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BEFORE THE ARIZONA CORPORATION COMMISSION

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE
APPLICATION OF SAHUARITA
WATER COMPANY, L.L.C. ("SWC")
FOR AN OPINION AND ORDER OF
THE COMMISSION (i)
DETERMINING THE FAIR VALUE
OF THE UTILITY PROPERTY OF
SWC FOR RATEMAKING PURPOSES,
(ii) FIXING A JUST AND
REASONABLE RATE OF RETURN
THEREON, (iii) APPROVING RATES
AND CHARGES DESIGNED TO
PRODUCE REVENUES SUFFICIENT
TO RECOVER SWC'S COST OF
SERVICE AND AUTHORIZED RATE
OF RETURN, AND (iv) PROVIDING
FOR THE RECOVERY OF CERTAIN
FINANCING AND OPERATING
EXPENSES THROUGH A
SURCHARGE AND A PASS-
THROUGH TARIFF, RESPECTIVELY

^A
DOCKET NO. W-03718-09-0359

NOTICE OF FILING REBUTTAL
TESTIMONY

Arizona Corporation Commission
DOCKETED

MAY 18 2010

DOCKETED BY *MMW*

Sahurita Water Company. LLC ("SWC" or the "Company") hereby submits this
Notice of Filing Rebuttal Testimony in the above-referenced matter. Specifically file
herewith are the Company's Rebuttal Testimonies, which include the following
testimonies, along with supporting schedules and/or attachments:

1. Rebuttal Testimony of Marian Homiak;
2. Rebuttal Testimony of Mark Seamans;
3. Rebuttal Testimony of Mark F. Taylor;
4. Rebuttal Testimony of David S. Cutler, CPA
5. Rebuttal Testimony of Thomas J. Bourassa, CPA (Rate Base); and

6. Rebuttal Testimony of Thomas J. Bourassa, CPA (Cost of Capital)

Dated this 17 day of May, 2010.

Thomas J. Bourassa, CPA



Thomas J. Bourassa, CPA
129 W. Wood Drive
Phoenix, Arizona 85029

ORIGINAL and thirteen
(13) copies of the
foregoing were filed the
17th day of May, 2010.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE
APPLICATION OF SAHUARITA
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DOCKET NO. W-03718-09-0359

PREPARED TESTIMONY

REBUTTAL TESTIMONY OF

MARIAN HOMIAK

ON BEHALF OF SAHUARITA WATER COMPANY, L.L.C.

May 17, 2010

1 **Q.1 Please state your name and business address.**

2 A.1 My name is Marian Homiak. My business address is 4549 East Fort Lowell Road,
3 Tucson, Arizona 85712.

4

5 **Q.2 By whom are you employed, and in what capacity?**

6 A.2 I am employed by Rancho Sahuarita Management Company ("Management
7 Company"), which provides employee and record-keeping support and services to
8 Sahuarita Water Company ("Water Company") on a full-time or part-time basis,
9 depending upon the person and nature of the services provided to the Water
10 Company. In my particular situation, during the test year, I provided services as
11 Controller of the Water Company on a full-time basis.

12

13 **Q.3 How long have you been employed by the Management Company, and for
14 how long have you served as Controller for the Water Company?**

15 A.3 Approximately five (5) years as to each part of your question.

16

17 **Q.4 Please summarize your business and educational experience prior to
18 commencing employment with the Management Company.**

19 A.4 From 1977 to 1987, I was employed by John Mini, Indoor Landscapes, a national
20 firm in the field of interior landscape design. I served as Vice President of
21 Operations during my last four years with them. In 1987, I relocated from New
22 York City, New York to Tucson, Arizona. From 1987 to 1999, I served as
23 Operations Manager for Catalina In-Home Services, which provided a wide range
24 of services to individuals with medical problems or disabilities best addressed on a
25 home-site basis. Subsequently, I enrolled with the University of Phoenix, and

26

1 received a Bachelor of Science degree in Accounting in 2005. Shortly thereafter, I
2 began my employment with the Management Company.

3
4 **Q.5 Please describe your responsibilities as Controller for the Water Company.**

5 Q.5 As Controller for the Water Company, I am responsible for maintaining and
6 overseeing the daily accounting functions for the Water Company using Generally
7 Accepted Accounting Principles. This includes direct management of Accounts
8 Payable and General Ledger, monthly financial reporting, and cash flow
9 projections.

10

11 **Q.6 In your capacity as Controller for the Water Company, are you familiar with
12 the manner in which the Management Company is compensated for the
13 personnel and services which it provides to the Water Company?**

14 A.6 Yes, I am quite familiar with that arrangement.

15

16 **Q.7 Please describe the nature of the arrangement.**

17 A.7 The Management Company's provision of personnel and services to the Water
18 Company is governed by the provisions of a June 1, 2007 Management Services
19 Agreement ("Agreement") between the Management Company and the Water
20 Company. A copy of the Agreement was provided to the Commission's Staff on or
21 about February 15, 2010 in connection with the Water Company's response to the
22 Commission Staff's Second Set of Data Requests. A copy is also attached to this
23 Rebuttal Testimony as Appendix "A" for the Commission's convenience.

24

25 Under the provisions of the Agreement, each month the Management Company
26 submits a request to the Water Company for reimbursement of that portion of the

1 salaries or wages of Management Company personnel who devoted time and
2 provided services to the Water Company during the preceding calendar month. If
3 the individual in question devoted 100% of his or her time to the Water Company
4 (such as me), then the entirety of his or her salary or wage and associated taxes
5 would be attributed to the Water Company for reimbursement of the Management
6 Company. If the individual in question allocated only a portion of his or her time
7 to the Water Company during the preceding month, then only that portion or
8 percentage of that person's salary or wage would be reimbursable to the
9 Management Company.

10
11 **Q.8 Have you read the April 22, 2010 prepared Direct Testimony of Commission**
12 **Staff witness Jeffrey Michlik in this proceeding?**

13 A.8 Yes.

14
15 **Q.9 Are you familiar with Mr. Michlik's recommendation that the Water**
16 **Company's proposed "management fee expense" be reduced from \$770,603 to**
17 **\$580,975, or by a downward adjustment of \$189,628?**

18 A.9 Yes, I am familiar with both that recommendation, as well as Mr. Michlik's
19 indicated underlying reasoning.

20
21 **Q.10 What is the nature of his underlying reasoning?**

22 A.10 There appear to be two (2) parts or aspects to his reasoning process. The first part
23 arises from language contained in a paragraph at the end of Schedule 1 to the
24 Agreement which allows for the Management Company to include in its monthly
25 reimbursement request to the Water Company "25% for Overhead and Profit"
26 above the actual costs incurred by the Management Company for the employees

1 and services it provides to the Water Company. Against the background of that
2 language, Mr. Michlik's prepared Direct Testimony states as follows:

3
4 "Since the 25 percent mark-up is a term of the management contract,
5 Staff concludes that the overhead and profit are already likely
6 included in the salaries." [Prepared Direct Testimony of Jeffrey
7 Michlik at page 20, lines 7-9] [emphasis added]

8
9 The second part of Mr. Michlik's reasoning process appears to arise from the fact
10 that the Water Company "did not utilize a competitive bidding process to select the
11 outside service that manages and operates the Company." From that observation
12 he then concludes that

13
14 "The Company has not demonstrated purchasing policies and
15 safeguards to ensure that the ratepayers are not being disadvantaged."
16 [Prepared Direct Testimony of Jeffrey Michlik at page 20, lines 18-
17 19] [emphasis added]

18
19 **Q.11 What is the purpose of your Rebuttal Testimony as it relates to this area of**
20 **Mr. Michlik's prepared Direct Testimony and his apparent reasoning**
21 **process?**

22 **A.11** The purpose of my testimony is to specifically rebut with sworn testimony Mr.
23 Michlik's unsubstantiated assumption that the employee salaries and wages for
24 which the Management Company requests reimbursement from the Water
25 Company "likely" include a "25 percent mark-up" for Management Company
26 overhead and profit. That in fact is not the case, as the Commission Staff was

1 specifically advised in the Water Company's written responses to several of the
2 data requests contained in the Commission Staff's Second Set of Data Requests.

3
4 In addition, my Rebuttal Testimony and Appendices "B", "C" and "D" to this
5 testimony address Mr. Michlik's suggestion that the Water Company's ratepayers
6 have been "disadvantaged" by the manner in which the Water Company has
7 retained the personnel who assist in the management and operation of the Water
8 Company.

9
10 **Q.12 What is the basis for your belief that the salaries and wages, which are the**
11 **subject of the reimbursement requests received by the Water Company, do**
12 **not contain a "25 percent mark-up" for overhead and profit for the**
13 **Management Company?**

14 A.12 Let me begin answering your question by unequivocally stating that the
15 reimbursement requests do not contain any mark-up or allowance for overhead or
16 profit in connection with personnel and services provided to the Water Company.
17 The Agreement reflects a format used by the Management Company in connection
18 with personnel and services it provides to several different entities, including the
19 Water Company; and, the language set forth in the paragraph at the bottom of
20 Schedule 1 is common to each such agreement. It is conceivable that such a
21 "mark-up" may occur in reimbursement requests or statements presented to those
22 other entities by the Management Company.

23
24 However, in the case of the Water Company, the owner of the Management
25 Company made a conscious decision to not include any mark-up or allowance for
26 overhead or profit in reimbursement requests submitted to the Water Company.

1

2 **Q.13 What occasioned that decision?**

3 A.13 An awareness that the Water Company is a regulated public service corporation,
4 and a desire to remove this subject as an "issue" in Water Company rate
5 proceedings. Given Mr. Michlik's testimony, it would appear that such "issue" has
6 not been removed as yet. Hopefully, my testimony in response to his will allow for
7 that issue removal goal to be realized.

8

9 **Q.14 Given that you are aware of such a decision by the owner of the Management**
10 **Company, how do you know that the reimbursement requests to the Water**
11 **Company do not in fact contain some "mark-up" or allowance for overhead**
12 **and profit?**

13 A.14 Because of my proximity to the Management Company's operations, I am in a
14 position to know the actual salaries and wages of its employees who perform
15 services for the Water Company. Thus, I am in a position to be sure that the salary
16 and wage information upon which the reimbursement requests are predicated is
17 correct. In that regard, the actual payroll information is compiled and the payroll
18 function is administered by ADP, the Management Company's payroll processor.
19 In addition, I am also in a position to confirm the accuracy of the allocation of
20 Management Company employees' time to the Water Company.

21

22 **Q.15 Is there another reason why you believe that the reimbursement requests do**
23 **not contain any "mark-up" above the actual cost to the Management**
24 **Company of the salaries and wages in question and related taxes?**

25 A.15 Yes. Given that the employees of the Management Company in fact receive their
26 actual salaries and wages, net of deductions, there is no way that the Management

1 Company could divert or retain for itself any portion of a reimbursement payment
2 from the Water Company. As an employee of the Management Company, I can
3 assure you that I would know from my fellow employees if any such diversion or
4 withholding from salaries and wages was ever attempted; and, none has ever been
5 attempted or occurred.

6
7 Thus, there is no basis in fact for either (i) Mr. Michlik's conjecture that a mark-up
8 for overhead and profit is "likely" to be included in the Management Company's
9 salary and wage reimbursement requests of the Water Company; or, (ii) Mr.
10 Michlik's recommendations that the Water Company's \$40,500 pro forma
11 adjustment to salary be eliminated, and the recorded test year management fee be
12 reduced by 25 percent.

13
14 **Q.16 Would you now please address Mr. Michlik's suggestion that ratepayers have**
15 **been "disadvantaged" because the Water Company did not seek competitive**
16 **bids for its staffing arrangement.**

17 **A.16** Attached to this testimony as Appendix "B" are (i) the results of 2009 Water Utility
18 Compensation Survey conducted by the American Water Works Association
19 ("AWWA") and (ii) national average salaries adjusted by location from the New
20 York Times website. We have included both surveys because the AWWA survey
21 is industry-specific but does not address regional differences. The New York Times
22 salaries are not industry-specific but they represent the median compensation for
23 specific jobs in Tucson, Arizona. Attached to this testimony as Appendix "C" is a
24 comparison of the compensation of Management Company staffing used by the
25 Water Company on a full-time and a part-time basis during 2008 compared to the
26 AWWA survey and/or national average salaries adjusted by location from the New

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York Times website. As you will note, the compensation paid by the Management Company to such employees is quite comparable to and in-line with the prevailing industry compensation standards reflected in the AWWA and New York Times surveys for comparable positions.

Attached to this testimony as Appendix "D" is a comparison of the Water Company's total operating costs to other water companies in Arizona for the test year. This chart indicates that out of 25 companies surveyed, the Water Company is 9th when comparing total expenses per customer, which shows that the Water Company's operating costs are very reasonable.

Against this background, I do not believe it can correctly be asserted that the Water Company's ratepayers have been "disadvantaged" by the staffing and services arrangement between the Water Company and the Management Company.

Q.17 Does that complete your Rebuttal Testimony?

A.17 Yes, it does.

**Sahuarita Water Company
Docket No. W-03718A-09-0359**

**MARIAN HOMIAK
REBUTTAL TESTIMONY
May 17, 2010**

APPENDIX A

MANAGEMENT SERVICES AGREEMENT
(Rancho Sahuarita Water Co.)

This Management Services Agreement ("Agreement") is dated, for reference purposes only, as of June 1, 2007 ("Effective Date"), by and between Rancho Sahuarita Water Co., LLC, an Arizona limited liability company ("Owner"), and Rancho Sahuarita Management Company, L.L.C., an Arizona limited liability company, or its assignee ("Contractor"), in recognition of the following facts and intentions:

A. Owner operates a private water utility business ("Business") in the Town of Sahuarita, Pima County, State of Arizona.

B. Contractor owns and operates a business that includes providing employees and record-keeping support and services.

C. The parties desire to enter into a contractual relationship on the terms and conditions hereinafter.

NOW, THEREFORE, in consideration of the mutual promises of the parties, the parties agree as follows:

1. Independent Contractor Engagement. Owner hereby engages Contractor as an independent contractor and Contractor hereby accepts said engagement by Owner upon the terms and conditions hereinafter set forth.

2. Relationship. The parties agree that the relationship of Contractor to Owner shall be that of an independent contractor, rather than a Contractor. Contractor shall have no power or authority to act for, represent or bind Owner in any manner.

3. Control, Hours and Outside Activities. Owner shall not control or direct, or have the right to control or direct, the details, manner or means by which Contractor performs its obligations under this Agreement. Contractor shall devote such time, attention and energies to its obligations hereunder as are reasonably necessary. Contractor shall be free to engage in any activities, in addition to those required under this Agreement, so long as such activities do not interfere with the performance of its obligations hereunder.

4. Term. The term of this Agreement shall commence on the Effective Date, and shall terminate on the earlier of (a) May 31, 2012, or (b) sixty (60) days after Owner shall deliver to Contractor written notice of Owner's election to terminate this Agreement ("Termination Date").

5. Services. Contractor shall provide to Owner such employees and record-keeping support and services in connection with the Business as Owner may request, from time to time, as Owner shall deem reasonably advisable and in the best interest of the Business. Contractor shall deliver to Owner written reports, upon the request of Owner from time to time (but no more frequently than monthly), with respect to the foregoing employees and record-keeping support and services. Notwithstanding anything in this Agreement to the contrary, the employees to be provided by Contractor to provide services for Owner shall be deemed to be employees of Contractor and not

of Owner to the maximum extent permitted by law. Without limiting the generality of the foregoing, Contractor and not Owner shall be solely responsible to pay before delinquent to all applicable governmental authorities any and all employment related taxes and to file before delinquent to all applicable governmental authorities any and all employment related reports and other documents.

6. Consideration. In consideration for providing the foregoing employees and record-keeping support and services, Owner agrees that Contractor shall be entitled to receive from Owner payment of the compensation set forth on Schedule 1 attached hereto and incorporated herein by this reference. Such compensation shall be due and payable by Owner to Contractor no later than five (5) business days after invoice from Contractor.

7. Taxes. Contractor shall be responsible to file and/or pay all taxes that may be incurred by Contractor in connection with the performance of this Agreement. In addition, Contractor shall cooperate with Owner in completing such tax forms (including, but not limited to, Forms 1099-MISC and 1096) upon the reasonable request of Owner from time to time.

8. Contractor Business Expenses. Subject to Section 6 above, Contractor shall be liable to pay for the necessary business expenses that may be incurred by Contractor in its performance of this Agreement.

9. Contractor Insurance and Indemnification Requirements.

9.1 Contractor Insurance Requirements. During the time of this Agreement, Contractor shall secure and maintain in force, at Contractor's sole expense, such employment practices liability insurance coverage in connection with the employees to be provided under this Agreement by Contractor to Owner in such amounts of coverage as Contractor may determine as reasonable from time to time and consistent with Contractor's other employment practices liability insurance requirements or practices. To the extent possible, all such insurance shall name Owner as an additional insured, and shall provide that Owner shall receive notice from the respective insurance carrier no later than thirty (30) days prior to cancellation of any such policy. Such policy shall be issued by such insurance company or companies as Contractor shall reasonably approve. Contractor shall deliver to Owner copies of all such insurance policies or certificates of such insurance upon the execution of this Agreement by Contractor and delivery of same to Owner, and Contractor shall deliver to Owner copies of all renewals, extensions and endorsements of and to all such insurance policies upon Contractor's receipt of same.

9.2 Contractor Indemnification Requirements. Contractor shall indemnify, defend (with legal counsel selected by Owner) and hold Owner harmless for, from and against any and all liability, loss, cost, damage or expense, including but not limited to court costs and reasonable attorneys' fees, which from or are in connection with Contractor's performance of its obligations under this Agreement and/or which arise from or are in connection with the actions or omissions of the employees to be provided under this Agreement by Contractor to Owner, except to the extent of the negligence or willful misconduct of Owner, which indemnification obligation shall survive a termination of this Agreement for a period of two (2) years.

10. Waiver. No waiver or modification of this Agreement or of any covenant, modification or limitation herein contained shall be valid unless in writing and duly executed by the party to be charged therewith. The waiver by Owner of a breach of any provision of this Agreement by Contractor shall not operate or be construed as a waiver of any subsequent breach by Contractor. The waiver by Contractor of a breach of any provision of this Agreement by Owner shall not operate or be construed as a waiver of any subsequent breach by Owner.

11. Governing Law and Venue. This Agreement shall be governed by and construed in accordance with the laws of the State of Arizona. In the event of any dispute, venue shall be the state court located in Pima County, Arizona.

12. Attorneys' Fees. Should it be necessary for any party hereto to institute any proceeding to enforce this Agreement by reason of failure of the other party to comply with the terms and conditions set forth herein, the prevailing party shall be entitled, in addition to all other relief, to reasonable attorneys' fees and related expenses as may be determined by the court or arbitrator.

13. Assignability. Contractor shall be permitted assign any or all of its right, title or interest in and to this Agreement to any third party with notice of such assignment given to Owner.

14. Successor Clause. This Agreement shall be binding upon and shall inure to the benefit of the heirs, personal representatives, successors and assigns of the respective parties hereto.

15. Entire Agreement. This Agreement contains the entire agreement between Owner and Contractor with respect to the subject matter hereof, and supersedes all prior written or oral negotiations, commitments or agreements, if any, between Owner and Contractor.

16. Notices. All notices required to be given hereunder shall be in writing and shall be conveyed by (a) personal delivery, (b) U.S. Mail by certified or registered mail, postage prepaid, with return receipt requested or (c) facsimile transmission (provided that such notice by another approved method hereunder simultaneously), as follows:

If to Owner: 4549 East Ft. Lowell Road
 Tucson, Arizona 85712
 Attention: Cort Chalfant
 FAX: (520) 529-3137

If to Contractor: 4549 East Ft. Lowell Road

Tucson, Arizona 85712
Attention: Fred Lewis
FAX: (520) 529-3137

Each party may designate from time to time another address in place of the address set forth above by notifying the other party in the same manner as provided in this Section 16.

17. Time of Essence. Time is of the essence of each and every provision hereof.

18. Severability. Each and every provision contained in this Agreement is severable and, in the event that any provision herein shall be determined to be invalid or unenforceable by any court or arbitrator of competent jurisdiction, this Agreement shall be interpreted as if such invalid or unenforceable provision was not contained in this Agreement.

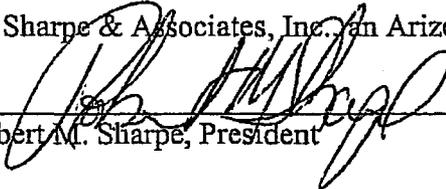
19. Interpretation. Contractor and Owner enter into this Agreement freely and voluntarily, after having received independent legal advice from counsel of their own choosing concerning the legal requirements and effects of this Agreement. Although counsel for Owner prepared this Agreement, this Agreement shall not be construed against Owner in any manner or to any degree.

IN WITNESS WHEREOF, the parties have executed this Agreement to be effective as of the date first written above.

OWNER:

Rancho Sahuarita Water Co., LLC, an Arizona limited liability company

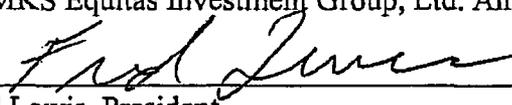
By Sharpe & Associates, Inc., an Arizona corporation, its Manager

By  _____
Robert M. Sharpe, President

CONTRACTOR:

Rancho Sahuarita Management Company, L.L.C., an Arizona limited liability company

By MKS Equitas Investment Group, Ltd. An Arizona corporation, Member

By:  _____
Fred Lewis, President

SCHEDULE 1

COMPENSATION TO CONTRACTOR

Employee Name	Employee Pay Rate	Employee Pay Frequency	Status	Responsibility
Cindy Gauntt	\$ 252.29	Bi-weekly	Not dedicated	Human Resources
Fred Lewis	\$ 1,636.55	Bi-weekly	Not dedicated	RSMC Controller
Cort Chalfant	\$ 2,730.91	Bi-weekly	Not dedicated	Senior Manager
Hortencia Lopez	\$ 406.29	Bi-weekly	Not dedicated	File Clerk
Rita Lugo	\$ 219.29	Bi-weekly	Not dedicated	Accounts Payable
Mike Bowman	\$ 1,633.68	Bi-weekly	Not dedicated	Land Development
Ray Gauthier	\$ 2,283.29	Bi-weekly	Dedicated	Operations Manager
Mark Seamans	\$ 4,274.13	Bi-weekly	Dedicated	General Manager
Jenna Allen	\$ 1,599.51	Bi-weekly	Dedicated	Customer Service Rep.
Diane McKenzie	\$ 2,667.78	Bi-weekly	Dedicated	Customer Service Mgr.
Alejandro Novoa	\$ 1,718.19	Bi-weekly	Dedicated	Laborer
Paul Martinez	\$ 2,695.20	Bi-weekly	Dedicated	Water Quality Mgr.
Fred Rodriguez	\$ 1,774.80	Bi-weekly	Dedicated	Mechanic
Marian Homlak	\$ 2,538.90	Bi-weekly	Dedicated	Controller
Raul Maldonado	\$ 1,774.80	Bi-weekly	Dedicated	Water Operator II

The bi-weekly payrates shown herein include FICA, employer paid health insurance, and 401K matching expense plus a 25% markup to cover general overhead and profit. This schedule of values is representative of the level of compensation occurring bi-weekly as of the date hereof but is subject to change as actual staff hours are added or deducted based on the demands of Owner. Actual compensation shall be based on the actual costs for labor incurred by Contractor (inclusive of full-time dedicated water personnel plus allocated staff not dedicated to water operations) plus 25% for Overhead and Profit. In addition, this schedule of values does not reflect year-end employee bonuses which shall be passed through by Contractor to Owner in the same manner as regular monthly billings.

**Sahuarita Water Company
Docket No. W-03718A-09-0359**

**MARIAN HOMIAK
REBUTTAL TESTIMONY
May 17, 2010**

APPENDIX B

Pay Data

Water Utility Compensation Survey - 2009

Code: 001

Title: Top Utility Executive

Description: Under general direction of the city, managing Board of Directors, mayor, or Board of Water Commissioners is responsible for managing, planning, coordinating and administering all activities of the Water Department and/or water company. Responsible for the short and long range strategy of the organization subject to review by the Board. Do not include individuals who have responsibilities outside of water/wastewater. This is a single incumbent job.

ALL PARTICIPANT DATA

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
	91	90	362	153,020	135,306	117,920	143,259	169,198

DATA BY POPULATION SERVED

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
> 1 Million	12	11	1241	249,506	252,648	200,894	246,580	296,869
500k - million	10	10	436	172,509	169,473	140,760	160,655	183,818
250k - 500k	13	13	459	154,045	134,000	117,932	145,489	169,644
100k - 250k	22	22	276	149,371	141,696	113,025	140,110	168,623
< 100k	34	34	104	118,040	109,035	85,724	103,365	121,170

DATA BY NO. OF EMPLOYEES

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
> 1,000	13	12	1309	231,929	241,324	163,437	201,258	242,148
500 - 1,000	15	15	605	180,729	165,764	160,866	186,849	211,764
200 - 500	15	15	321	139,384	134,999	94,908	124,216	153,956
100 - 200	20	20	151	135,488	133,174	111,021	132,568	155,429
< 100	28	28	43	124,185	115,951	87,910	105,690	123,318

SWC Comparable Job:
 Vice President
 Development

Water Utility Compensation Survey - 2009

Job Code: 004

Job Title: Top Engineering Executive

Job Description: Responsible for administering all water/wastewater utility engineering/construction programs, including special projects and the design and construction of Departmental facilities. Do not include individuals who have responsibilities outside of water/wastewater. This is a single incumbent job.

ALL PARTICIPANT DATA

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
	64	65	46	123,378	113,900	92,582	114,274	135,400

DATA BY POPULATION SERVED

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
> 1 Million	11	11	178	169,253	176,112	123,723	156,937	188,100
500k - million	11	11	46	132,104	122,939	101,765	121,559	142,000
250k - 500k	11	11	33	116,604	117,499	86,869	110,825	131,500
100k - 250k	17	18	23	114,789	110,000	85,621	104,729	124,600
< 100k	14	14	10	96,844	93,985	73,819	89,696	105,500

DATA BY NO. OF EMPLOYEES

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
> 1,000	10	10	178	173,268	179,965	123,723	156,937	188,100
500 - 1,000	14	14	48	131,122	121,547	100,443	118,816	139,500
200 - 500	13	13	33	107,517	104,986	75,186	99,427	120,500
100 - 200	15	15	12	114,553	101,130	92,978	110,919	128,000
< 100	12	13	12	102,705	105,027	73,281	89,707	106,000

SWC Comparable Job:
Chief Financial Officer

Water Utility Compensation Survey - 2009

Job Code: 007

Job Title: Top Finance Executive

Job Description: Responsible for management of the water/wastewater's financial resources, including acting as the dispersing authority for the Top Executive. Directs and manages the Accounting, Treasury and Budget Operations, Rate Administration, Contract and Information Services Sections. Do not include individuals who have responsibilities outside of water/wastewater. This is a single incumbent job.

ALL PARTICIPANT DATA

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
	57	57	34	123,110	112,362	96,232	117,833	140,262

DATA BY POPULATION SERVED

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
> 1 Million	11	11	82	173,364	166,000	128,338	163,602	196,935
500k - million	9	9	26	124,131	124,405	100,600	119,903	138,814
250k - 500k	10	10	30	113,901	92,581	85,103	104,775	130,240
100k - 250k	12	12	31	112,316	100,661	91,668	109,847	128,538
< 100k	15	15	15	100,417	103,750	79,096	95,427	112,263

DATA BY NO. OF EMPLOYEES

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
> 1,000	10	10	84	176,035	174,909	125,901	160,418	193,189
500 - 1,000	11	11	38	132,780	124,405	110,045	128,476	149,397
200 - 500	12	12	27	110,788	113,953	78,648	100,969	126,855
100 - 200	12	12	23	108,282	93,090	90,785	108,211	124,552
< 100	12	12	9	97,289	94,185	78,952	93,049	107,650

SWE Comparable Job:
Human Resources
Manager

Water Utility Compensation Survey - 2009

Job Code: 010

Job Title: Top Human Resources Executive

Job Description: Responsible for the formulation, administration and direction of all human resource programs for the water/wastewater utility, including: recruitment, selection and employment, compensation, benefits, training and relations. Do not include individuals who have responsibilities outside of water/wastewater. This is a single incumbent job.

ALL PARTICIPANT DATA

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
	39	39	10	106,658	95,976	83,104	100,996	119,684

DATA BY POPULATION SERVED

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
> 1 Million	10	10	25	142,503	147,630	103,141	130,630	156,225
500k - million	6	6	5	100,065	88,984	79,882	93,817	109,031
250k - 500k	6	6	6	104,607	97,325	89,231	102,500	124,161
100k - 250k	8	8	5	97,151	102,140	75,283	91,955	108,773
< 100k	9	9	2	81,042	84,535	64,465	77,438	90,111

DATA BY NO. OF EMPLOYEES

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
> 1,000	9	9	29	148,114	157,224	106,996	136,017	162,934
500 - 1,000	8	8	6	114,726	123,787	94,279	108,840	125,368
200 - 500	5	5	5	94,477	94,488	69,928	86,825	110,798
100 - 200	11	11	3	87,797	85,300	72,654	86,050	99,579
< 100	6	6	4	78,444	79,292	59,021	72,233	84,794

SWC Position:
Operations
Manager

Water Utility Compensation Survey - 2009

Job Code: 014

Job Title: Water Operations Manager

Job Description: Responsible for the operation of the water distribution system, and control of the flow of filtered water into and throughout the system; plans and supervises the operation of all pumping stations and distribution reservoirs; supervises leak detection activities and 24-hour service department. Do not include individuals who have responsibilities outside of water/wastewater. This is a single incumbent job.

ALL PARTICIPANT DATA

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
	71	72	31	93,667	84,209	75,522	91,313	107,632

DATA BY POPULATION SERVED

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
> 1 Million	9	9	66	144,810	129,850	110,901	137,104	161,247
500k - million	9	9	23	101,074	100,006	80,069	96,431	113,015
250k - 500k	11	11	31	97,300	90,979	79,468	94,479	112,534
100k - 250k	16	16	44	96,664	102,637	74,151	90,143	106,762
< 100k	26	27	14	70,895	66,972	56,610	67,699	79,284

DATA BY NO. OF EMPLOYEES

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
> 1,000	10	10	69	144,530	130,690	110,892	136,917	161,265
500 - 1,000	10	10	39	109,088	111,509	86,632	102,301	120,524
200 - 500	11	11	32	81,105	81,149	62,291	77,797	95,419
100 - 200	19	19	28	88,191	80,700	71,774	84,575	97,100
< 100	21	22	13	74,549	73,494	58,485	71,133	84,174

SWC Position:
Sr Customer Service
Representative

Water Utility Compensation Survey - 2009

Job Code: 020

Job Title: Office/Administrative Services Manager

Job Description: Responsible for direction of the functions of graphics and reproduction, records and facility mapping, mail and messenger services, switchboard and other general office functions for the water/wastewater utility. Do not include individuals who have responsibilities outside of water/wastewater. This is a single incumbent job.

ALL PARTICIPANT DATA

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
	25	25	5	74,423	70,096	58,891	69,526	80,486

DATA BY POPULATION SERVED

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
> 1 Million	3	3	*	*	*	*	*	*
500k - million	5	5	5	74,194	70,096	59,729	71,104	82,820
250k - 500k	5	5	5	66,350	70,643	51,387	60,949	71,843
100k - 250k	7	7	5	73,660	69,411	58,968	68,425	78,483
< 100k	5	5	3	51,627	43,300	42,686	51,726	59,618

DATA BY NO. OF EMPLOYEES

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
> 1,000	4	4	*	*	*	*	*	*
500 - 1,000	6	6	6	80,866	78,308	63,858	73,795	87,306
200 - 500	3	3	*	*	*	*	*	*
100 - 200	7	7	6	69,736	44,796	57,933	68,506	77,994
< 100	5	5	3	58,099	63,000	48,255	56,630	63,993

SWC Position:
Customer Service
Manager

Water Utility Compensation Survey - 2009

Job Code: 021

Job Title: Customer Service Manager

Job Description: Responsible for the customer services, water sales and collections functions of the water/wastewater utility,, ensuring the maintenance of customer relations at an effective level, while handling customer inquiries and problems related to billing, meter reading, service contracts, revenue collection and inspections. Do not include individuals who have responsibilities outside of water/wastewater. This is a single incumbent job.

ALL PARTICIPANT DATA

Age num	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
,486	66	66	29	82,121	80,257	63,115	77,268	91,999

DATA BY POPULATION SERVED

Age num	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
,820	> 1 Million	10	10	108,346	106,461	75,440	97,009	117,743
,843	500k - million	9	9	90,038	83,637	68,248	83,059	98,601
,48	250k - 500k	8	8	89,971	86,075	74,201	89,826	110,300
,618	100k - 250k	19	19	82,329	82,139	63,134	76,563	90,609
	< 100k	20	20	62,109	57,449	49,370	59,226	68,668

DATA BY NO. OF EMPLOYEES

Age num	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
,306	> 1,000	10	10	108,847	106,461	77,008	98,069	118,031
*	500 - 1,000	13	13	98,355	89,300	73,497	89,494	107,142
,994	200 - 500	11	11	83,163	81,323	62,209	79,421	99,888
,993	100 - 200	16	16	74,111	76,548	61,130	71,625	81,866
	< 100	16	7	59,522	57,449	46,247	55,008	63,278

SWC Position:
Controller

Water Utility Compensation Survey - 2009

Job Code: 022

Job Title: Accounting Manager/Controller

Job Description: Responsible for planning, organizing, directing and participating in all accounting functions of the water/wastewater utility. Do not include individuals who have responsibilities outside of water/wastewater. This is a single incumbent job.

ALL PARTICIPANT DATA

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
	42	43	12	97,940	89,184	77,241	94,107	110,938

DATA BY POPULATION SERVED

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
> 1 Million	10	10	16	127,851	126,662	95,675	119,415	141,569
500k - million	9	9	15	98,943	89,939	77,660	93,425	108,655
250k - 500k	7	8	10	86,124	83,907	69,285	80,120	93,020
100k - 250k	8	8	10	97,394	98,426	76,444	93,604	110,907
< 100k	8	8	6	71,783	74,287	56,234	69,941	84,260

DATA BY NO. OF EMPLOYEES

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
> 1,000	10	10	16	123,737	126,662	93,111	116,151	137,741
500 - 1,000	9	10	18	99,304	89,939	79,375	93,430	108,524
200 - 500	8	8	10	85,048	84,154	67,037	82,527	99,153
100 - 200	11	11	6	90,286	88,428	74,104	87,467	100,134
< 100	4	4	*	*	*	*	*	*

SWC Position:
Utility Tech

Water Utility Compensation Survey - 2009

Job Code: 041

Job Title: Water Treatment Plant Operator (Intermediate)

Job Description: Operates and maintains a water treatment plant, including maintenance of equipment, quality control/testing and day-to day activities. Typically holds or is working towards an intermediate level water treatment certification.

ALL PARTICIPANT DATA

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
	78	614	6	48,583	46,270	40,229	47,483	54,828

DATA BY POPULATION SERVED

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
> 1 Million	9	147		49,433	56,921	44,875	52,565	60,829
500k - million	10	91	12	54,943	46,152	45,841	53,261	59,199
250k - 500k	12	114	6	46,954	50,440	41,115	47,656	55,717
100k - 250k	20	137		47,396	48,758	37,772	45,087	52,385
< 100k	27	125	1	45,742	45,032	37,566	44,892	52,222

DATA BY NO. OF EMPLOYEES

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
> 1,000	10	103	6	51,777	57,072	45,967	53,095	60,383
500 - 1,000	15	195	12	48,833	45,894	40,402	46,889	53,450
200 - 500	16	91		46,809	47,609	38,545	46,248	55,111
100 - 200	17	111		47,564	45,362	38,470	46,141	52,807
< 100	20	114	1	47,680	46,396	39,955	47,209	54,356

SWC Position:
Senior Utility
Tech

Water Utility Compensation Survey - 2009

Job Code: 042

Job Title: Senior/Lead Water Treatment Plant Operator

Job Description: Operates and maintains a water treatment plant. Is fully qualified to perform the most complex functions and may direct the work of other operators. Typically holds a high level water treatment certification.

ALL PARTICIPANT DATA

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
	69	343	7	58,833	56,472	46,303	55,699	64,939

DATA BY POPULATION SERVED

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
> 1 Million	8	110	3	68,468	66,696	52,045	63,820	76,010
500k - million	9	77	2	57,616	56,420	53,168	62,636	71,208
250k - 500k	9	46	11	49,611	56,700	43,865	54,589	64,295
100k - 250k	20	62	5	55,340	59,356	46,520	55,560	64,827
< 100k	23	48	7	52,053	51,418	42,119	50,386	58,598

DATA BY NO. OF EMPLOYEES

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
> 1,000	10	73	7	76,711	66,696	50,589	62,225	74,044
500 - 1,000	12	101	5	51,654	53,870	45,623	54,060	62,764
200 - 500	15	84	9	49,807	55,078	41,874	51,948	61,616
100 - 200	15	51	3	64,574	57,763	51,862	60,943	69,583
< 100	17	34	8	55,463	56,472	43,603	51,893	59,935

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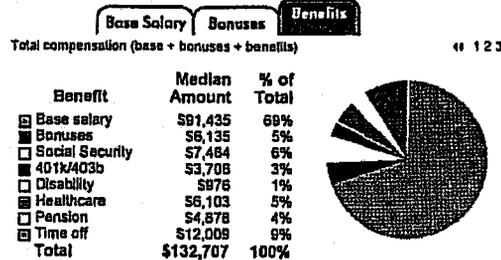
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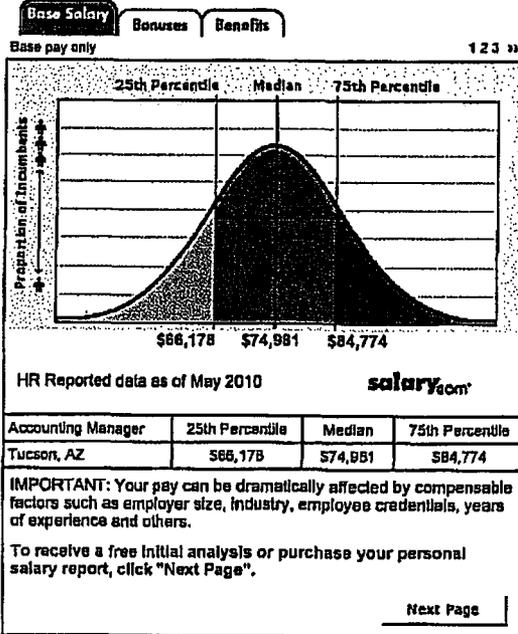
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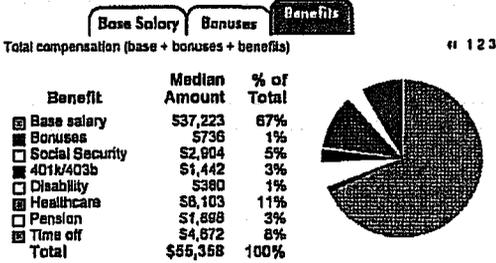
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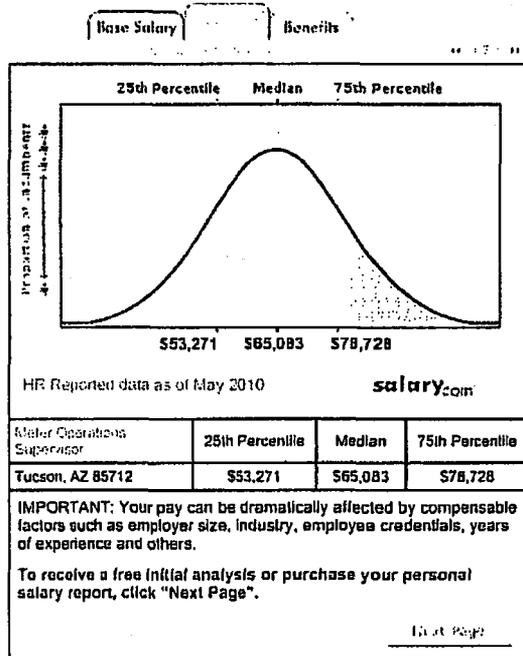
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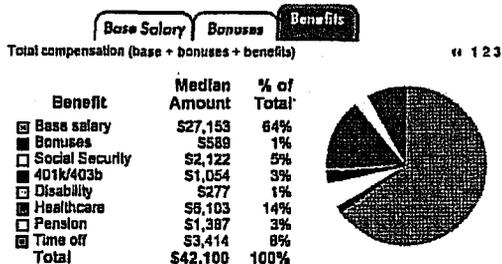
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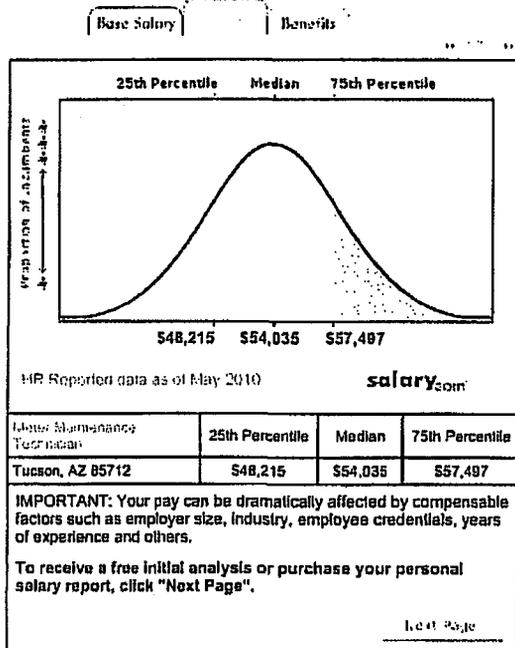
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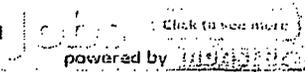
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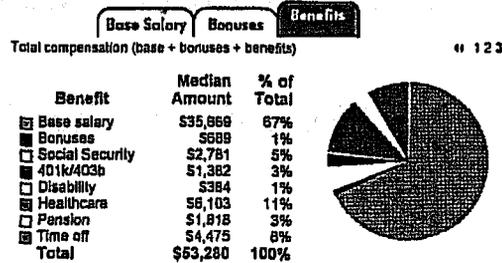
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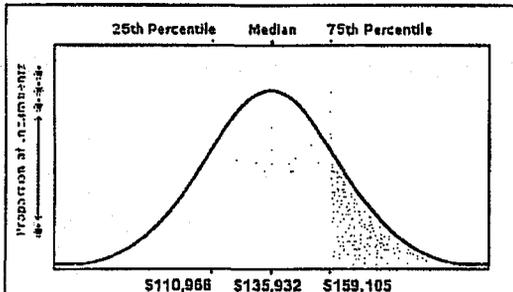
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The median expected salary for a typical Planning Director in Tucson, AZ, is \$135,932. This basic market pricing report was prepared using our Certified Compensation Professionals' analysis of survey data collected from thousands of HR departments at employers of all sizes, industries and geographies.

Bonuses Benefits



HR Reported data as of May 2010

salary.com

Planning Director	25th Percentile	Median	75th Percentile
Tucson, AZ	\$110,966	\$135,932	\$159,105

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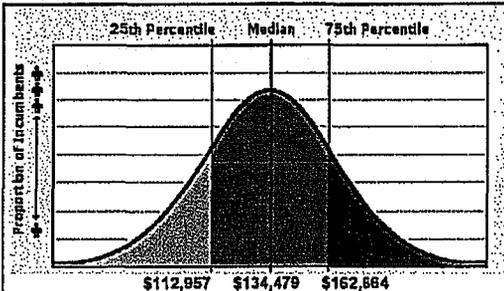
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The median expected salary for a typical Operations Director in Tucson, AZ, is \$134,479. This basic market pricing report was prepared using our Certified Compensation Professionals' analysis of survey data collected from thousands of HR departments at employers of all sizes, industries and geographies.

Base Salary Bonuses Benefits

Base pay only

1 2 3



HR Reported data as of May 2010

salary.com

Operations Director	25th Percentile	Median	75th Percentile
Tucson, AZ	\$112,957	\$134,479	\$162,664

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Sahuarita Water Company
Docket No. W-03718A-09-0359

MARIAN HOMIAK
REBUTTAL TESTIMONY
May 17, 2010

APPENDIX C

APPENDIX C

Compensation for 2008 SWC employees compared to AWWA and N.Y. Times Surveys

<u>Title</u>	<u>Total Paid by SWC in 2008</u>	<u>% Salary Allocated to SWC</u>	<u>Salary Annualized</u>	<u>Industry Ave per 2009 AWWA Survey <100k</u>	<u>NY Times Job Survey-Median (adjusted for Tucson)*</u>
Bookkeeper, Human Resource Mgr	5,255.71	10%	52,557.10	81,042.00	60,652.00
President	29,881.14	50%	119,524.56	118,040.00	134,479.00
Bookkeeper	5,166.75	10%	51,667.50		55,358.00
Vice President, Development	43,587.70	30%/50%	113,374.77	96,844.00	135,932.00
Chief Financial Officer	17,118.59	30%	114,123.94	100,417.00	132,707.00
Senior Utility Tech	52,252.17	100%	52,252.17	52,053.00	65,083.00
Customer Service Representative	3,093.86	100%	25,168.00		42,100.00
President	119,538.48	100%	119,538.48	118,040.00	134,479.00
Sr Customer Service Representative	40,064.82	100%	40,064.82	51,627.00	50,127.00
Administrative Assistant	696.90	10%	44,178.00		53,280.00
Customer Service Representative	24,024.25	100%	29,016.00		42,100.00
Laborer	36,429.85	100%	36,429.85		42,964.00
Utility Tech	46,483.96	100%	46,483.96	45,742.00	54,035.00
Utility Tech	43,573.89	100%	43,573.89	45,742.00	54,035.00
Administrative Assistant	477.25	10%	40,938.00		53,280.00
Operations Manager	60,870.80	100%	60,870.80	70,895.00	
Controller	63,866.58	100%	63,866.58	71,783.00	74,981.00
Customer Service Manager	8,629.27	100%	49,129.00	62,109.00	64,800.00
Total	601,011.97				

*Note: As adjusted by the N.Y. Times

Sahuarita Water Company
Docket No. W-03718A-09-0359

MARIAN HOMIAK
REBUTTAL TESTIMONY
May 17, 2010

APPENDIX D

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE
APPLICATION OF SAHUARITA
WATER COMPANY, L.L.C. ("SWC")
FOR AN OPINION AND ORDER OF
THE COMMISSION (i)
DETERMINING THE FAIR VALUE
OF THE UTILITY PROPERTY OF
SWC FOR RATEMAKING PURPOSES,
(ii) FIXING A JUST AND
REASONABLE RATE OF RETURN
THEREON, (iii) APPROVING RATES
AND CHARGES DESIGNED TO
PRODUCE REVENUES SUFFICIENT
TO RECOVER SWC'S COST OF
SERVICE AND AUTHORIZED RATE
OF RETURN, AND (iv) PROVIDING
FOR THE RECOVERY OF CERTAIN
FINANCING AND OPERATING
EXPENSES THROUGH A
SURCHARGE AND A PASS-
THROUGH TARIFF, RESPECTIVELY

DOCKET NO. W-03718-09-0359

PREPARED TESTIMONY

REBUTTAL TESTIMONY OF

MARK SEAMANS

ON BEHALF OF SAHUARITA WATER COMPANY, L.L.C.

May 17, 2010

1 **Q.1 Please state your name and business address.**

2 A.1 My name is Mark Seamans. My business address is Sahuarita Water Co. LLC, 725
3 W. Via Rancho Sahuarita Road, Sahuarita, Arizona, 85629.

4
5 **Q.2 Are you the same Mark Seamans who previously submitted prepared Direct**
6 **Testimony on behalf of Sahuarita Water Company (“Company”)?**

7 A.2 Yes, I am.

8
9 **Q.3 What is the purpose of your Rebuttal Testimony?**

10 A.3 My Rebuttal Testimony is intended to respond to Commission Staff (“Staff”)
11 witness Jeffrey Michlik’s April 22, 2010 prepared Direct Testimony in which he
12 discusses nine (9) “conditions” which the Commission’s Staff recommends be
13 applied to the Company as a compliance item in this proceeding in connection with
14 recovery through rates of the Central Arizona Groundwater Replenishment District
15 (“CAGRDR”) fee which is paid annually by the Company.

16
17 **Q.4 Are these the nine (9) “conditions” set forth at page 27, line 1-page 28, line 12**
18 **of Mr. Michlik’s prepared Direct Testimony?**

19 A.4 Yes.

20
21
22 **Q.5 Please describe the Company’s position in response to these nine (9) suggested**
23 **CAGRDR fee “conditions.”**

24 Q.5 The Company has no objection to Condition Nos. 1 through 4, as they are
25 described at page 27, lines 1-14 of Mr. Michlik’s prepared Direct Testimony.

26

1 With reference to Condition No. 5, which appears at page 27, lines 16-17, the June
2 30, 2010 date for providing Staff the new CAGR D fee amount needs to be revised
3 to reflect the fact the hearings in this proceeding do not begin until July 19, 2010,
4 and a decision is unlikely until sometime in the Fall of 2010.

5
6 With reference to Condition No. 6, which appears at page 27, lines 19-25, as
7 presently worded the condition is too vague. For example, which agencies does the
8 Staff consider to be “the relevant state agencies”; and, what is the “supporting
9 documentation” which the Staff seeks? The answers to these questions (and
10 appropriate clarifying language) are important because of the “immediate cessation
11 of the CAGR D adjuster fee” language in Staff’s Condition No. 6, in the event
12 “supporting documentation from the relevant state agencies” is not provided. Also,
13 the reference to “Pima Active Management Area” in Condition No. 6 should be
14 corrected by substituting the word Tucson for the word “Pima.”

15
16 With reference to Condition No. 7, which is set forth at page 28, lines 1-4, the
17 words “consideration by the Commission” are disturbing [emphasis added]. More
18 specifically, since the CAGR D fee to be submitted under Condition No. 7 will have
19 been calculated pursuant to the methodology set forth in Condition No. 6, it would
20 appear that the only question should be whether the calculation has been properly
21 performed. Accordingly, the Company is concerned by the uncertain outcome as
22 to its submission which is implicit in the word “consideration.” If the Staff simply
23 means that the Commission will confirm that the Commission will ascertain that
24 the CAGR D fee has been properly calculated, then the Company has no objection
25 and suggests Condition No. 7 be rewritten to reflect that intent. However, if the
26 Staff intends to suggest that the Commission may refuse to approve a properly

1 calculated CAGR D fee amount, then the Company would object to Condition No.
2 7.

3
4 With reference to Condition No. 8, which appears at page 28, lines 6-8, the
5 Company believes that the Staff's approach is too rigid.

6
7 **Q.6 Please explain what you mean by "too rigid" and please describe an**
8 **alternative approach to Condition No. 8 that the Company would suggest.**

9 **A.6** CAGR D is faced with a statutory obligation to acquire substantial new sources of
10 groundwater and surface water in the near- and long-term future, in order that
11 CAGR D's member companies (such as the Company) and member lands will be in
12 a position to continue to satisfy their respective "assured water supply" obligation
13 under Arizona's Groundwater Management Code. This has required that CAGR D
14 examine new revenue sources and funding mechanisms, in order to be in a
15 financial position to respond to this challenge; and, Staff's Condition No. 8 appears
16 to implicitly recognize this fact. However, Staff's suggested response to this
17 prospect of change on CAGR D's part is very disturbing.

18
19 More specifically, under Condition No. 8, as currently proposed by Staff, the
20 Company's ability to recover CAGR D fees paid by it would cease immediately if
21 and when CAGR D altered its current procedure and criteria for calculating and
22 assessing CAGR D fees. As an alternative, the Company suggests an approach for
23 Condition No. 8 under which the Company's ability to recover CAGR D fees paid
24 by it would continue uninterrupted, provided that the Company submitted
25 sufficient documentation to enable a determination that the CAGR D fees in
26 question had been correctly calculated, based on the fee determination procedure(s)

1 and criteria then being used by CAGR. In that regard, and consistent with
2 Condition No. 6, this information would be submitted by the Company at least 30
3 days prior to when any change in the CAGR adjuster amount was to take effect.
4

5 **Q.7 What is the Company's position with regard to Condition No. 9, as it appears**
6 **at page 28, lines 11-12, of Mr. Michlik's prepared Direct Testimony?**

7 A.7 This condition appears to assume that the CAGR fee would be changed only once
8 a year by CAGR. Should that in fact continue to be the case, this condition
9 would be acceptable to the Company. However, as indicated in my answer
10 discussing Condition No. 8, it is conceivable that in the future CAGR may have
11 occasion to revise its fees more than once in a given year. Accordingly, the
12 Company suggests that this condition be revised to provide that the Company may
13 reset the CAGR adjuster amount whenever CAGR revises its fees to the
14 Company, subject to the requirement that the Company submit appropriate
15 information or documentation demonstrating that the revised fee has been correctly
16 calculated.
17

18 **Q.8 Does that complete your Rebuttal Testimony?**

19 A.8 Yes, it does.
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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE
APPLICATION OF SAHUARITA
WATER COMPANY, L.L.C. ("SWC")
FOR AN OPINION AND ORDER OF
THE COMMISSION (i)
DETERMINING THE FAIR VALUE
OF THE UTILITY PROPERTY OF
SWC FOR RATEMAKING PURPOSES,
(ii) FIXING A JUST AND
REASONABLE RATE OF RETURN
THEREON, (iii) APPROVING RATES
AND CHARGES DESIGNED TO
PRODUCE REVENUES SUFFICIENT
TO RECOVER SWC'S COST OF
SERVICE AND AUTHORIZED RATE
OF RETURN, AND (iv) PROVIDING
FOR THE RECOVERY OF CERTAIN
FINANCING AND OPERATING
EXPENSES THROUGH A
SURCHARGE AND A PASS-
THROUGH TARIFF, RESPECTIVELY

DOCKET NO. W-03718-09-0359

PREPARED TESTIMONY

REBUTTAL TESTIMONY OF

MARK F. TAYLOR

ON BEHALF OF SAHUARITA WATER COMPANY, L.L.C.

May 17, 2010

1 **Q.1 Please state your name and business address.**

2 A.1 My name is Mark F. Taylor, and my business address is 4001 E. Paradise Falls
3 Drive, Tucson, Arizona 85712.

4
5 **Q.2 By whom are you employed, and in what capacity?**

6 A.2 I am a Vice President and a Principal of WestLand Resources, Inc. ("WestLand").

7
8 **Q.3 Please describe the nature of professional services provided by WestLand.**

9 A.3 Since our establishment in 1997, WestLand Resources, Inc. has brought together a
10 team of experts in environmental services, engineering, landscape architecture,
11 cultural resource, and right of way services. We provide technical consulting
12 services throughout the southwestern United States.

13
14 The technical expertise offered by WestLand's engineering staff include water and
15 wastewater system planning and design; water resources planning; biological
16 systems engineering, irrigation, and water harvesting system design; constructed
17 wetland design; groundwater recharge system design; and program management.

18
19 **Q.4 Please describe your area(s) of responsibility within WestLand.**

20 A.4 I am responsible for providing project management, design and technical
21 supervision, project scheduling, and budget oversight.

22
23 **Q.5 Please summarize your educational background and professional experience
24 as relevant to the testimony you are presenting in this proceeding.**

25 Q.5 I graduated from the University of Arizona with a Bachelor of Science in Civil
26 Engineering and a Masters in Business Administration. I have over 25 years of

1 experience in water resources engineering, including the design of water systems
2 for public works projects, master-planned communities, large commercial and
3 retail centers, and the mining industry. I am responsible for the development of
4 water system master plans; well, reservoir, booster station, and transmission main
5 design; water treatment and arsenic treatment design; and the assessment of rates
6 and development impact fees for private and municipal clients.
7

8 **Q.6 Is Sahuarita Water Company (“Company”) a client of WestLand?**

9 A.6 Yes. The Company has been a client for approximately 12 years.
10

11 **Q.7 Please describe the nature of professional services that WestLand has
12 provided to the Company during that period of time.**

13 A.7 WestLand has provided master planning, infrastructure design, permitting and
14 construction inspection services to the Company since the beginning. WestLand
15 has prepared the original and most current water master plan (November 2007) for
16 the Company, which includes recommendations for current and future additional
17 well capacity. In addition, WestLand performs design plan reviews on behalf of
18 the water company and provides inspection services on all infrastructure
19 construction. WestLand has coordinated with the water company in connection
20 with CC&N extensions and modifications of the Company’s Designation of
21 Assured Water Supply pursuant to the Arizona Groundwater Code.
22

23 **Q.8 What is the purpose of your Rebuttal Testimony in this proceeding?**

24 A.8 My Rebuttal Testimony is intended to address and rebut the conclusion of the
25 Commission’s Staff (“Staff”) that Well #23 is “not needed” in connection with the
26 Company’s water utility operations. The Company has proposed that \$1,779,243

1 for Well #23 be included as a post-test year plant adjustment. The Staff has
2 recommended that that amount be excluded from rate base.
3

4 **Q.9 Where does the Staff's recommendation of this nature and this amount**
5 **appear?**

6 A.9 At page 6, lines 24-page 7, line 17 of the April 22, 2010 prepared Direct Testimony
7 of Staff witness Jeffrey M. Michlik; and, at page 11, lines 4-7 of the April 22, 2010
8 prepared Direct Testimony of Staff witness Marlin Scott, Jr. In that regard, the
9 Staff's conclusion that Well #23 is "not needed" now or until 2014 at the earliest
10 appears to be predicated upon a "System Analysis" prepared by Mr. Scott, which
11 appears at page 7 of his prepared Direct Testimony.
12

13 **Q.10 Which wells of the Company does Mr. Scott assume are in operation for**
14 **purposes of his "System Analysis"?**

15 A.10 Well #14 and Well #18.
16

17 **Q.11 What production capability does he assume for each well?**

18 A.11 Well #14 is assigned a production capability of 1,750 gallons per minute ("gpm")
19 by Mr. Scott, and Well #18 has been assigned a production capacity of 1,500 gpm
20 by him.
21

22 **Q.12 Please describe what is meant by the concept of "well redundancy."**

23 A.12 Well redundancy is the duplication of a critical source water component within a
24 water system with the intention of increasing the reliability of the water system,
25 usually in the form of a backup or "fail-safe" capability. It is a critical part of
26 having a safe and reliable water supply.

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The issue with well outages and emergencies is that you don't know when they are going to happen and a water company needs to plan for that. In addition to short term issues that may cause a well to be taken out of service for days or weeks, there is always the potential that a well casing may fail and the well may no longer be usable. If a well casing fails, it can take many months to replace the source of water with a new production well. This is why redundant well capacity is so critical, in order to allow the water company to deal with unexpected outages without them becoming emergency events that threaten the water supply to thousands of customers.

Q.13 In your opinion, has Mr. Scott included any consideration of or allowance for well redundancy?

A.13 Based upon my review of his prepared Direct Testimony, it appears that he has not.

Q.14 How do you typically determine what well or production capacity should be provided for in a water utility system?

A.14 At a minimum the water company must have sufficient well or production capacity to meet the maximum day usage, with the largest well assumed to be out of service, because the well or production source water has to be able to supply the demands of the water system during the highest peak demand day of the year. In the Company's certificated service area, this demand typically occurs during early summer. In that regard, there can be a series of days of very high demand where the water company is essentially pumping at or near maximum day demand for a sustained period.

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In addition, because we never know when a well outage will occur, due to casing failure or pumping and electrical equipment issues, we also always recommend that water company provide redundancy in the water system by developing sufficient storage source capacity to supply maximum day demand with the largest well assumed to be out of service.

Q.15 Is the well redundancy design approach your firm recommends recognized by any regulatory agencies with jurisdiction over private and public water systems?

1 A.15 Yes. Calculating well capacity to provide maximum day demand with the largest
2 well out of service is a standard recommendation in emergency operations and
3 source capacity planning documents. For example, the U.S. Environmental
4 Protection Agency "Sanitary Survey Guidance Manual for Groundwater Systems"
5 (October 2008) states with respect to ground water well capacity that
6

7 "The capacity should be at least equal to the maximum day demand
8 of the water system over the previous several years or as determined
9 by the rules and regulations of the State primacy agency. Public
10 water systems should be sure that the developed ground water
11 capacity should equal or exceed the design maximum daily demand
12 when the highest producing well is out of service." [emphasis added]
13

14 This guidance also has been carried through into many planning manuals for
15 individual states, including the Ten States Standards, and has also historically been
16 referenced in the Arizona Guidance Manual for Emergency Operations Plan
17 development.
18

19 **Q.16 What is the existing well or production capacity of the Company?**

20 A.16 The Company currently owns two operating wells, and leases a third well from the
21 Town of Sahuarita ("Town"). Well No. 14 provides 1,750 gpm, and this well is
22 leased from the Town. Well No. 18 provides 1,450 gpm, and Well No. 23 provides
23 1,800 gpm. These two (2) wells are owned by the Company.
24
25
26

1 **Q.17 Can the Company meet the required maximum day demand with its current**
2 **well capacity?**

3 A.17 Yes. The water company can meet the design maximum day demand with any two
4 of the three wells. The third well in the system provides the previously discussed
5 and recommended well or production redundancy.
6

7 **Q.18 Why is redundant well capacity then needed by the Company?**

8 A.18 Redundant well capacity is needed for any water system (such as the Company)
9 that relies on a groundwater source and doesn't have other backup-water supplies.
10 It is not an option or an unneeded luxury to have a redundant well when the water
11 company relies upon only groundwater supplies. Rather, it is a critical part of
12 having a safe, adequate and reliable water supply.
13

14 As I previously indicated, the problem with well outages and emergencies is that
15 you don't know when they are going to occur, nor for how long, and a water
16 company needs to plan for that contingency. In addition to short-term issues that
17 may cause a well to be taken out of service for days or weeks, there is always the
18 potential that a well casing may fail and the well may no longer be usable. If a
19 well casing fails, it can take many months to replace the source of water with a new
20 production well. In the interim, the adequacy and reliability of the affected water
21 system is either compromised or at risk of being so.
22

23 **Q.19 Is it your professional opinion that redundant well or production capacity is**
24 **critical to the ability of the Company to provide safe, adequate and reliable**
25 **service to its customers?**

26 A.19 Yes.

1

2 **Q.20 What is the likelihood of failure of the casing in any of its wells?**

3 A.20 That is difficult, it not impossible, to predict. However, Well No. 14 and 18 were
4 drilled in 1970 and 1975 respectively. When the wells were equipped about 10
5 years ago the casings required some rehabilitation. I'm not aware that the casing
6 condition has been reviewed since the pumps were installed. It is important to
7 remember that these wells are 35 and 40 years old. Well casings do have a finite
8 life span, and as they get older, you do have to plan for their eventual failure.
9 Sometimes you have warnings, but sometimes it is catastrophic. The Company
10 does its best to make sure its equipment and wells are in good operating condition,
11 but there are things that are outside its control.

12

13 **Q.21 When problems occur with a well, how long is the well typically out of service?**

14 A.21 It can vary from a few days to a few weeks for a mechanical or electrical failure,
15 and from a few weeks to a month or more for casing inspection, rehabilitation, and
16 repairs. For the worst casing situations, wells may have to be taken out of service
17 permanently.

18

19 **Q.22 How long does it take to drill and equip a new well?**

20 A.22 Between drilling and well construction, pump selection, permitting and
21 construction, we would typically plan on 10 to 12 months for a well replacement
22 project.

23

24 **Q.23 So, if one of the Company's two older wells were to fail, it could take up to a
25 year to replace that well or production capacity?**

26 A.23 That is correct.

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Q.24 Does the Company have any other source of supply, like an interconnection with an adjacent water company?

A.24 No, there is no other source of supply into the Company's system.

Q.25 Are there any other water companies that the Company could connect to if it needed a backup supply?

A.25 No, the Company has previously explored alternate sources of supply, and there are no water companies with adjacent infrastructure to which the Company could connect.

Q.26 If the Company did not have Well No. 23 at all, and one of the other two existing wells went out of service during the summer, what would be the result to the Company?

A.26 In that situation, the Company would be operating on one well. Assuming the largest well is out of service the available capacity of Well No. 18 is 2,088,000 gallons per day, which is less than the current maximum daily demand of the water system. Every year, as additional customers are served, this situation will become worse.

If the outage was sustained, without redundant well capacity the Company wouldn't be able to keep up adequately with demand, and this would result in the water company having a water shortage. This is why redundant well capacity is so critical, in order to allow the water company to deal with unexpected outages without them becoming emergency events that threaten the water supply to thousands of customers.

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Q.27 Could you summarize your professional opinion about the well capacity of the Company's system?

A.27 The well capacity in this system is sufficient to meet the recommended design maximum daily demand with the largest well out of service.

Q.28 Is there excess well capacity in this water system?

A.28 There is redundant well capacity, but it should not be considered as "excess" capacity. To the contrary, for a system that relies solely on groundwater supplies, the Company must have redundant well capacity, in order to allow for the contingency of one well being out of service and still being able to meet the water system demands. This is prudent engineering, and allows for water system operation that provides for a safe, adequate and reliable water supply.

Q.29 Because the third well (or Well #23) provides the necessary redundancy to this water company, is this well "used and useful" in your professional opinion?

A.29 Yes, without question.

Q.30 Would the Company be able to maintain adequate and reliable service to its customers by relying on its current storage capability, assuming (i) Well #23 did not exist, and (ii) the loss of production capability from one of the other two wells?

A.30 Perhaps for a few days, at most, depending upon weather and the demand then being imposed upon its system; and, as I previously indicated, many well outages can last substantially longer. However, the higher the ambient temperatures and the greater the demand, the shorter the time during which a "fix" of this nature

1 would be sufficient. Moreover, in my professional opinion, a temporary “fix” of
2 this nature is not consistent with prudent and responsible water system planning.
3

4 **Q.31 Does this conclude your direct testimony?**

5 A.31 Yes, it does.
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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE
APPLICATION OF SAHUARITA
WATER COMPANY, L.L.C. ("SWC")
FOR AN OPINION AND ORDER OF
THE COMMISSION (i)
DETERMINING THE FAIR VALUE
OF THE UTILITY PROPERTY OF
SWC FOR RATEMAKING PURPOSES,
(ii) FIXING A JUST AND
REASONABLE RATE OF RETURN
THEREON, (iii) APPROVING RATES
AND CHARGES DESIGNED TO
PRODUCE REVENUES SUFFICIENT
TO RECOVER SWC'S COST OF
SERVICE AND AUTHORIZED RATE
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FOR THE RECOVERY OF CERTAIN
FINANCING AND OPERATING
EXPENSES THROUGH A
SURCHARGE AND A PASS-
THROUGH TARIFF, RESPECTIVELY

DOCKET NO. W-03718-09-0359

PREPARED TESTIMONY

REBUTTAL TESTIMONY OF
DAVID S. CUTLER, CPA
ON BEHALF OF SAHUARITA WATER COMPANY, L.L.C.

May 17, 2010

1 **Q.1 Please state your name and business address.**

2 A.1 David S Cutler, CPA, 5995 E Grant Rd #200, Tucson, AZ 85712.

3

4 **Q.2 By whom are you employed, and in what capacity?**

5 A.2 I am employed by David S Cutler, CPA, P.C. I am the shareholder and manager of
6 a 26 person public accounting firm.

7

8 **Q.3 Does Appendix "A" to this prepared Rebuttal Testimony upon behalf of**
9 **Sahuarita Water Company, L.L.C. ("Company") contain a summary of your**
10 **educational background and professional experience?**

11 A.3 Yes, it does.

12

13 **Q.4 Does Appendix "B" to this testimony contain a summary of the services**
14 **provided by your accounting firm?**

15 A.4 Yes, it does.

16

17 **Q.5 Do you and your firm provide services to the Company, and/or any of the**
18 **Company's Members?**

19 A.5 Yes.

20

21 **Q.6 Please describe the nature of the services provided, and, as the case may be,**
22 **whether those services are provided to the Company and/or one or more of its**
23 **Members.**

24 A.6 We prepare income tax returns for the Company and related member entities,
25 including Interchange Opportunity Fund, LLLP ("IOF") and Sharpe & Associates,
26 Inc. ("Sharpe"), which together own 66.67% of the Company. We also prepare the

1 individual tax return Form 1040 for the individual who indirectly owns the largest
2 portion of the Company
3

4 **Q.7 What is the purpose of your Rebuttal Testimony as it relates to this rate**
5 **proceeding?**

6 A.7 My testimony is intended (i) to demonstrate that the Company did report taxable
7 income to its members for calendar 2008, which is the test period in this rate case,
8 and (ii) to demonstrate that Member(s) of the Company either did pay income tax
9 on their respective portion(s) of such taxable income for 2008, or had income
10 subject to the prospect of taxation. Against the background of such a
11 demonstration, it is the Company's position that the Commission should approve
12 the Company's proposed (i) pro forma operating expense adjustment of \$104,948
13 for income taxes, and (ii) inclusion of \$338,625 in rate base as accumulated
14 deferred income taxes.
15

16 **Q.8 What is your understanding as to why information of that nature would be**
17 **relevant to this proceeding?**

18 A.8 Based upon discussions that I have had with the Company's attorney for this
19 proceeding, it is my understanding that my testimony is designed to address and fill
20 two (2) evidentiary "gaps" that were apparently present in the Sunrise Water
21 Company and Farmers Water Co. cases decided by the Commission on December
22 23, 2009 (Decision No. 71445) and March 17, 2010 (Decision No. 71510),
23 respectively.
24

25 **Q.9 What was the nature of those evidentiary "gaps"?**
26

1 A.9 Again, based upon my discussions with the Company's rate counsel, it is my
2 understanding that in each of those cases the utility in question failed to present any
3 evidence demonstrating (i) that the utility had reported taxable income to its
4 shareholder(s) for the test period in question, and (ii) that the utility's
5 shareholder(s) had paid any income tax upon such income or were subject to the
6 prospect of taxation.
7

8 **Q.10 Does the fact that the Sunrise Water Company and Farmers Water Co. cases**
9 **involved "S corporations, whereas the Company is a limited liability company,**
10 **make a difference with respect to the evidentiary "gap" you are addressing?**

11 A.10 Again, based upon my discussions with the Company's rate counsel, the answer to
12 your question is "No." In that regard, it is my understanding that in the context of
13 those two (2) decisions, the Commission views "S" corporations and LLCs to each
14 be in the nature of a "pass-through" income tax entity. Thus, it is the Company's
15 position in this proceeding that my Rebuttal Testimony will address and fill the
16 evidentiary "gaps" which the Commission referred to when deciding the Sunrise
17 Water Company and Farmers Water Co. cases.
18

19 **Q.11 What documentation do you have to demonstrate that the Company in fact**
20 **reported taxable income to its Members for calendar 2008?**

21 A.11 Attached to this Rebuttal Testimony as Appendix "C" are copies of Schedules K-1
22 which are required by the Internal Revenue Service to report the individual owners'
23 prorata share of a pass-through entity's taxable income. The 2008 K-1's for the
24 Company are attached, as well as Forms K-1 that show how the taxable income
25 flows from the Company through its majority member, Sharpe. Attached to this
26 Rebuttal Testimony as Appendix "D" is a copy of a recap schedule titled

1 "Computation of Taxable Income" of the various Forms K-1's, which shows the
2 ownership percentages and demonstrates how the taxable income flows from the
3 Company down to the ultimate owner/taxpayer's Form 1040 where the income is
4 subject to the imposition of federal and Arizona income taxes.

5
6 **Q.12 Please explain (i) the purpose of these document(s), and (ii) the manner in**
7 **which they demonstrate that the Company reported taxable income to its**
8 **Members for calendar 2008.**

9 A.12 Please refer to the attached Appendix "D" ("Computation of Taxable Income") and
10 the Schedule K-1's in Appendix C. Appendix "D" shows the percentage of income
11 allocated to each member of the Company and its majority owner member, Sharpe.
12 IOF receives 66% of the taxable income of the Company. Sharpe receives .6667%
13 of the taxable income of the Company. Sharpe also receives 40% of the income
14 from IOF. There are also two Trusts that receive .075% each from IOF. Finally,
15 Sharpe and the two Trusts pass their respective taxable income to the individual
16 income tax return where "Taxpayer X" is required to pay federal and Arizona
17 income taxes on the taxable income passed through from the Company, subject to
18 such deductions as might otherwise be available to Taxpayer X, if any. In that
19 regard, we have not specifically identified that individual at this time for privacy
20 purposes. If such information is determined to be necessary by the Commission's
21 Staff in connection with its review of this testimony and the attached Appendices,
22 perhaps an appropriate Protective Agreement or Protective Order can be arranged.
23 The example in this instance shows that Taxpayer X reports approx 27% of the
24 taxable income earned by the Company on his individual income tax return. The
25 remaining 73% of taxable income is reported to Mission Peaks 4000, LLC
26

1 ("Mission Peaks") and the remaining partners of IOF, and it becomes taxable
2 income as to each of them as to their respective share(s).
3

4 **Q.13 What documentation do you have to demonstrate that one or more Members**
5 **of the Company paid income tax on all or a portion of its share of the 2008**
6 **taxable income which was reported by the Company to its Members?**

7 A.13 We have prepared proforma 2008 income tax returns for Taxpayer X with all
8 taxable income passed through from the Company removed. Due to privacy
9 concerns we have not attached to this Rebuttal Testimony copies of either the 2008
10 federal and Arizona income tax returns for Taxpayer X as filed, nor the proforma
11 copy of the 2008 tax returns with all taxable income passed-through from the
12 Company removed. As previously indicated, these forms can be made available as
13 long as the Commission and Staff can assure privacy for Taxpayer X.
14

15 Attached to this Rebuttal Testimony as Appendix "E" is a schedule, titled
16 "Computation of Income Taxes Paid," which shows the difference in the adjusted
17 gross income, the taxable income and the income taxes paid between the tax
18 returns as originally filed and the tax returns prepared without the passed-through
19 share of the Company's income. The share of income passed-through from the
20 Company to the Taxpayer X 2008 individual tax return was \$178,934, which
21 resulted in an increase in 2008 federal income taxes of \$26,840 and an increase in
22 2008 Arizona income taxes of \$8,368. The increase in 2008 income taxes total
23 \$35,208, which results in an effective 19.60% income tax rate for Taxpayer X's
24 share of the Company's 2008 taxable income. This effective tax rate is abnormally
25 low because the majority of the taxable income on the Taxpayer X's 2008 federal
26 income tax return is from long-term capital gains which are taxed at a preferential

1 15% tax rate, which has resulted in an unusually low 2008 effective tax rate for
2 Taxpayer X's taxable income.

3
4 A more accurate predicator rate for federal income taxes would be the highest
5 marginal tax rate for individuals of 35%. If you add the effective Arizona rate of
6 4.5% the effective income tax rate that should be used for rate making purposes
7 should be 39.5%, which would have made the income tax paid by Taxpayer X
8 \$70,679. In addition, according to Mr. Eric M. Bashaw, CPA and Vice President of
9 Taxation & Accounting for The Greenspun Corporation, which represents Mission
10 Peaks, the owner of the remaining 33.33% of the Company, Mission Peaks' share
11 of the Company's taxable income is reported on and is subject to taxation on 18
12 separate tax returns. These taxpayers would normally be subjected to a combined
13 federal and Arizona tax rate on the order of 39.5%. Accordingly, if we apply these
14 rates to the Company's 2008 taxable income the aggregate income taxes applicable
15 to the 2008 test year would be \$260,181.

16
17 **Q.14 Please explain what circumstances would occasion a Member not paying the**
18 **full amount of income tax otherwise due on that portion of the 2008 taxable**
19 **income reported by the Company which was attributable to such Member.**

20 A.14 All members will eventually pay income taxes on income passed through from the
21 Company. In many cases the payment of income taxes might be deferred to future
22 years, such as when the tax-paying member has a net operating loss or a suspended
23 loss from passive activities. In these situations, the income from the Company may
24 absorb the losses carried over from prior tax years. The member will then have
25 higher taxable income in future years in the same amount since the loss carryover
26 to future years is reduced by the current year share of the Company's 2008 income.

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In other words the member will then pay income tax on other income in the same amount in the year the loss(es) would otherwise be available.

There are rare cases where the Company's share of passed-through income might never be subjected to income taxes, such as (i) the bankruptcy with liquidation of all assets of an entity member or (ii) the death of an individual member, who has previous year end losses that carryover to the current year and exceed the passed-through share of the Company's taxable income, but cease to exist in the year following the pass-through of the Company's income. But, these are the extraordinary exceptions, not the norm.

Q.15 Does that complete your rebuttal testimony on behalf of the Company in this proceeding?

A.15 Yes, it does.

Sahuarita Water Company
Docket No. W-03718A-09-0359

DAVID S. CULTER, CPA
REBUTTAL TESTIMONY
May 17, 2010

APPENDIX A

APPENDIX A

Educational Background and Professional Experience Of David S. Cutler, CPA

Educational Background 1979-1981

Bachelors of Science in Business Administration, double majoring in accounting & management information systems, University of Arizona

Professional Experience

Staff accountant for Peat, Marwick, Mitchell & Company 1981-1982

Senior accountant for Laventhol & Horvath 1982-1984

Controller for a regional securities firm in 1984

Begin accounting firm in 1984 with 2 employees

The firm was incorporated in 1994 and has grown to 21 employees and continues to provide a full range of tax and accounting services

Sahuarita Water Company
Docket No. W-03718A-09-0359

DAVID S. CULTER, CPA
REBUTTAL TESTIMONY
May 17, 2010

APPENDIX B

APPENDIX B

Services Provided by David S. Cutler, CPA, PC

Income tax compliance services

- Individual income tax preparation
- Business income tax preparation
- Estate and gift tax preparation
- Pension plan tax preparation
- Payroll tax reports and W-2 preparation
- Information return reporting

Accounting Services

- Review of financial statements
- Compilation of financial statements
- Preparation of working trial balances
- Bookkeeping and payroll services

Management and Advisory Services

- Individual and business tax planning
- Estate and gift tax planning
- Pension and insurance planning
- Income tax audit representation

**Sahuarita Water Company
Docket No. W-03718A-09-0359**

**DAVID S. CULTER, CPA
REBUTTAL TESTIMONY
May 17, 2010**

APPENDIX C

Schedule K-1 (Form 1065)

2008

Final K-1 Amended K-1 OMB No. 1545-0099

Department of the Treasury Internal Revenue Service

For calendar year 2008, or tax year beginning ending

Partner's Share of Income, Deductions, Credits, etc.

See separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number

B Partnership's name, address, city, state, and ZIP code

SAHUARITA WATER COMPANY, LLC 4549 E FORT LOWELL RD TUCSON, AZ 85712

C IRS Center where partnership filed return OGDEN, UT

D Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number

F Partner's name, address, city, state, and ZIP code

INTERCHANGE OPPORTUNITY FUND, LLLP 4549 E FORT LOWELL RD TUCSON, AZ 85712

G General partner or LLC member-manager Limited partner or other LLC member

H Domestic partner Foreign partner

I What type of entity is this partner? PARTNERSHIP

J Partner's share of profit, loss, and capital:

Table with columns: Beginning, Ending, Profit, Loss, Capital. Values: Profit 66.00000000%, Loss 66.00000000%, Capital 55.1378795%

K Partner's share of liabilities at year end:

Table with columns: Nonrecourse, Qualified nonrecourse financing, Recourse. Values: Recourse \$ 7,980,124.

L Partner's capital account analysis:

Table with columns: Beginning capital account, Capital contributed during the year, Current year increase (decrease), Withdrawals & distributions, Ending capital account. Values: Beginning 6,678,472, Ending 6,733,635.

X Tax basis GAAP Section 704(b) book Other (explain)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

Table with 2 columns: Description, Amount. Rows include: 1 Ordinary business income (loss) 352,612., 2 Net rental real estate income (loss) 884., 3 Other net rental income (loss), 4 Guaranteed payments, 5 Interest income 12,141., 6a Ordinary dividends 69,095., 6b Qualified dividends A 2,018., 7 Royalties, 8 Net short-term capital gain (loss), 9a Net long-term capital gain (loss), 9b Collectibles (28%) gain (loss), 9c Unrecaptured sec 1250 gain, 10 Net section 1231 gain (loss) A 81,236., 11 Other income (loss), 12 Section 179 deduction, 13 Other deductions, 14 Self-employment earnings (loss).

*See attached statement for additional information.

For IRS Use Only

SAHUARITA WATER COMPANY, LLC



SCHEDULE K-1

CURRENT YEAR INCREASES (DECREASES)

DESCRIPTION	AMOUNT	TOTALS
ORDINARY INCOME (LOSS)	352,612.	
RENTAL REAL ESTATE INCOME (LOSS)	884.	
INTEREST INCOME	12,141.	
DIVIDEND INCOME	69,095.	
SCHEDULE K-1 INCOME SUBTOTAL		434,732.
AMORTIZATION ON RETURN AND NOT ON BOOKS	8,941.	
DEPRECIATION ON BOOKS AND NOT ON RETURN	<60,686.>	
COST OF GOODS SOLD	<28,594.>	
ADJUST TO ACC BOOK BASIS	<299,230.>	
OTHER INCREASES OR DECREASES SUBTOTAL		<379,569.>
TOTAL TO SCHEDULE K-1, ITEM L		55,163.

This list identifies the codes used on Schedule K-1 for all partners and provides summarized reporting information for partners who file Form 1040. For detailed reporting and filing information, see the separate Partner's Instructions for Schedule K-1 and the instructions for your income tax return.

- 1. Ordinary business income (loss). Determine whether the income (loss) is passive or nonpassive and enter on your return as follows:
 - Passive loss
 - Passive income
 - Nonpassive loss
 - Nonpassive income
- 2. Net rental real estate income (loss)
- 3. Other net rental income (loss)
- 4. Guaranteed payments
- 5. Interest income
- 6a. Ordinary dividends
- 6b. Qualified dividends
- 7. Royalties
- 8. Net short-term capital gain (loss)
- 9a. Net long-term capital gain (loss)
- 9b. Collectibles (28%) gain (loss)
- 9c. Unrecaptured section 1250 gain
- 10. Net section 1231 gain (loss)
- 11. Other income (loss)
- 12. Section 179 deduction
- 13. Other deductions
 - A. Cash contributions (50%)
 - B. Cash contributions (30%)
 - C. Noncash contributions (50%)
 - D. Noncash contributions (30%)
 - E. Capital gain property to a 50% organization (30%)
 - F. Capital gain property (20%)
 - G. Contributions (100%)
 - H. Investment interest expense
 - I. Deductions - royalty income
 - J. Section 59(e)(2) expenditures
 - K. Deductions - portfolio (2% floor)
 - L. Deductions - portfolio (other)
 - M. Amounts paid for medical insurance
 - N. Educational assistance benefits
 - O. Dependent care benefits
 - P. Preproductive period expenses
 - Q. Commercial revitalization deduction from rental real estate activities
 - R. Pensions and IRAs
 - S. Reforestation expense deduction
 - T. Domestic production activities information
 - U. Qualified production activities income
 - V. Employer's Form W-2 wages
 - W. Other deductions
- 14. Self-employment earnings (loss)
- Note: If you have a section 179 deduction or any partner-level deductions, see the Partner's Instructions before completing Schedule SE.
 - A. Net earnings (loss) from self-employment
 - B. Gross farming or fishing income
 - C. Gross non-farm income
- 15. Credits
 - A. Low-income housing credit (section 42(j)(5)) from pre-2008 buildings
 - B. Low-income housing credit (other) from pre-2008 buildings
 - C. Low-income housing credit (section 42(j)(5)) from post-2007 buildings
 - D. Low-income housing credit (other) from post-2007 buildings
 - E. Qualified rehabilitation expenditures (rental real estate)
 - F. Other rental real estate credits
 - G. Other rental credits
 - H. Undistributed capital gains credit
 - I. Alcohol and cellulosic biofuel fuels credit

Report on

See the Partner's Instructions Schedule E, line 28, column (g) Schedule E, line 28, column (h) Schedule E, line 28, column (i) See the Partner's Instructions

Schedule E, line 28, column (a) See the Partner's Instructions Schedule E, line 28, column (j) Form 1040, line 9a Form 1040, line 9a Form 1040, line 9b Schedule E, line 4 Schedule D, line 6, column (f) Schedule D, line 12, column (f) 28% Rate Gain Worksheet, line 4 (Schedule D Instructions) See the Partner's Instructions See the Partner's Instructions

See the Partner's Instructions See the Partner's Instructions Form 8781, line 1 See Pub. 535 Form 1040, line 21 or Form 982 See the Partner's Instructions

See the Partner's Instructions

See the Partner's Instructions

Form 4952, line 1 Schedule E, line 18 See the Partner's Instructions Schedule A, line 23 Schedule A, line 28 Schedule A, line 1 or Form 1040, line 29 See the Partner's Instructions Form 2441, line 14 See the Partner's Instructions See Form 8582 Instructions See the Partner's Instructions See the Partner's Instructions See Form 8903 Instructions Form 8903, line 7 Form 8903, line 15 See the Partner's Instructions

Schedule SE, Section A or B See the Partner's Instructions See the Partner's Instructions

See the Partner's Instructions See the Partner's Instructions Form 8586, line 11 Form 8586, line 11 See the Partner's Instructions See the Partner's Instructions Form 1040, line 88; check box a Form 5478, line 9

- Code:
 - J. Work opportunity credit
 - K. Disabled access credit
 - L. Empowerment zone and renewal community employment credit
 - M. Credit for increasing research activities
 - N. Credit for employer social security and Medicare taxes
 - O. Backup withholding
 - P. Other credits
- 16. Foreign transactions
 - A. Name of country or U.S. possession
 - B. Gross income from all sources
 - C. Gross income sourced at partner level
 - Foreign gross income sourced at partnership level
 - D. Passive category
 - E. General category
 - F. Other
 - Deductions allocated and apportioned to partner level
 - G. Interest expense
 - H. Other
 - Deductions allocated and apportioned at partnership level to foreign source income
 - I. Passive category
 - J. General category
 - K. Other
 - Other information
 - L. Total foreign taxes paid
 - M. Total foreign taxes accrued
 - N. Reduction in taxes available for credit
 - O. Foreign trading gross receipts
 - P. Extraterritorial income exclusion
 - Q. Other foreign transactions
- 17. Alternative minimum tax (AMT) items
 - A. Post-1986 depreciation adjustment
 - B. Adjusted gain or loss
 - C. Depletion (other than oil & gas)
 - D. Oil, gas, & geothermal - gross income
 - E. Oil, gas, & geothermal - deductions
 - F. Other AMT items
- 18. Tax-exempt income and nondeductible expenses
 - A. Tax-exempt interest income
 - B. Other tax-exempt income
 - C. Nondeductible expenses
- 19. Distributions
 - A. Cash and marketable securities
 - B. Other property
 - C. Distribution subject to section 737
- 20. Other information
 - A. Investment income
 - B. Investment expenses
 - C. Fuel tax credit information
 - D. Qualified rehabilitation expenditures (other than rental real estate)
 - E. Basis of energy property
 - F. Recapture of low-income housing credit (section 42(j)(5))
 - G. Recapture of low-income housing credit (other)
 - H. Recapture of investment credit
 - I. Recapture of other credits
 - J. Look-back interest - completed long-term contracts
 - K. Look-back interest - income forecast method
 - L. Dispositions of property with section 179 deductions
 - M. Recapture of section 179 deduction
 - N. Interest expense for corporate partners
 - O. Section 459(j)(3) information
 - P. Section 453A(c) information
 - Q. Section 1260(c) information
 - R. Interest allocable to production expenditures
 - S. CCP nonqualified withdrawals
 - T. Depletion information - oil and gas
 - U. Amortization of reforestation costs
 - V. Unrelated business taxable income
 - W. Precontribution gain (loss)
 - X. Other information

Report on

Form 5884; line 3 See the Partner's Instructions Form 8544, line 3 See the Partner's Instructions Form 8846, line 5 Form 1040, line 62 See the Partner's Instructions

Form 1116, Part I Form 1116, Part I Form 1116, Part I

Form 1116, Part I Form 1116, Part I Form 1116, Part I

Form 1116, Part I Form 1116, Part I

Form 1116, Part II Form 1116, Part II Form 1116, line 12 Form 8873 Form 8873 See the Partner's Instructions

See the Partner's Instructions and the Instructions for Form 6251

Form 1040, line 8b See the Partner's Instructions See the Partner's Instructions

See the Partner's Instructions

Form 4952, line 4a Form 4952, line 5 Form 4136 See the Partner's Instructions See the Partner's Instructions Form 8811, line 8 Form 8811, line 8 See Form 4255 See the Partner's Instructions See Form 8697 See Form 8806 See the Partner's Instructions

**Arizona Nonresident and Out-of-State
 Partner's Share of Income and Deductions**

2008

For the calendar year 2008 or fiscal year beginning 01/01/2008 and ending 12/31/2008.

CHECK ONE: Original <input checked="" type="checkbox"/> Amended <input type="checkbox"/>	CHECK ONE: Calendar year <input checked="" type="checkbox"/> Fiscal year <input type="checkbox"/>
Partner's identifying number [REDACTED]	Partnership's employer identification number [REDACTED]
Partner's name, address, and ZIP code INTERCHANGE OPPORTUNITY FUND, LLLP 4549 E FORT LOWELL RD TUCSON, AZ 85712	Partnership's name, address, and ZIP code SAHUARITA WATER COMPANY, LLC 4549 E FORT LOWELL RD TUCSON, AZ 85712

Partner's percentage of:	Before change or termination	End of year
Profit sharing	66.0000000 %	66.0000000 %
Loss sharing	66.0000000 %	66.0000000 %
Ownership of capital	55.1378795 %	66.0000000 %

Type of partner (Individual, trust, etc.): PARTNERSHIP

NOTE: ALL CORPORATE PARTNERS MUST USE THIS SCHEDULE.

Part I - Distributive Share Items from Federal Form 1065, Schedule K-1	(a) Distributive Share Amount	(b) Arizona Apportionment Ratio	(c) Arizona Source Income	Form 140NR Filers Enter the Amount in Column (c) on:
1 Ordinary income (loss) from trade or business activities	352,612	1.000000	352,612	
2 Net income (loss) from rental real estate activities	884	1.000000	884	
3 Net income (loss) from other rental activities				
4 Total - Add lines 1, 2 and 3	353,496		353,496	Line B10
5 Interest	12,141	1.000000	12,141	Line B5
6 Dividends	69,095	1.000000	69,095	Line B6
7 Royalties				Line B10
8 Net short-term capital gain (loss)				Line B9
9 Net long-term capital gain (loss)				Line B9
10 Guaranteed payments to partner				
11 Net IRC Section 1231 gain (loss)				Line B9
12 Other income (loss) - attach schedule				Line B11
13 IRC Section 179 expense				Line B10
14 Other deductions - attach schedule				
Part II - Partner's Distributive Share of the Adjustment of Partnership Income From Federal to Arizona Basis	(a) Distributive Share Amount	(b) Arizona Apportionment Ratio	(c) Arizona Source Income	Form 140NR Filers Enter the Amount in Column (c) on:
15 Adjustment of partnership income from federal to Arizona basis - from Form 165, page 1, line 6	71,216	1.000000	71,216	Line C19 or D30

2008

Schedule K-1 (Form 1065)

For calendar year 2008, or tax year beginning

Department of the Treasury Internal Revenue Service

ending

Partner's Share of Income, Deductions, Credits, etc.

See separate instructions.

Final K-1 Amended K-1 OMB No. 1545-0099

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

Table with 3 columns: Item number, Description, and Amount. Rows include: 1 Ordinary business income (loss) 178,087; 2 Net rental real estate income (loss) 447; 3 Other net rental income (loss); 4 Guaranteed payments; 5 Interest income 6,132; 6a Ordinary dividends 34,897; 6b Qualified dividends A 1,019; 7 Royalties; 8 Net short-term capital gain (loss); 9a Net long-term capital gain (loss); 9b Collectibles (28%) gain (loss); 9c Unrecaptured sec 1250 gain; 10 Net section 1231 gain (loss) A 41,029; 11 Other income (loss); 12 Section 179 deduction; 13 Other deductions; 14 Self-employment earnings (loss).

*See attached statement for additional information.

For IRS Use Only

Part I Information About the Partnership

A Partnership's employer identification number

B Partnership's name, address, city, state, and ZIP code

SAHUARITA WATER COMPANY, LLC 4549 E FORT LOWELL RD TUCSON, AZ 85712

C IRS Center where partnership filed return OGDEN, UT

D Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number

F Partner's name, address, city, state, and ZIP code

MISSION PEAKS 4000, LLC 901 N GREEN VALLEY PKWY #200 HENDERSON, NV 89074

G General partner or LLC member-manager Limited partner or other LLC member

H Domestic partner Foreign partner

I What type of entity is this partner? PARTNERSHIP

J Partner's share of profit, loss, and capital:

Table with 3 columns: Category, Beginning, Ending. Rows include: Profit 33.3333333%, Loss 33.3333333%, Capital 44.6379023%.

K Partner's share of liabilities at year end:

Table with 2 columns: Liability type, Amount. Rows include: Nonrecourse, Qualified nonrecourse financing, Recourse 4,030,366.

L Partner's capital account analysis:

Table with 2 columns: Description, Amount. Rows include: Beginning capital account 5,406,682; Capital contributed during the year 591,882; Current year increase (decrease) 27,862; Withdrawals & distributions; Ending capital account 6,026,426.

X Tax basis GAAP Section 704(b) book Other (explain)

SAHUARITA WATER COMPANY, LLC



SCHEDULE K-1

CURRENT YEAR INCREASES (DECREASES)

DESCRIPTION	AMOUNT	TOTALS
ORDINARY INCOME (LOSS)	178,087.	
RENTAL REAL ESTATE INCOME (LOSS)	447.	
INTEREST INCOME	6,132.	
DIVIDEND INCOME	34,897.	
SCHEDULE K-1 INCOME SUBTOTAL		219,563.
AMORTIZATION ON RETURN AND NOT ON BOOKS	4,516.	
DEPRECIATION ON BOOKS AND NOT ON RETURN	<30,650.>	
COST OF GOODS SOLD	<14,441.>	
ADJUST TO ACC BOOK BASIS	<151,126.>	
OTHER INCREASES OR DECREASES SUBTOTAL		<191,701.>
TOTAL TO SCHEDULE K-1, ITEM L		27,862.

This list identifies the codes used on Schedule K-1 for all partners and provides summarized reporting information for partners who file Form 1040. For detailed reporting and filing information, see the separate Partner's Instructions for Schedule K-1 and the instructions for your income tax return.

	Code	Report on
1. Ordinary business income (loss). Determine whether the income (loss) is passive or nonpassive and enter on your return as follows:		
Passive loss		Report on
Passive income		See the Partner's Instructions
Nonpassive loss		Schedule E, line 28, column (a)
Nonpassive income		Schedule E, line 28, column (b)
2. Net rental real estate income (loss)		See the Partner's Instructions
3. Other net rental income (loss)		See the Partner's Instructions
Net income		Schedule E, line 28, column (a)
Net loss		See the Partner's Instructions
4. Guaranteed payments		Schedule E, line 28, column (j)
5. Interest income		Form 1040, line 8a
6a. Ordinary dividends		Form 1040, line 9a
6b. Qualified dividends		Form 1040, line 9b
7. Royalties		Schedule E, line 4
8. Net short-term capital gain (loss)		Schedule D, line 5, column (f)
9a. Net long-term capital gain (loss)		Schedule D, line 12, column (f)
9b. Collectibles (28%) gain (loss)		28% Rate Gain Worksheet, line 4 (Schedule D instructions)
9c. Unrecaptured section 1250 gain		See the Partner's Instructions
10. Net section 1231 gain (loss)		See the Partner's Instructions
11. Other income (loss)		See the Partner's Instructions
Code		
A Other portfolio income (loss)		See the Partner's Instructions
B Involuntary conversions		See the Partner's Instructions
C Sec. 1258 contracts & straddles		Form 5781, line 1
D Mining exploration costs recapture		See Pub. 535
E Cancellation of debt		Form 1040, line 21 or Form 982
F Other income (loss)		See the Partner's Instructions
12. Section 179 deduction		See the Partner's Instructions
13. Other deductions		See the Partner's Instructions
A Cash contributions (50%)		See the Partner's Instructions
B Cash contributions (30%)		
C Noncash contributions (50%)		
D Noncash contributions (30%)		
E Capital gain property to a 50% organization (30%)		
F Capital gain property (20%)		
G Contributions (100%)		
H Investment interest expense		Form 4952, line 1
I Deductions - royalty income		Schedule E, line 18
J Section 50(a)(2) expenditures		See the Partner's Instructions
K Deductions - portfolio (2% floor)		Schedule A, line 23
L Deductions - portfolio (other)		Schedule A, line 28
M Amounts paid for medical insurance		Schedule A, line 1 or Form 1040, line 29
N Educational assistance benefits		See the Partner's Instructions
O Dependent care benefits		Form 2441, line 14
P Preproductive period expenses		See the Partner's Instructions
Q Commercial revitalization deduction from rental real estate activities		See Form 8582 Instructions
R Pensions and IRAs		See the Partner's Instructions
S Reforestation expense deduction		See the Partner's Instructions
T Domestic production activities information		See Form 8903 Instructions
U Qualified production activities income		Form 8903, line 7
V Employer's Form W-2 wages		Form 8903, line 15
W Other deductions		See the Partner's Instructions
14. Self-employment earnings (loss)		
Note: If you have a section 179 deduction or any partner-level deductions, see the Partner's Instructions before completing Schedule SE.		
A Net earnings (loss) from self-employment		Schedule SE, Section A or B
B Gross farming or fishing income		See the Partner's Instructions
C Gross non-farm income		See the Partner's Instructions
15. Credits		
A Low-income housing credit (section 42(j)(5)) from pre-2008 buildings		See the Partner's Instructions
B Low-income housing credit (other) from pre-2008 buildings		See the Partner's Instructions
C Low-income housing credit (section 42(j)(5)) from post-2007 buildings		Form 8586, line 11
D Low-income housing credit (other) from post-2007 buildings		Form 8586, line 11
E Qualified rehabilitation expenditures (rental real estate)		See the Partner's Instructions
F Other rental real estate credits		
G Other rental credits		See the Partner's Instructions
H Undistributed capital gains credit		
I Alcohol and calulosic biofuel fuels credit		Form 1040, line 68; check box a
		Form 6478, line 9
J Work opportunity credit		Form 5884, line 3
K Disabled access credit		See the Partner's Instructions
L Empowerment zone and renewal community employment credit		Form 8844, line 3
M Credit for increasing research activities		See the Partner's Instructions
N Credit for employer social security and Medicare taxes		Form 8846, line 5
O Backup withholding		Form 1040, line 62
P Other credits		See the Partner's Instructions
16. Foreign transactions		
A Name of country or U.S. possession		Form 1116, Part I
B Gross income from all sources		
C Gross income sourced at partner level		
Foreign gross income sourced at partnership level		
D Passive category		Form 1116, Part I
E General category		
F Other		
Deductions allocated and apportioned to partner level		
G Interest expense		Form 1116, Part I
H Other		Form 1116, Part I
Deductions allocated and apportioned at partnership level to foreign source income		
I Passive category		Form 1116, Part I
J General category		
K Other		
Other information		
L Total foreign taxes paid		Form 1116, Part II
M Total foreign taxes accrued		Form 1116, Part II
N Reduction in taxes available for credit		Form 1116, line 12
O Foreign trading gross receipts		Form 8873
P Extraterritorial income exclusion		Form 8873
Q Other foreign transactions		See the Partner's Instructions
17. Alternative minimum tax (AMT) items		
A Post-1986 depreciation adjustment		See the Partner's Instructions and the Instructions for Form 6251
B Adjusted gain or loss		
C Depletion (other than oil & gas)		
D Oil, gas, & geothermal - gross income		
E Oil, gas, & geothermal - deductions		
F Other AMT items		
18. Tax-exempt income and nondeductible expenses		
A Tax-exempt interest income		Form 1040, line 8b
B Other tax-exempt income		See the Partner's Instructions
C Nondeductible expenses		See the Partner's Instructions
19. Distributions		
A Cash and marketable securities		See the Partner's Instructions
B Other property		
C Distribution subject to section 737		
20. Other information		
A Investment income		Form 4952, line 4a
B Investment expenses		Form 4952, line 5
C Fuel tax credit information		Form 4136
D Qualified rehabilitation expenditures (other than rental real estate)		See the Partner's Instructions
E Basis of energy property		See the Partner's Instructions
F Recapture of low-income housing credit (section 42(j)(5))		Form 8811, line 8
G Recapture of low-income housing credit (other)		Form 8811, line 8
H Recapture of investment credit		See Form 4255
I Recapture of other credits		See the Partner's Instructions
J Look-back interest - completed long-term contracts		See Form 8997
K Look-back interest - income forecast method		See Form 8866
L Dispositions of property with section 179 deductions		See the Partner's Instructions
M Recapture of section 179 deduction		
N Interest expense for corporate partners		
O Section 453(j)(3) information		
P Section 453A(c) information		
Q Section 1250(c) information		
R Interest allocable to production expenditures		
S CCF nonqualified withdrawals		
T Depletion information - oil and gas		
U Amortization of reforestation costs		
V Unrelated business taxable income		
W Precontribution gain (loss)		
X Other information		

**Arizona Nonresident and Out-of-State
 Partner's Share of Income and Deductions**

2008

For the calendar year 2008 or fiscal year beginning 01/01/2008 and ending 12/31/2008.

CHECK ONE: Original <input checked="" type="checkbox"/> Amended <input type="checkbox"/>	CHECK ONE: Calendar year <input checked="" type="checkbox"/> Fiscal year <input type="checkbox"/>
Partner's identifying number [REDACTED]	Partnership's employer identification number [REDACTED]
Partner's name, address, and ZIP code MISSION PEAKS 4000, LLC 901 N GREEN VALLEY PKWY #200 HENDERSON, NV 89074	Partnership's name, address, and ZIP code SAHUARITA WATER COMPANY, LLC 4549 E FORT LOWELL RD TUCSON, AZ 85712

	Before change or termination	End of year
Partner's percentage of:		
Profit sharing	33.3333333 %	33.3333333 %
Loss sharing	33.3333333 %	33.3333333 %
Ownership of capital	44.6379023 %	33.3333333 %

Type of partner (Individual, trust, etc.): PARTNERSHIP

NOTE: ALL CORPORATE PARTNERS MUST USE THIS SCHEDULE.

Part I - Distributive Share Items from Federal Form 1065, Schedule K-1	(a) Distributive Share Amount	(b) Arizona Apportionment Ratio	(c) Arizona Source Income	Form 140NR Filers Enter the Amount in Column (c) on:
1 Ordinary income (loss) from trade or business activities	178,087	1.000000	178,087	
2 Net income (loss) from rental real estate activities	447	1.000000	447	
3 Net income (loss) from other rental activities				
4 Total - Add lines 1, 2 and 3	178,534		178,534	Line B10
5 Interest	6,132	1.000000	6,132	Line B5
6 Dividends	34,897	1.000000	34,897	Line B6
7 Royalties				Line B10
8 Net short-term capital gain (loss)				Line B9
9 Net long-term capital gain (loss)				Line B9
10 Guaranteed payments to partner				
11 Net IRC Section 1231 gain (loss)				Line B9
12 Other income (loss) - attach schedule				Line B11
13 IRC Section 179 expense				Line B10
14 Other deductions - attach schedule				
Part II - Partner's Distributive Share of the Adjustment of Partnership Income From Federal to Arizona Basis				
	(a) Distributive Share Amount	(b) Arizona Apportionment Ratio	(c) Arizona Source Income	Form 140NR Filers Enter the Amount in Column (c) on:
15 Adjustment of partnership income from federal to Arizona basis - from Form 165, page 1, line 6	35,968	1.000000	35,968	Line C19 or D30

Schedule K-1
(Form 1065)

2008

Final K-1 Amended K-1 OMB No. 1545-0099

Department of the Treasury
Internal Revenue Service

For calendar year 2008, or tax
year beginning _____
ending _____

**Partner's Share of Income, Deductions,
Credits, etc.**

▶ See separate instructions.

**Part II Partner's Share of Current Year Income,
Deductions, Credits, and Other Items**

1 Ordinary business income (loss)	3,561.	15 Credits	
2 Net rental real estate income (loss)	9.	16 Foreign transactions	
3 Other net rental income (loss)			
4 Guaranteed payments			
5 Interest income	122.		
6a Ordinary dividends	698.	17 Alternative min tax (AMT) items	
6b Qualified dividends		A	21.
7 Royalties		18 Tax-exempt income and nondeductible expenses	
8 Net short-term capital gain (loss)			
9a Net long-term capital gain (loss)			
9b Collectibles (28%) gain (loss)		19 Distributions	
9c Unrecaptured sec 1250 gain		20 Other information	
10 Net section 1231 gain (loss)		A	820.
11 Other income (loss)			
12 Section 179 deduction			
13 Other deductions			
14 Self-employment earnings (loss)			

*See attached statement for additional information.

For IRS Use Only

Part I Information About the Partnership

A Partnership's employer identification number

B Partnership's name, address, city, state, and ZIP code

SAHUARITA WATER COMPANY, LLC
4549 E FORT LOWELL RD
TUCSON, AZ 85712

C IRS Center where partnership filed return
OGDEN, UT

D Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number

F Partner's name, address, city, state, and ZIP code

SHARPE & ASSOCIATES, INC
4549 E FORT LOWELL RD
TUCSON, AZ 85712

G General partner or LLC member-manager Limited partner or other LLC member

H Domestic partner Foreign partner

I What type of entity is this partner? **CORPORATION**

J Partner's share of profit, loss, and capital:

	Beginning	Ending
Profit	0.6666667%	0.6666667%
Loss	0.6666667%	0.6666667%
Capital	0.2242181%	0.6666667%

K Partner's share of liabilities at year end:

Nonrecourse	\$	
Qualified nonrecourse financing	\$	
Recourse	\$	80,607.

L Partner's capital account analysis:

Beginning capital account	\$	27,158.
Capital contributed during the year	\$	
Current year increase (decrease)	\$	555.
Withdrawals & distributions	\$	
Ending capital account	\$	27,713.

Tax basis GAAP Section 704(b) book
 Other (explain)

LHA For Paperwork Reduction Act Notice, see Instructions for Form 1065.

Schedule K-1 (Form 1065) 2008

SCHEDULE K-1

CURRENT YEAR INCREASES (DECREASES)

DESCRIPTION	AMOUNT	TOTALS
ORDINARY INCOME (LOSS)	3,561.	
RENTAL REAL ESTATE INCOME (LOSS)	9.	
INTEREST INCOME	122.	
DIVIDEND INCOME	698.	
SCHEDULE K-1 INCOME SUBTOTAL		4,390.
AMORTIZATION ON RETURN AND NOT ON BOOKS	90.	
DEPRECIATION ON BOOKS AND NOT ON RETURN	<613.>	
COST OF GOODS SOLD	<289.>	
ADJUST TO ACC BOOK BASIS	<3,023.>	
OTHER INCREASES OR DECREASES SUBTOTAL		<3,835.>
TOTAL TO SCHEDULE K-1, ITEM L		555.

This list identifies the codes used on Schedule K-1 for all partners and provides summarized reporting information for partners who file Form 1040. For detailed reporting and filing information, see the separate Partner's Instructions for Schedule K-1 and the instructions for your income tax return.

	Report on	Code	Report on	
1. Ordinary business income (loss). Determine whether the income (loss) is passive or nonpassive and enter on your return as follows:		J Work opportunity credit	Form 5884, line 3	
Passive loss	See the Partner's Instructions.	K Disabled access credit	See the Partner's Instructions	
Passive income	Schedule E, line 28, column (g)	L Empowerment zone and renewal community employment credit	Form 8844, line 3	
Nonpassive loss	Schedule E, line 28, column (h)	M Credit for increasing research activities	See the Partner's Instructions	
Nonpassive income	Schedule E, line 28, column (i)	N Credit for employer social security and Medicare taxes	Form 8846, line 5	
2. Net rental real estate income (loss)	See the Partner's Instructions.	O Backup withholding	Form 1040, line 82	
3. Other net rental income (loss)		P Other credits	See the Partner's Instructions	
Net income	Schedule E, line 28, column (g)	18. Foreign transactions		
Net loss	See the Partner's Instructions.	A Name of country or U.S. possession	Form 1116, Part I	
4. Guaranteed payments	Schedule E, line 28, column (j)	B Gross income from all sources		
5. Interest income	Form 1040, line 8a	C Gross income sourced at partner level		
6a. Ordinary dividends	Form 1040, line 9a	Foreign gross income sourced at partnership level		
6b. Qualified dividends	Form 1040, line 9b	D Passive category	Form 1116, Part I	
7. Royalties	Schedule E, line 4	E General category		
8. Net short-term capital gain (loss)	Schedule D, line 9, column (f)	F Other		
9a. Net long-term capital gain (loss)	Schedule D, line 12, column (f)	Deductions allocated and apportioned to partner level		
9b. Collectibles (28% gain) (loss)	28% Rate Gain Worksheet, line 4 (Schedule D Instructions)	G Interest expense	Form 1116, Part I	
9c. Unrecaptured section 1250 gain	See the Partner's Instructions	H Other	Form 1116, Part I	
10. Net section 1231 gain (loss)	See the Partner's Instructions	Deductions allocated and apportioned at partnership level to foreign source income		
11. Other income (loss)		I Passive category	Form 1116, Part I	
Code		J General category		
A Other portfolio income (loss)	See the Partner's Instructions	K Other		
B Involuntary conversions	See the Partner's Instructions	Other information		
C Sec. 1256 contracts & straddles	Form 8781, line 1	L Total foreign taxes paid	Form 1116, Part II	
D Mining exploration costs recapture	See Pub. 535	M Total foreign taxes accrued	Form 1116, Part II	
E Cancellation of debt	Form 1040, line 21 or Form 982	N Reduction in taxes available for credit	Form 1116, line 12	
F Other income (loss)	See the Partner's Instructions	O Foreign trading gross receipts	Form 8873	
12. Section 179 deduction	See the Partner's Instructions	P Extraterritorial income exclusion	Form 8873	
13. Other deductions		Q Other foreign transactions	See the Partner's Instructions	
A Cash contributions (50%)	See the Partner's Instructions	17. Alternative minimum tax (AMT) items		
B Cash contributions (30%)		A Post-1986 depreciation adjustment	See the Partner's Instructions and the Instructions for Form 6251	
C Noncash contributions (50%)		B Adjusted gain or loss		
D Noncash contributions (30%)		C Depletion (other than oil & gas)		
E Capital gain property to a 50% organization (30%)		D Oil, gas, & geothermal - gross income		
F Capital gain property (20%)		E Oil, gas, & geothermal - deductions		
G Contributions (100%)		F Other AMT items		
H Investment interest expense		Form 4952, line 1	18. Tax-exempt income and nondeductible expenses	
I Deductions - royalty income		Schedule E, line 18	A Tax-exempt interest income	Form 1040, line 8b
J Section 59(a)(2) expenditures		See the Partner's Instructions	B Other tax-exempt income	See the Partner's Instructions
K Deductions - portfolio (2% floor)	Schedule A, line 23	C Nondeductible expenses	See the Partner's Instructions	
L Deductions - portfolio (other)	Schedule A, line 28	19. Distributions		
M Amounts paid for medical insurance	Schedule A, line 1 or Form 1040, line 2a	A Cash and marketable securities	See the Partner's Instructions	
N Educational assistance benefits	See the Partner's Instructions	B Other property		
O Dependent care benefits	Form 2441, line 14	C Distribution subject to section 737		
P Preproductive period expenses	See the Partner's Instructions	20. Other information		
Q Commercial revitalization deduction from rental real estate activities	See Form 8582 Instructions	A Investment income	Form 4952, line 4a	
R Pensions and IRAs	See the Partner's Instructions	B Investment expenses	Form 4952, line 5	
S Reforestation expense deduction	See the Partner's Instructions	C Fuel tax credit information	Form 4136	
T Domestic production activities information	See Form 8903 Instructions	D Qualified rehabilitation expenditures (other than rental real estate)	See the Partner's Instructions	
U Qualified production activities income	Form 8903, line 7	E Basis of energy property	See the Partner's Instructions	
V Employer's Form W-2 wages	Form 8903, line 15	F Recapture of low-income housing credit (section 42(D)(3))	Form 8811, line 8	
W Other deductions	See the Partner's Instructions	G Recapture of low-income housing credit (other)	Form 8811, line 8	
14. Self-employment earnings (loss)		H Recapture of investment credit	See Form 4255	
Note: If you have a section 179 deduction or any partner-level deductions, see the Partner's Instructions before completing Schedule SE.		I Recapture of other credits	See the Partner's Instructions	
A Net earnings (loss) from self-employment	Schedule SE, Section A or B	J Look-back interest - completed long-term contracts	See Form 8897	
B Gross farming or fishing income	See the Partner's Instructions	K Look-back interest - income forecast method	See Form 8888	
C Gross non-farm income	See the Partner's Instructions	L Dispositions of property with section 179 deductions	See the Partner's Instructions	
15. Credits		M Recapture of section 179 deduction		
A Low-income housing credit (section 42(i)(5)) from pre-2008 buildings	See the Partner's Instructions	N Interest expense for corporate partners		
B Low-income housing credit (other) from pre-2008 buildings	See the Partner's Instructions	O Section 459(i)(2) information		
C Low-income housing credit (section 42(i)(5)) from post-2007 buildings	Form 8585, line 11	P Section 453A(i) information		
D Low-income housing credit (other) from post-2007 buildings	Form 8585, line 11	Q Section 1250(c) information		
E Qualified rehabilitation expenditures (rental real estate)	See the Partner's Instructions	R Interest allocable to production expenditures		
F Other rental real estate credits		S CCF nonqualified withdrawals		
G Other rental credits		T Depletion information - oil and gas		
H Undistributed capital gains credit	Form 1040, line 68; check box a	U Amortization of reforestation costs		
I Alcohol and cellulosic biofuel fuels credit	Form 6478; line 9	V Unrelated business taxable income		
		W Precontribution gain (loss)		
		X Other information		

**Arizona Nonresident and Out-of-State
 Partner's Share of Income and Deductions**

2008

For the calendar year 2008 or fiscal year beginning 01/01/2008 and ending 12/31/2008.

CHECK ONE: Original <input checked="" type="checkbox"/> Amended <input type="checkbox"/>	CHECK ONE: Calendar year <input checked="" type="checkbox"/> Fiscal year <input type="checkbox"/>
Partner's identifying number [REDACTED]	Partnership's employer identification number [REDACTED]
Partner's name, address, and ZIP code SHARPE & ASSOCIATES, INC 4549 E FORT LOWELL RD TUCSON, AZ 85712	Partnership's name, address, and ZIP code SAHUARITA WATER COMPANY, LLC 4549 E FORT LOWELL RD TUCSON, AZ 85712

Partner's percentage of:	Before change or termination	End of year
Profit sharing	0.6666667 %	0.6666667 %
Loss sharing	0.6666667 %	0.6666667 %
Ownership of capital	0.2242181 %	0.6666667 %

Type of partner (individual, trust, etc.): CORPORATION

NOTE: ALL CORPORATE PARTNERS MUST USE THIS SCHEDULE.

Part I - Distributive Share Items from Federal Form 1065, Schedule K-1	(a) Distributive Share Amount	(b) Arizona Apportionment Ratio	(c) Arizona Source Income	Form 140NR Filers Enter the Amount in Column (c) on:
1 Ordinary income (loss) from trade or business activities	3,561	1.000000	3,561	
2 Net income (loss) from rental real estate activities	9	1.000000	9	
3 Net income (loss) from other rental activities				
4 Total - Add lines 1, 2 and 3	3,570		3,570	Line B10
5 Interest	122	1.000000	122	Line B5
6 Dividends	698	1.000000	698	Line B6
7 Royalties				Line B10
8 Net short-term capital gain (loss)				Line B9
9 Net long-term capital gain (loss)				Line B9
10 Guaranteed payments to partner				
11 Net IRC Section 1231 gain (loss)				Line B9
12 Other income (loss) - attach schedule				Line B11
13 IRC Section 179 expense				Line B10
14 Other deductions - attach schedule				
Part II - Partner's Distributive Share of the Adjustment of Partnership Income From Federal to Arizona Basis	(a) Distributive Share Amount	(b) Arizona Apportionment Ratio	(c) Arizona Source Income	Form 140NR Filers Enter the Amount in Column (c) on:
15 Adjustment of partnership income from federal to Arizona basis - from Form 165, page 1, line 6	719	1.000000	719	Line C19 or D30

Schedule K-1
(Form 1065)

2008

Final K-1 Amended K-1 OMB No. 1545-0099

Department of the Treasury
Internal Revenue Service

For calendar year 2008, or tax
year beginning _____
ending _____

**Partner's Share of Income, Deductions,
Credits, etc.**

▶ See separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
[REDACTED]

B Partnership's name, address, city, state, and ZIP code

INTERCHANGE OPPORTUNITY FUND, LLLP
4549 E FORT LOWELL RD
TUCSON, AZ 85712

C IRS Center where partnership filed return
OGDEN, UT

D Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number
[REDACTED]

F Partner's name, address, city, state, and ZIP code

SHARPE & ASSOCIATES, INC
[REDACTED]
TUCSON, AZ [REDACTED]

G General partner or LLC member-manager Limited partner or other LLC member

H Domestic partner Foreign partner

I What type of entity is this partner? CORPORATION

J Partner's share of profit, loss, and capital

	Beginning	Ending
Profit	40.0000000%	1.0000000%
Loss	40.0000000%	1.0000000%
Capital	35.2898517%	0.8874791%

K Partner's share of liabilities at year end:

Nonrecourse	\$	
Qualified nonrecourse financing	\$	
Recourse	\$	4,856,856.

L Partner's capital account analysis:

Beginning capital account	\$	15,887,961.
Capital contributed during the year	\$	
Current year increase (decrease)	\$	1,537,473.
Withdrawals & distributions	\$	17,007,298.
Ending capital account	\$	418,136.

Tax basis GAAP Section 704(b) book
 Other (explain)

**Part III Partner's Share of Current Year Income,
Deductions, Credits, and Other Items**

1 Ordinary business income (loss)	2,090.	15 Credits	
2 Net rental real estate income (loss)	<68,407.>	16 Foreign transactions	
3 Other net rental income (loss)			
4 Guaranteed payments			
5 Interest income	652,886.		
6a Ordinary dividends	59,383.	17 Alternative min tax (AMT) items	
6b Qualified dividends		A	762.
7 Royalties		18 Tax-exempt income and nondeductible expenses	
8 Net short-term capital gain (loss)			
9a Net long-term capital gain (loss)	1,314,841.		
9b Collectibles (28%) gain (loss)		19 Distributions	
9c Unrecaptured sec 1250 gain		A	700,000.
10 Net section 1231 gain (loss)	4,739.	B	16,307,298.
11 Other income (loss)		20 Other information	
		A	712,269.
		B	165,075.
12 Section 179 deduction			
13 Other deductions			
H	110,344.		
K*	STMT		
*	STMT		
14 Self-employment earnings (loss)			

*See attached statement for additional information.

For IRS Use Only

INTERCHANGE OPPORTUNITY FUND, LLLP



SCHEDULE K-1 OTHER DEDUCTIONS, BOX 13

CODE DESCRIPTION	AMOUNT
L * DEDUCTIONS - PORTFOLIO (OTHER)	STMT
W * OTHER DEDUCTIONS	39.
* SEE ATTACHED STATEMENT FOR ADDITIONAL INFORMATION.	

SCHEDULE K-1 PORTFOLIO DEDUCTIONS
SUBJECT TO THE 2% FLOOR BOX 13, CODE K

DESCRIPTION	PARTNER FILING INSTRUCTIONS	AMOUNT
SECTION 212 COSTS		85,895.
2% PORTFOLIO DEDUCTIONS FROM SCHEDULE OF ACTIVITIES	SEE IRS SCH. K-1 INSTRUCTIONS	8,039.
TOTAL TO SCHEDULE K-1, BOX 13, CODE K		93,934.

SCHEDULE K-1 OTHER PORTFOLIO DEDUCTIONS, BOX 13, CODE L

DESCRIPTION	PARTNER FILING INSTRUCTIONS	AMOUNT
REAL ESTATE TAXES		218.
REAL ESTATE TAXES PASSED THROUGH FROM RS IV, LLC		328.
REAL ESTATE TAXES PASSED THROUGH FROM RS V, LLC		5,059.
REAL ESTATE TAXES PASSED THROUGH FROM RANCHO RESORT, LLC		10,107.
REAL ESTATE TAXES PASSED THROUGH FROM THE DEVCO FUND, LLC		32,791.
REAL ESTATE TAXES PASSED THROUGH FROM RS VIII, LLC		19,931.
REAL ESTATE TAXES PASSED THROUGH FROM RANCHO DEVCO, LLC		2,523.
PORTFOLIO DEDUCTIONS FROM SCHEDULE OF ACTIVITIES	SEE IRS SCH. K-1 INSTRUCTIONS	147.
TOTAL TO SCHEDULE K-1, BOX 13, CODE L		71,104.

INTERCHANGE OPPORTUNITY FUND, LLLP

SCHEDULE K-1 OTHER DEDUCTIONS, BOX 13, CODE W

DESCRIPTION	PARTNER FILING INSTRUCTIONS	AMOUNT
RENTAL INCOME INCIDENTAL TO A NONRENTAL ACTIVITY		39.
TOTAL TO SCHEDULE K-1, BOX 13, CODE W		39.

SCHEDULE K-1 CURRENT YEAR INCREASES (DECREASES)

DESCRIPTION	AMOUNT	TOTALS
ORDINARY INCOME (LOSS)	2,090.	
RENTAL REAL ESTATE INCOME (LOSS)	<68,407.>	
INTEREST INCOME	652,886.	
DIVIDEND INCOME	59,383.	
LONG-TERM CAPITAL GAIN (LOSS)	1,314,841.	
SECTION 1231 GAIN (LOSS)	4,739.	
SCHEDULE K-1 INCOME SUBTOTAL		1,965,532.
INTEREST EXPENSE ON INVESTMENT DEBTS	<110,344.>	
PORTFOLIO DEDUCTIONS	<165,038.>	
OTHER DEDUCTIONS	<39.>	
SCHEDULE K-1 DEDUCTIONS SUBTOTAL		<275,421.>
RANCHO SAHUARITA P.O. LLC	<446.>	
SAHUARITA WATER COMP, LLC	<151,828.>	
INTEREST EXPENSE	<364.>	
OTHER INCREASES OR DECREASES SUBTOTAL		<152,638.>
TOTAL TO SCHEDULE K-1, ITEM L		1,537,473.

SCHEDULE K-1 WITHDRAWALS AND DISTRIBUTIONS

DESCRIPTION	AMOUNT
CASH DISTRIBUTION	700,000.
TRANSFERRED CAPITAL	16,307,298.
TOTAL TO SCHEDULE K-1, ITEM L, WITHDRAWALS AND DISTRIBUTIONS	17,007,298.

Schedule of Activities

For calendar year 2008, or tax year beginning _____, 2008, and ending _____.

Name: INTERCHANGE OPPORTUNITY FUND, LLLP
 For: SHARPE & ASSOCIATES, INC

I.D. Number: 

Description of Activity	Activity Number	100% Disposed	Publicly Traded Partnership	
	6			SAHUARITA WATER COMP, LLC *
	7			RANCHO SAHUARITA IV, LLC
	8			RANCHO SAHUARITA V, LLC

	Activity - 6	Activity - 7	Activity - 8
Ordinary business income (loss)	141,044.		
Net rental real estate income (loss)	353.		
Other net rental income (loss)			
Interest income	4,856.		889.
Dividends - Ordinary dividends	27,638.		
- Qualified dividends			
Royalties			
Net short-term capital gain (loss)			
Net long-term capital gain (loss)			
- Collectibles (28%) gain (loss)			
- Unrecaptured Section 1250 gain			
Net section 1231 gain (loss)			
Other portfolio income			
Section 1256 contracts and straddles			
Other income			
Section 179 deduction			
Charitable contributions			
Portfolio deductions		818.	2,107.
Investment interest expense		1,408.	7,250.
Section 59(e)(2) expenditures			
Other deductions			
Net earnings from self-employment			
Gross farming or fishing income			
Gross nonfarm income			
LIH credit - Section 42(j)(5) partnerships			
- Other			
Qualified rehabilitation expenditures related to rental real estate			
Other rental credits			
Credits related to other rental activities			
Recapture of LIH credit - Section 42(j)(5) partnerships			
- Other			
Other credits			
Post-1986 depreciation adjustment	807.		
Adjusted gain or loss			
Portion of adjusted gain/loss allocable to short-term gain/loss			
Portion of adjusted gain/loss allocable to long-term gain/loss			
Portion of adjusted gain/loss allocable to section 1231 gain/loss			
Depletion (other than oil and gas)			
Oil, gas and geothermal properties - gross income			
Oil, gas and geothermal properties - deductions			
Other AMT items			
Investment income	32,494.		889.
Investment expenses		1,146.	7,166.

Arizona Nonresident and Out-of-State
Partner's Share of Income and Deductions

For the calendar year 2008 or fiscal year beginning 01/01/2008 and ending 12/31/2008.

<p>CHECK ONE: Original <input checked="" type="checkbox"/> Amended <input type="checkbox"/></p>	<p>CHECK ONE: Calendar year <input checked="" type="checkbox"/> Fiscal year <input type="checkbox"/></p>
Partner's identifying number [REDACTED]	Partnership's employer identification number [REDACTED]
Partner's name, address, and ZIP code SHARPE & ASSOCIATES, INC [REDACTED]	Partnership's name, address, and ZIP code INTERCHANGE OPPORTUNITY FUND, LLLP 4549 E FORT LOWELL RD TUCSON, AZ 85712

Partner's percentage of:	Before change of termination	End of year
Profit sharing	40.000000 %	1.000000 %
Loss sharing	40.000000 %	1.000000 %
Ownership of capital	35.2898517 %	0.8874791 %

Type of partner (individual, trust, etc.): CORPORATION

NOTE: ALL CORPORATE PARTNERS MUST USE THIS SCHEDULE.

Part I - Distributive Share Items from Federal Form 1065, Schedule K-1	(a) Distributive Share Amount	(b) Arizona Apportionment Ratio	(c) Arizona Source Income	Form 140NR Filers Enter the Amount in Column (c) on:
1 Ordinary income (loss) from trade or business activities	2,090	1.000000	2,090	
2 Net income (loss) from rental real estate activities	<68,407>	1.000000	<68,407>	
3 Net income (loss) from other rental activities				
4 Total - Add lines 1, 2 and 3	<66,317>		<66,317>	Line B10
5 Interest	652,886	1.000000	652,886	Line B5
6 Dividends	59,383	1.000000	59,383	Line B6
7 Royalties				Line B10
8 Net short-term capital gain (loss)				Line B9
9 Net long-term capital gain (loss)	1,314,841	1.000000	1,314,841	Line B9
10 Guaranteed payments to partner				
11 Net IRC Section 1231 gain (loss)	4,739	1.000000	4,739	Line B9
12 Other income (loss) - attach schedule				Line B11
13 IRC Section 179 expense				Line B10
14 Other deductions - attach schedule	275,421	1.000000	275,421	
Part II - Partner's Distributive Share of the Adjustment of Partnership Income From Federal to Arizona Basis				
	(a) Distributive Share Amount	(b) Arizona Apportionment Ratio	(c) Arizona Source Income	Form 140NR Filers Enter the Amount in Column (c) on:
15 Adjustment of partnership income from federal to Arizona basis - from Form 165, page 1, line 6	28,191	1.000000	28,191	Line C19 or D30

2008

Schedule K-1 (Form 1065)

For calendar year 2008, or tax year beginning _____ ending _____

Department of the Treasury Internal Revenue Service

Partner's Share of Income, Deductions, Credits, etc.

See separate instructions.

Final K-1 Amended K-1 OMB No. 1545-0099

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

Table with 2 columns: Description and Amount. Rows include: 1 Ordinary business income (loss) 4., 2 Net rental real estate income (loss) <1,28.>, 3 Other net rental income (loss), 4 Guaranteed payments, 5 Interest income 1,222., 6a Ordinary dividends 111., 6b Qualified dividends, 7 Royalties, 8 Net short-term capital gain (loss), 9a Net long-term capital gain (loss) 2,465., 9b Collectibles (28%) gain (loss), 9c Unrecaptured sec 1250 gain, 10 Net section 1231 gain (loss) 9., 11 Other income (loss), 12 Section 179 deduction, 13 Other deductions H 207., K* STMT, L* STMT, 14 Self-employment earnings (loss).

*See attached statement for additional information.

For IRS Use Only

Part I Information About the Partnership

A Partnership's employer identification number

B Partnership's name, address, city, state, and ZIP code

INTERCHANGE OPPORTUNITY FUND, LLLP 4549 E FORT LOWELL RD TUCSON, AZ 85712

C IRS Center where partnership filed return OGDEN, UT

D Check if this is a publicly-traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number

86-6209321

F Partner's name, address, city, state, and ZIP code

IRREVOCABLE TRUST TUCSON, AZ

G General partner or LLC member-manager Limited partner or other LLC member

H Domestic partner Foreign partner

I What type of entity is this partner? TRUST

J Partner's share of profit, loss, and capital

Table with 3 columns: Description, Beginning, Ending. Rows include: Profit 0.0750000%, Loss 0.0750000%, Capital 0.0809616%.

K Partner's share of liabilities at year end:

Table with 2 columns: Description, Amount. Rows include: Nonrecourse, Qualified nonrecourse financing, Recourse 0.

L Partner's capital account analysis:

Table with 2 columns: Description, Amount. Rows include: Beginning capital account 36,450., Capital contributed during the year, Current year increase (decrease) 2,882., Withdrawals & distributions 1,313., Ending capital account 38,019.

X Tax basis GAAP Section 704(b) book Other (explain)

LHA For Paperwork Reduction Act Notice, see Instructions for Form 1065.

Schedule K-1 (Form 1065) 2008

INTERCHANGE OPPORTUNITY FUND, LLLP



SCHEDULE K-1

PORTFOLIO DEDUCTIONS
SUBJECT TO THE 2% FLOOR BOX 13, CODE K

DESCRIPTION	PARTNER FILING INSTRUCTIONS	AMOUNT
SECTION 212 COSTS		161.
2% PORTFOLIO DEDUCTIONS FROM SCHEDULE OF ACTIVITIES	SEE IRS SCH. K-1 INSTRUCTIONS	13.
TOTAL TO SCHEDULE K-1, BOX 13, CODE K		174.

SCHEDULE K-1

OTHER PORTFOLIO DEDUCTIONS, BOX 13, CODE L

DESCRIPTION	PARTNER FILING INSTRUCTIONS	AMOUNT
REAL ESTATE TAXES PASSED THROUGH FROM RS IV, LLC		1.
REAL ESTATE TAXES PASSED THROUGH FROM RS V, LLC		9.
REAL ESTATE TAXES PASSED THROUGH FROM RANCHO RESORT, LLC		19.
REAL ESTATE TAXES PASSED THROUGH FROM THE DEVCO FUND, LLC		62.
REAL ESTATE TAXES PASSED THROUGH FROM RS VIII, LLC		37.
REAL ESTATE TAXES PASSED THROUGH FROM RANCHO DEVCO, LLC		4.
PORTFOLIO DEDUCTIONS FROM SCHEDULE OF ACTIVITIES	SEE IRS SCH. K-1 INSTRUCTIONS	1.
TOTAL TO SCHEDULE K-1, BOX 13, CODE L		133.

SCHEDULE K-1

CURRENT YEAR INCREASES (DECREASES)

DESCRIPTION	AMOUNT	TOTALS
ORDINARY INCOME (LOSS)	4.	
RENTAL REAL ESTATE INCOME (LOSS)	<128.>	
INTEREST INCOME	1,222.	
DIVIDEND INCOME	111.	
LONG-TERM CAPITAL GAIN (LOSS)	2,465.	
SECTION 1231 GAIN (LOSS)	9.	
SCHEDULE K-1 INCOME SUBTOTAL		3,683.

INTERCHANGE OPPORTUNITY FUND, LLLP

INTEREST EXPENSE ON INVESTMENT DEBTS
PORTFOLIO DEDUCTIONS

<207.>
<307.>

SCHEDULE K-1 DEDUCTIONS SUBTOTAL

<514.>

RANCHO SAHUARITA P.O. LLC
SAHUARITA WATER COMP, LLC
INTEREST EXPENSE

<1.>
<285.>
<1.>

OTHER INCREASES OR DECREASES SUBTOTAL

<287.>

TOTAL TO SCHEDULE K-1, ITEM L

2,882.

This list identifies the codes used on Schedule K-1 for all partners and provides summarized reporting information for partners who file Form 1040. For detailed reporting and filing information, see the separate Partner's Instructions for Schedule K-1 and the instructions for your income tax return.

	Report on	Code	Report on	
1. Ordinary business income (loss). Determine whether the income (loss) is passive or nonpassive and enter on your return as follows:		J Work opportunity credit	Form 5884, line 3	
Passive loss	See the Partner's Instructions	K Disabled access credit	See the Partner's Instructions	
Passive income	Schedule E, line 28, column (g)	L Empowerment zone and renewal community employment credit	Form 8844, line 3	
Nonpassive loss	Schedule E, line 28, column (h)	M Credit for increasing research activities	See the Partner's Instructions	
Nonpassive income	Schedule E, line 28, column (i)	N Credit for employer social security and Medicare taxes	Form 8846, line 5	
2. Net rental real estate income (loss)	See the Partner's Instructions	O Backup withholding	Form 1040, line 62	
3. Other net rental income (loss)	See the Partner's Instructions	P Other credits	See the Partner's Instructions	
Net income	Schedule E, line 28, column (g)	16. Foreign transactions		
Net loss	See the Partner's Instructions	A Name of country or U.S. possession	Form 1116, Part I	
4. Guaranteed payments	Schedule E, line 28, column (j)	B Gross income from all sources		
5. Interest income	Form 1040, line 8a	C Gross income sourced at partner level		
6a. Ordinary dividends	Form 1040, line 9a	Foreign gross income sourced at partnership level		
6b. Qualified dividends	Form 1040, line 9b	D Passive category	Form 1116, Part I	
7. Royalties	Schedule E, line 4	E General category		
8. Net short-term capital gain (loss)	Schedule D, line 5, column (f)	F Other		
9a. Net long-term capital gain (loss)	Schedule D, line 12, column (f)	Deductions allocated and apportioned to partner level		
9b. Collectibles (28%) gain (loss)	28% Rate Gain Worksheet, line 4 (Schedule D Instructions)	G Interest expense	Form 1116, Part I	
9c. Unrecaptured section 1250 gain	See the Partner's Instructions	H Other	Form 1116, Part I	
10. Net section 1231 gain (loss)	See the Partner's Instructions	Deductions allocated and apportioned at partnership level to foreign source income		
11. Other income (loss)	See the Partner's Instructions	I Passive category	Form 1116, Part I	
Code		J General category		
A Other portfolio income (loss)	See the Partner's Instructions	K Other		
B Involuntary conversions	See the Partner's Instructions	Other information		
C Sec. 1256 contracts & straddles	Form 6781, line 1	L Total foreign taxes paid	Form 1116, Part II	
D Mining exploration costs recapture	See Pub. 535	M Total foreign taxes accrued	Form 1116, Part II	
E Cancellation of debt	Form 1040, line 21 or Form 982	N Reduction in taxes available for credit	Form 1116, line 12	
F Other income (loss)	See the Partner's Instructions	O Foreign trading gross receipts	Form 8873	
12. Section 179 deduction	See the Partner's Instructions	P Extraterritorial income exclusion	Form 8873	
13. Other deductions	See the Partner's Instructions	Q Other foreign transactions	See the Partner's Instructions	
A Cash contributions (50%)	See the Partner's Instructions	17. Alternative minimum tax (AMT) items		
B Cash contributions (30%)				
C Noncash contributions (50%)				
D Noncash contributions (30%)				
E Capital gain property to a 50% organization (30%)				
F Capital gain property (20%)				
G Contributions (100%)				
H Investment interest expense		Form 4952, line 1	A Post-1989 depreciation adjustment	See the Partner's Instructions and the instructions for Form 8251.
I Deductions - royalty income		Schedule E, line 18	B Adjusted gain or loss	
J Section 69(e)(2) expenditures		See the Partner's Instructions	C Depletion (other than oil & gas)	
K Deductions - portfolio (2% floor)		Schedule A, line 23	D Oil, gas, & geothermal - gross income	
L Deductions - portfolio (other)		Schedule A, line 28	E Oil, gas, & geothermal - deductions	
M Amounts paid for medical insurance		Schedule A, line 1 or Form 1040, line 29	F Other AMT items	
N Educational assistance benefits	See the Partner's Instructions	18. Tax-exempt income and nondeductible expenses		
O Dependent care benefits	Form 2441, line 14	A Tax-exempt interest income	Form 1040, line 8b	
P Preproductive period expenses	See the Partner's Instructions	B Other tax-exempt income	See the Partner's Instructions	
Q Commercial revitalization deduction from rental real estate activities	See Form 8582 Instructions	C Nondeductible expenses	See the Partner's Instructions	
R Pensions and IRAs	See the Partner's Instructions	19. Distributions		
S Reforestation expense deduction	See the Partner's Instructions	A Cash and marketable securities	See the Partner's Instructions	
T Domestic production activities information	See Form 8003 Instructions	B Other property		
U Qualified production activities income	Form 8003, line 7	C Distribution subject to section 737		
V Employer's Form W-2 wages	Form 8003, line 15	20. Other information		
W Other deductions	See the Partner's Instructions	A Investment income	Form 4952, line 4a	
14. Self-employment earnings (loss)		B Investment expenses	Form 4952, line 5	
Note: If you have a section 179 deduction or any partner-level deductions, see the Partner's Instructions before completing Schedule SE.		C Fuel tax credit information	Form 4138	
A Net earnings (loss) from self-employment	Schedule SE, Section A or B	D Qualified rehabilitation expenditures (other than rental real estate)	See the Partner's Instructions	
B Gross farming or fishing income	See the Partner's Instructions	E Basis of energy property	See the Partner's Instructions	
C Gross non-farm income	See the Partner's Instructions	F Recapture of low-income housing credit (section 42(D)(5))	Form 8811, line 8	
15. Credits		G Recapture of low-income housing credit (other)	Form 8811, line 8	
A Low-income housing credit (section 42(f)(5)) from pre-2008 buildings	See the Partner's Instructions	H Recapture of investment credit	See Form 4255	
B Low-income housing credit (other) from pre-2008 buildings	See the Partner's Instructions	I Recapture of other credits	See the Partner's Instructions	
C Low-income housing credit (section 42(f)(5)) from post-2007 buildings	Form 8588, line 11	J Look-back interest - completed long-term contracts	See Form 8897	
D Low-income housing credit (other) from post-2007 buildings	Form 8588, line 11	K Look-back interest - income forecast method	See Form 8886	
E Qualified rehabilitation expenditures (rental real estate)	See the Partner's Instructions	L Dispositions of property with section 179 deductions	See the Partner's Instructions	
F Other rental real estate credits				
G Other rental credits				
H Undistributed capital gains credit				
I Alcohol and cellulosic biofuel fuels credit				
	Form 1040, line 68; check box 4	M Recapture of section 179 deduction		
	Form 8478, line 9	N Interest expense for corporate partners		
		O Section 453(b)(3) information		
		P Section 453A(c) information		
		Q Section 1280(b) information		
		R Interest allocable to production expenditures		
		S CCF nonqualified withdrawals		
		T Depletion information - oil and gas		
		U Amortization of reforestation costs		
		V Unrelated business taxable income		
		W Precontribution gain (loss)		
		X Other information		

Schedule of Activities

For calendar year 2008, or tax year beginning _____, 2008, and ending _____.

Name: **INTERCHANGE OPPORTUNITY FUND, LLLP**

I.D. Number:

For: **IRREVOCABLE TRUST**

Description of Activity	Activity Number	100% Disposed	Publicly Traded Partnership	Activity - 7	Activity - 8
	6				
	7				
	8				
				SAHUARITA WATER COMP, LLC	*
				RANCHO SAHUARITA IV, LLC	
				RANCHO SAHUARITA V, LLC	
Ordinary business income (loss)				265.	
Net rental real estate income (loss)				1.	
Other net rental income (loss)					
Interest income				9.	2.
Dividends - Ordinary dividends				52.	
- Qualified dividends					
Royalties					
Net short-term capital gain (loss)					
Net long-term capital gain (loss)					
- Collectibles (28%) gain (loss)					
- Unrecaptured Section 1250 gain					
Net section 1231 gain (loss)					
Other portfolio income					
Section 1256 contracts and straddles					
Other income					
Section 179 deduction					
Charitable contributions					
Portfolio deductions				1.	4.
Investment interest expense				3.	13.
Section 59(e)(2) expenditures					
Other deductions					
Net earnings from self-employment					
Gross farming or fishing income					
Gross nonfarm income					
LIH credit - Section 42(j)(5) partnerships					
- Other					
Qualified rehabilitation expenditures related to rental real estate					
Other rental credits					
Credits related to other rental activities					
Recapture of LIH credit - Section 42(j)(5) partnerships					
- Other					
Other credits					
Post-1986 depreciation adjustment				2.	
Adjusted gain or loss					
Portion of adjusted gain/loss allocable to short-term gain/loss					
Portion of adjusted gain/loss allocable to long-term gain/loss					
Portion of adjusted gain/loss allocable to section 1231 gain/loss					
Depletion (other than oil and gas)					
Oil, gas and geothermal properties - gross income					
Oil, gas and geothermal properties - deductions					
Other AMT items					
Investment income				61.	2.
Investment expenses				2.	13.

**Resident Partner's Share of Adjustment
 to Partnership Income**

2008

For the calendar year 2008 or fiscal year beginning 01/01/2008 and ending 12/31/2008.

CHECK ONE: Original <input checked="" type="checkbox"/> Amended <input type="checkbox"/>	CHECK ONE: Calendar year <input checked="" type="checkbox"/> Fiscal year <input type="checkbox"/>
Partner's identifying number [REDACTED]	Partnership's employer identification number [REDACTED]
Partner's name, address, and ZIP code [REDACTED] IRREVOCABLE TRUST TUCSON, AZ	Partnership's name, address, and ZIP code INTERCHANGE OPPORTUNITY FUND, LLLP 4549 E FORT LOWELL RD TUCSON, AZ 85712

Partner's percentage of:	Before change or termination	End of year
Profit sharing	0.0750000 %	0.0750000 %
Loss sharing	0.0750000 %	0.0750000 %
Ownership of capital	0.0809616 %	0.0806940 %

Type of partner (individual, trust, etc.): TRUST

NOTE: CORPORATE PARTNERS MUST USE FORM 165, SCHEDULE K-1(NR).

1 Adjustment of partnership income from federal to Arizona basis - from Form 165, page 1, line 6	1	70,476 00
2 Partner's percentage of profit or loss (expressed as a decimal)	2	.0750
3 Partner's distributive share of the adjustment of partnership income from federal to Arizona basis - multiply line 1 by line 2	3	52 00

PARTNER'S INSTRUCTIONS

The partnership is required to adjust its income from a federal to Arizona basis. Line 3 of Form 165, Schedule K-1, is the partner's distributive share of that adjustment. Report the amount from line 3 on your Arizona tax return according to the instructions below.

Resident Individuals:

If line 3 is a positive number, enter the amount on Form 140, page 2, line B12.
 If line 3 is a negative number, enter the amount on Form 140, page 2, line C29.

Part-Year Resident Individuals:

If line 3 is a positive number, enter that portion of line 3 that is allocable to partnership income taxable by Arizona on Form 140PY, page 2, line C23.
 If line 3 is a negative number, enter that portion of line 3 that is allocable to partnership income taxable by Arizona on Form 140PY, page 2, line D35.

Resident Estates or Resident Trusts:

If line 3 is a positive number, enter the amount on Form 141AZ, page 2, Schedule B, line B3.
 If line 3 is a negative number, enter the amount on Form 141AZ, page 2, Schedule B, line B8.

Schedule K-1
(Form 1065)

2008

Final K-1 Amended K-1 OMB No. 1545-0099

Department of the Treasury
Internal Revenue Service

For calendar year 2008, or tax
year beginning _____
ending _____

Partner's Share of Income, Deductions, Credits, etc.

▶ See separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
[REDACTED]

B Partnership's name, address, city, state, and ZIP code
INTERCHANGE OPPORTUNITY FUND, LLLP
4549 E FORT LOWELL RD
TUCSON, AZ 85712

C IRS Center where partnership filed return
OGDEN, UT

D Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number
[REDACTED]

F Partner's name, address, city, state, and ZIP code
[REDACTED] **IRREVOCABLE TRUST**
TUCSON, AZ [REDACTED]

G General partner or LLC member-manager Limited partner or other LLC member

H Domestic partner Foreign partner

I What type of entity is this partner? **TRUST**

J Partner's share of profit, loss, and capital:

	Beginning	Ending
Profit	0.0750000%	0.0750000%
Loss	0.0750000%	0.0750000%
Capital	0.0809439%	0.0806855%

K Partner's share of liabilities at year end:

Nonrecourse \$ _____

Qualified nonrecourse financing \$ _____

Recourse \$ 0.

L Partner's capital account analysis:

Beginning capital account	\$ <u>36,442.</u>
Capital contributed during the year	\$ _____
Current year increase (decrease)	\$ <u>2,886.</u>
Withdrawals & distributions	\$ <u>(1,313.)</u>
Ending capital account	\$ <u>38,015.</u>

Tax basis GAAP Section 704(b) book
 Other (explain)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1 Ordinary business income (loss)	4.	15 Credits
2 Net rental real estate income (loss)	<127.>	16 Foreign transactions
3 Other net rental income (loss)		
4 Guaranteed payments		
5 Interest income	1,225.	
6a Ordinary dividends	110.	17 Alternative min tax (AMT) items
6b Qualified dividends		A 1.
7 Royalties		18 Tax-exempt income and nondeductible expenses
8 Net short-term capital gain (loss)		
9a Net long-term capital gain (loss)	2,465.	
9b Collectibles (28%) gain (loss)		19 Distributions
9c Unrecaptured sec 1250 gain		A 1,313.
10 Net section 1231 gain (loss)	9.	20 Other information
11 Other income (loss)		A 1,335. B 309.
12 Section 179 deduction		
13 Other deductions	H 207. K* STMT L* STMT	
14 Self-employment earnings (loss)		

*See attached statement for additional information.

For IRS Use Only

INTERCHANGE OPPORTUNITY FUND, LLLP

SCHEDULE K-1

PORTFOLIO DEDUCTIONS
SUBJECT TO THE 2% FLOOR BOX 13, CODE K

DESCRIPTION	PARTNER FILING INSTRUCTIONS	AMOUNT
SECTION 212 COSTS		161.
2% PORTFOLIO DEDUCTIONS FROM SCHEDULE OF ACTIVITIES	SEE IRS SCH. K-1 INSTRUCTIONS	14.
TOTAL TO SCHEDULE K-1, BOX 13, CODE K		175.

SCHEDULE K-1

OTHER PORTFOLIO DEDUCTIONS, BOX 13, CODE L

DESCRIPTION	PARTNER FILING INSTRUCTIONS	AMOUNT
REAL ESTATE TAXES		1.
REAL ESTATE TAXES PASSED THROUGH FROM RS IV, LLC		1.
REAL ESTATE TAXES PASSED THROUGH FROM RS V, LLC		10.
REAL ESTATE TAXES PASSED THROUGH FROM RANCHO RESORT, LLC		19.
REAL ESTATE TAXES PASSED THROUGH FROM THE DEVCO FUND, LLC		62.
REAL ESTATE TAXES PASSED THROUGH FROM RS VIII, LLC		37.
REAL ESTATE TAXES PASSED THROUGH FROM RANCHO DEVCO, LLC		4.
TOTAL TO SCHEDULE K-1, BOX 13, CODE L		134.

SCHEDULE K-1

CURRENT YEAR INCREASES (DECREASES)

DESCRIPTION	AMOUNT	TOTALS
ORDINARY INCOME (LOSS)	4.	
RENTAL REAL ESTATE INCOME (LOSS)	<127.>	
INTEREST INCOME	1,225.	
DIVIDEND INCOME	110.	
LONG-TERM CAPITAL GAIN (LOSS)	2,465.	
SECTION 1231 GAIN (LOSS)	9.	
SCHEDULE K-1 INCOME SUBTOTAL		3,686.
INTEREST EXPENSE ON INVESTMENT DEBTS	<207.>	

INTERCHANGE OPPORTUNITY FUND, LLLP

PORTFOLIO DEDUCTIONS

<309.>

SCHEDULE K-1 DEDUCTIONS SUBTOTAL

<516.>

SAHUARITA WATER COMP, LLC

<284.>

OTHER INCREASES OR DECREASES SUBTOTAL

<284.>

TOTAL TO SCHEDULE K-1, ITEM L

2,886.

This list identifies the codes used on Schedule K-1 for all partners and provides summarized reporting information for partners who file Form 1040. For detailed reporting and filing information, see the separate Partner's Instructions for Schedule K-1 and the instructions for your income tax return.

	Report on	Code	Report on
1. Ordinary business income (loss). Determine whether the income (loss) is passive or nonpassive and enter on your return as follows:		J Work opportunity credit	Form 5884, line 3
Passive loss	See the Partner's Instructions	K Disabled access credit	See the Partner's Instructions
Passive income	Schedule E, line 28, column (g)	L Empowerment zone and renewal community employment credit	Form 8844, line 3
Nonpassive loss	Schedule E, line 28, column (h)	M Credit for increasing research activities	See the Partner's Instructions
Nonpassive income	Schedule E, line 28, column (i)	N Credit for employer social security and Medicare taxes	Form 8845, line 5
2. Net rental real estate income (loss)	See the Partner's Instructions	O Backup withholding	Form 1040, line 62
3. Other net rental income (loss)		P Other credits	See the Partner's Instructions
Net income	Schedule E, line 28, column (g)	18. Foreign transactions	
Net loss	See the Partner's Instructions	A Name of country or U.S. possession	Form 1116, Part I
4. Guaranteed payments	Schedule E, line 28, column (i)	B Gross income from all sources	
5. Interest income	Form 1040, line 8a	C Gross income sourced at partner level	
6a. Ordinary dividends	Form 1040, line 9a	Foreign gross income sourced at partnership level	
6b. Qualified dividends	Form 1040, line 9b	D Passive category	Form 1116, Part I
7. Royalties	Schedule E, line 4	E General category	
8. Net short-term capital gain (loss)	Schedule D, line 5, column (f)	F Other	
9a. Net long-term capital gain (loss)	Schedule D, line 12, column (f)	Deductions allocated and apportioned to partner level	
9b. Collectibles (28%) gain (loss)	28% Rate Gain Worksheet, line 4 (Schedule D Instructions)	G Interest expense	Form 1116, Part I
10. Unrecaptured section 1250 gain	See the Partner's Instructions	H Other	Form 1116, Part I
11. Net section 1231 gain (loss)	See the Partner's Instructions	Deductions allocated and apportioned at partnership level to foreign source income	
11. Other income (loss)		I Passive category	Form 1116, Part I
Code		J General category	
A Other portfolio income (loss)	See the Partner's Instructions	K Other	
B Involuntary conversions	See the Partner's Instructions	Other Information	
C Sec. 1258 contracts & straddles	Form 8781, line 1	L Total foreign taxes paid	Form 1116, Part II
D Mining exploration costs recapture	See Pub. 535	M Total foreign taxes accrued	Form 1116, Part II
E Cancellation of debt	Form 1040, line 21 or Form 982	N Reduction in taxes available for credit	Form 1116, line 12
F Other income (loss)	See the Partner's Instructions	O Foreign trading gross receipts	Form 8873
12. Section 179 deduction	See the Partner's Instructions	P Extraterritorial income exclusion	Form 8873
13. Other deductions:		Q Other foreign transactions	See the Partner's Instructions
A Cash contributions (50%)	See the Partner's Instructions	17. Alternative minimum tax (AMT) items	
B Cash contributions (30%)		A Post-1986 depreciation adjustment	See the Partner's Instructions and the Instructions for Form 6251
C Noncash contributions (50%)		B Adjusted gain or loss	
D Noncash contributions (30%)		C Depletion (other than oil & gas)	
E Capital gain property to a 50% organization (30%)		D Oil, gas, & geothermal - gross income	
F Capital gain property (20%)	E Oil, gas, & geothermal - deductions		
G Contributions (100%)	F Other AMT items		
H Investment interest expense	Form 4952, line 1	18. Tax-exempt income and nondeductible expenses	
I Deductions - royalty income	Schedule E, line 18	A Tax-exempt interest income	Form 1040, line 8b
J Section 59(a)(2) expenditures	See the Partner's Instructions	B Other tax-exempt income	See the Partner's Instructions
K Deductions - portfolio (2% floor)	Schedule A, line 23	C Nondeductible expenses	See the Partner's Instructions
L Deductions - portfolio (other)	Schedule A, line 28	19. Distributions	
M Amounts paid for medical insurance	Schedule A, line 1 or Form 1040, line 29	A Cash and marketable securities	See the Partner's Instructions
N Educational assistance benefits	See the Partner's Instructions	B Other property	
O Dependent care benefits	Form 2441, line 14	C Distribution subject to section 737	
P Preproductive period expenses	See the Partner's Instructions	20. Other information	
Q Commercial revitalization deduction from rental real estate activities	See Form 8582 Instructions	A Investment income	Form 4652, line 4a
R Pensions and IRAs	See the Partner's Instructions	B Investment expenses	Form 4652, line 5
S Reforestation expense deduction	See the Partner's Instructions	C Fuel tax credit information	Form 4136
T Domestic production activities information	See Form 8903 Instructions	D Qualified rehabilitation expenditures (other than rental real estate)	See the Partner's Instructions
U Qualified production activities income	Form 8903, line 7	E Basis of energy property	See the Partner's Instructions
V Employer's Form W-2 wages	Form 8903, line 15	F Recapture of low-income housing credit (section 42(j)(5))	Form 8811, line 8
W Other deductions	See the Partner's Instructions	G Recapture of low-income housing credit (other)	Form 8811, line 8
14. Self-employment earnings (loss)		H Recapture of investment credit	See Form 4255
Note: If you have a section 179 deduction or any partner-level deductions, see the Partner's Instructions before completing Schedule SE.		I Recapture of other credits	See the Partner's Instructions
A Net earnings (loss) from self-employment	Schedule SE, Section A or B	J Look-back interest - completed long-term contracts	See Form 8897
B Gross farming or fishing income	See the Partner's Instructions	K Look-back interest - income forecast method	See Form 8868
C Gross non-farm income	See the Partner's Instructions	L Dispositions of property with section 179 deductions	See the Partner's Instructions
15. Credits		M Recapture of section 179 deduction	
A Low-income housing credit (section 42(j)(5)) from pre-2008 buildings	See the Partner's Instructions	N Interest expense for corporate partners	
B Low-income housing credit (other) from pre-2008 buildings	See the Partner's Instructions	O Section 453(b)(3) information	
C Low-income housing credit (section 42(j)(5)) from post-2007 buildings	Form 8586, line 11	P Section 453A(c) information	
D Low-income housing credit (other) from post-2007 buildings	Form 8586, line 11	Q Section 1260(b) information	
E Qualified rehabilitation expenditures (rental real estate)	See the Partner's Instructions	R Interest allocable to production expenditures	
F Other rental real estate credits		S CCF (qualified) withdrawals	
G Other rental credits		T Depletion information - oil and gas	
H Undistributed capital gains credit		U Amortization of reforestation costs	
I Alcohol and cellulosic biofuel fuels credit		V Unrelated business taxable income	
	Form 6478, line 9	W Precontribution gain (loss)	
		X Other information	

Schedule of Activities

For calendar year 2008, or tax year beginning _____, 2008, and ending _____

Name: **INTERCHANGE OPPORTUNITY FUND, LLLP**
 For: **IRREVOCABLE TRUST**

I.D. Number: 

Description of Activity	Activity Number	Tax-Exempt	Publicly Traded Partnership	
	6			SAHUARITA WATER COMP, LLC *
	7			RANCHO SAHUARITA IV, LLC
	8			RANCHO SAHUARITA V, LLC

	Activity - 6	Activity - 7	Activity - 8
Ordinary business income (loss)	265.		
Net rental real estate income (loss)	1.		
Other net rental income (loss)			
Interest income	9.		1.
Dividends - Ordinary dividends	51.		
- Qualified dividends			
Royalties			
Net short-term capital gain (loss)			
Net long-term capital gain (loss)			
- Collectibles (28%) gain (loss)			
- Unrecaptured Section 1250 gain			
Net section 1231 gain (loss)			
Other portfolio income			
Section 1256 contracts and straddles			
Other income			
Section 179 deduction			
Charitable contributions			
Portfolio deductions		1.	4.
Investment interest expense		3.	14.
Section 59(e)(2) expenditures			
Other deductions			
Net earnings from self-employment			
Gross farming or fishing income			
Gross nonfarm income			
LH credit - Section 42(j)(5) partnerships			
- Other			
Qualified rehabilitation expenditures related to rental real estate			
Other rental credits			
Credits related to other rental activities			
Recapture of LH credit - Section 42(j)(5) partnerships			
- Other			
Other credits			
Post-1986 depreciation adjustment	1.		
Adjusted gain or loss			
Portion of adjusted gain/loss allocable to short-term gain/loss			
Portion of adjusted gain/loss allocable to long-term gain/loss			
Portion of adjusted gain/loss allocable to section 1231 gain/loss			
Depletion (other than oil and gas)			
Oil, gas and geothermal properties - gross income			
Oil, gas and geothermal properties - deductions			
Other AMT items			
Investment income	60.		1.
Investment expenses		2.	14.

**Resident Partner's Share of Adjustment
to Partnership Income**

2008

For the calendar year 2008 or fiscal year beginning 01/01/2008 and ending 12/31/2008.

<p>CHECK ONE: Original <input checked="" type="checkbox"/> Amended <input type="checkbox"/></p>	<p>CHECK ONE: Calendar year <input checked="" type="checkbox"/> Fiscal year <input type="checkbox"/></p>
Partner's identifying number [REDACTED]	Partnership's employer identification number [REDACTED]
Partner's name, address, and ZIP code [REDACTED] IRREVOCABLE TRUST [REDACTED] TUCSON, AZ	Partnership's name, address, and ZIP code INTERCHANGE OPPORTUNITY FUND, LLLP 4549 E FORT LOWELL RD TUCSON, AZ 85712

Partner's percentage of:	Before change or termination	End of year
Profit sharing	0.0750000 %	0.0750000 %
Loss sharing	0.0750000 %	0.0750000 %
Ownership of capital	0.0809439 %	0.0806855 %

Type of partner (individual, trust, etc.): TRUST

NOTE: CORPORATE PARTNERS MUST USE FORM 165, SCHEDULE K-1(NR).

1 Adjustment of partnership income from federal to Arizona basis - from Form 165, page 1, line 6	1	70,476 00
2 Partner's percentage of profit or loss (expressed as a decimal)	2	.0750
3 Partner's distributive share of the adjustment of partnership income from federal to Arizona basis - multiply line 1 by line 2	3	53 00

PARTNER'S INSTRUCTIONS

The partnership is required to adjust its income from a federal to Arizona basis. Line 3 of Form 165, Schedule K-1, is the partner's distributive share of that adjustment. Report the amount from line 3 on your Arizona tax return according to the instructions below.

Resident Individuals:

If line 3 is a positive number, enter the amount on Form 140, page 2, line B12.
If line 3 is a negative number, enter the amount on Form 140, page 2, line C29.

Part-Year Resident Individuals:

If line 3 is a positive number, enter that portion of line 3 that is allocable to partnership income taxable by Arizona on Form 140PY, page 2, line C23.
If line 3 is a negative number, enter that portion of line 3 that is allocable to partnership income taxable by Arizona on Form 140PY, page 2, line D35.

Resident Estates or Resident Trusts:

If line 3 is a positive number, enter the amount on Form 141AZ, page 2, Schedule B, line B3.
If line 3 is a negative number, enter the amount on Form 141AZ, page 2, Schedule B, line B8.

Schedule K-1
(Form 1120S)

2008

Final K-1 Amended K-1

OMB No. 1545-0130

Department of the Treasury
Internal Revenue Service

For calendar year 2008, or tax
year beginning _____
ending _____

**Shareholder's Share of Income, Deductions,
Credits, etc.** ▶ See separate instructions.

Part III Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items			
1	Ordinary business income (loss)	13	Credits
	<1,232,682.>		
2	Net rental real estate inc.(loss)		
	<69,783.>		
3	Other net rental income (loss)		
4	Interest income		
	830,482.		
5a	Ordinary dividends		
	60,089.		
5b	Qualified dividends	14	Foreign transactions
6	Royalties		
7	Net short-term capital gain (loss)		
8a	Net long-term capital gain (loss)		
	1,336,127.		
8b	Collectibles (28%) gain (loss)		
8c	Unrecaptured sec 1250 gain		
9	Net section 1231 gain (loss)		
	4,739.		
10	Other income (loss)	15	Alternative-min tax (AMT) items
		A	347.
11	Section 179 deduction	16	Items affecting shareholder basis
		C*	47,573.
12	Other deductions		
H	111,748.	D	1,715,878.
K*	96,360.		
L*	91,755.		
		17	Other information
		A	890,571.
		B	279,614.

Part I Information About the Corporation

A Corporation's employer identification number
[REDACTED]

B Corporation's name, address, city, state, and ZIP code
SHARPE & ASSOCIATES, INC
4549 E FORT LOWELL RD
TUCSON, AZ 85712

C IRS Center where corporation filed return
OGDEN, UT

Part II Information About the Shareholder

D Shareholder's identifying number
[REDACTED]

E Shareholder's name, address, city, state and ZIP code
[REDACTED] **TAXPAYER**
X

F Shareholder's percentage of stock ownership for tax year 100.000000%

For IRS Use Only

*See attached statement for additional information.

SCHEDULE K-1 NET SECTION 1231 GAIN (LOSS), BOX 9

DESCRIPTION	AMOUNT	SHAREHOLDER FILING INSTRUCTIONS
TRADE OR BUSINESS FROM SCHEDULE OF ACTIVITIES	4,739.	SEE FORM 1040 INSTRUCTIONS
TOTAL	4,739.	

SCHEDULE K-1 DEDUCTIONS - PORTFOLIO (OTHER), BOX 12, CODE L

DESCRIPTION	AMOUNT	SHAREHOLDER FILING INSTRUCTIONS
REAL ESTATE TAXES - IOF	70,957.	
REAL ESTATE TAXES - TANGERINE	19,079.	
REAL ESTATE TAXES - RS VI	414.	
REAL ESTATE TAXES - RS VIII	503.	
REAL ESTATE TAXES - DEVCO FUND	412.	
REAL ESTATE TAXES - RANCHO DEVCO	64.	
REAL ESTATE TAXES - RS IV	8.	
REAL ESTATE TAXES - RS V	128.	
OTHER PORTFOLIO DEDUCTIONS FROM SCHEDULE OF ACTIVITIES	190.	SEE FORM 1040 INSTRUCTIONS
TOTAL	91,755.	

SCHEDULE K-1 DEDUCTIONS - PORTFOLIO (2nd FLOOR), BOX 12, CODE K

DESCRIPTION	AMOUNT	SHAREHOLDER FILING INSTRUCTIONS
OTHER PORTFOLIO DEDUCTIONS FROM SCHEDULE OF ACTIVITIES	96,360.	SEE FORM 1040 INSTRUCTIONS
TOTAL	96,360.	



SCHEDULE K-1

NONDEDUCTIBLE EXPENSES, BOX 16, CODE C

DESCRIPTION	AMOUNT	SHAREHOLDER FILING INSTRUCTIONS
EXCLUDED MEALS AND ENTERTAINMENT EXPENSES	47,573.	SEE FORM 1040 INSTRUCTIONS
TOTAL	47,573.	

This list identifies the codes used on Schedule K-1 for all shareholders and provides summarized reporting information for shareholders who file Form 1040. For detailed reporting and filing information, see the separate Shareholder's Instructions for Schedule K-1 and the instructions for your income tax return.

	Report on	Code	Report on
1. Ordinary business income (loss). Determine whether the income (loss) is passive or nonpassive and enter on your return as follows:		M Credit for increasing research activities	See the Shareholder's Instructions
Passive loss	Report on	N Credit for employer social security and Medicare taxes	Form 8845, line 5
Passive income	See the Shareholder's Instructions	O Backup withholding	Form 1040, line 82
Nonpassive loss	Schedule E, line 28, column (g)	P Other credits	See the Shareholder's Instructions
Nonpassive income	Schedule E, line 28, column (h)		
	Schedule E, line 28, column (i)		
2. Net rental real estate income (loss)	See the Shareholder's Instructions	14. Foreign transactions	
3. Other net rental income (loss)		A Name of country or U.S. possession	Form 1118, Part I
Net income	Schedule E, line 28, column (g)	B Gross income from all sources	
Net loss	See the Shareholder's Instructions	C Gross income sourced at shareholder level	
4. Interest income	Form 1040, line 8a	Foreign gross income sourced at corporate level	
5a. Ordinary dividends	Form 1040, line 9a	D Passive category	Form 1118, Part I
5b. Qualified dividends	Form 1040, line 9b	E General category	
6. Royalties	Schedule E, line 4	F Other	
7. Net short-term capital gain (loss)	Schedule D, line 5, column (f)	Deductions allocated and apportioned at shareholder level	
8a. Net long-term capital gain (loss)	Schedule D, line 12, column (f)	G Interest expense	Form 1118, Part I
8b. Collectibles (28%) gain (loss)	28% Rate Gain Worksheet, line 4 (Schedule D instructions)	H Other	Form 1118, Part I
8c. Unrecaptured section 1250 gain	See the Shareholder's Instructions	Deductions allocated and apportioned at corporate level to foreign source income	
9. Net section 1231 gain (loss)	See the Shareholder's Instructions	I Passive category	Form 1118, Part I
10. Other income (loss)	See the Shareholder's Instructions	J General category	
		K Other	
Code		Other information	
A Other portfolio income (loss)	See the Shareholder's Instructions	L Total foreign taxes paid	Form 1118, Part II
B Involuntary conversions	See the Shareholder's Instructions	M Total foreign taxes accrued	Form 1118, Part II
C Sec. 1256 contracts & straddles	Form 6781, line 1	N Reduction in taxes available for credit	Form 1118, line 12
D Mining exploration costs recapture	See Pub. 535	O Foreign trading gross receipts	Form 8873
E Other income (loss)	See the Shareholder's Instructions	P Extraterritorial income exclusion	Form 8873
		Q Other foreign transactions	See the Shareholder's Instructions
11. Section 179 deduction	See the Shareholder's Instructions	15. Alternative minimum tax (AMT) items	
12. Other deductions		A Post-1986 depreciation adjustment	See the Shareholder's Instructions and the instructions for Form 6251.
A Cash contributions (50%)	See the Shareholder's Instructions	B Adjusted gain or loss	
B Cash contributions (30%)		C Depletion (other than oil & gas)	
C Noncash contributions (50%)		D Oil, gas, & geothermal - gross income	
D Noncash contributions (30%)		E Oil, gas, & geothermal - deductions	
E Capital gain property to a 50% organization (30%)		F Other AMT items	
F Capital gain property (20%)			16. Items affecting shareholder basis
G Contributions (100%)	Form 4952, line 1	A Tax-exempt interest income	Form 1040, line 8b
H Investment interest expense	Schedule E, line 18	B Other tax-exempt income	See the Shareholder's Instructions
I Deductions - royalty income	See the Shareholder's Instructions	C Nondeductible expenses	
J Section 59(a)(2) expenditures	Schedule A, line 23	D Property distributions	
K Deductions - portfolio (2% floor)	Schedule A, line 28	E Repayment of loans from shareholders	
L Deductions - portfolio (other)	See the Shareholder's Instructions		
M Preproductive period expenses		17. Other information:	
N Commercial revitalization deduction from rental real estate activities	See Form 8582 Instructions	A Investment income	Form 4952, line 4a
O Reforestation expense deduction	See the Shareholder's Instructions	B Investment expenses	Form 4952, line 5
P Domestic production activities information	See Form 8903 Instructions	C Qualified rehabilitation expenditures (other than rental real estate)	See the Shareholder's Instructions
Q Qualified production activities income	Form 8903, line 7	D Basis of energy property	See the Shareholder's Instructions
R Employer's Form W-2 wages	Form 8903, line 15	E Recapture of low-income housing credit (section 42(j)(5))	Form 8611, line 6
S Other deductions	See the Shareholder's Instructions	F Recapture of low-income housing credit (other)	Form 8611, line 8
		G Recapture of investment credit	See Form 4255
13. Credits		H Recapture of other credits	See the Shareholder's Instructions
A Low-income housing credit (section 42(j)(5)) from pre-2008 buildings	See the Shareholder's Instructions	I Look-back interest - completed long-term contracts	See Form 8897
B Low-income housing credit (other) from pre-2008 buildings	See the Shareholder's Instructions	J Look-back interest - income forecast method	See Form 8888
C Low-income housing credit (section 42(j)(5)) from post-2007 buildings	Form 8586, line 11	K Dispositions of property with section 179 deductions	See the Shareholder's Instructions
D Low-income housing credit (other) from post-2007 buildings	Form 8586, line 11	L Recapture of section 179 deduction	
E Qualified rehabilitation expenditures (rental real estate)	See the Shareholder's Instructions	M Section 453(i)(3) information	
F Other rental real estate credits		N Section 453A(c) information	
G Other rental credits		O Section 1260(b) information	
H Undistributed capital gains credit	Form 1040, line 88; check box a	P Interest allocable to production expenditures	
I Alcohol and cellulosic biofuel fuels credit	Form 6478, line 9	Q CCF nonqualified withdrawals	
J Work opportunity credit	Form 5884, line 3	R Depletion information - oil and gas	
K Disabled access credit	See the Shareholder's Instructions	S Amortization of reforestation costs	
L Empowerment zone and renewal community employment credit	Form 8844, line 3	T Other information	

Schedule of Activities

For calendar year 2008, or tax year beginning _____, 2008, and ending _____

Name: **SHARPE & ASSOCIATES, INC**

I.D. Number: XXXXXXXXXX

Form **1041** **Tax Payer X**

Description of Activity	Activity Number	100% Disposed	Publicly Traded Partnership	Activity
	104	X		IOF, LLLP - RANCHO RESORT HOMES, LLC
	105			IOF, LLLP - SAHUARITA WATER COMPANY, LLC
	106	X		SAHUARITA WATER CO
				Activity - 104 Activity - 105 Activity - 106
Ordinary business income (loss)				141,044.
Net rental real estate income (loss)				353.
Other net rental income (loss)				
Interest income				122.
Dividends - Ordinary dividends				698.
- Qualified dividends				
Royalties				
Net short-term capital gain (loss)				
Net long-term capital gain (loss)				
- Collectibles (28%) gain (loss)				
- Unrecaptured Section 1250 gain				
Net section 1231 gain (loss)				
Other portfolio income				
Section 1256 contracts and straddles				
Other income				
Section 179 deduction				
Charitable contributions				
Portfolio deductions				
Investment interest expense				
Section 59(e)(2) expenditures				
Other deductions				
Net earnings from self-employment				
Gross farming or fishing income				
Gross nonfarm income				
LIH credit - Section 42(j)(5) partnerships				
- Other				
Qualified rehabilitation expenditures related to rental real estate				
Other rental credits				
Credits related to other rental activities				
Recapture of LIH credit - Section 42(j)(5) partnerships				
- Other				
Other credits				
Post-1986 depreciation adjustment				21.
Adjusted gain or loss				
Portion of adjusted gain/loss allocable to short-term gain/loss				
Portion of adjusted gain/loss allocable to long-term gain/loss				
Portion of adjusted gain/loss allocable to section 1231 gain/loss				
Depletion (other than oil and gas)				
Oil, gas and geothermal properties - gross income				
Oil, gas and geothermal properties - deductions				
Other AMT items				
Investment income				820.
Investment expenses				

ARIZONA
SCHEDULE K-1
EQUIVALENT

Shareholder's Information - Resident

For Calendar Year 2008, or Fiscal Year
, and Ending

2008

Beginning

Shareholder Name & Address

TAX PAYER

Shareholder ID No.

CHECK ONE

Percentage of Ownership
100.000000%

Original
Amended

Corporation Name & Address

SHARPE & ASSOCIATES, INC
4549 E FORT LOWELL RD
TUCSON, AZ 85712

Corporation ID Number

Shareholder's Distributive Share of Income, Adjustments and Arizona Tax Credit Items

Amount

ADDITIONS TO INCOME

Non-Arizona municipal interest

Taxes paid to other states

Other additions to income

28,910

SUBTRACTIONS FROM INCOME

Interest on U.S. Government obligations

Other subtractions from income

ARIZONA TAX CREDITS

**Sahuarita Water Company
Docket No. W-03718A-09-0359**

**DAVID S. CULTER, CPA
REBUTTAL TESTIMONY
May 17, 2010**

APPENDIX D

Appendix D
Sahuarita Water Company ("SWC")
Computation of Taxable Income
May 2009

Sahuarita Water Company Ownership	Ownership Percentage
Interchange Opportunity Fund, LLLP	66.0000%
Mission Peaks 6600, LLC	33.3333%
Sharpe & Associates, Inc (an S-corporation)	0.6667%
	100.0000%

Interchange Opportunity Fund, LLLP ("IOF")	Ownership Percentage
Sharpe & Associates, Inc (an S-corporation)	40.0000%
Partnership partners	16.5000%
Individual partners	15.4500%
LLC partners	13.8000%
Trust partners	11.1000%
Pension and IRA partner	3.0000%
Sharpe Trust #1	0.0750%
Sharpe Trust #2	0.0750%
	100.0000%

SWC 2008 Federal Taxable Income	Total SWC	Income Allocated to Partners		
		IOF	Sharpe & Associates Inc	Mission Peaks
Ordinary	\$ 534,260	352,612	3,561	178,087
Rental	1,340	884	9	447
Interest	18,395	12,141	122	6,132
Dividend	104,690	69,095	698	34,897
Total SWC 2008 federal taxable income	658,685	434,732	4,390	219,563
Additions to Arizona Taxable Income	\$ 107,903	\$ 71,216	\$ 719	\$ 35,968

Taxable Income Passing Through SWC & IOF
to RMS Individual Tax Return

Federal Income Tax Return	Total Reported On Form 1040	SWC K-1 to	IOF K-1 pass through to		
		Sharpe & Associates Inc	Sharpe & Associates Inc	Sharpe Trust #1	Sharpe Trust #2
Ordinary	\$ 145,135	\$ 3,561	\$ 141,044	\$ 265	\$ 265
Rental	364	9	353	1	1
Interest	4,996	122	4,856	9	9
Dividend	28,439	698	27,638	52	51
Total SWC income reported on RMS tax return	178,934	4,390	173,891	327	326
Additions to Arizona Taxable Income	\$ 29,734	\$ 719	\$ 28,910	\$ 52	\$ 53

SWC income of RMS 1040	\$ 178,934	27.165%	% of SWC taxable income reported on RMS 1040
Total SWC Taxable Income	\$ 658,685		

Sahuarita Water Company
Docket No. W-03718A-09-0359

DAVID S. CULTER, CPA
REBUTTAL TESTIMONY
May 17, 2010

APPENDIX E

Appendix E
Sahuarita Water Company ("SWC")
Computation of Income taxes paid on
Prorata Share of Sahuarita Water Company
Taxable Income
May 2009

<u>Federal Form 1040</u>	<u>Income From SWC</u>	<u>Tax Return As Filed</u>	<u>RMS Tax Return Without Taxable Income from SWC</u>
Adjusted Gross Income	\$ 178,934	\$ 1,857,379	\$ 1,678,445
Taxable Income	179,636	1,142,090	962,454

<u>Arizona Form 140</u>	<u>Income From SWC</u>	<u>Tax Return As Filed</u>	<u>RMS Tax Return Without Taxable Income from SWC</u>
Adjusted Gross Income	178,934	1,886,394	1,707,460
Taxable Income	184,302	1,142,968	958,666

<u>Income Taxes Paid</u>	<u>Income Taxes Paid on SWC Income</u>	<u>Tax Return As Filed</u>	<u>RMS Tax Return Without Taxable Income from SWC</u>
Federal Form 1040	\$ 26,840	\$ 202,709	\$ 175,869
Arizona Form 140	8,368	49,813	41,445
Total Income Taxes Paid	<u>\$ 35,208</u>	<u>\$ 252,522</u>	<u>\$ 217,314</u>

Income taxes attributable to SWC Taxable Income

Total Income Taxes Paid	35,208	19.60%	Combined 2008 tax rate
Federal taxable income	<u>179,636</u>		

Total Income Taxes Paid	\$ 35,208
RMS % ownership	27.17%

Imputed SWC income tax based on RMS income taxes paid	<u>\$ 129,606</u>
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Total SWC 2008 federal taxable in \$	658,685
Combined marginal tax rate	39.50%

Imputed SWC income taxes based on highest and most probable marginal income tax rate	<u>\$ 260,181</u>
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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE
APPLICATION OF SAHUARITA
WATER COMPANY, L.L.C. ("SWC")
FOR AN OPINION AND ORDER OF
THE COMMISSION (i)
DETERMINING THE FAIR VALUE
OF THE UTILITY PROPERTY OF
SWC FOR RATEMAKING PURPOSES,
(ii) FIXING A JUST AND
REASONABLE RATE OF RETURN
THEREON, (iii) APPROVING RATES
AND CHARGES DESIGNED TO
PRODUCE REVENUES SUFFICIENT
TO RECOVER SWC'S COST OF
SERVICE AND AUTHORIZED RATE
OF RETURN, AND (iv) PROVIDING
FOR THE RECOVERY OF CERTAIN
FINANCING AND OPERATING
EXPENSES THROUGH A
SURCHARGE AND A PASS-
THROUGH TARIFF, RESPECTIVELY

DOCKET NO. W-03718-09-0359

PREPARED TESTIMONY

REBUTTAL TESTIMONY OF
THOMAS J. BOURASSA
ON BEHALF OF SAHUARITA WATER COMPANY, L.L.C.
(RATE BASE, INCOME STATEMENT, RATE DESIGN)

May 17, 2010

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I. INTRODUCTION AND PURPOSE OF TESTIMONY.

Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A1. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive, Phoenix, Arizona 85029.

Q2. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?

A2. On behalf of the applicant, Sahuarita Water Company (“SWC” or the “Company”).

Q3. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE INSTANT CASE?

A3. Yes, my direct testimony was submitted in support of the initial application in this docket. There were two volumes, one addressing rate base, income statement and rate design, and the other addressing cost of capital.

Q4. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

A4. I will provide rebuttal testimony in response to the direct filing by Staff. More specifically, this first volume of my rebuttal testimony relates to rate base, income statement and rate design for SWC. In a second, separate volume of my testimony, I also present an update to the Company’s requested cost of capital as well as provide responses to Staff on the cost of capital and rate of return applied to the fair value rate base, and the determination of operating income.

II. SUMMARY OF SWC’S REBUTTAL POSITION

Q6. WHAT IS THE REVENUE INCREASE THAT THE COMPANY IS PROPOSING IN THIS REBUTTAL TESTIMONY?

A6. The Company is proposing a total revenue requirement of \$3,518,855, which constitutes an increase in revenues of \$1,303,712, or 58.85% over adjusted test year revenues.

1 **Q7. HOW DOES THIS COMPARE WITH THE COMPANY'S DIRECT**
2 **FILING?**

3 A7. In the direct filing, the Company requested a total revenue requirement of
4 \$3,377,358, which required an increase in revenues of \$1,162,216, or 52.47%.

5 **Q8. WHY IS THE REQUESTED REVENUE INCREASE HIGHER IN SWC'S**
6 **REBUTTAL FILING?**

7 A8. Despite recommending a lower rate of return of 9.69 percent compared to 12
8 percent in its direct filing, in its rebuttal filing, SWC has adopted a number of
9 adjustments recommended by Staff, as well as proposed a number of adjustments
10 of its own based on known and measurable changes to the test year. The net result
11 of these adjustments is: (1) the Company's proposed operating expenses have
12 increased by \$39,902, from \$2,044,524 in the direct filing to \$2,084,427 and a net
13 increase of \$2,641,032 in rate base from the direct filing of \$7,418,409 to
14 \$10,059,443.

15 **Q9. PLEASE SUMMARIZE THE COMPANY'S REBUTTAL RATE BASE**
16 **ADJUSTMENTS?**

17 A9. The rebuttal rate base adjustments proposed by the Company are summarized as
18 follows:

19 Post Test Year Plant – The Company has adopted the Staff recommendations and
20 proposes to include arsenic treatment facility costs and associated funding
21 source(s) in rate base. Plant in service ("PIS") is increased by \$4,694,523 and
22 contributions-in-aid of construction ("CIAC") is increased in \$1,877,809.

23 The Company also proposes to true-up the costs of Well #23 and proposes
24 to reduce PIS by \$65,027.

25

26

1 Plant Not Used and Useful – The Company has adopted some of the Staff
2 recommendations regarding plant not used and useful and proposes to remove
3 certain costs from PIS. PIS is reduced by \$312,565 and advances-in-aid of
4 construction (“AIAC”) is reduced by \$76,082.

5
6 Plant Reclassification - The Company proposes to reclassify arsenic media PIS
7 totaling \$120,000 from account 320.1 – Water Treatment Plant to account 348.1 –
8 Other Tangible Plant – Arsenic Media to reflect the shorter useful life of arsenic
9 media. The net impact on PIS and rate base is zero.

10
11 Accumulated Depreciation – The Company proposes to remove accumulated
12 depreciation (“A/D”) totaling \$312,565 related to the removal of not used and
13 useful plant.

14
15 Accumulated Deferred Income Taxes – The Company proposes to increase
16 accumulated deferred income taxes (“ADIT”) by \$186,736 to reflect the Company
17 proposed changes to PIS, CIAC, and AIAC.

18 **Q10. IT APPEARS THAT THE PRIMARY INCREASE IN THE RATE BASE IS**
19 **DUE TO THE CHANGE IN THE RATE BASE TREATMENT OF ARSENIC**
20 **PLANT?**

21 A10. Correct. As you will recall, in its direct filing the Company proposed that the
22 arsenic treatment facility costs be excluded from rate base and instead proposed an
23 Arsenic Cost Recovery Surcharge Mechanism (“ACRSM”) for recovery of debt
24 service on the Water Infrastructure Finance Authority (“WIFA”) loan used to fund
25
26

1 the arsenic treatment facility.¹ As discussed above, arsenic treatment facility costs
2 totaling \$4,694,523 have been added to PIS. Also discussed above and in
3 conjunction with the increase to PIS, the Company has increased CIAC by
4 \$1,877,809 in order to reflect the portion of the WIFA debt financing that will be
5 forgiven. Together, these two proposed adjustments result in a net increase in rate
6 base of \$2,816,714.

7 **Q11. THE RATE BASE TREATMENT OF THE ARSENIC TREATMENT**
8 **FACILITY REFLECTS THE ADOPTION OF STAFF**
9 **RECOMMENDATIONS?**

10 A11. As I already indicated above, yes it does². As such, the Company is no longer
11 requesting an ACRSM.

12 **Q12. WHAT ARE THE PROPOSED REVENUE REQUIREMENTS AND RATE**
13 **INCREASES FOR THE COMPANY AND STAFF AT THIS STAGE OF**
14 **THE PROCEEDING?**

15 A12. The proposed revenue requirements and proposed rate increases are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Incr.</u>	<u>% Increase</u>
17 Company-Direct	\$3,377,358	\$1,162,216	52.47%
18 Staff	\$2,477,559	\$ 262,416	11.85%
19 Company Rebuttal	\$3,518,855	\$1,303,702	58.85%

20 **III. RATE BASE**

21 **Q13. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE**
22 **BASE RECOMMENDATIONS?**

23 A13. Yes, the rate bases proposed by the parties in the case, are as follows:

24 OCRB FVRB

25 _____
26 ¹ See Direct Testimony of Thomas J. Bourassa ("Bourassa Dt") at 36-38.

² See Direct Testimony of Jeffrey M. Michlik ("Michlik Dt.") at 7-8.

1	Company-Direct	\$ 7,418,409	\$ 7,418,409
2	Staff	\$ 8,709,357	\$ 8,709,357
3	Company Rebuttal	\$10,059,443	\$10,059,443

4
5 A. Plant-in-service.

6 **Q14. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
7 **ORIGINAL COST RATE BASE, AND IDENTIFY ANY ADJUSTMENTS**
8 **YOU HAVE ACCEPTED FROM STAFF?**

9 A14. The Company's rebuttal rate base adjustments to OCRB are detailed on rebuttal
10 schedules B-2, pages 3 through 6. Rebuttal Schedule B-2, page 1 and 2,
11 summarize the Company's proposed adjustments and the rebuttal OCRB.

12 Rebuttal B-2 adjustment 1, as summarized on Rebuttal Schedule B-2, page
13 2, consists of three adjustments labeled as "A", "B", "C" and "D" on Rebuttal
14 Schedule B-2, page 3.

15 Adjustment A reflects an increase to PIS for arsenic treatment facility costs
16 totaling \$4,254,251. Staff has made a similar adjustment.³ The Company agrees
17 with Staff that that the construction of the water treatment plant has been
18 completed and is currently in service and treating drinking water for existing
19 customers.⁴ Further, the plant is necessary to meet the safe drinking water
20 mandates of the Environmental Protection Agency ("EPA").⁵ It is appropriate to
21 include the plant in rate base at this time.

22 Adjustment B, of rebuttal B-2 adjustment 1, reflects a reclassification of
23 arsenic media costs totaling \$120,000 from account 320.1 – Water Treatment Plant
24

25 ³ See Michlik Dt. at 7-8

26 ⁴ *Id.*

⁵ *Id.*

1 to 348.1 – Other Tangible Plant – Arsenic Media. The Company proposes this
2 adjustment so that the portion of the arsenic treatment plant (arsenic media costs)
3 will be reflected in a plant account that properly matches its expected life.

4 **Q.15. WHAT IS THE EXPECTED USEFUL LIFE OF WATER TREATMENT**
5 **PLANT AND ARSENIC MEDIA PLANT?**

6 A15. 30 years for arsenic treatment plant and 1.5 years for arsenic media.

7 **Q16. IS THE COMPANY STILL SEEKING AN ACCOUNTING ORDER TO**
8 **TRACK ARSENIC TREATMENT OPERATING EXPENSES?**

9 A16. It depends. If the Company's proposal to reclassify arsenic media costs to a plant
10 account with a shorter useful life is adopted then the answer is no. The largest cost
11 the Company anticipates that are related to arsenic treatment is arsenic media
12 related. These costs are known and measurable as they were included in the
13 arsenic treatment plant costs which Staff has verified. The Company's proposal
14 will allow the Company to recover the bulk of the costs.

15 **Q17. WHY DIDN'T THE COMPANY PROPOSE THIS ADJUSTMENT IN ITS**
16 **DIRECT FILING?**

17 A17. Because the Company did not propose to include arsenic treatment plant costs in
18 rate base in its direct filing. As I testified earlier, the Company instead proposed to
19 only recover debt service through an ACRSM. Since both Staff and the Company
20 now propose to include the arsenic treatment plan costs in rate base, the
21 Company's proposed adjustment is appropriate and should be adopted.

22 **Q18. WHAT OTHER COSTS RELATED TO ARSENIC TREATMENT THE**
23 **COMPANY EXPECTS TO INCUR ARE NOT INCLUDED IN THE**
24 **COMPANY'S REBUTTAL EXPENSES?**

25

26

1 A18. At a minimum there are filter replacement costs that will range from \$15,000 to
2 \$20,000 annually. While these costs are not insignificant, they are not fully
3 known and measureable at this time.

4 **Q19. PLEASE CONTINUE.**

5 A19. Adjustment C, of rebuttal B-2 adjustment 1, reflects a decrease to PIS of \$312,565
6 for plant not used and useful. This adjustment reflects an adoption of a portion of
7 Staff's proposed PIS adjustment for \$327,565.⁶ Specifically, the Company agrees
8 to remove the plant costs associated with the Estancia De Corazon subdivision
9 totaling \$76,082.⁷ The Company also agrees to remove the cost for wells #12, #17,
10 #19, and #20 with the exception of \$15,000 for a pump motor which was moved
11 from Well #17 to Well #23 and is currently used and useful. While the Company
12 believes these wells to be used and useful as monitoring wells, the Company has
13 agreed to remove these wells in this rate case to help minimize issues between the
14 parties.

15 Adjustment D, of rebuttal B-2 adjustment 1, reflects a decrease to PIS of
16 \$65,027 to true-up the costs of Well #23. The adjusted cost of Well #23 is
17 \$1,779,243 which matches the cost reflected in Staff's engineering testimony.⁸

18 **Q20. PLEASE COMMENT ON THE DISAGREEMENT BETWEEN STAFF AND**
19 **THE COMPANY WITH REGARD TO WELL #23?**

20 A20. Staff concludes that Well #23 is not needed at this time and has removed the costs
21 from PIS.⁹ The Company respectfully disagrees. Well #23 is currently providing
22 water to existing customers and is necessary for the ongoing provision of adequate
23

24 ⁶ See Table H-1 in Direct Testimony of Marlin Scott Jr. ("Scott Dt.") at 10.

25 ⁷ *Id.*

26 ⁸ Scott Dt. at 10.

⁹ Scott Dt. at 11; Michlik Dt. at 7.

1 and reliable service. Company witness, Mr. Mark Taylor discusses the reasons in
2 his rebuttal testimony. Under the circumstances, and like the arsenic treatment
3 facility, it is appropriate to include Well #23 costs in rate base at this time.

4 **B. Accumulated Depreciation.**

5 **Q21. PLEASE EXPLAIN YOUR ADJUSTMENTS TO ACCUMULATED**
6 **DEPRECIATION.**

7 A21. Rebuttal B-2 adjustment 2, as summarized on Rebuttal Schedule B-2, page 2,
8 consists of one adjustments labeled as "A" on Rebuttal Schedule B-2, page 4.

9 Adjustment A reflects a decrease to accumulated depreciation for
10 unrecorded plant totaling \$312,565. This a corresponding adjustment to the
11 removal of plant not use and useful as discussed above. Staff makes a similar
12 adjustment of \$327,565 for the plant not used and useful adjustment it proposes.¹⁰
13 The \$15,000 difference is the pump meter being used in Well #23.
14

15 **C. Contributions-in-aid of Construction ("CIAC").**

16 **Q22. PLEASE DISCUSS THE COMPANY'S ADJUSTMENT TO**
17 **CONTRIBUTIONS-IN-AID OF CONSTRUCTION?**

18 A22. In rebuttal B-2 adjustment 3, as shown on Schedule B-2, page 2, the Company
19 proposes an increase to CIAC of \$1,877,809 to reflect the portion of the WIFA
20 loan used to fund the arsenic treatment facility that is forgiven. Staff proposes a
21 similar adjustment of \$1,877,809.¹¹
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25 ¹⁰ Michlik Dt. at 10.

26 ¹¹ *Id.* at 8.

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D. Advances-in-aid of Construction ("AIAC").

Q23. PLEASE DISCUSS THE COMPANY'S ADJUSTMENT TO ADVANCES-IN-AID OF CONSTRUCTION?

A23. In rebuttal B-2 adjustment 4, as shown on Schedule B-2, page 2, the Company proposes a decrease to AIAC of \$76,082 to reflect the funding of the plant not used and useful which has been excluded from PIS and rate base. Staff also proposes to reduce AIAC by \$76,082.¹²

E. Accumulated Deferred Income Taxes ("ADITs").

Q24. HAS THE COMPANY PROPOSED A REBUTTAL ADJUSTMENT TO DEFERRED INCOME TAXES?

A24. Yes. In rebuttal B-2 adjustment 5, as shown on Schedule B-2, page 2, the Company's ADIT is increased by \$185,976 from \$338,625 in its direct filing to \$524,600. The increase reflects the Company's rebuttal proposed changes to PIS, accumulated depreciation, and AIAC. The details of the Company's rebuttal proposed ADIT adjustment is shown on Schedule B-2, page 7.

Q25. HAVE STAFF CHANGES TO THE COMPANY'S DEFERRED INCOME TAXES?

A25. Yes. Staff has removed all ADIT from rate base.¹³ This is consistent with Staff's recommendation to exclude income taxes from the revenue requirement.

Q26. PLEASE COMMENT ON STAFF'S ASSERTION THAT THE INCLUSION OF ACCUMULATED DEFERRED INCOME TAXES IS IN VIOLATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND STATEMENT OF FINANCIAL ACCOUNTING STANDARDS 109.

¹² *Id.* at 4.
¹³ *Id.* at 12.

1 A26. I would agree with Staff if the Company proposed or actually recorded ADITs on
2 its books. However, the Company is not proposing to record ADITs on its books,
3 rather it proposes ADITs be included in rate base for rate making purposes. The
4 income taxes computed for rate making purposes will not match the actual income
5 taxes recorded on the books (per GAAP) in the future, yet we don't call that a
6 violation of Generally Accepted Accounting Principles ("GAAP"). Similarly, the
7 post test year plant (arsenic treatment facility) Staff proposes to include in rate base
8 in the instant case will not be recorded until 2009, the year it was placed into
9 service and a year subsequent to the test year. If the Company were to record this
10 plant on its books in 2008 (the test year) it would be a violation of GAAP and yet
11 we don't call this rate making treatment a violation of GAAP. Put simply, because
12 the inclusion of ADIT is a rate making construct, just as the other two examples
13 given, there is no violation of GAAP.

14 **Q27. BUT SWC ITSELF DOES NOT PAY INCOME TAXES. WHY THEN**
15 **SHOULD WE INCLUDE ADIT IN RATE BASE AND INCOME TAXES IN**
16 **EXPENSES?**

17 A27. First, the Company has proposed the inclusion of ADIT in rate base in order to be
18 consistent with the inclusion of income taxes in expenses. As I discussed in my
19 direct testimony, the Company is proposing ADIT for rate making purposes to
20 insure a proper matching of rate base, revenues, and expenses as the Company also
21 proposes the inclusion of income taxes in expenses.¹⁴ If income taxes are allowed
22 in expenses then ADIT should be recognized in rate base in order to account for the
23 difference between the allowed income taxes included in rates and the actual
24 income taxes paid. In the instant case, the ADIT is a liability (a reduction to rate

25 ¹⁴ Bourassa Dt. at 10.
26

1 base) which means that the actual income taxes through the end of the test year
2 were lower than the income taxes included in rates. By including ADIT in rate
3 base the rate payers are given a "credit" for actual income taxes being lower than
4 they have paid in their rates. The credit or reduction in rate base amounts to nearly
5 \$525,000.

6 Second, the income tax that must be paid arises from the taxable income of
7 SWC and it is directly attributable to SWC. While the tax liability flows through to
8 the members, the Company ultimately pays the tax by distributing cash to its
9 member owners as a reimbursement for the taxes the member owners must pay.
10 Third, the required operating income for a tax pass-through entity such as an S-
11 Corp or a LLC is not the same as that for a C-Corp without ratemaking recognition
12 of income taxes for the S-Corp or LLC. Otherwise, failure of such recognition
13 results in an S-Corp or LLC being treated differently than a C-Corp when there is
14 no sound justification to do so. An S-Corp or LLC which receives a lower revenue
15 requirement and operating income than a C-Corp because of the failure of such
16 ratemaking recognition results in inequities because payment for the tax must come
17 from somewhere. Ultimately the tax payment comes from the S-Corp or LLC itself
18 because in reality shareholders or members require that their taxes are paid by the
19 entities that generate them. In fact, as I discussed in my direct testimony, the
20 situation is analogous to a subsidiary C-Corp utility of a parent holding company
21 whose tax return is consolidated with the parent.¹⁵ The individual C-Corp utility
22 does not file a separate tax return, yet this Commission has traditionally allowed
23 income taxes of the utility to be computed on a stand-alone basis and included in
24 the revenue requirement for ratemaking purposes. Fourth, rate payers receive an

25 ¹⁵ Bourassa Dt. at 16.
26

1 unjustified windfall from the lower revenue requirement and operating income
2 when income taxes are excluded, as proposed by Staff.

3 Finally, as I discussed in my direct testimony rate making should be applied
4 in a manner which produces reasonable, realistic and non-discriminatory results no
5 matter what the legal form of the utility is.¹⁶ Staff's challenge to the inclusion of
6 income taxes rests merely on a technical distinction rather than reality.

7 **Q28. ARE THE RETURNS GRANTED A C-CORP THE SAME AS AN S-CORP**
8 **OR LLC IF INCOME TAXES ARE EXCLUDED FOR AN S-CORP OR**
9 **LLC?**

10 A28. No, an S-Corp or LLC receives a lower revenue requirement and operating income
11 than a C-Corp if income taxes are excluded. Consequently, as I already testified, a
12 10 percent return to investors in C-Corp is not the same as a 10 percent return to
13 tax pass-through entity like an S-Corp or LLC.¹⁷ The former return is after tax and
14 the latter is before tax. In fact, the effective return to investors on an S-Corp or
15 LLC is much lower than that of a C-Corp without the inclusion of income taxes.

16 In my cost of capital testimony I developed a cost of capital for SWC based
17 upon publicly traded utilities that are allowed income tax expense in rates. The
18 returns of those companies are not comparable to SWC if SWC is denied recovery
19 of income taxes. Two utilities whose only difference is that one is allowed
20 incomes taxes and the other not will have very different values. I discuss this in
21 depth in my rebuttal cost of capital testimony at pages 5 through 9. Arguably,
22 investors in an S-Corp or LLC that is denied income tax recovery suffer a
23 confiscation of investment value as a result.

25 ¹⁶ Bourassa Dt. at 16.

26 ¹⁷ *Id.*

1 **Q29. WHAT THEN IS THE ADVANTAGE OF A TAX PASS-THROUGH**
2 **ENTITY?**

3 A29. Shareholders in an S-Corp or members in an LLC avoid double taxation. A C-
4 Corp is taxed on its income and its shareholders are also taxed on the dividends
5 received. However, the distinction does not disadvantage rate payers. To the
6 extent shareholders of S-Corp's or member's of LLC's are not subject to taxation
7 on dividends, rate payers are not harmed. After all, it's the shareholders who pay
8 the tax on dividends from C-Corps, not the rate payers. Taxes on dividends are not
9 considered as part of the revenue requirement.

10 A second advantage of a tax pass-through entity is that net losses (as well as
11 net income) pass-through to the owners. A tax pass-through entity is a particularly
12 attractive form for start-up companies (e.g. utilities with new CC&N's) because the
13 tax losses can be taken advantage of immediately by the owners who typically have
14 to subsidize the company in the early years with income from their other sources.
15 This can improve the ability to raise capital from the owners for start-ups as they
16 can then take advantage of the tax losses immediately. But, regardless, the
17 ratepayer is not disadvantaged in any way. Rather there is a more likely chance of
18 a healthier "start-up" utility as a result. And a healthy utility is always a benefit to
19 ratepayers and in the public interest.

20 **Q30. PLEASE RESPOND TO MR. MICHLIK'S TESTIMONY ON PAGE 11 AND**
21 **24 THAT THE COMMISSION HAS DENIED RECOVERY OF INCOME**
22 **TAXES FOR PASS-THROUGH ENTITIES IN THE PAST.**

23 A30. On page 11, Mr. Michlik cites the Sunrise Water Company rate case in which the
24 inclusion of ADIT in rate base was denied because the recovery of income tax was
25 also denied. I do not disagree with the Commission's conclusion on this
26 relationship point. If the recovery of income tax in expense is denied, then ADITs

1 should be excluded from rate base. This is consistent with my earlier comments
2 regarding the proper matching of rate base, revenues, and expenses. However,
3 whether such denial of ratemaking recognition should occur is an entirely separate
4 question.

5 On page 24, Mr. Michlik also cites the Sunrise Water rate case where the
6 Commission decided that tax pass-through entries should not be allowed recovery
7 of income taxes because it has been this Commission's "long-standing policy".
8 While I acknowledge that the Commission has denied recovery of income taxes for
9 tax pass-through entities in the past, I respectfully disagree with the so-called
10 "policy". Based on the merits, as discussed above, I believe that the Commission
11 should reconsider its "policy".

12 In addition, I would note that additional testimony on the subject of income
13 taxes is provided by Company rebuttal witness Mr. David Cutler, CPA. The
14 Company believes that he provides additional evidence to support ratemaking
15 recognition in this case, which the Commission has not had before it in previous
16 water rate proceeding.

17 **F. Miscellaneous.**

18
19 **Q32. PLEASE COMMENT ON STAFF PROPOSAL TO INCLUDE CUSTOMER**
20 **SECURITY DEPOSITS IN RATE BASE.**

21 A32. Staff recommends the inclusion of customer security deposits totaling \$96,204 in
22 rate base (a reduction in rate base).¹⁸ The Company disagrees with Staff for three
23 reasons. First, customer security deposits are not capital provided by non-
24 investors. They represent security for payment of receivables from customers and
25

26 ¹⁸ Michlik Dt. at 10.

1 are used as a means of controlling bad debt expense. Rate payers benefit by lower
2 bad debt expense. Second, if Staff truly considered the security deposits as a
3 source of capital then Staff should have included the annual interest cost in
4 operating expenses. The annual interest costs are on the order of \$4,000 to \$5,000
5 annually. Finally, the Company maintains a separate bank account for customer
6 security deposits and does not use this cash for any other purpose but to refund
7 security deposits. Again, this is not non-investor capital. Security deposits are
8 akin to prepaid expense and materials and supplies inventory which are
9 components of working capital. The Company is not requesting working capital in
10 the instant case. However, prepaid expense at the end of the test year was over
11 \$2,600 and materials and supplies were nearly \$104,000.¹⁹ If customer security
12 deposits are included in rate base, they should be offset with both prepaid expense
13 and materials and supplies. Rate base would increase by nearly \$10,400 (\$2,600
14 plus \$104,000 minus \$96,204) rather than Staff proposed decrease to rate base of
15 \$96,204.

16 **Q33. PLEASE COMMENT ON STAFF'S PROPOSED RATE CASE EXPENSE.**

17 A33. At this stage of the proceeding, Staff and the Company agree on the total amount of
18 proposed rate case expense of \$225,000. However, Staff proposes to normalize
19 rate case expense over 5 years for an annual amount of \$45,000 while the
20 Company proposes to amortize rate case expense over 3 years for an annual
21 amount of \$75,000. Not only is there disagreement of the time period, but whether
22 rate case expense should be normalized or amortized.

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26 ¹⁹ See Company Direct Schedule E-1.

1 With respect to the time period, while the Company has not been in for a
2 rate case in 14 years, the Company expects to file rate case more often than every 5
3 years. Thus, Staff assumption and proposed 5 year period is not appropriate.

4 With respect to normalization and amortization, the distinction may not
5 seem important but it has significant implications. Under normalization, if the
6 Company filed another rate case within 5 years and the Company had not
7 recovered the entire \$225,000 of rate case expense, it is lost forever. Under
8 amortization, the Company would be able to seek recovery of any unamortized
9 portion in the new rate case. The amortization approach was used by Staff and
10 adopted by this Commission for many years and it has only been the last few years
11 where Staff has proposed the normalization approach.

12 **Q34. WHAT IF THE COMPANY DID NOT FILE FOR MORE THAN 5 YEARS?**
13 **COULDN'T THE COMPANY OVER RECOVER RATE CASE EXPENSE?**

14 Q34. Yes. This could potentially occur. However, there is a simple solution to both the
15 potential over or under recovery of rate case expense and that is to allow recovery
16 of rate case expense via a surcharge which would cease upon full recovery of rate
17 case expense. While the Company would agree to such a proposal, I suspect that
18 Staff would not agree to a surcharge.

19 **IV. INCOME STATEMENT**

20 **Q35. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
21 **REBUTTAL ADJUSTMENTS TO REVENUES AND EXPENSES AND**
22 **IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF**
23 **AND/OR RUCO?**

24 A35. The Company's proposed rebuttal adjustments are detailed on Rebuttal Schedule
25 C-2, pages 1-8. The rebuttal income statement with adjustments is summarized on
26 Rebuttal Schedule C-1, page 1-2.

1 Rebuttal adjustment 1 increases depreciation and amortization expense.
2 Depreciation and amortization expense is higher due to the impacts of the
3 Company proposed rebuttal adjustments to plant-in-service.

4 **Q36. PLEASE COMMENT ON STAFF'S CIAC AMORTIZATION RATE USED**
5 **IN THE COMPUTATION OF DEPREICATION EXPENSE.**

6 A36. Staff computes amortization of CIAC using a composite rate based on depreciable
7 plant only.²⁰ Staff's Composite rate is higher as a result. All things being equal,
8 Staff's composite rate results in a higher amount of CIAC amortization. The
9 higher amount of CIAC amortization results in a lower amount of depreciation and
10 amortization expense. The Company employs a CIAC amortization rate based on
11 a composite of all plant in service which is the correct method of determining the
12 composite rate.

13 **Q37. WHY?**

14 A37. Under the concept of using a composite rate for amortization of CIAC, a key
15 assumption is that CIAC is used to fund all plant, not just depreciable plant.
16 Further, Staff's approach to computing a composite rate is inconsistent with the
17 composite rates used to recomputed accumulated amortization of CIAC through the
18 end of the test year.²¹ If a composite rate based on only depreciable plant were
19 used to re-compute CIAC amortization through the end of the test year,
20 accumulated amortization of CIAC would be higher. As a result, net CIAC would
21 be lower and rate base would be higher. Yet, Staff has not disputed the Company's
22 accumulated CIAC balance.

23 **Q38. PLEASE CONTINUE.**

24

25

²⁰ See Staff Schedule JMM-16.

26

²¹ See Company Direct Schedule B-2, page 6.1 to 6.5.

1 A38. Rebuttal adjustment number 2 increases property tax expense and reflects the
2 rebuttal proposed revenues. All the parties are in agreement on the method of
3 computing property taxes, but each computes the property taxes based on their
4 proposed revenues.

5 Rebuttal adjustment number 3 removes non-recurring rent expense from
6 operating expenses. This adjustment reflects the Company's acceptance of Staff's
7 proposed adjustment to rent expense.²²

8 Rebuttal adjustment 4 increases testing expense by \$1,632 to reflect known
9 and measurable changes to this expense. This adjustment reflects the Company's
10 acceptance of Staff's proposed adjustment to water testing expense.²³

11 Rebuttal adjustment 5 decreases outside services expense by \$751 to reflect
12 the removal of unnecessary expenses. This adjustment reflects the Company's
13 acceptance of Staff's proposed adjustment to outside services expense.²⁴

14 **Q39. STAFF ALSO PROPOSES TO REMOVE NEARLY \$190,000 FROM**
15 **OUTSIDE SERVICES RELATED TO SALARIES AND WAGES**
16 **ALLOCATED TO SWC FOR ITS MANAGEMENT COMPANY. DO YOU**
17 **HAVE ANY COMMENT?**

18 A39. Yes. Staff erroneously concludes that 25 percent of the costs allocated from the
19 management company are overhead and profit.²⁵ Putting aside that overhead is a
20 necessary cost, the cost allocated to SWC from the management company for
21 payroll and payroll overhead included neither general administrative overhead nor
22 profit. The Company has provided Staff with actual payroll and benefit
23 information, and the Company was surprised to learn that Staff concluded there

24 ²² Michlik Dt. at 22.

25 ²³ *Id.* at 21.

26 ²⁴ *Id.*

²⁵ *Id.* at 20.

1 "likely" was 25% overhead and profit contained in those allocated costs. This is
2 mere speculation and not supported by the facts in this case.

3 **Q41. DO YOU HAVE ANY FURTHER COMMENTS ON THIS ISSUE?**

4 A41. Yes. I wish to note that the allocated payroll cost issue is addressed in greater
5 detail in the testimony of Company witness, Ms. Marian Homiak. The Company
6 believes that Ms. Homiak fully rebuts the Staff's reasoning for its proposed
7 disallowance of this operating expense.

8 **Q42. THANK YOU. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE**
9 **INCOME STATEMENT.**

10 A42. Rebuttal adjustment 6 reflects the synchronization of interest expense with the
11 Company's proposed rate base.

12 Rebuttal adjustment 19 reflects income taxes at Company's proposed rates.

13 **Q43. STAFF EXCLUDES INCOME TAXES FROM EXPENSES, CORRECT?**

14 A43. Yes. For the reasons discussed previously, the Company disagrees with Staff.

15 **V. RATE DESIGN**

16 **Q44. WHAT ARE THE COMPANY'S REBUTTAL PROPOSED RATES?**

17 A44. The rebuttal proposed rates are listed below.

<u>All Classes</u>			
Meter	Monthly	Gallons included	
<u>Size</u>	<u>Minimum</u>	<u>in Monthly Minimum</u>	
5/8	\$ 24.56	0	
3/4	\$ 36.84	0	
1	\$ 61.40	0	
1 1/2	\$ 122.80	0	
2	\$ 196.48	0	
3	\$ 392.96	0	

1	4	\$ 614.00	0
2	6	\$1,228.00	0

The commodity charges and tiers by meter size are:

Residential, Commercial and Irrigation Class

5	Meter		Charge
6	<u>Size</u>	<u>Tier (gallons)</u>	<u>per 1,000 gallons</u>
7	5/8x3/4 Residential	1 to 4,000	\$3.53
8		4,001 to 10,000	\$4.28
9		Over 10,000	\$4.83
10	3/4 Residential	1 to 6,000	\$3.53
11		6,001 to 9,000	\$4.28
12		Over 9,000	\$4.83
13	1 Residential	1 to 10,000	\$3.53
14		10,001 to 25,000	\$4.28
15		Over 25,000	\$4.83
16	5/8x3/4 and 3/4		
17	Commercial, Irrigation	1 to 10,000	\$4.28
18		Over 10,000	\$4.83
19	1 Commercial, Irrigation	1 to 25,000	\$4.28
20		Over 25,000	\$4.83
21	1 1/2 Res., Com., Irr.	1 to 50,000	\$4.28
22		Over 50,000	\$4.83
23	2 Res., Com., Irr.	1 to 80,000	\$4.28
24		Over 80,000	\$4.83
25	3 Res., Com., Irr.	1 to 160,000	\$4.28
26		Over 160,000	\$4.83

1	4 Res., Com., Irr.	1 to 250,000	\$4.28
2		Over 250,000	\$4.83
3	6 Res., Com., Irr.	1 to 500,000	\$4.28
4		Over 500,000	\$4.83

5 Standpipe (Construction)

6	All Meter Sizes	All gallons	\$4.83
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7 **Q45. HAVE YOU UPDATED YOUR COST OF SERVICE STUDY USING THE**
8 **COMPANY PROPOSED RATES?**

9 A45. Yes. As shown on Rebuttal Schedule G-2, the returns at the rebuttal proposed
10 rates continue to vary substantially between the various meter sizes. While all the
11 returns are positive, the 5/8x3/4 inch and 3/4 inch residential customer classes
12 provide returns below the 9.69 percent requested in the instant case at 7.24 percent
13 and 7.38 percent, respectively. The larger sized meters, such as the 1 inch
14 commercial, 2 inch commercial, 3 inch commercial are providing much higher
15 returns at 11.17 percent, 35.19 percent, and 19.22 percent, respectively. The 1
16 inch irrigation, 1½ inch irrigation and 2 inch irrigation are providing returns of
17 21.68 percent, 23.61 percent, and 35.42 percent, respectively. This indicates that
18 the larger meter customer classes continue to subsidize the 5/8 inch and 3/4 inch
19 customer classes under the rebuttal proposed rates. However, consistent with the
20 concept of gradualism, there is improvement in eliminating existing subsidization
21 under the Company's proposed rates.

22 **Q46. WHAT IS THE IMPACT OF THE COMPANY'S REBUTTAL PROPOSED**
23 **RATES ON AN AVERAGE 5/8x3/4 INCH METERED RESIDENTIAL**
24 **CUSTOMER?**

25 A46. The present monthly bill for a 5/8x3/4 inch metered residential customer using an
26 average of 5,424 gallons is \$27.12. The proposed monthly bill for a 5/8x3/4 inch

1 metered residential customer using an average of 5,424 gallons would be \$44.78,
2 an increase of \$17.66 or 65.10 percent compared to the present rates.

3 **Q47. WHAT IS THE IMPACT OF THE COMPANY'S REBUTTAL PROPOSED**
4 **RATES ON AN AVERAGE 3/4 INCH METERED RESIDENTIAL**
5 **CUSTOMER?**

6 A47. The present monthly bill for a 3/4 inch metered residential customer using an
7 average of 6,142 gallons is \$54.93. The proposed monthly bill for a 5/8 inch
8 metered residential customer using an average of 6,142 gallons would be \$58.69,
9 an increase of \$20.94 or 56.48 percent compared to the present rates.

10 **Q48. PLEASE COMMENT ON THE STAFF PROPOSED RATE DESIGN.**

11 A48. Like the Company, Staff is proposing an inverted three tier design for the smaller
12 metered residential customers (5/8 inch and 3/4 inch) and an inverted two tier design
13 for the small commercial metered customers (5/8 inch and 3/4 inch), as well as 1
14 inch and larger metered customers (all classes), with the exception of 1 inch
15 residential and construction water. The difference between the designs is that the
16 Company proposes a inverted three tier design for 1 inch metered residential
17 customers as opposed to Staff's two-tier design. Staff break-over points are mostly
18 different than the Company's. However, like the Company, Staff's break-over
19 points increase with meter size. The first tier commodity rate of the small
20 commercial metered customers and 1 inch and larger metered customers is the
21 same as the second tier of the small residential metered customers. The second tier
22 of the small commercial metered customers and 1 inch and larger metered
23 customers is the same as the third tier of the small residential metered customers.

24 It is difficult to be too specific in my comments on Staff's proposed rate
25 design at this time with respect to the impact on the various customer class, or on
26 how Staff's proposed rates perform under a cost of service study, because Staff's

1 proposed rates do not produce Staff's recommended revenue requirement. It
2 appears that Staff's proposed rates produce too much revenue - on the order of
3 \$180,000. I notified Staff of my concern in this regard a few days ago when I
4 discovered the problem. Staff has acknowledged the problem and indicated it will
5 be corrected in its surrebuttal testimony. As of this juncture, and based on Staff's
6 proposed rates, it would appear that Staff's proposed rate design places all of the
7 revenue increase on the commodity rates and none in the monthly minimums. This
8 increases revenue instability and increases the risk the Company will not recover
9 the revenue requirement.

10 In addition, based on Staff's proposed rates, it would appear that Staff's
11 proposed rate design shifts revenue recovery away from the 5/8x3/4 inch
12 residential class to the larger metered customer classes. The 5/8x3/4 inch metered
13 residential customer is the largest customer class comprising nearly 87 percent of
14 the customers and providing over 65 percent of revenues. I am confident I would
15 find the 5/8x3/4 inch residential class under Staff's proposed rate design is more
16 heavily subsidized by the other customer classes. I hesitate at this time to provide
17 the specific indications of the level of subsidization based on a cost of service study
18 because of the problem with Staff's proposed rates mentioned earlier. However, at
19 this point I believe the high subsidization exists because Staff's proposed rate
20 design contains a relatively low monthly minimum and a relatively low first-tier
21 commodity rate for the 5/8x3/4 inch metered residential customers. This will result
22 in a revenue shift away from the 5/8x3/4 inch residential customers to the other
23 customer classes. Recognizing that Staff's proposed rates do not produce its
24 recommended revenue requirement, Staff's proposed rates for the 5/8x3/4 inch
25 residential class provides approximately 62.6 percent of the revenues from all
26

1 customer classes. Under the present rate design, the 5/8x3/4 inch residential
2 customers provide more than 65 percent of revenues.

3 **Q49. PLEASE COMMENT ON STAFF'S TESTIMONY CONCERNING THE**
4 **COMPANY REQUEST TO TREAT CENTRAL ARIZONA GROUND**
5 **WATER REPLENISHMENT DISTRICT FEES AS A PASS-THROUGH**
6 **CHARGE?**

7 A49. While Staff takes issue as to how the Central Arizona Ground Water
8 Replenishment District fees are characterized, Staff agrees with the Company on
9 the rate making treatment of the fees.²⁶ Further, Staff agrees with the basic
10 methodology for computing the fee.²⁷ Staff does recommend several conditions
11 with regard to the CAGR D fees as a compliance item,²⁸ which Company witness
12 Mr. Mark Seamans addresses in his Rebuttal Testimony.

13 **Q50. IS THERE ANY DISAGREEMENT BETWEEN THE STAFF AND THE**
14 **COMPANY REGARDING SERVICE LINE AND METER INSTALLATION**
15 **CHARGES?**

16 A50. No.

17 **Q51. IS THERE ANY DISAGREEMENT BETWEEN THE STAFF AND THE**
18 **COMPANY REGARDING MISCELLANEOUS CHARGES?**

19 A51. Except for a disagreement over the deposit interest rate, there are no disagreements.

20 **Q52. PLEASE EXPLAIN THE DISAGREEMENT OVER THE DEPOSIT**
21 **INTEREST RATE.**

22 A52. The Company recommends a deposit interest rate of 1% whereas Staff
23 recommends a deposit interest rate of 6%. The Company believes its rate more
24

25 ²⁶ Michlik Dt. at 25-26.

26 ²⁷ *Id.* at 26.

²⁸ *Id.* at 27-28.

1 accurately reflects the reality of very low interest rates at the present time than does
2 Staff's. In fact, the current average national money market rate is 0.864%.²⁹

3 **Q53. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**

4 A53. Yes. Although my silence on any issue not discussed herein does not necessarily
5 constitute agreement with Staff.

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²⁹ WWW.Bizrate.com, May 14, 2010.

**Sahuarita Water Company
Docket No. W-03718A-09-0359**

**THOMAS J. BOURASSA
REBUTTAL TESTIMONY
(RATE BASE, INCOME STATEMENT, AND RATE DESIGN)
May 17, 2010**

SCHEDULES

Sahuarita Water Company, LLC
 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			\$	10,059,443
2					
3	Adjusted Operating Income				130,716
4					
5	Current Rate of Return				1.30%
6					
7	Required Operating Income			\$	974,760
8					
9	Required Rate of Return on Fair Value Rate Base				9.69%
10					
11	Operating Income Deficiency			\$	844,044
12					
13	Gross Revenue Conversion Factor				1.5446
14					
15	Increase in Gross Revenue Revenue Requirement				1,303,712
16					
17	Adjusted Test Year Revenues			\$	2,215,143
18	Increase in Gross Revenue Revenue Requirement			\$	1,303,712
19	Proposed Revenue Requirement			\$	3,518,855
20	% Increase				58.85%
21					
22	Customer		Present	Proposed	Dollar
23	Classification		Rates	Rates	Increase
24	5/8x3/4 Inch Residential	\$	1,314,948	\$	2,140,871
25	3/4 Inch Residential		197,019		304,098
26	1 Inch Residential		34,678		53,840
27	Subtotal	\$	1,546,644	\$	2,498,808
28				\$	952,164
29	1 Inch Commercial	\$	899	\$	1,465
30	2 Inch Commercial		75,830		127,457
31	3 Inch Commercial		6,502		10,731
32	Subtotal	\$	83,231	\$	139,652
33				\$	56,422
34	1 Inch Public Authority	\$	761	\$	1,233
35	2 Inch Public Authority		13,833		22,954
36	Subtotal	\$	14,595	\$	24,187
37				\$	9,593
38	5/8x3/4 Inch Irrigation	\$	22,472	\$	39,175
39	3/4 Inch Irrigation		4,820		7,787
40	1 Inch Irrigation		51,943		86,166
41	1.5 Inch Irrigation		22,010		36,842
42	2 Inch Irrigation		243,475		411,339
43	3 Inch Irrigation		1,175		1,979
44	Subtotal	\$	345,895	\$	583,289
45				\$	237,394
46	3 Inch Construction	\$	27,266	\$	39,261
47				\$	11,996
48	Subtotal Revenues before Annualization	\$	2,017,631	\$	3,285,198
49	Revenue Annualization		44,664		77,387
50	Other Water Revenues		157,242		157,242
51	Reconciling Amount H-1 to C-1		(4,394)		(972)
52	Total of Water Revenues	\$	2,215,142	\$	3,518,855
53				\$	1,303,713
54	SUPPORTING SCHEDULES:				
55	Rebuttal B-1				
56	Rebuttal C-1				
57	Rebuttal C-3				
58	Rebuttal H-1				

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Summary of Rate Base

Exhibit
 Rebuttal Schedule B-1
 Page 1
 Witness: Bourassa

Line No.		<u>Original Cost</u> <u>Rate base</u>	<u>Fair Value</u> <u>Rate Base</u>
1			
2	Gross Utility Plant in Service	\$ 25,274,471	\$ 25,274,471
3	Less: Accumulated Depreciation	<u>1,368,282</u>	<u>1,368,282</u>
4			
5	Net Utility Plant in Service	\$ 23,906,188	\$ 23,906,188
6			
7	<u>Less:</u>		
8	Advances in Aid of		
9	Construction	9,258,917	9,258,917
10	Contributions in Aid of		
11	Construction	4,314,264	4,314,264
12			
13	Accumulated Amortization of CIAC	(251,796)	(251,796)
14			
15			
16	Deferred Income Taxes & Credits	525,361	525,361
17			
18			
19			
20	<u>Plus:</u>		
21	Unamortized Debt Issuance		
22	Costs	-	-
23	Deferred Reg. Assets	-	-
24	Working capital	-	-
25			
26			
27			
28			
29	Total Rate Base	<u>\$ 10,059,443</u>	<u>\$ 10,059,443</u>
30			
31			
32			
33	<u>SUPPORTING SCHEDULES:</u>		<u>RECAP SCHEDULES:</u>
34	Rebuttal B-2		Rebuttal A-1
35	Rebuttal B-3		
36	Rebuttal B-5		
37			
38			

Sahuarita Water Company, LLC
 Test Year Ended December 31, 2008
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Rebuttal Schedule B-2
 Page 1
 Witness: Bourassa

Line No.		Adjusted at End of <u>Test Year</u>	Proforma Adjustment <u>Amount</u>	Rebuttal Adjusted at end of <u>Test Year</u>
1	Gross Utility			
2	Plant in Service	\$ 20,957,540	4,316,931	\$ 25,274,471
3				
4	Less:			
5	Accumulated			
6	Depreciation	1,680,847	(312,565)	1,368,282
7				
8				
9	Net Utility Plant			
10	in Service	\$ 19,276,692		\$ 23,906,188
11				
12	Less:			
13	Advances in Aid of			
14	Construction	9,334,999	(76,082)	9,258,917
15				
16	Contributions in Aid of			
17	Construction	2,436,455	1,877,809	4,314,264
18				
19	Accumulated Amort of CIAC	(251,796)	-	(251,796)
20				
21				
22	Deferred Income Taxes & Credits	338,625	186,736	525,361
23				
24				
25				
26	Plus:			
27	Unamortized Debt Issuance			
28	Costs	-		-
29	Deferred Reg. Assets	-	-	-
30	Working capital	-	-	-
31				
32				
33				
34				
35	Total	\$ 7,418,410		\$ 10,059,443

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

RECAP SCHEDULES:
 Rebuttal B-1

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Sahuarita Water Company, LLC
 Test Year Ended September 30, 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 DIT	Rebuttal Adjusted at end of Test Year
			2 Plant	3 Accumulated Depr.	4 CIAC		
1	Gross Utility Plant in Service	\$ 20,957,540	4,316,931				\$ 25,274,471
2							
3							
4	Less:						
5	Accumulated Depreciation	1,680,847	(312,565)				1,368,282
6							
7							
8							
9	Net Utility Plant in Service	\$ 19,276,692	\$ 4,316,931	\$ 312,565	\$ -	\$ -	\$ 23,906,188
10							
11							
12	Less:						
13	Advances in Aid of Construction	9,334,999				(76,082)	9,258,917
14							
15							
16	Contributions in Aid of Construction (CIAC)	2,436,455		1,877,809			4,314,264
17							
18							
19	Accumulated Amort of CIAC	(251,796)					(251,796)
20							
21							
22	Deferred Income Taxes & Credits	338,625				186,736	525,361
23							
24							
25	Plus:						
26	Unamortized Finance Charges	-					-
27							
28							
29	Allowance for Working Capital	-					-
30							
31	Total	\$ 7,418,410	\$ 4,316,931	\$ 312,565	\$ (1,877,809)	\$ 76,082	\$ (186,736)
32							
33							
34							
35							
36							
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SUPPORTING SCHEDULES:
 Rebuttal B-2, pages 3-6

RECAP SCHEDULES:
 B-1

Line No.	Plant-in-Service	A	B	C	D	E	F
		Adjusted Original Cost	Reclassify Arsenic Media Costs	Plant Not Used and Useful	True-Up Costs for Well #23	Intentionally Left Blank	Intentionally Left Blank
	Acct. No.	Description					Adjusted Original Cost
1							7,541
2							350,861
3							13,636
4							171,671
5							-
6							-
7							-
8							-
9							-
10							-
11							-
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Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Original Cost Rate Base Proforma Adjustments
Adjustment Number A

Exhibit
Rebuttal Schedule B-2
Page 3.1
Witness: Bourassa

Line
No.

1	<u>Post Test Year - Arsenic Treatment Plant</u>		
2			
3	<u>Account</u>	<u>Description</u>	<u>Amount</u>
4	320	Arsenic Treatment Plant	\$ 2,686,523
5	331	Transmission and Distribution Mains	2,008,000
6			
7			
8		Total	<u>\$ 4,694,523</u>
9			
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Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Original Cost Rate Base Proforma Adjustments
Adjustment Number B

Exhibit
Rebuttal Schedule B-2
Page 3.2
Witness: Bourassa

Line

No.

1 Reclassify Arsenic Media Costs

2

3 Account Description

4 320 Arsenic Treatment Plant

Amount
\$ (120,000)

5 348.1 Other Tangible Plant

120,000

6

7

8 Total

\$ -

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Sahuarita Water Company, LLC
 Test Year Ended December 31, 2008
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number C

Exhibit
 Rebuttal Schedule B-2
 Page 3.3
 Witness: Bourassa

Line
 No.

1	<u>Plant Not Used and Useful</u>		
2			
3	<u>Account</u>	<u>Description</u>	<u>Amount</u>
4	307	Well#17	\$ (194,773)
5		Less: Pump Motor Used on Well #23	<u>15,000</u>
6	307	Net cost of Well #17	\$ (179,773)
7	307	Well #12	(56,610)
8	307	Well #19	-
9	307	Well #20	(100)
10	331	Transmission and Distribution Mains	(30,250)
11	333	Services	(30,159)
12	335	Hydrants	(15,673)
13			
14			
15		Total	<u>\$ (312,565)</u>

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SUPPORTING SCHEDULE
 MSJ Table H-1 (Estancia De Corazon Subdivision)

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Original Cost Rate Base Proforma Adjustments
Adjustment Number D

Exhibit
Rebuttal Schedule B-2
Page 3.4
Witness: Bourassa

Line

No.

1	<u>Post Test Year Plant - Well #23</u>	
2		
3	Costs for Well #23 per Rebuttal Filing	\$ 1,779,243
4	Costs for Well #23 per Direct Filing	1,844,270
5		
6		
7		
8	Increase (Decrease) in Plant (Account 307)	<u>\$ (65,027)</u>
9		
10		
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15	<u>SUPPORTING SCHEDULE</u>	
16	MSJ Table H-1 (Estancia De Corazon Subdivision)	
17		
18		
19		
20		

Account No.	Description	Deprec. Rate Before	Deprec. Rate After	2000 Plant Additions	2000 Plant Adjustments	2000 Plant Adjustments	2000 Adjusted Additions	2000 Plant Retirements	2000 Salvage/Adj. AD Only	2000 Plant Balance	2000 Deprec.
301	Organization Cost	0.00%	0.00%	210,753	-	-	210,753	-	-	210,753	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	-	-
304	Structures and Improvements	3.33%	3.33%	167,307	(167,307)	-	-	-	-	-	-
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	2.50%	-	-	-	-	-	-	-	-
307	Wells and Springs	3.33%	3.33%	217,088	-	-	217,088	-	-	217,088	3,615
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-	-	-	-	-	-	-	-
309	Supply Mains	2.00%	2.00%	-	-	-	-	-	-	-	-
310	Power Generation Equipment	5.00%	5.00%	-	-	-	-	-	-	-	-
311	Electric Pumping Equipment	12.50%	12.50%	-	-	-	-	-	-	-	-
320	Water Treatment Equipment	3.33%	3.33%	-	-	-	-	-	-	-	-
320.1	Water Treatment Equipment	3.33%	3.33%	-	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	20.00%	20.00%	-	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.22%	2.22%	477,449	-	-	477,449	-	-	477,449	5,300
330.1	Storage tanks	2.22%	2.22%	-	-	-	-	-	-	-	-
330.2	Pressure Tanks	5.00%	5.00%	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	2.00%	2.00%	255,547	340,066	-	595,613	-	-	595,613	5,956
333	Services	3.33%	3.33%	172,759	(172,759)	-	-	-	-	-	-
334	Meters	8.33%	8.33%	22,464	-	-	22,464	-	-	22,464	936
335	Hydrants	2.00%	2.00%	-	-	-	-	-	-	-	-
336	Backflow Prevention Devices	6.67%	6.67%	-	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	-	-	-	-	-	-	-	-
340	Office Furniture and Fixtures	6.67%	6.67%	6,837	-	-	6,837	-	-	6,837	228
340.1	Computers and Software	20.00%	20.00%	-	-	-	-	-	-	-	-
341	Transportation Equipment	20.00%	20.00%	21,555	-	-	21,555	-	-	21,555	2,156
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-	-	-	-
343	Tools and Work Equipment	5.00%	5.00%	4,766	-	-	4,766	-	-	4,766	119
344	Laboratory Equipment	10.00%	10.00%	-	-	-	-	-	-	-	-
345	Power Operated Equipment	5.00%	5.00%	-	-	-	-	-	-	-	-
346	Communications Equipment	10.00%	10.00%	-	-	-	-	-	-	-	-
347	Miscellaneous Equipment	10.00%	10.00%	-	-	-	-	-	-	-	-
348	Other Tangible Plant	10.00%	10.00%	-	-	-	-	-	-	-	-
348.1	Other Tangible Plant (Arsenic Media)	67.00%	67.00%	-	-	-	-	-	-	-	-
	Rounding										
	Plant Held for Future Use										
	TOTAL WATER PLANT			1,566,525	-	-	1,566,525	-	-	1,566,525	18,309

Account No.	Description	Deprec. Rate Before	Deprec. Rate After	2001 Plant Additions	2001 Plant Adjustments	2001 Adjusted Plant Additions	2001 Plant Retirements	2001 Salvage A/D Only	2001 Plant Balance	2001 Deprec.
301	Organization Cost	0.00%	0.00%	-	(203,211)	(203,211)	-	-	7,542	-
302	Franchise Cost	0.00%	0.00%	-	203,211	203,211	-	-	203,211	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	-
304	Structures and Improvements	3.33%	3.33%	4,215	-	4,215	-	-	4,215	70
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	2.50%	-	-	-	-	-	-	-
307	Wells and Springs	3.33%	3.33%	29,843	-	29,843	-	-	246,931	7,726
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-	-	-	-	-	-	-
309	Supply Mains	2.00%	2.00%	-	-	-	-	-	-	-
310	Power Generation Equipment	5.00%	5.00%	-	-	-	-	-	-	-
311	Electric Pumping Equipment	12.50%	12.50%	-	-	-	-	-	-	-
320	Water Treatment Equipment	3.33%	3.33%	-	-	-	-	-	-	-
320.1	Water Treatment Equipment	3.33%	3.33%	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	20.00%	20.00%	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.22%	2.22%	-	-	-	-	-	477,449	10,599
330.1	Storage tanks	2.22%	2.22%	-	-	-	-	-	-	-
330.2	Pressure Tanks	5.00%	5.00%	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	2.00%	2.00%	184,600	(172,759)	11,841	-	-	607,454	12,031
333	Services	3.33%	3.33%	(172,759)	172,759	-	-	-	135,621	6,584
334	Meters	8.33%	8.33%	113,157	-	113,157	-	-	-	-
335	Hydrants	2.00%	2.00%	-	-	-	-	-	-	-
336	Backflow Prevention Devices	6.67%	6.67%	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	-	-	-	-	-	-	-
340	Office Furniture and Fixtures	6.67%	6.67%	12,336	-	12,336	-	-	19,173	867
340.1	Computers and Software	20.00%	20.00%	-	-	-	-	-	-	-
341	Transportation Equipment	20.00%	20.00%	1,175	-	1,175	-	-	22,730	4,429
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-	-	-
343	Tools and Work Equipment	5.00%	5.00%	-	-	-	-	-	4,766	238
344	Laboratory Equipment	10.00%	10.00%	-	-	-	-	-	-	-
345	Power Operated Equipment	5.00%	5.00%	-	-	-	-	-	-	-
346	Communications Equipment	10.00%	10.00%	-	-	-	-	-	-	-
347	Miscellaneous Equipment	10.00%	10.00%	-	-	-	-	-	-	-
348	Other Tangible Plant	10.00%	10.00%	-	-	-	-	-	-	-
348.1	Other Tangible Plant (Arsenic Media)	67.00%	67.00%	-	-	-	-	-	-	-
	Rounding									

Plant Held for Future Use
 TOTAL WATER PLANT

172,567	-	-	-	-	-	172,567	-	-	1,729,092	42,545
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Account No.	Description	Deprec. Rate Before	Deprec. Rate After	2002 Plant Additions	2002 Plant Adjustments	2002 Adjusted Plant Additions	2002 Plant Retirements	2002 Salvage A/D Only	2002 Plant Balance	2002 Deprec.
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	7,542	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	203,211	-
303	Land and Land Rights	0.00%	0.00%	15,700	-	15,700	-	-	15,700	-
304	Structures and Improvements	3.33%	3.33%	-	-	-	-	-	4,215	140
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	2.50%	-	-	-	-	-	-	-
307	Wells and Springs	3.33%	3.33%	-	-	-	-	-	246,931	8,223
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-	-	-	-	-	-	-
309	Supply Mains	2.00%	2.00%	-	-	-	-	-	-	-
310	Power Generation Equipment	5.00%	5.00%	-	-	-	-	-	-	-
311	Electric Pumping Equipment	12.50%	12.50%	-	-	-	-	-	-	-
320	Water Treatment Equipment	3.33%	3.33%	-	-	-	-	-	-	-
320.1	Water Treatment Equipment	3.33%	3.33%	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	20.00%	20.00%	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.22%	2.22%	-	-	-	-	-	477,449	10,599
330.1	Storage tanks	2.22%	2.22%	-	-	-	-	-	-	-
330.2	Pressure Tanks	5.00%	5.00%	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	2.00%	2.00%	945,147	-	945,147	-	-	1,552,601	21,601
333	Services	3.33%	3.33%	-	-	-	-	-	-	-
334	Meters	8.33%	8.33%	122,534	-	122,534	-	-	258,155	16,401
335	Hydrants	2.00%	2.00%	-	-	-	-	-	-	-
336	Backflow Prevention Devices	6.67%	6.67%	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	-	-	-	-	-	-	-
340	Office Furniture and Fixtures	6.67%	6.67%	-	-	-	-	-	-	-
340.1	Computers and Software	20.00%	20.00%	2,535	-	2,535	-	-	21,708	1,363
341	Transportation Equipment	20.00%	20.00%	-	-	-	-	-	-	-
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-	22,730	4,546
343	Tools and Work Equipment	5.00%	5.00%	-	-	-	-	-	-	-
344	Laboratory Equipment	10.00%	10.00%	-	-	-	-	-	4,766	238
345	Power Operated Equipment	5.00%	5.00%	-	-	-	-	-	-	-
346	Communications Equipment	10.00%	10.00%	-	-	-	-	-	-	-
347	Miscellaneous Equipment	10.00%	10.00%	-	-	-	-	-	-	-
348	Other Tangible Plant	10.00%	10.00%	-	-	-	-	-	-	-
348.1	Other Tangible Plant (Arsenic Media)	67.00%	67.00%	-	-	-	-	-	-	-
	Rounding									

Plant Held for Future Use
 TOTAL WATER PLANT

1,085,916	-	1,085,916	-	2,815,008	63,112
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Sahuarita Water Company, LLC
Plant Additions and Retirements

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Account No.	Description	Deprec. Rate Before	Deprec. Rate After	2003 Plant Additions	2003 Plant Adjustments	2003 Adjusted Additions	2003 Plant Retirements	2003 Salvage A/D Only	2003 Plant Balance	2003 Deprec.
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	7,542	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	203,211	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	15,700	-
304	Structures and Improvements	3.33%	3.33%	-	(1)	(1)	-	-	4,214	140
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	2.50%	-	-	-	-	-	-	-
307	Wells and Springs	3.33%	3.33%	41,429	-	41,429	-	-	288,360	8,913
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-	-	-	-	-	-	-
309	Supply Mains	2.00%	2.00%	-	-	-	-	-	-	-
310	Power Generation Equipment	5.00%	5.00%	-	-	-	-	-	-	-
311	Electric Pumping Equipment	12.50%	12.50%	-	-	-	-	-	-	-
320	Water Treatment Equipment	3.33%	3.33%	-	-	-	-	-	-	-
320.1	Water Treatment Equipment	3.33%	3.33%	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	20.00%	20.00%	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.22%	2.22%	-	-	-	-	-	477,449	10,589
330.1	Storage tanks	2.22%	2.22%	-	-	-	-	-	-	-
330.2	Pressure Tanks	5.00%	5.00%	192,243	-	192,243	-	-	1,744,844	32,974
331	Transmission and Distribution Mains	2.00%	2.00%	-	-	-	-	-	-	-
333	Services	3.33%	3.33%	177,795	-	177,795	-	-	435,950	28,909
334	Meters	8.33%	8.33%	-	-	-	-	-	-	-
335	Hydrants	2.00%	2.00%	-	-	-	-	-	-	-
336	Backflow Prevention Devices	6.67%	6.67%	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	-	-	-	-	-	-	-
340	Office Furniture and Fixtures	6.67%	6.67%	10,216	-	10,216	-	-	31,924	1,789
340.1	Computers and Software	20.00%	20.00%	-	-	-	-	-	-	-
341	Transportation Equipment	20.00%	20.00%	-	-	-	-	-	22,730	4,546
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-	-	-
343	Tools and Work Equipment	5.00%	5.00%	-	-	-	-	-	4,766	238
344	Laboratory Equipment	10.00%	10.00%	-	-	-	-	-	-	-
345	Power Operated Equipment	5.00%	5.00%	-	-	-	-	-	-	-
346	Communications Equipment	10.00%	10.00%	-	-	-	-	-	-	-
347	Miscellaneous Equipment	10.00%	10.00%	-	-	-	-	-	-	-
348	Other Tangible Plant	10.00%	10.00%	-	-	-	-	-	-	-
348.1	Other Tangible Plant (Arsenic Media)	67.00%	67.00%	-	-	-	-	-	-	-
	Rounding									
	Plant Held for Future Use									
	TOTAL WATER PLANT			421,683	(1)	421,682	-	-	3,236,650	86,109

Account No.	Description	Deprec. Rate Before	Deprec. Rate After	2004 Plant Additions	2004 Plant Adjustments	2004 Adjusted Plant Additions	2004 Plant Retirements	2004 Salvage A/D Only	2004 Plant Balance	2004 Deprec.
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	7,542	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	203,211	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	15,700	-
304	Structures and Improvements	3.33%	3.33%	-	-	-	-	-	4,214	140
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	2.50%	-	-	-	-	-	-	-
307	Wells and Springs	3.33%	3.33%	279,664	-	279,664	-	-	568,024	14,259
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-	-	-	-	-	-	-
309	Supply Mains	2.00%	2.00%	-	-	-	-	-	-	-
310	Power Generation Equipment	5.00%	5.00%	-	-	-	-	-	-	-
311	Electric Pumping Equipment	12.50%	12.50%	-	-	-	-	-	-	-
320	Water Treatment Equipment	3.33%	3.33%	-	-	-	-	-	-	-
320.1	Water Treatment Equipment	3.33%	3.33%	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	20.00%	20.00%	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.22%	2.22%	-	-	-	-	-	477,449	10,599
330.1	Storage tanks	2.22%	2.22%	-	-	-	-	-	-	-
330.2	Pressure Tanks	5.00%	5.00%	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	2.00%	2.00%	(1)	-	(1)	-	-	1,744,843	34,897
333	Services	3.33%	3.33%	-	-	-	-	-	-	-
334	Meters	8.33%	8.33%	279,898	-	279,898	-	-	715,848	47,972
335	Hydrants	2.00%	2.00%	-	-	-	-	-	-	-
336	Backflow Prevention Devices	6.67%	6.67%	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	-	-	-	-	-	-	-
340	Office Furniture and Fixtures	6.67%	6.67%	31,691	-	31,691	-	-	63,615	3,186
340.1	Computers and Software	20.00%	20.00%	-	-	-	-	-	-	-
341	Transportation Equipment	20.00%	20.00%	-	-	-	-	-	22,730	4,546
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-	-	-
343	Tools and Work Equipment	5.00%	5.00%	718	-	718	-	-	5,484	256
344	Laboratory Equipment	10.00%	10.00%	-	-	-	-	-	-	-
345	Power Operated Equipment	5.00%	5.00%	-	-	-	-	-	-	-
346	Communications Equipment	10.00%	10.00%	-	-	-	-	-	-	-
347	Miscellaneous Equipment	10.00%	10.00%	-	-	-	-	-	-	-
348	Other Tangible Plant	10.00%	10.00%	-	-	-	-	-	-	-
348.1	Other Tangible Plant (Arsenic Media)	67.00%	67.00%	-	-	-	-	-	-	-
	Rounding									
	Plant Held for Future Use									
	TOTAL WATER PLANT			597,970	-	597,970	-	-	3,828,660	115,856

Account No.	Description	Deprec. Rate Before	Deprec. Rate After	2005 Plant Additions	2005 Plant Adjustments	2005 Adjusted Plant Additions	2005 Plant Retirements	2005 Salvage A/D Only	2005 Plant Balance	2005 Deprec.
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	7,542	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	203,211	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	15,700	-
304	Structures and Improvements	3.33%	3.33%	-	-	-	-	-	4,214	140
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	2.50%	-	-	-	-	-	-	-
307	Wells and Springs	3.33%	3.33%	23,015	-	23,015	-	-	591,039	19,298
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-	-	-	-	-	-	-
309	Supply Mains	2.00%	2.00%	-	-	-	-	-	-	-
310	Power Generation Equipment	5.00%	5.00%	-	-	-	-	-	-	-
311	Electric Pumping Equipment	12.50%	12.50%	3,637	-	3,637	-	-	3,637	227
320	Water Treatment Equipment	3.33%	3.33%	6,906	-	6,906	-	-	6,906	115
320.1	Water Treatment Equipment	3.33%	3.33%	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	20.00%	20.00%	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.22%	2.22%	5,011	-	5,011	-	-	482,460	10,655
330.1	Storage tanks	2.22%	2.22%	-	-	-	-	-	-	-
330.2	Pressure Tanks	5.00%	5.00%	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	2.00%	2.00%	3,076,432	(311,361)	2,765,071	-	-	4,509,914	62,548
333	Services	3.33%	3.33%	-	311,361	311,361	-	-	311,361	5,184
334	Meters	8.33%	8.33%	195,317	-	195,317	-	-	911,165	67,765
335	Hydrants	2.00%	2.00%	-	-	-	-	-	-	-
336	Backflow Prevention Devices	6.67%	6.67%	-	-	-	-	-	-	-
338	Other Plant and Miscellaneous Equipment	6.67%	6.67%	-	-	-	-	-	-	-
340	Office Furniture and Fixtures	6.67%	6.67%	3,777	-	3,777	-	-	67,392	4,369
340.1	Computers and Software	20.00%	20.00%	-	-	-	-	-	-	-
341	Transportation Equipment	20.00%	20.00%	33,954	-	33,954	-	-	56,684	7,941
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-	-	-
343	Tools and Work Equipment	5.00%	5.00%	4,762	-	4,762	-	-	10,246	393
344	Laboratory Equipment	10.00%	10.00%	-	-	-	-	-	-	-
345	Power Operated Equipment	5.00%	5.00%	-	-	-	-	-	-	-
346	Communications Equipment	10.00%	10.00%	-	-	-	-	-	-	-
347	Miscellaneous Equipment	10.00%	10.00%	-	-	-	-	-	-	-
348	Other Tangible Plant	10.00%	10.00%	-	-	-	-	-	-	-
348.1	Other Tangible Plant (Arsenic Media)	67.00%	67.00%	-	-	-	-	-	-	-
	Rounding									

Plant Held for Future Use
 TOTAL WATER PLANT

3,352,811	-	-	-	-	-	3,352,811	-	-	7,181,471	178,637
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Sahuarita Water Company, LLC
Plant Additions and Retirements

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Account No.	Description	Deprec. Rate Before	Deprec. Rate After	2006 Plant Additions	2006 Plant Adjustments	2006 Adjusted Plant Additions	2006 Plant Retirements	2006 Salvage (A/D Only)	2006 Plant Balance	2006 Deprec.
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	7,542	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	203,211	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	15,700	-
304	Structures and Improvements	3.33%	3.33%	(167,307)	167,307	-	-	-	4,214	105
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	2.50%	-	-	-	-	-	-	-
307	Wells and Springs	3.33%	3.33%	6,176	-	6,176	-	-	597,215	14,838
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-	-	-	-	-	-	-
309	Supply Mains	2.00%	2.00%	-	-	-	-	-	-	-
310	Power Generation Equipment	5.00%	5.00%	-	1,549	-	-	-	1,549	29
311	Electric Pumping Equipment	12.50%	12.50%	8,205	-	8,205	-	-	11,842	726
320	Water Treatment Equipment	3.33%	3.33%	3,657	4,865	8,522	-	-	15,428	279
320.1	Water Treatment Equipment	3.33%	3.33%	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	20.00%	20.00%	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.22%	2.22%	-	-	-	-	-	482,460	8,033
330.1	Storage tanks	2.22%	2.22%	-	-	-	-	-	-	-
330.2	Pressure Tanks	5.00%	5.00%	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	2.00%	2.00%	(144,054)	144,054	-	-	-	4,509,914	67,649
333	Services	3.33%	3.33%	1,329,426	(311,361)	1,018,065	-	-	1,329,426	20,489
334	Meters	8.33%	8.33%	105,903	-	105,903	-	-	1,017,068	60,233
335	Hydrants	2.00%	2.00%	426,659	-	426,659	-	-	426,659	3,200
336	Backflow Prevention Devices	6.67%	6.67%	345	-	345	-	-	345	9
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	10,434	(10,434)	-	-	-	(0)	(0)
340	Office Furniture and Fixtures	6.67%	6.67%	4,095	-	4,095	-	-	71,487	3,474
340.1	Computers and Software	20.00%	20.00%	-	-	-	-	-	-	-
341	Transportation Equipment	20.00%	20.00%	64,591	-	64,591	-	-	121,275	13,347
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-	-	-
343	Tools and Work Equipment	5.00%	5.00%	2,613	-	2,613	-	-	12,859	433
344	Laboratory Equipment	10.00%	10.00%	-	-	-	-	-	-	-
345	Power Operated Equipment	5.00%	5.00%	-	-	-	-	-	-	-
346	Communications Equipment	10.00%	10.00%	-	3,321	3,321	-	-	3,321	125
347	Miscellaneous Equipment	10.00%	10.00%	-	-	-	-	-	-	-
348	Other Tangible Plant	10.00%	10.00%	-	699	699	-	-	699	26
348.1	Other Tangible Plant (Arsenic Media)	67.00%	67.00%	-	-	-	-	-	-	-
	Rounding									
				1,650,743	0	1,650,743	-	-	8,832,214	182,994

Plant Held for Future Use
TOTAL WATER PLANT

Sahuarita Water Company, LLC
Plant Additions and Retirements

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Account No.	Description	Deprec. Rate Before	Deprec. Rate After	2007 Plant Additions	2007 Plant Adjustments	2007 Adjusted Plant	2007 Plant Retirements	2007 Salvage (A/D Only)	2007 Plant Balance	2007 Deprec.
301	Organization Cost	0.00%	0.00%	(1)		(1)			7,541	-
302	Franchise Cost	0.00%	0.00%		76,475	76,475			279,686	-
303	Land and Land Rights	0.00%	0.00%	(2,064)		(2,064)			13,636	-
304	Structures and Improvements	3.33%	3.33%	116,300		116,300			120,514	2,077
305	Collecting and Impounding Res.	2.50%	2.50%	-		-			-	-
306	Lake River and Other Intakes	2.50%	2.50%	-		-			-	-
307	Wells and Springs	3.33%	3.33%	203,181		203,181			800,396	23,270
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-		-			-	-
309	Supply Mains	2.00%	2.00%	-		-			-	-
310	Power Generation Equipment	5.00%	5.00%	155,594		155,594			157,143	3,967
311	Electric Pumping Equipment	12.50%	12.50%	30,223		30,223			42,065	3,369
320	Water Treatment Equipment	3.33%	3.33%	2,291		2,291			17,719	552
320.1	Water Treatment Equipment	3.33%	3.33%	-		-			-	-
320.2	Chemical Solution Feeders	20.00%	20.00%	-		-			-	-
330	Distribution Reservoirs & Standpipe	2.22%	2.22%	1,329,538		1,329,538			1,811,998	25,468
330.1	Storage tanks	2.22%	2.22%	-		-			-	-
330.2	Pressure Tanks	5.00%	5.00%	-		-			-	-
331	Transmission and Distribution Mains	2.00%	2.00%	5,631,229	2,003	5,633,232			10,143,146	146,531
333	Services	3.33%	3.33%	752,127		752,127			2,081,553	56,793
334	Meters	8.33%	8.33%	184,973		184,973			1,202,041	92,426
335	Hydrants	2.00%	2.00%	245,378		245,378			672,037	10,987
336	Backflow Prevention Devices	6.67%	6.67%	471		471			816	39
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	141,696	(141,696)	0			(0)	(0)
340	Office Furniture and Fixtures	6.67%	6.67%	126,863		126,863			198,350	8,999
340.1	Computers and Software	20.00%	20.00%	-		-			-	-
341	Transportation Equipment	20.00%	20.00%	24,854		24,854			146,129	26,740
342	Stores Equipment	4.00%	4.00%	-		-			-	-
343	Tools and Work Equipment	5.00%	5.00%	(1,893)		(1,893)			10,966	596
344	Laboratory Equipment	10.00%	10.00%	132		132			132	7
345	Power Operated Equipment	5.00%	5.00%	-		-			-	-
346	Communications Equipment	10.00%	10.00%	8,636		8,636			11,957	764
347	Miscellaneous Equipment	10.00%	10.00%	695		695			695	36
348	Other Tangible Plant	10.00%	10.00%	-	63,218	63,218			63,917	3,231
348.1	Other Tangible Plant (Arsenic Media)	67.00%	67.00%	-	-	-			-	-
	Rounding									
	Plant Held for Future Use									
	TOTAL WATER PLANT			8,950,223	-	8,950,223	-	-	17,782,437	405,850

Plant Held for Future Use
TOTAL WATER PLANT

Account No.	Description	Deprec. Rate Before	Deprec. Rate After	2008 Plant Additions	2008 Plant Adjustments	2008 Adjusted Plant Additions	2008 Plant Retirements	2008 Salvage (A/D Only)	Plant Adjmts Per Direct	2008 Plant Balance	2008 Deprec.	A/D Adjmts Per Rebuttal
301	Organization Cost	0.00%	0.00%	147,650	(76,475)	71,175	-	-	-	7,541	-	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	350,861	-	-
303	Land and Land Rights	0.00%	0.00%	51,157	-	51,157	-	-	-	13,636	-	-
304	Structures and Improvements	3.33%	3.33%	-	-	-	-	-	-	171,671	4,865	-
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	2.50%	-	-	-	-	-	-	-	-	-
307	Wells and Springs	3.33%	3.33%	-	-	-	-	-	-	-	-	-
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-	-	-	-	-	1,844,270	2,343,156	26,653	(236,483)
309	Supply Mains	2.00%	2.00%	-	-	-	-	-	-	-	-	-
310	Power Generation Equipment	5.00%	5.00%	180,074	(1,549)	178,525	-	-	-	335,668	12,320	-
311	Electric Pumping Equipment	12.50%	12.50%	1,847	-	1,847	-	-	-	43,912	5,374	-
320	Water Treatment Equipment	3.33%	3.33%	5,840	(4,865)	976	-	-	2,566,523	2,585,217	606	-
320.1	Water Treatment Equipment	3.33%	3.33%	-	-	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	20.00%	20.00%	-	-	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.22%	2.22%	-	-	-	-	-	-	1,811,998	40,226	-
330.1	Storage tanks	2.22%	2.22%	-	-	-	-	-	-	-	-	-
330.2	Pressure Tanks	5.00%	5.00%	-	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	2.00%	2.00%	21,414	(2,003)	19,411	-	-	1,977,750	12,140,307	203,057	(30,250)
333	Services	3.33%	3.33%	-	-	-	-	-	(30,159)	2,051,394	69,316	(30,159)
334	Meters	8.33%	8.33%	20,294	-	20,294	-	-	-	1,222,335	100,975	-
335	Hydrants	2.00%	2.00%	-	-	-	-	-	(15,673)	666,364	13,441	(15,673)
336	Backflow Prevention Devices	6.67%	6.67%	-	-	-	-	-	-	816	54	-
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	(152,130)	152,130	0	-	-	-	0	0	-
340	Office Furniture and Fixtures	6.67%	6.67%	85,641	-	85,641	-	-	-	283,991	16,086	-
340.1	Computers and Software	20.00%	20.00%	-	-	-	-	-	-	-	-	-
341	Transportation Equipment	20.00%	20.00%	-	-	-	-	-	-	146,129	29,226	-
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-	-	-	-	-
343	Tools and Work Equipment	5.00%	5.00%	2,890	-	2,890	-	-	-	13,856	621	-
344	Laboratory Equipment	10.00%	10.00%	-	-	-	-	-	-	132	13	-
345	Power Operated Equipment	5.00%	5.00%	-	-	-	-	-	-	-	-	-
346	Communications Equipment	10.00%	10.00%	3,182	(3,321)	(139)	-	-	-	11,818	1,189	-
347	Miscellaneous Equipment	10.00%	10.00%	-	-	-	-	-	-	695	70	-
348	Other Tangible Plant	10.00%	10.00%	962,974	(63,917)	899,057	-	-	-	962,974	51,345	-
348.1	Other Tangible Plant (Arsenic Media)	67.00%	67.00%	-	-	-	-	-	120,000	120,000	-	-
348.1	Rounding											
Plant Held for Future Use												
TOTAL WATER PLANT				1,330,833	-	1,330,833	-	-	1,844,270	4,316,931	575,436	(312,565)

Plant Held for Future Use
 TOTAL WATER PLANT

Account No.	Description	Deprec. Rate Before	Deprec. Rate After	Year End Accumulated Depreciation by Account					
				1998	1999	2000	2001	2002	2003
301	Organization	0.00%	0.00%	-	-	-	-	-	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-
304	Structures and Improvements	3.33%	3.33%	-	-	70	211	351	-
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	2.50%	-	-	-	-	-	-
307	Wells and Springs	3.33%	3.33%	-	-	3,615	11,340	19,563	28,476
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-	-	-	-	-	-
309	Supply Mains	2.00%	2.00%	-	-	-	-	-	-
310	Power Generation Equipment	5.00%	5.00%	-	-	-	-	-	-
311	Electric Pumping Equipment	12.50%	12.50%	-	-	-	-	-	-
320	Water Treatment Equipment	3.33%	3.33%	-	-	-	-	-	-
320.1	Water Treatment Equipment	3.33%	3.33%	-	-	-	-	-	-
320.2	Chemical Solution Feeders	20.00%	20.00%	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.22%	2.22%	-	-	5,300	15,899	26,498	37,098
330.1	Storage tanks	2.22%	2.22%	-	-	-	-	-	-
330.2	Pressure Tanks	5.00%	5.00%	-	-	5,956	17,987	39,587	72,562
331	Transmission and Distribution Mains	2.00%	2.00%	-	-	-	-	-	-
333	Services	3.33%	3.33%	-	-	-	-	-	-
334	Meters	8.33%	8.33%	-	-	936	7,520	23,921	52,830
335	Hydrants	2.00%	2.00%	-	-	-	-	-	-
336	Backflow Prevention Devices	6.67%	6.67%	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	-	-	-	-	-	-
340	Office Furniture and Fixtures	6.67%	6.67%	-	-	228	1,095	2,459	4,247
340.1	Computers and Software	20.00%	20.00%	-	-	-	-	-	-
341	Transportation Equipment	20.00%	20.00%	-	-	2,156	6,584	11,130	15,676
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-	-
343	Tools and Work Equipment	5.00%	5.00%	-	-	119	357	596	834
344	Laboratory Equipment	10.00%	10.00%	-	-	-	-	-	-
345	Power Operated Equipment	5.00%	5.00%	-	-	-	-	-	-
346	Communications Equipment	10.00%	10.00%	-	-	-	-	-	-
347	Miscellaneous Equipment	10.00%	10.00%	-	-	-	-	-	-
348	Other Tangible Plant	10.00%	10.00%	-	-	-	-	-	-
348.1	Other Tangible Plant (Arsenic Media)	67.00%	67.00%	-	-	-	-	-	-
	Rounding			-	-	-	-	-	-

Plant Held for Future Use
 TOTAL WATER PLANT

-	-	-	-	-	-	18,309	60,853	123,965	212,074
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Account No.	Description	Deprec. Rate Before	Deprec. Rate After	Year End Accumulated Depreciation by Account				
				2004	2005	2006	2007	2008
301	Organization Cost	0.00%	0.00%	-	-	-	-	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-
304	Structures and Improvements	3.33%	3.33%	491	632	737	2,814	7,678
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	2.50%	-	-	-	-	-
307	Wells and Springs	3.33%	3.33%	42,735	62,033	76,871	100,142	(109,688)
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-	-	-	-	-
309	Supply Mains	2.00%	2.00%	-	-	-	-	-
310	Power Generation Equipment	5.00%	5.00%	-	-	29	3,996	16,317
311	Electric Pumping Equipment	12.50%	12.50%	-	227	953	4,322	9,696
320	Water Treatment Equipment	3.33%	3.33%	-	115	394	946	1,552
320.1	Water Treatment Equipment	3.33%	3.33%	-	-	-	-	-
320.2	Chemical Solution Feeders	20.00%	20.00%	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.22%	2.22%	47,697	58,352	66,385	91,854	132,080
330.1	Storage tanks	2.22%	2.22%	-	-	-	-	-
330.2	Pressure Tanks	5.00%	5.00%	-	-	-	-	-
331	Transmission and Distribution Mains	2.00%	2.00%	107,459	170,006	237,655	384,186	556,993
333	Services	3.33%	3.33%	-	5,184	25,673	82,466	121,623
334	Meters	8.33%	8.33%	100,802	168,568	228,801	321,227	422,202
335	Hydrants	2.00%	2.00%	-	-	3,200	14,187	11,955
336	Backflow Prevention Devices	6.67%	6.67%	-	-	9	47	102
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	-	-	(0)	(0)	(0)
340	Office Furniture and Fixtures	6.67%	6.67%	7,434	11,803	15,276	24,276	40,362
340.1	Computers and Software	20.00%	20.00%	-	-	-	-	-
341	Transportation Equipment	20.00%	20.00%	20,222	28,163	41,510	68,251	97,477
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-
343	Tools and Work Equipment	5.00%	5.00%	1,080	1,484	1,917	2,512	3,133
344	Laboratory Equipment	10.00%	10.00%	-	-	-	7	20
345	Power Operated Equipment	5.00%	5.00%	-	-	-	-	-
346	Communications Equipment	10.00%	10.00%	-	-	125	888	2,077
347	Miscellaneous Equipment	10.00%	10.00%	-	-	-	35	104
348	Other Tangible Plant	10.00%	10.00%	-	-	26	3,257	54,602
348.1	Other Tangible Plant (Arsenic Media)	67.00%	67.00%	-	-	-	-	-
	Rounding			-	-	-	-	-

Plant Held for Future Use	327,930	506,567	699,561	1,105,411	1,368,282
TOTAL WATER PLANT					

Sahuarita Water Company, LLC
 Test Year Ended December 31, 2008
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number A

Exhibit
 Rebuttal Schedule B-2
 Page 4.1
 Witness: Bourassa

Line
No.

1	<u>Plant Not Used and Useful</u>			
2				
3	<u>Account</u>	<u>Description</u>		<u>Amount</u>
4	307	Well#17	(\$194,773)	
5		Less: Pump Motor Used on Well #23	<u>15,000</u>	
6	307	Net cost of Well #17		\$ (179,773)
7	307	Well #12		(56,610)
8	307	Well #19		-
9	307	Well #20		(100)
10	331	Transmission and Distribution Mains (2007)		(30,250)
11	333	Services (2007)		(30,159)
12	335	Hydrants (2007)		(15,673)
13				
14				
15		Total		<u>\$ (312,565)</u>
16				
17				
18				
19				
20				
21				
22	<u>SUPPORTING SCHEDULE</u>			
23	MSJ Table H-1 (Estancia De Corazon Subdivision)			
24				
25				
26				
27				

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Rebuttal Schedule B-2
Page 5
Witness: Bourassa

Line			
<u>No.</u>			
1	<u>Contributions-in-Aid of Construction ("CIAC")</u>		
2			
3			
4			
5	Original WIFA Loan	\$	4,694,523
6			
7	Principal Forgiven	\$	<u>1,877,809</u>
8			
9	WIFA Loan, net	\$	2,816,714
10			
11			
12	Amount transferred to CIAC	\$	<u>1,877,809</u>
13			
14			
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Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Original Cost Rate Base Proforma Adjustments
Adjustment 4

Exhibit
Rebuttal Schedule B-2
Page 6
Witness: Bourassa

Line
No.

1	<u>Advances-in-Aid of Construction ("AIAC")</u>		
2			
3			
4			
5	Remove AIAC (Estancia De Corazon subdivision)	\$	(76,082)
6			
7			
8			
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10			
11			
12	Adjustment to AIAC	<u>\$</u>	<u>(76,082)</u>
13			
14			
15			
16	<u>SUPPORTING SCHEDULES</u>		
17	MSJ Table H-1 (Estancia De Corazon Subdivision)		
18			
19			
20			

Line No.	Deferred Income Tax as of December 31, 2008	Tax Value	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Tax Rate ⁵	Future Tax Asset Current	Future Tax Asset Non-Current	Future Tax Liability Current	Future Tax Liability Non-Current
1									
2									
3									
4									
5		Adjusted Book Value							
6	Plants-in-Service	\$ 25,274,471 ¹							
7	Accum. Deprec.	(1,368,282) ¹							
8	CIAC	(10,543,710) ²							
9	Fixed Assets	\$ 13,362,479	100.0%	\$ (4,267,705)	35.26%	\$ 979,364		\$ (1,504,725)	
10	AIAC	\$ 9,094,773 ³	30.0%	\$ 2,777,675 ⁴	35.26%				
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¹ Adjusted per Rebuttal Schedule B-2, page 2

² Tax Basis as of December 31, 2008

³ Unadjusted Cost Basis per 2008 Tax Return (Fiscal Year Ended 12/31/2008)

⁴ Adjustments:

Land not on tax return depreciation report

Tax accumulated depreciation through 12/31/2008

Bonus Depreciation/Section 179 deductions through 12/31/2008

Post Test Year Plant (Well #23)

Post Test Year Plant (arsenic treatment and associated mains less CIAC portion)

Bonus Depreciation on Post Test Year Plant (Estimate)

Plant not used and useful (B-2 adjustments)

Tax accumulated depreciation on not used and useful plant

Timing Difference

Net tax value as of December 31, 2008

⁵ CIAC (including impact of change to probability of realization)

Gross CIAC per B-2

Less: Pre-1996 CIAC

A.A. per B-2

A.A. on Pre-1996 CIAC

A.A. on Post 1996 CIAC

Net CIAC before unrealized AIAC

Unrealized AIAC Component

Adjusted Net AIAC (see footnote 5 below)

Unrealized AIAC Component % (1-Realized AIAC Component)

Addition to CIAC

Total Realizable CIAC

⁶ AIAC (including impact of change in probability of realization)

AIAC per B-2

Less: Pre-1996 AIAC included for book and tax purposes

Net AIAC before unrealized portion

Less: Unrealized AIAC (from Note 4, above)

Net Realizable AIAC

⁵ Effective tax rates Per C-3 schedule

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Computation of Working Capital

Exhibit
Rebuttal Schedule B-5
Page 1
Witness: Bourassa

Line

No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	130,557
3	Pumping Power (1/24 of Pumping Power)		6,140
4	Purchased Water (1/24 of Purchased Water)		177
5	Prepaid Expenses		2,658
6	Materials and Supplies		103,909
7			
8			
9	Total Working Capital Allowance	<u>\$</u>	<u>243,441</u>
10			
11			
12	Working Capital Requested	<u>\$</u>	<u>-</u>
13			

14

15 SUPPORTING SCHEDULES:

16 Rebuttal C-1

17

RECAP SCHEDULES:

Rebuttal B-1

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Income Statement

Exhibit
 Rebuttal Schedule C-1
 Page 1
 Witness: Bourassa

Line No.		Adjusted Test Year Results	Adjustment	Rebuttal Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	Revenues					
2	Metered Water Revenues	\$ 2,057,901	\$ -	\$ 2,057,901	\$ 1,303,712	\$ 3,361,613
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	157,242	-	157,242		157,242
5		<u>\$ 2,215,143</u>	<u>\$ -</u>	<u>\$ 2,215,143</u>	<u>\$ 1,303,712</u>	<u>\$ 3,518,855</u>
6	Operating Expenses					
7	Salaries and Wages	\$ -	-	\$ -		\$ -
8	Purchased Water	4,256	-	4,256		4,256
9	Purchased Power	147,364	-	147,364		147,364
10	Fuel for Power Production	-	-	-		-
11	Chemicals	11,866	-	11,866		11,866
12	Repairs and Maintenance	75,423	-	75,423		75,423
13	Materials & Supplies	30,131	-	30,131		30,131
14	Outside Services	770,603	(751)	769,852		769,852
15	Water Testing	8,750	1,632	10,382		10,382
16	Rents	13,195	(11,299)	1,896		1,896
17	Transportation Expenses	22,358	-	22,358		22,358
18	Insurance - General Liability	21,111	-	21,111		21,111
19	Insurance - Health and Life	-	-	-		-
20	Reg. Comm. Exp.	-	-	-		-
21	Reg. Comm. Exp. - Rate Case	75,000	-	75,000		75,000
22	Miscellaneous Expense	14,724	-	14,724		14,724
23	Bad Debt Expense	109	-	109		109
24	Depreciation Expense	610,853	123,307	734,160		734,160
25	Taxes Other Than Income	11,602	-	11,602		11,602
26	Property Taxes	122,230	2,236	124,466	-	124,466
27	Income Tax	104,948	(75,223)	29,726	459,668	489,394
28	Total Operating Expenses	<u>\$ 2,044,524</u>	<u>\$ 39,902</u>	<u>\$ 2,084,427</u>	<u>\$ 459,668</u>	<u>\$ 2,544,095</u>
29	Operating Income	<u>\$ 170,618</u>	<u>\$ (39,902)</u>	<u>\$ 130,716</u>	<u>\$ 844,044</u>	<u>\$ 974,760</u>
30	Other Income (Expense)					
31	Interest Income	-	-	-		-
32	Other income (loss)	-	-	-		-
33	Interest Expense	-	(76,134)	(76,134)		(76,134)
34	Other Expense	-	-	-		-
35		-	-	-		-
36	Total Other Income (Expense)	<u>\$ -</u>	<u>\$ (76,134)</u>	<u>\$ (76,134)</u>	<u>\$ -</u>	<u>\$ (76,134)</u>
37	Net Profit (Loss)	<u>\$ 170,618</u>	<u>\$ (116,036)</u>	<u>\$ 54,582</u>	<u>\$ 844,044</u>	<u>\$ 898,626</u>

38
 39 SUPPORTING SCHEDULES:
 40 Rebuttal C-1, page 2
 41

RECAP SCHEDULES:
 Rebuttal A-1

Sahuarita Water Company, LLC
 Test Year Ended December 31, 2008
 Income Statement

Exhibit
 Rebuttal Schedule C-1
 Page 2
 Witness: Bourassa

Line No.	Revenues	1	2	3	4	5	6	7	Rebuttal Adjusted Results
	Adjusted Test Year Results	Depreciation Expense	Property Taxes	Rents - Building	Water Testing	Outside Services	Interest Synch.	Income Tax	
1	Metered Water Revenues	\$ 2,057,901							\$ 2,057,901
2	Unmetered Water Revenues	-							-
3	Other Water Revenues	157,242							157,242
4		\$ 2,215,143	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,215,143
5	Operating Expenses								
6	Salaries and Wages	-							-
7	Purchased Water	4,256							4,256
8	Purchased Power	147,364							147,364
9	Fuel for Power Production	-							-
10	Chemicals	11,866							11,866
11	Repairs and Maintenance	75,423							75,423
12	Materials & Supplies	30,131							30,131
13	Outside Services	770,603				(751)			769,852
14	Water Testing	8,750			1,632				10,382
15	Rents	13,195		(11,299)					1,896
16	Transportation Expenses	22,358							22,358
17	Insurance - General Liability	21,111							21,111
18	Insurance - Health and Life	-							-
19	Reg. Comm. Exp.	-							-
20	Reg. Comm. Exp. - Rate Case	75,000							75,000
21	Miscellaneous Expense	14,724							14,724
22	Bad Debt Expense	109							109
23	Depreciation Expense	610,853	123,307						734,160
24	Taxes Other Than Income	11,602							11,602
25	Property Taxes	122,230	2,236						124,466
26	Income Tax	104,948					(75,223)		29,726
27	Total Operating Expenses	\$ 2,044,524	\$ 123,307	\$ (11,299)	\$ 1,632	\$ (751)	\$ -	\$ (75,223)	\$ 2,084,427
28	Operating Income	\$ 170,618	\$ (123,307)	\$ (2,236)	\$ (1,632)	\$ 751	\$ -	\$ 75,223	\$ 130,716
29	Other Income (Expense)								
30	Interest Income	-							-
31	Other income (loss)	-							-
32	Interest Expense	-					(76,134)		(76,134)
33	Other Expense	-							-
34		-							-
35		-							-
36	Total Other Income (Expense)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (76,134)	\$ -	\$ (76,134)
37	Net Profit (Loss)	\$ 170,618	\$ (123,307)	\$ (2,236)	\$ (1,632)	\$ 751	\$ (76,134)	\$ 75,223	\$ 54,582

RECAP SCHEDULES:
 Rebuttal C-1, page 1

SUPPORTING SCHEDULES:
 Rebuttal C-2, page 1 to X

Sahuarita Water Company, LLC
 Test Year Ended December 31, 2008
 Adjustments to Revenues and Expenses
 Adjustment Number 1

Exhibit
 Rebuttal Schedule C-2
 Page 2
 Witness: Bourassa

Line No.	Acct.	Description	Adjusted Original Cost	Proposed Rates	Depreciation Expense
1		<u>Depreciation Expense</u>			
2					
3					
4					
5	301	Organization Cost	7,541	0.00%	-
6	302	Franchise Cost	350,861	0.00%	-
7	303	Land and Land Rights	13,636	0.00%	-
8	304	Structures and Improvements	171,671	3.33%	5,717
9	305	Collecting and Impounding Res.	-	2.50%	-
10	306	Lake River and Other Intakes	-	2.50%	-
11	307	Wells and Springs	2,343,156	3.33%	78,027
12	308	Infiltration Galleries and Tunnels	-	6.67%	-
13	309	Supply Mains	-	2.00%	-
14	310	Power Generation Equipment	335,668	5.00%	16,783
15	311	Electric Pumping Equipment	43,912	12.50%	5,489
16	320	Water Treatment Equipment	2,585,217	3.33%	86,088
17	320.1	Water Treatment Plant	-	3.33%	-
18	320.2	Chemical Solution Feeders	-	20.00%	-
19	330	Dist. Reservoirs & Standpipe	1,811,998	2.22%	40,226
20	330.1	Storage tanks	-	2.22%	-
21	330.2	Pressure Tanks	-	5.00%	-
22	331	Trans. and Dist. Mains	12,140,307	2.00%	242,806
23	333	Services	2,051,394	3.33%	68,311
24	334	Meters	1,222,335	8.33%	101,821
25	335	Hydrants	656,364	2.00%	13,127
26	336	Backflow Prevention Devices	816	6.67%	54
27	339	Other Plant and Misc. Equip.	0	6.67%	0
28	340	Office Furniture and Fixtures	283,991	6.67%	18,942
29	340.1	Computers and Software	-	20.00%	-
30	341	Transportation Equipment	146,129	20.00%	29,226
31	342	Stores Equipment	-	4.00%	-
32	343	Tools and Work Equipment	13,856	5.00%	693
33	344	Laboratory Equipment	132	10.00%	13
34	345	Power Operated Equipment	-	5.00%	-
35	346	Communications Equipment	11,818	10.00%	1,182
36	347	Miscellaneous Equipment	695	10.00%	70
37	348	Other Tangible Plant	962,974	10.00%	96,297
38	348.1	Other Tangible Plant - Arsenic Media Costs	120,000	67.00%	80,400
39		TOTALS	<u>\$ 25,274,471</u>		<u>\$ 885,273</u>
40					
41					
42		Less: Amortization of Contributions	\$ 4,314,264	3.5026%	\$ (151,113)
43					
44					
45					
46		Total Depreciation Expense			<u>\$ 734,160</u>
47					
48		Test Year Depreciation Expense			<u>610,853</u>
49					
50		Increase (decrease) in Depreciation Expense			<u>123,307</u>
51					
52		Adjustment to Revenues and/or Expenses			<u>\$ 123,307</u>
53					
54		<u>SUPPORTING SCHEDULE</u>			
55		Rebuttal B-2, page 3			
56		Rebuttal B-2, page 6.5			

* Fully Depreciated

Sahuarita Water Company, LLC
 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>Property Taxes:</u>		
2			
3	Adjusted Revenues in year ended 12/31/08	\$	2,215,143
4	Adjusted Revenues in year ended 12/31/08		2,215,143
5	Proposed Revenues		<u>3,518,855</u>
6	Average of three year's of revenue	\$	<u>2,649,713</u>
7	Average of three year's of revenue, times 2	\$	5,299,427
8	Add:		
9	Construction Work in Progress at 10%	\$	-
10	Deduct:		
11	Book Value of Transportation Equipment		<u>48,652</u>
12			
13	Full Cash Value	\$	5,250,774
14	Assessment Ratio		<u>20%</u>
15	Assessed Value		1,050,155
16	Property Tax Rate		11.8522%
17			
18	Property Tax		124,466
19	Plus: Tax on Parcels		0
20			
21	Total Property Tax at Proposed Rates	\$	<u>124,466</u>
22	Adjusted Property Taxes		<u>122,230</u>
23	Change in Property Taxes	\$	<u><u>2,236</u></u>
24			
25			
26	Adjustment to Revenues and/or Expenses	\$	<u><u>2,236</u></u>
27			
28			
29			
30			
31			
32			
33			

Sahuarita Water Company, LLC
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>Rent - Building</u>	
2		
3	Remove Test Year Rent Expense	\$ (11,299)
4		
5		
6	Increase(decrease) Rent Expense	<u>\$ (11,299)</u>
7		
8	Adjustment to Revenue and/or Expense	<u>\$ (11,299)</u>
9		
10		
11		
12		
13	<u>SUPPORTING SCHEDULES</u>	
14	Staff Schedule JMM-14	
15		
16		
17		
18		
19		
20		

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 4

Exhibit
Rebuttal Schedule C-2
Page 5
Witness: Bourassa

Line

No.

1	<u>Water Testing Expense</u>		
2			
3			
4	Additional Water Testing Expense	\$	1,632
5			
6			
7			
8	Increase (decrease) in Water Testing Expense	\$	<u>1,632</u>
9			
10			
11	Adjustment to Revenue and/or Expense	\$	<u>1,632</u>
12			
13	<u>SUPPORTING SCHEDULES</u>		
14	Staff Schedule JMM-13		
15			
16			
17			
18			
19			
20			

Sahuarita Water Company, LLC
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.

1	<u>Remove beverages costs from Outside Services</u>		
2			
3			
4	Bevarages	\$	(751)
5			
6			
7			
8	Increase (decrease) in Outside Services	<u>\$</u>	<u>(751)</u>
9			
10			
11	Adjustment to Revenue and/or Expense	<u>\$</u>	<u>(751)</u>
12			
13	<u>SUPPORTING SCHEDULES</u>		
14	Staff Schedule JMM-12		
15			
16			
17			
18			
19			
20			

Sahuarita Water Company, LLC
 Test Year Ended December 31, 2008
 Adjustment to Revenues and Expenses
 Adjustment Number 6

Exhibit
 Rebuttal Schedule C-2
 Page 7
 Witness: Bourassa

Line
No.

1	<u>Interest Synchronization</u>			
2				
3				
4	Fair Value Rate Base		\$ 10,059,443	
5	Weighted Cost of Debt		0.76%	
6	Interest Expense			\$ 76,134
7				
8	Test Year Interest Expense			<u>\$ -</u>
9				
10	Increase (decrease) in Interest Expense			76,134
11				
12				
13				
14	Adjustment to Revenue and/or Expense			<u><u>\$ (76,134)</u></u>
15				
16				
17	<u>Weighted Cost of Debt Computation</u>			
18				
19		<u>Amount</u>	<u>Percent</u>	<u>Cost</u>
20	Debt	\$ 2,816,714	18.02%	4.20%
21	Equity	\$ 12,814,367	81.98%	10.90%
22	Total	<u>\$ 15,631,081</u>	100.00%	<u>9.69%</u>
23				
24				

Sahuarita Water Company, LLC
 Test Year Ended December 31, 2008
 Adjustment to Revenues and/or Expenses
 Adjustment Number 7

Exhibit
 Rebuttal Schedule C-2
 Page 8
 Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjusted with Rate Increase
1	<u>Income Tax Computation</u>		
2			
3			
4			
5			
6			
7	Income Before Taxes	<u>\$ 84,308</u>	<u>\$ 1,388,020</u>
8			
9	Less: Per Exemptions		\$ 4,200
10	Std Deduction		<u>\$ 9,354</u>
11	Arizona Income Before Taxes		<u>\$ 1,374,466</u>
12			
13	<u>ARIZONA INCOME TAXES</u>		
14	Less Than 10,000		-
15	Less Than 25,000		-
16	Less Than \$50,000		-
17	Less Than \$150,000		-
18	Over \$150,000		60,323
19	Less Arizona Income Tax		<u>\$ 60,323</u> 4.35%
20			
21	Arizona Taxable Income		\$ 1,314,143
22			
23	Arizona Income Taxes		\$ 60,323
24			
25	Federal Income Before Taxes		\$ 1,388,020
26			
27	Less Arizona Income Taxes		\$ 60,323
28			
29	Exemptions		\$ 7,300
30	Std Deduction		<u>\$ 11,400</u>
31			
32	Federal Taxable Income		<u>\$ 1,308,997</u>
33			
34	<u>FEDERAL INCOME TAXES:</u>		
35	10% BRACKET		1,670
36	15% BRACKET		7,680
37	25% BRACKET		17,288 Federal
38	28% BRACKET		20,664 Effective
39	33% BRACKET		54,153 Tax
40	35% BRACKET		327,617 Rate
41	Federal Income Taxes		<u>\$ 429,071</u> 30.91%
42			
43			
44	Total Income Tax		<u>\$ 489,394</u>
45			
46			
47	Effective Federal and State tax rate		35.26%
48			
49	Adjusted Test Year Income Taxes at proposed rates	\$ 29,726	
50			
51	Adjusted income taxes	<u>\$ 104,948</u>	
52			
53	Increase (decrease) to Income Taxes	<u>\$ (75,223)</u>	
54			

Sahuarita Water Company, LLC
 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	30.912%
2		
3	State Income Taxes	4.346%
4		
5	Other Taxes and Expenses	<u>0.000%</u>
6		
7		
8	Total Tax Percentage	35.26%
9		
10	Operating Income % = 100% - Tax Percentage	64.74%
11		
12		
13		
14		
15	<u>1</u> = Gross Revenue Conversion Factor	
16	Operating Income %	1.5446
17		
18	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
19		Rebuttal A-1
20		

Sahuarita Water Company
 Test Year Ended December 31, 2008
 Revenue Summary

Exhibit
 Rebuttal Schedule H-1
 Page 3
 Witness: Bourassa

With Annualized Revenues to Year End Number of Customers

Line No.	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	\$ 2,017,631	\$ 3,285,198	\$ 1,267,568	62.82%	100.00%	100.00%
2	44,664	77,387	32,723	73.26%	2.21%	2.36%
3	\$ 2,062,294	\$ 3,362,585	\$ 1,300,291	63.05%		
4	\$ 157,242	\$ 157,242	-	0.00%	7.79%	4.79%
5	(4,394)	(972)	3,422	0.00%	-0.22%	-0.03%
6	\$ 2,215,142	\$ 3,518,855	\$ 1,303,713	58.85%	0.00%	0.00%
7						
8						
9						
10						
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Sahuarita Water Company
 Test Year Ended December 31, 2008
 Customer Summary

Exhibit
 Rebuttal Schedule H-2
 Page 1
 Witness: Bourassa

Line No.	Meter Size, Class	(a) Average Number of Customers at 12/31/2008	Average Consumption	Average Bill		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	5/8x3/4 Inch Residential	3,913	5,424 \$	27.12 \$	44.78	17.66	65.10%
2	3/4 Inch Residential	421	6,142	37.69	58.63	20.94	55.55%
3	1 Inch Residential	52	6,957	54.93	85.96	31.03	56.48%
4							
5	Subtotal	4,386					
6							
7	1 Inch Commercial	1	8,467	59.08	97.64	38.55	65.25%
8	2 Inch Commercial	13	128,857	470.16	774.86	304.70	64.81%
9	3 Inch Commercial	1	116,750	541.86	892.65	350.79	64.74%
10							
11	Subtotal	16					
12							
13	1 Inch Public Authority	1	9,667	62.38	102.77	40.39	64.74%
14	2 Inch Public Authority	8	9,958	143.19	239.10	95.92	66.99%
15							
16	Subtotal	9					
17							
18	5/8x3/4 Inch Irrigation	11	56,939 \$	168.38 \$	294.08	125.69	74.65%
19	3/4 Inch Irrigation	9	8,236	43.45	72.09	28.64	65.92%
20	1 Inch Irrigation	40	26,025	107.37	173.35	65.98	61.45%
21	1.5 Inch Irrigation	9	48,130	203.16	328.79	125.64	61.84%
22	2 Inch Irrigation	39	147,745	522.10	866.09	343.99	65.89%
23	3 Inch Irrigation	0	61,667	390.38	656.89	266.51	68.27%
24							
25	Subtotal	108					
26							
27							
28	3 Inch Construction	6	41,803	413.11	594.87	181.76	44.00%
29							
30	Subtotal	6					
31							
32	Total	4,524					
33							

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

Sahuarita Water Company
 Test Year Ended December 31, 2008
 Customer Summary

Exhibit
 Rebuttal Schedule H-2
 Page 2
 Witness: Bourassa

Line No.	Meter Size, Class	(a) Average Number of Customers at 12/31/2008	Median Consumption	Median Bill		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	5/8x3/4 Inch Residential	3,913	5,000 \$	26.25 \$	42.96	16.71	63.66%
2	3/4 Inch Residential	421	5,000	35.25	54.49	19.24	54.58%
3	1 Inch Residential	52	6,000	52.30	82.58	30.28	57.90%
4							
5							
6	Subtotal	4,386					
7							
8	1 Inch Commercial	1	9,000	60.55	99.92	39.37	65.02%
9	2 Inch Commercial	13	78,000	330.30	530.32	200.02	60.56%
10	3 Inch Commercial	1	134,500	590.68	968.62	377.95	63.99%
11							
12	Subtotal	16					
13							
14	1 Inch Public Authority	1	9,000	59.18	97.78	38.61	65.24%
15	2 Inch Public Authority	8	13,375	132.30	222.16	89.86	67.92%
16							
17	Subtotal	9					
18							
19	5/8x3/4 Inch Irrigation	11	5,000 \$	26.25 \$	45.96	19.71	75.09%
20	3/4 Inch Irrigation	9	3,000	31.15	49.68	18.53	59.49%
21	1 Inch Irrigation	40	59,000	198.05	332.62	134.57	67.95%
22	1.5 Inch Irrigation	9	22,500	132.68	219.10	86.43	65.14%
23	2 Inch Irrigation	39	68,000	302.80	487.52	184.72	61.00%
24	3 Inch Irrigation	0	9,000	245.55	431.48	185.93	75.72%
25							
26	Subtotal	108					
27							
28							
29	3 Inch Construction	6	4,500	245.25	414.70	169.45	69.09%
30							
31	Subtotal	6					
32							
33	Total	4,524					
34							

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

Line No.	Monthly Usage Charge for: Meter Size (All Classes):	Present Rates	Proposed Rates	Change	Percent Change
1	5/8x3/4inch	\$ 16.00	\$ 24.56	\$ 8.56	53.50%
2	3/4 inch	25.00	36.84	11.84	47.36%
3	1 inch	40.00	61.40	21.40	53.50%
4	1 1/2 inch	75.00	122.80	47.80	63.73%
5	2 inch	120.00	196.48	76.48	63.73%
6	3 inch	225.00	392.96	167.96	74.65%
7	4 inch	375.00	614.00	239.00	63.73%
8	6 inch	750.00	1,228.00	478.00	63.73%

Gallons In Minimum (All Classes)

(Per 1,000 gallons)

Line No.	Commodity Rates	Block	Present Rate	Proposed Rate
17	5/8 Inch (All Classes, except Standpipe/Const.)	1 gallons to 6,000 gallons over 6,000 gallons	\$ 2.05	\$ 2.75
21	5/8 Inch - Residential	0 gallons to 4,000 gallons 4,001 to 10,000 gallons over 10,000 gallons	\$ 3.53	\$ 4.28
25	5/8 Inch - Commercial/Irrigation	0 gallons to 10,000 gallons Over 10,000 gallons	\$ 4.28	\$ 4.83
31	3/4 Inch Meter (All Classes, except Standpipe/Const.)	1 gallons to 6,000 gallons Over 6,000 gallons	\$ 2.05	\$ 2.75
35	3/4 Inch Meter - Residential	1 gallons to 6,000 gallons 6,001 to 15,000 gallons Over 15,000 gallons	\$ 3.53	\$ 4.28
39	3/4 Inch - Commercial, Irrigation	0 gallons to 15,000 gallons Over 15,000 gallons	\$ 4.28	\$ 4.83

Sahuarita Water Company
 Test Year Ended December 31, 2008
 Present and Proposed Rates
 Typical Rate Design

Line No.	Commodity Rates	Block	(Per 1,000 gallons)	
			Present Rate	Proposed Rate
1				
2				
3				
4				
5	1 Inch Meter (All Classes, except Standpipe/Const.)	1 gallons to 6,000 gallons Over 6,000 gallons	\$ 2.05 \$ 2.75	
6				
7				
8	1 Inch Meter Residential	0 gallons to 10,000 gallons 10,001 to 25,000 gallons Over 25,000 gallons		\$ 3.53 \$ 4.28 \$ 4.83
9				
10				
11				
12	1 Inch Meter Commercial/Irrigation	0 gallons to 25,000 gallons Over 25,000 gallons		\$ 4.28 \$ 4.83
13				
14				
15	1.5 Inch Meter (All Classes, except Standpipe/Const.)	1 gallons to 6,000 gallons over 6,000 gallons	\$ 2.05 \$ 2.75	
16				
17				
18	1.5 Inch Meter (All Classes, except Standpipe/Const.)	0 gallons to 50,000 gallons over 50,000 gallons		\$ 4.28 \$ 4.83
19				
20				
21				
22	2 Inch Meter (All Classes, except Standpipe/Const.)	1 gallons to 6,000 gallons over 6,000 gallons	\$ 2.05 \$ 2.75	
23				
24				
25	2 Inch Meter (All Classes, except Standpipe/Const.)	0 gallons to 80,000 gallons over 80,000 gallons		\$ 4.28 \$ 4.83
26				
27				
28	3 Inch Meter (All Classes, except Standpipe/Const.)	0 gallons to 6,000 gallons over 6,000 gallons	\$ 2.05 \$ 2.75	
29				
30				
31	3 Inch Meter (All Classes, except Standpipe/Const.)	0 gallons to 160,000 gallons over 160,000 gallons		\$ 4.28 \$ 4.83
32				
33				
34	4 Inch Meter (All Classes, except Standpipe/Const.)	1 gallons to 6,000 gallons over 6,000 gallons	\$ 2.05 \$ 2.75	
35				
36				
37	4 Inch Meter (All Classes, except Standpipe/Const.)	1 gallons to 250,000 gallons over 250,000 gallons		\$ 4.28 \$ 4.83
38				
39				
40				
41				
42				
43				
44				
45				

Sahuarita Water Company
 Test Year Ended December 31, 2008
 Present and Proposed Rates
 Typical Rate Design

Line No.	Commodity Rates	Block	Present Rate	Proposed Rate
(Per 1,000 gallons)				
1				
2				
3	6 Inch Meter (All Classes, except Standpipe/Const.)	1 gallons to 6,000 gallons	2.05	
4		over 6,000 gallons	2.75	
5				
6				
7	6 Inch Meter (All Classes, except Standpipe/Const.)	0 gallons to 500,000 gallons		4.28
8		over 500,000 gallons		4.83
9				
10				
11				
12	Standpipe (Construction)	All gallons	4.50	4.83
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34				
35				
36				
37				
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40				
41				
42				
43				
44				
45				

Sahuarita Water Company
Changes in Representative Rate Schedules
Test Year Ended December 31, 2008

Exhibit
 Rebuttal Schedule H-3
 Page 4
 Witness: Bourassa

Line
 No.

	Present	Proposed
	<u>Rates</u>	<u>Rates</u>
1		
2 <u>Other Service Charges</u>		
3 Establishment	\$ 25.00	\$ 25.00
4 Establishment (After Hours)	\$ 40.00	\$ 40.00
5 Reconnection (Delinquent)	\$ 25.00	\$ 25.00
6 Reconnection (Delinquent) - After Hours	NT	\$ 40.00
7 NSF Check	\$ 15.00	\$ 15.00
8 Meter test (If Correct)	\$ 25.00	\$ 25.00
9 Meter Reread (if Correct)	\$ 15.00	\$ 15.00
10 Deposit	*	*
11 Deposit Interest**	6%	1%
12 Reestablishment (within 12 months)	***	***
13 Late Payment Penalty	\$ 5.00	\$5.00 or 1.5% per month
14 Deferred Payment	1.5% per month	1.5% per month
15 Moving Meter at Customer Request	At Cost	At Cost
16 Main Extension & Addnl Facilities	At Cost	At Cost

17
 18
 19
 20
 21
 22
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* Per Commission Rule A.A.C. R-14-2-403(B)
 ** Per Commission Rule A.A.C. R-14-2-403(B)
 *** Per Commission Rule A.A.C. R14-2-403(D) - Months off the system times the monthly minimum.

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 AND INCOME TAX. PER COMMISSION RULE 14-2-409D(5).

Sahuarita Water Company
Test Year Ended December 31, 2008
Meter and Service Line Charges

Exhibit
 Rebuttal Schedule H-3
 Page 5
 Witness: Bourassa

Line
No.
 1
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Refundable Meter and Service Line Charges

	Present Service Line Charge	Present Meter Install- ation Charge	Total Present Charge	Proposed Service Line Charge ¹	Proposed Meter Install- ation Charge ¹	Total Proposed Charge ¹
5/8 x 3/4 Inch			NT	\$ 445	\$ 155	\$ 600
3/4 Inch			NT	\$ 445	\$ 255	\$ 700
1 Inch			NT	\$ 495	\$ 315	\$ 810
1 1/2 Inch			NT	\$ 550	\$ 525	\$ 1,075
2 Inch - Turbine			\$ 998	\$ 830	\$ 1,045	\$ 1,875
2 Inch - Compound			\$ 1,488	\$ 830	\$ 1,890	\$ 2,720
3 Inch - Turbine			\$ 1,378	\$ 1,045	\$ 1,670	\$ 2,715
3 Inch - Compound			\$ 1,928	\$ 1,165	\$ 2,545	\$ 3,710
4 Inch - Turbine			\$ 2,208	\$ 1,490	\$ 2,670	\$ 4,160
4 Inch - Compound			\$ 2,823	\$ 1,670	\$ 3,645	\$ 5,315
6 inch - Turbine			\$ 4,218	\$ 2,210	\$ 5,025	\$ 7,235
6 inch - Compound			\$ 5,498	\$ 2,330	\$ 6,920	\$ 9,250
8 Inch			NT	At Cost	At Cost	At Cost
10 Inch			NT	At Cost	At Cost	At Cost
12 Inch			NT	At Cost	At Cost	At Cost

Sahuarita Water Company
Test Year Ended December 31, 2008
Hook-Up Fees

Exhibit
Rebuttal Schedule H-3
Page 6
Witness: Bourassa

Line

No.

1

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

3

4

Present

Proposed

5

Charge

Charge

6	5/8 x 3/4 Inch	\$	350	\$	350
7	3/4 Inch		420		420
8	1 Inch		700		700
9	1 1/2 Inch		1,400		1,400
10	2 Inch		2,240		2,240
11	3 Inch		4,200		4,200
12	4 Inch		7,000		7,000
13	6 Inch or larger		14,000		14,000

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Sahuarita Water Company
Docket No. W-03718A-09-0359

THOMAS J. BOURASSA
REBUTTAL TESTIMONY
(COST OF SERVICE)
May 17, 2010

SCHEDULES

Line No.	Residential 5/8" x 3/4"	Residential 3/4"	Residential 1"	Commercial 1"	Commercial 2"	Commercial 3"	Public Authority 1"	Public Authority 2"
9	86.66%	9.22%	1.09%	0.04%	0.34%	0.02%	0.02%	0.17%
10	Irrigation 5/8"	Irrigation 3/4"	Irrigation 1"	Irrigation 1.5"	Irrigation 2"	Irrigation 3"	Construction 3"	
11								
12	0.24%	0.21%	0.90%	0.19%	0.81%	0.02%	0.04%	

1 Allocated based on customer counts.
 2 Operating Expenses and Depreciation computations are shown on Schedule G-4, Page 1.
 3 Property Taxes allocation based on Revenues
 4 Income Tax from Schedule C-1, at Proposed Rates. Income Taxes allocated based on taxable income
 5 Interest Synchronized Interest Expense. Allocation based on Rate Base
 6 Rate Base computations are shown on Schedule G-3, Page 1
 7 Operating Income Divided by Rate Base

Sahuarita Water Company, LLC
 Test Year Ended December 31, 2008
 Cost of Service Study, Using Commodity Demand Method
 Operating Margins at Proposed Rates

Line No.	Residential 5/8" x 3/4" 1"	Residential 3/4" 1"	Residential 1" 1"	Commercial 1" 1"	Commercial 2" 2"	Commercial 3" 3"	Public Authority 1" 1"	Public Authority 2" 2"
1	Totals							
2	\$ 3,285,198	\$ 2,140,871	\$ 304,098	\$ 53,840	\$ 1,465	\$ 127,457	\$ 10,731	\$ 1,233
3	77,387	69,561	5,797	(912)	976	27,314	-	-
4	157,242	136,272	14,497	1,719	67	539	34	270
5	(972)	(842)	(90)	(11)	(0)	(3)	(0)	(2)
6	\$ 3,518,855	\$ 2,345,861	\$ 324,302	\$ 54,636	\$ 2,508	\$ 155,308	\$ 10,764	\$ 1,267
7								
8	\$ 1,196,075	\$ 894,936	\$ 114,940	\$ 18,083	\$ 675	\$ 28,065	\$ 2,454	\$ 380
9	Depreciation and Amortization ²							
10	734,160	541,545	80,688	14,287	555	17,097	1,826	284
11	124,466	82,976	11,471	1,933	89	5,493	381	45
12	489,394	270,893	38,477	6,685	401	36,381	2,096	187
13	\$ 2,544,095	\$ 1,790,350	\$ 245,576	\$ 40,987	\$ 1,719	\$ 87,036	\$ 6,757	\$ 896
14	\$ 974,760	\$ 555,511	\$ 78,726	\$ 13,649	\$ 789	\$ 68,271	\$ 4,007	\$ 371
15	76,134	58,097	8,074	1,374	53	1,468	158	27
16	\$ 898,626	\$ 497,414	\$ 70,652	\$ 12,275	\$ 736	\$ 66,803	\$ 3,849	\$ 344
17								
18	\$ 1,196,075	\$ 894,936	\$ 114,940	\$ 18,083	\$ 675	\$ 28,065	\$ 2,454	\$ 380
19	Operating Expenses ²							
20	Depreciation and Amortization ²							
21	734,160	541,545	80,688	14,287	555	17,097	1,826	284
22	124,466	82,976	11,471	1,933	89	5,493	381	45
23	489,394	270,893	38,477	6,685	401	36,381	2,096	187
24	\$ 2,544,095	\$ 1,790,350	\$ 245,576	\$ 40,987	\$ 1,719	\$ 87,036	\$ 6,757	\$ 896
25	\$ 974,760	\$ 555,511	\$ 78,726	\$ 13,649	\$ 789	\$ 68,271	\$ 4,007	\$ 371
26	76,134	58,097	8,074	1,374	53	1,468	158	27
27	\$ 898,626	\$ 497,414	\$ 70,652	\$ 12,275	\$ 736	\$ 66,803	\$ 3,849	\$ 344
28								
29	\$ 1,196,075	\$ 894,936	\$ 114,940	\$ 18,083	\$ 675	\$ 28,065	\$ 2,454	\$ 380
30	Meter Size-->							
31	5/8" 3/4" 1" 1.5" 2" 3"	Irrigation 3/4" 1" 1.5" 2" 3"	Irrigation 1" 1" 1.5" 2" 3"	Irrigation 1.5" 2" 3"	Irrigation 2" 2" 3"	Irrigation 3" 3" 3"	Construction 3" 3"	Construction 3" 3"
32	\$ 39,175	\$ 7,787	\$ 86,166	\$ 36,842	\$ 411,339	\$ 1,979	\$ 39,261	\$ 39,261
33	279	1,070	3,895	-	(8,953)	3,537	(25,176)	(25,176)
34	371	337	1,416	303	1,281	34	67	67
35	(2)	(2)	(9)	(2)	(8)	(0)	(0)	(0)
36	\$ 39,822	\$ 9,192	\$ 91,468	\$ 37,144	\$ 403,659	\$ 5,550	\$ 14,152	\$ 14,152
37								
38	\$ 7,932	\$ 2,795	\$ 22,101	\$ 8,494	\$ 82,427	\$ 1,474	\$ 4,873	\$ 4,873
39	0	0	0	0	0	0	0	0
40	2,295	1,895	12,843	5,142	42,961	1,680	3,647	3,647
41	1,409	325	3,235	1,314	14,278	196	501	501
42	9,859	1,406	18,359	7,661	91,782	724	1,698	1,698
43	\$ 21,495	\$ 6,421	\$ 56,538	\$ 22,611	\$ 231,449	\$ 4,074	\$ 10,719	\$ 10,719
44	\$ 18,327	\$ 2,771	\$ 34,930	\$ 14,533	\$ 172,211	\$ 1,475	\$ 3,433	\$ 3,433
45								
46	\$ 18,327	\$ 2,771	\$ 34,930	\$ 14,533	\$ 172,211	\$ 1,475	\$ 3,433	\$ 3,433
47								
48	Residential 5/8" x 3/4" 1" 1.5" 2" 3"	Residential 3/4" 1" 1.5" 2" 3"	Residential 1" 1" 1.5" 2" 3"	Commercial 1" 1" 1.5" 2" 3"	Commercial 2" 2" 3"	Commercial 3" 3" 3"	Public Authority 1" 1"	Public Authority 2" 2"
49	\$ 10,059,443	\$ 7,676,258	\$ 1,066,817	\$ 181,512	\$ 7,062	\$ 194,029	\$ 20,850	\$ 3,599
50	9.69%	7.24%	7.38%	7.52%	11.17%	35.19%	19.22%	10.31%
51								
52	\$ 29,736	\$ 25,005	\$ 161,083	\$ 61,566	\$ 486,202	\$ 19,273	\$ 41,644	\$ 41,644
53	61.63%	11.08%	21.68%	23.61%	35.42%	7.65%	8.24%	8.24%
54								
55	\$ 10,059,443	\$ 7,676,258	\$ 1,066,817	\$ 181,512	\$ 7,062	\$ 194,029	\$ 20,850	\$ 3,599
56	9.69%	7.24%	7.38%	7.52%	11.17%	35.19%	19.22%	10.31%
57								
58	\$ 29,736	\$ 25,005	\$ 161,083	\$ 61,566	\$ 486,202	\$ 19,273	\$ 41,644	\$ 41,644
59	61.63%	11.08%	21.68%	23.61%	35.42%	7.65%	8.24%	8.24%
60								
61	\$ 10,059,443	\$ 7,676,258	\$ 1,066,817	\$ 181,512	\$ 7,062	\$ 194,029	\$ 20,850	\$ 3,599
62	9.69%	7.24%	7.38%	7.52%	11.17%	35.19%	19.22%	10.31%
63								
64	\$ 29,736	\$ 25,005	\$ 161,083	\$ 61,566	\$ 486,202	\$ 19,273	\$ 41,644	\$ 41,644
65	61.63%	11.08%	21.68%	23.61%	35.42%	7.65%	8.24%	8.24%
66								
67	\$ 10,059,443	\$ 7,676,258	\$ 1,066,817	\$ 181,512	\$ 7,062	\$ 194,029	\$ 20,850	\$ 3,599
68	9.69%	7.24%	7.38%	7.52%	11.17%	35.19%	19.22%	10.31%
69								
70	\$ 29,736	\$ 25,005	\$ 161,083	\$ 61,566	\$ 486,202	\$ 19,273	\$ 41,644	\$ 41,644
71	61.63%	11.08%	21.68%	23.61%	35.42%	7.65%	8.24%	8.24%
72								
73	\$ 10,059,443	\$ 7,676,258	\$ 1,066,817	\$ 181,512	\$ 7,062	\$ 194,029	\$ 20,850	\$ 3,599
74	9.69%	7.24%	7.38%	7.52%	11.17%	35.19%	19.22%	10.31%
75								
76	\$ 29,736	\$ 25,005	\$ 161,083	\$ 61,566	\$ 486,202	\$ 19,273	\$ 41,644	\$ 41,644
77	61.63%	11.08%	21.68%	23.61%	35.42%	7.65%	8.24%	8.24%
78								
79	\$ 10,059,443	\$ 7,676,258	\$ 1,066,817	\$ 181,512	\$ 7,062	\$ 194,029	\$ 20,850	\$ 3,599
80	9.69%	7.24%	7.38%	7.52%	11.17%	35.19%	19.22%	10.31%
81								
82	\$ 29,736	\$ 25,005	\$ 161,083	\$ 61,566	\$ 486,202	\$ 19,273	\$ 41,644	\$ 41,644
83	61.63%	11.08%	21.68%	23.61%	35.42%	7.65%	8.24%	8.24%
84								
85	\$ 10,059,443	\$ 7,676,258	\$ 1,066,817	\$ 181,512	\$ 7,062	\$ 194,029	\$ 20,850	\$ 3,599
86	9.69%	7.24%	7.38%	7.52%	11.17%	35.19%	19.22%	10.31%
87								
88	\$ 29,736	\$ 25,005	\$ 161,083	\$ 61,566	\$ 486,202	\$ 19,273	\$ 41,644	\$ 41,644
89	61.63%	11.08%	21.68%	23.61%	35.42%	7.65%	8.24%	8.24%
90								
91	\$ 10,059,443	\$ 7,676,258	\$ 1,066,817	\$ 181,512	\$ 7,062	\$ 194,029	\$ 20,850	\$ 3,599
92	9.69%	7.24%	7.38%	7.52%	11.17%	35.19%	19.22%	10.31%
93								
94	\$ 29,736	\$ 25,005	\$ 161,083	\$ 61,566	\$ 486,202	\$ 19,273	\$ 41,644	\$ 41,644
95	61.63%	11.08%	21.68%	23.61%	35.42%	7.65%	8.24%	8.24%
96								
97	\$ 10,059,443	\$ 7,676,258	\$ 1,066,817	\$ 181,512	\$ 7,062	\$ 194,029	\$ 20,850	\$ 3,599
98	9.69%	7.24%	7.38%	7.52%	11.17%	35.19%	19.22%	10.31%
99								
100	\$ 29,736	\$ 25,005	\$ 161,083	\$ 61,566	\$ 486,202	\$ 19,273	\$ 41,644	\$ 41,644
101	61.63%	11.08%	21.68%	23.61%	35.42%	7.65%	8.24%	8.24%

Line No.	Residential 5/8" x 3/4"	Residential 3/4"	Residential 1"	Commercial 1"	Commercial 2"	Commercial 3"	Public Authority 1"	Public Authority 2"
8	86.664%	9.220%	1.093%	0.043%	0.343%	0.021%	0.021%	0.172%
10	Irrigation 5/8"	Irrigation 3/4"	Irrigation 1"	Irrigation 1.5"	Irrigation 2"	Irrigation 3"	Construction 3"	
13	0.236%	0.214%	0.901%	0.193%	0.815%	0.021%	0.043%	

1 Allocated based on customer counts.
 2 Operating Expenses and Depreciation computations are shown on Schedule G-4, Page 1.
 3 Property Taxes allocation based on revenues.
 4 Income Tax from Schedule C-1, at Proposed Rates. Income Taxes allocated based on taxable income
 5 Interest Synchronized Interest Expense. Allocation based on Rate Base
 6 Rate Base computations are shown on Schedule G-3, Page 1
 7 Operating Income Divided by Rate Base

Sahuarita Water Company, LLC
 Test Year Ended December 31, 2008
 Cost of Service Study, Using Commodity Demand Method
 Summary of Allocation of Expenses to Customer Classes

Line No.	Factor	Residential 5/8" x 3/4"	Residential 3/4"	Residential 1"	Commercial 1"	Commercial 2"	Commercial 3"	Public Authority 1"	Public Authority 2"
1	C-1	\$ 235,837	\$ 28,751	\$ 4,013	\$ 118	\$ 19,211	\$ 1,297	\$ 107	\$ 885
2	D-1	644,817	102,896	20,340	798	20,420	2,552	399	10,210
3	CS-1	426,875	45,412	5,386	211	1,690	106	106	845
4	S-1	58,289	6,201	818	32	430	38	16	215
5	M-1	70,664	12,367	1,812	71	3,411	287	36	1,705
6									
7	Totals	\$ 1,436,482	\$ 195,628	\$ 32,370	\$ 1,230	\$ 45,162	\$ 4,280	\$ 663	\$ 13,861

Line No.	Factor	Irrigation 5/8"	Irrigation 3/4"	Irrigation 1"	Irrigation 1.5"	Irrigation 2"	Irrigation 3"	Construction 3"
13	C-1	\$ 6,960	\$ 808	\$ 11,592	\$ 4,813	\$ 63,756	\$ 171	\$ 2,555
14	D-1	1,755	2,393	16,751	7,179	48,497	2,552	5,105
15	CS-1	1,162	1,056	4,436	950	4,013	106	211
16	S-1	159	144	674	160	1,022	38	76
17	M-1	192	288	1,492	533	8,101	287	574
18	Totals	\$ 10,227	\$ 4,689	\$ 34,944	\$ 13,636	\$ 125,388	\$ 3,154	\$ 8,521

Line No.	Factor	Residential 5/8" x 3/4"	Residential 3/4"	Residential 1"	Commercial 1"	Commercial 2"	Commercial 3"	Public Authority 1"	Public Authority 2"
23	C-1	\$ 1,436,482	\$ 195,628	\$ 32,370	\$ 1,230	\$ 45,162	\$ 4,280	\$ 663	\$ 13,861
24	D-1	644,817	102,896	20,340	798	20,420	2,552	399	10,210
25	CS-1	426,875	45,412	5,386	211	1,690	106	106	845
26	S-1	58,289	6,201	818	32	430	38	16	215
27	M-1	70,664	12,367	1,812	71	3,411	287	36	1,705
28	Totals	\$ 1,436,482	\$ 195,628	\$ 32,370	\$ 1,230	\$ 45,162	\$ 4,280	\$ 663	\$ 13,861

Line No.	Factor	Irrigation 5/8"	Irrigation 3/4"	Irrigation 1"	Irrigation 1.5"	Irrigation 2"	Irrigation 3"	Construction 3"
23	C-1	\$ 10,227	\$ 4,689	\$ 34,944	\$ 13,636	\$ 125,388	\$ 3,154	\$ 8,521
24	D-1	1,755	2,393	16,751	7,179	48,497	2,552	5,105
25	CS-1	1,162	1,056	4,436	950	4,013	106	211
26	S-1	159	144	674	160	1,022	38	76
27	M-1	192	288	1,492	533	8,101	287	574
28	Totals	\$ 10,227	\$ 4,689	\$ 34,944	\$ 13,636	\$ 125,388	\$ 3,154	\$ 8,521

33	Property Taxes, Allocated on Schedules G-1 & G-2	\$ 124,466
34	Income Tax, Allocated on Schedules G-1 & G-2	489,394
35	Total Expenses	\$ 2,544,095

Line No.	Rate Base	Adjusted	Demand	Commodity	Customer	Meter	Service
1	Plant minus (Accumulated Depreciation	\$ 10,059,443	\$ 5,350,004	\$ 533,264	\$ 1,446,271	\$ 800,133	\$ 1,929,771
2	Contributions in Aid of Construction						
3	Advances in Aid of Construction,						
4	Meter Deposits and Deferred Income Tax)						
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
		10,059,443	5,350,004	533,264	1,446,271	800,133	1,929,771

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Allocation of Plant, Less Contributions and Advances in Aid of
Construction, Meter Deposits and Accumulated Depreciation to Functions

Line No.	Account No.	Description	Original Cost Plant	Accumulated Depreciation	Total Net Plant Values	Factor	Demand	Commodity	Customer	Meter	Service
1	301	Intangible									
2	301	Organization	7,541		7,541	F-6	\$ 7,541				\$ -
3	302	Franchises	350,861		350,861	F-6	350,861				\$ -
4											
5		Subtotal Intangible	358,402		358,402						
6											
7		Source of Supply & Pumping Plant									
8	303	Land and Land Rights	13,636		13,636	F-6	\$ 13,636				\$ -
9	304	Structures and Improvements	171,671	7,678	163,993	F-4	163,993				\$ -
10	305	Collecting and Impounding Res.	-	-	-	F-1	-				-
11	306	Lakes, Rivers, Other Intakes	-	-	-	F-1	-				-
12	307	Wells and Springs	2,343,156	(109,688)	2,452,844	F-1	2,207,559	245,284			-
13	308	Infiltration Galleries and Tunnels	-	-	-	F-1	-				-
14	309	Supply Mains	-	0	-	F-1	-				-
15	310	Power Generation Equipment	335,668	16,317	319,351	F-1	287,416	31,935			-
16	311	Electric Pumping Equipment	43,912	9,696	34,216	F-2	30,795	3,422			-
17		Subtotal Source of Supply & Pumping Plant	2,908,043	(75,998)	2,984,040		2,703,399	280,641			\$ -
18											
19		Water Treatment									
20	320	Water Treatment Equipment	2,585,217	1,552	2,583,665	F-5	2,325,298	258,366			\$ -
21		Subtotal Water Treatment	2,585,217	1,552	2,583,665		2,325,298	258,366			\$ -
22											
23		Transmission and Distribution Plant									
24	330	Distribution Reservoirs & Standpipe	1,811,998	132,080	1,679,918	F-3	1,511,926	167,992			\$ -
25	331	Transmission and Distribution Mains	12,140,307	556,993	11,583,314	F-3	10,424,983	1,158,331			\$ -
26	333	Services	2,051,394	121,623	1,929,771	F-8					1,929,771
27	334	Meters	1,222,335	422,202	800,133	F-9				800,133	
28	335	Hydrants	656,364	11,955	644,409	F-10			644,409		
29	336	Backflow Prevention Devices	816	102	714	F-1	643	71			
30	339	Other Plant and Miscellaneous Equip.	0	(0)	0	F-1	0	0			
31		Subtotal Transmission and Distribution Plant	17,883,214	1,244,954	16,638,260		11,937,552	1,326,395	644,409	800,133	\$ 1,929,771
32											
33		General Plant									
34	340	Office Furniture and Fixtures	283,991	40,362	243,629	F-12			243,629		\$ -
35	304.1	Computer Equipment	-	-	-	F-12					-
36	341	Transportation Equipment	146,129	97,477	48,652	F-11	12,163				-
37	342	Stores Equipment	-	-	-	SF-3				36,489	-
38	343	Tools and Work Equipment	13,856	3,133	10,723	SF-3					10,723
39	344	Laboratory Equipment	132	20	112	SF-3					112
40	345	Power Operated Equipment	-	-	-	SF-3					-
41	346	Communications Equipment	11,818	2,077	9,741	F-13	2,435				7,306

Sahuarita Water Company, LLC
 Test Year Ended December 31, 2008

Exhibit
 Schedule G-5
 Page 2.1
 Witness: Bourassa

Allocation of Plant, Less Contributions and Advances in Aid of
 Construction, Meter Deposits and Accumulated Depreciation to Functions

Line No.	Account No.	Description	Original Cost Plant	Accumulated Depreciation	Total Net Plant Values	Demand	Commodity	Customer	Meter	Service
1		General Plant Continued								
2	347	Miscellaneous Equipment	695	104	591			591		
3	348	Other Tangible Plant	962,374	54,602	908,372			908,372		
4	348.1	Other Tangible Plant	120,000	-	120,000			120,000		
5		Subtotal General Plant	\$ 1,539,595	\$ 197,774	\$ 1,341,821	\$ 14,598	\$ -	\$ 1,327,223	\$ -	\$ -
6		Total Plant	\$ 25,274,471	\$ 1,368,282	\$ 23,906,188	\$ 17,339,250	\$ 1,865,402	\$ 1,971,632	\$ 800,133	\$ 1,929,771
7		Contributions in Aid of Construction, Net	(4,314,264)	251,796	(4,062,468)	\$ (3,656,221)	\$ (406,247)	\$ -	\$ -	\$ -
8		Advances in Aid of Construction	(9,258,917)	-	(9,258,917)	(8,333,025)	(925,892)	-	-	-
9		Meter Deposits	(525,361)	-	(525,361)	-	-	(525,361)	-	-
10		Deferred Income Tax	-	-	-	-	-	-	-	-
11		Deferred Reg Assets	-	-	-	-	-	-	-	-
12		Unamortized Debt Service Costs	-	-	-	-	-	-	-	-
13		Totals	\$ 11,175,928	\$ 1,620,079	\$ 10,059,443	\$ 5,350,004	\$ 533,264	\$ 1,446,271	\$ 800,133	\$ 1,929,771
14		Rate Bases (Plant-(AIAC, CIAC, Meter Deposits & Accum. Depr.)			\$ 10,059,443	\$ 5,350,004	\$ 533,264	\$ 1,446,271	\$ 800,133	\$ 1,929,771

Sahuarita Water Company, LLC
 Test Year Ended December 31, 2008
 Cost of Service Study, Using Commodity Demand Method
 Allocation of Expenses to Functions

Exhibit
 Rebuttal Schedule G-6
 Page 1
 Witness: Bourassa

Line No.	Description	Adjusted	Factor	Demand	Commodity	Customer	Meter	Service	Totals
		\$		\$	\$	\$	\$	\$	\$
1	Salaries and Wages ¹	-	E-1	-	-	-	-	-	-
2	Purchased Water ¹	4,256	E-5	-	4,256	-	-	-	4,256
3	Purchased Power ¹	147,364	E-4	-	147,364	-	-	-	147,364
4	Fuel For Power Production ¹	-	E-4	-	-	-	-	-	-
5	Chemicals ¹	11,866	E-9	-	11,866	-	-	-	11,866
6	Repairs and Maintenance ¹	75,423	E-1	67,881	7,542	-	-	-	75,423
7	Materials & Supplies	30,131	E-6	27,118	3,013	-	-	-	30,131
8	Outside Services ¹	769,852	E-3	307,941	153,970	307,941	-	-	769,852
9	Water Testing ¹	10,382	E-10	9,344	1,038	-	-	-	10,382
10	Rents	1,896	E-11	-	-	1,896	-	-	1,896
11	Transportation Expenses ¹	22,358	E-8	5,590	-	16,769	-	-	22,358
12	Insurance - General Liability	21,111	SE-3	5,278	-	15,833	-	-	21,111
13	Insurance - Health and Life	-	SE-3	-	-	-	-	-	-
14	Reg. Comm. Exp.	-	SE-3	-	-	-	-	-	-
15	Reg. Comm. Exp. - Rate Case	75,000	SE-3	-	-	75,000	-	-	75,000
16	Miscellaneous Expense	14,724	SE-3	-	-	14,724	-	-	14,724
17	Bad Debt Expense	109	SE-3	-	-	109	-	-	109
18									
19	Depreciation Expense ²	734,160		458,871	49,506	55,651	101,821	68,311	734,160
20	Taxes Other Than Income	11,602		4,641	2,320	4,641	-	-	11,602
21									
22	Property Taxes, Allocated on Schedules G-1 & G-2	124,466							
23	Income Tax, Allocated on Schedules G-1 & G-2 ³	489,394							
24									
25	Total	<u>\$ 2,544,095</u>		<u>\$ 886,663</u>	<u>\$ 380,876</u>	<u>\$ 492,564</u>	<u>\$ 101,821</u>	<u>\$ 68,311</u>	<u>\$ 1,930,235</u>
26									
27									

¹ Allocation factors see Schedule G-7, page 2.1.
² Depreciation allocation computed on Schedule G-6, Page 2.
³ Income Taxes shown at proposed rates.

Saharita Water Company, LLC
 Test Year Ended December 31, 2008
 Allocation of Depreciation Expense to Functions

Line No.	Account No.	Description	Original Cost	Depreciation Rate	Depreciation Expense	Factor	Total Depr. Expense	Demand	Commodity	Customer	Meter	Service
1		Intangible										
2	301	Organization	\$ 7,541	-	-							
3	302	Franchises	350,861	-	-							
4												
5		Subtotal Intangible	\$ 358,402									
6												
7		Source of Supply & Pumping Plant										
8	303	Land and Land Rights	\$ 13,636	0.000%	-							
9	304	Structures and Improvements	171,671	3.330%	5,717	F-4	5,717					
10	305	Collecting and Impounding Res.	-	2.500%	-	F-1	-					
11	306	Lakes, Rivers, Other Intakes	-	2.500%	-	F-1	-					
12	307	Wells and Springs	2,343,156	3.330%	78,027	F-1	78,027	70,224	7,803			
13	308	Infiltration Galleries and Tunnels	-	6.670%	-	F-1	-					
14	309	Supply Mains	-	2.000%	-	F-1	-					
15	310	Power Generation Equipment	335,668	5.000%	16,783	F-1	16,783	15,105	1,678			
16	311	Electric Pumping Equipment	43,912	12.500%	5,489	F-2	5,489	4,940	549			
17		Subtotal Source of Supply & Pumping Plant	\$ 2,908,043		\$ 106,016		\$ 106,016	\$ 95,986	\$ 10,030			
18												
19		Water Treatment										
20	320	Water Treatment Equipment	2,585,217	3.330%	86,088	F-5	86,088	77,479	8,609			
21		Subtotal Water Treatment	\$ 2,585,217		\$ 86,088		\$ 86,088	\$ 77,479	\$ 8,609			
22												
23		Transmission and Distribution Plant										
24	330	Distribution Reservoirs & Standpipe	\$ 1,811,998	2.220%	40,226	F-3	40,226	36,204	4,023			
25	331	Transmission and Distribution Mains	12,140,307	2.000%	242,806	F-3	242,806	218,526	24,281			
26	333	Services	2,051,394	3.330%	68,311	F-8	68,311	-	-			68,311
27	334	Meters	1,222,335	8.330%	101,821	F-9	101,821	-	-		101,821	
28	335	Hydrants	656,364	2.000%	13,127	F-10	13,127	-	-	13,127		
29	336	Backflow Prevention Devices	816	6.670%	54	F-1	54	49	5			
30	339	Other Plant and Miscellaneous Equipment	0	6.670%	0	F-1	0	0	0			
31		Subtotal Transmission and Distribution Plant	\$ 17,883,214		\$ 466,346		\$ 466,346	\$ 254,778	\$ 28,309	\$ 13,127	\$ 101,821	\$ 68,311
32												
33		General Plant										
34	340	Office Furniture and Fixtures	\$ 283,991	6.670%	18,942	F-12	18,942	-	-	18,942		
35	340.1	Computer Equipment*	-	20.000%	-	F-12	-	-	-	-		
36	341	Transportation Equipment	146,129	20.000%	29,226	F-11	29,226	7,306	-	21,919		
37	342	Stores Equipment	-	4.000%	-	SF-3	-	-	-	-		
38	343	Tools and Work Equipment	13,856	5.000%	693	SF-3	693	-	-	693		
39	344	Laboratory Equipment	132	10.000%	13	SF-3	13	-	-	13		
40	345	Power Operated Equipment	-	5.000%	-	SF-3	-	-	-	-		
41	346	Communications Equipment	11,818	10.000%	1,182	F-13	1,182	295	-	886		

Line No.	Description	Factor	Residential		Commercial		Commercial		Public Authority		Public Authority	
			5/8" x 3/4"	3/4"	1"	1.5"	2"	3"	1"	1"	2"	2"
1												
2												
3	Commodity	C-1	61.920%	7.549%	1.054%	0.031%	5.044%	0.341%	0.028%	0.232%		
4	Demand	D-1	72.724%	11.605%	2.294%	0.090%	2.303%	0.288%	0.045%	1.151%		
5	Customer	CS-1	86.664%	9.220%	1.093%	0.043%	0.343%	0.021%	0.021%	0.172%		
6	Services	S-1	85.328%	9.077%	1.198%	0.047%	0.630%	0.055%	0.023%	0.315%		
7	Meters	M-1	69.401%	12.146%	1.780%	0.070%	3.350%	0.282%	0.035%	1.675%		
8												
9												
10												
11												
12	Commodity	C-1	1.827%	0.212%	3.043%	1.264%	16.739%	0.045%	0.671%	100.000%		
13	Demand	D-1	0.198%	0.270%	1.889%	0.810%	5.470%	0.288%	0.576%	100.000%		
14	Customer	CS-1	0.236%	0.214%	0.901%	0.193%	0.815%	0.021%	0.043%	100.000%		
15	Services	S-1	0.232%	0.211%	0.986%	0.235%	1.496%	0.055%	0.111%	100.000%		
16	Meters	M-1	0.189%	0.282%	1.466%	0.523%	7.956%	0.282%	0.564%	100.000%		
17												
18												
19												
20												
21												
22												
23												
24												
25												
26												
27												
28												

Line No.	Expense Type	Factor	Total	Demand	Commodity	Customer	Meters	Services
1	Salaries and Wages ^a	E-1	1.00	0.40	0.20	0.40		
2	Repairs and Maintenance ¹	E-2	1.00	0.90	0.10			
3	Outside Services ²	E-3	1.00	0.40	0.20	0.40		
4	Purchased Power/Fuel for Power Prod. ³	E-4	1.00		1.00			
5	Purchased Water ⁴	E-5	1.00		1.00			
6	Materials and Supplies	E-6	1.00	0.90	0.10			
7	Rents	E-7	1.00			1.00		
8	Transportation ⁵	E-8	1.00	0.25	-	0.75		
9	Chemicals ⁶	E-9	1.00		1.00			
10	Water Testing ⁷	E-10	1.00	0.90	0.10			
11	Specific	SE-1	1.00	1.00				
12	Specific	SE-2	1.00		1.00			
13	Specific	SE-3	1.00			1.00		
14	Specific	SE-4	1.00				1.00	
15	Specific	SE-5	1.00					1.00
16	Specific							
17								
18								

¹ Estimated based on examination of costs in repairs and maintenance and professional judgement.

² Estimated based on examination of costs included in contractual services and professional judgement.

³ 100% related to pumping and water production.

⁴ 100% related to pumping and water production.

⁵ Based on allocation of transportation equipment. See G-7, page 2.

⁶ 100% related to water production.

⁷ Based on allocation of well plant and equipment. See G-7, page 2.

⁸ The Company does not have recorded salaries and wages expense. See allocation of contractual services.

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Cost of Service Study, Using Commodity Demand Method
Development of Class Allocation Factors

Exhibit
 Rebuttal Schedule G-7
 Page 3
 Witness: Bourassa

COMMODITY ALLOCATION FACTOR (C-1)

Meter Size	Class	(a)	
		Total Gallons (in 1,000's) In Test Year	Percent of Total
5/8 Inch	Res	254,678	61.92%
3/4 Inch	Res	31,048	7.55%
1 Inch	Res	4,334	1.05%
1 Inch	Com	127	0.03%
2 Inch	Com	20,746	5.04%
3 Inch	Com	1,401	0.34%
1 Inch	Public Auth	116	0.03%
2 Inch	Public Auth	956	0.23%
5/8 Inch	Irr	7,516	1.83%
3/4 Inch	Irr	873	0.21%
1 Inch	Irr	12,518	3.043%
1.5 Inch	Irr	5,198	1.264%
2 Inch	Irr	68,849	16.739%
3 Inch	Irr	185	0.045%
3 Inch	Const	2,759	0.671%
Totals		<u>411,304</u>	<u>100.00%</u>

DEMAND ALLOCATION FACTOR (D-1)

Meter Size	Class	Number of Meters and/or Services	Equivalent Weight	Equivalent Number	
				of Meters and/or Services	Percent of Total
5/8 Inch	Res	4,042	1.0	4,042	72.72%
3/4 Inch	Res	430	1.5	645	11.60%
1 Inch	Res	51	2.5	128	2.29%
1 Inch	Com	2	2.5	5	0.09%
2 Inch	Com	16	8.0	128	2.30%
3 Inch	Com	1	16.0	16	0.29%
1 Inch	Public Auth	1	2.5	3	0.04%
2 Inch	Public Auth	8	8.0	64	1.15%
5/8 Inch	Irr	11	1.0	11	0.20%
3/4 Inch	Irr	10	1.5	15	0.27%
1 Inch	Irr	42	2.5	105	1.89%
1.5 Inch	Irr	9	5.0	45	0.81%
2 Inch	Irr	38	8.0	304	5.47%
3 Inch	Irr	1	16.0	16	0.29%
3 Inch	Const	2	16.0	32	0.58%
Totals		<u>4,664</u>		<u>5,558</u>	<u>100.00%</u>

CUSTOMER ALLOCATION FACTOR (CS-1)

Meter Size	Class	Percent of	
		Number of Meters	Total
5/8 Inch	Res	4,042	86.66%
3/4 Inch	Res	430	9.22%
1 Inch	Res	51	1.09%
1 Inch	Com	2	0.04%
2 Inch	Com	16	0.34%
3 Inch	Com	1	0.02%
1 Inch	Public Auth	1	0.02%
2 Inch	Public Auth	8	0.17%
5/8 Inch	Irr	11	0.24%
3/4 Inch	Irr	10	0.21%
1 Inch	Irr	42	0.90%
1.5 Inch	Irr	9	0.19%
2 Inch	Irr	38	0.81%
3 Inch	Irr	1	0.02%
3 Inch	Const	2	0.04%
Totals		<u>4,664</u>	<u>100.00%</u>

SERVICES ALLOCATION FACTOR (S-1) (b)

Meter Size	Class	Number of Services	Install- ation Cost	Percent of	
				Weighted Number of Services	Total
5/8 Inch	Res	4,042	\$ 445.00	1,798,690	85.33%
3/4 Inch	Res	430	445.00	191,350	9.08%
1 Inch	Res	51	495.00	25,245	1.20%
1 Inch	Com	2	495.00	990	0.05%
2 Inch	Com	16	830.00	13,280	0.63%
3 Inch	Com	1	1,165.00	1,165	0.06%
1 Inch	Public Auth	1	495.00	495	0.02%
2 Inch	Public Auth	8	830.00	6,640	0.31%
5/8 Inch	Irr	11	445.00	4,895	0.23%
3/4 Inch	Irr	10	445.00	4,450	0.21%
1 Inch	Irr	42	495.00	20,790	0.99%
1.5 Inch	Irr	9	550.00	4,950	0.23%
2 Inch	Irr	38	830.00	31,540	1.50%
3 Inch	Irr	1	1,165.00	1,165	0.06%
3 Inch	Const	2	1,165.00	2,330	0.11%
Totals		<u>4,664</u>		<u>2,107,975</u>	<u>100.00%</u>

METER ALLOCATION FACTOR (M-1) (b)

Meter Size	Class	Number of Meters	Meter Cost	Percent of	
				Weighted Dollars of Meters	Total
5/8 Inch	Res	4,042	\$ 155.00	626,510	69.40%
3/4 Inch	Res	430	255.00	109,650	12.15%
1 Inch	Res	51	315.00	16,065	1.78%
1 Inch	Com	2	315.00	630	0.07%
2 Inch	Com	16	1,890.00	30,240	3.35%
3 Inch	Com	1	2,545.00	2,545	0.28%
1 Inch	Public Auth	1	315.00	315	0.03%
2 Inch	Public Auth	8	1,890.00	15,120	1.67%
5/8 Inch	Irr	11	155.00	1,705	0.19%
3/4 Inch	Irr	10	255.00	2,550	0.28%
1 Inch	Irr	42	315.00	13,230	1.47%
1.5 Inch	Irr	9	525.00	4,725	0.52%
2 Inch	Irr	38	1,890.00	71,820	7.96%
3 Inch	Irr	1	2,545.00	2,545	0.28%
3 Inch	Const	2	2,545.00	5,090	0.56%
Totals		<u>4,664</u>		<u>902,740</u>	<u>100.00%</u>

(a) Includes customer and gallon sold annualization.

(b) Meter and Service Line cost from Arizona Corporation Commission Memo of February 21, 2008 from Martin Scott, Jr.. Meter costs based on compound meters. Cost of service line and meter is based on costs allowed for a compound meter installation.

Sahuarita Water Company, LLC
 Test Year Ended December 31, 2008
 Cost of Service Study Using Commodity / Demand Method
 Computation of Monthly Minimums for Customer, Service, Meter
 Using Function Costs and Expenses

Line No.	Customer	Service	Meter
1	140,144	77,533	186,995
2	(842)		
3	492,564	68,311	101,821
4	124,466		
5	489,394		
6	<u>1,245,725</u>	<u>145,844</u>	<u>288,815</u>
7			
8	55,968		
9			
10			
11	<u>22.26</u>		
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			
26			

12

5,558 times

12

CUSTOMER CHARGE:
 Monthly Minimum for 5/8 Inch Meter (with no water included in Minimum or Demand Charge)

Charge per Bill	\$	22.26
Charge per Equivalent Service Line		2.19
Charge per Equivalent Meter		4.33
Service and Meter Revenue Requirement divided by Annual Equivalent Meters		
Monthly Minimum for 5/8 Inch Meter, WITHOUT Demand Charge Included	\$	<u>28.77</u>

Line No.	<u>DEMAND CHARGE:</u>			
1				
2	Return on Rate Base	9.69%		518,415
3	Demand Expenses, from Schedule G-6, Page 1			886,663
4				
5	Totals			<u>1,405,078</u>
6	Total Revenue Requirement / Demand Component			66,516
7	Equivalent Number of 5/8 Meters billings			<u>21.12</u>
8	Demand Charge for 5/8 Inch Meter			\$
9				
10				
11	<u>Demand Charge Per Equivalent</u>			
12	5/8 Inch Meter	5/8" Demand Charge	Meter Ratio	Demand Charge
13	3/4 Inch Meter	\$ 21.12	1.0 \$	21.12
14	1 Inch Meter	\$ 21.12	1.5 \$	31.69
15	1 1/2 Inch Meter	\$ 21.12	2.5 \$	52.81
16	2 Inch Meter	\$ 21.12	5.0 \$	105.62
17	3 Inch Meter	\$ 21.12	8.0 \$	168.99
18	4 Inch Meter	\$ 21.12	16.0 \$	337.98
19	6 Inch Meter	\$ 21.12	25.0 \$	528.10
20		\$ 21.12	50.0 \$	1,056.20
21				

Sahuarita Water Company, LLC
 Test Year Ended December 31, 2008
 Cost of Service Study Using Commodity / Demand Method
 Computation Demand Charge and Commodity

Exhibit
 Rebuttal Schedule G-8
 Page 3
 Witness: Bourassa

Line No.		Commodity	Customer	Service	Meter	Demand
1	Return on Rate Base 9.69%	51,673	140,144	186,995	77,533	518,415
2	Less: Miscellaneous Revenues		(157,242)			
3						
4	Expenses (From Sch. G-6, Page 1)	380,876	492,564	68,311	101,821	886,663
5	Property taxes		124,466			
6	Income Taxes		489,394			
7	Total Revenue Requirement by function	432,550	1,089,326	255,306	179,353	1,405,078
8	Gallons Sold (in 1,000's)(Zero Gallons in Minimum) (G-7, page 3)	411,304				
9	Computed Commodity Rate	<u>\$ 1.0517</u>				
10	Annualized Number of Bills		55,968			
11	Equivalent Meters and Service Lines			66,696	66,696	66,696
12	Customer Charge (line 18 divided by line 21)		<u>\$ 19.46</u>			
13	Meter, Service Line & Demand Charge (Line 18 divided by Line 22)			\$ 3.83	\$ 2.69	\$ 21.07
14	Total Monthly Minimum Charge for a 5/8 Inch Meter (Sum of Customer, Service Line, Meter and Demand Charge on Lines 23 & Line 24)					<u>\$ 47.05</u>

5/8" Monthly Minimum	Meter Ratio	Demand Charge
\$ 47.05	1.0	\$ 47.05
\$ 47.05	1.5	\$ 70.57
\$ 47.05	2.5	\$ 117.62
\$ 47.05	5.0	\$ 235.24
\$ 47.05	8.0	\$ 376.38
\$ 47.05	16.0	\$ 752.76
\$ 47.05	25.0	\$ 1,176.18
\$ 47.05	50.0	\$ 2,352.36
\$ 47.05	80.0	\$ 3,763.78

28
29
30
31

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Comparison of Proposed Rates to Computed Costs
For a 5/8 Inch Residential Meter

Exhibit
 Rebuttal Schedule G-9
 Page 1
 Witness: Bourassa

Line No.	Water Usage	Revenues					Demand Charges	Customer Charges	Service Line Charges	Meter Charges	Commodity Charges	Total Charges & Costs	Total Revenues minus Total Charges & Costs
		Monthly Minimum	Commodity	Total	Demand Charges	Customer Charges							
1	0	\$ 24.56	\$ -	\$ 24.56	\$ 21.07	\$ 19.46	\$ 3.83	\$ 2.69	0	\$ 47.05	(22.49)		
2	1,000	24.56	3.53	28.09	21.07	19.46	3.83	2.69	1.052	48.10	(20.01)		
3	2,000	24.56	7.06	31.62	21.07	19.46	3.83	2.69	2.103	49.15	(17.53)		
4	3,000	24.56	10.59	35.15	21.07	19.46	3.83	2.69	3.155	50.20	(15.05)		
5	4,000	24.56	14.12	38.68	21.07	19.46	3.83	2.69	4.207	51.25	(12.57)		
6	5,000	24.56	18.40	42.96	21.07	19.46	3.83	2.69	5.258	52.31	(9.35)		
7	6,000	24.56	22.68	47.24	21.07	19.46	3.83	2.69	6.310	53.36	(6.12)		
8	7,000	24.56	26.96	51.52	21.07	19.46	3.83	2.69	7.362	54.41	(2.89)		
9	8,000	24.56	31.24	55.80	21.07	19.46	3.83	2.69	8.413	55.46	0.34		
10	9,000	24.56	35.52	60.08	21.07	19.46	3.83	2.69	9.465	56.51	3.57		
11	10,000	24.56	39.80	64.36	21.07	19.46	3.83	2.69	10.517	57.56	6.80		
12	12,000	24.56	49.46	74.02	21.07	19.46	3.83	2.69	12.620	59.67	14.35		
13	14,000	24.56	59.12	83.68	21.07	19.46	3.83	2.69	14.723	61.77	21.91		
14	16,000	24.56	68.78	93.34	21.07	19.46	3.83	2.69	16.826	63.87	29.47		
15	18,000	24.56	78.44	103.00	21.07	19.46	3.83	2.69	18.930	65.98	37.02		
16	20,000	24.56	88.10	112.66	21.07	19.46	3.83	2.69	21.033	68.08	44.58		
17	25,000	24.56	112.25	136.81	21.07	19.46	3.83	2.69	26.291	73.34	63.47		
18	30,000	24.56	136.40	160.96	21.07	19.46	3.83	2.69	31.550	78.60	82.36		
19	35,000	24.56	160.55	185.11	21.07	19.46	3.83	2.69	36.808	83.86	101.25		
20	40,000	24.56	184.70	209.26	21.07	19.46	3.83	2.69	42.066	89.11	120.15		
21	45,000	24.56	208.85	233.41	21.07	19.46	3.83	2.69	47.324	94.37	139.04		
22	50,000	24.56	233.00	257.56	21.07	19.46	3.83	2.69	52.583	99.63	157.93		
23	60,000	24.56	281.30	305.86	21.07	19.46	3.83	2.69	63.099	110.15	195.71		
24	70,000	24.56	329.60	354.16	21.07	19.46	3.83	2.69	73.616	120.66	233.50		
25	80,000	24.56	377.90	402.46	21.07	19.46	3.83	2.69	84.132	131.18	271.28		
26	90,000	24.56	426.20	450.76	21.07	19.46	3.83	2.69	94.649	141.70	309.06		
27	100,000	24.56	474.50	499.06	21.07	19.46	3.83	2.69	105.165	152.21	346.85		

Column Number-->

(Col. 2 - Col. 8)

Sahuarita Water Company, LLC
 Test Year Ended December 31, 2008
 Comparison of Proposed Rates to Computed Costs
 For a 3/4 Inch Residential Meter

Exhibit
 Rebuttal Schedule G-9
 Page 2
 Witness: Bourassa

Line No.	Water Usage	Revenues			Demand Charges	Customer Charges	Service Line Charges	Meter Charges	Commodity Charges	Total Charges & Costs	Total Revenues minus Total Charges & Costs
		Monthly Minimum	Commodity	Total							
1	0	\$ 36.84	\$ -	\$ 36.84	\$ 31.60	\$ 29.20	\$ 5.74	\$ 4.03	0	\$ 70.57	\$ (33.73)
2	1,000	36.84	3.53	40.37	31.60	29.20	5.74	4.03	1.052	71.62	(31.25)
3	2,000	36.84	7.06	43.90	31.60	29.20	5.74	4.03	2.103	72.67	(28.77)
4	3,000	36.84	10.59	47.43	31.60	29.20	5.74	4.03	3.155	73.73	(26.30)
5	4,000	36.84	14.12	50.96	31.60	29.20	5.74	4.03	4.207	74.78	(23.82)
6	5,000	36.84	17.65	54.49	31.60	29.20	5.74	4.03	5.258	75.83	(21.34)
7	6,000	36.84	21.18	58.02	31.60	29.20	5.74	4.03	6.310	76.88	(18.86)
8	7,000	36.84	25.46	62.30	31.60	29.20	5.74	4.03	7.362	77.93	(15.63)
9	8,000	36.84	29.74	66.58	31.60	29.20	5.74	4.03	8.413	78.98	(12.40)
10	9,000	36.84	34.02	70.86	31.60	29.20	5.74	4.03	9.465	80.04	(9.18)
11	10,000	36.84	38.30	75.14	31.60	29.20	5.74	4.03	10.517	81.09	(5.95)
12	12,000	36.84	46.86	83.70	31.60	29.20	5.74	4.03	12.620	83.19	0.51
13	14,000	36.84	55.42	92.26	31.60	29.20	5.74	4.03	14.723	85.29	6.97
14	16,000	36.84	64.53	101.37	31.60	29.20	5.74	4.03	16.826	87.40	13.97
15	18,000	36.84	74.19	111.03	31.60	29.20	5.74	4.03	18.930	89.50	21.53
16	20,000	36.84	83.85	120.69	31.60	29.20	5.74	4.03	21.033	91.60	29.09
17	25,000	36.84	108.00	144.84	31.60	29.20	5.74	4.03	26.291	96.86	47.98
18	30,000	36.84	132.15	168.99	31.60	29.20	5.74	4.03	31.550	102.12	66.87
19	35,000	36.84	156.30	193.14	31.60	29.20	5.74	4.03	36.808	107.38	85.76
20	40,000	36.84	180.45	217.29	31.60	29.20	5.74	4.03	42.066	112.64	104.65
21	45,000	36.84	204.60	241.44	31.60	29.20	5.74	4.03	47.324	117.90	123.54
22	50,000	36.84	228.75	265.59	31.60	29.20	5.74	4.03	52.583	123.15	142.44
23	60,000	36.84	277.05	313.89	31.60	29.20	5.74	4.03	63.099	133.67	180.22
24	70,000	36.84	325.35	362.19	31.60	29.20	5.74	4.03	73.616	144.19	218.00
25	80,000	36.84	373.65	410.49	31.60	29.20	5.74	4.03	84.132	154.70	255.79
26	90,000	36.84	421.95	458.79	31.60	29.20	5.74	4.03	94.649	165.22	293.57
27	100,000	36.84	470.25	507.09	31.60	29.20	5.74	4.03	105.165	175.74	331.35

Column Number-->

(Col. 2 - Col. 8)

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Sahuarita Water Company, LLC
 Test Year Ended December 31, 2008
 Comparison of Proposed Rates to Computed Costs
 For a 1 Inch Residential Meter

Line No.	Water Usage	Revenues			Demand Charges \$	Customer Charges \$	Service Line Charges \$	Meter Charges \$	Commodity Charges	Total Charges & Costs \$	(9) Total Revenues minus Total Charges & Costs
		Monthly Minimum	Commodity	Total							
1	0	\$ 61.40	\$ -	\$ 61.40	\$ 52.67	\$ 48.66	\$ 9.57	\$ 6.72	0	\$ 117.62	\$ (56.22)
2	1,000	61.40	3.53	64.93	52.67	48.66	9.57	6.72	1,052	118.67	(53.74)
3	2,000	61.40	7.06	68.46	52.67	48.66	9.57	6.72	2,103	119.72	(51.26)
4	3,000	61.40	10.59	71.99	52.67	48.66	9.57	6.72	3,155	120.77	(48.78)
5	4,000	61.40	14.12	75.52	52.67	48.66	9.57	6.72	4,207	121.82	(46.30)
6	5,000	61.40	17.65	79.05	52.67	48.66	9.57	6.72	5,258	122.88	(43.83)
7	6,000	61.40	21.18	82.58	52.67	48.66	9.57	6.72	6,310	123.93	(41.35)
8	7,000	61.40	24.71	86.11	52.67	48.66	9.57	6.72	7,362	124.98	(38.87)
9	8,000	61.40	28.24	89.64	52.67	48.66	9.57	6.72	8,413	126.03	(36.39)
10	9,000	61.40	31.77	93.17	52.67	48.66	9.57	6.72	9,465	127.08	(33.91)
11	10,000	61.40	35.30	96.70	52.67	48.66	9.57	6.72	10,517	128.13	(31.43)
12	12,000	61.40	43.86	105.26	52.67	48.66	9.57	6.72	12,620	130.24	(24.98)
13	14,000	61.40	52.42	113.82	52.67	48.66	9.57	6.72	14,723	132.34	(18.52)
14	16,000	61.40	60.98	122.38	52.67	48.66	9.57	6.72	16,826	134.44	(12.06)
15	18,000	61.40	69.54	130.94	52.67	48.66	9.57	6.72	18,930	136.55	(5.61)
16	20,000	61.40	78.10	139.50	52.67	48.66	9.57	6.72	21,033	138.65	0.85
17	25,000	61.40	99.50	160.90	52.67	48.66	9.57	6.72	26,291	143.91	16.99
18	30,000	61.40	123.65	185.05	52.67	48.66	9.57	6.72	31,550	149.17	35.88
19	35,000	61.40	147.80	209.20	52.67	48.66	9.57	6.72	36,808	154.43	54.77
20	40,000	61.40	171.95	233.35	52.67	48.66	9.57	6.72	42,066	159.68	73.67
21	45,000	61.40	196.10	257.50	52.67	48.66	9.57	6.72	47,324	164.94	92.56
22	50,000	61.40	220.25	281.65	52.67	48.66	9.57	6.72	52,583	170.20	111.45
23	60,000	61.40	268.55	329.95	52.67	48.66	9.57	6.72	63,099	180.72	149.23
24	70,000	61.40	316.85	378.25	52.67	48.66	9.57	6.72	73,616	191.23	187.02
25	80,000	61.40	365.15	426.55	52.67	48.66	9.57	6.72	84,132	201.75	224.80
26	90,000	61.40	413.45	474.85	52.67	48.66	9.57	6.72	94,649	212.27	262.58
27	100,000	61.40	461.75	523.15	52.67	48.66	9.57	6.72	105,165	222.78	300.37

Column Number-->

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE)
APPLICATION OF SAHUARITA)
WATER COMPANY, L.L.C. ("SWC"))
FOR AN OPINION AND ORDER OF)
THE COMMISSION (i) DETERMINING)
THE FAIR VALUE OF THE UTILITY)
PROPERTY OF SWC FOR) DOCKET NO. W-03718A-09-0359
RATEMAKING PURPOSES, (ii) FIXING)
A JUST AND REASONABLE RATE OF)
RETURN THEREON, (iii) APPROVING)
RATES AND CHARGES DESIGNED TO)
PRODUCE REVENUES SUFFICIENT) PREPARED TESTIMONY
TO RECOVER SWC'S COST OF)
SERVICE AND AUTHORIZED RATE)
OF RETURN, AND (iv) PROVIDING)
FOR THE RECOVERY OF CERTAIN)
FINANCING AND OPERATING)
EXPENSES THROUGH A)
SURCHARGE AND A PASS-THROUGH)
TARIFF, RESPECTIVELY)

REBUTTAL TESTIMONY OF
THOMAS J. BOURASSA
ON BEHALF OF SAHUARITA WATER COMPANY
(COST OF CAPITAL)

May 17, 2010

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I. INTRODUCTION AND QUALIFICATIONS

Q1. PLEASE STATE YOUR NAME AND ADDRESS.

A1. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive, Phoenix, Arizona 85029.

Q2. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?

A2. I am testifying on behalf of the applicant, Sahuarita Water Company ("SWC" or the "Company").

Q3. ARE YOU THE SAME THOMAS J. BOURASSA THAT FILED DIRECT TESTIMONY IN THIS DOCKET?

A3. Yes, my direct testimony was presented in two volumes. My background information and qualifications are set forth in the rate base and revenue requirement volume of my direct testimony.

Q4. DID YOU ALSO PREPARE REBUTTAL TESTIMONY ON THOSE ISSUES IN THIS DOCKET?

A4. Yes, my rebuttal testimony on rate base, income statement, revenue requirement and rate design is being filed in a separate volume at the same time as this testimony.

II. SUMMARY OF REBUTTAL TESTIMONY AND THE PROPOSED COST OF CAPITAL FOR THE COMPANY

A. Summary of Company's Rebuttal Recommendation

Q5. WHAT IS THE PURPOSE OF THIS VOLUME OF YOUR REBUTTAL TESTIMONY?

A5. I will provide updates of my cost of capital analysis and recommended rate of return using more recent financial data. I also will provide rebuttal as appropriate to the direct testimony of Mr. Manrique on behalf of Staff.

1 **Q6. HOW HAS THE INDICATED RETURN ON EQUITY CHANGED SINCE**
2 **THE DIRECT FILING WAS MADE LAST JUNE?**

3 A6. The cost of equity has decreased, as indicated by the Discounted Cash Flow
4 (“DCF”) model and the Capital Asset Pricing Model (“CAPM”). The table below
5 summarizes the results of my updated analysis using those models:
6

<u>Method</u>	<u>Low</u>	<u>High</u>	<u>Midpoint</u>
7 Range DCF Constant Growth Estimates	9.1%	10.5%	9.8%
8 Range of CAPM Estimates	<u>10.4%</u>	<u>14.6%</u>	<u>12.5%</u>
9 Average of DCF and CAPM midpoint			
10 estimates	<u>9.8%</u>	<u>12.6%</u>	<u>11.2%</u>
11 Financial Risk Adjustment	-0.8%	-0.8%	-0.8%
12 Specific Company Risk Premium	<u>0.5%</u>	<u>0.5%</u>	<u>0.5%</u>
13 Indicated Cost of Equity	9.5%	12.3%	10.9%

14 The schedules containing my updated cost of capital analysis attached to this
15 rebuttal testimony. Also attached is one exhibit, which is discussed below.
16

17 **Q7. PLEASE SUMMARIZE YOUR RECOMMENDED REBUTTAL COST OF**
18 **DEBT AND EQUITY, AND YOUR RECOMMENDED REBUTTAL RATE**
19 **OF RETURN ON RATE BASE.**

20 A7. The Company’s recommended capital structure consists of 18 percent debt and 82
21 percent common equity as shown on Rebuttal Schedule D-1. Based on my updated
22 cost of capital analysis, I am recommending a cost of equity of 10.9 percent. Based
23 on my 10.9 percent recommended cost of equity and 4.2 percent cost of debt, the
24 Company’s weighted cost of capital (“WACC”) is 9.69 percent, as shown on
25 Rebuttal Schedule D-1.

26 **Q8. WHY IS YOUR COST OF EQUITY RECOMMENDATION LOWER IN**

1 **YOU REBUTTAL THAN IN YOUR DIRECT TESTIMONY?**

2 A8. When I prepared my direct testimony in June 2009, the economy was still in the
3 midst of a severe recession and a crisis was occurring in the financial markets. The
4 Dow Jones average had fallen by 38 percent and the S&P 500 dropped by 40
5 percent in just a couple of months. During this period, there was a “flight to
6 quality” that led to an increase in the traditional spread between required returns on
7 Treasury securities and other assets as investors turned away from common stocks
8 and corporate bonds in favor of treasuries. During the past ten months, both the
9 economy and the financial markets have improved.

10 Economists now believe the recession ended in the summer of 2009. The
11 current outlook for the economy has improved. For 2010 the economy is expected
12 to grow at a 3.0 – 3.5 percent rate.¹ However, economists continue to express
13 concerns over the high unemployment rate, the federal deficits, and the looming
14 debt crisis in Europe which may dampen the economic outlook.² But, at this point,
15 inflation seems to be in check and the Federal Reserve is expected to keep interest
16 rates low through the end of the year.

17 **Q9. WHAT HAS BEEN THE EFFECT OF THESE CONDITIONS ON YOUR**
18 **RECOMMENDED COST OF EQUITY?**

19 A9. As stated, my updated analysis indicates cost of equity is 10.9 percent, which is
20 110 basis points lower than the 12.0 percent cost of equity I proposed for SWC in
21 my direct testimony. There are two primary reasons for the reduction in the cost of
22 equity. First, there is a reduction in the current market risk premium in the CAPM
23 estimate. Second, my growth estimates for the DCF are much lower. Previously,

24 _____
25 ¹ *Value Line Selection and Opinion*, May 14, 2010.

26 ² *Blue Chip Financial Forecasts*, May 2010.

1 my cost of equity estimates based on the DCF model and the CAPM ranged from
2 10.0 percent to 15.8 percent with a mid-point of 12.9 percent after adjustments for
3 financial risk and firm-specific risks.

4 **B. Summary of the Staff Recommendation.**

5 **Q10. PLEASE SUMMARIZE THE RECOMMENDATION OF STAFF FOR THE**
6 **RATE OF RETURN ON FAIR VALUE RATE BASE.**

7 A10. Staff is recommending a capital structure consisting of 17.8 percent debt and 81.2
8 percent equity.³ Staff determined a cost of equity of 10.1 percent based on the
9 average cost of equity produced by its DCF and CAPM models.⁴ Staff also
10 determined the cost of debt to be 4.2 percent.⁵ Based on its 17.8 percent debt and
11 81.2 percent equity capital structure, Staff determined the WACC for SWC to be
12 9.0 percent.⁶

13 **Q11. PLEASE SUMMARIZE THE PARTIES RESPECTIVE COST OF EQUITY**
14 **ESTIMATES.**

15

16 <u>Party</u>	<u>DCF</u>	<u>CAPM</u>	<u>Average</u>
17 SWC	9.8%	12.6%	10.9%
18 Staff	9.9%	10.2%	10.1%

19

20 **Q12. IT APPEARS THAT THE DIFFERENCE IN THE RETURN ON EQUITY IS**
21 **ABOUT 80 BASIS POINTS. PLEASE COMMENT.**

22 A12. While the difference between the returns on equity has narrowed to only 80 basis
23

24 ³ See Direct Testimony of Juan C. Manrique ("Manrique Dt.") at 33.

25 ⁴ *Id.*

26 ⁵ *Id.*

⁶ *Id.*

1 points, there is an important distinction between the parties with respect to the
2 recommendation on earnings for SWC. Both the Company's and Staff's respective
3 recommended return is an after-tax return. However, Staff recommends before tax
4 operating income whereas the Company recommends an after-tax operating
5 income. In other words, Staff is mixing apples and oranges when it comes to
6 SWC's rate of return and earnings.

7 **Q12. CAN YOU ELABORATE?**

8 A12. Yes. The data from the public markets for the publicly traded water utilities used
9 by Staff in its cost of capital analysis is reported on an after-tax basis. Earnings,
10 for example, are reported after-tax and dividends are paid from after-tax earnings.
11 The return determined by Staff is therefore an after-tax return. The comparison of
12 the public traded water utilities to SWC is only meaningful when SWC's earnings
13 are determined on an after-tax basis.

14 **Q13. WHY?**

15 A13. After-tax earnings more appropriately reflect the amount that is available to the
16 stockholders for dividends. When income taxes are disallowed the amount of cash
17 flows available for dividends is substantially reduced or may even be insufficient.
18 Two utilities whose only difference is in the recovery of income taxes will have
19 neither the same net cash flow nor the same value.

20 Let me illustrate. Assume two utilities (Utility 1 and Utility 2) are allowed
21 an 8 percent return on a \$1,000 rate base. Both utilities have \$10 in operating
22 expenses and \$10 in depreciation and both utilities are allowed to earn \$80 (8.0%
23 times \$1,000). The revenue requirement for Utility 1 is \$100 without recognition
24 of the income taxes. Utility 2's revenue requirement is \$132 with the recognition
25 of income taxes. The income statement for Utility 1 and Utility 2 are shown
26 below:

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	<u>Utility 1</u> (Non-tax paying)	<u>Utility 2</u> (Tax paying)
Rate Base	\$ 1,000	\$ 1,000
<u>Income Statement</u>		
Revenues	\$ 100	\$ 132
Operating Expenses	10	10
Depreciation	10	10
Income Taxes (assume 40% tax rate)	-	32
Net Income	\$ 80	\$ 80
Return on Rate Base	8.0%	8.0%

As shown, each utility receives the same 8.0 percent return or \$80. However, from a cash flow standpoint, the results are very different. Utility 1 will have a cash flow available for dividends that is far less than Utility 2. The cash flow statement for Utility 1 and Utility 2 are shown below:

	<u>Utility 1</u> (Non-tax paying)	<u>Utility 2</u> (Tax paying)
<u>Cash Flow</u>		
Net Income	\$ 80	\$ 80
Depreciation	10	10
Tax Reimbursement to Shareholder	(32)	-
Net Cash Flow Available for Dividends	\$ 58	\$ 90

As shown, Utility 1 has \$32 less cash available for dividends than Utility 2 (\$90 minus \$58). Assuming an 80 percent payout ratio, each utility will need to pay out \$64 in dividends. This is illustrated below:

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	<u>Utility 1</u> <u>(Non-tax paying)</u>	<u>Utility 2</u> <u>(Tax paying)</u>
Payout ratio for dividends	80%	80%
Dividends	\$ 64	\$ 64
Net Cash	\$ (6)	\$ 26

As shown, Utility 1 will not have enough cash flow to pay the same dividends as Utility 2. In fact it will be short by \$6. On the other hand, Utility 2 will have \$26 left to reinvest. In order for Utility 1 to have the same net cash flow after paying dividends as Utility 2, Utility 1 would need to lower its dividend rate and the amount of dividends it pays.

Q.14 WHAT WOULD HAPPEN IF UTILITY 1 LOWERED ITS DIVIDEND RATE TO A POINT WHERE IT WOULD HAVE THE SAME NET CASH AS UTILITY 2 AFTER PAYING DIVIDENDS?

A14. The investment value must go down. To show why this has to be the case, let's start by assuming that the investor purchased stock for \$1,000 (P_0) – which happens to be the rate base investment value for each utility in the example above. Also continue to assume, as in the above example, the investor expects an 8.0 percent return (k) on his/her investment. The expected dividend yield (D_1/P_0) is 6.4 percent ($\$64/\$1,000$). The expected growth rate in dividends is 1.6 percent. We can find the growth rate (g) by solving the constant growth DCF model

Equation [1] $k = D_1/P_0 + g$

for the growth rate (g). In doing so we get

Equation [2] $g = k - D_1/P_0$

Inputting the expected return (k) of 8.0 percent and expected dividend yield (D_1/P_0) of 6.4 percent into Equation 2 and doing the math we get

$g = 8.0\% - 6.4\%$

1 or

2 $g = 1.6\%$

3 When Utility 1 reduces its dividend to \$32 (\$6 plus \$26) - which it must do
4 if it is to have the same net cash of \$26 available to reinvest as Utility 2 - then the
5 expected dividend yield (D_1/P_0) becomes 3.2 percent ($\$32/\$1,000$). Remember,
6 the investor's expected return is 8.0 percent, so according to the constant growth
7 DCF model (Equation 1 above) the return drops to 3.8 percent as shown below

8 $k = 3.2\% + 1.6\% = 4.8\%$

9 If the investor's required return is 8.0 percent, the investment value (P_0) must drop
10 from \$1,000 to \$500 in order for the investor to earn his required return. We can
11 show this by first solving Equation 1 for the investment value (P_0). In doing so we
12 get

13 Equation [3] $P_0 = D_1/(k-g)$

14 Inputting the expected dividend (D_1) of \$32, the expected return (k) of 8.0 percent,
15 and the growth rate (g) of 1.6 percent into Equation 3 and doing the math we get

16 $P_0 = \$32/(8.0\% - 1.6\%)$

17 or

18 $P_0 = \$500$

19 Thus, the value of an investment in Utility 1 drops to \$500 while the value of an
20 investment in Utility 2 remains at \$1,000 even though both utilities have the same
21 rate base and rate of return.

22 **Q15. BUT WHAT IF UTILITY 1 DOES NOT REIMBURSE THE INVESTOR**
23 **FOR INCOME TAXES; DOESN'T UTILITY 1 END UP WITH THE SAME**
24 **NET CASH FLOW AFTER PAYING DIVIDENDS AS UTILITY 2?**

25 A15. Yes. But the investor still ends up with a 3.2 percent dividend yield and a loss of
26 investment value from \$1,000 to \$500. This is because the investor must pay the

1 taxes of \$32 from the \$64 of dividends he/she receives which nets him/her only
2 \$32. The effective dividend yield is 3.2 percent ($\$32/\1000). Just as in the above
3 example, if the investor's required return is 8.0 percent, the investment value (P_0)
4 must drop from \$1,000 to \$500 in order for the investor to earn his required return.

5 **Q16. BUT A TAX PASS-THROUGH ENTITY DOES NOT PAY INCOME TAXES**
6 **SO AREN'T ITS EARNINGS AFTER-TAX ANYWAY?**

7 A16. No. Let me explain. Tax pass-through entities do not pay taxes directly, but in
8 reality they do pay taxes by reimbursing investors. The distinction between a tax
9 paying entity and a tax pass-through entity with respect to income taxes is form
10 over substance. One would think that since a tax pass-through entity does not pay
11 income taxes directly that the cash flows available to investors increase thereby
12 making the entity more valuable. This is not true.

13 The income from the tax pass-through entity is attributed to the investor(s)
14 who must report that income on their tax return. That income is subject to tax. If it
15 were not, then we have just discovered a whole new source of revenue for the IRS
16 and we can substantially reduce the federal budget deficits. Putting that aside, the
17 payment of incomes taxes must come from somewhere and that somewhere is the
18 entity that generates the tax liability to the investor. If the investor does not get
19 reimbursed from the non-tax paying entity for income taxes, he/she effectively
20 receives a negative return on his/her investment. For an investor to expect a
21 negative return on his/her investment or to expect the value of his investment to
22 decrease is not rational.

23 **Q17. CAN YOU EXPLAIN IN MORE DETAIL HOW INCOME FROM SWC OR**
24 **ANY NON-TAX PAYING ENTITY IS REPORTED TO THE IRS?**

25 A17. Company witness, Mr. David Cutler explains how the income from SWC is passed
26 to its member owners and how that income is subject to tax. I will leave it to him

1 to explain.

2 **Q18. WHAT IF THE INVESTOR IN A TAX PASS-THROUGH ENTITY HAS**
3 **TAXABLE INCOME OR TAX DEDUCTIONS FROM OTHER SOURCES**
4 **THAT IMPACT THE AMOUNT ACTUAL TAXES HE/SHE PAYS IN A**
5 **GIVEN YEAR?**

6 A18. To consider the individual investor's other taxable income and tax deductions in
7 how much income tax should be recovered by SWC or any other tax pass-through
8 utility would result in cross-subsidization of the investor and rate payers which
9 should not be countenanced by this Commission. This is why income taxes for
10 tax-paying utilities (C-Corporations) are computed on a stand-alone basis even
11 when they are owned by and file consolidated tax returns with a parent entity. It
12 should be no different for tax pass-through utilities (S-Corporations or Limited
13 Liability Companies).

14 **Q19. PUTTING ASIDE THE INCONSISTENCY IN PRE-TAX VERSUS AFTER-**
15 **TAX RETURN DISCUSSION ABOVE, HOW DO THE PARTIES'**
16 **RECOMMENDATIONS COMPARE TO OTHER FORECASTS OF**
17 **COMMON EQUITY RETURNS?**

18 A19. Value Line, a reputable publication that has been used by all of the parties' cost of
19 capital witnesses, publishes forecasts of returns on common equity for larger
20 publicly traded companies. These water utilities are included in my sample group
21 and in Staff's sample group. Value Line (April 23, 2010) projects the following
22 returns on equity for those utilities:

23	American States Water	10.5%
24	Aqua America	14.0%
25	California Water	<u>11.0%</u>
26	Average	11.8%

1 All of these utilities are significantly larger than SWC. AUS Utility Reports (May
2 2010) reports the following information for these utilities (in millions of dollars):

	<u>Net Plant</u>	<u>Revenue</u>
3 American States Water	\$ 962.1	\$361.0
4 Aqua America	\$2,790.5	\$670.5
5 California Water	<u>\$1079.9</u>	<u>\$449.4</u>
6 Average	\$1,610.8 million	\$493.6million

7
8 Moreover, these utilities operate in jurisdictions such as California and
9 Pennsylvania that use projected or partially projected test years, and authorize
10 surcharges and other cost recovery mechanisms which allow the recovery of
11 increases in costs outside a general rate case. Therefore, they are less risky than
12 SWC. These data provide an unbiased indication that the Staff recommendation
13 for SWC is too low and should not be adopted by the Commission.

14 **III. REBUTTAL TO STAFF'S COST OF CAPITAL ANALYSIS, TESTIMONY**
15 **AND RECOMMENDATIONS**

16 **A. Rebuttal to Staff's Criticisms of Analysts' Estimates of Growth**

17 **Q20. MR. MANRIQUE CRITICIZES YOU FOR GIVING MORE WEIGHT TO**
18 **ANALYSTS' ESTIMATES THAN TO HISTORICAL GROWTH RATES.**
19 **HOW DO YOU RESPOND?**

20 **A20.** First, it is important to note that Mr. Manrique does not reject analyst estimates of
21 growth; he just disagrees with the amount of weight I gave these estimates.⁷ Staff
22 gives 50 percent weight to analysts' estimates and 50 percent weight to historical
23 growth data. So the dispute between Mr. Manrique and me comes down to
24 something between 50 percent and my "greater" emphasis. In my direct testimony

25
26 ⁷ Manrique Dt. at 38.

1 I explained why a weight greater than 50 percent should be given to analysts'
2 estimates.⁸

3 **Q21. WHAT ABOUT MR. MANRIQUE'S ASSERTION THAT ANALYSTS'**
4 **ESTIMATES ARE "OVERLY OPTIMISTIC"?**

5 A21. I refer back to my direct testimony at page 30. Gordon, Gordon, and Gould
6 conducted a study and found analyst forecasts of growth outperformed three
7 measures of historical growth. They explain that this result should be expected
8 because analysts would consider historical data in making future projections. Now,
9 Mr. Manrique characterizes the study as merely an "article" that "describes more
10 generally the methods exclusively using analysts' forecasts are 'popular and
11 attractive models', but the article does not support the conclusion that these
12 forecasts should be used alone."⁹ The authors' own words undermine Mr.
13 Manrique's characterization. In their own formal study, the authors concluded:

14
15 We have compared the accuracy of four methods for
16 estimating the growth component of the discounted cash flow
17 yield on a share: past growth in earnings (KEGR), past
18 growth in dividends (KDGR), past retention growth rate
(KBRG), and forecasts of growth by security analysts
(KFRG). ... For our sample of utility shares, KFRG
performed well, with KBRG, KDGR, and KEGR following in
that order, and with KEGR a distant fourth....

19 Before closing, we have three observations to make. First,
20 the superior performance by KFRG should come as no
21 surprise. All four estimates of growth rely upon past data, but
22 in the case of KFRG a larger body of past data is used,
23 filtered through a group of security analysts who adjust for
24 abnormalities that are not considered relevant for future
25 growth....¹⁰

24 ⁸ See Direct Testimony of Thomas J. Bourassa – Cost of Capital ("Bourassa COC Dt.") at 29-32.

25 ⁹ Manrique Dt. at 37.

26 ¹⁰ David A. Gordon, Myron J. Gordon and Lawrence I. Gould, "Choice Among Methods of Estimating Share Yield,"
Journal of Portfolio Management (Spring 1989) 50-55.

1
2 As I have testified, to the extent that past results provide useful indications of
3 future growth prospects, analysts' forecasts of growth would already incorporate
4 that information.¹¹ In addition, a stock's current price already reflects known
5 historic information on that company, including its past dividend and earnings
6 history.¹² If investors rely on analysts' growth rate forecasts, those are the relevant
7 forecasts for determining equity costs.

8 In summary, Mr. Manrique offers no quantitative or conceptual argument to
9 rebut Gordon, Gordon, and Gould, and offers no evidence that any of the measures
10 of past growth he has used – historical EPS, historical DPS, historical sustainable
11 growth – provides better a forecast of future growth for utilities than analysts'
12 estimates of growth. Mr. Manrique is using Staff's inputs into the DCF model
13 mechanically without considering the reasons for using those inputs.
14 Unfortunately, Staff's inputs gives less weight to the best estimate of future growth
15 in order to drive down the cost of equity.

16 **Q22. DOESN'T MR. MANRIQUE'S TESTIMONY ON PAGE 37 REFERENCING**
17 **PROFESSOR GORDON'S REMARKS AT THE 30TH ANNUAL FORUM OF**
18 **THE SOCIETY OF UTILITY AND REGULATORY FINANCIAL**
19 **ANALYSTS CONTRADICT WHAT THE AUTHORS HAVE**
20 **CONCLUDED?**

21 **A22.** No. In the quoted remarks, Professor Gordon does not say anything about past
22 growth rates. There is no guidance on which past growth rates (EPS, DPS, or book
23 value) should be used, if any, or what weight past growth rates should be given
24

25 ¹¹ Bourassa COC Dt. at 30.

26 ¹² *Id.*

1 when estimating the growth rate in the DCF model. That is the issue. Mr.
2 Manrique agrees that "Professor Gordon would temper the typically higher
3 analysts' growth rates with the typically lower GNP growth rate."¹³ I am sure Mr.
4 Manrique would also agree that I have tempered my estimate by considering past
5 growth rates that are well below the long-term GNP (or GDP) growth rate.¹⁴

6 **Q23. DOES MR. MANRIQUE STATE THAT INVESTORS RELY ON ANALYST**
7 **ESTIMATES?**

8 A23. Yes.¹⁵ He also states that investors rely "to some extent on past growth as well."¹⁶
9 That is true, but he does not demonstrate the extent to which investors rely on past
10 growth rates – he simply states that they are considered. Again, if analysts'
11 estimates already consider past growth, then Staff vastly overstates the impact of
12 past growth rates in its DCF model. It is, basically, a type of "double-counting"
13 that produces extremely low results.

14 **Q24. DO YOU HAVE FURTHER REBUTTAL TO MR. MANRIQUE'S**
15 **"OVERLY OPTIMISTIC" TESTIMONY?**

16 A24. Yes. For my second specific response to the assertion that analysts' estimates are
17 "overly optimistic," I point to Value Line. Value Line is in the business of selling
18 information to investors, and all of the parties have relied on Value Line in their
19 cost of equity estimates. Value Line has every incentive to provide accurate
20 forecasts to encourage investors to continue to subscribe to its publications. Value
21 Line does not sell stock and has no incentive to bias upward its buy/sell
22

23 ¹³ Manrique Dt. at 38.

24 ¹⁴ See Rebuttal Schedule D.4-4, column 5. The average of historical growth rates is 5.68%. The long-term GDP
growth rate is 6.6% as shown on Staff's Schedule JCM-9.

25 ¹⁵ Manrique at 38.

26 ¹⁶ *Id.*

1 recommendations and estimates of future growth. Zacks and Morningstar provide
2 similar investment services. Neither markets stock – they sell information, which
3 won't be purchased if it is inaccurate or biased. Yahoo Finance is a free service,
4 but it does not earn commissions from the sales of stock. In sum, Mr. Manrique's
5 testimony is simply wrong. None of these services has any reason to provide
6 inaccurate information to its users.

7 **Q25. DO YOU HAVE ANY FURTHER COMMENTS ON THE TOPIC OF**
8 **STAFF'S DCF GROWTH ESTIMATES, MR. BOURASSA?**

9 A25. Yes. I am attaching a copy of document filed with the public utilities commission
10 in a 2005 California rate case to this volume of my rebuttal testimony.¹⁷ This
11 document was prepared by Mr. Gary Hayes, a witness for San Diego and Electric
12 Company. It lists a number of sources that further contradict Mr. Manrique's claim
13 that analysts typically make upwardly biased forecasts of growth.

14 Additionally, to further support the use of analyst forecasts of growth, Dr.
15 Morin states:

16
17 Because of the dominance of institutional investors and their
18 influence on individual investors, analysts' forecasts of long-
19 run growth rates provide a sound basis for estimating required
20 returns. Financial analysts exert a strong influence on the
21 expectations of many investors who do not possess the
22 resources to make their own forecasts, that is, they are a cause
23 of g. *The accuracy of these forecasts in the sense of whether*
24 *they turn out to be correct is not at issue here, as long as they*
25 *reflect widely held expectations.* As long as the forecasts are
26 typical and/or influential in that they are consistent with
current stock price levels, they are relevant. The use of
analysts' forecasts in the DCF model is sometimes denounced
on the grounds that it is difficult to forecast earnings and
dividends for only one year, let alone for longer time periods.
This objection is unfounded, however, because it is present
investor expectations that are being priced; it is the consensus
forecast that is embedded in price and therefore in required

17 Exhibit TJB-COC-RB1

1 *return, and not the future as it will turn out to be.*¹⁸

2
3 Dr. Myron Gordon, the same Professor Gordon Mr. Manrique quotes in his
4 testimony and the “father” of the standard regulatory version of the DCF model
5 utilized by Mr. Manrique and myself in the instant case, has also recognized the
6 significance of analysts’ forecasts of growth in EPS in a speech he gave in March
7 1990 before the Institute for Quantitative Research and Finance. He said:

8 We have seen that earnings and growth estimates by security
9 analysts were found by Malkiel and Cragg to be superior to
10 data obtained from financial statements for the explanation of
11 variation in price among common stocks. ... Estimates by
12 security analysts available from sources such as IBES are far
13 superior to the data available to Malkiel and Cragg. Eq (7) is
14 not as elegant as Eq (4), but it has a good deal more intuitive
15 appeal. It says that investors buy earnings, but what they will
16 pay for a dollar of earnings increases with the extent to which
17 the earnings are reflected in the dividend or in appreciation
18 through growth.¹⁹

15 Professor Gordon recognized that total return is largely affected by the terminal
16 price, which is mostly affected by earnings (hence the common use of
17 price/earnings multiples in evaluating stock prices).

18 As noted by Dr. Gordon, studies performed by Cragg and Malkiel
19 demonstrate that analysts’ forecasts are superior to historical growth rate
20 extrapolations. These studies show that:

21 Efficient market hypotheses suggest that valuation should reflect the
22 information available to investors. Insofar as analysts’ forecasts are
23 more precise than other types we should therefore expect their
24 differences from other measures to be reflected in the market. It is
25 therefore noteworthy that our regression results do support the

25 ¹⁸ Roger A. Morin. *New Regulatory Finance* (2006) 298 (emphasis added).

26 ¹⁹ Gordon, Myron J., “Pricing of Common Stocks”, Seminar (March 27, 1990) at 12-13.

1 hypothesis that analysts' forecasts are needed even when calculated
2 growth rates are available. As we noted when we described the data,
3 *security analysts do not use simple mechanical methods to obtain*
4 *their evaluations of companies.* The growth-rate figures we obtained
5 were distilled from careful examination of all aspects of the
6 companies' records, evaluation of contingencies to which they might
7 be subject, and whatever information about their prospects the
8 analysts could glean from the companies themselves from other
9 sources. *It is therefore notable that the results of their efforts are*
10 *found to be so much more relevant to the valuation than the various*
11 *simpler and more "objective" alternatives that we tried.*²⁰

12 Vander Weide and Carleton further note:

13 [O]ur studies affirm the superiority of analyst's forecasts over simple
14 historical growth extrapolations in the stock price formation process.
15 Indirectly, this finding lends support to the use of valuation models
16 whose input includes expected growth rates.²¹

17 **Q26. THAT'S A LOT OF EXPERT COMMENTARY, BUT WHAT DOES IT ALL**
18 **MEAN IN THIS CASE?**

19 A26. It means that the level of accuracy of analysts' forecasts is an after-the-fact
20 evaluation with little relevance to the issues at hand here. What really matters is
21 that analysts' forecasts strongly influence investors and hence the market prices
22 they are willing to pay for stocks. Therefore, they should play a prominent role in
23 a proper equity cost determination. Staff, however, has failed to give these
24 forecasts sufficient weight in its analysis. Even Mr. Dreman, who Mr. Manrique
25 relies on²², admits that:

26 We have also seen that in spite of high error rates being

27 ²⁰ John G. Cragg and Burton G. Malkiel, "Expectations and the Structure of Share Prices" *National Bureau of*
28 *Economic Research* (University of Chicago Press, 1982) Chapter 4.

29 ²¹ James H. Vander Weide and Willard T. Carleton, "Investor Growth Expectations: Analysts vs.
30 History" (*The Journal of Portfolio Management*, Spring 1988) 78-82.

31 ²² Manrique Dt. at 35-36.

1 recognized for decades, neither analysts nor investors who
2 religiously depend on them have altered their methods in any
3 way.

4 This is my point. If investors rely on analysts' growth rate forecasts, those
5 forecasts should be used to determine the cost of equity, proportionate to investor
6 reliance, not in a manner that depresses the import of that reliance. Analysts'
7 growth rates influence the prices investors will pay for stocks and thus impact the
8 dividend yields. The dividend yields change until the sum of the dividend yield
9 plus the growth rate equals investors' perceived cost of equity. Had the growth
10 forecasts been lower – as Mr. Manrique suggests they should be – the stock prices
11 would be lower and dividend yields would be higher, but there would not
12 necessarily be any difference in the ultimate estimate of the cost of equity.

13 **Q27. HOW DO YOU RESPOND TO MR. MANRIQUE'S REFERENCE TO**
14 **PROFESSOR JEREMY SIEGEL?**

15 A27. Mr. Manrique's reliance on the quote from Jeremy Siegel that "dividends and not
16 earnings are meaningful" is puzzling.²⁴ The DCF model assumes, among other
17 things, that a firm will have a stable dividend payout policy and a stable return on
18 the book value of its stock. Thus, it is assumed that the stock's price, its book
19 value, dividends paid, and earnings all grow at the same rate. While it is
20 appropriate to make such assumptions for forecasting purposes, these assumptions
21 are frequently violated when examining historical data. As it turns out, the
22 historical growth in the stock price, book value, dividends, and earnings for the
23 water utility industry has not been the same.²⁵ Estimates of long-term growth rates

24 ²³ David Dreman, *Contrarian Investment Strategies: The Next Generation* 115-116 (Simon & Schuster 1998).

25 ²⁴ Manrique Dt. at 38-39.

26 ²⁵ See Rebuttal Schedule D.4-3 and Rebuttal Schedule D.4-4.

1 should take this into account. Furthermore, I have not used earnings in my DCF
2 model; I used earnings growth as a proxy for growth. Earnings generate the funds
3 used to pay dividends. Growth in earnings provides more cash flows from which
4 dividends are paid. As a consequence, earnings growth is obviously extremely
5 important to investors, and is therefore an entirely appropriate proxy for growth in
6 the DCF model.

7 Of course, I'd also note that I don't disagree with Professor Siegel that the
8 price of a stock is always equal to the present value of all future cash flows. I am
9 sure Professor Siegel would agree that future cash flows would not only include
10 dividends but the future sales price of the stock. I would also add that an
11 investment in the stock of a publicly traded utility is much more liquid than an
12 investment in SWC. If investors are unhappy with the return provided by a
13 publicly traded stock they can sell the stock within minutes. On the contrary, an
14 investment in SWC does not provide the same level of liquidity. This lack of
15 liquidity creates additional investment risk.

16 **Q28. DO YOU HAVE ANY FURTHER RESPONSE TO MR. MANRIQUE**
17 **REGARDING THE ISSUE OF USING ANALYSTS' FORECASTS AND**
18 **THE APPROPRIATE WEIGHT THEY SHOULD BE GIVEN?**

19 **A28.** Yes, I have one more comment. I find Mr. Manrique's reliance on a quotation
20 from Dr. Burton G. Malkiel is somewhat confusing. Dr. Malkiel is the Chemical
21 Bank Chairman's Professor of Economics at Princeton University and author of the
22 widely read national bestseller book on investing entitled, "A Random Walk Down
23 Wall Street." Mr. Manrique quotes Dr. Malkiel's apparent criticism of analysts'
24 estimates. Yet, in November 2002, Professor Malkiel affirmed his belief in the
25 superiority of analysts' earnings forecasts when he testified before the South
26 Carolina PUC:

1 With all the publicity given to tainted analysts' forecasts and
2 investigations instituted by the New York Attorney General,
3 the National Association of Securities Dealers, and the
4 Securities & Exchange Commission, I believe the upward
5 bias that existed in the late 1990s has indeed diminished. In
6 summary, I believe that current analysts' forecasts are more
7 reliable than they were during the late 1990s. *Therefore,*
8 *analysts' forecasts remain the proper tool to use in*
9 *performing a Gordon Model DCF analysis.*²⁶

10 I believe that Dr. Malkiel's testimony should eliminate any disagreement on this
11 issue.

12 **B. Firm Specific Risk**

13 **Q29. IS MR. MANRIQUE CORRECT THAT PRIOR COMMISSION**
14 **DECISIONS DID NOT FIND A FIRM SIZE PHENOMENON FOR**
15 **REGULATED UTILITIES?**

16 **A29.** Yes, Mr. Manrique is correct, although the Commission's failure to recognize that
17 small firms are riskier than large firms - despite an abundance of empirical
18 financial evidence indicating otherwise - is another reason why it is more risky for
19 smaller utilities to do business in Arizona. Putting that aside, there are many
20 reasons why smaller utilities are more risk than larger utilities. I have discussed
21 these reasons extensively in my direct testimony and will not repeat that testimony
22 here.²⁷ The simple fact is that a rational investor is not going to view an equity
23 investment in SWC as having the same risk as the purchase of publicly traded stock
24 in a substantially larger utility such as Aqua America, American States Water or
25 California Water Service.

26 The bottom line is that if the differences in risk between small utilities like

²⁶ See Rebuttal testimony of Dr. Burton G. Malkiel, South Carolina Electric and Gas Co., Docket No. 2002-223-E, pp. 16-17 (emphasis added).

²⁷ Bourassa COC Dt. at 15-23

1 SWC and the large, publicly traded water utilities used to estimate the cost of
2 equity are ignored, SWC's equity cost will be understated and unreasonable.

3 **Q30. DO INVESTORS CONSIDER SMALL FIRM RISKS AS WELL AS**
4 **REGULATORY RISKS?**

5 A30. Of course. Contrary to Mr. Manrique's assertions, the investment related to such
6 factors as firm size and Arizona's regulatory environment are important to
7 investors. These risks are not captured by the market data of the water utility proxy
8 group Staff uses to estimate the cost of equity for SWC. None of the utilities in
9 Staff's water proxy group are of comparable size to SWC.²⁸ In fact, SWC is but a
10 small fraction of the size of the water utilities in Staff's proxy group. And none of
11 the water utilities in Staff's water proxy group operate exclusively in Arizona and
12 are subject to this jurisdiction's regulatory requirements and policies.²⁹

13 **Q31. IS THERE A WAY TO PRECISELY QUANTIFY THE EFFECT OF THESE**
14 **ADDITIONAL RISKS ON THE RETURN REQUIRED BY AN INVESTOR?**

15 A31. No. But that does not justify ignoring the differences between the sample utilities
16 and SWC, as Staff proposes.

17 **Q32. HOW DO YOU RESPOND TO MR. MANRIQUE'S ASSERTION THAT**
18 **THE ARIZONA REGULATORY ENVIRONMENT IS NO LESS**
19 **FAVORABLE THAN THE REGULATORY ENVIRONMENTS FACED BY**
20 **THE SAMPLE UTILITIES?**

21 A32. I disagree with him. Mr. Manrique testifies that the regulatory environment in
22 Arizona has many "attractive attributes," including the ability to seek accounting
23 orders, the recognition of known and measurable changes, the wide use of hook-up
24

25 ²⁸ Bourassa COC Dt. at 17.

26 ²⁹ *Id.* at 16-22.

1 fees, and regulatory responsiveness, such as the approval of arsenic recovery
2 mechanisms and arsenic remedial surcharge mechanisms.³⁰ I will address each of
3 the alleged “attractive attributes” Mr. Manrique has identified.

4 **Q33. LEST START WITH ACCOUNTING ORDERS. ARE ACCOUNTING**
5 **ORDERS AN “ATTRACTIVE ATTRIBUTE” OF REGULATION IN**
6 **ARIZONA?**

7 A33. No. I am not aware that regulatory mechanisms similar to accounting orders are
8 not available to any of the sample water utilities in the regulatory jurisdictions in
9 which they operate. Therefore, accounting orders do not make Arizona attractive
10 to investors relative to other investments. Besides, the nature of accounting orders
11 limits their attractiveness.

12 **Q34. WHAT DO YOU MEAN?**

13 A34. In Arizona, accounting orders are narrowly tailored for specific circumstances and
14 generally only allow utilities to track certain, specified costs. No rate recovery is
15 authorized or assured. Rather, accounting orders issued by this Commission
16 postpone consideration of any cost recovery until a future rate case. In fact, the
17 uncertainty inherent in an accounting order is illustrated in the pending Litchfield
18 Park Service Company rate case, where Staff opposes recovery of costs incurred
19 pursuant to a recent Commission-issued accounting order.³¹ Staff testimony
20 regarding the SWC’s request for an accounting order in the instant case for future
21 consideration of significant arsenic media costs that were not recognized in the
22 Company’s initial rate application demonstrates how difficult and how narrowly
23

24 ³⁰ Manrique Dt. at 41.

25 ³¹ See Direct Testimony of Jeffery M. Michlik (water division) in Docket W-01427A-09-0104 at 12-14. Staff is
26 recommending denial of recovery of costs related to the potential contamination of its water supply due to the
proximity of a federally designated superfund site, although Staff has suggested consideration in a future rate case.

1 Staff views the applicability of accounting orders.³²

2 **Q35. WHAT ABOUT THE RECOGNITION OF “KNOWN AND**
3 **MEASURABLE” CHANGES?**

4 A35. Again, this is not a regulatory attribute unique to Arizona. In fact, I am not aware
5 of any jurisdictions that utilize an historic test year where adjustments based on
6 known and measurable changes cannot be made to either the test year rate base or
7 to test year revenue and expenses in order to make the test year a more “normal”
8 representation of the costs of service during the period in which the rates will be in
9 effect. Arguably, the failure to allow such changes would be unlawful.

10 In contrast, California, in which three of the six sample water companies
11 (American States, California Water, and SJW Corp.) primarily operate, uses future
12 test years in setting rates. Under that state’s rate making system, future expenses
13 can be increased to reflect expected changes including projected inflation, revenues
14 can be adjusted to reflect expected future erosion of revenues from water
15 conservation, and future expected capital investment can be recognized in rate
16 base. This regulatory approach is more attractive to investors than the simple
17 recognition of known and measurable changes to an historical test year.

18 Moreover, California allows adjuster mechanisms that permit utilities to
19 recover increases in purchased power and purchased water costs due to increases
20 rates charged by power and water providers. More recently, in connection with
21 implementing conservation-oriented rate structures, California has authorized water
22 revenue adjustment mechanisms to be implemented in order to offset revenue
23 erosion due to conservation. In some cases, California allows utilities to file for
24 adjustment mechanisms when unexpected significant capital investment has to be

25 _____
26 ³² See Direct Testimony of Jeffrey M. Michlik (“Michlik Dt.”) at 29-30.

1 made. By allowing revenues to change between rate cases to match known
2 increases in investment and operating expenses, utilities are given a reasonable
3 chance to earn their authorized return.

4 In contrast, adjuster mechanisms for purchased water and purchased water
5 have been uniformly opposed by Staff over the past decade, and they have denied
6 by the Commission.³³ And, I don't believe that I have ever seen a revenue
7 conservation adjustment adopted by the Commission for an Arizona water utility
8 with inverted-tier rates designed to encourage water conservation.

9 **Q36. DIDN'T THE COMMISSION PROVIDE ARSENIC COST RECOVERY**
10 **MECHANISMS IN THE PAST?**

11 A36. To some extent. But generally these mechanisms have only for allowed recovery
12 of debt service costs not capital and depreciation. That was beneficial, particularly
13 for utilities that could not cash flow the debt service without this mechanism in
14 place. In fact, this is the approach the Company proposed in its initial rate
15 application.³⁴ However, these mechanisms did not include recovery of increases in
16 operating and maintenance costs associated with the arsenic facilities. And, the
17 Commission has made it clear that such mechanisms were special cases intended to
18 address extraordinary circumstances, and their approval did not establish a
19 precedent for adjuster mechanisms in general. Thus, while approval of the ACRMs
20 was certainly helpful to the water utilities that obtained them, they do not make
21 Arizona's regulatory environment more attractive to investors than other
22 jurisdictions, which routinely authorize cost recovery mechanisms.

23
24 ³³ See, e.g. *Chaparral City Water Company*, Decision 68176 (Sept. 30, 2005); *Arizona Water Company (Eastern Group)*, Decision No. 66849 (March 19, 2004).

25 ³⁴ See Direct Testimony of Thomas J. Bourassa – Rate Base, Income Statement, Rate Design (“Bourassa RB Dt.”) at
26 37.

1 **Q37. ARE THERE ANY OTHER “ATTRACTIVE ATTRIBUTES” THAT MAKE**
2 **OTHER JURISDICTIONS ATTRACTIVE RELATIVE TO ARIZONA?**

3 A37. Yes. For instance, as I discussed in my direct testimony, in many states in which
4 Aqua America operates, utilities are permitted to implement surcharges to recover
5 additional depreciation and capital costs outside the context of a rate case.³⁵ Aqua
6 America also operates in jurisdictions that allow utilities to implement rates before
7 a final decision in a rate case.³⁶ In addition, in certain states in which Aqua
8 America operates, utilities are allowed surcharges to reflect changes in certain costs
9 until such time as the costs are incorporated into base rates.³⁷ Pennsylvania allows
10 water utilities to collect a distribution system improvement charge (“DISC”) for the
11 replacement of mains, storage tanks and other distribution system infrastructure.
12 Similarly, Middlesex operates utilities in Delaware, which also allows for the
13 implementation of a DISC for the recovery of depreciation and capital costs outside
14 the context of a rate case. Delaware also allows plant expected to be constructed
15 within three years from the end of the test period to be included in rate base. These
16 attributes are attractive to investors, and none of them are available in Arizona.

17 **Q38. HOW DO YOU RESPOND TO MR. MANRIQUE’S TESTIMONY ON**
18 **PAGE 41 THAT INVESTORS CONTINUE TO ACQUIRE ARIZONA**
19 **UTILITIES AND INVEST CAPITAL IN ARIZONA SO THERE IS NO**
20 **REASON TO BELIEVE CAPITAL INVESTED IN ARIZONA IS AT A**
21 **DISADVANTAGE?**

22 A38. I am not aware of any recently acquired utilities. I am aware several Arizona
23

24 ³⁵ Bourassa COC Dt at 22.

25 ³⁶ *Id.*

26 ³⁷ *Id.*

1 utilities³⁸ who have expressed concerns over their ability to attract capital in
2 Arizona. These concerns are directly related to the returns provided and the
3 regulatory environment in Arizona. But that isn't the point. We are attempting to
4 develop a fair and reasonable return on invested capital and, ultimately, rate of
5 return on rate base. The Commission has broad discretion, and may choose to use
6 historic test years with limited out-of-period adjustments, refuse to approve
7 adjuster mechanisms for water and wastewater utilities, and impose inverted-tier
8 water rates without considering the impact on the utility's revenues. But if it does
9 choose to adopt these policies, it cannot also ignore the impact on investment risk.
10 The criteria established by the Supreme Court in decisions such as *Bluefield Water*
11 *Works* apply in Arizona too.

12 **Q39. ARE YOU AWARE OF ANY STUDIES THAT SUPPORT YOUR**
13 **TESTIMONY THAT ARIZONA IS NOT AN ATTRACTIVE**
14 **REGULATORY ENVIRONMENT?**

15 A39. Yes. Standard and Poor's, for example, issued a report in November 2008 that
16 ranked Arizona among the least credit supportive regulatory environments.³⁹
17 Investors do recognize the overall effect of the unfavorable regulatory environment
18 here in Arizona.

19 **Q40. PLEASE RESPOND TO MR. MANRIQUE'S TESTIMONY ON PAGE 42**
20 **THAT REGULATORY RISK IS A FIRM-SPECIFIC RISK AND**
21 **INVESTORS CANNOT EXPECT TO BE COMPENSATED FOR FIRM-**
22 **SPECIFIC RISKS.**

23 A40. Mr. Manrique's assertion is undermined by the fact that the *Bluefield* standard

24 ³⁸ e.g. Arizona-American Water Company, Arizona Water Company, American States Water Company, Algonquin
25 Power & Utilities Corp.

26 ³⁹ Assessing U.S. Utility Regulatory Environments, Rating Directs, Standard and Poor's (November 7, 2008).

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

7 Mr. Manrique does not dispute the data contained in Morningstar supporting
8 small company risk premiums.⁴⁰ It stands to reason that SWC would have higher
9 beta than the sample water companies.⁴¹ Yet, Mr. Manrique blindly accepts that the
10 average beta of the much larger publicly traded water utilities as the beta for
11 SWC.⁴²

12 **Q41. ON PAGE 42 OF HIS TESTIMONY MR. MANRIQUE STATES THAT**
13 **THERE IS NO ACCEPTED ANALYSIS THAT DEMONSTRATES THAT**
14 **UTILITIES ARE SUBJECT TO THE SAME SIZE DEPENDENT BETAS AS**
15 **THE MARKET. PLEASE RESPOND.**

16 **A41.** I find it ironic that Mr. Manrique has now essentially admitted that the Staff’s often
17 cited Annie Wong study⁴³ does not prove that a firm size effect does not exist in
18 the regulated utility industry. It would appear that the Commission’s reliance on
19 Staff’s unequivocal conclusion that the firm size phenomenon does not exist for
20 regulated utilities in the Black Mountain Gas rate case was unwarranted.⁴⁴

21 _____
22 ⁴⁰ Small company risk premiums are the risk premiums not explained by the higher betas for small companies.

23 ⁴¹ Bourassa COC Dt. at 8.

24 ⁴² Manrique Dt. at 28.

25 ⁴³ Wong, Annie. “Utility Stocks and the Size Effect: An Empirical Analysis.” *Journal of the Midwest Finance Association*. 1993. Pp. 95-101.

26 ⁴⁴ Manrique Dt. at 42-43.

1 **Q42. PLEASE CONTINUE.**

2 A42. Risks that would obviously be considered by any rational investor are simply
3 ignored by Mr. Manrique. Would a rational investor really regard an equity
4 investment in SWC as presenting less risk than an equity investment in Aqua
5 America or in Connecticut Water Services, which have AA- and A bond ratings,
6 respectively? The answer is a resounding “no”.

7

8 **C. Risks Associated with Advances and Contributions**

9 **Q43. MR. MANRIQUE ALSO TESTIFIES THAT ADVANCES AND**
10 **CONTRIBUTIONS REDUCE A UTILITY’S RISK. HOW DO YOU**
11 **RESPOND TO THAT ASSERTION?**

12 A43. I agree with Mr. Manrique that plant financed with AIAC and CIAC can provide
13 benefits through access to zero-cost capital. This may eliminate the need to go into
14 the capital markets to raise additional capital. As I stated, this is why many smaller
15 utilities have higher proportions of these zero-cost capital sources.⁴⁵ But this has
16 nothing to do with an equity investor’s risk. The investor is concerned about
17 earning a fair return on the funds he has invested.

18 Mr. Manrique suggests that because refunds are often revenue based that
19 this decreases risk to the investor.⁴⁶ This does not make sense. Like debt service
20 payments, AIAC refunds take priority over investor claims on the cash flows
21 available to pay dividends. So, like debt, AIAC increases investor risk not the
22 other way around.

23 **Q44. WHAT ABOUT MR. MANRIQUE’S SUGGESTION ON PAGE 41 THAT**

24

25 ⁴⁵ Bourassa COC Dt. at 20.

26 ⁴⁶ Manrique Dt. at 40.

1 **THE REFUNDS OF AIAC RESULT IN RATE BASE INCREASES**
2 **ALLOWING FOR A GREATER POTENTIAL EARNINGS?**

3 A44. I have two comments. First, refunds of AIAC do not necessarily result in an
4 increase in rate base as implied by Mr. Manrique. It depends on the refund stream
5 and how fast the AIAC funded plant is depreciated. Second, assuming that some
6 increase in rate base does occur as a result of AIAC refunds, investors don't get
7 higher returns on the increase in their investment. That is, they don't get 10
8 percent return before the refunds are made and 11 percent return after the refunds.
9 In fact, until the increase is recognized, the return to investors goes down.

10 **Q45. PLEASE EXPLAIN.**

11 A45. Assume for simplicity that a utility's annual net earnings are \$100 and the amount
12 of rate base investment is \$1,000. The utility is earning a 10 percent return
13 (\$100/\$1,000 times 100). If a refund of AIAC is made that increases the utility's
14 investment by \$100, then the amount of investment has increased to \$1,100. But if
15 earnings are still \$100, the return on rate base investment decreases to 9.1 percent
16 (\$100/\$1,100).

17 Admittedly, this is a simplistic example. In reality, plant is depreciated and
18 when refunds are made they do not result in a \$1 for \$1 increase in rate base. And,
19 by the time the utility files its next rate case, the impact of the refunds on rate base
20 may be completely wiped by the depreciation of plant. In the meantime, it is the
21 investor who suffers from an erosion of his/her return. The bottom line is that the
22 implication by Mr. Manrique that AIAC refunds decrease investment risk because
23 they potentially increase earnings is wrong.

24 **Q46. PLEASE CONTINUE.**

25 A46. There are disadvantages to AIAC and CIAC. For example, a high percentage of
26 zero-cost capital in a utility's capital structure is detrimental to the long-term cash

1 flows of the Company because (1) the utility is not allowed to earn a return on
2 plant financed with AIAC and CIAC, and (2) the utility is not allowed to recover
3 depreciation on plant financed with CIAC. Keep in mind that plant financed with
4 AIAC and CIAC must be maintained and eventually has to be replaced. Further,
5 advances have to be refunded, diverting the utility's cash flow. Together, these
6 factors place additional stress on earnings and cash flows, which increases risk to
7 the Company as the eventual plant replacements will require the Company to raise
8 additional capital to fund the replacements.

9 **Q47. BUT AREN'T THE COSTS TO MAINTAIN PLANT INCLUDED IN**
10 **RATES, AS SUGGESTED BY MR. MANRIQUE?**

11 A47. Not necessarily. Recovery of the level of expenses included in rates for
12 maintenance and repair expenses is not guaranteed. Further, significant emergency
13 repairs that are not contemplated in the level approved in a rate case are not
14 recovered, and are often characterized as non-recurring. In addition, any
15 capitalized repairs that the Company makes, like other investments, are recognized
16 or recovered between rate cases.

17 **D. Rebuttal to Remaining Staff's Criticisms of SWC DCF Analysis**

18 **Q48. PLEASE RESPOND TO MR. MANRIQUE'S TESTIMONY ON PAGE 40**
19 **REGARDING YOUR USE OF A 5-YEAR TIME PERIOD TO MEASURE**
20 **HISTORICAL GROWTH RATES.**

21 A48. Mr. Manrique criticizes my use of 5 years of historical data to estimate growth. I
22 can provide similar criticism of Mr. Manrique's decision to use 10 years of
23 historical data. I believe a 5-year historical time period is more appropriate
24 because it includes one recent period of economic expansion and one period of
25 economic recession. A 10-year period includes one period of economic expansion
26 and two periods of economic recession. Regardless of the time period, however,

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past growth rates may be misleading because past growth rates may reflect changes in relevant variables that may not be expected to continue in the future. Value Line reports both 5- and 10-year historical growth in earnings, dividends, book value, cash flow, and revenues. Long-term analysts' forecasts are reported for 5-year periods. This information would not be reported unless it represented value to investors, whether for informational, forecasting, or analytical purposes.

Q49. WOULD IT HAVE MATTERED IF YOU USED 10-YEAR HISTORICAL DATA IN YOUR ANALYSIS?

A49. For all practical purposes, my 5-year and 10-year estimates of growth as well as my overall cost of equity in the instant case would have been about the same.

Q50. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY ON COST OF CAPITAL?

A50. Yes. Although my silence on any issue not discussed herein does not necessarily constitute agreement with Staff.

**Sahuarita Water Company
Docket No. W-03718A-09-0359**

**THOMAS J. BOURASSA
REBUTTAL TESTIMONY
(COST OF CAPITAL)
May 17, 2010**

SCHEDULES

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Summary of Cost of Capital

Exhibit
 Rebuttal Schedule D-1
 Page 1
 Witness: Bourassa

Line No.	Item of Capital	Adjusted End of Test Year			End of Projected Year		
		Dollar Amount	Percent of Total	Cost Rate	Dollar Amount	Percent of Total	Cost Rate
1	Long-Term Debt	2,816,714	18.02%	4.20%	2,724,070	16.57%	4.20%
2							
3	Stockholder's Equity ¹	12,814,367	81.98%	10.90%	13,712,994	83.43%	10.90%
4							
5	Totals	\$ 15,631,081	100.00%		\$ 16,437,064	100.00%	
6							9.79%

¹ Adjustments to Equity
 Acumm. depreciation adjustment \$ 312,565
 CIAC adjustments \$ -
 Deferred Income Tax Adjustment \$ (186,736)

SUPPORTING SCHEDULES:

RECAP SCHEDULES:

- 17 Rebuttal D-1
- 18 Rebuttal D-2
- 19 Rebuttal D-3
- 20 Rebuttal D-4

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Sahuarita Water Company, LLC
 Test Year Ended December 31, 2008
 Cost of Long Term Debt

Exhibit
 Rebuttal Schedule D-2
 Page 1
 Witness: Bourassa

Line No.	Description of Debt	Adjusted End of Test Year				End of Projected Year			
		Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost	Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost
1	WIFA Loan ¹	2,816,714	118,302	4.20%	4.20%	2,724,070	114,411	4.20%	4.20%
2		-	-	0.00%	0.00%	-	-	0.00%	0.00%
3		-	-	0.00%	0.00%	-	-	0.00%	0.00%
4		-	-	0.00%	0.00%	-	-	0.00%	0.00%
5		-	-	0.00%	0.00%	-	-	0.00%	0.00%
6		-	-	0.00%	0.00%	-	-	0.00%	0.00%
7		-	-	0.00%	0.00%	-	-	0.00%	0.00%
8		-	-	0.00%	0.00%	-	-	0.00%	0.00%
9		-	-	0.00%	0.00%	-	-	0.00%	0.00%
10		-	-	0.00%	0.00%	-	-	0.00%	0.00%
11		-	-	0.00%	0.00%	-	-	0.00%	0.00%
12		-	-	0.00%	0.00%	-	-	0.00%	0.00%
13	Totals	<u>\$ 2,816,714</u>	<u>\$ 118,302</u>		<u>4.20%</u>	<u>\$ 2,724,070</u>	<u>114,411</u>		<u>4.20%</u>

SUPPORTING SCHEDULES:
 E-2

¹ Financing approved in Decision 70984, May 5, 2009. WIFA loan of \$4,694,523 with loan forgiveness of \$1,877,809.

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Cost of Preferred Stock

Exhibit
Rebuttal Schedule D-3
Page 1
Witness: Bourassa

Line No.	Description of Issue	<u>End of Test Year</u>			<u>End of Projected Year</u>		
		<u>Shares Outstanding</u>	<u>Amount</u>	<u>Dividend Requirement</u>	<u>Shares Outstanding</u>	<u>Amount</u>	<u>Dividend Requirement</u>
1							
2							
3	NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING						
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17	<u>SUPPORTING SCHEDULES:</u>				<u>RECAP SCHEDULES:</u>		
18	E-1				D-1		
19							
20							

Sahuarita Water Company, LLC
 Summary of Results

Exhibit
 Rebuttal Schedule D-4.1

Line No.	Method	Low	High	Midpoint
1				
2				
3				
4				
5				
6	Range DCF Constant Growth Estimates ¹	9.1%	10.5%	9.8%
7				
8	Range of CAPM Estimates ²	10.4%	14.6%	12.5%
9				
10				
11	Average of DCF and CAPM midpoint estimates	9.8%	12.6%	11.2%
12				
13				
14	Financial Risk Adjustment ³	-0.8%	-0.8%	-0.8%
15				
16	Specific Company Risk Premium ⁴	0.5%	0.5%	0.5%
17				
18	Indicated Cost of Equity	9.5%	12.3%	10.9%
19				
20				
21				
22	Recommended Cost of Equity			10.9%
23				
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¹ See Rebuttal Schedule D-4-8

² See Rebuttal Schedule D-4.12

³ See Rebuttal Schedule D-4.16

⁴ See testimony.

Sahuarita Water Company, LLC
Selected Characteristics of Sample Group of Water Utilities

Exhibit
Rebuttal 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	76%	\$ 361.0	\$ 962.1	A	A2
2	2. Aqua America	90%	\$ 670.5	\$ 2,790.5	AA-	NR
3	3. California Water	99%	\$ 449.4	\$ 1,079.9	AA-	NR
4	4. Connecticut Water	90%	\$ 67.5	\$ 273.1	A	NR
5	5. Middlesex	89%	\$ 91.2	\$ 329.7	A	NR
6	6. SJW Corp.	96%	\$ 216.1	\$ 523.7	NR	NR
10	Average	90%	\$ 309.3	\$ 993.2		
13	Sahuarita Water Company, LLC	100%	\$ 2.2	\$ 21.0	NR	NR
14	(as of December 31, 2008)					

¹AUS Utility Reports (May 2010).

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25

**Sahuarita Water Company, LLC
Capital Structures**

**Exhibit
Rebuttal Schedule D-4.3**

No.	Company	Book Value ¹		Market Value ¹	
		Long-Term Debt	Common Equity	Long-Term Debt	Common Equity
1	1. American States	47.7%	52.3%	31.7%	68.3%
2	2. Aqua America	55.7%	44.3%	35.7%	64.3%
3	3. California Water	47.2%	52.8%	31.7%	68.3%
4	4. Connecticut Water	51.0%	49.0%	35.5%	64.5%
5	5. Middlesex	47.4%	52.6%	34.0%	66.0%
6	6. SJW Corp.	49.8%	50.2%	33.2%	66.8%
7	Average	49.8%	50.2%	33.6%	66.4%
8	Sahuarita Water Company, LLC (Adjusted as of December 31, 2008)	18.0%	82.0%	N/A	N/A

¹ Value Line Analyzer Data (April 23, 2010)

² Adjusted Per Rebuttal Schedule D-1

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**Exhibit
Rebuttal Schedule D-4.5**

**Sahuarita Water Company, LLC
Comparisons of Past and Future Estimates of Growth**

Line No.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	<u>Ten-year historical average annual changes</u>						
	Price ¹	Book Value ²	EPS ²	DPS ²	Average Col 1-4	Average Future Growth ³	Average of Future and Historical Growth Col 5-6
1.	8.60%	4.80%	5.36%	1.79%	5.14%	5.38%	5.26%
2.	7.94%	8.19%	6.34%	7.67%	7.53%	9.02%	8.28%
3.	7.79%	3.91%	4.09%	0.80%	4.15%	5.88%	5.01%
4.	4.73%	3.77%	2.08%	1.31%	2.97%	7.25%	5.11%
5.	4.64%	3.81%	1.24%	1.71%	2.85%	7.25%	5.05%
6.	3.01%	5.25%	1.44%	5.53%	3.81%	7.25%	5.53%
GROUP AVERAGE	6.12%	4.96%	3.42%	3.13%	4.41%	7.01%	5.71%
GROUP MEDIAN	6.26%	4.36%	3.08%	1.75%	3.98%	7.25%	5.18%

¹ Average of changes in annual stock prices ending in 2009. Data from Yahoo Finance website.

² Data derived from Value Line Investment Survey and/or 10K Reports for period 2000 to 2009.

³ See Rebuttal Schedule D-4.6.

Sahuarita Water Company, LLC
Analysts Forecasts of Earnings Per Share Growth

Exhibit
Rebuttal Schedule D-4.6

Line No.	[1]	[2]	[3]	[4]	[5]
	ESTIMATES OF EARNINGS GROWTH				
	<u>Company</u>	<u>Zacks</u> ¹	<u>Reuters</u> ¹	<u>Yahoo</u> ¹	<u>Value Line</u> ¹
1	1. American States	4.00%	4.00%	7.00%	6.50%
2	2. Aqua America	8.00%	8.25%	8.33%	11.50%
3	3. California Water	7.00%	4.00%	6.00%	6.50%
4	4. Connecticut Water			15.00%	
5	5. Middlesex			8.00%	
6	6. SJW Corp.			10.00%	
7					Average Growth (G) (Cols 1-4) ²
8					5.38%
9					9.02%
10					5.88%
11					7.25%
12					7.25%
13					7.25%
14					
15	GROUP AVERAGE	6.33%	5.42%	9.06%	8.17%
16	GROUP MEDIAN				7.01%
17					7.25%
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¹ Data as of April 23, 2010

² Where no data available or single estimate, average of other utilities assumed to estimate for utility.

Sahuarita Water Company, LLC
Current Dividend Yields for Water Utility Sample Group

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	1. American States	\$ 38.09	\$ 1.04	2.73%	2.86%
2	2. Aqua America	\$ 18.47	\$ 0.60	3.25%	2.80%
3	3. California Water	\$ 38.90	\$ 1.19	3.06%	3.12%
4	4. Connecticut Water	\$ 23.95	\$ 0.91	3.81%	3.58%
5	5. Middlesex	\$ 18.12	\$ 0.72	3.98%	3.99%
6	6. SJW Corp.	\$ 27.28	\$ 0.70	2.55%	2.27%
7					
8					
9					
10					
11					
12					
13	Average			3.23%	3.10%
14	Median			3.15%	2.99%
15					

¹ Value Line Analyzer Data. Stock prices as of April 23, 2010.

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.

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Sahuarita Water Company, LLC
Discounted Cash Flow Analysis
DCF Constant Growth

Exhibit
Rebuttal 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	3.23%	3.41%	5.68% ³	9.1%
10	3.23%	3.46%	7.01% ⁴	10.5%
13	3.23%	3.43%	6.34%	9.8%

¹ Spot Dividend Yield = D_0/P_0 . See Rebuttal Schedule D-4.7.

² Expected Dividend Yield = $D_1/P_0 = D_0/P_0 * (1+g)$.

³ Growth rate (g). Average of Past and Future Growth. See Rebuttal Schedule D-4.4, column 7

⁴ Growth rate (g). Average of Analyst Estimates Future Growth. See Rebuttal Schedule D-4.6.

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28

Sahuarita Water Company, LLC
Market Betas

Exhibit
Rebuttal Schedule D-4.9

Line No.	Company	Beta (β) ¹
1	American States	0.80
2	Aqua America	0.65
3	California Water	0.75
4	Connecticut Water	0.80
5	Middlesex	0.75
6	SJW Corp.	0.95
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8		
9	Average	0.78
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¹ Value Line Investment Analyzer data (April 23, 2010)
 Note: Beta is a relative measure of the historical sensitivity of a stock's price to overall fluctuations in the New York Stock Exchange Composite Index. A Beta of 1.50 indicates a stock tends to rise (or fall) 50% more than the New York Stock Exchange Composite Index. The "Beta coefficient" is derived from a regression analysis of the relationship between weekly percent-age changes in the price of a stock and weekly percentage changes in the NYSE Index over a period of five years. In the case of shorter price histories, a smaller time period is used, but two years is the minimum. The Betas are adjusted for their long-term tendency to converge toward 1.00.

Sahuarita Water Company, LLC
Forecasts of Long-Term Interest Rates
2011-2012

Exhibit
Rebuttal Schedule D-4.10

Line No.	Description	<u>2011</u>	<u>2012</u>	<u>Average</u>
1				
2				
3				
4				
5				
6	Blue Chip Consensus Forecasts ¹	5.1%	5.5%	5.3%
7				
8	Value Line ²	4.9%	5.3%	5.1%
9				
10	Average			5.2%
11				
12				
13				
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¹ December 2009 Blue Chip Financial Forecasts consensus forecast of 30 Year U.S. Treasury

² Value Line Quarterly forecast, dated February 26, 2010, Long-term Treasury

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**Exhibit
Rebuttal Schedule D-4.11**

**Sahuarita Water Company, LLC
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)
4	Jan 2009	4.86%	6.32%	+ 30.02%	= 36.34%	= 3.13%	= 33.21%
5	Feb	5.50%	7.43%	+ 35.13%	= 42.56%	= 3.59%	= 38.97%
6	Mar	4.21%	5.36%	+ 27.33%	= 32.69%	= 3.64%	= 29.05%
7	April	3.66%	4.47%	+ 22.05%	= 26.52%	= 3.76%	= 22.76%
8	May	3.46%	4.14%	+ 19.67%	= 23.81%	= 4.23%	= 19.58%
9	Jun	3.25%	3.87%	+ 19.16%	= 23.03%	= 4.52%	= 18.51%
10	Jul	2.90%	3.37%	+ 16.31%	= 19.68%	= 4.41%	= 15.27%
11	Aug	2.82%	3.22%	+ 14.21%	= 17.43%	= 4.37%	= 13.06%
12	Sept	2.80%	3.20%	+ 14.32%	= 17.52%	= 4.19%	= 13.33%
13	Oct	2.75%	3.15%	+ 14.49%	= 17.64%	= 4.19%	= 13.45%
14	Nov	2.68%	3.05%	+ 13.88%	= 16.93%	= 4.31%	= 12.62%
15	Dec 2009	2.56%	2.88%	+ 12.58%	= 15.46%	= 4.35%	= 11.11%
16	Jan 2010	2.64%	3.00%	+ 13.71%	= 16.71%	= 4.48%	= 12.23%
17	Feb	2.59%	2.97%	+ 14.65%	= 17.62%	= 4.48%	= 13.14%
18	Mar	2.44%	2.75%	+ 12.69%	= 15.44%	= 4.48%	= 10.96%
22	Recommended	2.56%	2.91%	+ 13.68%	= 16.59%	= 4.48%	= 12.11%
24	<u>Short-term Trends</u>						
25	Recent Twelve Months Avg	2.88%	3.34%	+ 15.64%	= 18.98%	= 4.31%	= 14.67%
26	Recent Nine Months Avg	2.69%	3.07%	+ 14.09%	= 17.16%	= 4.36%	= 12.80%
27	Recent Six Months Avg	2.61%	2.97%	+ 13.67%	= 16.63%	= 4.38%	= 12.25%
28	Recent Three Months Avg	2.56%	2.91%	+ 13.68%	= 16.59%	= 4.48%	= 12.11%

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 (D₀/P₀) 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.

Sahuarita Water Company, LLC
 Capital Asset Pricing Model (CAPM)

Exhibit
 Rebuttal Schedule D-4.12

Line No.	Rf ¹	+	beta ³	x	Rp	=	k
1							
2							
3	5.2%	+	0.78	x	6.7%	=	10.4%
4							
5	5.2%	+	0.78	x	12.1%	=	14.6%
6							
7							12.5%
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							

Historical Market Risk Premium CAPM

Current Market Risk Premium CAPM

Average

¹ Forecasts of long-term treasury yields. See Rebuttal Schedule D-4.10.

² Value Line Investment Analyzer data. See Rebuttal Schedule D-4.9.

³ Historical Market Risk Premium from (Rp) MorningStar S&P 500 2010 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2009

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 Rebuttal Schedule D-4.11.

Sahuarita Water Company, LLC
Financial Risk Computation

Exhibit
Rebuttal Schedule D-4.13

Line No.									
1	<u>CAPM</u>								
2		Rf	+	β	x	(Rp)	=	k	
3	Historical Market Risk Premium	5.2%	1	0.78	2	6.7%	3	10.4%	
4	Current Market Risk Premium	5.2%	1	0.78	2	12.1%	4	14.6%	
5									
6	Average								12.5%
7									
8									
9	<u>CAPM Relevered Beta</u>								
10		Rf	+	β	x	(Rp)	=	k	
11	Historical Market Risk Premium	5.2%	1	0.69	5	6.7%	3	9.8%	
12	Current Market Risk Premium	5.2%	1	0.69	5	12.1%	4	13.6%	
13									
14	Average								11.7%
15									
16	Financial Risk Adjustment								<u>-0.8%</u>
17									
18									

¹ Forecast of long-term treasury yields. See Rebuttal Schedule D-4.10

² Value Line Investment Analyzer data. See Rebuttal Schedule D-4.9

³ Historical Market Risk Premium from (Rp) MorningStar S&P 500 2010 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2009

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 Rebuttal Schedule D-4.11

⁵ Relevered beta found on Rebuttal Schedule D-4.15

Exhibit
Rebuttal Schedule D-4.14

Sahuarita Water Company, LLC
Financial Risk Computation
Unlevered Beta

Line No.	Company	VL Beta β_L^1	Raw Beta β^2	Tax Rate t^3	MV Debt $\frac{D^4}{E^4}$	MV Equity $\frac{E^4}{E^4}$	Unlevered Raw Beta β_U^5
1	American States	0.80	0.70	37.8%	31.7%	68.3%	0.54
2	Aqua America	0.65	0.48	39.4%	35.7%	64.3%	0.36
3	California Water	0.75	0.63	38.0%	31.7%	68.3%	0.49
4	Connecticut Water	0.80	0.70	19.5%	35.5%	64.5%	0.49
5	Middlesex	0.75	0.63	34.1%	34.0%	66.0%	0.47
6	SJW Corp.	0.95	0.93	40.4%	33.2%	66.8%	0.72
11							
12							
13	Sample Water Utilities	0.78	0.68	34.8%	33.6%	66.4%	0.51
14							
15							
16							
17							
18							
19							
20							

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) * Raw beta
² Raw Beta = (VL beta - .33)/(.67)
³ Effective tax rates for year ended December 31, 2009.
⁴ See Rebuttal Schedule D-4.3
⁵ Raw $\beta_U = \text{Raw } \beta_L / (1 + (1-t)D/E)$

Exhibit
Rebuttal Schedule D-4.15

Sahuarita Water Company, LLC
Financial Risk Computation
Relevered Beta

Line No.	Unlevered Raw Beta β_{UL}^1	MV Book Debt BD^2	9.5%	MV Equity Capital EC^2	90.5%	Tax Rate t^3	35.26%	Relevered Raw Beta $\beta_{RL} = \beta_{UL} (1 + (1-t)BD/EC)$	β_{BL}	0.54	VL Adjusted Relevered Beta β_{BL}	$.33 + .67(\text{Raw Beta})$	0.69
1													
2													
3													
4													
5		Sahuarita Water Company, LLC	0.51										
6													
7													
8													
9													
10													
11													
12													
13													
14													
15													

¹ Unlevered Beta from Table 18.

² Capital Structure of Company (Projected)

Line No.	BV (in Thousands)	MV (in Thousands)	%
16	\$ 2,814.52	\$ 2,815	9.50%
17	-	-	0.0%
18	13,578.75	26,698	90.5%
19	16,393	29,512	100.0%
20			
21			

(a) Current market-to-book ratio of sample water utilities. See work papers.

³ Current Tax rate based on test year ending 2009. See Rebuttal Schedule D-1.

Sahuarita Water Company, LLC
Size Premium¹

Exhibit
Rebuttal Schedule D-4.16

Line No.	Beta(β)	Size Premium	Risk Premium for Small Water Utilities ⁷
1			
2			
3			
4			
5			
6	1.13	0.90%	
7			
8	1.26	1.56%	
9			
10	1.51	2.83%	
11			
12	1.64	4.43%	2.29%
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
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42			
43			

Estimated Risk Premium for small water utilities⁶

0.99%

¹ Data from Table 7-11 of Morningstar, *Ibbotson S&P 500 2010 Valuation Yearbook*.

² Mid-Cap companies includes companies with market capitalization between \$1,602 million and \$5,936 million.

³ Low-Cap companies includes companies with market capitalization between \$432 million and \$1,600 million.

⁴ Micro-Cap companies includes companies with market capitalization less than \$431 million.

⁵ Decile 10 includes companies with market capitalization between \$1.0 million and \$214 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. (Millions)	Class	Size Premium	Difference to Decile 10	Weight	Weighted Size Premium
\$ 659	Low-Cap	1.56%	2.87%	0.1666667	0.48%
\$ 2,501	Mid-Cap	0.90%	3.53%	0.1666667	0.59%
\$ 805	Low-Cap	1.56%	2.87%	0.1666667	0.48%
\$ 204	Decile 10	4.43%	0.00%	0.1666667	0.00%
\$ 243	Micro-Cap	2.83%	1.60%	0.1666667	0.27%
\$ 496	Low-Cap	1.56%	2.87%	0.1666667	0.48%
Weighted Size Premium for Small Companies					2.29%

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Cost of Common Equity

Exhibit
Rebuttal Schedule D-
Page 1
Witness: Bourassa

Line
No.

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
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The Company is proposing a cost of common equity of 10.90% .

SUPPORTING SCHEDULES:

E-1

RECAP SCHEDULES:

D-1

**Sahuarita Water Company
Docket No. W-03718A-09-0359**

**THOMAS J. BOURASSA
REBUTTAL TESTIMONY
(COST OF CAPITAL)
May 17, 2010**

EXHIBIT TJB-COC-RB1

Application No.: 07-05-007
Exhibit No.: _____
Witness: Gary H. Hayes
Date: August 28, 2007

Exhibit	<u>4b</u>
CPLC Proceeding	<u>A-07-05-007-AT-AL</u>
Sponsor / Witness	<u>SDGE / HAYES</u>
Date Ident.	<u>7/12/07</u>
Recd.	<u>7/12/07</u>
Michael J. Galvin Administrative Law Judge	

Application No. 07-05-007
Exhibit No. SDGE-5

SAN DIEGO GAS & ELECTRIC COMPANY
PREPARED REBUTTAL TESTIMONY OF
GARY H. HAYES

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

August 28, 2007

Appendix B

Analyst Growth-Forecast Research

This survey, prepared at the request of SDG&E by Dr. James H. Vander Weide, Research Professor of Finance and Economics at Duke University, summarizes nine articles that address whether analysts' growth forecasts are overly optimistic. Seven of the nine articles reviewed find no evidence that analysts' growth forecasts are overly optimistic. Two find evidence of optimism, but also conclude that optimism has been declining significantly over time. Of these two studies, one finds that analysts' forecasts for the S&P 500 are pessimistic for the last four years of the study. The summaries are listed in chronological order.

Crichfield, T., Thomas Dyckman and Josef Lakonishok (1978). "An evaluation of security analysts' forecasts." *The Accounting Review* 53(3): 651-668.

The authors study the ability of security analyst to provide unbiased estimates of earnings per share and compare analysts' forecasts to forecasts made using simple statistical models based on historical EPS data. Their study is based on data during the period 1967 - 1976 from the *Earnings Forecaster* published by Standard & Poor's, and the final sample consists of 46 firms. The authors conclude that the analysts perform well in terms of forecast accuracy when compared to the forecasts produced by five statistical models. Their tests also support the hypothesis that analysts predict EPS changes without significant systematic bias.

Elton, E. J., Martin J. Gruber and Mustafa N. Gultekin (1984). "Professional expectations: accuracy and diagnosis of errors." *Journal of Financial and Quantitative Analysis* 19(4): 351-363.

The authors examine five questions regarding analysts' EPS forecasts: (1) what is the size and pattern of analysts' errors; (2) what is the source of errors; (3) are some firms more difficult to predict than others; and (4) is there an association between errors in forecasts and divergence of analysts' estimates. The authors use the I/B/E/S database of earnings forecasts for a sample of 414 firms for the three years 1976 through 1978, and they compare the I/B/E/S forecasts to actual earnings for each of the next two years. The authors conclude that analysts were accurate in estimating the average level of growth in

earnings for all stocks in the sample. However, analysts did have greater divergence of opinion for some industries, and the diversion in analysts' opinions is positively related to forecast error.

Givoly, D., and Josef Lakonishok (1984). "Properties of analysts' forecasts of earnings: a review and analysis of the research." *Journal of Accounting Literature*.3: 119-148.

Givoly and Lakonishok review the status of the research on security analysts' forecasts up to 1984, and they conclude that: (1) the performance of analysts' forecasts is in general superior to that of statistical models, a result that is consistent with a rational market for forecasting services, where the higher costs of financial analysts' forecasts is compensated with better performance; and (2) financial analysts' forecasts incorporate the past history of realizations and predictions in an unbiased manner.

Brown, L. D. (1997). "Analyst forecasting errors: additional evidence." *Financial Analysts Journal* November/December: 81-88.

Using data from I/B/E/S for the period 1985 - 1996, Brown studies whether: (1) analysts' forecasts are optimistic; (2) potential optimistic bias is constant over time; and (3) analysts' forecasting errors are smaller for S&P 500 firms, firms with large market capitalization, firms with greater analyst following, and firms in particular industries. For the entire period, Brown finds that model and median values of analysts' forecast errors are zero, but mean errors are negative. He finds that the negative mean forecast error results from a relatively small number of large forecast errors, indicating that these errors are associated with large accounting write-offs for a small number of firms in certain years. In addition, he finds that: (1) the mean analyst forecast error decreases significantly over the period of his study; and (2) optimistic bias of mean forecasts for S&P 500 firms is significantly less than optimistic bias for all firms, and, indeed, analysts for S&P 500 firms are, on average, pessimistic for the years 1993 - 1996; (3) optimistic bias is less for large firms than for small firms; and (4) optimistic bias is less for firms in certain industries compared to other industries, with the best forecasts for the following industries: food and related products, transportation equipment, communications, and electric, gas, sanitary services.

Keane, M. P., and David B. Runkle (1998). "Are financial analysts' forecasts of corporate profits rational." *The Journal of Political Economy* 106(4): 768-805.

Keane and Runkle demonstrate that previous inferences regarding analyst optimism are strongly affected by correlation in analyst forecast errors across forecasts and firms and by unexpected accounting write-offs and special charges. They develop a new estimator of bias that gives correct statistical inference when forecast errors are correlated, and they show that previous studies' failure to account for correlation led to a conclusion that analysts are optimistic. Using an I/B/E/S database over the period 1983 - 1991, they also demonstrate that a correct test for analyst optimism leads to the conclusion that analysts are unbiased.

In addition to problems caused by correlation in analysts' earnings forecasts, the authors also address the problems caused by unanticipated accounting accruals. Similar to Abarbanell (2003), they demonstrate that statistical tests of optimism are distorted by discretionary special accounting charges in the forecast period. Failure to adjust for discretionary special accounting charges in the company sample under study distorts statistical results in the direction of favoring the conclusion of biased analysts' forecasts. The authors conclude that the evidence in their paper strongly supports the view that professional stock market analysts make rational forecasts of earnings per share for the companies they follow.

Abarbanell, J., and Reuven Lehavy (2003). "Biased forecasts or biased earnings? The role of reported earnings in explaining apparent bias and over/underreaction in analysts' earnings forecasts." *Journal of Accounting & Economics* 36: 105-146.

Abarbanell and Lehavy investigate whether the apparent bias in analysts' earnings forecasts that appears in some research studies is explained by large accounting write-offs and special charges made by a small number of sample firms. The Abarbanell/Lehavy study is based on a large database of consensus earnings forecasts provided by Zacks for the period 1985 – 1998. When Abarbanell/Lehavy examine the distribution of analysts' forecast errors over this time period, they find that the only statistical indication that supports the argument for analyst optimism is a fairly large negative mean forecast error. In contrast, the median error is zero, suggesting unbiased forecasts, while the percentage of positive errors is significantly greater than the percentage of negative errors (48 percent versus 40 percent), suggesting apparent analyst pessimism. Similar to Brown (1997), Abarbanell/Lehavy explain this phenomenon by observing that the left tail (the optimistic tail of the distribution) contains significantly more extreme errors of greater magnitude than the right tail (the pessimistic tail) of the distribution. Abarbanell/Lehavy's conclusion is supported by a correlation study that examines the relationship between extreme negative forecast errors with extreme negative unexpected accruals. The correlation study indicates a direct connection between the extreme errors in the left tail of the error distribution and unexpected accounting accruals. Once the effect of accounting accruals is removed the study, Abarbanell/Lehavy find that the mean forecast error becomes zero, indicating that there is no tendency for analysts' forecasts to be optimistic.

Ciccone, S. J. (2005). "Trends in analyst earnings forecast properties." *International Review of Financial Analysts* 14: 1-22.

Ciccone examines trends in analysts forecast dispersion, error, and optimism using First Call 120,022 quarterly observations from 1990 – 2001. He finds that analyst optimism declined significantly over the period of his study and that analysts' forecasts for profitable firms became pessimistic in the last several years of his study period. He concludes that analyst optimism is no longer an issue and that, "[i]f anything, analysts have a new concern: earnings pessimism for profit firms."

Clarke, J., Stephen P. Ferris, Narayanan Jayaraman, and Jinsob Lee (2006). "Are analyst recommendations biased? Evidence from corporate bankruptcies." *Journal of Financial and Quantitative Analysis* 41(1): 169-196.

The authors test whether a bias exists in analysts' recommendations for firms that filed for bankruptcy in the period 1995 – 2001. Their database consists of a final set of 289 firms that filed for bankruptcy during this period and that have I/B/E/S analysts' forecasts. As a comparison sample, the authors identify a matching group of firms with the same SIC code and that have a similar likelihood of bankruptcy as measured by the Altman z-score. The authors test for optimism by comparing the analysts' recommendations for the companies in the bankrupt group to the matched sample of companies in the non-bankrupt group in five categories—strong buy, buy, hold, under-perform, and sell. They find that, on average, analysts' recommendations are significantly lower for the companies that eventually go bankrupt than for the matched companies that do not file for bankruptcy. From this comparison, the authors conclude that the hypothesis that analysts' recommendations are optimistic should be rejected.

Yang, R., and Yaw M. Mensah (2006). "The effect of the SEC's regulation fair disclosure on analyst forecast attributes." *Journal of Financial Regulation and Compliance* 14(2): 192-209.

Regulation fair disclosure ("Reg. FD"), issued on October 23, 2000, prohibits selective disclosure of material non-public information to financial analysts, institutional investors, and others prior to making it available to the general public. Before the implementation of Reg. FD, most conference calls with analysts were accessible only to certain analysts and institutional investors. The authors examine whether Reg. FD has influenced analysts' earnings forecast accuracy and forecast dispersion for companies that routinely conduct conference calls as well as for companies that do not conduct conference calls. Using I/B/E/S forecast data for the period October 1998 through September 2002 and 12,806 firm-quarter observations in pre-Reg FD period and 13,104 firm-quarter observations in the post-Reg FD period, the authors examine the descriptive statistics of analysts' forecast errors in the pre-Reg. FD and post-Reg. FD environments. They conclude that Reg. FD had little influence on analysts' forecast errors: the mean forecast error was approximately zero in both the pre-and post-Reg. FD periods.