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Transcript Exhibit(s)

Docket #(s): W-02113A-07-0551

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TO:	**Michelle Nelson,** **Docket Control, ACC**	**FAX 602-364-0644**
COPY TO:	**Teena Wolfe, ALJ** **Hearing Division, ACC**	**FAX 602-542-4230**
FROM:	Marta T. Hetzer, Administrator/Owner	
DATE:	**04-23-2010**	
RE:	**Chaparral City Water - Rehearing 07-0551** **Confidentiality Designation of Exhibits and Text** **Evidentiary Hearing held on 04-12-2010**	
PAGES:	3 (Counting this cover page)	

This will serve to confirm that there are no confidential exhibits or text to court reporter's transcript of the above-referenced evidentiary hearing, as per attached e-mail correspondence from Judge Wolfe.

Please let us know if you have any questions or comments. Thank you.

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AZRS

From: AZRS
Sent: Friday, April 23, 2010 3:48 PM
To: 'Teena Wolfe'
Cc: Michele Nelson; Kay Kilger; Deborah Person
Subject: RE: CONFIDENTIALITY DESIGNATION - Chaparral City Water - Rehearing 04-12-2010 07-0551

Dear Judge Wolfe
Thank you so much for the quick response and confirmation.
I will prepare a memo and fax it to Docket Control right away. I have just learned that Docket Control would not be able to file this e-mail. They are not set up for e-mails.
No problem at all at our end. I am sorry we weren't alert to react to the Confidential designation on the documents so we could have prevented this.
You have a marvelous weekend.
Thank you,

Marta Hetzer
Administration / Owner @ AZRS
602-274-9944

From: Teena Wolfe [mailto:TWolfe@azcc.gov]
Sent: Friday, April 23, 2010 3:26 PM
To: AZRS
Cc: Michele Nelson; Kay Kilger; Deborah Person
Subject: RE: CONFIDENTIALITY DESIGNATION - Chaparral City Water - Rehearing 04-12-2010 07-0551

Dear Marta,

There were no confidential exhibits to the April 12, 2010 evidentiary hearing in Docket No. 07-0551. There was no confidential testimony presented at that hearing, oral or written.

Sorry for any inconvenience.
Teena Wolfe

From: AZRS [mailto:azrs@az-reporting.com]
Sent: Friday, April 23, 2010 3:18 PM
To: Teena Wolfe
Cc: Michele Nelson
Subject: CONFIDENTIALITY DESIGNATION - Chaparral City Water - Rehearing 04-12-2010 07-0551

TO: Teena Wolfe, ALJ
Hearing Division, ACC

COPY: Michelle Nelson
Docket Control, ACC

Hello, Judge Wolfe

Sorry to trouble you, but we need your help with a "Reply to All" to this message confirming that there are no confidential exhibits to the evidentiary hearing held on 04-12-2010. You gave a verbal confirmation of this earlier today to the court reporter in this matter, Kate Baumgarth, but Docket Control needs a more official confirmation that there are no confidential exhibits or text in this transcript.

We filed with Docket Control the original and one copy of the reporter's transcript of proceedings in this matter earlier this morning. Docket Control is holding the filing of this transcript until they receive official confirmation that there are no confidential exhibits or text in this transcript.
[Reference: UTIL Transcript No. 16402]

Thank you very much for your time and consideration.

Best regards,

Marta Hetzer
Administrator / Owner @ AZRS

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ARIZONA WATER COMPANY

DOCKET NO. W-01445A-02-0619

DIRECT TESTIMONY

OF

WILLIAM A. RIGSBY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JULY 8, 2003

EXHIBIT

CCWC-1

ADMITTED

RUCO's recommended level of annual CAP water expense in my adjusted purchased water expense figure (Operating Adjustment #11).

[BEGIN CONFIDENTIAL]

Rate Base Adjustment #11 - Sharing of PCG Settlement

Q. Please discuss the Pinal Creek Group or PCG?

A. Based on confidential information provided by Arizona Water, and on information obtained from other non-confidential sources, RUCO has learned that the Pinal Creek Group, or PCG, is a consortium of copper mining companies[1] that entered into a consent decree with ADEQ and the EPA over water contamination in the Miami area. Under the terms of the consent decree, the PCG agreed to pay fines to both the State of Arizona and the Federal Government and, more importantly, agreed to take responsibility for 100 percent of the cleanup effort in the affected area at an estimated cost of approximately $100 million.

During the latter part of 1997, Arizona Water filed objections against the aforementioned consent decree in Federal District Court. In Arizona Water's filing with the court, the Company argued that it would not be able to recover damages from the PCG if the consent decree were approved. Arizona Water also claimed that, over a number of years, the Company

[1] The Pinal Creek Group is comprised of the following companies: BHP Copper (formerly Magma Copper); Cyprus Miami Copper Corporation; and, Consolidated Copper Company.

had suffered approximately $5 million in damages as a result of water contamination in the Miami area (although the Company has not been able to fully quantify this figure in its responses to ACC Staff data requests). In July 1998, Arizona Water entered into a settlement agreement with the PCG. As part of the settlement agreement, Arizona Water received $1.4 million in cash over a three-year period (the Company recorded the full amount as Miscellaneous Non-operating Income during the 1998 operating period). In addition to paying out the aforementioned cash settlement, the PCG also agreed to provide replacement water (from various PCG wells and through an interconnection that links the PCG's water system with Arizona Water's Miami system) on an incremental basis beginning with an amount of 100 gallons per minute ("GPM") in October 1998, and increasing by 100 GPM per year up to 600 GPM in October 2003. After October 30, 2003, the PCG agreed to continue to provide an "aggregate volume of capacity" of 600 GPM until the expiration of the settlement agreement on October 30, 2028. Although the settlement agreement has provisions for the transfer of wells from the PCG to Arizona Water, there is no evidence that substantiates that any such transfers have occurred to date. In its response to ACC Staff data request TJS 13-10, Arizona Water stated that the Company has received a total of 456,927,300 gallons of water from the PCG pursuant to the settlement agreement.

Q. Was any of this information disclosed or discussed in Arizona Water's Application?

A. No.

Q. What adjustment to the Miami system rate base is RUCO recommending based on its analysis of the PCG settlement?

A. Based on the information that RUCO has been able to study to date, RUCO believes that, at this point in time, Arizona Water should be required to share the $1.4 million settlement amount with the ratepayers served by the affected Miami system. As customers on the Miami system, ratepayers have been affected and damaged by this water contamination and should share in any compensation agreed upon. This results in a reduction of $700,000 to the Miami system's rate base. RUCO is also recommending that the $700,000 be amortized over a 25-year period. This results in a decrease to the Miami system's depreciation & amortization expense of $28,000 per year through 2028. RUCO based its 25-year amortization period on the life of the settlement agreement between PCG and Arizona Water.

Q. Is there precedence for such a sharing between a public service corporation and its ratepayers?

A. This Commission has historically recognized the propriety of sharing utility generated gains on a 50/50 basis between ratepayers and shareholders.

Examples of this can be found in the following decisions: Arizona Public Service Company ("APS") Decision No. 55228, dated October 9, 1986; APS Decision No. 55175, dated August 21, 1986; APS Decision No. 55931, dated April 1, 1988, and Tucson Electric Power Decision No. 56659, dated October 24, 1989.

Q. Is RUCO also recommending any operating expense adjustments in connection with the PCG settlement agreement?

A. No.

Q. Why not?

A. Based on the information analyzed to date, RUCO cannot accurately quantify or make projections on what the total impact of the 600 GPM will be on the Miami System's operating expense figures. For this reason, RUCO is recommending that the Commission order Arizona Water to file a rate application at the end of three years and to provide detailed documentation on well transfers and any retirements of wells or other assets that are a direct result of the terms contained in the PCG settlement agreement. RUCO further believes that any transferred assets from the PCG to Arizona Water should be treated as CIAC's and booked at PCG's original cost to insure that ratepayers receive the benefits that would result from lower depreciation and amortization expenses recovered in rates. The requirement to book transferred assets at PCG's original

cost would avoid the possibility of Arizona Water booking contributed PCG assets at some token amount (i.e. $1.00) and allow the Company to avoid passing on additional savings to the Miami System's ratepayers through lower depreciation and amortization expense levels.

[END CONFIDENTIAL]

OPERATING INCOME

Operating Adjustment #1 - Reconcile Company Proposed Operating Income to 2002 Actual

Q. What is the purpose of this adjustment?

A. The purpose of this adjustment is to reconcile, or "true-up," the Company-proposed revenue and expense levels with the actual revenue and expense levels that were booked during the 2002 operating period. The adjustment provides the complete matching of post-test year revenues and expenses with the post-test year plant additions that are being allowed in rate base. Schedule WAR-10, Page 1 exhibits the differences between the Company's estimated post-test year revenue and expense levels and the actual amounts. In addition, Page 2 of Schedule WAR-10 compares actual 2001 test year revenues and expenses with actual 2002 revenue and expenses. These schedules show that the Company has consistently over estimated its post-test year expenses and consistently under estimated its post-test year revenue. As a result, the Company's application overstates the required rate increase.

ARIZONA WATER COMPANY

DOCKET NO. W-01445A-02-0619

SURREBUTTAL TESTIMONY

OF

WILLIAM A. RIGSBY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

SEPTEMBER 3, 2003

EXHIBIT

RCVC-2

ADMITTED

[BEGIN CONFIDENTIAL]

PINAL CREEK GROUP MATTER

Q. Please describe the Company's rebuttal testimony regarding the PCG settlement agreement.

A. Mr. Garfield provides an historical background on the events that led up to the Company's settlement agreement with the PCG. He then attempts to defend the Company's position on the PCG matter by reasoning that the settlement proceeds were not given to the Company to remedy past damages alone, but were provided in conjunction with replacement water in exchange for the release of any claims against the PCG for all potential losses and future claims. Both Mr. Garfield and Mr. Kennedy cite what they believe are benefits to Miami system ratepayers as a result of the settlement agreement.

Q. What is the Company's position on RUCO's treatment of the PCG settlement proceeds?

A. The Company is opposed to RUCO's recommendation that the proceeds from the $1.4 million PCG settlement agreement be shared with the Miami system ratepayers on a 50/50 basis.

Q. What is the basis for the Company's position on not sharing the PCG settlement proceeds as RUCO has recommended?

A. The Company has taken the position that the cases cited in my direct testimony (which Mr. Garfield mistakenly identifies as being in Mr. Coley's direct testimony) deal only with the sharing of gains on the sale of assets and do not apply to this case. Mr. Garfield also stated that a Commission requirement to share the settlement proceeds with the Miami system's ratepayers would constitute "poor public policy" and would serve as a disincentive for the Company to pursue polluters for future damages. He further states that Arizona Water's gain in this matter is not a "one-way street" in that the Company has "invested capital in the Miami system to meet the needs of the Company's customers."

Q. Has RUCO changed its position on this matter as a result of the rebuttal testimony presented by either Mr. Garfield or Mr. Kennedy?

A. No. RUCO believes that the 50/50 sharing of the $1.4 million in proceeds is appropriate. RUCO disagrees with the Company's position on the PCG matter for several reasons.

Q. Please explain RUCO's reasons for disagreeing with the Company's position on the PCG matter.

A. RUCO's principal disagreement is that Miami system ratepayers are also experiencing whatever damages the Company claims it is experiencing as

a result of the copper mining activities in the Miami community. Accordingly, ratepayers also are entitled to a portion of the actual monetary settlement. Although Mr. Garfield states that Arizona Water's actions in the PCG matter were in both the Company's and its customers best interest, the Company refuses to share the gains in an equitable manner.

Q. Please explain RUCO's rationale for recommending a 50/50 sharing of the PCG settlement funds?

The concept that ratepayers are entitled to gains by utilities, whether they result from the sale of assets or for some other compelling reason, such as the one in this proceeding, is rooted in the fact that ratepayers are captive customers of an incumbent local monopoly (in this case Arizona Water). Because ratepayers have no other choice but to accept service from their incumbent utility, a portion of the rates that they pay include the non-cash depreciation expense from which the incumbent utility recovers its costs for the assets that are used to provide service. Since ratepayers are in effect forced to pay down the mortgage on the assets that provide service to them as well as a fair rate of return to the utility, state regulatory commissions, including Arizona, have ruled that ratepayers are entitled to a sharing of the gains that are associated with utility assets.

Q. Can you cite any other cases where the Commission ordered a utility to share gains with its ratepayers that did not directly involve the sale of utility assets?

A. The most recent example is Decision No. 66028, dated July 3, 2003 in which the Commission ordered UniSource Energy Corporation ("UniSource") to share the savings that are realized from the renegotiation of an existing purchased power contract. The Commission ordered UniSource to share 90 percent of any realized savings with the Company's ratepayers and 10 percent with its shareholders.

Q. Please address the Company's position that a 50/50 sharing would be poor public policy and a disincentive for the Company to pursue polluters.

A. Based on the aforementioned UniSource decision and other prior decisions wherein the Commission has ordered that a gain be shared, it does not appear that the Commission believes that gain sharing is poor public policy. Moreover, I do not believe that an arrangement that provides real dollar reductions in rates to ratepayers who have suffered from damages to utility assets that they have paid for is poor public policy. Contrary to Arizona Water's position, such a policy would create incentives to go after even larger settlements in the future knowing that it will be required to share the gains with ratepayers.

Q. How does this gain sharing concept apply to the situation in this case?

A. As I stated earlier, the concept applies to this case by virtue of the fact that not only Arizona Water experienced damages related to utility assets but their ratepayers, who paid for the utility assets, were damaged also. Ratepayers have borne the cost of operation and maintenance expenses associated with the damaged physical assets that provided service to them, yet Arizona Water continues to maintain that ratepayers are not entitled to any of the $1.4 million in compensation.

Q. Please address the Company's assertion that the PCG settlement will provide savings benefits to the Miami system ratepayers.

A. Mr. Kennedy provides nothing more than a speculative present value analysis of avoided financial costs. Nowhere in the Company's rebuttal testimony does it make a recommendation to directly pass these projected savings on to Miami system customers through a revised rate design. In fact, none of the benefits cited in the Company's rebuttal testimony by either Mr. Garfield or Mr. Kennedy, translate directly into a tangible reduction in rates as RUCO recommends.

Q. Please respond to Mr. Garfield's argument that ratepayers have already benefited from the PCG settlement because the Company has "invested capital in the Miami system to meet the needs of the Company's customers."

A. As a regulated monopoly, Arizona Water is required to invest capital in order to serve its customers. Furthermore, the Company will recover that invested capital, along with a rate of return on it, through the rates that it collects from the Miami system ratepayers. If the Commission does not allow for a sharing of the gain, the Company will reap the entire $1.4 million of the PCG settlement money.

Q. Is there any reason to believe Arizona Water shareholders have already received windfall profits from the PCG settlement?

A. Yes. According to Arizona Water's 1999 audited financial statements[1], the Company paid a special dividend. Company shareholders received this special dividend in addition to the regular dividend that was paid during the 1999 operating period. The payment of the special dividend (totaling $2,000,700) occurred a year after the PCG settlement was reached in 1998 and during the same time frame that Arizona Water was receiving monetary disbursements of the settlement proceeds.

[1] Obtained during discovery in the Company's Northern Group proceeding (Docket No. W-01445A-00-0962). When the Company was asked by RUCO why the special dividend was paid, the Company's response was that the dividend payment was made to adjust the Company's capital structure.

Q. Are there any other points of contention between the Company and RUCO on the PCG matter?

A. For the sake of clarification, RUCO recommended that the Company be required to file a rate application on the Miami system in three years as opposed to the entire Eastern Group. RUCO believes that this will be an adequate time period to determine what additional savings Miami system ratepayers may be entitled to as a result of the PCG settlement agreement.

Q. Does RUCO accept the Company's offer to establish a PCG water adjustment mechanism, to flow through any savings realized from the PCG settlement as noted on page 30 of Mr. Garfield's rebuttal testimony?

A. Once the Company presents the details of such a mechanism, RUCO will consider such a proposal from both a legal and technical ratemaking aspect.

Q. Are there any other reasons why RUCO's recommended 50/50 sharing of the $1.4 million PCG settlement is appropriate?

A. Yes. Despite all the discussion and arguments presented on this issue by the Company's witnesses, the fact remains that Arizona Water realized a $1.4 million windfall that it booked as other income in its 1998 Annual Report to the Utilities Division. If the gain is not shared, not only will the Company be compensated by ratepayers for whatever portions of the

PCG settlement proceeds, if any, were used to finance the Miami system plant assets as discussed by Mr. Garfield in his rebuttal testimony, it will also enjoy the entire settlement of $1.4 million. Moreover, in the absence of a 50/50 gain sharing arrangement, there is no guarantee that the Miami system ratepayers will realize any savings or compensation connected with the damages that they have also suffered as a result of the copper mining activities in their service territory.

[END CONFIDENTIAL]

CHAPARRAL CITY WATER COMPANY, INC.

DOCKET NO. W-02113A-07-0551

DIRECT REHEARING TESTIMONY

OF

WILLIAM A. RIGSBY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

APRIL 5, 2010

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INTRODUCTION

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

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

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

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

Q. Please state the purpose of your testimony.

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

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

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

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

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

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

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[1] Docket No. W-02113A-04-0616

[2] Docket No. W-02113A-07-0551

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

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

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

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

Q. How is your Rehearing testimony organized?

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

SUMMARY OF TESTIMONY AND RECOMMENDATIONS

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

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

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

FHSD Settlement Agreement Proceeds – I am recommending that the Commission continue to treat 100 percent of the FHSD settlement proceeds as a regulatory liability in the amount of $1,216,000 to be deducted from the Company's rate base. This recommendation is consistent with ACC Staff's original recommendation prior to the evidentiary hearing on the Company's Application, is consistent with

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

RECOVERY OF LEGAL EXPENSES ASSOCIATED WITH THE APPEAL OF DECISION NO. 68176

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A. Absolutely.

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

A. Yes.

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

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

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

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

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

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

the Order clearly states that the Commission would have to make "a determination to their appropriateness and reasonableness".[3]

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

RUCO belives the Commission made the right decision.

FHSD SETTLEMENT AGREEMENT PROCEEDS

Q. Please provide a brief background on this issue.

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

[3] Decision No. 70441 p. 39

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

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

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

Q. Did RUCO initially oppose Chaparral's proposal?

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

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

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

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

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[4] Decision No. 66849, dated March 19, 2004

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

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

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

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

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

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

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

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

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

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

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

A. No, he did not.

[5] Hearing transcript Volume II, pages 351 and 352

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

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

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

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

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

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

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

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

A. Yes.

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

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

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

> matter on behalf of ratepayers and allocate the remaining settlement proceeds to the ratepayers."

Q. Are the ratepayers paying for replacement water?

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

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

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

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

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

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

A. No, it does not.

Q. Does this conclude your testimony?

A. Yes, it does.

Qualifications of William A. Rigsby, CRRA

EDUCATION:

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

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

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

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

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

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

EXPERIENCE:

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

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

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

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

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

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

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

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

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

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

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

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

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

ATTACHMENT A

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF CHAPARRAL CITY WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY BASED THEREON	)	DOCKET NO. W-02113A-07-0551

DIRECT

TESTIMONY

OF

MARVIN E. MILLSAP

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

OCTOBER 03, 2008

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

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

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

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

Staff's recommended rates would have a residential 3/4-inch meter customer consuming the median usage of 5,500 gallons per month paying $27.85, or $2.91 more than the current $24.94 for a 11.67 percent increase. By comparison, a residential 3/4-inch meter customer consuming the median usage of 5,500 gallons per month under the Company's proposed rates would be billed $34.03, or $9.09 more than the current $24.94 for a 36.43 percent increase.

INTRODUCTION

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

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

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

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

Q. Please describe your educational background and professional experience.

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

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

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

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

Q. Have you previously testified as an expert witness?

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

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

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

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

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

BACKGROUND

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

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

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

SUMMARY OF TESTIMONY AND RECOMMENDATIONS

Q. Please summarize the Company's filing.

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

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

Q. Please summarize Staff's recommendations.

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

Q. Please summarize the rate base recommendations and adjustments addressed in your testimony.

A. My testimony addresses the following issues:

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

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

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

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

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

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

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

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

A. My testimony addresses the following issues:

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

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

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

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

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

Schedule MEM - 5

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

Line No.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Well settlement proceeds mischaracterized as "Shared gain on well."	$ 646,000	$ 570,000	$ 1,216,000
2				
3				
4	References:			
5	Col [A]: Company Schedeule B-2			
6	Col [B]: Col [C] - Col [A]			
7	Col [C]: Explanation below. Testimony - MEM.			
8				
9				
10				
11				
12				
13				
14				
15	Explanation of Adjustment:			
16	Agreement signed 02/05/2005 with Fountain Hills Sanitation District to take Wells 8 & 9 out of service due to			
17	possible contamination from sewage treatment facility in exchange for $1,520.000. Proceeds to be allocated 100% to ratepay			
18	because the wells were fully depreciated, thus the original cost had been paid by the depreciation included in rates throughout			
19	the 30 year useful life assigned, which expired in 2001 and 2002.- To be amortized over 10 years.			
20				
21				
22	Original Amount of settlement proceeds.			$ 1,520,000
23	2005 amortization			(152,000)
24	2006 amortization			(152,000)
25				
26	Test year-end balance			$ 1,216,000

CHAPARRAL CITY WATER COMPANY, INC.
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Schedule MEM - 5

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

Line No.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Well settlement proceeds mischaracterized as "Shared gain on well."	$ 646,000	$ 570,000	$ 1,216,000
2				
3				
4	References:			
5	Col [A]: Company Schedeule B-2			
6	Col [B]: Col [C] - Col [A]			
7	Col [C]: Explanation below. Testimony - MEM.			
8				
9				
10				
11				
12				
13				
14				
15	Explanation of Adjustment:			
16	Agreement signed 02/05/2005 with Fountain Hills Sanitation District to take Wells 8 & 9 out of service due to			
17	possible contamination from sewage treatment facility in exchange for $1,520.000. Proceeds to be allocated 100% to ratepay			
18	because the wells were fully depreciated, thus the original cost had been paid by the depreciation included in rates throughout			
19	the 30 year useful life assigned, which expired in 2001 and 2002.- To be amortized over 10 years.			
20				
21				
22	Original Amount of settlement proceeds.			$ 1,520,000
23	2005 amortization			(152,000)
24	2006 amortization			(152,000)
25				
26	Test year-end balance			$ 1,216,000

CHAPARRAL CITY WATER COMPANY, INC.
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Schedule MEM-6

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

Line No.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Deferred Regulatory Assets	$ 1,280,000	$ (1,280,000)	$ -
2				
3				
4				
5	References:			
6	Col [A]: Company Schedeule B-1			
7	Col [B]: Col [C] - Col [A]			
8	Col [C]: Testimony - MEM.			
9				
10				
11	Explanation of Staff Adjustment			
12	Staff has determined that approximately 50% of the additional CAP Allocation of 1,931 acre feet of water purchased in 2007 will			
13	be used and useful by 2012. The contract with CAWCD and CAP for water deliveries is 100 years with renerwal provisions so			
14	the purchase has the characteristics of an intangible asset similar to water rights associated with land. Given its attributes, this			
15	purchase should not be treated as having a value which is consumed over time and benefits future periods. The purpose of this			
16	adjustment is to reclassify the cost of the CAP Allocation to NARUC Account #303, Land and Land Rights.			
17				
18	NOTE: This adjustment also applies to the RCN schedules.			
19				

CHAPARRAL CITY WATER COMPANY, INC.
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Schedule MEM-7

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

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	[C] STAFF RECOMMENDED	[D]	[E]
1		General office plant allocation	$ 751,171	$ 124,299	875,469		
2		Totals	$ 751,171	$ 124,299	$ 875,469		
3							
4							
5		[A]: Company Schedule B-2, Page 3 and B-3, Page 3 and below Line 28, Column C.					
6		[B]: Testimony - MEM and below calculations and Line 47, Column E.					
7		[C]: Col [B] + Col [A]					
8							
9		Explanation of Staff Adjustment					
10		As Originally Filed::					
11							
12		**Home Office Plant Allocated**	Per Exhibit Schedule B-2, Page 3	Allocation Factor	Original Allocation		
13	301	Organization	16,452	3.21%	528		
14	302	Franchise Cost and Other Intangible Plant	1,089,237	3.21%	34,965		
15	304	Structures & Improvements	5,802,813	3.21%	186,270		
16	311	Electric Pumping Equipment	(916)	3.21%	(29)		
17	339	Other Plant & Misc. Equipment	847,382	3.21%	27,201		
18	340	Office Furniture & Equipment	14,268,765	3.21%	458,027		
19	341	Transportation Equipment	552,719	3.21%	17,742		
20	343	Tools, Ship & Garage Equipment	405,643	3.21%	13,021		
21	344	Laboratory Equipment	4,061	3.21%	130		
22	345	Power Operated Equipment	249,261	3.21%	8,001		
23	346	Communication Equipment	165,561	3.21%	5,315		
24		Note Below		3.21%	-		
25			23,400,978		751,171		
26							
27							
28							
29		**Home Office Plant Allocated**	Per Exhibit Schedule B-2, Page 3	Staff Adjustment A	Adjusted for Allocation	Allocation Factor	Staff Recommended
30	301	Organization	16,452		16,452	4.00%	658
31	302	Franchise Cost and Other Intangible Plant	1,089,237	(420,000)	669,237	4.00%	26,769
32	304	Structures & Improvements	5,802,813		5,802,813	4.00%	232,113
33	311	Electric Pumping Equipment	(916)		(916)	4.00%	(37)
34	339	Other Plant & Misc. Equipment	847,382	(820,254)	27,128	4.00%	1,085
35	340	Office Furniture & Equipment	14,268,765		14,268,765	4.00%	570,751
36	341	Transportation Equipment	552,719	(274,001)	278,718	4.00%	11,149
37	343	Tools, Ship & Garage Equipment	405,643		405,643	4.00%	16,226
38	344	Laboratory Equipment	4,061		4,061	4.00%	162
39	345	Power Operated Equipment	249,261		249,261	4.00%	9,970
40	346	Communication Equipment	165,561		165,561	4.00%	6,622
41		Note Below			-	4.00%	-
42			23,400,978	(1,514,255)	21,886,723		875,469
43						As original filed	751,171
44							
45				Staff Adjustment to increase General Office Plant			124,299
46							
47		Items Removed from General Office Plant in Staff Adjustment:					
48		CPUC Management Audit - Completed in 1995, thus not applicable to CCWC.		420,000			
49		Water Management Plans - Completed in 1998, thus not applicable to CCWC.		820,254			
50		Luxury Vehicles - Detail listed below.		274,001			
51				1,514,255			
52							
53							
54		Note: Consultant's schedule of GO Plant is $7,979 less than the listing in AWR's GL as furnished by the Company. Due to its immateriality Staff did not investigate this difference.					
55							
56							
57			Date				Accum.
58		Vehicles Found by Staff to be Imprudent	Acquired		Price		Depr.
59							
60		Ford Explorer - 2004	3/26/2004		$ 45,639	Per MEM DR 7.5	5,988
61							
62		Infiniti GX35 - 2004	8/13/2004		$ 40,039	Per MEM DR 7.5	5,253
63							
64		Ford Expedition - 2004	8/13/2004		$ 40,785	Per MEM DR 7.5	5,351
65							
66		Acura MDX 2001	11/21/2002		$ 38,319	Per MEM DR 7.5	10,055
67							
68		Infiniti QX4	12/11/2002		$ 50,077	Per MEM DR 7.5	13,140
69							
70		Audi S4 Avant - 2005	7/6/2005		$ 59,143	Per MEM DR 7.5	3,880
71							
72					$ 274,001		$ 43,867
73							
74							

CHAPARRAL CITY WATER COMPANY, INC.
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RATE BASE ADJUSTMENT #4 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT A	[C] STAFF ADJUSTMENT B	[D] TOTAL OF STAFF ADJUSTMENTS	[E] STAFF RECOMMENDED
1	General office plant allocation	$ 15,877,022	$ 84,561	$ 2,116,511	$ (2,031,950)	13,845,072
2	Totals	$ 15,877,022	$ 84,561	$ 2,116,511	$ (2,031,950)	$ 13,845,072
3						
4						
5	[A]: Company Schedule B-2, Page 3 and B-3, Page 3 and below Line 63, Column C.					
6	[B]: Testimony - MEM and below calculations and Line 99, Column E.					
7	[C]: Testimony - MEM and below calculations and line 175, Column E.					
8	[D]: Col [B] + Col [C]					
9	[E]: Testimony - MEM					
10						
11						
12						

13	Acct. No.	Description	CCWC Plant OCN Accum. Depr. Per Exh. Sch. B-2 Page 3d
14			
15	301	Organization	-
16	302	Franchises	-
17	303	Land and Land Rights	-
18	304	Structures & Improvements	357,961
19	305	Collecting & Impounding Reservoirs	573
20	306	Lakes, Rivers, Other Intakes	-
21	307	Wells and Springs	183,252
22	308	Infiltration Galleries and Tunnels	-
23	309	Supply Mains	-
24	310	Power Generation Equipment	-
25	311	Pumping Equipment	879,456
26	320	Water Treatment Plant	2,304,464
27	330	Distribution Reservoirs & Standpipes	1,996,014
28	331	Transmission & Distribution Mains	7,154,728
29	333	Services	1,060,764
30	334	Meters & Meter Installation	990,763
31	335	Hydrants	235,514
32	336	Backflow Prevention Devices	-
33	339	Other Plant & Misc. Equipment	135,962
34	340	Office Furniture & Equipment	45,958
35	341	Transportation Equipment	60,636
36	342	Stores Equipment	-
37	343	Tools, Ship & Garage Equipment	34,980
38	344	Laboratory Equipment	25
39	345	Power Operated Equipment	-
40	346	Communication Equipment	883
41	347	Miscellaneous Equipment	31,899
42	348	Other Tangible Plant	-
43			15,473,832
44		Rounding	2
45		Total CCWC Plant Accumulated Depreciation Per Exhibit Schedule B-2. Page 3d.	15,473,834
46			
47			
48			

49	General Office Plant Allocated - Accum Depr OCN		Per Exhibit Schedule B-4-A	Allocation Factor	Allocation
50	301	Organization	3,046	3.21%	98
51	302	Franchise Cost and Other Intangible Plant	211,596	3.21%	6,792
52	304	Structures & Improvements	2,354,430	3.21%	75,577
53	311	Electric Pumping Equipment		3.21%	-
54	339	Other Plant & Misc. Equipment	162,569	3.21%	5,218
55	340	Office Furniture & Equipment	8,664,647	3.21%	278,135
56	341	Transportation Equipment	552,718	3.21%	17,742
57	343	Tools, Shop & Garage Equipment	192,488	3.21%	6,179
58	344	Laboratory Equipment	4,062	3.21%	130
59	345	Power Operated Equipment	249,257	3.21%	8,001
60	346	Communication Equipment	165,561	3.21%	5,315
61	Total GO Accum. Depr. - Exh. Sch. B-2. Pg 4, Line 33.		12,560,374		403,188
62					
63		Total Accumulated Depreciation Per Exhibit Schedule B-2. Page 1, Line 8.			15,877,022

Explanation of Staff Adjustment A

As Originally Filed::

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

		Per Exhibit Schedule B-2, Pa	Staff Adjustment A	Adjusted for Allocation	Allocation Factor	Staff Recommended
Home Office Plant Accumulated Depreciation						
301	Organization	3,046	(3,046)	-	4.00%	-
302	Franchise Cost and Other Intangible Plant	211,596	(153,888)	57,708	4.00%	2,308
304	Structures & Improvements	2,354,430		2,354,430	4.00%	94,177
311	Electric Pumping Equipment	-		-	4.00%	-
339	Other Plant & Misc. Equipment	162,569	(166,019)	(3,450)	4.00%	(138)
340	Office Furniture & Equipment	8,664,647		8,664,647	4.00%	346,586
341	Transportation Equipment	552,718	(43,667)	509,051	4.00%	20,362
343	Tools, Ship & Garage Equipment	192,488		192,488	4.00%	7,700
344	Laboratory Equipment	4,062		4,062	4.00%	162
345	Power Operated Equipment	249,257		249,257	4.00%	9,970
346	Communication Equipment	165,561	- -	165,561	4.00%	6,622
		12,560,374	(366,620)	12,193,754		487,750
				As originall filed		403,188
	Add the rounding difference required to agree with the Exhibit					2
	Staff Adjustment A to increase General Office Plant Accumulated depreciation to Colun B, above					84,561

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

		Accum Depr
CRC Valuation - Inappropriate accumulated depreciation for intangible	3,046	Per DR MEM 7.4 & 7.5
CPUC Management Audit - Completed in 1995, thus not aaplicable to CCWC.	153,888	
Water Management Plans - Completed in 1998, thus not applicable to CCWC.	166,019	
Luxury Vehicles - Detail listed below.	43,667	
	366,620	

Vehicles Found by Staff to be I	Date Acquired	Price	Accum. Depr.
Ford Explorer - 2004	3/26/2004	$ 45,639	5,988
Infiniti GX35 - 2004	8/13/2004	$ 40,039	5,253
Ford Expedition - 2004	8/13/2004	$ 40,785	5,351
Acura MDX 2001	11/21/2002	$ 38,319	10,055
Infiniti QX4	12/11/2002	$ 50,077	13,140
Audi S4 Avant - 2005	7/6/2005	$ 59,143	3,880
		$ 274,001	$ 43,667

Explanation of Staff Adjustment B

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

Acct. No.	Description	Cost	Accum Depr
304	Staff adjustment to Structures and addition to accum depr based on half-year conve	11,590	(193)
304	Well No. 9 - Install exhaust fan	596	596
	Subtotal	12,186	403
307	Fully depreciated Cost of Well #8 per response to DR MEM-7.3	$ 49,329	$ 49,329
307	Fully depreciated Cost of Well #9 per response to DR MEM-7.3	54,139	54,139
307	Engine Well	3,348	3,348
	Subtotal	106,816	106,816
311	Staff adjustment to pumping equipment and addition to accum depr based on half-y	26,083	(1,630)
	Subtotal	26,083	(1,630)
320	CAP Plant #1 1986	1,320,562	1,320,562
320	CAP Plant #1 - Treatment Equipment 1987	288,612	288,612
320	CAP Plant #1 - Treatment Equipment 1989	397,339	397,339
320	CAP Plant #1 - Treatment Equipment 19889	4,409	4,409
	Subtotal	2,010,922	2,010,922
305	Collecting and Impounding Reservoirs	(6,548)	(1,801)
307	Wells and Springs (250 hp sub.)	(65,622)	(18,727)
311	Pumping Equipment (250 hp sub. in 1996 Less Fire hydrant in 1996 and DIP in 200	55,254	24,434
320	Water Treatment Equipment (Water Treatment Study in 2004)	34,062	2,908
330	Distribution Reservoirs and Standpipes (Water Services in 1996 and mains in 2005	(1,658,272)	(104,710)
331	Transmission and Distribution Mains (16" main in 2005 and fh Blvd main in 2006)	1,502,420	46,451
333	Services (Water Services in 1996 less Conference Room Table and Chairs in 1993	108,409	30,253
334	Meters and Meter Installation (Meter installation in 1973 less service line in 1994)	11,193	16,154
335	Hydrants (Fire hydrant in 1996 and DIP in 2005)	53,352	10,940
340	Office Furniture and Equipment (Conference Room Table and Chairs in 1993)	1,814	585
303	Land and Land Rights (A/C #348 for RCN)	(34,062)	(6,487)
		-	-
339	Other Plant & Misc. Equip.	108,542	31,889
347	Miscellaneous Equipment	(108,542)	(31,889)
		-	-
		$ 2,156,007	$ 2,116,511

Summary of Staff Adjustment B

Plant Additions -	Line 132	Structures and Improvements	(193)
	Line 141	Pumping equipment	(1,630)
		Subtotal of Additions	(1,823)
Plant Retirements -	Line 133	Structures and Improvements	596
	Line 139	Wells and Springs	106,816
	Line 148	Water Treatment Equipment	2,010,922
		Subtotal of Retirements	2,118,334
		Total reduction to Column C above	2,116,511

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

Schedule MEM-9

RATE BASE ADJUSTMENT #5 - Eliminate Working Capital Elements

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

References:
Col [A]: Company Schedeule B-2
Col [B]: Col [C] - Col [A]
Col [C]: MEM Testimony

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

Schedule MEM-10

RATE BASE ADJUSTMENT #6 - Capitalize Outside Services Expenses

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

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

Schedule MEM-11

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

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENT	[C] STAFF RECOMMENDED
1	304	Structures and Improvements	$ -	$ (596)	$ (596)
2	307	Wells and Springs	$ -	$ (106,816)	$ (106,816)
3	320	Water Treatment Equipment	$ -	(2,010,922)	$ (2,010,922)
4	305	Collecting and Impounding Reservoirs	$ -	(6,548)	$ (6,548)
5	307	Wells and Springs	$ -	(65,622)	$ (65,622)
6	311	Pumping Equipment	$ -	55,254	$ 55,254
7	320	Water Treatment Equipment	$ -	34,062	$ 34,062
8	330	Distribution Reservoirs and Standpipes	$ -	(1,658,272)	$ (1,658,272)
9	331	Transmission and Distribution Mains	$ -	1,502,420	$ 1,502,420
10	333	Services	$ -	106,409	$ 106,409
11	334	Meters and Meter Installation	$ -	11,193	$ 11,193
12	335	Hydrants	$ -	53,352	$ 53,352
13	340	Office Furniture and Equipment	$ -	1,814	$ 1,814
14	303	Land and Land Rights (A/C #348 for RCN)	$ -	(34,062)	$ (34,062)
15	339	Other Plant & Misc. Equip.	$ -	106,542	$ 106,542
16	347	Miscellaneous Equipment	$ -	(106,542)	$ (106,542)
17		TOTAL	$ -	$ (2,118,334)	$ (2,118,334)
18					
19					
20					
21		References:			
22		Col [A]: Company Schedeule B-2			
23		Col [B]: Col [C] - Col [A]			
24		Col [C]: MEM Testimony			
25					

26 Explanation of Adjustment:
27 Agreement signed 02/05/2005 with Fountain Hills Sanitation District to take Wells 8 & 9 out of service and retire other
28 Plant identified by Staff as not being used and useful. Also to reclassify plant and accumulated depreciation.
29

	Acct. No.	Description	Cost	Accum Depr
32	307	Fully depreciated Cost of Well #8 per response to DR MEM-7.3	$ 49,329	$ 49,329
33	307	Fully depreciated Cost of Well #9 per response to DR MEM-7.3	54,139	54,139
34	307	Engine Well	3,348	3,348
35		Subtotal	106,816	106,816
36	320	CAP Plant #1 1986	1,320,562	1,320,562
37	320	CAP Plant #1 - Treatment Equipment 1987	288,612	288,612
38	320	CAP Plant #1 - Treatment Equipment 1989	397,339	397,339
39	320	CAP Plant #1 - Treatment Equipment 19889	4,409	4,409
40		Subtotal	2,010,922	2,010,922
41	304	Well No. 9 - Install exhaust fan	596	596
42				
43	305	Collecting and Impounding Reservoirs	(6,548)	(1,801)
44	307	Wells and Springs (250 hp sub.)	(65,622)	(18,727)
45	311	Pumping Equipment (250 hp sub. In 1996 Less Fire hydrant in 1996 and DIP in	55,254	24,434
46	320	Water Treatment Equipment (Water Treatment Study in 2004)	34,062	2,908
47	330	Distribution Reservoirs and Standpipes (Water Services in 1996 and mains in 2	(1,658,272)	(104,710)
48	331	Transmission and Distribution Mains (16" main in 2005 and fh Blvd main in 200	1,502,420	46,451
49	333	Services (Water Services in 1996 less Conference Room Table and Chairs in 1	106,409	30,253
50	334	Meters and Meter Installation (Meter installation in 1973 less service line in 199	11,193	16,154
51	335	Hydrants (Fire hydrant in 1996 and DIP in 2005)	53,352	10,940
52	340	Office Furniture and Equipment (Conference Room Table and Chairs in 1993)	1,814	585
53	303	Land and Land Rights (A/C #348 for RCN)	(34,062)	(6,487)
54			-	-
55	339	Other Plant & Misc. Equip.	106,542	31,889
56	347		(106,542)	(31,889)
57				
58			$ 2,118,334	$ 2,118,334
59				

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

Schedule MEM RCN -1

RATE BASE - RECONSTRUCTION COST NEW

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 80,816,104	(2,337,584)	2, 3, 5	$ 78,478,520
2	Less: Accumulated Depreciation	25,894,686	(2,506,970)	4	23,387,716
3	Net Plant in Service	$ 54,921,418	169,386		$ 55,090,804
4					
5	*LESS:*				
6					
7	Contributions in Aid of Construction (CIAC)	$ -	$ -		$ -
8	Less: Accumulated Amortization	-	-		-
9	Net CIAC	9,441,352	-		$ 9,441,352
10					
11	Advances in Aid of Construction (AIAC)	10,231,760			$ 10,231,760
12					
13	Customer Meter Deposits	819,845	-		$ 819,845
14					
15	Deferred Income Tax Credits	925,896	-		925,896
16					
17	Shared Gain on Well	646,000	570,000	1	1,216,000
18					
19	*ADD:*				
20					
21	Unamortized Debt Issuance Costs	424,010	(424,010)	5	-
22					
23	Prepayments	192,485	(192,485)	5	-
24					
25	Materials and Supplies	14,521	(14,521)	5	-
26					
27	Deferred Regulatory Assets	1,280,000	(1,280,000)	2	-
28					
29	Working Capital	-	-		-
30					
31					
32		$ 34,767,581	$ (2,311,630)		$ 32,455,951
33					
34					
35	References:				
36	Column (A), Company Schedule B-3				
37	Column (B): Schedule MEM RCN-2				
38	Column (C): Column (A) + Column (B)				

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

Schedule MEM RCN-2

SUMMARY OF RECONSTRUCTION COST (RCN) RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) Well Settlement ADJ #1	(C) CAP Allocation ADJ #2	(D) GO Plant ADJ #3	(E) Acc Depr ADJ #4	(F) Working Capital ADJ #5	(G) Plant Adj. ADJ #6	(I) STAFF ADJUSTED
		PLANT IN SERVICE:								
1		Decision No. 68176 Plant adjustments not booked but included in Staff RCN balances	$ 32,536							
2	301	Organization	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
3	302	Franchises	-	-	-	-	-	-	-	-
4	303	Land and Land Rights	305,920	-		-	-	-	1,245,937	1,551,857
5	304	Structures & Improvements	1,965,394	-	-	-	-	-	10,793	1,976,187
6	305	Collecting & Impounding Reservoirs	-	-	-	-	-	-	-	-
7	306	Lakes, Rivers, Other Intakes	-	-	-	-	-	-	-	-
8	307	Wells and Springs	908,287	-	-	-	-	-	(528,244)	380,043
9	308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-	-
10	309	Supply Mains	-	-	-	-	-	-	-	-
11	310	Power Generation Equipment	-	-	-	-	-	-	-	-
12	311	Pumping Equipment	3,160,902	-	-	-	-	-	105,725	3,266,627
13	320	Water Treatment Plant	9,969,130	-	-	-	-	-	(3,226,536)	6,742,594
14	330	Distribution Reservoirs & Standpipes	13,002,689	-	-	-	-	-	(1,932,296)	11,070,393
15	331	Transmission & Distribution Mains	31,920,448	-	-	-	-	-	1,701,082	33,621,530
16	333	Services	9,304,078	-	-	-	-	-	146,911	9,450,989
17	334	Meters & Meter Installation	3,981,833	-	-	-	-	-	16,310	3,998,143
18	335	Hydrants	2,192,853	-	-	-	-	-	77,763	2,270,616
19	336	Backflow Prevention Devices	-	-	-	-	-	-	-	-
20	339	Other Plant & Misc. Equipment	1,814,021	-	-	-	-	-	-	1,814,021
21	340	Office Furniture & Equipment	349,449	-	-	-	-	-	2,544	351,993
22	341	Transportation Equipment	663,541	-	-	-	-	-	-	663,541
23	342	Stores Equipment	-	-	-	-	-	-	-	-
24	343	Tools, Shop & Garage Equipment	195,756	-	-	-	-	-	-	195,756
25	344	Laboratory Equipment	-	-	-	-	-	-	-	-
26	345	Power Operated Equipment	-	-	-	-	-	-	-	-
27	346	Communication Equipment	57,138	-	-	-	-	-	-	57,138
28	347	Miscellaneous Equipment	-	-	-	-	-	-	-	-
29	348	Other Tangible Plant	-	-	-	-	-	-	-	-
30			79,823,976	-	-	-	-	-	(2,480,011)	77,311,429
31										
32		Add:								-
33		General Office Plant Allocation	992,128	-	-	174,963	-	-	-	1,167,091
34		Less:								-
35			-	-	-	-	-	-	-	-
36			-	-	-	-	-	-	-	-
37										
38		Total Plant In Service	$ 80,816,104	$ -	$ -	$ 174,963	$ -	# $ -	# $ (2,480,011)	$ 78,478,520
39		Less: Accumulated Depreciation	25,894,886	-	-	-	(2,506,970)	-	-	23,387,716
40										
41		Net Plant in Service (L39 - L 40)	$ 54,921,418	$ -	$ -	$ 174,963	$ 2,506,970	$ -	$ (2,480,011)	$ 55,090,804
42										
43		*LESS:*								
44		Contributions In Aid of Construction (CIAC)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
45		Less: Accumulated Amortization	-	-	-	-	-	-	-	-
46		Net CIAC (L25 - L26)	10,231,760	-	-	-	0	-	-	10,231,760
47		Advances In Aid of Construction (AIAC)	9,441,352	-	-	-	-	-	-	9,441,352
48		Customer Meter Deposits	819,845	-	-	-	-	-	-	819,845
49		Deferred Income Taxes	925,896	-	-	-	-	-	-	925,896
50		Shared Gain on Well	646,000	570,000						1,216,000
51										
52		*ADD:*								
53		Unamortized Debt Issuance Costs	424,010	-	-	-	-	(424,010)	-	-
54		Prepayments	192,485	-	-	-	-	(192,485)	-	-
55		Materials and Supplies	14,521					(14,521)		-
56		Deferred Regulatory Assets	1,280,000		(1,280,000)	-	-	-	-	-
57		Working Capital	-	-	-	-	-	-	-	-
58										
59		Original Cost Rate Base	$ 34,787,581	$ (570,000)	$ (1,280,000)	$ 174,963	$ 2,506,970	$ (631,016)	$ (2,480,011)	$ 32,455,951
60										
61										

ADJ #		References:
1	Allocate 100% of Well Settlement to Ratepayers.	Schedule MEM-6
2	CAP Allotment Reclassification.	Schedule MEM-6
3	Increase General Office allocation	Schedule MEM RCN 3
4	Recalculation of Accumulated Depreciation.	Schedule MEM RCN 4
5	Eliminate Working Capital Components	Schedule MEM-9
6	Plant Additions & Retirements per Staff Adjustments	Schedule MEM RCN 5

62
63
64
65
66
67
68
69
70 References:
71 Column (A), Company Schedule B-3 and B-4
72 Column (B): Schedule MEM RCN-2
73 Column (G): Column (A) + Column (B) through

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

Schedule MEM RCN-3

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

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	[C] STAFF RECOMMENDED
1	General office plant allocation @ RCN	$ 992,128	$ 174,963	1,167,091
2	Totals	$ 992,128	$ 174,963	$ 1,167,091
3				
4				
5	[A]: Company Schedule B-3, Page 3 and B-4 and below Line 27, Column C.			
6	[B]: Testimony - MEM and below calculations and Line 48, Column E.			
7	[D]: Col [B] + Col [C]			
8				
9				
10				
11	**Explanation of Staff Adjustment**			
12	As Originally Filed::			
13				
14	**Home Office Plant Allocated**	RCN Per Exhibit Schedule B-4-A	Allocation Factor	RCN Original Allocation
15	308 Land	$ 172,003	3.21%	5,521
16	301 Organization	16,452	3.21%	528
17	303 Franchise Cost and Other Intangible Plant	917,234	3.21%	29,443
18	304 Structures & Improvements	9,379,730	3.21%	301,089
19	311 Electric Pumping Equipment	(1,860)	3.21%	(60)
20	339 Other Plant & Misc. Equipment	1,055,403	3.21%	33,878
21	340 Office Furniture & Equipment	17,188,237	3.21%	551,742
22	341 Transportation Equipment	606,575	3.21%	19,471
23	343 Tools, Shop & Garage Equipment	663,298	3.21%	21,292
24	344 Laboratory Equipment	15,358	3.21%	493
25	345 Power Operated Equipment	634,172	3.21%	20,357
26	346 Communication Equipment	260,818	3.21%	8,372
27		$ 30,907,420		992,128
28				
29				
30				
31		RCN Per Exhibit Schedule B-4-A	Staff Adjustment	Adjusted for Allocation	Allocation Factor	Staff Recommended
32	**Home Office Plant Allocated**					
33	308 Land	$ 172,003		172,003	4.00%	6,880
34	301 Organization	16,452		16,452	4.00%	658
35	303 Franchise Cost and Other Intangible Plant	917,234	(420,000)	497,234	4.00%	19,889
36	304 Structures & Improvements	9,379,730		9,379,730	4.00%	375,189
37	311 Electric Pumping Equipment	(1,860)		(1,860)	4.00%	(74)
38	339 Other Plant & Misc. Equipment	1,055,403	(1,015,146)	40,257	4.00%	1,610
39	340 Office Furniture & Equipment	17,188,237		17,188,237	4.00%	687,529
40	341 Transportation Equipment	606,575	(295,002)	311,573	4.00%	12,463
41	343 Tools, Shop & Garage Equipment	663,298		663,298	4.00%	26,532
42	344 Laboratory Equipment	15,358		15,358	4.00%	614
43	345 Power Operated Equipment	634,172		634,172	4.00%	25,367
44	346 Communication Equipment	260,818		260,818	4.00%	10,433
45		$ 30,907,420	(1,730,148)	29,177,272		1,167,091
46					As originall filed	992,128
47						
48			Staff Adjustment to Increase General Office Plant			174,964
49						
50	Items Removed from General Office Plant in Staff Adjustment A:		OCN	Cost RCN		
51	CPUC Management Audit - Completed in 1995, thus not applicable to CCW		420,000	420,000		
52	Water Management Plans - Completed in 1998, thus not applicable to CCW		820,254	1,015,146		
53	Luxury Vehicles - Detail listed below.		274,001	295,002		
54			1,514,255	1,730,148		
55						
56						
57				RCN Per Exhibit Schedule B-4-A		
58	Vehicles Found by Staff to be Imprudent	Date Acquired				
59						
60	Ford Explorer - 2004	3/26/2004		$ 48,615		
61						
62	Infiniti GX35 - 2004	8/13/2004		$ 43,242		
63						
64	Ford Expedition - 2004	8/13/2004		$ 43,444		
65						
66	Acura MDX 2001	11/21/2002		$ 42,917		
67						
68	Infiniti QX4	12/11/2002		$ 56,086		
69						
70	Audi S4 Avant - 2005	7/6/2005		$ 60,898		
71						
72				$ 295,002		
73						

ATTACHMENT A

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF CHAPARRAL CITY WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY BASED THEREON	)	DOCKET NO. W-02113A-07-0551

DIRECT

TESTIMONY

OF

MARVIN E. MILLSAP

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

OCTOBER 03, 2008

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Operating Income Adj. No. 3 – Depreciation Expense MEM-16

Operating Income Adj. No. 4 – Miscellaneous Expenses MEM-17

Operating Income Adj. No. 5 – Additional CAP Allocation Amortization Reversal.. MEM-18

Operating Income Adj. No. 6 – Normalization of Rate Case Expense MEM-19

Operating Income Adj. No. 7 – Normalization of Chemicals Expense MEM-20

Operating Income Adj. No. 8 – Normalization of Repairs and

Maintenance Expense MEM-21

Operating Income Adj. No. 9 – Normalization of Insurance Expense MEM-22

Operating Income Adj. No. 10 – Outside Services Expense MEM-23

Operating Income Adj. No. 11 – Water Testing Expense MEM-24

Operating Income Adj. No. 12 – Property Taxes MEM-25

Operating Income Adj. No. 13 – Income Taxes MEM-26

Rate Design MEM-27

Typical Bill Analysis MEM-28

Typical Bill Analysis – Average and Median Usage Costs MEM-29

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

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

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

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

Staff's recommended rates would have a residential 3/4-inch meter customer consuming the median usage of 5,500 gallons per month paying $27.85, or $2.91 more than the current $24.94 for a 11.67 percent increase. By comparison, a residential 3/4-inch meter customer consuming the median usage of 5,500 gallons per month under the Company's proposed rates would be billed $34.03, or $9.09 more than the current $24.94 for a 36.43 percent increase.

INTRODUCTION

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

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

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

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

Q. Please describe your educational background and professional experience.

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

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

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

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

Q. Have you previously testified as an expert witness?

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

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

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

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

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

BACKGROUND

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

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

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

SUMMARY OF TESTIMONY AND RECOMMENDATIONS

Q. Please summarize the Company's filing.

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

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

Q. Please summarize Staff's recommendations.

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

Q. Please summarize the rate base recommendations and adjustments addressed in your testimony.

A. My testimony addresses the following issues:

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

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

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

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

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

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

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

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

A. My testimony addresses the following issues:

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

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

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

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

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

Schedule MEM - 5

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

Line No.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Well settlement proceeds mischaracterized as "Shared gain on well."	$ 646,000	$ 570,000	$ 1,216,000
2				
3				
4	References:			
5	Col [A]: Company Schedeule B-2			
6	Col [B]: Col [C] - Col [A]			
7	Col [C]: Explanation below. Testimony - MEM.			
8				
9				
10				
11				
12				
13				
14				
15	Explanation of Adjustment:			
16	Agreement signed 02/05/2005 with Fountain Hills Sanitation District to take Wells 8 & 9 out of service due to			
17	possible contamination from sewage treatment facility in exchange for $1,520.000. Proceeds to be allocated 100% to ratepay			
18	because the wells were fully depreciated, thus the original cost had been paid by the depreciation included in rates throughout			
19	the 30 year useful life assigned, which expired in 2001 and 2002.- To be amortized over 10 years.			
20				
21				
22	Original Amount of settlement proceeds.			$ 1,520,000
23	2005 amortization			(152,000)
24	2006 amortization			(152,000)
25				
26	Test year-end balance			$ 1,216,000

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

Schedule MEM - 5

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

Line No.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Well settlement proceeds mischaracterized as "Shared gain on well."	$ 646,000	$ 570,000	$ 1,216,000
2				
3				
4	References:			
5	Col [A]: Company Schedeule B-2			
6	Col [B]: Col [C] - Col [A]			
7	Col [C]: Explanation below. Testimony - MEM.			
8				
9				
10				
11				
12				
13				
14				
15	Explanation of Adjustment:			
16	Agreement signed 02/05/2005 with Fountain Hills Sanitation District to take Wells 8 & 9 out of service due to			
17	possible contamination from sewage treatment facility in exchange for $1,520.000. Proceeds to be allocated 100% to ratepay			
18	because the wells were fully depreciated, thus the original cost had been paid by the depreciation included in rates throughout			
19	the 30 year useful life assigned, which expired in 2001 and 2002.- To be amortized over 10 years.			
20				
21				
22	Original Amount of settlement proceeds.			$ 1,520,000
23	2005 amortization			(152,000)
24	2006 amortization			(152,000)
25				
26	Test year-end balance			$ 1,216,000

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

Schedule MEM-6

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

Line No.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Deferred Regulatory Assets	$ 1,280,000	$ (1,280,000)	$ -
2				
3				
4				
5	References:			
6	Col [A]: Company Schedeule B-1			
7	Col [B]: Col [C] - Col [A]			
8	Col [C]: Testimony - MEM.			
9				
10				
11	Explanation of Staff Adjustment			
12	Staff has determined that approximately 50% of the additional CAP Allocation of 1,931 acre feet of water purchased in 2007 will			
13	be used and useful by 2012. The contract with CAWCD and CAP for water deliveries is 100 years with renerwal provisions so			
14	the purchase has the characteristics of an intangible asset similar to water rights associated with land. Given its attributes, this			
15	purchase should not be treated as having a value which is consumed over time and benefits future periods. The purpose of this			
16	adjustment is to reclassify the cost of the CAP Allocation to NARUC Account #303, Land and Land Rights.			
17				
18	NOTE: This adjustment also applies to the RCN schedules.			
19				

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

Schedule MEM-7

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

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	[C] STAFF RECOMMENDED	[D]	[E]
1		General office plant allocation	$ 751,171	$ 124,299	875,469		
2		Totals	$ 751,171	$ 124,299	$ 875,469		
3							
4							
5		[A]: Company Schedule B-2, Page 3 and B-3, Page 3 and below Line 26, Column C.					
6		[B]: Testimony - MEM and below calculations and Line 47, Column E.					
7		[C]: Col [B] + Col [A]					
8							
9		Explanation of Staff Adjustment					
10	As Originally Filed::						
11			Per Exhibit	Allocation	Original		
12	Home Office Plant Allocated		Schedule B-2, Page 3	Factor	Allocation		
13	301	Organization	16,452	3.21%	528		
14	302	Franchise Cost and Other Intangible Plant	1,089,237	3.21%	34,965		
15	304	Structures & Improvements	5,802,813	3.21%	186,270		
16	311	Electric Pumping Equipment	(916)	3.21%	(29)		
17	339	Other Plant & Misc. Equipment	847,382	3.21%	27,201		
18	340	Office Furniture & Equipment	14,268,765	3.21%	458,027		
19	341	Transportation Equipment	552,719	3.21%	17,742		
20	343	Tools, Ship & Garage Equipment	405,643	3.21%	13,021		
21	344	Laboratory Equipment	4,061	3.21%	130		
22	345	Power Operated Equipment	249,261	3.21%	8,001		
23	346	Communication Equipment	165,561	3.21%	5,315		
24		Note Below		3.21%	-		
25			23,400,978		751,171		
26							
27							
28							
29	Home Office Plant Allocated		Per Exhibit Schedule B-2, Page 3	Staff Adjustment A	Adjusted for Allocation	Allocation Factor	Staff Recommended
30	301	Organization	16,452		16,452	4.00%	658
31	302	Franchise Cost and Other Intangible Plant	1,089,237	(420,000)	669,237	4.00%	26,769
32	304	Structures & Improvements	5,802,813		5,802,813	4.00%	232,113
33	311	Electric Pumping Equipment	(916)		(916)	4.00%	(37)
34	339	Other Plant & Misc. Equipment	847,382	(820,254)	27,128	4.00%	1,085
35	340	Office Furniture & Equipment	14,268,765		14,268,765	4.00%	570,751
36	341	Transportation Equipment	552,719	(274,001)	278,718	4.00%	11,149
37	343	Tools, Ship & Garage Equipment	405,643		405,643	4.00%	16,226
38	344	Laboratory Equipment	4,061		4,061	4.00%	162
39	345	Power Operated Equipment	249,261		249,261	4.00%	9,970
40	346	Communication Equipment	165,561		165,561	4.00%	6,622
41		Note Below			-	4.00%	-
42			23,400,978	(1,514,255)	21,886,723		875,469
43						As originall filed	751,171
44							
45				Staff Adjustment to Increase General Office Plant			124,299
46							
47	Items Removed from General Office Plant in Staff Adjustment:						
48		CPUC Management Audit - Completed in 1995, thus not applicable to CCWC.		420,000			
49		Water Management Plans - Completed in 1998, thus not applicable to CCWC.		820,254			
50		Luxury Vehicles - Detail listed below.		274,001			
51				1,514,255			
52							
53							
54	Note: Consultant's schedule of GO Plant is $7,979 less than the listing in AWR's GL as furnished by the Company. Due to its immateriality Staff did not investigate this difference.						
55							
56							
57			Date				Accum.
58		Vehicles Found by Staff to be Imprudent	Acquired		Price		Depr.
59							
60		Ford Explorer - 2004	3/26/2004		$ 45,639	Per MEM DR 7.5	5,988
61							
62		Infiniti GX35 - 2004	8/13/2004		$ 40,039	Per MEM DR 7.5	5,253
63							
64		Ford Expedition - 2004	8/13/2004		$ 40,785	Per MEM DR 7.5	5,351
65							
66		Acura MDX 2001	11/21/2002		$ 38,319	Per MEM DR 7.5	10,055
67							
68		Infiniti QX4	12/11/2002		$ 50,077	Per MEM DR 7.5	13,140
69							
70		Audi S4 Avant - 2005	7/6/2005		$ 59,143	Per MEM DR 7.5	3,880
71							
72					$ 274,001		$ 43,667
73							
74							

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

RATE BASE ADJUSTMENT #4 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT A	[C] STAFF ADJUSTMENT B	[D] TOTAL OF STAFF ADJUSTMENTS	[E] STAFF RECOMMENDED
1	General office plant allocation	$ 15,877,022	$ 84,561	$ 2,116,511	$ (2,031,950)	13,845,072
2	Totals	$ 15,877,022	$ 84,561	$ 2,116,511	$ (2,031,950)	$ 13,845,072
3						
4						
5	[A]: Company Schedule B-2, Page 3 and B-3, Page 3 and below Line 63, Column C.					
6	[B]: Testimony - MEM and below calculations and Line 99, Column E.					
7	[C]: Testimony - MEM and below calculations and line 175, Column E.					
8	[D]: Col [B] + Col [C]					
9	[E]: Testimony - MEM					
10						
11						
12						

	Acct. No.	Description	CCWC Plant OCN Accum. Depr. Per Exh. Sch. B-2 Page 3d
13			
14			
15	301	Organization	-
16	302	Franchises	-
17	303	Land and Land Rights	-
18	304	Structures & Improvements	357,961
19	305	Collecting & Impounding Reservoirs	573
20	306	Lakes, Rivers, Other Intakes	-
21	307	Wells and Springs	183,252
22	308	Infiltration Galleries and Tunnels	-
23	309	Supply Mains	-
24	310	Power Generation Equipment	-
25	311	Pumping Equipment	879,456
26	320	Water Treatment Plant	2,304,464
27	330	Distribution Reservoirs & Standpipes	1,996,014
28	331	Transmission & Distribution Mains	7,154,728
29	333	Services	1,060,764
30	334	Meters & Meter Installation	990,763
31	335	Hydrants	235,514
32	336	Backflow Prevention Devices	-
33	339	Other Plant & Misc. Equipment	135,962
34	340	Office Furniture & Equipment	45,958
35	341	Transportation Equipment	60,636
36	342	Stores Equipment	-
37	343	Tools, Ship & Garage Equipment	34,980
38	344	Laboratory Equipment	25
39	345	Power Operated Equipment	-
40	346	Communication Equipment	883
41	347	Miscellaneous Equipment	31,899
42	348	Other Tangible Plant	-
43			15,473,832
44		Rounding	2
45		Total CCWC Plant Accumulated Depreciation Per Exhibit Schedule B-2. Page 3d.	15,473,834
46			
47			
48			

		General Office Plant Allocated - Accum Depr OCN	Per Exhibit Schedule B-4-A	Allocation Factor	Allocation
49					
50	301	Organization	3,046	3.21%	98
51	302	Franchise Cost and Other Intangible Plant	211,596	3.21%	6,792
52	304	Structures & Improvements	2,354,430	3.21%	75,577
53	311	Electric Pumping Equipment		3.21%	-
54	339	Other Plant & Misc. Equipment	162,569	3.21%	5,218
55	340	Office Furniture & Equipment	8,664,647	3.21%	278,135
56	341	Transportation Equipment	552,718	3.21%	17,742
57	343	Tools, Shop & Garage Equipment	192,488	3.21%	6,179
58	344	Laboratory Equipment	4,062	3.21%	130
59	345	Power Operated Equipment	249,257	3.21%	8,001
60	346	Communication Equipment	165,561	3.21%	5,315
61		Total GO Accum. Depr. - Exh. Sch. B-2. Pg 4, Line 33.	12,560,374		403,188
62					
63		Total Accumulated Depreciation Per Exhibit Schedule B-2. Page 1, Line 6.			15,877,022

Explanation of Staff Adjustment A

As Originally Filed::

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

		Per Exhibit Schedule B-2, Pa	Staff Adjustment A	Adjusted for Allocation	Allocation Factor	Staff Recommended
Home Office Plant Accumulated Depreciation						
301	Organization	3,046	(3,046)	-	4.00%	-
302	Franchise Cost and Other Intangible Plant	211,596	(153,888)	57,708	4.00%	2,308
304	Structures & Improvements	2,354,430		2,354,430	4.00%	94,177
311	Electric Pumping Equipment	-		-	4.00%	-
339	Other Plant & Misc. Equipment	162,569	(166,019)	(3,450)	4.00%	(138)
340	Office Furniture & Equipment	8,664,647		8,664,647	4.00%	346,586
341	Transportation Equipment	552,718	(43,667)	509,051	4.00%	20,362
343	Tools, Ship & Garage Equipment	192,488		192,488	4.00%	7,700
344	Laboratory Equipment	4,062		4,062	4.00%	162
345	Power Operated Equipment	249,257		249,257	4.00%	9,970
346	Communication Equipment	165,561	- -	165,561	4.00%	6,622
		12,560,374	(366,620)	12,193,754		487,750
				As originall filed		403,188
	Add the rounding difference required to agree with the Exhibit					2
	Staff Adjustment A to increase General Office Plant Accumulated depreciation to Colun B, above					84,561

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

		Accum Depr
CRC Valuation - Inappropriate accumulated depreciation for intangible	3,046	Per DR MEM 7.4 & 7.5
CPUC Management Audit - Completed in 1995, thus not aaplicable to CCWC.	153,888	
Water Management Plans - Completed in 1998, thus not applicable to CCWC.	166,019	
Luxury Vehicles - Detail listed below.	43,667	
	366,620	

Vehicles Found by Staff to be I	Date Acquired	Price	Accum. Depr.
Ford Explorer - 2004	3/26/2004	$ 45,639	5,988
Infiniti GX35 - 2004	8/13/2004	$ 40,039	5,253
Ford Expedition - 2004	8/13/2004	$ 40,785	5,351
Acura MDX 2001	11/21/2002	$ 38,319	10,055
Infiniti QX4	12/11/2002	$ 50,077	13,140
Audi S4 Avant - 2005	7/6/2005	$ 59,143	3,880
		$ 274,001	$ 43,667

Explanation of Staff Adjustment B

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

Acct. No.	Description	Cost	Accum Depr
304	Staff adjustment to Structures and addition to accum depr based on half-year conve	11,590	(193)
304	Well No. 9 - Install exhaust fan	596	596
	Subtotal	12,186	403
307	Fully depreciated Cost of Well #8 per response to DR MEM-7.3	$ 49,329	$ 49,329
307	Fully depreciated Cost of Well #9 per response to DR MEM-7.3	54,139	54,139
307	Engine Well	3,348	3,348
	Subtotal	106,816	106,816
311	Staff adjustment to pumping equipment and addition to accum depr based on half-y	26,083	(1,630)
	Subtotal	26,083	(1,630)
320	CAP Plant #1 1986	1,320,562	1,320,562
320	CAP Plant #1 - Treatment Equipment 1987	288,612	288,612
320	CAP Plant #1 - Treatment Equipment 1989	397,339	397,339
320	CAP Plant #1 - Treatment Equipment 19889	4,409	4,409
	Subtotal	2,010,922	2,010,922
305	Collecting and Impounding Reservoirs	(6,548)	(1,801)
307	Wells and Springs (250 hp sub.)	(65,622)	(18,727)
311	Pumping Equipment (250 hp sub. In 1996 Less Fire hydrant in 1996 and DIP in 200	55,254	24,434
320	Water Treatment Equipment (Water Treatment Study in 2004)	34,062	2,908
330	Distribution Reservoirs and Standpipes (Water Services in 1996 and mains in 2005	(1,658,272)	(104,710)
331	Transmission and Distribution Mains (16" main in 2005 and fh Blvd main in 2006)	1,502,420	46,451
333	Services (Water Services in 1996 less Conference Room Table and Chairs in 1993	108,409	30,253
334	Meters and Meter Installation (Meter installation in 1973 less service line in 1994)	11,193	16,154
335	Hydrants (Fire hydrant in 1996 and DIP in 2005)	53,352	10,940
340	Office Furniture and Equipment (Conference Room Table and Chairs in 1993)	1,814	585
303	Land and Land Rights (A/C #348 for RCN)	(34,062)	(6,487)
		-	-
339	Other Plant & Misc. Equip.	108,542	31,889
347	Miscellaneous Equipment	(106,542)	(31,889)
		-	-
		$ 2,156,007	$ 2,116,511

Summary of Staff Adjustment B

Plant Additions -	Line 132	Structures and Improvements	(193)
	Line 141	Pumping equipment	(1,630)
		Subtotal of Additions	(1,823)
Plant Retirements -	Line 133	Structures and Improvements	596
	Line 139	Wells and Springs	106,816
	Line 148	Water Treatment Equipment	2,010,922
		Subtotal of Retirements	2,118,334
		Total reduction to Column C above	2,116,511

CHAPARRAL CITY WATER COMPANY, INC.
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Schedule MEM-9

RATE BASE ADJUSTMENT #5 - Eliminate Working Capital Elements

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

References:
Col [A]: Company Schedeule B-2
Col [B]: Col [C] - Col [A]
Col [C]: MEM Testimony

CHAPARRAL CITY WATER COMPANY, INC.
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Schedule MEM-10

RATE BASE ADJUSTMENT #6 - Capitalize Outside Services Expenses

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

CHAPARRAL CITY WATER COMPANY, INC.
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Schedule MEM-11

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

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENT	[C] STAFF RECOMMENDED
1	304	Structures and Improvements	$ -	$ (596)	$ (596)
2	307	Wells and Springs	$ -	$ (106,816)	$ (106,816)
3	320	Water Treatment Equipment	$ -	(2,010,922)	$ (2,010,922)
4	305	Collecting and Impounding Reservoirs	$ -	(6,548)	$ (6,548)
5	307	Wells and Springs	$ -	(65,622)	$ (65,622)
6	311	Pumping Equipment	$ -	55,254	$ 55,254
7	320	Water Treatment Equipment	$ -	34,062	$ 34,062
8	330	Distribution Reservoirs and Standpipes	$ -	(1,658,272)	$ (1,658,272)
9	331	Transmission and Distribution Mains	$ -	1,502,420	$ 1,502,420
10	333	Services	$ -	106,409	$ 106,409
11	334	Meters and Meter Installation	$ -	11,193	$ 11,193
12	335	Hydrants	$ -	53,352	$ 53,352
13	340	Office Furniture and Equipment	$ -	1,814	$ 1,814
14	303	Land and Land Rights (A/C #348 for RCN)	$ -	(34,062)	$ (34,062)
15	339	Other Plant & Misc. Equip.	$ -	106,542	$ 106,542
16	347	Miscellaneous Equipment	$ -	(106,542)	$ (106,542)
17		TOTAL	$ -	$ (2,118,334)	$ (2,118,334)
18					
19					
20					
21		References:			
22		Col [A]: Company Schedeule B-2			
23		Col [B]: Col [C] - Col [A]			
24		Col [C]: MEM Testimony			
25					

26 Explanation of Adjustment:
27 Agreement signed 02/05/2005 with Fountain Hills Sanitation District to take Wells 8 & 9 out of service and retire other
28 Plant identified by Staff as not being used and useful. Also to reclassify plant and accumulated depreciation.
29

	Acct. No.	Description	Cost	Accum Depr
32	307	Fully depreciated Cost of Well #8 per response to DR MEM-7.3	$ 49,329	$ 49,329
33	307	Fully depreciated Cost of Well #9 per response to DR MEM-7.3	54,139	54,139
34	307	Engine Well	3,348	3,348
35		Subtotal	106,816	106,816
36	320	CAP Plant #1 1986	1,320,562	1,320,562
37	320	CAP Plant #1 - Treatment Equipment 1987	288,612	288,612
38	320	CAP Plant #1 - Treatment Equipment 1989	397,339	397,339
39	320	CAP Plant #1 - Treatment Equipment 19889	4,409	4,409
40		Subtotal	2,010,922	2,010,922
41	304	Well No. 9 - Install exhaust fan	596	596
42				
43	305	Collecting and Impounding Reservoirs	(6,548)	(1,801)
44	307	Wells and Springs (250 hp sub.)	(65,622)	(18,727)
45	311	Pumping Equipment (250 hp sub. In 1996 Less Fire hydrant in 1996 and DIP in	55,254	24,434
46	320	Water Treatment Equipment (Water Treatment Study in 2004)	34,062	2,908
47	330	Distribution Reservoirs and Standpipes (Water Services in 1996 and mains in 2	(1,658,272)	(104,710)
48	331	Transmission and Distribution Mains (16" main in 2005 and fh Blvd main in 200	1,502,420	46,451
49	333	Services (Water Services in 1996 less Conference Room Table and Chairs in 1	106,409	30,253
50	334	Meters and Meter Installation (Meter installation in 1973 less service line in 199	11,193	16,154
51	335	Hydrants (Fire hydrant in 1996 and DIP in 2005)	53,352	10,940
52	340	Office Furniture and Equipment (Conference Room Table and Chairs in 1993)	1,814	585
53	303	Land and Land Rights (A/C #348 for RCN)	(34,062)	(6,487)
54			-	-
55	339	Other Plant & Misc. Equip.	106,542	31,889
56	347		(106,542)	(31,889)
57				
58			$ 2,118,334	$ 2,118,334
59				

CHAPARRAL CITY WATER COMPANY, INC.
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Schedule MEM RCN -1

RATE BASE - RECONSTRUCTION COST NEW

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 80,816,104	(2,337,584)	2, 3, 5	$ 78,478,520
2	Less: Accumulated Depreciation	25,894,686	(2,506,970)	4	23,387,716
3	Net Plant in Service	$ 54,921,418	169,386		$ 55,090,804
4					
5	*LESS:*				
6					
7	Contributions in Aid of Construction (CIAC)	$ -	$ -		$ -
8	Less: Accumulated Amortization	-	-		-
9	Net CIAC	9,441,352	-		$ 9,441,352
10					
11	Advances in Aid of Construction (AIAC)	10,231,760			$ 10,231,760
12					
13	Customer Meter Deposits	819,845	-		$ 819,845
14					
15	Deferred Income Tax Credits	925,896	-		925,896
16					
17	Shared Gain on Well	646,000	570,000	1	1,216,000
18					
19	*ADD:*				
20					
21	Unamortized Debt Issuance Costs	424,010	(424,010)	5	-
22					
23	Prepayments	192,485	(192,485)	5	-
24					
25	Materials and Supplies	14,521	(14,521)	5	-
26					
27	Deferred Regulatory Assets	1,280,000	(1,280,000)	2	-
28					
29	Working Capital	-	-		-
30					
31					
32		$ 34,767,581	$ (2,311,630)		$ 32,455,951
33					
34					
35	References:				
36	Column (A), Company Schedule B-3				
37	Column (B): Schedule MEM RCN-2				
38	Column (C): Column (A) + Column (B)				

CHAPARRAL CITY WATER COMPANY, INC.
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Schedule MEM RCN-2

SUMMARY OF RECONSTRUCTION COST (RCN) RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Well Settlement ADJ #1	[C] CAP Allocation ADJ #2	[D] GO Plant ADJ #3	[E] Acc Depr ADJ #4	[F] Working Capital ADJ #5	[G] Plant Adj. ADJ #6	[I] STAFF ADJUSTED
		PLANT IN SERVICE:								
1		Decision No. 68176 Plant adjustments not booked but included in Staff RCN balances	$ 32,536							
2	301	Organization	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
3	302	Franchises	-	-	-	-	-	-	-	-
4	303	Land and Land Rights	305,920	-		-	-	-	1,245,937	1,551,857
5	304	Structures & Improvements	1,965,394	-	-	-	-	-	10,793	1,976,187
6	305	Collecting & Impounding Reservoirs	-	-	-	-	-	-	-	-
7	306	Lakes, Rivers, Other Intakes	-	-	-	-	-	-	-	-
8	307	Wells and Springs	908,287	-	-	-	-	-	(528,244)	380,043
9	308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-	-
10	309	Supply Mains	-	-	-	-	-	-	-	-
11	310	Power Generation Equipment	-	-	-	-	-	-	-	-
12	311	Pumping Equipment	3,160,902	-	-	-	-	-	105,725	3,266,627
13	320	Water Treatment Plant	9,969,130	-	-	-	-	-	(3,226,536)	6,742,594
14	330	Distribution Reservoirs & Standpipes	13,002,689	-	-	-	-	-	(1,932,296)	11,070,393
15	331	Transmission & Distribution Mains	31,920,448	-	-	-	-	-	1,601,082	33,521,530
16	333	Services	9,304,078	-	-	-	-	-	146,911	9,450,989
17	334	Meters & Meter Installation	3,981,833	-	-	-	-	-	16,310	3,998,143
18	335	Hydrants	2,192,853	-	-	-	-	-	77,763	2,270,616
19	336	Backflow Prevention Devices	-	-	-	-	-	-	-	-
20	339	Other Plant & Misc. Equipment	1,814,021	-	-	-	-	-	-	1,814,021
21	340	Office Furniture & Equipment	349,449	-	-	-	-	-	2,544	351,993
22	341	Transportation Equipment	663,541	-	-	-	-	-	-	663,541
23	342	Stores Equipment	-	-	-	-	-	-	-	-
24	343	Tools, Ship & Garage Equipment	195,758	-	-	-	-	-	-	195,758
25	344	Laboratory Equipment	-	-	-	-	-	-	-	-
26	345	Power Operated Equipment	-	-	-	-	-	-	-	-
27	346	Communication Equipment	57,138	-	-	-	-	-	-	57,138
28	347	Miscellaneous Equipment	-	-	-	-	-	-	-	-
29	348	Other Tangible Plant	-	-	-	-	-	-	-	-
30			79,823,978	-	-	-	-	-	(2,460,011)	77,311,428
31										
32	Add:									-
33		General Office Plant Allocation	992,126	-	-	174,963	-	-	-	1,167,091
34	Less:									-
35			-	-	-	-	-	-	-	-
36			-	-	-	-	-	-	-	-
37										
38		Total Plant in Service	$ 80,816,104	$ -	$ -	$ 174,963	$ -	# $ -	# $ (2,460,011)	$ 78,478,520
39		Less: Accumulated Depreciation	25,894,566	-	-	-	(2,506,970)	-	-	23,387,716
40										
41		Net Plant in Service (L39 - L 40)	$ 54,921,418	$ -	$ -	$ 174,963	$ 2,506,970	$ -	$ (2,460,011)	$ 55,090,804
42										
43		*LESS:*								
44		Contributions in Aid of Construction (CIAC)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
45		Less: Accumulated Amortization	-	-	-	-	-	-	-	-
46		Net CIAC (L25 - L26)	10,231,760	-	-	-	0	-	-	10,231,760
47		Advances in Aid of Construction (AIAC)	9,441,352	-	-	-	-	-	-	9,441,352
48		Customer Meter Deposits	619,845	-	-	-	-	-	-	619,845
49		Deferred Income Taxes	925,896	-	-	-	-	-	-	925,896
50		Shared Gain on Well	646,000	570,000						1,216,000
51										
52		*ADD:*								
53		Unamortized Debt Issuance Costs	424,010	-	-	-	-	(424,010)	-	-
54		Prepayments	192,485	-	-	-	-	(192,485)	-	-
55		Materials and Supplies	14,521					(14,521)		-
56		Deferred Regulatory Assets	1,280,000		(1,280,000)	-	-	-	-	-
57		Working Capital	-	-	-	-	-	-	-	-
58										
59		Original Cost Rate Base	$ 34,767,581	$ (570,000)	$ (1,280,000)	$ 174,963	$ 2,506,970	$ (631,016)	$ (2,460,011)	$ 32,455,951
60										
61										
62										

ADJ #		References:
1	Allocate 100% of Well Settlement to Ratepayers.	Schedule MEM-5
2	CAP Allotment Reclassification.	Schedule MEM-6
3	Increase General Office allocation	Schedule MEM RCN 3
4	Recalculation of Accumulated Depreciation.	Schedule MEM RCN 4
5	Eliminate Working Capital Components	Schedule MEM-9
6	Plant Additions & Retirements per Staff Adjustments	Schedule MEM RCN 5

63
64
65
66
67
68
69
70 References:
71 Column (A), Company Schedule B-3 and B-4
72 Column (B): Schedule MEM RCN-2
73 Column (C): Column (A) + Column (B) through

CHAPARRAL CITY WATER COMPANY, INC.
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Schedule MEM RCN-3

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

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	[C] STAFF RECOMMENDED
1	General office plant allocation @ RCN	$ 992,128	$ 174,963	1,167,091
2	Totals	$ 992,128	$ 174,963	$ 1,167,091
3				
4				
5	[A]: Company Schedule B-3, Page 3 and B-4 and below Line 27, Column C.			
6	[B]: Testimony - MEM and below calculations and Line 48, Column E.			
7	[D]: Col [B] + Col [C]			
8				
9				
10				
11	**Explanation of Staff Adjustment**			
12	As Originally Filed::			
13				
14	**Home Office Plant Allocated**	RCN Per Exhibit Schedule B-4-A	Allocation Factor	RCN Original Allocation
15	308 Land	$ 172,003	3.21%	5,521
16	301 Organization	16,452	3.21%	528
17	303 Franchise Cost and Other Intangible Plant	917,234	3.21%	29,443
18	304 Structures & Improvements	9,379,730	3.21%	301,089
19	311 Electric Pumping Equipment	(1,860)	3.21%	(60)
20	339 Other Plant & Misc. Equipment	1,055,403	3.21%	33,878
21	340 Office Furniture & Equipment	17,188,237	3.21%	551,742
22	341 Transportation Equipment	606,575	3.21%	19,471
23	343 Tools, Shop & Garage Equipment	663,298	3.21%	21,292
24	344 Laboratory Equipment	15,358	3.21%	493
25	345 Power Operated Equipment	634,172	3.21%	20,357
26	346 Communication Equipment	260,818	3.21%	8,372
27		$ 30,907,420		992,128
28				
29				
30				
31				

32	**Home Office Plant Allocated**	RCN Per Exhibit Schedule B-4-A	Staff Adjustment	Adjusted for Allocation	Allocation Factor		Staff Recommended
33	308 Land	$ 172,003		172,003		4.00%	6,880
34	301 Organization	16,452		16,452		4.00%	658
35	303 Franchise Cost and Other Intangible Plant	917,234	(420,000)	497,234		4.00%	19,889
36	304 Structures & Improvements	9,379,730		9,379,730		4.00%	375,189
37	311 Electric Pumping Equipment	(1,860)		(1,860)		4.00%	(74)
38	339 Other Plant & Misc. Equipment	1,055,403	(1,015,146)	40,257		4.00%	1,610
39	340 Office Furniture & Equipment	17,188,237		17,188,237		4.00%	687,529
40	341 Transportation Equipment	606,575	(295,002)	311,573		4.00%	12,463
41	343 Tools, Shop & Garage Equipment	663,298		663,298		4.00%	26,532
42	344 Laboratory Equipment	15,358		15,358		4.00%	614
43	345 Power Operated Equipment	634,172		634,172		4.00%	25,367
44	346 Communication Equipment	260,818		260,818		4.00%	10,433
45		$ 30,907,420	(1,730,148)	29,177,272			1,167,091
46						As original filed	992,128
47							
48			**Staff Adjustment to Increase General Office Plant**				174,964

49			
50	Items Removed from General Office Plant in Staff Adjustment A:	OCN	Cost RCN
51	CPUC Management Audit - Completed in 1995, thus not applicable to CCW	420,000	420,000
52	Water Management Plans - Completed in 1998, thus not applicable to CCW	820,254	1,015,146
53	Luxury Vehicles - Detail listed below.	274,001	295,002
54		1,514,255	1,730,148
55			
56			
57			

58	Vehicles Found by Staff to be Imprudent	Date Acquired	RCN Per Exhibit Schedule B-4-A
59			
60	Ford Explorer - 2004	3/26/2004	$ 48,615
61			
62	Infiniti GX35 - 2004	8/13/2004	$ 43,242
63			
64	Ford Expedition - 2004	8/13/2004	$ 43,444
65			
66	Acura MDX 2001	11/21/2002	$ 42,917
67			
68	Infiniti QX4	12/11/2002	$ 56,086
69			
70	Audi S4 Avant - 2005	7/6/2005	$ 60,898
71			
72			$ 295,002
73			

CHAPARRAL CITY WATER COMPANY, INC.
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RCND RATE BASE ADJUSTMENT #4 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT A	[C] STAFF ADJUSTMENT B	[D] TOTAL OF STAFF ADJUSTMENTS	[E] STAFF RECOMMENDED
1	RCN Accumulated Depreciation	$ 25,894,686	$ 113,818	$ (2,620,789)	$ (2,506,970)	23,387,716
2	Totals	$ 25,894,686	$ 113,818	$ (2,620,789)	$ (2,506,970)	$ 23,387,716
3						
4						
5	[A]: Company Schedule B-2, B-3 and B-4 and below Line 65, Column E.					
6	[B]: Testimony - MEM and below calculations and Line 145, Column E.					
7	[C]: Testimony - MEM and below calculations and line 193, Column E.					
8	[D]: Col [B] + Col [C]					
9	[E]: Col [A] + Col [D], and line 199, Column E.					
10						
11						

	Acct. No.	Description	CCWC Plant OCN Accum. Depr. Per Exh. Sch. B-2 Page 3d	CCWC Plant OCN Accum. Depr. Per Exh. Sch. B-4	Ratio of RCN to Original Cost Per Exh. Sch. B-4	RCN Accum. Depr. Per Exh. Sch. B-4
12						
13						
14						
15						
16	301	Organization	-	-		
17	302	Franchises	-	-		
18	303	Land and Land Rights	-	-		
19	304	Structures & Improvements	357,981	376,155	1.2942	486,820
20	305	Collecting & Impounding Reservoirs	573	-		
21	306	Lakes, Rivers, Other Intakes	-	-		
22	307	Wells and Springs	183,252	54,932	2.7353	150,255
23	308	Infiltration Galleries and Tunnels	-	-		
24	309	Supply Mains	-	-		
25	310	Power Generation Equipment	-	-		
26	311	Pumping Equipment	879,456	834,457	2.0976	1,750,363
27	320	Water Treatment Plant	2,304,464	2,099,307	1.2841	2,695,725
28	330	Distribution Reservoirs & Standpipes	1,996,014	1,431,816	1.5902	2,276,817
29	331	Transmission & Distribution Mains	7,154,728	7,103,657	1.8292	12,993,907
30	333	Services	1,060,764	1,228,978	1.2580	1,547,309
31	334	Meters & Meter Installation	990,763	1,032,186	1.4609	1,507,882
32	335	Hydrants	235,514	246,174	1.8716	460,745
33	336	Backflow Prevention Devices	-	-		
34	339	Other Plant & Misc. Equipment	135,962	262,340	1.0564	277,127
35	340	Office Furniture & Equipment	45,958	66,702	1.2925	86,215
36	341	Transportation Equipment	60,636	140,176	1.2395	173,753
37	342	Stores Equipment	-	-		
38	343	Tools, Ship & Garage Equipment	34,980	43,635	1.3106	57,187
39	344	Laboratory Equipment	25	-		
40	345	Power Operated Equipment	-	-		
41	346	Communication Equipment	863	25,603	1.4612	37,410
42	347	Miscellaneous Equipment	31,899	-		
43	348	Other Tangible Plant	-	639	1.0000	639
44			15,473,832	14,946,757		24,502,155
45		Rounding	2	-		(12)
46		Total CCWC Plant Accumulated Depreciation	15,473,834	14,946,757		24,502,143
47						

		General Office Plant Allocated - Accum Depr OCN	Per Exhibit Schedule B-4-A	Allocation Factor	Allocation	Ratio of RCN to Original Cost Per Exh. Sch. B-4-A	G. O. RCN Accum. Depr.
48							
49							
50							
51	301	Organization	3,046	3.21%	98	1.0000	98
52	302	Franchise Cost and Other Intangible Plant	211,596	3.21%	6,792	1.0000	6,792
53	304	Structures & Improvements	2,354,430	3.21%	75,577	1.6164	122,164
54	311	Electric Pumping Equipment	-	3.21%	-	0.0000	-
55	339	Other Plant & Misc. Equipment	162,569	3.21%	5,218	1.2455	6,500
56	340	Office Furniture & Equipment	8,664,547	3.21%	278,135	1.2046	335,043
57	341	Transportation Equipment	552,718	3.21%	17,742	1.0974	19,471
58	343	Tools, Shop & Garage Equipment	192,488	3.21%	6,179	1.6352	10,104
59	344	Laboratory Equipment	4,062	3.21%	130	3.7818	493
60	345	Power Operated Equipment	249,257	3.21%	8,001	2.5442	20,357
61	346	Communication Equipment	165,561	3.21%	5,315	1.5754	8,372
62		Total GO Accum. Depr. - Exh. Sch. B-2. Pg 4, Line 33.	12,560,374		403,188		529,393
63					15,877,022		25,031,536
64		Company Pro-forma RCN Rate Base Adjustment No. 1 for difference between General Ledger and Depreciation Detail Schedules.					863,150
65		Total RCN Accumulated Depreciation Per Exhibit Schedule B-2. Page 1, Line 7 - To Line 1, Column A above					25,894,686

66 **Explanation of Staff Adjustment A**
67 As Originally Filed::
68

		Home Office Plant Accumulated Depreciation	Per Exhibit Sch. B-2, Page 4	Allocation Factor	Original Allocation
70	301	Organization	3,046	3.21%	98
71	302	Franchise Cost and Other Intangible Plant	211,596	3.21%	6,792
72	304	Structures & Improvements	2,354,430	3.21%	75,577
73	311	Electric Pumping Equipment	-	3.21%	-
74	339	Other Plant & Misc. Equipment	162,569	3.21%	5,218
75	340	Office Furniture & Equipment	8,664,647	3.21%	278,135
76	341	Transportation Equipment	552,718	3.21%	17,742
77	343	Tools, Ship & Garage Equipment	192,488	3.21%	6,179
78	344	Laboratory Equipment	4,062	3.21%	130
79	345	Power Operated Equipment	249,257	3.21%	8,001
80	346	Communication Equipment	165,561	3.21%	5,315
81			12,560,374		403,186

82
83
84

85		Home Office Plant Accumulated Depreciation	Per Exhibit Schedule B-2, Page 3	Staff Adjustment A	Adjusted for Allocation	Allocation Factor
86	301	Organization	3,046	(3,046)	-	4.00%
87	302	Franchise Cost and Other Intangible Plant	211,596	(153,888)	57,708	4.00%
88	304	Structures & Improvements	2,354,430		2,354,430	4.00%
89	311	Electric Pumping Equipment	-		-	4.00%
90	339	Other Plant & Misc. Equipment	162,569	(166,019)	(3,450)	4.00%
91	340	Office Furniture & Equipment	8,664,647		8,664,647	4.00%
92	341	Transportation Equipment	552,718	(43,667)	509,051	4.00%
93	343	Tools, Ship & Garage Equipment	192,488		192,488	4.00%
94	344	Laboratory Equipment	4,062		4,062	4.00%
95	345	Power Operated Equipment	249,257		249,257	4.00%
96	346	Communication Equipment	165,561		165,561	4.00%
97			12,560,374	(366,620)	12,193,754	

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

			Accum Depr
103	CRC Valuation - Inappropriate accumulated depreciation for intangible	3,046	Per DR MEM 7.4 & 7.5
104	CPUC Management Audit - Completed in 1995, thus not applicable to CCWC.	153,888	
105	Water Management Plans - Completed in 1998, thus not applicable to CCWC.	166,019	
106	Luxury Vehicles - Detail listed below.	43,667	
107		366,620	

108

109	Vehicles Found by Staff to be Imprudent	Date Acquired	Price	Accum. Depr.
110				
111	Ford Explorer - 2004	3/26/2004	$ 45,639	5,988
112				
113	Infiniti GX35 - 2004	8/13/2004	$ 40,039	5,253
114				
115	Ford Expedition - 2004	8/13/2004	$ 40,785	5,351
116				
117	Acura MDX 2001	11/21/2002	$ 38,319	10,055
118				
119	Infiniti QX4	12/11/2002	$ 50,077	13,140
120				
121	Audi S4 Avant - 2005	7/8/2005	$ 59,143	3,880
122				
123			$ 274,001	$ 43,667

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125
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			Staff Adjusted	Ratio of RCN to Original Cost Per Exh. Sch. B-4-A	Staff Recommended G. O. RCN Accum. Depr.
129	301	Organization	-	1.0000	-
130	302	Franchise Cost and Other Intangible Plant	2,308	1.0000	2,308
131	304	Structures & Improvements	94,177	1.6184	152,228
132	311	Electric Pumping Equipment	-	0.0000	-
133	339	Other Plant & Misc. Equipment	(138)	1.2455	(172)
134	340	Office Furniture & Equipment	346,586	1.2046	417,497
135	341	Transportation Equipment	20,362	1.0974	22,345
136	343	Tools, Ship & Garage Equipment	7,700	1.6352	12,590
137	344	Laboratory Equipment	162	3.7818	614
138	345	Power Operated Equipment	9,970	2.5442	25,366
139	346	Communication Equipment	6,622	1.5754	10,433
140			487,750		643,211
141		As originally filed Per Exhibit Schedule B-3, Page 4, Line 37			529,393
142					
143		Staff Adjustment A to Reduce General Office Plant Accumulated depreciation for disallowed items and increase			
144		allocation to 4 percent. To line 1, Column B			113,818

145 **Explanation of Staff Adjustment B**

	Acct. No.	Description	CCWC Plant OCN Accum. Depr. Per Exh. Sch. B-2, Page 3	CCWC Plant OCN Accum. Depr. Adjustments Per Staff Sched. MEM-8	Ratio of RCN to Original Cost Per Exh. Sch. B-4	Staff Recommended CCWC RCN Accum. Depr.	RCN Accum. Depr. Per Exh. Sch. B-4	Difference - Staff Adjustment B
151	301	Organization	-	-		-		
152	302	Franchises	-	-		-		
153	303	Land and Land Rights	-	-		-		
154	304	Structures & Improvements	357,961	(403)	1.2942	462,752	486,820	(24,068)
155	305	Collecting & Impounding Reservoirs	573	(573)	1.0000	-		-
156	306	Lakes, Rivers, Other Intakes	-	-		-		-
157	307	Wells and Springs	183,252	(125,543)	2.7353	157,851	150,255	7,596
158	308	Infiltration Galleries and Tunnels	-	-		-		-
159	309	Supply Mains	-	-		-		-
160	310	Power Generation Equipment	-	-		-		-
161	311	Pumping Equipment	879,456	26,064	2.0976	1,899,419	1,750,363	149,056
162	320	Water Treatment Plant	2,304,464	(2,008,014)	1.2841	380,671	2,695,725	(2,315,054)
163	330	Distribution Reservoirs & Standpipes	1,996,014	(104,710)	1.5902	3,007,552	2,276,817	730,735
164	331	Transmission & Distribution Mains	7,154,728	46,451	1.8292	13,172,397	12,993,907	178,489
165	333	Services	1,060,764	30,253	1.2590	1,373,590	1,547,309	(173,719)
166	334	Meters & Meter Installation	990,763	16,154	1.4609	1,471,005	1,507,882	(36,876)
167	335	Hydrants	235,514	10,940	1.8716	451,263	450,745	518
168	336	Backflow Prevention Devices	-	-		-		-
169	339	Other Plant & Misc. Equipment	135,962	-	1.0564	143,630	277,127	(133,497)
170	340	Office Furniture & Equipment	45,958	585	1.2925	60,157	86,215	(26,059)
171	341	Transportation Equipment	60,636	-	1.2395	75,158	173,753	(98,595)
172	342	Stores Equipment	-	-		-		-
173	343	Tools, Ship & Garage Equipment	34,980	-	1.3106	45,845	57,187	(11,342)
174	344	Laboratory Equipment	25	-	1.0000	25		25
175	345	Power Operated Equipment	-	-		-		-
176	346	Communication Equipment	983	-	1.4612	1,290	37,410	(36,120)
177	347	Miscellaneous Equipment	31,899	-	1.0000	31,899		31,899
178	348	Other Tangible Plant	-	-	1.0000	-	639	(639)
179			15,473,832			22,744,505	24,502,155	(1,757,651)
180		Rounding	2			-	(12)	12
181			15,473,834					
182		Total CCWC Plant RCN Accumulated Depreciation				22,744,505	24,502,143	
183		Difference between detail plant schedules and General Ledger accumulated depreciation balances and						(1,757,639)
184		Company RCN ratios applied to detail balances,						
185		Less Company RCND Rate Base pro-forma adjustment No. 1 to account for the difference between General						
186		Ledger A/D and detail schedules.						863,150
187		Staff Adjustment B to decrease CCWC Plant RCN Accumulated Depreciation Based on Company Supplied						
188		RCN Rates. To Line 1, Column C						(2,620,789)
189								
190								

191 **Summary of Staff Recommended RCN Accumulated Deprecaition:**

192	Staff recommended CCWC RCN Accumulated Depreciation Calculated Below	22,744,505
193	Staff recommended General Office RCN Accumulated Depreciation	643,211
194	Staff recommended Total RCN Accumulated Depreciation to Column E, Line 1 above	23,387,716

CHAPARRAL CITY WATER COMPANY, INC.
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Test Year Ended December 31, 2006

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

LINE NO.		DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	[C] STAFF RECOMMENDED
1	301	Organization	$ -	-	-
2	302	Franchises	-	-	-
3	303	Land and Land Rights	305,920	1,245,937	1,551,857
4	304	Structures & Improvements	1,965,394	10,793	1,976,187
5	305	Collecting & Impounding Reservoirs	-	-	-
6	306	Lakes, Rivers, Other Intakes	-	-	-
7	307	Wells and Springs	908,287	(528,244)	380,043
8	308	Infiltration Galleries and Tunnels	-	-	-
9	309	Supply Mains	-	-	-
10	310	Power Generation Equipment	-	-	-
11	311	Pumping Equipment	3,160,902	105,725	3,266,627
12	320	Water Treatment Plant	9,969,130	(3,226,536)	6,742,594
13	330	Distribution Reservoirs & Standpipes	13,002,689	(1,932,296)	11,070,393
14	331	Transmission & Distribution Mains	31,920,448	1,601,082	33,521,530
15	333	Services	9,304,078	146,911	9,450,989
16	334	Meters & Meter Installation	3,981,833	16,310	3,998,143
17	335	Hydrants	2,192,853	77,763	2,270,616
18	336	Backflow Prevention Devices	-	-	-
19	339	Other Plant & Misc. Equipment	1,814,021	-	1,814,021
20	340	Office Furniture & Equipment	349,449	2,544	351,993
21	341	Transportation Equipment	663,541	-	663,541
22	342	Stores Equipment	-	-	-
23	343	Tools, Ship & Garage Equipment	195,755	-	195,755
24	344	Laboratory Equipment	-	-	-
25	345	Power Operated Equipment	-	-	-
26	346	Communication Equipment	57,138	-	57,138
27	347	Miscellaneous Equipment	-	-	-
28	348	Other Tangible Plant	-	-	-
29			79,791,438	(2,480,011)	77,311,427
30					
31					
32		[A]: Company Schedule B-4, and below Line 23 - 26, Column A.			
33		[B]: Testimony - MEM and Schedule MEM-6 and Schedule MEM-23.			
34		[C]: Col [B] + Col [C]			
35					
36					
37			Company RCN Per	Per Below Analysis	
38			Exhibit Schedule	Staff Adjusted	Difference -
39			B-4	RCN	Staff Adjustment
40	301	Organization	$ -	-	$ -
41	302	Franchises	-	-	-
42	303	Land and Land Rights	305,920	1,551,857	(1,245,937)
43	304	Structures & Improvements	1,965,394	1,976,187	(10,793)
44	305	Collecting & Impounding Reservoirs	-	-	-
45	306	Lakes, Rivers, Other Intakes	-	-	-
46	307	Wells and Springs	908,287	380,043	528,244
47	308	Infiltration Galleries and Tunnels	-	-	-
48	309	Supply Mains	-	-	-
49	310	Power Generation Equipment	-	-	-
50	311	Pumping Equipment	3,160,902	3,266,627	(105,725)
51	320	Water Treatment Plant	9,969,130	6,742,594	3,226,536
52	330	Distribution Reservoirs & Standpipes	13,002,689	11,070,393	1,932,296
53	331	Transmission & Distribution Mains	31,920,448	33,521,530	(1,601,082)
54	333	Services	9,304,078	9,450,989	(146,911)
55	334	Meters & Meter Installation	3,981,833	3,998,143	(16,310)
56	335	Hydrants	2,192,853	2,270,616	(77,763)
57	336	Backflow Prevention Devices	-	-	-
58	339	Other Plant & Misc. Equipment	1,814,021	1,814,021	-
59	340	Office Furniture & Equipment	349,449	351,993	(2,544)
60	341	Transportation Equipment	663,541	663,541	-
61	342	Stores Equipment	-	-	-
62	343	Tools, Ship & Garage Equipment	195,755	195,755	-
63	344	Laboratory Equipment	-	-	-
64	345	Power Operated Equipment	-	-	-
65	346	Communication Equipment	57,138	57,138	-
66	347	Miscellaneous Equipment	-	-	-
67	348	Other Tangible Plant	-	-	-
			79,791,438	77,311,427	2,480,011

CHAPARRAL CITY WATER COMPANY, INC.
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			Staff Adjusted RCN Per MSJ	From Sch MEM 23	From Sch MEM-6	Staff Adjusted RCN
68	301	Organization	-			-
69	302	Franchises	-			-
70	303	Land and Land Rights	271,857		1,280,000	1,551,857
71	304	Structures & Improvements	1,964,597	11,590		1,976,187
72	305	Collecting & Impounding Reservoirs	-			-
73	306	Lakes, Rivers, Other Intakes	-			-
74	307	Wells and Springs	380,043			380,043
75	308	Infiltration Galleries and Tunnels	-			-
76	309	Supply Mains	-			-
77	310	Power Generation Equipment	-			-
78	311	Pumping Equipment	3,240,544	26,083		3,266,627
79	320	Water Treatment Plant	6,742,594			6,742,594
80	330	Distribution Reservoirs & Standpipes	11,070,393			11,070,393
81	331	Transmission & Distribution Mains	33,521,530			33,521,530
82	333	Services	9,450,989			9,450,989
83	334	Meters & Meter Installation	3,998,143			3,998,143
84	335	Hydrants	2,270,616			2,270,616
85	336	Backflow Prevention Devices	-			-
86	339	Other Plant & Misc. Equipment	1,814,021			1,814,021
87	340	Office Furniture & Equipment	351,993			351,993
88	341	Transportation Equipment	663,541			663,541
89	342	Stores Equipment	-			-
90	343	Tools, Ship & Garage Equipment	195,755			195,755
91	344	Laboratory Equipment	-			-
92	345	Power Operated Equipment	-			-
93	346	Communication Equipment	57,138			57,138
94	347	Miscellaneous Equipment	-			-
95	348	Other Tangible Plant	-			-
96			75,993,754	37,673	1,280,000	77,311,427

CHAPARRAL CITY WATER COMPANY, INC.
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Schedule MEM-12

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	Adj. No.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	*REVENUES:*						
2	Metered Water Sales	$ 7,364,411	$ -		$ 7,364,411	$ 1,735,265	$ 9,099,676
3	Water Sales - Unmetered	82,289	-		82,289	-	82,289
4	Intentionally Left Blank	-	-		-	-	-
5	**Total Operating Revenues**	$ 7,446,700	$ -		$ 7,446,700	$ 1,735,265	$ 9,181,965
6	*OPERATING EXPENSES:*						
7	Salaries and Wages	$ 969,244	$ -		$ 969,244	$ -	$ 969,244
10	Purchased Water	831,656	(20,306)	2	811,351	-	811,351
11	Purchased Power	602,982	-		602,982	-	602,982
13	Chemicals	127,457	(27,630)	7	99,827	-	99,827
14	Repairs and Maintenance	104,609	(19,018)	8	85,591	-	85,591
15	Office Supplies and Expense	19,800	-		19,800	-	19,800
16	Outside Sevices	266,544	(38,048)	10	228,496	-	228,496
17	Water Testing	43,458	(17,820)	11	25,638	-	25,638
18	Transportation	70,430	-		70,430	-	70,430
19	General Liability Insurance	(1,294)	3,654	9	2,360	-	2,360
20	Insurance - Health and Life	-	-		-	-	-
21	Regulatory Commission/Rate Case Expense	144,871	(61,538)	6	83,333	-	83,333
22	Miscellaneous Expense	1,259,948	37,214	4	1,297,162	-	1,297,162
23	Depreciation	1,608,019	(86,188)	3	1,521,831	-	1,521,831
24	Amortization of Gain on Well (Settlement Proc	(76,000)	- (76,000)	1	(152,000)	-	(152,000)
25	Amortization of Additional CAP Allocation	64,000	(64,000)	5	-	-	-
26	Taxes other than Income	47,873	-		47,873	-	47,873
27	Property Taxes	295,813	(33,413)	12	262,400	20,731	283,131
28	Income Taxes	270,020	197,275	13	467,295	661,791	1,129,086
29	Intentionally Left Blank	-	-		-	-	-
30	**Total Operating Expenses**	$ 6,649,430	$ (205,818)		$ 6,443,612	$ 682,522	$ 7,126,134
31	**Operating Income (Loss)**	$ 797,270	$ 205,818		$ 1,003,088	$ 1,052,744	$ 2,055,831

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

CHAPARRAL CITY WATER COMPANY, INC.
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Test Year Ended December 31, 2006

Schedule MEM-13

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Well Settlement ADJ #1	[C] Purchased Water ADJ #2	[D] Depreciation ADJ #3	[E] Misc Exp ADJ #4	[G] CAP Amort. ADJ #5	[H] Rate Case Exp. ADJ #6	[I] Chemicals ADJ #7	[J] Repairs & Maint. ADJ #8	[K] Insurance ADJ #9	[L] Outside Services ADJ #10	[M] Water Testing ADJ #11	[N] Prop. Tax ADJ #12	[O] Inc. Tax ADJ #13	[T] STAFF ADJUSTED
1	*REVENUES:*															
2	Metered Water Sales	$ 7,364,411	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 7,364,411
3	Water Sales - Unmetered	-	-	-	-	-	-	-	-	-	-	-	-	-	-	$ -
4	Other Operating Revenue	82,289	-	-	-	-	-	-	-	-	-	-	-	-	-	$ 82,289
5	Intentionally Left Blank		-	-	-	-	-	-	-	-	-	-	-	-	-	$ -
6	Total Operating Revenues	$ 7,446,700	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 7,446,700
7																
8	*OPERATING EXPENSES:*															
9	Salaries and Wages	$ 969,244	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 969,244
10	Purchased Water	631,858	-	(20,306)	-	-	-	-	-	-	-	-	-	-	-	$ 611,351
11	Purchased Power	602,982	-	-	-	-	-	-	-	-	-	-	-	-	-	$ 602,982
12	Chemicals	127,457	-	-	-	-	-	-	(27,630)	-	-	-	-	-	-	$ 99,827
13	Repairs and Maintenance	104,609	-	-	-	-	-	-	-	(19,018)	-	-	-	-	-	$ 85,591
14	Office Supplies and Expense	19,800	-	-	-	-	-	-	-	-	-	-	-	-	-	$ 19,800
15	Outside Services	266,544	-	-	-	-	-	-	-	-	-	(38,048)	-	-		$ 228,496
16	Water Testing	43,458	-	-	-	-	-	-	-	-	-	-	(17,820)	-	-	$ 25,638
17	Transportation	70,430	-	-	-	-	-	-	-	-	-	-	-	-	-	$ 70,430
18	General Liability Insurance	(1,294)	-	-	-	-	-	-	-	-	3,654	-	-	-	-	$ 2,360
19	Insurance - Health and Life	-	-	-	-	-	-	-	-	-	-	-	-	-	-	$ -
20	Regulatory Commission/Rate Case Expense	144,871	-	-	-	-	-	(61,538)	-	-	-	-	-	-	-	$ 83,333
21	Miscellaneous Expense	1,259,948	-	-	-	37,214	-	-	-	-	-	-	-	-	-	$ 1,297,162
22	Depreciation	1,608,019	-	-	(86,188)	-	-	-	-	-	-	-	-	-	-	$ 1,521,831
23	Amortization of Gain on Well (Settlement Proceeds)	(76,000)	(76,000)	-	-	-	-	-	-	-	-	-	-	-	-	$ (152,000)
24	Amortization of Additional CAP Allocation	64,000	-	-	-	-	(64,000)	-	-	-	-	-	-	-	-	$ -
25	Taxes other than Income	47,873	-	-	-	-	-	-	-	-	-	-	-	-	-	$ 47,873
26	Property Taxes	295,813	-	-	-	-	-	-	-	-	-	-	-	(33,413)	-	$ 262,400
27	Income Taxes	270,020	-	-	-	-	-	-	-	-	-	-	-	-	197,275	$ 467,295
28	Intentionally Left Blank	-	-	-	-	-	-	-	-	-	-	-	-	-	-	$ -
29	Total Operating Expenses	$ 6,649,430	$ (76,000)	$ (20,306)	$ (86,188)	$ 37,214	$ (64,000)	$ (61,538)	$ (27,630)	$ (19,018)	$ 3,654	$ (38,048)	$ (17,820)	$ (33,413)	$ 197,275	$ 6,443,612
30	Operating Income (Loss)	$ 797,270	$ 76,000	$ 20,306	$ 86,188	$ (37,214)	$ 64,000	$ 61,538	$ 27,630	$ 19,018	$ (3,654)	$ 38,048	$ 17,820	$ 33,413	$(197,275)	$ 1,003,088

References:
Col [A] Company Schedule C-1 Pg. 1

ADJ #		References:
1	Well settlement allocated to ratepayers.	Schedule MEM-14
2	Purchased Water Expense	Schedule MEM-15
3	Depreciation Expenses	Schedule MEM-16
4	Miscellaneous Expenses	Schedule MEM-17
5	Additional CAP Allocation Amortization Reversal	Schedule MEM-18
6	Normalization of Rate Case Expense	Schedule MEM-19
7	Normalization of Chemicals Expense	Schedule MEM-20
8	Normalization of Repairs and Maintenance Expense	Schedule MEM-21
9	Normalization of Insurance Expense	Schedule MEM-22
10	Outside Services Expense	Schedule MEM-23
11	Water Testing	Schedule MEM-24
12	Property Tax Expense	Schedule MEM-25
13	Income Tax Expense	Schedule MEM-26

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Schedule MEM-14

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

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

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

Explanation of Adjustment:
Agreement signed 02/05/2005 with Fountain Hills Sanitation District to take Wells 8 & 9 out of service due to possible contamination from sewage treatment facility in exchange for $1,520.000. Gain to be allocated 100% to ratepayers because the wells were fully depreciated, thus the original cost had been paid by the depreciation included in rates through 2002.

Ratepayers share of proceeds	$ 1,520,000
Based on a ten year amortization, the amount included in instant rate case revenue requirement as "Amortization of Well Settlement Proceeds".	(152,000)

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Schedule MEM-15

OPERATING INCOME ADJUSTMENT #2 - Decrease Purchased Water Cost

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Purchased Water Cost	$ 831,656	$ (20,306)	$ 811,350

References:
Col [A]: Company Schedule C-2
Col [B]: Col [C] - Col [A]
Col [C]: MEM Testimony

2	*From Exhibit Schedule C-2, Page 6 (Proforma Adj #5)*			
3			Company	Staff
4	CAP water allocation (acre feet)		6,978	6,978
5	Additional CAP allocation		1,931	965.5
6			8,909	7,944
7	2008 capital cost per acre foot	$	21	$21
8	Total capital cost	$	187,089	$166,814
9				
10				
11	CAP water delivered (acre feet) - 6,500 scheduled, 6,978 was delivered		6,978	6,978
12	Excess CAP water delivered		260	260
13	Additional acre feet in annualization		(705)	(705)
14			6,533	6,533
15	2008 delivery cost per acre foot		$92	$92
16	Total M&I cost		$601,036	$601,036
17				
18	Total CAP purchased water		788,125	767,850
19				
20	Ground water pumper in acre feet		260	260
21	Excess capacity percentage		0.67	0.67
22	Total projected gallons pumped		174	174
23	CAP Replentishment District assessment fee		$250	$250
24		$	43,550	$ 43,500
25				
26	Total purchased water cost	$	831,656	$ 811,350
27	Test year purchased water cost per GL	$	934,095	$ 934,095
28	Increase(decrease)		(102,439)	(122,746)
29				(102,439)
30	Staff Adjusment to eliminate portion of expense not used and useful			(20,307) Round to $20,306
31				
32				
33				
34	Purchased Water Expense per Company	$	831,656	
35	Staff Adjusment to eliminate portion of expense not used and useful		(20,307)	
36	Adjusted Purchased Water Expense	$	811,350	
37				
38				

CHAPARRAL CITY WATER COMPANY, INC.
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Schedule MEM-16

OPERATING INCOME ADJUSTMENT #3 - DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Depreciation Expense	$ 1,608,019	$ (86,188)	$ 1,521,831

Explanation of Adjustment:

Line No.	Account No.	Description	Original Cost Amount	Depreciable Amount	Projected Rate	Expense
		Plant In Service				
2	301	Organization	-	$ -	0.00%	$ -
3	302	Franchises	-	-	0.00%	-
4	303	Land and Land Rights	1,551,858	1,551,858	0.00%	-
5	304	Structures & Improvements	1,529,642	1,529,642	3.33%	50,937
6	305	Collecting & Impounding Reservoirs	-	-	2.50%	-
7	306	Lakes, Rivers, Other Intakes	-	-	2.50%	-
8	307	Wells and Springs	159,627	159,627	3.33%	5,316
9	308	Infiltration Galleries and Tunnels	-	-	6.67%	-
10	309	Supply Mains	-	-	2.00%	-
11	310	Power Generation Equipment	-	-	5.00%	-
12	311	Pumping Equipment	1,588,246	1,588,246	12.50%	198,531
13	320	Water Treatment Plant	5,786,640	5,786,640	3.33%	192,685
14	330	Distribution Reservoirs & Standpipes	6,512,148	6,512,148	2.22%	144,570
15	331	Transmission & Distribution Mains	18,953,054	17,450,634	2.00%	349,013
16	333	Services	7,496,339	7,389,930	3.33%	246,085
17	334	Meters & Meter Installation	2,736,866	2,736,866	8.33%	227,981
18	335	Hydrants	1,224,985	1,224,985	2.00%	24,500
19	336	Backflow Prevention Devices	-	-	6.67%	-
20	339	Other Plant & Misc. Equipment	1,717,229	1,717,229	6.67%	114,539
21	340	Office Furniture & Equipment	272,173	272,173	6.67%	18,154
22	341	Transportation Equipment	535,315	535,315	20.00%	107,063
23	342	Stores Equipment	-	-	4.00%	-
24	343	Tools, Ship & Garage Equipment	149,365	149,365	5.00%	7,468
25	344	Laboratory Equipment	-	-	10.00%	-
26	345	Power Operated Equipment	-	-	5.00%	-
27	346	Communication Equipment	39,105	39,105	10.00%	3,911
28	347	Miscellaneous Equipment	-	106,542	10.00%	10,654
29	348	Other Tangible Plant	-	-	10.00%	-
30		Subtotal General	$ 50,252,592	$ 48,750,305		$ 1,701,415
31		Less: Non- depreciable Account(s) (L4)	1,551,858	1,551,858		
32		Depreciable Plant (L30-L31)	$ 48,700,734	$ 47,198,447		

				Adjusted Allocation			
		Home Office Plant Allocated					
33	301	Organization		658	0.00%	$ -	
34	302	Franchise Cost and Other Intangible Plant		26,769	0.00%	-	
35	304	Structures & Improvements		232,113	3.33%	7,729	
36	311	Electric Pumping Equipment		(37)	0.00%	-	
37	339	Other Plant & Misc. Equipment		1,085	6.67%	72	
38	340	Office Furniture & Equipment		570,751	6.67%	38,069	
39	341	Transportation Equipment		11,149	20.00%	2,230	Company indic
40	343	Tools, Ship & Garage Equipment		16,226	5.00%	811	
41	344	Laboratory Equipment		162	10.00%	16	
42	345	Power Operated Equipment		9,970	5.00%	499	
43	346	Communication Equipment		6,622	10.00%	-	Company indic
44						-	
		Subtotal General		$ 875,469		$ 49,427	
45		Less: Non- depreciable Account(s) (L33 and L34)		34,013			
46		Depreciable Plant (L44-L45)		$ 841,456			
47		Total Depreciable Plant and Depr. Expense before CIAC		$ 48,073,916		$ 1,750,842	
48		Contributions-in-Aid-of-Construction (CIAC)	$ 6,288,097				
49		Composite Depreciation/Amortization Rate	0.0364				
50		Less: Amortization of CIAC (L48 x L49)				$ 229,011	
51		Depreciation Expense - STAFF [Col. (C), L49 - L50]				$ 1,521,831	

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Schedule MEM-17

OPERATING INCOME ADJUSTMENT #4 - MISCELLANEOUS EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT A	[C] STAFF ADJUSTMENT B	[D] TOTAL OF STAFF ADJUSTMENTS	[E] STAFF RECOMMENDED
1	Miscellaneous Expense	$ 1,259,948	$ 38,164	$ (950)	37,214	1,297,162
2	Totals	$ 1,259,948	$ 38,164	$ (950)	$ 37,214	$ 1,297,162
3						
4						
5	[A]: Company Schedule B-2, Page 3 and B-3, Page 3 and below Line 26, Column C.					
6	[B]: Testimony - MEM and below calculations and Line 48, Column E.					
7	[C]: Testimony - MEM and below calculations and line 84, Column E.					
8	[D]: Col [B] + Col [C]					
9	[E]: Testimony - MEM and below Line 91, Column E.					
10						
11	**Explanation of Staff Adjusment A**					
12	Total Allocation Pool per worksheet from CCWC		34,557,114			
13	Subtract Memebership dues that only benefit California					
14	ratepayers and the dues used for lobbying listed below		(251,538)			
15	Investor related expenses listed below		(1,040,585)			
16						
17	Adjusted allocation pool		33,264,991			
18	Revised allocation factor		4.00%	Same percentage used to allocate GO plant.Discussed in		
19				MEM Testimony.		
20	Revised allocation of GO Expenses		1,330,800			
21						
22						
23						
24	GO Expense Allocation Distribution by Account					
25			Company	Staff Adjustment A	Staff Recommended	
26	A&G Other XFR	8880.21	863,799	25,507	889,306	
27	Cust Other XFR	8885.21	43,252	1,277	44,529	
28	A&G Labor XFR	8980.00	237,614	7,016	244,630	
29	Cust Labor XFR	8985.00	68,137	2,012	70,149	
30	Miscellaneous	8700.00	79,634	2,351	81,985	
31			1,292,436	38,164	1,330,800	
32	Miscellaneous expense is being charged for all of this adjustment because this is where the Company made its last adjust ment for the GO allocation.					
33						
34	List of investor related expenses:					
35	GL Acct				TYE Account	
36	No.				Balance	
37	7031.15 Printing Shareholder				93,342	
38	7124.15 Supplies Shareholder				2,696	
39	7134.15 OS Other Shareholder				298,596	
40	7153.00 Postage Shareholder				56,478	
41	8301.15 T&E Tran Shareholder				1,462	
42	8301.16 T&E Tran Directors				2,938	
43	8302.15 T&E Meal Directors				11,520	
44	8303.15 T&E Meal Shareholder				2,794	
45	8303.16 T&E Meal Directors				1,738	
46	8304.15 T&E Other Directors				404	
47	8700.16 Other Misc - Director's Fee				568,617	
48	Total Investor related expenses				1,040,585	
49						
50	List of Memebership dues that only benefit California ratepayers and dues used for lobbying:					
51	7061.00 Membership Dues Company:					
52	NAWC - 19% lobbying ($119,202x19%)				22,648	
53	California Water Association		Does not benefit CCWC		48,824	
54	California Water Association		Does not benefit CCWC		48,824	
55	California Water Association		Does not benefit CCWC		48,824	
56	California Water Association		Does not benefit CCWC		48,824	
57	California Foundation		Does not benefit CCWC		15,000	
58	California Urban Water Cons		Does not benefit CCWC		13,745	
59	California Chamber of Commerce		Does not benefit CCWC		2,649	
60	Los Angeles Chamber of Commerce		Does not benefit CCWC		2,230	
61					251,568	
62						
63						
64						
65	**Explanation of Staff Adjusment B**					
66						
67					Staff AdjustmentB	
68	Per Co. response to MEM DR #1.125, lobbying expenses of approximately $950 were included in dues					
69	paid to Investor Owned Water Utility Assocaition and Water Utility Association of Arizona.				$ 950	
70					$ 950	
71						

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Schedule MEM-18

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

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

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

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Schedule MEM-19

OPERATING INCOME ADJUSTMENT #6 - Rate Case Expense

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

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

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

2	Per Company:	
3	Remaining unrecovered rate case expense from the prior case	
4	per Exhibit Shedule C-2, Page 5:	154,613
5	Current Estimated rate case expense per C-2, Page 5	280,000
6		434,613
7	Amortized over 3 years	144,871
8		
9	Per Staff:	
10	Remaining unrecovered rate case expense from the prior case	
11	is not recognized because the cost will have beeen fully	
12	recovered by the time rates for this case become effective.	-
13	Remand case expenses per Company	100,000
14	Estimated current rate case expense based on the actual	
15	billings of $75,032 through October, 2007:	150,000
16	Noralized over 3 years as this has historically been	
17	the Company's rate increase request frequency:	83,333
18		
19		
20		
21		
22		

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Schedule MEM-20

OPERATING INCOME ADJUSTMENT #7 - Normalization of Chemicals Expense

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

References:
Col [A]: Company Schedeule C-1
Col [B]: Col [C] - Col [A]
Col [C]: Normalized Chemicals Expense Col [C] L5.

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

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Schedule MEM-21

OPERATING INCOME ADJUSTMENT #8 - Repairs and Maintenance

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

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

Explanation of Staff Adjustment - To Normalize

R&M - 2004	96,152
R&M - 2005	72,640
R&M - 2006	104,609
Staff recpmmended R & M expense - Normalized.	91,134

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

Payments to Pepsi Cola Company of Dallas	$ 5,543
Normalized expense net of Pepsi.	85,591

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Schedule MEM-22

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

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Normalization of Insurance - General Liability Expense	$ (1,294)	$ 3,654	$ 2,360
2	2003 Insurance - General Liability Expense			-
3	2004 Insurance - General Liability Expense			$ 775
4	2005 Insurance - General Liability Expense			1,860
5	2006 Insurance - General Liability Expense			-
6	2007 Insurance - General Liability Expense			9,167
7	Normalization of Insurance - General Liability Expense - 5-Year Average			$ 2,360

References:
Col [A]: Company Schedeule C-1
Col [B]: Col [C] - Col [A]
Col [C]: Normalized General Liability Insurance Expense Col [C] L5.

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

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Schedule MEM-23

OPERATING INCOME ADJUSTMENT #10 -Outside Services Expense

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Outside Services Expense	$ 266,544		$ 266,544
2	Expensed plant	-	(37,673)	(37,673)
3	Late Filing Penalty for 2005 ACC Annual Report	-	(45)	(45)
4	Rate case expense for appellate court	-	(330)	(330)
5		$ 266,544	$ (38,048)	$ 228,496
6				
7	References:			
8	Column A: Company Schedule C-1			
9	Column B: Testimony, MEM, Company Data Request Responses MEM 8.1, MEM 16.2			
10	Column C: Column [A] + Column [B]			
11				
12				
13	**PLANT COSTS REMOVED FROM OUTSIDE SERVICES (MEM 8.1)**			
14	Acct. No.	Description	Amount	
15	304-Struct & Imprvmnts	New irrigation installation	$	2,500.00
16	304-Struct & Imprvmnts	Installation of 30' x 6' fencing w/panels	$	4,375.00
17	304-Struct & Imprvmnts - See (A) below.	Professional survey for new fence line	$	4,715.00
18		Total for Structures and Improvements	$	11,590.00
19				
20	311 - Elec Pumping Equip	Recondition motor	$	7,448.00
21	311 - Elec Pumping Equip	Removal & repair of pump	$	5,512.62
22	311 - Elec Pumping Equip	Removal & repair of motor and pump	$	13,122.67
23		Total for Electric Pumping Equipment	$	26,083.29
24				
25		**Total expensed plant**	**$**	**37,673.29**
26				
27				
28	**DISALLOWED COSTS REMOVED FROM OUTSIDE SERVICES (MEM 8.1)**			
29	Type of Documentation	Description	Amount	
30	Check request - See (B) below.	Penalty for late filing ACC report	$	45.00
31	Invoice	Rate case expense for appellate court	$	330.00
32		**Total Disallowed Costs**	$	375.00
33				
34	(A) Fee paid to Morrison, Maierle, Inc. for property line surveying services that is a one-time expenditure.			
35	(B) Late filing penalty for 2005 Annual Report to the AZ Corporation Commission			

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Schedule MEM-24

OPERATING INCOME ADJUSTMENT #11 - Water Testing Expense

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

References:
Col [A]: Company Schedeule C-1
Col [B]: Col [C] - Col [A]
Col [C]: Normalized Water Testing Expense Col [C] L1.

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Schedule MEM-25

OPERATING INCOME ADJUSTMENT #12 - Property Tax Expense

LINE NO.	Property Tax Calculation	(C) STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2006	$ 7,446,700	$ 7,446,700
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	14,893,400	$ 14,893,400
4	Staff Recommended Revenue, Per Schedule MEM-1	7,446,700	$ 9,181,965
5	Subtotal (Line 4 + Line 5)	22,340,100	24,075,365
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	7,446,700	$ 8,025,122
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	14,893,400	$ 16,050,244
10	Plus: 10% of CWIP -	224,140	224,140
11	Less: Net Book Value of Licensed Vehicles	474,678	$ 474,678
12	Full Cash Value (Line 9 + Line 10 - Line 11)	14,642,862	$ 15,799,706
13	Assessment Ratio	23.0%	23.0%
14	Assessment Value (Line 12 * Line 13)	3,367,858	$ 3,633,932
15	Composite Property Tax Rate (Per Company Schedule C-2, Page 3, Line 1	7.7913%	7.7913%
			$ -
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	$ 262,400	
17	Company Proposed Property Tax	295,813	
18	Staff Test Year Adjustment (Line 16-Line 17)	$ (33,413)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		$ 283,131
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		$ 262,400
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		$ 20,731
22	Increase to Property Tax Expense		$ 20,731
23	Increase in Revenue Requirement		1,735,265
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.194666%

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

Schedule MEM-26

OPERATING INCOME ADJUSTMENT #13 - TEST YEAR INCOME TAXES

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

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

RATE DESIGN

Line No.		Present Rates	Company Proposed	Staff Recommended
1	Monthly Minimum			
2	3/4-inch Meter	$ 13.60	$ 18.56	$ 15.00
3	1-inch Meter	$ 22.70	$ 30.97	$ 25.00
4	1 1/2-inch Meter	$ 45.40	$ 71.95	$ 48.00
5	2-inch Meter	$ 73.00	$ 99.81	$ 77.00
6	3-inch Meter	$ 146.00	$ 199.21	$ 150.00
7	4-inch Meter	$ 227.00	$ 308.74	$ 230.00
8	6-inch Meter	$ 454.00	$ 619.47	$ 460.00
9	8-inch Meter	$ 730.00	$ 996.07	$ 925.00
10	10-inch Meter	$ 1,043.00	$ 1,423.15	$ 1,300.00
11	12-inch Meter	$ 1,980.00	$ 2,701.67	$ 2,300.00
12				
13	Fire Hydrants Basic Service			
14				
15	Fire Hydrants Used for Irrigation	Per Meter Size	Per Meter Size	Per Meter Size
16				
17	Monthly Service Charge for Fire Sprinkler			
18	4-inch or Smaller Meter	$ 10.00	$ 10.00	$ 10.00
19	6-inch Meter	$ 10.00	$ 10.00	$ 10.00
20	8-inch Meter	$ 10.00	$ 10.00	$ 10.00
21	10-inch Meter	$ 10.00	$ 10.00	$ 10.00
22	Larger than 10-inch Meter	$ 10.00	$ 10.00	$ 10.00
23				
24				
25	Gallons in the Minimum	-	-	-
26				
27				
28	Commodity Rates		Per 1,000 Gallons	
29	(Residential, Commercial, Industrial)	Block		
30				
31	3/4-inch Meter Residential	0 - 3,000 Gallons	$ 1.68	$ 2.292	$ 1.85
32		3,001 - 9,000 Gallons	$ 2.52	$ 3.438	$ 2.92
33		Over 9,000 Gallons	$ 3.03	$ 4.134	$ 3.33
34					
35	3/4-inch Meter Commercial and Industrial	0 to 9,000 Gallons	$ 2.52	$ 3.438	$ 2.92
36		Over 9,000 Gallons	$ 3.03	$ 4.134	$ 3.33
37					
38	1-inch Meter:	0 to 24,000 Gallons	$ 2.52	$ 3.438	$ 2.92
39		Over 24,000 Gallons	$ 3.03	$ 4.134	$ 3.33
40					
41	1 1/2-inch Meter:	0 to 60,000 Gallons	$ 2.52	$ 3.438	$ 2.92
42		Over 60,000 Gallons	$ 3.03	$ 4.134	$ 3.33
43					
44	2-inch Meter	0 to 100,000 Gallons	$ 2.52	$ 3.438	$ 2.92
45		Over 100,000 Gallons	$ 3.03	$ 4.134	$ 3.33
46					
47	3-inch Meter	0 to 225,000 Gallons	$ 2.52	$ 3.438	$ 2.92
48		Over 225,000 Gallons	$ 3.03	$ 4.134	$ 3.33
49					
50	4-inch Meter	0 to 350,000 Gallons	$ 2.52	$ 3.438	$ 2.92
51		Over 350,000 Gallons	$ 3.03	$ 4.134	$ 3.33
52					
53	6-inch Meter	0 to 725,000 Gallons	$ 2.52	$ 3.438	$ 2.92
54		Over 725,000 Gallons	$ 3.03	$ 4.134	$ 3.33
55					
56	8-inch Meter	0 to 1,125,000 Gallons	$ 2.52	$ 3.438	$ 2.92
57		Over 1,125,000 Gallons	$ 3.03	$ 4.134	$ 3.33
58					
59	10-inch Meter	0 to 1,500,000 Gallons	$ 2.52	$ 3.438	$ 2.92
60		Over 1,500,000 Gallons	$ 3.03	$ 4.134	$ 3.33
61					
62	12-inch Meter	0 to 2,250,000 Gallons	$ 2.52	$ 3.438	$ 2.92
63		Over 2,250,000 Gallons	$ 3.03	$ 4.134	$ 3.33
64					
65	Irrigation/Bulk	All Gallons	$ 1.56	$ 3.438	$ 2.75
66					
67	Fire Hydrant Irrigation/Construction	All Gallons	$ 1.56	$ 3.438	$ 2.75
68					
69	Standpipe (Fire Hydrants)	All Gallons	$ 2.52	$ 3.438	$ 2.75
70					
71	Fire Sprinklers	All Gallons	$ 2.52	$ 3.438	$ 2.75
72					
73		Present Rates	Company Proposed	Staff Recommended
74	Service Charges			
75	Establishment of Service:			
76	Regular Hours	$ 25.00	$ 25.00	$ 25.00
77	After Hours	$ 35.00	$ 35.00	$ 35.00
78	Re-establishment of Service within 12 Months:			
79	Monthly Minimum times Months Disconnected			
80	From the Water System [Per ACC Rule 14-2-403(D)]		-	-
81	Reconnection of Service (Delinquent):			
82	Regular Hours	$ 35.00	$ 35.00	$ 35.00
83	After Hours	$ 50.00	$ 50.00	$ 50.00
84	Water Meter Test (If Correct)	$ 35.00	$ 35.00	$ 35.00
85	Water Meter relocation as Customer Request [Per ACC Rule 14-2-405(B)]	Cost	Cost	Cost
86	Meter Re-Read (If Correct)	$ 25.00	$ 25.00	$ 25.00
87	NSF Check Charge	$ 25.00	$ 25.00	$ 25.00
88	Late Fee Charge	1.5% Per Mon	1.5% Per Mont	1.5% Per Month
89	Deferred Payment Finance Charge	1.5% Per Mon	1.5% Per Mont	1.5% Per Month
90	Service Call - After Hours [Per ACC Rule 14-2-403(D)]	Refer to above charges	Refer to above charges	Refer to above charges
91				
92				
93	Deposit Requirements Residential	**	**	**
94	Deposit Requirements Non-Residential	**	**	**
95	Deposit Interest	***	***	***
96				
97	** Residential - two times the average bill. Non-residential - two and one-half times the estimated maximum bill.			
98				
99	*** Interest per [Per ACC Rule 14-2-403(B)]			

Off-site Facilities Hook-up Fee:			
5/8 x 3/4-inch Meter	****	$ 1,000.00	****
3/4-inch Meter	****	$ 1,500.00	****
1-inch Meter	****	$ 2,500.00	****
11/2-inch Meter	****	$ 5,000.00	****
2-inch Meter	****	$ 8,000.00	****
3-inch Meter	****	$ 16,000.00	****
4-inch Meter	****	$ 25,000.00	****
6-inch or Larger Meter	****	$ 50,000.00	****

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

2006 filing - New water installations. May be assessed only once per parcel, service connection, or lot within a subdivision. Purpose is to equitably apportion the costs of constructing additional off-site facilities to provide water production, delivery, storage, and pressure among all new service connections.

CAP Hook-up Fee: NONE

New water installations. May be assessed only once per parcel, service connection, or lot within a subdivision. Purpose is to recover the costs of additional 1,931 a.f. of CAP allocation. Fee will be recomputed annually to take into account carrying costs of unrecovered balance and annual payment.

Meter and Service Line Installation Charges	Present Service Line Charge	Present Meter Installation Charge	Total Present Charge	Proposed Service Line Charge	Proposed Meter Installation Charge	(a) Total Proposed Charge	Staff Proposed Service Line Charge	Staff Proposed Meter Installation Charge	Staff Total Proposed Charge
5/8 x 3/4-inch Meter	$ 385.00	$ 135.00	$ 520.00	$ 385.00	$ 135.00	$ 520.00	$ 385.00	$ 135.00	$ 520.00
3/4-inch Meter	$ 385.00	$ 215.00	$ 600.00	$ 385.00	$ 215.00	$ 600.00	$ 385.00	$ 215.00	$ 600.00
1-inch Meter	$ 435.00	$ 255.00	$ 690.00	$ 435.00	$ 255.00	$ 690.00	$ 435.00	$ 255.00	$ 690.00
11/2-inch Meter	$ 470.00	$ 465.00	$ 935.00	$ 470.00	$ 465.00	$ 935.00	$ 470.00	$ 465.00	$ 935.00
2-inch Turbine Meter	$ 630.00	$ 965.00	$ 1,595.00	$ 630.00	$ 965.00	$ 1,595.00	$ 630.00	$ 965.00	$ 1,595.00
2-inch Compound Meter	$ 630.00	$ 1,690.00	$ 2,320.00	$ 630.00	$ 1,690.00	$ 2,320.00	$ 630.00	$ 1,690.00	$ 2,320.00
3-inch Turbine Meter	$ 805.00	$ 1,470.00	$ 2,275.00	$ 805.00	$ 1,470.00	$ 2,275.00	$ 805.00	$ 1,470.00	$ 2,275.00
3-inch Compound Meter	$ 845.00	$ 2,265.00	$ 3,110.00	$ 845.00	$ 2,265.00	$ 3,110.00	$ 845.00	$ 2,265.00	$ 3,110.00
4-inch Turbine Meter	$ 1,170.00	$ 2,350.00	$ 3,520.00	$ 1,170.00	$ 2,350.00	$ 3,520.00	$ 1,170.00	$ 2,350.00	$ 3,520.00
4-inch Compound Meter	$ 1,230.00	$ 3,245.00	$ 4,475.00	$ 1,230.00	$ 3,245.00	$ 4,475.00	$ 1,230.00	$ 3,245.00	$ 4,475.00
6-inch Turbine Meter	$ 1,730.00	$ 4,545.00	$ 6,275.00	$ 1,730.00	$ 4,545.00	$ 6,275.00	$ 1,730.00	$ 4,545.00	$ 6,275.00
6-inch Compound Meter	$ 1,770.00	$ 6,280.00	$ 8,050.00	$ 1,770.00	$ 6,280.00	$ 8,050.00	$ 1,770.00	$ 6,280.00	$ 8,050.00
8-inch or Larger	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
(a) As meters and service line are now taxable income for income purposes, the Company shall collect income taxes on the meter and service line charges. Any tax collected will berefunded each year as the meter deposit is refunded.							NONE	NONE	NONE

IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM IT CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES,USE, AND FRANCHISE TAX. PER COMMISSION RULE 14-2-409D(5).

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

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

Schedule MEM-28

Typical Bill Analysis
General Service 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	8,450	$ 32.37	$ 44.16	$ 11.79	36.41%
Median Usage	5,500	24.94	34.03	$ 9.09	36.43%
Staff Recommended					
Average Usage	8,450	$ 32.37	[illegible]	[illegible]	12.63%
Median Usage	5,500	24.94	[illegible]	[illegible]	11.57%

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

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff recommended Rates	% Increase
-	$ 13.80	$ 18.56	36.47%	$ [illegible]	10.28%
1,000	15.28	20.85	36.47%	[illegible]	10.27%
2,000	16.96	23.14	36.46%	[illegible]	10.26%
3,000	18.64	25.44	36.46%	[illegible]	10.25%
4,000	21.16	28.87	36.45%	[illegible]	10.92%
5,000	23.68	32.31	36.44%	[illegible]	11.44%
5,500	24.94	34.03	36.43%	[illegible]	11.57%
6,000	26.20	35.74	36.43%	[illegible]	11.87%
7,000	28.72	39.18	36.42%	[illegible]	12.27%
8,000	31.24	42.62	36.41%	[illegible]	12.52%
9,000	33.76	46.05	36.41%	[illegible]	12.77%
8,450	32.37	44.16	36.41%	[illegible]	12.63%
10,000	36.79	50.19	36.41%	[illegible]	12.53%
11,000	39.82	54.32	36.41%	[illegible]	12.33%
12,000	42.85	58.45	36.42%	[illegible]	12.16%
13,000	45.88	62.59	36.42%	[illegible]	[illegible]
14,000	48.91	66.72	36.42%	[illegible]	11.88%
15,000	51.94	70.86	36.42%	[illegible]	11.69%
16,000	54.97	74.99	36.42%	[illegible]	11.66%
17,000	58.00	79.12	36.42%	[illegible]	11.57%
18,000	61.03	83.26	36.42%	[illegible]	11.49%
19,000	64.06	87.39	36.42%	[illegible]	11.41%
20,000	67.09	91.53	36.42%	[illegible]	11.34%
25,000	82.24	112.20	36.43%	[illegible]	11.08%
30,000	97.39	132.87	36.43%	[illegible]	10.89%
35,000	112.54	153.54	36.43%	[illegible]	10.76%
40,000	127.69	174.21	36.43%	[illegible]	10.66%
45,000	142.84	194.88	36.43%	[illegible]	10.58%
50,000	157.99	215.55	36.43%	[illegible]	10.51%
75,000	233.74	318.90	36.43%	[illegible]	10.31%
100,000	309.49	422.25	36.43%	[illegible]	10.21%

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

Schedule MEM-29

TYPICAL BILL ANALYSIS AVERAGE AND MEDIAN COST COMPARISONS

LINE NO.	CUSTOMER CLASS	CURRENT RATES					
		AVERAGE			MEDIAN		
		USAGE		DOLLARS	USAGE		DOLLARS
1	Residential 3/4"	8,450	$	32.37	5,500	$	24.94
2	Residential 1"	10,095	$	48.14	7,500	$	99.58
3	Residential 1.5"	29,821	$	148.15	21,500	$	303.58
4	Residential 2"	72,924	$	256.77	91,500	$	303.58
5	Residential 3"	70,226	$	322.97	83,000	$	355.16
6							
6	Commerical 3/4"	11,528	$	43.94	4,501	$	24.94
7	Commerical 1"	17,907	$	67.83	5,500	$	36.56
8	Commerical 1.5"	47,736	$	165.69	13,500	$	79.42
9	Commerical 2"	68,389	$	245.34	21,500	$	127.18
10	Commerical 3"	34,550	$	233.07	11,500	$	174.98
11	Commerical 4"	186,146	$	696.09	79,500	$	427.34
12							
13	Industrial 3/4"	5,375	$	153.65	3,500	$	13.60
14	Industrial 1"	-	$	217.68	-	$	22.70
15	Industrial 1.5"	8,000	$	132.57	-	$	45.50
16							
17	Irrigation 3/4"	16,732	$	39.70	8,500	$	26.86
18	Irrigation 1"	41,781	$	87.88	15,500	$	46.88
19	Irrigation 1.5"	76,173	$	164.23	24,500	$	83.62
20	Irrigation 2"	116,346	$	254.50	63,000	$	171.28
21	Irrigation 4"	1,813,070	$	3,055.39	157,000	$	471.92
22	Irrigation 6"	5,451,042	$	8,957.63	1,312,000	$	2,500.72
23							
24	Construction 3/4"	959	$	15.10	-	$	13.60
25	Construction 1"	11,803	$	41.11	11,500	$	40.64
26	Construction 2"	36,000	$	129.16	59,000	$	165.04
27	Construction 3"	180,662	$	427.83	19,500	$	176.42
28	Construction 4"	94,500	$	374.42	106,000	$	392.36
29							
30	Fire Hydrant (Standpipe) 3"	26,121	$	211.82	9,500	$	169.94
31	Fire Hydrant (Standpipe) 4"	516,917	$	1,529.63	561,500	$	1,641.98
32							
33	Fire Sprinkler 3/4"	3	$	10.01	-	$	10.00
34	Fire Sprinkler 1"	63	$	10.16	-	$	10.00
35	Fire Sprinkler 1.5"	28	$	10.07	-	$	10.00

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

LINE NO.	CUSTOMER CLASS	COMPANY PROPOSED RATES					
		AVERAGE			MEDIAN		
		USAGE	DOLLARS		USAGE	DOLLARS	
1	Residential 3/4"	8,450	$	44.17	5,500	$	34.03
2	Residential 1"	10,095	$	65.68	7,500	$	145.87
3	Residential 1.5"	29,821	$	202.13	21,500	$	414.19
4	Residential 2"	72,924	$	350.32	91,500	$	414.19
5	Residential 3"	70,226	$	440.65	83,000	$	484.56
6							
6	Commerical 3/4"	11,528	$	59.95	4,501	$	34.03
7	Commerical 1"	17,907	$	92.53	5,500	$	49.88
8	Commerical 1.5"	47,736	$	236.07	13,500	$	118.36
9	Commerical 2"	68,389	$	334.73	21,500	$	173.53
10	Commerical 3"	34,550	$	317.99	11,500	$	238.75
11	Commerical 4"	186,146	$	949.71	79,500	$	583.06
12							
13	Industrial 3/4"	5,375	$	209.64	3,500	$	18.56
14	Industrial 1"	-	$	296.99	-	$	30.97
15	Industrial 1.5"	8,000	$	190.73	-	$	71.95
16							
17	Irrigation 3/4"	16,732	$	76.08	8,500	$	47.78
18	Irrigation 1"	41,781	$	174.61	15,500	$	84.26
19	Irrigation 1.5"	76,173	$	333.83	24,500	$	156.18
20	Irrigation 2"	116,346	$	499.61	63,000	$	316.20
21	Irrigation 4"	1,813,070	$	6,543.07	157,000	$	849.51
22	Irrigation 6"	5,451,042	$	19,360.15	1,312,000	$	5,130.13
23							
24	Construction 3/4"	959	$	21.86	-	$	18.56
25	Construction 1"	11,803	$	71.55	11,500	$	70.51
26	Construction 2"	36,000	$	223.38	59,000	$	302.45
27	Construction 3"	180,662	$	820.33	19,500	$	266.25
28	Construction 4"	94,500	$	634.63	106,000	$	674.17
29							
30	Fire Hydrant (Standpipe) 3"	26,121	$	289.01	9,500	$	231.87
31	Fire Hydrant (Standpipe) 4"	516,917	$	2,086.90	561,500	$	2,240.18
32							
33	Fire Sprinkler 3/4"	3	$	10.01	-	$	10.00
34	Fire Sprinkler 1"	63	$	10.22	-	$	10.00
35	Fire Sprinkler 1.5"	28	$	10.10	-	$	10.00

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

LINE NO.	CUSTOMER CLASS	STAFF RECOMMENDED RATES			
		AVERAGE		MEDIAN	
		USAGE	DOLLARS	USAGE	DOLLARS
1	Residential 3/4"	8,450	$ 36.46	5,500	$ 27.85
2	Residential 1"	10,095	$ 54.48	7,500	$ 110.78
3	Residential 1.5"	29,821	$ 164.08	21,500	$ 344.18
4	Residential 2"	72,924	$ 289.94	91,500	$ 344.18
5	Residential 3"	70,226	$ 355.06	83,000	$ 392.36
6					
6	Commerical 3/4"	11,528	$ 49.70	4,501	$ 28.14
7	Commerical 1"	17,907	$ 77.29	5,500	$ 41.06
8	Commerical 1.5"	47,736	$ 187.39	13,500	$ 87.42
9	Commerical 2"	68,389	$ 276.70	21,500	$ 139.78
10	Commerical 3"	34,550	$ 250.89	11,500	$ 183.58
11	Commerical 4"	186,146	$ 773.55	79,500	$ 462.14
12					
13	Industrial 3/4"	5,375	$ 170.27	3,500	$ 15.00
14	Industrial 1"	-	$ 242.90	-	$ 25.00
15	Industrial 1.5"	8,000	$ 148.89	-	$ 48.00
16					
17	Irrigation 3/4"	16,732	$ 63.86	8,500	$ 39.82
18	Irrigation 1"	41,781	$ 147.00	15,500	$ 70.26
19	Irrigation 1.5"	76,173	$ 270.43	24,500	$ 119.54
20	Irrigation 2"	116,346	$ 416.73	63,000	$ 260.96
21	Irrigation 4"	1,813,070	$ 5,524.16	157,000	$ 688.44
22	Irrigation 6"	5,451,042	$ 16,377.04	1,312,000	$ 4,291.04
23					
24	Construction 3/4"	959	$ 17.80	-	$ 15.00
25	Construction 1"	11,803	$ 59.46	11,500	$ 58.58
26	Construction 2"	36,000	$ 153.12	59,000	$ 220.28
27	Construction 3"	180,662	$ 604.53	19,500	$ 133.94
28	Construction 4"	94,500	$ 425.94	106,000	$ 459.52
29					
30	Fire Hydrant (Standpipe) 3"	26,121	$ 226.27	9,500	$ 177.74
31	Fire Hydrant (Standpipe) 4"	516,917	$ 1,739.40	561,500	$ 1,869.58
32					
33	Fire Sprinkler 3/4"	3	$ 10.01	-	$ 10.00
34	Fire Sprinkler 1"	63	$ 10.18	-	$ 10.00
35	Fire Sprinkler 1.5"	28	$ 10.08	-	$ 10.00

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

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

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

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

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

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

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

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

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

RATE BASE

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

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

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

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

Q. How many rate base adjustments is Staff recommending?

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

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

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

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

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

Q. What was the new agreement?

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

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

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

Q. Are these Wells fully depreciated?

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

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

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

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

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

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

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

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

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

Q. Why was the well water replaced with the CAP water?

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

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

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

Q. Is there another reason for utilizing CAP water?

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

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

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

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

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

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

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

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

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

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

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

Rate Base Adjustment No. 2 – Deferred Regulatory Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q. Is the additional CAP water used and useful?

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

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

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

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

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

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

A. Yes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Rate Base Adjustment No. 4 – Accumulated Depreciation

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

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

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

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

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

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

Q. What is Staff's recommendation?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q. What is Staff's recommendation?

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

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

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

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

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

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

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

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

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

Q. What is the effect of expensing plant?

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

Q. What is Staff's recommendation?

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

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

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

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

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

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

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

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

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

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

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

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

Q. What is Staff's recommendation?

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

OPERATING INCOME

Operating Income Summary

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

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

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

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

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

Q. What is Staff's recommendation?

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

Operating Income Adjustment No. 2 – Purchased Water Expense.

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

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

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

Q. What is Staff's recommendation?

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

Operating Income Adjustment No. 3 – Depreciation Expense

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

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

Q. What is Staff's recommendation?

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

Operating Income Adjustment No. 4 – Miscellaneous Expenses

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

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

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

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

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

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

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

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

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

Q. What is Staff's recommendation?

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

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

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

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

Q. What is Staff's recommendation?

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

Operating Income Adjustment No. 6 – Rate Case Expense.

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

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

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

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

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

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

Q. Please explain the difference between normalizing and amortizing?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Operating Income Adjustment No. 7 – Normalization of Chemicals Expenses

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

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

Q. What is Staff's recommendation?

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

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

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

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

Q. What is Staff's recommendation?

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

Operating Income Adjustment No. 9 – Normalization of General Liability Insurance Expense

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

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

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

Q. What is Staff's recommendation?

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

Operating Income Adjustment No. 10 – Outside Services Expenses

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

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

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

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

Q. What is Staff's recommendation?

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

Q. What is the effect of expensing plant?

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

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

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

Q. What is Staff's recommendation?

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

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

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

Operating Income Adjustment No. 11 – Water Testing Expense

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

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

Q. What is Staff's recommendation?

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

Operating Income Adjustment No. 12 – Property Taxes

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

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

Q. What is Staff's recommendation?

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

Operating Income Adjustment No. 13 – Income Taxes

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

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

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

Q. What is Staff's recommendation?

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

REVENUE REQUIREMENT

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

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

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

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

BASIS FOR REVENUE REQUIREMENT

Q. How did Staff calculate its recommended revenue requirement?

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

RATE DESIGN

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

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

Q. Would you please summarize the present rate design?

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

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

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

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

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

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

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

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

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

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

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

A. Yes.

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

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

Q. What is Staff's recommendation?

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

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

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

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

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

Q. What is Staff recommending?

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

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

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

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

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

meter and service line charges. Any tax collected will be refunded each year as the meter deposit is refunded."

Q. Does Staff agree with the Company's proposal?

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

Q. What is Staff recommending?

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

Q. Would you please summarize Staff's recommended rate design?

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

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

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

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

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

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

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

A. The median usage of residential ¾-inch meter customers is 5,500 gallons per month. The average residential 3/4-inch meter customer would experience a $9.09 or 36.43 percent increase in his or her monthly bill from $24.94 to $34.03 under the Company's proposed

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

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

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

CONSUMER SERVICES

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

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

Q. Does this conclude your direct testimony?

A. Yes, it does.

CHAPARRAL CITY WATER COMPANY, INC.
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DIRECT TESTIMONY OF MARVIN MILLSAP

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CHAPARRAL CITY WATER COMPANY, INC.
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Schedule MEM-1

REVENUE REQUIREMENT

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

References:
Column (A): Company Schedule A-1
Column (B): Staff Schedule MEM-3.1

CHAPARRAL CITY WATER COMPANY, INC.
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Schedule MEM-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	Calculation of Gross Revenue Conversion Factor:				
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.3324%			
5	Subtotal (L3 - L4)	60.6676%			
6	**Revenue Conversion Factor (L1 / L5)**	1.648327			
	Calculation of Uncollectible Factor:				
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 23)	38.5989%			
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
	Calculation of Effective Tax Rate:				
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 55)	34.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%			
17	Combined Federal and State Income Tax Rate (L13 +L16)		38.5989%		
	Calculation of Effective Property Tax Factor				
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	38.5989%			
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%			
21	Property Tax Factor (MEM-16, L21)	1.1947%			
22	Effective Property Tax Factor (L20*L21)		0.7335%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.3324%	
24	Required Operating Income (Schedule MEM-1, Line 5)	$ 2,055,831			
25	AdjustedTest Year Operating Income (Loss) (Schedule MEM-11, Line 28)	1,003,088			
26	Required Increase in Operating Income (L24 - L25)		$ 1,052,744		
27	Income Taxes on Recommended Revenue (Col. [E], L52)	$ 1,129,086			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	467,295			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		661,791		
30	Recommended Revenue Requirement (Schedule MEM-1, Line 10)	$ 9,181,965			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	$ -			
33	Adjusted Test Year Uncollectible Expense	$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)		-		
35	Property Tax with Recommended Revenue (MEM-16, Col B, L16)	$ 283,131			
36	Property Tax on Test Year Revenue (MEM-16, Col A, L16)	262,400			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		20,731		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		$ 1,735,265		

		Test Year		Staff Recommended
	Calculation of Income Tax:			
39	Revenue (Schedule MEM-11, Col. [C], Line 5 & Sch. MEM-1, Col. [D] Line 10)	$ 7,446,700	$ 1,735,265	$ 9,181,965
40	Operating Expenses Excluding Income Taxes	$ 5,976,317		$ 5,997,048
41	Synchronized Interest (L56)	$ 259,739		$ 259,739
42	Arizona Taxable Income (L39 - L40 - L41)	$ 1,210,645		$ 2,925,179
43	Arizona State Income Tax Rate	6.9680%		6.9680%
44	Arizona Income Tax (L42 x L43)	$ 84,358		$ 203,827
45	Federal Taxable Income (L42 - L44)	$ 1,126,287		$ 2,721,353
46	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ 7,500		$ 7,500
47	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	$ 6,250		$ 6,250
48	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ 8,500		$ 8,500
49	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ 91,650		$ 91,650
50	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ 269,038		$ 811,360
51	Total Federal Income Tax	$ 382,938		$ 925,260
52	Combined Federal and State Income Tax (L44 + L51)	$ 467,295		$ 1,129,086

53	Applicable Federal Income Tax Rate [Col. [E], L51 - Col. [B], L51] / [Col. [E], L45 - Col. [B], L45]	34.0000%

		Chapparral
	Calculation of Interest Synchronization:	
54	Rate Base (Schedule MEM-3, Col. (C), Line 17	$ 21,644,877
55	Weighted Average Cost of Debt (Schedule MEM-17, Col. [F], L1 + L2)	1.2000%
56	Synchronized Interest (L45 X L46)	$ 259,739

CHAPARRAL CITY WATER COMPANY, INC.
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Schedule MEM FVRB -1

FAIR VALUE RATE BASE COMPARISON - COMPANY VS STAFF

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

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

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Test Year Ended December 31, 2006

Schedule MEM FVRB -2

FAIR VALUE RATE BASE COMPUTATION - COMPANY AND STAFF

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

References:
Column (A): Schedule MEM 3
Column (B): Schedule MEM RCN-1

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

Schedule MEM FVRB -3

FAIR VALUE RATE BASE COMPUTATION - STAFF

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

References:
Column (A), Schedule MEM 3.2
Column (B): Schedule MEM RCN-1
Column (C): Column (A) + Column (B) divided by 2

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

Schedule MEM-3

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 51,804,423	$ (676,361)	2, 3, 6, 7	$ 51,128,062
2	Less: Accumulated Depreciation	15,877,022	(2,031,950)	4	13,845,072
3	Net Plant in Service	$ 35,927,401	$ 1,355,589		$ 37,282,990
	LESS:				
4	Contributions in Aid of Construction (CIAC)	$ -	$ -		$ 6,288,097
5	Less: Accumulated Amortization	-	-		168,968
6	Net CIAC	6,119,129	0		$ 6,119,129
7	Advances in Aid of Construction (AIAC)	6,557,243	-		6,557,243
8	Customer Meter Deposits	819,845	-		819,845
9	Deferred Income Tax Credits	925,896	-		925,896
10	Shared Gain on Well	646,000	570,000	1	1,216,000
	ADD:				
11	Unamortized Debt Issuance Costs	424,010	(424,010)	5	-
12	Prepayments	192,485	(192,485)	5	-
13	Materials and Supplies	14,521	(14,521)	5	-
14	Deferred Regulatory Assets	1,280,000	(1,280,000)	2	-
15	Working Capital	-	-		-
16	**Original Cost Rate Base**	$ 22,770,304	$ (1,125,427)		$ 21,644,877

References:
Column (A), Company Schedule B-1
Column (B): Schedule MEM-4
Column (C): Column (A) + Column (B)

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

Schedule MEM-4

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Well Settlement ADJ #1	[C] CAP Allocation ADJ #2	[D] GO Plant ADJ #3	[E] Acc Depr ADJ #4	[F] Working Capital ADJ #5	[G] Capitalize Expenses ADJ #6	[H] Retire Wells ADJ #7	[I] STAFF ADJUSTED
		PLANT IN SERVICE:									
1											
2	301	Organization	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
3	302	Franchises	-	-	-	-	-	-	-	-	-
4	303	Land and Land Rights	305,920	-	1,280,000	-	-	-	-	(34,062)	1,551,858
5	304	Structures & Improvements	1,518,648	-	-	-	-	-	11,590	(590)	1,529,642
6	305	Collecting & Impounding Reservoirs	8,548	-	-	-	-	-	-	(8,548)	-
7	306	Lakes, Rivers, Other Intakes	-	-	-	-	-	-	-	-	-
8	307	Wells and Springs	332,065	-	-	-	-	-	-	(172,438)	159,627
9	308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-	-	-
10	309	Supply Mains	-	-	-	-	-	-	-	-	-
11	310	Power Generation Equipment	-	-	-	-	-	-	-	-	-
12	311	Pumping Equipment	1,506,906	-	-	-	-	-	26,084	55,254	1,588,246
13	320	Water Treatment Plant	7,783,500	-	-	-	-	-	-	(1,976,860)	5,786,640
14	330	Distribution Reservoirs & Standpipes	8,170,420	-	-	-	-	-	-	(1,658,272)	6,512,148
15	331	Transmission & Distribution Mains	17,450,634	-	-	-	-	-	-	1,502,420	18,953,054
16	333	Services	7,389,930	-	-	-	-	-	-	106,409	7,496,339
17	334	Meters & Meter Installation	2,725,673	-	-	-	-	-	-	11,193	2,736,866
18	335	Hydrants	1,171,633	-	-	-	-	-	-	53,352	1,224,985
19	336	Backflow Prevention Devices	-	-	-	-	-	-	-	-	-
20	339	Other Plant & Misc. Equipment	1,610,687	-	-	-	-	-	-	106,542	1,717,229
21	340	Office Furniture & Equipment	270,359	-	-	-	-	-	-	1,814	272,173
22	341	Transportation Equipment	535,315	-	-	-	-	-	-	-	535,315
23	342	Stores Equipment	-	-	-	-	-	-	-	-	-
24	343	Tools, Ship & Garage Equipment	149,365	-	-	-	-	-	-	-	149,365
25	344	Laboratory Equipment	-	-	-	-	-	-	-	-	-
26	345	Power Operated Equipment	-	-	-	-	-	-	-	-	-
27	346	Communication Equipment	39,105	-	-	-	-	-	-	-	39,105
28	347	Miscellaneous Equipment	106,542	-	-	-	-	-	-	(106,542)	-
29	348	Other Tangible Plant	-	-	-	-	-	-	-	-	-
30			51,053,252	-	1,280,000	-	-	-	37,674	(2,118,334)	50,252,592
31											
32											-
33			-		-	-	-	-	-	-	-
34	Add:	General Office Plant Allocation	751,171	-		124,299	-	-	-	-	875,470
35											-
36			-	-	-	-	-	-	-	-	-
37			-	-	-	-	-	-	-	-	-
38											
39	Total Plant in Service		$ 51,804,423	$ -	$ 1,280,000	$ 124,299	$ -	$ -	$ 37,674	$(2,118,334)	$ 51,128,062
40	Less: Accumulated Depreciation		15,877,022	-	-	-	(2,031,950)	-	-	-	13,845,072
41			-	-	-	-		-	-	-	-
42	Net Plant in Service (L39 - L 40)		$ 35,927,401	$ -	$ 1,280,000	$ 124,299	$ 2,031,950	$ -	$ 37,674	$(2,118,334)	$ 37,282,990
43											
44		*LESS:*									
45	Contributions in Aid of Construction (CIAC)		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
46	Less: Accumulated Amortization		-	-	-	-	-	-	-	-	-
47	Net CIAC (L25 - L26)		6,119,129	-	-	-	0	-	-	-	6,119,129
48	Advances in Aid of Construction (AIAC)		6,557,243	-	-	-	-	-	-	-	6,557,243
49	Customer Meter Deposits		819,845	-	-	-	-	-	-	-	819,845
50	Deferred Income Taxes		925,696	-	-	-	-	-	-	-	925,696
51	Shared Gain on Well (Settlement Agreement Not to Use Wells)		646,000	570,000							1,216,000
52											
53		*ADD:*									
54	Unamortized Debt Issuance Costs		424,010	-	-	-	-	(424,010)	-	-	-
55	Prepayments		192,485	-	-	-	-	(192,485)	-	-	-
	Materials and Supplies		14,521					(14,521)			-
	Deferred Regulatory Assets		1,280,000		(1,280,000)						-
56	Working Capital		-	-	-	-	-	-	-		-
57											
58	Original Cost Rate Base		$ 22,770,304	$ (570,000)	$ -	$ 124,299	$ 2,031,950	$ (631,016)	$ 37,674	$(2,118,334)	$ 21,644,877

ADJ #		References:
1	Allocate 100% of Well Settlement Proceeds to Ratepayers.	Schedule MEM-5
2	CAP Allotment Reclassified to Account 303,.	Schedule MEM-6
3	Increase General Office allocation to 4.0%.	Schedule MEM-7
4	Recalculation of Accumulated Depreciation.	Schedule MEM-8
5	Eliminate Working Capital Components	Schedule MEM-9.
6	Capitalize Outside Services Expenses	Schedule MEM-10
7	Retire Wells 8 & 9 that are no longer used and useful	Schedule MEM-11

ATTACHMENT B

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF CHAPARRAL CITY WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY BASED THEREON	)	DOCKET NO. W-02113A-07551

SURREBUTTAL

TESTIMONY

OF

MARVIN E. MILLSAP

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

NOVEMBER 20, 2008

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

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

INTRODUCTION

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

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

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

A. Yes I am.

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

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

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

A. $51,542.00.

Q. Does Staff agree with the amount requested?

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

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

A. 2,005,550.

Q. What is Staff's recommended surcharge amount?

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

RESPONSE TO MR. HANFORD'S REBUTTAL TESTIMONY

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

A. Yes.

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

A. No.

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

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

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

A. No.

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

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

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

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

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

A. That it should be amortized.

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

A. Staff believes that it should be normalized.

RESPONSE TO MR. BOURASSA'S REBUTTAL TESTIMONY

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

A. Yes.

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

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

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

A. Yes.

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

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

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

A. Yes.

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

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

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

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

A. Yes.

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

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

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

A. Yes.

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

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

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

A. Yes.

Q. What does Staff recommend regarding insurance expense?

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

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

A. Yes.

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

A. No.

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

A. Yes.

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

A. No.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

ATTACHMENT C

CHAPARRAL CITY WATER COMPANY, INC.

DOCKET NO. W-02113A-07-0551

SURREBUTTAL TESTIMONY
ON REQUIRED REVENUE AND RATE DESIGN

OF

TIMOTHY J. COLEY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

NOVEMBER 20, 2008

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INTRODUCTION

Q. Please state your name and business address.

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

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

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

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

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

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

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

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

A. Yes.

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

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

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

Q. What specific areas will your testimony address?

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

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

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

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

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

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

A. No.

SURREBUTTAL REVENUE REQUIREMENTS

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

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

SUMMARY

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

A. My surrebuttal testimony addresses the following areas:

Original Cost Rate Base ("OCRB") Adjustments:

Adj. #1 – Intentionally Left Blank[1]

Adj. #2 – Intentionally Left Blank

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

Adj. #4 – Intentionally Left Blank

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

[1] Adjustments are labeled "Intentionally Left Blank" for one of the following reasons: 1) the adjustment does not pertain to this particular section of adjustments or 2) the adjustment is simply a place holder for a future adjustment.

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

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

Adj. #7 – Intentionally Left Blank

Adj. #8 – Intentionally Left Blank

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

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

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

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

Adj. #13 – Intentionally Left Blank

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

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

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

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

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

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

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

Adj. #4 – Intentionally Left Blank

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

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

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

Adj. #7 – Intentionally Left Blank

Adj. #8 – Intentionally Left Blank

Adj. #9 – Intentionally Left Blank

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

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

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

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

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

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

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

Operating Income Adjustments:

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Remaining Issues

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

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

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

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

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

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

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

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

RATE DESIGN

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

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

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

ORIGINAL COST RATE BASE ("OCRB")

OCRB Adjustment #1 – Intentionally Left Blank

OCRB Adjustment #2 – Intentionally Left Blank

OCRB Adjustment #3 – Remove Wells 8 and 9

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

A. Yes.

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

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

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

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

OCRB Adjustment #4 – Intentionally Left Blank

OCRB Adjustment #5 – Remove Shea Water Treatment Plant 1

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

A. Yes.

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

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

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OCRB Adjustment #6 – Capitalize Plant Items Previously Expensed

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

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

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

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

OCRB Adjustment #7 – Intentionally Left Blank

OCRB Adjustment #8 – Intentionally Left Blank

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OCRB Adjustment #9 – Additional Plant that was not carried forward to Company Schedule B-2

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OCRB Adjustment #12 – Treatment of Wells Proceeds

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

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

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

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

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

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

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

A. RUCO recommends reducing rate base by $1.52 million less Staff's calculated amortization expense for 2005 and 2006, which leaves a regulatory liability balance of $1,216,000

OCRB Adjustment #13 – Intentionally Left Blank

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OCRB Adjustment #14 – To Correct Amortization Rate of Contributions in Aid of Construction ("CIAC")

Q. Did the Company address RUCO's adjustment that corrects the CIAC amortization rate?

A. No. The Company did not address this adjustment in its rebuttal testimony.

Q. What position does RUCO take in its surrebuttal testimony regarding the CIAC amortization rate?

A. RUCO maintains its direct testimony position that Commission Decision No. 68176 authorized a CIAC amortization rate of 3.3588 percent. The Company utilized a composite rate of all the Company's accounts. RUCO does not believe that is the correct method to determine an amortization rate.

Q. Why do you believe that a total Company composite rate is improper?

A. CIAC consists primarily of mains, services, and meters with 2-3 percent depreciation rates - not higher depreciable plant like transportation equipment at a 20 percent rate and communication equipment at a 10 percent rate. RUCO believes the Commission establishes the CIAC amortization rate in rate case decisions, and that rate will remain constant going forward until the next rate case decision. If the Commission disagrees with that understanding, another way to derive a composite amortization rate for CIAC would be to use only the accounts in which CIAC resides rather than a composite rate for all plant accounts.

Q. Did you do an analysis using just the accounts that CIAC exists in?

A. Yes.

Q. What composite rate did you derive when using only accounts in which CIAC exists?

A. I derived at a 2.96 percent composite CIAC amortization rate.

Q. If the Commission decides to set CIAC amortization rates in rate decisions, what adjustment is RUCO recommending?

A. RUCO recommends increasing CIAC by $1,523 as shown on Schedule TJC-12.

OCRB Adjustment #15 – Treatment of Additional CAP Allocation

Q. Does RUCO maintain its direct testimony position in surrebuttal regarding the 100 percent disallowance of an additional Central Arizona Project ("CAP") water allocation of 1,931 acre-feet?

A. No. RUCO's surrebuttal position regarding the additional CAP allocation has been modified.

Q. Please explain RUCO's surrebuttal position regarding the additional CAP allocation.

A. RUCO is recommending that 50 percent of the cost of the additional CAP allocation be placed in a non-depreciable plant account – Account 303 – Land and Land Rights.

Q. Why is RUCO recommending that 50 percent be placed in a non-depreciable plant account?

A. RUCO recognizes and commends the Company's decision to help reduce and conserve groundwater usage with surface water.

Q. Why is RUCO only allowing 50 percent of the total $1.28 million cost of the additional CAP allocation to be included in UPIS in a non-depreciable plant account?

A. RUCO originally did not regard the CAP allocation as used and useful in the provision of water service. However, in deference to the Company's future source of supply concerns, RUCO now recognizes that some portion of the CAP allocation should be given rate base treatment. Accordingly, RUCO is now recommending that 50 percent of the CAP allocation should be given rate base treatment. For these reasons, RUCO has partially adopted the Staff's position on this issue and is recommending that 50 percent of the CAP allocation be booked into a non-depreciable plant account. RUCO believes that the remaining 50 percent should be included in rate base at a future point in time when it is deemed used and useful (See Bourassa Rebuttal at 29-30, Millsap Direct at 17, and Scott at 11).

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OCRB Adjustment #16 – Working Capital

Q. Did the Company accept RUCO's working capital adjustment and thus its lead/lag study to calculate cash working capital?

A. Yes.

Q. What adjustment did RUCO make for cash working capital?

A. RUCO's adjusted working capital to reflect the cash working capital requirements decrease working capital by $100,122. This number fluctuates as adjustments are made and/or accepted because it is dependent on operating expense levels.

RECONSTRUCTION COST NEW LESS DEPRECIATION RATE BASE ("RCND"):

RCND Adjustment #1 – RCND Factor Rounding

Q. Did the Company address RUCO's adjustment to eliminate the truncation issue for the RCND Factor that is used to trend UPIS up to its reconstruction cost new value?

A. No. The Company did not address this adjustment in its rebuttal testimony.

Q. Would you please explain RUCO's RCND Factor rounding adjustment?

A. Yes. The Company's Schedule B-4, pages 1-7, truncates the RCND Factor. To correct this problem, RUCO inserted a mathematical formula into the RCND Factor cells to carry out the proper multiplication.

Q. Is RUCO proposing the same recommendation in surrebuttal testimony that it did in direct testimony to eliminate the Company's truncating?

A. Yes. RUCO recommends reducing the RCND plant in service by $118 and increasing accumulated depreciation by $1 as shown on Schedule TJC-16.

RCND Adjustment #2 – Correct Account 304 Index Factors

Q. Did the Company accept RUCO's adjustment that corrects the index factor for the three plant line items in Account 304?

A. Yes. The Company accepts RUCO's adjustment and adjusted its RCND plant value downward by $17,805 in its rebuttal testimony.

RCND Adjustment #3 – Remove Wells 8 and 9 – Not In Service

Q. Did the Company agree with RUCO's RCND adjustment #3 to remove Wells 8 and 9 from UPIS?

A. Yes. This adjustment is discussed in RUCO's OCRB section of surrebuttal testimony. Many of the RCND adjustments are mere reflections of the same adjustments in RUCO's OCRB section with the exception being that the RCND adjustments are trended up to a RCND value.

Q. Does RUCO agree with the amount of the Company's adjustment?

A. Yes. RUCO agrees with the Company's adjustment that removes UPIS and accumulated depreciation in the amount of $441,470.

RCND Adjustment #4 – Remove Double Count of RCND Plant Transfers from ACC Decision 68176

Q. Did RUCO reconsider its RCND adjustment #4 that removed what RUCO characterized as a double count of UPIS authorized in Decision No. 68176?

A. Yes. RUCO is now in agreement with the Company regarding this adjustment.

Q. What adjustment was necessary to correct RUCO's direct testimony position on this possible double count of UPIS?

A. RUCO removed its adjustment in the surrebuttal schedules. However, it was necessary to make the same adjustment, an addition, in the OCRB schedules to account for UPIS the Company did not bring forward to its B-1 and B-2 Schedules. This adjustment is shown in RUCO's OCRB adjustment #9, which increased UPIS by $32,536.

RCND Adjustment #5 – Remove Shea Water Treatment Plant 1

Q. Did the Company accept RUCO's adjustment to remove the Shea Water Treatment Plant 1 from RCND rate base?

A. Yes. Again, this adjustment is a mirror reflection of the same adjustment in RUCO's OCRB section. The only difference here is it has been trended up to a RCND value. The adjustment decreases the RCND UPIS and accumulated depreciation by $3,262,891. This plant has not been in service since 2003.

RCND Adjustment #6 – Capitalize Expensed Plant Items

Q. Did the Company accept RUCO's RCND adjustment #6 to capitalize expensed plant items?

A. Yes. This adjustment is explained in RUCO's OCRB section of this testimony.

RCND Adjustment #7 – Intentionally Left Blank

RCND Adjustment #8 - RCND Trended Direct Plant Accumulated Depreciation

Q. Has the Company accepted RUCO's RCND adjustment that reconciles the accumulated depreciation balance to RUCO's recommended level of accumulated depreciation?

A. The Company does not explicitly address this adjustment to accumulated depreciation. After reviewing both the Company's Schedule B-1, page 1 and RUCO's Schedule TJC-2, which provide the same information, RUCO has come to the conclusion that many of the Company's accepted adjustments from both Staff and RUCO has largely accounted for this adjustment. In an effort to eliminate some issues in dispute, RUCO has removed this adjustment.

RCND Adjustment #9 – Intentionally Left Blank

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RCND Adjustment #10 – Correct General Office 4-Factor Plant & Accumulated Depreciation Allocator

Q. Did the Company accept RUCO's adjustment to correct the general office 4-Factor Allocator for plant and accumulated depreciation?

A. Yes. This adjustment was fully explained in RUCO's direct testimony. It is also briefly discussed in this testimony at the OCRB section. This adjustment is merely trended up to a RCND value.

RCND Adjustment #11 – Remove Post-Test Year General Office Plant

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

A. No. A discussion regarding this adjustment was provided in the OCRB section of this testimony.

Q. What adjustment is necessary to recognize and remove the post-test year general office plant?

A. Since this is post-test year plant, the adjustment is identical in both OCRB and RCND rate base adjustments because there is no RCND trending factor to consider. This adjustment reduces GUPIS by $15,434 and increases accumulated depreciation by $1,404 for both OCRB and RCND rate bases.

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RCND Adjustment #12 – Treatment of the Fountain Hills Sanitary District ("FHSD") Wells Settlement Proceeds

Q. What is RUCO's position regarding the FHSD Settlement proceeds with the Company?

A. RUCO explained its position regarding the FHSD Settlement proceeds in the OCRB section of this testimony.

RCND Adjustment #13 – Advances in Aid of Construction ("AIAC") Adjustment

Q. Did the Company address RUCO's adjustment to AIAC in rebuttal testimony?

A. No.

Q. What is RUCO's position to this adjustment since the Company did not address it in its rebuttal testimony?

A. As explained in RUCO's direct testimony, "any adjustment to plant in service will cause the AIAC factor to change because the AIAC factor is the ratio of the RCND plant in service to the original cost plant in service. All of RUCO's adjustments to either RCND or OCRB plant in service caused a minor modification to the AIAC factor. Thus, RUCO's AIAC factor is slightly larger than the Company's factor."

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Q. Did the Company make any adjustment for AIAC when accepting any of Staff or RUCO's rate base adjustments?

A. Yes. The Company's RCND AIAC balance changed from its direct to rebuttal testimonies. The amount of change authorized by the Commission in this case will be determined by the adjustments approved in its Decision. RUCO's recommended plant levels are different than the Company's resulting in different levels of RCND AIAC balances.

RCND Adjustment #14 - Contributions in Aid of Construction ("CIAC")

Q. Did the Company address RUCO's adjustment to CIAC?

A. No. However, the only difference in this adjustment and the same OCRB CIAC balance adjustment is this adjustment has been trended up to a RCND value. Please see RUCO's OCRB section for its rationale for the adjustment.

RCND Adjustment #15 - Remove the Deferred Asset and Record 50 Percent in a Non-Depreciable Plant Account - Additional CAP Allocation")

Q. Is this the same adjustment that RUCO made in its OCRB section of this testimony?

A. Yes. Please see that section of RUCO's testimony for a complete discussion.

RCND Adjustment #16 – Working Capital

Q. Did the Company accept RUCO's working capital adjustment and thus its lead/lag study to calculate cash working capital?

A. Yes.

Q. What adjustment did RUCO make for cash working capital?

A. RUCO's adjustment to working capital to reflect the cash working capital requirements decreases working capital by $100,122. This number fluctuates as adjustments are made and/or accepted because it is dependent on operating expense levels.

OPERATING INCOME & EXPENSES:

Operating Adjustment #1 – Depreciation & Amortization Expense

Q. What is the difference between RUCO's and the Company's depreciation expense recommendations?

A. The primary difference between RUCO's direct schedules and the Company's rebuttal schedules is that RUCO inadvertently utilized "Test Year Book Results" rather than the adjusted test year depreciation balance as a basis for its adjustment. RUCO has corrected its Depreciation Expense Schedule. That correction alone accounted for approximately $25,000 of the reduction to RUCO's direct testimony schedules. A second reason RUCO's depreciation expense differed from the Company's is because RUCO had not made the plant reclassification adjustment recommended by Staff and adopted by the Company.

RUCO does not object to the reclassification adjustment. The remaining discrepancy results from slight differences in recommended plant balances.

Q. If RUCO doesn't object to the plant reclassification adjustment, why hasn't RUCO made the adjustment in surrebuttal?

A. The primary reason was time. RUCO had not completed any analysis or review of the adjustment. The Company and RUCO are within a $3,000 difference of depreciation expense without having made the reclassification adjustment.

Operating Adjustment #2 – Property Tax Expense

Q. What are the primary difference in RUCO's direct and the Company's direct position regarding property tax expense?

A. RUCO used an alternative methodology rather than three years of historical gross revenues. RUCO's alternative methodology uses two years of historical revenues and one year of RUCO's proposed level of revenue.

Q. Did RUCO provide any empirical evidence in its direct testimony indicating the Company has over-collected on its property tax expense that was last authorized on September 30, 2005?

A. Yes. RUCO obtained the property tax expense for years 2004 through 2006 from the Company's rate application. The actual property tax expense for years 2007 and 2008 was obtained from Arizona Department of Revenue ("ADOR") as shown below:

	2004	2005	2006	2007	2008
Property Tax Expense	$ 280,537	$ 279,529	$ 241,774	$ 207,162	$ 187,214

Commission Decision No. 68176 made an allowance for property tax expense in the amount of $299,495. In none of those years was that level of property tax expense achieved. Actually, the disparity is growing between what was authorized and the property tax expense actually incurred.

Operating Adjustment #3 – Miscellaneous Expense

Q. What is RUCO's adjustment to miscellaneous expense?

A. RUCO adopts Staff's recommended miscellaneous expense adjustment that was accepted by the Company in rebuttal testimony.

Operating Adjustment #4 – Rate Case Expense

Q. Did the Company make any concessions in its rebuttal testimony concerning rate case expense?

A. Yes. The Company decided to forgo any unamortized rate case expense resulting from Decision 68176.

Q. Is RUCO's position the same as in its direct testimony regarding the Appeal and Remand of Decision 68176?

A. Yes. This is discussed in RUCO witness, Mr. Rigsby's testimony.

Operating Adjustment #5 – Purchased Water Expense

Q. Did RUCO accept the Company's rebuttal adjustment to purchased water expense?

A. Yes.

Operating Adjustment #6 – Outside Services Expense

Q. Did the Company address RUCO's adjustment to outside services?

A. No.

Q. What is RUCO's surrebuttal position regarding its outside services adjustment?

A. RUCO's surrebuttal position is the same as in its direct testimony. RUCO's audit of outside service invoices determined that the Company eliminated an outside service person on May 22 of the test year that provided water supply superintendent services for the Company. The Company replaced these services with an employee. The charges in the test year for the outside service person are a nonrecurring expense on a going forward basis. All associated charges for those outside services should be removed from adjusted test year outside services account. This information is provided in Company work paper titled "CCWC Employees – 06." The charge for the services was $3,500 per week. RUCO recommends reducing the outside service expense account by $71,000 to remove the nonrecurring expense as shown on Schedule TJC-37.

Operating Adjustment #7 – Water Revenues

Q. Has RUCO accepted the Company's adjustment to water revenues due to less loss of water sales from the golf courses than the Company originally estimated?

A. Yes. RUCO has accepted the Company's calculated adjustment.

Operating Adjustment #8 – Remove Expenses Charged to Repairs & Maintenance and Outside Services and Capitalize

Q. Has RUCO accepted the Company's adjustment to capitalize expensed plant items?

A. Yes. RUCO had made a portion of the adjustment in its direct testimony, which was accepted by the Company in its rebuttal testimony. The Company accepted another adjustment recommended by Staff, which RUCO adopts in its surrebuttal testimony.

Q. Please identify the total adjustment that RUCO accepts.

A. RUCO initially removed $43,217 from the repairs & maintenance expense account and capitalized it accordingly. Then, RUCO removed $38,049 from outside services and capitalized the expense as recommended by Staff and accepted by the Company.

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Operating Adjustment #9 – Water Testing Expense

Q. Please explain RUCO's adjustment to water testing expense.

A. RUCO adopts Staff's adjustment to water testing expense, which was also accepted by the Company in rebuttal testimony.

Operating Adjustment #10 – Purchased Power

Q. Does RUCO accept the Company's adjustment to purchased power expense?

A. Yes.

Operating Adjustment #11 – Amortization of the Additional CAP Allocation

Q. Please explain RUCO's adjustment that removes the amortization associated with the deferred regulatory asset – Additional CAP Allocation.

A. RUCO agrees with Staff's recommended treatment of the additional CAP allocation. However, RUCO does not believe that the CAP allocation is currently used and useful. As explained in the OCRB section, RUCO recognizes 50 percent of the allocation may be a non-depreciable plant account as suggested by Staff and accepted by the Company in recognition that the CAP allocation may help the Company reduce groundwater usage. Removal of the amortization expense associated with the CAP allocation is consistent with Staff's recommendation and accepted by the Company.

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Operating Adjustment #12 – Income Taxes

Q. Please explain RUCO's adjustment to the Company's Income Tax Expense.

A. This adjustment results from RUCO's recommended level of taxable operating income.

Other Remaining Issues

Low-Income Program ("LIP")

Q. Has the Company presented a LIP in this case?

A. No. However, the Company has proposed to present a LIP prior to the hearing for the parties to review.

Q. What is RUCO's position regarding LIP's?

A. RUCO generally supports LIP's and will review it once it is available. The Company stated that all customers would have to subsidize the program accordingly.

CAP Hook-Up Fee

Q. Has the Company proposed a CAP Hook-up Fee to recover costs associated with the additional CAP allocation?

A. Yes. The Company has proposed a "CAP Hook-up Fee" on new water installations. This is shown on Company Schedule H-3, page 3, line 22 and lines 30 through 32.

Q. Does RUCO believe this is an appropriate hook-up fee to reimburse the Company for its additional CAP allocation?

A. No. Hook-up fees are generally used to fund back-bone plant. RUCO believes that the additional CAP allocation is not back-bone plant. The Company's proposal would allow Chaparral to recover the cost of the allocation when both Staff and RUCO are recommending that the CAP allocation be booked in a non-depreciable account and the Company be permitted to earn a return on it in perpetuity. For this reason, RUCO does not believe that Chaparral should be permitted to recover the CAP allocation costs through the Company-proposed hook-up fee on new water installations.

Q. Did the Company address this hook-up fee issue in either its direct or rebuttal testimonies?

A. No.

Q. What is RUCO's recommendation concerning the Company's proposed CAP hook-up fee?

A. RUCO recommends the Commission deny this hook-up fee and the language be struck on the referenced Company H-3 Schedule.

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GROSSING-UP SERVICE LINE /METER INSTALLATION TAXES

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

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

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

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

INTEREST SYNCHRONIZATION

Q. Has RUCO recalculated interest expense based on FVRB rather than OCRB?

A. RUCO has adopted the Company's position on interest synchronization and has multiplied Chaparral's FVRB times RUCO's recommended weighted cost of debt to calculate an appropriate interest expense deduction. The deduction is reflected in RUCO's recommended level of test year adjusted income tax expense.

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RATE DESIGN

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

A. Not at this time. As a result of RUCO's modified position and the Company's proposed LIP, it will be filing revised rate design schedules prior to the hearing that reflect RUCO's pre-hearing position revenue recommendation. RUCO's surrebuttal revenue recommendation is approximately 7.4 percent more than its direct testimony recommendation.

Q. Does RUCO believe that its rate design will mirror that filed in its direct schedules?

A. RUCO believes its rate design will be substantially similar with an upward adjustment to account for the additional revenue recommendation.

Q. Does that conclude your surrebuttal testimony at this time?

A. Yes, it does.

CHAPARRAL CITY WATER COMPANY, INC.
DOCKET NO. W-02113A-07-0551
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TJC - 22	RCND RATE BASE ADJ. #11 - REMOVE POST TEST YEAR GENERAL OFFICE PLANT
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TJC - 35	OPERATING ADJ. #12 - INCOME TAXES
TJC - 36	COST OF CAPITAL

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
REVENUE REQUIREMENTS

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-1
PAGE 1 OF 2
SURREBUTTAL TESTIMONY

REVENUE REQUIREMENTS

LINE NO.	DESCRIPTION	(A) COMPANY REQUESTED	(B) RUCO RECOMMENDED
1	ADJUSTED FAIR VALUE RATE BASE (FVRB)	$ 28,736,406	$ 27,498,329
2	ADJUSTED OPERATING INCOME	797,271	1,051,686
3	CURRENT RATE OF RETURN (L2 / L1)	2.77%	3.82%
4	REQUIRED RATE OF RETURN ON FVRB	9.32%	6.38%
5	REQUIRED OPERATING INCOME (L4 * L1)	2,678,233	1,754,393
6	OPERATING INCOME DEFICIENCY (L5 - L2)	1,880,962	702,707
7	GROSS REVENUE CONVERSION FACTOR	1.6286	1.6287
8	GROSS REVENUE INCREASE	$ 3,063,335	$ 1,144,478
9	CURRENT REVENUES T/Y ADJUSTED	7,446,700	7,505,010
10	PROPOSED ANNUAL REVENUE (L8 + L9)	10,510,035	8,649,488
11	PERCENTAGE AVERAGE INCREASE	41.14%	15.25%
12	COST OF COMMON EQUITY	10.50%	6.83%

REFERENCES:
COLUMN (A): COMPANY SCHEDULE A-1
COLUMN (B): SCHEDULE TJC-1, PG. 2, TJC-2, TJC-3, TJC-30 AND TJC-43

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
GROSS REVENUE CONVERSION FACTOR

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-1
PAGE 2 OF 2
SURREBUTTAL TESTIMONY

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	REVENUE	1.0000	
2	UNCOLLECTIBLES	0.00000	COMPANY SCH. C-3
3	SUB-TOTAL	1.0000	LINE 1 - LINE 2
4	LESS: TAX RATE	38.60%	NOTE (a)
5	TOTAL	0.6140	LINE 3 - LINE 4
6	REVENUE CONVERSION FACTOR	1.62867	LINE 1/LINE 5

NOTE (a):
CALCULATION OF EFFECTIVE TAX RATE

OPERATING INCOME BEFORE TAXES	100.00%
LESS: ARIZONA STATE TAX	6.97%
TAXABLE INCOME FEDERAL	93.03%
TIMES: FEDERAL INCOME TAX RATE	34.00%
SUBTOTAL	31.63%
ADD STATE TAX RATE	38.60%
LINE 3 ABOVE	100.00%
EFFECTIVE TAX RATE	38.60%

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
SUMMARY OF RATE BASE

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-2
SURREBUTTAL TESTIMONY

Line No.		RUCO Original Cost Rate base	RUCO RCND Rate base	RUCO Fair Value Rate Base (50/50)
1				
2	Gross Utility Plant in Service	$ 50,295,600	$ 77,640,019	$ 63,967,809
3	Less: Accumulated Depreciation	(13,710,454)	(22,122,967)	(17,916,711)
4				
5	Net Utility Plant in Service	$ 36,585,146	$ 55,517,052	$ 46,051,099
6				
7	Less:			
8	Advances in Aid of			
9	Construction	(6,557,243)	(10,122,247)	(8,339,745)
10	Contributions in Aid of			
11	Construction - Net of amortization	(6,120,652)	(9,443,703)	(7,782,178)
12	Customer Meter Deposits	(819,845)	(819,845)	(819,845)
13	Deferred Income Taxes & Credits	(925,896)	(925,896)	(925,896)
14	Investment tax Credits	-	-	-
15	Shared Gain on Well	(1,216,000)	(1,216,000)	(1,216,000)
16				
17	Plus:			
18	Unamortized Debt Issuance			
19	Costs	424,010	424,010	424,010
20	Working Capital	106,884	106,884	106,884
21	Deferred Regulatory Assets	-	-	-
22				
23				
24				
25				
26	Total Rate Base	$ 21,476,403	$ 33,520,255	$ 27,498,329
27				
28				
29				
30	SUPPORTING SCHEDULES:			RECAP SCHEDULES:
31	Schedules TJC-4, pages 1 and 2			Schedule TJC-1
32	Schedules TJC-5			
33	Schedules TJC-6, pages 1, 2, and 3			
34	Schedules TJC-14, pages 1 and 2			
35	Schedule TJC-15			

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE - ORIGINAL COST

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-3
SURREBUTTAL TESTIMONY

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED
1	PLANT IN SERVICE	$ 51,771,885	$ (1,476,285)	$ 50,295,600
2	ACCUMULATED DEPRECIATION	(15,877,022)	2,166,568	(13,710,454)
3	NET PLANT IN SERVICE	$ 35,894,863	$ 690,283	$ 36,585,146
4	CONSTRUCTION WORK IN PROGRESS (CWIP)	-	-	-
5	TOTAL NET PLANT	$ 35,894,863	$ 690,283	$ 36,585,146
	Less:			
6	ADVANCES IN AID OF CONSTRUCTION (AIAC)	(6,557,243)	-	(6,557,243)
7	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) - NET	(6,119,129)	(1,523)	(6,120,652)
8	CUSTOMER METER DEPOSITS	(819,845)	-	(819,845)
9	DEFERRED INCOME TAXES	(925,896)	-	(925,896)
10	INVESTMENT TAX CREDITS	-	-	-
11	SHARED GAIN ON WELL	(646,000)	(570,000)	(1,216,000)
	Plus:			
12	UNAMORTIZED DEBT ISSUANCE COSTS	424,010	-	424,010
13	WORKING CAPITAL	207,006	(100,122)	106,884
14	DEFERRED REGULATORY ASSETS	1,280,000	(1,280,000)	-
15	TOTAL RATE BASE	$ 22,737,766	$ (1,261,363)	$ 21,476,403

REFERENCES:
COLUMN (A): COMPANY SCHEDULE B-1
COLUMN (B): SCHEDULE TJC-4, PAGES 1 and 2
COLUMN (C): COLUMN (A) + COLUMN (B)

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-4
SURREBUTTAL TESTIMONY

LINE NO.	DESCRIPTION	(A) COMPANY PROPOSED	(B) ADJ #1	(C) ADJ #2	(D) ADJ #3	(E) ADJ #4	(F) ADJ #5	(G) ADJ #6	(H) ADJ #7	(I) ADJ #8
1	PLANT IN SERVICE	$51,771,885			$ (107,412)		$(2,010,923)	$ 80,891	$ -	
2	ACCUMULATED DEPRECIATION	(15,877,022)			107,412		2,010,923	(3,265)		
3	NET PLANT IN SERVICE	$35,894,863	$ -	$ -	$ -	$ -	$ 0	$ 77,626	$ -	$ -
4	CONSTRUCTION WORK IN PROGRESS (CWIP)	-								
5	TOTAL NET PLANT	$35,894,863	$ -	$ -	$ -	$ -	$ 0	$ 77,626	$ -	$ -
	Less:									
6	ADVANCES IN AID OF CONSTRUCTION (AIAC)	(6,557,243)								
7	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) - NET	(6,119,129)								
8	CUSTOMER METER DEPOSITS	(819,845)		-		-				
9	DEFERRED INCOME TAXES	(925,896)		-		-				
10	INVESTMENT TAX CREDITS	-								
11	SHARED GAIN ON WELL	(646,000)								
	Plus:									
12	UNAMORTIZED DEBT ISSUANCE COSTS	424,010					-	-		
13	WORKING CAPITAL	207,006								
14	DEFERRED REGULATORY ASSETS	1,280,000								-
15	TOTAL RATE BASE	$22,737,766	$ -	$ -	$ -	$ -	$ 0	$ 77,626	$ -	$ -

ADJUSTMENT #:	REFERENCE:
1. Intentionally Left Blank	
2. Intentionally Left Blank	
3. Remove Wells 8 & 9 - Out of Sevice	SCHEDULE TJC-7
4. Intentionally Left Blank	
5. Remove Shea Water Treatment Plant 1 - Taken Out of Service	SCHEDULE TJC-8
6. Remove Expensed Plant Items and Capitalize	SCHEDULE TJC-9
7. Intentionally Left Blank	
8. Intentionally Left Blank	

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(J) ADJ #9	(K) ADJ #10	(L) ADJ #11	(M) ADJ #12	(N) ADJ #13	(O) ADJ #14	(P) ADJ #15	(Q) ADJ #16	(R) RUCO ADJUSTED
1	PLANT IN SERVICE	32,536	$ (95,944)	$ (15,434)	$ -	$ -	$ -	$ 640,000	$ -	$ 50,295,600
2	ACCUMULATED DEPRECIATION		$ 51,498	-						(13,710,454)
3	NET PLANT IN SERVICE	$ 32,536	$ (44,446)	$ (15,434)	$ -	$ -	$ -	$ 640,000	$ -	$ 36,585,146
4	CONSTRUCTION WORK IN PROGRESS (CWIP)									-
5	TOTAL NET PLANT	$ 32,536	$ (44,446)	$ (15,434)	$ -	$ -	$ -	$ 640,000	$ -	$ 36,585,146
	Less:									
6	ADVANCES IN AID OF CONSTRUCTION (AIAC)									(6,557,243)
7	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) - NET						(1,523)	-	-	(6,120,652)
8	CUSTOMER METER DEPOSITS	-		-						(819,845)
9	DEFERRED INCOME TAXES	-		-						(925,896)
10	INVESTMENT TAX CREDITS									-
11	SHARED GAIN ON WELL				(570,000)					(1,216,000)
	Plus:									
12	UNAMORTIZED DEBT ISSUANCE COSTS				-	-				424,010
13	WORKING CAPITAL								(100,122)	106,884
14	DEFERRED REGULATORY ASSETS							(1,280,000)		-
15	TOTAL RATE BASE	$ 32,536	$ (44,446)	$ (15,434)	$ (570,000)	$ -	$ (1,523)	$ (640,000)	$ (100,122)	$ 21,476,403

ADJUSTMENT #:
9. To Adjust OCRB Direct Plant to Carry Plant Forward that was not recorded by the Company
10. Correct 4-Factor General Office Plant & Accumulated Depreciation Allocation Factor
11. Remove Post Test Year GO Plant in Account 303 & 340
12. FHSD Settlement Proceeds
13. Intentionally Left Blank
14. To correct CIAC amortization rate authorized in Decision No. 68176 per Bourassa Rebuttal Schedule C-2, page 2.
15. To Remove Deferred Regulatory Asset and Place 1/2 in UPIS - Additional CAP Allocation
16. Working Capital

REFERENCE:
SCHEDULE TJC-6
SCHEDULE TJC-10, PAGES 1 and 2
SCHEDULE TJC-11
TJC TESTIMONY

SCHEDULE TJC-12
TJC TESTIMONY
SCHEDULE TJC-29, PAGES 1 thru 15

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RE-COMPUTATION OF TOTAL UTILITY PLANT IN SERVICE (UPIS)
AND ACCUMULATED DEPRECIATION FROM DECISION NO. 68176

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-5
SURREBUTTAL TESTIMONY

Total Chaparral City Water UPIS:

Line No.	Description	Amount
1	Chaparral City Water Direct Plant Per Company	$51,020,714
2	Chaparral City Water Direct Plant Per RUCO	51,053,250
3	RUCO's Direct Plant Adjustment	$ 32,536
4	Chaparral City Water General Office Plant Allocation Per Company	$ 751,171
5	Chaparral City Water General Office Plant Allocation Per RUCO	639,794
6	RUCO's General Office Plant Allocation Adjustment	$ (111,377)
7	Total Chaparral City Water Gross UPIS Per Company	$51,771,885
8	Total Chaparral City Water Gross UPIS Per RUCO	51,693,044
9	Total RUCO Gross UPIS Adjustment	$ (78,841)

Total Chaparral City Water Accumulated Depreciation:

10	Chaparral City Water Direct Plant Accumulated Depreciation Per Company	$15,473,834
11	Chaparral City Water Direct Plant Accumulated Depreciation Per RUCO	15,479,021
12	RUCO's Direct Plant Accumulated Depreciation Adjustment	5,187
13	Chaparral City Water General Office Allocation of Accumulated Depreciation Per Company	403,188
14	Chaparral City Water General Office Allocation of Accumulated Depreciation Per RUCO	351,690
15	RUCO's General Office Allocation of Accumulated Depreciation Adjustment	(51,498)
16	Total Chaparral City Water Accumulated Depreciation Per Company	15,877,022
17	Total Chaparral City Water Accumulated Depreciation Per RUCO	15,830,712
18	Total RUCO Accumulated Depreciation Adjustment	$ (46,310)

Supporting Schedules:
\TJC-4(a)Schedules\Pages1-5\DirectPlant\AZ-CorpPlant\CentralDivisionPlant\
Regarding RUCO's Eastern Div. treatment see Company response to RUCO DR 2.06

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJUSTMENT #2 - DIRECT PLANT & ACCUM. DEPRE.

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-6
PAGE 1 OF 3
SURREBUTTAL TESTIMONY

December 31, 2004

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) DEP. RATE Thru Sep-05	(B) DEP. RATE After Sep-05	(C) 12/31/2003 PLANT BALANCE Per DECISION 68176	(D) 12/31/2003 ACCUM. DEPREC. Per DECISION 68176	(E) 2004 PLANT ADDIT'NS	(F) 2004 PLANT RETIRM'TS	(G) 2004 PLANT ADJUSTM'T	(H) TOTAL PLANT VALUE 12/31/2004	(I) 2004 DEPREC'N EXPENSE	(J) ENDING ACCUM. DEPREC. 12/31/2004	(K) NET PLANT VALUE 12/31/2004
1	301	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost and Other Intangible Plant	0.00%	0.00%	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	271,857	-	-	-	-	271,857	-	-	271,857
4	304	Structures and Improvements	2.50%	3.33%	654,407	260,483	331,000	-	-	985,407	20,498	280,981	704,426
5	305	Collecting and Impounding Res.	2.50%	2.50%	6,548	82	-	-	-	6,548	164	246	6,303
6	306	Lake River and Other Intakes	2.50%	2.50%	-	-	-	-	-	-	-	-	-
7	307	Wells and Springs	2.50%	3.33%	332,065	154,900	-	-	-	332,065	8,302	163,202	168,863
8	308	Infiltration Galleries and Tunnels	2.50%	8.67%	-	-	-	-	-	-	-	-	-
9	309	Supply Mains	2.50%	2.00%	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	2.50%	5.00%	-	-	-	-	-	-	-	-	-
11	311	Electric Pumping Equipment	2.50%	12.50%	1,291,399	615,457	53,925	-	-	1,345,324	32,959	648,416	696,908
12	320	Water Treatment Equipment	2.50%	3.33%	5,660,573	1,671,920	1,961,851	-	-	7,622,424	166,037	1,837,957	5,784,467
13	330	Distribution Reservoirs & Standpipe	2.50%	2.22%	6,022,014	1,497,474	-	-	(1,296)	6,020,718	150,534	1,648,008	4,372,710
14	331	Transmission and Distribution Mains	2.50%	2.00%	15,991,782	6,020,309	348,845	-	-	16,340,626	404,155	6,424,464	9,916,162
15	333	Services	2.50%	3.33%	4,979,133	501,319	1,423,193	-	-	6,402,326	142,266	643,587	5,758,738
16	334	Meters	2.50%	8.33%	2,163,197	610,611	251,973	-	-	2,415,169	57,230	667,841	1,747,329
17	335	Hydrants	2.50%	2.00%	523,178	183,366	84,716	-	-	607,893	14,138	197,504	410,389
18	336	Backflow Prevention Devices	2.50%	6.67%	-	-	-	-	-	-	-	-	-
19	339	Other Plant and Miscellaneous Equipment	2.50%	6.67%	(0)	-	-	-	-	(0)	(0)	(0)	(0)
20	340	Office Furniture and Fixtures	2.50%	6.67%	182,811	19,192	43,730	-	-	226,540	5,117	24,309	202,232
21	341	Transportation Equipment	2.50%	20.00%	406,775	(1,732)	95,984	(65,224)	-	437,535	10,554	(56,402)	493,938
22	342	Stores Equipment	2.50%	4.00%	-	-	-	-	-	-	-	-	-
23	343	Tools and Work Equipment	2.50%	5.00%	88,004	21,609	4,936	-	-	92,940	2,262	23,871	69,069
24	344	Laboratory Equipment	2.50%	10.00%	-	25	-	-	-	-	-	25	(25)
25	345	Power Operated Equipment	2.50%	5.00%	-	-	-	-	-	-	-	-	-
26	346	Communications Equipment	2.50%	10.00%	39,105	(5,716)	-	-	-	39,105	978	(4,738)	43,843
27	347	Miscellaneous Equipment	2.50%	10.00%	67,303	16,632	16,445	-	-	83,748	1,888	18,720	65,028
28	348	Other Tangible Plant	2.50%	10.00%	-	-	34,063	-	-	34,063	426	426	33,638
29		Plant Held for Future Use	0.00%	0.00%	-	-	-	-	-	-	-	-	-
30													
31		Total Gross Water Plant In Service & Accumulated Depreciation			$ 38,660,149	$ 11,566,130	$ 4,650,659	$ (65,224)	$ (1,296)	$ 43,264,288	$ 1,017,509	$ 12,518,415	$30,745,874

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJUSTMENT #2 - DIRECT PLANT & ACCUM. DEPRE.

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-6
PAGE 2 OF 3
SURREBUTTAL TESTIMONY

YEAR 2005

LINE NO.	ACCT. NO.	ACCOUNT NAME	BEGINNING PLANT BALANCES ON JAN. 1, 2005	(A) 2005 PLANT ADDIT'NS	(B) 2005 PLANT RETIRM'TS	(C) 2005 PLANT ADJUSTM'T	(D) TOTAL PLANT VALUE 12/31/2005	(E) DEPREC'N EXPENSE	(F) ENDING ACCUM. DEPREC. 12/31/2005	(G) NET PLANT VALUE 12/31/2005
1	301	Organization Cost	-	-	-	-	-	-	-	-
2	302	Franchise Cost and Other Intangible Plant	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	271,857	-	-	-	271,857	-	-	271,857
4	304	Structures and Improvements	985,407	468,546	-	-	1,453,952	33,023	314,003	1,139,949
5	305	Collecting and Impounding Res.	6,548	-	-	-	6,548	164	409	6,139
6	306	Lake River and Other Intakes	-	-	-	-	-	-	-	-
7	307	Wells and Springs	332,065	-	-	-	332,065	8,991	172,193	159,873
8	308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-	-
9	309	Supply Mains	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	-	-	-	-	-	-	-	-
11	311	Electric Pumping Equipment	1,345,324	106,361	(21,889)	-	1,429,796	69,378	695,905	733,891
12	320	Water Treatment Equipment	7,622,424	130,344	-	-	7,752,767	208,142	2,046,099	5,706,668
13	330	Distribution Reservoirs & Standpipe	6,020,718	2,031,545	(3,000)	-	8,049,263	170,950	1,815,958	6,233,305
14	331	Transmission and Distribution Mains	16,340,626	191,647	-	-	16,532,274	390,366	6,814,830	9,717,444
15	333	Services	6,402,326	536,187	-	-	6,938,513	180,602	824,189	6,114,324
16	334	Meters	2,415,169	215,171	-	-	2,630,341	99,838	767,679	1,862,662
17	335	Hydrants	607,893	263,983	-	-	871,877	17,572	215,077	656,800
18	336	Backflow Prevention Devices	-	-	-	-	-	-	-	-
19	339	Other Plant and Miscellaneous Equipment	(0)	1,610,687	-	-	1,610,687	28,529	28,529	1,582,157
20	340	Office Furniture and Fixtures	226,540	24,735	(4,006)	-	247,269	8,392	28,695	218,574
21	341	Transportation Equipment	437,535	120,595	(23,389)	-	534,742	33,422	(46,369)	581,111
22	342	Stores Equipment	-	-	-	-	-	-	-	-
23	343	Tools and Work Equipment	92,940	52,874	-	-	145,814	3,731	27,601	118,213
24	344	Laboratory Equipment	-	-	-	-	-	-	25	(25)
25	345	Power Operated Equipment	-	-	-	-	-	-	-	-
26	346	Communications Equipment	39,105	-	-	-	39,105	1,711	(3,027)	42,132
27	347	Miscellaneous Equipment	83,748	-	-	-	83,748	3,664	22,384	61,364
28	348	Other Tangible Plant	34,063	-	-	-	34,063	1,490	1,916	32,147
29		Plant Held for Future Use	-	-	-	-	-	-	-	-
30										
31		Total Gross Water Plant in Service & Accumulated Depreciation	43,264,288	$ 5,752,677	$ (52,284)	$ -	$48,964,681	$ 1,259,964	$ 13,726,094	$35,238,586

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJUSTMENT #2 - DIRECT PLANT & ACCUM. DEPRE.

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-6
PAGE 3 OF 3
SURREBUTTAL TESTIMONY

YEAR 2006

LINE NO.	ACCT. NO.	ACCOUNT NAME	BEGINNING PLANT BALANCES ON JAN. 1, 2006	(A) 2006 PLANT ADDIT'NS	(B) 2006 PLANT RETIRM'TS	(C) 2006 PLANT ADJUSTM'T	(D) TOTAL PLANT VALUE 12/31/2006	(E) DEPREC'N EXPENSE	(F) ENDING ACCUM. DEPREC. 12/31/2006	(G) NET PLANT VALUE 12/31/2006
1	301	Organization Cost	-	-	-	-	-	-	-	-
2	302	Franchise Cost and Other Intangible Plant	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	271,857	-	-	-	271,857	-	-	271,857
4	304	Structures and Improvements	1,453,952	70,236	(5,540)	-	1,518,648	49,494	357,956	1,160,691
5	305	Collecting and Impounding Res.	6,548	-	-	-	6,548	164	573	5,975
6	306	Lake River and Other Intakes	-	-	-	-	-	-	-	-
7	307	Wells and Springs	332,065	-	-	-	332,065	11,058	183,250	148,815
8	308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-	-
9	309	Supply Mains	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	-	-	-	-	-	-	-	-
11	311	Electric Pumping Equipment	1,429,796	77,112	-	-	1,506,908	183,544	879,449	627,459
12	320	Water Treatment Equipment	7,752,767	10,733	-	-	7,763,500	258,346	2,304,445	5,459,055
13	330	Distribution Reservoirs & Standpipe	8,049,263	121,156	-	-	8,170,419	180,038	1,995,997	6,174,423
14	331	Transmission and Distribution Mains	16,532,274	918,360	-	-	17,450,634	339,829	7,154,659	10,295,975
15	333	Services	6,938,513	453,417	(2,000)	-	7,389,929	238,569	1,060,758	6,329,172
16	334	Meters	2,630,341	95,332	-	-	2,725,672	223,078	990,757	1,734,916
17	335	Hydrants	871,877	299,756	-	-	1,171,632	20,435	235,512	936,121
18	336	Backflow Prevention Devices	-	-	-	-	-	-	-	-
19	339	Other Plant and Miscellaneous Equipment	1,610,687	-	-	-	1,610,687	107,433	135,962	1,474,725
20	340	Office Furniture and Fixtures	247,269	23,090	-	-	270,359	17,263	45,958	224,401
21	341	Transportation Equipment	534,742	573	-	-	535,315	107,006	60,636	474,679
22	342	Stores Equipment	-	-	-	-	-	-	-	-
23	343	Tools and Work Equipment	145,814	3,551	-	-	149,365	7,379	34,981	114,384
24	344	Laboratory Equipment	-	-	-	-	-	-	25	(25)
25	345	Power Operated Equipment	-	-	-	-	-	-	-	-
26	346	Communications Equipment	39,105	-	-	-	39,105	3,910	883	38,222
27	347	Miscellaneous Equipment	83,748	22,794	-	-	106,542	9,514	31,898	74,644
28	348	Other Tangible Plant	34,063	-	-	-	34,063	3,406	5,322	28,741
29		Plant Held for Future Use	-	-	-	-	-	-	-	-
30										
31		RUCO Total Gross Water Plant in Service & Accumulated Depreciation	48,964,681	$ 2,096,109	$ (7,540)	$ -	$ 51,053,250	$ 1,760,466	$ 15,479,021	$ 35,574,229
32										
33		Company Gross Water Plant in Service & Accumulated Depreciation					51,020,714		15,473,834	
34										
35		RUCO Adjustment					32,536		$ 5,187	

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment 3

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-7
SURREBUTTAL TESTIMONY

Line No.			
1	OCRB Direct Plant - Remove Wells 8 & 9 - Out of Service		
2			
3	Company OCRB Direct Plant - Remove Wells 8 & 9 from Account 304	$	-
4	Company OCRB Direct Plant - Remove Wells 8 & 9 from Account 307		-
5	RUCO OCRB Direct Plant - Remove Wells 8 & 9 from Account 304		(596)
6	RUCO OCRB Direct Plant - Remove Wells 8 & 9 from Account 307		(106,816)
7	RUCO Adjustment		(107,412)
8			
9			
10	Increase (Decrease) to OCRB Direct Plant	$	(107,412)
11			
12			
13			
14	Company OCRB Direct Plant Accumulated Depreciation - A/C 304	$	-
15	Company OCRB Direct Plant Accumulated Depreciation - A/C 307		-
16	RUCO OCRB Direct Plant Accumulated Depreciation - A/C 304		(596)
17	RUCO OCRB Direct Plant Accumulated Depreciation - A/C 307		(106,816)
18	RUCO Adjustment		(107,412)
19			
20			
21	Increase (Decrease) to OCRB Accumulated Depreciation	$	(107,412)
22			
23			
24	Net Adjustment	$	-

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment 5

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-8
SURREBUTTAL TESTIMONY

Line No.		
1	OCRB Direct Plant - Remove Shea Water Treatment Plant 1 - Out of Service	
2		
3	Company OCRB Direct Plant - Account 320	$ 7,763,500
4	RUCO OCRB Direct Plant - Account 320	5,752,577
5	RUCO Adjustment	(2,010,923)
6		
7		
8	Increase (Decrease) to OCRB Direct Plant	$ (2,010,923)
9		
10		
11	Company OCRB Direct Plant Accumulated Depreciation - A/C 320	$ 2,099,307
12	RUCO OCRB Direct Plant Accumulated Depreciation - A/C 320	88,384
13	RUCO Adjustment	(2,010,923)
14		
15		
16	Increase (Decrease) to OCRB Accumulated Depreciation	$ (2,010,923)
17		
18		
19	Net Adjustment	0
20		
21		
22		
23		
24	SUPPORTING SCHEDULE	
25	rcn_plant_Remove Shea Water Treatment Plant 1.xls	
26	ocrb_plant_Remove Shea Water Treatment Plant 1.xls	

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment 6

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-9
SURREBUTTAL TESTIMONY

Line No.			
1	OCRB Direct Plant - Remove Expensed Items and Capitalize		
2			
3	RUCO OCRB Direct Plant - Account 304	$	11,590
4	RUCO OCRB Direct Plant - Account 311		26,084
5	RUCO OCRB Direct Plant - Account 339		43,217
6	RUCO Adjustment		80,891
7			
8	Increase (Decrease) to OCRB Direct Plant	$	80,891
9			
10			
11	Accept Company's Adjustment to Accumulated Depreciation		3,265
12			
13	Increase (Decrease) to OCRB Accumulated Depreciation	$	3,265
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJUSTMENT #10 - GENERAL OFFICE ALLOCATED PLANT
ORIGINAL COST

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-10
PAGE 1 of 2
SURREBUTTAL TESTIMONY

December 31, 2006

Line No.		General Office Plant Allocation - Plant-in-Service	Per Company Orig. Cost	4 Factor Allocation %	4 Factor Allocated Orig. Cost
1	301	Organization Cost	16,452	2.80%	461
2	302	Franchise Cost and Other Intangible Plant	1,089,237	2.80%	30,499
3	303	Land and Land Rights	-	2.80%	-
4	304	Structures and Improvements	5,802,813	2.80%	162,479
5	305	Collecting and Impounding Res.	-	2.80%	-
6	306	Lake River and Other Intakes	-	2.80%	-
7	307	Wells and Springs	-	2.80%	-
8	308	Infiltration Galleries and Tunnels	-	2.80%	-
9	309	Supply Mains	-	2.80%	-
10	310	Power Generation Equipment	-	2.80%	-
11	311	Electric Pumping Equipment	(916)	2.80%	(26)
12	320	Water Treatment Equipment	-	2.80%	-
13	330	Distribution Reservoirs & Standpipe	-	2.80%	-
14	331	Transmission and Distribution Mains	-	2.80%	-
15	333	Services	-	2.80%	-
16	334	Meters	-	2.80%	-
17	335	Hydrants	-	2.80%	-
18	336	Backflow Prevention Devices	-	2.80%	-
19	339	Other Plant and Miscellaneous Equipment	847,382	2.80%	23,727
20	340	Office Furniture and Fixtures	14,268,765	2.80%	399,525
21	341	Transportation Equipment	552,719	2.80%	15,476
22	342	Stores Equipment	-	2.80%	-
23	343	Tools and Work Equipment	405,643	2.80%	11,358
24	344	Laboratory Equipment	4,061	2.80%	114
25	345	Power Operated Equipment	249,261	2.80%	6,979
26	346	Communications Equipment	165,561	2.80%	4,636
27	347	Miscellaneous Equipment	-	2.80%	-
28	348	Other Tangible Plant	-	2.80%	-
29					
30		Company Requested Level of Total General Office Plant	$ 23,400,978		$ 655,227
31					
32		Less:			
33		RUCO OCRB Adjustment #11 - Remove Post Test Year Plant	551,208		
34					
35		RUCO Recommended Level of Total General Office Plant	$ 22,849,770		
36		4 Factor Allocation Factor	2.80%		
37					
38		RUCO Recommended Level of Allocated General Office Plant - See TJC-5	$ 639,794		
39					
40		Company Increase (Decrease) to General Office Plant-in-Service Allocation			$ 751,171
41		RUCO Increase (Decrease) to General Office Plant-in-Service Allocation			$ 655,227
42		RUCO Adjustment			$ (95,944)

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJUSTMENT #10 - ACCUMULATED DEPRECIATION
ORIGINAL COST

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-10
PAGE 2 of 2
SURREBUTTAL TESTIMONY

Line No.	General Office Plant Allocation - Accumulated Depreciation		RUCO Accumulated Depreciation	4 Factor Allocation %	Allocated Accumulated Depreciation
1	301	Organization Cost	3,046	2.80%	85
2	302	Franchise Cost and Other Intangible Plant	211,596	2.80%	5,925
3	303	Land and Land Rights	-	2.80%	-
4	304	Structures and Improvements	2,354,430	2.80%	65,924
5	305	Collecting and Impounding Res.	-	2.80%	-
6	306	Lake River and Other Intakes	-	2.80%	-
7	307	Wells and Springs	-	2.80%	-
8	308	Infiltration Galleries and Tunnels	-	2.80%	-
9	309	Supply Mains	-	2.80%	-
10	310	Power Generation Equipment	-	2.80%	-
11	311	Electric Pumping Equipment	-	2.80%	-
12	320	Water Treatment Equipment	-	2.80%	-
13	330	Distribution Reservoirs & Standpipe	-	2.80%	-
14	331	Transmission and Distribution Mains	-	2.80%	-
15	333	Services	-	2.80%	-
16	334	Meters	-	2.80%	-
17	335	Hydrants	-	2.80%	-
18	336	Backflow Prevention Devices	-	2.80%	-
19	339	Other Plant and Miscellaneous Equipment	162,569	2.80%	4,552
20	340	Office Furniture and Fixtures	8,664,647	2.80%	242,610
21	341	Transportation Equipment	552,718	2.80%	15,476
22	342	Stores Equipment	-	2.80%	-
23	343	Tools and Work Equipment	192,488	2.80%	5,390
24	344	Laboratory Equipment	4,062	2.80%	114
25	345	Power Operated Equipment	249,257	2.80%	6,979
26	346	Communications Equipment	165,561	2.80%	4,636
27	347	Miscellaneous Equipment	-	2.80%	-
28	348	Other Tangible Plant	-	2.80%	-
29			$ 12,560,374		$ 351,690
30					
31	Company Increase (Decrease) to General Office Accumulated Depreciation				$ 403,188
32	RUCO Increase (Decrease) to General Office Accumulated Depreciation				$ 351,690
33	RUCO Adjustment to General Office Accumulated Depreciation				$ (51,498)

Chaparral City Water Company
Test Year Ended December 31, 2006
OCRB Rate Base Proforma Adjustments
Adjustment 11

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-11
SURREBUTTAL TESTIMONY

Line No.		
1	OCRB General Office Plant - Remove Post Test Year Plant	
2		
3	Company OCRB 2007 Post Test Year Plant - Account 303	$ 159,087
4	Company OCRB 2007 Post Test Year Plant - Account 340	392,121
5		
6	Total Company Post Test Year - General Office Plant	551,208
7		
8	Chaparral General Office Plant Allocator	2.80%
9		
10	Increase (Decrease) to OCRB General Office Plant	$ (15,434)
11		
12		
13	Company OCRB GO Plant Accumulated Depreciation - A/C	$ 12,560,374
14	RUCO OCRB Direct Plant Accumulated Depreciation	12,560,374
15	RUCO Adjustment	-
16		
17	Chaparral General Office Plant Allocator	2.80%
18		
19		
20	Increase (Decrease) to Accumulated Depreciation	$ -
21		
22		
23	Net Adjustment	$ (15,434)
24		
25		

SUPPORTING SCHEDULE
rcn_go_plant_Remove PTY Plant Adj.xls

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment 14

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-12
SURREBUTTAL TESTIMONY

Line No.				
1	Computation of CIAC Balances			
2				
3	Balance at 12/31/2003 per Decision		$	273,476
4	Additions 2004			272,024
5	Balance at 12/31/2004			545,500
6	Additions 2005			405,152
7	Balance at 12/31/2005			950,652
8	Additions 2006			5,337,445
9	Balance at 12/31/2006		$	6,288,097
10				
11	Computation of Accumulated Amortization CIAC Balances (Half-year Convention)			
12				
13	Balance at 12/31/2003 per Decision		$	15,334
14	2004 Amortization at composite rate	2.500%		10,237
15	Balance at 12/31/2004			25,571
16	2005 Amortization at composite rate	2.500% (9 months)		14,026
17	2005 Amortization at composite rate	3.3588% (3 months)		6,282
18	Balance at 12/31/2005			45,879
19	2006 Amortization at composite rate	3.3588%		121,568
20	Balance at 12/31/2006		$	167,447
21				
22	A.A. Balance per Computation		$	167,447
23	Balance at End of Test Year			99,136
24	Adjustment to A.A. CIAC			68,311
25				
26				
27	Company Adjustment		$	69,834
28	RUCO Adjustment			68,311
29				
30				
31				
32	Increase (Decrease) to Contributions-in-aid, Net		$	1,523

Reference:
Line 17 and 19 utilizes amortization rate authorized in Decision No. 68176
per Bourassa Rebuttal Schedule C-2, page 2.

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE - RCND

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-13
SURREBUTTAL TESTIMONY

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED
1	PLANT IN SERVICE	$ 80,783,568	$ (3,143,549)	$ 77,640,019
2	ACCUMULATED DEPRECIATION	(25,894,686)	3,771,719	(22,122,967)
3	NET PLANT IN SERVICE	$ 54,888,882	$ 628,170	$ 55,517,052
4	CONSTRUCTION WORK IN PROGRESS (CWIP)	-	-	-
5	TOTAL NET PLANT	$ 54,888,882	$ 628,170	$ 55,517,052
	Less:			
6	ADVANCES IN AID OF CONSTRUCTION (AIAC)	(10,231,760)	109,513	(10,122,247)
7	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) - NET	(9,441,352)	(2,351)	(9,443,703)
8	CUSTOMER METER DEPOSITS	(819,845)	-	(819,845)
9	DEFERRED INCOME TAXES	(925,896)	-	(925,896)
10	INVESTMENT TAX CREDITS	-	-	-
11	SHARED GAIN ON WELL	(646,000)	(570,000)	(1,216,000)
	Plus:			
12	UNAMORTIZED DEBT ISSUANCE COSTS	424,010	-	424,010
13	WORKING CAPITAL	207,006	(100,122)	106,884
14	DEFERRED REGULATORY ASSETS	1,280,000	(1,280,000)	-
15	TOTAL RATE BASE	$ 34,735,045	$ (1,214,790)	$ 33,520,255

REFERENCES:
COLUMN (A): COMPANY SCHEDULE B-4 and B-4-A
COLUMN (B): SCHEDULE TJC-14, PAGES 1 and 2
COLUMN (C): COLUMN (A) + COLUMN (B)

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
SUMMARY OF RCND RATE BASE ADJUSTMENTS

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-14
PAGE 1 of 2
SURREBUTTAL TESTIMONY

LINE NO.	DESCRIPTION	(A) COMPANY PROPOSED	(B) ADJ #1	(C) ADJ #2	(D) ADJ #3	(E) ADJ #4	(F) ADJ #5	(G) ADJ #6	(H) ADJ #7	(I) ADJ #8
1	PLANT IN SERVICE	$80,783,568	$ (118)	$ (17,807)	$ (441,470)	$ -	$(3,262,891)	$ 80,891	$ -	
2	ACCUMULATED DEPRECIATION	(25,894,686)	(1)	4,411	441,470	-	3,262,891	(3,265)		-
3	NET PLANT IN SERVICE	$54,888,882	$ (119)	$ (13,396)	$ (0)	$ -	$ 0	$ 77,626	$ -	$ -
4	CONSTRUCTION WORK IN PROGRESS (CWIP)	-								
5	TOTAL NET PLANT	$54,888,882	$ (119)	$ (13,396)	$ (0)	$ -	$ 0	$ 77,626	$ -	$ -
	Less:									
6	ADVANCES IN AID OF CONSTRUCTION (AIAC)	(10,231,760)								
7	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) - NET	(9,441,352)								
8	CUSTOMER METER DEPOSITS	(819,845)		-		-				
9	DEFERRED INCOME TAXES	(925,896)		-		-				
10	INVESTMENT TAX CREDITS	-								
11	SHARED GAIN ON WELL	(646,000)								
	Plus:									
12	UNAMORTIZED DEBT ISSUANCE COSTS	424,010					-	-		
13	WORKING CAPITAL	207,006								
14	DEFERRED REGULATORY ASSETS	1,280,000								
15	TOTAL RATE BASE	$34,735,045	$ (119)	$ (13,396)	$ (0)	$ -	$ 0	$ 77,626	$ -	$ -

ADJUSTMENT #:	REFERENCE:
Adjustment #1: RCN Factor Rounding Adjustment	SCHEDULE TJC-16
Adjustment #2: Correct Account 304 Index Factors on 3 Line Items	SCHEDULE TJC-17
Adjustment #3: Remove Wells 8 & 9 from Plant-in-Service and Accumulated Depreciation	SCHEDULE TJC-18
Adjustment #4: Intentionally Left Blank	
Adjustment #5: Remove Shea Water Treatment Plant - Out of Service	SCHEDULE TJC-19
Adjustment #6: Remove Expensed Plant Items and Capitalize	SCHEDULE TJC-20
Adjustment #7: Intentionally Left Blank	
Adjustment #8: Intentionally Left Blank	

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
SUMMARY OF RCND RATE BASE ADJUSTMENTS

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-14
PAGE 2 of 2
SURREBUTTAL TESTIMONY

LINE NO.	DESCRIPTION	(J) ADJ #9	(K) ADJ #10	(L) ADJ #11	(M) ADJ #12	(N) ADJ #13	(O) ADJ #14	(P) ADJ #15	(Q) ADJ #16	(R) RUCO ADJUSTED
1	PLANT IN SERVICE		$ (126,720)	$ (15,434)	$ -	$ -	$ -	$ 640,000	$ -	$ 77,640,019
2	ACCUMULATED DEPRECIATION		67,617	(1,404)			-			(22,122,967)
3	NET PLANT IN SERVICE	$ -	$ (59,103)	$ (16,837)	$ -	$ -	$ -	$ 640,000	$ -	$ 55,517,052
4	CONSTRUCTION WORK IN PROGRESS (CWIP)									-
5	TOTAL NET PLANT	$ -	$ (59,103)	$ (16,837)	$ -	$ -	$ -	$ 640,000	$ -	$ 55,517,052
	Less:									
6	ADVANCES IN AID OF CONSTRUCTION (AIAC)					109,513				(10,122,247)
7	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) - NET						(2,351)			(9,443,703)
8	CUSTOMER METER DEPOSITS	-		-						(819,845)
9	DEFERRED INCOME TAXES	-		-						(925,896)
10	INVESTMENT TAX CREDITS									-
11	SHARED GAIN ON WELL				(570,000)					(1,216,000)
	Plus:									
12	UNAMORTIZED DEBT ISSUANCE COSTS				-	-		-	-	424,010
13	WORKING CAPITAL								(100,122)	106,884
14	DEFERRED REGULATORY ASSETS							(1,280,000)		-
15	TOTAL RATE BASE	$ -	$ (59,103)	$ (16,837)	$ (570,000)	$ 109,513	$ (2,351)	$ (640,000)	$ (100,122)	$ 33,520,255

ADJUSTMENT #:	REFERENCE:
Adjustment #9: Intentionally Left Blank	
Adjustment #10: Correct 4-Factor General Office Plant & Accumulated Depreciation Allocation Factor	SCHEDULE TJC-24, PAGES 1 and 2
Adjustment #11: Remove Post Test Year GO Plant in Account 303 & 340	SCHEDULE TJC-22
Adjustment #12: Well Settlement Proceeds	
Adjustment #13: AIAC RCN Factor Adjustment	SCHEDULE TJC-23
Adjustment #14: To correct CIAC amortization rate authorized in Decision No. 68176 per Bourassa Rebuttal Schedule C-2, page 2.	SCHEDULE TJC-24
Adjustment #15: To Remove Deferred Regulatory Asset - Additional CAP Allocation	SCHEDULE TJC-25

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #1 - TOTAL RCND UTILITY PLANT IN SERVICE (UPIS)
AND ACCUMULATED DEPRECIATION

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-15
SURREBUTTAL TESTIMONY

Total Chaparral City Water RCND UPIS:

Line No.	Description	Amount
1	Chaparral City Water Direct Plant Per Company	$ 79,791,440
2	Chaparral City Water Direct Plant Per RUCO	76,741,731
3	RUCO's Direct Plant Adjustment	$ (3,049,709)
4	Chaparral City Water General Office Plant Allocation Per Company	$ 992,128
5	Chaparral City Water General Office Plant Allocation Per RUCO	849,978
6	RUCO's General Office Plant Allocation Adjustment	$ (142,150)
7	Total Chaparral City Water Gross RCN UPIS Per Company	$ 80,783,568
8	Total Chaparral City Water Gross UPIS Per RUCO	77,591,709
9	Total RUCO Gross UPIS Adjustment	$ (3,191,859)

Total Chaparral City Water RCND Accumulated Depreciation:

10	Chaparral City Water Direct Plant Accumulated Depreciation Per Company	$ 25,365,293
11	Chaparral City Water Direct Plant Accumulated Depreciation Per RUCO	21,287,651
12	RUCO's Direct Plant Accumulated Depreciation Adjustment	(4,077,642)
13	Chaparral City Water General Office Allocation of Accumulated Depreciation Per Company	529,393
14	Chaparral City Water General Office Allocation of Accumulated Depreciation Per RUCO	463,180
15	RUCO's General Office Allocation of Accumulated Depreciation Adjustment	(66,213)
16	Total Chaparral City Water Accumulated Depreciation Per Company	25,894,686
17	Total Chaparral City Water Accumulated Depreciation Per RUCO	21,750,830
18	Total RUCO Accumulated Depreciation Adjustment	$ (4,143,856)
19	RUCO's Chaparral City Water Plant Adjustment - Net of Accumulated Depreciation	$ 951,996

Supporting Schedules:
\TJC-4(a)Schedules\Pages1-5\DirectPlant\AZ-CorpPlant\CentralDivisionPlant\
Regarding RUCO's Eastern Div. treatment see Company response to RUCO DR 2.06

Chaparral City Water Company
Test Year Ended December 31, 2006
RCND Rate Base Proforma Adjustments
Adjustment 1

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-16
SURREBUTTAL TESTIMONY

Line No.		
1	RCN Direct Plant - Rounding Adjustment	
2		
3	Company RCN Trended Direct Plant	$ 79,791,440
4	RUCO RCN Trended Direct Plant	79,791,322
5	RUCO Adjustment	(118)
6		
7		
8	Increase (Decrease) to RCN Direct Plant	$ (118)
9		
10		
11	Company RCN Trended Direct Plant Accumulated Depreciation	$ 24,502,143
12	RUCO RCN Trended Direct Plant Accumulated Depreciation	24,502,143
13	RUCO Adjustment	1
14		
15		
16	Increase (Decrease) to Accumulated Depreciation	$ 1
17		
18		
19	Net Adjustment	$ (119)
20		
21		
22		
23		
24	SUPPORTING SCHEDULE	
25	rcn_plant_correct_RCN Factor Rounding.xls	

Chaparral City Water Company
Test Year Ended December 31, 2006
RCND Rate Base Proforma Adjustments
Adjustment 2

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-17
SURREBUTTAL TESTIMONY

Line No.		
1	RCN Direct Plant - Correct Account 304 Index Factor	
2		
3	Company RCN Trended Direct Plant - Account 304	$ 1,965,394
4	RUCO RCN Trended Direct Plant - Account 304	1,947,587
5	RUCO Adjustment	(17,807)
6		
7		
8	Increase (Decrease) to RCN Direct Plant	$ (17,807)
9		
10		
11	Company RCN Trended Direct Plant Accumulated Depreciation - A/C 304	$ 486,810
12	RUCO RCN Trended Direct Plant Accumulated Depreciation - A/C 304	482,399
13	RUCO Adjustment	(4,411)
14		
15		
16	Increase (Decrease) to Accumulated Depreciation	$ (4,411)
17		
18		
19	Net Adjustment	$ (13,396)
20		
21		
22		
23		
24	SUPPORTING SCHEDULE	
25	rcn_plant_correct_Acct 304_Index.xls	

Chaparral City Water Company
Test Year Ended December 31, 2006
RCND Rate Base Proforma Adjustments
Adjustment 3

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-18
SURREBUTTAL TESTIMONY

Line No.			
1	RCN Direct Plant - Remove Wells 8 & 9 - Out of Service		
2			
3	Company RCN Trended Direct Plant - Wells 8 & 9 from Account 307	$	441,470
4	RUCO RCN Trended Direct Plant - Wells 8 & 9 from Account 307		-
5	RUCO Adjustment		(441,470)
6			
7			
8	Increase (Decrease) to RCN Direct Plant	$	(441,470)
9			
10			
11	Company RCN Trended Direct Plant Accumulated Depreciation - A/C 307	$	150,254
12	RUCO RCN Trended Direct Plant Accumulated Depreciation - A/C 307		(291,216)
13	RUCO Adjustment		(441,470)
14			
15			
16	Increase (Decrease) to Accumulated Depreciation	$	(441,470)
17			
18			
19	Net Adjustment	$	(0)
20			
21			
22			
23			
24	SUPPORTING SCHEDULE		
25	rcn_plant_Remove Well 8_9.xls		

Chaparral City Water Company
Test Year Ended December 31, 2006
RCN Rate Base Proforma Adjustments
Adjustment 5

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-19
SURREBUTTAL TESTIMONY

Line No.		
1	RCND Direct Plant - Remove Shea Water Treatment Plant 1 - Out of Service	
2		
3	Company RCN Direct Plant - Account 320	$ 9,969,130
4	RUCO RCN Direct Plant - Account 320	6,706,239
5	RUCO Adjustment	(3,262,891)
6		
7		
8	Increase (Decrease) to RCN Direct Plant	$ (3,262,891)
9		
10		
11	Company RCN Direct Plant Accumulated Depreciation - A/C 320	$ 2,695,725
12	RUCO RCN Direct Plant Accumulated Depreciation - A/C 320	(567,166)
13	RUCO Adjustment	(3,262,891)
14		
15		
16	Increase (Decrease) to Accumulated Depreciation	$ (3,262,891)
17		
18		
19	Net Adjustment	$ 0
20		
21		
22		
23		
24	SUPPORTING SCHEDULE	
25	rcn_plant_Remove Shea Water Treatment Plant 1.xls	

Chaparral City Water Company
Test Year Ended December 31, 2006
RCN Rate Base Proforma Adjustments
Adjustment 6

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-20
SURREBUTTAL TESTIMONY

Line No.			
1	RCRB Direct Plant - Remove Expensed Items and Capitalize		
2			
3	RUCO RCRB Direct Plant - Account 304	$	11,590
4	RUCO RCRB Direct Plant - Account 311		26,084
5	RUCO RCRB Direct Plant - Account 339		43,217
6	RUCO Adjustment		80,891
7			
8	Increase (Decrease) to RCRB Direct Plant	$	80,891
9			
10			
11	Accept Company's Adjustment to Accumulated Depreciation		3,265
12			
13	Increase (Decrease) to RCRB Accumulated Depreciation	$	3,265
14			
15			
16	Net Adjustment	$	77,626
17			
18			
19			
20			
21			
22			
23			
24	SUPPORTING SCHEDULE		
25	rcn_plant_Remove Expensed Items & Capitalize.xls		

Chaparral City Water Company
Test Year Ended December 31, 2006
RCND Rate Base Proforma Adjustments
Adjustment 10

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-21
PAGE 1 of 2
SURREBUTTAL TESTIMONY

Line No.					
1	General Office Plant Allocation - Plant-in-service		Company		RUCO 4 Factor
2			Trended	4 Factor	Allocated
3	NARUC	NARUC Description	RCN Value	Allocation %	Trended RCN
4	301	Organization Cost	16,452	2.80%	461
5	302	Franchise Cost and Other Intangible Plant	1,089,237	2.80%	30,499
6	303	Land and Land Rights	-	2.80%	-
7	304	Structures and Improvements	9,379,730	2.80%	262,632
8	305	Collecting and Impounding Res.	-	2.80%	-
9	306	Lake River and Other Intakes	-	2.80%	-
10	307	Wells and Springs	-	2.80%	-
11	308	Infiltration Galleries and Tunnels	-	2.80%	-
12	309	Supply Mains	-	2.80%	-
13	310	Power Generation Equipment	-	2.80%	-
14	311	Electric Pumping Equipment	(1,860)	2.80%	(52)
15	320	Water Treatment Equipment	-	2.80%	-
16	330	Distribution Reservoirs & Standpipe	-	2.80%	-
17	331	Transmission and Distribution Mains	-	2.80%	-
18	333	Services	-	2.80%	-
19	334	Meters	-	2.80%	-
20	335	Hydrants	-	2.80%	-
21	336	Backflow Prevention Devices	-	2.80%	-
22	339	Other Plant and Miscellaneous Equipment	1,055,403	2.80%	29,551
23	340	Office Furniture and Fixtures	17,188,237	2.80%	481,271
24	341	Transportation Equipment	606,575	2.80%	16,984
25	342	Stores Equipment	-	2.80%	-
26	343	Tools and Work Equipment	663,298	2.80%	18,572
27	344	Laboratory Equipment	15,358	2.80%	430
28	345	Power Operated Equipment	634,172	2.80%	17,757
29	346	Communications Equipment	260,818	2.80%	7,303
30	347	Miscellaneous Equipment	-	2.80%	-
31	348	Other Tangible Plant	-	2.80%	-
32					
33			$ 30,907,420		$ 865,408
34					
35					
36	Company Computed General Office Plant				$ 992,128
37	RUCO Computed General Office Plant				865,408
38					
39	Increase (Decrease) to Plant -in-service				(126,720)

SUPPORTING SCHEDULE
rcn_plant_correct_RCN Factor Rounding.xls

Chaparral City Water Company
Test Year Ended December 31, 2006
RCND Rate Base Proforma Adjustments
Adjustment 10

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-21
PAGE 2 of 2
SURREBUTTAL TESTIMONY

General Office Plant Allocation - Accumulated Depreciation

Line No.	NARUC	NARUC Description	Company Trended RCN Value Accum. Depr.	4 Factor Allocation %	4 Factor Allocated Trended RCN Accum. Depr.
6	301	Organization Cost	3,046	2.80%	85
7	302	Franchise Cost and Other Intangible Plant	211,596	2.80%	5,925
8	303	Land and Land Rights	-	2.80%	-
9	304	Structures and Improvements	3,805,726	2.80%	106,560
10	305	Collecting and Impounding Res.	-	2.80%	-
11	306	Lake River and Other Intakes	-	2.80%	-
12	307	Wells and Springs	-	2.80%	-
13	308	Infiltration Galleries and Tunnels	-	2.80%	-
14	309	Supply Mains	-	2.80%	-
15	310	Power Generation Equipment	-	2.80%	-
16	311	Electric Pumping Equipment	-	2.80%	-
17	320	Water Treatment Equipment	-	2.80%	-
18	330	Distribution Reservoirs & Standpipe	-	2.80%	-
19	331	Transmission and Distribution Mains	-	2.80%	-
20	333	Services	-	2.80%	-
21	334	Meters	-	2.80%	-
22	335	Hydrants	-	2.80%	-
23	336	Backflow Prevention Devices	-	2.80%	-
24	339	Other Plant and Miscellaneous Equipment	202,477	2.80%	5,669
25	340	Office Furniture and Fixtures	10,437,484	2.80%	292,250
26	341	Transportation Equipment	606,574	2.80%	16,984
27	342	Stores Equipment	-	2.80%	-
28	343	Tools and Work Equipment	314,752	2.80%	8,813
29	344	Laboratory Equipment	15,362	2.80%	430
30	345	Power Operated Equipment	634,162	2.80%	17,757
31	346	Communications Equipment	260,818	2.80%	7,303
32	347	Miscellaneous Equipment	-	2.80%	-
33	348	Other Tangible Plant	-	2.80%	-
35			$ 16,491,997		$ 461,776

37	Company Computed General Office Accumulated Depreciation	$ 529,393
38	RUCO Computed General Office Accumulated Depreciation	461,776
40	Increase (Decrease) to Accumulated Depreciation	$ (67,617)

Chaparral City Water Company
Test Year Ended December 31, 2006
RCND Rate Base Proforma Adjustments
Adjustment 11

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-22
SURREBUTTAL TESTIMONY

Line No.		
1	RCN General Office Plant - Remove Post Test Year Plant	
2		
3	Company RCN Trended 2007 Post Test Year Plant - Account 303	$ 159,087
4	Company RCN Trended 2007 Post Test Year Plant - Account 340	392,121
5		
6	Total Company Post Test Year - General Office Plant	551,208
7		
8	4-Factor Allocator	2.80%
9		
10	Increase (Decrease) to RCN General Office Plant	$ (15,434)
11		
12		
13	Company RCN Trended GO Plant Accumulated Depreciation	$ 16,491,997
14	RUCO RCN Trended Direct Plant Accumulated Depreciation	16,542,128
15	RUCO Adjustment	50,131
16		
17	Chaparral General Office Plant Allocator	2.80%
18		
19		
20	Increase (Decrease) to Accumulated Depreciation	$ 1,404
21		
22		
23	Net Adjustment	$ (16,837)
24		
25		

SUPPORTING SCHEDULE
rcn_go_plant_Remove PTY Plant Adj.xls

Chaparral City Water Company
Test Year Ended December 31, 2006
RCND Rate Base Proforma Adjustments
Adjustment 13

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-23
SURREBUTTAL TESTIMONY

Line No.		
1	RCN General Office Plant - Adjust AIAC RCN Factor Balance	
2		
3	Company RCN Trended AIAC Balance	$ (10,231,760)
4	RUCO RCN Trended AIAC Balance	(10,122,247)
5		
6	Difference in Accum. Depre. - Line 7 minus Line 4	(109,513)
7		
8		
9	Increase (Decrease) to RCN AIAC Balance	$ (109,513)
10		
11		
12		
13		
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16		
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SUPPORTING SCHEDULE
SCHEDULE TJC-2

Chaparral City Water Company
Test Year Ended December 31, 2006
RCN Rate Base Proforma Adjustments
Adjustment 14

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-24
SURREBUTTAL TESTIMONY

Line No.			
1	RCN Computation of CIAC Balance		
2			
3	Company CIAC Balance Per OCRB Schedule TJC-2	$	(6,119,129)
4			
5	RUCO CIAC Balance Per OCRB Schedule TJC-2		(6,120,652)
6			
7	Increase (Decrease) to OCRB CIAC Balance	$	1,523
8			
9	RUCO RCN CIAC Trended Factor		1.5437
10			
11	Increase (Decrease) to RCN CIAC Balance	$	2,351
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			
26			
27			
28			
29	Reference:		
30	SCHEDULE TJC-2		
31	Line 17 and 19 utilizes amortization rate authorized in Decision No. 68176		
32	per Bourassa Rebuttal Schedule C-2, page 2.		

Chaparral City Water Company
Test Year Ended December 31, 2006
RCND Rate Base Proforma Adjustments
Adjustment 15

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-25
SURREBUTTAL TESTIMONY

Line No.		
1	Remove Deferred Regulatory Asset and Place 1/2 in UPIS - Additional CAP Allocation	
2		
3	Company Deferred Regulatory Asset	$ 1,280,000
4		
5	RUCO Adjustment	(1,280,000)
6		
7	Increase (Decrease) to RCN Rate Base	$ (1,280,000)

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL ADJUSTMENT
WORKING CAPITAL ADJUSTMENT SUMMARY

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-26

SURREBUTTAL TESTIMONY

LINE NO.	DESCRIPTION	AMOUNT
1	Cash Working Capital per Company	$ -
2	Cash Working Capital per RUCO	(100,122)
3	RUCO Adjustment	(100,122)
4	Materials & Supplies Inventories per Company	$ 14,521
5	Materials & Supplies Inventories per RUCO	14,521
6	RUCO Adjustment	-
7	Prepayments per Company	$ 192,485
8	Prepayments per RUCO	192,485
9	RUCO Adjustment	-
10	Total Working Capital Adjustment	$ (100,122)

REFERENCES:
Lines 1, 4, and 7: Company Schedule B-1, Page 1
Line 2: See RUCO Schedule TJC-29, Page 2 of 14
Line 10: Line 3 + Line 6 + Line 9

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL ADJUSTMENT
LEAD/LAG CALCULATION

LINE NO.	DESCRIPTION	(A) EXPENSES PER COMPANY	(B) RUCO ADJUSTMENTS	(C) RUCO ADJUSTED EXPENSES	(D) RUCO (LEAD)/LAG DAYS	(E) RUCO $ DAYS
1	SALARIES and WAGES	$ 969,244	$ -	969,244 *	12.00	$ 11,630,928
2	PURCHASED WATER	831,656	(10,186)	821,470 *	(36.88)	(30,295,639)
3	PURCHASED POWER	602,982	11,619	614,601 *	35.05	21,544,177
4	CHEMICALS	127,457	-	127,457 *	(50.91)	(6,488,529)
5	REPAIRS & MAINTENANCE	104,609	(43,217)	61,392 *	30.00	1,841,760
6	OFFICE SUPPLIES & EXPENSE	19,800	-	19,800 *	22.70	449,550
7	OUTSIDE SERVICES	266,544	(109,049)	157,495 *	29.09	4,581,765
8	WATER TESTING	43,458	(17,820)	25,638 *	15.72	402,954
9	TRANSPORTATION EXPENSES	70,430	-	70,430 *	30.00	2,112,900
10	INSURANCE - GENERAL LIABILITY	(1,294)	-	(1,294) *	30.00	(38,820)
11	RENTS	-	-	- *	0.00	-
12	MISCELLANEOUS EXPENSE	1,259,948	38,164	1,298,112 *	30.00	38,943,360
13	TAXES OTHER THAN INCOME	47,873	-	47,873 *	75.62	3,620,156
14	PROPERTY TAXES	295,813	(77,724)	218,089 *	212.50	46,343,887
15	STATE INCOME TAXES	48,745	114,912	163,657 *	62.65	10,253,093
16	FEDERAL INCOME TAXES	221,275	521,525	742,800	37.50	27,854,986
17	INTEREST	367,737	(55,249)	312,488 *	90.00	28,123,944
18	TOTAL OPERATING EXPENSES	$ 5,276,277	$ 372,974	$ 5,649,251		$ 160,880,473
19	EXPENSE LAG				28.48	
20	REVENUE LAG				22.01	
21	NET LAG				(6.47)	
22	CASH WORKING CAPITAL	$ (100,122)				

NOTE
* RUCO RECOMMENDED LEVEL OF CASH WORKING CAPITAL EXPENSES

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
REVENUE LEAD/LAG ANALYSIS

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-26
PAGE 3 OF 15
SURREBUTTAL TESTIMONY

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
	SERVICE PERIOD									
LINE NO.	BEGINNING	ENDING	MID-POINT SERVICE PERIOD	BILL DATE	BILLING LAG	DUE DATE	PAY LAG	REVENUE LAG DAYS	AMOUNT OF BILL	RUCO $ DAYS
1	3/1/2006	3/31/2006	15.00	3/14/2006	-17.00	4/4/2006	21.00	19.00	$ 34.07	$ 647
2	3/1/2006	3/31/2006	15.00	3/21/2006	-10.00	4/11/2006	21.00	26.00	28.57	743
3	3/1/2006	3/31/2006	15.00	3/14/2006	-17.00	4/4/2006	21.00	19.00	25.82	491
4	3/1/2006	3/31/2006	15.00	3/22/2006	-9.00	4/12/2006	21.00	27.00	25.82	697
5	3/1/2006	3/31/2006	15.00	3/22/2006	-9.00	4/12/2006	21.00	27.00	25.82	697
6	3/1/2006	3/31/2006	15.00	3/20/2006	-11.00	4/10/2006	21.00	25.00	31.33	783
7	3/1/2006	3/31/2006	15.00	3/13/2006	-18.00	4/3/2006	21.00	18.00	52.24	940
8	3/1/2006	3/31/2006	15.00	3/13/2006	-18.00	4/3/2006	21.00	18.00	82.49	1,485
9	3/1/2006	3/31/2006	15.00	3/6/2006	-25.00	3/27/2006	21.00	11.00	52.24	575
10	3/1/2006	3/31/2006	15.00	3/14/2006	-17.00	4/4/2006	21.00	19.00	57.74	1,097
11	3/1/2006	3/31/2006	15.00	3/21/2006	-10.00	4/11/2006	21.00	26.00	41.22	1,072
12	3/1/2006	3/31/2006	15.00	3/3/2006	-28.00	3/24/2006	21.00	8.00	63.23	506
13	3/1/2006	3/31/2006	15.00	3/7/2006	-24.00	3/28/2006	21.00	12.00	41.22	495
14	3/1/2006	3/31/2006	15.00	3/15/2006	-16.00	4/5/2006	21.00	20.00	301.83	6,037
15	3/1/2006	3/31/2006	15.00	3/22/2006	-9.00	4/12/2006	21.00	27.00	549.86	14,846
16										
17									$ 1,414	$ 31,110
18										
19										
20	RUCO REVENUE LAG DAYS							22.01		

REFERENCES:
15 Chaparral City Water Bills

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
INTEREST EXPENSE (LEAD)/LAG ANALYSIS

		(A)	(B)	(C)	(D)	(E)	(F)	(G)
		SERVICE PERIOD						
LINE NO.	DESCRIPTION	BEGINNING	ENDING	MID-POINT SERVICE PERIOD	PAYMENT DATE	PAYMENT (LEAD)/LAG	PAYMENT AMOUNT	DOLLAR DAYS
1	Bond due 2007	1/1/2006	12/31/2006	7/2/2006	6/30/2006	(2.00)	1.75%	$ (0)
					12/31/2006	182.00	1.75%	3
2	Bond due 2011	1/1/2006	12/31/2006	7/2/2006	6/30/2006	(2.00)	7.28%	(0)
					12/31/2006	182.00	7.28%	13
3	Bond due 2022	1/1/2006	12/31/2006	7/2/2006	6/30/2006	(2.00)	33.58%	(1)
					12/31/2006	182.00	33.58%	61
4	Bond due 2022	1/1/2006	12/31/2006	7/2/2006	6/30/2006	(2.00)	7.39%	(0)
					12/31/2006	182.00	7.39%	13
5	TOTAL PAYMENTS & DOLLAR DAYS						100.00%	$ 90
6	INTEREST EXPENSE LAG DAYS							90.00

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
PROPERTY TAX LAG DAYS ANALYSIS

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-26
PAGE 5 OF 15
SURREBUTTAL TESTIMONY

	(A)	(B)	(C)	(D)	(E)
	SERVICE PERIOD				
LINE NO.	BEGINNING	ENDING	MID-POINT SERVICE PERIOD	DUE DATE	EXPENSE LAG DAYS
1	1/1/2005	12/31/2005	7/1/2005	10/31/2005	61.00
2				4/30/2006	151.50
3	TOTAL PROPERTY TAX LAG DAYS				212.50

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
CALCULATION OF FEDERAL INCOME TAX LAG

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-26
PAGE 6 OF 15
SURREBUTTAL TESTIMONY

LINE NO.	(A) PAYMENT DATE	-	(B) SERVICE PERIOD MIDPOINT	=	(C) (LEAD)/LAG DAYS	X	(D) PAYMENT AMOUNT	=	(E) DOLLAR DAYS
1	04/15/05		07/01/05		(77.00)		25.00%		(19.25)
2	06/15/05		07/01/05		(16.00)		25.00%		(4.00)
3	09/15/05		07/01/05		76.00		25.00%		19.00
4	12/15/05		07/01/05		167.00		25.00%		41.75
5	TOTALS						100.00%		37.50
6	INCOME TAX LAG				37.50				

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
CALCULATION OF STATE INCOME TAX LAG

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-26
PAGE 7 OF 15
SURREBUTTAL TESTIMONY

LINE NO.	(A) PAYMENT DATE	-	(B) SERVICE PERIOD MIDPOINT	=	(C) (LEAD)/LAG DAYS	X	(D) PAYMENT AMOUNT	=	(E) DOLLAR DAYS
1	04/15/99		07/01/99		(77.00)		22.50%		$ (17)
2	06/15/99		07/01/99		(16.00)		22.50%		(4)
3	09/15/99		07/01/99		76.00		22.50%		17
4	12/15/99		07/01/99		167.00		22.50%		38
5	04/15/00		07/01/99		289.00		10.00%		29
6	TOTALS						1.00		62.65
7	INCOME TAX LAG				62.65				

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
OUTSIDE SERVICES EXPENSE LEAD/LAG ANALYSIS

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-26
PAGE 8 OF 15
SURREBUTTAL TESTIMONY

		(A)	(B)	(C)	(D)	(E)	(F)	(G)
		SERVICE PERIOD						
LINE NO.	DESCRIPTION	BEGINNING	ENDING	MID-POINT SERVICE PERIOD	PAYMENT DATE	PAYMENT (LEAD)/LAG	PAYMENT AMOUNT	DOLLAR DAYS
1	TNT Technology Co.	12/18/2006	12/24/2006	12/21/2006	1/25/2007	35.00	$ 1,060	$ 37,100
2	NYE Tru Landscape	11/1/2005	11/30/2005	11/15/2005	12/30/2005	44.50	22,875	1,017,938
3	Quadna	2/6/2006	2/10/2006	2/8/2006	2/23/2006	15.00	35,433	531,495
4	TMV	5/1/2006	5/31/2006	5/16/2006	6/15/2006	30.00	500	15,000
5	Workplace Safety	9/23/2005	9/30/2005	9/26/2005	9/29/2005	2.50	244	610
6	Fennemore Craig	7/1/2006	7/31/2006	7/16/2006	8/21/2006	36.00	21,221	763,956
7	Total						$ 81,333	$ 2,366,099
8	Lead/Lag Days						29.09	

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
PURCHASED POWER EXPENSE LEAD/LAG ANALYSIS

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-26
PAGE 9 OF 15
SURREBUTTAL TESTIMONY

LINE NO.	DESCRIPTION		(A) SERVICE PERIOD BEGINNING	(B) SERVICE PERIOD ENDING	(C) MID-POINT SERVICE PERIOD	(D) PAYMENT DATE	(E) PAYMENT (LEAD)/LAG	(F) PAYMENT AMOUNT	(G) DOLLAR DAYS
	APS:								
1		Jan-08	12/11/2007	1/9/2008	12/25/2007	1/31/2008	36.50	$ 17,136.95	$ 625,499
2		Dec-07	11/8/2007	12/11/2007	11/24/2007	12/31/2007	36.50	22,160.38	808,854
3		Nov-07	10/10/2007	11/8/2007	10/24/2007	11/30/2007	36.50	29,886.99	1,090,875
4		Oct-07	9/11/2007	10/10/2007	9/25/2007	10/29/2007	33.50	30,158.30	1,010,303
5	Total							99,342.62	3,535,530.73
6	Lead/Lag Days							35.59	
	SRP:								
7		Dec-07			15.5	23.5	39.00	$ 18,238.75	$ 711,311
8		Oct-07			15	21	36.00	13,647.95	491,326
9		Sep-07			16.5	16.5	33.00	13,996.67	461,890
10		Aug-07			15	13	28.00	12,379.76	346,633
11	Total							$ 58,263.13	$ 2,011,161
12	Lead/Lag Days							34.52	
13	Average Lead/Lag Days							35.05	

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
CALCULATION OF STATE INCOME TAX LAG

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-26
PAGE 10 OF 15
SURREBUTTAL TESTIMONY

LINE NO.	(A) SERVICE PERIOD	(B) SERVICE PERIOD MIDPOINT	(C) PAY DATE	(D) LAG DAYS
1	14 Days	7 Days	5	12 Days

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
TAXES OTHER THAN INCOME

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-26
PAGE 11 OF 15
SURREBUTTAL TESTIMONY

LINE NO.	(A) SERVICE PERIOD	(B) SERVICE PERIOD MIDPOINT	(C) PAY DATE	(D) LAG DAYS
1	91.25 Days	45.62 Days	30	75.62

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
OFFICE SUPPLIES EXPENSE LEAD/LAG ANALYSIS

		(A)	(B)	(C)	(D)	(E)	(F)	(G)
		SERVICE PERIOD						
LINE NO.	DESCRIPTION	BEGINNING	ENDING	MID-POINT SERVICE PERIOD	PAYMENT DATE	PAYMENT (LEAD)/LAG	PAYMENT AMOUNT	DOLLAR DAYS
1	Ikon	11/8/2005	2/8/2006	12/24/2005	2/18/2006	56.00	$ 350.98	$ 19,655
2	Ikon	5/8/2006	8/8/2006	6/23/2006	8/18/2006	56.00	336.79	18,860
3	Ikon	8/8/2006	11/8/2006	9/23/2006	11/18/2006	56.00	382.83	21,438
4	Robertson Consulting	7/6/2006	7/24/2006	7/15/2006	7/24/2006	9.00	300.00	2,700
5	Robertson Consulting	8/25/2006	9/22/2006	9/8/2006	9/22/2006	14.00	725.89	10,162
6	Laser Pros	1/23/2006	1/26/2006	1/24/2006	1/26/2006	1.50	160.85	241
7	OPACS	1/9/2006	2/8/2006	1/24/2006	2/8/2006	15.00	395.01	5,925
8	Laser Pros	9/19/2006	9/20/2006	9/19/2006	9/20/2006	0.50	139.26	70
9	OPACS	1/20/2006	2/19/2006	2/4/2006	2/19/2006	15.00	460.07	6,901
10	OPACS	5/12/2006	6/11/2006	5/27/2006	6/11/2006	15.00	178.54	2,678
11	OPACS	7/28/2006	8/27/2006	8/12/2006	8/27/2006	15.00	309.78	4,647
12	OPACS	8/7/2006	9/6/2006	8/22/2006	9/6/2006	15.00	338.59	5,079
13	Pitney Bowes	8/24/2006	8/30/2006	8/27/2006	8/30/2006	3.00	189.99	570
14	OPACS	9/22/2006	10/22/2006	10/7/2006	10/22/2006	15.00	175.70	2,636
15	Network Supply Resource	9/12/2006	10/23/2006	10/2/2006	10/23/2006	20.50	298.00	6,109
5	Total						4,742.28	107,671.29
6	Lead/Lag Days						22.70	

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
WATER TESTING EXPENSE LEAD/LAG ANALYSIS

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-26
PAGE 13 OF 15
SURREBUTTAL TESTIMONY

		(A)	(B)	(C)	(D)	(E)	(F)	(G)
		SERVICE PERIOD						
LINE NO.	DESCRIPTION	BEGINNING	ENDING	MID-POINT SERVICE PERIOD	PAYMENT DATE	PAYMENT (LEAD)/LAG	PAYMENT AMOUNT	DOLLAR DAYS
1	Del Mar Analytical	6/15/2006	7/17/2006	7/1/2006	7/17/2006	16.00	$ 1,800.00	$ 28,800
2	Del Mar Analytical	2/28/2006	3/30/2006	3/15/2006	3/30/2006	15.00	1,800.00	27,000
3	Test America	8/14/2006	9/13/2006	8/29/2006	9/13/2006	15.00	4,450.56	66,758
4	Water Trax	1/17/2006	2/18/2006	2/2/2006	2/18/2006	16.00	4,205.62	67,290
5	MWH Laboratories	1/24/2006	3/1/2006	2/11/2006	3/1/2006	18.00	1,865.00	33,570
6	MWH Laboratories	1/24/2006	2/13/2006	2/3/2006	2/13/2006	10.00	130.00	1,300
7	Test America	8/14/2006	9/13/2006	8/29/2006	9/13/2006	15.00	1,020.00	15,300
5	Total						15,271.18	240,018.33
6	Lead/Lag Days						15.72	

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
CHEMICAL EXPENSE LEAD/LAG ANALYSIS

		(A)	(B)	(C)	(D)	(E)	(F)	(G)
		SERVICE PERIOD						
LINE NO.	DESCRIPTION	BEGINNING	ENDING	MID-POINT SERVICE PERIOD	PAYMENT DATE	PAYMENT (LEAD)/LAG	PAYMENT AMOUNT	DOLLAR DAYS
1	Hill Brothers	12/8/2005	1/9/2006	12/24/2005	1/7/2006	14.00	$ 1,513.00	$ 21,182
2	Hill Brothers	1/9/2006	1/19/2006	1/14/2006	2/8/2006	25.00	1,406.00	35,150
3	Hill Brothers	1/19/2006	2/2/2006	1/26/2006	2/18/2006	23.00	1,406.00	32,338
4	Hill Brothers	2/2/2006	2/13/2006	2/7/2006	3/1/2006	21.50	1,406.00	30,229
5	Hill Brothers	2/13/2006	2/24/2006	2/18/2006	3/12/2006	21.50	1,620.00	34,830
6	Hill Brothers	2/24/2006	3/8/2006	3/2/2006	3/23/2006	21.00	1,406.00	29,526
7	Hill Brothers	3/8/2006	3/24/2006	3/16/2006	4/7/2006	22.00	1,406.00	30,932
8	Hill Brothers	3/24/2006	4/6/2006	3/30/2006	4/23/2006	23.50	1,406.00	33,041
9	Hill Brothers	4/6/2006	4/17/2006	4/11/2006	5/5/2006	23.50	1,620.00	38,070
10	Hill Brothers	4/17/2006	5/3/2006	4/25/2006	5/16/2006	21.00	1,620.00	34,020
11	Hill Brothers	5/3/2006	5/10/2006	5/6/2006	6/2/2006	26.50	1,299.00	34,424
12	Hill Brothers	5/10/2006	5/17/2006	5/13/2006	6/9/2006	26.50	1,620.00	42,930
13	Hill Brothers	5/17/2006	5/31/2006	5/24/2006	6/16/2006	23.00	1,620.00	37,260
14	Hill Brothers	5/31/2006	6/6/2006	6/3/2006	6/30/2006	27.00	2,155.00	58,185
15	Hill Brothers	6/6/2006	6/14/2006	6/10/2006	7/5/2006	25.00	2,155.00	53,875
16	Hill Brothers	6/14/2006	6/23/2006	6/18/2006	7/13/2006	24.50	2,155.00	52,798
17	Hill Brothers	6/23/2006	6/30/2006	6/26/2006	7/22/2006	25.50	2,155.00	54,953
18	NTU Technologies	2/23/2006	8/3/2006	5/14/2006	3/22/2006	(53.50)	14,229.60	(761,284)
19	NTU Technologies	8/3/2006	12/14/2006	10/8/2006	9/2/2006	(36.50)	13,261.60	(484,048)
20	Thatcher	1/1/2006	12/31/2006	7/2/2006	1/31/2006	(152.00)	21,066.97	(3,202,179)
21	Engineered Sales	1/1/2006	12/31/2006	7/2/2006	1/31/2006	(152.00)	1,008.91	(153,354)
22	Total						77,535.08	(3,947,124.26)
23	Lead/Lag Days						(50.91)	

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
PURCHASED WATER EXPENSE LEAD/LAG ANALYSIS

		(A)	(B)	(C)	(D)	(E)	(F)	(G)
		SERVICE PERIOD						
LINE NO.	DESCRIPTION	BEGINNING	ENDING	MID-POINT SERVICE PERIOD	PAYMENT DATE	PAYMENT (LEAD)/LAG	PAYMENT AMOUNT	DOLLAR DAYS
1	CAP - Capital Charge #1	1/1/2008	6/30/2008	3/31/2008	11/20/2007	(132.50)	$ 73,269.00	$ (9,708,143)
2	CAP - M&I	1/1/2008	1/31/2008	1/16/2008	12/20/2007	(27.00)	54,061.58	(1,459,663)
3	CAP - M&I	2/1/2008	2/29/2008	2/15/2008	1/20/2008	(26.00)	54,061.58	(1,405,601)
4	CAP - M&I	3/1/2008	3/31/2008	3/16/2008	2/20/2008	(25.00)	54,061.58	(1,351,540)
5	CAP - M&I	4/1/2008	4/30/2008	4/15/2008	3/20/2008	(26.50)	27,286.58	(723,094)
6	CAP - Capital Charge #2	7/1/2008	12/31/2008	9/30/2008	5/20/2008	(133.50)	93,544.50	(12,488,191)
7	CAP - M&I	5/1/2008	5/31/2008	5/16/2008	4/20/2008	(26.00)	54,061.58	(1,405,601)
8	CAP - M&I	6/1/2008	6/30/2008	6/15/2008	5/20/2008	(26.50)	54,061.58	(1,432,632)
9	CAP - M&I	7/1/2008	7/31/2008	7/16/2008	6/20/2008	(26.00)	54,061.58	(1,405,601)
10	CAP - M&I	8/1/2008	8/31/2008	8/16/2008	7/20/2008	(27.00)	54,061.58	(1,459,663)
11	CAP - M&I	9/1/2008	9/30/2008	9/15/2008	8/20/2008	(26.50)	54,061.58	(1,432,632)
12	CAP - M&I	10/1/2008	10/31/2008	10/16/2008	9/20/2008	(26.00)	54,061.58	(1,405,601)
13	CAP - M&I	11/1/2008	11/30/2008	11/15/2008	10/20/2008	(26.50)	54,061.58	(1,432,632)
14	CAP - M&I	12/1/2008	12/31/2008	12/16/2008	11/20/2008	(26.00)	54,061.58	(1,405,601)
15	CAP - CAGRD	1/1/2007	12/31/2007	7/2/2007	10/15/2008	471.00	18,560.00	8,741,760
16	Total						807,337.46	(29,774,433.45)
17	Lead/Lag Days						(36.88)	

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING INCOME - TEST YEAR AND RUCO PROPOSED

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-27
SURREBUTTAL TESTIMONY

LINE NO.	DESCRIPTION	(A) COMPANY TEST YEAR AS FILED	(B) RUCO TEST YEAR ADJUSTMENTS	(C) RUCO TEST YEAR AS ADJUSTED	(D) RUCO PROPOSED CHANGES	(E) RUCO RECOMMENDED
	REVENUES - WATER:					
1	WATER REVENUES	$ 7,364,411	$ 58,310	$ 7,422,721	$ 1,144,478	$ 8,567,199
2	UNMETERED WATER REVENUES	-	-	-		-
3	OTHER WATER REVENUES	82,289	-	82,289		82,289
4	TOTAL REVENUES	$ 7,446,700	$ 58,310	$ 7,505,010	$ 1,144,478	$ 8,649,488
	OPERATING EXPENSES:					
5	SALARIES AND WAGES	$ 969,244	$ -	$ 969,244	$ -	$ 969,244
6	PURCHASED WATER	831,656	(10,186)	821,470	-	821,470
7	PURCHASED POWER	602,982	11,619	614,601		614,601
8	CHEMICALS	127,457	-	127,457		127,457
9	REPAIRS AND MAINTENANCE	104,609	(43,217)	61,392		61,392
10	OFFICE SUPPLIES AND EXPENSE	19,800	-	19,800		19,800
11	OUTSIDE SERVICES	266,544	(109,049)	157,495		157,495
12	WATER TESTING	43,458	(17,820)	25,638		25,638
13	RENTS	-	-	-		-
14	TRANSPORTATION EXPENSES	70,430	-	70,430		70,430
15	INSURANCE - GENERAL LIABILITY	(1,294)	-	(1,294)		(1,294)
16	INSURANCE - HEALTH AND LIFE	-	-	-		-
17	REG. COMMISSION EXP. - RATE CASE	144,871	(51,538)	93,333		93,333
18	MISCELLANEOUS EXPENSE	1,259,948	38,164	1,298,112		1,298,112
19	DEPRECIATION & AMORTIZATION EXP.	1,608,019	(67,021)	1,540,998		1,540,998
20	AMORT. OF GAIN ON WELL	(76,000)	-	(76,000)		(76,000)
21	AMORT. OF CAP	64,000	(64,000)	-		-
22	TAXES OTHER THAN INCOME	47,873	-	47,873		47,873
23	PROPERTY TAXES	295,813	(77,724)	218,089		218,089
24	INCOME TAXES	270,020	194,666	464,686	441,771	906,456
25	TOTAL OPERATING EXPENSES	$ 6,649,430	$ (196,106)	$ 6,453,324	$ 441,771	$ 6,895,094
26	UTILITY OPERATING INCOME	$ 797,270	$ 254,416	$ 1,051,686	$ 702,707	$ 1,754,393

REFERENCES:
COLUMN (A): CO. SCH. C-1
COLUMN (B): SCH. TJC-31
COLUMN (C): COLUMN (A) + COLUMN (B)
COLUMN (D): SCH. TJC-1, PAGE 1 OF 2
COLUMN (E): COLUMN (C) + COLUMN (D)

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
SUMMARY OF OPERATING ADJUSTMENTS

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-28
SURREBUTTAL TESTIMONY

LINE NO.	DESCRIPTION	(A) COMPANY PROPOSED	(B) ADJ. #1	(C) ADJ. #2	(D) ADJ. #3	(E) ADJ. #4	(F) ADJ. #5	(G) ADJ. #6	(H) ADJ. #7	(I) ADJ. #8	(J) ADJ. #9	(K) ADJ. #10	(L) ADJ. #11	(M) ADJ. #12	(N) RUCO ADJUSTED
	REVENUES - WATER:														
1	WATER REVENUES	$ 7,364,411	$ -	$ -	$ -	$ -	$ -	$ -	$ 58,310	$ -	$ -	$ -	$ -	$ -	$ 7,422,721
2	UNMETERED WATER REVENUES	-													
3	OTHER WATER REVENUES	82,289													82,289
4	TOTAL REVENUES	$ 7,446,700	$ -	$ -	$ -	$ -	$ -	$ -	$ 58,310	$ -	$ -	$ -	$ -	$ -	$ 7,505,010
	OPERATING EXPENSES:														
5	SALARIES AND WAGES	$ 969,244	$ -	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	969,244
6	PURCHASED WATER	831,656	-	-		-	(10,186)	-		-				-	821,470
7	PURCHASED POWER	602,982			-	-						11,619			614,601
8	CHEMICALS	127,457			-	-									127,457
9	REPAIRS AND MAINTENANCE	104,609						-		(43,217)					61,392
10	OFFICE SUPPLIES AND EXPENSE	19,800			-										19,800
11	OUTSIDE SERVICES	266,544	-					(71,000)		(38,049)			-		157,495
12	WATER TESTING	43,458	-	-	-						(17,820)		-		25,638
13	RENTS	-			-					-					-
14	TRANSPORTATION EXPENSES	70,430			-										70,430
15	INSURANCE - GENERAL LIABILITY	(1,294)			-										(1,294)
16	INSURANCE - HEALTH AND LIFE	-		-	-			-							-
17	REG. COMMISSION EXP. - RATE CA	144,871			-	(51,538)		-		-					93,333
18	MISCELLANEOUS EXPENSE	1,259,948	-	-	38,164								-		1,298,112
19	DEPRECIATION & AMORTIZATION E	1,608,019	(67,021)		-									-	1,540,998
20	AMORT. OF GAIN ON WELL	(76,000)			-									-	(76,000)
21	AMORT. OF CAP	64,000	-	-									(64,000)		-
22	TAXES OTHER THAN INCOME	47,873					-								47,873
23	PROPERTY TAXES	295,813		(77,724)											218,089
24	INCOME TAXES	270,020												194,666	464,686
25	TOTAL OPERATING EXPENSES	$ 6,649,430	$ (67,021)	$ (77,724)	$ 38,164	$ (51,538)	$ (10,186)	$ (71,000)	$ -	$ (81,266)	$ (17,820)	$ 11,619	$ (64,000)	$ 194,666	$ 6,453,324
26	UTILITY OPERATING INCOME	$ 797,270	$ 67,021	$ 77,724	$ (38,164)	$ 51,538	$ 10,186	$ 71,000	$ 58,310	$ 81,266	$ 17,820	$ (11,619)	$ 64,000	$ (194,666)	$ 1,051,686
		10.71%													

ADJUSTMENT #:	REFERENCE:
1. Depreciation & Amortization Expense	Schedule TJC-32
2. Property Tax Expense	Schedule TJC-33
3. Miscellaneous Expense	Schedule TJC-34
4. Rate Case Expense	Schedule TJC-35
5. Purchased Water	Schedule TJC-36
6. Outside Services	Schedule TJC-37

ADJUSTMENT #:	REFERENCE:
7. Revenue Annualization	Schedule TJC-38, pages 1 thru 31
8. Remove Expensed Plant Items and Capitalize	Schedule TJC-39
9. Water Testing Expense	Staff Testimony
10. Purchased Power	Schedule TJC-41
11. Remove CAP Amortization	Testimony of TJC
12. Income Taxes	Schedule TJC-43

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #1 - DEPRECIATION AND AMORTIZATION EXPENSE

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-29
SURREBUTTAL TESTIMONY

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	(A) ADJUSTED TEST YEAR BALANCE PER COMPANY	(B) RUCO ADJUSTMENTS	(C) RUCO ADJUSTED BALANCE	(D) COMPONENT DEPRECIATION RATES	(E) RUCO RECOMMENDED DEPRECIATION EXPENSE	
1	301	Organization Cost	-	$ -	$ -	0.00%	$ -	
2	302	Franchise Cost and Other Intangible Plant	-	-	-	0.00%	-	
3	303	Land and Land Rights	305,920	605,937	911,857	0.00%	-	
4	304	Structures and Improvements	1,518,648	10,994	1,529,642	3.33%	50,937	
5	305	Collecting and Impounding Res.	6,548	0	6,548	2.50%	164	
6	306	Lake River and Other Intakes	-	-	-	2.50%	-	
7	307	Wells and Springs	332,065	(107,412)	224,653	3.33%	7,481	
8	308	Infiltration Galleries and Tunnels	-	-	-	6.67%	-	
9	309	Supply Mains	-	-	-	2.00%	-	
10	310	Power Generation Equipment	-	-	-	5.00%	-	
11	311	Electric Pumping Equipment	1,506,908	0	1,506,908	12.50%	188,364	
12	320	Water Treatment Equipment	7,763,500	(2,010,923)	5,752,577	3.33%	191,561	
13	330	Distribution Reservoirs & Standpipe	8,170,420	6,547	8,176,967	2.22%	181,529	
14	331	Transmission and Distribution Mains	17,450,634	0	17,450,634	2.00%	349,013	
15	333	Services	7,389,930	(0)	7,389,930	3.33%	246,085	
16	334	Meters	2,725,673	(0)	2,725,673	8.33%	227,049	
17	335	Hydrants	1,171,633	(1)	1,171,633	2.00%	23,433	
18	336	Backflow Prevention Devices	-	-	-	6.67%	-	
19	339	Other Plant and Miscellaneous Equipment	1,610,687	149,760	1,760,447	6.67%	117,422	
20	340	Office Furniture and Fixtures	270,359	(1)	270,358	6.67%	18,033	
21	341	Transportation Equipment	535,315	0	535,315	20.00%	107,063	
22	342	Stores Equipment	-	-	-	4.00%	-	
23	343	Tools and Work Equipment	149,365	0	149,365	5.00%	7,468	
24	344	Laboratory Equipment	-	-	-	10.00%	-	
25	345	Power Operated Equipment	-	-	-	5.00%	-	
26	346	Communications Equipment	39,105	(0)	39,105	10.00%	3,910	
27	347	Miscellaneous Equipment	106,542	(106,542)	-	10.00%	-	
28	348	*Other Tangible Plant*	-	34,063	34,063	0.00%	-	
29								
30		TOTAL DIRECT PLANT IN SERVICE	$ 51,053,253	$ (1,417,576)	$ 49,635,677		$ 1,719,510	
31								
32								
33				Correct for	RUCO			
34		**General Office Plant Allocated**	**Per Company**	**4 Factor Alloc.**	**Adjusted**			
35	301	Organization Cost	528	(67)	461	0.00%	-	
36	302	Other Intangible Plant	-	26,044 *	26,044	0.00%	-	
37	304	Structures and Improvements	186,270	(23,791)	162,479	3.33%	5,411	
38	311	Electric Pumping Equipment	-	(26)	(26)	12.50%	(3)	
39	339	Other Plant and Miscellaneous Equipment	27,201	(3,474)	23,727	3.33%	790	
40	340	Office Furniture and Fixtures	458,027	(69,481) *	388,546	6.67%	25,916	
41	341	Transportation Equipment	17,742	(2,266)	15,476	20.00%	-	Fully Depreciated
42	343	Tools and Work Equipment	13,021	(1,663)	11,358	5.00%	568	
43	344	Laboratory Equipment	130	(17)	114	10.00%	11	
44	345	Power Operated Equipment	8,001	(1,022)	6,979	5.00%	-	Fully Depreciated
45	346	Communications Equipment	5,315	(679)	4,636	10.00%	-	Fully Depreciated
46								
47		TOTAL GENERAL OFFICE PLANT ALLOCATION	716,236		639,794		$ 32,693	
48								
49		Less: Amortization of Contributions - Year End Bal.	$ 6,288,097			3.3588% 1	$ (211,205)	
50								
51		Total Depreciation Expense					$ 1,540,998	
52								
53		Adjusted Test Year Depreciation Expense					$ 1,608,019	
54								
55		Increase (Decrease) in Depreciation Expense					$ (67,021)	
56								
57		Adjustment to Revenues and\or Expenses					$ (67,021)	

* Note: Column B, line 36 and 40 adjusts for both the 4 Factor Allocator (2.8%) and Removal of $159,087 and $392,121 of Post Test Year Plant in Account 303 and 340 respectively.
1 Amortization Rate approved in Commission Decision No. 68176.

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #2 - PROPERTY TAX EXPENSE

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-30
SURREBUTTAL TESTIMONY

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	REVENUES - 2004	$ 6,544,219	COMPANY SCHEDULE E-1
2	REVENUES - 2005	7,019,051	COMPANY SCHEDULE E-1
3	RUCO PROPOSED REVENUES	8,649,488	SCHEDULE TJC-30
4	TOTAL	$ 22,212,758	SUM LINES 1, 2, & 3
5	3 YEAR AVERAGE	$ 7,404,253	LINE 4/3 YEARS
6	MULTIPLIER FOR REVENUES (2 X LAST 3 YRS. AVERAGE REVENUE)	x 2	ADOR VALUATION FACTOR
7	REVENUES FOR FULL CASH VALUE	$ 14,808,505	LINE 5 X 2 (MULTIPLIER FOR REVENUES)
8	ADD: 10% OF CWIP BALANCE	$ -	COMPANY TRIAL BALANCE
9	LESS: NET BOOK VALUE OF VEHICLES	474,679	SCHEDULE TJC-6, PAGE 3 OF 3
10	FULL CASH VALUE	$ 14,333,826	LINE 7 + LINE 8 MINUS LINE 9
11	ASSESSMENT RATIO	22.0%	PER HOUSE BILL 2779
12	ASSESSED VALUE	$ 3,153,442	LINE 10 X LINE 11
13	PROPERTY TAX RATE	6.9159%	PER TAX BILLS
14	PROPERTY TAXES PAYABLE PER RUCO	$ 218,089	LINE 12 X LINE 13
15	PROPERTY TAXES PER COMPANY	295,813	PER COMPANY
16	RUCO ADJUSTMENT	$ (77,724)	LINE 14 MINUS LINE 15

Chaparral City Water Company
TEST YEAR ENDED DECEMBER 31, 2006
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 4

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-31
SURREBUTTAL TESTIMONY

Line No.		
1	Rate Case Expense	
2		
3	Estimated Rate Case Expense	$ 280,000
4	Unrecovered Rate Case Expense (Prior Case)[1]	$ -
5	Rate Case Expense	$ 280,000
6		
7	Estimated Amortization Period (in Years)	3.0
8		
9	Annual Rate Case Expense	$ 93,333
10		
11	Test Year Adjusted Rate Case Expense	$ 144,871
12		
13	Increase(decrease) Rate Case Expense	$ (51,538)
14		
15	Adjustment to Revenue and/or Expense	$ (51,538)
16		
17		
18	[1] Computation of Unrecovered Rate Case Amount	
19	Rate Case Expense	$ 285,000 [1]
20	Amortization Period (yrs)	4 [2]
21	Annual Amortization amount	$ 71,250 [3] = [1] divied by [2]
22	Amortization (years)	1.83 [4]
23	Total Amortization	$ 130,388 [5] = [4] times [3]
24	Remaining Unrecovered Rate Case Expense	$ 154,613 [6] = [1] minus [5]

Chaparral City Water Company
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 6

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-32
SURREBUTTAL TESTIMONY

Outside Services Expense

1	Weekly Charge	$ 3,500	
2	January 1, 2006 thru May 22, 2006	20.28571	Number of Weeks
3			
4	Increase(decrease) Miscellaneous Expense	$(71,000)	
5			
6	Adjustment to Revenue and/or Expense	$(71,000)	
7			
8			
9			

Chaparral City Water Company
Test Year Ended December 31, 2006
Operating Income & Expense Adjustments
Adjustment 8

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-33
SURREBUTTAL TESTIMONY

Line No.			
1	Remove Expensed Items and Capitalize		
2			
3	Per RUCO Outside Services	$	(11,590)
4	Per RUCO Outside Services		(26,084)
5	Per RUCO Repairs and Maintenance Expense		(43,217)
6	Per RUCO Late Filing Penalty		(45)
7	Per RUCO Outside Services		(330)
8	RUCO Adjustment		(81,266)
9			
10	Increase (Decrease) to Expenses	$	(81,266)
11			
12			
13	Adjustment to Revenue and/or Expense	$	(81,266)
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24	SUPPORTING SCHEDULE		
25	rcn_plant_Remove Expensed Items & Capitalize.xls		

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJUSTMENT 11 - REMOVE CAP AMORTIZATION

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-34
SURREBUTTAL TESTIMONY

See TJC Direct Testimony

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #12 - INCOME TAXES

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-35
SURREBUTTAL TESTIMONY

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
	FEDERAL INCOME TAXES:		
1	OPERATING INCOME BEFORE INCOME TAXES	$ 1,516,372	SCH. TJC-28
	LESS:		
2	ARIZONA STATE TAX	83,887	LINE 11
3	INTEREST EXPENSE	312,488	NOTE (a)
4	FEDERAL TAXABLE INCOME	$ 1,119,997	LINE 1 - LINES 2 & 3
5	FEDERAL INCOME TAX RATE	34.00%	TAX RATE
6	FEDERAL INCOME TAX EXPENSE	$ 380,799	LINE 4 X LINE 5
	STATE INCOME TAXES:		
7	OPERATING INCOME BEFORE INCOME TAXES	$ 1,516,372	LINE 1
	LESS:		
8	INTEREST EXPENSE	312,488	NOTE (A)
9	STATE TAXABLE INCOME	$ 1,203,884	LINE 7 - LINE 8
10	STATE TAX RATE	6.968%	TAX RATE
11	STATE INCOME TAX EXPENSE	$ 83,887	LINE 9 X LINE 10
12	TOTAL INCOME TAX PER RUCO	464,686	LINE 6 + 11
13	INCOME TAXES PER COMPANY FILING	270,020	COMPANY SCHEDULE C-1
14	RUCO INCOME TAX ADJUSTMENT	$ 194,666	

NOTE (a):
INTEREST SYCHRONIZATION

ADJUSTED RATE BASE	$ 27,498,329
WEIGHTED COST OF DEBT	1.14%
	$ 312,488

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
COST OF CAPITAL

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-36
SURREBUTTAL TESTIMONY

OCRB WEIGHTED COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) AMOUNT	(B) RUCO ADJUSTMENT	(C) ADJUSTED BALANCE	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST
1	SHORT-TERM DEBT	$ 1,400,000		$ 1,400,000	4.10%	2.71%	0.11%
2	LONG-TERM DEBT	6,865,000	(280,000)	6,585,000	19.20%	5.34%	1.03%
3	COMMON EQUITY	27,002,476	(640,000)	26,362,476	76.80%	8.83%	6.78%
4	TOTAL CAPITALIZATION	$ 35,267,476	$ (920,000)	$ 34,347,476	100.10%		
5	**OCRB WEIGHTED COST OF CAPITAL**						7.92%

FVRB WEIGHTED COST OF CAPITAL

	DESCRIPTION	(A) AMOUNT	(B) RUCO ADJUSTMENT	(C) ADJUSTED BALANCE	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST
6	SHORT-TERM DEBT	$ 1,400,000		$ 1,400,000	4.10%	2.71%	0.11%
7	LONG-TERM DEBT	6,865,000	(280,000)	6,585,000	19.20%	5.34%	1.03%
8	COMMON EQUITY	27,002,476	(640,000)	26,362,476	76.80%	6.83%	5.25%
9	TOTAL CAPITALIZATION	$ 35,267,476	$ (920,000)	$ 34,347,476	100.10%		
10	**FVRB WEIGHTED COST OF CAPITAL**						6.38%

REFERENCES:
COLUMN (A): COMPANY SCH. D - 1
COLUMN (B): TESTIMONY, WAR
COLUMN (C): COLUMN (A) + COLUMN (B)
COLUMN (D): COLUMN (C) ÷ COLUMN (C), LINE 5
COLUMN (E): TESTIMONY, WAR
COLUMN (F): COLUMN (D) x COLUMN (E)

21

ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MARC SPITZER, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES

Arizona Corporation Commission
DOCKETED
MAR 1 9 2004
DOCKETED BY

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS EASTERN GROUP AND FOR CERTAIN RELATED APPROVALS.

DOCKET NO. W-01445A-02-0619

DECISION NO. 66849

OPINION AND ORDER

DATES OF HEARING: March 31, 2003 and September 17, 2003 (pre-hearings), September 22, 23, 24, 25 and 26, 2003, December 8, 2003 (oral argument)

PLACE OF HEARING: Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE: Dwight D. Nodes

IN ATTENDANCE: Mike Gleason, Commissioner

APPEARANCES:

Mr. Jay Shapiro and Mr. Norman James, FENNEMORE CRAIG, on behalf of Arizona Water Company;

Mr. Daniel Pozefsky on behalf of the Residential Utility Consumer Office;

Ms. Kay Bigelow, City Attorney, on behalf of the City of Casa Grande;

Mr. Robert Skiba, in propria persona; and

Mr. Timothy J. Sabo and Mr. Gary Horton, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

Arizona Corporation Commission
DOCKETED
MAR 1 9 2004
DOCKETED BY

BY THE COMMISSION:

I. INTRODUCTION

On August 14, 2002, Arizona Water Company ("Arizona Water," "Company" or Applicant") filed an application with the Arizona Corporation Commission ("Commission") for a rate increase for the Company's Eastern Group systems. Arizona Water supplies water to approximately 60,000 customers in eight Arizona counties under 18 separate water systems. The rate applic[illegible] filed in

EXHIBIT
R-2
admin notice

this docket involves only the Company's Eastern Group, which serves approximately 29,000 customers in the Apache Junction, Bisbee, Miami, Oracle, San Manuel, Sierra Vista, Superior, and Winkelman systems.

Arizona Water's current rates and charges for the Eastern Group were authorized in Decision No. 58120 (December 23, 1992), and became effective January 1, 1993. The service charges were later modified in Decision No. 60512 (December 3, 1997). The Company's purchased power adjustor mechanisms ("PPAMs") were changed in Decision No. 58293 (May 19, 1993) and Decision No. 62755 (July 25, 2000). The Monitoring Assistance Program ("MAP") surcharge was established in Decision No. 62141 (December 14, 1999).

The Commission's Utilities Division Staff ("Staff") filed a letter of insufficiency on September 13, 2002. Following supplementation by Arizona Water, the application was found sufficient on October 11, 2002. On October 23, 2002, a Rate Case Procedural Order was issued setting this matter for hearing on June 23, 2003.

On February 27, 2003, Staff filed a Motion to Continue all Procedural Deadlines, Continue Hearing, and for Tolling of the Rate Case Time Clock. Staff sought additional time to permit an analysis of the Company's request for inclusion of post-test year plant for the 12 months following the end of the December 31, 2001 test year. During oral argument on the Motion, Arizona Water indicated that it would agree to the extension of time to allow analysis of post-test year plant if the only alternative was to forego consideration of such plant additions. A Second Rate Case Procedural Order was issued on March 14, 2003 setting a revised hearing date of September 22, 2003. Accordingly, the time clock for a final Commission decision was extended.

Intervention was granted to the Residential Utility Consumer Office ("RUCO"), Superstition Mountain, LLC, and Mr. Robert Skiba. Arizona Water, Staff, RUCO, and Mr. Skiba filed testimony supporting their respective positions in this proceeding. By agreement, Mr. Skiba's testimony was entered into the public comment section of the docket. Public comment hearings were conducted by Commissioners on August 18, 2003 in San Manuel, on August 19, 2003 in Bisbee, and on August 28, 2003 in Apache Junction. Evidentiary hearings were conducted in Phoenix on September 22, 23, 24, 25, and 26, 2003. Closing briefs were filed on October 31, 2003 and reply briefs were filed on

November 10, 2003. An oral argument was held on December 8, 2003.

A. **Rate Application**

According to the Company's revised schedules, in the test year ended December 31, 2001, Arizona Water's Eastern Group had adjusted operating income of $1,969,034 on an adjusted original cost rate base of $39,123,198, a 5.03 percent rate of return. Arizona Water requests a revenue increase of $4,303,552, for an 11.00 percent rate of return on its proposed original cost rate base of $39,123,198. The Company's request would increase revenue by approximately 26.01 percent for the Eastern Group.

II. RATE BASE

A. **Plant in Service and Post-Test Year Plant Additions**

Arizona Water proposes a revised Eastern Group fair value rate base of $39,123,198 (Ex. A-13, at SLH-RJ2, p.1; Ex. A-19). The Company's rate base proposal includes recommended gross and net plant in service of $84,722,378 and $66,477,550, respectively, for the Eastern Group (Ex. A-19). Although the amount of gross plant in service is no longer in dispute between the Company and Staff (Tr. 982-983), there continues to be disagreement regarding net plant in service due to Staff's proposed adjustments to accumulated depreciation. There is also disagreement between Arizona Water and RUCO due to RUCO's position that actual cost information should be used for considering post-test year plant in service additions.

As indicated above, the hearing and time clock in this proceeding were extended to enable Staff and RUCO the opportunity to analyze Arizona Water's post-test year plant additions. Based on Commission precedent, including Arizona Water's Northern Group rate case (Decision No. 64282), Staff agrees that post-test year plant additions for up to one year may be included in rate base. The Company seeks $3,349,416 for post-test year plant to be included in this proceeding, based on plant that was in service prior to December 31, 2002 (Tr. 736-740; 983).

RUCO recognizes that the Commission has in the past allowed post-test year plant to be included and recommends that, if the Commission follows that precedent in this case, it should also consider the actual matching of post-test year expenses, revenues, and rate base elements including plant additions financed by contributions in aid of construction ("CIAC") and advances in aid of

construction ("AIAC") (Tr. 724-725). RUCO points out that this proceeding is unique in that the extension of the hearing date granted by the Commission allowed RUCO time to obtain and analyze the Company's "actual" 2002 operating results (RUCO Ex. 3, at 16). Thus, unlike most rate cases where pro forma adjustments must be made, RUCO contends that the actual known and measurable information should be used.

Arizona Water argues that RUCO's proposal would result in a "projected" test year. According to the Company, RUCO's recommendation is simply an attack on the Commission's policy of including post-test year plant as long as the plant is revenue neutral (*i.e.*, intended to provide service to customers existing at the end of the test year) and the plant is completed and placed in service a reasonable time before the hearing so that the plant can be inspected and audited. *See, e.g.*, *Bella Vista Water Co.*, Decision No. 65350 (November 1, 2002); *Paradise Valley Water Co.*, Decision No. 61831 (July 20, 1999); *Far West Water Co.*, Decision No. 60437 (September 29, 1997). The Commission also granted inclusion of 12 months of post-test year plant in Arizona Water's most recent rate case involving the Company's Northern Group systems. Decision No. 64282 (December 28, 2001), at 2-5.

The Commission's rules require that the test year selected by a rate applicant for determining rate base, operating income, and rate of return to be "the most recent practical date available prior to the filing." A.A.C. R-14-2-103(A)(3)(p). However, the Commission has in the past allowed consideration of known and measurable post-test year data, generally for no more than 12 months after the end of the test year. Decision No. 64282, at 5. Although RUCO contends that adoption of the Company's position would result in a mismatch (because it claims post-test year plant was financed with CIAC), Company witness Hubbard testified that RUCO's contention is inaccurate (Ex. A-13, at 18-19). According to Ms. Hubbard, Arizona Water did not include any post-test year additions that constitute CIAC or AIAC and, therefore, it would be improper to accept RUCO's attempt to manipulate the Company's rate base by including post-test year CIAC, AIAC, accumulated depreciation, and deferred taxes, because those items are not related to Arizona Water's post-test year plant additions (Id.; Ex. SLH-RJ6). Ms. Hubbard testified that this information was provided to RUCO through a data request response prior to the beginning of the hearing (Id.).

We agree with Arizona Water that the evidence does not support RUCO's contention that post-test year plant was financed by CIAC or AIAC. RUCO's witness conceded that the so-called "matching principle" proposal in this case is similar to the approach advocated by RUCO in the Company's Northern Group case, which was rejected by the Commission (Tr. 748-749). In this proceeding, Arizona Water and Staff recommend using the formula adopted by the Commission in prior cases whereby the historical test year is adjusted by pro forma annualization and normalization adjustments for known and measurable changes subsequent to the test year. Contrary to RUCO's claims, we do not believe adoption of this method would result in a mismatch because the post-test year plant additions are revenue neutral (i.e., not funded by CIAC or AIAC). Rather, the pro forma adjustments related to post-test year plant additions, including appropriate adjustments for accumulated depreciation (see discussion below) and depreciation expense, will recognize the post-test year plant as if it were in service as of the end of the test year. Consistent with our treatment of post-test year plant in prior cases, including Arizona Water's most recent Northern Group proceeding, we decline to accept RUCO's arguments in this case.

1. Accumulated Depreciation

In calculating accumulated depreciation, Arizona Water uses the "half-year convention" of depreciation. Under this convention, plant additions during the year are assumed to be made on June 30 or July 1, resulting in a half-year's depreciation in the first year and a half-year's depreciation in the year the plant is retired (Ex. A-11, at 10). This convention was approved in the Company's last rate case for the Eastern Group systems (Decision No. 58120, at 5-6). In this case, Arizona Water followed the half-year convention on its books but seeks recovery of a full 12 months of depreciation for ratemaking purposes. The Company claims that this pro forma adjustment ensures proper matching of the amount added to the accumulated depreciation balance and the amount of depreciation expense to be recovered in rates (Ex. A-11, at 31-32). Arizona Water argues that its pro forma depreciation adjustments properly recognize the known and measurable change in test year operating expense levels that will result from additional depreciation on plant not previously included in test year depreciation expense. As a result, the Company contends that its pro forma depreciation expense adjustments and corresponding adjustments to the accumulated depreciation are identical.

According to Company witness Sheryl Hubbard, Arizona Water's pro forma adjustment to plant in service for non-revenue producing post-test year plant is merely an attempt to enable the Company an opportunity to earn a fair rate of return on investments to serve test year-end customers (Ex. A-12, at 6). Ms. Hubbard stated that if an additional year of depreciation is used to reduce the Company's rate base, its ability to earn a return on the post-test year additions is diminished (Id.).

Staff's recommendation is that the level of accumulated depreciation should be updated to the end of 2002 to reflect the addition of post-test year plant. Staff witness Ron Ludders testified that because rate base is determined at a given point in time, related accounts including depreciation should be treated in a comparable manner (Tr. 985-987). He indicated that failure to match the plant and accumulated depreciation dates will result in an overstatement of plant in service. He claims that the Company's recommendation violates its half-year convention.

Consistent with our decision in Arizona Water's Northern Group case (Decision No. 64282), we agree with Staff that it is appropriate to reflect an additional year in the depreciated accumulation balance because the Company included an additional year of plant beyond the test year (Tr. 985-986). As we stated in Decision No. 64282, "it is necessary to reconcile the accumulated depreciation with the same cut-off date as was used for the post-test year plant" (*Id.* at 6). We agree with Staff that Arizona Water's proposal would create a mismatch by measuring rate base and accumulated depreciation at different points in time. Absent reconciliation between accumulated depreciation and test year plant, the Company's shareholders will realize a windfall at the expense of ratepayers. We will therefore adopt Staff's accumulated depreciation recommendation.

2. Working Capital

Arizona Water is seeking a total working capital allowance of $923,871 for its Eastern Group consisting of cash working capital, materials and supplies inventory, required bank balances, and prepayments and special deposits (Ex. A-14). Only the cash working capital component is disputed in this proceeding. The Company points out that the cash working capital component is generally determined by one of three methods: 1) a lead/lag study measuring the amount of time before expenses must be paid compared with the amount of time before revenues are received; 2) the formula method based on one-eighth of a company's annual operating and maintenance expenses; or

3) a balance sheet method which represents the difference between a utility company's current assets and liabilities.

As we stated in the Company's Northern Group case, the lead/lag methodology is generally more accurate than the formula method and is the appropriate method for a utility the size of Arizona Water (Decision No. 64282, at 7). In this proceeding, the parties do not dispute that lead/lag is the appropriate method to be used for determining cash working capital. There remains a dispute between the Company and Staff regarding the proper number of lag days to be used for calculating the property tax component of the working capital allowance. Arizona Water and RUCO also disagree regarding calculation of the income tax component of working capital. These disputed issues are addressed below.

a. Property Tax Component

The lead/lag method utilized by all parties in this case requires a calculation of the lead days or lag days that exist between the time an expense is due and paid (Ex. A-12, at 9; Ex. A-13, at 7). The dispute between Arizona Water and Staff relates to the appropriate number of lag days used to determine the property tax component of the working capital allowance. Arizona Water proposes using an average of 212 lag days[1], while Staff contends that a lag period of 532 days is appropriate (Tr. 497, 1011, 1022).

The lag day dispute centers on the interpretation of when the Company's property taxes are assessed. Ms. Hubbard explained that although the Arizona Department of Revenue ("ADOR") prepares a notice of valuation one year prior to any given tax year, the actual assessment of property taxes occurs during the tax year through issuance of county tax bills (Tr. 396; Ex. A-21; Ex. A-13, at SLH-RJ7). The Company argues that the notice of valuation from ADOR represents a preliminary indication of the value of property subject to taxation, but does not establish an amount of the Company's tax liability. Arizona Water claims that ADOR never assesses property tax liability but, instead, simply values the utility's property, and that valuation remains subject to challenge. Ms. Hubbard stated that the first property tax payment is due in October of the tax year and the second

[1] RUCO also proposes using 212 lag days.

payment is due in March of the following year (Ex. A-13, at 7-8). Thus, the Company contends that the average of 212 lag days should be utilized for determining the property tax component of working capital (Ex. A-21).

In support of its 532 lag day recommendation, Staff claims that the appropriate starting point is the time that Arizona Water receives its valuation notice from ADOR, rather than the date that the Company receives its property tax bill. According to Staff witness Ludders, Arizona Water accrues property taxes on its books once it receives the valuation notice from ADOR. Staff asserts that although the amount of tax due is not listed on the valuation notice, the property tax liability can be calculated from the valuation notice. Mr. Ludders analogizes the valuation liability to a credit card debt that exists once an item is charged, although payments of the charges are not due at that time (Tr. 1012). Mr. Ludders conceded that the Commission used a 212 day lag period in the Northern Group case, but he claims that the Commission likely did not understand that the current ADOR valuation methodology was already in effect at that time (Tr. 1025-1026). Mr. Ludders also testified that Staff's understanding of the ADOR valuation methodology has improved based on conversations with ADOR since the Northern Group case was decided (Id. at 1104).

We agree with the Company and RUCO that 212 days is the appropriate lag period for calculating the property tax component for cash working capital. There has not been any substantive change in the valuation or assessment methodology by state or county entities since the Northern Group proceeding where we adopted 212 lag days for this issue. As the Company points out, the valuation notice from ADOR is useful only for determining a value of the property for which property taxes are to be assessed. That valuation does not, however, obligate the Company to pay any specific amount at that time; nor does the valuation even indicate how much is due since that determination is made subsequently by the individual county in which the property is located. We therefore adopt 212 lag days for calculating the property tax component of working capital.

b. Income Tax Lag Days

Arizona Water records its federal and state income tax liability on a monthly basis, although the Company pays 90 percent of that income tax liability on a quarterly basis (Ex. A-13, at 20). RUCO claims that the Company incorrectly used an income tax lag of 2.52 days rather than 61.95

days. RUCO witness Coley stated that, because the Internal Revenue Service requires quarterly payment of taxes rather than monthly, the Company's monthly payment calculation should be increased to reflect a longer lag period (RUCO Ex. 5, at 26-27).

Company witness Hubbard disputes RUCO's argument. She contends that the lead/lag methodology requires a calculation of the lead days or lag days that exist between the time an expense is recorded and the payment of such expenses. Ms. Hubbard claims that the Company's calculation of the lag associated with the payment of federal income taxes recognizes the lag reflected by quarterly payment of 90 percent of the liability, as well as the lag associated with the payment of the remaining ten percent of the liability made in March of the subsequent year. According to Ms. Hubbard, RUCO's calculation of 61.95 days is based on the incorrect assumption that payments are made annually.

Based on Company witness Hubbard's testimony, we will adopt 2.52 lag days for determining the income tax component of cash working capital. As Ms. Hubbard explained, it appears that RUCO's calculation relies on the erroneous assumption that income tax payments are made on an annual basis. Since the Company records the tax liability on a monthly basis, but pays 90 percent of the liability on a quarterly basis, we will adopt Arizona Water's calculation of 2.52 lag days.

B. <u>Deferred CAP M&I Capital Charges</u>

In this proceeding, Arizona Water seeks to reduce significantly the currently authorized amortization period, from 44 years to 3 years, for recovery of Central Arizona Project ("CAP") Municipal and Industrial ("M&I") capital charges. Ms. Hubbard testified that pursuant to the Company's 1985 contract with the United States Bureau of Reclamation and the Central Arizona Water Conservation District ("CAWCD"), Arizona Water purchases CAP water for use in its Apache Junction system (Ex. A-11, at 10). At the time of the Company's last rate case involving the Eastern Group systems (Decision No. 58120), Arizona Water was taking only limited deliveries of CAP water for delivery to potable water customers in Apache Junction. In that Decision, the Commission authorized Arizona Water to defer its pre-1991 CAP M&I capital charges over a 44-year period (Tr. 448-449). Since that time, the Company began taking increased deliveries of CAP water for both potable and non-potable uses, and the CAP M&I charges have continued to be deferred for future

recovery in a rate case. In this case, the Company seeks recovery of $691,522 in rate base for the deferred CAP M&I capital charges (Ex. A-13, at Ex. SLH-RJ2, p. 1 of 9)[2].

The disputed issue raised by both Staff and RUCO is the Company's request to recover the CAP M&I charges based on a 3-year amortization period, rather than the currently authorized 44-year period. The Company's 3-year amortization proposal is based on the expected interval between this proceeding and the next rate case involving the Apache Junction system (Ex. A-11, at 12). RUCO recommends a 10-year amortization period based on the period of time over which Arizona Water has been deferring CAP M&I charges since the last rate case (RUCO Ex. 3, at 27). Staff recommends a 32-year amortization period based on the remaining life of the CAP contract (Tr. 1033). According to Staff witness Ludders, the 32-year remaining life amortization is appropriate because it is consistent with Generally Accepted Accounting Principles ("GAAP"), because the CAP contract provides a future benefit to the Company and it is based on the currently authorized amortization period (Id. at 1033-1034).

We believe that RUCO's recommendation of a 10-year amortization period provides a reasonable resolution of this issue. As the Company points out, at the time the prior 44-year amortization period was approved, many providers, including Arizona Water, had not yet begun to take significant amounts of CAP water and no consistent policy on recovery had been developed by the Commission. However, the Company is now using its CAP allocation and it is reasonable to allow amortization over the same period in which the costs were incurred. This approach is consistent with our decision several years ago in Citizens Utilities Company's (now Arizona-American Water Company's) Sun City and Sun City West districts, wherein the Commission adopted Staff's recommendation to approve a 5-year amortization period based on the period of time over which the CAP M&I capital costs were deferred. Decision No. 62293 (February 1, 2000), at 8.

C. Summary of Rate Base Adjustments

Based on the foregoing discussion, we adopt an adjusted OCRB for the Eastern Group of $35,944,611, as shown on the attached Exhibit A. Arizona Water agreed to use the OCRB as the Fair

[2] This amount includes $645,207 for amounts deferred since the last rate case and $46,315 for CAP M&I capital charges associated with the unamortized balance of deferred charges authorized in Decision No. 58120 (Tr. 422-423). CAP M&I charges incurred on a going-forward basis would be recovered as operating expenses (Ex. A-11, at 15-16).

Value Rate Base for purposes of this proceeding. We therefore adopt $35,944,611 as the Fair Value Rate Base for Arizona Water's Eastern Group.

III. OPERATING INCOME

The test period in this proceeding is the 12 months ended December 31, 2001. Arizona Water, Staff, and RUCO have analyzed the Company's accounts for the test year and have recommended adjustments to the actual operating results. RUCO argues that the Commission should not use the Company's proposed post-test year adjustments for either rate base, as discussed above, or for determining operating income expense issues. Rather, RUCO recommends using the actual expense levels for 2002, consistent with its argument regarding inclusion of actual data for post-test year plant (RUCO Ex. 5, at 27). RUCO points out that the Company was the source of the actual 2002 expense information (Tr. 415).

Ms. Hubbard contends that using 2002 unadjusted actual data "is inappropriate because there are (sic) no normalizing analysis performed on the numbers, no annualizing expense levels performed on those expense levels. No analysis of whether, like, an expense has been recorded in a wrong account." (Tr. 414-415). She also testified that RUCO's recommended expense levels are based on a different level of customers than were taking service at the end of the test year. Ms. Hubbard's final justification for rejecting RUCO's proposal is that the data given to RUCO has not been analyzed by the parties with the same level of detail that typically would occur in the context of a rate case filing (Id. at 415-416).

Although we agree with RUCO that rates should reflect the most accurate information possible, for the reasons stated previously we believe the methodology advocated by the Company and Staff properly reconciles post-test year plant with test year revenues and expenses. Pursuant to the Commission's rules, Arizona Water is required to base its filing on an historical test year rather than a projected test year. It is therefore appropriate to recognize test year operating expense and revenue levels, subject to pro forma adjustments to recognize known and measurable changes to the test year levels (*See*, A.A.C. R14-2-103A.3.i.). Although the data used by RUCO to support its position was supplied by the Company through discovery requests, that information has not been audited by Staff and the other parties with the level of scrutiny that is employed in the analysis of a

rate case filing. Thus, it would be inappropriate to use the raw data advocated by RUCO as the basis for setting rates in this proceeding. Accordingly, we will adopt the methodology proposed by the Company and Staff for purposes of establishing revenues and expenses.

Adjustments made by the Company that have not been challenged by the other parties will not be discussed. The following contested issues remain to be resolved.

A. **Revenue Annualization**

There is no dispute that pro forma adjustments to actual test year revenues and expenses are necessary to account for additional customers added during the course of the test year (Ex. A-11, at 24-25). According to Ms. Hubbard, the test year average number of Eastern Group customers was 28,636, while the end of test year customer count totaled 29,236 (Id.). Arizona Water determined the average revenue per customer using only the 5/8-inch metered customers because that class of customers comprised 98 percent of all customer growth during the test year (Ex. A-12, at 16).

Staff claims that the Company's proposed revenue annualization results in a mismatch because it measures expenses by using total expenses and measures revenue by looking only at 5/8 inch residential customers (Ex. S-44, at 9-10). Although the Company corrected this mismatch error by also calculating expenses related only to 5/8-inch customers (Ex. A-13, at 11), Staff contends that the Company's allocation of expenses was not based on a cost of service study and should therefore be disregarded (Tr. 450, 1056-1058). Mr. Ludders testified that Staff's revenue annualization proposal should be accepted because it does not result in a mismatch of revenue and expense allocations (Id. at 1056-1058).

We believe Arizona Water's revenue annualization proposal results in the most accurate reflection of revenue growth for the Eastern Group. Although Staff argues that a cost of service study is required to properly match revenues and expenses, the Commission has in the past accepted revenue annualization without such a study (*See, e.g.*, Decision No. 64282, at 10). We agree with Arizona Water that Staff's recommendation, which averages revenue increases to all customer classes, results in an overstatement of revenue because it does not recognize that the vast majority of growth occurred in the 5/8-inch residential class. We therefore adopt Arizona Water's revenue annualization recommendation.

B. Purchased Power and Purchased Water Adjustment Mechanisms

The Commission approved purchased power and water adjustment mechanisms in the last rate case for Arizona Water's Eastern Group (Ex. A-11, at 22). The Company currently purchases electric power from several different providers for pumping in the Eastern Group systems, and recovers those costs pursuant to a Purchased Power Adjustment Mechanism ("PPAM") (Ex. A-12, at 17). Arizona Water also has in place for the San Manuel and Superior systems a Purchased Water Adjustment Mechanism ("PWAM") under which the Company passes through purchased water costs to customers in those systems (Tr. 453). Ms. Hubbard testified that the adjustment mechanisms allow the Company to recover operating expenses that are outside of its control, and that the PPAM and PWAM protect both ratepayers and shareholders because they are revenue neutral to the Company (Ex. A-13, at 12).

RUCO does not oppose continuation of these adjustment mechanisms. However, Staff recommends that both the PPAM and PWAM should be discontinued[3]. With respect to the PPAM, Staff witness Ludders testified that Arizona Water is the only water utility that still uses a PPAM and that such adjustors should be used only "where power costs are by far the largest single cost item and are highly volatile" (Ex. S-46, at 7; Tr. 1060). The PWAM applies only to the San Manuel and Superior systems. Mr. Ludders stated that purchased water for the Superior system is less than one-half of one percent of operating revenues (Tr. 1061). The San Manuel system has no wells and purchases all of its water from the BHP Copper Company ("BHP") (Id. at 1062). Although Arizona Water has discussed buying the BHP wells, the Company has not discussed such a purchase with BHP recently (Tr. 84-87).

We agree with Staff that PPAM and PWAM adjustment mechanisms should be discontinued. Although Arizona Water argues that such mechanisms benefit both the Company and ratepayers by passing on increased costs and savings, adjustment mechanisms may also provide a disincentive for the Company to obtain the lowest possible cost commodity because the costs are simply passed through to ratepayers. Moreover, the record does not suggest that purchased power costs are a

[3] Arizona Water also seeks approval of a Monitoring Assistance Program ("MAP") adjustor and an Arsenic Cost Recovery Mechanism ("ACRM") adjustor (See ACRM discussion below). Staff does not oppose approval of the MAP and ACRM adjustment mechanisms.

significant portion of the Company's expenses, or that electricity costs are particularly volatile. With respect to purchased water expenses, the Superior system purchases only a small portion of its water supply[4] and there is no evidence that the San Manuel system is expected to incur any significant increases or decreases in purchased water costs in the near future. Therefore, Arizona Water's purchased power and purchased water adjustment mechanisms should be discontinued.

C. Rate Case Expense

Arizona Water requests recovery of $329,550 for rate case expenses that the Company claims are based on actual expenses it is incurring related to this proceeding (Tr. 513; Ex. A-18). Although the total amount is partially estimated, the Company contends that it has incurred actual rate case expenses of more than $276,000 through November 7, 2003 (See Updated Data Response REL 25-2, Attached to Arizona Water's Reply Brief). The largest expenditures to date are for outside legal counsel ($182,808), an outside consultant to perform a cost of capital study ($68,000), and payroll overheads ($23,875) (Id.). In support of its proposal, Arizona Water contends that rate cases are much more complex than they were in prior years and that the Company's in-house counsel has many other duties that do not permit him to litigate rate cases (Tr. 305).

Staff argues that Arizona Water's rate case expense is exorbitant and should be reduced. Staff points out that the estimated rate case expense has increased steadily over the course of this case and that rate case expense in the Company's 1990 rate case was only $52,053 (Tr. 1048). Staff claims that Arizona Water has failed to justify its heavy use of outside attorneys and consultants, compared to the prior case where those functions were performed by in-house personnel. Staff also notes that rate case expense for the Northern Group case was only $217,000 (Tr. 463).

RUCO argues on brief that it did not oppose the Company's original rate case expense estimate of $257,550, but now opposes the increased estimate of costs. RUCO opposes allowing the Company to continue to update its rate case expenses because it believes such a policy would encourage abuse and saddle ratepayers with unreasonable expenditures.

Although we do not believe it is unreasonable for Arizona Water to retain outside counsel or

[4] *The Superior system is expected to be physically interconnected to the Apache Junction system within two years.*

consultants to prepare and litigate its rate case filings, at some point the costs associated with retaining those services must be mitigated. Staff points out that the Company's 1990 rate case for all of its systems was prepared exclusively by in-house personnel at a cost of just over $50,000. Although that case was considered a number of years ago, the current estimate of more than $329,000 far exceeds the prior amount. A more analogous case is the recent Northern Group proceeding in which the Commission approved rate case expense in the amount of $217,000 (Decision No. 64282, at 16). As a justification of the higher costs in this case, the Company claims that the instant proceeding involves eight separate systems, while the Northern Group case addressed only five systems. However, the number of systems does not justify the magnitude of increased expenses sought by Arizona Water. Moreover, the extension of the hearing date and concomitant increase in Arizona Water's rate case expenses, were due to the Company's decision to request inclusion of post-test year plant.

Based on our review of the complexity of this proceeding, the number of systems involved in the Eastern Group rate request, and a comparison of other cases, we believe that rate case expense in the amount of $250,000 is reasonable for this proceeding. Consistent with the Northern Group case, rate case expense will be amortized over three years.

D. <u>CIAC Amortization</u>

Staff recommends that Arizona Water's CIAC amortization should be calculated consistent with the Company's 1990 rate case and the Northern Group rate case. Mr. Ludders testified that Staff calculates the composite depreciation rate by dividing each depreciation expense by its depreciable plant. For CIAC, Staff's calculation resulted in an amortization rate of 2.34 percent (Ex. S-46, at 11).

Arizona Water argues that Staff miscalculated the CIAC amortization rate because it calculated a composite depreciation rate, which is inconsistent with the individual component depreciation rates that the Company will be required to use on a going-forward basis. The Company claims that neither Decision No. 58120 nor Decision No. 64282 discusses the methodology to be used in determining the CIAC amortization rate. However, in the Northern Group case, the Commission directed the Company to implement component depreciation rates in its next rate application (Decision No. 64282, at 11-12). Arizona Water asserts that a composite rate for contributed plant

should be based on the annual depreciation associated with the individual plant accounts that include contributed plant, in order to match the CIAC amortization rate to the depreciation rates for those specific plant accounts (Ex. A-12, at 27).

We agree with Arizona Water that consistency with the move to individual component depreciation rates requires consideration of the individual plant accounts that include contributed plant (*i.e.*, transmission and distribution mains, fire sprinkler caps, services, meters, and hydrants). Based on consideration of the depreciation rates these individual plant accounts results in an Eastern Group composite CIAC amortization rate of 2.00 percent (Ex. A-12, at 27; Ex. S-55). The Company's recommendation for CIAC amortization shall be adopted.

E. Statement of Operating Income

In accordance with the foregoing discussion, Arizona Water's Eastern Group adjusted test year operating income is $2,168,324. The adjusted test year operating income by system and Eastern Group total is shown on the attached Exhibit B.

IV. RATE OF RETURN

Cost of capital analyses were presented in this case by Arizona Water, Staff, and RUCO for purposes of determining a fair value rate of return in this proceeding. Arizona Water's witness, Dr. Thomas Zepp, determined an overall cost of capital of 11.0 percent. As a result of the analysis of Staff witness Joel Reiker, Staff concluded that an overall rate of return of 8.6 percent is reasonable. RUCO presented testimony by William Rigsby who advocated an overall cost of capital of 8.68 percent.

A. Capital Structure and Cost of Debt

1. Capital Structure

There is virtually no disagreement between the parties concerning Arizona Water's capital structure. The Company, Staff, and RUCO agree that Arizona Water's capital structure as of December 31, 2001 should be used (Ex. A-17, at 9; Ex. S-38, at 3-4; RUCO Ex. 4, at 37-38). That capital structure is comprised of 5.62 percent short-term debt, 28.24 percent long-term debt, and 66.14 percent common equity (Id.).

2. Long-Term Debt

The parties also agree that Arizona Water's cost of long-term debt should be set at 8.46 percent. Accordingly, the long-term debt rate shall be set at 8.46 percent (Id.).

3. Short-Term Debt

Although the parties are in agreement on the capital structure and long-term debt, they disagree regarding Arizona Water's short-term debt rate. The Company borrows short-term funds under an agreement with Bank of America at prime minus .25 percent. As of January 1, 2003, the bank reference rate was 4.25 percent. Therefore, Staff contends that the short-term rate should be set at 4.00 percent to reflect actual short-term loan agreements between Arizona Water and Bank of America (Ex. S-38, at 3-5). RUCO witness William Rigsby agrees with Staff's recommendation to set the short-term debt rate at 4.00 percent (RUCO Ex. 4, at 36-37).

Arizona Water argues that the short-term debt rate should be set at 5.548 percent based on a 24-month average from January 2001 through December 2002. The Company contends that short-term debt costs are variable and the debt rate set in this proceeding should reflect the volatile nature of those rates (Ex. A-17, at 8-9).

We agree with Staff and RUCO that the short-term debt rate should be set to reflect the current agreement between Arizona Water and Bank of America. Since that agreement results in a short-term debt rate of 4.00 percent, as of January 1, 2003, we will adopt that rate for purposes of determining Arizona Water's cost of capital in this case.

B. <u>Cost of Equity</u>

Although the cost of debt and preferred stock can be determined from fixed cost rates, the cost assigned to the equity component of the capital structure can only be estimated. The cost of equity recommendations advocated by the parties are 12.4 percent by Arizona Water, 9.0 percent by Staff, and 9.18 percent by RUCO.

In determining its recommended cost rate for common equity, the Company's cost of capital consultant, Dr. Zepp, used the discounted cash flow ("DCF") model, several risk premium models, and the capital asset pricing model ("CAPM") to estimate benchmark equity cost with data for publicly traded water and gas utilities. Arizona Water also presented testimony from Walter Meek,

the President of the Arizona Utility Investors Association ("AUIA"). Mr. Meek did not perform an independent cost of capital analysis, but testified that, in his opinion, Staff's recommendation ignores the realities of investor expectations (Ex. A-8, at 2-4). Finally, Company witness Ralph Kennedy testified regarding risks that are unique to Arizona Water that affect its cost of capital requirement. Mr. Kennedy discussed the difficulties experienced by Arizona Water in 2001 in placing its Series K bonds, federal arsenic removal requirements facing the Company, and the inability of the Company to obtain long-term financing on terms that are comparable to publicly traded companies with Baa or higher credit ratings (Ex. A-15, at 25-27).

Dr. Zepp found the current equity cost for his benchmark utilities to be in the range of 10.6 percent to 10.8 percent, based on his application of the DCF model and an average of two forward-looking measures. His analysis included a "restatement" of Mr. Reiker's DCF estimates based on the constant growth model. Dr. Zepp testified that Staff's DCF analysis is flawed because it uses dividends per share ("DPS") which, according Dr. Zepp, is the worst measure of average future growth when earnings per share ("EPS") are growing more rapidly (Ex. A-5, at 53-56). The Company's restatement of Staff's DCF was conducted by including a second stage that Dr. Zepp claims reflects investors' expectations that future growth will be higher than current DPS when DPS are growing at a slower rate than EPS (Id. at 57-59). Based on this restatement of Staff's multi-stage DCF model, the equity cost for the sample companies was calculated to be 10.1 percent (Id. at 59, Tables 6 and 7). Dr. Zepp also performed a restatement of RUCO witness Rigsby's DCF analysis. The Company's restatement of RUCO's analysis resulted in a cost of equity for the benchmark water companies in the range of 9.6 to 11.1 percent (Id. at 61-63).

Dr. Zepp performed three different risk premium analyses with cost of equity results in a range of 10.3 to 11.2 percent. According to Dr. Zepp, the CAPM analyses conducted by Staff and RUCO failed to include separate risk premium estimates. Dr. Zepp favors a "zero-beta" CAPM model which produces results showing that low beta stocks like water utilities require higher returns (Ex. A-5, at 44-49). Dr. Zepp performed a restatement of the CAPM analyses of both Staff and RUCO using forecasted values for long-term Treasury bonds. Based on his recalculation, Dr. Zepp found the cost of equity for the benchmark companies to be in the range of 9.8 to 11.3 percent (Id. at

50-52).

Aside from the technical analysis of the Staff and RUCO recommendations, Arizona Water claims that those analyses are inconsistent with recent authorized returns on common equity, realized returns on common equity, and *Value Line* forecasted returns on equity. Dr. Zepp prepared a rebuttal schedule containing the authorized, realized, and forecasted returns based on Staff's sample group of publicly traded water utilities, except for two companies Dr. Zepp claims were acquisition targets based on their rapid stock price increases. His table shows average authorized returns from 2001 through 2003 of 10.69 percent, realized returns of 10.48 percent, and forecasted returns of 10.83 percent (Ex. A-5, Rebuttal Table 1). Arizona Water argues that these results show that the Staff and RUCO cost of equity estimates of 9.2 percent and 9.18 percent, respectively, are not consistent with investor expectations. The Company contends that the results produced by Dr. Zepp's models reflect more accurately the actual and forecasted cost of equity performances for comparably situated water companies.

Dr. Zepp also testified that, in order to establish a fair rate of return for Arizona Water, 100 to 150 basis points must be added to the Company's cost of equity estimates to account for the additional risk associated with investing in Arizona Water (Ex. A-4, at 13-23; Ex. A-5, at 24-42). Arizona Water asserts that an additional risk premium is required to compensate the Company for its small size and due to its claim that the rate-setting system in Arizona, which employs an historical test year, makes it difficult to match expected revenues with expected plant investment. The Company also contends that investment risk is heightened by the capital and operating costs it is expected to incur due to arsenic treatment requirements. Arizona Water argues that, in accordance with the fair and adequate rate of return requirements under decisions such as *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591, (1944); *Bluefield Waterworks & Improvement Co. v. Public Serv. Comm'n of West Virginia*, 262 U.S. 679 (1923); and *Duquesne Light Co. v. Barasch*, 488 U.S. 299 (1989), the Commission must recognize that the cost of equity recommendations put forth by Staff and RUCO would fail to adequately compensate the Company with a reasonable rate of return on its investment.

Staff performed both DCF and CAPM analyses in arriving at its 9.0 percent cost of equity

recommendation. Mr. Reiker stated that, because Arizona Water's stock is not publicly traded, six publicly traded water companies and 10 gas companies were used as proxies (Ex. S-38, at 9). In his analysis, Mr. Reiker applied the DCF constant growth and non-constant, or multi-stage, growth models to the sample companies (Id. at 11). Mr. Reiker explained that the DCF method is based on the theory that the market price of a stock is equal to the present value of all future dividends. In applying the DCF model, the following three variables are required: 1) the expected annual dividend; 2) the current stock price; and 3) the expected infinite annual growth rate of dividends (Id.).

With respect to establishing the stock price component, Staff used a spot price because it contends the spot price reflects investor expectations of future returns and is the best indicator of those expectations (Id. at 12). Staff cites a recent Commission Decision in *Black Mountain Gas Co.*, Decision No. 64727 (April 17, 2002) to support its proposal that the Commission should adopt spot price as the basis for determining cost of equity.

In its growth variable analysis, Staff examined historical and projected growth in dividends per share, growth in earnings per share, and intrinsic growth. For the proxy companies, Staff's analysis produced average historical growth of 2.5 percent; projected growth over the next five years of 2.0 percent; historical earnings per share of 3.2 percent; and an intrinsic growth rate of 7.8 percent (Id. at 12-13, Scheds. JMR-2, JMR-3). Staff's analysis produced an equity cost estimate under the constant-growth DCF model of 8.5 percent (Id. at 19). The multi-stage DCF model considers investor expectations for near-term growth (Stage 1) and long-term constant growth (Stage 2). The cost of equity result of Staff's multi-stage DCF analysis is 9.6 percent (Id. at 20, Sched. JMR-6).

Mr. Reiker testified that the CAPM model provides a measure of the expected return on an investment. The CAPM requires the input of variables to determine an estimate of a company's equity cost. The variables that are input into the model are the risk-free rate, the expected return on the market, the risk variable (or "beta"), and the expected market risk premium (Ex. S-38, at 21-22). Staff's risk-free rate estimate is based on the average of intermediate-term U.S. Treasury securities spot rates, and the beta was derived from the average of the *Value Line* betas for the six proxy water utilities. The average beta for the six proxy companies is .59 (Id. at Sched. JMR-5). Mr. Reiker stated that the expected market risk premium represents the additional return an investor expects for

investing in an average or higher risk security over the expected return on a risk-free security. Staff's historical market risk premium analysis produced a rate of 7.4 percent, while its current market risk premium analysis resulted in a rate of 13.1 percent (Id. at 23-24). Staff's CAPM analysis results in an equity cost estimate for Arizona Water of 9.4 percent (Id. at Sched. JMR-7).

Staff's overall cost of equity recommendation was determined by averaging the results of its constant growth and multi-stage DCF analysis, which produces a result of 9.0 percent. Next, Staff averaged the results of its historical and current market risk premium CAPM analysis, with a result of 9.4 percent. The DCF and CAPM results were then averaged to produce a final estimate of 9.2 percent (Id. at 25, Table 7). However, Staff also took into account the fact that Arizona Water's capital structure consists of approximately 70 percent equity, which Staff believes represents lower financial risk compared to its proxy water companies which had an average common equity component of just under 50 percent (Id. at Sched. JMR-1).

Staff also averaged the DCF and CAPM results for the proxy gas companies, which resulted in an equity cost estimate of 10.3 percent for those companies. Staff claims that the sample gas companies are more risky than the sample water companies, as evidenced by average betas of .59 and .69 for the water and gas companies, respectively. Staff claims that, because the equity cost for the sample gas companies is approximately 100 basis points higher than the water companies, a downward adjustment must be made to reflect the cost of equity for a water company such as Arizona Water. Therefore, Staff adjusted the results of its DCF and CAPM analyses downward from 9.2 percent to 9.0 percent.

RUCO witness Rigsby recommends a rate of return of 8.68 percent based on a cost of common equity calculation of 9.18 percent (RUCO Ex. 4, at 22). Mr. Rigsby's cost of equity recommendation was determined based on a DCF analysis that produced the 9.18 percent result for Arizona Water (Id.). Mr. Rigsby also performed a CAPM analysis which produced results ranging from 6.79 percent to 8.06 percent (Id. at 27). RUCO claims that Mr. Rigsby's analysis properly considers the current environment of low inflation and low interest rates in which Arizona Water is operating. Mr. Rigsby also contends that his recommendation takes into account the fact that the Company's capital structure is heavily weighted with equity, compared to the group of proxy

companies used in RUCO's analyses, thus reducing the risk associated with investing in Arizona Water (Id. at 32-39). RUCO argues that the Company's cost of capital recommendation fails to recognize Arizona Water's lower risk. RUCO requests that its proposed cost of capital recommendation be adopted for purposes of setting rates in this proceeding.

We agree that Staff's analysis represents a fair and reasonable estimate of Arizona Water's cost of equity for purposes of this proceeding. As described above, Staff calculated an estimated equity cost of 9.2 percent by taking an average of two DCF models (constant growth and multi-stage) and the CAPM model. Although Arizona Water's witnesses are critical of Staff's analysis, we believe the Company's recommendation has several flaws.

First, Arizona Water's infinite growth DCF model averaged the near-term growth forecast for the entire water utility industry rather than an average of near-term growth forecasts. As Mr. Reiker pointed out, including the entire industry creates a mismatch between the expected dividend growth rate and the expected dividend yield, thereby producing a less accurate cost of equity estimation (Ex. S-38, at 38). We also agree with Staff's witness that the Company's exclusive reliance on analyst forecasts erroneously assumes that investors rely only on near-term earnings and sustainable growth without considering past earnings. Reliance solely on analyst projections tends to result in inflated growth projections without considering DPS and past EPS growth, information that even Dr. Zepp has acknowledged should be considered in determining estimated growth (Id. at 44-45). We believe that Staff's multiple component DCF analysis properly recognizes that investors expect both non-constant short-term growth as well as long-term constant growth.

With respect to the competing "risk premium" analyses, we believe Staff's CAPM model properly takes into account risk for purposes of estimating equity costs. Mr. Reiker stated that Arizona Water's reliance on forecasted Baa bond rates is less reliable because such bond forecasts have historically been inaccurate. Thus, according to Staff, the accuracy of the Company's risk premium analysis is suspect. We agree with Staff that assessing the risk premium based on corporate bond yields is inappropriate because the default risk for corporate bonds can change significantly over time (Ex. S-38, at 46-49). We believe Staff's CAPM analysis, which includes a risk variable, is a reasonable means of estimating Arizona Water's cost of equity in this case and is preferable to the

Company's proposed risk premium recommendation.

However, we part company with Staff's recommendation with respect to the necessity for a downward adjustment to cost of equity. As described above, Staff and RUCO argue that Arizona Water is less risky than the group of sample companies that were used for purposes of determining their cost of capital recommendations. As a result, Staff argues that the product of its average of the DCF and CAPM models (9.2 percent) should be reduced to 9.0 percent to recognize the lesser risk associated with investing in Arizona Water. On the other hand, the Company proposes an upward adjustment of 100 to 150 basis points to recognize what it asserts are increased risks. As indicated above, the risk factors alleged by the Company include its relatively small size compared to the proxy companies, the use of an historical test year in Arizona, difficulty placing its bonds, and federal arsenic removal requirements.

Based on our review of the entirety of the record, we do not believe that the risk factors described by Staff, RUCO, and the Company support a finding that a risk adjustment, either upward or downward, is necessary in this proceeding. The Company's approximately 70 percent equity position, as well as the lower betas of the sample water companies compared to the sample gas companies, may justify consideration of an adjustment. However, even if Arizona Water is slightly less risky than the proxy companies as a whole, we do not agree that Staff's proposed downward adjustment is appropriate. Nor do we believe that an upward adjustment is required. Although the Company cited its difficulty in placing its corporate bonds in 2001, $15 million of general mortgage bonds were ultimately issued. Regarding Arizona Water's size, Staff points out that the Commission has in the past rejected such arguments, and at least one study supports rejection of allowing a risk premium based on a company's smaller size (Ex. S-38, at 59-64). Concerning the Company's historical test year argument, there is no precedent for recognizing a risk adjustment because the law requires an historical test year. Indeed, we have allowed Arizona Water in this case to include post-test year plant in rate base for a full 12 months following the test year. Moreover, it is the Company that controls the timing of its rate application and the test year. Finally, the risks associated with arsenic treatment costs have been mitigated by the Commission's approval in both the Northern Group case (See ACRM discussion below), and in this proceeding, of an arsenic cost recovery

mechanism that enables the Company to seek expedited approval of capital costs and a significant portion of operating costs associated with arsenic treatment for its affected systems. Given all of these factors, we will not adopt any specific risk adjustments to the 9.2 percent cost of equity determined by Staff's analysis.

C. Cost of Capital Summary

	Percentage	Cost	Weighted Cost
Short-Term Debt	5.6%	4.0%	0.22%
Long-Term Debt	28.2%	8.46%	2.39%
Common Equity	66.2%	9.2%	6.09%
Cost of Capital			8.7%

V. AUTHORIZED INCREASE

Multiplying the Eastern Group's fair value rate base by the fair value rate of return produces a required operating income of $3,127,181 on a total company basis. This is $958,854 more than the adjusted test year income under existing rates. The required increase in gross annual revenues for the Eastern Group is $1,564,803, or 10.68 percent, as shown on the attached Exhibit C.

VI. RATE DESIGN

A. Staff's Proposed Inverted Tier Rate Design

Under Arizona Water's current rate structure customer classes and the monthly minimum charges are determined by meter size. The monthly minimum for all customer classes includes 1,000 gallons with a single commodity rate applied to all usage. Under the Company's proposed rate design, the 1,000 gallons of "free" water in the monthly minimum was eliminated and each of the eight systems' existing meter multiples[5] were moved half way toward the actual meter multiples (Ex. A-16, at 15-16). Arizona Water points out that its proposed rate design in this proceeding follows the same principles as the design that was approved in Decision No. 64282 for the Company's Northern Group.

[5] "Meter multiples" is a rate design concept whereby the monthly minimum charge for each meter size is established by first establishing the appropriate charge for the smallest meter size and multiplying that minimum charge by a factor appropriate for each larger meter size (*See, e.g.*, Decision No. 64282, at 23).

Staff's proposed rate design consists of inverted tier rate blocks whereby the commodity rate would increase through three tiers of rates as usage increases. Staff's rate blocks are structured so that the first tier (0 to 3,000 gallons) is priced 20 percent less than the second tier (3,001 to 50,000 gallons) and the third tier (over 50,000 gallons) is priced 20 percent higher than the second block (Ex. S-40, at 2-9). Staff claims that its proposed 20 percent first tier "discount" rate structure provides a "lifeline" concept that allows for a minimum volume of water usage for basic needs (Tr. 934-935, 941). Staff believes the 20 percent third tier "premium" rate will send a price signal to heavy users to reflect the extra costs they impose on the system (Tr. 896). Staff witness John Thornton testified that Staff's rate design is based on a marginal pricing concept that provides "a more efficient rate structure that results in conservation of resources in the provision of water" (Id. at 883). Staff concedes that the third block would subsidize the other blocks on an embedded cost basis, although Staff has not quantified that subsidy (Id. at 884). According to Staff, a number of other water companies in the state use inverted block rates, including Arizona-American Water Company. Staff argues on brief that its rate design will send a price signal that is likely to result in conservation in the long run. However, Mr. Thornton admitted on cross-examination that any conservation price signals would apply only to usage over 50,000 gallons per month, thereby eliminating any conservation goals directed to smaller customers, including residential customers (Tr. 939).

Arizona Water argues that Staff's rate design recommendation deviates from basic cost of service principles and ignores the rate design approved in the last rate case for the Eastern Group customers (Decision No. 58120) and in the Company's Northern Group case (Decision No. 64282). The Company contends that Staff's proposal does not encourage conservation and in fact creates subsidies for usage in the first tier without sending any appropriate price signals. Arizona Water asserts that Staff's proposed rate design is not based on a cost of service study and that it would shift recovery of a substantial portion of the revenue requirement from the monthly minimum to the commodity rate with no supporting evidence. The Company also contends that Staff's so-called "lifeline" rate is inconsistent with lifeline rates described in publications of the American Water Works Association which limit such rates to: low income residential customers; where a significant portion of customers in the area are unable to afford water service; and where water conservation is

not a concern (because discounted rates may actually cause increased water usage) (Ex. A-28, at 10-13). Arizona Water argues that Staff's rate design is inequitable and will promote economic inefficiencies.

We agree with Arizona Water that the justification provided by Staff does not support its recommended rate structure in this proceeding. Staff points out that inverted tier rate designs have been adopted in a number of prior cases as a means of encouraging customers to conserve water. Although we agree with Staff that conservation of water is a desirable goal, its own witness testified that no conservation price signals would be received by customers until usage reached more than 50,000 gallons. As a result, Staff's recommendation in this case is clearly distinguishable from the type of inverted block structures approved by the Commission in other cases.

Staff's proposed rate design is also inconsistent with the type of block structures in place in a number of cities in Arizona, as evidenced by a number of exhibits introduced by Staff at the hearing (Exs. S-5, S-6, S-7, S-8, and S-9). These rate schedules show that the rates in effect for the cities of Phoenix, Tucson, Scottsdale, Mesa, and in the Sun City area do not follow the type of design advocated by Staff in this proceeding but, rather, indicate that the rates include increasing minimum rates based on larger meter sizes or have second tier blocks that are substantially different than those recommended by Staff (*e.g.*, 8,000 gallons for Sun City, 12,000 gallons for Mesa, and 15,000 gallons for Tucson Residential). Thus, average residential customers in those areas may be incented to reduce consumption by being presented with price signals that provide more attainable targets. We do not believe that Staff's proposal fits within the type of rate design structures that have been adopted by the Commission in prior cases or in the other jurisdictions cited by Staff. Accordingly, we decline to adopt Staff's proposed inverted tier rate design in this proceeding.

Although we are rejecting Staff's proposed rate design, we believe that an alternative inverted tier rate structure is a valid tool for promoting conservation by sending appropriate price signals to heavier users. Similar inverted block structures have been approved in a number of prior cases and we believe it is reasonable to adopt such a rate design in this proceeding. Therefore, we adopt the following inverted tier rate structure for Arizona Water's Eastern Group: first tier – 0 to 10,000 gallons per month; second tier – 10,001 to 25,000 gallons per month; third tier – over 25, 001 gallons

per month.

B. Consolidation of Apache Junction and Superior Systems

Arizona Water is requesting that the Eastern Group's Apache Junction and Superior systems be consolidated in this proceeding for rate making and accounting purposes. Under the Company's proposal, uniform monthly minimum charges would be established for both systems in this proceeding, with each system retaining its own commodity rate. In the next rate proceeding, full consolidation of the systems would occur (Ex. A-15, at 11-12).

Company witness Kennedy explained that the Apache Junction and Superior systems are facing substantial rate increases due to the costs associated with arsenic removal. For the Apache Junction system, capital costs alone are expected to reach $8.8 million, which represents approximately 36 percent of that system's adjusted original cost rate base. The impact of arsenic removal is even more severe for the Superior system, with estimated capital costs of $1.7 million, or 63 percent of the system's rate base. Both systems would also incur significant additional costs related to arsenic removal operating costs (Id.).

Because the Superior system (1,288 customers) is significantly smaller than the Apache Junction system (16,093 customers), and the Superior system's current rates ($18.13 residential minimum charge and $4.06 per 1,000 gallons) are much higher than the Apache Junction rates ($12.43 residential minimum and $2.569 per 1,000 gallons), Arizona Water argues that absent consolidation, the differences in rates between the two systems will become even more pronounced as a result of this proceeding. Mr. Kennedy testified that without consolidation of the Superior and Apache Junction rates in this case, future consolidation will be more difficult, especially when the impact of arsenic treatment is added to rates (Ex. A-17, at 7; and RJK-RJ5). The Company points out that the Superior and Apache Junction systems are expected to be interconnected within two years, which distinguishes the proposal in this case from prior proceedings in which the Commission has declined to approve consolidation proposals. Under the Company's proposed revenue requirements, without consolidation the Apache Junction system rates would increase by more than 16 percent, while the Superior system revenue requirement would increase by more than 70 percent, even without adding arsenic removal costs (Id.).

RUCO and Staff oppose consolidation of the Superior and Apache Junction systems based on the premise that individual system rates should reflect their specific system costs (RUCO Ex. R-3, at 43-46; RUCO Ex. R-2, at 21-24; Ex. S-44, at 34; Ex. S-51, at 11-12; Tr. 525-530). Staff and RUCO argue that until physical interconnection of the systems is completed, allowing consolidation would result in subsidization of Superior system customers by Apache Junction customers. Staff and RUCO cite to prior decisions in which the Commission has recognized the concept that system rates should reflect individual system costs (Decision No. 58120, at 33-34; Decision No. 64282, at 20-21; Decision No. 66400, at 11-13).

We agree with Arizona Water that the Superior and Apache Junction systems should be consolidated for purposes of rate making and accounting under the Company's proposed two-step consolidation process. Although Staff and RUCO point out that the Company's Northern Group consolidation recommendation was recently denied, the request in this proceeding is distinguishable. First, unlike the situation in the Northern Group case, the Superior and Apache Junction systems are already contiguous (Ex. A-9, at 10). Further, the backbone transmission facilities needed to serve a development approximately four miles from the Superior system well fields are already under construction, and full interconnection with Superior will be completed in less than two years (Ex. A-10, at 4-5; Ex. A-17, at 7). Thus, the interconnection of systems is not speculative but is imminent.

Given these differences from the Northern Group proceeding, we believe it is appropriate to allow the first step of consolidation at this time in order to recognize the interconnection of the systems and to minimize the "rate shock" that may otherwise be experienced by customers in the Superior system. Consolidation is even more critical to offset the significant rate increases that will be experienced once arsenic treatment costs are imposed on Arizona Water's customers. According to Mr. Kennedy, arsenic treatment capital costs are estimated to be approximately $573 per customer in the Apache Junction system and $1,309 per customer in the Superior system (Ex. A-17, at 7). Absent consolidation, this impact will be exacerbated by the depressed economic conditions in the Superior area where customer growth has actually declined in recent years (Id. at 6).

With respect to Staff and RUCO's arguments that consolidation will result in inter-system subsidies, we note that consolidation of individual Arizona Water systems is not without precedent.

In fact, Arizona Water has in the past been permitted to consolidate a number of systems that are not physically interconnected (*e.g.*, River Valley and Rimrock, Arizona City and Casa Grande, Forest Towne and Overgaard, Valley Vista and Sedona, and Tierra Grande and Casa Grande) (Ex. A-17, at 5). In this proceeding, the fact that interconnection of the Superior and Apache Junction systems will be completed within two years, the further widening of the base rate disparity between the systems absent consolidation, and the significant additional rate impact in the near future associated with arsenic removal costs, justifies implementing the first step of consolidation in this proceeding as proposed by Arizona Water. Accordingly, the Company's rate consolidation recommendation is adopted.

VII. OTHER ISSUES

A. Staff's Proposed Water Loss Plan

Staff proposed that Arizona Water be required to audit its water losses for systems in the Eastern Group with greater than 10 percent water loss, and file a plan for reducing such losses where it is feasible to do so (Ex. S-52, at 4-6). Staff contends that its proposal is not burdensome because the Company already produces internal water loss reports that could be used as a starting point for the reporting requirements recommended by Staff (Tr. 90-91).

Arizona Water claims that Staff has not established that the Company has a water loss problem because Staff's loss calculations are based on "unsold" water rather than "lost" water (Tr. 324, 1128-1129; Ex. A-2, at 24). According to the Company, unsold water is the difference between water produced and received, and water sold to customers. Unsold water includes water used for a number of purposes including for operational and maintenance needs, as well as overflowing water storage tanks, flushing water distribution systems, and fire suppression (Ex. A-2, at 24-25). By contrast, lost water represents quantities that the Company cannot account for (Tr. 324). Arizona Water opposes Staff's recommendation because of the Company's claim that Staff has not identified any harm to ratepayers that needs to be remedied, and because the Company believes Staff's reporting requirements constitute unnecessary micro-management of the Company's operations.

We do not believe that Staff's proposed audit and reporting requirements will impose an undue burden on Arizona Water's operations. Although the Company challenges Staff's definition of

system water losses, whether the water is "unsold" or "unaccounted for" should not be the deciding factor in assessing the need for monitoring of water that is pumped but not ultimately paid for by the Company's customers. Staff's recommendation does not require any specific remedy for unaccounted for water but, instead, simply requires the Company to report systems that exceed the 10 percent loss limit and to propose cost-effective solutions for reducing such losses. We believe Staff's recommendation will enable Staff to monitor Arizona Water's unaccounted for water while allowing the Company sufficient flexibility to resolve water loss situations that require a remedy. Staff's recommendation is therefore adopted.

B. NP-260 Tariff

Arizona Water has a NP-260 Non-Potable Central Arizona Project Water Tariff ("NP-260 Tariff") that is designed to pass through to non-potable customers all costs associated with providing non-potable water service plus amounts for administration. Company witness Kennedy testified that the NP-260 Tariff is designed to be as income neutral as possible while avoiding passing costs onto potable customers (Ex. A-16, at 28).

Staff recommends that Arizona Water amend its NP-260 Tariff as follows: eliminate the fixed meter charge; eliminate the depreciation charge; indemnify customers from maintenance, repair or replacement charges when the damage to CAP facilities is the result of the Company's error; require the customer to be responsible for repair or replacement of the meter; and include fixed-dollar administrative charges representative of the Company's actual costs (Ex. S-51, at 16-17). Staff claims that these changes are necessary to address problems that were identified in a formal complaint filed in *SLV Properties v. Arizona Water Co.*, Decision No. 65755 (March 20, 2003).

Arizona Water contends that the Decision cited by Staff does not support the proposed recommendation. According to the Company, the NP-260 Tariff maintenance fees and related charges were found reasonable in Decision No. 65755 and there is no reason to change the tariff in this case.

We agree with Staff's recommended changes to the NP-260 Tariff. In Decision No. 65755, we directed Staff to "review the NP-260 Tariff" in the instant proceeding and "recommend changes or revisions as required." The Company does not dispute that the depreciation charge should be

eliminated from the tariff. However, as Mr. Hammon indicates, there is no valid basis to find that the current fixed monthly meter charge of more than $363 is relevant to the fixed costs of the CAP delivery system (Ex. S-51, at 15). The CAP fixed costs are already recovered through the CAWCD capital charges which are passed on to customers with a percentage fee for administration collected by Arizona Water. We also agree that the NP-260 Tariff does not adequately define customer rights, especially for unusual maintenance situations (*e.g.*, lightning strikes). Under the current tariff, Arizona Water has no real incentive to protect the equipment that is owned and controlled by the Company, but for which the customer bears maintenance responsibility (Id. at 16). We find that Staff's proposed changes to the NP-260 Tariff are reasonable and shall be adopted.

C. Arsenic Treatment Cost Recovery Mechanism

Arizona Water is requesting approval in this proceeding of an arsenic cost recovery mechanism ("ACRM") that would allow the Company to recover arsenic treatment capital costs and certain "recoverable" operation and maintenance ("O&M") costs. The Company's proposal is based on the ACRM approved recently for Arizona Water's Northern Group in Decision No. 66400. Arizona Water projects arsenic treatment capital costs for the Eastern Group will exceed $12 million and that annual O&M costs for the affected Eastern Group systems (Apache Junction, Superior, and San Manuel) will cost more than $2.6 million (Ex. A-1, at 9; Ex. A-15, at 7-8).

Neither Staff nor RUCO filed testimony opposing the Company's ACRM recommendation. Given the lack of opposition to the proposed ACRM, and considering that the Company's proposal is based on the recently approved ACRM for the Northern Group, we will approve the ACRM recommendation for the Eastern Group in this proceeding.

D. Curtailment Tariff and Water Conservation Notice

Staff recommended that Arizona Water be directed to file a curtailment tariff consistent with prior Commission decisions requiring such tariffs. At the hearing, the Company agreed to file such a tariff (Tr. 82-83). Accordingly, Arizona Water is directed to file a curtailment tariff in a form approved by Staff at the time it files its tariffs in compliance with this Decision.

We also believe it is appropriate and necessary to require Arizona Water Company to implement a water conservation initiative for customers affected by this Application. Within 30 days

of the effective date of this Decision, Arizona Water Company shall develop and submit to Staff a notice concerning water conservation information, including methods and guidelines that customers may use to lower water usage. Within 30 days of approval by Staff, Arizona Water Company shall send to all customers affected by this Application, by bill insert or separate mailing, a copy of the approved notice.

E. **Pinal Creek Group Settlement**

In 1998, Arizona Water negotiated a settlement with members of the Pinal Creek Group ("PCG Settlement"), a group of mining interests with copper mining operations in the vicinity of the Company's Miami system (Ex. A-16, at 7-8).

Arizona Water's Miami system is located in Gila County and serves approximately 3,000 customers. According to the Company's witnesses, the capacity of wells in the Miami system has been extremely variable due to the prevailing hydrology of the area. The Company claims that production from area wells has been consistently declining over time and customers have been subjected to temporary shortages and conservation restrictions (Ex. A-2, at 5-7).

In 1997, while it was investigating additional water supply options in the Miami area, Arizona Water discovered that the Arizona Department of Environmental Quality ("ADEQ") and the United States Environmental Protection Agency ("EPA") were about to enter into a consent order with the PCG concerning alleged contamination of groundwater in the Miami area by the members of the PCG (Ex. A-2, at 7). Because the proposed consent order did not address the potential effects on Arizona Water and its customers, the Company took action to insert itself into the action before the consent order between ADEQ and the PCG was finalized. Mr. Garfield testified that Arizona Water's participation in the proceeding was not welcomed by either ADEQ or the PCG, and only through the Company's persistence was it able to secure its primary goal of a guaranteed source of replacement water for the Miami system. (Id.; Tr. 135-136).

The consent order between the PCG, ADEQ, and EPA requires the PCG to pay fines to both ADEQ and EPA, and to take responsibility for cleanup in the area at an estimated cost of $100 million (RUCO Ex. 3, at 29). In its separate settlement with the PCG, Arizona Water agreed to a cash settlement of $1.4 million paid over a three-year period. This cash compensation under the

settlement was recorded as Miscellaneous Non-Operating Income, whereby none of the proceeds were allocated to ratepayers (Id. at 29-30). In addition, the PCG Settlement provides that the Company is to receive replacement water from various PCG wells (through an interconnection linking the PCG system with Arizona Water's Miami system). Under the agreement, the Company began receiving 100 gallons of water per minute ("gpm") in 1998, increasing by 100 gpm up to 600 gpm in October 2003. After that time, PCG is required to continue to provide an aggregate volume of capacity of 600 gpm until the settlement agreement expires in 2028 (Id.).

Staff argues that the Company's Miami ratepayers are entitled to the entirety of the PCG Settlement proceeds. Staff claims that the benefits from the settlement were in exchange for the release of past damages and the Company retains the ability to seek future damages. Staff asserts that Arizona Water has not retired any wells in the Miami system for more than 20 years and ratepayers have paid for those wells through rates during that same time period (Tr. 543-558). Staff further contends that as the holder of a CC&N in the Miami area, it is the Company's duty to secure adequate sources of water for its customers. Staff claims that the Company is adequately compensated by having rates in effect that allow it to earn a reasonable return on its investment and there is no basis for allowing additional compensation through entitlement to the settlement proceeds. Staff also contends that the Company improperly accounted for the proceeds as miscellaneous income instead of as a deferred regulatory liability pursuant to the NARUC Uniform System of Accounts ("USOA") (Tr. 1083-1092). Staff claims that its recommendation corrects the improper accounting treatment by reducing rate base by the amount of the payment, and amortizing the reduction over the remaining life of the PCG Settlement (Ex. S-45, at 52).

RUCO similarly argues that the proceeds of the PCG Settlement were a windfall to Arizona Water's shareholders. RUCO refutes the Company's assertion that the replacement water alone represents sufficient compensation for ratepayers. According to RUCO, the replacement water is nothing more than that to which customers are entitled because it is the Company's obligation to provide its customers with safe drinking water in exchange for being granted an exclusive franchise to serve that area. RUCO recommends that the settlement proceeds should be shared equally between ratepayers and shareholders. RUCO believes that requiring an equal allocation strikes a

balance between encouraging the Company to pursue legitimate legal recourse, while at the same time preventing the Company from obtaining an unjustified windfall.

Arizona Water disputes Staff's contention that it improperly accounted for the settlement proceeds pursuant to the NARUC USOA. The Company contends that the settlement proceeds were properly included in Account 421-NonUtility Income, and Staff has presented no evidence to the contrary. Arizona Water also argues that both Staff and RUCO have ignored the substantial benefits associated with more reliable and less expensive water supplies that are conferred on customers as a result of the PCG Settlement. The Company points out that the PCG replacement water provides a reliable source of water in an area where lack of water has become a serious issue. Mr. Kennedy estimated that the present value of the replacement water provision in the settlement is between $5.48 and $7.97 million (Ex. A-16, at 5).

Arizona Water cites as precedent for its recommendation Decision No. 58497 (January 14, 1994) involving Tucson Electric Power Company ("TEP"). The Company contends that the Commission allowed TEP to retain the $40 million cash portion of a settlement agreement due to another provision of the settlement that required TEP to share benefits of a 10 year power sharing agreement (Decision No. 58497, at 59-60). Arizona Water argues that, similar to the TEP Decision, the Commission should consider the overall benefits provided by the PCG Settlement rather than focusing solely on the monetary payment of the settlement.

We agree with RUCO's recommendation that the monetary proceeds of the PCG Settlement should be shared equally between shareholders and ratepayers. RUCO and Staff argue convincingly that Arizona Water, as holder of the exclusive franchise to provide water service in the Miami area, has an ongoing obligation to obtain and provide adequate and safe water for customers in the service area. The fact that Arizona Water pursued a legal remedy to assure that its water supply would be protected does not necessarily entitle the Company to retain for the exclusive benefit of its shareholders the monetary proceeds from the legal settlement. Although we recognize that the replacement water provision of the PCG Settlement provides ratepayers with the benefit of future quantities of water, the Company also benefits from securing an assured supply of water, effectively eliminating the risk associated with obtaining additional supplies in the area for a number of years.

We believe that the TEP case cited by Arizona Water supports this conclusion. In Decision No. 58497, the Commission allowed TEP to retain for shareholders a $40 million payment TEP obtained from Southern California Edison Company ("SCE") as part of a legal settlement involving a failed merger. However, it was noted in that Decision that TEP's shareholders had incurred more than $12 million in legal expenses pursuing the litigation against SCE. In addition, TEP was required to apply the proceeds towards a reduction in its debt service. In this proceeding, there are no similar conditions placed on how Arizona Water's share of the settlement proceeds must be applied. Further, as discussed below, we are allowing Arizona Water to include in rate base more than $308,000 in legal expenses associated with the PCG litigation (see discussion below). Considering the PCG Settlement in its entirety, we find that splitting the cash proceeds of the agreement equally provides a reasonable balance between the rights and obligations of shareholders and ratepayers and will provide the Company with a sufficient incentive to pursue future litigation or settlement of claims that the Company and its customers may be entitled to receive.

1. PCG Legal Expenses

Staff claims that the Company receives further compensation from the PCG Settlement through the inclusion of capitalized legal fees in rate base (Tr. 1099). RUCO argues on brief that the $308,005 booked by the Company as legal expenses associated with the PCG Settlement should be removed from plant accounts, reclassified as a separate addition to rate base, and amortized over the life of the agreement (RUCO Brief, at 7-9). RUCO claims that, absent its proposed adjustment, Arizona Water will earn a perpetual return in operating income from inclusion of these legal costs.

Arizona Water asserts that there is no evidence in the record to support RUCO's recommendation which was raised for the first time in RUCO's brief. The Company claims that the only record evidence is that the legal costs were incurred to protect its rights to a specified quantity of water, an asset with an unlimited life that is not subject to depreciation (Company Reply Brief, at 41-42).

We agree with Arizona Water that there is insufficient evidence in the record of this case to support RUCO's proposed treatment of the PCG Settlement legal costs. RUCO's recommendation was presented for the first time in its initial brief, thereby precluding an opportunity for cross-

examination or rebuttal of the proposed alternative treatment. Although we are denying RUCO's recommendation, we believe this issue should be reviewed in the Company's next rate proceeding to allow a full analysis of whether it is appropriate to allow recovery in rate base of legal expenses associated with pursuit of litigation and settlement of legal claims.

2. Miami Purchased Power Expense

Staff witness Hammon testified that because the PCG Settlement provides Arizona Water with up to 600 gpm of replacement water, the Company's purchased power required to pump water in the Miami system has been reduced (Ex. S-52, at 17-18). Accordingly, Staff reduced the Company's purchased power expense in its recommendation regarding allowable expenses (Id.).

Arizona Water contends that Staff's recommendation is based on speculation regarding the amount of the Company's future purchased power expenses (Tr. 1134-1135). The Company argues that speculative expense reductions are not a sufficient basis for adopting Staff's recommendation.

We agree with the Company that Staff's proposal is based on estimates of future reductions in purchased power. Although Mr. Garfield admitted that Arizona Water did not yet own the PCG wells in question, he testified that PCG may exercise its option under the agreement to convey the wells to the Company (Tr. 252-259). Given the current uncertainty regarding this issue, and the speculative nature of Staff's recommendation, we do not believe it is appropriate to reduce Arizona Water's Miami purchased power expenses in this proceeding.

3. Confidentiality of PCG Settlement

The PCG Settlement contains a confidentiality provision that prohibits Arizona Water from disclosing the terms of the agreement (Ex. S-10). The allegedly confidential information was provided to the Administrative Law Judge and Commissioners. The information was also provided to most of the other parties pursuant to protective agreements. Portions of the hearing were conducted on a closed record and transcripts, exhibits, testimony, and briefs addressing the confidential PCG Settlement issues have, up to this point in time, been maintained under seal.

On December 17, 2003, a Procedural Order was issued ruling that Arizona Water's request for confidentiality of the PCG Settlement should be denied. As stated in the December 17, 2003 Procedural Order, A.R.S. §39-121 provides that "Public records and other matters in the custody of

any officer shall be open to inspection by any person at all times during office hours." Although there is a strong presumption in favor of disclosure, the right to inspection of public documents is not unlimited. Access to public records may be denied or restricted where "the interests of privacy, confidentiality, or the best interest of the state in carrying out its legitimate activities outweigh the general policy of open access." *Carlson v. Pima County*, 141 Ariz. 487, at 491, 687 P.2d 1242 (1984). The purpose of public records laws is to allow citizens 'to be informed about what their government is up to.' *Scottsdale Unified School District v. KPNX Broadcasting Co.*, 191 Ariz. 297, 302-303, 955 P.2d 534, 539-540 (1998) (quoting *United States Dep't. of Justice v. Reporters Comm. For Freedom of the Press*, 489 U.S. 749,773, 109 S.Ct. 1468 (1989). See, also, *A.H. Belo Corp. v. Mesa Police Dept.*, 202 Ariz. 184, 42 P.2d 615 (Ariz. Ct. of Appeals 2002).

Arizona Water and BHP Copper[6] contend that disclosure of the terms of the PCG Settlement could have a chilling effect on future settlements between utility companies and third-party litigants. However, the public interest in disclosure outweighs the potential effect on future settlements. This public interest exists in the form of the public's right to know the underlying basis for how the rates set by the Commission were established. In this case, our decision that the settlement proceeds should be shared equally between shareholders and ratepayers has an effect on the revenue requirement for the Miami system. Thus, public disclosure of the amount of the settlement is necessary to enable the public to assess how the revenue requirement was determined.

In addition, we do not believe it is good public policy to retain confidentiality of the terms of a settlement agreement entered into by a regulated utility and a third party simply because disclosure may expose the third party to some future liability for its actions. Although most of the cases on public records address disclosure requirements for records and information maintained by government agencies, the same principles apply equally in situations where, as in this case, the Commission reviewed the terms of the PCG Settlement as part of its ratemaking authority under Article XV of the Arizona Constitution. We find that the presumption in favor of access to public records outweighs the privacy interests expressed by Arizona Water and the PCG Group.

---

[6] BHP Copper is one of the members of the PCG Group. Counsel for BHP Copper appeared at the December 8, 2003 oral argument in support of maintaining confidentiality of the terms of the settlement agreement.

* * * * * * * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. Arizona Water is an Arizona corporation engaged in the business of providing water utility service to the public in portions of Arizona pursuant to authority granted by the Commission.

2. On August 14, 2002, Arizona Water filed with the Commission an application for a permanent increase in water rates for its Eastern Group, consisting of the Company's Apache Junction, Bisbee, Miami, Oracle, San Manuel, Sierra Vista, Superior, and Winkelman systems.

3. By Procedural Order issued October 23, 2002, a hearing was scheduled for June 23, 2003.

4. A Second Rate Case Procedural Order was issued March 14, 2003, granting Staff's Motion to Continue and setting a new hearing date of September 22, 2003. The March 14, 2003 Procedural Order also extended the time clock for a final Commission decision.

5. Intervention was granted to RUCO, the City of Casa Grande, Superstition Mountain, LLC, and Mr. Robert Skiba.

6. Pre-hearing conferences were conducted on March 31, 2003 and September 17, 2003. Public comment hearings were conducted on August 18, 2003 in San Manuel, on August 19, 2003 in Bisbee, and on August 28, 2003 in Apache Junction. The evidentiary hearing commenced on September 22, 2003 and concluded on September 26, 2003.

7. Initial closing briefs were filed on October 31, 2003 and reply briefs were filed on November 10, 2003. An oral argument was conducted on December 8, 2003.

8. Based on the adjusted test year data, as determined herein, the operating income under existing rates for the Eastern Group is $2,168,327.

9. Based on the adjusted test year data, as determined herein, the fair value rate base for the Eastern Group is $35,944,611.

10. A fair and reasonable rate of return on fair value rate base is 8.7 percent.

11. The revenue increase proposed by Arizona Water would produce an excessive return

on fair value rate base.

12. The authorized increase in gross annual revenues for the Eastern Group is $1,564,803.

13. Staff's proposed inverted tier rate structure does not support our conservation goals for usage under 50,000 gallons.

14. The rate design adopted herein will promote conservation and send appropriate price signals to all consumers.

15. As discussed herein, Arizona Water's Eastern Group Purchased Power and Purchased Water Adjustment Mechanisms should be discontinued.

16. Arizona Water's proposal to consolidate the Superior and Apache Junction systems, through the two-step process described herein, is reasonable and shall be adopted.

17. Staff's proposed water loss audit and reporting plan is reasonable and shall be adopted.

18. Staff's proposed changes to Arizona Water's NP-260 Tariff are reasonable and shall be adopted.

19. Arizona Water's proposed Arsenic Cost Recovery Mechanism for the Eastern Group, which is based on the Commission's approval of the Northern Group ACRM in Decision No. 66400, is reasonable and shall be approved.

20. Staff's proposed Curtailment Tariff requirement for Arizona Water is reasonable and shall be approved.

21. The treatment of the Pinal Creek Group Settlement discussed herein is reasonable and shall be adopted.

22. For the Apache Junction system, the rates set herein produce a decrease in annual revenues of 3.29 percent which results in a decrease of 6.5 percent for the average usage 5/8 x ¾ inch meter customer and a decrease of 3.0 percent for the median usage 5/8 x ¾ inch customer.

23. For the Bisbee system, the rates set herein produce an increase in annual revenues of 32.10 percent which results in average and median increases for 5/8 x ¾ inch meter customers of approximately 22.8 percent and 26.5 percent, respectively.

24. For the Miami system, the rates set herein produce an increase in annual revenues of

24.24 percent which results in average and median increases for 5/8 x ¾ inch meter customers of approximately 13.9 percent and 17.7 percent, respectively.

25. For the Oracle system, the rates set herein produce an increase in annual revenues of 13.04 percent which results in average and median increases for 5/8 x ¾ inch meter customers of approximately 13.0 percent and 17.3 percent, respectively.

26. For the San Manuel system, the rates adopted herein reflect elimination of the purchased water adjustment mechanism and will result in average and median increases for 5/8 x ¾ inch meter customers of approximately 23.8 percent and 26.9 percent, respectively.

27. For the Sierra Vista system, the rates set herein produce an increase in annual revenues of 27.82 percent which results in average and median increases for 5/8 x ¾ inch meter customers of approximately 17.8 percent and 20.4 percent, respectively.

28. For the Superior system, the rates set herein produce an increase in annual revenues of 50.60 percent which results in the average usage 5/8 x ¾ inch meter customer experiencing a decrease of approximately 33.8 percent and the median usage 5/8 x ¾ inch customer experiencing a decrease of approximately 31.8 percent. The decreases for these average and median usage customers are due primarily to consolidation of the Superior and Apache Junction systems, as described herein.

29. For the Winkelman system, the rates set herein produce an increase in annual revenues of 24.16 percent which results in average and median increases for 5/8 x ¾ inch meter customers of approximately 1.4 percent and 2.5 percent, respectively.

30. The rates and charges for each system, as attached hereto in the attached Exhibit D and incorporated by reference herein, are reasonable.

CONCLUSIONS OF LAW

1. Arizona Water is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§40-250 and 40-251.

2. The Commission has jurisdiction over the Company and of the subject matter of the Application.

3. Notice of the Application was provided in the manner prescribed by law.

4. The rates and charges for each system, as attached hereto in Exhibit D and incorporated by reference herein, are reasonable and shall be approved.

ORDER

IT IS THEREFORE ORDERED that Arizona Water Company is hereby directed to file with the Commission on or before March 31, 2004 revised schedules of rates and charges consistent with Exhibit D and the discussion herein.

IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be effective for all service rendered on and after March 10, 2004.

IT IS FURTHER ORDERED that Arizona Water Company shall notify its affected customers of the revised schedules of rates and charges authorized herein by means of an insert in its next regularly scheduled billing, in a form approved by Staff.

IT IS FURTHER ORDERED that Arizona Water Company shall implement the approved Arsenic Cost Recovery Mechanism for the Eastern Group in accordance with the discussion herein and consistent with the ACRM approved in Decision No. 66400 for Arizona Water's Northern Group.

IT IS FURTHER ORDERED that Arizona Water Company's Eastern Group Purchased Power and Purchased Water Adjustment Mechanisms should be discontinued.

IT IS FURTHER ORDERED that Arizona Water Company shall implement the Water Loss Plan proposed by Staff, as discussed herein, within 120 days of the effective date of this Decision.

IT IS FURTHER ORDERED that Arizona Water Company shall submit an amended NP-260 Tariff, in the form prescribed by Staff and approved herein, by no later than March 31, 2004.

IT IS FURTHER ORDERED that Arizona Water Company shall develop and submit for the approval of Staff a water conservation initiative within 30 days of the effective date of this Decision. Arizona Water Company shall disseminate the notice to all customers affected by this Application, as discussed herein, within 30 days of approval by Staff.

IT IS FURTHER ORDERED that Arizona Water Company shall file a rate case application for its Eastern Group no later than September 30, 2007.

. . .

IT IS FURTHER ORDERED that Arizona Water Company shall submit a Curtailment Tariff in the form prescribed by Staff and approved herein, by no later than March 31, 2004.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN | COMMISSIONER | COMMISSIONER

COMMISSIONER | COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 19th day of March, 2004.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT

DISSENT
DDN:mlj

SERVICE LIST FOR: ARIZONA WATER COMPANY

DOCKET NO.: W-01445A-02-0619

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Arizona Water Company
Docket No. W-01445A-02-0619
Test Year Ended December 31, 2001

EXHIBIT A
RATE BASE

LINE NO.	DESCRIPTION	Apache Junction	Bisbee	Miami	Oracle	San Manuel	Sierra Vista	Superior	Winkelman	Eastern Group
1	Company Proposed Rate Base - Rejoinder	$ 21,722,321	$ 3,878,994	$ 4,507,618	$ 2,706,211	$ 759,504	$ 2,512,878	$ 2,646,023	$ 269,330	$ 39,002,879
	ALJ Adjustment	$ 67,011	$ 11,966	$ 13,905	$ 8,348	$ 2,343	$ 7,752	$ 8,163	$ 831	$ 120,319
	ALJ Proposed Rate Base	$ 21,789,332	$ 3,890,960	$ 4,521,523	$ 2,714,559	$ 761,847	$ 2,520,630	$ 2,654,186	$ 270,161	$ 39,123,198
	Adjustments to Accumulated Depreciation	$ (1,319,494)	$ (121,028)	$ (24,822)	$ (99,812)	$ 24,889	$ (92,123)	$ (77,188)	$ 7,566	$ (1,702,012)
2	Adj. to Regulatory Asset/Deferred Credit	$ -	$ -	$ (700,000)	$ -	$ -	$ -	$ -	$ -	$ (700,000)
4	Adjustments to Working Capital	$ (485,547)	$ (46,080)	$ (78,337)	$ (44,919)	$ (17,694)	$ (32,574)	$ (23,813)	$ (6,459)	$ (735,423)
5	Adjustments to CIAC Amortization	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	Adjustments to CAP Amortization	$ (69,152)								$ (69,152)
7	Adj. to Regulatory Liability/Deferred Credit	$ -		$ 28,000						$ 28,000
8	Phx Office/Metrer Shop Adjustments	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
9	Authorized Rate Base	$ 19,915,139	$ 3,723,852	$ 3,746,364	$ 2,569,828	$ 769,042	$ 2,395,933	$ 2,553,185	$ 271,268	$ 35,944,611

DOCKET NO. W-01445A-02-0619

DECISION NO. 66849

ARIZONA WATER COMPANY
DOCKET NO. W-01445A-02-0619
TEST YEAR ENDED DECEMBER 31, 2001

	Apache Junction	Superior	Bisbee	Miami	Oracle	San Manuel	Sierra Vista	Winkelman
Service Charges:								
Establishment	$ 16.00	$ 16.00	$ 16.00	$ 16.00	$ 16.00	$ 16.00	$ 16.00	$ 16.00
Guarantee Deposit	(c)	(c)	(c)	(c)	(c)	(c)	(c)	(c)
Reconnection for Delinquency (per disconnection)	$ 16.00	$ 16.00	$ 16.00	$ 16.00	$ 16.00	$ 16.00	$ 16.00	$ 16.00
Re-establishement	(d)	(d)	(d)	(d)	(d)	(d)	(d)	(d)
Service Call Out (After Regular Working Hours Only)	$ 35.00	$ 35.00	$ 35.00	$ 35.00	$ 35.00	$ 35.00	$ 35.00	$ 35.00
Returned Check Charge	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00
Meter Re-read (After Regular Working Hours Only)	$ 35.00	$ 35.00	$ 35.00	$ 35.00	$ 35.00	$ 35.00	$ 35.00	$ 35.00
Meter Test	$ 50.00	$ 50.00	$ 50.00	$ 50.00	$ 50.00	$ 50.00	$ 50.00	$ 50.00
Late Charge	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)

(c) Per Commission Rule A.A.C. R14-2-403B
(d) Eight (8) times the customer's monthly minimum charge, or payment of the minimums since disconnection, whichever is less.
N/A No current tariff.
(e) 1.5 percent after 15 days

DECISION NO. 66849

DOCKET NO. W-01445A-02-0619

Arizona Water Company
Docket No. W-01445A-02-0619
Test Year Ended December 31, 2001

EXHIBIT B
OPERATING STATEMENT

LINE NO.	DESCRIPTION	Apache Junction	Bisbee	Miami	Oracle	San Manuel	Sierra Vista	Superior	Winkelman	Eastern Group
1	Company Test Year Operating Income	$ 1,862,934	$ 31,709	$ 59,991	$ 167,200	$ (186,409)	$ 31,077	$ (6,904)	$ 9,436	$ 1,969,034
2	Adjustments to Revenue	$ -	$ (347)	$ -	$ -	$ -	$ -	$ -	$ -	$ (347)
3	Adjustment to Purchased Water	$ 5,747	$ -	$ -	$ 916	$ (7,875)	$ -	$ -	$ -	$ (1,212)
4	Adjustment to Purchased Power	$ 6,251	$ 3,783	$ 40,123	$ -	$ 1,024	$ 2,544	$ -	$ 122	$ 53,847
5	Adjustments to Water Treatment Expense	$ (5,320)	$ 6,143	$ 62,992	$ (9,014)	$ 9,269	$ 5,031	$ 8,847	$ (242)	$ 77,706
6	Adjustment to Transmission/Distrib. Exp.	$ 19,050	$ 4,261	$ 3,788	$ 1,724	$ 1,981	$ (4)	$ 1,639	$ 237	$ 32,676
7	Adj. to Customer Account Expense	$ (225)	$ 3	$ 1	$ (5)	$ 1	$ (4)	$ 4	$ 2	$ (223)
8	Adj. to Administrative /General Expense	$ 8,976	$ 1,996	$ 2,030	$ 977	$ 830	$ 1,372	$ 943	$ 116	$ 17,240
9	Adj. to Depreciation/Amortization	$ 337,635	$ 5,632	$ 42,131	$ 1,954	$ 12,874	$ 2,256	$ 2,100	$ 219	$ 404,801
10	Adjustment to Property Tax	$ (57,538)	$ 5,704	$ (3,010)	$ (953)	$ (6,957)	$ 5,240	$ (11,647)	$ (1,402)	$ (70,563)
11	Adj. to Federal/State Income tax	$ (280,267)	$ 14,509	$ (98,493)	$ (5,347)	$ 16,847	$ 8,133	$ 10,404	$ 597	$ (333,617)
8	ROO Test Year Adj. Operating Income	$ 1,897,243	$ 73,393	$ 109,553	$ 157,452	$ (158,415)	$ 55,645	$ 5,386	$ 9,085	$ 2,149,342

DECISION NO. 66849

DOCKET NO. W-01445A-02-0619

Arizona Water Company
Docket No. W-01445A-02-0619
Test Year Ended December 31, 2001

EXHIBIT C
REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	Apache Junction	Bisbee	Miami	Oracle	San Manuel	Sierra Vista	Superior	Winkelman	Eastern Group
1	Adjusted Rate Base	$ 19,915,139	$ 3,723,852	$ 3,746,364	$ 2,569,828	$ 769,042	$ 2,395,933	$ 2,553,185	$ 271,268	$ 35,944,611
2	Adjusted Operating Income (Loss)	$ 1,897,243	$ 73,393	$ 109,553	$ 157,452	$ (158,414)	$ 55,645	$ 5,386	$ 9,086	$ 2,149,344
3	Current Rate of Return (L2 / L1)	9.53%	1.97%	2.26%	6.13%	-20.60%	2.32%	0.21%	3.35%	5.98%
4	Required Rate of Return	8.7000%	8.7000%	8.7000%	8.7000%	8.7000%	8.7000%	8.7000%	8.7000%	8.7000%
5	Required Operating Income (L4 * L1)	$ 1,732,617	$ 323,975	$ 325,934	$ 223,575	$ 66,907	$ 208,446	$ 222,127	$ 23,600	$ 3,127,181
6	Operating Income Deficiency (L5 - L2)	$ (164,626)	$ 250,582	$ 216,381	$ 66,123	$ 225,321	$ 152,801	$ 216,741	$ 14,515	$ 977,837
7	Gross Revenue Conversion Factor	1.63195	1.63195	1.63195	1.63195	1.63195	1.63195	1.63195	1.63195	1.63195
8	Increase In Gross Revenue (L7 * L6)	$ (268,661)	$ 408,938	$ 353,123	$ 107,910	$ 367,712	$ 249,365	$ 353,710	$ 23,687	$ 1,595,782
9	Adjusted Test Year Revenue	$ 8,943,927	$ 1,256,603	$ 1,456,939	$ 827,577	$ 474,250	$ 896,485	$ 698,968	$ 98,022	$ 14,652,771
10	Proposed Annual Revenue (L8 + L9) Note A	$ 8,675,266	$ 1,665,541	$ 1,810,062	$ 935,487	$ 841,962	$ 1,145,850	$ 1,052,678	$ 121,709	$ 16,248,553
11	Require Increase in Revenue (%) (L8/L9)	-3.00%	32.54%	24.24%	13.04%	77.54%	27.82%	50.60%	24.16%	10.89%

DECISION NO. 66849

DOCKET NO. W-01445A-02-0619

ARIZONA WATER COMPANY
DOCKET NO. W-01445A-02-0619
TEST YEAR ENDED DECEMBER 31, 2001

EXHIBIT D
RATE DESIGN

	Apache Junction	Superior	Bisbee	Miami	Oracle	San Manuel	Sierra Vista	Winkelman
Monthly Usage Charge:								
5/8" x 3/4" Meter	$ 12.54	$ 12.54	$ 16.32	$ 15.44	$ 19.31	$ 19.94	$ 15.40	$ 12.95
1" Meter	$ 34.30	$ 34.30	$ 43.78	$ 38.87	$ 40.62	$ 42.51	$ 32.71	$ 38.15
2" Meter	$ 120.20	$ 120.20	$ 141.06	$ 129.86	$ 166.69	$ 234.67	$ 125.47	$ 81.75
3" Meter	$ 236.03	$ 236.03	$ 267.25	$ 248.35	$ 220.51	$ 358.76	$ 284.04	$ 241.28
4" Meter	$ 480.25	$ 480.25	$ 477.98	$ 497.76	$ 286.45	$ 453.35	$ 398.10	$ 451.22
6" Meter	$ 774.01	$ 774.01	$ 662.53	$ 875.26	$ 341.11	$ 538.19	$ 604.72	$ 616.16
8" Meter	$ 926.15	$ 926.15	$ 891.27	$ 1,163.12	$ 625.36	$ 854.56	$ 725.66	$ 764.18
10" Meter	$ 1,157.69	$ 1,157.69	$ 1,200.36	$ 1,305.25	$ 837.19	$ 1,228.50	$ 907.08	$ 935.02
Gallons Included In Minimum Charge:								
5/8" x 3/4" Meter	0	0	0	0	0	0	0	0
1" Meter	0	0	0	0	0	0	0	0
2" Meter	0	0	0	0	0	0	0	0
3" Meter	0	0	0	0	0	0	0	0
4" Meter	0	0	0	0	0	0	0	0
6" Meter	0	0	0	0	0	0	0	0
8" Meter	0	0	0	0	0	0	0	0
10" Meter	0	0	0	0	0	0	0	0
Fire Hydrants Used For Construction Water	0	0	0	0	0	0	0	0
Commodity Rates :								
Per 1,000 Gallons (In Excess of Minimum)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Per 1,000 Gallons for 0 to 10,000 Gallons	$ 1.9688	$ 2.2000	$ 2.5940	$ 3.1400	$ 4.9850	$ 1.7040	$ 1.6120	$ 1.1360
Per 1,000 Gallons for 10,001 to 25,000 Gallons	$ 2.4610	$ 2.7500	$ 3.2420	$ 3.9250	$ 6.2310	$ 2.1300	$ 2.0150	$ 1.4200
Per 1,000 Gallons for Gallons in Excess of 25,000	$ 2.9532	$ 3.3000	$ 3.8900	$ 4.7100	$ 7.4770	$ 2.5560	$ 2.4180	$ 1.7040
Service Line and Meter Installation Charge:								
5/8" x 3/4" Meter	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)
1" Meter	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)
2" Meter	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)
3" Meter	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)
4" Meter	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)
6" Meter	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)

(a) No charge for 5/8" and 1" if on existing pipelines. Full cost for 5/8" and 1" if if on new pipelines.
(b) Full cost for 2"and larger if on existing or new pipelines.

DOCKET NO. W-01445A-02-0619

66849

CHAPARRAL CITY WATER COMPANY, INC.
2006 RATE CASE
DOCKET NO. W-02113A-07-0551

RESPONSE TO STAFF'S SEVENTH SET OF DATA REQUESTS

February 21, 2008

Response provided by:	Robert Hanford
Title:	District Manager
Company Name:	Chaparral City Water Company
Address:	12021 N. Panorama Drive Fountain Hills, Arizona 85268
Company Response Number:	MEM 7.3

Q. Please provide an explanation of the retirement process used to record the removal from service of Well # 8 and #9 as a result of the Agreement between Chaparral City Water Company and Fountain Hills Sanitary District, dated February 3, 2005, which requires these wells to be capped in accordance with ADWR rules and regulations. Please provide supporting documentation (purchase orders, invoices and/or contracts) for the original cost of Well #8 and Well #9.

RESPONSE: These wells are physically isolated from CCWC's distribution system, but have yet to be retired. While Well # 9 is capped and will never be used as a potable source of supply, it could be used as an aquifer storage and recovery well for non-potable water. Well #8, also currently capped, could be equipped to pump potable water in an emergency. The Company believes that these two wells are appropriately considered plant held for future use. The Company has not yet transferred the well costs to plant held for future use. However, both wells were constructed over 36 years ago and have been fully depreciated and have no impact on the rate base in the instant case.

The Company cannot locate the original documentation of the cost of these wells. After examining the fixed asset listing (previously provided) for the well account, the Company believes that the original cost of Well #8 is $49,329 (item 51834 with in-service year of 1971) and the original cost of Well #9 is $54,139 (item 51835 with in-service year of 1972), as these two amounts are shown to have been recorded in the time period these two wells were originally placed into service. The Company will agree with a proposal to remove this plant from plant-in-service. However, again, the impact on rate base will be zero.

EXHIBIT
R-3
ADMITTED

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION OF CHAPARRAL CITYWATERCOMPANY, INC. FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON	)))))))	DOCKET NO. W-02113A-07-0551

(REHEARING)

DIRECT TESTIMONY

OF

ELIJAH O. ABINAH

ASSISTANT DIRECTOR

UTILITES DIVISION

ARIZONA CORPORATION COMMISSION

APRIL 05, 2010

EXHIBIT
S-1
~~ADMITTED~~

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INTRODUCTION

Q. Please state your name and business address.

A. My name is Elijah O. Abinah. My business address is 1200 West Washington Street, Phoenix, Arizona, 85007.

Q. Where are you employed and in what capacity?

A. I am employed by the Utilities Division ("Staff") of the Arizona Corporation Commission ("ACC" or "Commission") as the Assistant Director.

Q. How long have you been employed with the Utilities Division?

A. I have been employed with the Utilities Division since January 2003.

Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Science degree in Accounting from the University of Central Oklahoma in Edmond, Oklahoma. I also received a Master of Management degree from Southern Nazarene University in Bethany, Oklahoma. Prior to my employment with the ACC, I was employed by the Oklahoma Corporation Commission for approximately eight and a half years in various capacities in the Telecommunications Division.

Q. What are your current responsibilities?

A. As the Assistant Director, I review submissions that are filed with the Commission and make policy recommendations to the Director regarding those filings.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address the following two issues pursuant to Commission's Decision No. 71308:

1. Treatment of the Fountain Hill Sanitation District ("FHSD") settlement proceeds;
2. Treatment of the Chaparral City Water Company, Inc.'s ("Chaparral City Water" or "Company") request for recovery of rate case expense associated with the appeal and remand of Commission Decision No. 68178.

Q. Can you please provide a brief background?

A. Yes. On November 10, 2009, the Company filed an application for rehearing, requesting rehearing on five issues in Decision No. 71308. The Commission, on November 24, 2009, voted to grant the application in order to allow time for further consideration. The Commission withheld making any determinations as to any other issues raised in the application until after Commission consideration of an order addressing correction of alleged errors in rates. On December 8, 2009, the Commission issued Decision No. 71424, which amended Decision No. 71308 *nunc pro tunc* to correct the computational error in rates approved in Decision No. 71308. On January 19, 2010, the Commission voted again to grant the Company's rehearing request for purposes of further Commission consideration on the matters of the Company's rehearing request for additional rate case expense associated with the appeal and remand of Decision No. 68176 and treatment of the FHSD settlement proceeds.

TREATMENT OF FOUNTAIN HILL SANITATION DISTRICT SETTLEMENT PROCEEDS

Q. What is Staff's recommendation on this issue?

A. Staff recommends that the Company's proposal of 50/50 sharing between the rate payers and the shareholders be adopted, on the condition that the Company shares the proceeds from the sales of the wells and other equipment on a 50/50 basis with the rate payers.

Q. What is Staff's rationale for this recommendation?

A. Staff believes the rate payer will benefit from the sale of the well and all property associated with the well including but not limited to the land. Although Staff believes that each case stands on its own merit; the Commission in the past has adopted similar treatment.

Q. Did the Company agree to the 50/50 sharing mechanism?

A. Yes. Based on response to Staff's Data Request 25.1, the Company stated: "Chaparral City Water Company previously agreed that it would share with ratepayers the proceeds of a subsequent sale of wells 8 and 9. Please see the Rebuttal Testimony of Robert N. Hanford (Hearing Ex. A-2) at pp. 3-4."

RATE CASE EXPENSE ON APPEAL AND REMAND

Q. Please discuss the Company's request for rate case expense associated with remand of Decision No. 68176.

A. The Company appealed Decision No. 68176 to the Arizona Court of Appeals, raising two issues. The first was whether the process the Commission used to derive a Fair Value Rate of Return on Fair Value Rate Base constituted a "backing-in" to original cost based rates in violation of the Arizona Constitution. The second issue was whether substantial

evidence supported the methodology adopted by the Commission to determine the appropriate cost of equity component of the weighted average cost of capital. The Company was successful on the first issue only. The Court of Appeals remanded the case back to the Commission for further determination. The Commission then held remand proceedings which resulted in Decision No. 70441.

In Decision No. 70441, the Commission ordered the Company to request recovery of those rate case expenses associated with the remand of Decision No. 68176.

Q. What is Staff's recommendation on this issue?

A. Staff recommends that the Company be allowed to recover $100,000.00 in rate case expense as it relates to the appeal and remand.

Q. What was the amount requested by the Company?

A. The Company requested $258,511.00.

Q. What is Staff's rationale for its recommendation?

A. Staff's finds that it is reasonable that successful litigants on constitutional issues should be awarded rate case expense. Staff recommended recovery of $100,000 in expense, amortized over three years.

Q. Does this conclude your Rehearing Direct Testimony?

A. Yes it does.

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without
$100,000

(2) Rev. 30 legal exp.
1.5 m shared

(3) 30,000 Share 1.52 million
100,000 expense.

(4) Share 1.52 mk
Revenue 30 legal
exp.
allow $100,000 in the case
expense.

(5) Split 30,000 in legal
expense