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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION  
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Arizona Corporation Commission

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JUN 18 2010

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- 5 PAUL NEWMAN  
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- 6 BOB STUMP  
COMMISSIONER

7  
8 IN THE MATTER OF THE APPLICATION OF  
9 BELLA VISTA WATER CO., INC., AN  
10 ARIZONA CORPORATION, FOR A  
11 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

12 IN THE MATTER OF THE APPLICATION OF  
13 NORTHERN SUNRISE WATER COMPANY,  
14 INC., AN ARIZONA CORPORATION, FOR A  
15 DETERMINATION OF THE FAIR VALUE OF  
16 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

17 IN THE MATTER OF THE APPLICATION OF  
18 SOUTHERN SUNRISE WATER COMPANY.,  
19 INC., AN ARIZONA CORPORATION, FOR A  
20 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

21 IN THE MATTER OF THE JOINT  
22 APPLICATION OF BELLA VISTA WATER  
23 CO., INC., NORTHERN SUNRISE WATER  
24 COMPANY, INC., AND SOUTHERN  
SUNRISE WATER COMPANY., INC., FOR  
APPROVAL OF AUTHORITY TO  
CONSOLIDATE OPERATIONS, AND FOR

Docket No. W-02465A-09-0414  
Docket No. W-20453A-09-0414  
Docket No. W-20454A-09-0414

1 THE TRANSFER OF UTILITY ASSETS TO  
2 BELLA VISTA WATER CO., INC,  
3 PURSUANT TO ARIZONA REVISED  
4 STATUTES 40-285.

5 **NOTICE OF FILING**

6 The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the  
7 Surrebuttal Testimony of Jodi A. Jerich, William A. Rigsby, Rodney L. Moore and Timothy J.  
8 Coley in the above-referenced matter.

9 RESPECTFULLY SUBMITTED this 18<sup>th</sup> day of June, 2010.

10  
11 

12 Michelle L. Wood  
13 Counsel

14 AN ORIGINAL AND THIRTEEN COPIES  
15 of the foregoing filed this 18<sup>th</sup> day  
16 of June, 2010 with:

17 Docket Control  
18 Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007

19 COPIES of the foregoing hand delivered/  
20 mailed this 18<sup>th</sup> day of June, 2010 to:

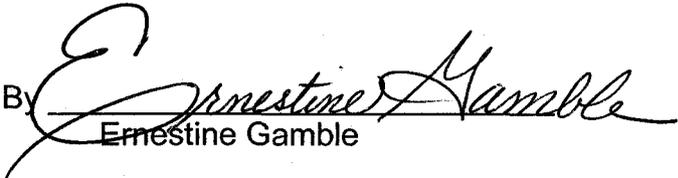
21 Jane L. Rodda  
22 Administrative Law Judge  
Hearing Division  
Arizona Corporation Commission

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By   
Ernestine Gamble

**BELLA VISTA WATER COMPANY, INC.**

**DOCKET NO. W-02465A-09-0411 ET AL.**

**SURREBUTTAL TESTIMONY**

**OF**

**JODI A. JERICH**

**ON BEHALF OF**

**THE**

**RESIDENTIAL UTILITY CONSUMER OFFICE**

**JUNE 18, 2010**

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

2 A. My name is Jodi Jerich. I am the Director of the Arizona Residential Utility  
3 Consumer Office ("RUCO"). My business address is 1110 W. Washington  
4 Street, Suite 220, Phoenix, Arizona 85007.

5  
6 **Q. Have you previously filed testimony in this case on behalf of RUCO?**

7 A. Yes. I filed Supplemental Direct Testimony dated April 23, 2010. My original  
8 testimony addressed RUCO's position on rate consolidation in this docket.

9  
10 **Q. What is the purpose of your surrebuttal testimony?**

11 A. The purpose of my surrebuttal testimony is to replace Exhibit C that was  
12 attached to my original testimony. Exhibit C is a chart that shows the bill  
13 impact for the average 5/8 x 3/4 inch meter residential user under the current  
14 rates, the proposed stand-alone rates and the proposed consolidated rates  
15 under both the Company's and RUCO's proposed revenue requirement filed  
16 in direct testimony.

17  
18 Revised Exhibit C is updated to show RUCO's revised bill impact under the  
19 revised revenue figures filed in its surrebuttal testimony, as well as the  
20 Company's proposed revised consolidated rates. Additionally, Exhibit C now  
21 includes Commission Staff's numbers for stand-alone and consolidated rates  
22 from Staff's direct testimony.

1 Finally, I have also included columns which show the delta between the  
2 stand-alone rates and the consolidated rates proposed by the Company, Staff  
3 and RUCO.

4  
5 **Q. Please direct us to the sources for the information found in the revised**  
6 **Exhibit C.**

7 **A.** The figures in the revised Exhibit C chart are compiled from the following  
8 sources:

9  
10 **Customers and average gallons:** Bourassa Rebuttal  
11 Schedule H-2, p. 1.  
12  
13 **Current rates:** Bourassa Rebuttal  
14 Schedule H-2, p. 1.  
15  
16 **Current gross revenue:** Bourassa Direct  
17 Schedule A-1, p. 1.  
18  
19 **Column A:** Bourassa Direct  
20 Schedule H-2, p.1  
21 Bourassa Direct  
22 Schedule A-1, p.1.  
23  
24 **Column B:** Bourassa Rebuttal  
25 Schedule H-2, p. 1.  
26 Bourassa Rebuttal  
27 Schedule (consolidated)  
28 A-1, p.1.  
29

30 (NOTE: While the Company filed a revised revenue requirement and  
31 revised consolidated rate design schedules, it did not file revised  
32 stand-alone rate schedules.)

1	<b>Column C:</b>	Brown Direct Schedules CSB-2,
2		4, 6, Brown Direct Schedule
3		CSB-1.
4		
5	<b>Column D:</b>	Brown Direct Schedule CSB-8,
6		Brown Direct Schedule CSB-1.
7		
8	<b>Column E:</b>	Moore Surrebuttal Schedules
9		SURR RLM-RD1 & RD2.
10		
11	<b>Column F:</b>	Moore Surrebuttal Schedules
12		SURR RLM-RD1 & RD2.
13		
14	<b>Column G:</b>	Moore Workpapers
15		

16 **Q. Do you plan to update Revised Exhibit C if other parties revise their**  
17 **revenues?**

18 A. Yes. RUCO specifically reserves the right to revise this exhibit on the  
19 stand to incorporate any changes in either Staff's surrebuttal or the  
20 Company's rejoinder testimony.

21

22 **Q. Does your silence on any issue constitute acceptance?**

23 A. No.

24

25 **Q. Does this conclude your testimony?**

26 A. Yes.

**RUCO'S REVISED EXHIBIT C**

Company	Current Rates	A Liberty Water Stand Alone Rates	B Liberty Water Consolidated Rates	Delta <sup>1</sup> (B - A)	C Staff Stand Alone Rates	D Staff Consolidated Rates	Delta (D - C)	E RUCO Stand Alone Rates	F RUCO Consolidated Rates	Delta (F - E)	G RUCO Modified Consolidated Rates	Delta (G - E)
5/8" x 3/4" metered # of customers / Avg. gallons												
Bella Vista 7,377 / 6,612	\$22.90	\$30.40 \$7.51 / 32.79% Revenue Increase \$958,701 / 27.19%	\$30.67 \$7.77 / 33.95%	\$0.27	\$19.02 -\$3.88 / -16.94% Revenue Decrease -\$157,928 / -4.48%	\$19.22 -\$3.67 / -16.04%	\$0.20	\$24.83 \$1.93 / 8.44% Revenue Increase \$153,798 / 4.36%	\$27.53 \$4.64 / 20.26%	\$2.70	\$25.18 \$2.28 / 9.94% (\$2.36 credit)	\$0.35
Northern Sunrise 348 / 5,755	\$43.08	\$105.12 \$62.04 / 144.02% Revenue Increase \$256,044 / 133.38%	\$28.59 -\$14.49 / -33.64%	-\$76.53	\$73.10 \$30.02 / 69.69% Revenue Increase \$128,232 / 66.80%	\$17.51 -\$25.57 / -59.35%	-\$55.59	\$82.72 \$39.65 / 92.04% Revenue Increase \$161,291 / 84.02%	\$25.45 -\$17.63 / -40.93%	-\$57.27	\$43.08 \$0.00 / 0.00% (\$17.63 surcharge)	-\$39.64
Southern Sunrise 786 / 5,581	\$42.60	\$75.15 \$32.55 / 76.41% Revenue Increase \$309,090 / 69.59%	\$28.16 -\$14.43 / -33.88%	-\$46.99	\$47.49 \$4.89 / 11.48% Revenue Increase \$40,604 / 9.14%	\$17.16 -\$25.44 / -59.71%	-\$30.33	\$51.58 \$8.99 / 21.10% Revenue Increase \$75,045 / 16.90%	\$25.02 -\$17.58 / -41.26%	-\$26.56	\$42.60 \$0.00 / 0.00% (\$17.58 surcharge)	\$8.98
Revenue Increase	\$0	\$1,523,835	\$1,145,966		\$10,908	-\$7,681		\$390,134	\$457,311		\$457,311	
Gross Revenue	\$4,162,135	\$5,685,971	\$5,308,101		\$4,173,043	\$4,154,455		\$4,552,270	\$4,619,447		\$4,619,447	

<sup>1</sup> "Delta" is the amount shifted due to the proposed consolidated rate design compared to the proposed stand alone rate design.

**BELLA VISTA WATER COMPANY, INC.**

**DOCKET NO. W-02465A-09-0411 ET AL.**

**SURREBUTTAL TESTIMONY**

**OF**

**WILLIAM A. RIGSBY, CRRA**

**ON BEHALF OF**

**THE**

**RESIDENTIAL UTILITY CONSUMER OFFICE**

**JUNE 18, 2010**

**TABLE OF CONTENTS**

1		
2	INTRODUCTION.....	1
3	SUMMARY OF RECOMMENDATIONS.....	2
4	Bella Vista Water Company.....	3
5	Northern and Southern Sunrise Water.....	3
6	COMPARISON OF PROPOSALS AND RECOMMENDATIONS.....	5
7	Capital Structure.....	5
8	Cost of Debt.....	6
9	Cost of Equity.....	6
10	Weighted Average Cost of Capital.....	7
11	SUMMARY OF REBUTTAL TESTIMONY.....	7
12	RESPONSE TO REBUTTAL TESTIMONY.....	8
13	Cost of Debt.....	10
14	Sample Utilities.....	12
15	CAPM Analysis.....	15
16	DCF Analysis.....	26
17	ATTACHMENT A	
18	ATTACHMENT B	
19	ATTACHMENT C	

1 **INTRODUCTION**

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

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

6  
7 Q. Have you filed any prior testimony in this case on behalf of RUCO?

8 A. Yes, on April 12, 2010, I filed direct testimony with the Commission on  
9 RUCO's cost of capital recommendations for BVWC on a consolidated  
10 basis. Also, on April 23, 2010, I filed supplemental direct testimony which  
11 presented RUCO's recommended weighted average costs of capital for  
12 BVWC, NSWC and SSWC on a stand-alone basis.

13  
14 Q. Please state the purpose of your surrebuttal testimony.

15 A. The purpose of my surrebuttal testimony is to respond to the rebuttal  
16 testimony of BVWC witnesses Greg Sorenson and Thomas J. Bourassa,  
17 which was filed on May 25, 2010.

18  
19 Q. Will RUCO be filing surrebuttal testimony on the rate base and operating  
20 income issues in this case?

21 A. Yes. RUCO analyst Rodney L. Moore and Timothy J. Coley will file  
22 surrebuttal testimony on the rate base and operating income issues in this  
23 case.

1 Q. Is RUCO filing surrebuttal testimony on rate consolidation and rate design  
2 in this proceeding?

3 A. Yes. RUCO Director Jodi A. Jerich, Esq. and RUCO analyst Rodney L.  
4 Moore will provide surrebuttal testimony on RUCO's rate consolidation  
5 policy and RUCO's recommended rate designs respectively.

6

7 Q. How is your surrebuttal testimony organized?

8 A. My surrebuttal testimony contains five parts: the introduction that I have  
9 just presented; a summary of RUCO's recommendations on both a stand-  
10 alone and a consolidated basis; a comparison of the proposals and  
11 recommendations of the Company, ACC Staff and RUCO; a summary of  
12 the Company's rebuttal testimony; and my response to the Company's  
13 rebuttal positions.

14

15 **SUMMARY OF RECOMMENDATIONS**

16 Q. Please summarize RUCO's capital structure, cost of debt and weighted  
17 average cost of capital recommendations for BVWC, NSWC and SSWC  
18 on a stand-alone basis.

19 A. RUCO is recommending the following capital structure, cost of debt and  
20 weighted average cost of capital recommendations for BVWC, NSWC and  
21 SSWC on a stand-alone basis:

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**Bella Vista Water Company**

BVWC Capital Structure – For BVWC, I am recommending that the Commission adopt BVWC’s proposed capital structure, which is comprised of 27.76 percent long-term debt and 72.24 percent common equity.

BVWC Cost of Debt – For BVWC, I am recommending that the Commission adopt a cost of debt of 6.27 percent, which is the average weighted cost of debt of BVWC’s various loans.

BVWC Weighted Average Cost of Capital – Based on the results of my recommended capital structure, I am recommending an 8.24 percent cost of capital for BVWC, which is the weighted cost of my recommended 6.27 percent cost of long-term debt and my recommended 9.00 percent cost of common equity.

**Northern and Southern Sunrise Water**

NSWC and SSWC Capital Structures – I am recommending that NSWC’s and SSWC’s proposed capital structures, which are comprised of 100 percent common equity be rejected by the ACC and that my recommended hypothetical capital structures, which are comprised of 60 percent common equity and 40 percent debt, be adopted by the Commission.

1           NSWC and SSWC Costs of Debt – For both NSWC and SSWC, I am  
2           recommending that the Commission adopt a hypothetical cost of debt of  
3           6.26 percent, which is the average weighted cost of debt of eight publicly  
4           traded water companies that are followed by securities analysts with The  
5           Value Line Investment Survey.

6  
7           NSWC and SSWC Weighted Average Costs of Capital – Based on the  
8           results of my recommended hypothetical capital structures, I am  
9           recommending a 7.90 percent cost of capital for both NSWC and SSWC,  
10          which is the weighted cost of my recommended costs of common equity  
11          and hypothetical debt.

12  
13        Q.     Please summarize RUCO's capital structure, cost of debt and weighted  
14          average cost of capital recommendations for BVWC, NSWC and SSWC  
15          on a consolidated basis.

16        A.     RUCO is recommending the following capital structure, cost of debt and  
17          weighted average cost of capital recommendations for BVWC, NSWC and  
18          SSWC on a consolidated basis:

19  
20          Capital Structure – On a consolidated basis, I am recommending that the  
21          Commission adopt BVWC's proposed capital structure, which is  
22          comprised of 21.08 percent long-term debt and 78.92 percent common  
23          equity.

1           Cost of Debt – On a consolidated basis, I am recommending that the  
2           Commission adopt a cost of debt of 6.27 percent, which is the average  
3           weighted cost of debt of BVWC's various loans.

4  
5           Weighted Average Cost of Capital – On a consolidated basis, I am  
6           recommending an 8.42 percent cost of capital for BVWC, which is the  
7           weighted cost of my recommended 6.27 percent cost of long-term debt  
8           and my recommended 9.00 percent cost of common equity.

9

10   **COMPARISON OF PROPOSALS AND RECOMMENDATIONS**

11   **Capital Structure**

12   Q.   Please compare the Company-proposed capital structure with RUCO and  
13       ACC Staff's recommended capital structures on a consolidated basis.

14   A.   A comparison of the Company-proposed and ACC Staff's, and RUCO's  
15       recommended capital structures, on a consolidated basis, are as follows:

16

	<u>Debt</u>	<u>Equity</u>
17           Company	22.6%	77.4%
18           ACC Staff	32.2%	67.8%
19           RUCO	21.08%	78.92%

20

21

22

23

1 **Cost of Debt**

2 Q. Please compare the Company-proposed cost of debt with RUCO and  
3 ACC Staff's recommended costs of debt on a consolidated basis.

4 A. The Company-proposed cost of debt and ACC Staff's and RUCO's  
5 recommended cost of debt can be seen below:

6

7	Company	6.28%
8	ACC Staff	6.30%
9	RUCO	6.27%

10

11 **Cost of Equity**

12 Q. Please compare the Company-proposed cost of equity with RUCO's and  
13 ACC Staff's recommended costs of equity.

14 A. The Company-proposed cost of equity and ACC Staff's and RUCO's  
15 recommended cost of equity, are as follows:

16

17	Company	10.90%
18	ACC Staff	9.80%
19	RUCO	9.00%

20

21

22

23

1 **Weighted Average Cost of Capital**

2 Q. Please compare the Company-proposed weighted average cost of capital  
3 with RUCO's and ACC Staff's recommended weighted average cost of  
4 capital.

5 A. The weighted average cost of capital recommendations of the Company,  
6 ACC Staff and RUCO are as follows:

7

8	Company	9.85%
9	ACC Staff	8.60%
10	RUCO	8.42%

11

12 As can be seen above, the Company-proposed weighted average cost of  
13 capital of 9.85 percent is 43 basis points higher than my recommended  
14 8.42 percent weighted average cost of capital. ACC Staff's recommended  
15 weighted average cost of capital is 25 basis points lower than the  
16 Company's and 18 basis points higher than my recommendation.

17

18 **SUMMARY OF REBUTTAL TESTIMONY**

19 Q. Have you reviewed the Company's rebuttal testimony?

20 A. Yes. I have reviewed the rebuttal testimony of Company witnesses Greg  
21 Sorensen and Thomas J. Bourassa, filed on May 25, 2010, which address  
22 the cost of capital issues in this case.

23

1 Q. Please summarize the Company's rebuttal testimony.

2 A. Mr. Sorensen takes issue with my recommended cost of debt which I have  
3 used in my recommended consolidated capital structures for NSWC and  
4 SSWC on a stand-alone basis.

5 Mr. Bourassa is critical of the utilities used in my proxy groups and the  
6 CAPM analysis that I conducted in order to arrive at my recommended  
7 cost of common equity in this case. Mr. Bourassa also takes issue with  
8 my internal sustainable growth estimates used in my DCF analysis.

9

10 **RESPONSE TO REBUTTAL TESTIMONY**

11 Q. Have you had an opportunity to review updated data on the sample water  
12 and natural gas companies used in your cost of capital analysis?

13 A. Yes I have reviewed updated Value Line data that has been published  
14 since my direct testimony was filed and have concluded that there is no  
15 need to revise my cost of common equity estimate.

16

17 Q. Have you revised your recommended cost of common equity based on  
18 your review of the Company's rebuttal testimony?

19 A. No.

20

21

22 ...

23

1 Q. Has Mr. Bourassa made any changes to his recommended cost of equity  
2 capital?

3 A. Yes. Mr. Bourassa has decreased his original recommended cost of  
4 common equity from 12.50 percent to the 10.90 percent cost of common  
5 equity displayed in the prior section of my testimony.

6

7 Q. Has there been any recent activity in regard to interest rates?

8 A. Yes. On April 28, 2010, the Federal Reserve decided not to increase or  
9 decrease the federal funds rate and kept it between zero and 0.25  
10 percent. According to an article<sup>1</sup> that appeared in The Wall Street Journal  
11 on Thursday, April 29, 2010, the Federal Reserve upgraded its  
12 assessment of the economy modestly and maintained its commitment to  
13 keep interest rates near zero to support the recovery. A second Wall  
14 Street Journal article<sup>2</sup> published on June 7, 2010, speculated that current  
15 economic conditions, which include the recent financial turmoil in Europe,  
16 meager job growth here in the U.S. and low inflation, indicate that the  
17 Federal Reserve may not take any action on interest rates over the next  
18 year. The article went on to state that the "futures markets see less than a  
19 50-50 chance that the Fed will push the federal funds rate up to 0.5% by  
20 December from its current level just below 0.25%." This is being viewed  
21 as a major shift since early May when an increase in the federal funds rate

---

<sup>1</sup> Reddy, Sudeep, "Fed Sees Gains But Signals Rates Will Remain Low," The Wall Street Journal, April 29, 2010.

<sup>2</sup> Hilsenrath, Jon, "Easy Money to Stick Around," The Wall Street Journal, June 7, 2010.

1           was being viewed as “almost a sure thing.” The next FOMC meeting is  
2           scheduled for June 22, 2010.

3

4           **Cost of Debt**

5           Q.     What position does Mr. Sorensen take in his rebuttal testimony regarding  
6           your recommended hypothetical cost of debt?

7           A.     Mr. Sorensen takes the position that third party lenders would not loan  
8           money to the former McLain systems (i.e. NSWC and SSWC) on the  
9           same terms that lenders offered to BVWC and that local vendors were  
10          demanding payments in cash when Liberty Water acquired NSWC and  
11          SSWC.

12

13          Q.     What is your response to Mr. Sorensen’s position?

14          A.     I don’t dispute Mr. Sorensen’s claim regarding local vendors, however I  
15          believe that the situation he has described may have more to do with the  
16          former operator of the McLain systems as opposed to Liberty Water. In  
17          any case I would view this to be more of an isolated local incident.

18

19          Q.     Do you have any other comments that you would like to make on this  
20          subject?

21          A.     Yes. I find it interesting that this Company, not to mention all of the other  
22          Liberty Water subsidiaries that have cases pending before the  
23          Commission, has spent endless amounts of time and money defending its

1 right to recover allocated costs charged by its Parent. In seeking to  
2 recover these costs, the Company cites all of the benefits that its Parent  
3 provides including the ability to access capital. Yet, when it comes to the  
4 subject of debt financing, the Company acts as if its Parent, a large  
5 publicly traded entity with access to the capital markets with the ability to  
6 obtain debt financing for its subsidiaries, doesn't even exist. I also find it  
7 interesting that BVWC's 6.27 percent cost of debt, which was obtained  
8 prior to its acquisition by Liberty Water when it was a stand-alone entity, is  
9 almost identical to my recommended 6.26 cost of debt (derived from a  
10 sample of water providers) used in my hypothetical capital structure for  
11 NSWC and SSWC on a stand-alone basis. I'm also puzzled by Mr.  
12 Sorensen's position given the fact that the Company's cost of capital  
13 consultant is recommending a 6.28 percent cost of debt on a consolidated  
14 basis which is only one to two basis points higher than my  
15 recommendations.

16  
17 Q. What is the current yield on Baa/BBB-rated utility bonds?

18 A. As of June 9, 2010, the yield on Baa/BBB-rated utility bonds is 5.87  
19 percent (Attachment A). This is 40 basis points lower than BVWC's 6.27  
20 percent cost of debt.

21  
22 ...

23

1 Q. Have you made any changes to your recommended costs of debt as a  
2 result of Mr. Sorensen's testimony?

3 A. No.

4

5 **Sample Utilities**

6 Q. Do you still believe that your use of a sample of natural gas LDC's is  
7 appropriate to estimate a cost of equity for a water utility despite Mr.  
8 Bourassa's arguments?

9 A. Yes.

10

11 Q. Please explain why you believe it is appropriate to use a sample group of  
12 natural gas LDC's to estimate the cost of equity capital in a water utility  
13 rate case proceeding.

14 A. For the most part, natural gas LDC's have very similar operating  
15 and distribution characteristics with water companies such as  
16 BVWC, NSWC and SSWC and are therefore a good proxy for  
17 water and wastewater utility cost of capital studies. Their inclusion  
18 also provides a larger sample to obtain an estimate from.

19

20 Q. Have other analysts used natural gas LDC's as proxies in water utility rate  
21 case proceedings before the ACC?

22 A. Yes, in the Arizona-American Water Company (Arizona-American) rate  
23 case that is now pending before the Commission, the cost of capital

1 witness for Arizona-American also relied on a sample group of natural gas  
2 LDC's.

3

4 Q. Do you believe that an upward adjustment is needed for your  
5 recommended cost of equity given your use of a sample group of LDC's  
6 that have a lower average beta than the one calculated for your sample  
7 group of water utilities?

8 A. No. Given the current state of the economy I believe that my  
9 recommended 9.00 percent cost of equity is reasonable.

10

11 Q. Please explain why you believe that your recommended 9.00 percent cost  
12 of equity is reasonable given the current state of the U.S. economy.

13 A. When the downturn in the economy occurred in late 2008, investors  
14 reacted to the situation by pulling their funds out of the equity markets and  
15 putting them into U.S. Treasury instruments which were, and still are,  
16 yielding next to nothing, in order to avoid any further loss of capital  
17 (Attachment A). This situation has been referred to as a "flight to quality."  
18 Although fears have subsided over the last year and investors are entering  
19 the equity markets again, as evidenced by the upturn in the U.S. stock  
20 market, both water and natural gas utilities are still, for the most part,  
21 viewed by Value Line's analysts as shelters during times of economic  
22 uncertainty. This is mainly because of their healthy dividend yields which  
23 range from averages of 2.4 percent to 4.6 percent, for the water and

1 natural gas industry respectively, compared with a median average of 2.1  
2 percent for all the dividend paying stocks followed by Value Line. Given  
3 the uncertainty of the economic recovery that is still under way, I believe  
4 that both water and natural gas companies will still hold an attraction for  
5 investors as a relatively safe investment in the event that another  
6 downturn occurs. For these reasons I believe my recommended 9.00  
7 percent cost of equity is reasonable.

8  
9 Q. Are there other reasons you can cite as to why you think that a higher  
10 return is not needed to attract investors?

11 A. Yes. One has to take into consideration that the investment community at  
12 large is well aware of the fact that regulated utilities, such as the  
13 subsidiaries of Liberty Water, are indeed different from non-regulated  
14 entities in terms of how they recover their costs. This information is taken  
15 into account when institutions and individual investors make their  
16 decisions on where to place their funds. The best example of this can be  
17 seen in an MSN Money/CNBC article<sup>3</sup> authored by Jon D. Markman, a  
18 weekly columnist for CNBC (Attachment B). In his article, Mr. Markman  
19 pitched his suggestions for investing in what some believe to be a coming  
20 global water shortage. In regard to domestic utilities, Markman had this to  
21 say:

22  

---

<sup>3</sup> Markman, Jon D, "Invest in the Coming Global Water Shortage," MSN.com, January 12, 2005,  
<http://moneycentral.msn.com/content/P102152.asp>.

1 "Virtually all of the U.S. water utility stocks are regulated by states  
2 and counties, which makes them pretty dull. Governmental entities  
3 typically give utilities a monopoly in a geographic region, then set  
4 their profit margin a smidge above costs. Just about the only  
5 distinguishing factor among them are the growth rates of their  
6 regions and their ability to efficiently manage their underground pipe  
7 and pumping infrastructure."  
8

9 Q. What is your response to Mr. Bourassa's statements, on page 26 of his  
10 rebuttal testimony, that BVWC's cost of equity should be higher given the  
11 recent Commission Decisions that authorized equity returns of 10.00  
12 percent and 9.50 percent for Southwest Gas Corporation and UNS Gas,  
13 Inc.?

14 A. While it is true that the Commission awarded the aforementioned returns  
15 on common equity to Southwest Gas Corporation and UNS Gas, Inc., I  
16 would point out that both of those companies had capital structures that  
17 contained more debt, 52.0 percent and 50.1 percent respectively, than the  
18 roughly 28.0 percent contained in BVWC's test year capital structure, and  
19 the total absence of debt in NSWC's and SSWC's capital structures. I  
20 would also point out that the Commission has been awarding lower  
21 returns on equity over the past six months.

22  
23 **CAPM Analysis**

24 Q. Please respond to Mr. Bourassa's criticism of your reliance on geometric  
25 means in the CAPM model.

26 A. As I stated in my direct testimony there is an on-going debate over which  
27 is the better average to rely on. However, it is important to recognize that

1 the information on both means, published by Morningstar, is widely  
2 available to the investment community. For this reason alone I believe  
3 that the use of both means in a CAPM analysis is appropriate.

4 The best argument in favor of the geometric mean is that it provides a  
5 truer picture of the effects of compounding on the value of an investment  
6 when return variability exists. This is particularly relevant in the case of  
7 the return on the stock market, which has had its share of ups and downs  
8 over the 1926 to 2008 observation period used in my CAPM analysis.

9

10 Q. Can you provide an example to illustrate the differences between the two  
11 averages?

12 A. Yes. The following example may help. Suppose you invest \$100 and  
13 realize a 20.0 percent return over the course of a year. So at the end of  
14 year 1, your original \$100 investment is now worth \$120. Now let's say  
15 that over the course of a second year you are not as fortunate and the  
16 value of your investment falls by 20.0 percent. As a result of this, the  
17 \$120 value of your original \$100 investment falls to \$96. An arithmetic  
18 mean of the return on your investment over the two-year period is zero  
19 percent calculated as follows:

20

21 ( year 1 return + year 2 return ) ÷ number of periods =

22 ( 20.0% + -20.0% ) ÷ 2 =

23 ( 0.0% ) ÷ 2 = 0.0%

1           The arithmetic mean calculated above would lead you to believe that you  
2           didn't gain or lose anything over the two-year investment period and that  
3           your original \$100 investment is still worth \$100. But in reality, your  
4           original \$100 investment is only worth \$96. A geometric mean on the  
5           other hand calculates a compound return of negative 2.02 percent as  
6           follows:

7

$$\begin{aligned} 8 \quad & (\text{year 2 value} \div \text{original value})^{1/\text{number of periods}} - 1 = \\ 9 \quad & (\$96 \div \$100)^{1/2} - 1 = \\ 10 \quad & (0.96)^{1/2} - 1 = \\ 11 \quad & (0.9798) - 1 = \\ 12 \quad & -0.0202 = \underline{-2.02\%} \end{aligned}$$

13

14           The geometric mean calculation illustrated above provides a truer picture  
15           of what happened to your original \$100 over the two-year investment  
16           period.

17           As can be seen in the preceding example, in a situation where return  
18           variability exists, a geometric mean will always be lower than an arithmetic  
19           mean, which probably explains why utility consultants typically put up a  
20           strenuous argument against the use of a geometric mean.

21

22           ...

23

1 Q. Has the Commission authorized rates of return that were derived through  
2 the use of both arithmetic and geometric means in prior decisions?

3 A. Yes. Two specific cases that come to mind involved UNS Gas Inc.  
4 (“UNSG”). Decision No. 70011, dated November 27, 2007 stated the  
5 following:

6 “We agree with the Staff and RUCO witnesses that it is appropriate  
7 to consider the geometric returns in calculating a comparable  
8 company CAPM because to do otherwise would fail to give  
9 recognition to the fact that many investors have access to such  
10 information for purposes of making investment decisions.”  
11

12 The Commission later reaffirmed this position in the most recent UNSG  
13 case. Decision No. 71623, dated April 14, 2010 stated the following:

14 “We also continue to believe, consistent with our findings in several  
15 prior cases, that it is appropriate to consider the geometric returns  
16 in calculating a comparable company CAPM because to do  
17 otherwise would fail to give recognition to the fact that many  
18 investors have access to such information for purposes of making  
19 investment decisions.”  
20

21 In both UNSG cases, the ACC Staff witness was Mr. David C. Parcell,  
22 who, as I do, consistently relies on both arithmetic and geometric means  
23 in our CAPM analyses.  
24

25 Q. Can you cite any other evidence that supports your use of both a  
26 geometric and an arithmetic mean?

27 A. Yes. In the third edition of their book, Valuation: Measuring and Managing  
28 the Value of Companies, authors Tom Copeland, Tim Koller and Jack  
29 Murrin (“CKM”) make the point that, while the arithmetic mean has been

1           regarded as being more forward-looking in determining market risk  
2           premiums, a true market risk premium may lie somewhere between the  
3           arithmetic and geometric averages published in Morningstar's SBBI  
4           yearbook.

5  
6   Q.    Please explain.

7   A.    In order to believe that the results produced by the arithmetic mean are  
8           appropriate, you have to believe that each return possibility included in the  
9           calculation is an independent draw.  However research conducted by  
10          CKM demonstrates that year-to-year returns are not independent and are  
11          actually auto correlated (i.e. a relationship that exists between two or more  
12          returns, such that when one return changes, the other, or others, also  
13          change), meaning that the arithmetic mean has less credence.  CKM also  
14          explains two other factors that would make the Morningstar arithmetic  
15          mean too high.  The first factor deals with the holding period.  The  
16          arithmetic mean depends on the length of the holding period and there is  
17          no "law" that says that holding periods of one year are the "correct"  
18          measure.  When longer periods (e.g. 2 years, 3 years etc.) are observed,  
19          the arithmetic mean drops about 100 basis points.  The second factor  
20          deals with a situation known as survivor bias.  According to CKM, this is a  
21          well-documented problem with the Morningstar historical return series in  
22          that it only measures the returns of successful firms.  That is, those firms  
23          that are listed on stock exchanges.  The Morningstar historical return

1 series does not measure the failures, of which there are many. Therefore,  
2 the return expectations in the future are likely to be lower than the  
3 Morningstar historical averages. After conducting their analysis, CKM  
4 conclude that 4.0 percent to 5.5 percent is a reasonable forward-looking  
5 market risk premium<sup>4</sup>. Adding my 2.36 percent risk free yield on a 5-year  
6 Treasury instrument to these two estimates indicate a cost of equity of  
7 6.36 percent to 7.86 percent which is lower than my recommended cost of  
8 equity of 9.00 percent. Given the fact that utilities generally exhibit less  
9 risk than industrials, a return in the low end of this range could be  
10 considered reasonable.

11  
12 Q. Is Mr. Bourassa correct in his assertion that you did not use the  
13 appropriate inputs to calculate a market risk premium in your CAPM  
14 model?

15 A. No. Despite Mr. Bourassa's assertion, I have used an appropriate  
16 Treasury instrument to calculate the risk premium in my CAPM model.  
17 The risk premium that I have calculated has also been calculated in the  
18 same manner by both ACC Staff and other cost of capital witnesses  
19 whose cost of capital recommendations have been adopted by the  
20 Commission. Mr. Bourassa's assertion that I should not have used total  
21 returns in the market risk premium component of the CAPM is unfounded.  
22 While it is true that investors are typically attracted to utility stocks for their

---

<sup>4</sup> In the 4<sup>th</sup> edition of Valuation, the authors state on page 306 of the text that 4.5 percent to 5.5 percent is an appropriate range (Attachment C).

1 income needs, it is simply not rational to think that they would not expect  
2 some capital gains as well. The use of income returns totally ignores the  
3 fact that bond prices do indeed fluctuate as a result of interest rate  
4 changes – as do interest sensitive utility stock prices. For this reason I  
5 believe Mr. Bourassa’s reliance on income returns is unrealistic at best.

6

7 Q. Please address Mr. Bourassa’s criticism of your use of a 5-year Treasury  
8 yields and intermediate-term securities in your CAPM analysis.

9 A. Mr. Bourassa believes that long-term treasury instruments, with higher  
10 yields, should be used in the CAPM. However, utilities do not apply for  
11 rate relief every thirty years and regulators do not set rates for thirty-year  
12 periods. The simple fact is that utilities generally apply for rate relief every  
13 three to five years and utility investors are aware of this fact. For this  
14 reason I believe the use of long-term treasury yields overstate the cost of  
15 equity capital.

16

17 Q. What is the current yield on a 5-year Treasury instrument?

18 A. The current yield on a 5-year Treasury instrument is 1.97 percent  
19 (Attachment A) which is 39 basis points lower than the 2.36 percent yield  
20 that I used in my CAPM analysis.

21

22 ...

23

1 Q. Please comment on Mr. Bourassa's argument that you have ignored the  
2 current risk premium?

3 A. The fact that we are now experiencing an improving economy and a  
4 resurgence in the equity markets pretty much makes this argument passé.  
5 As I have argued in prior cases, the historical market risk premium that I  
6 have relied on takes into account a wide range of economic conditions  
7 from 1926 through 2008. In short, the economy is slowly getting back to  
8 normal and there is no good reason to believe that the excessive market  
9 risk premium of 11.2 percent that Mr. Bourassa is proposing is realistic for  
10 setting rates in this case. As I stated earlier, the analysis conducted by  
11 CKM concluded that 4.0 percent to 5.5 percent is a reasonable forward-  
12 looking market risk premium.

13  
14 Q. Can you name any other sources that support CKM's conclusion that 4.0  
15 percent to 5.5 percent is a reasonable market risk premium on a forward-  
16 looking basis?

17 A. Yes. During the 39<sup>th</sup> annual Financial Forum of the Society of Utility and  
18 Regulatory Financial Analysts, which was held at Georgetown University  
19 in Washington D.C. on April 19 and 20, 2007, I had the opportunity to hear  
20 the views of Aswarth Damodaran, Ph. D. and Felicia C. Marston, Ph. D.,  
21 professors of finance from New York University and the University of  
22 Virginia respectively, who have conducted empirical research on this  
23 subject. Dr. Damodaran and Dr. Marston supported CKM's 4.0 to 5.5

1 percent estimates during a panel discussion that provided both professors  
2 with the opportunity to explain their research on the equity risk premium  
3 and to answer questions from other financial analysts in attendance. Each  
4 of the panelists<sup>5</sup> stated that they believed that a reasonable market risk  
5 premium fell between 4.0 percent and 5.0 percent when asked to provide  
6 estimates based on their research.

7

8 Q. If market risk premiums of 4.0 percent to 5.0 percent were used in your  
9 CAPM model what would the results be?

10 A. Using market risk premiums ( $r_m - r_f$ ) of 4.0 percent to 5.0 percent in my  
11 CAPM model, using a proxy of water companies, produces the following  
12 expected returns (k):

13

14 Water Company Sample using 4.0 percent

15

$$k = r_f + [ \beta (r_m - r_f) ]$$

16

$$k = 2.36\% + [ 0.73 (4.0\%) ]$$

17

$$k = 5.28\%$$

18

Water Company Sample using 5.0 percent

19

$$k = r_f + [ \beta (r_m - r_f) ]$$

20

$$k = 2.36\% + [ 0.73 (5.0\%) ]$$

21

$$k = 6.01\%$$

---

<sup>5</sup> Other analysts taking part in the panel discussion included Stephen G. Hill, CRRA, Principal, Hill Associates and moderator Farris M. Maddox, Principal Financial Analyst, Virginia State Corporation Commission.

1           As can be seen above, my CAPM model, using a water company sample  
2           average beta ( $\beta$ ) of 0.73 and the yield on a 5-year Treasury instrument of  
3           2.36 percent for the risk free rate of return ( $r_f$ ), produces an expected  
4           return ( $k$ ) of 5.28 percent to 6.01 percent. My LDC sample, using an  
5           average beta of 0.66, produces expected returns of 5.00 percent to 5.66  
6           percent. All of which makes my recommended 9.00 percent cost of  
7           common equity appear to be reasonable.

8

9   Q.   Do you have any data that supports a 4.00 percent to 5.0 percent equity  
10       risk premium during the market crises which unfolded in September of  
11       2008?

12   A.   Yes. In September 2008 Dr. Damodaran, who I noted earlier in my  
13       testimony, presented a paper titled Equity Risk Premium (ERP):  
14       Determinants, Estimation and Implications, which contained an October  
15       update that presented data on the swings in implied equity risk premium  
16       that occurred between September 12, 2008 and October 16, 2008. During  
17       that time frame, implied equity risk premiums ranged from 4.20 percent to  
18       6.39 percent. The 5.30 percent mean average of that range is only 15  
19       basis points higher than the 5.15 percent average of my market risk  
20       premium using both geometric and arithmetic means.

21

22   ...

1 Q. Please respond to Mr. Bourasssa's argument that your overall CAPM  
2 results are below the current yields on Baa/BBB debt instruments.

3 A. I am not recommending that the Commission adopt my CAPM results, but  
4 I am not recommending that the Commission ignore my CAPM results  
5 either. What I am recommending is a cost of common equity of 9.00  
6 percent which is 313 to 357 basis points over the most recent yields of  
7 5.87 percent to 5.43 percent for Baa/BBB-rated and A-rated utility bonds  
8 respectively (Attachment A). The results of my CAPM analyses (using  
9 both arithmetic and geometric means) are simply reflecting the current  
10 environment of low interest rates which cannot be ignored. From the  
11 perspective that public utilities have traditionally been viewed as safe  
12 investments, and all things being equal, it is not reasonable to believe that  
13 their costs of equity capital should be at the 10.90 percent level advocated  
14 by Mr. Bourassa.

15  
16 Q. Isn't it also true that common shareholders bear a higher risk than bond  
17 holders and expect a higher return than the yields of utility debt  
18 instruments?

19 A. Yes. I do not disagree on this point. However, the question is how much  
20 more of a risk premium is merited for a low risk regulated monopoly such  
21 as the Liberty Water subsidiaries included in this filing, particularly at a  
22 time when interest rates are still at historic lows.

23

1 Q. Do you agree with Mr. Bourassa's characterization of BVWC, NSWC, and  
2 SSWC as small water and sewer companies?

3 A. No. As I stated in my direct testimony each of the three water systems are  
4 subsidiaries of Algonquin Power & Utilities Corp., a large publicly traded  
5 firm that has direct access to the capital markets. As I explained earlier in  
6 my testimony, the Company cannot, on the one hand, say that the  
7 allocated overhead costs from Algonquin Power & Utilities Corp. benefits  
8 its ratepayers and then, on the other hand, act as if that large publicly  
9 traded parent doesn't even exist and make an argument that BVWC,  
10 NSWC and SSWC are "small" utilities trying to survive on their own.

11

12 **DCF Analysis**

13 Q. Please comment on Mr. Bourassa's position that the results of your DCF  
14 analysis should be rejected by the Commission because of the method  
15 that you used to determine the internal growth rates in your DCF model.

16 A. The method that I have used to determine internal sustainable growth in  
17 the DCF model is identical to the DCF analysis performed by ACC Staff  
18 witness Stephen Hill, whose cost of equity recommendation was adopted  
19 by the Commission in a prior Southwest Gas proceeding that I cited in my  
20 direct testimony. The method is also consistent with the DCF analysis that  
21 I performed in a prior Gold Canyon Sewer Company proceeding in which  
22 the Commission adopted my recommended cost of capital. I am not  
23 aware of any proceeding before the ACC in which Mr. Bourassa's

1 recommended costs of capital or the methods by which he arrived at those  
2 recommendations were adopted by the Commission.

3

4 Q. Does your silence on any of the issues or positions addressed in the  
5 rebuttal testimony of the Mr. Bourassa or any of the Company's other  
6 witnesses constitute acceptance?

7 A. No, it does not.

8

9 Q. Does your silence on any of the issues, matters or findings addressed in  
10 the rebuttal testimony of any of the witnesses for BVWC, NSWC or SSWC  
11 constitute your acceptance of their positions on such issues, matters or  
12 findings?

13 A. No, it does not.

14

15 Q. Does this conclude your surrebuttal testimony on BVWC, NSWC and  
16 SSWC?

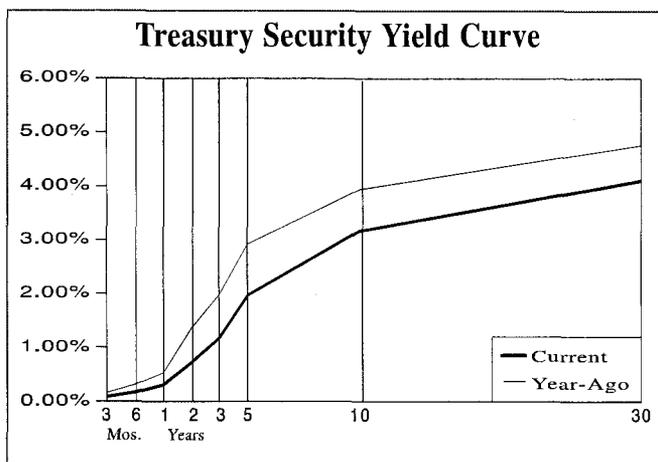
17 A. Yes, it does.



# **ATTACHMENT A**

## Selected Yields

	Recent (6/09/10)	3 Months Ago (3/10/10)	Year Ago (6/10/09)		Recent (6/09/10)	3 Months Ago (3/10/10)	Year Ago (6/10/09)
<b>TAXABLE</b>							
<b>Market Rates</b>							
Discount Rate	0.75	0.75	0.50				
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25				
Prime Rate	3.25	3.25	3.25				
30-day CP (A1/P1)	0.37	0.14	0.34				
3-month LIBOR	0.54	0.26	0.64				
<b>Bank CDs</b>							
6-month	0.41	0.25	0.66				
1-year	0.70	0.44	0.87				
5-year	2.06	1.99	1.92				
<b>U.S. Treasury Securities</b>							
3-month	0.09	0.15	0.17				
6-month	0.17	0.20	0.31				
1-year	0.31	0.37	0.53				
5-year	1.97	2.38	2.92				
10-year	3.17	3.72	3.95				
10-year (inflation-protected)	1.24	1.47	1.86				
30-year	4.11	4.69	4.76				
30-year Zero	4.34	4.97	4.84				
<b>Mortgage-Backed Securities</b>							
GNMA 6.5%	1.30	2.09	4.26				
FHLMC 6.5% (Gold)	0.99	1.67	3.07				
FNMA 6.5%	1.02	2.43	2.91				
FNMA ARM	2.97	2.93	2.53				
<b>Corporate Bonds</b>							
Financial (10-year) A	4.74	5.22	6.82				
Industrial (25/30-year) A	5.30	5.81	6.50				
Utility (25/30-year) A	5.43	5.86	6.28				
Utility (25/30-year) Baa/BBB	5.87	6.35	7.76				
<b>Foreign Bonds (10-Year)</b>							
Canada	3.35	3.54	3.64				
Germany	2.57	3.15	3.69				
Japan	1.21	1.31	1.55				
United Kingdom	3.53	4.08	3.92				
<b>Preferred Stocks</b>							
Utility A	6.00	5.54	7.62				
Financial A	6.80	6.28	8.63				
Financial Adjustable A	5.54	5.46	5.46				



<b>TAX-EXEMPT</b>							
<b>Bond Buyer Indexes</b>							
20-Bond Index (GOs)	4.28	4.34	4.71				
25-Bond Index (Revs)	4.81	4.93	5.63				
<b>General Obligation Bonds (GOs)</b>							
1-year Aaa	0.31	0.28	0.40				
1-year A	1.15	1.03	0.90				
5-year Aaa	1.67	1.45	2.14				
5-year A	2.56	2.45	2.57				
10-year Aaa	3.02	3.01	3.21				
10-year A	4.05	4.02	3.57				
25/30-year Aaa	4.41	4.44	4.72				
25/30-year A	5.51	5.48	5.16				
<b>Revenue Bonds (Revs) (25/30-Year)</b>							
Education AA	4.74	4.76	5.85				
Electric AA	4.78	4.75	5.95				
Housing AA	5.65	5.54	6.25				
Hospital AA	5.01	5.06	6.20				
Toll Road Aaa	4.76	4.81	6.00				

## Federal Reserve Data

<b>BANK RESERVES</b>							
<i>(Two-Week Period; in Millions, Not Seasonally Adjusted)</i>							
	Recent Levels			Average Levels Over the Last...			
	6/2/10	5/19/10	Change	12 Wks.	26 Wks.	52 Wks.	
Excess Reserves	1047859	1055070	-7211	1075423	1084060	968858	
Borrowed Reserves	73336	76709	-3373	83101	117375	224220	
Net Free/Borrowed Reserves	974523	978361	-3838	992321	966685	744638	

<b>MONEY SUPPLY</b>							
<i>(One-Week Period; in Billions, Seasonally Adjusted)</i>							
	Recent Levels			Growth Rates Over the Last...			
	5/24/10	5/17/10	Change	3 Mos.	6 Mos.	12 Mos.	
M1 (Currency+demand deposits)	1699.7	1683.6	16.1	-5.0%	1.7%	6.5%	
M2 (M1+savings+small time deposits)	8573.8	8573.1	0.7	0.6%	1.1%	1.7%	



# **ATTACHMENT B**



Jon Markman

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## SuperModels

### Invest in the coming global water shortage

Fresh water's getting scarce, and it has no substitutes. For investors in companies that can supply our increasingly thirsty planet, that spells opportunity.

By Jon D. Markman

Ten years ago next Monday, a massive earthquake rolled under the Japanese city of Kobe at dawn, toppling 140,000 buildings, causing 300 major fires, killing more than 5,000 people and leaving 300,000 homeless.

To help cover the story for the L.A. Times, I left my wife to care for our 10-day-old daughter and 2-year-old son and flew into the city with a small team of Los Angeles-based trauma doctors and nurses. We found a surreal, smoking ruin of a city with roads twisted like coils of rope, high-rises tilted at Dr. Seuss angles and thousands of middle-class families jammed into dingy, ice-cold rooms in the few public buildings left standing.

Just as in the tsunami zone of South Asia this month, the immediate health danger, besides a possible outbreak of disease, was a lack of fresh water. More than 75% of the city's water supply was destroyed when underground pipes fractured. As much as they desired pallets of drugs, food, blankets and tents sent from throughout Japan and abroad, the Kobe survivors coveted -- and needed -- clean, bottled water for cooking, drinking and bathing.

Both incidents are a stark reminder that water is our most precious resource. Because it is seemingly ubiquitous in the United States, it is taken for granted.

Massive snowstorms in California this month have loaded up the snowpack that provides water there, and rains in the Southeast are filling reservoirs in that part of the country.

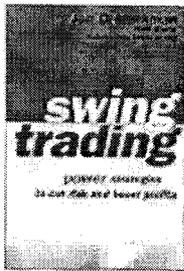
The rest of the world, however, is not so fortunate.

#### Not making any more water

There is no more fresh water on Earth today than there was a million years ago. Yet today, 6 billion people share it. Since 1950, the world population has doubled, but water use has tripled, notes John Dickerson, an analyst and fund manager based in San Diego. Unlike petroleum, he adds, no technological innovation can ever replace water.

China, which is undergoing a vast rural-to-urban population migration, is emblematic of the places where water has become scarce. It has about as much

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water as Canada but 100 times more people. Per-capita water reserves are only about a fourth the global average, according to experts. Of its 669 cities, 440 regularly suffer moderate to critical water shortages.

Although not widely appreciated, water has been recognized by conservative investors as an investment opportunity -- and it has rewarded them. Over the past 10 years, the Media General water utilities index is up 133%, double the return of the **Dow Jones Utilities Index** (\$UTIL). Over the past five years, water utilities are up 32% -- clobbering the flat returns of both the Dow Jones Utilities and the **Dow Industrials** (\$INDU). One of water's key long-term value drivers as an investment, according to Dickerson: Demand is not affected by inflation, recession, interest rates or changing tastes.

Virtually all of the U.S. water utility stocks are regulated by states and counties, which makes them pretty dull. Governmental entities typically give utilities a monopoly in a geographic region, then set their profit margin a smidge above costs. Just about the only distinguishing factor among them are the growth rates of their regions and their ability to efficiently manage their underground pipe and pumping infrastructure. Among the best are **Aqua America** (WTR, news, msgs) of Philadelphia, **Southwest Water** (SWWC, news, msgs) of Los Angeles; **California Water Service Group** (CWT, news, msgs), based in San Jose, Calif.; and **American States Water** (AWR, news, msgs) of San Dimas, Calif.

In a moment, I'll offer a couple of potentially more impactful ways to invest in water, but first let's look a little more broadly at world demand.

### Aquifers in India are being sucked dry

The tsunami has focused attention on water demand in South Asia -- and it's a good thing, as it was already reaching critical status in rural areas. Several decades ago, farmers in the Indian state of Gujarat used oxen to haul water in buckets from a few feet below the surface. Now they pump it from 1,000 feet below the surface. That may sound good, but they have been drawing water from the earth to feed a mushrooming population at such a terrific rate that ancient aquifers have been sucked dry -- turning once-fertile fields slowly into sand.

According to New Scientist magazine, farmers using crude oilfield technology in India have drilled 21 million "tube wells" into the strata beneath the fields, and every year millions more wells throughout the region -- all the way to Vietnam -- are being dug to service water-needy crops like rice and sugar cane. The magazine quoted research from the annual Stockholm Water Symposium that the pumps that transformed Indian farming are drawing 200 cubic kilometers of water to the surface each year, while only a fraction is replaced by monsoon

rains. At this rate, the research suggested, groundwater supplies in some areas will be exhausted in five to 10 years, and millions of Indians will see their farmland turned to desert.

In China, the magazine reported, 30 cubic kilometers more water is being pumped to the surface each year than is replaced by rain -- one of the reasons that the country has become dependent on grain imports from the West. This is not just an issue for agriculture. Earlier this year, the Indian state of Kerala ordered the **PepsiCo** (PEP, news, msgs) and **Coca-Cola** (KO, news, msgs) bottling plants closed due to water shortages, costing the companies millions of dollars.

In this country, shareholder activists already are lobbying companies to share water-dependency concerns worldwide with their stakeholders in their financial statements.

#### **Water, water everywhere, but . . .**

The central problem is that less than 2% of the world's ample store of water is fresh. And that amount is bombarded by industrial pollution, disease and cyclical shifts in rain patterns. Its increasing scarcity has impelled private companies and countries to attempt to lock up rights to key sources. In an article last month, the Christian Science Monitor suggested that the next decade may see a cartel of water-exporting countries rivaling the Organization of Petroleum Exporting Countries for dominance in the world economy.

"Water is blue gold; it's terribly precious," Maude Barlow, chair of the Council of Canadians, told the Monitor. "Not too far in the future, we're going to see a move to surround and commodify the world's fresh water. Just as they've divvied up the world's oil, in the coming century, there's going to be a grab."

Besides the domestic water utilities listed above -- and similarly plodding foreign utilities such as **United Utilities** (UU, news, msgs) of the United Kingdom, which sports a 6.9% dividend yield, and **Suez** (SZE, news, msgs) of France -- investors interested in the sector can consider a number of variant plays. None are extremely exciting, but my guess is that, over the next few years, some more interesting purification technologies will emerge, along with, perhaps, a vibrant attempt at worldwide industry consolidation.

One current idea is Tennessee-based copper pipe and valve maker **Mueller Industries** (MLI, news, msgs), a \$1 billion business with a trailing price/earnings multiple of 15 that is still not expensive despite a 47% run-up in the past year. Its leading outside investor is **Berkshire Hathaway** (BRK.A, news, msgs), the

investment vehicle of legendary investor Warren Buffett.

Another is flow-control products maker **Watts Water Technologies** ([WTS](#), [news](#), [msgs](#)), which is a little richer at a \$975 million market cap and a trailing P/E multiple of 19, but is still owned by several leading value managers, including Mario Gabelli.

And possibly the most interesting is **Consolidated Water** ([CWCO](#), [news](#), [msgs](#)), a \$160 million company based in the Cayman Islands that specializes in developing and operating ocean-water desalinization plants and water-distribution systems in areas where natural supplies of drinking water are scarce, such as the Caribbean and South America. It currently supplies water to Belize, Barbados, the British Virgin Islands and the Bahamas, and it has expansion plans. It is the most expensive, but it may also have the greatest growth prospects. Of all of these, it is up the most over the past five years, a relatively steady 355%.

Of course, there is one other benefit to water investing: When these companies say they're going to do a dilutive deal, it's not something to worry about.

### Fine Print

Dickerson runs a hedge fund in San Diego strictly focused on water investing, the Summit Water Equity Fund. . . To learn more about Southwest Water, [click here](#). . . . To learn more about California Water Service Group, which runs systems in New Mexico, Hawaii and Washington State, as well as California, [click here](#). . . . To learn more about American States Water, [click here](#). . . To learn more about Mueller, [click here](#), and, for Consolidated Water, [click here](#). . . Seems like talk is cheap. Since mid-December, the value of the company radio personality Howard Stern is leaving, **Viacom** ([VIA.B](#), [news](#), [msgs](#)), has risen 9% while the value of the company he's headed to, **Sirius Satellite Radio** ([SIRI](#), [news](#), [msgs](#)), is down 13.5%. . . . For background on the Kobe earthquake, approaching its 10th anniversary, [click here](#) and [here](#).

*Jon D. Markman is publisher of [StockTactics Advisor](#), an independent weekly investment newsletter, as well as senior strategist and portfolio manager at Pinnacle Investment Advisors. While he cannot provide personalized investment advice or recommendations, he welcomes column critiques and comments at [jon.markman@gmail.com](mailto:jon.markman@gmail.com); put COMMENT in the subject line. At the time of publication he held positions in the following stocks mentioned in this column: Coca-Cola.*

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# **ATTACHMENT C**

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# VALUATION

## MEASURING AND MANAGING THE VALUE OF COMPANIES

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## Estimating the Cost of Capital

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To value a company using enterprise DCF, we discount free cash flow by the weighted average cost of capital (WACC). The weighted average cost of capital represents the opportunity cost that investors face for investing their funds in one particular business instead of others with similar risk.

The most important principle underlying successful implementation of the cost of capital is consistency between the components of WACC and free cash flow. Since free cash flow is the cash flow available to all financial investors (debt, equity, and hybrid securities), the company's WACC must include the required return for each investor. In addition, the duration and risk of the financial securities used to estimate the WACC must match that of the free cash flow being discounted. To assure consistency, the cost of capital must meet several criteria:

- It must include the opportunity costs from *all* sources of capital—debt, equity, and so on—since free cash flow is available to all investors, who expect compensation for the risks they take.
- It must weight each security's required return by its target market-based weight, not by its historical book value.
- It must be computed after corporate taxes (since free cash flow is calculated in after-tax terms). Any financing-related tax shields not included in free cash flow must be incorporated into the cost of capital or valued separately (as done in the adjusted present value).
- It must be denominated in the same currency as free cash flow.
- It must be denominated in nominal terms when cash flows are stated in nominal terms.

For most companies, discounting free cash flow at the WACC is a simple, accurate, and robust method of corporate valuation. If, however, the

since no single model for estimating the market risk premium has gained universal acceptance, we present the results of various models.

Methods to estimate the market risk premium fall in three general categories:

1. Estimating the future risk premium by measuring and extrapolating historical excess returns.
2. Using regression analysis to link current market variables, such as the aggregate dividend-to-price ratio, to project the expected market risk premium.
3. Using DCF valuation, along with estimates of return on investment and growth, to reverse engineer the market's cost of capital.

None of today's models precisely estimate the market risk premium. Still, based on evidence from each of these models, we believe the market risk premium as of year-end 2003 was just under 5 percent.

**Historical market risk premium** Investors, being risk-averse, demand a premium for holding stocks rather than bonds. If the level of risk aversion hasn't changed over the last 75 years, then historical excess returns are a reasonable proxy for future premiums (assuming measurement issues, such as survivorship bias, aren't overly problematic). To best measure the risk premium using historical data, follow these guidelines:

- Calculate the premium relative to long-term government bonds.
- Use the longest period possible.
- Use an arithmetic average of longer-dated intervals (such as five years).
- Adjust the result for econometric issues, such as survivorship bias.

*Use long-term government bonds* When calculating the market risk premium, compare historical market returns with the return on 10-year government bonds. As discussed in the previous section, long-term government bonds better match the duration of a company's cash flows than do short-term bonds.

*Use the longest period possible* When using historical observations to predict future results, the issue is what length of history to examine. If the market risk premium is stable, a longer history will reduce estimation error. Alternatively, if the premium changes and estimation error is small, a shorter period is better. To determine the appropriate historical period, we consider any trends in the market risk premium compared with the noise associated with short-term estimates.

To test for the presence of a long-term trend, we regress the U.S. market risk premium versus time. Over the last 100 years, no statistically significant trend is observable.<sup>7</sup> Based on regression results, the average excess return has fallen by 3.3 basis points a year, but this result is well below its standard error (leading to a low *t*-statistic). In addition, premiums calculated over sub-periods, even as long as 10 years, are extremely noisy. For instance, U.S. stocks outperformed bonds by 18 percent in the 1950s but offered no premium in the 1970s. Given the lack of any discernible trend and the significant volatility of shorter periods, you should use the longest time series possible.

*Use arithmetic average of longer-dated intervals* When reporting market risk premiums, most data providers report an annual number, such as 6.2 percent per year. But how do they convert a century of data into an annual number? And is an annualized number even important?

Annual returns can be calculated using either an arithmetic average or a geometric average. An arithmetic (simple) average sums each year's observed premium and divides by the number of observations:

$$\text{Arithmetic Average} = \frac{1}{T} \sum_{t=1}^T \frac{1 + R_m(t)}{1 + r_f(t)} - 1$$

A geometric average compounds each year's excess return and takes the root of the resulting product:

$$\text{Geometric Average} = \left( \prod_{t=1}^T \frac{1 + R_m(t)}{1 + r_f(t)} \right)^{1/T} - 1$$

The choice of averaging methodology will affect the results. For instance, between 1903 and 2002, U.S. stocks outperformed long-term government bonds by 6.2 percent per year when averaged arithmetically. Using a geometric average, the number drops to 4.4 percent. This difference is not random; arithmetic averages always exceed geometric averages when returns are volatile.

So which averaging method on historical data best estimates the *expected* future rate of return? To estimate the mean (expectation) for any random variable, well-accepted statistical principles dictate that the arithmetic average is the best unbiased estimator. Therefore, to determine a security's

<sup>7</sup> Some authors, such as Lewellen, argue that the market risk premium does change over time—and can be measured using financial ratios, such as the dividend yield. We address these models separately. J. Lewellen, "Predicting Returns with Financial Ratios," *Journal of Financial Economics*, 74(2) (2004): 209–235.

expected return for one period, the best unbiased predictor is the arithmetic average of many one-period returns. A one-period risk premium, however, can't value a company with many years of cash flow. Instead, long-dated cash flows must be discounted using a compounded rate of return. But when compounded, the arithmetic average will be *biased* upward (too high).

This bias is caused by estimation error and autocorrelation in returns. Let's examine the effect of estimation error first. To estimate the mean of a distribution, statistical theory instructs you to average the observations. In a finite sample, the sample average ( $R_A$ ) will equal the true mean ( $\mu$ ) plus an error term ( $\varepsilon$ ):

$$R_A = \mu + \varepsilon$$

Sometimes the error term is positive, so the sample average overestimates the true mean, and at other times, the error term is negative. But the average error term equals 0, so the sample average is an unbiased estimator of the true mean.

To value a cash flow *beyond* one period, we must determine the discount factor by raising  $R_A$  to a given power. For instance, to estimate a two-period discount rate, we calculate  $R_A$  squared. Squaring  $R_A$  leads to the following equation:

$$R_A^2 = (\mu + \varepsilon)^2 = \mu^2 + \varepsilon^2 + 2\mu\varepsilon$$

Since the true mean,  $\mu$ , is a constant and the expectation of  $\varepsilon$  is 0, the expectation of  $2\mu\varepsilon$  equals 0. The expectation of  $\varepsilon^2$ , however, is not 0, but a positive number (the square of any nonzero number is greater than zero). Therefore,  $R_A^2$  will be greater than  $\mu^2$  (the true mean squared), and a compounded sample average will be too high.

The compounded arithmetic average will also be biased upward when returns are negatively autocorrelated (meaning low returns follow high returns and high returns follow low returns). Although there is disagreement in the academic community, the general consensus is that the aggregate stock market exhibits negative autocorrelation.<sup>8</sup> In this case, the arithmetic mean is biased upward.

<sup>8</sup> Empirical evidence presented by James Poterba, Lawrence Summers, and others indicates that a significant long-term negative autocorrelation exists in stock returns. See J. Poterba and L. Summers, "Mean Reversion in Stock Prices," *Journal of Financial Economics* (October 1988): 27-60. However, subsequent studies by Matthew Richardson and others challenge the statistical significance of earlier studies. See M. Richardson, "Temporary Components of Stock Prices: A Skeptic's View," *Journal of Business and Economic Statistics*, 11 (1993): 199-207.

Exhibit 10.4 Expected Value When Returns Exhibit Negative Autocorrelation

Scenario	Potential return	Unconditional probability		Future value	Expected value when returns are independent		Expected value when returns are negatively autocorrelated	
	20%	50%			25%	36.0	15%	21.6
	(10%)	50%			25%	27.0	35%	37.8
1	100	1.2	1.2	144	25%	27.0	35%	37.8
2	100	1.2	0.9	108	25%	20.3	15%	12.2
3	100	0.9	1.2	108	25%	20.3	15%	12.2
4	100	0.9	0.9	81	100%	110.3	100%	109.4

To better understand the effect of negative autocorrelation, consider a portfolio that can either grow by 20 percent or fall by 10 percent in a given period (see Exhibit 10.4). Since both returns are equally likely, the one period average return equals 5 percent. In addition, if returns are independently and identically distributed, after two periods there is:

1. A 25 percent probability that an initial investment of \$100 will grow to \$144
2. A 50 percent probability (two equally probable scenarios) that \$100 will grow to \$108
3. A 25 percent probability that \$100 will shrink to \$81

The expected value in two periods equals \$110.3, the same as if \$100 had grown consistently at the *arithmetic* average of 5 percent for two periods. But if the four scenarios are not equally likely, the expected value in two periods will not equal \$110.3. For instance, if there is a 70 percent probability that low returns will be followed by high returns (or vice versa), the expected value in two periods is only \$109.4. In this case, compounding the arithmetic mean will lead to an upward bias in expected return.

To correct for the bias caused by estimation error and negative autocorrelation in returns, we have two choices. First, we can calculate multiperiod holding returns directly from the data, rather than compound single-period averages. Using this method, a cash flow received in five years will be discounted by the average five-year market risk premium, not by the annual

Exhibit 10.5 Cumulative Returns for Various Intervals, 1903–2002

Arithmetic mean of	Number of observations	Cumulative returns			Annualized returns	
		U.S. stocks	U.S. government bonds	U.S. excess return	U.S. excess returns	Blume estimator
1-year holding periods	100	11.5	5.3	6.2	6.2	6.2
2-year holding periods	50	24.1	10.9	13.2	6.1	6.0
4-year holding periods	25	49.9	23.1	26.8	5.3	6.0
5-year holding periods	20	68.2	29.5	38.7	5.8	5.9
10-year holding periods	10	165.6	72.1	93.5	5.5	5.6

Source: Ibbotson Associates, MOI analysis.

market risk premium compounded five times.<sup>9</sup> In Exhibit 10.5, we present arithmetic averages for holding periods of 1, 2, 4, 5, and 10 years. To avoid placing too little weight on either early or recent observations, we use nonoverlapping returns. The downside of this method is that 5- and 10-year holding periods have very few observations. As shown in the exhibit, the annualized excess return trends downward from 6.2 percent to 5.5 percent as the length of the holding period increases.

Alternatively, researchers have used simulation to show that an estimator proposed by Marshall Blume best adjusts for problems caused by estimation error and autocorrelation of returns:<sup>10</sup>

$$R = \frac{T-N}{T-1} R_A + \frac{N-1}{T-1} R_G$$

where  $T$  = Number of historical observations

$N$  = Forecast period

$R_A$  = Arithmetic average

$R_G$  = Geometric average

In the last column of Exhibit 10.5, we report Blume's estimate for the market risk premium. Blume's method generates the same downward-trending estimate of the market risk premium (albeit more smoothly than the raw holding period averages). Based on both estimation techniques, it appears 5.5 percent is a reasonable approximation for *historical* excess returns.

<sup>9</sup>Jay Ritter writes, "There is no theoretical reason why one year is the appropriate holding period. People are used to thinking of interest rates as a rate per year, so reporting annualized numbers makes it easy for people to focus on the numbers. But I can think of no reason other than convenience for the use of annual returns." J. Ritter, "The Biggest Mistakes We Teach," *Journal of Financial Research*, 25 (2002): 159–168.

<sup>10</sup>D. C. Indro and W. Y. Lee, "Biases in Arithmetic and Geometric Averages Premia," *Financial Management*, 26(4) (Winter 1997); M. E. Blume, "Unbiased Estimators of Long Run Expected Rates of Return," *Journal of the American Statistical Association*, 69(347) (September 1974).

*Survivorship bias* Other statistical difficulties exist with historical risk premiums. According to one argument,<sup>11</sup> even properly measured historical premiums can't predict future returns, because the observable sample will include only countries with strong historical returns. Statisticians refer to this phenomenon as survivorship bias. The U.S. market outperformed all others during the twentieth century, averaging 4.3 percent in real terms (deflating by the wholesale price index) versus a median of 0.8 percent for other countries.<sup>12</sup> A concurring study<sup>13</sup> notes that the -100 percent returns from China, Russia, and Poland are too often ignored in discussions of stock market performance.

Since it is unlikely that the U.S. stock market will replicate its performance over the next century, we adjust downward the historical arithmetic average market risk premium. Using data from Philippe Jorion and William Goetzmann, we find that between 1926 and 1996, the U.S. arithmetic annual return exceeded the median return on a set of 11 countries with continuous histories dating to the 1920s by 1.9 percent in real terms, or 1.4 percent in nominal terms. If we subtract a 1 percent to 2 percent survivorship bias from the long-term arithmetic average of 5.5 percent, the difference implies the future range of the U.S. market risk premium should be 3.5 to 4.5 percent.

**Market risk premium regressions** Although we find no long-term trend in the historical risk premium, many argue that the market risk premium is predictable using observable variables, such as the aggregate dividend-to-price ratio, the aggregate book-to-market ratio, or the aggregate ratio of earnings to price.

The use of current financial ratios to estimate the expected return on stocks is well documented and dates back to Charles Dow in the 1920s. The concept has been tested by many authors.<sup>14</sup> To predict the market risk premium using financial ratios, excess market returns are regressed against a financial ratio, such as the market's aggregate dividend-to-price ratio:

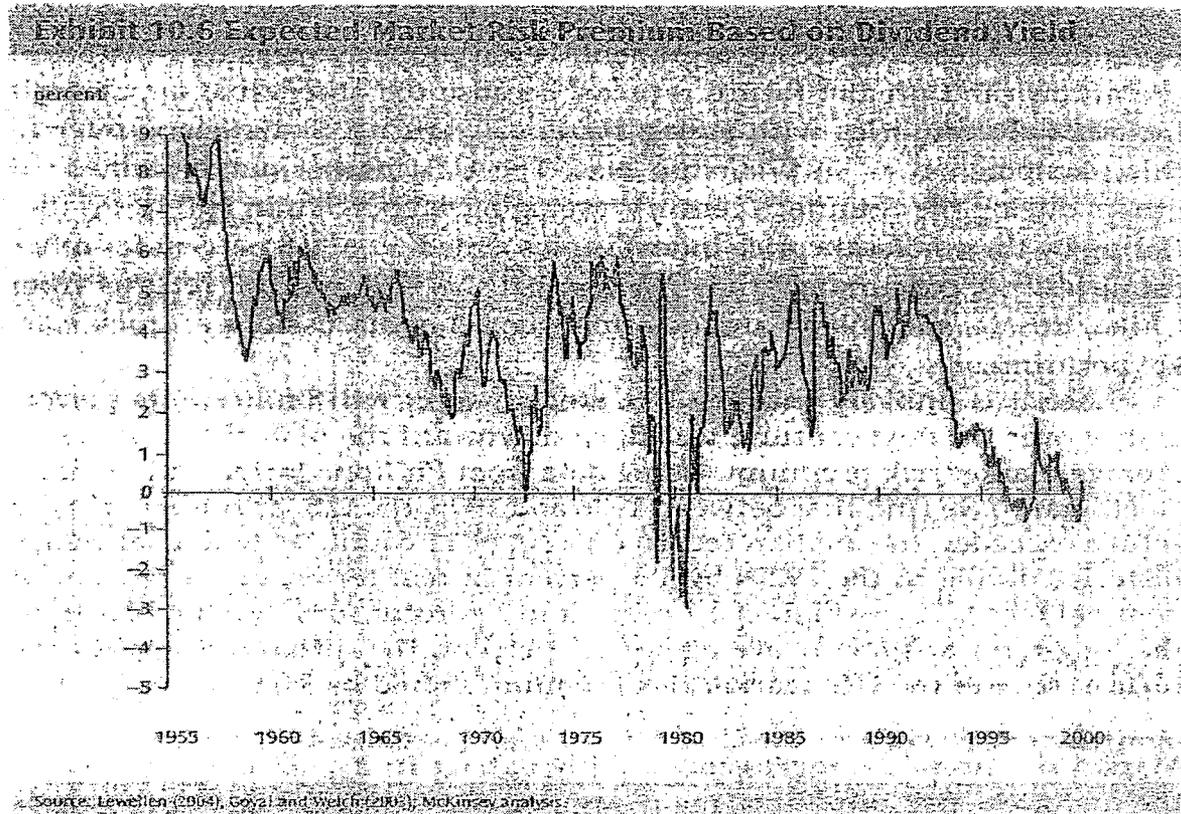
$$R_m - r_f = \alpha + \beta \ln\left(\frac{\text{Dividend}}{\text{Price}}\right) + \varepsilon$$

<sup>11</sup>S. Brown, W. Goetzmann, and S. Ross, "Survivorship Bias," *Journal of Finance* (July 1995): 853-873.

<sup>12</sup>P. Jorion and W. Goetzmann, "Global Stock Markets in the Twentieth Century," *Journal of Finance*, 54(3) (June 1999): 953-974.

<sup>13</sup>Elroy Dimson, Paul Marsh, and Michael Staunton, *Triumph of the Optimists* (Princeton: Princeton University Press, 2002).

<sup>14</sup>E. Fama and K. French, "Dividend Yields and Expected Stock Returns," *Journal of Financial Economics*, 22(1) (1988): 3-25; R. F. Stambaugh, "Predictive Regressions," *Journal of Financial Economics*, 54(3) (1999): 375-421; and J. Lewellen, "Predicting Returns with Financial Ratios," *Journal of Financial Economics*, 74(2) (2004): 209-235.



Using advanced regression techniques unavailable to earlier authors, Jonathan Lewellen found that dividend yields *do* predict future market returns. But as shown in Exhibit 10.6, the model has a major drawback: the risk premium prediction can be negative (as it was in the late 1990s). Other authors question the explanatory power of financial ratios, arguing that a financial analyst relying solely on data available at the time would have done better using unconditional historical averages (as we did in the last section) in place of more sophisticated regression techniques.<sup>15</sup>

**Forward-looking models** A stock's price equals the present value of its dividends. Assuming dividends are expected to grow at a constant rate, we can rearrange the growing perpetuity to solve for the market's expected return:

$$P = \frac{\text{DIV}}{k_e - g} \text{ converts to } k_e = \frac{\text{DIV}}{P} + g$$

In the previous section, we reviewed regression models that compare market returns ( $k_e$ ) to the dividend-price ratio ( $\text{DIV}/P$ ). Using a simple re-

<sup>15</sup> A. Goyal and I. Welch, "Predicting the Equity Premium with Dividend Ratios," *Management Science*, 4, 9(5) (2003): 639-654.

gression, however, ignores valuable information and oversimplifies a few market realities. First, the dividend-price yield itself depends on the expected growth in dividends ( $g$ ), which simple regressions ignore (the regression's intercept is determined by the data). Second, dividends are only one form of corporate payout. Companies can use free cash flow to repurchase shares or hold excess cash for significant periods of time; consider Microsoft, which accumulated more than \$50 billion in liquid securities before paying its first dividend.

Using the principles of discounted cash flow, along with estimates of growth, various authors have attempted to reverse engineer the market risk premium. Two studies used analyst forecasts to estimate growth,<sup>16</sup> but many argue that analyst forecasts focus on the short term and are severely upward biased. Fama and French use long-term dividend growth rates as a proxy for future growth, but they focus on dividend yields, not on available cash flow.<sup>17</sup> Alternatively, our own research has focused on *all* cash flow available to equity holders, as measured by a modified version of the key value driver formula (detailed in Chapter 3).<sup>18</sup>

$$k_e = \frac{\text{Earnings} \left( 1 - \frac{g}{\text{ROE}} \right)}{P} + g \quad \text{such that} \quad \text{CF}_t = \text{Earnings} \left( 1 - \frac{g}{\text{ROE}} \right)$$

Based on this formula, we used the long-run return on equity (13 percent) and the long-run growth in real GDP (3.5 percent) to convert a given year's S&P 500 median earnings-to-price ratio into the cost of equity.<sup>19</sup>

Exhibit 10.7 on page 306 plots the nominal and real expected market returns between 1962 and 2002. The results are striking. After stripping out inflation, the expected market return (*not* excess return) is remarkably constant, averaging 7.0 percent. For the United Kingdom, the real market return is slightly more volatile, averaging 6.0 percent. Based on these results, we estimate the current market risk premium by subtracting the current real long-term risk-free rate from the real equity return of 7.0 percent (for U.S. markets). At year-end 2003, the yield on a U.S. Treasury inflation-protected security (TIPS) equaled 2.1 percent. Subtracting 2.1

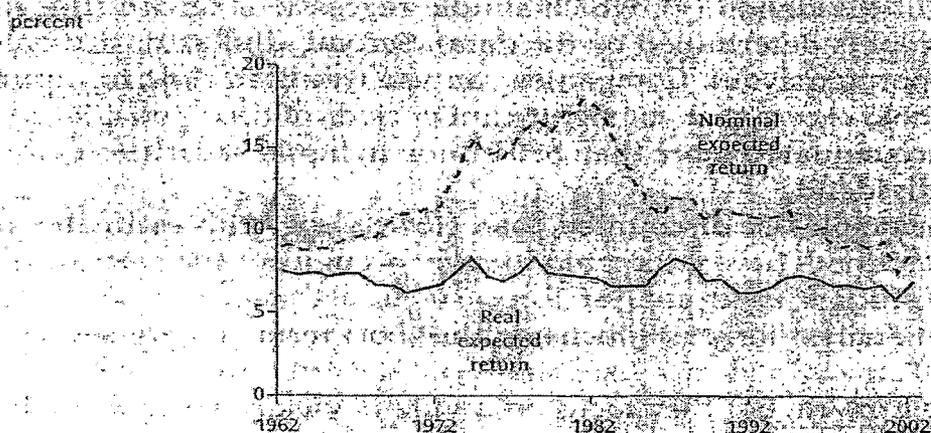
<sup>16</sup>J. Claus and J. Thomas, "Equity Premia as Low as Three Percent? Evidence from Analysts' Earnings Forecasts for Domestic and International Stocks," *Journal of Finance*, 56(5) (October 2001): 1629-1666; and W. R. Gebhardt, C. M. C. Lee, and B. Swaminathan, "Toward an Implied Cost of Capital," *Journal of Accounting Research*, 39(1) (2001): 135-176.

<sup>17</sup>Eugene F. Fama and Kenneth R. French, "The Equity Premium," Center for Research in Security Prices Working Paper No. 522 (April 2001).

<sup>18</sup>Marc H. Goedhart, Timothy M. Koller, and Zane D. Williams, "The Real Cost of Equity," *McKinsey on Finance* (Autumn 2002): 11-15.

<sup>19</sup>Using a two-stage model (i.e., short-term ROE and growth rate projections, followed by long-term estimates) did not change the results in a meaningful way.

Exhibit 10.7 Real and Nominal Expected Market Returns



percent from 7.0 percent gives an estimate of the risk premium at just under 5 percent.

Although many in the finance profession disagree about how to measure the market risk premium, we believe 4.5 to 5.5 percent is an appropriate range. Historical estimates found in most textbooks (and locked in the mind of many), which often report numbers near 8 percent, are too high for valuation purposes because they compare the market risk premium versus short-term bonds, use only 75 years of data, and are biased by the historical strength of the U.S. market.

**Estimating beta** According to the CAPM, a stock's expected return is driven by beta, which measures how much the stock and market move together. Since beta cannot be observed directly, we must *estimate* its value. To do this, we first measure a raw beta using regression and then improve the estimate by using industry comparables and smoothing techniques. The most common regression used to estimate a company's raw beta is the market model:

$$R_i = \alpha + \beta R_m + \varepsilon$$

In the market model, the stock's return (not price) is regressed against the market's return.

In Exhibit 10.8, we plot 60 months of Home Depot stock returns versus S&P 500 returns between 1999 and 2003. The solid line represents the "best

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**SURREBUTTAL TESTIMONY**

**OF**

**TIMOTHY J. COLEY**

**ON BEHALF OF**

**THE**

**RESIDENTIAL UTILITY CONSUMER OFFICE**

**JUNE 18, 2010**

**TABLE OF CONTENTS**

1		
2	INTRODUCTION.....	1
3	SUMMARY OF RECOMMENDATIONS.....	2
4	Required Revenue.....	2
5	Rate Design and Rate Consolidation.....	2
6	Accumulated Deferred Income Taxes .....	3
7	APT Central Office Cost Allocations .....	7
8	Hook Up Fee Tariff .....	10
9	ORIGINAL COST RATE BASE (“OCRB”) ADJUSTMENTS.....	11
10	Surrebuttal OCRB Adjustment No. 3 – Accumulated Deferred Income Tax (	11
11	OPERATING INCOME ADJUSTMENTS .....	22
12	Surrebuttal Operating Income Adjustment No. 6(A) – APT Central Office Cost	
13	Allocations .....	22
14	Surrebuttal APT Central Office Cost Allocations Adjustment No. 6(B) .....	24
15	Surrebuttal APT Central Office Cost Allocations Adjustment No. 6(C) .....	25
16	Company Proposal for a Third Party APT Cost Allocations Audit.....	25

1 **INTRODUCTION**

2 Q. Please state your name for the record.

3 A. My name is Timothy J. Coley.

4

5 Q. Have you previously filed testimony regarding this docket?

6 A. Yes, I have. I filed direct testimony in this docket on April 12, 2010.

7

8 Q. What is the purpose of your surrebuttal testimony?

9 A. My surrebuttal testimony will address the Company's rebuttal comments  
10 pertaining to the adjustments I recommended in my direct testimony. This  
11 testimony will address the three systems on a stand alone basis, which  
12 includes Bella Vista Water Company ("BVWC"), Northern Sunrise Water  
13 Company ("NSWC"), and Southern Sunrise Water Company ("SSWC"), in  
14 addition to the three systems being merged as Bella Vista Water  
15 Company (Consolidated) ("BVWC (Consolidated)"). Again, in my  
16 surrebuttal as in direct testimony, I sponsor two primary issues, which are  
17 the Accumulated Deferred Income Taxes ("ADIT") and Algonquin Power  
18 Trust ("APT") Central Office Cost Allocations. In addition to those two  
19 matters, my surrebuttal testimony will address the Company's revised  
20 rebuttal position regarding the requested Hook-up Fees ("HUF") tariff and  
21 address the proposal of the Company's witness, Mr. Peter Eichler, to hire  
22 an independent third party auditor to attest to the APT cost allocations.

1 **SUMMARY OF RECOMMENDATIONS**

2 **Required Revenue**

3

4 Q. What are RUCO's recommended surrebuttal revenue requirements for  
5 BVWC, NSWC, SSWC and BVWC (Consolidated)?

6 A. RUCO witness, Mr. Rodney Moore, addresses RUCO's recommended  
7 overall revenue requirements in his testimony while Mr. William Rigsby  
8 sponsors RUCO's recommended cost of capital for the four scenarios  
9 referenced above.<sup>1</sup>

10

11 **Rate Design and Rate Consolidation**

12 Q. Which RUCO witness(s) will be sponsoring testimony concerning the  
13 Company's request for rate consolidation of the BVWC, NSWC, and  
14 SSWC into one BVWC (Consolidated) rate structure for the three separate  
15 systems?

16 A. RUCO's Director, Ms. Jodi Jerich, will provide policy testimony regarding  
17 RUCO's recommendations on rate consolidation. Mr. Moore will sponsor  
18 RUCO's rate design schedules for BVWC, NSWC, and SSWC on a stand  
19 alone system basis. He will also provide rate design schedules on a  
20 consolidated BVWC, NSWC, and SSWC basis in his testimony for the  
21 Commission's public policy consideration.

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<sup>1</sup> The four scenarios referenced are BVWC, NSWC, and SSWC based on a stand alone basis in addition to BVWC, NSWC, and SSWC being merged as BVWC (Consolidated).

1 **Accumulated Deferred Income Taxes**

2 Q. Did RUCO use a revised methodology for calculating its ADIT  
 3 recommendations in surrebuttal testimony?

4 A. Yes. RUCO's surrebuttal ADIT methodology will be fully explained later.  
 5 The new methodology will serve as RUCO's primary position in this  
 6 proceeding. The position taken by RUCO in direct testimony regarding  
 7 ADIT will now be its alternative position.

8

9 Q. Please summarize RUCO's revised surrebuttal recommendations  
 10 regarding ADIT for BVWC, NSWC, SSWC, and BVWC (Consolidated)?

11 A. RUCO's revised surrebuttal ADIT recommendations are as follows:

	<b>Company</b>	<b>RUCO</b>	<b>RUCO</b>
	<b>Adjusted</b>	<b>RUCO</b>	<b>Recommended</b>
	<b>Test-Year</b>	<b>ADIT</b>	<b>ADIT</b>
<b><u>Company</u></b>	<b><u>ADIT</u></b>	<b><u>Adjustment</u></b>	<b><u>Balance</u></b>
Bella Vista	\$ 230,850	(\$ 2,703,488)	(\$ 2,472,638)
Northern Sunrise	(4,144)	(57,525)	(61,669)
Southern Sunrise	<u>(51,588)</u>	<u>(84,614)</u>	<u>(136,202)</u>
<b>BVWC Consolidated</b>	<b>173,329<sup>2</sup></b>	<b>(\$ 2,879,543)<sup>3</sup></b>	<b>(\$ 2,706,214)<sup>4</sup></b>

<sup>2</sup> The BVWC (Consolidated) Adjusted Test-Year ADIT amount column does not foot down. The total equals \$175,118 rather than the \$173,329 as shown in the Company's BVWC (Consolidated) B-1 Schedule. This is due to different effective income tax rates for the scenarios presented.

<sup>3</sup> The total does not foot down correctly for the BVWC (Consolidated) recommendation. This is due to different effective income tax rates for the different scenarios presented.

<sup>4</sup> The total does not foot down correctly for the BVWC (Consolidated) recommendation. This is due to different effective income tax rates for the different scenarios presented.

1           **Note:** Any number above in parenthesis reflects an ADIT liability balance,  
2           which is a reduction to rate base (i.e. Asset / (Liability)).

3  
4           RUCO will fully explain its revised primary ADIT position later in this  
5           testimony.

6  
7   Q.     Did RUCO provide another ADIT recommendation in its direct testimony  
8           and schedules other than what was shown above?

9   A.     Yes. RUCO's direct testimony position regarding ADIT now represents its  
10          alternative recommendations. The alternative recommended adjustments  
11          remain unchanged from RUCO's direct filing and are shown on the  
12          respective Schedules RLM-5(B).

13  
14   Q.     Please summarize RUCO's alternative recommendations for ADIT that  
15          was provided in its direct testimony and remain unchanged in its  
16          surrebuttal testimony?

17   A.     The table below summarizes RUCO's alternative recommendations for  
18          ADIT:

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	<b>Company</b>		<b>RUCO</b>	
	<b>Adjusted</b>	<b>RUCO</b>	<b>Recommended</b>	
	<b>Test-Year</b>	<b>ADIT</b>	<b>ADIT</b>	
	<b><u>Company</u></b>	<b><u>ADIT</u></b>	<b><u>Adjustment</u></b>	
			<b><u>Balance</u></b>	
	Bella Vista	\$ 230,850	(\$ 1,279,224)	(\$ 1,048,374)
	Northern Sunrise	(4,144)	(52,949)	(57,093)
	Southern Sunrise	(51,588)	(126,105)	(177,693)
	<b>BVWC Consolidated</b>	<b>173,329<sup>5</sup></b>	<b>(\$ 1,458,278)</b>	<b>(\$ 1,284,949)</b>

**Note:** Any number above in parenthesis reflects an ADIT liability balance, which is a reduction to rate base (i.e. Asset / (Liability)).

Q. In its rebuttal filing, did the Company propose another adjustment to ADIT that differed from its direct filing?

A. Yes.

Q. What is the Company's proposal for ADIT in its rebuttal filing that is different from its direct filing?

A. The Company's proposed ADIT in its direct and rebuttal filing are as follows:

<sup>5</sup> The BV Consolidated Company Adjusted Test-Year ADIT amount column does not foot down correctly. The total equals \$175,118 rather than the \$173,329 as shown in the Company's BVWC (Consolidated) B-1 Schedule. This is due to different effective income tax rates for the four different scenarios.

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	<b>Company</b>	<b>Company</b>	
	<b>Direct</b>	<b>Rebuttal</b>	
<b><u>Company</u></b>	<b><u>ADIT</u></b>	<b><u>ADIT</u></b>	<b><u>Difference</u></b>
Bella Vista	\$ 230,850	(\$ 327,255)	(\$ 558,105)
Northern Sunrise	(4,144)	(61,600)	(57,456)
Southern Sunrise	<u>(51,588)</u>	<u>(144,964)</u>	<u>(93,376)</u>
<b>BVWC Consolidated</b>	<b>173,329<sup>6</sup></b>	<b>(\$ 572,006)<sup>7</sup></b>	<b>(\$ 745,335)<sup>8</sup></b>

As can be seen, the Company's direct filing showed an ADIT asset, which increases rate base, in the amount of \$173,329. In its rebuttal filing, the Company is proposing an ADIT liability in all four scenarios, which is a reduction to rate base, in the amount of \$572,006 on a consolidated basis. That is a difference of \$745,335 from its original filing. Further discussion regarding the Company's and RUCO's ADIT recommendations will follow later in this testimony.

RUCO's ADIT rate base adjustments are shown on Surrebuttal Schedules RLM-2 and RLM-3. The supporting detail for RUCO's ADIT adjustment is shown on RUCO's Surrebuttal Schedules RLM-5(A).

<sup>6</sup> The BV Consolidated Company Adjusted Test-Year ADIT amount column does not foot down correctly. The total equals \$175,118 rather than the \$173,329 as shown in the Company's BVWC (Consolidated) B-1 Schedule. This is due to different effective income tax rates for the four different scenarios.

<sup>7</sup> The BV Consolidated Company Adjusted Test-Year ADIT amount column does not foot down correctly. This is due to different effective income tax rates for the four different scenarios.

<sup>8</sup> The BV Consolidated Company Adjusted Test-Year ADIT amount column does not foot down correctly. This is due to different effective income tax rates for the four different scenarios.

1 **APT Central Office Cost Allocations**

2 Q. Briefly explain RUCO's adjustments to the Company's APT central office  
3 cost allocations.

4 A. RUCO's adjustments to the Company's APT central office cost allocations  
5 are three separate and distinct adjustments and are labeled 11(A), 11(B),  
6 and 11(C) as follows:

7  
8 1. RUCO Surrebuttal APT Central Office Cost Allocations Adjustment No.  
9 6(A) – This is the same adjustment that RUCO made in its direct  
10 testimony and was fully explained there, with two exceptions. The two  
11 exceptions are: 1) the use of an updated allocation factor and 2) the  
12 use of the most updated known and measurable Canadian to US  
13 dollars conversion factor. The new allocation factor is based on the  
14 fact that an Algonquin news release dated December 22, 2009 (See  
15 RUCO Exhibit TJC-1) identified 71 Algonquin affiliates either owned or  
16 operated by Algonquin Power Income Fund ("APIF")<sup>9</sup> rather than the  
17 70 affiliates listed in its 2008 Annual Report. The updated allocation  
18 factor utilized in RUCO's surrebuttal is  $18 / 71 = 25.35$  percent instead  
19 of  $17 / 70 = 24.29$  percent from direct testimony. Ultimately, this  
20 adjustment removes certain APT actual central office cost allocations  
21 as being excessive and unnecessary in the provisioning of water utility  
22 service. The adjustments remove the excessive and unnecessary APT

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<sup>9</sup> APIF is now known as Algonquin Power & Utilities Corp ("APUC"), and in my testimony, I refer to APIF and APUC synonymously.

1 costs from BVWC, NSWC, SSWC, and a consolidated BVWC as  
2 shown below:

	<b>RUCO</b>
	<b>APT</b>
<u>Company</u>	<u>Adjustment</u>
Bella Vista	(\$ 122,927)
Northern Sunrise	(\$ 5,088)
Southern Sunrise	<u>(\$ 12,118)</u>
<b>BVWC Consolidated</b>	<b>(\$ 140,134)</b>

11  
12 2. RUCO Surrebuttal APT Central Office Cost Allocations Adjustment No.

13 6(B) – This is a companion adjustment to the Company’s rebuttal  
14 adjustment that removed \$19,076<sup>10</sup> of certain APT costs from its  
15 original rate application. Since RUCO disallowed the majority of the  
16 APT cost allocations in RUCO Adjustment 11(A), RUCO’s total  
17 adjustment to account for the Company’s rebuttal adjustment is much  
18 less than the Company’s consolidated BVWC amount of \$19,076.  
19 RUCO’s surrebuttal adjustments remove certain APT cost allocations  
20 from BVWC, NSWC, SSWC, and a consolidated BVWC as follows:

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<sup>10</sup> This amount is based on the consolidated BVWC.

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	<b>RUCO</b>
	<b>APT</b>
<u>Company</u>	<u>Adjustment</u>
Bella Vista	(\$ 959)
Northern Sunrise	(\$ 40)
Southern Sunrise	(\$ 95)
<b>BVWC Consolidated</b>	<b>(\$ 1,093)</b>

3. RUCO Surrebuttal APT Central Office Cost Allocations Adjustment No.

6(C) – This adjustment to the APT central office cost allocations is the result of two RUCO data requests.

Q. Please briefly explain this APT central office cost allocation adjustment that resulted from the two RUCO data requests you mentioned above.

A. In RUCO formal Data Request No. 3.01, the Company responded by providing an APT Excel schedule that showed the Company had incurred \$144,906 of APT cost allocations on a consolidated BVWC basis. In RUCO informal Data Request No. 2, numbered 5.01, the Company identified \$156,149 of APT cost allocations for a consolidated BVWC. The Company's response to Data Request No. 5.01 reconciled to the Company's test-year book amount for the Outside Services – Other account found in the rate application on a consolidated BVWC basis. The APT cost allocations are charged to that account. It appears that the Company's test-year book amount was over-stated by the difference of the two numbers referenced above in the amount of \$11,243 (\$156,149 -

1           \$144,906 = \$11,243) according to the Company's response to RUCO  
2 formal Data Request No. 3.01. RUCO took the difference between the  
3 two amounts mentioned above and allocated the \$11,243 among the  
4 BVWC, NSWC, and SSWC systems based on customer counts. The  
5 adjustments to each system are as follows:

	<b>RUCO</b>
	<b>APT</b>
<b><u>Company</u></b>	<b><u>Adjustment</u></b>
Bella Vista	(\$ 9,863)
Northern Sunrise	(\$ 408)
Southern Sunrise	<u>(\$ 972)</u>
<b>BVWC Consolidated</b>	<b>(\$ 11,243)</b>

14  
15 RUCO operating income adjustment numbers 6(A), 6(B), and 6(C) are  
16 shown on RUCO's Surrebuttal Schedules RLM-6 and RLM-7. The  
17 supporting details are shown on RUCO's Surrebuttal Schedule RLM-  
18 11(A), RLM -11(B), and RLM-11(C).

19  
20 **Hook Up Fee Tariff**

21 Hook Up Fee ("HUF") Tariff

22 RUCO does not support the Company's HUF as proposed by the  
23 Company for the reason given later in the surrebuttal testimony.

1           Company's Proposal for a Third Party Independent Auditor/CPA to Attest  
2           to the APT Cost Allocations

3           RUCO does not support the Company's proposal to hire an independent  
4           third party auditor/CPA to attest to the APT cost allocations, which will be  
5           discussed later in its surrebuttal testimony.

6  
7           **ORIGINAL COST RATE BASE ("OCRB") ADJUSTMENTS**

8           **Surrebuttal OCRB Adjustment No. 3 – Accumulated Deferred Income Tax**  
9           **("ADIT")**

10  
11          Q.     Is RUCO proposing a different methodology for calculating its ADIT  
12                recommendation here in its surrebuttal testimony than was proposed in its  
13                direct filing?

14          A.     Yes. RUCO is providing an additional methodology for calculating its  
15                surrebuttal ADIT recommendation as shown on RUCO Schedule SURRE  
16                RLM-5(A). The new methodology now represents RUCO's primary  
17                position regarding its ADIT recommendation to the Commission.  
18                However, RUCO's direct testimony ADIT recommendation remains part of  
19                this filing as an alternative and is shown on RUCO Schedule RLM-5(B).

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23          ...

1 Q. Does RUCO use its alternative direct testimony ADIT recommendation  
2 here in its surrebuttal schedules in calculating its surrebuttal revenue  
3 requirements?

4 A. No. RUCO's surrebuttal revenue requirement is based on its new primary  
5 ADIT methodology as proposed here in its surrebuttal testimony.

6  
7 Q. Please explain the difference between RUCO's surrebuttal ADIT  
8 methodology to the method used in RUCO's direct testimony.

9 A. RUCO's surrebuttal methodology more closely resembles the Company's  
10 methodology with the exceptions of particular ADIT component balances.  
11 Each component of the ADIT calculation will be fully analyzed below.

12  
13 RUCO's direct ADIT methodology allocated the parent Company, APIF,  
14 ADIT balance based on assets and is fully discussed in RUCO's direct  
15 testimony. That method assures full allocation of the parent's ADIT  
16 balance.

17  
18 Q. Did the Company change its position in its rebuttal filing regarding its ADIT  
19 proposal in this proceeding?

20 A. Yes, it did. Overall, the Company employs the same basic methodology it  
21 utilized in its direct filing. However, the Company's requested ADIT  
22 balance has changed substantially in its rebuttal filing.

23

1 Q. How does the Company's request for ADIT in its direct testimony compare  
2 to its request in its rebuttal testimony?

3 A. The table below shows the amount of ADIT requested by the Company in  
4 both its direct and rebuttal filing as follows:

5

	<b>Company</b>	<b>Company</b>	
	<b>Direct</b>	<b>Rebuttal</b>	
<b><u>Company</u></b>	<b><u>ADIT</u></b>	<b><u>ADIT</u></b>	<b><u>Difference</u></b>
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	<b>Bella Vista</b>	<b>(\$ 327,255)</b>	<b>(\$ 558,105)</b>
	<b>Northern Sunrise</b>	<b>(61,600)</b>	<b>(57,456)</b>
	<b>Southern Sunrise</b>	<b>(144,964)</b>	<b>(93,376)</b>
	<b>BVWC Consolidated</b>	<b>(\$ 572,006)<sup>12</sup></b>	<b>(\$ 745,335)<sup>13</sup></b>

14 Q. Did the Company address the cause of its change in ADIT positions?

15 A. Yes. The Company stated that the primary cause of its change in  
16 positions was due to updated tax information that became available to  
17 BVWC during the proceeding.

18

19 ...

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<sup>11</sup> The BVWC Consolidated Company Adjusted Test-Year ADIT amount column does not foot down correctly. The total equals \$175,118 rather than the \$173,329 as shown in the Company's BVWC (Consolidated) B-1 Schedule. This is due to different effective income tax rates for the four different scenarios.

<sup>12</sup> The BVWC Consolidated Company Adjusted Test-Year ADIT amount column does not foot down correctly. This is due to different effective income tax rates for the four different scenarios.

<sup>13</sup> The BVWC Consolidated Company Adjusted Test-Year ADIT amount column does not foot down correctly. This is due to different effective income tax rates for the four different scenarios.

1 Q. Does RUCO agree with the Company's rebuttal position regarding ADIT?

2 A. No. However, there are a few areas where RUCO can agree with the  
3 Company.

4

5 Q. Please discuss the differences and similarities between RUCO and the  
6 Company's ADIT calculation found on the respective schedules labeled  
7 RUCO Schedule SURR RLM-5(A) and the Company's Schedule B-2,  
8 page 5. Attached hereto for the convenience of the parties as RUCO  
9 Exhibit TJC-2.

10 A. In the first column titled "Adjusted Book Value," the gross Plant-in-Service  
11 and Accumulated Depreciation shown on lines 6 and 7 for both RUCO and  
12 the Company are substantially the same. The insignificant difference,  
13 which is only \$28,946, for those two line items is due to different levels of  
14 recommended plant and accumulated depreciation balances by the two  
15 parties.

16

17 Referring to the same column on the spreadsheet, the line item titled CIAC  
18 on line 8 of both schedules is significantly different for two reasons.  
19 RUCO shows a net test-year CIAC balance to be \$311,458 while the  
20 Company reports a CIAC balance of \$4,472,325, which is a difference of  
21 \$4,160,867 between RUCO and the Company.

22

1 Q. What are the two reasons you mentioned above that causes the  
2 significant difference of \$4,160,867 in CIAC between the Company and  
3 RUCO's ADIT calculation?

4 A. The primary reason for the huge difference between the Company and  
5 RUCO's CIAC component is the Company has converted 70 percent of  
6 post-1995 Advances in Aid of Construction ("AIAC") to CIAC. Whereas,  
7 RUCO's CIAC balance is the Company's actual adjusted test-year CIAC  
8 amount as reflected in their books.

9  
10 The second reason contributing to the difference in the CIAC balances is  
11 RUCO nets the test-year CIAC balance against the amount that has  
12 already been amortized. Thus, the amount that has been amortized is  
13 reflected in net Utility Plant in Service ("UPIS"). In the Company's direct  
14 filing, it is readily apparent that the Company has deducted the full amount  
15 of gross CIAC, which is a benefit for the Company/Shareholders and a  
16 detriment to ratepayers.

17

18 Q. Why is deducting the gross amount of CIAC versus the net amount a  
19 benefit to the Company and a detriment to ratepayers?

20 A. The gross amount is a larger deduction to the book basis and therefore,  
21 moves the book basis closer to the lower tax basis amount. That reduces  
22 the ADIT liability, which is a reduction to rate base.

23

1 Q. Does RUCO disagree with the Company's proposal to convert 70 percent  
2 of the AIAC balance to CIAC when making its ADIT calculation?

3 A. Yes, for a couple of reasons.  
4

5 Q. Please state the reasons why RUCO disagrees with the Company's  
6 conversion of AIAC to CIAC when making its ADIT calculation.

7 A. First, RUCO believes the actual adjusted test-year CIAC balance<sup>14</sup> that is  
8 clearly reflected on the Company's B-2 Schedule should be used when  
9 calculating ADIT not some fantasy amount of AIAC converted to CIAC,  
10 created for the purpose of benefiting the shareholder.  
11

12 Q. Well Mr. Coley, doesn't AIAC eventually convert to CIAC at some  
13 contractual period in the future?

14 A. AIAC normally converts to CIAC at some point in time but not in this  
15 particular case. The point in time that AIAC converts to CIAC is  
16 determined by the Main Extension Agreement ("MXA") the Company has  
17 with its developers. The Company's MXA provides for AIAC refunds for a  
18 period of *not* less than 10 years.<sup>15</sup> Generally, after at least 10 years, it is  
19 up to the Company to either extend the MXA and refunds until a period of  
20 time at the discretion of the Company or convert the AIAC to CIAC at the  
21 end of the contractual period and stop the refunds.  
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<sup>14</sup> Gross CIAC netted against the amount that has been amortized over the years.

<sup>15</sup> Arizona Administrative Code R14-2-406, Main Extension Agreements.

1 Q. Why does RUCO believe it would not be appropriate to convert AIAC to  
2 CIAC in this particular case?

3 A. RUCO reviewed several of the Company's MXAs and performed a study  
4 using the Company's work paper labeled AIAC & Refunds (See RUCO  
5 Exhibit TJC-3). The Company's work paper indicated the vast majority of  
6 all MXAs have an indefinite or "open final due date" at which time the  
7 MXAs are to expire. The contracts are designed to make refunds until the  
8 AIAC is paid in full. The study shown in RUCO Exhibit TJC-3, on the last  
9 page, shows that of the original contract costs of \$7,373,636 only 7.2  
10 percent ( $\$532,995 / 7,373,636 = 7.2\%$ ) or \$532,995 have been refunded  
11 as of the test-year end. These MXAs, shown in RUCO Exhibit TJC-3,  
12 cover a time period dating back to 1978. As of the end of the test-year  
13 only 7.2 percent have been refunded over the last 30 years. There is one  
14 MXA dating back to 1979 that is not fully refunded yet. In addition to that  
15 data, there is absolutely no indication at all that any amount of the  
16 Company's AIAC has ever been converted to CIAC.

17

18 Q. Is it RUCO's position that the CIAC component of the ADIT calculation  
19 should be the amount of CIAC at test-year end?

20 A. Yes. The ADIT calculation should contain numerical components at test-  
21 year end and not some unknown futuristic assumption.

22

23

1 Q. Was the AIAC issue of being converted to CIAC an issue in all four sets of  
2 RUCO's Schedules for BVWC, NSWC, SSWC, and the consolidated  
3 BVWC?

4 A. No. BVWC (Consolidated) and BVWC (Stand-Alone) were the only two  
5 schedules that it affected. Northern and Southern Sunrise based on a  
6 stand alone basis did not have AIAC associated with their rate bases.

7  
8 Q. Please discuss the other differences and similarities between RUCO and  
9 the Company's ADIT calculation found on the respective schedules  
10 labeled RUCO Schedule SURR RLM-5(A) and the Company's Schedule  
11 B-2, page 5.

12 A. In the second column titled "Tax Value," RUCO is in complete agreement  
13 with the Company's rebuttal position regarding the "Fixed Asset" and  
14 "AIAC" components shown on lines 9 and 10 for all systems.

15  
16 Q. In your previous answer, you said that "RUCO is in complete agreement  
17 with the Company's rebuttal position regarding the "Fixed Asset" and  
18 "AIAC" components" of the Company's ADIT calculation. Was there  
19 something different with those components in the Company's direct filing  
20 that RUCO would not have agreed with?

21 A. Yes. During RUCO's research of the MXAs, RUCO discovered that prior  
22 to 1996 the MXAs were grossed up for taxes. Thus, the developers had  
23 paid the income taxes up front at the time they entered into the MXAs.

1           The Company's direct filing ADIT calculation included those amounts that  
2           had already been grossed up for taxes.

3

4   Q.    Did the Company remove the pre-1996 MXAs from its ADIT calculation in  
5           its rebuttal filing?

6   A.    Yes.

7

8   Q.    Does RUCO agree with the Company's third column titled "Probability of  
9           Realization of Future Tax Benefit?"

10   A.    In part, RUCO agrees with the Company's data in the third column with  
11           one exception.

12

13   Q.    Please address the one exception that RUCO does not agree with  
14           pertaining to the column titled "Probability of Realization of Future Tax  
15           Benefit?"

16   A.    First and foremost, RUCO disagrees with the Company's claim that AIAC  
17           is an appropriate component when calculating ADIT. AIAC is a reduction  
18           to rate base and the Company correctly decreases its rate base by the un-  
19           refunded AIAC balance. But, the Company then uses the AIAC balance  
20           disguised as an ADIT component to increase rate base in its direct rate  
21           application. AIAC is non-investor supplied capital and should never in  
22           anyway increase rate base.

23

1 RUCO does agree with the Company that as AIAC refunds are made post  
2 test-year future tax benefits will be realized. Arizona uses a historical test-  
3 year not a forecasted test-year of what will happen in the future. The  
4 Company's assumption that 30 percent of the AIAC refunds will be  
5 realized anytime in the near future is preposterous. Thirty percent  
6 represents \$710,554 ( $\$6,136,045 \times 30\% \times 38.60\% = \$710,533$ )<sup>16</sup> of AIAC  
7 being refunded in future taxable years. As I have testified earlier and as  
8 shown in RUCO Exhibit TJC-3, the Company has refunded slightly more  
9 than \$500,000 or 7.2 percent to date during the last 31 years. To assume  
10 refunds of approximately one and a half-times what has been refunded  
11 over 31 years, that just doesn't make sense.

12  
13 Q. Did RUCO do an analysis to determine a more reasonable future tax  
14 benefit factor?

15 A. Yes.

16  
17 Q. Please explain RUCO's analysis to determine a more reasonable future  
18 tax probability factor.

19 A. RUCO's analysis of the Company's AIAC & Refunds work paper  
20 referenced earlier shows that the Company refunded approximately  
21 \$60,000 per year over the last 4-5 years. I made an assumption that the  
22 Company would file another rate case in five-years and multiplied the five-

---

<sup>16</sup> See Company Rebuttal Schedule B-2, page 5.

1           years by the annual refund amount of \$60,000 to obtain a target level of  
2           \$300,000 for the five-year period. The refunds appear to be increasing  
3           slightly from year to year. RUCO determined that its 7.2 percent  
4           calculation found in RUCO Exhibit TJC-3 to be fair and reasonable. That  
5           was the allocation factor used by RUCO for the probability of realization of  
6           a future tax benefit for AIAC in this case.

7

8 Q.    Is RUCO in agreement with the Company on other components of the  
9           ADIT calculation?

10 A.    Yes. RUCO is in agreement with the Company on the remaining numbers  
11           in the schedules for calculating ADIT. Those numbers are products of the  
12           numbers discussed earlier.

13

14 Q.    What adjustments and ADIT balances does RUCO recommend for  
15           BVWC, NSWC, SSWC, and BVWC (Consolidated)?

16 A.    RUCO recommends the following ADIT adjustments and balances for the  
17           four scenarios presented by RUCO as shown below:

18

19

20

21

22

23

24

25

	<b>Company</b>	<b>RUCO</b>	<b>RUCO</b>	
	<b>Adjusted</b>	<b>RUCO</b>	<b>Recommended</b>	
	<b>Test-Year</b>	<b>ADIT</b>	<b>ADIT</b>	
	<b><u>Company</u></b>	<b><u>ADIT</u></b>	<b><u>Adjustment</u></b>	
	<b><u>ADIT</u></b>	<b><u>ADIT</u></b>	<b><u>Balance</u></b>	
	Bella Vista	\$ 230,850	(\$ 2,703,488)	(\$ 2,472,638)
	Northern Sunrise	(4,144)	(57,525)	(61,669)
	Southern Sunrise	(51,588)	(84,614)	(136,202)
	<b>BVWC Consolidated</b>	<b>\$173,329<sup>17</sup></b>	<b>(\$ 2,879,543)<sup>18</sup></b>	<b>(\$ 2,706,214)<sup>19</sup></b>

**Note:** Any number above in parenthesis reflects an ADIT liability balance, which is a reduction to rate base (i.e. Asset / (Liability)).

**OPERATING INCOME ADJUSTMENTS**

**Surrebuttal Operating Income Adjustment No. 6(A) – APT Central Office**

**Cost Allocations**

Q. Did the Company accept RUCO's APT cost pool allocation adjustments?

A. No.

Q. Does RUCO maintain its original direct testimony position regarding the APT cost allocations?

A. Yes, with the two exceptions mentioned earlier in my summary testimony.

RUCO updated the allocation factor to 25.35 percent (18 / 71 = 25.35%)

<sup>17</sup> The BVWC Consolidated Company Adjusted Test-Year ADIT amount column does not foot down correctly. The total equals \$175,118 rather than the \$173,329 as shown in the Company's BVWC (Consolidated) B-1 Schedule. This is due to different effective tax rates.

<sup>18</sup> See RUCO BVWC (Consolidated) Schedule SURR RLM-5A.

<sup>19</sup> See RUCO BVWC (Consolidated) Schedule SURR RLM-5A.

1           rather than 24.29 percent ( $17 \times 70 = 24.29\%$ ) utilized by the Company to  
2           address the fact that the Company has 71 not 70 allocation units. In  
3           addition, RUCO used the most current known and measurable Canadian  
4           to US dollars conversion factor. RUCO fully discussed all remaining APT  
5           cost allocation issues in its direct and summary surrebuttal testimony.

6

7   Q.   Does RUCO provide any further analysis or studies in surrebuttal that  
8           support its conclusions regarding the APT cost allocations?

9   A.   Yes. RUCO Exhibit TJC-4, as attached, is a study of a number of other  
10          Arizona water and wastewater companies. The study's focus is the  
11          amount of total labor, wages, and corporate costs per customer on an  
12          annual and monthly basis. The results support RUCO's conclusions and  
13          position regarding the APT cost pool allocations.

14

15   Q.   How does RUCO's study support the removal of the excessive and  
16          unnecessary APT cost allocations?

17   A.   When the APT cost allocations are removed from the total labor, wages,  
18          and corporate costs, the cost for such expenses are still high, but align  
19          more closely with other Arizona utilities as shown in the study.

20

21

22   ...

23

1 Q. Please provide RUCO's recommended adjustments for RUCO Adjustment  
2 6(A) that disallows the majority of the APT cost allocations as being  
3 excessive and unnecessary in the provisioning of utility service.

4 A. RUCO's Adjustment 6(A) is shown in the table below:

	<b>RUCO</b>
	<b>APT</b>
<b><u>Company</u></b>	<b><u>Adjustment</u></b>
Bella Vista	(\$ 122,927)
Northern Sunrise	(\$ 5,088)
Southern Sunrise	<u>(\$ 12,118)</u>
<b>BVWC Consolidated</b>	<b>(\$ 140,134)</b>

13  
14 **Surrebuttal APT Central Office Cost Allocations Adjustment No. 6(B)**

15 Q. Please explain RUCO's Surrebuttal APT Central Office Cost Allocations  
16 Adjustment No. 6(B).

17 A. This adjustment was fully explained earlier in RUCO's summary  
18 surrebuttal testimony. I will show the adjustments that were necessary  
19 below:

	<b>RUCO</b>
	<b>APT</b>
<b><u>Company</u></b>	<b><u>Adjustment</u></b>
Bella Vista	(\$ 959)
Northern Sunrise	(\$ 40)
Southern Sunrise	<u>(\$ 95)</u>
<b>BV Consolidated</b>	<b>(\$ 1,093)</b>

1 **Surrebuttal APT Central Office Cost Allocations Adjustment No. 6(C)**

2 Q Please explain RUCO's Surrebuttal APT Central Office Cost Allocations  
3 Adjustment No. 6(C).

4 A. This adjustment was fully explained earlier in RUCO's summary of  
5 surrebuttal testimony. I will show the adjustments that were necessary  
6 below:

	<b>RUCO</b>
	<b>APT</b>
<b><u>Company</u></b>	<b><u>Adjustment</u></b>
Bella Vista	(\$ 9,863)
Northern Sunrise	(\$ 408)
Southern Sunrise	<u>(\$ 972)</u>
<b>BV Consolidated</b>	<b>(\$ 11,243)</b>

14

15 **Company Proposal for a Third Party APT Cost Allocations Audit**

16 Q. Does RUCO support the Company's Proposal for a Third Party  
17 Independent Auditor/CPA to attest to the APT Cost Allocations?

18 A. No. RUCO does not support the Company's proposal to hire an  
19 independent third party auditor/CPA to attest to the APT cost allocations.

20

21

22 ...

23

1 Q. What is RUCO's position on the Company's suggestion that the  
2 Commission approve the APT cost pool subject to the attestation of a third  
3 party independent CPA?

4 A. The Company's proposal does not address the inadequacy of its invoices.  
5 CPA's Michlick, Rowell, and Becker have all reviewed the invoices and  
6 concluded the invoices do not provide adequate support to demonstrate  
7 the cost allocations relate to the provisioning of utility service or are a  
8 benefit to Arizona ratepayers.<sup>20</sup>

9  
10 Moreover, an independent CPA has the expertise to verify the existence of  
11 an invoice, the independent CPA has no expertise to determine whether  
12 the costs of that invoice are properly attributable to a regulated utility.

13

14 **HOOK UP FEE TARIFF**

15 Q. Does RUCO agree with the Company's revised rebuttal position regarding  
16 the new language added to the Company's proposed HUF tariff?

17 A. No.

18

19 Q. Did RUCO have an issue with the Company's proposed HUF tariff that  
20 was originally filed in its direct rate application?

21 A. No.

---

<sup>20</sup> See previous testimony regarding APT cost allocations of CPA Jeffery Michlik in SW-01428A-09-0103 incorporated herein by reference. See also testimony of CPA Gerald W. Becker in WS-02676A-09-0257 and testimony of CPA Sonn Rowell and Analyst Matthew Rowell in SW-01428A-09-0103 incorporated herein by reference.

1 Q. What language did the Company add to its rebuttal HUF tariff proposal  
2 that RUCO opposes here in its surrebuttal testimony?

3 A. On page two of the HUF tariff, under the section titled **IV. Terms and**  
4 **Conditions** subsection (B) Use of Off-Site Hook-up Fee, the Company  
5 inserted the following language:

6 The Company shall not record amounts collected under this  
7 tariff as CIAC until such amounts have been expended for  
8 plant.  
9

10 If the Company would have inserted the following language below rather  
11 than what is shown above, RUCO would have supported the Company's  
12 HUF tariff proposal.

13 The Company will record amounts collected under this tariff  
14 as CIAC upon receipt of such amounts of monies and/or  
15 plant.  
16  
17

18 Q. Doesn't the Uniform System of Accounts for Class A Water Utilities  
19 specifically state that when monies and/or plant is received at no cost to  
20 the utility that it be recorded as CIAC?

21 A. Yes. The Uniform System of Accounts for Class A Water Utilities  
22 specifically states the following:  
23  
24  
25  
26  
27

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.

Q. That particular section of the Uniform System of Accounts certainly does not support the Company's proposal to avoid recording amounts collected under this tariff "as CIAC until such amounts have been expended for plant" does it Mr. Coley?

A. No. RUCO's interpretation of that section of the Uniform System of Accounts is CIAC should be recorded immediately upon receipt regardless of when it is expended. RUCO cannot support the Company's proposed HUF tariff for that reason.

Q. Does your silence on any issue constitute RUCO's acceptance.

A. No.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

RUCO'S EXHIBIT

TJC-1

## Algonquin Power & Utilities Corp. Announces Agreement for Internalization of Management

**OAKVILLE, Ontario- December 22, 2009-** Algonquin Power & Utilities Corp. ("Algonquin") (TSX: AQN) announced today that, as part of its corporate conversion and re-structuring strategy, it has reached agreement with Algonquin Power Management Inc. (the "Manager") to internalize all management functions which are currently provided by the Manager.

To effect this change, Algonquin will acquire the Manager's interest in the management agreement, with consideration to be paid in the form of issuance of 1,158,748 Algonquin shares (the "Shares") (which represents total consideration of \$4.0 million based on the average closing price of \$3.45 for the Shares for the 20 day trailing period ending November 19, 2009, the date upon which agreement in principle was reached with the Manager respecting the acquisition of the management agreement). This agreement-in-principle was ratified by the Board of Directors of Algonquin (the "Board") on December 21, 2009 following Algonquin structuring appropriate employment arrangements with the individuals who are continuing in management roles.

In accordance with the policies of the Toronto Stock Exchange, approval of the issuance of the Shares will be sought from shareholders at the next annual general meeting. The beneficial interest in the Shares of those individuals who are continuing in management roles with Algonquin is intended to create and maintain alignment with the interests of Algonquin's shareholders.

Effective immediately, Ian Robertson will assume overall responsibility for Algonquin operations as Chief Executive Officer and will be invited to join the Board. Chris Jarratt will be invited to join the Board and will assume the role of Vice Chairman, in which capacity he will be co-directing the development of strategy with Algonquin management. David Kerr has been retained to provide transitional services to Algonquin.

"Consistent with corporate governance best practices and representing the final step in our corporate conversion and strategic shift, Algonquin's Directors determined it appropriate to internalize all management functions of Algonquin and its operating subsidiaries", stated Ken Moore, chairman of the Board. "The internalization ensures total alignment of Algonquin management with the performance of the company, and reinforces our commitment to delivering total shareholder return."

Blair Franklin Capital Partners Inc., financial advisor to the Board, has provided an opinion as at November 19, 2009 that the consideration to be paid by Algonquin pursuant to the transaction is fair, from a financial point of view, to the shareholders. Mercer (Canada) Limited was retained by the Board to provide advice and develop a competitive compensation structure for Algonquin's senior management upon completion of the management internalization.

### ABOUT ALGONQUIN POWER & UTILITIES CORP.

Through its distinct operating subsidiaries, Algonquin owns and operates a diversified approximately \$1 billion North American portfolio of clean renewable electric generation and sustainable utility distribution businesses. Algonquin's electric generation subsidiary includes 42 renewable energy facilities and 11 high efficiency thermal energy facilities representing more than 400 MW of installed capacity. Through its wholly owned subsidiary, Liberty Water Co., Algonquin provides regulated utility services to more than 70,000 customers with a portfolio of 18 water distribution and wastewater treatment utility systems. Pursuant to a previously announced agreement, Algonquin is committed to acquiring the California based regulated utility electric distribution and generation assets of NV Energy which serve approximately 47,000 retail electricity distribution customers. Algonquin and its operating subsidiaries deliver continuing growth through an expanding pipeline of greenfield and expansion renewable power and clean energy projects, organic growth within its regulated utilities and the aggressive pursuit of accretive acquisition opportunities. Algonquin's common shares and convertible debentures are traded on the Toronto Stock Exchange under the symbols AQN, A QN.DB, AQN.DB.A, and AQN.DB.B. Visit Algonquin Power & Utilities Corp. on the web at [www.AlgonquinPowerandUtilities.com](http://www.AlgonquinPowerandUtilities.com).

RUCO'S EXHIBIT

TJC-2

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

Exhibit  
 Schedule B-2  
 Page 5  
 Witness: Bourassa

Line No.	Deferred Income Tax as of March 31, 2009	Adjusted Book Value <sup>1</sup>	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Tax Rate	Future Tax Asset		Future Tax Liability	
						Tax Value	Tax Benefit	Current	Non Current
5	Plant-in-Service	\$ 28,165,701	100.0%	\$ (6,332,390)	38.6%				
6	Accum. Deprec.	(12,057,912)	100.0%	\$ 6,781,443	38.6%	\$ 2,617,561	-		(2,444,232)
7	CIAC	(542,445)	100.0%	-	38.6%				
8	Fixed Assets	\$ 15,565,344							
9	AIAC								
10	Tax Benefits from O.L. Carry Forward.								
11						\$ -	\$ 2,617,561	\$ -	\$ (2,444,232)
12									
13									
14						\$ 173,329			
15	Factor					1.00000			
16									
17									
18	Allocated DIT Asset (Liability)					\$ 173,329			
19									
20	DIT Asset (Liability) per books					\$ 101,160			
21									
22	Adjustment to DIT					\$ (72,169)			
23									
24	<sup>1</sup> Adjusted - per B-2, page 2								
25									
26									

<sup>1</sup> Adjusted - per B-2, page 2



Original Cost Rate Base Proforma Adjustments  
ADIT Calculation Based on RUCO's Surreburtal Schedules

Line No.	Deferred Income Tax as of March 31, 2009	Adjusted Book Value <sup>1</sup>	Tax Value	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Tax Rate <sup>5</sup>	Future Tax Asset Current	Future Tax Asset Non Current	Future Tax Liability Current	Future Tax Liability Non Current
1										
2										
3										
4										
5										
6	Plant-in-Service	\$ 26,605,855 <sup>1</sup>				38.60%				
7	Accum. Deprec.	(10,552,073) <sup>1</sup>				38.60%				
8	CIAC (Net)	(311,458) <sup>1</sup>				38.60%				
9	Fixed Assets	\$ 15,742,324	\$ 8,287,666 <sup>2</sup>	100.0%	\$ (7,454,658)		\$	\$ 171,201		(2,877,415)
10	AIAC		6,136,045 <sup>3</sup>	7.2% <sup>4</sup>	\$ 443,538					
11	Tax Benefits from O.L. Carry Forward.			100.0%	\$ -					
12										
13										
14	Net Asset (Liability)						\$ (2,706,214)			
15										
16	DIT Asset (Liability) per Adjusted Test Year						\$ 173,329			
17	Adjustment to DIT									
18										
19										
20	<b>1 Adjusted per RUCO Surreburtal Schedule RLM-2, page 1</b>									
21										
22	<b>2 Tax Basis as of March 31, 2009</b>									
23										
24	Unadjusted Cost Basis per 2008 Tax Return (Fiscal Year Ended 12/31/2008)							\$ 18,314,641		
25	Adjustments:									
26	Land not on tax return depreciation report							656,307		
27	Tax accumulated depreciation through 12/31/2008							(9,166,130)		
28	Tax depreciation from 1/1/2009 to 3/31/2009 for assets added before 12/31/2008.							(254,978)		
29	Bonus Depreciation/Section 179 deductions through 12/31/2008							(1,490,506)		
30	Assets added after 12/31/2008 (net of affiliate profit, AIAC, CIAC)							947,275		
31	Tax depreciation for assets added after 12/31/2008 thru 3/31/2009 (Estimated)							(4,736)		
32	Bonus depreciation for assets added after 12/31/2008 thru 3/31/2009 (Estimated)							(118,409)		
33	B-2 Adjustments to plant-in-service (PTY Plant of \$110,057 and plant retirement of \$12,000)							101,011		
34	Tax accumulated depreciation on B-2 adjustments to plant-in-service							(3,496)		
35	Affiliate profit removed through 2008							(229,194)		
36	Tax accumulated depreciation related to affiliate profit through 2008							17,533		
37	Proposed retirements per B-2							(1,333,228)		
38	Estimated tax depreciation on B-2 proposed retirements							1,162,419		
39	Proposed B-2 adjustments (AFUDC)							(80,065)		
40	Estimated Tax depreciation on B-2 proposed adjustments (AFUDC)							4,214		
41	Proposed B-2 adjustments (McClain acquisition costs)							(144,623)		
42	Estimated Tax depreciation on B-2 proposed adjustments (McClain acquisition costs)							9,943		
43	Timing difference through 2008							(100,321)		
44	Net tax value as of March 31, 2009									
45	Net tax value as of March 31, 2009									
46										
47	<b>3 AIAC (including impact of change in probability of realization)</b>									
48	AIAC per B-2							\$ 6,781,443		
49	Less: Pre-1996 AIAC included for book and tax purposes							(645,398)		
50	Net AIAC before unrealized portion									\$ 6,136,045

4 Effective AIAC Refund Rate Over a 30 Year AIAC/Refund Study (See Coley Work Papers)

5 Effective tax rates Per RLM-1, page 2

RUCO'S EXHIBIT

TJC-3

Bella Vista Water Company, Inc.									
Advance in Aid Of Construction									
As of 3/31/09									
Agreement Date	LXA#	Development	Refunds Began	Final Due Date	Original Contract Amount	Contract Refund %	12/31/08 Balance	2009 AIAC Added	12/31/09 Balance
8/14/79	1014	The 19th Hole		OPEN	1,940.00	20%	109.73		109.73
12/10/80	2001	AZ Dpt of Transportation		OPEN	12,814.00	20%	9,884.90		9,884.90
6/15/78	2004	GWS - Windemer		OPEN	59,400.00	20%	0.00		0.00
04/02/90	2026	Buena High School (became"open" in 2004 - see file)		OPEN	64,051.00	20%	26,378.68		26,378.68
<b>Balances</b>					138,205.00		36,373.30		36,373.30
<b>Percentage Refunded</b>							73.7%		73.7%
04/06/92	2027	City of Sierra Vista - Tacoma		OPEN	5,606.10	10%	5,270.52		5,270.52
08/25/92	2030	Northpark I - Lots 1-14,45-59		OPEN	18,663.00	10%	2,282.77		2,282.77
04/21/93	2031	Desert Shadows - Ph 2A		OPEN	37,410.82	10%	10,351.43		10,351.43
08/02/93	2032	Northpark - Lots 14-44		OPEN	24,682.35	10%	3,267.83		3,267.83
10/15/93	2033	Sierra Court		OPEN	11,352.20	10%	0.00		0.00
12/28/93	2034	Carmel Subdivision		OPEN	35,096.69	10%	21,236.99		21,236.99
01/17/94	2035	Quail Hollow - Lots 150-154		OPEN	9,671.98	10%	6,508.92		6,508.92
02/15/94	2036	Desert Shadows - Ph 2B		OPEN	22,772.00	10%	5,923.91		5,923.91
09/14/93	2037	Sutherland's		OPEN	39,686.30	10%	34,468.83		34,468.83
11/21/94	2038	City of Sierra Vista - Police		OPEN	21,223.30	10%	19,835.02		19,835.02
12/29/94	2039	Billy Lemarr		OPEN	18,118.45	10%	9,476.28		9,476.28
05/31/95	2040	Sierra Springs (Lots 1-38)		OPEN	34,023.00	10%	17,876.93		17,876.93
09/1/95	2042	Target		OPEN	72,567.00	10%	60,216.77		60,216.77
09/5/95	2043	Ocotillo Villas		OPEN	17,044.50	10%	10,844.13		10,844.13
09/20/95	2044	Carmel Ph 2		OPEN	35,062.50	10%	28,871.17		28,871.17
<b>Balances</b>					402,980.19		236,431.49		236,431.49
<b>Percentage Refunded</b>							41.3%		41.3%
07/25/96	2045	U-Store It		OPEN	7,402.00	10%	5,699.74		5,699.74
02/28/97	2046	Montego Bay Apts		OPEN	46,000.00	10%	27,811.48		27,811.48
12/20/96	2049-1	Wildhorse Well Site		OPEN	234,404.69	10%	234,100.69		234,100.69
	2049-2	Wild Horse Addtl Source		OPEN	40,000.00	10%	40,000.00		40,000.00
12/12/96	2050	City of Sierra Vista - Ball Field		OPEN	34,302.00	10%	34,302.00		34,302.00
02/11/97	2051	Wildhorse Sub I Ph A (24 Lots: 11-27 & 30-35)		OPEN	58,680.00	10%	55,237.44		55,237.44
02/11/97	2052	Wildhorse Sub II Ph A (Lots 29-36)		OPEN	12,360.00	10%	11,655.02		11,655.02
04/29/97	2053	Mesa Verde - Mt View		OPEN	32,000.00	10%	20,399.16		20,399.16
06/05/97	2054	Fry Foods		OPEN	51,994.00	10%	42,464.36		42,464.36
10/17/97	2055	Wildhorse Sub I Ph B (28,29,36-61)		OPEN	94,477.56	10%	91,135.98		91,135.98
02/17/98	2056	City of Sierra Vista - Piaz Complex		OPEN	33,480.00	10%	33,480.00		33,480.00
03/08/98	2057	Ocotillo Terrace / Farkas		OPEN	12,800.00	10%	8,976.99		8,976.99
03/12/98	2058	City of Sierra Vista - Hydrant Additions		OPEN	50,000.00	10%	50,000.00		50,000.00
08/10/98	2059	Sierra Springs (Lots 39-70)		OPEN	13,600.00	10%	6,203.11		6,203.11
02/22/99	2060	Suncrest Apts		OPEN	48,629.00	10%	36,362.32		36,362.32
03/18/99	2061	Vista View		OPEN	426,632.05	10%	410,716.66		410,716.66
06/02/99	2062	VDO Cochise, LLC		OPEN	108,368.21	10%	103,450.70		103,450.70
06/18/99	2063	Demello - Clark/Glenn/Watkins		OPEN	4,200.00	10%	3,266.14		3,266.14
06/21/99	2064	County of Cochise		OPEN	68,900.00	10%	68,900.00		68,900.00
07/09/99	2065	Bella Vista Ranches - RC Block A/5 Parcel Split		OPEN	9,421.96	10%	8,694.27		8,694.27
11/09/99	2066	Westbrook		OPEN	3,513.10	10%	3,001.99		3,001.99
12/29/99	2067	Desert Lotus, LLC (Mesa Verde Phase 2)		OPEN	29,202.00	10%	28,703.12		28,703.12
04/26/00	2068	Cochise Juvenile Center		OPEN	32,488.35	10%	29,765.86		29,765.86
05/01/00	2069	SV Maintenance Facility		OPEN	105,648.96	10%	101,525.90		101,525.90
06/01/00	2070	Mayberry Clinic		OPEN	11,925.00	10%	11,283.27		11,283.27
08/03/00	2071	Scott Nichols		OPEN	65,245.00	10%	54,088.16		54,088.16
09/15/00	2072	Watkins, Miller, Weinschenker		OPEN	12,450.00	10%	11,610.38		11,610.38
11/7/00	2073	Lane Dental Building			10,800.00	10%	0.00		0.00
11/16/00	2074	Wildhorse I, Ph C (Lots 2-10)		OPEN	35,581.00	10%	34,988.85		34,988.85
11/16/00	2075	Wildhorse II, Ph B (Lots 37,70-79,59)		OPEN	37,606.00	10%	34,053.19		34,053.19
<b>Balances</b>					1,732,110.88		1,601,876.76		1,601,876.76
<b>Percentage Refunded</b>							7.5%		7.5%

Bella Vista Water Company, Inc.									
Advance in Aid Of Construction									
As of 3/31/09									
Agreement Date	LXA#	Development	Refunds Began	Final Due Date	Original Contract Amount	Contract Refund %	12/31/08 Balance	2009 AIAC Added	12/31/09 Balance
01/11/01	2076	Campus Drive Busn Park (Lots 1-14)		OPEN	59,805.26	10%	59,500.81		59,500.81
03/01/01	2077	Dividend Homes (London Square II-Lots 21-36 & 45-50))		OPEN	13,780.00	10%	10,756.91		10,756.91
03/01/01	2078	Desert Lotus, LLC (Mesa Verde-III-Lots 54-68 & 100-107)		OPEN	25,000.00	10%	20,339.43		20,339.43
03/16/01	2079	Gay, David & Joyce		OPEN	3,120.17	10%	2,959.79		2,959.79
05/21/01	2080	Art Phillips - (Piette Rd)		OPEN	3,956.57	10%	3,428.49		3,428.49
06/19/01	2081	Marshall, Jan		OPEN	4,641.07	10%	4,475.49		4,475.49
06/30/01	2082	Wildhorse 2 - Ph C - Lots 60-69		OPEN	28,420.00	10%	0.00		0.00
06/15/01	2083	SV Regional Health Center		OPEN	28,778.00	10%	26,775.77		26,775.77
02/15/97	2084	Linda Vista Ph 1-B (Lots 12-17,21-28)		OPEN	38,520.00	10%	37,511.68		37,511.68
07/30/01	2085	CCC II (Lots 10-17)		OPEN	55,585.00	10%	55,454.98		55,454.98
10/18/01	2086	AZ Board of Regents - UofA		OPEN	32,000.00	10%	28,821.82		28,821.82
01/21/02	2087	Nada Ballator - start 8/02		OPEN	14,745.50	10%	14,612.40		14,612.40
7/19/02	2088	Bella Vista Ranches, LLC - Las Hac lots 1-37		OPEN	197,000.00	10%	192,093.56		192,093.56
08/26/02	2089	San Pedro Dev II Inc. (Lots 60-69)		OPEN	11,225.20	10%	11,039.29		11,039.29
09/05/02	2090	Chaparral Village North (Lots 1-52)		OPEN	88,327.00	10%	75,615.75		75,615.75
12/16/02	2091	Goble, Lundin, Golladay / Granite Place line extn		OPEN	10,971.25	10%	10,781.40		10,781.40
08/28/02	2092	G.Russell / Sandlin & Russell / Richards Rd line ex		OPEN	10,977.76	10%	10,574.13		10,574.13
04/04/03	2093	Castle & Cooke Az, Inc./ Chaparral-ph-2 - lots 53-170		OPEN	157,099.37	10%	145,319.61		145,319.61
04/31/03	2094	Port Royale Apartments Corp		OPEN	134,453.62	10%	125,957.49		125,957.49
05/12/03	2095	Dividend Homes-The Ranch - Blk A - Phase 1 - lots 1-22		OPEN	33,814.80	10%	31,500.96		31,500.96
06/10/03	2096	Desert Lotus, LLC / Mesa Verde Estates - lots 115-143		OPEN	76,478.00	10%	74,425.97		74,425.97
06/10/03	2097	B. MacElhenny - Mesa Verde Heights - Lots 1-15		OPEN	33,816.00	10%	32,809.88		32,809.88
10/10/03	2098	Crystal Palac - N. Ramsey Ranch Dr / Apache Pt Rd		OPEN	12,420.00	10%	12,144.13		12,144.13
08/31/04	2100	Escondido-Phase 2, Lots 23-32		OPEN	14,685.12	10%	13,611.69		13,611.69
10/01/04	2200	Mini Warehouse Storage - R.H. Davis		OPEN	16,275.28	10%	16,020.70		16,020.70
10/05/04	2300	Casas Adobe - BVR LLC - The Ranch Block B		OPEN	67,062.88	10%	63,634.77		63,634.77
08/01/05	2310	Legends @ Valeinte Phase I, Lots 101-204		OPEN	187,123.50	10%	178,315.88		178,315.88
08/01/05	2320	Chaparral Vil North Phase 3		OPEN	140,851.30	10%	133,590.82		133,590.82
08/01/05	2330	Las Haciendas II (Blk C)		OPEN	88,248.20	10%	86,715.10		86,715.10
08/01/05	2340	Wild Horse I, Phase D(4) (Lots 62-77)		OPEN	131,928.00	10%	131,928.00		131,928.00
08/01/05	2400	Dividend Homes (Escondido-Phase 3)		OPEN	42,717.22	10%	41,203.03		41,203.03
04/21/05	2410	Linda Vista Phase 2, Lots 29-39 & 42-47		OPEN	23,333.33	10%	78,094.20		78,094.20
12/20/05	2411	Family Dollar Store - AZHand Investments LLC		OPEN	8,620.00	10%	8,514.25		8,514.25
12/20/05	2412	Ventana Corporate Center, Bldgs B & C		OPEN	10,965.00	10%	10,807.18		10,807.18
12/20/05	2413	Buena High School - Alternative Education Bldg		OPEN	8,424.00	10%	8,290.31		8,290.31
12/20/05	2414	Crystal Creek Apartments - FIRE LINE ONLY		OPEN	35,100.00	5%	29,835.00		29,835.00
12/20/05	2415	Industry Drive - CCC II (Lots 1-9)		OPEN	41,407.93	10%	41,407.93		41,407.93
12/20/05	2416	Jose Urena		OPEN	5,953.00	10%	5,922.24		5,922.24
<b>Balances</b>					1,897,629.33		1,834,790.84		1,834,790.84
<b>Percentage Refunded</b>							3.3%		3.3%

Bella Vista Water Company, Inc.  
 Advance in Aid Of Construction  
 As of 3/31/09

Agreement Date	LXA#	Development	Refunds Began	Final Due Date	Original Contract Amount	Contract Refund %	12/31/08 Balance	2009 AIAC Added	12/31/09 Balance
07/31/06	2417	Legends @ Valiente Phase II		OPEN	253,650.00	10%	249,412.77		249,412.77
06/30/06	2418	Chaparral Village North		OPEN	154,355.00	10%	152,355.61		152,355.61
06/30/06	2419	Chaparral Village North		OPEN	3,477.00	10%	3,408.17		3,408.17
07/31/06	2420	Reflections			306,075.00		306,075.00		306,075.00
11/30/06	2421	Wildhorse II, Phase III, lots 38-58			58,930.00		58,930.00		58,930.00
11/30/06	2422	Wildhorse II, Phase IV, lots 9-28		OPEN	57,240.00	10%	57,139.43		57,139.43
11/30/06	2423	Hampton Inn			24,314.00		24,314.00		24,314.00
11/30/06	2424	Mesa Verde Estates Block B, lots 133-207			270,670.00		270,670.00		270,670.00
11/30/06	2425	Pueblo Las Brisas Subdivision, lots 1-16		OPEN	31,542.00	10%	31,381.77		31,381.77
11/30/06	2426	Crossroads Commerce Center, Frito Lay warehouses 4&5			7,048.00		7,048.00		7,048.00
11/30/06	2427	Casa Grande Subdivision, lots 1-27			133,631.60		133,631.60		133,631.60
11/30/06	2429	Crossroads Commerce Center, lots 15&16			32,142.00		32,142.00		32,142.00
12/31/06	2430	Jiffy Lube			5,400.00		5,400.00		5,400.00
12/31/06	2431	Cochise Oncology			15,703.00		15,703.00		15,703.00
12/31/06	2432	Piazza San Lorenzo			38,932.00		38,932.00		38,932.00
08/17/06	7001	Kinjockity Ranch					0.00		0.00
06/25/07	7004	The Oaks Phase 1			964,159.53	10%	964,159.53		964,159.53
03/14/08	7006	Ventana Office Building			59,044.76		59,044.76		59,044.76
11/29/06	7010	Garden Place Suites		10 yrs	43,576.88	10%	43,576.88		43,576.88
11/19/07	7013	Yucca Moving & Storage				10%	0.00		0.00
11/07/07	7014	Sierra Vista Domestic Crisis Center				10%	0.00		0.00
11/29/07	7015	Dr. Patel Medical Center					0.00		0.00
12/14/07	7016	City of Sierra Vista Fire Station #3				10%	0.00		0.00
05/31/06	7017	Campstone, Lots 1-84					0.00		0.00
	7020	Chaparral Village North Ph 6A			231,793.30			231,793.30	231,793.30
06/02/08	7021	Center for Academic Success		10 yrs	140,448.00		0.00	140,448.00	140,448.00
	7023	Centro Christiano Shiloh Church							0.00
08/19/08	7024	Cochise County Community College		10 yrs			0.00		0.00
04/15/09	7025	Shaieb Office Building		10 yrs					
04/24/09	7026	Savannah Springs Apartments							
	7029	Shiloh Christian Ministries							
	7030	Cochise College Phase 2							
<b>Balances</b>					2,832,132.07		2,453,324.51		2,825,565.81
<b>Percentage Refunded</b>							13.4%		0.2%
<b>BVW Balances</b>					7,003,057.47		6,162,796.90	372,241.30	6,535,038.20
<b>Percentage Refunded</b>							12.0%		6.7%
07/23/88	6004	Trebilcock	8/31/91	agreed until	3,859.85	20%	1,412.74		1,412.74
<b>BVW Balances</b>					3,859.85		1,412.74		1,412.74
<b>Percentage Refunded</b>							63.4%		63.4%

Bella Vista Water Company, Inc.									
Advance in Aid Of Construction									
As of 3/31/09									
Agreement Date	LXA#	Development	Refunds Began	Final Due Date	Original Contract Amount	Contract Refund %	12/31/08 Balance	2009 AIAC Added	12/31/09 Balance
07/01/93	6005	Foothills Ranch Ph #1 - (KE & G)	8/31/94	OPEN	83,510.73	10%	70,172.99		70,172.99
05/16/94	6006	Foothills #2	8/31/95	OPEN	17,222.00	10%	6,897.39		6,897.39
10/12/94	6007	Hillcrest - George Mountjoy	8/31/95	OPEN	4,429.56	10%	2,594.72		2,594.72
08/31/95	6008	Foothills Ph I - 4,5,6	8/31/96	OPEN	56,344.80	10%	41,060.12		41,060.12
<b>Total BVW Balances</b>					<b>161,507.09</b>		<b>120,725.22</b>		<b>120,725.22</b>
<b>Percentage Refunded</b>							<b>25.3%</b>		<b>25.3%</b>
04/10/96	6009	Thorneydale - (7 users)	8/31/97	OPEN	13,000.00	10%	7,255.79		7,255.79
08/16/96	6010	Foothills Ph II - 4,5,6	8/31/97	OPEN	30,000.00	10%	25,512.94		25,512.94
12/12/96	6011-1	Foothills Well	??	OPEN	115,702.00	10%	111,462.22		111,462.22
06/25/97	6012	Foothills Ph III	8/31/98	OPEN	18,300.00	10%	15,363.87		15,363.87
07/20/98	6013	Linda Vista Ph 1A	8/31/99	OPEN	28,210.00	10%	23,869.59		23,869.59
<b>BVW Balances</b>					<b>205,212.00</b>		<b>183,464.41</b>		<b>183,464.41</b>
<b>Percentage Refunded</b>							<b>10.6%</b>		<b>10.6%</b>
Nicksville					<b>370,578.94</b>		<b>305,602.37</b>	<b>0.00</b>	<b>305,602.37</b>
<b>Total Nicksville Balances</b>					<b>370,578.94</b>		<b>305,602.37</b>		<b>305,602.37</b>
<b>Percentage Refunded</b>							<b>17.5%</b>		<b>17.5%</b>
<b>Total BVW and Nicksville Combined</b>					<b>7,373,636.41</b>		<b>6,468,399.28</b>	<b>372,241.30</b>	<b>6,840,640.58</b>
<b>Percentage Refunded</b>							<b>12.3%</b>		<b>7.2%</b>

RUCO'S EXHIBIT

TJC-4

**WATER COMPANIES IN ARIZONA  
TOTAL LABOR / WAGE DOLLARS PER CUSTOMER ANALYSIS  
COMPARISON OF ALGONQUIN UTILITIES WITH OTHER ARIZONA WATER COMPANIES WITH SHARED SERVICES**

Liberty Water Services

	Note	2008 Pro-Forma Wages Expensed	2008 Pro-Forma Customer Count	Annual Wage Cost Per Customer	Monthly Wage Cost Per Customer
<b>Bella Vista Water Company (Consolidated)</b>	<b>1</b>	<b>\$ 1,626,931</b>	<b>9,309</b>	<b>\$ 174.77</b>	<b>\$ 14.56</b>

Arizona Water Company

Line No.	Individual Systems:	Note	2007 Pro-Forma Wages Expensed	2007 Pro-Forma Customer Count	Annual Wage Cost Per Customer	Monthly Wage Cost Per Customer	Average Cost for AZ Water
1	Coolidge Water	2	\$ 619,942	4,703	\$ 131.82	\$ 10.98	
2	Lakeside Water	2	645,507	4,954	130.30	10.86	
3	Sedona Water	2	846,835	6,298	134.46	11.21	
4	Casa Grande	2	2,696,271	22,529	119.68	9.97	
5	Winkelman	2	30,294	168	180.32	15.03	
6	Total Arizona Water Company for All AWC 17 Water Systems	2	12,923,552	82,886	155.92		<u>11.61</u>
							<u>12.99</u>

Arizona American Water Company

	Note	2007 Pro-Forma Wages Expensed	2007 Pro-Forma Customer Count	Annual Wage Cost Per Customer	Monthly Wage Cost Per Customer	Average Cost for AZ-AM
7	Agua Fria Water	3	\$ 4,216,281	34,402	\$ 122.56	\$ 10.21
8	Havasu Water	3	371,202	2,565	144.72	12.06
9	Mohave Water	3	1,840,872	16,635	110.66	9.22
10	Sun City Water	4	2,734,992	23,140	118.19	9.85
11	Sun City West Water	3	1,703,120	15,465	110.13	9.18
12	Average Cost for the 5 AZ-AM Districts listed Above					<u>10.10</u>
13	Average Cost per Month for All 10 Systems on Page 3					<u>11.55</u>

**Notes:**

1. As Filed by the Company in Rebuttal in Docket No. W-02453A-09-0411 et al.
2. As Originally Filed by the Company in Docket No. W-01445A-08-0440
3. As Originally Filed by the Company in Docket No. W-01303A-08-0227
4. As Originally Filed by the Company in Docket No. W-01303A-09-0343

**WATER COMPANIES IN ARIZONA**  
**TOTAL LABOR / WAGE DOLLARS PER CUSTOMER ANALYSIS**  
**COMPARISON OF ALGONQUIN UTILITIES WITH OTHER ARIZONA WATER COMPANIES WITH SHARED SERVICES**

Algonquin Water Services

	<u>Note</u>	<u>2008 Pro-Forma Wages Expensed</u>	<u>2008 Pro-Forma Customer Count</u>	<u>Annual Wage Cost Per Customer</u>	<u>Monthly Wage Cost Per Customer</u>
Bella Vista Water Company (Consolidated)	1	\$ 1,626,931	9,309	\$ 174.77	\$ 14.56

American States Water

	<u>Note</u>	<u>2006 Pro-Forma Wages Expensed</u>	<u>2006 Average Customer Count</u>	<u>Annual Wage Cost Per Customer</u>	<u>Monthly Wage Cost Per Customer</u>
12 Chaparral City Water Company	5	\$ 1,506,886	13,333	\$ 113.02	\$ 9.42
13 Total Average Costs for Total AWC 17 systems, 5 AZ-AM districts, and 1 Chaparral System that utilize the Shared Services Concept					<u>\$ 10.84</u>

Notes:

1. As Filed by the Company in Rebuttal in Docket No. WS-02676A-09-0257
5. As Originally Filed by the Company in Docket No. W-02113A-07-0551

**TOTAL LABOR / WAGE DOLLARS PER CUSTOMER ANALYSIS  
COMPARISON OF ALGONQUIN UTILITIES WITH OTHER ARIZONA WATER COMPANIES**

Algonquin Water Services

	Note	2008 Pro-Forma Wages Expensed	2008 Pro-Forma Customer Count	Annual Wage Cost Per Customer	Monthly Wage Cost Per Customer
<b>Bella Vista Water Company (Consolidated)</b>	1	\$ 1,626,931	9,309	\$ 174.77	\$ 14.56

Various Arizona Water Companies

Line No.	Individual Systems:	Note	2008 Annual Report Wages Expensed	2008 Annual Report Customer Count	Annual Wage Cost Per Customer	Monthly Wage Cost Per Customer	Average Cost for Various Co.
1	Rio Verde Utilities, Inc. - Water	2	\$ 257,754	1,688	\$ 152.70	\$ 12.72	
2	Bermuda Water Company	2	810,371	7,672	105.63	8.80	
3	Lago Del Oro Water Company	2	242,391	6,046	40.09	3.34	
4	Average Cost per Month for the 3 Systems listed Above						<u>8.29</u>
5	Average for Pages 3, 4, and 5						<u>10.20</u>

**Notes:**

1. As Filed by the Company in Rebuttal in Docket No. WS-02676A-09-0257
2. As Filed by the Company in its 2008 Annual Report Filed with the Commission

**TOTAL LABOR / WAGE DOLLARS PER CUSTOMER ANALYSIS  
INCLUDING APT COSTS AS PROPOSED BY ALGONQUIN UTILITY SERVICES**

Liberty Water

Line No.	Note	Test Year Company Proposed Wages Expensed	Test Year Average Customer Count	Annual Wage Cost Proposed Per Customer	Monthly Wage Cost Proposed Per Customer	
1	LIPSCO Water Division	1	2,405,353	15,089	159.41	13.28
2	Rio Rico Utilities, Inc Water	2	891,735	6,190	144.06	12.01
3	Bella Vista Consolidated	3	1,626,931	9,309	174.77	14.56
4	Average for Algonquin Water Companies Above					13.28

Notes:

1. As Filed by the Company in Rejoinder in Docket No. SW-01428A-09-0103
2. As Filed by the Company in Rejoinder in Docket No. WS-02676A-09-0257
3. As Filed by the Company in Rebuttal in Docket No. W-02453A-09-0411 et al.

**TOTAL LABOR / WAGE DOLLARS PER CUSTOMER ANALYSIS  
WITHOUT THE APT CENTRAL OFFICE COSTS**

Liberty Water

Line No.	Note	Test Year Company Proposed Wages Expensed	Test Year Average Customer Count	Annual Wage Cost Proposed Per Customer	Monthly Wage Cost Proposed Per Customer	
5	LIPSCO Water Division	1	2,094,874	15,089	138.83	11.57
6	Rio Rico Utilities, Inc Water	2	761,201	6,190	122.97	10.25
7	Bella Vista Consolidated	3	1,501,101	9,309	161.25	13.44
8	Average for Algonquin Water Companies Above					11.75

Notes:

1. As Filed by the Company in Rejoinder in Docket No. SW-01428A-09-0103
2. As Filed by the Company in Rebuttal in Docket No. WS-02676A-09-0257
3. As Filed by the Company in Rebuttal in Docket No. W-02453A-09-0411 et al.

**BELLA VISTA WATER COMPANY, INC.**

**DOCKET NO. W-02465A-09-0411 ET AL.**

**SURREBUTTAL TESTIMONY**

**OF**

**RODNEY L. MOORE**

**ON BEHALF OF**

**THE**

**RESIDENTIAL UTILITY CONSUMER OFFICE**

**JUNE 18, 2010**

**SURREBUTTAL**  
**TABLE OF CONTENTS**

1		
2		
3	INTRODUCTION.....	2
4	SUMMARY OF ADJUSTMENTS .....	2
5		
6	RATE BASE .....	6
7	ADJUSTMENT NO. 2 – CUSTOMERS’ DEPOSITS .....	6
8	ADJUSTMENT NO. 3 – ACCUMULATED DEFERRED INCOME TAX .....	6
9	ADJUSTMENT NO. 4 – PLANT RETIREMENTS AND ACC. DEP.....	7
10	ADJUSTMENT NO. 5 – AFUDC.....	8
11	ADJUSTMENT NO. 6 – ACQUISITION COSTS.....	9
12	ADJUSTMENT NO. 7 – HOOK-UP FEE TARIFF .....	10
13		
14	OPERATING INCOME.....	10
15	ADJUSTMENT NO. 1 – TEST YEAR DEPRECIATION EXPENSE.....	10
16	ADJUSTMENT NO. 2 – PROPERTY TAX COMPUTATION .....	10
17	ADJUSTMENT NO. 3 – MISCELLANEOUS EXPENSE.....	11
18	ADJUSTMENT NO. 4 – WATER TESTING EXPENSE .....	12
19	ADJUSTMENT NO. 5 – TRANSPORTATION EXPENSE .....	12
20	ADJUSTMENTS NO. 6A, 6B & 6C – CENTRAL OFFICE COSTS .....	13
21	ADJUSTMENT NO. 7 – RATE CASE EXPENSE .....	13
22	ADJUSTMENT NO. 8 – INCOME TAX.....	14
23		
24	COST OF CAPITAL .....	15
25		
26	RATE DESIGN AND PROOF OF RECOMMENDED REVENUE.....	15
27	STAND ALONE RATE DESIGN .....	16
28	STAND ALONE PROOF OF RECOMMENDED REVENUE.....	16
29	STAND ALONE COMPARISON OF A TYPICAL BILL .....	17
30	CONSOLIDATED RATE DESIGN .....	19
31	CONSOLIDATED PROOF OF RECOMMENDED REVENUE.....	20
32	CONSOLIDATED COMPARISON OF A TYPICAL BILL .....	20

1 **INTRODUCTION**

2 Q. Please state your name for the record.

3 A. My name is Rodney Lane Moore.

4

5 Q. Have you previously filed testimony regarding this docket?

6 A. Yes, I have. I filed direct testimony in this docket on June 12, 2010 and  
7 supplemental direct testimony with my rate design testimony on June 23,  
8 2010.

9

10 Q. What is the purpose of your surrebuttal testimony?

11 A. My surrebuttal testimony will address Company's rebuttal comments  
12 pertaining to adjustments I sponsored in my direct testimony. I will also  
13 provide revised rate design testimony.

14

15 **SUMMARY OF ADJUSTMENTS**

16 Q. After analyzing the Company's rebuttal testimony, did RUCO find positions  
17 of agreement?

18 A. Yes. RUCO is now in substantial agreement with several of the  
19 Company's rebuttal adjustments identified by BVWC as:

20 **Rate Base**

- 21 1. Post Test Year Plant and Accumulated Depreciation (RUCO Direct  
22 Adjustment No. 1);  
23 2. Customers' Deposits (RUCO Surrebuttal Adjustment No. 2);

- 1           3.     Allowance for Funds Used During Construction (RUCO Surrebuttal
- 2                     Adjustment No. 4);
- 3           4.     Retired Plant (RUCO Surrebuttal Adjustment No. 5); and
- 4           5.     Acquisition Costs Associated With Purchase of the Former McLain
- 5                     Systems (RUCO Surrebuttal Adjustment No. 6).

6           **Operating Income**

- 7           1.     Test Year Depreciation (RUCO Surrebuttal Adjustment No. 1);
- 8           2.     Property Tax - Method of Computation (RUCO Surrebuttal
- 9                     Adjustment No. 2);
- 10          3.     Miscellaneous Expenses (RUCO Surrebuttal Adjustment No. 3);
- 11          4.     Water Testing Expense (RUCO Surrebuttal Adjustment No. 4); and
- 12          5.     Transportation Expense (RUCO Surrebuttal Adjustments No. 5).

13

14   Q.    What areas will you address in your surrebuttal testimony?

15   A.    My surrebuttal testimony will address the following RUCO proposed

16           adjustments:

17           **Rate Base**

18           Customers' Deposits - This is a revision to my direct testimony

19           adjustment, which reflects a misunderstanding of information provided by

20           the Company in its data response. RUCO is now in substantial agreement

21           with the Company.

22           Accumulated Deferred Income Taxes – RUCO witness Timothy Coley will

23           sponsor this adjustment.

24           Plant Retirements and Accumulated Depreciation – This is a revision to

25           my direct testimony adjustment, which reflects updated information

1 provided in the Company's rebuttal testimony. RUCO is now in substantial  
2 agreement with the Company.

3 Allowance for Funds Used During Construction ("AFUDC") - This is an  
4 additional adjustment, which reflects updated information provided in the  
5 Company's rebuttal testimony. RUCO is now in substantial agreement  
6 with the Company.

7 Acquisition Costs Associated With Purchase of the Former McLain  
8 Systems - This is an additional adjustment, which reflects updated  
9 information provided in the Company's rebuttal testimony. RUCO is now in  
10 substantial agreement with the Company.

11 Hook-Up Fee Tariff - RUCO witness Timothy Coley will sponsor this  
12 adjustment.

13 **Operating Income**

14 Test Year Depreciation Expense - This is a revision to my direct testimony  
15 adjustment, which reflects updated information provided in the Company's  
16 rebuttal testimony. RUCO is now in substantial agreement with the  
17 Company.

18 Property Tax Expense - This adjustment reflects property tax expense  
19 based on RUCO's calculation of adjusted and proposed operating  
20 revenues.

21  
22  
23

1           Miscellaneous Expenses – This is a revision to my direct testimony  
2           adjustment, which reflects updated information provided in the Company’s  
3           rebuttal testimony. RUCO is now in substantial agreement with the  
4           Company.

5           Water Testing Expenses – This is an additional adjustment, which reflects  
6           updated information provided in the Company’s rebuttal testimony. RUCO  
7           is now in substantial agreement with the Company.

8           Transportation Expenses – This is an additional adjustment, which reflects  
9           updated information provided in the Company’s rebuttal testimony. RUCO  
10          is now in substantial agreement with the Company.

11          Central Office Cost Allocations - RUCO witness Timothy Coley will  
12          sponsor this adjustment.

13          Rate Case Expense - RUCO will provide a final recommended level of  
14          rate case expense when it files final schedules after the evidentiary  
15          hearing on the instant case is concluded.

16          Income Tax Expense – This adjustment reflects income tax expenses  
17          calculated on RUCO’s recommended revenues and expenses.

18  
19          To support the adjustments in my surrebuttal testimony, I prepared sixteen  
20          separate Surrebuttal Schedules for each Company (BVWC, NSWC and  
21          SSWC), which are filed concurrently in my surrebuttal testimony.

22  
23

1 **RATE BASE**

2 Rate Base Adjustment No. 2 – Customers’ Deposits

3 Q. Please explain the basis for your adjustment to customers’ deposits.

4 A. RUCO and the Company are now in substantial agreement with the level  
5 of customers’ deposits as adjusted in my surrebuttal schedules.

6  
7 Originally, in my direct testimony, I interpreted the Company’s response to  
8 RUCO’s data request 2.01 incorrectly. I failed to aggregate the individual  
9 amounts into my adjustment. Consequently, after analyzing the  
10 Company’s rebuttal workpapers, RUCO will restore the customers’  
11 deposits to its original level as filed.

12  
13 Therefore, as shown on Schedule SURR RLM-3, column C, I revised my  
14 direct testimony to reflect the correct level of customers’ deposits, by  
15 removing my adjustment. The appropriate level of customers’ deposits is  
16 BVWC’s at \$556,325, NSWC’s at \$410 and SSWC’s at \$2,870.

17  
18 Rate Base Adjustment No. 3 – Accumulated Deferred Income Taxes

19 Q. Please explain how this adjustment to accumulated deferred income taxes  
20 was analyzed by RUCO.

21 A. This adjustment is sponsored by RUCO witness Timothy Coley; please  
22 refer to his testimony for clarification.

23

1 Based on Mr. Coley's testimony and as shown on Schedule SURR RLM-  
2 3, column D, and with supporting Schedules SURR RLM-5A and SURR  
3 RLM-5B this adjustment decreases BVWC's rate base by \$2,703,488,  
4 NSWC's rate base by \$57,525 and SSWC's rate base by \$84,614.

5  
6 Rate Base Adjustment No. 4 – Plant Retirements and Accumulated  
7 Depreciation (BVWC Only)

8 Q. Please explain the basis for your adjustment for retired plant and the  
9 accumulated depreciation.

10 A. RUCO and the Company are now in substantial agreement with the level  
11 of gross plant-in-service and accumulated depreciation as adjusted in my  
12 surrebuttal schedules.

13  
14 In its rebuttal testimony, the Company acknowledged it did not retire  
15 assets when replacements were placed in service in BVWC. Therefore,  
16 after analyzing the Company's rebuttal workpapers RUCO will remove  
17 \$1,333,328 of retired plant from gross plant in service and simultaneously  
18 \$1,333,328 was removed from accumulated depreciation to recognize the  
19 plant was fully depreciated; thus recording a zero effect on the rate base.

20  
21 However, as shown on BVWC's Schedule SURR RLM-3, column E, the  
22 actual entry under accumulated depreciation is \$1,509,449 a difference of  
23 \$176,221. This anomaly was a reconciling computation in the Company's

1 accumulated depreciation schedules that required an additional  
2 adjustment to recognize a difference between the accrued booked  
3 accumulated depreciation balance and the computed level of accumulated  
4 depreciation since the previous rate case test year.

5  
6 Therefore, as shown BVWC's Schedule SURR RLM-3, column E, RUCO  
7 and the Company recommend an aggregate increase to BVWC's rate  
8 base of \$176,221.

9  
10 Rate Base Adjustment No. 5 – Allowance for Funds Used During  
11 Construction ("AFUDC")

12 Q. Please explain the basis for your adjustment for AFUDC.

13 A. RUCO and the Company are now in substantial agreement with the level  
14 of AFUDC as adjusted in my surrebuttal schedules.

15  
16 In its rebuttal testimony and workpapers, the Company provided a revised  
17 computation of AFUDC based on a methodology established by NARUC.  
18 Consequently, after analyzing the Company's rebuttal documentation,  
19 RUCO will remove \$80,055 of AFUDC.

20  
21  
22  
23

1           Therefore, as shown on Schedule SURR RLM-3, I revised my direct  
2           testimony to reflect the correct level of AFUDC, with an adjustment to  
3           decrease BVWC's rate base by \$40,887, NSWC's rate base by \$13,740  
4           and SSWC's rate base by \$25,428.

5  
6           Rate Base Adjustment No. 6 – Acquisition Costs Associated with  
7           Purchase of the Former McLain Systems (NSWC and SSWC Only)

8   Q.    Please explain the basis for your adjustment for acquisition costs.

9   A.    RUCO and the Company are now in substantial agreement with the level  
10       of acquisition costs as adjusted in my surrebuttal schedules.

11  
12       In its rebuttal testimony and workpapers, the Company provided the actual  
13       amount of acquisition costs. Consequently, after analyzing the  
14       Company's rebuttal documentation, RUCO will set the acquisition costs at  
15       \$155,378 by removing \$144,623 from account 348 (Other Tangible Plant).

16  
17       Therefore, as shown on Schedule SURR RLM-3 (NSWC and SSWC only),  
18       I revised my direct testimony to reflect the correct level of the acquisition  
19       costs, with an adjustment to decrease NSWC's rate base by \$15,636 and  
20       SSWC's rate base by \$128,987.

1           Rate Base Adjustment No. 7 – Hook-Up Fee Tariff

2    Q.    Please explain how this adjustment to the hook-up fee tariff was analyzed  
3           by RUCO.

4    A.    This adjustment is sponsored by RUCO witness Timothy Coley; please  
5           refer to his testimony for clarification.

6

7    **OPERATING INCOME**

8           Operating Income Adjustment No. 1 – Test Year Depreciation Expense

9    Q.    Please explain your adjustment to the test year depreciation expense.

10   A.    RUCO and the Company are now in substantial agreement with the level  
11           of test year depreciation expense. This adjustment of reflects RUCO's  
12           end of test year gross plant-in-service. The adjustment is driven by the  
13           revisions to plant retirements as explained previously in my testimony.

14

15           As shown on Schedule SURR RLM-7, column B and supporting Schedule  
16           SURR RLM-8, this adjustment decreases adjusted test-year operating  
17           expenses of BVWC by \$58,288, NSWC by \$2,225 and SSWC by \$13,933.

18

19           Operating Income Adjustment No. 2 – Property Tax Computation

20   Q.    Did RUCO and the Company use the same methodology to calculate  
21           property tax expenses?

22   A.    Yes. This adjustment varies from the Company's recommendation only to  
23           reflect RUCO's lower proposed annual revenue.

1 As shown on Schedule SURR RLM-7, column C and supporting Schedule  
2 SURR RLM-9, this adjustment decreases adjusted test-year operating  
3 expenses of BVWC by \$10,267, NSWG by \$1,266 and SSWC by \$4,177  
4 on a stand-alone basis.

5  
6 Q. Does consolidation affect the total Company level of property tax  
7 expense?

8 A. Yes, because there is a difference between the individual tax rates of each  
9 separate Company and the composite tax rate used for the consolidation  
10 model, the stand-alone property tax expense level is aggregately \$1,456  
11 higher than the consolidated property tax expense.

12  
13 Operating Income Adjustment No. 3 – Miscellaneous Expense

14 Q. Please explain your adjustment to the test year miscellaneous expenses.

15 A RUCO and the Company are now in substantial agreement with the level  
16 of test year miscellaneous expense. This adjustment removes an  
17 additional \$4,064 for an aggregate total of \$9,064 of unnecessary costs for  
18 meals, entertainment and contributions identified by the Company in its  
19 rebuttal testimony.

20  
21 As shown on Schedule RLM-7, column D and supporting Schedule SURR  
22 RLM-10, this adjustment decreases test year expenses of BVWC by  
23 \$7,681, NSWG by \$610 and SSWC by \$773.

1           Operating Income Adjustment No. 4 – Water Testing Expense

2    Q.     Please explain your adjustment to the test year water testing expenses.

3    A     In its rebuttal testimony and workpapers, the Company acknowledged an  
4           oversight when originally computing the test year water testing expenses.  
5           The Company failed to recognize the projected three-year average water  
6           testing expense. The costs vary significantly over the three-year cycle  
7           because of different annual number of Compliance Sampling  
8           requirements. Consequently, after analyzing the Company's rebuttal  
9           documentation, RUCO will set the water testing expense at \$66,652,  
10          which is an increase \$38,457.

11  
12          Therefore, as shown on Schedule RLM-7, column E, this adjustment  
13          increases test year expenses of BVWC by \$39,722 and NSWC by \$570,  
14          but decreases SSWC by \$1,825.

15  
16           Operating Income Adjustment No. 5 – Transportation Expense

17    Q.     Please explain your adjustment to the test year transportation expenses.

18    A     In its rebuttal testimony and workpapers, the Company acknowledged a  
19           courtesy adjustment to reflect the removal transportation costs associated  
20           with private corporate air travel through an entity called Airlink.  
21           Consequently, after analyzing the Company's rebuttal documentation,  
22           RUCO will remove transportation expenses of \$8,703.

23

1           Therefore, as shown on Schedule RLM-7, column F, this adjustment  
2           decreased test year expenses of BVWC by \$7,023, NSWC by \$647 and  
3           SSWC by \$1,033.

4  
5           Operating Income Adjustment No. 6A, 6B and 6C – Central Office Cost  
6           Allocations

7   Q.    Please explain how this adjustment to the allocation of central office costs  
8           was analyzed by RUCO.

9   A.    This adjustment is sponsored by RUCO witness Timothy Coley; please  
10          refer to his testimony for clarification.

11  
12          Based on Mr. Coley's testimony and as shown on Schedule SURR RLM-  
13          7, columns G, H and I and supporting Schedules SURR RLM-11A, SURR  
14          RLM-11B and SURR RLM-11C, this adjustment aggregately decreases  
15          adjusted test year rate base of BVWC by \$133,749, NSWC by \$5,536 and  
16          SSWC by \$13,185.

17  
18          RUCO Operating Income Adjustment No. 7 – Rate Case Expense

19   Q.    Please explain RUCO's adjustment to rate case expenses.

20   A.    RUCO proposes a fair and reasonable level of rate case expenses based  
21          on a Company provided estimate. This estimate was originally offered by  
22          the Company to determine the present and future rate case expenditures  
23          to be incurred in the recent Black Mountain Sewer Company ("BMSC")

1 rate case proceedings. Moreover, I presented the Company with the  
2 BMSC estimate and requested an updated version to reflect suitable  
3 adjustments for any variations in the instant case. The Company refused  
4 to update the BMSC estimate.

5  
6 RUCO finds no compelling reason to adjust its recommended level of rate  
7 case expense at this time and believes its estimate remains fair and  
8 reasonable at \$200,000 (normalized over three years) for an annual  
9 expense \$66,666 and subsequently allocated to each Company.

10  
11 However, RUCO will continue to analyze any documentation made  
12 available and will provide a final recommended level of rate case expense  
13 when it files final schedules after the evidentiary hearing on the instant  
14 case is concluded.

15  
16 As shown on Schedule SURR RLM-7 column J, this adjustment  
17 decreases adjusted test-year operating expenses of BVWC by \$49,333,  
18 NSWC by \$8,693 and SSWC by \$8,640.

19  
20 RUCO Operating Income Adjustment No. 8 – Income Taxes

21 Q. Please explain RUCO's adjustment to the income tax expenses.

22 A. This adjustment reflects income tax expenses calculated on RUCO's  
23 recommended revenues and expenses.

1 As shown on Schedule SURR RLM-7 column K and supporting Schedule  
2 SURR RLM-13, this adjustment increases adjusted test-year operating  
3 expenses of BVWC by \$104,773, NSWC by \$12,419 and SSWC by  
4 \$1,725 on a stand-alone basis.

5

6 Q. Does consolidation affect the total Company level of income tax expense?

7 A. Yes, because there is a *difference* between the individual income tax rates  
8 of each separate Company and the composite tax rate used for the  
9 consolidation model, the stand-alone income tax expense level is  
10 aggregately \$65,604 lower than the consolidated income tax expense.

11

## 12 **COST OF CAPITAL**

13 Q. Is RUCO proposing any surrebuttal adjustments to the Company  
14 proposed cost of capital?

15 A. No. This adjustment is fully explained in the testimony of RUCO witness  
16 William A. Rigsby.

17

## 18 **RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**

19 Q. Have you revised your Schedule presenting your recommended rate  
20 designs?

21 A. Yes, as shown on Schedule SURR RLM-RD1, I am recommending a rate  
22 design that is consistent with RUCO's recommended revenue allocations  
23 and requirement as revised in my surrebuttal testimony. I have also

1 modified the rate design to reflect the Company's revisions to its basic rate  
2 design to remove "cross-over points" where customers on small meters  
3 with high levels of usage pay more than larger metered customers.

4

5 **STAND-ALONE RATE DESIGNS**

6 Q. Please explain RUCO's stand-alone rate designs.

7 A. RUCO is recommending a stand-alone rate design that is generally  
8 consistent with the Company's proposed stand-alone rate design.  
9 However, my rate design reflects RUCO's recommended revenue  
10 requirements and provides proof that the design will produce the  
11 appropriate revenue requirements.

12

13 **STAND-ALONE PROOF OF RECOMMENDED REVENUES**

14 Q. Have you prepared a Schedule presenting proof of your recommended  
15 revenue?

16 A. Yes, I have. Proof that my recommended stand-alone rate designs will  
17 produce the recommended required revenue as illustrated, is presented  
18 also on Schedule SURR RLM-RD1.

19

20

21

22

23

1 **STAND-ALONE TYPICAL BILL ANALYSIS**

2 Q. Have you prepared a Schedule representing the financial impact of  
3 RUCO's recommended stand-alone rate design on the typical residential  
4 customer?

5 A. Yes. A typical bill analysis for residential customers with various levels of  
6 usage is presented on Schedule SURR RLM-RD2. The stand-alone rate  
7 designs will affect customers of BVWC, NSWC and SSWC differently.

8  
9 Q. Please describe the financial impact of RUCO's rate design on the  
10 average BVWC residential customer.

11 A. RUCO's rate designs propose a basic service charge for residential  
12 customers of BVWC with a 5/8" X 3/4" meter of \$15.08 (versus \$18.46  
13 proposed by the Company) and commodity charges of \$1.2495 per  
14 thousand gallons for the first 4,000 gallons, \$1.8211 per thousand gallons  
15 for the next 6,000 gallons and \$2.1478 per thousand gallons for all usage  
16 above 10,000 gallons (versus \$1.5300, \$2.2300 and \$2.6300, proposed  
17 respectively by the Company).

18  
19 Residential customers of BVWC with a 5/8" X 3/4" meter and average  
20 consumption of 6,612 gallons will see a monthly bill of \$24.83. RUCO's  
21 rate design provides for a \$1.93 or 8.44 percent increase over the present  
22 monthly bill of \$22.90 (at the same level of consumption). This is a

1 decrease of \$5.58 or 74.30 percent over the Company's requested  
2 increase of \$7.51 or 32.79 percent.

3  
4 Q. Please describe the financial impact of RUCO's rate design on the  
5 average NSWC residential customer.

6 A. RUCO's rate designs propose a basic service charge for residential  
7 customers of NSWC with a 5/8" X 3/4" meter of \$59.33 (versus \$75.39  
8 proposed by the Company) and commodity charges of \$3.8247 per  
9 thousand gallons for the first 4,000 gallons, \$4.6117 per thousand gallons  
10 for the next 6,000 gallons and \$5.5168 per thousand gallons for all usage  
11 above 10,000 gallons (versus \$4.8600, \$5.8600 and \$7.0100, proposed  
12 respectively by the Company).

13  
14 Residential customers of NSWC with a 5/8" X 3/4" meter and average  
15 consumption of 5,755 gallons will see a monthly bill of \$82.72. RUCO's  
16 rate design provides for a \$39.65 or 92.04 percent increase over the  
17 current monthly bill of \$43.08 (at the same level of consumption). This is a  
18 decrease of \$22.39 or 36.09 percent over the Company's requested  
19 \$62.04 or 144.02 percent increase.

20  
21  
22  
23

1 Q. Please describe the financial impact of RUCO's rate design on the  
2 average SSWC residential customer.

3 A. RUCO's rate designs propose a basic service charge for residential  
4 customers of SSWC with a 5/8" X 3/4" meter of \$37.32 (versus \$54.37  
5 proposed by the Company) and commodity charges of \$2.4095 per  
6 thousand gallons for the first 4,000 gallons, \$2.9243 per thousand gallons  
7 for the next 6,000 gallons and \$3.7138 per thousand gallons for all usage  
8 above 10,000 gallons (versus \$3.5100, \$4.2600 and \$5.4100, proposed  
9 respectively by the Company).

10

11 Residential customers of SSWC with a 5/8" X 3/4" meter and average  
12 consumption of 5,581 gallons will see a monthly bill of \$51.58. RUCO's  
13 rate design provides for an \$8.99 or 21.10 percent increase over the  
14 current monthly charge of \$42.60 (at the same level of consumption). This  
15 is a decrease of \$23.56 or 72.38 percent over the Company's requested  
16 \$32.55 or 76.41 percent increase.

17

18 **CONSOLIDATED RATE DESIGN**

19 Q. Please explain RUCO's position on consolidated rate design.

20 A. RUCO will not oppose consolidated rates if the Commission finds that such  
21 rate design is in the public interest.

22

23

1           Therefore, RUCO is providing an alternative consolidated rate design that  
2           is generally consistent with the Company's proposed consolidated rate  
3           design, but reflects RUCO's recommended revenue requirements and  
4           provides proof that the design will produce the appropriate revenue  
5           requirements.

6  
7           **CONSOLIDATED PROOF OF RECOMMENDED REVENUE**

8           Q.     Have you prepared a Schedule presenting proof of your recommended  
9           revenue?

10          A.     Yes, I have. Proof that my recommended consolidated rate design will  
11          produce the recommended required revenue as illustrated, is presented  
12          also on Schedule SURR RLM-RD1.

13  
14          **CONSOLIDATED TYPICAL BILL ANALYSIS**

15          Q.     Have you prepared a Schedule representing the financial impact of  
16          RUCO's consolidated rate design on the typical residential customer?

17          A.     Yes. A typical bill analysis for residential customers with various levels of  
18          usage is presented on Schedule SURR RLM-RD2.

19  
20          The consolidated rate design will affect customers of BVWC, NSWC and  
21          SSWC differently.

1 RUCO's consolidated rate design proposes a basic service charge for  
2 residential customers of BVWC with a 5/8" X 3/4" meter of \$14.69 (versus  
3 \$17.92 proposed by the Company) and commodity charges of \$1.6193  
4 per thousand gallons for the first 4,000 gallons, \$2.4389 per thousand  
5 gallons for the next 6,000 gallons and \$3.1766 per thousand gallons for all  
6 usage above 10,000 gallons (versus \$1.9756, \$2.9756 and \$3.8756  
7 proposed respectively by the Company).

8  
9 Q. Please describe the financial impact of RUCO's rate design on the  
10 average BVWC residential customer.

11 A. Residential customers of BVWC with a 5/8" X 3/4" meter and average  
12 consumption of 6,612 gallons will see a monthly bill of \$27.53. RUCO's  
13 rate design provides for a \$4.64 or 20.26 percent increase over the  
14 present monthly bill of \$22.90 (at the same level of consumption). This is  
15 a decrease of \$6.06 or 56.64 percent over the Company's requested  
16 \$10.70 or 46.72 percent increase.

17  
18 Q. Please describe the financial impact of RUCO's rate design on the  
19 average NSWC residential customer.

20 A. Residential customers of NSWC with a 5/8" X 3/4" meter and average  
21 consumption of 5,755 gallons will see a monthly bill of \$25.45. RUCO's  
22 rate design provides for a \$17.63 or 40.93 percent decrease over the  
23 present monthly bill of \$43.08 (at the same level of consumption). This is

1 an increase of \$5.60 or 46.55 percent over the Company's requested  
2 \$12.03 or 27.93 percent decrease.

3

4 Q. Please describe the financial impact of RUCO's rate design on the  
5 average SSWC residential customer.

6 A. Residential customers of SSWC with a 5/8" X 3/4" meter and average  
7 consumption of 5,581 gallons will see a monthly bill of \$25.02. RUCO's  
8 rate design provides for a \$17.58 or 41.26 percent decrease over the  
9 present monthly bill of \$42.60 (at the same level of consumption). This is  
10 an increase of \$5.51 or 45.65 percent over the Company's requested  
11 \$12.07 or 28.34 percent decrease.

12

13 Q. Does this conclude your surrebuttal testimony?

14 A. Yes, it does.



Bella Vista Water Company (Stand-Alone)  
Docket No. W-02453A-09-0411 et al.  
Test Year Ended March 31, 2009

**SURREBUTTAL**  
**TABLE OF CONTENTS TO RLM SCHEDULES**

SCHEDULE NO.	PAGE NO.	TITLE
SURR RLM-1	1	REVENUE REQUIREMENT
SURR RLM-2	1	RATE BASE
SURR RLM-3	1	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
RLM-4	1	RATE BASE ADJUSTMENT NO. 1 - POST TEST YEAR PLANT AND ACCUMULATED DEPRECIATION
DIRECT TESTIMONY		RATE BASE ADJUSTMENT NO. 2 - CUSTOMER DEPOSITS
SURR RLM-5A & 5B	1	RATE BASE ADJUSTMENT NO. 3 - ACCUMULATED DEFERRED INCOME TAXES
SURR TESTIMONY		RATE BASE ADJUSTMENT NO. 4 - PLANT RETIREMENT AND ACCUMULATED DEPRECIATION
SURR TESTIMONY		RATE BASE ADJUSTMENT NO. 5 - AFUDC
SURR RLM-6	1	OPERATING INCOME
SURR RLM-7	1	SUMMARY OF OPERATING INCOME ADJUSTMENTS
SURR RLM-8	1	OPERATING INCOME ADJUSTMENT NO. 1 - TEST YEAR DEPRECIATION EXPENSE
SURR RLM-9	1	OPERATING INCOME ADJUSTMENT NO. 2 - PROPERTY TAX COMPUTATION
SURR RLM-10	1	OPERATING INCOME ADJUSTMENT NO. 3 - MISCELLANEOUS EXPENSES
SURR TESTIMONY		OPERATING INCOME ADJUSTMENT NO. 4 - WATER TESTING EXPENSE
SURR TESTIMONY		OPERATING INCOME ADJUSTMENT NO. 5 - TRANSPORTATION EXPENSE
SURR RLM-11A	1	OPERATING INCOME ADJUSTMENT NO. 6A - CENTRAL OFFICE COST ALLOCATION
SURR RLM-11B	1	OPERATING INCOME ADJUSTMENT NO. 6B - CENTRAL OFFICE COST ALLOCATION
SURR RLM-11C	1	OPERATING INCOME ADJUSTMENT NO. 6C - CENTRAL OFFICE COST ALLOCATION
RLM-12	1	OPERATING INCOME ADJUSTMENT NO. 7 - RATE CASE EXPENSE
SURR RLM-13	1	OPERATING INCOME ADJUSTMENT NO. 8 - INCOME TAX EXPENSE
SURR RLM-RD1	1 TO 3	RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
SURR RLM-RD2	1 TO 2	TYPICAL RESIDENTIAL BILL ANALYSIS

**SURREBUTTAL  
REVENUE REQUIREMENT**

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Fair Value Rate Base	\$ 6,343,311	\$ 3,769,607
2	Adjusted Operating Income (Loss)	\$ 94,521	\$ 216,368
3	Current Rate Of Return (L2 / L1)	1.49%	5.74%
4	Required Operating Income (L5 X L1)	\$ 683,175	\$ 310,801
5	Required Rate Of Return On Fair Value Rate Base	10.77%	8.24%
6	Operating Income Deficiency (L4 - L2)	\$ 588,653	\$ 94,433
7	Gross Revenue Conversion Factor (RLM-1, Pg 2)	1.6286	1.6286
8	Increase In Gross Revenue Requirement (L7 X L6)	<b>\$ 958,701</b>	<b>\$ 153,798</b>
9	Adjusted Test Year Revenue	\$ 3,526,033	\$ 3,526,033
10	Proposed Annual Revenue (L8 + L9)	\$ 4,484,734	\$ 3,679,831
11	Required Percentage Increase In Revenue (L8 / L9)	27.19%	4.36%
12	Rate Of Return On Common Equity	12.50%	9.00%

References:

Column (A): Company Schedules A-1 and C-1  
Column (B): RUCO Schedule SURR RLM-2, SURR RLM-6, And RLM-14

**SURREBUTTAL**  
**SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 25,625,206	\$ (1,376,055)	\$ 24,249,151
2	Accumulated Depreciation	(11,909,440)	1,505,839	(10,403,601)
3	Net Utility Plant In Service (L1 + L2)	<u>\$ 13,715,765</u>	<u>\$ 129,784</u>	<u>\$ 13,845,549</u>
4	Advances In Aid Of Const.	\$ (6,781,443)	\$ -	\$ (6,781,443)
5	Contribution In Aid Of Const.	\$ (496,445)	\$ -	\$ (496,445)
6	Accumulated Amortization Of CIAC	230,909	-	230,909
7	NET CIAC (L5 + L6)	<u>\$ (265,536)</u>	<u>\$ -</u>	<u>\$ (265,536)</u>
8	Customer Meter Deposits	\$ (556,325)	\$ -	\$ (556,325)
9	Customer Hydrant Meter Deposits	\$ -	\$ -	\$ -
10	Deferred Income Taxes & Credits	\$ 230,850	\$ (2,703,488)	\$ (2,472,638)
11	Unamortized Finance Charges	\$ -	\$ -	\$ -
12	Deferred Regulatory Assets	\$ -	\$ -	\$ -
13	Allowance For Working Capital	\$ -	\$ -	\$ -
14	TOTAL RATE BASE (Sum L's 3, 4, 7, 8 Thru 12)	<u>\$ 6,343,311</u>	<u>\$ (2,573,704)</u>	<u>\$ 3,769,607</u>

References:

- Column (A): Company Schedule B-2, Page 1 And Workpapers Schedule E-1
- Column (B): SURR RLM-3, Columns (B) Thru (G)
- Column (C): Column (A) + Column (B)

**SURREBUTTAL**  
**SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) ADJ # 1 POST TY PLT & ACC DEP	(C) ADJ # 2 CUSTOMER DEPOSITS	(D) ADJ # 3 DEFERRED INCOME TAX	(E) ADJ # 4 PLANT RETIREMENTS	(F) ADJ # 5 AFUDC	(G) RUCO ADJUSTED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 25,625,206	(1,940)	\$ -	\$ -	\$ (1,333,228)	\$ (40,887)	\$ 24,249,151
2	Accumulated Depreciation	(11,909,440)	(3,610)	-	-	1,509,449	-	(10,403,601)
3	Net Utility Plant In Service (L1 + L2)	\$ 13,715,765	\$ (5,550)	\$ -	\$ -	\$ 176,221	\$ (40,887)	\$ 13,845,549
4	Advances In Aid Of Const.	\$ (6,781,443)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (6,781,443)
5	Contribution In Aid Of Const.	\$ (496,445)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (496,445)
6	Accumulated Amortization Of CIAC	230,909	-	-	-	-	-	230,909
7	NET CIAC (L5 + L6)	\$ (265,536)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (265,536)
8	Customer Meter Deposits	\$ (556,325)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (556,325)
9	Customer Hydrant Meter Deposits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10	Deferred Income Taxes & Credits	\$ 230,850	\$ -	\$ -	\$ (2,703,488)	\$ -	\$ -	\$ (2,472,638)
11	Unamortized Finance Charges	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12	Deferred Regulatory Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Allowance For Working Capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	TOTAL RATE BASE (Sum L's 3, 4, 7, 8 Thru 12)	\$ 6,343,311	\$ (5,550)	\$ -	\$ (2,703,488)	\$ 176,221	\$ (40,887)	\$ 3,769,607

References:

- Column (A): Company Schedule B-2, Page 1 And Workpapers Schedule E-1
- Column (B): Adjustment No. 1 - RUCO Adjustment To Post Test-Year GPIS And Acc. Dep. (See Testimony and Schedule RLM-4)
- Column (C): Adjustment No. 2 - RUCO Adjustment To Customer Deposits (See Testimony)
- Column (D): Adjustment No. 3 - RUCO Adjustment To Deferred Income Taxes (See Surrebittal Testimony Of RUCO Witness Tim Coley and Schedule SURR RLM-5A & 5B)
- Column (E): Adjustment No. 4 - RUCO Adjustment For Retired Plant (See Surrebittal Testimony, RLM)
- Column (F): Adjustment No. 5 - RUCO Adjustment To AFUDC (See Surrebittal Testimony, RLM)
- Column (G): Sum Of Columns (A), (B), (C), (D), (E) & (F)

Original Cost Rate Base Proforma Adjustments  
ADIT Calculation Based on RUCO's Surrebuttal Schedules

Line

Line No.	<u>Deferred Income Tax as of March 31, 2009</u>		Probability of Realization of Future	Deductible TD (Taxable TD) Expected to be Realized	Tax Rate	Future Tax Asset		Future Tax Liability		
	<u>Adjusted Book Value<sup>1</sup></u>	<u>Tax Value</u>	<u>Tax Benefit</u>			<u>Current</u>	<u>Non Current</u>	<u>Current</u>	<u>Non Current</u>	
6	Plant-in-Service	\$ 24,249,151 <sup>1</sup>								
7	Accum. Deprec.	(10,403,601) <sup>1</sup>								
8	CIAC (Net)	<u>(265,536)<sup>1</sup></u>								
9	Fixed Assets	\$ 13,580,013	\$ 6,730,491 <sup>2</sup>	100.0%	\$ (6,849,522)	38.60%			(2,643,839)	
10	AIAC		6,136,045 <sup>3</sup>	7.2% <sup>4</sup>	\$ 443,538	38.60%	\$ 171,201			
11	Tax Benefits from O.L. Carry Forward.			100.0%	\$ -	38.60%	\$ -			
12						\$ -	\$ 171,201	\$ -	\$ (2,643,839)	
14	RUCO Net Asset (Liability)					\$ (2,472,638)				
16	Company ADIT Asset (Liability) for BVWC Stand Alone Adjusted Test Year					\$ 230,850				
18	RUCO BVWC (Stand Alone) Adjustment to ADIT					\$ (2,703,488)				
22	1 Adjusted per RUCO Surrebuttal Schedule RLM-2, page 1									
24	2 Tax Basis per Company as of March 31, 2009									
26	3 AIAC (including impact of change in probability of realization)									
27	AIAC per B-2					\$ 6,781,443				
28	Less: Pre-1996 AIAC included for book and tax purposes					(645,398)				
29	Net AIAC before unrealized portion					\$ 6,136,045				
31	4 Effective AIAC Refund Rate Over a 30 Year AIAC/Refund Study (See Coley Work Papers)									
33	5 Effective tax rates Per RLM-1, page 2									

**SURREBUTTAL  
ACCUMULATED DEFERRED INCOME TAXES**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
Deferred Income Taxes:			
1	Algonquin Accumulated Deferred Income Tax Assets	2008 Algonquin Annual Report	\$ 23,032,000
2	Algonquin Accumulated Deferred Income Tax Liabilities	2008 Algonquin Annual Report	<u>(106,983,000)</u>
3	Net Accumulated Deferred Income Tax Assets (Liabilities)	Line 1 + Line 2	\$ (83,951,000)
4	Bella Vista Consolidated Allocation	Note (A)	<u>1.5438%</u>
5	Bella Vista Consolidated ADIT Liabilities Allocation	Line 3 X Line 4	\$ (1,296,004)
6	Convert to US Dollars	Note (B)	<u>0.9915</u>
7	Bella Vista Consolidated Allocated ADIT Liabilites Balance	Line 5 X Line 6	\$ (1,284,949)
8	Total Consolidated ADIT as Filed by Company	Company Schedule C-1	173,329
9	Decrease In Deferred Income Tax Assets	Line 7 - Line 8	<u>\$ (1,458,278)</u>
10	Total Bella Vista Customer Count Factor	Per Company	0.8772
11	RUCO Adjustment (See RLM-3, Column (D), Line 10)	Line 9 X Line 10	<u><u>(1,279,224)</u></u>

NOTES:

12	(A)	Purchase Price of BVWC, NSWC and SSWC	Annual Report	\$ 15,100,000
13		Algonquin Total Assets	Annual Report	\$ 978,130,000
14		Ratio Of BVWC, NSWC & SSWC To Algonquin Total A	Line 12 / Line 13	1.5438%
15	(B)	Currency Conversion	moneycentral.com on 04/1/2010	0.9915

SUPPORTING SCHEDULES

2008 Algonquin Power Income Fund Annual Report

**SURREBUTTAL  
OPERATING INCOME**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJ'MTS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
Revenues:						
1	Flat Rate Revenues	\$ 3,400,892	\$ -	\$ 3,400,892	\$ 153,798	\$ 3,554,690
2	Misc. Service Revenues	-	-	-	-	-
3	Other WW Revenues	125,141	-	125,141	-	125,141
4	<b>TOTAL OPERATING REVENUE</b>	<b>\$ 3,526,033</b>	<b>\$ -</b>	<b>\$ 3,526,033</b>	<b>\$ 153,798</b>	<b>\$ 3,679,831</b>
Operating Expenses:						
5	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -
6	Purchased Water	708	-	708	-	708
7	Purchased Power	561,094	-	561,094	-	561,094
8	Fuel for Power Production	-	-	-	-	-
9	Chemicals	4,273	-	4,273	-	4,273
10	Materials & Supplies	36,932	-	36,932	-	36,932
11	Outside Services	4,605	-	4,605	-	4,605
12	Outside Services- Legal	35,245	-	35,245	-	35,245
13	Outside Services- Other	1,258,045	(133,749)	1,124,297	-	1,124,297
14	Water Testing	18,805	39,722	58,527	-	58,527
15	Equipment Rental	-	-	-	-	-
16	Rents	60,600	-	60,600	-	60,600
17	Transportation Expenses	78,117	(7,023)	71,094	-	71,094
18	Insurance - General Liability	38,930	-	38,930	-	38,930
19	Insurance - Health and Life	7,290	-	7,290	-	7,290
20	Reg. Comm. Exp.	9,017	-	9,017	-	9,017
21	Reg. Comm. Exp. - Rate Case	83,333	(49,333)	34,000	-	34,000
22	Miscellaneous Expense	65,966	(7,681)	58,285	-	58,285
23	Bad Debt Expense	9,526	-	9,526	-	9,526
24	Depreciation Expense	1,009,435	(58,288)	951,146	-	951,146
25	Taxes Other Than Income	-	-	-	-	-
26	Property Taxes	159,659	(10,267)	149,392	-	149,392
27	Income Tax	(10,068)	104,773	94,705	59,364	154,069
28	<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 3,431,512</b>	<b>\$ (121,847)</b>	<b>\$ 3,309,665</b>	<b>\$ 59,364</b>	<b>\$ 3,369,029</b>
29	<b>OPERATING INCOME (LOSS)</b>	<b>\$ 94,521</b>		<b>\$ 216,368</b>		<b>\$ 310,801</b>

References:

- Column (A): Company Schedule C-1
- Column (B): SURR RLM-7, Columns (B) Thru (H)
- Column (C): Column (A) + Column (B)
- Column (D): Revenue From SURR RLM-1, Column (B), Line 8 And Income Tax From SURR RLM-1, Column (B), Line 8 - Line 6
- Column (E): Column (C) + Column (D)

**SURREBTUTTAL**  
**SUMMARY OF OPERATING INCOME ADJUSTMENTS**  
**TEST YEAR AS FILED AND ADJUSTMENTS**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ #1 DEP EXPENSE	(C) ADJ #2 PROPERTY TAX	(D) ADJ #3 MISC. EXPENSES	(E) ADJ #4 WATER TEST EXPENSES	(F) ADJ #5 TRANSPORT EXPENSES	(G) ADJ #6A CENTRAL OFFICE COST	(H) ADJ #6B CENTRAL OFFICE COST	(I) ADJ #6C CENTRAL OFFICE COST	(J) ADJ #7 RATE CASE EXPENSES	(K) ADJ #8 INCOME TAX	(L) RUCO AS ADJTD
1	Revenues: Fiat Rate Revenues	\$ 3,400,892	-	-	-	-	-	-	-	-	-	-	\$ 3,400,892
2	Misc. Service Revenues	-	-	-	-	-	-	-	-	-	-	-	-
3	Other WW Revenues	125,141	-	-	-	-	-	-	-	-	-	-	125,141
4	TOTAL OPR'G REV.	<u>\$ 3,526,033</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,526,033</u>
5	Operating Expenses: Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6	Purchased Water	708	-	-	-	-	-	-	-	-	-	-	708
7	Purchased Power	561,094	-	-	-	-	-	-	-	-	-	-	561,094
8	Fuel for Power Production	-	-	-	-	-	-	-	-	-	-	-	-
9	Chemicals	4,273	-	-	-	-	-	-	-	-	-	-	4,273
10	Materials & Supplies	36,932	-	-	-	-	-	-	-	-	-	-	36,932
11	Outside Services	4,605	-	-	-	-	-	-	-	-	-	-	4,605
12	Outside Services- Legal	35,245	-	-	-	-	-	-	-	-	-	-	35,245
13	Outside Services- Other	1,258,045	-	-	-	-	-	(122,927)	(959)	(9,863)	-	-	1,124,297
14	Water Testing	18,805	-	-	-	39,722	-	-	-	-	-	-	58,527
15	Equipment Rental	-	-	-	-	-	-	-	-	-	-	-	-
16	Rents	60,600	-	-	-	-	-	-	-	-	-	-	60,600
17	Transportation Expenses	78,117	-	-	-	-	-	-	-	-	-	-	78,117
18	Insurance - General Liability	38,930	-	-	-	(7,023)	-	-	-	-	-	-	38,930
19	Insurance - Health and Life	7,290	-	-	-	-	-	-	-	-	-	-	7,290
20	Reg. Comm. Exp.	9,017	-	-	-	-	-	-	-	-	-	-	9,017
21	Reg. Comm. Exp. - Rate Case	83,333	-	-	-	-	-	-	-	-	(49,333)	-	34,000
22	Miscellaneous Expense	65,966	-	-	(7,681)	-	-	-	-	-	-	-	58,285
23	Bad Debt Expense	9,526	-	-	-	-	-	-	-	-	-	-	9,526
24	Depreciation Expense	1,009,435	(58,288)	-	-	-	-	-	-	-	-	-	951,146
25	Taxes Other Than Income	-	-	(10,267)	-	-	-	-	-	-	-	-	149,392
26	Property Taxes	159,659	-	-	-	-	-	-	-	-	-	-	159,659
27	Income Tax	(10,068)	-	-	-	-	-	-	-	-	104,773	-	94,705
29	TOTAL OPR'G EXP.	<u>\$ 3,431,512</u>	<u>\$ (58,288)</u>	<u>\$ (10,267)</u>	<u>\$ (7,681)</u>	<u>\$ 39,722</u>	<u>\$ (7,023)</u>	<u>\$ (122,927)</u>	<u>\$ (959)</u>	<u>\$ (9,863)</u>	<u>\$ (49,333)</u>	<u>\$ 104,773</u>	<u>\$ 3,309,665</u>
30	OPRG INC (LOSS)	<u>\$ 94,521</u>											<u>\$ 216,368</u>

References:

- Column (A): Company Schedule C-1
- Column (B): Surrebuttal Testimony, RLM And Schedule SURR RLM-8
- Column (C): Surrebuttal Testimony, RLM And Schedule SURR RLM-9
- Column (D): Surrebuttal Testimony, RLM And Schedule SURR RLM-10
- Column (E): Surrebuttal Testimony, RLM
- Column (F): Surrebuttal Testimony, RLM
- Column (G): Surrebuttal Testimony, TLC And Schedule SURR RLM-11A
- Column (H): Surrebuttal Testimony, TLC And Schedule SURR RLM-11B
- Column (I): Surrebuttal Testimony, TLC And Schedule SURR RLM-11C
- Column (J): Surrebuttal Testimony, RLM And Schedule SURR RLM-12
- Column (K): Surrebuttal Testimony, RLM And Schedule SURR RLM-13
- Column (L): Sum Of Columns (A) Thru (K)

**SURREBUTTAL**  
**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1**  
**TEST YEAR DEPRECIATION EXPENSE**

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) APPROVED DEPRECIATION RATE	(C) TEST YEAR DEPRECIATION EXPENSE
1	301	Organization Cost	\$ -	0.00%	\$ -
2	302	Franchise Cost	-	0.00%	-
3	303	Land and Land Rights	327,399	0.00%	-
4	304	Structures and Improvements	1,307,936	3.33%	43,554
5	305	Collecting and Impounding Res.	-	2.50%	-
6	306	Lake River and Other Intakes	-	2.50%	-
7	307	Wells and Springs	1,127,614	3.33%	37,550
8	308	Infiltration Galleries and Tunnels	-	6.67%	-
9	309	Supply Mains	-	2.00%	-
10	310	Power Generation Equipment	-	5.00%	-
11	311	Electric Pumping Equipment	2,044,322	12.50%	255,540
12	320	Water Treatment Equipment	83,385	3.33%	2,777
13	320.1	Water Treatment Equipment	-	3.33%	-
14	320.2	Chemical Solution Feeders	-	20.00%	-
15	330	Dist. Reservoirs & Standpipe	2,280,128	2.22%	50,619
16	330.1	Storage tanks	-	2.22%	-
17	330.2	Pressure Tanks	-	5.00%	-
18	331	Trans. and Dist. Mains	12,109,036	2.00%	242,181
19	333	Services	1,382,479	3.33%	46,037
20	334	Meters	1,358,176	8.33%	113,136
21	335	Hydrants	884,182	2.00%	17,684
22	336	Backflow Prevention Devices	-	6.67%	-
23	339	Other Plant and Misc. Equip.	69,551	6.67%	4,639
24	340	Office Furniture and Fixtures	177,672	6.67%	11,851
25	340.1	Computers and Software	160,920	20.00%	32,184
26	341	Transportation Equipment	268,464	20.00%	53,693
27	342	Stores Equipment	-	4.00%	-
28	343	Tools and Work Equipment	122,443	5.00%	6,122
29	344	Laboratory Equipment	-	10.00%	-
30	345	Power Operated Equipment	31,548	5.00%	1,577
31	346	Communications Equipment	411,484	10.00%	41,148
32	347	Miscellaneous Equipment	107,306	10.00%	10,731
33	348	Other Tangible Plant	-	10.00%	-
34		Rounding	-		-
35		TOTAL WASTEWATER PLANT	<u>\$ 24,254,044</u>		<u>\$ 971,022</u>
36		Less: Amortizations Of CIAC (SURR RLM-2, Col. (C), Line 5)	\$ (496,445)	4.0035%	(19,875)
37		TOTAL DEPRECIATION EXPENSE (Line 35 + Line 36)			<u>\$ 951,146</u>
38		Test Year Depreciation Expense As Filed (Co. Sch. C-1)			1,009,435
39		Increase In Depreciation Expense (Line 37 - Line 38)			<u>\$ (58,288)</u>
40		RUCO Adjustment (Line 39) (See SURR RLM-7, Column (B), Line 25)			<u>\$ (58,288)</u>

References:

Columns (A) & (B): Company Rebuttal Schedule "C-2p1Depr"  
Column (C): Column (A) X Column (B)

**SURREBUTTAL**  
**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2**  
**PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	REFERENCE	(A) AMOUNT	(B) TOTAL
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Adjusted Revenues In Year Ended December 2007	Sch. SURR RLM-6, Col (C), Ln 4	\$ 3,526,033	
2	Adjusted Revenues In Year Ended December 2007	Sch. SURR RLM-6, Col (C), Ln 4	3,526,033	
3	Proposed Revenues	Sch. SURR RLM-6, Col (E), Ln 4	3,679,831	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	<u>\$ 10,731,897</u>	
5	Average Annual Operating Revenues	Line 4 / 3	<u>3,577,299</u>	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 7,154,598
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1	\$ 379,887	
8	10% Of CWIP	Line 7 X 10%		\$ 37,989
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	RLM-4, Col. (E), Ln 26	\$ 295,224	
10	Acc. Dep. Of Transportation Equipment	RLM-4, Col. (F), Ln 26	<u>(291,918)</u>	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ (3,305)
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		<u>\$ 7,189,281</u>
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	21.0%	
14	Assessed Value	Line 12 X Line 13	\$ 1,509,749	
Property Tax Rates:				
15	Primary Tax Rate - 2009 Tax Notice	Co. Sch. C-2, Pg 3	9.8053%	
16	Secondary Tax Rate - 2009 Tax Notice	Co. Sch. C-2, Pg 3	<u>0.0000%</u>	
17	Estimated Tax Rate Liability	Line 15 + Line 16	9.81%	
18	Company's Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 148,035
19	Company's Tax on Parcels	Co. Sch. C-2, Pg 3		<u>\$ 1,357</u>
20	Company's Total Tax Liability	Line 18 + Line 19		\$ 149,392
21	Test Year Adjusted Property Tax Expense As Filing	Co. Sch. C-1, Line 26		<u>159,659</u>
22	Increase In Property Tax Expense	Line 20 - Line 21		\$ (10,267)
23	RUCO Adjustment (See SURR RLM-7, Column (C), Line 27)	Line 22		<u><u>\$ (10,267)</u></u>

**SURREBUTTAL**  
**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 3**  
**DISALLOWANCE OF MISCELLANEOUS EXPENSES**

LINE NO.	DESCRIPTION	REFERENCE	(A) TOTAL
	Disallowed Miscellaneous Expenses	Co. Response To Staff D. R. CSB 1-32	
1	Bella Vista Water Company Christmas Party		\$ (2,000)
2	Special Olympics Pledge		(250)
3	Muscular Distrophy Association Donation		(250)
4	Additional Disallowance By Company		(5,181)
5	RUCO Adjustment To Unnecessary/Non-Recurring Expenses	Sum Of Lines 1 Thru 17	<u>\$ (7,681)</u>
6	RUCO Adjustment (See SURR RLM-7, Column (D))	Line 18	<u>\$ (7,681)</u>

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 6(A)  
CENTRAL OFFICE COST ALLOCATIONS

LINE NO.	DESCRIPTION	(A) COMPANY ACTUAL COSTS (CAN \$)	(B) RUCO ALLOWED % OF COSTS	(C) RUCO ALLOWABLE COSTS	(D) RUCO UTILITIES % ALLOCATION	(E) RUCO ALLOCATED COSTS	(F) ALLOCATION % To BVWC	(G) RUCO ALLOCATED BVWC COSTS
1	Audit	\$ 778,285	25.00%	\$ 194,571	25.35%	\$ 49,328	12.74%	\$ 6,285
2	Tax Services	518,775	25.00%	129,694	25.35%	32,880	12.74%	4,189
3	Legal	159,053	25.00%	39,763	25.35%	10,081	12.74%	1,284
4	Other Professional Services	506,082	0.00%	-	25.35%	-	12.74%	-
5	Management Fee - Total	644,943	0.00%	-	25.35%	-	12.74%	-
6	Unit Holder Communications	156,766	0.00%	-	25.35%	-	12.74%	-
7	Trustee Fees	129,000	0.00%	-	25.35%	-	12.74%	-
8	Escrow & Transfer Agent Fees	96,138	0.00%	-	25.35%	-	12.74%	-
9	Rent	307,337	0.00%	-	25.35%	-	12.74%	-
10	Licenses/Fees & Permits	17,561	0.00%	-	25.35%	-	12.74%	-
11	Office Expenses	579,379	0.00%	-	25.35%	-	12.74%	-
12	Depreciation	211,653	25.00%	52,913	25.35%	13,415	12.74%	1,709
13	TOTAL	\$ 4,104,971		\$ 416,941		\$ 105,703		\$ 13,467
14	Company's APT Cost Allocation for Bella Vista in Canadian Dollars (Per RUCO DR 3.01)							\$ 141,127
15	Conversion Factor to Convert Canadian Dollars to US Dollars per <a href="http://moneycentral.msn.com">http://moneycentral.msn.com</a> on June 9, 2010							0.96293
16	Company's APT Cost Allocation for Bella Vista in US Dollars							\$ 135,896
17	RUCO's Allowed APT Cost Allocations in US Dollars							\$ 12,968
18	RUCO's APT Cost Allocation Adjustment for Bella Vista in US Dollars							<u>(122,927)</u>
19	RUCO Adjustment (See RLM-7, Column (E))							<u>(122,927)</u>

References:

- Columns (A) (D) (F): Company Response To RUCO Data Requestion 3.01
- Column (B): Testimony, RUCO Witness Tim Coley
- Column (C): Sum Of Columns (A) & (B)
- Column (E): Column (C) X Column (D)
- Column (G): Column (E) X Column (F)

**OPERATING INCOME ADJUSTMENT #6(B)**  
**APT CORPORATE COST ALLOCATIONS ADJUSTMENT**

Line No.	Description	Company Adjusted Costs	RUCO Other Disallowed Costs	RUCO Allowable Costs	RUCO 2009 Allocation Factor	RUCO Allowed Allocated Costs	Allocation % To BV	RUCO Amount Allocated To BV
1	Rent	273,965	(273,965)	-	25.35%	-	14.52%	-
2	Audit	680,812	(510,609)	170,203	25.35%	43,150	14.52%	6,267.11
3	Tax Services	469,804	(352,353)	117,451	25.35%	29,776	14.52%	4,324.71
4	Legal - General	138,531	(103,898)	34,633	25.35%	8,780	14.52%	1,275.22
5	Other Professional Services	452,202	(452,202)	-	25.35%	-	14.52%	-
6	Management Fee	563,803	(563,803)	-	25.35%	-	14.52%	-
7	Unit Holder Communications	145,658	(145,658)	-	25.35%	-	14.52%	-
8	Trustee Fees	127,116	(127,116)	-	25.35%	-	14.52%	-
9	Office Costs	425,755	(425,755)	-	25.35%	-	14.52%	-
10	Licenses/Fees and Permits	14,565	(14,565)	-	25.35%	-	14.52%	-
11	Escrow and Transfer Fees	85,354	(85,354)	-	25.35%	-	14.52%	-
12	Depreciation Expense	189,797	(142,348)	47,449	25.35%	12,029	14.52%	1,747.15
<b>Total</b>		<u>3,567,363</u>	<u>(3,197,626)</u>	<u>369,736</u>		<u>93,736</u>		<u>13,614</u>
RUCO Direct Testimony Amount of APT Costs Allowed								14,707
RUCO Surrebuttal Testimony Company Adjusted APT Costs Allowed								(1,093)
Bella Vista Customer Count Allocation Factor								87.72%
RUCO's Adjustment per Company's Rebuttal Adjustment								(959)

**OPERATING INCOME ADJUSTMENT #6(C)  
 RUCO's APT CORPORATE COST ALLOCATIONS ADJUSTMENT**

Line No.	Description	Company Test-Year Booked APT Amount
1	Company's Total APT Test-Year Book Costs per RUCO Informal 2nd Set of Data Requests #5.0	\$ 156,149
2	Company's Total APT Test-Year End Costs per RUCO Formal Data Request #3.01	<u>144,906</u>
3	APT Costs Overstated in the Company's Direct Rate Application	\$ (11,243)
4	Bella Vista (Stand Alone) Customer Count Allocation Factor	87.72%
5	RUCO's Adjustment to Bella Vista (Stand Alone) APT Costs for Outside Services - Other Account	<u>\$ (9,863)</u>

**Notes:**

Line 1 - Company's Response to RUCO 2nd Set of Data Request #5.01 reconciles to the Company's Rate Application Test-Year Book Outside Services - Other Account in the Amount of \$156,149.21

Line 2 - Company Response to RUCO Formal Data Request 3.01 for APT Costs in the Amount of \$144,906

**SURREBUTTAL**  
**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 8**  
**INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
<b>FEDERAL INCOME TAXES:</b>			
1	Operating Income Before Taxes	Sch. SURR RLM-6, Column (C), L29 + L27	\$ 311,073
LESS:			
2	Arizona State Tax	Line 11	(17,096)
3	Interest Expense	Note (A) Line 20	(65,717)
4	Federal Taxable Income	Sum Of Lines 1 Thru 3	<u>\$ 228,260</u>
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	<u>\$ 77,608</u>
<b>STATE INCOME TAXES:</b>			
7	Operating Income Before Taxes	Line 1	\$ 311,073
LESS:			
8	Interest Expense	Note (A) Line 20	(65,717)
9	State Taxable Income	Sum Of Lines 7 & 8	<u>\$ 245,356</u>
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	<u>\$ 17,096</u>
<b>TOTAL INCOME TAX EXPENSE:</b>			
12	Federal Income Tax Expense	Line 6	\$ 77,608
13	State Income Tax Expense	Line 11	17,096
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	<u>\$ 94,705</u>
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		<u>(10,068)</u>
16	Total Income Tax Adjustment	Line 14 - Line 15	<u>\$ 104,773</u>
17	RUCO Adjustment (See Sch. SURR RLM-7, Column (K), L278)	Line 16	<u>\$ 104,773</u>

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (Sch. SURR RLM-2, Col. (E), L15)	\$ 3,769,607
19	Weighted Cost Of Debt (Sch. RLM-14, Col. (F), L1)	1.74%
20	Interest Expense (L17 X L18)	<u>\$ 65,717</u>

**SURREBUTTAL**  
**RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**  
**PROPOSED REVENUE**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
		TEST YEAR ADJUSTED DETERMINANTS	PROPOSED CHARGES & USAGE FEES	PROPOSED REVENUES	TOTAL REVENUES
<b>RESIDENTIAL CUSTOMERS</b>					
1	5/8" X 3/4" Meter	88,860	\$ 15.08	\$ 1,339,597	\$ 1,339,597
	Commodity Usage (In Thousands Of Gallons)				
2	First Tier -Breakover @ 4,000 Gals.	287,256	\$ 1.2495	\$ 358,918	
3	Second Tier - Breakover @ 10,000 Gals.	182,634	\$ 1.8211	\$ 332,600	
4	Third Tier - Over 10,000 Gals.	117,683	\$ 2.1478	\$ 252,758	
8	Total Commodity Usage And Revenue	587,573			\$ 944,277
9	3/4" Meter	396	\$ 22.61	\$ 8,955	\$ 8,955
	Commodity Usage (In Thousands Of Gallons)				
10	First Tier -Breakover @ 4,000 Gals.	1,224	\$ 1.2495	\$ 1,530	
11	Second Tier - Breakover @ 10,000 Gals.	534	\$ 1.8211	\$ 973	
12	Third Tier - Over 10,000 Gals.	39	\$ 2.1478	\$ 84	
16	Total Commodity Usage And Revenue	1,798			\$ 2,587
17	1" Meter	96	\$ 33.92	\$ 3,256	\$ 3,256
	Commodity Usage (In Thousands Of Gallons)				
18	First Tier -Breakover @ 10,000 Gals.	764	\$ 1.1841	\$ 904	
19	Second Tier - Over 10,000 Gals.	965	\$ 1.5516	\$ 1,497	
24	Total Commodity Usage And Revenue	1,728			\$ 2,401
33	2" Meter	12	\$ 84.42	\$ 1,013	\$ 1,013
	Commodity Usage (In Thousands Of Gallons)				
34	First Tier -Breakover @ 50,000 Gals.	129	\$ 1.1841	\$ 152	
35	Second Tier - Over 50,000 Gals.	-	\$ 1.5516	\$ -	
40	Total Commodity Usage And Revenue	129			\$ 152
41	Total Residential Customer Bills	89,364		\$ 1,352,821	
42	Total Residential Usage	591,227		\$ 949,417	
43	TOTAL RESIDENTIAL CUSTOMERS REVENUE				\$ 2,302,238
<b>COMMERCIAL CUSTOMERS</b>					
44	5/8" X 3/4" Meter	4,572	\$ 15.08	\$ 68,925	\$ 68,925
	Commodity Usage (In Thousands Of Gallons)				
45	First Tier -Breakover @ 4,000 Gals.	11,729	\$ 1.1841	\$ 13,889	
46	Second Tier - Over 4,000 Gals.	21,935	\$ 1.5516	\$ 34,034	
51	Total Commodity Usage And Revenue	33,663			\$ 47,923
52	3/4" Meter	72	\$ 22.61	\$ 1,628	\$ 1,628
	Commodity Usage (In Thousands Of Gallons)				
53	First Tier -Breakover @ 4,000 Gals.	237	\$ 1.1841	\$ 281	
54	Second Tier - Over 4,000 Gals.	732	\$ 1.5516	\$ 1,137	
59	Total Commodity Usage And Revenue	969			\$ 1,417
60	1" Meter	1,668	\$ 30.15	\$ 50,291	\$ 50,291
	Commodity Usage (In Thousands Of Gallons)				
61	First Tier -Breakover @ 10,000 Gals.	10,702	\$ 1.1841	\$ 12,673	
62	Second Tier - Over 10,000 Gals.	13,467	\$ 1.5516	\$ 20,896	
67	Total Commodity Usage And Revenue	24,170			\$ 33,569
68	1.5" Meter	1,020	\$ 67.84	\$ 69,196	\$ 69,196
	Commodity Usage (In Thousands Of Gallons)				
69	First Tier -Breakover @ 25,000 Gals.	17,687	\$ 1.1841	\$ 20,944	
70	Second Tier - Over 25,000 Gals.	28,480	\$ 1.5516	\$ 44,191	
75	Total Commodity Usage And Revenue	46,167			\$ 65,135

**SURREBUTTAL  
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE  
PROPOSED REVENUE**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
		TEST YEAR ADJUSTED DETERMINANTS	PROPOSED CHARGES & USAGE FEES	PROPOSED REVENUES	TOTAL REVENUES
76	2" Meter Commodity Usage (In Thousands Of Gallons)	3,264	\$ 84.42	\$ 275,553	\$ 275,553
77	First Tier -Breakover @ 50,000 Gals.	101,196	\$ 1.1841	\$ 119,831	
78	Second Tier - Over 50,000 Gals.	178,887	\$ 1.5516	\$ 277,567	
83	Total Commodity Usage And Revenue	280,083			\$ 397,398
	3" Meter Commodity Usage (In Thousands Of Gallons)	312	\$ 168.84	\$ 52,679	\$ 52,679
	First Tier -Breakover @ 80,000 Gals.	20,136	\$ 1.1841	\$ 23,843	
	Second Tier - Over 80,000 Gals.	31,283	\$ 1.5516	\$ 48,540	
	Total Commodity Usage And Revenue	51,419			\$ 72,383
	4" Meter Commodity Usage (In Thousands Of Gallons)	36	\$ 282.66	\$ 10,176	\$ 10,176
	First Tier -Breakover @ 350,000 Gals.	7,922	\$ 1.1841	\$ 9,381	
	Second Tier - Over 350,000 Gals.	13,540	\$ 1.5516	\$ 21,009	
	Total Commodity Usage And Revenue	21,462			\$ 30,390
84	6" Meter Commodity Usage (In Thousands Of Gallons)	12	\$ 753.77	\$ 9,045	\$ 9,045
85	First Tier -Breakover @ 450,000 Gals.	468	\$ 1.1841	\$ 554	
86	Second Tier - Over 450,000 Gals.	-	\$ 1.5516	\$ -	
91	Total Commodity Usage And Revenue	468			\$ 554
92	8" Meter Commodity Usage (In Thousands Of Gallons)	12	\$ 1,206.03	\$ 14,472	\$ 14,472
93	First Tier -Breakover @ 720,000 Gals.	31	\$ 1.1841	\$ 36	
94	Second Tier - Over 720,000 Gals.	-	\$ 1.5516	\$ -	
99	Total Commodity Usage And Revenue	31			\$ 36
100	Total Commercial Customer Bills	10,968		\$ 551,966	
101	Total Commercial Usage	458,432		\$ 648,806	
102	TOTAL COMMERCIAL CUSTOMERS REVENUE				\$ 1,200,772
	<b>HYDRANT CUSTOMERS</b>				
103	3" Meter Commodity Usage (In Thousands Of Gallons)	168	\$ 120.60	\$ 20,261	\$ 20,261
104	All Usage	5,094	\$ 2.1478	\$ 10,941	
110	Total Commodity Usage And Revenue	5,094			\$ 10,941
159	Total Hydrant Customer Bills	168			
160	Total Hydrant Usage	5,094			
161	TOTAL HYDRANT CUSTOMERS REVENUE				\$ 31,202
	<b>FIRE SPRINKLER CUSTOMERS</b>				
194	4" Meter	1,188	\$ 12.25	\$ 14,553	\$ 14,553
202	6" Meter	252	\$ 13.57	\$ 3,419	\$ 3,419
210	8" Meter	12	\$ 21.71	\$ 261	\$ 261
68	Total Fire Sprinkler Customer Bills	1,452			

**SURREBUTTAL  
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE  
PROPOSED REVENUE**

LINE NO.	DESCRIPTION	(A) TEST YEAR ADJUSTED DETERMINANTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
70	TOTAL FIRE SPRINKLER CUSTOMERS REVENUE				\$ 18,232
189	RUCO TOTAL PROPOSED REVENUE PER BILL COUNT				\$ 3,552,444
	Total Company Customer Bills	<u>101,952</u>			
	Total Company Usage	<u>1,054,753</u>			
190	TOTAL RESIDENTIAL REVENUE PER BILL COUNT				\$ 2,302,238
191	TOTAL COMMERCIAL REVENUE PER BILL COUNT				1,200,772
192	TOTAL HYDRANT REVENUE PER BILL COUNT				31,202
194	TOTAL FIRE SPRINKLER REVENUE PER BILL COUNT				18,232
197	RUCO TOTAL PROPOSED REVENUE PER BILL COUNT				<u>\$ 3,552,444</u>
198	Unreconciled Difference vs. Billed Revenues				2,245
200	Miscellaneous Revenues				125,141
200	RUCO TOTAL REVENUE				<u>\$ 3,679,831</u>
201	PROPOSED REVENUE PER RUCO SCHEDULE RLM-1				\$ 3,679,831
202	Difference				\$ (0)
203	Percentage Difference				0.00%

**SURREBUTTAL**

**TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
<b>REVENUE ALLOCATION</b>							
1	RESIDENTIAL	\$ 2,164,639	63.66%	\$ 2,819,405	64.70%	\$ 2,302,238	64.81%
2	OTHER	1,235,833	36.34%	1,537,943	35.30%	1,250,206	35.19%
3	TOTAL	<u>\$ 3,400,472</u>	<u>100.00%</u>	<u>\$ 4,357,348</u>	<u>100.00%</u>	<u>\$ 3,552,444</u>	<u>100.00%</u>
<b>ALLOCATION RATIOS</b>							
4	FIX REVENUE	\$ 1,723,095	50.67%	\$ 2,386,903	54.78%	\$ 1,943,281	54.70%
5	VARIABLE REVENUE	1,677,377	49.33%	1,970,445	45.22%	1,609,164	45.30%
6	TOTAL	<u>\$ 3,400,472</u>	<u>100.00%</u>	<u>\$ 4,357,348</u>	<u>100.00%</u>	<u>\$ 3,552,444</u>	<u>100.00%</u>

**RESIDENTIAL (5/8" X 3/4") RATE DESIGN**

LINE NO.	DESCRIPTION	PRESENT	COMPANY PROPOSED	RUCO PROPOSED
7	BASIC MONTHLY CHARGE	BVWC \$ 15.00	STAND-ALONE \$ 18.46	STAND-ALONE \$ 15.08
<b>COMMODITY CHARGE</b>				
		PRESENT	COMPANY PROPOSED	RUCO PROPOSED
		BVWC	STAND-ALONE	STAND-ALONE
8	1st Tier - Breakover	\$ 0.9700	\$ 1.5300	\$ 1.2495
9	2nd Tier - Breakover	\$ 1.8900	\$ 2.2300	\$ 1.8211
10	3rd Tier - Over	\$ 2.4100	\$ 2.6300	\$ 2.1478

**SURREBUTTAL**

**TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	BELLA VISTA RESIDENTIAL (5/8" X 3/4") METER					
	(A) VARIABLE MONTHLY USAGE	(B) PERCENT AVERAGE USAGE OF 6,612	(C) PRESENT TOTAL MONTHLY COST	(D) RUCO MONTHLY COST	(E) RUCO MONTHLY INCREASE	(F) % MONTHLY INCREASE
1	1,653	25.00%	\$ 16.60	\$ 17.14	\$ 0.54	3.24%
2	3,306	50.00%	\$ 18.21	\$ 19.21	\$ 1.00	5.49%
3	6,612	100.00%	\$ 22.90	\$ 24.83	\$ 1.93	8.44%
4	9,918	150.00%	\$ 29.14	\$ 30.85	\$ 1.71	5.85%
5	13,223	200.00%	\$ 35.39	\$ 36.87	\$ 1.48	4.18%

AVERAGE RESIDENTIAL BILL COMPARISONS  
 COST OF WATER SERVICE AT  
 DIFFERENT LEVELS OF USAGE WITH  
 PERCENTAGE INCREASE IN BILL

MEDIAN RESIDENTIAL BILL COMPARISONS  
 COST OF WATER SERVICE AT  
 DIFFERENT LEVELS OF USAGE WITH  
 PERCENTAGE INCREASE IN BILL

	VARIABLE MONTHLY USAGE	PERCENT MEDIAN USAGE OF 4,500	PRESENT TOTAL MONTHLY COST	RUCO MONTHLY COST	RUCO MONTHLY INCREASE	% MONTHLY INCREASE
6	1,125	25.00%	\$ 16.09	\$ 16.48	\$ 0.39	2.42%
7	2,250	50.00%	\$ 17.18	\$ 17.89	\$ 0.70	4.10%
8	4,500	100.00%	\$ 19.37	\$ 20.98	\$ 1.62	8.36%
9	6,750	150.00%	\$ 21.55	\$ 25.08	\$ 3.53	16.40%
10	9,000	200.00%	\$ 23.73	\$ 29.18	\$ 5.45	22.96%



Northern Sunrise Water Company (Stand-Alone)  
Docket No. W-02453A-09-0411 et al.  
Test Year Ended March 31, 2009

**SURREBUTTAL**  
**TABLE OF CONTENTS TO RLM SCHEDULES**

SCH. NO.	PAGE NO.	TITLE
SURR RLM-1	1	REVENUE REQUIREMENT
SURR RLM-2	1	RATE BASE
SURR RLM-3	1	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
RLM-4	1	RATE BASE ADJUSTMENT NO. 1 - POST TEST YEAR PLANT AND ACCUMULATED DEPRECIATION
DIRECT TESTIMONY		RATE BASE ADJUSTMENT NO. 2 - CUSTOMER DEPOSITS
SURR RLM-5A & 5B	1	RATE BASE ADJUSTMENT NO. 3 - ACCUMULATED DEFERRED INCOME TAXES
SURR TESTIMONY		RATE BASE ADJUSTMENT NO. 5 - AFUDC
SURR TESTIMONY		RATE BASE ADJUSTMENT NO. 6 - ACQUISITION COSTS FROM PURCHASE OF MCCLAIN SYSTEMS
SURR RLM-6	1	OPERATING INCOME
SURR RLM-7	1	SUMMARY OF OPERATING INCOME ADJUSTMENTS
SURR RLM-8	1	OPERATING INCOME ADJUSTMENT NO. 1 - TEST YEAR DEPRECIATION EXPENSE
SURR RLM-9	1	OPERATING INCOME ADJUSTMENT NO. 2 - PROPERTY TAX COMPUTATION
SURR RLM-10	1	OPERATING INCOME ADJUSTMENT NO. 3 - MISCELLANEOUS EXPENSES
SURR TESTIMONY		OPERATING INCOME ADJUSTMENT NO. 4 - WATER TESTING EXPENSE
SURR TESTIMONY		OPERATING INCOME ADJUSTMENT NO. 5 - TRANSPORTATION EXPENSE
SURR RLM-11A	1	OPERATING INCOME ADJUSTMENT NO. 6A - CENTRAL OFFICE COST ALLOCATION
SURR RLM-11B	1	OPERATING INCOME ADJUSTMENT NO. 6B - CENTRAL OFFICE COST ALLOCATION
SURR RLM-11C	1	OPERATING INCOME ADJUSTMENT NO. 6C - CENTRAL OFFICE COST ALLOCATION
RLM-12	1	OPERATING INCOME ADJUSTMENT NO. 7 - RATE CASE EXPENSE
SURR RLM-13	1	OPERATING INCOME ADJUSTMENT NO. 8 - INCOME TAX EXPENSE
SURR RLM-RD1	1 TO 3	RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
SURR RLM-RD2	1 TO 2	TYPICAL RESIDENTIAL BILL ANALYSIS

**SURREBUTTAL  
REVENUE REQUIREMENT**

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Fair Value Rate Base	\$ 742,658	\$ 660,635
2	Adjusted Operating Income (Loss)	\$ (81,316)	\$ (75,328)
3	Current Rate Of Return (L2 / L1)	-10.95%	-11.40%
4	Required Operating Income (L5 X L1)	\$ 95,060	\$ 52,217
5	Required Rate Of Return On Fair Value Rate Base	12.80%	7.90%
6	Operating Income Deficiency (L4 - L2)	\$ 176,376	\$ 127,544
7	Gross Revenue Conversion Factor (RLM-1, Pg 2)	1.4517	1.2646
8	Increase In Gross Revenue Requirement (L7 X L6)	<b>\$ 256,044</b>	<b>\$ 161,291</b>
9	Adjusted Test Year Revenue	\$ 191,966	\$ 191,966
10	Proposed Annual Revenue (L8 + L9)	\$ 448,011	\$ 353,258
11	Required Percentage Increase In Revenue (L8 / L9)	133.38%	84.02%
12	Rate Of Return On Common Equity	12.50%	9.00%

References:

Column (A): Company Schedules A-1 and C-1  
Column (B): RUCO Schedule SURR RLM-2, SURR RLM-6, And RLM-14

**SURREBUTTAL**  
**SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 815,886	\$ (29,376)	\$ 786,510
2	Accumulated Depreciation	(42,739)	4,879	(37,860)
3	Net Utility Plant In Service (L1 + L2)	<u>\$ 773,147</u>	<u>\$ (24,497)</u>	<u>\$ 748,650</u>
4	Advances In Aid Of Const.	\$ -	\$ -	\$ -
5	Contribution In Aid Of Const.	\$ (26,000)	\$ -	\$ (26,000)
6	Accumulated Amortization Of CIAC	63	-	63
7	NET CIAC (L5 + L6)	<u>\$ (25,937)</u>	<u>\$ -</u>	<u>\$ (25,937)</u>
8	Customer Meter Deposits	\$ (410)	\$ -	\$ (410)
9	Customer Hydrant Meter Deposits	\$ -	\$ -	\$ -
10	Deferred Income Taxes & Credits	\$ (4,144)	\$ (57,525)	\$ (61,668)
11	Unamortized Finance Charges	\$ -	\$ -	\$ -
12	Deferred Regulatory Assets	\$ -	\$ -	\$ -
13	Allowance For Working Capital	\$ -	\$ -	\$ -
14	TOTAL RATE BASE (Sum L's 3, 4, 7, 8 Thru 12)	<u>\$ 742,657</u>	<u>\$ (82,022)</u>	<u>\$ 660,635</u>

References:

- Column (A): Company Schedule B-2, Page 1 And Workpapers Schedule E-1
- Column (B): SURR RLM-3, Columns (B) Thru (G)
- Column (C): Column (A) + Column (B)

**SURREBUTTAL**  
**SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCR/FVRB	(B) ADJ #1 POST TY PLT & ACC DEP	(C) ADJ #2 CUSTOMER DEPOSITS	(D) ADJ #3 DEFERRED INCOME TAX	(E) ADJ #5 AFUDC	(F) ADJ #6 McCLAIN ACQ. COSTS	(G) RUCO ADJUSTED OCR/FVRB
1	Gross Utility Plant In Service	\$ 815,886	-	-	-	\$ (13,740)	\$ (15,636)	\$ 786,510
2	Accumulated Depreciation	(42,739)	4,879	-	-	-	-	(37,860)
3	Net Utility Plant In Service (L1 + L2)	<u>\$ 773,147</u>	<u>\$ 4,879</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (13,740)</u>	<u>\$ (15,636)</u>	<u>\$ 748,650</u>
4	Advances In Aid Of Const.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5	Contribution In Aid Of Const.	\$ (26,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (26,000)
6	Accumulated Amortization Of CIAC	63	-	-	-	-	-	63
7	NET CIAC (L5 + L6)	<u>\$ (25,937)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (25,937)</u>
8	Customer Meter Deposits	\$ (410)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (410)
9	Customer Hydrant Meter Deposits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10	Deferred Income Taxes & Credits	\$ (4,144)	\$ -	\$ -	\$ (57,525)	\$ -	\$ -	\$ (61,668)
11	Unamortized Finance Charges	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12	Deferred Regulatory Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Allowance For Working Capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	TOTAL RATE BASE (Sum L's 3, 4, 7, 8 Thru 12)	<u>\$ 742,657</u>	<u>\$ 4,879</u>	<u>\$ -</u>	<u>\$ (57,525)</u>	<u>\$ (13,740)</u>	<u>\$ (15,636)</u>	<u>\$ 660,635</u>

References:

- Column (A): Company Schedule B-2, Page 1 And Workpapers Schedule E-1
- Column (B): Adjustment No. 1 - RUCO Adjustment To Post Test-Year GPS And Acc. Dep. (See Testimony and Schedule RLM-4)
- Column (C): Adjustment No. 2 - RUCO Adjustment To Customer Deposits (See Testimony)
- Column (D): Adjustment No. 3 - RUCO Adjustment To Deferred Income Taxes (See Testimony Of RUCO Witness Tim Coley and Schedule SURR RLM-5A & 5B)
- Column (E): Adjustment No. 5 - RUCO Adjustment To AFUDC (See Surrebittal Testimony, RLM)
- Column (F): Adjustment No. 6 - RUCO Adjustment To Acquisition Costs (See Surrebittal Testimony, RLM)
- Column (G): Sum Of Columns (A), (B), (C), (D), (E) & (F)



**SURREBUTTAL  
ACCUMULATED DEFERRED INCOME TAXES**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
Deferred Income Taxes:			
1	Algonquin Accumulated Deferred Income Tax Assets	2008 Algonquin Annual Report	\$ 23,032,000
2	Algonquin Accumulated Deferred Income Tax Liabilities	2008 Algonquin Annual Report	(106,983,000)
3	Net Accumulated Deferred Income Tax Assets (Liabilities)	Line 1 + Line 2	\$ (83,951,000)
4	Bella Vista Consolidated Allocation	Note (A)	1.5438%
5	Bella Vista Consolidated ADIT Liabilities Allocation	Line 3 X Line 4	\$ (1,296,004)
6	Convert to US Dollars	Note (B)	0.9915
7	Bella Vista Consolidated Allocated ADIT Liabilities Balance	Line 5 X Line 6	\$ (1,284,949)
8	Total Consolidated ADIT as Filed by Company	Company Schedule C-1	173,329
9	Decrease In Deferred Income Tax Assets	Line 7 - Line 8	\$ (1,458,278)
10	Total Northern Sunrise Customer Count Factor	Per Company	0.0363
11	RUCO Adjustment (See SURR RLM-3, Column (D), Line 11)	Line 9 X Line 10	(52,949)

NOTES:

12	(A)	Purchase Price of NSWC	Annual Report	\$ 15,100,000
13		Algonquin Total Assets	Annual Report	\$ 978,130,000
14		Ratio Of NSWC To Algonquin Total Assets	Line 12 / Line 13	1.5438%
15	(B)	Currency Conversion	moneycentral.com on 04/1/2010	0.9915

SUPPORTING SCHEDULES

2008 Algonquin Power Income Fund Annual Report

**SURREBUTTAL  
OPERATING INCOME**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJ'MTS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
Revenues:						
1	Flat Rate Revenues	\$ 188,672	\$ -	\$ 188,672	\$ 161,291	\$ 349,964
2	Misc. Service Revenues	-	-	-	-	-
3	Other WW Revenues	3,294	-	3,294	-	3,294
4	<b>TOTAL OPERATING REVENUE</b>	<b>\$ 191,966</b>	<b>\$ -</b>	<b>\$ 191,966</b>	<b>\$ 161,291</b>	<b>\$ 353,258</b>
Operating Expenses:						
5	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -
6	Purchased Water	-	-	-	-	-
7	Purchased Power	16,012	-	16,012	-	16,012
8	Fuel for Power Production	-	-	-	-	-
9	Chemicals	178	-	178	-	178
10	Materials & Supplies	5,094	-	5,094	-	5,094
11	Outside Services	-	-	-	-	-
12	Outside Services- Legal	1,302	-	1,302	-	1,302
13	Outside Services- Other	161,902	(5,536)	156,366	-	156,366
14	Water Testing	3,787	570	4,357	-	4,357
15	Equipment Rental	140	-	140	-	140
16	Rents	-	-	-	-	-
17	Transportation Expenses	21,524	(647)	20,877	-	20,877
18	Insurance - General Liability	9,692	-	9,692	-	9,692
19	Insurance - Health and Life	-	-	-	-	-
20	Reg. Comm. Exp.	587	-	587	-	587
21	Reg. Comm. Exp. - Rate Case	25,000	(8,693)	16,307	-	16,307
22	Miscellaneous Expense	11,726	(610)	11,116	-	11,116
23	Bad Debt Expense	3,306	-	3,306	-	3,306
24	Depreciation Expense	36,631	(2,225)	34,406	-	34,406
25	Taxes Other Than Income	-	-	-	-	-
26	Property Taxes	13,128	(1,266)	11,862	-	11,862
27	Income Tax	(36,727)	12,419	(24,308)	33,747	9,439
28	<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 273,282</b>	<b>\$ (5,988)</b>	<b>\$ 267,294</b>	<b>\$ 33,747</b>	<b>\$ 301,041</b>
29	<b>OPERATING INCOME (LOSS)</b>	<b>\$ (81,316)</b>		<b>\$ (75,328)</b>		<b>\$ 52,217</b>

References:

- Column (A): Company Schedule C-1
- Column (B): SURR RLM-7, Columns (B) Thru (H)
- Column (C): Column (A) + Column (B)
- Column (D): Revenue From SURR RLM-1, Column (B), Line 8 And Income Tax From SURR RLM-1, Column (B), Line 8 - Line 6
- Column (E): Column (C) + Column (D)

**SURREBTUTTAL**  
**SUMMARY OF OPERATING INCOME ADJUSTMENTS**  
**TEST YEAR AS FILED AND ADJUSTMENTS**

LINE NO	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ # 1 DEP. EXPENSE	(C) ADJ # 2 PROPERTY TAX	(D) ADJ # 3 MISC. EXPENSES	(E) ADJ # 4 WATER TEST EXPENSES	(F) ADJ # 5 TRANSPORT EXPENSES	(G) ADJ # 6A CENTRAL OFFICE COST	(H) ADJ # 6B CENTRAL OFFICE COST	(I) ADJ # 6C CENTRAL OFFICE COST	(J) ADJ # 7 RATE CASE EXPENSES	(K) ADJ # 8 INCOME TAX	(L) RUCO AS ADJTD
1	Revenues:												
2	Fat Rate Revenues	\$ 188,672	-	-	-	-	-	-	-	-	-	-	\$ 188,672
3	Misc. Service Revenues	-	-	-	-	-	-	-	-	-	-	-	-
4	Other WW Revenues	3,294	-	-	-	-	-	-	-	-	-	-	3,294
4	TOTAL OPR'G REV.	\$ 191,966	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 191,966
5	Operating Expenses:												
5	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6	Purchased Water	-	-	-	-	-	-	-	-	-	-	-	-
7	Purchased Power	16,012	-	-	-	-	-	-	-	-	-	-	16,012
8	Fuel for Power Production	-	-	-	-	-	-	-	-	-	-	-	-
9	Chemicals	178	-	-	-	-	-	-	-	-	-	-	178
10	Materials & Supplies	5,084	-	-	-	-	-	-	-	-	-	-	5,084
11	Outside Services	-	-	-	-	-	-	-	-	-	-	-	-
12	Outside Services- Legal	1,302	-	-	-	-	-	-	-	-	-	-	1,302
13	Outside Services- Other	161,902	-	-	-	-	-	(5,088)	(40)	(408)	-	-	156,366
14	Water Testing	3,787	-	-	-	570	-	-	-	-	-	-	4,357
15	Equipment Rental	140	-	-	-	-	-	-	-	-	-	-	140
16	Rents	-	-	-	-	-	-	-	-	-	-	-	-
17	Transportation Expenses	21,524	-	-	-	-	(647)	-	-	-	-	-	20,877
18	Insurance - General Liability	9,692	-	-	-	-	-	-	-	-	-	-	9,692
19	Insurance - Health and Life	-	-	-	-	-	-	-	-	-	-	-	-
20	Reg. Comm. Exp.	587	-	-	-	-	-	-	-	-	-	-	587
21	Reg. Comm. Exp. - Rate Case	25,000	-	-	-	-	-	-	-	-	(8,693)	-	16,307
22	Miscellaneous Expense	11,726	-	-	(610)	-	-	-	-	-	-	-	11,116
23	Bad Debt Expense	3,306	-	-	-	-	-	-	-	-	-	-	3,306
24	Depreciation Expense	36,631	(2,225)	-	-	-	-	-	-	-	-	-	34,406
25	Taxes Other Than Income	-	-	-	-	-	-	-	-	-	-	-	-
26	Property Taxes	13,128	-	(1,266)	-	-	-	-	-	-	-	-	11,862
27	Income Tax	(36,727)	-	-	-	-	-	-	-	-	-	12,419	(24,308)
29	TOTAL OPR'G EXP.	\$ 273,282	\$ (2,225)	\$ (1,266)	\$ (610)	\$ 570	\$ (647)	\$ (5,088)	\$ (40)	\$ (408)	\$ (8,693)	\$ -	\$ 267,294
30	OPRG INC. (LOSS)	\$ (81,316)											\$ (75,328)

References:

- Column (A): Company Schedule C-1
- Column (B): Surrebuttal Testimony, RLM And Schedule SURR RLM-8
- Column (C): Surrebuttal Testimony, RLM And Schedule SURR RLM-9
- Column (D): Surrebuttal Testimony, RLM And Schedule SURR RLM-10
- Column (E): Surrebuttal Testimony, RLM
- Column (F): Surrebuttal Testimony, RLM
- Column (G): Surrebuttal Testimony, TLC And Schedule SURR RLM-11A
- Column (H): Surrebuttal Testimony, TLC And Schedule SURR RLM-11B
- Column (I): Surrebuttal Testimony, TLC And Schedule SURR RLM-11C
- Column (J): Surrebuttal Testimony, RLM And Schedule SURR RLM-12
- Column (K): Surrebuttal Testimony, RLM And Schedule SURR RLM-13
- Column (L): Sum Of Columns (A) Thru (K)

**SURREBUTTAL**  
**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1**  
**TEST YEAR DEPRECIATION EXPENSE**

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) APPROVED DEPRECIATION RATE	(C) TEST YEAR DEPRECIATION EXPENSE
1	301	Organization Cost	\$ -	0.00%	\$ -
2	302	Franchise Cost	890	0.00%	-
3	303	Land and Land Rights	23,926	0.00%	-
4	304	Structures and Improvements	280,668	3.33%	9,346
5	305	Collecting and Impounding Res.	51,378	2.50%	1,284
6	306	Lake River and Other Intakes	-	2.50%	-
7	307	Wells and Springs	34,064	3.33%	1,134
8	308	Infiltration Galleries and Tunnels	-	6.67%	-
9	309	Supply Mains	-	2.00%	-
10	310	Power Generation Equipment	1,293	5.00%	65
11	311	Electric Pumping Equipment	91,019	12.50%	11,377
12	320	Water Treatment Equipment	-	3.33%	-
13	320.1	Water Treatment Equipment	-	3.33%	-
14	320.2	Chemical Solution Feeders	-	20.00%	-
15	330	Dist. Reservoirs & Standpipe	95,668	2.22%	2,124
16	330.1	Storage tanks	-	2.22%	-
17	330.2	Pressure Tanks	-	5.00%	-
18	331	Trans. and Dist. Mains	36,763	2.00%	735
19	333	Services	29,756	3.33%	991
20	334	Meters	3,449	8.33%	287
21	335	Hydrants	59,298	2.00%	1,186
22	336	Backflow Prevention Devices	-	6.67%	-
23	339	Other Plant and Misc. Equip.	23,472	6.67%	1,566
24	340	Office Furniture and Fixtures	-	6.67%	-
25	340.1	Computers and Software	-	20.00%	-
26	341	Transportation Equipment	-	20.00%	-
27	342	Stores Equipment	-	4.00%	-
28	343	Tools and Work Equipment	-	5.00%	-
29	344	Laboratory Equipment	-	10.00%	-
30	345	Power Operated Equipment	-	5.00%	-
31	346	Communications Equipment	5,881	10.00%	588
32	347	Miscellaneous Equipment	-	10.00%	-
33	348	Other Tangible Plant	48,984	10.00%	4,898
34		Rounding			
35		TOTAL WASTEWATER PLANT	<u>\$ 786,509</u>		<u>\$ 35,582</u>
36		Less: Amortizations Of CIAC (SURR RLM-2, Col. (C), Line 5)	\$ (26,000)	4.5241%	(1,176)
37		TOTAL DEPRECIATION EXPENSE (Line 35 + Line 36)			<u>\$ 34,406</u>
38		Test Year Depreciation Expense As Filed (Co. Sch. C-1)			36,631
39		Increase In Depreciation Expense (Line 37 - Line 38)			<u>\$ (2,225)</u>
40		RUCO Adjustment (Line 39) (See SURR RLM-7, Column (B), Line 25)			<u>\$ (2,225)</u>

References:

Columns (A) & (B): Company Rebuttal Schedule "C-2p1Depr"  
Column (C): Column (A) X Column (B)

**SURREBUTTAL**  
**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2**  
**PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	REFERENCE	(A) AMOUNT	(B) TOTAL
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	\$ 191,966	
2	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	191,966	
3	Proposed Revenues	Sch. RLM-6, Col (E), Ln 4	353,258	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	<u>\$ 737,191</u>	
5	Average Annual Operating Revenues	Line 4 / 3	<u>245,730</u>	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 491,460
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1	\$ 92,936	
8	10% Of CWIP	Line 7 X 10%		\$ 9,294
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	RLM-4, Col. (E), Ln 26	\$ -	
10	Acc. Dep. Of Transportation Equipment	RLM-4, Col. (F), Ln 26	<u>-</u>	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		<u>\$ 500,754</u>
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	21.0%	
14	Assessed Value	Line 12 X Line 13	\$ 105,158	
Property Tax Rates:				
15	Primary Tax Rate - 2009 Tax Notice	Co. Sch. C-2, Pg 3	11.1932%	
16	Secondary Tax Rate - 2009 Tax Notice	Co. Sch. C-2, Pg 3	<u>0.0000%</u>	
17	Estimated Tax Rate Liability	Line 15 + Line 16	11.19%	
18	Company's Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 11,771
19	Company's Tax on Parcels	Co. Sch. C-2, Pg 3		<u>\$ 91</u>
20	Company's Total Tax Liability	Line 18 + Line 19		\$ 11,862
21	Test Year Adjusted Property Tax Expense As Filing	Co. Sch. C-1, Line 26		<u>13,128</u>
22	Increase In Property Tax Expense	Line 20 - Line 21		\$ (1,266)
23	RUCO Adjustment (See SURR RLM-7, Column (C), Line 27)	Line 22		<u><u>\$ (1,266)</u></u>

**SURREBUTTAL**  
**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 3**  
**DISALLOWANCE OF MISCELLANEOUS EXPENSES**

LINE NO.	DESCRIPTION	REFERENCE	(A) TOTAL
	Disallowed Miscellaneous Expenses	Co. Response To Staff D. R. CSB 1-32	
1	Bella Vista Water Company Christmas Party		\$ -
2	Special Olympics Pledge		-
3	Muscular Distrophy Association Donation		-
4	Additional Disallowance By Company		(610)
5	RUCO Adjustment To Unnecessary/Non-Recurring Expenses	Sum Of Lines 1 Thru 17	<u>\$ (610)</u>
6	RUCO Adjustment (See SURR RLM-7, Column (D))	Line 18	<u>\$ (610)</u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 6(A)  
CENTRAL OFFICE COST ALLOCATIONS**

LINE NO.	DESCRIPTION	(A) COMPANY ACTUAL COSTS (CAN \$)	(B) RUCO ALLOWED % OF COSTS	(C) RUCO ALLOWABLE COSTS	(D) RUCO UTILITIES % ALLOCATION	(E) RUCO ALLOCATED COSTS	(F) ALLOCATION % To NSR	(G) RUCO ALLOCATED BWWC COSTS
1	Audit	\$ 778,285	25.00%	\$ 194,571	25.35%	\$ 49,328	0.53%	\$ 260
2	Tax Services	518,775	25.00%	129,694	25.35%	32,880	0.53%	173
3	Legal	159,053	25.00%	39,763	25.35%	10,081	0.53%	53
4	Other Professional Services	506,082	0.00%	-	25.35%	-	0.53%	-
5	Management Fee - Total	644,943	0.00%	-	25.35%	-	0.53%	-
6	Unit Holder Communications	156,766	0.00%	-	25.35%	-	0.53%	-
7	Trustee Fees	129,000	0.00%	-	25.35%	-	0.53%	-
8	Escrow & Transfer Agent Fees	96,138	0.00%	-	25.35%	-	0.53%	-
9	Rent	307,337	0.00%	-	25.35%	-	0.53%	-
10	Licenses/Fees & Permits	17,561	0.00%	-	25.35%	-	0.53%	-
11	Office Expenses	579,379	0.00%	-	25.35%	-	0.53%	-
12	Depreciation	211,653	25.00%	52,913	25.35%	13,415	0.53%	71
13	TOTAL	\$ 4,104,971		\$ 416,941		\$ 105,703		\$ 557
14	Company's APT Cost Allocation for Bella Vista in Canadian Dollars (Per RUCO DR 3.01)							\$ 5,841
15	Conversion Factor to Convert Canadian Dollars to US Dollars per <a href="http://moneycentral.msn.com">http://moneycentral.msn.com</a> on June 9, 2010							0.96293
16	Company's APT Cost Allocation for Bella Vista in US Dollars							\$ 5,825
17	RUCO's Allowed APT Cost Allocations in US Dollars							\$ 537
18	RUCO's APT Cost Allocation Adjustment for Bella Vista in US Dollars							<u>(5,088)</u>
19	RUCO Adjustment (See RLM-7, Column (E))							<u>(5,088)</u>

References:

- Column (A) (D) (F): Company Response To RUCO Data Requestion 3.01
- Column (B): Testimony, RUCO Witness Tim Coley
- Column (C): Sum Of Columns (A) & (B)
- Column (E): Column (C) X Column (D)
- Column (G): Column (E) X Column (F)

**OPERATING INCOME ADJUSTMENT #6(B)**  
**APT CORPORATE COST ALLOCATIONS ADJUSTMENT**

Line No.	Description	Company Adjusted Costs	RUCO Other Disallowed Costs	RUCO Allowable Costs	RUCO 2009 Allocation Factor	RUCO Allowed Allocated Costs	Allocation % To BVWC	RUCO Amount Allocated To NSR
1	Rent	273,965	(273,965)	-	25.35%	-	14.52%	-
2	Audit	680,812	(510,609)	170,203	25.35%	43,150	14.52%	6,267.11
3	Tax Services	469,804	(352,353)	117,451	25.35%	29,776	14.52%	4,324.71
4	Legal - General	138,531	(103,898)	34,633	25.35%	8,780	14.52%	1,275.22
5	Other Professional Services	452,202	(452,202)	-	25.35%	-	14.52%	-
6	Management Fee	563,803	(563,803)	-	25.35%	-	14.52%	-
7	Unit Holder Communications	145,658	(145,658)	-	25.35%	-	14.52%	-
8	Trustee Fees	127,116	(127,116)	-	25.35%	-	14.52%	-
9	Office Costs	425,755	(425,755)	-	25.35%	-	14.52%	-
10	Licenses/Fees and Permits	14,565	(14,565)	-	25.35%	-	14.52%	-
11	Escrow and Transfer Fees	85,354	(85,354)	-	25.35%	-	14.52%	-
12	Depreciation Expense	189,797	(142,348)	47,449	25.35%	12,029	14.52%	1,747.15
<b>Total</b>		<u>3,567,363</u>	<u>(3,197,626)</u>	<u>369,736</u>		<u>93,736</u>		<u>13,614</u>

RUCO Direct Testimony Amount of APT Costs Allowed

14,707

RUCO Surrebuttal Testimony Company Adjusted APT Costs Allowed

(1,093)

Northern Sunrise Customer Count Allocation Factor

3.63%

RUCO's Adjustment per Company's Rebuttal Adjustment

(40)

**OPERATING INCOME ADJUSTMENT #6(C)  
 RUCO's APT CORPORATE COST ALLOCATIONS ADJUSTMENT**

Line No.	Description	Company Test-Year Booked APT Amount
1	Company's Total APT Test-Year Book Costs per RUCO Informal 2nd Set of Data Requests #5.01	\$ 156,149
2	Company's Total APT Test-Year End Costs per RUCO Formal Data Request #3.01	<u>144,906</u>
3	APT Costs Overstated in the Company's Direct Rate Application	\$ (11,243)
4	Northern Sunrise (Stand Alone) Customer Count Allocation Factor	3.63%
5	RUCO's Adjustment to Northern Sunrise (Stand Alone) APT Costs	<u>\$ (408)</u>

**Notes:**

Line 1 - Company's Response to RUCO 2nd Set of Data Request #5.01 reconciles to the Company's Rate Application Test-Year Book Outside Services - Other Account in the Amount of \$156,149.21

Line 2 - Company Response to RUCO Formal Data Request 3.01 for APT Costs in the Amount of \$144,906

**SURREBUTTAL**  
**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 8**  
**INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
<b>FEDERAL INCOME TAXES:</b>			
1	Operating Income Before Taxes	Sch. SURR RLM-6, Column (C), L29 + L27	\$ (99,636)
LESS:			
2	Arizona State Tax	Line 11	8,095
3	Interest Expense	Note (A) Line 20	(16,542)
4	Federal Taxable Income	Sum Of Lines 1 Thru 3	<u>\$ (108,083)</u>
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	15.00%
6	Federal Income Tax Expense	Line 4 X line 5	<u>\$ (16,212)</u>
<b>STATE INCOME TAXES:</b>			
7	Operating Income Before Taxes	Line 1	\$ (99,636)
LESS:			
8	Interest Expense	Note (A) Line 20	(16,542)
9	State Taxable Income	Sum Of Lines 7 & 8	<u>\$ (116,178)</u>
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	<u>\$ (8,095)</u>
<b>TOTAL INCOME TAX EXPENSE:</b>			
12	Federal Income Tax Expense	Line 6	\$ (16,212)
13	State Income Tax Expense	Line 11	(8,095)
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	<u>\$ (24,308)</u>
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		<u>(36,727)</u>
16	Total Income Tax Adjustment	Line 14 - Line 15	<u>\$ 12,419</u>
17	RUCO Adjustment (See Sch. SURR RLM-7, Column (J), L27)	Line 16	<u>\$ 12,419</u>

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (Sch. SURR RLM-2, Col. (E), L15)	\$ 660,635
19	Weighted Cost Of Debt (Sch. RLM-14, Col. (F), L1)	2.50%
20	Interest Expense (L17 X L18)	<u>\$ 16,542</u>

**SURREBUTTAL  
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE  
PROPOSED REVENUE**

LINE NO.	DESCRIPTION	(A) TEST YEAR ADJUSTED DETERMINANTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
<b>RESIDENTIAL CUSTOMERS</b>					
1	5/8" X 3/4" Meter	4,116	59.33072376	\$ 244,205	\$ 244,205
	Commodity Usage (In Thousands Of Gallons)				
2	First Tier -Breakover @ 4,000 Gals.	11,901	\$ 3.8247	\$ 45,519	
3	Second Tier - Breakover @ 10,000 Gals.	7,596	\$ 4.6117	\$ 35,030	
4	Third Tier - Over 10,000 Gals.	4,174	\$ 5.5168	\$ 23,028	
8	Total Commodity Usage And Revenue	<u>23,671</u>			\$ 103,576
9	3/4" Meter	12	\$ 89.00	\$ 1,068	\$ 1,068
	Commodity Usage (In Thousands Of Gallons)				
10	First Tier -Breakover @ 4,000 Gals.	46	\$ 3.8247	\$ 174	
11	Second Tier - Breakover @ 10,000 Gals.	62	\$ 4.6117	\$ 284	
12	Third Tier - Over 10,000 Gals.	137	\$ 5.5168	\$ 756	
16	Total Commodity Usage And Revenue	<u>244</u>			\$ 1,213
17	1" Meter	-	\$ 133.49	\$ -	\$ -
	Commodity Usage (In Thousands Of Gallons)				
18	First Tier -Breakover @ 10,000 Gals.	-	\$ 3.8247	\$ -	
19	Second Tier - Over 10,000 Gals.	-	\$ 4.6117	\$ -	
24	Total Commodity Usage And Revenue	<u>-</u>			\$ -
33	2" Meter	-	\$ 332.25	\$ -	\$ -
	Commodity Usage (In Thousands Of Gallons)				
34	First Tier -Breakover @ 50,000 Gals.	-	\$ 3.8247	\$ -	
35	Second Tier - Over 50,000 Gals.	-	\$ 4.6117	\$ -	
40	Total Commodity Usage And Revenue	<u>-</u>			\$ -
41	Total Residential Customer Bills	<u>4,128</u>		<u>\$ 245,273</u>	
42	Total Residential Usage	<u>23,915</u>		<u>\$ 104,790</u>	
43	TOTAL RESIDENTIAL CUSTOMERS REVENUE				<u>\$ 350,063</u>
<b>COMMERCIAL CUSTOMERS</b>					
44	5/8" X 3/4" Meter	-	\$ 59.33	\$ -	\$ -
	Commodity Usage (In Thousands Of Gallons)				
45	First Tier -Breakover @ 4,000 Gals.	-	\$ 3.8247	\$ -	
46	Second Tier - Over 4,000 Gals.	-	\$ 4.6117	\$ -	
51	Total Commodity Usage And Revenue	<u>-</u>			\$ -
52	3/4" Meter	-	\$ 89.00	\$ -	\$ -
	Commodity Usage (In Thousands Of Gallons)				
53	First Tier -Breakover @ 4,000 Gals.	-	\$ 3.8247	\$ -	
54	Second Tier - Over 4,000 Gals.	-	\$ 4.6117	\$ -	
59	Total Commodity Usage And Revenue	<u>-</u>			\$ -
60	1" Meter	-	\$ 133.49	\$ -	\$ -
	Commodity Usage (In Thousands Of Gallons)				
61	First Tier -Breakover @ 10,000 Gals.	-	\$ 3.8247	\$ -	
62	Second Tier - Over 10,000 Gals.	-	\$ 4.6117	\$ -	
67	Total Commodity Usage And Revenue	<u>-</u>			\$ -
68	1.5" Meter	-	\$ 266.99	\$ -	\$ -
	Commodity Usage (In Thousands Of Gallons)				
69	First Tier -Breakover @ 25,000 Gals.	-	\$ 3.8247	\$ -	
70	Second Tier - Over 25,000 Gals.	-	\$ 4.6117	\$ -	
75	Total Commodity Usage And Revenue	<u>-</u>			\$ -

**SURREBUTTAL  
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE  
PROPOSED REVENUE**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
		TEST YEAR ADJUSTED DETERMINANTS	PROPOSED CHARGES & USAGE FEES	PROPOSED REVENUES	TOTAL REVENUES
76	2" Meter	-	\$ 332.25	\$ -	\$ -
	Commodity Usage (In Thousands Of Gallons)				
77	First Tier -Breakover @ 50,000 Gals.	-	\$ 3.8247	\$ -	
78	Second Tier - Over 50,000 Gals.	-	\$ 4.6117	\$ -	
83	Total Commodity Usage And Revenue	-			\$ -
	3" Meter	-	\$ 664.50	\$ -	\$ -
	Commodity Usage (In Thousands Of Gallons)				
	First Tier -Breakover @ 80,000 Gals.	-	\$ 3.8247	\$ -	
	Second Tier - Over 80,000 Gals.	-	\$ 4.6117	\$ -	
	Total Commodity Usage And Revenue	-			\$ -
	4" Meter	-	\$ 1,112.45	\$ -	\$ -
	Commodity Usage (In Thousands Of Gallons)				
	First Tier -Breakover @ 350,000 Gals.	-	\$ 3.8247	\$ -	
	Second Tier - Over 350,000 Gals.	-	\$ 4.6117	\$ -	
	Total Commodity Usage And Revenue	-			\$ -
84	6" Meter	-	\$ 2,966.54	\$ -	\$ -
	Commodity Usage (In Thousands Of Gallons)				
85	First Tier -Breakover @ 450,000 Gals.	-	\$ 3.8247	\$ -	
86	Second Tier - Over 450,000 Gals.	-	\$ 4.6117	\$ -	
91	Total Commodity Usage And Revenue	-			\$ -
92	8" Meter	-	\$ 4,746.46	\$ -	\$ -
	Commodity Usage (In Thousands Of Gallons)				
93	First Tier -Breakover @ 720,000 Gals.	-	\$ 3.8247	\$ -	
94	Second Tier - Over 720,000 Gals.	-	\$ 4.6117	\$ -	
99	Total Commodity Usage And Revenue	-			\$ -
100	Total Commercial Customer Bills	-		\$ -	
101	Total Commercial Usage	-		\$ -	
102	TOTAL COMMERCIAL CUSTOMERS REVENUE				\$ -
	<b>HYDRANT CUSTOMERS</b>				
103	3" Meter	-	\$ -	\$ -	\$ -
	Commodity Usage (In Thousands Of Gallons)				
104	All Usage	-	\$ -	\$ -	
110	Total Commodity Usage And Revenue	-			\$ -
159	Total Hydrant Customer Bills	-			
160	Total Hydrant Usage	-			
161	TOTAL HYDRANT CUSTOMERS REVENUE				\$ -
	<b>FIRE SPRINKLER CUSTOMERS</b>				
194	4" Meter	-	\$ -	\$ -	\$ -
202	6" Meter	-	\$ -	\$ -	\$ -
210	8" Meter	-	\$ -	\$ -	\$ -
68	Total Fire Sprinkler Customer Bills	-			

**SURREBUTTAL  
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE  
PROPOSED REVENUE**

LINE NO.	DESCRIPTION	(A) TEST YEAR ADJUSTED DETERMINANTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
70	TOTAL FIRE SPRINKLER CUSTOMERS REVENUE				\$ -
189	<b>RUCO TOTAL PROPOSED REVENUE PER BILL COUNT</b>				<b>\$ 350,063</b>
	Total Company Customer Bills	<u>4,128</u>			
	Total Company Usage	<u>23,915</u>			
190	TOTAL RESIDENTIAL REVENUE PER BILL COUNT				\$ 350,063
191	TOTAL COMMERCIAL REVENUE PER BILL COUNT				-
192	TOTAL HYDRANT REVENUE PER BILL COUNT				-
194	TOTAL FIRE SPRINKLER REVENUE PER BILL COUNT				-
197	<b>RUCO TOTAL PROPOSED REVENUE PER BILL COUNT</b>				<b>\$ 350,063</b>
198	Unreconciled Difference vs. Billed Revenues				(99)
200	Miscellaneous Revenues				3,294
200	<b>RUCO TOTAL REVENUE</b>				<b>\$ 353,258</b>
201	<b>PROPOSED REVENUE PER RUCO SCHEDULE RLM-1</b>				<b>\$ 353,258</b>
202	Difference				\$ 0
203	Percentage Difference				0.00%

**SURREBUTTAL**

**TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
<b>REVENUE ALLOCATION</b>							
1	RESIDENTIAL	\$ 188,390	100.00%	\$ 444,816	100.00%	\$ 350,063	100.00%
2	OTHER	-	0.00%	-	0.00%	-	0.00%
3	TOTAL	<u>\$ 188,390</u>	<u>100.00%</u>	<u>\$ 444,816</u>	<u>100.00%</u>	<u>\$ 350,063</u>	<u>100.00%</u>
<b>ALLOCATION RATIOS</b>							
4	FIX REVENUE	\$ 129,890	68.95%	\$ 311,662	70.07%	\$ 245,273	70.07%
5	VARIABLE REVENUE	58,500	31.05%	133,154	29.93%	104,790	29.93%
6	TOTAL	<u>\$ 188,390</u>	<u>100.00%</u>	<u>\$ 444,816</u>	<u>100.00%</u>	<u>\$ 350,063</u>	<u>100.00%</u>

**RESIDENTIAL (5/8" X 3/4") RATE DESIGN**

LINE NO.	DESCRIPTION	PRESENT	COMPANY PROPOSED	RUCO PROPOSED
		NSWC	STAND-ALONE	STAND-ALONE
7	BASIC MONTHLY CHARGE	\$ 31.00	\$ 75.39	\$ 59.33
<b>COMMODITY CHARGE</b>				
		PRESENT	COMPANY PROPOSED	RUCO PROPOSED
		NSWC	STAND-ALONE	STAND-ALONE
8	1st Tier - Breakover	\$ 2,000	\$ 4,860	\$ 3,824
9	2nd Tier - Breakover	\$ 2,750	\$ 5,860	\$ 4,611
10	3rd Tier - Over	\$ 3,900	\$ 7,010	\$ 5,516

**SURREBUTTAL**

**TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	(A) VARIABLE MONTHLY USAGE	(B) PERCENT AVERAGE USAGE OF 5,755	(C) PRESENT TOTAL MONTHLY COST	(D) RUCO MONTHLY COST	(E) RUCO MONTHLY INCREASE	(F) % MONTHLY INCREASE
	<b>NORTHERN SUNRISE RESIDENTIAL (5/8" X 3/4") METER</b>					
	AVERAGE RESIDENTIAL BILL COMPARISONS					
	COST OF WATER SERVICE AT					
	DIFFERENT LEVELS OF USAGE WITH					
	PERCENTAGE INCREASE IN BILL					
1	1,439	25.00%	\$ 33.88	\$ 64.83	\$ 30.96	91.38%
2	2,878	50.00%	\$ 36.76	\$ 70.34	\$ 33.58	91.37%
3	5,755	100.00%	\$ 43.08	\$ 82.72	\$ 39.65	92.04%
4	8,633	150.00%	\$ 50.99	\$ 95.99	\$ 45.00	88.26%
5	11,510	200.00%	\$ 74.39	\$ 110.63	\$ 36.24	48.72%

**MEDIAN RESIDENTIAL BILL COMPARISONS**  
 COST OF WATER SERVICE AT  
 DIFFERENT LEVELS OF USAGE WITH  
 PERCENTAGE INCREASE IN BILL

	VARIABLE MONTHLY USAGE	PERCENT MEDIAN USAGE OF 4,500	PRESENT TOTAL MONTHLY COST	RUCO MONTHLY COST	RUCO MONTHLY INCREASE	% MONTHLY INCREASE
6	1,125	25.00%	\$ 33.25	\$ 63.63	\$ 30.38	91.38%
7	2,250	50.00%	\$ 35.50	\$ 67.94	\$ 32.44	91.37%
8	4,500	100.00%	\$ 40.00	\$ 76.94	\$ 36.94	92.34%
9	6,750	150.00%	\$ 32.06	\$ 87.31	\$ 55.25	172.32%
10	9,000	200.00%	\$ 52.00	\$ 97.69	\$ 45.69	87.86%



Southern Sunrise Water Company (Stand-Alone)  
Docket No. W-02453A-09-0411 et al.  
Test Year Ended March 31, 2009

**SURREBUTTAL  
TABLE OF CONTENTS TO RLM SCHEDULES**

SCH. NO.	PAGE NO.	TITLE
SURR RLM-1	1	REVENUE REQUIREMENT
SURR RLM-2	1	RATE BASE
SURR RLM-3	1	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
RLM-4	1	RATE BASE ADJUSTMENT NO. 1 - POST TEST YEAR PLANT AND ACCUMULATED DEPRECIATION
DIRECT TESTIMONY		RATE BASE ADJUSTMENT NO. 2 - CUSTOMER DEPOSITS
SURR RLM-5A & 5B	1	RATE BASE ADJUSTMENT NO. 3 - ACCUMULATED DEFERRED INCOME TAXES
SURR TESTIMONY		RATE BASE ADJUSTMENT NO. 5 - AFUDC
SURR TESTIMONY		RATE BASE ADJUSTMENT NO. 6 - ACQUISITION COSTS FROM PURCHASE OF MCCLAIN SYSTEMS
SURR RLM-6	1	OPERATING INCOME
SURR RLM-7	1	SUMMARY OF OPERATING INCOME ADJUSTMENTS
SURR RLM-8	1	OPERATING INCOME ADJUSTMENT NO. 1 - TEST YEAR DEPRECIATION EXPENSE
SURR RLM-9	1	OPERATING INCOME ADJUSTMENT NO. 2 - PROPERTY TAX COMPUTATION
SURR RLM-10	1	OPERATING INCOME ADJUSTMENT NO. 3 - MISCELLANEOUS EXPENSES
SURR TESTIMONY		OPERATING INCOME ADJUSTMENT NO. 4 - WATER TESTING EXPENSE
SURR TESTIMONY		OPERATING INCOME ADJUSTMENT NO. 5 - TRANSPORTATION EXPENSE
SURR RLM-11A	1	OPERATING INCOME ADJUSTMENT NO. 6A - CENTRAL OFFICE COST ALLOCATION
SURR RLM-11B	1	OPERATING INCOME ADJUSTMENT NO. 6B - CENTRAL OFFICE COST ALLOCATION
SURR RLM-11C	1	OPERATING INCOME ADJUSTMENT NO. 6C - CENTRAL OFFICE COST ALLOCATION
RLM-12	1	OPERATING INCOME ADJUSTMENT NO. 7 - RATE CASE EXPENSE
SURR RLM-13	1	OPERATING INCOME ADJUSTMENT NO. 8 - INCOME TAX EXPENSE
SURR RLM-RD1	1 TO 3	RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
SURR RLM-RD2	1 TO 2	TYPICAL RESIDENTIAL BILL ANALYSIS

**SURREBUTTAL  
REVENUE REQUIREMENT**

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Fair Value Rate Base	\$ 1,544,434	\$ 1,305,405
2	Adjusted Operating Income (Loss)	\$ 6,042	\$ 47,884
3	Current Rate Of Return (L2 / L1)	0.39%	3.67%
4	Required Operating Income (L5 X L1)	\$ 197,688	\$ 103,179
5	Required Rate Of Return On Fair Value Rate Base	12.80%	7.90%
6	Operating Income Deficiency (L4 - L2)	\$ 191,645	\$ 55,295
7	Gross Revenue Conversion Factor (RLM-1, Pg 2)	1.6128	1.3572
8	Increase In Gross Revenue Requirement (L7 X L6)	<b>\$ 309,090</b>	<b>\$ 75,045</b>
9	Adjusted Test Year Revenue	\$ 444,136	\$ 444,136
10	Proposed Annual Revenue (L8 + L9)	\$ 753,226	\$ 519,181
11	Required Percentage Increase In Revenue (L8 / L9)	69.59%	16.90%
12	Rate Of Return On Common Equity	12.50%	9.00%

References:

Column (A): Company Schedules A-1 and C-1  
Column (B): RUCO Schedule RLM-2, RLM-6, And RLM-14

**SURREBUTTAL**  
**SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 1,724,610	\$ (154,415)	\$ 1,570,195
2	Accumulated Depreciation	(105,733)	-	(105,733)
3	Net Utility Plant In Service (L1 + L2)	<u>\$ 1,618,877</u>	<u>\$ (154,415)</u>	<u>\$ 1,464,462</u>
4	Advances In Aid Of Const.	\$ -	\$ -	\$ -
5	Contribution In Aid Of Const.	\$ (20,000)	\$ -	\$ (20,000)
6	Accumulated Amortization Of CIAC	15	-	15
7	NET CIAC (L5 + L6)	<u>\$ (19,985)</u>	<u>\$ -</u>	<u>\$ (19,985)</u>
8	Customer Meter Deposits	\$ (2,870)	\$ -	\$ (2,870)
9	Customer Hydrant Meter Deposits	\$ -	\$ -	\$ -
10	Deferred Income Taxes & Credits	\$ (51,588)	\$ (84,614)	\$ (136,202)
11	Unamortized Finance Charges	\$ -	\$ -	\$ -
12	Deferred Regulatory Assets	\$ -	\$ -	\$ -
13	Allowance For Working Capital	\$ -	\$ -	\$ -
14	TOTAL RATE BASE (Sum L's 3, 4, 7, 8 Thru 12)	<u>\$ 1,544,434</u>	<u>\$ (239,029)</u>	<u>\$ 1,305,405</u>

References:

Column (A): Company Schedule B-2, Page 1 And Workpapers Schedule E-1  
Column (B): RLM-3, Columns (B) Thru (G)  
Column (C): Column (A) + Column (B)

**SURREBUTTAL**  
**SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) ADJ # 1 POST TY PLT & ACC DEP	(C) ADJ # 2 CUSTOMER DEPOSITS	(D) ADJ # 3 DEFERRED INCOME TAX	(E) ADJ # 5 AFUDC	(F) ADJ # 6 McCLAIN ACQ. COSTS	(G) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 1,724,610	-	-	-	\$ (25,428)	\$ (128,987)	\$ 1,570,195
2	Accumulated Depreciation	(105,733)	-	-	-	-	-	(105,733)
3	Net Utility Plant In Service (L1 + L2)	<u>\$ 1,618,877</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (25,428)</u>	<u>\$ (128,987)</u>	<u>\$ 1,464,462</u>
4	Advances In Aid Of Const.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5	Contribution In Aid Of Const.	\$ (20,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (20,000)
6	Accumulated Amortization Of CIAC	15	-	-	-	-	-	15
7	NET CIAC (L5 + L6)	<u>\$ (19,985)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (19,985)</u>
8	Customer Meter Deposits	\$ (2,870)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (2,870)
9	Customer Hydrant Meter Deposits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10	Deferred Income Taxes & Credits	\$ (51,588)	\$ -	\$ -	\$ (84,614)	\$ -	\$ -	\$ (136,202)
11	Unamortized Finance Charges	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12	Deferred Regulatory Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Allowance For Working Capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	TOTAL RATE BASE (Sum L's 3, 4, 7, 8 Thru 12)	<u>\$ 1,544,434</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (84,614)</u>	<u>\$ (25,428)</u>	<u>\$ (128,987)</u>	<u>\$ 1,305,405</u>

References:

- Column (A): Company Schedule B-2, Page 1 And Workpapers Schedule E-1
- Column (B): Adjustment No. 1 - RUCO Adjustment To Post Test-Year GPIS And Acc. Dep. (See Testimony and Schedule RLM-4)
- Column (C): Adjustment No. 2 - RUCO Adjustment To Customer Deposits (See Testimony)
- Column (D): Adjustment No. 3 - RUCO Adjustment To Deferred Income Taxes (See Testimony Of RUCO Witness Tim Coley and Schedule SURR RLM-5)
- Column (E): Adjustment No. 5 - RUCO Adjustment To AFUDC (See Surrebittal Testimony, RLM)
- Column (F): Adjustment No. 6 - RUCO Adjustment To Acquisition Costs (See Surrebittal Testimony, RLM)
- Column (G): Sum Of Columns (A), (B), (C), (D), (E) & (F)



**SURREBUTTAL  
ACCUMULATED DEFERRED INCOME TAXES**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
Deferred Income Taxes:			
1	Algonquin Accumulated Deferred Income Tax Assets	2008 Algonquin Annual Report	\$ 23,032,000
2	Algonquin Accumulated Deferred Income Tax Liabilities	2008 Algonquin Annual Report	<u>(106,983,000)</u>
3	Net Accumulated Deferred Income Tax Assets (Liabilities)	Line 1 + Line 2	\$ (83,951,000)
4	Bella Vista Consolidated Allocation	Note (A)	<u>1.5438%</u>
5	Bella Vista Consolidated ADIT Liabilities Allocation	Line 3 X Line 4	\$ (1,296,004)
6	Convert to US Dollars	Note (B)	<u>0.9915</u>
7	Bella Vista Consolidated Allocated ADIT Liabilites Balance	Line 5 X Line 6	\$ (1,284,949)
8	Total Consolidated ADIT as Filed by Company	Company Schedule C-1	173,329
9	Decrease In Deferred Income Tax Assets	Line 7 - Line 8	<u>\$ (1,458,278)</u>
10	Total Southern Sunrise Customer Count Factor	Per Company	0.0865
11	RUCO Adjustment (See SURR RLM-3, Column (D), Lin	Line 9 X Line 10	<u>\$ (126,105)</u>

NOTES:

12	(A)	Purchase Price of BVWC, NSWC and SSWC	Annual Report	\$ 15,100,000
13		Algonquin Total Assets	Annual Report	\$ 978,130,000
14		Ratio BVWC, NSWC & SSWC To APIF Total Assets	Line 12 / Line 13	1.5438%
15	(B)	Currency Conversion	moneycentral.com on 04/1/2010	0.9915

**SURREBUTTAL  
OPERATING INCOME**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJ'MTS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
Revenues:						
1	Flat Rate Revenues	\$ 433,457	\$ -	\$ 433,457	\$ 75,045	\$ 508,502
2	Misc. Service Revenues	-	-	-	-	-
3	Other WW Revenues	10,679	-	10,679	-	10,679
4	TOTAL OPERATING REVENUE	<u>\$ 444,136</u>	<u>\$ -</u>	<u>\$ 444,136</u>	<u>\$ 75,045</u>	<u>\$ 519,181</u>
Operating Expenses:						
5	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -
6	Purchased Water	-	-	-	-	-
7	Purchased Power	32,354	-	32,354	-	32,354
8	Fuel for Power Production	-	-	-	-	-
9	Chemicals	1,265	-	1,265	-	1,265
10	Materials & Supplies	7,972	-	7,972	-	7,972
11	Outside Services	91	-	91	-	91
12	Outside Services- Legal	5,390	-	5,390	-	5,390
13	Outside Services- Other	179,427	(13,185)	166,242	-	166,242
14	Water Testing	5,592	(1,825)	3,767	-	3,767
15	Equipment Rental	-	-	-	-	-
16	Rents	-	-	-	-	-
17	Transportation Expenses	25,481	(1,033)	24,448	-	24,448
18	Insurance - General Liability	10,788	-	10,788	-	10,788
19	Insurance - Health and Life	-	-	-	-	-
20	Reg. Comm. Exp.	1,024	-	1,024	-	1,024
21	Reg. Comm. Exp. - Rate Case	41,667	(8,640)	33,026	-	33,026
22	Miscellaneous Expense	14,810	(773)	14,037	-	14,037
23	Bad Debt Expense	5,346	-	5,346	-	5,346
24	Depreciation Expense	76,419	(13,933)	62,486	-	62,486
25	Taxes Other Than Income	-	-	-	-	-
26	Property Taxes	26,765	(4,177)	22,589	-	22,589
27	Income Tax	3,703	1,725	5,428	19,749	25,177
28	TOTAL OPERATING EXPENSES	<u>\$ 438,094</u>	<u>\$ (41,842)</u>	<u>\$ 396,252</u>	<u>\$ 19,749</u>	<u>\$ 416,002</u>
29	OPERATING INCOME (LOSS)	<u>\$ 6,042</u>		<u>\$ 47,884</u>		<u>\$ 103,179</u>

References:

- Column (A): Company Schedule C-1
- Column (B): SURR RLM-7, Columns (B) Thru (H)
- Column (C): Column (A) + Column (B)
- Column (D): Revenue From SURR RLM-1, Column (B), Line 8 And Income Tax From SURR RLM-1, Column (B), Line 8 - Line 6
- Column (E): Column (C) + Column (D)

**SURREBTUTAL**  
**SUMMARY OF OPERATING INCOME ADJUSTMENTS**  
**TEST YEAR AS FILED AND ADJUSTMENTS**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ #1 DEP. EXPENSE	(C) ADJ #2 PROPERTY TAX	(D) ADJ #3 MISC. EXPENSES	(E) ADJ #4 WATER TEST EXPENSES	(F) ADJ #5 TRANSPORT EXPENSES	(G) ADJ #6A CENTRAL OFFICE COST	(H) ADJ #6B CENTRAL OFFICE COST	(I) ADJ #6C CENTRAL OFFICE COST	(J) ADJ #7 RATE CASE EXPENSES	(K) ADJ #8 INCOME TAX	(L) RUCO AS ADJ'D
1	Revenues:												
2	Flat Rate Revenues	\$ 433,457											\$ 433,457
3	Misc. Service Revenues												
4	Other WW Revenues	10,679											10,679
4	TOTAL OPRG REV.	\$ 444,136											\$ 444,136
5	Operating Expenses:												
6	Salaries and Wages												
7	Purchased Water												
8	Purchased Power	32,354											32,354
9	Fuel for Power Production												
10	Chemicals	1,265											1,265
11	Materials & Supplies	7,972											7,972
12	Outside Services	91											91
13	Outside Services- Legal	5,390											5,390
14	Outside Services- Other	179,427											186,242
15	Water Testing	5,592								(972)			3,767
16	Equipment Rental					(1,825)							
17	Rents												
18	Transportation Expenses	25,481											24,448
19	Insurance - General Liability	10,788											10,788
20	Insurance - Health and Life												
21	Reg. Comm. Exp.	1,024											1,024
22	Reg. Comm. Exp. - Rate Case	41,867									(8,640)		33,026
23	Miscellaneous Expense	14,810											14,057
24	Bad Debt Expense	5,346											5,346
25	Depreciation Expense	76,419											62,466
26	Taxes Other Than Income												
27	Property Taxes	26,765											22,569
27	Income Tax	3,703										1,725	5,428
29	TOTAL OPRG EXP.	\$ 438,094	\$ (13,933)	\$ (4,177)	\$ (773)	\$ (1,825)	\$ (1,033)	\$ (12,118)	\$ (95)	\$ (972)	\$ (8,640)	\$ 1,725	\$ 396,252
30	OPRG INC. (LOSS)	\$ 6,042											\$ 47,884

References:

- Column (A): Company Schedule C-1
- Column (B): Surrebuttal Testimony, RLM And Schedule SURR RLM-8
- Column (C): Surrebuttal Testimony, RLM And Schedule SURR RLM-9
- Column (D): Surrebuttal Testimony, RLM And Schedule SURR RLM-10
- Column (E): Surrebuttal Testimony, RLM
- Column (F): Surrebuttal Testimony, RLM
- Column (G): Surrebuttal Testimony, TLC And Schedule SURR RLM-11A
- Column (H): Surrebuttal Testimony, TLC And Schedule SURR RLM-11B
- Column (I): Surrebuttal Testimony, TLC And Schedule SURR RLM-11C
- Column (J): Surrebuttal Testimony, RLM And Schedule SURR RLM-12
- Column (K): Surrebuttal Testimony, RLM And Schedule SURR RLM-13
- Column (L): Sum Of Columns (A) Thru (K)

**SURREBUTTAL**  
**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1**  
**TEST YEAR DEPRECIATION EXPENSE**

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) APPROVED DEPRECIATION RATE	(C) TEST YEAR DEPRECIATION EXPENSE
1	301	Organization Cost	\$ -	0.00%	\$ -
2	302	Franchise Cost	71	0.00%	-
3	303	Land and Land Rights	336,686	0.00%	-
4	304	Structures and Improvements	326,168	3.33%	10,861
5	305	Collecting and Impounding Res.	-	2.50%	-
6	306	Lake River and Other Intakes	-	2.50%	-
7	307	Wells and Springs	132,029	3.33%	4,397
8	308	Infiltration Galleries and Tunnels	-	6.67%	-
9	309	Supply Mains	3,256	2.00%	65
10	310	Power Generation Equipment	-	5.00%	-
11	311	Electric Pumping Equipment	192,066	12.50%	24,008
12	320	Water Treatment Equipment	-	3.33%	-
13	320.1	Water Treatment Equipment	-	3.33%	-
14	320.2	Chemical Solution Feeders	-	20.00%	-
15	330	Dist. Reservoirs & Standpipe	261,921	2.22%	5,815
16	330.1	Storage tanks	-	2.22%	-
17	330.2	Pressure Tanks	-	5.00%	-
18	331	Trans. and Dist. Mains	81,090	2.00%	1,622
19	333	Services	70,227	3.33%	2,339
20	334	Meters	16,708	8.33%	1,392
21	335	Hydrants	18,416	2.00%	368
22	336	Backflow Prevention Devices	-	6.67%	-
23	339	Other Plant and Misc. Equip.	21,516	6.67%	1,435
24	340	Office Furniture and Fixtures	-	6.67%	-
25	340.1	Computers and Software	-	20.00%	-
26	341	Transportation Equipment	-	20.00%	-
27	342	Stores Equipment	-	4.00%	-
28	343	Tools and Work Equipment	270	5.00%	13
29	344	Laboratory Equipment	-	10.00%	-
30	345	Power Operated Equipment	-	5.00%	-
31	346	Communications Equipment	3,379	10.00%	338
32	347	Miscellaneous Equipment	-	10.00%	-
33	348	Other Tangible Plant	106,394	10.00%	10,639
34		Rounding	485		-
35		TOTAL WASTEWATER PLANT	<u>\$ 1,570,681</u>		<u>\$ 63,292</u>
36		Less: Amortizations Of CIAC (SURR RLM-2, Col. (C), Line 5)	\$ (20,000)	4.03%	(806)
37		TOTAL DEPRECIATION EXPENSE (Line 35 + Line 36)			<u>\$ 62,486</u>
38		Test Year Depreciation Expense As Filed (Co. Sch. C-1)			76,419
39		Increase In Depreciation Expense (Line 37 - Line 38)			<u>\$ (13,933)</u>
40		RUCO Adjustment (Line 39) (See SURR RLM-7, Column (B), Line 25)			<u>\$ (13,933)</u>

References:

Columns (A) & (B): Company Rebuttal Schedule "C-2p1Depr"  
Column (C): Column (A) X Column (B)

**SURREBUTTAL**  
**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2**  
**PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	REFERENCE	(A) AMOUNT	(B) TOTAL
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Adjusted Revenues In Year Ended December 2007	Sch. SURR RLM-6, Col (C), Ln 4	\$ 444,136	
2	Adjusted Revenues In Year Ended December 2007	Sch. SURR RLM-6, Col (C), Ln 4	444,136	
3	Proposed Revenues	Sch. SURR RLM-6, Col (E), Ln 4	519,181	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	<u>\$ 1,407,453</u>	
5	Average Annual Operating Revenues	Line 4 / 3	469,151	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 938,302
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1	\$ 526,003	
8	10% Of CWIP	Line 7 X 10%		\$ 52,600
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	RLM-4, Col. (E), Ln 26	\$ -	
10	Acc. Dep. Of Transportation Equipment	RLM-4, Col. (F), Ln 26	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10	<u>\$ -</u>	
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		<u>\$ 990,903</u>
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	21.0%	
14	Assessed Value	Line 12 X Line 13	\$ 208,090	
Property Tax Rates:				
15	Primary Tax Rate - 2009 Tax Notice	Co. Sch. C-2, Pg 3	9.8984%	
16	Secondary Tax Rate - 2009 Tax Notice	Co. Sch. C-2, Pg 3	0.0000%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	<u>9.90%</u>	
18	Company's Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 20,597
19	Company's Tax on Parcels	Co. Sch. C-2, Pg 3		\$ 1,991
20	Company's Total Tax Liability	Line 18 + Line 19		<u>\$ 22,589</u>
21	Test Year Adjusted Property Tax Expense As Filing	Co. Sch. C-1, Line 25		26,765
22	Increase In Property Tax Expense	Line 20 - Line 21		<u>\$ (4,177)</u>
23	RUCO Adjustment (See SURR RLM-7, Column (C), Line 27)	Line 22		<u><u>\$ (4,177)</u></u>

**SURREBUTTAL**  
**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 3**  
**DISALLOWANCE OF MISCELLANEOUS EXPENSES**

LINE NO.	DESCRIPTION	REFERENCE	(A) TOTAL
	Disallowed Miscellaneous Expenses	Co. Response To Staff D. R. CSB 1-32	
1	Bella Vista Water Company Christmas Party		\$ -
2	Special Olympics Pledge		-
3	Muscular Distrophy Association Donation		-
4	Additional Disallowance By Company		(773)
5	RUCO Adjustment To Unnecessary/Non-Recurring Expenses	Sum Of Lines 1 Thru 17	<u>\$ (773)</u>
6	RUCO Adjustment (See SURR RLM-7, Column (D))	Line 18	<u>\$ (773)</u>

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 6(A)  
CENTRAL OFFICE COST ALLOCATIONS

LINE NO.	DESCRIPTION	(A) COMPANY ACTUAL COSTS (CAN \$)	(B) RUCO ALLOWED % OF COSTS	(C) RUCO ALLOWABLE COSTS	(D) RUCO UTILITIES % ALLOCATION	(E) RUCO ALLOCATED COSTS	(F) ALLOCATION % To SSR	(G) RUCO ALLOCATED BWC COSTS
1	Audit	\$ 778,285	25.00%	\$ 194,571	25.35%	\$ 49,328	1.26%	\$ 620
2	Tax Services	518,775	25.00%	129,694	25.35%	32,880	1.26%	413
3	Legal	159,053	25.00%	39,763	25.35%	10,081	1.26%	127
4	Other Professional Services	506,082	0.00%	-	25.35%	-	1.26%	-
5	Management Fee - Total	644,943	0.00%	-	25.35%	-	1.26%	-
6	Unit Holder Communications	156,766	0.00%	-	25.35%	-	1.26%	-
7	Trustee Fees	129,000	0.00%	-	25.35%	-	1.26%	-
8	Escrow & Transfer Agent Fees	96,138	0.00%	-	25.35%	-	1.26%	-
9	Rent	307,337	0.00%	-	25.35%	-	1.26%	-
10	Licenses/Fees & Permits	17,561	0.00%	-	25.35%	-	1.26%	-
11	Office Expenses	579,379	0.00%	-	25.35%	-	1.26%	-
12	Depreciation	211,653	25.00%	52,913	25.35%	13,415	1.26%	168
13	TOTAL	\$ 4,104,971		\$ 416,941		\$ 105,703		\$ 1,328
14	Company's APT Cost Allocation for Bella Vista in Canadian Dollars (Per RUCO DR 3.01)							\$ 13,912
15	Conversion Factor to Convert Canadian Dollars to US Dollars per <a href="http://moneycentral.msn.com">http://moneycentral.msn.com</a> on June 9, 2010							0.96293
16	Company's APT Cost Allocation for Bella Vista in US Dollars							\$ 13,397
17	RUCO's Allowed APT Cost Allocations in US Dollars							\$ 1,278
18	RUCO's APT Cost Allocation Adjustment for Bella Vista in US Dollars							(12,118)
19	RUCO Adjustment (See RLM-7, Column (E))							(12,118)

References:

- Columns (A) (F): Company Response To RUCO Data Requestion 3.01
- Column (B): Testimony, RUCO Witness Tim Coley
- Column (C): Sum Of Columns (A) & (B)
- Column (E): Column (C) X Column (D)
- Column (G): Column (E) X Column (F)

**OPERATING INCOME ADJUSTMENT #6(B) - APT CORPORATE COST ALLOCATIONS ADJUSTMENT**

Line No.	Description	Company Adjusted Costs	RUCO Other Disallowed Costs	RUCO Allowable Costs	RUCO 2009 Allocation Factor	RUCO Allowed Allocated Costs	Allocation % To BWWC	RUCO Amount Allocated To SSR
1	Rent	273,965	(273,965)	-	25.35%	-	14.52%	-
2	Audit	680,812	(510,609)	170,203	25.35%	43,150	14.52%	6,265.39
3	Tax Services	469,804	(352,353)	117,451	25.35%	29,776	14.52%	4,323.52
4	Legal - General	138,531	(103,898)	34,633	25.35%	8,780	14.52%	1,274.88
5	Other Professional Services	452,202	(452,202)	-	25.35%	-	14.52%	-
6	Management Fee	563,803	(563,803)	-	25.35%	-	14.52%	-
7	Unit Holder Communications	145,658	(145,658)	-	25.35%	-	14.52%	-
8	Trustee Fees	127,116	(127,116)	-	25.35%	-	14.52%	-
9	Office Costs	425,755	(425,755)	-	25.35%	-	14.52%	-
10	Licenses/Fees and Permits	14,565	(14,565)	-	25.35%	-	14.52%	-
11	Escrow and Transfer Fees	85,354	(85,354)	-	25.35%	-	14.52%	-
12	Depreciation Expense	189,797	(142,348)	47,449	25.35%	12,029	14.52%	1,746.67
<b>Total</b>		<u>3,567,363</u>	<u>(3,197,626)</u>	<u>369,736</u>		<u>93,736</u>		<u>13,610</u>
RUCO Direct Testimony Amount of APT Costs Allowed								14,707
RUCO Surrebuttal Testimony Company Adjusted APT Costs Allowed								(1,097)
Southern Sunrise Customer Count Allocation Factor								8.65%
RUCO's Adjustment per Company's Rebuttal Adjustment								(95)

**OPERATING INCOME ADJUSTMENT #6(C) - RUCO's APT CORPORATE COST ALLOCATIONS ADJUSTMENT**

Line No.	Description	Company Adjusted Costs	RUCO Other Disallowed Costs	RUCO Allowable Costs	RUCO 2009 Allocation Factor	RUCO Allowed Allocated Costs	Allocation % To BVWC	Company Test-Year Booked APT Amount
1	Company's Total APT Test-Year Book Costs per RUCO Informal 2nd Set of Data Requests #5.01							\$ 156,149
2	Company's Total APT Test-Year End Costs per RUCO Formal Data Request #3.01							144,906
3	APT Costs Overstated in the Company's Direct Rate Application							\$ (11,243)
4	Southern Sunrise (Stand Alone) Customer Count Allocation Factor							8.65%
5	RUCO's Adjustment to Southern Sunrise (Stand Alone) APT Costs							\$ (972)

**Notes:**

Line 1 - Company's Response to RUCO 2nd Set of Data Request #5.01 reconciles to the Company's Rate Application Test-Year Book Outside Services - Other Account in the Amount of \$156,149.21

Line 2 - Company Response to RUCO Formal Data Request 3.01 for APT Costs in the Amount of \$144,906

**SURREBUTTAL**  
**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 8**  
**INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
<b>FEDERAL INCOME TAXES:</b>			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L29 + L27	\$ 53,312
	LESS:		
2	Arizona State Tax	Line 11	(1,437)
3	Interest Expense	Note (A) Line 20	(32,687)
4	Federal Taxable Income	Sum Of Lines 1 Thru 3	<u>\$ 19,187</u>
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	20.80%
6	Federal Income Tax Expense	Line 4 X line 5	<u>\$ 3,991</u>
<b>STATE INCOME TAXES:</b>			
7	Operating Income Before Taxes	Line 1	\$ 53,312
	LESS:		
8	Interest Expense	Note (A) Line 20	(32,687)
9	State Taxable Income	Sum Of Lines 7 & 8	<u>\$ 20,624</u>
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	<u>\$ 1,437</u>
<b>TOTAL INCOME TAX EXPENSE:</b>			
12	Federal Income Tax Expense	Line 6	\$ 3,991
13	State Income Tax Expense	Line 11	1,437
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	<u>\$ 5,428</u>
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		<u>3,703</u>
16	Total Income Tax Adjustment	Line 14 - Line 15	<u>\$ 1,725</u>
17	RUCO Adjustment (See Sch. SURR RLM-7, Column (K), L278)	Line 16	<u>\$ 1,725</u>

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (Sch. SURR RLM-2, Col. (E), L15)	\$ 1,305,405
19	Weighted Cost Of Debt (Sch. RLM-14, Col. (F), L1)	2.50%
20	Interest Expense (L17 X L18)	<u>\$ 32,687</u>

**SURREBUTTAL**  
**RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**  
**PROPOSED REVENUE**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
		TEST YEAR ADJUSTED DETERMINANTS	PROPOSED CHARGES & USAGE FEES	PROPOSED REVENUES	TOTAL REVENUES
<b>RESIDENTIAL CUSTOMERS</b>					
1	5/8" X 3/4" Meter	9,504	37.32293894	\$ 354,717	\$ 354,717
	Commodity Usage (In Thousands Of Gallons)				
2	First Tier -Breakover @ 4,000 Gals.	28,400	\$ 2.4095	\$ 68,430	
3	Second Tier - Breakover @ 10,000 Gals.	15,487	\$ 2.9243	\$ 45,290	
4	Third Tier - Over 10,000 Gals.	9,144	\$ 3.7138	\$ 33,958	
8	Total Commodity Usage And Revenue	53,032			\$ 147,678
9	3/4" Meter	-	\$ 55.98	\$ -	\$ -
	Commodity Usage (In Thousands Of Gallons)				
10	First Tier -Breakover @ 4,000 Gals.	-	\$ 2.4095	\$ -	
11	Second Tier - Breakover @ 10,000 Gals.	-	\$ 2.9243	\$ -	
12	Third Tier - Over 10,000 Gals.	-	\$ 3.7138	\$ -	
16	Total Commodity Usage And Revenue	-			\$ -
17	1" Meter	-	\$ 83.98	\$ -	\$ -
	Commodity Usage (In Thousands Of Gallons)				
18	First Tier -Breakover @ 10,000 Gals.	-	\$ 2.4095	\$ -	
19	Second Tier - Over 10,000 Gals.	-	\$ 2.9243	\$ -	
24	Total Commodity Usage And Revenue	-			\$ -
33	2" Meter	-	\$ 209.01	\$ -	\$ -
	Commodity Usage (In Thousands Of Gallons)				
34	First Tier -Breakover @ 50,000 Gals.	-	\$ 2.4095	\$ -	
35	Second Tier - Over 50,000 Gals.	-	\$ 2.9243	\$ -	
40	Total Commodity Usage And Revenue	-			\$ -
41	Total Residential Customer Bills	9,504		\$ 354,717	
42	Total Residential Usage	53,032		\$ 147,678	
43	TOTAL RESIDENTIAL CUSTOMERS REVENUE				\$ 502,396
<b>COMMERCIAL CUSTOMERS</b>					
44	5/8" X 3/4" Meter	-	\$ 37.32	\$ -	\$ -
	Commodity Usage (In Thousands Of Gallons)				
45	First Tier -Breakover @ 4,000 Gals.	-	\$ 2.4095	\$ -	
46	Second Tier - Over 4,000 Gals.	-	\$ 2.9243	\$ -	
51	Total Commodity Usage And Revenue	-			\$ -
52	3/4" Meter	-	\$ 55.98	\$ -	\$ -
	Commodity Usage (In Thousands Of Gallons)				
53	First Tier -Breakover @ 4,000 Gals.	-	\$ 2.4095	\$ -	
54	Second Tier - Over 4,000 Gals.	-	\$ 2.9243	\$ -	
59	Total Commodity Usage And Revenue	-			\$ -
60	1" Meter	24	\$ 83.98	\$ 2,015	\$ 2,015
	Commodity Usage (In Thousands Of Gallons)				
61	First Tier -Breakover @ 10,000 Gals.	119	\$ 2.4095	\$ 287	
62	Second Tier - Over 10,000 Gals.	-	\$ 2.9243	\$ -	
67	Total Commodity Usage And Revenue	119			\$ 287
68	1.5" Meter	-	\$ 167.95	\$ -	\$ -
	Commodity Usage (In Thousands Of Gallons)				
69	First Tier -Breakover @ 25,000 Gals.	-	\$ 2.4095	\$ -	
70	Second Tier - Over 25,000 Gals.	-	\$ 2.9243	\$ -	
75	Total Commodity Usage And Revenue	-			\$ -

**SURREBUTTAL**  
**RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**  
**PROPOSED REVENUE**

LINE NO.	DESCRIPTION	PROPOSED REVENUE			
		(A) TEST YEAR ADJUSTED DETERMINANTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
76	2" Meter	12	\$ 209.01	\$ 2,508	\$ 2,508
	Commodity Usage (In Thousands Of Gallons)				
77	First Tier -Breakover @ 50,000 Gals.	279	\$ 2.4095	\$ 671	
78	Second Tier - Over 50,000 Gals.	137	\$ 2.9243	\$ 401	
83	Total Commodity Usage And Revenue	415			\$ 1,072
	3" Meter	-	\$ 418.02	\$ -	\$ -
	Commodity Usage (In Thousands Of Gallons)				
	First Tier -Breakover @ 80,000 Gals.	-	\$ 2.4095	\$ -	
	Second Tier - Over 80,000 Gals.	-	\$ 2.9243	\$ -	
	Total Commodity Usage And Revenue	-			\$ -
	4" Meter	-	\$ 699.81	\$ -	\$ -
	Commodity Usage (In Thousands Of Gallons)				
	First Tier -Breakover @ 350,000 Gals.	-	\$ 2.4095	\$ -	
	Second Tier - Over 350,000 Gals.	-	\$ 2.9243	\$ -	
	Total Commodity Usage And Revenue	-			\$ -
84	6" Meter	-	\$ 1,866.15	\$ -	\$ -
	Commodity Usage (In Thousands Of Gallons)				
85	First Tier -Breakover @ 450,000 Gals.	-	\$ 2.4095	\$ -	
86	Second Tier - Over 450,000 Gals.	-	\$ 2.9243	\$ -	
91	Total Commodity Usage And Revenue	-			\$ -
92	8" Meter	-	\$ 2,985.84	\$ -	\$ -
	Commodity Usage (In Thousands Of Gallons)				
93	First Tier -Breakover @ 720,000 Gals.	-	\$ 2.4095	\$ -	
94	Second Tier - Over 720,000 Gals.	-	\$ 2.9243	\$ -	
99	Total Commodity Usage And Revenue	-			\$ -
100	Total Commercial Customer Bills	36		\$ 4,524	
101	Total Commercial Usage	534		\$ 1,358	
102	TOTAL COMMERCIAL CUSTOMERS REVENUE				\$ 5,882
	<b>HYDRANT CUSTOMERS</b>				
103	3" Meter	-	\$ -	\$ -	\$ -
	Commodity Usage (In Thousands Of Gallons)				
104	All Usage	-	\$ -	\$ -	
110	Total Commodity Usage And Revenue	-			\$ -
159	Total Hydrant Customer Bills	-			
160	Total Hydrant Usage	-			
161	TOTAL HYDRANT CUSTOMERS REVENUE				\$ -
	<b>FIRE SPRINKLER CUSTOMERS</b>				
194	4" Meter	-	\$ -	\$ -	\$ -
202	6" Meter	-	\$ -	\$ -	\$ -
210	8" Meter	-	\$ -	\$ -	\$ -
68	Total Fire Sprinkler Customer Bills	-			

**SURREBUTTAL  
 RATE DESIGN AND PROOF OF RECOMMENDED REVENUE  
 PROPOSED REVENUE**

LINE NO.	DESCRIPTION	(A) TEST YEAR ADJUSTED DETERMINANTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
70	TOTAL FIRE SPRINKLER CUSTOMERS REVENUE				\$ -
189	<b>RUCO TOTAL PROPOSED REVENUE PER BILL COUNT</b>				<b>\$ 508,278</b>
	Total Company Customer Bills	9,540			
	Total Company Usage	53,566			
190	TOTAL RESIDENTIAL REVENUE PER BILL COUNT				\$ 502,396
191	TOTAL COMMERCIAL REVENUE PER BILL COUNT				5,882
192	TOTAL HYDRANT REVENUE PER BILL COUNT				-
194	TOTAL FIRE SPRINKLER REVENUE PER BILL COUNT				-
197	<b>RUCO TOTAL PROPOSED REVENUE PER BILL COUNT</b>				<b>\$ 508,278</b>
198	Unreconciled Difference vs. Billed Revenues				224
200	Miscellaneous Revenues				10,679
200	<b>RUCO TOTAL REVENUE</b>				<b>\$ 519,181</b>
201	<b>PROPOSED REVENUE PER RUCO SCHEDULE RLM-1</b>				<b>\$ 519,181</b>
202	Difference				\$ (0)
203	Percentage Difference				0.00%

**SURREBUTTAL**

**TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
<b>REVENUE ALLOCATION</b>							
1	RESIDENTIAL	\$ 426,488	98.49%	\$ 731,862	98.59%	\$ 502,396	98.84%
2	OTHER	6,543	1.51%	10,461	1.41%	5,882	1.16%
3	TOTAL	\$ 433,031	100.00%	\$ 742,323	100.00%	\$ 508,278	100.00%
<b>ALLOCATION RATIOS</b>							
4	FIX REVENUE	\$ 296,965	68.58%	\$ 525,214	70.75%	\$ 359,241	70.68%
5	VARIABLE REVENUE	136,066	31.42%	217,109	29.25%	149,037	29.32%
6	TOTAL	\$ 433,031	100.00%	\$ 742,323	100.00%	\$ 508,278	100.00%

**RESIDENTIAL (5/8" X 3/4") RATE DESIGN**

LINE NO.	DESCRIPTION	PRESENT	PROPOSED	COMPANY PROPOSED	RUCO PROPOSED
		SSWC		STAND-ALONE	STAND-ALONE
7	BASIC MONTHLY CHARGE	\$ 31.00		\$ 54.37	\$ 37.32
<b>COMMODITY CHARGE</b>					
		PRESENT	PROPOSED	COMPANY PROPOSED	RUCO PROPOSED
		SSWC		STAND-ALONE	STAND-ALONE
8	1st Tier - Breakover	5,000	4,000	\$ 3,5100	\$ 2,4095
9	2nd Tier - Breakover	10,000	10,000	\$ 4,2600	\$ 2,9243
10	3rd Tier - Over	10,000	10,000	\$ 5,4100	\$ 3,7138

**SURREBUTTAL**

**TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	SOUTHERN SUNRISE RESIDENTIAL (5/8" X 3/4") METER					
	(A) VARIABLE MONTHLY USAGE	(B) PERCENT AVERAGE USAGE OF 5,581	(C) PRESENT TOTAL MONTHLY COST	(D) RUCO MONTHLY COST	(E) RUCO MONTHLY INCREASE	(F) % MONTHLY INCREASE
	AVERAGE RESIDENTIAL BILL COMPARISONS					
1	1,395	25.00%	\$ 33.79	\$ 40.68	\$ 6.89	20.40%
2	2,791	50.00%	\$ 36.58	\$ 44.05	\$ 7.47	20.41%
3	5,581	100.00%	\$ 42.60	\$ 51.58	\$ 8.99	21.10%
4	8,372	150.00%	\$ 50.27	\$ 59.74	\$ 9.47	18.84%
5	11,162	200.00%	\$ 57.95	\$ 67.90	\$ 9.96	17.19%

**MEDIAN RESIDENTIAL BILL COMPARISONS**  
 COST OF WATER SERVICE AT  
 DIFFERENT LEVELS OF USAGE WITH  
 PERCENTAGE INCREASE IN BILL

	VARIABLE MONTHLY USAGE	PERCENT MEDIAN USAGE OF 4,500	PRESENT TOTAL MONTHLY COST	RUCO MONTHLY COST	RUCO MONTHLY INCREASE	% MONTHLY INCREASE
6	1,125	25.00%	\$ 33.25	\$ 40.03	\$ 6.78	20.40%
7	2,250	50.00%	\$ 35.50	\$ 42.74	\$ 7.24	20.41%
8	4,500	100.00%	\$ 40.00	\$ 48.42	\$ 8.42	21.06%
9	6,750	150.00%	\$ 44.50	\$ 55.00	\$ 10.50	23.60%
10	9,000	200.00%	\$ 49.00	\$ 61.58	\$ 12.58	25.68%



Bella Vista Water Company (Consolidated)  
Docket No. W-02453A-09-0411 et al.  
Test Year Ended March 31, 2009

**SURREBUTTAL  
TABLE OF CONTENTS TO RLM SCHEDULES**

SCH. NO.	PAGE NO.	TITLE
SURR RLM-1	1	REVENUE REQUIREMENT
SURR RLM-2	1	RATE BASE
SURR RLM-3	1	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
RLM-4	1	RATE BASE ADJUSTMENT NO. 1 - POST TEST YEAR PLANT AND ACCUMULATED DEPRECIATION
DIRECT TESTIMONY		RATE BASE ADJUSTMENT NO. 2 - CUSTOMER DEPOSITS
SURR RLM-5A & 5B	1	RATE BASE ADJUSTMENT NO. 3 - ACCUMULATED DEFERRED INCOME TAXES
SURR TESTIMONY		RATE BASE ADJUSTMENT NO. 4 - PLANT RETIREMENT AND ACCUMULATED DEPRECIATION
SURR TESTIMONY		RATE BASE ADJUSTMENT NO. 5 - AFUDC
SURR TESTIMONY		RATE BASE ADJUSTMENT NO. 6 - ACQUISITION COSTS FROM PURCHASE OF MCCLAIN SYSTEMS
SURR RLM-6	1	OPERATING INCOME
SURR RLM-7	1	SUMMARY OF OPERATING INCOME ADJUSTMENTS
SURR RLM-8	1	OPERATING INCOME ADJUSTMENT NO. 1 - TEST YEAR DEPRECIATION EXPENSE
SURR RLM-9	1	OPERATING INCOME ADJUSTMENT NO. 2 - PROPERTY TAX COMPUTATION
SURR RLM-10	1	OPERATING INCOME ADJUSTMENT NO. 3 - MISCELLANEOUS EXPENSES
SURR TESTIMONY		OPERATING INCOME ADJUSTMENT NO. 4 - WATER TESTING EXPENSE
SURR TESTIMONY		OPERATING INCOME ADJUSTMENT NO. 5 - TRANSPORTATION EXPENSE
SURR RLM-11A	1	OPERATING INCOME ADJUSTMENT NO. 6A - CENTRAL OFFICE COST ALLOCATION
SURR RLM-11B	1	OPERATING INCOME ADJUSTMENT NO. 6E - CENTRAL OFFICE COST ALLOCATION
SURR RLM-11C	1	OPERATING INCOME ADJUSTMENT NO. 6C - CENTRAL OFFICE COST ALLOCATION
RLM-12	1	OPERATING INCOME ADJUSTMENT NO. 7 - RATE CASE EXPENSE
SURR RLM-13	1	OPERATING INCOME ADJUSTMENT NO. 8 - INCOME TAX EXPENSE
SURR RLM-RD1	1 TO 3	RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
SURR RLM-RD2	1 TO 4	TYPICAL RESIDENTIAL BILL ANALYSIS

**SURREBUTTAL  
REVENUE REQUIREMENT**

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Fair Value Rate Base	\$ 8,628,612	\$ 5,695,062
2	Adjusted Operating Income (Loss)	\$ 38,170	\$ 198,934
3	Current Rate Of Return (L2 / L1)	0.44%	3.49%
4	Required Operating Income (L5 X L1)	\$ 965,542	\$ 479,728
5	Required Rate Of Return On Fair Value Rate Base	11.19%	8.42%
6	Operating Income Deficiency (L4 - L2)	\$ 927,371	\$ 280,794
7	Gross Revenue Conversion Factor (RLM-1, Pg 2)	1.6286	1.6286
8	Increase In Gross Revenue Requirement (L7 X L6)	<b>\$ 1,510,349</b>	<b>\$ 457,311</b>
9	Adjusted Test Year Revenue	\$ 4,162,136	\$ 4,162,136
10	Proposed Annual Revenue (L8 + L9)	\$ 5,672,485	\$ 4,619,447
11	Required Percentage Increase In Revenue (L8 / L9)	36.29%	10.99%
12	Rate Of Return On Common Equity	12.50%	9.00%

References:

Column (A): Company Schedules A-1 and C-1  
Column (B): RUCO Schedule SURR RLM-2, SURR RLM-6, And RLM-14

**SURREBUTTAL**  
**SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 28,165,701	\$ (1,559,846)	\$ 26,605,855
2	Accumulated Depreciation	(12,057,912)	1,505,839	(10,552,073)
3	Net Utility Plant In Service (L1 + L2)	<u>\$ 16,107,789</u>	<u>\$ (54,007)</u>	<u>\$ 16,053,782</u>
4	Advances In Aid Of Const.	\$ (6,781,443)	\$ -	\$ (6,781,443)
5	Contribution In Aid Of Const.	\$ (542,445)	\$ -	\$ (542,445)
6	Accumulated Amortization Of CIAC	230,987	-	230,987
7	NET CIAC (L5 + L6)	<u>\$ (311,458)</u>	<u>\$ -</u>	<u>\$ (311,458)</u>
8	Customer Meter Deposits	\$ (559,605)	\$ -	\$ (559,605)
9	Customer Hydrant Meter Deposits	\$ -	\$ -	\$ -
10	Deferred Income Taxes & Credits	\$ 173,329	\$ (2,879,543)	\$ (2,706,214)
11	Unamortized Finance Charges	\$ -	\$ -	\$ -
12	Deferred Regulatory Assets	\$ -	\$ -	\$ -
13	Allowance For Working Capital	\$ -	\$ -	\$ -
14	TOTAL RATE BASE (Sum L's 3, 4, 7, 8 Thru 12)	<u>\$ 8,628,612</u>	<u>\$ (2,933,550)</u>	<u>\$ 5,695,062</u>

References:

Column (A): Company Schedule B-2, Page 1 And Workpapers Schedule E-1  
Column (B): SURR RLM-3, Columns (B) Thru (G)  
Column (C): Column (A) + Column (B)

**SURREBUTTAL**  
**SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) ADJ # 1 POST TY PLT & ACC DEP	(C) ADJ # 2 CUSTOMER DEPOSITS	(D) ADJ # 3 DEFERRED INCOME TAX	(E) ADJ # 4 PLANT RETIREMENTS	(F) ADJ # 5 AFUDC	(G) ADJ # 6 McCLAIN ACQ. COSTS	(H) RUCO ADJUSTED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 28,165,701	\$ (1,940)	\$ -	\$ -	\$ (1,333,228)	\$ (80,055)	\$ (144,623)	\$ 26,605,855
2	Accumulated Depreciation	(12,057,912)	(3,610)	-	-	1,509,449	-	-	(10,552,073)
3	Net Utility Plant In Service (L1 + L2)	\$ 16,107,789	\$ (5,550)	\$ -	\$ -	\$ 176,221	\$ (80,055)	\$ (144,623)	\$ 16,053,782
4	Advances In Aid Of Const.	\$ (6,781,443)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (6,781,443)
5	Contribution In Aid Of Const.	\$ (542,445)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (542,445)
6	Accumulated Amortization Of CIAC	230,987	-	-	-	-	-	-	230,987
7	NET CIAC (L5 + L6)	\$ (311,458)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (311,458)
8	Customer Meter Deposits	\$ (559,605)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (559,605)
9	Customer Hydrant Meter Deposits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10	Deferred Income Taxes & Credits	\$ 173,329	\$ -	\$ -	\$ (2,879,543)	\$ -	\$ -	\$ -	\$ (2,706,214)
11	Unamortized Finance Charges	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12	Deferred Regulatory Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Allowance For Working Capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	TOTAL RATE BASE (Sum L's 3, 4, 7, 8 Thru 12)	\$ 8,628,612	\$ (5,550)	\$ -	\$ (2,879,543)	\$ 176,221	\$ (80,055)	\$ (144,623)	\$ 5,695,062

References:

- Column (A): Company Schedule B-2, Page 1 And Worksheets Schedule E-1
- Column (B): Adjustment No. 1 - RUCO Adjustment To Post Test-Year GPIS And Acc. Dep. (See Testimony and Schedule RLM-4)
- Column (C): Adjustment No. 2 - RUCO Adjustment To Customer Deposits (See Testimony)
- Column (D): Adjustment No. 3 - RUCO Adjustment To Deferred Income Taxes (See Surrebittal Testimony Of RUCO Witness Tim Coley and Schedule SURR RLM-5A & 5B)
- Column (E): Adjustment No. 4 - RUCO Adjustment For Retired Plant (See Surrebittal Testimony, RLM)
- Column (F): Adjustment No. 5 - RUCO Adjustment To AFUDC (See Surrebittal Testimony, RLM)
- Column (G): Adjustment No. 6 - RUCO Adjustment To Acquisition Costs (See Surrebittal Testimony, RLM)
- Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)



**SURREBUTTAL  
ACCUMULATED DEFERRED INCOME TAXES**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
Deferred Income Taxes:			
1	Algonquin Accumulated Deferred Income Tax Assets	2008 Algonquin Annual Report	\$ 23,032,000
2	Algonquin Accumulated Deferred Income Tax Liabilities	2008 Algonquin Annual Report	<u>(106,983,000)</u>
3	Net Accumulated Deferred Income Tax Assets (Liabilities)	Line 1 + Line 2	\$ (83,951,000)
4	Bella Vista Allocation	Note (A)	<u>1.5438%</u>
5	Bella Vista ADIT Liabilities Allocation	Line 3 X Line 4	\$ (1,296,004)
6	Convert to US Dollars	Note (B)	<u>0.9915</u>
7	Bella Vista Allocated ADIT Liabilites Balance	Line 5 X Line 6	\$ (1,284,949)
8	Test Year Deferred Income Taxes & Credits As Filed	Company Schedule C-1	173,329
9	Decrease In Deferred Income Taxes & Credits	Line 7 - Line 8	<u>\$ (1,458,278)</u>
10	RUCO Adjustment (See SURR RLM-3, Column (D), Lir	Line 9	<u>\$ (1,458,278)</u>

NOTES:

11	(A)	Purchase Price of BVWC, NSWC and SSWC	Annual Report	\$ 15,100,000
12		Algonquin Total Assets	Annual Report	\$ 978,130,000
13		Ratio Of BVWC, NSWC & SSWC To Algonquin Total /	Line 11 / Line 12	1.5438%
14	(B)	Currency Conversion	moneycentral.com on 04/1/2010	0.9915

SUPPORTING SCHEDULES

2008 Algonquin Power Income Fund Annual Report

**SURREBUTTAL  
OPERATING INCOME**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJ'MTS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
Revenues:						
1	Flat Rate Revenues	\$ 4,023,022	\$ -	\$ 4,023,022	\$ 457,311	\$ 4,480,333
2	Misc. Service Revenues	-	-	-	-	-
3	Other WW Revenues	139,114	-	139,114	-	139,114
4	<b>TOTAL OPERATING REVENUE</b>	<b>\$ 4,162,136</b>	<b>\$ -</b>	<b>\$ 4,162,136</b>	<b>\$ 457,311</b>	<b>\$ 4,619,447</b>
Operating Expenses:						
5	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -
6	Purchased Water	708	-	708	-	708
7	Purchased Power	609,481	-	609,481	-	609,481
8	Fuel for Power Production	-	-	-	-	-
9	Chemicals	5,709	-	5,709	-	5,709
10	Materials & Supplies	49,998	-	49,998	-	49,998
11	Outside Services	4,696	-	4,696	-	4,696
12	Outside Services- Legal	41,937	-	41,937	-	41,937
13	Outside Services- Other	1,599,375	(152,470)	1,446,905	-	1,446,905
14	Water Testing	28,184	38,467	66,651	-	66,651
15	Equipment Rental	6,205	-	6,205	-	6,205
16	Rents	60,600	-	60,600	-	60,600
17	Transportation Expenses	125,122	(8,703)	116,419	-	116,419
18	Insurance - General Liability	59,410	-	59,410	-	59,410
19	Insurance - Health and Life	7,290	-	7,290	-	7,290
20	Reg. Comm. Exp.	10,628	-	10,628	-	10,628
21	Reg. Comm. Exp. - Rate Case	133,333	(66,667)	66,667	-	66,667
22	Miscellaneous Expense	92,502	(9,064)	83,438	-	83,438
23	Bad Debt Expense	18,178	-	18,178	-	18,178
24	Depreciation Expense	1,122,442	(74,318)	1,048,124	-	1,048,124
25	Taxes Other Than Income	-	-	-	-	-
26	Property Taxes	195,954	(13,568)	182,386	-	182,386
27	Income Tax	(47,787)	125,559	77,772	176,517	254,289
28	<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 4,123,965</b>	<b>\$ (160,763)</b>	<b>\$ 3,963,202</b>	<b>\$ 176,517</b>	<b>\$ 4,139,719</b>
29	<b>OPERATING INCOME (LOSS)</b>	<b>\$ 38,170</b>		<b>\$ 198,934</b>		<b>\$ 479,728</b>

References:

- Column (A): Company Schedule C-1
- Column (B): SURR RLM-7, Columns (B) Thru (H)
- Column (C): Column (A) + Column (B)
- Column (D): Revenue From SURR RLM-1, Column (B), Line 8 And Income Tax From SURR RLM-1, Column (B), Line 8 - Line 6
- Column (E): Column (C) + Column (D)

**SURREBTUTAL**  
**SUMMARY OF OPERATING INCOME ADJUSTMENTS**  
**TEST YEAR AS FILED AND ADJUSTMENTS**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ #1 DEP EXPENSE	(C) ADJ #2 PROPERTY TAX	(D) ADJ #3 MISC. EXPENSES	(E) ADJ #4 WATER TEST EXPENSES	(F) ADJ #5 TRANSPORT EXPENSES	(G) ADJ #6A CENTRAL OFFICE COST	(H) ADJ #6B CENTRAL OFFICE COST	(I) ADJ #6C CENTRAL OFFICE COST	(J) ADJ #7 RATE CASE EXPENSES	(K) ADJ #8 INCOME TAX	(L) RUCC AS ADJ'D
1	Revenues:												
1	Flat Rate Revenues	\$ 4,023,022											\$ 4,023,022
2	Misc. Service Revenues												
3	Other WW Revenues	139,114											139,114
4	TOTAL OPR'G REV.	\$ 4,162,136											\$ 4,162,136
5	Operating Expenses:												
5	Salaries and Wages	\$ -	\$ -										\$ -
6	Purchased Water	708											708
7	Purchased Power	609,481											609,481
8	Fuel for Power Production												
9	Chemicals	5,709											5,709
10	Materials & Supplies	49,988											49,988
11	Outside Services	4,686											4,686
12	Outside Services- Legal	41,937											41,937
13	Outside Services- Other	1,599,375											1,599,375
14	Water Testing	28,184				38,467		(140,134)	(1,093)	(11,243)			1,448,905
15	Equipment Rental	6,205											66,651
16	Rents	60,600											6,205
17	Transportation Expenses	125,122					(8,703)						60,600
18	Insurance - General Liability	59,410											116,419
19	Insurance - Health and Life	7,290											59,410
20	Reg. Comm. Exp.	10,628											7,290
21	Reg. Comm. Exp. - Rate Case	133,333											10,628
22	Miscellaneous Expense	92,502			(9,064)						(66,667)		66,667
23	Bad Debt Expense	16,178											83,438
24	Depreciation Expense	1,122,442	(74,318)										16,178
25	Taxes Other Than Income			(13,568)									1,048,124
26	Property Taxes	195,954											182,386
27	Income Tax	(47,787)										125,559	77,772
29	TOTAL OPR'G EXP.	\$ 4,123,965	\$ (74,318)	\$ (13,568)	\$ (9,064)	\$ 38,467	\$ (8,703)	\$ (140,134)	\$ (1,093)	\$ (11,243)	\$ (66,667)	\$ 125,559	\$ 3,963,202
30	OPRG INC. (LOSS)	\$ 38,170											\$ 196,934

References:

- Column (A): Company Schedule C-1
- Column (B): Surrebutal Testimony, RLM And Schedule SURR RLM-8
- Column (C): Surrebutal Testimony, RLM And Schedule SURR RLM-9
- Column (D): Surrebutal Testimony, RLM And Schedule SURR RLM-10
- Column (E): Surrebutal Testimony, RLM
- Column (F): Surrebutal Testimony, RLM
- Column (G): Surrebutal Testimony, TLC And Schedule SURR RLM-11A
- Column (H): Surrebutal Testimony, TLC And Schedule SURR RLM-11B
- Column (I): Surrebutal Testimony, TLC And Schedule SURR RLM-11C
- Column (J): Surrebutal Testimony, RLM And Schedule SURR RLM-12
- Column (K): Surrebutal Testimony, RLM And Schedule SURR RLM-13
- Column (L): Sum Of Columns (A) Thru (K)

**SURREBUTTAL**  
**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1**  
**TEST YEAR DEPRECIATION EXPENSE**

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) APPROVED DEPRECIATION RATE	(C) TEST YEAR DEPRECIATION EXPENSE
1	301	Organization Cost	\$ -	0.00%	\$ -
2	302	Franchise Cost	961	0.00%	-
3	303	Land and Land Rights	688,011	0.00%	-
4	304	Structures and Improvements	1,914,771	3.33%	63,762
5	305	Collecting and Impounding Res.	46,813	2.50%	1,170
6	306	Lake River and Other Intakes	-	2.50%	-
7	307	Wells and Springs	1,298,272	3.33%	43,232
8	308	Infiltration Galleries and Tunnels	-	6.67%	-
9	309	Supply Mains	3,256	2.00%	65
10	310	Power Generation Equipment	1,293	5.00%	65
11	311	Electric Pumping Equipment	2,327,407	12.50%	290,926
12	320	Water Treatment Equipment	83,385	3.33%	2,777
13	320.1	Water Treatment Equipment	-	3.33%	-
14	320.2	Chemical Solution Feeders	-	20.00%	-
15	330	Dist. Reservoirs & Standpipe	2,637,716	2.22%	58,557
16	330.1	Storage tanks	-	2.22%	-
17	330.2	Pressure Tanks	-	5.00%	-
18	331	Trans. and Dist. Mains	12,226,889	2.00%	244,538
19	333	Services	1,482,462	3.33%	49,366
20	334	Meters	1,378,333	8.33%	114,815
21	335	Hydrants	961,896	2.00%	19,238
22	336	Backflow Prevention Devices	-	6.67%	-
23	339	Other Plant and Misc. Equip.	114,539	6.67%	7,640
24	340	Office Furniture and Fixtures	177,672	6.67%	11,851
25	340.1	Computers and Software	160,920	20.00%	32,184
26	341	Transportation Equipment	268,464	20.00%	53,693
27	342	Stores Equipment	-	4.00%	-
28	343	Tools and Work Equipment	122,712	5.00%	6,136
29	344	Laboratory Equipment	-	10.00%	-
30	345	Power Operated Equipment	31,548	5.00%	1,577
31	346	Communications Equipment	420,744	10.00%	42,074
32	347	Miscellaneous Equipment	107,306	10.00%	10,731
33	348	Other Tangible Plant	155,378	10.00%	15,538
34		Rounding	485		-
35		TOTAL WASTEWATER PLANT	<u>\$ 26,611,234</u>		<u>\$ 1,069,934</u>
36		Less: Amortizations Of CIAC (RLM-2, Col. (C), Line 5)	\$ (542,445)	4.0207%	(21,810)
37		TOTAL DEPRECIATION EXPENSE (Line 35 + Line 36)			<u>\$ 1,048,124</u>
38		Test Year Depreciation Expense As Filed (Co. Sch. C-1)			1,122,442
39		Increase In Depreciation Expense (Line 37 - Line 38)			<u>\$ (74,318)</u>
40		RUCO Adjustment (Line 39) (See SURR RLM-7, Column (B), Line 25)			<u>\$ (74,318)</u>

References:

Columns (A) & (B): Company Rebuttal Schedule "C-2p1Depr"  
Column (C): Column (A) X Column (B)

**SURREBUTTAL**  
**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2**  
**PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	REFERENCE	(A) AMOUNT	(B) TOTAL
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Adjusted Revenues In Year Ended December 2007	Sch. SURR RLM-6, Col (C), Ln 4	\$ 4,162,136	
2	Adjusted Revenues In Year Ended December 2007	Sch. SURR RLM-6, Col (C), Ln 4	4,162,136	
3	Proposed Revenues	Sch. SURR RLM-6, Col (E), Ln 4	4,619,447	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 12,943,718	
5	Average Annual Operating Revenues	Line 4 / 3	4,314,573	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 8,629,145
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1	\$ 526,003	
8	10% Of CWIP	Line 7 X 10%		\$ 52,600
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	RLM-4, Col. (E), Ln 26	\$ 295,224	
10	Acc. Dep. Of Transportation Equipment	RLM-4, Col. (F), Ln 26	(291,918)	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ (3,305)
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 8,678,441
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	21.0%	
14	Assessed Value	Line 12 X Line 13	\$ 1,822,473	
Property Tax Rates:				
15	Primary Tax Rate - 2009 Tax Notice	Co. Sch. C-2, Pg 3	9.8984%	
16	Secondary Tax Rate - 2009 Tax Notice	Co. Sch. C-2, Pg 3	0.0000%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	9.90%	
18	Company's Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 180,395
19	Company's Tax on Parcels	Co. Sch. C-2, Pg 3		\$ 1,991
20	Company's Total Tax Liability	Line 18 + Line 19		\$ 182,386
21	Test Year Adjusted Property Tax Expense As Filing	Co. Sch. C-1, Line 25		195,954
22	Increase In Property Tax Expense	Line 20 - Line 21		\$ (13,568)
23	RUCO Adjustment (See SURR RLM-7, Column (C), Line 27)	Line 22		\$ (13,568)

**SURREBUTTAL**  
**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 3**  
**DISALLOWANCE OF MISCELLANEOUS EXPENSES**

LINE NO.	DESCRIPTION	REFERENCE	(A) TOTAL
	Disallowed Miscellaneous Expenses	Co. Response To Staff D. R. CSB 1-32	
1	Bella Vista Water Company Christmas Party		\$ (2,000)
2	Special Olympics Pledge		(250)
3	Muscular Distrophy Association Donation		(250)
4	Additional Disallowance By Company		(6,564)
5	RUCO Adjustment To Unnecessary/Non-Recurring Expenses	Sum Of Lines 1 Thru 17	<u>\$ (9,064)</u>
6	RUCO Adjustment (See SURR RLM-7, Column (D))	Line 18	<u>\$ (9,064)</u>

**SURREBUTTAL**  
**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 6A**  
**CENTRAL OFFICE COST ALLOCATIONS**

LINE NO.	DESCRIPTION	(A) COMPANY ACTUAL COSTS (CAN \$)	(B) RUCO ALLOWED % OF COSTS	(C) RUCO ALLOWABLE COSTS	(D) RUCO UTILITIES % ALLOCATION	(E) RUCO ALLOCATED COSTS	(F) ALLOCATION % To BWWC	(G) RUCO ALLOCATED BWWC COSTS
1	Audit	\$ 778,285	25.00%	\$ 194,571	25.35%	\$ 49,328	14.52%	\$ 7,164
2	Tax Services	518,775	25.00%	129,694	25.35%	32,880	14.52%	4,776
3	Legal	159,053	25.00%	39,763	25.35%	10,081	14.52%	1,464
4	Other Professional Services	506,082	0.00%	-	25.35%	-	14.52%	-
5	Management Fee - Total	644,943	0.00%	-	25.35%	-	14.52%	-
6	Unit Holder Communications	156,766	0.00%	-	25.35%	-	14.52%	-
7	Trustee Fees	129,000	0.00%	-	25.35%	-	14.52%	-
8	Escrow & Transfer Agent Fees	96,138	0.00%	-	25.35%	-	14.52%	-
9	Rent	307,337	0.00%	-	25.35%	-	14.52%	-
10	Licenses/Fees & Permits	17,561	0.00%	-	25.35%	-	14.52%	-
11	Office Expenses	579,379	0.00%	-	25.35%	-	14.52%	-
12	Depreciation	211,653	25.00%	52,913	25.35%	13,415	14.52%	1,948
13	TOTAL	\$ 4,104,971		\$ 416,941		\$ 105,703		\$ 15,352
14	Company's APT Cost Allocation for Bella Vista in Canadian Dollars (Per RUCO DR 3.01)							\$ 160,881
15	Conversion Factor to Convert Canadian Dollars to US Dollars per <a href="http://moneycentral.msn.com">http://moneycentral.msn.com</a> on June 9, 2010							0.96293
16	Company's APT Cost Allocation for Bella Vista in US Dollars							\$ 154,917
17	RUCO's Allowed APT Cost Allocations in US Dollars							\$ 14,783
18	RUCO's APT Cost Allocation Adjustment for Bella Vista in US Dollars							<u>(140,134)</u>
19	RUCO Adjustment (See SURR RLM-7, Column (E))							<u>(140,134)</u>

References:

- Column (A) (D) (F): Company Response To RUCO Data Requestion 3.01
- Column (B): Testimony, RUCO Witness Tim Coley
- Column (C): Sum Of Columns (A) & (B)
- Column (E): Column (C) X Column (D)
- Column (G): Column (E) X Column (F)

**OPERATING INCOME ADJUSTMENT #6(B)  
APT CORPORATE COST ALLOCATIONS ADJUSTMENT**

Line No.	Description	Company Adjusted Costs	RUCO Other Disallowed Costs	RUCO Allowable Costs	RUCO 2009 Allocation Factor	RUCO Allowed Costs	Allocation % To BVWC	RUCO Amount Allocated To BVWC
1	Rent	273,965	(273,965)	-	25.35%	-	14.52%	-
2	Audit	680,812	(510,609)	170,203	25.35%	43,150	14.52%	6,267.11
3	Tax Services	469,804	(352,353)	117,451	25.35%	29,776	14.52%	4,324.71
4	Legal - General	138,531	(103,898)	34,633	25.35%	8,780	14.52%	1,275.22
5	Other Professional Services	452,202	(452,202)	-	25.35%	-	14.52%	-
6	Management Fee	563,803	(563,803)	-	25.35%	-	14.52%	-
7	Unit Holder Communications	145,658	(145,658)	-	25.35%	-	14.52%	-
8	Trustee Fees	127,116	(127,116)	-	25.35%	-	14.52%	-
9	Office Costs	425,755	(425,755)	-	25.35%	-	14.52%	-
10	Licenses/Fees and Permits	14,565	(14,565)	-	25.35%	-	14.52%	-
11	Escrow and Transfer Fees	85,354	(85,354)	-	25.35%	-	14.52%	-
12	Depreciation Expense	189,797	(142,348)	47,449	25.35%	12,029	14.52%	1,747.15
	<b>Total</b>	<b>3,567,363</b>	<b>(3,197,626)</b>	<b>369,736</b>		<b>93,736</b>		<b>13,614</b>

RUCO Direct Testimony Amount of APT Costs Allowed

14,707

RUCO's Adjustment per Company's Rebuttal Adjustment

(1,093)

**OPERATING INCOME ADJUSTMENT #6(C)  
RUCO's APT CORPORATE COST ALLOCATIONS ADJUSTMENT**

<u>Line No.</u>	<u>Description</u>	<u>Company Test-Year Booked APT Amount</u>
1	Company's Total APT Test-Year Book Costs per RUCO Informal 2nd Set of Data Requests #5.0	\$ 156,149
2	Company's Total APT Test-Year End Costs per RUCO Formal Data Request #3.01	<u>144,906</u>
3	APT Costs Overstated in the Company's Direct Rate Application	\$ (11,243)
4	RUCO's Adjustment to Bella Vista (Consolidated) APT Costs	<u>\$ (11,243)</u>

**Notes:**

Line 1 - Company's Response to RUCO 2nd Set of Data Request #5.01 reconciles to the Company's Rate Application Test-Year Book Outside Services - Other Account in the Amount of \$156,149.21

Line 2 - Company Response to RUCO Formal Data Request 3.01 for APT Costs in the Amount of \$144,906

**SURREBUTTAL**  
**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 6**  
**INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
<b>FEDERAL INCOME TAXES:</b>			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L29 + L27	\$ 276,706
	LESS:		
2	Arizona State Tax	Line 11	(14,040)
3	Interest Expense	Note (A) Line 20	(75,218)
4	Federal Taxable Income	Sum Of Lines 1 Thru 3	<u>\$ 187,448</u>
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	<u>\$ 63,732</u>
<b>STATE INCOME TAXES:</b>			
7	Operating Income Before Taxes	Line 1	\$ 276,706
	LESS:		
8	Interest Expense	Note (A) Line 20	(75,218)
9	State Taxable Income	Sum Of Lines 7 & 8	<u>\$ 201,488</u>
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	<u>\$ 14,040</u>
<b>TOTAL INCOME TAX EXPENSE:</b>			
12	Federal Income Tax Expense	Line 6	\$ 63,732
13	State Income Tax Expense	Line 11	14,040
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	<u>\$ 77,772</u>
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		<u>(47,787)</u>
16	Total Income Tax Adjustment	Line 14 - Line 15	<u>\$ 125,559</u>
17	RUCO Adjustment (See Sch. SURR RLM-7, Column (K), L278)	Line 16	<u>\$ 125,559</u>

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (Sch. SURR RLM-2, Col. (E), L15)	\$ 5,695,062
19	Weighted Cost Of Debt (Sch. RLM-14, Col. (F), L1)	1.32%
20	Interest Expense (L17 X L18)	<u>\$ 75,218</u>

**SURREBUTTAL**  
**RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**  
**PROPOSED REVENUE**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
		TEST YEAR ADJUSTED DETERMINANTS	PROPOSED CHARGES & USAGE FEES	PROPOSED REVENUES	TOTAL REVENUES
<b>RESIDENTIAL CUSTOMERS</b>					
1	5/8" X 3/4" Meter	102,480	\$ 14.69	\$ 1,505,196	\$ 1,505,196
	Commodity Usage (In Thousands Of Gallons)				
2	First Tier -Breakover @ 4,000 Gals.	327,557	\$ 1.6193	\$ 530,406	
3	Second Tier - Breakover @ 10,000 Gals.	205,717	\$ 2.4389	\$ 501,724	
4	Third Tier - Over 10,000 Gals.	131,001	\$ 3.1766	\$ 416,134	
8	Total Commodity Usage And Revenue	664,275			\$ 1,448,264
9	3/4" Meter	408	\$ 22.03	\$ 8,989	\$ 8,989
	Commodity Usage (In Thousands Of Gallons)				
10	First Tier -Breakover @ 4,000 Gals.	1,270	\$ 1.6193	\$ 2,056	
11	Second Tier - Breakover @ 10,000 Gals.	596	\$ 2.4389	\$ 1,453	
12	Third Tier - Over 10,000 Gals.	176	\$ 3.1766	\$ 560	
16	Total Commodity Usage And Revenue	2,042			\$ 4,069
17	1" Meter	96	\$ 33.05	\$ 3,173	\$ 3,173
	Commodity Usage (In Thousands Of Gallons)				
18	First Tier -Breakover @ 10,000 Gals.	764	\$ 1.4472	\$ 1,105	
19	Second Tier - Over 10,000 Gals.	965	\$ 2.2668	\$ 2,187	
24	Total Commodity Usage And Revenue	1,728			\$ 3,292
33	2" Meter	12	\$ 82.25	\$ 987	\$ 987
	Commodity Usage (In Thousands Of Gallons)				
34	First Tier -Breakover @ 50,000 Gals.	129	\$ 1.4472	\$ 186	
35	Second Tier - Over 50,000 Gals.	-	\$ 2.2668	\$ -	
40	Total Commodity Usage And Revenue	129			\$ 186
41	Total Residential Customer Bills	102,996		\$ 1,518,344	
42	Total Residential Usage	668,174		\$ 1,455,811	
43	TOTAL RESIDENTIAL CUSTOMERS REVENUE				\$ 2,974,156
<b>COMMERCIAL CUSTOMERS</b>					
44	5/8" X 3/4" Meter	4,572	\$ 14.69	\$ 67,152	\$ 67,152
	Commodity Usage (In Thousands Of Gallons)				
45	First Tier -Breakover @ 4,000 Gals.	11,729	\$ 1.4472	\$ 16,973	
46	Second Tier - Over 4,000 Gals.	21,935	\$ 2.2668	\$ 49,721	
51	Total Commodity Usage And Revenue	33,663			\$ 66,694
52	3/4" Meter	72	\$ 22.03	\$ 1,586	\$ 1,586
	Commodity Usage (In Thousands Of Gallons)				
53	First Tier -Breakover @ 4,000 Gals.	237	\$ 1.4472	\$ 343	
54	Second Tier - Over 4,000 Gals.	732	\$ 2.2668	\$ 1,660	
59	Total Commodity Usage And Revenue	969			\$ 2,003
60	1" Meter	1,692	\$ 33.05	\$ 55,916	\$ 55,916
	Commodity Usage (In Thousands Of Gallons)				
61	First Tier -Breakover @ 10,000 Gals.	10,821	\$ 1.4472	\$ 15,660	
62	Second Tier - Over 10,000 Gals.	13,467	\$ 2.2668	\$ 30,527	
67	Total Commodity Usage And Revenue	24,289			\$ 46,188
68	1.5" Meter	1,020	\$ 66.09	\$ 67,417	\$ 67,417
	Commodity Usage (In Thousands Of Gallons)				
69	First Tier -Breakover @ 25,000 Gals.	17,687	\$ 1.4472	\$ 25,596	
70	Second Tier - Over 25,000 Gals.	28,480	\$ 2.2668	\$ 64,558	
75	Total Commodity Usage And Revenue	46,167			\$ 90,155

**SURREBUTTAL**  
**RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**  
**PROPOSED REVENUE**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
		TEST YEAR ADJUSTED DETERMINANTS	PROPOSED CHARGES & USAGE FEES	PROPOSED REVENUES	TOTAL REVENUES
76	2" Meter Commodity Usage (In Thousands Of Gallons)	3,276	\$ 82.25	\$ 269,455	\$ 269,455
77	First Tier -Breakover @ 50,000 Gals.	101,475	\$ 1.4472	\$ 146,850	
78	Second Tier - Over 50,000 Gals.	179,023	\$ 2.2668	\$ 405,807	
83	Total Commodity Usage And Revenue	<u>280,498</u>			\$ 552,657
	3" Meter Commodity Usage (In Thousands Of Gallons)	312	\$ 164.50	\$ 51,325	\$ 51,325
	First Tier -Breakover @ 80,000 Gals.	20,136	\$ 1.4472	\$ 29,139	
	Second Tier - Over 80,000 Gals.	31,283	\$ 2.2668	\$ 70,912	
	Total Commodity Usage And Revenue	<u>51,419</u>			\$ 100,051
	4" Meter Commodity Usage (In Thousands Of Gallons)	36	\$ 275.39	\$ 9,914	\$ 9,914
	First Tier -Breakover @ 350,000 Gals.	7,922	\$ 1.4472	\$ 11,465	
	Second Tier - Over 350,000 Gals.	13,540	\$ 2.2668	\$ 30,692	
	Total Commodity Usage And Revenue	<u>21,462</u>			\$ 42,157
84	6" Meter Commodity Usage (In Thousands Of Gallons)	12	\$ 734.39	\$ 8,813	\$ 8,813
85	First Tier -Breakover @ 450,000 Gals.	468	\$ 1.4472	\$ 677	
86	Second Tier - Over 450,000 Gals.	-	\$ 2.2668	\$ -	
91	Total Commodity Usage And Revenue	<u>468</u>			\$ 677
92	8" Meter Commodity Usage (In Thousands Of Gallons)	12	\$ 1,175.02	\$ 14,100	\$ 14,100
93	First Tier -Breakover @ 720,000 Gals.	31	\$ 1.4472	\$ 44	
94	Second Tier - Over 720,000 Gals.	-	\$ 2.2668	\$ -	
99	Total Commodity Usage And Revenue	<u>31</u>			\$ 44
100	Total Commercial Customer Bills	<u>11,004</u>		<u>\$ 545,678</u>	
101	Total Commercial Usage	<u>458,966</u>		<u>\$ 900,626</u>	
102	TOTAL COMMERCIAL CUSTOMERS REVENUE				<u>\$ 1,446,304</u>
	<b>HYDRANT CUSTOMERS</b>				
103	3" Meter Commodity Usage (In Thousands Of Gallons)	168	\$ 117.50	\$ 19,740	\$ 19,740
104	All Usage	5,094	\$ 3.1766	\$ 16,181	
110	Total Commodity Usage And Revenue	<u>5,094</u>			\$ 16,181
159	Total Hydrant Customer Bills	<u>168</u>			
160	Total Hydrant Usage	<u>5,094</u>			
161	TOTAL HYDRANT CUSTOMERS REVENUE				<u>\$ 35,922</u>

**SURREBUTTAL  
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE  
PROPOSED REVENUE**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
		TEST YEAR ADJUSTED DETERMINANTS	PROPOSED CHARGES & USAGE FEES	PROPOSED REVENUES	TOTAL REVENUES
<b>FIRE SPRINKLER CUSTOMERS</b>					
194	4" Meter	1,188	15.00	\$ 17,820	\$ 17,820
202	6" Meter	252	14.69	\$ 3,701	\$ 3,701
210	8" Meter	12	23.50	\$ 282	\$ 282
68	Total Fire Sprinkler Customer Bills	1,452			
70	TOTAL FIRE SPRINKLER CUSTOMERS REVENUE				\$ 21,803
189	<b>RUCO TOTAL PROPOSED REVENUE PER BILL COUNT</b>				\$ 4,478,184
	Total Company Customer Bills	115,620			
	Total Company Usage	1,132,234			
190	TOTAL RESIDENTIAL REVENUE PER BILL COUNT			\$	2,974,156
191	TOTAL COMMERCIAL REVENUE PER BILL COUNT				1,446,304
192	TOTAL HYDRANT REVENUE PER BILL COUNT				35,922
194	TOTAL FIRE SPRINKLER REVENUE PER BILL COUNT				21,803
197	<b>RUCO TOTAL PROPOSED REVENUE PER BILL COUNT</b>				\$ 4,478,184
198	Unreconciled Difference vs. Billed Revenues				2,148
200	Miscellaneous Revenues				139,114
200	<b>RUCO TOTAL REVENUE</b>				\$ 4,619,446
201	<b>PROPOSED REVENUE PER RUCO SCHEDULE RLM-1</b>				\$ 4,619,447
202	Difference				\$ (0)
203	Percentage Difference				0.00%

**SURREBUTTAL**

**TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	DESCRIPTION	PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
		(A)	(B)	(C)	(D)	(E)	(F)
<b>REVENUE ALLOCATION</b>							
1	RESIDENTIAL	\$ 2,771,302	69.02%	\$ 3,631,427	65.73%	\$ 2,974,156	66.41%
2	OTHER	1,243,988	30.98%	1,893,459	34.27%	1,504,029	33.59%
3	TOTAL	<u>\$ 4,015,290</u>	<u>100.00%</u>	<u>\$ 5,524,886</u>	<u>100.00%</u>	<u>\$ 4,478,184</u>	<u>100.00%</u>
<b>ALLOCATION RATIOS</b>							
4	FIX REVENUE	\$ 2,158,470	53.76%	\$ 2,634,057	47.68%	\$ 2,105,565	47.02%
5	VARIABLE REVENUE	1,856,821	46.24%	2,890,829	52.32%	2,372,619	52.98%
6	TOTAL	<u>\$ 4,015,290</u>	<u>100.00%</u>	<u>\$ 5,524,886</u>	<u>100.00%</u>	<u>\$ 4,478,184</u>	<u>100.00%</u>

**RESIDENTIAL (5/8" X 3/4") RATE DESIGN**

LINE NO.	DESCRIPTION	PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
		BVWC	NS & SS	CONSOLID	CONSOLID	CONSOLID	CONSOLID
7	BASIC MONTHLY CHARGE	\$ 15.00	\$ 31.00	\$ 17.92	\$ 14.69		

**COMMODITY CHARGE**

LINE NO.	DESCRIPTION	PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
		BVWC	NS & SS	CONSOLID	CONSOLID	CONSOLID	CONSOLID
8	1st Tier - Breakover	\$ 0.9700	\$ 2.0000	\$ 1.9756	\$ 1.6193		
9	2nd Tier - Breakover	\$ 1.8900	\$ 2.7500	\$ 2.9756	\$ 2.4389		
10	3rd Tier - Over	\$ 2.4100	\$ 3.9000	\$ 3.8756	\$ 3.1766		

**SURREBUTTAL**

**TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	BELLA VISTA RESIDENTIAL (5/8" X 3/4") METER					
	(A) VARIABLE MONTHLY USAGE	(B) PERCENT AVERAGE USAGE OF 6,612	(C) PRESENT TOTAL MONTHLY COST	(D) RUCO MONTHLY COST	(E) RUCO MONTHLY INCREASE	(F) % MONTHLY INCREASE
1	1,653	25.00%	\$ 16.60	\$ 17.36	\$ 0.76	4.58%
2	3,306	50.00%	\$ 18.21	\$ 20.04	\$ 1.83	10.07%
3	6,612	100.00%	\$ 22.90	\$ 27.53	\$ 4.64	20.26%
4	9,918	150.00%	\$ 29.14	\$ 35.60	\$ 6.45	22.14%
5	13,223	200.00%	\$ 35.39	\$ 43.66	\$ 8.27	23.36%

AVERAGE RESIDENTIAL BILL COMPARISONS  
 COST OF WATER SERVICE AT  
 DIFFERENT LEVELS OF USAGE WITH  
 PERCENTAGE INCREASE IN BILL

MEDIAN RESIDENTIAL BILL COMPARISONS  
 COST OF WATER SERVICE AT  
 DIFFERENT LEVELS OF USAGE WITH  
 PERCENTAGE INCREASE IN BILL

	VARIABLE MONTHLY USAGE	PERCENT MEDIAN USAGE OF 4,500	PRESENT TOTAL MONTHLY COST	RUCO MONTHLY COST	RUCO MONTHLY INCREASE	% MONTHLY INCREASE
6	1,125	25.00%	\$ 16.09	\$ 16.51	\$ 0.42	2.60%
7	2,250	50.00%	\$ 17.18	\$ 18.33	\$ 1.15	6.68%
8	4,500	100.00%	\$ 19.37	\$ 22.38	\$ 3.02	15.59%
9	6,750	150.00%	\$ 21.55	\$ 27.87	\$ 6.32	29.35%
10	9,000	200.00%	\$ 23.73	\$ 33.36	\$ 9.63	40.58%

**SURREBUTTAL**

**TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	(A) VARIABLE MONTHLY USAGE	(B) PERCENT AVERAGE USAGE OF 5,755	(C) PRESENT TOTAL MONTHLY COST	(D) RUCO MONTHLY COST	(E) RUCO MONTHLY INCREASE	(F) % MONTHLY INCREASE
	<b>NORTHERN SUNRISE RESIDENTIAL (5/8" X 3/4") METER</b>					
	AVERAGE RESIDENTIAL BILL COMPARISONS					
1	1,439	25.00%	\$ 33.88	\$ 17.02	\$ (16.86)	-49.77%
2	2,878	50.00%	\$ 17.79	\$ 19.35	\$ 1.56	8.75%
3	5,755	100.00%	\$ 43.08	\$ 25.45	\$ (17.63)	-40.93%
4	8,633	150.00%	\$ 50.99	\$ 32.46	\$ (18.53)	-36.33%
5	11,511	200.00%	\$ 74.39	\$ 40.60	\$ (33.79)	-45.43%

**MEDIAN RESIDENTIAL BILL COMPARISONS**  
 COST OF WATER SERVICE AT  
 DIFFERENT LEVELS OF USAGE WITH  
 PERCENTAGE INCREASE IN BILL

	VARIABLE MONTHLY USAGE	PERCENT MEDIAN USAGE OF 4,500	PRESENT TOTAL MONTHLY COST	RUCO MONTHLY COST	RUCO MONTHLY INCREASE	% MONTHLY INCREASE
6	1,125	25.00%	\$ 33.25	\$ 16.51	\$ (16.74)	-50.35%
7	2,250	50.00%	\$ 35.50	\$ 18.33	\$ (17.17)	-48.36%
8	4,500	100.00%	\$ 40.00	\$ 22.38	\$ (17.62)	-44.04%
9	6,750	150.00%	\$ 32.06	\$ 27.87	\$ (4.19)	-13.07%
10	9,000	200.00%	\$ 52.00	\$ 33.36	\$ (18.64)	-35.85%

**SURREBUTTAL**

**TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	(A) VARIABLE MONTHLY USAGE	(B) PERCENT AVERAGE USAGE OF 5,581	(C) PRESENT TOTAL MONTHLY COST	(D) RUCO MONTHLY COST	(E) RUCO MONTHLY INCREASE	(F) % MONTHLY INCREASE
	<b>SOUTHERN SUNRISE RESIDENTIAL (5/8" X 3/4") METER</b>					
	AVERAGE RESIDENTIAL BILL COMPARISONS					
	COST OF WATER SERVICE AT					
	DIFFERENT LEVELS OF USAGE WITH					
	PERCENTAGE INCREASE IN BILL					
1	1,395	25.00%	\$ 33.79	\$ 16.95	\$ (16.84)	-49.85%
2	2,791	50.00%	\$ 17.71	\$ 19.21	\$ 1.50	8.47%
3	5,581	100.00%	\$ 42.60	\$ 25.02	\$ (17.58)	-41.26%
4	8,372	150.00%	\$ 50.27	\$ 31.83	\$ (18.45)	-36.69%
5	11,162	200.00%	\$ 73.03	\$ 39.49	\$ (33.54)	-45.93%

**MEDIAN RESIDENTIAL BILL COMPARISONS**  
 COST OF WATER SERVICE AT  
 DIFFERENT LEVELS OF USAGE WITH  
 PERCENTAGE INCREASE IN BILL

	VARIABLE MONTHLY USAGE	PERCENT MEDIAN USAGE OF 3,500	PRESENT TOTAL MONTHLY COST	RUCO MONTHLY COST	RUCO MONTHLY INCREASE	% MONTHLY INCREASE
6	875	25.00%	\$ 32.75	\$ 16.10	\$ (16.65)	-50.83%
7	1,750	50.00%	\$ 34.50	\$ 17.52	\$ (16.98)	-49.21%
8	3,500	100.00%	\$ 38.00	\$ 20.36	\$ (17.64)	-46.43%
9	5,250	150.00%	\$ 27.94	\$ 23.19	\$ (4.75)	-17.00%
10	7,000	200.00%	\$ 46.50	\$ 26.02	\$ (20.48)	-44.04%