67			(1,004,832)	(from above )						
68	Taxable Income /(loss)									
69		\$	<u>(746,589)</u>							



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

Exhibit  
 Rejoinder Schedule B-5  
 Page 1  
 Witness: Bourassa

Line  
 No.

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

SUPPORTING SCHEDULES:

16 Rejoinder C-1  
 17 E-1

RECAP SCHEDULES:

Rejoinder B-1

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

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

Exhibit  
 Rejoinder Schedule C-1  
 Page 1  
 Witness: Bourassa

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

42  
 43 SUPPORTING SCHEDULES:  
 44 Rejoinder C-1, page 2

43 RECAP SCHEDULES:  
 44 Rejoinder A-1

45  
 46

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

Exhibit  
 Rejoinder Schedule C-1  
 Page 2  
 Witness: Bourassa

Line No.	1	2	3	4	5	6	7	Rejoinder Test Year Adjusted Results	Proposed Rate Increase	Rejoinder Adjusted with Rate Increase
1	Revenues							1,829,726	(134,389)	1,695,337
2	Flat Rate Revenues							250		250
3	Measured Revenues									
4	Other Wastewater Revenues									
5		\$ 1,829,976	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,829,976	\$ (134,389)	\$ 1,695,587
6	Operating Expenses									
7	Salaries and Wages									
8	Purchased Water and WW Treatment									
9	Sludge Removal Expense									
10	Purchased Power		48,005					65,431		65,431
11	Fuel for Power Production									
12	Chemicals									
13	Materials and Supplies									
14	Contractual Services					7,240		14,304		14,304
15	Contractual Services- Testing							305,248		305,248
16	Contractual Services - Other									
17	Contractual Services - Legal									
18	Equipment Rental									
19	Rents - Building							175,196		175,196
20	Transportation Expenses							367		367
21	Insurance - General Liability							25,781		25,781
22	Insurance - Vehicle									
23	Regulatory Commission Expense									
24	Reg. Comm. Exp. - Rate Case							994		994
25	Miscellaneous Expense							41,667		41,667
26	Bad Debt Expense							155		155
27	Depreciation and Amortization							33,772		33,772
28	Taxes Other Than Income							262,162		262,162
29	Property Taxes									
30	Income Tax									
31										
32	Total Operating Expenses							90,986	(51,873)	244,441
33	Operating Income							296,313		296,313
34	Other Income (Expense)									
35	Interest Income									
36	Other Income									
37	Interest Expense									
38	Other Expense									
39										
40	Total Other Income (Expense)									
41	Net Profit (Loss)							1,358,616	(82,516)	1,306,743
42								471,360		471,360
43										
44										
45										

RECAP SCHEDULES:  
 Rejoinder C-1, page 1

SUPPORTING SCHEDULES:  
 Rejoinder C-2

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

Exhibit  
 Rejoinder Schedule C-2  
 Page 1  
 Witness: Bourassa

Line No.	Adjustments to Revenues and Expenses						Subtotal
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	
	Depreciation Expense	Property Taxes	Purchased Power	Transport. Expense	Bad Debt	Central Office Allocation	
2	Revenues						
3	Expenses	9,490	(719)	48,005	(2,242)	(30,315)	7,240
4							31,459
5	Operating Income	(9,490)	719	(48,005)	2,242	30,315	(7,240)
6	Interest Expense						
7	Other Income / Expense						
8	Net Income	(9,490)	719	(48,005)	2,242	30,315	(7,240)
9							(31,459)
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
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26							
27							
28							
29							
30							
31							
32							
33							
34							
35							

Adjustments to Revenues and Expenses							Subtotal
	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	
	Income Taxes	Blank	Blank	Blank	Blank	Blank	
26	Revenues						
27	Expenses	(12,143)					19,316
28	Operating Income	12,143	-	-	-	-	(19,316)
29	Interest Expense						
30	Other Income / Expense						
31	Net Income	12,143	-	-	-	-	(19,316)

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

Exhibit  
 Rejoinder Schedule C-2  
 Page 2  
 Witness: Bourassa

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

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

Exhibit  
 Rejoinder Schedule C-2  
 Page 3  
 Witness: Bourassa

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

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

Exhibit  
Rejoinder Schedule C-2  
Page 4  
Witness: Bourassa

Line			
<u>No.</u>			
1	<u>Purchased Power</u>		
2			
3	Reclassify purchased power expense from water division	\$	48,005
4			
5			
6			
7			
8			
9	Increase(decrease) Purchased Power Expense	<u>\$</u>	<u>48,005</u>
10			
11	Adjustment to Revenue and/or Expense	<u>\$</u>	<u>48,005</u>
12			
13			
14			
15			
16			
17	<u>SUPPORTING SCHEDULE</u>		
18	Staff Schedule GWB-12		
19			
20			

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

Exhibit  
Rejoinder Schedule C-2  
Page 5  
Witness: Bourassa

Line			
<u>No.</u>			
1	<u>Transportation Expense</u>		
2			
3			
4	Remove Airlink costs	\$	(2,242)
5			
6			
7			
8	Increase (decrease) in Transportation Expense	<u>\$</u>	<u>(2,242)</u>
9			
10			
11	Adjustment to Revenue and/or Expense	<u>\$</u>	<u>(2,242)</u>
12			
13			
14			
15			
16			
17			
18			
19			
20			

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

Exhibit  
Rejoinder Schedule C-2  
Page 6  
Witness: Bourassa

Line  
No.  
1  
2  
3  
4  
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18  
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20  
21  
22

Bad Debt Expense

Normalize Bad Debt Expense

(30,315)

Increase (decrease) in Purchased Power

\$ (30,315)

Adjustment to Revenue and/or Expense

\$ (30,315)

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

Exhibit  
 Rejoinder Schedule C-2  
 Page 7  
 Witness: Bourassa

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35

Central Office Costs - Infrastructure Allocation

Actual Total Cost Pool	Adjustments	Rejoinder Total Cost Pool	Utility Infrastructure Group Allocation %	Utility Infrastructure Group Allocated Cost Pool	RRUI Sewer Allocation by Customer Count	Rejoinder Allocation
\$ 1,021,609		\$ 1,021,609	26.98%	\$ 275,672	3.15%	8,684
322,446		322,446	26.98%	87,009	3.15%	2,741
767,451	(160,220)	607,231	26.98%	163,856	3.15%	5,161
565,649		565,649	26.98%	152,636	3.15%	4,808
642,771	(98,775)	543,996	26.98%	146,793	3.15%	4,624
289,796		289,796	26.98%	78,199	3.15%	2,463
129,000		129,000	26.98%	34,810	3.15%	1,097
71,366		71,366	26.98%	19,258	3.15%	607
299,586		299,586	26.98%	80,841	3.15%	2,546
140,852	(15,808)	125,044	26.98%	33,742	3.15%	1,063
808,101	(74,847)	733,254	26.98%	197,862	3.15%	6,233
211,253		211,253	26.98%	57,005	3.15%	1,796
<b>\$ 5,269,882</b>	<b>\$ (349,651)</b>	<b>\$ 4,920,231</b>		<b>\$ 1,327,681</b>		<b>\$ 41,822</b>

Infrastructure Cost Allocation per Direct (USD)

Increase (decrease) in Infrastructure Allocated Costs (USD)

Adjustment to Revenues and/or Expenses

\$ 34,582  
 \$ 7,240  
 \$ 7,240

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

Exhibit  
 Rejoinder Schedule C-2  
 Page 8  
 Witness: Bourassa

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

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

Exhibit  
 Rejoinder Schedule C-3  
 Page 1  
 Witness: Bourassa

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





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

Exhibit  
 Rejoinder Schedule H-1  
 Page 3  
 Witness: Bourassa

Line No.	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1						
2						
3	\$ 1,833,141	\$ 1,699,322	\$ (133,819)	-7.30%	100.00%	100.00%
4	(4,505)	(4,176)	328.88	-7.30%	-0.25%	-0.25%
5	\$ 1,828,636	\$ 1,695,145	\$ (133,490)	-7.30%		
6						
7	\$ 250	\$ 250	-	0.00%	0.01%	0.01%
8	1,090	192	(898)	-82.39%	0.06%	0.01%
9	\$ 1,829,976	\$ 1,695,587	\$ (134,388)	-7.34%	0.00%	0.00%
10						
11						
12						
13						
14						
15						
16						
17						
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37						
38						
39						
40						

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

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

Line No.	Meter Size, Class	Average Number of Customers at 12/31/2008	Median Consumption		Median Bill		Proposed Increase	
			Present Rates	Proposed Rates	Dollar Amount	Percent Amount		
1	5/8X3/4 Inch Residential	1,904	\$ 56.36	\$ 52.25	(4.11)	-7.30%		
2	3/4 Inch Residential	8	64.27	59.58	(4.69)	-7.30%		
3	1 Inch Residential	9	79.40	73.60	(5.80)	-7.30%		
4	1 1/2 Inch Residential	-	117.24	108.68	(8.56)	-7.30%		
5	2 Inch Residential	1	162.62	150.75	(11.87)	-7.30%		
6	Subtotal	1,922						
7								
8	5/8X3/4 Inch Commercial	69	\$ 56.36	\$ 52.25	(4.11)	-7.30%		
9	1 Inch Commercial	36	79.40	73.60	(5.80)	-7.30%		
10	1 1/2 Inch Commercial	7	242.86	225.13	(17.73)	-7.30%		
11	2 Inch Commercial	20	288.24	267.20	(21.04)	-7.30%		
12	3 Inch Commercial	1	651.60	604.03	(47.57)	-7.30%		
13	4 Inch Commercial	4	2,064.39	1,913.69	(150.70)	-7.30%		
14	6 Inch Commercial	1	3,675.80	3,407.47	(268.33)	-7.30%		
15	Subtotal	139						
16								
17	5/8X3/4 Inch Multi-tenant	9	\$ 56.36	\$ 52.25	(4.11)	-7.30%		
18	1 1/2 Inch Multi-tenant	1	125.81	116.62	(9.18)	-7.30%		
19	Subtotal	10						
20								
21								
22								
23								
24	Total	2,071						

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

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

Exhibit  
 Rejoinder Schedule H-3  
 Page 1  
 Witness: Bourassa

Line No.	Monthly Minimum Charge for: Meter Size (All Classes):	Present Rates	Proposed Rates	Change	Percent Change
1					
2	5/8 Inch	\$ 56.36	\$ 52.25	(4.11)	-7.30%
3	3/4 Inch	64.27	59.58	(4.69)	-7.30%
3	1 Inch	79.40	73.60	(5.80)	-7.30%
4	1 1/2 Inch	117.24	108.68	(8.56)	-7.30%
5	2 Inch	162.62	150.75	(11.87)	-7.30%
6	3 Inch	283.30	262.62	(20.68)	-7.30%
7	4 Inch	419.91	389.26	(30.65)	-7.30%
8	6 Inch	797.96	739.71	(58.25)	-7.30%
9	8 Inch	1,252.11	1,160.71	(91.40)	-7.30%
10	10 Inch	1,781.93	1,651.85	(130.08)	-7.30%
11	12 Inch	3,295.77	3,055.18	(240.59)	-7.30%
12					
13					
14					
15					
16					
17					
18					
19					
20					

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

NT = No Tariff

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

Exhibit  
 Rejoinder Schedule H-3  
 Page 2  
 Witness: Bourassa

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment	\$ 15.00	\$ 15.00
2	Establishment (After Hours)	\$ 25.00	\$ 25.00
3	Reconnection (Delinquent)	\$ 15.00	\$ 15.00
4	Reconnection (Delinquent) - After Hours	\$ 25.00	\$ 25.00
5	Deposit	*	*
6	Deposit Interest	**	**
7	Reestablishment (within 12 months)	***	***
8	NSF Check	\$ 15.00	\$ 15.00
9	Late Payment Penalty	NT	1.5% per month
10	Deferred Payment	NT	1.5% per month
11	Service Calls - Per Hour/After Hours(a)	NT	\$ 40.00
12			
13			
14			
15			
16	* Per Commission Rule A.A.C. R-14-2-603(B)		
17	** Per Commission Rule A.A.C. R-14-2-603(B)		
18	*** Per Commission Rule A.A.C. R14-2-603(D) - Months off the system times the monthly minimum.		
19			
20	(a) No charge for service calls during normal working hours.		
21			
22	IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM		
23	ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE		
24	TAX. PER COMMISSION RULE 14-2-608D(5).		
25			
26			
27			
28			
29			
30			
31			
32			
33			
34			

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

Exhibit  
Rejoinder Schedule H-3  
Page 3  
Witness: Bourassa

Line  
No.

1  
2 **Service Line Installation Charges**

	Present	Proposed
	<u>Charge</u>	<u>Charge</u>
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
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27		
28		
29		
30		
31		
32		
33		
34		
35		
36		
37		
38		
39		
40		

N/T = No Tariff

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

Exhibit  
Rejoinder Schedule H-3  
Page 4  
Witness: Bourassa

Line

No.

1

2 Off-site Facilities Hook-up Fee

3

4

Present  
Charge

Proposed  
Charge

5

6 Equivalent Residential Unit<sup>1</sup>

NT

\$ 1,800

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21 NT = No tariff

22

23

24 <sup>1</sup> Equivalent Residential Unit is based on 320 gallons per day (gpd)

25

26

27

28

29

30

31

32

33

34

35

36