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Transcript Exhibit(s)

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AZ CORP COMMISSION
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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF
CORONADO UTILITIES, 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: SW-04305A-09-_____

**DIRECT TESTIMONY OF
JASON WILLIAMSON**

June 3, 2009

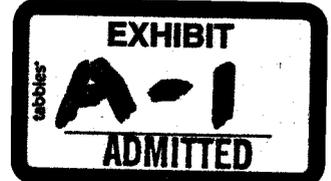


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II. BACKGROUND AND OVERVIEW OF CORONADO AND ITS
OPERATIONS.....2
III. SUMMARY OF SIGNIFICANT SYSTEM IMPROVEMENTS AND
CHANGES IN OPERATING EXPENSES7

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

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

3 A. My name is Jason Williamson and my business address is 6825 E. Tennessee
4 Avenue, Suite 547, Denver Co 80224.

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

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

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

8 A. I am the President and Manager of Pivotal Utility Management, LLC (hereinafter,
9 "Pivotal"). Pivotal manages and/ or operates a total of ten water and sewer
10 utilities, nine of which are in Arizona, seven of those regulated by the Commission.
11 One water and sewer utility is located in Missouri, and the other two referenced
12 sewer systems in Arizona are owned by HOA's, which Pivotal manages and
13 operates under contract. I also hold positions in several of the utilities, including
14 Coronado, for which I am President and a Director.

15 **Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES IN THESE**
16 **POSITIONS?**

17 A. I oversee the day-to-day operations and business management functions for
18 Pivotal, including providing contract management services for a number of water
19 and sewer system operations. More details about my duties are listed in my
20 resume, attached hereto as Attachment 1.

21 **Q. WHAT WAS YOUR EDUCATIONAL AND EMPLOYMENT**
22 **BACKGROUND BEFORE WORKING FOR PIVOTAL UTILITY**
23 **MANAGEMENT?**

24 A. I received a Bachelor of Arts degree in International Affairs in 1993, and a Masters
25 of Business Administration in 1998 from the University of Colorado. While
26 pursuing my master's degree, I worked for Santec Corporation as a project

1 manager, hiring manager and director of marketing. The rest of my working career
2 has been my involvement with Pivotal.

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

4 A. Yes, I previously testified on behalf of Coronado. That was in the proceedings to
5 obtain a certificate of convenience and necessity and financing approval. Decision
6 No. 68608 (March 23, 2006) (“CCN Decision”).

7 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
8 **DOCKET?**

9 A. To support Coronado’s application for rate relief. Specifically, I will provide
10 background on the Company and its operations, including discussing the
11 improvements we made when we took over this sewer system. I will also address
12 certain aspects of the relief being requested in this case.

13 **II. BACKGROUND AND OVERVIEW OF CORONADO AND ITS**
14 **OPERATIONS.**

15 **Q. PLEASE PROVIDE AN OVERVIEW OF CORONADO TODAY?**

16 A. Coronado provides wastewater service in the unincorporated town of San Manuel,
17 Arizona, an area approximately 45 minutes northeast of Tucson, AZ in Pinal
18 County. Coronado’s service area includes the existing town, as well as
19 surrounding acreage that could eventually be developed. This area is also located
20 within the CAAG 208 Planning Area, which subjects the location of wastewater
21 treatment facilities to an additional layer of regulation. In 2008 (our test year), bill
22 counts had us at approximately 1,241 residential customers, 60 commercial
23 customers, 4 schools, one trailer park (with approximately 215 mobile homes – all
24 billed as one customer), and a reclaimed water customer (the San Manuel Golf
25 Club). Most of the commercial customers are local stores, offices, and churches,
26 although the Company’s customer base is primarily residential.

1 **Q. PLEASE DESCRIBE THE COMPANY'S PRIMARY WASTEWATER**
2 **TREATMENT FACILITIES.**

3 A. Coronado completed construction of a 0.350 million gallons per day (MGD)
4 wastewater treatment plant using Modified Extended Aeration technology in 2007.
5 The facility holds an Aquifer Protection Permit ("APP") from Arizona Department
6 of Environmental Quality ("ADEQ"), which was obtained in advance of the new
7 treatment plant installation. This facility replaced the more than 50 year-old
8 lagoon system owned and operated by the BHP Copper Company ("BHP"). The
9 plant currently produces B+ effluent that is sold to the local golf course. The
10 Company also has two lift stations and a combination of gravity and force
11 collection mains.

12 **Q. IS CORONADO OPERATING IN COMPLIANCE WITH ALL FEDERAL**
13 **STATE, COUNTY AND/OR LOCAL REGULATIONS?**

14 A. A compliance status report from ADEQ showing that Coronado is in compliance
15 with the ADEQ APP permit is attached to the application as Attachment 3.

16 **Q. HAS THE COMPANY EXPERIENCED A SIGNIFICANT NUMBER OF**
17 **COMPLAINTS ABOUT SERVICE FROM CUSTOMERS?**

18 A. We rarely receive any complaints from customers for odors, noise or sewer
19 service-related issues. On occasion, we have received complaints from customers
20 regarding billing problems and other tariff related concerns.

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

22 A. The Company's current rates were established in the CCN Decision. The rates
23 were implemented in three phases to coincide with plant construction, the third and
24 final phase going into effect June 1, 2008. But that was the CCN Decision. This is
25 Coronado's first rate case.
26

1 **Q. WHY IS CORONADO SEEKING RATE RELIEF AT THIS TIME?**

2 A. Because the Commission ordered it to. CCN Decision at 31.

3 **Q. DOES THAT MEAN CORONADO DOES NOT WANT TO FILE THIS**
4 **RATE CASE?**

5 A. No, although we are fearful that the rate case expense will be a burden on the
6 Company and our customers. As the Commission is aware, there has been a lot of
7 controversy since Coronado purchased this system from BHP.

8 **Q. WHAT CONTROVERSY?**

9 A. Our initial CC&N and financing application became a long, expensive and
10 protracted proceeding before the Commission. During this process, and as
11 prescribed by the Commission, multiple hearings and opportunities for public
12 comment were afforded to members of the San Manuel community. Then, after
13 the CCN Decision, the community continued to express dissatisfaction with the
14 Commission-approved rates. Coronado received much of the blame for BHP's
15 decision to divest from the sewer utility business. Our initial rates included
16 substantial costs that had not been borne previously, for the construction and
17 operations of a new treatment facility in order to meet the current environmental
18 standards. It must be recalled that the old wastewater facility had been built in the
19 1950's under a mining permit as part of BHP's overall operations.

20 It further bears recalling that BHP, which recently closed its mining
21 operations in San Manuel, and was in the process of closure and remediation, no
22 longer retained the incentive to subsidize the community with respect to the sewer
23 service, as well as other utilities and infrastructure. BHP's exit from the mining
24 business, and associated community services, combined with the need to construct
25 a new wastewater treatment facility to service the community going forward, led to
26 a substantial increase in rates. The cost of the new plant, and loss of the subsidy,

1 has caused dissension, and we are the ones catching the blast.

2 **Q. HOW MUCH WAS THE INCREASE IN RATES TO YOUR CUSTOMERS**
3 **AS A RESULT OF THE CCN DECISION?**

4 A. BHP was charging \$48 a year for service. Our current rate is roughly \$46 per
5 month. These rates were, however, phased in over three years pursuant to a
6 proposal we made and the Commission adopted in the CCN Decision.

7 Meanwhile, subsequent to the CCN Decision, the Commission has held two
8 Town Hall meetings where customers have been allowed to express their
9 dissatisfaction with the rates the Commission-approved rates. Then, more recently,
10 the Commission reopened the CCN Decision to consider whether anything could
11 be done to reduce the impact of rate increases when we took over.

12 If the past is a picture of our future, and this sort of controversy were to
13 continue through this Commission-ordered rate case, we are going to incur a whole
14 lot of rate case expense which we will seek to recover from our customers. It is
15 likely this rate case all by itself will have the near-term effect of rekindling the now
16 smoldering coals of discontent. We don't also need the unfortunate net effect of
17 another long and costly proceeding before the Commission. Keep in mind that
18 Coronado is a small utility, struggling to simply break-even, and we really cannot
19 afford to engage in a lengthy and costly battle over our rates.

20 **Q. IS THE COMPANY SEEKING ADDITIONAL RATE INCREASES IN THIS**
21 **RATE CASE?**

22 A. Yes. As reflected in Mr. Bourassa's testimony and schedule, Coronado believes a
23 17.7% increase is necessary and warranted at this time. Direct Testimony of
24 Thomas J. Bourassa (Rate Base, Income Statement, and Rate Design) ("Bourassa
25 DT") at 3. But, I feel very strongly that the rate increase requested is modest,
26 especially when considering the difficult political environment, the high

1 delinquency rates, and rising costs that Coronado has been faced with since its
2 inception.

3 **Q. WHAT DO YOU MEAN BY “HIGH DELINQUENCY RATES”?**

4 A. Presently, roughly 10% of Coronado customers are delinquent, which is very high
5 relative to the 1% bad debt allowance included in our initial rate design/ revenue
6 requirement. We are forced to write off an increasing annual amount as
7 uncollectible or bad debt each year. We predicted something like this when we
8 filed for the CC&N, but Staff disagreed and substantially reduced our projected
9 amount of bad debt expense. Staff clearly undershot this projection, and we expect
10 this problem will continue, and may worsen if the economy in San Manuel does
11 not improve soon.

12 **Q. HOW HAS THE ECONOMY IMPACTED CORONADO’S SERVICE**
13 **AREA?**

14 A. The most immediate impact of the economic downturn appears to be the continued
15 high delinquencies. We are attempting to take steps to address the high
16 delinquency rate in this rate filing, including the inclusion of an appropriate level
17 of bad debt expenses in our operating expenses and modifications to our tariff, as I
18 discuss further below.

19 **Q. HAS CORONADO TAKEN ANY STEPS TO REDUCE THE COMPANY’S**
20 **OPERATING EXPENSES?**

21 A. Coronado and Pivotal are focused on a formal budget process that constantly
22 reviews its expenses, and reports quarterly to directors on its ability to meet or beat
23 the budget projections. This process has been successful in reducing our operating
24 costs through the use of more efficient and better trained local staff, and a revision
25 to the supervisory structure, which includes a stronger and more frequent
26 involvement of the ownership in supervision – which are by nature better focused

1 on improving the integration of the operational and financial functions. Every site
2 inspection conducted by Pivotal includes a discussion of what can be cut from an
3 operations cost perspective, including electricity, supplies, chemicals and lab
4 testing. In fact, our most recent amendment application to ADEQ included a
5 formal request for reduction of lab sampling from daily (where samples need to be
6 driven 90 minutes each way 4-5 days per week), to once weekly. If approved, this
7 could result in a cost savings through reduced transportation and personnel
8 expense, not to mention the lab expense itself.

9 **Q. HAS THE COMPANY EXPERIENCED ANY CUSTOMER GROWTH**
10 **SINCE THE CCN DECISION?**

11 A. No, we have actually had a reduction in our customer base since our initial CCN
12 Decision, as one of the mobile home parks closed, and it has remained closed ever
13 since. At this time, we are not aware of any developers or builders planning new
14 development in the future.

15 **III. SUMMARY OF SIGNIFICANT SYSTEM IMPROVEMENTS AND**
16 **CHANGES IN OPERATING EXPENSES**

17 **Q. IF YOU HAD JUST TAKEN OVER FOR BHP AND HAD NOT YET BUILT**
18 **A NEW TREATMENT PLANT, HOW WERE YOUR CURRENT RATES**
19 **DETERMINED?**

20 A. Largely with pro forma expenses, although due to Pivotal's experience in operating
21 similar facilities in Arizona, our estimations were close to reality. Still, as one
22 might expect, since the initial CC&N request was made in 2004/2005, many of the
23 assumptions used with respect to the pro forma expenses have changed
24 substantially.

25 **Q. WHY WAS A NEW TREATMENT FACILITY BUILT?**

26 A. The new treatment plant was constructed because the old system, built in the

1 1950's by the mine, was no longer suitable, efficient, or permissible under the
2 current ADEQ guidelines for public sewer systems. Further, since BHP was in the
3 process of closing the mine, the form of disposal being used (i.e., discharge from
4 the ponds into the mine tailings) would no longer be an option. As part of the
5 construction of a new treatment facility, a new disposal method was designed,
6 permitted and implemented. In this case, and with the financial assistance of BHP,
7 we are pumping our effluent approximately 3 miles to the golf course, for irrigation
8 purposes. This has the further public benefit of reducing groundwater use.

9 **Q. WHO BUILT THE NEW WASTEWATER TREATMENT FACILITY?**

10 A. The new treatment plant was constructed under a contract with Santec Corporation.
11 Santec is an affiliate of Coronado in that they have some common shareholders. I
12 do not have any interest in Santec.

13 **Q. WHAT DOES SANTEC DO?**

14 A. Santec is engaged in the business of the design, engineering and construction of
15 wastewater systems. It has been in business since 1986. Santec has designed and
16 built over 150 water reclamation facilities in 22 states and the U.S. Virgin Islands.

17 **Q. WAS SANTEC THE SUCCESSFUL BIDDER?**

18 A. Yes. Coronado undertook a formal Request for Proposal or RFP bid process both
19 for the construction of the WWTP and the effluent line from the site to the Golf
20 Course. As President of Coronado, and with the help of our engineering
21 consultants, I oversaw the bid process. We had 13 attendees at the pre-bid
22 conference, representing eight companies, four of which were interested in the
23 WWTP construction. Unfortunately, however, only Santec ended up submitting a
24 formal bid to construct the WWTP.

25 **Q. WAS THEIR BID COMPETITIVE?**

26 A. In my view, yes. First, the entire process was set up to be open and transparent and

1 provide an opportunity for the market to give us the best price. Although it turned
2 out only one entity was willing and able to do the work, it doesn't appear that
3 Santec tried to take advantage of the situation to recover an above-market cost.
4 The cost ended up being approximately \$8.50 per treated gallon. This is well
5 below the \$12-\$20 costs per gallon we have been and are seeing today for new
6 treatment capacity. In short, thankfully Santec was there to build this sorely
7 needed new facility to serve the San Manuel community. Perhaps this is why,
8 neither Staff nor the Commission expressed concern over the projected
9 construction costs by Santec in the very thorough CC&N Proceeding.

10 **Q. WHAT OTHER SIGNIFICANT IMPROVEMENTS HAS CORONADO**
11 **MADE?**

12 A. As mentioned above, the entire plan of the new facilities, including the pipeline
13 transferring treated effluent from the treatment plant site to the golf course, was
14 designed to provide a reliable and long-term solution for the community, at a
15 reasonable net cost. With the help of BHP (i.e., their cap on the cost to Coronado
16 for the installation of the pipeline to the golf course – BHP would pay anything
17 over \$250,000), the new wastewater treatment facility is well positioned to provide
18 current customers quality service for a substantial period of time. We also have the
19 ability to expand the facility to accommodate future growth in the event it occurs.
20 These facility improvements therefore represent a significant improvement that
21 will be key in facilitating future growth in the San Manuel community.

22 **Q. WHAT ARE CORONADO'S MOST SIGNIFICANT OPERATING**
23 **EXPENSES?**

24 A. Coronado's largest five expenses in the Test Year (not including Depreciation –
25 shown as a percentage of gross revenues) are: Interest Expense to Bondholder
26 (18.1%); Other Contractual Services (incl. Pivotal Mgmt.) (13.1%); Operations

1 Contractor (10.9%); Purchased Power (6%); and Bad Debt (5.2%).

2 **Q. DO THE COMPANY'S TEST YEAR OPERATING EXPENSES DIFFER**
3 **FROM THE OPERATING EXPENSES ESTIMATED IN THE CCN**
4 **DECISION?**

5 A. In comparing the top five expenses in the test year (as shown above) against the
6 original CC&N pro forma estimate (which were developed in 2005), the
7 comparative increase(decrease) as a percentage of gross revenue are: Interest
8 Expense to Bondholder +0.7%; Other Contractual Services (incl. Pivotal Mgmt.)
9 +0.5%; Operations Contractor +1.2%; Purchased Power -2.6%; and Bad Debt
10 +4.2%. In general, the original estimates were fairly accurate in the aggregate, but
11 since the gross revenues were 4.2% lower than projected in the pro forma, the
12 relative increase in expenses are magnified somewhat. The largest increase was in
13 the Bad Debt Expense, which, as I noted above, is well above the percentage
14 recommended by Staff and adopted by the Commission in the CCN Decision.

15 **Q. IS THE OPERATIONS CONTRACTOR AN AFFILIATE?**

16 A. No.

17 **Q. DOES PIVOTAL CHARGE OVERHEAD OR PROFIT ON ITS SERVICES**
18 **TO CORONADO?**

19 A. Yes, but all profit has been excluded from the operating expenses proposed in this
20 case. *See Bourassa DT at 11.*

21 **IV. PROPOSED TARIFF CHANGES.**

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

24 A. Yes. We are proposing a change in the cost of reconnection of sewer service after
25 disconnection for non-payment, and a low income tariff. A revised Tariff of rates
26 and charges showing these additions and changes is attached to the Company's

1 application as Attachment 1.

2 **Q. WHAT CHANGE IS CORONADO PROPOSING FOR THE**
3 **RECONNECTION COST?**

4 A. Coronado proposes to charge the actual cost to disconnect plus the cost to
5 reconnect.

6 **Q. WHY DO YOU BELIEVE THIS IS APPROPRIATE?**

7 A. As I explained above, we have very high delinquency rates. To stem this tide, we
8 are requesting that the Commission approve recovery of the actual cost of
9 disconnection, which typically will include the cost to dig, plug (disconnect), and
10 then reconnect a sewer service line upon receipt of payment in full from the
11 customer. In addition, we are requesting that the Commission, for the benefit of
12 our customer, authorize Coronado to perform this work on the property of the
13 Customer, so that Coronado can do everything in its power to minimize the cost of
14 excavation and backfill. It can cost ten times more if we have to dig up and
15 disconnect the sewer service in the street.

16 **Q. DOES THE COMPANY HAVE ANY OTHER WAY OF DISCONTINUING**
17 **SEWER UTILITY SERVICE FOR NON-PAYMENT?**

18 A. No.

19 **Q. THANK YOU. TURNING TO THE LOW INCOME TARIFF, DOES THE**
20 **COMPANY CURRENTLY HAVE A LOW INCOME TARIFF?**

21 A. No, but we were encouraged to file one with the application by some of the
22 commissioners. We have done so in this case. See Application, Attachment 1.

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

25 A. We understand that low income tariffs are a regulatory tool used to provide some
26 relief to lower income ratepayers and, with the recent downturn in our economy,

1 we understand that the Commission has focused even more on the need for these
2 tariffs. Coronado wants to provide an opportunity for those customers that truly
3 need assistance to lower the cost of water utility service. Mr. Bourassa explains in
4 detail how the Company's proposed low income tariff will work. Bourassa DT at
5 13. We understand that this model was recently proposed by Mr. Bourassa for
6 Chaparral City Water, with support from Staff and RUCO, and that it is similar to
7 the model used in California by Golden State Water.

8 **Q. DOES THE LOW INCOME TARIFF IMPACT CORONADO'S REVENUE**
9 **REQUIREMENT?**

10 A. No, recovery is shifted between customers because those customers that pay the
11 normal rates are subsidizing those customers that obtain a discount on the cost.

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

14 A. The Company handles delinquent accounts on a case-by-case basis. In general, we
15 inform the customer of their delinquency by letter and/ or door-hanger and request
16 that they contact us to arrange a payment plan. If that is unsuccessful, we send the
17 matter to a collections agency that specializes in utility collections. Payment plans
18 usually involve committed payment amounts on specific dates and usually do not
19 extend beyond 90 days. While we sometimes notify delinquent customers of our
20 ability to legally shut off service, we have refrained from this practice, primarily
21 due to the cost as I discussed above.

22 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

23 A. Yes.

24
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ATTACHMENT 1

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PHONE (720) 260-0531 • E-MAIL JW@PIVOTALCOMPANIES.COM

JASON WILLIAMSON

EMPLOYMENT

1999 - Present Pivotal Utility Management, LLC **Denver, CO**
Managing Partner, President

- Provide contract management services for water and sewer system operations (using local certified subcontractors) at eleven locations in Arizona and Missouri. Duties include regular site visits to locations and on-site reviews of operation performance and regulatory compliance.
- Supervise billing and customer support services to nearly 4,000 sewer and water utility customers in six different locations in Arizona.
- Provide and oversee accounting, bookkeeping, and financial reporting functions for six regulated utility companies (using NARUC accounting).
- Supervise regulatory compliance monitoring, ensuring permit compliance with laboratory reporting schedules for multiple environmental permits at locations in Arizona and in Missouri.
- Provide rate-case support and tariff design for new and existing investor-owned utilities (including testifying in cases before the Arizona Corporation Commission).
- Provide lead in corporate support services, including maintenance of corporation books and minutes, holding and leading regular meetings of boards and shareholders, and regular financial reporting/ budgeting.
- Worked with officials from State of Missouri's Public Service Commission to establish and provide a court-appointed "Receiver" for a small, distressed water and sewer utility company in central Missouri.
- Organized and established new company providing full range of services designed for small water/ sewer utility companies, and special districts.
- Consulted with land developers on water and sewer aspects of the entitlement process, including establishment of new regulated utilities. Focus was to maintain timeframes for obtaining regulatory approvals while implementing creative financing approaches to reduce capital expense and pace infrastructure spending with development demand.

1993 - 1999 Santec Corporation, Inc. **Castle Rock, CO**
Project Manager, Hiring Manager, Director of Marketing, Business Development

- Direct Sales of Wastewater Treatment Equipment and Design Services to the development and engineering industries.
- In project management role, worked with customers to obtain state and federal regulatory approvals of treatment equipment designs.
- Hired company staff, including engineers and sales professionals, and provided supervision and training for new staff.

- Designed and implemented marketing strategies that successfully expanded Santec's footprint by five new states during tenure.
- Worked with company owners to re-engineer business processes and service offerings to better meet customer demands.

OTHER UTILITY COMPANY POSITIONS (AT PRESENT)

- 1997 – Present: Verde Santa Fe Wastewater Company, Inc.; Cottonwood, AZ; Shareholder, President, Director
- 2005 – Present: Coronado Utilities, Inc.; San Manuel, AZ; Shareholder, President, Director
- 2003 – Present: Pine Meadows Utilities, LLC; Payson, AZ; Member, President
- 2003 – Present: Bensch Ranch Utilities, LLC; Dewey, AZ; Member, President

EDUCATION

- | | | |
|---|-------------------------------|--------------------|
| <p>1989 - 1993
<i>Bachelor of Arts</i></p> <ul style="list-style-type: none"> ▪ Major – International Affairs/ Minor - Economics | <p>University of Colorado</p> | <p>Boulder, CO</p> |
| <p>1996 - 1998
<i>Master of Business Administration</i></p> <ul style="list-style-type: none"> ▪ Achieved while working in Castle Rock Full-Time | <p>University of Colorado</p> | <p>Denver, CO</p> |

REFERENCES

- Joshua J. Meyer – Arizona Real Estate Attorney & Former Partner: Ph: (928) 580-5522; 12155 Calle Entrada; Yuma, AZ 85367
- Pat Carpenter – Contractor and Certified Water & Sewer Operator: Ph: (928) 606-0498; P.O. Box 264; Williams, AZ 86046
- Bob Dodds – Vice President, Service Delivery – Algonquin Water Services: Ph: (905) 465-4523; 12725 W. Indian School Rd.; Avondale, AZ 85323
- Gerald Brunskill – Manager of Closure Operations – BHP Billiton (BHP is preferred shareholder in Coronado Utilities); Ph: (520) 385-3241; P.O. Box M; San Manuel, AZ 85631
- Bud Carr – Owner/ President of Rainbow Parks (Pivotal is manager/ operator of Water/ Sewer systems in Congress, AZ); Ph: (936) 328-3727; 100 Rainbow Dr.; Livingston, TX 77351
- Gary Martinson – President of Bison Homes (developer of Bison Ranch WWTP, Heber, AZ – Pivotal is operator); Ph: (602) 837-8700; 16927 E Saguaro Blvd.; Fountain Hills, AZ 85268

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Attorneys for Coronado Utilities, Inc.

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6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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16 **REBUTTAL TESTIMONY OF**
17 **JASON WILLIAMSON**

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19 **March 22, 2010**
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2288449.3

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

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

3 A. My name is Jason Williamson and my business address is 6825 E. Tennessee
4 Avenue, Suite 547, Denver Co 80224.

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

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

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

8 A. I am the President and Manager of Pivotal Utility Management, LLC (hereinafter,
9 "Pivotal"). Pivotal manages and/or operates a total of ten water and sewer utilities,
10 nine of which are in Arizona, seven of those regulated by the Commission. One
11 water and sewer utility is located in Missouri, and the other two referenced sewer
12 systems in Arizona are owned by HOAs, which Pivotal manages and operates
13 under contract. I also hold positions in several of the utilities, including Coronado,
14 for which I am President and a Director.

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

17 A. Yes, my direct testimony was filed on June 3, 2009, with the Company's
18 application.

19 **Q. HAVE YOU REVIEWED STAFF'S DIRECT FILING?**

20 A. Yes, and I was happy to see how few issues we have in dispute.

21 **Q. WHAT ISSUES ARE IN DISPUTE WITH STAFF?**

22 A. There are three significant issues in dispute: Staff's reduction to bad debt expense,
23 some of Staff's modifications to the proposed low income tariff, and Staff's denial
24 of changes to our tariff to address disconnection for non-payment.

25 **Q. DO YOU ADDRESS THESE ISSUES IN YOUR TESTIMONY?**

26 A. I will address Staff's reduction in bad debt expense and the low income tariff. Tom

1 Bourassa will also address both of these issues, along with the other issues in
2 dispute regarding rate base and operating expenses.

3 **Q. WHAT ABOUT THE DISCONNECTION TARIFF ISSUE?**

4 A. In my direct testimony, I explained our ongoing problem with non-payment for
5 sewer service, our efforts to address the issue including collections, and the costs
6 we incur when all else fails and we have to physically stop service.¹ Now Staff
7 wants us to be ordered to enter into an agreement with a third party to terminate
8 water service.²

9 **Q. WHAT'S WRONG WITH THAT, MR. WILLIAMSON?**

10 A. I will leave the legal implications to our lawyer to address. For my part, I don't
11 speak for Arizona Water. We are totally unaffiliated, they are not a party to our
12 rate case, nor should they be.

13 **Q. HAVE YOU SPOKEN TO THEM ABOUT A WATER TERMINATION
14 AGREEMENT?**

15 A. Yes, several times including three times since Staff's direct testimony was filed.
16 They are not interested. I respect their position; they have the right to manage their
17 own business affairs. Now I have to leave it to my legal counsel because I do not
18 see how I can be ordered to do something contingent on a third party that does not
19 want to do that something.

20 **II. BAD DEBT EXPENSE**

21 **Q. WHAT WAS CORONADO'S TEST YEAR BAD DEBT EXPENSE?**

22 A. \$46,313.

23
24

25 ¹ Direct Testimony of Jason Williamson ("Williamson Dt.") at 11.

26 ² Direct Testimony of Gary T. McMurry ("McMurry Dt.") at 14 – 16.

1 Q. WHAT AMOUNT OF BAD DEBT EXPENSE DOES STAFF
2 RECOMMEND?

3 A. \$18,432.

4 Q. THAT'S A DIFFERENCE OF ALMOST \$28,000, WHICH APPEARS
5 SIGNIFICANT. IS IT?

6 A. Yes, it is very significant. Staff has reduced the Company's bad debt expense to a
7 level that is barely 40 percent of our test year amount.

8 Q. BUT WHAT ABOUT STAFF'S ARGUMENT THAT THESE EXPENSES
9 "VARY WIDELY FROM YEAR TO YEAR" SO THE EXPENSE LEVEL
10 MUST BE NORMALIZED?

11 A. I will leave the question of when normalizing is appropriate ratemaking to
12 Mr. Bourassa as he is the expert.³ From an operations perspective, Staff doesn't
13 seem to recognize substantial changes that explain what is brushed off as "wide
14 variation."

15 Q. WHAT DO YOU MEAN, MR. WILLIAMSON?

16 A. I believe Staff's Auditor, Mr. McMurry, looked at 2006, 2007 and 2008 (the test
17 year), which had bad debt expense of \$3,483, \$5,500 and \$46,312, respectively, in
18 order to reach his conclusions.⁴ It does not seem that Mr. McMurry has considered
19 the difficult economic conditions in San Manuel before the recession, a situation
20 that was made worse by the same economic downturn everyone else is facing.
21 These conditions are one specific explanation for what Mr. McMurry simply calls
22 "variation" from year to year.

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³ Rebuttal Testimony of Thomas J. Bourassa ("Bourassa Rb.") at 7 – 9.

26

⁴ McMurry Dt. at 8 – 9.

1 Q. HAS THE ECONOMIC SITUATION IMPROVED AT ALL IN SAN
2 MANUEL?

3 A. No, which is why I suspect our bad debt expense was even higher in 2009, the year
4 after the test year. If our expense level is supposed to reflect the level of the
5 expense we expect to incur when the approved rates are in effect, Staff's
6 recommended expense level is about 30 percent of what we are incurring. And I
7 don't think further rate increases, even though they are moderate, are going to
8 lower our bad debt expense.

9 Q. WHAT ABOUT MR. MCMURRY'S TESTIMONY (AT 9:11-14) THAT
10 PAST RATE INCREASES DID NOT INCREASE BAD DEBT EXPENSE?

11 A. Because Coronado was newly formed in 2006, and because the final (phase 3) rates
12 did not go into effect until July of 2008, we chose to not aggressively post bad debt
13 prior to 2008. The goal of delaying the recognition of bad debt was two-fold; to
14 give our customers every opportunity to become acclimated to the new situation
15 (both in terms of Coronado's existence and the phase-in of rates), and secondly, to
16 be sure our database and billing information were completely accurate.

17 Q. SO WHAT LEVEL OF BAD DEBT EXPENSE IS CORONADO SEEKING?

18 A. The test year level.

19 Q. OKAY, PLEASE SUMMARIZE WHY YOU THINK THE COMMISSION
20 SHOULD REJECT STAFF'S RECOMMENDATION AND JUST ADOPT
21 THE TEST YEAR LEVEL?

22 A. Leaving the ratemaking aspects to Mr. Bourassa, I believe that the economic
23 situation in San Manuel will not be improving anytime soon, and as we saw in
24 2009, write-offs might end up getting worse before they get better. Coupled with
25 Staff's refusal to include verbiage in our tariff that makes customers responsible
26

1 financially for the physical costs of disconnection/ reconnection, we are left with
2 no other option than to include a realistic bad debt expense in our rate structure.

3 **III. LOW INCOME TARIFF**

4 **Q. MR. MCMURRY TESTIFIED THAT STAFF SUPPORTS A LOW INCOME**
5 **TARIFF. SO WHAT'S THE DISPUTE?**

6 A. Although Staff does support a low income tariff, Mr. McMurry offers several
7 criticisms and then makes several recommendations for changes. We do not agree
8 with all of Staff's recommended changes and we certainly want to set the record
9 straight regarding our proposed tariff.

10 **Q. WHY DID CORONADO PROPOSE A LOW-INCOME TARIFF?**

11 A. Because Chairperson Mayes basically told us at a Town Hall meeting in San
12 Manuel that the Commission expected to see one in our filing. And it's the right
13 thing to do.

14 **Q. WHAT ABOUT MR. MCMURRY'S CRITICISM (DIRECT AT 18-19)**
15 **THAT CORONADO'S PROPOSED TARIFF IS DIFFERENT THAN**
16 **OTHERS RECENTLY APPROVED AND PROPOSED?**

17 A. I can't speak to what others have done, except to say that Mr. Bourassa testified
18 that our proposed low-income tariff is modeled after the one first proposed by
19 Chaparral City Water based on the one its parent used in California and that it is
20 materially similar to the ones he has proposed in several other rate cases.⁵ If there
21 are differences in the specifics, there are explanations.

22 **Q. FAIR ENOUGH. CAN YOU RESPOND TO MR. MCMURRY'S**
23 **COMPLAINT (DIRECT AT 19-20) THAT CORONADO HAS NOT**
24 **EXPLAINED WHY IT RECOMMENDS A 25 PERCENT DISCOUNT FOR**

25 _____
26 ⁵ Direct Testimony of Thomas J. Bourassa (Rate Base, Income Statement and Rate Design) ("Bourassa Dt.") at 13.

1 Q. WHAT ABOUT MR. MCMURRY'S CLAIM THAT THE FEE IS NOT
2 EXPLAINED?

3 A. He's wrong. Mr. Bourassa explains it, as well as the fact that the fee is identical to
4 the one approved by the Commission for Chaparral City.⁸ I sincerely doubt the
5 Commission approved a low-income "profit center" for that utility.

6 Q. OKAY, WHAT ABOUT THE CONCERN OVER ELIGIBILITY?

7 A. Mr. McMurry testifies he does not know why we used the federal poverty level
8 instead of 150 percent of the level.⁹ Again, San Manuel is a very poor community
9 and we were concerned we would have too many people qualifying if we set
10 eligibility above the federal poverty level.

11 Q. WHAT ABOUT STAFF'S RECOMMENDED CAP ON THE NUMBER OF
12 PARTICIPANTS?

13 A. We share Staff's concern that there could be heavy participation,¹⁰ but we opted to
14 use a higher eligibility requirement (100 percent of federal poverty as opposed to
15 150 percent) in an effort to help reduce the chance of over-participation. I am
16 concerned about how we handle the 401st applicant if Staff's hard cap approach is
17 adopted.

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

19 A. Staff's recommendation for recertification is a good idea.¹¹ We would also agree
20 to Staff's recommended one-year program period, if Staff's recommendation for
21 bad debt expense is not adopted.

22

23

24 ⁸ Bourassa Dt. at 13; Bourassa Rb. at 12 – 13.

25 ⁹ McMurry Dt. at 20:5-11.

26 ¹⁰ *Id.* at 20:16-22.

¹¹ *Id.* at 20:12-15.

1 Q. WHY HAVE YOU TIED THE TWO ISSUES TOGETHER?

2 A. Because they are both issues of cash flow. We recommended a six-month program
3 period because we were worried about having sufficient cash flow, as
4 Mr. McMurry recognized.¹² Given that our current bad debt expense is over
5 \$40,000 higher than Staff's recommended level, I do not see how we can further
6 reduce our cash flow for one year without significant repercussions.

7 Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

8 A. Yes.

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¹² *Id.* at 21:24-26.

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5
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7
8 IN THE MATTER OF THE APPLICATION DOCKET NO: SW-04305A-09-0291
9 OF CORONADO UTILITIES, INC. FOR A
10 DETERMINATION OF THE FAIR VALUE
11 OF ITS UTILITY PLANT AND PROPERTY
AND FOR INCREASES IN ITS RATES
AND CHARGES FOR UTILITY SERVICE
BASED THEREON.

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16 **REJOINDER TESTIMONY OF**
17 **JASON WILLIAMSON**

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19 **MAY 3, 2010**
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1 **I. INTRODUCTION AND OVERVIEW OF TESTIMONY.**

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

3 A. My name is Jason Williamson and my business address is 6825 E. Tennessee
4 Avenue, Suite 547, Denver Colorado 80224.

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

7 A. Yes, my direct and rebuttal testimony were submitted in support of the initial
8 application and the rebuttal filing in this docket on behalf of the Applicant
9 Coronado Utilities, Inc. ("Coronado" or "Company").

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

11 A. To further support Coronado's application for rate relief by responding to certain
12 aspects of the surrebuttal testimony of Utilities Division Staff ("Staff").

13 **Q. HAVE YOU REVIEWED MR. MCMURRY'S SURREBUTTAL**
14 **TESTIMONY?**

15 A. Yes.

16 **Q. WHAT ISSUES ARE STILL IN DISPUTE WITH STAFF?**

17 A. There are now four significant issues in dispute: Staff's reduction to bad debt
18 expense, one of Staff's modifications to the proposed low income tariff, Staff's
19 denial of changes to our tariff to address disconnection for non-payment, and
20 Staff's opposition to the rate design for mobile home parks.

21 **II. DISCONNECTION TARIFF**

22 **Q. MR. MCMURRY DOES NOT SEEM SATISFIED WITH YOUR EFFORTS**
23 **TO OBTAIN AN AGREEMENT WITH ARIZONA WATER COMPANY**
24 **REGARDING TERMINATION OF SERVICE. HOW DO YOU RESPOND?**

25 A. We have tried on at least 4 different occasions to discuss this matter with them.
26 The only thing I can conclude is that they are simply not interested. If Staff has

1 reason to believe otherwise, I am all ears. Otherwise, Staff is making an issue
2 where there shouldn't be one.

3 **III. BAD DEBT EXPENSE**

4 **Q. MR. MCMURRY TESTIFIES THAT CORONADO HAS NOT EVEN**
5 **PURSUED ACTIONS THAT ARE NORMALLY RECOGNIZED AND**
6 **AVAILABLE TO EFFECTUATE PAYMENT. HOW DO YOU RESPOND?**

7 A. Again, I am all ears. We would be more than pleased to hear any
8 recommendations on approaches that Staff has seen work well in similar situations.
9 At present, however, without a tariff allowing for recovery of disconnection/
10 reconnection costs, we are left with the use of doorhangers, collections agency, or
11 the empty "threat" of physical disconnection.

12 **Q. BUT DOESN'T MR. MCMURRY MENTION SMALL CLAIMS COURT**
13 **AND CREDIT BUREAU REPORTING AS ADDITIONAL MEASURES?**

14 A. Yes. Sadly, however, folks who are ignoring our letters, doorhangers and efforts
15 by our collection agency, don't likely care about their credit rating. Frankly, it
16 seems that many, if not most, of these folks already owe multiple parties who also
17 sent them to collections, and as such, are generally unresponsive to collections
18 agency activities. For these same reasons, I'm dubious of the small claims court
19 approach that Mr. McMurry suggests. It takes time and money to obtain and
20 enforce judgments, and then they are only worth what the people have to pay in the
21 first place.

22 **Q. SO CAN I ASSUME THEN, THAT YOU DISAGREE WITH**
23 **MR. MCMURRY THAT YOU "SHOULD IMPROVE YOUR RELATIVELY**
24 **PASSIVE COLLECTIONS ACTIVITIES AND POLICY"?**

25 A. Yes, I completely disagree with his characterization. If you asked a customer what
26 they thought about receiving a letter outlining the potential of their home being

1 disconnected from sewer service, followed by a door hanger and then efforts by an
2 outside collection agency, I doubt "passive" would be their answer. The bottom
3 line is that we are using the tools we currently have at our disposal, which,
4 admittedly, have varying levels of effectiveness. However, the ineffectiveness of
5 our collection measures is not indicative of a passive stance on collection. If
6 anything, it proves that no matter what collection measures we use, non-paying
7 customers can ignore us because they can continue to flush their toilets and not pay
8 for it.

9 **Q. DOES IT APPEAR TO YOU THAT STAFF IS SUGGESTING CORONADO**
10 **SEND A MESSAGE TO CUSTOMERS THAT NON-PAYMENT WILL NOT**
11 **BE TOLERATED?**

12 A. Yes, and it's my opinion that the only message that will heard by a number of
13 Coronado customers is the actual disconnection of service, a problem that can only
14 be remedied by payment of the cost plus the amount due and a deposit per the
15 Commission's rules.

16 **Q. WHAT ABOUT MR. MCMURRY'S TESTIMONY THAT THE 2009 BAD**
17 **DEBT EXPENSE INCLUDED WRITE OFFS OF OVER 90 DAY**
18 **DELINQUENCIES?**

19 A. I don't really know what Mr. McMurry means about us not having a write off
20 policy. It has been and is our consistent policy to write off bad debt on customers
21 that are 90 days or more delinquent at the end of each calendar year. This does not
22 preclude our future efforts to continue to try and collect these fees, and we do not
23 give up on these accounts. Any amounts actually collected that were previously
24 written off during the previous calendar year, reduce the overall bad debt expense
25 for the current calendar year.

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1 **IV. RATE DESIGN FOR MOBILE HOME PARK**

2 **Q. STAFF OPPOSES THE PROPOSED RATE DESIGN FOR THE MOBILE**
3 **HOME PARK BECAUSE OCCUPANCY OF THE PARK IS SEASONAL.**
4 **HOW DO YOU RESPOND?**

5 A. Mr. McMurry is incorrect regarding the “highly seasonal” nature of the mobile
6 home park. In fact, the occupancies do not change dramatically throughout the
7 year. Most of the park’s residents are working individuals and families who live in
8 San Manuel year round.

9 **Q. BUT WHAT ABOUT MR. MCMURRY’S TESTIMONY THAT**
10 **“REVENUES SHOULD FOLLOW COST AND THE COST OF MEETING**
11 **PEAK DEMAND IS DURING THE BUSY WINTER SEASON”?**

12 A. The original intent of the tariff was not to reflect demand changes due to
13 seasonality, but to help the mobile home park residents whose summer water use
14 may be used for irrigation or swamp coolers (not disposed of in the sewer system).
15 However, this system, while designed initially to smooth out revenues, has resulted
16 in unpredictable spikes of water use, which, for the owner of the trailer park, are
17 nearly impossible to project, predict or budget for. As such, since the trailer park
18 owner would need to collect the monthly rent from owner, if he is uncertain about
19 the monthly sewer bill, he may have to protect himself and over-bill customers
20 each month, putting more financial pressure on his residents who can ill afford it.
21 For these reasons, and since the change is revenue neutral, I see absolutely no good
22 reason for Mr. McMurry’s disagreement with the trailer park owner’s request for
23 greater certainty.

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1 **V. LOW INCOME TARIFF**

2 **Q. DOES CORONADO ACCEPT STAFF'S RECOMMENDATIONS**
3 **REGARDING THE QUALIFICATION LEVEL FOR THE LOW INCOME**
4 **TARIFF?**

5 A. Yes. While we felt when we made the filing that there was a valid reason to raise
6 the qualification level when compared to the customer bases for the other utilities
7 relied upon by Mr. McMurry as comparisons, because of the caps recommended by
8 Staff and to further limit the issues in dispute, we will agree to a low income tariff
9 with a qualification level set at 150 percent of the federal poverty level. This will
10 also make our proposed tariff more consistent with the one approved for Chaparral
11 City and pending for LPSCO and Rio Rico Utilities.

12 **Q. SO THE COMPANY IS ALSO ACCEPTING STAFF'S**
13 **RECOMMENDATION FOR PARTICIPATION CAPS?**

14 A. Yes.

15 **Q. STAFF ALSO RECOMMENDS A CHANGE IN THE ADMINISTRATIVE**
16 **FEE. DOES CORONADO ACCEPT THAT CHANGE TOO?**

17 A. No, and I find it to be the height of inconsistency that Mr. McMurry twice refers to
18 the need to make Coronado's low-income tariff consistent with the one approved
19 for Chaparral City Water and proposed for LPSCO and RRUI,¹ but he utterly
20 ignores our repeated testimony that the administrative fee we have proposed is also
21 consistent with the one approved for Chaparral City and proposed for LPSCO and
22 RRUI. If Staff is going to make changes to be consistent, it should be consistent
23 across the board.

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¹ Surrebuttal Testimony of Gary McMurry at 5:19-21 and 6:6-10.

1 Q. DOES STAFF EXPLAIN WHY THE LOW-INCOME TARIFF SHOULD BE
2 DIFFERENT IN THIS CASE?

3 A. No, we have no idea why Staff wants to treat this Company differently in this
4 particular aspect of the testimony, which is why we are stuck fighting about this
5 issue in this case.

6 Q. WELL MR. WILLIAMSON, WHAT IS WRONG WITH STAFF'S
7 PROPOSAL TO ALLOW YOU TO RECOVER ACTUAL COSTS?

8 A. The reason for our administrative fee approach was that it was a model that was
9 used in previous cases by our consultant and our lawyer. It also provides certainty.
10 It must be remembered that more than 75 percent of the administrative fee is
11 simply the cost of money based on our and Staff's recommended cost of capital,
12 and only about 24 percent is to cover added actual administrative costs. In truth,
13 the recovery of actual costs could end up benefiting us if, as I fear, this low income
14 tariff program ends up costing our staff more time than anticipated to manage. For
15 example, I may have to hire a new employee charged only with this work, whose
16 full costs could then be recovered in the reimbursement. However, we do not want
17 to have to come in each year and fight about what was actually incurred, including
18 the actual cost of money. That's why we tried to follow the model successfully
19 laid out before us by others.

20 Q. DOES THAT CONCLUDE YOUR REJOINDER TESTIMONY?

21 A. Yes.

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5 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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

DOCKET NO: SW-04305A-09-_____

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

21 **June 3, 2009**



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1 **I. INTRODUCTION AND QUALIFICATIONS.**

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

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

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

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

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

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

18 In my private practice, I have prepared and/or assisted in the preparation of
19 several water and wastewater utility rate applications before the Arizona
20 Corporation Commission ("Commission"). A summary of my regulatory work
21 experience is attached hereto as Attachment 1.

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

23 A. I am testifying on behalf of the applicant, Coronado Utilities, Inc. ("Coronado" or
24 "the Company"). Coronado is seeking increases in its rates and charges for sewer
25 utility service in its certificated service area, which is located in and around the
26 unincorporated Town of San Manuel in Pinal County, Arizona.

1 **II. OVERVIEW OF THE COMPANY'S RATE FILING.**

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

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

9 For convenience, my direct testimony is prepared in two separate volumes,
10 each with the relevant schedules attached. In this volume of my direct testimony, I
11 address the Company's rate base, its income statement (revenue and operating
12 expenses), its required increase in revenue, and its rate design and proposed rates
13 and charges for service. Schedules A through C, E, F and H are attached to this
14 portion of my direct testimony. The Company has not prepared a cost of service
15 study because it is not proposing a change to its basic rate design, so the G
16 Schedules are omitted.

17 In the second volume of my direct testimony, to which the D schedules are
18 attached, I address capital structure and cost of capital. Coronado is requesting a
19 return on common equity of 14.0 percent. As shown on Schedule D-1, the
20 Company's capital structure for ratemaking purposes consists of 29.4 percent
21 equity (15.6 percent preferred equity and 13.8 percent common equity) and 70.6
22 percent debt, which leads to a substantial financial risk adjustment. However,
23 because of Coronado's low cost debt financing, the weighted cost of capital is only
24 7.36 percent.

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

26 A. The test year used by Coronado is the 12-month period ending December 31, 2008.

1 The Company is requesting a 7.36 percent return on its fair value rate base
2 ("FVRB"). The Company has also proposed certain pro forma adjustments to take
3 into account known and measurable changes to rate base, expenses and revenues.
4 These pro forma adjustments are consistent with normal ratemaking and are
5 contemplated by the Commission's rules and regulations governing rate
6 applications. See R14-2-103. These adjustments are necessary to obtain a normal
7 or realistic relationship between revenues, expenses and rate base on a going-
8 forward basis.

9 The Company's fair value rate base is \$3,536,648. The increase in revenues
10 to provide for recovery of operating expenses and a 7.36 percent return on rate
11 base is approximately \$156,498, an increase of approximately 17.71 percent over
12 the adjusted and annualized test year revenues.

13 **Q. WHY IS THE COMPANY FILING FOR RATE INCREASES AT THIS**
14 **TIME?**

15 A. The Company was ordered to file a rate case in its Certificate of Convenience and
16 Necessity decision (Decision No. 68608, March 23, 2006) within 24 months of the
17 implementation of its Phase 2 rates and charges. Also, since the Company was
18 granted a CC&N, Coronado has made investments in plant and various operating
19 expenses have increased. As a consequence, the Company's current rate of return,
20 based on the adjusted test year data, is only 4.37 percent. Consequently, rate
21 increases are necessary to ensure that Coronado recovers its reasonable operating
22 expenses and has an adequate opportunity to earn a reasonable return on the fair
23 value of its utility plant and property devoted to public service.

24 **III. SUMMARY OF A, E AND F SCHEDULES.**

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

1 A. The A-1 Schedule is a summary of the rate base, operating income, current
2 operating margin, required operating margin, operating income deficiency, and the
3 increase in gross revenue. A 14.0 percent return on FVRB is requested. The
4 increase in the revenue requirement is \$156,498. Revenues at present and
5 proposed and customer classifications are also shown on this schedule.

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

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

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

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

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

20 Schedule E-2, page 1, contains the income statement for the years 2006,
21 2007, and 2008, ending on December 31.

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

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

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

1 Schedule E-7 contains operating statistics for the years ended 2006, 2007,
2 and 2008, ending on December 31.

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

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

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

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

13 Schedule F-4 shows the projected construction requirements for 2009-2011.

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

16 **IV. RATE BASE (B SCHEDULES).**

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

19 A. Yes. I will start with Schedule B-5, which is the working capital allowance.
20 Because Coronado is a small sewer utility, I used the "formula method" of
21 computing the working capital allowance to reduce costs. The Company is not
22 requesting a working capital allowance.

23 **Q. PLEASE CONTINUE.**

24 A. The Company did not file Schedules B-3 and B-4. To limit issues in dispute and
25 attempt to reduce rate case expense, Coronado is requesting that its original cost
26 rate base ("OCRB") be used as its FVRB.

1 **Q. HAVE YOU PREPARED SCHEDULES SHOWING ADJUSTMENTS TO**
2 **THE ORIGINAL COST RATE BASE?**

3 A. Yes. Schedule B-2 shows adjustments to the OCRB cost rate base proposed by the
4 Company. Schedule B-2, pages 2 through 6, provides the supporting information.
5 These adjustments are, in summary:

6 Adjustment number 1, as shown on Schedule B-2, page 3, adjusts plant-in-
7 service to the reconciled amount per the Company plant detail.

8 **Q. DO THE PLANT COSTS INCLUDE AFFILIATE PROFIT?**

9 A. Yes. An affiliated entity, Santec Corporation (“Santec”), did design, engineer, and
10 construct the wastewater treatment plant. The Company did conduct a competitive
11 bid process and Santec was the lowest bidder. *See* the Direct Testimony of Jason
12 Williamson (“Williamson DT”) at 8-9. Since the Company’s costs of construction
13 were at or below what it would have incurred for construction by non-affiliated
14 entities engaged in the business of constructing plant, I did not remove the affiliate
15 profit.

16 **Q. DOES SANTEC PERFORM WORK FOR OTHER NON-AFFILIATED**
17 **ENTITIES?**

18 A. Yes. *See* Williamson DT at 8.

19 **Q. HASN’T THE COMMISSION DISALLOWED CAPITALIZED AFFILIATE**
20 **PROFIT IN RECENT CASES?**

21 A. Yes. The Commission has removed capitalized affiliate profit from plant-in-
22 service in the past *e.g.* *Far West Water and Sewer Company*, Decision No. 69335
23 (February 20, 2007), *Gold Canyon Sewer Company*, Decision No. 69664 (June 28,
24 2007), and *Black Mountain Sewer Company*, Decision No. 69164 (December 5,
25 2006). However, in those cases, the Commission removed capitalized affiliate
26 profit charged by affiliates whose primary business was not construction of

1 facilities and/or the utility did not conduct a competitive bid process to support that
2 its costs were competitively incurred. Both are present here, however, and I
3 believe this justifies including the entire cost of constructing the plant in rate base.
4 In fact, removal of this profit would result in an inequitable windfall to the
5 ratepayers, which have not been harmed in any way by the work performed in
6 Santec, at the expense of the shareholders, who have done nothing improper.

7 **Q. PLEASE CONTINUE.**

8 A. Adjustment number 2 on Schedule B-2, page 4, adjusts accumulated depreciation
9 to reflect the re-computed amounts per the Company's B-2 plant schedule.

10 **Q. DO THE PLANT AND ACCUMULATED DEPRECIATION SHOWN ON**
11 **THE B-2 SCHEDULE REFLECT THE LAST RATE ORDER?**

12 A. No, because this is the Company's first rate case since it was granted a Certificate
13 of Convenience and Necessity in March 2006 (Decision No. 68608) ("CCN
14 Decision"). Consequently, there is no prior Commission determined plant-in-
15 service or accumulated depreciation, and the starting balances of plant and
16 accumulated depreciation in this filing are zero. Plant additions and retirements
17 since inception have been added to and deducted from total plant shown on
18 Schedule B-2, pages 3.1 to 3.4. Pages 3.1 to 3.4 of the schedule show the details
19 for the accumulated depreciation through the end of the test year using the half-
20 year convention for depreciation.

21 **Q. PLEASE CONTINUE WITH YOUR TESTIMONY REGARDING THE**
22 **RATE BASE SCHEDULES.**

23 A. Adjustment number 3, labeled as 3a and 3b, adjusts contributions in aid of
24 construction ("CIAC") and amortization based on additional CIAC recorded since
25 inception using the composite depreciation rate for each year.

26 Adjustment number 4 increases deferred income taxes. The Company's

1 computation is based on the adjusted plant-in-service, accumulated depreciation,
2 and CIAC in the instant case and the tax basis of its assets using the tax rate found
3 on Schedule C-3.

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

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

8 **V. INCOME STATEMENT (C SCHEDULES).**

9 **Q. PLEASE EXPLAIN THE ADJUSTMENTS YOU ARE PROPOSING TO**
10 **THE INCOME STATEMENT AS SHOWN ON SCHEDULES C-1 AND C-2.**

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

12 Adjustment 1 annualizes depreciation expense. The proposed depreciation
13 rate for each component of utility plant is shown on Schedule C-2, page 2. The
14 depreciation rates proposed are account specific rates and are based on Staff's
15 typical and customary rates.

16 Adjustment 2 increases the property taxes based on proposed revenues. The
17 Company has recognized the reduction in the assessment ratio contained in A.R.S.
18 § 42-15001, entitled "Assessed Valuation of Class One Property"). By law, the
19 assessment ratio will be reduced through tax year 2011 to 20 percent. The
20 Company has proposed a two-year reduction in the assessment ratio or a reduction
21 from the 23 percent employed for the 2008 property tax year to 21 percent for
22 2010 property tax year.

23 **Q. HOW DID YOU COMPUTE THE PROPERTY TAXES AT PROPOSED**
24 **RATES?**

25 A. To determine full cash value, I used the method employed by the Arizona
26 Department of Revenue - Centrally Valued Properties ("ADOR" or "the

1 Department"). This method determines full cash value by using twice the average
2 of three years of revenue, plus an addition for CWIP and a deduction for the book
3 value of transportation equipment. In the instant case, I used two times the
4 adjusted revenues for the year ending December 31, 2008, and one year of
5 revenues at proposed rates. The assessed value (21 percent of full cash value) was
6 then multiplied by the property tax rate to determine adjusted property tax expense.

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

8 A. Yes, more than I care to cite to after nearly a decade of consistent decision-making
9 by the Commission on this issue.

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

12 A. Yes. Like income taxes, property taxes must be adjusted to ensure that the new
13 rates are sufficient to produce the authorized return on rate base. For this reason,
14 the Commission has repeatedly approved the use of proposed revenues to
15 determine an appropriate level of property tax expense to be recovered through
16 rates.

17 To eliminate issues, I used the methodology approved by the Commission in
18 Arizona-American Water Company's rate case, Decision No. 67093 (June 30,
19 2004), where two years of adjusted test year revenues and one year of proposed
20 revenues were used to determine full cash value. In that decision, the Commission
21 concluded: "Staff calculated property taxes using its proposed adjusted test year
22 revenues twice and its recommended revenues once to calculate a three year
23 average of revenues. We agree with Staff that using only historical revenues to
24 calculate property taxes to include in the cost of service fails to capture the effects
25 of future revenue from new rates, and can result in an understatement or
26 overstatement of property tax expense." Decision No. 67093 at 9-10. This is the

1 methodology the Commission has repeatedly used for water and sewer utilities, to
2 the best of my knowledge, without exception over the last nearly 10 years now.

3 **Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE INCOME**
4 **STATEMENT ADJUSTMENTS.**

5 A. Adjustment 3 shows the rate case expense. The Company estimates rate case
6 expense of \$175,000 to be recovered over three years because it believes a three-
7 year cycle for future rate cases is reasonable given this utility's circumstances.

8 **Q. DO YOU BELIEVE \$175,000 IS A REASONABLE AMOUNT OF RATE**
9 **CASE EXPENSE GIVEN THE REQUESTED INCREASE IN REVENUE?**

10 A. Yes. To begin with, the Commission ordered this case. Also, the size of the
11 increase does not necessarily mean that the case will be less complicated.
12 Coronado is a Class B utility and I fully expect that there will be discovery by the
13 other parties, five rounds of prefiled testimony, hearings and post-hearing briefing,
14 followed by a ROO and an appearance before the Commission and compliance
15 with the final order. And this is just the basic rate case process. As Mr.
16 Williamson explains in his testimony, Coronado's short history has been fraught
17 with Commission-controversy. I can predict, without hesitation, that controversy
18 and public involvement will mean higher rate case expense. In fact, I am likely
19 being conservative—if things get knotty, the request of \$175,000 is likely going to
20 be less than is actually incurred. Therefore, it is a reasonable estimate.

21 **Q. WHY DO YOU REFER TO THE REQUESTED RATE CASE EXPENSE AS**
22 **AN ESTIMATE?**

23 A. Because I can only consider the foreseeable. If things turn out more complicated
24 than anticipated, the Company may modify its request to account for that increased
25 expense. Conversely, if the case proceeds and rate case expense is lower than
26 expected, Coronado should make an appropriate adjustment downward. This way,

1 whatever the final amount incurred and requested, the Commission can, and
2 respectfully should, ensure that the Company recovers most if not all of its rate
3 case expense in this case. I doubt, if it gets expensive, it will be Coronado's doing.

4 **Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE INCOME**
5 **STATEMENT ADJUSTMENTS?**

6 A. Adjustment 4 removes BHP Copper subsidization revenues from a prior year
7 (2007) that were recorded in 2008. This subsidization allowed the Commission to
8 add another year to the rate phase-in, but it was terminated roughly 24 months ago.
9 CCN Decision at 15-16.

10 Adjustment 5 annualizes revenues to the year-end number of customers.
11 The annualization of revenues is based on the number of customers at the end of
12 the test year, compared to the actual number of customers during each month of
13 the test year. Average revenues by month are computed for the test year. The
14 average revenues are then multiplied by the increase (or decrease) in number of
15 customers for each month of the test year.

16 Adjustment 6 annualizes chemicals expense based on the additional gallons
17 treated from annualizing revenues to the year-end number of customers.

18 Adjustment 7 reflects the increase in annual purchased power cost to APS.

19 Adjustment 8 annualizes purchased power expense based on the additional
20 gallons treated from annualizing revenues to the year-end number of customers.

21 Adjustment 9 reduces contractual services costs for affiliate profit.

22 Adjustment 10 increases salaries and wages expense reflecting operational
23 changes that occurred since the end of the test year.

24 Adjustment 11 reduces contractual services reflecting operational changes
25 that occurred after the end of the test year.

26 Adjustment 12 removes other income and expense to eliminate their impact

1 on income taxes.
 2 Adjustment 13 synchronizes interest expense with rate base.
 3 Adjustment 14 reflects the income taxes at proposed rates.
 4 There are no further adjustments to the Income Statement at this time.

5 **VI. RATE DESIGN (H SCHEDULES).**

6 **Q. WHAT ARE THE COMPANY'S PRESENT RATES?**

7 A. The Company's present rates are:

8 Monthly Customer Charges

9 Residential	\$46.50
10 Commercial	\$ 7.50
11 Mobile Home – Winter Only	\$ 7.50
12 Mobile Home – Summer Only (per occupied space)	\$31.86
13 School	\$ 7.50

14
 15 Volumetric Rates (per 100 gallons of water use)

16 Commercial	\$0.9800
17 Mobile Home Park (Winter only)	\$0.5700
18 School	\$0.3122

19
 20 In addition, the price for reclaimed (non-potable) water is \$48.88 per acre-foot or
 21 \$0.15 per 1,000 gallons.

22 **Q. WHAT ARE THE PROPOSED RATES?**

23 A. The Company's proposed rates are:

24 Monthly Customer Charges

25 Residential	\$54.73
26 Commercial	\$ 8.83

1	Mobile Home – Winter Only	\$ 8.83
2	Mobile Home – Summer Only (per occupied space)	\$37.50
3	School	\$ 8.83

4

5 Volumetric Rates (per 100 gallons of water use)

6	Commercial	\$1.1535
7	Mobile Home Park (Winter only)	\$0.6709
8	School	\$0.3675

9 In addition, the proposed charge for reclaimed (non-potable) water is \$65.17 per
 10 acre-foot or \$0.20 per 1,000 gallons.

11 **Q. IS THE COMPANY PROPOSING A LOW INCOME TARIFF?**

12 A. Yes, a copy is included with the Company's application at Attachment 1. The
 13 proposed low income tariff is modeled after one I recently proposed for Chaparral
 14 City Water Company (Docket W-02113A-07-0551) and Litchfield Park Service
 15 Company (Docket Nos. SW-01428A-09-0103 and W-01427A-09-0104), which in
 16 turn, was modeled after one used in California by Golden States Water Company,
 17 the operating water utility for American States Water.

18 **Q. HOW DOES THE LOW INCOME TARIFF WORK?**

19 A. Residential customers meeting the qualifications as set forth in the proposed tariff
 20 would receive a 25 percent discount off their sewer bill. The primary criteria
 21 would be based on the combined gross annual income of all persons living in the
 22 household. For example, as shown on the proposed tariff, a 4-person household
 23 with a total gross annual income of less than or equal to \$21,200, which amount is
 24 100% of the 2008 federal poverty level, would meet the criteria. As defined in the
 25 proposed tariff, gross annual household income means all money and non-cash
 26 benefits, available for living expenses, from all sources, both taxable and non-

1 taxable, for all people who live in the home.

2 **Q. HOW WOULD A CUSTOMER SIGN UP FOR THE PROGRAM?**

3 A. By completing an application and eligibility declaration and submitting proof of
4 income to the Company. The form of the application and eligibility declaration
5 would be approved by the Commission.

6 **Q. WOULD THE GROSS ANNUAL INCOME LIMITS BE UPDATED**
7 **ANNUALLY?**

8 A. Yes. Federal poverty guidelines are updated annually and published in the Federal
9 Register (January). Accordingly, the Company would update its gross annual
10 household income limits annually.

11 **Q. HOW WOULD CUSTOMERS BE MADE AWARE OF THE LOW INCOME**
12 **TARIFF PROGRAM?**

13 A. Providing customers with information about the low income tariff program will be
14 an ongoing process. Notice of the new rates implemented in this rate case would
15 include information about the low income tariff. In addition, new customers would
16 be made aware of the program upon signing up for new service.

17 **Q. HOW WOULD THE COMPANY TRACK THE PROGRAM COSTS AND**
18 **PROGRAM COST RECOVERY?**

19 A. The program costs (the discounts given to participants plus a 10% fee for
20 administration and carrying costs) would be recovered from non-participants via a
21 commodity surcharge. The Company would maintain a balancing account to keep
22 track of the program costs and the collections made from non-participants. The
23 surcharge would be computed semi-annually based on the prior period costs and
24 collections.

25 **Q. WOULD THE PROGRAM COSTS BE RECOVERED FROM NON-**
26 **PARTICIPANTS FROM ALL CUSTOMER CLASSES?**

1 A. No. Since only residential customers can participate, program costs will be
2 recovered from the residential non-participants, and not from other customer
3 classes.

4 **Q. WHAT WOULD BE THE CARRYING COST RATE?**

5 A. The authorized rate of return in the instant case.

6 **Q. WHEN WOULD THE COMMODITY SURCHARGE TO NON-**
7 **PARTICIPANTS BEGIN?**

8 A. As soon as possible after the end of the first six-month period. In order to
9 determine a basis for the first surcharge computation, Coronado will track the
10 program costs for six months. Upon completion of the 6-month period, the
11 Company will compute a surcharge intended to collect the prior period's program
12 costs over the next six months. Accordingly, the first six-month surcharge will be
13 computed by dividing the program costs by the total number of bills to residential
14 non-participants during the six-month period. Subsequently, the program costs and
15 surcharge collections will be accumulated in the balancing account for the next six-
16 month period. The next six month's surcharge will be computed by dividing the
17 balancing account balance by the total number of bills to residential non-
18 participants during most recent six-month period.

19 **Q. CAN YOU PLEASE PROVIDE AN ILLUSTRATION?**

20 A. Yes. Assume that during the first six months of the program \$5,000 in costs are
21 incurred (including the administrative fee and carrying costs) and 7,000 bills were
22 issued to non-participants during that six-month period. The commodity surcharge
23 for the second six month period would be \$0.71 per residential bill (\$5,000 divided
24 by 7,000 bills). If during the second six-month period, \$6,000 in program costs are
25 incurred, \$5,000 is recovered via the surcharge to residential non-participants, and
26 6,900 bills were issued to residential non-participants, then the commodity

1 surcharge for the third six-month period would be \$1.01 per residential bill (\$6,000
2 program costs for first 6 months less \$5,000 in surcharge collections plus \$6,000
3 programs costs for the second 6 months divided by 6,900 bills).

4 **Q. CORONADO IS PROPOSING TO RESET THE SURCHARGE AFTER**
5 **EVERY SIX MONTHS?**

6 A. That is correct. Unlike Chaparral City, for example, which has well over 11,000
7 residential customers living in a fairly affluent area, Coronado has approximately
8 1,250 residential customers, many of whom have suffered financially since the
9 mine closed. The bottom line is Coronado wants to propose a low income tariff,
10 but they cannot afford to carry a significant number of customers that may qualify
11 for the low income tariff for a whole year. The potential for a cash flow problem
12 must be considered.

13 **Q. WOULD THE COMPANY BE WILLING TO SUBMIT REPORTS TO THE**
14 **COMMISSION?**

15 A. Yes. Coronado expects that it will need to submit an annual report showing the
16 number of participants for each six-month period during the year, the discounts
17 given to participants, administration fee and carrying costs, and the collections
18 made from non-participants through the surcharge. The Company would also
19 report the balance of the low income balancing accounts and show a computation
20 of the next six-month commodity surcharge and submit updated gross annual
21 income guidelines as updated by the federal government.

22 **Q. WOULD THE SURCHARGE APPEAR SEPARATELY ON CUSTOMER**
23 **BILLS?**

24 A. Yes. The surcharge would be identified as "Low Income Assistance Charge."

25 **Q. ARE THERE ANY PROPOSED CHANGES TO THE COMPANY'S**
26 **MISCELLANEOUS SERVICE CHARGES?**

1 A. Yes, as explained by Mr. Williamson, the Company seeks to modify the cost of
2 reconnection after non-payment. Williamson DT at 10-11.

3 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

4 A. Yes.

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ATTACHMENT 1

Exhibit A
RESUME OF THOMAS J. BOURASSA, CPA

EDUCATIONAL BACKGROUND

B.S. Northern Arizona University Chemistry/Accounting (1980)
M.B.A. University of Phoenix with Emphasis in Finance (1991)
C.P.A. State of Arizona (1995)

EMPLOYMENT EXPERIENCE

1995 – Present	CPA - Self Employed Consultant to utilities on regulatory matters including all aspects of rate applications (rate base, income statement, cost of capital, cost of service, and rate design), rate reviews, certificates of convenience and necessity (CC&N), CC&N extensions, financing applications, accounting order applications, and off-site facilities hook-up fee applications. Provide expert testimony as required. Consult on various aspects of business, financial and accounting matters including best business practices, generally accepted accounting principles, project analysis, cash flow analysis, regulatory treatment of certain expenditures and investments, business valuations, and rate reviews.
1992-1995	Employed by High-Tech Institute, Phoenix, Arizona as Controller and C.F.O.
1989-1992	Employed by Alta Technical School, a division of University of Phoenix as Division Controller.
1985-1989	Employed by M.L.R. Builders, Tampa and Pensacola, Florida as Operations/Accounting Manager
1982-1985	Employed by and part owner in Area Sand and Clay Company, Pensacola, Florida.
1981-1982	Employed by Purdue University, West Lafayette, Indiana as Teaching Assistant.

**SUMMARY OF REGULATORY WORK EXPERIENCE AS SELF EMPLOYED
CONSULTANT**

COMPANY/CLIENT

FUNCTION

Rio Rico Utilities, Inc
Docket WS-02676A-09-0257

Permanent Rate Application – Water and Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.

Litchfield park Service Company
Docket SW-01428A-09-0103
W-01428A-09-0104

Permanent Rate Application – Water and Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.

Valley Utilities
Docket W-01412A-08-0586

Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.

Black Mountain Sewer Company
Docket SW-02361A-08-0609

Permanent Rate Application – Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.

Far West Water and Sewer Company
Docket WS-03478A-08-0608

Interim Rate Application (Emergency Rates)

Farmers Water Company
Docket W-01654A-08-0502

Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.

Far West Water and Sewer Company
Docket WS-03478A-08-0454

Permanent Rate Application. Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design and Cost of Capital.

Far West Water and Sewer Company
Docket WS-03478A-07-0442

Financing Application. Prepare schedules to support application.

Ridgeline Water Company, LLC

Certificate of Convenience and Necessity

COMPANY/CLIENT

Docket W-20589A-08-173

Sacramento Utilities, Inc.
Docket SW-20576A-08-0067

Johnson Utilities
Docket WS-02987A-08-0180

Orange Grove Water Company
Docket W-02237A-08-0455

Oak Creek Water No.1
Docket W-01392A-07-0679

ICR Water Users Association
Docket W-02824-07-0388

H2O, Inc
Docket W-02234A-07-0550

Chaparral City Water Company
Docket W-02113A-07-0551

Valley Utilities
Docket W-01412A-07-0561

Valley Utilities

FUNCTION

– Water. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, and financing.

Certificate of Convenience and Necessity – Wastewater. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, and financing.

Permanent Rate Application. Water and Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design and Cost of Capital.

Permanent Rate Application. Prepared schedules on Plant, Income Statement, Revenue Requirement, and Rate Design.

Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.

Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.

Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.

Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.

Financing Application. Prepare schedules to support application.

Emergency Rate Application. Prepare

COMPANY/CLIENT

Docket W-01412A-07-280

Valley Utilities
Docket W-01412A-07-0278

Litchfield Park Service Company
Docket W-01427A-06-0807

Golden Shores Water Company
Docket W-01815A-07-0117

Diablo Village Water Company
Docket W-02309A-07-0140

Diablo Village Water Company
Docket W-02309A-07-0399

Sahuarita Water Company
(Rancho Sahuarita Water Co.)
Docket W-03718A-07-0687

Utility Source, L.L.C.
Docket WS-04235A-06-0303

Goodman Water Company
Docket W-02500A-06-0281

FUNCTION

schedules to support application.

Accounting Order. Assist in preparing definition and scope of costs for deferral for future regulatory consideration and treatment.

Accounting Order. Assist in preparing definition and scope of costs for deferral for future regulatory consideration and treatment.

Permanent Rate Application. Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.

Off-site facilities hook-up fee application. Prepare schedules to support application.

Permanent Rate Application (Class C). Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.

Extension Certificate of Convenience and Necessity – Water. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, and financing.

Permanent Rate Application- Water and Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.

Permanent Rate Application (Class C). Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, and Cost of Capital.

COMPANY/CLIENT

Links at Coyote Wash Utilities
Docket SW-04210A-06-0220

New River Utilities
Docket W-0173A-06-0171

Johnson Utilities
Docket WS-02987A-04-0501
Docket WS-02987A-04-0177

Bachmann Springs Utility
Docket WS-03953A-07-0073

Avra Water Cooperative
Docket W-02126A-06-0234

Gold Canyon Sewer Company
Docket SW-025191A-06-0015

Far West Water and Sewer Company
Docket WS-03478A-05-0801

Black Mountain Sewer Company
Docket SW-02361A-05-0657

Balterra Sewer Company

FUNCTION

Certificate of Convenience and Necessity – Sewer. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial rate design.

Extension Certificate of Convenience and Necessity – Water. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, and financing.

Extension of Certificate of Convenience and Necessity – Sewer. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial rate design.

Permanent Rate Application – Water and Sewer. Prepared short-form schedules for Rate Base, Income Statement, Plant, Bill Counts, and Rate Design.

Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.

Permanent Rate Application – Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.

Permanent Rate Application – Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.

Permanent Rate Application – Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.

Certificate of Convenience and Necessity

COMPANY/CLIENT

Docket SW-02304A-05-0586

Community Water Company of Green
Valley
Docket W-02304A-05-0830

McClain Water Systems
Northern Sunrise Water
Southern Sunrise Water
Docket W-020453A-06-0251

Valley Utilities Water Company
Docket W-01412A-04-0376

Valley Utilities Water Company
Docket W-01412A-04-0376

Beardsley Water Company
Docket W-02074A-04-0358

Pine Water Company, Inc.
Docket W-03512A-03-0279

Chaparral City Water Company
Docket W-02113A-04-0616

Tierra Linda Home Owners Association
Docket W-0423A-04-0075

FUNCTION

– Sewer. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial rate design.

Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.

Certificate of Convenience and Necessity – Water. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial rate design.

Off-site facilities hook-up fee application. Prepare schedules to support application.

Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, and Revenue Requirement. Assisted in preparation of Rate Design.

Permanent Rate Application – Water. Prepared short-form schedules for Rate Base, Income Statement, Plant, Bill Counts, and Rate Design.

Interim and Permanent Rate Application, Financing Application - Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Cost of Capital, and Rate Design.

Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, and Income Statement. Assisted in preparation Rate Design.

Certificate of Convenience and Necessity – Water. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial

COMPANY/CLIENT

FUNCTION

Diamond Ventures - Red Rock Utilities
Docket WS-04245A-04-0184

rate design.

Certificate of Convenience and Necessity
-- Water and Sewer. Prepared pro-forma
balance sheets, income statements, plant
schedules, rate base, financing, and initial
rate design.

Arizona-American Water Company, Inc.
Docket WS-01303A-02-0867
Docket WS-01303A-02-0868
Docket WS-01303A-02-0869
Docket WS-01303A-02-0870
Docket WS-01303A-02-0908

Permanent Rate Application Water and
Sewer (10 divisions). Prepared schedules
and testimony on Rate Base, Plant,
Income Statement, and Revenue
Requirement. Assisted in preparation of
Rate Design.

Bella Vista Water Company, Inc.
Docket W-02465A-01-0776

Permanent Rate Application - Water.
Prepared schedules and testimony on Rate
Base, Plant, Income Statement, and
Revenue Requirement. Assisted in
preparation of Cost of Capital and Rate
Design.

Green Valley Water Company
Docket (2000 Not Filed)

Permanent Rate Application. Prepared
schedules and testimony on Rate Base,
Plant, Income Statement, and Revenue
Requirement. Assisted in preparation of
Cost of Capital and Rate Design.

Gold Canyon Sewer Company
Docket SW-02519A-00-0638

Permanent Rate Application - Sewer.
Prepared schedules and testimony on Rate
Base, Plant, Revenue Requirement, and
Income Statement. Assisted in
preparation of Cost of Capital and Rate
Design.

Rio Verde Utilities, Inc.
Docket WS-02156A-00-0321

Permanent Rate Application -- Water and
Sewer. Prepared schedules and testimony
on Rate Base, Plant, Revenue Requirement,
and Income Statement. Assisted in
preparation of Cost of Capital and Rate
Design.

Livco Water Company

Permanent Rate Application -- Water.

COMPANY/CLIENT

Livco Sewer Company
Docket SW-02563A-05-0820

Livco Water Company
Docket SW-02563A-07-0506

Cave Creek Sewer Company

Avra Water Cooperative
Docket W-02126A-00-0269

Town of Oro Valley

Far West Water Company
Docket WS-03478A-99-0144

MHC Operating Limited Partnership
Sedona Venture Wastewater
Docket W-

Vail Water Company
Docket W-01651B-99-0406

E&T Water Company
Docket W-01409A-95-0440

New River Utility
Docket W-01737A-99-0633

FUNCTION

Prepared short-form schedules for Rate Base, Income Statement, Plant, Bill Counts, and Rate Design.

Permanent Rate Application – Water and Sewer. Prepared short-form schedules for Rate Base, Income Statement, Plant, Bill Counts, and Rate Design.

Revenue Requirement, Rate Adjustment and Rate Design - Sewer.

Permanent Rate Application – Water. Assisted in preparation of Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.

Revenue Requirements, Water Rate Adjustments and Rate Design.

Permanent Rate Application – Water. Assisted in preparation of schedules for Rate Base, Income Statement, Revenue Requirement, Lead-Lag Study, Cost of Capital, and Rate Design.

Permanent Rate Application – Sewer. Assisted in preparation of schedules for Rate Base, Plant, Income Statement, and Rate Design.

Permanent Rate Application. Assisted in preparation of schedules for Rate Base, Plant, Income Statement, and Rate Design.

Permanent Rate Application - Water. Assisted in preparation of schedules for Rate Base, Plant, Income Statement, and Rate Design.

Permanent Rate Application - Water. Assisted in preparation of schedules for Rate Base, Plant, Income Statement, and Rate Design.

COMPANY/CLIENT

Golden Shores Water
Docket W-01815A-98-0645

Ponderosa Utility Company
Docket W-01717A-99-0572

Chaparral City Water Company
Docket (1999 Not Filed)

FUNCTION

Permanent Rate Application – Water.
Assisted in preparation of schedules for
Rate Base, Plant, Income Statement, and
Rate Design.

Permanent Rate Application – Water.
Assisted in preparation of schedules for
Rate Base, Plant, Income Statement, and
Rate Design.

Permanent Rate Application - Water.
Prepared schedules and testimony on Rate
Base, Plant, Revenue Requirement, and
Income Statement. Assisted in preparation
of Cost of Capital and Rate Design.

SCHEDULES
A-C, E, F, H

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Computation of Increase in Gross Revenue
 Requirements As Adjusted

Exhibit
 Schedule A-1
 Page 1
 Witness: Bourassa

Line
No.

1	Fair Value Rate Base	\$	3,536,648
2			
3	Adjusted Operating Income		154,497
4			
5	Current Rate of Return		4.37%
6			
7	Required Operating Income	\$	260,297
8			
9	Required Rate of Return on Fair Value Rate Base		7.36%
10			
11	Operating Income Deficiency	\$	105,800
12			
13	Gross Revenue Conversion Factor		1.4792
14			
15	Increase in Gross Revenue Revenue Requirement	\$	156,498
16			
17	Test Year Revenues	\$	883,530
18	Increase in Gross Revenue Revenue Requirement	\$	156,498
19	Proposed Revenue Requirement	\$	1,040,028
20	% Increase		17.71%

Customer Classification	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>	
25					
26	\$ 693,176	\$ 815,868	122,692	17.70%	
27	60,805	71,568	10,763	17.70%	
28	100,605	118,412	17,807	17.70%	
29	11,122	14,829	3,707	33.33%	
30	9,121	10,735	1,614	17.70%	
31	(6,033)	(7,101)	(1,068)	17.70%	
32					
33	Subtotal	\$ 868,795	\$ 1,024,310	\$ 155,515	17.90%
34					
35	Other Wastewater Revenues	15,218	15,218	-	0.00%
36	Reconciling Amount H-1 to C-1	(483)	500	983	-203.52%
37					
38	Total of Water Revenues	\$ 883,530	\$ 1,040,028	\$ 156,498	17.71%

39
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 43
 44
 45
 46
 47

SUPPORTING SCHEDULES:

- B-1
- C-1
- C-3
- H-1

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Summary of Results of Operations

Exhibit
Schedule A-2
Page 1
Witness: Bourassa

Line No.	Description	Prior Years Ended		Test Year		Projected Year	
		12/31/2006	12/31/2007	Actual 12/31/2008	Adjusted 12/31/2008	Present Rates 12/31/2009	Proposed Rates 12/31/2009
1	Gross Revenues	\$ 349,270	\$ 703,330	\$ 899,226	\$ 883,530	\$ 883,530	\$ 1,040,028
2							
3	Revenue Deductions and	236,227	457,787	691,411	729,033	729,033	779,731
4	Operating Expenses						
5							
6	Operating Income	\$ 113,043	\$ 245,543	\$ 207,815	\$ 154,497	\$ 154,497	\$ 260,297
7							
8	Other Income and	-	625	2,836	-	-	-
9	Deductions						
10							
11	Interest Expense	(80,590)	(182,198)	(198,381)	(155,981)	(155,981)	(155,981)
12							
13	Net Income	\$ 32,453	\$ 63,970	\$ 12,270	\$ (1,484)	\$ (1,484)	\$ 104,316
14							
15	Earned Per Average						
16	Common Share	43.27	85.29	16.36	(1.98)	(1.98)	139.09
17							
18	Dividends Per						
19	Common Share	-	-	-	-	-	-
20							
21	Payout Ratio	-	-	-	-	-	-
22							
23	Return on Average						
24	Invested Capital	0.57%	1.35%	0.27%	-0.03%	-0.03%	2.27%
25							
26	Return on Year End						
27	Capital	0.66%	1.39%	0.27%	-0.03%	-0.03%	2.28%
28							
29	Return on Average						
30	Common Equity	6.61%	6.18%	1.14%	-0.14%	-0.14%	9.26%
31							
32	Return on Year End						
33	Common Equity	3.31%	5.89%	1.14%	-0.14%	-0.14%	8.85%
34							
35	Times Bond Interest Earned						
36	Before Income Taxes	2.08	1.44	1.02	0.96	0.96	1.93
37							
38	Times Total Interest and						
39	Preferred Dividends Earned						
40	After Income Taxes	1.40	1.35	1.06	1.35	1.35	1.62
41							
42							
43	<u>SUPPORTING SCHEDULES</u>						
44	C-1						
45	E-2						
46	F-1						

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Summary of Capital Structure

Exhibit
 Schedule A-3
 Page 1
 Witness: Bourassa

Line No.	Description:	Prior Years Ended		Test Year	Projected Year
		<u>12/31/2006</u>	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2009</u>
1					
2					
3	Long-Term Debt	2,650,000	2,650,000	2,575,000	2,495,000
4					
5	Total Debt	\$ 2,650,000	\$ 2,650,000	\$ 2,575,000	\$ 2,495,000
6					
7					
8	Preferred Stock	570,000	570,000	570,000	570,000
9					
10	Common Equity	981,797	1,086,788	1,074,024	1,178,340
11					
12					
13	Total Capital & Debt	\$ 4,201,797	\$ 4,306,788	\$ 4,219,024	\$ 4,243,340
14					
15					
16	Capitalization Ratios:				
17					
18	Long-Term Debt	63.07%	61.53%	61.03%	58.80%
19					
20	Total Debt	63.07%	61.53%	61.03%	58.80%
21					
22					
23	Preferred Stock	13.57%	13.23%	13.51%	13.43%
24					
25	Common Equity	23.37%	25.23%	25.46%	27.77%
26					
27					
28	Total Capital	86.43%	86.77%	86.49%	86.57%
29					
30					
31	Weighted Cost of				
32	Senior Capital	4.82%	4.71%	4.69%	4.55%
33					
34					
35					
36					
37					
38					
39	<u>SUPPORTING SCHEDULES:</u>				
40	E-1				
41	D-1				

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Construction Expenditures
and Gross Utility Plant in Service

Exhibit
Schedule A-4
Page 1
Witness: Bourassa

Line No.		<u>Construction Expenditures</u>	<u>Net Plant Placed in Service</u>	<u>Gross Utility Plant in Service</u>
1				
2	Prior Year Ended 12/31/2006	2,459,162	2,459,162	2,459,162
3				
4	Prior Year Ended 12/31/2007	1,823,193	1,823,193	4,282,324
5				
6	Test Year Ended 12/31/2008	146,117	146,117	4,428,471
7				
8	Projected Year Ended 12/31/2009	30,000	30,000	4,458,471
9				
10				
11				
12				
13	<u>SUPPORTING SCHEDULES:</u>			
14	B-2			
15	E-5			
16	F-3			
17				
18				

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Summary Statements of Cash Flows

Exhibit
 Schedule A-5
 Page 1
 Witness: Bourassa

Line No.	Prior Year Ended 12/31/2006	Prior Year Ended 12/31/2007	Test Year Ended 12/31/2008	Projected Year Present Rates 12/31/2009	Projected Year Proposed Rates 12/31/2009
5	Cash Flows from Operating Activities				
6	\$ 95,509	\$ 104,991	\$ 19,206	\$ (1,484)	\$ 104,316
7	Adjustments to reconcile net income to net cash provided by operating activities:				
9	53,919	110,482	180,888	186,095	186,095
10	-	(4,740)	(24,773)	-	-
11	-	-	-	-	-
12	Changes in Certain Assets and Liabilities:				
13	(20,167)	(62,070)	(24,735)	-	-
14	-	-	-	-	-
15	-	-	-	-	-
16	-	(790)	-	-	-
17	-	(32,996)	9,518	-	-
18	580,133	(373,630)	95,593	-	-
19	-	-	-	-	-
20	191,008	(156,668)	(14,531)	-	-
21	-	(36,744)	(25,108)	-	-
22	(310,270)	60,857	312	-	-
23	50,286	(137,964)	4,739	-	-
24	<u>\$ 640,418</u>	<u>\$ (529,272)</u>	<u>\$ 221,109</u>	<u>\$ 184,611</u>	<u>\$ 290,411</u>
25	Cash Flow From Investing Activities:				
26	(2,505,183)	(1,724,718)	(146,147)	(30,000)	(30,000)
27	-	-	-	-	-
28	-	-	-	-	-
29	<u>#####</u>	<u>\$ (1,724,718)</u>	<u>\$ (146,147)</u>	<u>\$ (30,000)</u>	<u>\$ (30,000)</u>
30	Cash Flow From Financing Activities				
31	-	-	-	-	-
32	-	-	-	-	-
33	295,676	307,525	-	-	-
34	-	-	-	-	-
35	2,650,000	-	(75,000)	(80,000)	(80,000)
36	-	-	-	-	-
37	-	-	-	-	-
38	-	-	-	-	-
39	886,288	-	-	-	-
40	<u>\$ 3,831,964</u>	<u>\$ 307,525</u>	<u>\$ (75,000)</u>	<u>\$ (80,000)</u>	<u>\$ (80,000)</u>
41	1,967,199	(1,946,465)	(38)	74,611	180,411
42	-	1,967,199	20,734	20,696	20,696
43	<u>\$ 1,967,199</u>	<u>\$ 20,734</u>	<u>\$ 20,696</u>	<u>\$ 95,307</u>	<u>\$ 201,107</u>
44	<u>SUPPORTING SCHEDULES:</u>				
45	E-3				
46	F-2				
47					

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Summary of Rate Base

Exhibit
 Schedule B-1
 Page 1
 Witness: Bourassa

Line No.	<u>Original Cost</u> <u>Rate base</u>	<u>Fair Value</u> <u>Rate Base</u>
1		
2	\$ 4,428,471	\$ 4,428,471
3	398,932	398,932
4		
5	\$ 4,029,539	\$ 4,029,539
6		
7	<u>Less:</u>	
8	Advances in Aid of	
9	Construction	-
10	Contributions in Aid of	
11	Construction	603,201
12	Accumulated Amortization of CIAC	(9,755)
13		
14	Customer Meter Deposits	19,809
15	Deferred Income Taxes & Credits	(37,425)
16		-
17		
18		
19	<u>Plus:</u>	
20	Unamortized Finance	
21	Charges	82,938
22	Deferred Regulatory Assets	-
23	Allowance for Working Capital	-
24		
25		
26	<u>\$ 3,536,648</u>	<u>\$ 3,536,648</u>
27		
28		
29		
30	<u>SUPPORTING SCHEDULES:</u>	
31	B-2	
32	B-3	
33	B-5	
34	E-1	
35		

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Schedule B-2
 Page 1
 Witness: Bourassa

Line No.		Actual at End of <u>Test Year</u>	Proforma Adjustments <u>Amount</u>	Adjusted at end of <u>Test Year</u>
1	Gross Utility			
2	Plant in Service	\$ 4,428,471	-	\$ 4,428,471
3				
4	Less:			
5	Accumulated			
6	Depreciation	394,272	4,660	398,932
7				
8				
9	Net Utility Plant			
10	in Service	\$ 4,034,199		\$ 4,029,539
11				
12	Less:			
13	Advances in Aid of			
14	Construction	-	-	-
15				
16	Contributions in Aid of			
17	Construction (CIAC)	603,201	-	603,201
18				
19	Accumulated Amortization of CIAC	(27,490)	17,735	(9,755)
20				
21	Customer Meter Deposits	19,809	-	19,809
22	Deferred Income Taxes	-	(37,425)	(37,425)
23				
24				
25	Plus:			
26	Unamortized Finance			
27	Charges	82,938	-	82,938
28	Deferred Regulatory Assets	-	-	-
29	Allowance for Working Capital	-	-	-
30				
31	Total	<u>\$ 3,521,617</u>		<u>\$ 3,536,648</u>

35 SUPPORTING SCHEDULES:
 36 B-2, pages 1-7
 37 E-1

RECAP SCHEDULES:
 B-1

38
 39
 40
 41
 42
 43
 44

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Schedule B-2
 Page 2
 Witness: Bourassa

Line No.	Actual at End of Test Year	Proforma Adjustments				Adjusted at end of Test Year
		1 Plant Adjustments	2 Accum. Depr.	3 CIAC	4 Deferred Income Taxes	
1						
2	\$ 4,428,471	-				\$ 4,428,471
3						
4	Less:					
5	Accumulated					
6	Depreciation		4,660			398,932
7						
8						
9	Net Utility Plant					
10	in Service	\$ 4,034,199	\$ (4,660)	\$ -	\$ -	\$ 4,029,539
11						
12	Less:					
13	Advances in Aid of					
14	Construction	-				-
15						
16	Contributions in Aid of					
17	Construction (CIAC)	603,201		-		603,201
18						
19	Accumulated Amort of CIAC	(27,490)		17,735		(9,755)
20						
21	Customer Meter Deposits	19,809				19,809
22	Deferred Income Taxes	-			-37,425	(37,425)
23						
24						
25	Plus:					
26	Unamortized Finance					
27	Charges	82,938				82,938
28	Deferred Reg. Assets	-				-
29	Allowance for Working Capital	-				-
30						
31	Total	\$ 3,521,617	\$ (4,660)	\$ (17,735)	\$ 37,425	\$ 3,536,648
32						
33						
34						

RECAP SCHEDULES:
 B-1

SUPPORTING SCHEDULES:
 B-2, pages 3-6
 E-1

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 1

Exhibit
 Schedule B-2
 Page 3
 Witness: Bourassa

Line No.	Plant-in-Service	Acct.	No.	Description	Per Books Original Cost	A Difference to Computed Balance ¹	Adjustments			Adjusted Original Cost
							B Intentionally Left Blank	C Intentionally Left Blank	D Intentionally Left Blank	
1					5,194	-				5,194
2										
3										
4										
5										
6										
7										
8										
9										
10										
11										
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42										
43										
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45										
46										
TOTALS										
Plant-in-Service per Books										
Increase (decrease) in Plant-in-Service										
Adjustment to Plant-in-Service										

¹ Computed Balance as shown on B-2, page 3.4.

Coronado Utilities, Inc.
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.1

Account No.	Description	Deprec. Rate	Plant At 12/31/2005	2005 Accum. Depr.	2006 Plant Additions	2006 Plant Adjustments	2006 Adjusted Plant	2006 Plant Retirements	2006 Salvage A/D Only	2006 Plant Balance	2006 Deprec.	
351	Organization	0.00%	-	-	5,194	-	5,194	-	-	5,194	-	
352	Franchises	0.00%	-	-	-	-	-	-	-	-	-	
353	Land	0.00%	-	-	249,999	-	249,999	-	-	249,999	-	
354	Structures & Improvements	3.33%	-	-	-	-	-	-	-	-	-	
355	Power Generation	5.00%	-	-	-	-	-	-	-	-	-	
360	Collection Sewer Forced	2.00%	-	-	-	-	-	-	-	-	-	
361	Collection Sewers Gravity	2.00%	-	-	-	-	-	-	-	-	-	
362	Special Collecting Structures	2.00%	-	-	1,600	-	1,600	-	-	1,600	16	
363	Customer Services	2.00%	-	-	-	-	-	-	-	-	-	
364	Flow Measuring Devices	10.00%	-	-	-	-	-	-	-	-	-	
365	Flow Measuring Installation	10.00%	-	-	-	-	-	-	-	-	-	
366	Reuse Services	2.00%	-	-	-	-	-	-	-	-	-	
367	Reuse Meters And Installation	8.33%	-	-	-	-	-	-	-	-	-	
370	Receiving Wells	3.33%	-	-	-	-	-	-	-	-	-	
371	Pumping Equipment	12.50%	-	-	-	-	-	-	-	-	-	
374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-	-	-	-	
375	Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-	-	-	-	
380	Treatment & Disposal Equipment	5.00%	-	-	1,753,197	-	1,753,197	-	-	1,753,197	43,830	
381	Plant Sewers	5.00%	-	-	-	-	-	-	-	-	-	
382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-	-	-	-	
389	Other Sewer Plant & Equipment	6.67%	-	-	283,058	-	283,058	-	-	283,058	4,713	
390	Office Furniture & Equipment	6.67%	-	-	113,691	-	113,691	-	-	113,691	3,792	
390.1	Computers and Software	20.00%	-	-	-	-	-	-	-	-	-	
391	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-	-	
392	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-	
393	Tools, Shop And Garage Equip	5.00%	-	-	-	-	-	-	-	-	-	
394	Laboratory Equip	10.00%	-	-	-	-	-	-	-	-	-	
396	Communication Equip	10.00%	-	-	-	-	-	-	-	-	-	
398	Other Tangible Plant	4.00%	-	-	52,423	-	52,423	-	-	52,423	1,048	
Plant Held for Future Use												
TOTAL WASTEWATER PLANT												
										2,459,162	2,459,162	53,399

Plant Held for Future Use
TOTAL WASTEWATER PLANT

Coronado Utilities, Inc.
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.2

Account No.	Description	Deprec. Rate	2007 Plant Additions	2007 Plant Adjustments	2007 Adjusted Plant	2007 Plant Retirements	2007 Salvage/Adj. A/D Only	2007 Plant Balance	2007 Deprec.
351	Organization	0.00%	-	-	-	-	-	5,194	-
352	Franchises	0.00%	-	-	(9,999)	-	-	-	-
353	Land	0.00%	-	(9,999)	1,858	-	240,000	-	-
354	Structures & Improvements	3.33%	1,858	-	1,858	-	1,858	31	-
355	Power Generation	5.00%	-	-	-	-	-	-	-
360	Collection Sewer Forced	2.00%	-	-	-	-	-	-	-
361	Collection Sewers Gravity	2.00%	59,350	-	59,350	-	59,350	594	-
362	Special Collecting Structures	2.00%	-	(24)	(24)	-	1,576	32	-
363	Customer Services	2.00%	-	-	-	-	-	-	-
364	Flow Measuring Devices	10.00%	-	-	-	-	-	-	-
365	Flow Measuring Installation	10.00%	-	-	-	-	-	-	-
366	Reuse Services	2.00%	-	-	-	-	-	-	-
367	Reuse Meters And Installation	8.33%	-	-	-	-	-	-	-
370	Receiving Wells	3.33%	-	-	-	-	-	-	-
371	Pumping Equipment	12.50%	-	-	-	-	-	-	-
374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-	-
375	Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-	-
380	Treatment & Disposal Equipment	5.00%	1,437,019	-	1,437,019	-	3,190,216	123,565	-
381	Plant Sewers	5.00%	-	-	-	-	-	-	-
382	Outfall Sewer Lines	3.33%	270,514	-	270,514	-	553,572	13,930	-
389	Other Sewer Plant & Equipment	6.67%	64,475	-	64,475	-	178,166	9,733	-
390	Office Furniture & Equipment	6.67%	-	-	-	-	-	-	-
390.1	Computers and Software	20.00%	-	-	-	-	-	-	-
391	Transportation Equipment	20.00%	-	-	-	-	-	-	-
392	Stores Equipment	4.00%	-	-	-	-	-	-	-
393	Tools, Shop And Garage Equip	5.00%	-	-	-	-	-	-	-
394	Laboratory Equip	10.00%	-	-	-	-	-	-	-
396	Communication Equip	10.00%	-	-	-	-	-	-	-
398	Other Tangible Plant	4.00%	-	-	-	-	52,423	2,097	-
			1,833,216	(10,023)	1,823,193	-	4,282,355	150,002	

Plant Held for Future Use
TOTAL WASTEWATER PLANT

Coronado Utilities, Inc.
Plant Additions and Retirements

Account No.	Description	Deprec. Rate	2008 Plant Additions	2008 Plant Adjustments	2008 Adjusted Plant Additions	2008 Plant Retirements	2008 Salvage A/D Only	2008 Plant Balance	2008 Deprec.
351	Organization	0.00%	-	-	-	-	-	5,194	-
352	Franchises	0.00%	-	-	-	-	-	-	-
353	Land	0.00%	75,001	-	75,001	-	-	315,001	-
354	Structures & Improvements	3.33%	-	-	-	-	-	1,858	62
355	Power Generation	5.00%	-	-	-	-	-	-	-
360	Collection Sewer Forced	2.00%	-	-	-	-	-	-	-
361	Collection Sewers Gravity	2.00%	-	-	-	-	-	59,350	1,187
362	Special Collecting Structures	2.00%	-	-	-	-	-	1,576	32
363	Customer Services	2.00%	-	-	-	-	-	-	-
364	Flow Measuring Devices	10.00%	-	-	-	-	-	-	-
365	Flow Measuring Installation	10.00%	-	-	-	-	-	-	-
366	Reuse Meters And Installation	2.00%	-	-	-	-	-	-	-
367	Reuse Meters	8.33%	-	-	-	-	-	-	-
370	Receiving Wells	3.33%	16,133	-	16,133	-	-	16,133	269
371	Pumping Equipment	12.50%	15,223	-	15,223	-	-	15,223	951
374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-	-
375	Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-	-
380	Treatment & Disposal Equipment	5.00%	53,159	-	53,159	-	-	3,243,375	160,840
381	Plant Sewers	5.00%	-	-	-	-	-	-	-
382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-	-
389	Other Sewer Plant & Equipment	6.67%	-	(13,367)	(13,367)	(31)	-	540,205	18,211
390	Office Furniture & Equipment	6.67%	-	(31)	(31)	-	-	178,135	11,883
390.1	Computers and Software	20.00%	-	-	-	-	-	-	-
391	Transportation Equipment	20.00%	-	-	-	-	-	-	-
392	Stores Equipment	4.00%	-	-	-	-	-	-	-
393	Tools, Shop And Garage Equip	5.00%	-	-	-	-	-	-	-
394	Laboratory Equip	10.00%	-	-	-	-	-	-	-
396	Communication Equip	10.00%	-	-	-	-	-	-	-
398	Other Tangible Plant	4.00%	-	-	-	-	-	52,423	2,097

Plant Held for Future Use
TOTAL WASTEWATER PLANT

159,515	(13,399)	146,117	-	4,428,472	195,531
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Account No.	Description	Year End Accumulated Depreciation By Account			
		2005	2006	2007	2008
Deprec. Rate					
351	Organization	0.00%	-	-	-
352	Franchises	0.00%	-	-	-
353	Land	0.00%	-	-	-
354	Structures & Improvements	3.33%	-	31	93
355	Power Generation	5.00%	-	-	-
360	Collection Sewer Forced	2.00%	-	-	-
361	Collection Sewers Gravity	2.00%	-	594	1,781
362	Special Collecting Structures	2.00%	16	48	79
363	Customer Services	2.00%	-	-	-
364	Flow Measuring Devices	10.00%	-	-	-
365	Flow Measuring Installation	10.00%	-	-	-
366	Reuse Services	2.00%	-	-	-
367	Reuse Meters And Installation	8.33%	-	-	-
370	Receiving Wells	3.33%	-	-	269
371	Pumping Equipment	12.50%	-	-	951
374	Reuse Distribution Reservoirs	2.50%	-	-	-
375	Reuse Trans. and Dist. System	2.50%	-	-	-
380	Treatment & Disposal Equipment	5.00%	43,830	167,415	328,255
381	Plant Sewers	5.00%	-	-	-
382	Outfall Sewer Lines	3.33%	4,713	18,643	36,854
389	Other Sewer Plant & Equipment	6.67%	3,792	13,525	25,408
390	Office Furniture & Equipment	6.67%	-	-	-
390.1	Computers and Software	20.00%	-	-	-
391	Transportation Equipment	20.00%	-	-	-
392	Stores Equipment	4.00%	-	-	-
393	Tools, Shop And Garage Equip	5.00%	-	-	-
394	Laboratory Equip	10.00%	-	-	-
396	Communication Equip	10.00%	-	-	-
398	Other Tangible Plant	4.00%	1,048	3,145	5,242
Plant Held for Future Use			-	-	-
TOTAL WASTEWATER PLANT			53,399	203,401	398,932

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Original Cost Rate Base Proforma Adjustments
 Adjustment 3

Exhibit
 Schedule B-2
 Page 5
 Witness: Bourassa

Line No.						Accumulated Amortization
<u>CIAC and Accumulated Amortization</u>						
	<u>CIAC</u>		<u>Rate</u>	<u>Amortization</u>		<u>Amortization</u>
1	Balance at 12/31/2005					-
2	\$	-				-
3	Jan-Dec Amortization					-
4			0.000%	-		-
5	2006 Land Additions					-
6	\$	240,000		-		-
7	2006 Additions - Outfall Sewer Lines					927
8		55,676	1.665%	927		927
9	Balance at 12/31/2006					927
10	\$	295,676				927
11	Jan-Dec Amortization Land					927
12		\$ 240,000	0.000%	-		927
13	Jan-Dec Amortization- Outfall Sewer Lines					2,781
14		\$ 55,676	3.330%	1,854		2,781
15	2007 Additions - Outfall Sewer Lines					7,901
16		307,525	1.665%	5,120		7,901
17	Balance at 12/31/2007					7,901
18	\$	603,201				7,901
19	Jan-Dec Amortization Land					7,901
20		\$ 240,000	0.00%	-		7,901
21	Jan-Dec Amortization- Outfall Sewer Lines					9,755
22		\$ 55,676	3.330%	1,854		9,755
23	2008 Additions - Outfall Sewer Lines					9,755
24		-	1.665%	-		9,755
25	Balance at 12/31/2008					9,755
26	\$	<u>603,201</u>				9,755
27	Computed balance at 12/31/2008					\$ 9,755
28	\$	603,201				27,490
29	Book balance at 12/31/2008					27,490
30	\$	603,201				27,490
31	Increase (decrease)					\$ (17,735)
32	\$	-				(17,735)
33	Adjustment to CIAC					17,735
34	\$	<u>-</u>				<u>17,735</u>
35	Label					3b
		3a				3b

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Computation of Working Capital

Exhibit
Schedule B-5
Page 1
Witness: Bourassa

Line

No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	76,710
3	Pumping Power (1/24 of Pumping Power)		-
4	Purchased Water (1/24 of Purchased Water)		-
5	Prepays		790
6	Materials & Supplies		-
7			
8			
9	Total Working Capital Allowance	<u>\$</u>	<u>77,500</u>
10			
11			
12	Working Capital Requested	<u>\$</u>	<u>-</u>
13			
14			

15 SUPPORTING SCHEDULES:

16 E-1

17

RECAP SCHEDULES:

B-1

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Income Statement

Exhibit
 Schedule C-1
 Page 1
 Witness: Bourassa

Line No.		Test Year Book Results	Label	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Revenues						
2	Flat Rate Revenues	\$ 726,353	4/5	\$ (15,696)	\$ 710,657	\$ 156,498	\$ 867,155
3	Measured Revenues	157,655			157,655		157,655
4	Other Wastewater Revenues	15,218			15,218		15,218
5		<u>\$ 899,226</u>		<u>\$ (15,696)</u>	<u>\$ 883,530</u>	<u>\$ 156,498</u>	<u>\$ 1,040,028</u>
6	Operating Expenses						
7	Salaries and Wages	\$ 22,570	10a	29,930	\$ 52,500		\$ 52,500
8	Purchased Wastewater Treatment	-			-		-
9	Sludge Removal Expense	-			-		-
10	Purchased Power	53,814	7/8	404	54,218		54,218
11	Fuel for Power Production	-			-		-
12	Chemicals	28,079	6	(289)	27,790		27,790
13	Materials and Supplies	2,978			2,978		2,978
14	Contractual Services	177,286	9	(35,900)	141,386		141,386
15	Contractual Services- Testing	3,676			3,676		3,676
16	Contractual Services - Other	114,088	11	(72,747)	41,341		41,341
17	Equipment Rental	-			-		-
18	Rents - Building	-			-		-
19	Transportation Expenses	209			209		209
20	Insurance - General Liability	11,066			11,066		11,066
21	Insurance - Other	-			-		-
22	Regulatory Expenses	3,505			3,505		3,505
23	Regulatory Commission Expense	-	3	58,333	58,333		58,333
24	Miscellaneous Expense	37,081			37,081		37,081
25	Bad Debt Expense	46,313			46,313		46,313
26	Depreciation and Amortization	180,888	1	5,207	186,095		186,095
27	Taxes Other Than Income	2,394	10b	3,128	5,521		5,521
28	Property Taxes	13,194	2	44,538	57,733		57,733
29	Income Tax	(5,729)	14	5,018	(711)	50,698	49,987
30					-		-
31	Total Operating Expenses	<u>\$ 691,411</u>		<u>\$ 37,622</u>	<u>\$ 729,033</u>	<u>\$ 50,698</u>	<u>\$ 779,731</u>
32	Operating Income	<u>\$ 207,815</u>		<u>\$ (53,318)</u>	<u>\$ 154,497</u>	<u>\$ 105,800</u>	<u>\$ 260,297</u>
33	Other Income (Expense)						
34	Interest Income	6,659	12a	(6,659)	-		-
35	Other income	2,836	12b	(2,836)	-		-
36	Interest Expense	(198,381)	13	42,400	(155,981)		(155,981)
37	Other Expense	278	12c	(278)	-		-
38							
39	Total Other Income (Expense)	<u>\$ (188,608)</u>		<u>\$ 32,627</u>	<u>\$ (155,981)</u>	<u>\$ -</u>	<u>\$ (155,981)</u>
40	Net Profit (Loss)	<u>\$ 19,206</u>		<u>\$ (20,691)</u>	<u>\$ (1,484)</u>	<u>\$ 105,800</u>	<u>\$ 104,316</u>

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 42 SUPPORTING SCHEDULES:
 43 C-2
 44 E-2
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RECAP SCHEDULES:
 A-1

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Adjustments to Revenues and Expenses

Exhibit
 Schedule C-2
 Page 1
 Witness: Bourassa

Line No.	1	2	3	4	5	6	Subtotal
	Depreciation Expense	Property Taxes	Rate Case Expense	Revenue Adjustment	Revenue Annualization	Annualization of Chemicals Exp.	
1							
2							
3							
4							
5	5,207	44,538	58,333	(9,663)	(6,033)	(289)	107,789
6							
7	(5,207)	(44,538)	(58,333)	(9,663)	(6,033)	289	(123,485)
8							
9							
10							
11							
12							
13							
14							
15							
16	(5,207)	(44,538)	(58,333)	(9,663)	(6,033)	289	(123,485)
17							
18							
19							
20							
21							
22							
23							
24	969	(564)	(35,900)	33,058	(72,747)		32,604
25							
26							
27	(969)	564	35,900	(33,058)	72,747	-	(48,300)
28							
29							
30							
31							
32						(9,773)	(9,773)
33							
34							
35	(969)	564	35,900	(33,058)	72,747	(9,773)	(58,073)
36							
37							
38							
39							
40							
41							
42							
43							
44							
45							
46							
47							
48							
49							
50							
51							
52							
53							
54	42,400	(5,018)	-	-	-	-	(20,691)

Line No.	7	8	9	10	11	12	Subtotal
	Increase Purchased Power	Annualization Contractual Services	Contractual Salaries and Wages	Contractual Services - Other	Contractual Services - Other	Other Income/Expense	
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
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52							
53							
54							

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Adjustments to Revenues and Expenses
 Adjustment Number 1

Exhibit
 Schedule C-2
 Page 2
 Witness: Bourassa

Line No.	Acct. No.	Description	Adjusted Original Cost	Proposed Rates	Depreciation Expense
1		<u>Depreciation Expense</u>			
2					
3					
4					
5	351	Organization	5,194	0.00%	-
6	352	Franchises	-	0.00%	-
7	353	Land	315,001	0.00%	-
8	354	Structures & Improvements	1,858	3.33%	62
9	355	Power Generation	-	5.00%	-
10	360	Collection Sewer Forced	-	2.00%	-
11	361	Collection Sewers Gravity	59,350	2.00%	1,187
12	362	Special Collecting Structures	1,576	2.00%	32
13	363	Customer Services	-	2.00%	-
14	364	Flow Measuring Devices	-	10.00%	-
15	365	Flow Measuring Installation	-	10.00%	-
16	366	Reuse Services	-	2.00%	-
17	367	Reuse Meters And Installation	-	8.33%	-
18	370	Receiving Wells	16,133	3.33%	537
19	371	Pumping Equipment	15,223	12.50%	1,903
20	374	Reuse Distribution Reservoirs	-	2.50%	-
21	375	Reuse Trans. and Dist. System	-	2.50%	-
22	380	Treatment & Disposal Equipment	3,243,375	5.00%	162,169
23	381	Plant Sewers	-	5.00%	-
24	382	Outfall Sewer Lines	540,205	3.33%	17,989
25	389	Other Sewer Plant & Equipment	178,135	6.67%	11,882
26	390	Office Furniture & Equipment	-	6.67%	-
27	390.1	Computers and Software	-	20.00%	-
28	391	Transportation Equipment	-	20.00%	-
29	392	Stores Equipment	-	4.00%	-
30	393	Tools, Shop And Garage Equip	-	5.00%	-
31	394	Laboratory Equip	-	10.00%	-
32	396	Communication Equip	-	10.00%	-
33	398	Other Tangible Plant	52,423	4.00%	2,097
34		TOTALS	\$ 4,428,472		\$ 197,857
35					
36		Less: Amortization of Contributions			
37	353	Land	\$ 250,000	0.0000%	\$ -
38	382	Outfall Sewer Lines	\$ 353,201	3.3300%	\$ (11,762)
39			\$ 603,201		\$ (11,762)
40					
41		Total Depreciation Expense			\$ 186,095
42					
43		Test Year Depreciation Expense			180,888
44					
45		Increase (decrease) in Depreciation Expense			5,207
46					
47		Adjustment to Revenues and/or Expenses			\$ 5,207
48					
49		<u>SUPPORTING SCHEDULE</u>			
50		B-2, page 3			

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Adjustment to Revenues and/or Expenses
 Adjustment Number 2

Exhibit
 Schedule C-2
 Page 3
 Witness: Bourassa

Line No.		
1	<u>Adjust Property Taxes to Reflect Proposed Revenues:</u>	
2		
3	Adjusted Revenues in year ended 12/31/2008	\$ 883,530
4	Adjusted Revenues in year ended 12/31/2008	883,530
5	Proposed Revenues	<u>1,040,028</u>
6	Average of three year's of revenue	\$ 935,696
7	Average of three year's of revenue, times 2	\$ 1,871,393
8	Add:	
9	Construction Work in Progress at 10%	\$ -
10	Deduct:	
11	Book Value of Transportation Equipment	<u>-</u>
12		
13	Full Cash Value	\$ 1,871,393
14	Assessment Ratio	<u>21%</u>
15	Assessed Value	392,992
16	Property Tax Rate	14.6906%
17		
18	Property Tax	57,733
19	Tax on Parcels	0
20		
21	Total Property Tax at Proposed Rates	<u>\$ 57,733</u>
22	Property taxes in the test year	13,194
23	Change in property taxes	<u>\$ 44,538</u>
24		
25		
26	Adjustment to Revenues and/or Expenses	<u>\$ 44,538</u>
27		
28		

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 3

Exhibit
Schedule C-2
Page 4
Witness: Bourassa

Line

No.

1	<u>Rate Case Expense</u>	
2		
3	Estimated Rate Case Expense	\$ 175,000
4		
5	Estimated Amortization Period in Years	3
6		
7	Annual Rate Case Expense	<u>\$ 58,333</u>
8		
9	Test Year Rate Case Expense	\$ -
10		
11	Increase(decrease) Rate Case Expense	<u>\$ 58,333</u>
12		
13	Adjustment to Revenue and/or Expense	<u>\$ 58,333</u>
14		
15		
16		
17		
18		
19		
20		

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 4

Exhibit
Schedule C-2
Page 5
Witness: Bourassa

Line
No.

1	<u>Revenue Adjustment</u>	
2		
3		
4	Remove BHP Revenue Subsidization for Dec 2007 recorded in Jan 2008	\$ (9,663)
5		
6		
7		
8	Total Revenue Adjustment	<u>\$ (9,663)</u>
9		
10		
11	Adjustment to Revenue and/or Expense	<u>\$ (9,663)</u>
12		
13		
14		
15		
16		
17		
18		
19		
20		

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 5

Exhibit
Schedule C-2
Page 6
Witness: Bourassa

Line
No.

1	<u>Revenue Annualization</u>	
2		
3		
4	Revenue Annualization	\$ (6,033)
5		
6		
7		
8	Total Revenue from Annualization	<u>\$ (6,033)</u>
9		
10		
11	Adjustment to Revenue and/or Expense	<u>\$ (6,033)</u>
12		
13	<u>SUPPORTING SCHEDULES</u>	
14	C-2 pages 6.1 to 6.2	
15	H-1	
16		
17		
18		
19		
20		

Coronado Utilities, Inc.
Residential
Customers to Year End Levels
Test Year Ended December 31, 2008

Exhibit
Schedule C-2
Page 6.1
Witness: Bourassa

Line No.		Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08
1	Year End Number of Customers	1,238	1,238	1,238	1,238	1,238	1,238	1,238
2	Actual Customers	1,246	1,240	1,236	1,234	1,234	1,244	1,241
3	Increase in Number of Customers/Bills	(8)	(2)	2	4	4	(6)	(3)
4	Average Revenue / Present Rates	\$ 46.50	\$ 46.50	\$ 46.50	\$ 46.50	\$ 46.50	\$ 46.50	\$ 46.50
5	Revenue Annualization / Present Rates	\$ (372)	\$ (93)	\$ 93	\$ 186	\$ 186	\$ (279)	\$ (140)
6								
7	Increase in Number of Customers	(8)	(2)	2	4	4	(6)	(3)
8	Average Revenue / Proposed Rates	\$ 54.73	\$ 54.73	\$ 54.73	\$ 54.73	\$ 54.73	\$ 54.73	\$ 54.73
9	Revenue Annualization / Proposed Rates	\$ (438)	\$ (109)	\$ 109	\$ 219	\$ 219	\$ (328)	\$ (164)
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12								
13								
14								
15	Year End Number of Customers	1,238	1,238	1,238	1,238	1,238	1,238	1,238
16	Actual Customers	1,243	1,251	1,254	1,246	1,238	1,238	1,238
17	Increase in Number of Customers/Bills	(5)	(13)	(16)	(8)	-	-	(51)
18	Average Revenue / Present Rates	\$ 46.50	\$ 46.50	\$ 46.50	\$ 46.50	\$ 46.50	\$ 46.50	\$ 46.50
19	Revenue Annualization / Present Rates	\$ (233)	\$ (605)	\$ (744)	\$ (372)	\$ -	\$ -	\$ (2,372)
20								
21	Increase in Number of Customers	(5)	(13)	(16)	(8)	-	-	-
22	Average Revenue / Proposed Rates	\$ 54.73	\$ 54.73	\$ 54.73	\$ 54.73	\$ 54.73	\$ 54.73	\$ 54.73
23	Revenue Annualization / Proposed Rates	\$ (233)	\$ (605)	\$ (744)	\$ (372)	\$ -	\$ -	\$ (2,791)
24	Additional Gallons to be Produced	-	-	-	-	-	-	-

Coronado Utilities, Inc.
Commercial
Customers to Year End Levels
Test Year Ended December 31, 2008

Exhibit
Schedule C-2
Page 6.2
Witness: Bourassa

Line No.		Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Total Year
1	Year End Number of Customers	58	58	58	58	58	58	58	
2	Actual Customers	63	62	64	64	64	63	64	
3	Increase in Number of Customers/Bills	(5)	(4)	(6)	(6)	(6)	(5)	(6)	
4	Average Revenue / Present Rates	\$ 63.35	\$ 76.18	\$ 77.60	\$ 60.33	\$ 87.13	\$ 78.83	\$ 98.00	
5	Revenue Annualization / Present Rates	\$ (317)	\$ (305)	\$ (466)	\$ (362)	\$ (523)	\$ (394)	\$ (588)	
6									
7	Increase in Number of Customers	(5)	(4)	(6)	(6)	(6)	(5)	(6)	
8	Average Revenue / Proposed Rates	\$ 74.56	\$ 89.67	\$ 91.34	\$ 71.01	\$ 102.55	\$ 92.78	\$ 115.35	
9	Revenue Annualization / Proposed Rates	\$ (373)	\$ (359)	\$ (548)	\$ (426)	\$ (615)	\$ (464)	\$ (692)	
10	Additional Gallons to be Produced	(28,494)	(28,034)	(42,921)	(32,346)	(48,753)	(36,391)	(55,409)	
11									
12									
13									
14									
15	Year End Number of Customers	58	58	58	58	58	58	58	
16	Actual Customers	61	61	59	58	58	58	58	(45)
17	Increase in Number of Customers/Bills	(3)	(3)	(1)	-	-	-	-	
18	Average Revenue / Present Rates	\$ 125.89	\$ 82.37	\$ 82.50	\$ 80.41	\$ 72.64			
19	Revenue Annualization / Present Rates	\$ (378)	\$ (247)	\$ (82)	\$ -	\$ -			
20									
21	Increase in Number of Customers	(3)	(3)	(1)	-	-	-	-	
22	Average Revenue / Proposed Rates	\$ 148.17	\$ 96.95	\$ 97.10	\$ 94.65	\$ 85.50			
23	Revenue Annualization / Proposed Rates	\$ (378)	\$ (247)	\$ (82)	\$ -	\$ -			
24	Additional Gallons to be Produced	(36,242)	(22,919)	(7,653)	-	-			

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 6

Exhibit
Schedule C-2
Page 7
Witness: Bourassa

Line No.		
1		
2	<u>Annualize Chemicals Expense</u>	
3		
4	Test Year Chemical	\$ 28,079
5	Gallons Treated (in 1000's)	83,875
6	Cost per 1,000 gallons	\$ 0.33
7		
8	Additional Wastewater gallons (in 1,000's) from revenue annualization	(864)
9		
10	Additional cost based on revenue annualization	\$ (289)
11		
12	Increase (decrease) in Chemicals Expense	<u>\$ (289)</u>
13		
14		
15		
16		
17	Adjustment to Revenue and/or Expense	<u>\$ (289)</u>
18		
19		
20		

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Schedule C-2
Page 8
Witness: Bourassa

Line
No.

1		
2	<u>Increase Purchased Power (APS)</u>	
3		
4	Test Year Purchased Power	\$ 53,814
5	Estimated Percentage Increase in Purchased Power	1.80%
6	Increase in Purchased Power	\$ 969
7		
8		
9	Increase (decrease) in Purchased Power	<u>\$ 969</u>
10		
11		
12		
13		
14		
15		
16		
17	Adjustment to Revenue and/or Expense	<u>\$ 969</u>
18		
19		
20		

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Adjustment to Revenues and Expenses
Adjustment Number 8

Exhibit
Schedule C-2
Page 9
Witness: Bourassa

Line No.			
1			
2	<u>Annualize Purchased Power</u>		
3			
4	Test Year Purchased Power plus Adjustment 6	\$	54,783
5	Total Flow Gallons (in 1000's)		83,875
6	Cost per 1,000 gallons	\$	0.65
7			
8	Additional Wastewater gallons (in 1,000's) from revenue annualization		(864)
9			
10	Additional cost based on revenue annualization	\$	(564)
11			
12	Increase (decrease) in Purchased Power	\$	<u>(564)</u>
13			
14			
15			
16			
17	Adjustment to Revenue and/or Expense	\$	<u>(564)</u>
18			
19			
20			

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Adjustment to Revenues and Expenses
Adjustment Number 9

Exhibit
Schedule C-2
Page 10
Witness: Bourassa

Line

No.

1		
2	<u>Contractual Services – Remove Affiliate Profit</u>	
3		
4	Contractual Services	\$ 153,479
5		
6	Percentage of affiliate profit	23.39%
7		
8	Affiliate Profit	\$ (35,900)
9		
10		
11		
12		
13	Total increase (decrease) in Contractual Services	<u>\$ (35,900)</u>
14		
15		
16		
17	Adjustment to Revenue and/or Expense	<u>\$ (35,900)</u>
18		
19		
20		

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Adjustment to Revenues and Expenses
 Adjustment Number 10

Exhibit
 Schedule C-2
 Page 11
 Witness: Bourassa

Line No.					
1					
2	<u>Increase Salaries and Wages and Payroll Taxes due to Operational Changes</u>				
3					
4	<u>Salaries and Wages</u>				
5	Salaries and Wages Expense - Employees	\$	36,000		
6	Salaries and Wages Expense - Officers		<u>16,500</u>		
7	Total Salaries and Wages Expense			\$	52,500
8					
9	Less: Test Year Salaries and Wages Expense				<u>22,570</u>
10					
11	Increase (decrease) in Test Year Salaries and Wages			\$	<u>29,930</u>
12					<u>Label</u>
13	Adjustment to Revenue and/or Expense			\$	<u>29,930</u> 10a
14					
15	<u>Payroll Taxes</u>				
16	Wage Base	\$	52,500		
17	Social Security		6.20%	\$	3,255
18	Medicare		1.45%		761
19	State Unemployment (first \$7,000 of wages)		2.00%		1,050
20	Federal Unemployment		0.80%		<u>420</u>
21	Total Payroll Taxes			\$	5,486
22					
23	Less: Test Year Payroll Tax Expense				<u>2,359</u>
24					
25	Increase (decrease) in Test Year Salaries and Wages			\$	<u>3,128</u>
26					<u>Label</u>
27	Adjustment to Revenue and/or Expense			\$	<u>3,128</u> 10b
28					

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Adjustment to Revenues and Expenses
Adjustment Number 11

Exhibit
Schedule C-2
Page 12
Witness: Bourassa

Line

No.

1		
2	<u>Reduce Contractual Services - Other Expense due to Operational Changes</u>	
3		
4	Remove: Test Year Operations Contract Services	\$ (97,747)
5	Remove: Test Year Certified Operator Expense	(5,000)
6		
7	Add: Operations Contract Services (\$2,500 per month)	<u>30,000</u>
8		
9		
10		
11		
12		
13	Total increase (decrease) in Contractual Services - Other	<u>\$ (72,747)</u>
14		
15		
16		
17	Adjustment to Revenue and/or Expense	<u>\$ (72,747)</u>
18		
19		
20		

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Adjustment to Revenues and Expenses
Adjustment Number 12

Exhibit
Schedule C-2
Page 13
Witness: Bourassa

Line

No.

1

2 Remove Other Income and Expense

3

4 Interest Income

\$ (6,659)

Label

12a

5 Other income

\$ (2,836)

12b

6 Other Expense

\$ (278)

12c

7

8

9

10

11

12 Total adjustment Other Income and Expense

\$ (9,773)

13

14

15

16 Adjustment to Revenue and/or Expense

\$ (9,773)

17

18

19

20

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Adjustment to Revenues and Expenses
 Adjustment Number 13

Exhibit
 Schedule C-2
 Page 14
 Witness: Bourassa

Line					
<u>No.</u>					
1	<u>Interest Synchronization</u>				
2					
3					
4	Fair Value Rate Base		\$3,536,648		
5	Weighted Cost of Debt		4.41%		
6	Interest Expense			\$ 155,981	
7					
8	Test Year Interest Expense			<u>\$ 198,381</u>	
9					
10	Increase (decrease) in Interest Expense			(42,400)	
11					
12					
13					
14	Adjustment to Revenue and/or Expense			<u>\$ 42,400</u>	
15					
16					
17	<u>Weighted Cost of Debt Computation</u>				
18					Weighted
19		<u>Amount</u>	<u>Percent</u>	<u>Cost</u>	<u>Cost</u>
20	Debt	\$ 2,575,000	70.57%	6.25%	4.41%
21	Perferred Stock	\$ 570,000	15.62%	6.50%	1.02%
22	Common Stock	<u>\$ 504,024</u>	<u>13.81%</u>	<u>14.00%</u>	<u>1.93%</u>
23	Total	\$ 3,649,024	100.00%		7.36%
24					
25					
26					
27					

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Adjustment to Revenues and/or Expenses
 Adjustment Number 14

Exhibit
 Schedule C-2
 Page 15
 Witness: Bourassa

Line No.		Test Year Book Results	Test Year Adjusted Results	Adjusted with Rate Increase
1	<u>Income Tax Computation</u>			
2				
3				
4				
5				
6				
7	Taxable Income before Scottsdale Operating	\$ 13,477	\$ (2,195)	\$ 154,303
8	Plus: Scottsdale Operating Lease	-	-	-
9	Taxable Income	<u>\$ 13,477</u>	<u>\$ (2,195)</u>	<u>\$ 154,303</u>
10				
11				
12				
13	Income Before Taxes	<u>\$ 13,477</u>	<u>\$ (2,195)</u>	<u>\$ 154,303</u>
14				
15	Arizona Income Before Taxes	\$ 13,477	\$ (2,195)	\$ 154,303
16				
17	Less Arizona Income Tax	<u>\$ 939</u>	<u>\$ (153)</u>	<u>\$ 10,752</u>
18	Rate =	6.97%		
19	Arizona Taxable Income	\$ 12,538	\$ (2,042)	\$ 143,551
20				
21	Arizona Income Taxes	\$ 939	\$ (153)	\$ 10,752
22				
23	Federal Income Before Taxes	\$ 13,477	\$ (2,195)	\$ 154,303
24				
25	Less Arizona Income Taxes	<u>\$ 939</u>	<u>\$ (153)</u>	<u>\$ 10,752</u>
26				
27	Federal Taxable Income	<u>\$ 12,538</u>	<u>\$ (2,042)</u>	<u>\$ 143,551</u>
28				
29				
30				
31	FEDERAL INCOME TAXES:			
32	15% BRACKET	\$ 1,881	\$ (306)	\$ 7,500
33	25% BRACKET	\$ -	\$ -	\$ 6,250
34	34% BRACKET	\$ -	Federal \$ -	Federal \$ 8,500
35	39% BRACKET	\$ -	Effective \$ -	Effective \$ 16,985
36	34% BRACKET	\$ -	Tax \$ -	Tax \$ -
37		Rate	Rate	Rate
38	Federal Income Taxes	<u>\$ 1,881</u> 13.95%	<u>\$ (306)</u> 13.95%	<u>\$ 39,235</u> 25.43%
39				
40				
41	Total Income Tax	<u>\$ 2,820</u>	<u>\$ (459)</u>	<u>\$ 49,987</u>
42				
43	Overall Tax Rate	<u>20.92%</u>	<u>20.92%</u>	<u>32.40%</u>
44				
45	Income Tax at Proposed Rates Effective Rate		<u>\$ (711)</u>	
46				

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Computation of Gross Revenue Conversion Factor

Exhibit
Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	25.43%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	32.40%
9		
10	Operating Income % = 100% - Tax Percentage	67.60%
11		
12		
13		
14		
15	<u>1</u> = Gross Revenue Conversion Factor	
16	Operating Income %	1.4792
17		
18	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
19		A-1
20		

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Comparative Balance Sheets

Exhibit
 Schedule E-1
 Page 1
 Witness: Bourassa

Line No.	Test Year Ended 12/31/2008	Year Ended 12/31/2007	Year Ended 12/31/2006
1	ASSETS		
2	\$ 4,428,471	\$ 4,282,324	\$ 2,505,183
3	Plant In Service		
4	Non-Utility Plant		
5	Construction Work in Progress		
6	(394,272)	(166,925)	(53,919)
7	Less: Accumulated Depreciation		
8	Net Plant		
9	\$ 4,034,199	\$ 4,115,399	\$ 2,451,264
10	Debt Reserve Fund		
11	\$ 245,000	\$ 245,000	\$ 245,000
12	CURRENT ASSETS		
13	\$ 20,696	\$ 20,734	\$ 1,967,199
14	42,514	32,996	
15	106,972	82,237	20,167
16	Accounts Receivable, Net		
17	Accounts Receivable -Other		
18	Materials and Supplies		
19	790	790	
20	Prepayments/Deposits		
21	-		99,477
22	Other Current Assets		
23	\$ 170,972	\$ 136,756	\$ 2,086,843
24	Total Current Assets		
25	\$ 82,938	\$ 87,677	\$ 92,416
26	Deferred Bond Expenses		
27	\$ 20,417	\$ 20,417	\$ 20,417
28	Other Investments & Special Funds		
29	\$ 4,553,525	\$ 4,605,249	\$ 4,895,940
30	TOTAL ASSETS		
31	LIABILITIES AND STOCKHOLDERS' EQUITY		
32	\$ 1,074,024	\$ 1,086,788	\$ 981,797
33	Equity		
34	\$ 2,495,000	\$ 2,575,000	\$ 2,650,000
35	Long-Term Debt		
36	CURRENT LIABILITIES		
37	\$ 302,096	\$ 206,503	\$ 580,133
38	80,000	75,000	-
39	Accounts Payable		
40	Current Portion of Long-Term Debt		
41	19,809	34,340	191,008
42	(7,229)	17,880	54,624
43	13,411		
44	703	13,802	
45	Payables to Associated Companies		
46	Customer Meter Deposits, Current		
47	Accrued Taxes		
48	Accrued Interest		
49	Other Current Liabilities		
50	\$ 408,791	\$ 347,525	\$ 825,765
51	Total Current Liabilities		
52	DEFERRED CREDITS		
53	Customer Meter Deposits, less current		
54	Advances in Aid of Construction		
55	Accumulated Deferred Income Taxes		
56	603,201	603,201	295,676
57	(27,490)	(7,264)	-
58	Contributions In Aid of Construction		
59	Accumulated Amortization of CIAC		
60	Other Deferred Credits		
61	\$ 575,711	\$ 595,937	\$ 438,378
62	Total Deferred Credits		
63	\$ 4,553,526	\$ 4,605,250	\$ 4,895,940
64	Total Liabilities & Common Equity		
65	SUPPORTING SCHEDULES:		
66	E-5		

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Comparative Income Statements

Exhibit
 Schedule E-2
 Page 1
 Witness: Bourassa

Line No.		Test Year Ended 12/31/2008	Prior Year Ended 12/31/2007	Prior Year Ended 12/31/2006
1	Revenues			
2	Flat Rate Revenues	\$ 726,353	\$ 527,868	\$ 234,676
3	Measured Revenues	157,655	155,834	78,552
4	Other Wastewater Revenues	15,218	19,628	36,042
5	Total Revenues	<u>\$ 899,226</u>	<u>\$ 703,330</u>	<u>\$ 349,270</u>
6	Operating Expenses			
7	Salaries and Wages	\$ 22,570	\$ -	\$ -
8	Purchased Wastewater Treatment			
9	Sludge Removal Expense			
10	Purchased Power	53,814	23,203	
11	Fuel for Power Production			
12	Chemicals	28,079	11,651	
13	Materials and Supplies	2,978	2,235	1,655
14	Contractual Services	177,286	36,612	9,191
15	Contractual Services- Testing	3,676	1,313	50
16	Contractual Services - Other	114,088	214,630	104,059
17	Equipment Rental			
18	Rents - Building			
19	Transportation Expenses	209		
20	Insurance - General Liability	11,066	15,149	6,726
21	Insurance - Other			
22	Regulatory Expenses	3,505	1,174	45
23	Regulatory Commission Expense - Rate Case	-		
24	Miscellaneous Expense	37,081	18,553	5,913
25	Bad Debt Expense	46,313	5,500	
26	Depreciation and Amortization	180,888	110,482	53,919
27	Taxes Other Than Income	2,394	-	
28	Property Taxes	13,194	198	
29	Income Tax	(5,729)	17,087	54,669
30				
31	Total Operating Expenses	<u>\$ 691,411</u>	<u>\$ 457,787</u>	<u>\$ 236,227</u>
32	Operating Income	<u>\$ 207,815</u>	<u>\$ 245,543</u>	<u>\$ 113,043</u>
33	Other Income (Expense)			
34	Interest Income	\$ 6,659	\$ 41,021	\$ 63,056
35	Other income	2,836	625	
36	Interest Expense	(198,381)	(182,198)	(80,590)
37	Other Expense	278		
38				
39	Total Other Income (Expense)	<u>\$ (188,608)</u>	<u>\$ (140,552)</u>	<u>\$ (17,534)</u>
40	Net Profit (Loss)	<u>\$ 19,206</u>	<u>\$ 104,991</u>	<u>\$ 95,509</u>
41				
42				
43				
44	<u>SUPPORTING SCHEDULES:</u>		<u>RECAP SCHEDULES:</u>	
45			A-2	
46				

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Comparative Statements of Cash Flows

Exhibit
 Schedule E-3
 Page 1
 Witness: Bourassa

Line No.	Test Year Ended	Prior Year Ended	Prior Year Ended
	<u>12/31/2008</u>	<u>12/31/2007</u>	<u>12/31/2006</u>
1			
2			
3	Cash Flows from Operating Activities		
4	\$	\$	\$
5	19,206	104,991	95,509
6	Adjustments to reconcile net income to net cash provided by operating activities:		
7	180,888	110,482	53,919
8	(24,773)	(4,740)	
9	Other		
10	Changes in Certain Assets and Liabilities:		
11	(24,735)	(62,070)	(20,167)
12			
13			
14		(790)	
15	9,518	(32,996)	
16	95,593	(373,630)	580,133
17			
18	(14,531)	(156,668)	191,008
19	(25,108)	(36,744)	
20	312	60,857	(310,270)
21	4,739	(137,964)	50,286
22	<u>\$ 221,109</u>	<u>\$ (529,272)</u>	<u>\$ 640,418</u>
23	Cash Flow From Investing Activities:		
24	(146,147)	(1,724,718)	(2,505,183)
25			
26			
27	<u>\$ (146,147)</u>	<u>\$ (1,724,718)</u>	<u>\$ (2,505,183)</u>
28	Cash Flow From Financing Activities		
29			
30			
31		307,525	295,676
32			
33	(75,000)	-	2,650,000
34			
35			
36			
37			886,288
38	<u>\$ (75,000)</u>	<u>\$ 307,525</u>	<u>\$ 3,831,964</u>
39	(38)	(1,946,465)	1,967,199
40	20,734	1,967,199	-
41	<u>\$ 20,696</u>	<u>\$ 20,734</u>	<u>\$ 1,967,199</u>

44 SUPPORTING SCHEDULES:

RECAP SCHEDULES:

A-5

45

46

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Statement of Changes in Stockholder's Equity

Exhibit
 Schedule E-4
 Page 1
 Witness: Bourassa

Line No.	Common Stock	Preferred Stock	Additional Paid-In-Capital	Retained Earnings	Total
1					
2					
3					
4	\$ -	\$ -	\$ -	\$ -	\$ -
5	\$ 750	\$ 570,000	315,538	-	886,288
6					
7				95,509	95,509
8					
9	\$ 750	\$ 570,000	\$ 315,538	\$ 95,509	\$ 981,797
10					
11					
12				104,991	104,991
13					
14	\$ 750	\$ 570,000	\$ 315,538	\$ 200,500	\$ 1,086,788
15					
16				(31,970)	(31,970)
17					
18				19,206	19,206
19					
20	\$ 750	\$ 570,000	\$ 315,538	\$ 187,736	\$ 1,074,024

27 SUPPORTING SCHEDULES:

RECAP SCHEDULES:

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Detail of Plant in Service

Exhibit
 Schedule E-5
 Page 1
 Witness: Bourassa

Line No.	Acct. No.	Plant Description	Plant Balance at 12/31/2007	Plant Additions, Reclass- ifications or or Retirements	Plant Balance at 12/31/2008
1					
2	351	Organization	\$ 5,194	\$ -	\$ 5,194
3	352	Franchises		-	
4	353	Land	240,000	75,001	315,001
5	354	Structures & Improvements	1,858	-	1,858
6	355	Power Generation		-	
7	360	Collection Sewer Forced		-	
8	361	Collection Sewers Gravity	59,350	-	59,350
9	362	Special Collecting Structures	1,576	-	1,576
10	363	Customer Services		-	
11	364	Flow Measuring Devices		-	
12	365	Flow Measuring Installation		-	
13	366	Reuse Services		-	
14	367	Reuse Meters And Installation		-	
15	370	Receiving Wells		16,133	16,133
16	371	Pumping Equipment		15,223	15,223
17	374	Reuse Distribution Reservoirs		-	
18	375	Reuse Trans. and Dist. System		-	
19	380	Treatment & Disposal Equipment	3,190,216	53,159	3,243,375
20	381	Plant Sewers		-	
21	382	Outfall Sewer Lines	553,572	(13,367)	540,205
22	389	Other Sewer Plant & Equipment	178,166	(31)	178,135
23	390	Office Furniture & Equipment		-	
24	390.1	Computers and Software		-	
25	391	Transportation Equipment		-	
26	392	Stores Equipment	-	-	
27	393	Tools, Shop And Garage Equip	-	-	
28	394	Laboratory Equip	-	-	
29	396	Communication Equip	-	-	
30	398	Other Tangible Plant	52,423	-	52,423
31					
32		TOTAL WATER PLANT	<u>\$ 4,282,355</u>	<u>\$ 146,117</u>	<u>\$ 4,428,472</u>

SUPPORTING SCHEDULES

RECAP SCHEDULES:

A-4
 E-1

33
 34
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Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Operating Statistics

Exhibit
Schedule E-7
Page 1
Witness: Bouras

Line No.		Test Year Ended <u>12/31/2008</u>	Prior Year Ended <u>12/31/2007</u>	Prior Year Ended <u>12/31/2006</u>
1	<u>WASTEWATER STATISTICS:</u>			
2				
3				
4				
5	Sewer Revenues from Customer:	\$ 899,226	\$ 703,330	\$ 349,270
6				
7				
8				
9				
10	Year End Number of Customers	1,302	1,315	1,291
11				
12				
13				
14	Annual Revenue per Year End Customer	\$ 690.65	\$ 534.85	\$ 270.54
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Taxes Charged to Operations

Exhibit
Schedule E-8
Page 1
Witness: Bourassa

Line No.	Description	Test Year Ended <u>12/31/2008</u>	Prior Year Ended <u>12/31/2007</u>	Prior Year Ended <u>12/31/2006</u>
1	Description			
2				
3	Federal Income Taxes*	\$ 1,481	\$ 8,578	\$ 44,202
4	State Income Taxes*	1,339	8,509	10,467
5	Payroll Taxes	-	-	-
6	Property Taxes	13,194	198	-
7				
8	Totals	<u>\$ 16,014</u>	<u>\$ 17,285</u>	<u>\$ 54,669</u>
9				
10				
11	*Computed			
12				
13				
14				

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Notes To Financial Statements

Exhibit
Schedule E-9
Page 1
Witness: Bourassa

The Company does not have outside auditors

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Projected Income Statements - Present & Proposed Rates

Exhibit
 Schedule F-1
 Page 1
 Witness: Bourassa

Line No.		Test Year Actual Results	At Present Rates Year Ended 12/31/2009	At Proposed Rates Year Ended 12/31/2009
1	Revenues			
2	Flat Rate Revenues	\$ 726,353	\$ 710,657	\$ 867,155
3	Measured Revenues	157,655	157,655	157,655
4	Other Wastewater Revenues	15,218	15,218	15,218
5		<u>\$ 899,226</u>	<u>\$ 883,530</u>	<u>\$ 1,040,028</u>
6	Operating Expenses			
7	Salaries and Wages	\$ 22,570	\$ 52,500	\$ 52,500
8	Purchased Wastewater Treatment	-	-	-
9	Sludge Removal Expense	-	-	-
10	Purchased Power	53,814	54,218	54,218
11	Fuel for Power Production	-	-	-
12	Chemicals	28,079	27,790	27,790
13	Materials and Supplies	2,978	2,978	2,978
14	Contractual Services	177,286	141,386	141,386
15	Contractual Services- Testing	3,676	3,676	3,676
16	Contractual Services - Other	114,088	41,341	41,341
17	Equipment Rental	-	-	-
18	Rents - Building	-	-	-
19	Transportation Expenses	209	209	209
20	Insurance - General Liability	11,066	11,066	11,066
21	Insurance - Other	-	-	-
22	Regulatory Expenses	3,505	3,505	3,505
23	Regulatory Commission Expense - Rate Case	-	58,333	58,333
24	Miscellaneous Expense	37,081	37,081	37,081
25	Bad Debt Expense	46,313	46,313	46,313
26	Depreciation and Amortization	180,888	186,095	186,095
27	Taxes Other Than Income	2,394	5,521	5,521
28	Property Taxes	13,194	57,733	57,733
29	Income Tax	(5,729)	(711)	49,987
30	Total Operating Expenses	<u>\$ 691,411</u>	<u>\$ 729,033</u>	<u>\$ 779,731</u>
31	Operating Income	<u>\$ 207,815</u>	<u>\$ 154,497</u>	<u>\$ 260,297</u>
32	Other Income (Expense)			
33	Interest Income	6,659	-	-
34	Other income	2,836	-	-
35	Interest Expense	(198,381)	(155,981)	(155,981)
36	Other Expense	278	-	-
37	Gain/Loss Sale of Fixed Assets	-	-	-
38	Total Other Income (Expense)	<u>\$ (188,608)</u>	<u>\$ (155,981)</u>	<u>\$ (155,981)</u>
39	Net Profit (Loss)	<u>\$ 19,206</u>	<u>\$ (1,484)</u>	<u>\$ 104,316</u>
40				

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Projected Statements of Changes in Financial Position
 Present and Proposed Rates

Exhibit
 Schedule F-2
 Page 1
 Witness: Bourassa

Line No.	Test Year Ended 12/31/2008	At Present Rates Year Ended 12/31/2009	At Proposed Rates Year Ended 12/31/2009
1			
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Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Projected Construction Requirements

Exhibit
 Schedule F-3
 Page 1
 Witness: Bourassa

Line No.	Account	<u>2009</u>	<u>2010</u>	<u>2011</u>
	<u>Number</u> <u>Plant Asset:</u>			
1				
2				
3				
4	352 Franchises	\$ -	\$ -	\$ -
5	353 Land and Land Rights			
6	354 Structures and Improvements			
7	355 Power Generation Equipment			
8	360 Collection Sewers - Force			
9	361 Collection Sewers - Gravity			
10	362 Special Collecting Structures			
11	363 Services to Customers			
12	364 Flow Measuring Devices			
13	365 Flow Measuring Installations			
14	370 Receiving Wells			
15	371 Effluent Pumping Equipment	30,000		
16	380 Treatment and Disposal Equipment		145,000	126,000
17	381 Plant Sewers			
18	382 Outfall Sewer Lines			
19	389 Other Plant and Misc. Equipment			
20	390 Office Furniture and Equipment			
21	391 Transportation Equipment			
22	393 Tools, Shop and Garage Equipment.			
23	394 Laboratory Equipment			
24	395 Power Operated Equipment			
25	398 Other TangiblePlant			
26				
27				
28				
29				
30	Total	<u>\$ 30,000</u>	<u>\$ 145,000</u>	<u>\$ 126,000</u>
31				
32				
33				

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Assumptions Used in Rate Filing

Exhibit
Schedule F-4
Page 1
Witness: Bourassa

Line

No.

- 1 Property Taxes were computed using the method used by the Arizona Department
- 2 of Revenue
- 3
- 4 Projected construction expenditures are shown on Schedule A-4.
- 5
- 6 Expense adjustments are shown on Schedule C2, and are explained in the testimony.
- 7
- 8 Accumulated depreciation was computed using depreciation rates authorized
- 9 in prior Commission decision.
- 10
- 11 Income taxes were computed using statutory state and federal income tax rates.
- 12
- 13
- 14
- 15

Coronado Utilities, Inc
 Test Year Ended December 31, 2001
 Revenue Summary
 With Annualized Revenues to Year End Number of Customers:

Exhibit
 Schedule H-1
 Page 1
 Witness: Bourassa

Line No.	Customer Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Wastewater Revenues	Percent of Proposed Wastewater Revenues
1	Residential	\$ 693,176	\$ 815,868	\$ 122,692	17.70%	79.24%	79.10%
2	Commercial	60,805	71,568	10,763	17.70%	6.95%	6.94%
3	Mobile Home	100,605	118,412	17,807	17.70%	11.50%	11.48%
4	School	9,121	10,735	1,614	17.70%	1.04%	1.04%
5							
6	Effluent	11,122	14,829	3,707	33.33%	1.27%	1.44%
7							
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21							
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25							
26							
27							
28	Total Revenues Before Annualization	\$ 874,828	\$ 1,031,411	\$ 156,583	17.90%	100.00%	100.00%
29							

Coronado Utilities, Inc
 Test Year Ended December 31, 2001
 Revenue Summary
 With Annualized Revenues to Year End Number of Customers

Line No.	Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Additional Bills	Schedule
1							
2							
3							
4							
5	Residential	\$ (2,372)	\$ (2,791)	(420)	0.00%		(51) C-2, pg. 5.1
6	Commercial	(3,661)	(4,309)	(648)	0.00%		(45) C-2, pg. 5.2
7							
8							
9							
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29							
30							
31							
32							
33	Total Revenue Annualization	\$ (6,033)	\$ (7,101)	\$ (1,068)	0.00%		(96)
34							

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Revenue Summary
 With Annualized Revenues to Year End Number of Customers

Exhibit
 Schedule H-1
 Page 3
 Witness: Bourassa

Line No.	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1						
2						
3	\$ 874,828	\$ 1,031,411	\$ 156,583	17.90%	100.00%	100.00%
4	(6,033)	(7,101)	(1,067.80)	17.70%	-0.69%	-0.69%
5	\$ 868,795	\$ 1,024,310	\$ 155,515	17.90%		
6						
7	\$ 15,218	\$ 15,218	-	0.00%	1.74%	1.48%
8	(483)	500	983	0.00%	-0.06%	0.05%
9	\$ 883,530	\$ 1,040,028	\$ 156,498	17.71%	0.00%	0.00%
10						
11						
12	<u>Revenue Reconciliation</u>					
13						
14	Revenue per bill count before revenue annualization		\$ 889,563			
15	Unadjusted Revenues per GL	\$ 899,226				
16	Billing error to BHP					
17	Dec 2007 BHP Revenue Subsidization					
18	Recorded in Jan 2008	\$ (9,663)				
19	Revenue per GL (sewer revenues)		\$ 889,563			
20	Difference		\$ (0)			
21	Difference %		0.00%			
22	Tolerance %		0.50%			
23	Tolerance Amount + or -		\$ 4,448			
24						
25	Acceptable?					YES
26						
27						
28						
29						
30						
31						
32						
33						
34						

Line No.	Customer Class	(a) Average Number of Customers at 12/31/2008	Average Consumption (in 1,000 gals)	Average Bill		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	Residential	1,242	\$ -	46.50	\$ 54.73	8.23	17.70%
2	Commercial	62	1,500	22.20	26.13	3.93	17.70%
3	Mobile Home	108	1,233,600	7,039.02	8,284.93	1,245.91	17.70%
4	School	4	58,463	152.67	179.70	27.02	17.70%
6	Effluent	1	6,178,667	954.98	1,273.30	318.33	33.33%
24	Total	<u>1,417</u>					

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

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Customer Summary

Exhibit
 Schedule H-2
 Page 2
 Witness: Bourassa

Line No.	Customer Class	(a) Average Number of Customers at 12/31/2008	Median Consumption (in 1,000 gals)	Median Bill		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	Residential	1,242	-	46.50	\$ 54.73	8.23	17.70%
2	Commercial	62	1,500	22.20	26.13	3.93	17.70%
3	Mobile Home	108	1,233,600	7,039.02	8,284.93	1,245.91	17.70%
4	School	4	46,500	152.67	179.70	27.02	17.70%
5							
6	Effluent	1	6,366,500	954.98	1,273.30	318.33	33.33%
7							
8							
9							
10							
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12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24	Total	1,417					
25							

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

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Present and Proposed Rates

Exhibit
 Schedule H-3
 Page 1
 Witness: Bourassa

Line No.	Monthly Minimum Charge for:	Present Rates	Proposed Rates	Change	Percent Change
5	Residential	\$ 46.50	\$ 54.73	\$ 8.23	17.70%
6	Commercial	\$ 7.50	\$ 8.83	\$ 1.33	17.70%
7	Mobile Home Park - Winter Only	\$ 7.50	\$ 8.83	\$ 1.33	17.70%
8	Mobile Home Park - Summer Only per occupied space	\$ 31.86	\$ 37.50	\$ 5.64	17.70%
9	School	\$ 7.50	\$ 8.83	\$ 1.33	17.70%

Line No.	Volumetric Rates	Present Rate	Proposed Rate	Change	Percent Change
(Per 100 gallons of water usage)					
18	Commercial	\$ 0.9800	\$ 1.1535		17.70%
19	Mobile Home Park - Winter Only	\$ 0.5700	\$ 0.6709		17.70%
20	School	\$ 0.3122	\$ 0.3675		17.70%
22	Effluent				
23	Effluent (per 1,000 gallons)	\$ 0.1500	\$ 0.2000		33.33%
24	Effluent (per acre foot)	\$ 48.88	\$ 65.17		33.33%

31 NT = No Tariff

32

Coronado Utilities, Inc.
 Changes in Representative Rate Schedules
 Test Year Ended December 31, 2008

Exhibit
 Schedule H-3
 Page 2
 Witness: Bourassa

Line No.	<u>Other Service Charges</u>	Present Rates	Proposed Rates
1	Establishment of service	\$ 25.00	\$ 25.00
2	Reconnection (Delinquent)(a)	\$ 35.00	\$ 35.00
3	Deposit	*	*
4	Deposit Interest	**	**
5	Re-establishment of service	***	***
6	NSF Check	\$ 25.00	\$ 25.00
7	Late Payment Penalty	1.5% per month	1.5% per month
8	Deferred Payment	1.5% per month	1.5% per month
9	Main extension and additional facilities agreements (b)	Cost	Cost
10	Service Calls (after hours, per hour)	NT	\$40.00

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- 14 * Per Commission Rule A.A.C. R-14-2-603(B). Residential: Min. deposit two times average monthly bill.
- 15 Non-residential - 2 and one-half time the estimated maximum bill.
- 16 ** Per Commission Rule A.A.C. R-14-2-603(B)
- 17 *** Per Commission Rule A.A.C. R14-2-603(D) - Months off the system times the monthly minimum.
- 19 (a) Plus cost of physical disconnection and reconnection including parts, labor overhead,
- 20 and all applicable taxes, including income tax.
- 21 (b) Cost includes parts, labor overhead, and all applicable taxes, including income tax.

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

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Service Line Installation Charges

Exhibit
Schedule H-3
Page 3
Witness: Bourassa

Line

No.

1

2 Service Line Installation Charges

3

4

5

6

7

8 Service Line Size

Present
Charge(a)

Proposed
Charge(a)

9 4 Inch

At Cost

At Cost

10 6 Inch

At Cost

At Cost

11 8 Inch

At Cost

At Cost

12 10 Inch

At Cost

At Cost

13 12 Inch

At Cost

At Cost

14

15

16

17

18

19 (a) Cost includes parts, labor overhead, and all applicable taxes, including income tax.

20

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32 N/T = No Tariff

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Coronado Utilities, Inc.
Bill Comparison Present and Proposed Rates
 Residential

Exhibit Schedule H-4
 Page 1
 Witness: Bourassa

Present	Proposed	Dollar	Percent
<u>Bill</u>	<u>Bill</u>	<u>Increase</u>	<u>Increase</u>
\$ 46.50	\$ 54.73	\$ 8.23	17.70%

Present Rates:
 Monthly Minimum: \$ 46.50

Proposed Rates:
 Monthly Minimum: \$ 54.73

Average Usage	\$ -	\$ 54.73	\$ 8.23	17.70%
Median Usage	\$ -	\$ 54.73	\$ 8.23	17.70%

Coronado Utilities, Inc.
Bill Comparison Present and Proposed Rates
 Commercial

Exhibit Schedule H-4
 Page 2
 Witness: Bourassa

Customer Class:
 Commercial

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 7.50	\$ 8.83	\$ 1.33	17.70%
1,000	17.30	20.36	3.06	17.70%
2,000	27.10	31.90	4.80	17.70%
3,000	36.90	43.43	6.53	17.70%
4,000	46.70	54.97	8.27	17.70%
5,000	56.50	66.50	10.00	17.70%
6,000	66.30	78.04	11.74	17.70%
7,000	76.10	89.57	13.47	17.70%
8,000	85.90	101.10	15.20	17.70%
9,000	95.70	112.64	16.94	17.70%
10,000	105.50	124.17	18.67	17.70%
12,000	125.10	147.24	22.14	17.70%
14,000	144.70	170.31	25.61	17.70%
16,000	164.30	193.38	29.08	17.70%
18,000	183.90	216.45	32.55	17.70%
20,000	203.50	239.52	36.02	17.70%
25,000	252.50	297.19	44.69	17.70%
30,000	301.50	354.87	53.37	17.70%
35,000	350.50	412.54	62.04	17.70%
40,000	399.50	470.21	70.71	17.70%
45,000	448.50	527.88	79.38	17.70%
50,000	497.50	585.56	88.06	17.70%
60,000	595.50	700.90	105.40	17.70%
70,000	693.50	816.25	122.75	17.70%
80,000	791.50	931.60	140.10	17.70%
90,000	889.50	1,046.94	157.44	17.70%
100,000	987.50	1,162.29	174.79	17.70%

Present Rates:
 Monthly Minimum: \$ 7.50
 Charge Per 100 Gallons 0.98

Proposed Rates:
 Monthly Minimum: \$ 8.83
 Charge Per 100 Gallons 1.15346

Average Usage	7,608	\$ 82.06	\$ 96.58	\$ 14.52	17.70%
Median Usage	1,500	\$ 22.20	\$ 26.13	\$ 3.93	17.70%

Coronado Utilities, Inc.
Bill Comparison Present and Proposed Rates
Mobile Home
Customer Class:

Winter Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase	Winter	Summer
	\$ 7.50	\$ 8.83	\$ 1.33	17.70%	\$ 7.50	\$ 31.86
1,000	64.50	75.92	11.42	17.70%		
2,000	121.50	143.01	21.51	17.70%		
3,000	178.50	210.09	31.59	17.70%		
4,000	235.50	277.18	41.68	17.70%		
5,000	292.50	344.27	51.77	17.70%		
6,000	349.50	411.36	61.86	17.70%		
7,000	406.50	478.45	71.95	17.70%		
8,000	463.50	545.54	82.04	17.70%		
9,000	520.50	612.63	92.13	17.70%		
10,000	577.50	679.72	102.22	17.70%		
12,000	691.50	813.90	122.40	17.70%		
14,000	805.50	948.07	142.57	17.70%		
16,000	919.50	1,082.25	162.75	17.70%		
18,000	1,033.50	1,216.43	182.93	17.70%		
20,000	1,147.50	1,350.61	203.11	17.70%		
25,000	1,432.50	1,686.05	253.55	17.70%		
30,000	1,717.50	2,021.50	304.00	17.70%		
35,000	2,002.50	2,356.94	354.44	17.70%		
40,000	2,287.50	2,692.39	404.89	17.70%		
45,000	2,572.50	3,027.83	455.33	17.70%		
50,000	2,857.50	3,363.28	505.78	17.70%		
60,000	3,427.50	4,034.17	606.67	17.70%		
70,000	3,997.50	4,705.06	707.56	17.70%		
80,000	4,567.50	5,375.95	808.45	17.70%		
90,000	5,137.50	6,046.84	909.34	17.70%		
100,000	5,707.50	6,717.73	1,010.23	17.70%		
Winter Average Usage	\$ 5,532.32	\$ 6,511.54	\$ 979.22	17.70%		
Median Usage	\$ 7,039.02	\$ 8,284.93	\$ 1,245.91	17.70%		
Summer Average Units	215	\$ 8,068.58	\$ 1,213.37	17.70%	\$ 8.83	\$ 37.50

Present Rates:
Monthly Minimum: \$ 7.50
Charge Per 100 Gallons \$ 0.57
Charge per Occupied Space \$ -

Proposed Rates:
Monthly Minimum: \$ 8.83
Charge Per 100 Gallons \$ 0.67
Charge per Occupied Space \$ -

Coronado Utilities, Inc.
Bill Comparison Present and Proposed Rates
School
Customer Class:

Usage	Present Bill \$	Proposed Bill \$	Dollar Increase	Percent Increase
1,000	7.50	8.83	1.33	17.70%
2,000	10.62	12.50	1.88	17.70%
3,000	13.74	16.18	2.43	17.70%
4,000	16.87	19.85	2.99	17.70%
5,000	19.99	23.53	3.54	17.70%
6,000	23.11	27.20	4.09	17.70%
7,000	26.23	30.88	4.64	17.70%
8,000	29.35	34.55	5.20	17.70%
9,000	32.48	38.22	5.75	17.70%
10,000	35.60	41.90	6.30	17.70%
12,000	38.72	45.57	6.85	17.70%
14,000	41.84	49.24	7.40	17.70%
16,000	44.96	52.92	7.96	17.70%
18,000	48.08	56.60	8.52	17.70%
20,000	51.20	60.27	9.07	17.70%
25,000	57.35	67.62	10.27	17.70%
30,000	63.50	74.97	11.47	17.70%
35,000	69.65	82.32	12.67	17.70%
40,000	75.80	89.67	13.87	17.70%
45,000	81.95	97.02	15.07	17.70%
50,000	88.10	104.37	16.27	17.70%
60,000	100.60	119.07	18.47	17.70%
70,000	113.10	133.77	20.67	17.70%
80,000	125.60	148.47	22.87	17.70%
90,000	138.10	163.17	25.07	17.70%
100,000	150.60	177.87	27.27	17.70%
Average Usage	190.02 \$	223.66 \$	33.63	17.70%
Median Usage	152.67 \$	179.70 \$	27.02	17.70%

Present Rates:
Monthly Minimum:
Gallons in Minimum \$ 7.50
Charge Per 100 Gallons 0.3122

Proposed Rates:
Monthly Minimum: \$ 8.83
Charge Per 100 Gallons 0.36746

Coronado Utilities, Inc.
Bill Comparison Present and Proposed Rates
 Effluent

Exhibit
 Schedule H-4
 Page 5
 Witness: Bourassa

Customer Class:

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase	#DIV/0!
100,000	15.00	20.00	5.00	33.33%	
200,000	30.00	40.00	10.00	33.33%	
300,000	45.00	60.00	15.00	33.33%	
400,000	60.00	80.00	20.00	33.33%	
500,000	75.00	100.00	25.00	33.33%	
600,000	90.00	120.00	30.00	33.33%	
700,000	105.00	140.00	35.00	33.33%	
800,000	120.00	160.00	40.00	33.33%	
900,000	135.00	180.00	45.00	33.33%	
1,000,000	150.00	200.00	50.00	33.33%	
1,100,000	165.00	220.00	55.00	33.33%	
1,200,000	180.00	240.00	60.00	33.33%	
1,300,000	195.00	260.00	65.00	33.33%	
1,400,000	210.00	280.00	70.00	33.33%	
1,500,000	225.00	300.00	75.00	33.33%	
1,600,000	240.00	320.00	80.00	33.33%	
1,700,000	255.00	340.00	85.00	33.33%	
1,800,000	270.00	360.00	90.00	33.33%	
1,900,000	285.00	380.00	95.00	33.33%	
2,000,000	300.00	400.00	100.00	33.33%	
2,100,000	315.00	420.00	105.00	33.33%	
2,200,000	330.00	440.00	110.00	33.33%	
2,300,000	345.00	460.00	115.00	33.33%	
2,400,000	360.00	480.00	120.00	33.33%	
2,500,000	375.00	500.00	125.00	33.33%	
2,600,000	390.00	520.00	130.00	33.33%	
Average Usage	926.80	1,235.73	308.93	33.33%	
Median Usage	954.98	1,273.30	318.33	33.33%	

Present Rates:
 Monthly Minimum: \$ -
 Charge Per 1,000 Gallons \$ 0.150

Proposed Rates:
 Monthly Minimum: \$ -
 Charge Per 1,000 Gallons \$ 0.200

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Commercial

Exhibit
 Schedule H-5
 Page 2
 Witness: Bourassa

Customer Class:

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
38,001	39,000														711	3,433
39,001	40,000		1											2	713	3,512
40,001	41,000	1												1	714	3,552
41,001	42,000														714	3,552
42,001	43,000														714	3,552
43,001	44,000														714	3,552
44,001	45,000														714	3,552
45,001	46,000				1									2	716	3,643
46,001	47,000														716	3,643
47,001	48,000														716	3,643
48,001	49,000														716	3,643
49,001	50,000														716	3,643
50,001	51,000														716	3,643
51,001	52,000														716	3,643
52,001	53,000														717	3,695
53,001	54,000	1													717	3,695
54,001	55,000	1													718	3,748
55,001	56,000														719	3,803
56,001	57,000									1					720	3,858
57,001	58,000														721	3,915
58,001	59,000														721	3,915
59,001	60,000														721	3,915
60,001	61,000														722	3,974
61,001	62,000														724	4,095
62,001	63,000									1					724	4,095
63,001	64,000														724	4,095
64,001	65,000														724	4,095
65,001	66,000														725	4,160
66,001	67,000														725	4,160
67,001	68,000														725	4,160
68,001	69,000														725	4,160
69,001	70,000														725	4,160
70,001	71,000														725	4,160
71,001	72,000														725	4,160
72,001	73,000														726	4,231
73,001	74,000														727	4,304
74,001	75,000														728	4,377
75,001	76,000														729	4,452
76,001	77,000														731	4,603

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Mobile Home

Exhibit
 Schedule H-5
 Page 3
 Witness: Bourassa

Customer Class:

Usage From:	Usage To:	Month of	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)							
		Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08				Aug-08
1	1,000				222	219	207	211	217	215	1,291	-
1,001	2,000										1,291	-
2,001	3,000										1,291	-
3,001	4,000										1,291	-
4,001	5,000										1,291	-
5,001	6,000										1,291	-
6,001	7,000										1,291	-
7,001	8,000										1,291	-
8,001	9,000										1,291	-
9,001	10,000										1,291	-
10,001	11,000										1,291	-
11,001	12,000										1,291	-
12,001	13,000										1,291	-
13,001	14,000										1,291	-
14,001	15,000										1,291	-
15,001	16,000										1,291	-
16,001	17,000										1,291	-
17,001	18,000										1,291	-
18,001	19,000										1,291	-
19,001	20,000										1,291	-
20,001	21,000										1,291	-
21,001	22,000										1,291	-
22,001	23,000										1,291	-
23,001	24,000										1,291	-
24,001	25,000										1,291	-
25,001	26,000										1,291	-
26,001	27,000										1,291	-
27,001	28,000										1,291	-
28,001	29,000										1,291	-
29,001	30,000										1,291	-
30,001	31,000										1,291	-
31,001	32,000										1,291	-
32,001	33,000										1,291	-
33,001	34,000										1,291	-
34,001	35,000										1,291	-
35,001	36,000										1,291	-
36,001	37,000										1,291	-
37,001	38,000										1,291	-
38,001	39,000										1,291	-
39,001	40,000										1,291	-

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008

Exhibit
 Schedule H-5
 Page 4
 Witness: Bourassa

Customer Class: School

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
1,001	1,000	1												8	8	2
2,001	2,000													4	12	2
3,001	3,000													-	12	2
4,001	4,000													-	12	2
5,001	5,000													-	12	2
6,001	6,000													-	12	2
7,001	7,000													-	12	2
8,001	8,000													-	12	2
9,001	9,000													-	12	2
10,001	10,000													-	12	2
11,001	11,000													-	12	2
12,001	12,000	1												1	13	13
13,001	13,000													1	14	24
14,001	14,000													-	14	24
15,001	15,000													-	14	24
16,001	16,000													-	14	24
17,001	17,000													-	14	24
18,001	18,000													-	14	24
19,001	19,000													-	14	24
20,001	20,000													-	14	24
21,001	21,000													-	14	24
22,001	22,000													-	14	24
23,001	23,000													-	14	24
24,001	24,000													-	14	24
25,001	25,000													-	14	24
26,001	26,000													-	16	61
27,001	27,000													-	16	61
28,001	28,000													-	16	61
29,001	29,000													-	17	83
30,001	30,000													-	18	105
31,001	31,000													-	18	105
32,001	32,000													-	19	130
33,001	33,000													-	19	130
34,001	34,000													-	19	130
35,001	35,000													-	19	130
36,001	36,000													-	19	130
37,001	37,000													-	19	130
	38,000													-	21	195
														-	21	195
														-	21	195
														-	21	195
														-	22	231
														-	22	231

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 School

Exhibit
 Schedule H-5
 Page 4
 Witness: Bourassa

Customer Class:

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
38,001	39,000													-	22	231
39,001	40,000													-	22	231
40,001	41,000													-	22	231
41,001	42,000													-	22	231
42,001	43,000													-	22	231
43,001	44,000													-	22	231
44,001	45,000													-	22	231
45,001	46,000													-	22	231
46,001	47,000													-	22	231
47,001	48,000									1				2	24	324
48,001	49,000									1				1	25	372
49,001	50,000													-	25	372
50,001	51,000													-	25	372
51,001	52,000													-	25	372
52,001	53,000													-	26	423
53,001	54,000													-	26	423
54,001	55,000													-	26	423
55,001	56,000													-	28	532
56,001	57,000													-	28	532
57,001	58,000													-	28	532
58,001	59,000													-	28	532
59,001	60,000													-	28	532
60,001	61,000													-	28	532
61,001	62,000													-	29	593
62,001	63,000													-	30	654
63,001	64,000													-	31	717
64,001	65,000													-	31	717
65,001	66,000													-	31	717
66,001	67,000													-	31	717
67,001	68,000													-	32	783
68,001	69,000													-	32	783
69,001	70,000													-	32	783
70,001	71,000													-	32	783
71,001	72,000													-	32	783
72,001	73,000													-	32	783
73,001	74,000													-	32	783
74,001	75,000													-	32	783
75,001	76,000													-	32	783
76,001	77,000													-	32	783
														-	32	783

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Effluent

Exhibit
 Schedule H-5
 Page 5
 Witness: Bourassa

Customer Class:

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
78,000	78,000															
79,000	79,000															
80,000	80,000															
81,000	81,000															
82,000	82,000															
83,000	83,000															
84,000	84,000															
85,000	85,000															
86,000	86,000															
87,000	87,000															
88,000	88,000															
89,000	89,000															
90,000	90,000															
91,000	91,000															
92,000	92,000															
93,000	93,000															
94,000	94,000															
95,000	95,000															
96,000	96,000															
97,000	97,000															
98,000	98,000															
99,000	99,000															
100,000	100,000															
3,680,000	3,680,000														1	3,680
5,442,000	5,442,000														2	9,122
5,588,000	5,588,000														3	14,710
5,925,000	5,925,000														4	20,635
6,241,000	6,241,000														5	26,876
6,492,000	6,492,000														6	33,368
6,707,000	6,707,000														7	40,075
6,726,000	6,726,000														8	46,801
6,771,000	6,771,000														9	53,572
6,777,000	6,777,000														10	60,349
6,810,000	6,810,000														11	67,159
6,985,000	6,985,000														12	74,144
Totals																
Average Usage																
Median Usage																
														6,178,667		
														6,366,500		

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Effluent

Exhibit
 Schedule H-5
 Page 5

Witness: Bourassa

Customer Class:

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Average # Customers	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)

1 FENNEMORE CRAIG, P.C.
Jay L. Shapiro (No. 014650)
2 Stephanie Johnson (No. 026282)
3003 N. Central Ave.
3 Suite 2600
Phoenix, Arizona 85012
4 Attorneys for Coronado Utilities, Inc.

5 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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

DOCKET NO:

SW-04305A-09-_____

13
14
15
16
17 **DIRECT TESTIMONY OF**
18 **THOMAS J. BOURASSA**
19 **(COST OF CAPITAL)**

20 **JUNE 3, 2009**
21
22
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1 **I. INTRODUCTION**

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

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

5 **Q. ARE YOU THE SAME THOMAS J. BOURASSA THAT CONCURRENTLY**
6 **FILED DIRECT TESTIMONY ON RATE BASE, INCOME STATEMENT,**
7 **REVENUE REQUIREMENT AND RATE DESIGN IN THIS DOCKET?**

8 A. Yes, and all of my background information and testimony regarding my
9 qualifications is contained in that portion of my direct testimony.

10 **II. SUMMARY OF TESTIMONY AND THE PROPOSED COST OF CAPITAL**
11 **FOR THE COMPANY**

12 **Q. WHAT IS THE PURPOSE OF THIS PORTION OF YOUR DIRECT**
13 **TESTIMONY?**

14 A. This portion of my direct testimony will focus on cost of capital issues. I will
15 testify in support of Coronado Utilities, Inc.'s ("Coronado" or "the Company")
16 proposed rate of return on its fair value rate base. I am sponsoring the Company's
17 D Schedules, which are attached to this testimony. As noted above, I am also
18 sponsoring direct testimony that addresses the Company's rate base, income
19 statement (revenue and operating expenses), required increase in revenue, and its
20 rate design and proposed rates and charges for service. For the convenience of the
21 Commission and the parties, that testimony and my related schedules are prepared
22 in separate volumes.

23 **Q. HAVE YOU PREPARED ANY SCHEDULES AND ATTACHMENTS TO**
24 **ACCOMPANY YOUR COST OF CAPITAL TESTIMONY?**

25 A. Yes. I have prepared 20 schedules that support my testimony and one attachment.
26

1 **Q. PLEASE SUMMARIZE YOUR COST OF CAPITAL TESTIMONY.**

2 A. I determined that the Company's cost of equity falls in the range of 14.0 percent to
3 20.0 percent with the midpoint of the range at 17.3 percent. Even though my
4 analysis justifies a 17.3 percent return on equity ("ROE"), I am recommending a
5 ROE of only 14.0 percent.

6 My recommendation is based on (i) cost of equity estimates using constant
7 growth and multi-stage growth discounted cash flow ("DCF") models and the
8 capital asset pricing model ("CAPM") for the sample group of publicly traded
9 utilities, (ii) my review of the economic conditions expected to prevail during the
10 period in which new rates will be in effect, (iii) my judgments about the risks
11 associated with small utilities like Coronado not captured by the market data for
12 publicly traded water utilities used in my study, (iv) the financial risk associated
13 with the level of debt in Coronado's capital structure, and (v) additional specific
14 business and operational risks faced by Coronado Company.

15 **Q. PLEASE SUMMARIZE THE APPROACH YOU USED TO ESTIMATE**
16 **THE COST OF EQUITY FOR THE COMPANY.**

17 A. The cost of equity for Coronado cannot be estimated directly because Coronado's
18 common stock is not publicly traded and there is no market data for Coronado.
19 Consequently, I applied the DCF and CAPM models using data from a sample of
20 water utilities selected from the Value Line Investment Survey. There are six
21 water utilities in my sample: American States Water, Aqua America, California
22 Water, Connecticut Water, Middlesex Water, and SJW Corp. As explained later in
23 my testimony, these companies aren't really comparable to Coronado, but they are
24 water utilities for which market data are available and because the Arizona
25 Commission's Utilities Division Staff has relied on data for these water utilities in
26 a number of recent water and sewer utility rate cases.

1 My DCF analyses indicate ROE's in the range of 11.1 percent to 12.6
2 percent with a midpoint of 11.9 percent. The CAPM analysis, again using the
3 same sample group, indicates ROE's in the range of 10.1 percent to 19.5 percent is
4 appropriate with a midpoint of 14.8 percent. Both the DCF and CAPM ranges are
5 before consideration of company specific risks.

6 My ROE estimates after consideration of company specific risks is in the
7 range of 14.6 percent to 20.0 percent with a midpoint of 17.3 percent. Given
8 Coronado's relatively small size compared to the large publicly traded utilities used
9 in my sample, the regulatory methods and policies used in this jurisdiction, and
10 other firm-specific factors, it is my opinion that at the present time, a cost of equity
11 of 17.3 percent is warranted.

12 However, my recommendation of 14.0 percent balances my judgment about
13 the degree of financial and business risk associated with an investment in Coronado
14 as well as consideration of the current economic environment and the Company's
15 desire to help reduce the impact on rate payers. A summary of my cost of equity
16 analysis result is shown on Schedule D-4.1.

17 **III. OVERVIEW OF THE RELATIONSHIP BETWEEN RISK AND THE**
18 **EXPECTED RETURN ON AN INVESTMENT**

19 **Q. HOW IS THE COST OF EQUITY TYPICALLY ANALYZED?**

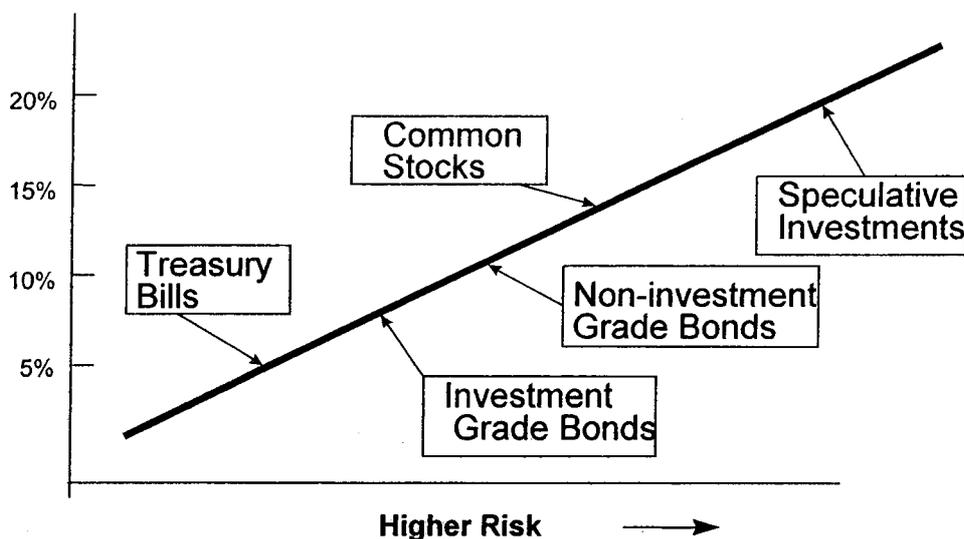
20 A. The cost of equity is the rate of return that equity investors expect to receive on
21 their investment. Investors can choose to invest in many types of assets, not simply
22 publicly traded stock. Each investment will have varying degrees of risk, ranging
23 from relatively low risk assets such as Treasury securities to somewhat higher risk
24 corporate bonds to even higher risk common stocks. As the level of risk increases,
25 investors require higher returns on their investment. Finance models that are used
26 to estimate the cost of equity often rely on this basic concept.

1 Q. CAN YOU ILLUSTRATE THE CAPITAL MARKET RISK-RETURN
2 CONCEPT?

3 A. Yes. The following graph depicts the risk-return relationship that has become
4 widely known as the Capital Market Line ("CML"). The CML illustrates in a
5 general way the risk-return relationship.

7 The Capital Market Line (CML)

9
10 Expected Rate of Return



20 The CML can be viewed as a continuum of the available investment opportunities
21 for investors. Investment risk increases moving upward and to the right along the
22 CML. Again, the expected return increases with the risk.

23 Q. HOW DOES THE RISK-RETURN TRADE-OFF CONCEPT WORK IN
24 THE CAPITAL MARKET?

25 A. As already suggested by the CML, the allocation of capital in a free market
26 economy is based upon the relative risk of, and expected return from, an

1 investment. In general, investors rank investment opportunities in the order of their
2 relative risks. Investment alternatives in which the expected return is
3 commensurate with the perceived risk become viable investment options. If all
4 other factors remain equal, the greater the risk, the higher the rate of return
5 investors will require to compensate investors for the possibility of loss of either
6 the principal amount invested or the expected annual income from such investment.

7 Short-term Treasury bills provide a high degree of certainty and in nominal
8 terms (after considering inflation) are considered virtually risk free. Long-term
9 bonds and preferred stocks, having priority claims to assets and fixed income
10 payments, are relatively low risk, but are not risk free. The market values of long-
11 term bonds often fluctuate when government policies or other factors cause interest
12 rates to change. Common stocks are higher and to the right on the CML continuum
13 because they are exposed to more risk. Common stock risk includes the nature of
14 the underlying business and financial strength of the issuing corporation as well as
15 market-wide factors, such as general changes in capital costs.

16 The capital markets reflect investor expectations and requirements each day
17 through market prices. Prices for stocks and bonds change to reflect investor
18 expectations and the relative attractiveness of one investment versus another.
19 While the example provided above seems straightforward, returns on common
20 stocks are not directly observable in advance, in contrast to debt or preferred stocks
21 with fixed payment terms. This means that these returns must be estimated from
22 market data. Estimating the cost of equity capital is a matter of informed judgment
23 about the relative risk of the company in question and the expected rate of return
24 characteristics of other alternative investments.

25
26

1 **Q. HOW IS THE COST OF EQUITY FOR A PARTICULAR UTILITY**
2 **DETERMINED?**

3 A. The estimation of a utility's cost of equity is complex. It requires an analysis of the
4 factors influencing the cost of various types of capital, such as interest on long-
5 term debt, dividends on preferred stock, and earnings on common equity. The data
6 for such an analysis comes from highly competitive capital markets, where the firm
7 raises funds by issuing common stock, selling bonds, and by borrowing (both long-
8 and short-term) from banks and other financial institutions. In the capital markets,
9 the cost of capital, whether the capital is in the form of debt or equity, is
10 determined by two important factors:

- 11 1) The pure or real rate of interest, often called the risk-free rate of
12 interest; and,
- 13 2) The uncertainty or risk premium (the compensation the investor
14 requires over and above the real or pure rate of interest for subjecting
15 his capital to additional risk).

16 **Q. PLEASE DISCUSS THESE FACTORS IN GREATER DETAIL.**

17 A. The pure rate of interest essentially reflects both the time preference for and the
18 productivity of capital. From the standpoint of the individual, it is the rate of
19 interest required to induce the individual to forgo present consumption and offer
20 the funds thus saved to others for a specified length of time. Moreover, the pure
21 rate of interest concept is based on the assumption that no uncertainty affects the
22 investment undertaken by the individual, i.e., there is no doubt that the periodic
23 interest payments will be made and the principal returned at the end of the time
24 period. In reality, investments without risk do not exist. Every commitment of
25 funds involves some degree of uncertainty.

26 Turning to the second factor affecting the cost of capital, it is generally

1 accepted that the higher the degree of uncertainty, the higher the cost of capital.
2 Investors are regarded as risk adverse and require that the rate of return increase as
3 the risk (uncertainty) associated with an investment increase.

4 **Q. CAN YOU PROVIDE SOME PERSPECTIVE ON YOUR PREVIOUS**
5 **DISCUSSION WITH RESPECT TO RETURNS ON COMMON STOCKS?**

6 A. Yes. Conceptually,

7 [1] Required Return for Common Stocks = Return on a risk-free asset + Risk Premium
8

9 where the risk premium investors require for common stocks will be higher than
10 the risk premium they require for investment grade bonds. This relationship is
11 depicted in the graph of the CML above. As I will discuss later in this testimony,
12 this concept is the basis of risk premium methods, such as the CAPM, that are used
13 to estimate the cost of equity.

14 **Q. WHAT HAS BEEN THE RECENT EXPERIENCE IN THE U.S. CAPITAL**
15 **MARKETS?**

16 A. In the past 10 years, inflation and capital market costs have generally declined.
17 Interest rates have been lower than in previous decades. Past inflation, as
18 measured by the Consumer Price Index, has been at relatively low levels in the past
19 10 years.

20 The roughly 6 year span of economic expansion after the 2001 recession
21 began to wane in 2007. Year-over-year Gross Domestic Product (“GDP”) growth¹
22 for 2004, 2005, and 2006 was 3.6 percent, 2.9 percent, and 2.8 percent,
23 respectively. GDP growth was, in part, spurred on by low interest rates during this
24 period. The Federal Reserve, having lowered the target Federal Funds rate to 1.0
25

26 ¹ GDP percentage change based on current dollars (1930-2008).

1 percent by the end of 2003, began raising interest rates in 2004 to help keep the
2 economy from overheating and to help keep inflation in check. By mid-2006, the
3 Federal Reserve had raised the target Federal Funds rate to 5.25 percent.

4 The economic expansion was broad, taking in the major consumer and
5 industrial sectors for much of its span. However, the economic expansion also
6 brought excesses, particularly in the areas of housing, lending practices, and the
7 financial markets.

8 Economic growth slowed in 2007. For 2007, the year-over-year GDP
9 growth had dropped to 2.0 percent with the last quarter of 2007 at a negative 0.2
10 percent. The slow economic growth combined with the excesses during the
11 economic expansion of the previous 6 years has created turmoil in the credit,
12 financial, and housing markets. This turmoil continues to have a significant drag
13 on the economy. Federal Reserve Chairman Ben Bernanke noted in Congressional
14 testimony late last year that financial markets are currently under considerable
15 stress and that broader retrenchment in the willingness of investors to bear risk,
16 troubles in the credit markets and a weaker outlook of economic growth have
17 added to the stresses on economic growth.

18 In order to address the weakening economy, the Federal Reserve, starting in
19 September 2007, has taken a series of rate cut actions (525 basis points). The
20 reductions in interest rates by the Federal Open Market Committee ("FMOc")
21 were taken in order to promote economic growth and to mitigate risks to economic
22 activity. The target Federal Funds rate stands at zero to .25 percent.

23 GDP growth for the first three quarters of 2008 was 0.9 percent, 2.8 percent,
24 and a negative 0.5 percent, respectively. The Bureau of Economic Analysis of the
25 U.S. Department of Commerce recently released its final estimate of 2008 fourth
26 quarter GDP growth at a negative 6.2 percent. According to a recent Blue Chip

1 Financial forecast (February 1, 2009), many economists now assume the current
2 recession will be the longest and deepest recession in Post-World War II history.
3 The Blue Chip Financial Forecast (“Blue Chip”) consensus forecasts (April 1,
4 2009) of real GDP growth for the first and second quarter of 2009 are expected to
5 be a negative 5.7 percent and a negative 2.4 percent, respectively. While economic
6 growth is expected to turn positive by second half of 2009, recovery is expected to
7 be slow as there are risks to the U.S. economy from a far more serious worldwide
8 recession, the failure of the housing market to stabilize in the year ahead, and
9 continued weakness in business and consumer spending.

10 **Q. WHAT ABOUT THE STATUS OF THE CREDIT MARKETS?**

11 A. One of the biggest risks to the economy stems from the conditions in the credit
12 markets. Without increased access and more affordable credit for consumers and
13 businesses, the prospects for a meaningful economic recovery are dim. The stock
14 market has had the worst year since 1931 and 1926 and this has produced a
15 massive safe haven bid for Treasury debt. Recently, the three month Treasury bill
16 yields dropped to near zero, and yields on the two, five, ten and thirty year yield
17 treasuries fell to the lowest levels since the Treasury began regular sales of the
18 securities. More recently, yields on longer dated Treasury yields have begun to
19 rise better than 50 basis points over their December 2008 levels. Some analysts
20 attribute the run up in yields to rising jitters among investors about the tidal wave
21 of Federal debt issued earlier this year and to the expected debt to be issued to fund
22 the massive \$800 billion “stimulus” package recently enacted by Congress and
23 signed by the President and to the expected additional billions of dollars above the
24 already authorized \$750 billion Trouble Asset Repurchase Program (“TARP”)
25 passed last year to address the weaknesses in the credit markets.

26

1 In short, the current capital markets reflect the uncertainty and low
2 confidence of investors in the financial markets and in the future prospects of
3 economic growth and concerns over higher inflation over the next several years.
4 Naturally, despite relatively low U.S. Treasury yields over the past several years,
5 the premiums required for investors to hold and buy securities is much higher than
6 in the recent past due to this uncertainty.

7 **Q. IS THERE A RELATIONSHIP BETWEEN THE COST OF EQUITY AND**
8 **INTEREST RATES?**

9 A. Yes. All things being equal, the cost of equity moves in the same direction as
10 interest rates. Lower interest rates on U.S. Treasuries ("risk-free" rate) imply
11 lower equity returns and visa versa. However, as indicated by Equation 1 above,
12 the risk premium required to compensate investors also impacts the cost of equity.
13 Higher risk premiums required by investors imply higher equity costs and visa
14 versa. Risk premiums are impacted by uncertainty in future interest rates, business
15 and economic conditions, expected inflation, and other risk factors including
16 interest rate risk, business risk, regulatory risk, financial risk, construction risk, and
17 liquidity risk.

18 **Q. EVERYDAY WE SEEM TO HEAR MORE SOUR ECONOMIC NEWS.**
19 **HOW DOES ALL THIS BAD NEWS IMPACT INVESTORS?**

20 A. It makes investors want to hold on to their money and put it in low risk
21 investments. The flight to quality and low risk investments as the stock market
22 began to tumble last year drove treasury yields to very low levels. But, as noted
23 earlier, the federal government has and is expected to significantly increase its
24 borrowing in order to "stimulate" the economy and address systemic problems in
25 the credit markets. This in turn, has resulted in increasing yields on Treasuries as
26

1 investors get jittery about the risks of the massive debt load the federal government
2 is taking on.

3 **Q. IS CORONADO AFFECTED BY THESE SAME MARKET**
4 **UNCERTAINTIES AND CONCERNS?**

5 A. Yes, in general, all investors are impacted by bad economic news, and the
6 Company's investors are not immune to uncertainty. In the current economic
7 environment, even large publicly traded companies are feeling the impact.
8 Investment grade bond (Baa) yields rose to over 9 percent towards the end of last
9 year and are currently at around 8.4 percent (April 16, 2009). Recent yields on
10 investment grade bonds have been similar to the yields during the 2001 recession.
11 Utilities are not immune to the higher capital costs of the current economic
12 environment either. The average beta (a measurement of market risk) for the water
13 utility sample companies has risen significantly over the past couple of years.
14 Borrowing costs for utilities have also risen sharply. In November 2008, American
15 Water Capital Corp., the credit facility for American Water (AWK), issued
16 \$75 million of senior debt at 10%.

17 As discussed above, capital costs have risen significantly over the past year
18 or so. And, smaller utilities like Coronado generally feel the impact worse because
19 they are small, with a small customer base and an inability to attract capital.

20 **Q. WHAT ARE THE RECENT DEVELOPMENTS IN THE WATER UTILITY**
21 **INDUSTRY AFFECTING UTILITY INVESTMENTS AND THE MARKET?**

22 A. On the whole, the water and wastewater utility industry is expected to continue to
23 confront increasing infrastructure demand. According to the *Value Line Investment*
24 *Survey*, many utilities have facilities that are decades old and in need of significant
25 maintenance and, in some cases, massive renovation and replacement. In addition,
26 the EPA and state and local regulators continue to impose more stringent

1 environmental quality and operational standards. Additional operational
2 requirements have also been imposed to address the threat of bio-terrorism on U.S.
3 water systems. As infrastructure costs continue to climb, many smaller companies
4 are at a serious disadvantage. Without sufficient resources to fund improvements
5 to meet new and more stringent requirements, many smaller companies are being
6 forced to sell to larger utilities, which have greater operational flexibility and
7 resources, as well as access to capital.

8 **Q. WOULD YOU PLEASE DISCUSS IN MORE DETAIL THE IMPACT OF**
9 **RISK ON CAPITAL COSTS?**

10 A. With reference to specific utilities, risk is often discussed as consisting of two
11 separate types of risk: business risk and financial risk.

12 Business risk, the basic risk associated with any business undertaking, is the
13 uncertainty associated with the enterprise's day-to-day operations. In essence, it is
14 a function of the normal day-to-day business environment, both locally and
15 nationally. Business risks include the condition of the economy and capital
16 markets, the state of labor markets, regional stability, government regulation,
17 technological obsolescence, and other similar factors that may impact demand for
18 the business product and its cost of production. For utilities, business risk also
19 includes the volatility of revenues due to abnormal weather conditions, degree of
20 operational leverage, regulation, and regulatory climate. Regulation, for example,
21 can compound the business risk if it is unpredictable in reacting to cost increases
22 both in terms of the time lag and magnitude. Regulatory lag makes it difficult to
23 earn a reasonable return particularly in an inflationary environment and/or when
24 there is significant lag between the timing of investment in capital projects and its
25 recognition in rates. Put simply, the greater the degree of uncertainty regarding the
26 various factors affecting a company's business, the greater the risk of an

1 investment in a company and the greater the compensation required by the
2 investor.

3 Financial risk, on the other hand, concerns the distribution of business risk
4 to the various capital investors in the utility. As I discussed earlier, permanent
5 capital is normally divided into three categories: long-term debt, preferred stock,
6 and common equity. Because common equity owners have only a residual claim
7 on earnings after debt and preferred stockholders are paid, financial risk tends to be
8 concentrated in that element of the firm's capital. Thus, a decision by management
9 to raise additional capital by issuing additional debt concentrates even more of the
10 financial risk of the utility in the common equity owners.

11 An important component of financial risk is construction risk. Construction
12 risk refers to the magnitude of a company's capital budget. If a company has a
13 large construction budget relative to internally generated cash flows it will require
14 external financing. It is important that companies have access to capital funds on
15 reasonable terms and conditions. Utilities are more susceptible to construction risk
16 for two reasons. First, utilities generally have high capital requirements to build
17 plant to serve customers. Second, utilities have a mandated obligation to serve
18 leaving less flexibility both in the timing and discretion of scheduling capital
19 projects. This is compounded by the limited ability to wait for more favorable
20 market conditions to raise the capital necessary to fund the capital projects.

21 Although often discussed separately, the two types of risks (business and
22 financial) are interrelated. Specifically, a common equity investor may seek to
23 offset exposure to high financial risk by investing in a firm perceived to have a low
24 degree of business risk. In other words, the total risk to an investor would be high
25 if the enterprise was characterized as a high business risk with a large portion of its
26 permanent capital financed with senior debt. To attract capital under these

1 circumstances, the firm would have to offer higher rates of return to its common
2 equity investors.

3 **IV. THE MEANING OF "JUST AND REASONABLE" RATE OF RETURN**

4 **Q. HAVE THE COURTS SET FORTH ANY CRITERIA THAT GOVERN THE**
5 **RATE OF RETURN THAT A UTILITY'S RATES SHOULD PRODUCE?**

6 A. Yes. In 1923, the U.S. Supreme Court set forth the following criteria for
7 determining whether a rate of return is reasonable in *Bluefield Water Works and*
8 *Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679,
9 692-93 (1923):

10 A public utility is entitled to such rates as will permit it to earn a
11 return on the value of the property which it employs for the
12 convenience of the public equal to that generally being made at the
13 same time and in the same general part of the country on investments
14 on other business undertaking which are attended by corresponding
15 risks and uncertainties The return should be reasonably sufficient
16 to assure confidence in the financial soundness of the utility and
17 should be adequate, under efficient and economical management to
18 maintain and support its credit and enable it to raise money necessary
19 for the proper discharge of its public duties. A rate of return may be
20 reasonable at one time and become too high or too low by changes
21 affecting opportunities for investment, the money market, and
22 business conditions generally.

23 In summary, under *Bluefield Water Works*:

- 24 (1) The rate of return should be similar to the return in businesses with
25 similar or comparable risks;
- 26 (2) The return should be sufficient to ensure the confidence in the
financial integrity of the utility; and
- (3) The return should be sufficient to maintain and support the utility's
credit.

27 **Q. HOW HAVE THESE CRITERIA BEEN APPLIED IN REGULATORY**
28 **PROCEEDINGS?**

29 A. Yes, but the application of the "reasonableness" criteria laid down by the Supreme

1 Court has resulted in controversy. The typical method of computing the overall
2 cost of capital is quite straightforward: it is the composite, weighted cost of the
3 various classes of capital (debt, preferred stock, and common equity), used by the
4 utility. The weighting is done by calculating the proportion that each class of
5 capital bears to total capital. However, there is no consensus regarding the best
6 method of estimating the cost of equity capital. The increasing regulatory
7 emphasis on objectivity in determining the rate of return has resulted in a
8 proliferation of market-based finance models that are used in equity return
9 determination. As will be discussed more fully below, however, none of these
10 models are universally accepted as the "correct" means of estimating the ROE.

11 **V. THE ESTIMATED COST OF EQUITY FOR CORONADO**

12 **A. The Publicly Traded Utilities that Comprise the Sample Group Used to**
13 **Estimate the Company's Cost of Equity.**

14 **Q. PLEASE BRIEFLY DESCRIBE THE APPROACH YOU FOLLOWED IN**
15 **YOUR COST OF CAPITAL ANALYSIS FOR CORONADO.**

16 **A.** As I have stated, estimating the cost of equity is a matter of informed judgment.
17 The development of an appropriate rate of return for a regulated enterprise involves
18 a determination of the level of risk associated with that enterprise and the
19 determination of an appropriate return for that risk level. Practitioners employ
20 various techniques that provide a link to actual capital market data and assist in
21 defining the various relationships that underlie the equity cost estimation process.

22 Since Coronado is not publicly traded, the information required to directly
23 estimate its cost of equity is not available. Accordingly, I used a sample group of
24 water utilities as a starting point to develop an appropriate cost of equity for
25 Coronado. There are six water utilities included in the sample group: American
26 States Water, Aqua America, California Water, Connecticut Water, Middlesex

1 Water, and SJW Corp. All these companies are followed by the *Value Line*
2 *Investment Survey*.

3 **Q. ARE THE WATER UTILITIES IN YOUR SAMPLE DIRECTLY**
4 **COMPARABLE TO CORONADO?**

5 A. No, but they are utilities for which market data is available. All of them are
6 regulated, they primarily provide water service, although some provide both water
7 and wastewater services, and their primary source of revenues is from regulated
8 services. Therefore, they provide a useful starting point for developing a cost of
9 equity for the Company. I emphasized "starting point" because Coronado is not
10 publicly traded. Additionally, there is no market data available for smaller utilities,
11 like Coronado, that can be used to develop cost of equity estimates.

12 **Q. DOES THE MARKET DATA PROVIDED BY THE WATER UTILITY**
13 **SAMPLE CAPTURE ALL OF THE MARKET RISKS THAT CORONADO**
14 **MIGHT FACE IF IT WERE PUBLICLY TRADED?**

15 A. In my opinion, no. As I stated, there is no comparable market data for utility
16 companies the size of Coronado. The average revenue of the water utility sample
17 companies is over 320 times that of Coronado, and the average net plant of the
18 water utility sample companies is 224 times that of Coronado. Even the smallest
19 company in the sample group, Connecticut Water, has over 68 times the net plant
20 of Coronado, and nearly 63 times the revenues.

21 **Q. PLEASE PROVIDE A GENERAL DESCRIPTION OF THE WATER**
22 **UTILITIES IN YOUR SAMPLE.**

23 A. Schedule D-4.2 lists the operating revenues and net plant for the six water utilities
24 as reported by AUS Utility Reports (formerly C.A. Turner Utility Reports) and
25 Coronado. In addition, below is a general description of each of the companies:

26 (1) American States Water (AWR) primarily serves the California

1 market through Golden State Water Company, which provides water
2 services to over 254,000 customers within 75 communities in 10
3 counties in the State of California, primarily in Los Angeles, San
4 Bernardino, and Orange counties. It has one subsidiary serving the
5 Arizona market with approximately 13,000 customers in Fountain
6 Hills and Scottsdale. AWR also owns an electric utility service
7 provider with over 23,000 customers, but approximately 91 percent
8 of its revenues were derived from commercial and residential water
9 customers. Revenues for American States were \$318.7 million in
10 2008 and net plant nearly \$724 million at the end of 2008.

11 (2) Aqua America (WTR) owns regulated utilities in Pennsylvania,
12 Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana,
13 Virginia, Maine, Missouri, New York, and South Carolina, serving
14 over 945,000 customers at the end of 2008. WTR's utility base is
15 diversified among residential water, commercial water, fire
16 protection, industrial water, other water, and wastewater customers.
17 Total revenues for WTR were nearly \$627 million in 2008 and net
18 plant was nearly \$2.58 billion at the end of 2008.

19 (3) California Water Service Group (CWT) owns subsidiaries in
20 California, New Mexico, Washington, and Hawaii serving over
21 180,000 customers. The California operations account for over 95
22 percent of customers and over 96 percent of operating revenues.
23 Revenues for CWT were over \$410 million in 2008 and net plant
24 nearly \$1 billion at the end of 2008.

25 (4) Connecticut Water Services (CTWS) owns subsidiaries in
26 Connecticut and Massachusetts serving over 87,000 customers.

1 Revenues for CTWS were over \$61 million in 2008 and net plant
2 over \$250 million at the end of 2008.

3 (5) Middlesex Water (MSEX) owns subsidiaries in New Jersey and
4 Delaware serving over 105,000 customers and provides water service
5 under contract to municipalities in central New Jersey to a population
6 of over 267,000. Revenues for MSEX were over \$91 million in 2008
7 and net plant was over \$312 million at the end of 2008.

8 (6) SJW Corp. (SJW) owns San Jose Water, which provides water
9 service in a 138 square mile area in San Jose, California, and
10 surrounding communities. Revenues for SJW were over
11 \$220 million in 2008 and net plant was over \$492 million at the end
12 of 2008.

13 **Q. HOW DOES CORONADO COMPARE TO THE SAMPLE WATER**
14 **UTILITIES?**

15 A. It is smaller. At the end of the test year, Coronado had approximately 1,300
16 customers. Its revenues totaled under \$900,000, and wastewater net plant-in-
17 service was approximately \$3.98 million. Coronado is located in Pinal County,
18 Arizona, and has a relatively small service territory compared to the sample water
19 companies.

20 **Q. ARE THERE ANY OTHER CHARACTERISTICS WHICH DISTINGUISH**
21 **CORONADO FROM THE SAMPLE WATER UTILITIES?**

22 A. Yes. Coronado has more debt in its capital structure than the sample water utilities.

23 **Q. ARE THERE OTHER FACTORS OF SMALLER UTILITIES, LIKE**
24 **CORONADO, WHICH INCREASE RISK?**

25 A. Yes. Because smaller utilities, like Coronado, are not publicly traded they have
26 less financial flexibility which in turn increases risk. The Company does not have

1 access to the public equity markets and this lack of financial flexibility increases
2 risk because it has no choice but to rely on retained earnings, short-term debt, and
3 privately placed bonds to provide capital for plant improvements and additions
4 necessary to ensure safe and reliable wastewater service to its customers. Further,
5 the Company does not have a market to issue common stock to the public to raise
6 capital.

7 Water utilities are capital intensive and typically have large construction
8 budgets. Coronado's construction budget for the next three years is over \$300,000.
9 As discussed on page 14 of my testimony, firms with large capital budgets face
10 construction risk (a form of financial risk). The size of a utility's capital budget
11 relative to the size of the utility itself often increases construction risk. Larger
12 utilities may be able to fund large capital budgets from earnings and short-term
13 borrowings. For smaller utilities, like Coronado, the ability to fund relatively large
14 capital budgets from earnings and short-term debt is difficult requiring that
15 additional capital be raised. However, the ability to raise additional capital is in
16 and of itself challenging and compounded by a limited ability to access capital, an
17 obligation to serve, and a limited ability to wait for more favorable market
18 conditions to raise the capital to fund necessary capital projects.

19 **Q. WHAT OTHER RISK FACTORS DISTINGUISH CORONADO FROM**
20 **THE LARGER SAMPLE WATER UTILITIES?**

21 **A.** There are a number of state specific factors that increase the risk to Arizona water
22 and wastewater utilities.

23 First, the regulatory environment in which the Company operates is much
24 different than that of the sample water utilities. Arizona water and wastewater
25 utilities face legal constraints that limit their ability to obtain rate relief outside of a
26 general rate case in which the "fair value" of the utility's property is determined

1 and used to set rates. The Commission limits the ability of Arizona utilities to
2 utilize adjustment mechanisms, advice letter filings and other streamlined
3 procedures to obtain recovery of costs outside a general rate case, in contrast to
4 many other jurisdictions.

5 Second, the Commission requires the use of an historic test year with
6 limitations on the amount of out-of-period adjustments. This process creates
7 another state-specific factor that increases risk and thus required ROEs for utilities
8 in Arizona. In fact, three out of the six sample water companies operate primarily
9 in California – American States, California Water and SJW Corp. California uses
10 future test years to help better match plant investment and revenues and expenses
11 going forward - the period in which rates will be in effect. California also allows
12 the use of balancing accounts on major operating expenses like purchased power
13 and purchased water to help utilities recover expenses that are beyond their control.

14 A fourth utility in the sample group, Aqua America, has regulatory
15 mechanisms available to it to help lessen risk. In six states in which Aqua America
16 operates water utilities, and two states in which Aqua America operates wastewater
17 utilities, regulatory bodies permit it to add a surcharge to water or wastewater bills
18 to offset the additional depreciation and capital costs associated with certain capital
19 expenditures related to replacing and rehabilitating infrastructure systems. Aqua
20 America also operates in jurisdictions in which it may bill utility customers in
21 accordance with a rate filing that is pending before the respective regulatory
22 commission as well as jurisdictions that authorize the use of expense deferrals and
23 amortization in order to provide for an impact on its operating income by an
24 amount that approximates the requested amount in a rate request. In addition,
25 certain states in which Aqua America operates use a surcharge or credit on bills to
26 reflect changes in certain costs, such as changes in state tax rates, other taxes and

1 purchased water, until such time as the costs are incorporated into base rates.

2 **Q. IT DOESN'T APPEAR THAT CORONADO IS ACTUALLY**
3 **COMPARABLE TO THE SAMPLE WATER UTILITIES.**

4 A. It really isn't, for the reasons I have stated. Constraints on the rate making process
5 in Arizona make it difficult to obtain approval of rates that allow Arizona water
6 and wastewater utilities to recover the costs of service it will actually incur during
7 the period when new rates are put in place, which can be several years beyond the
8 test year. Risks are higher for Coronado and the required return on equity should
9 be above the level required by water and wastewater utilities that operate in states
10 that do not have such limitations imposed, either by law or by agency policy, on
11 the rate-setting system. Unfortunately, as I testified, the approaches commonly
12 used to estimate a utility's cost of equity require market data, which is not available
13 for smaller companies and utilities operating exclusively in Arizona, like
14 Coronado. As a result, much larger, public companies must be used as proxies.

15 But the emphasis on proxy is very important. The criteria established by the
16 Supreme Court in decisions such as *Bluefield Water Works* require the use of
17 comparable companies, i.e., companies that would be viewed by investors as
18 having similar risks. A rational investor would not regard Coronado as having the
19 same level of risk as Aqua America or even Connecticut Water. Consequently, the
20 results produced by the DCF and CAPM methodologies, utilizing data for the
21 sample utilities, often understates the appropriate return on equity for a regulated
22 water and wastewater utility provider.

23 **Q. YOU PREVIOUSLY DISCUSSED FINANCIAL RISK, WHICH IS**
24 **RELATED TO A FIRM'S CAPITAL STRUCTURE. HOW DO THE**
25 **CAPITAL STRUCTURES OF THE SAMPLE WATER UTILITIES**
26 **COMPARE TO CORONADO?**

1 A. Schedule D-4.3 shows that the capital structure of Coronado at December 31, 2008
2 contains approximately 70.6 percent debt and 29.4 percent equity (15.6 preferred
3 equity and 13.8 percent common equity), compared to the average of the water
4 utility sample of 46.9 percent debt and 53.1 percent equity.

5 **Q. IS THERE A RELATIONSHIP BETWEEN A UTILITY'S CAPITAL**
6 **STRUCTURE AND ITS COST OF CAPITAL?**

7 A. Yes. Generally, when a firm engages in debt financing, it exposes itself to greater
8 risk. Once debt becomes significant relative to the total capital structure, the risk
9 increases in a geometric fashion compared to the linear percentage increase in the
10 debt ratio itself. This risk is illustrated by considering the effect of leverage on net
11 earnings. For example, as leverage increases, the equity ratio falls. This creates
12 two adverse effects on the investor. First, equity earnings decline rapidly and may
13 even disappear. Second, the "cushion" of equity protection for debt falls. A
14 decline in the protection afforded debt holders, or the possibility of a serious
15 decline in debt protection, will act to increase the cost of debt financing.
16 Therefore, one may conclude that each new financing, whether through debt or
17 equity, impacts the marginal cost of future financing by any alternative method.
18 For a firm already perceived as being over-leveraged, this additional borrowing
19 would cause the marginal cost of both equity and debt to increase. On the other
20 hand, if the same firm instead employed equity funding, this could actually reduce
21 the real marginal cost of additional borrowing, even if the particular equity
22 issuance occurred at a higher unit cost than an equivalent amount of debt.

23 Having significantly more debt in its capital structure implies that Coronado
24 has much more financial risk than the water utility sample. In addition, smaller
25 utilities cannot support the same level of debt as larger utilities and smaller utilities
26 face higher business and operational risk as compared to larger utilities which

1 magnify the financial risk of higher debt levels in their capital structures.

2 **B. Overview of the DCF and CAPM Methodologies**

3 **Q. PLEASE EXPLAIN THE GENERAL APPROACHES TO ESTIMATING**
4 **THE COST OF CAPITAL.**

5 A. There two broad approaches:

- 6 1) identify comparable-risk sample companies and estimate the cost of
7 capital directly, and,
- 8 2) find the location of the CML and estimate the relative risk of the
9 company that jointly determines the cost of capital.

10 The DCF model is an example of a method falling into the first general
11 approach. It is a direct method, but uses only a subset of the total capital market
12 evidence. The DCF model rests on the premise that the fundamental value of an
13 asset (stock) is its ability to generate future cash flows to the owner of that asset
14 (stock). I will explain the DCF model in a moment, for now, the DCF is simply the
15 sum of a stock's expected dividend yield and the expected long-term growth rate.
16 Dividend yields are readily available, but long-term growth estimates are not.

17 The CAPM is an example of a method falling into the second general
18 approach. It uses information on all securities rather than a small subset. I will
19 explain the CAPM in more detail later. For now, the CAPM is a risk-return
20 relationship, often depicted graphically as the CML. The CAPM is the sum of a
21 risk-free return and a risk premium.

22 Each of these two methods has their own way of measuring investor
23 expectations. In the final analysis, ROE estimates are subjective and should be
24 based on sound, informed judgment rationally articulated and supported by
25 competent evidence. I have applied several versions of the DCF, and two versions
26 of the CAPM to "bracket" the fair cost of equity capital for Coronado, but without

1 taking into account the additional risks that Coronado possesses.

2 **C. Explanation of the DCF Model and Its Inputs**

3 **Q. PLEASE EXPLAIN THE DCF METHOD OF ESTIMATING THE COST OF**
4 **EQUITY.**

5 A. The DCF model is based on the concept that the current price of a share of stock is
6 equal to the present value of future cash flows from the purchase of the stock. In
7 other words, the DCF model is an attempt to replicate the market valuation process
8 that sets the price investors are willing to pay for a share of a company's stock. It
9 rests on the assumption that investors rely on the expected returns (i.e., cash flow
10 they expect to receive) to set the price of a security. The DCF model in its most
11 general form is:

12 [2]
$$P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \dots + CF_n/(1+k)^n$$

13 where k is the cost of equity; n is a very large number; P_0 is the current stock price;
14 and, CF_1, CF_2, \dots, CF_n are all the expected future cash flows expected to be received
15 in periods 1, 2, ... n.

16 Equation (2) can be written to show that the current price (P_0) is also equal
17 to

18 [3]
$$P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \dots + P_t/(1+k)^t$$

19 where P_t is the price expected to be received at the end of the period t. If the future
20 price (P_t) included a premium (an expected increase in the stock price or capital
21 gain), the price the investor would pay today in anticipation of receiving that
22 premium would increase. In other words, by estimating the cash flows from the
23 purchase of a stock in the form of dividends and capital gains, we can calculate the
24 investor's required rate of return, i.e., the rate of return an investor presumptively
25 used in bidding the current price to the stock (P_0) to its current level.

26 Equation [3] is a Market Price version of the DCF model. As with the

1 general form of the DCF model in equation [2], in the Market Price approach the
2 current stock price (P_0) is the present value of the expected cash inflows. The cash
3 flows are comprised of dividends and the final selling price of the stock. The
4 estimated cost of equity (k) is the rate of return investors expect if they bought the
5 stock at today's price, held the stock and received dividends through the transition
6 period, and then sold it for price (P_t).

7 **Q. CAN YOU PROVIDE AN EXAMPLE TO ILLUSTRATE THE MARKET**
8 **PRICE VERSION OF THE DCF MODEL?**

9 A. Yes. Assume an investor buys a share of common stock for \$40. If the expected
10 dividend during the coming year is \$2.00, then the expected dividend yield is 5
11 percent ($\$2.00/\$40 = 5.0$ percent). If the stock price is also expected to increase to
12 \$43.00 after one year, this \$3.00 expected gain adds an additional 7.5 percent to the
13 expected total rate of return ($\$3.00/\$40 = 7.5$ percent). Thus, the investor buying
14 the stock at \$40 per share, expects a total return of 12.5 percent (5 percent dividend
15 yield plus 7.5 percent price appreciation). The total return of 12.5 percent is the
16 appropriate measure of the cost of capital because this is the rate of return that
17 caused the investor to commit \$40 of his capital by purchasing the stock.

18 **Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE DCF**
19 **MODEL.**

20 A. Under the assumption that future cash flows are expected to grow at a constant rate
21 ("g"), equation [2] can be solved for k and rearranged into the simple form:

$$22 \quad [4] \quad k = CF_1/P_0 + g$$

23 where CF_1/P_0 is the expected dividend yield and g is the expected long term
24 dividend (price) growth rate ("g"). The expected dividend yield is computed as the
25 ratio of next period's expected dividend ("CF₁") divided by the current stock price
26 ("P₀"). This form of the DCF model is known as the constant growth DCF model

1 and recognizes that investors expect to receive a portion of their total return in the
2 form of current dividends and the remainder through future dividends and capital
3 (price) appreciation. A key assumption of this form of the model is that investors
4 expect that same rate of return (k) every year and that market price grows at the
5 same rate as dividends. This has not been historically true for the water utility
6 sample, as shown by the data in Schedule D-4.4 and Schedule D-4.5. As a result,
7 estimates of long-term growth rates (g) should take this into account.

8 **Q. ARE THERE ANY GENERAL CONCERNS ABOUT APPLYING THE DCF**
9 **MODEL TO UTILITY STOCKS?**

10 A. There are a number of reasons why caution must be used when applying the DCF
11 model to utility stocks. First, the stock price and dividend yield component may be
12 unduly influenced by structural changes in the industry, such as mergers and
13 acquisitions, which influence investor expectations. Second, the DCF model is
14 based on a number of assumptions which may not be realistic given the current
15 capital market environment. The traditional DCF model assumes that the stock
16 price, book value, dividends, and earnings all grow at the same rate. This has not
17 been historically true for the sample water utility companies. Third, the application
18 of the DCF model produces estimates of the cost of equity that are consistent with
19 investor expectations only when the market price of a stock and the stock's book
20 value are approximately the same. The DCF model will understate the cost of
21 equity when the market-to-book ratio exceeds 1.0 and conversely will overstate the
22 cost of equity when the market-to-book ratio is less than 1.0. The reason for this is
23 that the market-derived return produced by the DCF is often applied to book value
24 rate base by regulators. Fourth, the assumption of a constant growth rate may be
25 unrealistic, and there may be difficulty in finding an adequate proxy for the growth
26 rate. Historical growth rates can be downward based as a result of the impact of

1 anemic historical growth rates in earnings, mergers and acquisitions, restructuring,
2 unfavorable regulatory decisions, and even abnormal weather patterns. Further, by
3 placing too much emphasis on the past, the estimation of future growth becomes
4 circular.

5 **Q. LET'S TURN TO THE SPECIFIC INPUTS USED IN YOUR DCF MODELS.**
6 **WHAT DATA HAVE YOU USED TO COMPUTE THE EXPECTED**
7 **DIVIDEND YIELD (CF_1/P_0) IN YOUR MODELS?**

8 A. First, I computed a current dividend yield (CF_0/P_0). The expected dividend yield
9 (CF_1/P_0) is the current dividend yield (CF_0/P_0) times one plus the growth rate (g). I
10 used the spot price for each of the stocks of the water utilities in the sample group
11 on as reported by the Value Line Investment Analyzer for April 16, 2009 for P_0 .
12 The current dividend (CF_0) is the dividend for the next year as reported by Value
13 Line. In my schedules, the current dividend yield is denoted as (D_0/P_0), where D_0
14 is the current dividend and P_0 is the spot stock price. (D_1/P_0) is used to denote the
15 expected dividend yield in the schedules.

16 **Q. WHAT MEASURES OF GROWTH ("g") HAVE YOU USED?**

17 A. For my primary DCF growth estimate, I have used analyst growth forecasts, where
18 available, from four different, widely-followed sources: *Zack's Investment*
19 *Research*, *Morningstar*, *Yahoo Finance*², and *Value Line Investment Survey*.
20 Schedule D-4.6 reflects the analyst estimates of growth. The currently available
21 estimates from these four sources provide at least two estimates for each of the
22 sample water utility companies with the exception of Connecticut Water.
23 Connecticut Water's single estimate of 15 percent from Yahoo Finance was
24 excluded leaving no estimates for Connecticut Water. When there is no estimate of
25

26 ² Yahoo Finance analyst estimates provided by Thompson Financial.

1 forward-looking growth for a utility in the water utilities sample, as in the case of
2 Connecticut Water, I have assumed investors expect the growth for that utility to
3 equal the average of growth rates for the other water utilities in the sample.

4 **Q. WHY DID YOU USE FORECASTED GROWTH RATES AS YOUR**
5 **PRIMARY ESTIMATE OF GROWTH?**

6 A. The DCF model requires estimates of growth that investors expect in the future and
7 not past estimates of growth that have already occurred. Accordingly, I use as a
8 primary estimate of growth analysts' forecasts of growth. Logically, in estimating
9 future growth, financial institutions and analysts have taken into account all
10 relevant historical information on a company as well as other more recent
11 information.³ To the extent that past results provide useful indications of future
12 growth prospects, analysts' forecasts would already incorporate that information.
13 In addition, a stock's current price reflects known historic information on that
14 company, including its past earnings history. Any further recognition of the past
15 will double count what has already occurred. Therefore, forward-looking growth
16 rates should be used.

17 **Q. WHAT OTHER ESTIMATES OF GROWTH DID YOU USE?**

18 A. I use the 5-year historical average growth rates in the stock price, book value per
19 share ("BVPS"), earnings per share ("EPS") and dividends per share ("DPS")
20 along with the average of analyst expectations. Using the historical average of
21 price, BVPS, EPS, and EPS is reasonable because investors know that, in
22

23 ³ David A. Gordon, Myron J. Gordon and Lawrence I. Gould, "Choice Among Methods of
24 Estimating Share Yield," *Journal of Portfolio Management* (Spring 1989) 50-55. Gordon,
25 Gordon and Gould found that a consensus of analysts' forecasts of earnings per share growth for
26 the next five years provides a more accurate estimate of growth required in the DCF model than
three different historical measures of growth (historical EPS, historical DPS, and historical
retention growth). They explain that this result makes sense because analysts would take into
account such past growth as indicators of future growth as well as any new information.

1 equilibrium, common stock prices, BVPS, EPS and DPS will all grow at the same
2 rate and would take information about changes in stock prices and growth in BVPS
3 into account when they price utilities' stocks. As I stated earlier, a basic
4 assumption of the DCF model is that the stock price, BVPS, EPS and DPS all grow
5 at the same rate. While I believe this growth rate gives further recognition to the
6 past that is already incorporated into analyst estimates of growth, I have been
7 criticized by Staff in the past for not giving direct consideration to past growth
8 rates in my estimate of growth.

9 **Q. WHAT OTHER CONCERNS DO YOU HAVE ON THE USE OF**
10 **HISTORICAL DPS GROWTH IN YOUR DCF ESTIMATE OF GROWTH?**

11 A. Although I have used historical DPS growth in my estimate, I believe the use of
12 historical DPS growth depresses the growth rate. Attachment 1 shows the constant
13 growth DCF results using historical DPS growth. The result is 7.05 percent, well
14 below the current cost of investment grade bonds at 8.4 percent and is even below
15 the cost of Baa/BBB utility bonds at 7.5 percent. It is important to keep in mind
16 that there is a great deal of empirical evidence demonstrating that, on average,
17 stocks are riskier than bonds and achieve higher returns. Morningstar, for example,
18 annually publishes its comprehensive study of historical returns on stocks and
19 bonds.⁴

20 Putting aside the potential distortions to the result produced by the DCF
21 model caused by structural changes to the industry and abnormal weather
22 conditions, it does not make sense to employ growth rates that result in indicated
23 equity returns less than the cost of debt, especially when those results fly in the
24 face of a large body of empirical evidence. Investors would not bid up the price of
25

26 ⁴ Morningstar, *Ibbotson SBBi 2009 Valuation Yearbook*.

1 a utility stock if the expected return is equivalent to returns on bonds and other debt
2 investments. As the CML depicted previously illustrates, common stocks are
3 higher and to the right of investment grade bonds on the CML continuum because
4 they are riskier investments. Again, the empirical evidence supports this
5 conclusion. The results using historical DPS growth are unreasonable.

6 **D. Explanation of the CAPM and Its Inputs**

7 **Q. PLEASE EXPLAIN THE CAPM METHODOLOGY FOR ESTIMATING**
8 **THE COST OF EQUITY.**

9 A. As I already indicated, the CAPM is a type of risk premium methodology that is
10 often depicted graphically in a form identical to the CML. Put simply, the CAPM
11 formula is the sum of a risk-free rate plus a risk premium. It quantifies the
12 additional return required by investors for bearing incremental risk. The risk-free
13 rate is the reward for postponing consumption by investing in the market. The risk
14 premium is the additional return compensation for assuming risk.

15 The CAPM formula provides a formal risk-return relationship premised on
16 the idea that only market risk matters, as measure by beta. The CAPM formula is:

17
$$(7) k = R_f + \beta(R_m - R_f)$$

18 where k is the expected return, R_f is the risk-free rate, R_m is the market return, $(R_f -$
19 $R_m)$ is the market risk premium, and β is beta.

20 The difficulty with the CAPM is that it is a prospective or forward-looking
21 model while most of the capital market data required to match the input variables
22 above is historical.

23 **Q. WHAT IS THE RISK-FREE RATE?**

24 A. It is the return on an investment with no risk. The U.S. Treasury rate serves as the
25 basis for the risk-free rate because the yields are directly observable in the market
26 and are backed by the U.S. government. Practically speaking, short-term rates are

1 volatile, fluctuate widely and are subject to more random disturbances than long-
2 term rates. In short, long-term Treasury rates are preferred for these reasons and
3 because long-term rates are more appropriately matched to securities with an
4 indefinite life or long-term investment horizon.

5 **Q. WHAT IS BETA AND WHAT DOES IT MEASURE?**

6 A. Beta is a measure of the relative risk of a security and the market. In other words,
7 it is a measure of the sensitivity of a security to the market as a whole. This
8 sensitivity is also known as systematic risk. It is estimated by regressing a
9 security's excess returns against a market portfolio's excess returns. The slope of
10 the regression line is the beta.

11 Beta for the market is 1.0. A security with a beta greater than 1.0 is
12 considered riskier than the market. A security with a beta less than 1.0 is
13 considered less risky than the market.

14 There are computational problems surrounding beta. It depends on the
15 return data, the time period used, its duration, the choice of the market index, and
16 whether annual, monthly, or weekly return figures are used. Betas are estimated
17 with error. Based on empirical evidence, high betas will tend to have a positive
18 error (risk is overestimated) and low betas will have a negative error (risk is
19 underestimated).⁵

20 **Q. WHAT DID YOU USE AS THE PROXY OF THE BETA FOR**
21 **CORONADO?**

22 A. I used the average beta of the sample water utility companies. Betas were obtained
23 from *Value Line Investment Analyzer* (April 16, 2009). *Value Line* is the source for
24 estimated betas that I regularly employ along with Arizona Commission Staff and

25 _____
26 ⁵ Eugene F. Fama and Kenneth R. French, "The Capital Asset Pricing Model: Theory and Evidence," *Journal of Economic Perspectives* (Summer 2004) 25-46.

1 is a widely accepted by financial analysts. The average beta as shown on Schedule
2 D-4.13 is 0.84. I should note that because Coronado is not publicly traded,
3 Coronado has no beta. I believe that Coronado, if it were publicly traded, would
4 have a higher beta than the sample water utility companies.

5 **Q. WHY?**

6 A. Smaller companies are more risky than larger companies. In Chapter 7 of
7 Morningstar's *Ibbotson SBBI 2009 Valuation Yearbook*, for example, Ibbotson
8 reports that when betas are properly estimated, betas are larger for small companies
9 than for larger companies. As I will explain later, Ibbotson also finds that even
10 after accounting for differences in beta risk, small firms require an additional risk
11 premium over and above the added risk premium indicated by differences in beta
12 risk.

13 **Q. PLEASE EXPLAIN THE MARKET RISK PREMIUM?**

14 A. The market-risk premium ($R_m - R_f$) is the return an investor expects to receive as
15 compensation for market risk. It is the expected market return minus the risk-free
16 rate. Approaches for estimating the market risk premium can be historical or
17 prospective.

18 Since expected returns are not directly observable, historical realized returns
19 are often used as a proxy for expected returns on the basis that the historical market
20 risk premium follows what is known in statistics as a "random walk." If the
21 historical risk premium does follow the random walk, then one should expect the
22 risk premium to remain at its historical mean. Based on this argument, the best
23 estimate of the future market risk premium is the historical mean. Morningstar's
24 *SBBI Valuation Edition 2008 Yearbook* provides historical market returns for
25 various asset classes from 1926 to 2008. This publication also provides market risk
26

1 premiums over U.S. Treasury bonds, which make it an excellent source for
2 historical market risk premiums.

3 Prospective market risk premium estimation approaches necessarily require
4 examining the returns expected from common equities and bonds. One method
5 employs applying the DCF model to a representative market index such as the
6 Value Line 1700 stocks (the *Value Line* Composite Index). The expected return
7 from the DCF is measured for a number of periods of time, and then subtracted
8 from the prevailing risk-free rate for each period to arrive at market risk premium
9 for each period. The market risk premium subsequently employed in the CAPM is
10 the average market risk premium of the overall period.

11 **Q. HOW MANY MARKET RISK PREMIUM ESTIMATES DID YOU**
12 **PREPARE IN CONNECTION WITH YOUR ASSIGNMENT FOR**
13 **CORONADO?**

14 A. I prepared two market risk premium estimates: An historical market risk premium
15 and a current market risk premium.

16 **Q. HOW DID YOU ESTIMATE THE HISTORICAL MARKET RISK**
17 **PREMIUM?**

18 A. I used the Morningstar's *Ibbotson SBBI 2009 Valuation Yearbook* measure of the
19 average premium of the market over long-term treasury securities from 1926
20 through 2008. The average historical market risk premium over long-term treasury
21 securities is 6.5 percent.

22 **Q. HOW DID YOU ESTIMATE THE CURRENT MARKET RISK PREMIUM?**

23 A. I derived a market risk premium by, first, using the DCF model to compute an
24 expected market return for each of the past 24 months using *Value Line's*
25 projections of the average dividend yield and average price appreciation (growth)
26 on the *Value Line* 1700 Composite Index. I then subtracted the average 30-year

1 Treasury yield for each month from the expected market returns to arrive at the
2 expected market risk premiums. Finally, I averaged the computed market risk
3 premiums to determine the current market risk premium. The data and
4 computations are shown on Schedule D-4.11. The average current market risk
5 premium is 17.74 percent. Estimates of the current market risk premium have
6 increased significantly over the past 6-12 months. In fact, the 6 and 12 month
7 average of the market risk premium is 33.91 and 25.17, respectively. My 24 month
8 estimate is more conservative at 17.74 percent. The increase in the market risk is
9 not surprising given the financial markets and economic conditions of the past 12
10 months and the continued uncertainty expected in the capital markets in the future.

11 **Q. HAS THE COMMISSION STAFF EMPLOYED A CURRENT MARKET**
12 **RISK PREMIUM IN THE PAST?**

13 A. Yes. However, Staff's estimation of the current market risk premium was
14 somewhat different. Staff uses a DCF model to compute the current market risk
15 premium as I do. However, Staff uses the median annualized projected 3-5 year
16 price appreciation on the *Value Line* 1700 stocks in conjunction the median
17 dividend yield on the *Value Line* 1700 stocks. Based on data from April 16, 2009,
18 including the current yield on 30 year U.S. Treasury bonds, the current market risk
19 premium under Staff's method would be approximately 18.8 percent. Arguably,
20 my method is more conservative at 17.7 percent.

21 **Q. WHAT DO YOU ADOPT AS THE RETURN FOR THE RISK-FREE RATE?**

22 A. I use long-term Treasury bond rates as the measure of the risk-free return for use
23 with both CAPM and cost of equity estimates. Morningstar's *Ibbotson SBBI 2009*
24 *Valuation Yearbook* explains on page 47 that the appropriate choice for the risk-
25 free rate is a return that is no less than the expected return for long-term Treasury
26 securities. Thus, when determining an estimate of the risk-free rate, it is

1 appropriate to adopt a return that is no less than the expected return on the long-
2 term Treasury bond rate. Both of my CAPM estimates are based on a projected
3 estimate of the long-term treasury rates for 2010-2011 of 4.60% as shown on
4 Schedule D-4.10. The 2010-2011 timeframe is the period when new rates will be
5 put in place for the Company.

6 **E. Financial Risk Adjustment**

7 **Q. PLEASE EXPLAIN YOUR FINANCIAL RISK ADJUSTMENT TO**
8 **REFLECT THE COMPANY'S LOWER LEVEL OF DEBT IN ITS**
9 **CAPITAL STRUCTURE AS COMPARED TO THE SAMPLE WATER**
10 **UTILITIES?**

11 A. My financial risk estimation is based upon the methodology developed by
12 Professor Hamada of the University of Chicago, which incorporates the beta of a
13 levered firm to that of its unlevered counterpart. The equation is

14
$$\beta_L = \beta_U[1 + (1 - T)\phi]$$

15 where β_L and β_U are the levered and unlevered betas, respectively, T is the tax rate,
16 and ϕ the leverage, defined as the ratio of debt and equity of the firm. In simple
17 terms, I unlever the average beta of the six publicly traded water utilities in my
18 sample using a ratio of the market value of debt and the market value of equity.
19 While I can compute the market value of equity of the sample water utilities based
20 on the current number of shares outstanding and the current stock price, estimating
21 the market value of debt is much more difficult. For purposes of my analysis, I
22 assume the market value of debt is the book value. This is a reasonable assumption
23 and is conservative. Once the unlevered beta is determined, I relever the beta using
24 the capital structure of Coronado. For the market value of equity, I multiplied
25 Coronado's book value of equity times the average market-to-book ratio of the
26

1 sample water utilities. For Coronado's debt, I assume the market value of debt is
2 equal to the book value.

3 The relevered beta is then used in my CAPM models, and the new CAPM
4 results are compared to my original CAPM results. The computed difference is the
5 basis of my financial risk adjustment. My computation of the financial risk
6 adjustment can be found in tables D-4.17, D-4.18, and D-4.19.

7 **Q. WHAT IS THE COMPUTED FINANCIAL RISK ADJUSTMENT?**

8 A. An upward adjustment of 350 basis points. Again, however, in my opinion, the
9 beta for Coronado would be higher than that of the sample water utilities which
10 would have resulted in a higher upward financial risk adjustment. But I have to
11 make some assumptions to work with approach, an approach used by Staff and the
12 Commission in past cases.

13 **F. Company Specific Risk Premium**

14 **Q. PLEASE DISCUSS YOUR COMPANY SPECIFIC RISK PREMIUM.**

15 A. As I testified earlier, Coronado is not directly comparable to the sample water
16 utilities because of its small size and the regulatory environment in Arizona. The
17 characteristics such as small size, lack of diversification, limited revenue and cash
18 flow, small customer base, lack of liquidity, as well as the magnitudes of regulatory
19 and construction risk are common to smaller water and wastewater utilities
20 regardless of the regulatory jurisdiction. These characteristics and magnitudes of
21 risk are unique only in the sense that the large publicly traded water utilities
22 (including the companies in the proxy group) do not possess these same
23 characteristics and magnitudes of risk. With respect to Arizona regulation, the use
24 of historical test year with limited out of period adjustments and the lack of
25 adjuster mechanism increases to the risk of Coronado.

26

1 **Q. PLEASE DISCUSS SIZE RISK FOR SMALL UTILITY COMPANIES.**

2 A. Investment risk increases as the firm size decreases, all else remaining constant.
3 There is a great deal of empirical evidence that firm size phenomenon exists.
4 Morningstar's *Ibbotson SBBI 2009 Valuation Yearbook* (Chapter 7) reports that
5 smaller companies have experienced higher returns that are not fully explainable
6 by their higher betas and that beta is inversely related to company size. In other
7 words, smaller companies not only have higher betas but higher returns than larger
8 ones. Even after accounting for differences in beta risk, small companies require
9 an additional risk premium over and above the added risk premium indicated by
10 differences in beta risk. Dr. Zepp also reported evidence that the stocks of small
11 water or wastewater utilities, like Coronado, are more risky than the stocks of
12 larger water utilities, such as those in the water utilities sample.⁶ Even the
13 California PUC conducted a study that showed smaller water utilities are more
14 risky than larger ones.⁷ Based on the evidence, it is clear that investors require
15 higher returns on small company stocks than on large company stocks.

16 I have included in Schedule D-4.16 the results of an *Ibbotson* study using
17 annual data reporting the size premium based upon firm size and return data
18 provided in Morningstar *Ibbotson SBBI 2009 Valuation Yearbook* and information
19 contained in a published work by Dr. Thomas M. Zepp. I have estimated that a
20 small company risk premium in the range of 99 to 181 basis points is appropriate.

21 **Q. WHAT COMPANY SPECIFIC RISK PREMIUM DO YOU RECOMMEND**
22 **FOR CORONADO?**

23 A. To be conservative, I conclude that a company specific risk premium of no less

24 ⁶ Thomas M. Zepp, "Utility Stocks and the Size Effect – Revisited", *The Quarterly Review*
25 *Economics and Finance*, Vol. 43, Issue 3, Autumn 2003, 578-582.

26 ⁷ Staff Report on Issues Related to Small Water Utilities, June 10, 1991 and CPUC Decision 92-03-093.

1 than 50 basis points is warranted for Coronado to account for its smaller size and
2 regulatory risk.

3 **G. Summary and Conclusions**

4 **Q. HAVE YOU PREPARED A SCHEDULE WHICH SUMMARIZES YOUR**
5 **EQUITY COST ESTIMATES AND PRESENTS YOUR**
6 **RECOMMENDATIONS?**

7 **A.** Yes. The equity cost estimates and my recommendations are summarized in
8 Schedule D-4.1.

9 In the first part of my analysis, I applied two versions of the constant growth
10 DCF model. One uses analyst estimates of growth and the other uses historical
11 growth and analyst expectations. See Schedules D-4.8. The DCF models produce
12 an indicated equity cost in the range of 11.1 percent to 12.6 percent, with a
13 midpoint of 11.9 percent.

14 In the second part of my analysis, I applied two versions of the CAPM – a
15 historical risk premium CAPM and a current market risk premium CAPM. The
16 CAPM analyses appear in Schedule D-4.12 and produce an indicated cost of equity
17 in the range of 10.1 percent to 19.5 percent, with a midpoint of 14.8 percent.

18 In the third part of my analysis, I compute a financial risk adjustment to
19 account for the lower level of debt in Coronado's capital structure compared to the
20 sample water utilities. My recommendation is that an upward financial risk
21 adjustment of no less than 350 basis points be applied to Coronado's cost of equity.
22 My financial risk adjustment analysis is shown in schedules D-4.13, D-4.14, and
23 D-4.15.

24 In the fourth part of my analysis, I reviewed the financial literature on the
25 small firm size effect and determined that an appropriate small company size
26 premium for small utilities like Coronado is in the range of 99 to 181 basis points.

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See Schedule D-4.16. I also considered the risks for Coronado from Arizona regulation. My recommendation is that an upward adjustment for company specific risk of no less than 50 basis points be applied to Coronado's cost of equity.

The range of results of both my DCF and CAPM analyses and other risk adjustments is 14.6 percent to 20.0 percent, with a mid-point of 17.3 percent. See Schedule D-4.1.

Q. WHAT EQUITY RETURN DO YOU RECOMMEND?

A. My recommended return on equity based on Coronado's capital structure is 14.0. It is lower than the mid-point of the range of my over-all results and reflects the desire by the Company to help mitigate the impact on rate payers.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY ON COST OF CAPITAL?

A. Yes.

D SCHEDULES

Coronado Utilities Inc.
 Test Year Ended December 31, 2008
 Summary of Cost of Capital

Exhibit
 Schedule D-1
 Page 1
 Witness: Bourassa

Line No.	Item of Capital	End of Test Year			End of Projected Year		
		Dollar Amount	Percent of Total	Cost Rate	Dollar Amount	Percent of Total	Cost Rate
5	Long-Term Debt	\$ 2,575,000	70.57%	6.25%	2,495,000	67.96%	6.25%
8	Preferred Stock	570,000	15.62%	6.50%	570,000	15.53%	6.50%
10	Stockholder's Equity	504,024	13.81%	14.00%	606,484	16.52%	14.00%
12	Totals	\$ 3,649,024	100.00%		\$ 3,671,484	100.00%	7.57%

SUPPORTING SCHEDULES:

- D-1
- D-3
- D-4
- E-1

RECAP SCHEDULES:
 A-3

Coronado Utilities Inc.
Test Year Ended December 31, 2008
Cost of Preferred Stock

Exhibit
Schedule D-3
Page 1
Witness: Bourassa

Line No.	Description of Issue	<u>End of Test Year</u>			<u>End of Projected Year</u>		
		Shares Outstanding	Amount	Dividend Requirement	Shares Outstanding	Amount	Dividend Requirement
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17	<u>SUPPORTING SCHEDULES:</u>				<u>RECAP SCHEDULES:</u>		
18	E-1				D-1		
19							
20							

Coronado Utilities Inc.
Test Year Ended December 31, 2008
Cost of Common Equity

Exhibit
Schedule D-4
Page 1
Witness: Bourassa

Line
No.

1
2 The Company is proposing a cost of common equity of 14.00%
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17 SUPPORTING SCHEDULES: RECAP SCHEDULES:
18 E-1 D-1
19 D-4.1 to D-4.16
20

Coronado Utilities, Inc.
Summary of Results

Exhibit
Schedule D-4.1

Line No.	Method	Low	High	Midpoint
1				
2				
3				
4				
5				
6	Range DCF Constant Growth Estimates ¹	11.1%	12.6%	11.9%
7				
8	Range of CAPM Estimates ²	10.1%	19.5%	14.8%
9				
10				
11	Average of DCF and CAPM midpoint estimates	10.6%	16.0%	13.3%
12				
13				
14	Financial Risk Adjustment ³	3.5%	3.5%	3.5%
15				
16	Specific Company Risk Premium ⁴	0.5%	0.5%	0.5%
17				
18	Indicated Cost of Equity	14.6%	20.0%	17.3%
19				
20				
21				
22	Recommended Cost of Equity			14.0%
23				
24				
25				
26				
27				
28				
29				

¹ See Schedule D-4-8

² See Schedule D-4.12

³ See Schedule D-4.17

⁴ See testimony.

Coronado Utilities, Inc.
Selected Characteristics of Sample Group of Water Utilities

**Exhibit
Schedule D-4.2**

Line No.	Company ¹	% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating
1	1. American States	78%	\$ 318.7	\$ 723.7	A	A2
2	2. Aqua America	98%	\$ 627.0	\$ 2,577.7	AA-	NR
3	3. California Water	98%	\$ 410.3	\$ 994.8	NR	NR
4	4. Connecticut Water	93%	\$ 61.3	\$ 249.8	AAA	NR
5	5. Middlesex	89%	\$ 91.0	\$ 312.4	NR	NR
6	6. SJW Corp.	95%	\$ 220.3	\$ 492.1	NR	NR
11	Average	92%	\$ 288.1	\$ 891.8		
13	Coronado Utilities, Inc.	0%	\$ 0.9	\$ 4.0	NR	NR
14	(as of December 31, 2008)					

¹AUS Utility Reports (April 2009).

Coronado Utilities, Inc.
Capital Structures

Exhibit
Schedule D-4.3

No.	Company	Book Value ¹		Market Value ¹	
		Long-Term <u>Debt</u>	Common <u>Equity</u>	Long-Term <u>Debt</u>	Common <u>Equity</u>
1	1. American States	46.2%	53.8%	31.6%	68.4%
2	2. Aqua America	54.1%	45.9%	32.8%	67.2%
3	3. California Water	41.7%	58.3%	27.6%	72.4%
4	4. Connecticut Water	47.0%	53.0%	35.0%	65.0%
5	5. Middlesex	46.2%	53.8%	38.3%	61.7%
6	6. SJW Corp.	46.0%	54.0%	32.7%	67.3%
11	Average	46.9%	53.1%	33.0%	67.0%
13	Coronado Utilities, Inc.	70.6%	29.4%	N/A	N/A
14	(as of December 31, 2008)				

¹ Value Line Analyzer Data (April 16, 2009)

No. 1
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**Exhibit
Schedule D-4.4**

**Coronado Utilities, Inc.
Comparisons of Past and Future Estimates of Growth**

Line No.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	<u>Five-year historical average annual changes</u>						
	<u>Company</u>	<u>Price¹</u>	<u>Book Value²</u>	<u>EPS²</u>	<u>DPS²</u>	<u>Average³</u>	<u>Average of Future and Historical Growth</u>
1	1. American States	7.34%	4.87%	15.71%	2.90%	7.71%	7.79%
2	2. Aqua America	4.58%	7.27%	5.21%	8.29%	6.34%	7.29%
3	3. California Water	11.74%	5.67%	12.22%	0.88%	7.63%	7.57%
4	4. Connecticut Water	0.19%	3.07%	0.45%	1.18%	1.22%	5.04%
5	5. Middlesex	Negative	5.76%	8.16%	1.51%	5.14%	6.57%
6	6. SJW Corp.	12.50%	8.16%	4.37%	6.02%	7.76%	10.19%
7							
8							
9							
10							
11							
12							
13							
14							
15							
16	GROUP AVERAGE	7.27%	5.80%	7.69%	3.46%	5.97%	7.41%
17	GROUP MEDIAN	7.34%	5.72%	6.69%	2.20%	6.98%	7.43%
18							
19							
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29							

¹ Average of changes in year-end stock prices ending in 2008. Data from Yahoo Finance website.

² Data derived from Value Line Investment Survey and/or 10K Reports for period 2004 to 2008.

³ Average excludes historical DPS growth rate for reasons stated in testimony at page 31.

⁴ See Schedule D-4.6.

Coronado Utilities, Inc.
Comparisons of Past and Future Estimates of Growth

Line No.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	<u>Ten-year historical average annual changes</u>						
	Company	Book Value ²	EPS ²	DPS ²	Average ³ Col 1-3	Average Future Growth ⁴	Average of Future and Historical Growth Col 5-6
1	1. American States	8.16%	5.93%	1.80%	5.06%	7.88%	6.47%
2	2. Aqua America	6.43%	6.29%	7.22%	7.08%	8.25%	7.67%
3	3. California Water	7.01%	5.38%	0.90%	4.21%	7.51%	5.86%
4	4. Connecticut Water	4.94%	1.45%	1.22%	2.78%	8.85%	5.82%
5	5. Middlesex	6.17%	3.85%	1.91%	3.98%	8.00%	5.99%
6	6. SJW Corp.	9.46%	5.40%	5.63%	6.44%	12.63%	9.53%
7							
8							
9							
10							
11							
12							
13							
14							
15	GROUP AVERAGE	7.03%	4.72%	3.11%	4.93%	8.85%	6.89%
16	GROUP MEDIAN	6.72%	5.39%	1.86%	4.63%	8.13%	6.23%
17							
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¹ Average of changes in year-end stock prices ending in 2008. Data from Yahoo Finance website.

² Data derived from Value Line Investment Survey and/or 10K Reports for period 1999 to 2008.

³ Average excludes historical DPS growth rate for reasons stated in testimony at page 31.

⁴ See Schedule D-4.6.

Coronado Utilities, Inc.
Current Dividend Yields for Water Utility Sample Group

Exhibit
Schedule D-4.7

Line No.	Company	Current Stock Price (P ₀) ¹	Current Dividend (D ₀) ¹	Current Dividend Yield (D ₀ /P ₀) ¹	Average Annual Dividend Yield (D ₀ /P ₀) ^{1,2}
1	American States	\$ 33.40	\$ 1.00	2.99%	2.86%
2	Aqua America	\$ 18.88	\$ 0.51	2.70%	2.80%
3	California Water	\$ 36.46	\$ 1.17	3.21%	3.12%
4	Connecticut Water	\$ 20.17	\$ 0.88	4.36%	3.58%
5	Middlesex	\$ 14.21	\$ 0.70	4.93%	3.99%
6	SJW Corp.	\$ 24.53	\$ 0.65	2.65%	2.27%
13	Average			3.47%	3.10%
14	Median			3.10%	2.99%

¹ Value Line Analyzer Data. Stock prices as of April 16, 2009.

² Average Annual Dividend is dividends declared per share for a year divided by the average annual price of the stock in the same year, expressed as a percentage. For comparison purposes only.

Coronado Utilities, Inc.
Discounted Cash Flow Analysis
DCF Constant Growth

Exhibit
Schedule D-4.8

Line No.	[1] Average Spot Dividend Yield (D_0/P_0) ¹	[2] Expected Dividend Yield (D_1/P_0) ²	[3] Growth (g)	[4] Indicated Cost of Equity $k = \text{Div Yld} + g$ (Cols 2+3)
8	3.47%	3.73%	7.41%	11.1%
10	3.47%	3.78%	8.85%	12.6%
11				
12				
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¹ Spot Dividend Yield = D_0/P_0 . See Schedule D-4.7.

² Expected Dividend Yield = $D_1/P_0 = D_0/P_0 * (1+g)$.

³ Growth rate (g). Average of Past and Future Growth. See Schedule D-4.4, column 7

³ Growth rate (g). Average of Analyst Estimates Future Growth. See Schedule D-4.6.

Coronado Utilities, Inc.
Market Betas

Exhibit
Schedule D-4.9

Line No.	Company	Beta (B) ¹
1	American States	0.85
2	Aqua America	0.75
3	California Water	0.85
4	Connecticut Water	0.80
5	Middlesex	0.80
6	SJW Corp.	1.00
	Average	0.84

¹ Value Line Investment Analyzer data (April 16, 2009)

Note: Beta is a relative measure of the historical sensitivity of a stock's price to overall fluctuations in the New York Stock Exchange Composite Index. A Beta of 1.50 indicates a stock tends to rise (or fall) 50% more than the New York Stock Exchange Composite Index. The "Beta coefficient" is derived from a regression analysis of the relationship between weekly percentage changes in the price of a stock and weekly percentage changes in the NYSE Index over a period of five years. In the case of shorter price histories, a smaller time period is used, but two years is the minimum. The Betas are adjusted for their long-term tendency to converge toward 1.00.

Coronado Utilities, Inc.
Forecasts of Long-Term Interest Rates
2010-2011

Exhibit
Schedule D-4.10

Line No.	Description	<u>2010</u>	<u>2011</u>	<u>Average</u>
1				
2				
3				
4				
5				
6	Blue Chip Consensus Forecasts ¹	4.7%	5.1%	4.9%
7				
8	Value Line ²	3.7%	4.8%	4.3%
9				
10	Average			4.6%
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				

¹ December 2008 Blue Chip Financial Forecasts consensus forecast of 30 Year U.S. Treasury

² Value Line Quarterly forecast, dated February 20, 2009 20 year U.S. Treasury

Exhibit
Schedule D-4.11

Coronado Utilities, Inc.
Computation of Current Market Risk Premium

Line No.	Month	Dividend Yield (D _t /P _t) ¹	Expected Dividend Yield (D _t /P _t) ²	Growth (g) ³	Expected Market Return (k)	Monthly Average 30 Year Treasury Rate ⁴	Market Risk Premium (MRP)
1							
2							
3	Aug 2006	2.20%	2.20%	+ 11.69%	= 13.89%	= 5.00%	= 8.89%
4	Sep	2.20%	2.20%	+ 11.34%	= 13.54%	= 4.85%	= 8.69%
5	Oct	2.15%	2.15%	+ 9.75%	= 11.90%	= 4.85%	= 7.05%
6	Nov	2.10%	2.10%	+ 9.72%	= 11.82%	= 4.69%	= 7.13%
7	Dec 2006	2.09%	2.09%	+ 9.41%	= 11.50%	= 4.68%	= 6.82%
8	Jan 2007	2.05%	2.05%	+ 9.57%	= 11.62%	= 4.85%	= 6.77%
9	Feb	2.10%	2.10%	+ 10.47%	= 12.57%	= 4.82%	= 7.75%
10	March	2.10%	2.10%	+ 10.07%	= 12.17%	= 4.72%	= 7.45%
11	April	2.09%	2.09%	+ 9.29%	= 11.38%	= 4.87%	= 6.51%
12	May	2.08%	2.08%	+ 9.15%	= 11.23%	= 4.90%	= 6.33%
13	Jun	2.17%	2.17%	+ 9.71%	= 11.88%	= 5.20%	= 6.68%
14	Jul	2.27%	2.27%	+ 10.91%	= 13.18%	= 5.11%	= 8.07%
15	Aug	2.37%	2.37%	+ 11.92%	= 14.29%	= 4.93%	= 9.36%
16	Sept	2.31%	2.31%	+ 11.16%	= 13.47%	= 4.79%	= 8.68%
17	Oct	2.45%	2.45%	+ 11.90%	= 14.35%	= 4.77%	= 9.58%
18	Nov	2.60%	2.60%	+ 13.41%	= 16.01%	= 4.52%	= 11.49%
19	Dec 2007	2.61%	2.61%	+ 13.51%	= 16.12%	= 4.52%	= 11.60%
20	Jan 2008	2.67%	2.67%	+ 15.19%	= 17.86%	= 4.33%	= 13.53%
21	Feb	2.74%	2.74%	+ 16.47%	= 19.66%	= 4.52%	= 15.14%
22	Mar	2.85%	2.85%	+ 17.64%	= 20.99%	= 4.39%	= 16.60%
23	Apr	2.69%	2.69%	+ 15.73%	= 18.84%	= 4.44%	= 14.40%
24	May	2.73%	2.73%	+ 15.51%	= 18.66%	= 4.60%	= 14.06%
25	Jun	3.13%	3.13%	+ 18.51%	= 22.22%	= 4.69%	= 17.53%
26	Jul	3.15%	3.15%	+ 18.61%	= 22.35%	= 4.57%	= 17.78%
27	Aug	3.06%	3.06%	+ 17.08%	= 20.67%	= 4.50%	= 16.17%
28	Sept	3.07%	3.07%	+ 19.30%	= 22.96%	= 4.27%	= 18.69%
29	Oct	4.31%	4.31%	+ 30.53%	= 36.16%	= 4.17%	= 31.99%
30	Nov	4.97%	4.97%	+ 35.02%	= 41.73%	= 4.00%	= 37.73%
31	Dec 2008	4.44%	4.44%	+ 28.62%	= 35.38%	= 2.87%	= 32.51%
32	Jan 2009	4.86%	4.86%	+ 30.02%	= 36.34%	= 3.13%	= 33.21%
33	Feb	5.50%	5.50%	+ 35.13%	= 42.56%	= 3.59%	= 38.97%
34	Mar	4.21%	4.21%	+ 27.33%	= 32.69%	= 3.64%	= 29.05%
35	Recent 24 Mon Avg	3.14%	3.68%	+ 18.44%	= 22.12%	= 4.39%	= 17.74%
36	Short-term Trends						
37	Recent Twelve Months Avg	3.84%	4.85%	+ 24.37%	= 29.21%	= 4.04%	= 25.17%
38	Recent Nine Months Avg	4.17%	5.35%	+ 26.96%	= 32.31%	= 3.86%	= 28.45%
39	Recent Six Months Avg	4.72%	6.20%	+ 31.28%	= 37.48%	= 3.57%	= 33.91%
40	Recent Three Months Avg	4.66%	6.37%	+ 30.83%	= 37.20%	= 3.45%	= 33.74%

¹ Average Current Dividend Yield (D_t/P_t) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

² Expected Dividend Yield (D_t/P_t) equals average current dividend yield (D_t/P_t) times one plus growth rate (g).

³ Average 3-5 year price appreciation (annualized). Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

⁴ Monthly average 30 year U.S. Treasury, Federal Reserve.

**Coronado Utilities, Inc.
Capital Asset Pricing Model (CAPM)**

**Exhibit
Schedule D-4.12**

Line No.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
			Historical Market Risk Premium CAPM		Current Market Risk Premium CAPM		Average													
			Rf ¹	+	beta ³	x	Rp	=	k											
			4.6%	+	0.84	x	6.5%	=	10.1%											
			4.6%	+	0.84	x	17.7%	=	19.5%											
									14.8%											

¹ Forecasts of long-term treasury yields. See Schedule D-4.10.
² Value Line Investment Analyzer data. See Schedule D.4.9.
³ Historical Market Risk Premium from (Rp) MorningStar SBB1 2009 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2008
⁴ Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.11.

Coronado Utilities, Inc.
Financial Risk Computation

Exhibit
Schedule D-4.13

Line No.									
1	<u>CAPM</u>								
2		Rf	+	β	x	(Rp)	=	k	
3	Historical Market Risk Premium	4.6%	1	0.84	2	6.5%	3	10.1%	
4	Current Market Risk Premium	4.6%	1	0.84	2	17.7%	4	19.5%	
5									
6	Average								14.8%
7									
8									
9	<u>CAPM Relevered Beta</u>								
10		Rf	+	β	x	(Rp)	=	k	
11	Historical Market Risk Premium	4.6%	1	1.13	5	6.5%	3	11.9%	
12	Current Market Risk Premium	4.6%	1	1.13	5	17.7%	4	24.6%	
13									
14	Average								18.3%
15									
16	Financial Risk Adjustment								<u>3.5%</u>
17									
18									

¹ Forecast of long-term treasury yields. See Table 15.

² Value Line Investment Analyzer data. See Table 13.

³ Historical Market Risk Premium from (Rp) MorningStar S&P 500 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2008

⁴ Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Table 14.

⁵ Relevered beta found on Table 19.

Coronado Utilities, Inc.
Financial Risk Computation
Unlevered Beta

Exhibit
Schedule D-4.14

Line No.	Company	VL Beta β_{L1}	Raw Beta $\frac{Raw \beta_{L2}}{Raw \beta_{L2}}$	Tax Rate t^3	MV Debt $\frac{D^4}{E^4}$	MV Equity $\frac{E^4}{E^4}$	Unlevered Raw Beta β_{U6}
1	American States	0.85	0.78	37.8%	31.6%	68.4%	0.61
2	Aqua America	0.75	0.63	39.7%	32.8%	67.2%	0.49
3	California Water	0.85	0.78	37.7%	27.6%	72.4%	0.63
4	Connecticut Water	0.80	0.70	27.2%	35.0%	65.0%	0.50
5	Middlesex	0.80	0.70	33.2%	38.3%	61.7%	0.49
6	SJW Corp.	1.00	1.00	38.1%	32.7%	67.3%	0.77
11							
12							
13	Sample Water Utilities	0.84	0.77	35.6%	33.0%	67.0%	0.58
14							
15							
16							
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¹ Value Line Investment Analyzer data. See Table 13.

Value Line uses the historical data of the stock, but assumes that a security's beta moves toward the market average over time. The formula is as follows:

Adjusted beta = $.33 + (.67) * \text{Raw beta}$

² Raw Beta = $(VL \text{ beta} - .33) / (.67)$

³ Effective tax rates for year ended December 31, 2008.

⁴ See Table 3.

⁵ Raw $\beta_U = \text{Raw } \beta_L / (1 + (1-t) * D/E)$

Coronado Utilities, Inc.
Financial Risk Computation
Relevered Beta

Exhibit
Schedule D-4.15

Line No.	Unlevered Raw Beta β_{UL}^1	MV Book Debt $\frac{BD^2}{EC^2}$	MV Equity Capital $\frac{EC^2}{EC^2}$	Tax Rate t_c^3	Relevered Raw Beta $\beta_{RL} = \beta_U (1 + (1-t)BD/EC)$	VL Adjusted Relevered Beta β_{RL}
1	0.58	63.4%	36.6%	38.90%	1.19	1.13
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5						
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Line No.	BV (in Millions)	MV (in Millions)	%
17	\$ 2,575	\$ 2,575	63.4%
18	570	570	14.0%
19	504	919	22.6%
20	\$ 3,649	\$ 4,064	100.0%
21			
22			
23			
24			
25			
26			

¹ Unlevered Beta from Table 18.

² Capital Structure of Company (As of December 31, 2008)

³ (a) Current market-to-book ratio of sample water utilities. See work papers.
³ Current Tax rate based on test year ending 2008. See Schedule D-1.

Coronado Utilities, Inc.
Size Premium¹

Exhibit
Schedule D-4.16

Line No.	Beta(β)	Size Premium	Risk Premium for Small Water Utilities ⁷
1			
2			
3			
4			
5			
6	1.12	0.90%	
7			
8	1.25	1.56%	
9			
10	1.50	2.83%	
11			
12	1.62	4.43%	1.81%
13			
14			
15			
16			
17			
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Estimated Risk Premium for small water utilities⁹

0.99%

- ¹ Data from Table 7-11 of Morningstar, *Ibbotson S&P 500 2009 Valuation Yearbook*.
- ² Mid-Cap companies includes companies with market capitalization between \$1,850 million and \$7,360 million.
- ³ Low-Cap companies includes companies with market capitalization between \$454 million and \$1,849 million.
- ⁴ Micro-Cap companies includes companies with market capitalization less than \$453 million.
- ⁵ Decile 10 includes companies with market capitalization between \$1.6 million and \$219 million.
- ⁶ From Table 2, Thomas M. Zepp, "Utility Stocks and the Size Effect Revisited," *The Quarterly Review of Economics and Finance*, 43 (2003), 578-582.
- ⁷ Computed as the weighted differences between the Decile 10 risk premium and the indicated risk premiums for the sample water utilities as shown below. Excludes risk due to differences in beta.

Market Cap.	Size (Millions)	Class	Size Premium	Difference to Decile 10	Weight	Weighted Size Premium
	\$ 578	Low-Cap	1.56%	2.87%	0.16666667	0.48%
	\$ 2,566	Mid-Cap	0.90%	3.53%	0.16666667	0.59%
	\$ 755	Low-Cap	1.56%	2.87%	0.16666667	0.48%
	\$ 171	Decile 10	4.43%	0.00%	0.16666667	0.00%
	\$ 190	Decile 10	4.43%	0.00%	0.16666667	0.00%
	\$ 446	Micro-Cap	2.83%	1.60%	0.16666667	0.27%
		Weighted Size Premium for small companies				1.81%

ATTACHMENT 1

Attachment 1

Coronado Utilities, Inc.
 Discounted Cash Flow Analysis (Water)
 Constant Growth DCF Model
 Using Analyst Estimates of DPS Growth

Line No.	[1]	[2]	[3]	[4]	[5]
	Current Dividend Yield $(D_t/P_0)^1$	Expected Dividend Yield $(D_t/P_0)^2$	Expected Dividend Growth (g) ³	Indicated Equity Cost $k=Div Yld + G$ (Cols 2+3)	Indicated Equity Cost $k=Div Yld + G$ (Cols 2+3)
1	2.99%	3.14%	5.00%	8.1%	*
2	2.70%	2.85%	5.50%	8.3%	*
3	3.21%	3.27%	2.00%	5.3%	*
4	4.36%		Not Available		
5	4.93%		Not Available		
6	2.65%		Not Available		
7					
8					
9					
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* Indicated equity cost below current cost of debt (Baa) or negative growth.

¹ Spot Dividend Yield = D_t/P_0 . See Table 9.

² Expected Dividend Yield = $D_t/P_0 = D_0/P_0 * (1+g)$.

³ Growth rate (g). Value Line Analyzer Data (April 16, 2009)

⁴ Federal Reserve. Baa investment grade bonds.

⁵ Blue Chip Financial Forecast (December 2008)

GROUP AVERAGE
 GROUP MEDIAN
 Current Baa interest rate (April 16, 2009)⁴
 Blue Chip Forecast Baa Corporate Bond Interest Rate 2011 Top 10⁵
 Blue Chip Forecast Baa Corporate Bond Interest Rate 2011 Bottom 10⁵
 Blue Chip Forecast Baa Corporate Bond Interest Rate 2011 Consensus⁵

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4

5 **BEFORE THE ARIZONA CORPORATION COMMISSION**
6

7 IN THE MATTER OF THE APPLICATION | DOCKET NO: SW-04305A-09-0291
8 OF CORONADO UTILITIES, INC. FOR A
9 DETERMINATION OF THE FAIR VALUE
10 OF ITS UTILITY PLANT AND PROPERTY
AND FOR INCREASES IN ITS RATES
AND CHARGES FOR UTILITY SERVICE
BASED THEREON.
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16 **REBUTTAL TESTIMONY OF**
17 **THOMAS J. BOURASSA**

18
19 **MARCH 22, 2010**
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2288452.4

1 **I. INTRODUCTION AND QUALIFICATIONS.**

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

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

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

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

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

10 A. Yes, my direct testimony was submitted in support of the initial application in this
11 docket. There were two volumes, one addressing rate base, income statement and
12 rate design, and the other addressing cost of capital.

13 **Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?**

14 A. I will provide rebuttal testimony in response to the direct filing by Staff. Notably
15 though, because Staff has accepted the Company's recommended cost of capital,¹
16 specifically Coronado's weighted average cost of capital equal to 7.36 percent, I
17 have not filed a separate volume of my testimony regarding cost of capital.

18 **Q. IF YOU HAD UPDATED YOUR COST OF CAPITAL ANALYSIS, WOULD**
19 **YOUR RECOMMENDATION REGARDING THE RATE OF RETURN**
20 **HAVE CHANGED?**

21 A. No.

22 **II. SUMMARY OF CORONADO'S REBUTTAL POSITION**

23 **Q. WHAT REVENUE INCREASE IS THE COMPANY PROPOSING IN THIS**
24 **REBUTTAL TESTIMONY?**

25

26 ¹ Direct Testimony of Gary T. McMurry ("McMurry Dt.") at 23.

1 A. Coronado is proposing a total revenue requirement of \$1,038,933, constituting an
2 increase in revenues of \$170,030, or 19.57 percent over adjusted test year revenues.

3 **Q. HOW DOES THIS COMPARE WITH THE COMPANY'S DIRECT**
4 **FILING?**

5 A. In the direct filing the Company requested a total revenue requirement of
6 \$1,040,098, which required an increase in revenues of \$156,498, or 17.71%.

7 **Q. PLEASE BRIEFLY EXPLAIN WHY THE RATE INCREASE IS HIGHER**
8 **IN THE REBUTTAL FILING.**

9 A. The rate increase is higher because the Company proposes an additional downward
10 adjustment to test year revenues in its rebuttal filing. The resulting lower adjusted
11 test year revenues means that a higher rate increase is necessary to achieve the
12 Company's proposed revenue requirement.

13 **Q. PLEASE BRIEFLY EXPLAIN THE COMPANY'S REBUTTAL PROPOSED**
14 **DOWNWARD ADJUSTMENT TO TEST YEAR REVENUES.**

15 A. As I will explain in this rebuttal testimony, during the test year the Company lost a
16 mobile home (trailer park) customer and this lost revenue was not reflected in the
17 Company's direct filing. Coronado was hopeful this was temporary, but given the
18 passage of another full year, the Company now proposes an additional downward
19 adjustment to adjusted test year revenues of approximately \$14,600. This is the
20 primary reason for the higher rate increase the Company seeks at this stage of the
21 proceeding.

22 **Q. PLEASE BRIEFLY EXPLAIN WHY THE REVENUE REQUIREMENT IS**
23 **LOWER.**

24 A. The Company's slightly lower revenue requirement is primarily the result of a
25 slightly lower rate base. In its rebuttal filing, Coronado has adjusted its
26 accumulated depreciation balance due to a correction and adjusted its deferred

1 income tax (DIT) balance to reflect the change to accumulated depreciation. The
 2 net rate base impact of this adjustment is \$(7,225). The reduction in rate base due
 3 to the Company's revised accumulated depreciation balance is offset by a \$2,318
 4 increase in deferred income taxes ("DIT") asset balance. Together, these comprise
 5 the net change in the Company's rate base of \$(4,906). The net result of the
 6 adjustment to rate base is that the Company's proposed operating expenses have
 7 decreased by \$5,087, from \$729,033 in the direct filing to \$723,746; and a net
 8 decrease of \$4,906 in rate base from the direct filing of \$3,536,648 to \$3,531,741.

9 **Q. WHAT ARE THE PROPOSED REVENUE REQUIREMENTS AND RATE**
 10 **INCREASES FOR THE COMPANY AND STAFF AT THIS STAGE OF**
 11 **THE PROCEEDING?**

12 A. The proposed revenue requirements and proposed rate increases are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Incr.</u>	<u>% Increase</u>
14 Staff	\$1,002,515	\$118,985	13.47%
15 Company Rebuttal	\$1,038,933	\$170,030	19.57%

16 **III. RATE BASE**

17 **Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE**
 18 **BASE RECOMMENDATIONS?**

19 A. Yes, the rate bases proposed by the parties proposing a rate base in the case, the
 20 Company and Staff are as follows:

	<u>OCRB</u>	<u>FVRB</u>
22 Staff	\$ 3,531,141	\$ 3,531,141
23 Company Rebuttal	\$ 3,531,741	\$ 3,531,741

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25
26

1 A. Plant-in-service.

2 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
3 **ORIGINAL COST RATE BASE AND IDENTIFY ANY ADJUSTMENTS**
4 **YOU HAVE ACCEPTED FROM STAFF?**

5 A. The Company's rebuttal rate base adjustments to OCRB are detailed on rebuttal
6 schedules B-2, pages 3 through 6. Rebuttal Schedule B-2, page 1 and 2,
7 summarize the Company's proposed adjustments and the rebuttal OCRB.
8 Coronado has not proposed any changes to plant-in-service ("PIS") and the parties
9 are in agreement on the PIS balance of \$4,428,471.²

10 B. Accumulated Depreciation.

11 **Q. PLEASE DISCUSS CORONADO'S ADJUSTMENT TO ACCUMULATED**
12 **DEPRECIATION.**

13 A. In rebuttal B-2 adjustment 2, as shown on Schedule B-2, page 2, the Company
14 proposes an increase to accumulated depreciation ("A/D") of \$7,225. The
15 adjustment is the result of a correction to the depreciation rates for account 371 –
16 Pumping Equipment and account 382 – Outfall Sewer Lines used to re-compute the
17 A/D balance.³ The Company corrected these depreciation rates in response to
18 Staff's testimony.⁴

19 **Q. ARE THE COMPANY AND STAFF NOW IN AGREEMENT WITH**
20 **RESPECT TO THE ACCUMULATED DEPRECIATION BALANCE?**

21 A. No. The Company proposes an A/D balance of \$406,157. Staff proposes an A/D
22 balance of \$407,078.⁵ The difference is \$921.

23
24 ² Compare Rebuttal Schedule B-2, page 1, line 2 with Staff Schedule GTM-1, 3, line 1, column C.

25 ³ See Rebuttal Schedule B-2, page 3.1 – 3.4.

26 ⁴ McMurry Dt. at 8.

26 ⁵ See Staff Schedule GTM-3, line 2, column C.

1 Q. WHAT IS THE CAUSE OF THE DIFFERENCE?

2 A. The Company proposes an adjustment to A/D of \$7,225 while Staff proposes an
3 adjustment of \$8,146. Staff's A/D adjustment computation contains an error and is
4 too high by \$921. This is because in Staff's computation Staff uses an incorrect
5 amount for the Company's direct filing A/D for account 382- Outfall Sewer Lines.
6 Let me explain. On Staff Schedule GTM-6, line 7, column A, Staff uses the figure
7 of \$35,933 as the amount of depreciation expensed by the Company through the
8 end of the test year. In other words, this figure is supposed to be the A/D balance
9 for this account through the end of the test year. However, the figure contained in
10 the Company's direct filing was \$36,854, as shown on the Company's direct
11 schedule B-2, page 3.4. The difference between the \$35,933 figure Staff used and
12 the correct figure of \$36,854 is \$921.

13 C. Advances-in-aid of Construction (AIAC) and Contributions-in-aid of
14 Construction (CIAC).

15 Q. PLEASE DISCUSS THE COMPANY'S ADJUSTMENT TO ADVANCES-IN-
16 AID OF CONSTRUCTION AND CONTRIBUTIONS-IN-AID OF
17 CONSTRUCTION.

18 A. The Company does not propose any adjustments to advances-in-aid of construction
19 ("AIAC") or contributions-in-aid of construction ("CIAC").

20 Q. DO THE COMPANY AND STAFF AGREE WITH RESPECT TO THE
21 AIAC AND CIAC BALANCES?

22 A. Yes.⁶ Both the Company and Staff propose an AIAC balance of \$ 0, a gross CIAC
23 balance of \$603,201, and an accumulated amortization of CIAC balance of
24 \$9,755.⁷

25 ⁶ Compare Rebuttal Schedule B-2, page 2 with Staff Schedule GTM-3.

26 ⁷ *Id.*

1 **D. Deferred Income Taxes (DITS)**

2 **Q. HAS THE COMPANY PROPOSED A REBUTTAL ADJUSTMENT TO**
3 **DEFERRED INCOME TAXES?**

4 A. Yes. In rebuttal B-2 adjustment 4, as shown on Schedule B-2, page 2, the
5 Company's deferred income tax asset (an addition to rate base), is increased by
6 \$2,318 from \$37,425 to \$39,744. The increase reflects the Company's rebuttal
7 proposed changes to accumulated depreciation. The details of the Company's
8 rebuttal proposed DIT adjustment is shown on Schedule B-2, page 6.

9 **Q. PLEASE COMMENT ON STAFF'S RECOMMENDED DIT BALANCE.**

10 A. Staff proposes a DIT balance of \$40,064,⁸ which is slightly higher than Coronado's
11 proposed balance. Like the Company's DIT balance, Staff's DIT balance is an
12 asset (increase in rate base) and reflects Staff's proposed change to accumulated
13 depreciation. If Staff corrects this error in its A/D balance, the Company and Staff
14 should be in agreement.

15 **Q. IS THERE ANY DISAGREEMENT OVER THE DIT METHODOLOGY?**

16 A. No.⁹

17 **IV. INCOME STATEMENT**

18 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
19 **ADJUSTMENTS TO REVENUES AND EXPENSES AND IDENTIFY ANY**
20 **ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF?**

21 A. The Company rebuttal adjustments are detailed on Rebuttal Schedule C-2, pages 1-
22 6. The rebuttal income statement with adjustments is summarized on Rebuttal
23 Schedule C-1, page 1-2.

24 Rebuttal adjustment 1 reflects Coronado's proposed depreciation expense.

25 ⁸ McMurry Dt. at 7.

26 ⁹ *Id.*

1 This adjustment is zero as the Company has not proposed any changes to PIS.

2 Rebuttal adjustment number 2 increases property tax expense and reflects
3 the rebuttal proposed revenues. Staff and Coronado are in agreement on the
4 method of computing property taxes. This method utilized the ADOR formula and
5 inputs two years of adjusted revenues plus one year of proposed revenues. I
6 computed the property taxes based on the Company's proposed revenues, and then
7 used the property tax rate and assessment ratio that was used in the direct filing.
8 The details of the Company property tax computation are shown on Rebuttal
9 Schedule C-2, page 3. The difference in the level of property taxes between
10 Coronado and Staff are due to the differences in the parties' respective proposed
11 level of revenues.

12 Rebuttal adjustment 3 reduces test year revenues for the closure of a mobile
13 home park (San Miguel Highlands) that occurred during the test year.

14 **Q. WHY DIDN'T THE COMPANY PROPOSE AN ADJUSTMENT IN ITS**
15 **DIRECT FILING IF IT KNEW THE PARK WAS CLOSED DURING THE**
16 **TEST YEAR?**

17 **A.** Because at the time the application was prepared the Company hoped the closure
18 of the mobile home park was temporary. At this point, over a year and a half since
19 the park closed, it is clear to the Company that this customer will not return in the
20 foreseeable future, particularly given the continuing poor economic conditions in
21 the area. Consequently, unless the test year revenues are adjusted to reflect this
22 known and measurable change to test year revenues, the new rates will be
23 understated and the Company will not have a reasonable chance to recover the
24 revenue requirement and earn its authorized return.

25 **Q. PLEASE CONTINUE.**

26 **A.** Rebuttal adjustment 4 synchronizes interest expense with rate base. Finally,

1 Rebuttal adjustment 5 reflects income taxes at Company's proposed rates.

2 **A. Remaining Issues in Dispute**

3 **Q. PLEASE DISCUSS THE REMAINING RATE BASE ISSUES BETWEEN**
4 **THE PARTIES.**

5 A. The Company does not agree with Staff's proposed normalization of bad debt
6 expense by averaging the test year (2008) with two historical years (2006 and
7 2007). Staff's adjustment results in bad debt expense of \$18,432, nearly \$28,000
8 less than the test year level.

9 **Q. DO YOU DISAGREE WITH THE USE OF AVERAGES?**

10 A. Yes, generally I disagree with use of averages as a method of normalizing
11 expenses. Surrounding facts and circumstances must justify their use because
12 averaging does not reflect a known and measurable change to the test year. It is, at
13 best, a guess. Averaging as a means of normalizing an expense is also subjective
14 with respect to which expenses are averaged and which years (historical or future)
15 are included in the average. Averaging with historical years is also backward
16 looking. Finally, in my experience, Staff uses averages to adjust expense
17 downward far more frequently than it uses averages to adjust expenses upward.

18 To illustrate the subjective nature of normalizing by averaging, consider that
19 if the years 2007, 2008, and 2009 are used, the average would be over \$37,000 -
20 nearly \$19,000 higher than Staff's average of approximately \$18,000. If a four
21 year average is used (2006, 2007, 2008, and 2009), the average would be nearly
22 \$29,000 - \$11,000 higher than Staff's average. If 2008 and 2009 are used the
23 average would be over \$53,000 - \$7,000 higher than the test year.

24 In other words, there is too much subjectivity and therefore this is not proper
25 ratemaking. If we are going to use the historical test year, with all of its flaws, we
26 shouldn't just discard the test year based on the presumption something is wrong

1 with the test year and in the absence of evidence that shows “extenuating”
2 circumstances.

3 **Q. HAS THE COMMISSION REJECTED STAFF’S NORMALIZATION**
4 **ADJUSTMENTS USING THREE YEAR HISTORICAL AVERAGES IN**
5 **THE PAST?**

6 A. Yes. In the recent Chaparral City Water Company decision, the Commission
7 rejected Staff’s normalization adjustment for repairs and maintenance expense and
8 chemicals.¹⁰ In that case, Staff also justified the use of normalization because these
9 expenses fluctuated widely. The Commission rejected the argument because the
10 test year is presumed normal and Staff had failed to meet its burden of proof that its
11 proposed adjustments were necessary and warranted.¹¹

12 **Q. WHAT REASONS DOES STAFF PROVIDE FOR AVERAGING THREE**
13 **HISTORICAL YEARS TO NORMALIZE BAD DEBT EXPENSE?**

14 A. Staff asserts that the levels of bad debt expense for the years 2006, 2007 and 2008
15 vary widely from year to year and the test year level is not representative of the
16 average bad debt expense for the Company.¹²

17 **Q. DO YOU AGREE?**

18 A. Actually, I do agree that the test year level is not representative of the Company’s
19 bad debt expense during the period rates will be in effect. The test year is likely
20 much too low to be representative going forward.

21 **Q. HOW CAN YOU SAY THAT IF THE YEARS PRIOR TO THE TEST YEAR**
22 **WERE SO MUCH LOWER?**

23 A. Bad debt expense for 2009 is nearly \$60,000 – over \$13,000 higher than the test

24 _____
¹⁰ See *Chaparral City Water Company*, Decision No. 71308 (October 21, 2009) at 22 – 23.

25 ¹¹ *Id.*

26 ¹² McMurry Dt. at 8.

1 year level. As suggested by both 2008 and 2009, the new “normal” for bad debt
2 expense going forward is high, very high. Just as important, the new normal for
3 bad debt expense is well above the approximately \$18,000 Staff proposes.

4 **Q. DID STAFF ASK FOR THE 2009 BAD DEBT EXPENSE INFORMATION?**

5 A. No, but it should have. Since the test year is presumed normal and rates will be in
6 effect going-forward, it is imperative that an analyst consider post test year data
7 before normalizing. Attached hereto as **Rebuttal Exhibit 1** is the general ledger
8 detail for bad debt in 2009. (Customer names are redacted.) As shown, bad debt
9 expense for 2009 is nearly \$60,000.

10 **Q. WHY DO BELIEVE THIS IS THE NEW “NORMAL” FOR BAD DEBT**
11 **EXPENSE?**

12 A. First, there is the continued economic hardship throughout the Company’s service
13 territory. The Commission has addressed this problem on several occasions at
14 town meetings and Commission proceedings the past few years. This situation
15 started years ago when the mine was closed and has only been made worse by the
16 recent “Great Recession.” Second, the Company’s rates for 2006, 2007 and half of
17 2008 were being phased-in and were, in part, subsidized by BHP. It was not until
18 the middle of 2008 that customers felt the full impact of the rate increase granted in
19 2006.¹³ Finally, as explained by Mr. Williamson in his rebuttal testimony, the
20 Company did not aggressively seek to record bad debt because of, in part, the
21 phase-in of rates.¹⁴

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¹³ *Coronado Utilities, Inc.*, Decision 68608 (March 23, 2006).

¹⁴ Rebuttal Testimony of Jason Williamson at 4.

1 **V. RATE DESIGN**

2 **Q. WHAT ARE THE COMPANY'S REBUTTAL PROPOSED RATES?**

3 A. The Company's proposed rates are:

4 Monthly Customer Charges

5 Residential	\$55.66
6 Commercial	\$ 8.98
7 Mobile Home – Winter Only	N/A
8 Mobile Home – Summer Only (per occupied space)	N/A
9 Mobile Home – per occupied space	\$38.78
10 School	\$ 8.98

11 Volumetric Rates (per 100 gallons of water use)

12 Commercial	\$1.173
13 Mobile Home Park (Winter only)	N/A
14 School	\$0.374

15 In addition, the proposed charge for reclaimed (non-potable) water is \$65.17
16 per acre-foot or \$0.20 per 1,000 gallons.

17 **Q. HAS CORONADO MADE ANY CHANGES IN ITS RATE DESIGN AT**
18 **THIS REBUTTAL STAGE?**

19 A. Yes, I have modified the rate design with respect to mobile homes. Instead of a
20 fixed rate per occupied space during the summer months and fixed monthly rate
21 plus a commodity charge for the winter months, the Company proposes a fixed rate
22 per occupied space for all months of the year.

23 **Q. WHY HAVE YOU MADE THIS CHANGE?**

24 A. The mobile home park owner contacted the Company and expressed a concern
25 about the present rate structure certainty and suggested a fixed monthly fee per
26 occupied space on a year round basis as opposed to just the summer months.

1 Coronado and I believe this is a reasonable request as long as the Company
2 annually earns approximately the same level of revenues. Therefore, I have
3 calculated the required revenue and based the rate design on recovery of a roughly
4 equal amount per month.

5 **Q. PLEASE COMMENT ON THE PROPOSED RATE DESIGN OF STAFF.**

6 A. Staff is proposing to continue with the existing rate structure as the Company and
7 Staff also spreads the increase fairly evenly amongst all customers.¹⁵ Of course,
8 Staff has not yet had a chance to consider the rebuttal change to the mobile home
9 park rate which I just introduced.

10 **Q. DO THE COMPANY AND STAFF AGREE ON THE EFFLUENT**
11 **(RECLAIMED NON POTABLE WATER) RATE?**

12 A. Yes. Both Staff and the Company agree on an effluent rate of \$0.20 per 1,000
13 gallons.¹⁶

14 **Q. DO THE COMPANY AND STAFF AGREE ON THE PROPOSED**
15 **MISCELLANEOUS CHARGES?**

16 A. On the specific charges, the Company and Staff are in agreement with the
17 exception of Staff's recommended denial of changes to the Company's proposed
18 tariff that addresses disconnection for non-payment. That matter is being
19 addressed by the Company's legal counsel.

20 **Q. DO YOU HAVE ANY COMMENTS ON STAFF'S TESTIMONY POINTING**
21 **OUT THAT THE COMPANY HAS NOT PROVIDED ANY SPECIFIC**
22 **TARIFF LANGUAGE WITH RESPECT TO ITS SERVICE CHARGES**
23 **AND RATES?**

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¹⁵ McMurry Dt. at 25.
¹⁶ *Id.*

1 A. No. If Staff wishes to propose specific tariff language, it is free to do so and the
2 Company will consider those proposals. Coronado had no reason, however, to
3 increase rate case expense and add more paper to the file for matters it recommends
4 remain as is.

5 **Q. DO YOU HAVE ANY RESPONSE AT THIS TIME TO STAFF'S**
6 **TESTIMONY ON THE COMPANY'S PROPOSED LOW INCOME**
7 **TARIFF?**

8 A. Yes, I take issue with Mr. McMurry's testimony that the low income tariff creates a
9 "profit center."¹⁷ I have proposed the same administrative fee in several rate cases
10 and it has been approved by the Commission in one of them,¹⁸ and supported by
11 Staff without concern over a "profit center" in the others.¹⁹

12 **Q. HOW WAS THE ADMINISTRATIVE FEE DETERMINED?**

13 A. The administrative fee is intended to cover, among other things, cost of processing
14 applications for enrollment in the program, verifying customer information,
15 processing participation renewals, tracking discounts provided under the program,
16 and reporting of the discounts given to participants and amounts collected from
17 non-participants in the program to regulators. It also covers the time value of
18 money, or carrying costs. Since the Company collects the discounts provided to
19 participants from non-participants in arrears, the Company is entitled to collect
20 interest on the monies from the time it provides the discounts to the time it collects
21 the money from non-participants. The 10% fee, therefore, covers both the cost of
22 money plus a small administrative fee.

23
24 _____
25 ¹⁷ *Id.* at 21:5-9.

26 ¹⁸ *See* Decision No. 71308 at 53 – 54.

¹⁹ *Id.* at 54.

1 Q. SO WILL CORONADO EARN A PROFIT ON THE LOW INCOME
2 TARIFF?

3 A. No. The fee is intended to cover the costs described above.

4 Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

5 A. Yes.
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Coronado Utilities, Inc.
Docket No. SW-04305A-09-0291

THOMAS J. BOURASSA
REBUTTAL TESTIMONY

March 22, 2010

Exhibit 1

Coronado Utilities, Inc.
Transaction Detail by Account
 January through December 2009

Type	Date	Num	Name	Memo	Amount	Balance
770 - Bad Debt Expense						
Credit Memo	02/23/2009	8547	0781.02 - REDACTED - TERM	Bad Debt Writeoff	22.27	22.27
Credit Memo	02/23/2009	8551	0999.02 - REDACTED - TERM	Bad Debt Writeoff	36.11	58.38
Credit Memo	02/23/2009	8552	1283.01 - REDACTED - TERM	Bad Debt Writeoff	51.48	109.86
Credit Memo	02/23/2009	8553	1310.01 - REDACTED - TERM	Bad Debt Writeoff	109.89	219.75
Credit Memo	09/04/2009	Bkcy W/O	0903.01 - REDACTED - COLLECT - TERM	Bad Debt Writeoff	525.65	745.40
Credit Memo	12/31/2009	22544	0364.01 - REDACTED- TERM - COLLECT	Bad Debt Writeoff	1,338.58	2,083.98
Credit Memo	12/31/2009	Bad Debt WO	1276.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	1,163.43	3,247.41
Credit Memo	12/31/2009	Bad Debt WO	1266.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	1,077.22	4,324.63
Credit Memo	12/31/2009	Bad Debt WO	0059.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	1,075.85	5,400.48
Credit Memo	12/31/2009	Bad Debt WO	1165.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	990.00	6,390.48
Credit Memo	12/31/2009	Bad Debt WO	1377.01 - REDACTED - TERM	Bad Debt Writeoff	953.72	7,344.20
Credit Memo	12/31/2009	Bad Debt WO	1130.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	940.34	8,284.54
Credit Memo	12/31/2009	Bad Debt WO	0396.02 - REDACTED - TERM - COLLECT	Bad Debt Writeoff - as per letter offer to settle for 50 percent of amt. owed if pd. by 12/31/09	899.23	9,183.77
Credit Memo	12/31/2009	Bad Debt WO	0396.02 - REDACTED - TERM - COLLECT	Bad Debt Writeoff - additional late fees accrued, but written off to close this acct.	41.11	9,224.88
Credit Memo	12/31/2009	Bad Debt WO	0450.01 - REDACTED - DNS	Bad Debt Writeoff in accordance with settlement agreement (see notes)	997.88	10,222.76
Credit Memo	12/31/2009	Bad Debt WO	0450.01 - REDACTED - DNS	Bad Debt Writeoff - additional late fees associated with settlement balance	46.01	10,268.77
Credit Memo	12/31/2009	Bad Debt WO	0473.01 - REDACTED - TERM - HOLD	Bad Debt Writeoff	923.51	11,192.28
Credit Memo	12/31/2009	Bad Debt WO	0488.01 - REDACTED	Bad Debt Writeoff - all accrued late fees to date	151.58	11,343.86
Credit Memo	12/31/2009	Bad Debt WO	0692.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	892.47	12,236.33
Credit Memo	12/31/2009	Bad debt WO	1293.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	820.04	13,056.37
Credit Memo	12/31/2009	Bad Debt WO	1269.03 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	794.46	13,850.83
Credit Memo	12/31/2009	Bad Debt WO	0729.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	768.77	14,619.60
Credit Memo	12/31/2009	Bad Debt WO	0351.02 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	752.39	15,371.99
Credit Memo	12/31/2009	Bad Debt WO	1302.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	700.61	16,072.60
Credit Memo	12/31/2009	Bad Debt WO	1189.01 - REDACTED. - TERM - COLLECT	Bad Debt Writeoff	667.04	16,739.64
Credit Memo	12/31/2009	Bad Debt WO	1189.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	0.05	16,739.69

Coronado Utilities, Inc.
Transaction Detail by Account
 January through December 2009

Type	Date	Num	Name	Memo	Amount	Balance
770 - Bad Debt Expense						
Credit Memo	12/31/2009	Bad Debt WO	0859.03 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	664.57	17,404.26
Credit Memo	12/31/2009	Bad Debt WO	0654.02 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	645.10	18,049.36
Credit Memo	12/31/2009	Bad Debt WO	0866.04 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	643.97	18,693.33
Credit Memo	12/31/2009	Bad Debt WO	0039.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	633.87	19,327.20
Credit Memo	12/31/2009	Bad Debt WO	0491.03 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	615.54	19,942.74
Credit Memo	12/31/2009	Bad Debt WO	0052.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	577.11	20,519.85
Credit Memo	12/31/2009	Bad Debt WO	1200.02 - REDACTED - TERM	Bad Debt Writeoff	549.90	21,069.75
Credit Memo	12/31/2009	Bad Debt WO	0452.03 - REDACTED - TERM	Bad Debt Writeoff	532.22	21,601.97
Credit Memo	12/31/2009	Bad Debt WO	0357.02 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	518.69	22,120.66
Credit Memo	12/31/2009	Bad Debt WO	1166.02 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	502.14	22,622.80
Credit Memo	12/31/2009	Bad Debt WO	1203.05 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	481.08	23,103.88
Credit Memo	12/31/2009	Bad Debt WO	0848.02 - REDACTED - TERM - DNS - NLP - PP	Bad Debt Writeoff - per settlement agreement with customer	141.43	23,245.31
Credit Memo	12/31/2009	Bad Debt WO	0684.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	465.01	23,710.32
Credit Memo	12/31/2009	Bad Debt WO	1189.06 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	458.23	24,168.55
Credit Memo	12/31/2009	Bad Debt WO	0322.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	458.08	24,626.63
Credit Memo	12/31/2009	Bad Debt WO	1290.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	446.31	25,072.94
Credit Memo	12/31/2009	Bad Debt WO	0260.02 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	444.39	25,517.33
Credit Memo	12/31/2009	Bad Debt WO	0654.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	423.94	25,941.27
Credit Memo	12/31/2009	Bad Debt WO	1370.05 - REDACTED - TERM	Bad Debt Writeoff	404.42	26,345.69
Credit Memo	12/31/2009	Bad Debt WO	0505.04 - REDACTED - TERM	Bad Debt Writeoff	402.85	26,748.54
Credit Memo	12/31/2009	Bad Debt WO	0834.05 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	401.42	27,149.96
Credit Memo	12/31/2009	Bad Debt WO	1135.01 - REDACTED - COLLECT - TERM	Bad Debt Writeoff	398.45	27,548.41
Credit Memo	12/31/2009	Bad Debt WO	0476.01 - REDACTED - COM - TERM - COLLECT	Bad Debt Writeoff	380.95	27,929.36
Credit Memo	12/31/2009	Bad Debt WO	0501.02 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	379.76	28,309.12
Credit Memo	12/31/2009	Bad Debt WO	0106.02 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	377.03	28,686.15
Credit Memo	12/31/2009	Bad Debt WO	0723.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	374.24	29,060.39
Credit Memo	12/31/2009	Bad Debt WO	1173.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	368.74	29,429.13
Credit Memo	12/31/2009	Bad Debt WO	1189.02 - REDACTED - TERM	Bad Debt Writeoff	344.71	29,773.84
Credit Memo	12/31/2009	Bad Debt WO	1110.01 - REDACTED - TERM	Bad Debt Writeoff	329.68	30,103.52
Credit Memo	12/31/2009	Bad Debt WO	1108.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	316.97	30,420.49

Coronado Utilities, Inc.
Transaction Detail by Account
 January through December 2009

Type	Date	Num	Name	Memo	Amount	Balance
770 - Bad Debt Expense						
Credit Memo	12/31/2009	Bad debt WO	1225.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	305.26	30,725.75
Credit Memo	12/31/2009	Bad Debt WO	0501.04 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	373.46	31,099.21
Credit Memo	12/31/2009	Bad Debt WO	0974.02 - IREDACTED. - TERM - COLLECT	Bad Debt Writeoff	309.58	31,408.79
Credit Memo	12/31/2009	Bad Debt WO	0616.02 - REDACTED - TERM	Bad Debt Writeoff	299.71	31,708.50
Credit Memo	12/31/2009	Bad Debt WO	0491.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	292.88	32,001.38
Credit Memo	12/31/2009	Bad Debt WO	1113.02 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	273.76	32,275.14
Credit Memo	12/31/2009	Bad Debt WO	0045.03 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	272.70	32,547.84
Credit Memo	12/31/2009	Bad Debt WO	1204.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	267.20	32,815.04
Credit Memo	12/31/2009	Bad Debt WO	0822.01 - REDACTED. - TERM - COLLECT	Bad Debt Writeoff	266.83	33,081.87
Credit Memo	12/31/2009	Bad Debt WO	1000.02 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	265.91	33,347.78
Credit Memo	12/31/2009	Bad Debt WO	1073.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	259.70	33,607.48
Credit Memo	12/31/2009	Bad Debt WO	0073.01 - REDACTED - TER - EM - COL - PP -NLP	Bad Debt Writeoff	255.41	33,862.89
Credit Memo	12/31/2009	Bad Debt WO	0120.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	230.98	34,093.87
Credit Memo	12/31/2009	Bad Debt WO	1375.03 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	248.68	34,342.55
Credit Memo	12/31/2009	Bad Debt WO	0527.02 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	244.22	34,586.77
Credit Memo	12/31/2009	Bad Debt WO	1197.02 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	255.36	34,842.13
Credit Memo	12/31/2009	Bad Debt WO	0976.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	230.37	35,072.50
Credit Memo	12/31/2009	Bad Debt WO	0050.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	223.98	35,296.48
Credit Memo	12/31/2009	Bad Debt WO	1200.01 - REDACTED. TERM - COLLECT	Bad Debt Writeoff	214.35	35,510.83
Credit Memo	12/31/2009	Bad Debt WO	0975.02 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	210.80	35,721.63
Credit Memo	12/31/2009	bad debt WO	0964.02 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	227.37	35,949.00
Credit Memo	12/31/2009	Bad Debt WO	0815.02 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	189.04	36,138.04
Credit Memo	12/31/2009	Bad Debt WO	1269.02 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	183.94	36,321.98
Credit Memo	12/31/2009	Bad Debt WO	1030.03 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	175.55	36,497.53
Credit Memo	12/31/2009	Bad Debt WO	0973.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	172.12	36,669.65
Credit Memo	12/31/2009	22560	0836.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	172.00	36,841.65
Credit Memo	12/31/2009	22561	1153.02 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	163.92	37,005.57
Credit Memo	12/31/2009	22562	0045.02 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	161.89	37,167.46
Credit Memo	12/31/2009	22563	0334.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	158.41	37,325.87
Credit Memo	12/31/2009	Bad Debt WO	0866.05 - REDACTED - TERM	Bad Debt Writeoff	158.15	37,484.02

Coronado Utilities, Inc.
Transaction Detail by Account
 January through December 2009

Type	Date	Num	Name	Memo	Amount	Balance
770 - Bad Debt Expense						
Credit Memo	12/31/2009	Bad debt WO	0384.02 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	138.36	37,622.38
Credit Memo	12/31/2009	Bad Debt WO	1153.03 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	136.08	37,758.46
Credit Memo	12/31/2009	Bad Debt WO	0044.01 - REDACTED - TERM - COLLECT - NLP	Bad Debt Writeoff	138.64	37,897.10
Credit Memo	12/31/2009	Bad Debt WO	1346.01 - REDACTED - COM - TERM	Bad Debt Writeoff	139.39	38,036.49
Credit Memo	12/31/2009	Bd Debt WO	1373.03 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	154.24	38,190.73
Credit Memo	12/31/2009	Bad Debt WO	0086.02 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	121.15	38,311.88
Credit Memo	12/31/2009	Bad Debt WO	0932.03 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	134.20	38,446.08
Credit Memo	12/31/2009	Bad Debt WO	1076.01 - REDACTED - TERM	Bad Debt Writeoff	121.31	38,567.39
Credit Memo	12/31/2009	Bad Debt WO	1345.01 - REDACTED - TERM	Bad Debt Writeoff	142.96	38,710.35
Credit Memo	12/31/2009	Bad Debt WO	0527.03 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	153.97	38,864.32
Credit Memo	12/31/2009	Bad Debt WO	0747.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	116.86	38,981.18
Credit Memo	12/31/2009	Bad Debt WO	1119.02 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	109.07	39,090.25
Credit Memo	12/31/2009	Bad debt WO	0616.01 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	107.31	39,197.56
Credit Memo	12/31/2009	Bad debt WO	1189.05 - REDACTED - TERM - COLLECT	Bad Debt Writeoff	102.65	39,300.21
General Journal	12/31/2009	Bad debt WO	Unknown & Bad Debt - NLP	2009 Bad Debt WO on Active customers over 90 days as of 12/31/09	20,464.13	59,764.34

Coronado Utilities, Inc.
Docket No. SW-04305A-09-0291

THOMAS J. BOURASSA
REBUTTAL TESTIMONY

March 22, 2010

Schedules

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Computation of Increase in Gross Revenue
 Requirements As Adjusted

Exhibit
 Rebuttal Schedule A-1
 Page 1
 Witness: Bourassa

Line

No.

1	Fair Value Rate Base	\$	3,531,741
2			
3	Adjusted Operating Income		144,957
4			
5	Current Rate of Return		4.10%
6			
7	Required Operating Income	\$	259,936
8			
9	Required Rate of Return on Fair Value Rate Base		7.36%
10			
11	Operating Income Deficiency	\$	114,979
12			
13	Gross Revenue Conversion Factor		1.4788
14			
15	Increase in Gross Revenue Revenue Requirement	\$	170,030
16			
17	Test Year Revenues	\$	868,903
18	Increase in Gross Revenue Revenue Requirement	\$	170,030
19	Proposed Revenue Requirement	\$	1,038,933
20	% Increase		19.57%

Customer Classification	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
26 Residential	\$ 693,176	\$ 829,724	136,548	19.70%
27 Commercial (Standard Rate)	60,805	72,782	11,977	19.70%
28 Commercial (Special Rate)	100,605	120,063	19,458	19.34%
29 Effluent Sales	11,122	14,829	3,707	33.33%
30 School	9,121	10,926	1,805	19.79%
31 Revenue Annualization	(20,660)	(24,730)	(4,070)	19.70%
32				
33 Subtotal	\$ 854,168	\$ 1,023,594	\$ 169,426	19.84%
34				
35 Other Wastewater Revenues	15,218	15,218	-	0.00%
36 Reconciling Amount H-1 to C-1	(483)	121	604	-125.05%
37				
38 Total of Water Revenues	\$ 868,903	\$ 1,038,933	\$ 170,030	19.57%

39
 40
 41
 42 SUPPORTING SCHEDULES:
 43 Rebuttal B-1
 44 Rebuttal C-1
 45 Rebuttal C-3
 46 Rebuttal H-1
 47

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Summary of Rate Base

Exhibit
 Rebuttal Schedule B-1
 Page 1
 Witness: Bourassa

Line No.	<u>Original Cost</u> <u>Rate base</u>	<u>Fair Value</u> <u>Rate Base</u>
1		
2	\$ 4,428,471	\$ 4,428,471
3	406,157	406,157
4		
5	\$ 4,022,314	\$ 4,022,314
6		
7	<u>Less:</u>	
8	Advances in Aid of	
9	Construction	-
10	Contributions in Aid of	
11	Construction	603,201
12	Accumulated Amortization of CIAC	(9,755)
13		
14	Customer Meter Deposits	19,809
15	Deferred Income Taxes & Credits	(39,744)
16		-
17		
18		
19	<u>Plus:</u>	
20	Unamortized Finance	
21	Charges	82,938
22	Deferred Regulatory Assets	-
23	Allowance for Working Capital	-
24		
25		
26	<u>\$ 3,531,741</u>	<u>\$ 3,531,741</u>
27		
28		
29		
30	<u>SUPPORTING SCHEDULES:</u>	
31	Rebuttal B-2	
32	Rebuttal B-3	
33	Rebuttal B-5	
34		
35		

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Rebuttal Schedule B-2
 Page 1
 Witness: Bourassa

Line No.		Actual at End of <u>Test Year</u>	Proforma Adjustments <u>Amount</u>	Adjusted at end of <u>Test Year</u>
1	Gross Utility			
2	Plant in Service	\$ 4,428,471	-	\$ 4,428,471
3				
4	Less:			
5	Accumulated			
6	Depreciation	398,932	7,225	406,157
7				
8				
9	Net Utility Plant			
10	in Service	\$ 4,029,539	\$ (7,225)	\$ 4,022,314
11				
12	Less:			
13	Advances in Aid of			
14	Construction	-	-	-
15				
16	Contributions in Aid of			
17	Construction (CIAC)	603,201	-	603,201
18				
19	Accumulated Amortization of CIAC	(9,755)	-	(9,755)
20				
21	Customer Meter Deposits	19,809	-	19,809
22	Deferred Income Taxes	(37,425)	(2,318)	(39,744)
23				
24				
25	Plus:			
26	Unamortized Finance			
27	Charges	82,938	-	82,938
28	Deferred Regulatory Assets	-	-	-
29	Allowance for Working Capital	-	-	-
30				
31	Total	\$ 3,536,648	\$ (4,906)	\$ 3,531,741

35 SUPPORTING SCHEDULES:
 36 Rebuttal B-2, pages 1-6

RECAP SCHEDULES:
 Rebuttal B-1

37
 38
 39
 40
 41
 42
 43
 44

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Rebuttal Schedule B-2
 Page 2
 Witness: Bourassa

Line No.	Description	1 Adjusted at end of Test Year	Proforma Adjustments			5 Rebuttal Adjusted at end of Test Year
			2 Plant Adjustments	3 Accum. Depr. C/IAC	4 Deferred Income Taxes	
1	Gross Utility	\$ 4,428,471				\$ 4,428,471
2	Plant in Service					
3	Less:					
4	Accumulated Depreciation	398,932	7,225			406,157
5	Net Utility Plant in Service	\$ 4,029,539	\$ (7,225)	\$ -	\$ -	\$ 4,022,314
6	Less:					
7	Advances in Aid of Construction	-				-
8	Contributions in Aid of Construction (CIAC)	603,201				603,201
9	Accumulated Amort of CIAC	(9,755)				(9,755)
10	Customer Meter Deposits	19,809				19,809
11	Deferred Income Taxes	(37,425)		(2,318)		(39,744)
12	Plus:					
13	Unamortized Finance Charges	82,938				82,938
14	Deferred Reg. Assets	-				-
15	Allowance for Working Capital	-				-
16	Total	\$ 3,536,648	\$ (7,225)	\$ -	\$ 2,318	\$ 3,531,741

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

RECAP SCHEDULES:
 Rebuttal B-1

Coronado Utilities, Inc.
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.1

Account No.	Description	Deprec. Rate	Plant At 12/31/2005	2005 Accum. Depr.	2006 Plant Additions	2006 Plant Adjustments	2006 Adjusted Plant Additions	2006 Plant Retirements	2006 Salvage A/D Only	2006 Plant Balance	2006 Deprac.
351	Organization	0.00%	-	-	5,194	-	5,194	-	-	5,194	-
352	Franchises	0.00%	-	-	-	-	-	-	-	-	-
353	Land	0.00%	-	-	249,999	-	249,999	-	-	249,999	-
354	Structures & Improvements	3.33%	-	-	-	-	-	-	-	-	-
355	Power Generation	5.00%	-	-	-	-	-	-	-	-	-
360	Collection Sewer Forced	2.00%	-	-	-	-	-	-	-	-	-
361	Collection Sewers Gravity	2.00%	-	-	-	-	-	-	-	-	-
362	Special Collecting Structures	2.00%	-	-	1,600	-	1,600	-	-	1,600	16
363	Customer Services	2.00%	-	-	-	-	-	-	-	-	-
364	Flow Measuring Devices	10.00%	-	-	-	-	-	-	-	-	-
365	Flow Measuring Installation	10.00%	-	-	-	-	-	-	-	-	-
366	Reuse Services	2.00%	-	-	-	-	-	-	-	-	-
367	Reuse Meters And Installation	8.33%	-	-	-	-	-	-	-	-	-
370	Receiving Wells	3.33%	-	-	-	-	-	-	-	-	-
371	Pumping Equipment	10.00%	-	-	-	-	-	-	-	-	-
374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-	-	-	-
375	Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-	-	-	-
380	Treatment & Disposal Equipment	5.00%	-	-	1,753,197	-	1,753,197	-	-	1,753,197	43,830
381	Plant Sewers	5.00%	-	-	-	-	-	-	-	-	-
382	Outfall Sewer Lines	4.00%	-	-	283,058	-	283,058	-	-	283,058	5,661
389	Other Sewer Plant & Equipment	6.67%	-	-	113,691	-	113,691	-	-	113,691	3,792
390	Office Furniture & Equipment	6.67%	-	-	-	-	-	-	-	-	-
390.1	Computers and Software	20.00%	-	-	-	-	-	-	-	-	-
391	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-	-
392	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-
393	Tools, Shop And Garage Equip	5.00%	-	-	-	-	-	-	-	-	-
394	Laboratory Equip	10.00%	-	-	-	-	-	-	-	-	-
396	Communication Equip	10.00%	-	-	52,423	-	52,423	-	-	52,423	1,048
398	Other Tangible Plant	4.00%	-	-	-	-	-	-	-	-	-

Plant Held for Future Use
TOTAL WASTEWATER PLANT

-	-	-	-	-	2,459,162	-	2,459,162	-	-	2,459,162	54,347
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Coronado Utilities, Inc.
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.2

Account No.	Description	Deprec. Rate	2007 Plant Additions	2007 Plant Adjustments	2007 Adjusted Plant Additions	2007 Plant Retirements	2007 Salvage/Adj. A/D Only	2007 Plant Balance	2007 Deprec.
351	Organization	0.00%						5,194	-
352	Franchises	0.00%						-	-
353	Land	0.00%		(9,959)	(9,959)		240,000	-	-
354	Structures & Improvements	3.33%	1,858		1,858		1,858	31	
355	Power Generation	5.00%							
360	Collection Sewer Forced	2.00%							
361	Collection Sewers Gravity	2.00%							
362	Special Collecting Structures	2.00%	59,350	(24)	59,350	(24)	59,350	594	
363	Customer Services	2.00%					1,576	32	
364	Flow Measuring Devices	10.00%							
365	Flow Measuring Installation	10.00%							
366	Reuse Services	2.00%							
367	Reuse Meters And Installation	8.33%							
370	Receiving Wells	3.35%							
371	Pumping Equipment	10.00%							
374	Reuse Distribution Reservoirs	2.50%							
375	Reuse Trans. and Dist. System	2.50%							
380	Treatment & Disposal Equipment	5.00%	1,437,019		1,437,019		3,190,216	123,585	
381	Plant Sewers	5.00%							
382	Outfall Sewer Lines	4.00%							
389	Other Sewer Plant & Equipment	6.67%	270,514		270,514		553,572	16,733	
390	Office Furniture & Equipment	6.67%	64,475		64,475		178,166	9,733	
390.1	Computers and Software	20.00%							
391	Transportation Equipment	20.00%							
392	Stores Equipment	4.00%							
393	Tools, Shop And Garage Equip	5.00%							
394	Laboratory Equip	10.00%							
396	Communication Equip	10.00%							
398	Other Tangible Plant	4.00%					52,423	2,097	
			1,833,216	(10,023)	1,823,193	-	4,282,355	152,804	

Plant Held for Future Use
TOTAL WASTEWATER PLANT

Coronado Utilities, Inc.
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.3

Account No.	Description	Deprec. Rate	2008 Plant Additions	2008 Plant Adjustments	2008 Adjusted Plant Additions	2008 Plant Retirements	2008 Salvage A/D Only	2008 Plant Balance	2008 Deprec.
351	Organization	0.00%						5,194	-
352	Franchises	0.00%						-	-
353	Land	0.00%	75,001		75,001			315,001	-
354	Structures & Improvements	3.33%						1,858	62
355	Power Generation	5.00%						-	-
360	Collection Sewer Forced	2.00%						-	-
361	Collection Sewers Gravity	2.00%						59,350	1,187
362	Special Collecting Structures	2.00%						1,576	32
363	Customer Services	2.00%						-	-
364	Flow Measuring Devices	10.00%						-	-
365	Flow Measuring Installation	10.00%						-	-
366	Reuse Services	2.00%						-	-
367	Reuse Meters And Installation	8.33%						-	-
370	Receiving Wells	3.33%	16,133		16,133			16,133	269
371	Pumping Equipment	10.00%	15,223		15,223			15,223	761
374	Reuse Distribution Reservoirs	2.50%						-	-
375	Reuse Trans. and Dist. System	2.50%						-	-
380	Treatment & Disposal Equipment	5.00%	53,159		53,159			3,243,375	160,840
381	Plant Sewers	5.00%						-	-
382	Outfall Sewer Lines	4.00%						-	-
389	Other Sewer Plant & Equipment	6.67%		(13,367)	(13,367)			540,205	21,876
390	Office Furniture & Equipment	6.67%		(31)	(31)			178,135	11,863
390.1	Computers and Software	20.00%						-	-
391	Transportation Equipment	20.00%						-	-
392	Stores Equipment	4.00%						-	-
393	Tools, Shop And Garage Equip	5.00%						-	-
394	Laboratory Equip	10.00%						-	-
396	Communication Equip	10.00%						-	-
398	Other Tangible Plant	4.00%						52,423	2,097
Plant Held for Future Use									
TOTAL WASTEWATER PLANT			159,515	(13,398)	146,117	-	-	4,428,472	199,005

**Year End Accumulated
Depreciation by Account**

Account No.	Description	Deprec. Rate	Year End Accumulated Depreciation by Account			
			2005	2006	2007	2008
351	Organization	0.00%	-	-	-	-
352	Franchises	0.00%	-	-	-	-
353	Land	0.00%	-	-	-	-
354	Structures & Improvements	3.33%	-	31	93	-
355	Power Generation	5.00%	-	-	-	-
360	Collection Sewer Forced	2.00%	-	-	-	-
361	Collection Sewers Gravity	2.00%	-	594	1,781	-
362	Special Collecting Structures	2.00%	16	48	79	-
363	Customer Services	2.00%	-	-	-	-
364	Flow Measuring Devices	10.00%	-	-	-	-
365	Flow Measuring Installation	10.00%	-	-	-	-
366	Reuse Services	2.00%	-	-	-	-
367	Reuse Meters And Installation	8.33%	-	-	-	-
370	Receiving Wells	3.33%	-	-	-	269
371	Pumping Equipment	10.00%	-	-	-	761
374	Reuse Distribution Reservoirs	2.50%	-	-	-	-
375	Reuse Trans. and Dist. System	2.50%	-	-	-	-
380	Treatment & Disposal Equipment	5.00%	-	43,830	167,415	328,255
381	Plant Sewers	5.00%	-	-	-	-
382	Outfall Sewer Lines	4.00%	-	5,661	22,394	44,269
389	Other Sewer Plant. & Equipment	6.67%	-	3,792	13,525	25,408
390	Office Furniture & Equipment	6.67%	-	-	-	-
390.1	Computers and Software	20.00%	-	-	-	-
391	Transportation Equipment	20.00%	-	-	-	-
392	Stores Equipment	4.00%	-	-	-	-
393	Tools, Shop And Garage Equip	5.00%	-	-	-	-
394	Laboratory Equip	10.00%	-	-	-	-
396	Communication Equip	10.00%	-	-	-	-
398	Other Tangible Plant	4.00%	-	1,048	3,145	5,242

Plant Held for Future Use
TOTAL WASTEWATER PLANT

-	-	54,347	207,152	406,157
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Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Original Cost Rate Base Proforma Adjustments
 Adjustment 3

Exhibit
 Rebuttal Schedule B-2
 Page 5
 Witness: Bourassa

Line No.		<u>CIAC</u>	<u>Rate</u>	<u>Amortization</u>	<u>Accumulated Amortization</u>
1	<u>CIAC and Accumulated Amortization</u>				
2					
3	Balance at 12/31/2005	\$ -			-
4					-
5	Jan-Dec Amortization		0.000%	-	-
6	2006 Land Additions	\$ 240,000	0.000%	-	-
7	2006 Additions - Outfall Sewer Lines	55,676	1.665%	927	927
8					927
9	Balance at 12/31/2006	\$ 295,676			927
10					
11	Jan-Dec Amortization Land	\$ 240,000	0.000%	-	927
12	Jan-Dec Amortization- Outfall Sewer Lines	\$ 55,676	3.330%	1,854	2,781
13	2007 Additions - Outfall Sewer Lines	307,525	1.665%	5,120	7,901
14					7,901
15	Balance at 12/31/2007	\$ 603,201			7,901
16	Jan-Dec Amortization Land	\$ 240,000	0.00%		7,901
17	Jan-Dec Amortization- Outfall Sewer Lines	\$ 55,676	3.330%	1,854	9,755
18	2008 Additions - Outfall Sewer Lines	-	1.665%	-	9,755
19					9,755
20					9,755
21	Balance at 12/31/2008	<u>\$ 603,201</u>			9,755
22					
23					
24					
25	Computed balance at 12/31/2008	\$ 603,201			\$ 9,755
26					
27	Balance per Direct	<u>\$ 603,201</u>			<u>\$ 9,755</u>
28					
29	Increase (decrease)	\$ -			\$ -
30					
31					
32	Adjustment to CIAC	<u>\$ -</u>			<u>\$ -</u>
33	Label	3a			3b
34					
35					

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Original Cost Rate Base Proforma Adjustments
 Adjustment 4

Line No.	Deferred Income Tax as of December 31, 2008	Adjusted Book Value ¹	Tax Value	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Tax Rate	Future Tax Asset	Future Tax Liability
							Current	Non Current
1		\$ 4,428,471						
2		(406,157)						
3		(593,446)						
4								
5								
6	Plant-in-Service	\$ 4,428,471						
7	Accum. Deprec.	(406,157)						
8	CIAC	(593,446)						
9	Fixed Assets	\$ 3,428,869	3,551,621	100.0%	\$ 122,752	32.4%		\$ 39,744
10	AIAC	\$ -	-	100.0%	-	32.4%	\$ -	\$ -
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
21								
22								
23								
24								

Net Asset (Liability) per Rebuttal \$ 39,744
 Net Asset (Liability) per Direct \$ 37,425
 Adjustment to DIT \$ 2,318

¹ Adjusted per Rebuttal B-2

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Computation of Working Capital

Exhibit
 Rebuttal Schedule B-5
 Page 1
 Witness: Bourassa

Line			
<u>No.</u>			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	53,962
3	Pumping Power (1/24 of Pumping Power)		2,259
4	Purchased Water (1/24 of Purchased Water)		-
5	Prepays		790
6	Materials & Supplies		-
7			
8			
9	Total Working Capital Allowance	<u>\$</u>	<u>57,011</u>
10			
11			
12	Working Capital Requested	<u>\$</u>	<u>-</u>
13			
14			
15	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>	
16	Rebuttal C-1	Rebuttal B-1	
17			
18			
19	Total Operating Expense	\$	723,946
20	Less:		
21	Income Tax		(5,174)
22	Property Tax		57,109
23	Depreciation		186,095
24	Purchased Water		-
25	Pumping Power		54,218
26	Allowable Expenses	<u>\$</u>	<u>431,698</u>
27	1/8 of allowable expenses	<u>\$</u>	<u>53,962</u>
28			

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Income Statement

Exhibit
 Rebuttal Schedule C-1
 Page 1
 Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjustment	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	Revenues					
2	Flat Rate Revenues	\$ 710,657	\$ (14,627)	\$ 696,030	\$ 170,030	\$ 866,060
3	Measured Revenues	157,655	-	157,655	-	157,655
4	Other Wastewater Revenues	15,218	-	15,218	-	15,218
5		<u>\$ 883,530</u>	<u>\$ (14,627)</u>	<u>\$ 868,903</u>	<u>\$ 170,030</u>	<u>\$ 1,038,933</u>
6	Operating Expenses					
7	Salaries and Wages	\$ 52,500	-	\$ 52,500	-	\$ 52,500
8	Purchased Wastewater Treatment	-	-	-	-	-
9	Sludge Removal Expense	-	-	-	-	-
10	Purchased Power	54,218	-	54,218	-	54,218
11	Fuel for Power Production	-	-	-	-	-
12	Chemicals	27,790	-	27,790	-	27,790
13	Materials and Supplies	2,978	-	2,978	-	2,978
14	Contractual Services	141,386	-	141,386	-	141,386
15	Contractual Services- Testing	3,676	-	3,676	-	3,676
16	Contractual Services - Other	41,341	-	41,341	-	41,341
17	Equipment Rental	-	-	-	-	-
18	Rents - Building	-	-	-	-	-
19	Transportation Expenses	209	-	209	-	209
20	Insurance - General Liability	11,066	-	11,066	-	11,066
21	Insurance - Other	-	-	-	-	-
22	Regulatory Expenses	3,505	-	3,505	-	3,505
23	Regulatory Commission Expense	58,333	-	58,333	-	58,333
24	Miscellaneous Expense	37,081	-	37,081	-	37,081
25	Bad Debt Expense	46,313	-	46,313	-	46,313
26	Depreciation and Amortization	186,095	-	186,095	-	186,095
27	Taxes Other Than Income	5,521	-	5,521	-	5,521
28	Property Taxes	57,733	(624)	57,109	-	57,109
29	Income Tax	(711)	(4,463)	(5,174)	55,051	49,876
30		-	-	-	-	-
31	Total Operating Expenses	<u>\$ 729,033</u>	<u>\$ (5,087)</u>	<u>\$ 723,946</u>	<u>\$ 55,051</u>	<u>\$ 778,997</u>
32	Operating Income	<u>\$ 154,497</u>	<u>\$ (9,540)</u>	<u>\$ 144,957</u>	<u>\$ 114,979</u>	<u>\$ 259,936</u>
33	Other Income (Expense)					
34	Interest Income	-	-	-	-	-
35	Other income	-	-	-	-	-
36	Interest Expense	(155,981)	216	(155,765)	-	(155,765)
37	Other Expense	-	-	-	-	-
38		-	-	-	-	-
39	Total Other Income (Expense)	<u>\$ (155,981)</u>	<u>\$ 216</u>	<u>\$ (155,765)</u>	<u>\$ -</u>	<u>\$ (155,765)</u>
40	Net Profit (Loss)	<u>\$ (1,484)</u>	<u>\$ (9,323)</u>	<u>\$ (10,807)</u>	<u>\$ 114,979</u>	<u>\$ 104,171</u>

41
 42 SUPPORTING SCHEDULES:
 43 Rebuttal C-2
 44
 45

RECAP SCHEDULES:
 Rebuttal A-1

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Income Statement

Exhibit
 Rebuttal Schedule C-1
 Page 2
 Witness: Bourassa

Line No.	Label	1	2	3	4	5	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	Revenues								
2	Fiat Rate Revenues	\$ 710,657		\$ (14,627)			\$ 696,030	\$ 170,030	\$ 866,060
3	Measured Revenues	157,655					157,655		157,655
4	Other Wastewater Revenues	15,218					15,218		15,218
5		\$ 883,530	\$ -	\$ (14,627)	\$ -	\$ -	\$ 868,903	\$ 170,030	\$ 1,038,933
6	Operating Expenses								
7	Salaries and Wages	\$ 52,500					\$ 52,500		\$ 52,500
8	Purchased Wastewater Treatment	-					-		-
9	Sludge Removal Expense	-					-		-
10	Purchased Power	54,218					54,218		54,218
11	Fuel for Power Production	-					-		-
12	Chemicals	27,790					27,790		27,790
13	Materials and Supplies	2,978					2,978		2,978
14	Contractual Services	141,386					141,386		141,386
15	Contractual Services- Testing	3,676					3,676		3,676
16	Contractual Services - Other	41,341					41,341		41,341
17	Equipment Rental	-					-		-
18	Rents - Building	-					-		-
19	Transportation Expenses	209					209		209
20	Insurance - General Liability	11,066					11,066		11,066
21	Insurance - Other	-					-		-
22	Regulatory Expenses	3,505					3,505		3,505
23	Regulatory Commission Expense	58,333					58,333		58,333
24	Miscellaneous Expense	37,081					37,081		37,081
25	Bad Debt Expense	46,313					46,313		46,313
26	Depreciation and Amortization	186,095					186,095		186,095
27	Taxes Other Than Income	5,521					5,521		5,521
28	Property Taxes	57,733	(624)				57,109	55,051	57,109
29	Income Tax	(711)				(4,463)	(5,174)		49,876
30									
31	Total Operating Expenses	\$ 729,033	\$ (624)	\$ -	\$ -	\$ (4,463)	\$ 723,946	\$ 55,051	\$ 778,997
32	Operating Income	\$ 154,497	\$ 624	\$ (14,627)	\$ -	\$ 4,463	\$ 144,957	\$ 114,979	\$ 259,936
33	Other Income (Expense)								
34	Interest Income	-					-		-
35	Other Income	-					-		-
36	Interest Expense	(155,981)			216		(155,765)		(155,765)
37	Other Expense	-					-		-
38									
39	Total Other Income (Expense)	\$ (155,981)	\$ -	\$ -	\$ 216	\$ -	\$ (155,765)	\$ -	\$ (155,765)
40	Net Profit (Loss)	\$ (1,484)	\$ 624	\$ (14,627)	\$ 216	\$ 4,463	\$ (10,807)	\$ 114,979	\$ 104,171
41									
42									
43									
44									
45									

RECAP SCHEDULES:
 Rebuttal C-1, page 1

SUPPORTING SCHEDULES:
 Rebuttal C-2

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Adjustments to Revenues and Expenses

Exhibit
 Rebuttal Schedule C-2
 Page 1
 Witness: Bourassa

Line No.	1	2	3	4	5	6	Subtotal
	Depreciation Expense	Property Taxes	Revenue Annualization	Interest Synchronization	Income Taxes		
1	-						
2		(624)					
3			(14,627)				(14,627)
4							
5					(4,463)		(5,087)
6							
7							
8		624	(14,627)		4,463		(9,540)
9							
10							
11				216			216
12							
13							
14							
15							
16		624	(14,627)	216	4,463		(9,323)
17							

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Adjustments to Revenues and Expenses
 Adjustment Number 1

Exhibit
 Rebuttal Schedule C-2
 Page 2
 Witness: Bourassa

Line No.	Acct.	Adjusted Original	Proposed Rates	Depreciation Expense
1	<u>Depreciation Expense</u>			
2				
3				
4	<u>No. Description</u>	<u>Cost</u>	<u>Rates</u>	<u>Expense</u>
5	351 Organization	5,194	0.00%	-
6	352 Franchises	-	0.00%	-
7	353 Land	315,001	0.00%	-
8	354 Structures & Improvements	1,858	3.33%	62
9	355 Power Generation	-	5.00%	-
10	360 Collection Sewer Forced	-	2.00%	-
11	361 Collection Sewers Gravity	59,350	2.00%	1,187
12	362 Special Collecting Structures	1,576	2.00%	32
13	363 Customer Services	-	2.00%	-
14	364 Flow Measuring Devices	-	10.00%	-
15	365 Flow Measuring Installation	-	10.00%	-
16	366 Reuse Services	-	2.00%	-
17	367 Reuse Meters And Installation	-	8.33%	-
18	370 Receiving Wells	16,133	3.33%	537
19	371 Pumping Equipment	15,223	12.50%	1,903
20	374 Reuse Distribution Reservoirs	-	2.50%	-
21	375 Reuse Trans. and Dist. System	-	2.50%	-
22	380 Treatment & Disposal Equipment	3,243,375	5.00%	162,169
23	381 Plant Sewers	-	5.00%	-
24	382 Outfall Sewer Lines	540,205	3.33%	17,989
25	389 Other Sewer Plant & Equipment	178,135	6.67%	11,882
26	390 Office Furniture & Equipment	-	6.67%	-
27	390.1 Computers and Software	-	20.00%	-
28	391 Transportation Equipment	-	20.00%	-
29	392 Stores Equipment	-	4.00%	-
30	393 Tools, Shop And Garage Equip	-	5.00%	-
31	394 Laboratory Equip	-	10.00%	-
32	396 Communication Equip	-	10.00%	-
33	398 Other Tangible Plant	52,423	4.00%	2,097
34	TOTALS	<u>\$ 4,428,472</u>		<u>\$ 197,857</u>
35				
36	Less: Amortization of Contributions			
37	353 Land	\$ 250,000	0.0000%	\$ -
38	382 Outfall Sewer Lines	\$ 353,201	3.3300%	\$ (11,762)
39		<u>\$ 603,201</u>		<u>\$ (11,762)</u>
40				
41	Total Depreciation Expense			\$ 186,095
42				
43	Test Year Depreciation Expense			<u>186,095</u>
44				
45	Increase (decrease) in Depreciation Expense			<u>-</u>
46				
47	Adjustment to Revenues and/or Expenses			<u>\$ -</u>
48				
49	<u>SUPPORTING SCHEDULE</u>			
50	B-2, page 3			

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 2

Exhibit
Rebuttal Schedule C-2
Page 3
Witness: Bourassa

Line
No.

1	<u>Adjust Property Taxes to Reflect Proposed Revenues:</u>	
2		
3	Adjusted Revenues in year ended 12/31/2008	\$ 868,903
4	Adjusted Revenues in year ended 12/31/2008	868,903
5	Proposed Revenues	<u>1,038,933</u>
6	Average of three year's of revenue	\$ 925,580
7	Average of three year's of revenue, times 2	\$ 1,851,160
8	Add:	
9	Construction Work in Progress at 10%	\$ -
10	Deduct:	
11	Book Value of Transportation Equipment	<u>-</u>
12		
13	Full Cash Value	\$ 1,851,160
14	Assessment Ratio	<u>21%</u>
15	Assessed Value	388,744
16	Property Tax Rate	14.6906%
17		
18	Property Tax	57,109
19	Tax on Parcels	0
20		
21	Total Property Tax at Proposed Rates	\$ 57,109
22	Property taxes in the test year	<u>57,733</u>
23	Change in property taxes	<u>\$ (624)</u>
24		
25		
26	Adjustment to Revenues and/or Expenses	<u>\$ (624)</u>
27		
28		

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 3

Exhibit
Rebuttal Schedule C-2
Page 4
Witness: Bourassa

Line

No.

1	<u>Remove Revenues from loss of major customer</u>	
2		
3		
4	San Miguel Highland Mobile Home park	(14,627)
5		
6		
7	Increase(decrease) in Revenues	\$ (14,627)
8		
9	Adjustment to Revenue and/or Expense	<u>\$ (14,627)</u>
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Adjustment to Revenues and Expenses
 Adjustment Number 4

Exhibit
 Rebuttal Schedule C-2
 Page 5
 Witness: Bourassa

Line
No.

1	<u>Interest Synchronization</u>				
2					
3					
4	Fair Value Rate Base			\$3,531,741	
5	Weighted Cost of Debt			4.41%	
6	Interest Expense			\$	155,765
7					
8	Test Year Interest Expense			\$	<u>155,981</u>
9					
10	Increase (decrease) in Interest Expense				(216)
11					
12					
13					
14	Adjustment to Revenue and/or Expense			\$	<u>216</u>
15					
16					
17	<u>Weighted Cost of Debt Computation</u>				
18					Weighted
19		<u>Amount</u>	<u>Percent</u>	<u>Cost</u>	<u>Cost</u>
20	Debt	\$ 2,575,000	70.57%	6.25%	4.41%
21	Preferred Stock	\$ 570,000	15.62%	6.50%	1.02%
22	Common Stock	\$ 504,024	13.81%	14.00%	1.93%
23	Total	\$ 3,649,024	100.00%		<u>7.36%</u>
24					
25					
26					
27					

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Adjustment to Revenues and/or Expenses
 Adjustment Number 5

Exhibit
 Rebuttal Schedule C-2
 Page 6
 Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjusted with Rate Increase
1	<u>Income Tax Computation</u>		
2			
3			
4			
5			
6			
7	Taxable Income before Scottsdale Operating Lease	\$ (15,982)	\$ 154,048
8	Plus: Scottsdale Operating Lease	-	-
9	Taxable Income	<u>\$ (15,982)</u>	<u>\$ 154,048</u>
10			
11			
12			
13	Income Before Taxes	<u>\$ (15,982)</u>	<u>\$ 154,048</u>
14			
15	Arizona Income Before Taxes		\$ 154,048
16			
17	Less Arizona Income Tax		<u>\$ 10,734</u>
18	Rate = 6.97%		
19	Arizona Taxable Income		\$ 143,314
20			
21	Arizona Income Taxes		\$ 10,734
22			
23	Federal Income Before Taxes		\$ 154,048
24			
25	Less Arizona Income Taxes		<u>\$ 10,734</u>
26			
27	Federal Taxable Income		<u>\$ 143,314</u>
28			
29			
30			
31	FEDERAL INCOME TAXES:		
32	15% BRACKET		\$ 7,500
33	25% BRACKET		\$ 6,250
34	34% BRACKET		\$ 8,500 Federal
35	39% BRACKET		\$ 16,892 Effective
36	34% BRACKET		\$ - Tax
37			Rate
38	Federal Income Taxes		<u>\$ 39,142</u> 25.41%
39			
40			
41	Total Income Tax		<u>\$ 49,876</u>
42			
43	Overall Tax Rate		<u>32.38%</u>
44			
45	Income Tax at Proposed Rates Effective Rate	<u>\$ (5,174)</u>	
46			

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Computation of Gross Revenue Conversion Factor

Exhibit
 Rebuttal Schedule C-3
 Page 1
 Witness: Bourassa

Line No.	<u>Description</u>	Percentage of Incremental Gross <u>Revenues</u>
1	Federal Income Taxes	25.41%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	<u>0.00%</u>
6		
7		
8	Total Tax Percentage	32.38%
9		
10	Operating income % = 100% - Tax Percentage	67.62%
11		
12		
13		
14		
15	<u>1</u> = Gross Revenue Conversion Factor	
16	Operating Income %	1.4788
17		
18	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
19		Rebuttal A-1
20		

Line No.	Description of Debt	End of Test Year			End of Projected Year			Weighted Cost
		Amount Outstanding	Annual Interest	Interest Rate	Amount Outstanding	Annual Interest	Interest Rate	
1	Pinal County IDA Bonds	2,575,000	160,938	6.25%	2,495,000	155,938	6.25%	
2			-	0.00%		-	0.00%	
3								
4								
5								
6								
7								
8								
9								
10								
11								
12								
13	Totals	<u>\$2,575,000</u>	<u>\$ 160,938</u>		<u>\$ 2,495,000</u>	<u>\$ 155,938</u>	<u>6.25%</u>	
14							<u>0.00%</u>	
15								
16								
17								
18								
19								
20								

SUPPORTING SCHEDULES:
 RECAP SCHEDULES:
 Rebuttal D-1

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Cost of Preferred Stock

Exhibit
Rebuttal Schedule D-3
Page 1
Witness: Bourassa

Line <u>No.</u>	Description of Issue	<u>End of Test Year</u>			<u>End of Projected Year</u>		
		Shares Outstanding	Amount	Dividend Requirement	Shares Outstanding	Amount	Dividend Requirement
1							
2							
3							
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12							
13							
14							
15							
16							
17	<u>SUPPORTING SCHEDULES:</u>				<u>RECAP SCHEDULES:</u>		
18					Rebuttal D-1		
19							
20							

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Cost of Common Equity

Exhibit
Rebuttal Schedule D-4
Page 1
Witness: Bourassa

Line

No.

1

2

The Company is proposing a cost of common equity of 14.00%

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SUPPORTING SCHEDULES:

Direct D-4.1 to D-4.16

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RECAP SCHEDULES:

Rebuttal D-1

Line No.	Customer Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Wastewater Revenues	Percent of Proposed Wastewater Revenues
1	Residential	\$ 693,176	\$ 829,724	\$ 136,548	19.70%	79.24%	79.15%
2	Commercial	60,805	72,782	11,977	19.70%	6.95%	6.94%
3	Mobile Home	100,605	120,063	19,458	19.34%	11.50%	11.45%
4	School	9,121	10,926	1,805	19.79%	1.04%	1.04%
5							
6	Effluent	11,122	14,829	3,707	33.33%	1.27%	1.41%
7							
8							
9							
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11							
12							
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14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28	Total Revenues Before Annualizatio	\$ 874,828	\$ 1,048,324	\$ 173,496	19.83%	100.00%	100.00%
29							

Coronado Utilities, Inc
 Test Year Ended December 31, 2001
 Revenue Summar
 With Annualized Revenues to Year End Number of Customers

Line No.	Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Additional Bills	Schedule
1							
2							
3							
4							
5	Residential	(2,372)	(2,839)	(467)	19.70%		(51) C-2, pg. 3.1
6	Commercial	(3,661)	(4,382)	(721)	19.70%		(45) C-2, pg. 3.2
7	Mobile Home	(14,627)	(17,509)	(2,882)	19.70%		(2) C-2, pg. 3.2
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9							
10							
11							
12							
13							
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30							
31							
32							
33	Total Revenue Annualization	\$ (20,660)	\$ (24,730)	\$ (4,070)	0.00%		(98)
34							

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Revenue Summary
 With Annualized Revenues to Year End Number of Customers

Line No.	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1						
2						
3	\$ 874,828	\$ 1,048,324	\$ 173,496	19.83%	100.00%	100.00%
4	(20,660)	(24,730)	(4,070)	19.70%	-2.36%	-2.36%
5	\$ 854,168	\$ 1,023,594	\$ 169,426	19.84%		
6						
7	\$ 15,218	\$ 15,218	-	0.00%	1.74%	1.45%
8	(483)	121	604	-125.05%	-0.06%	0.01%
9	\$ 868,903	\$ 1,038,933	\$ 170,030	19.57%	0.00%	0.00%
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Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Customer Summary

Exhibit
 Rebuttal Schedule H-2
 Page 1
 Witness: Bourassa

Line No.	Customer Class	(a) Average Number of Customers at 12/31/2008	Average Consumption (in 1,000 gals)	Average Bill Present Rates	Average Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	Residential	1,242	-	46.50 \$	55.66	9.16	19.70%
2	Commercial	62	1,500	22.20	26.58	4.38	19.71%
3	Mobile Home	108	1,233,600	7,039.02	8,422.13	1,383.11	19.65%
4	School	4	58,463	152.67	182.89	30.22	19.79%
6	Effluent	1	6,178,667	954.98	1,273.30	318.33	33.33%
24	Total	<u>1,417</u>					

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

Line No.	Customer Class	(a) Average Number of Customers at 12/31/2008	Median Consumption (in 1,000 gals)	Median Bill		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	Residential	1,242	-	\$ 46.50	\$ 55.66	9.16	19.70%
2	Commercial	62	1,500	22.20	26.58	4.38	19.71%
3	Mobile Home	108	1,233.600	7,039.02	8,422.13	1,383.11	19.65%
4	School	4	46,500	152.67	182.89	30.22	19.79%
5							
6	Effluent	1	6,366.500	954.98	1,273.30	318.33	33.33%
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14							
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16							
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18							
19							
20							
21							
22							
23							
24	Total	<u>1,417</u>					
25							
26							
27							

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

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Present and Proposed Rates

Exhibit
 Rebuttal Schedule H-3
 Page 1
 Witness: Bourassa

Line No.	Monthly Minimum Charge for:	Present Rates	Proposed Rates	Change	Percent Change
1	Residential	\$ 46.50	\$ 55.66	\$ 9.16	19.70%
2	Commercial	\$ 7.50	\$ 8.98	\$ 1.48	19.73%
3	Mobile Home Park – Winter Months Only	\$ 7.50	N/A		
4	Mobile Home Park – Summer Months Only per occupied space	\$ 31.86	N/A		
5	Mobile Home Park – monthly per occupied space year-round	\$ N/A	\$ 38.78		
6	School	\$ 7.50	\$ 8.98	\$ 1.48	19.73%

(Per 100 gallons of water usage)

Line No.	Volumetric Rates	Present Rate	Proposed Rate	Change	Percent Change
17	Commercial	\$ 0.98	\$ 1.173		19.69%
18	Mobile Home Park - Winter Only	\$ 0.57	N/A		
19	School	\$ 0.31	\$ 0.374		19.80%
20	Effluent				
21	Effluent (per 1,000 gallons)	\$ 0.15	\$ 0.20		33.33%
22	Effluent (per acre foot)	\$ 48.88	\$ 65.17		33.33%

NT = No Tariff

- 23
- 24
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Coronado Utilities, Inc.
 Changes in Representative Rate Schedules
 Test Year Ended December 31, 2008

Exhibit
 Rebuttal Schedule H-3
 Page 2
 Witness: Bourassa

Line No.	<u>Other Service Charges</u>	Present <u>Rates</u>	Proposed <u>Rates</u>
1	Establishment of service	\$ 25.00	\$ 25.00
2	Reconnection (Delinquent)(a)	\$ 35.00	\$ 35.00
3	Deposit	*	*
4	Deposit Interest	**	**
5	Re-establishment of service	***	***
6	NSF Check	\$ 25.00	\$ 25.00
7	Late Payment Penalty	1.5% per month	1.5% per month
8	Deferred Payment	1.5% per month	1.5% per month
9	Main extension and additional facilities agreements (b)	Cost	Cost
10	Service Calls (after hours, per hour)	NT	\$40.00

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* Per Commission Rule A.A.C. R-14-2-603(B). Residential: Min. deposit two times average monthly bill.
 Non-residential - 2 and one-half time the estimated maximum bill.
 ** Per Commission Rule A.A.C. R-14-2-603(B)
 *** Per Commission Rule A.A.C. R14-2-603(D) - Months off the system times the monthly minimum.

(a) Plus cost of physical disconnection and reconnection including parts, labor overhead,
 and all applicable taxes, including income tax.
 (b) Cost includes parts, labor overhead, and all applicable taxes, including income tax.

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

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Service Line Installation Charges

Exhibit
Rebuttal Schedule H-3
Page 3
Witness: Bourassa

Line
No.

1
2 Service Line Installation Charges

3

4

5

6

7

8 Service Line Size

Present
Charge(a)

Proposed
Charge(a)

9 4 Inch

At Cost

At Cost

10 6 Inch

At Cost

At Cost

11 8 Inch

At Cost

At Cost

12 10 Inch

At Cost

At Cost

13 12 Inch

At Cost

At Cost

14

15

16

17

18

19 (a) Cost includes parts, labor overhead, and all applicable taxes, including income tax.

20

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32 N/T = No Tariff

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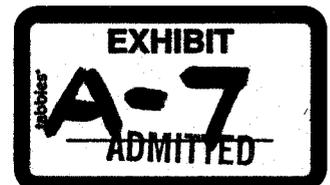
1 FENNEMORE CRAIG, P.C.
Jay L. Shapiro (No. 014650)
2 3003 N. Central Ave.
Suite 2600
3 Phoenix, Arizona 85012
Attorneys for Coronado Utilities, Inc.
4

5 **BEFORE THE ARIZONA CORPORATION COMMISSION**

6
7 IN THE MATTER OF THE APPLICATION | DOCKET NO: SW-04305A-09-0291
8 OF CORONADO UTILITIES, INC. FOR A
9 DETERMINATION OF THE FAIR VALUE
10 OF ITS UTILITY PLANT AND PROPERTY
AND FOR INCREASES IN ITS RATES
AND CHARGES FOR UTILITY SERVICE
BASED THEREON.
11

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16 **REJOINDER TESTIMONY OF**
17 **THOMAS J. BOURASSA**

18
19 **MAY 3, 2010**
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II. SUMMARY OF CORONADO'S REJOINDER POSITION..... 1

III. RATE BASE 2

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V. RATE DESIGN..... 9

2306251.3

1 **I. INTRODUCTION AND QUALIFICATIONS.**

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

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

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

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

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

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

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

16 A. I will provide rejoinder testimony in response to the surrebuttal filing by Staff.
17 Again, as with rebuttal, because Staff has accepted the Company's recommended
18 weighted average cost of capital of 7.36 percent,¹ I have again not filed a separate
19 volume of my testimony regarding cost of capital.

20 **II. SUMMARY OF CORONADO'S REJOINDER POSITION**

21 **Q. WHAT REVENUE INCREASE IS THE COMPANY PROPOSING IN THIS**
22 **REJOINDER TESTIMONY?**

23 A. Coronado is proposing a total revenue requirement of \$1,038,933, constituting an
24 increase in revenues of \$170,030, or 19.57 percent over adjusted test year revenues.
25

26 ¹ Direct Testimony of Gary T. McMurry ("McMurry Dt.") at 23.

1 Q. HOW DOES THIS COMPARE WITH THE COMPANY'S REBUTTAL
2 FILING?

3 A. The proposed revenue requirement and revenue increase is the same as that
4 proposed by the Company in its rebuttal filing.

5 Q. WHAT ARE THE PROPOSED REVENUE REQUIREMENTS AND RATE
6 INCREASES FOR THE COMPANY AND STAFF AT THIS STAGE OF
7 THE PROCEEDING?

8 A. The proposed revenue requirements and proposed rate increases are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Increase</u>	<u>% Increase</u>
10 Staff Surrebuttal	\$1,001,960	\$133,056	15.31%
11 Company Rejoinder	\$1,038,933	\$170,030	19.57%

12 **III. RATE BASE**

13 Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE
14 BASE RECOMMENDATIONS?

15 A. Yes, the rate bases proposed by the parties proposing a rate base in the case, the
16 Company and Staff are as follows:

	<u>OCRB</u>	<u>FVRB</u>
18 Staff Surrebuttal	\$ 3,531,142	\$ 3,531,142
19 Company Rebuttal	\$ 3,531,741	\$ 3,531,741

20 The Company's proposed rate base has not changed from the rebuttal filing.

21 Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED
22 ORIGINAL COST RATE BASE AND IDENTIFY ANY ADJUSTMENTS
23 YOU HAVE ACCEPTED FROM STAFF?

24 A. The Company's rejoinder rate base adjustments to OCRB are detailed on Rejoinder
25 Schedules B-2, pages 3 through 6. The Company is not proposing any additional
26 adjustments nor has it changed and/or revised its proposed rebuttal adjustments

1 which are described in detail in my rebuttal testimony.² Rejoinder Schedule B-2,
2 pages 1 and 2, summarize the Company's proposed adjustments and the rejoinder
3 OCRB at this stage of the proceeding. With respect to plant-in-service, Coronado
4 has not proposed any changes to plant-in-service and the parties are in agreement
5 on the balance of \$4,428,471.³

6 **Q. ARE THE COMPANY AND STAFF NOW IN AGREEMENT WITH**
7 **RESPECT TO THE ACCUMULATED DEPRECIATION BALANCE?**

8 A. Yes. The Company proposes an A/D balance of \$406,157. Staff proposes an A/D
9 balance of \$406,157.⁴ Staff has acknowledged that the \$921 difference mentioned
10 in the rebuttal testimony was due to an error and has corrected it.⁵

11 **Q. DO THE COMPANY AND STAFF AGREE WITH RESPECT TO THE**
12 **AIAC AND CIAC BALANCES?**

13 A. Yes.⁶ Both the Company and Staff propose an AIAC balance of \$0, a gross CIAC
14 balance of \$603,201, and an accumulated amortization of CIAC balance of
15 \$9,755.⁷

16 **Q. DO THE COMPANY AND STAFF AGREE WITH RESPECT TO THE**
17 **DEFERRED INCOME TAXES?**

18 A. Yes.⁸ Both the Company and Staff propose a DIT balance of \$ 39,744.⁹

20 _____
21 ² See Rebuttal Testimony of Thomas J. Bourassa ("Bourassa Rb.") at 3 – 6.

22 ³ Compare Company Rebuttal Schedule B-2, page 1, line 2 with Staff Schedule GTM-1, 3, line 1, column C.

23 ⁴ See Staff Surrebuttal Schedule GTM-3, line 2, column C.

24 ⁵ See Surrebuttal Testimony of Gary T. McMurry ("McMurry Sb.") at 6 – 7.

25 ⁶ Compare Company Rejoinder Schedule B-2, page 2 with Staff Surrebuttal Schedule GTM-3.

26 ⁷ Id.

⁸ McMurry Sb. at 7.

⁹ Compare Company Rejoinder Schedule B-2, page 2 with Staff Surrebuttal Schedule GTM-3.

1 **IV. INCOME STATEMENT**

2 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
3 **ADJUSTMENTS TO REVENUES AND EXPENSES AND IDENTIFY ANY**
4 **ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF?**

5 A. The Company adjustments are detailed on Rejoinder Schedule C-2, pages 1-6. The
6 rejoinder income statement with adjustments is summarized on Rejoinder Schedule
7 C-1, page 1-2. The Company is not proposing any additional adjustments nor has
8 it changed and/or revised its proposed rebuttal revenue and expense adjustments
9 which are described in detail in my rebuttal testimony.¹⁰

10 **Q. IS STAFF IN AGREEMENT WITH THE COMPANY REGARDING THE**
11 **REVENUE ANNUALIZATION FOR THE MOBILE HOME PARK**
12 **CUSTOMER CLASS?**

13 A. Yes. Staff agrees with the Company's proposed additional downward adjustment
14 to the mobile home park revenues of \$14,627 to reflect the closure of the San
15 Miguel Highlands Mobile Home Park.¹¹

16 **Q. PLEASE DISCUSS THE REMAINING ISSUES BETWEEN THE PARTIES.**

17 A. There are two remaining revenue and expense issues in this case. The first relates
18 to bad debt expense. The second remaining issue relates to depreciation expense.

19 **Q. PLEASE EXPLAIN THE DISAGREEMENT BETWEEN THE PARTIES**
20 **WITH RESPECT TO BAD DEBT EXPENSE.**

21 A. Staff continues to propose to normalize bad debt expense by using a three year
22 historical average of bad debt expense; whereas Coronado continues to propose
23 using the test year level of bad debt expense. The difference is nearly \$28,000
24 annually. First, proper ratemaking requires that the test year be presumed normal.

25 ¹⁰ See Bourassa Rb. at 6 – 7.

26 ¹¹ McMurry Sb. at 8.

1 Second, the historical data Staff relies on to question the test year is not
2 representative of “normal” conditions, as both Mr. Williamson and I have already
3 testified.¹² Therefore, Staff has failed to provide a basis for rejecting the test year.

4 **Q. PLEASE RESPOND TO STAFF’S CRITICISM ON PAGE 9 THAT THE**
5 **COMPANY HAS NOT BEEN AGGRESSIVE ENOUGH IN COLLECTING**
6 **BAD DEBT. IN PARTICULAR, THAT THE COMPANY DOES NOT**
7 **REPORT DELINQUENT ACCOUNTS TO CREDIT AGENCIES.**

8 A. Measuring success in reducing the level of delinquent accounts is always
9 dependent on the circumstances. The Company employs the tools at its disposal
10 for collecting bad debt and those have varying degrees of effectiveness. A more or
11 less aggressive collection policy will not necessarily improve results particularly
12 when, as in the Company’s circumstances, customers are unable and/or unwilling
13 to pay and do not care much about their credit rating. The Company does assign
14 delinquent accounts to a collection agency. In my experience, it is the collection
15 agency that, when appropriate, will report a delinquent customer to the credit
16 reporting agencies. This gives the collection agency some flexibility when dealing
17 with debtors. In many cases, the debtor simply doesn’t care whether he/she is
18 reported to credit reporting agencies. In the end, it’s easy to Monday-morning
19 quarterback any collection effort, but there is nothing “passive” about Coronado’s
20 collection efforts.

21 **Q. IS THE USE OF A COLLECTION AGENCY AN EFFECTIVE WAY TO**
22 **DEAL WITH DELINQUENT ACCOUNTS?**

23 A. Arguably, collection programs and policies which do not make use of collection
24 agencies are less effective. Collection agencies can provide the expertise and
25

26 ¹²See Rebuttal Testimony of Jason Williamson (“Williamson Rb.”) at 3 – 4; Bourassa Rb. at 9 – 10.

1 skilled professionals that can tailor a collection program to a company's needs as
2 well as provide a more effective means of increasing the level of monies recovered
3 and to reduce the amount of time accounts are outstanding. Coronado does assign
4 delinquent accounts to collection agencies. However, even with the use of
5 collection agencies, the ability to increase recovery and reduce collection times
6 depends on many factors, not the least of which is the ultimate ability and/or
7 willingness of the customer to pay.

8 **Q. WHAT ABOUT STAFF'S CRITICISM ON PAGE 9 THAT THE COMPANY**
9 **HAS NOT DISCONNECTED SERVICE?**

10 A. Coronado is a wastewater utility. Physical disconnection of wastewater service is
11 very costly. In most cases, the cost is many times the amount due, as physical
12 disconnection requires the digging up of the service line which is often under
13 paved streets and/or sidewalks. To reconnect, the service line has to be dug up
14 again and streets and/or sidewalks repaired a second time. In most cases it simply
15 does not make economic sense to physically disconnect wastewater service without
16 direct cost recovery. Consequently, this approach to collection should be used
17 judiciously and sparingly. Further, when a utility does not have the ability to
18 charge the customer for the physical disconnection, as the Company has not had in
19 the past, physical disconnection only results in increased unrecovered expenses.

20 **Q. IF PHYSICAL DISCONNECTION DOES NOT MAKE ECONOMIC SENSE**
21 **THEN WHY SHOULD THE COMMISSION APPROVE THE COMPANY'S**
22 **REQUEST TO ALLOW IT TO CHARGE FOR THE COST OF PHYSICAL**
23 **DISCONNECTION?**

24 A. First, physical disconnection is another tool. And, even the threat of physical
25 disconnection may be an effective approach to collection. The mere ability to
26 physically disconnect a customer and then charge the customer for it will

1 strengthen the current collection efforts. It may take only one or two actual
2 physical disconnections events to send the signal that customers are much better off
3 paying his/her sewer bill. Second, the requested tariff allows the Company to
4 charge the customer instead of, as the current circumstances, it cannot. So, at
5 present, the Company has significantly reduced flexibility in collecting delinquent
6 customer payments.

7 **Q. WHAT ABOUT STAFF'S SUGGESTION ON PAGE 9 THAT THE**
8 **COMPANY SHOULD TAKE THE CUSTOMERS TO SMALL CLAIMS**
9 **COURT.**

10 A. Legal action should be a last resort and taken only when there is a reasonable
11 likelihood of recovery of the debt. Otherwise, like physical disconnection, it does
12 not make economic sense. It is the collection agency which typically assists
13 companies in making those decisions. Collection agencies have the ability to
14 access information about debtor's assets and have the expertise and experience in
15 making assessments as to whether legal action should be taken. For the Company
16 to spend the time and resources to make those assessments would be far more
17 costly.

18 **Q. DO YOU AGREE WITH STAFF'S COMMENT ON PAGE 10 THAT THE**
19 **COMPANY WILL RECOVER ALL OF ITS BAD DEBT EXPENSE UNDER**
20 **NORMALIZATION?**

21 A. No. That makes absolutely no sense. If the Company is allowed only about
22 \$18,000 of bad debt expense going forward, as Staff proposes, and the Company
23 incurs on average \$46,000 of bad debt expense annually, the Company will not
24 have recovered \$28,000 annually. Over 3 years, that's \$84,000 of unrecovered bad
25 debt expense. Mr. McMurry is just wrong.

26

1 Q. THANK YOU. PLEASE EXPLAIN THE DISAGREEMENT BETWEEN
2 THE PARTIES WITH RESPECT TO DEPRECIATION EXPENSE.

3 A. Staff proposes depreciation expense of \$177,752, whereas the Company proposes
4 depreciation expense of \$186,095¹³ – a difference of nearly \$8,400. The difference
5 in depreciation expense compared to Staff is due to a difference in the respective
6 party's computation of CIAC amortization. Staff uses a composite depreciation
7 rate of all depreciable plant-in-service whereas the Company uses account specific
8 rates for the plant accounts funded with CIAC. The Company disagrees with
9 Staff's method of computing amortization in the instant case.

10 Q. WHY?

11 A. Composite depreciation rates should be used when the CIAC amounts have not
12 been specifically identified with the plant accounts. Historically, the Company has
13 tracked its CIAC with the specific plant accounts and there is no reason to change
14 the practice of using the depreciation rates for these plant accounts to amortize
15 CIAC in the instant case.

16 Q. DID YOU TESTIFY TO THIS ISSUE IN YOUR REBUTTAL TESTIMONY?

17 A. No. This was an oversight on my part. Nevertheless, it remains an area of
18 disagreement between the Company and Staff.

19 Q. HAS STAFF AGREED TO THE USE OF ACCOUNT SPECIFIC RATES
20 FOR COMPUTING AMORTIZATION OF CIAC IN OTHER RATE
21 CASES?

22 A. Yes. In the pending Litchfield Park Service Company ("LPSCO") rate case, Staff
23 agreed with LPSCO to use account specific rates for computing CIAC.¹⁴

24
25 ¹³ Compare Company Rejoinder Schedule C-1, page 1 with Staff Surrebuttal Schedule GTM-7.

26 ¹⁴ See Surrebuttal Testimony of Jeffery M. Michlik (Water Division), filed December 17, 2009 in Docket Nos. W-01427A-09-0103 and W-01427A-09-0104, at 8:22-24.

1 V. RATE DESIGN

2 Q. **WHAT ARE THE COMPANY'S REJOINDER PROPOSED RATES?**

3 A. The Company's proposed rates are:

4 Monthly Customer Charges

5 Residential	\$55.66
6 Commercial	\$ 8.98
7 Mobile Home – Winter Only	N/A
8 Mobile Home – Summer Only (per occupied space)	N/A
9 Mobile Home – per occupied space	\$38.78
10 School	\$ 8.98

11 Volumetric Rates (per 100 gallons of water use)

12 Commercial	\$1.173
13 Mobile Home Park (Winter only)	N/A
14 School	\$0.374

15 In addition, the proposed charge for reclaimed (non-potable) water is \$65.17
16 per acre-foot or \$0.20 per 1,000 gallons.

17 Q. **PLEASE IDENTIFY ANY REMAINING DISAGREEMENTS BETWEEN**
18 **THE PARTIES WITH RESPECT TO THE RATE DESIGN.**

19 A. Staff disagrees with the Company proposal for a fixed monthly rate per occupied
20 space for the mobile home park customer class. Staff asserts that the mobile home
21 park is highly seasonal. This is not true.¹⁵ The mobile home park is not an RV
22 park for which a highly seasonable occupancy rate would be expected.

23
24
25
26

¹⁵ Rejoinder Testimony of Jason Williamson ("Williamson Rj.") at 4:2-8.

1 Q. IS THE FLAT RATE FOR THE MOBILE HOME PARK DESIGNED TO
2 RECOVER THE TEST YEAR REVENUES FOR THE MOBILE HOME
3 PARK?

4 A. Yes. It has the advantage of smoothing out revenues and making the park owner's
5 billings more predictable. As Mr. Williamson explains, the present rate design,
6 which was originally thought to help smooth out revenues, has had the opposite
7 effect and has lead to unpredictable bills for the park owner who must embed the
8 sewer costs into rental rates.¹⁶

9 Q. DO YOU HAVE ANY ADDITIONAL RESPONSE TO STAFF'S
10 TESTIMONY ON THE COMPANY'S PROPOSED LOW INCOME
11 TARIFF?

12 A. Mr. Williamson has addressed Staff's surrebuttal testimony on the low income
13 tariff. I would like to respond to Staff's recommendation to base the administrative
14 fee on actual cost instead of the 10 percent proposed by the Company. The 10
15 percent admin fee is identical to the one in the low income tariff adopted by this
16 Commission for Chaparral City Water Company.¹⁷ I do not see any difference in
17 this situation. Further, the 10% administrative fee is not unreasonable. Let's put it
18 in simple terms.

19 Staff suggests the low income tariff participation should be limited to 400
20 customers, or about 30% of the customer base. At a monthly residential rate of
21 \$55.66, as proposed by the Company, the annual revenues subject to the 15%
22 discount would be \$267,000 (400 times \$55.66 times 12). The annual discounts
23 would be equal to \$40,050 (\$267,000 times 15%). The administrative fee would be
24 equal to \$4,005 annually (\$40,050 times 10%). The annual carrying cost at the

25 ¹⁶ Williamson Rj. at 4:9-23.

26 ¹⁷ *Chaparral City Water Company*, Decision No. 71308 (October 21, 2009).

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cost of capital of 7.36% would be equal to \$2,947 (\$40,050 time 7.36%). That leaves about \$1,060 left annually (\$4,050 less \$2,947) for labor and other costs of the program. This is equivalent to about 1 week (40 hours) of work time (at a rate of pay including benefits of about \$25 per hour). In other words, the administrative time to process applications, verify eligibility, track to discounts, etc. is equivalent to about 1 tenth of an hour per participant or about 6 minutes. In my opinion this is unrealistic and low. While the experience with low income tariff programs for water and wastewater utilities is still in its infancy in Arizona, this simple analysis suggests that the 10% administrative fee may already be too low. But for now it provides simplicity and certainty.

Q. DOES THAT CONCLUDE YOUR REJOINDER TESTIMONY?

A. Yes.

**Coronado Utilities, Inc.
Docket No. SW-04305A-09-0291**

**THOMAS J. BOURASSA
REJOINDER TESTIMONY**

May 3, 2010

Schedules

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Computation of Increase in Gross Revenue
 Requirements As Adjusted

Exhibit
 Rejoinder Schedule A-1
 Page 1
 Witness: Bourassa

Line					
<u>No.</u>					
1	Fair Value Rate Base			\$	3,531,741
2					
3	Adjusted Operating Income				144,957
4					
5	Current Rate of Return				4.10%
6					
7	Required Operating Income			\$	259,936
8					
9	Required Rate of Return on Fair Value Rate Base				7.36%
10					
11	Operating Income Deficiency			\$	114,979
12					
13	Gross Revenue Conversion Factor				1.4788
14					
15	Increase in Gross Revenue Revenue Requirement			\$	170,030
16					
17	Test Year Revenues			\$	868,903
18	Increase in Gross Revenue Revenue Requirement			\$	170,030
19	Proposed Revenue Requirement			\$	1,038,933
20	% Increase				19.57%
21					
22	Customer	Present	Proposed	Dollar	Percent
23	Classification	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>	<u>Increase</u>
24					
25					
26	Residential	\$ 693,176	\$ 829,724	136,548	19.70%
27	Commercial (Standard Rate)	60,805	72,782	11,977	19.70%
28	Commercial (Special Rate)	100,605	120,063	19,458	19.34%
29	Effluent Sales	11,122	14,829	3,707	33.33%
30	School	9,121	10,926	1,805	19.79%
31	Revenue Annualization	(20,660)	(24,730)	(4,070)	19.70%
32					
33	Subtotal	\$ 854,168	\$ 1,023,594	\$ 169,426	19.84%
34					
35	Other Wastewater Revenues	15,218	15,218	-	0.00%
36	Reconciling Amount H-1 to C-1	(483)	121	604	-125.05%
37					
38	Total of Water Revenues	\$ 868,903	\$ 1,038,933	\$ 170,030	19.57%

SUPPORTING SCHEDULES:

- 43 Rejoinder B-1
- 44 Rejoinder C-1
- 45 Rejoinder C-3
- 46 Rejoinder H-1

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Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Summary of Rate Base

Exhibit
 Rejoinder Schedule B-1
 Page 1
 Witness: Bourassa

Line No.	Original Cost Rate base	Fair Value Rate Base
1		
2	\$ 4,428,471	\$ 4,428,471
3	Less: Accumulated Depreciation	406,157
4	<hr/>	<hr/>
5	Net Utility Plant in Service	\$ 4,022,314
6		
7	<u>Less:</u>	
8	Advances in Aid of	
9	Construction	-
10	Contributions in Aid of	
11	Construction	603,201
12	Accumulated Amortization of CIAC	(9,755)
13		
14	Customer Meter Deposits	19,809
15	Deferred Income Taxes & Credits	(39,744)
16		-
17		
18		
19	<u>Plus:</u>	
20	Unamortized Finance	
21	Charges	82,938
22	Deferred Regulatory Assets	-
23	Allowance for Working Capital	-
24		
25		
26	Total Rate Base	\$ 3,531,741
27		
28		
29		
30	<u>SUPPORTING SCHEDULES:</u>	
31	Rejoinder B-2	
32	Rejoinder B-3	
33	Rejoinder B-5	
34		
35		

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Rejoinder Schedule B-2
 Page 1
 Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustments Amount	Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	\$ 4,428,471	-	\$ 4,428,471
3				
4	Less:			
5	Accumulated			
6	Depreciation	398,932	7,225	406,157
7				
8				
9	Net Utility Plant			
10	in Service	\$ 4,029,539	\$ (7,225)	\$ 4,022,314
11				
12	Less:			
13	Advances in Aid of			
14	Construction	-	-	-
15				
16	Contributions in Aid of			
17	Construction (CIAC)	603,201	-	603,201
18				
19	Accumulated Amortization of CIAC	(9,755)	-	(9,755)
20				
21	Customer Meter Deposits	19,809	-	19,809
22	Deferred Income Taxes	(37,425)	(2,318)	(39,744)
23				
24				
25	Plus:			
26	Unamortized Finance			
27	Charges	82,938	-	82,938
28	Deferred Regulatory Assets	-	-	-
29	Allowance for Working Capital	-	-	-
30				
31	Total	<u>\$ 3,536,648</u>	<u>\$ (4,906)</u>	<u>\$ 3,531,741</u>

35 SUPPORTING SCHEDULES:
 36 Rejoinder B-2, pages 1-6

35 RECAP SCHEDULES:
 36 Rejoinder B-1

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Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Original Cost Rate Base Proforma Adjustments

Line No.	Description	Adjusted at end of Test Year	Proforma Adjustments			Rebuttal Adjusted at end of Test Year
			1 Plant Adjustments	2 Accum. Depr.	3 CIAC	
1	Gross Utility	\$ 4,428,471				
2	Plant in Service					\$ 4,428,471
3	Less:					
4	Accumulated					
5	Depreciation	398,932		7,225		406,157
6						
7						
8						
9	Net Utility Plant					
10	in Service	\$ 4,029,539	\$ (7,225)	\$ -	\$ -	\$ 4,022,314
11	Less:					
12	Advances in Aid of					
13	Construction	-				-
14						
15						
16	Contributions in Aid of					
17	Construction (CIAC)	603,201				603,201
18						
19	Accumulated Amort of CIAC	(9,755)				(9,755)
20						
21	Customer Meter Deposits	19,809				19,809
22	Deferred Income Taxes	(37,425)			(2,318)	(39,744)
23						
24						
25	Plus:					
26	Unamortized Finance					
27	Charges	82,938				82,938
28	Deferred Reg. Assets	-				-
29	Allowance for Working Capital	-				-
30						
31	Total	\$ 3,536,648	\$ (7,225)	\$ -	\$ 2,318	\$ 3,531,741
32						
33						
34						

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

RECAP SCHEDULES:
Rejoinder B-1

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 1

Exhibit
 Rejoinder Schedule B-2
 Page 3
 Witness: Bourassa

Line No.	Plant-in-Service	Acct.	No.	Description	Adjusted Original Cost	A Difference to Computed Balance ¹	Adjustments			E Intentionally Left Blank	Rebuttal Adjusted Original Cost
							B Intentionally Left Blank	C Intentionally Left Blank	D Intentionally Left Blank		
1					5,194						5,194
2											
3											
4					315,001						315,001
5					1,858						1,858
6											
7											
8											
9											
10											
11					59,350						59,350
12					1,576						1,576
13											
14											
15											
16											
17											
18					16,133						16,133
19					15,223						15,223
20											
21											
22					3,243,375						3,243,375
23											
24					540,205						540,205
25					178,135						178,135
26											
27											
28											
29											
30											
31											
32											
33					52,423						52,423
34											
35											
36											
37											
38											
39											
40											
41											
42											
43											
44											
45											
46											
TOTALS					\$ 4,428,472	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,428,472
Plant-in-Service per Direct											\$ 4,428,472
Increase (decrease) in Plant-in-Service											\$ -
Adjustment to Plant-in-Service											\$ -

¹ Computed Balance as shown on Rejoinder B-2, page 3.4.

Coronado Utilities, Inc.
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.1

Account No.	Description	Deprec. Rate	Plant At 12/31/2005	2005 Accum. Depr.	2006 Plant Additions	2006 Plant Adjustments	2006 Adjusted Plant Additions	2006 Plant Retirements	2006 Salvage A/D Only	2006 Plant Balance	2006 Deprec.
351	Organization	0.00%	-	-	5,194	-	5,194	-	-	5,194	-
352	Franchises	0.00%	-	-	-	-	-	-	-	-	-
353	Land	0.00%	-	-	249,999	-	249,999	-	-	249,999	-
354	Structures & Improvements	3.33%	-	-	-	-	-	-	-	-	-
355	Power Generation	5.00%	-	-	-	-	-	-	-	-	-
360	Collection Sewer Forced	2.00%	-	-	-	-	-	-	-	-	-
361	Collection Sewers Gravity	2.00%	-	-	-	-	-	-	-	-	-
362	Special Collecting Structures	2.00%	-	-	1,600	-	1,600	-	-	1,600	16
363	Customer Services	2.00%	-	-	-	-	-	-	-	-	-
364	Flow Measuring Devices	10.00%	-	-	-	-	-	-	-	-	-
365	Flow Measuring Installation	2.00%	-	-	-	-	-	-	-	-	-
366	Reuse Services	2.00%	-	-	-	-	-	-	-	-	-
367	Reuse Meters And Installation	8.33%	-	-	-	-	-	-	-	-	-
370	Receiving Wells	3.33%	-	-	-	-	-	-	-	-	-
371	Pumping Equipment	10.00%	-	-	-	-	-	-	-	-	-
374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-	-	-	-
375	Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-	-	-	-
380	Treatment & Disposal Equipment	5.00%	-	-	1,753,197	-	1,753,197	-	-	1,753,197	43,830
381	Plant Sewers	5.00%	-	-	-	-	-	-	-	-	-
382	Outfall Sewer Lines	4.00%	-	-	283,058	-	283,058	-	-	283,058	5,661
389	Other Sewer Plant & Equipment	6.67%	-	-	113,691	-	113,691	-	-	113,691	3,792
390	Office Furniture & Equipment	6.67%	-	-	-	-	-	-	-	-	-
390.1	Computers and Software	20.00%	-	-	-	-	-	-	-	-	-
391	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-	-
392	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-
393	Tools, Shop And Garage Equip	5.00%	-	-	-	-	-	-	-	-	-
394	Laboratory Equip	10.00%	-	-	-	-	-	-	-	-	-
396	Communication Equip	10.00%	-	-	-	-	-	-	-	-	-
398	Other Tangible Plant	4.00%	-	-	52,423	-	52,423	-	-	52,423	1,048
Plant Held for Future Use											
TOTAL WASTEWATER PLANT											
											54,347
											2,459,162
											2,459,162

Coronado Utilities, Inc.
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.2

Account No.	Description	Deprec. Rate	2007 Plant Additions	2007 Plant Adjustments	2007 Adjusted Plant Additions	2007 Plant Retirements	2007 Salvage/Adj. A/D Only	2007 Plant Balance	2007 Deprec.
351	Organization	0.00%			-			5,194	-
352	Franchises	0.00%			(9,999)			-	-
353	Land	0.00%		(9,999)			240,000	-	-
354	Structures & Improvements	3.33%	1,858		1,858		1,858	31	
355	Power Generation	5.00%							
360	Collection Sewer Forced	2.00%							
361	Collection Sewers Gravity	2.00%	59,350	(24)	59,350		59,350	594	
362	Special Collecting Structures	2.00%					1,576	32	
363	Customer Services	2.00%							
364	Flow Measuring Devices	10.00%							
365	Flow Measuring Installation	10.00%							
366	Reuse Services	2.00%							
367	Reuse Meters And Installation	8.33%							
370	Receiving Wells	3.33%							
371	Pumping Equipment	10.00%							
374	Reuse Distribution Reservoirs	2.50%							
375	Reuse Trans. and Dist. System	2.50%							
380	Treatment & Disposal Equipment	5.00%	1,437,019		1,437,019		3,190,216	123,585	
381	Plant Sewers	5.00%							
382	Outfall Sewer Lines	4.00%	270,514		270,514		553,572	16,733	
389	Other Sewer Plant & Equipment	6.67%	64,475		64,475		178,166	9,733	
390	Office Furniture & Equipment	6.67%							
390.1	Computers and Software	20.00%							
391	Transportation Equipment	20.00%							
392	Stores Equipment	4.00%							
393	Tools, Shop And Garage Equip	5.00%							
394	Laboratory Equip	10.00%							
396	Communication Equip	10.00%							
398	Other Tangible Plant	4.00%					52,423	2,097	

Plant Held for Future Use
TOTAL WASTEWATER PLANT

1,833,216 (10,023) 1,823,193 4,282,355 152,804

Coronado Utilities, Inc.
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.3

Account No.	Description	Deprec. Rate	2008 Plant Additions	2008 Plant Adjustments	2008 Adjusted Plant Additions	2008 Plant Retirements	2008 Salvage A/D Only	2008 Plant Balance	2008 Deprec.
351	Organization	0.00%						5,194	-
352	Franchises	0.00%						-	-
353	Land	0.00%	75,001		75,001			315,001	-
354	Structures & Improvements	3.33%						1,858	62
355	Power Generation	5.00%						-	-
360	Collection Sewer Forced	2.00%						-	-
361	Collection Sewers Gravity	2.00%						59,350	1,187
362	Special Collecting Structures	2.00%						1,576	32
363	Customer Services	2.00%						-	-
364	Flow Measuring Devices	10.00%						-	-
365	Flow Measuring Installation	10.00%						-	-
366	Reuse Services	2.00%						-	-
367	Reuse Meters And Installation	8.33%						-	-
370	Receiving Wells	3.33%	16,133		16,133			16,133	269
371	Pumping Equipment	10.00%	15,223		15,223			15,223	761
374	Reuse Distribution Reservoirs	2.50%						-	-
375	Reuse Trans. and Dist. System	2.50%						-	-
380	Treatment & Disposal Equipment	5.00%	53,159		53,159			3,243,375	160,840
381	Plant Sewers	5.00%						-	-
382	Outfall Sewer Lines	4.00%						-	-
389	Other Sewer Plant & Equipment	6.67%		(13,367)	(13,367)			540,205	21,876
390	Office Furniture & Equipment	6.67%		(31)	(31)			178,135	11,883
390.1	Computers and Software	20.00%						-	-
391	Transportation Equipment	20.00%						-	-
392	Stores Equipment	4.00%						-	-
393	Tools, Shop And Garage Equip	5.00%						-	-
394	Laboratory Equip	10.00%						-	-
395	Communication Equip	10.00%						-	-
398	Other Tangible Plant	4.00%						52,423	2,097
Plant Held for Future Use									
TOTAL WASTEWATER PLANT			159,515	(13,399)	146,117	-	-	4,428,472	199,005

Account No.	Description	Deprec. Rate	Year End Accumulated Depreciation by Account			
			2005	2006	2007	2008
351	Organization	0.00%	-	-	-	-
352	Franchises	0.00%	-	-	-	-
353	Land	0.00%	-	-	-	-
354	Structures & Improvements	3.33%	-	-	31	93
355	Power Generation	5.00%	-	-	-	-
360	Collection Sewer Forced	2.00%	-	-	-	-
361	Collection Sewers Gravity	2.00%	-	-	594	1,781
362	Special Collecting Structures	2.00%	-	16	48	79
363	Customer Services	2.00%	-	-	-	-
364	Flow Measuring Devices	10.00%	-	-	-	-
365	Flow Measuring Installation	10.00%	-	-	-	-
366	Reuse Services	2.00%	-	-	-	-
367	Reuse Meters And Installation	8.33%	-	-	-	-
370	Receiving Wells	3.33%	-	-	-	269
371	Pumping Equipment	10.00%	-	-	-	761
374	Reuse Distribution Reservoirs	2.50%	-	-	-	-
375	Reuse Trans. and Dist. System	2.50%	-	-	-	-
380	Treatment & Disposal Equipment	5.00%	-	43,830	167,415	328,255
381	Plant Sewers	5.00%	-	-	-	-
382	Outfall Sewer Lines	4.00%	-	5,661	22,394	44,269
389	Other Sewer Plant & Equipment	6.67%	-	3,792	13,525	25,408
390	Office Furniture & Equipment	6.67%	-	-	-	-
390.1	Computers and Software	20.00%	-	-	-	-
391	Transportation Equipment	20.00%	-	-	-	-
392	Stores Equipment	4.00%	-	-	-	-
393	Tools, Shop And Garage Equip	5.00%	-	-	-	-
394	Laboratory Equip	10.00%	-	-	-	-
396	Communication Equip	10.00%	-	-	-	-
398	Other Tangible Plant	4.00%	-	1,048	3,145	5,242

Plant Held for Future Use
TOTAL WASTEWATER PLANT

54,347 207,152 406,157

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Original Cost Rate Base Proforma Adjustments
 Adjustment 3

Exhibit
 Rejoinder Schedule B-2
 Page 5
 Witness: Bourassa

Line No.	CIAC and Accumulated Amortization	<u>CIAC</u>	<u>Rate</u>	<u>Amortization</u>	<u>Accumulated Amortization</u>
1					
2					
3	Balance at 12/31/2005	\$ -			-
4					-
5	Jan-Dec Amortization		0.000%	-	-
6	2006 Land Additions	\$ 240,000	0.000%	-	-
7	2006 Additions - Outfall Sewer Lines	55,676	1.665%	927	927
8					927
9	Balance at 12/31/2006	\$ 295,676			927
10					
11	Jan-Dec Amortization Land	\$ 240,000	0.000%	-	927
12	Jan-Dec Amortization- Outfall Sewer Lines	\$ 55,676	3.330%	1,854	2,781
13	2007 Additions - Outfall Sewer Lines	307,525	1.665%	5,120	7,901
14					7,901
15	Balance at 12/31/2007	\$ 603,201			7,901
16	Jan-Dec Amortization Land	\$ 240,000	0.00%		7,901
17	Jan-Dec Amortization- Outfall Sewer Lines	\$ 55,676	3.330%	1,854	9,755
18	2008 Additions - Outfall Sewer Lines	-	1.665%	-	9,755
19					9,755
20					9,755
21	Balance at 12/31/2008	<u>\$ 603,201</u>			9,755
22					
23					
24					
25	Computed balance at 12/31/2008	\$ 603,201			\$ 9,755
26					
27	Balance per Direct	<u>\$ 603,201</u>			<u>\$ 9,755</u>
28					
29	Increase (decrease)	\$ -			\$ -
30					
31					
32	Adjustment to CIAC	<u>\$ -</u>			<u>\$ -</u>
33	Label	3a			3b
34					
35					

Line No.	Deferred Income Tax as of December 31, 2008	Adjusted Book Value ¹	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Tax Rate	Future Tax Asset		Future Tax Liability	
						Tax Value	Tax Benefit	Current	Non Current
1		\$ 4,428,471							
2		(406,157)							
3		(593,446)							
4		\$ 3,428,869	100.0%	\$ 122,752	32.4%			\$	39,744
5	Plant-in-Service		100.0%	\$	32.4%				
6	Accum. Deprec.								
7	CIAC								
8	Fixed Assets								
9	AIAC								
10									
11									
12									
13									
14									
15									
16									
17									
18									
19									
20									
21									
22									
23									
24									

¹ Adjusted per Rejoinder B-2

Net Asset (Liability) per Rebuttal \$ 39,744
 Net Asset (Liability) per Direct \$ 37,425
 Adjustment to DIT \$ 2,318

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Computation of Working Capital

Exhibit
 Rejoinder Schedule B-5
 Page 1
 Witness: Bourassa

Line			
<u>No.</u>			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	53,962
3	Pumping Power (1/24 of Pumping Power)		2,259
4	Purchased Water (1/24 of Purchased Water)		-
5	Prepays		790
6	Materials & Supplies		-
7			
8			
9	Total Working Capital Allowance	<u>\$</u>	<u>57,011</u>
10			
11			
12	Working Capital Requested	<u>\$</u>	<u>-</u>
13			
14			
15	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>	
16	Rejoinder C-1	Rejoinder B-1	
17			
18			
19	Total Operating Expense	\$	723,946
20	Less:		
21	Income Tax		(5,174)
22	Property Tax		57,109
23	Depreciation		186,095
24	Purchased Water		-
25	Pumping Power		54,218
26	Allowable Expenses	<u>\$</u>	<u>431,698</u>
27	1/8 of allowable expenses	<u>\$</u>	<u>53,962</u>
28			

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Income Statement

Exhibit
Rejoinder Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjustment	Rejoinder Test Year Adjusted Results	Proposed Rate Increase	Rejoinder Adjusted with Rate Increase
1	Revenues					
2	Flat Rate Revenues	\$ 710,657	\$ (14,627)	\$ 696,030	\$ 170,030	\$ 866,060
3	Measured Revenues	157,655	-	157,655	-	157,655
4	Other Wastewater Revenues	15,218	-	15,218	-	15,218
5		<u>\$ 883,530</u>	<u>\$ (14,627)</u>	<u>\$ 868,903</u>	<u>\$ 170,030</u>	<u>\$ 1,038,933</u>
6	Operating Expenses					
7	Salaries and Wages	\$ 52,500	-	\$ 52,500	-	\$ 52,500
8	Purchased Wastewater Treatment	-	-	-	-	-
9	Sludge Removal Expense	-	-	-	-	-
10	Purchased Power	54,218	-	54,218	-	54,218
11	Fuel for Power Production	-	-	-	-	-
12	Chemicals	27,790	-	27,790	-	27,790
13	Materials and Supplies	2,978	-	2,978	-	2,978
14	Contractual Services	141,386	-	141,386	-	141,386
15	Contractual Services- Testing	3,676	-	3,676	-	3,676
16	Contractual Services - Other	41,341	-	41,341	-	41,341
17	Equipment Rental	-	-	-	-	-
18	Rents - Building	-	-	-	-	-
19	Transportation Expenses	209	-	209	-	209
20	Insurance - General Liability	11,066	-	11,066	-	11,066
21	Insurance - Other	-	-	-	-	-
22	Regulatory Expenses	3,505	-	3,505	-	3,505
23	Regulatory Commission Expense	58,333	-	58,333	-	58,333
24	Miscellaneous Expense	37,081	-	37,081	-	37,081
25	Bad Debt Expense	46,313	-	46,313	-	46,313
26	Depreciation and Amortization	186,095	-	186,095	-	186,095
27	Taxes Other Than Income	5,521	-	5,521	-	5,521
28	Property Taxes	57,733	(624)	57,109	-	57,109
29	Income Tax	(711)	(4,463)	(5,174)	55,051	49,876
30		-	-	-	-	-
31	Total Operating Expenses	<u>\$ 729,033</u>	<u>\$ (5,087)</u>	<u>\$ 723,946</u>	<u>\$ 55,051</u>	<u>\$ 778,997</u>
32	Operating Income	<u>\$ 154,497</u>	<u>\$ (9,540)</u>	<u>\$ 144,957</u>	<u>\$ 114,979</u>	<u>\$ 259,936</u>
33	Other Income (Expense)					
34	Interest Income	-	-	-	-	-
35	Other income	-	-	-	-	-
36	Interest Expense	(155,981)	216	(155,765)	-	(155,765)
37	Other Expense	-	-	-	-	-
38		-	-	-	-	-
39	Total Other Income (Expense)	<u>\$ (155,981)</u>	<u>\$ 216</u>	<u>\$ (155,765)</u>	<u>\$ -</u>	<u>\$ (155,765)</u>
40	Net Profit (Loss)	<u>\$ (1,484)</u>	<u>\$ (9,323)</u>	<u>\$ (10,807)</u>	<u>\$ 114,979</u>	<u>\$ 104,171</u>

41
42 SUPPORTING SCHEDULES:
43 Rejoinder C-2

RECAP SCHEDULES:
Rejoinder A-1

44
45

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Income Statement

Exhibit
 Rejoinder Schedule C-1
 Page 2
 Witness: Bourassa

Line No.	Label	1	2	3	4	5	Rejoinder Test Year Adjusted Results	Proposed Rate Increase	Rejoinder Adjusted with Rate Increase
1	Revenues								
2	Fiat Rate Revenues	\$ 710,657		\$ (14,627)			\$ 696,030	\$ 170,030	\$ 866,060
3	Measured Revenues	157,655					157,655		157,655
4	Other Wastewater Revenues	15,218					15,218		15,218
5		\$ 883,530	\$ -	\$ (14,627)	\$ -	\$ -	\$ 888,903	\$ 170,030	\$ 1,038,933
6	Operating Expenses								
7	Salaries and Wages	\$ 52,500					\$ 52,500		\$ 52,500
8	Purchased Wastewater Treatment	-					-		-
9	Sludge Removal Expense	-					-		-
10	Purchased Power	54,218					54,218		54,218
11	Fuel for Power Production	-					-		-
12	Chemicals	27,790					27,790		27,790
13	Materials and Supplies	2,978					2,978		2,978
14	Contractual Services	141,386					141,386		141,386
15	Contractual Services- Testing	3,676					3,676		3,676
16	Contractual Services - Other	41,341					41,341		41,341
17	Equipment Rental	-					-		-
18	Rents - Building	-					-		-
19	Transportation Expenses	209					209		209
20	Insurance - General Liability	11,066					11,066		11,066
21	Insurance - Other	-					-		-
22	Regulatory Expenses	3,505					3,505		3,505
23	Regulatory Commission Expense	58,333					58,333		58,333
24	Miscellaneous Expense	37,081					37,081		37,081
25	Bad Debt Expense	46,313					46,313		46,313
26	Depreciation and Amortization	186,095					186,095		186,095
27	Taxes Other Than Income	5,521					5,521		5,521
28	Property Taxes	57,733	(624)				57,109	55,051	57,109
29	Income Tax	(711)				(4,463)	(5,174)		49,876
30									
31	Total Operating Expenses	\$ 729,033	\$ (624)	\$ -	\$ -	\$ (4,463)	\$ 723,946	\$ 55,051	\$ 778,997
32	Operating Income	\$ 154,497	\$ -	\$ (14,627)	\$ -	\$ 4,463	\$ 144,957	\$ 114,979	\$ 259,936
33	Other Income (Expense)								
34	Interest Income	-					-		-
35	Other Income	-					-		-
36	Interest Expense	(155,981)			216		(155,765)		(155,765)
37	Other Expense	-					-		-
38									
39	Total Other Income (Expense)	\$ (155,981)	\$ -	\$ -	\$ 216	\$ -	\$ (155,765)	\$ -	\$ (155,765)
40	Net Profit (Loss)	\$ (1,484)	\$ -	\$ (14,627)	\$ 216	\$ 4,463	\$ (10,807)	\$ 114,979	\$ 104,171

SUPPORTING SCHEDULES:
 Rejoinder C-2

RECAP SCHEDULES:
 Rejoinder C-1, page 1

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Adjustments to Revenues and Expenses

Exhibit
 Rejoinder Schedule C-2
 Page 1
 Witness: Bourassa

Line No.	1	2	3	4	5	6	Subtotal
	Depreciation Expense	Property Taxes	Revenue Annualization	Interest Synchronization	Income Taxes		
1	-						
2		(624)					
3			(14,627)				(14,627)
4							
5					(4,463)		(5,087)
6							
7							
8		624	(14,627)		4,463		(9,540)
9							
10							
11				216			216
12							
13							
14							
15							
16		624	(14,627)	216	4,463		(9,323)
17							

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Adjustments to Revenues and Expenses
 Adjustment Number 1

Exhibit
 Rejoinder Schedule C-2
 Page 2
 Witness: Bourassa

Line No.	Acct.	Description	Adjusted Original Cost	Proposed Rates	Depreciation Expense
1		<u>Depreciation Expense</u>			
2					
3					
4					
5	351	Organization	5,194	0.00%	-
6	352	Franchises	-	0.00%	-
7	353	Land	315,001	0.00%	-
8	354	Structures & Improvements	1,858	3.33%	62
9	355	Power Generation	-	5.00%	-
10	360	Collection Sewer Forced	-	2.00%	-
11	361	Collection Sewers Gravity	59,350	2.00%	1,187
12	362	Special Collecting Structures	1,576	2.00%	32
13	363	Customer Services	-	2.00%	-
14	364	Flow Measuring Devices	-	10.00%	-
15	365	Flow Measuring Installation	-	10.00%	-
16	366	Reuse Services	-	2.00%	-
17	367	Reuse Meters And Installation	-	8.33%	-
18	370	Receiving Wells	16,133	3.33%	537
19	371	Pumping Equipment	15,223	12.50%	1,903
20	374	Reuse Distribution Reservoirs	-	2.50%	-
21	375	Reuse Trans. and Dist. System	-	2.50%	-
22	380	Treatment & Disposal Equipment	3,243,375	5.00%	162,169
23	381	Plant Sewers	-	5.00%	-
24	382	Outfall Sewer Lines	540,205	3.33%	17,989
25	389	Other Sewer Plant & Equipment	178,135	6.67%	11,882
26	390	Office Furniture & Equipment	-	6.67%	-
27	390.1	Computers and Software	-	20.00%	-
28	391	Transportation Equipment	-	20.00%	-
29	392	Stores Equipment	-	4.00%	-
30	393	Tools, Shop And Garage Equip	-	5.00%	-
31	394	Laboratory Equip	-	10.00%	-
32	396	Communication Equip	-	10.00%	-
33	398	Other Tangible Plant	52,423	4.00%	2,097
34		TOTALS	\$ 4,428,472		\$ 197,857
35					
36		Less: Amortization of Contributions			
37	353	Land	\$ 250,000	0.0000%	\$ -
38	382	Outfall Sewer Lines	\$ 353,201	3.3300%	\$ (11,762)
39			\$ 603,201		\$ (11,762)
40					
41		Total Depreciation Expense			\$ 186,095
42					
43		Test Year Depreciation Expense			186,095
44					
45		Increase (decrease) in Depreciation Expense			-
46					
47		Adjustment to Revenues and/or Expenses			\$ -
48					
49		<u>SUPPORTING SCHEDULE</u>			
50		B-2, page 3			

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 2

Exhibit
Rejoinder Schedule C-2
Page 3
Witness: Bourassa

Line No.		
1	<u>Adjust Property Taxes to Reflect Proposed Revenues:</u>	
2		
3	Adjusted Revenues in year ended 12/31/2008	\$ 868,903
4	Adjusted Revenues in year ended 12/31/2008	868,903
5	Proposed Revenues	<u>1,038,933</u>
6	Average of three year's of revenue	\$ 925,580
7	Average of three year's of revenue, times 2	\$ 1,851,160
8	Add:	
9	Construction Work in Progress at 10%	\$ -
10	Deduct:	
11	Book Value of Transportation Equipment	<u>-</u>
12		
13	Full Cash Value	\$ 1,851,160
14	Assessment Ratio	<u>21%</u>
15	Assessed Value	388,744
16	Property Tax Rate	14.6906%
17		
18	Property Tax	57,109
19	Tax on Parcels	0
20		
21	Total Property Tax at Proposed Rates	\$ 57,109
22	Property taxes in the test year	<u>57,733</u>
23	Change in property taxes	<u>\$ (624)</u>
24		
25		
26	Adjustment to Revenues and/or Expenses	<u>\$ (624)</u>
27		
28		

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 3

Exhibit
Rejoinder Schedule C-2
Page 4
Witness: Bourassa

Line

No.

1	<u>Remove Revenues from loss of major customer</u>	
2		
3		
4	San Miguel Highland Mobile Home park	(14,627)
5		
6		
7	Increase(decrease) in Revenues	\$ (14,627)
8		
9	Adjustment to Revenue and/or Expense	<u>\$ (14,627)</u>
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Adjustment to Revenues and Expenses
 Adjustment Number 4

Exhibit
 Rejoinder Schedule C-2
 Page 5
 Witness: Bourassa

Line
No.

1	<u>Interest Synchronization</u>		
2			
3			
4	Fair Value Rate Base	\$3,531,741	
5	Weighted Cost of Debt	4.41%	
6	Interest Expense		\$ 155,765
7			
8	Test Year Interest Expense		<u>\$ 155,981</u>
9			
10	Increase (decrease) in Interest Expense		(216)
11			
12			
13			
14	Adjustment to Revenue and/or Expense		<u><u>\$ 216</u></u>
15			
16			

17 Weighted Cost of Debt Computation

		<u>Amount</u>	<u>Percent</u>	<u>Cost</u>	<u>Weighted Cost</u>
18					
19					
20	Debt	\$ 2,575,000	70.57%	6.25%	4.41%
21	Perferred Stock	\$ 570,000	15.62%	6.50%	1.02%
22	Common Stock	<u>\$ 504,024</u>	<u>13.81%</u>	<u>14.00%</u>	<u>1.93%</u>
23	Total	\$ 3,649,024	100.00%		7.36%
24					
25					
26					
27					

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Adjustment to Revenues and/or Expenses
 Adjustment Number 5

Exhibit
 Rejoinder Schedule C-2
 Page 6
 Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjusted with Rate Increase
1	<u>Income Tax Computation</u>		
2			
3			
4			
5			
6			
7	Taxable Income before Scottsdale Operating Lease	\$ (15,982)	\$ 154,048
8	Plus: Scottsdale Operating Lease	-	-
9	Taxable Income	<u>\$ (15,982)</u>	<u>\$ 154,048</u>
10			
11			
12			
13	Income Before Taxes	<u>\$ (15,982)</u>	<u>\$ 154,048</u>
14			
15	Arizona Income Before Taxes		\$ 154,048
16			
17	Less Arizona Income Tax		<u>\$ 10,734</u>
18	Rate = 6.97%		
19	Arizona Taxable Income		\$ 143,314
20			
21	Arizona Income Taxes		\$ 10,734
22			
23	Federal Income Before Taxes		\$ 154,048
24			
25	Less Arizona Income Taxes		<u>\$ 10,734</u>
26			
27	Federal Taxable Income		<u>\$ 143,314</u>
28			
29			
30			
31	FEDERAL INCOME TAXES:		
32	15% BRACKET		\$ 7,500
33	25% BRACKET		\$ 6,250
34	34% BRACKET		\$ 8,500 Federal
35	39% BRACKET		\$ 16,892 Effective
36	34% BRACKET		\$ - Tax
37			Rate
38	Federal Income Taxes		<u>\$ 39,142</u> 25.41%
39			
40			
41	Total Income Tax		<u>\$ 49,876</u>
42			
43	Overall Tax Rate		<u>32.38%</u>
44			
45	Income Tax at Proposed Rates Effective Rate	<u>\$ (5,174)</u>	
46			

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Computation of Gross Revenue Conversion Factor

Exhibit
 Rejoinder Schedule C-3
 Page 1
 Witness: Bourassa

Line No.	<u>Description</u>	Percentage of Incremental Gross <u>Revenues</u>
1	Federal Income Taxes	25.41%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	<u>0.00%</u>
6		
7		
8	Total Tax Percentage	32.38%
9		
10	Operating Income % = 100% - Tax Percentage	67.62%
11		
12		
13		
14		
15	<u>1</u> = Gross Revenue Conversion Factor	
16	Operating Income %	1.4788
17		
18	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
19		Rejoinder A-1
20		

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Summary of Cost of Capital

Exhibit
 Rejoinder Schedule D-1
 Page 1
 Witness: Bourassa

Line No.	<u>End of Test Year</u>		<u>End of Projected Year</u>	
Item of Capital	Dollar Amount	Percent of Total	Dollar Amount	Percent of Total
1 Long-Term Debt	\$ 2,575,000	70.57%	2,495,000	67.92%
2				
3				
4				
5				
6				
7				
8 Preferred Stock	570,000	15.62%	570,000	15.52%
9				
10 Stockholder's Equity	504,024	13.81%	608,195	16.56%
11				
12 Totals	\$ 3,649,024	100.00%	\$ 3,673,195	100.00%
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				

SUPPORTING SCHEDULES:

- Rejoinder D-2
- Rejoinder D-3
- Rejoinder D-4

RECAP SCHEDULES:

Line No.	Description of Debt	End of Test Year			End of Projected Year			Weighted Cost	Interest Rate	Weighted Cost
		Amount Outstanding	Annual Interest	Interest Rate	Amount Outstanding	Annual Interest	Interest Rate			
1	Pinal County IDA Bonds	2,575,000	160,938	6.25%	2,495,000	155,938	6.25%	6.25%	6.25%	
2			-	0.00%		-		0.00%	0.00%	
3										
4										
5										
6										
7										
8										
9										
10										
11										
12										
13	Totals	\$ 2,575,000	\$ 160,938		\$ 2,495,000	\$ 155,938			6.25%	
14										
15										
16										
17										

SUPPORTING SCHEDULES:

RECAP SCHEDULES:

Rejoinder D-1

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Cost of Preferred Stock

Exhibit
Rejoinder Schedule D-3
Page 1
Witness: Bourassa

Line No.	Description of Issue	<u>End of Test Year</u>			<u>End of Projected Year</u>		
		Shares Outstanding	Amount	Dividend Requirement	Shares Outstanding	Amount	Dividend Requirement
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17	<u>SUPPORTING SCHEDULES:</u>				<u>RECAP SCHEDULES:</u>		
18					Rejoinder D-1		
19							
20							

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Cost of Common Equity

Exhibit
Rejoinder Schedule D-4
Page 1
Witness: Bourassa

Line
No.

1
2 The Company is proposing a cost of common equity of 14.00%

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17 SUPPORTING SCHEDULES:

18 Direct D-4.1 to D-4.16

19

20

RECAP SCHEDULES:

Rejoinder D-1

Coronado Utilities, Inc
 Test Year Ended December 31, 2001
 Revenue Summary

Exhibit
 Rejoinder Schedule H-1
 Page 1
 Witness: Bourassa

With Annualized Revenues to Year End Number of Customers:

Line No.	Customer Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Wastewater Revenues	Percent of Proposed Wastewater Revenues
1	Residential	\$ 693,176	\$ 829,724	\$ 136,548	19.70%	79.24%	79.15%
2	Commercial	60,805	72,782	11,977	19.70%	6.95%	6.94%
3	Mobile Home	100,605	120,063	19,458	19.34%	11.50%	11.45%
4	School	9,121	10,926	1,805	19.79%	1.04%	1.04%
5							
6	Effluent	11,122	14,829	3,707	33.33%	1.27%	1.41%
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28	Total Revenues Before Annualizatio	\$ 874,828	\$ 1,048,324	\$ 173,496	19.83%	100.00%	100.00%
29							

Line No.	Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Additional Bills	Schedule
1							
2							
3							
4							
5	Residential	\$ (2,372)	\$ (2,839)	(467)	19.70%		(51) C-2, pg. 3.1
6	Commercial	(3,661)	(4,382)	(721)	19.70%		(45) C-2, pg. 3.2
7	Mobile Home	(14,627)	(17,509)	(2,882)	19.70%		(2) C-2, pg. 3.2
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							
31							
32							
33	Total Revenue Annualization	\$ (20,660)	\$ (24,730)	\$ (4,070)	0.00%		(98)
34							

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Revenue Summary
 With Annualized Revenues to Year End Number of Customers

Exhibit
 Rejoinder Schedule H-1
 Page 3
 Witness: Bourassa

Line No.	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1						
2						
3	\$ 874,828	\$ 1,048,324	\$ 173,496	19.83%	100.00%	100.00%
4	(20,660)	(24,730)	(4,070)	19.70%	-2.36%	-2.36%
5	\$ 854,168	\$ 1,023,594	\$ 169,426	19.84%		
6						
7	\$ 15,218	\$ 15,218	-	0.00%	1.74%	1.45%
8	(483)	121	604	-125.05%	-0.06%	0.01%
9	\$ 868,903	\$ 1,038,933	\$ 170,030	19.57%	0.00%	0.00%
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Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Customer Summary

Exhibit
 Rejoinder Schedule H-2
 Page 1
 Witness: Bourassa

Line No.	Customer Class	(a) Average Number of Customers at 12/31/2008	Average Consumption (in 1,000 gals)	Average Bill		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent
1	Residential	1,242	-	\$ 46.50	\$ 55.66	9.16	19.70%
2	Commercial	62	1,500	22.20	26.58	4.38	19.71%
3	Mobile Home	108	1,233,600	7,039.02	8,422.13	1,383.11	19.65%
4	School	4	58,463	152.67	182.89	30.22	19.79%
5							
6	Effluent	1	6,178,667	954.98	1,273.30	318.33	33.33%
7							
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22							
23							
24	Total					<u>1,417</u>	

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

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Customer Summary

Exhibit
 Rejoinder Schedule H-2
 Page 2
 Witness: Bourassa

Line No.	Customer Class	(a) Average Number of Customers at 12/31/2008	Median Consumption (in 1,000 gals)	Median Bill		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	Residential	1,242	\$ -	46.50	\$ 55.66	9.16	19.70%
2	Commercial	62	1,500	22.20	26.58	4.38	19.71%
3	Mobile Home	108	1,233,600	7,039.02	8,422.13	1,383.11	19.65%
4	School	4	46,500	152.67	182.89	30.22	19.79%
5							
6	Effluent	1	6,366,500	954.98	1,273.30	318.33	33.33%
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12							
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18							
19							
20							
21							
22							
23							
24	Total	<u>1,417</u>					
25							
26							
27							

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

Coronado Utilities, Inc.
 Test Year Ended December 31, 2008
 Present and Proposed Rates

Exhibit
 Rejoinder Schedule H-3
 Page 1
 Witness: Bourassa

Line No.	Monthly Minimum Charge for:	Present Rates	Proposed Rates	Change	Percent Change
5	Residential	\$ 46.50	\$ 55.66	\$ 9.16	19.70%
6	Commercial	\$ 7.50	\$ 8.98	\$ 1.48	19.73%
7	Mobile Home Park – Winter Months Only	\$ 7.50	N/A		
8	Mobile Home Park – Summer Months Only per occupied space	\$ 31.86	N/A		
9	Mobile Home Park – monthly per occupied space year-round	N/A	\$ 38.78		
10	School	\$ 7.50	\$ 8.98	\$ 1.48	19.73%

(Per 100 gallons of water usage)

Line No.	Volumetric Rates	Present Rate	Proposed Rate	Percent Change
19	Commercial	\$ 0.98	\$ 1.173	19.69%
20	Mobile Home Park - Winter Only	\$ 0.57	N/A	
21	School	\$ 0.31	\$ 0.374	19.80%
24	Effluent (per 1,000 gallons)	\$ 0.15	\$ 0.20	33.33%
25	Effluent (per acre foot)	\$ 48.88	\$ 65.17	33.33%

NT = No Tariff

Line No. 1 2 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33

Coronado Utilities, Inc.
 Changes in Representative Rate Schedules
 Test Year Ended December 31, 2008

Exhibit
 Rejoinder Schedule H-3
 Page 2
 Witness: Bourassa

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment of service	\$ 25.00	\$ 25.00
2	Reconnection (Delinquent)(a)	\$ 35.00	\$ 35.00
3	Deposit	*	*
4	Deposit Interest	**	**
5	Re-establishment of service	***	***
6	NSF Check	\$ 25.00	\$ 25.00
7	Late Payment Penalty	1.5% per month	1.5% per month
8	Deferred Payment	1.5% per month	1.5% per month
9	Main extension and additional facilities agreements (b)	Cost	Cost
10	Service Calls (after hours, per hour)	NT	\$40.00

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* Per Commission Rule A.A.C. R-14-2-603(B). Residential: Min. deposit two times average monthly bill.

Non-residential - 2 and one-half time the estimated maximum bill.

** Per Commission Rule A.A.C. R-14-2-603(B)

*** Per Commission Rule A.A.C. R14-2-603(D) - Months off the system times the monthly minimum.

(a) Plus cost of physical disconnection and reconnection including parts, labor overhead, and all applicable taxes, including income tax.

(b) Cost includes parts, labor overhead, and all applicable taxes, including income tax.

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

Coronado Utilities, Inc.
Test Year Ended December 31, 2008
Service Line Installation Charges

Exhibit
Rejoinder Schedule H-3
Page 3
Witness: Bourassa

Line

No.

1

2 Service Line Installation Charges

3

4

5

6

7

8 Service Line Size

Present
Charge(a)

Proposed
Charge(a)

9 4 Inch

At Cost

At Cost

10 6 Inch

At Cost

At Cost

11 8 Inch

At Cost

At Cost

12 10 Inch

At Cost

At Cost

13 12 Inch

At Cost

At Cost

14

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19 (a) Cost includes parts, labor overhead, and all applicable taxes, including income tax.

20

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32 N/T = No Tariff

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April 28, 2010

Bill Garfield
Arizona Water Company
3815 N. Black Canyon Hwy.
Phoenix, AZ 85015-5351

Subject: Request for assistance with sewer customer delinquencies

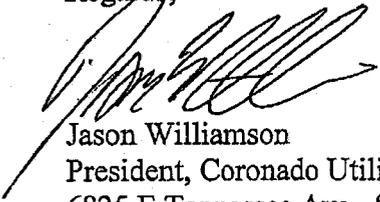
Mr. Garfield,

As you are aware, Coronado Utilities, Inc. is the regulated sewer utility company servicing customers in San Manuel, AZ, where you are the water provider. Presently, your company provides us with monthly water readings for our commercial customers and trailer park customers. You also have agreed to provide us with monthly new connect/ disconnect information, which will assist us in maintaining a more accurate customer database. We appreciate the cooperation your company has provided Coronado since we took over from BHP Copper in 2006.

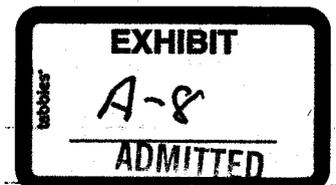
As I am sure you are also aware, it is far more difficult to discontinue sewer service for non-payment than it is to terminate water service. As such, and realizing that we have posed this question on previously - Would Arizona Water Company be willing to negotiate and enter into a water services agreement whereby your company agrees to terminate water service to customers that have not paid for sewer service by Coronado and whom are now subject to disconnection under the Commission's governing rules? We understand such an agreement would require Arizona Water to seek and obtain Commission approval, but we also understand such approval would likely be contingent on a mechanism to ensure Arizona Water is also made whole before water and sewer utility service continues.

Thank you for your ongoing cooperation, and in advance for your prompt attention to our request.

Regards,



Jason Williamson
President, Coronado Utilities
6825 E Tennessee Ave. Suite 547
Denver, CO 80224
P: (303)333-1250/ F: (303)333-1257



DOCKET NO. _____

Cancelling Sheet No. ____

Applies to all WASTEWATER service areas

**PART ONE
STATEMENT OF CHARGES
WASTEWATER SERVICE**

III. ADDITIONAL CHARGES

- | | | |
|----|--|----------------------|
| A. | Establishment of Service per Rule R14-2-603D (new customer charge, in addition to D and I below) | \$25.00 ² |
| B. | Re-establishment of Service per Rule R14-2-603D (same customer, same location within 12 months) | Note ³ |
| C. | Reconnection of Service (Delinquent) | 35.00 ⁴ |

² Initial monthly billing under Part One Section I (Rates) to new wastewater service for homes under construction shall commence no sooner than 30, and no more than 60 days after the water meter is installed. Wastewater billing to new service at existing locations shall be pro-rated from the start of service.

³ Number of months off system times the sum of the monthly minimum.

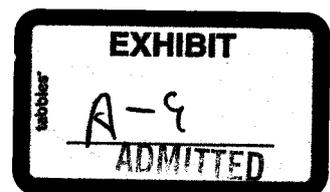
⁴ Plus cost of physical disconnection and reconnection including parts, labor overhead, and all applicable taxes, including income tax. Per Commission Decision No. XXXXX, Coronado has been given permission to reduce cost by accessing the lateral line on the customer's property. If the customer precludes access to the lateral, the customer will be required to pay the additional cost of disconnection before reconnecting and reestablishing service.

Issued: _____

Effective: _____

ISSUED BY:

Jason Williamson, President
6825 E. Tennessee Avenue, Suite 547
Denver, CO 80224



1 BEFORE THE ARIZONA CORPORATION COMMISSION

2 COMMISSIONERS

3 KRISTIN K. MAYES - Chairman
4 GARY PIERCE
5 PAUL NEWMAN
6 SANDRA D. KENNEDY
7 BOB STUMP

Arizona Corporation Commission

DOCKETED

OCT 21 2009

DOCKETED BY

nr

7 IN THE MATTER OF THE APPLICATION OF
8 CHAPARRAL CITY WATER COMPANY, INC.,
9 AN ARIZONA CORPORATION, FOR A
10 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

DECISION NO. 71308

OPINION AND ORDER

11 DATES OF HEARING:

December 5, 2008 (Pre-Hearing); December 8, 9, and
12 10, 2008, and January 8 and 9, 2009.

13 PLACE OF HEARING:

Phoenix, Arizona

14 ADMINISTRATIVE LAW JUDGE:

Teena Wolfe

15 APPEARANCES:

Mr. Norman D. James and Mr. Jay L. Shapiro,
16 FENNEMORE CRAIG, on behalf of Chaparral City
Water Company;

17 Ms. Michelle L. Wood, Attorney, on behalf of the
Residential Utility Consumer Office;

18 Ms. Robin Mitchell, Ms. Amanda Ho, and Mr. Wesley
19 Van Cleve, Staff Attorneys, Legal Division, on behalf of
the Utilities Division of the Arizona Corporation
20 Commission.

21
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EXHIBIT

A-12

ADMITTED

1 appropriate allowed expense level based on that estimation. Staff's method calculates the appropriate
2 level of ongoing property tax expense for the revenue requirement by including a component for
3 property taxes that reflects known assessment ratios and tax rates in the gross revenue conversion
4 factor.¹²⁰ RUCO's arguments in this case do not provide a basis for requiring any changes to the
5 simple, accurate, reliable and reasonable methodology we have approved in past cases and again
6 adopt in this case.

7 **B. Expense Normalization**

8 Staff proposes adjustments to normalize test year Chemical Expenses and Repairs and
9 Maintenance Expenses. The Company opposes both normalization adjustments.

10 Chemical Expenses

11 Staff's proposed normalization of Chemical Expenses would reduce the test year expense
12 level from \$127,457 to \$99,827, which is the three-year average of the Company's chemical expenses
13 for 2004, 2005, and the test year, 2006. The expenses in 2004 were \$66,210; in 2005, \$105,814; and
14 in 2006, \$127,457. Staff asserts that the normalization is appropriate because the Company's
15 chemical expenses have more than doubled subsequent to the Company's prior test year of 2003, and
16 because there were two large invoices totaling approximately \$17,000 for chemicals delivered in
17 December, 2006 that Staff believes were to be used post test year.¹²¹ Staff asserts that the December
18 2006 invoices were for deliveries not made on a monthly basis, but over longer time periods, and that
19 Staff believed those chemicals were for use in the following year, not the test year, and should
20 therefore not have been included in test year expenses.¹²² Staff's witness also testified that he knew
21 that a new treatment plant had come online during the three-year time period he used for the
22 normalization averaging, so that he was aware that chemical expenses would increase.¹²³ The
23 Company disagrees with the normalization adjustment, contending that the test year is presumed to
24 be normal, and adjustments should be based on known and measurable changes.¹²⁴ We agree. In this
25 instance, it was known to Staff that due to the new treatment plant, chemical expenses would have

26 ¹²⁰ Staff Brief at 10.

27 ¹²¹ Testimony of Staff witness Marvin E. Millsap (Exh. S-2) at 33; Tr. at 384-85.

28 ¹²² Tr. at 384-85.

¹²³ *Id.*

¹²⁴ Company Brief at 19.

1 increased.¹²⁵ In regard to the December 2006 invoices, the record does not reflect any inquiry
2 demonstrating that Staff's assumption that the chemicals were not properly a test year expense was
3 correct. If so, it may have been proper to exclude them from test year expenses, but that is not what
4 Staff proposed. Even if Staff had shown that the invoice amounts should have been excluded, the
5 exclusion would not have justified a normalization adjustment. Because the record does not support
6 the normalization of Chemical Expense proposed by Staff, the actual test year expense will be
7 allowed instead.

8 Repairs and Maintenance Expense

9 Staff proposes a normalization adjustment to the Company's Repair and Maintenance
10 Expense reducing the test year expense from \$104,609 to \$91,134. Staff believes that the fluctuation
11 in this expense account, from \$96,152 in 2004, to \$72,640 in 2005, to \$104,609 in the test year,
12 called for a normalization adjustment, based on Staff's opinion that there "does not appear to be any
13 upward trending in these expenses."¹²⁶ In addition, Staff proposes exclusion of \$5,543 of test year
14 expenses booked in this account for the Company's payments to Pepsi Cola Company of Dallas for
15 beverages for the Company's employees. The Company does not dispute that the \$5,543 should be
16 disallowed. We agree with Staff that this is an expense that should be borne by the shareholders, not
17 the ratepayers, and will not be allowed. The \$5,543 disallowance to test year expenses brings the test
18 year level of repair and maintenance expense down to a level close to the 2004 level of expense,
19 which, based on the evidence presented, is a reasonable level. Because the record does not support
20 Staff's proposed normalization of Repairs and Maintenance Expense, the actual test year expense,
21 less Staff's proposed disallowance of \$5,543, will be allowed.

22 C. Deferral of CAP M&I Charges

23 The Company and Staff agree that the Company should be allowed recovery of 50 percent of
24 the CAP M&I charges related to the additional CAP allocation, or \$20,306, as an operating expense,
25 based on Staff's position that only 50 percent of the additional CAP allocation is used and useful at
26 this time, and that 50 percent of the charges should be deferred.¹²⁷ Staff filed in this docket proposed

27 ¹²⁵ Tr. at 384-85.

28 ¹²⁶ Testimony of Staff witness Marvin E. Millsap (Exh. S-2) at 34; Staff Reply Brief at 4.

¹²⁷ Company Brief at 11, 20-21; Staff Reply Brief at 4.



**CORONADO UTILITIES, INC.
DOCKET NO: SW-04305A-09-0291
RESPONSE TO STAFF'S FOURTH SET OF DATA REQUESTS**

December 28, 2009

Response provided by: Jason Williamson
Title: President
Address: Coronado Utilities, Inc.
6825 E. Tennessee Avenue, Suite 547
Denver, CO 80224

Company Response Number: GTM-4.6

Q. Please provide a narrative and schedule if necessary explaining how the \$45,203.62 write-off was calculated, specifically identifying which accounts were charged off and the amounts that became delinquent subsequent to the establishment of the Phase III rates starting 7/1/08.

RESPONSE: Attached is a spreadsheet that details all of the customer accounts that were 90 days or more past due as of 12/31/08. The balance of \$50,556 is the net of prepaid accounts (the accts which have a negative A/R balance), and all collections accounts. We did not write off all of the >90 days accounts which were in working payment plans or were actively being collected on by AP financial.

For comparison, and per Staff's request, I've provided the same report showing A/R balances which were 90 days past due on 6/30/08, which is effectively the date of the implementation of the phase 3 rates. The total of \$22,506 suggests that nearly half of the A/R written off at the end of 2008 existed prior to the implementation of the phase 3 rates on July 1, 2008.

ORIGINAL

BEFORE THE ARIZONA CORPORATION C

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COMMISSIONERS

KRISTIN K. MAYES - Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

2010 FEB 12 P 1:06

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL



IN THE MATTER OF THE APPLICATION OF
CORONADO UTILITIES, INC. FOR A
DETERMINATION OF THE FAIR VALUE OF
ITS UTILITY PLANT AND PROPERTY AND
FOR INCREASES IN ITS WATER AND
WASTEWATER RATES AND CHARGES FOR
UTILITY SERVICE BASED THEREON.

DOCKET NO. SW-04305A-09-0291

**STAFF'S NOTICE OF FILING
DIRECT TESTIMONY**

The Utilities Division of the Arizona Corporation Commission ("Staff") hereby files the Direct Testimony of Staff Witnesses Gary T. McMurry and Katrin Stukov, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 12th day of January 2010.

Handwritten signature
For Ayesha Vohra, Attorney
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

Original and thirteen (13) copies
of the foregoing filed this
12th day of January, 2010 with:

Arizona Corporation Commission

DOCKETED

FEB 12 2010

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

DOCKETED BY *Handwritten initials*

Copies of the foregoing mailed this
12th day of January, 2010 to:

Jay Shapiro
Stephanie Johnson
Fennemore Craig, P.C.
3003 North Central Avenue
Phoenix, Arizona 85012
Attorneys for Coronado Utilities, Inc.

Jason Williamson, President
Coronado Utilities, Inc.
6825 East Tennessee Avenue
Denver, Colorado 80224

Handwritten signature: Monica A. Martini

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MACORONADO

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF)
CORONADO UTILITIES INC FOR AN)
INCREASE IN ITS WATER RATES)
FOR CUSTOMERS WITHIN PINAL)
COUNTY, ARIZONA)
_____)

DOCKET NO. SW-04305A-09-0291

DIRECT

TESTIMONY

OF

GARY T. MCMURRY

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 12, 2010

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**EXECUTIVE SUMMARY
CORONADO UTILITIES, INC.
DOCKET NO. SW-04305A-09-0291**

Coronado Utilities Inc. ("Coronado" or "Company") is an Arizona for-profit Class B public service corporation providing wastewater service to approximately 1,300 customers in the unincorporated town of San Manuel, Arizona. On June 3, 2009, Coronado filed a general rate application. The application shows that Coronado posted a \$154,497 adjusted operating income for the test year that ended December 31, 2008. Coronado requests a \$156,498 revenue increase to provide a \$260,297 operating income for a 7.36 percent rate of return on a \$3,536,648 fair value rate base.

The testimony of Mr. Gary T. McMurry presents Staff's recommendation in the areas of rate base, operating income, revenue requirement and rate design. Staff recommends a \$118,985 (13.47 percent) revenue increase to provide a 7.36 percent rate of return on an original cost rate base of \$3,531,141. Staff's adjustments resulted in a \$5,507 reduction in rate base. Staff's recommendation reflects two rate base adjustments and four operating income adjustments.

The present rate design consists of a monthly fixed charge for residential accounts, which make up the majority of the customers, and a smaller monthly charge combined with a volumetric rate (based on water use) for commercial and school customers. Mobile home parks have seasonal (summer and winter) rates. The summer rate is a monthly fixed charge, and the winter rate is a combined monthly fixed charge and volumetric rate.

The Company proposes to continue the existing rate structure (with the exception of effluent sales) and increase the monthly fixed charges and the volumetric rates each by 17.7 percent to achieve its revenue requirement. For effluent sales, the Company proposes a 33.3 percent increase.

Staff also recommends continued use of the existing rate structure (with the exception of effluent sales). Under Staff's recommended rates the monthly fixed charges and volumetric charges increase between 13.35 and 13.61 percent. Staff recommends a 32.67 percent increase for effluent sales. Staff's recommended rate design would generate Staff's recommended wastewater revenue requirement of \$1,002,515 composed of \$987,297 from sewer services and \$15,218 from other revenues. The typical residential sewer bill would increase by \$6.30, or 13.56 percent, from \$46.50 to \$52.80.

The Company proposes to implement a tariff representing the actual cost plus a fixed charge for sewer line disconnection of delinquent accounts. Staff concludes that the Company has not shown that physical disconnection is an efficient and effective method to improve delinquent account collection, and that if sewer disconnections are performed, they may have undesirable health, safety and environmental consequences. As an alternative, Staff recommends that the Commission direct the Company to engage in discussions with the service area's water provider (Arizona Water Company) to negotiate a water termination services agreement similar to those Arizona American Water Company has with the City of Surprise and the City of Bisbee

that provide for Arizona American Water Company to terminate water services for delinquent sewer customers.

The Company is also requesting adoption of a low income tariff. The Company asserts that its proposed low income tariff is similar to the one adopted by the Commission in the Chaparral City Water rate case. Staff notes that the proposed program contains several significant departures from the Chaparral City program, and it is not adequately detailed. Staff supports adoption of a low income tariff, and it suggests enhancements to refine the Company's proposal.

1 **I. INTRODUCTION**

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

3 A. My name is Gary McMurry. I am a Public Utilities Analyst employed by the Arizona
4 Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff").
5 My business address is 1200 West Washington Street, Phoenix, Arizona 85007.
6

7 **Q. Please describe your educational background and professional experience.**

8 A. I received a Bachelor of Science degree in Business Administration with a major in
9 Accounting from the University of Arizona. I have since been awarded two professional
10 designations, as a Certified Fraud Examiner and as a Certified Internal Auditor; after
11 successfully meeting the prescribed requirements established by each of the sponsoring
12 professional organizations.
13

14 My prior work experience includes approximately 20 years of auditing (both internal and
15 external), five additional years as a bank examiner, and two years of Investigations work.
16 Prior to joining the Commission, I was employed by the Office of Audit and Analysis for
17 the Department of Transportation primarily as a construction auditor.
18

19 In 2007, I began employment at the Commission as a Public Utilities Analyst IV in the
20 Finance and Regulatory Analysis Section. Since coming to the Commission, I have
21 participated in a number of rate cases and other regulatory proceedings involving water
22 and gas utilities. I have also attended various seminars and classes on general regulatory
23 and business issues, including the National Association of Regulatory Utility
24 Commissioners ("NARUC") Utility Rate School and the Institute of Public Utilities
25 Annual Regulatory Studies Program ("Camp NARUC").

1 **Q. Briefly describe your responsibilities as a Public Utilities Analyst.**

2 A. I am responsible for the examination and verification of financial and statistical
3 information included in assigned utility rate applications and other financial regulatory
4 matters. I develop revenue requirements, design rates, and prepare written reports,
5 testimony and schedules to present Staff's recommendations to the Commission.

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

8 A. The purpose of my testimony is to present Staff's analysis and recommendations
9 regarding the Coronado Utilities Inc.'s ("Coronado" or "Company") application for a
10 permanent rate increase. I am presenting recommendations in the areas of rate base,
11 operating income, revenue requirement and rate design. Staff witness Katrin Stukov is
12 presenting the engineering analysis and recommendations.

13
14 **Q. What is the basis of Staff's recommendations?**

15 A. I have performed a regulatory audit of the Company's records to determine whether
16 sufficient, relevant and reliable evidence exists to support the proposals in Coronado's rate
17 application. My regulatory audit consisted of the following: (1) examining and testing
18 Coronado's accounting ledgers, reports and supporting documents; (2) checking the
19 accumulation of amounts in the records; (3) tracing recorded amounts to source
20 documents; and (4) verifying that the Company applied accounting principles were in
21 accordance with the NARUC Uniform System of Accounts ("USOA").

22
23 **Q. How is your testimony organized?**

24 A. My testimony is presented in eleven sections. Section I is this introduction. Section II
25 provides a background of the Company. Section III is a summary of consumer service
26 issues. Section IV is a summary of proposed revenues. Section V is a summary of Staff's

1 rate base and operating income adjustments. Section VI presents Staff's rate base
2 recommendations. Section VII presents Staff's operating income recommendations.
3 Section VIII discusses the Company's proposed tariff for delinquent sewer accounts.
4 Section IX discusses the Company's proposed low income tariff. Section X discusses rate
5 of return. Section XI discusses rate design.
6

7 **Q. Have you prepared any schedules to accompany your testimony?**

8 A. Yes. I prepared schedules GTM-1 to GTM-14.
9

10 **II. BACKGROUND**

11 **Q. Would you please review the pertinent background information associated with the**
12 **Company's application for a permanent rate increase?**

13 A. Coronado is a class B public service corporation that provides wastewater service to
14 approximately 1,300 customers in the vicinity of the unincorporated Town of San Manuel,
15 County of Pinal, Arizona. On June 3, 2009, Coronado filed an application for approval of
16 permanent rates and charges for water service, and on July 16, 2009, Staff filed a letter
17 declaring the application sufficient. Coronado's application asserts that an increase in
18 revenues is required to recover operating expenses and to provide debt service coverage
19 and a 7.36 percent return on fair value rate base ("FVRB").
20

21 **Q. What test year did Coronado use in its filing?**

22 A. Coronado's rate filing is based on the twelve-month period that ended December 31, 2008.

1 **Q. When were Coronado's present rates established?**

2 A. The Commission Decision No. 68608, dated March 23, 2006, granted the Company a new
3 Certificate of Convenience and Necessity ("CC&N") and established its present
4 permanent rates.

5
6 **Q. Does Coronado have any other cases currently pending before the Commission?**

7 A. No.
8

9 **III. CONSUMER SERVICE**

10 **Q. Please provide a brief summary of customer complaints received by the Commission
11 regarding Coronado Utilities.**

12 A. Staff reviewed the Commission's records and found 11 complaints and 8 opinions
13 opposed to the rate increase for the period January 1, 2006, through November 2, 2009.
14 The Company is in good standing with Corporations Division. The Company is current
15 on all property and sales taxes.
16

17 **IV. SUMMARY OF PROPOSED REVENUES**

18 **Q. What revenue requirement is Coronado proposing?**

19 A. The Company's application proposes total operating revenue of \$1,040,028, an increase of
20 \$156,498, or 17.71 percent, over its test year revenue of \$883,530. The Company's
21 proposed revenue, as filed, would provide an operating income of \$260,297 for a 7.36
22 percent rate of return on the proposed \$3,536,648 fair value rate base which is the same as
23 the proposed original cost rate base ("OCRB").

1 Q. What is Staff's revenue requirement recommendation?

2 A. Staff recommends revenues of \$1,002,515, a \$118,985 (13.47 percent) increase over test
3 year revenues of \$883,530, to provide an operating income of \$259,892 for a 7.36 percent
4 rate of return on \$3,531,141 FVRB.

5

6 V. SUMMARY OF STAFF'S RATE BASE AND OPERATING INCOME
7 ADJUSTMENTS

8 Q. Please summarize Staff's rate base and operating income adjustments.

9 A. Rate Base:

10 Deferred Income Tax Debits – This \$2,639 increase correlates with Staff adjustment to
11 Accumulated Depreciation and reflects an increase in book/tax timing differences due to
12 the Company's improper calculation of depreciation expense in prior periods.

13

14 Accumulated Depreciation adjustment – This \$8,146 increase corrects for the Company's
15 application of unauthorized depreciation rates for certain accounts.

16

17 B. Operating Income:

18 Bad Debt Write-off – This \$27,881 downward adjustment normalizes bad debt expense.

19

20 Depreciation expense – This adjustment decreases depreciation expense by \$8,343 to
21 reflect application of Staff's recommended depreciation rates to Staff recommended plant
22 amounts.

23

24 Property Taxes – This adjustment decreases test year property taxes by \$3,219 to reflect
25 application of the modified version of the Arizona Department of Revenue's property tax
26 methodology which the Commission has consistently adopted.

1 Test Year Income Taxes ~ This adjustment increases test year income tax expense by
2 \$8,558 to reflect application of statutory state and federal income tax rates to Staff
3 adjusted taxable income.

4
5 **VI. RATE BASE**

6 **Fair Value Rate Base**

7 **Q. Does Coronado's application include schedules with elements of a Reconstruction**
8 **Cost New Rate Base?**

9 A. No. The Company's application does not request recognition of a Reconstruction Cost
10 New Rate Base. Accordingly, Staff has treated the Company's OCRB as its FVRB.

11
12 **Rate Base Summary**

13 **Q. Please summarize Staff's rate base recommendation.**

14 A. Staff recommends a \$3,531,141 OCRB, a \$5,507 reduction from the Company's proposed
15 \$3,536,648 rate base. Staff's recommendation results from the rate base adjustments
16 described below.

17
18 **Rate Base Adjustment No. 1 – Accumulated Deferred Income Taxes (“ADIT”)**

19 **Q. What did the Company propose with respect to accumulated deferred income taxes**
20 **in the test year?**

21 A. Schedule B-2, page 1, line 22 of the Company's application shows that the Company
22 deducted a negative \$37,425 for ADIT to calculate its proposed rate base. In other words,
23 the Company is requesting recognition of a deferred income tax debit,¹ an addition to rate
24 base, as shown in Schedule GTM-4.

¹ Schedule B-2, page 1, line 9 erroneously, and inconsistently with line 14, shows the \$37,425 ADIT balance as a liability instead of an asset.

1 **Q. How did the Company calculate its ADIT balance?**

2 A. The Company presents its ADIT calculation in Schedule B-2, page 6 of the application.
3 The calculation applies the current tax rate to the difference between the tax and book
4 values of plant [(\$3,551,621 tax value - \$3,436,094 book value) x 32.4 percent tax rate] =
5 \$37,425.

6
7 **Q. Is Staff taking exception to the Company's general methodology in this proceeding?**

8 A. No. Staff accepts the Company's ADIT methodology for this proceeding. However, Staff
9 calculated a different ADIT balance due to use of a different book plant value that results
10 from Staff's adjustment to Accumulated Depreciation discussed below.

11
12 **Q. How does Staff's adjustment to Accumulated Depreciation affect ADIT?**

13 A. Staff's \$8,146 increase to accumulated depreciation decreased the net plant value by that
14 amount, and it also increases the difference between the tax and book values by that
15 amount. The impact to ADIT balance is the product of the current tax rate and the \$8,146
16 difference, or \$2,639 (\$8,146 x 32.4 percent).

17
18 **Q. What is Staff recommending?**

19 A. Staff recommends a \$2,639 increase in the ADIT debit to \$40,064, as shown in GTM-5.
20

21 **Rate Base Adjustment No. 2 – Accumulated Depreciation**

22 **Q. What did the Company propose with respect to the depreciation expense for**
23 **pumping equipment and outfall sewer lines?**

24 A. Coronado proposed depreciation rates of 12.5 percent for pumping equipment and 3.33
25 percent for outfall sewer lines.

1 **Q. What did the Commission approve with respect to these asset classes?**

2 A. In Decision No. 68608, dated March 23, 2006, the Commission approved the Staff Report,
3 dated May 27, 2005, which recommended depreciation rates for pumping equipment of
4 10.0 percent and for outfall sewer lines of 4.0 percent.

5
6 **Q. What is Staff recommending?**

7 A. Staff recommends increasing accumulated depreciation by \$8,146 to reflect the
8 depreciation rates adopted by the Commission, as shown in GTM-6.

9
10 **VII. OPERATING INCOME**

11 **REVENUES**

12 **Q. Please summarize the results of Staff's examination of test year operating income.**

13 A. Staff determined a test year operating income of \$185,381, \$30,884 higher than the
14 Company's adjusted test year operating income of \$154,497. Staff's recommendation
15 results from the operating income adjustments described below.

16
17 **Operating Income Adjustment No. 1 – Normalize Bad Debt Expenses**

18 **Q. What does the Company propose for bad debt expense?**

19 A. The Company proposes an actual recorded expense of \$46,313 in the test year.
20

21 **Q. Is the test year expense representative of average bad debt expense?**

22 A. No. The Company's reported bad debt expenses for the fiscal years 2006, 2007, and 2008
23 totaled \$3,483, \$5,500, and \$46,312, respectively, which indicates that these expenses
24 vary widely from year to year.

1 Q. Do recorded bad debt expenses directly reflect the number of collection
2 delinquencies or uncollectible amounts?

3 A. No. The Company controls when it elects to expense delinquent accounts.
4

5 Q. What reason does the Company offer to explain the higher bad debt expense in the
6 test year compared to prior years?

7 A. In response to GTM-2.17, the Company indicated that the primary reason for the higher
8 bad debt expense in the test year relates to the \$9.50 increase in the phase 3 rates which
9 became effective July 1, 2008.
10

11 Q. Does the Company's stated reason comport with its history?

12 A. No. Staff notes that the Company experienced no similar increase in bad debt expense
13 when rates increased \$10.00 from \$27.00 to \$37.00 as a result of the adoption of the phase
14 2 rate increase effective June 30, 2007.
15

16 Q. What is Staff recommending?

17 A. Staff recommends normalizing bad debt expense as the average of the past three years.
18 Staff recommends removing \$27,881 from bad debt expense to reflect a normalized level
19 of \$18,432, as shown in Schedule GTM-9.
20

21 **Operating Income Adjustment No. 2 – Depreciation Expense**

22 Q. What is the Company proposing for Depreciation expense?

23 A. The Company proposes its recorded test year depreciation expense of \$186,095.

1 **Q. Did the Company record depreciation expense in accordance with the authorized**
2 **depreciation rates?**

3 A. No. As noted above in the discussion of Staff's adjustment to accumulated depreciation,
4 the Company recorded the incorrect depreciation rates for pumping equipment and outfall
5 sewer lines.

6
7 **Q. Did Staff recalculate depreciation expense?**

8 A. As shown in Schedule GTM-10, Staff recalculated depreciation expense by applying
9 Staff's recommended depreciation rates to Staff's recommended plant by account. Staff
10 calculated depreciation expense of \$177,752, a reduction of \$8,343 from the \$86,095
11 proposed by the Company.

12
13 **Q. What is Staff recommending?**

14 A. Staff recommends \$177,752 for Depreciation expense, an \$8,343 reduction from the
15 Company's proposed amount, as shown in Schedule GTM-10.

16
17 **Operating Income Adjustment No. 3 – Property Tax Expense**

18 **Q. What is the Company proposing for test year property tax expense?**

19 A. Coronado proposes \$57,733 for test year property taxes. The proposed amount is \$13,194
20 greater than the \$44,538 recorded in the test year. The Company calculated its proposed
21 amount using a modified version of the Arizona Department of Revenue's ("ADOR")
22 property tax method.

1 **Q. What method has the Commission typically adopted to determine property tax**
2 **expense for ratemaking purposes of Class B wastewater utilities?**

3 A. The Commission's practice in recent years has been to use a modified Arizona
4 Department of Revenue methodology for water and wastewater utilities.

5
6 **Q. Using the modified ADOR property tax method, what is the primary factor for**
7 **determining the amount of property tax calculated?**

8 A. The results from the modified ADOR methodology are primarily dependent upon revenue
9 inputs for three years. In the same manner as each operating income has a specific income
10 tax expense, there is a specific property tax expense for each three-year set of revenue
11 inputs. Therefore, the property tax expense calculated for the test year is different than the
12 property tax calculated for the authorized revenue. Only when the revenue input for each
13 of the three years is equal to the test year revenue will the resulting calculation reflect
14 property tax expense that correlates with the test year revenue. Since under the modified
15 ADOR method property tax expense is revenue dependent in the same manner as is
16 income tax expense, property tax expense must be recalculated to reflect the authorized
17 revenue. Using inputs of one year of authorized revenue and two years of test year
18 revenue in the modified ADOR method provides the average expected property tax over a
19 subsequent three-year period. Use of one year of authorized revenue and two years of test
20 year revenue is consistent with the tax assessment lags used by ADOR.

21
22 **Q. What revenues did the Company use to calculate test year property tax expense?**

23 A. Schedule C-2, page 3, of the Company's application shows that it used one year of
24 proposed revenue and two years of test year revenues to calculate test year property tax
25 expense.

1 **Q. Does the Company's property tax calculation reflect an appropriate amount for test**
2 **year property tax expense?**

3 A. No. As discussed above, only when the revenue input for each of the three years is equal
4 to the test year revenue will the resulting calculation using the modified ADOR method
5 reflect property taxes that correlate with test year revenue. Since the Company included
6 one year of proposed revenue in its calculation, its proposed test year property tax expense
7 reflects the on-going property tax expense, as opposed to test year expense, and will only
8 reflect the on-going expense if the Company's proposed revenue is adopted.

9
10 **Q. Has Staff developed a solution to address the dependent relationship between**
11 **Property Tax expense and revenues?**

12 A. Yes. Staff has included a factor for property taxes in the gross revenue conversion factor
13 ("GRCF") (See Schedule GTM-2) that automatically adjusts the revenue requirement for
14 changes in revenue in the same way that income taxes are adjusted for changes in
15 operating income. This flexible method will accurately reflect property tax expense at any
16 authorized revenue level. This refinement allows for accurate calculation of property tax
17 expense at the test year revenue level, and for recovery of any additional property tax
18 expense incurred due to any increase in authorized revenue. It also removes any necessity
19 to present on-going property tax expense as test year property tax expense. In using the
20 GRCF to calculate the correct revenue requirement, the test year operating income must
21 be determined with property tax expense derived from the modified ADOR method using
22 test year revenue as the input for all three years.

1 **Q. What is Staff recommending for test year property tax expense?**

2 A. Staff recommends \$54,514 for test year property tax expense, a \$3,219 reduction from the
3 Company's proposed amount as shown in Schedule GTM-11.² Staff further recommends
4 adoption of its GRCF that includes a factor for property tax expense, as shown in
5 Schedule GTM-2.

6
7 **Operating Income Adjustment No. 4 – Income Tax Expense**

8 **Q. What is the Company proposing for test year income tax expense?**

9 A. Coronado is proposing negative \$711 for test year income tax expense. The Company's
10 test year income tax expense reflects application of the statutory State and Federal income
11 tax rates to its adjusted test year loss.

12
13 **Q. How did Staff calculate Test Year Income Tax Expense?**

14 A. Staff calculated test year income tax expense of \$7,847 by applying the statutory State and
15 Federal income tax rates to Staff's adjusted test year taxable income, as shown in
16 Schedule GTM-2.

17
18 **Q. Since Staff and the Company used the same tax rates and methods to calculate test
19 year income tax expense, what accounts for the difference between the Staff and the
20 Company test year income tax expenses?**

21 A. Staff and the Company used different test year operating expenses and synchronized
22 interest to calculate taxable income.

² Schedule GTM-11 also shows calculations for Property Tax Expense for Staff's recommended revenue.

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

2 A. Staff recommends test year income tax expense of \$7,847, as shown in Schedule GTM-2
3 and GTM-12.

4
5 **Q. Does Staff have any additional comments regarding income taxes?**

6 A. Yes. On Schedule C-3, the Company shows its calculation of a 1.4792 gross revenue
7 conversion factor. Schedule GTM-2 shows the calculation of Staff's 1.5969 GRCF. This
8 difference in GRCF is due to Staff's greater taxable income that falls into the highest (39
9 percent) Federal tax bracket and to a lesser extent Staff's inclusion of a factor for property
10 tax expense.

11
12 Staff Schedule GTM-2 provides a reconciliation of Staff's test year and recommended
13 revenues. The reconciliation shows the incremental operating income, property tax
14 expense and income tax expense components of Staff recommended increase in revenue.
15 The reconciliation verifies that Staff's 1.5969 GRCF results in the recommended
16 operating income.

17
18 **VIII. DELINQUENT PAYMENT DISCONNECTION TARIFF**

19 **Q. What is the Company proposing with respect to sewer line disconnection?**

20 A. Coronado requests that the Commission authorize it to charge customers that are
21 delinquent paying sewer bills a disconnection tariff for an amount equal to the actual costs
22 incurred to disconnect the sewer line plus \$35.00.

23
24 **Q. Has the Company provided any support to demonstrate that physical disconnection
25 of sewer lines is an efficient and effective method to collect delinquent accounts?**

26 A. No.

1 **Q. Has the Company exhausted reasonable options other than physical disconnection**
2 **that may be less costly or more effective methods to collect delinquent accounts?**

3 A. Although the Company has acquired the services of an outside collection agency, other
4 potentially effective methods of collecting delinquent accounts may be available as
5 discussed below.

6
7 **Q. Does Staff have concerns other than cost and effectiveness regarding physical**
8 **disconnections?**

9 A. Yes. Disconnection of a sewer line presents potential health, safety and environment
10 concerns.

11

12 **Q. What is one alternative to physical disconnection?**

13 A. One alternative is to enter into a water service termination agreement with the local water
14 service provider.

15

16 **Q. Please describe the key elements of a Water Service Termination Agreement?**

17 A. A water termination agreement provides for the water provider to terminate water services
18 to any customer who becomes delinquent on waste water payments at the same address.
19 A water service termination agreement would have provisions to hold harmless the water
20 provider from any damages resulting from the water cutoff and provide for reimbursement
21 to the water provider for lost water revenue and fees incurred as a result of the water
22 termination.

1 **Q. Have water service termination agreements been used successfully by other utilities**
2 **in Arizona?**

3 A. Yes. The City of Surprise (ACC Decision No. 68917) and the City of Bisbee (ACC
4 Decision No. 66998) both have executed water termination agreements with Arizona-
5 American Water Company.

6
7 **Q. Would a water service agreement preclude Coronado from the ultimate**
8 **disconnection of the sewer line on certain delinquent accounts?**

9 A. No. Staff realizes that ultimately a sewer disconnection may be appropriate in some
10 instances; however, Staff believes that such instances would be rare. Staff concludes that
11 an alternate method to facilitate payments might prove to be more effective and less costly
12 to all parties involved, and it should be pursued prior to establishing a sewer disconnection
13 fee.

14
15 **Q. What does Staff recommend?**

16 A. Staff recommends that the Commission order Coronado to work with the local area water
17 provider, in this case Arizona Water Company, to develop a water termination agreement
18 instead of authorizing a sewer disconnection fee. Staff would note that Commission rule
19 R14-2-410 (A) (3) prohibits water utilities from discontinuing service to customers for
20 failure to pay bills for different classes of utility service. Consequently, the water
21 provider, Arizona Water Company, would have to file an application for the Commission
22 to permit a waiver or variance from the rule in order to implement a water services
23 termination agreement.

1 **IX. LOW INCOME TARIFF**

2 **Q. Is the Company proposing a low income tariff?**

3 A. Yes. Coronado proposes to establish a low income tariff to assist economically
4 disadvantaged customers pay their utility bills.

5
6 **Q. What did the Company use as a baseline for developing its low income tariff?**

7 A. Mr. Bourassa's direct testimony (at page 13) states that the proposed low income tariff is
8 modeled after those he recently proposed in rate cases for Chaparral City Water Company
9 (Docket No. W-02113A-07-0551) and Litchfield Park Service Company (Docket Nos.
10 SW-01428A-09-0103 and W-01427A-09-0104) and Rio Rico Utilities, Inc. (Docket No.
11 WS-02676A-09-0257).

12
13 **Q. What are the key provisions of the Company's proposed low income tariff?**

14 A. The low income tariff as described in Mr. Bourassa's direct testimony includes the
15 following primary components:
16 1. Requirement for customers to submit an "Application and Eligibility Declaration" that
17 provides proof of meeting income eligibility requirements and is subject to
18 verification.
19 2. Requires customers to renew eligibility requirement every two years.
20 3. Applicable only to residential customers that meet all program qualifications.
21 4. An income eligibility standard of no more than 100 percent of federal poverty level
22 (updated annually).
23 5. Provides a 25 percent discount on the entire wastewater service fee.
24 6. Recovery of an Administrative Fee equal to 10 percent of an unspecified base.
25 7. Maintenance of a balancing account.

- 1 8. Recovery of a carrying cost at the authorized rate of return applied in an unspecified
- 2 manner.
- 3 9. Recovery of program costs from only residential non-participants.
- 4 10. Begin the surcharge as soon as possible six months after implementation.
- 5 11. Recalculate surcharge every 6 months.
- 6 12. Submit annually a report showing: number of participants for each six-month period
- 7 during the year; amount of discounts given to participants; administration fees and
- 8 carrying costs charged; amount of surcharge collections from non-participating
- 9 residential customers; and a computation of the surcharge for the next six-month
- 10 period.

11
12 **Q. What is the recent experience with low income tariffs for water and wastewater**
13 **utilities in Arizona?**

14 A. Use of low income tariffs is for the most part a recent development. The Commission has
15 authorized low income tariffs for Arizona-American Water Company (W-01303A-07-
16 0209) and Chaparral City Water Company (Docket No. W-02113A-07-0551). Low
17 income tariffs have been proposed by utilities and supported by Staff in pending rate cases
18 by Litchfield Park Service Company (Docket Nos. SW-01428A-09-0103 and W-01427A-
19 09-0104) and Rio Rico Utilities, Inc. (Docket No. WS-02676A-09-0257).

20
21 **Q. Is the Company's proposed low income tariff essentially the same as that adopted for**
22 **Chaparral City Water Company and proposed by Litchfield Park Service**
23 **Company?**

24 A. No. The low income program proposed for Coronado is different from the one approved
25 by the Commission for Chaparral City Water Company or proposed by Litchfield Park
26 Service Company. Mr. Bourassa has also proposed a low income tariff on behalf of Rio

1 Rico Utilities, Inc. The low income tariff proposed for Rio Rico Utilities, Inc. is different
2 from those for Coronado, Chaparral City Water Company and Litchfield Park Service
3 Company.

4
5 **Q. Given that Arizona has limited experience with low income tariffs, is it unexpected to**
6 **see differences in the proposed low income programs as knowledge and experience is**
7 **gained?**

8 A. No. Staff would expect an evolution of the low income programs as Arizona gains
9 experience with them. However, the Company's proposed changes do not appear to be
10 based on experience or any other specific information. According to the Company's
11 response to Staff data request GTM-6.3, it did not prepare or obtain any demographic
12 studies to determine the incomes in the San Manuel area. The Company does not have
13 this basic information for reasonably estimating the number of eligible customers. The
14 limited experience with low income programs suggests that more controls and limitations
15 should be applied.

16
17 **Q. Does Staff support adoption of a low income tariff for Coronado?**

18 A. Yes.

19
20 **Q. Does Staff have any general and specific concerns with Coronado's proposed low**
21 **income tariff?**

22 A. Yes, Staff has comments for the following points.

23 Tariff - Staff notes that the tariff in the application is incomplete and fails to include even
24 the still sketchy details presented in Mr. Bourassa's testimony.

25 Discount Percent - The Company has provided no support for its proposal for a 25 percent
26 discount off the total wastewater service fee. This proposal is a significant increase over

1 the 15 percent discount adopted for Chaparral City Water Company and the other pending
2 cases discussed above. Staff concludes that a 15 percent discount should be adopted
3 unless the Company can demonstrate that its proposed 25 percent discount is more
4 appropriate in consideration of the overall interests of the Company and all customers.

5 Income Eligibility – The Company has not explained or supported its proposal to use 100
6 percent of the federal poverty level as the eligibility cutoff. This proposal represents a
7 significant decrease from the 150 percent level adopted for Chaparral City Water
8 Company. Staff concludes that an eligibility standard equal to 150 percent of the federal
9 poverty level should be adopted unless the Company can demonstrate that its proposed
10 100 percent level is more appropriate in consideration of the overall interests of the
11 Company and all customers.

12 Recertification – While Staff agrees with the Company proposal for participants to reapply
13 at least once every two years, the Company proposes passive, not proactive, reporting of
14 continuing eligibility. Staff concludes that participants should be required to submit an
15 affidavit yearly attesting to their continuing eligibility.

16 Participation Cap – The Company has not proposed any limitation on the number of
17 customers that may participate in the program. Allowing unfettered participation could be
18 burdensome to ineligible customers to whom the costs of the low income discounts would
19 be transferred. This concern is exacerbated by the Company's inability to reasonably
20 estimate participation. In order to limit the low income surcharge to less than 10 percent
21 of the monthly bill for non-participants, Staff concludes that participation should be
22 limited to 400 customers (approximately 30 percent).

23 Administrative Fee – The Company proposes an administrative fee pertaining to its low
24 income program. Details of this proposed fee are unclear. Mr. Bourassa's direct
25 testimony (at page 14) states, "The program cost (the discounts given to participants plus a
26 10 percent fee for administration and carrying costs) would be recovered from non-

1 participants via a commodity charge.” Mr. Bourassa’s direct testimony (at page 15)
2 explains that the carrying charge is the authorized rate of return, and he provides an
3 illustration (at pages 15-16). However, the illustration does not show how the carrying
4 cost would be applied, whether the carrying cost is included or in addition to the 10
5 percent administrative fee or even to what base the 10 percent is applicable. In response
6 to Staff data request GTM-6.6, the Company could not provide support for these cost
7 estimates; it only offers its belief that the fee is a fair amount. Staff concludes that the
8 Company’s vague proposal represents, inappropriately, establishment of the low income
9 program as a profit center. Staff further concludes that the low income program should
10 allow the Company to seek recovery only of direct costs (i.e., costs directly associated
11 with the program – those that would not be incurred in the absence of the program), and
12 that the Company should account for these direct costs separately from other costs. Staff
13 further concludes that the authorized rate of return is a reasonable carrying rate. The
14 carrying rate should be applied monthly to the average of the beginning and ending
15 balance of the cumulative unrecovered program costs and included in the beginning
16 balance for the following month.

17 Surcharge Initiation, Recalculation Frequency and Approval – The Company proposes to
18 initiate a surcharge to recover the program costs (discounts, administrative fee and
19 carrying charges) as soon as practicable after the first six months of implementation and to
20 reset the surcharge every six months thereafter. The Company’s proposal has a provision
21 for annual Commission oversight of the surcharge amount, but it has no oversight for the
22 mid-year resetting of the surcharge. This proposal represents a significant deviation from
23 the twelve month initiation and recalculation periods adopted for Chaparral City Water
24 Company. Mr. Bourassa’s direct testimony (at page 16) offers an explanation for this
25 difference asserting that Coronado “cannot afford to carry a significant number of
26 customers that may qualify for the low income tariff for a whole year.” Staff concludes

1 that its recommended revenue combined with Staff recommended limits on participation
2 and a 15 percent discount will provide Coronado with sufficient cash flow to carry the
3 program costs for twelve months, and that the surcharge should be implemented twelve
4 months after authorization of the program and subsequent to Commission approval of the
5 specific surcharge amount, and recalculated each twelve months thereafter. Staff further
6 concludes that resetting the surcharge in mid-year without Commission oversight is
7 inappropriate and providing oversight for resetting the surcharge every six months is not
8 efficient use of regulatory resources.

9 Surcharge Recovery Customer Base - The Company proposes to recover the low income
10 program costs only from residential customers since only residential customers qualify for
11 the program. Staff agrees that the surcharge should apply only to the residential customer
12 class.

13 Surcharge Calculation - The Company has not provided a specific method for periodically
14 calculating the low income surcharge. Staff concludes that the following is an appropriate
15 surcharge calculation method. The surcharge shall equal a dollar-and-cents amount
16 resulting from dividing the ending balance of the low income balancing account properly
17 calculated by the number of bills properly issued to non-participating residential
18 customers during the past 12-month tracking period. The ending balance in the balancing
19 account should equal the beginning balance plus discounts allowed on bills in the twelve
20 month tracking period plus direct program costs incurred in the twelve month tracking
21 period plus carrying charges less surcharge fees billed in the twelve month tracking
22 period.

23 Reporting Requirement - Mr. Bourassa's direct testimony (at page 16) states, "Coronado
24 expects that it will need to submit an annual report showing the number of participants for
25 each six-month period during the year, the discounts given to participants, administration
26 fee and carrying costs, and the collections made from non-participants through the

1 surcharge. The Company would also report the balance of the low income balancing
2 accounts and show the computation of the next six-month commodity charge and submit
3 updated gross annual income guidelines as updated by the federal government.”
4 Removing the references to a six-month period to reflect annual surcharge recalculation,
5 Staff agrees that the Company should submit an annual report as one step of the annual
6 process for the Commission to approve and reset the surcharge amount.
7

8 **Q. What is Staff's recommendation with respect to the low income tariff?**

9 A. Staff recommends approval of the low income tariff consistent with its comments and
10 conclusions discussed above.
11

12 **X. RATE OF RETURN**

13 **Q. Please provide an overview of Staff's rate of return.**

14 A. Staff recommends adoption of the Company's proposed 7.36 percent overall rate of return,
15 as shown on Schedule A-1. Staff is not adopting the Company's cost of capital
16 methodology or the underlying components, e.g., the associated return on equity. Staff is
17 adopting the Company's overall rate of return to effectively utilize its resources, and to
18 recognize that the proposed rate of return is comparable to that adopted by the
19 Commission for other utilities in recent decisions.
20

21 **XI. RATE DESIGN**

22 **Present Rate Design**

23 **Q. Please provide an overview of the Company's present rates.**

24 A. The following is a general description of the present rate structure. Details of the rate
25 designs are presented in Schedule GTM-13. The present rate structure includes
26 residential, commercial, mobile home park (summer and winter), school and effluent

1 customer classes. The present rate structure consists of a monthly fixed charge with no
2 commodity charges for residential customers or in the summer season for mobile home
3 park customers. The present rate structure for the commercial, mobile home park (winter
4 season), school and effluent customer classes consists of a monthly fixed charge plus a
5 commodity rate charge. The commodity rate is uniform regardless of volume but varies
6 by customer class. The minimum monthly charge for the residential class is \$46.50.

7
8 **Company's Proposed Waste Water Rate Design**

9 **Q. Please provide an overview of the Company's proposed rate structure.**

10 A. The Company's proposes to continue the existing rate structure (with the exception of
11 effluent sales) and increase the monthly fixed charges and the volumetric rates each by
12 17.7 percent to achieve its proposed revenue requirement. The Company proposes a 33.3
13 percent increase for effluent sales.

14
15 **Q. Did the Company propose any changes to its wastewater system service charges?**

16 A. Yes. The Company has proposed changes to service charges. The Company's proposed
17 service charge changes are shown in the Company's Revised Schedule H-3 and GTM-13.
18 The Company's proposed rates for service charges, with the exception of the service line
19 disconnection fee, are in line with the service charges of other wastewater utilities.

20
21 **Q. Has the Company submitted proposed tariff language specifying the terms and
22 conditions as well as its rates and charges?**

23 A. No. The Company's application proposes only rates and charges. No specific tariff
24 language is proposed.

1 **Staff's Recommended Wastewater Rate Design**

2 **Q. Please provide a description of Staff's recommended rate structure for the**
3 **wastewater system.**

4 A. Staff agrees with the Company's proposal to continue the existing rate structure (with the
5 exception of effluent sales). Under Staff's recommended rates, the monthly fixed charges
6 and volumetric charges increase between 13.35 and 13.61 percent. Staff recommends a
7 32.67 percent increase for effluent sales. Staff recommends the following monthly fixed
8 charges by customer class: residential, \$52.80; commercial, \$8.50; mobile home park
9 (\$8.50 for winter season and \$36.20 for summer season); and school, \$8.50. Staff
10 recommends the following uniform commodity rates per 1,000 gallons of water use by
11 customer class: residential, \$0.00; commercial, \$11.15; mobile home park, (\$6.50 for
12 winter season and \$0.00 for summer season); school, \$3.55; and effluent, \$0.20. The
13 volumetric rate is applicable for all gallons used.

14
15 **Q. Did Staff prepare schedules showing the present, Company proposed, and Staff**
16 **recommended monthly minimums and commodity rates for each rate class?**

17 A. Yes. Staff's Direct Testimony Schedule GTM-13 shows the present monthly fixed
18 charges and commodity rates, the Company's proposed monthly fixed charges and
19 commodity rates and Staff's recommended monthly fixed charges and commodity rates.

20
21 **Q. Did Staff prepare a schedule showing the average and median monthly bill under**
22 **present rates, the Company's proposed rates, and Staff's recommended rates?**

23 A. Yes. Staff's Direct Testimony Schedule GTM-14 presents the typical bill analysis for a
24 residential sewer customer using present rates, the Company's proposed rates and Staff's
25 recommended rates.

1 **Q. What is the impact to the median customer bill with Staff's rate design?**

2 A. The typical bill analysis for a residential customer would increase by \$6.30, or 13.56
3 percent, from \$46.50 to \$52.80.

4
5 **Q. What waste water system service charges does Staff recommend?**

6 A. Staff's recommendations for service charges are shown in Schedule GTM-13. These
7 service charges will generate \$15,218 based on the Company's estimates for the various
8 services provided in the test year as previously discussed.

9
10 **Q. Will Staff's recommended rate design generate Staff's recommended revenue
11 requirement?**

12 A. Staff's recommended rate design will generate Staff's recommended wastewater revenue
13 requirement of \$1,002,515 composed of \$987,297 from sewer services and \$15,218 from
14 other revenues.

15
16 **Q. Does this conclude your direct testimony?**

17 A. Yes, it does.

CORONADO UTILITIES, INC.
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DIRECT TESTIMONY OF Gary T. McMurry

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GTM-2	GROSS REVENUE CONVERSION FACTOR
GTM-3	RATE BASE - ORIGINAL COST
GTM-4	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
GTM-5	ORIGINAL COST RATE BASE ADJUSTMENT # 1 - DEFERRED TAXES
GTM-6	ORIGINAL COST RATE BASE ADJUSTMENT # 2 - ACCUMULATED DEPRECIATION
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GTM-10	OPERATING INCOME ADJUSTMENT # 2 - DEPRECIATION EXPENSE
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GTM-14	TYPICAL BILL ANALYSIS

CORONADO UTILITIES, INC.
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Test Year ended December 31, 2008

Schedule GTM-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 3,536,648	\$ 3,536,648	\$ 3,531,141	\$ 3,531,141
2	Adjusted Operating Income (Loss)	\$ 154,497	\$ 154,497	\$ 185,381	\$ 185,381
3	Current Rate of Return (L2 / L1)	4.37%	4.37%	5.25%	5.25%
4	Required Rate of Return	7.36%	7.36%	7.36%	7.36%
5	Required Operating Income (L4 * L1)	\$ 260,297	\$ 260,297	\$ 259,892	\$ 259,892
6	Operating Income Deficiency (L5 - L2)	\$ 105,800	\$ 105,800	\$ 74,511	\$ 74,511
7	Gross Revenue Conversion Factor	1.4792	1.4792	1.5969	1.5969
8	Required Revenue Increase (L7 * L6)	\$ 156,498	\$ 156,498	\$ 118,985	\$ 118,985
9	Adjusted Test Year Revenue	\$ 883,530	\$ 883,530	\$ 883,530	\$ 883,530
10	Proposed Annual Revenue (L8 + L9)	\$ 1,040,028	\$ 1,040,028	\$ 1,002,515	\$ 1,002,515
11	Required Increase in Revenue (%)	17.71%	17.71%	13.47%	13.47%
12	Rate of Return on Common Equity (%)	14.00%	14.00%	10.50%	10.50%

References:

Column (A): Company Schedule B-1
Column (B): Company Schedules A-1, A-2, & D-1
Column (C): Staff Schedule GTM-2, GTM-3 & GTM-7
Column (D): Staff Schedule GTM-2, GTM-3 & GTM-7

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Tax Rate (Line 17) + Property Tax Rate (Line 23)	37.3781%			
5	Subtotal (L3 - L4)	62.6219%			
6	Revenue Conversion Factor (L1 / L5)	1.596885763			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	36.0631%			
9	One Minus Combined Income Tax Rate (L7 - L8)	63.9369%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 53)	31.2743%			
16	Effective Federal Income Tax Rate (L14 x L15)	29.0951%			
17	Combined Federal and State Income Tax Rate (L13 + L16)	36.0631%			
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Tax Rate (Line 17)	36.0631%			
20	One Minus Combined Income Tax Rate (L18 - L19)	63.9369%			
21	Property Tax Factor (GTM-11, L24)	2.0567%			
22	Effective Property Tax Factor (L 20* L 21)	1.3150%			
23	Combined Federal and State Tax and Property Tax Rate (L17+L22)		37.3781%		
24	Required Operating Income (Schedule GTM-1, Line 5)	\$ 259,892			
25	Adjusted Test Year Operating Income (Loss) (Schedule GTM-7, Line 34)	\$ 185,381			
26	Required Increase in Operating Income (L24 - L25)		\$ 74,511		
27	Income Taxes on Recommended Revenue (Col. (D), L52)	\$ 49,874			
28	Income Taxes on Test Year Revenue (Col. (B), L52)	\$ 7,847			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 42,027		
30	Recommended Revenue Requirement (Schedule GTM-1, Line 10)	\$ 1,002,515			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)		\$ -		
35	Property Tax with Recommended Revenue (GTM-11, L19)	\$ 56,961			
36	Property Tax on Test Year Revenue (GTM-11, L 16)	\$ 54,514			
37	Increase in Property Tax Due to Increase in Revenue (GTM-11, L22)		\$ 2,447		
38	Total Required Increase in Revenue (L26 + L29 + L34+L37)		\$ 118,985		
<u>Calculation of Income Tax:</u>					
39	Revenue (Schedule GTM-7, Col.(C), Line 5 & Sch. GTM-1, Col. (B), Line 10)	\$ 883,530		\$ 1,002,515	
40	Operating Expenses Excluding Income Taxes	\$ 690,302		\$ 692,749	
41	Synchronized Interest (L56)	\$ 155,723		\$ 155,723	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ 37,505		\$ 154,043	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L42 x L43)	\$ 2,613		\$ 10,734	
45	Federal Taxable Income (L42 - L44)	\$ 34,892		\$ 143,309	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 5,234		\$ 7,500	
47	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$ -		\$ 6,250	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -		\$ 8,500	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -		\$ 16,891	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	
51	Total Federal Income Tax	\$ 5,234		\$ 39,141	
52	Combined Federal and State Income Tax (L44 + L51)	\$ 7,847		\$ 49,874	
53	Applicable Federal Income Tax Rate [Col. (D), L51 - Col. (B), L51] / [Col. (C), L45 - Col. (A), L45]				31.27%
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base (Schedule GTM-3, Col. (C), Line (14))	\$ 3,531,141			
55	Weighted Average Cost of Debt (Schedule C-2, p 14)	4.41%			
56	Synchronized Interest (L45 X L46)	\$ 155,723			

CORONADO UTILITIES, INC.
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Schedule GTM-3

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	REF	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 4,428,471	\$ -	\$ 4,428,471
2	Less: Accumulated Depreciation	398,932	8,146	407,078
3	Net Plant in Service	<u>\$ 4,029,539</u>	<u>\$ (8,146)</u>	<u>\$ 4,021,393</u>
<u>LESS:</u>				
4	Contributions in Aid of Construction (CIAC)	\$ 603,201	\$ -	\$ 603,201
5	Less: Accumulated Amortization	9,755	-	9,755
6	Net CIAC	<u>\$ 593,446</u>	<u>\$ -</u>	<u>\$ 593,446</u>
7	Advances in Aid of Construction (AIAC)	-	-	-
8	Customer Deposits	19,809	-	19,809
9	Deferred Income Tax Credits	-	-	-
<u>ADD:</u>				
10	Unamortized Finance Charges	82,938	-	82,938
11	Deferred Income Tax Debits	37,425	2,639	40,064
12	Working Capital	-	-	-
13	Rounding	1	-	1
14	Original Cost Rate Base	<u>\$ 3,536,648</u>	<u>\$ (5,507)</u>	<u>\$ 3,531,141</u>

References:

Column (A), Company Schedule B-1, GTM-4
Column [B]: Column [C] - Column [A]
Column [C], Staff Adjusted Total Col.

CORONADO UTILITIES, INC.
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SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	Deferred Taxes		Accumulated Depreciation		(F) ADJ.#	(G) STAFF ADJUSTED
			(A) COMPANY AS FILED	(B) GTM-5 ADJ.#1	(C) GTM-6 ADJ.#2	(D) ADJ.#		
1	351	Organization Cost	\$ 5,194	\$ -	\$ -	\$ -	\$ 5,194	
2	352	Franchise Cost	-	-	-	-	-	
3	353	Land and Land Rights	315,001	-	-	-	315,001	
4	354	Structures and Improvements	1,858	-	-	-	1,858	
5	355	Power Generation Equipment	-	-	-	-	-	
6	360	Collection Sewer Force	59,350	-	-	-	59,350	
7	361	Collection Sewer Gravity	1,576	-	-	-	1,576	
8	362	Special Collecting Structures	-	-	-	-	-	
9	363	Customer Services	-	-	-	-	-	
10	364	Flow Measuring Devices	-	-	-	-	-	
11	365	Flow Measuring Installation	-	-	-	-	-	
12	366	Reuse Services	-	-	-	-	-	
13	367	Reuse Meters and Installation	16,133	-	-	-	16,133	
14	370	Receiving Wells	15,223	-	-	-	15,223	
15	371	Pumping Equipment	-	-	-	-	-	
16	374	Reuse Distribution Reservoirs	-	-	-	-	-	
17	375	Reuse Transmission & Distrib System	-	-	-	-	-	
18	380	Treatment & Disposal Equipment	3,243,375	-	-	-	3,243,375	
19	381	Plant Sewers	-	-	-	-	-	
20	382	Outfall Sewer Lines	540,205	-	-	-	540,205	
21	388	Other Sewer Plant & Equipment	178,135	-	-	-	178,135	
22	390	Office Furniture and Equipment	-	-	-	-	-	
23	390.1	Computers and Software	-	-	-	-	-	
24	391	Transportation Equipment	-	-	-	-	-	
25	392	Stores Equipment	-	-	-	-	-	
26	393	Tools, Shop and Garage Equipment	-	-	-	-	-	
27	394	Laboratory Equipment	-	-	-	-	-	
28	396	Communication Equipment	-	-	-	-	-	
29	398	Other Tangible Plant	52,423	-	-	-	52,423	
30	398	Rounding	(2)	-	-	-	-	
31		Subtotal Plant in Service	\$ 4,428,471	\$ -	\$ -	\$ -	\$ 4,428,471	
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References:
 Column (A) Schedule B-2

CORONADO UTILITIES, INC.
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Schedule GTM-5

ORIGINAL COST RATE BASE ADJUSTMENT # 1 - DEFERRED TAXES

<u>Line</u> <u>No.</u>	<u>Account</u> <u>Number</u>	<u>DESCRIPTION</u>	<u>[A]</u> <u>COMPANY</u> <u>PROPOSED</u>	<u>[B]</u> <u>STAFF</u> <u>ADJUSTMENTS</u>	<u>[C]</u> <u>STAFF</u> <u>RECOMMENDED</u>
1		Deferred Income Tax Debits	\$ 37,425	\$ 2,639	\$ 40,064

References:

Col [A]: Company Schedule B-1

Col [B]: GTM Testimony

Col [C]: Col. [A] + Col. [B]

CORONADO UTILITIES, INC.
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Schedule GTM-6

ORIGINAL COST RATE BASE ADJUSTMENT # 2 - ACCUMULATED DEPRECIATION

LINE NO.	Account Number	DESCRIPTION	(A) COMPANY PROPOSED	(B) STAFF ADJUSTMENTS	(C) STAFF RECOMMENDED
1	371	Pumping Equipment	\$ 15,223	190	\$ 15,413
2	382	Outfall Sewer Lines	\$ 540,205	(8,336)	\$ 531,869
3		Accumulated Depreciation	<u>\$ 398,932</u>	<u>\$ 8,146</u>	<u>\$ 407,078</u>
			Rate used by Company	Rate approved by Commission (Dec. No. 68608)	
4	371	Pumping Equipment	12.50%	10.00%	
5	382	Outfall Sewer Lines	3.33%	4.00%	
			Expensed by Company	Approved Depreciation Charge	Accumulated Depreciation
6	371	Pumping Equipment	951	761	(190)
7	382	Outfall Sewer Lines	35,933	44,269	8,336
8		Increase to Accumulated Depreciation			<u>8,146</u>

References:

Col [A]: Company Schedule B-1
 Col [B]: GTM Testimony
 Col [C]: Col. [A] + Col. [B]

CORONADO UTILITIES, INC.
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OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	(A) COMPANY ADJUSTED TEST YEAR AS FILED	(B) STAFF TEST YEAR ADJUSTMENTS	(C) STAFF TEST YEAR AS ADJUSTED	(D) STAFF PROPOSED CHANGES	(E) STAFF RECOMMENDED
1	<u>OPERATING REVENUES:</u>					
2	Flat Rate Revenues	\$ 710,657	\$ -	\$ 710,657	\$ 112,323	\$ 822,980
3	Measured Revenues	157,655	-	157,655	6,662	164,317
4	Other Waste Water Revenues	15,218	-	15,218	-	15,218
5	Total Operating Revenues	\$ 883,530	\$ -	\$ 883,530	\$ 118,985	\$ 1,002,515
6						
7	<u>OPERATING EXPENSES:</u>					
8	Salaries and Wages	\$ 52,500	\$ -	\$ 52,500	\$ -	\$ 52,500
9	Purchased Wastewater Treatment	-	-	-	-	-
10	Sludge Removal Expenses	-	-	-	-	-
11	Purchased Power	54,218	-	54,218	-	54,218
12	Fuel for Power Production	-	-	-	-	-
13	Chemicals	27,790	-	27,790	-	27,790
14	Material and Supplies	2,978	-	2,978	-	2,978
15	Contractual Services	141,386	-	141,386	-	141,386
16	Contractual Services - Testing	3,676	-	3,676	-	3,676
17	Contractual Services - other	41,341	-	41,341	-	41,341
18	Equipment Rental	-	-	-	-	-
19	Rents - Building	-	-	-	-	-
20	Transportation Expenses	209	-	209	-	209
21	Insurance - General Liability	11,066	-	11,066	-	11,066
22	Insurance - Other	-	-	-	-	-
23	Regulatory Expenses	3,505	-	3,505	-	3,505
24	Regulatory Commission Expense	58,333	-	58,333	-	58,333
25	Miscellaneous Expense	37,081	-	37,081	-	37,081
26	Bad Debt Expense	46,313	(27,881)	18,432	-	18,432
27	Depreciation and Amortization	186,095	(8,343)	177,752	-	177,752
28	Taxes other than Income	5,521	-	5,521	-	5,521
29	Property Taxes	57,733	(3,219)	54,514	2,447	56,961
30	Income Tax	(711)	8,558	7,847	42,027	49,874
31	Rounding	(1)	1	-	-	-
32	Total Operating Expenses	\$ 729,033	\$ (30,884)	\$ 698,149	\$ 44,474	\$ 742,623
33						
34	Operating Income	\$ 154,497	\$ 30,884	\$ 185,381	\$ 74,511	\$ 259,892

References:
 Column [A]: Company Schedule C-1
 Column [B]: Schedule GTM-8
 Column [C]: Column [A] + Column [B]
 Column [D]: Schedules GTM-1 and GTM-2
 Column [E]: Column [C] + Column [D]

CORONADO UTILITIES, INC.
 Decker No. SW-04305A-09-0291
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SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	Normalize Bad Debt Expense (B) ADJ.#1	Depreciation Expense (C) ADJ.#2	Property Taxes (D) ADJ.#3	Income Taxes (E) ADJ.#4	(F) ADJ.#5	(G) ADJ.#6	(H) STAFF ADJUSTED
1	<u>Operating Revenues:</u>								
2	Flat Rate Revenues	\$ 710,657	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 710,657
3	Measured Revenues	157,655	-	-	-	-	-	-	157,655
4	Other Waste Water Revenues	15,218	-	-	-	-	-	-	15,218
5	Total Operating Revenues	\$ 883,530	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 883,530
6									
7	<u>Operating Expenses:</u>								
8	Salaries and Wages	\$ 52,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 52,500
9	Purchased Wastewater Treatment	-	-	-	-	-	-	-	-
10	Sludge Removal Expenses	-	-	-	-	-	-	-	-
11	Purchased Power	54,218	-	-	-	-	-	-	54,218
12	Fuel for Power Production	-	-	-	-	-	-	-	-
13	Chemicals	27,790	-	-	-	-	-	-	27,790
14	Material and Supplies	2,978	-	-	-	-	-	-	2,978
15	Contractual Services	141,366	-	-	-	-	-	-	141,366
16	Contractual Services - Testing	3,676	-	-	-	-	-	-	3,676
17	Contractual Services - other	41,341	-	-	-	-	-	-	41,341
18	Equipment Rental	-	-	-	-	-	-	-	-
19	Rent - Building	-	-	-	-	-	-	-	-
20	Transportation Expenses	209	-	-	-	-	-	-	209
21	Insurance - General Liability	11,066	-	-	-	-	-	-	11,066
22	Insurance - Other	-	-	-	-	-	-	-	-
23	Regulatory Expenses	3,505	-	-	-	-	-	-	3,505
24	Regulatory Commission Expense	58,333	-	-	-	-	-	-	58,333
25	Miscellaneous Expense	37,081	-	-	-	-	-	-	37,081
26	Bad Debt Expense	46,313	(27,881)	-	-	-	-	-	18,432
27	Depreciation and Amortization	186,095	-	(8,343)	-	-	-	-	177,752
28	Taxes other than Income	5,521	-	-	(3,219)	-	-	-	5,521
29	Property Taxes	57,733	-	-	-	-	-	-	54,514
29	Income Tax	(711)	-	-	-	8,558	-	-	7,847
30	Rounding	(1)	-	-	-	-	-	-	-
30	Total Operating Expenses	\$ 729,033	\$ (27,881)	\$ (8,343)	\$ (3,219)	\$ 8,558	\$ -	\$ -	\$ 688,149
	Operating Income	\$ 154,497	\$ 27,881	\$ 8,343	\$ 3,219	\$ (8,558)	\$ -	\$ -	\$ 185,381

References:
 Column (A) Company Schedule C-1

CORONADO UTILITIES, INC.
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Schedule GTM-9

OPERATING INCOME ADJUSTMENT # 1 - NORMALIZE BAD DEBT EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Bad Debt Expense	\$ 46,313	\$ (27,881)	\$ 18,432
	<u>Bad Debt Expense</u>			
2	2006	\$ 3,483		
3	2007	5,500		
4	2008	46,312		
5	Total	<u>\$ 55,295</u>		
			<u>3</u>	
6	Normalized Amount	<u>\$ 18,432</u>		

References:

Col [A]: Company Schedule C-1 Page 3

Col [B]: GTM Testimony

Col [C]: Col. [A] + Col. [B]

CORONADO UTILITIES, INC.
Docket No. SW-04305A-09-0291
Test Year ended December 31, 2008

Schedule GTM-10

OPERATING INCOME ADJUSTMENT # 2 - DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Operating Income	\$ 186,095	\$ (8,343)	\$ 177,752

OPERATING INCOME ADJUSTMENT # - DEPRECIATION EXPENSE

Line No.	ACCT NO.	DESCRIPTION	[A] Company Proposed PLANT IN SERVICE BALANCE	[B] STAFF DEPR. PLANT BALANCE	[C] STAFF RECOMMENDED RATE	[D] STAFF RECOMMENDED EXPENSE
Plant In Service						
2	351	Organization Cost	\$ 5,194	5,194	0.00%	\$ -
3	352	Franchise Cost	-	-	0.00%	-
4	353	Land and Land Rights	315,001	315,001	0.00%	-
5	354	Structures and Improvements	1,858	1,858	3.33%	62
6	355	Power Generation Equipment	-	-	5.00%	-
7	360	Collection Sewer Forced	-	-	2.00%	-
8	361	Collection Sewer Gravity	59,350	59,350	2.00%	1,187
9	362	Special Collecting Structures	1,576	1,576	2.00%	32
10	363	Customer Services	-	-	2.00%	-
11	364	Flow Measuring Devices	-	-	10.00%	-
12	365	Flow Measuring Installation	-	-	10.00%	-
13	366	Reuse Services	-	-	2.00%	-
14	367	Reuse Meters and Installation	-	-	8.33%	-
15	370	Receiving Wells	16,133	16,133	3.33%	537
16	371	Pumping Equipment	15,223	15,223	12.50%	1,903
17	374	Reuse Distribution Reservoirs	-	-	2.50%	-
18	375	Reuse Transmission & Distrib. System	-	-	2.50%	-
19	380	Treatment & Disposal Equipment	3,243,375	3,243,375	5.00%	162,169
20	381	Plant Sewers	-	-	5.00%	-
21	382	Outfall Sewer Lines	540,205	540,205	3.33%	17,989
22	389	Other Sewer Plant & Equipment	178,135	178,135	6.67%	11,882
23	390	Office Furniture and Equipment	-	-	6.67%	-
24	390	Computers and Software	-	-	20.00%	-
25	391	Transportation Equipment	-	-	20.00%	-
26	392	Stores Equipment	-	-	4.00%	-
27	393	Tools, Shop and Garage Equipment	-	-	5.00%	-
28	394	Laboratory Equipment	-	-	10.00%	-
29	396	Communication Equipment	-	-	10.00%	-
30	398	Other Tangible Plant	52,423	52,423	4.00%	2,097
Subtotal General			\$ 4,428,473	\$ 4,428,473		\$ 197,857
31	Less: Non-depreciable Account(s)		320,195	320,195		
32	Depreciable Plant (L29-L30)		\$ 4,108,278	\$ 4,108,278		
33	Contributions-in-Aid-of-Construction (CIAC)				\$ 603,201	
34	Composite Depreciation/Amortization Rate				3.33%	
35	Less: Amortization of CIAC (L32 x L33)					\$ 20,105
36	Depreciation Expense - STAFF					\$ 177,752

OPERATING INCOME ADJUSTMENT # 3 - PROPERTY TAXES

LINE NO.	Property Tax Calculation	STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2008	\$ 883,530	\$ 883,530
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$ 1,767,060	\$ 1,767,060
4a	Staff Adjusted Test Year Revenues - 2008	883,530	
4b	Staff Recommended Revenue, Per Schedule GTM-1		1,002,515
5	Subtotal (Line 4 + Line 5)	\$ 2,650,590	\$ 2,769,575
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 883,530	\$ 923,192
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 1,767,060	\$ 1,846,383
10	Plus: 10% of CWIP -		-
11	Less: Net Book Value of Licensed Vehicles		-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 1,767,060	\$ 1,846,383
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	371,083	\$ 387,741
15	Composite Property Tax Rate (Per Company Schedule C-2, Page 3, Line 16)	14.6906%	14.6906%
16	Staff Proposed Property Tax Expense (Line 14 * Line 15)	\$ 54,514	
17	Company Proposed Property Tax	57,733	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ (3,219)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 56,961
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 54,514
21	Increase/(Decrease) to Property Tax Expense Due to Revenue Increase/(Decrease)		\$ 2,447
22	Decrease to Property Tax Expense		\$ 2,447
23	Increase in Revenue Requirement		118,985
24	Decrease to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		2.056684%

References:

Col (A): Company Schedule C-1 Page 3
Col (B): GTM Testimony
Col (C): Schedule GTM-2

CORONADO UTILITIES, INC.
Docket No. SW-04305A-09-0291
Test Year ended December 31, 2008

Schedule GTM-12

OPERATING INCOME ADJUSTMENT # 4 - INCOME TAXES

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
1	Income Tax	<u>\$ (711)</u>	<u>\$ 8,558</u>	<u>\$ 7,847</u>
2				
3				
4				
5				
6				
7				
8				
9				
10				
11	<u>References:</u>			
12	Col [A]: Company Schedule C-1 Page 3			
13	Col [B]: GTM Testimony			
14	Col [C]: Schedule GTM-2			

RATE DESIGN

Monthly Fixed Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
Residential	\$ 46.50	\$ 54.73	\$ 52.80
Commercial	\$ 7.50	\$ 8.83	\$ 8.50
Mobile Home Park - Winter	\$ 7.50	\$ 8.83	\$ 8.50
Mobile Home Park - Summer	\$ 31.86	\$ 37.50	\$ 36.20
School	\$ 7.50	\$ 8.83	\$ 8.50
Effluent	\$ -	\$ -	\$ -
Commodity Rates (M-gal)			
Residential			
From 1 to Infinite Gallons	\$ -	\$ -	\$ -
Commercial			
From 1 to Infinite Gallons	\$ 9.80	\$ 11.54	\$ 11.15
Mobile Home Park - Winter			
From 1 to Infinite Gallons	\$ 5.70	\$ 6.71	\$ 6.50
Mobile Home Park - Summer			
From 1 to Infinite Gallons	\$ -	\$ -	\$ -
School			
From 1 to Infinite Gallons	\$ 3.12	\$ 3.68	\$ 3.55
Effluent			
From 1 to Infinite Gallons	\$ 0.15	\$ 0.20	\$ 0.20
	Present	Company Proposed	Staff Recommended
Service Charges			
Establishment of Service	\$25.00	\$25.00	\$25.00
Reconnection (delinquent)	\$35.00	\$35.00 + cost (a)	35 (b)
Deposit	(c)	(c)	(c)
Deposit Interest	(d)	3.50%	6.0%
Re-Establishment (After Hours)	(e)	(e)	(e)
Late fee	1.5%	1.5%	1.5%
NSF Check	25.00	\$25.00	\$25.00
Deferred Payment, Per Month	1.5%	1.50%	1.5%
Main Extension and additional facilities agreements	cost	cost	cost
Service Calls	NT	\$40.00	\$40.00

NT = No Tariff

- (a) Reconnection fee "cost" of physical disconnection and reconnection including parts, labor, overhead, and all applicable taxes.
- (b) Company will be allowed to charge customer the actual "cost" of physical disconnection and reconnection only if 1) sewer provider is unable to negotiate a water termination services agreement with the water provider or 2) that the customer does not make current the account subsequent to water service termination.
- (c) Residential - two times the average bill. Non-residential - two and one-half times the average bill as per R14-2-603(B).
- (d) As per Commission Rule ACC R14-2-603 (B).
- (e) As per Commission Rule ACC R14-2-603 (d).

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per Commission Rule (14-2-409.D.5).
All advances and/or contributions are to include labor, materials, overheads and all applicable taxes,
Cost to include labor, materials and parts, overheads and all applicable taxes.

Typical Bill Analysis
Residential - flat rate

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	-	\$ 46.50	\$ 54.73	\$ 8.23	17.70%
Median Usage	-	46.50	54.73	\$ 8.23	17.70%
Staff Recommended					
Average Usage	-	\$ 46.50	\$ 52.80	\$ 6.30	13.56%
Median Usage	-	46.50	52.80	\$ 6.30	13.56%

Present & Proposed Rates (Without Taxes)
Residential - flat rate

Consumption	Rates	Rates	Increase	Rates	Increase
-	\$ 46.50	\$ 54.73	17.70%	\$ 52.80	13.56%
1,000	46.50	54.73	17.70%	52.80	13.56%
2,000	46.50	54.73	17.70%	52.80	13.56%
3,000	46.50	54.73	17.70%	52.80	13.56%
4,000	46.50	54.73	17.70%	52.80	13.56%
5,000	46.50	54.73	17.70%	52.80	13.56%
6,000	46.50	54.73	17.70%	52.80	13.56%
7,000	46.50	54.73	17.70%	52.80	13.56%
8,000	46.50	54.73	17.70%	52.80	13.56%
9,000	46.50	54.73	17.70%	52.80	13.56%
10,000	46.50	54.73	17.70%	52.80	13.56%
11,000	46.50	54.73	17.70%	52.80	13.56%
12,000	46.50	54.73	17.70%	52.80	13.56%
13,000	46.50	54.73	17.70%	52.80	13.56%
14,000	46.50	54.73	17.70%	52.80	13.56%
15,000	46.50	54.73	17.70%	52.80	13.56%
16,000	46.50	54.73	17.70%	52.80	13.56%
17,000	46.50	54.73	17.70%	52.80	13.56%
18,000	46.50	54.73	17.70%	52.80	13.56%
19,000	46.50	54.73	17.70%	52.80	13.56%
20,000	46.50	54.73	17.70%	52.80	13.56%
25,000	46.50	54.73	17.70%	52.80	13.56%
30,000	46.50	54.73	17.70%	52.80	13.56%
35,000	46.50	54.73	17.70%	52.80	13.56%
40,000	46.50	54.73	17.70%	52.80	13.56%
45,000	46.50	54.73	17.70%	52.80	13.56%
50,000	46.50	54.73	17.70%	52.80	13.56%
75,000	46.50	54.73	17.70%	52.80	13.56%
100,000	46.50	54.73	17.70%	52.80	13.56%

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) DOCKET NO. SW-04305A-09-0291
CORONADO UTILITIES, INC. FOR A)
DETERMINATION OF THE FAIR VALUE OF)
ITS UTILITY PLANT AND PROPERTY AND)
FOR INCREASE IN ITS WATER RATES AND)
CHARGES FOR UTILITY SERVICES)

DIRECT
TESTIMONY
OF
KATRIN STUKOV
UTILITIES ENGINEER
ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION

FEBRUARY 12, 2010

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INTRODUCTION	1
PURPOSE OF TESTIMONY	2
ENGINEERING REPORT	2

EXHIBIT

Engineering Report	Exhibit KS
--------------------------	------------

1 **INTRODUCTION**

2 **Q. Please state your name, place of employment and job title.**

3 A. My name is Katrin Stukov. My place of employment is the Arizona Corporation
4 Commission ("Commission"), Utilities Division, 1200 West Washington Street, Phoenix,
5 Arizona 85007. My job title is Utilities Engineer.

6
7 **Q. How long have you been employed by the Commission?**

8 A. I have been employed by the Commission since June 2006.

9
10 **Q. Please list your duties and responsibilities.**

11 A. As a Utilities Engineer, specializing in water and wastewater engineering, I inspect and
12 evaluate water and wastewater systems; obtain data, prepare reports; suggest corrective
13 action, provide technical recommendations on water and wastewater system deficiencies;
14 and provide written and oral testimony on rate and other cases before the Commission.

15
16 **Q. How many cases have you analyzed for the Utilities Division?**

17 A. I have analyzed over 50 cases covering various responsibilities for the Utilities Division.

18
19 **Q. What is your educational background?**

20 A. I graduated from the Moscow University of Civil Engineering with a Bachelor of Science
21 degree in Civil Engineering with a concentration in water and wastewater systems.

22
23 **Q. Briefly describe your pertinent work experience.**

24 A. Prior to my employment with the Commission, I was a design review environmental
25 engineer with the Arizona Department of Environmental Quality ("ADEQ") for twenty
26 years. My responsibilities with ADEQ included review of projects for the construction of

1 water and wastewater facilities. Prior to that, I worked as a civil engineer in several
2 engineering and consulting firms, including Bechtel, Inc. and Brown & Root, Inc., in
3 Houston, Texas.

4
5 **PURPOSE OF TESTIMONY**

6 **Q. Were you assigned to provide the Utilities Division Staff's ("Staff") engineering**
7 **analysis and recommendations for this Coronado Utilities Inc("Coronado" or**
8 **"Company") rate case proceeding?**

9 A. Yes. I reviewed the Company's application and responses to data requests, and I visited
10 the wastewater system. This testimony and its attachment present Staff's engineering
11 evaluation.

12
13 **ENGINEERING REPORT**

14 **Q. Please describe the attached Engineering Report, Exhibit KS.**

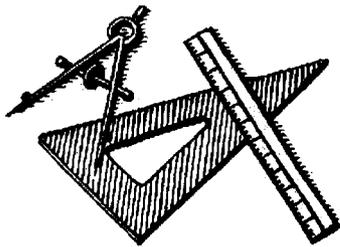
15 A. Exhibit KS presents the Company's wastewater system details and Staff's analysis and
16 findings, and is attached to this direct testimony. Exhibit KS contains the following major
17 topics: (1) a description of the wastewater system, (2) analysis of the wastewater system,
18 (3) growth, (4) compliance with the rules of the ADEQ, (5) depreciation rates and
19 (6) Staff's conclusions and recommendations.

20
21 **Q. Please summarize Staff's engineering conclusions and recommendations.**

22 A. Such a summary is provided at the beginning of Exhibit KS.

23
24 **Q. Does this conclude your direct testimony?**

25 A. Yes, it does.



**ENGINEERING REPORT FOR
CORONADO UTILITIES INC.
WASTEWATER RATE APPLICATION
DOCKET NO. SW-04305A-09-0291**

November 2, 2009

SUMMARY

CONCLUSIONS

1. The Arizona Department of Environmental Quality ("ADEQ") has reported that the Company's wastewater system is currently in compliance with its rules and regulations.
2. The wastewater system is adequate to serve the present customer base and reasonable growth.
3. The Company has no outstanding Arizona Corporation Commission ("ACC") compliance issues.

RECOMMENDATIONS

1. Staff recommends that the Company adopt Staff's typical and customary depreciation rates as presented in Table A on a going-forward basis.
2. Staff recommends approval of its Service Lateral Installation Charges labeled "Staff's Recommendations in Table B.

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1. Service Lateral Installation Charges.....	9

A. INTRODUCTION AND LOCATION OF COMPANY

On June 4, 2009, Coronado Utilities (“Coronado” or “Company”) filed a wastewater rate application with the Arizona Corporation Commission (“ACC” or “Commission”). The Company serves its customers in an area which is located in and around the unincorporated Town of San Manuel in Pinal County, Arizona.

Figure 1 shows the location of the Company within Pinal County and Figure 2 delineates the approximate 8 square miles or 5,098 acres of certificated area.

Figure 1

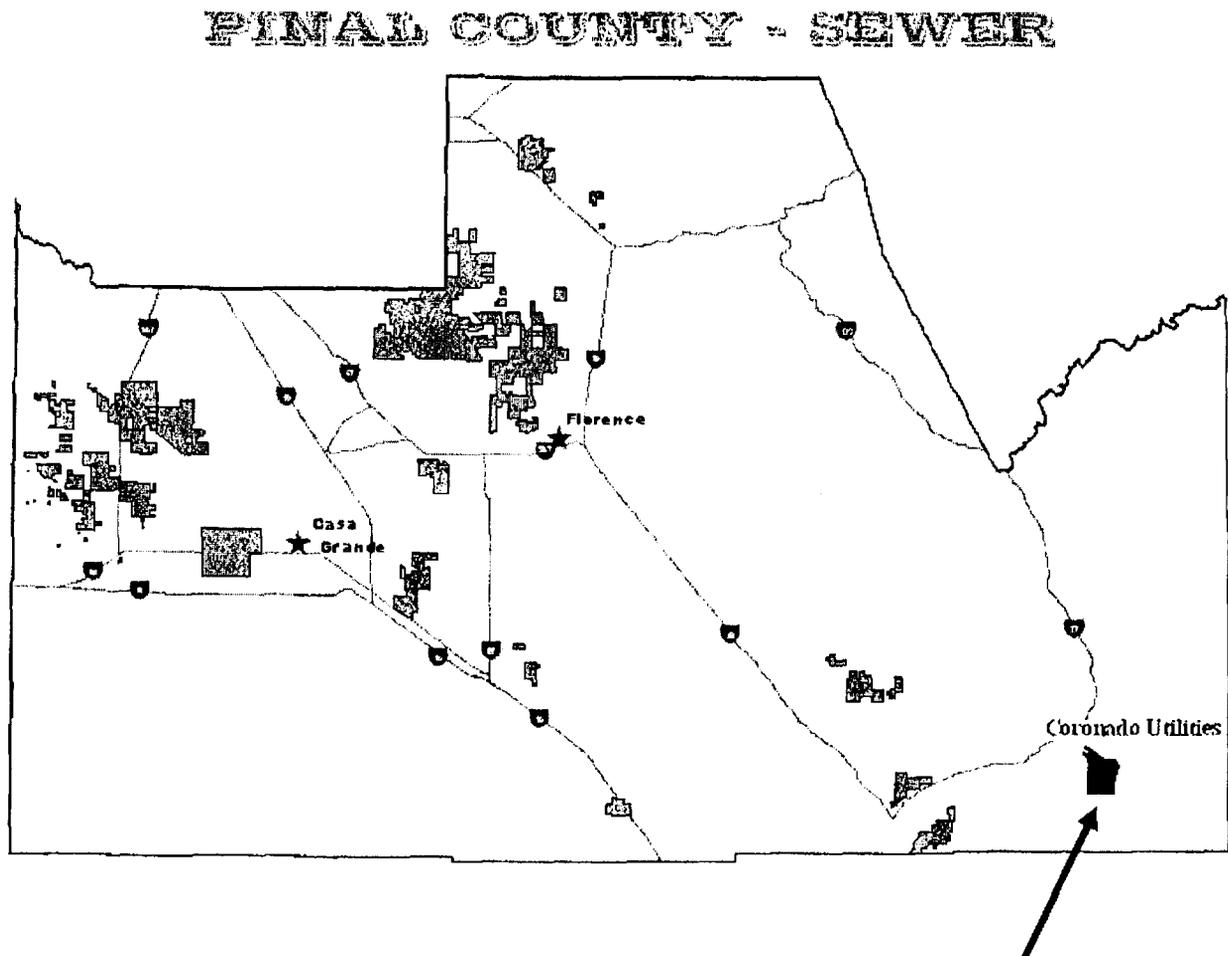
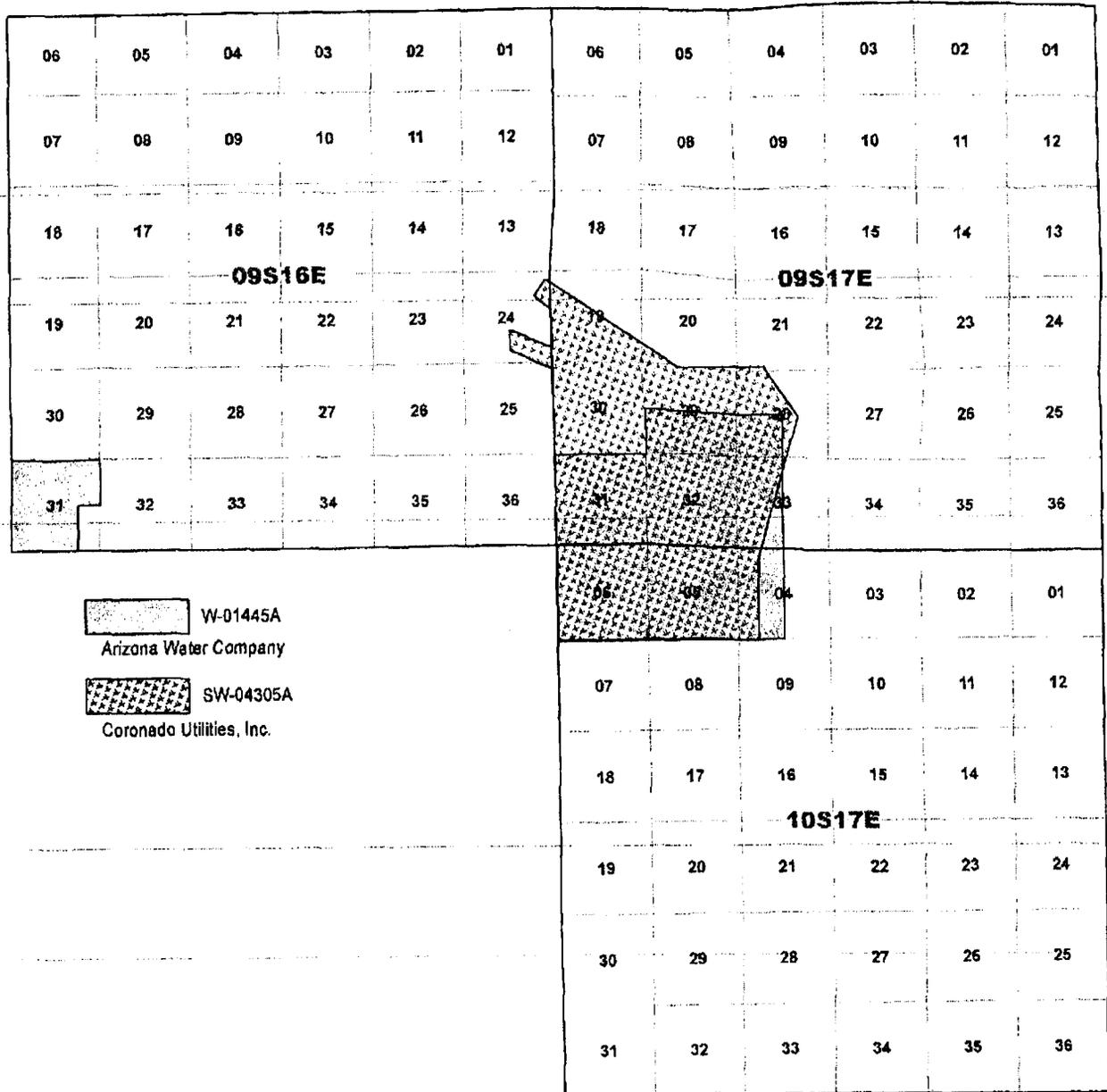


Figure 2

PINAL COUNTY



B. DESCRIPTION OF THE WASTEWATER SYSTEM

The plant facilities were visited on October 29, 2009, by Katrin Stukov in the accompaniment of Tony Moreno, the utility onsite representative and the utility operators Dan Shanaman and Steven Chiquete.

The Company provides wastewater service to the San Manuel community using collection, treatment and disposal facilities. The wastewater system served approximately 1,300 customers during the test year of 2008.

The collection system consists of a combination of gravity and force mains and two lift stations. The operation of the San Manuel wastewater treatment facilities includes a Santec 350,000 gallons per day ("GPD") wastewater treatment plant ("WWTP") completed in 2007. Prior to that, wastewater from the community of San Manuel was treated at the former BHP Copper Company ("BHP") old WWTP (which has been abandoned and closed in November 2007). The new WWTP is constructed at the old WWTP site¹. The new WWTP is an extended aeration, activated sludge process which incorporates de-nitrification in the secondary treatment process. The facility utilizes grit and solids removal, influent flow metering, flow equalization basins, sludge treatment and handling, disinfection using chlorination/de-chlorination, standby power, and ancillary laboratory and control buildings. The produced effluent is disposed via golf course irrigation at the San Manuel Golf Club, located approximately 3 miles from the WWTP.

Figure 3 provides a process schematic for the wastewater system and the plant facilities summary is tabulated below:

Wastewater Treatment Facility

Type of Treatment	Modified extended aeration process with de-nitrification
Design Capacity (gallons per day -"GPD")	350,000
Solid Processing and Handling Facilities	Grit chamber, bar screen, roto-screen. Sludge digesting tank with scam pump and sludge drying beds
Disinfection Equipment	Liquid Chlorination System & Chlorine Contact Tank
Filtration Equipment	None
Structures	Operations building, perimeter fence
Others	Process and testing equipment; flow meters; pressure washer; a 150 kw backup generator; backhoe; utility truck

¹ The WWTP site is located at 88606 E. Magma Plant Rd. in San Manuel.

Lift Stations

#	Location	Pumps			Wet Well Capacity (gallons)	Components
		Quantity	Horsepower per pump (HP)	Capacity per pump (GPM)		
1	Rancho San Manuel Lift Station, Mobil Manor Ocotillo St.	2	4.5	480	2,114	Fence
2	Airport Lift Station ² , Airport Rd. (Has been out of service from June 2008)	2	4.5	480	897	Fence
3	Effluent Lift Station, WWTP site	2	50	400	20,000	Flow meter

Force Mains

Size	Location	Material	Length (in feet)
4-inch	Force Main from airport lift station (has been out of service from June 2008- see footnote #1)	PVC	3,600
4-inch	Force Main from Rancho San Manuel ("RSM") lift station to manhole at top of trailer park	PVC	820
8-inch	Effluent (reclaimed water) force main to golf course	HDPE	15,800

Collection Mains

Size (in inches)	Material	Length (in feet)
6	Clay	44,973
8	Clay	35,068
10	Clay	6,275
12	Clay	2,350
15	Clay	10,485

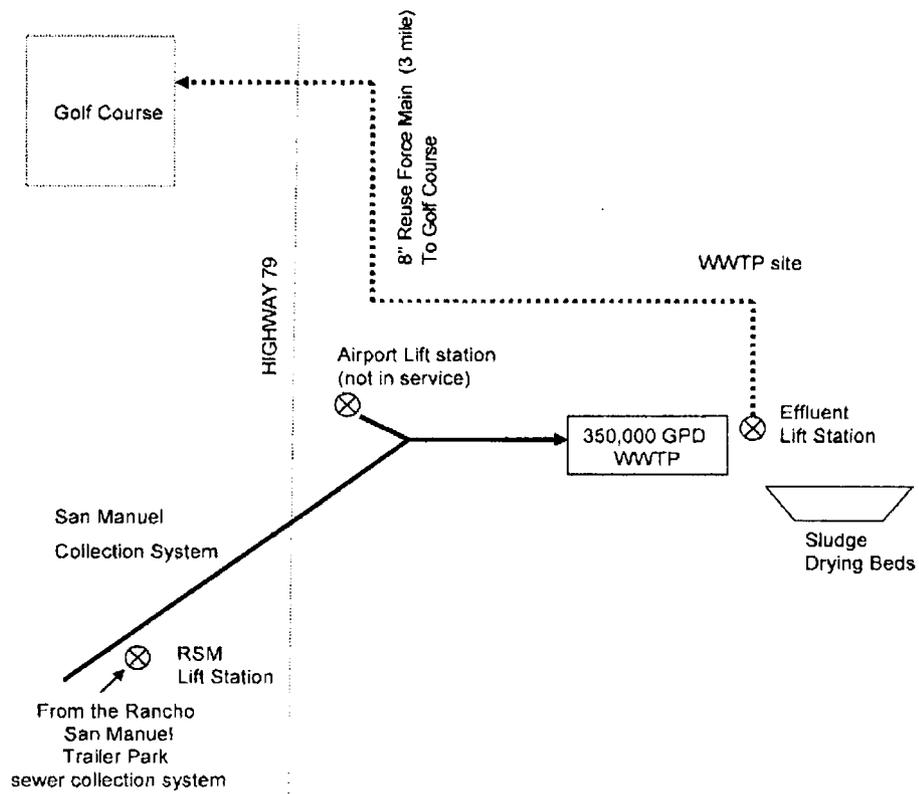
Services

Size (in inches)	Material	Quantity
4	Clay/PVC	1500
8	Clay/PVC	20

Manholes		Cleanouts
Type	Quantity	Quantity
Standard	314	5

² This lift station is for the Highland Trailer Park. The Company reported that the owner of the Highland Trailer Park is redeveloping the property, and disconnected his commercial sewer account in June 2008.

Figure 2
System Schematic

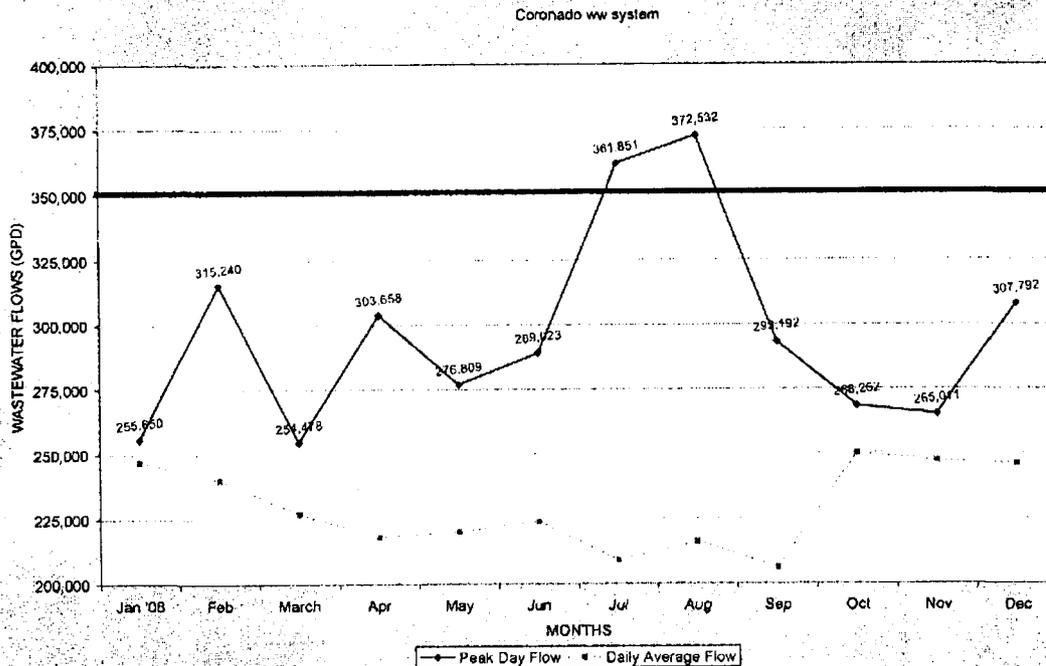


C. WASTEWATER SYSTEM ANALYSIS

Figure 3 represents the monthly wastewater flows data provided by the Company for the test year ending December 31, 2008.

For the average daily flows, October 2008 experienced the highest flow of 250,000 GPD. For the peak day flows, August 2008 had the highest flow when 372,532 gallons were treated in one day. Based on the average day-peak month flow of 250,000 gallons, or 189 GPD per sewer lateral, the 350,000 GPD WWTP capacity is adequate to serve the present customer base and reasonable growth.

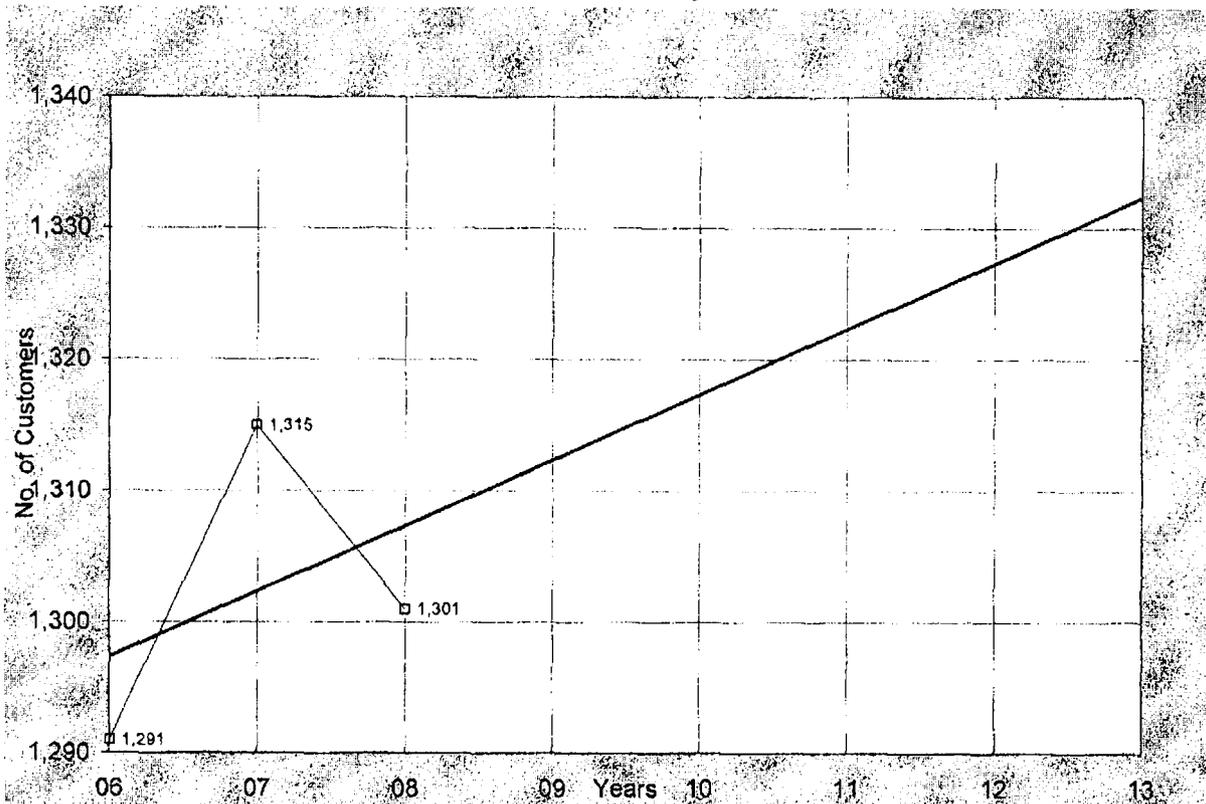
Figure 3 Wastewater Flows



D. GROWTH

Based on customer data provided by the Company in its Annual Reports, limited growth is expected to occur in the area being served, it is projected that this system could have over 1,330 sewer connections by 2013. Figure 4 depicts actual growth from 2006³ to 2008 and projects an estimated growth in the service area for the next five years using linear regression analysis.

Figure 4 Growth Projection



E. ADEQ COMPLIANCE

ADEQ regulates the wastewater system under ADEQ Wastewater Inventory Number 105607. Based on a Compliance Status Report, dated November 2, 2009, ADEQ has determined that this system is currently in compliance with its rules and regulations.

F. ACC COMPLIANCE

A check with Utilities Division Compliance Section showed that there are currently no delinquent compliance items for the Company⁴.

³ 2006 Annual Report was the first Annual Report filed by the Company.

⁴ Per ACC Compliance status check dated October 27, 2009.

G. DEPRECIATION RATES

Staff has developed typical and customary wastewater depreciation rates within a range of anticipated equipment life. In this proceeding, the Company proposed rates are similar to Staff's typical Wastewater Depreciation Rates except for Account 398 - Other Tangible Plant (may vary from 5% to 50%). Staff recommends that the Company adapt Staff's typical and customary depreciation rates as presented in Table A on a going-forward basis.

**TABLE A
WASTEWATER DEPRECIATION RATES**

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
354	Structures & Improvements	30	3.33
355	Power Generation Equipment	20	5.00
360	Collection Sewers - Force	50	2.0
361	Collection Sewers- Gravity	50	2.0
362	Special Collecting Structures	50	2.0
363	Services to Customers	50	2.0
364	Flow Measuring Devices	10	10.0
365	Flow Measuring Installations	10	10.00
366	Reuse Services	50	2.00
367	Reuse Meters & Meter Installations	12	8.33
370	Receiving Wells	30	3.33
371	Pumping Equipment	8	12.50
374	Reuse Distribution Reservoirs	40	2.50
375	Reuse Transmission & Distribution System	40	2.50
380	Treatment & Disposal Equipment	20	5.0
381	Plant Sewers	20	5.0
382	Outfall Sewer Lines	30	3.33
389	Other Plant & Miscellaneous Equipment	15	6.67
390	Office Furniture & Equipment	15	6.67
390.1	Computers & Software	5	20.0
391	Transportation Equipment	5	20.0
392	Stores Equipment	25	4.0
393	Tools, Shop & Garage Equipment	20	5.0
394	Laboratory Equipment	10	10.0
395	Power Operated Equipment	20	5.0
396	Communication Equipment	10	10.0
397	Miscellaneous Equipment	10	10.0
398	Other Tangible Plant	----	----

NOTE: Acct. 398, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

H. OTHER ISSUES**1. Service Lateral Installation Charges**

The Company's current service lateral installation charges are At Cost, and the Company has not requested any changes, except for delineation of service lateral sizes. Staff has reviewed the proposed tariff and found it to be reasonable, except for inclusion of income tax. Therefore, Staff recommends approval of its Service Lateral Installation Charges labeled "Staff's Recommendations in Table B.

**TABLE B
SERVICE LATERAL INSTALLATION CHARGES**

Company Current Tariff	Company Requested Tariff		Staff's Recommendation	
Cost*	Service Line Size	Charge	All service laterals	At Cost***
	4 inch	At Cost**		
	6 inch	At Cost**		
	8 inch	At Cost**		
	10 inch	At Cost**		
	12 inch	At Cost**		
Note: (*) Cost to include parts, labor, overhead, and all applicable taxes, including income tax	Note: (**) Cost includes parts, labor overhead, and all applicable taxes, including income tax		Note: (***) Cost includes parts, labor, overhead, and all applicable taxes.	

ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

COMMISSIONERS

KRISTIN K. MAYES - Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

2010 APR 16 P 3:35

AZ CORP COMMISSION
DOCKET CONTROL



IN THE MATTER OF THE APPLICATION OF
CORONADO UTILITIES, INC. FOR A
DETERMINATION OF THE FAIR VALUE OF
ITS UTILITY PLANT AND PROPERTY AND
FOR INCREASES IN ITS WATER AND
WASTEWATER RATES AND CHARGES FOR
UTILITY SERVICE BASED THEREON.

DOCKET NO. SW-04305A-09-0291

STAFF'S NOTICE OF FILING
SURREBUTTAL TESTIMONY

The Utilities Division of the Arizona Corporation Commission ("Staff") hereby files the
Surrebuttal Testimony of Staff Witness Gary T. McMurry in the above-referenced matter.

RESPECTFULLY SUBMITTED this 16th day of April, 2010.

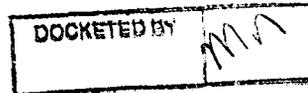
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Original and thirteen (13) copies
of the foregoing filed this
16th day of April, 2010 with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

APR 16 2010



Copies of the foregoing mailed this
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BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MACORONADO

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF)
CORONADO UTILITIES INC FOR AN)
INCREASE IN ITS WATER RATES)
FOR CUSTOMERS WITHIN PINAL)
COUNTY, ARIZONA)
_____)

DOCKET NO. SW-04305A-09-0291

SURREBUTTAL

TESTIMONY

OF

GARY T. MCMURRY

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

APRIL 16, 2010

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**EXECUTIVE SUMMARY
CORONADO UTILITIES, INC.
DOCKET NO. SW-04305A-09-0291**

The surrebuttal testimony of Staff witness Mr. Gary T. McMurry addresses rate base, operating income, revenue requirement and rate design issues.

Staff's revenue requirement of \$1,001,960 represents an increase of \$133,056, or 15.31 percent, for a 10.50 percent rate of return on a Staff adjusted OCRB of \$3,531,742. Staff's surrebuttal revenue requirement represents a \$555 decrease from its direct testimony. Staff's surrebuttal position reflects the following modifications to its direct position: a \$921 decrease to accumulated depreciation; a \$320 decrease to the accumulated deferred income tax debit; and a \$14,627 reduction to test year revenue related to the San Miguel Mobile Home Park with corresponding changes to the revenue-dependent property and income taxes. Staff's recommended rate would increase the typical residential sewer bill by \$7.15, or 15.37 percent, from \$46.50 to \$53.65.

Rebuttal Testimony of Jason Williamson

Disconnection Fee - The Company proposes to charge the actual cost of service line disconnection. Staff also recommends actual cost, provided the Company is unable to negotiate a water services termination agreement with Arizona Water Company.

Low-Income Tariff - The Company proposes a low-income tariff. Staff supports a low-income tariff but takes issue with the Company proposed discount percentage (25 percent), the income eligibility factor (100 percent of federal poverty level) and the participation cap (none).

Rebuttal Testimony of Thomas J. Bourassa

Accumulated Deferred Income Tax - The Company asserts that Staff's direct position balance is overstated by \$320 due to an error in Staff Accumulated Depreciation Balance. Staff corrected the error and agrees with the Company's rebuttal balance.

Accumulated Depreciation - The Company asserts that Staff's direct position balance is overstated by \$921. Staff acknowledges an inadvertent error and agrees with the Company's rebuttal balance.

Revenue - The Company's rebuttal introduced a \$14,627 downward adjustment to operating revenue to recognize the loss of San Miguel Highland Mobile Home Park as a customer. Staff concurs with the Company that the loss of this customer should be recognized in the annualization adjustment and the associated revenue should be removed from the test year.

Bad Debt Expense - The Company proposes the recorded test year bad debt expense. Staff recommends a normalized amount equal to the mean average for the past three years.

Rate Design - The Company's rebuttal proposed a change in rate design for the mobile home park customers. Staff opposes this revision to rate design due to the seasonal nature of the mobile home park.

Low-Income Tariff - The Company proposes a low-income tariff. Staff supports a low-income tariff but takes issue with the Company proposed administrative fee (10 percent).

1 **I. INTRODUCTION**

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

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

6
7 **Q. Are you the same Gary McMurry who previously filed direct testimony on the rate
8 base, operating income, and revenue requirement, and rate design in this
9 proceeding?**

10 A. Yes.

11

12 **II. PURPOSE OF TESTIMONY**

13 **Q. What is the purpose of your testimony in this case?**

14 A. The purpose of my Surrebuttal Testimony in this proceeding is to respond, on behalf of
15 Staff to the Rebuttal Testimonies of Mr. Jason Williamson and Mr. Thomas J. Bourassa
16 who represent Coronado Utilities, Inc. ("Coronado" or "Company").

17

18 **Q. How is your surrebuttal testimony organized?**

19 A. My testimony is presented in five sections. Section I is the introduction. Section II is this
20 description/purpose of my testimony. Section III presents a summary of Staff
21 recommendations. Section IV presents my responses to the rebuttal testimony provided
22 by Jason Williamson. Section V presents my responses to the rebuttal testimony provided
23 by Thomas J. Bourassa.

1 **Q. Have you prepared any schedules to accompany your testimony?**

2 A. Yes. I prepared Surrebuttal Schedules GTM-1 to GTM-15. The surrebuttal schedules
3 reflect the Company's application as filed, not its rebuttal position.
4

5 **III. SUMMARY OF STAFF RECOMMENDATIONS**

6 **Q. Please provide a summary of Staff surrebuttal recommendations.**

7 A. Staff's revenue requirement of \$1,001,960 represents an increase of \$133,056, or 15.31
8 percent, for a 10.50 percent rate of return on a Staff adjusted OCRB of \$3,531,742. This
9 surrebuttal revenue requirement represents a \$555 decrease from its direct testimony.
10

11 **IV. STAFF'S RESPONSE TO THE REBUTTAL TESTIMONY OF MR. JASON**
12 **WILLIAMSON**

13 *Service Line Disconnection Tariff*

14 **Q. What has the Company proposed with respect to service line disconnection tariff?**

15 A. Coronado proposes to charge customers the actual cost of service line disconnection.
16

17 **Q. What are Staff's concerns with respect to this proposal?**

18 A. Simply put, if a customer is unable to pay his or her sewer bill, the customer is also likely
19 to be unable to pay the high cost of the sewer line disconnection.
20

21 **Q. What did Staff recommend as an alternative?**

22 A. In direct testimony, Staff recommended that the Company attempt to negotiate a water
23 services termination agreement with Arizona Water Company.

1 **Q. Did the Company attempt to negotiate such a water services agreement?**

2 A. According to Mr. Williamson's rebuttal testimony (at page two), Coronado contacted
3 Arizona Water Company on multiple occasions regarding execution of a water services
4 agreement; however, Arizona Water Company is not interested in an agreement.
5

6 **Q. Did Staff recommend in its direct testimony an alternative in the event that Arizona
7 Water Company was not receptive to the Company's request for a water services
8 agreement?**

9 A. Yes. As noted on GTM-13 footnote (b), Staff recommended as an alternative that the
10 Company be allowed to charge the customer the actual cost of physical disconnection and
11 reconnection including parts, labor, overhead, and all applicable taxes.
12

13 **Q. Is Staff completely satisfied that the Company's efforts to execute a water services
14 agreement with Arizona Water Company have been exhausted and have no
15 opportunity for success?**

16 A. No. A simple statement that the Company has contacted Arizona Water Company on
17 several occasions without drawing interest is not sufficient to demonstrate that there is no
18 reasonable opportunity to successfully execute a water services agreement. Staff
19 concludes that approval of a service line disconnection fee should be subject to conditions
20 that demonstrate that all reasonable efforts have been taken without success to execute a
21 water services agreement. This may include having the Commission require Arizona
22 Water to explain to the Commission why it is not willing to enter into such an agreement.
23

24 **Q. What conditions does Staff recommend?**

25 A. Staff recommends that authorization of a service line disconnection fee be subject to the
26 following conditions:

- 1 1. That the Company explore all reasonable efforts to contact Arizona Water Company to
2 begin discussions to execute a water service agreement;
- 3 2. That the efforts include preparing and sending a written letter by registered mail to the
4 President of Arizona Water Company to begin discussions to execute a water service
5 agreement;
- 6 3. That the Company file copies of this letter and Arizona Water company's response in
7 this docket;
- 8 4. That the Company document all other efforts to engage in discussions with Arizona
9 Water Company including: the dates, methods, the name(s) of Company
10 representative(s) making contact and the Arizona Water Company representative(s)
11 contacted and provide the information to Staff upon request;
- 12 5. That upon completion of all reasonable efforts to execute a water services agreement,
13 (a) if successful, docket copies of the agreement or (b) if unsuccessful, docket a
14 written summary of all efforts taken to execute a water service agreement and an
15 explanation of the reason(s) those efforts were unsuccessful.

16
17 *Low-Income Tariff*

18 **Q. What does the Company recommend with respect to the discount to be provided to**
19 **eligible customers for the low-income tariff?**

20 A. The Company recommends a 25 percent discount for qualified participants of the low-
21 income tariff plan.

22
23 **Q. Does Staff agree with the Company's proposal?**

24 A. No. It is Staff's position that a 15 percent discount similar to the one adopted in the
25 Chaparral City decision is more appropriate.

1 **Q. Why does the Company propose a higher discount in this case?**

2 A. The Company indicates that its service territory has a large number of low- and fixed-
3 income residents.

4
5 **Q. Does Staff agree with the Company's position?**

6 A. No. Accepting the premise that San Manuel is more disadvantaged, there will be fewer
7 ineligible customers available to pay for the low-income tariff and increasing the discount
8 rate exacerbates the burden on those ineligible customers.

9
10 **Q. What does the Company recommend with respect to the income eligibility factor to
11 be provided to eligible customers of the low-income tariff?**

12 A. The Company recommends that all families earning 100 percent or less than the federal
13 poverty level be eligible for this program.

14
15 **Q. Does Staff agree with this proposal?**

16 A. No. Staff recommends that eligibility be limited to families making 150 percent or less of
17 the federal poverty level.

18
19 **Q. Why has Staff chosen the higher level?**

20 A. Because this factor is consistent with other low income programs including Chaparral City
21 Water Company, Rio Rico Utilities, Inc., and Litchfield Park Service Corporation.

22
23 **Q. Why has the Company chosen a lower eligibility threshold?**

24 A. Mr. Williamson states in his rebuttal testimony (at page seven) that San Manuel is a very
25 poor community and "we were concerned we would have too many people qualifying if
26 we set eligibility above the federal poverty level."

1 **Q. Does Staff agree with this position?**

2 A. No. As an alternative to limiting eligibility, Staff recommends placing a limit on the
3 number of participants. Staff's alternative provides greater certainty that the cost of the
4 low-income discount does not excessively burden other customers.

5
6 **Q. What does Staff recommend?**

7 A. Staff continues to recommend the eligibility level to be set at 150 percent of the federal
8 poverty level. This position is consistent with what was approved in the Chaparral City
9 Water Company and is proposed in the Rio Rico Utilities, Inc. and Litchfield Park Service
10 Corporation proceedings.

11
12 **Q. What limit does the Company propose for the participation eligibility for the low-
13 income tariff?**

14 A. The Company recommends no cap to the number of eligible participants.

15
16 **Q. What is the basis for the Company's recommendation?**

17 A. The Company shares Staff's concern regarding heavy participation but has opted to use an
18 unlimited cap "in an effort to help reduce the chance of over-participation."

19
20 **Q. Does Staff agree with the Company's position?**

21 A. No. By not establishing a cap on eligible participants, the Company actually increases the
22 chances of over-participation. It is Staff's position that it is not prudent to allow unlimited
23 participation because of the increasing financial impact to the nonparticipating residential
24 customer base.

1 **Q. What does Staff recommend?**

2 A. Staff continues to recommend a participation limit of 400 customers or 30 percent of the
3 existing customer base (to limit the impact to non-participating customers to < 10%).
4

5 **V. STAFF'S RESPONSE TO THE REBUTTAL TESTIMONY OF MR. THOMAS**
6 **BOURASSA**

7 *Accumulated Deferred Income Tax*

8 **Q. What is the Company's rebuttal position with respect to accumulated deferred**
9 **income tax?**

10 A. The Company's rebuttal balance is a \$39,744 debit (addition to rate base). The Company
11 asserts that Staff's direct position, a \$40,064 debit, is overstated due to an error in Staff's
12 accumulated depreciation balance.
13

14 **Q. Does Staff agree with the Company explanation for the \$320 difference?**

15 A. Yes. As discussed below, Staff is revising its accumulated depreciation balance and
16 subsequent to that revision the difference in accumulated deferred income tax is
17 inconsequential.
18

19 **Q. What is Staff's surrebuttal position?**

20 A. Staff accepts the Company's \$39,744 debit balance for accumulated deferred income tax.

21 *Accumulated Depreciation*

22 **Q. What is the Company's rebuttal position with respect to accumulated depreciation?**

23 A. The Company proposes an accumulated depreciation balance of \$406,157.
24

25 **Q. What did Staff recommend in direct testimony?**

26 A. Staff initially recommended a balance of \$407,078, a difference of \$921.

1 **Q. What does Staff recommend now?**

2 A. Staff agrees with the Company's calculation and now proposes an accumulated
3 depreciation balance of \$406,157.

4

5 *Revenue*

6 **Q. Has the Company revised its test year revenue in its rebuttal testimony?**

7 A. Yes. The Company's rebuttal testimony proposes to modify its revenue annualization
8 adjustment resulting in a \$14,627 reduction to test year revenue to recognize the closure of
9 the San Miguel Highlands Mobile Home Park.

10

11 **Q. What does Staff recommend?**

12 A. Staff concurs with the Company and recommends the \$14,627 reduction to test year
13 revenue.

14

15 *Bad Debt Expense*

16 **Q. What does the Company propose with respect to bad debt expense?**

17 A. The Company proposes the \$46,313 recorded in the test year.

18

19 **Q. Is the amount recorded in the test year representative of on-going average bad debt
20 expense?**

21 A. Not if the Company's recent experience continues in future years. The Company's bad
22 debt has fluctuated widely since 2006. When expenses vary widely from year to year it is
23 generally more appropriate to normalize that expense.

1 **Q. Does the Company agree with Staff's normalized amount?**

2 A. No. The Company asserts that the normalized amount is inappropriate and that its bad
3 debt expense increased to \$59,764 in 2009.

4
5 **Q. What is the Company's policy with respect to collections and bad debt?**

6 A. In response to GTM-1.33, the Company provided a copy of its "Collection and Bad Debt
7 Write-offs" policy. This summary indicates only that the customer receives a 90-day
8 delinquency letter and, if no response is received, the Company places a door hanger on
9 the customer's house to provide notice of the Company's intention to disconnect service.
10 If there is still no response from the customer it appears that the account is referred to a
11 collection agency. The Company does not report delinquencies to credit reporting
12 bureaus. The Company asserts that it has neither disconnected nor taken to small claims
13 court any customer for non-payment in 2008 or 2009.

14
15 **Q. Does a utility's bad debt collection policy affect its uncollectible amount?**

16 A. Yes. The Company serves a small community. An initial effort to disconnect a customer
17 would send a signal to other customers, and it could have a significant impact on the
18 Company's uncollectible rate. Similarly, use of small claims court could notably improve
19 collections. It is inappropriate to impose the cost of uncollectibles on paying customers
20 when the Company has not even pursued actions that are normally recognized and
21 available to effectuate prompt customer payment. If the Company improves its collection
22 activities, its unusually high bad debt expense may be mitigated.

1 **Q. What is Staff's response to the Company's assertion that bad debt expense increased**
2 **in 2009 from the test year amount?**

3 A. As discussed above, the Company should improve its collection activities including, if
4 possible, execution of a water services agreement with Arizona Water Company. The
5 Company's relatively passive collection policy does not provide customers adequate
6 incentive to make payments. As an example, Staff notes that \$20,464 of the Company's
7 2009 bad debt expense represent write-offs on active customer accounts that are over 90
8 days delinquent. Further, the Company controls its write-off policy, and its collection
9 policy does not state when bad debts are written off.

10

11 **Q. What is Staff's response to the Company's assertion that bad debt expense is**
12 **subjective and backward looking?**

13 A. Staff calculated a normalized bad debt expense as the mean average of the years 2006,
14 2007 and 2008. If the Company regularly files rate cases in a three-year cycle and the
15 same normalization method is used, all of the Company's bad debt expense will be
16 included in rates. Three years is an appropriate period because it matches the
17 normalization period used for rate case expense.

18

19 **Q. What does Staff recommend?**

20 A. Staff continues to recommend the normalization of the bad debt expense as propose in its
21 direct testimony.

1 *Rate Design*

2 **Q. Does the Company's rebuttal testimony propose to modify the rates for the mobile**
3 **home park?**

4 A. Yes. In its direct testimony, the Company proposed to continue the existing rate structure
5 and uniformly increase the fixed and commodity rates to generate its revenue requirement.
6 The present rates for the mobile home park consist of a fixed monthly charge for the
7 summer season and a fixed monthly charge plus a volumetric rate for the winter season.
8 In its rebuttal testimony, the Company proposes to change the rate design for the mobile
9 home park. The Company's rebuttal proposal eliminates the seasonal rates in favor of a
10 fixed monthly charge of \$38.78 per occupied space per month.

11
12 **Q. Why has the Company changed its proposed rates for the mobile home park?**

13 A. The Company asserts that the mobile home park owner suggested the fixed monthly
14 charge per occupied space due to a concern over the certainty of its bill.

15
16 **Q. Does Staff agree with the Company's proposal?**

17 A. No. The occupancy of the mobile home park is highly seasonal. During the summer
18 months, specifically April through September, the park is quite slow. During the winter
19 months, October through March, is the period when the highest demands are placed on the
20 sewer system. The seasonal rates provide a more appropriate price signal to the customer.

21
22 **Q. What does Staff recommend?**

23 A. Staff recommends the continuation of the seasonal rate structure. Revenues should follow
24 costs and the cost of meeting peak wastewater demand is during the busy winter season.

1 *Low-Income Tariff*

2 **Q. What does the Company recommend with respect to the administration fee of the**
3 **low-income tariff?**

4 A. The Company recommends a ten percent administration fee to cover the costs of the
5 program.

6
7 **Q. How did the Company arrive at the ten percent fee?**

8 A. In response to GTM-6.6 the Company stated that it could not provide support for the cost
9 estimate but offered its belief that the fee was a fair amount. In response to GTM-7.5 the
10 Company acknowledged that it has performed no such cost analysis of the low income
11 program. Mr. Bourassa identifies the types of costs the Company anticipates the fee to
12 cover, however, the Company has no data or analysis to show that the revenues generated
13 by the fee are representative of the related costs.

14
15 **Q. Does Staff agree with the Company's proposal?**

16 A. No. It is Staff's position that the Company should charge only the actual direct costs of
17 the program. If the Company truly is not intending the low-income tariff to provide a
18 profit center, then Staff's recommendation provides the Company better assurance of cost
19 recovery for these costs that the Company has not quantified.

20
21 **Q. What does Staff recommend?**

22 A. Staff continues to advocate adoption of the low-income tariff recommendations in its
23 direct testimony.

24
25 **Q. Does this conclude your surrebuttal testimony?**

26 A. Yes, it does.

CORONADO UTILITIES, INC.
Docket No. SW-04305A-09-0291
Test Year ended December 31, 2008

SURREBUTTAL TESTIMONY OF Gary T. McMurry

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CORONADO UTILITIES, INC.
Docket No. SW-04305A-09-0291
Test Year ended December 31, 2008

Surrebuttal Schedule GTM-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 3,536,648	\$ 3,536,648	\$ 3,531,742	\$ 3,531,742
2	Adjusted Operating Income (Loss)	\$ 154,497	\$ 154,497	\$ 174,534	\$ 174,534
3	Current Rate of Return (L2 / L1)	4.37%	4.37%	4.94%	4.94%
4	Required Rate of Return	7.36%	7.36%	7.36%	7.36%
5	Required Operating Income (L4* L1)	\$ 260,297	\$ 260,297	\$ 259,936	\$ 259,936
6	Operating Income Deficiency (L5 - L2)	\$ 105,800	\$ 105,800	\$ 85,402	\$ 85,402
7	Gross Revenue Conversion Factor	1.4792	1.4792	1.5580	1.5580
8	Required Revenue Increase (L7 * L6)	\$ 156,498	\$ 156,498	\$ 133,056	\$ 133,056
9	Adjusted Test Year Revenue	\$ 868,904	\$ 868,904	\$ 868,904	\$ 868,904
10	Proposed Annual Revenue (L8 + L9)	\$ 1,025,401	\$ 1,025,401	\$ 1,001,960	\$ 1,001,960
11	Required Increase in Revenue (%)	18.01%	18.01%	15.31%	15.31%
12	Rate of Return on Common Equity (%)	14.00%	14.00%	10.50%	10.50%

References:

Column (A): Company Schedule B-1
Column (B): Company Schedules A-1, A-2, & D-1
Column (C): Staff Schedule GTM-2 , GTM-3 & GTM-7
Column (D): Staff Schedule GTM-2 , GTM-3 & GTM-7

CORONADO UTILITIES, INC.
Docket No. SW-04305A-09-0291
Test Year ended December 31, 2008

Surrebuttal Schedule GTM-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Tax Rate (Line 17) + Property Tax Rate (Line 23)	35.8151%			
5	Subtotal (L3 - L4)	64.1849%			
6	Revenue Conversion Factor (L1 / L5)	1.55800057			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	34.4674%			
9	One Minus Combined Income Tax Rate (L7 - L8)	65.5326%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9880%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 53)	29.5590%			
16	Effective Federal Income Tax Rate (L14 x L15)	27.4994%			
17	Combined Federal and State Income Tax Rate (L13 + L16)	34.4674%			
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Tax Rate (Line 17)	34.4674%			
20	One Minus Combined Income Tax Rate (L18 - L19)	65.5326%			
21	Property Tax Factor (GTM-11, L24)	2.0567%			
22	Effective Property Tax Factor (L 20* L 21)	1.3478%			
23	Combined Federal and State Tax and Property Tax Rate (L17+L22)		35.8151%		
24	Required Operating Income (Schedule GTM-1, Line 5)	\$ 259,936			
25	Adjusted Test Year Operating Income (Loss) (Schedule GTM-7, Line 34)	\$ 174,534			
26	Required Increase in Operating Income (L24 - L25)		\$ 85,402		
27	Income Taxes on Recommended Revenue (Col. (D), L52)	\$ 49,888			
28	Income Taxes on Test Year Revenue (Col. (B), L52)	\$ 4,970			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 44,918		
30	Recommended Revenue Requirement (Schedule GTM-1, Line 10)	\$ 1,001,980			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)		\$ -		
35	Property Tax with Recommended Revenue (GTM-11, L19)	\$ 56,348			
36	Property Tax on Test Year Revenue (GTM-11, L 16)	\$ 53,812			
37	Increase in Property Tax Due to Increase in Revenue (GTM-11, L22)		\$ 2,737		
38	Total Required Increase in Revenue (L26 + L29 + L34+L37)		\$ 133,056		
<u>Calculation of Income Tax:</u>					
39	Revenue (Schedule GTM-7, Col.(C), Line 5 & Sch. GTM-1, Col. (B), Line 10)	\$ 888,904		\$ 1,001,960	
40	Operating Expenses Excluding Income Taxes	\$ 689,399		\$ 682,138	
41	Synchronized Interest (L56)	\$ 155,750		\$ 155,750	
42	Arizona Taxable Income (L39 - L40- L41)	\$ 23,755		\$ 154,074	
43	Arizona State Income Tax Rate	6.9880%		6.9880%	
44	Arizona Income Tax (L42 x L43)		\$ 1,655		\$ 10,736
45	Federal Taxable Income (L42 - L44)	\$ 22,099		\$ 143,338	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 3,315		\$ 7,500	
47	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$ -		\$ 6,250	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -		\$ 8,500	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -		\$ 16,902	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	
51	Total Federal Income Tax		\$ 3,315		\$ 39,152
52	Combined Federal and State Income Tax (L44 + L51)		\$ 4,970		\$ 49,888
53	Applicable Federal Income Tax Rate [Col. (D), L51 - Col. (B), L51] / [Col. (C), L45 - Col. (A), L45]				29.56%
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base (Schedule GTM-3, Col. (C), Line (14))	\$ 3,531,742			
55	Weighted Average Cost of Debt (Schedule C-2, p 14)	4.41%			
56	Synchronized Interest (L45 X L46)	\$ 155,750			

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Surrebuttal Schedule GTM-3

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	REF	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 4,428,471	\$ -	\$ 4,428,471
2	Less: Accumulated Depreciation	398,932	7,225	406,157
3	Net Plant in Service	<u>\$ 4,029,539</u>	<u>\$ (7,225)</u>	<u>\$ 4,022,314</u>
<u>LESS:</u>				
4	Contributions in Aid of Construction (CIAC)	\$ 603,201	\$ -	\$ 603,201
5	Less: Accumulated Amortization	9,755	-	9,755
6	Net CIAC	<u>\$ 593,446</u>	<u>\$ -</u>	<u>\$ 593,446</u>
7	Advances in Aid of Construction (AIAC)	-	-	-
8	Customer Deposits	19,809	-	19,809
9	Deferred Income Tax Credits	-	-	-
<u>ADD:</u>				
10	Unamortized Finance Charges	82,938	-	82,938
11	Deferred Income Tax Debits	37,425	2,319	39,744
12	Working Capital	-	-	-
13	Rounding	1	-	1
14	Original Cost Rate Base	<u>\$ 3,536,648</u>	<u>\$ (4,906)</u>	<u>\$ 3,531,742</u>

References:

Column (A), Company Schedule B-1 , GTM-4
Column [B]: Column [C] - Column [A]
Column [C], Staff Adjusted Total Col.

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Surrebuttal Schedule GTM-5

ORIGINAL COST RATE BASE ADJUSTMENT # 1 - DEFERRED TAXES

<u>Line</u> <u>No.</u>	<u>Account</u> <u>Number</u>	<u>DESCRIPTION</u>	<u>[A]</u> <u>COMPANY</u> <u>PROPOSED</u>	<u>[B]</u> <u>STAFF</u> <u>ADJUSTMENTS</u>	<u>[C]</u> <u>STAFF</u> <u>RECOMMENDED</u>
1		Deferred Income Tax Debits	\$ 37,425	\$ 2,319	\$ 39,744

References:

Col [A]: Company Schedule B-1

Col [B]: GTM Testimony

Col [C]: Col. [A] + Col. [B]

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Surrebuttal Schedule GTM-6

ORIGINAL COST RATE BASE ADJUSTMENT # 2 - ACCUMULATED DEPRECIATION

LINE NO.	Account Number	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	371	Pumping Equipment	\$ 15,223	190	\$ 15,413
2	382	Outfall Sewer Lines	\$ 540,205	(7,415)	\$ 532,790
3		Accumulated Depreciation	<u>\$ 398,932</u>	<u>\$ 7,225</u>	<u>\$ 406,157</u>

			Rate used by Company	Rate approved by Commission (Dec. No. 68608)	
4	371	Pumping Equipment	12.50%	10.00%	
5	382	Outfall Sewer Lines	3.33%	4.00%	
			Expensed by Company	Approved Depreciation Charge	Accumulated Depreciation
6	371	Pumping Equipment	951	761	(190)
7	382	Outfall Sewer Lines	36,854	44,269	7,415
8		Increase to Accumulated Depreciation			<u>7,225</u>

References:

Col [A]: Company Schedule B-1
 Col [B]: GTM Testimony
 Col [C]: Col. [A] + Col. [B]

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OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	<u>OPERATING REVENUES:</u>					
2	Fiat Rate Revenues	\$ 710,657	\$ (14,626)	\$ 696,031	\$ 126,394	\$ 822,425
3	Measured Revenues	157,655	-	157,655	6,662	164,317
4	Other Waste Water Revenues	15,218	-	15,218	-	15,218
5	Total Operating Revenues	\$ 883,530	\$ (14,626)	\$ 868,904	\$ 133,056	\$ 1,001,960
6						
7	<u>OPERATING EXPENSES:</u>					
8	Salaries and Wages	\$ 52,500	\$ -	\$ 52,500	\$ -	\$ 52,500
9	Purchased Wastewater Treatment	-	-	-	-	-
10	Sludge Removal Expenses	-	-	-	-	-
11	Purchased Power	54,218	-	54,218	-	54,218
12	Fuel for Power Production	-	-	-	-	-
13	Chemicals	27,790	-	27,790	-	27,790
14	Material and Supplies	2,978	-	2,978	-	2,978
15	Contractual Services	141,386	-	141,386	-	141,386
16	Contractual Services - Testing	3,676	-	3,676	-	3,676
17	Contractual Services - other	41,341	-	41,341	-	41,341
18	Equipment Rental	-	-	-	-	-
19	Rents - Building	-	-	-	-	-
20	Transportation Expenses	209	-	209	-	209
21	Insurance - General Liability	11,066	-	11,066	-	11,066
22	Insurance - Other	-	-	-	-	-
23	Regulatory Expenses	3,505	-	3,505	-	3,505
24	Regulatory Commission Expense	58,333	-	58,333	-	58,333
25	Miscellaneous Expense	37,081	-	37,081	-	37,081
26	Bad Debt Expense	46,313	(27,881)	18,432	-	18,432
27	Depreciation and Amortization	186,095	(8,343)	177,752	-	177,752
28	Taxes other than Income	5,521	-	5,521	-	5,521
29	Property Taxes	57,733	(4,121)	53,612	2,737	56,348
30	Income Tax	(711)	5,681	4,970	44,918	49,888
31	Rounding	(1)	1	-	-	-
32	Total Operating Expenses	\$ 729,033	\$ (34,664)	\$ 694,369	\$ 47,654	\$ 742,023
33						
34	Operating Income	154,497	20,037	174,534	85,402	259,936

References:
 Column [A]: Company Schedule C-1
 Column [B]: Schedule GTM-8
 Column [C]: Column [A] + Column [B]
 Column [D]: Schedules GTM-1 and GTM-2
 Column [E]: Column [C] + Column [D]

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Surrebuttal Schedule GTM-8

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	Normalize Bad Debt Expense (B) ADJ #1	Depreciation Expense (C) ADJ #2	Property Taxes (D) ADJ #3	Income Taxes (E) ADJ #4	(F) ADJ #5	(G) ADJ #6	(H) STAFF ADJUSTED
1	Operating Revenues:								
2	Fair Rate Revenues	\$ 710,657							\$ 696,031
3	Measured Revenues	157,655							157,655
4	Other Waste Water Revenues	15,218							15,218
5	Total Operating Revenues	883,530							868,904
6	Operating Expenses:								
7	Salaries and Wages	\$ 52,500							\$ 52,500
8	Purchased Wastewater Treatment	-							-
9	Sludge Removal Expenses	54,218							54,218
10	Purchased Power	-							-
11	Fuel for Power Production	27,790							27,790
12	Chemicals	2,978							2,978
13	Material and Supplies	141,386							141,386
14	Contractual Services - Testing	3,676							3,676
15	Contractual Services - other	41,341							41,341
16	Equipment Rental	-							-
17	Rents - Building	209							209
18	Transportation Expenses	11,066							11,066
19	Insurance - General Liability	-							-
20	Insurance - Other	3,505							3,505
21	Regulatory Expenses	58,333							58,333
22	Regulatory Commission Expense	37,081							37,081
23	Miscellaneous Expense	46,313							46,313
24	Bad Debt Expense	186,095	(27,881)	(8,343)					177,752
25	Depreciation and Amortization	5,521							5,521
26	Taxes other than Income	57,733			(4,121)				53,612
27	Property Taxes	(711)							4,970
28	Income Tax	(1)				5,681			
29	Rounding	729,033	(27,881)	(8,343)	(4,121)	5,681			694,369
30	Total Operating Expenses	154,497	27,881	8,343	4,121	(5,681)	(14,626)		174,534
	Operating Income								

References:
 Column (A) Company Schedule C-1

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Surrebuttal Schedule GTM-9

OPERATING INCOME ADJUSTMENT # 1 - NORMALIZE BAD DEBT EXPENSE

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
1	Bad Debt Expense	\$ 46,313	\$ (27,881)	\$ 18,432
	<u>Bad Debt Expense</u>			
2	2006	\$ 3,483		
3	2007	5,500		
4	2008	46,312		
5	Total	<u>\$ 55,295</u>		
			<u>3</u>	
6	Normalized Amount	<u>\$ 18,432</u>		

References:

Col [A]: Company Schedule C-1 Page 3
 Col [B]: GTM Testimony
 Col [C]: Col. [A] + Col. [B]

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Surrebuttal Schedule GTM-10

OPERATING INCOME ADJUSTMENT # 2 - DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Operating Income	\$ 186,095	\$ (8,343)	\$ 177,752

OPERATING INCOME ADJUSTMENT # - DEPRECIATION EXPENSE

Line No.	ACCT NO.	DESCRIPTION	[A] Company Proposed PLANT IN SERVICE BALANCE	[B] STAFF DEPR. PLANT BALANCE	[C] STAFF RECOMMENDED RATE	[D] STAFF RECOMMENDED EXPENSE
Plant In Service						
2	351	Organization Cost	\$ 5,194	5,194	0.00%	\$ -
3	352	Franchise Cost	-	-	0.00%	-
4	353	Land and Land Rights	315,001	315,001	0.00%	-
5	354	Structures and Improvements	1,858	1,858	3.33%	62
6	355	Power Generation Equipment	-	-	5.00%	-
7	360	Collection Sewer Forced	-	-	2.00%	-
8	361	Collection Sewer Gravity	59,350	59,350	2.00%	1,187
9	362	Special Collecting Structures	1,576	1,576	2.00%	32
10	363	Customer Services	-	-	2.00%	-
11	364	Flow Measuring Devices	-	-	10.00%	-
12	365	Flow Measuring Installation	-	-	10.00%	-
13	366	Reuse Services	-	-	2.00%	-
14	367	Reuse Meters and Installation	-	-	8.33%	-
15	370	Receiving Wells	16,133	16,133	3.33%	537
16	371	Pumping Equipment	15,223	15,223	12.50%	1,903
17	374	Resue Distribution Reservoirs	-	-	2.50%	-
18	375	Reuse Transmission & Distrib. System	-	-	2.50%	-
19	380	Treatment & Disposal Equipment	3,243,375	3,243,375	5.00%	162,169
20	381	Plant Sewers	-	-	5.00%	-
21	382	Outfall Sewer Lines	540,205	540,205	3.33%	17,989
22	389	Other Sewer Plant & Equipment	178,135	178,135	6.67%	11,882
23	390	Office Furniture and Equipment	-	-	6.67%	-
24	390	Computers and Software	-	-	20.00%	-
25	391	Transportation Equipment	-	-	20.00%	-
26	392	Stores Equipment	-	-	4.00%	-
27	393	Tools, Shop and Garage Equipment	-	-	5.00%	-
28	394	Laboratory Equipment	-	-	10.00%	-
29	396	Communication Equipment	-	-	10.00%	-
30	398	Other Tangible Plant	52,423	52,423	4.00%	2,097
Subtotal General			\$ 4,428,473	\$ 4,428,473		\$ 197,857
31	Less: Non- depreciable Account(s)		320,195	320,195		
32	Depreciable Plant (L29-L30)		\$ 4,108,278	\$ 4,108,278		
33	Contributions-in-Aid-of-Construction (CIAC)				\$ 603,201	
34	Composite Depreciation/Amortization Rate				3.33%	
35	Less: Amortization of CIAC (L32 x L33)					\$ 20,105
36	Depreciation Expense - STAFF					\$ 177,752

OPERATING INCOME ADJUSTMENT # 3 - PROPERTY TAXES

LINE NO.	Property Tax Calculation	STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2008	\$ 868,904	\$ 868,904
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$ 1,737,807	\$ 1,737,807
4a	Staff Adjusted Test Year Revenues - 2008	868,904	
4b	Staff Recommended Revenue, Per Schedule GTM-1		1,001,960
5	Subtotal (Line 4 + Line 5)	\$ 2,606,711	\$ 2,739,767
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 868,904	\$ 913,256
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 1,737,807	\$ 1,826,511
10	Plus: 10% of CWIP -		-
11	Less: Net Book Value of Licensed Vehicles		-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 1,737,807	\$ 1,826,511
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	364,940	\$ 383,567
15	Composite Property Tax Rate (Per Company Schedule C-2, Page 3, Line 16)	14.6906%	14.6906%
16	Staff Proposed Property Tax Expense (Line 14 * Line 15)	\$ 53,612	
17	Company Proposed Property Tax	57,733	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ (4,121)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 56,348
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 53,612
21	Increase/(Decrease) to Property Tax Expense Due to Revenue Increase/(Decrease)		\$ 2,737
22	Decrease to Property Tax Expense		\$ 2,737
23	Increase in Revenue Requirement		133,056
24	Decrease to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		2.056684%

References:

Col [A]: Company Schedule C-1 Page 3
Col [B]: GTM Testimony
Col [C]: Schedule GTM-2

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Surrebuttal Schedule GTM-12

OPERATING INCOME ADJUSTMENT # 4 - INCOME TAXES

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
1	Income Tax	<u>\$ (711)</u>	<u>\$ 5,681</u>	<u>\$ 4,970</u>
2				
3				
4				
5				
6				
7				
8				
9				
10				
11	<u>References:</u>			
12	Col [A]: Company Schedule C-1 Page 3			
13	Col [B]: GTM Testimony			
14	Col [C]: Schedule GTM-2			

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Surrebuttal Schedule GTM-13

OPERATING INCOME ADJUSTMENT # 5 - SAN MANUEL HIGHLANDS REVENUE ADJUSTMENT

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Flat Rate Revenues	\$ 710,657	\$ (14,626)	\$ 696,030.63
2	Measured Revenues	157,655		\$ 157,655.00
3		<u>\$ 868,312</u>	<u>\$ (14,626)</u>	\$ 853,685.63
4				
5				
6				
7				
8				
9				
10				
11	<u>References:</u>			
12	Col [A]: Company Schedule C-1 Page 3			
13	Col [B]: GTM Testimony			
14	Col [C]: Schedule GTM-2			

RATE DESIGN

Monthly Fixed Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
Residential	\$ 46.50	\$ 54.73	\$ 53.65
Commercial	\$ 7.50	\$ 8.83	\$ 8.65
Mobile Home Park - Winter	\$ 7.50	\$ 8.83	\$ 8.65
Mobile Home Park - Summer	\$ 31.86	\$ 37.50	\$ 36.75
School	\$ 7.50	\$ 8.83	\$ 8.65
Effluent	\$ -	\$ -	\$ -
Commodity Rates (M-gal)			
Residential			
From 1 to Infinite Gallons	\$ -	\$ -	\$ -
Commercial			
From 1 to Infinite Gallons	\$ 9.80	\$ 11.54	\$ 11.32
Mobile Home Park - Winter			
From 1 to Infinite Gallons	\$ 5.70	\$ 6.71	\$ 6.60
Mobile Home Park - Summer			
From 1 to Infinite Gallons	\$ -	\$ -	\$ -
School			
From 1 to Infinite Gallons	\$ 3.12	\$ 3.68	\$ 3.60
Effluent			
From 1 to Infinite Gallons	\$ 0.15	\$ 0.20	\$ 0.20
	Present	Company Proposed	Staff Recommended
Service Charges			
Establishment of Service	\$25.00	\$25.00	\$25.00
Reconnection (delinquent)	\$35.00	\$35.00 + cost (a)	\$35.00 + cost (b)
Deposit	(c)	(c)	(c)
Deposit Interest	(d)	3.50%	6.0%
Re-Establishment (After Hours)	(e)	(e)	(e)
Late fee	1.5%	1.5%	1.5%
NSF Check	25.00	\$25.00	\$25.00
Deferred Payment, Per Month	1.5%	1.50%	1.5%
Main Extension and additional facilities agreements	cost	cost	cost
Service Calls	NT	\$40.00	\$40.00

NT = No Tariff

- (a) Reconnection fee "cost" of physical disconnection and reconnection including parts, labor, overhead, and all applicable taxes.
- (b) Company will be allowed to charge customer the actual "cost" of physical disconnection and reconnection only if 1) sewer provider is unable to negotiate a water termination services agreement with the water provider or 2) that the customer does not make current the account subsequent to water service termination.
- (c) Residential - two times the average bill. Non-residential - two and one-half times the average bill as per R14-2-603(B).
- (d) As per Commission Rule ACC R14-2-603 (B).
- (e) As per Commission Rule ACC R14-2-603 (d).

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per Commission Rule (14-2-409.D.5). All advances and/or contributions are to include labor, materials, overheads and all applicable taxes. Cost to include labor, materials and parts, overheads and all applicable taxes.

Typical Bill Analysis
Residential - flat rate

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	-	\$ 46.50	\$ 54.73	\$ 8.23	17.70%
Median Usage	-	46.50	54.73	\$ 8.23	17.70%
Staff Recommended					
Average Usage	-	\$ 46.50	\$ 53.65	\$ 7.15	15.37%
Median Usage	-	46.50	53.65	\$ 7.15	15.37%

Present & Proposed Rates (Without Taxes)
Residential - flat rate

Consumption	Rates	Rates	Increase	Rates	Increase
-	\$ 46.50	\$ 54.73	17.70%	\$ 53.65	15.37%
1,000	46.50	54.73	17.70%	53.65	15.37%
2,000	46.50	54.73	17.70%	53.65	15.37%
3,000	46.50	54.73	17.70%	53.65	15.37%
4,000	46.50	54.73	17.70%	53.65	15.37%
5,000	46.50	54.73	17.70%	53.65	15.37%
6,000	46.50	54.73	17.70%	53.65	15.37%
7,000	46.50	54.73	17.70%	53.65	15.37%
8,000	46.50	54.73	17.70%	53.65	15.37%
9,000	46.50	54.73	17.70%	53.65	15.37%
10,000	46.50	54.73	17.70%	53.65	15.37%
11,000	46.50	54.73	17.70%	53.65	15.37%
12,000	46.50	54.73	17.70%	53.65	15.37%
13,000	46.50	54.73	17.70%	53.65	15.37%
14,000	46.50	54.73	17.70%	53.65	15.37%
15,000	46.50	54.73	17.70%	53.65	15.37%
16,000	46.50	54.73	17.70%	53.65	15.37%
17,000	46.50	54.73	17.70%	53.65	15.37%
18,000	46.50	54.73	17.70%	53.65	15.37%
19,000	46.50	54.73	17.70%	53.65	15.37%
20,000	46.50	54.73	17.70%	53.65	15.37%
25,000	46.50	54.73	17.70%	53.65	15.37%
30,000	46.50	54.73	17.70%	53.65	15.37%
35,000	46.50	54.73	17.70%	53.65	15.37%
40,000	46.50	54.73	17.70%	53.65	15.37%
45,000	46.50	54.73	17.70%	53.65	15.37%
50,000	46.50	54.73	17.70%	53.65	15.37%
75,000	46.50	54.73	17.70%	53.65	15.37%
100,000	46.50	54.73	17.70%	53.65	15.37%