0000113325

Transcript Exhibit(s)

Docket #(s): W-03718A-09-0359

Arizona Corporation Commission
DOCKETED
JUL 30 2010
DOCKETED BY

Exhibit # : A14-A18, S1-S11

RECEIVED
2010 JUL 30 A 11:29
AZ CORP COMMISSION
DOCKET CONTROL

Exhibit A-14
Marian Homiak

Prepared Rebuttal Testimony

July 19-20, 2010 ACC Hearing
Sahuarita Water Company
Docket No. W-03718-09-0359

EXHIBIT
A14
ADMITTED

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF SAHUARITA WATER COMPANY, L.L.C. ("SWC") FOR AN OPINION AND ORDER OF THE COMMISSION (i) DETERMINING THE FAIR VALUE OF THE UTILITY PROPERTY OF SWC FOR RATEMAKING PURPOSES, (ii) FIXING A JUST AND REASONABLE RATE OF RETURN THEREON, (iii) APPROVING RATES AND CHARGES DESIGNED TO PRODUCE REVENUES SUFFICIENT TO RECOVER SWC'S COST OF SERVICE AND AUTHORIZED RATE OF RETURN, AND (iv) PROVIDING FOR THE RECOVERY OF CERTAIN FINANCING AND OPERATING EXPENSES THROUGH A SURCHARGE AND A PASS-THROUGH TARIFF, RESPECTIVELY	DOCKET NO. W-03718-09-0359 PREPARED TESTIMONY

REBUTTAL TESTIMONY OF

MARIAN HOMIAK

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

May 17, 2010

Q.1 Please state your name and business address.

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

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

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

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

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

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

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

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

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

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

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

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

Q.7 Please describe the nature of the arrangement.

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

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

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

Q.8 Have your read the April 22, 2010 prepared Direct Testimony of Commission Staff witness Jeffrey Michlik in this proceeding?

A.8 Yes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q.13 What occasioned that decision?

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

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

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

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

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

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

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

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

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

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

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

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

Q.17 Does that complete your Rebuttal Testimony?

A.17 Yes, it does.

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

MARIAN HOMIAK
REBUTTAL TESTIMONY
May 17, 2010

APPENDIX A

MANAGEMENT SERVICES AGREEMENT
(Rancho Sahuarita Water Co.)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9. Contractor Insurance and Indemnification Requirements.

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

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

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

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

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

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

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

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

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

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

If to Contractor: 4549 East Ft. Lowell Road

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

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

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

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

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

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

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

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

By_____
Robert M. Sharpe, President

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

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

By:_____
Fred Lewis, President

SCHEDULE 1

COMPENSATION TO CONTRACTOR

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

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

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

MARIAN HOMIAK
REBUTTAL TESTIMONY
May 17, 2010

APPENDIX B

SWC Comparable 200
President

Pay Data

Water Utility Compensation Survey - 2009

Code: 001

Title: Top Utility Executive

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

ALL PARTICIPANT DATA

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

DATA BY POPULATION SERVED

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

DATA BY NO. OF EMPLOYEES

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

© American Water Works Association

SWC Comparable Job:
Vice ~~Pres~~ President
Development

Water Utility Compensation Survey - 2009

Job Code: 004

Job Title: Top Engineering Executive

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

ALL PARTICIPANT DATA

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximu
	64	65	46	123,378	113,900	92,582	114,274	135,4

DATA BY POPULATION SERVED

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximu
> 1 Million	11	11	178	169,253	176,112	123,723	156,937	188,1
500k - million	11	11	46	132,104	122,939	101,765	121,559	142,0
250k - 500k	11	11	33	116,604	117,499	86,869	110,825	131,5
100k - 250k	17	18	23	114,789	110,000	85,621	104,729	124,6
< 100k	14	14	10	96,844	93,985	73,819	89,696	105,5

DATA BY NO. OF EMPLOYEES

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Averag Maxim
> 1,000	10	10	178	173,268	179,965	123,723	156,937	188,1
500 - 1,000	14	14	48	131,122	121,547	100,443	118,816	139,5
200 - 500	13	13	33	107,517	104,986	75,186	99,427	120,5
100 - 200	15	15	12	114,553	101,130	92,978	110,919	128,:
< 100	12	13	12	102,705	105,027	73,281	89,707	106,:

© American Water Works Associati

SWC Comparable Job: Chief Financial Officer

Water Utility Compensation Survey - 2009

Job Code: 007

Job Title: Top Finance Executive

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

ALL PARTICIPANT DATA

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

DATA BY POPULATION SERVED

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

DATA BY NO. OF EMPLOYEES

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

© American Water Works Association

SWC Comparable Job:
Human Resources
Manager

Water Utility Compensation Survey - 2009

Job Code: 010

Job Title: Top Human Resources Executive

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

ALL PARTICIPANT DATA

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

DATA BY POPULATION SERVED

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

DATA BY NO. OF EMPLOYEES

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

© American Water Works Association

SWC Position:
Operations
Manager

Water Utility Compensation Survey - 2009

Job Code: 014

Job Title: Water Operations Manager

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

ALL PARTICIPANT DATA

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

DATA BY POPULATION SERVED

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

DATA BY NO. OF EMPLOYEES

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

© American Water Works Association

SWC Position:
Sr Customer Service
Representative

Water Utility Compensation Survey - 2009

Job Code: 020

Job Title: Office/Administrative Services Manager

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

ALL PARTICIPANT DATA

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

DATA BY POPULATION SERVED

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

DATA BY NO. OF EMPLOYEES

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

© American Water Works Association

SWC Position: Customer Service Manager

Water Utility Compensation Survey - 2009

Job Code: 021

Job Title: Customer Service Manager

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

ALL PARTICIPANT DATA

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

DATA BY POPULATION SERVED

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
> 1 Million	10	10	42	108,346	106,461	75,440	97,009	117,743
500k - million	9	9	65	90,038	83,637	68,248	83,059	98,601
250k - 500k	8	8	41	89,971	86,075	74,201	89,826	110,300
100k - 250k	19	19	22	82,329	82,139	63,134	76,563	90,609
< 100k	20	20	9	62,109	57,449	49,370	59,226	68,668

DATA BY NO. OF EMPLOYEES

	No. of Utilities	No. of Incumbents	Average No. Supervised	Average Base Pay	50th Percentile	Average Minimum	Average Midpoint	Average Maximum
> 1,000	10	10	40	108,847	106,461	77,008	98,069	118,031
500 - 1,000	13	13	69	98,355	89,300	73,497	89,494	107,142
200 - 500	11	11	33	83,163	81,323	62,209	79,421	99,888
100 - 200	16	16	11	74,111	76,548	61,130	71,625	81,866
< 100	16	16	7	59,522	57,449	46,247	55,008	63,278

© American Water Works Association

SWC Positions
Controller

Water Utility Compensation Survey - 2009

Job Code: 022

Job Title: Accounting Manager/Controller

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

ALL PARTICIPANT DATA

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

DATA BY POPULATION SERVED

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

DATA BY NO. OF EMPLOYEES

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

© American Water Works Association

SWC Position:
Utility Tech

Water Utility Compensation Survey - 2009

Job Code: 041

Job Title: Water Treatment Plant Operator (Intermediate)

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

ALL PARTICIPANT DATA

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

DATA BY POPULATION SERVED

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

DATA BY NO. OF EMPLOYEES

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

© American Water Works Association

SWC Position: Senior Utility Tech

Water Utility Compensation Survey - 2009

Job Code: 042

Job Title: Senior/Lead Water Treatment Plant Operator

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

ALL PARTICIPANT DATA

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

DATA BY POPULATION SERVED

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

DATA BY NO. OF EMPLOYEES

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

© American Water Works Association

SWC Position: Chief Financial Officer

Financial Systems
Find Providers of Financial Services. Your Business Solution

Financial Systems Manager
Free Job Matching. No More Lengthy Searches. Candidate Confidentiality

Financial Systems Manager
Search The Top Jobs In Finance. Register and Apply at Dice.com

Financial Recruiters
Send Your Resume To Top $75k+ Finance Recruiters In Your Area.

New Search | Methodology | Help

The median total compensation including benefits for a typical Financial Systems Manager in Tucson, AZ, is $132,707. This basic market pricing report was prepared using our Certified Compensation Professionals' analysis of survey data collected from thousands of HR departments at employers of all sizes, industries and geographies.

Base Salary | Bonuses | Benefits

Total compensation (base + bonuses + benefits) « 1 2 3

Benefit	Median Amount	% of Total
Base salary	$91,435	69%
Bonuses	$6,135	5%
Social Security	$7,484	6%
401k/403b	$3,708	3%
Disability	$976	1%
Healthcare	$6,103	5%
Pension	$4,878	4%
Time off	$12,008	9%
Total	$132,707	100%

IMPORTANT: Your pay can be dramatically affected by compensable factors such as employer size, industry, employee credentials, years of experience and others.

To receive a free initial analysis or purchase your personal salary report, click "Next Page".

Next Page

Values of benefits can vary widely by industry and company.

Compare Base Salary to...

- National average
- New location
- Related job

Salary News and Advice from Salary.com

Workers Say They're Underpaid – But Are They Right?

By SALARY.COM

According to Salary.com's 2006/2007 Employee Job Satisfaction and Retention Survey, 62 percent of employees plan on looking for a new job in the next three months. Dissatisfied employees have cited a variety of reasons for their desire to leave their company, including lack of opportunity for advancement, no recognition for achievements, insufficient benefits and even boredom.

Time Off from Work Gains In Importance

By SALARY.COM

American workers are saying they need a break. As their number of hours clocked on the job has crept higher, more time off has become a bigger priority.

How Men and Women Use Their Time

By SALARY.COM

Working women are spending about an hour more doing housework and taking care of family members each day than working men do, according to a new report released by teh Department of Labor.

Ads by Google

LAID OFF?
BREAK INTO A NEW CAREER
EarnMyDegree
FINANCIAL AID AVAILABLE.
Earn Your Degree in 2 Years or Less.
Choose From:
Associate's Programs
Bachelor's Programs
Certificate Programs
Doctoral Programs
M.B.A. Programs
Master's Programs
Start Here!

Cost of Living Calculator

Moving can affect both your salary level and your cost of living. The Cost of Living Wizard reveals the impact. Enter Base Salary

$ Get Started

Executive Compensation Wizard

What do top executives earn? Actual pay stats at thousands of U.S. companies. Enter a Company Name:

OR

Enter a Company Ticker Symbol:

Search

Job Assessor

Compare how two opportunities relate to one and other. Evalute, accept, or decline a job offer or evaluate your job satisfaction.

Begin

Millionaire Maker

Learn what it takes to make 1 million dollars by a certain age with Millionaire Maker, our online calculator. In less than one minute, we'll analyze your investments, savings, and other factors in wealth-creation. Make your wealth-building plan now. Begin

Copyright 2010 The New York Times Company | Privacy Policy | Search | Corrections RSS | First Look | Help Contact Us | Work for Us | Site Map

Salary Wizard® is a registered trademark of Salary.com
© 2000-2008 Salary.com, Inc.

Advertise with Us | Partnerships | About Salary.com, Inc.

SWC Position: Controller

HOME PAGE | MY TIMES | TODAY'S PAPER | VIDEO | MOST POPULAR | TIMES TOPICS | Get Home Delivery | Log In | Register Now

The New York Times
Tuesday, May 11, 2010

Jobs

Search

WORLD | U.S. | N.Y./REGION | BUSINESS | TECHNOLOGY | SCIENCE | HEALTH | SPORTS | OPINION | ARTS | STYLE | TRAVEL | JOBS | REAL ESTATE | AUTOS

FIND A JOB | POST YOUR RESUME | JOB SEEKER LOGIN | CAREER ADVICE | EMPLOYER CENTRAL

accounting manager
Find out if you're eligible to be in the Cambridge Registry.

Accounting Managers
Find Accounting Manager Jobs Listed Accounting Employment Ads & Resumes

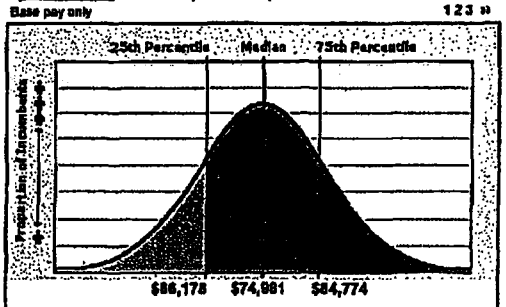
Account Manager Salary
Free May 2010 salary reports; matched to your exact job profile.

New Search | Methodology | Help

The median expected salary for a typical Accounting Manager in Tucson, AZ, is $74,981. This basic market pricing report was prepared using our Certified Compensation Professionals' analysis of survey data collected from thousands of HR departments at employers of all sizes, industries and geographies.

Base Salary | Bonuses | Benefits

Base pay only 1 2 3 »



HR Reported data as of May 2010 salary.com

Accounting Manager	25th Percentile	Median	75th Percentile
Tucson, AZ	$86,178	$74,981	$64,774

IMPORTANT: Your pay can be dramatically affected by compensable factors such as employer size, industry, employee credentials, years of experience and others.

To receive a free initial analysis or purchase your personal salary report, click "Next Page".

Next Page

Compare Base Salary to...
- National average
- New location
- Related job

Salary News and Advice from Salary.com

Workers Say They're Underpaid -- But Are They Right?
By SALARY.COM
According to Salary.com's 2006/2007 Employee Job Satisfaction and Retention Survey, 62 percent of emloyees plan on looking for a new job in the next three months. Dissatisfied employees have cited a variety of reasons for their desire to leave their company, including lack of opportunity for advancement, no recognition for achievements, insufficient benefits and even boredom.

Time Off from Work Gains in Importance
By SALARY.COM
American workers are saying they need a break. As their number of hours clocked on the job has crept higher, more time off has become a bigger priority.

How Men and Women Use Their Time
By SALARY.COM
Working women are spending about an hour more doing housework and taking care of family members each day than working men do, according to a new report released by teh Department of Labor.

Ads by Google

Featured Jobs (Click to see more) powered by monster

- Truck Driver
Position Description: United Rentals, ...
Phoenix, AZ
- Manufacturing and Production ...
Jabil Tempe is having a JOB FAIR ON AP...
Tempe, AZ
- Service Assurance Technician ...
This is a 3 month contract assignment....
Phoenix, AZ
- Software Engineer & Sr. V&V E...
Description Belcan is a leading provid...
Phoenix, AZ

Cost of Living Calculator

Moving can affect both your salary level and your cost of living. The Cost of Living Wizard reveals the impact. Enter Base Salary
$ Get Started

Executive Compensation Wizard

What do top executives earn? Actual pay stats at thousands of U.S. companies. Enter a Company Name:

OR
Enter a Company Ticker Symbol:

Search

Job Assessor

Compare how two opportunities relate to one and other. Evalute, accept, or decline a job offer or evaluate your job statisfaction.
Begin

Millionaire Maker

Learn what it takes to make 1 million dollars by a certain age with Millionaire Maker, our online calculator. In less than one minute, we'll analyze your investments, savings, and other factors in wealth-creation. Make your wealth-building plan now. Begin

Copyright 2010 The New York Times Company | Privacy Policy | Search | Corrections | RSS | First Look | Help | Contact Us | Work for Us | Site Map

Salary Wizard® is a registered trademark of Salary.com
© 2000-2008 Salary.com, Inc.

SWC Position: Human Resource Manager

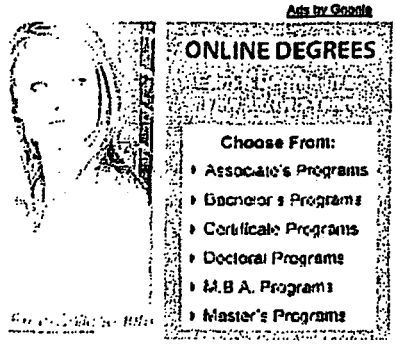
HR Master's Degree
Top ranking Online HR Master Degree from ACU. Fully Accredited.

Healthcare Management
Resources for a Value Based Health Management Plan with VBHM.

Online Associates Degrees
Compare online schools and degrees. Accredited universities only.

Versure Employer Services
Outsource human resources including payroll, worker's comp, and more.

Ads by Google



New Search | Methodology | Help

The median total compensation including benefits for a typical Human Resources Assistant III in Tucson, AZ, is $60,652. This basic market pricing report was prepared using our Certified Compensation Professionals' analysis of survey data collected from thousands of HR departments at employers of all sizes, industries and geographies.

Base Salary | Bonuses

Benefit	Median Amount	% of Total
Base salary	$41,240	68%
Bonuses	$799	1%
Social Security	$3,218	5%
401(k)/403b	$1,597	3%
Disability	$420	1%
Healthcare	$6,103	10%
Pension	$2,102	3%
Time off	$5,174	9%
Total	$60,652	100%

IMPORTANT: Your pay can be dramatically affected by compensable factors such as employer size, industry, employee credentials, years of experience and others.

To receive a free initial analysis or purchase your personal salary report, click "Next Page".

Next Page

Values of benefits can vary widely by industry and company.

Compare Base Salary to...

National average | New location | Related job

Salary News and Advice from Salary.com

Workers Say They're Underpaid -- But Are They Right?

According to Salary.com's 2006/2007 Employee Job Satisfaction and Retention Survey, 62 percent of employees plan on looking for a new job in the next three months. Dissatisfied employees have cited a variety of reasons for their desire to leave their company, including lack of opportunity for advancement, no recognition for achievements, insufficient benefits and even boredom.

Time Off from Work Gains in Importance

American workers are saying they need a break. As their number of hours clocked on the job has crept higher, more time off has become a bigger priority.

How Men and Women Use Their Time

Working women are spending about an hour more doing housework and taking care of family members each day than working men do, according to a new report released by teh Department of Labor.

Cost of Living Calculator

Moving can affect both your salary level and your cost of living. The Cost of Living Wizard reveals the impact. Enter Base Salary

$ Get Started

Executive Compensation Wizard

What do top executives earn? Actual pay stats at thousands of U.S. companies. Enter a Company Name:

OR
Enter a Company Ticker Symbol:

Search

Job Assessor

Compare how two opportunities relate to one and other. Evalute, accept, or decline a job offer or evaluate your job statisfaction.

Begin

Millionaire Maker

Learn what it takes to make 1 million dollars by a certain age with Millionaire Maker, our online calculator. In less than one minute, we'll analyze your investments, savings, and other factors in wealth-creation. Make your wealth-building plan now. Begin

Salary Wizard is a registered trademark of Salary.com
© 2000-2005 Salary.com, Inc.

Advertise with Us | Partnerships | About Salary.com, Inc

JWC Position: Bookkeeper

Jobs

Fast Accounts Payable
•Payables Automation and Workflow Scan/Process Invoice, PO, shipping.

Account Payable Online
•Easy to Use Web-Based AP Software Flexible, Scalable, & Powerful!

Payable Clerk Jobs
•Search for Payable Clerk jobs - Find your new job today. indeed™

Accounting Clerk Jobs
•Search Accounting Clerk Jobs Post Your Resume & Apply Now!

Ads by Google

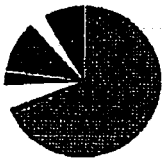
New Search | Methodology | Help

The median total compensation including benefits for a typical Accounts Payable Clerk, Sr. in Tucson, AZ, is $55,358. This basic market pricing report was prepared using our Certified Compensation Professionals' analysis of survey data collected from thousands of HR departments at employers of all sizes, industries and geographies.

Base Salary | Bonuses | Benefits

Total compensation (base + bonuses + benefits) « 1 2 3

Benefit	Median Amount	% of Total
Base salary	$37,223	67%
Bonuses	$736	1%
Social Security	$2,904	5%
401k/403b	$1,442	3%
Disability	$360	1%
Healthcare	$6,103	11%
Pension	$1,698	3%
Time off	$4,672	8%
Total	$55,358	100%



IMPORTANT: Your pay can be dramatically affected by compensable factors such as employer size, industry, employee credentials, years of experience and others.

To receive a free initial analysis or purchase your personal salary report, click "Next Page".

Next Page

Values of benefits can vary widely by industry and company.

Compare Base Salary to...
- National average
- New location
- Related job

OnlineStudentFinancialAid.com
Advance Your Career,
Choose Your Degree
Get Financial Aid
Learn More – Get More Info

Nursing | Criminal Justice | Business | Graphic Design | Health Care | Accounting | Technology | Management | Education | Bachelor's Degree | Associate's Degree | Master's Degree

Click Here

Cost of Living Calculator

Moving can affect both your salary level and your cost of living. The Cost of Living Wizard reveals the impact. Enter Base Salary

$ Get Started

Executive Compensation Wizard

What do top executives earn? Actual pay stats at thousands of U.S. companies. Enter a Company Name:

OR
Enter a Company Ticker Symbol:

Search

Job Assessor

Compare how two opportunities relate to one and other. Evalute, accept, or decline a job offer or evaluate your job satisfaction.

Begin

Millionaire Maker

Learn what it takes to make 1 million dollars by a certain age with Millionaire Maker, our online calculator. In less than one minute, we'll analyze your investments, savings, and other factors in wealth-creation. Make your wealth-building plan now. Begin

Salary News and Advice from Salary.com

Workers Say They're Underpaid – But Are They Right?
By SALARY.COM
According to Salary.com's 2006/2007 Employee Job Satisfaction and Retention Survey, 62 percent of employees plan on looking for a new job in the next three months. Dissatisfied employees have cited a variety of reasons for their desire to leave their company, including lack of opportunity for advancement, no recognition for achievements, insufficient benefits and even boredom.

Time Off from Work Gains in Importance
By SALARY.COM
American workers are saying they need a break. As their number of hours clocked on the job has crept higher, more time off has become a bigger priority.

How Men and Women Use Their Time
By SALARY.COM
Working women are spending about an hour more doing housework and taking care of family members each day than working men do, according to a new report released by tah Department of Labor.

Copyright 2010 The New York Times Company | Privacy Policy | Search | Corrections | RSS | First Look | Help | Contact Us | Work for Us | Site Map

Salary Wizard® is a registered trademark of Salary.com
© 2000-2008 Salary.com, Inc.

Advertise with Us | Partnerships | About Salary.com, Inc.

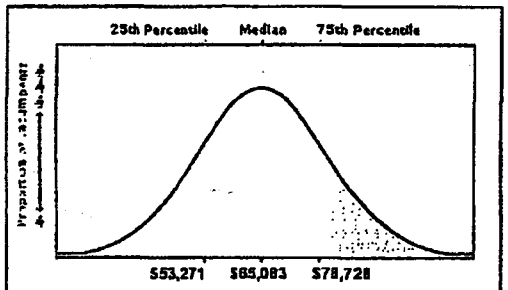
SWC Position:
Sr Utility Tech

Jobs

New Search | Methodology | Help

The median total cash compensation for a typical Meter Operations Supervisor in Tucson, AZ 85712, is $65,083. This basic market pricing report was prepared using our Certified Compensation Professionals' analysis of survey data collected from thousands of HR departments at employers of all sizes, industries and geographies.

Base Salary | Benefits



HR Reported data as of May 2010 salary.com

Meter Operations Supervisor	25th Percentile	Median	75th Percentile
Tucson, AZ 85712	$53,271	$65,083	$78,728

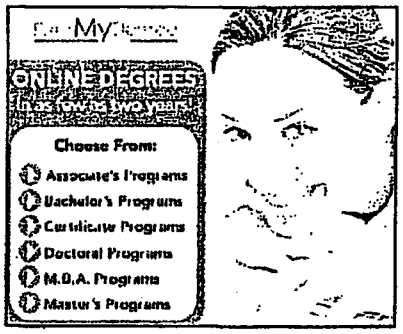
IMPORTANT: Your pay can be dramatically affected by compensable factors such as employer size, industry, employee credentials, years of experience and others.

To receive a free initial analysis or purchase your personal salary report, click "Next Page".

Next Page

Compare Cash Compensation to...

National average New location Related job



Cost of Living Calculator

Moving can affect both your salary level and your cost of living. The Cost of Living Wizard reveals the impact. Enter Base Salary

$ Get Started

Executive Compensation Wizard

What do top executives earn? Actual pay stats at thousands of U.S. companies. Enter a Company Name:

OR
Enter a Company Ticker Symbol:

Search

Job Assessor

Compare how two opportunities relate to one and other. Evalute, accept, or decline a job offer or evaluate your job satisfaction.

Begin

Millionaire Maker

Learn what it takes to make 1 million dollars by a certain age with Millionaire Maker, our online calculator. In less than one minute, we'll analyze your investments, savings, and other factors in wealth-creation. Make your wealth-building plan now. Begin

Salary News and Advice from Salary.com

Workers Say They're Underpaid -- But Are They Right?

According to Salary.com's 2006/2007 Employee Job Satisfaction and Retention Survey, 62 percent of employees plan on looking for a new job in the next three months. Dissatisfied employees have cited a variety of reasons for their desire to leave their company, including lack of opportunity for advancement, no recognition for achievements, insufficient benefits and even boredom.

Time Off from Work Gains in Importance

American workers are saying they need a break. As their number of hours clocked on the job has crept higher, more time off has become a bigger priority.

How Men and Women Use Their Time

Working women are spending about an hour more doing housework and taking care of family members each day than working men do, according to a new report released by teh Department of Labor.

Salary Wizard® is a registered trademark of Salary.com
© 2000-2008 Salary.com, Inc.

Advertise with Us | Partnerships | About Salary.com, Inc.

SWC Position: Customer Service Representative

Working Mom eLearners.com | TYRA

The Tyra Show & Project Working Mom 2010 are partnering to give working parents online degrees.

Click here for a full-tuition scholarship!

New Search | Methodology | Help

The median total compensation including benefits for a typical Call Center Representative I - Inbound in Tucson, AZ, is $42,100. This basic market pricing report was prepared using our Certified Compensation Professionals' analysis of survey data collected from thousands of HR departments at employers of all sizes, industries and geographies.

Base Salary | Bonuses | Benefits

Total compensation (base + bonuses + benefits) « 1 2 3

Benefit	Median Amount	% of Total
Base salary	$27,153	64%
Bonuses	$589	1%
Social Security	$2,122	5%
401k/403b	$1,054	3%
Disability	$277	1%
Healthcare	$6,103	14%
Pension	$1,387	3%
Time off	$3,414	8%
Total	$42,100	100%

IMPORTANT: Your pay can be dramatically affected by compensable factors such as employer size, industry, employee credentials, years of experience and others.

To receive a free initial analysis or purchase your personal salary report, click "Next Page".

Next Page

Values of benefits can vary widely by industry and company.

Compare Base Salary to...

- National average
- New location
- Related job

EarnMyDegree

ONLINE DEGREES
In as few as two years!

Associate's Programs
Bachelor's Programs
Certificate Programs
Doctoral Programs
M.B.A. Programs
Master's Programs

Cost of Living Calculator

Moving can affect both your salary level and your cost of living. The Cost of Living Wizard reveals the impact. Enter Base Salary

$ Get Started

Executive Compensation Wizard

What do top executives earn? Actual pay stats at thousands of U.S. companies. Enter a Company Name:

OR
Enter a Company Ticker Symbol:

Search

Job Assessor

Compare how two opportunities relate to one and other. Evalute, accept, or decline a job offer or evaluate your job statisfaction.

Begin

Millionaire Maker

Learn what it takes to make 1 million dollars by a certain age with Millionaire Maker, our online calculator. In less than one minute, we'll analyze your investments, savings, and other factors in wealth-creation. Make your wealth-building plan now. Begin

Salary News and Advice from Salary.com

Workers Say They're Underpaid -- But Are They Right?

By SALARY.COM

According to Salary.com's 2006/2007 Employee Job Satisfaction and Retention Survey, 82 percent of employees plan on looking for a new job in the next three months. Dissatisfied employees have cited a variety of reasons for their desire to leave their company, including lack of opportunity for advancement, no recognition for achievements, insufficient benefits and even boredom.

Time Off from Work Gains in Importance

By SALARY.COM

American workers are saying they need a break. As their number of hours clocked on the job has crept higher, more time off has become a bigger priority.

How Men and Women Use Their Time

By SALARY.COM

Working women are spending about an hour more doing housework and taking care of family members each day than working men do, according to a new report released by teh Department of Labor.

Copyright 2010 The New York Times Company | Privacy Policy | Search | Corrections RSS | First Look | Help Contact Us | Work for Us | Site Map

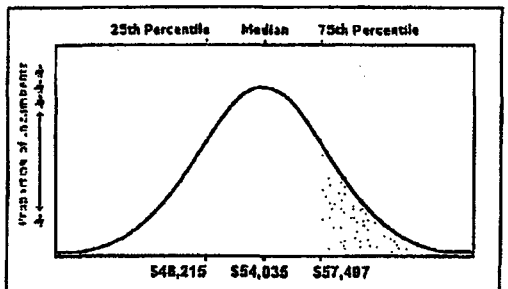
Salary Wizard® is a registered trademark of Salary.com
© 2000-2008 Salary.com, Inc.

Advertise with Us | Partnerships | About Salary.com, Inc.

New Search | Methodology | Help

The median total cash compensation for a typical Motor Maintenance Technician in Tucson, AZ 85712, is $54,035. This basic market pricing report was prepared using our Certified Compensation Professionals' analysis of survey data collected from thousands of HR departments at employers of all sizes, industries and geographies.

Base Salary | Benefits



HR Reported data as of May 2010 salary.com

Motor Maintenance Technician	25th Percentile	Median	75th Percentile
Tucson, AZ 85712	$48,215	$54,035	$57,497

IMPORTANT: Your pay can be dramatically affected by compensable factors such as employer size, industry, employee credentials, years of experience and others.

To receive a free initial analysis or purchase your personal salary report, click "Next Page".

Next Page

Compare Cash Compensation to...

National average New location Related job

Salary News and Advice from Salary.com

Workers Say They're Underpaid -- But Are They Right?

According to Salary.com's 2006/2007 Employee Job Satisfaction and Retention Survey, 62 percent of employees plan on looking for a new job in the next three months. Dissatisfied employees have cited a variety of reasons for their desire to leave their company, including lack of opportunity for advancement, no recognition for achievements, insufficient benefits and even boredom.

Time Off from Work Gains in Importance

American workers are saying they need a break. As their number of hours clocked on the job has crept higher, more time off has become a bigger priority.

How Men and Women Use Their Time

Working women are spending about an hour more doing housework and taking care of family members each day than working men do, according to a new report released by teh Department of Labor.

Featured Click to see more
powered by

communications

> MECHANICAL ENG...
IF YOU THRIVE ON CHALLENGE, ARE MOTIVATED, CREATIVE, AND CAN HIT THE
ANAHEIM, CA

> LAN Systems Engineer - Servic...
Phoenix, AZ

> General Education Instructor
Glendale - 85301, A

Cost of Living Calculator

Moving can affect both your salary level and your cost of living. The Cost of Living Wizard reveals the impact. Enter Base Salary
$ Get Started

Executive Compensation Wizard

What do top executives earn? Actual pay stats at thousands of U.S. companies. Enter a Company Name:

OR
Enter a Company Ticker Symbol:

Search

Job Assessor

Compare how two opportunities relate to one and other. Evalute, accept, or decline a job offer or evaluate your job statisfaction.
Begin

Millionaire Maker

Learn what it takes to make 1 million dollars by a certain age with Millionaire Maker, our online calculator. In less than one minute, we'll analyze your investments, savings, and other factors in wealth-creation. Make your wealth-building plan now. Begin

Salary Wizard® is a registered trademark of Salary.com
© 2000-2006 Salary.com, Inc.

advertise with us | Partnerships | about Salary.com, Inc.

Working Mom eLearners

TYRA

The Tyra Show & Project Working Mom 2010 are partnering to give working parents online degrees.

Click here for a full-tuition scholarship!

New Search | Methodology | Help

The median total compensation including benefits for a typical Administrative Assistant I in the United States is $63,280. This basic market pricing report was prepared using our Certified Compensation Professionals' analysis of survey data collected from thousands of HR departments at employers of all sizes, industries and geographies.

Base Salary | Bonuses | Benefits

Total compensation (base + bonuses + benefits) « 1 2 3

Benefit	Median Amount	% of Total
Base salary	$35,860	67%
Bonuses	5569	1%
Social Security	$2,781	5%
401k/403b	$1,382	2%
Disability	5364	1%
Healthcare	$6,103	11%
Pension	$1,918	3%
Time off	$4,475	8%
Total	$63,280	100%

IMPORTANT: Your pay can be dramatically affected by compensable factors such as employer size, industry, employee credentials, years of experience and others.

To receive a free initial analysis or purchase your personal salary report, click "Next Page".

Next Page

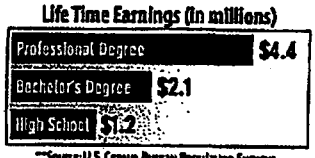
Values of benefits can vary widely by industry and company.

Compare Base Salary to...

- National average
- New location
- Related job

Earn Your Degree Online
Increase your salary with an online Bachelor's or Master's degree!

Life Time Earnings (in millions)



**Source: U.S. Census Bureau Population Surveys, March 1998, 1999 and 2008

EarnMyDegree Start Here!

Cost of Living Calculator

Moving can affect both your salary level and your cost of living. The Cost of Living Wizard reveals the impact. Enter Base Salary

$ Get Started

Executive Compensation Wizard

What do top executives earn? Actual pay stats at thousands of U.S. companies. Enter a Company Name:

OR

Enter a Company Ticker Symbol:

Search

Job Assessor

Compare how two opportunities relate to one and other. Evalute, accept, or decline a job offer or evaluate your job statisfaction.

Begin

Millionaire Maker

Learn what it takes to make 1 million dollars by a certain age with Millionaire Maker, our online calculator. In less than one minute, we'll analyze your investments, savings, and other factors in wealth-creation. Make your wealth-building plan now. Begin

Salary News and Advice from Salary.com

Workers Say They're Underpaid – But Are They Right?

By SALARY.COM

According to Salary.com's 2006/2007 Employee Job Satisfaction and Retention Survey, 62 percent of employees plan on looking for a new job in the next three months. Dissatisfied employees have cited a variety of reasons for their desire to leave their company, including lack of opportunity for advancement, no recognition for achievements, insufficient benefits and even boredom.

Time Off from Work Gains in Importance

By SALARY.COM

American workers are saying they need a break. As their number of hours clocked on the job has crept higher, more time off has become a bigger priority.

How Men and Women Use Their Time

By SALARY.COM

Working women are spending about an hour more doing housework and taking care of family members each day than working men do, according to a new report released by teh Department of Labor.

Copyright 2010 The New York Times Company | Privacy Policy | Search | Corrections RSS | First Look | Help Contact Us | Work for Us | Site Map

Salary Wizard® is a registered trademark of Salary.com
© 2000-2008 Salary.com, Inc.

Advertise with Us | Partnerships | About Salary.com, Inc.

SWC Position: Vice President, Development

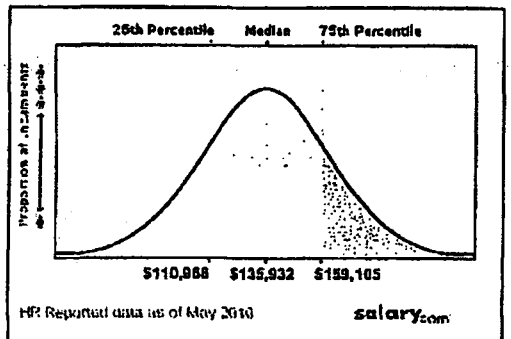
The New York Times
Friday, May 7, 2010

Jobs

New Search | Methodology | Help

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

Bonuses Benefits



Planning Director	25th Percentile	Median	75th Percentile
Tucson, AZ	$110,968	$135,932	$159,105

IMPORTANT: Your pay can be dramatically affected by compensable factors such as employer size, industry, employee credentials, years of experience and others.

To receive a free initial analysis or purchase your personal salary report, click "Next Page".

Next Page

Compare Base Salary to...

National average New location Related job

Salary News and Advice from Salary.com

Workers Say They're Underpaid -- But Are They Right?

According to Salary.com's 2006/2007 Employee Job Satisfaction and Retention Survey, 62 percent of emloyees plan on looking for a new job in the next three months. Dissatisfied employees have cited a variety of reasons for their desire to leave their company, including lack of opportunity for advancement, no recognition for achievements, insufficient benefits and even boredom.

Time Off from Work Gains in Importance

American workers are saying they need a break. As their number of hours clocked on the job has crept higher, more time off has become a bigger priority.

How Men and Women Use Their Time

Working women are spending about an hour more doing housework and taking care of family members each day than working men do, according to a new report released by teh Department of Labor.

Featured Jobs Click to see more powered by [illegible]

- Health Specialists (part-time...
  Seeking health professionals, administ...
  MultiLocation
- Sales Manager - Phoenix Valley
  [illegible]
  Phoenix, AZ
- Administrative Assistant I
  SUMMARY OVERVIEW Support assigned [illegible]
  Tempe, AZ
- Insurance Agents / Sales Repr...
  Are you ready to begin the career of a...
  Phoenix, AZ

Cost of Living Calculator

Moving can affect both your salary level and your cost of living. The Cost of Living Wizard reveals the impact. Enter Base Salary
$ Get Started

Executive Compensation Wizard

What do top executives earn? Actual pay stats at thousands of U.S. companies. Enter a Company Name:

OR
Enter a Company Ticker Symbol:

Search

Job Assessor

Compare how two opportunities relate to one and other. Evalute, accept, or decline a job offer or evaluate your job statisfaction.
Begin

Millionaire Maker

Learn what it takes to make 1 million dollars by a certain age with Millionaire Maker, our online calculator. In less than one minute, we'll analyze your investments, savings, and other factors in wealth-creation. Make your wealth-building plan now. Begin

Salary Wizard® is a registered trademark of Salary.com
© 2000-2008 Salary.com, Inc.

Advertise with Us | Partnerships | About Salary.com, Inc.

Director Operations
•Find Job Opportunities in PHX for Free. Get Started Today!

Executive Job of the Week
•Director of Operations Mid-West $15B Manufacturer, 6-figure salary

Find Director's Job Fast
•We've helped 405,000+ Executives since 1988. Let us help you.

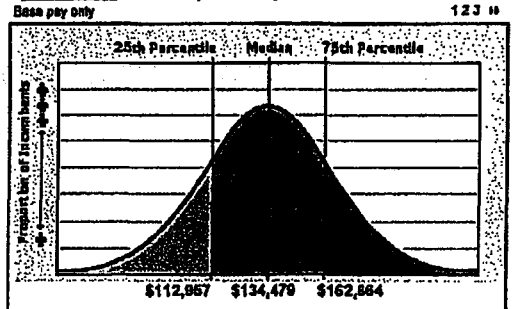
Operations Director Jobs
•Wide range of Operations Director jobs, all industries & all salaries

New Search | Methodology | Help

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

Base Salary | Bonuses | Benefits

Base pay only 1 2 3



HR Reported data as of May 2010 salary.com

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

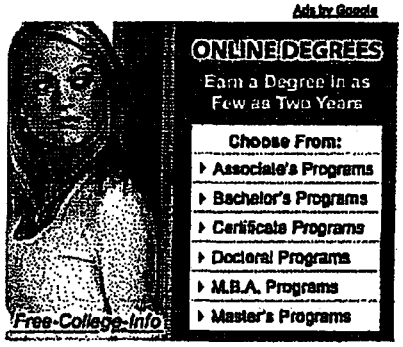
IMPORTANT: Your pay can be dramatically affected by compensable factors such as employer size, industry, employee credentials, years of experience and others.

To receive a free initial analysis or purchase your personal salary report, click "Next Page".

Next Page

Compare Base Salary to...
> National average > New location > Related job

Ads by Google



Cost of Living Calculator

Moving can affect both your salary level and your cost of living. The Cost of Living Wizard reveals the impact. Enter Base Salary
$ Get Started

Executive Compensation Wizard

What do top executives earn? Actual pay stats at thousands of U.S. companies. Enter a Company Name:

OR
Enter a Company Ticker Symbol:

Search

Job Assessor

Compare how two opportunities relate to one and other. Evaluate, accept, or decline a job offer or evaluate your job satisfaction.
Begin

Millionaire Maker

Learn what it takes to make 1 million dollars by a certain age with Millionaire Maker, our online calculator. In less than one minute, we'll analyze your investments, savings, and other factors in wealth-creation. Make your wealth-building plan now. Begin

Salary News and Advice from Salary.com

Workers Say They're Underpaid – But Are They Right?
By SALARY.COM
According to Salary.com's 2006/2007 Employee Job Satisfaction and Retention Survey, 62 percent of employees plan on looking for a new job in the next three months. Dissatisfied employees have cited a variety of reasons for their desire to leave their company, including lack of opportunity for advancement, no recognition for achievements, insufficient benefits and even boredom.

Time Off from Work Gains in Importance
By SALARY.COM
American workers are saying they need a break. As their number of hours clocked on the job has crept higher, more time off has become a bigger priority.

How Men and Women Use Their Time
By SALARY.COM
Working women are spending about an hour more doing housework and taking care of family members each day than working men do, according to a new report released by teh Department of Labor.

Copyright 2010 The New York Times Company | Privacy Policy | Search | Corrections RSS | First Look | Help | Contact Us | Work for Us Site Map

Salary Wizard® is a registered trademark of Salary.com
© 2000-2008 Salary.com, Inc.

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

MARIAN HOMIAK
REBUTTAL TESTIMONY
May 17, 2010

APPENDIX C

APPENDIX C

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

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

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

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

MARIAN HOMIAK
REBUTTAL TESTIMONY
May 17, 2010

APPENDIX D

APPENDIX D - COMPARISON OF SAHUARITA WATER COMPANY'S OPERATING COSTS TO OTHER ARIZONA WATER UTILITIES

	Lago Del Oro Water Co. [1]	Ariz-Am Water Co. (Mohave)	Bermuda Water Co.	Arizona Water Co. (Oracle) (Overgaard)	Ariz-Am Water Co. (Sun City West)	Rio Rico Utilities, Inc.	Ariz-Am Water Co. (Sun City)	Willow Valley Water	Suburban Water Company	Arizona Water Co. (Coolidge)	Arizona Water Co. (Lakeside)	Ariz-Am Water Co. (Havasu)	Arizona Water Co. (Casa Grande)	Global Water Co. (Santa Cruz)	Ariz-Am Water Co. (Agua Fria)	Arizona Water Co. (Sedona)	Chaparral City Water Co.	Arizona Water Co. (Winkelman)	Arizona Water Co. (San Manuel)	Arizona Water Co. (Oracle) (Oracle)	H2O, Inc.	Rio Verde Utilities, Inc.	Ariz-Am Water Co. (Anthem)	Ariz-Am Water Co. (Paradise Valley)
Test Year	12/31/2008	12/31/2007	12/31/2008	12/31/2007	12/31/2007	12/31/2008	12/31/2008	12/31/2008	12/31/2008	12/31/2007	12/31/2007	12/31/2007	12/31/2007	12/31/2008	12/31/2007	12/31/2007	12/31/2008	12/31/2007	12/31/2007	12/31/2007	12/31/2008	12/31/2008	12/31/2007	12/31/2007
Customers[2]	6,346	16,635	7,672	4,124	15,465	6,605	23,140	1,554	4,664	4,636	4,953	2,945	22,455	15,371	34,402	6,419	12,425	171	1,573	1,724	6,300	1,688	8,764	4,884
Total Revenue	$1,905,111	$3,113,631	$3,103,252	$1,686,342	$5,701,431	$1,852,050	$9,283,101	$482,166	$5,197,944	$2,314,952	$2,588,943	$1,026,587	$10,934,895	$9,453,438	$18,818,613	$3,921,124	$7,471,697	$98,722	$812,539	$1,115,109	$3,934,530.46	$1,402,646	$9,357,346	$7,848,732
Total Expenses	$1,666,701	$3,076,491	$2,410,587	$1,316,453	$5,114,606	$2,391,663	$8,422,816	$506,481	$1,772,498	$1,938,319	$2,071,226	$1,158,005	$10,277,900	$7,196,180	$16,217,325	$3,096,417	$6,956,065	$88,524	$859,982	$931,996	$4,263,281.58	$1,176,153	$7,215,051	$6,296,235
Salary/Wages	$186,384	$899,973	$752,628		$703,217		$1,225,670	$248,567				$304,471		$857,540	$1,440,677		$992,169				$1,146,370.93	$145,812	$801,914	$715,859
Pension/Benefits								$55,580						$205,527										
Purchased Water		$44,384		$58	($2,000)				$158,875		$1,233		$374,207		$901,467		$882,368		$241,318		$138,403.02	$68,561	$444,337	
Purchased Power	$376,962	$501,877	$309,050	$71,171	$830,074	$435,559	$1,722,542	$53,979	$141,906	$192,501	$181,940	$111,139	$1,387,878	$588,793	$1,954,815	$518,834	$989,412	$7,310	$58,358	$149,736	$334,337.27	$217,417	$965,412	$693,068
Chemicals	$12,570	$7,846	$61,799	$14,775	$227,889	$9,387	$37,037		$11,535	$33,911	$28,467	$88,249	$53,617	$3,505	$1,123,555	$139,723	$116,571	$1,372	$40,816	$15,542	$5,633.36	$11,400	$90,637	$236,982
Materials/Supp.		$103,944	$56,770		$57,226	$34,542	$78,546	$18,274	$108,864			$13,616		$41,783	$161,107		$31,358					$11,129	$64,824	$87,860
Testing Serv.	$34,435		706			$27,451		$5,401	$8,758					$36,113			$47,072				$20,926.77	$11,443		
Cust. Accounting		$132,802			$133,476		$235,348			$267,290	$275,895	$22,062	$909,384		$370,906	$323,108		$11,232	$104,428	$100,428.00				
Admin/General								$12,770		$578,361	$306,659		$1,961,582			$641,977		$16,116	$131,990	$131,590.00				
Contr. Serv. Other	$56,007		$57,743			$907,246								$67,741			$268,977				$455,818.27	$93,990	$14,739	$21,467
Management Fees/Oil Serv		$940,899		$486,871	$999,903		$1,509,322		$730,183			$166,461			$2,775,604								$1,132,699	$923,778
Rent		$15,559	$8,229		$14,331	$36,954	$60,036	$9,195	$13,196			$5,019		$94,639	$63,217						$330,895.47			
Transportation			$58,567			$79,315		$12,699	$22,368					$43,726			$74,609				$183,890.68	$13,968.00		
Insurance-GL	$18,339	$209,312	$69,678		$191,120	$37,689	$354,396	$5,119	$11,111			$63,729		$53,083	$396,645		$29,241				$39,453.09	$9,475	$240,221	$184,827
Insurance Other		$31,991			$58,622		$95,255	$1,058				$8,974			$158,133		$102,877				$78,822.54	$17,952	$45,435	$45,435
Misc.	$74,059	$354,017	($7,668)		$232,408	$9,328	$308,084	$9,956	$14,834			$42,644		$34,089	$391,329		$830,715				$136,363.92	$21,875.00	$351,828	$351,828
Depreciation	$605,880	$883,235	$666,306	$214,700	$1,335,541	$502,752	$1,563,708	$136,911	$583,454	$426,036	$414,945	$291,351	$2,329,760	$3,431,687	$4,397,190	$731,033	$2,051,748	$19,928	$106,134	$181,393	$958,802.67	$177,320	$1,979,583	$1,615,824
Income Taxes	$109,419	($196,927)	$185,211	$154,685	($524,095)	$322,818	$9,746	($41,767)		$73,229	$158,301	($133,959)	($549,326)	$924,297	($132,786)	($155,135)	$411,401	($1,170)	($37,597)	$65,869		$88,268	$228,400	$228,400
Property Taxes	$107,336	$221,795	$48,114	$65,139	$179,896	$148,295	$156,074		$69,226	$151,656	$116,684	$44,112	$804,467	$425,523	$803,871	$125,837	$157,217	$10,675	$68,170	$53,921	$138,746.98	$6059	$268,996	$268,996
Other Taxes		$75,809	$50,154	$22,796	$65,832		$94,912	$21,944	$11,682	$52,532	$33,117	$17,638	$219,346	$6,823	$128,923	$47,845	$48,353	$1,235	$9,102.00	$12,458	$13,543.43	$19,206	$67,972	$67,972
Cost/Customer[3]	$262.64	$305.17	$314.18	$319.22	$330.68	$346.94	$363.96	$377.40	$380.04	$416.31	$418.18	$451.46	$457.71	$468.17	$471.41	$482.38	$510.77	$517.68	$546.65	$611.53	$676.71	$696.77	$823.36	$1,289.16
Rank Out of 25	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	24	25
Total Expenses Less Depr/Taxes	$844,076	$4,092,579	$1,480,602	$850,073.00	$3,866,796	$1,617,796	$6,595,578	$479,153	$1,227,442	$1,534,855	$1,344,181	$864,743	$7,471,653	$2,409,940	$11,026,897	$2,344,827	$4,457,348	$57,856	$754,075	$618,555	$3,054,188.50	$965,300	$4,678,100	$4,115,043
Cost/Customer Less Depr/Taxes[4]	$133.01	$246.02	$190.38	$206.31	$250.16	$244.94	$285.03	$308.32	$263.61	$263.22	$271.39	$376.12	$332.74	$156.78	$320.53	$365.29	$332.97	$338.34	$479.39	$405.74	$484.79	$512.62	$532.87	$842.56
Total Expenses - Tax/Dep/Pwr/Chem	$454,544	$3,538,472	$1,030,753	$775,111.00	$2,813,525	$1,172,852	$4,833,930	$445,154.00	$596,666	$1,008,563	$1,132,545	$765,355	$5,177,951	$1,775,859	$7,049,060	$1,508,271	$2,925,995	$49,174	$433,581.30	$453,077.00	$2,555,914.85	$567,892	$3,169,914.00	$3,397,133.00
Cost/Cust.- Tax/ Dep/Power/Chem[5]	$71.63	$212.71	$135.53	$187.47	$181.93	$177.57	$208.99	$286.46	$213.49	$216.37	$228.66	$290.38	$230.39	$115.53	$204.90	$234.66	$218.21	$297.37	$275.64	$297.29	$405.68	$336.43	$361.67	$634.14

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

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

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

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

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

Exhibit A-15
David S. Cutler, CPA

Prepared Rebuttal Testimony

July 19-20, 2010 ACC Hearing
Sahuarita Water Company
Docket No. W-03718-09-0359

EXHIBIT
A15
ADMITTED

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF SAHUARITA WATER COMPANY, L.L.C. ("SWC") FOR AN OPINION AND ORDER OF THE COMMISSION (i) DETERMINING THE FAIR VALUE OF THE UTILITY PROPERTY OF SWC FOR RATEMAKING PURPOSES, (ii) FIXING A JUST AND REASONABLE RATE OF RETURN THEREON, (iii) APPROVING RATES AND CHARGES DESIGNED TO PRODUCE REVENUES SUFFICIENT TO RECOVER SWC'S COST OF SERVICE AND AUTHORIZED RATE OF RETURN, AND (iv) PROVIDING FOR THE RECOVERY OF CERTAIN FINANCING AND OPERATING EXPENSES THROUGH A SURCHARGE AND A PASS-THROUGH TARIFF, RESPECTIVELY	DOCKET NO. W-03718-09-0359 PREPARED TESTIMONY

REBUTTAL TESTIMONY OF

DAVID S. CUTLER, CPA

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

May 17, 2010

Q.1 Please state your name and business address.

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

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

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

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

A.3 Yes, it does.

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

A.4 Yes, it does.

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

A.5 Yes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q.14 Please explain what circumstances would occasion a Member not paying the full amount of income tax <u>otherwise</u> due on that portion of the 2008 taxable income reported by the Company which was attributable to such Member.

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

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

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

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

A.15 Yes, it does.

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

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

APPENDIX A

APPENDIX A

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

Educational Background 1979-1981

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

Professional Experience

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

Senior accountant for Laventhol & Horvath 1982-1984

Controller for a regional securities firm in 1984

Begin accounting firm in 1984 with 2 employees

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

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

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

APPENDIX B

APPENDIX B

Services Provided by David S. Cutler, CPA, PC

Income tax compliance services

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

Accounting Services

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

Management and Advisory Services

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

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

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

APPENDIX C

1

651108

Schedule K-1 (Form 1065)
Department of the Treasury
Internal Revenue Service

2008

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

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

▶ See separate instructions.

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

Part I Information About the Partnership

A Partnership's employer identification number
[redacted]

B Partnership's name, address, city, state, and ZIP code
SAHUARITA WATER COMPANY, LLC
4549 E FORT LOWELL RD
TUCSON, AZ 85712

C IRS Center where partnership filed return
OGDEN, UT

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

Part II Information About the Partner

E Partner's identifying number
[redacted]

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

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

H ☒ Domestic partner ☐ Foreign partner

I What type of entity is this partner? PARTNERSHIP

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

	Beginning	Ending
Profit	66.0000000%	66.0000000%
Loss	66.0000000%	66.0000000%
Capital	55.1378795%	66.0000000%

K Partner's share of liabilities at year end:

Nonrecourse	$
Qualified nonrecourse financing	$
Recourse	$ 7,980,124.

L Partner's capital account analysis:

Beginning capital account	$ 6,678,472.
Capital contributed during the year	$
Current year increase (decrease)	$ 55,163.
Withdrawals & distributions	$ ( )
Ending capital account	$ 6,733,635.

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

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

1 Ordinary business income (loss)	352,612.
2 Net rental real estate income (loss)	884.
3 Other net rental income (loss)	
4 Guaranteed payments	
5 Interest income	12,141.
6a Ordinary dividends	69,095.
6b Qualified dividends	
7 Royalties	
8 Net short-term capital gain (loss)	
9a Net long-term capital gain (loss)	
9b Collectibles (28%) gain (loss)	
9c Unrecaptured sec 1250 gain	
10 Net section 1231 gain (loss)	
11 Other income (loss)	
12 Section 179 deduction	
13 Other deductions	
14 Self-employment earnings (loss)	
15 Credits	
16 Foreign transactions	
17 Alternative min tax (AMT) items	A 2,018.
18 Tax-exempt income and nondeductible expenses	
19 Distributions	
20 Other information	A 81,236.

*See attached statement for additional information.

For IRS Use Only

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

Schedule K-1 (Form 1065) 2008

811261
12-31-08

SAHUARITA WATER COMPANY, LLC

[redacted]

SCHEDULE K-1 CURRENT YEAR INCREASES (DECREASES)

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

PARTNER NUMBER 1

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

	Report on
1. Ordinary business income (loss). Determine whether the income (loss) is passive or nonpassive and enter on your return as follows:	
Passive loss	See the Partner's Instructions
Passive income	Schedule E, line 28, column (g)
Nonpassive loss	Schedule E, line 28, column (h)
Nonpassive income	Schedule E, line 28, column (j)
2. Net rental real estate income (loss)	See the Partner's Instructions
3. Other net rental income (loss)	
Net income	Schedule E, line 28, column (g)
Net loss	See the Partner's Instructions
4. Guaranteed payments	Schedule E, line 28, column (j)
5. Interest income	Form 1040, line 9a
6a. Ordinary dividends	Form 1040, line 9a
6b. Qualified dividends	Form 1040, line 9b
7. Royalties	Schedule E, line 4
8. Net short-term capital gain (loss)	Schedule D, line 5, column (f)
9a. Net long-term capital gain (loss)	Schedule D, line 12, column (f)
9b. Collectibles (28%) gain (loss)	28% Rate Gain Worksheet, line 4 (Schedule D Instructions)
9c. Unrecaptured section 1250 gain	See the Partner's Instructions
10. Net section 1231 gain (loss)	See the Partner's Instructions
11. Other income (loss)	
Code	
A Other portfolio income (loss)	See the Partner's Instructions
B Involuntary conversions	See the Partner's Instructions
C Sec. 1256 contracts & straddles	Form 6781, line 1
D Mining exploration costs recapture	See Pub. 535
E Cancellation of debt	Form 1040, line 21 or Form 982
F Other income (loss)	See the Partner's Instructions
12. Section 179 deduction	See the Partner's Instructions
13. Other deductions	
A Cash contributions (50%)	See the Partner's Instructions
B Cash contributions (30%)	
C Noncash contributions (50%)	
D Noncash contributions (30%)	
E Capital gain property to a 50% organization (30%)	
F Capital gain property (20%)	
G Contributions (100%)	
H Investment interest expense	Form 4952, line 1
I Deductions - royalty income	Schedule E, line 19
J Section 59(e)(2) expenditures	See the Partner's Instructions
K Deductions - portfolio (2% floor)	Schedule A, line 23
L Deductions - portfolio (other)	Schedule A, line 28
M Amounts paid for medical insurance	Schedule A, line 1 or Form 1040, line 29
N Educational assistance benefits	See the Partner's Instructions
O Dependent care benefits	Form 2441, line 14
P Preproductive period expenses	See the Partner's Instructions
Q Commercial revitalization deduction from rental real estate activities	See Form 8582 Instructions
R Pensions and IRAs	See the Partner's Instructions
S Reforestation expense deduction	See the Partner's Instructions
T Domestic production activities information	See Form 8903 Instructions
U Qualified production activities income	Form 8903, line 7
V Employer's Form W-2 wages	Form 8903, line 15
W Other deductions	See the Partner's Instructions
14. Self-employment earnings (loss)	
Note: If you have a section 179 deduction or any partner-level deductions, see the Partner's Instructions before completing Schedule SE.	
A Net earnings (loss) from self-employment	Schedule SE, Section A or B
B Gross farming or fishing income	See the Partner's Instructions
C Gross non-farm income	See the Partner's Instructions
15. Credits	
A Low-income housing credit (section 42(j)(5)) from pre-2008 buildings	See the Partner's Instructions
B Low-income housing credit (other) from pre-2008 buildings	See the Partner's Instructions
C Low-income housing credit (section 42(j)(5)) from post-2007 buildings	Form 8586, line 11
D Low-income housing credit (other) from post-2007 buildings	Form 8586, line 11
E Qualified rehabilitation expenditures (rental real estate)	See the Partner's Instructions
F Other rental real estate credits	
G Other rental credits	
H Undistributed capital gains credit	Form 1040, line 68; check box a
I Alcohol and cellulosic biofuel fuels credit	Form 8478, line 9
J Work opportunity credit	Form 5884, line 3
K Disabled access credit	See the Partner's Instructions
L Empowerment zone and renewal community employment credit	Form 8844, line 3
M Credit for increasing research activities	See the Partner's Instructions
N Credit for employer social security and Medicare taxes	Form 8846, line 5
O Backup withholding	Form 1040, line 62
P Other credits	See the Partner's Instructions
16. Foreign transactions	
A Name of country or U.S. possession	Form 1116, Part I
B Gross income from all sources	
C Gross income sourced at partner level	
Foreign gross income sourced at partnership level	
D Passive category	Form 1116, Part I
E General category	
F Other	
Deductions allocated and apportioned to partner level	
G Interest expense	Form 1116, Part I
H Other	Form 1116, Part I
Deductions allocated and apportioned at partnership level to foreign source income	
I Passive category	Form 1116, Part I
J General category	
K Other	
Other information	
L Total foreign taxes paid	Form 1116, Part II
M Total foreign taxes accrued	Form 1116, Part II
N Reduction in taxes available for credit	Form 1116, line 12
O Foreign trading gross receipts	Form 8873
P Extraterritorial income exclusion	Form 8873
Q Other foreign transactions	See the Partner's Instructions
17. Alternative minimum tax (AMT) items	
A Post-1986 depreciation adjustment	See the Partner's Instructions and the instructions for Form 6251
B Adjusted gain or loss	
C Depletion (other than oil & gas)	
D Oil, gas, & geothermal - gross income	
E Oil, gas, & geothermal - deductions	
F Other AMT items	
18. Tax-exempt income and nondeductible expenses	
A Tax-exempt interest income	Form 1040, line 8b
B Other tax-exempt income	See the Partner's Instructions
C Nondeductible expenses	See the Partner's Instructions
19. Distributions	
A Cash and marketable securities	See the Partner's Instructions
B Other property	
C Distribution subject to section 737	
20. Other information	
A Investment income	Form 4952, line 4a
B Investment expenses	Form 4952, line 5
C Fuel tax credit information	Form 4136
D Qualified rehabilitation expenditures (other than rental real estate)	See the Partner's Instructions
E Basis of energy property	See the Partner's Instructions
F Recapture of low-income housing credit (section 42(j)(5))	Form 8611, line 8
G Recapture of low-income housing credit (other)	Form 8611, line 8
H Recapture of investment credit	See Form 4255
I Recapture of other credits	See the Partner's Instructions
J Look-back interest - completed long-term contracts	See Form 8697
K Look-back interest - income forecast method	See Form 8866
L Dispositions of property with section 179 deductions	See the Partner's Instructions
M Recapture of section 179 deduction	
N Interest expense for corporate partners	
O Section 453(k)(2) information	
P Section 453A(c) information	
Q Section 1260(b) information	
R Interest allocable to production expenditures	
S CCF nonqualified withdrawals	
T Depletion information - oil and gas	
U Amortization of reforestation costs	
V Unrelated business taxable income	
W Precontribution gain (loss)	
X Other information	

811202
12-31-08

1

ARIZONA FORM 165 Schedule K-1(NR)

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

2008

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

CHECK ONE: Original [X] Amended [ ]

CHECK ONE: Calendar year [X] Fiscal year [ ]

Partner's identifying number	Partnership's employer identification number
[redacted]	[redacted]
Partner's name, address, and ZIP code	**Partnership's name, address, and ZIP code**
INTERCHANGE OPPORTUNITY FUND, LLLP 4549 E FORT LOWELL RD TUCSON, AZ 85712	SAHUARITA WATER COMPANY, LLC 4549 E FORT LOWELL RD TUCSON, AZ 85712

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

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

NOTE: ALL CORPORATE PARTNERS MUST USE THIS SCHEDULE.

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

	Part II - Partner's Distributive Share of the Adjustment of Partnership Income From Federal to Arizona Basis	(a) Distributive Share Amount	(b) Arizona Apportionment Ratio	(c) Arizona Source Income	Form 140NR Filers Enter the Amount in Column (c) on:
15	Adjustment of partnership income from federal to Arizona basis - *from Form 165, page 1, line 6*	71,216	1.000000	71,216	Line C19 or D30

ADOR 81-0033 (08) NOTE: Corporate partners see Form 120 or Form 120A instructions for information on reporting the amount from line 15.

837101
10-21-08

651108

Schedule K-1 (Form 1065)
Department of the Treasury Internal Revenue Service

2008

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

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

▶ See separate instructions.

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

Part I Information About the Partnership

A Partnership's employer identification number
[redacted]

B Partnership's name, address, city, state, and ZIP code
SAHUARITA WATER COMPANY, LLC
4549 E FORT LOWELL RD
TUCSON, AZ 85712

C IRS Center where partnership filed return
OGDEN, UT

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

Part II Information About the Partner

E Partner's identifying number
[redacted]

F Partner's name, address, city, state, and ZIP code
MISSION PEAKS 4000, LLC
901 N GREEN VALLEY PKWY #200
HENDERSON, NV 89074

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

H ☒ Domestic partner ☐ Foreign partner

I What type of entity is this partner? PARTNERSHIP

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

	Beginning	Ending
Profit	33.3333333%	33.3333333%
Loss	33.3333333%	33.3333333%
Capital	44.6379023%	33.3333333%

K Partner's share of liabilities at year end:

Nonrecourse	$
Qualified nonrecourse financing	$
Recourse	$ 4,030,366.

L Partner's capital account analysis:

Beginning capital account	$ 5,406,682.
Capital contributed during the year	$ 591,882.
Current year increase (decrease)	$ 27,862.
Withdrawals & distributions	$ ( )
Ending capital account	$ 6,026,426.

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

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

1 Ordinary business income (loss) 178,087.	15 Credits
2 Net rental real estate income (loss) 447.	16 Foreign transactions
3 Other net rental income (loss)	
4 Guaranteed payments	
5 Interest income 6,132.	
6a Ordinary dividends 34,897.	17 Alternative min tax (AMT) items
6b Qualified dividends	A 1,019.
7 Royalties	
8 Net short-term capital gain (loss)	18 Tax-exempt income and nondeductible expenses
9a Net long-term capital gain (loss)	
9b Collectibles (28%) gain (loss)	19 Distributions
9c Unrecaptured sec 1250 gain	
10 Net section 1231 gain (loss)	20 Other information A 41,029.
11 Other income (loss)	
12 Section 179 deduction	
13 Other deductions	
14 Self-employment earnings (loss)	

*See attached statement for additional information.

For IRS Use Only

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

Schedule K-1 (Form 1065) 2008

811261
12-31-08

SAHUARITA WATER COMPANY, LLC [redacted]

SCHEDULE K-1 CURRENT YEAR INCREASES (DECREASES)

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

PARTNER NUMBER 3

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

	Report on
1. Ordinary business income (loss). Determine whether the income (loss) is passive or nonpassive and enter on your return as follows:	
Passive loss	See the Partner's Instructions
Passive income	Schedule E, line 28, column (g)
Nonpassive loss	Schedule E, line 28, column (h)
Nonpassive income	Schedule E, line 28, column (j)
2. Net rental real estate income (loss)	See the Partner's Instructions
3. Other net rental income (loss)	
Net income	Schedule E, line 28, column (g)
Net loss	See the Partner's Instructions
4. Guaranteed payments	Schedule E, line 28, column (j)
5. Interest income	Form 1040, line 8a
6a. Ordinary dividends	Form 1040, line 9a
6b. Qualified dividends	Form 1040, line 9b
7. Royalties	Schedule E, line 4
8. Net short-term capital gain (loss)	Schedule D, line 5, column (f)
9a. Net long-term capital gain (loss)	Schedule D, line 12, column (f)
9b. Collectibles (28%) gain (loss)	28% Rate Gain Worksheet, line 4 (Schedule D instructions)
9c. Unrecaptured section 1250 gain	See the Partner's Instructions
10. Net section 1231 gain (loss)	See the Partner's Instructions
11. Other income (loss)	
Code	
A Other portfolio income (loss)	See the Partner's Instructions
B Involuntary conversions	See the Partner's Instructions
C Sec. 1256 contracts & straddles	Form 6781, line 1
D Mining exploration costs recapture	See Pub. 535
E Cancellation of debt	Form 1040, line 21 or Form 982
F Other income (loss)	See the Partner's Instructions
12. Section 179 deduction	See the Partner's Instructions
13. Other deductions	
A Cash contributions (50%)	See the Partner's Instructions
B Cash contributions (30%)	
C Noncash contributions (50%)	
D Noncash contributions (30%)	
E Capital gain property to a 50% organization (30%)	
F Capital gain property (20%)	
G Contributions (100%)	
H Investment interest expense	Form 4952, line 1
I Deductions - royalty income	Schedule E, line 18
J Section 59(e)(2) expenditures	See the Partner's Instructions
K Deductions - portfolio (2% floor)	Schedule A, line 23
L Deductions - portfolio (other)	Schedule A, line 28
M Amounts paid for medical insurance	Schedule A, line 1 or Form 1040, line 29
N Educational assistance benefits	See the Partner's Instructions
O Dependent care benefits	Form 2441, line 14
P Preproductive period expenses	See the Partner's Instructions
Q Commercial revitalization deduction from rental real estate activities	See Form 8582 instructions
R Pensions and IRAs	See the Partner's Instructions
S Reforestation expense deduction	See the Partner's Instructions
T Domestic production activities information	See Form 8903 instructions
U Qualified production activities income	Form 8903, line 7
V Employer's Form W-2 wages	Form 8903, line 15
W Other deductions	See the Partner's Instructions
14. Self-employment earnings (loss)	

Note: If you have a section 179 deduction or any partner-level deductions, see the Partner's Instructions before completing Schedule SE.

A Net earnings (loss) from self-employment	Schedule SE, Section A or B
B Gross farming or fishing income	See the Partner's Instructions
C Gross non-farm income	See the Partner's Instructions
15. Credits	
A Low-income housing credit (section 42(j)(5)) from pre-2008 buildings	See the Partner's Instructions
B Low-income housing credit (other) from pre-2008 buildings	See the Partner's Instructions
C Low-income housing credit (section 42(j)(5)) from post-2007 buildings	Form 8586, line 11
D Low-income housing credit (other) from post-2007 buildings	Form 8586, line 11
E Qualified rehabilitation expenditures (rental real estate)	See the Partner's Instructions
F Other rental real estate credits	
G Other rental credits	
H Undistributed capital gains credit	Form 1040, line 66, check box a
I Alcohol and cellulosic biofuel fuels credit	Form 6478, line 9
J Work opportunity credit	Form 5884, line 3
K Disabled access credit	See the Partner's Instructions
L Empowerment zone and renewal community employment credit	Form 8844, line 3
M Credit for increasing research activities	See the Partner's Instructions
N Credit for employer social security and Medicare taxes	Form 8846, line 5
O Backup withholding	Form 1040, line 62
P Other credits	See the Partner's Instructions
16. Foreign transactions	
A Name of country or U.S. possession	Form 1116, Part I
B Gross income from all sources	
C Gross income sourced at partner level	
Foreign gross income sourced at partnership level	
D Passive category	Form 1116, Part I
E General category	
F Other	
Deductions allocated and apportioned to partner level	
G Interest expense	Form 1116, Part I
H Other	Form 1116, Part I
Deductions allocated and apportioned at partnership level to foreign source income	
I Passive category	Form 1116, Part I
J General category	
K Other	
Other information	
L Total foreign taxes paid	Form 1116, Part II
M Total foreign taxes accrued	Form 1116, Part II
N Reduction in taxes available for credit	Form 1116, line 12
O Foreign trading gross receipts	Form 8873
P Extraterritorial income exclusion	Form 8873
Q Other foreign transactions	See the Partner's Instructions
17. Alternative minimum tax (AMT) items	
A Post-1986 depreciation adjustment	See the Partner's Instructions and the instructions for Form 6251
B Adjusted gain or loss	
C Depletion (other than oil & gas)	
D Oil, gas, & geothermal - gross income	
E Oil, gas, & geothermal - deductions	
F Other AMT items	
18. Tax-exempt income and nondeductible expenses	
A Tax-exempt interest income	Form 1040, line 8b
B Other tax-exempt income	See the Partner's Instructions
C Nondeductible expenses	See the Partner's Instructions
19. Distributions	
A Cash and marketable securities	See the Partner's Instructions
B Other property	
C Distribution subject to section 737	
20. Other information	
A Investment income	Form 4952, line 4a
B Investment expenses	Form 4952, line 5
C Fuel tax credit information	Form 4136
D Qualified rehabilitation expenditures (other than rental real estate)	See the Partner's Instructions
E Basis of energy property	See the Partner's Instructions
F Recapture of low-income housing credit (section 42(j)(5))	Form 8611, line 8
G Recapture of low-income housing credit (other)	Form 8611, line 8
H Recapture of investment credit	See Form 4255
I Recapture of other credits	See the Partner's Instructions
J Look-back interest - completed long-term contracts	See Form 8697
K Look-back interest - income forecast method	See Form 8866
L Dispositions of property with section 179 deductions	See the Partner's Instructions
M Recapture of section 179 deduction	
N Interest expense for corporate partners	
O Section 453(l)(3) information	
P Section 453A(c) information	
Q Section 1260(b) information	
R Interest allocable to production expenditures	
S CCF nonqualified withdrawals	
T Depletion information - oil and gas	
U Amortization of reforestation costs	
V Unrelated business taxable income	
W Precontribution gain (loss)	
X Other information	

3

ARIZONA FORM 165 Schedule K-1(NR)

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

2008

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

CHECK ONE: Original [X] Amended [ ]

CHECK ONE: Calendar year [X] Fiscal year [ ]

Partner's identifying number	Partnership's employer identification number
[redacted]	[redacted]
Partner's name, address, and ZIP code	**Partnership's name, address, and ZIP code**
MISSION PEAKS 4000, LLC 901 N GREEN VALLEY PKWY #200 HENDERSON, NV 89074	SAHUARITA WATER COMPANY, LLC 4549 E FORT LOWELL RD TUCSON, AZ 85712

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

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

NOTE: ALL CORPORATE PARTNERS MUST USE THIS SCHEDULE.

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

Part II - Partner's Distributive Share of the Adjustment of Partnership Income From Federal to Arizona Basis		(a) Distributive Share Amount	(b) Arizona Apportionment Ratio	(c) Arizona Source Income	Form 140NR Filers Enter the Amount in Column (c) on:
15	Adjustment of partnership income from federal to Arizona basis - *from Form 165, page 1, line 6*	35,968	1.000000	35,968	Line C19 or D30

ADOR 91-0033 (08) NOTE: Corporate partners see Form 120 or Form 120A instructions for information on reporting the amount from line 15.

837161
10-21-08

2

651108

Schedule K-1 (Form 1065)

Department of the Treasury Internal Revenue Service

2008

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

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

▶ See separate instructions.

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

Part I Information About the Partnership

A Partnership's employer identification number

[redacted]

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

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

C IRS Center where partnership filed return

OGDEN, UT

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

Part II Information About the Partner

E Partner's identifying number

[redacted]

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

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

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

H ☒ Domestic partner ☐ Foreign partner

I What type of entity is this partner? CORPORATION

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

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

K Partner's share of liabilities at year end:

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

L Partner's capital account analysis:

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

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

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

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

*See attached statement for additional information.

For IRS Use Only

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

Schedule K-1 (Form 1065) 2008

811261
12-31-08

SAHUARITA WATER COMPANY, LLC [redacted]

SCHEDULE K-1 CURRENT YEAR INCREASES (DECREASES)

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

PARTNER NUMBER 2

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

		Report on
1.	Ordinary business income (loss). Determine whether the income (loss) is passive or nonpassive and enter on your return as follows:	
	Passive loss	See the Partner's instructions
	Passive income	Schedule E, line 28, column (c)
	Nonpassive loss	Schedule E, line 28, column (h)
	Nonpassive income	Schedule E, line 28, column (j)
2.	Net rental real estate income (loss)	See the Partner's instructions
3.	Other net rental income (loss)	
	Net income	Schedule E, line 28, column (g)
	Net loss	See the Partner's instructions
4.	Guaranteed payments	Schedule E, line 28, column (j)
5.	Interest income	Form 1040, line 8a
6a.	Ordinary dividends	Form 1040, line 9a
6b.	Qualified dividends	Form 1040, line 9b
7.	Royalties	Schedule E, line 4
8.	Net short-term capital gain (loss)	Schedule D, line 5, column (f)
9a.	Net long-term capital gain (loss)	Schedule D, line 12, column (f)
9b.	Collectibles (28%) gain (loss)	28% Rate Gain Worksheet, line 4 (Schedule D instructions)
9c.	Unrecaptured section 1250 gain	See the Partner's instructions
10.	Net section 1231 gain (loss)	See the Partner's instructions
11.	Other income (loss)	
	Code	
	A Other portfolio income (loss)	See the Partner's instructions
	B Involuntary conversions	See the Partner's instructions
	C Sec. 1256 contracts & straddles	Form 6781, line 1
	D Mining exploration costs recapture	See Pub. 535
	E Cancellation of debt	Form 1040, line 21 or Form 982
	F Other income (loss)	See the Partner's instructions
12.	Section 179 deduction	See the Partner's instructions
13.	Other deductions	
	A Cash contributions (50%)	See the Partner's instructions
	B Cash contributions (30%)	
	C Noncash contributions (50%)	
	D Noncash contributions (30%)	
	E Capital gain property to a 50% organization (30%)	
	F Capital gain property (20%)	
	G Contributions (100%)	
	H Investment interest expense	Form 4952, line 1
	I Deductions - royalty income	Schedule E, line 18
	J Section 59(e)(2) expenditures	See the Partner's instructions
	K Deductions - portfolio (2% floor)	Schedule A, line 23
	L Deductions - portfolio (other)	Schedule A, line 28
	M Amounts paid for medical insurance	Schedule A, line 1, or Form 1040, line 29
	N Educational assistance benefits	See the Partner's instructions
	O Dependent care benefits	Form 2441, line 14
	P Preproductive period expenses	See the Partner's instructions
	Q Commercial revitalization deduction from rental real estate activities	See Form 8582 instructions
	R Pensions and IRAs	See the Partner's instructions
	S Reforestation expense deduction	See the Partner's instructions
	T Domestic production activities information	See Form 8903 instructions
	U Qualified production activities income	Form 8903, line 7
	V Employer's Form W-2 wages	Form 8903, line 16
	W Other deductions	See the Partner's instructions
14.	Self-employment earnings (loss)	

Note: If you have a section 179 deduction or any partner-level deductions, see the Partner's instructions before completing Schedule SE.

	A Net earnings (loss) from self-employment	Schedule SE, Section A or B
	B Gross farming or fishing income	See the Partner's instructions
	C Gross non-farm income	See the Partner's instructions
15.	Credits	
	A Low-income housing credit (section 42(j)(5)) from pre-2008 buildings	See the Partner's instructions
	B Low-income housing credit (other) from pre-2008 buildings	See the Partner's instructions
	C Low-income housing credit (section 42(j)(5)) from post-2007 buildings	Form 8586, line 11
	D Low-income housing credit (other) from post-2007 buildings	Form 8586, line 11
	E Qualified rehabilitation expenditures (rental real estate)	See the Partner's instructions
	F Other rental real estate credits	
	G Other rental credits	
	H Undistributed capital gains credit	Form 1040, line 68; check box a
	I Alcohol and cellulosic biofuel fuels credit	Form 6478, line 9
	J Work opportunity credit	Form 5884, line 3
	K Disabled access credit	See the Partner's instructions
	L Empowerment zone and renewal community employment credit	Form 8844, line 3
	M Credit for increasing research activities	See the Partner's instructions
	N Credit for employer social security and Medicare taxes	Form 8846, line 5
	O Backup withholding	Form 1040, line 62
	P Other credits	See the Partner's instructions
16.	Foreign transactions	
	A Name of country or U.S. possession	Form 1116, Part I
	B Gross income from all sources	
	C Gross income sourced at partner level	
	Foreign gross income sourced at partnership level	
	D Passive category	Form 1116, Part I
	E General category	
	F Other	
	Deductions allocated and apportioned to partner level	
	G Interest expense	Form 1116, Part I
	H Other	Form 1116, Part I
	Deductions allocated and apportioned at partnership level to foreign source income	
	I Passive category	Form 1116, Part I
	J General category	
	K Other	
	Other information	
	L Total foreign taxes paid	Form 1116, Part II
	M Total foreign taxes accrued	Form 1116, Part II
	N Reduction in taxes available for credit	Form 1116, line 12
	O Foreign trading gross receipts	Form 8873
	P Extraterritorial income exclusion	Form 8873
	Q Other foreign transactions	See the Partner's instructions
17.	Alternative minimum tax (AMT) items	
	A Post-1986 depreciation adjustment	See the Partner's instructions and the instructions for Form 6251
	B Adjusted gain or loss	
	C Depletion (other than oil & gas)	
	D Oil, gas, & geothermal - gross income	
	E Oil, gas, & geothermal - deductions	
	F Other AMT items	
18.	Tax-exempt income and nondeductible expenses	
	A Tax-exempt interest income	Form 1040, line 8b
	B Other tax-exempt income	See the Partner's instructions
	C Nondeductible expenses	See the Partner's instructions
19.	Distributions	
	A Cash and marketable securities	See the Partner's instructions
	B Other property	
	C Distribution subject to section 737	
20.	Other information	
	A Investment income	Form 4952, line 4a
	B Investment expenses	Form 4952, line 5
	C Fuel tax credit information	Form 4136
	D Qualified rehabilitation expenditures (other than rental real estate)	See the Partner's instructions
	E Basis of energy property	See the Partner's instructions
	F Recapture of low-income housing credit (section 42(j)(5))	Form 8611, line 8
	G Recapture of low-income housing credit (other)	Form 8611, line 8
	H Recapture of investment credit	See Form 4255
	I Recapture of other credits	See the Partner's instructions
	J Look-back interest - completed long-term contracts	See Form 8697
	K Look-back interest - income forecast method	See Form 8866
	L Dispositions of property with section 179 deductions	See the Partner's instructions
	M Recapture of section 179 deduction	
	N Interest expense for corporate partners	
	O Section 453(l)(3) information	
	P Section 453A(c) information	
	Q Section 1260(b) information	
	R Interest allocable to production expenditures	
	S CCF nonqualified withdrawals	
	T Depletion information - oil and gas	
	U Amortization of reforestation costs	
	V Unrelated business taxible income	
	W Precontribution gain (loss)	
	X Other information	

2

ARIZONA FORM 165
Schedule K-1(NR)

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

2008

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

CHECK ONE: Original [X] Amended [ ]

CHECK ONE: Calendar year [X] Fiscal year [ ]

Partner's identifying number	Partnership's employer identification number
[redacted]	[redacted]
Partner's name, address, and ZIP code	**Partnership's name, address, and ZIP code**
SHARPE & ASSOCIATES, INC 4549 E FORT LOWELL RD TUCSON, AZ 85712	SAHUARITA WATER COMPANY, LLC 4549 E FORT LOWELL RD TUCSON, AZ 85712

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

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

NOTE: ALL CORPORATE PARTNERS MUST USE THIS SCHEDULE.

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

Part II - Partner's Distributive Share of the Adjustment of Partnership Income From Federal to Arizona Basis		(a) Distributive Share Amount	(b) Arizona Apportionment Ratio	(c) Arizona Source Income	Form 140NR Filers Enter the Amount in Column (c) on:
15	Adjustment of partnership income from federal to Arizona basis - *from Form 165, page 1, line 6*	719	1.000000	719	Line C19 or D30

ADOR 81-0033 (08) NOTE: Corporate partners see Form 120 or Form 120A instructions for information on reporting the amount from line 15.

837181
10-21-08

651108

Schedule K-1 (Form 1065)
Department of the Treasury Internal Revenue Service

2008

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

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

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

▶ See separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
[redacted]

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

C IRS Center where partnership filed return
OGDEN, UT

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

Part II Information About the Partner

E Partner's identifying number
[redacted]

F Partner's name, address, city, state, and ZIP code
SHARPE & ASSOCIATES, INC
[redacted]
TUCSON, AZ [redacted]

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

H ☒ Domestic partner ☐ Foreign partner

I What type of entity is this partner? CORPORATION

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

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

K Partner's share of liabilities at year end:

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

L Partner's capital account analysis:

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

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

For IRS Use Only

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

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

*See attached statement for additional information.

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

Schedule K-1 (Form 1065) 2008

611261
12-31-08

INTERCHANGE OPPORTUNITY FUND, LLLP [redacted]

SCHEDULE K-1 OTHER DEDUCTIONS, BOX 13

CODE	DESCRIPTION	AMOUNT
L	* DEDUCTIONS - PORTFOLIO (OTHER)	STMT
W	* OTHER DEDUCTIONS	39.

* SEE ATTACHED STATEMENT FOR ADDITIONAL INFORMATION.

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

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

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

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

INTERCHANGE OPPORTUNITY FUND, LLLP [redacted]

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

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

SCHEDULE K-1 CURRENT YEAR INCREASES (DECREASES)

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

SCHEDULE K-1 WITHDRAWALS AND DISTRIBUTIONS

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

PARTNER NUMBER 46

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

	Report on
1. Ordinary business income (loss). Determine whether the income (loss) is passive or nonpassive and enter on your return as follows:	
Passive loss	See the Partner's Instructions
Passive income	Schedule E, line 28, column (g)
Nonpassive loss	Schedule E, line 28, column (h)
Nonpassive income	Schedule E, line 28, column (j)
2. Net rental real estate income (loss)	See the Partner's Instructions
3. Other net rental income (loss)	
Net income	Schedule E, line 28, column (g)
Net loss	See the Partner's Instructions
4. Guaranteed payments	Schedule E, line 28, column (j)
5. Interest income	Form 1040, line 8a
6a. Ordinary dividends	Form 1040, line 9a
6b. Qualified dividends	Form 1040, line 9b
7. Royalties	Schedule E, line 4
8. Net short-term capital gain (loss)	Schedule D, line 5, column (f)
9a. Net long-term capital gain (loss)	Schedule D, line 12, column (f)
9b. Collectibles (28%) gain (loss)	28% Rate Gain Worksheet, line 4 (Schedule D instructions)
9c. Unrecaptured section 1250 gain	See the Partner's Instructions
10. Net section 1231 gain (loss)	See the Partner's Instructions
11. Other income (loss)	
Code	
A Other portfolio income (loss)	See the Partner's Instructions
B Involuntary conversions	See the Partner's Instructions
C Sec. 1256 contracts & straddles	Form 6781, line 1
D Mining exploration costs recapture	See Pub. 535
E Cancellation of debt	Form 1040, line 21 or Form 982
F Other income (loss)	See the Partner's Instructions
12. Section 179 deduction	See the Partner's Instructions
13. Other deductions	
A Cash contributions (50%)	See the Partner's Instructions
B Cash contributions (30%)	See the Partner's Instructions
C Noncash contributions (50%)	See the Partner's Instructions
D Noncash contributions (30%)	See the Partner's Instructions
E Capital gain property to a 50% organization (30%)	See the Partner's Instructions
F Capital gain property (20%)	See the Partner's Instructions
G Contributions (100%)	See the Partner's Instructions
H Investment interest expense	Form 4952, line 1
I Deductions - royalty income	Schedule E, line 18
J Section 59(e)(2) expenditures	See the Partner's Instructions
K Deductions - portfolio (2% floor)	Schedule A, line 23
L Deductions - portfolio (other)	Schedule A, line 28
M Amounts paid for medical insurance	Schedule A, line 1 or Form 1040, line 29
N Educational assistance benefits	See the Partner's Instructions
O Dependent care benefits	Form 2441, line 14
P Preproductive period expenses	See the Partner's Instructions
Q Commercial revitalization deduction from rental real estate activities	See Form 8582 instructions
R Pensions and IRAs	See the Partner's Instructions
S Reforestation expense deduction	See the Partner's Instructions
T Domestic production activities information	See Form 8903 instructions
U Qualified production activities income	Form 8903, line 7
V Employer's Form W-2 wages	Form 8903, line 15
W Other deductions	See the Partner's Instructions
14. Self-employment earnings (loss)	

Note: If you have a section 179 deduction or any partner-level deductions, see the Partner's Instructions before completing Schedule SE.

A Net earnings (loss) from self-employment	Schedule SE, Section A or B
B Gross farming or fishing income	See the Partner's Instructions
C Gross non-farm income	See the Partner's Instructions
15. Credits	
A Low-income housing credit (section 42(j)(5)) from pre-2008 buildings	See the Partner's Instructions
B Low-income housing credit (other) from pre-2008 buildings	See the Partner's Instructions
C Low-income housing credit (section 42(j)(5)) from post-2007 buildings	Form 8586, line 11
D Low-income housing credit (other) from post-2007 buildings	Form 8586, line 11
E Qualified rehabilitation expenditures (rental real estate)	See the Partner's Instructions
F Other rental real estate credits	See the Partner's Instructions
G Other rental credits	See the Partner's Instructions
H Undistributed capital gains credit	Form 1040, line 66; check box a
I Alcohol and cellulosic biofuel fuels credit	Form 8478, line 9
J Work opportunity credit	Form 5884, line 3
K Disabled access credit	See the Partner's Instructions
L Empowerment zone and renewal community employment credit	Form 8844, line 3
M Credit for increasing research activities	See the Partner's Instructions
N Credit for employer social security and Medicare taxes	Form 8845, line 5
O Backup withholding	Form 1040, line 62
P Other credits	See the Partner's Instructions
16. Foreign transactions	
A Name of country or U.S. possession	Form 1116, Part I
B Gross income from all sources	Form 1116, Part I
C Gross income sourced at partner level	Form 1116, Part I
Foreign gross income sourced at partnership level	
D Passive category	Form 1116, Part I
E General category	Form 1116, Part I
F Other	Form 1116, Part I
Deductions allocated and apportioned to partner level	
G Interest expense	Form 1116, Part I
H Other	Form 1116, Part I
Deductions allocated and apportioned at partnership level to foreign source income	
I Passive category	Form 1116, Part I
J General category	Form 1116, Part I
K Other	Form 1116, Part I
Other information	
L Total foreign taxes paid	Form 1116, Part II
M Total foreign taxes accrued	Form 1116, Part II
N Reduction in taxes available for credit	Form 1116, line 12
O Foreign trading gross receipts	Form 8873
P Extraterritorial income exclusion	Form 8873
Q Other foreign transactions	See the Partner's Instructions
17. Alternative minimum tax (AMT) items	
A Post-1986 depreciation adjustment	See the Partner's Instructions and the instructions for Form 6251
B Adjusted gain or loss	See the Partner's Instructions and the instructions for Form 6251
C Depletion (other than oil & gas)	See the Partner's Instructions and the instructions for Form 6251
D Oil, gas, & geothermal - gross income	See the Partner's Instructions and the instructions for Form 6251
E Oil, gas, & geothermal - deductions	See the Partner's Instructions and the instructions for Form 6251
F Other AMT items	See the Partner's Instructions and the instructions for Form 6251
18. Tax-exempt income and nondeductible expenses	
A Tax-exempt interest income	Form 1040, line 8b
B Other tax-exempt income	See the Partner's Instructions
C Nondeductible expenses	See the Partner's Instructions
19. Distributions	
A Cash and marketable securities	See the Partner's Instructions
B Other property	See the Partner's Instructions
C Distribution subject to section 737	See the Partner's Instructions
20. Other information	
A Investment income	Form 4952, line 4a
B Investment expenses	Form 4952, line 5
C Fuel tax credit information	Form 4136
D Qualified rehabilitation expenditures (other than rental real estate)	See the Partner's Instructions
E Basis of energy property	See the Partner's Instructions
F Recapture of low-income housing credit (section 42(j)(5))	Form 8611, line 8
G Recapture of low-income housing credit (other)	Form 8611, line 8
H Recapture of investment credit	See Form 4255
I Recapture of other credits	See the Partner's Instructions
J Look-back interest - completed long-term contracts	See Form 8697
K Look-back interest - income forecast method	See Form 8866
L Dispositions of property with section 179 deductions	See the Partner's Instructions
M Recapture of section 179 deduction	See the Partner's Instructions
N Interest expense for corporate partners	See the Partner's Instructions
O Section 453(l)(3) information	See the Partner's Instructions
P Section 453A(c) information	See the Partner's Instructions
Q Section 1260(b) information	See the Partner's Instructions
R Interest allocable to production expenditures	See the Partner's Instructions
S CCF nonqualified withdrawals	See the Partner's Instructions
T Depletion information - oil and gas	See the Partner's Instructions
U Amortization of reforestation costs	See the Partner's Instructions
V Unrelated business taxable income	See the Partner's Instructions
W Precontribution gain (loss)	See the Partner's Instructions
X Other information	See the Partner's Instructions

Schedule of Activities

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

Name: INTERCHANGE OPPORTUNITY FUND, LLLP I.D. Number: [redacted]

For: SHARPE & ASSOCIATES, INC.

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

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

825001
04-25-08

46

ARIZONA FORM 165 Schedule K-1(NR)

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

2008

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

CHECK ONE: Original [X] Amended [ ]

CHECK ONE: Calendar year [X] Fiscal year [ ]

Partner's identifying number: [redacted]

Partnership's employer identification number: [redacted]

Partner's name, address, and ZIP code:

SHARPE & ASSOCIATES, INC
[redacted]

Partnership's name, address, and ZIP code:

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

Partner's percentage of:	Before change or termination	End of year
Profit sharing	40.0000000 %	1.0000000 %
Loss sharing	40.0000000 %	1.0000000 %
Ownership of capital	35.2898517 %	0.8874791 %

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

NOTE: ALL CORPORATE PARTNERS MUST USE THIS SCHEDULE.

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

Part II - Partner's Distributive Share of the Adjustment of Partnership Income From Federal to Arizona Basis	(a) Distributive Share Amount	(b) Arizona Apportionment Ratio	(c) Arizona Source Income	Form 140NR Filers Enter the Amount in Column (c) on:
15 Adjustment of partnership income from federal to Arizona basis - *from Form 165, page 1, line 6*	28,191	1.000000	28,191	Line C19 or D30

ADOR 91-0033 (08) NOTE: Corporate partners see Form 120 or Form 120A instructions for information on reporting the amount from line 15.

837161
10-21-08

651108

Schedule K-1 (Form 1065)
Department of the Treasury
Internal Revenue Service

2008

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

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

▶ See separate instructions.

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

Part I Information About the Partnership

A Partnership's employer identification number
[redacted]

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

C IRS Center where partnership filed return
OGDEN, UT

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

Part II Information About the Partner

E Partner's identifying number
86-6209321

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

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

H ☒ Domestic partner ☐ Foreign partner

I What type of entity is this partner? TRUST

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

	Beginning	Ending
Profit	0.0750000%	0.0750000%
Loss	0.0750000%	0.0750000%
Capital	0.0809616%	0.0806940%

K Partner's share of liabilities at year end:

Nonrecourse	$
Qualified nonrecourse financing	$
Recourse	$ 0.

L Partner's capital account analysis:

Beginning capital account	$ 36,450.
Capital contributed during the year	$
Current year increase (decrease)	$ 2,882.
Withdrawals & distributions	$(1,313.)
Ending capital account	$ 38,019.

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

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

1 Ordinary business income (loss)	4.	15 Credits	
2 Net rental real estate income (loss)	<128.>	16 Foreign transactions	
3 Other net rental income (loss)			
4 Guaranteed payments			
5 Interest income	1,222.		
6a Ordinary dividends	111.	17 Alternative min tax (AMT) items	
6b Qualified dividends		A	2.
7 Royalties			
8 Net short-term capital gain (loss)		18 Tax-exempt income and nondeductible expenses	
9a Net long-term capital gain (loss)	2,465.		
9b Collectibles (28%) gain (loss)		19 Distributions	
		A	1,313.
9c Unrecaptured sec 1250 gain			
10 Net section 1231 gain (loss)	9.	20 Other information	
		A	1,333.
11 Other income (loss)		B	309.
12 Section 179 deduction			
13 Other deductions			
H	207.		
K*	STMT		
L*	STMT		
14 Self-employment earnings (loss)			

*See attached statement for additional information.

For IRS Use Only

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

Schedule K-1 (Form 1065) 2008

811261
12-31-08

INTERCHANGE OPPORTUNITY FUND, LLLP

[redacted]

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

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

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

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

SCHEDULE K-1 CURRENT YEAR INCREASES (DECREASES)

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

PARTNER NUMBER 45

INTERCHANGE OPPORTUNITY FUND, LLLP

INTEREST EXPENSE ON INVESTMENT DEBTS	<207.>	
PORTFOLIO DEDUCTIONS	<307.>	
SCHEDULE K-1 DEDUCTIONS SUBTOTAL		<514.>
RANCHO SAHUARITA P.O. LLC	<1.>	
SAHUARITA WATER COMP, LLC	<285.>	
INTEREST EXPENSE	<1.>	
OTHER INCREASES OR DECREASES SUBTOTAL		<287.>
TOTAL TO SCHEDULE K-1, ITEM L		2,882.

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

1. Ordinary business income (loss): Determine whether the income (loss) is passive or nonpassive and enter on your return as follows:

	Report on
Passive loss	See the Partner's instructions
Passive income	Schedule E, line 28, column (g)
Nonpassive loss	Schedule E, line 28, column (h)
Nonpassive income	Schedule E, line 28, column (i)

2. Net rental real estate income (loss) — See the Partner's instructions
3. Other net rental income (loss)
   - Net income — Schedule E, line 28, column (g)
   - Net loss — See the Partner's instructions
4. Guaranteed payments — Schedule E, line 28, column (j)
5. Interest income — Form 1040, line 8a
6a. Ordinary dividends — Form 1040, line 9a
6b. Qualified dividends — Form 1040, line 9b
7. Royalties — Schedule E, line 4
8. Net short-term capital gain (loss) — Schedule D, line 5, column (f)
9a. Net long-term capital gain (loss) — Schedule D, line 12, column (f)
9b. Collectibles (28%) gain (loss) — 28% Rate Gain Worksheet, line 4 (Schedule D instructions)
9c. Unrecaptured section 1250 gain — See the Partner's instructions
10. Net section 1231 gain (loss) — See the Partner's instructions
11. Other income (loss)

Code		
A	Other portfolio income (loss)	See the Partner's instructions
B	Involuntary conversions	See the Partner's instructions
C	Sec. 1256 contracts & straddles	Form 6781, line 1
D	Mining exploration costs recapture	See Pub. 535
E	Cancellation of debt	Form 1040, line 21 or Form 982
F	Other income (loss)	See the Partner's instructions

12. Section 179 deduction — See the Partner's instructions
13. Other deductions

Code		
A	Cash contributions (50%)	See the Partner's instructions
B	Cash contributions (30%)	
C	Noncash contributions (50%)	
D	Noncash contributions (30%)	
E	Capital gain property to a 50% organization (30%)	
F	Capital gain property (20%)	
G	Contributions (100%)	
H	Investment interest expense	Form 4952, line 1
I	Deductions - royalty income	Schedule E, line 18
J	Section 59(e)(2) expenditures	See the Partner's instructions
K	Deductions - portfolio (2% floor)	Schedule A, line 23
L	Deductions - portfolio (other)	Schedule A, line 28
M	Amounts paid for medical insurance	Schedule A, line 1 or Form 1040, line 29
N	Educational assistance benefits	See the Partner's instructions
O	Dependent care benefits	Form 2441, line 14
P	Preproductive period expenses	See the Partner's instructions
Q	Commercial revitalization deduction from rental real estate activities	See Form 8582 instructions
R	Pensions and IRAs	See the Partner's instructions
S	Reforestation expense deduction	See the Partner's instructions
T	Domestic production activities information	See Form 8903 instructions
U	Qualified production activities income	Form 8903, line 7
V	Employer's Form W-2 wages	Form 8903, line 15
W	Other deductions	See the Partner's instructions

14. Self-employment earnings (loss)

Note: If you have a section 179 deduction or any partner-level deductions, see the Partner's instructions before completing Schedule SE.

A	Net earnings (loss) from self-employment	Schedule SE, Section A or B
B	Gross farming or fishing income	See the Partner's instructions
C	Gross non-farm income	See the Partner's instructions

15. Credits

Code		
A	Low-income housing credit (section 42(j)(5)) from pre-2008 buildings	See the Partner's instructions
B	Low-income housing credit (other) from pre-2008 buildings	See the Partner's instructions
C	Low-income housing credit (section 42(j)(5)) from post-2007 buildings	Form 8586, line 11
D	Low-income housing credit (other) from post-2007 buildings	Form 8586, line 11
E	Qualified rehabilitation expenditures (rental real estate)	See the Partner's instructions
F	Other rental real estate credits	
G	Other rental credits	
H	Undistributed capital gains credit	Form 1040, line 68; check box a
I	Alcohol and cellulosic biofuel fuels credit	Form 6478, line 9
J	Work opportunity credit	Form 5884, line 3
K	Disabled access credit	See the Partner's instructions
L	Empowerment zone and renewal community employment credit	Form 8844, line 3
M	Credit for increasing research activities	See the Partner's instructions
N	Credit for employer social security and Medicare taxes	Form 8846, line 5
O	Backup withholding	Form 1040, line 62
P	Other credits	See the Partner's instructions

16. Foreign transactions

Code		
A	Name of country or U.S. possession	Form 1116, Part I
B	Gross income from all sources	
C	Gross income sourced at partner level	
	Foreign gross income sourced at partnership level	
D	Passive category	Form 1116, Part I
E	General category	
F	Other	
	Deductions allocated and apportioned to partner level	
G	Interest expense	Form 1116, Part I
H	Other	Form 1116, Part I
	Deductions allocated and apportioned at partnership level to foreign source income	
I	Passive category	Form 1116, Part I
J	General category	
K	Other	
	Other information	
L	Total foreign taxes paid	Form 1116, Part II
M	Total foreign taxes accrued	Form 1116, Part II
N	Reduction in taxes available for credit	Form 1116, line 12
O	Foreign trading gross receipts	Form 8873
P	Extraterritorial income exclusion	Form 8873
Q	Other foreign transactions	See the Partner's instructions

17. Alternative minimum tax (AMT) items

Code		
A	Post-1986 depreciation adjustment	See the Partner's instructions and the instructions for Form 6251.
B	Adjusted gain or loss	
C	Depletion (other than oil & gas)	
D	Oil, gas, & geothermal - gross income	
E	Oil, gas, & geothermal - deductions	
F	Other AMT items	

18. Tax-exempt income and nondeductible expenses

Code		
A	Tax-exempt interest income	Form 1040, line 8b
B	Other tax-exempt income	See the Partner's instructions
C	Nondeductible expenses	See the Partner's instructions

19. Distributions

Code		
A	Cash and marketable securities	See the Partner's instructions
B	Other property	
C	Distribution subject to section 737	

20. Other information

Code		
A	Investment income	Form 4952, line 4a
B	Investment expenses	Form 4952, line 5
C	Fuel tax credit information	Form 4136
D	Qualified rehabilitation expenditures (other than rental real estate)	See the Partner's instructions
E	Basis of energy property	See the Partner's instructions
F	Recapture of low-income housing credit (section 42(j)(5))	Form 8611, line 8
G	Recapture of low-income housing credit (other)	Form 8611, line 8
H	Recapture of investment credit	See Form 4255
I	Recapture of other credits	See the Partner's instructions
J	Look-back interest - completed long-term contracts	See Form 8697
K	Look-back interest - income forecast method	See Form 8866
L	Dispositions of property with section 179 deductions	See the Partner's instructions
M	Recapture of section 179 deduction	
N	Interest expense for corporate partners	
O	Section 453(l)(3) information	
P	Section 453A(c) information	
Q	Section 1260(b) information	
R	Interest allocable to production expenditures	
S	CCF nonqualified withdrawals	
T	Depletion information - oil and gas	
U	Amortization of reforestation costs	
V	Unrelated business taxable income	
W	Precontribution gain (loss)	
X	Other information	

811282
12-31-08

Schedule of Activities

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

Name: INTERCHANGE OPPORTUNITY FUND, LLLP I.D. Number: [redacted]

For: [redacted], IRREVOCABLE TRUST

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

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

825001
04-25-08

45

ARIZONA FORM 165 Schedule K-1

Resident Partner's Share of Adjustment to Partnership Income

2008

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

CHECK ONE: Original [X] Amended [ ]

CHECK ONE: Calendar year [X] Fiscal year [ ]

Partner's identifying number	Partnership's employer identification number
[redacted]	[redacted]
Partner's name, address, and ZIP code	**Partnership's name, address, and ZIP code**
[redacted] IRREVOCABLE TRUST [redacted] TUCSON, AZ [redacted]	INTERCHANGE OPPORTUNITY FUND, LLLP 4549 E FORT LOWELL RD TUCSON, AZ 85712

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

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

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

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

PARTNER'S INSTRUCTIONS

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

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

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

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

651108

Schedule K-1 (Form 1065)
Department of the Treasury Internal Revenue Service

2008

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

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

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

▶ See separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
[redacted]

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

C IRS Center where partnership filed return
OGDEN, UT

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

Part II Information About the Partner

E Partner's identifying number
[redacted]

F Partner's name, address, city, state, and ZIP code
[redacted] TRREVOCABLE TRUST
[redacted]
TUCSON, AZ [redacted]

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

H ☒ Domestic partner ☐ Foreign partner

I What type of entity is this partner? TRUST

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

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

K Partner's share of liabilities at year end:

Nonrecourse	$
Qualified nonrecourse financing	$
Recourse	$ 0.

L Partner's capital account analysis:

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

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

For IRS Use Only

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

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

*See attached statement for additional information.

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

Schedule K-1 (Form 1065) 2008

811261
12-31-08

INTERCHANGE OPPORTUNITY FUND, LLLP

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

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

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

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

SCHEDULE K-1 CURRENT YEAR INCREASES (DECREASES)

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

PARTNER NUMBER 47

INTERCHANGE OPPORTUNITY FUND, LLLP		[redacted]
PORTFOLIO DEDUCTIONS	<309.>	
SCHEDULE K-1 DEDUCTIONS SUBTOTAL		<516.>
SAHUARITA WATER COMP, LLC	<284.>	
OTHER INCREASES OR DECREASES SUBTOTAL		<284.>
TOTAL TO SCHEDULE K-1, ITEM L		2,886.

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

		Report on
1.	Ordinary business income (loss). Determine whether the income (loss) is passive or nonpassive and enter on your return as follows:	
	Passive loss	See the Partner's instructions
	Passive income	Schedule E, line 28, column (g)
	Nonpassive loss	Schedule E, line 28, column (h)
	Nonpassive income	Schedule E, line 28, column (j)
2.	Net rental real estate income (loss)	See the Partner's instructions
3.	Other net rental income (loss)	
	Net income	Schedule E, line 28, column (g)
	Net loss	See the Partner's instructions
4.	Guaranteed payments	Schedule E, line 28, column (j)
5.	Interest income	Form 1040, line 8a
6a.	Ordinary dividends	Form 1040, line 9a
6b.	Qualified dividends	Form 1040, line 9b
7.	Royalties	Schedule E, line 4
8.	Net short-term capital gain (loss)	Schedule D, line 5, column (f)
9a.	Net long-term capital gain (loss)	Schedule D, line 12, column (f)
9b.	Collectibles (28%) gain (loss)	28% Rate Gain Worksheet, line 4 (Schedule D instructions)
9c.	Unrecaptured section 1250 gain	See the Partner's instructions
10.	Net section 1231 gain (loss)	See the Partner's instructions
11.	Other income (loss)	
	Code	
	A Other portfolio income (loss)	See the Partner's instructions
	B Involuntary conversions	See the Partner's instructions
	C Sec. 1256 contracts & straddles	Form 6781, line 1
	D Mining exploration costs recapture	See Pub. 535
	E Cancellation of debt	Form 1040, line 21 or Form 982
	F Other income (loss)	See the Partner's instructions
12.	Section 179 deduction	See the Partner's instructions
13.	Other deductions	
	A Cash contributions (50%)	See the Partner's instructions
	B Cash contributions (30%)	
	C Noncash contributions (50%)	
	D Noncash contributions (30%)	
	E Capital gain property to a 50% organization (30%)	
	F Capital gain property (20%)	
	G Contributions (100%)	
	H Investment interest expense	Form 4952, line 1
	I Deductions - royalty income	Schedule E, line 18
	J Section 59(e)(2) expenditures	See the Partner's instructions
	K Deductions - portfolio (2% floor)	Schedule A, line 23
	L Deductions - portfolio (other)	Schedule A, line 28
	M Amounts paid for medical insurance	Schedule A, line 1 or Form 1040, line 29
	N Educational assistance benefits	See the Partner's instructions
	O Dependent care benefits	Form 2441, line 14
	P Preproductive period expenses	See the Partner's instructions
	Q Commercial revitalization deduction from rental real estate activities	See Form 8582 instructions
	R Pensions and IRAs	See the Partner's instructions
	S Reforestation expense deduction	See the Partner's instructions
	T Domestic production activities information	See Form 8903 instructions
	U Qualified production activities income	Form 8903, line 7
	V Employer's Form W-2 wages	Form 8903, line 15
	W Other deductions	See the Partner's instructions
14.	Self-employment earnings (loss)	

Note: If you have a section 179 deduction or any partner-level deductions, see the Partner's instructions before completing Schedule SE.

	A Net earnings (loss) from self-employment	Schedule SE, Section A or B
	B Gross farming or fishing income	See the Partner's instructions
	C Gross non-farm income	See the Partner's instructions
15.	Credits	
	A Low-income housing credit (section 42(j)(5)) from pre-2008 buildings	See the Partner's instructions
	B Low-income housing credit (other) from pre-2008 buildings	See the Partner's instructions
	C Low-income housing credit (section 42(j)(5)) from post-2007 buildings	Form 8586, line 11
	D Low-income housing credit (other) from post-2007 buildings	Form 8586, line 11
	E Qualified rehabilitation expenditures (rental real estate)	See the Partner's instructions
	F Other rental real estate credits	
	G Other rental credits	
	H Undistributed capital gains credit	Form 1040, line 68; check box a
	I Alcohol and cellulosic biofuel fuels credit	Form 6478, line 9
	J Work opportunity credit	Form 5884, line 3
	K Disabled access credit	See the Partner's instructions
	L Empowerment zone and renewal community employment credit	Form 8844, line 3
	M Credit for increasing research activities	See the Partner's instructions
	N Credit for employer social security and Medicare taxes	Form 8846, line 5
	O Backup withholding	Form 1040, line 62
	P Other credits	See the Partner's instructions
16.	Foreign transactions	
	A Name of country or U.S. possession	Form 1116, Part I
	B Gross income from all sources	
	C Gross income sourced at partner level	
	Foreign gross income sourced at partnership level	
	D Passive category	Form 1116, Part I
	E General category	
	F Other	
	Deductions allocated and apportioned to partner level	
	G Interest expense	Form 1116, Part I
	H Other	Form 1116, Part I
	Deductions allocated and apportioned at partnership level to foreign source income	
	I Passive category	Form 1116, Part I
	J General category	
	K Other	
	Other information	
	L Total foreign taxes paid	Form 1116, Part II
	M Total foreign taxes accrued	Form 1116, Part II
	N Reduction in taxes available for credit	Form 1116, line 12
	O Foreign trading gross receipts	Form 8873
	P Extraterritorial income exclusion	Form 8873
	Q Other foreign transactions	See the Partner's instructions
17.	Alternative minimum tax (AMT) items	
	A Post-1986 depreciation adjustment	See the Partner's instructions and the instructions for Form 6251
	B Adjusted gain or loss	
	C Depletion (other than oil & gas)	
	D Oil, gas, & geothermal - gross income	
	E Oil, gas, & geothermal - deductions	
	F Other AMT items	
18.	Tax-exempt income and nondeductible expenses	
	A Tax-exempt interest income	Form 1040, line 8b
	B Other tax-exempt income	See the Partner's instructions
	C Nondeductible expenses	See the Partner's instructions
19.	Distributions	
	A Cash and marketable securities	See the Partner's instructions
	B Other property	
	C Distribution subject to section 737	
20.	Other information	
	A Investment income	Form 4952, line 4a
	B Investment expenses	Form 4952, line 5
	C Fuel tax credit information	Form 4136
	D Qualified rehabilitation expenditures (other than rental real estate)	See the Partner's instructions
	E Basis of energy property	See the Partner's instructions
	F Recapture of low-income housing credit (section 42(j)(5))	Form 8611, line 8
	G Recapture of low-income housing credit (other)	Form 8611, line 8
	H Recapture of investment credit	See Form 4255
	I Recapture of other credits	See the Partner's instructions
	J Look-back interest - completed long-term contracts	See Form 8697
	K Look-back interest - income forecast method	See Form 8866
	L Dispositions of property with section 179 deductions	See the Partner's instructions
	M Recapture of section 179 deduction	
	N Interest expense for corporate partners	
	O Section 453(l)(3) information	
	P Section 453A(c) information	
	Q Section 1260(b) information	
	R Interest allocable to production expenditures	
	S CCF non-qualified withdrawals	
	T Depletion information - oil and gas	
	U Amortization of reforestation costs	
	V Unrelated business taxable income	
	W Precontribution gain (loss)	
	X Other information	

811262
12-31-08

Schedule of Activities

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

Name: INTERCHANGE OPPORTUNITY FUND, LLLP I.D. Number: [redacted]

For: [redacted] IRREVOCABLE TRUST

Description of Activity	Activity Number	Trade or Business	Publicly Traded Partnership	
	6			SAHUARITA WATER COMP, LLC *
	7			RANCHO SAHUARITA IV, LLC
	8			RANCHO SAHUARITA V, LLC

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

825001
04-25-08

47

ARIZONA FORM 165 Schedule K-1

Resident Partner's Share of Adjustment to Partnership Income

2008

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

CHECK ONE: Original [X] Amended [ ]

CHECK ONE: Calendar year [X] Fiscal year [ ]

Partner's identifying number	Partnership's employer identification number
[redacted]	[redacted]
Partner's name, address, and ZIP code	**Partnership's name, address, and ZIP code**
[redacted] IRREVOCABLE TRUST [redacted] TUCSON, AZ [redacted]	INTERCHANGE OPPORTUNITY FUND, LLLP 4549 E FORT LOWELL RD TUCSON, AZ 85712

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

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

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

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

PARTNER'S INSTRUCTIONS

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

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

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

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

671108

Schedule K-1 (Form 1120S)

Department of the Treasury Internal Revenue Service

2008

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

☐ Final K-1 ☐ Amended K-1 OMB No. 1545-0130

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

Part I Information About the Corporation

A Corporation's employer identification number
[redacted]

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

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

C IRS Center where corporation filed return
OGDEN, UT

Part II Information About the Shareholder

D Shareholder's identifying number
[redacted]

E Shareholder's name, address, city, state and ZIP code
[redacted]

TOXPAYER X

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

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

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

*See attached statement for additional information.

For IRS Use Only

811271 12-31-08 JWA For Paperwork Reduction Act Notice, see Instructions for Form 1120S.

Schedule K-1 (Form 1120S) 2008

SHAREHOLDER NUMBER 1

SHARPE & ASSOCIATES, INC

[redacted]

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

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

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

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

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

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

SHARPE & ASSOCIATES, INC [redacted]

SCHEDULE K-1 NONDEDUCTIBLE EXPENSES, BOX 16, CODE C

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

SHAREHOLDER 1

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

		Report on
1.	Ordinary business income (loss). Determine whether the income (loss) is passive or nonpassive and enter on your return as follows:	
	Passive loss	See the Shareholder's Instructions
	Passive income	Schedule E, line 28, column (g)
	Nonpassive loss	Schedule E, line 28, column (h)
	Nonpassive income	Schedule E, line 28, column (i)
2.	Net rental real estate income (loss)	See the Shareholder's Instructions
3.	Other net rental income (loss)	
	Net income	Schedule E, line 28, column (g)
	Net loss	See the Shareholder's Instructions
4.	Interest income	Form 1040, line 8a
5a.	Ordinary dividends	Form 1040, line 9a
5b.	Qualified dividends	Form 1040, line 9b
6.	Royalties	Schedule E, line 4
7.	Net short-term capital gain (loss)	Schedule D, line 5, column (f)
8a.	Net long-term capital gain (loss)	Schedule D, line 12, column (f)
8b.	Collectibles (28%) gain (loss)	28% Rate Gain Worksheet, line 4 (Schedule D Instructions)
8c.	Unrecaptured section 1250 gain	See the Shareholder's Instructions
9.	Net section 1231 gain (loss)	See the Shareholder's Instructions
10.	Other income (loss)	
	Code	
	A Other portfolio income (loss)	See the Shareholder's Instructions
	B Involuntary conversions	See the Shareholder's Instructions
	C Sec. 1256 contracts & straddles	Form 6781, line 1
	D Mining exploration costs recapture	See Pub. 535
	E Other income (loss)	See the Shareholder's Instructions
11.	Section 179 deduction	See the Shareholder's Instructions
12.	Other deductions	
	A Cash contributions (50%)	See the Shareholder's Instructions
	B Cash contributions (30%)	
	C Noncash contributions (50%)	
	D Noncash contributions (30%)	
	E Capital gain property to a 50% organization (30%)	
	F Capital gain property (20%)	
	G Contributions (100%)	
	H Investment interest expense	Form 4952, line 1
	I Deductions - royalty income	Schedule E, line 18
	J Section 59(e)(2) expenditures	See the Shareholder's Instructions
	K Deductions - portfolio (2% floor)	Schedule A, line 23
	L Deductions - portfolio (other)	Schedule A, line 28
	M Preproductive period expenses	See the Shareholder's Instructions
	N Commercial revitalization deduction from rental real estate activities	See Form 8582 Instructions
	O Reforestation expense deduction	See the Shareholder's Instructions
	P Domestic production activities information	See Form 8903 Instructions
	Q Qualified production activities income	Form 8903, line 7
	R Employer's Form W-2 wages	Form 8903, line 15
	S Other deductions	See the Shareholder's Instructions
13.	Credits	
	A Low-income housing credit (section 42(j)(5)) from pre-2008 buildings	See the Shareholder's Instructions
	B Low-income housing credit (other) from pre-2008 buildings	See the Shareholder's Instructions
	C Low-income housing credit (section 42(j)(5)) from post-2007 buildings	Form 8586, line 11
	D Low-income housing credit (other) from post-2007 buildings	Form 8586, line 11
	E Qualified rehabilitation expenditures (rental real estate)	See the Shareholder's Instructions
	F Other rental real estate credits	
	G Other rental credits	
	H Undistributed capital gains credit	Form 1040, line 66; check box a
	I Alcohol and cellulosic biofuel fuels credit	Form 6478, line 9
	J Work opportunity credit	Form 5884, line 3
	K Disabled access credit	See the Shareholder's Instructions
	L Empowerment zone and renewal community employment credit	Form 8844, line 3
	M Credit for increasing research activities	See the Shareholder's Instructions
	N Credit for employer social security and Medicare taxes	Form 8846, line 5
	O Backup withholding	Form 1040, line 62
	P Other credits	See the Shareholder's Instructions
14.	Foreign transactions	
	A Name of country or U.S. possession	Form 1116, Part I
	B Gross income from all sources	
	C Gross income sourced at shareholder level	
	Foreign gross income sourced at corporate level	
	D Passive category	Form 1116, Part I
	E General category	
	F Other	
	Deductions allocated and apportioned at shareholder level	
	G Interest expense	Form 1116, Part I
	H Other	Form 1116, Part I
	Deductions allocated and apportioned at corporate level to foreign source income	
	I Passive category	Form 1116, Part I
	J General category	
	K Other	
	Other information	
	L Total foreign taxes paid	Form 1116, Part II
	M Total foreign taxes accrued	Form 1116, Part II
	N Reduction in taxes available for credit	Form 1116, line 12
	O Foreign trading gross receipts	Form 8873
	P Extraterritorial income exclusion	Form 8873
	Q Other foreign transactions	See the Shareholder's Instructions
15.	Alternative minimum tax (AMT) items	
	A Post-1986 depreciation adjustment	See the Shareholder's Instructions and the instructions for Form 6251
	B Adjusted gain or loss	
	C Depletion (other than oil & gas)	
	D Oil, gas, & geothermal - gross income	
	E Oil, gas, & geothermal - deductions	
	F Other AMT items	
16.	Items affecting shareholder basis	
	A Tax-exempt interest income	Form 1040, line 8b
	B Other tax-exempt income	See the Shareholder's Instructions
	C Nondeductible expenses	
	D Property distributions	
	E Repayment of loans from shareholders	
17.	Other information	
	A Investment income	Form 4952, line 4a
	B Investment expenses	Form 4952, line 5
	C Qualified rehabilitation expenditures (other than rental real estate)	See the Shareholder's Instructions
	D Basis of energy property	See the Shareholder's Instructions
	E Recapture of low-income housing credit (section 42(j)(5))	Form 8611, line 8
	F Recapture of low-income housing credit (other)	Form 8611, line 8
	G Recapture of investment credit	See Form 4255
	H Recapture of other credits	See the Shareholder's Instructions
	I Look-back interest - completed long-term contracts	See Form 8697
	J Look-back interest - income forecast method	See Form 8866
	K Dispositions of property with section 179 deductions	See the Shareholder's Instructions
	L Recapture of section 179 deduction	
	M Section 453(l)(3) information	
	N Section 453A(c) information	
	O Section 1260(b) information	
	P Interest allocable to production expenditures	
	Q CCF nonqualified withdrawals	
	R Depletion information - oil and gas	
	S Amortization of reforestation costs	
	T Other information	

SHAREHOLDER NUMBER 1

Schedule of Activities

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

Name: SHARPE & ASSOCIATES, INC I.D. Number: [redacted]

For [redacted] Tax Payer X

Description of Activity	Activity Number	100% Disposed	Publicly Traded Partnership	
	104	X		IOF, LLLP - RANCHO RESORT HOMES, LLC
	105			IOF, LLLP - SAHUARITA WATER COMPANY, LLC **
	106	X		SAHUARITA WATER CO

	Activity - 104	Activity - 105	Activity - 106
Ordinary business income (loss)		141,044.	3,561.
Net rental real estate income (loss)		353.	9.
Other net rental income (loss)			
Interest income			122.
Dividends - Ordinary dividends			698.
- Qualified dividends			
Royalties			
Net short-term capital gain (loss)			
Net long-term capital gain (loss)			
- Collectibles (28%) gain (loss)			
- Unrecaptured Section 1250 gain			
Net section 1231 gain (loss)			
Other portfolio income			
Section 1256 contracts and straddles			
Other income			
Section 179 deduction			
Charitable contributions			
Portfolio deductions			
Investment interest expense			
Section 59(e)(2) expenditures			
Other deductions			
Net earnings from self-employment			
Gross farming or fishing income			
Gross nonfarm income			
LIH credit - Section 42(j)(5) partnerships			
- Other			
Qualified rehabilitation expenditures related to rental real estate			
Other rental credits			
Credits related to other rental activities			
Recapture of LIH credit - Section 42(j)(5) partnerships			
- Other			
Other credits			
Post-1986 depreciation adjustment			21.
Adjusted gain or loss			
Portion of adjusted gain/loss allocable to short-term gain/loss			
Portion of adjusted gain/loss allocable to long-term gain/loss			
Portion of adjusted gain/loss allocable to section 1231 gain/loss			
Depletion (other than oil and gas)			
Oil, gas and geothermal properties - gross income			
Oil, gas and geothermal properties - deductions			
Other AMT items			
Investment income			820.
Investment expenses			

525001
04-25-08

ARIZONA SCHEDULE K-1 EQUIVALENT	Shareholder's Information - Resident For Calendar Year 2008, or Fiscal Year Beginning , and Ending	2008

Shareholder Name & Address	Shareholder ID No.	CHECK-ONE
TAX PAYER X [redacted]	[redacted] Percentage of Ownership 100.000000%	Original [X] Amended [ ]

Corporation Name & Address	Corporation ID Number
SHARPE & ASSOCIATES, INC 4549 E FORT LOWELL RD TUCSON, AZ 85712	[redacted]

Shareholder's Distributive Share of Income, Adjustments and Arizona Tax Credit Items	Amount
ADDITIONS TO INCOME	
Non-Arizona municipal interest	
Taxes paid to other states	
Other additions to income	28,910
SUBTRACTIONS FROM INCOME	
Interest on U.S. Government obligations	
Other subtractions from income	
ARIZONA TAX CREDITS	

637271
04-29-09

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

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

APPENDIX D

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

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

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

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

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

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

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

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

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

APPENDIX E

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

Federal Form 1040	Income From SWC	Tax Return As Filed	RMS Tax Return Without Taxable Income from SWC
Adjusted Gross Income	$ 178,934	$ 1,857,379	$ 1,678,445
Taxable Income	179,636	1,142,090	962,454
Arizona Form 140			
Adjusted Gross Income	178,934	1,886,394	1,707,460
Taxable Income	184,302	1,142,968	958,666

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

Income taxes attributable to SWC Taxable Income			
Total Income Taxes Paid	35,208	19.60%	Combined 2008 tax rate
Federal taxable income	179,636		
Total Income Taxes Paid	$ 35,208		
RMS % ownership	27.17%		
Imputed SWC income tax based on RMS income taxes paid	$ 129,606		
Total SWC 2008 federal taxable in	$ 658,685		
Combined marginal tax rate	39.50%		
Imputed SWC income taxes based on highest and most probable marginal income tax rate	$ 260,181		

Exhibit A-16
David S. Cutler, CPA

Prepared Rejoinder Testimony

July 19-20, 2010 ACC Hearing
Sahuarita Water Company
Docket No. W-03718-09-0359

EXHIBIT
A16

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF SAHUARITA WATER COMPANY, L.L.C. ("SWC") FOR AN OPINION AND ORDER OF THE COMMISSION (i) DETERMINING THE FAIR VALUE OF THE UTILITY PROPERTY OF SWC FOR RATEMAKING PURPOSES, (ii) FIXING A JUST AND REASONABLE RATE OF RETURN THEREON, (iii) APPROVING RATES AND CHARGES DESIGNED TO PRODUCE REVENUES SUFFICIENT TO RECOVER SWC'S COST OF SERVICE AND AUTHORIZED RATE OF RETURN, AND (iv) PROVIDING FOR THE RECOVERY OF CERTAIN FINANCING AND OPERATING EXPENSES THROUGH A SURCHARGE AND A PASS-THROUGH TARIFF, RESPECTIVELY	DOCKET NO. W-03718A-09-0359 PREPARED TESTIMONY

REJOINDER TESTIMONY OF

DAVID S. CUTLER, CPA

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

July 12, 2010

Q.1 Please state your name and business address.

A.1 My name is David S. Cutler, and my business address is 5995 East Grant Road, #200, Tucson, AZ 85712.

Q.2 Are you the same David S. Cutler who submitted Rebuttal Testimony on May 17, 2010 in this proceeding on behalf of Sahuarita Water Company ("Company")?

A.2 Yes, I am.

Q. 3 What is the purpose of this Rejoinder Testimony?

A.3 To respond to that portion of Commission Staff witness Jeffrey Michlik's June 21, 2010 Surrebuttal Testimony which addresses my Rebuttal Testimony.

Q. 4 At what portion of his Surrebuttal Testimony does Mr. Michlik address your Rebuttal Testimony?

A.4 At page 18, line 19-page 20, line 12.

Q. 5 Please comment upon Mr. Michlik's brief discussion of your May 17, 2010 Rebuttal Testimony on the subject of Income Taxes.

A.5 It appears that Mr. Michlik has either not carefully considered or has simply elected to disregard the substantive content of the Rebuttal Testimony and supporting exhibits which I am sponsoring in this proceeding on behalf of the Company. More specifically, through my Rebuttal Testimony and exhibits I have endeavored to demonstrate that (i) the Company in fact reported taxable income to its Members for calendar 2008; and, (ii) one or more Members of the Company paid income tax on all or a portion of its or their share of the 2008 taxable income reported by the Company.

In so doing, the Company has filled two (2) evidentiary "gaps" which were present in the Sunrise Water Company and Farmers Water Co. decisions of this Commission, which the Staff is relying upon to support its position of not recognizing income taxes in this proceeding for ratemaking purposes. Thus, when Mr. Michlik states that the Company has not presented "new, relevant information" on this issue, he is mistaken. In that regard, while he may not agree with conclusions I have reached in my Rebuttal Testimony with respect to the matters I have discussed, his Surrebuttal Testimony contains no substantive discussion of his reasons for such disagreement, other than his assertion that the Company has not presented any "new, relevant information."

Q.6 Mr. Michlik has acknowledged that the Company has provided proof that it reported taxable calendar 2008 income to its Members, as indicated by the K-1 Forms attached to your Rebuttal Testimony. In Answer No. 13 of that testimony, you appear to indicate that income taxes on that income were in fact paid by some of those Members or their investors, is that correct?

A.6 Yes.

Q.7 What is the basis for your understanding in that regard?

A.7 In the case of "Taxpayer X," my understanding is based on personal knowledge because I prepared the tax return for 2008. In that regard, attached to this Rejoinder Testimony at Exhibit A is an affidavit attesting to this fact. In the case of Mission Peaks (and its investors), attached as Exhibit B is an affidavit from Mr. Eric Bradshaw, CPA, (to whom I refer in Answer No. 13) attesting to the taxes paid by Mission Peaks.

Q.8 Does that complete your Rejoinder Testimony?

A.8 Yes, it does.

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

DAVID S. CUTLER, CPA
REJOINDER TESTIMONY
July 12, 2010

EXHIBIT A

AFFIDAVIT OF DAVID S. CUTLER, CPA

State of Arizona
County of PIMA

BEFORE ME, the undersigned Notary, Cassandra M. Roberts, on this 12th day of July, 2010, personally appeared David S. Cutler, CPA, known to me to be a credible person and of lawful age, who being by me first duly sworn, on his oath, deposes and says:

I, David S. Cutler, CPA, hereby attest to the fact that Robert & Deborah Sharpe paid federal and Arizona income taxes of $35,208.00 for the tax year 2008 directly related to pass through income from Sahuarita Water Company, LLC. Please see computations in Appendix D & E of my original rebuttal testimony.

David S. Cutler, CPA
5995 E. Grant Road, Ste 200
Tucson, Arizona 85712

Subscribed and sworn to before me, this 12th day of July, 2010.

Notary Seal:

CASSANDRA M. ROBERTS
Notary Public - Arizona
Pima County
My Comm. Expires Nov 27, 2012

Signature of Notary

Cassandra M. Roberts
Printed name of Notary

NOTARY PUBLIC

My commission expires: Nov 27, 2012.

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

DAVID S. CUTLER, CPA
REJOINDER TESTIMONY
July 12, 2010

EXHIBIT B

AFFIDAVIT OF ERIC M. BASHAW

STATE OF NEVADA)
) ss:
COUNTY OF CLARK)

Affiant being first duly sworn deposes and says:

1. Mission Peaks 4000, LLC (MP4000) owns a 33.3333% interest in the Sahuarita Water Company (the Water Company).

2. MP 4000 is owned 93.33% and 6.67% by ANC Arizona I, LLC (ANC) and La Canada, LLC, respectively. ANC is owned by various partnerships and trusts within the Greenspun family of companies. La Canada is third party investor that is unaffiliated with the Greenspun family of companies. Being a partnership, the MP4000 income flows through to its partners. Ultimately, 14 taxpayers within the Greenspun family of companies recognized a portion of the 2008 distributive share of taxable income on their tax returns.

3. In 2008, MP4000's distributive share of taxable income from the Water Company was $219,563.

4. The effective tax rate for 2008 for the taxpayers within the Greenspun family of companies was 20.516%.

FURTHER AFFIANT SAYETH NAUGHT.

Eric M. Bashaw
The Greenpun Corporation
VP of Taxation & Accounting

SUBSCRIBED and SWORN to before me
this 12th day of July, 2010

Ruth Helen Clark
NOTARY PUBLIC in and for
Said County and State

NOTARY PUBLIC
STATE OF NEVADA
County of Clark
RUTH HELEN CLARK
No: 02-73910-1
My Appointment Expires Feb. 1, 2014

UTILITY REGULATORY POLICY IN THE UNITED STATES AND CANADA

COMPILATION 1995-1996

National Association of
Regulatory Utility Commissioners

Price $75.00

EXHIBIT
A-17
ADMITTED

TABLE 249 - AGENCY AUTHORITY OVER RATE OF RETURN - ELECTRIC UTILITIES

AGENCY	Agency determines rate of return under its general authority	Capital structure is adjusted to exclude non-utility financing when it is traceable	Method Agency favors in determining rate of return: No ONE method ALL are considered	Discounted cash flow **	Comparable earnings test **	Earnings/price ratio **	Midpoint approach **	Capital asset pricing model **	Risk premium **	Other	Duration of call protection provision influences judgment in determining rate of return
FERC	X	X	X	X							
ALABAMA PSC	X	X		X							
ALASKA PUC	X	X			X						Possible.
ARIZONA CC	X	X	X 2/	X 7/							
ARKANSAS PSC	X		X	X 11/							
CALIFORNIA PUC	X	X 1/	X 2/	X	X			X	X	X	Possible.
COLORADO PUC	X	X		X 9/	X						
CONNECTICUT DPUC	X	X		X							
DELAWARE PSC	X		X 2/	X	X					X	
D.C. PSC	X	X		X							
FLORIDA PSC	X	X 1/	X 2/								
GEORGIA PSC	X	X	X 2/	X					X	X 8/	
HAWAII PUC	X	X	X 2/							X	
IDAHO PUC	X	X		X 9/	X	X					
ILLINOIS CC	X	X	X 2/				X			X	
INDIANA URC	X		X								
IOWA UB	X	X 1/	X	X					X	X 6/	
KANSAS SCC	X	X		X							
KENTUCKY PSC	X	X	X 2/	X	X	X	X			X	
LOUISIANA PSC	X			X							
MAINE PUC	X	10/	X 9/	X							
MARYLAND PSC	X	X		X						X 6/	
MASSACHUSETTS DPU	X	X		X 5/						X 5/	
MICHIGAN PSC	X	X	2/	X	X		X	X	X	X	
MINNESOTA PUC	X	X		X							
MISSISSIPPI PSC	X	X		X	X						
MISSOURI PSC 13/	X	X		X							
MONTANA PSC	X	X		X	X						
NEBRASKA PSC 4/											
NEVADA PSC	X	X		X	X	X					
NEW HAMPSHIRE PUC	X	X		X							Yes
NEW JERSEY BPU 12/	X	X	X					X	X	X	
NEW MEXICO PUC	X	X	X 2/	X						X	
NEW YORK PSC	X	X	X	X 7/						X	
NORTH CAROLINA UC	X	X	X 2/	X	X			X	X	X	
NORTH DAKOTA PSC	X			X							
OHIO PUC	X	X	X	X 7/						X 7/	No decision.
OKLAHOMA CC	X	X		X	X			X	X		
OREGON PUC	X	X 1/		X				X			
PENNSYLVANIA PUC	X	X	X 2/	X	X	X	X			X	Maybe, if soon
RHODE ISLAND PUC	X	X	X	X	X					X 3/	
SOUTH CAROLINA PSC	X	X	X	X				X	X		
SOUTH DAKOTA PUC	X	X		X	X						
TEXAS PUC	X	X	X 2/	X	X				X	X	
UTAH PSC	X	X		X							
VERMONT PSB	X	X		X	X					X	
VIRGINIA SCC	X	X	X 2/								
WASHINGTON UTC	X	X		X							
WEST VIRGINIA PSC	X	X	X 2/	X	X			X	X	X	
WISCONSIN PSC	X	X	X 2/	X				X		X	
WYOMING PSC	X		X 2/	X	X			X	X	X	
PUERTO RICO PSC	Does not regulate electric utilities.										
VIRGIN ISLANDS PSC	X	10/	X 2/	X	X					X	
ALBERTA EUB	X	X	X 2/	X	X					X	
NOVA SCOTIA UARB	X	X	X 2/	X	X				X	X	
ONTARIO EB	X	X	X 2/		X					X	

** For definitions of terms, please consult the Glossary of Terms at the back of this book. ICB=Case-by-Case Basis

FOOTNOTES - TABLE 249
AGENCY AUTHORITY OVER RATE OF RETURN

1/ Non-utility investment dollars are always excluded from rate base. Where non-utility investment is comparatively small, capital ratios are not adjusted. When non-utility investment is large, we usually remove non-utility investment from equity.

2/ Commission favors no single method, but rather that which produces the most reasonable results.

3/ It may use any method it desires especially in the case of a small company.

4/ No Commission regulation of electric or gas utilities.

5/ DCF is preferred, but Department approves other methods which check DCF result; risk spread analysis preferred by a slight margin. Financial condition of utility also given serious consideration.

6/ DCF is preferred; other methods are considered.

7/ No single method, however, discounted cash flow is frequently used.

8/ Discounted cash flow most often used, but risk premium method used also. Determined case by case.

9/ DCF has been the preferred method, but its results should be checked with other methods.

10/ Never an issue before this agency.

11/ Agency favors DCF, but any method presented is considered.

12/ Commission did not respond to request for update information; this data may not be current.

13/ DCF has been the preferred method, but its results are generally checked with other methods such as risk premium and CAPM.

Exhibit A-18
Marian Homiak

Employee Position Descriptions

EXHIBIT
A-18
ADMITTED

July 19-20, 2010 ACC Hearing
Sahuarita Water Company
Docket No. W-03718-09-0359

Lawrence V. Robertson Jr.

From: Marian Homiak [marian@ranchosahuarita.com]
Sent: Wednesday, July 21, 2010 8:34 AM
To: Larry Robertson
Cc: Tom Bourassa; Mark Seamans
Subject: Judge's Request for Job Descriptions
Attachments: _Responses to Staff Data Request 7.doc; Response to JMM 7-6 Job Descriptions.pdf; Response to JMM 7-12 President Job Descitpion.pdf; Response to JMM 7-13 VP Dev Job Description.pdf

Larry,

In response to the Judge's request for Job Descriptions, I have attached SWC's response to Data Request #7. Please note questions 7-4, 7-6, 7-12, 7-13, 7-14 which specifically request information about job descriptions.

Marian Homiak
(520) 299-8766
(520) 529-3137 Fax

No virus found in this incoming message.
Checked by AVG - www.avg.com
Version: 9.0.851 / Virus Database: 271.1.1/3017 - Release Date: 07/19/10 23:36:00

SAHUARITA WATER COMPANY, LLC'S RESPONSES TO ARIZONA CORPORATION COMMISSION STAFF'S SEVENTH SET OF DATA REQUESTS
Docket No. W-03718A-09-0359
JUNE 1, 2010

JMM 7-1 Management Service Agreement (Rancho Sahuarita Water Co.) – Please explain what is meant by "not dedicated employees" and "dedicated employees".

RESPONSE: "Not dedicated" employees are employees with a salary allocation to the Water Company that is less than 100 percent. "Dedicated" employees are employees with a salary allocation to the Water Company that is equal to 100 percent.

JMM 7-2 ADP Payroll Register – Please provide a payroll register for December 2008 along with a monthly summary. Also, please provide a payroll register and monthly summary for each month of 2009.

RESPONSE: A payroll register and monthly summary for December 2008 and for each month of 2009 is contained in "Response to JMM 7-2 Payroll Dec 08 & 2009.pdf" There was an overpayment of $382.03 which is detailed on the Payroll Reconciliation at the beginning of the file.

JMM 7-3 ADP Payroll Register – Please provide staff with the payroll registers of Rancho Sahuarita Management company, LLC along with the monthly payroll summaries going back three years from the test year.

RESPONSE: The January to November 2007 payroll registers and summaries are located in "Response to JMM 7-3 Payroll Jan-Nov 2007.pdf" Please note that December 2007 register and summary was provided in response to JMM 5-5. The 2006 payroll registers and summaries are located in "Response to JMM 7-3 Payroll 2006.pdf" and the 2005 payroll registers and summaries are located in "Response to JMM 7-3 Payroll 2005.pdf"

JMM 7-4 Work Performed for Other Affiliates – Please provide a brief narrative of the work that the following employees/positions provided to affiliates other than the water company during the test year:

a. President
b. Vice President – Development
c. Bookkeeper – Human Resource Manager
d. Chief Financial Officer
e. Administrative Assistants (both positions)
f. Laborer
g. Customer Service Manager

RESPONSE: Sahuarita Water Company ("SWC") does not agree that it is an "affiliate" of Rancho Sahuarita Management Company. Brief narrative of the work that the following employees/positions provided to entities other than SWC:

a. President (through July 2008)
   i. Oversee the management of various other entities
   ii. Provide strategic planning and vision for other entities
   iii. Responsible for all contracts and negotiations
   iv. Attends regularly scheduled planning meetings at senior management level
   v. Reports directly to top management/partners

b. Vice President – Development
   i. Oversee the development and sale of all land holdings in the master planned community
   ii. Provide strategic planning input for other entities
   iii. Negotiate all consultant and construction contracts for other entities and approve all payments
   iv. Attend and participate in regular planning meetings with senior management
   v. Monitor the expansion and operation of the Sahuarita Wastewater Treatment and Reclamation Facility

c. Bookkeeper – Human Resource Manager
   i. Office Manager for Rancho Sahuarita Management Co., LLC
   ii. Responsible for deposits and cash receipts
   iii. Human Resource and Benefits Management
   iv. Payroll processing
   v. Some Accounts Payable duties

d. Chief Financial Officer
   i. Manages financial assets
   ii. Creates Cash Flow Projections
   iii. Manages Cash Receipts and Disbursements
   iv. Supervises the creation of annual budgets
   v. Reviews Monthly Financial Statements
   vi. Interacts with outside CPA regarding tax planning and tax return preparation
   vii. Attends regularly scheduled planning meetings of senior management

e. Administrative Assistants (both positions)
   i. Word Processing/Report Preparation/Data Entry
   ii. Project Administration, as required
   iii. Records Management/Filing
   iv. Scheduling

f. Laborer – This position was a 100% dedicated position for the Water Company and did not provide services to any other entity.
g. Customer Service Manager – This position was a 100% dedicated position for the Water Company and did not provide services to any other entity.

JMM 7-5 Affiliate Salaries Increases – Please provide a summary of all wage increases granted during the test year and the last five years for all contract employees under the Management Services Agreement (Rancho Sahuarita Water Co.) and the date of such increases.

RESPONSE: Sahuarita Water Company ("SWC") does not agree that it is an "affiliate" of Rancho Sahuarita Management Company. All wage increases granted during the test year and the last five years for all Water Company employees is provided in "Response to JMM 7-5 Salary Increases.pdf".

JMM 7-6 Affiliated Salaries – Please provide the related job descriptions, job duties, and/or employment contracts for all positions of the Rancho Sahuarita Management Company, L.L.C.

RESPONSE: Sahuarita Water Company ("SWC") does not agree that it is an "affiliate" of Rancho Sahuarita Management Company. Job descriptions, job duties and/or employment contracts for all positions of the Sahuarita Water Company are in "Response to JMM 7-6 Job Descriptions.pdf".

JMM 7-7 Time Sheets – Please provide the timesheets for all Rancho Sahuarita Management Company, L.L.C. employees during the test year, 3 prior years, and 2009 calendar year. As part of your response, please provide a description of each type of activity worked on and the number of hours worked.

RESPONSE: Time cards for hourly employees can be found in the following attached files:
"Response to JMM 7-7 Time Cards 1st Qtr 2008.pdf"
"Response to JMM 7-7 Time Cards 2nd Qtr 2008.pdf"
"Response to JMM 7-7 Time Cards 3rd Qtr 2008.pdf"
"Response to JMM 7-7 Time Cards 4th Qtr 2008.pdf"
"Response to JMM 7-7 Time Cards 1st half 2009.pdf"
"Response to JMM 7-7 Time Cards 2nd half 2009.pdf"
"Response to JMM 7-7 Time Cards 2006.pdf"

The time cards for 2005 and 2007 will follow under separate cover as soon as possible.

There are no timesheets for salaried employees.

JMM 7-8 Management Service Contracts – Does Rancho Sahuarita Management Company L.L.C. provide operations and management contract services to non-related/non-affiliated companies? If so, please provide copies of the signed contracts.

RESPONSE: Sahuarita Water Company (SWC) does not consider itself to be an "affiliate" of Rancho Sahuarita Management Company (RSMC). Yes, RSMC provides operations and management services to (i) Rancho Sahuarita Village Program Association, Inc. (RSVPA), (ii) Rancho Resort Homeowners Association, and (iii) Sharpe & Associates, Inc. The conceptual framework within which these services are provided is similar to that reflected in the Management Services Agreement between RSMC and SWC. Attached is a copy of the Agreement between RSMC and Rancho Sahuarita Village Program Association, Inc. No written agreements were executed between RSMC and Rancho Resort Homeowners Association Inc. and Sharpe and Associates, Inc. RSMC assesses a 25% charge for overhead and profit in its statements to RSVPA. No such charge is assessed as to the other two entities, similar to its practice with SWC.

JMM 7-9 Management Service Contracts – Please provide Staff with the signed management service contracts that Rancho Sahuarita Management Company, L.L.C. has with other affiliated companies.

RESPONSE: Sahuarita Water Company (SWC) does not consider itself to be an "affiliate" of Rancho Sahuarita Management Company (RSMC). RSMC also provides certain construction management services to various Arizona limited liability companies which have been formed to hold land. These entities are RSMC II L.L.C., RSMC III L.L.C., RSMC IV L.L.C. and RSMC V L.L.C. These services are provided on the basis of oral agreements between RSMC and the indicated limited liability companies. There are no Management Services Agreements with these entities (because they have no employees) but there are Development Completion Agreements where the entities hire RSMC to manage the development of the property. Also there are two (2) Development Completion Agreements with two (2) non-affiliated companies: Rancho Sahuarita XX, L.L.C. and Rancho Sahuarita Commercial Ventures, L.L.C.

JMM 7-10 Allocation Percentages – This is a follow-up to data request JMM 5-5, in which the Company provided Staff with payroll information. For each allocation percentage that is less than 100 percent (i.e., non dedicated positions), please

provide the following to support the allocation percentage calculated for each month of the test year:

a. The basis of the allocation (e.g. number of customers)
b. The actual calculation used to make the allocation.
c. Provide all the time and/or cost studies to support your allocation methodology used during the test year as well as the documentation used as the basis of the study (such as, but not limited to, timesheets and invoices).

RESPONSE: The percentage allocated to each position was based on the employee's estimate of actual time spent. The Vice President, Development and Chief Financial Officer spend a good deal of time due to the fact that the Water Company is viewed as a major asset and requires a substantial amount of oversight and management to retain its value.

JMM 7-11 Allocation Percentages for Vice President, Development – This is a follow-up to data request JMM 5-5, in which the Company provided Staff with payroll information. Please explain why the allocation percentage for the Vice President, Development increased by 20 percent, from 30 percent to 50 percent in July 2008.

RESPONSE: The percentage allocated for the Vice President, Development increased from 30% to 50% in July 2008 because the individual who had been functioning as President left. The General Manager was promoted to President but some of the Senior Management functions performed by the former President were taken over by the Vice President, Development. Some of these functions included participating in 2008 CC&N extension, reviewing all construction and consultant contracts and coordinating with legal counsel, interfacing directly with top management, participating in the design and construction of Arsenic Treatment facilities and other system improvements that were designed in 2009 and constructed in 2009.

JMM 7-12 President, through July 2008 - This is a follow-up to data request JMM 5-5, in which the Company provided Staff with payroll information. Please explain how the contract salary expense of the President who was employed through July 2008 was directly or indirectly related to the provision of water service for Sahuarita's customers. As part of your response, please state the number of hours worked directly for Sahuarita and provide timesheets specifically identifying the number of direct hours worked along with a description of the type of work performed.

RESPONSE: The President through July 2008 estimated that he spent 20 hours per week on tasks related to water service for Sahuarita's customers. In that position, the President:

- Provided strategic planning and vision for the company
- Hired and worked directly with the General Manager monitoring customer service, operations, water quality and staff
- Communicated monthly reports and updates to ownership
- Reviewed all contracts and coordinated with legal counsel
- Established and maintained policies and procedures to insure consistency with management policies
- Created annual action plans detailing projects and goals for upcoming years

Also, see "Response to JMM 7-12 President Job Description.pdf"

JMM 7-13 Vice President, Development - This is a follow-up to data request JMM 5-5, in which the Company provided Staff with payroll information. Please explain how the contract salary expense of the Vice President/Development was directly or indirectly related to the provision of water service for Sahuarita's customers. As part of your response, please state the number of hours worked directly for Sahuarita and provide timesheets specifically identifying the number of direct hours worked along with a description of the type of work performed.

RESPONSE: The Vice President, Development estimates that prior to July 2008 he spent 12 hours per week on tasks related to water service for Sahuarita's customers and 20 hours per week since July 2008. The tasks related to water service for Sahuarita's customers are detailed in "Response to JMM 7-13 VP Dev Job Description.pdf"

JMM 7-14 Chief Financial Officer - This is a follow-up to data request JMM 5-5, in which the Company provided Staff with payroll information. Please explain how the contract salary expense of the Chief Financial Officer was directly or indirectly related to the provision of water service for Sahuarita's customers. As part of your response, please state the number of hours worked directly for Sahuarita and provide timesheets specifically identifying the number of direct hours worked along with a description of the type of work performed.

RESPONSE: The Chief Financial Officer estimates that he spends twelve hours per week on tasks related to water service for Sahuarita's customers. The tasks include but are not limited to the following:

- Reviewing the monthly financial reports prepared by the company's Controller.
- Attending planning meetings.

- A member of the decision team for the acquisition and disposal of fixed assets.
- Reviews and approves every invoice and request for payment.
- Reviews and approves the annual budget.
- Reviews and approves all cash flow projections.
- Monitors and reviews the accounts receivable collection efforts.
- Manages the company's financial assets.
- Interacts with company's CPA regarding income tax preparation and planning

JMM 7-15 Chief Financial Officer Salary Charges - This is a follow-up to data request JMM 5-5, in which the Company provided Staff with payroll information. Please explain why payroll information is charged every other month for this position.

RESPONSE: The Chief Financial Officer is also the Managing Member of Rancho Sahuarita Management Company, LLC, and as such receives distributions of profit every other month instead of salary compensation. The distributions are not charged to Sahuarita Water Company as a reimbursable expense.

JMM 7-16 Customer Service Representative (Guadelupe Selcho) Charges - This is a follow-up to data request JMM 5-5, in which the Company provided Staff with payroll information. Please explain why there is only two months of charges for this position.

RESPONSE: When the position of Customer Service Manager was vacated in November 2007, the current Customer Service Representative was promoted to a position of Senior Customer Service Representative and a Guadalupe Selcho was hired as Customer Service Representative. She left that position in January 2008.

JMM 7-17 Administrative Assistant (Wendy Olson) Charges - This is a follow-up to data request JMM 5-5, in which the Company provided Staff with payroll information. Please explain why there is only two months of charges for this position.

RESPONSE: Wendy Olson was Administrative Assistant from 12/31/07 to 3/24/08 and there were three months of charges for her position. Ms. Olson replaced Alex Creekman who is referred to in JMM 7-18.

JMM 7-18 Administrative Assistant (Alex Creekman) Charges - This is a follow-up to data request JMM 5-5, in which the Company provided Staff with payroll information. Please explain why there is only two months of charges for this position.

RESPONSE: This individual was employed from 6/24/07 to 1/9/08. In the test year, his salary for only the two months of December 2008 and January 2009 was reflected.

JMM 7-19 Customer Service Manager Charges - This is a follow-up to data request JMM 5-5, in which the Company provided Staff with payroll information. Please explain why there is only two months of charges for this position.

RESPONSE: The position of Customer Service Manager was vacated in November 2007 and was not staffed again until September 29, 2008. Therefore, during the test year, the salary for only October and November is reflected. This is the reason for the $40,500 adjustment requested in our application, to cover the costs of this position for a full year.

JMM 7-20 Contract Employee Salary and Wage Information –Please provide the following:

a. A detailed schedule of the names, titles, and annual salaries (excluding any incentive pay) of all contract employees actual payroll expenses and employee benefits by month and by account charged, for the Test Year and on an annual basis for the three prior calendar years.
b. A detailed schedule of actual contract employee levels vs. budgeted employee levels for salaried and hourly employees by month for the Test Year and the three prior calendar years along with supporting documentation.
c. A detailed schedule of actual regular payroll hours vs. budgeted regular payroll hours for salaried and hourly contract employees by month for the Test Year and for the three prior calendar years along with supporting documentation.
d. A detailed schedule of actual overtime payroll hours vs. budgeted overtime payroll hours for salaried and hourly contract employees for the Test Year and for the three prior calendar years along with supporting documentation.
e. Identify any early retirement plans in effect during or after the Test Year and provide an accounting for and an analysis of such payments made during the Test Year.

RESPONSE:

a. Please see "Response to JMM 7-20a.pdf". All included expenses were charged to General Ledger AC#634.8.
b. Please see "Response to JMM 7-20b Budget.pdf" which is the 2007 budget with projections for 10 years. Please note that for the test year, base salaries for dedicated employees were projected to be $441,532 and the actual amount paid was $399,068.

   In addition, when Mark Seamans was first hired on as General Manager in September 2006, he created a 10 Year Staffing Plan (See "Response to JMM 7-20 10 Yr Staffing Plan.pdf"). In this document he found that the Water Company at

that time was understaffed and proposed some new positions. In response to his plan, the position of Operations Manager was created (originally intended to be Water Quality Manager) and another Utility Tech was hired (originally intended to be Mechanic). This is the reason for the increase in payroll costs during these years.

c. We do not prepare budgets for payroll hours for either salaried or hourly employees.
d. We do not prepare budgets for overtime payroll hours for either salaried or hourly employees.
e. There were no early retirement plans in effect during or after the Test Year.

JMM 7-21 Vacant Contract Employee Positions – Please provide the title and annual salary of each vacant contract employee position for the Test Year and three prior years.

RESPONSE: The position of Customer Service Manager was vacant from November 2007 until October 2008. When the position was vacated in November 2007, SWC tried to staff the position by promoting the current Customer Service Representative to Senior Customer Service Representative and hiring an additional Customer Service Representative. SWC found that this arrangement was not satisfactory and hired a Customer Service Manager on September 28, 2008. The salary paid to the Customer Service Manager in November 2007 was $47,500 per year (before taxes and benefits) and the salary for the Customer Service Manager hired in 2008 was $45,000 per year (before taxes and benefits).

In addition, prior to June 2008, Rancho Sahuarita Management Company provided the Water Company with a part-time President and had a full-time General Manager. Since July 2008, the acting full-time President is performing the combined roles of both President and General Manager. The salary for General Manager (before taxes and benefits) was $80,000 per year.

JMM 7-22 Rancho Sahuarita Management Company Employee Bonuses – This is a follow-up to Staff data request JMM 5-9, in which Staff asked the following:

Please provide to Staff the amount of bonuses paid to employees during the test year.

The Company responded as follows:

The Company understands the reference to "employees" in Data Request JMM 5-9 to be a reference to employees of Rancho Sahuarita Management Company. Based upon such understanding, it is the position of the Company that the

information which is the subject of Data Request JMM 5-9 is (i) irrelevant and immaterial to issues in Docket No. W-03718A-09-0359, and (ii) unlikely to lead to the discovery of relevant and material evidence. Also, in this regard, see the Company responses above to Data Requests JMM 5-5 through JMM 5-7.

However, and without waiving its right to object to the use of such information at the forthcoming evidentiary hearings in Docket No. W-03718A-09-0359, SWC (with the consent of Rancho Sahuarita Management Company) is providing a copy of Rancho Sahuarita Management Company's general ledger for the test year in Excel format.

This was not responsive to Staff's data request, please state whether bonuses were paid to employees of Rancho Sahuarita Management Company, L.L.C. in the test year. If bonuses were paid to employees, please state the amount of bonus paid to each employee.

RESPONSE: Without waiving its right to object to the offer or introduction of such information at the forthcoming evidentiary hearing, Sahuarita Water Company (with the consent of Rancho Sahuarita Management Company) provides the following information. Bonuses were paid to employees of Rancho Sahuarita Management Company, L.L.C. in the test year. See "Response to JMM 7-22 Test year Bonuses.pdf" for the amount of bonuses paid to each employee of the Water Company.

President

Definition: Under general direction of the Ownership of Sahuarita Water Company, LLC, (SWC) the President is responsible for the day to day business functions of SWC. In that capacity the President monitors customer service, operations, and water quality staff and establishes policies and procedures related to the company.

Essential Tasks & Functions: (Essential functions, as defined under the Americans with Disabilities Act, may include the following tasks, knowledge, skills, and other characteristics. This list of tasks is ILLUSTRATIVE ONLY, and is not a comprehensive listing of all functions and tasks performed by positions in this class.)

- Provide strategic planning and vision for the company
- Provide Water Resource management for the company
- Responsible for communicating monthly activities to ownership
- Responsible for creating Capital Projects including plans, budgets and reports
- Responsible for creating annual action plans detailing projects for the year
- Responsible for creating annual budgets
- Maintains effective working relationships with regulatory agency officials, Town of Sahuarita staff, customers, contractors, the public, and other stakeholders.

Knowledge, Skills, Abilities and Other Characteristics:

- Knowledge of ADEQ drinking water rules
- Knowledge of ACC rules and rate-making procedures
- Knowledge of ADWR & Tucson AMA rules and management plans
- Knowledge of NARUC accounting principles and practices
- Knowledge of OSHA regulations and workplace safety
- Competent in the use of computers, including MS Office Applications

Qualifications:

- Degree in Business Management, Public Administration or Engineering or equivalent experience
- At least 10 years of managerial experience in a public or private utility, water experience preferred
- Possession of ADEQ Grade III Water Distribution Certificate preferred
- Possession of ADEQ Grade III Water Treatment Certificate preferred
- Must possess a valid driver's license

Selection Guidelines: Formal application; rating of education and experience; oral interview and reference check; job-related tests may be required.

The job description does not constitute an employment agreement between the employer and the employee and is subject to change by the employer as the needs of SWC and requirements of the job change.

Effective date/date of last revision: August 2008

General Manager

Definition: Under general direction of the President, the General Manager oversees all aspects of the daily operations of the Sahuarita Water Co. LLC (SWC) public water system. The SWC water system includes, but is not limited to, deep water wells, booster stations, storage tanks, distribution lines, treatment facilities, automated meter reading, and SCADA control system.

Essential Tasks & Functions: (Essential functions, as defined under the Americans with Disabilities Act, may include the following tasks, knowledge, skills, and other characteristics. This list of tasks is ILLUSTRATIVE ONLY, and is not a comprehensive listing of all functions and tasks performed by positions in this class.)

- Assumes the duties of President in his absence
- Assists the President in the development of water company budgets
- Supervise and evaluate division managers
- Responsible for maintaining water plan review and approval process
- Responsible for maintaining management reporting system data
- Responsible for maintaining policies and procedures
- Responsible for maintaining employee operational and safety training and certification system
- Coordinates and works with outside engineers and contractors
- Performs other related, similar, or logical duties as assigned or required.

Knowledge, Skills, Abilities and Other Characteristics:

- Considerable knowledge of water distribution and treatment equipment, facilities, and processes used in public water supply and system.
- Knowledge of ADOSH and OSHA standards and recordkeeping requirements.
- Knowledge of budget development
- Skill in communicating effectively verbally and in writing.
- Skill in use of personal computers, word processing, and spreadsheet applications.
- Skill in planning and prioritizing.
- Ability to evaluate emergency situation and make competent, sound decisions quickly.
- Ability to create a team environment.

Qualifications:

- Five years of progressive experience in the construction, operation, maintenance, and repair of public water systems, including three years in a supervisory capacity.
- Possession of ADEQ Grade III Distribution and Treatment Certification

Special Requirements: Possession of a valid and appropriate driver's license.

Selection Guidelines: Formal application; rating of education and experience; oral interview and reference check; job-related tests may be required.

The job description does not constitute an employment agreement between the employer and the employee and is subject to change by the employer as the needs of SWC and requirements of the job change.

Effective date/date of last revision: October 2007

Controller

Definition: Under general direction of the General Manager, the position develops and maintains various accounting functions using general accounting principles and practices for the business of SWC. The position is responsible for accounting staff functions and completing evaluations of the accounting staff.

Essential Tasks & Functions: (Essential functions, as defined under the Americans with Disabilities Act, may include the following tasks, knowledge, skills, and other characteristics. This list of tasks is ILLUSTRATIVE ONLY, and is not a comprehensive listing of all functions and tasks performed by positions in this class.)

- Develops and maintains SWC accounting policies and procedures.
- Develops and maintains SWC accounting software, including upgrades
- Develops and maintains water company budgets
- Prepares monthly and annual financial reports.
- Maintains open communication with the General Manager and advises on budget status.
- Follow and carry out written and oral instructions
- Use independent judgment and exercise initiative in daily activities
- Performs other related, similar, or logical duties as assigned or required.

Knowledge, Skills, Abilities and Other Characteristics:

- Knowledge of advanced accounting principles and practices.
- Knowledge of accounting related software applications
- Knowledge of Microsoft Office programs
- Skill in developing budgets and proforma packages
- Skill in being detailed oriented
- Skill in auditing financial records and statements.
- Ability to work independently and make decisions relative to work methods.
- Ability to communicate effectively verbally and in writing.
- Ability to perform as team worker.

Qualifications: A Bachelors degree in accounting is required. A minimum of 5 years experience in the utility sector preferred. Ability to operate a computer and various office equipment. Must possess a valid Arizona driver's license at the time of employment.

Selection Guidelines: Formal application; rating of education and experience; oral interview and reference check; job-related tests may be required.

The job description does not constitute an employment agreement between the employer and the employee and is subject to change by the employer as the needs of SWC and requirements of the job change.

Effective date/date of last revision: August 2007

Sahuarita Water Company

Water Controller
Duties and Functions

- Maintain water plan approval process, including keeping checklists current, creating line extension agreements, ensuring they are properly executed and approved by the ACC and monitoring that all required paperwork is on file.
- Prepare annual cash flow projection, income statement and related supporting schedules.
- Prepare monthly financial reports to include: Balance Sheet, Income Statement, Statement of Cash Flows, Income Statement Budget Variance, Capital Projects Budget Variance, 13 Month Rolling and Monthly Management Report to include critical data relating to water production, conservation, quality, collections and inventory.
- Prepare monthly bank reconciliations.
- Prepare monthly sales tax reports.
- Prepare all necessary journal entries to keep account balances accurate.
- Analyze statistics compiled by CSM to determine possible problems, anomalies and to forecast future trends.
- Provide the Town of Sahuartia with a monthly reconciliation of sewer fees which includes all fees billed, collected and/or credited. Work with Town on the annual recalculation and ensure that any changes in sewer fees are billed appropriately.
- Manage Customer Deposits including the issuing of all refunds, application of interest and deposit returns (if applicable) after one (1) year.
- Create and manage all ancillary invoices such as invoices for sewer, repairs, re-inspections, and any other re-imbursement required.
- Process Accounts Payable which includes coding of General Ledger Account Numbers, CIP #s and Job Ledger Accounts. Responsible to obtain appropriate approvals and have disbursements processed in a timely manner. Also responsible to ensure that all expenditures accurate and are within budget parameters and to notify management when there is a deviation.
- Responsible to advise Corporate of Cash Requirements in a timely manner.
- Maintain Construction In Progress files on all applicable projects which includes contracts, bid documents and all related invoices.
- Maintain Chart of Accounts in accordance with NARUC updated as necessary.

Sahuarita Water Company

- Annual Reports:
  - ADWR Reports
  - CAGRD Reports
  - OSF Fee Reconciliation Report to the ACC
  - Water Use Data Sheets to the ACC
  - Ensures ACC Annual Report and Property Tax Report are filed on time
  - All other filings required by the ACC
  - Financial reports required by Mission Peaks
- Prepare annual refunds to builders for Line Extension Agreements.
- Oversee the annual credits to customers relating to the SLMI fees.
- Acts as a liaison and provides required information to the following outside entities:
  - ANC
  - Town of Sahuarita
  - David Cutler, CPA
  - Tom Bourassa, CPA
- Ensure all agreements with SWC are current and that SWC is in compliance.
- Assist President with Contract Management and development of standard contracts and specifications.
- Maintain policies and procedures manuals and records
- Maintain and reconcile petty cash.
- Assist management as needed

Customer Service Manager

Definition: Under general direction of the President, the Customer Service Manager manages the Customer Service Division of SWC. In that capacity the CSM monitors customer accounts, directs and trains CSR staff and establishes policies and procedures related to the division.

Essential Tasks & Functions: (Essential functions, as defined under the Americans with Disabilities Act, may include the following tasks, knowledge, skills, and other characteristics. This list of tasks is ILLUSTRATIVE ONLY, and is not a comprehensive listing of all functions and tasks performed by positions in this class.)

- Insures staff maintains the highest level of customer service
- Use professional techniques in handling problems and irate customers
- Organizes and directs daily operations of the division by performing administrative duties, overseeing programs, projects and personnel
- Analyzes organizational needs, analyzes trends, reviews statistics, and develops recommendations for improved efficiencies
- Maintains delinquent collection policies
- Coordinates updates of billing software and implements updates
- Develops and maintains budget for division to include, but not limited to office supplies and equipment
- Provides direction to and evaluation of division staff in line with the vision of the company
- Follow and carry out written and oral instructions
- Use independent judgment and exercise initiative in daily activities
- Performs other related, similar, or logical duties as assigned or required

Knowledge, Skills, Abilities and Other Characteristics:

- Knowledge of current customer service practices.
- Knowledge of customer service related billing software applications
- Knowledge of Microsoft Office programs
- Skill in professional telephone answering techniques
- Skill in communicating effectively verbally and in writing
- Skill in handling problems and irate customers
- Ability to work independently and make decisions relative to work methods
- Ability to draft reports and present reports in a clear concise manner
- Ability to perform as team worker

- **Qualifications:**
- At least 3 years of managerial experience in customer service field, preferably in a public utility, water experience preferred
- Accounts receivable/collection experience
- Degree in Business Management or Accounting or equivalent experience
- Must possess a valid driver's license
- Ability to speak Spanish preferred

Selection Guidelines: Formal application; rating of education and experience; oral interview and reference check; job-related tests may be required.

The job description does not constitute an employment agreement between the employer and the employee and is subject to change by the employer as the needs of SWC and requirements of the job change.

Effective date/date of last revision: August 2008

Senior Customer Service Representative

Definition: Under general direction of the Customer Service Manager, the Sr. CSR performs customer service functions including billing, billing adjustments, bank deposits, answering telephones, greeting customers, and providing information to the customers of SWC.

Essential Tasks & Functions: (Essential functions, as defined under the Americans with Disabilities Act, may include the following tasks, knowledge, skills, and other characteristics. This list of tasks is ILLUSTRATIVE ONLY, and is not a comprehensive listing of all functions and tasks performed by positions in this class.)

- Maintains billing system
- Provides senior-level work oversight to CSR
- Processes applications for service
- Creates purchase order requests, receives materials and processes invoices.
- Processing various customer billings, receives and processes payments
- Receiving and processing plans
- Follow and carry out written and oral instructions
- Use independent judgment and exercise initiative in daily activities
- Performs other related, similar, or logical duties as assigned or required.

Knowledge, Skills, Abilities and Other Characteristics:

- Knowledge of billing system
- clerical practices related to filing and record keeping.
- Knowledge of customer service related software applications
- Knowledge of Microsoft Office programs
- Skill in professional telephone answering techniques
- Skill in communicating effectively verbally and in writing.
- Skill in handling problems and irate customers.
- Ability to work independently and make decisions relative to work methods.
- Ability in copying, faxing, accepting deliveries, and notifying appropriate staff.
- Ability to perform as team worker.

Qualifications: At least 1 year experience in customer billing systems, preferably in a public utility, water experience preferred. Ability to operate a computer and various office equipment.

Selection Guidelines: Formal application; rating of education and experience; oral interview and reference check; job-related tests may be required.

The job description does not constitute an employment agreement between the employer and the employee and is subject to change by the employer as the needs of SWC and requirements of the job change.

Effective date/date of last revision: October 2007

Customer Service Representative

Definition: Under general direction of the Customer Service Manager, The CSR performs customer service functions including answering telephones, greeting customers, and providing information to the customers of SWC.

Essential Tasks & Functions: (Essential functions, as defined under the Americans with Disabilities Act, may include the following tasks, knowledge, skills, and other characteristics. This list of tasks is ILLUSTRATIVE ONLY, and is not a comprehensive listing of all functions and tasks performed by positions in this class.)

- Processes applications for service
- Performs clerical duties by preparing and maintaining files, records and logs
- Creates purchase order requests, receives materials and processes invoices.
- Maintains work order system by creating and completing daily work orders
- Processing various customer billings, receives and processes payments
- Receiving and processing plans
- Follow and carry out written and oral instructions
- Use independent judgment and exercise initiative in daily activities
- Performs other related, similar, or logical duties as assigned or required.

Knowledge, Skills, Abilities and Other Characteristics:

- Knowledge of clerical practices related to filing and record keeping.
- Knowledge of customer service related software applications
- Knowledge of Microsoft Office programs
- Skill in professional telephone answering techniques
- Skill in communicating effectively verbally and in writing.
- Skill in handling problems and irate customers.
- Ability to work independently and make decisions relative to work methods.
- Ability in copying, faxing, accepting deliveries, and notifying appropriate staff.
- Ability to perform as team worker.

Qualifications: At least 1 year experience in customer service field, preferably in a public utility, water experience preferred. Ability to operate a computer and various office equipment. Ability to speak Spanish preferred. Must possess a valid Arizona driver's license at the time of employment.

Selection Guidelines: Formal application; rating of education and experience; oral interview and reference check; job-related tests may be required.

The job description does not constitute an employment agreement between the employer and the employee and is subject to change by the employer as the needs of SWC and requirements of the job change.

Effective date/date of last revision: August 2007

Water Operations Manager

Definition: Under general direction of the General Manager, the Water Operations Manager supervises the water operations and maintenance of the Sahuarita Water Co. LLC (SWC) public water system. The SWC water system includes, but is not limited to, deep water wells, booster stations, storage tanks, distribution lines, treatment facilities, automated meter reading, and SCADA control system.

Essential Tasks & Functions: (Essential functions, as defined under the Americans with Disabilities Act, may include the following tasks, knowledge, skills, and other characteristics. This list of tasks is ILLUSTRATIVE ONLY, and is not a comprehensive listing of all functions and tasks performed by positions in this class.)

- Assists the General Manager in the development of water O&M and capital budgets
- Supervise, train, and evaluate staff operators and maintenance personnel
- Plans, organizes, directs, coordinates, and insures timely and competent performance of operations, maintenance, repair, and replacement activities
- Assists as needed with field work
- Develops and maintains computerized maintenance and asset management systems.
- Maintains sufficient physical resources, including but not limited to, critical and other spare parts, vehicles, equipment, tools, materials, and supplies
- Coordinates and works with outside engineers and contractors
- Schedules and participates as needed in after-hours/on-call system
- Insures excellence in customer service
- Performs other related, similar, or logical duties as assigned or required.

Supervision Exercised: Supervises SWC water system O&M personnel, temporary operations employees, and supplemental labor.

Knowledge, Skills, Abilities and Other Characteristics:

- Considerable knowledge of water distribution and treatment equipment, facilities, and processes used in public water supply and system.
- Knowledge of ADOSH and OSHA standards and recordkeeping requirements.
- Knowledge of and experience in pipe installation, connection, hot tapping, and repair, including material and equipment purchase and operation.
- Knowledge of temporary traffic control and road cuts and repairs.
- Skill in supervising O&M personnel.
- Skill in communicating effectively verbally and in writing.
- Skill in use of personal computers, word processing, and spreadsheet applications.
- Skill in establishing and maintaining effective working relationships with regulatory agency officials, Town of Sahuarita staff, customers, contractors, the public, and other stakeholders.
- Skill in identifying job hazards and taking or teaching the precautions needed.
- Skill in planning and prioritizing.
- Ability to attend meetings and provide pertinent feedback to management.
- Ability to evaluate emergency situation and make competent, sound decisions quickly.
- Ability to perform as team worker.

Qualifications: five years experience in the construction, operation, maintenance, and repair of public water systems, including two years in a supervisory capacity.

Water Operations Manager

Special Requirements: Minimum of ADEQ Grade III Distribution and/or Water Treatment Plant Operator Certificate; possession of a valid and appropriate driver's license when required for job-related duties.

Selection Guidelines: Formal application; rating of education and experience; oral interview and reference check; job-related tests may be required.

The job description does not constitute an employment agreement between the employer and the employee and is subject to change by the employer as the needs of SWC and requirements of the job change.

Effective date/date of last revision: November 2006

Senior Utility Technician

Definition: Under general direction of the Operations Manager, perform skilled electrical and electronic work in the maintenance, repair and calibration of automatic and manual metering, telemetry, control and alarm systems and equipment; and to do related work as required. The SWC water system includes, but is not limited to, deep water wells, booster stations, storage tanks, distribution lines, treatment facilities, automated meter reading, and SCADA control system.

Essential Tasks & Functions: (Essential functions, as defined under the Americans with Disabilities Act, may include the following tasks, knowledge, skills, and other characteristics. This list of tasks is ILLUSTRATIVE ONLY, and is not a comprehensive listing of all functions and tasks performed by positions in this class.)

- Troubleshoot problems in electrical and electronic systems
- Reading and interpreting blueprints, wire diagrams and schematics, and utilizing a variety of test equipment
- Test, clean, repair, rebuild and calibrate metering and telemetry equipment
- Test, clean, repair, calibrate and reprogram microprocessor and instrumentation systems and equipment
- Maintain, repair and balance electronic systems for variable speed pump controls
- Maintain and repair electrical and electronic operational control, recording and alarm systems and equipment
- Follow and carry out written and oral instructions
- Use independent judgment and exercise initiative in daily activities
- Estimate equipment and material needs to complete assignments
- Completes preventative maintenance tasks related to electronic and electrical systems
- Performs other related, similar, or logical duties as assigned or required.

Knowledge, Skills, Abilities and Other Characteristics:

- Knowledge of practices, procedures, tools and equipment used in the installation, testing and repair of electronic systems, meters, telemetry and instrumentation equipment.
- Knowledge of principles of electronic circuitry systems, meter, telemetry, instrumentation, microprocessors and similar equipment..
- Knowledge of occupational hazards and safety precautions necessary in the work
- Skill in troubleshooting, locating, correcting and repairing defects in instrumentation and electronic control equipment.
- Skill in communicating effectively verbally and in writing.
- Skill in operating a variety of electronic diagnostic equipment.
- Ability to work with independently and make decisions relative to work methods.
- Ability to interpret plans, blueprints, wiring diagrams and schematics
- Ability to evaluate equipment and determine necessary repairs and or maintenance.
- Ability to perform as team worker.

Qualifications: Three years' experience in electrical and electronic instrumentation system installation, maintenance and repair, preferably involving water distribution and plant treatment processes. Familiarity with SCADA and PLC systems. PLC programming experience preferred. Course work in electronic or electrical applications preferred. Must possess a valid Arizona driver's license at the time of employment.

Senior Utility Technician

Selection Guidelines: Formal application; rating of education and experience; oral interview and reference check; job-related tests may be required.

The job description does not constitute an employment agreement between the employer and the employee and is subject to change by the employer as the needs of SWC and requirements of the job change.

Effective date/date of last revision: August 2007

Utility Technician

Definition: Under general direction of the Operations Manager, the Utility Technician performs a wide variety of semi-skilled and skilled tasks in the servicing, maintenance and repair of the SWC water system. The SWC water system includes, but is not limited to, deep water wells, booster stations, storage tanks, distribution lines, treatment facilities, automated meter reading, and SCADA control system.

Essential Tasks & Functions: (Essential functions, as defined under the Americans with Disabilities Act, may include the following tasks, knowledge, skills, and other characteristics. This list of tasks is ILLUSTRATIVE ONLY, and is not a comprehensive listing of all functions and tasks performed by positions in this class.)

- Follow and carry out written and oral instructions
- Performs line locations.
- Assists in repairing water lines.
- Assists in installing and replacing meters
- Estimate equipment and material needs to complete assignments
- Repair, test and rebuild water utility equipment including: pumps, compressors, valves, chemical feed systems, hydrants, meters, etc.
- Completes preventative maintenance tasks such as: lubrication of equipment, replacing belts and seals, etc.
- Records groundwater level data
- Performs other related, similar, or logical duties as assigned or required.

Knowledge, Skills, Abilities and Other Characteristics:

- Knowledge of principles and practices of water system maintenance.
- Knowledge of principles and practices of water treatment and distribution.
- Knowledge of methods, techniques and safe practices related to water systems
- Skill in use of manual and motorized tools, vehicles and related equipment
- Skill in communicating effectively verbally and in writing.
- Skill in use of personal computers, word processing, and maintenance applications.
- Ability to evaluate equipment and determine necessary repairs and or maintenance.
- Ability to interpret shop drawings, O&M manuals and other documents pertaining to equipment.
- Ability to perform as team worker.

Qualifications: 2 years of experience as a maintenance mechanic, technician or specialist in water system maintenance; possession of a valid driver's license required for job-related duties. ADEQ Drinking Water II and/or Distribution II license preferred

Selection Guidelines: Formal application; rating of education and experience; oral interview and reference check; job-related tests may be required.

The job description does not constitute an employment agreement between the employer and the employee and is subject to change by the employer as the needs of SWC and requirements of the job change.

Effective date/date of last revision: November 2006

Laborer

Definition: Under general direction of the Operations Manager, the employee performs work of a semi-skilled nature in the maintenance and operation of a complete water supply and distribution system. The laborer also assists in the maintenance of well sites, yards, right-of-ways, and all company buildings and grounds

Essential Tasks & Functions: (Essential functions, as defined under the Americans with Disabilities Act, may include the following tasks, knowledge, skills, and other characteristics. This list of tasks is ILLUSTRATIVE ONLY, and is not a comprehensive listing of all functions and tasks performed by positions in this class.)

- Assist all operators in routine duties as needed.
- Conservation program assignments including meter audits, high consumption, and water leak detections.
- Remove, install, reset and perform field repair to water meter boxes.
- Read meters, record findings and maintain all records pertaining to completed service calls.
- Perform needed maintenance on tools, vehicles and equipment.
- Maintain all company property including, but not limited to, mowing, spraying, de-weeding, brushing, landscaping, ditching, painting and other minor building repairs.
- Operate construction and maintenance equipment necessary for the performance of the job, such as spray washer, generator, tamper, trencher, jack hammer, etc.
- Maintain records on work orders and inventory list in a precise and efficient manner.
- Perform any and all duties as directed by the management staff.
- Maintain all company issued equipment.

Knowledge, Skills, Abilities and Other Characteristics:

- Knowledge of principles and practices of water system maintenance.
- Knowledge of methods, techniques and safe practices related to water systems
- Skill in use of manual and motorized tools, vehicles and related equipment
- Skill in communicating effectively verbally and in writing.
- Ability to perform as team worker.

Qualifications: Minimum education should include a high school diploma or GED and some post-secondary education in a water utility-related field. Previous work experience of at least two (2) years in water utility field is preferable, but not required. Possession of a Valid AZ drivers license.

Selection Guidelines: Formal application; rating of education and experience; oral interview and reference check; job-related tests may be required.

The job description does not constitute an employment agreement between the employer and the employee and is subject to change by the employer as the needs of SWC and requirements of the job change.

Effective date/date of last revision: November 2006

Michael J. Bowman
Vice President Development
Job Description

Sahuarita Water Company:

- Oversee the planning, engineering and entitlement process for all onsite and offsite water system planning and improvements for the company.
- Review all water system plant improvements and system design.
- Assist the water company developing working relationships with builders.
- Assist in obtaining approval from the Town of Sahuarita and Pima County Department of Environmental Quality of all water system improvements.
- Participate in negotiations of contracts with engineers, consultants, and contractors to complete the design and construction of water system improvements within the project.
- Monitor inspection of water system improvements to insure approval of construction from Pima County Department of Environmental Quality.
- Participate in the negotiations, resolutions and completion of various contractual obligations as they relate to the purchase and sale of property and interface with purchasers on water system improvement requirements during design and construction.
- Review all water company invoices for payment.
- Assist in review of all regulatory compliance with Town, County, State and Federal regulations.
- Prepare and monitor budgets on various off site water infrastructure projects.
- Coordinate electrical system contracts and Letters of Credit with two utility companies (Tucson Electric Power and TRICO) as required to insure water company system needs are being met by these utilities.
- Attend all Council Meetings and report issues related to Sahuarita Water Company.
- Oversee the plan review process of Builders plans including water improvements for all the neighborhoods within Rancho Sahuarita to ensure compliance with water company system requirements.
- Assist in oversight of contractors in coordination water system installation and usage.
- Periodically review and approve of updates to water company standard details.
- Review and comment on annual budget and attend monthly budget review meetings.

Additional Responsibilities following departure of Cort Chalfant:

- Participated in 2008 CC&N extension of Water Company service area and Hydrological consultants, attorneys and consultants.
- Review all construction and consultant contracts and coordinate with legal council on same.
- Interface with company partners and management team to insure management company communication and policies are consistent with those of the water company.
- Coordinated with water company consultants and staff during design and construction of Arsenic Treatment facilities and other system improvements that were designed in 2008 and constructed in 2009.

Sahuarita Water Company

Bookkeeper

Duties and Functions

In addition to normal day-to-day activities, the referenced individual will also provide the following functions for the Water Company:

- Assist with processing of vendor invoices and cash disbursements
- Maintain Accounts Payable files

Sahuarita Water Company

Bookkeeper/Human Resource Manager

Duties and Functions

In addition to normal day-to-day activities, the referenced individual will also provide the following functions for the Water Company:

- Upon receipt, process all cash receipts into the Water Company's accounting system
- Interact with Water Company personnel with regard to Human Resource issues
- Process Water Company payroll on a two week basis by processing paychecks for both salaried and hourly employees
- Ensure that all appropriate paperwork is maintain for new and existing employees
- Assist with the filing of Worker's Compensation claims
- Provide information on company benefit programs and be responsible to notify employees of eligibility
- Maintain personnel files on both active and inactive employees
- Track eligible paid time off for all employees

July 26, 2006

EMPLOYMENT AGREEMENT

Dear Mark,

This Agreement covers the terms of your employment with the Rancho Sahuarita Water Company as General Manager.

If, after reviewing this Agreement, you have requested changes or need clarification on any of its terms, please indicate what they are, or if you have none, please sign in the appropriate place below acknowledging your acceptance.

Position:	General Manager, Rancho Sahuarita Water Company ("Company")
Employer:	Rancho Sahuarita Management Company, LLC
Job Description:	As outlined in "Job Description & Narrative prepared by Cort Chalfant 7/16/06" and "RSWC Yearly Schedule prepared by Mike Lytle 9/8/05", both of which are attached.
Hire Date:	_____
Supervisor:	Cort Chalfant or such other person as Bob Sharpe may from time to time designate.
Initial Base Salary:	$80,000, annually
Bonus Pool:	$10,000, annually based on performance, prorated for any partial year of employment. The bonus pool is a completely discretionary incentive pool based on both an objective and subjective evaluation of your performance that is paid at the end of each calendar year. Bob Sharpe and your Supervisor will determine any amount of the Bonus Pool to be paid to you based in large part on their impression of your ability to execute your responsibilities as outlined in the Job Description. Some objective measures may be developed after your date of hire.
Benefits:	Pursuant to their terms and conditions, you are eligible for participation in the Rancho Sahuarita Companies 401(k) Plan, and Pacificare Insurance Plan all of which can be more fully described to you by Cindy Guantt, our Human Resources Administrator.
Employee Handbook:	This handbook is applicable to you.
Severance Package:	<u>Severance in the Event of a Sale:</u> If, after your Hire Date, the Rancho Sahuarita Water Company is sold to an unaffiliated entity (unaffiliated shall mean any entity not owned, managed, or controlled by Bob Sharpe, Fred Lewis, Cort Chalfant or other

subsequent senior managers of Rancho Sahuarita related companies including but not limited to: Rancho Sahuarita Management Company, LLC, Interchange Opportunity Fund, LLP, or Sharpe and Associates, Inc.) and the new entity then terminates your employment within ninety (90) days of the closing date of the sale for reasons other than the "Exceptions" listed hereinafter under the "Severance" provision, then you shall be entitled to a lump-sum payment thereupon equal to Eighty-Thousand Dollars, less any tax withholding required by law, upon signing a Release of All Claims acceptable to the Company.

Termination and Severance by the Company After Your Hire Date: You are employed at will and your employment may be terminated at any time without cause. (a) If you are terminated after your Hire Date for any reason other then the "Exceptions" listed below, and such termination occurs after your 90-day Introductory Period, then upon signing a Release of All Claims acceptable to the Company you shall be entitled to a lump sum payment equal to Nine-Thousand Two Hundred and Thirty-One Dollars, less any tax withholding required by law.

(b) If you are terminated after your Hire Date for any reason other than the "Exceptions" listed below, and such termination occurs within your 90-day Introductory Period, then you shall not be entitled to a Severance Payment.

(c) Exceptions: If you are terminated after your Hire Date due to fraud, gross negligence, serious misconduct either on or off the job, a breach of fiduciary duty to the Company, a material misrepresentation of your qualifications on your resume, loss of any license or certification you must hold to perform your duties, or the disclosure through a legally consented Background Check that you have been convicted of one or more illegal acts, then you shall not be entitled to a Severance Payment.

Minimum Notice: If, after your Hire Date, you decide to terminate your employment with the Company, then you shall provide your Supervisor with a minimum of four (4) weeks advance notice of such intent to terminate. Thereafter the Company may retain your services for all or less than all of such Minimum Notice and you shall not be entitled to a Severance Payment.

Confidentiality: After the Effective Date adjacent to your signature below, you agree not to disclose to others or use any confidential technical or business information belonging to Rancho Sahuarita Water Company or its affiliates, except as authorized in writing, by your Supervisor. "Confidential technical or business information" means any information that you learn or originate during the course of your employment, regardless of whether it is written or

otherwise tangible, that is not generally available to the public (published articles, sales literature, press releases, Internet Website information are generally available to the public) and gives one who uses it an advantage over competition or the best interests of Rancho Sahuarita Water Company or its affiliates. The obligations set forth in this paragraph shall continue after the term of your employment with Rancho Sahuarita Water Company for a period of not less than two years.

Background Check: Effective January 1, 2006, Rancho Sahuarita Management Company periodically conducts routine Background Checks on company personnel. Your execution of a "Release Form for Employment/Background Reports" is a condition to employment. Any personal information learned by the Company as a result of any such Background Check shall be used for internal purposes only and will not be shared with any third party for any non-Company business.

If this Employment Agreement is acceptable to you, please sign and date in the appropriate spaces below indicating your acceptance.

Sincerely,
Rancho Sahuarita Management Company

Fred Lewis

Fred Lewis
Senior Vice-President

Cc: Robert Sharpe

Mark Seamans

Accepted by: Mark Seamans

7-27-06

Effective Date:

Letters/06-07/Seamans

President

Definition: Under general direction of the Ownership of Sahuarita Water Company, LLC, (SWC) the President is responsible for the day to day business functions of SWC. In that capacity the President monitors customer service, operations, and water quality staff and establishes policies and procedures related to the company.

Essential Tasks & Functions: (Essential functions, as defined under the Americans with Disabilities Act, may include the following tasks, knowledge, skills, and other characteristics. This list of tasks is ILLUSTRATIVE ONLY, and is not a comprehensive listing of all functions and tasks performed by positions in this class.)

- Provide strategic planning and vision for the company
- Provide Water Resource management for the company
- Responsible for communicating monthly activities to ownership
- Responsible for creating Capital Projects including plans, budgets and reports
- Responsible for creating annual action plans detailing projects for the year
- Responsible for creating annual budgets
- Maintains effective working relationships with regulatory agency officials, Town of Sahuarita staff, customers, contractors, the public, and other stakeholders.

Knowledge, Skills, Abilities and Other Characteristics:

- Knowledge of ADEQ drinking water rules
- Knowledge of ACC rules and rate-making procedures
- Knowledge of ADWR & Tucson AMA rules and management plans
- Knowledge of NARUC accounting principles and practices
- Knowledge of OSHA regulations and workplace safety
- Competent in the use of computers, including MS Office Applications

Qualifications:

- Degree in Business Management, Public Administration or Engineering or equivalent experience
- At least 10 years of managerial experience in a public or private utility, water experience preferred
- Possession of ADEQ Grade III Water Distribution Certificate preferred
- Possession of ADEQ Grade III Water Treatment Certificate preferred
- Must possess a valid driver's license

Selection Guidelines: Formal application; rating of education and experience; oral interview and reference check; job-related tests may be required.

The job description does not constitute an employment agreement between the employer and the employee and is subject to change by the employer as the needs of SWC and requirements of the job change.

Effective date/date of last revision: August 2008

Michael J. Bowman
Vice President Development
Job Description

Sahuarita Water Company:

- Oversee the planning, engineering and entitlement process for all onsite and offsite water system planning and improvements for the company.
- Review all water system plant improvements and system design.
- Assist the water company developing working relationships with builders.
- Assist in obtaining approval from the Town of Sahuarita and Pima County Department of Environmental Quality of all water system improvements.
- Participate in negotiations of contracts with engineers, consultants, and contractors to complete the design and construction of water system improvements within the project.
- Monitor inspection of water system improvements to insure approval of construction from Pima County Department of Environmental Quality.
- Participate in the negotiations, resolutions and completion of various contractual obligations as they relate to the purchase and sale of property and interface with purchasers on water system improvement requirements during design and construction.
- Review all water company invoices for payment.
- Assist in review of all regulatory compliance with Town, County, State and Federal regulations.
- Prepare and monitor budgets on various off site water infrastructure projects.
- Coordinate electrical system contracts and Letters of Credit with two utility companies (Tucson Electric Power and TRICO) as required to insure water company system needs are being met by these utilities.
- Attend all Council Meetings and report issues related to Sahuarita Water Company.
- Oversee the plan review process of Builders plans including water improvements for all the neighborhoods within Rancho Sahuarita to ensure compliance with water company system requirements.
- Assist in oversight of contractors in coordination water system installation and usage.
- Periodically review and approve of updates to water company standard details.
- Review and comment on annual budget and attend monthly budget review meetings.

Additional Responsibilities following departure of Cort Chalfant:

- Participated in 2008 CC&N extension of Water Company service area and Hydrological consultants, attorneys and consultants.
- Review all construction and consultant contracts and coordinate with legal council on same.
- Interface with company partners and management team to insure management company communication and policies are consistent with those of the water company.
- Coordinated with water company consultants and staff during design and construction of Arsenic Treatment facilities and other system improvements that were designed in 2008 and constructed in 2009.

EXHIBIT
S-1

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION OF SAHUARITA WATER COMPANY, LLC FOR A RATE INCREASE	DOCKET NO. W-03718A-09-0359

DIRECT

TESTIMONY

OF

MARLIN SCOTT, JR.

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

APRIL 22, 2010

TABLE OF CONTENTS

Page

INTRODUCTION 1

PURPOSE OF TESTIMONY 2

ENGINEERING REPORT 3

EXHIBIT

Engineering Report for Sahuarita Water Company, LLC ..... MSJ

INTRODUCTION

Q. Please state your name, place of employment and job title.

A. My name is Marlin Scott, Jr. My place of employment is the Arizona Corporation Commission ("Commission"), Utilities Division, 1200 West Washington Street, Phoenix, Arizona 85007. My job title is Utilities Engineer.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since November 1987.

Q. Please list your duties and responsibilities.

A. As a Utilities Engineer, specializing in water and wastewater engineering, my responsibilities include: the inspection, investigation, and evaluation of water and wastewater systems; preparing reconstruction cost new and/or original cost studies, reviewing cost of service studies and preparing investigative reports; providing technical recommendations and suggesting corrective action for water and wastewater systems; and providing written and oral testimony on rate applications and other cases before the Commission.

Q. How many cases have you analyzed for the Utilities Division?

A. I have analyzed approximately 540 cases covering various responsibilities for the Utilities Division.

Q. Have you previously testified before this Commission?

A. Yes, I have testified in 77 proceedings before this Commission.

Q. What is your educational background?

A. I graduated from Northern Arizona University in 1984 with a Bachelor of Science degree in Civil Engineering Technology.

Q. Briefly describe your pertinent work experience.

A. Prior to my employment with the Commission, I was Assistant Engineer for the City of Winslow, Arizona, for about two years. Prior to that, I was a Civil Engineering Technician with the U.S. Public Health Service in Winslow for approximately six years.

Q. Please state your professional membership, registrations, and licenses.

A. I am a member of the National Association of Regulatory Utility Commissioners ("NARUC") Staff Subcommittee on Water.

PURPOSE OF TESTIMONY

Q. What was your assignment in this proceeding?

A. My assignment was to provide Staff's engineering evaluation for Sahuarita Water Company, LLC ("Company") in this rate proceeding.

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

A. To present the findings of Staff's engineering evaluation of the operation for the Company. The findings are contained in the Engineering Report that I have prepared for this proceeding and is included as Exhibit MSJ in this direct testimony.

ENGINEERING REPORT

Q. Would you briefly describe what was involved in preparing your Engineering Report for this rate proceeding?

A. After reviewing the application for the Company, I physically inspected the water system to evaluate its operation and to determine if any plant items were not used and useful. I obtained information from the Company regarding plant facilities, water testing expense, system maps, well monitoring, and I analyzed that information. I contacted the Arizona Department of Water Resources ("ADWR") to determine if the Company was in compliance with the ADWR's requirements governing water providers. I also reviewed the Company's Commission compliance item related to the ADWR Best Management Practice Tariffs. Based on all the above, I prepared the attached Engineering Report.

Q. Do you provide a summary of your findings?

A. Yes, the summary containing Staff's engineering conclusions and recommendations are located at the beginning of my Exhibit MSJ.

Q. Does this conclude your Direct Testimony?

A. Yes, it does.

Engineering Report
For
Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359 (Rates)

April 15, 2010

SUMMARY

CONCLUSIONS

A. The Sahuarita Water Company, LLC ("Company") has a water loss of 3.8% which is within the acceptable limits.

B. The Company's test year well capacity of 3,250 GPM and storage capacity of 2,550,000 gallons is adequate to serve the present customer base and reasonable growth.

C. The Company has completed the construction of an arsenic treatment facility ("ATF") and has requested that the cost of this ATF project be considered for the implementation of an Arsenic Cost Recovery Surcharge Mechanism.

D. According to an Arizona Department of Environmental Quality ("ADEQ") Compliance Status Report, dated September 9, 2009, ADEQ has determined that the Company's system, Public Water System No. 10-312, is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

E. The Company is located in the Arizona Department of Water Resources' ("ADWR") Tucson Active Management Area and ADWR has reported that the Company is in compliance with ADWR's requirements governing water providers and/or community water systems.

F. According to the Utilities Division Compliance database, the Company has no delinquent Arizona Corporation Commission compliance items.

G. The Company has an approved curtailment tariff with an effective date of December 19, 2002.

H. The Company has an approved backflow prevention tariff with an effective date of November 1, 2002.

RECOMMENDATIONS

1. Staff recommends an average annual water testing expense of $10,382 be adopted for this proceeding.

2. Staff recommends the removal of Wells #12, #17, #19, #20 and those identified plant items related to the Estancia del Corazon Subdivision, totaling to $327,565, from the plant-in-service because these plant items are not used and useful.

3. Staff recommends that the requested post-test year plant – new Well #23 not be considered for inclusion in rate base at this time.

4. Staff recommends that the Company use the depreciation rates by individual National Association of Regulatory Utility Commissioners category as presented in Table J-1.

5. Staff recommends the acceptance of the Company's proposed service line and meter installation charges as presented in Table K-1.

6. Since the filing of the ADWR Best Management Practice ("BMP") Tariffs by the Company, Staff and the Company have been working together to finalize the BMPs. At this time, the BMPs have not been finalized. However, Staff will be providing DRAFT copies of the BMPs as Attachment – ADWR Best Management Practice Tariffs and will provide an updated Staff review and recommendation in its surrebuttal testimony due on June 16, 2010.

TABLE OF CONTENTS

Page

SUMMARY 1

Conclusions 1
Recommendations 2

A. Location of Company 4
B. Description of Water System 4
C. Water Use 7
D. Growth 7
E. ADEQ Compliance 8
F. ADWR Compliance 8
G. ACC Compliance 9
H. Plant Not Used and Useful 9
I. Post-Test Year Plant 10
J. Depreciation Rates 11
K. Service Line and Meter Installation Charges 11
L. Curtailment Tariff 11
M. Backflow Prevention Tariff 11
N. ADWR Best Management Practice Tariffs 11

FIGURES
A-1. Pima County Map 15
A-2. Certificated Area 16
C-1. Water Use 17
D-1. Growth 17

TABLES
E-1. Water Testing Expense 18
J-1. Depreciation Rates 19
K-1. Service Line and Meter Installation Charges 20

ATTACHMENT
ADWR Best Management Practice Tariffs 21

A. LOCATION OF SAHUARITA WATER COMPANY, LLC ("COMPANY")

The Company serves the Town of Sahuarita, which is approximately 20 miles south of downtown Tucson. Figure A-1 shows the location of the Company within Pima County and Figure A-2 shows the approximate 13.6 square-miles of certificated area. The service area for the existing water system is within the approximate 5.3 square-miles of certificated area that is shown along the eastern edge of Figure A-2.

Background

In December 1995, the Arizona Corporation Commission ("Commission") granted Interchange Water Company ("IWC") a Certificate of Convenience and Necessity ("CC&N") to provide water service. In November 1999, the Commission granted approval of the sale of assets and transfer of the CC&N from IWC to Rancho Sahuarita Water Company, LLC ("RSWC"). In November 2008, the Commission approved the transfer of the CC&N held by RSWC to the Company. As a result of all these changes, this is the first rate application by the Company.

B. DESCRIPTION OF WATER SYSTEM

The water system was field inspected on November 24, 2009, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Mark Seamans, President, and Marian Homlak, Controller, for the Company. The test year operation of the water system consisted of two producing wells, three storage tanks, three booster stations and a distribution system serving different pressure zones to approximately 4,670 customers as of December 2008. A detailed plant facility description follows:

Table 1. Well Data

Well #	ADWR ID No.	Pump Hp (Turbine)	Flow Rate (GPM)	Casing Size & Depth	Meter Size	Year Drilled
#1	55-562962	-	Monitoring well	8" x 500'	-	1997
#12	55-611141	-	Capped	24" x 982'	-	1970
#14	55-611142	400	1,750	24" x 1135'	10"	1970
#17	55-611143	-	Out of service	24" x 1053'	-	1974
#18	55-611144	300	1,500	20" x 905'	10"	1975
#19	55-611145	-	Capped	24" x 990'	-	1981
#20	55-611146	-	Capped	16" x 975'	-	1969
		TOTAL:	**3,250**			
#23	55-216840	300	1,700	18" x 1080'	10"	2009

Notes: (1) Well #1 is a monitoring well for investigating a groundwater sulfate plume per an agreement with Phelps Dodge Sierrita, Inc.

(2) Wells #12, #17, #19, & #20 are wells for monitoring water levels by the Company.
(3) Well #14 is leased from the Town of Sahuarita.
(4) Well #23 is the Company's requested post-test year plant item.

Table 2. Storage Tanks

Capacity (Gallons)	Quantity (Each)	Location
1,200,000	1	Booster Station #1
1,000,000	1	Booster Station #1
350,000	1	Booster Station #2
Totals: 2,550,000 gallons	3	

Table 3. Booster Stations

Location	Booster Facilities
Booster Station #1	Facilities for 2950 Elevation Zone: 10, 25, 40 & 40 – Hp booster pumps with a 5,000 gallon pressure tank as a surge arrestor. & Facilities for 3050 Elevation Zone: 25, 50, 75 & 75 – Hp booster pumps with a 5,000 gallon pressure tank as a surge arrestor.
Booster Station #2	30, 50 & 100 – Hp booster pumps with a 5,000 gallon pressure tank as a surge arrestor.

Table 4. Water Mains

Diameter	Material	Length
4-inch		4,066 ft.
6-inch		27,560 ft.
8-inch		174,700 ft.
12-inch		64,680 ft.
16-inch		7,973 ft.
	Total:	278,979 ft. or 52.8 miles

Table 5. Customer Meters

Size	Quantity
5/8 x 3/4-inch	4,091
3/4-inch	449
1- inch	106
1-1/2-inch	9
2-inch	66
3-inch Turbine	17
3-inch Compound	2
Total:	4,740

Table 6. Fire Hydrants

Size	Quantity
Standard	317

Table 7. Structures & Treatment Equipment

Structures & Treatment Equipment
Well #14: Block fencing, tablet chlorination unit.
Well #18: Block fencing, tablet chlorination unit.
Well #23: Block fencing, tablet chlorination unit.
Booster Station #1: Block fencing, 400 kW diesel generator
Booster Station #2: Block fencing, 230 kW diesel generator
Water Treatment Plant #1 and Well #23: 2,000 GPM arsenic treatment system with a 16,500 gallon backwash tank, tablet chlorination unit and block fencing. The water treatment plant has a by-pass line that blends the treated water with untreated water.
Pressure Relief Valve #1: 10" PRV with 2" by-pass (installed after test year). This PRV is for system operation between 2950 Elevation Zone and 2850 Elevation Zone.

C. WATER USE

Water Sold

Based on the information provided by the Company, water use for the test year is presented in Figure C-1. Customer consumption experienced a high monthly average water use of 358 gallons per day ("GPD") per connection in June and a low monthly average water use of 194 GPD per connection in December for an average annual use of 278 GPD per connection.

Non-Account Water

Non-account water should be 10% or less. The Company reported 476,946,000 gallons pumped and 458,977,000 gallons sold, resulting in a water loss of 3.8%. This 3.8% is within the acceptable limits.

System Analysis

Using the Company's 2008 test year data, the Company reported its second highest peak use month as June with 48,746,000 gallons sold to 4,539 customers, resulting in the highest use per connection per day for the test year. Based on this data, Staff estimates the peak day demand to be 0.31 GPM per connection for evaluating well capacity sufficiency. For storage capacity evaluation, Staff used 358 GPD per connection. Using these factors, Staff determined that:

a. The well capacity totaling 3,250 GPM (=Well #14 at 1,750 + Well #18 at 1,500) could adequately serve approximately 10,480 connections (=3,250 / 0.31).

b. The storage capacity totaling 2,550,000 gallons, minus the fire flow requirement, could adequately serve up to approximately 6,540 connections ((=2,550,000-210,000) / 358). If the second well (Well #18) is included for the storage capacity requirement, this system could adequately serve approximately 12,570 connections.

c. Looking forward, Figure D-1 shows a growth projection to approximately 7,600 total connections by December 2013.

Based on this analysis, the test year well capacity of 3,250 GPM and storage capacity of 2,550,000 gallons is adequate to serve the present customer base and growth within a five year period.

D. GROWTH

Figure D-1 depicts the customer growth using linear regression analysis. The number of customers was obtained from annual reports submitted to the Commission. During the test year ending December 2008, the Company had approximately 4,670 customers and it is projected that the Company could have approximately 7,600 customers by December 2013.

E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE

Compliance

According to an ADEQ Compliance Status Report, dated September 9, 2009, ADEQ has determined that the Company's system, Public Water System No. 10-312, is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

Water Testing Expense

During the test year, the Company was a participant in the ADEQ Monitoring Assistance Program ("MAP") and reported its water testing expense at $8,750. This reported amount did not include the monitoring for lead & copper.

Since the Company now serves a population over 10,000, the Company has elected to no longer participate in MAP. With the Company's assistance, Staff has re-evaluated the water testing expense and has determined an adjusted average annual water testing expense of $10,382 as shown in Table E-1. Staff recommends this average annual water testing expense of $10,382 be adopted for this proceeding.

Arsenic

The arsenic concentration level in the Company's source of water fluctuates and at times the levels exceed the arsenic standard of 10 parts per billion ("ppb"). The Company reported the current arsenic levels for Well #14 at 6.1 ppb and Well #18 at 9.9 ppb. In Decision No. 70984 (May 5, 2009), the Commission approved a WIFA loan in order for the Company to construct a centralized arsenic treatment facility ("ATF") with transmission main interconnection with Wells #14 and #18. In its rate application, the Company has requested that the cost of this ATF project be considered for the implementation of an Arsenic Cost Recovery Surcharge Mechanism.

On June 9, 2009, Pima County Department of Environmental Quality ("PCDEQ") issued a Certificate of Approval to Construct for the construction of a 2,000 gallon per minute ATF and approximately 1.7 miles of transmission mains. On November 25, 2009, PCDEQ issued the Certificate of Approval of Construction for this ATF project. Based on these approvals, along with Staff's field inspection to confirm this ATF operation, Staff concludes that the ATF is currently used and useful for the provision of service to customers.

F. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

The Company is located in the Tucson Active Management Area ("AMA"). According to an ADWR compliance status report, dated February 12, 2010, the Company is in compliance with its requirements governing water providers and/or community water systems.

G. ARIZONA CORPORATION COMMISSION ("ACC") COMPLIANCE

According to the Utilities Division Compliance database, the Company has no delinquent ACC compliance items.

H. PLANT NOT USED AND USEFUL

In its application, the Company listed Wells #1 and #17 as out-of-service wells and Wells #12, #19, and #20 as non-equipped wells. Through its field inspection and Company data responses, Staff obtained the following additional information:

1. Well #1 is a monitoring well for investigating a groundwater sulfate plume per an agreement with Phelps Dodge Sierrita, Inc.
2. Well #17 was placed into service in 2004 and was later taken out of service in 2005 due to bacteriological problems.
3. Wells #12, #19 and #20 are non-production wells and are wells for monitoring water levels by the Company.

Based on above information, Staff considers Well #1 to be used and useful because the monitoring of this well protects the customers in the delivery of safe water. Staff further considers Wells #17, #12, #19 and #20 to be not used and useful because these wells are non-production wells that do not provide service to customers.

In addition, Staff noted that during its field inspection, the Estancia del Corazon Subdivision, Region 5, Block 29, had plant facilities constructed on site, but no homes. Through the Company data responses regarding this subdivision, Staff obtained:

1. Water system maps.
2. Cost of plant facilities per NARUC account;
    a. Account 331 – Mains at $233,539 for approximately 3,940 feet of 12-inch and 1,100 feet of 8-inch mains.
    b. Account 333 – Services at $30,159 for 89 single services.
    c. Account 335 – Hydrants at $15,673 for 11 fire hydrants.
    d. Total cost: $279,371

After Staff's review and evaluation of the submitted data, Staff considers the 3,940 feet of 12-inch main to be used and useful because this 12-inch main is a transmission main that loops a portion of the water system. Staff further considers the 1,100 feet of 8-inch main, the 89 single services and the 11 fire hydrants to be <u>not</u> used and useful because these plant items do not provide service to customers.

As a result of the review and evaluation of the above data, a summary of the plant items that are not considered used and useful is as follows:

Table H-1. Plant Not Used and Useful

Acct. No.	Plant Items	Year Place Into Service	Year Taken Out of Service	Original Cost
307	Wells & Springs			
	Well #12 – this non-producing well was recorded in the plant-in-service in 2003.			$56,610
	Well #17 – 24" X 1053' with 300-Hp pump	2004	2005	$194,773
	Well #19 – not recorded.			$0
	Well #20 – this non-producing well was recorded in the plant-in-service in 2005.			$100
			Subtotal:	$251,483
331	Transmission & Distribution Mains			
	Estancia de Corazon Subdivision, Block 29, 8-inch PVC at 1,100 feet.	2007		$30,250
333	Services			
	Estancia de Corazon Subdivision, 89 each	2007		$30,159
335	Hydrants			
	Estancia de Corazon Subdivision, 11 each	2007		$15,673
			Total:	**$327,565**

Therefore, Staff recommends the removal of Wells #12, #17, #19, #20 and those identified plant items related to the Estancia del Corazon Subdivision, totaling to $327,565, from the plant-in-service because these plant items are not used and useful.

I. POST-TEST YEAR PLANT

In its application, the Company requested a post-test year ("PTY") plant adjustment in the amount of $1,844,270 for a new Well #23. Through Company data responses, the Company provided the following:

1. The Company provided an updated and final cost totaling $1,779,243.
2. On May 11, 2009, PCDEQ issued a Certificate of Approval to Construct for the construction of the new Well #23.
3. On November 24, 2009, PCDEQ issued the Certificate of Approval of Construction for the new well.

Also in its application, the Company stated that it believes the new Well #23 would meet the criteria for inclusion of PTY plant in rate base because; (i) the well was necessary to provide service to customers at the end of the test year, and (ii) the well is a revenue neutral project.

As shown in Staff's system analysis in Section C above, the test year well and storage capacities were adequate to serve the customer base and growth within a five year period. For this reason, Staff concludes that the requested PTY plant – Well #23 is not needed at this time and recommends that the requested Well #23 not be considered for inclusion in rate base.

J. DEPRECIATION RATES

In this proceeding, the Company has adopted Staff's typical and customary depreciation rates. In addition, Staff is providing a specific depreciation rate for the arsenic treatment media under Account No. 320.3. These rates are presented in Table J-1 and it is recommended that the Company use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.

K. SERVICE LINE AND METER INSTALLATION CHARGES

The Company proposed changes to its service line and meter installation charges. The Company's proposed charges are similar to Staff's updated customary installation charges. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, Staff recommends approval of the proposed charges as shown in Table K-1, with separate installation charges for the service line and meter installations.

L. CURTAILMENT PLAN TARIFF

The Company has an approved curtailment tariff with an effective date of December 19, 2002.

M. BACKFLOW PREVENTION TARIFF

The Company has an approved backflow prevention tariff with an effective date of November 1, 2002.

N. ADWR BEST MANAGEMENT PRACTICE TARIFFS

Introduction

In 2008, ADWR added a new regulatory program for the ADWR Third Management Plan for AMAs. The new program, called Modified Non-Per Capita Conservation Program ("Modified NPCCP"), addresses large municipal water providers (cities, towns and private water companies serving more than 250 acre-feet per year) and was developed in conjunction with stakeholders from all AMAs. Participation in the program is required for all large municipal

water providers that do not have a Designation of Assured Water Supply and that are not regulated as a large untreated water provider or an institutional provider.

The Modified NPCCP is a performance-based program that requires participating providers to implement water conservation measures that result in water use efficiency in their service areas. A water provider regulated under the program must implement a required Public Education Program and choose one or more additional Best Management Practices ("BMPs") based on its size, as defined by its total number of water service connections. The provider must select the additional BMPs from the list included in the Modified NPCCP Program. The BMPs are a mix of technical, policy, and information efforts.

Although the implementation of the Modified NPCCP is required by large municipal water providers within an AMA, the Commission has adopted this Modified NPCCP to be implemented by Commission regulated water companies.

ACC Compliance

In Decision No. 70620 (November 19, 2008) regarding the Company's application for extension of its CC&N, the Commission issued the following Finding of Fact No. 33 and the Fifth Ordering Paragraph as follows:

> *"33. Since SWC is located in the Tucson Active Management Area, it will be required to comply with conservation goals and management practices of the Arizona Department of Water Resources ("ADWR"). We would like SWC, and SWC has agreed, to go beyond those requirements; therefore, we will require SWC to implement, by December 31, 2009, as least five additional Best Management practices ("BMPs") (as outlined in ADWR's Modified Non-Per Capita Conservation Program) than would be required for a water company of its customer size. This would require SWC to implement six BMPs by December 31, 2009, ten BMPs once it serves 5,001 to 30,000 connections, and fifteen BMPs once it serves over 30,000 connections."*
>
> *"IT IS FURTHER ORDERED that Sahuarita Water Company, L.L.C., shall implement by December 31, 2009, at least five more Best Management Practices (as outlined in ADWR's Modified Non-Per Capita Conservation Program) than would be required for a water company of its customer size and submit those Best Management Practices to Docket Control within thirty days of implementation (i.e., the first six Best Management Practices would need to be submitted by January 30, 2010)."*

During the third quarter of 2009, the Company service connections exceeded 5,000. Per the Commission order, the Company must therefore implement 10 BMPs (plus the required public education requirement) by December 31, 2009. On December 9, 2009, the Company filed the BMPs with Docket Control.

Review and Approval of BMPs

Since the filing of the BMPs by the Company, Staff and the Company have been working together to finalize the BMPs. At this time, the BMPs have not been finalized. However, Staff will be providing DRAFT copies of the BMPs as Attachment – ADWR Best Management Practice Tariffs and will provide an updated Staff review and recommendation in its surrebuttal testimony due on June 16, 2010.

FIGURES

A-1. Pima County Map 15
A-2. Certificated Area 16
C-1. Water Use 17
D-1. Growth 17

TABLES

E-1. Water Testing Expense 18
J-1. Depreciation Rates 19
K-1. Service Line and Meter Installation Charges 20

ATTACHMENT

ADWR Best Management Practice Tariffs 21

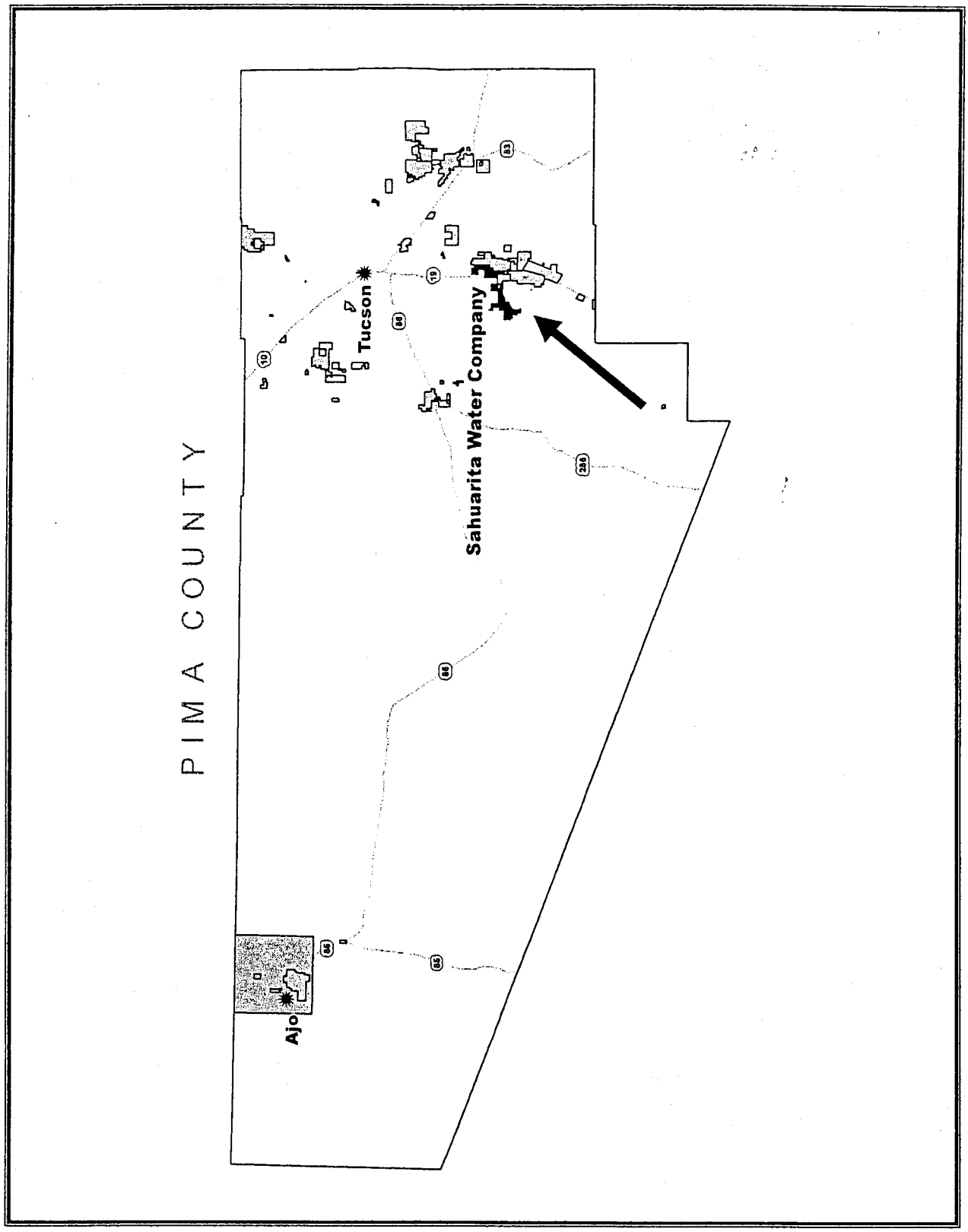


Figure A-1. Pima County Map

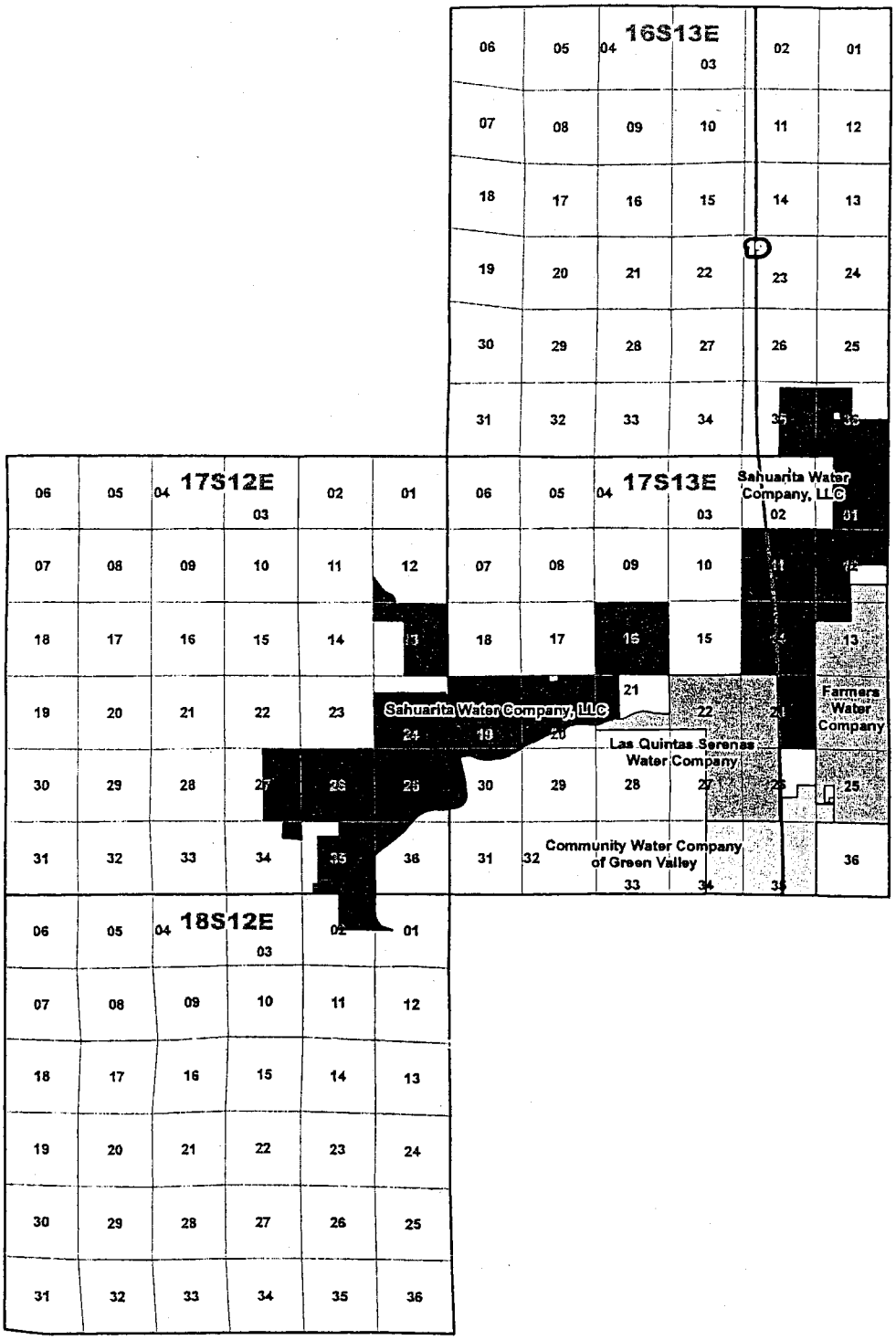


Figure A-2. Certificated Areas

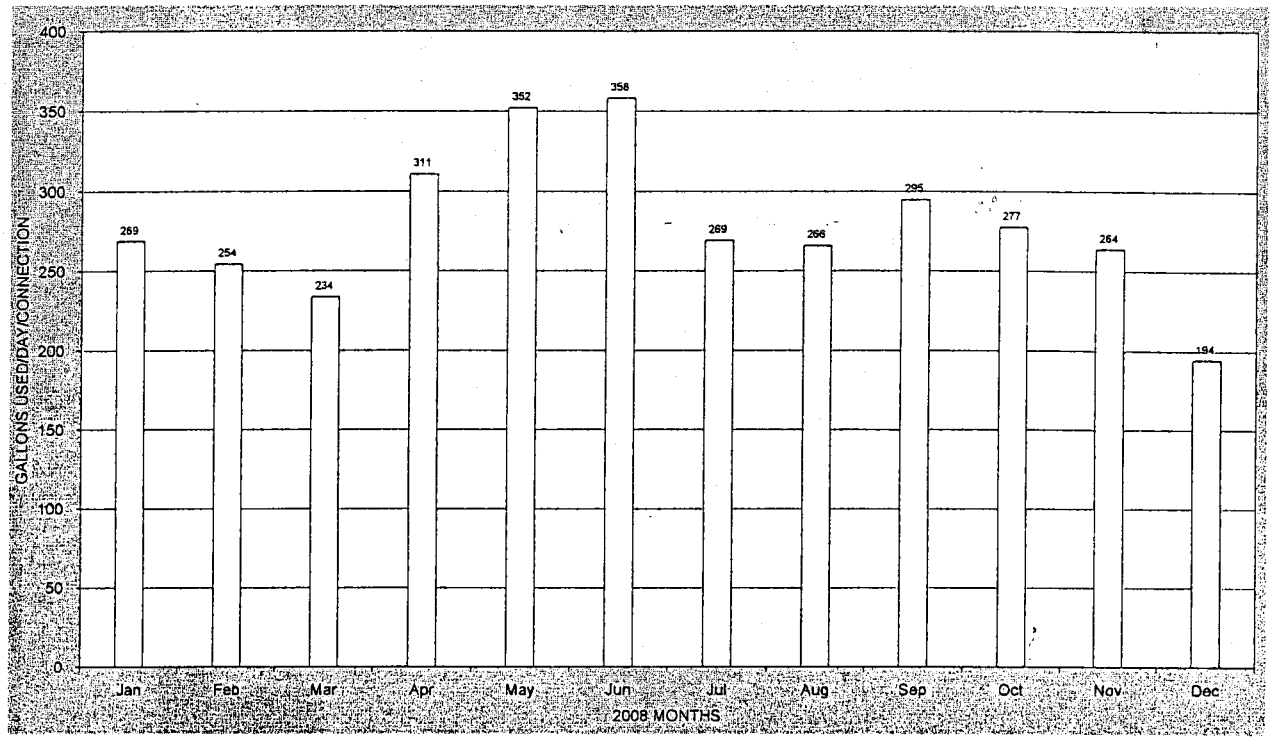


Figure C-1. Water Use

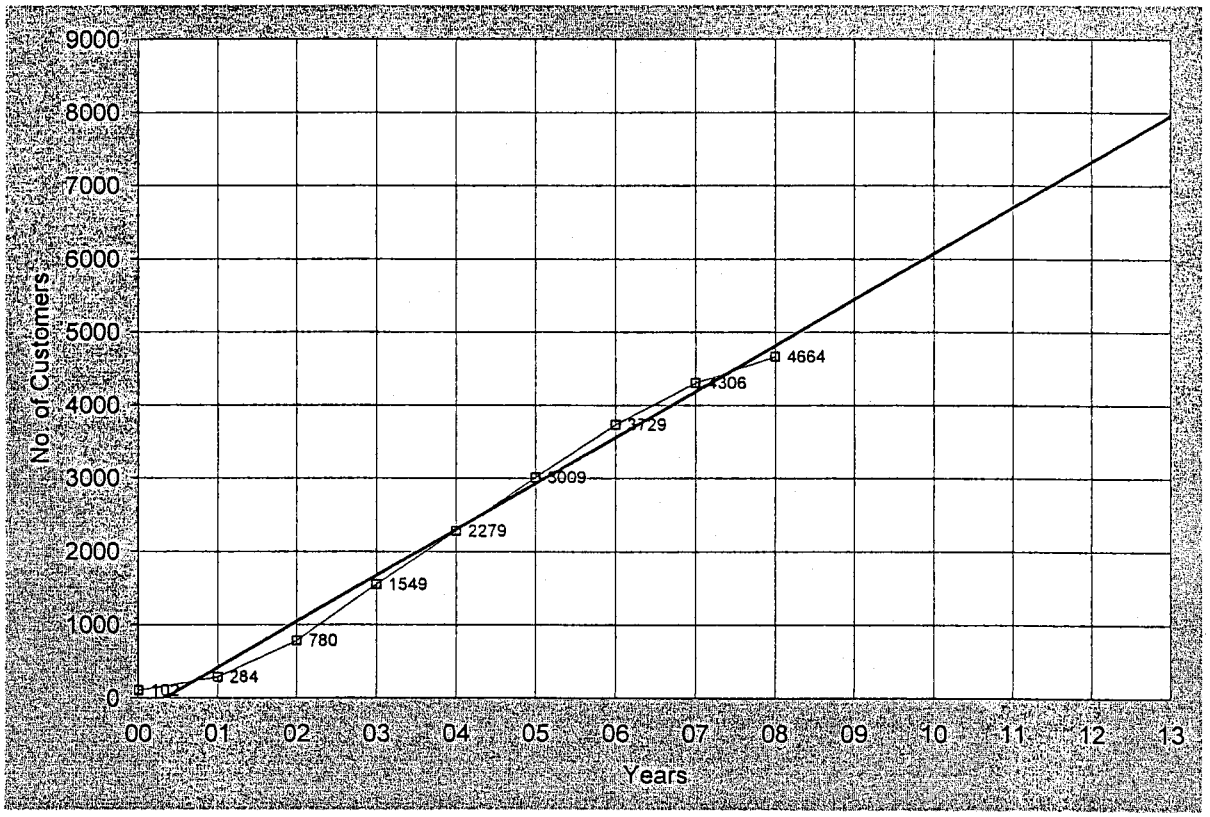


Figure D-1. Growth

Table E-1. Water Testing Expense

Monitoring (Test per 3 years, unless noted)	Cost per Sample	No. of Samples	Cost per Monitoring	Total Cost	Annual Cost
Total Coliform – monthly	$14	15	$210	$2,520	$2,520
Inorganics - Priority Pollutants	$113	1	$113	$113	$38
Radiochemical - per 6 years					
Gross Alpha	$77	1	$77	$77	$13
Radium 226 & Radium 228	$176	1	$176	$176	$29
Uranium	$135	1	$135	$135	$23
Phase II and V:					
Nitrate – annual	$14	1	$14	$14	$14
Nitrite - per 9 years	$14	1	$14	$14	$2
Asbestos - per 9 years	$149	1	$149	$149	$17
Inorganics - Ba, CN, F	$48	1	$48	$48	$16
VOC's	$158	1	$158	$158	$53
Pesticides/PCB's/Unreg./SOC's:					
EDB & DBCP - per 9 years	$135	2	$270	$270	$30
Group 1 - alachlor, etc. - per 9 years	W/ Group 4	-	-	-	-
Group 2 - aldrin, etc. - per 9 years	$122	2	$243	$243	$27
Group 3 - 2,4 - D, etc. - per 9 years	$162	2	$324	$324	$36
Group 4 – Benzo., etc. - per 9 years	$297	2	$594	$594	$66
Group 5 - aldicarb, etc. - per 9 years	$194	2	$387	$387	$43
Glyphosate - per 9 years	$171	2	$342	$342	$38
Endothall - per 9 years	$194	2	$387	$387	$43
Diquat - per 9 years	$171	2	$342	$342	$38
Dioxin - per 9 years	$446	2	$891	$891	$99
Lead & Copper - per 3 years	$23	30	$690	$690	$230
TTHM - Quarterly	$100	7	$700	$2,800	$2,800
HAA5s - Quarterly	$140	7	$977	$3,906	$3,906
Others -					
Arsenic - Quarterly	$38	2	$76	$304	$304
TOTALS:				$14,881	$10,382

Table J-1. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Proposed Rates (%)
304	Structures & Improvements	3.33
305	Collecting & Impounding Reservoirs	2.50
306	Lake, River, Canal Intakes	2.50
307	Wells & Springs	3.33
308	Infiltration Galleries	6.67
309	Raw Water Supply Mains	2.00
310	Power Generation Equipment	5.00
311	Pumping Equipment	12.5
320	Water Treatment Equipment	
320.1	Water Treatment Plants	3.33
320.2	Solution Chemical Feeders	20.0
320.3	Media for Arsenic Treatment	67.0
330	Distribution Reservoirs & Standpipes	
330.1	Storage Tanks	2.22
330.2	Pressure Tanks	5.00
331	Transmission & Distribution Mains	2.00
333	Services	3.33
334	Meters	8.33
335	Hydrants	2.00
336	Backflow Prevention Devices	6.67
339	Other Plant & Misc Equipment	6.67
340	Office Furniture & Equipment	6.67
340.1	Computers & Software	20.00
341	Transportation Equipment	20.00
342	Stores Equipment	4.00
343	Tools, Shop & Garage Equipment	5.00
344	Laboratory Equipment	10.00
345	Power Operated Equipment	5.00
346	Communication Equipment	10.00
347	Miscellaneous Equipment	10.00
348	Other Tangible Plant – Well exploration, master plan & water rights	10.00

Table K-1. Service Line and Meter Installation Charges

Meter Size	Current Total Charges	Proposed Service Line Charges	Proposed Meter Charges	**Proposed Total Charges**
5/8 x 3/4"	$317.50	$445	$155	$600
3/4"	$352.50	$445	$255	$700
1"	$402.50	$495	$315	$810
1-1/2"	$597.50	$550	$525	$1,075
2" Turbine	$997.50	$830	$1,045	$1,875
2" Compound	$1,487.50	$830	$1,890	$2,720
3" Turbine	$1,377.50	$1,045	$1,670	$2,715
3" Compound	$1,927.50	$1,165	$2,545	$3,710
4" Turbine	$2,207.50	$1,490	$2,670	$4,160
4" Compound	$2,822.50	$1,670	$3,645	$5,315
6" Turbine	$4,217.50	$2,210	$5,025	$7,235
6" Compound	$5,497.50	$2,330	$6,920	$9,250
8"	NT	At Cost	At Cost	At Cost
10"	NT	At Cost	At Cost	At Cost
12"	NT	At Cost	At Cost	At Cost

***** DRAFT*****

ATTACHMENT -

ADWR

Best Management Practice

Tariffs

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

Public Education Program Tariff

PURPOSE

A program for the Company to provide free written information on water conservation measures to its customers and to remind them of the importance of conserving water (Required Public Education Program).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall provide two newsletters to each customer; one to be provided in the spring, the other in the fall. The goal of the letters is to provide timely information to customers in preparation of the hot summer months, and the cold winter months, in regards to their water uses. The Company shall remind customers of the importance of water conservation measures and inform them of the information available from the Company.

2. Information in the newsletters shall include water saving tips, home preparation recommendations for water systems/pipes, landscape watering maintenance issues for summer and winter, water cistern maintenance reminders and additional pertinent topics. Where practical, the Company shall make this information available in digital format which can be e-mailed to customers upon request or posted on the Company's website.

3. Communication channels shall include one or more of the following: water bill inserts, messages on water bills, Company web page, post cards, e-mails and special mailings of print pieces, whichever is the most cost-effective and appropriate for the subject at hand.

4. Free written water conservation materials shall be available in the Company's business office and the Company shall send information to customers on request.

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

5. The Company may distribute water conservation information at other locations such as libraries, chambers of commerce, community events, etc., as well.
6. The Company shall keep a record of the following information and make it available to the Commission upon request.

    a. A description of each communication channel (i.e., the way messages will be provided) and the number of times it has been used.
    b. The number of customers reached (or an estimate).
    c. A description of the written water conservation material provided free to customers.

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

Youth Conservation Education Program Tariff – BMP 2.2

PURPOSE

A program for the Company to promote water conservation by increasing students' understanding of water resources and the need to conserve (Modified Non-Per Capita Conservation Program BMP Category 2: Conservation Education and Training 2.2: Youth Conservation Education Program).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company or designated representative shall work with schools in its service area to increase students' understanding of water resources and to promote water conservation.

2. The Company shall provide a combination of instructional assistance, education materials, teacher education, classroom presentations, and field trips to water related facilities.

3. The Company shall provide the following teacher resources.
   a. Offer Project WET (Water Education for Teachers) workshops to teachers twice yearly
   b. Provide free resource materials and information upon request
   c. Provide in-classroom presentations upon request.

4. The Company shall make available free water conservation workbooks for elementary school students.

5. The Company shall keep a record of the following information and make it available upon request.
   a. A description of the youth conservation education process implemented.
   b. The number of students reached (or an estimate).

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

c. A description of the written water conservation material provided free to students.
d. Costs of the Youth Conservation Education Program implementation.

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

Xeriscape Demonstration Garden Tariff – BMP 2.4

PURPOSE

A program for the Company to install and maintain a water efficient demonstration garden for the purpose of educating its customer base on low water-use landscaping (Modified Non-Per Capita Conservation Program BMP Category 2: Conservation Education and Training 2.4: Xeriscape Demonstration Garden).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall design, construct and maintain a demonstration garden that shall include a large variety of low water use and native plants, shrubs and shade trees.

2. The demonstration garden shall include a walkway throughout the site and include interpretive signage and literature about low water use plants and water efficient landscape techniques.

3. The demonstration garden shall be open, free of charge, to the public during normal business hours and the _____ Saturday of each month.

4. Maps providing driving directions to the demonstration garden shall be available at the Company office, on the Company web-site, and shall be provided to each new customer upon establishment of service.

5. The Company shall work with the schools, including the universities, to continually upgrade the site with additional technologies and techniques.

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

Customer High Water Use Inquiry Resolution Tariff – BMP 3.6

PURPOSE

A program for the Company to assist its customers with their high water-use inquiries and complaints (Modified Non-Per Capita Conservation Program BMP Category 3: Outreach Services 3.6: Customer High Water Use Inquiry Resolution).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall handle high water use inquiries as calls are received.

2. Calls shall be taken by a customer service representative who has been trained on typical causes of high water consumption as well as leak detection procedures that customers can perform themselves.

3. Upon request by the customer or when the Company determines it is warranted, a trained Field Technician shall be sent to the customer's residence to conduct a leak detection inspection and further assist the customer with water conservation measures.

4. The Company shall follow up in some way on every customer inquiry or complaint and keep a record of inquiries and follow-up activities.

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

Customer High Water Use Notification Tariff – BMP 3.7

PURPOSE

A program for the Company to monitor and notify customers when water use seems to be abnormally high and provide information that could benefit those customers and promote water conservation (Modified Non-Per Capita Conservation Program BMP Category 3: Outreach Services Program 3.7: Customer High Water Use Notification).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall track water usage for each customer and notify the customer if water use seems excessive for that particular billing for that time of the year.

2. The Company shall identify customers with high consumption and investigate each instance to determine the possible cause.

3. The Company shall contact the high water use customers via telephone, email, by mail or in person. The Company shall contact the customer as soon as practical in order to minimize the possible loss of water. The customer will not be required to do anything to receive this notification.

4. In the notification the Company shall explain some of the most common water usage problems and common solutions and points of contact for dealing with the issues.

5. In the notification, the customer will be reminded of at least the following water-saving precautions:

    a. Check for leaks, running toilets, or valves or flappers that need to be replaced.

Company: Sahuarita Water Company, LLC Decision No.: _____

Phone: _____ Effective Date: _____

b. Check landscape watering system valves periodically for leaks and keep sprinkler heads in good shape.
c. Adjust sprinklers so only the vegetation is watered and not the house, sidewalk, or street, etc.
d. Continue water conservation efforts with any pools such as installing covers on pools and spas and checking for leaks around pumps.

6. In the notification, the customer will also be reminded of at least the following ordinary life events that can cause a spike in water usage:

   a. More people in the home than usual taking baths and showers.
   b. Doing more loads of laundry than usual.
   c. Doing a landscape project or starting a new lawn.
   d. Washing vehicles more often than usual.

7. The Company shall provide water conservation information that could benefit the customer, such as, but not limited to, audit programs, publications, and rebate programs.

8. The Company shall assist the customer in a self-water audit and assist the customer in determining what might be causing the high water usage as well as supply customer with information regarding water conservation and landscape watering guidelines. As part of the water audit the Company shall confirm the accuracy of the customer meter if requested to do so by the customer (applicable meter testing fees shall apply).

9. The type of notification, the timing of the notification (i.e., how long after high water use was discovered by the Company), and the criteria used for determining which customers are notified shall be recorded and made available to the Commission upon request.

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

Water Waste Investigations and Information Tariff – BMP 3.8

PURPOSE

A program for the Company to assist customers with water waste complaints and provide customers with information designed to improve water use efficiency (Modified Non-Per Capita Conservation Program BMP Category 3: Outreach Services 3.8: Water Waste Investigations and Information).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission specifically R14-2-403 and R14-2-410 and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall handle water waste complaints as calls are received.

2. Calls shall be taken by a customer service representative who has been trained to determine the type of water waste and to determine if it may be attributed to a leak or broken water line.

3. The Company shall follow up on every water waste complaint.

4. Upon request by the customer or when the Company determines it is warranted, a trained Field Technician shall be sent to investigate further and notify the responsible party of the waste and offer assistance and information to prevent waste in the future.

5. A letter of enforcement will be issued to customers with water running beyond the curb and/or off the customers property due to such things as, but not limited to, backwashing of pools, broken sprinkler heads, and over watering of lawns beyond the saturation point.

6. The same procedures outlined above in item #4 will be followed in the event of a second violation. Termination of service may result in the event of the third violation within a 12 month period. In the event of a third violation the customer's service may be terminated per Arizona Administrative Code R14-2-

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

410C, R14-2-410D and R14-2-410E (applicable service reconnection fees shall apply).

7. The Company shall record each account and each instance noted for water waste, the action taken and any follow-up activities.

8. Subject to the provisions of this tariff, compliance with the water waste restriction will be a condition of service.

9. The Company shall provide to its customers a complete copy of this tariff and all attachments upon request for service. The customer shall abide by the water waste restriction.

10. If a customer believes he/she has been disconnected in error, the customer may contact the Commission's Consumer Services Section at 1-800-222-7000 to initiate an investigation.

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

Meter Repair and/or Replacement Tariff – BMP 4.2

PURPOSE

A program for the Company to systematically assess all in-service water meters (including Company production meters) in its water service area to identify under-registering meters and to repair or replace them (Modified Non-Per Capita Conservation Program Best Management Practice Category 4: Physical System Evaluation and Improvement 4.2 Meter Repair and/or Replacement Program).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. On a systematic basis, the Company will inspect 100 percent of its 1-inch and smaller in-service water meters at least once every ten years for one of the following reasons:
   a. A meter reading complaint is filed with the Company by a customer or Arizona Corporation Commission Staff,
   b. A meter has registered 1,000,000 gallons of usage, or
   c. A meter has been in service for ten years.

2. Meters larger than 1-inch shall be inspected for one of the following reasons:
   a. A meter reading complaint is filed with the Company by a customer or Arizona Corporation Commission Staff,
   b. A meter has been in service for five years.

3. The inspection will be accomplished by having the meter pulled and having a Company Technician physically inspect each meter and its fittings for leaks, registers which may have become loose or are not properly attached to the meter and could be under-registering or other broken parts which need repair. In addition, meters shall be randomly selected for flow testing to identify potentially under-registering meters.

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

4. The Company shall also replace or reprogram all water meters that measure consumption in 1000 gallon increments such that they shall measure consumption in 1 gallon increments.

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

Low Water Use Landscaping Requirements Tariff for Residential, Multi-family, Non-residential, and/or Common Areas – BMP 5.1

PURPOSE

A program for the Company to reduce water use within its service area and/or increase water use efficiency by limiting or reducing water used for specific purposes (Modified Non-Per Capita Conservation Program BMP Category 5: Ordinances/Conditions of Service/Tariffs 5.1: Low Water Use Landscaping Requirements for Residential, Multi-family, Non-residential, and/or Common Areas).

REQUIREMENTS:

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission, specifically A.A.C. R14-2-403 and R14-2-410 and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The following landscape restrictions will be required in order for a customer to receive water service from the Company on or after the effective date of this tariff:

All Residential Customers -

a. All front yards shall be landscaped with xeriscape (low water use) materials. A list of low water use landscaping materials is available from the Company upon request. No turf of any kind that requires watering shall be allowed in front yards.
b. Turf in back yards shall be limited to no more than fifty percent (50%) of the total backyard area.
c. No home shall be equipped with a swimming pool, jacuzzi, or other water-use intensive feature (e.g., fountain, fish pond, etc.).

All Non-Residential Customers -

a. All landscape shall be accomplished with xeriscape (low water use) materials. A list of low water use landscaping materials is available from the Company upon request. No turf of any kind that requires

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

watering shall be allowed. This requirement shall not apply to community parks that are watered with effluent.

b. No swimming pools (except for community swimming pools and jacuzzi) or other water-use intensive features (e.g., fountain, fish pond, etc.) shall be allowed.

2. Subject to the provisions of this tariff, the installation of the landscape restrictions will be a condition of service.

3. The Company shall provide to its customers a complete copy of this tariff and all attachments upon request for service. The customer shall follow and abide by these landscape restrictions.

4. If after a customer has been connected to the Company water system, the Company discovers that the customer has installed turf or water-use intensive features contrary to the above requirements, the Company shall notify (in writing) the customer of such violation and provide the customer with the appropriate educational materials informing the customer of some possibilities of how to correct the problem. The customer shall be allowed sixty (60) days to come into compliance with the above requirements. If after sixty (60) days the customer is not in compliance with the above requirements, the customer's service may be terminated per Arizona Administrative Code R14-2-410C, R14-2-410D and R14-2-410E.

5. If a customer believes he/she has been disconnected in error, the customer may contact the Commission's Consumer Services Section at 1-800-222-7000 to initiate an investigation.

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

Water Use Plan For New Non-Residential Users Tariff – BMP 5.13

PURPOSE

A program for the Company to require all new commercial, industrial, and institutional users who have annual projected water use of ten acre-feet or more per year to submit a water use plan that identifies all water uses anticipated by the user, and the water efficiency measures associated with the uses (Modified Non-Per Capita Conservation Program BMP Category 5: Ordinances/Conditions of Service/Tariffs 5.13: Requiring a Water Use Plan).

REQUIREMENTS:

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission, specifically A.A.C. R14-2-403 and R14-2-410 and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. Subject to the provisions of this tariff, as a condition of service all new commercial, industrial and institutional users with a projected annual water use requirement of five acre-feet (1,629,250 gallons) or more per year, will be required to submit a water use plan which identifies all water uses anticipated by the user and the water efficiency measures associated with the uses.

2. The water use plan submitted by users must include at least three of the following measures:

    a. Statement of water efficiency policy
    b. Water Conservation education/training for employees
    c. Identification of on-site recycling and re-use strategies
    d. Total cooling capacity and operating Total Dissolved Solids or conductivity for cooling towers
    e. Identification of best available technologies used for process, cooling and domestic water uses
    f. Landscape watering system distribution uniformity and landscape water budget

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

g. Total annual water budget for the facility

3. The Company shall provide to all new commercial, industrial, and institutional customers a complete copy of this tariff and all attachments upon request for service. The customer shall follow and abide by this tariff.

4. If after a customer has been connected to the Company water system, the Company discovers that the customer has, for example, installed turf or water-use intensive features contrary to its water use plan, the Company shall notify (in writing) the customer of such violation and provide the customer with the appropriate educational materials informing the customer of some possibilities of how to correct the problem. The customer shall be allowed sixty (60) days to come into compliance with his or her plan requirements. If after sixty (60) days the customer is not in compliance with his or her plan requirements, the customer's service may be terminated per Arizona Administrative Code R14-2-410C, R14-2-410D and R14-2-410E.

5. If a customer believes he/she has been disconnected in error, the customer may contact the Commission's Consumer Services Section at 1-800-222-7000 to initiate an investigation.

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

Large Landscape Conservation Program Tariff – BMP 6.12

PURPOSE

A program for the Company to promote water conservation measures by providing non-residential customers with support and incentives to improve their landscape water use efficiency (Modified Non-Per Capita Conservation Program BMP Category 6: Rebates/Incentives 6.12: Large Landscape Conservation Program).

REQUIREMENTS:

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. As an incentive to reduce water use for its non-residential customers with landscape watering needs, the Company shall work with the customer or the customer's contracted landscape company to collect and analyze up to 3 years of historical information for their meters, analyze past consumption patterns and compare meter size with consumption rates that might suggest meter over-sizing or meter/valve/backflow malfunctions. This analysis shall be presented in both raw data and graphically with recommendations for potential meter resizing and identification of high consumption situations and potential malfunctions of landscape watering equipment.

2. No less frequently than every three years, or upon customer request, the Company shall provide its non-residential customers with landscape watering needs, a historical consumption analysis study as described above in item #1 for their respective landscape watering meters within the Company's service area.

3. Company service shall be offered using an inverted block rate structure.

4. Upon customer request, the Company shall provide:

5. On-site consultations on low water use landscaping and efficient watering practices.

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

6. A summary of water saving options and a month-by-month outdoor water budget.

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

Piloting a New Initiative, Project or Program Tariff – BMP 7.8

PURPOSE

A program for the Company to conduct a new initiative, project or program in its water service area using state of the art water conservation technologies and techniques (Modified Non-Per Capita Conservation Program BMP Category 7: Research/Innovation Program 7.8: Piloting a New Initiative, Project or Program).

REQUIREMENTS:

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission ("Commission") and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. Prior to implementing a new project or program the Company shall file a detailed explanation with the Commission describing how the program would work, the possible results and expected costs.

2. At minimum, one new project or program shall be proposed each calendar year for Commission approval.

3. If a project or program is approved by the Commission, the Company shall document that project or program by filing a report each March covering the activities of the prior calendar year. The report shall include at least the following information:

    a. Description of the process to implement,
    b. Costs of implementation, and
    c. Conservation results.

4. If necessary, the Commission may request additional information.

ALL-STATE LEGAL®
EXHIBIT
S-2
ADMITTED

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION OF SAHUARITA WATER COMPANY, LLC FOR A RATE INCREASE	))))	DOCKET NO. W-03718A-09-0359

SURREBUTTAL

TESTIMONY

OF

MARLIN SCOTT, JR.

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JUNE 21, 2010

SURREBUTTAL SUMMARY
SAHUARITA WATER COMPANY, LLC
DOCKET NO. W-03718A-09-0359

CONCLUSIONS

A. Staff continues to conclude that Well No. 23 is not needed and not "used and useful" in the proceeding.

B. Staff continues to recommend a depreciation rate of 67.0% for the arsenic treatment media under Account No. 320.3 – Water Treatment Equipment-Media for Arsenic Treatment.

C. Staff recommends approval of the Arizona Corporation Commission/Arizona Department of Water Resources ("ADWR") Best Management Practice ("BMP") Tariffs with the exception of BMP 7.8. This BMP shall only become effective if and when it is approved by ADWR. If BMP 7.8 is not approved by ADWR by July 1, 2011, Sahuarita Water Company shall submit a replacement BMP for Commission consideration.

INTRODUCTION

Q. Please state your name, place of employment and job title.

A. My name is Marlin Scott, Jr. My place of employment is the Arizona Corporation Commission ("ACC" or "Commission"), Utilities Division, 1200 West Washington Street, Phoenix, Arizona 85007. My job title is Utilities Engineer.

Q. Are you the same Marlin Scott, Jr. who submitted Direct Testimony on behalf of the Utilities Division?

A. Yes.

Q. What was the purpose of that testimony?

A. My Direct Testimony provided the Utilities Division Staff's ("Staff") engineering evaluation of Sahuarita Water Company, LLC ("Company") for this proceeding.

Q. What is the purpose of your Surrebuttal Testimony?

A. To provide Staff's response to the Company's Rebuttal Testimony on two issues; 1) Well No. 23, and 2) arsenic treatment – media. Staff will also provide an update of the review/approval process of the Company's submittal of the ACC/Arizona Department of Water Resources ("ADWR") Best Management Practice ("BMP") Tariffs.

WELL NO. 23

Q. Have you reviewed the rebuttal testimony of Mark F. Taylor regarding Well No. 23?

A. Yes.

Q. What was Mr. Taylor's conclusion regarding Well No. 23?

A. Mr. Taylor did not agree with Staff's conclusion that Well No. 23 is not needed for the Company's water system. Mr. Taylor stated that Well No. 23 is needed for well redundancy and concluded that because Well No. 23 provides the necessary redundancy for the Company's water system, the well is "used and useful".

Q. Does Staff agree with Mr. Taylor's conclusion that Well No. 23 provides for the necessary redundancy for the water system?

A. Staff agrees that Well No. 23 provides redundancy to the system, however, it provides unnecessary or excess redundancy. Well No. 23 is not needed for this system according to Staff's system capacity analysis as shown on page 7 of 40 of Staff's Direct Testimony.

Q. Could you explain why Well No. 23 is not needed?

A. With reference to the System Analysis on page 7 of 40 that uses the well and storage capacity factors of 0.31 gallon per minute ("GPM") per connection and 358 gallons per day ("GPD") per connection, respectively, Staff determined that:

a. For informational purpose, the 2008 test year customer base was approximately 4,670 connections.

b. The well capacity totaling 3,250 GPM (=Well No. 14 at 1,750 + Well No. 18 at 1,500) could adequately serve approximately 10,480 connections (=3,250 / 0.31). Well No. 14 at 1,750 GPM alone could serve 5,645 connections, while Well No. 18 at 1,500 GPM alone could serve approximately 4,835 connections.

c. The storage capacity totaling 2,550,000 gallons, minus the fire flow requirement, could adequately serve up to approximately 6,540 connections ((=2,550,000-210,000) / 358). If the second well (Well No. 18 at 1,500 GPM) is included for the storage capacity requirement, this system could adequately serve approximately 12,570 connections.

d. Looking forward, Figure D-1 shows a growth projection to approximately 8,000 total connections by December 2013. (Staff is correcting from 7,600 to 8,000 total connections.)

Based on this analysis, the test year well capacity of 3,250 GPM and storage capacity of 2,550,000 gallons is adequate to serve the present customer base and growth within a five year period.

Q. Did Mr. Taylor provide any comments to Staff's calculation as presented in the System Analysis section of Staff's Direct Testimony?

A. No.

Q. Did Mr. Taylor provide any system calculation to support his conclusion?

A. No.

Q. Does Staff agree with Mr. Taylor's conclusion that Well No. 23 is "used and useful"?

A. No.

Q. Could you explain why Well No. 23 is not used and useful in this proceeding?

A. Yes. The Well No. 23 is a post-test year ("PTY") plant item. In its application, the Company stated that it believes the new Well No. 23 would meet the criteria for inclusion of PTY plant in rate base because; (i) the well was necessary to provide service to customers at the end of the test year, and (ii) the well is a revenue neutral project. As can be seen from Staff's analysis above, this is not the case.

ARSENIC TREATMENT - MEDIA

Q. Have you reviewed the Rebuttal Testimony of Thomas J. Bourassa regarding the arsenic treatment media and its depreciation rate?

A. Yes.

Q. What was Mr. Bourassa's conclusion regarding this arsenic media?

A. Since Staff is recommending a plant-in-service increase adjustment for the arsenic treatment facilities, Mr. Bourassa has reclassified the arsenic media and its depreciation rate from Account No. 320.1 – Water Treatment Plant to Account No. 348.1 – Other Tangible Plant – Arsenic Media with a depreciation rate of 67.0 percent.

Q. Does Staff agree with Mr. Bourassa's depreciation rate and reclassification of the arsenic media?

A. Staff agrees with the depreciation rate of 67.0 percent, but does not agree with the reclassification into Account No. 348.1. Staff believes the arsenic media should be under Account No. 320.3 – Water Treatment Equipment – Media for Arsenic Treatment as shown in Table J-1, Page 19 of 40, of Staff Engineering's Direct Testimony. Table J-1, Depreciation Rates is also attached to this testimony for reference.

ADWR BEST MANAGEMENT PRACTICE TARIFFS

Q. In Staff's Direct Testimony, did Staff provide a discussion related to the ACC/ADWR – BMP Tariffs?

A. Yes. Beginning in Section N, page 11 of 40, of Staff Engineering's Direct Testimony, Staff discussed the submittal of the ACC/ADWR – BMPs and stated that Staff was working with the Company to finalize these BMPs. In addition, Staff provided DRAFT copies of the submitted BMPs and further stated that since these BMPs were not finalized at the time of Staff's Direct Testimony, Staff would provide an update of Staff's review and recommendation regarding these BMPs in its Surrebuttal.

Q. Could you provide an update of the review of these BMP Tariffs?

A. Yes. As stated in Staff's Direct Testimony, the Company filed its 11 BMP Tariffs on December 9, 2009. Draft copies of these BMP Tariffs included; 1) Public Education Program and 10 BMPs (2.2, 2.4, 3.6, 3.7, 3.8, 4.2, 5.1, 5.13, 6.12, and 7.8).

Through the review process and working with the Company, the Company substituted BMPs 5.1 and 5.13 with BMPs 1.2 and 2.3. Staff and the Company also agreed to the revised formatting of the BMPs and certain language within the BMPs. After the final review process, Staff is recommending approval of the BMPs with the exception of BMP 7.8. This BMP shall only become effective if and when it is approved by ADWR. If BMP 7.8 is not approved by ADWR by July 1, 2011, the Company shall submit a replacement BMP for Commission consideration. Copies of the final version of these BMPs are attached.

Q. Does this conclude your Surrebuttal Testimony?

A. Yes.

ATTACHMENTS

Depreciation Rates ..... Table J-1

ADWR Best Management Practice Tariffs ..... BMPs

Table J-1. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Proposed Rates (%)
304	Structures & Improvements	3.33
305	Collecting & Impounding Reservoirs	2.50
306	Lake, River, Canal Intakes	2.50
307	Wells & Springs	3.33
308	Infiltration Galleries	6.67
309	Raw Water Supply Mains	2.00
310	Power Generation Equipment	5.00
311	Pumping Equipment	12.5
320	Water Treatment Equipment	
320.1	Water Treatment Plants	3.33
320.2	Solution Chemical Feeders	20.0
320.3	Media for Arsenic Treatment	67.0
330	Distribution Reservoirs & Standpipes	
330.1	Storage Tanks	2.22
330.2	Pressure Tanks	5.00
331	Transmission & Distribution Mains	2.00
333	Services	3.33
334	Meters	8.33
335	Hydrants	2.00
336	Backflow Prevention Devices	6.67
339	Other Plant & Misc Equipment	6.67
340	Office Furniture & Equipment	6.67
340.1	Computers & Software	20.00
341	Transportation Equipment	20.00
342	Stores Equipment	4.00
343	Tools, Shop & Garage Equipment	5.00
344	Laboratory Equipment	10.00
345	Power Operated Equipment	5.00
346	Communication Equipment	10.00
347	Miscellaneous Equipment	10.00
348	Other Tangible Plant – Well exploration, master plan & water rights	10.00

ATTACHMENT -

ADWR

Best Management Practice

Tariffs

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

Public Education Program Tariff

PURPOSE

A program for the Company to provide free written information on water conservation measures to its customers and to remind them of the importance of conserving water (Required Public Education Program).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall provide two newsletters to each customer; one to be provided in the spring, the other in the fall. The goal of the letters is to provide timely information to customers in preparation of the hot summer months, and the cold winter months, in regards to their water uses. The Company shall remind customers of the importance of water conservation measures and inform them of the information available from the Company.

2. Information in the newsletters shall include water saving tips, home preparation recommendations for water systems/pipes, landscape maintenance issues for summer and winter, water cistern maintenance reminders and additional pertinent topics. Where practical, the Company shall make this information available in digital format which can be e-mailed to customers upon request or posted on the Company's website.

3. Communication channels shall include one or more of the following: water bill inserts, messages on water bills, Company web page, post cards, e-mails and special mailings of print pieces, whichever is the most cost-effective and appropriate for the subject at hand.

4. Free written water conservation materials shall be available in the Company's business office and the Company shall send information to customers on request.

5. The Company may distribute water conservation information at other locations such as libraries, chambers of commerce, community events, etc., as well.

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

6. The Company shall keep a record of the following information and make it available to the Commission upon request.

    a. A description of each communication channel (i.e., the way messages will be provided) and the number of times it has been used.
    b. The number of customers reached (or an estimate).
    c. A description of the written water conservation material provided free to customers.

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

Special Events/Programs and Community Presentations Tariff – BMP 1.2

PURPOSE

A program for the Company to give presentations and/or display and make available water conservation information and related material at community and special events.

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall attend and staff at least three events per year in which the Company shall remind customers of the importance of water conservation measures. Events may include home and garden shows, art shows, community celebrations, environmental shows etc.

2. Information shall include water saving tips, home preparation recommendations for water systems/pipes, landscape maintenance issues for summer and winter, Xeriscape information, youth education materials and any additional pertinent topics.

3. The Company shall keep a record of the following information and make it available to the Commission upon request.

    a. A description of each special event and the date.
    b. The number of customers reached (or an estimate).
    c. A description of the written water conservation material provided free to customers.
    d. Costs of the Special Events/Programs and Community Presentations implementation.

Company: Sahuarita Water Company, LLC Decision No.: _____

Phone: _____ Effective Date: _____

Youth Conservation Education Program Tariff – BMP 2.2

PURPOSE

A program for the Company to promote water conservation by increasing students' understanding of water resources and the need to conserve (Modified Non-Per Capita Conservation Program BMP Category 2: Conservation Education and Training 2.2: Youth Conservation Education Program).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company or designated representative shall work with schools in its service area to increase students' understanding of water resources and to promote water conservation.

2. The Company shall provide a combination of instructional assistance, education materials, teacher education, classroom presentations, and field trips to water related facilities.

3. The Company shall make available free water conservation workbooks for elementary school students.

4. The Company shall keep a record of the following information and make it available upon request.
    a. A description of the youth conservation education process implemented.
    b. The number of students reached (or an estimate).
    c. A description of the written water conservation material provided free to students.
    d. Costs of the Youth Conservation Education Program implementation.

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

New Homeowner Landscape Information Tariff – BMP 2.3

PURPOSE

A program for the Company to promote the conservation of water by providing a landscape information package for the purpose of educating its new customers about low water use landscaping (Modified Non-Per Capita Conservation Program BMP Category 2: Conservation Education and Training 2.3: New Homeowner Landscape Information).

REQUIREMENTS:

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. Upon establishment of water service the Company shall provide a free "Homeowner Landscape Packet" to each new customer in the Company's service area. The packet will include at a minimum: a cover letter describing the water conservation expectations for all customers in the Company's service area, all applicable tariffs, a basic interior exterior water saving pamphlet, xeriscape landscape information, a list of low water use trees, plants, shrubs, etc., watering guidelines, a rain water harvesting pamphlet.

2. Upon customer request, the Company shall provide:

    a. On-site consultations on low water use landscaping and efficient watering practices.
    b. A summary of water saving options.

3. The number of packets provided to new customers will be recorded and made available to the Commission upon request.

Company: Sahuarita Water Company, LLC Decision No.: _____

Phone: _____ Effective Date: _____

Xeriscape Demonstration Garden Tariff – BMP 2.4

PURPOSE

A program for the Company to install and maintain a water efficient demonstration garden for the purpose of educating its customer base on low water-use landscaping (Modified Non-Per Capita Conservation Program BMP Category 2: Conservation Education and Training 2.4: Xeriscape Demonstration Garden).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall design, construct and maintain a demonstration garden that shall include a large variety of low water use and native plants, shrubs and shade trees.

2. The demonstration garden shall include a walkway throughout the site and include interpretive signage and literature about low water use plants and water efficient landscape techniques.

3. The demonstration garden shall be open, free of charge, to the public during normal business hours and the _____ Saturday of each month.

4. Maps providing driving directions to the demonstration garden shall be available at the Company office, on the Company web-site, and shall be provided to each new customer upon establishment of service.

5. The Company shall work with the schools, including the universities, to continually upgrade the site with additional technologies and techniques.

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

Customer High Water Use Inquiry Resolution Tariff – BMP 3.6

PURPOSE

A program for the Company to assist its customers with their high water-use inquiries and complaints (Modified Non-Per Capita Conservation Program BMP Category 3: Outreach Services 3.6: Customer High Water Use Inquiry Resolution).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall handle high water use inquiries as calls are received.

2. Calls shall be taken by a customer service representative who has been trained on typical causes of high water consumption as well as leak detection procedures that customers can perform themselves.

3. Upon request by the customer or when the Company determines it is warranted, a trained Field Technician shall be sent to the customer's residence to conduct a leak detection inspection and further assist the customer with water conservation measures.

4. The Company shall follow up in some way on every customer inquiry or complaint and keep a record of inquiries and follow-up activities.

Company: Sahuarita Water Company, LLC Decision No.: _____

Phone: _____ Effective Date: _____

Customer High Water Use Notification Tariff – BMP 3.7

PURPOSE

A program for the Company to monitor and notify customers when water use seems to be abnormally high and provide information that could benefit those customers and promote water conservation (Modified Non-Per Capita Conservation Program BMP Category 3: Outreach Services Program 3.7: Customer High Water Use Notification).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall track water usage for each customer and notify the customer if water use seems excessive for that particular billing for that time of the year.

2. The Company shall identify customers with high consumption and investigate each instance to determine the possible cause.

3. The Company shall contact the high water use customers via telephone, email, by mail or in person. The Company shall contact the customer as soon as practical in order to minimize the possible loss of water. The customer will not be required to do anything to receive this notification.

4. In the notification the Company shall explain some of the most common water usage problems and common solutions and points of contact for dealing with the issues.

5. In the notification, the customer will be reminded of at least the following water-saving precautions:

    a. Check for leaks, running toilets, or valves or flappers that need to be replaced.
    b. Check landscape watering system valves periodically for leaks and keep sprinkler heads in good shape.

c. Adjust sprinklers so only the vegetation is watered and not the house, sidewalk, or street, etc.
d. Continue water conservation efforts with any pools such as installing covers on pools and spas and checking for leaks around pumps.

6. In the notification, the customer will also be reminded of at least the following ordinary life events that can cause a spike in water usage:

   a. More people in the home than usual taking baths and showers.
   b. Doing more loads of laundry than usual.
   c. Doing a landscape project or starting a new lawn.
   d. Washing vehicles more often than usual.

7. The Company shall provide water conservation information that could benefit the customer, such as, but not limited to, audit programs, publications, and rebate programs.

8. The Company shall assist the customer in a self-water audit and assist the customer in determining what might be causing the high water usage as well as supply customer with information regarding water conservation and landscape watering guidelines. As part of the water audit the Company shall confirm the accuracy of the customer meter if requested to do so by the customer (applicable meter testing fees shall apply).

9. The type of notification, the timing of the notification (i.e., how long after high water use was discovered by the Company), and the criteria used for determining which customers are notified shall be recorded and made available to the Commission upon request.

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

Water Waste Investigations and Information Tariff – BMP 3.8

PURPOSE

A program for the Company to assist customers with water waste complaints and provide customers with information designed to improve water use efficiency (Modified Non-Per Capita Conservation Program BMP Category 3: Outreach Services 3.8: Water Waste Investigations and Information).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission specifically R14-2-403 and R14-2-410 and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall handle water waste complaints as calls are received.

2. Calls shall be taken by a customer service representative who has been trained to determine the type of water waste and to determine if it may be attributed to a leak or broken water line.

3. The Company shall follow up on every water waste complaint.

4. Upon request by the customer or when the Company determines it is warranted, a trained Field Technician shall be sent to investigate further and notify the responsible party of the waste and offer assistance and information to prevent waste in the future.

5. A letter of enforcement will be issued to customers with water running beyond the curb and/or off the customers property due to such things as, but not limited to, backwashing of pools, broken sprinkler heads, and over watering of lawns beyond the saturation point.

6. The same procedures outlined above in item #4 will be followed in the event of a second violation. Termination of service may result in the event of the third violation within a 12 month period. In the event of a third violation the customer's service may be terminated per Arizona Administrative Code R14-2-410C, R14-2-410D and R14-2-410E (applicable service reconnection fees shall apply).

7. The Company shall record each account and each instance noted for water waste, the action taken and any follow-up activities.

8. Subject to the provisions of this tariff, compliance with the water waste restriction will be a condition of service.

9. The Company shall provide to its customers a complete copy of this tariff and all attachments upon request for service. The customer shall abide by the water waste restriction.

10. If a customer believes he/she has been disconnected in error, the customer may contact the Commission's Consumer Services Section at 1-800-222-7000 to initiate an investigation.

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

Meter Repair and/or Replacement Tariff – BMP 4.2

PURPOSE

A program for the Company to systematically assess all in-service water meters (including Company production meters) in its water service area to identify under-registering meters and to repair or replace them (Modified Non-Per Capita Conservation Program Best Management Practice Category 4: Physical System Evaluation and Improvement 4.2 Meter Repair and/or Replacement Program).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. On a systematic basis, the Company will inspect 100 percent of its 1-inch and smaller in-service water meters at least once every ten years for one of the following reasons:
    a. A meter reading complaint is filed with the Company by a customer or Arizona Corporation Commission Staff,
    b. A meter has registered 1,000,000 gallons of usage, or
    c. A meter has been in service for ten years.

2. Meters larger than 1-inch shall be inspected for one of the following reasons:
    a. A meter reading complaint is filed with the Company by a customer or Arizona Corporation Commission Staff,
    b. A meter has been in service for five years.

3. The inspection will be accomplished by having the meter pulled and having a Company Technician physically inspect each meter and its fittings for leaks, registers which may have become loose or are not properly attached to the meter and could be under-registering or other broken parts which need repair. In addition, meters shall be randomly selected for flow testing to identify potentially under-registering meters.

4. The Company shall also replace or reprogram all water meters that measure consumption in 1000 gallon increments such that they shall measure consumption in 1 gallon increments.

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

Large Landscape Conservation Program Tariff – BMP 6.12

PURPOSE

A program for the Company to promote water conservation measures by providing non-residential customers with support and incentives to improve their landscape water use efficiency (Modified Non-Per Capita Conservation Program BMP Category 6: Rebates/Incentives 6.12: Large Landscape Conservation Program).

REQUIREMENTS:

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. As an incentive to reduce water use for its non-residential customers with landscape watering needs, the Company shall work with the customer or the customer's contracted landscape company to collect and analyze up to 3 years of historical information for their meters, analyze past consumption patterns and compare meter size with consumption rates that might suggest meter over-sizing or meter/valve/backflow malfunctions. This analysis shall be presented in both raw data and graphically with recommendations for potential meter resizing and identification of high consumption situations and potential malfunctions of landscape watering equipment.

2. No less frequently than every three years, or upon customer request, the Company shall provide its non-residential customers with landscape watering needs, a historical consumption analysis study as described above in item #1 for their respective landscape watering meters within the Company's service area.

3. Company service shall be offered using an inverted block rate structure.

4. Upon customer request, the Company shall provide:

5. On-site consultations on low water use landscaping and efficient watering practices.
6. A summary of water saving options and a month-by-month outdoor water budget.

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

Piloting a New Initiative, Project or Program Tariff – BMP 7.8

PURPOSE

A program for the Company to conduct a new initiative, project or program in its water service area using state of the art water conservation technologies and techniques (Modified Non-Per Capita Conservation Program BMP Category 7: Research/Innovation Program 7.8: Piloting a New Initiative, Project or Program).

REQUIREMENTS:

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission ("Commission") and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. Prior to implementing a new project or program the Company shall file a detailed explanation with the Commission describing how the program would work, the possible results and expected costs.

2. At minimum, one new project or program shall be proposed every three years for Commission approval.

3. If a project or program is approved by the Commission, the Company shall document that project or program by filing a report each March covering the activities of the prior calendar year. The report shall include at least the following information:

    a. Description of the process to implement,
    b. Costs of implementation, and
    c. Conservation results.

4. If necessary, the Commission may request additional information.

ALL-STATE LEGAL®
EXHIBIT
S-3
ADMITTED

R18-5-503. Storage Requirements

A. The minimum storage capacity for a CWS or a noncommunity water system that serves a residential population or a school shall be equal to the average daily demand during the peak month of the year. Storage capacity may be based on existing consumption and phased as the water system expands.

B. The minimum storage capacity for a multiple-well system for a CWS or a noncommunity water system that serves a residential population or a school may be reduced by the amount of the total daily production capacity minus the production from the largest producing well.

Historical Note

Section recodified from R18-4-503 at 10 A.A.R. 585, effective January 30, 2004 (Supp. 04-1).

ALL-STATE LEGAL®
EXHIBIT
S-4
ADMITTED

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359 (Rates)
Staff's System Analysis

Using Company's Rejoinder Numbers:

Using the Company's well capacity factor of **0.30** gallon per minute ("GPM") per connection and Staff's storage capacity factor of 358 gallons per day ("GPD") per connection, Staff determined that:

a. For informational purpose, the 2008 test year customer base was approximately 4,670 connections.

b. The **combined-operating** well capacity totaling **2,800** GPM (=Well No. 14 at **1,550** + Well No. 18 at **1,250**) could adequately serve approximately **9,333** connections (=**2,800 / 0.30**). Well No. 14 at 1,750 GPM alone could serve **5,833** connections, while Well No. 18 at **1,450** GPM alone could serve approximately **4,833** connections.

c. The **active** storage **volume** capacity totaling **1,374,063** gallons **(= 685,031 + 558,860 + 130,172)**, minus the fire flow requirement, could adequately serve up to approximately **2,497** connections **((=1,374,063 – 480,000)** / 358). If the second well (Well No. 18 at **1,450 GPM x 1,440 / 358 = 5,832)** is included for the storage capacity requirement, this system could adequately serve approximately **8,330** connections **(= 2,497 + 5,832)**.

d. Looking forward, Figure D-1 shows a growth projection to approximately 8,000 total connections by December 2013.

Based on this analysis, the test year well capacity of **2,800** GPM and **active** storage **volume** capacity of **1,374,063** gallons is adequate to serve the present customer base and growth within a five year period.

EXHIBIT
S-5

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
SANDRA D. KENNEDY
Commissioner
PAUL NEWMAN
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION OF SAHUARITA WATER COMPANY, L.L.C. ("SWC") FOR AN OPINION AND ORDER OF THE COMMISSION (i) DETERMINING THE FAIR VALUE OF THE UTILITY PROPERTY OF SWC FOR RATEMAKING PURPOSES, (ii) FIXING A JUST AND REASONABLE RATE OF RETURN THEREON, (iii) APPROVING RATES AND CHARGES DESIGNED TO PRODUCE REVENUES SUFFICIENT TO RECOVER SWC'S COST OF SERVICE AND AUTHORIZED RATE OF RETURN, AND (iv) PROVIDING THE RECOVERY OF CERTAIN FINANCING AND OPERATING EXPENSES THROUGH A SURCHARGE AND A PASS-THROUGH TARIFF, RESPECTIVELY	)	DOCKET NO. W-03718A-09-0359

DIRECT

TESTIMONY

OF

JUAN C. MANRIQUE

PUBLIC UTILITIES ANALYST I

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

APRIL 22, 2010

TABLE OF CONTENTS

Page

I. INTRODUCTION 1

Summary of Testimony and Recommendations 2
SWC's Proposed Overall Rate of Return 3

II. THE WEIGHTED AVERAGE COST OF CAPITAL 3

III. CAPITAL STRUCTURE 5

Background 5
SWC's Capital Structure 6
Staff's Capital Structure 6

IV. RETURN ON EQUITY 7

Background 7
Risk 10

V. ESTIMATING THE COST OF EQUITY 13

Introduction 13
Discounted Cash Flow Model Analysis 14
The Constant-Growth DCF 14
The Multi-Stage DCF 24
Capital Asset Pricing Model 25

VI. SUMMARY OF STAFF'S COST OF EQUITY ANALYSIS 30

VII. FINAL COST OF EQUITY ESTIMATES FOR SWC 32

VIII. RATE OF RETURN RECOMMENDATION 33

IX. STAFF RESPONSE TO APPLICANT'S COST OF CAPITAL WITNESS MR. THOMAS J. BOURASSA 33

Constant-Growth DCF 34
Firm-Specific Risk 40

X. CONCLUSION 43

SCHEDULES

Capital Structure and Weighted Cost of Capital JCM-1

Intentionally Left Blank JCM-2

Final Cost of Equity Estimates for Sample Water Utilities ..... JCM -3

Average Capital Structure of Sample Water Utilities ..... JCM -4

Growth in Earnings & Dividends of Sample Water Utilities ..... JCM -5

Sustainable Growth for Sample Water Utilities ..... JCM -6

Selected Financial Data of Sample Water Utilities ..... JCM -7

Calculation of Expected Infinite Annual Growth in Dividends ..... JCM -8

Multi-Stage DCF Estimates ..... JCM -9

EXECUTIVE SUMMARY
SAHUARITA WATER COMPANY, L.L.C.
DOCKET NO. W-03718A-09-0359

The Direct Testimony of Staff witness Juan C. Manrique addresses the following issues:

Capital Structure – Staff recommends that the Commission adopt a capital structure for Sahuarita Water Company, L.L.C. ("Applicant") for this proceeding consisting of 17.8 percent debt and 82.2 percent equity.

Cost of Equity – Staff recommends that the Commission adopt a 10.1 percent return on equity ("ROE") for the Applicant. Staff's estimated ROE for the Applicant is based on cost of equity estimates for the sample companies ranging from 9.9 percent for the discounted cash flow method ("DCF") to 10.2 percent for the capital asset pricing model ("CAPM").

Cost of Debt – Staff recommends that the Commission adopt the Company-proposed 4.2 percent cost of debt.

Overall Rate of Return – Staff recommends that the Commission adopt a 9.0 percent overall rate of return ("ROR").

Mr. Bourassa's Testimony – The Commission should reject the Company-proposed 12.0 percent ROE for the following reasons:

> Mr. Bourassa's DCF estimates rely heavily on analyst's forecasts and provide little weight to historical dividend per share growth rates.

I. INTRODUCTION

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

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

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

A. In my position as a Public Utilities Analyst, I perform studies to estimate the cost of capital component in rate filings to determine the overall revenue requirement and analyze requests for financing authorizations.

Q. Please describe your educational background and professional experience.

A. I graduated from Arizona State University and received a Bachelor of Science degree in Finance. My course of studies included courses in corporate and international finance, investments, accounting, statistics, and economics. I began employment as a Staff Public Utilities Analyst in October 2008. My professional experience includes two years as a Loan Officer with a homebuilder and as an Associate for an Investor Relations firm.

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

A. My testimony provides Staff's recommended capital structure, return on equity ("ROE") and overall rate of return ("ROR") for establishing the revenue requirements for Sahuarita Water Company, L.L.C.'s ("SWC" or "Applicant") pending rate application.

Q. Please provide a brief description of SWC.

A. SWC is a for-profit Arizona Limited Liability Corporation that is engaged in the business of providing public water (approximately 4,700 customers) utility service in and around the community of Sahuarita within Pima County, Arizona.

Summary of Testimony and Recommendations

Q. Briefly summarize how Staff's cost of capital testimony is organized.

A. Staff's cost of capital testimony is presented in ten sections. Section I is this introduction. Section II discusses the concept of weighted average cost of capital ("WACC"). Section III presents the concept of capital structure and presents Staff's recommended capital structure for SWC in this proceeding. Section IV discusses the concepts of ROE and risk. Section V presents the methods employed by Staff to estimate SWC's ROE. Section VI presents the findings of Staff's ROE analysis. Section VII presents Staff's final cost of equity estimates for SWC. Section VIII presents Staff's ROR recommendation. Section IX presents Staff's comments on the Direct Testimony of the Applicant's witness, Mr. Thomas J. Bourassa. Finally, Section X presents the conclusions.

Q. Have you prepared any exhibits to accompany your testimony?

A. Yes. I prepared nine schedules (JCM-1 to JCM-9) that support Staff's cost of capital analysis.

Q. What is Staff's recommended rate of return for SWC?

A. Staff recommends a 9.0 percent overall ROR, as shown in Schedule JCM-1. Staff's ROR recommendation is based on cost of equity estimates for SWC that range from 9.9 percent using the discounted cash flow method ("DCF") to 10.2 percent using the capital asset pricing model ("CAPM").

SWC's Proposed Overall Rate of Return

Q. Briefly summarize SWC's proposed capital structure, cost of debt, return on equity and overall rate of return for this proceeding.

A. Table 1 summarizes the Applicant's proposed capital structure, cost of debt, return on equity and overall rate of return in this proceeding:

Table 1

	Weight	Cost	Weighted Cost
Long-term Debt	17.2%	4.2%	0.7%
Common Equity	82.8%	12.0%	9.9%
Cost of Capital/ROR			**10.7%**

SWC is proposing an overall rate of return of 10.7 percent.

II. THE WEIGHTED AVERAGE COST OF CAPITAL

Q. Briefly explain the cost of capital concept.

A. The cost of capital is the opportunity cost of choosing one investment over others with equivalent risk. In other words, the cost of capital is the return that stakeholders expect for investing their financial resources in a determined business venture over another business venture.

Q. What is the overall cost of capital?

A. The cost of capital to a company issuing a variety of securities (i.e., stock and indebtedness) is an average of the cost rates on all issued securities adjusted to reflect the relative amounts for each security in the company's entire capital structure. Thus, the overall cost of capital is the WACC.

Q. How is the WACC calculated?

A. The WACC is calculated by adding the weighted expected returns of a firm's securities. The WACC formula is:

Equation 1.

$$WACC = \sum_{i=1}^{n} W_i * r_i$$

In this equation, W_i is the weight given to the ith security (the proportion of the ith security relative to the portfolio) and r_i is the expected return on the ith security.

Q. Can you provide an example demonstrating application of Equation 1?

A. Yes. For this example, assume that an entity has a capital structure composed of 60 percent debt and 40 percent equity. Also, assume that the embedded cost of debt is 6.0 percent and the expected return on equity, i.e. the cost of equity, is 10.5 percent. Calculation of the WACC is as follows:

WACC = (60% * 6.0%) + (40% * 10.5%)

WACC = 3.60% + 4.20%

WACC = 7.80%

The weighted average cost of capital in this example is 7.80 percent. The entity in this example would need to earn an overall rate of return of 7.80 percent to cover its cost of capital.

III. CAPITAL STRUCTURE

Background

Q. Please explain the capital structure concept.

A. The capital structure of a firm is the relative proportions of each type of security--short-term debt, long-term debt (including capital leases), preferred stock and common stock--that are used to finance the firm's assets.

Q. How is the capital structure expressed?

A. The capital structure of a company is expressed as the percentage of each component of the capital structure (capital leases, short-term debt, long-term debt, preferred stock and common stock) relative to the entire capital structure.

As an example, the capital structure for an entity that is financed by $20,000 of capital leases, $85,000 of long-term debt, $15,000 of preferred stock and $80,000 of common stock is shown in Table 2.

Table 2

Component			%
Capital Leases	$20,000	($20,000/$200,000)	10.0%
Long-Term Debt	$85,000	($85,000/$200,000)	42.5%
Preferred Stock	$15,000	($15,000/$200,000)	7.5%
Common Stock	$80,000	($80,000/$200,000)	40.0%
Total	$200,000		100%

The capital structure in this example is composed of 0.0 percent short-term debt, 10.0 percent capital leases, 42.5 percent long-term debt, 7.5 percent preferred stock and 40.0 percent common stock.

SWC's Capital Structure

Q. What capital structure does SWC propose?

A. The Applicant proposes a capital structure composed of 17.17 percent debt and 82.83 percent common equity.

Q. How does SWC's proposed capital structure compare to capital structures of the publicly-traded water utilities?

A. SWC's capital structure is composed of 17.17 percent debt and 82.83 percent equity. Schedule JCM-4 shows the capital structures of six publicly traded water companies ("sample water companies") as of September 2009. The average capital structure for the sample water utilities is comprised of approximately 51.0 percent debt and 49.0 percent equity.

Staff's Capital Structure

Q. What is Staff's recommended capital structure for SWC?

A. Staff recommends a capital structure composed of 17.8 percent debt and 82.2 percent equity.

Q. Why does Staff's recommended capital structure differ from the Company's proposed capital structure?

A. Staff used the most updated capital structure, as of February 23, 2010, provided by the Company in response to Staff Data Request 3.1.

IV. RETURN ON EQUITY

Background

Q. Please define the term "cost of equity capital."

A. The cost of equity is the rate of return that investors expect to earn on their investment in a business entity given its risk. In other words, the cost of equity to the entity is the investors' expected rate of return on other investments of similar risk. As investors have a wide selection of stocks to choose from, they will choose stocks with similar risks but higher returns. Therefore, the market determines the entity's cost of equity.

Q. Is there a correlation between interest rates and the cost of equity?

A. Yes. The cost of equity tends to move in the same direction as interest rates. This relationship is part of the CAPM formula. The CAPM is a market-based model employed by Staff for estimating the cost of equity. The CAPM is further discussed in Section V of this testimony.

Q. What has been the general trend of interest rates in recent years?

A. A chronological chart of interest rates is a good tool to show interest rate history and identify trends. Chart 1 graphs intermediate U.S. treasury rates from November 1999 to November 2009.

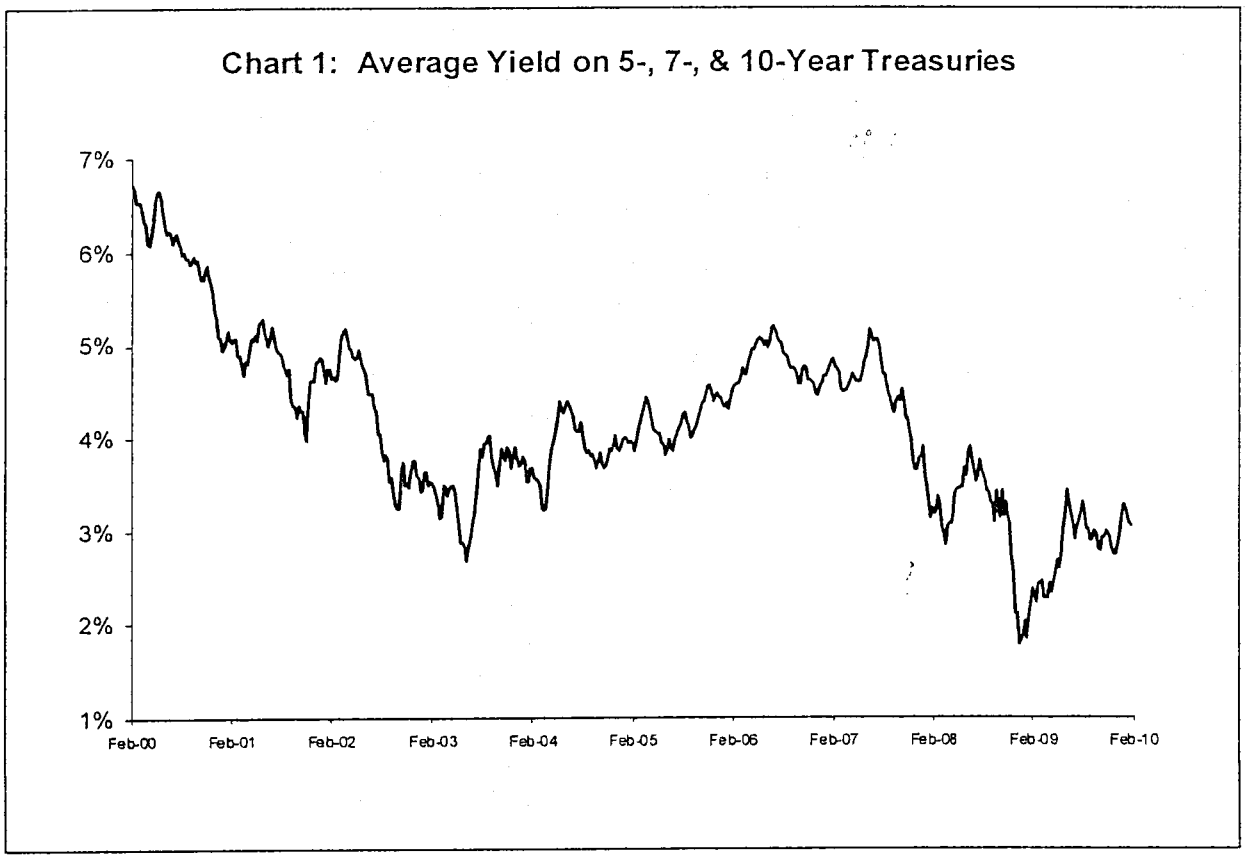
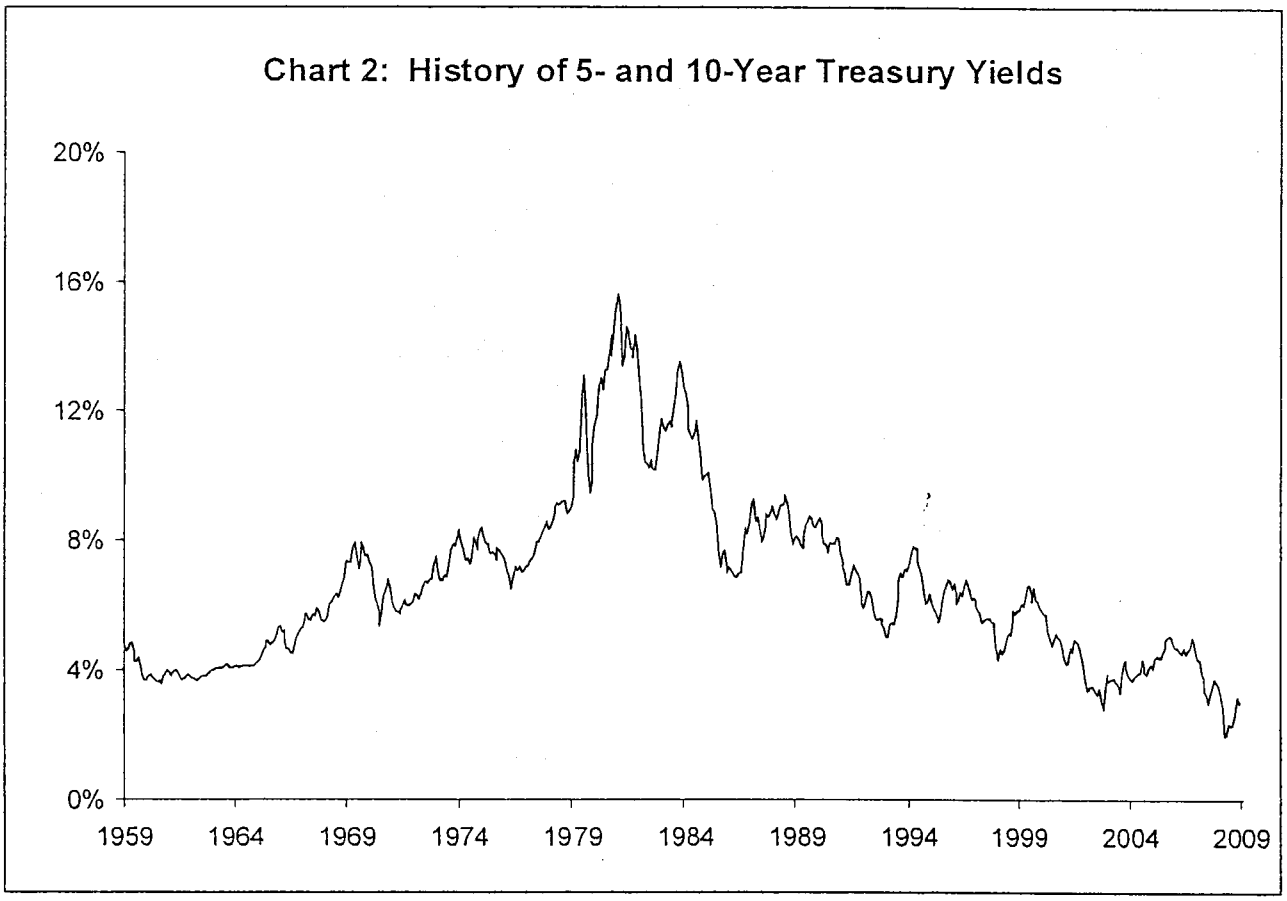


Chart 1 shows that intermediate interest rates trended downward from 2000 to mid-2003 then turned slightly upward until mid-2007, trended downward through early-2009 and have trended upward in the past year.

Q. What has been the general trend in interest rates longer term?

A. U.S. Treasury rates from 1959 to present are shown in Chart 2. The chart shows that interest rates trended upward through the mid-1980s and have trended downward over the last 25 years.



Q. Do these trends suggest anything in terms of cost of equity?

A. Yes. As previously discussed, interest rates and cost of equity tend to move in the same direction. The implication is that the cost of equity has declined in the past 25 years.

Q. Do actual returns represent the cost of equity?

A. No. The cost of equity represents investors' *expected* returns and not realized returns.

Q. Is there any information available that leads to an understanding of the relationship between the equity returns required for a regulated water utility and those required in the market as a whole?

A. Yes. A comparison of betas, a component of the CAPM discussed in Section V, for the water utility industry and the market provide insight into this relationship. The average beta (0.79)[1] for a water utility is lower than the theoretical average beta for all stocks (1.0). According to the CAPM formula, the cost of equity capital moves in the same direction as beta. Since the beta for the water utility industry is lower than the beta for the market, the implication is that the required return on equity for a regulated water utility is below the average required return on the market.

Risk

Q. Please define risk in relation to cost of capital.

A. Risk, as it relates to an investment, is the variability or uncertainty of the returns on a particular security. Investors are risk averse and require a greater potential return to invest in relatively greater risk opportunities, i.e., investors require compensation for taking on additional risk. Risk is generally separated into two components. Those components are market risk (systematic risk) and non-market risk (diversifiable risk or firm-specific risk).

Q. What is market risk?

A. Market risk or systematic risk is the risk of an investment that cannot be reduced through diversification. Market risk stems from factors that affect all securities such as recessions, war, inflation and high interest rates. Since these factors affect the entire market they cannot be eliminated through diversification. Market risk does not impact each security to

[1] See Schedule JCM-7

the same degree. The degree to which any security's returns is affected by the market can be measured using Beta. Beta reflects the business risk and the financial risk of a security.

Q. Please define business risk.

A. Business risk is the fluctuation of earnings inherent in a firm's operations and environment such as competition and adverse economic conditions that may impair its ability to provide returns on investment. Companies in the same or similar line of business tend to experience the same fluctuations in business cycles.

Q. Please define financial risk.

A. Financial risk is the fluctuation of earnings inherent in using debt financing by a firm that may impair its ability to provide adequate return. The more a company uses debt financing, the more the company becomes exposed to financial risk.

Q. Do business risk and financial risk affect the cost of equity?

A. Yes.

Q. Is a firm subject to any other risk?

A. Yes. Firms are also subject to unsystematic or firm-specific risk. Examples of unsystematic risk include losses caused by labor problems, nationalization of assets, loss of a big client or weather conditions. Investors can eliminate firm-specific risk by holding a diverse portfolio; thus, it is not of concern to diversified investors.

Q. How does SWC's financial risk compare to the sample water companies' financial risk from the perspective of an investor?

A. From an investor's perspective SWC's capital structure is less risky than the sample water companies. Schedule JCM-4 shows the capital structures of the six publicly-traded water companies ("sample water companies") as of September 2009, as well as SWC's actual capital structure. As of June 2009, the sample water utilities were capitalized with approximately 51.0 percent debt and 49.0 percent equity, while SWC's actual capital structure consists of approximately 17.8 percent debt and 82.2 percent equity. Thus, SWC's shareholders bear less financial risk than the shareholders of the sample companies.

Q. Is firm-specific risk measured by beta?

A. No. Firm-specific risk is not measured by beta.

Q. Is the cost of equity affected by firm-specific risk?

A. No. Since firm-specific risk can be eliminated through diversification, it does not affect the cost of equity.

Q. Can investors expect additional returns for firm-specific risk?

A. No. Investors who hold diversified portfolios can eliminate firm-specific risk, and consequently, do not require any additional return. Since investors who choose to be less than fully diversified must compete in the market with fully diversified investors, the former cannot expect to be compensated for unique risk.

V. ESTIMATING THE COST OF EQUITY

Introduction

Q. Did Staff directly estimate the cost of equity for SWC?

A. No. Since SWC is not a publicly-traded company, Staff is unable to directly estimate the Company's cost of equity due to the unavailability of financial information. Instead, Staff uses an average of a representative sample group to reduce the sample error resulting from random fluctuations in the market at the time the information is gathered.

Q. What companies did Staff select as proxies or comparables for SWC?

A. Staff's sample consists of the following six publicly-traded water utilities: American States Water, California Water, Connecticut Water Services, Middlesex Water, Aqua America and SJW Corp. Staff chose these companies because they are publicly traded and receive the majority of their earnings from regulated operations.

Q. What models did Staff implement to estimate SWC's cost of equity?

A. Staff used two market-based models to estimate the cost of equity for SWC: the DCF and the CAPM.

Q. Please explain why Staff chose the DCF and CAPM models.

A. Staff chose to use the DCF and CAPM models because they are widely recognized market-based models and have been used extensively to estimate the cost of equity. An explanation of the DCF and CAPM models follows.

Discounted Cash Flow Model Analysis

Q. Please provide a brief summary of the theory upon which the DCF method of estimating the cost of equity is based.

A. The DCF method of stock valuation is based on the theory that the value of an investment is equal to the sum of the future cash flows generated from the aforementioned investment discounted to the present time. This method uses expected dividends, market price and dividend growth rate to calculate the cost of capital. Professor Myron Gordon pioneered the DCF method in the 1960s. The DCF method has become widely used to estimate the cost of equity for public utilities due to its theoretical merit and its simplicity. Staff used the financial information for the relevant six sample companies in the DCF model and averaged the results to determine an estimated cost of equity for the sample companies.

Q. Does Staff use more than one version of the DCF Model?

A. Yes. Staff uses two versions of the DCF model: the constant-growth DCF Model and the multi-stage or non-constant growth DCF. The constant-growth DCF Model assumes that an entity's dividends will grow indefinitely at the same rate. The multi-stage growth DCF model assumes the dividend growth rate will change at some point in the future.

<u>The Constant-Growth DCF</u>

Q. What is the mathematical formula used in Staff's constant-growth DCF analysis?

A. The constant-growth DCF formula used in Staff's analysis is:

Equation 2:

$$K = \frac{D_1}{P_0} + g$$

where: K = the cost of equity
D_1 = the expected annual dividend
P_0 = the current stock price
g = the expected infinite annual growth rate of dividends

Equation 2 assumes that the entity has a constant earnings retention rate and that its earnings are expected to grow at a constant rate. According to Equation 2, a stock with a current market price of $10 per share, an expected annual dividend of $0.45 per share and an expected dividend growth rate of 3.0 percent per year has a cost of equity to the entity of 7.5 percent reflected by the sum of the dividend yield ($0.45/ $10 = 4.5 percent) and the 3.0 percent annual dividend growth rate.

Q. How did Staff calculate the dividend yield component (D_1/P_0) of the constant-growth DCF formula?

A. Staff calculated the yield component of the DCF formula by dividing the expected annual dividend[2] (D_1) by the spot stock price (P_0) after the close of the market February 3, 2010, as reported by the website *MSN Money*.

Q. Why did Staff use the February 3, 2010, spot price rather than a historical average stock price to calculate the dividend yield component of the DCF formula?

A. Current, rather than historic, market stock price is used in order to be consistent with finance theory, i.e., the efficient market hypothesis. The efficient market hypothesis

[2] Value Line Summary & Index. 2-12-10

asserts that the current stock price reflects all available information on a stock including investors' expectations of future returns. Use of a historical average of stock prices illogically discounts the most recent information in favor of less recent information. The latter is stale and is representative of underlying conditions that may have changed.

Q. How did Staff estimate the dividend growth (g) component of the constant-growth DCF model represented by Equation 2?

A. The dividend growth component used by Staff is determined by the average of six different estimation methods, as shown in Schedule JCM-8. Staff calculated historical and projected growth estimates on dividend-per-share ("DPS"),[3] earnings-per-share ("EPS")[4] and sustainable growth bases.

Q. Why did Staff examine EPS growth to estimate the dividend growth component of the constant-growth DCF model?

A. Historic and projected EPS growth are used because dividends are related to earnings. Dividend distributions may exceed earnings in the short run but cannot continue indefinitely. In the long term, dividend distributions are dependent on earnings.

Q. How did Staff estimate historical DPS growth?

A. Staff estimated historical DPS growth by calculating the average rate of growth in DPS of the sample water companies from 1998 to 2008. The results of that calculation are shown in Schedule JCM-5. Staff calculated an average historical DPS growth rate of 3.1 percent for the sample water utilities for the aforementioned period.

[3] Derived from information provided by *Value Line*
[4] Derived from information provided by *Value Line*

Q. How did Staff estimate the projected DPS growth?

A. Staff calculated an average of the projected DPS growth rates for the sample water utilities from *Value Line*. The average projected DPS growth rate is 4.1 percent, as shown in Schedule JCM-5.

Q. How did Staff calculate the historical EPS growth rate?

A. Staff estimated historical EPS growth by calculating the average rate of growth in EPS of the sample water companies from 1998 to 2008. Staff calculated an average historical EPS growth rate of 3.3 percent for the sample water utilities for the aforementioned period, as shown in Schedule JCM-5.

Q. How did Staff estimate the projected EPS growth?

A. Staff calculated an average of the projected EPS growth rates for the sample water utilities from *Value Line*. The average projected EPS growth rate is 9.7 percent, as shown in Schedule JCM-5.

Q. How does Staff calculate its historical and projected sustainable growth rates?

A. Historical and projected sustainable growth rates are calculated by adding their respective retention growth rate terms (br) to their respective stock financing growth rate terms (vs) as shown in Schedule JCM-6.

Q. What is retention growth?

A. Retention growth is the growth in dividends due to the retention of earnings. The retention growth concept is based on the theory that dividend growth cannot be achieved unless the company retains and reinvests some of its earnings. The retention growth is used in Staff's calculation of sustainable growth shown in Schedule JCM-6.

Q. What is the formula for the retention growth rate?

A. The retention growth rate is the product of the retention ratio and the book/accounting return on equity. The retention growth rate formula is:

Equation 3 :

$$\text{Retention Growth Rate} = br$$

where : b = the retention ratio (1 – dividend payout ratio)
r = the accounting/book return on common equity

Q. How did Staff calculate the average historical retention growth rate (br) for the sample water utilities?

A. Staff calculated the historical retention rates by averaging the retention rates for the sample water companies from 1999 to 2008. The historical average retention (br) growth for the sample water utilities is 3.1 percent, as shown in Schedule JCM-6.

Q. How did Staff determine projected retention growth rate (br) for the sample water utilities?

A. Staff used the retention growth projections for the sample water utilities for the period 2012 to 2014 from *Value Line*. The projected average retention growth rate for the sample water utilities is 6.1 percent, as shown in Schedule JCM-6.

Q. When can retention growth provide a reasonable estimate of future dividend growth?

A. The retention growth rate is a reasonable estimate of future dividend growth when the retention ratio is reasonably constant and the entity's market price to book value ("market-to-book ratio") is expected to be 1.0. The average retention ratio has been reasonably

constant in recent years. However, the market-to-book ratio for the sample water utilities is 1.7, notably higher than 1.0, as shown in Schedule JCM-7.

Q. Is there any financial implication of a market-to-book ratio greater than 1.0?

A. Yes. A market-to-book ratio greater than 1.0 implies that investors expect an entity to earn an accounting/book return on its equity that exceeds its cost of equity. The relationship between required returns and expected cash flows is readily observed in the fixed securities market. For example, assume an entity contemplating issuance of bonds with a face value of $10 million at either 6 percent or 8 percent, and thus, paying annual interest of $600,000 or $800,000, respectively. Regardless of investors' required return on similar bonds, investors will be willing to pay more for the bonds if issued at 8 percent than if the bonds are issued at 6 percent. For example, if the current interest rate required by investors is 6 percent, then they would bid $10 million for the 6 percent bonds and more than $10 million for the 8 percent bonds. Similarly, if equity investors require a 9 percent return and expect an entity to earn accounting/book returns of 13 percent, the market will bid up the price of the entity's stock to provide the required return of 9 percent.

Q. How has Staff generally recognized a market-to-book ratio exceeding 1.0 in its cost of equity analyses in recent years?

A. Staff has assumed that investors expect the market-to-book ratio to remain greater than 1.0. Given that assumption, Staff has added a stock financing growth rate (vs) term to the retention ratio (br) term to calculate its historical and projected sustainable growth rates.

Q. Do the historical and projected sustainable growth rates Staff uses to develop its DCF cost of equity in this case continue to include a stock financing growth rate term?

A. Yes.

Q. What is stock financing growth?

A. Stock financing growth is the growth in an entity's dividends due to the sale of stock by that entity. Stock financing growth is a concept derived by Myron Gordon and discussed in his book *The Cost of Capital to a Public Utility*.[5] Stock financing growth is the product of the fraction of the funds raised from the sale of stock that accrues to existing shareholders (v) and the fraction resulting from dividing the funds raised from the sale of stock by the existing common equity (s).

Q. What is the mathematical formula for the stock financing growth rate?

A. The mathematical formula for stock financing growth is:

Equation 4 :

$$\text{Stock Financing Growth} = vs$$

where : v = Fraction of the funds raised from the sale of stock that accrues to existing shareholders

s = Funds raised from the sale of stock as a fraction of the existing common equity

Q. How is the variable v presented above calculated?

A. Variable v is calculated as follows:

[5] Gordon, Myron J. *The Cost of Capital to a Public Utility*. MSU Public Utilities Studies, Michigan, 1974. pp 31-35.

Equation 5 :

$$v = 1 - \left(\frac{book\ value}{market\ value} \right)$$

For example, assume that a share of stock has a $30 book value and is selling for $45. Then, to find the value of *v*, the formula is applied:

$$v = 1 - \left(\frac{30}{45} \right)$$

In this example, *v* is equal to 0.33.

Q. How is the variable *s* presented above calculated?

A. Variable *s* is calculated as follows:

Equation 6:

$$s = \frac{\text{Funds raised from the issuance of stock}}{\text{Total existing common equity before the issuance}}$$

For example, assume that an entity has $150 in existing equity, and it sells $30 of stock. Then, to find the value of *s*, the formula is applied:

$$s = \left(\frac{30}{150} \right)$$

In this example, *s* is equal to 20.0 percent.

Q. What is the *vs* term when the market-to-book ratio is equal to 1.0?

A. A market-to-book ratio equal to 1.0 reflects that investors expect an entity to earn a book/accounting return on their equity investment equal to the cost of equity. When the market-to-book ratio is equal to 1.0, none of the funds raised from the sale of stock by the

entity accrues to the benefit of existing shareholders, i.e., the term *v* is equal to zero (0.0). Consequently, the *vs* term is also equal to zero (0.0). When stock financing growth is zero, dividend growth depends solely on the *br* term.

Q. What is the effect of the *vs* term when the market-to-book ratio is greater than 1.0?

A. A market-to-book ratio greater than 1.0 reflects that investors expect an entity to earn a book/accounting return on their equity investment greater than the cost of equity. Equation 5 shows that when the market-to-book ratio is greater than 1.0 the *v* term is also greater than zero. The excess by which new shares are issued and sold over book value per share of outstanding stock is a contribution that accrues to existing stockholders in the form of a higher book value. The resulting higher book value leads to higher expected earnings and dividends. Continued growth from the *vs* term is dependent upon the continued issuance and sale of additional shares at a price that exceeds book value per share.

Q. What *vs* estimate did Staff calculate from its analysis of the sample water utilities?

A. Staff estimated an average stock financing growth of 2.1 percent for the sample water utilities, as shown in Schedule JCM-6.

Q. What would occur if an entity had a market-to-book ratio greater than 1.0 as a result of investors expecting earnings to exceed the cost of equity capital and the entity subsequently experienced newly-authorized rates equal to its cost of equity capital?

A. Market pressure on the entity's stock price to reflect the change in future expected cash flows would cause the market-to-book ratio to move toward 1.0.

Q. Is inclusion of the vs term necessary if the average market-to-book ratio of the sample water utilities falls to 1.0 due to authorized ROEs equaling the cost of equity?

A. No. As discussed above, when the market-to-book ratio is equal to 1.0, none of the funds raised from the sale of stock by the entity accrues to the benefit of existing shareholders because the *v* term equals to zero, and consequently, the *vs* term also equals zero. When the market-to-book ratio equals 1.0, dividend growth depends solely on the *br* term. Staff's inclusion of the *vs* term assumes that the market-to-book ratio continues to exceed 1.0 and that the water utilities will continue to issue and sell stock at prices above book value with the effect of benefitting existing shareholders.

Q. What are Staff's historical and projected sustainable growth rates?

A. Staff's estimated historical sustainable growth rate is 5.2 percent based on an analysis of earnings retention for the sample water companies. Staff's projected sustainable growth rate is 9.1 percent based on retention growth projected by *Value Line*. Schedule JCM-6 presents Staff's estimates of the sustainable growth rate.

Q. What is Staff's expected infinite annual growth rate in dividends?

A. Staff's expected infinite annual growth rate in dividends is 5.8 percent which is the average of historical and projected DPS, EPS, and sustainable growth estimates. Staff's calculation of the expected infinite annual growth rate in dividends is shown in Schedule JCM-8.

Q. What is Staff's constant-growth DCF estimate for the sample utilities?

A. Staff's constant-growth DCF estimate is 9.5 percent, as shown in Schedule JCM-3.

The Multi-Stage DCF

Q. Why did Staff implement the multi-stage DCF model to estimate SWC's cost of equity?

A. Staff generally uses the multi-stage DCF model to consider the assumption that dividends may not grow at a constant rate. The multi-stage DCF uses two stages of growth. The first stage is four years followed by the second constant growth stage.

Q. What is the mathematical formula for the multi-stage DCF?

A. The multi-stage DCF formula is shown in the following equation;

Equation 7 :

$$P_0 = \sum_{t=1}^{n} \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K-g_n}\left[\frac{1}{(1+K)}\right]^n$$

Where : P_0 = current stock price
D_t = dividends expected during stage 1
K = cost of equity
n = years of non – constant growth
D_n = dividend expected in year n
g_n = constant rate of growth expected after year n

Q. What steps did Staff take to implement its multi-stage DCF cost of equity model?

A. First, Staff projected future dividends for each of the sample water utilities using near-term and long-term growth rates. Second, Staff calculated the rate (cost of equity) which equates the present value of the forecasted dividends to the current stock price for each of the sample water utilities. Lastly, Staff calculated an average of the individual sample company cost of equity estimates.

Q. How did Staff calculate near-term (stage-1) growth?

A. The stage-1 growth rate is based on *Value Lines's* projected dividends for the next twelve months, when available, and on the average dividend growth rate (5.8 percent) calculated in Staff's constant DCF analysis for the remainder of the stage.

Q. How did Staff estimate long-term (stage-2) growth?

A. Staff calculated the stage-2 growth rate using the arithmetic mean rate of growth in GDP from 1929 to 2008.[6] Using the GDP growth rate assumes that the water utility industry is expected to grow at the same rate as the overall economy.

Q. What is the historical GDP growth rate that Staff used to estimate stage-2 growth?

A. Staff used 6.6 percent to estimate the stage-2 growth rate.

Q. What is Staff's multi-stage DCF estimate for the sample utilities?

A. Staff's multi-stage DCF estimate is 10.2 percent, as shown in Schedule JCM-3.

Q. What is Staff's overall DCF estimate for the sample utilities?

A. Staff's overall DCF estimate is 9.9 percent. Staff calculated the overall DCF estimate by averaging the constant growth DCF (9.5%) and multi-stage DCF (10.2%) estimates, as shown in Schedule JCM-3.

Capital Asset Pricing Model

Q. Please describe the CAPM.

A. The CAPM is used to determine the prices of securities in a competitive market. The CAPM model describes the relationship between a security's investment risk and its

[6] www.bea.doc.gov

market rate of return. Under the CAPM an investor requires the expected return of a security to equal the rate on a risk-free security plus a risk premium. If the investor's expected return does not meet or beat the required return, the investment is not economically justified. The model also assumes that investors will sufficiently diversify their investments to eliminate any non-systematic or unique risk.[7] In 1990, Professors Harry Markowitz, William Sharpe, and Merton Miller earned the Nobel Prize in Economic Sciences for their contribution to the development of the CAPM.

Q. Did Staff use the same sample water utilities in its CAPM and DCF cost of equity estimation analyses?

A. Yes. Staff's CAPM cost of equity estimation analysis uses the same sample water companies as its DCF cost of equity estimation analysis.

Q. What is the mathematical formula for the CAPM?

A. The mathematical formula for the CAPM is:

Equation 8:

$$K = R_f + \beta (R_m - R_f)$$

where:

R_f	=	risk free rate
R_m	=	return on market
β	=	beta
$R_m - R_f$	=	market risk premium
K	=	expected return

[7] The CAPM makes the following assumptions: 1) single holding period; 2) perfect and competitive securities market; 3) no transaction costs; 4) no restrictions on short selling or borrowing; 5) the existence of a risk-free rate; and 6) homogeneous expectations.

The equation shows that the expected return (K) on a risky asset is equal to the risk-free interest rate (R_f) plus the product of the market risk premium ("Rp") ($R_m - R_f$) multiplied by beta (β) where beta represents the riskiness of the investment relative to the market.

Q. What is the risk free rate?

A. The risk free rate is the rate of return of an investment with zero risk.

Q. What does Staff use as surrogates to represent estimations of the risk-free rates of interest in its historical and current market risk premium CAPM methods?

A. Staff uses separate parameters as surrogates for the estimations of the risk-free rates of interest for the historical market risk premium CAPM cost of equity estimation and the current market risk premium CAPM cost of equity estimation. Staff uses the average of three (five-, seven-, and ten-year) intermediate-term U.S. Treasury securities' spot rates in its historical market risk premium CAPM cost of equity estimation, and the 30-year U.S. Treasury bond spot rate in its current market risk premium CAPM cost of equity estimation. U.S. Treasuries are largely verifiable and readily available.

Q. What does beta measure?

A. Beta measures the volatility, or systematic risk, of a security relative to the market. Since systematic risk cannot be diversified away, it is the only risk that is relevant when estimating a security's required return. Using a baseline market beta of 1.0, a security with a beta less than 1.0 will be less volatile than the market. A security with a beta greater than 1.0 will be more volatile than the market.

Q. How did Staff estimate SWC's beta?

A. Staff used the average of the *Value Line* betas for the sample water utilities as a proxy for SWC's beta. Schedule JCM-7 shows the *Value Line* betas for each of the sample water utilities. The 0.79 average beta for the sample water utilities is Staff's estimated beta for SWC. A security with a 0.79 beta has less volatility than the market.

Q. Please describe expected market risk premium ($R_m - R_f$)?

A. The expected market risk premium is the expected return on the market above the risk free rate. Simplified, it is the return an investor expects as compensation for market risk.

Q. What did Staff use for the market risk premium?

A. Staff uses separate calculations for the market risk premium in its historical and current market risk premium CAPM methods.

Q. How did Staff calculate an estimate for the market risk premium in its historical market risk premium CAPM method?

A. Staff uses the intermediate-term government bond income returns published in the Ibbotson Associates' *Stocks, Bonds, Bills, and Inflation 2008 Yearbook* to calculate the historical market risk premium. Ibbotson Associates calculates the historical risk premium by averaging the historical arithmetic differences between the S&P 500 and the intermediate-term government bond income returns for the period 1926-2008. Staff's historical market risk premium estimate is 6.9 percent, as shown in Schedule JCM-3.

Q. How did Staff calculate an estimate for the market risk premium in its current market risk premium CAPM method?

A. Staff solves equation 8 above to arrive at a market risk premium using a DCF derived expected return (K) of 13.68 (2.1 + 11.58[8]) percent using the expected dividend yield (2.1 percent over the next twelve months) and the annual per share growth rate (11.58 percent) that *Value Line* projects for all dividend-paying stocks under its review[9] along with the current long-term risk-free rate (30-year Treasury note at 4.62 percent) and the market's average beta of 1.0. Staff calculated the current market risk premium as 9.06[10] as shown in Schedule JCM-3.

Q. What is the result of Staff's historical market risk premium CAPM and current market risk premium CAPM cost of equity estimations for the sample utilities?

A. Staff's cost of equity estimates are 8.6 percent using the historical market risk premium CAPM and 11.8 using the current market risk premium CAPM.

Q. What is Staff's overall CAPM estimate for the sample utilities?

A. Staff's overall CAPM cost of equity estimate is 10.2 percent which is the average of the historical market risk premium CAPM (8.6 percent) and the current market risk premium CAPM (11.8 percent) estimates, as shown in Schedule JCM-3.

---

[8] The three to five year price appreciation is 55%. $1.55^{0.25} - 1 = 11.58\%$
[9] February 12, 2010 issue date.
[10] 13.68% = 4.62% + (1) (9.06%)

VI. SUMMARY OF STAFF'S COST OF EQUITY ANALYSIS

Q. What is the result of Staff's constant-growth DCF analysis to estimate of the cost of equity to the sample water utilities?

A. Schedule JCM-3 shows the result of Staff's constant-growth DCF analysis. The result of Staff's constant-growth DCF analysis is as follows:

k = 3.7% + 5.8%

k = **9.5%**

Staff's constant-growth DCF estimate of the cost of equity to the sample water utilities is 9.5 percent.

Q. What is the result of Staff's multi-stage DCF analysis to estimate of the cost of equity for the sample utilities?

A. Schedule JCM-9 shows the result of Staff's multi-stage DCF analysis. The result of Staff's multi-stage DCF analysis is:

Company	**Equity Cost Estimate (k)**
American States Water	9.8%
California Water	9.9%
Aqua America	10.0%
Connecticut Water	10.8%
Middlesex Water	10.9%
SJW Corp	9.7%
Average	**10.2%**

Staff's multi-stage DCF estimate of the cost of equity for the sample water utilities is 10.2 percent.

Q. What is Staff's overall DCF estimate of the cost of equity for the sample utilities?

A. Staff's overall DCF estimate of the cost of equity for the sample utilities is 9.9 percent. Staff calculated an overall DCF cost of equity estimate by averaging Staff's constant growth DCF (9.5 percent) and Staff's multi-stage DCF (10.2 percent) estimates, as shown in Schedule JCM-3.

Q. What is the result of Staff's historical market risk premium CAPM analysis to estimate of the cost of equity for the sample utilities?

A. Schedule JCM-3 shows the result of Staff's CAPM analysis using the historical risk premium estimate. The result is as follows:

$$k = 3.1\% + 0.79 * 6.9\%$$

$$k = 8.6\%$$

Staff's CAPM estimate (using the historical market risk premium) of the cost of equity to the sample water utilities is 8.6 percent.

Q. What is the result of Staff's current market risk premium CAPM analysis to estimate the cost of equity for the sample utilities?

A. Schedule JCM-3 shows the result of Staff's CAPM analysis using the current market risk premium estimate. The result is:

$$k = 4.6\% + 0.79 * 9.1\%$$

$$k = 11.8\%$$

Staff's CAPM estimate (using the current market risk premium) of the cost of equity to the sample water utilities is 11.8 percent.

Q. What is Staff's overall CAPM estimate of the cost of equity for the sample utilities?

A. Staff's overall CAPM estimate for the sample utilities is 10.2 percent. Staff's overall CAPM estimate is the average of the historical market risk premium CAPM (8.6 percent) and the current market risk premium CAPM (11.8 percent) estimates, as shown in Schedule JCM-3.

Q. Please summarize the results of Staff's cost of equity analysis for the sample utilities.

A. The following table shows the results of Staff's cost of equity analysis:

Table 2

Method	Estimate
Average DCF Estimate	9.9%
Average CAPM Estimate	10.2%
Overall Average	**10.1%**

Staff's average estimate of the cost of equity to the sample water utilities is 10.1 percent.

VII. FINAL COST OF EQUITY ESTIMATES FOR SWC

Q. Please compare SWC's capital structure to that of the six sample water companies.

A. The average capital structure for the sample water utilities is composed of 49.0 percent equity and 51.0 percent debt, as shown in Schedule JCM-4. SWC's capital structure is composed of 82.2 percent equity and 17.8 percent debt. In this case, since SWC's capital structure is less leveraged than that of the average sample water utilities' capital structure, its stockholders bear less financial risk than the sample water utilities. Accordingly, SWC's cost of equity is lower than that of the sample water utilities.

Q. What is Staff's ROE estimate for SWC?

A. Staff determined an ROE estimate of 10.1 percent for the Applicant based on cost of equity estimates for the sample companies ranging from 9.9 percent for the DCF to 10.2 percent for the CAPM.

Q. Why does Staff not use a financial risk adjustment to calculate the effect on the cost of equity capital of the different financial risks posed by SWC versus the sample companies?

A. In this case, Staff does not use a financial risk adjustment because SWC is not a publicly-traded company, and thus, it does not have access to the capital markets.

VIII. RATE OF RETURN RECOMMENDATION

Q. What overall rate of return did Staff determine for SWC?

A. Staff determined a 9.0 percent ROR for the Applicant as shown in Schedule JCM-1 and the following table:

Table 3

	Weight	Cost	Weighted Cost
Long-term Debt	17.8%	4.2%	0.7%
Common Equity	82.2%	10.1%	8.3%
Overall ROR			**9.0%**

IX. STAFF RESPONSE TO APPLICANT'S COST OF CAPITAL WITNESS MR. THOMAS J. BOURASSA

Q. Please summarize Mr. Bourassa's analyses and recommendations.

A. Mr. Bourassa recommends a 12.0 percent ROE based on analyses for two constant growth DCF models (Past and Future Growth and Future Only Growth), as well as historical and

current market risk premium CAPM for the same sample of water companies selected by Staff. Mr. Bourassa also asserts that SWC faces additional risks not captured by the market models, such as regulatory and financial risk, and he concludes that a 12.0 percent ROE presents a reasonable balance resulting from his analyses. Mr. Bourassa proposes 10.66 percent for the overall ROR with a capital structure consisting of 82.83 percent equity and 17.17 percent debt.

Constant-Growth DCF

Q. Does Mr. Bourassa give equal weight to historical data and analysts' projections to estimate the growth component of his DCF cost of equity estimate?

A. No. Mr. Bourassa's DCF cost of equity estimate is based on the midpoint of his (1) Past and Future Growth estimate and (2) Future Growth estimate. Half of the Past and Future Growth estimate relies on analysts' projections of earnings growth and the entire Future Growth estimate relies on analysts' projections of earnings growth. Thus, choosing the midpoint of the two methods provides analysts' projections with 75 percent of the weight compared to 25 percent for historical data. In addition, Mr. Bourassa's Past and Future Growth estimate provides equal weight to stock price, book value per share, earnings per share and dividends per share. Thus, only one-eighth (12.5 percent) of his method of estimating the dividend growth relies on the growth in dividends per share.

Q. Does Staff have any comments on Mr. Bourassa's heavy reliance on analysts' forecasts to estimate DPS growth in his constant growth DCF estimates?

A. Yes. Generally, analysts' forecasts are known to be overly optimistic. Heavy use of analysts' forecasts to calculate the growth in dividends (g), will cause inflated growth, and consequently, inflated cost of equity estimates unless investors give the same strong weight to analysts' forecasts. Also, heavy reliance on analysts' forecasts of earnings

growth to forecast DPS is inappropriate because it assumes that investors discount other relevant information such as past dividend and earnings growth.

Q. Does Staff have any evidence to support its assertion that heavy reliance on analysts' forecasts of earnings growth in the DCF model would result in inflated cost of equity estimates?

A. Yes. Experts in the financial community have commented on the optimism in analysts' forecasts of future earnings.[11] A study cited by David Dreman in his book *Contrarian Investment Strategies: The Next Generation* found that *Value Line* analysts were optimistic in their forecasts by 9 percent annually, on average for the 1987 – 1989 period. Another study conducted by David Dreman found that between 1982 and 1997, analysts overestimated the growth of earnings of companies in the S&P 500 by 188 percent.

Also, Burton Malkiel of Princeton University studied the one-year and five-year earnings forecasts made by some of the most respected names in the investment business. His results showed that the five-year estimates of professional analysts, when compared with actual earnings growth rates, were much worse than the predictions from several naïve forecasting models, such as the long-run rate of growth of national income. In the following excerpt from Professor Malkiel's book A Random Walk Down Wall Street, he discusses the results of his study:

> *When confronted with the poor record of their five-year growth estimates,* ***the security analysts honestly, if sheepishly, admitted that five years ahead is really too far in advance to make reliable projections.*** *They protested that although long-term projections are admittedly important, they really ought to be judged on their ability to project earnings changes*

[11] See Seigel, Jeremy J. Stocks for the Long Run. 2002. McGraw-Hill. New York. p. 100. Dreman, David. Contrarian Investment Strategies: The Next Generation. 1998. Simon & Schuster. New York. pp. 97-98. Malkiel, Burton G. A Random Walk Down Wall Street. 2003. W.W. Norton & Co. New York. p. 175.
Testimony of Professors Myron J. Gordon and Lawrence I. Gould, consultant to the Trial Staff (Common Carrier Bureau), FCC Docket 79-63, p. 95.

> *one year ahead. Believe it or not, it turned out that their one-year forecasts were even worse than their five-year projections.*
>
> *The analysts fought back gamely. They complained that it was unfair to judge their performance on a wide cross section of industries, because earnings for high-tech firms and various "cyclical" companies are notoriously hard to forecast.* ***"Try us on utilities," one analyst confidently asserted. At the time they were considered among the most stable group of companies because of government regulation. So we tried it and they didn't like it. Even the forecasts for the stable utilities were far off the mark.***[12] (Emphasis added)

Q. Are investors aware of the problems related to analysts' forecasts?

A. Yes. In addition to books, there are numerous published articles appearing in *The Wall Street Journal* and other financial publications that cast doubt as to how accurate research analysts are in their forecasts.[13] Investors, being keenly aware of these inherent biases in forecasts, will use other methods to assess future growth.

---

[12] Malkiel, Burton G. A Random Walk Down Wall Street. 2003. W.W. Norton & Co. New York. p. 175

[13] See Smith, Randall & Craig, Suzanne. "Big Firms Had Research Ploy: Quiet Payments Among Rivals." *The Wall Street Journal.* April 30, 2003. Brown, Ken. "Analysts: Still Coming Up Rosy." *The Wall Street Journal.* January 27, 2003. p. C1. Karmin, Craig. "Profit Forecasts Become Anybody's Guess." *The Wall Street Journal.* January 21, 2003. p. C1. Gasparino, Charles. "Merrill Lynch Investigation Widens." *The Wall Street Journal.* April 11, 2002. p. C4. Elstein, Aaron. "Earnings Estimates Are All Over the Map." *The Wall Street Journal.* August 2, 2001. p. C1. Dreman, David. "Don't Count on those Earnings Forecasts." *Forbes.* January 26, 1998. p. 110.

Q. Does Staff have any comments on the study cited by Mr. Bourassa, conducted by David A. Gordon, Myron J. Gordon and Lawrence I. Gould[14] that he asserts supports heavy use of analysts' forecasts in the DCF model?

A. Yes. The article cited by Mr. Bourassa does not conclude that investors ignore or heavily discount past growth when pricing stocks. Instead, the article describes more generally that methods exclusively using analysts' forecasts are "popular or attractive models", but the article does not support the conclusion that these forecasts should be used alone or as the primary estimates.

Q. Does Professor Gordon recommend relying exclusively on analysts' forecasts as the measure of growth in the DCF model?

A. No. Subsequent to the study cited by Mr. Bourassa,[15] Professor Gordon provided the keynote address at the 30th Financial Forum of the Society of Utility and Regulatory Financial Analysts, in which he stated:

> *I understand that companies coming before regulatory agencies liked and advocated the high growth rates in security analyst forecasts for arriving at their cost of equity capital. Instead of rejecting these forecasts, I understand that FERC and other regulatory agencies have decided to compromise with them. In particular, in arriving at the cost of equity for company X, the FERC has decided to arrive at the growth rate in my dividend growth model by using an average of two growth rates. One is security analysts forecast of the short-term growth rate in earnings provided by IBES or Value Line and the other a more long run and typically lower figure such as the past growth in GNP.*
>
> *Such an average can be questioned on various grounds. However, my judgment is that between the short-term forecast alone and its average with the past growth rate in GNP,* ***the latter may be a more reasonable figure.***[16] (Emphasis added)

[14] Gordon, David A., Myron J. Gordon, Lawrence I. Gould. "Choice Among Methods of Estimating Share Yield." *The Journal of Portfolio Management.* Spring 1989. pp. 50-55. (Bourassa's direct testimony, page 30, footnote.)

[15] Ibid.

[16] Gordon, M. J. Keynote Address at the 30th Financial Forum of the Society of Utility and Regulatory Financial Analysts. May 8, 1998. Transparency 3.

Simply stated, Professor Gordon would temper the typically higher analysts' forecasts with the typically lower GNP growth rate by averaging the two.

Q. How does Staff respond to Mr. Bourassa's statement, "Logically, in estimating future growth, financial institutions and analysts have taken into account all relevant historical information on a company as well as other more recent information. To the extent that past results provide useful indications of future growth prospects, analysts' forecasts would already incorporate that information."? (Bourassa's Direct Testimony, Page 30, line 9-12)

A. The appropriate growth rate to use in the DCF formula is the dividend growth rate expected by *investors*, not analysts. Therefore, while analysts may have considered historical measures of growth, it is reasonable to assume that investors rely to some extent on past growth as well. This calls for consideration of both analysts' forecasts as well as past growth.

Q. Does Staff have any comments on Mr. Bourassa's slight reliance on historical DPS growth to estimate DPS growth constant growth DCF estimates?

A. Yes. As previously stated on section V of this testimony, the current market price of a stock is equal to the present value of all expected future dividends, not future earnings. Professor Jeremy Siegel from the Wharton School of Finance stated:

> *Note that the price of the stock is always equal to the present value of all future* ***dividends*** *and not the present value of future earnings. Earnings not paid to investors can have value only if they are paid as dividends or other cash disbursements at a later date. Valuing stock as the present discounted value of future earnings is manifestly wrong and greatly overstates the value of the firm.*[17]

[17] Seigel, Jeremy J. Stocks for the Long Run. 2002. McGraw-Hill. New York. P. 93.

In other words, investors pay attention to earnings as long as they are paid as dividends. Earnings can easily be overstated. If investors do not receive dividends or other cash disbursement at a later date, then such earnings are meaningless. Accordingly, historical DPS growth should receive appropriate consideration in the estimation of DPS growth component of the DCF cost of equity estimation model.

Q. Does Staff have any comment on data in Mr. Bourassa Schedule D-4.4 which he uses to calculate a DCF dividend growth rate in his Past and Future DCF method?

A. Yes. Schedule D-4.4 presents calculations based on five years of historical data. Using only five years of data could result in significant variances in the outcomes due to a single high or low data point. A larger number of data points, i.e., use of more years, is usually preferable. Also, five years may be too limited to capture a full business cycle, resulting in unnecessary skewing of the outcomes.

Firm-Specific Risk

Q. Mr. Bourassa asserts "While the level of debt for SWC is lower, the proportion of zero-cost capital (advances-in-aid of construction and contributions-in-aid of construction) in SWC total capitalization is higher at over 41 percent compared to the publicly traded water utilities at an average 25 percent."[18] He further asserts that this higher proportion of zero cost capital contributes to risk and states "Neither AIAC nor CIAC receive recognition in rate base and thus do not contribute to earnings. AIAC is refundable and is an obligation of the Company. Like debt payments, they have priority claims on the cash flows of the Company. Granted the depreciation recovery in rates help cash flow the refunds, but the refunds themselves consume cash flow that might otherwise be available to help pay operating expenses or fund plant replacement and plant improvements. CIAC is non-refundable, but there is also no depreciation recovery in rates and therefore no cash flow. This plant will eventually have to be replaced but will have no prior cash flow to help fund the plant replacement, thus requiring greater amounts and new sources of capital in the future."[19] What is Staff's response?

A. Contrary to Mr. Bourassa's assertion, advances and contributions provide many benefits to and are highly sought by utilities. Advances and contributions allow utilities to postpone seeking capital funds to construct new facilities, and provide long planning horizons for funding replacement plant. Refunding advances is a mechanism allowing a utility to gradually and systematically provide capital funding for plant as *revenues permit*. In other words, advances-in-aid of construction ("AIAC") refunds are only payable when the Company has generated revenues from the plant funded by AIAC. Also, as AIAC is

[18] Direct Testimony of Thomas J. Bourassa, Sahuarita Water Company, Docket No. W-03718A-09-0359, page 19 lines 20-23
[19] Direct Testimony of Thomas J. Bourassa, Sahuarita Water Company, Docket No. W-03718A-09-0359, page 20 lines 3-13

refunded, rate base increases allowing greater potential earnings. Thus, access to zero cost capital via advances and contributions can reduce a utility's firm-specific risk.

Q. Does Staff have any comment on Mr. Bourassa's statement that "Arizona water and wastewater utilities face legal constraints that limit their ability to obtain rate relief outside of a general rate case in which the 'fair value' of the utility's property is determined and used to set rates?"[20]

A. Yes. The unique regulatory environments of the sample companies and SWC are firm specific risks for which investors cannot expect compensation. None of Mr. Bourassa's comments demonstrate that Arizona is a less favorable regulatory environment from those of the sample companies. Every regulatory jurisdiction has its own framework with its own specific identifiable advantages and disadvantages; however, it is the overall effect that is relevant. Nothing in Mr. Bourassa's testimony provides this overall perspective. The fact that investors continue to acquire Arizona utilities and invest capital in Arizona utilities debunks the notion that the regulatory environment in Arizona places utilities at some disadvantage. The regulatory framework in Arizona has many attractive attributes including: ability to seek accounting orders, recognition of known and measurable changes, use of hook-up fees and regulatory responsiveness to utility industry concerns (e.g., arsenic cost recovery mechanisms and arsenic remedial surcharge mechanisms).

[20] Direct Testimony of Thomas J. Bourassa, Sahuarita Water Company, Docket No. W-03718A-09-0359, page 21 lines 18-21

Q. What is Staff's response to Mr. Bourassa's contention that the market data provided by the sample water utilities does not capture all of the market risk associated with SWC due to Arizona regulatory requirements' use of historical test years and limited out of period adjustment recognition?[21]

A. The examples cited by Mr. Bourassa are examples of firm-specific or unique risks. Existence of firm-specific risk does not necessarily indicate that a company has more total risk than others, as all companies have firm-specific risks. Moreover, as previously discussed, the market does not compensate investors for firm-specific risk because it can be eliminated through diversification.

Q. What is Staff's response to Mr. Bourassa's contention that SWC should receive a higher cost of equity estimate because of its smaller size through a "small firm risk premium"[22] **and to his assertion that SWC is not comparable to the six publicly traded water utilities in the sample group due to a difference in size?**[23]

A. Staff does not agree that SWC should be allowed a small firm risk premium. No generally accepted analysis demonstrates that utilities are subject to the same size dependent betas as the general market. The Commission has previously ruled that firm size does not warrant recognition of a risk premium. In Decision No. 64282, dated December 28, 2001, for Arizona Water, the Commission stated, "We do not agree with the Company's proposal to assign a risk premium to Arizona Water based on its size relative to other publicly traded water utilities...." In Decision No. 64727, dated April 17, 2002, for Black Mountain Gas, the Commission agreed with Staff that "the 'firm size phenomenon' does

[21] Direct Testimony of Thomas J. Bourassa, Sahuarita Water Company, Docket No. W-03718A-09-0359, page 21 lines 25-26
[22] Direct Testimony of Thomas J. Bourassa, Sahuarita Water Company, Docket No. W-03718A-09-0359, page 40 lines 15-16
[23] Direct Testimony of Thomas J. Bourassa, Sahuarita Water Company, Docket No. W-03718A-09-0359, page 39 lines 11-12

not exist for regulated utilities, and that therefore there is no need to adjust for risk for small firm size in utility rate regulation."

X. CONCLUSION

Q. Please summarize Staff's recommendations.

A. Staff recommends that the Commission adopt a capital structure for SWC in this proceeding composed of 17.8 percent debt and 82.2 percent equity.

Staff also recommends that the Commission adopt a 9.0 percent ROR for the Applicant, based on Staff's cost of equity estimates that range from 9.9 percent to 10.2 percent for the sample companies.

Q. Does this conclude your Direct Testimony?

A. Yes, it does.

Sahuarita Water Company Cost of Capital Calculation
Capital Structure
And Weighted Average Cost of Capital
Staff Recommended and Company Proposed

[A]	[B]	[C]	[D]
Description	Weight (%)	Cost	Weighted Cost
Staff Recommended Structure			
Debt	17.8%	4.2%	0.7%
Common Equity	82.2%	10.1%	8.3%
Weighted Average Cost of Capital			**9.0%**
Company Proposed Structure			
Debt	17.2%	4.2%	0.7%
Common Equity	82.8%	12.0%	9.9%
Weighted Average Cost of Capital			**10.7%**

[D] : [B] x [C]

Supporting Schedules: JCM-3 and JCM-4.

Intentionally left blank

Sahuarita Water Company Cost of Capital Calculation
Final Cost of Equity Estimates
Sample Water Utilities

[A]	[B]		[C]		[D]		[E]
DCF Method			D_1/P_0 [1]	+	g [2]	=	k
Constant Growth DCF Estimate			3.7%	+	5.8%	=	9.5%
Multi-Stage DCF Estimate						=	10.2%
Average of DCF Estimates							9.9%
CAPM Method	Rf	+	β [5]	x	(Rp)	=	k
Historical Market Risk Premium[3]	3.1%	+	0.79	x	6.9% [6]	=	8.6%
Current Market Risk Premium[4]	4.6%	+	0.79	x	9.1% [7]	=	11.8%
Average of CAPM Estimates							10.2%
					Average		10.1%
			Financial risk adjustment				
					Total		10.1%

1 MSN Money and Value Line

2 Schedule JCM-8

3 Risk-free rate (Rf) for 5, 7, and 10 year Treasury rates from the U.S. Treasury Department at www.ustreas.gov

4 Risk-free rate (Rf) for 30 Year Treasury bond rate from the U.S. Treasury Department at www.ustreas.gov

5 Value Line

6 Historical Market Risk Premium (Rp) calculated from Ibbotson Associates SBBI 2009 Yearbook data

7 Testimony

Sahuarita Water Company Cost of Capital Calculation
Average Capital Structure of Sample Water Utilities

[A]	[B]	[C]	[D]
Company	Debt	Common Equity	Total
American States Water	50.2%	49.8%	100.0%
California Water	47.4%	52.6%	100.0%
Aqua America	53.6%	46.4%	100.0%
Connecticut Water	53.3%	46.7%	100.0%
Middlesex Water	53.0%	47.0%	100.0%
SJW Corp	48.3%	51.7%	100.0%
Average Sample Water Utilities	**51.0%**	**49.0%**	**100.0%**
Sahuarita - Actual Capital Structure	**17.8%**	**82.2%**	**100.0%**

Source:
Sample Water Companies from Value Line

Sahuarita Water Company Cost of Capital Calculation
Growth in Earnings and Dividends
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
Company	Dividends Per Share 1998 to 2008 DPS[1]	Dividends Per Share Projected DPS[1]	Earnings Per Share 1998 to 2008 EPS[1]	Earnings Per Share Projected EPS[1]
American States Water	1.8%	4.6%	3.7%	10.9%
California Water	0.9%	2.8%	2.7%	6.9%
Aqua America	7.0%	5.0%	6.2%	11.4%
Connecticut Water	1.3%	No Projection	1.0%	No Projection
Middlesex Water	2.1%	No Projection	2.9%	No Projection
SJW Corp	5.5%	No Projection	3.0%	No Projection
Average Sample Water Utilities	**3.1%**	**4.1%**	**3.3%**	**9.7%**

1 Value Line

Sahuarita Water Company Cost of Capital Calculation
Sustainable Growth
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
Company	Retention Growth 1999 to 2008 br	Retention Growth Projected br	Stock Financing Growth vs	Sustainable Growth 1999 to 2008 br + vs	Sustainable Growth Projected br + vs
American States Water	3.0%	6.4%	1.4%	4.4%	7.8%
California Water	2.0%	6.0%	4.0%	6.0%	9.9%
Aqua America	5.2%	5.9%	3.8%	9.0%	9.7%
Connecticut Water	2.6%	No Projection	0.8%	3.3%	No Projection
Middlesex Water	1.4%	No Projection	2.9%	4.3%	No Projection
SJW Corp	4.5%	No Projection	0.1%	4.6%	No Projection
Average Sample Water Utilities	**3.1%**	**6.1%**	**2.1%**	**5.2%**	**9.1%**

[B]: Value Line
[C]: Value Line
[D]: Value Line and MSN Money
[E]: [B]+[D]
[F]: [C]+[D]

Sahuarita Water Company Cost of Capital Calculation
Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Company	Symbol	Spot Price 2/3/2010	Book Value	Mkt To Book	*Value Line* Beta β	Raw Beta βraw
American States Water	AWR	**33.13**	17.89	1.9	**0.80**	0.67
California Water	CWT	**36.52**	20.38	1.8	**0.75**	0.60
Aqua America	WTR	**17.17**	8.35	2.1	**0.65**	0.45
Connecticut Water	CTWS	**22.05**	12.74	1.7	**0.80**	0.67
Middlesex Water	MSEX	**17.19**	11.07	1.6	**0.80**	0.67
SJW Corp	SJW	**22.15**	15.01	1.5	**0.95**	0.90
Average				**1.7**	**0.79**	**0.66**

[C]: Msn Money

[D]: Value Line

[E]: [C] / [D]

[F]: Value Line

[G]: (-0.35 + [F]) / 0.67

Sahuarita Water Company Cost of Capital Calculation
Calculation of Expected Infinite Annual Growth in Dividends
Sample Water Utilities

[A]	[B]
Description	g
DPS Growth - Historical[1]	3.1%
DPS Growth - Projected[1]	4.1%
EPS Growth - Historical[1]	3.3%
EPS Growth - Projected[1]	9.7%
Sustainable Growth - Historical[2]	5.2%
Sustainable Growth - Projected[2]	9.1%
Average	**5.8%**

1 Schedule JCM-5

2 Schedule JCM-6

Sahuarita Water Company Cost of Capital Calculation
Multi-Stage DCF Estimates
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[H]	[I]
Company	Current Mkt. Price (P_o)[1]	Projected Dividends[2] (Stage 1 growth) (D_t)				Stage 2 growth[3] (g_n)	Equity Cost Estimate (K)[4]
	2/3/2010	d_1	d_2	d_3	d_4		
American States Water	33.1	1.08	1.15	1.21	1.28	6.6%	9.8%
California Water	36.5	1.25	1.32	1.40	1.48	6.6%	9.9%
Aqua America	17.2	0.61	0.64	0.68	0.72	6.6%	10.0%
Connecticut Water	22.1	0.94	0.99	1.05	1.11	6.6%	10.8%
Middlesex Water	17.2	0.75	0.79	0.84	0.89	6.6%	10.9%
SJW Corp	22.2	0.70	0.74	0.78	0.83	6.6%	9.7%

Average **10.2%**

$$P_0 = \sum_{t=1}^{n} \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K-g_n}\left[\frac{1}{(1+K)}\right]^n$$

Where : P_0 = current stock price

D_t = dividends expected during stage 1

K = cost of equity

n = years of non – constant growth

D_n = dividend expected in year n

g_n = constant rate of growth expected after year n

1 [B] see Schedule JCM-7

2 Derived from Value Line Information

3 Average annual growth in GDP 1929 - 2008 in current dollars.

4 Internal Rate of Return of Projected Dividends

ALL-STATE LEGAL®
EXHIBIT
S-6

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION OF SAHUARITA WATER COMPANY, L.L.C. ("SWC") FOR AN OPINION AND ORDER OF THE COMMISSION (i) DETERMINING THE FAIR VALUE OF THE UTILITY PROPERTY OF SWC FOR RATEMAKING PURPOSES, (ii) FIXING A JUST AND REASONABLE RATE OF RETURN THEREON, (iii) APPROVING RATES AND CHARGES DESIGNED TO PRODUCE REVENUES SUFFICIENT TO RECOVER SWC'S COST OF SERVICE AND AUTHORIZED RATE OF RETURN, AND (iv) PROVIDING THE RECOVERY OF CERTAIN FINANCING AND OPERATING EXPENSES THROUGH A SURCHARGE AND A PASS-THROUGH TARIFF, RESPECTIVELY	)	DOCKET NO. W-03718A-09-0359

SURREBUTTAL

TESTIMONY

OF

JUAN C. MANRIQUE

PUBLIC UTILITIES ANALYST I

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JUNE 21, 2010

TABLE OF CONTENTS

Page

I. INTRODUCTION 1

II. COST OF EQUITY AND OVERALL RATE OF RETURN 1

III. RESPONSE TO THE REBUTTAL TESTIMONY OF THE APPLICANT'S COST OF CAPITAL WITNESS 3

Mr. Bourassa's Rebuttal 3

IV. STAFF RECOMMENDATIONS 4

SCHEDULES

Capital Structure and Weighted Cost of Capital JCM-1

Intentionally Left Blank JCM-2

Final Cost of Equity Estimates for Sample Water Utilities ..... JCM -3

Average Capital Structure of Sample Water Utilities ..... JCM -4

Growth in Earnings & Dividends of Sample Water Utilities ..... JCM -5

Sustainable Growth for Sample Water Utilities ..... JCM -6

Selected Financial Data of Sample Water Utilities ..... JCM -7

Calculation of Expected Infinite Annual Growth in Dividends ..... JCM -8

Multi-Stage DCF Estimates ..... JCM -9

I. INTRODUCTION

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

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

Q. Are you the same Juan C. Manrique who filed Direct Testimony in this case?

A. Yes, I am.

Q. What is the purpose of your Surrebuttal Testimony in this rate proceeding?

A. The purpose of my Surrebuttal Testimony in this rate proceeding is to report on Staff's updated cost of capital analysis with its recommendations regarding Sahuarita Water Company, LLC's ("SWC" or "Applicant") cost of capital and to respond to the cost of capital portion of the rebuttal testimony of SWC's witness Mr. Thomas J. Bourassa ("Mr. Bourassa's Rebuttal").

Q. Please explain how Staff's Surrebuttal Testimony for cost of capital is organized.

A. Staff's Surrebuttal Testimony for cost of capital is presented in four sections. Section I is this introduction. Section II discusses Staff's updated cost of capital analysis. Section III presents Staff's comments on Mr. Bourassa's rebuttal testimony. Lastly, Section IV presents Staff's recommendations.

II. COST OF EQUITY AND OVERALL RATE OF RETURN

Q. Did Staff update its analysis concerning the Applicant's cost of equity ("COE") since it filed its Direct Testimony?

A. Yes. Staff updated its analysis to include the most updated data available.

EXECUTIVE SUMMARY
SAHUARITA WATER COMPANY, L.L.C.
DOCKET NO. W-03718A-09-0359

The Surrebuttal Testimony of Staff witness Juan C. Manrique addresses the following issues:

Capital Structure – Staff recommends that the Commission adopt a capital structure for Sahuarita Water Company, LLC ("SWC" or "Applicant") for this proceeding consisting of 17.8 percent debt and 82.2 percent equity.

Cost of Equity – Staff recommends that the Commission adopt a 10.3 percent return on equity ("ROE") for the Applicant. Staff's estimated ROE for the Applicant is based on cost of equity estimates for the sample companies ranging from 9.5 percent for the discounted cash flow method ("DCF") to 11.1 percent for the capital asset pricing model ("CAPM").

Cost of Debt – Staff recommends that the Commission adopt the Company-proposed 4.2 percent cost of debt.

Overall Rate of Return – Staff recommends that the Commission adopt an overall rate of return ("ROR") of 9.2 percent.

Response to the Rebuttal Testimony of Applicant's witness Mr. Thomas J. Bourassa – The Commission should reject the Company's proposals to allow for a firm size adjustment and to rely heavily on analysts' forecasts for DCF estimates.

Q. What is Staff's updated COE?

A. Staff's updated COE is 10.3 percent. In Staff's Direct Testimony, the COE was 10.1 percent.

Q. What is Staff recommending for SWC's COE?

A. Staff is recommending a COE of 10.3 percent derived from its updated cost of equity estimates that range from 9.5 percent to 11.1 percent.

Q. Did Staff update its analysis concerning the Applicant's overall rate of return?

A. Yes.

Q. What is Staff's updated overall rate of return?

A. Staff's updated overall rate of return is 9.2 percent.

Q. What is Staff recommending for SWC's overall rate of return?

A. Staff is recommending an overall rate of return of 9.2 percent. Staff's recommendation is based on a COE of 10.3 percent, a cost of debt of 4.2 percent and a capital structure of 82.2 percent equity and 17.8 percent debt, as shown in Surrebuttal Schedule JCM-1.

III. RESPONSE TO THE REBUTTAL TESTIMONY OF THE APPLICANT'S COST OF CAPITAL WITNESS

Mr. Bourassa's Rebuttal

Q. Mr. Bourassa addresses a list "of the alleged 'attractive attributes' Mr. Manrique has identified," then proceeds to argue the merits of each one listed.[1] Does Staff have a response to these arguments?

A. Yes. Mr. Bourassa chose to cherry-pick certain aspects of other regulatory environments to dismiss the examples given in Staff's Direct Testimony of attractive attributes of Arizona ratemaking regulation. These arguments ignore the central tenet of Staff's argument:

> *The unique regulatory environments of the sample companies and SWC are firm-specific risks for which investors cannot expect compensation. None of Mr. Bourassa's comments demonstrate that Arizona is a less favorable regulatory environment from those of the sample companies. Every regulatory jurisdiction has its own framework with its own specific identifiable advantages and disadvantages; however, it is the overall effect that is relevant.*[2]

In other words, regulatory risk is a firm-specific risk whether it is in Arizona or another state. Investors cannot expect to be compensated for firm-specific risks as these can be diversified away.

[1] Mr. Bourassa's Rebuttal, pages 21-25
[2] Manrique Direct, page 41, lines 8-13

Q. Does Staff have a response to Mr. Bourassa's assertion that "Again, if analysts' estimates already consider past growth, then Staff vastly overstates the impact of past growth rates in its DCF model."[3]?

A. Yes. Mr. Bourassa makes this assertion as if the *only* factor investors look at is analysts' growth rates. Investors do rely on analysts' forecasts as one factor in investment decisions; however, other factors such as historical data also factor into investors' investment decisions.

IV. STAFF RECOMMENDATIONS

Q. What are Staff's recommendations for SWC's cost of capital?

A. Staff makes the following recommendations for SWC's cost of capital:

1. Staff recommends a capital structure of 17.8 percent debt and 82.2 percent equity.
2. Staff recommends a cost of debt of 4.2 percent.
3. Staff recommends a cost of equity of 10.3 percent.
4. Staff recommends an overall rate of return of 9.2 percent.

Q. Does this conclude your testimony?

A. Yes, it does.

[3] Mr. Bourassa's Rebuttal, page 14, lines 10-12

Sahuarita Water Company Cost of Capital Calculation
Capital Structure
And Weighted Average Cost of Capital
Staff Recommended and Company Proposed

[A]	[B]	[C]	[D]
Description	Weight (%)	Cost	Weighted Cost
Staff Recommended Structure			
Debt	17.8%	4.2%	0.7%
Common Equity	82.2%	10.3%	8.5%
Weighted Average Cost of Capital			**9.2%**
Company Proposed Structure			
Debt	17.2%	4.2%	0.7%
Common Equity	82.8%	10.9%	9.0%
Weighted Average Cost of Capital			**9.7%**

[D] : [B] x [C]

Supporting Schedules: JCM-3 and JCM-4.

Intentionally left blank

Sahuarita Water Company Cost of Capital Calculation
Final Cost of Equity Estimates
Sample Water Utilities

[A]	[B]		[C]		[D]		[E]
DCF Method			D_1/P_0 [1]	+	g [2]	=	k
Constant Growth DCF Estimate			3.6%	+	5.3%	=	8.9%
Multi-Stage DCF Estimate						=	10.0%
Average of DCF Estimates							9.5%
CAPM Method	Rf	+	β [5]	x	(Rp)	=	k
Historical Market Risk Premium[3]	2.8%	+	0.78	x	7.2% [6]	=	8.4%
Current Market Risk Premium[4]	4.2%	+	0.78	x	12.0% [7]	=	13.7%
Average of CAPM Estimates							11.1%
					Average		10.3%
			Financial risk adjustment				
					Total		10.3%

1 MSN Money and Value Line

2 Schedule JCM-8

3 Risk-free rate (Rf) for 5, 7, and 10 year Treasury rates from the U.S. Treasury Department at www.ustreas.gov

4 Risk-free rate (Rf) for 30 Year Treasury bond rate from the U.S. Treasury Department at www.ustreas.gov

5 Value Line

6 Historical Market Risk Premium (Rp) calculated from Ibbotson Associates SBBI 2009 Yearbook data

7 Testimony

Docket No. W-03718A-09-0359

Sahuarita Water Company Cost of Capital Calculation
Average Capital Structure of Sample Water Utilities

[A]	[B]	[C]	[D]
Company	Debt	Common Equity	Total
American States Water	46.8%	53.2%	100.0%
California Water	48.0%	52.0%	100.0%
Aqua America	56.6%	43.4%	100.0%
Connecticut Water	55.8%	44.2%	100.0%
Middlesex Water	53.3%	46.7%	100.0%
SJW Corp	49.0%	51.0%	100.0%
Average Sample Water Utilities	**51.6%**	**48.4%**	**100.0%**
SWC - Actual Capital Structure	**17.8%**	**82.2%**	**100.0%**

Source:
Sample Water Companies from Value Line

Sahuarita Water Company Cost of Capital Calculation
Growth in Earnings and Dividends
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
Company	Dividends Per Share 1999 to 2009 DPS[1]	Dividends Per Share Projected DPS[1]	Earnings Per Share 1999 to 2009 EPS[1]	Earnings Per Share Projected EPS[1]
American States Water	1.6%	3.4%	3.1%	7.7%
California Water	0.7%	1.3%	2.5%	5.9%
Aqua America	6.6%	6.5%	6.2%	12.7%
Connecticut Water	1.3%	No Projection	1.5%	No Projection
Middlesex Water	1.7%	No Projection	-0.5%	No Projection
SJW Corp	5.1%	No Projection	-0.7%	No Projection
Average Sample Water Utilities	**2.8%**	**3.7%**	**2.0%**	**8.8%**

1 Value Line

Sahuarita Water Company Cost of Capital Calculation
Sustainable Growth
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
Company	Retention Growth 2000 to 2009 br	Retention Growth Projected br	Stock Financing Growth vs	Sustainable Growth 2000 to 2009 br + vs	Sustainable Growth Projected br + vs
American States Water	3.0%	5.4%	1.9%	5.0%	7.3%
California Water	2.0%	5.9%	3.8%	5.8%	9.7%
Aqua America	4.6%	7.2%	3.7%	8.3%	11.0%
Connecticut Water	2.5%	No Projection	0.7%	3.2%	No Projection
Middlesex Water	1.2%	No Projection	3.0%	4.1%	No Projection
SJW Corp	4.0%	No Projection	0.1%	4.1%	No Projection
Average Sample Water Utilities	**2.9%**	**6.2%**	**2.2%**	**5.1%**	**9.3%**

[B]: Value Line
[C]: Value Line
[D]: Value Line and MSN Money
[E]: [B]+[D]
[F]: [C]+[D]

Sahuarita Water Company Cost of Capital Calculation
Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Company	Symbol	Spot Price 6/2/2010	Book Value	Mkt To Book	*Value Line* Beta β	Raw Beta β *raw*
American States Water	AWR	**34.64**	19.61	1.8	**0.80**	0.67
California Water	CWT	**35.71**	20.58	1.7	**0.75**	0.60
Aqua America	WTR	**17.33**	8.28	2.1	**0.65**	0.45
Connecticut Water	CTWS	**21.49**	12.80	1.7	**0.80**	0.67
Middlesex Water	MSEX	**17.50**	10.94	1.6	**0.75**	0.60
SJW Corp	SJW	**24.55**	14.73	1.7	**0.95**	0.90
Average				**1.8**	**0.78**	**0.65**

[C]: Msn Money

[D]: Value Line

[E]: [C] / [D]

[F]: Value Line

[G]: (-0.35 + [F]) / 0.67

Sahuarita Water Company Cost of Capital Calculation
Calculation of Expected Infinite Annual Growth in Dividends
Sample Water Utilities

[A]	[B]
Description	g
DPS Growth - Historical[1]	2.8%
DPS Growth - Projected[1]	3.7%
EPS Growth - Historical[1]	2.0%
EPS Growth - Projected[1]	8.8%
Sustainable Growth - Historical[2]	5.1%
Sustainable Growth - Projected[2]	9.3%
Average	**5.3%**

1 Schedule JCM-5

2 Schedule JCM-6

Sahuarita Water Company Cost of Capital Calculation
Multi-Stage DCF Estimates
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[H]	[I]
Company	Current Mkt. Price (P_o)[1] 6/2/2010	Projected Dividends[2] (Stage 1 growth) (D_t) d_1	d_2	d_3	d_4	Stage 2 growth[3] (g_n)	Equity Cost Estimate (K)[4]
American States Water	34.6	1.07	1.12	1.18	1.25	6.6%	9.6%
California Water	35.7	1.24	1.30	1.37	1.44	6.6%	9.9%
Aqua America	17.3	0.60	0.63	0.66	0.69	6.6%	9.9%
Connecticut Water	21.5	0.92	0.97	1.02	1.08	6.6%	10.8%
Middlesex Water	17.5	0.74	0.78	0.82	0.86	6.6%	10.7%
SJW Corp	24.6	0.71	0.74	0.78	0.83	6.6%	9.4%
						Average	**10.0%**

$$P_0 = \sum_{t=1}^{n} \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K-g_n}\left[\frac{1}{(1+K)}\right]^n .$$

Where : P_0 = current stock price

D_t = dividends expected during stage 1

K = cost of equity

n = years of non – constant growth

D_n = dividend expected in year n

g_n = constant rate of growth expected after year n

1 [B] see Schedule JCM-7

2 Derived from Value Line Information

3 Average annual growth in GDP 1929 - 2009 in current dollars.

4 Internal Rate of Return of Projected Dividends

ALL-STATE LEGAL®
EXHIBIT
S-7

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION OF SAHUARITA WATER COMPANY, L.L.C. ("SWC") FOR AN OPINION AND ORDER OF THE COMMISSION (i) DETERMINING THE FAIR VALUE OF THE UTILITY PROPERTY OF SWC FOR RATEMAKING PURPOSES, (ii) FIXING A JUST AND REASONABLE RATE OF RETURN THEREON, (iii) APPROVING RATES AND CHARGES DESIGNED TO PRODUCE REVENUES SUFFICIENT TO RECOVER SWC'S COST OF SERVICE AND AUTHORIZED RATE OF RETURN, AND (iv) PROVIDING FOR THE RECOVERY OF CERTAIN FINANCINGS AND OPERATING EXPENSES THROUGH A SURCHARGE AND A PASS-THROUGH TARIFF, RESPECTIVELY	)	DOCKET NO. W-03718A-09-0359

DIRECT

TESTIMONY

OF

JEFFREY M. MICHLIK

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

APRIL 22, 2010

TABLE OF CONTENTS

Page

INTRODUCTION 1

BACKGROUND 2

CONSUMER SERVICES 3

COMPLIANCE 3

SUMMARY OF FILING, RECOMMENDATIONS, AND ADJUSTMENTS 3

RATE BASE 6

Fair Value Rate Base *6*
Rate Base Summary *6*
Rate Base Adjustment No. 1 – Post-Test Year Plant *6*
Rate Base Adjustment No. 2 – Plant Not Used and Useful *9*
Rate Base Adjustment No. 3 – Accumulated Depreciation *9*
Rate Base Adjustment No. 4 – Customer Deposits *10*
Rate Base Adjustment No. 5 – Accumulated Deferred Income Taxes *11*

OPERATING INCOME 12

Operating Income Summary *12*
Operating Income Adjustment No. 1 – Management Fees *12*
Operating Income Adjustment No. 2 – Beverages Expense *21*
Operating Income Adjustment No. 3 – Water Testing Expense *21*
Operating Income Adjustment No. 4 – Rental Expense *22*
Operating Income Adjustment No. 5 – Rate Case Expense *22*
Operating Income Adjustment No. 6 – Depreciation Expense *23*
Operating Income Adjustment No. 7 – Property Tax Expense *23*
Operating Income Adjustment No. 8 – Income Tax Expense *24*

OTHER MATTERS 25

Central Arizona Ground Water Replenishment District ("CAGRD") *25*
Accounting Order *28*

SCHEDULES

Revenue Requirement JMM-1

Rate Base – Original Cost JMM-2

Summary of Original Cost Rate Base Adjustments JMM-3

Rate Base Adjustment No. 1 – Post Test Year Plant JMM-4

Rate Base Adjustment No. 2 – Plant Not Used and Useful JMM-5

Rate Base Adjustment No. 3 – Accumulated Depreciation JMM-6

Rate Base Adjustment No. 4 – Customer Deposits JMM-7

Rate Base Adjustment No. 5 – Deferred Income Taxes JMM-8
Operating Income Statement – Adjusted Test Year and Staff Recommended JMM-9
Summary of Operating Income Statement Adjustments – Test Year JMM-10
Operating Income Adj. No. 1 – Affiliate Management Fees JMM-11
Operating Income Adj. No. 2 – Beverage Expense JMM-12
Operating Income Adj. No. 3 – Water Testing Expense JMM-13
Operating Income Adj. No. 4 – Rent Expense JMM-14
Operating Income Adj. No. 5 – Rate Case Expense JMM-15
Operating Income Adj. No. 6 – Depreciation Expense JMM-16
Operating Income Adj. No. 7 – Property Tax Expense JMM-17
Operating Income Adj. No. 8 – Income Tax Expense JMM-18

EXECUTIVE SUMMARY
SAHUARITA WATER COMPANY, LLC
DOCKET NO. W-03718A-09-0359

Sahuarita Water Company, LLC ("SWC" or "Company") is an Arizona Limited Liability Company. The Company is engaged in the business of providing water utility services in Sahuarita, Arizona. The Company served approximately 4,700 water customers during the test year ended December 31, 2008. The Company's current rates were approved in its original Certificate of Convenience and Necessity Application, Decision No. 59431, dated December 28, 1995.

Rate Application:

The Company proposes rates that would increase operating revenue by $1,162,216 to produce operating revenue of $3,377,359 resulting in operating income of $890,209, or a 52.47 percent increase over test year revenue of $2,215,143. The Company also proposes a fair value rate base ("FVRB") of $7,418,410, which is its original cost rate base ("OCRB"), and a 12.00 percent rate of return on the FVRB.

Staff recommends rates that would increase operating revenue by $262,416 to produce operating revenue of $2,477,559 resulting in operating income of $783,842, or an 11.85 percent increase over adjusted test year revenue of $2,215,143. Staff recommends an OCRB of $8,709,357 which is its FVRB, and a 9.00 percent rate of return on the FVRB.

Central Arizona Ground Water Replenishment District ("CAGRD"):

Staff recommends approval of a CAGRD adjustor mechanism, subject to certain conditions.

Accounting Order:

Staff recommends denial of the Company's request for an accounting order related to arsenic media costs for future consideration in a rate case.

INTRODUCTION

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

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

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

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

Q. Please describe your educational background and professional experience.

A. In 2000, I graduated from Idaho State University, receiving a Bachelor of Business Administration Degree in Accounting and Finance, and I am a Certified Public Accountant with the Arizona State Board of Accountancy. I have attended the National Association of Regulatory Utility Commissioners' ("NARUC") Utility Rate School, which presents general regulatory and business issues.

I joined the Commission as a Public Utilities Analyst in May of 2006. Prior to employment with the Commission, I worked four years for the Arizona Office of the Auditor General as a Staff Auditor, and one year in public accounting as a Senior Auditor.

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

A. I am presenting Staff's analysis and recommendations regarding Sahuarita Water Company, LLC's ("SWC" or "Company") application for a permanent increase in its rates

and charges for water utility service within Pima County, Arizona. I am presenting testimony and schedules addressing rate base, operating revenues and expenses, revenue requirement, and rate design. Staff witness Juan Manrique is presenting Staff's cost of capital. Mr. Marlin Scott Jr. is presenting Staff's engineering analysis and related recommendations.

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

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

BACKGROUND

Q. Please review the background of this application.

A. The Company is an Arizona limited liability company. The Company is engaged in the business of providing water utility services in Sahuarita, Arizona. The Company served approximately 4,700 water customers during the test year ended December 31, 2009. The Company's current rates were approved in its original Certificate of Convenience and Necessity application, Decision No. 59431, dated December 28, 1995.

CONSUMER SERVICES

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

A. A review of the Commission's Consumer Services database for the Company from January 1, 2007 to April 7, 2010, revealed the following:

2007 – Zero complaints, inquiries and opinions.
2008 – Three complaints (two billing, one disconnect/termination), zero inquires and opinions.
2009 – Zero complaints, inquires and opinions.
2010 – Zero complaints, inquires, and three opinions opposed to the rate increase.
All complaints and inquiries have been resolved and closed.

COMPLIANCE

Q. Please provide a summary of the compliance status of the Company.

A. A check of the ACC's Compliance database indicates that there are currently no delinquencies for the Company.

SUMMARY OF FILING, RECOMMENDATIONS, AND ADJUSTMENTS

Q. Please summarize the Company's proposals in this filing.

A. The Company proposes rates that would increase operating revenues by $1,162,216 to produce operating revenue of $3,377,359 resulting in operating income of $890,209, or a 52.47 percent increase over test year revenue of $2,215,143. The Company also proposes a fair value rate base ("FVRB") of $7,418,410 which is its original cost rate base ("OCRB"), and a 12.00 percent rate of return on the FVRB.

Q. Please summarize Staff's recommendations.

A. Staff recommends rates that would increase operating revenue by $262,416 to produce operating revenue of $2,477,559 resulting in operating income of $783,842, or an 11.85 percent increase over adjusted test year revenue of $2,215,143. Staff recommends an OCRB of $8,709,357 which is its FVRB, and a 9.00 percent rate of return on the FVRB.

Q. What test year did the Company use in this filing?

A. The Company's rate filing is based on the twelve months ended December 31, 2008 ("test year").

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

A. My testimony addresses the following issues:

Post-Test Year Plant – This adjustment increases Plant in Service by $2,850,253 and the associated funding source by $1,877,809.

Plant Not Used and Useful – This adjustment decreases Plant in Service by $327,565 and the associated funding source by $76,082.

Accumulated Depreciation – This adjustment decreases accumulated depreciation by $327,565 based upon the adjustments Staff made to plant in service.

Customer Deposits – This adjustment increases customer deposits by $96,204 to include customer deposits.

Accumulated Deferred Income Taxes – This adjustment decreases Accumulated Deferred Income Taxes by $338,625 to reverse the Company's pro-forma adjustment since the Company does not pay income taxes.

Q. Please summarize the operating revenue and expense adjustments addressed in your testimony.

A. My testimony addresses the following issues:

Affiliate Management Fees Expense – This adjustment decreases outside service expense by $189,628 to remove overhead and affiliate profit related to the unregulated affiliate's business operations.

Beverage Expenses – This adjustment decreases outside service expense by $751 to remove expenses not necessary to the provision of water services.

Water Testing Expense – This adjustment increases water testing expense by $1,632 to reflect the amount recommended by Staff.

Rental Expense – This adjustment decreases rental expense by $11,299 to reflect a known and measurable change in the Company's rental contract.

Rate Case Expense – This adjustment decreases rate case expense by $30,000 to reflect Staff's normalization over 5 years.

Depreciation Expense – This adjustment decreases depreciation expenses by $1,592 to adjust depreciation based on Staff's recommended plant in service balances.

Property Tax Expense – This adjustment decreases property tax expense by $14,219 to adjust property taxes to Staff's adjusted test year and recommended revenues.

Income Tax Expense – This adjustment decreases income tax expense by $104,948 to reflect the fact that the Company does not pay income taxes, as it is classified by the Internal Revenue Service as a pass-through entity.

RATE BASE

Fair Value Rate Base

Q. Did the Company prepare a schedule showing the elements of Reconstruction Cost New Rate Base?

A. No, the Company did not. The Company's filing treats the OCRB the same as the FVRB.

Rate Base Summary

Q. Please summarize Staff's adjustments to the Company's rate base shown on Schedules JMM-2 and JMM-3.

A. Staff's adjustments to the Company's rate base resulted in a net increase of $1,290,947, from $7,418,410 to $8,709,357. This net increase was primarily due to: (1) the addition of post-test year arsenic treatment plant, (2) the removal of post test year plant and plant that was not used and useful, (3) an adjustment to accumulated depreciation, (4) an adjustment to customer deposits, and (5) an adjustment to remove accumulated deferred income taxes.

Rate Base Adjustment No. 1 – Post-Test Year Plant

Q. Did the Company propose to include certain post test year plant in rate base?

A. Yes. The Company proposed inclusion of $1,844,270 for the costs related to Well #23.

Q. Did Staff make an adjustment to the proposed post-test year plant in rate base?

A. Yes. Staff increased post-test year plant by $2,850,253, from $1,844,270 to $4,694,523, as shown on Schedule JMM-4.

Q. Did Staff actually make two distinct adjustments related to post-test year plant?

A. Yes, Staff removed the original $1,844,270 that the Company requested for Well #23, but added $4,694,523 for the arsenic treatment facility.

Q. Does Staff typically allow the inclusion of plant that was completed after the end of the test year?

A. No. Staff has historically only recommended the inclusion of post test year plant in unusual circumstances.

Q. Why did Staff remove the $1,844,270 that the Company proposed?

A. Marlin Scott, Jr., Staff's Engineer, inspected the entire system and determined that the test year well and storage capacities were sufficient and, therefore, concluded that Well No. 23 was not needed. (See Staff Engineering Report, Section I, Post-Test Year Plant).

Q. Is the $1,844,270 related to the cost of the arsenic treatment plant?

A. No, it is not.

Q. Did the Company request that the $4,694,523 for the post-test year arsenic treatment facility be included in rate base in this rate case?

A. No. However, the Company is seeking an Arsenic Cost Recovery Surcharge Mechanism ("ACRSM") to cover the debt service on the Water Infrastructure Finance Authority ("WIFA") loan obtained to finance the construction of the facility.

Q. Is Staff familiar with the ACRSM adjustor mechanism that the Company is seeking?

A. No. The Commission has approved two different methodologies to assist water utilities in recovering the costs of constructing arsenic remediation facilities and the operating expenses directly attributed to arsenic remediation. These methodologies are the arsenic cost recovery mechanism ("ACRM") and the arsenic remedial surcharge mechanism ("ARSM"). The benefits to water utilities provided by these two methodologies are mutually exclusive and cannot be combined without potential harm to ratepayers.

Q. As an alternative to an ACRM and ARSM, does Staff recommend including the $4,694,523 in post-test year arsenic remediation plant in rate base?

A. Yes. In this case, construction of the treatment facility has been completed and the plant is currently in service, treating drinking water for the existing customers. Further, the plant is necessary in order for the Company to meet the safe drinking water mandates of the Environmental Protection Agency. Therefore, under these circumstances, Staff recommends the plant's inclusion in rate base.

Q. Did the Company receive federal assistance in financing the arsenic treatment plant?

A. Yes. The Company was awarded a 40 percent forgiveness of principal on its WIFA loan.

Q. Did Staff make a corresponding adjustment of 40 percent, or $1,877,809, to the $4,694,523 loan amount?

A. Yes. Staff has classified the 40 percent forgiveness amount as a contribution in aid of construction ("CIAC").

Q. What is Staff's recommendation?

A. Staff recommends increasing post-test year plant in rate base by $2,850,253, from $1,844,270 to $4,694,523, and increasing CIAC by $1,877,809, as shown on Schedules JMM-3 and JMM-4.

Rate Base Adjustment No. 2 – Plant Not Used and Useful

Q. Did Staff make an adjustment for plant that was deemed not used and useful?

A. Yes. Staff identified $327,565 in plant that was not used and useful, as shown on Schedule JMM-5.

Q. Why did Staff make this adjustment?

A. Staff inspected the entire system and identified certain individual plant items that were not serving customers during the test year. (See Staff Engineering Report, Section H, Plant Not Used and Useful).

Q. What is Staff's recommendation?

A. Staff recommends decreasing plant in service account 307 wells and springs by $251,483, account 331 transmission and distribution mains by $30,250, account 333 services by $30,159, and account 335 hydrants by $15,673, for a total adjustment of $327,565, and the associated AIAC by $76,082, from $9,334,999 to $9,258,917, as shown on Schedules JMM-3 and JMM-5.

Rate Base Adjustment No. 3 – Accumulated Depreciation

Q. Did Staff make an adjustment to accumulated depreciation?

A. Yes. Staff adjusted accumulated depreciation to reflect the application of depreciation to the Staff-recommended plant balances.

Q. What is Staff's recommendation?

A. Staff recommends decreasing accumulated depreciation by $327,565, from $1,680,847 to $1,353,282, as shown on Schedules JMM-3 and JMM-6.

Rate Base Adjustment No. 4 – Customer Deposits

Q. Did Staff make an adjustment to customer deposits?

A. Yes. Staff increased customer deposits by $96,204.

Q. Why did Staff make this adjustment?

A. The Company did not include customer deposits in its rate base. Customer deposits are normally treated as a reduction to rate base to recognize capital provided by non-investors.

Q. Is Staff's position supported by NARUC and other literature related to accounting for public utilities?

A. Yes. Customer deposits represent funds received from ratepayers as security against potential losses arising from failure to pay for service. These funds are similar in nature to customer advances for construction. Both represent a liability to repay the funds received either after a specified period or upon satisfaction of certain requirements. Like customer advances, the deposits are available to the utility for use in support of its rate base investment (Source: Accounting for Public Utilities, by Robert L. Hane, Gregory E. Aliff, and Deloitte & Touche LLP).

Q. What is Staff's recommendation?

A. Staff recommends increasing customer deposits by $96,204, from $0 to $96,204, as shown on Schedules JMM-3 and JMM-7.

Rate Base Adjustment No. 5 – Accumulated Deferred Income Taxes

Q. Did Staff make an adjustment to rate base for accumulated deferred income taxes?

A. Yes. Staff removed the Company's pro-forma adjustment.

Q. What is a deferred tax liability?

A. A deferred tax liability represents the increase in taxes payable in ***future years*** as a result of temporary taxable differences existing at the end of the current year.

Q. Does the Company pay income taxes to the Internal Revenue Service ("IRS")?

A. No. The Company has chosen to be recognized as a limited liability company. It is considered a "pass-through" entity for income tax purposes; therefore, it pays no income taxes to the IRS.

Q. If the Company does not pay income taxes, can there be a deferred tax liability?

A. No, there cannot. This is a violation of Generally Accepted Accounting Principles (FASB ASC 740-10, formerly FAS 109).

Q. Was this issue addressed in a recent Commission Decision?

A. Yes. Decision No. 71445,[1] in addressing this same issue for an "S-corporation," another type of pass-through entity, states, "[B]ecause allowing recovery of accumulated deferred income tax ("ADIT") as an addition to rate base . . . would be inconsistent with the disallowance of recovery of income tax expense, we also will not allow the proposed addition of $143,632 in ADIT to Sunrise's rate base."

[1] Docket No. W-02069A-08-0406, Dec. No. 71445 at 37 (issued December 28, 2009).

Q. What is Staff's recommendation?

A. Staff recommends decreasing accumulated deferred income taxes by $338,625, from $338,625 to $0, as shown on Schedules JMM-3 and JMM-8 (and consistent with the disallowance of income tax expense below).

OPERATING INCOME

Operating Income Summary

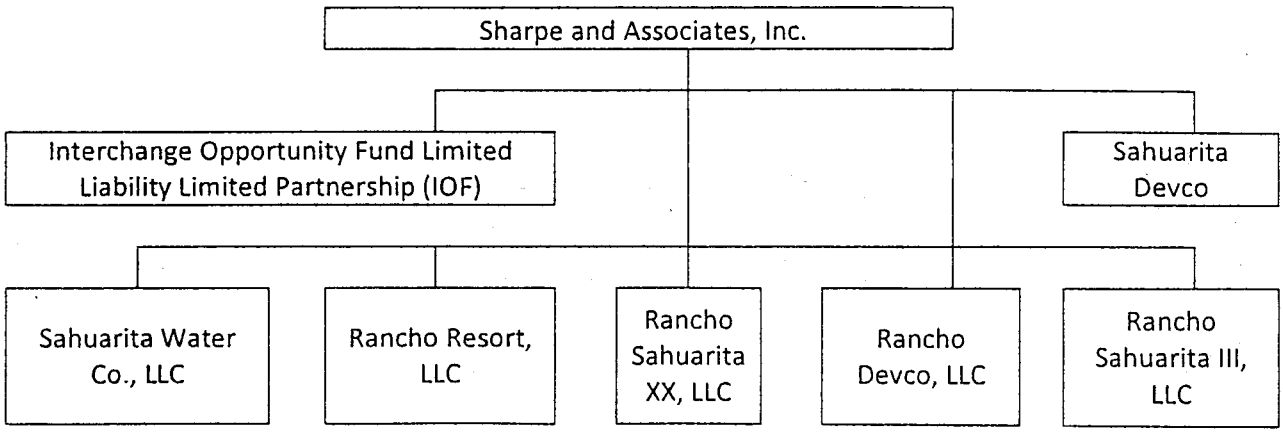
Q. What are the results of Staff's analysis of test year revenues, expenses, and operating income?

A. Staff's analysis resulted in adjusted test year operating revenues of $2,215,143, operating expenses of $1,693,717 and operating income of $521,426, as shown on Schedules JMM-9 and JMM-10. Staff made eight adjustments to operating expenses.

Operating Income Adjustment No. 1 – Management Fees

Q. Who are Sharpe and Associates, Inc.?

A. Sharpe and Associates, Inc., the ultimate parent of the Company, is an unregulated company whose primary business activity is real estate. In response to Staff data request 2.7, the Company provided Staff with the following organization chart:



Q. Who are the officers of Sharpe and Associates, Inc.?

A. The following persons are officers of Sharpe and Associates, Inc.:

President – Robert M Sharpe

Vice President – Deborah N Sharpe

Treasurer – Robert M Sharpe

Secretary – Deborah N Sharpe

Q. Please identify the member, managers, officers, or partners of the other entities that appear in the organization chart.

A. The members, managers, or partners for each entity are as follows:

Interchange Opportunity Fund Limited Liability Limited Partnership

General Partner - Sharpe and Associates, Inc.

Sahuarita Devco

Manager – Sharpe and Associates, Inc.

Member – Interchange Opportunity Fund

Member – Sharpe and Associates, Inc.

Rancho Sahuarita III, LLC

Member – SKM Consulting

Member – Sahuarita Devco

Rancho Devco, LLC

Manager and Member – Interchange Opportunity Fund Limited Liability Limited Partnership

1 Rancho Sahuarita XX, LLC

2 Member – Interchange Opportunity Fund Limited Liability Limited Partnership.

3 Member – Sharpe and Associates, Inc.

4

5 Rancho Resort XX, LLC

6 Member – Interchange Opportunity Fund Limited Liability Limited Partnership.

7 General Partner – Sharpe and Associates, Inc.

8 President – Robert M. Sharpe

9 Secretary – Deborah N. Sharpe

10

11 **Q. Who are the members, managers, or partners of the Company?**

12 A. The members, managers, or partners of the Company are as follows:

13

14 Manager – Sharpe and Associates, Inc.

15 Member – Sharpe and Associates, Inc.

16 Member – Interchange Opportunity Fund Limited Liability Limited Partnership

17 Member – Mission peaks 4000 LLC

18

19 **Q. Who provides management services to the Company?**

20 A. Rancho Sahuarita Management Company ("Management Company").

21

22 **Q. Does the Company consider the Management Company to be an affiliate?**

23 A. No. The Company has stated:

24

25 *Please note that Rancho Sahuarita Management Company is not an*
26 *affiliate of the Company. Rancho Sahuarita Management Company is*
27 *managed by MKS Equitas Investment Group, Ltd and Fred Lewis is 100%*
28 *shareholder of MKS Equitas Investment Group, Ltd.*

Q. Who are the members, managers, or partners of the Management Company?

A. The Management Company has one Member – MKS Equitas Investment Group, Ltd.

Q. Who are the officers or directors of MKS Equitas Investment Group, Ltd?

A. President – Fred Lewis

Director – Fred Lewis

Director – Deborah Sharpe

Q. Is Deborah Sharpe, the Director of MKS Equitas Investment Group, Ltd., also the secretary and vice president for the parent company, Sharpe and Associates, Inc?

A. Yes.

Q. In addition, was Robert M. Sharpe also a former Director of MKS Equitas Investment Group, Ltd?

A. Yes.

Q. How does the Commission define an affiliate?

A. According to Rule 14-2-801(1) of the Arizona Administrative Code ("A.A.C."):

> *"Affiliate," with respect to the public utility, shall mean any other entity directly or indirectly controlling or controlled by, or under direct or indirect common control with, the public utility. For purposes of this definition, the term "control" (including the correlative meanings of the terms "controlled by" and "under common control with"), as used with respect to any entity, shall mean the power to direct the management policies of such entity, whether through ownership of voting securities, or by contract, or otherwise.*

Q. Isn't it true that A.A.C. R14-2-801 et seq only apply to Class A utilities?

A. Yes. However, even though the rules don't technically apply, the principles set forth in those rules, as well as the standards under Generally Accepted Accounting Principles ("GAAP"), are relevant in this case because of the organizational relationships between the Company, its parent, and the management company.

Q. How is a related party defined under GAAP?

A. A related party includes a party that "can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests."

Q. What treatment does GAAP give to transactions between such parties?

A. GAAP states:

> *Transactions involving related parties cannot be presumed to be carried out on an arm's-length basis, as the requisite conditions of competitive, free-market dealings may not exist. Representations about transactions with related parties, if made, shall not imply that the related party transactions were consummated on terms equivalent to those that prevail in arm's-length transactions unless such representations can be substantiated.*[2]

Q. In Staff's opinion is the Management Company an affiliate?

A. Yes. Since Deborah Sharpe has an ownership or management position with Sharpe and Associates, Inc., as well as with MKS Equitas Investment Group, Ltd, which in turn owns the Management Company, Staff concludes that there exists some "common control" or

[2] Accounting Standards Codification 850-10-50-5.

"power to direct the management policies" between the Company and the Management Company.

Q. Is there anything else that would indicate the Management Company is an affiliate?

A. Yes. Staff asked the Company to identify all affiliates for whom the Management Company provides services. The Company responded that the Management Company provides accounting services for all affiliates, i.e., Rancho Resort, LLC, Rancho Sahuarita XX, LLC, and Sharpe and Associates, Inc.[3]

Q. Did the President of the Company, Mark J. Seamans, refer to the Management Company as an affiliate?

A. Yes. In his Direct Testimony, at page 3, Mr. Seamans states that "the Company utilizes a staff level of 10 who are direct employees of an affiliated entity (Rancho Sahuarita Management Company)."

Q. Does the Company have employees?

A. No. The Company uses an outside service that is owned and operated by its affiliate, the Management Company.

Q. Did the Company select the affiliate management company through a competitive bidding process?

A. No, it did not.

[3] In its response, the Company also reiterated its position that the Management Company itself is not an affiliate.

Q. Is the affiliate an unregulated for-profit company?

A. Yes. The Management Company is an unregulated for-profit company that provided day to day services to operate and manage the Company during the test year.

Q. In which account are the charges for the affiliate management recorded?

A. The charges for the affiliate management fees are recorded in Outside Services account 634.8.

Q. How much did the expenses for management fees increase from 2006 to 2007?

A. The management fees increased from $430,995 to $609,868, an increase of $178,873 or 41.50 percent.

Q. How much has the Company requested in management fees for the test year?

A. $637,012 (i.e. $596,512 management fee amount in test year, plus the pro-forma adjustment of $40,500).

Q. Should a higher standard of evidence be placed on affiliate or related-party transactions that are not subject to a competitive bidding process?

A. Yes. For affiliate or related-party transactions, a mere showing that costs were incurred is not sufficient evidence to demonstrate that the costs are appropriately valued. Such transactions cannot be presumed to be carried out on an arm's length basis and, therefore, give rise to the potential for additional charges. Using a competitive bidding process provides evidence that the best quality service at the lowest price is obtained. Also, a competitive bidding process provides incentive to the outside service to run as efficiently as possible in order to keep costs low.

Q. Did Staff ask the Company about any affiliate profit that might be contained in the management fees?

A. Yes. Staff asked the Company to state the return or "profit" included in affiliate billings and to provide the amounts and supporting calculations by account by year.

Q. What was the Company's response?

A. The Company replied that there is no return or "profit" component included in the billings of each affiliate.

Q. Did Staff ask the Company if there were any expense accounts that might include overhead costs (e.g., management fees)?

A. Yes.

Q. What was the Company's response?

A. The Company responded that there are no such expense accounts because no overhead costs are included.

Q. Did Staff examine the contract between the Company and the Management Company (see attachment)?

A. Yes. The contract indicates that the management fees are subject to a 25 percent mark-up to cover overhead and profit.

Q. In light of this contract term, did Staff re-submit the data request to the Company?

A. Yes. The Company responded:

> *Schedule 1 does refer to a 25% mark-up to cover general overhead and profit. However, in actual practice, Rancho Sahuarita Management Company does not charge any overhead and/or profit for services*

provided to the Company. Attached is a detailed schedule listing each paycheck for Water Company employees (with ADP Payroll Registers as support) to show that Rancho Sahuarita Management Company was reimbursed only for wages, taxes, employer paid benefits and 401K matching benefits.

Q. What is Staff's conclusion?

A. Since the 25 percent mark-up is a term of the management contract, Staff concludes that the overhead and profit are likely already included in the salaries.

Q. Does Staff recommend adjusting the Outside Services expense?

A. Yes. The Company has no employees and did not utilize a competitive bidding process to select the outside service that manages and operates the Company. Rather, the Company has disregarded the price safeguard that a competitive bid would afford and contracted solely with its unregulated for-profit affiliate. This affiliate can continually raise its prices without fear of losing the Company as a customer.

The Company has not demonstrated purchasing policies and safeguards to ensure that ratepayers are not being disadvantaged.

Q. What is Staff's recommendation?

A. Staff recommends two adjustments:

1) Staff recommends that the $40,500 pro-forma adjustment to salary be eliminated, and

2) Staff recommends that the test year management fee be reduced by 25 percent.

As a result, Staff has reduced management fee expense by $189,628, from $770,603 to $580,975, as shown on Schedules JMM-10 and JMM-11.

Operating Income Adjustment No. 2 – Beverages Expense

Q. Did Staff make an adjustment for beverage expense?

A. Yes. Staff decreased outside services by $751.

Q. Why did Staff make this adjustment?

A. Beverage expenses are not necessary to the provision of water services.

Q. What is Staff's recommendation?

A. Staff recommends decreasing outside service expense by $751, from $580,975 (after Staff's adjustment to management fees) to $580,224, as shown on Schedules JMM-10 and JMM-12.

Operating Income Adjustment No. 3 – Water Testing Expense

Q. Did Staff make an adjustment for water testing expense?

A. Yes. Staff increased water testing expense by $1,632.

Q. Why did Staff make this adjustment?

A. Staff increased water testing expense based on the determination contained in the Staff Engineering Report.

Q. What is Staff's recommendation?

A. Staff recommends increasing water testing expense by $1,632, from $8,750 to $10,382, as shown on Schedules JMM-10 and JMM-13.

Operating Income Adjustment No. 4 – Rental Expense

Q. Did Staff make an adjustment for rental expense?

A. Yes. Staff decreased rental expense by $11,299.

Q. Why did Staff make this adjustment?

A. During the test year the Company signed a lease agreement with Rancho Sahuarita XX, LLC, an affiliate. The new rent expense represents a known and measurable change.

Q. Why is Staff treating this affiliate transaction, differently than the outside services affiliate transaction with the Management Company?

A. In this instance, the affiliate transaction resulted in a monthly rental expense of $128.13, which is less than the $1,530 per month with the previous rental agreement, providing some assurance that the affiliate charge does not represent and inflated amount.

Q. What is Staff's recommendation?

A. Staff recommends decreasing rental expense by $11,299, from $13,195 to $1,896, as shown on Schedules JMM-10 and JMM-14.

Operating Income Adjustment No. 5 – Rate Case Expense

Q. What did the Company propose for rate case expense?

A. The Company proposed annual rate case expense of $75,000, calculated by normalizing the expense over 3 years.

Q. Did Staff make an adjustment to rate case expense?

A. Yes.

Q. Why did Staff make this adjustment?

A. Staff usually normalizes rate case expense over a 3 to 5 year period. In this case, the Company has not been in for a rate case in 14 years; therefore, Staff concludes that normalizing the rate case expense over 5 years is more appropriate.

Q. What is Staff's recommendation?

A. Staff recommends decreasing rate case expense by $30,000, from $75,000 to $45,000, as shown on Schedules JMM-10 and JMM-15, to reflect normalization over 5 years.

Operating Income Adjustment No. 6 – Depreciation Expense

Q. Did Staff make an adjustment to depreciation expense?

A. Yes. As a result of adjustments made to plant in service, Staff also adjusted the associated depreciation expense.

Q. What is Staff's recommendation?

A. Staff's adjustment decreases depreciation expense by $1,592, from $610,853 to $609,261. Please see Schedule JMM-10 and JMM-16 for Staff's calculation.

Operating Income Adjustment No. 7 – Property Tax Expense

Q. Did Staff make an adjustment to property tax expense?

A. Yes. Staff recomputed property taxes, based on Staff's revenue requirement.

Q. What adjustment does Staff recommend for test year property tax expense?

A. Staff's adjustment decreases property tax expense by $14,219, from $122,230 to $108,011, based upon Staff's revenue requirement. Please see Schedule JMM-10 and Schedule JMM-17.

Operating Income Adjustment No. 8 – Income Tax Expense

Q. Did Staff make an adjustment to income tax expense?

A. Yes.

Q. What adjustment did Staff make and why?

A. Staff's adjustment removes the Company's pro forma adjustment and decreases income tax expense by $104,948, from $104,948 to $0. As will be further explained in the revenue requirement section, Staff removed income taxes because the Company is classified as a limited liability company and, therefore, does not report income taxes at the corporate level, but passes this income through to its shareholders. Staff's adjustment is shown on Schedules JMM-10 and JMM-18.

Q. Has the Commission recently ruled on the appropriateness of utility companies that are pass-through entities, such as limited liability companies or Sub Chapter S corporations, claiming income tax expense?

A. Yes. In the recent Sunrise Water Company Case, referenced above, the Commission decided that Sub Chapter S corporations, as well as limited liability companies, that are not subject to tax by the Internal Revenue Service, should not receive income taxes for rate making purposes.

That decision stated, "The Commission has established a long-standing policy of denying recovery of income tax expenses for pass-thru entities and apparently has varied from it, at least in recent years, only as an exception made under unique circumstances or as an inadvertent error."[4]

[4] Docket No. W-02069A-08-0406, Dec. No. 71445 at 36 (issued December 28, 2009).

Q. Has there also been a more recent Commission Decision on this topic?

A. Yes. In Decision No. 71510, dated March 17, 2010, the Commission again decided that Sub Chapter S corporations and limited liability companies that are not subject to tax by the Internal Revenue Service should not receive income taxes for rate making purposes.

Q. What is Staff's recommendation?

A. Staff recommends the removal of all income tax expense.

OTHER MATTERS

Central Arizona Ground Water Replenishment District ("CAGRD")

Q. What treatment is the Company proposing regarding the CAGRD fees?

A. The Company is proposing that these fees be authorized as a pass-through expense similar to a privilege or sales tax.

Q. Does Staff believe the CAGRD Fees are directly analogous to privilege, sales or use taxes?

A. No. As stated in Decision No. 64598, Staff still is of the opinion that the CAGRD assessment cannot be treated as a pass-through tax under the Arizona Administrative Code R14-2-409.D.5 because it is not a "privilege, sales or use tax" and it is not based directly on one factor, such as revenues.

Q. Why is this CAGRD assessment more properly classified as an adjustor.

A. A true pass-through, like a sales tax for example, is one which is known and measurable and easily calculated and assigned. The CAGRD assessment fee, on the other hand, entails a complicated calculation involving several variables which are based on prior years' data.

Also more like an adjustor, the assessment represents a significant annual expense for the Company, which is anticipated to progressively increase. In order to keep its membership in CAGRD, the Company must pay this fee.

Q. Did the Company provide an example of how the CAGRD pass-through would work?

A. Yes. It is similar to the one that Johnson Utilities proposed (Docket No. WS-02987A-08-0180).

This method is described on pages 35-36 of Mr. Bourassa's Direct Testimony and is essentially as follows (corrected for erroneous references):

> *The commodity based fee would be computed on a per 1,000 gallon basis and billed to customers based on their usage. Using 2008 figures, for example, the commodity based fee would be $0.279 per 1,000 gallons, computed as follows:*

[1] Total 2008 CAGRD fees	$114,619
[2] 2008 Gallons Sold (in 1,000's)	411,304
[3] CAGRD fee per 1,000 gallons ([1] divided by [2])	$ 0.279

> *The average 5/8-inch residential customer using 5,424 would pay $1.51 in CAGRD fees (5.424 units times $0.279).*

> *Obviously, going forward, the base gallons sold for computation of the current year fee will be the prior year gallons sold. To prevent over or under recovery of the CAGRD fees, an annual true-up will be performed. Any over or under recovery would be included in the next years computation.*

Q. Does Staff agree with this methodology?

A. Yes. However, Staff also recommends that the following conditions with regard to the CAGRD fee be applied to the Company as a compliance item in this docket:

1. The adjustor fee shall apply to all water sold after October 1, 2010, or shall become effective on the date new rates from this case become effective, whichever is later.

2. The Company shall, on a monthly basis, place all CAGRD monies collected from customers in a separate, interest-bearing account ("CAGRD Account").

3. The only time the Company can withdraw money from the CAGRD Account is to pay the annual CAGRD fee to the CAGRD, which is due on October 15th of each year.

4. The Company must provide to Staff a semi-annual report of the CAGRD Account and CAGRD use fees collected from customers and paid to the CAGRD, with the reports due during the last week of October and the last week of April of each year.

5. The Company must provide to Staff, every even-numbered year, (first year being 2010) by June 30th, the new firm rates set by the CAGRD for the next two years.

6. The total CAGRD fees for the most current year in the Pima Active Management Area (AMA) shall be divided by the gallons sold in that year to determine a CAGRD fee per 1,000 gallons. This information shall be given to Staff, 30 days prior to when the Company requests the adjustor to take effect. In addition, the Company will provide Staff with supporting documentation from the relevant state agencies, and gallons sold data. Failure to provide this information to Staff shall result in the immediate cessation of the CAGRD adjustor fee.

7. By August 25th of each year, beginning in 2011, the Company shall submit its proposed CAGRD adjustor fee for the Pima AMA for consideration by the Commission, with the Commission-approved amount becoming effective the following October 1st.

8. If the CAGRD changes its current method of assessing fees, (i.e. based on the current volume of water used by customers) to some other method, such as, but not limited to, future projection of water usage, or total water allocated to the Company, the Company's collection from customers of CAGRD fees shall cease.

9. As a compliance item, the Company shall submit yearly, a new tariff reflecting the reset adjustor amount.

Accounting Order

Q. What is an accounting order?

A. An accounting order is authorization by the Commission that allows a company to treat a cost differently than how the cost is normally treated under the NARUC USOA.

Q. When is an accounting order appropriate?

A. In general, an accounting order is appropriate when the magnitude of the cost relative to the utility's total revenue is such that not having the accounting order would jeopardize the utility's financial health or when a utility is coping with an unusual or extraordinary cost and is seeking certain assurances from the Commission regarding the cost.

Q. Is the Company requesting an accounting order to allow the Company to defer arsenic media regeneration costs for consideration in a future rate case?

A. Yes. The Company is proposing to include the costs of one or more accounting periods into the cost of a different accounting period. This would have the affect of violating the matching principle which is inherent in the NARUC USOA prescribed by the Administrative Code.

Q. What reasons did the Company give in support of the accounting order?

A. The Company indicated that the "media regeneration is projected to cost nearly $124,000" and that the "media is expected to last from 12-15 months, which would require significant capital outlays between the instant and the next rate case." (Bourassa's Direct Testimony at page 39, emphasis added).

Q. Is this a known and measureable cost?

A. No, it's a projection.

Q. Would not including this amount in the revenue requirement place the Company in financial jeopardy?

A. No.

Q. Under the Company's proposal, would customers be subject to larger rate increase than they would if the Company filed rate applications more frequently?

A. Yes, because the costs included for media regeneration would not be offset by other costs that may have decreased during any given year.

Q. What is the typical way for a Company to recover an increase in operating expenses?

A. The usual remedy for a Company seeking to recover an increase in its operating and maintenance expenses is to file a rate application. A provision to allow recovery of increased arsenic media expenses outside of a rate proceeding is tantamount to single-issue rate-making.

Q. Is an accounting order appropriate in this case?

A. No, it is not. The Company would not be placed in financial jeopardy without the accounting order. The matching principle which is inherent in NARUC USOA would be violated. Decreased costs that could offset the arsenic media regeneration costs have been ignored. The Company would be engaging in single-issue rate-making.

Q. Does this conclude your Direct Testimony?

A. Yes, it does.

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Schedule JMM-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	$ 7,418,410	$ 8,709,357
2	Adjusted Operating Income (Loss)	$ 170,618	$ 521,426
3	Current Rate of Return (L2 / L1)	2.30%	5.99%
4	Required Rate of Return	12.00%	9.00%
5	Required Operating Income (L4 * L1)	$ 890,209	$ 783,842
6	Operating Income Deficiency (L5 - L2)	$ 719,591	$ 262,416
7	Gross Revenue Conversion Factor	1.6151	1.0000
8	Required Revenue Increase (L7 * L6)	$ 1,162,216	**$ 262,416**
9	Adjusted Test Year Revenue	$ 2,215,143	$ 2,215,143
10	Proposed Annual Revenue (L8 + L9)	$ 3,377,359	$ 2,477,559
11	Required Increase in Revenue (%)	52.47%	11.85%

References:
Column (A): Company Schedule A-1
Column (B): Staff Schedules JMM-2 and JMM-9

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Schedule JMM-2

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 20,957,540	$ 2,522,688	1,2	$ 23,480,228
2	Less: Accumulated Depreciation	1,680,847	(327,565)	3	1,353,282
3	Net Plant in Service	$ 19,276,693	$ 2,850,253		$ 22,126,946
	LESS:				
4	Contributions in Aid of Construction (CIAC)	$ 2,436,455	$ 1,877,809		$ 4,314,264
5	Less: Accumulated Amortization	251,796	-		$ 251,796
6	Net CIAC	2,184,659	1,877,809		$ 4,062,468
7	Advances in Aid of Construction (AIAC)	9,334,999	(76,082)	1	9,258,917
8	Customer Deposits	-	96,204	4	96,204
9	Deferred Income Tax Credits	338,625	(338,625)	5	-
	ADD:				
9	Unamortized Debt Issuance Costs	-	-		-
10	Deffered Regulatory Assets	-	-		-
11	**Original Cost Rate Base**	$ 7,418,410	$ 1,290,947		$ 8,709,357

References:
Column [A]: Company as Filed
Column [B]: Schedule JMM-3
Column (C): Column (A) + Column (B)

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Schedule JMM-3

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Post-Test Year Plant Ref: Sch JMM-4	[C] ADJ #2 Plant Not Used And Useful Ref: Sch JMM-5	[D] ADJ #3 Accumulated Depreciation Ref: Sch JMM-6	[E] ADJ #4 Customer Deposits Ref: Sch JMM-7	[F] ADJ #5 Deferred Income Taxes Ref: Sch JMM-8	[G] STAFF ADJUSTED
		PLANT IN SERVICE:							
2	301	Organization Cost	$ 7,541	$ -	$ -	$ -	$ -	$ -	$ 7,541
3	302	Franchise Cost	350,861	-	-	-	-	-	350,861
4	303	Land and Land Rights	13,636	-	-	-	-	-	13,636
5	304	Structures and Improvements	171,671	-	-	-	-	-	171,671
6	305	Collecting and Impounding Res.	-	-	-	-	-	-	-
7	306	Lake River and Other Intakes	-	-	-	-	-	-	-
8	307	Wells and Springs	800,396	-	(251,483)	-	-	-	548,913
9	308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-
10	309	Supply Mains	-	-	-	-	-	-	-
11	310	Power Generation Equipment	335,668	-	-	-	-	-	335,
12	311	Electric Pumping Equipment	43,912	-	-	-	-	-	43,912
13	320	Water Treatment Equipment	18,694	-	-	-	-	-	18,694
14	320	Water Treatment Plant	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipe	1,811,998	-	-	-	-	-	1,811,998
16	331	Transmission and Distribution Mains	10,162,557	-	(30,250)	-	-	-	10,132,307
17	333	Services	2,081,553	-	(30,159)	-	-	-	2,051,394
18	334	Meters	1,222,335	-	-	-	-	-	1,222,335
19	335	Hydrants	672,037	-	(15,673)	-	-	-	656,364
20	336	Backflow Prevention Devices	816	-	-	-	-	-	816
21	339	Other Plant and Miscellaneous Equipment	-	-	-	-	-	-	-
22	340	Office Furniture and Fixtures	283,991	-	-	-	-	-	283,991
23	341	Transportation Equipment	146,129	-	-	-	-	-	146,129
24	342	Stores Equipment	-	-	-	-	-	-	-
25	343	Tools and Work Equipment	13,856	-	-	-	-	-	13,856
26	344	Laboratory Equipment	132	-	-	-	-	-	132
27	345	Power Operated Equipment	-	-	-	-	-	-	-
28	346	Communications Equipment	11,818	-	-	-	-	-	11,818
29	347	Miscellaneous Equipment	695	-	-	-	-	-	695
30	348	Other Tangible Plant	962,974	-	-	-	-	-	962,974
31		Total Plant in Service - Actual	19,113,270	-	-	-	-	-	18,785,705
32		Post Test-Year Plant	1,844,270	2,850,253					4,694,523
33		Total Plant in Service	$ 20,957,540	$ -	$ (327,565)	$ -	$ -	$ -	$ 23,480,228
34		Less: Accumulated Depreciation	1,680,847	-	-	(327,565)	-	-	1,353
35			-	-	-	-		-	
36		Net Plant in Service	$ 19,276,693	$ -	$ (327,565)	$ 327,565	$ -	$ -	$ 22,126,946
37									
38		*LESS:*							
39		Contributions in Aid of Construction (CIAC)	$ 2,436,455	$ 1,877,809	$ -	$ -	$ -	$ -	$ 4,314,264
40		Less: Accumulated Amortization	251,796	-	-	-	-	-	251,796
41		Net CIAC (L25 - L26)	2,184,659	1,877,809	-	-	-	-	4,062,468
42		Advances in Aid of Construction (AIAC)	9,334,999	-	(76,082)	-	-	-	9,258,917
43		Customer Deposits	-	-	-	-	96,204	-	96,204
44		Deferred Income Taxes	338,625	-	-	-	-	(338,625)	-
45			-	-					-
46									
47		*ADD:*							
48		Unamortized Debt Issuance Costs	-	-	-	-	-	-	-
49		Deffered Regulatory Assets	-	-	-	-	-	-	-
50									
51		**Original Cost Rate Base**	$ 7,418,409	$ (1,877,809)	$ (251,483)	$ 327,565	$ (96,204)	$ 338,625	$ 8,709,357

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Schedule JMM-4

RATE BASE ADJUSTMENT NO. 1 - POST-TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1		Post-Test Year Plant	$ 1,844,270	$ 2,850,253	$ 4,694,523

Based on Staff Engineering Report Table I-1.

Remove Post-Test Year Plant (Based on Staff Engineering Report Table I-1)	$	(1,844,270)
Add Post-Test Year Plant (Arsenic Treatment Facility)	$	4,694,523
	$	2,850,253

DESCRIPTION	[A] COMPANY AIAC AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
Contributions in Aid of Construction	$ 2,436,455	$ 1,877,809	$ 4,314,264

Loan forgiveness amount 40% of $4,694,523 = $1,877,809

REFERENCES:
Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Schedule JMM-5

RATE BASE ADJUSTMENT NO. 2 - PLANT NOT USED AND USEFUL

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	307	Wells & Springs	$ 800,396	$ (251,483)	$ 548,913
2	331	Transmission & Distribution Mains	$ 10,162,557	$ (30,250)	$ 10,132,307
3	333	Services	$ 2,081,553	$ (30,159)	$ 2,051,394
4	335	Hydrants	$ 672,037	$ (15,673)	$ 656,364
5			$ 13,716,543	$ (327,565)	$ 13,388,978
6					
7	Based on Staff Engineering Report Table H-1.				
8					
9			[A]	[B]	[C]
10			COMPANY		
11			AIAC	STAFF	STAFF
12		DESCRIPTION	AS FILED	ADJUSTMENTS	AS ADJUSTED
13	Advances in Aid of Construction (AIAC)		$ 9,334,999	$ (76,082)	$ 9,258,917
14					

REFERENCES:
Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Schedule JMM-6

RATE BASE ADJUSTMENT NO. 3 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Accumulated Depreciation	$ 1,680,847	$ (327,565)	$ 1,353,282

References:
Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Schedule JMM-7

RATE BASE ADJUSTMENT NO. 4 - CUSTOMER DEPOSITS

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1		Customer Deposits	$ -	$ 96,204	$ 96,204

REFERENCES:
Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Schedule JMM-8

RATE BASE ADJUSTMENT NO. 5 - DEFERRED INCOME TAXES

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1		Deferred Income Taxes	$ 338,625	$ (338,625)	$ -

To Remove Deferred Income Taxes

REFERENCES:
Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Schedule JMM-9

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	Adj. No.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	*REVENUES:*						
2	Metered Water Sales	$ 2,057,901	$ -		$ 2,057,901	$ 262,416	$ 2,320,317
3	Water Sales-Unmetered	-	-		-	-	-
4	Other Operating Revenue	157,242	-		157,242	-	157,242
5	Intentionally Left Blank	-	-		-	-	-
6	**Total Operating Revenues**	$ 2,215,143	$ -		$ 2,215,143	$ 262,416	$ 2,477,559
7							
8	*OPERATING EXPENSES:*						
9	Salaries and Wages	$ -	$ -		$ -	$ -	$ -
10	Purchased Wastewater Treatment	4,256	-		4,256	-	4,256
11	Sludge Removal Expense	147,364	-		147,364	-	147,364
12	Purchased Power	-	-		-	-	-
13	Fuel for Power Production	11,866	-		11,866	-	11,866
14	Chemicals	75,423	-		75,423	-	75,423
15	Materials & Supplies	30,131	-		30,131	-	30,131
16	Contractural Services, Legal&Engr	770,603	(190,379)	1 & 2	580,224	-	580,224
17	Contractural Sevices - Other	-	-		-	-	-
18	Contractural Services - Testing	-	-		-	-	-
19	Equipment Rental	8,750	1,632	3	10,382	-	10,382
20	Rents - Building	13,195	(11,299)	4	1,896	-	1,896
21	Transportation	22,358	-		22,358	-	22,358
22	General Liability Insurance	21,111	-		21,111	-	21,111
23	Insurance - Other	-	-		-	-	-
24	Regulatory Commission Expense	-	-		-	-	-
25	Regulatory Commission Expense - Rate Case	75,000	(30,000)	5	45,000	-	45,000
26	Misceallenous Exp	14,724	-		14,724	-	14,724
27	Bad Debt Expense	109	-		109	-	109
28	Depreciation Expense	610,853	(1,592)	6	609,261	-	609,261
29	Depreciation	-	-		-	-	-
30	Taxes other than Income	11,602	-		11,602	-	11,602
31	Property Taxes	122,230	(14,219)	7	108,011	-	108,011
32	Income Taxes	104,948	(104,948)	8	-	-	-
33	Intentionally Left Blank	-	-		-	-	-
34	**Total Operating Expenses**	$ 2,044,524	$ (350,806)		$ 1,693,717	$ -	$ 1,693,717
35	**Operating Income (Loss)**	$ 170,618	$ 350,806		$ 521,426	$ 262,416	$ 783,842

References:
Column (A): Company Schedule C-1
Column (B): Schedule JMM-10
Column (C): Column (A) + Column (B)
Column (D): Schedules JMM-1
Column (E): Column (C) + Column (D)

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Schedule JMM-10

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Affiliate Management Fee ADJ #1	[C] Beverage Expense ADJ #2	[D] Water Testing Expense ADJ #3	[E] Rent Expense ADJ #4	[F] Rate Case Expense ADJ #5	[G] Depreciation Expense ADJ #6	[H] Property Tax Expense ADJ #7	[I] Income Tax Expense ADJ #8	[J] STAFF ADJUSTED
			Ref: Sch JMM-11	Ref: Sch JMM-12	Ref: Sch JMM-13	Ref: Sch JMM-14	Ref: Sch JMM-15	Ref: Sch JMM-16	Ref: Sch JMM-17	Ref: Sch JMM-18	
1	*REVENUES:*										
2	Metered Water Sales	$2,057,901	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,057,901
3	Water Sales-Unmetered	-	-	-	-	-	-	-	-	-	-
4	Other Operating Revenue	157,242	-	-	-	-	-	-	-	-	157,242
5	Intentionally Left Blank	-	-	-	-	-	-	-	-	-	-
6	**Total Operating Revenues**	$2,215,143	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,215,143
7											
8	*OPERATING EXPENSES:*										
9	Salaries and Wages	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$
10	Purchased Water	4,256	-	-	-	-	-	-	-	-	[illegible]
11	Purchased Power	147,364	-	-	-	-	-	-	-	-	147,364
12	Fuel for Power Production	-	-	-	-	-	-	-	-	-	-
13	Chemicals	11,866	-	-	-	-	-	-	-	-	11,866
14	Repairs and Maintenance	75,423	-	-	-	-	-	-	-	-	75,423
15	Materials and Supplies	30,131	-	-	-	-	-	-	-	-	30,131
16	Outside Services	770,603	(189,628)	(751)	-	-	-	-	-	-	580,224
17	Outside Services - Other	-	-	-	-	-	-	-	-	-	-
18	Outside Services - Legal	-	-	-	-	-	-	-	-	-	-
19	Water Testing	8,750	-	-	1,632	-	-	-	-	-	10,382
20	Rents	13,195	-	-	-	(11,299)	-	-	-	-	1,896
21	Transportation Expenses	22,358	-	-	-	-	-	-	-	-	22,358
22	Insurance - General Liability	21,111	-	-	-	-	-	-	-	-	21,111
23	Insurance - Health and Life	-	-	-	-	-	-	-	-	-	-
24	Regulatory Commission Expenese	-	-	-	-	-	-	-	-	-	-
25	Regulatory Commission Expense - Rate Case	75,000	-	-	-	-	(30,000)	-	-	-	45,000
26	Miscellaneous Expense	14,724	-	-	-	-	-	-	-	-	14,724
27	Bad Debt Expense	109	-	-	-	-	-	-	-	-	109
28	Depreciation Expense	610,853	-	-	-	-	-	(1,592)	-	-	609,261
29	Amortization of CIAC	-	-	-	-	-	-	-	-	-	-
30	Taxes Other than Income	11,602	-	-	-	-	-	-	-	-	11,602
31	Property Taxes	122,230	-	-	-	-	-	-	(14,219)	-	108,011
32	Income Taxes	104,948	-	-	-	-	-	-	-	(104,948)	-
33	Intentionally Left Blank	-	-	-	-	-	-	-	-	-	-
34	**Total Operating Expenses**	$2,044,524	$ (189,628)	$ (751)	$ 1,632	$ (11,299)	$ (30,000)	$ (1,592)	$ (14,219)	$ (104,948)	$ 1,693,719
35	**Operating Income (Loss)**	$ 170,618	$ 189,628	$ 751	$ (1,632)	$ 11,299	$ 30,000	$ 1,592	$ 14,219	$ 104,948	$ 5[illegible]

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Schedule JMM-11

OPERATING INCOME ADJUSTMENT NO. 1 - MANAGEMENT FEES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Outside Service	$ 770,603	$ (189,628)	$ 580,975
2				
3	Staff Calculation:			
4	Test Year Salary	$ 596,512		
5	Remove 25% of Office Employees Salaries for inadequate support:	0.25		
6	Adjustment	$ 149,128		
7				
8	Remove Pro-forma Adjustment	$ 40,500		
9				
10	Total Adjustment lines 6 and 8	$ 189,628		

References:
Column (A): Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Schedule JMM-12

OPERATING INCOME ADJUSTMENT NO. 2 - BEVERAGE EXPENSES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Outside Service	$ 580,975	$ (751)	$ 580,224

References:
Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Schedule JMM-13

OPERATING INCOME ADJUSTMENT NO. 3 - WATER TESTING EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Water Testing Expense	$ 8,750	$ 1,632	$ 10,382

References:
Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Schedule JMM-14

OPERATING INCOME ADJUSTMENT NO. 4 - RENT EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Rents	$ 13,195	$ (11,299)	$ 1,896

Staff Calculation:

Remove Rental Expense of RR HOA		
8 months x $1,530	$	12,240
Remove Temporary Fence Rental	$	84
Plus 8 months of Rent at New Facility		
8 months x $128.13	$	(1,025)
Adjustment	$	11,299

References:
Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Schedule JMM-15

OPERATING INCOME ADJUSTMENT NO. 5 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Rate Case Expense	$ 75,000	$ (30,000)	$ 45,000

Staff Calculation:

Estimated Rate Case Cost	$ 225,000
Normalized Over Five Years	5
	45,000

References:
Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Schedule JMM-16

OPERATING INCOME ADJUSTMENT NO. 6 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	301	Organization Cost	$ 7,541	$ 7,541	$ -	0.00%	$ -
2	302	Franchise Cost	$ 350,861	$ 350,861	$ -	0.00%	$ -
3	303	Land and Land Rights	$ 13,636	$ 13,636	$ -	0.00%	$ -
4	304	Structures and Improvements	$ 171,671	$ -	$ 171,671	3.33%	$ 5,717
5	305	Collecting and Impounding Res.	$ -	$ -	$ -	2.50%	$ -
6	306	Lake River and Other Intakes	$ -	$ -	$ -	2.50%	$ -
7	307	Wells and Springs	$ 548,913	$ -	$ 548,913	3.33%	$ 18,279
8	308	Infiltration Galleries and Tunnels	$ -	$ -	$ -	6.67%	$ -
9	309	Supply Mains	$ -	$ -	$ -	2.00%	$ -
10	310	Power Generation Equipment	$ 335,668	$ -	$ 335,668	5.00%	$ 16,783
11	311	Electric Pumping Equipment	$ 43,912	$ -	$ 43,912	12.50%	$ 5,489
12	320	Water Treatment Equipment	$ 18,694	$ -	$ 18,694	3.33%	$ 623
13	320	Water Treatment Plant	$ -	$ -	$ -	3.33%	$ -
14	330	Distribution Reservoirs & Standpipe	$ 1,811,998	$ -	$ 1,811,998	2.22%	$ 40,226
15	331	Transmission and Distribution Mains	$ 10,132,307	$ -	$ 10,132,307	2.00%	$ 202,646
16	333	Services	$ 2,051,394	$ -	$ 2,051,394	3.33%	$ 68,311
17	334	Meters	$ 1,222,335	$ -	$ 1,222,335	8.33%	$ 101,821
18	335	Hydrants	$ 656,364	$ -	$ 656,364	2.00%	$ 13,127
19	336	Backflow Prevention Devices	$ 816	$ -	$ 816	6.67%	$ 54
20	339	Other Plant and Miscellaneous Equipment	$ -	$ -	$ -	6.67%	$ -
21	340	Office Furniture and Fixtures	$ 283,991	$ -	$ 283,991	6.67%	$ 18,942
22	341	Transportation Equipment	$ 146,129	$ -	$ 146,129	20.00%	$ 29,226
23	342	Stores Equipment	$ -	$ -	$ -	4.00%	$ -
24	343	Tools and Work Equipment	$ 13,856	$ -	$ 13,856	5.00%	$ 693
25	344	Laboratory Equipment	$ 132	$ -	$ 132	10.00%	$ 13
26	345	Power Operated Equipment	$ -	$ -	$ -	5.00%	$ -
27	346	Communications Equipment	$ 11,818	$ -	$ 11,818	10.00%	$ 1,182
28	347	Miscellaneous Equipment	$ 695	$ -	$ 695	10.00%	$ 70
29	348	Other Tangible Plant	$ 962,974	$ -	$ 962,974	10.00%	$ 96,297
30		Sub Total	$ 18,785,705	$ 372,038	$ 18,413,667		$ 619,499
31							
32	Post Test Year Plant						
33	320	Water Treatment Plant	$ 2,686,523	$ -	$ 2,686,523	3.33%	$ 89,461
34	331	Transmission and Distribution Mains	$ 2,008,000	$ -	$ 2,008,000	2.00%	$ 40,160
35		Total Plant	$ 23,480,228		$ 23,108,190		$ 749,120
36							
37		Composite Depreciation Rate (Depr Exp / Depreciable Plant):	3.24%				
38		CIAC:	$ 4,314,264				
39		Amortization of CIAC (Line 32 x Line 33):	$ 139,860				
40							
41		Depreciation Expense Before Amortization of CIAC:	$ 749,120				
42		Less Amortization of CIAC:	$ 139,860				
43		**Test Year Depreciation Expense - Staff:**	**$ 609,261**				
44		Depreciation Expense - Company:	$ 610,853				
44		**Staff's Total Adjustment:**	**$ (1,592)**				

References:
Column [A]: Schedule JMM-3
Column [B]: From Column [A]
Column [C]: Column [A] - Column [B]
Column [D]: Engineering Staff Report
Column [E]: Column [C] x Column [D]

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Schedule JMM-17

OPERATING INCOME ADJUSTMENT NO. 7 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	STAFF AS ADJUSTED
1	Staff Adjusted Test Year Revenues	$ 2,215,143
2	Weight Factor	2
3	Subtotal (Line 1 * Line 2)	4,430,286
4	Staff Recommended Revenue, Per Schedule JMM-1	2,477,559
5	Subtotal (Line 4 + Line 5)	6,907,845
6	Number of Years	3
7	Three Year Average (Line 5 / Line 6)	2,302,615
8	Department of Revenue Mutilplier	2
9	Revenue Base Value (Line 7 * Line 8)	4,605,230
10	Plus: 10% of CWIP -	-
11	Less: Net Book Value of Licensed Vehicles	48,652
12	Full Cash Value (Line 9 + Line 10 - Line 11)	4,556,578
13	Assessment Ratio	20.0%
14	Assessment Value (Line 12 * Line 13)	911,316
15	Composite Property Tax Rate (Per Company Schedule)	11.8522%
16		
17	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	$ 108,011
18	Company Proposed Property Tax	122,230
19		
20	Staff Test Year Adjustment (Line 16-Line 17)	$ (14,219)

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Schedule JMM-18

OPERATING INCOME ADJUSTMENT NO. 8 - INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Income Tax Expense	$ 104,948	$ (104,948)	$ -

References:
Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

Attachment 1

MANAGEMENT SERVICES AGREEMENT
(Rancho Sahuarita Water Co.)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9. Contractor Insurance and Indemnification Requirements.

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

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

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

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

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

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

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

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

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

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

If to Contractor: 4549 East Ft. Lowell Road

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

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

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

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

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

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

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

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

By _____
Robert M. Sharpe, President

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

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

By: _____
Fred Lewis, President

SCHEDULE 1

COMPENSATION TO CONTRACTOR

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

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

ALL-STATE LEGAL®
EXHIBIT
S-8

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION OF SAHUARITA WATER COMPANY, L.L.C. ("SWC") FOR AN OPINION AND ORDER OF THE COMMISSION (i) DETERMINING THE FAIR VALUE OF THE UTILITY PROPERTY OF SWC FOR RATEMAKING PURPOSES, (ii) FIXING A JUST AND REASONABLE RATE OF RETURN THEREON, (iii) APPROVING RATES AND CHARGES DESIGNED TO PRODUCE REVENUES SUFFICIENT TO RECOVER SWC'S COST OF SERVICE AND AUTHORIZED RATE OF RETURN, AND (iv) PROVIDING FOR THE RECOVERY OF CERTAIN FINANCINGS AND OPERATING EXPENSES THROUGH A SURCHARGE AND A PASS-THROUGH TARIFF, RESPECTIVELY	)	DOCKET NO. W-03718A-09-0359

(RATE DESIGN)

DIRECT TESTIMONY

OF

JEFFREY M. MICHLIK

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

APRIL 29, 2010

TABLE OF CONTENTS

Page

INTRODUCTION 1

BACKGROUND 2

RATE DESIGN 2

SCHEDULES

Rate Design JMM-1

Typical Residential Bill Analysis JMM-2

EXECUTIVE SUMMARY
SAHUARITA WATER COMPANY, LLC
DOCKET NO. W-03718A-09-0359

Sahuarita Water Company, LLC ("SWC" or "Company") is an Arizona Limited Liability Company. The Company is engaged in the business of providing water utility services in Sahuarita, Arizona. The Company served approximately 4,700 water customers during the test year ended December 31, 2008. The Company's current rates were approved in its original Certificate of Convenience and Necessity Application, Decision No. 59431, dated December 28, 1995.

Rate Design:

Staff recommends approval of its rate design and service charges.

Typical Bill Analysis:

The typical 5/8 x 3/4-inch meter residential customers with a median usage of 5,000 gallons would experience a $16.15 or a 61.52 percent increase in their monthly bill, from $26.25 to $42.40, under the Company's proposed rates. The typical 5/8 x 3/4-inch meter residential customers with a median usage of 5,000 gallons would experience a $3.83 or a 14.59 percent increase in their monthly bill, from $26.25 to $30.08, under Staff's recommended rates.

INTRODUCTION

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

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

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

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

Q. Please describe your educational background and professional experience.

A. In 2000, I graduated from Idaho State University, receiving a Bachelor of Business Administration Degree in Accounting and Finance, and I am a Certified Public Accountant licensed with the Arizona State Board of Accountancy. I have attended the National Association of Regulatory Utility Commissioners' ("NARUC") Utility Rate School, which presents general regulatory and business issues.

I joined the Commission as a Public Utilities Analyst in May of 2006. Prior to employment with the Commission, I worked four years for the Arizona Office of the Auditor General as a Staff Auditor, and one year in public accounting as a Senior Auditor.

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

A. I am presenting Staff's analysis and recommendations regarding Sahuarita Water Company, LLC's ("SWC" or "Company") application for a permanent increase in its rates and charges for water utility service within Pima County, Arizona.

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

A. Based on the adjustments and revenue requirement recommended by Staff, I will present Staff's recommended rate design.

BACKGROUND

Q. Please review the background of this application.

A. The Company is an Arizona limited liability company. The Company is engaged in the business of providing water utility services in Sahuarita, Arizona. The Company served approximately 4,700 water customers during the test year ended December 31, 2009. The Company's current rates were approved in its original Certificate of Convenience and Necessity application, Decision No. 59431, dated December 28, 1995.

RATE DESIGN

Q. Would you please summarize the present rate design for the Company?

A. The present monthly minimum charges by meter size are as follows: 5/8 x 3/4-inch $16.00; 3/4-inch $25.00; 1-inch $40.00; 1 1/2-inch $75.00; 2-inch $120.00; 3-inch $225.00; 4-inch $375.00; 6-inch $750.00. No gallons are included in the monthly minimum charge. The water commodity rate for all meter sizes and customer classes is $2.05 per thousand gallons for zero to 6,000 gallons and $2.75 per thousand gallons for any consumption over 6,000 gallons. The present rate design also has a commodity charge for standpipe/construction water of $4.50 per thousand gallons for all usage.

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

A. The Company's proposed monthly minimum charges by meter size are as follows: 5/8 x 3/4-inch $24.75; 3/4-inch $37.13; 1-inch $61.88; 1 1/2-inch $123.76; 2-inch $198.02; 3-inch $396.03; 4-inch $618.80; 6-inch $1,237.60. Zero gallons are included in the monthly minimum charge. The Company proposes a 3-tier inverted residential commodity rate for the 5/8 x 3/4-inch meters of $3.34 per thousand gallons for zero to 4,000 gallons, $4.29 per thousand gallons for 4,001 to 10,000 gallons, and $5.04 per thousand gallons for any consumption over 10,000 gallons. The other proposed residential commodity rate tiers vary by meter size, but are $3.34 per thousand gallons for the first tier and $4.29 per thousand gallons for the second tier and $5.04 per thousand gallons for the third tier for residential meter sizes up to 1-inch. The proposed commodity rate tiers for the larger residential, commercial, and irrigation customers vary by meter size, but are $3.04 per thousand gallons for the first tier and $3.99 per thousand gallons for any consumption over the first tier. The Company is proposing a commodity charge rate of $5.04 per 1,000 gallons for standpipe customers for all usage.

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

A. Staff's recommended rates and charges are presented on Schedule JMM-1. Staff's recommended monthly minimum charges by meter size are as follows: 5/8 x 3/4-inch $16.00; 3/4-inch $25.00; 1-inch $40.00; 1 ½-inch $80.00; 2-inch $128.00; 3-inch $256.00; 4-inch $400.00; 6-inch $800.00. Zero gallons are included in the monthly minimum charge. For the 5/8 x 3/4-inch and 3/4-inch meter residential customers, Staff recommends an inverted 3-tier rate design with commodity charges of $2.36 per thousand gallons for zero to 3,000 gallons, $3.5000 per thousand gallons for 3,001 to 9,000 gallons, and $4.5000 per thousand gallons for any consumption over 9,000 gallons. Staff's recommended larger residential, commercial, and industrial commodity rates have two

tiers and vary by meter size, set at $3.5000 per thousand gallons for the first tier and $4.5000 per thousand gallons for any consumption over the first tier. Staff recommends no change in the commodity charge of $4.50 per 1,000 gallons for standpipe customers for all usage.

Q. What is the rate impact on a typical 5/8 x 3/4-inch meter residential customer in Sahuarita?

A. The typical 5/8 x 3/4-inch meter residential customers with a median usage of 5,000 gallons would experience a $16.15 or a 61.52 percent increase in their monthly bill, from $26.25 to $42.40, under the Company's proposed rates. The typical 5/8 x 3/4-inch meter residential customers with a median usage of 5,000 gallons would experience a $3.83 or a 14.59 percent increase in their monthly bill, from $26.25 to $30.08, under Staff's recommended rates. A typical bill analysis is provided on Schedule JMM-2.

Q. What does Staff recommend for service line and meter installation charges?

A. Staff recommends the service line and meter installation charges as discussed in Table K-1 of the previously docketed Staff Engineering Report and as presented in Schedule JMM-1.

Q. What does Staff recommended for other service charges?

A. Staff's recommended other service charges are presented in Schedule JMM-1 and reflect Staff's experience of what are reasonable and customary charges.

Q. Does this conclude your rate design direct testimony?

A. Yes, it does.

Monthly Usage Charge	Present	Company Proposed Rates	Staff Recommended Rates
Meter Size (All Classes):			
5/8 x 3/4 Inch	$ 16.00	$ 24.75	$ 16.00
3/4 Inch	25.00	37.13	25.00
1 Inch	40.00	61.88	40.00
1 1/2 Inch	75.00	123.76	80.00
2 Inch	120.00	198.02	128.00
3 Inch	225.00	396.03	256.00
4 Inch	375.00	618.80	400.00
6 Inch	750.00	1,237.60	800.00
Commodity Charge - Per 1,000 Gallons			
5/8" x 3/4" Meter (All Classes, Except Standpipe/Contruction)			
First 6,000 gallons	$ 2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
5/8" x 3/4" Meter (Residential)			
First 4,000 gallons	N/A	$ 3.3400	N/A
4,001 to 10,000 gallons	N/A	4.2900	N/A
Over 10,000 gallons	N/A	5.0400	N/A
First 3,000 gallons	N/A	N/A	$ 2.3600
3,001 to 9,000 gallons	N/A	N/A	3.5000
Over 9,000 gallons	N/A	N/A	4.5000
5/8" x 3/4" Meter (Commerical/Irrigation)			
First 10,000 gallons	N/A	4.2900	N/A
Over 10,000 gallons	N/A	5.0400	N/A
First 9,000 gallons	N/A	N/A	3.5000
Over 9,000 gallons	N/A	N/A	4.5000
3/4" Meter (Residential)			
First 6,000 gallons	N/A	3.3400	N/A
6,001 to 15,000 gallons	N/A	4.2900	N/A
Over 15,000 gallons	N/A	5.0400	N/A
First 3,000 gallons	N/A	N/A	2.3600
3,001 to 9,000 gallons	N/A	N/A	3.5000
Over 9,000 gallons	N/A	N/A	4.5000
3/4" Meter (Commerical/Irrigation)			
First 15,000 gallons	N/A	4.2900	N/A
Over 15,000 gallons	N/A	5.0400	N/A
First 9,000 gallons	N/A	N/A	3.5000
Over 9,000 gallons	N/A	N/A	4.5000
1" Meter (All Classes, Except Standpipe/Construction)			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
1" Meter (Residential)			
First 10,000 gallons	N/A	3.3400	N/A
10,001 to 25,000 gallons	N/A	4.2900	N/A
Over 25,000 gallons	N/A	5.0400	N/A
First 20,000 gallons	N/A	N/A	3.5000
Over 20,000 gallons	N/A	N/A	4.5000
1" Meter (Commercial)			
First 25,000 gallons	N/A	N/A	N/A
Over 25,000 gallons	N/A	N/A	N/A
First 20,000 gallons	N/A	N/A	3.5000
Over 20,000 gallons	N/A	N/A	4.5000
1" Meter (Commercial/Irrigation)			
First 10,000 gallons	N/A	3.0400	N/A
10,001 to 25,000 gallons	N/A	3.9900	N/A
First 20,000 gallons	N/A	N/A	3.5000
Over 20,000 gallons	N/A	N/A	4.5000
1.5" Meter (All Classes, Except Standpipe/Construction)			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
First 50,000 gallons	N/A	3.0400	N/A
Over 50,000 gallons	N/A	3.9900	N/A

First 45,000 gallons	N/A	N/A	3.5000
Over 45,000 gallons	N/A	N/A	4.5000
2" Meter (All Classes, Except Standpipe/Construction)			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
First 80,000 gallons	N/A	3.0400	N/A
Over 80,000 gallons	N/A	3.9900	N/A
First 80,000 gallons	N/A	N/A	3.5000
Over 80,000 gallons	N/A	N/A	4.5000
3" Meter (All Classes, Except Standpipe/Construction)			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
First 160,000 gallons	N/A	3.0400	N/A
Over 160,000 gallons	N/A	3.9900	N/A
First 160,000 gallons	N/A	N/A	3.5000
Over 160,000 gallons	N/A	N/A	4.5000
4" Meter (All Classes, Except Standpipe/Construction)			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
First 250,000 gallons	N/A	3.0400	N/A
Over 250,000 gallons	N/A	3.9900	N/A
First 265,000 gallons	N/A	N/A	3.5000
Over 265,000 gallons	N/A	N/A	4.5000
6" Meter (All Classes, Except Standpipe/Construction)			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
First 500,000 gallons	N/A	3.0400	N/A
Over 500,000 gallons	N/A	3.9900	N/A
First 560,000 gallons	N/A	N/A	3.5000
Over 560,000 gallons	N/A	N/A	4.5000
Standpipe (Construction)			
All Usage	4.5000	5.0400	4.5000

Other Service Charges

Establishment	$ 25.00	$ 25.00	$ 25.00
Establishment (After Hours)	$ 40.00	$ 40.00	$ 40.00
Reconnection (Delinquent)	$ 25.00	$ 25.00	$ 25.00
Reconnection (Delinquent) - After Hours	$ -	$ 40.00	$ 40.00
NSF Check	$ 15.00	$ 15.00	$ 15.00
Meter Test (If Correct)	$ 25.00	$ 25.00	$ 25.00
Deposit	*	*	*
Deposit Interest**	6 percent	1 percent	6 percent
Reestablishment (within 12 months)	***	***	***
Late Payment Penalty	$ 5.00	$5.00 or 1.50 percent per month	$5.00 or 1.50 percent per month
Deferred Payment	1.5 percent per month	1.5 percent per month	1.5 percent per month
Moving Meter at Customer Request	At Cost	At Cost	At Cost
Main Extenstion and Additional Facilities	At Cost	At Cost	At Cost

* Per Commission Rule A.A.C. R-14-2-403(B)
** Per Commission Rule A.A.C. R-14-2-403(B)
*** Per Commission Rule A.A.C. R-14-2-403(D) - Months off the system times the monthly minimum.

Service and Meter Installation Charges

	Total Present Charge	Proposed Meter Insallation Charge	Total Proposed Charge	Recommended Service Line Charge	Recommended Meter Insallation Charge	Total Recommended Charge
Service Size 5/8"	$ -	$ 155.00	$ 600.00	$ 445.00	$ 155.00	$ 600.00
3/4"	$ -	$ 255.00	$ 700.00	$ 445.00	$ 255.00	$ 700.00
1"	$ -	$ 315.00	$ 810.00	$ 495.00	$ 315.00	$ 810.00
1-1/2"	$ -	$ 525.00	$ 1,055.00	$ 530.00	$ 525.00	$ 1,055.00
2" Turbine	$ 998.00	$ 1,045.00	$ 1,875.00	$ 830.00	$ 1,045.00	$ 1,875.00
2" Compound	$ 1,488.00	$ 1,890.00	$ 2,720.00	$ 830.00	$ 1,890.00	$ 2,720.00
3" Turbine	$ 1,378.00	$ 1,670.00	$ 2,715.00	$ 1,045.00	$ 1,670.00	$ 2,715.00
3" Compound	$ 1,928.00	$ 2,545.00	$ 3,710.00	$ 1,165.00	$ 2,545.00	$ 3,710.00
4" Turbine	$ 2,208.00	$ 2,670.00	$ 4,160.00	$ 1,490.00	$ 2,670.00	$ 4,160.00
4" Compound	$ 2,823.00	$ 3,645.00	$ 5,315.00	$ 1,670.00	$ 3,645.00	$ 5,315.00
6" Turbine	$ 4,218.00	$ 5,025.00	$ 7,235.00	$ 2,210.00	$ 5,025.00	$ 7,235.00
6" Compound	$ 5,498.00	$ 6,920.00	$ 9,250.00	$ 2,330.00	$ 6,920.00	$ 9,250.00
Over 6"	$ -	At Cost	At Cost	At Cost	At Cost	At Cost

Sahuarita Water Company
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Schedule JMM-2

Typical Bill Analysis
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	5,424	$ 27.12	$ 44.22	$ 17.10	63.05%
Median Usage	5,000	26.25	42.40	$ 16.15	61.52%
Staff Recommended					
Average Usage	5,424	$ 27.12	$ 31.56	$ 4.44	16.39%
Median Usage	5,000	26.25	30.08	$ 3.83	14.59%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	$ 16.00	$ 24.75	54.69%	$ 16.00	0.00%
1,000	18.05	28.09	55.62%	18.36	1.72%
2,000	20.10	31.43	56.37%	20.72	3.08%
3,000	22.15	34.77	56.98%	23.08	4.20%
4,000	24.20	38.11	57.48%	26.58	9.83%
5,000	26.25	42.40	61.52%	30.08	14.59%
6,000	28.30	46.69	64.98%	33.58	18.66%
7,000	31.05	50.98	64.19%	37.08	19.42%
8,000	33.80	55.27	63.52%	40.58	20.06%
9,000	36.55	59.56	62.95%	44.08	20.60%
10,000	39.30	63.85	62.47%	48.58	23.61%
11,000	42.05	68.89	63.83%	53.08	26.23%
12,000	44.80	73.93	65.02%	57.58	28.53%
13,000	47.55	78.97	66.08%	62.08	30.56%
14,000	50.30	84.01	67.02%	66.58	32.37%
15,000	53.05	89.05	67.86%	71.08	33.99%
16,000	55.80	94.09	68.62%	75.58	35.45%
17,000	58.55	99.13	69.31%	80.08	36.77%
18,000	61.30	104.17	69.93%	84.58	37.98%
19,000	64.05	109.21	70.51%	89.08	39.08%
20,000	66.80	114.25	71.03%	93.58	40.09%
25,000	80.55	139.45	73.12%	116.08	44.11%
30,000	94.30	164.65	74.60%	138.58	46.96%
35,000	108.05	189.85	75.71%	161.08	49.08%
40,000	121.80	215.05	76.56%	183.58	50.72%
45,000	135.55	240.25	77.24%	206.08	52.03%
50,000	149.30	265.45	77.80%	228.58	53.10%
75,000	218.05	391.45	79.52%	341.08	56.42%
100,000	286.80	517.45	80.42%	453.58	58.15%

ALL-STATE LEGAL®
EXHIBIT
S-9

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION OF SAHUARITA WATER COMPANY, L.L.C. ("SWC") FOR AN OPINION AND ORDER OF THE COMMISSION (i) DETERMINING THE FAIR VALUE OF THE UTILITY PROPERTY OF SWC FOR RATEMAKING PURPOSES, (ii) FIXING A JUST AND REASONABLE RATE OF RETURN THEREON, (iii) APPROVING RATES AND CHARGES DESIGNED TO PRODUCE REVENUES SUFFICIENT TO RECOVER SWC'S COST OF SERVICE AND AUTHORIZED RATE OF RETURN, AND (iv) PROVIDING FOR THE RECOVERY OF CERTAIN FINANCINGS AND OPERATING EXPENSES THROUGH A SURCHARGE AND A PASS-THROUGH TARIFF, RESPECTIVELY	)	DOCKET NO. W-03718A-09-0359

SURREBUTTAL

TESTIMONY

OF

JEFFREY M. MICHLIK

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JUNE 21, 2010

TABLE OF CONTENTS

Page

INTRODUCTION 1

REVENUE REQUIREMENT 2

RATE BASE SUMMARY 2

CUSTOMER DEPOSITS 3

AFFILIATE SALARIES 5

A. Affiliates *5*
B. Salary Surveys *6*
C. Management Contract *8*
D. Company Supplied Information *9*
E. 10-Year Staffing Plan *13*
F. Bonuses *14*
G. Pro-Forma Adjustment to Salary *15*

RATE CASE EXPENSE 15

CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION ("CIAC") AMORTIZATION 16

INCOME TAXES 18

CENTRAL ARIZONA GROUND WATER REPLENISHMENT DISTRICT ("CAGRD") 20

SURREBUTTAL SCHEDULES

Revenue Requirement JMM-1

Rate Base – Original Cost JMM-2

Summary of Original Cost Rate Base Adjustments JMM-3

Rate Base Adjustment No. 1 – Post Test Year Plant JMM-4

Rate Base Adjustment No. 2 – Plant Not Used and Useful JMM-5

Rate Base Adjustment No. 3 – Accumulated Depreciation JMM-6

Rate Base Adjustment No. 4 – Customer Deposits JMM-7

Rate Base Adjustment No. 5 – Deferred Income Taxes JMM-8

Operating Income Statement – Adjusted Test Year and Staff Recommended JMM-9

Summary of Operating Income Statement Adjustments – Test Year JMM-10

Operating Income Adj. No. 1 – Affiliate Management Fees JMM-11

Operating Income Adj. No. 2 – Beverage Expense JMM-12
Operating Income Adj. No. 3 – Water Testing Expense JMM-13
Operating Income Adj. No. 4 – Rent Expense JMM-14
Operating Income Adj. No. 5 – Rate Case Expense JMM-15
Operating Income Adj. No. 6 – Depreciation Expense JMM-16
Operating Income Adj. No. 7 – Property Tax Expense JMM-17
Operating Income Adj. No. 8 – Income Tax Expense JMM-18
Rate Design JMM-19
Typical Bill Analysis JMM-20

ATTACHMENTS

Employment Agreement ..... A
Salaries of B Size Companies regulated by the Arizona Corporation Commission ..... B
Management Services Agreement C
Rancho Sahuarita 10 Year Staffing Plan 2006 – 2016 ..... D

EXECUTIVE SUMMARY
SAHUARITA WATER COMPANY, LLC
DOCKET NO. W-03718A-09-0359

Staff's Surrebuttal Testimony recommends revised rates that would increase operating revenues by $399,357 to produce operating revenues of $2,614,500 resulting in operating income of $801,261 or an 18.03 percent increase over test year revenues of $2,215,143. Staff also recommends a revised FVRB of $8,709,357. Staff's recommended rate of return is 9.20 percent.

Revenue Requirement

Staff recommends its revised revenue requirement, revised revenue increase, and revised percentage of revenue increase.

Rate Base

Staff responds to Sahuarita Water Company, LLC's ("Company") comments on Staff's inclusion of customer deposits in rate base.

Income Statement

Staff recommends revised operating income, and responds to the Company's comments on affiliate salaries, amortization of contributions in aid of construction ("CIAC"), and income taxes. Based on new information, Staff now recommends disallowance of employee bonuses.

Other Issues

Staff responds to the Company's comments on the Central Arizona Ground Water Replenishment District ("CAGRD") Fee.

INTRODUCTION

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

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

Q. Are you the same Jeffrey M. Michlik who filed Direct Testimony in this case?

A. Yes, I am.

Q. What is the purpose of your Surrebuttal Testimony in this proceeding?

A. The purpose of my Surrebuttal Testimony in this proceeding is to respond, on behalf of Staff, to the Rebuttal Testimony of Sahuarita Water Company ("Company") witnesses, Mrs. Marian Homiak, Mr. Mark Seamans, Mr. David S. Cutler, and Mr. Thomas J. Bourassa, regarding revenue requirement, rate base, and operating revenues and expenses.

Q. Did you attempt to address every issue the Company raised in its Rebuttal Testimony?

A. No. Staff limited its discussion to the specific issues as outlined below. Staff's lack of response to any issue in this proceeding should not be construed as agreement with the Company's position in its Rebuttal Testimony; rather, where there is no response, Staff relies on its original Direct Testimony.

Q. Please explain how Staff's Surrebuttal Testimony is organized.

A. Staff's Surrebuttal Testimony is generally organized to present issues that the Company presents in its Rebuttal Testimonies.

REVENUE REQUIREMENT

Q. Has Staff reviewed Mr. Bourassa's Rebuttal Testimony regarding revenue requirement for the Company?

A. Yes.

Q. Please summarize the proposed and recommended revenue requirement, revenue increase, and percentage increase.

A. The proposed and recommended revenue requirement, revenue increase, and percentage increase are as follows:

	Revenue Requirement	Revenue Increase	Percentage Increase
Company-Direct	$3,377,358	$1,162,216	52.47 percent
Staff-Direct	$2,477,559	$262,416	11.85 percent
Company-Rebuttal	$3,518,855	$1,303,712	58.85 percent
Staff-Surrebuttal	$2,608,189	$393,046	17.74 percent

Q. Why is the Company's revenue requirement higher and proposed increase larger than Staff's recommendation?

A. The difference in revenue requirement is primarily a result of the differences in post-test year plant, cost of capital, tax issues, amortization of CIAC, and salary expenses.

RATE BASE SUMMARY

Q. Has Staff reviewed Mr. Bourassa's Rebuttal Testimony regarding rate base for the Company?

A. Yes.

Q. Please identify each party's respective rate base recommendations?

A. Yes. The rate bases proposed and recommended by all parties in the case are as follows:

	OCRB	FVRB
Company-Direct	$7,418,410	$7,418,410
Staff-Direct	$8,709,357	$8,709,357
Company-Rebuttal	$10,059,443	$10,059,443
Staff-Surrebuttal	$8,709,357	$8,709,357

CUSTOMER DEPOSITS

Q. Does Staff still believe security deposits should be included in rate base?

A. Yes. By definition customer security deposits are customer deposits.

Q. On page 14 of Mr. Bourassa's testimony, he states that the Company disagrees with Staff's inclusion of customer deposits in rate base for three reasons. First he states that customer security deposits are not capital provided by non-investors. Does the rate making accounting literature support this position?

A. No. In fact, as stated in my direct testimony, according to the publication Accounting for Public Utilities, by Robert L. Hane, Gregory E. Aliff, and Deloitte & Touche LLP:

> *Customer deposits represent funds received from ratepayers as security against potential losses arising from failure to pay for service. These funds are similar in nature to customer advances for construction. Both represent a liability to repay the funds received either after a specified period or upon satisfaction of certain requirements. Like customer advances, the deposits are available to the utility for use in support of its rate base investment.*

Q. How does the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts for Class B Water Utilities define account 235 Customer Deposits?

A. NARUC states: "This account shall include all amounts deposited with the utility by customers as security for the payment of bills."

Q. Mr. Bourassa states, on page 15 of his Rebuttal Testimony, that "if Staff truly considered the security deposit as a source of capital then Staff should have included the annual interest cost in operating expense." Does Staff disagree with including the annual interest cost in operating expenses?

A. No. Staff will consider inclusion of an appropriate amount of interest expense on customer security deposits in operating expenses if the amount is appropriately supported. Documentation would include, but would not be limited to, documentation showing the customer name, amount of the deposit, the length of time the deposit was held, the calculation of the interest expense, and the front and the back of the canceled check for a sufficient number of customers. It may also include a comparison/reconciliation of new customers to deposits received and other similar analyses.

Q. Do you agree with Mr. Bourassa's statement on page 15, of his Rebuttal Testimony, that "[s]ecurity deposits are akin to prepaid expense and materials and supplies inventory which are components of working capital"?

A. No. As stated earlier, customer deposits are akin to advances in aid of construction and are deductions from rate base, and are not components of working capital.

Q. If deposits are not deducted from rate base what is the effect?

A. Similar to advances in aid of construction, the Company would be earning a return on money that is not its own investment.

AFFILIATE SALARIES

A. Affiliates

Q. Did you address the issue of affiliate organizations in your Direct Testimony?

A. Yes.

Q. Did the Company respond to the affiliate issue in its Rebuttal Testimony?

A. No.

Q. Is the Company nevertheless still stating that Rancho Sahuarita Management Company, LLC (or "Management Company") is not an affiliate of the Company?

A. Yes. In the Company's responses to Staff data requests JMM 7-4, JMM 7-5, JMM 7-6, JMM 7-8, and JMM 7-9, the Company affirmatively stated, "Sahuarita Water Company ("SWC") does not agree that it is an "affiliate" of the Management Company."

Staff notes, as stated in Direct Testimony, that the President of the Management Company, Mark Seamans, confirmed that the Company was an affiliated entity.

Q. Would Staff like to add any additional information at this time?

A. Yes. In response to data request JMM 7-6, the Company provided Staff with an employment agreement between Mark Seamans and the Management Company, for the position of General Manager of the Company.

The Severance Package clause states the following (see Attachment A):

> *Severance in the Event of a Sale: If, after your Hire Date, the Rancho Sahuarita Water Company is sold to an unaffiliated entity (unaffiliated shall mean any entity not owned, managed, or controlled by Bob Sharpe, Fred Lewis, Cort Chalfant or other subsequent senior managers of Rancho Sahuarita related companies including but not limited to: Rancho Sahuarita Manangement Company, LLC, Interchange Opportunity Fund, LLP, or Sharpe and Associates, Inc.) and the new entity then terminates your employment within ninety (90) days of the closing date of the sale for reasons other than the "Exceptions" listed herinafter under the "Severance" provision, then you shall be entitled to a lump-sum payment thereupon equal to Eighty-Thousand Dollars, less any tax withholding required by law, upon signing a Release of All Claims acceptable to the Company.*

Q. Who owns the Management Company?

A. MKS Equitas Investment Group, LTD.

Q. Who owns and is President and Director of MKS Equitas Investment Group?

A. Fred Lewis.

Q. What does Staff conclude from this information?

A. Since the above clause describes as an affiliate any entity that is owned, managed or controlled by Fred Lewis, then, by the Company's own definition, the Management Company is an affiliate, as confirmed by the statement of its president.

B. Salary Surveys

Q. Have you reviewed the Rebuttal Testimony of Marian Homiak?

A. Yes.

Q. In Ms. Homiak's testimony, did she provide surveys conducted by the American Water Works Association ("AWWA"), New York times surveys, and surveys of water companies in Arizona?

A. Yes.

Q. Ms. Homiak stated that the surveys from the New York Times are not industry-specific, and that the AWWA survey is industry-specific, but does not address regional differences. Please comment.

A. Staff agrees with that assessment, and based on the limitations as cited in her testimony, Staff concludes that the surveys do not provide adequate substantiation for salary amounts. The comparison should be made against similarly-situated B-sized water companies under the jurisdiction of the Commission.

Q. Did the Company provide any comparison to water companies in Arizona under the jurisdiction of the ACC?

A. Yes. The Company provided a comparison of its operating costs to other Arizona water utilities.

Q. Please comment on the Company's survey.

A. First, the comparison includes utilities that vary in size from the Company. Further, several of the companies illustrated have no salary information, and the cost at issue relates specifically to salaries, not to operating costs in general.

Q. Are salary surveys a substitution for competitive bids?

A. No. Conventional wisdom and data indicate that the competition intrinsic in the bidding process brings about a price advantage to rate payers that a salary survey alone does not.

This competition helps to ensure that the best service at the lowest price is obtained. Salary surveys may provide some helpful comparisons, but they are also highly subjective.

Q. What do you mean by highly subjective?

A. Overall service requirements, as well as specific duties and responsibilities of any given job title, may be quite variable from one water system to the next.

Q. Did Staff prepare a comparison of the Company's salary expense to the salary expense of other B-size water companies under the Commission's jurisdiction?

A. Yes (please see attachment B).

Q. What does Staff's comparison suggest?

A. Staff's comparison clearly illustrates that, even among similar-sized water utilities in Arizona, there is a large variance in salary costs from one system to the next, making salary surveys an unreliable basis for comparison.

C. Management Contract

Q. On page 5 of her Rebuttal Testimony, Ms. Homiak unequivocally states that there is not a 25 percent mark-up for overhead and profit for the Management Company. Please comment.

A. Based on a series of Staff data requests and review of the affiliate's general ledger, Staff could not detect a separate line item for either an overhead and/or profit component.

Q. Did Staff examine the contracts of other affiliates that the Management Company does business with?

A. Yes.

Q. Did any of those contracts include a detailed schedule of employee salaries like the one included in this management contract?

A. No.

Q. Does the absence of a separate mark-up necessarily mean that Staff finds the salaries are reasonable?

A. No. I will discuss this later in my testimony.

Q. Does Staff still have concerns related to the management contract?

A. Yes. Even though the Management Company stated that it currently does not bill the Company for the 25 percent mark-up for overhead and profit, this does not preclude the Management Company from including this mark-up at a later date.

D. Company Supplied Information

Q. You stated earlier that the Management Company's salary expense appeared high compared to other similarly-sized water companies in Arizona?

A. Yes, and as a result Staff asked for additional information from the Company that was not available when Staff filed its Direct Testimony.

Q. Referring to Schedule 1 of the Contract between the Company and the Management Company (see Attachment C), the Company makes a distinction between dedicated and not dedicated employees. What does this mean?

A. The Company's response to Staff data request JMM 7-1 indicated that "not dedicated" employees are employees with a salary allocation to the Company that is less than 100 percent. Dedicated employees are employees with a salary allocation to the Company that is equal to 100 percent.

Q. Does Staff have concerns regarding the allocation of salaries for employees classified as "not dedicated?"

A. Yes, such an allocation creates the potential for salary costs that actually belong to the unregulated affiliate to be shifted to the regulated water company and its captive rate payers.

Q. Where are these "not dedicated" employees assigned?

A. According to the Company's response to Staff data request 7-5, these employees are assigned to 001 – Corp Office – Sharpe & Associates.

Q. How much salary expense of these "not dedicated" employees was allocated from the Management Company to the Company?

A. $100, 831.

Q. How much salary expense in bonuses for these "not dedicated" employees was allocated from the Management Company to the Company?

A. $16,598.

Q. Would Staff necessarily disallow the salary costs of these employees just because the employees were not dedicated full-time to the Company?

A. No. Staff would recommend inclusion of any costs that were reasonable and properly substantiated. To that end, Staff requested supporting documentation for the allocated costs of the "not dedicated" employees.

Q. Did Staff request supporting documentation for the allocated costs of the "non-dedicated" employees?

A. Yes. Specifically, Staff asked how the allocation percentages of those employees were derived.

Q. What was the Company's response?

A. The Company responded, "The percentage allocated to each position was based on the employee's estimate of actual time spent."

Q. Did Staff also ask for timesheets to support the employees' activities?

A. Yes. However, the Company's timesheets provided only the number of hours worked by the employees and no descriptions of actual activities performed.

Q. What did Staff specifically request of the Company?

A. Staff specifically asked the following question:

> *Please explain how the contract salary expense of the President who was employed through July 2008 was directly or indirectly related to the provision of water service for the Company's customers. As part of your response, please state the number of hours worked directly for the Company and provide timesheets specifically indentifying the number of direct hours worked along with a description of the type of work performed.*

Q. What was the Company's response?

A. The President, through July 2008, estimated that he spent 20 hours per week on tasks related to water services for the Company's customers. In that position, the President:

- Provided strategic planning and vision for the Company;

- Hired and worked directly with the General Manager monitoring customer service, operations, water quality and staff;
- Communicated monthly reports and updates to ownership;
- Reviewed all contracts and coordinated with legal counsel;
- Established and maintained policies and procedures to insure consistency with management policies; and,
- Created annual action plans detailing projects and goals for upcoming years.

Q. Does Staff find the Company's support adequate?

A. No. There is no indication of what the "not dedicated" employees actually worked on--only vague statements and guesses as to the percentage that was charged to the Company.

Q. Is this type of accounting practice in accordance with NARUC?

A. No. NARUC directs that, to the maximum extent practicable, in consideration of administrative costs, costs should be collected and classified on a direct basis for each asset, service or product provided.

Q. What are direct costs?

A. Direct costs are those which can be specifically identified with a particular service or product.

Q. Can you give an example?

A. Yes. Most legal invoices that Staff reviews specify the number of hours that an attorney works on different areas of a rate case. For, example, .25 hours reviewing Staff data requests, 1 hour working on company filing, etc., along with the cost charged per each hour of work.

Q. Could the Management Company have used this methodology to track the expenses for "not dedicated" employees?

A. Yes, such a methodology would be far more accurate and reliable than a vague "estimate" of time spent performing an array of activities for one of a number of affiliates.

E. 10-Year Staffing Plan

Q. Did Sahuarita provide Staff with its own 10-year staffing plan from 2006-2016 for the Company (see Attachment D)?

A. Yes. Specifically, the Company provided an organizational chart for 2007-2015 that includes the positions of General Manager, Operations Manager, Customer Service Manager, Controller, Water Quality Manager, as well as various laborer and operator positions, based on projected growth.

Q. Are the President, Human Resource Manager, Bookkeeper, Vice President, and Chief Financial Officer of the Management Company included in this 10-year staffing plan for the Company?

A. No. Further, these positions are not included in the Management Staff job descriptions provided and are not included in the projections in Table 4.

Q. Does Staff have a concern with the Company chart or the number of employees that are currently dedicated to the Company?

A. No. Staff's concern is that expenses may be included in the allocation to the Company from the affiliate Management Company for salaries that are not necessary in the day-to-day operations of the Company.

Q. What is Staff's recommendation?

A. Staff recommends that $100,831 be removed from affiliate salaries (see Surrebuttal Schedule JMM-11).

F. Bonuses

Q. Did Staff make an adjustment for Company bonuses?

A. Yes.

Q. Why is this adjustment being proposed now in Surrebuttal Testimony, rather than in Staff's Direct Testimony?

A. When information on employee bonuses was first requested by Staff, the Company's response did not detail this data. However, in response to a follow-up data request, the Company indicated that it paid $33,579 in bonuses.

Q. Are bonuses necessary to the provision of water service?

A. No. Bonus pay is not part of an employee's base salary; payment is conditional on performance, so there is no guarantee that the money will actually be paid to the employee. Including incentive pay in the Company's revenue requirement guarantees enough money to pay employees who are not guaranteed to receive it. This is unfair to ratepayers and should not be allowed.

Q. Can you cite a recent Commission Decision in which removal of employee bonuses was approved by the Commission?

A. Yes. Decision No. 71274,[1] for Sulphur Springs Valley Electric Cooperative, removed employee bonuses from rates, at page 14.

[1] Dec. No. 71274 at 14:15-16, issued September 8, 2009.

Q. What is Staff's recommendation?

A. Staff recommends that $33,579 be removed from affiliate salaries (see Surrebuttal Schedule JMM-11).

G. Pro-Forma Adjustment to Salary

Q. Has Staff now included the $40,500 pro-forma adjustment to salary that it excluded in the Direct Testimony?

A. Yes.

Q. Does Staff now believe the pro-forma adjustment is reasonable?

A. Yes. Based on a data request from Staff, the Company responded:

> *The position of Customer Service Manager was vacated in November 2007 and was not staffed again until September 29, 2008. Therefore, during the test year, the salary for only October and November is reflected. This is the reason for the $40,500 adjustment requested in our application, to cover the costs of this position for a full year.*

Additionally, this position was identified as a dedicated position in Schedule 1, Compensation to Contractor, of the management service agreement, and was also indentified in the Company's 10-Year Staffing Plan.

RATE CASE EXPENSE

Q. Mr. Bourassa proposes a surcharge for recovery of rate case expense. What is Staff's position?

A. Staff believes that rate case expense is an ordinary cost of doing business for a regulated utility and is not an appropriate cost for an extraordinary mechanism such as a surcharge. Staff believes that revenues and expenses should be included in base rate calculations as

part of regularly-filed rate applications that take into consideration all factors that affect the Company.

CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION ("CIAC") AMORTIZATION

Q. What is the best methodology to calculate the amortization of CIAC?

A. Ultimately, the best methodology to calculate the amortization of CIAC is to identify the amount of CIAC in each plant account and to multiply that amount by the depreciation rate of the respective plant account. The sum of the individual amounts would represent the amortization of CIAC.

Q. Do most companies know the exact amount of CIAC included in each plant account?

A. No, they do not.

Q. When the exact amount of CIAC included in each plant account is not known, what methodology does Staff recommend to calculate the amortization of CIAC?

A. When the exact amount of CIAC included in each plant account is not known, Staff recommends calculating a composite depreciation rate by dividing depreciation expense by depreciable plant.

Q. Has the Commission previously approved of Staff's methodology?

A. Yes. With few exceptions, this methodology has been approved by the Commission for all rate cases that come before the Commission.

Q. Did Staff review Mr. Bourassa's Rebuttal Testimony concerning amortization of CIAC?

A. Yes. Mr. Bourassa claims that non-depreciable plant items should be included in the composite rate calculated for the amortization of CIAC because non-depreciable plant items can be purchased with CIAC.

Q. What is Staff's response to the Company's proposal to include non-depreciable plant items in its amortization of CIAC calculation?

A. If the Company wants to move away from using a composite rate for CIAC amortization, then the Company must identify the amount of CIAC for both depreciable and non-depreciable plant by plant account number, and provide Staff with documentation supporting the CIAC amount.

Q. Has Mr. Bourassa made this argument before or contested Staff's methodology on the amortization of CIAC before?

A. No. However, I note this is the same methodology he is proposing in the current Bella Vista Water Co. case (Docket No. W-02465A-09-0411).

Q. To what non-depreciable plant items is he referring?

A. Based on the Company's Plant-in-Service Schedules, he is referring to Account 301 Organization Costs in the amount of $7,541, Account 302 Franchise Cost in the amount of $350,861, and Land and Land Rights in the amount of $13,636.

Q. Are organization costs and franchise costs generally paid by the Company and not costs that are contributed by someone other than the Company?

A. Yes.

Q. Did Staff review these accounts, and the supporting documentation provided to it by the Company, and what was Staff's conclusion?

A. Yes. Staff's conclusion is that there is no CIAC associated with these accounts.

Q. Are Land and Land Rights items that could be contributed by someone other than the Company?

A. Yes. However, the Company provided Staff with special warranty deeds, and also a spreadsheet indicating a purchase price for the land. Therefore, Staff concludes no CIAC was associated with this account.

Q. So, in the instant case, would it be erroneous to apply Mr. Bourassa's methodology?

A. Yes, in the calculation of a CIAC composite rate. The Company needs to provide supporting documentation not only for these accounts, but also the depreciable plant accounts. If it identifies contributions in the non depreciable accounts, it should be able to indentify contributions in all the plant accounts and Staff would need to review this information to confirm accuracy.

INCOME TAXES

Q. Have you read the testimony of David S. Cutler, CPA on behalf of the Company.

A. Yes.

Q. Based on his Rebuttal Testimony at page 2, Mr. Cutler states that his testimony "is designed to address and fill two (2) evidentiary "gaps" that were apparently present in the Sunrise Water Company and Farmers Water Co. cases decided by the Commission on December 23, 2009, (Decision No. 71445) and March 17, 2010, (Decision No. 71510), respectively." Does the provision of the Company's K-1 Schedules offer any new, relevant evidence which affects Staff's stated position?

A. No. The Internal Revenue Service ("IRS") requires the pass-through entity to file an informational return to report the individual owners' pro-rata shares of the entity's income. This pro-rata share of income is reported for each owner in the Schedules K-1, for the owner's use in calculating and reporting his own income tax liability. The provision of the K-1 simply substantiates that the Company made its informational filing as required by the IRS. This is not new, relevant information.

Q. Please respond to Mr. Bourrassa's comments that the removal of income taxes from the expenses of a Limited Liability Company ("LLC") results in the LLC "being treated differently than a C-Corp when there is no sound justification to do so"?

A. Staff does not agree. The differing treatment has a very sound basis in federal tax law. The IRS *requires* that "[a]n LLC business entity must file as a corporation, partnership or sole proprietorship."[2] Further, if not automatically classified as a corporation, an LLC can file to elect its business entity classification.

Q. So the Company, if it chose, could have elected to be taxed as a subchapter "C" corporation, and included income taxes as assessed by the IRS in this rate case?

A. Yes. Instead, the Company chose to be taxed as a partnership. According to the IRS:

[2] From the IRS web site, available at: http://www.irs.gov/businesses/small/article/0,,id=98277,00.html.

> *A partnership must file an annual information return to report the income, deductions, gains, losses, etc., from its operations,* ***but it does not pay income tax****. Instead, it "passes through" any profits or losses to its partners.* ***Each partner includes his or her share of the partnership's income or loss on his or her tax return.*** (Emphasis added).[3]

This is clearly not a mere technical distinction as characterized by Mr. Bourassa.[4]

Q. Please respond to Mr. Bourrassa's comments that the removal of income taxes from the expenses of a LLC results in the ratepayers receiving an unjustified windfall"?

A. Staff does not agree. In fact, just the opposite is true. If ratepayers are required to pay for the individual tax liability of the LLC members, it is actually the LLC members who are receiving the windfall by unfairly charging the ratepayers for their personal tax liability, an expense that is not related to utility service.

CENTRAL ARIZONA GROUND WATER REPLENISHMENT DISTRICT ("CAGRD")

Q. Have your read Mr. Mark Seamans's Rebuttal Testimony on CAGRD?

A. Yes.

Q. In regards to Condition No. 5, Mr. Seamans states that the June 30, 2010, date should be revised. Please respond?

A. Yes. Staff agrees and the new date should be June 30, 2012.

---

[3] From the IRS web site, available at: http://www.irs.gov/businesses/small/article/0,,id=98214,00.html.
[4] "Staff's challenge to the inclusion of income taxes rests merely on a technical distinction rather than reality." Bourassa Rebuttal Testimony at p. 12.

Q. As to Condition No. 6, Mr. Seamans states that this condition is too vague, and then goes on to ask what agencies Staff is referring to and what supporting documentation Staff needs. Can you clarify?

A. Yes. Staff is recommending that the Company provide any and all supporting documentation that is used in the calculation of the Company's CAGRD amount. Staff is referring to any and all agencies to whom the Company provides CAGRD-related information. Staff also agrees with the Company that the word Tucson should be substituted for Pima, on page 27, line 19.

Q. With reference to Condition No. 7, Mr. Seamans states that "consideration by the Commission" is disturbing. Please respond?

A. Ultimately, it is the Commission's decision on whether to approve, deny, or modify any adjuster mechanism at anytime. Therefore, the control of the adjustor mechanism lies with the Commission not with the Company.

Q. Please respond to the Company's criticism that Condition No. 8 is too rigid?

A. To clarify once again, this is a new adjustor mechanism, one with which Staff has no experience. There is no history or record with this adjustor mechanism. A change in the way in which the CAGRD fee is assessed would require Staff analysis and a recommendation on any new change to the adjustor mechanism. Staff disagrees with the implicit assertion made by the Company that it would be an abrupt change. Staff believes that the CAGRD would make known any proposed changes in methodology at least several months in advance such change, just like it does with its membership charges, which are projected years into the future.

Q. What is Staff's response to the Company's hypothetical question regarding Condition No. 9 about what would happen if the CAGRD fee changed from once a year to perhaps multiple times a year?

A. As with the last response, Staff would need to do an analysis and put forth a recommendation on any new change to the adjustor mechanism. Again it is highly unlikely that CAGRD would give no advance warning of a pending change to its methodology.

Q. What is Staff's recommendation regarding the CAGRD if Staff's proposed conditions are not adopted?

A. Staff recommends that the CAGRD adjustor mechanism recommended by Staff should be approved only if Staff's recommended conditions are also approved.

Q. Does this conclude your Surrebuttal Testimony?

A. Yes, it does.

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Surrebuttal Schedule JMM-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	$ 7,418,410	$ 8,709,357
2	Adjusted Operating Income (Loss)	$ 170,618	$ 408,215
3	Current Rate of Return (L2 / L1)	2.30%	4.69%
4	Required Rate of Return	12.00%	9.20%
5	Required Operating Income (L4 * L1)	$ 890,209	$ 801,261
6	Operating Income Deficiency (L5 - L2)	$ 719,591	$ 393,046
7	Gross Revenue Conversion Factor	1.6151	1.0000
8	Required Revenue Increase (L7 * L6)	$ 1,162,216	**$ 393,046**
9	Adjusted Test Year Revenue	$ 2,215,143	$ 2,215,143
10	Proposed Annual Revenue (L8 + L9)	$ 3,377,359	$ 2,608,189
11	Required Increase in Revenue (%)	52.47%	17.74%

References:
Column (A): Company Schedule A-1
Column (B): Staff Schedules JMM-2 and JMM-9

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Surrebuttal Schedule JMM-2

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 20,957,540	$ 2,522,688	1,2	$ 23,480,228
2	Less: Accumulated Depreciation	1,680,847	(327,565)	3	1,353,282
3	Net Plant in Service	$ 19,276,693	$ 2,850,253		$ 22,126,946
	LESS:				
4	Contributions in Aid of Construction (CIAC)	$ 2,436,455	$ 1,877,809		$ 4,314,264
5	Less: Accumulated Amortization	251,796	-		$ 251,796
6	Net CIAC	2,184,659	1,877,809		$ 4,062,468
7	Advances in Aid of Construction (AIAC)	9,334,999	(76,082)	1	9,258,917
8	Customer Deposits	-	96,204	4	96,204
9	Deferred Income Tax Credits	338,625	(338,625)	5	-
	ADD:				
9	Unamortized Debt Issuance Costs	-	-		-
10	Deffered Regulatory Assets	-	-		-
11	**Original Cost Rate Base**	$ 7,418,410	$ 1,290,947		$ 8,709,357

References:
Column [A]: Company as Filed
Column [B]: Schedule JMM-3
Column (C): Column (A) + Column (B)

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Surrebuttal Schedule JMM-3

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Post-Test Year Plant Ref: Sch JMM-4	[C] ADJ #2 Plant Not Used And Useful Ref: Sch JMM-5	[D] ADJ #3 Accumulated Depreciation Ref: Sch JMM-6	[E] ADJ #4 Customer Deposits Ref: Sch JMM-7	[F] ADJ #5 Deferred Income Taxes Ref: Sch JMM-8	[G] STAFF ADJUSTED
		PLANT IN SERVICE:							
2	301	Organization Cost	$ 7,541	$ -	$ -	$ -	$ -	$ -	$ 7,541
3	302	Franchise Cost	350,861	-	-	-	-	-	350,861
4	303	Land and Land Rights	13,636	-	-	-	-	-	13,636
5	304	Structures and Improvements	171,671	-	-	-	-	-	171,671
6	305	Collecting and Impounding Res.	-	-	-	-	-	-	-
7	306	Lake River and Other Intakes	-	-	-	-	-	-	-
8	307	Wells and Springs	800,396	-	(251,483)	-	-	-	548,913
9	308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-
10	309	Supply Mains	-	-	-	-	-	-	-
11	310	Power Generation Equipment	335,668	-	-	-	-	-	335,668
12	311	Electric Pumping Equipment	43,912	-	-	-	-	-	43,912
13	320	Water Treatment Equipment	18,694	-	-	-	-	-	18,694
14	320	Water Treatment Plant	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipe	1,811,998	-	-	-	-	-	1,811,998
16	331	Transmission and Distribution Mains	10,162,557	-	(30,250)	-	-	-	10,132,307
17	333	Services	2,081,553	-	(30,159)	-	-	-	2,051,394
18	334	Meters	1,222,335	-	-	-	-	-	1,222,335
19	335	Hydrants	672,037	-	(15,673)	-	-	-	656,364
20	336	Backflow Prevention Devices	816	-	-	-	-	-	816
21	339	Other Plant and Miscellaneous Equipment	-	-	-	-	-	-	-
22	340	Office Furniture and Fixtures	283,991	-	-	-	-	-	283,991
23	341	Transportation Equipment	146,129	-	-	-	-	-	146,129
24	342	Stores Equipment	-	-	-	-	-	-	-
25	343	Tools and Work Equipment	13,856	-	-	-	-	-	13,856
26	344	Laboratory Equipment	132	-	-	-	-	-	132
27	345	Power Operated Equipment	-	-	-	-	-	-	-
28	346	Communications Equipment	11,818	-	-	-	-	-	11,818
29	347	Miscellaneous Equipment	695	-	-	-	-	-	695
30	348	Other Tangible Plant	962,974	-	-	-	-	-	962,974
31		Total Plant in Service - Actual	19,113,270	-	-	-	-	-	18,785,705
32		Post Test-Year Plant	1,844,270	2,850,253					4,694,523
33		Total Plant in Service	$ 20,957,540	$ -	$ (327,565)	$ -	$ -	$ -	$ 23,480,228
34		Less: Accumulated Depreciation	1,680,847	-	-	(327,565)	-	-	1,353,282
35			-	-	-	-		-	-
36		Net Plant in Service	$ 19,276,693	$ -	$ (327,565)	$ 327,565	$ -	$ -	$ 22,126,946
37									
38		*LESS:*							
39		Contributions in Aid of Construction (CIAC)	$ 2,436,455	$ 1,877,809	$ -	$ -	$ -	$ -	$ 4,314,264
40		Less: Accumulated Amortization	251,796	-	-	-	-	-	251,796
41		Net CIAC (L25 - L26)	2,184,659	1,877,809	-	-	-	-	4,062,468
42		Advances in Aid of Construction (AIAC)	9,334,999	-	(76,082)	-	-	-	9,258,917
43		Customer Deposits	-	-	-	-	96,204	-	96,204
44		Deferred Income Taxes	338,625	-	-	-	-	(338,625)	-
45			-	-					-
46									
47		*ADD:*							
48		Unamortized Debt Issuance Costs	-	-	-	-	-	-	-
49		Deffered Regulatory Assets	-	-	-	-	-	-	-
50									
51		**Original Cost Rate Base**	$ 7,418,409	$ (1,877,809)	$ (251,483)	$ 327,565	$ (96,204)	$ 338,625	$ 8,709,357

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Surrebuttal Schedule JMM-4

RATE BASE ADJUSTMENT NO. 1 - POST-TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1		Post-Test Year Plant	$ 1,844,270	$ 2,850,253	$ 4,694,523

Based on Staff Engineering Report Table I-1.

Remove Post-Test Year Plant (Based on Staff Engineering Report Table I-1)	$ (1,844,270)
Add Post-Test Year Plant (Arsenic Treatment Facility)	$ 4,694,523
	$ 2,850,253

DESCRIPTION	[A] COMPANY AIAC AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
Contributions in Aid of Construction	$ 2,436,455	$ 1,877,809	$ 4,314,264

Loan forgiveness amount 40% of $4,694,523 = $1,877,809

REFERENCES:
Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Surrebuttal Schedule JMM-5

RATE BASE ADJUSTMENT NO. 2 - PLANT NOT USED AND USEFUL

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	307	Wells & Springs	$ 800,396	$ (251,483)	$ 548,913
2	331	Transmission & Distribution Mains	$ 10,162,557	$ (30,250)	$ 10,132,307
3	333	Services	$ 2,081,553	$ (30,159)	$ 2,051,394
4	335	Hydrants	$ 672,037	$ (15,673)	$ 656,364
5			$ 13,716,543	$ (327,565)	$ 13,388,978
6					
7	Based on Staff Engineering Report Table H-1.				
8					
9			[A]	[B]	[C]
10			COMPANY		
11			AIAC	STAFF	STAFF
12		DESCRIPTION	AS FILED	ADJUSTMENTS	AS ADJUSTED
13	Advances in Aid of Construction (AIAC)		$ 9,334,999	$ (76,082)	$ 9,258,917
14					

REFERENCES:
Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Surrebuttal Schedule JMM-6

RATE BASE ADJUSTMENT NO. 3 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Accumulated Depreciation	$ 1,680,847	$ (327,565)	$ 1,353,282

References:
Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Surrebuttal Schedule JMM-7

RATE BASE ADJUSTMENT NO. 4 - CUSTOMER DEPOSITS

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1		Customer Deposits	$ -	$ 96,204	$ 96,204

REFERENCES:
Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Surrebuttal Schedule JMM-8

RATE BASE ADJUSTMENT NO. 5 - DEFERRED INCOME TAXES

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1		Deferred Income Taxes	$ 338,625	$ (338,625)	$ -

To Remove Deferred Income Taxes

REFERENCES:
Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Surrebuttal Schedule JMM-9

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	Adj. No.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	*REVENUES:*						
2	Metered Water Sales	$ 2,057,901	$ -		$ 2,057,901	$ 393,046	$ 2,450,947
3	Water Sales-Unmetered	-	-		-	-	-
4	Other Operating Revenue	157,242	-		157,242	-	157,242
5	Intentionally Left Blank	-	-		-	-	-
6	**Total Operating Revenues**	$ 2,215,143	$ -		$ 2,215,143	$ 393,046	$ 2,608,189
7							
8	*OPERATING EXPENSES:*						
9	Salaries and Wages	$ -	$ -		$ -	$ -	$ -
10	Purchased Wastewater Treatment	4,256	-		4,256	-	4,256
11	Sludge Removal Expense	147,364	-		147,364	-	147,364
12	Purchased Power	-	-		-	-	-
13	Fuel for Power Production	11,866	-		11,866	-	11,866
14	Chemicals	75,423	-		75,423	-	75,423
15	Materials & Supplies	30,131	-		30,131	-	30,131
16	Contractural Services, Legal&Engr	770,603	(135,161)	1 & 2	635,442	-	635,442
17	Contractural Sevices - Other	-	-		-	-	-
18	Contractural Services - Testing	-	-		-	-	-
19	Equipment Rental	8,750	1,632	3	10,382	-	10,382
20	Rents - Building	13,195	(11,299)	4	1,896	-	1,896
21	Transportation	22,358	-		22,358	-	22,358
22	General Liability Insurance	21,111	-		21,111	-	21,111
23	Insurance - Other	-	-		-	-	-
24	Regulatory Commission Expense	-	-		-	-	-
25	Regulatory Commission Expense - Rate Case	75,000	(30,000)	5	45,000	-	45,000
26	Misceallenous Exp	14,724	-		14,724	-	14,724
27	Bad Debt Expense	109	-		109	-	109
28	Depreciation Expense	610,853	60,547	6	671,400	-	671,400
29	Depreciation	-	-		-	-	-
30	Taxes other than Income	11,602	-		11,602	-	11,602
31	Property Taxes	122,230	(18,366)	7	103,864	6,211 7	110,075
32	Income Taxes	104,948	(104,948)	8	-	-	-
33	Intentionally Left Blank	-	-		-	-	-
34	**Total Operating Expenses**	$ 2,044,524	$ (237,595)		$ 1,806,928	$ 6,211	$ 1,813,139
35	**Operating Income (Loss)**	$ 170,618	$ 237,595		$ 408,215	$ 386,834	$ 795,050

References:
Column (A): Company Schedule C-1
Column (B): Schedule JMM-10
Column (C): Column (A) + Column (B)
Column (D): Schedules JMM-1
Column (E): Column (C) + Column (D)

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Schedule JMM-10

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Affiliate Management Fee ADJ #1	[C] Beverage Expense ADJ #2	[D] Water Testing Expense ADJ #3	[E] Rent Expense ADJ #4	[F] Rate Case Expense ADJ #5	[G] Depreciation Expense ADJ #6	[H] Property Tax Expense ADJ #7	[I] Income Tax Expense ADJ #8	[J] STAFF ADJUSTED
			Ref: Sch JMM-11	Ref: Sch JMM-12	Ref: Sch JMM-13	Ref: Sch JMM-14	Ref: Sch JMM-15	Ref: Sch JMM-16	Ref: Sch JMM-17	Ref: Sch JMM-18	
1	*REVENUES:*										
2	Metered Water Sales	$2,057,901	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,057,901
3	Water Sales-Unmetered	-	-	-	-	-	-	-	-	-	-
4	Other Operating Revenue	157,242	-	-	-	-	-	-	-	-	157,242
5	Intentionally Left Blank	-	-	-	-	-	-	-	-	-	-
6	**Total Operating Revenues**	$2,215,143	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,215,143
7											
8	*OPERATING EXPENSES:*										
9	Salaries and Wages	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
10	Purchased Water	4,256	-	-	-	-	-	-	-	-	4,256
11	Purchased Power	147,364	-	-	-	-	-	-	-	-	147,364
12	Fuel for Power Production	-	-	-	-	-	-	-	-	-	-
13	Chemicals	11,866	-	-	-	-	-	-	-	-	11,866
14	Repairs and Maintenance	75,423	-	-	-	-	-	-	-	-	75,423
15	Materials and Supplies	30,131	-	-	-	-	-	-	-	-	30,131
16	Outside Services	770,603	(134,410)	(751)	-	-	-	-	-	-	635,442
17	Outside Services - Other	-	-	-	-	-	-	-	-	-	-
18	Outside Services - Legal	-	-	-	-	-	-	-	-	-	-
19	Water Testing	8,750	-	-	1,632	-	-	-	-	-	10,382
20	Rents	13,195	-	-	-	(11,299)	-	-	-	-	1,896
21	Transportation Expenses	22,358	-	-	-	-	-	-	-	-	22,358
22	Insurance - General Liability	21,111	-	-	-	-	-	-	-	-	21,111
23	Insurance - Health and Life	-	-	-	-	-	-	-	-	-	-
24	Regulatory Commission Expenese	-	-	-	-	-	-	-	-	-	-
25	Regulatory Commission Expense - Rate Case	75,000	-	-	-	-	(30,000)	-	-	-	45,000
26	Miscellaneous Expense	14,724	-	-	-	-	-	-	-	-	14,724
27	Bad Debt Expense	109	-	-	-	-	-	-	-	-	109
28	Depreciation Expense	610,853	-	-	-	-	-	60,547	-	-	671,400
29	Amortization of CIAC	-	-	-	-	-	-	-	-	-	-
30	Taxes Other than Income	11,602	-	-	-	-	-	-	-	-	11,602
31	Property Taxes	122,230	-	-	-	-	-	-	(18,366)	-	103,864
32	Income Taxes	104,948	-	-	-	-	-	-	-	(104,948)	-
33	Intentionally Left Blank	-	-	-	-	-	-	-	-	-	-
34	**Total Operating Expenses**	$2,044,524	$ (134,410)	$ (751)	$ 1,632	$ (11,299)	$ (30,000)	$ 60,547	$ (18,366)	$ (104,948)	$ 1,806,930
35	Operating Income (Loss)	$ 170,618	$ 134,410	$ 751	$ (1,632)	$ 11,299	$ 30,000	$ (60,547)	$ 18,366	$ 104,948	$ 408,213

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Surrebuttal Schedule JMM-11

OPERATING INCOME ADJUSTMENT NO. 1 - MANAGEMENT FEES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Outside Service	$ 770,603	$ (134,410)	$ 636,193
2				
3	Staff Calculation:			
4	Remove "Not Dedicated" Salary Expense	$ 100,831		
5	Remove Bonuses	33,579		
6	Adjustment	$ 134,410		
7				
8	Remove Pro-forma Adjustment	$ -		
9				
10	Total Adjustment lines 6 and 8	$ 134,410		

References:
Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Surrebuttal Schedule JMM-12

OPERATING INCOME ADJUSTMENT NO. 2 - BEVERAGE EXPENSES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Outside Service	$ 636,193	$ (751)	$ 635,442

References:
Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Surrebuttal Schedule JMM-13

OPERATING INCOME ADJUSTMENT NO. 3 - WATER TESTING EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Water Testing Expense	$ 8,750	$ 1,632	$ 10,382

References:
Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Surrebuttal Schedule JMM-14

OPERATING INCOME ADJUSTMENT NO. 4 - RENT EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Rents	$ 13,195	$ (11,299)	$ 1,896

Staff Calculation:

Remove Rental Expense of RR HOA		
8 months x $1,530	$	12,240
Remove Temporary Fence Rental	$	84
Plus 8 months of Rent at New Facility		
8 months x $128.13	$	(1,025)
Adjustment	$	11,299

References:
Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Surrebuttal Schedule JMM-15

OPERATING INCOME ADJUSTMENT NO. 5 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Rate Case Expense	$ 75,000	$ (30,000)	$ 45,000

Staff Calculation:

Estimated Rate Case Cost	$ 225,000
Normalized Over Five Years	5
	45,000

References:
Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Surrebuttal Schedule JMM-16

OPERATING INCOME ADJUSTMENT NO. 6 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	301	Organization Cost	$ 7,541	$ 7,541	$ -	0.00%	$ -
2	302	Franchise Cost	$ 350,861	$ 350,861	$ -	0.00%	$ -
3	303	Land and Land Rights	$ 13,636	$ 13,636	$ -	0.00%	$ -
4	304	Structures and Improvements	$ 171,671	$ -	$ 171,671	3.33%	$ 5,717
5	305	Collecting and Impounding Res.	$ -	$ -	$ -	2.50%	$ -
6	306	Lake River and Other Intakes	$ -	$ -	$ -	2.50%	$ -
7	307	Wells and Springs	$ 548,913	$ -	$ 548,913	3.33%	$ 18,279
8	308	Infiltration Galleries and Tunnels	$ -	$ -	$ -	6.67%	$ -
9	309	Supply Mains	$ -	$ -	$ -	2.00%	$ -
10	310	Power Generation Equipment	$ 335,668	$ -	$ 335,668	5.00%	$ 16,783
11	311	Electric Pumping Equipment	$ 43,912	$ -	$ 43,912	12.50%	$ 5,489
12	320	Water Treatment Equipment	$ 18,694	$ -	$ 18,694	3.33%	$ 623
13	320	Water Treatment Plant	$ -	$ -	$ -	3.33%	$ -
14	330	Distribution Reservoirs & Standpipe	$ 1,811,998	$ -	$ 1,811,998	2.22%	$ 40,226
15	331	Transmission and Distribution Mains	$ 10,132,307	$ -	$ 10,132,307	2.00%	$ 202,646
16	333	Services	$ 2,051,394	$ -	$ 2,051,394	3.33%	$ 68,311
17	334	Meters	$ 1,222,335	$ -	$ 1,222,335	8.33%	$ 101,821
18	335	Hydrants	$ 656,364	$ -	$ 656,364	2.00%	$ 13,127
19	336	Backflow Prevention Devices	$ 816	$ -	$ 816	6.67%	$ 54
20	339	Other Plant and Miscellaneous Equipment	$ -	$ -	$ -	6.67%	$ -
21	340	Office Furniture and Fixtures	$ 283,991	$ -	$ 283,991	6.67%	$ 18,942
22	341	Transportation Equipment	$ 146,129	$ -	$ 146,129	20.00%	$ 29,226
23	342	Stores Equipment	$ -	$ -	$ -	4.00%	$ -
24	343	Tools and Work Equipment	$ 13,856	$ -	$ 13,856	5.00%	$ 693
25	344	Laboratory Equipment	$ 132	$ -	$ 132	10.00%	$ 13
26	345	Power Operated Equipment	$ -	$ -	$ -	5.00%	$ -
27	346	Communications Equipment	$ 11,818	$ -	$ 11,818	10.00%	$ 1,182
28	347	Miscellaneous Equipment	$ 695	$ -	$ 695	10.00%	$ 70
29	348	Other Tangible Plant	$ 962,974	$ -	$ 962,974	10.00%	$ 96,297
30		Sub Total	$ 18,785,705	$ 372,038	$ 18,413,667		$ 619,499
31							
32	Post Test Year Plant						
33	320	Water Treatment Plant	$ 2,566,523	$ -	$ 2,566,523	3.33%	$ 85,465
	320.3	Media for Arsenic Treatment	$ 120,000	$ -	$ 120,000	67.00%	$ 80,400
34	331	Transmission and Distribution Mains	$ 2,008,000	$ -	$ 2,008,000	2.00%	$ 40,160
35		Total Plant	$ 23,480,228		$ 23,108,190		$ 825,524

36		
37	Composite Depreciation Rate (Depr Exp / Depreciable Plant):	3.57%
38	CIAC:	$ 4,314,264
39	Amortization of CIAC (Line 32 x Line 33):	$ 154,124
40		
41	Depreciation Expense Before Amortization of CIAC:	$ 825,524
42	Less Amortization of CIAC:	$ 154,124
43	**Test Year Depreciation Expense - Staff:**	**$ 671,400**
44	Depreciation Expense - Company:	$ 610,853
44	**Staff's Total Adjustment:**	**$ 60,547**

References:
Column [A]: Schedule JMM-3
Column [B]: From Column [A]
Column [C]: Column [A] - Column [B]
Column [D]: Engineering Staff Report
Column [E]: Column [C] x Column [D]

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Surrebuttal Schedule JMM-17

OPERATING INCOME ADJUSTMENT NO. 7 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	$ 2,215,143	$ 2,215,143
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	4,430,286	$ 4,430,286
4	Staff Recommended Revenue, Per Schedule JMM-1	2,215,143	$ 2,608,189
5	Subtotal (Line 4 + Line 5)	6,645,429	7,038,475
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	2,215,143	$ 2,346,158
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	4,430,286	$ 4,692,316
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	48,652	$ 48,652
12	Full Cash Value (Line 9 + Line 10 - Line 11)	4,381,634	$ 4,643,664
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	876,327	$ 928,733
15	Composite Property Tax Rate (Per Company Schedule)	11.8522%	11.8522%
16			
17	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	$ 103,864	
18	Company Proposed Property Tax	122,230	
19			
20	Staff Test Year Adjustment (Line 17 -Line 18)	$ (18,366)	
21	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		$ 110,075
22	Staff Test Year Adjusted Property Tax Expense (Line 17)		$ 103,864
23	Increase in Property Tax Expense Due to Increase in Revenue Requirement		$ 6,211
24			
25	Increase to Property Tax Expense		$ 6,211
26	Increase in Revenue Requirement		393,046
27	Increase to Property Tax per Dollar Increase in Revenue (Line 25/Line 26)		1.580293%

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Surrebuttal Schedule JMM-18

OPERATING INCOME ADJUSTMENT NO. 8 - INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Income Tax Expense	$ 104,948	$ (104,948)	$ -

References:
Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

Monthly Usage Charge	Present	Company Proposed Rates	Staff Recommended Rates
Meter Size (All Classes):			
5/8 x 3/4 Inch	$ 16.00	$ 24.75	$ 16.00
3/4 Inch	25.00	37.13	25.00
1 Inch	40.00	61.88	40.00
1 1/2 Inch	75.00	123.76	80.00
2 Inch	120.00	198.02	128.00
3 Inch	225.00	396.03	256.00
4 Inch	375.00	618.80	400.00
6 Inch	750.00	1,237.60	800.00
Commodity Charge - Per 1,000 Gallons			
5/8" x 3/4" Meter (All Classes, Except Standpipe/Contruction)			
First 6,000 gallons	$ 2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
5/8" x 3/4" Meter (Residential)			
First 4,000 gallons	N/A	$ 3.3400	N/A
4,001 to 10,000 gallons	N/A	4.2900	N/A
Over 10,000 gallons	N/A	5.0400	N/A
First 3,000 gallons	N/A	N/A	$ 2.3900
3,001 to 9,000 gallons	N/A	N/A	3.5600
Over 9,000 gallons	N/A	N/A	4.4470
5/8" x 3/4" Meter (Commerical/Irrigation)			
First 10,000 gallons	N/A	4.2900	N/A
Over 10,000 gallons	N/A	5.0400	N/A
First 9,000 gallons	N/A	N/A	3.5600
Over 9,000 gallons	N/A	N/A	4.4470
3/4" Meter (Residential)			
First 6,000 gallons	N/A	3.3400	N/A
6,001 to 15,000 gallons	N/A	4.2900	N/A
Over 15,000 gallons	N/A	5.0400	N/A
First 3,000 gallons	N/A	N/A	2.3900
3,001 to 9,000 gallons	N/A	N/A	3.5600
Over 9,000 gallons	N/A	N/A	4.4470
3/4" Meter (Commerical/Irrigation)			
First 15,000 gallons	N/A	4.2900	N/A
Over 15,000 gallons	N/A	5.0400	N/A
First 9,000 gallons	N/A	N/A	3.5600
Over 9,000 gallons	N/A	N/A	4.4470
1" Meter (All Classes, Except Standpipe/Construction)			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
1" Meter (Residential)			
First 10,000 gallons	N/A	3.3400	N/A
10,001 to 25,000 gallons	N/A	4.2900	N/A
Over 25,000 gallons	N/A	5.0400	N/A
First 20,000 gallons	N/A	N/A	3.5600
Over 20,000 gallons	N/A	N/A	4.4470
1" Meter (Commercial)			
First 25,000 gallons	N/A	N/A	N/A
Over 25,000 gallons	N/A	N/A	N/A
First 20,000 gallons	N/A	N/A	3.5600
Over 20,000 gallons	N/A	N/A	4.4470
1" Meter (Commercial/Irrigation)			
First 10,000 gallons	N/A	3.0400	N/A
10,001 to 25,000 gallons	N/A	3.9900	N/A
First 20,000 gallons	N/A	N/A	3.5600
Over 20,000 gallons	N/A	N/A	4.4470
1.5" Meter (All Classes, Except Standpipe/Construction)			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
First 50,000 gallons	N/A	3.0400	N/A
Over 50,000 gallons	N/A	3.9900	N/A

First 55,000 gallons	N/A	N/A	3.5600
Over 55,000 gallons	N/A	N/A	4.4470
2" Meter (All Classes, Except Standpipe/Construction)			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
First 80,000 gallons	N/A	3.0400	N/A
Over 80,000 gallons	N/A	3.9900	N/A
First 90,000 gallons	N/A	N/A	3.5600
Over 90,000 gallons	N/A	N/A	4.4470
3" Meter (All Classes, Except Standpipe/Construction)			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
First 160,000 gallons	N/A	3.0400	N/A
Over 160,000 gallons	N/A	3.9900	N/A
First 200,000 gallons	N/A	N/A	3.5600
Over 200,000 gallons	N/A	N/A	4.4470
4" Meter (All Classes, Except Standpipe/Construction)			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
First 250,000 gallons	N/A	3.0400	N/A
Over 250,000 gallons	N/A	3.9900	N/A
First 350,000 gallons	N/A	N/A	3.5600
Over 350,000 gallons	N/A	N/A	4.4470
6" Meter (All Classes, Except Standpipe/Construction)			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
First 500,000 gallons	N/A	3.0400	N/A
Over 500,000 gallons	N/A	3.9900	N/A
First 750,000 gallons	N/A	N/A	3.5600
Over 750,000 gallons	N/A	N/A	4.4470
Standpipe (Construction) All Usage	4.5000	5.0400	4.4470

Other Service Charges

Establishment	$ 25.00	$ 25.00	$ 25.00
Establishment (After Hours)	$ 40.00	$ 40.00	$ 40.00
Reconnection (Delinquent)	$ 25.00	$ 25.00	$ 25.00
Reconnection (Delinquent) - After Hours	$ -	$ 40.00	$ 40.00
NSF Check	$ 15.00	$ 15.00	$ 15.00
Meter Test (If Correct)	$ 25.00	$ 25.00	$ 25.00
Deposit	*	*	*
Deposit Interest**	6 percent	1 percent	6 percent
Reestablishment (within 12 months)	***	***	***
Late Payment Penalty	$ 5.00	$5.00 or 1.50 percent per month	$5.00 or 1.50 percent per month
Deferred Payment	1.5 percent per month	1.5 percent per month	1.5 percent per month
Moving Meter at Customer Request	At Cost	At Cost	At Cost
Main Extenstion and Additional Facilities	At Cost	At Cost	At Cost

* Per Commission Rule A.A.C. R-14-2-403(B)
** Per Commission Rule A.A.C. R-14-2-403(B)
*** Per Commission Rule A.A.C. R-14-2-403(D) - Months off the system times the monthly minimum.

Service and Meter Installation Charges

	Total Present Charge	Proposed Meter Insallation Charge	Total Proposed Charge	Recommended Service Line Charge	Recommended Meter Insallation Charge	Total Recommended Charge
Service Size 5/8"	$ -	$ 155.00	$ 600.00	$ 445.00	$ 155.00	$ 600.00
3/4"	$ -	$ 255.00	$ 700.00	$ 445.00	$ 255.00	$ 700.00
1"	$ -	$ 315.00	$ 810.00	$ 495.00	$ 315.00	$ 810.00
1-1/2"	$ -	$ 525.00	$ 1,055.00	$ 530.00	$ 525.00	$ 1,055.00
2" Turbine	$ 998.00	$ 1,045.00	$ 1,875.00	$ 830.00	$ 1,045.00	$ 1,875.00
2" Compound	$ 1,488.00	$ 1,890.00	$ 2,720.00	$ 830.00	$ 1,890.00	$ 2,720.00
3" Turbine	$ 1,378.00	$ 1,670.00	$ 2,715.00	$ 1,045.00	$ 1,670.00	$ 2,715.00
3" Compound	$ 1,928.00	$ 2,545.00	$ 3,710.00	$ 1,165.00	$ 2,545.00	$ 3,710.00
4" Turbine	$ 2,208.00	$ 2,670.00	$ 4,160.00	$ 1,490.00	$ 2,670.00	$ 4,160.00
4" Compound	$ 2,823.00	$ 3,645.00	$ 5,315.00	$ 1,670.00	$ 3,645.00	$ 5,315.00
6" Turbine	$ 4,218.00	$ 5,025.00	$ 7,235.00	$ 2,210.00	$ 5,025.00	$ 7,235.00
6" Compound	$ 5,498.00	$ 6,920.00	$ 9,250.00	$ 2,330.00	$ 6,920.00	$ 9,250.00
Over 6"	$ -	At Cost	At Cost	At Cost	At Cost	At Cost

Sahuarita Water Company
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Surrebuttal Schedule JMM-20

Typical Bill Analysis
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	5,424	$ 27.12	$ 44.22	$ 17.10	63.05%
Median Usage	5,000	26.25	42.40	$ 16.15	61.52%
Staff Recommended					
Average Usage	5,424	$ 27.12	$ 31.80	$ 4.68	17.26%
Median Usage	5,000	26.25	30.29	$ 4.04	15.39%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	$ 16.00	$ 24.75	54.69%	$ 16.00	0.00%
1,000	18.05	28.09	55.62%	18.39	1.88%
2,000	20.10	31.43	56.37%	20.78	3.38%
3,000	22.15	34.77	56.98%	23.17	4.60%
4,000	24.20	38.11	57.48%	26.73	10.45%
5,000	26.25	42.40	61.52%	30.29	15.39%
6,000	28.30	46.69	64.98%	33.85	19.61%
7,000	31.05	50.98	64.19%	37.41	20.48%
8,000	33.80	55.27	63.52%	40.97	21.21%
9,000	36.55	59.56	62.95%	44.53	21.83%
10,000	39.30	63.85	62.47%	48.98	24.62%
11,000	42.05	68.89	63.83%	53.42	27.05%
12,000	44.80	73.93	65.02%	57.87	29.18%
13,000	47.55	78.97	66.08%	62.32	31.06%
14,000	50.30	84.01	67.02%	66.77	32.73%
15,000	53.05	89.05	67.86%	71.21	34.24%
16,000	55.80	94.09	68.62%	75.66	35.59%
17,000	58.55	99.13	69.31%	80.11	36.82%
18,000	61.30	104.17	69.93%	84.55	37.93%
19,000	64.05	109.21	70.51%	89.00	38.95%
20,000	66.80	114.25	71.03%	93.45	39.89%
25,000	80.55	139.45	73.12%	115.68	43.62%
30,000	94.30	164.65	74.60%	137.92	46.25%
35,000	108.05	189.85	75.71%	160.15	48.22%
40,000	121.80	215.05	76.56%	182.39	49.74%
45,000	135.55	240.25	77.24%	204.62	50.96%
50,000	149.30	265.45	77.80%	226.86	51.95%
75,000	218.05	391.45	79.52%	338.03	55.02%
100,000	286.80	517.45	80.42%	449.21	56.63%

ATTACHMENT A

July 26, 2006

EMPLOYMENT AGREEMENT

Dear Mark,

This Agreement covers the terms of your employment with the Rancho Sahuarita Water Company as General Manager.

If, after reviewing this Agreement, you have requested changes or need clarification on any of its terms, please indicate what they are, or if you have none, please sign in the appropriate place below acknowledging your acceptance.

Position:	General Manager, Rancho Sahuarita Water Company ("Company")
Employer:	Rancho Sahuarita Management Company, LLC
Job Description:	As outlined in "Job Description & Narrative prepared by Cort Chalfant 7/16/06" and "RSWC Yearly Schedule prepared by Mike Lytle 9/8/05", both of which are attached.
Hire Date:	_____
Supervisor:	Cort Chalfant or such other person as Bob Sharpe may from time to time designate.
Initial Base Salary:	$80,000, annually
Bonus Pool:	$10,000, annually based on performance, prorated for any partial year of employment. The bonus pool is a completely discretionary incentive pool based on both an objective and subjective evaluation of your performance that is paid at the end of each calendar year. Bob Sharpe and your Supervisor will determine any amount of the Bonus Pool to be paid to you based in large part on their impression of your ability to execute your responsibilities as outlined in the Job Description. Some objective measures may be developed after your date of hire.
Benefits:	Pursuant to their terms and conditions, you are eligible for participation in the Rancho Sahuarita Companies 401(k) Plan, and Pacificare Insurance Plan all of which can be more fully described to you by Cindy Guantt, our Human Resources Administrator.
Employee Handbook:	This handbook is applicable to you.
Severance Package:	<u>Severance in the Event of a Sale:</u> If, after your Hire Date, the Rancho Sahuarita Water Company is sold to an unaffiliated entity (unaffiliated shall mean any entity not owned, managed, or controlled by Bob Sharpe, Fred Lewis, Cort Chalfant or other

subsequent senior managers of Rancho Sahuarita related companies including but not limited to: Rancho Sahuarita Management Company, LLC, Interchange Opportunity Fund, LLP, or Sharpe and Associates, Inc.) and the new entity then terminates your employment within ninety (90) days of the closing date of the sale for reasons other than the "Exceptions" listed hereinafter under the "Severance" provision, then you shall be entitled to a lump-sum payment thereupon equal to Eighty-Thousand Dollars, less any tax withholding required by law, upon signing a Release of All Claims acceptable to the Company.

Termination and Severance by the Company After Your Hire Date: You are employed at will and your employment may be terminated at any time without cause. (a) If you are terminated after your Hire Date for any reason other then the "Exceptions" listed below, and such termination occurs after your 90-day Introductory Period, then upon signing a Release of All Claims acceptable to the Company you shall be entitled to a lump sum payment equal to Nine-Thousand Two Hundred and Thirty-One Dollars, less any tax withholding required by law.

(b) If you are terminated after your Hire Date for any reason other than the "Exceptions" listed below, and such termination occurs within your 90-day Introductory Period, then you shall not be entitled to a Severance Payment.

(c) Exceptions: If you are terminated after your Hire Date due to fraud, gross negligence, serious misconduct either on or off the job, a breach of fiduciary duty to the Company, a material misrepresentation of your qualifications on your resume, loss of any license or certification you must hold to perform your duties, or the disclosure through a legally consented Background Check that you have been convicted of one or more illegal acts, then you shall not be entitled to a Severance Payment.

Minimum Notice: If, after your Hire Date, you decide to terminate your employment with the Company, then you shall provide your Supervisor with a minimum of four (4) weeks advance notice of such intent to terminate. Thereafter the Company may retain your services for all or less than all of such Minimum Notice and you shall not be entitled to a Severance Payment.

Confidentiality: After the Effective Date adjacent to your signature below, you agree not to disclose to others or use any confidential technical or business information belonging to Rancho Sahuarita Water Company or its affiliates, except as authorized in writing, by your Supervisor. "Confidential technical or business information" means any information that you learn or originate during the course of your employment, regardless of whether it is written or

otherwise tangible, that is not generally available to the public (published articles, sales literature, press releases, Internet Website information are generally available to the public) and gives one who uses it an advantage over competition or the best interests of Rancho Sahuarita Water Company or its affiliates. The obligations set forth in this paragraph shall continue after the term of your employment with Rancho Sahuarita Water Company for a period of not less than two years.

Background Check: Effective January 1, 2006, Rancho Sahuarita Management Company periodically conducts routine Background Checks on company personnel. Your execution of a "Release Form for Employment/Background Reports" is a condition to employment. Any personal information learned by the Company as a result of any such Background Check shall be used for internal purposes only and will not be shared with any third party for any non-Company business.

If this Employment Agreement is acceptable to you, please sign and date in the appropriate spaces below indicating your acceptance.

Sincerely,
Rancho Sahuarita Management Company

Fred Lewis

Fred Lewis
Senior Vice-President

Cc: Robert Sharpe

Accepted by: Mark Seamans

7-27-06
Effective Date:

Letters/06-07/Seamans

ATTACHMENT B

Comparison of Salary Expenses of B Size Companies Regulated by the Commission

B Size Company	Revenues	Salary Exp
North Mohave Valley Corp	$ 1,092,918	$ 177,782
Valley Pioneers Water Company, Inc.	$ 1,097,730	$ 306,433
Camp Verde Water Services	$ 1,152,382	$ 413,257
Valley Utilities Water Co., Inc.	$ 1,171,037	$ 347,230
Sunrise Water Company	$ 1,300,813	$ 446,709
New River Utilities Company	$ 1,374,100	$ 80,000
Rio Verde Utilities, Inc.	$ 1,402,646	$ 145,812
Big Park Water Company	$ 1,403,207	$ 636,454
Largo Del Oro Water Company	$ 1,905,111	$ 186,384
Doney Park Water Services	$ 1,919,196	$ 690,275
Pueblo Del Sol Water Company	$ 1,944,471	$ 251,103
Pima Utility Company	$ 2,039,761	$ 306,409
Vail Water Company	$ 2,378,875	$ 277,656
Bermuda Water	$ 3,103,252	$ 752,628
Community Water of Greenvalley	$ 3,139,969	$ 846,259
H2O	$ 3,934,320	$ 1,146,371
Average	$ 1,897,487	$ 438,173
Median	$ 1,654,159	$ 326,832
Sahuarita Water Company	$ 2,215,413	$ 637,012

ATTACHMENT C

MANAGEMENT SERVICES AGREEMENT
(Rancho Sahuarita Water Co.)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9. Contractor Insurance and Indemnification Requirements.

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

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

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

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

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

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

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

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

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

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

If to Contractor: 4549 East Ft. Lowell Road

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

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

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

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

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

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

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

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

By _____
Robert M. Sharpe, President

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

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

By: _____
Fred Lewis, President

SCHEDULE 1

COMPENSATION TO CONTRACTOR

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

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

ATTACHMENT D

Rancho Sahuarita Water Company

10 Year Staffing Plan

2006-2016

prepared by

Mark J Seamans
General Manager

Rancho Sahuarita Water Company

Staffing Plan Summary

The Rancho Sahuarita Water Company has experienced explosive growth since it's inception in 1999. There are currently 3870 services connected to the system. Growth is anticipated to continue as the development expands over the next 15-20 years. In an effort to keep up with the growth, the water company must maintain an adequate staffing level. This plan will identify the workload of current staff and project when new staff must be added.

This plan will assume a new field staff member will be added for every 1000 new service connections. Assuming the development is 1/3 built out at this time, there is anticipated to be at least 7,000 new connections by the end of the project. That equates to 7 new staff members to maintain the level of service currently being provided to the customers in Rancho Sahuarita and Rancho Resort. This plan will look at the next 10 years and will be revised annually. This plan does not take into account the addition of Rancho Maria since that project has not been finalized at this time.

Staffing Calculations

The basis for adding one new field staff member for every 1000 service connections was calculated by analyzing the current work load in available hours worked per year and dividing by the number of service connections. Table 1 of this plan shows that calculation is equal to 1.5 hrs dedicated to each service meter.

Work hours were calculated by multiplying 3 current field staff members by a 40 hr workweek by 52 weeks for a total of 2080 hrs. Subtracted from that are the anticipated vacation and holidays for current staff in the work year. That result was 136 hrs, subtracted from 2080 leaves 1944 available work hours per employee. The sum of the 3 field staff equals 5832 hrs.

The workload was analyzed by taking into account the daily activities of the combined staff and is shown in Table 2. Work was broken into Non-maintenance and maintenance activities. Each task was assigned an approximate time to complete and then multiplied out to show the yearly hours required. The total sum

of the workload is 5917 hrs. The result of dividing the workload hours of 5917 by the current service connections of 3870 equals to the 1.5 hr/connection.

10 yr Staffing Projections

Tables 3 & 4 show the projected 10-year staffing plan. This plan does not take into account any additions to the system related to Rancho Maria. Should that project materialize, staffing levels will have to be accelerated. New staff will be added at each 1000 service connection point as indicated above.

The table shows an addition of a mechanic in January 2007. This position is to keep staffing at the current level with the promotion of Ray Gauthier to Operation Manager. The mechanic will report t o the Operations Manager and will be responsible for all preventative maintenance work. A job full description is in the appendix. It is also anticipated that as workload allows, the mechanic duties can include maintenance at the facilities currently being supported by the construction group. Should this be the case, both groups will share the mechanics salary.

The water company is projected to cross the 4000 service connection mark in late 2nd qtr 2007. At that time, based on the previously mentioned calculation, a new Operator II will be added. The next projected 1000-service connection intervals are in 1st qtr 2010, 4th qtr 2012, and 3rd qtr 2015. A new Operator II will be added at each time. The Operator II job description is in the appendix.

It is anticipated that in the 1st qtr 2008, the water company will begin treating the groundwater for arsenic to come into compliance with the EPA Arsenic rule. A licensed treatment Operator I will have to be added at that time. The new treatment operator will be responsible for the day-to-day operation of the treatment plant, coordinate maintenance with the operations group and do all compliance sampling at the plant. The Operator I job description is in the appendix. The treatment operator will report to the Water Quality Manager and assist in the collection of compliance monitoring samples as needed.

A clerical position is slated for FY 2009 in anticipation of the water company building being completed. This position will report to the Customer Service Manager and fulfill the general receptionist and clerical duties.

10-Year Vehicle Projections

Table 5 breaks down the projected vehicle requirements anticipated for the water company for the next 10 years. It is projected that at least 8 new vehicles will be necessary to meet the growth of the company. There is also projected in FY 2013 and 2014 costs to replace vehicles purchased in FY 2006 that will be 7 & 8 years old and with very high mileage.

In FY 2007, the water company will be requesting 3 vehicles. First vehicle will be for the administration staff (GM, Controller, CSM). This vehicle will be used to travel to meetings, corporate, etc. A Ford Explorer would be the preferred vehicle over a sedan type for potential travel into work areas around the development. The second vehicle is an F-450 service vehicle for the mechanic. This vehicle will be outfitted with a 1-ton crane hoist to lift booster pumps and motors, etc. The vehicle will also have an air compressor for supply to tools. The 3rd vehicle projected is an F-150 PU for the Operations Manager in 3rd qtr 2007. It is anticipated at this time his F-250 will be given to the new Operator II scheduled for that time.

In FY 2008, the water company will be requesting 2 vehicles. First vehicle is an F-150 PU to be used by the Water Quality Manager as a replacement for the Toyota Tacoma currently being used by the Water Company. This Toyota has over 126,000 miles as of 12-01-06 and will be used in FY 2007 yr by the WQM. It is anticipated the vehicle will be over 150,000 miles by 2008. The second vehicle is an F-250 service vehicle for the projected Treatment Operator for use at the Arsenic plant and other areas as mentioned above.

Future vehicles are projected as new Operator II's are added to staff. F-250 Service vehicles will are projected for FY's 2010, 2012, 2015.

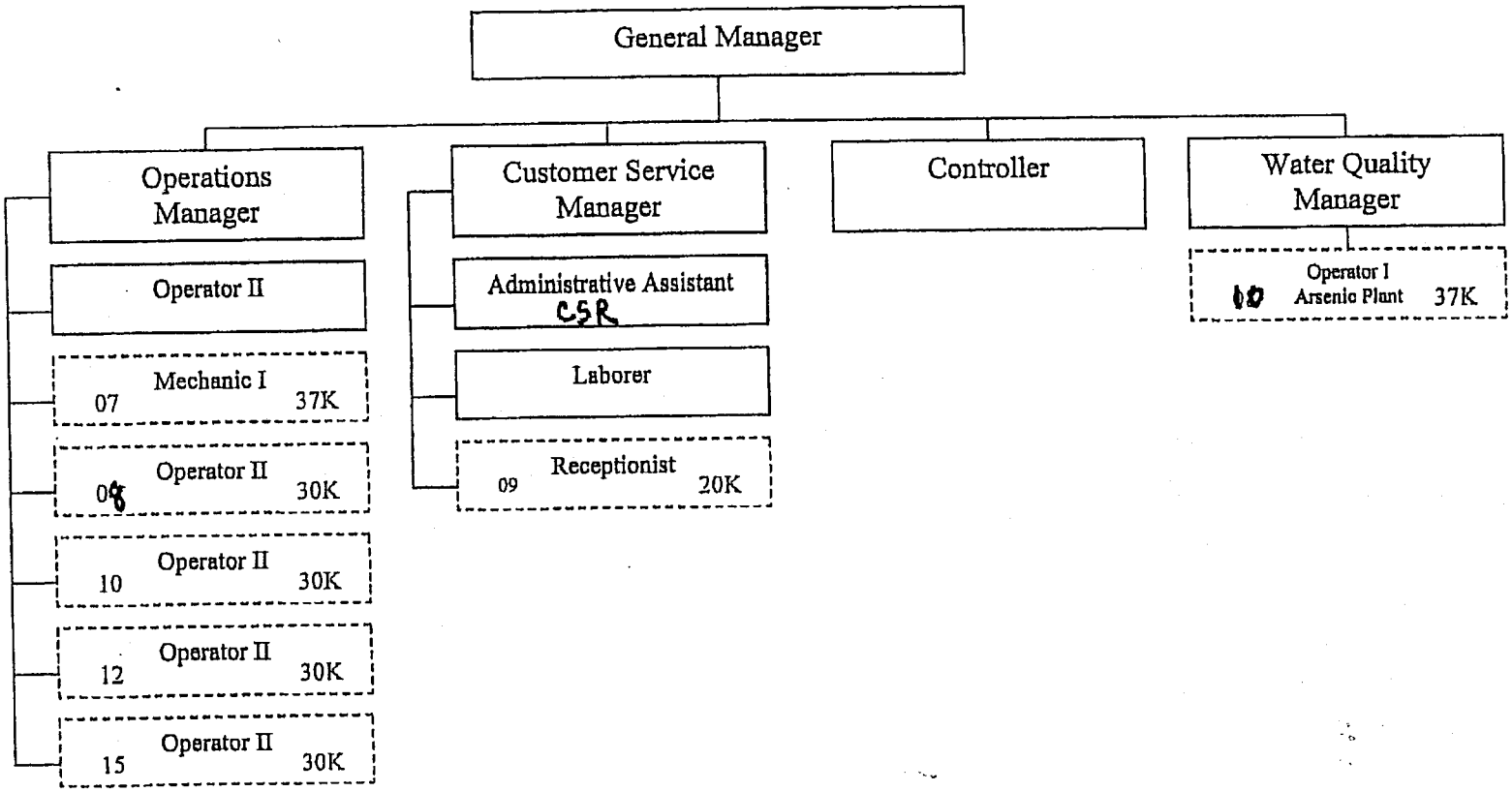
10-Year Tool and Equipment Projections

Table 6 breaks out the tool and equipment needs for the next 10 years over and above the annual budget requests. This breakdown reflects the addition of the projected staff as outlined in this document. In FY 2007, with the addition of the mechanic, a large volume portable air compressor and associated tools will be need for the mechanic. Incidental tools are requested for the projected Operator II's as

they are hired. Also requested in FY 2007 is money for the WQM for field instruments required for water sampling.

Rancho Sahuarita Water Company

Organizational Chart 2007-2015



Rancho Sahuarita Water Company

Staff Positions 2006-2016

Management Staff

Positions	Salary Range	Manager
General Manager	$80,000 + Bonus	Mark Seamans

Duties: Responsible for each unit of the utility. Responsible for planning, organizing, and directing the day to day operations of the utility. Responsible for the development and implementation of the annual and 10 yr proforma budget. Foremost advocate for the growth of the company.

Operations Manager	$40,000-65,000	Ray Gauthier

Duties: Supervise O&M Staff (4-6), develop and maintain preventative maintenance program, schedules all field maintenance work, SCADA oversight and development, develop and maintain ARV maintenance program, develop and maintain fire hydrant PM program, develop and maintain valve exercising program, assist GM with plan reviews, liaison with builders and contractors, training staff, fill in where needed.

Customer Service Manager	$40,000-65,000	Diane McKenzie

Duties: Supervise C.S. Staff (3-4), Billing and invoicing, Bluestake coordination, inspection coordination, track meter installs, track meter turn offs, payroll.

Controller	$40,000-65,000	Marian Homiak

Duties: Budgeting and planning, L.E.A. management and tracking, assist GM with ACC reporting and documentation, cash flow, etc.

Water Quality Manager	$40,000-65,000	Paul A. Martinez

Duties: Develop compliance monitoring plan (formerly MAPS) for ADEQ, compliance reporting to ADEQ, ADWR reporting and monitoring, keep current with new rule changes and regulation updates, develop all water company plans related to water quality, develop back flow program

Rancho Sahuarita Water Company

Staff Positions 2006-2016

Field Staff

Positions	Salary Range	Status	Staff
Operator I	$34,000 – 40,000	1 position open	Projected 2008

Duties: Report to WQM Manager - all compliance sampling, treatment plant operations, well inspections, after hours and emergency call outs, vehicle maintenance, customer complaints, etc.

Operator II	$27,000 – 30,000	1 Current 4 open	Brad 1 ea -'08,'10,'12,'15

Duties: Report to O&M Manager - bluestake, meter sets, meter inspections, meter reads, assist Operator I in maintenance, will work on ARV, Fire Hydrant and Backflow programs.

Mechanic I	$34,000 – 40,000	1 position open	Projected 2007

Duties: Report to O&M Manager - All preventative maintenance on pumps, motors, valves, ARV's, backflow and fire hydrants. Assists in pm's for construction unit.

Laborer	$23,000 – 27,000	Current	Alex

Duties: Report to C.S. Manager – meter sets, contractor service requests, meter inspections, meter reading

Administrative Assistant	$23,000 – 27,000	Current	Vacant

Duties: Report to C.S. Manager – Monthly billing, Filing, customer service, phone calls, etc.

Clerk/Receptionist	$20,000 – 25,000	1 position open	Projected 2009

Duties: Report to C.S. Manager – Answer phones, general secretarial, customer service, mail pick up

Industry Comparisons - Staffing per Connections

	Flowing Wells Irrigation	Community Water	Las Quintas	Oro Valley	Rancho Sahuarita Water Company
Number of connections	3,500	6,000	1,200	13,667	3,729
Population served	10,500	18,000	3,600	41,000	11,187
Total Staff	11	16	4	35	7
Connections/staff	318	375	300	390	533
Population/staff	955	1125	900	1171	1598

*PDEQ uses 3 persons per connection to calculate population.

Table 1
Calculated Work Hours per Connection

Staff	Hrs per week	Weeks per yr	Total hrs	Holiday hrs off 7 holidays*8/d	Leave hrs off 10d*8/h	Hours off	Available hrs
Ray	40	52	2080	56	80	136	1944
Alex	40	52	2080	56	80	136	1944
Brad	40	52	2080	56	80	136	1944
						sum of 3 staff	5832

Available hrs	Work hrs	Balance	
5832	5917	-85	Shows the need for 3 field staff
3888	5917	-2029	Ray gets promoted to manager in Jan 07 so he needs to be replaced
			Hrs include travel time between sites. Based on 8 hr work day

Number of work hours to meet current needs vs number of services in system

Hours	Services	hrs/ser
5917	3870	1.53

New services	hrs/ser	hrs needed per 1000 meters
1000	1.53	1529

Note*** When the Arsenic facility comes on line we will require a licensed treatment operator
There is a potential to staff 1/2 mechanic and share with David Eves for facilities maintenance

Recommendation
Replace Ray with a mechanic 1 to cover his hours lost due to his promotion

Table 2
Calculated Task Hours per Year

Staffing Plan Total Hrs per year 5917.0

Area-Non Maintenance	Tasks	Hours Required	Times per Month	Months per yr	Total Hrs
Customer Meters	Meter Set	1	25	12	300.0
	-MXU, Nipple				
	Meter Repairs	1	30	12	360.0
	-MXU, Reprogram				
	-Leaks				
	Final Service Inspection	0.5	45	12	270.0
	-Check Level, Depth,				
	-Position, blocks				
	Meter Reads				
	-Monthly electrical	5	1	12	60.0
	-Monthly manual	6	1	12	72.0
Construction Meters	Meter reads	3	4	12	144.0
Wells	Meter Reads, Inspection	5	4	12	240.0
Bluestake	Mark, record	25	4	12	1200.0
	.5 hr/ea x 10/d x 5d/w				
Customer Calls	Water Leaks,High Usage	1	8	12	96.0
	Odor, etc				
Inventory	Trailer	8	1	12	96.0
	Trucks - 3 @ 8 hr ea	24	1	12	288.0
Site Clean Up	Tree trim, weeds, trash				
	4 sites @ 2 hr ea	8	1	12	96.0
System Inspections	FH, Meter & Line Installs				
	3 hrs/d (Ray doing this				
	going from job to job)	3	30	12	1080.0

Area-Maintenance	Tasks	Hours Required	Times per Month	Months per yr	Total Hrs
Arsenic Plant	Daily check				
estimated	4 hrs/d x 5d/w	20	4	12	960.00

Area-Maintenance	Tasks	Hours Required	Times per Month	Months per yr	Total Hrs
Compressors	Monthly Inspections	1	1	12	12.00
	Maintenance - Clean				
	air filter, change oil,				
	replace belts				
	1 hr 4 x/yr	2	1	4	8.00
Boosters	Monthly Inspections				
	1hr/site x 4 booster sites	4	1	12	48.00
	Maintenance - Clean				
	grease, vibration check,				
	temp checks				
	3 hr/site x 4 sites 2x/yr	12	1	2	24.00
Wells	Weekly Inspections				
	check oil, noise, temp	0.5	4	12	24.00
	Maintenance - Clean				
	vibration analysis,				
	temp checks	2	1	4	8.00
	Motor Oil Changes				
	2 hr/well 2x/yr	2	1	2	4.00
ARV	Monthly Inspection	0.5	100	12	600.00
approx 100	Maintenance - Clean				
	disassemble-reassemble	1	100	1	100.00
Fire Hydrants	Maintenance - Tighten Caps	0.5	300	1	150.00
approx 300	turn screw				
System Flushing	5 mins ea depending on				
Dead ends - ~25	clarity and residual	1.25	1	4	5.00
Chlorination	Weekly check	0.5	4	12	24.00
Training	Various training for field crews				
	8hr/d x 8 days/y x 2 staff	128	1	1	128.00
Water Q Sampling	Micro, Arsenic, Chlorine, etc				
	2hr/day x 5d/w	10	4	12	480.00

Table 3
Projected Staffing Needs Based on New Connections
2007-2015

Assumes 25 new meters/month for RS and 5 new meters/month for RR
Number of new meters per year for Rancho Sahuarita and Rancho Resort
30/m x 12 m/y 360

	2007	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
start number	3870	3900	3930	3960	3990	4020	4050	4080	4110	4140	4170	4200	4230
	2008	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	4230	4260	4290	4320	4350	4380	4410	4440	4470	4500	4530	4560	4590
	2009	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	4590	4620	4650	4680	4710	4740	4770	4800	4830	4860	4890	4920	4950
	2010	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	4950	4980	5010	5040	5070	5100	5130	5160	5190	5220	5250	5280	5310
	2011	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	5310	5340	5370	5400	5430	5460	5490	5520	5550	5580	5610	5640	5670
	2012	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	5670	5700	5730	5760	5790	5820	5850	5880	5910	5940	5970	6000	6030
	2013	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	6030	6060	6090	6120	6150	6180	6210	6240	6270	6300	6330	6360	6390
	2014	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	6390	6420	6450	6480	6510	6540	6570	6600	6630	6660	6690	6720	6750
	2015	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	6750	6780	6810	6840	6870	6900	6930	6960	6990	7020	7050	7080	7110

Table 4
Staff Projections w/Salaries
2007-2015

Salaries	Employees	Note		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	General Manager		$	80000	82,400	84,872	87,418	90,041	92,742	95,524	98,390	101,342	104,382	107,513
	Customer Service Manager		$	46000	47,380	48,801	50,265	51,773	53,327	54,926	56,574	58,271	60,020	61,820
	Water Quality Manager	a	$	49500	49,500	50,985	52,515	54,090	55,713	57,384	59,106	60,879	62,705	64,586
	Controller		$	42000	50,000	51,600	53,045	54,636	56,275	57,964	59,703	61,494	63,339	65,239
	Operations Manager	1	$	33000	40,000	45,000	46,350	47,741	49,173	50,648	52,167	53,732	55,344	57,005
	Operator 2 - Brad	2	$	27000	30,000	30,900	31,827	32,782	33,765	34,778	35,822	36,896	38,003	39,143
	Laborer - Alex		$	26000	26,780	27,583	28,411	29,263	30,141	31,045	31,977	32,936	33,924	34,942
	Administrative Asst	3	$		25,000	25,750	26,523	27,318	28,138	28,982	29,851	30,747	31,669	32,619
	Mechanic	3	$		37,000	38,110	39,253	40,431	41,644	42,893	44,180	45,505	46,870	48,277
	Operator 1- As Treatment	4	$			37,000	38,110	39,253	40,431	41,644	42,893	44,180	45,505	46,870
	Operator 2	5	$		30,000	30,900	31,827	32,782	33,765	34,778	35,822	36,896	38,003	39,143
	Clerk/Receptionist	6	$				20,000	20,600	21,218	21,855	22,510	23,185	23,881	24,597
	Operator 2	7	$					30,000	30,900	31,827	32,782	33,765	34,778	35,822
	Operator 2	8	$							30,000	30,900	31,827	32,782	33,765
	Operator 2	9	$										30,000	30,900
			$	303,500	418,060	471,402	505,544	550,710	567,231	614,248	632,676	651,656	701,206	722,242

Note a - WQM start Dec 2006
Note 1 - Assumes Ray gets his Distribution 3 license in 2008
Note 2 - Assumes Brad gets his Distribution 1 license in 2007.
Note 3 - Mechanic/AA to start 1st qtr 2007 to assume field duties Ray was performing. Can be shared with David Eves' group
Note 4 - Assumes Arsenic Treatment is required. Duties will be shared in field, AS plant and Sampling
Note 5 - Begins 3rd qtr 2007 when RSWC crosses 4000 meters - Assumes a Distribution 1 license
Note 6 - Comes on staff when new Water Company Building is finished.
Note 7 - Begins 1st qtr 2010 when RSWC crosses 5000 meters - Assumes a Distribution 1 license
Note 8 - Begins 3rd qtr 2012 when RSWC crosses 6000 meters - Assumes a Distribution 1 license
Note 9 - Begins 3rd qtr 2015 when RSWC crosses 7000 meters - Assumes a Distribution 1 license

Table 5
Projected Vehicle Requirements
2007-2015

Area	Note		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Administration	1	$		~~35,000~~									
Water Quality Manager	2	$			30,000								
Operations	3	$		35,000									
Operator 2 - Brad	4	$								35,000			
Laborer - Alex	4	$		40							35,000		
Mechanic	5	$		~~85,000~~									
Operator 1- As Treatment	6	$			35,000								
Operator 2	7	$											
Operator 2	8	$					35,000						
Operator 2	8	$							35,000				
Operator 2	8	$										35,000	
		$	0	155,000	65,000	0	35,000	0	35,000	35,000	35,000	35,000	0

Note 1 - New vehicle - 1st qtr 2007 - Ford Explorer - to be used by Management for work use
Note 2 - New vehicle - 1st qtr 2008 - Ford F150 PU - to replace the Toyota Pickup
Note 3 - New vehicle - 3rd qtr 2007 - Ford F150 PU - Ray's truck gets passed to new Operator
Note 4 - Replacement vehicles for Brad and Alex - Vehicles are 7 & 8 yrs old respectively
Note 5 - New vehicle - 1st qtr 2007 - F450 with 1 ton crane
Note 6 - New vehicle - 1st qtr 2008 - F250 to be used at As Plant and field
Note 7 - Takes Ray's Truck
Note 8 - New vehicle - 1st qtr 2010 - F250
Note 8 - New vehicle - 3rd qtr 2012 - F250
Note 8 - New vehicle - 3rd qtr 2015 - F250

Table 6
Projected Tool and Equipment Needs
2007-2015

Area	Note		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Administration		$											
Water Quality Manager	1	$		1,000									
Operations		$											
Operator 2 - Brad		$											
Laborer - Alex		$											
Mechanic	2	$		5,000									
Operator 1- As Treatment	3	$			2,000								
Operator 2	3	$		2,000									
Operator 2	3	$					2,000						
Operator 2	3	$							2,000				
Operator 2	3	$										2,000	
		$	0	8,000	2,000	0	2,000	0	2,000	0	0	2,000	0

Note 1 - Water Quality test kits and supplies
Note 2 - Tools, compressor, misc equipment
Note 3 - Tools and misc equipment

EXHIBIT
S-10

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

2010 JUL 15 A 9:55

AZ CORP COMMISSION
DOCKET CONTROL

COMMISSIONERS

KRISTIN K. MAYES - Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION OF SAHUARITA WATER COMPANY, LLC FOR A RATE INCREASE.	DOCKET NO. W-03718A-09-0359 **NOTICE OF ERRATA**

The Utilities Division of the Arizona Corporation Commission ("Staff") hereby gives notice of filing of Errata Schedules JMM-19, and JMM-20. In response to the Rejoinder Testimony filed by the Company, Staff determined the customer bill counts were not properly annualized. These schedules correct this issue.

RESPECTFULLY SUBMITTED this 15th day of July, 2010.

Wesley C. Van Cleve
Attorney, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

Original and thirteen (13) copies of the foregoing filed this 15th day of July, 2010, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Copy of the foregoing mailed this 15th, day of July, 2010, to:

Lawrence V. Robertson, Jr.
Attorney at Law
P.O. Box 1448
Tubac, Arizona 85646

Roseann Osorio

Monthly Usage Charge	Present	Company Proposed Rates	Staff Recommended Rates
Meter Size (All Classes):			
5/8 x 3/4 Inch	$ 16.00	$ 24.75	$ 16.00
3/4 Inch	25.00	37.13	25.00
1 Inch	40.00	61.88	40.00
1 1/2 Inch	75.00	123.76	80.00
2 Inch	120.00	198.02	128.00
3 Inch	225.00	396.03	256.00
4 Inch	375.00	618.80	400.00
6 Inch	750.00	1,237.60	800.00
Commodity Charge - Per 1,000 Gallons			
5/8" x 3/4" Meter (All Classes, Except Standpipe/Contruction)			
First 6,000 gallons	$ 2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
5/8" x 3/4" Meter (Residential)			
First 4,000 gallons	N/A	$ 3.3400	N/A
4,001 to 10,000 gallons	N/A	4.2900	N/A
Over 10,000 gallons	N/A	5.0400	N/A
First 3,000 gallons	N/A	N/A	$ 2.3100
3,001 to 9,000 gallons	N/A	N/A	3.4760
Over 9,000 gallons	N/A	N/A	4.1660
5/8" x 3/4" Meter (Commerical/Irrigation)			
First 10,000 gallons	N/A	4.2900	N/A
Over 10,000 gallons	N/A	5.0400	N/A
First 9,000 gallons	N/A	N/A	3.4760
Over 9,000 gallons	N/A	N/A	4.1660
3/4" Meter (Residential)			
First 6,000 gallons	N/A	3.3400	N/A
6,001 to 15,000 gallons	N/A	4.2900	N/A
Over 15,000 gallons	N/A	5.0400	N/A
First 3,000 gallons	N/A	N/A	2.3100
3,001 to 9,000 gallons	N/A	N/A	3.4760
Over 9,000 gallons	N/A	N/A	4.1660
3/4" Meter (Commerical/Irrigation)			
First 15,000 gallons	N/A	4.2900	N/A
Over 15,000 gallons	N/A	5.0400	N/A
First 9,000 gallons	N/A	N/A	3.4760
Over 9,000 gallons	N/A	N/A	4.1660
1" Meter (All Classes, Except Standpipe/Construction)			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
1" Meter (Residential)			
First 10,000 gallons	N/A	3.3400	N/A
10,001 to 25,000 gallons	N/A	4.2900	N/A
Over 25,000 gallons	N/A	5.0400	N/A
First 20,000 gallons	N/A	N/A	3.4760
Over 20,000 gallons	N/A	N/A	4.1660
1" Meter (Commercial)			
First 25,000 gallons	N/A	N/A	N/A
Over 25,000 gallons	N/A	N/A	N/A
First 20,000 gallons	N/A	N/A	3.4760
Over 20,000 gallons	N/A	N/A	4.1660
1" Meter (Commercial/Irrigation)			
First 10,000 gallons	N/A	3.0400	N/A
10,001 to 25,000 gallons	N/A	3.9900	N/A
First 20,000 gallons	N/A	N/A	3.4760
Over 20,000 gallons	N/A	N/A	4.1660
1.5" Meter (All Classes, Except Standpipe/Construction)			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
First 50,000 gallons	N/A	3.0400	N/A
Over 50,000 gallons	N/A	3.9900	N/A

First 55,000 gallons	N/A	N/A	3.4760
Over 55,000 gallons	N/A	N/A	4.1660
2" Meter (All Classes, Except Standpipe/Construction)			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
First 80,000 gallons	N/A	3.0400	N/A
Over 80,000 gallons	N/A	3.9900	N/A
First 90,000 gallons	N/A	N/A	3.4760
Over 90,000 gallons	N/A	N/A	4.1660
3" Meter (All Classes, Except Standpipe/Construction)			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
First 160,000 gallons	N/A	3.0400	N/A
Over 160,000 gallons	N/A	3.9900	N/A
First 200,000 gallons	N/A	N/A	3.4760
Over 200,000 gallons	N/A	N/A	4.1660
4" Meter (All Classes, Except Standpipe/Construction)			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
First 250,000 gallons	N/A	3.0400	N/A
Over 250,000 gallons	N/A	3.9900	N/A
First 350,000 gallons	N/A	N/A	3.4760
Over 350,000 gallons	N/A	N/A	4.1660
6" Meter (All Classes, Except Standpipe/Construction)			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
First 500,000 gallons	N/A	3.0400	N/A
Over 500,000 gallons	N/A	3.9900	N/A
First 750,000 gallons	N/A	N/A	3.4760
Over 750,000 gallons	N/A	N/A	4.1660
Standpipe (Construction)			
All Usage	4.5000	5.0400	4.1660

Other Service Charges

Establishment	$ 25.00	$ 25.00	$ 25.00
Establishment (After Hours)	$ 40.00	$ 40.00	$ 40.00
Reconnection (Delinquent)	$ 25.00	$ 25.00	$ 25.00
Reconnection (Delinquent) - After Hours	$ -	$ 40.00	$ 40.00
NSF Check	$ 15.00	$ 15.00	$ 15.00
Meter Test (If Correct)	$ 25.00	$ 25.00	$ 25.00
Deposit	*	*	*
Deposit Interest**	6 percent	1 percent	6 percent
Reestablishment (within 12 months)	***	***	***
Late Payment Penalty	$ 5.00	$5.00 or 1.50 percent per month	$5.00 or 1.50 percent per month
Deferred Payment	1.5 percent per month	1.5 percent per month	1.5 percent per month
Moving Meter at Customer Request	At Cost	At Cost	At Cost
Main Extenstion and Additional Facilities	At Cost	At Cost	At Cost

* Per Commission Rule A.A.C. R-14-2-403(B)
** Per Commission Rule A.A.C. R-14-2-403(B)
*** Per Commission Rule A.A.C. R-14-2-403(D) - Months off the system times the monthly minimum.

Service and Meter Installation Charges

	Total Present Charge	Proposed Meter Insallation Charge	Total Proposed Charge	Recommended Service Line Charge	Recommended Meter Insallation Charge	Total Recommended Charge
Service Size 5/8"	$ -	$ 155.00	$ 600.00	$ 445.00	$ 155.00	$ 600.00
3/4"	$ -	$ 255.00	$ 700.00	$ 445.00	$ 255.00	$ 700.00
1"	$ -	$ 315.00	$ 810.00	$ 495.00	$ 315.00	$ 810.00
1-1/2"	$ -	$ 525.00	$ 1,055.00	$ 530.00	$ 525.00	$ ~~1,055.00~~
2" Turbine	$ 998.00	$ 1,045.00	$ 1,875.00	$ 830.00	$ 1,045.00	$ 1,875.00
2" Compound	$ 1,488.00	$ 1,890.00	$ 2,720.00	$ 830.00	$ 1,890.00	$ 2,720.00
3" Turbine	$ 1,378.00	$ 1,670.00	$ 2,715.00	$ 1,045.00	$ 1,670.00	$ 2,715.00
3" Compound	$ 1,928.00	$ 2,545.00	$ 3,710.00	$ 1,165.00	$ 2,545.00	$ 3,710.00
4" Turbine	$ 2,208.00	$ 2,670.00	$ 4,160.00	$ 1,490.00	$ 2,670.00	$ 4,160.00
4" Compound	$ 2,823.00	$ 3,645.00	$ 5,315.00	$ 1,670.00	$ 3,645.00	$ 5,315.00
6" Turbine	$ 4,218.00	$ 5,025.00	$ 7,235.00	$ 2,210.00	$ 5,025.00	$ 7,235.00
6" Compound	$ 5,498.00	$ 6,920.00	$ 9,250.00	$ 2,330.00	$ 6,920.00	$ 9,250.00
Over 6"	$ -	At Cost	At Cost	At Cost	At Cost	At Cost

$550.00

$1,075.00

Sahuarita Water Company
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Errata Schedule JMM-20

Typical Bill Analysis
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	5,424	$ 27.12	$ 44.22	$ 17.10	63.05%
Median Usage	5,000	26.25	42.40	$ 16.15	61.52%
Staff Recommended					
Average Usage	5,424	$ 27.12	$ 31.36	$ 4.24	15.62%
Median Usage	5,000	26.25	29.88	$ 3.63	13.84%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	$ 16.00	$ 24.75	54.69%	$ 16.00	0.00%
1,000	18.05	28.09	55.62%	18.31	1.44%
2,000	20.10	31.43	56.37%	20.62	2.59%
3,000	22.15	34.77	56.98%	22.93	3.52%
4,000	24.20	38.11	57.48%	26.41	9.12%
5,000	26.25	42.40	61.52%	29.88	13.84%
6,000	28.30	46.69	64.98%	33.36	17.87%
7,000	31.05	50.98	64.19%	36.83	18.63%
8,000	33.80	55.27	63.52%	40.31	19.26%
9,000	36.55	59.56	62.95%	43.79	19.80%
10,000	39.30	63.85	62.47%	47.95	22.02%
11,000	42.05	68.89	63.83%	52.12	23.94%
12,000	44.80	73.93	65.02%	56.28	25.63%
13,000	47.55	78.97	66.08%	60.45	27.13%
14,000	50.30	84.01	67.02%	64.62	28.46%
15,000	53.05	89.05	67.86%	68.78	29.66%
16,000	55.80	94.09	68.62%	72.95	30.73%
17,000	58.55	99.13	69.31%	77.11	31.71%
18,000	61.30	104.17	69.93%	81.28	32.59%
19,000	64.05	109.21	70.51%	85.45	33.41%
20,000	66.80	114.25	71.03%	89.61	34.15%
25,000	80.55	139.45	73.12%	110.44	37.11%
30,000	94.30	164.65	74.60%	131.27	39.21%
35,000	108.05	189.85	75.71%	152.10	40.77%
40,000	121.80	215.05	76.56%	172.93	41.98%
45,000	135.55	240.25	77.24%	193.76	42.95%
50,000	149.30	265.45	77.80%	214.59	43.73%
75,000	218.05	391.45	79.52%	318.74	46.18%
100,000	286.80	517.45	80.42%	422.89	47.45%

Rate Base Formula

	Plant in service
-	Accumulated depreciation
	Net plant in service
+	Construction work in progress*
+	Plant held for future use*
+	Fuel inventories
+	Material and supplies
+	Inventories and prepayments
+	Regulatory assets
+	Deferred tax asset**
+	Cash working capital
	Net plant additions to rate base

	Net plant and additions to rate base
-	Deferred tax liability**
-	Accumulated deferred ITC (Option 1 Company)
-	Customer deposits
-	Regulatory liabilities
-	Other reserves
	Total rate base

*Often excluded from rate base
**Unless treated as no-cost capital

EXHIBIT
S-11
ADMITTED

Copyright © 2007 Deloitte Development LLC. All rights reserved.