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FENNEMORE CRAIG
A Professional Corporation
Jay L. Shapiro (No. 014650)
Todd C. Wiley (No. 015358)
3003 N. Central Ave., Suite 2600
Phoenix, Arizona 85012
Attorneys for Applicants

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF BELLA VISTA WATER CO., INC. AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. W-02465A-09-0411
IN THE MATTER OF THE APPLICATION OF NORTHERN SUNRISE WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. W-20453A-09-0412
IN THE MATTER OF THE APPLICATION OF SOUTHERN SUNRISE WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. W-20454A-09-0413

Arizona Corporation Commission
DOCKETED
MAY 25 2010
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IN THE MATTER OF THE JOINT APPLICATION OF BELLA VISTA WATER CO., INC., NORTHERN SUNRISE WATER COMPANY, INC., AND SOUTHERN SUNRISE WATER COMPANY, INC. FOR APPROVAL OF AUTHORITY TO CONSOLIDATE OPERATIONS, AND FOR THE TRANSFER OF UTILITY ASSETS TO BELLA VISTA WATER CO., INC. PURSUANT TO ARIZONA REVISED STATUTES 40-285.	DOCKET NO. W-02465A-09-0414 DOCKET NO. W-20453A-09-0414 DOCKET NO. W-20454A-09-0414

Bella Vista Water Co., Inc. ("BVWC"), Northern Sunrise Water Company, Inc. ("NSWC"), and Southern Sunrise Water Company, Inc. ("SSWC") (jointly "Applicants") hereby submit this Notice of Filing Rebuttal Testimony in the above-referenced matter. Specifically filed herewith are the Applicants' rebuttal testimonies, which include the following testimonies, along with supporting schedules and/or attachments:

1. Rebuttal Testimony of Gregory S. Sorensen;
2. Rebuttal Testimony of Peter Eichler;
3. Rebuttal Testimony of Thomas J. Bourassa (Rate Base); and
4. Rebuttal Testimony of Thomas J. Bourassa (Cost of Capital).

RESPECTFULLY SUBMITTED this 25th day of May, 2010.

FENNEMORE CRAIG, P.C.

By: _____
Jay L. Shapiro
Todd C. Wiley
Attorneys for Bella Vista Water Co., Inc., Northern Sunrise Water Company, Inc., and Southern Sunrise Water Company, Inc.

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COPY sent via e-mail and U.S. mail
this 25th day of May, 2010 to:

Jane L. Rodda, Administrative Law Judge
Hearing Division
Arizona Corporation Commission
400 West Congress
Tucson, AZ 85701

COPY hand-delivered
this 25th day of May, 2010 to:

Robin Mitchell, , Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

COPY mailed
this 25th day of May, 2010 to:

Michelle Wood, Esq.
Residential Utility Consumer Office
1110 W. Washington St., Suite 220
Phoenix, Arizona 85007

By: Maria San Jose

2316599.1/17962.008

FENNEMORE CRAIG
A Professional Corporation
Jay L. Shapiro (No. 014650)
Todd C. Wiley (No. 015358)
3003 N. Central Ave.
Suite 2600
Phoenix, Arizona 85012
Attorneys for Applicants

BEFORE THE ARIZONA CORPORATION COMMISSION

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REBUTTAL TESTIMONY OF

GREG SORENSEN

May 25, 2010

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I. INTRODUCTION AND PURPOSE OF TESTIMONY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

Q. ARE YOU THE SAME GREG SORENSEN THAT FILED DIRECT TESTIMONY IN SUPPORT OF ALL 3 RATE APPLICATIONS AND IN SUPPORT OF CONSOLIDATION?

A. Yes. Specifically, four separate volumes of my direct testimony were filed; one each on behalf of the Applicants, Bella Vista Water Co., Inc. ("BVWC"), Northern Sunrise Water Company, Inc. ("NSWC"), and Southern Sunrise Water Company, Inc. ("SSWC"), and a fourth volume in support of consolidation. When referring to the three utilities collectively, including a consolidated BVWC, I will use BVWC in my rebuttal.

Q. HAS ANYTHING CHANGED WITH RESPECT TO YOUR EMPLOYMENT?

A. No, I am still employed by Algonquin Water Services dba Liberty Water, as Director of Operations for the Western Group. I would only note that since these rate cases were filed, we have continued to promote association of the Liberty Water name with our operations throughout Arizona, as well as significantly expanded our efforts to work within the regulatory community.

Q. WHAT TOPICS WILL YOU ADDRESS IN THIS REBUTTAL TESTIMONY?

A. I will touch briefly on consolidation and RUCO's cost of debt as part of its hypothetical capital structure. The remainder and majority of my rebuttal testimony focuses on engineering issues, including water testing costs, HUFs and plant retirements.

II. CONSOLIDATION

Q. PLEASE SUMMARIZE THE REQUESTED "CONSOLIDATION"?

A. In the filings that started this docket we asked the Commission to first, consolidate the 3 rate cases we filed, and, second, to approve the consolidation of the three water companies, BVWC, NSWC and SSWC, into one water company, BVWC. The Commission timely granted the requested consolidation of the dockets.

Q. DO STAFF AND RUCO ADDRESS THE REQUESTED CONSOLIDATION OF THE THREE COMPANIES?

A. Neither addresses the technicalities or the practicalities of merging the three entities into one entity in this specific instance. While we may not agree with her entirely, Ms. Jerich does provide a useful background discussion on rate consolidation and RUCO's positions in her testimony. Both Staff and RUCO also provide consolidated rates.

Q. SO PARTIES SUPPORT CONSOLIDATION OF THE WATER COMPANIES INTO A CONSOLIDATED BVWC?

A. RUCO does not oppose consolidation if the Commission concludes it is in the public interest.[1] Staff is recommending consolidated rates, unless the Commission decides it wants stand-alone rates.[2] In other words, it appears that the path to consolidation is presently clear of opposition.

III. ENGINEERING AND OTHER STUFF IN DISPUTE WITH STAFF

Q. HAVE YOU REVIEWED THE TESTIMONY OF STAFF'S ENGINEER, MARLIN SCOTT, JR?

A. Yes, and we have worked with Mr. Scott both in this rate case and before it was filed as Mr. Scott has been the Staff engineer working with us in connection with

[1] Direct Testimony of Jodi A. Jerich at 4:17-19.

[2] Direct Testimony of Crystal S. Brown ("Brown Dt.") at 3:20-25, 6:17-19.

the "McLain" mess for the past few years.

Q. ARE THERE SPECIFIC AREAS OF DISAGREEMENT BETWEEN YOU AND STAFF ENGINEERING IN THIS CASE?

A. Yes. Staff recommends denial of the requested HUF tariff for BVWC despite recommending HUF tariffs for NSWC and SSWC.[3] We disagree with the reasons for denial of the HUF for BVWC; also, it is a little unclear to us how it will work if the systems are all consolidated.

Q. IS THAT THE ONLY AREA OF DISAGREEMENT?

A. Not exactly.

Q. PLEASE EXPLAIN.

A. In reading page 3 of Mr. Scott's BVWC Engineering Report, it appears that Staff's recommendation No. 3 contains an error.[4] Based upon Mr. Scott's response to Company DR 1.3, the $3,920 should be $18,805. We believe Mr. Scott will change that in his Surrebuttal testimony. However, in reviewing Mr. Scott's testimony, the Company discovered that the testing cost represents an annual testing cost, but only for a year within our Compliance Period (which is 3, three year periods, or nine years total) with a small amount of Compliance Sampling. As part of this Compliance Period, every three years, the Company will have a larger amount of Compliance Sampling to test for constituents such as SOCs (synthetic organic compounds). As a result of this oversight, which the Company did not catch this in the original filing either, we are proposing an adjustment to recognize the projected 3-year average water testing expense of $58,527 at BVWC, $4,357 at NSWC and $3,767 at SSWC, for a total of $66,652 (*see* **Exhibit GS-RB1**). Staff, in its response to Company DR 1.6, was concerned regarding the determination of

[3] Direct Testimony of Marlin Scott, Jr. ("Scott Dt."), Exhibit MSJ at 3, 26, 49.

[4] *Id.*

these figures, but was willing to work with the Company so that we could better explain and support those figures. We hope to work with Staff and RUCO before their surrebuttal filing in an attempt to reach agreement on this issue. I have attached the Sierra Vista (BVWC, NSWC, and SSWC) sampling plan (**Exhibit GS-RB2**), along with a price quote from an independent, third-party lab for the testing costs for support of this adjustment (**Exhibit GS-RB3**).

Q. WHAT ABOUT STAFF'S RECOMMENDATIONS REGARDING NON-ACCOUNT WATER?

A. I do not necessarily agree with all of Mr. Scott's conclusions; nor do I believe we have a significant water loss problem.[5] However, given the importance of minimizing non-account water to the greatest extent possible, we do not object to most of Staff's monitoring, reporting and other recommendations.[6]

Q. WHAT ASPECT OF STAFF'S RECOMMENDATIONS DO YOU HAVE A CONCERN OVER, MR. SORENSEN?

A. One of Mr. Scott's recommendations is effectively that we read the customer meters at the same time we do the production meters.[7] Since we have several thousand customers, we can't read all the meters in one day (i.e., the last day of month) like we do the production meters. In fact, BVWC has 4 billing cycles so meters are being read on an almost continuous basis, and NSWC/SSWC each have two billing cycles. We are certainly willing to work with Staff to try to develop an operational method to better match billing and production reads to allow for better determination of annual water loss. One possible solution that can be discussed/considered is the implementation of AMI meters, which can deliver

[5] *Id.* at 2 – 3, 25 – 26, 48 – 49.

[6] *Id.*

[7] *Id.*

customer water use/read information four times daily. Combined with full production system SCADA, this would greatly reduce or virtually eliminate differences in bill cycle vs. production. However, the cost of implementing AMI would not be immaterial. There may be other ideas to work with, but the one Mr. Scott has proposed is simply not workable.

Q. YOU TESTIFIED THAT YOU DO NOT THINK YOU HAVE A "SIGNIFICANT" WATER LOSS PROBLEM IN THE SYSTEMS. WOULD YOU CARE TO ELABORATE?

A. Like many utility operators, we do not adhere to a strict 10 percent water loss standard. This business does not subject itself well to one-size fits all standards, which is why groups like the AWWA look not only at numbers, but operational realities. For example, when discussing water loss in the former McLain systems, I would hope that Staff and Commission take into consideration the condition of the McLain systems, their piping, materials, etc. when assessing those systems' water loss and comparing it to a "normal" water utility. There have been many improvements in those systems over the past four years, but reinvestment in the distribution mains to further reduce unaccounted for water could be extremely expensive to the ratepayers.

Q. OKAY. YOU MENTIONED DISAGREEMENT WITH STAFF OVER THE HUF TARIFF. COULD YOU PLEASE RESPOND IN MORE DETAIL?

A. Yes. As mentioned, Staff recommends denial of the HUF for BVWC but approval of the HUF for the two Sunrise systems. What happens if we consolidate, which no party opposes? Do we only apply the HUF in the former Sunrise systems but not BVWC? How is that fair and how does that benefit the entire system? Staff does not address any of these apparent conflicts.

Q. WHY DOES STAFF RECOMMEND DENIAL OF THE HUF FOR BVWC?

A. Staff says that the funds will not benefit the entire system because BVWC has adequate water supply and storage capacity.[8] Again, what if this ends up as one utility? And doesn't the use of CIAC to make sure growth pays for itself as necessary always benefit the entire system by avoiding the Company and its ratepayers having to take build out risk and cost? These ambiguities and inconsistencies lead us to continue to advocate that a HUF be approved for the entire consolidated BVWC.

Q. DOES BVWC NEED ADDITIONAL CAPACITY?

A. We are still reviewing Mr. Scott's engineering calculations regarding our Bella Vista system's capacity. However, from an operational perspective, we have concerns with regard to water supply for existing customers and buffer capacity for reasonable near term growth. Approximately 3 years ago, the South system (Rail Oaks) had to implement a curtailment of water. We have since added some storage and valves to allow for better flow of water, but we still have a need for water supply in the South systems. That is somewhat true for existing customers, and certainly true for any growth. The City system operates within its current demand. However, there remains concern that additional growth and the associated demand it will place on the water supply will necessitate additional wells to be drilled to meet that future demand. As such, I believe a HUF is warranted for the BVWC system as a whole, even though some sub-parts may not completely require capacity expansions of all types to meet current demand.

Q. ANY OTHER AREAS OF DISAGREEMENT OVER THE HUF?

A. Yes, Staff accepts some, but not all of the language in our recommended HUF

[8] *Id.* at 17.

tariffs.[9] We can accept some of Staff's changes, but not all, and we also wish to propose additional language of our own for the HUF tariff.

Q. HAVE YOU PREPARED A NEW PROPOSED HUF TARIFF?

A. Yes, the new form of HUF tariff for the consolidated BVWC is attached to my rebuttal testimony as **Exhibit GS-RB4**. I have shown the additions in "track changes" format using Mr. Scott's version as the base, so as to highlight the few differences that remain between the Company's position and that of Staff.

Q. WOULD YOU PLEASE IDENTIFY AND EXPLAIN EACH OF THE MATERIAL CHANGES YOU HAVE MADE FROM STAFF'S PROPOSED FORM OF HUF TARIFF?

A. Yes. For starters, our HUF applies to the entirety of a consolidated BVWC, or in the alternative, would apply equally in all three utilities if consolidation was not ordered. Next, in Section IV(A), I have reinserted language the Company proposed in our Application. This language allows the Company to supplement the original HUF paid with a "true-up" in the event the property owner changes the use, and in turn the water demand, of the property subsequent to the original HUF being paid or in the event a property developed prior to this HUF's effective date changes use after the effective date. For example, suppose a 10 acre parcel has a 1 story 3,000 square foot office building on it, served by a ¾" meter, and has paid the appropriate HUF of $2,400. Now suppose that the property owner changes the use of the property to now be a water/amusement park, and the same 10 acre parcel now requires a 4" meter to serve the property, whose HUF would be $40,000. Under the Company's proposed language, we would be able to charge the developer the additional $37,600 due to the additional demand place on the system.

[9] *Id.* at 36, 43 – 46, 58.

However, under Staff's proposed language, the Company would not be able to collect that $37,600 from the developer, thus necessitating the Company and its shareholders to invest to fund the off-site facilities, eventually seeking a return on and of that investment from all ratepayers, not just the developer who created the additional demand. In other words, we're trying to ensure that our existing customers are not subsidizing growth any more than is absolutely necessary.

Q. ANY OTHER CHANGES?

A. Yes, in Section IV(B), I added language that specifically states that funds received under this HUF Tariff will not be treated as CIAC until those funds have actually been expended to construct allowed off-site facilities. The absence of such language could result in the Commission ordering us to collect funds, whose use is restricted, and reduce our rate base even though the growth that drove those funds' collection hasn't materialized. This matching concept is supported by the NARUC guidelines that essentially state that CIAC is an offset to the associated Plant In Service.[10] If the funds haven't yet been used and converted to Plant in Service, then it is our belief that the unexpended HUF funds should not be treated as CIAC as there is no offsetting plant in service. This is particularly the case when there are restrictions on the funds being in a separate, interest bearing, unaffiliated bank account. These restrictions essentially prevent the co-mingling of HUF funds with general purpose utility/investor funds, meaning we have absolutely no benefit from these HUF funds until they are spent on plant.

Q. DIDN'T MR. SCOTT PROPOSE SOME SORT OF TRUST ACCOUNT?

A. Yes, and we have concerns with that language. I am not even sure it is legal to place us in a position of holding something in trust like that. Nor is it necessary to

[10] *See* **Exhibit GS-RB5**.

use a far more cumbersome and potentially expensive option to separate funds. In Sections IV (H) and (J), I have inserted language related to where the funds are to be kept. This language specifies that the collected but unexpended HUF funds should be kept in a separate, interest bearing, unaffiliated third-party bank account. I believe our proposed language appropriately segregates and restricts the collected HUF funds, without unnecessarily incurring costs and administrative burden a trust would generate.

Q. WHAT ABOUT STAFF'S ADJUSTMENT TO REDUCE RATE BASE FOR BVWC BY MORE THAN $2.5 MILLION FOR PLANT RETIREMENTS?

A. We appreciate Ms. Brown's observation that the Company, both before and after Liberty/Algonquin's acquisition of BVWC, did not appear to properly retire assets when a replacement asset was put in service.[11] We concur with her observation and have been working on a policy and procedure for recording retirements as is appropriate. I also appreciate that Ms. Brown undertook the challenge of coming up with a methodology to reconstruct a retirement calculation and adjustment for the purposes of this rate case. However, upon review of that methodology, I have concerns with the results, and as such, the Company is proposing an alternative approach as detailed in Mr. Bourassa's testimony.[12]

Q. WHAT CONCERNS DID YOU HAVE WITH STAFF'S RECOMMENDED APPROACH TO RETIREMENTS?

A. The concern we had with Staff's proposed approach is that it yielded results that were somewhat impossible. An example is that Ms. Brown proposed to retire $822,546 of meters, when only $661,833 had been added since the last rate case.

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[11] Brown Dt. at 15 – 17.

[12] Rebuttal Testimony of Thomas J. Bourassa – Rate Base, Income Statement and Rate Design ("Bourassa Rb.") at 6 – 8.

Essentially, we would have had to retire more than we spent, and since prices on meters have risen, this seems highly unlikely. Thus, we undertook to create an alternative methodology that we hope Staff will review and adopt. Again, Mr. Bourassa describes this methodology in detail in his testimony.[13]

Q. ARE THERE ANY OTHER AREAS YOU WOULD LIKE TO ADDRESS?

A. Yes. In her testimony and schedules, Ms. Brown made an adjustment (#2) of approximately $47,000 to Outside Services – Other.[14] This adjustment was made on the premise that the Liberty companies don't have employees, and therefore should do competitive bids to ensure the use of an affiliate company is not harming the ratepayer.[15] I understand the concern that the ratepayer not be harmed by our Company's operations model, however, I believe that since Liberty has eliminated any profit at the affiliate level generated from providing services to BVWC, NSWC, SSWC (or any other affiliated utility), the costs charged by AWS to BVWC for personnel who operate and administrate the utility should be viewed as what they are, which is wages of employees, not as contractual services.

Let me explain further. With regard to AWS, the company is essentially an employee cost pool, and wages are charged to the utilities based on acceptable regulatory methods, including timesheets and allocation methods like bill count and 4-factor. It is unreasonable to require a company to "do a competitive bid" for its employees. Imagine if the State of Arizona decided to put out for bid the services provided by the ACC Staff? I don't think anyone would believe that would be an appropriate action, nor do I believe that putting out for bid the jobs of

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[13] *Id.*

[14] Brown Dt. at 10; Staff Bella Vista Water Company Schedule CSB-15, Staff Northern Sunrise Water Company Schedule CSB-14, and Staff Southern Sunrise Water Company Schedule CSB-14.

[15] *Id.* at 35.

our BVWC, NSWC, and SSWC operators, customer service personnel, accountants, engineers, inspectors, etc. is an appropriate action. But, as Ms. Brown points out, we need to ensure the rate payers are not being harmed. As such, we have provided Staff and RUCO with comparable wage data for municipalities who publish such data. This data demonstrates that we are paying our employees a market-reasonable wage, and thus the ratepayers are not being harmed. In fact, we believe that the ratepayers benefit from the shared services model, as employees costs are spread amongst a larger pool of customers, reducing the per customer cost while maintaining or improving service compared with the traditional stand-alone model.

IV. HYPOTHETICAL CAPITAL STRUCTURE

Q. AS PART OF HIS RECOMMENDED HYPOTHETICAL CAPITAL STRUCTURE FOR NSWC AND SSWC, MR. RIGSBY RECOMMENDS A 6.27 PERCENT COST OF DEBT, WHICH IS BASED ON THE AVERAGE OF BVWC'S DEBT COSTS. DO YOU WISH TO COMMENT?

A. Yes. I believe it is difficult to expect lenders to loan money to these former McLain systems on terms similarly favorable to those employed by lenders to BVWC. While RUCO may not recognize small system or firm specific risk, a third party lender certainly would look at the individual entity that it is lending money to, and given the history of the McLain systems, the rates would certainly be higher, if a loan was available at all.

Q. DO YOU AGREE THAT BVWC IS HEAVILY WEIGHTED WITH EQUITY?

A. As a stand-alone entity, I believe BVWC has approximately 27% debt and I would not say that is heavily weighted on equity for a system of BVWC's size; less than 10,000 customers.

Q. DO YOU FIND IT CURIOUS THAT BOTH STAFF AND RUCO BELIEVE THAT THE THREE UTILITIES FACE EQUAL RISK ON A STAND-ALONE BASIS?

A. Yes, I do. I can relay this story related to perceived financial risk that came from the time when we had just acquired the McLain systems and incorporated them into NSWC and SSWC. For the first several months after acquisition, local businesses would not sell to us other than for CASH! We couldn't get any trade credit from local businesses. It was very easy to understand. They had done their own assessment of firm specific risk, and come to the conclusion that selling to NSWC or SSWC (i.e., the McLain systems) was too risky. And this in some cases included vendors who had been doing business with BVWC and Algonquin for years. I believe this is a real-world example that demonstrates all utilities' risk is not equal.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

Bella Vista Water Co., Inc.
Northern Sunrise Water Company Inc.
Southern Sunrise Water Company Inc.

W-02465A-09-0411, W-20453A-09-0412, W-20454A-09-0413,
W-02465A-09-0414, W-20453A-09-0414 and W-20454A-09-0414

Greg Sorensen
Rebuttal Testimony
May 25, 2010

Exhibit
GS-RB1

2232477.1

BELLA VISTA WATER-CITY SYSTEM
3 YEAR COST PROJECTION
FOR MONITORING

CONTAMINANTS	3 YEAR COST PROJECTION											
Bella Vista City System #02-010	2009				2010				2011			
	1st qrt.	2nd qrt.	3rd qrt.	4th qrt.								
IOC'S (excluding what's listed below)	$0	$0	$0	$0	$0	$0	$5,200	$0	$0	$0	$0	$0
Asbestos	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Nitrate	$0	$250	$0	$0	$0	$275	$0	$0	$0	$300	$0	$0
Nitrite	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Lead/Copper	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$1,150	$0
UCMR (List 1)	$0	$0	$0	$3,900	$0	$3,900	$0	$0	$0	$0	$0	$0
Sodium	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$2,830	$0
Sulfate												
VOC'S (excluding what's listed below)	$0	$0	$0	$0	$0	$0	$8,028	$0	$0	$0	$0	$0
Tthm's/HAA5's (quarterly testing)	$1,300	$2,575	$3,085	$3,850	$7,140	$7,140	$7,140	$7,140	$7,140	$7,140	$7,140	$7,140
SOC'S	$0	$0	$0	$0	$18,000	$0	$18,000	$0	$0	$0	$0	$0
Di(2ethylhexyl)phthalate	$0	$365	$1,089	$0	$0	$388	$0	$0	$0	$0	$0	$0
Pentachlorophenol	$0	$180	$0	$0	$0	$198	$0	$0	$0	$0	$0	$0
RADIOCHEMS	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$8,750	$0
TOTAL COLIFORMS	$1,800	$1,800	$1,800	$1,800	$1,350	$1,350	$1,350	$1,350	$1,350	$1,350	$1,350	$1,350
Quarterly Totals	$3,100	$5,170	$5,974	$9,550	$26,490	$13,251	$39,718	$8,490	$8,490	$8,790	$21,220	$8,490
Annual Totals	**$23,794**				**$87,949**				**$46,990**			

CONTAMINANTS	COST PROJECTION											
Bella Vista South System #02-007	2009				2010				2011			
	1st qrt.	2nd qrt.	3rd qrt.	4th qrt.	1st qrt.	2nd qrt.	3rd qrt.	4th qrt.	1st qrt.	2nd qrt.	3rd qrt.	4th qrt.
IOC'S (excluding what's listed below)	Included in MAP cost				Included in MAP cost				Included in MAP cost			
Asbestos	Included in MAP cost				Included in MAP cost				Included in MAP cost			
Nitrate	Included in MAP cost				Included in MAP cost				Included in MAP cost			
Nitrite	Included in MAP cost				Included in MAP cost				Included in MAP cost			
Lead/Copper**	$0	$0	$0	$0	$0	$0	$330	$0	$0	$0	$0	$0
VOC'S (excluding what's listed below)	Included in MAP cost				Included in MAP cost				Included in MAP cost			
Tthm's/HAA5's** (quarterly testing)	$0	$0	$2,065	$0	$0	$0	$2,550	$0	$0	$0	$2,494	$0
SOC'S	Included in MAP cost				Included in MAP cost				Included in MAP cost			
RADIOCHEMS	Included in MAP cost				Included in MAP cost				Included in MAP cost			
TOTAL COLIFORMS**	$150	$150	$150	$150	$135	$135	$135	$135	$135	$135	$135	$135
MAP COSTS	$0	$0	$0	$2,335	$0	$0	$0	$2,569	$0	$0	$0	$2,826
**Not covered by MAP												
Quarterly Totals	$150	$150	$2,215	$2,485	$135	$135	$3,015	$2,704	$135	$135	$2,629	$2,961
Annual Totals	$5,000				$5,989				$5,860			

CONTAMINANTS	COST PROJECTION											
Northern Sunrise Company	2009				2010				2011			
(Coronado 02013),(Crystal/Mustang 02054), (Sierra Sunset 02055)	1st qrt.	2nd qrt.	3rd qrt.	4th qrt.	1st qrt.	2nd qrt.	3rd qrt.	4th qrt.	1st qrt.	2nd qrt.	3rd qrt.	4th qrt.
IOC'S (excluding what's listed below)	Included in MAP cost				Included in MAP cost				Included in MAP cost			
Asbestos	Included in MAP cost				Included in MAP cost				Included in MAP cost			
Nitrate	Included in MAP cost				Included in MAP cost				Included in MAP cost			
Nitrite	Included in MAP cost				Included in MAP cost				Included in MAP cost			
Lead/Copper**	$0	$0	$0	$0	$0	$0	$750	$0	$0	$0	$0	$0
VOC'S (excluding what's listed below)	Included in MAP cost				Included in MAP cost				Included in MAP cost			
Tthm's/HAA5's** (quarterly testing)	$0	$0	$1,045	$0	$0	$0	$1,096	$0	$0	$0	$1,147	$0
SOC'S	Included in MAP cost				Included in MAP cost				Included in MAP cost			
RADIOCHEMS	Included in MAP cost				Included in MAP cost				Included in MAP cost			
TOTAL COLIFORMS**	$385	$385	$385	$385	$180	$180	$180	$180	$180	$180	$180	$180
MAP COSTS	$0	$0	$0	$1,900	$0	$0	$0	$2,090	$0	$0	$0	$2,299
Cost estimated until I reach ADEQ												
**Not covered by MAP												
Quarterly Totals	$150	$385	$1,430	$2,285	$180	$180	$2,026	$2,270	$180	$180	$1,327	$2,479
Annual Totals	$4,250				$4,656				$4,166			

CONTAMINANTS	COST PROJECTION											
Southern Sunrise	2009				2010				2011			
(Cochise/Horseshoe 02011),(Miracle Valley 02023)	1st qrt.	2nd qrt.	3rd qrt.	4th qrt.	1st qrt.	2nd qrt.	3rd qrt.	4th qrt.	1st qrt.	2nd qrt.	3rd qrt.	4th qrt.
IOC'S (excluding what's listed below)		Included in MAP cost				Included in MAP cost				Included in MAP cost		
Asbestos		Included in MAP cost				Included in MAP cost				Included in MAP cost		
Nitrate		Included in MAP cost				Included in MAP cost				Included in MAP cost		
Nitrite		Included in MAP cost				Included in MAP cost				Included in MAP cost		
Lead/Copper**	$0	$0	$0	$0	$0	$0	$750	$0	$0	$0	$0	$0
VOC'S (excluding what's listed below)		Included in MAP cost				Included in MAP cost				Included in MAP cost		
Tthm's/HAA5's** (quarterly testing)	$0	$0	$790	$0	$0	$0	$870	$0	$0	$0	$923	$0
SOC'S		Included in MAP cost				Included in MAP cost				Included in MAP cost		
RADIOCHEMS		Included in MAP cost				Included in MAP cost				Included in MAP cost		
TOTAL COLIFORMS**	$150	$150	$150	$150	$135	$135	$135	$135	$135	$135	$135	$135
MAP COSTS	$0	$0	$0	$1,900	$0	$0	$0	$2,090	$0	$0	$0	$2,299
Cost estimated until I reach ADEQ												
**Not covered by MAP												
Quarterly Totals	$150	$150	$940	$2,050	$135	$135	$1,755	$2,225	$135	$135	$1,058	$2,434
Annual Totals		$3,290				$4,250				$3,762		

Bella Vista Water Co., Inc.
Northern Sunrise Water Company Inc.
Southern Sunrise Water Company Inc.

W-02465A-09-0411, W-20453A-09-0412, W-20454A-09-0413,
W-02465A-09-0414, W-20453A-09-0414 and W-20454A-09-0414

Greg Sorensen
Rebuttal Testimony
May 25, 2010

Exhibit
GS-RB2

2232477.1

A – WATER MONITORING

Bella Vista & Sunrise Systems
Drinking Water Monitoring Requirements

Arizona Department of Environmental Quality
Facility ID 1597

Designator	Parameter	Minimum	Maximum (Action Level)	Units	Sampling Frequency: BV City	BV South*	Southern Sunrise*	Northern Sunrise*	Notes
Inorganic Compounds (IOC)									
			As per attached Chart		Every 3 years				
	Asbestos		7.00	MFL	Every 9 Years				*MFL - million fibers per liter greater than 10 microns in length.*
	Nitrate(a nitogen)		10.00	mg/L	Every year				
	Nitrite		1.00	mg/L	Every 9 years				
	UCMR (List1)			mg/L	Nov 09 and May 10				Sample 2x's 5-7 months apart
	Sodium			mg/L	Every 3 years		Every 3 years		
Volatile Organic Compounds (VOCs)									
			As per attached Chart		Every 3 years				Annually without waiver, BV City Well #20 is always annual
Synthetic Organic Compounds (SOCs)									
			As per attached Chart		Every 9 years				BV South - Samples must be taken in two consecutive quarters
	Di(2ethylhexyl)phthalate			mg/L	Every year		Every year		For Bella Vista City - Well #7,11,14, 19 & 20 For Southern Sunrise - Miracle Valley Only
	Pentachlorophenol			mg/L					For Bella Vista City - Well #3
Lead and Copper									
	Lead		0.015	mg/l	Every 3 years				Action level for lead and/or copper is exceeded if the concentration of lead in more than 10% of tap water samples is greater than the established limit - Waiver for BV water
	Copper		1.30	mg/l					
Disinfectant residual & by-products									
	Chlorine	0.45	4.00	mg/l	30	3	3 (Cochise, Miracle)	3 (Comado, Crystal, Sierra)	The minimum is based on a Liberty Water Standard. *Federal and State minumum is .2 mg/l.*
	TTHM's		0.08	mg/l	Quarterly every year	Every year			For BV City, Well 7, 12, 16, 18 and 19
	HAA5		0.06	mg/l					
	Chlorite (if chlorine dioxide is used)		1.00	mg/l	Facilities do not use chlorine dioxide				
Radiochemicals									
	Combined radium 226/228		5.00	picoCuries/Liter	Every 4 years				
	Gross Alpha Particle Activity		15.00	picoCuries/Liter					
	Uranium		30.00	µg/L					
	Beta/Photon emitters		4.00	millirems/year					
Microbiological									
	Total Coliform		One positive sample		Monthly (18 locations)	Monthly (3 locations)	Monthly (3 locations)	Monthly (3 locations)	If any of the samples is positive, the groundwater rule (GWR) is invoked and need to follow Liberty Water established procedure 8010-200-200-008.
	Fecal Coliform & E. Coli		No positive sample						

Source - 40 CFR 141

**Everything in the South System and Sunrise Systems are tested by ADEQ on the MAP program except Lead & Copper. TTHM's, HAA5's, and Bact's.

Synthetic Organic Chemical	MCLG (mg/L)	MCL (mg/L)
Alachlor	0.0	0.002
Aldicarb	0.001	0.003
Aldicarb sulfoxide	0.001	0.004
Aldicarb sulfone	0.001	0.002
Atrazine	0.003	0.003
Benzo(a)pyrene	0.0002	0.0002
Carbofuran	0.04	0.04
Chlordane	0.0	0.0002
2,4-D	0.07	0.07
Dalapon	0.2	0.2
Dibromochloropropane (DBCP)	0.0	0.0002
Di(2-ethylhexyl)adipate	0.4	0.4
Di(2-ethylhexyl)phthalate	0.0	0.006
Dinoseb	0.007	0.007
Diquat	0.02	0.02
Endothall	0.1	0.1
Endrin	0.002	0.002
Ethylene dibromide (EDB)	0.0	0.00005
Glyphosate	0.7	0.7
Heptachlor	0.0	0.0004
Heptachlor epoxide	0.0	0.0002
Hexachlorobenzene	0.0	0.001
Hexachlorocyclopentadiene	0.05	0.05
Lindane	0.0002	0.0002
Methoxychlor	0.04	0.04
Oxamyl	0.2	0.2
PCBs (as decachlorbiphenyl)	0.0001	
Polychlorinated phenols	0.0	0.0005
Pentachlorophenol	0.0	0.001
Picloram	0.5	0.5
Simazine	0.004	0.004
2,3,7,8-TCDD (Dioxin)	0.0	0.00000003
Toxaphene	0.0	0.003
2,4,5-TP (Silvex)	0.05	0.05

Source: 40CFR 141.50 & 40 CFR 141.61

Maximum Contaminant Level (MCL) - The highest level of a contaminant that is allowed in drinking water. MCLs are set as close to MCLGs as feasible using the best available treatment technology and taking cost into consideration. MCLs are enforceable standards.

Maximum Contaminant Level Goal (MCLG) - The level of a contaminant in drinking water below which there is no known or expected risk to health. MCLGs allow for a margin of safety and are non-enforceable public health goals.

Inorganic Chemicals	MCLG (mg/L)	MCL (mg/L)
Antimony	0.006	0.006
Arsenic	0	0.01
Barium	2	2
Beryllium	0.004	0.004
Cadmium	0.005	0.005
Chromium	0.1	0.1
Copper	1.3	1.3
Cyanide (as free cyanide)	0.2	0.2
Fluoride	4	4
Lead	0	0.015
Mercury	0.002	0.002
Selenium	0.05	0.05
Thallium	0.0005	0.002
Asbestos	7 MFL	7 MFL
Nitrate	10	10
Nitrite	1	1
Total Nitrate + Nitrite	10	10
Nickel		

Source: 40CFR 141.51 & 40CFR 141.62

Maximum Contaminant Level (MCL) - The highest level of a contaminant that is allowed in drinking water. MCLs are set as close to MCLGs as feasible using the best available treatment technology and taking cost into consideration. MCLs are enforceable standards.

Maximum Contaminant Level Goal (MCLG) - The level of a contaminant in drinking water below which there is no known or expected risk to health. MCLGs allow for a margin of safety and are non-enforceable public health goals.

Volatile Organic Compounds	MCLG (mg/L)	MCLG (mg/L)
Benzene	0.0	0.005
Carbon tetrachloride	0.0	0.005
o-Dichlorobenzene	0.6	0.6
para-Dichlorobenzene	0.075	0.075
1,2-Dichloroethane	0.0	0.005
1,1-Dichloroethylene	0.007	0.007
cis-1,2-Dichloroethylene	0.07	0.07
trans-1,2-Dichloroethylene	0.1	0.1
Dichloromethane	0.0	0.005
1,2-Dichloropropane	0.0	0.005
Ethylbenzene	0.7	0.7
Monochlorobenzene	0.1	0.1
Styrene	0.1	0.1
Tetrachloroethylene	0.0	0.005
Toluene	1	1
1,2,4-Trichlorobenzene	0.07	0.07
1,1,1-Trichloroethane	0.2	0.2
1,1,2-Trichloroethane	0.005	0.005
Trichloroethylene	0	0.005
Vinyl chloride	0	0.002
Xylenes (total)	10	10

Source: 40CFR 141.50 & 40 CFR 141.61

Maximum Contaminant Level (MCL) - The highest level of a contaminant that is allowed in drinking water. MCLs are set as close to MCLGs as feasible using the best available treatment technology and taking cost into consideration. MCLs are enforceable standards.

Maximum Contaminant Level Goal (MCLG) - The level of a contaminant in drinking water below which there is no known or expected risk to health. MCLGs allow for a margin of safety and are non-enforceable public health goals.

BELLA VISTA CITY SYSTEM-PWS#0402010					
2008		Reporting and Testing Schedule			
		Initial Monitoring year 1995			
CONTAMINANT	REQUIREMENT	POE'S With waivers	ESPD's/POE's to Test	LAST TIME TESTED	NEXT TEST YEAR
SOC'S** (excluding what's listed below)	Every 3 yrs.	None	All	7/31/07	Due 2010
Asbestos	Every 9 years	None	All	6/22/04	Due 2013
Nitrate	Annually	None	All	5/21/08	Due 2009
Nitrite	Every 9 years	None	All	7/20/05	Due 2014
Lead/Copper	Annually without waiver	Triennial Waiver	Water taken from individual homes	6/1/08	Due June-Aug 2011
UCMR (List 1)	Sample 2x's 5-7 months apart				Due Nov 2009 & May 2010
Sodium	Once every 3 years	None	All	2/27/08	Due 2011
VOC'S**	Annually without waiver	None	All	9/6/07	Due 2010
	Annual		#20	2/27/08	Due Jan-Mar 2009
Tthm's/HAA5's	Quarterly	None	#7	10/28/08	Due Jan-Mar 2009
			#12	10/28/08	Due Jan-Mar 2009
			#19	10/28/08	Due Jan-Mar 2009
			#16	10/28/08	Due Jan-Mar 2009
			#18	10/28/08	Due Jan-Mar 2009
SOC'S** (excluding what's listed below)	2 non-consec qtrs each comp. period	None	All	12/5/07	Due 2010
	2 non-consec qtrs each comp. period		#20	2/27/08	Due 2010
Dioxin	2 non-consec qtrs each comp. period	None	All	2/27/08	Due 2010
PCB's/Alachlor	2 non-consec qtrs each comp. period	None	All	5/21/08	Due 2010
Di(2ethylhexyl)phthalate	Annual		#14, #20	5/21/08	Due Apr-June 2009
	Annual		#7, 11, & 19	10/28/08	Due Jul-Sept 2009
Pentachlorophenol	Annual		#3	6/19/08	Due Apr-June 2009
RADIOCHEMS	Every 4 years	None	All	11/28/07	Due 2011
** Apply for new waivers mid 2009					
ESPD's/POE's for the City system include: 1,2,3,5,7,8,(9-Wells #9 & 10),11,(12-Wells #12 & 13),14,15,16,18,19,(20-Vista View Wells 1 & 2)					

Updated 9/23/2008

BELLA VISTA SOUTH SYSTEM-PWS#0402007												
CONTAMINANT	REQUIREMENT	POE'S with waivers	EPD's/POE's to Test	LAST TIME TESTED	NEXT TEST YEAR							
2009												
IOC'S** (excluding what's listed below)	Every 3 yrs.	None	All	2/8/07	Due 2010							
Nitrate	Annually	None	All	1/19/09	Due 2010							
Nitrite	Every 9 years	None	All	8/17/05	Due 2013							
Lead/Copper	nually without wai	Trienniel waiver	ken from individua	Jun-08	Due June-Sept 2011							
Asbestos	Every 9 years	None	All	1/21/04	Due 2013							
VOC'S** (excluding what's listed below)	nually without wai	None	All	2/13/07	Due 2010							
Tthms	Annually	None	All	8/19/08	Due July-Sept 2009	Will be sampled 8/18/09						
HAA5's	Annually	None	All	8/19/08	Due July-Sept 2009							
SOC'S** (excluding what's listed below)	nually without wai	All	None	10/19/04	Due 2010							
Dioxin	tr. Without waiver	All	None	lways had waiver	Due 2010							
RADIOCHEMICALS**	Every 4 years	Grandfathered dat	All	9/22/03	Due 2010							
**Everything in the South system is tested by ADEQ on the MAP program except Lead & Copper, Tthm's, HAA5's, and Bact's.												
EPD's/POE's for the South system include: 1(Ash),2(Stump),3(Wildhorse),4(Well #10),5(Well #9),6(Well #3),7(Wells 15,16 & 17), 8(Rail Oaks 1 & 2), 9(Rio Grande), 10 (Fairfield)												

Rev:9/26/08

NORTHERN SUNRISE SYSTEM						
CONTAMINANT	REQUIREMENT	SYSTEM WITH WAIVER	SYSTEM TO TEST	LAST TIME TESTED	NEXT TEST YEAR	COMMENTS
IOC'S (excluding what's listed below)	Every 3 yrs.	None	All	2/8/07	Due 2010	
Nitrate	Annually	None	All	1/19/09	Due 2010	
Nitrite	Every 9 years	None	All	8/17/05	Due 2013	
Lead/Copper	nually without waiv	Trienniel waiver	aken from individua	8/1/07	Due 2010	
Asbestos	Every 9 years	None	All	2/17/04	Due 2013	
VOC'S (excluding what's listed below)	nually without waiv	al/Mustang & Corc	Sierra Sunset	2/13/07	Due 2010	
Tthms	Annually	None	All	8/19/08	Will be tested 8/18/09	
HAA5's	Annually	None	All	8/19/08	Will be tested 8/18/09	
SOC'S (excluding what's listed below)	nually without waiv	All	None	2001	Due 2010	
Dioxin	rtrly. Without waive	All	None	2001	Due 2010	
RADIOCHEMICALS	Every 4 years	None	All	9/22/03	Due 2010	
Everything in the Northern system is tested by ADEQ on the MAP program except Lead & Copper, Tthm's, HAA5's, and Bact's						
Northern Sunrise systems include: 1(Coronado #0402013), 2(Crystal #0402074), 3(Mustang #0402054), 4(Sierra Sunset #0402055)						

Rev:3/17/09

SOUTHERN SUNRISE SYSTEM					
CONTAMINANT	REQUIREMENT	SYSTEM WITH WAIVER	SYSTEM TO TEST	LAST TIME TESTED	NEXT TEST YEAR
					Per 2008 MAP schedule
IOC'S (excluding what's listed below)	Every 3 yrs.	None	Both	2/8/07	Due 2010
Nitrate	Annually	None	Both	2/1/09	Due 2010
Nitrite	Every 9 years	None	Both	1/5/06	Due 2013
Lead/Copper	Annually without waiver	Both/Trienniel waiver	Water taken from individual homes	8/1/07	Due 2010
Asbestos	Every 9 years	None	Both	2/17/04	Due 2013
VOC'S (excluding what's listed below)	Annually without waiver	None	Both	2/8/07	Due 2010
Tthms	Annually	None	Both	8/19/08	Due July-Sept 2009
HAA5's	Annually	None	Both	8/19/08	Due July-Sept 2009
Unregulated	4 qrts once every 5 yrs				
SOC'S (excluding what's listed below)	Annually without waiver	Both	None	10/5/04	Due 2010
Dioxin	Qtr. Without waivers	Both	None	10/5/04	Due 2010
Unregulated	4 qrts once every 5 yrs				
Sulfate	Once every 5 years	None	Both		Due 2010
Sodium	Once every 3 years	None	Both		Due 2010
RADIOCHEMICALS	Every 4 years	Grandfathered data	Both	10/5/04	Due 2010
Gross Alpha, Incl. Radon & Uranium					
Di2(ethylhexyl)phthlate	Back to annual 4.28.09	Miracle Valley Well		7/8/08	Jan-Mar 2010
				10/21/08	
				3/24/09	
Everything in the Southern system is tested by ADEQ on the MAP program except Lead & Copper, Tthm's, HAA5's,bact's-Also have quarterly testing					
Southern Sunrise systems include: 1(Cochise/Horseshoe #0402011), 2(Miracle Valley #0402023)					

Rev:3/17/09

Bella Vista Water Co., Inc.
Northern Sunrise Water Company Inc.
Southern Sunrise Water Company Inc.

W-02465A-09-0411, W-20453A-09-0412, W-20454A-09-0413,
W-02465A-09-0414, W-20453A-09-0414 and W-20454A-09-0414

Greg Sorensen
Rebuttal Testimony
May 25, 2010

Exhibit
GS-RB3

2232477.1

TURNER
LABORATORIES INC.

03/12/2009

QUOTATION for ANALYTICAL SERVICES

Company: Liberty Water Company
Contact: Debbie Willard
Address: 12725 W Indian School Rd., Ste. D101
Company: Avondale, AZ, 85392
Phone: (520) 458-5470 Fax: (520) 459-6680

Submitted By: Dawn Weyer

Quote ID:
Project: Drinking Water

Expires: 03/12/2010

Test ID	Test	Remarks	# Sample	Unit Price	Test Total
Waste Water					
Sample Pick-up	None	Sample Pick Up	1	$24.75	$24.75
Ground Water					
Sample Pick-up	None	Sample Pick Up	1	$24.75	$24.75
Drinking Water					
Cu by ICP, Dissolved	E 200.7	200.7D	1	$8.00	$8.00
Co by ICP/MS	E200.8	Co by ICP/MS	1	$16.00	$16.00
Cyanide	E335.4	CN	1	$30.00	$30.00
Cu/Pb Testing	varies	Cu/Pb	1	$33.00	$33.00
Cu by ICP/MS, Dissolved	E 200.8	Cu by ICP/MS Diss	1	$16.00	$16.00
Cu by ICP/MS	E200.8	Cu by ICP/MS	1	$16.00	$16.00
Dioxin	E1613B	Dioxin	1	$495.00	$495.00
Cr by ICP/MS	E200.8	Cr by ICP/MS	1	$16.00	$16.00
Cr by ICP, Total	E200.7	200.7	1	$8.00	$8.00
Cr by ICP, Dissolved	E 200.7	200.7D	1	$8.00	$8.00
Conductivity	SM2510 B	EC	1	$15.00	$15.00
Color	SM2120 B	Color	1	$15.00	$15.00
Coliform by Colilert	SM9223B	524.2_TTHM	1	$15.00	$15.00
Cu by ICP, Total	E200.7	200.7	1	$8.00	$8.00
Fe by ICP/MS	E200.8	Fe by ICP/MS	1	$16.00	$16.00
Herbicides by E 515.1	E515.1	515.1SUB	1	$180.00	$180.00
Hardness, Ca & Mg	varies	Hardness	1	$16.00	$16.00
Hardness, Ca	varies	Hardness, Ca	1	$8.00	$8.00
Haloacetic Acids by 552.2	E552.2	HAA5	1	$153.45	$153.45
Glyphosate by E 547	E547	547SUB	1	$190.00	$190.00
Fe by ICP/MS, Dissolved	E 200.8	Fe by ICP/MS Diss	1	$16.00	$16.00
Chromium, Hexavalent (Low-Level)	H8023	Cr6LL	1	$40.00	$40.00
Fe by ICP, Total	E200.7	200.7	1	$8.00	$8.00
Fe by ICP, Dissolved	E 200.7	200.7D	1	$8.00	$8.00
Endothall by E 548	E548.1	548SUB	1	$215.00	$215.00
EDB and DBCP by E 504.1	E504.1	504.1	1	$150.00	$150.00
Diquat by E549	E549.1	549SUB	1	$190.00	$190.00
Fluoride by Ion Chromatography	E300	F300	1	$15.00	$15.00
As by GFAA, Dissolved	E 200.9	200.9D_As	1	$15.00	$15.00
Ba by ICP/MS	E200.8	Ba by ICP/MS	1	$16.00	$16.00
Ba by ICP, Total	E200.7	200.7	1	$8.00	$8.00

TURNER
LABORATORIES INC.

03/12/2009

QUOTATION for ANALYTICAL SERVICES

Test ID	Test	Remarks	# Sample	Unit Price	Test Total
B by ICP, Total	E200.7	200.7	1	$8.00	$8.00
Asbestos	E100.1	Asbestos	1	$165.00	$165.00
As by ICP/MS	E200.8	As by ICP/MS	1	$16.00	$16.00
Co by ICP, Total	E200.7	200.7	1	$8.00	$8.00
As by GFAA, Total	E200.9	200.9T_As	1	$15.00	$15.00
Alkalinity	SM2320B	ALK	1	$15.00	$15.00
Al by ICP/MS	E200.8	Al by ICP/MS	1	$16.00	$16.00
Al by ICP, Total	E200.7	200.7	1	$8.00	$8.00
Al by ICP, Dissolved	E 200.7	200.7D	1	$8.00	$8.00
Ag by ICP/MS	E200.8	Ag by ICP/MS	1	$16.00	$16.00
Ag by ICP, Total	E200.7	200.7	1	$8.00	$8.00
Co by ICP, Dissolved	E 200.7	200.7D	1	$8.00	$8.00
Langelier	Calculation	Lang	1	$40.00	$40.00
Chlorine, Total Residual	H8167	Cl2	1	$15.00	$15.00
Chloride by Ion Chromatography	E300	Chloride	1	$15.00	$15.00
Cd by ICP/MS	E200.8	Cd by ICP/MS	1	$16.00	$16.00
Be by ICP, Dissolved	E 200.7	200.7D	1	$8.00	$8.00
Cd by ICP, Dissolved	E 200.7	200.7D	1	$8.00	$8.00
Be by ICP, Total	E200.7	200.7	1	$8.00	$8.00
Carbamates by E 531.1	E531.1	531.1SUB	1	$215.00	$215.00
Ca by ICP, Total	E200.7	200.7	1	$8.00	$8.00
Ca by ICP, Dissolved	E 200.7	200.7D	1	$8.00	$8.00
Bromide by Ion Chromatography	E300	Br	1	$25.00	$25.00
Be by ICP/MS	E200.8	Be by ICP/MS	1	$16.00	$16.00
Heterotropic Plate Count	SM9215B	HPC	1	$30.00	$30.00
Cd by ICP, Total	E200.7	200.7	1	$8.00	$8.00
Radiochemistry, Radium 226/228	ERAD	Rd 226/228	1	$195.00	$195.00
Se by GFAA, Dissolved	E 200.9	200.9D_SE	1	$15.00	$15.00
SDWA-Primary Standards	varies	SDWA-Primary	1	$170.00	$170.00
SDWA- Secondary Standards	varies	SDWA- Secondary	1	$145.00	$145.00
Sb by ICP/MS	E200.8	Sb by ICP/MS	1	$16.00	$16.00
Sb by GFAA, Total	E200.9	200.9T_SB	1	$15.00	$15.00
Sb by GFAA, Dissolved	E 200.9	200.9D_SB	1	$15.00	$15.00
Radiochemistry, Uranium	ERAD	RadUranium	1	$150.00	$150.00
Radiochemistry, Gross Alpha Beta	ERAD	Radchem	1	$85.00	$85.00
pH	E150.1	pH	1	$15.00	$15.00
PCBs by E508	E508	PCBs 508	1	$135.00	$135.00
Pb by ICP/MS	E200.8	Pb by ICP/MS	1	$16.00	$16.00
K by ICP, Dissolved	E 200.7	200.7D	1	$8.00	$8.00
Radiochemistry, Radon	ERAD	Radon	1	$85.00	$85.00
Tl by ICP/MS	E200.8	200.9	1	$16.00	$16.00
Zn by ICP, Total	E200.7	200.7T	1	$8.00	$8.00
Volatile Organic Compounds by E5:	EPA 524.2	524.2	1	$173.25	$173.25
UCMR Pesticides and Flame Retar(	527	527	1	$260.00	$260.00
UCMR Explosives by GC/MS 529	527	529	1	$260.00	$260.00
Turbidity	E180.1	200.7D	1	$10.00	$10.00
TTHM by E524.2	EPA 524.2	524.2_TTHM	1	$108.90	$108.90
Se by GFAA, Total	E200.9	200.9T_SE	1	$15.00	$15.00

TURNER
LABORATORIES INC.

03/12/2009

QUOTATION for ANALYTICAL SERVICES

Test ID	Test	Remarks	# Sample	Unit Price	Test Total
Total Dissolved Solids	SM2540 C	TDS	1	$15.00	$15.00
Tl by GFAA, Total	E200.9	200.9T_TL	1	$15.00	$15.00
Tl by GFAA, Dissolved	E 200.9	200.9D_TL	1	$15.00	$15.00
Sulfate by Ion Chromatography	E300	SO4	1	$15.00	$15.00
Semivolatile Organic Compounds b	E525.2	525.2SUB	1	$330.00	$330.00
Se by ICP/MS	E200.8	Se by ICP/MS	1	$16.00	$16.00
Pb by GFAA, Total	E200.9	200.9T_PB	1	$15.00	$15.00
Mg by ICP, Dissolved	E 200.7	200.7D	1	$8.00	$8.00
Mo by ICP, Total	E200.7	200.7	1	$8.00	$8.00
Mo by ICP, Dissolved	E 200.7	200.7D	1	$8.00	$8.00
Mn by ICP/MS, Dissolved	E 200.8	Mn by ICP/MS Diss	1	$16.00	$16.00
Mn by ICP/MS	E200.8	Mn by ICP/MS	1	$16.00	$16.00
Mn by ICP, Total	E200.7	200.7	1	$8.00	$8.00
Mn by ICP, Dissolved	E 200.7	200.7D	1	$8.00	$8.00
Na by ICP, Total	E200.7	200.7	1	$8.00	$8.00
Metals Prep	Prep	Metals Prep	1	$10.00	$10.00
Mercury, Total	E245.1	245.1T	1	$25.00	$25.00
Mercury, Dissolved	E 245.1	245.1D	1	$25.00	$25.00
K by ICP, Total	E200.7	200.7	1	$8.00	$8.00
Mg by ICP, Total	E200.7	200.7	1	$8.00	$8.00
Pb by GFAA, Dissolved	E 200.9	200.9D_Pb	1	$15.00	$15.00
Orthophosphate by Ion Chromatogr	E300	PO4-300	1	$15.00	$15.00
Organochlorine Pesticides by E508	E508	Pest 508	1	$135.00	$135.00
Organic Carbon, Total	SM5310 C	TOC	1	$40.00	$40.00
Organic Carbon, Dissolved	SM5310 C	DOC	1	$40.00	$40.00
Nitrogen, Ammonia as N	SM4500 B,C	NH3	1	$20.00	$20.00
Mo by ICP/MS	E200.8	Mo by ICP/MS	1	$16.00	$16.00
Na by ICP, Dissolved	E 200.7	200.7D	1	$8.00	$8.00
Nitrate by Ion Chromatography	E300	NO3	1	$14.85	$14.85
Nitrate and Nitrite Sum	Calculation	NO2+NO3	1	$0.00	$0.00
Ni by ICP/MS	E200.8	Ni by ICP/MS	1	$16.00	$16.00
Ni by ICP, Total	E200.7	200.7	1	$8.00	$8.00
Ni by ICP, Dissolved	E 200.7	200.7D	1	$8.00	$8.00
New Well Source Approval	varies	NWSApp	1	$3,607.00	$3,607.00
Ag by ICP, Dissolved	E 200.7	200.7D	1	$8.00	$8.00
Nitrite by Ion Chromatography	E300	NO2	1	$15.00	$15.00
Additional Items			**Quantity**		
Shipping Charges			1	$125.00	$125.00
				Total:	**$9,287.95**

Comments: Rates to not increase by more than 5% for 2011, 2012.

Bella Vista Water Co., Inc.
Northern Sunrise Water Company Inc.
Southern Sunrise Water Company Inc.

W-02465A-09-0411, W-20453A-09-0412, W-20454A-09-0413,
W-02465A-09-0414, W-20453A-09-0414 and W-20454A-09-0414

Greg Sorensen
Rebuttal Testimony
May 25, 2010

Exhibit
GS-RB4

2232477.1

BELLA VISTA WATER COMPANY,
NORTHERN SUNRISE WATER COMPANY, INC.
&
SOUTHERN SUNRISE WATER COMPANY, INC.
WATER HOOK-UP FEE TARIFF

I. Purpose and Applicability

The purpose of the off-site hook-up fees payable to **Northern and Southern Sunrise Water Companies** ("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities necessary to provide water production, delivery, storage and pressure among all new service connections. These charges are applicable to all new service connections undertaken via Main Extension Agreements or requests for service not requiring a Main Extension Agreement entered into established after the effective date of this tariff. The charges are one-time charges and are payable as a condition to Company's establishment of service, as more particularly provided below.

II. Definitions

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

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

"Company" means **Bella Vista Water Company, Northern Sunrise Water Company, and Southern Sunrise Water Company~~ies~~.**

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

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

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

III. Water Hook-up Fee

For each new service connection, the Company shall collect a Hook-Up Fee derived as follows:

OFF-SITE WATER HOOK-UP FEE TABLE		
METER SIZE	**SIZE FACTOR**	**TOTAL FEE**
5/8" x 3/4"	1	$1,600
3/4"	1.5	$2,400
1"	2.5	$4,000
1-1/2"	5	$8,000
2"	8	$12,800
3"	16	$25,600
4"	25	$40,000
6" or larger	50	$80,000

IV. Terms and Conditions

(A) Assessment of One Time Off-Site Hook-up Fee: The off-site hook-up fee may be assessed only once per parcel, service connection, or lot within a subdivision ~~(similar to meter and service line installation charge)~~or commercial/industrial property although a supplemental assessment may apply to conform to the above table if the intended use of a parcel/property is subsequently altered from that originally intended when the first assessment was paid.

(B) Use of Off-Site Hook-up Fee: Off-site hook-up fees may only be used to pay for capital items of off-site facilities, or for repayment of loans obtained to fund the cost of installation of off-site facilities. Off-site hook-up fees shall not be used to cover repairs, maintenance, or operational costs. The Company shall not record amounts collected under this tariff as CIAC until such amounts have been expended for plant.

(C) Time of Payment:

1) For those requiring a Main Extension Agreement: In the event that the person or entity that will be constructing improvements ("Applicant", "Developer" or "Builder") is otherwise required to enter into a Main Extension Agreement, whereby the Applicant, Developer or Builder agrees to advance the costs of installing mains, valves, fittings, hydrants and other on-site improvements in order to extend service in accordance with R-14-2-406(B), payment of the Hook-Up Fees required hereunder shall be made by the Applicant, Developer or Builder no later than within 15 calendar days after receipt of notification from the Company that the Utilities Division of the Arizona Corporation Commission has approved the Main Extension Agreement in accordance with R-14-2-406(M).

2) For those connecting to an existing main: In the event that the Applicant, Developer or Builder for service is not required to enter into a Main Extension Agreement, the Hook-Up Fee charges hereunder shall be due and payable at the time the meter and service line installation fee is due and payable.

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

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

(F) Large Subdivision Projects: In the event that the Applicant, Developer or Builder is engaged in the development of a residential subdivision containing more than 150 lots, the Company may, in its discretion, agree to payment of off-site hook-up fees in installments. Such installments may be based on the residential subdivision development's phasing, and should attempt to equitably apportion the payment of charges hereunder based on the Applicant's, Developer's or Builder's construction schedule and water service requirements.

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

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

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

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

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

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

Bella Vista Water Co., Inc.
Northern Sunrise Water Company Inc.
Southern Sunrise Water Company Inc.

W-02465A-09-0411, W-20453A-09-0412, W-20454A-09-0413,
W-02465A-09-0414, W-20453A-09-0414 and W-20454A-09-0414

Greg Sorensen
Rebuttal Testimony
May 25, 2010

Exhibit
GS-RB5

2232477.1

UNIFORM SYSTEM OF ACCOUNTS FOR CLASS A WATER UTILITIES

1996

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

Price: $25.00

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

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

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

265. Miscellaneous Operating Reserves

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

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

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

Contributions in Aid of Construction

271. Contributions in Aid of Construction

A. This account shall include:

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

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

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

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

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

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

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

272. Accumulated Amortization of Contributions in Aid of Construction

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

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

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

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

FENNEMORE CRAIG
A Professional Corporation
Jay L. Shapiro (No. 014650)
Todd C. Wiley (No. 015358)
3003 N. Central Ave.
Suite 2600
Phoenix, Arizona 85012
Attorneys for Applicants

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF BELLA VISTA WATER CO., INC. AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. W-02465A-09-0411
IN THE MATTER OF THE APPLICATION OF NORTHERN SUNRISE WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. W-20453A-09-0412
IN THE MATTER OF THE APPLICATION OF SOUTHERN SUNRISE WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. W-20454A-09-0413

IN THE MATTER OF THE JOINT APPLICATION OF BELLA VISTA WATER CO., INC., NORTHERN SUNRISE WATER COMPANY, INC., AND SOUTHERN SUNRISE WATER COMPANY, INC. FOR APPROVAL OF AUTHORITY TO CONSOLIDATE OPERATIONS, AND FOR THE TRANSFER OF UTILITY ASSETS TO BELLA VISTA WATER CO., INC. PURSUANT TO ARIZONA REVISED STATUTES 40-285.	DOCKET NO. W-02465A-09-0414 DOCKET NO. W-20453A-09-0414 DOCKET NO. W-20454A-09-0414

REBUTTAL TESTIMONY OF

PETER EICHLER

May 25, 2010

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I. INTRODUCTION AND PURPOSE OF TESTIMONY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Peter Eichler. My business address is 2845 Bristol Circle, Oakville, Ontario L6A 7H7.

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

A. I am providing this rebuttal testimony on behalf of Bella Vista Water Company, Northern Sunrise Water Company, and Southern Sunrise Water Company. Since this is a consolidated docket, I will refer to the companies as the Bella Vista Companies, or specifically to each Company where appropriate.

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

A. No.

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

A. Currently, I am employed by Liberty Water Canada as Manager of Financial Planning & Analysis.

Q. PLEASE SUMMARIZE YOUR WORK RESPONSIBILITIES?

A. I am in charge of financial planning for Liberty Water, including ensuring overall accountability for rate cases. I am also responsible for analyzing rate case related accounting and finance issues and responding to related discovery issues.

Q. WHAT IS YOUR EDUCATIONAL AND EMPLOYMENT EXPERIENCE?

A. I have been employed at Liberty Water for approximately 9 months. Prior to my employment at Liberty Water, I spent four years at regulated electrical utilities in Ontario, Canada, working in the areas of Corporate Finance, Ratemaking and Regulatory Affairs.

I am a designated accountant, having received the Certified Management Accountant (CMA) designation in Canada. In addition, I have completed a

Masters of Business Administration degree from the University of Windsor in Ontario, Canada, and have a Bachelor of Commerce degree with a specialization in Finance from Ryerson University, in Toronto, Canada.

Q. DO YOU HAVE ANY SPECIALIZED TRAINING RELATED TO UTILITY RATEMAKING?

A. In addition to my work experience, I also completed NARUC's Utility School in November 2009.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE ARIZONA CORPORATION COMMISSION?

A. Yes, I testified on behalf of Rio Rico Utilities, Inc. in its recent evidentiary hearing on RRUI's pending rate case. That was the first time that I testified before a regulatory commission. This case is my second.

II. <u>SUMMARY OF TESTIMONY.</u>

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to provide a detailed explanation of Liberty Water's affiliate cost allocation method in response to the direct testimonies of Ms. Crystal S. Brown on behalf of Commission Staff and Mr. Timothy J. Coley on behalf of RUCO relating to Liberty Water's affiliate cost allocations to the Bella Vista Companies.

Based on my review of Staff's and RUCO's testimony, it appears that further explanation is necessary relating to our affiliate cost methodology and the benefits provided to Bella Vista and Liberty Water's other regulated utilities in Arizona through services provided by Algonquin Power Trust ("APT") and Algonquin Water Services d/b/a Liberty Water ("Liberty Water"). In this rebuttal testimony, I provide a detailed explanation of the affiliate cost allocation methodology used by the regulated utility affiliates of Liberty Water Company,

Inc. ("LWC") including Bella Vista Water Company, Northern Sunrise Water Company, Southern Sunrise Water Company, Litchfield Park Service Company, Black Mountain Sewer Company, Gold Canyon Sewer Company, and Rio Rico Utilities Inc. (collectively the "Regulated Utilities"). The Regulated Utilities are wholly-owned subsidiaries of LWC, which is owned by Algonquin Power Income Fund ("APIF"). We have prepared a detailed paper entitled "Liberty Water Affiliate Cost Allocation Methodology," which is attached to my testimony as **Exhibit PE-RB1**. That paper explains in detail all of the affiliate cost allocations to the Regulated Utilities by Liberty Water and APT. That paper also defines what portions of the affiliate costs are direct costs and what portion are indirect costs. This document was previously disclosed in this case in response to data requests.

III. THE ALGONQUIN/LIBERTY WATER SHARED SERVICES MODEL AND AFFILIATE COST ALLOCATION METHODOLOGY.

Q. PLEASE EXPLAIN APIF'S CORPORATE STRUCTURE AND BUSINESS MODEL.

A. Initially, I will note that Algonquin Power Income Fund converted to a common share ownership structure traded on the Toronto Stock Exchange ("TSX") in late 2009. As a result, APIF is now known as Algonquin Power & Utilities Corp ("APUC"). During the test year, the ultimate parent company was known as Algonquin Power Income Fund. In my testimony, I refer to APIF and APUC synonymously.

APIF's primary business is ownership of generating and infrastructure facilities through investments in securities of subsidiaries. APIF owns a widely diversified portfolio of 46 electric facilities and 17 water distribution and wastewater treatment facilities in Canada and the United States. APIF also owns an electric facility that was not active during the test year and is not expected to be

active in the foreseeable future. Finally, APIF has an operating interest in seven other facilities, but does not own them. Those seven facilities are known as the Trafalgar facilities.

Q. PLEASE SUMMARIZE THE SHARED SERVICES MODEL AND THE RELATIONSHIP BETWEEN BELLA VISTA, LIBERTY WATER, AND ALGONQUIN POWER TRUST

A. There are two main components to this shared services model. First, Liberty Water provides the day to day operating costs associated with the operations of all its utilities including our Bella Vista facilities. You could call these direct costs, as noted in the cost allocation paper attached as **Exhibit PE-RB1**. These costs include operations labor costs allocated directly based on timesheets; customer service and finance wages allocated based on customer count; and other administration costs related to the day to day operations of the facility allocated based on a four-factor formula. Staff and RUCO do not dispute the allocations to Bella Vista from Liberty Water. Second, APT provides the corporate administration costs associated with the running of a publicly traded company to support all of its power generation and infrastructure facilities (including the 17 regulated utilities). These are all indirect costs, again as noted in the cost allocation paper attached as **Exhibit PE-RB1**. These costs are for services received by the utilities such as strategic planning costs, access to capital, audit, tax services, unit holder communication, trustee fees, and other costs. These costs are allocated to Liberty Water's 17 regulated utilities based on the number of utilities to total facilities (17/63) and then further allocated to each regulated utility based on customer count.

Q. IS THAT APPROACH CONSISTENT WITH THE NARUC GUIDELINES ON COST ALLOCATIONS?

A. Yes. Staff and RUCO have criticized the APT allocations for not conforming to the NARUC Guidelines because costs that can be directly charged should be directly charged. Our methodology does exactly that. The APT costs are all indirect costs, whereas Liberty Water (AWS) costs are mostly direct costs. Therefore, where appropriate, costs have been directly charged. RUCO also criticizes the cost allocation model by claiming that the APT costs have not been reported separately as either an indirect cost or a direct cost. On this point, RUCO's analysis is flawed because Bella Vista has reported all of the APT costs as indirect costs, which necessitates that the APT costs be allocated to the regulated utilities, including Bella Vista, pursuant to an allocation methodology. Liberty Water's allocation of the APT costs follows the NARUC Guidelines on those issues, which expressly recognizes allocation of indirect costs. The NARUC Guidelines also recognize the allocation of common costs, which are corporate costs that benefit both regulated and unregulated affiliates.

Q. THE MAIN FOCUS OF STAFF'S AND RUCO'S OPPOSITION TO THE APT COSTS SEEMS TO BE WHETHER THE APT COSTS BENEFIT BELLA VISTA'S RATEPAYERS. DOES APIF'S BUSINESS MODEL PROVIDE BENEFITS TO REGULATED UTILITIES SUCH AS BELLA VISTA?

A. Yes. The benefits are even more pronounced when compared to the truly minimal costs per customer for the APT services. APIF is publicly traded on the Toronto Stock Exchange. APIF's structure as a publicly traded income fund provides substantial benefits to its Regulated Utilities through access to capital markets, strategic management, professional administrative staff, strong corporate

governance and financial controls. The very nature of APIF requires the utilities to be run prudently with a keen eye on cost control in order to ensure that costs are justifiable to regulators and in turn, APIF's unit holders earn returns on their invested capital.

Q. WHO ARE APIF'S UNIT HOLDERS?

A. APUC's shareholders are both institutional and retail investors. Approximately 20% of APUC's shares are held by institutions, and are included as part of various pension funds, mutual funds, and monthly dividend and income funds, all of which appeal to long term investors looking to invest for savings and retirement purposes. Approximately 80% of APUC's shares are held directly by retail investors (individuals) who look for a stable, sustainable level of income in the form of dividend payments. Approximately 30% of APUC's shares are held by investors in the United States.

Q. THANK YOU, MR. EICHLER. CONTINUING NOW WITH YOUR DISCUSSION OF THE SHARED SERVICES MODEL, WHAT SPECIFIC SERVICES ARE PROVIDED TO THE REGULATED UTILITIES BY LIBERTY WATER?

A. Bella Vista and the other Regulated Utilities in Arizona do not operate as stand-alone utilities. Instead, the Arizona utilities owned by Liberty Water operate under a shared services model, which is designed to pool and share expenses to minimize costs. As I testified above, Bella Vista is operated by Algonquin Water Services, which operates under the name Liberty Water, along with the other regulated Arizona water and sewer utilities, and eleven regulated water and sewer providers located in Texas, Missouri and Illinois. Liberty Water provides all of the day-to-day administration and operations personnel for these regulated utilities.

Q. HOW ARE COSTS INCURRED BY LIBERTY WATER ALLOCATED TO BELLA VISTA?

A. All operations and engineering labor is directly charged by Liberty Water to Bella Vista and the other separate Regulated Utilities operated by Liberty Water. Liberty Water charges those labor rates at cost, which is the dollar hourly rate per employee as recorded in Liberty Water's job costing system, grossed up by 35% for burdens such as payroll taxes, health benefits, retirement plans, and other insurance provided to employees. Engineering technical labor, which is mostly capitalized, is charged on the same basis, plus an allocation of 10% for Liberty Water's corporate overheads such as rent, materials/supplies, etc. Liberty Water has its own offices, separate from the offices where I work in Oakville, Ontario.

Other necessary services provided by Liberty Water for the Regulated Utilities cannot be directly charged to Bella Vista and the other Regulated Utilities. Labor for health and safety, accounting, billing and customer service, human resources, and corporate finance cannot be directly allocated using timesheets due to the nature of the costs. It simply isn't practical to keep track of time for employees that serve multiple utilities in small time increments during the course of a work-day. A shared call center is the perfect example. A customer service representative at Liberty Water's call center will field calls from customers Bella Vista, Black Mountain and Rio Rico in southern Arizona and the three other states. This work directly benefits all of the Regulated Utilities, so the costs need to be allocated to all of them. These costs are allocated based on the relative customer counts of all of the Regulated Utilities. Using customer counts allows Liberty Water to allocate those costs to an individual utility, such as Bella Vista, based on the relative burden of that utility relating to those services.

Overhead costs, like rent, insurance, administration costs, depreciation of office furniture and computers, also cannot be directly attributed to specific utilities. These costs are allocated to Bella Vista and its affiliates by use of a "four factor" methodology that considers relative size through four weighted factors – total plant, total customers, expenses and labor. I understand that this type of four-factor methodology has been utilized by other Arizona utilities, including Chaparral City Water Company and Global Water. All of the costs charged by Liberty Water and allocated to Bella Vista are based on actual costs, either directly charged or through the allocations described above.

Q. WHAT SERVICES ARE PROVIDED TO THE REGULATED UTILITIES BY APT?

A. APT is the affiliate that provides financial, strategic management, compliance, administrative and support services to the Regulated Utilities operated by Liberty Water. The costs incurred are corporate administrative costs; they are not labor costs. As such, these costs are mainly indirect costs incurred by APT as necessary to run a company that is traded on a stock exchange. APIF then allocates a share of the costs incurred by its operating arm APT in providing necessary and required services to the Regulated Utilities. The head office of APT is located in Oakville, Ontario, Canada and provides administrative, technical and management support, regulatory compliance, and oversight of strategic direction, including approvals of budgets and ensuring a strict level of corporate governance for RRUI and all of the utilities operated by Liberty Water. APT's executive management and administrative support includes accounting and finance, human resources, employee benefits, regulatory and information systems services.

Q. DOES APT CONDUCT ANY OTHER BUSINESS?

A. No. APT exists solely for the benefit of the utilities and other facilities APIF owns. APT does not have any business, other than to provide administrative services to the utilities and the other facilities. If those utilities and other facilities did not exist, APT and all of these indirect corporate administrative costs would not exist. This fact is important because it shows that APIF and its investors do not generate additional revenue or dividends from the APT costs. Staff and RUCO seem to suggest that the APT costs provide a hidden source of income for APIF or its investors. But that simply isn't true. The APT costs are simply necessary costs of doing business as a publicly traded company. Also, it bears emphasis that the APT costs already have been incurred, and allocation of those costs to the Regulated Utilities and unregulated facilities simply allows recovery of those costs.

Q. BUT HOW DO THESE SERVICES PROVIDED BY APT BENEFIT BELLA VISTA AND THE OTHER REGULATED UTILITIES?

A. First, the services provided by APT are necessary to allow Bella Vista and the other Regulated Utilities to have access to capital markets for capital projects and operations. In today's market place, the importance of ready access to capital can't be understated. Many stand alone Arizona utilities simply do not have the steady access to capital that is available to Bella Vista under the APIF corporate model. Far West Sewer & Water Company is a perfect example.[1] Absent consistent access to capital, Bella Vista would not be able to provide a high level of service.

The overriding focus of Liberty's shared services model is that such model will provide a broader range of services for a cheaper price than operating as a stand-alone utility. Our shared services model also avoids the types of problems

[1] *See Far West Water and Sewer Company*, Decision No. 71447 (December 23, 2009).

various stand-alone utilities have suffered from lack of financing, lack of oversight and poor management, including Far West and the McLain utilities.[2] In addition, Bella Vista receives benefits by having strategic direction, corporate governance, financial controls, and an audit done at the Income Fund level. This model benefits Bella Vista's long term health and allows the company to provide high quality utility service for a fraction of the price.

Q. BUT MR. EICHLER, BELLA VISTA IS NOT PUBLICLY TRADED, SO WHY DOES IT NEED THESE SERVICES?

A. For the reason I just mentioned. Bella Vista is a strong utility because it is part of the Algonquin/Liberty Water shared services model. The same is now true of Black Mountain and Gold Canyon. While none of these entities is publicly traded, they are part of a structure and model that includes a publicly traded entity at the top. This model works—ratepayers get a high level of service at reduced operating expenses.

I really can't stress enough how much we believe the Regulated Utilities benefit from strategic direction on long term capital and operational needs and requirements. Many of the substantial problems and failures experienced by stand-alone Arizona utilities resulted from lack of proper management. This type of strategic planning allows Bella Vista to plan for future long term capital needs. All of these costs relate to the promotion of long term health of the entire organization, and that is a definite benefit for Bella Vista and its ratepayers. Good business requires good governance, financial planning, strategic management, audits, tax services, etc. It promotes a healthy company with long term objectives and easier access to capital. Smaller utilities that are not part of a larger corporation usually

[2] *See id.; Northern Sunrise Water Company and Southern Sunrise Water Company*, Decision No. 68826 (June 29, 2006), *et. seq.*

do not have good corporate governance. Again, I refer back to the McLain and Far West systems. McLain in particular had poor corporate governance and lacked a long term strategy resulting in inadequate treatment, storage and an unreliable distribution system.

Q. THANK YOU, MR. EICHLER. CAN YOU DIG A LAYER DEEPER AND EXPLAIN THE MAJOR CATEGORIES WITHIN THE APT COST POOL?

A. Yes. The APT costs are a pool of costs incurred for the provision of certain services that ratepayers receive. In general, these costs can be broken down in to four categories:

1) Strategic Management - Strategic management decisions are critical for any public utility. The need for strategic management is even more pronounced for APIF as a publicly traded income fund, which depends on access to capital funding through public sales of units in the fund. APIF seeks to hire talented strategic managers that aid in running each facility owned by the fund as efficiently and effectively as possible. This ensures the long term health of each utility and ensures that rates are kept as low as possible without compromising the level of service. It also facilitates each Regulated Utility's access to necessary capital funding at reduced costs.

2) Access to Capital - One of APT's primary functions is to ensure APIF's facilities (i.e., the Regulated Utilities) have access to quality capital. APIF is listed on the Toronto Stock Exchange, a leading financial market. In order to allow the Regulated Utilities to have continued access to those capital markets, APT incurs the following Costs for the benefit of the Utilities. These services and costs are a prerequisite to the Regulated Utilities' continued access to those capital markets.

3) Financial Controls and Corporate Governance - Financial Control costs incurred by APT include costs for audit services, tax services, and trustee fees. These costs are necessary to ensure that the Regulated Utilities are operated in a manner that meets audit standards and regulatory requirements have strong financial and operational controls, and that financial transactions are recorded accurately and prudently.

4) Administrative - Administrative costs incurred by APT such as rent, depreciation of office furniture, depreciation of computers, and general office costs are required to house all the services mentioned above. Without these administrative costs, the employees of APT could not perform their work and provide the necessary services to the Regulated Utilities.

The APT costs and their benefits to ratepayers are explained in further detail in the cost allocation paper attached as **Exhibit PE-RB1.**

Q. CAN YOU GIVE US A SPECIFIC EXAMPLE OF HOW THESE COSTS BENEFIT RATEPAYERS?

A. Yes. A look at the former McLain Systems, now known as Northern Sunrise and Southern Sunrise, provides a perfect case study to demonstrate the benefits of these costs and Liberty Water's business model. Liberty Water acquired these systems in 2007 in a state of disarray to the point where some customers were not receiving water to their homes. The system was a virtual disaster. Local businesses would not even give Liberty Water trade credit due to the poor business decisions and actions of the previous owner. The system also needed significant capital improvements.

The services available to Liberty Water under its shared services model and the ongoing access to capital through the services provided by APT allowed Liberty Water to step in and acquire the McLain systems and resolve the service

and facility problems. Liberty Water was the only entity that stepped up to address the McLain systems, which is testament to the benefits of the APIF business model. The ability of Liberty Water to provide services benefited the customers in the following ways:

Strategic Management – Skilled managers were able to acquire the systems and restore drinking water with lightning speed. Until water service was restored, temporary water supplies were brought in to ensure that drinking water was available immediately. Leveraging existing expertise, capital planning processes began immediately to ensure the long term supply and quality of water issues were fixed immediately.

Access to Capital – Liberty Water has invested over $800,000 in the McLain systems to ensure that there is a long term sustainable water solution available to the area. These funds were readily available to be invested due to the continued access to capital Liberty Water receives through APIF, which is contingent on the services procured by APT. This access to capital also ensures that ongoing needs are continually met both from a capital and operating expenditure perspective.

Financial Controls and Corporate Governance– The financial controls provided by APT such as audits, governance, and other such controls, have ensured that the McLain systems are not subject to poor financial decisions and that all such decision are subject to proper oversight. Those controls were lacking prior to Liberty's ownership. On an ongoing basis, these services ensure the continued financial health, strong governance, and also contribute to ensuring access to capital is available, as many of these financial controls are required for continued access to the TSX.

Put frankly, Liberty Water was able to acquire the McLain systems, act quickly to restore service and provide long-term solutions only because of the APIF business model and the services provided by APT.

Q. HAS THE APIF BUSINESS MODEL ALLOWED LIBERTY WATER TO PROVIDE SIMILAR BENEFITS TO ITS OTHER ARIZONA UTILITIES?

A. Yes, the McLain system is just one of many examples where Liberty Water has taken over troubled systems, implemented necessary system upgrades and restored high quality service to customers. Liberty Water has been able to do those things as a direct result of its shared services model and access to capital resulting from the APT services. For example, as recently noted during the evidentiary hearing in the Rio Rico Utilities rate case, public comments by County Supervisor John Maynard attested to the fact that water service has dramatically improved since Liberty Water had acquired RRUI. Likewise, Black Mountain Sewer Company had experienced odor problems in its system and Liberty Water fixed those problems by investing capital and resources to remove a bad lift station and upgrade the collection system to resolve the odor problems. Further, at Gold Canyon Sewer Company, Liberty Water took over a developer built and operated sewer system with major odor and discharge problems. Again, Liberty Water invested capital and engineering to resolve those problems and render high quality service to customers. These circumstances demonstrate the substantial benefits and advantages available to customers under the Liberty Water business model. Put simply, Liberty Water is an entity that gets things done, and provides high quality utility service with low operating expenses.

Q. THANK YOU. WHAT ABOUT SYSTEMS THAT ARE NOT IN A STATE OF DISARRAY? DO THE APT COSTS PROVIDE BENEFITS TO CUSTOMERS OF THOSE SYSTEMS?

A. Absolutely. In this case, Bella Vista Water Company itself was not in a state of disarray when Liberty Water acquired it in 2002. Even so, the addition of strategic management, access to capital, and financial controls have allowed the service levels to increase while costs have outperformed the level they would be at on a standalone basis. The services received have given the utility structure, long term planning processes, and have allowed the operations to gain efficiencies by utilizing the shared services model. That's not to mention that a company operating under the Liberty Water umbrella does not face the same type of management and operational risks that it would as a stand alone utility.

Q. ARE THERE ANY OTHER BENEFITS YOU WOULD LIKE TO POINT TO?

A. Yes. In general, Liberty Water is a company that acquires systems, commits to them, and ensures that any issues that arise or exist are resolved expeditiously. Simply put, without the services received from APT, Liberty Water would not be able to operate the systems and fix these issues. As I've noted above, there are several other examples outside of the McLain systems, including odor issues at Black Mountain and Gold Canyon, the spill at Cassilas Bonitas, the tremendous increase in service that was pointed to by County Supervisor Maynard in the recent Rio Rico Utilities rate case, and many other examples,

Q. HAVE YOU PREPARED ANY SCHEDULES DEMONSTRATING THE BENEFITS TO RRUI'S RATEPAYERS OF THE LIBERTY WATER BUSINESS MODEL?

A. Yes. In the "Comparison of Operating Expenses Under Liberty Water v. Bella Vista as Stand-Alone" (attached as **Exhibit RB-PE2),** I compared the stand-alone operating costs of Bella Vista Water Company at the time Liberty Water acquired it in 2002-2003 to the end of 2008. The operating expenses in 2002-2003 reflect

Bella Vista's operations as a stand-alone and the operating expenses in 2003-2008 reflect Bella Vista's operating expenses under Liberty Water. On average, Bella Vista's costs were 10% lower under the Liberty Water structure than on a standalone basis. That type of savings would not be possible without strong strategic management, efficient deployment of capital, and the benefits of the shared services model.

Q. HAVE YOU MADE ANY COMPARISON OF THE BENEFITS PROVIDED FROM THE APT SERVICES TO THE COSTS INCURRED BY CUSTOMERS ON A MONTHLY OR YEARLY BASIS?

A. Yes, the chart entitled "Yearly and Monthly Costs Per Customer for the APT Central Office Costs" (attached as **Exhibit PE-RB3)** is an analysis of the monthly and yearly costs that would be incurred by each customer for the APT cost pool. This breakdown demonstrates that the costs incurred by customers for the APT services are minimal when compared to the substantial benefits provided by the Liberty Water shared services model.

A simple cost-benefit analysis demonstrates the substantial benefits of the APT cost allocations. The average customer cost per month for the APT Central Office Costs is $1.09 per month for Bella Vista's customers. For $1.09 per month, Bella Vista's customers get ongoing access to financial capital from the Toronto Stock Exchange, they get financial oversight of utility operations, they get strategic planning, they get auditing services and they get tax filings for the regulated utilities. A charge of $1.09 per month for access to capital, sound fiscal management and increased service is not excessive or unfair to Bella Vista's ratepayers.

Q. HOW DO THE COSTS COMPARE TO THE BENEFITS PROVIDED?

A. The benefits provided by the Liberty Water business model substantially outweigh the minimal costs to Bella Vista's customers. The charted attached as **Exhibit PE-RB3** illustrates that fact. As noted, that chart breaks down the yearly and monthly cost per customer for each cost category contained in the APT cost pool. The analysis is amazing. On a combined basis, the monthly costs per customer is $1.09, and range from $0.21/month for audit services to less than one cent per month for licenses/fees to participate in the TSX. Rent for the corporate office in Canada costs $0.08/month and strategic management services provided by APT costs each customer seventeen cents $0.17 per month. The escrow fees required to pay public investor dividends equal three cents $0.03 per month and the costs for legally required communications with APIF's investors is $0.04 per month. The benefits of the APT cost allocations far outweigh the actual costs to customers.

Q. MR. EICHLER, HAS ANY OTHER LIBERTY WATER COMPANY APPLIED TO HAVE SIMILAR COSTS INCLUDED IN THEIR COST OF SERVICE IN ARIZONA?

A. Yes. At present, Liberty Water has pending applications in three other dockets in Arizona (LPSCO, RRUI and Black Mountain). Liberty Water is seeking recovery of the APT costs in all of these dockets.

Q. HAS THE POOL REMAINED CONSISTENT DURING THESE APPLICATIONS?

A. The pool has remained consistent in the methodology employed and the types of costs incurred. At the same time, there have been some changes from case to case as the methodology is fine tuned and we continue to respond to Staff's and RUCO's concerns.

Q. HOW HAS THE APT COST POOL CHANGED?

A. As each rate case is heard, and differing positions are taken by Staff and RUCO, the Company evaluates each position and changes as necessary. For example, in the Rio Rico rate case, Staff correctly pointed out that the true-up calculation of the pool was not converted to US dollars. The Company has now adopted that change in its methodology. Further, a greater amount of rigor is applied to the costs in the pool to minimize the risk of costs that can be directly charged to other operations being allocated to utilities.

Q. CAN YOU EXPLAIN HOW LIBERTY WATER'S COST ALLOCATION MODEL HAS EVOLVED OVER THE COURSE OF THESE RATE CASES?

A. Yes, I think it's important to point out how the cost allocation model has evolved over time in relation to concerns raised by Staff and RUCO. Liberty Water first sought rate treatment for Central Office Costs in the Black Mountain rate case, including affiliate profit. In turn, Staff, RUCO and the Commission voiced their objections to including affiliate profit in the allocations. In response, Liberty Water revised its cost allocation methodology to exclude affiliate profit and to allocate only the actual costs incurred at the APT level. Liberty Water then presented its revised methodology in the Black Mountain, LPSCO and RRUI rate cases.

One of the problems in presenting a cost allocation methodology is that the Commission has not adopted any cost allocation standards, rules or regulations. As such, review and determination of cost allocations is an organic process that evolves through litigation of rate cases. In each rate case for the Liberty Water utilities, Staff and RUCO have voiced their concerns and comments on the cost allocations. Staff and RUCO have applied differing and changing views of the costs allocations in those cases. The primary focus of Staff's and RUCO's

comments has been removal of costs from the APT pool, which Staff and RUCO believe are improper and should be directly charged to APIF or other unregulated facilities. In each case, Liberty Water responded by removing those costs that Staff and/or RUCO felt were objectionable or by explaining the inclusion of those costs. Liberty Water has been receptive to Staff's and RUCO's concerns relating to the cost allocations. For example, Staff and RUCO have identified a number of costs included in the APT cost pool that should be directly allocated to unregulated affiliates or to APIF itself. In those instances, Liberty Water has addressed those concerns by removing those costs from the pool.

Q. HAS THE DIALOGUE BETWEEN LIBERTY WATER AND STAFF IMPROVED RELATING TO COST ALLOCATIONS?

A. Yes and I believe Staff has a much better understanding of Liberty Water's cost allocation model. In its closing brief in the recent RRUI case, "Staff has acknowledged that it is not opposed to the concept of a shared services model, [but] Staff still has some concerns given some of the inappropriate costs it found during its audit of the cost pool. While not entirely opposed to the shared service model, Staff would urge the Company to review its cost pool and only include those expenses that are necessary to provide services to the ratepayer."[3] We received that message from Staff and attempted to follow Staff' suggestion. To its credit, Staff acknowledged the benefits of the Liberty Water shared services model and now seeks verification that the final pool doesn't include any improper invoices. In light of Staff's concerns, we removed all of the invoices questioned by Staff and RUCO, and removed additional invoices that might be questionable from the cost pool.

[3] Staff Closing Br. at 9, Docket No. WS-02676A-09-0257.

Q. WHAT ARE SOME OF THE CRITICISMS THAT HAVE BEEN ADDRESSED IN THE COST ALLOCATION POOL?

A. The major criticism of the cost pool is that Staff and RUCO believe that the bulk of the APT services do not benefit ratepayers. This has been addressed in previous testimony, and I provide a further detailed explanation of how these services benefit utilities above. Even on that issue, however, the benefits of the APT costs greatly outweigh the truly minimal costs to customers for the APT allocations.

Further, both Staff and RUCO have claimed that inappropriate costs were allocated to the pool that ought to have been directly charged to a different operation. While sometimes the Company and interveners have differing opinions on the ability to directly charge costs, where the issue was contentious, the costs were removed.

Q. WHY WERE CONTENTIOUS COSTS REMOVED?

A. The costs were removed for varying reasons. Most importantly, the Company firmly believes in the need to increase stakeholder trust. For this reason, the Company has been as transparent as possible in the recovery of these costs, and decided to remove contentious costs in order to reduce disputes with the parties. Further, the contentious costs often create significant disputes during trials and increase rate case expenses. It is not productive to continually debate these costs when the real debate is over the merit of the services provided by APT.

Q. HOW DO ERRORS OR INAPPROPRIATE COSTS MAKE THEIR WAY IN TO THE CENTRAL OFFICE COSTS POOL?

A. Initially, the central office costs are charged to each utility based on a budget amount. They are trued up for rate making purposes using the actual costs incurred. At this stage, the true-up process is a manual process. While care and attention is given to ensure that inappropriate costs are identified and removed, as

is often the case with manual processes, some errors occur. They also are a function of the fact that the Commission does not have any rules or regulations govern cost allocations, which makes the APT cost pool subject to change. We acknowledge that certain of the costs including in the original pool should be allocated to other facilities and we have removed those costs from the pool.

Q. BACK TO THE REMOVAL OF CONTENTIOUS COSTS, YOU MENTION A NEED TO INCREASE STAKEHOLDER TRUST AND COMMUNICATIONS. CAN YOU ELABORATE ON THAT?

A. Yes. Open communication with all of our stakeholders, including regulators and interveners is a critical part of Liberty Water's operations. It is the Company's intent to continue to work towards increasing the communications and clarity of Liberty Water's cost allocation methodology in order to continue to increase trust. The Company recognizes the consistent effort necessary to earn the trust of stakeholders as a reliable and transparent partner, and to that end, the revisions of positions taken by the Company has occurred. While Liberty Water recognizes that agreement with stakeholders on every issue is unrealistic, it is nevertheless committed to ensuring that disagreements are based on differences of opinion, <u>not</u> distrust; and we are working towards a level of cooperation that fosters opportunities for constructive, collaborative resolution of major issues rather than litigation.

Q. TO THAT END, WHAT TRUST BUILDING ASSURANCES CAN YOU PROVIDE THAT NO FURTHER ISSUES ARE PRESENT?

A. As suggested in our closing briefs in the Rio Rico Utilities Inc. case, the Company would be willing to subject the APT cost pool to an independent attestation by a third party CPA to prove that the costs in the pool are materially indirect costs. This independent attestation also is consistent with the NARUC Guidelines on cost

allocations. To the extent Staff or RUCO still question the contents of the final cost pool, Bella Vista proposes to alleviate such concerns by providing an independent "attestation" of the final APT cost pool. Specifically, the NARUC Guidelines state: "Any jurisdictional regulatory authority may request an independent attestation engagement of the [Cost Allocation Manual]."[4] An attestation by an independent CPA would resolve Staff's and RUCO's concerns about whether the final APT cost pool includes charges relating to unregulated business operations or reflect services that can't be verified from invoices. Rather than deny 98% of the APT costs, we would urge the Commission to approve the APT costs allocations subject to Bella Vista providing an "Attestation Engagement" to verify the contents of the cost pool. The Company would not seek reimbursement for costs related to the independent attestation.

Q. HOW DO YOU ENVISION THE INDEPENDENT ATTESTATION ENGAGEMENT?

A. The NARUC Guidelines define "Attestation Engagement" as "one in which a certified public accountant who is in the practice of public accounting is contracted to issue a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party."[5] In essence, the Commission would approve the APT cost allocations subject to Bella Vista providing a letter from an independent CPA attesting to the contents of the APT cost pool and verifying that the cost pool does not include any costs that should or could be directly charged to any specific utilities or facilities. The Company would be happy to work together with Staff, RUCO and the Commission to design the

[4] NARUC Guidelines For Cost Allocations and Affiliate Transactions at 4, ¶ E (3).

[5] *Id.* at 2, ¶ (A) (2).

parameters of the audit. Staff, RUCO, and the Commission also would be free to select the auditor.

IV. REBUTTAL TO STAFF.

Q. CAN YOU PLEASE SUMMARIZE STAFF'S POSITION ON THE CENTRAL OFFICE COSTS?

A. Staff is seeking to disallow 90% of the central costs, and then allocate the remaining 10% among 70 facilities. This means that the Bella Vista Companies would receive a 1/70th share of the remaining 10%, or an effective disallowance of over 99% of the allocation pool.

Q. IS STAFF'S PROPOSAL REASONABLE?

A. No. Staff is suggesting that the Strategic Management, Financial Controls, Access to Capital and Administration services provided by APT should be provided for a cost of $3,132 per year. To suggest that all the services mentioned could be attained for that cost is unreasonable.

Q. WHAT IS THE NATURE OF YOUR DISAGREEMENT?

A. Staff's claim is that 90% of the costs are clearly attributable to APUC. I strongly disagree. APT would not exist if APUC did not own the facilities it owns and would not procure those services. In some cases, the argument would be circular. For example, to suggest that access to capital benefits shareholders is counterintuitive. Staff's suggestion would have the shareholders paying for costs related to accessing capital that they themselves are providing. Similar arguments can be made for Strategic Management and Financial controls. These services would not be required if APUC did not own any facilities, and as demonstrated above, the benefit definitely inures to Bella Vista and its ratepayers.

Q. ARE THERE ANY OTHER SOURCES OF DISAGREEMENT?

A. Yes. Staff claims that APUC owns 70 facilities. The Company has stated in previous cases and in this case that the seven "Trafalgar" facilities are not owned and do not receive the benefits of the APT costs. That fact is absolutely undisputable. While the Company disagrees that 70 facilities are owned by APUC, it is nevertheless willing to accept the number of facilities as 70 in order to minimize disputes and to add a trust building measure. This creates an initial allocation factor of 24.29% instead of the original 26.98%.

Q. OK, AND WHAT ABOUT THE "UNALLOWABLE EXPENSES" CLAIMED BY STAFF?

A. Staff claims there are $123,829 of unallowable expenses in the office expense category. Staff's claim is that these amounts should be capitalized versus expensed. While the Company's view is that capitalizing versus expensing items is somewhat subjective, it is nevertheless willing to accept Staff's recommendation and remove these costs.

Q. STAFF ALSO SUGGESTS THAT THE CENTRAL OFFICE COSTS SHOULD BE TAKEN IN THE CONTEXT OF A COMPARISON WITH A STAND-ALONE COMPANY. HOW DO YOU RESPOND TO THAT?

A. I have two primary concerns with this position. First, I don't believe this is a realistic standard. Even among stand-alone companies, there will be many variations in the types of costs incurred. For example, companies may choose to outsource certain activities while others may choose to perform them in house. In this situation, two stand-alone companies may themselves have very different cost comparisons.

Secondly, although I'm not aware of a stand-alone utility that is publicly traded in Arizona, any stand-alone utility that would be publicly traded would incur

all of these costs and likely in a much more impactful way than the costs incurred by Bella Vista. I also should note that Staff's stand-alone standard assumes that stand-alone companies provide the same level of service and financial security as companies under a shared service model, which simply isn't true, as shown by the laundry list of failed stand-alone utilities in Arizona.

For these reasons, I firmly believe the best and only way to compare utilities is on a total operating cost basis; however, I'd also like to reiterate the findings of my analysis shown in my Rebuttal schedule **PE-RB2**, which I discuss in detail below. This analysis shows that Bella Vista's costs have come down under the shared services model versus a standalone basis.

Q. HAVE YOU UNDERTAKEN AN ANALYSIS OF TOTAL OPERATING COSTS?

A. Yes. My rebuttal Schedule attached as **Exhibit PE-RB4** is a comparison of 23 utilities from Arizona on a total cost per customer basis. The chart demonstrates that the Bella Vista Companies rank eighth out of 23 in lowest cost (i.e. the eighth lowest total cost per customer).

Q. DO YOU THINK THE CHARTS ACCURATELY REPRESENT BELLA VISTA'S PERFORMANCE?

A. Yes, I do. However, I believe its relative performance will get even better in years to come.

Q. ON WHAT BASIS DO YOU MAKE THAT STATEMENT, MR. EICHLER?

A. I am relying on Liberty Water's continued focus on efficiency. As demonstrated in my Rebuttal Schedule attached as **Exhibit PE-RB2**, Bella Vista's costs have come down versus a stand-alone model over time. Those charts show that Bella Vista has operated more cost effectively under Liberty Water than it did as a stand-alone utility prior to acquisition by Liberty Water. The minimal cost per customer for the

the APT allocations is more than offset by the reduced operating expenses under Liberty Water. Since the Northern and Sunrise systems were only acquired in late 2007 in such a state of disarray, I believe that over time those two companies will become more efficient, and the overall costs per customer will reduce further.

V. REBUTTAL TO RUCO

Q. CAN YOU CHARACTERIZE RUCO'S TESTIMONY?

A. RUCO's testimony on central office costs seeks to disallow the majority of the central office costs because they are not directly attributable to water service. RUCO also takes exception to some of the items contained in the pool, such as "hockey tickets, superbowl tickets, basketball tickets, gold watches, etc." Finally, RUCO takes exception to the allocation methodology.

Q. LET'S TAKE THOSE ONE AT A TIME. HOW DO YOU RESPOND TO THE ARGUMENT THAT THE CENTRAL OFFICE COSTS ARE NOT DIRECTLY ATTRIBUTABLE TO WATER SERVICE?

A. I strongly disagree with RUCO. To start, the APT costs are indirect administrative costs, which necessarily means they can't be directly charged to one facility. RUCO's testimony is circular on this point. Further, as I stated above, I believe that in a capital intensive industry such as the water utility industry, access to capital is a company's lifeline. In Arizona, we've seen several companies fail such as the McLain systems, or be in severe financial distress, such as the Far West systems. RUCO's suggestion that services such as access to capital, financial controls, and strategic management do not relate to providing water service is misguided. I would challenge Mr. Coley and RUCO to determine how the McLain systems would have been fixed without strategic management and access to capital, and further challenge Mr. Coley to consider whether financial controls and governance could have helped avoid the disastrous situation in the first place.

Q. WHAT ABOUT RUCO'S ASSERTION THAT SOME OF THE COSTS ARE INAPPROPRIATE?

A. RUCO states that the pool includes tickets for the Super Bowl, hockey, basketball, and a gold watch, among other things. This is not true. There are **no** super bowl, hockey, or basketball tickets in the cost pool. I did manage to locate a Fossil watch which was given to an employee in recognition of service and while that expenditure is prudent in my view, it has been removed from the cost pool so as to reduce the amount in dispute. I also removed two invoices which were inadvertently included for membership to a Canadian Wind Association.

Q. DO YOU HAVE CONCERNS REGARDING RUCO'S CHARACTERIZATION OF THESE ERRORS?

A. Yes. I believe RUCO's characterization is akin to "throwing the baby out with the bath water." The impact of those mistakes was approximately $200 of a $144,000 original request. RUCO's attempt to use those minimal errors to reject virtually the entire cost pool simply is not fair or reasonable. Rather, the proper solution is removal of those errors from the pool, which is exactly what we have done.

Q. RUCO AND STAFF WILL UNDOUBTEDLY ARGUE THAT A SINGLE ERROR IS ONE ERROR TOO MANY IN THE CENTRAL OFFICE COST POOL. HOW DO YOU RESPOND TO THAT?

A. As an accountant, I can understand that statement; however, as described above, manual processes sometimes open themselves up to errors. Liberty Water has not claimed its process is perfect, but, like Staff and RUCO, when errors are made, efforts are made to continually improve processes and make corrections.

To that end, as I discussed above, the Company would be willing to have an independent attestation by a CPA of Staff, RUCO and the Commission's choosing

to verify the cost pool. Such independent attestation would remedy RUCO's concerns about errors in the cost pool.

Q. HAS THE COMPANY PREPARED THE CENTRAL OFFICE COST POOL IN GOOD FAITH?

A. Yes. Absolutely. And as demonstrated in the Rio Rico case and this case, when errors are made, the Company is quick to respond by acknowledging fault where appropriate and making necessary corrections.

Q. WHAT ABOUT RUCO'S POSITION ON USING THE MOST RECENT AND CURRENT EXCHANGE RATE?

A. RUCO's adjustment was made using a current exchange rate. The average exchange rate used to calculate the pool of expenses was $0.89; however, at the time of writing this testimony (May 20, 2010), the exchange rate according to the Bank of Canada converts Canadian dollars at $0.94. The Canadian dollar has appreciated against the US dollar and is likely to remain appreciated for some time. As a result, Mr. Coley's suggestion would increase the cost allocation pool. In fact, at the time of Mr. Coley's submission (around April 12, 2010), the two currencies were at parity, meaning Mr. Coley ought to have adjusted the allocated costs up if he were following his own testimony. The Company is not advocating this position, but would not oppose it if desired by the Commission.

VI. <u>SUMMARY</u>

Q. IN SUMMARY, WHAT IS THE TOTAL AMOUNT FOR THE CENTRAL OFFICE COST POOL FROM YOUR REBUTTAL TESTIMONY?

A. In total, the amount sought for recovery is now $125,830 instead of $144,906. This adjustment will be reflected in Thomas Bourassa's Rebuttal Schedule C-2, page 7.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

Bella Vista Water Co., Inc.
Northern Sunrise Water Company Inc.
Southern Sunrise Water Company Inc.

W-02465A-09-0411, W-20453A-09-0412, W-20454A-09-0413,
W-02465A-09-0414, W-20453A-09-0414 and W-20454A-09-0414

Peter Eichler
Rebuttal Testimony
May 25, 2010

Exhibit
PE-RB1

2232477.1

LIBERTY WATER AFFILIATE COST ALLOCATION METHODOLOGY

I. GENERAL STATEMENT OF ALLOCATION METHODOLOGY

The purpose of this paper is to provide a detailed explanation of the Affiliate Cost Allocation Methodology used by the regulated utility affiliates of Liberty Water Company ("LWC") including Litchfield Park Service Company ("LPSCO"), Black Mountain Sewer Company, Gold Canyon Sewer Company, Rio Rico Utilities, Bella Vista Water Company, Northern Sunrise Water Company, and Southern Sunrise Water Company (collectively the "Regulated Utilities"). The Regulated Utilities are wholly-owned subsidiaries of LWC, which is owned by Algonquin Power Income Fund ("APIF").

A. The APIF Corporate Structure.

APIF's primary business is ownership of generating and infrastructure facilities through investments in securities of subsidiaries. APIF owns a widely diversified portfolio of 46 electric facilities and 17 water distribution and wastewater treatment facilities in Canada and the United States. APIF also has an operating interest in 8 other facilities, but does not own them. APIF is publicly traded on the Toronto Stock Exchange. APIF's structure as a publicly traded income fund provides substantial benefits to its Regulated Utilities through access to capital markets and access to engineers, technicians, professional managers and administrative staff, including trained plant operators and field supervisors.

B. Liberty Water Cost Allocations to LPSCO.

LPSCO and the other Regulated Utilities in Arizona do not operate as stand-alone utilities. LPSCO is operated by Algonquin Water Services d/b/a Liberty Water ("Liberty Water"), along with six other regulated Arizona water and sewer utilities, and eleven regulated water and sewer providers located in Texas, Missouri and Illinois. Liberty Water provides all of the day-to-day administration and operations personnel for these regulated utilities. All operations and engineering labor is charged by Liberty Water directly to LPSCO and the other separate Regulated Utilities operated by Liberty Water. Liberty Water charges those labor rates at cost, which is the dollar hourly rate per employee as recorded in Liberty Water's payroll system, grossed up by 35% for burdens such as payroll taxes, health benefits, retirement plans, and other insurance provided to employees. Engineering technical labor, which is capitalized, is charged on the same basis, plus an allocation of 10% for Liberty Water's corporate overheads such as rent, materials/supplies, etc.

Other necessary services provided by Liberty Water for the Regulated Utilities cannot be directly charged to LPSCO and the other Regulated Utilities. Labor for accounting, billing and customer service, human resources, health and safety, and corporate finance cannot be directly allocated using timesheets due to the nature of the costs because it is not practical to keep track of time for employees that serve multiple utilities in small time increments during the course of a work-day. A shared call center is the perfect example. A customer service representative at Liberty Water's call center will field calls from customers of LPSCO, BMSC, Bella Vista Water Company in southern Arizona and the three other states. This work directly benefits all of the Regulated Utilities, so the costs need to be allocated to all of them. These costs are allocated based on the relative customer counts of all of the Regulated Utilities. Using customer counts allows Liberty Water to allocate those costs to an individual utility, such as LPSCO, based on the relative burden of that utility relating to those services.

Overhead costs, like rent, insurance, administration costs, depreciation of office furniture and computers, also cannot be directly attributed to specific utilities. These costs are allocated to LPSCO and its affiliates by use of a "four factor" methodology that considers relative size through four weighted factors – total plant, total customers, expenses and labor. This type of four-factor methodology has been utilized by other Arizona utilities, including Chaparral City Water Company and Global Water. All of the costs charged by Liberty Water and allocated to LPSCO are based on actual costs, either directly charged or through the allocations described above.

B. Central Office Cost Allocations from Algonquin Power Trust.

In addition to the operations and engineering direct costs, and the allocated overhead/administration costs charged by Liberty Water, LPSCO and the other utilities in this shared services model benefit from costs incurred by the Algonquin corporate parent. Specifically, APIF, the shareholder of Liberty Water, allocates a share of the costs incurred by its operating arm Algonquin Power Trust ("APT") in providing necessary and required services to the Regulated Utilities.

APT is the affiliate that provides financial, strategic management, compliance, administrative and support services to the Regulated Utilities operated by Liberty Water, as well as to the numerous unregulated utility assets owned by the corporate parent, APIF. APT does not have any staff and the costs incurred by it are non-labor based. The head office of APT is located in Oakville, Ontario, Canada and provides administrative, technical and management support,

regulatory compliance, and oversight of strategic direction, including approvals of budgets and ensuring a strict level of corporate governance for LPSCO and all of the utilities operated by Liberty Water. APT's executive management and administrative support includes accounting and finance, human resources, employee benefits, regulatory and information systems services.

The services provided by APT are necessary to allow LPSCO and the other Regulated Utilities to have access to capital markets for capital projects and operations, and are necessary to allow LPSCO to provide a high level of service at the lowest cost. There are no direct labor costs included in the corporate administration Central Office Cost allocation from APT. Instead, these costs include professional services like third-party legal services, accounting services, tax planning and filings, and required auditing that are done for the benefit of all of the Liberty Water Regulated Utilities, including LPSCO.

These corporate headquarter administrative costs also include costs for licenses, fees and permits, information technology/systems, payroll, and HRIS maintenance contracts, as well as the rent and depreciation of office furniture and equipment and computers in the central office in Oakville, Ontario. Fees for these services are allocated to the Regulated Utilities using generally accepted allocation principles. These services are routine and recurring in nature and performed on a regular basis as part of normal business operations for Liberty Water and its Regulated Utilities.

These administration Central Office Costs are allocated to LPSCO in two phases. The first phase involves allocating these costs to each of the facilities, both regulated and unregulated, owned by APIF. That initial allocation is made based on relative size. Specifically, APIF owns and operates 63 total entities, 17 of which are the Regulated Utilities operated by Liberty Water. In turn, 17 of 63 is 26.98%, which means 26.98 percent of the total Central Office Costs are allocated to the Regulated Utilities operated by Liberty Water.[1]

From there, the second allocation phase is that Liberty Water allocates the Central Office Costs between LPSCO and the 16 other Regulated Utilities based on customer counts. These costs are incurred for the benefit of all of the Regulated Utilities and their customers, but are not capable of being directly charged to the 63 separate operating assets. This cost allocation methodology

[1] For illustrative purposes, if the total Central Office Costs incurred by APT was $4,000,000, then $1,079,200 (4,000,000 x .2698) in Central Office Costs would be allocated to the 17 Regulated Utilities under Liberty Water. The remaining $2,920,800 (73.02%) in Central Office Costs would be allocated to the remaining 46 electric facilities owned by APIF.

ensures that the costs are allocated as closely as possible to the originator of those costs. An entity such as LPSCO with 33,000 water and sewer customers benefits more from these costs than BMSC with only 2,000 wastewater ratepayers. Specifically, LPSCO has 16,037 water customers and 17,068 wastewater customers, for a total of 33,105 customers. In total, Liberty Water's 17 Regulated Utilities have 68,783 water and wastewater customers, which means LPSCO is allocated 48.13% (33,105/68,783) of the Central Office Cost pool.

The fundamental principle of this Cost Allocation Methodology is that LPSCO and the other Regulated Utilities should be charged for all costs incurred by affiliates—both Liberty Water and APT—so that the Regulated Utilities can provide a high level of safe and reliable water and wastewater utility service to customers.

II. DETAILED EXPLANATION OF THE SERVICES PROVIDED AND COSTS ALLOCATED TO THE REGULATED UTILITIES.

The following is a detailed description of how these cost allocation methodologies are applied to the Regulated Utilities, the benefits of the services provided by Liberty Water and APT, the need for such services in the provision of utility services, and the necessity of allocating costs to the Regulated Utilities.

A. Liberty Water Services Provided to LPSCO.

Attached as Appendix 1 is an allocation summary of how costs incurred by Liberty Water are allocated to the Regulated Utilities, including LPSCO. Whenever possible, costs incurred by Liberty Water for a particular Regulated Utility are directly charged to that utility based on time sheets.

1. Operations and Engineering Labor.

These costs are billed directly to the Regulated Utility that required the labor, as documented by time sheets. Attached as Appendix 2 is an example time sheet used by Liberty Water. Those direct charges are principally direct labor, including operations and engineering. For example, the costs for a plant operator working solely for LPSCO will be directly allocated to LPSCO without any further allocation necessary. Liberty Water direct charges those services to the Regulated Utilities at cost.[2] The labor rate charged by Liberty Water is the dollar

[2] It bears emphasis that the Liberty Water allocations reflect actual costs incurred. Liberty Water now charges based on actual payroll rates, not market based rates.

hourly rate per employee as recorded in Liberty Water's payroll system, grossed up by roughly 35% for burdens such as payroll taxes, health benefits, retirement plans, and other insurance provided to employees. Engineering technical labor, which is capitalized, is charged on the same basis, plus a 10% allocation for corporate overheads incurred by Liberty Water, including rent, materials, supplies and other similar overhead costs.

2. *Accounting, Billing and Customer Service Labor Costs.*

Liberty Water also incurs additional labor costs for accounting, billing, and customer service, human resources, health and safety, and corporate finance which are necessary for the Regulated Utilities to provide adequate and reliable water and wastewater service to customers. Those costs, however, cannot be allocated to each Regulated Utility using time sheets due to the nature of the costs. It is not practical to keep track of time for employees that serve multiple utilities during the course of a work day. For example, an accounting analyst may analyze the financial performance of all Regulated Utilities at the same time. Her accounting work benefits all such Regulated Utilities, so her services and costs would be allocated to all Regulated Utilities. Likewise, a customer service representative at Liberty Water's call center will field calls from customers of all Regulated Utilities during a work day. Again, his work directly benefits all such Utilities and his costs should be allocated to all Regulated Utilities.

These labor costs incurred by Liberty Water are allocated to the Regulated Utilities based on customer count. The following simplified example demonstrates how a customer service representative's costs would be allocated to LPSCO:

Annual Salary	$30,000
Burden (at 35%):	$10,500
Total Labor Cost	$40,500

Total Liberty Water Customers: 68,783
LPSCO Water Customers: 16,037 (23.32% of total customers)
LPSCO Wastewater Customers: 17,068 (24.81% of total customers)

Salary Costs allocated to LPSCO Water: $9,444.60 (40,500 x .2332)

Liberty Water made that change in early 2008, which means that rate cases pending before that change was made have been trued up and adjusted to reflect this actual cost methodology as if it had been adopted at the beginning of the respective test year.

Salary Costs allocated to LPSCO Wastewater $10,049.78 (40,500 x .2481)
Salary Costs allocated to all other Regulated Utilities: $21,005.62

3. *Liberty Water Overhead Costs.*

Costs incurred by Liberty Water for rent, administrative costs, depreciation of office furniture, depreciation of computers, and other labor cannot be directly attributed to a specific Regulated Utility. As such, those overhead and administrative Costs are allocated to the Regulated Utilities by use of the "four factor" methodology. Other costs in this category include insurance, janitorial services and other general non-payroll costs.

The "four factor" methodology allocates costs by relative size of the utilities. The methodology used by Liberty Water involves (1) Rate Base, (2) Total Customers, (3) Non-Labor Expenses and (3) Labor as allocating factors, with each factor assigned a specific weight. Liberty Water uses the following weights under this four factor methodology:

UTILITY PLANT	**50%**
CUSTOMER COUNT	**40%**
LABOR	**5%**
EXPENSES	**5%**
TOTAL	**100%**

The following simplified hypothetical example demonstrates how the four factor allocation methodology would be calculated based on ownership of *only* two hypothetical utilities (LPSCO and BMSC):

FACTOR	LPSCO	BMSC	TOTAL ALL UTILTIES	LPSCO % OF TOTAL	FACTOR WEIGHT	LPSCO ALLOCATION
UTILITY PLANT	727	371	1098	66%	50%	33%
CUSTOMER COUNT	6000	1000	7000	86%	40%	34%
LABOR COSTS	57	32	89	64%	5%	3%
EXPENSES	108	41	149	72%	5%	4%
TOTAL ALLOCATION TO LPSCO						74%

As can be seen from these hypothetical numbers, LPSCO would be allocated 74% of total Administrative/Overhead Costs incurred by Liberty Water, based on its relative size and application of the four factors in comparison to BMSC. BMSC would be allocated the remaining 26%. Liberty Water developed and utilized this methodology including all 17 of its utilities to better allocate costs, recognizing that larger utilities require more time and management attention and incur greater costs than smaller ones.

4. Customer Benefits of Liberty Water Allocation Model.

Customers of Liberty Water receive significant benefits from this cost allocation model, including significantly lower costs incurred by the Regulated Utilities for services that are essential and necessary to the provision of high quality water and wastewater utility service. The benefits of this type of shared service model include:

- Savings on labor costs by resource sharing – since most Liberty Water employees are not dedicated to a specific utility, the utilities do not need to hire their own dedicated staff, thus resulting in significant cost savings.

- Four factor allocations allow for utilities to be charged by relative resources and management attention required to operate them. This means customers of smaller utilities do not subsidize costs of larger utilities. Essentially, this allocation methodology allows costs to be allocated based on the relative burdens and costs incurred by individual utilities.

- Because it's scalable, the shared services model allows for increased growth with less than proportional cost increases, meaning the Regulated Utilities can grow without incurring a proportionate or prohibitive increase in the cost of service.

B. APT Services Provided to LPSCO.

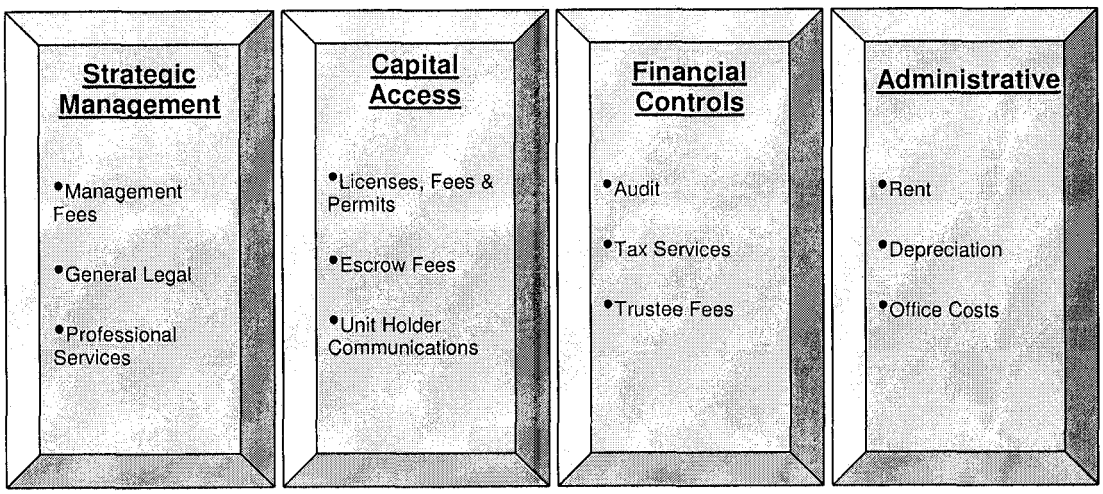
Attached as Appendix 3 is an overview of the services and allocations for APT. As noted above, APT is a wholly-owned subsidiary of APIF. APT is integral to APIF's business structure as a publicly traded income fund on the Toronto Stock Exchange. APIF sells units to public investors in order to generate the funding and capital necessary for the Regulated Utilities to provide utility service. APT provides all of the administrative services for APIF and all of APIF's facilities, including strategic management services, access to capital

markets, corporate governance, and administration and management of the Regulated Utilities.

The capital and funds obtained from the sale of units in the Income Fund are used by the Regulated Utilities for capital investments. That capital is made available by APT to the Regulated Utilities. The services provided by APT are critical and necessary to the Regulated Utilities because without those services the Regulated Utilities would not have a readily available source of capital funding. Put another way, absent the services provided by APT, the Regulated Utilities would be forced to operate as stand alone utilities, with resulting higher costs and operating expenses incurred by customers. In addition, the utilities would bare much greater risk due to a potential inability to obtain capital on a standalone basis.

The services provided by APT optimize performance of the Regulated Utilities, keeping rates low for customers while ensuring access to capital is available. If the Regulated Utilities did not have access to the services provided by APT, then the Regulated Utilities would be forced to incur associated costs for financing, capital investment, audits, taxes and other similar services on a stand-alone basis, which would substantially increase such costs for each Regulated Utility. It bears emphasis that if the costs incurred by APT are not allocated to LPSCO and the other Regulated Utilities, then APT and APIF will have no choice but to cease providing the capital funding and other services to LPSCO and the other Arizona Regulated Utilities.

The services provided by and the costs incurred by APT for the Regulated Utilities fall into four general categories:



All of these costs incurred by APT are calculated and totaled into the administration Central Office Cost Pool. As noted above, that administration Central Office Cost Pool is then allocated to APIF's electrical facilities and water/wastewater facilities based on the number of entities involved. In total, APIF owns 46 electric facilities and 17 water/wastewater utilities. Thus, the Central Office Cost Pools is allocated based on facility count with 73.02% (46/63) of the Pool allocated to the electric facilities and 26.98% (17/63) of the Pool allocated to the Regulated Utilities.

For example, if the total administration Central Office Cost Pool incurred by APT is $4,000,000, then $1,079,200 (4,000,000 x .2698) in administration Central Office Costs would be allocated to the 17 Regulated Utilities under Liberty Water. The remaining $2,920,800 (73.02%) in administration Central Offices costs would be allocated to the remaining 46 electric facilities owned by APIF.

The allocated administration Central Office Cost Pool for the Regulated Utilities then is allocated to each individual utility by customer count. As noted in attached Appendix 3, LPSCO would be allocated 49% of those costs based on customer count. In our hypothetical example, LPSCO would be allocated $518,016 in costs from APT. The following is a detailed description of each cost component within the Central Office Cost Pool, the necessity of allocating such costs to Regulated Utilities in providing services and the associated benefits to ratepayers.

1. APT Strategic Management Costs

Strategic management decisions are critical for any public utility. The need for strategic management is even more pronounced for APIF as a publicly traded income fund, which depends on access to capital funding through public sales of units in the fund. APIF seeks to hire talented strategic managers that aid in running each facility owned by the fund as efficiently and effectively as possible. This ensures the long term health of each utility and ensures that rates are kept as low as possible without compromising the level of service. It also facilitates each Regulated Utility's access to necessary capital funding at reduced costs. The costs included in Strategic Management Costs fall into the following categories.

MANAGEMENT FEES

Description	Fees which incorporate salaries of senior management staff for strategic management of all APIF facilities. The executives at APT provide the financial and capital funding services necessary for the

	Regulated Utilities to fund utility operations and growth services.
Allocation Method	Management Fees are charged by APT as a monthly fee which is allocated to the utilities division (26.98%), and then to each individual utility based on customer count.
Ratepayer Benefits	Rate payers avoid the burdens of senior management staff at each utility by sharing of resources between all utilities, resulting in significant savings. These management services also allow Regulated Utilities to have an available source of capital funding for plant and infrastructure in the provision of utility services at a cost cheaper than what such utilities could obtain on their own.
Need for Management Services	APT management services are required in the provision of service by Regulated Utilities because the APT managers oversee utility operations, provide high level approvals for capital and operating budgets, and provide strategic planning services for the utilities. They also develop overall corporate strategies, negotiate contracts, allocate capital among utilities and approve high level expenditures. These management services are required in order for APIF to provide capital funding to individual utilities, without which the utilities could not provide adequate service.

GENERAL LEGAL SERVICES

Description	Legal expenses incurred by APT for general legal matters pertaining to all facilities owned by APIF. These legal services are required in order for APIF to provide capital funding to individual utilities, without which the utilities could not provide adequate service.
Services Provided	These legal services involve legal matters not specific to any single facility, including review of audited financial statements, annual information filings, Sedar filings, review of contracts with credit facilities, incorporation, tax issues of a legal nature, market compliance, and other similar legal costs.
Ratepayer Benefits	General legal costs help ensure that the APIF and the Regulated Utilities remains compliant in all aspects of operations and prevents those entities from being exposed to unnecessary risks. These legal services also allow utilities to have continued access to capital markets available to APIF.

Need for Legal Services	These legal expenses are critical to utility operations because they ensure APIF's status and viability as a publicly traded income fund and allow the utilities to provide service in a way to ensure continued access to strategic management and capital markets. These legal services also shelter APIF and its Regulated Utilities from operational risks.

PROFESSIONAL SERVICES

Description	Professional Services including strategic plan reviews, capital market advisory services, ERP System maintenance, benefits consulting, and other similar professional services.
Ratepayer Benefits	These professional services ensure that APIF's strategic plans and initiatives are completed with the highest degree of care and professionalism, which is necessary for the Regulated Utilities to receive debt and equity funding from capital markets. These services allow the Regulated Utilities to have an available source of capital funding for plant and infrastructure in the provision of utility services.
Need for Services	These costs are required for the provision of service as the strategic plans are filtered down to the individual utility level. In the absence of strategic plans, the utilities would not be investing to ensure the highest level of service is provided, and would also not be able to strive for continued operational improvements to save ratepayers money in the long run. In the absence of these services, unit holders would not invest in utility operations of APIF because the utilities would not incur the necessary costs to ensure that the strategic plans are followed as a condition of such funding.

2. *Access to Capital Markets.*

One of APT's primary functions is to ensure APIF's facilities (i.e., the Regulated Utilities) have access to quality capital. APIF is listed on the Toronto Stock Exchange, a leading financial market. In order to allow the Regulated Utilities to have continued access to those capital markets, APT incurs the following Costs for the benefit of the Utilities. These services and costs are a prerequisite to the Regulated Utilities' continued access to those capital markets.

LICENSE FEES AND PERMITS

Description	Fees incurred by APT to ensure that APIF can participate in the Toronto Stock Exchange. These licensing and permit fees are required in order to sell units on the Toronto Stock Exchange.
Examples	Sedar fees, annual filing fees, licensing fees, etc.
Ratepayer Benefits and Need for Services	The ratepayers and Regulated Utilities have access to capital so long as APIF is able to access capital markets. These license fees allow APIF to sell units on the Toronto Stock Exchange and, in turn, provide funding for utility operations. These license fees incurred by APT are critical to ensure continuing access to capital.

ESCROW FEES

Description	Escrow Fees for payment of dividends to Unit Holders.
Examples	Unit holders invest in APIF, and, in turn, provide capital funding to the Regulated Utilities by buying units. In making those investments, unit holders expect monthly distributions on the units they own. As such, APT incurs escrow fees in paying such monthly payments to unit holders.
Ratepayer Benefits	Escrow Fees are incurred in order to ensure that unit holders of APIF continue to maintain ownership, and that new shareholders are enticed to invest in the Fund. Those new shareholders are the ones truly investing money for new and future projects the utilities undertake. Without them, there is no money for APIF to invest in the utilities.
Need for Services	Escrow Fees are incurred to ensure continued access to capital and ensure continuing and ongoing investments by unit holders. Without such escrow fees, the Regulated Utilities would not have a readily available source of capital funding.

UNIT HOLDER COMMUNICATIONS

Description	Unit holder communication costs are incurred to comply with filing and regulatory requirements of the Toronto Stock Exchange and meet the expectations of shareholders.
Examples	News releases, unit holder conference calls, etc.
Ratepayer Benefits	Unit holder communications costs are incurred by APT for the benefit of the Regulated Utilities to ensure that unit holders are fully informed of all operational and strategic decisions. These disclosures are required by law to ensure a level of integrity and rigor is applied to the management of the Regulated Utilities.

Need for Services	In the absence of unit holder communication costs, investors would not invest in the units of APIF, and in turn, APIF would not have capital to invest in the utilities. With such communications services, the Regulated Utilities would not have a readily available source of capital funding.

3. APT Financial Controls.

Financial Control costs incurred by APT include costs for audit services, tax services, and trustee fees. These costs are necessary to ensure that the Regulated Utilities are operated in a manner that meets audit standards and regulatory requirements have strong financial and operational controls, and that financial transactions are recorded accurately and prudently. Without these services, the Regulated Utilities would not have a readily available source of capital funding.

AUDIT FEES

Description	Audits are done on a yearly basis and reviews are performed quarterly on all facilities owned by APIF on an aggregate level.
Examples	Audits are provided by KPMG.
Ratepayer Benefits	Audits benefit ratepayers by verifying and ensuring that all financial transactions are recorded prudently. Further, financial transactions are scrutinized to ensure that operations are run prudently. Audit fees also ensure that access to capital is available as it is a requirement of financial markets. The aggregate audit again benefits the Regulated Utilities by allowing continued access to capital markets and unit holders.
Need for Services	These corporate parent level audits reduce the cost of the standalone audits significantly for utilities such as LSPSCO which must perform its own separate audits. Where standalone audits are not required, rate payers receive benefits of additional financial rigor, as well as access to capital, and financial soundness checks by third parties. Finally, during rate cases, the existence of audits provides Staff and Intervenors additional reliance on the company records, thus reducing overall rate case costs. The aggregate audit is necessary for the Regulated Utilities to have continued access to capital markets and unit holders.

TAX SERVICES

Description	Tax Services expenses are incurred to ensure prudent tax filing, planning and management.
Examples	Taxes are paid on behalf of the Regulated Utilities at the parent level as part of a consolidated United States tax return. Tax services are provided by third parties including KPMG for tax planning and filing.
Ratepayer Benefits	Tax services ensure that each utility maintains tax compliance as the parent maintains compliance on their behalf. The shared cost of such tax services also are lower than the costs of stand alone tax services, which would otherwise be incurred by the Regulated Utilities.
Need for Services	Tax services are required as each of the utilities would be required to pay taxes on a stand alone basis. Filing tax returns on a consolidated basis benefits each Regulated Utility by reducing the costs that otherwise would be incurred by such Utility in filing its own separate tax return.

TRUSTEE FEES

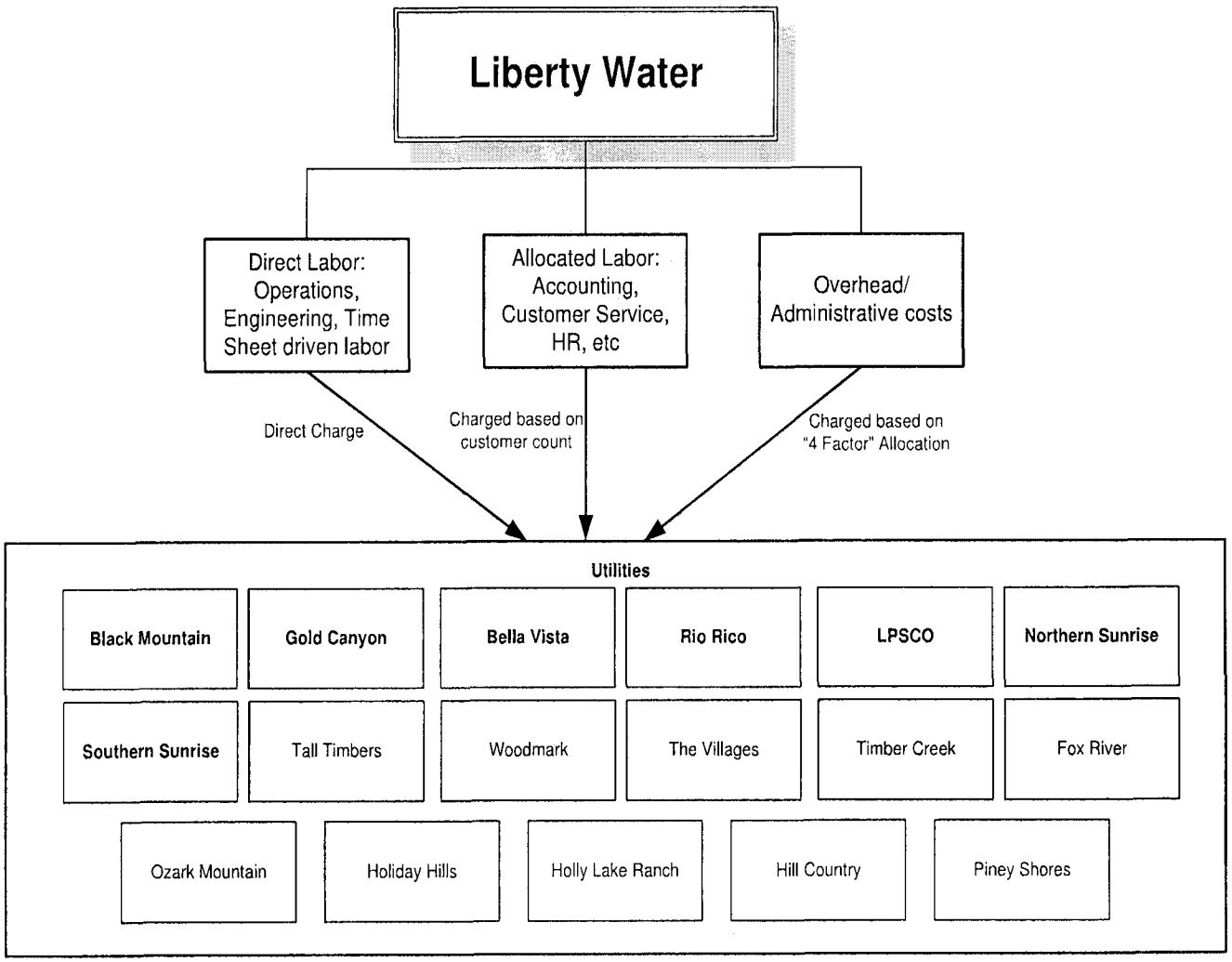
Description	Trustee Fees are paid to the Board of Trustees, which meets on a quarterly basis.
Ratepayer Benefits	Trustees act in the same manner as Boards of Directors. They have a duty to shareholders to ensure that they will act in their best interests. This means that they must act in a way that optimizes the operations of the utilities. Trustees also approve the strategic direction of the company, provide corporate governance, and oversee the strategic direction and health of the Income Fund, and in turn the Regulated Utilities owned by APIF in order to ensure long term sustainability. In summary, the trustees help to ensure financial rigor, significant controls, and ultimately keeps rates low.
Need for Services	Trustees are required to oversee the operations of the utilities collectively. They also ensure on going access to capital and are a fundamental requirement for a publicly traded company and its affiliates.

4. APT Administrative Costs.

Finally, administrative costs incurred by APT such as rent, depreciation of office furniture, depreciation of computers, and general office costs are required to

house all the services mentioned above. Without these administrative costs, the employees of APT could not perform their work and provide the necessary services to the Regulated Utilities.

Appendix 1: Overview of Liberty Water Allocation Methodology



Utilities located in Arizona

Appendix 2: Sample Time Sheet of Liberty Water Employee

ALGONQUIN WATER SERVICES - WEEKLY TIME SHEET

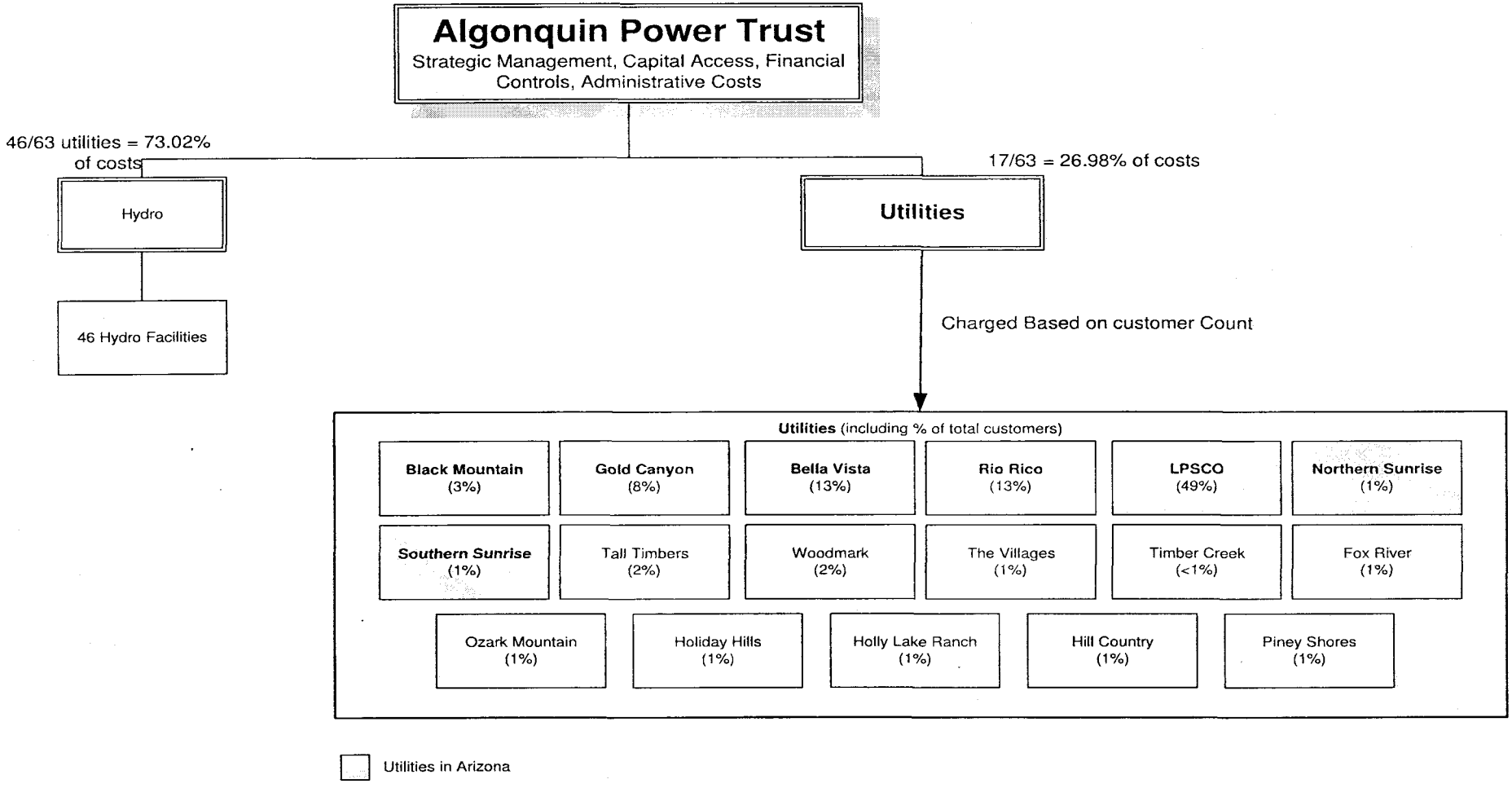
EMPLOYEE NAME: Martin Gerlant | EMPLOYEE No: 1092 | Week Ending : November 7, 2009

Day of Week	Date	Time from	Time to	Work Hours	Jury Duty Bereavement	Stat	Sick	Vac	Site Hours	Call Out Day	Call Out Hours	Site / Client #	OPS / FWO #	Labor Cost Code	Description
Sunday	11/1											Rio Rico	8134-0100-OPS1	1-5020-1000-0001	
												Rio Rico	8134-0200-OPS1	1-5020-2000-0001	
												N. Sunrise	8137-0100-OPS1	1-5020-1000-0001	
												S. Sunrise	8140-0100-OPS1	1-5020-1000-0001	
												Bella Vista	8500-0100-OPS1	1-5020-1000-0001	
												Training	9999-0000-TRAIN	1-5020-0000-0001	
Monday	11/2	7:00 AM	12:00 PM	5					2			Rio Rico	8134-0100-OPS1	1-5020-1000-0001	
		1:00PM	5:00PM	4					1			Rio Rico	8134-0200-OPS1	1-5020-2000-0001	
									1			N. Sunrise	8137-0100-OPS1	1-5020-1000-0001	
									1			S. Sunrise	8140-0100-OPS1	1-5020-1000-0001	
									4			Bella Vista	8500-0100-OPS1	1-5020-1000-0001	
												Training	9999-0000-TRAIN	1-5020-0000-0001	
Tuesday	11/3	7:00 AM	12:00 PM	5					2			Rio Rico	8134-0100-OPS1	1-5020-1000-0001	
		1:00 PM	5:00 PM	4					2			Rio Rico	8134-0200-OPS1	1-5020-2000-0001	
									1			N. Sunrise	8137-0100-OPS1	1-5020-1000-0001	
									1			S. Sunrise	8140-0100-OPS1	1-5020-1000-0001	
									3			Bella Vista	8500-0100-OPS1	1-5020-1000-0001	
												Training	9999-0000-TRAIN	1-5020-0000-0001	
Wednesday	11/4	7:00 AM	12:00 PM	5					2			Rio Rico	8134-0100-OPS1	1-5020-1000-0001	
		1:00PM	5:00 PM	4					2			Rio Rico	8134-0200-OPS1	1-5020-2000-0001	
									0.5			N. Sunrise	8137-0100-OPS1	1-5020-1000-0001	
									0.5			S. Sunrise	8140-0100-OPS1	1-5020-1000-0001	
									4			Bella Vista	8500-0100-OPS1	1-5020-1000-0001	
												Training	9999-0000-TRAIN	1-5020-0000-0001	
Thursday	11/5	7:00 AM	12:00 PM	5					5			Rio Rico	8134-0100-OPS1	1-5020-1000-0001	
		1:00PM	6:00 PM	5					2			Rio Rico	8134-0200-OPS1	1-5020-2000-0001	
									0.5			N. Sunrise	8137-0100-OPS1	1-5020-1000-0001	
									0.5			S. Sunrise	8140-0100-OPS1	1-5020-1000-0001	
									2			Bella Vista	8500-0100-OPS1	1-5020-1000-0001	
												Training	9999-0000-TRAIN	1-5020-0000-0001	
Friday	11/6	7:00 AM	12:00 PM	5					3			Rio Rico	8134-0100-OPS1	1-5020-1000-0001	
		1:00 PM	5:00 PM	4					2			Rio Rico	8134-0200-OPS1	1-5020-2000-0001	
									0.5			N. Sunrise	8137-0100-OPS1	1-5020-1000-0001	
									0.5			S. Sunrise	8140-0100-OPS1	1-5020-1000-0001	
									2			Bella Vista	8500-0100-OPS1	1-5020-1000-0001	
									1			Training	9999-0000-TRAIN	1-5020-0000-0001	
Saturday	11/7											Rio Rico	8134-0100-OPS1	1-5020-1000-0001	
												Rio Rico	8134-0200-OPS1	1-5020-2000-0001	
												N. Sunrise	8137-0100-OPS1	1-5020-1000-0001	
												S. Sunrise	8140-0100-OPS1	1-5020-1000-0001	
												Bella Vista	8500-0100-OPS1	1-5020-1000-0001	
												Training	9999-0000-TRAIN	1-5020-0000-0001	

	Regular Work Week Hours						ON CALL	
	Work	Jury Duty Bereavement	Stat	Sick	Vac	Site	Days	Hours
TOTAL HOURS:	46.00	0.00	0.00	0.00	0.00	46.00	0.00	0.00

SIGNATURE _____ SUPERVISOR _____

Appendix 3: Overview of APT Cost Allocations:



2267183

Bella Vista Water Co., Inc.
Northern Sunrise Water Company Inc.
Southern Sunrise Water Company Inc.

W-02465A-09-0411, W-20453A-09-0412, W-20454A-09-0413,
W-02465A-09-0414, W-20453A-09-0414 and W-20454A-09-0414

Peter Eichler
Rebuttal Testimony
May 25, 2010

Exhibit
PE-RB2

2232477.1

BELLA VISTA WATER COMPANY
COMPARISON OF OPERATING EXPENSES UNDER LIBERTY WATER V. BELLA VISTA AS STAND-ALONE
(Based On Utility Annual Reports 2002-2008)

YEAR	2002 <1>	2003	2004	2005	2006	2007	2008
Total Operating Expenese	$2,427,523	$2,615,670	$2,407,438	$2,669,527	$2,728,476	$2,926,400	$3,188,842
# of Customers	6,971	7,162	7,416	7,788	8,009	8,501	8,541
Bella Vista Total Operating Expenses Per Customer	$348.23	$365.22	$324.63	$342.77	$340.68	$344.24	$373.36
Consumer Price Index Inflation % <2>	n/a	0.019	0.033	0.034	0.025	0.041	0.001
Bella Vista Operating Expense Per Customer as Stand-Alone Utility (Inlation Adjusted) <3>	$348.23	$354.85	$366.56	$379.02	$388.50	$404.42	$404.83
Bella Vista Operating Expense Per Customer Under Liberty Water		$365.22	$324.63	$342.77	$340.68	$344.24	$373.36
% Savings Under Liberty Water Model Compared to Stand-Alone Model <4>		-2.84%	12.92%	10.57%	14.04%	17.48%	8.43%

NOTES:

<1> Liberty Water acquired Bella Vista Water Company in 2002-2003. The 2002 Annual Report reflects operating expenses for Bella Vista Water Company as a stand-alone utility. The operating expenses for 2003-2008 reflect Liberty Water's shared services model.

<2> The Consumer Price Index inflation percentage is based on U.S. Department of Labor Bureau of Labor Statistics annual index for the Consumer Price Index from 1913-2010.

<3> The inflation adjusted yearly operating expense per customer for Bella Vista as a stand-alone utility is calculated based on the 2002 operating expenses/customer for Bella Vista and multiplying that figure by the CPI percentage for the following year. For example, in 2002, the operating expense/customer was $348.23, which is mutiplied by the CPI index for 2003 (1.9%), which yields an inflation adjusted number of $354.84. That calculation is made for 2003-2008 to reflect Bella Vista's inflation adjusted operating expenses per customer as a stand-alone utility.

<4> This chart illustrates that Liberty Water's shared services model has been an average of 11.2% cheaper in terms of total operating expenses per customer from 2004-2008 when comparing Bella Vista's total operating expenses per customer to the inflation adjusted operating expenses for Bella Vista as a stand-alone utility.

COMPARISON OF AVERAGE OPERATING COSTS PER CUSTOMER UNDER LIBERTY WATER V. STAND-ALONE BASIS

	Operating Cost Per Customer Under Liberty Water (2003-2008)	Actual Operating Cost Per Customer As Stand-Alone (2002)	Inflation Adjusted Operating Cost Per Customer As Stand-Alone (2003-2008)	CPI Inflation Index Adjustment (2003-2008)
2002	n/a	$348.23	$348.23	
2003	$365.22	n/a	$354.85	1.90%
2004	$324.63	n/a	$366.56	3.30%
2005	$342.77	n/a	$379.02	3.40%
2006	$340.68	n/a	$388.50	2.50%
2007	$344.24	n/a	$404.42	4.10%
2008	$373.36	n/a	$404.83	0.01%
Average	$348.48	$348.23	$378.06	2.54%

NOTE: This chart illustrates that the average operating costs per customers for the six years that Bella Vista has been owned and operated by Liberty Water ($348.48) is equal to the operating costs per customer for Bella Vista as a stand-alone utility in 2002--without adjusting for inflation or increases in the Consumer Price Index. When compared to the inflation adjusted operating cost per customer for Bella Vista as a stand-alone utility (using the Department of Labor Consumer Price Index), Bella Vista's operating costs per customer are $30.00 less per customer, which translates to nearly an 8% savings for customers.

BELLA VISTA WATER COMPANY
TOTAL OPERATING COSTS PER CUSTOMER 2002-2008
(Based On Utility Annual Reports 2002-2008)

YEAR	2002 <1>	2003	2004	2005	2006	2007	2008
Total Operating Expenese	$2,427,523	$2,615,670	$2,407,438	$2,669,527	$2,728,476	$2,926,400	$3,188,842
# of Customers	6,971	7,162	7,416	7,788	8,009	8,501	8,541
Yearly Operating Expense Per Customer	$348.23	$365.22	$324.63	$342.77	$340.68	$344.24	$373.36
Monthly Operating Expense Per Customer	$29.02	$30.43	$27.05	$28.56	$28.39	$28.69	$31.11
Consumer Price Index Inflation % <2>	n/a	0.019	0.033	0.034	0.025	0.041	0.001
Inflation Adjusted Yearly Operating Expense Per Customer as Stand-Alone <3>	n/a	$354.85	$366.56	$379.02	$388.50	$404.42	$404.83
Bella Vista Yearly Operating Expense Per Customer Under Libery Water	n/a	$365.22	$324.63	$342.77	$340.68	$344.24	$373.36
Amount Below Inflation Adjusted Yearly Operating Expenses	n/a	($10.37)	$41.93	$36.25	$47.82	$60.18	$31.47

NOTES:

<1> Liberty Water acquired Bella Vista Water Company in 2002-2003. The 2002 Annual Report reflects operating expenses for Bella Vista Water Company as a stand-alone utility. The operating expenses for 2003-2008 reflect Liberty Water's shared services model.

<2> The Consumer Price Index inflation percentage is based on U.S. Department of Labor Bureau of Labor Statistics annual index for the Consumer Price Index from 1913-2010.

<3> The inflation adjusted yearly operating expense per customer for Bella Vista is calculated based on the 2002 operating expenses/customer for Bella Vista and multiplying that figure by the CPI percentage for the following year. For example, in 2002, the operating expense/customer was $348.23, which is mutiplied by the CPI index for 2003 (1.9%), which yields an inflation adjusted number of $354.84. The actual operating expense per customer for Bella Vista under Liberty Water's ownership then is compared to the inflation adjusted number Bella Vista Water Company would have incurred as a stand-alone utility.

Bella Vista Water Co., Inc.
Northern Sunrise Water Company Inc.
Southern Sunrise Water Company Inc.

W-02465A-09-0411, W-20453A-09-0412, W-20454A-09-0413,
W-02465A-09-0414, W-20453A-09-0414 and W-20454A-09-0414

Peter Eichler
Rebuttal Testimony
May 25, 2010

Exhibit

PE-RB3

2232477.1

YEARLY AND MONTHLY COSTS PER CUSTOMER FOR THE APT CENTRAL OFFICE COSTS

APT COST	BUDGET	ACTUAL TOTAL <1>	ALLOCATION % <2>	ALLOCATED AMOUNT	BV/NS/SS %	BV/NS/SS AMOUNT	# OF BV/NS/SS CUSTOMERS <3>	YEARLY COST PER CUSTOMER	MONTHLY COST PER CUSTOMER
Audit	$507,000	$680,812	24.29%	$165,369.14	14.52%	$24,011.60	9,610	$2.50	$0.21
Tax Services	$265,000	$469,804	24.29%	$114,115.40	14.52%	$16,569.56	9,610	$1.72	$0.14
Legal Services	$300,000	$138,531	24.29%	$33,649.29	14.52%	$4,885.88	9,610	$0.51	$0.04
Other Prof. Services	$455,000	$452,202	24.29%	$109,839.98	14.52%	$15,948.77	9,610	$1.66	$0.14
Management Fees	$636,619	$563,803	24.29%	$136,947.75	14.52%	$19,884.81	9,610	$2.07	$0.17
Unit Holder Commun.	$314,100	$145,658	24.29%	$35,380.39	14.52%	$5,137.23	9,610	$0.53	$0.04
Trustee Fees	$204,000	$127,116	24.29%	$30,876.44	14.52%	$4,483.26	9,610	$0.47	$0.04
Escrow Fees	$75,000	$85,354	24.29%	$20,732.47	14.52%	$3,010.36	9,610	$0.31	$0.03
Rent	$430,739	$273,965	24.29%	$66,546.05	14.52%	$9,662.49	9,610	$1.01	$0.08
License/Fees	$305,000	$14,565	24.29%	$3,537.96	14.52%	$513.71	9,610	$0.05	$0.00
Office Expenses	$254,000	$425,755	24.29%	$103,415.89	14.52%	$15,015.99	9,610	$1.56	$0.13
Depreciation	$204,242	$189,797	24.29%	$46,101.75	14.52%	$6,869.16	9,610	$0.71	$0.06
							TOTAL	$13.11	$1.09

NOTES:

<1> The actual amounts are stated in United States dollars as converted from Canadian dollars using the prevailing monthly exchange rate published by the Bank of Canada.

<2> The allocation percentage reflects that 24.29% of the total costs are allocated to the 17 regulated utilities owned by APIF, with the remaining 73.02% allocated to the remaining 46 unregulated facilities owned by APIF.

<3> The total number of customers for all 63 facilities and utilities owned by APIF is 64,094. Bella Vista Water Company has 8,472 customers, Northern Sunrise has 349 customers and Southern Sunrise has 789. The total number of customers for Bella Vista, Northen Sunrise and Southern Sunrise equals 9,610 customers.

Bella Vista Water Co., Inc.
Northern Sunrise Water Company Inc.
Southern Sunrise Water Company Inc.

W-02465A-09-0411, W-20453A-09-0412, W-20454A-09-0413,
W-02465A-09-0414, W-20453A-09-0414 and W-20454A-09-0414

Peter Eichler
Rebuttal Testimony
May 25, 2010

Exhibit

PE-RB4

2232477.1

COMPARISON OF RIO RICO'S OPERATING COSTS TO OTHER ARIZONA WATER UTILITIES

	Lago Del Oro Water Co. [1]	Az-Am Water Co. (Mohave)	Bermuda Water Co.	Arizona Water Co. (Oracle) (Overgaard)	Az-Am Water Co. (Sun City West)	Az-Am Water Co. (Sun City)	Willow Valley Water	**Bella Vista Water Company - Consolidated**	Arizona Water Co. (Coolidge)	Arizona Water Co. (Lakeside)	Az-Am Water Co. (Havasu)	Arizona Water Co. (Casa Grande)	Global Water Co. (Santa Cruz)	Az-Am Water Co. (Agua Fria)	Arizona Water Co. (Sedona)
Test Year	12/31/2008	12/31/2007	12/31/2008	12/31/2007	12/31/2007	12/31/2008	12/31/2008	**12/31/2008**	12/31/2007	12/31/2007	12/31/2007	12/31/2007	12/31/2008	12/31/2007	12/31/2007
Customers[2]	6,346	16,635	7,672	4,124	15,465	23,140	1,554	**9,730**	4,656	4,953	2,565	22,455	15,371	34,402	6,419
Total Revenue	$1,905,111	$5,113,631	$3,103,252	$1,686,342	$5,701,431	$9,283,101	$482,166	**$4,123,206**	$2,214,952	$2,588,943	$1,026,587	$10,934,895	$9,453,438	$18,818,613	$3,521,124
Total Expenses	$1,666,701	$5,076,491	$2,410,387	$1,316,453	$5,114,006	$8,422,016	$586,481	**$3,860,581**	$1,938,319	$2,071,226	$1,158,005	$10,277,900	$7,196,180	$16,217,325	$3,096,417
Salary/Wages	$186,384	$899,973	$752,628		$703,217	$1,225,670	$248,567				$204,471		$857,540	$1,440,677	
Pension/Benefits							$55,580						$205,327		
Purchased Water		$44,384		$58	($2,690)			**691**		$1,233		$374,207		$901,467	
Purchased Power	$376,962	$501,877	$359,090	$71,171	$830,074	$1,722,582	$33,979	**$582,046**	$192,581	$181,940	$111,139	$1,387,878	$588,793	$1,954,815	$518,834
Chemicals	$12,570	$7,846	$61,759	$14,733	$227,889	$37,037		**$5,584**	$33,911	$28,463	$88,249	$531,617	$3,505	$1,121,555	$319,722
Materials/Supp.		$103,944	$56,770		$57,226	$78,546	$18,274				$13,616		$41,783	$161,107	
Testing Serv.	$34,435		706				$5,401	**$66,247**					$36,113		
Cust. Accounting		$132,002			$133,476	$235,348			$267,290	$275,893	$22,062	$909,384		$370,806	$323,108
Admin/General							$12,770		$378,361	$506,659		$1,761,682			$641,077
Contr. Serv. Other	$56,007		$57,743					**$1,632,457**					$67,741		
Management Fees		$940,899		$486,871	$999,903	$1,509,322					$166,461			$2,775,604	
Rent		$15,559	$8,229		$14,331	$60,016	$9,185	**$66,597**			$5,059		$94,639	$63,217	
Transportation			$58,567				$12,699	**$132,231**					$43,326		
Insurance-GL	$18,339	$209,312	$69,678		$191,120	$354,396	$5,119	**$63,045**			$63,729		$53,083	$396,645	
Insurance Other		$51,991			$58,622	$93,255	$1,058				$8,974			$158,153	
Misc.	$74,039	$354,017	($79,668)		$232,408	$300,084	$9,936	**$150,232**			$42,644		$34,089	$591,329	
Depreciation	$605,880	$883,235	$666,306	$214,780	$1,323,541	$1,565,706	$126,911	**$657,557**	$426,056	$416,943	$291,351	$2,329,760	$3,431,687.00	$4,397,190	$731,033
Income Taxes	$109,419	($196,927)	$185,211	$154,685	($324,059)	$9,746	($41,507)	**$265,464**	$73,220	$158,301	($159,839)	($549,326)	$924,207	($138,756)	($153,125)
Property Taxes	$107,326	$221,795	$48,114	$65,159	$179,896	$156,074		**$221,805**	$151,656	$116,684	$44,112	$806,467	$423,523	$803,071	$125,837
Other Taxes		$75,809	$50,154	$22,756	$65,832	$94,912	$21,944		$52,532	$35,117	$17,638	$219,346	$6,823	$128,923	$47,845
Cost/Customer[3]	$262.64	$305.17	$314.18	$319.22	$330.68	$363.96	$377.40	**$396.77**	$416.31	$418.18	$451.46	$457.71	$468.17	$471.41	$482.38
Rank out of 23	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**

[1] Data is based on each company's 2008 utility annual report on file with the Arizona Corporation Commission, with the exception of the Arizona-American Water Company systems and Arizona Water Company systems included on this chart, which data is based on the C-1 and H-2 schedules attached to the applications filed in the recent rate cases

[2] The customer numbers are as of December 2008 as reported in the 2008 utility annual report, or come from Arizona-American Water Company's and Arizona Water Company's H-2 schedules attached to the applications filed in the recent rate cases.

[3] This row equals Total Operating Expenses divided by the total number of customers.

[4] This row equals Total Operating Expenses minus Taxes and Depreciation divided by the total number of customers.

[5] This row equals Total Operating Expenses minus Taxes, Depreciation, Purchased Power, Purchased Water and Chemicals divided by the total number of customers.

	Chaparral City Water Co.	Arizona Water Co. (Winkleman)	Arizona Water Co. (San Manuel)	Arizona Water Co. (Oracle)	H20, Inc.	Rio Verde Utilities, Inc.	Az-Am Water Co. (Anthem)	Az-Am Water Co. (Paradise Valley)
Test Year	12/31/2008	12/31/2007	12/31/2007	12/31/2007	12/31/2008	12/31/2008	12/31/2007	12/31/2007
Customers[2]	13,423	171	1,573	1,524	6,300	1,688	8,764	4,884
Total Revenue	$7,471,697	$98,722	$812,539	$1,115,109	$3,934,320.46	$1,402,646	$9,357,346	$7,848,732
Total Expenses	$6,856,065	$88,524	$859,882	$931,996	$4,263,281.58	$1,176,153	$7,215,051	$6,296,235
Salary/Wages	$982,169				$1,146,370.93	$145,812	$801,914	$715,859
Pension/Benefits								
Purchased Water	$802,368		$241,318		$138,403.02	$68,561	$444,337	
Purchased Power	$609,412	$7,310	$38,358	$149,736	$354,337.27	$217,417	$965,412	$693,068
Chemicals	$116,571	$1,372	$40,816	$15,542	$5,633.36	$11,430	$90,637	$236,982
Materials/Supp.	$21,358					$11,129	$64,824	$87,860
Testing Serv.	$47,072				$20,926.77	$11,443		
Cust. Accounting		$11,332	$104,428	$100,428.00				
Admin/General		$16,116	$151,590	$151,590.00				
Contr. Serv. Other	$268,977				$455,818.27	$93,990	$14,739	$21,467
Management Fees							$1,132,699	$923,778
Rent					$350,895.47			
Transportation	$74,600				$185,890.68	$13,868.00		
Insurance-GL	$29,241				$39,453.09	$9,475	$240,221	$184,827
Insurance Other	$102,877				$78,822.54	$17,952	$45,435	$45,435
Misc.	$850,715				$156,563.92	$21,875.00	$351,828	$351,828
Depreciation	$2,051,748	$19,928	$106,134	$181,393	$958,802.67	$177,320	$1,979,583	$1,615,824
Income Taxes	$111,401	($1,170)	($77,597)	$65,869		$88,268	$228,400	$228,400
Property Taxes	$187,217	$10,675	$68,170	$53,921	$158,746.98	26059	$268,996	$268,996
Other Taxes	$48,353	$1,235	$9,102.00	$12,458	$91,543.43	$19,206	$67,972	$67,972
Cost/Customer[3]	$510.77	$517.68	$546.65	$611.55	$676.71	$696.77	$823.26	$1,289.16
Rank out of 23	**16**	**17**	**18**	**19**	**20**	**21**	**22**	**23**

FENNEMORE CRAIG, P.C.
Jay L. Shapiro (No. 014650)
Todd C. Wiley (No. 015358)
3003 N. Central Ave.
Suite 2600
Phoenix, Arizona 85012
Attorneys for Applicants

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF BELLA VISTA WATER CO., INC. AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. W-02465A-09-0411
IN THE MATTER OF THE APPLICATION OF NORTHERN SUNRISE WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. W-20453A-09-0412
IN THE MATTER OF THE APPLICATION OF SOUTHERN SUNRISE WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. W-20454A-09-0413

IN THE MATTER OF THE JOINT APPLICATION OF BELLA VISTA WATER CO., INC., NORTHERN SUNRISE WATER COMPANY, INC., AND SOUTHERN SUNRISE WATER COMPANY, INC. FOR APPROVAL OF AUTHORITY TO CONSOLIDATE OPERATIONS, AND FOR THE TRANSFER OF UTILITY ASSETS TO BELLA VISTA WATER CO., INC. PURSUANT TO ARIZONA REVISED STATUTES 40-285.	DOCKET NO. W-02465A-09-0414 DOCKET NO. W-20453A-09-0414 DOCKET NO. W-20454A-09-0414

REBUTTAL TESTIMONY OF

THOMAS J. BOURASSA

(RATE BASE, INCOME STATEMENT AND RATE DESIGN)

May 25, 2010

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I. INTRODUCTION, QUALIFICATIONS AND PURPOSE

Q. PLEASE STATE YOUR NAME AND ADDRESS.

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

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

A. I am testifying in this proceeding on behalf of the applicants, Bella Vista Water Company, Northern Sunrise Water Company, and Southern Sunrise Water Company, consolidated as Bella Vista Water Company ("BVWC" or "the Company").

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

A. Yes, my direct testimony was submitted in support of the initial application in this docket. My direct testimony consisted of two volumes of testimony (one addressing rate base, income statement and rate design, and the other addressing cost of capital) for each of the companies referenced above on a stand-alone basis. In addition, I submitted two volumes of testimony in support of consolidation (one addressing rate base, income statement and rate design, and the other addressing cost of capital).

Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

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

Q. ARE YOU ALSO SUBMITTING SEPARATE VOLUMES OF TESTIMONY FOR EACH UTILITY ON A STAND-ALONE BASIS?

A. No, I did not think it necessary at this time since neither Staff nor RUCO oppose the requested consolidation.[1] Schedules detailing the rate base, income statement, rate design for each utility on a stand-alone basis will be made available if necessary.

II. SUMMARY OF BVWC'S REBUTTAL POSITION

Q. WHAT ARE THE REVENUE INCREASES THE COMPANY IS PROPOSING IN THIS REBUTTAL TESTIMONY?

A. The Company is proposing a total revenue requirement of $5,308,101, which constitutes an increase in revenues of $1,145,966, or 27.53% over adjusted test year revenues.

Q. HOW DO THESE COMPARE WITH THE COMPANY'S DIRECT FILING?

A. The revenue requirement is lower. In the direct filing, the Company requested a total revenue requirement of $5,672,485, which required an increase in revenues of $1,510,349, or 36.29%.

Q. WHAT'S DIFFERENT?

A. In its rebuttal filing, BVWC has adopted a number of adjustments recommended by Staff and/or RUCO, as well as proposed a number of additional adjustments of its own in response to the other parties. The net result of these adjustments is: (1) the Company's proposed operating expenses have decreased by $51,101, from $4,142,888 in the direct filing to $4,091,778; and a net decrease of $770,814 in rate base from the direct filing of $8,628,612 to $7,857,799.

[1] Direct Testimony of Jodi A. Jerich at 4:17-19; Direct Testimony of Crystal S. Brown ("Brown Dt.") at 3:20-25, 6:17-19.

In addition, the Company has reduced its recommended cost of equity from 12.5% in its direct filing to 10.9% in its rebuttal filing. This has resulted in a lower requested weighted cost of capital from 11.16% in the Company's direct filing to 9.85% in its rebuttal filing.

Q. PLEASE SUMMARIZE THE REASON FOR THE DECREASE IN THE RATE BASES?

A. The primary reason for the reduction in rate base is that the Company is proposing a change to the deferred income taxes (DITs) of $745,355 based on a revision to its DIT computation. The revised Company's DIT reflects the availability of new information, namely the 2008 annual tax return. This has allowed for a roll-forward from the end of 2008 as opposed to 2007 in its direct filing. It also reflects the Company's proposed changes to plant-in-service ("PIS"), accumulated depreciation ("A/D"), advances-in-aid of construction ("AIAC") and contributions-in-aid of construction ("CIAC"). Finally, the change to DIT reflects a change to the bonus depreciation provisions not contemplated at the time of the Company's direct filing. The net rate base impact of this adjustment is $(745,355).

Q. WHAT ARE THE PROPOSED REVENUE REQUIREMENTS AND RATE INCREASES FOR THE COMPANY, STAFF, AND RUCO AT THIS STAGE OF THE PROCEEDING?

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

	Revenue Requirement	Revenue Incr.	% Increase
Company-Direct	$5,672,485	$1,510,349	36.29%
Staff	$4,154,455	$ (7,681)	(0.18)%
RUCO	$4,919,615	$ 757,479	18.20%
Company Rebuttal	$5,308,101	$1,145,966	27.53%

III. RATE BASE

Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE BASE RECOMMENDATIONS?

A. Yes, the rate bases proposed by the parties proposing a rate base in the case, the Company, Staff and RUCO, are as follows:

	OCRB	FVRB
Company-Direct	$ 8,628,813	$ 8,628,813
Staff	$ 4,985,205	$ 4,985,205
RUCO	$ 7,286,645	$ 7,286,645
Company Rebuttal	$ 7,857,799	$ 7,857,799

1. Plant-in-service.

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ORIGINAL COST RATE BASE AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?

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

Rebuttal B-2 adjustment 1, as summarized on Rebuttal Schedule B-2, page 2, consists of five (5) adjustments labeled as "A", "B", "C", "D", and "E" on Rebuttal Schedule B-2, page 3.

Adjustment A reduces PIS to the actual cost of post-test year plant. The Company has adopted Staff's proposal to adjust the post-test year plant costs to actual cost.[2] RUCO has proposed a similar adjustment.[3]

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[2] *See* Brown Dt. 12 – 13.

[3] *See* Direct Testimony of Rodney Moore ("Moore Dt.") at 8 – 9.

Adjustment B increases PIS to reflect the adjusted cost of retired plant related to post-test year plant. The Company has adopted Staff's proposal to adjust the retirement cost.[4] RUCO has proposed a similar adjustment.[5]

Adjustment C reduces PIS to reflect the actual acquisition costs of the former McClain systems, now Northern Sunrise Water Company and Southern Sunrise Water Company. Staff proposes to an interim exclusion of all of the McClain Systems acquisition costs that were approved in Docket No. W-20453A-06-0247 *et al.* until it had an opportunity to audit the documentation provided by the Company.[6] The Company interpreted this as an interim position and has provided Staff all the relevant information it needs to complete its audit of the costs and support the recovery of the actual amount of acquisition costs in the amount of $155,378. RUCO has not proposed any adjustment to the acquisition costs.

Adjustment D reduces PIS to reflect revised cost related to allowance for funds used during construction ("AFUDC"). Staff proposes to exclude all AFUDC because the Company did not adequately support the costs.[7] However, the Company has since provided updated information on AFUDC to Staff and, like the issue of the acquisition costs, hopes that upon review of this material, Staff will support the Company's revised AFUDC amounts. RUCO has not proposed any adjustment to PIS for AFUDC.

Adjustment E reduces PIS to reflect Company proposed retirements in response to Staff's retirement proposal.[8] As explained by Mr. Sorensen, the

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[4] Brown Dt. at 12 – 13.

[5] Moore Dt. at 8 – 9.

[6] Brown Dt. at 19.

[7] *Id.* at 14.

[8] *Id.* at 15 – 17.

Company does agree that it did not retire assets when replacements were placed in to service.[9] However, the Company has concerns about Staff's methodology and prepared its own for Staff's review.

Q. WHAT CONCERNS DOES THE COMPANY HAVE WITH STAFF'S PROPOSED PLANT RETIREMENTS?

A. Staff proposes a greater amount of retirements for electric pumping equipment (account 311), meters (account 334), transportation equipment (account 341), and tools and work equipment (account 343) than the amount of new additions for these accounts from the end of the last test year (December 31, 2000) to the end of the current test year (March 31, 2009).[10] Respectfully, that's not possible.

Q. PLEASE EXPLAIN THE COMPANY'S PLANT RETIREMENT PROPOSAL.

A. As shown on Schedule B-2, page 3.5.1, the Company starts by computing the net plant additions by plant account from the end of the last test year to the end of the current test year. The Company then reduces each of the net plant addition amounts by account by the known costs related to new growth and the known costs related to plant replacements. A factor or percentage[11] is applied to remainder plant cost considered for retirement to determine the "current" cost of retirements.[12] The current cost is then reverse trended using the Handy-Whitman[13]

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[9] Rebuttal Testimony of Greg Sorensen ("Sorensen Rb.") at 9.

[10] *Compare* Staff Bella Vista Water Company Schedule CSB-7 *with* Company Rebuttal Schedule B-2, page 3.5.1 (column 3).

[11] This factor is based on the depreciation rate (expected life) multiplied by 8 (approx. number of years since last test year). The rationale for this factor is that plant is replaced at the rate of depreciation.

[12] "Current" cost is assumed to be the cost at the approximate mid-point between the end of last test year and the end of the current test year or 2005.

[13] *Handy-Whitman Index if Public Utility Construction Costs, Bulletin No. 171, 1912 to January, 2010.* Whitman, Requardt & Associates, LLP.

cost index and the consumer price index ("CPI") to arrive at the historical retirement cost. Finally, it is the specifically identified plant replacement costs and the computed historical retirement costs that comprise the total retirement costs. The retirements are then assumed to be made ratably over the period 2001 to 2008 for purposes of re-computing accumulated depreciation.

Q. HOW IS THE COMPANY'S PROPOSAL DIFFERENT THAN STAFF'S?

A. First, Staff's method assumes that any plant added after 1998 is still in service.[14] Plant added before 1998 that had an expected life of 10 years or less is assumed to be retired as of the end of the test year as it is assumed to be no longer operational.[15]

Q. WHAT'S WRONG WITH THIS ASSUMPTION?

A. Again, unfortunately in this case this assumption results in more costs being retired than have been added. But we must account for the fact that if water plant was replaced, the cost would have been at least as great as the original cost. The Handy-Whitman cost indexes bear this out.[16] It is possible, for plant items such as communication equipment, where technological changes could have resulted lower costs over time, the opposite could be true. But, for most of the plant categories Staff proposes a retirement, it for water plant and every indicator points to greater cost today.

Further, I do not agree with the assumption that all plant added prior to 1998 is retired. Some plant items will last longer than the expected useful life, some plant items will last less than the expected useful life, and still others will last exactly the expected useful life. The underlying assumption of the group method

[14] Brown Dt. at 17.

[15] *Id.*

[16] Handy-Whitman cost index numbers are higher than 1998 in every subsequent year.

the Company and Staff employs for recording depreciation is that every plant item within in a plant category or group will last, on average, the expected life of the group. Since every plant item within the group is expected to have the life of the group it is assumed to be fully depreciated at the time of retirement. This is why, for example, when reflecting retirements we remove the original cost from both PIS and A/D.

Q. IS THE GROUP DEPRECIATION METHOD AN ACCEPTED METHOD IN REGULATORY UTILITY ACCOUNTING?

A. Yes, as I noted immediately above.[17] It is the commonly used for utilities and used by Staff in rate cases.

Q. THANK YOU. PLEASE CONTINUE WITH YOUR DISCUSSION OF HOW STAFF'S METHOD IS DIFFERENT THAT THE COMPANY'S.

A. Second, the amount of proposed retirements for the Company are less than the plant additions for the period between the end of the last test year and the end of the current test year which, in light of the discussion previously, is more intuitive in relation to business conditions in the water utility industry. Third, the Company's proposal includes retirements for structures and improvements (account 304), services (account 333), hydrants (account (335), office furniture and fixtures (account 340), computers and software (account 340.1), and miscellaneous equipment (account 347), in recognition that some amounts from these accounts may have needed retirement.

Q. WHAT ARE THE TWO PARTIES' AMOUNT OF RETIREMENTS?

A. The Company's proposed retirements total $1,333,328[18] whereas Staff proposes retirements totaling $2,553,834.[19]

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[17] Deloitte & Touche, et. al. *Accounting for Public Utilities*. Mathew-Bender & Co.. 1997. Sec. 6.04.

Q. DOES RUCO PROPOSE SIMILAR RETIREMENTS?

A. No.

Q. IS THERE ANY OTHER DISAGREEMENTS BETWEEN STAFF AND THE COMPANY REGARDING PLANT-IN-SERVICE?

A. Yes. Staff proposes to remove $173,110 ($104,983 for Bella Vista, $23,454 for Northern Sunrise, and $44,673 for Southern Sun Rise) for inadequately supported plant costs.[20] While the Company acknowledges that it could not locate all of the underlying documentation for these costs, the Company has provided over $3.3 million of documentation for the over $3.5 million of Staff requested support and believes that the preponderance of the evidence suggests the Company properly recorded new assets.

Q. WHY COULDN'T THE COMPANY PROVIDE THE DOCUMENTATION?

A. Frankly, the documentation goes as far back as 2002 and the records were in storage. As sometimes happens, records are misplaced, mislabeled, and/or destroyed. At this point, despite every possible effort, the Company cannot locate the records. While the Company regrets this inability to support plant, it is hopeful that Staff and the Commission acknowledge that the preponderance of the plant support is adequate to allow this amount of plant in rate base.

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[18] *See* Rebuttal Schedule B-2, page 3.5.

[19] *See* Staff Bella Vista Water Company Schedule CSB-7.

[20] Brown Dt. at 15.

2. **Accumulated Depreciation.**

Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE B-2 RATE BASE ADJUSTMENTS.

A. Rebuttal B-2 adjustment 2, as summarized on Rebuttal Schedule B-2, page 2, consists of three (3) adjustments labeled as "A", "B", and "C" on Rebuttal Schedule B-2, page 3.

Adjustment A increases A/D to reflect the actual cost of the retirement related to post-test year plant. This adjustment matches the PIS adjustment discussed earlier. Both Staff and RUCO propose similar adjustments.

Adjustment B reduces A/D to reflect the retirements of PIS.

Adjustment C reduces A/D to reflect the re-computed A/D based on the Company's plant adjustments (AFUDC and McClain systems acquisition costs) as well as the retirements of PIS under the Company's proposed method discussed above.

3. **AIAC and CIAC.**

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

A. In rebuttal B-2 adjustment 3, as shown on Schedule B-2, page 2, the Company proposes a decrease to accumulated amortization of CIAC of $494. The $494 adjustment is based on a re-computation of accumulated amortization which reflects changes to PIS as discussed above.

Q. IS THE COMPANY PROPOSING ANY ADJUSTMENTS TO AIAC AND/OR CIAC AS PART OF ITS RETIREMENT PROPOSAL OTHER THAN FOR ACCUMULATED AMORTIZATION?

A. No, the Company is not proposing any adjustments at this time.

Q. DO ANY OF THE OTHER PARTIES PROPOSE CHANGES TO THE CIAC AND AIAC BALANCES AT THIS STAGE OF THE PROCEEDING?

A. No.

4. <u>ADITs</u>

Q. HAS THE COMPANY PROPOSED A REBUTTAL ADJUSTMENT TO ACCUMULATED DEFERRED INCOME TAXES FOR THE WATER DIVISION?

A. Yes. In rebuttal B-2 adjustment 4, as shown on Schedule B-2, page 2, the Company's accumulated deferred income taxes ("ADITs"), is increased by $745,335 from a net deferred tax asset of $173,329 to a net deferred tax liability of $572,006. The details of the Company's rebuttal proposed DIT adjustment is shown on Schedule B-2, page 6.

Q. WHAT CHANGES OR UPDATES HAVE YOU MADE TO THE COMPANY'S ADIT COMPUTATION?

A. There are three primary changes/updates to the ADIT computation. First, in the direct filing, the ADIT computation rolled forward the tax basis of PIS using the tax asset information from the 2007 tax returns and estimates of tax additions, tax depreciation, and special ("bonus") depreciation through March 31, 2009. A roll-forward approach from 2007 was done because the 2008 tax returns were not finalized at the time the ADIT computation was prepared. The rebuttal ADIT computation starts with the tax asset information contained in the 2008 tax returns that are now finalized.

To address concerns by Staff about book and tax values, I conducted a review of the book and tax values from 1997 through the end of 2008 and prepared a reconciliation to identify differences between book and tax values. These differences were then accounted for in the Company's rebuttal ADIT computation.

Finally, the Company's rebuttal ADIT computation reflects the impact of Company proposed rebuttal changes to PIS, accumulated depreciation, and AIAC and CIAC.

Q. WERE THERE CHANGES IN THE TAX LAW WHICH IMPACTED THE COMPUTATION?

A. Yes. The bonus depreciation provisions were extended through January 1, 2010 by the Economic Recovery Act of 2009 ("the Act"). Prior to the Act, the bonus depreciation provisions were available only through January 1, 2009. So, the ADIT computation includes an estimate of bonus depreciation for plant added from January 2009 to March 2009.

Q. PLEASE COMMENT ON STAFF'S RECOMMENDED ADIT?

A. Staff recommends an ADIT liability, a deduction to rate base of $3,516,874 ($2,797,775 for Bella Vista, $204,994 for Northern Sunrise, and $607,388 for Southern Sunrise).[21] But Staff's ADITs are overstated because Staff sets the tax value of assets at zero.[22] Staff may disagree with the Company on the tax value of PIS, but it is most certainly not zero. Putting that aside, Staff has also indicated that it did not have a chance to review the tax schedules from the Company and this is the likely reason Staff set the tax value to zero.[23] Staff has also indicated that upon completion of its review Staff will provide revisions to its recommendation.[24]

Q. ARE THE METHODOLOGIES USED BY STAFF AND THE COMPANY FOR COMPUTING ADIT SIMILAR?

A. Yes, in all material respects. First, both Staff and the Company use tax and book information specific to Bella Vista, Northern Sunrise, and Southern Sunrise.

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[21] Brown Dt. at 26.

[22] *See* Staff Bella Vista Water Company Schedule CSB-10; Staff Northern Sunrise Water Company Schedule CSB-9; and Staff Southern Sunrise Water Company Schedule CSB-9.

[23] Brown Dt. at 26.

[24] *Id.*

Second, both consider the future tax value of book-tax asset timing differences. Third, both Staff and the Company consider and reflect the future tax value of AIAC.

Q. HAS THE COMPANY BEEN WORKING WITH STAFF TO HELP RESOLVE ISSUES OVER ADIT?

A. Yes. The Company has supplemented the information it had previously provided to Staff. The supplemental information includes 2008 tax asset information which serves as the basis for the Company's rebuttal ADIT roll-forward to March 2009. The Company has also provided this information to RUCO, along with all of the information it has provided Staff since its direct filing was made.

Q. PLEASE COMMENT ON RUCO'S RECOMMENDED ADIT?

A. RUCO is recommending an ADIT liability of $1,284,949.[25] RUCO's recommended ADIT is based on an allocation of the Algonquin Power Income Fund's (now known as Algonquin Power & Utilities Corp. ("APUC")) deferred income taxes as reported in its 2008 annual report. The allocation factor is based the total assets of the Company relative to the total assets of APUC in 2008.[26] RUCO asserts that this complies with the Statement of Financial Accounting Standards No. 109 – Accounting for Income Taxes ("SFAS No. 109").[27]

Q. DOES RUCO'S METHOD COMPLY WITH THE REQUIREMENTS OF SFAS NO. 109?

A. No. I agree with RUCO that Section 40 of SFAS No. 109 provides that any method adopted for allocating deferred income taxes must be systematic, rationale

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[25] Direct Testimony of Timothy J. Coley ("Coley Dt.") at 25.

[26] *Id.* at 24.

[27] *Id.*

and consistent with the broad principles of SFAS No. 109.[28] However, RUCO has ignored Section 40(b) of SFAS No. 109, which states that methods that are not consistent with SFAS No. 109 includes any method that allocates deferred income taxes to a member of the group that is fundamentally different from the asset and liability method described in the statement. RUCO's method is flawed because it allocates deferred income taxes based on the 2008 total assets of BVWC relative to APUC's total assets. This is fundamentally inconsistent with the asset and liability method as prescribed by the statement. RUCO ignores the specific book-tax timing differences for the Company which gives rise to the deferred tax assets and deferred tax liabilities of the Company.

Q. WHY DO THE SPECIFIC BOOK-TAX TIMING DIFFERENCES OF BVWC MATTER?

A. Because if they are ignored cross-subsidization will occur between the Company and its parent - and ultimately rate payers. APUC's ADIT reflects book and tax timing differences from numerous other APUC entities which arguably reflect, among other things, different tax depreciation rates and different tax provisions related to plant investment. Some of those entities, for example, are energy related with energy related plant investments and not water and/or wastewater plant investments. Further, putting aside the differences in the magnitudes of plant investment among the various APUC owned entities, some of those entities may have newer plant than others. Still further, some of those entities are based in Canada and are subject to Canadian tax laws while others are subject to U.S. tax laws. Some of these entities have book and tax timing difference arising from goodwill, acquisition premiums/discounts (or other intangibles) which are not

[28] *Id.* at 23 – 24.

related BVWC. Goodwill and acquisition premiums/discounts are almost never allowed in rate base and there are certainly no assets of this nature in BVWC's rate base. Together, these factors cause the differences in the resulting ADIT for each entity to vary widely from one entity to another. In other words, the ADIT for any single entity owned by APUC is not the result of any one single factor, which is what RUCO's approach would suggest by its allocation method.

In summary, the deferred tax amount for a group that files a consolidated income tax return must be the equal to sum of the individual companies' deferred income taxes based on the asset and liability method prescribed by SFAS No. 109. RUCO's method does not comply with SFAS 109 for the reasons discussed and must be rejected.

Q. IS THE ADIT METHOD EMPLOYED BY THE COMPANY THE MOST PRECISE METHOD?

A. Yes. This is because it uses the specific book and tax information of the Company. This is yet another reason to reject RUCO's method – it's not necessary. We have everything we need to calculate company-specific ADITs.

Q. DO YOU HAVE INDEPENDENT CONFIRMATION THAT THE COMPANY'S METHOD OF COMPUTING ADIT IS THE MOST PRECISE?

A. Yes. Attached as **Exhibit TJB-RB1** is a letter from KPMG, LLP, an independent public accounting firm, which confirms the Company's method of computing ADIT is the most precise method.

Q. HAVE YOU SEEN RUCO'S ALLOCATION METHOD BEFORE?

A. Twice. RUCO advanced an identical method in the most recently decided Black Mountain Sewer Company rate case.[29] The Commission rejected this method and correctly concluded:

> Whether other utilities normally report net deferred tax liabilities is not a controlling factor in determining whether BMSC should have a net asset or liability in this case. BMSC's ultimate parent, APIF, controls myriad companies (see, ***e.g.*** Ex. S-13) and the fact that its Annual Report reflects a net deferred tax liability is not necessarily indicative of whether its individual subsidiaries have a net liability or asset on their respective books.[30]

In contrast, the method employed by BMSC in its rate case, the same as employed by BVWC in this case, is consistent with SFAS No. 109 because it is based on the amounts of assets and liabilities on the books of the Company that result in the deferred taxes of the Company's parent.

Q. WEREN'T YOU THE WITNESS FOR BMSC IN THAT CASE?

A. Yes, and I can attest to the fact the method used by BVWC in the instant case is the same as the method used and approved in the BMSC. The same is true in the second case I have seen RUCO try this, the pending RRUI rate case.

Q. DOES THE FACT THE COMMISSION FOUND AN ADIT OF $235,258 IN BVWC'S LAST RATE CASE HAVE ANY BEARING ON THE AMOUNT OF ADIT IN THE INSTANT CASE?

A. No. Mr. Coley's mention of this is perplexing for several reasons.[31] First, it is unclear why Mr. Coley includes this testimony since he does not seem to make any point from it. Second, the specific amount of ADIT (or whether the ADIT was a

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[29] Decision No. 69164 (December 5, 2006) at 6.

[30] *Id.* at 6.

[31] Coley Dt. at 9.

net asset or a net liability) in BVWC's last case does not speak to the amount of ADIT in the instant case. The two cases have completely different test years, difference plant balances for both book and tax, and tax provisions afforded to BVWC in the intervening years between the two cases were not the same, among other things. ADIT is period-end specific just as are plant-in-service, accumulated depreciation, AIAC and CIAC. Period-end specific balances are at a specific point in time. The balance sheets shown on the Company E-1 and the rate base in the instant case are based on the period-end concept.

Q. PLEASE RESPOND TO MR. COLEY'S TESTIMONY ON PAGE 22 THAT THE INCLUSION OF AIAC AS A COMPONENT IN THE COMPANY'S ADIT COMPUTATION IS OBJECTIONABLE BECAUSE AIAC IS NON-INVESTOR SUPPLIED FUNDS.

A. Mr. Coley asserts that since the Company is allowed a return of AIAC through depreciation, it should not be allowed to earn a return on such non-investor supplied funds.[32] This is because Mr. Coley believes any future income taxes associated with AIAC are already reflected in rates.[33] I have three responses. First, AIAC is a reduction to the net plant investment in rate base so the Company does not earn a return on AIAC. Second, depreciation is not a return on plant. The primary purpose of the cash flows from depreciation related to AIAC is to provide the cash necessary to pay refunds. A secondary purpose (if the depreciation rate exceeds the refund rate) is to provide the cash for eventual plant replacement which in some cases may occur before the end of the expected useful life of the plant. Further, in general, by the time the line-extension agreement expires and the

[32] *Id.* at 23.

[33] *Id.*

remaining AIAC balance reverts to CIAC[34] the Company will have only received a small fraction of the cost of the plant through depreciation and only a fraction of the AIAC plant will have been refunded. Third, and finally, the Company pays higher income taxes than the income taxes reflected in rates. This is what creates the deferred tax asset.

Q. PLEASE EXPLAIN WHY THE COMPANY PAYS HIGHER INCOME TAXES THAN ARE REFLECTED IN RATES AS A RESULT OF AIAC.

A. Depreciation on AIAC funded PIS is recognized for book purposes (and rate making purposes), but not recognized for tax purposes. As a result, for book purposes (and ratemaking purposes), a lower taxable income is recognized in the revenue requirement when rates are set than will actually be paid by the Company. This is because the depreciation expense on the AIAC funded PIS is considered a deduction in computing income taxes for book (and rate making) purposes. But, because the Company cannot recognize a depreciation deduction for tax purposes, it pays higher income taxes as a result. A book-tax timing difference ensues and this results in a deferred tax asset. This book-tax timing difference will reverse itself in the future as AIAC refunds are made and the Company receives a tax basis and takes tax depreciation.

Discriminating between DIT liabilities and DIT assets for the inclusion or the exclusion from the ratemaking process, simply because one may reduce rate base while another may increase rate base, is inherently unfair. Consistent treatment will ultimately be fair to both the utility and to its ratepayers. But, just as important, recognizing portions of deferred income taxes while not recognizing others, particularly with respect to capital investments, would violate the tax

[34] Once the AIAC reverts to CIAC the depreciation recovery ends.

normalization requirements of the Internal Revenue Code for ratemaking and financial reporting. Failure to follow the normalization as prescribed by the Code could result in the loss of eligibility to utilize the tax benefits associated with accelerated depreciation and investment tax credits.

Q. WHAT IS TAX NORMALIZATION?

A. Tax normalization refers to the accounting and regulatory process that recognizes that there may be temporary tax timing differences in the amount of the tax paid in early years that will reverse themselves in later years. Normalization is similar to accrual accounting, which generally requires the effects on assets and liabilities to be shown on the books in the time period in which they occur rather than when cash is received or paid. Accordingly, the difference between the allowed income taxes in rates and the actual income taxes paid is recognized in a company's accounts as deferred taxes.

5. <u>Remaining Rate Bases Issues.</u>

Q. PLEASE DISCUSS THE REMAINING RATE BASE ISSUES BETWEEN THE PARTIES.

A. The Company does not agree with Staff's proposal to include customer security deposits of $206,120 as a reduction to rate base.[35] The Company disagrees with Staff for three reasons. First, customer security deposits are not capital provided by non-investors. They represent security for payment of receivables from customers and are used as a means of controlling bad debt expense. Ratepayers benefit by lower bad debt expense. Second, if Staff truly considered the security deposits as a source of capital then Staff should have included the annual interest cost in operating expenses. Based on the amount Staff seeks to include in rate base

[35] Brown Dt. at 23.

the annual interest costs that should be reflected in operating expenses is $12,367 ($206,120 times 6%). Finally, security deposits are akin to prepaid expense which is a component of working capital. The Company is not requesting working capital in the instant case but the computed working capital allowance far exceeds the amount of security deposits.[36] If customer security deposits are included as a reduction to rate base, they should be offset with the working capital allowance or at the very least prepaid expense.[37]

IV. INCOME STATEMENT

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?

A. The Company rebuttal adjustments are detailed on Rebuttal Schedule C-2, pages 1-8. The rebuttal income statement with adjustments is summarized on Rebuttal Schedule C-1, page 1-2.

Rebuttal adjustment 1 increases depreciation expense. Depreciation expense is lower, primarily due to the impacts of the Company's proposed rebuttal adjustments to PIS. The difference in depreciation expense compared to Staff is due to a difference in the respective party's PIS balance and in the CIAC amortization rate used to compute CIAC amortization. For the amortization rate, both Staff and RUCO use a composite depreciation rate for all depreciable PIS where as the Company uses a composite depreciation rate for all PIS. The Company believes the composite rate should reflect all plant, not just depreciable plant. Non-depreciable assets, such as land, can be funded with CIAC, and so land costs should be included. Under the concept of using a composite rate for

[36] Based on the formula method, working capital is over $332,500. *See* Rebuttal Schedule B-5.

[37] Prepaid expense at the end of the test year was $23,268.

amortization of CIAC, a key assumption is that CIAC is used to fund all plant, not just depreciable plant. If fact, the accumulated amortization balance for which Staff and the Company are in substantial agreement was based upon a composite rate for all plant. Thus, Staff and RUCO's proposed CIAC amortization rate is inconsistent with that used in the past and should be rejected.

Q. PLEASE CONTINUE.

A. Rebuttal adjustment number 2 increases property tax expense and reflects the rebuttal proposed revenues. Staff, RUCO, and the Company are in agreement on the method of computing property taxes – the method utilized the ADOR formula and inputs two years of adjusted revenues plus one year of proposed revenues. I computed the property taxes based on the Company's proposed revenues, and then used the property tax rate and assessment ratio that was used in the direct filing.

Rebuttal adjustment number 3 removes $6,564 of unnecessary cost meals, entertainment, and contributions from miscellaneous expense. Staff and RUCO propose similar adjustments although RUCO's adjustment is less at $2,500.

Rebuttal adjustment 4 increases water testing expense to reflect the annualized amount of water testing. The level of water testing expense expected to be incurred on a going forward basis is address in the rebuttal testimony of Greg Sorensen.[38]

Rebuttal adjustment 5 decreases transportation expense to reflect the removal of transportation costs (Airlink). This is a courtesy adjustment to reduce amounts in dispute.

[38] Sorensen Rb. at 3.

Q. DOES STAFF PROPOSE AN ADJUSTMENT TO TRANSPORTATION EXPENSE?

A. Yes. Staff proposes to reduce transportation expense by $11,497.[39] Staff bases its adjustment on the average transportation expense for 2008 and 2009.[40] Presumably Staff does this to "normalize" transportation expense.

Q. DO YOU AGREE WITH THE USE OF AVERAGES TO SET THE LEVEL OF EXPENSES ON A GOING FORWARD BASIS?

A. No, generally I disagree with use of averages as a method of normalizing expenses. Surrounding facts and circumstances must justify their use because averaging does not reflect a known and measurable change to the test year. It is, at best, a guess. Averaging as a means of normalizing an expense is also subjective with respect to which expenses are averaged and which years (historical or future) are included in the average. Averaging with historical years is also backward looking. Finally, in my experience, Staff uses averages to adjust expense downward far more frequently than it uses averages to adjust expenses upward.

In other words, there is too much subjectivity and therefore this is not proper ratemaking. If we are going to use the historical test year, with all of its flaws, we shouldn't just discard based on the presumption something is wrong with the test year and in the absence of evidence that shows "extenuating" circumstances.

Q. HAS THE COMMISSION REJECTED STAFF'S NORMALIZATION ADJUSTMENTS USING HISTORICAL AVERAGES IN THE PAST?

A. Yes. In the recent Chaparral City Water Company decision, the Commission rejected Staff's normalization adjustment for repairs and maintenance expense and

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[39] Brown Dt. at 10.

[40] *See* Staff Bella Vista Water Company Schedule CSB-16.

chemicals.[41] In that case, Staff also justified the use of normalization because these expenses fluctuated widely. The Commission rejected the argument because the test year is presumed normal and Staff had failed to meet its burden of proof that its proposed adjustments were necessary and warranted.[42]

Q. WHAT REASONS DOES STAFF PROVIDE FOR AVERAGING THREE HISTORICAL YEARS TO NORMALIZE TRANSPORTATION EXPENSE?

A. Staff does not provide testimony explaining why an historical average of transportation expense is more appropriate than the test year level of expense.

Q. PLEASE CONTINUE.

A. Rebuttal adjustment 6 reflects a decrease to the allocated affiliate central office costs and reflects adjusted actual costs incurred by the central office for the test year. The Company's adjustment is detailed on Rebuttal Schedule C-2, page 6. As shown, the central office cost allocated to and included in BVWC outside service expense is $125,830. This is approximately 3.5 percent of the total adjusted central office cost pool.

Q. DID THE COMPANY REMOVE ANY COSTS FROM ITS CENTRAL OFFICE ALLOCATION POOL?

A. Yes. The Company removed $530,586 of costs from the allocation pool it identified as being in dispute with Staff and/or RUCO. In order to reduce amounts in dispute, it is making this courtesy adjustment.

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[41] *See Chaparral City Water Company*, Decision No. 71308 (October 21, 2009) at 22 – 23.

[42] *Id.*

Q. WHAT IS STAFF'S RECOMMENDATION FOR ALLOCATED CENTRAL OFFICE COSTS?

A. Staff is recommending an expense level of $9,396 ($3,132 for Bella Vista, $3,132 for Northern Sunrise, and $3,132 for Southern Sunrise) based on an adjusted central office allocation pool of $219,244 and an allocation factor of 1.43 percent.[43]

Q. WHAT IS RUCO'S RECOMMENDATION FOR ALLOCATED CENTRAL OFFICE COSTS?

A. RUCO is recommending an expense level of $0 as RUCO recommends removal of all $144,809 allocated to BVWC in the test year.[44]

Q. DO YOU HAVE ANY ADDITIONAL COMMENTS REGARDING STAFF'S OR RUCO'S TESTIMONY ON CENTRAL OFFICE COSTS?

A. No, this issue is addressed in great detail in the rebuttal testimony of Peter Eichler.

Q. PLEASE CONTINUE.

A. Rebuttal adjustment 7 synchronizes interest expense with the Company's rebuttal proposed rate base.

Rebuttal adjustment 8 reflects income taxes at Company's proposed rates.

1. <u>Remaining Revenue and Expense Issues.</u>

Q. WHAT LEVEL OF RATE CASE EXPENSE IS BVWC ESTIMATING AT THIS STAGE OF THE PROCEEDING?

A. Same as in direct because not enough has happened to alter our original estimate. The Company is proposing rate case expense of $450,000 amortized over 3 years

[43] Brown Dt. at 34 – 35; Staff Bella Vista Water Company Schedule CSB-13; Staff Northern Sunrise Water Company Schedule CSB-12; Staff Southern Sunrise Water Company Schedule CSB-12.

[44] Coley Dt. at 31.

for an annual expense of $150,000. But this is still an estimate, which the Company will true-up at a later date when more of the costs are known, as needed.

Q. WHAT LEVEL OF RATE CASE EXPENSE ARE THE OTHER PARTIES RECOMMENDING AT THIS STAGE OF THE PROCEEDING?

A. RUCO's proposes rate case expense of $200,000 "normalized" over 3 years or $66,667 annually.[45] RUCO's estimate is based upon RUCO's analysis of rate case expense incurred through February 2010 and an analysis of the recent Black Mountain Sewer Company (BMSC) rate case.[46] Staff recommends rate case expense of $151,530[47] amortized over 3 years or $50,510[48] annually.[49]

Q. PLEASE COMMENT ON RUCO'S RATE CASE EXPENSE RECOMMENDATION?

A. I have two comments. First, RUCO appears to base its recommendation, in part, on the fact that through February 2010, the Company has only incurred about $59,000 of rate case expense.[50] I believe it is entirely premature to make any meaningful determinations about the ultimate level of rate case expense that will be incurred in the instant case. This is obviously true, given that at the time of Mr. Coley's testimony the Company had yet to incur the costs for the preparation if its rebuttal testimonies, rejoinder testimonies, hearing preparation, hearings, transcripts, post hearing briefs, and final decision.

Second, RUCO appears to view the BMSC rate case in terms of the resources required and costs incurred as similar or the same as the instant case

[45] Moore Dt. at 14.

[46] *Id.* at 13.

[47] $84,183 for Bella Vista, $25,255 for Northern Sunrise, and $42,092 for Southern Sunrise.

[48] $28,061 for Bella Vista, $8,418 for Northern Sunrise, and $14,031 for Southern Sunrise.

[49] Brown Dt. at 43.

[50] *Id.*

when the two rate cases are much different. The BMSC rate case involved just one entity; this one involves three plus the issue of consolidation. In addition, the Company did not prepare a cost of service and testimony in support of the rate design in the BMSC rate case. In the instant case there are 3 entities each requiring the preparation of separate sets of schedules and testimony, not to mention consolidation.

Q. WHY SHOULD THE COST OF CONSOLIDATING BE INCLUDED IN RATE CASE EXPENSE?

A. Because it is in the public interest if the Commission approves it. Of course, as is almost always the case, the Company will incur more in rate case expense than it is allowed to recover through rates. In addition, the Company loses the time value of money because the costs are paid now but are hopefully recovered over the future.

Q. PLEASE COMMENT ON STAFF'S RATE CASE EXPENSE RECOMMENDATION?

A. Staff recommends total rate case expense of $151,530 "normalized" over 3 years for an annual amount of $50,510.[51] This is said to be based on an analysis of other utilities' rate case expense.[52] Putting aside the fact that Staff's analysis contains an error[53], Staff analysis is based on a per company/system basis when many of the costs for rate case expense will be incurred regardless of the number of systems involved in the rate case. For example, the amount of costs incurred for hearing and briefing is not directly proportional to the number of systems. Much of the cost for testimony preparation and even the preparation of schedules are not

[51] Brown Dt. at 40 – 44.

[52] *Id.* at 43; Staff Bella Vista Water Company Schedule CSB-17.

[53] Staff incorrectly uses $133,376 (an annual amount) as Global Water Company's total rate case expense when the total rate case expense was actually $400,000.

directly proportional either. In other words, for each additional system involved cost only fractionally increase over the cost. For example, if a rate case involving one system costs $200,000 and a second system is added, the cost may only increase by $100,000 or half the cost of a one system rate case. Arguably costs are higher if there are more systems involved, but other factors can also increase costs such as the number and nature of the issues involved. Staff's analysis simply does not account for anything but number of systems.

Q. CAN YOU COMMENT ON STAFF'S DISCUSSION OF "IN-HOUSE RESOURCES"?

A. Staff's recommendation is premised, in part, on the assertion that few of the Company's internal resources were used being used.[54] First, we do not know why Staff came to this conclusion because it is not explained. Second, it isn't true. Data requests have been largely been processed in house and two of the witnesses are Liberty employees it is also difficult to make the kinds of in-house versus non-in-house comparisons.

Q. WHY IS THAT MR. BOURASSA?

A. Because Staff fails to acknowledge that the costs for regulatory personnel and support staff as well as other resources are contained in other expenses such as salaries and wages, office expense, etc. Thus, the rate case expense of a utility that uses in-house staff to a larger degree than others are not directly comparable.

Q. PLEASE EXPLAIN THE DIFFERENCE WITH RESPECT TO NORMALIZATION AND AMORTIZATION OF RATE CASE EXPENSE?

A. The distinction between normalization, which both RUCO and Staff recommend, and amortization, which the Company recommends, may not seem important but it

[54] Brown Dt. at 41:12-14.

has significant implications. Under normalization, if the Company filed another rate case within 3 years and the Company had not recovered the entire $450,000 of rate case expense, it is lost forever. Under amortization, the Company would be able to seek recovery of any unamortized portion in the new rate case. The amortization approach was used by Staff and adopted by this Commission for many years and it has only been the last few years where Staff has proposed the normalization approach.

Q. WHAT IF THE COMPANY DID NOT FILE FOR MORE THAN 3 YEARS? COULDN'T THE COMPANY OVER RECOVER RATE CASE EXPENSE?

A. Yes. This could potentially occur. However, there is a simple solution to both the potential over or under recovery of rate case expense and that is to allow recovery of rate case expense via a surcharge which would cease upon full recovery of rate case expense.

Q. ARE THERE ANY OTHER DISAGREEMENTS WITH STAFF AND/OR RUCO WITH RESPECT TO EXPENSES?

A. Yes. Staff rejects the known and measurable cost increases totaling $36,038[55] that are allocated from Liberty Water to BVWC.[56] Staff does not dispute the supporting documentation showing the costs increased rather Staff simply states that the increases are not justified or market based.[57] The Company disagrees with Staff's unsupported assertion that the increased costs are not justified. Mr. Eichler provides a response in his testimony.

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[55] $29,388 for Bella Vista, $2,313 for Northern Sunrise, and $4,337 for Southern Sunrise.

[56] Brown Dt. at 39.

[57] *Id.*

Q. DOESN'T STAFF ALSO ADJUST THE COMPANY'S OUTSIDE SERVICES EXPENSE BASED ON AN AVERAGE OF 2008 AND 2009?

A. Yes.[58] Staff states that it averaged outside services expense (Liberty Water allocated costs) for 2008 and 2009 in order to mitigate the effect of not using competitive bids.[59] The Company understands Staff's concern. However, the Company does not believe that a "competitive bid" standard is the measure by which these costs are determined to be reasonable in the instant case. The allocation from Liberty Water is at cost and those costs are of the nature the Company would have incurred if it were to have hired its own employees to do the work. Arguably, there are cost savings from the use of a shared services model and Staff does not appear to take issue with the allocation method used. So, the Company believes the standard should be whether the Liberty Water unreasonably compensates its employees and/or the allocation method unreasonably allocates costs to BVWC. The Company believes that it has met its burden. Never-the-less, the Company has been working with Staff, and will continue to do so, to address Staff's concerns and assist Staff is evaluating the Liberty Water costs.

V. RATE DESIGN

Q. WHAT ARE THE COMPANY'S REBUTTAL PROPOSED RATES?

A. BVWC's proposed rates are:

MONTHLY SERVICE CHARGES

5/8" x 3/4" meters	$17.00
3/4" Meters	$25.50
1" Meters	$38.25
1 1/2" Meters	$76.50

[58] Brown Dt. at 38.

[59] *Id.*

2" Meters	$95.20
3" Meters	$190.40
4" Meters	$318.75
6" Meters	$850.00
8" Meters	$1360.00

COMMODITY RATES

Residential	5/8" X ¾" Meters	1 to 4,000 gals	$1.83
		4,001 to 10,000 gals	$2.43
		Over 10,000 gals	$2.98
Residential	¾" Meters	1 to 4000 gals	$1.83
		4,001 to 10,000 gals	$2.43
		Over 10,000 gals	$2.93
Commercial	5/8" X ¾" Meters	1 to 4,000 gals	$2.13
		Over 4,000 gals	$2.93
Commercial	¾" Meters	1 to 4,000 gals	$2.13
		Over 4,000 gals	$2.93
1" Meters		1 to 10,000 gals	$2.13
		Over 10,000 gals	$2.93
1 ½" Meters		1 to 25,000	$2.13
		Over 25,000	$2.93
2" Meters		1 to 50,000	$2.13
		Over 50,000	$2.93
3" Meters		1 to 80,000	$2.13
		Over 80,000	$2.13
4" Meters		1 to 175,000	$2.93

	Over 175,000	$2.13
6" Meters	1 to 450,000	$2.93
	Over 450,000	$2.13
8" Meters	1 to 720,000	$2.93
	Over 720,000	$2.13
Hydrant Meters	All gallons	$2.98

Fire Sprinkler Service - 2% of monthly minimum, but no less than $15.00

Q. WHAT WILL BE THE MONTHLY INCREASES BY CUSTOMER CLASS AT THE AVERAGE USAGE UNDER THE NEW RATES?

A. The monthly bills under new rate by customer class and meter size are shown on Rebuttal Schedule H-2, page 1. As shown, the Bella Vista 5/8x3/4 inch residential customer's new monthly bill at an average monthly usage of 7,377 gallons will be $30.67. The current monthly bill is $22.90. So, the average Bella Vista 5/8x3/4 inch residential customer will see an increase on $7.77 or 33.95 percent.

As also shown, the Northern Sunrise 5/8x3/4 inch residential customer new monthly bill at an average monthly usage of 5,755 gallons will be $28.59. The current monthly bill is $43.08. So, the average Northern Sunrise 5/8x3/4 inch residential customer will see a decrease of $14.49 or (33.64) percent.

Finally, the Southern Sunrise 5/8x3/4 inch residential customer's new monthly bill at an average monthly usage of 5,581 gallons will be $28.16. The current monthly bill is $42.60. So, the average Southern 5/8x3/4 inch residential customer will see a decrease of $14.43 or (33.88) percent.

Notably, it bears mentioning again that these rates are all based on the full consolidation of the three utilities as proposed.

Q. HAVE YOU MADE ANY REVISIONS TO THE COMPANY'S BASIC RATE DESIGN?

A. Yes. I have modified the rate design so that there are no cross-over points in the bill amounts between customer classes. In other words, customers on small meters do not pay more than larger metered customers at all levels of usage regardless of customer type (residential or commercial). Previously, this was not the case if the customer has high levels of water usage. The rate design used in the Company's initial filing helped to minimize the differences on the cost of service between commercial and residential customers. While the Company's initial rate design had merit from a cost of service stand point, it might be viewed as providing an opportunity for smaller metered customers who use very high amounts of water to potentially switch to a larger meter and pay less. Now, the Company's rebuttal rate design comes at a cost in the sense that smaller residential customers as a class pay less of their cost of service and larger metered customers pay more.

Q. WHAT IN PARTICULAR HAVE YOU CHANGED?

A. I modified the scaling of the monthly minimums as well as modified the commodity rates. Typically, monthly minimums are scaled on the flows of a 5/8x3/4 inch meter. This results in monthly minimums that increase as the meter size increases. The monthly minimums continue to increase as the size of the meter increases but, for some meter sizes, the monthly minimums are less than the indicated monthly minimum using factors strictly based on relative flows of a 5/8 inch meter. The following sets forth the relative flows of meter sizes compared to a 5/8 inch meter and the adjusted factors I employed in my rate design.

Meter Size	Meter Flow Ratios	Factor Used
5/8 Inch	1.00	1.00
3/4 Inch	1.50	1.50
1 Inch	2.50	2.25
1 1/2 Inch	5.00	4.50
2 Inch	8.00	5.60
3 Inch	16.00	11.20
4 Inch	25.00	18.75
6 Inch	50.00	50.00
8 Inch	80.00	80.00

The proposed monthly minimum for the 5/8 inch meter size is based on the current monthly minimum for the Bella Vista customers is increased by $2 or approximately 13.33 percent. (or a bit less than one-third of the over-all requested revenue increase as a percent).

With respect to the commodity rates, the first tier commodity rate for the small commercial and 1 inch and larger customers is now higher than the first tier commodity rate of the first tier rate of the 5/8x3/4 inch residential customers. In the initial rate design it was less. The second tier commodity rate of the small commercial and 1 inch and larger customers is now much closer to, but still lower than, the third tier commodity rate of the 5/8x3/4 inch residential customer (less by about 5 cents). In the initial rate design, the second tier commodity rate of the small commercial and 1 inch and larger customers was lower by over $1.

Q. HAVE YOU UPDATED YOUR COST OF SERVICE STUDY USING THE COMPANY PROPOSED RATES?

A. Yes. As shown on Rebuttal Schedule G-0, the returns at the rebuttal proposed rates continue to vary substantially between the various meter sizes. While all the returns are positive, the 5/8x3/4 inch and ¾ inch residential customer classes provide returns below the 9.85 percent requested in the instant case at 5.51 percent and 4.52 percent, respectively. The larger sized meters, such as the 1 inch commercial, 2 inch commercial, 3 inch commercial are providing much higher returns at 13.00 percent, 22.95 percent, and 23.08 percent, respectively. This indicates that the larger meter customer classes continue to subsidize the 5/8 inch and ¾ inch customer classes under the rebuttal proposed rates. However, consistent with the concept of gradualism, there is improvement in eliminating existing subsidization under the Company's proposed rates.

Q. HAVE YOU PREPARED AN ANALYSIS OF REVENUE RECOVERY FROM THE MONTHLY MINIMUMS AND THE COMMODITY RATES?

A. Yes. As shown on **Exhibit TJB-RB2 (page 2)**, under the rebuttal proposed rates, approximately 47.26 percent of the proposed revenues are recovered from the monthly minimums. As shown on **Exhibit TJB-RB2 (page 1)**, about 52.44 percent of the proposed revenues are recovered from the monthly minimums and the first tier commodity rates.

Q. DOES THE COMPANY PROPOSED RATE DESIGN CONTINUE TO PROMOTE CONSERVATION?

A. Yes, this rate design continues to promote conservation, however, it balances the promotion of conservation with both revenue stability and fairness by also considering cost of service principles.

Q. PLEASE COMMENT ON THE PROPOSED RATE DESIGN OF STAFF.

A. Like the Company, Staff is proposing an inverted 3 tier rate design for the small residential customers and an inverted 2 tier rate design for small commercial and larger meter sizes (all classes). [60] Staff's break-over points increase with meter size, but Staff's are different than the Company's for some meter sizes. The first tier commodity rate for the small commercial and the 1 inch and larger metered customers is the same as the second tier of the 5/8 inch metered residential customers. The second tier of the small commercial and larger metered customers is the same as the third tier of the 5/8 inch metered residential customers. Staff also proposes that the fire line charges be equivalent to 2% of the average monthly bill for that meter size, but not less than $10 per month.

Q. WHAT CONCERNS DO YOU HAVE WITH STAFF'S PROPOSED RATE DESIGN?

A. Staff's rate design can be characterized as having relatively low monthly minimums, low first tier commodity rates for small residential customers, and high commodity rates for small commercial and larger metered customers. This is all to the benefit of small residential customers at the cost of other customer classes. Staff's proposed rate design shifts revenue recovery away from the 5/8x3/4 inch residential class to the small commercial and larger metered customer classes.

Q. CAN YOU SHOW THIS?

A. Yes. As shown on **Exhibit TJB-RB3 (page 2)**, the percent of total revenues from the 5/8x3/4 inch residential customer (Bella Vista) decreases from 53.23 percent to 48.16 percent. By comparison, the commercial customers as a group contribute

[60] Brown Dt. at 17 – 25.

29.94 percent of revenues under present rates whereas this group contributes 43.41 percent of revenues under Staff proposed rates.

Q. PLEASE CONTINUE.

A. The 5/8x3/4 inch residential customers comprise the largest group of customers at nearly 77 percent of the total customers yet this group contributes far less of a proportion of revenues compared to present rates.

Q. SO WHAT'S WRONG WITH THAT, MR. BOURASSA?

A. It's revenue shifting. Staff is discounting water service and generating a subsidy (i.e., selling water below cost in the first rate block) for the 5/8x3/4 inch metered customers. As a result, customers that use large amounts of water for various residential and non-residential purposes will be required to pay more than the cost of service in order to subsidize the low use residential customers.

Q. HAVE YOU PREPARED A SCHEDULE TO FURTHER ILLUSTRATE THIS?

A. Yes, as shown on **Exhibit TJB-RB4 (page 1),** which is similar to the H-2 schedule contained in the Company's rebuttal filing. The H-2 shows the average bill at present and proposed rates. Staff is recommending a revenue decrease of 0.18 percent. But, as shown on the schedule, Staff is decreasing the Bella Vista 5/8x3/4 inch residential customer rates by over 16 percent.

Q. HOW DOES STAFF'S PROPOSED RATE STACK UP AGAINST THE COST OF SERVICE?

A. As shown on **Exhibit TJB-RB5 (page 1)**, which is similar to Rebuttal Schedule G-0, the Staff proposed rates result in negative returns for the 5/8x3/4 inch and ¾ inch residential customers at negative 2.53 percent and negative 3.30 percent, respectively. As a class, the residential customers provide an over-all negative 2.98 percent return.

Q. WHAT PERCENT OF REVENUES ARE BEING RECOVERED FROM THE MONTHLY MINIMUMS UNDER STAFF'S PROPOSED RATES?

A. 39 percent as shown on **Exhibit TJB-RB2 (page 3)**. Compare this to the 47.26 percent under the Company's proposed rate design (**Exhibit TJB-RB2 (page 2)**). I also looked at the percentage of revenues recovered from the monthly minimums and the 1st tier commodity rates. Under the Company proposed rate design the percent is 52.44 percent (**Exhibit TJB-RB2 (page 2)**) whereas staff is only 43.67 percent (**Exhibit TJB-RB2 (page 3)**). Because Staff is shifting revenues away from the monthly minimums to the commodity rates to a far greater extent than the Company, Staff rate design substantially increases revenue instability and the risk that the Company will not recover its revenue requirement if conservation occurs.

Q. PLEASE COMMENT ON RUCO'S RATE DESIGN?

A. But haven't you stated in the past that the percentage of recovery from the monthly minimums is typically between 30 and 40 percent. That's generally how I believe Staff views revenue recovery from the monthly minimums. I will let Staff speak for itself. My view is that it is better from a revenue stability perspective to recover at least 40 to 50 percent. Putting that aside, even if in one's opinion it should be between 30 and 40 percent, the drastic change Staff proposes in the instant case violates the principle of gradualism. Staff is reducing the percentage of recovery from the monthly minimums by over 14 percent whereas the Company is reducing the percentage of recovery by about 6 percent. In other words, Staff is shifting 8 percent more of Staff's revenue requirement to the commodity rates than would be shifted if Staff attained the same 47.26 percent as the Company rate design achieves. The difference in the percentage in dollar terms this is very significant as approximately $343,000 more dollars are shifted to the commodity rates under Staff's rate design and revenue requirement.

What is more striking is that the percentage of recovery from the monthly minimums and the 1st tier commodity rates under Staff rate design is only 43.67 percent (**Exhibit TJB-RB2 (page 2)**). Less than half of the Company's revenue requirement is recovered from the monthly minimums and the 1st tier commodity rates leaving over 56 percent of revenues to be recovery from the higher tier commodity rates. If conservation occurs, the Company's risk of not recovering its full revenue requirement increases drastically under staff's rate design.

Q. PLEASE COMMENT ON RUCO'S RATE DESIGN.

A. RUCO's rate design is similar to the Company's initial rate design, therefore, it suffers from the same of cross-over of bill amounts I discussed earlier. Other than the problem with the cross-over bill amounts, the RUCO rate design compares favorably with the Company's with respect to revenue recovery from the monthly minimums and cost of service coverage.

Q. HAVE YOU PREPARED EXHIBITS ON RUCO'S RATE DESIGN SIMILAR TO THE EXHIBITS YOU PREPARED FOR STAFF'S RATE DESIGN?

A. Yes. Similar schedules discussed above for Staff are also included in exhibits TJB-RB2 and TJB-RB3, TJB-RB4, and TJB-RB5.

1. <u>Miscellaneous Charges</u>

Q. IS THERE ANY DISAGREEMENT BETWEEN THE COMPANY AND STAFF ON THE COMPANY'S PROPOSED METER AND SERVICE LINE INSTALLATION CHARGES?

A. No. The Company has adopted the Staff recommended meter and service line installation charges.

Q. IS THERE ANY DISAGREEMENT BETWEEN THE COMPANY AND STAFF ON THE COMPANY'S PROPOSED MISCELLANEOUS CHARGES?

A. No.

Q. DO YOU HAVE ANY RESPONSE TO STAFF'S RECOMMENDATIONS CONCERNING THE COMPANY PROPOSED HOOK-UP FEE?

A. No, the response to Staff's testimony can be found in the rebuttal testimony of Greg Sorensen.[61]

Q. DO YOU HAVE ANY RESPONSE TO STAFF'S AND/OR RECOMMENDATIONS CONCERNING THE COMPANY PROPOSED LOW INCOME TARIFF?

A. No, the Company will accept Staff's recommended changes and work with Staff to prepare a new form of the tariff before the final stages of testimony are filed.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

[61] Sorensen Rb. at 6 – 8.

Bella Vista Water Co., Inc.
Northern Sunrise Water Company Inc.
Southern Sunrise Water Company Inc.

W-02465A-09-0411, W-20453A-09-0412, W-20454A-09-0413,
W-02465A-09-0414, W-20453A-09-0414 and W-20454A-09-0414

Thomas J. Bourassa
Rebuttal Testimony
(Rate Base, Income Statement And Rate Design)
May 25, 2010

Exhibit
TB-RB1

2232477.1

KPMG LLP
4100 Yonge Street
Suite 200
North York ON
M2P 2H3

Telephone (416) 228-7000
Fax (416) 228-7123
www.kpmg.ca

To Luisa Reid - Algonquin Power Fund (America) Inc.
Peter Eichler – Liberty Water Canada

Date April 14, 2010

From Costa Levantian - KPMG LLP

Ref BVWC - 2008

Subject **Bella Vista Water Company - EIN:86-0457029**

This memo is issued to confirm that the Bella Vista Water Company's (BVWC) taxable income, assets and liabilities have been included in the consolidated return of Algonquin Power Fund (America) Inc. (APFA) and Subsidiaries (EIN: 98-0181512) for the past years in which BVWC was a subsidiary of APFA.

In addition, the total tax depreciation for the 2008 tax year was $778,798, of which $699,985 was accounted for in the Cost of Goods Sold and $78,813 as a general depreciation accounted for on page one of the 1120 federal return.

I hope that the above satisfies the inquiries you have had about BVWC.

Please do not hesitate to contact me if you need further information.

CPA

Costa Levantian, CPA, CMA, MBA – Tel: 416-228-7251

Senior Manager - KPMG LLP

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

Bella Vista Water Co., Inc.
Northern Sunrise Water Company Inc.
Southern Sunrise Water Company Inc.

W-02465A-09-0411, W-20453A-09-0412, W-20454A-09-0413,
W-02465A-09-0414, W-20453A-09-0414 and W-20454A-09-0414

Thomas J. Bourassa
Rebuttal Testimony
(Rate Base, Income Statement And Rate Design)
May 25, 2010

Exhibit
TB-RB2

2232477.1

Bella Vista Water Company (Consolidated)
Revenue Breakdown Summary
Present Rates

			Current Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
5/8x3/4 Inch	Residential	Bella Vista	$ 1,332,900	$ 117,412	$ 558,072	$ 138,609	$ 2,146,992
5/8x3/4 Inch	Residential	Northern Sunrise	$ 127,596	$ 10,155	$ 17,388	$ 31,907	$ 187,046
5/8x3/4 Inch	Residential	Southern Sunrise	$ 294,624	$ 27,442	$ 39,620	$ 64,802	$ 426,488
3/4 Inch	Residential	Bella Vista	$ 8,989	$ 595	$ 1,517	$ -	$ 11,100
3/4 Inch	Residential	Northern Sunrise	$ 558	$ 3	$ 355	$ 428	$ 1,344
1 Inch	Residential	Bella Vista	$ 2,698	$ 84	$ 1,030	$ 2,009	$ 5,821
2 Inch	Residential	Bella Vista	$ 507	$ 7	$ 57	$ 153	$ 725
			$ 1,767,872	$ 155,698	$ 618,039	$ 237,909	$ 2,779,517
Percent of Revenues			63.60%	5.60%	22.24%	8.56%	100.00%
Cummulative Percentage			63.60%	69.21%	91.44%	100.00%	
5/8 Inch	Commercial	Bella Vista	$ 68,580	$ 4,543	$ 23,125	$ 26,628	$ 122,876
3/4 Inch	Commercial	Bella Vista	$ 1,634	$ 113	$ 299	$ 1,369	$ 3,415
1 Inch	Commercial	Bella Vista	$ 46,871	$ 1,199	$ 15,423	$ 27,163	$ 90,656
1 Inch	Commercial	Southern Sunrise	$ 1,860	$ 57	$ 204	$ -	$ 2,121
1.5 Inch	Commercial	Bella Vista	$ 35,190	$ 482	$ 6,853	$ 75,854	$ 118,379
2 Inch	Commercial	Bella Vista	$ 138,381	$ 1,961	$ 15,281	$ 499,575	$ 655,198
2 Inch	Commercial	Southern Sunrise	$ 2,976	$ 7	$ -	$ 1,439	$ 4,422
3 Inch	Commercial	Bella Vista	$ 38,033	$ 30	$ 2,366	$ 93,373	$ 133,801
4 Inch	Commercial	Bella Vista	$ 6,228	$ (34)	$ (8,241)	$ 48,706	$ 46,658
6 Inch	Commercial	Bella Vista	$ 11,400	$ -	$ 105	$ 725	$ 12,229
8 Inch	Commercial	Bella Vista	$ 15,540	$ 11	$ 27	$ -	$ 15,578
			$ 366,693	$ 8,367	$ 55,442	$ 774,831	$ 1,205,333
Percent of Revenues			30.42%	0.69%	4.60%	64.28%	100.00%
Cummulative Percentage			30.42%	31.12%	35.72%	100.00%	
4 Inch	Fire Sprinkler	Bella Vista	$ 5,940	$ -	$ -		$ 5,940
6 Inch	Fire Sprinkler	Bella Vista	$ 2,394	$ -	$ -		$ 2,394
8 Inch	Fire Sprinkler	Bella Vista	$ 155	$ -	$ -		$ 155
			$ 8,489	$ -	$ -	$ -	$ 8,489
Percent of Revenues			100.00%	0.00%	0.00%	0.00%	100.00%
Cummulative Percentage			100.00%	100.00%	100.00%	100.00%	
3 Inch	Hydrant	Bella Vista	$ 20,479	$ 25	$ 9,178		$ 29,683
Grand Total			$ 2,163,533	$ 164,091	$ 682,659	$ 1,012,740	$ 4,023,022
Percent of Total Revenues			53.78%	4.08%	16.97%	25.17%	100.00%
Cummulative Percentage			53.78%	57.86%	74.83%	100.00%	

Bella Vista Water Company (Consolidated)
Revenue Breakdown Summary
Company Proposed Rates

			Current Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
5/8x3/4 Inch	Residential	Bella Vista	$ 1,510,620	$ 142,116	$ 479,714	$ 698,581	$ 2,831,031
5/8x3/4 Inch	Residential	Northern Sunrise	$ 69,972	$ 6,212	$ 19,550	$ 26,853	$ 122,587
5/8x3/4 Inch	Residential	Southern Sunrise	$ 161,568	$ 16,767	$ 46,039	$ 54,129	$ 278,502
3/4 Inch	Residential	Bella Vista	$ 10,098	$ 763	$ 2,315	$ 581	$ 13,757
3/4 Inch	Residential	Northern Sunrise	$ 306	$ 3	$ 55	$ 584	$ 947
1 Inch	Residential	Bella Vista	$ 3,672	$ 583	$ 3,872		$ 8,126
2 Inch	Residential	Bella Vista	$ 1,142	$ 274	$ -		$ 1,416
			$ 1,757,378	$ 166,716	$ 551,545	$ 780,727	$ 3,256,367
Percent of Revenues			53.97%	5.12%	16.94%	23.98%	100.00%
Cummulative Percentage			53.97%	59.09%	76.02%	100.00%	
5/8 Inch	Commercial	Bella Vista	$ 77,724	$ 7,442	$ 81,889		$ 167,055
3/4 Inch	Commercial	Bella Vista	$ 1,836	$ 160	$ 2,490		$ 4,486
1 Inch	Commercial	Bella Vista	$ 63,801	$ 7,462	$ 54,803		$ 126,066
1 Inch	Commercial	Southern Sunrise	$ 918	$ 254	$ -		$ 1,172
1.5 Inch	Commercial	Bella Vista	$ 78,030	$ 8,920	$ 112,218		$ 199,169
2 Inch	Commercial	Bella Vista	$ 310,733	$ 68,484	$ 671,311		$ 1,050,528
2 Inch	Commercial	Southern Sunrise	$ 1,142	$ 487	$ 508		$ 2,137
3 Inch	Commercial	Bella Vista	$ 59,405	$ 9,322	$ 125,246		$ 193,973
4 Inch	Commercial	Bella Vista	$ 11,475	$ (1,592)	$ 61,963		$ 71,845
6 Inch	Commercial	Bella Vista	$ 10,200	$ 997	$ -		$ 11,197
8 Inch	Commercial	Bella Vista	$ 16,320	$ 65	$ -		$ 16,385
			$ 631,584	$ 101,999	$ 1,110,428	$ -	$ 1,844,011
Percent of Revenues			34.25%	5.53%	60.22%	0.00%	100.00%
Cummulative Percentage			34.25%	39.78%	100.00%	100.00%	
4 Inch	Fire Sprinkler	Bella Vista	$ 17,820	$ 1	$ -		$ 17,821
6 Inch	Fire Sprinkler	Bella Vista	$ 4,284	$ -	$ -		$ 4,284
8 Inch	Fire Sprinkler	Bella Vista	$ 326	$ -	$ -		$ 326
			$ 22,430	$ 1	$ -	$ -	$ 22,431
Percent of Revenues			100.00%	0.00%	0.00%	0.00%	100.00%
Cummulative Percentage			100.00%	100.00%	100.00%	100.00%	
3 Inch	Hydrant	Bella Vista	$ 31,987	$ (735)	$ 15,917		$ 47,169
Grand Total			$ 2,443,380	$ 267,981	$ 1,677,889	$ 780,727	$ 5,169,978
Percent of Total Revenues			47.26%	5.18%	32.45%	15.10%	100.00%
Cummulative Percentage			47.26%	52.44%	84.90%	100.00%	

Bella Vista Water Company (Consolidated) - Staff Rates
Revenue Breakdown Summary
Staff Proposed Rates

			Current Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
5/8x3/4 Inch	Residential	Bella Vista	$ 888,600	$ 77,642	$ 320,891	$ 629,619	$ 1,916,752
5/8x3/4 Inch	Residential	Northern Sunrise	$ 41,160	$ 3,394	$ 13,054	$ 23,852	$ 81,460
5/8x3/4 Inch	Residential	Southern Sunrise	$ 95,040	$ 9,160	$ 30,679	$ 48,819	$ 183,699
3/4 Inch	Residential	Bella Vista	$ 5,940	$ 417	$ 1,541	$ 465	$ 8,363
3/4 Inch	Residential	Northern Sunrise	$ 180	$ 2	$ 39	$ 565	$ 786
1 Inch	Residential	Bella Vista	$ 2,400	$ 547	$ 4,060		$ 7,007
2 Inch	Residential	Bella Vista	$ 960	$ 257	$ -		$ 1,217
			$ 1,034,280	$ 91,419	$ 370,264	$ 703,320	$ 2,199,283
Percent of Revenues			47.03%	4.16%	16.84%	31.98%	100.00%
Cummulative Percentage			47.03%	51.18%	68.02%	100.00%	
5/8 Inch	Commercial	Bella Vista	$ 45,720	$ 6,554	$ 77,401		$ 129,674
3/4 Inch	Commercial	Bella Vista	$ 1,080	$ 158	$ 2,470		$ 3,708
1 Inch	Commercial	Bella Vista	$ 41,700	$ 7,005	$ 57,387		$ 106,092
1 Inch	Commercial	Southern Sunrise	$ 600	$ 238	$ -		$ 838
1.5 Inch	Commercial	Bella Vista	$ 51,000	$ 8,542	$ 115,179		$ 174,722
2 Inch	Commercial	Bella Vista	$ 261,120	$ 64,293	$ 709,106		$ 1,034,518
2 Inch	Commercial	Southern Sunrise	$ 960	$ 457	$ 537		$ 1,954
3 Inch	Commercial	Bella Vista	$ 49,920	$ 9,101	$ 123,152		$ 182,173
4 Inch	Commercial	Bella Vista	$ 9,000	$ (2,103)	$ 66,037		$ 72,934
6 Inch	Commercial	Bella Vista	$ 6,000	$ 936	$ -		$ 6,936
8 Inch	Commercial	Bella Vista	$ 9,600	$ 61	$ -		$ 9,661
			$ 476,700	$ 95,242	$ 1,151,269	$ -	$ 1,723,211
Percent of Revenues			27.66%	5.53%	66.81%	0.00%	100.00%
Cummulative Percentage			27.66%	33.19%	100.00%	100.00%	
4 Inch	Fire Sprinkler	Bella Vista	$ 11,880	$ 1	$ -		$ 11,881
6 Inch	Fire Sprinkler	Bella Vista	$ 2,520	$ -	$ -		$ 2,520
8 Inch	Fire Sprinkler	Bella Vista	$ 192	$ -	$ -		$ 192
			$ 14,592	$ 1	$ -	$ -	$ 14,593
Percent of Revenues			100.00%	0.00%	0.00%	0.00%	100.00%
Cummulative Percentage			100.00%	100.00%	100.00%	100.00%	
3 Inch	Hydrant	Bella Vista	$ 26,880	$ (787)	$ 17,047		$ 43,140
Grand Total			$ 1,552,452	$ 185,874	$ 1,538,581	$ 703,320	$ 3,980,227
Percent of Total Revenues			39.00%	4.67%	38.66%	17.67%	100.00%
Cummulative Percentage			39.00%	43.67%	82.33%	100.00%	

Bella Vista Water Company (Consolidated) - RUCO Rates
Revenue Breakdown Summary
RUCO Proposed Rates

			Current Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
5/8x3/4 Inch	Residential	Bella Vista	$ 1,374,664	$ 132,450	$ 473,702	$ 746,947	$ 2,727,763
5/8x3/4 Inch	Residential	Northern Sunrise	$ 63,675	$ 5,790	$ 19,294	$ 28,602	$ 117,360
5/8x3/4 Inch	Residential	Southern Sunrise	$ 147,027	$ 15,626	$ 45,409	$ 57,887	$ 265,949
3/4 Inch	Residential	Bella Vista	$ 11,029	$ 711	$ 2,283	$ 603	$ 14,625
3/4 Inch	Residential	Northern Sunrise	$ 334	$ 3	$ 55	$ 636	$ 1,028
1 Inch	Residential	Bella Vista	$ 3,528	$ 417	$ 3,051		$ 6,996
2 Inch	Residential	Bella Vista	$ 1,337	$ 196	$ -		$ 1,533
			$ 1,601,593	$ 155,192	$ 543,794	$ 834,675	$ 3,135,254
Percent of Revenues			51.08%	4.95%	17.34%	26.62%	100.00%
Cummulative Percentage			51.08%	56.03%	73.38%	100.00%	
5/8 Inch	Commercial	Bella Vista	$ 70,729	$ 5,325	$ 65,007		$ 141,061
3/4 Inch	Commercial	Bella Vista	$ 2,005	$ 114	$ 1,994		$ 4,114
1 Inch	Commercial	Bella Vista	$ 61,299	$ 5,339	$ 43,136		$ 109,775
1 Inch	Commercial	Southern Sunrise	$ 882	$ 181	$ -		$ 1,063
1.5 Inch	Commercial	Bella Vista	$ 63,128	$ 6,383	$ 88,591		$ 158,103
2 Inch	Commercial	Bella Vista	$ 363,610	$ 49,007	$ 532,448		$ 945,064
2 Inch	Commercial	Southern Sunrise	$ 1,337	$ 348	$ 403		$ 2,088
3 Inch	Commercial	Bella Vista	$ 38,619	$ 6,671	$ 98,730		$ 144,020
4 Inch	Commercial	Bella Vista	$ 5,570	$ (3,579)	$ 49,000		$ 50,991
6 Inch	Commercial	Bella Vista	$ 10,212	$ 713	$ -		$ 10,926
8 Inch	Commercial	Bella Vista	$ 16,339	$ 47	$ -		$ 16,386
			$ 633,730	$ 70,551	$ 879,309	$ -	$ 1,583,591
Percent of Revenues			40.02%	4.46%	55.53%	0.00%	100.00%
Cummulative Percentage			40.02%	44.47%	100.00%	100.00%	
4 Inch	Fire Sprinkler	Bella Vista	$ 17,820	$ 0	$ -		$ 17,820
6 Inch	Fire Sprinkler	Bella Vista	$ 4,289	$ -	$ -		$ 4,289
8 Inch	Fire Sprinkler	Bella Vista	$ 327	$ -	$ -		$ 327
			$ 22,436	$ 0	$ -	$ -	$ 22,436
Percent of Revenues			100.00%	0.00%	0.00%	0.00%	100.00%
Cummulative Percentage			100.00%	100.00%	100.00%	100.00%	
3 Inch	Hydrant	Bella Vista	$ 20,795	$ (825)	$ 17,872		$ 37,841
Reconciling Amount			$ 1,377				$ 1,377
Grand Total			$ 2,279,932	$ 224,919	$ 1,440,975	$ 834,675	$ 4,780,500
Percent of Total Revenues			47.69%	4.70%	30.14%	17.46%	100.00%
Cummulative Percentage			47.69%	52.40%	82.54%	100.00%	

Bella Vista Water Co., Inc.
Northern Sunrise Water Company Inc.
Southern Sunrise Water Company Inc.

W-02465A-09-0411, W-20453A-09-0412, W-20454A-09-0413,
W-02465A-09-0414, W-20453A-09-0414 and W-20454A-09-0414

Thomas J. Bourassa
Rebuttal Testimony
(Rate Base, Income Statement And Rate Design)
May 25, 2010

Exhibit
TB-RB3

2232477.1

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Page 1

Line No.	Meter Size	Class	Division	Present Revenues	Company Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8x3/4 Inch	Residential	Bella Vista	$ 2,146,992	$ 2,831,031	$ 684,039	31.86%	53.38%	54.76%
	5/8x3/4 Inch	Residential	Northern Sunrise	187,046	122,587	(64,459)	-34.46%	4.65%	2.37%
	5/8x3/4 Inch	Residential	Southern Sunrise	426,488	278,502	(147,986)	-34.70%	10.60%	5.39%
2	3/4 Inch	Residential	Bella Vista	11,100	13,757	2,656	23.93%	0.28%	0.27%
	3/4 Inch	Residential	Northern Sunrise	1,344	947	(397)	-29.54%	0.03%	0.02%
3	1 Inch	Residential	Bella Vista	5,821	8,126	2,305	39.60%	0.14%	0.16%
4	2 Inch	Residential	Bella Vista	725	1,416	692	95.45%	0.02%	0.03%
5									
6		Subtotal		2,779,517	3,256,367	476,850	17.16%	69.11%	62.99%
7									
8	5/8 Inch	Commercial	Bella Vista	$ 122,876	$ 167,055	$ 44,179	35.95%	3.06%	3.23%
9	3/4 Inch	Commercial	Bella Vista	3,415	4,486	1,070	31.33%	0.08%	0.09%
10	1 Inch	Commercial	Bella Vista	90,656	126,066	35,410	39.06%	2.25%	2.44%
	1 Inch	Commercial	Southern Sunrise	2,121	1,172	(949)	-44.76%	0.05%	0.02%
11	1.5 Inch	Commercial	Bella Vista	118,379	199,169	80,790	68.25%	2.94%	3.85%
12	2 Inch	Commercial	Bella Vista	654,069	1,050,528	396,458	60.61%	16.26%	20.32%
	2 Inch	Commercial	Southern Sunrise	4,422	2,137	(2,285)	-51.67%	0.11%	0.04%
13	3 Inch	Commercial	Bella Vista	133,801	193,973	60,172	44.97%	3.33%	3.75%
14	4 Inch	Commercial	Bella Vista	46,658	71,845	25,187	53.98%	1.16%	1.39%
15	6 Inch	Commercial	Bella Vista	12,229	11,197	(1,032)	-8.44%	0.30%	0.22%
16	8 Inch	Commercial	Bella Vista	15,578	16,385	807	5.18%	0.39%	0.32%
17									
18		Subtotal		$ 1,204,205	$ 1,844,011	$ 639,806	53.13%	29.94%	35.67%
19									
20									
21	3 Inch	Hydrant	Bella Vista	$ 29,683	$ 47,169	17,487	58.91%	0.74%	0.91%
22									
23	4 Inch	Fire Sprinkler	Bella Vista	$ 5,940	$ 17,820	$ 11,880	200.00%	0.15%	0.34%
24	6 Inch	Fire Sprinkler	Bella Vista	2,394	4,284	1,890	78.95%	0.06%	0.08%
25	8 Inch	Fire Sprinkler	Bella Vista	155	326	171	110.04%	0.00%	0.01%
26									
27		Subtotal		$ 8,489	$ 22,430	$ 13,941	164.22%	0.21%	0.43%
28									
29									
30									
31	Total Revenues			$ 4,021,894	$ 5,169,977	$ 1,148,084	28.55%	100.00%	100.00%
32									
33	Misc. Revenues			$ 139,114	$ 139,114	-	0.00%	3.46%	2.69%
34	Reconciling Amount to GL			1,128	(990)	(2,118)	-187.77%	0.03%	-0.02%
35	Total Water Revenues			$ 4,162,136	$ 5,308,101	$ 1,145,966	27.53%	103.49%	102.67%
36									

Bella Vista Water Company (Consolidated) - Staff Rates
Test Year Ended March 31, 2009
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Page 2

Line No.	Meter Size	Class	Division	Present Revenues	Staff Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8x3/4 Inch	Residential	Bella Vista	$ 2,146,992	$ 1,916,752	$ (230,240)	-10.72%	53.38%	48.16%
	5/8x3/4 Inch	Residential	Northern Sunrise	187,046	81,460	(105,586)	-56.45%	4.65%	2.05%
	5/8x3/4 Inch	Residential	Southern Sunrise	426,488	183,699	(242,790)	-56.93%	10.60%	4.62%
2	3/4 Inch	Residential	Bella Vista	11,100	8,363	(2,738)	-24.66%	0.28%	0.21%
	3/4 Inch	Residential	Northern Sunrise	1,344	786	(558)	-41.54%	0.03%	0.02%
3	1 Inch	Residential	Bella Vista	5,821	7,007	1,186	20.38%	0.14%	0.18%
4	2 Inch	Residential	Bella Vista	725	1,217	492	67.96%	0.02%	0.03%
5									
6		Subtotal		2,779,517	2,199,283	(580,234)	-20.88%	69.11%	55.26%
7									
8	5/8 Inch	Commercial	Bella Vista	$ 122,876	$ 129,674	$ 6,799	5.53%	3.06%	3.26%
9	3/4 Inch	Commercial	Bella Vista	3,415	3,708	292	8.56%	0.08%	0.09%
10	1 Inch	Commercial	Bella Vista	90,656	106,092	15,437	17.03%	2.25%	2.67%
	1 Inch	Commercial	Southern Sunrise	2,121	838	(1,283)	-60.49%	0.05%	0.02%
11	1.5 Inch	Commercial	Bella Vista	118,379	174,722	56,343	47.60%	2.94%	4.39%
12	2 Inch	Commercial	Bella Vista	654,069	1,034,518	380,449	58.17%	16.26%	25.99%
	2 Inch	Commercial	Southern Sunrise	4,422	1,954	(2,468)	-55.81%	0.11%	0.05%
13	3 Inch	Commercial	Bella Vista	133,801	182,173	48,372	36.15%	3.33%	4.58%
14	4 Inch	Commercial	Bella Vista	46,658	72,934	26,276	56.31%	1.16%	1.83%
15	6 Inch	Commercial	Bella Vista	12,229	6,936	(5,293)	-43.28%	0.30%	0.17%
16	8 Inch	Commercial	Bella Vista	15,578	9,661	(5,917)	-37.98%	0.39%	0.24%
17									
18		Subtotal		$ 1,204,205	$ 1,723,211	$ 519,006	43.10%	29.94%	43.29%
19									
20									
21	3 Inch	Hydrant	Bella Vista	$ 29,683	$ 43,140	13,457	45.34%	0.74%	1.08%
22									
23	4 Inch	Fire Sprinkler	Bella Vista	$ 5,940	$ 11,880	$ 5,940	100.00%	0.15%	0.30%
24	6 Inch	Fire Sprinkler	Bella Vista	2,394	2,520	126	5.26%	0.06%	0.06%
25	8 Inch	Fire Sprinkler	Bella Vista	155	192	37	23.55%	0.00%	0.00%
26									
27		Subtotal		$ 8,489	$ 14,592	$ 6,103	71.88%	0.21%	0.37%
28									
29									
30									
31	Total Revenues			$ 4,021,894	$ 3,980,226	$ (41,668)	-1.04%	100.00%	100.00%
32									
33	Misc. Revenues			$ 139,114	$ 139,114	-	0.00%	3.46%	3.50%
34	Reconciling Amount to GL			1,128	35,115	33,987	3013.03%	0.03%	0.88%
35	Total Water Revenues			$ 4,162,136	$ 4,154,455	$ (7,681)	-0.18%	103.49%	104.38%
36									

Bella Vista Water Company (Consolidated) - RUCO Rates
Test Year Ended March 31, 2009
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Line No.	Meter Size	Class	Division	Present Revenues	RUCO Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8x3/4 Inch	Residential	Bella Vista	$ 2,146,992	$ 2,727,763	$ 580,771	27.05%	53.38%	57.08%
	5/8x3/4 Inch	Residential	Northern Sunrise	187,046	117,360	(69,686)	-37.26%	4.65%	2.46%
	5/8x3/4 Inch	Residential	Southern Sunrise	426,488	265,949	(160,539)	-37.64%	10.60%	5.56%
2	3/4 Inch	Residential	Bella Vista	11,100	14,625	3,524	31.75%	0.28%	0.31%
	3/4 Inch	Residential	Northern Sunrise	1,344	1,028	(316)	-23.50%	0.03%	0.02%
3	1 Inch	Residential	Bella Vista	5,821	6,996	1,175	20.19%	0.14%	0.15%
4	2 Inch	Residential	Bella Vista	725	1,533	808	111.53%	0.02%	0.03%
5									
6		Subtotal		2,779,517	3,135,254	355,737	12.80%	69.11%	65.60%
7									
8	5/8 Inch	Commercial	Bella Vista	$ 122,876	$ 141,061	$ 18,186	14.80%	3.06%	2.95%
9	3/4 Inch	Commercial	Bella Vista	3,415	4,114	698	20.44%	0.08%	0.09%
10	1 Inch	Commercial	Bella Vista	90,656	109,775	19,119	21.09%	2.25%	2.30%
	1 Inch	Commercial	Southern Sunrise	2,121	1,063	(1,057)	-49.86%	0.05%	0.02%
11	1.5 Inch	Commercial	Bella Vista	118,379	158,103	39,724	33.56%	2.94%	3.31%
12	2 Inch	Commercial	Bella Vista	654,069	945,064	290,995	44.49%	16.26%	19.77%
	2 Inch	Commercial	Southern Sunrise	4,422	2,088	(2,334)	-52.77%	0.11%	0.04%
13	3 Inch	Commercial	Bella Vista	133,801	144,020	10,219	7.64%	3.33%	3.01%
14	4 Inch	Commercial	Bella Vista	46,658	50,991	4,333	9.29%	1.16%	1.07%
15	6 Inch	Commercial	Bella Vista	12,229	10,926	(1,304)	-10.66%	0.30%	0.23%
16	8 Inch	Commercial	Bella Vista	15,578	16,386	808	5.19%	0.39%	0.34%
17									
18		Subtotal		$ 1,204,205	$ 1,583,591	$ 379,386	31.51%	29.94%	33.14%
19									
20									
21	3 Inch	Hydrant	Bella Vista	$ 29,683	$ 37,841	8,159	27.49%	0.74%	0.79%
22									
23	4 Inch	Fire Sprinkler	Bella Vista	$ 5,940	$ 17,820	$ 11,880	200.00%	0.15%	0.37%
24	6 Inch	Fire Sprinkler	Bella Vista	2,394	4,289	1,895	79.16%	0.06%	0.09%
25	8 Inch	Fire Sprinkler	Bella Vista	155	327	171	110.29%	0.00%	0.01%
26									
27		Subtotal		$ 8,489	$ 22,436	$ 13,946	164.28%	0.21%	0.47%
28									
29									
30									
31	Total Revenues			$ 4,021,894	$ 4,779,123	$ 757,229	18.83%	100.00%	100.00%
32									
33	Misc. Revenues			$ 139,114	$ 139,114	-	0.00%	3.46%	2.91%
34	Reconciling Amount to GL			1,128	1,377	249	22.07%	0.03%	0.03%
35	Total Water Revenues			$ 4,162,136	$ 4,919,614	$ 757,478	18.20%	103.49%	102.94%
36									

Bella Vista Water Co., Inc.
Northern Sunrise Water Company Inc.
Southern Sunrise Water Company Inc.

W-02465A-09-0411, W-20453A-09-0412, W-20454A-09-0413,
W-02465A-09-0414, W-20453A-09-0414 and W-20454A-09-0414

Thomas J. Bourassa
Rebuttal Testimony
(Rate Base, Income Statement And Rate Design)
May 25, 2010

Exhibit
TB-RB4

2232477.1

Bella Vista Water Company (Consolidated) - Staff Rates
Test Year Ended March 31, 2009
Customer Summary

Line No.	Meter Size, Class		Division	(a) Average Number of Customers at 3/31/2009	Average Consumption	Average Bill Present Rates	Average Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	5/8x3/4 Inch	Residential	Bella Vista	7,377	6,612	$ 22.90	$ 19.22	$ (3.67)	-16.04%
2	5/8x3/4 Inch	Residential	Northern Sunrise	348	5,755	43.08	17.51	(25.57)	-59.35%
3	5/8x3/4 Inch	Residential	Southern Sunrise	786	5,581	42.60	17.16	(25.44)	-59.71%
4	3/4 Inch	Residential	Bella Vista	33	4,539	27.10	20.08	(7.02)	-25.92%
5	3/4 Inch	Residential	Northern Sunrise	1	20,334	110.55	63.99	(46.57)	-42.12%
6	1 Inch	Residential	Bella Vista	8	18,005	57.53	70.55	13.02	22.64%
7	2 Inch	Residential	Bella Vista	1	10,709	57.89	101.42	43.53	75.19%
8		Subtotal		8,554					
9									
10	5/8 Inch	Commercial	Bella Vista	386	7,365	$ 24.32	$ 24.73	$ 0.41	1.69%
11	3/4 Inch	Commercial	Bella Vista	6	13,542	43.69	46.31	2.61	5.98%
12	1 Inch	Commercial	Bella Vista	138	14,485	50.88	59.32	8.44	16.59%
13	1 Inch	Commercial	Southern Sunrise	2	4,448	86.40	33.90	(52.50)	-60.77%
14	1.5 Inch	Commercial	Bella Vista	83	45,156	115.24	159.57	44.32	38.46%
15	2 Inch	Commercial	Bella Vista	271	85,760	199.74	294.15	94.41	47.27%
16	2 Inch	Commercial	Southern Sunrise	1	34,624	367.78	149.25	(218.54)	-59.42%
17	3 Inch	Commercial	Bella Vista	26	164,752	428.68	548.81	120.13	28.02%
18	4 Inch	Commercial	Bella Vista	4	588,148	1,280.00	1,903.27	623.27	48.69%
19	6 Inch	Commercial	Bella Vista	1	39,001	1,019.11	578.00	(441.11)	-43.28%
20	8 Inch	Commercial	Bella Vista	1	2,542	1,297.47	805.08	(492.38)	-37.95%
21		Subtotal		918					
22									
23	3 Inch	Hydrant	Bella Vista	15	30,148	$ 174.28	$ 256.23	$ 81.95	47.02%
24									
25	4 Inch	Fire Sprinkler	Bella Vista	101	-	$ 5.00	$ 10.00	$ 5.00	100.00%
26	6 Inch	Fire Sprinkler	Bella Vista	21	-	9.50	10.00	0.50	5.26%
27	8 Inch	Fire Sprinkler	Bella Vista	1	-	12.95	16.00	3.05	23.55%
28		Subtotal		123					
29									
30									
31									
32		Total		9,610					
33									

34 **(a)** Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.
35

Bella Vista Water Company (Consolidated) - RUCO Rates
Test Year Ended March 31, 2009
Customer Summary

Line No.	Meter Size, Class		Division	(a) Average Number of Customers at 3/31/2009	Average Consumption	Average Bill Present Rates	Average Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	5/8x3/4 Inch	Residential	Bella Vista	7,377	6,612	$ 22.90	$ 29.00	$ 6.11	26.68%
2	5/8x3/4 Inch	Residential	Northern Sunrise	348	5,755	43.08	26.80	(16.27)	-37.78%
3	5/8x3/4 Inch	Residential	Southern Sunrise	786	5,581	42.60	26.36	(16.24)	-38.13%
4	3/4 Inch	Residential	Bella Vista	33	4,539	27.10	36.06	8.96	33.04%
5	3/4 Inch	Residential	Northern Sunrise	1	20,334	110.55	84.67	(25.88)	-23.41%
6	1 Inch	Residential	Bella Vista	8	18,005	57.53	71.11	13.58	23.61%
7	2 Inch	Residential	Bella Vista	1	10,709	57.89	127.73	69.84	120.64%
8		Subtotal		8,554					
9									
10	5/8 Inch	Commercial	Bella Vista	386	7,365	$ 24.32	$ 29.60	$ 5.28	21.73%
11	3/4 Inch	Commercial	Bella Vista	6	13,542	43.69	56.74	13.04	29.84%
12	1 Inch	Commercial	Bella Vista	138	14,485	50.88	62.71	11.83	23.25%
13	1 Inch	Commercial	Southern Sunrise	2	4,448	86.40	43.53	(42.86)	-49.61%
14	1.5 Inch	Commercial	Bella Vista	83	45,156	115.24	148.13	32.89	28.54%
15	2 Inch	Commercial	Bella Vista	271	85,760	199.74	273.02	73.28	36.69%
16	2 Inch	Commercial	Southern Sunrise	1	34,624	367.78	164.18	(203.60)	-55.36%
17	3 Inch	Commercial	Bella Vista	26	164,752	428.68	448.13	19.45	4.54%
18	4 Inch	Commercial	Bella Vista	4	588,148	1,280.00	1,257.00	(23.00)	-1.80%
19	6 Inch	Commercial	Bella Vista	1	39,001	1,019.11	910.47	(108.64)	-10.66%
20	8 Inch	Commercial	Bella Vista	1	2,542	1,297.47	1,365.50	68.03	5.24%
21		Subtotal		918					
22									
23	3 Inch	Hydrant	Bella Vista	15	30,148	$ 174.28	$ 224.67	$ 50.39	28.91%
24									
25	4 Inch	Fire Sprinkler	Bella Vista	101	-	$ 5.00	$ 15.00	$ 10.00	200.00%
26	6 Inch	Fire Sprinkler	Bella Vista	21	-	9.50	17.02	7.52	79.16%
27	8 Inch	Fire Sprinkler	Bella Vista	1	-	12.95	27.23	14.28	110.29%
28		Subtotal		123					
29									
30									
31									
32		Total		9,610					
33									

34 **(a)** Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.
35

Bella Vista Water Co., Inc.
Northern Sunrise Water Company Inc.
Southern Sunrise Water Company Inc.

W-02465A-09-0411, W-20453A-09-0412, W-20454A-09-0413,
W-02465A-09-0414, W-20453A-09-0414 and W-20454A-09-0414

Thomas J. Bourassa
Rebuttal Testimony
(Rate Base, Income Statement And Rate Design)
May 25, 2010

Exhibit
TB-RB5

2232477.1

Bella Vista Water Company (Consolidated) - Staff
Test Year Ended March 31, 2009
Cost of Service Study, Using Commodity Demand Method
Summary by Customer Class - Present and Staff Proposed Rates

Line No.	Class	Meter Size	Rate Base	Present Rates Operating Income	Present Rates Rate of Return	Proposed Rates Operating Income	Proposed Rates Rate of Return
5	Residential	5/8 Inch	$ 2,649,552	$ 255,588	9.65%	$ (67,132)	-2.53%
6		3/4 Inch	19,662	1,220	6.20%	(649)	-3.30%
7		1 Inch	9,407	902	9.59%	1,616	17.18%
8		2 Inch	4,235	(165)	-3.90%	126	2.99%
10	Residential		$ 2,682,856	$ 257,545	9.60%	$ (66,039)	-2.46%
12	Commercial	5/8 Inch	$ 119,975	$ 9,154	7.63%	$ 13,937	11.62%
13		3/4 Inch	3,737	617	16.52%	802	21.45%
14		1 Inch	163,094	13,324	8.17%	21,936	13.45%
15		1.5 Inch	225,531	16,722	7.41%	50,030	22.18%
16		2 Inch	1,228,889	102,306	8.33%	325,142	26.46%
17		3 Inch	238,641	27,301	11.44%	55,798	23.38%
18		4 Inch	48,851	11,974	24.51%	27,432	56.15%
19		6 Inch	26,719	4,109	15.38%	997	3.73%
20		8 Inch	42,519	4,645	10.92%	1,166	2.74%
22	Commercial		$ 2,097,956	$ 190,153	9.06%	$ 497,239	23.70%
24	Hydrant	3 Inch	$ 120,807	$ 1,384	1.15%	$ 9,326	7.72%
26	Fire	4 Inch	$ 62,329	$ (12,725)	-20.42%	$ (9,027)	-14.48%
27		6 Inch	20,317	(2,858)	-14.06%	(2,740)	-13.49%
28		8 Inch	938	(119)	-12.71%	(96)	-10.20%
30	Fire		$ 83,585	$ (15,702)	-18.79%	$ (11,862)	-14.19%
34	Total		$ 4,985,204	$ 433,380	8.69%	$ 428,665	8.60%

Bella Vista Water Company (Consolidated) - RUCO
Test Year Ended March 31, 2009
Cost of Service Study, Using Commodity Demand Method
Summary by Customer Class - Present and RUCO Proposed Rates

Line No.	Class	Meter Size	Rate Base	Present Rates Operating Income	Present Rates Rate of Return	Proposed Rates Operating Income	Proposed Rates Rate of Return
1							
2							
3							
4							
5	Residential	5/8 Inch	$ 4,810,956	$ 62,722	1.30%	$ 282,141	5.86%
6		3/4 Inch	27,567	175	0.64%	2,126	7.71%
7		1 Inch	11,095	513	4.62%	1,232	11.11%
8		2 Inch	4,176	(314)	-7.52%	166	3.98%
9							
10	Residential		$ 4,853,794	$ 63,096	1.30%	$ 285,666	5.89%
11							
12	Commercial	5/8 Inch	$ 216,322	$ 464	0.21%	$ 11,757	5.44%
13		3/4 Inch	5,120	418	8.17%	846	16.52%
14		1 Inch	192,960	6,605	3.42%	17,679	9.16%
15		1.5 Inch	237,817	8,807	3.70%	32,782	13.78%
16		2 Inch	1,240,235	60,264	4.86%	233,605	18.84%
17		3 Inch	234,497	19,652	8.38%	26,259	11.20%
18		4 Inch	47,367	10,304	21.75%	13,062	27.58%
19		6 Inch	25,738	3,330	12.94%	2,612	10.15%
20		8 Inch	40,864	3,433	8.40%	3,977	9.73%
21							
22	Commercial		$ 2,240,921	$ 113,278	5.05%	$ 342,578	15.29%
23							
24	Hydrant	3 Inch	$ 116,252	$ (2,435)	-2.09%	$ 2,512	2.16%
25							
26	Fire	4 Inch	$ 60,374	$ (19,671)	-32.58%	$ (12,622)	-20.91%
27		6 Inch	14,095	(5,312)	-37.68%	(4,181)	-29.66%
28		8 Inch	725	(236)	-32.50%	(134)	-18.45%
29							
30	Fire		$ 75,195	$ (25,219)	-33.54%	$ (16,936)	-22.52%
31							
32							
33							
34	Total		$ 7,286,162	$ 148,720	2.04%	$ 613,820	8.42%
35							
36							

Bella Vista Water Co., Inc.
Northern Sunrise Water Company Inc.
Southern Sunrise Water Company Inc.

W-02465A-09-0411, W-20453A-09-0412, W-20454A-09-0413,
W-02465A-09-0414, W-20453A-09-0414 and W-20454A-09-0414

Thomas J. Bourassa
Rebuttal Testimony
(Rate Base, Income Statement And Rate Design)
May 25, 2010

Schedules

2232477.1

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Rebuttal Schedule A-1
Page 1
Witness: Bourassa

Line No.			
1	Fair Value Rate Base	$	7,857,799
2			
3	Adjusted Operating Income		70,358
4			
5	Current Rate of Return		0.90%
6			
7	Required Operating Income	$	773,993
8			
9	Required Rate of Return on Fair Value Rate Base		9.85%
10			
11	Operating Income Deficiency	$	703,636
12			
13	Gross Revenue Conversion Factor		1.6286
14			
15	Increase in Gross Revenue Revenue Requirement		1,145,966
16			
17	Adjusted Test Year Revenues	$	4,162,136
18	Increase in Gross Revenue Revenue Requirement	$	1,145,966
19	Proposed Revenue Requirement	$	5,308,101
20	% Increase		27.53%

21						
22	**Customer**		**Present**	**Proposed**	**Dollar**	**Percent**
23	**Classification**		**Rates**	**Rates**	**Increase**	**Increase**
24	5/8 Inch	Residential	$ 2,752,231	$ 3,221,316	$ 469,086	17.04%
25	3/4 Inch	Residential	12,526	14,806	2,280	18.20%
26	1 Inch	Residential	5,821	8,126	2,305	39.60%
27	2 Inch	Residential	725	1,416	692	95.45%
28		**Subtotal**	$ 2,771,302	$ 3,245,665	$ 474,363	17.12%
29						
30	5/8 Inch	Commercial	$ 124,380	$ 169,245	$ 44,865	36.07%
31	3/4 Inch	Commercial	3,382	4,440	1,058	31.27%
32	1 Inch	Commercial	91,585	125,931	34,346	37.50%
33	1.5 Inch	Commercial	115,753	194,886	79,132	68.36%
34	2 Inch	Commercial	656,390	1,049,435	393,045	59.88%
35	3 Inch	Commercial	131,628	190,880	59,252	45.02%
36	4 Inch	Commercial	56,353	86,377	30,024	53.28%
37	6 Inch	Commercial	12,229	11,197	(1,032)	-8.44%
38	8 Inch	Commercial	15,578	16,385	807	5.18%
39		**Subtotal**	$ 1,207,278	$ 1,848,776	$ 641,497	53.14%
40						
41	3 Inch	Hydrant	$ 31,719	$ 50,445	$ 18,726	59.04%
42						
43	4 Inch	Fire Sprinkler	$ 6,050	$ 18,150	12,100	200.00%
44	6 Inch	Fire Sprinkler	2,394	4,284	1,890	
45	8 Inch	Fire Sprinkler	155	326	171	110.04%
46		**Subtotal**	$ 8,599	$ 22,760	$ 14,161	164.67%
47						
48	**Subtotal Revenues before Annualization**		$ 4,018,899	$ 5,167,647	$ 1,148,748	28.58%
49	**Revenue Annualization**		2,995	2,331	(664)	-22.17%
50	Miscellaneous Revenues		139,114	139,114	-	0.00%
51	Reconciling Amount H-1 to C-1		1,128	(990)	(2,118)	-187.77%
52	***Total of Water Revenues (a)***		$ 4,162,136	$ 5,308,101	$ 1,145,966	27.53%
53						

54 SUPPORTING SCHEDULES:
55 Rebuttal B-1
56 Rebuttal C-1
57 Rebuttal C-3
58 Rebuttal H-1

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Summary of Rate Base

Exhibit
Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 26,610,749	$ 26,610,749
3	Less: Accumulated Depreciation	10,528,021	10,528,021
4			
5	Net Utility Plant in Service	$ 16,082,728	$ 16,082,728
6			
7	Less:		
8	Advances in Aid of		
9	Construction	6,781,443	6,781,443
10	Contributions in Aid of		
11	Construction	542,445	542,445
12			
13	Accumulated Amortization of CIAC	(230,570)	(230,570)
14			
15	Customer Meter Deposits	559,605	559,605
16	Deferred Income Taxes & Credits	572,006	572,006
17			
18			
19			
20	Plus:		
21	Unamortized Debt Issuance		
22	Costs	-	-
23	Deferred Reg. Assets	-	-
24	Working capital	-	-
25			
26			
27			
28			
29	Total Rate Base	$ 7,857,799	$ 7,857,799
30			
31			
32			
33	SUPPORTING SCHEDULES:		RECAP SCHEDULES:
34	Rebuttal B-2		Rebuttal A-1
35	Rebuttal B-3		
36	Rebuttal B-5		
37			
38			

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 1
Witness: Bourassa

Line No.		Adjusted at end of Test Year	Proforma Adjustment Amount	Rebuttal at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 28,165,702	(1,554,953)	$ 26,610,749
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	12,057,912	(1,529,891)	10,528,021
7				
8				
9	Net Utility Plant			
10	in Service	$ 16,107,790	$ (25,061)	$ 16,082,728
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	6,781,443	-	6,781,443
15				
16	Contributions in Aid of			
17	Construction	542,445	-	542,445
18				
19	Accumulated Amort of CIAC	(230,987)	417	(230,570)
20				
21	Customer Meter Deposits	559,605	-	559,605
22	Deferred Income Taxes & Credits	(173,329)	745,335	572,006
23				
24				
25				
26	**Plus:**			
27	Unamortized Debt Issuance			
28	Costs	-		-
29	Deferred Reg. Assets	-	-	-
30	Working capital	-	-	-
31				
32				
33				
34				
35	Total	$ 8,628,613	$ (770,814)	$ 7,857,799
36				
37				
38				
39	SUPPORTING SCHEDULES:			RECAP SCHEDULES:
40	Rebuttal B-2, pages 2			Rebuttal B-1
41				
42				
43				
44				
45				
46				
47				
48				

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 2
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Proforma Adjustments 1 Plant	2 Accumulated Depr.	3 CIAC	4 DIT	Rebuttal Adjusted at end of Test Year
1	Gross Utility						
2	Plant in Service	$ 28,165,702	(1,554,953)	-	-	-	$ 26,610,749
3							
4	**Less:**						
5	Accumulated						
6	Depreciation	12,057,912	-	(1,529,891)	-	-	10,528,021
7							
8							
9	Net Utility Plant						
10	in Service	$ 16,107,790	$ (1,554,953)	$ 1,529,891	$ -	$ -	$ 16,082,728
11							
12	**Less:**						
13	Advances in Aid of						
14	Construction	6,781,443	-	-	-	-	6,781,443
15							
16	Contributions in Aid of						
17	Construction (CIAC)	542,445	-	-	-	-	542,445
18							
19	Accumulated Amort of CIAC	(230,987)	-	-	417	-	(230,570)
20							
21	Customer Meter Deposits	559,605	-	-	-	-	559,605
22	Deferred Income Taxes & Credits	(173,329)	-	-	-	745,335	572,006
23							
24							
25	**Plus:**						
26	Unamortized Finance						
27	Charges	-	-	-	-	-	-
28							
29	Allowance for Working Capital	-	-	-	-	-	-
30							
31	Total	$ 8,628,613	$ (1,554,953)	$ 1,529,891	$ (417)	$ (745,335)	$ 7,857,799
32							
33							
34							
35	SUPPORTING SCHEDULES:						
36	Rebuttal B-2, pages 3-6						
37							

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1

Exhibit
Rebuttal Schedule B-2
Page 3
Witness: Bourassa

Line No.				Adjustments A	B	C	D	E	
1	Plant-in-Service								
2					Post				Rebuttal
3	Acct.		Adjusted	Post	Test Year	Mclain			Adjusted
4	No.	Description	Orginal Cost	Test Year Plant	Plant Retirement	Acquistion Costs	AFUDC Adjustment	Plant Retirements	Original Cost
5	301	Organization Cost	$ -				$ -	$ -	$ -
6	302	Franchise Cost	961				-	-	961
7	303	Land and Land Rights	688,011				-	-	688,011
8	304	Structures and Improvements	1,929,428				(10,476)	(4,181)	1,914,771
9	305	Collecting and Impounding Res.	51,378				-	(4,565)	46,813
10	306	Lake River and Other Intakes	-				-	-	-
11	307	Wells and Springs	1,300,212				(1,940)	-	1,298,272
12	308	Infiltration Galleries and Tunnels	-				-	-	-
13	309	Supply Mains	3,798				(542)	-	3,256
14	310	Power Generation Equipment	1,293				-	-	1,293
15	311	Electric Pumping Equipment	2,777,250				(17,134)	(432,710)	2,327,407
16	320	Water Treatment Equipment	109,639				-	(26,254)	83,385
17	320.1	Water Treatment Plant	-				-	-	-
18	320.2	Chemical Solution Feeders	-				-	-	-
19	330	Dist. Reservoirs & Standpipe	2,709,163				(27,589)	(43,858)	2,637,716
20	330.1	Storage tanks	-				-	-	-
21	330.2	Pressure Tanks	-				-	-	-
22	331	Trans. and Dist. Mains	12,820,712	(5,550)	8,504		(4,775)	(592,002)	12,226,889
23	333	Services	1,500,252				(1,475)	(16,315)	1,482,462
24	334	Meters	1,517,711				(15,174)	(124,204)	1,378,333
25	335	Hydrants	970,159				(498)	(7,765)	961,896
26	336	Backflow Prevention Devices	-				-	-	-
27	339	Other Plant and Misc. Equip.	114,540				-	(0)	114,539
28	340	Office Furniture and Fixtures	202,929				-	(25,258)	177,672
29	340.1	Computers and Software	161,264				(344)	-	160,920
30	341	Transportation Equipment	295,224				-	(26,760)	268,464
31	342	Stores Equipment	-				-	-	-
32	343	Tools and Work Equipment	124,953				(109)	(2,132)	122,712
33	344	Laboratory Equipment	-				-	-	-
34	345	Power Operated Equipment	31,548				-	(0)	31,548
35	346	Communications Equipment	444,928				-	(24,184)	420,744
36	347	Miscellaneous Equipment	110,348				-	(3,042)	107,306
37	348	Other Tangible Plant	300,001			(144,623)	-	-	155,378
38		Reounding	-						-
39		TOTALS	$ 28,165,702	$ (5,550)	$ 8,504	$ (144,623)	$ (80,055)	$ (1,333,228)	$ 26,610,749
40									
41	Plant-in-Service per Direct								$ 28,165,702
42									
43	Increase (decrease) in Plant-in-Service								$ (1,554,953)
44									
45	Adjustment to Plant-in-Service								$ (1,554,953)
46									
47	SUPPORTING SCHEDULES								
48	Rebuttal B-2, page 3.1 to 3.5								
49	Rebuttal B-2, page 3.6 to 3.16								

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - A

Exhibit
Rebuttal Schedule B-2
Page 3.1
Witness: Bourassa

Line No.		
1	Post Test Year Plant	
2		
3		
4	Rebuttal Adjusted Post Test Year Plant (Acct 331)	$ 104,507
5		
6	Adjusted Post Test Year Plant per Direct (Acct 331)	$ 110,057
7		
8		
9	Increase (decrease) to plant-in-service	$ (5,550)
10		
11		
12		
13		
14		
15	REFERENCES	
16	Testimony and Co. Resposne to MSJ 5.2	
17		
18		
19		
20		
21		
22		
23		
24		
25		

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - B

Exhibit
Rebuttal Schedule B-2
Page 3.2
Witness: Bourassa

Line No.		
1	Post Test Year Plant Plant Retirement	
2		
3		
4	Rebuttal Adjusted Post Test Year Plant (Acct 331)	$ (3,496)
5		
6	Adjusted Post Test Year Plant per Direct (Acct 331)	$ (12,000)
7		
8		
9	Increase (decrease) to plant-in-service	$ 8,504
10		
11		
12		
13		
14		
15	REFERENCES	
16	Testimony and Co. Resposne to MSJ 5.2	
17		
18		
19		
20		
21		
22		
23		
24		
25		

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - C

Exhibit
Rebuttal Schedule B-2
Page 3.3
Witness: Bourassa

Line No.		
1	McClain Acquisition Costs	
2		
3		
4	Rebuttal McClain Acquistion Costs	$ 155,378
5		
6	McClain Acquisition Costs per Direct	$ 300,001
7		
8		
9	Increase (decrease) to plant-in-service	$ (144,623)
10		
11		
12		
13		
14		
15	REFERENCES	
16	Testimony and Co. Resposne to CSB 10.3	
17		
18		
19		
20		
21		
22		
23		
24		
25		

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - D

Exhibit
Rebuttal Schedule B-2
Page 3.4
Witness: Bourassa

Line No.

1 Adjusted Allowance for Funds Used During Constructiion ("AFUDC")

Acct	Description	As Filed	Revised	Adjustment
301	Organization Cost	$ -	$ -	$ -
302	Franchise Cost	-	-	-
303	Land and Land Rights	-	-	-
304	Structures and Improvements	46,467	35,991	(10,476)
305	Collecting and Impounding Res.	-	-	-
306	Lake River and Other Intakes	-	-	-
307	Wells and Springs	6,730	4,791	(1,940)
308	Infiltration Galleries and Tunnels	-	-	-
309	Supply Mains	542	-	(542)
310	Power Generation Equipment	-	-	-
311	Electric Pumping Equipment	29,470	12,336	(17,134)
320	Water Treatment Equipment	342	342	-
320.1	Water Treatment Plant	-	-	-
320.2	Chemical Solution Feeders	-	-	-
330	Dist. Reservoirs & Standpipe	57,619	30,030	(27,589)
330.1	Storage tanks	-	-	-
330.2	Pressure Tanks	-	-	-
331	Trans. and Dist. Mains	5,002	227	(4,775)
333	Services	1,475	-	(1,475)
334	Meters	18,966	3,793	(15,174)
335	Hydrants	498	-	(498)
336	Backflow Prevention Devices	-	-	-
339	Other Plant and Misc. Equip.	-	-	-
340	Office Furniture and Fixtures	-	-	-
340.1	Computers and Software	1,021	677	(344)
341	Transportation Equipment	-	-	-
342	Stores Equipment	-	-	-
343	Tools and Work Equipment	109	-	(109)
344	Laboratory Equipment	-	-	-
345	Power Operated Equipment	-	-	-
346	Communications Equipment	8,416	8,416	-
347	Miscellaneous Equipment	3,176	3,176	-
348	Other Tangible Plant	-	-	-
		0	0	
		$ 179,833	$ 99,778	$ (80,055)

Adjustment to plant-in-service $ (80,055)

REFERENCES
Testimony
Rebuttal B-2, page 3.5 to 3.16

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - E

Exhibit
Rebuttal Schedule B-2
Page 3.5
Witness: Bourassa

Line No.			
1	Retirements		
2			
3			
4	Acct	Description	Adjustment
5	301	Organization Cost	
6	302	Franchise Cost	
7	303	Land and Land Rights	
8	304	Structures and Improvements	(4,181)
9	305	Collecting and Impounding Res.	(4,565)
10	306	Lake River and Other Intakes	
11	307	Wells and Springs	
12	308	Infiltration Galleries and Tunnels	
13	309	Supply Mains	
14	310	Power Generation Equipment	
15	311	Electric Pumping Equipment	(432,710)
16	320	Water Treatment Equipment	(26,254)
17	320.1	Water Treatment Plant	
18	320.2	Chemical Solution Feeders	
19	330	Dist. Reservoirs & Standpipe	(43,858)
20	330.1	Storage tanks	
21	330.2	Pressure Tanks	
22	331	Trans. and Dist. Mains	(592,002)
23	333	Services	(16,315)
24	334	Meters	(124,204)
25	335	Hydrants	(7,765)
26	336	Backflow Prevention Devices	
27	339	Other Plant and Misc. Equip.	(0)
28	340	Office Furniture and Fixtures	(25,258)
29	340.1	Computers and Software	-
30	341	Transportation Equipment	(26,760)
31	342	Stores Equipment	
32	343	Tools and Work Equipment	(2,132)
33	344	Laboratory Equipment	
34	345	Power Operated Equipment	(0)
35	346	Communications Equipment	(24,184)
36	347	Miscellaneous Equipment	(3,042)
37	348	Other Tangible Plant	
38			
39			$ (1,333,228)
40			
41			
42	Adjustment to plant-in-service		$ (1,333,228)
43			
44	REFERENCES		
45	Testimony		
46	Rebuttal B-2, page 3.5.1		
47	Rebuttal B-2, page 3.6 to 3.16		
48			
49			
50			

Bella Vista Water Company
Test Year Ended March 31, 2009
Proposed Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.5.1
Witness: Bourasaa

Account No.	Description	Plant At 12/31/2000	Plant At 3/31/2009	Additions Since Last Rate Case	Known New or Growth Items Added	Known Replacements (s/h/b retired)	Annual Depr. %	Remainder to be Considered for Retirement	Percent to be Retired (per BV)	Current Cost BV Proposed Retirement	Asset Life (Yrs)	Assumed Average Retire Yr	Mid Point Orig. in Service	HWI/BLS 2005	HWI/BLS Orig in Service	HWI Ratio	Historical Cost BV Proposed Retirement[1]	BV Specific Proposed Retirements	BV TOTAL Proposed Retirements
303	Land and Land Rights	$ 322,875	$ 327,399	$ 4,524			0.00%	$ 4,524	0.00%	$ -	0								
304	Structures and Improvements	$ 822,687	$ 1,312,116	$ 489,429	$ (352,903)		2.50%	$ 136,526	20.00%	$ 27,305	40	2005	1965	418	64	0.15311	$ 4,181 [1]	-	$ 4,181
307	Wells and Springs	$ 864,013	$ 1,132,179	$ 268,166	$ (140,149)		2.70%	$ 128,017	21.60%	$ 27,652	37	2005	1968	418	69	0.16507	$ 4,565 [1]	-	$ 4,565
311	Electric Pumping Equipment	$ 1,667,296	$ 2,487,503	$ 820,207	$ (71,664)		10.00%	$ 748,543	80.00%	$ 598,835	10	2005	1995	611	441.5	0.72259	$ 432,710 [1]	-	$ 432,710
320	Water Treatment Equip.	$ 17,938	$ 109,639	$ 91,701	$ (47,197)		10.00%	$ 44,504	80.00%	$ 35,603	10	2005	1995	457	337	0.73742	$ 26,254 [1]	-	$ 26,254
330	Dist. Reservoirs & Standpipe	$ 1,321,238	$ 2,343,634	$ 1,022,396		$ (17,089)	2.50%	$ 1,005,307	20.00%	$ 201,061	40	2005	1965	338	45	0.13314	$ 26,769 [1]	17,089	$ 43,858
331	Trans. and Dist. Mains	$ 7,056,631	$ 12,600,027	$ 5,543,396		$ (431,337)	2.00%	$ 5,112,058	16.00%	$ 817,929	50	2005	1965	392	77	0.19643	$ 160,665 [1]	431,337	$ 592,002
333	Services	$ 829,747	$ 1,399,781	$ 570,034			2.00%	$ 570,034	16.00%	$ 91,205	50	2005	1965	341	61	0.17889	$ 16,315 [1]	-	$ 16,315
334	Meters	$ 903,840	$ 1,491,209	$ 587,369		$ (124,204)	10.00%	$ 463,166	0.00%	$ -	10	2005	1995	207	200	0.96618	$ -	124,204 [1]	$ 124,204
335	Hydrants	$ 457,210	$ 892,445	$ 435,235			2.00%	$ 435,235	16.00%	$ 69,638	50	2005	1965	565	63	0.1115	$ 7,765 [1]	-	$ 7,765
339	Other Plant and Misc. Equipment	$ -	$ 69,551	$ 69,551	$ (69,551)		10.00%	$ 0	80.00%	$ 0	10	2005	1995	195.3	152.4	0.78034	$ 0 [1]	-	$ 0
340	Office Furniture and Fixtures	$ 100,023	$ 202,929	$ 102,906	$ (32,176)		6.67%	$ 70,730	53.36%	$ 37,742	15	2005	1990	195.3	130.7	0.66923	$ 25,258 [1]	-	$ 25,258
340.1	Computers and Software	$ 161,264	$ 161,264	$ -			6.67%	$ -	53.36%	$ -	15	2005	1990	195.3	130.7	0.66923	$ - [1]	-	$ -
341	Transportation Equipment	$ 190,168	$ 295,224	$ 105,056	$ (75,690)	$ (13,609)	14.29%	$ 15,757	100.00%	$ 15,757	7	2005	1998	195.3	163	0.83461	$ 13,151 [1]	13,609	$ 26,760
343	Tools and Work Equipment	$ 121,859	$ 124,683	$ 2,824			11.76%	$ 2,824	94.08%	$ 2,657	8.5	2005	1996.5	195.3	156.7	0.80236	$ 2,132 [1]	-	$ 2,132
345	Power Operated Equipment	$ -	$ 31,548	$ 31,548	$ (31,548)		10.00%	$ 0	80.00%	$ 0	10	2005	1995	195.3	152.4	0.78034	$ 0 [1]	-	$ 0
346	Communications Equipment	$ 38,740	$ 435,668	$ 396,928	$ (358,188)		10.00%	$ 38,740	80.00%	$ 30,992	10	2005	1995	195.3	152.4	0.78034	$ 24,184 [1]	-	$ 24,184
347	Miscellaneous Equipment	$ 100,766	$ 110,348	$ 9,582			6.25%	$ 9,582	50.00%	$ 4,791	16	2005	1989	195.3	124	0.63492	$ 3,042 [1]	-	$ 3,042
348	Other Tangible Plant	$ -	$ -	$ -				-											
	Plant Held for Future Use																		
	TOTAL WATER PLANT	$ 14,976,295	$ 25,527,149	$ 10,550,854	$ (1,179,066)	$ (586,239)		$ 8,785,548		$ 1,961,167							$ 746,989	$ 586,239	$ 1,333,228

[1] Retirements asumed to be made ratably over 2001 to 2008.
[2] Retirements asumed to be made ratably over 2005 to 2008.
[3] Retirements asumed to be made ratably over 2005 to 2008.

Bella Vista Water Company (Consolidated)
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.6

Account No.	Description	Plant At 12/31/2000	2000 Accum. Depr.	2001 Plant Additions	2001 Plant Additions	2001 Adjusted Plant Additions	Rebuttal 2001 Plant Retirements	2001 Salvage A/D Only	2001 Plant Balance	2001 Deprec.
301	Organization Cost	-	-	-	-	-	-	-	-	-
302	Franchise Cost	-	-	-	-	-	-	-	-	-
303	Land and Land Rights	322,875	-	-	-	-	-	-	322,875	-
304	Structures and Improvements	822,687	207,134	-	27,953	27,953	(523)	-	850,118	20,917
305	Collecting and Impounding Res.	-	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes	-	-	-	-	-	-	-	-	-
307	Wells and Springs	864,013	304,933	0	48,775	48,775	(571)	-	912,217	23,987
308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-	-	-
309	Supply Mains	-	-	-	-	-	-	-	-	-
310	Power Generation Equipment	-	-	-	-	-	-	-	-	-
311	Electric Pumping Equipment	1,667,296	991,154	12,153	50,667	62,820	(54,089)	-	1,676,027	169,871
320	Water Treatment Equipment	17,938	9,739	2,671	2,563	5,234	(3,282)	-	19,891	2,056
320.1	Water Treatment Equipment	-	-	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	-	-	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	1,321,238	498,098	1	141,588	141,589	(3,346)	-	1,459,481	34,801
330.1	Storage tanks	-	-	-	-	-	-	-	-	-
330.2	Pressure Tanks	-	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	7,056,631	2,450,915	219,615	1,463,902	1,683,517	(20,083)	-	8,720,065	157,968
333	Services	829,747	660,025	(20)	-	(20)	(2,039)	-	827,688	16,595
334	Meters	903,840	758,362	37,895	-	37,895	(15,525)	-	926,210	92,279
335	Hydrants	457,210	177,863	17,961	749	18,710	(971)	-	474,949	9,331
336	Backflow Prevention Devices	-	-	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	-	-	-	-	-	(0)	-	(0)	(0)
340	Office Furniture and Fixtures	100,023	86,329	-	6,994	6,994	(3,157)	-	103,860	6,905
340.1	Computers and Software	161,264	29,062	-	-	-	-	-	161,264	10,756
341	Transportation Equipment	190,168	108,206	-	-	-	(1,644)	-	188,524	27,175
342	Stores Equipment	-	-	-	-	-	-	-	-	-
343	Tools and Work Equipment	121,859	80,790	1,197	-	1,197	(266)	-	122,789	14,401
344	Laboratory Equipment	-	-	-	-	-	-	-	-	-
345	Power Operated Equipment	-	-	-	-	-	(0)	-	(0)	(0)
346	Communications Equipment	38,740	20,080	-	-	-	(3,023)	-	35,717	3,874
347	Miscellaneous Equipment	100,766	51,170	-	-	-	(380)	-	100,386	6,298
348	Other Tangible Plant	-	-	-	-	-	-	-	-	-
	Rounding	-	-	-	-	-	-	-	-	-
						-			-	-
	Plant Held for Future Use									
	TOTAL WATER PLANT	14,976,295	6,433,860	291,474	1,743,191	2,034,665	(108,899)	-	16,902,061	597,212

Bella Vista Water Company (Consolidated)
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.7

Account No.	Description	2002 Plant Additions	2002 Plant Additions	2002 Plant Adjustments[1]	2002 Adjusted Plant Additions	Rebuttal 2002 Plant Retirements	2002 Salvage/Adj. A/D Only	2002 Plant Balance	2002 Deprec.
301	Organization Cost	-	-	-	-	-	-	-	-
302	Franchise Cost	-	-	-	-	-	-	-	-
303	Land and Land Rights	-	-	-	-	-	-	322,875	-
304	Structures and Improvements	-	-	-	-	(523)	-	849,595	21,246
305	Collecting and Impounding Res.	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes	-	-	-	-	-	-	-	-
307	*Wells and Springs*	-	-	-	-	(571)	-	911,647	24,622
308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-	-
309	Supply Mains	-	-	-	-	-	-	-	-
310	Power Generation Equipment	-	-	-	-	-	-	-	-
311	Electric Pumping Equipment	71,076	-	-	71,076	(54,089)	-	1,693,014	168,452
320	Water Treatment Equipment	-	-	-	-	(3,282)	-	16,609	1,825
320.1	Water Treatment Equipment	-	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	-	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	-	-	-	-	(3,346)	-	1,456,135	36,445
330.1	Storage tanks	-	-	-	-	-	-	-	-
330.2	Pressure Tanks	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	300,123	54,088	-	354,211	(20,083)	-	9,054,193	177,743
333	Services	42,378	-	-	42,378	(2,039)	-	868,027	16,957
334	Meters	29,053	-	-	29,053	(15,525)	-	939,737	93,297
335	Hydrants	43,354	-	-	43,354	(971)	-	517,332	9,923
336	Backflow Prevention Devices	-	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	-	-	-	-	(0)	-	(0)	(0)
340	Office Furniture and Fixtures	-	-	-	-	(3,157)	-	100,703	6,822
340.1	Computers and Software	-	-	-	-	-	-	161,264	10,756
341	Transportation Equipment	4,844	-	-	4,844	(1,644)	-	191,725	27,169
342	Stores Equipment	-	-	-	-	-	-	-	-
343	Tools and Work Equipment	-	-	-	-	(266)	-	122,523	14,424
344	Laboratory Equipment	-	-	-	-	-	-	-	-
345	Power Operated Equipment	-	-	-	-	(0)	-	(0)	(0)
346	Communications Equipment	-	-	-	-	(3,023)	-	32,694	3,421
347	Miscellaneous Equipment	-	-	-	-	(380)	-	100,006	6,262
348	Other Tangible Plant	-	-	-	-	-	-	-	-
	Rounding	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-
	Plant Held for Future Use								
	TOTAL WATER PLANT	490,827	54,088	-	544,915	(108,899)	-	17,338,077	619,365

Bella Vista Water Company (Consolidated)
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.8

Account No.	Description	2003 Plant Additions	2003 Plant Adjustments[1]	2003 Adjusted Plant Additions	Rebuttal 2003 Plant Retirements	2003 Salvage A/D Only	2003 Plant Balance	2003 Deprec.
301	Organization Cost	-	-	-	-	-	-	-
302	Franchise Cost	-	-	-	-	-	-	-
303	Land and Land Rights	-	-	-	-	-	322,875	-
304	Structures and Improvements	-	-	-	(523)	-	849,073	21,233
305	Collecting and Impounding Res.	-	-	-	-	-	-	-
306	Lake River and Other Intakes	-	-	-	-	-	-	-
307	Wells and Springs	21,972	-	21,972	(571)	-	933,048	24,903
308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-
309	Supply Mains	-	-	-	-	-	-	-
310	Power Generation Equipment	-	-	-	-	-	-	-
311	Electric Pumping Equipment	105,990	-	105,990	(54,089)	-	1,744,916	171,897
320	Water Treatment Equipment	24,705	-	24,705	(3,282)	-	38,032	2,732
320.1	Water Treatment Equipment	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	106	-	106	(3,346)	-	1,452,895	36,363
330.1	Storage tanks	-	-	-	-	-	-	-
330.2	Pressure Tanks	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	118,031	-	118,031	(20,083)	-	9,152,141	182,063
333	Services	18,726	-	18,726	(2,039)	-	884,713	17,527
334	Meters	47,302	-	47,302	(15,525)	-	971,514	58,627
335	Hydrants	4,242	-	4,242	(971)	-	520,604	10,379
336	Backflow Prevention Devices	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	-	-	-	(0)	-	(0)	(0)
340	Office Furniture and Fixtures	32,875	-	32,875	(3,157)	-	130,421	7,708
340.1	Computers and Software	-	-	-	-	-	161,264	10,756
341	Transportation Equipment	8,623	-	8,623	(1,644)	-	198,704	27,896
342	Stores Equipment	-	-	-	-	-	-	-
343	Tools and Work Equipment	-	-	-	(266)	-	122,256	13,174
344	Laboratory Equipment	-	-	-	-	-	-	-
345	Power Operated Equipment	-	-	-	(0)	-	(0)	(0)
346	Communications Equipment	-	-	-	(3,023)	-	29,671	3,118
347	Miscellaneous Equipment	-	-	-	(380)	-	99,625	6,238
348	Other Tangible Plant	-	-	-	-	-	-	-
	Rounding	-	-	-	-	-	-	-
		-	-	-	-	-	-	-
	Plant Held for Future Use							
	TOTAL WATER PLANT	382,573	-	382,573	(108,899)	-	17,611,751	594,616

[1] Affiliate Profit

Bella Vista Water Company (Consolidated)
Plant Additions and Retirements

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Rebuttal Schedule B-2
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Account No.	Description	2004 Plant Additions	2004 Plant Adjustments[1]	2004 Adjusted Plant Additions	Rebuttal 2004 Plant Retirements	2004 Salvage A/D Only	2004 Plant Balance	2004 Deprec.
301	Organization Cost	-	-	-	-	-	-	-
302	Franchise Cost	-	-	-	-	-	-	-
303	Land and Land Rights	-	-	-	-	-	322,875	-
304	Structures and Improvements	15,322	-	15,322	(523)	-	863,872	21,412
305	Collecting and Impounding Res.	-	-	-	-	-	-	-
306	Lake River and Other Intakes	-	-	-	-	-	-	-
307	Wells and Springs	99,307	-	99,307	(571)	-	1,031,785	26,525
308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-
309	Supply Mains	-	-	-	-	-	-	-
310	Power Generation Equipment	-	-	-	-	-	-	-
311	Electric Pumping Equipment	97,537	-	97,537	(54,089)	-	1,788,364	176,664
320	Water Treatment Equipment	-	-	-	(3,282)	-	34,750	3,639
320.1	Water Treatment Equipment	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	1,500	-	1,500	(3,346)	-	1,451,049	36,299
330.1	Storage tanks	-	-	-	-	-	-	-
330.2	Pressure Tanks	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	459,511	-	459,511	(20,083)	-	9,591,569	187,437
333	Services	100,089	-	100,089	(2,039)	-	982,762	18,675
334	Meters	112,553	-	112,553	(15,525)	-	1,068,541	102,003
335	Hydrants	55,861	-	55,861	(971)	-	575,495	10,961
336	Backflow Prevention Devices	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	-	-	-	(0)	-	(0)	(0)
340	Office Furniture and Fixtures	31,854	-	31,854	(3,157)	-	159,118	9,656
340.1	Computers and Software	-	-	-	-	-	161,264	10,756
341	Transportation Equipment	77,639	-	77,639	(1,644)	-	274,699	33,825
342	Stores Equipment	-	-	-	-	-	-	-
343	Tools and Work Equipment	-	-	-	(266)	-	121,990	-
344	Laboratory Equipment	-	-	-	-	-	-	-
345	Power Operated Equipment	-	-	-	(0)	-	(0)	(0)
346	Communications Equipment	8,868	-	8,868	(3,023)	-	35,516	3,259
347	Miscellaneous Equipment	-	-	-	(380)	-	99,245	6,215
348	Other Tangible Plant	-	-	-	-	-	-	-
	Rounding	-	-	-	-	-	-	-
		-	-	-	-	-	-	-
	Plant Held for Future Use							
	TOTAL WATER PLANT	1,060,041	-	1,060,041	(108,899)	-	18,562,893	647,326

[1] Affiliate Profit

Bella Vista Water Company (Consolidated)
Plant Additions and Retirements

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Rebuttal Schedule B-2
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Account No.	Description	2005 Plant Additions	2005 Plant Adjustments[1]	Rebuttal 2005 Plant Adjustments	2005 Adjusted Plant Additions	Rebuttal 2005 Plant Retirements	2005 Salvage A/D Only	2005 Plant Balance	2005 Deprec.
301	Organization Cost	-	-	-	-	-	-	-	-
302	Franchise Cost	-	-	-	-	-	-	-	-
303	Land and Land Rights	-	-	-	-	-	-	322,875	-
304	Structures and Improvements	1,500	-	-	1,500	(523)	-	864,849	21,609
305	Collecting and Impounding Res.	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes	-	-	-	-	-	-	-	-
307	Wells and Springs	-	-	-	-	(571)	-	1,031,214	27,850
308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-	-
309	Supply Mains	-	-	-	-	-	-	-	-
310	Power Generation Equipment	-	-	-	-	-	-	-	-
311	Electric Pumping Equipment	59,445	-	-	59,445	(54,089)	-	1,793,720	179,104
320	Water Treatment Equipment	11,336	-	-	11,336	(3,282)	-	42,804	3,878
320.1	Water Treatment Equipment	-	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	-	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	-	-	-	-	(3,346)	-	1,447,703	36,234
330.1	Storage tanks	-	-	-	-	-	-	-	-
330.2	Pressure Tanks	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	720,627	(5,429)	-	715,198	(20,083)	-	10,286,684	198,783
333	Services	118,891	(179)	-	118,712	(2,039)	-	1,099,435	20,822
334	Meters	151,792	-	-	151,792	(15,525)	-	1,204,808	113,667
335	Hydrants	67,646	-	-	67,646	(971)	-	642,170	12,177
336	Backflow Prevention Devices	-	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	-	-	-	-	(0)	-	(0)	(0)
340	Office Furniture and Fixtures	-	-	-	-	(3,157)	-	155,961	10,508
340.1	Computers and Software	-	-	-	-	-	-	161,264	10,756
341	Transportation Equipment	-	-	-	-	(1,644)	-	273,055	39,137
342	Stores Equipment	-	-	-	-	-	-	-	-
343	Tools and Work Equipment	-	-	-	-	(266)	-	121,723	-
344	Laboratory Equipment	-	-	-	-	-	-	-	-
345	Power Operated Equipment	-	-	-	-	(0)	-	(0)	(0)
346	Communications Equipment	64,857	-	-	64,857	(3,023)	-	97,350	6,643
347	Miscellaneous Equipment	5,600	-	-	5,600	(380)	-	104,465	6,366
348	Other Tangible Plant	-	-	-	-	-	-	-	-
	Rounding	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-
	Plant Held for Future Use								
	TOTAL WATER PLANT	1,201,694	(5,608)	-	1,196,086	(108,899)	-	19,650,079	687,535

[1] Affiliate Profit

Bella Vista Water Company (Consolidated)
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
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Account No.	Description	2006 Plant Additions	2006 Plant Adjustments[1]	Rebuttal 2006 Plant Adjustments	2006 Adjusted Plant Additions	Rebuttal 2006 Plant Retirements	2006 Salvage A/D Only	McClain Systems Plant	2006 Plant Balance	2006 Deprec.
301	Organization Cost	-	-	-	-	-	-	-	-	-
302	Franchise Cost	-	-	-	-	-	-	-	-	-
303	Land and Land Rights	-	-	-	-	-	-	360,612	683,487	-
304	Structures and Improvements	-	-	-	-	(523)	-	1,622	865,949	21,615
305	Collecting and Impounding Res.	-	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes	-	-	-	-	-	-	-	-	-
307	Wells and Springs	-	-	-	-	(571)	-	26,825	1,057,469	27,835
308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-	-	-
309	Supply Mains	-	-	-	-	-	-	-	-	-
310	Power Generation Equipment	-	-	-	-	-	-	-	-	-
311	Electric Pumping Equipment	98,205	(2,251)	(1,589)	94,365	(54,089)	-	67,441	1,901,438	181,386
320	Water Treatment Equipment	-	-	-	-	(3,282)	-	-	39,522	4,116
320.1	Water Treatment Equipment	-	-	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	-	-	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	-	(18,843)	-	(18,843)	(3,346)	-	130,236	1,555,750	35,915
330.1	Storage tanks	-	-	-	-	-	-	-	-	-
330.2	Pressure Tanks	-	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	1,106,649	-	-	1,106,649	(20,083)	-	108,651	11,481,901	216,599
333	Services	182,904	(1,109)	(176)	181,619	(2,039)	-	1,065	1,280,079	23,784
334	Meters	110,081	(1,073)	(3,154)	105,854	(15,525)	-	-	1,295,136	124,997
335	Hydrants	116,600	(294)	(289)	116,017	(971)	-	300	757,516	13,994
336	Backflow Prevention Devices	-	-	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	-	-	-	-	(0)	-	-	(0)	(0)
340	Office Furniture and Fixtures	8,090	-	-	8,090	(3,157)	-	-	160,894	10,567
340.1	Computers and Software	-	-	(344)	(344)	-	-	-	160,920	10,745
341	Transportation Equipment	-	-	-	-	(1,644)	-	-	271,411	16,222
342	Stores Equipment	-	-	-	-	-	-	-	-	-
343	Tools and Work Equipment	-	-	-	-	(266)	-	-	121,457	-
344	Laboratory Equipment	-	-	-	-	-	-	-	-	-
345	Power Operated Equipment	-	-	-	-	(0)	-	-	(0)	(0)
346	Communications Equipment	148,115	-	-	148,115	(3,023)	-	-	242,441	16,990
347	Miscellaneous Equipment	-	-	-	-	(380)	-	-	104,085	6,517
348	Other Tangible Plant	-	-	-	-	-	-	-	-	-
	Rounding	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-
	Plant Held for Future Use									
	TOTAL WATER PLANT	1,770,645	(23,570)	(5,551)	1,741,523	(108,899)	-	696,752	21,979,456	711,283

[1] Affiliate Profit

Bella Vista Water Company (Consolidated)
Plant Additions and Retirements

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Rebuttal Schedule B-2
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Account No.	Description	2007 Plant Additions	2007 Plant Adjustments[1]	Rebuttal 2007 Plant Adjustments	2007 Adjusted Plant Additions	Rebuttal 2007 Plant Retirements	2007 Salvage A/D Only	2007 Plant Balance	2007 Deprec.
301	Organization Cost	-	-	-	-	-	-	-	-
302	Franchise Cost	-	-	-	-	-	-	-	-
303	Land and Land Rights	4,524	-	-	4,524	-	-	688,011	-
304	Structures and Improvements	46,875	(214)	-	46,661	(523)	-	912,087	22,239
305	Collecting and Impounding Res.	46,603	-	-	46,603	-	-	46,603	583
306	Lake River and Other Intakes	-	-	-	-	-	-	-	-
307	Wells and Springs	74,738	(1,855)	(924)	71,958	(571)	-	1,128,857	29,641
308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-	-
309	Supply Mains	2,706	-	(542)	2,163	-	-	2,163	22
310	Power Generation Equipment	531	-	-	531	-	-	531	13
311	Electric Pumping Equipment	220,166	(481)	(9,104)	210,581	(54,089)	-	2,057,931	200,486
320	Water Treatment Equipment	12,563	(60)	-	12,503	(3,282)	-	48,743	4,413
320.1	Water Treatment Equipment	-	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	-	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2,079	-	(5,204)	(3,124)	(3,346)	-	1,549,279	38,452
330.1	Storage tanks	-	-	-	-	-	-	-	-
330.2	Pressure Tanks	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	3,748	-	-	3,748	(451,420)	-	11,034,229	225,161
333	Services	48,450	-	(612)	47,838	(2,039)	-	1,325,878	26,285
334	Meters	15,142	-	(3,349)	11,793	(15,525)	-	1,291,403	36,408
335	Hydrants	128,719	(84)	-	128,635	(971)	-	885,181	16,427
336	Backflow Prevention Devices	-	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	45,091	(25,989)	-	19,102	(0)	-	19,102	643
340	Office Furniture and Fixtures	7,438	-	-	7,438	(3,157)	-	165,174	10,874
340.1	Computers and Software	-	-	-	-	-	-	160,920	10,733
341	Transportation Equipment	-	-	-	-	(1,644)	-	269,767	-
342	Stores Equipment	-	-	-	-	-	-	-	-
343	Tools and Work Equipment	1,412	-	-	1,412	(266)	-	122,602	1,412
344	Laboratory Equipment	-	-	-	-	-	-	-	-
345	Power Operated Equipment	36,567	(1,407)	-	35,160	(0)	-	35,160	1,758
346	Communications Equipment	5,643	-	-	5,643	(3,023)	-	245,061	24,375
347	Miscellaneous Equipment	-	-	-	-	(380)	-	103,704	6,493
348	Other Tangible Plant	300,001	-	(144,623)	155,378	-	-	155,378	7,769
	Rounding	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-
	Plant Held for Future Use								
	TOTAL WATER PLANT	1,002,995	(30,090)	(164,359)	808,547	(540,236)	-	22,247,766	664,388

[1] Affiliate Profit

Bella Vista Water Company (Consolidated)
Plant Additions and Retirements

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Rebuttal Schedule B-2
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Account No.	Description	2008 Plant Additions	2008 Plant Adjustments[1]	Rebuttal 2008 Plant Adjustments	2008 Adjusted Plant Additions	Rebuttal 2008 Plant Retirements	2008 Salvage (A/D Only)	2008 Plant Balance	2008 Deprec.
301	Organization Cost	-	-	-	-	-	-	-	-
302	Franchise Cost	-	-	-	-	-	-	-	-
303	Land and Land Rights	-	-	-	-	-	-	688,011	-
304	Structures and Improvements	584,964	(10,353)	(10,476)	564,135	(523)	-	1,475,700	32,039
305	Collecting and Impounding Res.	308	-	-	308	-	-	46,912	1,169
306	Lake River and Other Intakes	-	-	-	-	-	-	-	-
307	Wells and Springs	88,310	(243)	(1,015)	87,051	(571)	-	1,215,337	32,385
308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-	-
309	Supply Mains	550	-	-	550	-	-	2,713	49
310	Power Generation Equipment	763	-	-	763	-	-	1,293	46
311	Electric Pumping Equipment	250,151	(24,011)	(6,441)	219,699	(54,089)	-	2,223,541	153,332
320	Water Treatment Equipment	5,764	-	-	5,764	(3,282)	-	51,225	4,998
320.1	Water Treatment Equipment	-	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	-	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	1,047,079	(2,909)	(22,386)	1,021,784	(20,435)	-	2,550,628	50,586
330.1	Storage tanks	-	-	-	-	-	-	-	-
330.2	Pressure Tanks	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	865,285	(82,084)	(4,775)	778,425	(20,083)	-	11,792,571	228,268
333	Services	105,669	(2,525)	(687)	102,457	(2,039)	-	1,426,295	28,261
334	Meters	96,042	(21,489)	(8,671)	65,883	(15,525)	-	1,341,761	57,331
335	Hydrants	45,597	(300)	(209)	45,088	(971)	-	929,298	18,145
336	Backflow Prevention Devices	-	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	107,222	(11,785)	-	95,437	(0)	-	114,539	5,621
340	Office Furniture and Fixtures	12,291	(3,258)	-	9,033	(3,157)	-	171,050	11,213
340.1	Computers and Software	-	-	-	-	-	-	160,920	10,733
341	Transportation Equipment	341	-	-	341	(15,253)	-	254,855	(13,268)
342	Stores Equipment	-	-	-	-	-	-	-	-
343	Tools and Work Equipment	2,637	(2,449)	(109)	80	(266)	-	122,415	(42)
344	Laboratory Equipment	-	-	-	-	-	-	-	-
345	Power Operated Equipment	3,071	(6,683)	-	(3,612)	(0)	-	31,548	3,335
346	Communications Equipment	48,619	(815)	-	47,804	(3,023)	-	289,842	26,745
347	Miscellaneous Equipment	3,342	(537)	-	2,805	(380)	-	106,129	6,557
348	Other Tangible Plant	-	-	-	-	-	-	155,378	15,538
	Rounding	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-
	Plant Held for Future Use								
	TOTAL WATER PLANT	3,268,004	(169,441)	(54,769)	3,043,794	(139,597)	-	25,151,963	673,041

[1] Affiliate Profit

Bella Vista Water Company (Consolidated)
Plant Additions and Retirements

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Rebuttal Schedule B-2
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Account No.	Description	2009 Plant Additions	2009 Plant Adjustments	2009 Plant Adjustments[1]	Rebuttal 2009 Plant Adjustments	2009 Adjusted Plant Additions	Rebuttal 2009 Plant Retirements	2009 Salvage (A/D Only)	March 31 2009 Plant Balance	Jan-Mar 2009 Deprec.	Rebuttal Adjusted Post Test Year Plant	Rebuttal Adjusted PTY Retirement	Adjusted Test Year 2009 Plant Balance
301	Organization Cost	-	-	-	-	-	-	-	-	-	-	-	-
302	Franchise Cost	-	6,362	(5,401)	-	961	-	-	961	-	-	-	961
303	Land and Land Rights	-	-	-	-	-	-	-	686,011	-	-	-	686,011
304	Structures and Improvements	343,676	99,772	(4,376)	-	439,072	-	-	1,914,771	11,771	-	-	1,914,771
305	Collecting and Impounding Res.	4,466	-	-	-	4,466	-	-	51,378	307	-	-	51,378
306	Lake River and Other Intakes	-	-	-	-	-	-	-	-	-	-	-	-
307	Wells and Springs	78,370	-	-	-	78,370	-	-	1,293,708	8,723	-	-	1,293,708
308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-	-	-	-	-	-
309	Supply Mains	542	-	-	-	542	-	-	3,256	15	-	-	3,256
310	Power Generation Equipment	-	-	-	-	-	-	-	1,293	16	-	-	1,293
311	Electric Pumping Equipment	106,421	-	(2,555)	-	103,866	-	-	2,327,407	58,541	-	-	2,327,407
320	Water Treatment Equipment	32,159	-	-	-	32,159	-	-	83,385	1,683	-	-	83,385
320.1	Water Treatment Equipment	-	-	-	-	-	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	-	-	-	-	-	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	86,328	2,900	(2,140)	-	87,088	-	-	2,637,716	15,967	-	-	2,637,716
330.1	Storage tanks	-	-	-	-	-	-	-	-	-	-	-	-
330.2	Pressure Tanks	-	-	-	-	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	329,867	10,615	(7,176)	-	333,306	-	-	12,125,878	59,796	104,507	(3,496)	12,226,889
333	Services	55,999	167	-	-	56,166	-	-	1,482,462	7,568	-	-	1,482,462
334	Meters	33,103	3,470	-	-	36,573	-	-	1,378,333	33,932	-	-	1,378,333
335	Hydrants	32,664	-	(66)	-	32,598	-	-	961,896	4,728	-	-	961,896
336	Backflow Prevention Devices	-	-	-	-	-	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	-	-	-	-	-	-	-	114,539	2,489	-	-	114,539
340	Office Furniture and Fixtures	7,221	-	(599)	-	6,622	-	-	177,672	2,907	-	-	177,672
340.1	Computers and Software	-	-	-	-	-	-	-	160,920	2,683	-	-	160,920
341	Transportation Equipment	-	13,609	-	-	13,609	-	-	268,464	9,348	-	-	268,464
342	Stores Equipment	-	-	-	-	-	-	-	-	-	-	-	-
343	Tools and Work Equipment	365	-	(68)	-	297	-	-	122,712	422	-	-	122,712
344	Laboratory Equipment	-	-	-	-	-	-	-	-	-	-	-	-
345	Power Operated Equipment	-	-	-	-	-	-	-	31,548	789	-	-	31,548
346	Communications Equipment	74,378	57,385	(861)	-	130,902	-	-	420,744	8,882	-	-	420,744
347	Miscellaneous Equipment	3,176	-	(1,999)	-	1,177	-	-	107,306	1,667	-	-	107,306
348	Other Tangible Plant	-	-	-	-	-	-	-	155,378	3,884	-	-	155,378
	Rounding	-	-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-	-	-
	Plant Held for Future Use												
	TOTAL WATER PLANT	1,188,736	194,280	(25,241)	-	1,357,775	-	-	26,509,738	236,120	104,507	(3,496)	26,610,749

[1] Affiliate Profit

Bella Vista Water Company (Consolidated)
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.15

Account No.	Description	Year End Accumulated Depreciation by Account Dec 31 2000	Dec 31 2001	Dec 31 2002	Dec 31 2003	Dec 31 2004
301	Organization Cost	-	-	-	-	-
302	Franchise Cost	-	-	-	-	-
303	Land and Land Rights	-	-	-	-	-
304	Structures and Improvements	207,134	227,528	248,252	268,963	289,852
305	Collecting and Impounding Res.	-	-	-	-	-
306	Lake River and Other Intakes	-	-	-	-	-
307	Wells and Springs	304,933	328,349	352,401	376,734	402,688
308	Infiltration Galleries and Tunnels	-	-	-	-	-
309	Supply Mains	-	-	-	-	-
310	Power Generation Equipment	-	-	-	-	-
311	Electric Pumping Equipment	991,154	1,106,936	1,221,299	1,339,107	1,461,683
320	Water Treatment Equipment	9,739	8,513	7,056	6,506	6,863
320.1	Water Treatment Equipment	-	-	-	-	-
320.2	Chemical Solution Feeders	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	498,098	529,552	562,651	595,668	628,621
330.1	Storage tanks	-	-	-	-	-
330.2	Pressure Tanks	-	-	-	-	-
331	Transmission and Distribution Mains	2,450,915	2,588,800	2,746,460	2,908,440	3,075,794
333	Services	660,025	674,580	689,498	704,986	721,621
334	Meters	758,362	835,115	912,887	955,988	1,042,465
335	Hydrants	177,863	186,224	195,176	204,585	214,575
336	Backflow Prevention Devices	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	-	(0)	(0)	(0)	(0)
340	Office Furniture and Fixtures	86,329	90,077	93,742	98,292	104,791
340.1	Computers and Software	29,062	39,818	50,574	61,330	72,087
341	Transportation Equipment	108,206	133,738	159,263	185,515	217,696
342	Stores Equipment	-	-	-	-	-
343	Tools and Work Equipment	80,790	94,924	109,082	121,990	121,723
344	Laboratory Equipment	-	-	-	-	-
345	Power Operated Equipment	-	(0)	(0)	(0)	(0)
346	Communications Equipment	20,080	20,931	21,329	21,424	21,660
347	Miscellaneous Equipment	51,170	57,087	62,969	68,827	74,662
348	Other Tangible Plant	-	-	-	-	-
	Rounding	-	-	-	-	-
		-	-	-	-	-
	Plant Held for Future Use	-				
	TOTAL WATER PLANT	6,433,860	6,922,173	7,432,639	7,918,356	8,456,782

Bella Vista Water Company (Consolidated)
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.16

Account No.	Description	Year End Accumulated Depreciation by Account Dec 31 2005	Dec 31 2006	Dec 31 2007	Dec 31 2008	March 31 2009	Adjusted Test Year Plant Balance
301	Organization Cost	-	-	-	-	-	-
302	Franchise Cost	-	-	-	-	-	-
303	Land and Land Rights	-	-	-	-	-	-
304	Structures and Improvements	310,938	332,030	353,747	385,263	397,034	**397,034**
305	Collecting and Impounding Res.	-	-	583	1,751	2,059	**2,059**
306	Lake River and Other Intakes	-	-	-	-	-	-
307	Wells and Springs	429,968	457,233	486,503	518,317	527,041	**527,041**
308	Infiltration Galleries and Tunnels	-	-	-	-	-	-
309	Supply Mains	-	-	22	70	85	**85**
310	Power Generation Equipment	-	-	13	59	75	**75**
311	Electric Pumping Equipment	1,586,698	1,713,995	1,860,393	1,959,637	2,018,177	**2,018,177**
320	Water Treatment Equipment	7,459	8,294	9,425	11,142	12,825	**12,825**
320.1	Water Treatment Equipment	-	-	-	-	-	-
320.2	Chemical Solution Feeders	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	661,510	694,079	729,185	759,335	775,303	**775,303**
330.1	Storage tanks	-	-	-	-	-	-
330.2	Pressure Tanks	-	-	-	-	-	-
331	Transmission and Distribution Mains	3,254,493	3,451,010	3,224,751	3,432,935	3,492,732	**3,489,236**
333	Services	740,404	762,149	786,395	812,616	820,185	**820,185**
334	Meters	1,140,607	1,250,079	1,270,961	1,312,767	1,346,699	**1,346,699**
335	Hydrants	225,781	238,804	254,261	271,435	276,163	**276,163**
336	Backflow Prevention Devices	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	(0)	(0)	643	6,264	8,753	**8,753**
340	Office Furniture and Fixtures	112,142	119,552	127,269	135,325	138,232	**138,232**
340.1	Computers and Software	82,843	93,588	104,321	115,055	117,738	**117,738**
341	Transportation Equipment	255,189	269,767	268,123	239,602	248,950	**248,950**
342	Stores Equipment	-	-	-	-	-	-
343	Tools and Work Equipment	121,457	121,190	122,336	122,027	122,448	**122,448**
344	Laboratory Equipment	-	-	-	-	-	-
345	Power Operated Equipment	(0)	(0)	1,758	5,093	5,882	**5,882**
346	Communications Equipment	25,281	39,247	60,599	84,321	93,204	**93,204**
347	Miscellaneous Equipment	80,648	86,784	92,898	99,075	100,742	**100,742**
348	Other Tangible Plant	-	-	7,769	23,307	27,191	**27,191**
	Rounding	-	-	-	-	-	-
		-	-	-	-	-	-
	Plant Held for Future Use						
	TOTAL WATER PLANT	9,035,418	9,637,802	9,761,953	10,295,397	10,531,517	**10,528,021**

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2

Exhibit
Schedule B-2
Page 4
Witness: Bourassa

Line No.	Accumulated Depreciation			A	B	C	
1							
2			Adjusted Accum.	Post Test Year		Difference to Computed	Rebuttal Adjusted Accum.
3	Acct.						
4	No.	Description	Depr.	Retirement	Retirements	Balance	Depr.
5	301	Organization Cost	$ -		$ -	$ -	$ -
6	302	Franchise Cost	-		-	-	-
7	303	Land and Land Rights	-		-	-	-
8	304	Structures and Improvements	401,914		(4,181)	(699)	397,034
9	305	Collecting and Impounding Res.	2,059		-	-	2,059
10	306	Lake River and Other Intakes	-		-	-	-
11	307	Wells and Springs	532,200		(4,565)	(595)	527,041
12	308	Infiltration Galleries and Tunnels	-		-	-	-
13	309	Supply Mains	104		-	(19)	85
14	310	Power Generation Equipment	75		-	-	75
15	311	Electric Pumping Equipment	2,527,613		(432,710)	(76,726)	2,018,177
16	320	Water Treatment Equipment	50,073		(26,254)	(10,994)	12,825
17	320.1	Water Treatment Plant	-		-	-	-
18	320.2	Chemical Solution Feeders	-		-	-	-
19	330	Dist. Reservoirs & Standpipe	822,901		(43,858)	(3,741)	775,303
20	330.1	Storage tanks	-		-	-	-
21	330.2	Pressure Tanks	-		-	-	-
22	331	Trans. and Dist. Mains	4,101,341	8,504	(592,002)	(28,607)	3,489,236
23	333	Services	837,916		(16,315)	(1,416)	820,185
24	334	Meters	1,492,936		(124,204)	(22,033)	1,346,699
25	335	Hydrants	284,597		(7,765)	(669)	276,163
26	336	Backflow Prevention Devices	-		-	-	-
27	339	Other Plant and Misc. Equip.	8,753		(0)	(0)	8,753
28	340	Office Furniture and Fixtures	170,545		(25,258)	(7,055)	138,232
29	340.1	Computers and Software	117,801		-	(63)	117,738
30	341	Transportation Equipment	291,918		(26,760)	(16,209)	248,950
31	342	Stores Equipment	-		-	-	-
32	343	Tools and Work Equipment	124,689		(2,132)	(109)	122,448
33	344	Laboratory Equipment	-		-	-	-
34	345	Power Operated Equipment	5,882		(0)	(0)	5,882
35	346	Communications Equipment	127,515		(24,184)	(10,127)	93,204
36	347	Miscellaneous Equipment	104,580		(3,042)	(796)	100,742
37	348	Other Tangible Plant	52,500		-	(25,309)	27,191
38							-
39		TOTALS	$ 12,057,912	$ 8,504	$ (1,333,228)	$ (205,167)	$ 10,528,021
40							
41	Accumulated Depreciation per Direct						$ 12,057,912
42							
43	Increase (decrease) in Plant-in-Service						$ (1,529,891)
44							
45	Adjustment to Plant-in-Service						$ (1,529,891)
46							
47	SUPPORTING SCHEDULES						
48	Rebuttal B-2, page 4.1 and 4.2						
49	Rebuttal B-2, pages 3.6 to 3.16						

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - A

Exhibit
Rebuttal Schedule B-2
Page 4.1
Witness: Bourassa

Line No.		
1	Post Test Year Plant Plant Retirement	
2		
3		
4	Rebuttal Adjusted Post Test Year Plant (Acct 331)	$ (3,496)
5		
6	Adjusted Post Test Year Plant per Direct (Acct 331)	$ (12,000)
7		
8		
9	Increase (decrease) to plant-in-service	$ 8,504
10		
11		
12		
13		
14		
15	REFERENCES	
16	Testimony and Co. Resposne to MSJ 5.2	
17		
18		
19		
20		
21		
22		
23		
24		
25		

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - B

Exhibit
Rebuttal Schedule B-2
Page 4.2
Witness: Bourassa

Line No.			
1	Retirements		
2			
3			
4	Acct	Description	Adjustment
5	301	Organization Cost	$ -
6	302	Franchise Cost	-
7	303	Land and Land Rights	-
8	304	Structures and Improvements	(4,181)
9	305	Collecting and Impounding Res.	-
10	306	Lake River and Other Intakes	-
11	307	Wells and Springs	(4,565)
12	308	Infiltration Galleries and Tunnels	-
13	309	Supply Mains	-
14	310	Power Generation Equipment	-
15	311	Electric Pumping Equipment	(432,710)
16	320	Water Treatment Equipment	(26,254)
17	320.1	Water Treatment Plant	-
18	320.2	Chemical Solution Feeders	-
19	330	Dist. Reservoirs & Standpipe	(43,858)
20	330.1	Storage tanks	-
21	330.2	Pressure Tanks	-
22	331	Trans. and Dist. Mains	(592,002)
23	333	Services	(16,315)
24	334	Meters	(124,204)
25	335	Hydrants	(7,765)
26	336	Backflow Prevention Devices	-
27	339	Other Plant and Misc. Equip.	(0)
28	340	Office Furniture and Fixtures	(25,258)
29	340.1	Computers and Software	-
30	341	Transportation Equipment	(26,760)
31	342	Stores Equipment	-
32	343	Tools and Work Equipment	(2,132)
33	344	Laboratory Equipment	-
34	345	Power Operated Equipment	(0)
35	346	Communications Equipment	(24,184)
36	347	Miscellaneous Equipment	(3,042)
37	348	Other Tangible Plant	-
38			
39			$ (1,333,228)
40			
41			
42	Adjustment to accumulated depreciation		$ (1,333,228)
43			
44	REFERENCES		
45	Testimony		
46	Rebuttal B-2, page 3.5.1		
47	Rebuttal B-2, page 3.6 to 3.16		
48			
49			
50			

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Rebuttal Schedule B-2
Page 5
Witness: Bourassa

Deferred Income Tax as of March 31, 2009

Line No.		Adjusted Book Value	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
6	Plant-in-Service	$ 26,610,749 [1]								
7	Accum. Deprec.	(10,528,021) [1]								
8	CIAC	(4,472,325) [3]								
9	Fixed Assets	$ 11,610,403	$ 8,287,666 [2]	100.0%	$ (3,322,737)	38.6%		-		(1,282,539)
10	AIAC		6,136,045 [4]	30.0%	$ 1,840,813 [4]	38.6%		$ 710,533		
11	Tax Benefits from O.L. Carry Forward			100.0%	$ -			$ -		
12							$ -	$ 710,533	$ -	$ (1,282,539)
13										
14	Allocated DIT Asset (Liability)						$ (572,006)			
15										
16	DIT Asset (Liability) per Direct						$ 173,329			
17										
18	Adjustment to DIT						$ 745,335			
19										

[1] **Adjusted per Rebuttal Schedule B-2, page 2**

[2] **Tax Basis as of March 31, 2009**

Unadjusted Cost Basis per 2008 Tax Return (Fiscal Year Ended 12/31/2008)		$ 18,314,641
Adjustments:		
Land not on tax return depreciation repor		656,307
Tax accumulated depreciation through 12/31/2008		(9,166,130)
Tax depreciation from 1/1/2009 to 3/31/2009 for assets added before 12/31/2008.		(254,979)
Bonus Depreciation/Section 179 deductions through 12/31/2008		(1,490,506)
Assets added after 12/31/2008 (net of affiliate profit, AIAC, CIAC)		947,275
Tax depreciation for assets added after 12/31/2008 thru 3/31/2009 (Estimated 25 yr S.L. half-year convention		(4,736)
Bonus depreciation for assets added after 12/31/2008 thru 3/31/2009 (Estimated)		(118,409)
B-2 Adjustments to plant-in-service (PTY Plant of $110,057 and plant retirement of $12,000)		101,011
Tax accumulated depreciation from B-2 adjustments to plant-in-service		(3,496)
Affiliate profit removed through 2008		(229,194)
Tax accumulated depreciation related to affilitate profit through 2008		17,533
Proposed retirements per B-2		(1,333,228)
Estimated tax depreciation on B- 2 proposed retirement:		1,162,419
Proposed B-2 adjustments (AFUDC)		(80,055)
Estimated Tax depreciation on B- 2 proposed adjustments (AFUDC		4,214
Proposed B-2 adjustments (McClain acquistion costs)		(144,623)
Estimated Tax depreciation on B- 2 proposed adjustments (McClain acqusition costs		9,943
Timing difference through 2008		(100,321)
Net tax value as of March 31, 2009		$ 8,287,666

[3] **CIAC (including impact of change to probability of realization)**

Gross CIAC per B-2		$ 542,445	
Less: Pre-1996 CIAC		(326,777)	
A.A per B-2	$ (230,570)		
A.A on Pre-1996 CIAC	191,996		
A.A. on Post 1996 CIAC		(38,574)	
Net CIAC before unrealized AIAC			$ 177,094
Unrealized AIAC Componen			
Adjusted Net AIAC (see footnote 5 below)		$ 6,136,045	
Unrealized AIAC Component % (1-Realized AIAC Component		70.0%	
Addition to CIAC			$ 4,295,231
Total realizable CIAC			$ 4,472,325

[4] **AIAC (including impact of change in probability of realization)**

AIAC per B-2	$ 6,781,443	
Less: Pre-1996 AIAC included for book and tax purpose:	(645,398)	
Net AIAC before unrealized portion		$ 6,136,045
Less: Unrealized AIAC (from Note 4, above		$ (4,295,231)
Net realizable AIAC		$ 1,840,813

[5] **Effective tax rates Per C-3 schedule**

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Original Cost Rate Base Proforma Adjustments
Adjustment 4

Exhibit
Rebuttal Schedule B-2
Page 6
Witness: Bourassa

Line No.		Gross CIAC	Accum. Amort.
1	CIAC and Accumulated Amortization		
2			
3			
4		Gross CIAC	Accum. Amort.
5	Computed balance at 3/31/2009	$ 542,445	$ 230,570
6			
7	Adjusted balance at 3/31/2009	$ 542,445	$ 230,987
8			
9	Increase (decrease)	$ -	$ (417)
10			
11			
12	Adjustment to CIAC	$ -	$ 417
13	Label	4a	4b
14			
15			
16			
17			
18			
19	SUPPORTING SCHEDULES		
20	B-2, page 6.1 to 6.5		
21			
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Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Original Cost Rate Base Proforma Adjustments
Contributions-in-aid of Construction and Amortization
Adjustment 4

Exhibit
Rebuttal Schedule B-2
Page 6.1
Witness: Bourassa

Line No.		Balance at 12/31/2000	2001 Activity	Balance at 12/31/2001	2002 Activity	Balance at 12/31/2002
1						
2						
3	Bella Vista Water Company					
4	CIAC	403,046	-	403,046	43,680	446,726
5						
6						
7	Amortization		14,241		15,178	
8	Accum Amort.	103,590	14,241	117,831	15,178	133,009
9						
10	Composite Amortization Rate		3.5334%		3.5723%	
11						
12	Northern Sunrise Water Company					
13	CIAC	-		-	-	-
14						
15						
16	Amortization		-		-	
17	Accum Amort.	-	-	-	-	-
18						
19	Composite Amortization Rate		0.0000%		0.0000%	
20						
21	Southern Sunrise Water Company					
22	CIAC	-		-	-	-
23						
24						
25	Amortization		-		-	
26	Accum Amort.	-	-	-	-	-
27						
28	Composite Amortization Rate		0.0000%		0.0000%	
29						
30						
31						
32	**Consolidated**					
33	CIAC	403,046	-	403,046	43,680	446,726
34						
35						
22	Amortization		14,241		15,178	
23	Accum Amort.	103,590	14,241	117,831	15,178	133,009
24						
25						
26						

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Original Cost Rate Base Proforma Adjustments
Contributions-in-aid of Construction and Amortization
Adjustment 4

Exhibit
Rebuttal Schedule B-2
Page 6.2
Witness: Bourassa

Line No.		2003 Activity	Balance at 12/31/2003	2004 Activity	Balance at 12/31/2004
1					
2					
3	Bella Vista Water Company				
4	CIAC	1,400	448,126	25,829	473,955
5					
6					
7	Amortization	15,106		16,077	
8	Accum Amort.	15,106	148,115	16,077	164,193
9					
10	Composite Amortization Rate	3.3762%		3.4872%	
11					
12	Northern Sunrise Water Company				
13	CIAC		-		-
14					
15					
16	Amortization	-		-	
17	Accum Amort.	-	-	-	-
18					
19	Composite Amortization Rate	0.0000%		0.0000%	
20					
21	Southern Sunrise Water Company				
22	CIAC		-		-
23					
24					
25	Amortization	-		-	
26	Accum Amort.	-	-	-	-
27					
28	Composite Amortization Rate	0.0000%		0.0000%	
29					
30					
31					
32	**Consolidated**				
33	CIAC	1,400	448,126	25,829	473,955
34					
35					
22	Amortization	15,106		16,077	
23	Accum Amort.	15,106	148,115	16,077	164,193
24					
25					
26					

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Original Cost Rate Base Proforma Adjustments
Contributions-in-aid of Construction and Amortization
Adjustment 4

Exhibit
Rebuttal Schedule B-2
Page 6.3
Witness: Bourassa

Line No.		2005 Activity	Balance at 12/31/2005	2006 Activity	Balance at 12/31/2006
1					
2					
3	Bella Vista Water Company				
4	CIAC	15,560	489,515	13,630	503,145
5					
6					
7	Amortization	16,855		16,588	
8	Accum Amort.	16,855	181,048	16,588	197,636
9					
10	Composite Amortization Rate	3.4989%		3.3421%	
11					
12	Northern Sunrise Water Company				
13	CIAC		-	-	-
14					
15					
16	Amortization	-		-	
17	Accum Amort.	-	-	-	-
18					
19	Composite Amortization Rate	0.0000%		3.0621%	
20					
21	Southern Sunrise Water Company				
22	CIAC	-			-
23					
24					
25	Amortization	-		-	
26	Accum Amort.	-	-	-	-
27					
28	Composite Amortization Rate	0.0000%		2.4811%	
29					
30					
31					
32	**Consolidated**				
33	CIAC	15,560	489,515	13,630	503,145
34					
35					
22	Amortization	16,855		16,588	
23	Accum Amort.	16,855	181,048	16,588	197,636
24					
25					
26					

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Original Cost Rate Base Proforma Adjustments
Contributions-in-aid of Construction and Amortization
Adjustment 4

Exhibit
Rebuttal Schedule B-2
Page 6.4
Witness: Bourassa

Line No.		2007 Activity	Balance at 12/31/2007	2008 Activity	Balance at 12/31/2006
1					
2					
3	Bella Vista Water Company				
4	CIAC	800	503,945	-	503,945
5					
6					
7	Amortization	15,134		13,316	
8	Accum Amort.	15,134	212,770	13,316	226,085
9					
10	Composite Amortization Rate	3.0054%		2.6423%	
11					
12	Northern Sunrise Water Company				
13	CIAC	-	-	-	-
14					
15					
16	Amortization	-		-	
17	Accum Amort.	-	-	-	-
18					
19	Composite Amortization Rate	3.0134%		1.0427%	
20					
21	Southern Sunrise Water Company				
22	CIAC		-	-	-
23					
24					
25	Amortization	-		-	
26	Accum Amort.	-	-	-	-
27					
28	Composite Amortization Rate	3.0379%		0.9771%	
29					
30					
31					
32	**Consolidated**				
33	CIAC	800	503,945	-	503,945
34					
35					
22	Amortization	15,134		13,316	
23	Accum Amort.	15,134	212,770	13,316	226,085
24					
25					
26					

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Original Cost Rate Base Proforma Adjustments
Contributions-in-aid of Construction and Amortization
Adjustment 4

Exhibit
Rebuttal Schedule B-2
Page 6.5
Witness: Bourassa

Line No.		2009 Activity	Balance at 3/31/2009
1			
2			
3	Bella Vista Water Company		
4	CIAC	(7,500)	496,445
5			
6			
7	Amortization	4,402	
8	Accum Amort.	4,402	230,488
9			
10	Composite Amortization Rate	0.8801%	
11			
12	Northern Sunrise Water Company		
13	CIAC	26,000	26,000
14			
15			
16	Amortization	66	
17	Accum Amort.	66	66
18			
19	Composite Amortization Rate	0.5041%	
20			
21	Southern Sunrise Water Company		
22	CIAC	20,000	20,000
23			
24			
25	Amortization	17	
26	Accum Amort.	17	17
27			
28	Composite Amortization Rate	0.1675%	
29			
30			
31			
32	**Consolidated**		
33	CIAC	38,500	542,445
34			
35			
22	Amortization	4,485	
23	Accum Amort.	4,485	230,570
24			
25			
26			

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Computation of Working Capital

Exhibit
Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	282,237
3	Pumping Power (1/24 of Pumping Power)		25,394
4	Purchased Water (1/24 of Purchased Water)		30
5	Materials and Supplies		-
6	Prepaids		23,268
7			
8			
9	Total Working Capital Allowance	$	330,929
10			
11			
12	Working Capital Requested	$	-
13			
14			
15	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
16	Rebuttal C-1	Rebuttal B-1	
17			
18			Adjusted
19	Cash Working Capital Detail		Test Year Results
20			
21	Total Operating Expense	$	4,091,778
22	Less:		
23	Income Tax		(25,846)
24	Property Tax		201,433
25	Depreciation		1,048,124
26	Purchased Water		708
27	Pumping Power		609,459
28	Allowable Expenses	$	2,257,900
29	1/8 of allowable expenses	$	282,237
30			
31			

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjustment	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	**Revenues**					
2	Metered Water Revenues	$ 4,023,022	$ -	$ 4,023,022	$ 1,145,966	$ 5,168,987
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	139,114	-	139,114		139,114
5		$ 4,162,136	$ -	$ 4,162,136	$ 1,145,966	$ 5,308,101
6	**Operating Expenses**					
7	Salaries and Wages	$ -	-	$ -		$ -
8	Purchased Water	708	-	708		708
9	Purchased Power	609,459	-	609,459		609,459
10	Fuel for Power Production	-	-	-		-
11	Chemicals	5,715	-	5,715		5,715
12	Materials & Supplies	49,998	-	49,998		49,998
13	Outside Services	4,696	-	4,696		4,696
14	Outside Services- Legal	41,937	-	41,937		41,937
15	Outside Services- Other	1,599,375	(19,076)	1,580,298		1,580,298
16	Water Testing	28,184	38,468	66,652		66,652
17	Equipment Rental	140	-	140		140
18	Rents	60,600	-	60,600		60,600
19	Transportation Expenses	125,122	(8,703)	116,419		116,419
20	Insurance - General Liability	59,410	-	59,410		59,410
21	Insurance - Health and Life	7,290	-	7,290		7,290
22	Reg. Comm. Exp.	10,628	-	10,628		10,628
23	Reg. Comm. Exp. - Rate Case	150,000	-	150,000		150,000
24	Miscellaneous Expense	92,502	(6,564)	85,938		85,938
25	Bad Debt Expense	18,178	-	18,178		18,178
26	Depreciation Expense	1,122,485	(74,360)	1,048,124		1,048,124
27	Taxes Other Than Income	-	-	-		-
28	Property Taxes	199,553	1,880	201,433		201,433
29	Income Tax	(43,092)	17,246	(25,846)	442,330	416,484
30	**Total Operating Expenses**	$ 4,142,888	$ (51,110)	$ 4,091,778	$ 442,330	$ 4,534,108
31	**Operating Income**	$ 19,248	$ 51,110	$ 70,358	$ 703,636	$ 773,993
32	**Other Income (Expense)**					
33	Interest Income	-	-	-		-
34	Other income (loss)	-	-	-		-
35	Interest Expense	(110,537)	(935)	(111,472)		(111,472)
36	Other Expense	-	-	-		-
37		-	-	-		-
38	**Total Other Income (Expense)**	$ (110,537)	$ (935)	$ (111,472)	$ -	$ (111,472)
39	**Net Profit (Loss)**	$ (91,290)	$ 50,175	$ (41,115)	$ 703,636	$ 662,521
40						
41	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
42	Rebuttal C-1, page 2				Rebuttal A-1	
43						

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 2
Witness: Bourassa

Line No.		Label>>>>>>>>>> Test Year Adjusted Results	1 Depreciation	2 Property Taxes	3 Meals Entertainment Contributions	4 Water Testing	5 Transport. Expense	6 Central Office Allocation	7 Interest Sunch.	8 Income Tax	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	**Revenues**												
2	Metered Water Revenues	$ 4,023,022									$ 4,023,022	$ 1,145,966	$ 5,168,987
3	Unmetered Water Revenues	-									-		-
4	Other Water Revenues	139,114									139,114		139,114
5		$ 4,162,136	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,162,136	$ 1,145,966	$ 5,308,101
6	**Operating Expenses**												
7	Salaries and Wages	$ -									$ -		$ -
8	Purchased Water	708									708		708
9	Purchased Power	609,459									609,459		609,459
10	Fuel for Power Production	-									-		-
11	Chemicals	5,715									5,715		5,715
12	Materials & Supplies	49,998									49,998		49,998
13	Outside Services	4,696									4,696		4,696
14	Outside Services- Legal	41,937									41,937		41,937
15	Outside Services- Other	1,599,375						(19,076)			1,580,298		1,580,298
16	Water Testing	28,184				38,468					66,652		66,652
17	Equipment Rental	140									140		140
18	Rents	60,600									60,600		60,600
19	Transportation Expenses	125,122					(8,703)				116,419		116,419
20	Insurance - General Liability	59,410									59,410		59,410
21	Insurance - Health and Life	7,290									7,290		7,290
22	Reg. Comm. Exp.	10,628									10,628		10,628
23	Reg. Comm. Exp. - Rate Case	150,000									150,000		150,000
24	Miscellaneous Expense	92,502			(6,564)						85,938		85,938
25	Bad Debt Expense	18,178									18,178		18,178
26	Depreciation Expense	1,122,485	(74,360)								1,048,124		1,048,124
27	Taxes Other Than Income	-									-		-
28	Property Taxes	199,553		1,880							201,433		201,433
29	Income Tax	(43,092)								17,246	(43,092)	459,575	416,484
30	**Total Operating Expenses**	$ 4,142,888	$ (74,360)	$ 1,880	$ (6,564)	$ 38,468	$ (8,703)	$ (19,076)	$ -	$ 17,246	$ 4,074,533	$ 459,575	$ 4,534,108
31	**Operating Income**	$ 19,248	$ 74,360	$ (1,880)	$ 6,564	$ (38,468)	$ 8,703	$ 19,076	$ -	$ (17,246)	$ 87,603	$ 686,390	$ 773,993
32	**Other Income (Expense)**												
33	Interest Income	-									-		-
34	Other income (loss)	-									-		-
35	Interest Expense	(110,537)							(935)		(111,472)		(111,472)
36	Other Expense	-									-		-
37		-									-		-
38	**Total Other Income (Expense)**	$ (110,537)	$ -	$ -	$ -	$ -	$ -	$ -	$ (935)	$ -	$ (111,472)	$ -	$ (111,472)
39	**Net Profit (Loss)**	$ (91,290)	$ 74,360	$ (1,880)	$ 6,564	$ (38,468)	$ 8,703	$ 19,076	$ (935)	$ (17,246)	$ (23,869)	$ 686,390	$ 662,521
40													
41	SUPPORTING SCHEDULES:												
42	Rebuttal C-2												
43													

RECAP SCHEDULES:
Rebuttal C-1, page 1

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Adjustments to Revenues and Expenses

Exhibit
Rebuttal Schedule C-2
Page 1
Witness: Bourassa

Line No.		Adjustments to Revenues and Expenses						
		1	2	3	4	5	6	Subtotal
1		Depreciation	Property	Miscellaneous	Central Cost	Water	Transportation	
2		Expense	Taxes	Expense	Allocation	Testing	Expense	
3	Revenues							-
4								
5	Expenses	(74,360)	1,880	(6,564)	38,468	(8,703)	(935)	(50,214)
6								
7	Operating							
8	Income	74,360	(1,880)	6,564	(38,468)	8,703	935	50,214
9								
10	Interest							
11	Expense							-
12	Other							
13	Income /							-
14	Expense							
15								
16	Net Income	74,360	(1,880)	6,564	(38,468)	8,703	935	50,214
17								
18		Adjustments to Revenues and Expenses						
19		7	8	9	10	11	12	Subtotal
20		Interest	Income					
21		Synch.	Taxes	Blank	Blank	Blank	Blank	
22	Revenues							-
23								
24	Expenses		17,246					(32,968)
25								
26	Operating							
27	Income	-	(17,246)	-	-	-	-	32,968
28								
29	Interest							
30	Expense	(935)						(935)
31	Other							
32	Income /							-
33	Expense							
34								
35	Net Income	(935)	(17,246)	-	-	-	-	32,034

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Rebuttal Schedule C-2
Page 2
Witness: Bourassa

Line No.					
1	Depreciation Expense				
2					
3	Acct.		Adjusted Original	Proposed	Depreciation
4	No.	Description	Cost	Rates	Expense
5	301	Organization Cost	-	0.00%	-
6	302	Franchise Cost	961	0.00%	-
7	303	Land and Land Rights	688,011	0.00%	-
8	304	Structures and Improvements	1,914,771	3.33%	63,762
9	305	Collecting and Impounding Res.	46,813	2.50%	1,170
10	306	Lake River and Other Intakes	-	2.50%	-
11	307	Wells and Springs	1,298,272	3.33%	43,232
12	308	Infiltration Galleries and Tunnels	-	6.67%	-
13	309	Supply Mains	3,256	2.00%	65
14	310	Power Generation Equipment	1,293	5.00%	65
15	311	Electric Pumping Equipment	2,327,407	12.50%	290,926
16	320	Water Treatment Equipment	83,385	3.33%	2,777
17	320.1	Water Treatment Plant	-	3.33%	-
18	320.2	Chemical Solution Feeders	-	20.00%	-
19	330	Dist. Reservoirs & Standpipe	2,637,716	2.22%	58,557
20	330.1	Storage tanks	-	2.22%	-
21	330.2	Pressure Tanks	-	5.00%	-
22	331	Trans. and Dist. Mains	12,226,889	2.00%	244,538
23	333	Services	1,482,462	3.33%	49,366
24	334	Meters	1,378,333	8.33%	114,815
25	335	Hydrants	961,896	2.00%	19,238
26	336	Backflow Prevention Devices	-	6.67%	-
27	339	Other Plant and Misc. Equip.	114,539	6.67%	7,640
28	340	Office Furniture and Fixtures	177,672	6.67%	11,851
29	340.1	Computers and Software	160,920	20.00%	32,184
30	341	Transportation Equipment	268,464	20.00%	53,693
31	342	Stores Equipment	-	4.00%	-
32	343	Tools and Work Equipment	122,712	5.00%	6,136
33	344	Laboratory Equipment	-	10.00%	-
34	345	Power Operated Equipment	31,548	5.00%	1,577
35	346	Communications Equipment	420,744	10.00%	42,074
36	347	Miscellaneous Equipment	107,306	10.00%	10,731
37	348	Other Tangible Plant	155,378	10.00%	15,538
38					
39		TOTALS	$ 26,610,749		$ 1,069,934
40					
41					
42	Less: Amortization of Contributions		$ 542,445	4.0207%	$ (21,810)
43					
44					
45					
46	Total Depreciation Expense				$ 1,048,124
47					
48	Adjusted Test Year Depreciation Expense per Direct				1,122,485
49					
50	Increase (decrease) in Depreciation Expense				(74,360)
51					
52	Adjustment to Revenues and/or Expenses				$ (74,360)
53					
54	SUPPORTING SCHEDULE				
55	Rebuttal B-2, page 3		* Fully Depreciated		
56	Rebuttal B-2, page 6				

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
Rebuttal Schedule C-2
Page 3
Witness: Bourassa

Line No.			
1	Property Taxes:		
2			
3	Adjusted Revenues in year ended 3/31/09	$	4,162,136
4	Adjusted Revenues in year ended 3/31/09		4,162,136
5	Proposed Revenues		5,308,101
6	Average of three year's of revenue	$	4,544,124
7	Average of three year's of revenue, times 2	$	9,088,248
8	Add:		
9	Construction Work in Progess at 10%	$	526,003
10	Deduct:		
11	Book Value of Transportation Equipment		19,514
12			
13	Full Cash Value	$	9,594,737
14	Assessment Ratio		21%
15	Assessed Value		2,014,895
16	Property Tax Rate		9.8984%
17			
18	Property Tax		199,441
19	Plus: Tax on Parcels		1,991
20			
21	Total Property Tax at Proposed Rates	$	201,433
22	Property Taxes recorded during the test year		199,553
23	Change in Property Taxes	$	1,880
24			
25			
26	Adjustment to Revenues and/or Expenses	$	1,880
27			
28			

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 3

Exhibit
Rebuttal Schedule C-2
Page 4
Witness: Bourassa

Line No.			
1	Remove Meals, Entertainment and Contibutions		
2			
3	Meals and Entertainment	$	(6,564)
4	Contributions		(500)
5			
6			
7	Increase(decrease) Miscellaneous Expense	$	(6,564)
8			
9	Adjustment to Revenue and/or Expense	$	(6,564)
10			
11			
12			
13			
14			
15			
16	SUPPORTING SCHEDULES		
17	Staff Schedule CSB-18		
18			
19			
20			
21			
22			
23			
24			

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Rebuttal Schedule C-2
Page 5
Witness: Bourassa

Line No.			
1	*Water Testing Expense*		
2			
3	Proposed Water Testing Expense	$	66,652
4			
5	Adjusted Test Year Expense		28,184
6			
7			
8	Increase (decrease) in Water Testing Expense	$	38,468
9			
10			
11			
12			
13			
14			
15			
16	REFERENCE		
17	See testimony		
18			
19			
20			

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Rebuttal Schedule C-2
Page 6
Witness: Bourassa

Line No.					
1	Transportation Expense (Remove Airlink costs)				
2					
3	Date	Invoice	Amount		
4	9/30/2008	1023	$ (5,596)		
5	9/30/2008	1040	(1,427)		
6	9/30/2008	1021	(516)		
7	9/30/2008	1038	(131)		
8	9/30/2008	1022	(823)		
9	9/30/2008	1039	(210)		
10					
11	Total			$	(8,703)
12					
13					
14	Increase (decrease) in Water Testing Expense			$	(8,703)
15					
16					
17					
18	REFERENCE				
19	See testimony				
20					

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Rebuttal Schedule C-2
Page 7
Witness: Bourassa

Cental Office Costs - Infrastructure Allocation

Line No.		Test Year Actual Total Cost Pool	Adjustments	Adjusted Total Cost Pool	Utility Infrastructure Group Allocation %	Utility Infrastructure Group Allocated Cost Pool	BVWC Water Allocation by Customer Count	Rebuttal BVWC Allocation
9	Audit	$ 778,285	$ (97,474)	$ 680,812	24.29%	$ 165,340	14.52%	24,014
10	Tax Services	518,775	(48,971)	469,804	24.29%	114,095	14.52%	16,571
11	Legal	159,053	(20,521)	138,531	24.29%	33,643	14.52%	4,886
12	Other Professional Services	506,082	(53,879)	452,202	24.29%	109,821	14.52%	15,950
13	Management Fee - Total	644,943	(81,140)	563,803	24.29%	136,924	14.52%	19,887
14	Unit Holder Communications	156,766	(11,108)	145,658	24.29%	35,374	14.52%	5,138
15	Trustee Fees	129,000	(1,884)	127,116	24.29%	30,871	14.52%	4,484
16	Escrow & Transfer Agent Fees	96,138	(10,784)	85,354	24.29%	20,729	14.52%	3,011
17	Rent	307,337	(33,372)	273,965	24.29%	66,534	14.52%	9,663
18	Licenses/Fees & Permits	17,561	(2,995)	14,565	24.29%	3,537	14.52%	514
19	Office Expenses	572,357	(146,601)	425,755	24.29%	103,398	14.52%	15,017
20	Depreciation	211,653	(21,856)	189,797	24.29%	46,094	14.52%	6,695
22	**Total (US dollars USD)**	**$ 4,097,949**	**$ (530,586)**	**$ 3,567,363**		**$ 866,360**		**$ 125,830**
26	Infrastructure Cost Allocation per Direct (USD)							$ 144,906
28	Increase (decrease) in Infrastructure Allocated Costs (USD)							$ (19,076)
31	Adjustment to Revenues and/or Expenses							$ (19,076)

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Rebuttal Schedule C-2
Page 8
Witness: Bourassa

Line No.			
1	Interest Synchronization		
2			
3			
4	Fair Value Rate Base	$ 7,857,799	
5	Weighted Cost of Debt	1.42%	
6	Interest Expense		$ 111,472
7			
8	Test Year Interest Expense		$ 110,537
9			
10	Increase (decrease) in Interest Expense		935
11			
12			
13			
14	Adjustment to Revenue and/or Expense		$ (935)
15			
16			
17	Weighted Cost of Debt Computation		

18						Weighted
19			Amount	Percent	Cost	Cost
20	Debt	$	1,697,323	22.60%	6.28%	1.42%
21	Equity	$	5,812,207	77.40%	10.90%	8.44%
22	Total	$	7,509,530	100.00%		9.85%
23						
24						

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Adjustment to Revenues and/or Expenses
Adjustment Number 8

Exhibit
Schedule C-2
Page 9
Witness: Bourassa

Line No.			Test Year Adjusted Results	Adjusted with Rate Increase	
1	Income Tax Computation				
2					
3					
4					
5					
6					
7	Taxable Income		$ (66,961)	$ 1,079,005	
8					
9	Taxable Income		$ (66,961)	$ 1,079,005	
10					
11	Arizona Income Before Taxes			$ 1,079,005	
12					
13	Less Arizona Income Tax			$ 75,185	
14	Rate =	6.97%			
15	Arizona Taxable Income			$ 1,003,820	
16					
17	Arizona Income Taxes			$ 75,185	
18					
19	Federal Income Before Taxes			$ 1,079,005	
20					
21	Less Arizona Income Taxes			$ 75,185	
22					
23	Federal Taxable Income			$ 1,003,820	
24					
25					
26					
27	FEDERAL INCOME TAXES:				
28	15% BRACKET			$ 7,500	
29	25% BRACKET			$ 6,250	
30	34% BRACKET			$ 8,500	Federal
31	39% BRACKET			$ 91,650	Effective
32	34% BRACKET			$ 227,399	Tax
33					Rate
34	Federal Income Taxes			$ 341,299	31.63%
35					
36					
37	Total Income Tax			$ 416,484	
38					
39	Overall Tax Rate			38.60%	
40					
41	Income Tax at Proposed Rates Effective Rate		$ (25,846)		
42					
43	Adjusted Test Year Income Taxes		(43,092)		
44					
45	Adjustment to Income Taxes		17,246		
46					

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Computation of Gross Revenue Conversion Factor

Exhibit
Rebuttal Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	31.63%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	38.60%
9		
10	Operating Income % = 100% - Tax Percentage	61.40%
11		
12		
13		
14		
15	1 = Gross Revenue Conversion Factor	
16	Operating Income %	1.6286
17		
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
19		Rebuttal A-1
20		

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Cost of Service Study, Using Commodity Demand Method
Summary by Customer Class - Present and Proposed Rates

Exhibit
Rebuttal Schedule G-0
Page 1
Witness: Bourassa

Line No.	Class	Meter Size	Rate Base	Present Rates Operating Income	Present Rates Rate of Return	Proposed Rates Operating Income	Proposed Rates Rate of Return
5	Residential	5/8 Inch	$ 5,306,945	$ (3,298)	-0.06%	$ 292,675	5.51%
6		3/4 Inch	29,626	(74)	-0.25%	1,339	4.52%
7		1 Inch	11,614	436	3.75%	1,834	15.79%
8		2 Inch	4,261	(318)	-7.46%	95	2.23%
10	Residential		$ 5,352,445	$ (3,254)	-0.06%	$ 295,944	5.53%
12	Commercial	5/8 Inch	$ 238,474	$ (2,524)	-1.06%	$ 24,347	10.21%
13		3/4 Inch	5,487	365	6.65%	1,019	18.56%
14		1 Inch	202,070	5,332	2.64%	26,278	13.00%
15		1.5 Inch	244,395	7,608	3.11%	56,088	22.95%
16		2 Inch	1,264,275	54,783	4.33%	291,840	23.08%
17		3 Inch	237,781	18,750	7.89%	55,152	23.19%
18		4 Inch	47,936	9,969	20.80%	25,147	52.46%
19		6 Inch	25,989	3,306	12.72%	2,775	10.68%
20		8 Inch	41,226	3,414	8.28%	3,991	9.68%
22	Commercial		$ 2,307,634	$ 101,004	4.38%	$ 486,637	21.09%
24	Hydrant	3 Inch	$ 118,292	$ (2,539)	-2.15%	$ 7,980	6.75%
26	Fire	4 Inch	$ 64,078	$ (19,504)	-30.44%	$ (12,452)	-19.43%
27		6 Inch	14,628	(5,121)	-35.01%	(3,990)	-27.28%
28		8 Inch	721	(227)	-31.45%	(125)	-17.31%
30	Fire		$ 79,428	$ (24,852)	-31.29%	$ (16,568)	-20.86%
34	Total		$ 7,857,799	$ 70,358	0.90%	$ 773,993	9.85%

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Cost of Service Study, Using Commodity Demand Method
Operating Margins at Present Rates

Exhibit
Rebuttal Schedule G-1
Page 1
Witness: Bourassa

Line No.		Totals	Res 5/8 Inch	Res 3/4 Inch	Res 1 Inch	Res 2 Inch	Com 5/8 Inch	Com 3/4 Inch	Com 1 Inch	Com 1.5 Inch
1										
2	Water Revenues	$ 4,018,899	$ 2,752,231	$ 12,526	$ 5,821	$ 725	$ 124,380	$ 3,382	$ 91,585	$ 115,753
3	Revenue Annualizations	2,995	8,296	(81)	-	-	(1,504)	33	1,191	2,625
4	Misc. Revenues[1]	139,114	123,304	491	116	14	5,501	87	2,036	1,227
5	Reconcilation H-1 to C-1[1]	1,128	1,000	4	1	0	45	1	17	10
6	Total Revenues	$ 4,162,136	$ 2,884,831	$ 12,940	$ 5,938	$ 739	$ 128,421	$ 3,503	$ 94,829	$ 119,616
7										
8	Operating Expenses[2]	$ 2,868,067	$ 2,075,664	$ 8,807	$ 3,617	$ 718	$ 95,993	$ 2,067	$ 58,557	$ 74,969
9	Depreciation and									
10	Amortization[2]	1,048,124	722,251	3,890	1,427	541	32,451	721	24,801	28,645
11	Property Tax[3]	201,433	139,616	626	287	36	6,215	170	4,589	5,789
12	Income Tax[4]	(25,846)	(49,402)	(311)	170	(238)	(3,713)	180	1,550	2,604
13	Total Operating Expenses	$ 4,091,778	$ 2,888,129	$ 13,013	$ 5,502	$ 1,057	$ 130,945	$ 3,138	$ 89,497	$ 112,007
14	Operating Income	$ 70,358	$ (3,298)	$ (74)	$ 436	$ (318)	$ (2,524)	$ 365	$ 5,332	$ 7,608
15	Interest Expense[5]	111,472	75,285	420	165	60	3,383	78	2,867	3,467
16	Net Income	$ (41,115)	$ (78,584)	$ (494)	$ 271	$ (378)	$ (5,907)	$ 287	$ 2,465	$ 4,141
17										

Line No.		Com 2 Inch	Com 3 Inch	Com 4 Inch	Com 6 Inch	Com 8 Inch	Hydrant 3 Inch	Fire 4 Inch	Fire 6 Inch
18									
19									
20	Water Revenues	$ 656,390	$ 131,628	$ 56,353	$ 12,229	$ 15,578	$ 31,719	$ 6,050	$ 2,394
21	Revenue Annualizations	2,102	2,174	(9,694)	-	-	(2,036)	(110)	-
22	Misc. Revenues[1]	3,942	375	43	14	14	202	1,429	303
23	Reconcilation H-1 to C-1[1]	32	3	0	0	0	2	12	2
24	Total Revenues	$ 662,465	$ 134,180	$ 46,702	$ 12,244	$ 15,592	$ 29,886	$ 7,381	$ 2,700
25									
26	Operating Expenses[2]	$ 402,695	$ 72,002	$ 23,047	$ 3,601	$ 5,087	$ 19,755	$ 17,581	$ 3,729
27	Depreciation and								
28	Amortization[2]	149,762	27,267	5,586	2,898	4,558	13,875	21,780	7,311
29	Property Tax[3]	32,061	6,494	2,260	593	755	1,446	357	131
30	Income Tax[4]	23,165	9,667	5,840	1,847	1,779	(2,651)	(12,833)	(3,350)
31	Total Operating Expenses	$ 607,682	$ 115,430	$ 36,733	$ 8,938	$ 12,178	$ 32,426	$ 26,885	$ 7,821
32	Operating Income	$ 54,783	$ 18,750	$ 9,969	$ 3,306	$ 3,414	$ (2,539)	$ (19,504)	$ (5,121)
33	Interest Expense[5]	17,935	3,373	680	369	585	1,678	909	208
34	Net Income	$ 36,847	$ 15,377	$ 9,289	$ 2,938	$ 2,829	$ (4,217)	$ (20,413)	$ (5,329)
35									

Line No.		Fire 8 Inch	Blank Blank	Totals
36				
37				
38	Water Revenues	$ 155	$ -	$ 4,018,899
39	Revenue Annualizations	-	-	2,995
40	Misc. Revenues[1]	14	-	139,114
41	Reconcilation H-1 to C-1[1]	0	-	1,128
42	Total Revenues	$ 170	$ -	$ 4,162,136
43				
44	Operating Expenses[2]	$ 178	$ -	$ 2,868,067
45	Depreciation and			
46	Amortization[2]	360	-	1,048,124
47	Property Tax[3]	8	-	201,433
48	Income Tax[4]	(149)	-	(25,846)
49	Total Operating Expenses	$ 397	$ -	$ 4,091,778
50	Operating Income	$ (227)	$ -	$ 70,358
51	Interest Expense[5]	10	-	111,472
52	Net Income	$ (237)	$ -	$ (41,115)
53				
54				

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Cost of Service Study, Using Commodity Demand Method
Operating Margins at Present Rates

Exhibit
Schedule G-1
Page 2
Witness: Bourassa

Line No.			Res 5/8 Inch	Res 3/4 Inch	Res 1 Inch	Res 2 Inch	Com 5/8 Inch	Com 3/4 Inch	Com 1 Inch	Com 1.5 Inch
7	**Rate Base[6]**	$ 7,857,799	$ 5,306,945	$ 29,626	$ 11,614	$ 4,261	$ 238,474	$ 5,487	$ 202,070	$ 244,395
8	**Return on Rate Base[7]**	0.90%	-0.06%	-0.25%	3.75%	-7.46%	-1.06%	6.65%	2.64%	3.11%

	Com 2 Inch	Com 3 Inch	Com 4 Inch	Com 6 Inch	Com 8 Inch	Hydrant 3 Inch	Fire 4 Inch	Fire 6 Inch
	$ 1,264,275	$ 237,781	$ 47,936	$ 25,989	$ 41,226	$ 118,292	$ 64,078	$ 14,628
	4.33%	7.89%	20.80%	12.72%	8.28%	-2.15%	-30.44%	-35.01%

	Fire 8 Inch	Blank Blank	Totals
	$ 721	$ -	$ 7,857,799
	-31.45%	0.00%	0.90%

	Res 5/8 Inch	Res 3/4 Inch	Res 1 Inch	Res 2 Inch	Com 5/8 Inch	Com 3/4 Inch	Com 1 Inch	Com 1.5 Inch
Percent of Total Customers	88.64%	0.35%	0.08%	0.01%	3.95%	0.06%	1.46%	0.88%

	Com 2 Inch	Com 3 Inch	Com 4 Inch	Com 6 Inch	Com 8 Inch	Hydrant 3 Inch	Fire 4 Inch	Fire 6 Inch
	2.83%	0.27%	0.03%	0.01%	0.01%	0.15%	1.03%	0.22%

	Fire 8 Inch	Blank Blank	Totals
	0.01%	0.00%	100.00%

[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

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Cost of Service Study, Using Commodity Demand Method
Operating Margins at Proposed Rates

Exhibit
Rebuttal Schedule G-2
Page 1
Witness: Bourassa

Line No.		Totals	Res 5/8 Inch	Res 3/4 Inch	Res 1 Inch	Res 2 Inch	Com 5/8 Inch	Com 3/4 Inch	Com 1 Inch	Com 1.5 Inch
3	Water Revenues	$ 5,167,647	$ 3,221,316	$ 14,806	$ 8,126	$ 1,416	$ 169,245	$ 4,440	$ 125,931	$ 194,886
4	Revenue Annualizations	2,331	10,804	(102)	-	-	(2,191)	45	1,306	4,283
5	Misc. Revenues[1]	139,114	123,304	491	116	14	5,501	87	2,036	1,227
6	Reconcilation H-1 to C-1[1]	(990)	(877)	(3)	(1)	(0)	(39)	(1)	(14)	(9)
7	Total Revenues	$ 5,308,101	$ 3,354,547	$ 15,191	$ 8,241	$ 1,431	$ 172,516	$ 4,572	$ 129,258	$ 200,387
9	Operating Expenses[2]	$ 2,868,067	$ 2,075,664	$ 8,807	$ 3,617	$ 718	$ 95,993	$ 2,067	$ 58,557	$ 74,969
10	Depreciation and									
11	Amortization[2]	1,048,124	722,251	3,890	1,427	541	32,451	721	24,801	28,645
12	Property Tax[3]	201,433	127,299	576	313	54	6,547	173	4,905	7,604
13	Income Tax[4]	416,484	136,658	578	1,050	22	13,179	591	14,718	33,080
14	Total Operating Expenses	$ 4,534,108	$ 3,061,872	$ 13,852	$ 6,407	$ 1,335	$ 148,169	$ 3,553	$ 102,980	$ 144,299
15	Operating Income	$ 773,993	$ 292,675	$ 1,339	$ 1,834	$ 95	$ 24,347	$ 1,019	$ 26,278	$ 56,088
16	Interest Expense[5]	111,472	75,285	420	165	60	3,383	78	2,867	3,467
17	Net Income	$ 662,521	$ 217,389	$ 919	$ 1,670	$ 35	$ 20,964	$ 941	$ 23,412	$ 52,621

20	Meter Size->	Com 2 Inch	Com 3 Inch	Com 4 Inch	Com 6 Inch	Com 8 Inch	Hydrant 3 Inch	Fire 4 Inch	Fire 6 Inch
21	Water Revenues	$ 1,049,435	$ 190,880	$ 86,377	$ 11,197	$ 16,385	$ 50,445	$ 18,150	$ 4,284
22	Revenue Annualizations	3,230	3,093	(14,532)	-	-	(3,276)	(330)	-
23	Misc. Revenues[1]	3,942	375	43	14	14	202	1,429	303
24	Reconcilation H-1 to C-1[1]	(28)	(3)	(0)	(0)	(0)	(1)	(10)	(2)
25	Total Revenues	$ 1,056,579	$ 194,345	$ 71,888	$ 11,211	$ 16,399	$ 47,370	$ 19,239	$ 4,585
27	Operating Expenses[2]	$ 402,695	$ 72,002	$ 23,047	$ 3,601	$ 5,087	$ 19,755	$ 17,581	$ 3,729
28	Depreciation and	0	0	0	0	0	0	0	0
29	Amortization[2]	149,762	27,267	5,586	2,898	4,558	13,875	21,780	7,311
30	Property Tax[3]	40,095	7,375	2,728	425	622	1,798	730	174
31	Income Tax[4]	172,186	32,550	15,381	1,513	2,141	3,962	(8,399)	(2,639)
32	Total Operating Expenses	$ 764,738	$ 139,194	$ 46,742	$ 8,436	$ 12,409	$ 39,390	$ 31,692	$ 8,576
33	Operating Income	$ 291,840	$ 55,152	$ 25,147	$ 2,775	$ 3,991	$ 7,980	$ (12,452)	$ (3,990)
34	Interest Expense[5]	17,935	3,373	680	369	585	1,678	909	208
35	Net Income	$ 273,905	$ 51,778	$ 24,467	$ 2,406	$ 3,406	$ 6,302	$ (13,361)	$ (4,198)

38	Meter Size->	Fire 8 Inch	Blank Blank	Totals
39	Water Revenues	$ 326	$ -	$ 5,167,647
40	Revenue Annualizations	-	-	2,331
41	Misc. Revenues[1]	14	-	139,114
42	Reconcilation H-1 to C-1[1]	(0)	-	(990)
43	Total Revenues	$ 341	$ -	$ 5,308,101
45	Operating Expenses[2]	$ 178	$ -	$ 2,868,067
46	Depreciation and			
47	Amortization[2]	360	-	1,048,124
48	Property Tax[3]	13	-	201,433
49	Income Tax[4]	(85)	-	416,484
50	Total Operating Expenses	$ 466	$ -	$ 4,534,108
51	Operating Income	$ (125)	$ -	$ 773,993
52	Interest Expense[5]	10	-	111,472
53	Net Income	$ (135)	$ -	$ 662,521

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Cost of Service Study, Using Commodity Demand Method
Operating Margins at Proposed Rates

Exhibit
Schedule G-2
Page 2
Witness: Bourassa

Line No.			Res 5/8 Inch	Res 3/4 Inch	Res 1 Inch	Res 2 Inch	Com 5/8 Inch	Com 3/4 Inch	Com 1 Inch	Com 1.5 Inch
8	**Rate Base[6]**	$ 7,857,799	$ 5,306,945	$ 29,626	$ 11,614	$ 4,261	$ 238,474	$ 5,487	$ 202,070	$ 244,395
9	**Return on Rate Base[7]**	9.85%	5.51%	4.52%	15.79%	2.23%	10.21%	18.56%	13.00%	22.95%

	Com 2 Inch	Com 3 Inch	Com 4 Inch	Com 6 Inch	Com 8 Inch	Hydrant 3 Inch	Fire 4 Inch	Fire 6 Inch
	$ 1,264,275	$ 237,781	$ 47,936	$ 25,989	$ 41,226	$ 118,292	$ 64,078	$ 14,628
	23.08%	23.19%	52.46%	10.68%	9.68%	6.75%	-19.43%	-27.28%

	Fire 8 Inch	Blank Blank	Totals
	$ 721	$ -	$ 7,857,799
	-17.31%	0.00%	9.85%

	Res 5/8 Inch	Res 3/4 Inch	Res 1 Inch	Res 2 Inch	Com 5/8 Inch	Com 3/4 Inch	Com 1 Inch	Com 1.5 Inch
Percent of Total Customers	88.635%	0.353%	0.083%	0.010%	3.954%	0.062%	1.463%	0.882%

	Com 2 Inch	Com 3 Inch	Com 4 Inch	Com 6 Inch	Com 8 Inch	Hydrant 3 Inch	Fire 4 Inch	Fire 6 Inch
	2.833%	0.270%	0.031%	0.010%	0.010%	0.145%	1.028%	0.218%

	Fire 8 Inch	Blank Blank	Totals
	0.010%	0.000%	100.000%

[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

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Cost of Service Study Using Commodity / Demand Method
Allocation of Assets to Customer Classes

Exhibit
Rebuttal Schedule G-3
Page 1
Witness: Bourassa

Line No.		Totals	Factor	Res 5/8 Inch	Res 3/4 Inch	Res 1 Inch	Res 2 Inch	Com 5/8 Inch	Com 3/4 Inch	Com 1 Inch	Com 1.5 Inch
1	Plant, Minus Accumulated Depreciation, Advances and Contributions in Aid, Meter Deposits, and Deferred Income Tax (from Schedule G-5, Page 1)										
2	Commodity	$ 481,270	C-1	$ 282,358	$ 868	$ 735	$ 55	$ 14,309	$ 412	$ 10,324	$ 19,624
3	Demand	6,624,903	D-1	4,373,414	26,118	10,242	4,097	195,114	4,609	180,519	217,646
4	Customer	617,320	CS-1	547,163	2,178	513	64	24,411	384	9,034	5,446
5	Service	102,672	S-1	85,367	340	89	19	3,809	60	1,568	1,050
6	Meter	31,634	M-1	18,642	122	35	27	832	22	626	628
7	Totals	$ 7,857,799		$ 5,306,945	$ 29,626	$ 11,614	$ 4,261	$ 238,474	$ 5,487	$ 202,070	$ 244,395
8											
9				Com 2 Inch	Com 3 Inch	Com 4 Inch	Com 6 Inch	Com 8 Inch	Hydrant 3 Inch	Fire 4 Inch	Fire 6 Inch
10			Factor								
11	Commodity		C-1	$ 119,229	$ 21,856	$ 9,123	$ 199	$ 13	$ 2,165	$ -	$ -
12	Demand		D-1	1,118,447	213,038	38,408	25,605	40,969	114,713	50,699	10,754
13	Customer		CS-1	17,491	1,666	192	64	64	897	6,343	1,345
14	Service		S-1	5,090	610	100	50	74	16	3,314	1,043
15	Meter		M-1	4,018	611	113	71	106	502	3,723	1,486
16				$ 1,264,275	$ 237,781	$ 47,936	$ 25,989	$ 41,226	$ 118,292	$ 64,078	$ 14,628
17											
18				Fire 8 Inch	Blank Blank						
19			Factor			Totals					
20	Commodity		C-1	$ -	$ -	$ 481,270					
21	Demand		D-1	512	-	6,624,903					
22	Customer		CS-1	64	-	617,320					
23	Service		S-1	74	-	102,672					
24	Meter		M-1	71	-	31,634					
25				$ 721	$ -	$ 7,857,799					
26											
27				Res 5/8 Inch	Res 3/4 Inch	Res 1 Inch	Res 2 Inch	Com 5/8 Inch	Com 3/4 Inch	Com 1 Inch	Com 1.5 Inch
28											
29											
30	Net Rate Base	$ 7,857,799		$ 5,306,945	$ 29,626	$ 11,614	$ 4,261	$ 238,474	$ 5,487	$ 202,070	$ 244,395
31											
32				Com 2 Inch	Com 3 Inch	Com 4 Inch	Com 6 Inch	Com 8 Inch	Hydrant 3 Inch	Fire 4 Inch	Fire 6 Inch
33											
34											
35				$ 1,264,275	$ 237,781	$ 47,936	$ 25,989	$ 41,226	$ 118,292	$ 64,078	$ 14,628
36											
37				Fire 8 Inch	Blank Blank	0 Totals					
38											
39											
40				$ 721	$ -	$ 7,857,799					
41											
42				Res 5/8 Inch	Res 3/4 Inch	Res 1 Inch	Res 2 Inch	Com 5/8 Inch	Com 3/4 Inch	Com 1 Inch	Com 1.5 Inch
43											
44											
45	Allocation %	100.00%		67.54%	0.38%	0.15%	0.05%	3.03%	0.07%	2.57%	3.11%
46											
47				Com 2 Inch	Com 3 Inch	Com 4 Inch	Com 6 Inch	Com 8 Inch	Hydrant 3 Inch	Fire 4 Inch	Fire 6 Inch
48											
49											
50				16.09%	3.03%	0.61%	0.33%	0.52%	1.51%	0.82%	0.19%
51											
52				Fire 8 Inch	Blank Blank	0 Totals					
53											
54											
55				0.01%	0.00%	100.00%					

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Cost of Service Study, Using Commodity Demand Method
Allocation of Expenses to Customer Classes

Exhibit
Rebuttal Schedule G-4
Page 1
Witness: Bourassa

Line No.		Totals	Factor	Res 5/8 Inch	Res 3/4 Inch	Res 1 Inch	Res 2 Inch	Com 5/8 Inch	Com 3/4 Inch	Com 1 Inch	Com 1.5 Inch
	Operation and Maintenance Expense (from Schedule G-6, Page 1)										
1	Commodity	$ 952,934	C-1	$ 559,081	$ 1,718	$ 1,455	$ 108	$ 28,332	$ 816	$ 20,442	$ 38,856
2	Demand	799,715	D-1	527,930	3,153	1,236	495	23,553	556	21,791	26,273
3	Customer	1,115,418	CS-1	988,653	3,936	926	116	44,107	695	16,323	9,840
4	Service	-	S-1	-	-	-	-	-	-	-	-
5	Meter	-	M-1	-	-	-	-	-	-	-	-
6	Totals	$ 2,868,067		$ 2,075,664	$ 8,807	$ 3,617	$ 718	$ 95,993	$ 2,067	$ 58,557	$ 74,969
7											
8				Com	Com	Com	Com	Com	Hydrant	Fire	Fire
9			Factor	2 Inch	3 Inch	4 Inch	6 Inch	8 Inch	3 Inch	4 Inch	6 Inch
10											
11	Commodity		C-1	$ 236,079	$ 43,276	$ 18,063	$ 394	$ 26	$ 4,287	$ -	$ -
12	Demand		D-1	135,012	25,716	4,636	3,091	4,945	13,847	6,120	1,298
13	Customer		CS-1	31,604	3,010	347	116	116	1,621	11,461	2,431
14	Service		S-1	-	-	-	-	-	-	-	-
15	Meter		M-1	-	-	-	-	-	-	-	-
16	Totals			$ 402,695	$ 72,002	$ 23,047	$ 3,601	$ 5,087	$ 19,755	$ 17,581	$ 3,729
17											
18				Fire	Blank						
19			Factor	8 Inch	Blank	Totals					
20											
21	Commodity		C-1	$ -	$ -	$ 952,934					
22	Demand		D-1	62	-	799,715					
23	Customer		CS-1	116	-	1,115,418					
24	Service		S-1	-	-	-					
25	Meter		M-1	-	-	-					
26	Totals			$ 178	$ -	$ 2,868,067					

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Cost of Service Study, Using Commodity Demand Method
Allocation of Expenses to Customer Classes

Exhibit
Schedule G-4
Page 1.1
Witness: Bourassa

Line No.			Factor	Res 5/8 Inch	Res 3/4 Inch	Res 1 Inch	Res 2 Inch	Com 5/8 Inch	Com 3/4 Inch	Com 1 Inch	Com 1.5 Inch
3	Depreciaton Expense on Plant (from Schedule G-6, Page 2)										
4	Commodity	$ 64,270	C-1	$ 37,707	$ 116	$ 98	$ 7	$ 1,911	$ 55	$ 1,379	$ 2,621
5	Demand	666,132	D-1	439,745	2,626	1,030	412	19,619	463	18,151	21,884
6	Customer	153,542	CS-1	136,092	542	127	16	6,072	96	2,247	1,355
7	Service	49,366	S-1	41,046	163	43	9	1,831	29	754	505
8	Meter	114,815	M-1	67,662	443	129	97	3,019	78	2,270	2,281
9	Totals	$ 1,048,124		$ 722,251	$ 3,890	$ 1,427	$ 541	$ 32,451	$ 721	$ 24,801	$ 28,645

Line No.		Factor	Com 2 Inch	Com 3 Inch	Com 4 Inch	Com 6 Inch	Com 8 Inch	Hydrant 3 Inch	Fire 4 Inch	Fire 6 Inch
14	Commodity	C-1	$ 15,922	$ 2,919	$ 1,218	$ 27	$ 2	$ 289	$ -	$ -
15	Demand	D-1	112,459	21,421	3,862	2,575	4,119	11,534	5,098	1,081
16	Customer	CS-1	4,350	414	48	16	16	223	1,578	335
17	Service	S-1	2,447	293	48	24	36	8	1,593	501
18	Meter	M-1	14,582	2,219	409	257	385	1,821	13,511	5,394
19	Totals		$ 149,762	$ 27,267	$ 5,586	$ 2,898	$ 4,558	$ 13,875	$ 21,780	$ 7,311

Line No.		Factor	Fire 8 Inch	Blank Blank	Totals
24	Commodity	C-1	$ -	$ -	$ 64,270
25	Demand	D-1	51	-	666,132
26	Customer	CS-1	16	-	153,542
27	Service	S-1	36	-	49,366
28	Meter	M-1	257	-	114,815
29	Totals		$ 360	$ -	$ 1,048,124

Line No.			Res 5/8 Inch	Res 3/4 Inch	Res 1 Inch	Res 2 Inch	Com 5/8 Inch	Com 3/4 Inch	Com 1 Inch	Com 1.5 Inch
32–34	Total Expenses (excluding Income Tax and Property Taxes)	$ 3,916,192	$ 2,797,915	$ 12,698	$ 5,044	$ 1,259	$ 128,443	$ 2,788	$ 83,357	$ 103,615

Line No.		Com 2 Inch	Com 3 Inch	Com 4 Inch	Com 6 Inch	Com 8 Inch	Hydrant 3 Inch	Fire 4 Inch	Fire 6 Inch
39		$ 149,762	$ 27,267	$ 5,586	$ 2,898	$ 4,558	$ 13,875	$ 21,780	$ 7,311

Line No.		Fire 8 Inch	Blank Blank	Totals
44		$ 538	$ -	$ 3,916,192

Line No.		
46	Property Taxes, Allocated on Schedules G-1 & G-2	$ 201,433
47	Income Tax, Allocated on Schedules G-1 & G-2	416,484
48	Total Expenses	$ 4,534,108

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Cost of Service Study, Using Commodity Demand Method
Summary of Allocation of Expenses to Customer Classes

Exhibit
Rebuttal Schedule G-4
Page 2
Witness: Bourassa

Line No.		Totals	Factor	Res 5/8 Inch	Res 3/4 Inch	Res 1 Inch	Res 2 Inch	Com 5/8 Inch	Com 3/4 Inch	Com 1 Inch	Com 1.5 Inch
1	Commodity	$ 1,017,204	C-1	$ 596,788	$ 1,834	$ 1,553	$ 115	$ 30,243	$ 871	$ 21,821	$ 41,477
2	Demand	1,465,847	D-1	967,675	5,779	2,266	906	43,171	1,020	39,942	48,157
3	Customer	1,268,960	CS-1	1,124,745	4,478	1,054	132	50,179	790	18,570	11,195
4	Service	49,366	S-1	41,046	163	43	9	1,831	29	754	505
5	Meter	114,815	M-1	67,662	443	129	97	3,019	78	2,270	2,281
6											
7											
8	Totals	$ 3,916,192		$ 2,797,915	$ 12,698	$ 5,044	$ 1,259	$ 128,443	$ 2,788	$ 83,357	$ 103,615
9											
10				Com 2 Inch	Com 3 Inch	Com 4 Inch	Com 6 Inch	Com 8 Inch	Hydrant 3 Inch	Fire 4 Inch	Fire 6 Inch
11			Factor								
12											
13	Commodity		C-1	$ 252,001	$ 46,195	$ 19,282	$ 420	$ 27	$ 4,576	$ -	$ -
14	Demand		D-1	247,471	47,137	8,498	5,666	9,065	25,382	11,218	2,380
15	Customer		CS-1	35,955	3,424	395	132	132	1,844	13,039	2,766
16	Service		S-1	2,447	293	48	24	36	8	1,593	501
17	Meter		M-1	14,582	2,219	409	257	385	1,821	13,511	5,394
18											
19	Totals			$ 552,457	$ 99,269	$ 28,633	$ 6,498	$ 9,645	$ 33,631	$ 39,361	$ 11,041
20											
21				Fire 8 Inch	Blank Blank						
22			Factor			Totals					
23											
24			C-1	$ -	$ -	$ -					
25			D-1	-	-	-					
26			CS-1	-	-	-					
27			S-1	-	-	-					
28			M-1	-	-	-					
29											
30				$ -	$ -	$ -					
31											
32				Res 5/8 Inch	Res 3/4 Inch	Res 1 Inch	Res 2 Inch	Com 5/8 Inch	Com 3/4 Inch	Com 1 Inch	Com 1.5 Inch
33											
34	Total Expenses (excluding Income Tax and										
35	Property Taxes)	**$ 3,916,192**		$ 2,797,915	$ 12,698	$ 5,044	$ 1,259	$ 128,443	$ 2,788	$ 83,357	$ 103,615
36											
37				Com 2 Inch	Com 3 Inch	Com 4 Inch	Com 6 Inch	Com 8 Inch	Hydrant 3 Inch	Fire 4 Inch	Fire 6 Inch
38											
39											
40				$ 552,457	$ 99,269	$ 28,633	$ 6,498	$ 9,645	$ 33,631	$ 39,361	$ 11,041
41											
42				Fire 8 Inch	Blank Blank	0 Totals					
43											
44											
45				$ -	$ -	$ -					
46											
47	Property Taxes, Allocated on Schedules G-1 & G-2	$ 201,433									
48	Income Tax, Allocated on Schedules G-1 & G-2	416,484									
49	Total Expenses	**$ 4,534,108**									
50											

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Cost of Service Study, Using Commodity Demand Method
Allocation of Rate Base by Function

Exhibit
Rebuttal Schedule G-5
Page 1
Witness: Bourassa

Line No.		Adjusted	Demand	Commodity	Customer	Meter	Service
1	**Rate Base**						
2	Plant minus (Accumulated Depreciation	$ 7,857,799	$ 6,624,903	$ 481,270	$ 617,320	$ 31,634	$ 102,672
3	Contributions in Aid of Construction						
4	Advances in Aid of Construction,						
5	Meter Deposits and Deferred Income Tax)						
6							
7							
8							
9		7,857,799	6,624,903	481,270	617,320	31,634	102,672
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Allocation of Plant, Less Contributions and Advances in Aid of
Construction , Meter Deposits and Accumulated Depreciation to Functions

Exhibit
Rebuttal Schedule G-5
Page 2
Witness: Bourassa

Line No.	Account No.	Description	Original Cost Plant	Accumulated Depreciation	Total Net Plant Values	Factor	Demand	Commodity	Customer	Meter	Service
1	**Intangible**										
2	301	Organization	$ -		$ -	F-6	$ -	$ -	$ -	$ -	$ -
3	302	Franchises	961		961	F-6	961	-	-		
4											
5	**Subtotal Intangible**		961		961		961	-	-	-	-
6											
7	**Source of Supply & Pumping Plant**										
8	303	Land and Land Rights	$ 688,011		$ 688,011	F-6	$ 688,011	$ -	$ -	$ -	$ -
9	304	Structures and Improvements	1,914,771	397,034	1,517,738	F-4	1,517,738	-	-		
10	305	Collecting and Impounding Res.	46,813	2,059	44,754	F-1	40,279	4,475	-		
11	306	Lakes, Rivers, Other Intakes	-	-	-	F-1	-	-	-		
12	307	Wells and Springs	1,298,272	527,041	771,232	F-1	694,108	77,123	-		
13	308	Infiltration Galleries and Tunnels	-	-	-	F-1	-	-	-		
14	309	Supply Mains	3,256	85	3,170	F-1	2,853	317	-		
15	310	Power Generation Equipment	1,293	75	1,218	F-1	1,096	122	-		
16	311	Electric Pumping Equipment	2,327,407	2,018,177	309,230	F-2	278,307	30,923	-		
17	**Subtotal Source of Supply & Pumping Plant**		$ 6,279,824	$ 2,944,471	$ 3,335,353		$ 3,222,393	$ 112,960	$ -	$ -	$ -
18											
19	**Water Treatment**										
20	320	Water Treatment Equipment	$ 83,385	$ 12,825	$ 70,560	F-5	$ 63,504	$ 7,056	$ -	$ -	$ -
21	**Subtotal Water Treatment**		$ 83,385	$ 12,825	$ 70,560		$ 63,504	$ 7,056	$ -	$ -	$ -
22											
23	**Transmission and Distribution Plant**										
24	330	Distribution Reservoirs & Standpipe	$ 2,637,716	$ 775,303	$ 1,862,414	F-3	$ 1,676,173	$ 186,241	$ -	$ -	$ -
25	331	Transmission and Distribution Mains	12,226,889	3,489,236	8,737,653	F-3	7,863,888	873,765	-	-	-
26	333	Services	1,482,462	820,185	662,277	F-8					662,277
27	334	Meters	1,378,333	1,346,699	31,634	F-9				31,634	
28	335	Hydrants	961,896	276,163	685,733	F-10	-	-	685,733		
29	336	Backflow Prevention Devices	-	-	-	F-1	-	-	-		
30	339	Other Plant and Miscellaneous Equip.	114,539	8,753	105,786	F-1	95,208	10,579	-		
31	**Subtotal Transmission and Distribution Plant**		$ 18,801,835	$ 6,716,338	$ 12,085,497		$ 9,635,268	$ 1,070,585	$ 685,733	$ 31,634	$ 662,277
32											
33	**General Plant**										
34	340	Office Furniture and Fixtures	$ 177,672	$ 138,232	$ 39,439	F-12	$ -	$ -	$ 39,439	$ -	$ -
35	340.1	Computer Equipment	160,920	117,738	43,182	F-12	-	-	43,182	-	-
36	341	Transportation Equipment	268,464	248,950	19,514	F-11	4,879	-	14,636		
37	342	Stores Equipment	-	-	-	SF-3			-		-
38	343	Tools and Work Equipment	122,712	122,448	264	SF-3			264		-
39	344	Laboratory Equipment	-	-	-	SF-3			-		
40	345	Power Operated Equipment	31,548	5,882	25,666	SF-3			25,666		
41	346	Communications Equipment	420,744	93,204	327,540	F-13	81,885	-	245,655		

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Allocation of Plant, Less Contributions and Advances in Aid of
Construction , Meter Deposits and Accumulated Depreciation to Functions

Exhibit
Schedule G-5
Page 2.1
Witness: Bourassa

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	107,306	100,742	6,564	SF-3			6,564		
3	348	Other Tangible Plant	155,378	27,191	128,187	F-1			128,187		
4	**Subtotal General Plant**		$ 1,444,744	$ 854,388	$ 590,357		$ 86,764	$ -	$ 503,593	$ -	$ -
5	Total Plant		$ 26,610,749	$ 10,528,021	$ 16,082,728		$ 13,008,889	$ 1,190,602	$ 1,189,326	$ 31,634	$ 662,277
6											
7	Contributions in Aid of Construction, Net		(542,445)	230,570	(311,875)	F-1	$ (280,687)	$ (31,187)	$ -	$ -	$ -
8	Advances in Aid of Construction		(6,781,443)		(6,781,443)	F-3	(6,103,299)	(678,144)	-	-	-
9	Meter Deposits		(559,605)		(559,605)						(559,605)
10	Deferred Income Tax		(572,006)		(572,006)	SF-3			(572,006)		
11	Deferred Reg Assets		-		-				-		
12	Unamortized Debt Service Costs		-		-				-		
13	Totals		$ 18,155,251	$ 10,758,591	$ 7,857,799		$ 6,624,903	$ 481,270	$ 617,320	$ 31,634	$ 102,672
14	Rate Bases (Plant -(AIAC, CIAC, Meter Deposits & Accum. Depr.)				$ 7,857,799		$ 6,624,903	$ 481,270	$ 617,320	$ 31,634	$ 102,672

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
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]		708	E-5		708				708
3	Purchased Power[1]		609,459	E-4	-	609,459	-	-	-	609,459
4	Fuel For Power Production[1]		-	E-4	-	-	-	-	-	-
5	Chemicals[1]		5,715	E-9	-	5,715	-	-	-	5,715
6	Materitails & Supplies/Repairs & Maintenance[1]		49,998	E-1	44,998	5,000	-	-	-	49,998
7	Outside Services[1]		4,696	E-3	1,878	939	1,878	-	-	4,696
8	Outside Services - Other[1]		41,937	E-3	16,775	8,387	16,775	-	-	41,937
9	Outside Services- Legal[1]		1,580,298	E-3	632,119	316,060	632,119	-	-	1,580,298
10	Water Testing[1]		66,652	E-10	59,987	6,665	-	-	-	66,652
11	Equipment Rent		140	E-11	-	-	140	-	-	140
12	Rents - Building		60,600	E-11	-	-	60,600	-	-	60,600
13	Transportation Expenses[1]		116,419	E-8	29,105	-	87,314	-	-	116,419
14	Insurance - General Liability		59,410	SE-3	14,853	-	44,558	-	-	59,410
15	Insurance - Health and Life		7,290	SE-3			7,290			7,290
16	Reg. Comm. Exp.		10,628	SE-3			10,628			10,628
17	Reg. Comm. Exp. - Rate Case		150,000	SE-3			150,000			150,000
18	Miscellaneous Expense		85,938	SE-3			85,938			85,938
19	Bad Debt Expense		18,178	SE-3			18,178			18,178
20										-
21	Depreciation Expense[2]		1,048,124		666,132	64,270	153,542	114,815	49,366	1,048,124
22	Taxes Other Than Income		-		-	-	-	-	-	-
23	Subtotal		$ 3,916,192							
24										
25		Present Rates	Proposed Rates							-
26	Property Taxes, Allocated on Schedules G-1 & G-2	**201,433**	**201,433**							
27	Income Tax, Allocated on Schedules G-1 & G-2[3]	**(25,846)**	**416,484**							
28										
29	Total	$ 4,091,778	$ 4,534,108		$ 1,465,847	$ 1,017,204	$ 1,268,960	$ 114,815	$ 49,366	**$ 3,916,192**
30										
31										

32 [1] Allocation factors see Schedule G-7, page 2.1.
33 [2] Depreciation allocation computed on Schedule G-6, Page 2.
34 [3] Income Taxes shown at proposed rates.
35
36

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Allocation of Depreciation Expense to Functions

Exhibit
Rebuttal Schedule G-6
Page 2
Witness: Bourassa

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	$ -		$ -							
3	302	Franchises	961		-							
4												
5	**Subtotal Intangible**		$ 961		$ -		$ -	$ -	$ -	$ -	$ -	$ -
6												
7		**Source of Supply & Pumping Plant**										
8	303	Land and Land Rights	$ 688,011	0.000%	$ -		$ -	-	$ -	$ -	$ -	$ -
9	304	Structures and Improvements	1,914,771	3.330%	63,762	F-4	63,762	63,762	-			
10	305	Collecting and Impounding Res.	46,813	2.500%	1,170	F-1	1,170	1,053	117			
11	306	Lakes, Rivers, Other Intakes	-	2.500%	-	F-1	-	-	-			
12	307	Wells and Springs	1,298,272	3.330%	43,232	F-1	43,232	38,909	4,323			
13	308	Infiltration Galleries and Tunnels	-	6.670%	-	F-1	-	-	-			
14	309	Supply Mains	3,256	2.000%	65	F-1	65	59	7			
15	310	Power Generation Equipment	1,293	5.000%	65	F-1	65	58	6			
16	311	Electric Pumping Equipment	2,327,407	12.500%	290,926	F-2	290,926	261,833	29,093			
17	**Subtotal Source of Supply & Pumping Plant**		$ 6,279,824		$ 399,220		$ 399,220	$ 365,675	$ 33,546	$ -	$ -	$ -
18												
19	**Water Treatment**											
20	320	Water Treatment Equipment	83,385	3.330%	2,777	F-5	2,777	2,499	278	-		
21	**Subtotal Water Treatment**		$ 83,385		$ 2,777		$ 2,777	$ 2,499	$ 278	$ -	$ -	$ -
22												
23	**Transmission and Distribution Plant**											
24	330	Distribution Reservoirs & Standpipe	$ 2,637,716	2.220%	$ 58,557	F-3	$ 58,557	$ 52,702	$ 5,856	$ -	$ -	$ -
25	331	Transmission and Distribution Mains	12,226,889	2.000%	244,538	F-3	244,538	220,084	24,454			
26	333	Services	1,482,462	3.330%	49,366	F-8	49,366	-	-	-		49,366
27	334	Meters	1,378,333	8.330%	114,815	F-9	114,815	-	-	-	114,815	
28	335	Hydrants	961,896	2.000%	19,238	F-10	19,238	-	-	19,238		
29	336	Backflow Prevention Devices	-	6.670%	-	F-1	-	-	-	-		
30	339	Other Plant and Miscellaneous Equipment	114,539	6.670%	7,640	F-1	7,640	6,876	764	-		
31	**Subtotal Transmission and Distribution Plant**		$ 18,801,835		$ 494,154		$ 494,154	$ 279,661	$ 31,073	$ 19,238	$ 114,815	$ 49,366
32												
33	**General Plant**											
34	340	Office Furniture and Fixtures	$ 177,672	6.670%	$ 11,851	F-12	$ 11,851	$ -	$ -	$ 11,851		
35	340.1	Computer Equipment*	160,920	20.000%	32,184	F-12	32,184	-	-	32,184		
36	341	Transportation Equipment	268,464	20.000%	53,693	F-11	53,693	13,423	-	40,270		
37	342	Stores Equipment	-	4.000%	-	SF-3	-			-		
38	343	Tools and Work Equipment	122,712	5.000%	6,136	SF-3	6,136			6,136		
39	344	Laboratory Equipment	-	10.000%	-	SF-3	-			-		
40	345	Power Operated Equipment	31,548	5.000%	1,577	SF-3	1,577			1,577		
41	346	Communications Equipment	420,744	10.000%	42,074	F-13	42,074	10,519	-	31,556		

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Allocation of Depreciation Expense to Functions

Exhibit
Schedule G-6
Page 2.1
Witness: Bourassa

Line No.	Account No.	Description	Original Cost	Depreciation Rate	Depreciation Expense	Factor	Total Depr. Expense	Demand	Commodity	Customer	Meter	Service
1	**General Plant Continued**											
2	347	Miscellaneous Equipment	107,306	10.00%	10,731	SF-3	10,731			10,731		
3	348	Other Tangible Plant	155,378	10.00%	15,538	F-1	15,538	13,984	1,554	-		
4	**Subtotal General Plant**		$ 1,444,744		$ 173,783		$ 173,783	$ 37,926	$ 1,554	$ 134,304	$ -	$ -
5	**Total Plant**		$ 26,610,749		$ 1,069,934		$ 1,069,934	$ 685,761	$ 66,451	$ 153,542	$ 114,815	$ 49,366
6												
7												
8	Less: Amortization of Contributions											
9	Gross Contributions-in-aid of construction		$ (542,445)	4.0207%	$ (21,810)	F-1	$ (21,810)	$ (19,629)	$ (2,181)	$ -		
10					-		-	-	-			
11					-		-					-
12					-		-				-	
13					-		-			-		
14	Total Depreciation Expense		(542,445)		$ 1,048,124		$ 1,048,124	$ 666,132	$ 64,270	$ 153,542	$ 114,815	$ 49,366
15												
16												
17												
18	* Fully Depreciated											
19												

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Summary of Commodity - Demand Method Functions Factors

Exhibit
Rebuttal Schedule G-7
Page 1
Witness: Bourassa

Line No.	Description	Factor	Res 5/8 Inch	Res 3/4 Inch	Res 1 Inch	Res 2 Inch	Com 5/8 Inch	Com 3/4 Inch	Com 1 Inch	Com 1.5 Inch
1										
2	Description	Factor	5/8 Inch	3/4 Inch	1 Inch	2 Inch	5/8 Inch	3/4 Inch	1 Inch	1.5 Inch
3	Commodity	C-1	58.669%	0.180%	0.153%	0.011%	2.973%	0.086%	2.145%	4.078%
4	Demand	D-1	66.015%	0.394%	0.155%	0.062%	2.945%	0.070%	2.725%	3.285%
5	Customer	CS-1	88.635%	0.353%	0.083%	0.010%	3.954%	0.062%	1.463%	0.882%
6	Services	S-1	83.145%	0.331%	0.087%	0.018%	3.709%	0.058%	1.527%	1.023%
7	Meters	M-1	58.931%	0.386%	0.112%	0.084%	2.629%	0.068%	1.977%	1.987%
8										
9										
10			Com	Com	Com	Com	Com	Hydrant	Fire	Fire
11	Description	Factor	2 Inch	3 Inch	4 Inch	6 Inch	8 Inch	3 Inch	4 Inch	6 Inch
12	Commodity	C-1	24.774%	4.541%	1.896%	0.041%	0.003%	0.450%	0.000%	0.000%
13	Demand	D-1	16.882%	3.216%	0.580%	0.387%	0.618%	1.732%	0.765%	0.162%
14	Customer	CS-1	2.833%	0.270%	0.031%	0.010%	0.010%	0.145%	1.028%	0.218%
15	Services	S-1	4.957%	0.594%	0.098%	0.048%	0.073%	0.015%	3.227%	1.015%
16	Meters	M-1	12.701%	1.933%	0.357%	0.224%	0.336%	1.586%	11.768%	4.698%
17										

	Description	Factor	Fire 8 Inch	Blank Blank	Totals
18	Commodity	C-1	0.000%	0.000%	100.000%
19	Demand	D-1	0.008%	0.000%	100.000%
20	Customer	CS-1	0.010%	0.000%	100.000%
21	Services	S-1	0.073%	0.000%	100.000%
22	Meters	M-1	0.224%	0.000%	100.000%
23					
24					

25 SUPPORTING SCHEDULES
26 G-7, page 3
27
28

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
COMMODITY - DEMAND METHOD FUNCTION FACTORS
Plant and Depreciation Expense Allocations Functions

Exhibit
Rebuttal Schedule G-7
Page 2
Witness: Bourassa

Line No.	Description	Factor	Total	Demand	Commodity	Customer	Meter	Service
1								
2	Description	Factor	Total	Demand	Commodity	Customer	Meter	Service
3	Wells	F-1	1.00	0.90	0.10			
4	Pumps & Equipment	F-2	1.00	0.90	0.10			
5	Trans. & Dist. Mains	F-3	1.00	0.90	0.10			
6	Structures & Improv.	F-4	1.00	1.00				
7	Water Treatment Equip.	F-5	1.00	0.90	0.10			
8	Land	F-6	1.00	1.00				
9	Customer	F-7	1.00			1.00		
10	Services	F-8	1.00					1.00
11	Meters	F-9	1.00				1.00	
12	Fire Hydrants	F-10	1.00			1.00		
13	Transportation Equip.	F-11	1.00	0.25		0.75		
14	Office Furniture	F-12	1.00			1.00		
15	Communication Equip.	F-13	1.00	0.25		0.75		
16	Specific	SF-1	1.00	1.00				
17	Specific	SF-2	1.00		1.00			
18	Specific	SF-3	1.00			1.00		
19								
20								

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Cost of Service Study, Using Commodity Demand Method
Development Of Expense Allocation Factors

Exhibit
Rebuttal Schedule G-7
Page 2.1
Witness: Bourassa

Line No.	Expense Type	Factor	Total	Demand	Commodity	Customer	Meters	Services
1								
2	Salaries and Wages[8]	E-1	1.00	0.40	0.20	0.40		
3	Repairs and Maintenance[1]	E-2	1.00	0.90	0.10			
4	Oustside Services[2]	E-3	1.00	0.40	0.20	0.40		
5	Purchased Power/Fuel for Power Prod.[3]	E-4	1.00		1.00			
6	Purchased Water[4]	E-5	1.00		1.00			
7	Materials and Supplies	E-6	1.00	0.90	0.10			
8	Rents	E-7	1.00			1.00		
9	Transportation[5]	E-8	1.00	0.25	-	0.75		
10	Chemicals[6]	E-9	1.00		1.00			
11	Water Testing[7]	E-10	1.00	0.90	0.10			
12	Specific	SE-1	1.00	1.00				
13	Specific	SE-2	1.00		1.00			
14	Specific	SE-3	1.00			1.00		
15	Specific	SE-4	1.00				1.00	
16	Specific	SE-5	1.00					1.00
17								
18								
19	[1] Estimated based on examination of costs in repairs and maintenance and professional judgement.							
20	[2] Estimated based on examination of costs included in contractual services and professional judgement.							
21	[3] 100% related to pumping and water production.							
22	[4] 100% related to pumping and water production.							
23	[5] Based on allocation of transportation equipment. See G-7, page 2.							
24	[6] 100% related to water production.							
25	[7] Based on allocation of well plant and equipment. See G-7, page 2.							
26	[8] The Company does not have recorded salaries and wages expense. See allocation of contractual services.							
27								
28								
29								
30								
31								

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
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	664,275	58.67%
3/4 Inch	Res	2,042	0.18%
1 Inch	Res	1,728	0.15%
2 Inch	Res	129	0.01%
5/8 Inch	Com	33,663	2.97%
3/4 Inch	Com	969	0.09%
1 Inch	Com	24,289	2.15%
1.5 Inch	Com	46,167	4.08%
2 Inch	Com	280,498	24.77%
3 Inch	Com	51,419	4.54%
4 Inch	Com	21,462	1.896%
6 Inch	Com	468	0.041%
8 Inch	Com	31	0.003%
3 Inch	Hydrant	5,094	0.450%
4 Inch	Fire	-	0.000%
6 Inch	Fire	-	0.000%
8 Inch	Fire	-	0.000%
Totals		1,132,234	100.00%

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	8,540	1.0	8,540	66.01%
3/4 Inch	Res	34	1.5	51	0.39%
1 Inch	Res	8	2.5	20	0.15%
2 Inch	Res	1	8.0	8	0.06%
5/8 Inch	Com	381	1.0	381	2.95%
3/4 Inch	Com	6	1.5	9	0.07%
1 Inch	Com	141	2.5	353	2.72%
1.5 Inch	Com	85	5.0	425	3.29%
2 Inch	Com	273	8.0	2,184	16.88%
3 Inch	Com	26	16.0	416	3.22%
4 Inch	Com	3	25.0	75	0.58%
6 Inch	Com	1	50.0	50	0.39%
8 Inch	Com	1	80.0	80	0.62%
3 Inch	Hydrant	14	16.0	224	1.73%
4 Inch	Fire	99	1.0	99	0.77%
6 Inch	Fire	21	1.0	21	0.16%
8 Inch	Fire	1	1.0	1	0.01%
		-			
Totals		9,635		12,937	100.00%

CUSTOMER ALLOCATION FACTOR (CS-1)

Meter Size	Class	Number of Meters	Percent of Total
5/8 Inch	Res	8,540	88.64%
3/4 Inch	Res	34	0.35%
1 Inch	Res	8	0.08%
2 Inch	Res	1	0.01%
5/8 Inch	Com	381	3.95%
3/4 Inch	Com	6	0.06%
1 Inch	Com	141	1.46%
1.5 Inch	Com	85	0.88%
2 Inch	Com	273	2.83%
3 Inch	Com	26	0.27%
4 Inch	Com	3	0.03%
6 Inch	Com	1	0.01%
8 Inch	Com	1	0.01%
3 Inch	Hydrant	14	0.15%
4 Inch	Fire	99	1.03%
6 Inch	Fire	21	0.22%
8 Inch	Fire	1	0.01%
Totals		9,635	100.00%

SERVICES ALLOCATION FACTOR (S-1) (b)

Meter Size	Class	Number of Services	Installation Cost	Weighted Number Services	Percent of Total
5/8 Inch	Res	8,540	$ 445.00	3,800,300	83.15%
3/4 Inch	Res	34	445.00	15,130	0.33%
1 Inch	Res	8	495.00	3,960	0.09%
2 Inch	Res	1	830.00	830	0.02%
5/8 Inch	Com	381	445.00	169,545	3.71%
3/4 Inch	Com	6	445.00	2,670	0.06%
1 Inch	Com	141	495.00	69,795	1.53%
1.5 Inch	Com	85	550.00	46,750	1.02%
2 Inch	Com	273	830.00	226,590	4.96%
3 Inch	Com	26	1,045.00	27,170	0.59%
4 Inch	Com	3	1,490.00	4,470	0.10%
6 Inch	Com	1	2,210.00	2,210	0.05%
8 Inch	Com	1	3,315.00	3,315	0.07%
3 Inch	Hydrant	14	50.00	700	0.02%
4 Inch	Fire	99	1,490.00	147,510	3.23%
6 Inch	Fire	21	2,210.00	46,410	1.02%
8 Inch	Fire	1	3,315.00	3,315	0.07%
Totals		9,635		4,570,670	100.00%

METER ALLOCATION FACTOR (M-1) (b)

Meter Size	Class	Number of Meters	Meter Cost	Weighted Dollars of Meters	Percent of Total
5/8 Inch	Res	8,540	$ 155.00	1,323,700	58.93%
3/4 Inch	Res	34	255.00	8,670	0.39%
1 Inch	Res	8	315.00	2,520	0.11%
2 Inch	Res	1	1,890.00	1,890	0.08%
5/8 Inch	Com	381	155.00	59,055	2.63%
3/4 Inch	Com	6	255.00	1,530	0.07%
1 Inch	Com	141	315.00	44,415	1.98%
1.5 Inch	Com	85	525.00	44,625	1.99%
2 Inch	Com	273	1,045.00	285,285	12.70%
3 Inch	Com	26	1,670.00	43,420	1.93%
4 Inch	Com	3	2,670.00	8,010	0.36%
6 Inch	Com	1	5,025.00	5,025	0.22%
8 Inch	Com	1	7,537.50	7,538	0.34%
3 Inch	Hydrant	14	2,545.00	35,630	1.59%
4 Inch	Fire	99	2,670.00	264,330	11.77%
6 Inch	Fire	21	5,025.00	105,525	4.70%
8 Inch	Fire	1	5,025.00	5,025	0.22%
Totals		9,635		2,246,193	100.00%

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

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Cost of Service Study Using Commodity / Demand Method
Computation of Monthly Minimums for Customer, Service, Meter
Using Function Costs and Expenses

Exhibit
Rebuttal Schedule G-8
Page 1
Witness: Bourassa

Line No.						Customer	Service	Meter
1	Return on Rate Base	9.85%				60,806	3,116	10,113
2	Misc. Revenues					(877)		
3	Customer, Services and Meter Expenses (From Sch. G-6. Page 1)					1,268,960	49,366	114,815
4	Property Taxes					201,433		
5	Income Taxes					416,484		
6	Total Revenue Requirement / Customer, Meter & Service (Line 13+15+16+17)					1,946,805	52,482	124,928
7								
8	**Customer Charge**							
9	Number of Bills =	9,635	times	12		115,620		
10								
11	**Charge per Bill**					$ 16.84		
12	(Customer Revenue Requirement divided by Annualized Number of Bills)							
13								
14	**Service Line and Meter Charge**							
15	Equivalent 5/8 Meters		12,937	times	12		155,238	155,238
16								
17	**Charge per Equivalent Meter**						$ 0.34	$ 0.80
18								
19								
20	**CUSTOMER CHARGE:**							
21	Monthly Minimum for 5/8 Inch Meter (with no water included in Minimum or Demand Charge)							
22	Charge per Bill						$ 16.84	
23	Charge per Equivalent Service Line						0.34	
24	Charge per Equivalent Meter						0.80	
25	(Service and Meter Revenue Requirement divided by Annual Equivalent Meters)							
26	Monthly Minimum for 5/8 Inch Meter, **WITHOUT** Demand Charge Included						$ 17.98	

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Cost of Service Study Using Commodity / Demand Method
Computation of Monthly Minimums for Demand Charge

Exhibit
Rebuttal Schedule G-8
Page 2
Witness: Bourassa

Line No.	**DEMAND CHARGE:**		
1			
2	Return on Rate Base 9.85%		652,553
3	Demand Expenses, from Schedule G-6, Page 1		1,465,847
4			
5	Totals		2,118,400
6	Total Revenue Requirement / Demand Component		
7	Equivalent Number of 5/8 Meters billings		150,246
8	Demand Charge for 5/8 Inch Meter		$ 14.10
9			
10		5/8" Demand	Meter	Demand
11	Demand Charge Per Equivalent	Charge	Ratio	Charge
12	5/8 Inch Meter	$ 14.10	1.0	$ 14.10
13	3/4 Inch Meter	$ 14.10	1.5	$ 21.15
14	1 Inch Meter	$ 14.10	2.5	$ 35.25
15	1 1/2 Inch Meter	$ 14.10	5.0	$ 70.50
16	2 Inch Meter	$ 14.10	8.0	$ 112.80
17	3 Inch Meter	$ 14.10	16.0	$ 225.59
18	4 Inch Meter	$ 14.10	25.0	$ 352.49
19	6 Inch Meter	$ 14.10	50.0	$ 704.98
20				
21				

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
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	9.85%	47,405	60,806	10,113	3,116	652,553
2	Less: Miscellaneous Revenues			(139,114)			
3							
4	Expenses (From Sch. G-6. Page 1)		1,017,204	1,268,960	49,366	114,815	1,465,847
5	Property taxes			201,433			
6	Income Taxes			416,484			
7	Total Revenue Requirement by function		1,064,609	1,808,568	59,479	117,931	2,118,400
8	Gallons Sold (in 1,000's)(Zero Gallons in Minimum) (G-7, page 3)		1,132,234				
9	Computed Commodity Rate		**$ 0.9403**				
10	Annualized Number of Bills			115,620			
11	Equivalent Meters and Service Lines				155,238	155,238	155,238
12	Customer Charge (line 18 divided by line 21)			$ 15.64			
13	Meter, Service Line & Demand Charge (Line 18 divided by Line 22)				$ 0.38	$ 0.76	$ 13.65
14	Total Monthly Minimum Charge for a 5/8 Inch Meter (Sum of Customer,						
15	Service Line, Meter and Demand Charge on Lines 23 & Line 24)						$ 30.43
16							
17			5/8" Monthly	Meter	Demand		
18	Monthly Minimum		Minimum	Ratio	Charge		
19	5/8 Inch Meter		$ 30.43	1.0	$ 30.43		
20	3/4 Inch Meter		$ 30.43	1.5	$ 45.65		
21	1 Inch Meter		$ 30.43	2.5	$ 76.08		
22	1 1/2 Inch Meter		$ 30.43	5.0	$ 152.16		
23	2 Inch Meter		$ 30.43	8.0	$ 243.45		
24	3 Inch Meter		$ 30.43	16.0	$ 486.90		
25	4 Inch Meter		$ 30.43	25.0	$ 760.78		
26	6 Inch Meter		$ 30.43	50.0	$ 1,521.57		
27	8 Inch Meter		$ 30.43	80.0	$ 2,434.51		
28							
29							
30							
31							

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Cost of Service Study Using Commodity / Demand Method
Computation Demand Charge and Commodity

Exhibit
Rebuttal Schedule G-8
Page 4
Witness: Bourassa

Line No.					
1	**Single Tier Rate Design with Some Customer and Demand Costs recovered via the Commodity Rate**				
2					
3	Revenue Requirements Collected via Commodity Charge				
4		Total		Portion of	
5		Rev. Req.	%	Rev. Req.	
6	Customer, Service, and Meter Costs	$ 1,985,979	45%	$ 893,690	
7	Demand Costs	2,118,400	45%	953,280	
8	Commodity Costs	1,064,609	100%	1,064,609	
9	Total Costs to be Collected via Commodity			$ 2,911,579	
10	Gallons Sold			1,132,234	
11					
12	Commodity Charge (per 1,000 gallons)			$ 2.572	
13					
14	Revenue Requirement Collected				
15					
16	Monthly Minimum 5/8 Meter				
17	Total Revenue Requirement			$ 5,168,987	
18	Less: Portion of Revenue Requirement Collected via Commodity Charge			(2,911,579)	
19	Balance to be Recovered through Monthly Minimum			$ 2,257,408	43.67%
20					
21	Number of Equivalent 5/8 Inch Meter Billings			155,238	
22					
23	Computed Monthly Minimum 5/8 Inch Meter			$ 14.54	
24					
25					
26		5/8"	Meter	Monthly	
27	Meter Size	Minimum	Ratio	Minimum	
28	5/8 Inch Meter	$ 14.54	1.0	$ 14.54	
29	3/4 Inch Meter	$ 14.54	1.5	$ 21.81	
30	1 Inch Meter	$ 14.54	2.5	$ 36.35	
31	1 1/2 Inch Meter	$ 14.54	5.0	$ 72.71	
32	2 Inch Meter	$ 14.54	8.0	$ 116.33	
33	3 Inch Meter	$ 14.54	16.0	$ 232.67	
34	4 Inch Meter	$ 14.54	25.0	$ 363.54	
35	6 Inch Meter	$ 14.54	50.0	$ 727.08	
36	8 Inch Meter	$ 14.54	80.0	$ 1,163.33	
37	10 Inch Meter				
38					

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Comparison of Proposed Rates to Computed Costs
For a 5/8 Inch Residential Meter

Exhibit
Rebuttal Schedule G-9
Page 1
Witness: Bourassa

Column Number-->		(1)	(2)		(3)	(4)	(5)	(6)	(7)	(8)	(9)
		Revenues									(Col. 2 - Col. 8) Total Revenues minus Total Charges & Costs
Line No.	Water Usage	Monthly Minimum	Commodity	Total	Demand Charges	Customer Charges	Service Line Charges	Meter Charges	Commodity Charges	Total Charges & Costs	
1	0	$ 17.00	$ -	$ 17.00	$ 13.65	$ 15.64	$ 0.38	$ 0.76	0	$ 30.43	$ (13.43)
2	1,000	17.00	1.83	18.83	13.65	15.64	0.38	0.76	0.940	31.37	(12.54)
3	2,000	17.00	3.66	20.66	13.65	15.64	0.38	0.76	1.881	32.31	(11.65)
4	3,000	17.00	5.49	22.49	13.65	15.64	0.38	0.76	2.821	33.25	(10.76)
5	4,000	17.00	7.32	24.32	13.65	15.64	0.38	0.76	3.761	34.19	(9.87)
6	5,000	17.00	9.75	26.75	13.65	15.64	0.38	0.76	4.701	35.13	(8.38)
7	6,000	17.00	12.18	29.18	13.65	15.64	0.38	0.76	5.642	36.07	(6.89)
8	7,000	17.00	14.61	31.61	13.65	15.64	0.38	0.76	6.582	37.01	(5.40)
9	8,000	17.00	17.04	34.04	13.65	15.64	0.38	0.76	7.522	37.95	(3.91)
10	9,000	17.00	19.47	36.47	13.65	15.64	0.38	0.76	8.462	38.89	(2.42)
11	10,000	17.00	21.90	38.90	13.65	15.64	0.38	0.76	9.403	39.83	(0.93)
12	12,000	17.00	27.86	44.86	13.65	15.64	0.38	0.76	11.283	41.71	3.15
13	14,000	17.00	33.83	50.83	13.65	15.64	0.38	0.76	13.164	43.60	7.23
14	16,000	17.00	39.79	56.79	13.65	15.64	0.38	0.76	15.044	45.48	11.31
15	18,000	17.00	45.75	62.75	13.65	15.64	0.38	0.76	16.925	47.36	15.39
16	20,000	17.00	51.71	68.71	13.65	15.64	0.38	0.76	18.805	49.24	19.47
17	25,000	17.00	66.61	83.61	13.65	15.64	0.38	0.76	23.507	53.94	29.67
18	30,000	17.00	81.51	98.51	13.65	15.64	0.38	0.76	28.208	58.64	39.87
19	35,000	17.00	96.41	113.41	13.65	15.64	0.38	0.76	32.910	63.34	50.07
20	40,000	17.00	111.32	128.32	13.65	15.64	0.38	0.76	37.611	68.04	60.27
21	45,000	17.00	126.22	143.22	13.65	15.64	0.38	0.76	42.312	72.74	70.47
22	50,000	17.00	141.12	158.12	13.65	15.64	0.38	0.76	47.014	77.44	80.67
23	60,000	17.00	170.92	187.92	13.65	15.64	0.38	0.76	56.416	86.85	101.08
24	70,000	17.00	200.73	217.73	13.65	15.64	0.38	0.76	65.819	96.25	121.48
25	80,000	17.00	230.53	247.53	13.65	15.64	0.38	0.76	75.222	105.65	141.88
26	90,000	17.00	260.34	277.34	13.65	15.64	0.38	0.76	84.625	115.06	162.28
27	100,000	17.00	290.14	307.14	13.65	15.64	0.38	0.76	94.027	124.46	182.68

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Comparison of Proposed Rates to Computed Costs
For a 3/4 Inch Residential Meter

Exhibit
Rebuttal Schedule G-9
Page 2
Witness: Bourassa

Column Number-->		(1)	(2)		(3)	(4)	(5)	(6)	(7)	(8)	(9)
		Revenues									(Col. 2 - Col. 8) Total Revenues minus Total Charges & Costs
Line No.	Water Usage	Monthly Minimum	Commodity	Total	Demand Charges	Customer Charges	Service Line Charges	Meter Charges	Commodity Charges	Total Charges & Costs	
1	0	$ 25.50	$ -	$ 25.50	$ 20.47	$ 23.46	$ 0.57	$ 1.14	0	$ 45.65	$ (20.15)
2	1,000	25.50	1.83	27.33	20.47	23.46	0.57	1.14	0.940	46.59	(19.26)
3	2,000	25.50	3.66	29.16	20.47	23.46	0.57	1.14	1.881	47.53	(18.37)
4	3,000	25.50	5.49	30.99	20.47	23.46	0.57	1.14	2.821	48.47	(17.48)
5	4,000	25.50	7.32	32.82	20.47	23.46	0.57	1.14	3.761	49.41	(16.59)
6	5,000	25.50	9.75	35.25	20.47	23.46	0.57	1.14	4.701	50.35	(15.10)
7	6,000	25.50	12.18	37.68	20.47	23.46	0.57	1.14	5.642	51.29	(13.61)
8	7,000	25.50	14.61	40.11	20.47	23.46	0.57	1.14	6.582	52.23	(12.12)
9	8,000	25.50	17.04	42.54	20.47	23.46	0.57	1.14	7.522	53.17	(10.63)
10	9,000	25.50	19.47	44.97	20.47	23.46	0.57	1.14	8.462	54.11	(9.14)
11	10,000	25.50	21.90	47.40	20.47	23.46	0.57	1.14	9.403	55.05	(7.65)
12	12,000	25.50	27.86	53.36	20.47	23.46	0.57	1.14	11.283	56.93	(3.57)
13	14,000	25.50	33.83	59.33	20.47	23.46	0.57	1.14	13.164	58.81	0.51
14	16,000	25.50	39.79	65.29	20.47	23.46	0.57	1.14	15.044	60.69	4.59
15	18,000	25.50	45.75	71.25	20.47	23.46	0.57	1.14	16.925	62.57	8.68
16	20,000	25.50	51.71	77.21	20.47	23.46	0.57	1.14	18.805	64.45	12.76
17	25,000	25.50	66.61	92.11	20.47	23.46	0.57	1.14	23.507	69.15	22.96
18	30,000	25.50	81.51	107.01	20.47	23.46	0.57	1.14	28.208	73.86	33.16
19	35,000	25.50	96.41	121.91	20.47	23.46	0.57	1.14	32.910	78.56	43.36
20	40,000	25.50	111.32	136.82	20.47	23.46	0.57	1.14	37.611	83.26	53.56
21	45,000	25.50	126.22	151.72	20.47	23.46	0.57	1.14	42.312	87.96	63.76
22	50,000	25.50	141.12	166.62	20.47	23.46	0.57	1.14	47.014	92.66	73.96
23	60,000	25.50	170.92	196.42	20.47	23.46	0.57	1.14	56.416	102.06	94.36
24	70,000	25.50	200.73	226.23	20.47	23.46	0.57	1.14	65.819	111.47	114.76
25	80,000	25.50	230.53	256.03	20.47	23.46	0.57	1.14	75.222	120.87	135.16
26	90,000	25.50	260.34	285.84	20.47	23.46	0.57	1.14	84.625	130.27	155.56
27	100,000	25.50	290.14	315.64	20.47	23.46	0.57	1.14	94.027	139.67	175.96

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Comparison of Proposed Rates to Computed Costs
For a 1 Inch Residential Meter

Exhibit
Rebuttal Schedule G-9
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Witness: Bourassa

Column Number-->		(1)	(2)		(3)	(4)	(5)	(6)	(7)	(8)	(9) (Col. 2 - Col. 8) Total Revenues minus Total Charges & Costs
		Revenues									
Line No.	Water Usage	Monthly Minimum	Commodity	Total	Demand Charges	Customer Charges	Service Line Charges	Meter Charges	Commodity Charges	Total Charges & Costs	
1	0	$ 38.25	$ -	$ 38.25	$ 34.12	$ 39.11	$ 0.96	$ 1.90	0	$ 76.08	$ (37.83)
2	1,000	38.25	2.13	40.38	34.12	39.11	0.96	1.90	0.940	77.02	(36.64)
3	2,000	38.25	4.26	42.51	34.12	39.11	0.96	1.90	1.881	77.96	(35.45)
4	3,000	38.25	6.39	44.64	34.12	39.11	0.96	1.90	2.821	78.90	(34.26)
5	4,000	38.25	8.52	46.77	34.12	39.11	0.96	1.90	3.761	79.84	(33.07)
6	5,000	38.25	10.65	48.90	34.12	39.11	0.96	1.90	4.701	80.78	(31.88)
7	6,000	38.25	12.78	51.03	34.12	39.11	0.96	1.90	5.642	81.72	(30.69)
8	7,000	38.25	14.91	53.16	34.12	39.11	0.96	1.90	6.582	82.66	(29.50)
9	8,000	38.25	17.04	55.29	34.12	39.11	0.96	1.90	7.522	83.60	(28.31)
10	9,000	38.25	19.17	57.42	34.12	39.11	0.96	1.90	8.462	84.54	(27.12)
11	10,000	38.25	21.30	59.55	34.12	39.11	0.96	1.90	9.403	85.48	(25.93)
12	12,000	38.25	27.16	65.41	34.12	39.11	0.96	1.90	11.283	87.36	(21.95)
13	14,000	38.25	33.03	71.28	34.12	39.11	0.96	1.90	13.164	89.24	(17.97)
14	16,000	38.25	38.89	77.14	34.12	39.11	0.96	1.90	15.044	91.12	(13.99)
15	18,000	38.25	44.75	83.00	34.12	39.11	0.96	1.90	16.925	93.00	(10.01)
16	20,000	38.25	50.61	88.86	34.12	39.11	0.96	1.90	18.805	94.88	(6.03)
17	25,000	38.25	65.26	103.51	34.12	39.11	0.96	1.90	23.507	99.59	3.92
18	30,000	38.25	79.91	118.16	34.12	39.11	0.96	1.90	28.208	104.29	13.88
19	35,000	38.25	94.56	132.81	34.12	39.11	0.96	1.90	32.910	108.99	23.83
20	40,000	38.25	109.22	147.47	34.12	39.11	0.96	1.90	37.611	113.69	33.78
21	45,000	38.25	123.87	162.12	34.12	39.11	0.96	1.90	42.312	118.39	43.73
22	50,000	38.25	138.52	176.77	34.12	39.11	0.96	1.90	47.014	123.09	53.68
23	60,000	38.25	167.82	206.07	34.12	39.11	0.96	1.90	56.416	132.49	73.58
24	70,000	38.25	197.13	235.38	34.12	39.11	0.96	1.90	65.819	141.90	93.48
25	80,000	38.25	226.43	264.68	34.12	39.11	0.96	1.90	75.222	151.30	113.38
26	90,000	38.25	255.74	293.99	34.12	39.11	0.96	1.90	84.625	160.70	133.28
27	100,000	38.25	285.04	323.29	34.12	39.11	0.96	1.90	94.027	170.11	153.18

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Rebuttal Schedule H-1
Page 1
Witness: Bourassa

Line No.	Meter Size	Class	Division	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8x3/4 Inch	Residential	Bella Vista	$ 2,139,103	$ 2,820,469	$ 681,366	31.85%	53.23%	54.58%
	5/8x3/4 Inch	Residential	Northern Sunrise	189,511	124,233	(65,278)	-34.45%	4.72%	2.40%
	5/8x3/4 Inch	Residential	Southern Sunrise	423,617	276,614	(147,002)	-34.70%	10.54%	5.35%
2	3/4 Inch	Residential	Bella Vista	11,182	13,859	2,677	23.94%	0.28%	0.27%
	3/4 Inch	Residential	Northern Sunrise	1,344	947	(397)	-29.54%	0.03%	0.02%
3	1 Inch	Residential	Bella Vista	5,821	8,126	2,305	39.60%	0.14%	0.16%
4	2 Inch	Residential	Bella Vista	725	1,416	692	95.45%	0.02%	0.03%
5									
6		Subtotal		2,771,302	3,245,665	474,363	17.12%	68.96%	62.81%
7									
8	5/8 Inch	Commercial	Bella Vista	$ 124,380	$ 169,245	$ 44,865	36.07%	3.09%	3.28%
9	3/4 Inch	Commercial	Bella Vista	3,382	4,440	1,058	31.27%	0.08%	0.09%
10	1 Inch	Commercial	Bella Vista	89,928	125,024	35,096	39.03%	2.24%	2.42%
	1 Inch	Commercial	Southern Sunrise	1,657	907	(750)	-45.28%	0.04%	0.02%
11	1.5 Inch	Commercial	Bella Vista	115,753	194,886	79,132	68.36%	2.88%	3.77%
12	2 Inch	Commercial	Bella Vista	651,968	1,047,297	395,330	60.64%	16.22%	20.27%
	2 Inch	Commercial	Southern Sunrise	4,422	2,137	(2,285)	-51.67%	0.11%	0.04%
13	3 Inch	Commercial	Bella Vista	131,628	190,880	59,252	45.02%	3.28%	3.69%
14	4 Inch	Commercial	Bella Vista	56,353	86,377	30,024	53.28%	1.40%	1.67%
15	6 Inch	Commercial	Bella Vista	12,229	11,197	(1,032)	-8.44%	0.30%	0.22%
16	8 Inch	Commercial	Bella Vista	15,578	16,385	807	5.18%	0.39%	0.32%
17									
18		Subtotal		$ 1,207,278	$ 1,848,776	$ 641,497	53.14%	30.04%	35.78%
19									
20									
21	3 Inch	Hydrant	Bella Vista	$ 31,719	$ 50,445	18,726	59.04%	0.79%	0.98%
22									
23	4 Inch	Fire Sprinkler	Bella Vista	6,050	18,150	12,100	200.00%	0.15%	0.35%
24	6 Inch	Fire Sprinkler	Bella Vista	2,394	4,284	1,890	78.95%	0.06%	0.08%
25	8 Inch	Fire Sprinkler	Bella Vista	155	326	171	110.04%	0.00%	0.01%
26									
27		Subtotal		$ 8,599	$ 22,760	$ 14,161	164.67%	0.21%	0.44%
28									
29									
30									
31	Total Revenues Before Annualization			$ 4,018,899	$ 5,167,647	$ 1,148,748	28.58%	100.00%	100.00%
32									

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Rebuttal Schedule H-1
Page 2
Witness: Bourassa

Line No.	Meter Size	Class	Division	Present Revenues	Revenue Annualization: Proposed Revenues	Revenue Annualization: Dollar Change	Revenue Annualization: Percent Change	Revenue Annualization: Additional Bills	Revenue Annualization: Additional Gallons to be Pumped (In 1,000's)	
5	5/8x3/4 Inch	Residential	Bella Vista	$ 7,889	$ 10,562	2,673	33.88%	340	2,303	C-2, pg 5.1
	5/8x3/4 Inch	Residential	Northern Sunrise	(2,465)	(1,645)	819	0.00%	(56)	(341)	C-2, pg 5.2
	5/8x3/4 Inch	Residential	Southern Sunrise	2,872	1,888	(984)	-34.26%	68	368	C-2, pg 5.3
6	3/4 Inch	Residential	Bella Vista	(81)	(102)	(21)	0.00%	(3)	(14)	C-2, pg. 5.4
	3/4 Inch	Residential	Northern Sunrise	-	-	-	0.00%	-	-	C-2, pg. 5.5
7	1 Inch	Residential	Bella Vista	-	-	-	0.00%	-	-	C-2, pg. 5.6
8	2 Inch	Residential	Bella Vista	-	-	-	0.00%	-	-	C-2, pg. 5.7
9										
10		Subtotal		$ 8,215	$ 10,702	2,487	30.27%	349	2,317	
11										
12	5/8 Inch	Commercial	Bella Vista	$ (1,504)	$ (2,191)	(686)	0.00%	(61)	(460)	C-2, pg. 5.8
13	3/4 Inch	Commercial	Bella Vista	33	45	12	37.60%	1	8	C-2, pg. 5.9
14	1 Inch	Commercial	Bella Vista	727	1,041	314	43.14%	14	211	C-2, pg. 5.10
	1 Inch	Commercial	Southern Sunrise	464	265	(199)	-42.90%	5	35	C-2, pg. 5.11
15	1.5 Inch	Commercial	Bella Vista	2,625	4,283	1,658	63.16%	21	1,057	C-2, pg. 5.12
16	2 Inch	Commercial	Bella Vista	2,102	3,230	1,128	53.69%	9	933	C-2, pg. 5.13
	2 Inch	Commercial	Southern Sunrise	-	-	-	0.00%	-	-	C-2, pg. 5.14
17	3 Inch	Commercial	Bella Vista	2,174	3,093	919	42.29%	5	840	C-2, pg. 5.15
18	4 Inch	Commercial	Bella Vista	(9,694)	(14,532)	(4,838)	0.00%	(8)	(4,416)	C-2, pg. 5.16
19	6 Inch	Commercial	Bella Vista	-	-	-	0.00%	-	-	
20	8 Inch	Commercial	Bella Vista	-	-	-	0.00%	-	-	
21						-				
22		Subtotal		$ (3,074)	$ (4,765)	3,283	-106.80%	(14)	(1,794)	
23										
24										
25	3 Inch	Hydrant	Bella Vista	$ (2,036)	$ (3,276)	(1,240)	0.00%	(12)	(333)	C-2, pg. 5.17
26										
27	4 Inch	Fire Sprinkler	Bella Vista	(110)	(330)	(220)	0.00%	(22)	-	C-2, pg. 5.18
28	6 Inch	Fire Sprinkler	Bella Vista	-	-	-	0.00%	-	-	
29	8 Inch	Fire Sprinkler	Bella Vista	-	-	-	0.00%	-	-	
30										
31		Subtotal		$ (110)	$ (330)	$ (220)	200.00%	(22)	-	
32										
33										
34										
35										
36	Total Revenue Annualization			$ 2,995	$ 2,331	$ 4,310	143.92%	301	190	
37										

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Rebuttal Schedule H-1
Page 3
Witness: Bourassa

Line No.		Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1							
2							
3	Subtotal Metered Revenues	$ 4,018,899	$ 5,167,647	$ 1,148,748	28.58%	100.00%	100.00%
4	Subtotal Revenue Annualization	2,995	2,331	(664)	-22.17%	0.07%	0.05%
5	Total Metered Revenues	$ 4,021,894	$ 5,169,977	$ 1,148,084	28.55%		
6							
7	Misc. Revenues	$ 139,114	$ 139,114	-	0.00%	3.46%	2.69%
8	Reconciling Amount to GL	1,128	(990)	(2,118)	-187.77%	0.03%	-0.02%
9	Total Water Revenues	$ 4,162,136	$ 5,308,101	$ 1,145,966	27.53%	0.00%	0.00%
10							
11							
12							
13							
14							
15							
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35							

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Customer Summary

Exhibit
Rebuttal Schedule H-2
Page 1
Witness: Bourassa

Line No.	Meter Size, Class		Division	(a) Average Number of Customers at 3/31/2009	Average Consumption	Average Bill Present Rates	Average Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	5/8x3/4 Inch	Residential	Bella Vista	7,377	6,612	$ 22.90	$ 30.67	$ 7.77	33.95%
2	5/8x3/4 Inch	Residential	Northern Sunrise	348	5,755	43.08	28.59	(14.49)	-33.64%
3	5/8x3/4 Inch	Residential	Southern Sunrise	786	5,581	42.60	28.16	(14.43)	-33.88%
4	3/4 Inch	Residential	Bella Vista	33	4,539	27.10	34.13	7.03	25.94%
5	3/4 Inch	Residential	Northern Sunrise	1	20,334	110.55	78.20	(32.35)	-29.26%
6	1 Inch	Residential	Bella Vista	8	18,005	57.53	83.01	25.48	44.29%
7	2 Inch	Residential	Bella Vista	1	10,709	57.89	118.01	60.12	103.86%
8		Subtotal		8,554					
9									
10	5/8 Inch	Commercial	Bella Vista	386	7,365	$ 24.32	$ 35.38	$ 11.06	45.49%
11	3/4 Inch	Commercial	Bella Vista	6	13,542	43.69	61.98	18.29	41.86%
12	1 Inch	Commercial	Bella Vista	138	14,485	50.88	72.70	21.82	42.89%
13	1 Inch	Commercial	Southern Sunrise	2	4,448	86.40	47.73	(38.67)	-44.76%
14	1.5 Inch	Commercial	Bella Vista	83	45,156	115.24	188.82	73.58	63.85%
15	2 Inch	Commercial	Bella Vista	271	85,760	199.74	306.51	106.77	53.46%
16	2 Inch	Commercial	Southern Sunrise	1	34,624	367.78	168.96	(198.82)	-54.06%
17	3 Inch	Commercial	Bella Vista	26	164,752	428.68	609.19	180.51	42.11%
18	4 Inch	Commercial	Bella Vista	4	588,148	1,280.00	1,922.25	642.25	50.18%
19	6 Inch	Commercial	Bella Vista	1	39,001	1,019.11	933.09	(86.02)	-8.44%
20	8 Inch	Commercial	Bella Vista	1	2,542	1,297.47	1,365.42	67.95	5.24%
21		Subtotal		918					
22									
23	3 Inch	Hydrant	Bella Vista	15	30,148	$ 174.28	$ 280.25	$ 105.97	60.81%
24									
25	4 Inch	Fire Sprinkler	Bella Vista	101	-	$ 5.00	$ 15.00	$ 10.00	200.00%
26	6 Inch	Fire Sprinkler	Bella Vista	21	-	9.50	17.00	7.50	78.95%
27	8 Inch	Fire Sprinkler	Bella Vista	1	-	12.95	27.20	14.25	110.04%
28		Subtotal		123					
29									
30									
31									
32		Total		9,610					
33									

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

35

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Customer Summary

Exhibit
Rebuttal Schedule H-2
Page 2
Witness: Bourassa

Line No.	Meter Size, Class		Division	(a) Average Number of Customers at 3/31/2009	Median Consumption	Median Bill Present Rates	Median Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	5/8x3/4 Inch	Residential	Bella Vista	7,377	4,500	$ 19.37	$ 25.54	$ 6.17	31.87%
2	5/8x3/4 Inch	Residential	Northern Sunrise	348	4,500	40.00	25.54	(14.46)	-36.16%
3	5/8x3/4 Inch	Residential	Southern Sunrise	786	3,500	38.00	23.41	(14.59)	-38.40%
4	3/4 Inch	Residential	Bella Vista	33	4,500	27.07	34.04	6.97	25.76%
5	3/4 Inch	Residential	Northern Sunrise	1	18,500	103.40	72.74	(30.66)	-29.65%
6	1 Inch	Residential	Bella Vista	8	10,500	43.35	61.02	17.67	40.78%
7	2 Inch	Residential	Bella Vista	-	1,500	43.71	98.40	54.69	125.14%
8		Subtotal		8,553					
9									
10	5/8 Inch	Commercial	Bella Vista	386	3,500	$ 18.40	$ 24.46	$ 6.06	32.95%
11	3/4 Inch	Commercial	Bella Vista	6	4,500	27.07	35.49	8.42	31.12%
12	1 Inch	Commercial	Bella Vista	138	8,500	39.57	56.36	16.79	42.44%
13	1 Inch	Commercial	Southern Sunrise	2	6,500	91.63	52.10	(39.53)	-43.14%
14	1.5 Inch	Commercial	Bella Vista	-	28,500	83.77	140.02	56.25	67.15%
15	2 Inch	Commercial	Bella Vista	271	39,500	112.31	179.35	67.05	59.70%
16	2 Inch	Commercial	Southern Sunrise	1	21,000	314.65	139.94	(174.71)	-55.53%
17	3 Inch	Commercial	Bella Vista	26	143,700	388.89	547.50	158.60	40.78%
18	4 Inch	Commercial	Bella Vista	-	623,000	1,345.87	2,024.38	678.51	50.41%
19	6 Inch	Commercial	Bella Vista	1	43,500	1,027.62	942.67	(84.94)	-8.27%
20	8 Inch	Commercial	Bella Vista	1	1,000	1,295.97	1,362.13	66.16	5.11%
21		Subtotal		831					
22									
23	3 Inch	Hydrant	Bella Vista	15	4,500	$ 126.27	$ 203.81	$ 77.55	61.42%
24									
25	4 Inch	Fire Sprinkler	Bella Vista	-	-	$ 5.00	$ 15.00	$ 10.00	200.00%
26	6 Inch	Fire Sprinkler	Bella Vista	-	-	9.50	17.00	7.50	78.95%
27	8 Inch	Fire Sprinkler	Bella Vista	1	-	12.95	27.20	14.25	110.04%
28		Subtotal		1					
29									
30									
31									
32		Total		9,400					

33 **(a)** Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.
34
35

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Present and Proposed Rates

Exhibit
Rebuttal Schedule H-3
Page 1
Witness: Bourassa

Line No.	Monthly Usage Charge for:	Bella Vista Present Rates	Northern Sunrise Present Rates	Southern Sunrise Present Rates	Consolidated Proposed Rates
1	Meter Size (All Zones and Classes):				
2	5/8 Inch	$ 15.00	$ 31.00	$ 31.00	$ 17.00
2	3/4 Inch	22.70	46.50	46.50	25.50
3	1 Inch	28.10	77.50	77.50	38.25
4	1 1/2 Inch	34.50	155.00	155.00	76.50
5	2 Inch	42.25	248.00	248.00	95.20
6	3 Inch	121.90	496.00	496.00	190.40
7	4 Inch	173.00	775.00	775.00	318.75
8	6 Inch	950.00	930.00	930.00	850.00
9	8 Inch	1,295.00	1,550.00	1,550.00	1,360.00
10					
11	Fire Sprinklers - 4 Inch (See Note1 and Note 2)	5.00	NT	NT	15.00
12	Fire Sprinklers - 6 Inch (See Note1 and Note 2)	9.50	NT	NT	17.00
13	Fire Sprinklers - 8 Inch (See Note1 and Note 2)	12.95	NT	NT	27.20
14					
15	Gallons In Minimum (All Meter Sizes and Classes)	-	-	-	-

Line No.	Commodity Rates Meter Size and Class	Block	Bella Vista Present Rate	Northern Sunrise Present Rate	Southern Sunrise Present Rate	Consolidated Proposed Rate
16						
17						
18			Bella Vista	Northern Sunrise	Southern Sunrise	Consolidated
19			(Per 1,000 gallons)			
20	Commodity Rates		Present	Present	Present	Proposed
21	Meter Size and Class	Block	Rate	Rate	Rate	Rate
22						
23	5/8 Inch Residential	0 gallons to 5,000 gallons	$ 0.97			
24		5,000 gallons to 25,000 gallons	$ 1.89			
25		Over 25,000 gallons	$ 2.41			
26						
27	5/8 Inch - Residential	0 gallons to 5,000 gallons		$ 2.00	$ 2.00	
28		5,001 to 10,000 gallons		$ 2.75	$ 2.75	
29		over 10,000 gallons		$ 3.90	$ 3.90	
30						
31	5/8 Inch - Residential	0 gallons to 4,000 gallons				$ 1.83
32		4,000 gallons to 10,000 gallons				$ 2.43
33		Over 10,000 gallons				$ 2.98
34						
35	5/8 Inch - Commercial	0 gallons to 5,000 gallons	$ 0.97			
36		5,000 gallons to 25,000 gallons	$ 1.89			
37		Over 25,000 gallons	$ 2.41			
38						
39	5/8 Inch - Commercial	0 gallons to 5,000 gallons		$ 2.00	$ 2.00	
40		5,001 to 10,000 gallons		$ 2.75	$ 2.75	
41		over 10,000 gallons		$ 3.90	$ 3.90	
42						
43	5/8 Inch - Commercial	0 gallons to 4,000 gallons				$ 2.13
44		Over 4,000 gallons				$ 2.93
45						

46 Note 1 - Present Rates are 1% of monthly minimum for comparable sized meters, but not less than $5.00 per month
47 Note 2 - Proposed rates are 2% of monthly minimum for comparable sized meters, but not less than $15 per month.
48
49 NT = No Tariff

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Present and Proposed Rates

Exhibit
Rebuttal Schedule H-3
Page 2
Witness: Bourassa

Line No.			Bella Vista	Northern Sunrise	Southern Sunrise	Consolidated
1				(Per 1,000 gallons)		
2	**Commodity Rates**		Present	Present	Present	Proposed
3	**Meter Size and Class**	**Block**	**Rate**	**Rate**	**Rate**	**Rate**
4						
5	3/4 Inch - Residential	0 gallons to 5,000 gallons	$ 0.97			
6		5,000 gallons to 25,000 gallons	$ 1.89			
7		Over 25,000 gallons	$ 2.41			
8						
9	3/4 Inch - Residential	NT		NT	NT	
10						
11	3/4 Inch - Residential	0 gallons to 4,000 gallons				$ 1.83
12		4,000 gallons to 10,000 gallons				$ 2.43
13		Over 10,000 gallons				$ 2.98
14						
15	3/4 Inch - Commercial	0 gallons to 5,000 gallons	$ 0.97			
16		5,000 gallons to 25,000 gallons	$ 1.89			
17		Over 25,000 gallons	$ 2.41			
18						
19	3/4 Inch - Commercial	NT		NT	NT	
20						
21	3/4 Inch - Commercial	0 gallons to 4,000 gallons				$ 2.13
22		Over 4,000 gallons				$ 2.93
23						
24						
25	1 Inch - Residential	0 gallons to 5,000 gallons	$ 0.97			
26		5,000 gallons to 25,000 gallons	$ 1.89			
27		Over 25,000 gallons	$ 2.41			
28						
29	1 Inch - Residential	0 gallons to5,000 gallons		$ 2.00	$ 2.00	
30		5,001 to 10,000 gallons		$ 2.75	$ 2.75	
31		Over 10,000 gallons		$ 3.90	$ 3.90	
32						
33	1 Inch - Residential	0 gallons to 10,000 gallons				$ 2.13
34		Over 10,000 gallons				$ 2.93
35						
36	1 Inch - Commercial	0 gallons to 5,000 gallons	$ 0.97			
37		5,001 gallons to 25,000 gallons	$ 1.89			
38		Over 25,000 gallons	$ 2.41			
39						
40						
41	1 Inch - Commercial	NT		NT	NT	
42						
43	1 Inch - Commercial	0 gallons to 10,000 gallons				$ 2.13
44		Over 10,000 gallons				$ 2.93
45	NT = No Tariff					

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Present and *Proposed* Rates

Exhibit
Rebuttal Schedule H-3
Page 3
Witness: Bourassa

Line No.			Bella Vista	Northern Sunrise	Southern Sunrise	Consolidated
1			(Per 1,000 gallons)			
2	**Commodity Rates**		**Present**	**Present**	**Present**	**Proposed**
3	**Meter Size and Class**	**Block**	**Rate**	**Rate**	**Rate**	**Rate**
4						
5	1 1/2 Inch - Residential	0 gallons to 5,000 gallons	$ 0.97			
6		5,001 gallons to 25,000 gallons	$ 1.89			
7		Over 25,000 gallons	$ 2.41			
8						
9	1 1/2 Inch - Residential	0 gallons to5,000 gallons		$ 2.00	$ 2.00	
10		5,001 to 10,000 gallons		$ 2.75	$ 2.75	
11		Over 10,000 gallons		$ 3.90	$ 3.90	
12						
13	1 1/2 Inch - Residential	0 gallons to 25,000 gallons				$ 2.13
14		Over 25,000 gallons				$ 2.93
15						
16	1 1/2 Inch - Commercial	0 gallons to 5,000 gallons	$ 0.97			
17		5,001 gallons to 25,000 gallons	$ 1.89			
18		Over 25,000 gallons	$ 2.41			
19						
20						
21	1 1/2 Inch - Commercial	NT		NT	NT	
22						
23	1 1/2 Inch - Commercial	0 gallons to 25,000 gallons				$ 2.13
24		Over 25,000 gallons				$ 2.93
25						
26	2 Inch - Residential	0 gallons to 5,000 gallons	$ 0.97			
27		5,001 gallons to 25,000 gallons	$ 1.89			
28		Over 25,000 gallons	$ 2.41			
29						
30	2 Inch - Residential	0 gallons to5,000 gallons		$ 2.00	$ 2.00	
31		5,001 to 10,000 gallons		$ 2.75	$ 2.75	
32		Over 10,000 gallons		$ 3.90	$ 3.90	
33						
34	2 Inch - Residential	0 gallons to 50,000 gallons				$ 2.13
35		Over 50,000 gallons				$ 2.93
36						
37	2 Inch - Commercial	0 gallons to 5,000 gallons	$ 0.97			
38		5,001 gallons to 25,000 gallons	$ 1.89			
39		Over 25,000 gallons	$ 2.41			
40						
41	2 Inch - Commercial	NT		NT	NT	
42						
43	2 Inch - Commercial	0 gallons to 50,000 gallons				$ 2.13
44		Over 50,000 gallons				$ 2.93
45	NT = No Tariff					

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Present and Proposed Rates

Exhibit
Rebuttal Schedule H-3
Page 4
Witness: Bourassa

Line No.			Bella Vista	Northern Sunrise	Southern Sunrise	Consolidated
1			(Per 1,000 gallons)			
2	**Commodity Rates**		**Present**	**Present**	**Present**	**Proposed**
3	**Meter Size and Class**	**Block**	**Rate**	**Rate**	**Rate**	**Rate**
4						
5	3 Inch - Residential	0 gallons to 5,000 gallons	$ 0.97			
6		5,000 gallons to 25,000 gallons	$ 1.89			
7		Over 25,000 gallons	$ 2.41			
8						
9	3 Inch - Residential	0 gallons to5,000 gallons		$ 2.00	$ 2.00	
10		5,001 to 10,000 gallons		$ 2.75	$ 2.75	
11		Over 10,000 gallons		$ 3.90	$ 3.90	
12						
13	3 Inch - Residential	0 gallons to 80,000 gallons				$ 2.13
14		Over 80,000 gallons				$ 2.93
15						
16	3 Inch - Commercial	0 gallons to 5,000 gallons	$ 0.97			
17		5,000 gallons to 25,000 gallons	$ 1.89			
18		Over 25,000 gallons	$ 2.41			
19						
20	3 Inch - Commercial	NT		NT	NT	
21						
22	3 Inch - Commercial	0 gallons to 80,000 gallons				$ 2.13
23		Over 80,000 gallons				$ 2.93
24						
25	4 Inch - Residential	0 gallons to 5,000 gallons	$ 0.97			
26		5,000 gallons to 25,000 gallons	$ 1.89			
27		Over 25,000 gallons	$ 2.41			
28						
29	4 Inch - Residential	0 gallons to5,000 gallons		$ 2.00	$ 2.00	
30		5,001 to 10,000 gallons		$ 2.75	$ 2.75	
31		Over 10,000 gallons		$ 3.90	$ 3.90	
32						
33	4 Inch - Residential	0 gallons to 350,000 gallons				$ 2.13
34		Over 350,000 gallons				$ 2.93
35						
36	4 Inch - Commercial	0 gallons to 5,000 gallons	$ 0.97			
37		5,000 gallons to 25,000 gallons	$ 1.89			
38		Over 25,000 gallons	$ 2.41			
39						
40	4 Inch - Commercial	NT		NT	NT	
41						
42	4 Inch - Commercial	0 gallons to 350,000 gallons				$ 2.13
43		Over 350,000 gallons				$ 2.93
44						
45	NT = No Tariff					

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Present and Proposed Rates

Exhibit
Rebuttal Schedule H-3
Page 5
Witness: Bourassa

Line No.	Commodity Rates Meter Size and Class	Block	Bella Vista Present Rate	Northern Sunrise Present Rate	Southern Sunrise Present Rate	Consolidated Proposed Rate
			(Per 1,000 gallons)			
5	6 Inch - Residential	0 gallons to 5,000 gallons	$ 0.97			
6		5,000 gallons to 25,000 gallons	$ 1.89			
7		Over 25,000 gallons	$ 2.41			
9	6 Inch - Residential	0 gallons to5,000 gallons		$ 2.00	$ 2.00	
10		5,001 to 10,000 gallons		$ 2.75	$ 2.75	
11		Over 10,000 gallons		$ 3.90	$ 3.90	
13	6 Inch - Residential	0 gallons to 450,000 gallons				$ 2.13
14		Over 250,000 gallons				$ 2.93
16	6 Inch - Commercial	0 gallons to 5,000 gallons	$ 0.97			
17		5,000 gallons to 25,000 gallons	$ 1.89			
18		Over 25,000 gallons	$ 2.41			
20	6 Inch - Commercial	NT		NT	NT	
22	6 Inch - Commercial	0 gallons to 450,000 gallons				$ 2.13
23		Over 450,000 gallons				$ 2.93
25	8 Inch - Residential	0 gallons to 5,000 gallons	$ 0.97			
26		5,000 gallons to 25,000 gallons	$ 1.89			
27		Over 25,000 gallons	$ 2.41			
29	8 Inch - Residential	0 gallons to5,000 gallons		$ 2.00	$ 2.00	
30		5,001 to 10,000 gallons		$ 2.75	$ 2.75	
31		Over 10,000 gallons		$ 3.90	$ 3.90	
33	8 Inch - Residential	0 gallons to 720,000 gallons				$ 2.13
34		Over 720,000 gallons				$ 2.93
36	8 Inch - Commercial	0 gallons to 5,000 gallons	$ 0.97			
37		5,000 gallons to 25,000 gallons	$ 1.89			
38		Over 25,000 gallons	$ 2.41			
40	8 Inch - Commercial	NT		NT	NT	
42	8 Inch - Commercial	0 gallons to 720,000 gallons				$ 2.13
43		Over 720,000 gallons				$ 2.93

45 NT = No Tariff

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Present and Proposed Rates

Exhibit
Rebuttal Schedule H-3
Page 6
Witness: Bourassa

Line No.			Bella Vista	Northern Sunrise	Southern Sunrise	Consolidated
1				(Per 1,000 gallons)		
2	**Commodity Rates**		**Present**	**Present**	**Present**	**Proposed**
3	**Meter Size and Class**	**Block**	**Rate**	**Rate**	**Rate**	**Rate**
4						
5	Standpipe (bulk)			$ 3.90	$ 3.90	
6						
7	Standpipe (hydrant, bulk)					$ 2.98
8						
9						
10						
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						
21						
22						
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30						
31						
32						
33						
34						
35						
36						
37						
38						
39						
40						
41						
42	NT = No Tariff					
43						
44						
45						

Bella Vista Water Company (Consolidated)
Changes in Representative Rate Schedules
Test Year Ended March 31, 2009

Exhibit
Rebuttal Schedule H-3
Page 7
Witness: Bourassa

Line No.	Other Service Charges	Bella Vista Present Rates	Northern Sunrise Present Rates	Southern Sunrise Present Rates	Proposed Rates
1	Establishment (Regular Hours) per Rule R14-2-403D	$ 30.00	$ 25.00	$ 25.00	$ 30.00
2	Establishment (After Hours) per Rule R14-2-403D	$ 45.00	$ 35.00	$ 35.00	$ 45.00
3	Re-Establishment of Service per Rule R14-2-403D	[a]	[a]	[a]	[a]
4	Reconnection (Delinquent) per Rule R14-2-403D	$ 30.00	$ 35.00	$ 35.00	$ 30.00
5	Reconnection (After Hours) per Rule R14-2-403D	$ 45.00	NT	NT	$ 45.00
6	Meter Test (if correct) per Rule R14-2-408F	$ 30.00	NT	NT	$ 30.00
7	Meter Reread per Rule R14-2-408C (if correct)	$ 15.00	$ 5.00	$ 5.00	$ 15.00
8	NSF Check per Rule R14-2-409F	$ 15.00	NT	NT	$ 15.00
9	Deferred Payment, Per Month	1.50%	1.50%	1.50%	1.50%
10	Late Charge	[b]	1.50%	1.50%	[b]
11	Service Calls - Per Hour/After Hours(e)	NT	$ 50.00	$ 50.00	$ 50.00
12	Deposit Requirements	[c]	[c]	[c]	[c]
13	Moving Meter at Customer Requesdt	Cost	NT	NT	Cost
14	Damage to Meter	Cost	NT	NT	Cost
15	Meter and Service lines	see H-3, page 4			
16	Main Extension Tariff	Cost	Cost	Cost	Cost
17					
18					
19					
20					

21 [a] Minimum charge times number of full months off the system. per Rule R14-2-403(D).
22 [b] Greater of $5.00 or 1.5% of unpaid balance.
23 [c] Per ACC Rules R14-2-403(B) Residential - two times the average bill.
24 Commercial - two and one-half times the average bill.
25
26
27
28 IN ADDITION TO THE COLLECTION OF REGULAR RATES, EACH UTILITY MAY COLLECT FROM
29 ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES OR USE
30 TAX. PER COMMISSION RULE 14-2-409D(5).
31
32
33
34
35

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Meter and Service Line Charges

Exhibit
Schedule H-3
Page 8
Witness: Bourassa

Refundable Meter and Service Line Charges

	Bella Vista Water Company			Northern Sunrise Water Company			Southern Sunrise Water Company					
	Present Service Line Charge	Present Meter Install-ation Charge	Total Present Charge	Service Line Charge	Install-ation Charge	Total Present Charge	Service Line Charge	Install-ation Charge	Total Present Charge	Proposed Service Line Charge	Proposed Meter Install-ation Charge	Total Proposed Charge*
5/8 x 3/4 Inch			$ 350.00			$ 410.00			$ 410.00	$ 1,765.00	$ 105.00	$ 1,870.00
3/4 Inch			350.00			410.00			410.00	1,765.00	180.00	1,945.00
1 Inch			400.00			520.00			520.00	1,765.00	240.00	2,005.00
1 1/2 Inch			500.00			660.00			660.00	At Cost	At Cost	At Cost
2 Inch / Turbine			NT			1,155.00			1,155.00	At Cost	At Cost	At Cost
2 Inch / Compound			675.00			1,720.00			1,720.00	At Cost	At Cost	At Cost
3 Inch / Turbine			NT			1,625.00			1,625.00	At Cost	At Cost	At Cost
3 Inch / Compound			1,500.00			2,260.00			2,260.00	At Cost	At Cost	At Cost
4 Inch / Turbine			NT			2,500.00			2,500.00	At Cost	At Cost	At Cost
4 Inch / Compound			1,500.00			3,200.00			3,200.00	At Cost	At Cost	At Cost
6 Inch / Turbine			NT			4,500.00			4,500.00	At Cost	At Cost	At Cost
6 Inch / Compound			4,400.00			6,300.00			6,300.00	At Cost	At Cost	At Cost
8 Inch & Larger			At Cost			8,200.00			8,200.00	At Cost	At Cost	At Cost

* Plus actual road crossing costs.

N/T = No Tariff

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Hook-Up Fees

Exhibit
Rebuttal Schedule H-3
Page 9
Witness: Bourassa

Off-site Facilities Hook-up Fee

	Present Charge	Proposed Charge
5/8 x 3/4 Inch	NT	$ 1,600
3/4 Inch	NT	2,400
1 Inch	NT	4,000
1 1/2 Inch	NT	8,000
2 Inch	NT	12,800
3 Inch	NT	25,600
4 Inch	NT	40,000
6 Inch or larger	NT	80,000

NT = No Tariff

FENNEMORE CRAIG, P.C.
Jay L. Shapiro (No. 014650)
Todd C. Wiley (No. 015358)
3003 N. Central Ave.
Suite 2600
Phoenix, Arizona 85012
Attorneys for Applicants

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF BELLA VISTA WATER CO., INC. AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. W-02465A-09-0411
IN THE MATTER OF THE APPLICATION OF NORTHERN SUNRISE WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. W-20453A-09-0412
IN THE MATTER OF THE APPLICATION OF SOUTHERN SUNRISE WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. W-20454A-09-0413

IN THE MATTER OF THE JOINT APPLICATION OF BELLA VISTA WATER CO., INC., NORTHERN SUNRISE WATER COMPANY, INC., AND SOUTHERN SUNRISE WATER COMPANY, INC. FOR APPROVAL OF AUTHORITY TO CONSOLIDATE OPERATIONS, AND FOR THE TRANSFER OF UTILITY ASSETS TO BELLA VISTA WATER CO., INC. PURSUANT TO ARIZONA REVISED STATUTES 40-285.	DOCKET NO. W-02465A-09-0414 DOCKET NO. W-20453A-09-0414 DOCKET NO. W-20454A-09-0414

REBUTTAL TESTIMONY OF

THOMAS J. BOURASSA

(CONSOLIDATED COST OF CAPITAL)

BELLA VISTA WATER CO., INC.,
NORTHERN SUNRISE WATER COMPANY INC.
AND SOUTHERN SUNRISE WATER COMPANY INC

May 25, 2010

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2317210.1/17962.008

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND ADDRESS.

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

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

A. I am testifying in this proceeding on behalf of the applicants, Bella Vista Water Company, Northern Sunrise Water Company, and Southern Sunrise Water Company, consolidated as Bella Vista Water Company ("BVWC" or "the Company").

Q. ARE YOU THE SAME THOMAS J. BOURASSA THAT FILED DIRECT TESTIMONY IN THIS DOCKET?

A. Yes, my direct testimony consisted of two volumes of testimony (one addressing rate base, income statement and rate design, and the other addressing cost of capital) for each of the companies referenced above on a stand-alone basis. In addition, I submitted two volumes of testimony in support of consolidation (one addressing rate base, income statement and rate design, and the other addressing cost of capital).

Q. DID YOU ALSO PREPARE REBUTTAL TESTIMONY ON THOSE ISSUES IN THIS DOCKET?

A. Yes, my rebuttal testimony on the consolidated 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

Q. WHAT IS THE PURPOSE OF THIS VOLUME OF YOUR REBUTTAL

TESTIMONY?

A. 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 testimonies of Mr. Chaves on behalf of Staff and the direct testimony of Mr. Rigsby of RUCO.

Q. HOW HAS THE INDICATED RETURN ON EQUITY CHANGED SINCE THE DIRECT FILING WAS MADE LAST MAY?

A. The cost of equity has decreased, as indicated by the Discounted Cash Flow ("DCF") model and the Capital Asset Pricing Model ("CAPM"). The table below summarizes the results of my updated analysis using those models:

Method	Low	High	Midpoint
Range DCF Constant Growth Estimates	9.1%	10.5%	9.8%
Range of CAPM Estimates	10.4%	13.9%	12.2%
Average of DCF and CAPM midpoint estimates	9.8%	12.2%	11.0%
Financial Risk Adjustment	-0.6%	-0.6%	-0.6%
Specific Company Risk Premium	0.5%	0.5%	0.5%
Indicated Cost of Equity	**9.7%**	**12.1%**	**10.9%**

The schedules containing my updated cost of capital analysis attached to this rebuttal testimony. Also attached are two exhibits, which are discussed below.

Q. PLEASE SUMMARIZE YOUR RECOMMENDED REBUTTAL COST OF DEBT AND EQUITY, AND YOUR RECOMMENDED REBUTTAL RATE OF RETURN ON RATE BASE.

A. The Company's recommended capital structure consists of 22.6 percent debt and 77.4 percent common equity as shown on Rebuttal Schedule D-1. Based on my

updated cost of capital analysis, I am recommending a cost of equity of 10.9 percent. Based on my 10.9 percent recommended cost of equity and a cost of debt of 6.28 percent, the Company's weighted cost of capital ("WACC") is 9.85 percent, as shown on Rebuttal Schedule D-1.

Q. WHY IS YOUR COST OF EQUITY RECOMMENDATION LOWER IN YOU REBUTTAL THAN IN YOUR DIRECT TESTIMONY?

A. When I prepared my direct testimony in August 2009, the economy was believed to still be in the midst of a severe recession and the crisis in the financial markets, which occurred in late 2008 and was still hanging over the markets last August. In late 2008, the Dow Jones average had fallen by 38 percent and the S&P 500 dropped by 40 percent in just a couple of months. During this period, there was a "flight to quality" that led to an increase in the traditional spread between required returns on Treasury securities and other assets as investors turned away from common stocks and corporate bonds in favor of Treasuries. During the past eight months, both the economy and the financial markets have improved.

Economists now believe the recession ended in the summer of 2009. The current outlook for the economy has improved. For 2010 the economy is expected to grow at a 3.0 – 3.5 percent rate.[1] However, economists continue to express concerns over the high unemployment rate, the high federal deficits, uncontrolled federal spending, and the looming debt crisis in Europe which may dampen the economic outlook.[2] But, at this point, inflation seems to be in check and the Federal Reserve is expected to keep interest rates low though the end of the year.

---

[1] *Value Line* Selection and Opinion, May 14, 2010.

[2] Blue Chip Financial Forecasts, May 2010.

Q. WHAT HAS BEEN THE EFFECT OF THESE CONDITIONS ON YOUR RECOMMENDED COST OF EQUITY?

A. As stated, my updated analysis indicates that BVWC's cost of equity is currently 10.9 percent, which is 160 basis points lower than the 12.5 percent cost of equity I proposed for BVWC in my direct testimony. There are two primary reasons for the reduction in the cost of equity. First, there is a reduction in the current market risk premium used in my CAPM estimate. Second, my growth estimates for the DCF are much lower. Previously, my cost of equity estimates based on the DCF model and the CAPM ranged from 10.0 percent to 16.3 percent with a mid-point of 13.1 percent after adjustments for financial risk and firm-specific risks.

B. <u>Summary of the Recommendations of Staff and RUCO.</u>

Q. PLEASE SUMMARIZE THE RESPECTIVE RECOMMENDATIONS OF STAFF AND RUCO FOR THE RATE OF RETURN ON FAIR VALUE RATE BASE.

A. Staff is recommending a capital structure consisting of 32.2 percent debt and 67.8 percent equity.[3] Staff's capital structure is based on an adjusted capital structure of BVWC at December 31, 2009 (9 months after the end of the test year).[4] Staff determined a cost of equity of 9.8 percent based on the average cost of equity produced by its DCF and CAPM models (10.5 percent) and a 40 basis point downward adjustment for BVWC's lower financial risk as compared to the publicly traded water utilities in Staff's sample group.[5] Based on Staff proposed capital structure for BVWC, Staff determined the WACC for BVWC to be 8.6 percent.[6] Staff ignored BVWC's firm-specific risks except financial risk based on

[3] *See* Direct Testimony of Pedro M. Chaves ("Chaves Dt.") at 36.
[4] *See* Staff Schedule PMC-9.
[5] *Id.*
[6] *Id.*

BVWC's particular capital structure.

RUCO also did not consider firm-specific risks other than financial risk. RUCO determined its recommended cost of equity of 9.0 percent based on the results its DCF and CAPM methods.[7] RUCO is recommending a capital structure of 21.08 percent debt and 78.92 percent equity based on the Company adjusted debt and equity contained in its direct filing.[8] With RUCO's recommended cost of debt of 6.27 percent, RUCO's overall return for BVWC is 8.42 percent.[9]

Q. PLEASE SUMMARIZE THE PARTIES RESPECTIVE COST OF EQUITY ESTIMATES FOR THE DCF AND CAPM.

Party	DCF	CAPM	Average
BVWC	9.7%	12.1%	10.9%
Staff	9.7%	10.6%	10.2%
RUCO	9.92%	5.95%	7.93%

As the foregoing shows, RUCO's estimate of the cost of equity, as summarized in Schedule WAR-1, page 3 of Mr. Rigsby's testimony, is significantly lower than either the Company or Staff. The primary difference, obviously, is RUCO's extraordinarily low CAPM estimate. Obviously, something is wrong with the methods and inputs selected by Mr. Rigsby in using the CAPM.

Q. BUT THE RECOMMENDATIONS OF STAFF AND RUCO DIFFER SIGNIFICANTLY FROM THE ESTIMATES PRODUCED BY THE DCF MODEL AND CAPM MODEL.

A. Yes. Although Staff has estimated that the average cost of equity for the six publicly traded water utilities in its sample group is 10.2 percent, Staff's

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[7] *See* Direct Testimony of William A. Rigsby Dt. ("Rigsby Dt.") at 6.
[8] *Id.*
[9] *Id.* at 7.

recommended cost of equity for BVWC is 9.8 percent. As stated, this disparity results from Staff's 40 basis point downward adjustment for financial risk based on the Hamada formula. As discussed below, Staff's financial risk adjustment was incorrectly calculated and unfairly depresses BVWC's equity return. Moreover, Staff ignored BVWC's other firm-specific risks. As a result, Staff's recommended equity return for BVWC is unreasonable and should be rejected.

RUCO, in contrast, proposes a cost of capital of 9.0 percent, even though RUCO's models produce a cost of equity of 7.93 percent. This would make sense if RUCO intends to recognize BVWC's smaller size, lack of liquidity and other firm-specific risks. However, no explanation is given by Mr. Rigsby for his higher recommendation other than it falls on the high side of his range of estimates.[10]

Q MR. BOURASSA, YOU AREN'T DISCOURAGING RUCO FROM SUGGESTING A HIGHER ROE THAN THEIR MODELS DICTATES, ARE YOU?

A. Absolutely not, but it is hard to take comfort from RUCO making it seem like they are being generous by proposing a higher ROE than their models indicate, when in fact they are simply manipulating the cost of capital to produce their desired result. It is a "wolf in sheep's clothing" approach.

Mr. Rigsby should instead use reasonable comparable firms, apply the models to those firms as they are meant to be applied, and then make his upward adjustments for company-specific risk as necessary.

Q. HOW DO THE PARTIES' RECOMMENDATIONS COMPARE TO OTHER FORECASTS OF COMMON EQUITY RETURNS?

A. Value Line, a reputable publication that has been used by all of the parties' cost of

[10] *Id.* at 8.

capital witnesses, publishes forecasts of returns on common equity for larger publicly traded companies. These water utilities are included in all of the parties' sample groups. Value Line (April 23, 2010) projects the following returns on equity for those utilities:

American States Water	10.5%
Aqua America	14.0%
California Water	11.0%
Average	11.8%

All of these utilities are significantly larger than BVWC. AUS Utility Reports (May 2010) reports the following information for these utilities (in millions of dollars):

	Net Plant	Revenue
American States Water	$ 962.1	$361.0
Aqua America	$2,790.5	$670.5
California Water	$1079.9	$449.4
Average	$1,610.8 million	$493.6million

Moreover, these utilities operate in jurisdictions such as California and Pennsylvania that use projected or partially projected test years, and authorize surcharges and other cost recovery mechanisms which allow the recovery of increases in costs outside a general rate case. Therefore, they are less risky than BVWC. These data provide an unbiased indication that the Staff and RUCO recommendations for BVWC are too low and should not be adopted by the Commission.

III. REBUTTAL TO STAFF'S COST OF CAPITAL ANALYSIS, TESTIMONY AND RECOMMENDATIONS

A. Staff's Financial Risk Adjustment

Q. PLEASE COMMENT ON STAFF'S RECOMMEND A FINANCIAL RISK ADJUSTMENT.

A. Staff's financial risk adjustment is overstated for two reasons. First, the beta used in the Hamada formula is the average beta of Staff's sample publicly traded water utilities. Second, Staff's financial risk adjustment is overstated because Staff uses book values rather than conceptually correct market values for equity in calculating the risk adjustment using the Hamada formula. This error overstates the adjustment.

Q. WHY IS THE FIRST REASON PROBLEMATIC?

A. Because the average beta of the sample water utilities does not reflect the riskiness of the Company. If BVWC had its own beta, it would have a higher beta than the sample water utility companies.[11]

Q. WHY WOULD BVWC HAVE A HIGHER BETA?

A. Beta is measures the volatility, i.e., riskiness, of a security relative to the market as whole. BVWC is a riskier investment than any of the sample utilities. Consequently, it would have a higher beta than the average of the sample group.

Q. SO IF WE HAD A BETA FOR BVWC AND IT WAS INDEED HIGHER, WHAT IMPACT WOULD THAT HAVE ON STAFF'S HAMADA CALCULATION?

A. A higher beta for BVWC would result in a much lower financial risk adjustment using the Hamada formula.

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[11] *See* Direct Testimony of Thomas J. Bourassa – Cost of Capital ("Bourassa COC Dt.") at 31 – 32 and 36 – 37.

Q. HAVEN'T YOU ALSO PROPOSED A FINANCIAL RISK ADJUSTMENT?

A. Yes, and in calculating that adjustment, I was forced to use the average betas of the sample companies.[12] BVWC's stock is not publicly traded and it has no reported beta. Therefore, like Staff, I had to assume that the average beta of the sample utilities is BVWC's beta to perform the financial risk adjustment calculation. There is a significant difference, however – I also propose a company-specific risk premium, which, to some extent, offsets the potential overstatement of my financial risk adjustment.

Q. WHAT IS THE CONCERN WITH STAFF'S USE OF BOOK VALUES?

A. Staff used the wrong inputs in unlevering and relevering the average beta of the sample group. Specifically, Staff used the book values of the sample utilities' capital structures rather than market values. Professor Hamada developed his equation using market values, not recorded book costs.[13] This is logical given that the Hamada formula is an extension of the CAPM, which is a market-based model that does not consider book or accounting data.[14] The critical component, beta, is an estimate of a security's risk based on its volatility relative to the market as a whole. Mr. Chaves admitted this in his testimony.[15] Therefore, it would make no sense to unlever and relever the sample group's average beta to account for the effect of financial leverage using book equity, as Staff has done in this case. Furthermore, numerous authorities state that market values must be used in estimating the effect of leverage on a security's risk.[16]

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[12] *Id.* at 36.

[13] "Effects of the Firm's Capital Structure on Systematic Risk of Common Stock," *Journal of Finance*, Vol. 27 No. 2 (May 1972) 435-453.

[14] *See* Chaves Dt. at 11 (discussing beta) and 33 (discussing the Hamada formula).

[15] *Id.* at 27 – 28.

[16] *See, e.g.,* Roger A. Morin, *New Regulatory Finance* 223-24 (Public Utility Reports, Inc. 2006) ("Morin"); Richard A. Brealey, Stewart C. Myers and Franklin Allen, *Principles of Corporate Finance* 516-20 (McGraw Hill/Irwin 8th ed. 2006); Tim Koller, Marc Goedhart and David Wessels, *Valuation:*

In short, given that the CAPM's inputs are based on market data, it is improper to substitute book capital structures, particularly when market capital structures for the sample utilities can easily be determined based on current stock prices and the number of shares outstanding.

Q. HAS STAFF PROVIDED ANY SUPPORT FOR USING A CAPITAL STRUCTURE BASED ON BOOK VALUES?

A. No, and I have been unable to find any authority for using book values in the Hamada formula.

Q. WHAT FINANCIAL RISK ADJUSTMENT HAVE YOU COMPUTED USING STAFF'S MODELS AND MARKET VALUES?

A. I computed a downward financial risk adjustment of 20 basis points – 20 basis points lower than the 40 basis points recommended by Staff. I used the market value of equity for the publicly traded water utilities, which I computed using current market-to-book ratios. For debt, I used the book value of debt as the market value. According to Dr. Morin, this is an appropriate assumption.[17] To compute the market value of BVWC's equity, I used the market value of BVWC's equity using the average market-to-book ratio of the sample publicly traded utility companies. Using the correct financial risk adjustment of 20 basis points and Staff's unadjusted cost of equity of 10.2 percent, the result would be no less than 10.0 percent – 20 basis points higher than the 9.8 percent Staff recommends.

Measuring and Managing the Value of Companies 312-13 (John Wiley & Sons, Inc. 4th ed. 2005); Shannon, P. Pratt, *Cost of Capital – Estimations and Applications* 83-85 (John Wiley & Sons 2nd ed. 2002).

[17] Morin, *supra* at 224.

Q. WHAT DO YOU MEAN "NO LESS" THAN 10.0 PERCENT, MR. BOURASSA?

A. We still have to account for the problem caused by assuming that BVWC would have a beta equal to the average beta of the sample water utilities, which I discussed above. BVWC's small size compared to those sample companies taints the use of the average beta in the first place.

Q. HOW SHOULD THIS SECOND CONCERN BE ADDRESSED?

A. By taking into account the higher risk of BVWC due to its small size relative to the sample companies. If Staff is going to make a financial risk adjustment for differences in the capital structures between Staff's proxy group and BVWC, it should also consider a small firm risk premium to account for firm size differences.[18] It is basic finance that investors require higher returns on small company stocks like BVWC as compared to large company stocks like Aqua America and American States Water. Thus, a risk premium should be authorized to ensure that BVWC's additional investment risk is taken into account. Otherwise, the comparable earnings standard is violated.

Q. HOW DID YOU ACCOUNT FOR ADDITIONAL RISK IN YOUR ANALYSIS?

A. As I stated earlier, my downward financial risk adjustment is offset by an upward small company risk adjustment. This compensates for the use of an overstated beta in estimating BVWC's equity cost. As a result, my net downward adjustment to the cost of equity is 10 basis points (a downward adjustment of 60 basis points for financial risk and an upward adjustment of 50 basis points for firm size).

[18] Bourassa COC Dt. at 36 – 37.

I should emphasize that the small company risk premiums as reported by Morningstar are risk premiums not explained by the higher betas for small companies. Frankly, given BVWC's small size, limited customer base, lack of diversification, lack of liquidity and other factors, there should not be any downward adjustment for financial risk. So, my net downward adjustment of 10 basis points is likely overstated. Clearly, the evidence doesn't support a downward adjustment to BVWC's cost of equity.

B. <u>Firm Specific Risk</u>

Q. IS MR. CHAVES CORRECT THAT PRIOR COMMISSION DECISIONS DID NOT FIND A FIRM SIZE PHENOMENON FOR REGULATED UTILITIES?

A. Mr. Chaves is correct,[19] although I do not believe the issue has come up in the context of the appropriateness of a downward adjustment for financial risk, where the failure to consider the impact of size on investment risk is exacerbated. Moreover, the Commission's failure to recognize that small firms are riskier than large firms, despite an abundance of empirical financial evidence indicating otherwise, is another reason why it is more risky for smaller utilities to do business in Arizona.

Putting that aside, there are many reasons why smaller utilities are more risky than larger utilities. I have discussed these reasons extensively in my direct testimony and will not repeat that testimony here.[20] The simple fact is that a rational investor is not going to view an equity investment in BVWC as having the same risk as the purchase of publicly traded stock in a substantially larger utility like Aqua America, American States Water or California Water Service.

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[19] Chaves Dt. at 43.

[20] Bourassa COC Dt. at 15 – 21.

Moreover, an investment in the stock of a publicly traded utility is much more liquid than an investment in BVWC. If investors are unhappy with the return provided by a publicly traded stock they can sell the stock within minutes. On the contrary, an investment in BVWC does not provide the same level of liquidity. This lack of liquidity creates additional investment risk. The bottom line is that if the differences in risk between small utilities like BVWC and the large, publicly traded water utilities used to estimate the cost of equity are ignored, BVWC's equity cost will be understated and unreasonable.

Q. DO INVESTORS CONSIDER SMALL FIRM RISKS AS WELL AS REGULATORY RISKS?

A. Of course. Contrary to Mr. Chaves's assertions, the investment related to such factors as firm size and Arizona's regulatory environment are important to investors.[21] These risks are not captured by the market data of the water utility proxy group Staff uses to estimate the cost of equity for BVWC. None of the utilities in Staff's water proxy group are of comparable size to BVWC.[22] In fact, BVWC is but a small fraction of the size of the water utilities in Staff's proxy group. And none of the water utilities in Staff's water proxy group operate exclusively in Arizona and are subject to this jurisdiction's regulatory requirements and policies.[23]

Q. IS THERE A WAY TO PRECISELY QUANTIFY THE EFFECT OF THESE ADDITIONAL RISKS ON THE RETURN REQUIRED BY AN INVESTOR?

A. No. But that does not justify ignoring the differences between the sample utilities and BVWC, as Staff proposes. We have no data on very small water utilities so it

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[21] Chaves Dt. at 42.

[22] Bourassa COC Dt. at 18.

[23] *Id.* at 19 – 21.

is hard to conclude that we have captured the true market risk (or systematic risk) Mr. Chaves asserts can be eliminated through diversification. What we do know is that betas for small companies tend to be higher for small firms.[24] We also know that the higher betas do not account for all the risks faced by those who invest in small company stocks.[25] My small company risk premium analysis recognizes these facts.[26] Staff has ignored them, violating the comparable earnings standard.

C. Rebuttal to Staff's Criticisms of Analysts' Estimates of Growth

Q. MR. CHAVES CRITICIZES YOU FOR EXCLUSIVELY RELYING ON ANALYSTS' ESTIMATES TO ESTIMATE GROWHT FOR THE CONSTANT GROWTH DCF MODEL. HOW DO YOU RESPOND?

A. First, Mr. Chaves' assertion that I rely exclusively on analyst estimates of growth[27] is simply wrong, and I suggest Mr. Chaves read my testimony.[28] Second, it is important to note that Mr. Chaves does not reject analyst estimates of growth because he uses analyst estimates of growth in developing his growth rate.[29] Staff gives 50 percent weight to analysts' estimates and 50 percent weight to historical growth data. So I believe the dispute between Mr. Chaves and me would come down to something between 50 percent and my "greater" emphasis. In my direct testimony I explained why weight greater than 50 percent should be given to analysts' estimates.[30]

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[24] *See, e.g., 2010 Ibbotson SBBI Valuation Yearbook* (Morningstar) 44 – 45.
[25] *Id.*
[26] Bourassa COC Dt. at 36 – 37
[27] Chaves Dt. at 37.
[28] Bourassa COC Dt at 28.
[29] Chaves Dt. at 37.
[30] Bourassa Dt. COC at 27 – 29.

Q. WHAT ABOUT MR. CHAVES'S ASSERTION THAT ANALYSTS' ESTIMATES ARE "OVERLY OPTIMISTIC"?

A. First, I refer back to my direct testimony at pages 28 to 29. Gordon, Gordon, and Gould conducted a study and found analyst forecasts of growth outperformed three measures of historical growth. They explain that this result should be expected because analysts would consider historical data in making future projections. Mr. Chaves characterizes the study as merely an "article that does not support the conclusion that these forecasts should be used alone"[31] Putting aside the fact that I do not use analyst estimates alone, the authors' own words in a peer-reviewed journal undermine Mr. Chaves's characterization. The authors concluded:

> We have compared the accuracy of four methods for estimating the growth component of the discounted cash flow yield on a share: past growth in earnings (KEGR), past 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....
>
> Before closing, we have three observations to make. First, the superior performance by KFRG should come as no surprise. All four estimates of growth rely upon past data, but in the case of KFRG a larger body of past data is used, filtered through a group of security analysts who adjust for abnormalities that are not considered relevant for future growth.... [32]

As I have testified, to the extent that past results provide useful indications of future growth prospects, analysts' forecasts of growth would already incorporate that information.[33] In addition, a stock's current price already reflects known historic information on that company, including its past dividend and earnings

[31] Chaves Dt. at 38.

[32] 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.

[33] Bourassa Dt. at 28.

history.[34] If investors rely on analysts' growth rate forecasts, those are the relevant forecasts for determining equity costs.

In summary, Mr. Chaves offers no quantitative or conceptual argument to rebut Gordon, Gordon, and Gould, and offers no evidence that any of the measures of past growth he has used – historical EPS, historical DPS, historical sustainable growth – provides better a forecast of future growth for utilities than analysts' estimates of growth. Mr. Chaves is using Staff's inputs into the DCF model mechanically and without considering the reasons for using those inputs. Unfortunately, Staff's inputs give less weight to the best estimate of future growth in order to drive down the cost of equity. Frankly, this is a result-driven approach.

Q. DOESN'T MR. CHAVES'S TESTIMONY ON PAGE 38 REFERENCING PROFESSOR GORDON'S REMARKS AT THE 30TH ANNUAL FORUM OF THE SOCIETY OF UTILITY AND REGULATORY FINANCIAL ANALYSTS CONTRADICT WHAT THE AUTHORS HAVE CONCLUDED?

A. No. In the quoted remarks Professor Gordon does not say anything about past growth rates. There is no guidance on which past growth rates (EPS, DPS, or book value) should be used, or what weight past growth rates should be given when estimating the growth rate in the DCF model. That is the issue. Mr. Chaves states that "Professor Gordon would temper the typically higher analysts' growth rates with the typically lower GNP growth rate."[35] I have also tempered my estimate by considering past growth rates that are well below the long-term GNP (or GDP)

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[34] *Id.*

[35] Chaves Dt. at 38.

growth rate.[36] Consequently, Mr. Chaves has no basis for his criticism of my approach.

Q. DOES MR. CHAVES STATE THAT INVESTORS RELY ON ANALYST ESTIMATES?

A. Yes.[37] He also states that investors rely "to some extent on past growth as well." That is true, but he does not demonstrate the extent to which investors rely on past growth rates – he simply states that they are considered. Again, if analysts' estimates and current stock prices already account for past growth, then Staff vastly overstates the impact of past growth rates in its DCF model. It is, basically, a type of "double-counting" that produces extremely low results rather than reflecting investor expectations. As I stated, this is a result-driven approach.

Q. DO YOU HAVE FURTHER REBUTTAL TO MR. CHAVES'S "OVERLY OPTIMISTIC" TESTIMONY?

A. Yes. For my second specific response to the assertion that analysts' estimates are "overly optimistic," I point to Value Line. Value Line is in the business of selling information to investors, and all of the parties have relied on Value Line in their cost of equity estimates. Value Line has every incentive to provide accurate forecasts to encourage investors to continue to subscribe to its publications. Value Line does not sell stock and has no incentive to bias upward its buy/sell recommendations and estimates of future growth. Zacks and Morningstar provide similar investment services. Neither markets stock – they sell information, which won't be purchased if it is inaccurate or biased. Yahoo Finance is a free service, but it does not earn commissions from the sales of stock. In sum, Mr. Chaves'

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[36] *See* Rebuttal Schedule D.4-4, column 5. The average of historical growth rates is 4.36%. The long-term GDP growth rate is 6.6%.

[37] Chaves Dt. at 39.

testimony is simply wrong. None of these services has any reason to provide inaccurate information to its users.

Q. DO YOU HAVE ANY FURTHER COMMENTS ON THE TOPIC OF STAFF'S DCF GROWTH ESTIMATES, MR. BOURASSA?

A. Yes. I am attaching a copy of document filed with the public utilities commission in a 2005 California rate case to this volume of my rebuttal testimony.[38] This document was prepared by Mr. Gary Hayes, a witness for San Diego and Electric Company. It lists a number of sources that further contradict Mr. Chaves' claim that analysts typically make upwardly biased forecasts of growth.

Additionally, to further support the use of analyst forecasts of growth, Dr. Morin states:

> Because of the dominance of institutional investors and their influence on individual investors, analysts' forecasts of long-run growth rates provide a sound basis for estimating required returns. Financial analysts exert a strong influence on the expectations of many investors who do not possess the resources to make their own forecasts, that is, they are a cause of g. *The accuracy of these forecasts in the sense of whether they turn out to be correct is not at issue here, as long as they reflect widely held expectations.* As long as the forecasts are typical and/or influential in that they are consistent with 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 return, and not the future as it will turn out to be.*[39]

Dr. Myron Gordon, the same Professor Gordon Mr. Chaves quotes in his testimony and the "father" of the standard regulatory version of the DCF model utilized by Mr. Chaves and myself in the instant case, has also recognized the

[38] Exhibit TJB-RB1 (COC) (attached).

[39] Roger A. Morin. *New Regulatory Finance* (2006) 298 (emphasis added).

significance of analysts' forecasts of growth in EPS in a speech he gave in March 1990 before the Institute for Quantitative Research and Finance. He said:

> We have seen that earnings and growth estimates by security analysts were found by Malkiel and Cragg to be superior to data obtained from financial statements for the explanation of variation in price among common stocks. ... Estimates by security analysts available from sources such as IBES are far superior to the data available to Malkiel and Cragg. Eq (7) is not as elegant as Eq (4), but it has a good deal more intuitive appeal. It says that investors buy earnings, but what they will pay for a dollar of earnings increases with the extent to which the earnings are reflected in the dividend or in appreciation through growth.[40]

Professor Gordon recognized that total return is largely affected by the terminal price, which is mostly affected by earnings (hence the common use of price/earnings multiples in evaluating stock prices).

As noted by Dr. Gordon, studies performed by Cragg and Malkiel demonstrate that analysts' forecasts are superior to historical growth rate extrapolations. These studies show that:

> Efficient market hypotheses suggest that valuation should reflect the information available to investors. Insofar as analysts' forecasts are more precise than other types we should therefore expect their differences from other measures to be reflected in the market. It is therefore noteworthy that our regression results do support the hypothesis that analysts' forecasts are needed even when calculated growth rates are available. As we noted when we described the data, *security analysts do not use simple mechanical methods to obtain their evaluations of companies*. The growth-rate figures we obtained were distilled from careful examination of all aspects of the companies' records, evaluation of contingencies to which they might be subject, and whatever information about their prospects the analysts could glean from the companies themselves from other sources. *It is therefore notable that the results of their efforts are found to be so much more relevant to the valuation than the various simpler and more "objective" alternatives that we tried.*[41]

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[40] Gordon, Myron J., "Pricing of Common Stocks", Seminar (March 27, 1990) at 12 – 13.

[41] John G. Cragg and Burton G. Malkiel, "Expectations and the Structure of Share Prices" *National Bureau of Economic Research* (University of Chicago Press, 1982) Chapter 4.

Vander Weide and Carleton further note:

> [O]ur studies affirm the superiority of analyst's forecasts over simple historical growth extrapolations in the stock price formation process. Indirectly, this finding lends support to the use of valuation models whose input includes expected growth rates.[42]

Q. THAT'S A LOT OF EXPERT COMMENTARY, BUT WHAT DOES IT ALL MEAN IN THIS CASE?

A. It means that the level of accuracy of analysts' forecasts is an after-the-fact evaluation with little relevance to the issues at hand here. What really matters is that analysts' forecasts strongly influence investors and hence the market prices they are willing to pay for stocks. Therefore, they should play a prominent role in a proper equity cost determination. Staff, however, has failed to give these forecasts sufficient weight in its analysis. Even Mr. Dreman, who Mr. Chaves relies on, admits that:

> We have also seen that in spite of high error rates being recognized for decades, neither analysts nor investors who religiously depend on them have altered their methods in any way.[43]

This is my point. If investors rely on analysts' growth rate forecasts, those forecasts should be used to determine the cost of equity, proportionate to investor reliance, not in a manner that depresses the import of that reliance. Analysts' growth rates influence the prices investors will pay for stocks and thus impact the dividend yields. The dividend yields change until the sum of the dividend yield plus the growth rate equals investors' perceived cost of equity. Had the growth forecasts been lower – as Mr. Chaves suggests they should be – the stock prices

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[42] James H. Vander Weide and Willard T. Carleton, "Investor Growth Expectations: Analysts vs. History" (*The Journal of Portfolio Management*, Spring 1988) 78 – 82.

[43] David Dreman, *Contrarian Investment Strategies: The Next Generation* 115-116 (Simon & Schuster 1998).

would be lower and dividend yields would be higher, but there would not necessarily be any difference in the ultimate estimate of the cost of equity.

Q. HOW DO YOU RESPOND TO MR. CHAVES' REFERENCE TO PROFESSOR JEREMY SIEGEL?

A. Mr. Chaves' reliance on the quote from Jeremy Siegel that "dividends and not earnings are meaningful" is puzzling.[44] The DCF model assumes, among other things, that a firm will have a stable dividend payout policy and a stable return on the book value of its stock. Thus, it is assumed that the stock's price, its book value, dividends paid, and earnings all grow at the same rate. While it is appropriate to make such assumptions for forecasting purposes, these assumptions are frequently violated when examining historical data. As it turns out, the historical growth in the stock price, book value, dividends, and earnings for the water utility industry has not been the same.[45] Estimates of long-term growth rates should take this into account. Furthermore, I have not used earnings in my DCF model; I used earnings growth as a proxy for growth. Earnings generate the funds used to pay dividends. Growth in earnings provides more cash flows from which dividends are paid. As a consequence, earnings growth is obviously extremely important to investors, and is therefore an entirely appropriate proxy for growth in the DCF model.

Of course, I'd also note that I don't disagree with Professor Siegel that the price of a stock is always equal to the present value of all future cash flows. I am sure Professor Siegel would agree that future cash flows would not only include dividends but the future sales price of the stock. As I discussed, an investment in the stock of a publicly traded utility is much more liquid than an investment in

[44] Chaves Dt. at 39 – 40.

[45] *See* Rebuttal Schedule D.4-3 and Rebuttal Schedule D.4-4.

BVWC. If investors are unhappy with the return provided by a publicly traded stock they can sell the stock within minutes. On the contrary, an investment in BVWC does not provide the same level of liquidity. This lack of liquidity creates additional investment risk.

Q. DO YOU HAVE ANY FURTHER RESPONSE TO MR. CHAVES REGARDING THE ISSUE OF USING ANALYSTS' FORECASTS AND THE APPROPRIATE WEIGHT THEY SHOULD BE GIVEN?

A. Yes, I have one more comment. I find Mr. Chaves' reliance on a quotation from Dr. Burton G. Malkiel is somewhat confusing. Dr. Malkiel is the Chemical Bank Chairman's Professor of Economics at Princeton University and author of the widely read national bestseller book on investing entitled, "A Random Walk Down Wall Street." Mr. Chaves quotes Dr. Malkiel's apparent criticism of analysts' estimates. Yet, in November 2002, Professor Malkiel affirmed his belief in the superiority of analysts' earnings forecasts when he testified before the South Carolina PUC:

> With all the publicity given to tainted analysts' forecasts and investigations instituted by the New York Attorney General, the National Association of Securities Dealers, and the Securities & Exchange Commission, I believe the upward bias that existed in the late 1990s has indeed diminished. In summary, I believe that current analysts' forecasts are more reliable than they were during the late 1990s. *Therefore, analysts' forecasts remain the proper tool to use in performing a Gordon Model DCF analysis.*[46]

I believe that Dr. Malkiel's testimony should eliminate any disagreement on this issue.

[46] *See* Rebuttal Testimony of Dr. Burton G. Malkiel, South Carolina Electric and Gas Co., Docket No. 2002-223-E, pp. 16 – 17 (emphasis added).

IV. REBUTTAL TO RUCO'S COST OF CAPITAL ANALYSIS, TESTIMONY AND RECOMMENDATIONS

A. Proxies Used to Develop Cost of Equity

Q. IS MR. RIGSBY'S SAMPLE GROUP DIFFERENT THAN THE COMPANY'S AND STAFF'S SAMPLE?

A. Yes. Mr. Rigsby uses three publicly traded water utilities. He used the three largest water utilities out of the six water utilities that I have used, the same ones Staff typically uses when performing its cost of capital analysis.

Q. DOES MR. RIGSBY ALSO USE GAS DISTRIBUTION COMPANIES TO DEVELOP HIS ESTIMATE OF THE COST OF EQUITY?

A. Yes, he uses 10 natural gas companies. However, the sample gas utilities are less risky and therefore not comparable to water utilities. His sample water companies, for example, have an average beta of 0.73, while his sample gas companies have an average beta of just 0.66.[47] That means that the equity cost for the water utility sample is greater than the gas utilities sample, based on their relative riskiness. Even though the water utility sample has more systematic risk than the gas utility sample, Mr. Rigsby assumes that the gas utilities and water utility have the same systematic risk and are directly comparable. They are not.

Q. CAN GAS UTILITIES BE USED TO ESTIMATE BVWC'S COST OF EQUITY?

A. Yes, but it is only fair and proper to use gas companies if the results produced by the DCF and CAPM models are adjusted upward to reflect the water utilities' additional risk. Mr. Rigsby made no such adjustment.

Q. HAS THIS ISSUE EVER COME UP BEFORE?

A. Yes. In several prior cases, water utilities presented evidence of the cost of equity

[47] *See* RUCO Schedule WAR-7, page 1 of 2.

using financial data for a similar group of publicly traded gas companies, which at that time had a higher average beta than the water utility sample. In rejecting this evidence, the Commission adopted Staff's argument that because the water utility sample had a lower average beta than the gas utility sample, the cost of equity for the water utility should be lower.[48]

For example, in Arizona Water Company's Eastern Group rate case, Staff determined, based on an analysis using the CAPM, that the cost of equity for the sample gas utility group was approximately 100 basis points higher than the water utility sample group based on the average betas for each industry proxy.[49] The water utility sample had an average beta of 0.59, while the gas utility sample had an average beta of 0.69. Therefore, Staff's cost of capital witness in that case, Mr. Joel Reiker, testified that its estimate of the gas utilities' cost of equity "would require a *significant downward adjustment*" to make the two industry groups comparable in terms of market risk.[50] Here, in contrast, a significant upward adjustment to the gas utility sample's average cost of equity is necessary to make the gas utility sample comparable to RUCO's water utility sample.

Q. CAN YOU QUANTIFY THE ADJUSTMENT NEEDED IN THIS CASE TO MAKE THE GAS UTILITIES SAMPLE COMPARABLE TO THE WATER UTILITIES SAMPLE?

A. Yes. By averaging the results of his equity cost estimate for the water utility sample with his equity cost estimate for the gas utility sample, Mr. Rigsby has

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[48] *Arizona Water Company (Eastern Group)*, Decision No. 66849 (March 19, 2004) at 21; *see also Arizona-American Water Company* Decision No. 67093 (June 30, 2004) at 27.

[49] Staff estimated that the cost of equity for the gas utilities was 10.4% using the CAPM, while the cost of equity for the water utilities was 9.4% – a difference of 100 basis points. *See* Direct Testimony of Joel M. Reiker, Docket No. W-01445A-02-0619 (filed July 8, 2003), Sch. JMR-7, Sch. JMR- 18.

[50] Direct Testimony of Joel M. Reiker, Docket No. W-01445A-02-0619 (filed July 8, 2003) at 26 (italics original). *See also* Decision No. 66849 at 21.

depressed the cost of equity estimates. For example, the average of Mr. Rigsby's CAPM estimates for the water companies and gas companies are 6.14 percent and 5.76 percent, respectively. This is an 38 basis point difference, which reflects the relative riskiness of the two sample groups.

Q. HOW WOULD YOU FACTOR IN THE DIFFERENCE IN RISK INDICATED BY THE AVERAGE BETA OF EACH UTILITY GROUP IF YOU WERE TO USE THE GAS UTILITIES?

A. By using the CAPM, as Staff did in the Arizona Water Company case. As I explained above, the difference between the results produced by Mr. Rigsby's CAPM model is 38 basis points. Because of the method used by Mr. Rigsby to implement the CAPM, however, 38 basis points understates the required adjustment to properly reflect the gas utilities' lower investment risk. If my method and inputs are used instead, similar to the method used in the aforementioned Arizona Water Eastern Group case, the risk differential is 110 basis points, calculated as follows:

	Rf		Beta		Rp		K
Historic MRP	5.2%	+	0.66	X	6.7%	=	9.6%
Current MRP	5.2%	+	0.66	X	11.2%	=	12.6%
Average Gas Utility Sample							11.1%
Average Water Utility Sample[51]							12.2%
Difference/Risk Adjustment							**1.1%**

Given this difference, it is clearly inappropriate to simply average the gas utilities' equity cost with the water utilities' equity cost, as Mr. Rigsby has done. This error

[51] *See* Rebuttal Schedule D-4.13.

assumes that an average gas utility has the same investment risk as an average water utility, which is simply not the case at the present time. As a result, Mr. Rigsby's use of gas utilities depresses the cost of equity for BVWC.

Q. ARE THERE ANY OTHER INDICATIONS, BASED ON RUCO'S GAS UTILITY SAMPLE, THAT BVWC'S COST OF EQUITY IS CONSIDERABLE HIGHER THAN THE RECOMMENDATIONS OF RUCO AND STAFF?

A. Yes. The Commission recently authorized a 10.0 percent return on equity for Southwest Gas Corporation.[52] Moreover, in August 2009, Staff recommended a 10.0 percent return on equity in a recent rate case for UNS Gas.[53] The Commission authorized an equity return of 9.5 percent.[54] The water utility sample group has significantly more market risk than the gas utility sample group, and therefore has a higher cost of equity. The indicated cost of equity for BVWC, based on the Commission's recent decisions for Southwest Gas and UNS Gas, is 10.85 percent (9.75% + 1.1%, as shown above). That equity cost is substantially higher than the cost on equity produced by Mr. Rigsby's models, 7.93 percent, or the 9.0 percent equity return he has recommended for BVWC. Again, it is apparent that something is wrong with the methods and inputs Mr. Rigsby has used in this case.

B. <u>Criticisms of RUCO's Implementation of the CAPM</u>

Q. WHAT OTHER CONCERNS DO YOU HAVE WITH RESPECT TO MR. RIGBY'S CAPM ANALYSIS?

A. I have five other concerns with respect to Mr. Rigsby's CAPM analysis. First, Mr. Rigsby employs a geometric average in calculating the market risk premium in

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[52] Decision No. 70665 (December 24, 2008).

[53] Testimony of David C. Parcell, Docket No. G-04204A-08-0571 (June 8, 2009).

[54] *UNS Gas, Inc.*, Decision No. 71623 (April 14, 2010) at 42-43.

his CAPM. His choice to use geometric average depresses his cost of equity estimate downward. As various finance experts have explained, an arithmetic average is the correct approach to use in estimating the cost of capital.[55] In fact, the CAPM was developed on the premise of expected returns being averages and risk being measured with the standard deviation. As Dr. Morin states:

> Since the [standard deviation] is estimated around the arithmetic average, and not the geometric average, it is logical to stay with arithmetic averages to estimate the market risk premium. In fact, annual returns are uncorrelated over time, and the objective is to estimate the market risk premium for the next year, the arithmetic average is the best unbiased estimate of the premium.[56]

My exhibit TJB-RB2 (COC) (attached) is an excerpt from Dr. Roger Morin's textbook on regulatory finance, which provides a detailed discussion of this issue.[57] Dr. Morin cites several academic studies and widely used textbooks that explain what the arithmetic average is and why the arithmetic average is the correct average to use when estimating the current cost of equity. The conclusion of the financial experts is that while the geometric mean is useful in comparing what happened in the past, it should not be used to determine estimates of expected future returns, future growth rates, or market risk premiums.

Q. WHAT IS YOUR SECOND CONCERN?

A. Second, Mr. Rigsby incorrectly uses the U.S. Treasury <u>total</u> returns rather than income returns. As I explained in my direct testimony, the market risk premium is calculated by subtracting the risk-free rate from the market return.[58] As shown on

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[55] Richard A. Brealey and Stewart C. Myers, Principles of Corporate Finance 156-157 (7th ed. 2003); Morin, *supra* at 156-157; *Ibbotson SBBI 2009 Valuation Yearbook* 59-62.

[56] *Morin, supra*, at 157 – 157.

[57] *Morin* at 133 – 43.

[58] Bourassa COC Dt. at 30.

Schedule WAR-7, at page 2, attached to Mr. Rigsby's direct testimony, the total return used to calculate the market risk premium was 5.6 percent. This was the average total return on an intermediate-term Treasury (1926-2008) as published in the *2009 Ibbotson SBBI Valuation Edition Yearbook* (Table 2-1). By contrast, the average income return for an intermediate-term Treasury security was 4.7 percent.

The reason that an average income return must be used, rather than the average total return, is very simple. The CAPM is a risk premium methodology that is based on the premise that an investor expects to earn a return equal to the return on a risk-free investment, plus a premium for assuming additional risk that is proportional to the security's market risk (i.e., its beta). U.S. Treasuries are commonly used as a proxy for the risk-free rate because they are backed by the United States government, effectively eliminating default risk. The income return is the portion of the total return that results from the bond's periodic cash flow, i.e., the interest payments. The income return provides an unbiased estimate of the riskless rate of return because an investor can hold the Treasury security to maturity and receive fixed interest payments with no capital loss or capital gain. If the total return on a Treasury security is used instead, additional risk is injected into the CAPM estimate, which is inconsistent with treating the security as a riskless asset. As explained by *Ibbotson*:

> Another point to keep in mind when calculating the equity risk premium is that the income return on the appropriate-horizon Treasury security, rather than the total return, is used in the calculation. The total return is comprised of three return components: the income return, the capital appreciation return, and the reinvestment return. The income return is defined as the portion of the total return that results from a periodic cash flow or, in this case, the bond coupon payment. The capital appreciation return results from the price change of a bond over a specific period. Bond prices generally change in reaction to unexpected fluctuations in yields. Reinvestment return is the return on a given month's investment income when reinvested into the same asset class

> in the subsequent months of the year. The income return is thus used in the estimation of the equity risk premium because it represents the truly riskless portion of the return.[59]

As a consequence of incorrectly using U.S. Treasury total returns as well as geometric average, RUCO's CAPM estimate dramatically understates the cost of equity for the water utility sample. If an intermediate-term Treasury security is used as the proxy for the risk-free rate of return, the market risk premium would increase from 6.1 percent to 6.9 percent using the conceptually correct arithmetic averages.

Third, Mr. Rigsby incorrectly uses a 5-year U.S. Treasury rate as his risk-free rate. This depresses Mr. Rigsby's CAPM cost of equity estimates. Use of a short-term treasury rate is conceptually incorrect. As Dr. Morin states:

> At the conceptual level, because common stock is a long-term investment and because cash flows to investors in the form of dividends last indefinitely, the yield on very long-term government bonds, namely the 30-year Treasury bonds, is the best measure of the risk free rate for use in the CAPM and risk premium methods. The expected stock return is based upon long-term cash flows, regardless of an individual's holding period. Utility asset investments generally have long-term useful lives and should be correspondingly matched with longer-term maturity financing instruments. Moreover, short-term Treasury bill yields reflect the impact of factors different from those influencing the yields on longer term securities such as common stock.[60]

Currently, the difference in yields between a 5-year U.S. Treasury and a 30-year U.S Treasury is over 130 basis points.

Q. WHAT ARE THE FACTORS THAT MAKE USE OF SHORTER TERM RATES DIFFERENT?

A. According to Dr. Morin, "short-term rates are volatile, fluctuate widely, and are

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[59] *Ibbotson* at 75-76.

[60] Morin at 151 – 152.

subject to more random disturbances than long-term rates leading to volatile and unreliable equity returns."[61] He goes on to state that "on grounds of stability and consistency, the yields on long-term Treasury bonds match more closely with expected common stock returns."[62] For example, the Federal Reserve announced earlier this year that it will continue to hold interest rates down to support economic recovery, resulting in extremely low short- and intermediate-term Treasury rates – precisely the type of manipulation that Dr. Morin warns of in his text on regulatory finance, quoted above.[63]

Q. WHAT IS THE FOURTH PROBLEM WITH MR. RIGSBY'S CAPM ESTIMATES?

A. Mr. Rigsby has ignored current market risk. This Commission has consistently approved the use of a current market risk premium in implementing the CAPM in water and wastewater utility rate cases.[64] In this case, Mr. Chaves has developed his CAPM estimate using a current market risk premium.[65] RUCO has ignored current market risk, and instead has relied exclusively on incorrectly calculated historic market risk premiums. This depresses the CAPM result.

Changes in the current market risk premium have been a significant factor in the cost of equity authorized by the Commission for water and wastewater utilities. In Arizona Water Company's Eastern Group case, filed in 2002, Staff computed a current market risk premium of 13.1 percent in its CAPM estimate, and relied on that market risk premium in estimating a cost of equity of 9.2 percent, using the

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[61] *Id.* at 152.

[62] *Id.*

[63] *See, e.g.*, "Federal Reserve holds rates steady," Yahoo Finance (January 27, 2010).

[64] *See, e.g., Chaparral City Water Company*, Decision No. 68176 (September 30, 2005); Direct Testimony of Alejandro Ramirez, Docket No. W-02113A-04-0616 (March 22, 2005); Surrebuttal Testimony of Alejandro Ramirez, Docket No. W-02113A-04-0616 (May 5, 2005).

[65] Chaves Dt. at 29, Sch. PMC-3.

same six sample water utilities.[66] At that time, the country was in the midst of a recession, and, according to Staff, interest rates had fallen to the lowest levels since the 1950s.[67] Moreover, the average beta of Staff's water utility sample group was only 0.59 at that time, indicating that investment risk for the water utility industry was low relative to the market.[68]

Two years later, Arizona Water Company filed a rate case for its Western Group systems. Interest rates had increased from the levels in 2003, and the average beta of the Staff's sample utilities had increased as well, indicating greater investment risk. However, Staff's cost of equity estimate was virtually identical to the Eastern Group case, 9.1 percent. [69] The primary reason was that Staff's current market risk premium had dropped from 13.1 percent to 7.8 percent.[70] The Commission, in adopting Staff's CAPM estimate, relied on this change, explaining that "while interest rates have gone up, the cost of equity for the market as a whole has decreased, while the cost of equity for utilities has remained relatively stable."[71]

More recently, in Black Mountain Sewer Corporation's rate case, the Commission relied on a further decline in the current market risk premium to support Staff's recommended 9.6 percent cost of equity.[72] In that case, interest rates and the average beta of the sample group were even higher than 2003 levels,

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[66] Decision No. 66849 at 21; *see also* Direct Testimony of Joel M. Reiker, Docket No. W-01445A-02-0619, 24-25 (July 8, 2003).

[67] *See* Direct Testimony of Joel M. Reiker, Docket No. W-01445A-02-0619, 5 (July 8, 2003).

[68] *See* Direct Testimony of Joel M. Reiker, Docket No. W-01445A-02-0619, 23 (July 8, 2003); *see also* Decision No. 66849 at 20.

[69] Surrebuttal Testimony of Alejandro Ramirez, Docket No. W-01445A-04-0650, Sch. AXR-8 (May 25, 2005).

[70] *Id.*

[71] *Arizona Water Co. (Western Group)*, Decision No. 68302 (November 14, 2005).

[72] *Black Mountain Sewer Corp.*, Decision No. 69164 (December 5, 2006).

and while the result produced by Staff's models was higher, the increase was not as large as would be expected.[73] The reason was that the current market risk premium had decreased to only 5.7 percent, reducing the result produced by the CAPM. Thus, while interest rates increased and the investment risk of the water utility sample had increased, Staff explained that those increases were offset by a decline in the current market risk premium, indicating that the overall risk of the market had declined and, therefore, that the cost of equity was lower.[74]

As these decisions show, not only has the Commission consistently considered the current market risk premium, but changes in the current market risk premium have had a major impact on the cost of equity, offsetting changes in interest rates and water utility betas in recent cases. Even Mr. Rigsby acknowledged the importance of considering current market conditions in determining the cost of equity:

> Consideration of the economic environment is necessary because trends in interest rates, present and projected levels of inflation, and the overall state of the U.S. economy determine the rate of return that investors earn on their invested funds. Each of these factors represent potential risks that must be weighed when estimating the cost of equity capital for a regulated utility and are, most often, the same factors considered by individuals who are also investing in non-regulated entities.[75]

In light of the current volatility in the financial markets, the failure to consider current market risk grossly distorts the CAPM result. As previously stated, Staff normally utilizes the current market risk premium in its CAPM

[73] In the Black Mountain case, the intermediate-term Treasury used by Staff in its CAPM was 4.8 percent, while the average beta of Staff's sample group was 0.74. Surrebuttal Testimony of Pedro M. Chaves, Docket No. SW-02361A-05-0657, Sch. PMC-2 (May 4, 2006). In Arizona Water's Eastern Group case, in contrast, the intermediate-term Treasury used by Staff in its CAPM was 3.3 percent, while the average beta of Staff's sample group was 0.59. Direct Testimony of Joel M. Reiker, Docket No. W-01445A-02-0619, Sch. JMR-7 (July 8, 2003).

[74] *Black Mountain Sewer Corp.*, Decision No. 69164 at 25-26.

[75] Rigsby Dt. at 38-39.

estimate, and Mr. Chaves has done so again in this case. Consequently, RUCO's use of two historic market risk premiums (one of which is conceptually wrong for the reasons given previously) without considering the impact of current market risk on investor expectations invalidates RUCO's cost of equity estimate.

Q. WHAT IS YOUR FIFTH CONCERN WITH MR. RIGSBY'S CAPM ANALYSIS?

A. Fifth, and perhaps most importantly, Mr. Rigsby's CAPM estimate is below the current cost of Baa investment grade bonds, which is approximately 6.0 percent.[76] The following are the results of Mr. Rigsby's CAPM as shown on WAR-1, page 3 of 3:

Geometric mean CAPM estimate - water companies	5.44%
Arithmetic mean CAPM estimate - water companies	6.83%
Geometric mean CAPM estimate - gas companies	5.13%
Arithmetic mean CAPM estimate - gas companies	6.39%
Overall CAPM result	5.95%

A simple reality check should have caused Mr. Rigsby to question his inputs to the CAPM. This further illustrates that RUCO's methods are not only biased downward, but should not be used.

A. Criticisms of RUCO's Implementation of the DCF

Q. DO YOU HAVE ANY CONCERNS REGARDING MR. RIGSBY'S DCF ESTIMATES?

A. Yes. RUCO's method of estimating his growth rates is subjective and cannot be verified or replicated, in contrast to the methods I use. In his DCF model, Mr. Rigsby relies on projected sustainable growth in order to estimate the dividend

[76] Federal Reserve, May 20, 2010.

growth rate. The difference, however, is that the key inputs necessary to estimate the internal or retention growth rate are not disclosed by Mr. Rigsby.

Q. WHAT ARE THOSE INPUTS?

A. Internal or retention growth is the expected growth in dividends due to the retention of earnings. Retention growth is dependent on the percentage of earnings retained (the retention ratio) and the expected return on common equity that is applied to the retained earnings. Thus, the internal growth rate formula is:

Retention growth rate = br

Where: b = the retention ratio (1-dividend payout ratio)

r = the expected return on common equity

The problem with Mr. Rigsby's implementation of this formula is that he does not disclose the retention ratio or the expected return on common equity used to calculate the retention growth rate. As a result, it is impossible to verify the accuracy of his calculation of internal growth (br).

Mr. Rigsby lists various sources of data,[77] and he also attaches various materials to his direct testimony. But there is no explanation of how any of these materials were actually used. This approach effectively allows Mr. Rigsby to simply select a growth rate that falls somewhere within a broad range and cannot be verified.

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY ON COST OF CAPITAL?

A. Yes. Although my silence on any issue does not constitute agreement with the other parties.

[77] Rigsby Dt. at 25-30.

Bella Vista Water Co., Inc.
Northern Sunrise Water Company Inc.
Southern Sunrise Water Company Inc.

W-02465A-09-0411, W-20453A-09-0412, W-20454A-09-0413,
W-02465A-09-0414, W-20453A-09-0414 and W-20454A-09-0414

Thomas J. Bourassa
Rebuttal Testimony
(Consolidated Cost of Capital)
May 25, 2010

Exhibit
TB-RB1

2232477.1

Application No.: 07-05-007
Exhibit No.: _____
Witness: Gary H. Hayes
Date: August 28, 2007

Exhibit 4-D
CPUC Proceeding A-07-05-003 ET AL
Sponsor / Witness SDG&E / HAYES
Date Ident. 9/12/07 Recd. 9/12/07
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 E. Runkle (1998). "Are financial analysts' forecasts of corporate profits rational." *The Journal of Political Econo*my 106(4): 768-805.

Keane and Runkle demonstrate that previous inferences regarding analyst optimism are strongly affected by correlation in analyst forecast errors across forecasts and firms and by unexpected accounting write-offs and special charges. They develop a new estimator of bias that gives correct statistical inference when forecast errors are correlated, and they show that previous studies' failure to account for correlation led to a conclusion that analysts are optimistic. Using an I/B/E/S database over the period 1983 – 1991, they also demonstrate that a correct test for analyst optimism leads to the conclusion that analysts are unbiased.

In addition to problems caused by correlation in analysts' earnings forecasts, the authors also address the problems caused by unanticipated accounting accruals. Similar to Abarbanell (2003), they demonstrate that statistical tests of optimism are distorted by discretionary special accounting charges in the forecast period. Failure to adjust for discretionary special accounting charges in the company sample under study distorts statistical results in the direction of favoring the conclusion of biased analysts' forecasts. The authors conclude that the evidence in their paper strongly supports the view that professional stock market analysts make rational forecasts of earnings per share for the companies they follow.

Abarbanell, J., and Reuven Lehavy (2003). "Biased forecasts or biased earnings? The role of reported earnings in explaining apparent bias and over/underreaction in analysts' earnings forecasts." *Journal of Accounting & Economics* 36: 105-146.

Abarbanell and Lehavy investigate whether the apparent bias in analysts' earnings forecasts that appears in some research studies is explained by large accounting write-offs and special charges made by a small number of sample firms. The Abarbanell/Lehavy study is based on a large database of consensus earnings forecasts provided by Zacks for the period 1985 – 1998. When Abarbanell/Lehavy examine the distribution of analysts' forecast errors over this time period, they find that the only statistical indication that supports the argument for analyst optimism is a fairly large negative mean forecast error. In contrast, the median error is zero, suggesting unbiased forecasts, while the percentage of positive errors is significantly greater than the percentage of negative errors (48 percent versus 40 percent), suggesting apparent analyst pessimism. Similar to Brown (1997), Abarbanell/Lehavy explain this phenomenon by observing that the left tail (the optimistic tail of the distribution) contains significantly more extreme errors of greater magnitude than the right tail (the pessimistic tail) of the distribution. Abarbanell/Lehavy's conclusion is supported by a correlation study that examines the relationship between extreme negative forecast errors with extreme negative unexpected accruals. The correlation study indicates a direct connection between the extreme errors in the left tail of the error distribution and unexpected accounting accruals. Once the effect of accounting accruals is removed the study, Abarbanell/Lehavy find that the mean forecast error becomes zero, indicating that there is no tendency for analysts' forecasts to be optimistic.

Ciccone, S. J. (2005). "Trends in analyst earnings forecast properties." *International Review of Financial Analysis* 14: 1-22.

Ciccone examines trends in analysts forecast dispersion, error, and optimism using First Call 120,022 quarterly observations from 1990 – 2001. He finds that analyst optimism declined significantly over the period of his study and that analysts' forecasts for profitable firms became pessimistic in the last several years of his study period. He concludes that analyst optimism is no longer an issue and that, "[i]f anything, analysts have a new concern: earnings pessimism for profit firms."

Clarke, J., Stephen P. Ferris, Narayanan Jayaraman, and Jinsoo 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.

Bella Vista Water Co., Inc.
Northern Sunrise Water Company Inc.
Southern Sunrise Water Company Inc.

W-02465A-09-0411, W-20453A-09-0412, W-20454A-09-0413,
W-02465A-09-0414, W-20453A-09-0414 and W-20454A-09-0414

Thomas J. Bourassa
Rebuttal Testimony
(Consolidated Cost of Capital)
May 25, 2010

Exhibit
TB-RB2

2232477.1

NEW
REGULATORY
FINANCE

Roger A. Morin, PhD

Appendix 4-A
Arithmetic versus Geometric Means in Estimating the Cost of Capital

The use of the arithmetic mean appears counter-intuitive at first glance, because we commonly use the geometric mean return to measure the average annual achieved return over some time period. For example, the long-term performance of a portfolio is frequently assessed using the geometric mean return.

But performance appraisal is one thing, and cost of capital estimation is another matter entirely. In estimating the cost of capital, the goal is to obtain the rate of return that investors expect, that is, a target rate of return. On average, investors expect to achieve their target return. This target expected return is in effect an arithmetic average. The achieved or retrospective return is the geometric average. In statistical parlance, the arithmetic average is the unbiased measure of the expected value of repeated observations of a random variable, not the geometric mean. This appendix formally illustrates that only arithmetic averages can be used as estimates of cost of capital, and that the geometric mean is not an appropriate measure of cost of capital.

The geometric mean answers the question of what constant return you would have had to achieve in each year to have your investment growth match the return achieved by the stock market. The arithmetic mean answers the question of what growth rate is the best estimate of the future amount of money that will be produced by continually reinvesting in the stock market. It is the rate of return which, compounded over multiple periods, gives the mean of the probability distribution of ending wealth.

While the geometric mean is the best estimate of performance over a long period of time, this does not contradict the statement that the arithmetic mean compounded over the number of years that an investment is held provides the best estimate of the ending wealth value of the investment. The reason is that an investment with uncertain returns will have a higher ending wealth value than an investment which simply earns (with certainty) its compound or geometric rate of return every year. In other words, more money, or terminal wealth, is gained by the occurrence of higher than expected returns than is lost by lower than expected returns.

In capital markets, where returns are a probability distribution, the answer that takes account of uncertainty, the arithmetic mean, is the correct one for estimating discount rates and the cost of capital.

While the geometric mean is appropriate when measuring performance over a long time period, it is incorrect when estimating a risk premium to compute the cost of capital.

TABLE 4A-1
GEOMETRIC VS. ARITHMETIC RETURNS

	Stock A	Stock B
1996	50.0%	11.61%
1997	−54.7%	11.61%
1998	98.5%	11.61%
1999	42.2%	11.61%
2000	−32.3%	11.61%
2001	−39.2%	11.61%
2002	153.2%	11.61%
2003	−10.0%	11.61%
2004	38.9%	11.61%
2005	20.0%	11.61%
Standard Deviation	64.9%	0.0%
Arithmetic Mean	26.7%	11.6%
Geometric Mean	11.6%	11.6%

Theory

The geometric mean measures the magnitude of the returns, as the investor starts with one portfolio and ends with another. It does not measure the variability of the journey, as does the arithmetic mean. The geometric mean is backward looking. There is no difference in the geometric mean of two stocks or portfolios, one of which is highly volatile and the other of which is absolutely stable. The arithmetic mean, on the other hand, is forward-looking in that it does impound the volatility of the stocks.

To illustrate, Table 4A-1 shows the historical returns of two stocks, the first one is highly volatile with a standard deviation of returns of 65% while the second one has a zero standard deviation. It makes no sense intuitively that the geometric mean is the correct measure of return, one that implies that both stocks are equally risky since they have the same geometric mean. No rational investor would consider the first stock equally as risky as the second stock. Every financial model to calculate the cost of capital recognizes that investors are risk-averse and avoid risk unless they are adequately compensated for undertaking it. It is more consistent to use the mean that fully impounds risk (arithmetic mean) than the one from which risk has been removed (geometric mean). In short, the arithmetic mean recognizes the uncertainty in the stock market while the geometric mean removes the uncertainty by smoothing over annual differences.

Empirical Evidence

If both the geometric and arithmetic mean returns over the 1926–2004 data are regressed against the standard deviation of returns for the firms in the

deciles, the arithmetic mean outperforms the geometric mean in this statistical regression. Moreover, the constant of arithmetic mean regression matches the average Treasury bond rate and therefore makes economic sense while the constant for the geometric mean matches nothing in particular. This is simply because the geometric mean is stripped of volatility information and, as a result, does a poor job of forecasting returns based on volatility.

The following illustration is frequently invoked in defense of the geometric mean. Suppose that a stock's performance over a two-year period is representative of the probability distribution, doubling in one year ($r_1 = 100\%$) and halving in the next ($r_2 = -50\%$). The stock's price ends up exactly where it started, and the geometric average annual return over the two-year period, r_g, is zero:

$$
\begin{aligned}
1 + r_g &= [(1 + r_1)(1 + r_2)]^{1/2} \\
&= [(1 + 1)(1 - .50)]^{1/2} = 1 \\
r_g &= 0
\end{aligned}
$$

confirming that a zero year-by-year return would have replicated the total return earned on the stock. The expected annual future rate of return on the stock is not zero, however. It is the arithmetic average of 100% and −50%, $(100-50)/2 = 25\%$. There are two equally likely outcomes per dollar invested: either a gain of \$1 when $r = 100\%$ or a loss of \$0.50 when $r = -50\%$. The expected profit is $(\$1 - \$.50)/2 = \$.25$ for a 25% expected rate of return. The profit in the good year more than offsets the loss in the bad year, despite the fact that the geometric return is zero. The arithmetic average return thus provides the best guide to expected future returns.

What Academics Have to Say

Bodie, Kane, and Marcus (2005) cite:

> Which is the superior measure of investment performance, the arithmetic average or the geometric average? The geometric average has considerable appeal because it represents the constant rate of return we would have needed to earn in each year to match actual performance over some past investment period. It is an excellent measure of *past* performance. However, if our focus is on future performance, then the arithmetic average is the statistic of interest because it is an unbiased estimate of the portfolio's expected future return (assuming, of course, that the expected return does not change over time). In contrast, because the geometric return over a sample period is always less than the arithmetic mean,

> it constitutes a downward-biased estimator of the stock's expected return in any future year.
>
> Again, the arithmetic average is the better guide to future performance.

Another way of stating the Bodie, Kane, Marcus argument in favor of the arithmetic mean is that it is the best estimate of the future value of the return distribution because it represents the expected value of the distribution. It is most useful for determining the central tendency of a distribution at a particular time, that is, for cross-sectional analysis. The geometric mean, on the other hand, is best suited for measuring an investment's compound rate of return over time, that is, for time-series analysis. This is the same argument made by Ibbotson Associates (2005) where it is shown, using probability theory, that future terminal wealth is given by compounding the arithmetic mean, and not the geometric mean. In other words, if we accept the past as prologue, the best estimate of a future year's return based on a random distribution of the prior years' returns is the arithmetic average. Statistically, it is our best guess for the holding-period return in a given year.

Brigham and Ehrhardt (2005) in their widely used corporate finance text point out that the arithmetic average is more consistent with CAPM theory, as one of its key underpinning assumptions is that investors are supposed to focus, in their portfolio decisions, upon returns in the next period and the standard deviation of this return. To the extent that this next period is one year, the preference for the arithmetic mean, which derives from a set of single one year period returns, follows. It is also noteworthy that one of the crucial assumptions inherent in the CAPM is that investors are single-period expected utility of terminal wealth maximizers who choose among alternative portfolios on the basis of each portfolio's expected return and standard deviation.

Brealey, Myers, and Allen (2006) in their leading graduate textbook in corporate finance opt strongly for the arithmetic mean. The authors illustrate the distinction between arithmetic and geometric averages and conclude that arithmetic averages are appropriate when estimating the cost of capital:

> The proper uses of arithmetic and compound rates of return from past investments are often misunderstood. Therefore, we call a brief time-out for a clarifying example.
>
> Suppose that the price of Big Oil's common stock is \$100. There is an equal chance that at the end of the year the stock will be worth \$90, \$110, or \$130. Therefore, the return could be -10 percent, $+10$ percent or $+30$ percent (we assume that Big Oil does not pay a dividend). The expected return is $1/3(-10+10+30) = +10$ percent.

If we run the process in reverse and discount the expected cash flow by the expected rate of return, we obtain the value of Big Oil's stock:

$$PV = \frac{110}{1.10} = \$100$$

The expected return of 10 percent is therefore the correct rate at which to discount the expected cash flow from Big Oil's stock. It is also the opportunity cost of capital for investments which have the same degree of risk as Big Oil.

Now suppose that we observe the returns on Big Oil stock over a large number of years. If the odds are unchanged, the return will be −10 percent in a third of the years, +10 percent in a further third, and +30 percent in the remaining years. The arithmetic average of these yearly returns is

$$\frac{-10 + 10 + 30}{3} = +10\%$$

Thus the arithmetic average of the returns correctly measures the opportunity cost of capital for investments of similar risk to Big Oil stock.

The average compound annual return on Big Oil stock would be

$$(.9 \times 1.1 \times 1.3)^{1/3} - 1 = .088, \text{ or } 8.8\%$$

less than the opportunity cost of capital. Investors would not be willing to invest in a project that offered an 8.8 percent expected return if they could get an expected return of 10 percent in the capital markets. The net present value of such a project would be

$$NPV = -100 + \frac{108.8}{1.1} = -1.1$$

Moral: If the cost of capital is estimated from historical returns or risk premiums, use arithmetic averages, not compound annual rates of return (geometric averages).

(Richard A. Brealey, Stewart C. Myers, and Paul Allen, *Principles of Corporate Finance*, 8th Edition, Irwin McGraw-Hill, 2006, page 156–7.)

The widely cited Ibbotson Associates publication also contains a detailed and rigorous discussion of the impropriety of using geometric averages in estimating the cost of capital.[12]

[12] Ibbotson Associates, *Stocks, Bonds, Bills, and Inflation, 2005 Yearbook, Valuation Edition*, page 75.

> The arithmetic average equity risk premium can be demonstrated to be most appropriate when discounting future cash flows. For use as the expected equity risk premium in either the CAPM or the building block approach, the arithmetic mean or the simple difference of the arithmetic means of stock market returns and riskless rates is the relevant number. This is because both the CAPM and the building block approach are additive models, in which the cost of capital is the sum of its parts. The geometric average is more appropriate for reporting past performance, since it represents the compound average return.
>
> The argument for using the arithmetic average is quite straightforward. In looking at projected cash flows, the equity risk premium that should be employed is the equity risk premium that is expected to actually be incurred over the future time periods.
>
> The best estimate of the expected value of a variable that has behaved randomly in the past is the average (or arithmetic mean) of its past values.

In their widely publicized research on the market risk premium, Dimson, Marsh and Staunton (2002) state

> The arithmetic mean of a sequence of different returns is always larger than the geometric mean. To see this, consider equally likely returns of +25 and −20 percent. Their arithmetic mean is 2½ percent, since (25 − 20)/2 = 2½. Their geometric mean is zero, since (1 + 25/100) × (1 − 20/100) − 1 = 0. But which mean is the right one for discounting risky expected future cash flows? For forward-looking decisions, the arithmetic mean is the appropriate measure.
>
> To verify that the arithmetic mean is the correct choice, we can use the 2½ percent required return to value the investment we just described. A $1 stake would offer equal probabilities of receiving back $1.25 or $0.80. To value this, we discount the cash flows at the arithmetic mean rate of 2½ percent. The present values are respectively $1.25/1.015 = $1.22 and $0.80/1.025 = $0.78, each with equal probability, so the value is $1.22 × ½ + $0.80 × ½ = $1.00. If there were a sequence of equally likely returns of +25 and −20 percent, the geometric mean return will eventually converge on zero. The 2½ percent forward-looking arithmetic mean is required to compensate for the year-to-year volatility of returns.

Lastly, on the practical side, Bruner, Eades, Harris, and Higgins (1998) found that 71% of the texts and tradebooks in their extensive survey of practice supported use of an arithmetic mean for estimation of the cost of equity.

Mean Reversion Argument

Some academics have argued that if stock returns were expected to revert to a trend, this would suggest the use of a geometric mean since the geometric mean is, by definition, an estimate of a smoothed long-run trend increment. These same academics have argued that the historical estimate of the market risk premium ("MRP") is upward-biased by the buoyant performance of the stock market prior to 2002, and because of the extraordinary and unusually high realized MRPs in those years, investors expect a return to lower MRPs in the future, bringing the average MPR to a more "normal" level.

The presence or absence of mean reversion is an empirical issue. The empirical findings are weak and highly contradictory; the empirical evidence is inconclusive and unconvincing, certainly not enough to support the "mean reversion" hypothesis. The weight of the empirical evidence on this issue is that the more sophisticated tests of mean reversion in the MRP demonstrate that the realized MRP over the last 75 years or so was almost perfectly free of mean reversion, and had no statistically identifiable time trend. It is also noteworthy that most of these studies were performed prior to the stock market's debacle in 2000–2002, years of extraordinary and unusually low realized MRPs. The stock market's dismal performance of 2000–2002 has certainly taken the wind out of the mean reversion school's sails.

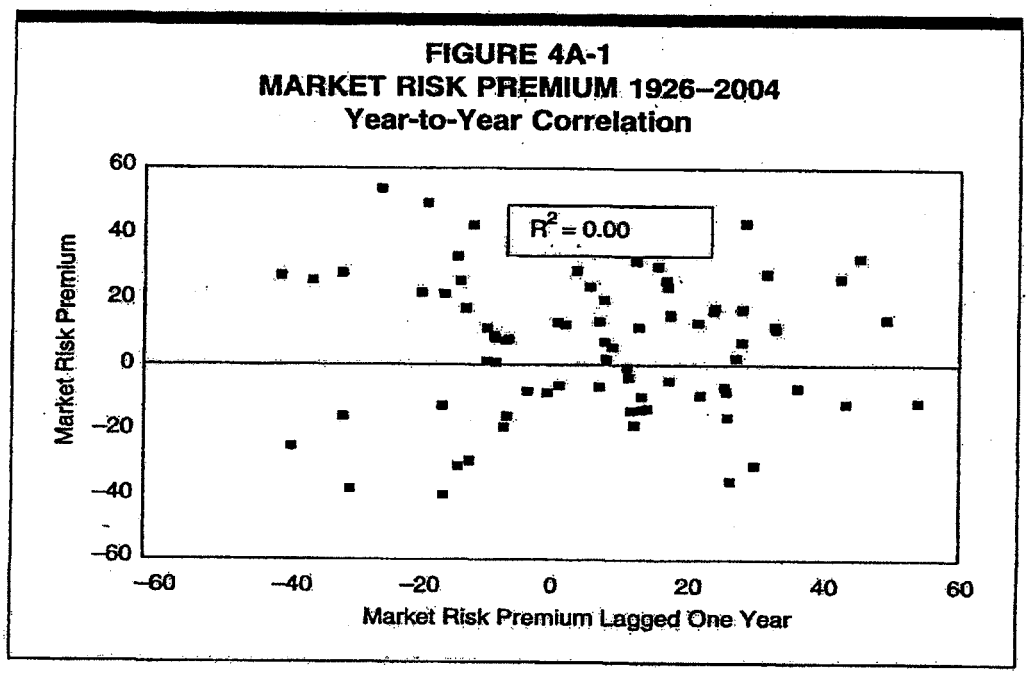
An examination of historical MRPs reveals that the MRP is random with no observable pattern. To the extent that the estimated historical equity risk premium follows what is known in statistics as a random walk, one should expect the equity risk premium to remain at its historical mean. Therefore, the best estimate of the future risk premium is the historical mean.

Ibbotson Associates (2005) find no evidence that the market price of risk or the amount of risk in common stocks has changed over time:

> Our own empirical evidence suggests that the yearly difference between the stock market total return and the U.S. Treasury bond income return in any particular year is random . . . there is no discernable pattern in the realized equity risk premium. (Ibbotson Associates, *Stocks, Bonds, Bills, and Inflation, 2005 Yearbook, Valuation Edition*, pages 74–75)

In statistical parlance, there is no significant serial correlation in successive annual market risk premiums, that is, no trend. Ibbotson Associates go on to state that it is reasonable to assume that these quantities will remain stable in the future (*Id.*):

> The best estimate of the expected value of a variable that has behaved randomly in the past is the average (or arithmetic mean)



of its past values. (Ibbotson Associates, *Stocks, Bonds, Bills, and Inflation, 2004 Yearbook, Valuation Edition*, page 75)

Nowhere is it suggested by Ibbotson Associates that the market risk premium has declined over time.

Because there is little evidence that the MRP has changed over time, it is reasonable to assume that these quantities will remain stable in the future. Figure 4A-1 shows the relationship, or the lack of relationship, between year-to-year MRPs reported in the Ibbotson Associates Valuation Yearbook, 2005 edition, for the 1926–2004 period. The relationship is virtually absent, as indicated by the low R^2 of zero between successive MRPs. In other words, there is no history in successive MRPs as indicated by the zero serial correlation coefficient.

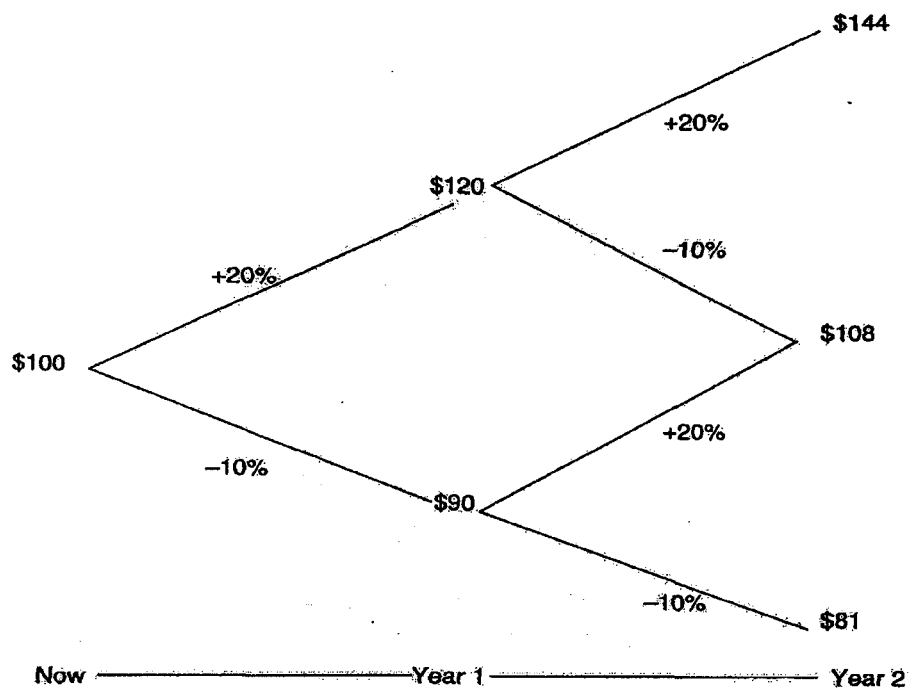
In short, the determination of the cost of capital with the CAPM requires an unbiased estimate of the expected annual return. The expected arithmetic return provides the appropriate measure for this purpose.

Formal Demonstration

This section shows why arithmetic rather than geometric means should be used for forecasting, discounting, and estimating the cost of capital.[13] By

[13] This section is adapted from a similar treatments and demonstration in Brealey, Myers, and Allen (2006) and Ibbotson Associates (2005).

FIGURE 4A-2
POSSIBLE STOCK PRICES



definition, the cost of equity capital is the annual discount rate that equates the discounted value of expected future cash flows (from dividends and the sale of the stock at the end of the investor's investment horizon) to the current market price of a share in the firm. The discount rate that equates the discounted value of future expected dividends and the end of period expected stock price to the current stock price is a prospective arithmetic, rather than a prospective geometric, mean rate of return. Since future dividends and stock prices cannot be predicted with certainty, the "expected" annual rate of return that investors require is an average "target" percentage rate around which the actual, year-by-year returns will vary. This target rate is, in effect, an arithmetic average.

A numerical illustration will clarify this important point. Consider a non-dividend paying stock trading for $100 which has, in every year, an equal chance of appreciating by 20% or declining by 10%. Thus, after one year, there is an equal chance that the stock's price will be $120 and an equal chance the price will be $90. Figure 4A-2 presents all possible eventualities after two periods have elapsed (the rates of return are presented at the end of the lines in the diagram).

The possible stock prices are shown in the following table.

TABLE 4A-2
STOCK PRICES AFTER TWO PERIODS

Price	Chance
$144	1 chance in 4
$108	2 chances in 4
$ 81	1 chance in 4

The expected future stock price after two periods is then:

$$1/4\ (\$144) + 2/4\ (\$108) + 1/4\ (\$81) = \$110.25$$

The cost of equity capital is calculated as the discount rate that equates the present value of the future expected cash flows to the current stock price. In the present simple example, the only cash flow is the gain from selling the stock after two periods have elapsed. Thus, using the expected stock price of $110.25 calculated above, the expected rate of return is that r, which solves the following equation:

$$\text{Current Stock Price} = \frac{\text{Expected Stock Price}}{(1 + r)^2}$$

The factor $(1 + r)^2$ discounts the expected stock price to the present. Substituting the numerical values, we have:

$$\$100 = \frac{\$110.25}{(1+r)^2}$$

$$r = 5\%$$

Thus, the cost of equity capital is 5%. This 5% cost of equity capital is equal to the prospective arithmetic mean rate of return, which is the probability-weighted average single period rate of return on equity. Since in every period there is an equal chance that the stock's return will be 20% or −10%, the probability-weighted average is:

$$1/2\ (20\%) + 1/2\ (-10\%) = 5\%$$

However, the 5% cost of equity capital is not equal to the prospective geometric mean rate of return, which is a probability-weighted average of the possible compounded rates of return over the two periods. Now consider the prospective geometric mean rate of return. Table 4A-3 shows the possible compounded rates of return over two periods, and the probability of each.

Thus, the prospective geometric mean rate of return is:

$$1/4\ (20\%) + 2/4\ (3.92\%) + 1/4\ (-10\%) = 4.46\%$$

TABLE 4A-3
STOCK PRICES AND RETURNS AFTER TWO PERIODS

Price	Chance	Compounded Return
$144	1 chance in 4	20.00%
$108	2 chances in 4	3.92%
$ 81	1 chance in 4	−10.00%

This return is not equal to the 5% cost of equity capital.

The example can easily be extended to include the case of a dividend-paying company and will reach the same conclusion: the implied discount rate calculated in the DCF model is an expected arithmetic rather than an expected geometric mean rate of return.

The foregoing analysis shows that it is erroneous to use a prospective multi-year geometric mean rate of return as a "target" rate of return for each year of the period. If, for example, investors currently require an expected future rate of return on an investment of 13% each year, then 13% is the appropriate annual rate of return on equity for ratemaking purposes. Consequently, in using a risk premium approach for the purposes of rate of return regulation, the single-year annual required rate of return should be estimated using arithmetic mean risk premiums.

It should be pointed out that the use of the arithmetic mean does not imply an investment holding period of one year. Rather, it is premised on the uncertainty with respect to each year's return during the holding period, however many years that may be. When computing the arithmetic average of historic annual returns in order to calculate the average return (expected value of the return), every achieved return outcome is one possible future outcome for each year the security will be held. Each historic return has an equal probability of occurring during each year of the holding period. The resulting expected value of the risk premium is the arithmetic average of all of the past premiums considered, regardless of the length of the expected holding period.

Bella Vista Water Co., Inc.
Northern Sunrise Water Company Inc.
Southern Sunrise Water Company Inc.

W-02465A-09-0411, W-20453A-09-0412, W-20454A-09-0413,
W-02465A-09-0414, W-20453A-09-0414 and W-20454A-09-0414

Thomas J. Bourassa
Rebuttal Testimony
(Consolidated Cost of Capital)
May 25, 2010

Schedules

2232477.1

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Summary of Cost of Capital

Exhibit
Rebuttal Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	End of Test Year Dollar Amount	End of Test Year Percent of Total	End of Test Year Cost Rate	End of Test Year Weighted Cost	End of Projected Year Dollar Amount	End of Projected Year Percent of Total	End of Projected Year Cost Rate	End of Projected Year Weighted Cost
1	Long-Term Debt	1,697,323	22.60%	6.28%	1.42%	1,584,033	19.66%	6.27%	1.23%
2									
3	Stockholder's Equity[1]	5,812,207	77.40%	10.90%	8.44%	6,474,728	80.34%	10.90%	8.76%
4									
5	Totals	$ 7,509,530	100.00%		9.85%	$ 8,058,761	100.00%		9.99%
6									
7									
8	[1] Adjustments to equity								
9	Acumm. depreciation adjustment		$ 205,167						
10	CIAC adjustment		$ (417)						
11	Deferred Income Tax Adjustment		$ (745,335)						
12									
13									
14									
15									
16	SUPPORTING SCHEDULES:								RECAP SCHEDULES:
17	Rebuttal D-1								
18	Rebuttal D-2								
19	Rebuttal D-3								
20	Rebuttal D-4								
21	Consolidated E-1								
22									
23									
24									
25									
26									
27									
28									
29									
30									
31									
32									
33									

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Cost of Long Term Debt

Exhibit
Rebuttal Schedule D-2
Page 1
Witness: Bourassa

Line No.	Description of Debt	End of Test Year Amount Outstanding[1]	Annual Interest	Interest Rate	Weighted Cost	End of Projected Year Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost
1	WIFA #1	108,754	6,634	6.10%	0.39%	108,754	6,634	6.10%	0.39%
2	WIFA #2	1,545,436	96,744	6.26%	5.70%	1,545,436	96,744	6.26%	5.70%
3	K-Mart	6,140	526	8.56%	0.03%	6,140	526	8.56%	0.03%
4	BVR/RC-3	13,849	1,011	7.30%	0.06%	13,849	1,011	7.30%	0.06%
5	BVR/RC-4	16,109	1,113	6.91%	0.07%	16,109	1,113	6.91%	0.07%
6	BVR-CCCII	7,035	504	7.16%	0.03%	7,035	504	7.16%	0.03%
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									
13	Totals	$ 1,697,323	$ 106,532		6.28%	$ 1,697,323	106,532		6.28%
14									
15	SUPPORTING SCHEDULES:								
16									
17									
18									
19									
20									

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Cost of Preferred Stock

Exhibit
Rebuttal Schedule D-3
Page 1
Witness: Bourassa

Line No.	Description of Issue	End of Test Year Shares Outstanding	End of Test Year Amount	End of Test Year Dividend Requirement	End of Projected Year Shares Outstanding	End of Projected Year Amount	End of Projected Year Dividend Requirement
1							
2							
3	NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING						
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17	SUPPORTING SCHEDULES:			RECAP SCHEDULES:			
18				Rebuttal D-1			
19							
20							

Bella Vista Water Company (Consolidated)
Test Year Ended March 31, 2009
Cost of Common Equity

Exhibit
Rebuttal Schedule D-4
Page 1
Witness: Bourassa

Line No.		
1		
2	The Company is proposing a cost of common equity of	10.90% .
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
18	Rebuttal D-4.1 to D-4.16	Rebuttal D-1
19		
20		

Bella Vista Water Company (Consolidated)
Summary of Results

Exhibit
Rebuttal Schedule D-4.1

Line No.	Method	Low	High	Midpoint
6	Range DCF Constant Growth Estimates[1]	9.1%	10.5%	9.8%
8	Range of CAPM Estimates[2]	10.4%	13.9%	12.2%
11	Average of DCF and CAPM midpoint estimates	9.8%	12.2%	11.0%
14	Financial Risk Adjustment[3]	-0.6%	-0.6%	-0.6%
16	Specific Company Risk Premium[4]	0.5%	0.5%	0.5%
18	Indicated Cost of Equity	9.7%	12.1%	10.9%
22	Recommended Cost of Equity			10.9%

1 See Rebuttal Schedule D-4-8
2 See Rebuttal Schedule D-4.12
3 See Rebuttal Schedule D-4.16
4 See testimony.

Bella Vista Water Company (Consolidated)
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						
2						
3	Company[1]					
4	1. American States	76%	$ 361.0	$ 962.1	A	A2
5	2. Aqua America	90%	$ 670.5	$ 2,790.5	AA-	NR
6	3. California Water	99%	$ 449.4	$ 1,079.9	AA-	NR
7	4. Connecticut Water	90%	$ 67.5	$ 273.1	A	NR
8	5. Middlesex	89%	$ 91.2	$ 329.7	A	NR
9	6. SJW Corp.	96%	$ 216.1	$ 523.7	NR	NR
10						
11	Average	90%	$ 309.3	$ 993.2		
12						
13	Bella Vista Water Company (Consolidated)	100%	$ 4.2	$ 16.1	NR	NR
14	(as of December 31, 2008)					
15						
16						
17						
18						
19						
20						
21	[1]AUS Utility Reports (May 2010).					
22						
23						
24						
25						

Bella Vista Water Company (Consolidated)
Capital Structures

Exhibit
Rebuttal Schedule D-4.3

No.	Company	Book Value[1] Long-Term Debt	Book Value[1] Common Equity	Market Value[1] Long-Term Debt	Market Value[1] Common Equity
1					
2					
3					
4	1. American States	47.7%	52.3%	31.7%	68.3%
5	2. Aqua America	55.7%	44.3%	35.7%	64.3%
6	3. California Water	47.2%	52.8%	31.7%	68.3%
7	4. Connecticut Water	51.0%	49.0%	35.5%	64.5%
8	5. Middlesex	47.4%	52.6%	34.0%	66.0%
9	6. SJW Corp.	49.8%	50.2%	33.2%	66.8%
10					
11	Average	49.8%	50.2%	33.6%	66.4%
12					
13	Bella Vista Water Company (Consolidated) [2]	22.6%	77.4%	N/A	N/A
14	(Adjusted as of December 31, 2008)				
15					
16					
17	[1] Value Line Analyzer Data (April 23, 2010)				
18	[2] Adjusted Per Rebuttal Schedule D-1				
19					
20					
21					
22					
23					
24					
25					
26					
27					
28					

Bella Vista Water Company (Consolidated)
Comparisons of Past and *Future* Estimates of Growth

Exhibit
Rebuttal Schedule D-4.4

Line No.	Company	[1] Price[1]	[2] Book Value[2]	[3] EPS[2]	[4] DPS[2]	[5] Average Col 1-4	[6] Average Future Growth[3]	[7] Average of Future and Historical Growth Col 5-6
		Five-year historical average annual changes						
8	1. American States	8.76%	4.98%	9.69%	2.88%	6.58%	5.38%	5.98%
9	2. Aqua America	NMF	6.20%	3.85%	8.81%	6.29%	9.02%	7.65%
10	3. California Water	4.93%	4.92%	6.62%	0.88%	4.34%	5.88%	5.11%
11	4. Connecticut Water	3.15%	2.88%	1.72%	1.39%	2.29%	7.25%	4.77%
12	5. Middlesex	2.61%	4.00%	0.41%	1.49%	2.13%	7.25%	4.69%
13	6. SJW Corp.	6.79%	5.68%	0.25%	5.53%	4.56%	7.25%	5.91%
16	GROUP AVERAGE	5.25%	4.78%	3.76%	3.50%	4.36%	7.01%	5.68%
17	GROUP MEDIAN	4.93%	4.95%	2.79%	2.18%	4.45%	7.25%	5.51%

[1] *Average of changes* in annual stock prices ending on April 23, 2010. Data from Yahoo Finance website.
[2] Data derived from Value Line Investment Survey and/or 10K Reports for period 2005 to 2010.
[3] See Rebuttal Schedule D-4.6.

Bella Vista Water Company (Consolidated)
Comparisons of Past and Future Estimates of Growth

Exhibit
Rebuttal Schedule D-4.5

Line No.	Company	[1] Price[1]	[2] Book Value[2]	[3] EPS[2]	[4] DPS[2]	[5] Average Col 1-4	[6] Average Future Growth[3]	[7] Average of Future and Historical Growth Col 5-6
		Ten-year historical average annual changes						
7	1. American States	8.60%	4.80%	5.36%	1.79%	5.14%	5.38%	5.26%
8	2. Aqua America	7.94%	8.19%	6.34%	7.67%	7.53%	9.02%	8.28%
9	3. California Water	7.79%	3.91%	4.09%	0.80%	4.15%	5.88%	5.01%
10	4. Connecticut Water	4.73%	3.77%	2.08%	1.31%	2.97%	7.25%	5.11%
11	5. Middlesex	4.64%	3.81%	1.24%	1.71%	2.85%	7.25%	5.05%
12	6. SJW Corp.	3.01%	5.25%	1.44%	5.53%	3.81%	7.25%	5.53%
15	GROUP AVERAGE	6.12%	4.96%	3.42%	3.13%	4.41%	7.01%	5.71%
16	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.

Bella Vista Water Company (Consolidated)
Analysts Forecasts of Earnings Per Share Growth

Exhibit
Rebuttal Schedule D-4.6

Line No.		[1]	[2]	[3]	[4]	[5]
		ESTIMATES OF EARNINGS GROWTH				Average Growth (G)
	Company	Zacks[1]	Reuters[1]	Yahoo[1]	Value Line[1]	(Cols 1-4)[2]
1	1. American States	4.00%	4.00%	7.00%	6.50%	5.38%
2	2. Aqua America	8.00%	8.25%	8.33%	11.50%	9.02%
3	3. California Water	7.00%	4.00%	6.00%	6.50%	5.88%
4	4. Connecticut Water			15.00%		7.25%
5	5. Middlesex			8.00%		7.25%
6	6. SJW Corp.			10.00%		7.25%
7						
8	GROUP AVERAGE	6.33%	5.42%	9.06%	8.17%	7.01%
9	GROUP MEDIAN					7.25%

[1] Data as of April 23, 2010

[2] Where no data available or single estimate, average of other utilities assumed to estimate for utility.

Bella Vista Water Company (Consolidated)
Current Dividend Yields for Water Utility Sample Group

Exhibit
Rebuttal Schedule D-4.7

Line No.	Company	Curent 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]
6	1. American States	$ 38.09	$ 1.04	2.73%	2.86%
7	2. Aqua America	$ 18.47	$ 0.60	3.25%	2.80%
8	3. California Water	$ 38.90	$ 1.19	3.06%	3.12%
9	4. Connecticut Water	$ 23.95	$ 0.91	3.81%	3.58%
10	5. Middlesex	$ 18.12	$ 0.72	3.98%	3.99%
11	6. SJW Corp.	$ 27.28	$ 0.70	2.55%	2.27%
13	Average			3.23%	3.10%
14	Median			3.15%	2.99%

[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.

Bella Vista Water Company (Consolidated)
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=Div Yld + g (Cols 2+3)
8	DCF - Past and Future Growth	3.23%	3.41%	5.68% [3]	9.1%
10	DCF - Future Growth	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.

Bella Vista Water Company (Consolidated)
Market Betas

Exhibit
Rebuttal Schedule D-4.9

Line No.	Company	Beta (β)[1]
1		
2	1. American States	0.80
3	2. Aqua America	0.65
4	3. California Water	0.75
5	4. Connecticut Water	0.80
6	5. Middlesex	0.75
7	6. SJW Corp.	0.95
8		
9	Average	**0.78**
10		
11		
12		
13	[1] Value Line Investment Analyzer data (April 23, 2010)	
14	Note: Beta is a relative measure of the historical sensitivity of a stock's price to overall fluctuations	
15	in the New York Stock Exchange Composite Index. A Beta of 1.50 indicates a stock tends to rise	
16	(or fall) 50% more than the New York Stock Exchange Composite Index. The "Beta coefficient" is	
17	derived from a regression analysis of the relationship between weekly percent-age changes in the	
18	price of a stock and weekly percentage changes in the NYSE Index over a period of five years. In	
19	the case of shorter price histories, a smaller time period is used, but two years is the minimum.	
20	The Betas are adjusted for their long-term tendency to converge toward 1.00.	

Bella Vista Water Company (Consolidated)
Forecasts of Long-Term Interest Rates
2011-2012

Exhibit
Rebuttal Schedule D-4.10

Line No.	Description	2011	2012	Average
1				
2				
3				
4	Description	2011	2012	Average
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				
14				
15	[1] December 2009 Blue Chip Financial Forecasts consensus forecast of 30 Year U.S.Treasury			
16	[2] Value Line Quarterly forecast, dated February 26, 2010, Long-term Treasury			
17				
18				
19				
20				
21				
22				
23				
24				

Bella Vista Water Company (Consolidated)
Computation of Current Market Risk Premium

Exhibit
Rebuttal Schedule D-4.11

Line No.	Month	Dividend Yield (D_0/P_0)[1]	Expected Dividend Yield (D_1/P_0)[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%
19	April	2.36%	2.63%	+	11.61%	=	14.24%	-	4.69%	=	9.55%
20											
21											
22	Recommended	2.46%	2.78%	+	12.98%	=	15.77%	-	4.55%	=	11.22%
23											
24	Short-term Trends										
25	Recent Twelve Months Avg	2.77%	3.19%	+	14.77%	=	17.96%	-	4.39%	=	13.57%
26	Recent Nine Months Avg	2.63%	2.98%	+	13.57%	=	16.56%	-	4.39%	=	12.16%
27	Recent Six Months Avg	2.55%	2.88%	+	13.19%	=	16.07%	-	4.47%	=	11.60%
28	Recent Three Months Avg	2.46%	2.78%	+	12.98%	=	15.77%	-	4.55%	=	11.22%
29											
30											

31 [1] Average Current Dividend Yield (D_0/P_0) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

32 [2] Expected Dividend Yield (D_1/P_0) equals average current dividend yield (D0/P0) times one plus growth rate(g).

33 [3] Average 3-5 year price appreciation (annualized). Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

34 [4] Montly average 30 year U.S. Treasury. Federal Reserve.

35

Bella Vista Water Company (Consolidated)
Capital Asset Pricing Model (CAPM)

Exhibit
Rebuttal Schedule D-4.12

Line No.		Rf[1]	+	beta[3]	x	Rp		=	k
1									
2									
3	Historical Market Risk Premium CAPM	5.2%	+	0.78	x	6.7%	[4]	=	10.4%
4									
5	Current Market Risk Premium CAPM	5.2%	+	0.78	x	11.2%	[5]	=	13.9%
6									
7	Average								12.2%
8									
9									
10									
11									
12	[1] Forecasts of long-term treasury yields. See Rebuttal Schedule D-4.10.								
13	[2] Value Line Investment Analyzer data. See Rebuttal Schedule D-4.9.								
14	[3] Historical Market Risk Premium from (Rp) MorningStar SBBI 2010 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2009								
15	[4] Computed using DCF constant growth method to determine current market return onValue Line 1700 stocks								
16	and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Rebuttal Schedule D-4.11.								
17									
18									
19									
20									

Bella Vista Water Company (Consolidated)
Financial Risk Computation

Exhibit
Rebuttal Schedule D-4.13

Line No.											
1	**CAPM**										
2		**Rf**		+	**β**		x	**(Rp)**			**k**
3	Historical Market Risk Premium	5.2%	1	+	0.78	2	x	6.7%	3	=	10.4%
4	Current Market Risk Premium	5.2%	1	+	0.78	2	x	11.2%	4	=	13.9%
5											
6	Average										12.2%
7											
8											
9	**CAPM Relevered Beta**										
10		**Rf**		+	**β**		x	**(Rp)**			**k**
11	Historical Market Risk Premium	5.2%	1	+	0.71	5	x	6.7%	3	=	10.0%
12	Current Market Risk Premium	5.2%	1	+	0.71	5	x	11.2%	4	=	13.2%
13											
14	Average										11.6%
15											
16	Financial Risk Adjustment										**-0.6%**
17											
18											

19 [1] Forecast of long-term treasury yields. See Rebuttal Schedule D-4.10
20 [2] Value Line Investment Analyzer data. See Rebuttal Schedule D-4.9
21 [3] Historical Market Risk Premium from (Rp) MorningStar SBBI 2010 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2009
22 [4] Computed using DCF constant growth method to determine current market *return on Value Line* 1700 stocks
23 and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Rebuttal Schedule D-4.11
24 [5] Relevered bata found on Rebuttal Schedule D-4.15
25

Bella Vista Water Company (Consolidated)
Financial Risk Computation
Unlevered Beta

Exhibit
Rebuttal Schedule D-4.14

Line No.		Company	VL Beta β_l [1]	Raw Beta Raw β_l [2]	Tax Rate t[3]	MV Debt D[4]	MV Equity E[4]	Unlevered Raw Beta β_U [5]
5	1.	American States	0.80	0.70	37.8%	31.7%	68.3%	0.54
6	2.	Aqua America	0.65	0.48	39.4%	35.7%	64.3%	0.36
7	3.	California Water	0.75	0.63	38.0%	31.7%	68.3%	0.49
8	4.	Connecticut Water	0.80	0.70	19.5%	35.5%	64.5%	0.49
9	5.	Middlesex	0.75	0.63	34.1%	34.0%	66.0%	0.47
10	6.	SJW Corp.	0.95	0.93	40.4%	33.2%	66.8%	0.72
13		Sample Water Utilities	0.78	0.68	34.8%	33.6%	66.4%	0.51

[1] Value Line Investment Analyzer data. See Rebuttal Scheule D-4.13
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 Scehdule D-4.3
[5] Raw B_u = Raw B_L / (1+ (1-t)*D/E)

Bella Vista Water Company (Consolidated)
Financial Risk Computation
Relevered Beta

Exhibit
Rebuttal Schedule D-4.15

Line No.		Unlevered Raw Beta β_U[1]	MV Book Debt BD[2]	MV Equity Capital EC[2]	Tax Rate t[3]	Relevered Raw Beta $\beta_{RL}=\beta_U(1+(1-t)BD/EC))$ β_{RL}	VL Adjusted Relevered Beta .33 + .67(Raw Beta) β_{RL}
5	Bella Vista Water Company (Cor	0.51	12.9%	87.1%	38.60%	0.56	0.71

[1] Unlevered Beta from Table 18.

[2] Capital Structure of Company (Projected)

	BV (in Thousands)			MV (in Thousands)	%
Long-term Debt	$ 1,697.32	1.00		$ 1,697	12.90%
Preferred Stock	-	1.00		-	0.0%
Common Stock	5,812.21	1.97	(a)	11,428	87.1%
Total Capital	$ 7,509.53			$ 13,125	100.0%

(a) Current market-to-book ratio of sample water utilities. See work papers.

[3] Current Tax rate based on test year ending 3/31/2009. See Rebuttal Schedule D-1.

Bella Vista Water Company (Consolidated)
Size Premium[1]

Exhibit
Rebuttal Schedule D-4.16

Line No.		Beta(β)	Size Premium	Risk Premium for Small Water Utilities[7]
6	Mid-Cap Companies[2]	1.13	0.90%	
8	Low-Cap Companies[3]	1.26	1.56%	
10	Micro-Cap Companies[4]	1.51	2.83%	
12	Decile 10[5]	1.64	4.43%	2.29%

Line No.		Risk Premium for Small Water Utilities
20	Estimated Risk Premium for small water utilities[6]	0.99%

[1] Data from Table 7-11 of Morningstar, *Ibbotson SBBI 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 inidicated risk premiums for the sample water utilities as shown below. Excludes risk due to differences in beta.

		Market Cap. (Millions)	Class	Size Premium	Difference to Decile 10	Weight	Weighted Size Premium
1.	American States	$ 659	Low-Cap	1.56%	2.87%	0.1666667	0.48%
2.	Aqua America	$ 2,501	Mid-Cap	0.90%	3.53%	0.1666667	0.59%
3.	California Water	$ 805	Low-Cap	1.56%	2.87%	0.1666667	0.48%
4.	Connecticut Water	$ 204	Decile 10	4.43%	0.00%	0.1666667	0.00%
5.	Middlesex	$ 243	Micro-Cap	2.83%	1.60%	0.1666667	0.27%
6.	SJW Corp.	$ 496	Low-Cap	1.56%	2.87%	0.1666667	0.48%
	Weighted Size Premium for Small Companies						2.29%