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AZ CORP COMMISSION
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BEFORE THE ARIZONA CORPORATION COMMISSION

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

Arizona Corporation Commission
DOCKETED
JUL 12 2010
DOCKETED BY

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

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

Dated this 12 day of July, 2010.

Thomas J. Bourassa, CPA

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

ORIGINAL and thirteen (13) copies of the foregoing were filed the 12th day of July, 2010.

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

Cassandra M Roberts
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

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

MARK SEAMANS

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 Mark Seamans. My business address is Sahuarita Water Co. LLC, 725 W. Via Rancho Sahuarita Road, Sahuarita, Arizona, 85629.

Q.2 Are you the same Mark Seamans who previously submitted prepared Rebuttal Testimony on behalf of Sahuarita Water Company ("Company")?

A.2 Yes, I am.

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

A.3 My Rejoinder Testimony is intended to respond to that portion of Commission Staff ("Staff") witness Jeffrey M. Michlik's June 21, 2010 Surrebuttal Testimony which discusses that portion of my May 17, 2010 Rebuttal Testimony relating to a proposed adjuster clause for fees charged to the Company by the Central Arizona Groundwater Replenishment District ("CAGRD"). In that regard, I would note that the Staff and the Company now appear to be in agreement with respect to Condition Nos. 1 through 5, as set forth at page 26, line 31-page 28, line 12 of Mr. Michlik's April 22, 2010 Direct Testimony, since the date in Condition No. 5 has been changed from June 30, 2010 to June 30, 2011. However, I do wish to comment further with respect to the Staff's apparent position(s) on Condition Nos. 6 through 9.

In addition, I wish to briefly address that portion of the June 21, 2010 Surrebuttal Testimony of Staff witness Marlin Scott, Jr. relating to draft ADWR Best Management Practices ("BMP") Tariffs which have been proposed by the Company.

Q.4 What is the Company's position with respect to Condition No. 6?

A.4 The Company has no objection to Condition No. 6, with the understanding that the "relevant state agencies" referred to in that condition are CAGRD and the Arizona Department of Water Resources ("ADWR") as of this point in time. Similarly, the Company's position of no objection is based upon its understanding that the phrase "supporting documentation" as used in Condition No. 6 also refers to those same agencies as of this point in time. It is important that the Staff and the Company have a common understanding as to the intended meaning of these phrases, and that is why I wanted to indicate the Company's understanding. Needless to say, it would not be helpful for the Staff and the Company to realize after-the-fact that each had a different understanding, given that the Conditions proposed by the Staff are of a compliance nature.

Q.5 What is the Company's response to Mr. Michlik's Surrebuttal Testimony regarding Condition No. 7?

Q.5 As indicated in my May 17, 2010 Rebuttal Testimony, the Company was concerned by language in the Staff's April 22, 2010 Direct Testimony which appeared to suggest that the Commission's approval of a CAGRD fee adjuster clause lacked any sense of certainty or finality. The Company recognizes that it is the Commission which will determine whether or not to initially approve a CAGRD fee adjuster clause for the Company, and it is the Commission which would determine whether or not subsequent events might warrant a future change in the composition and manner of operation of the adjuster. However, in the interim, the Company believes that it should be allowed to recover its CAGRD fees by means of operation of a previously approved clause, subject only to the requirement that the Company has properly calculated the CAGRD fee adjuster amount proposed to be recovered.

If the preceding description of how the CAGRD fee adjuster clause would operate is what the Staff envisions, then there would not appear to be any disagreement between the Staff and the Company with respect to Condition No. 7. However, if by use of the phrase "consideration by the Commission" in Mr. Michlik's April 22, 3010 Direct Testimony the Staff intended that there be no sense of certainty or finality as to the status of the CAGRD fee adjuster at any point in time, even if the circumstances surrounding how the CAGRD fee for the Company is determined have not changed from when the adjuster was initially approved, then the Company and the Staff have a difference in view which the Commission presumably will resolve in its final decision in this proceeding.

Q.6 What is the Company's response to the Staff's Surrebuttal Testimony regarding Condition No. 8?

A.6 As discussed in my May 17, 2010 Rebuttal Testimony, the Company is quite concerned with the Staff's proposal that the Company's authorization to recover its CAGRD fees through a previously authorized adjuster would automatically cease in the event that CAGRD should hereafter change the manner in which CAGRD determines member company fees. While the Company agrees with the observation made in Mr. Michlik's June 21, 2010 Surrebuttal Testimony that CAGRD probably would not implement an "abrupt change" of that nature, neither the Staff nor the Company is in a position to guarantee how CAGRD actually will proceed in the future. Accordingly, the Company is suggesting that the Company be authorized to continue recovering properly calculated CAGRD fee adjuster amounts pending Commission review of future changes made by CAGRD, if any. In the event that the Commission should ultimately decide to alter or rescind the Company's previously-authorized CAGRD fee adjuster following such review, it

could do so prospectively. The problem with the Staff's automatic cessation of CAGRD fee recovery approach is that there is no legal way for the Company to thereafter be authorized to recover CAGRD fees which were not recovered during the period of cessation, in the event that the Commission ultimately decides it has no objection to CAGRD's revised fee determination procedure.

The Company believes that this approach balances (i) the desire of the Staff to have sufficient time to review the reasons for and accuracy of CAGRD fee adjuster amounts submitted by the Company (ii) with the Company's desire to realize a timely recovery of this operating expense which is outside of the Company's control. In that regard, while the Staff may not have had any experience to date with a CAGRD fee adjuster, it has substantial previous experience with adjuster clauses involving electric and gas utilities regulated by the Commission upon which the Staff could draw in connection with the Commission's oversight of the CAGRD fee adjuster.

Q.7 Do you have a response to the Staff's Surrebuttal Testimony regarding Condition No. 9?

A.7 Yes. Upon review of Mr. Michlik's June 21, 2010 Surrebuttal Testimony, and further review of his April 22, 2010 Direct Testimony, it would appear that whether or not an issue exists between the Staff and the Company depends upon the meaning to be attributed to the words "new tariff," as they appear in the language of Condition No. 9 set forth in Mr. Michlik's April 22, 2010 Direct Testimony. Assuming that there has not been an intervening change in how CAGRD determines the fee to be charged its member companies from the preceding year, then the purpose of the Commission's review of the "new tariff" presumably would be to ascertain if the Company had correctly calculated the

CAGRD fee adjuster amount for the coming year. Under this scenario, the Company and the Staff would be of the same mindset.

However, and again assuming no intervening change in how CAGRD determines member fees, if the Staff intends that the concept of authorized adjuster recover of CAGRD fees be revisited and redecided by the Commission each year in connection with its review of the "new tariff," then the Company would have a problem with this approach.

Q.8 What comment do you wish to make with respect to Mr. Scott's discussion in his Surrebuttal Testimony of the ADWR BMP Tariffs which have been proposed by the Company?

A.8 By way of background, the BMPs in question were originally selected and proposed by the Company as an intended compliance item pursuant to the Commission's Decision No. 70620. Subsequent to the Company's filing of the same, the Staff requested that the Company file proposed tariffs reflecting the Company's BMP selections. Thereafter, the Staff assisted the Company in developing the proposed ADWR BMP Tariffs, which Mr. Scott discusses at page 5, lines 1-23 of his June 21, 2010 Surrebuttal Testimony.

As indicated in Mr. Scott's Surrebuttal Testimony, the Staff is recommending approval of all of the Company's proposed ADWR BMP Tariffs but the one relating to BMP 7.8. With respect to BMP 7.8, the Staff is recommending no final action by the Commission until ADWR has reviewed and approved the proposed tariff.

Q.9 Is the approach suggested by the Staff with respect to BMP 7.8 acceptable to the Company?

A.9 Yes, with the understanding that the Company's activities to date regarding all of the BMPs it has selected and reduced to proposed forms of tariff constitute compliance with the applicable provisions of Decision No. 70620.

Q.10 Does that complete your Rejoinder Testimony?

A.10 Yes, it does.

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

MARK F. TAYLOR

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 Mark F. Taylor, and my business address is 4001 E. Paradise Falls Drive, Tucson, Arizona 85712.

Q.2 Are you the same Mark F. Taylor who submitted prepared Rebuttal Testimony on behalf of Sahuarita Water Company in this proceeding on May 17, 2010?

A.2 Yes.

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

A.3 My Rejoinder Testimony is intended to address and respond to various assertions and conclusions set forth in that portion of the June 21, 2010 prepared Surrebuttal Testimony of Commission Staff witness Marlin Scott, Jr. which pertain to the issue of whether or not the Company's Well No. 23 should be included in rate base in this proceeding.

Q.4 What is the nature of the disagreement between Mr. Scott and you?

A.4 Succinctly stated, the issue on which we disagree is whether or not Well No. 23 is "used and useful". I have concluded that the answer to this question is "Yes." Mr. Scott has reached the opposite conclusion.

Q.5 What are the reasons for the disagreement between Mr. Scott and you?

A.5 In essence, I believe that there are two (2) principal reasons underlying the disagreement. The first of these appears to be several errors in Mr. Scott's system capacity engineering analysis. The second reason pertains to the assertion made by staff that Well 23 redundancy is "unnecessary or excess redundancy."

Q.6 Please identify the flaws in the Commission Staff system capacity analysis set forth on page 7 of Mr. Scott's prepared Direct Testimony.

A.6 The calculations for peak day demand, well capacity, and storage capacity provided by Mr. Scott in his Direct Testimony system analysis were incorrect.

Q.7 Please explain what the errors in calculating peak day demand that were made in the Commission Staff system capacity analysis set forth on page 7 of Mr. Scott's prepared Direct Testimony.

A.7 Peak day demand, in fact, was not calculated as stated in the system analysis. Rather, Mr. Scott calculated average day peak month and referred to it as peak day demand. Peak day demand is calculated based on the peak day use divided by the number of connections on that day. Average day peak month is calculated by using the demand of the peak month and dividing it by the numbers of days in the month, and then dividing it by the average number of connections for the month. As an attachment to this Rejoinder Testimony at Exhibit A, I have provided a breakdown of the ACC Staff calculation and a corrected calculation prepared by WestLand Resources for the peak day demand based on current demand records provided by the water company. A comparison of these calculations shows the peak daily demand in gallons per connection is larger (428 gallons/connection–day) than that calculated by Mr. Scott (358 gallons/connection-day). The peak day demand in gallons per minute per connection is close to the value calculated by Mr. Scott, although Mr. Scott's original calculation of this value was also incorrect.

Q.8 Please explain what errors in calculating well capacity were made in the Commission Staff's system capacity analysis set forth on page 7 of Mr. Scott's prepared Direct Testimony.

A.8 The well capacity calculation referenced was an outdated well capacity for both Wells Nos. 14 and 18. More specifically, prior to construction of the Company's centralized arsenic treatment system in 2009, the rated production capacity of Well No. 14 was 1,800 gpm; and, the rated production capacity of Well No. 18 was 1,500 gpm. At that time, each well was plumbed separately and directly into the Company's water distribution system. Following a definitive engineering analysis, it was determined that a centralized 2,000 gpm arsenic treatment facility was the best overall approach for the Company in order to achieve compliance with United States Environmental Protection Agency's arsenic concentration standards. As a corollary matter, it was also determined that Well No. 14 and Well No. 18 should be taken off of direct feeds into the distribution system, and instead should be plumbed into a common transmission main which feeds into the new centralized arsenic treatment plant.

Due to hydraulic constraints, the rated production capacity of Well No. 14 under the new system configuration has been reduced from 1,800 gpm to 1,750 gpm when only Well No. 14 is operating. If Well No. 18 is being operated at the same time, then the rated production capacity of Well No. 14 is reduced to 1,550 gpm.

Similarly, if Well No. 18 is operated under the new system configuration, and Well No. 14 is not being operated, then the rated production capacity of Well No. 18 is reduced to 1,450 gpm. That rated capacity further is reduced to 1,250 gpm if Well No. 14 is being operated at the same time as Well No. 18.

Q.9 Please explain what errors were made in calculating storage capacity in the Commission Staff system capacity analysis set forth on page 7 of Mr. Scott's prepared Direct Testimony.

A.9 First the fire flow volume was calculated incorrectly. The total storage capacity of the water company is made up of three reservoirs, two of which are located at one site and

interconnected and a third which is located at a separate site and stands alone. The two interconnected reservoirs have a maximum fire flow requirement of 2,000 gallons per minute (gpm) for a duration of 4 hours, resulting in a total volume of 480,000 gallons. The third reservoir has a separate maximum fire flow volume of 1,500 gpm for a duration of 2 hours, resulting in a total volume of 180,000 gallons and a combined fire flow storage requirement of 660,000 gallons. These fire flow volumes are referenced in the Sahuarita Water Company Water System Master Plan dated November 8, 2007, which was previously submitted to the ACC in Docket No. W-03718A-07-0687. Mr. Scott calculated a single fire flow volume requirement of only 210,000 gallons for all three reservoirs, as contrasted with the actual requirement of 600,000 gallons.

In addition, within a reservoir there are areas of dead storage. Dead storage is located on the bottom of the tank between the tank floor and the outlet and on the top of the tank between the water surface and the roof of the tank. The volume of water in this area is not part of the active storage capacity volume. In Exhibit "A' to this testimony, I have provided calculations for the correct fire flow volume <u>and</u> dead storage volume for each of the three reservoirs. Based on these corrected calculations the total storage capacity available system-wide is only 763,891 gallons. Mr. Scott incorrectly calculated 2,340,000 gallons of storage capacity in the Commission Staff system capacity analysis set forth on page 7 of the prepared Direct Testimony. Based on the corrected storage capacity I have just described, the water system could provide peak day demand to <u>only</u> 1,789 connections for <u>only</u> one day. This is not enough to serve the number of existing connections much less any future growth to the system. Storage capacity should never be considered a long-term solution for water system redundancy because the volume is finite and will run out if not refilled on a consistent basis.

Q.10 In the question and answer which appear at page 3, lines 15-17 of his Surrebuttal Testimony, Mr. Scott notes that you did not comment on the system capacity calculation set forth in the System Analysis section of Commission Staff's prepared Direct Testimony. Why did you not call attention to these calculation errors in your previous Rebuttal Testimony?

A.10 The calculation errors were not material to the point(s) being made in the previous Rebuttal Testimony which was the need for redundancy when a well is out of service. These errors became material following my review of Mr. Scott's Surrebuttal Testimony.

Q.11 Do you believe that you have, in effect, critiqued his system capacity analysis in this Rejoinder Testimony?

A.11 Yes. I believe that I have (i) critiqued Commission Staff's system capacity analysis and the assumptions upon which such analysis and resulting conclusions are predicated, and (ii) demonstrated why those assumptions and conclusions do not reflect the Company's actual operating circumstances and needs.

Q.12 Please explain the effects the Mr. Scott's calculation errors have on his conclusion that Well No. 23 redundancy is "unnecessary or excess redundancy." as set forth on page 2 lines 9-11 of Mr. Scott's prepared Surrebuttal Testimony.

A.12 At page 2, lines 7-11 of his Surrebuttal Testimony, Mr. Scott acknowledges that Well No. 23 does provide redundancy to the Company's water system, but he contends that the redundancy so provided is "unnecessary or excess redundancy." In reaching this conclusion, he relies upon and further discusses the Commission Staff system capacity analysis set forth on page 7 of his prepared Direct Testimony in this proceeding. This additional discussion appears at page 2, line 13-page 3, line 13 of his Surrebuttal Testimony.

However, the system capacity analysis upon which Mr. Scott relies as the basis for his conclusion that Well No. 23 is not "used and useful" necessarily assumes heavy reliance upon the Company's existing storage capacity. In a situation where the Company's largest well was out of service for a sustained period of time during the period of highest peak day(s) demand on its system, under today's conditions, without Well No. 23, the Company would not be able to maintain adequate and ongoing water service to its customers.

In that regard, it is critical to recognize that the planning concept of "well redundancy" discussed in my Rebuttal Testimony does not assume sustained reliance upon storage in order to satisfy the "largest well out of service" planning criterion. Rather, it is the remainder of the well production capacity for the water system in question which is to be relied upon.

Q.13 Does the Company have any recent experience which is relevant to this discussion?

A.13 Yes. During the period between April 3, 2010-June 3, 2010, the Company's Well No. 14 was out of service due to mechanical reasons; and, the production from Well No. 18, by itself, was not enough to meet the peak day demand on May 21, 2010, due to an ongoing limitation of the production capacity of the well which I discussed above in response to Question No. 8. Because of the availability of (i) Well No. 23 and (ii) the Company's existing storage capacity, the Company did not experience any problems in providing ongoing adequate and reliable water service to its customers during this two (2) month period. I have provided calculations based on water system records during this time that support this conclusion.

The water company has informed me that the long-term shutdown of Well No. 14 was due to the long lead time incurred to obtain a replacement of a part. This long lead time is not untypical. We have heard from many suppliers that they are no longer keeping

inventory of many standard replacement parts due to the additional cost incurred by them to do so. Therefore, I would say it is very likely that this type of long-term shutdown could occur again.

At this time, I would also like to express my thoughts regarding the liability concerns associated with a large-scale long-term outage that might occur without the required system well or production redundancy. A liability would be incurred due to the costs associated with hauling water to thousands of customers, implementing and enforcing mandatory conservation and/or curtailment measures, damages incurred by customers due to the loss of water availability, and health and safety issues which result from lack of potable and fire flow capacity. I consider it unwise to regulate a water system by creating an economic disincentive to provide the required redundancy in order to reduce the possibility of the occurrence of these liabilities. In that regard, the opinions I firmly express are based on standard engineering practice, and upon my oath as a professional engineer to protect the safety, health and welfare of the public.

Q.14 The calculations you referred to in response to Question No. 13 pertain to a recent experience the Company had in 2010. What would be the result of such an analysis based on information from 2008?

A.14 In 2008, peak day demand is on the cusp of exceeding well capacity with the largest well out of service, because Well No. 23 did not exist at that time.

Q.15 What are typical causes of long-term and short-term well outages?

A.15 The typical cause of a long-term outage would be a casing failure or collapse. This type of failure would require a full replacement of the well. This is considered a long-term outage due to the length of time required to permit, drill, test, and equip a new well which typically can take 6 months to 1 year. The cause of a short-term outage would usually be

an equipment failure. This type of failure would require equipment replacement which would entail ordering, distribution, and installation of the new part or piece of equipment which could take several days to many weeks.

Q.16 Based on the age of Wells 14 and 18 is it plausible that both could be out of service with a combination of the outages described above?

A.16 Yes. Well 14 was drilled in 1970 and Well 18 in 1975. It is plausible that a casing collapse or long-term outage could occur in a well that is 35 or 40 years old. Both wells were equipped by the water company in 1998 and 2000. Based on the equipment failure on Well 14 earlier this year, I would say it is very plausible that another short term outage could occur at either well at any time.

Q.17 In the case that a multiple well outage occurred in 2008, how long would the existing storage capacity provide water to customers?

A.17 The storage capacity, according to the calculation presented in Exhibit A indicates that the active storage volume would be consumed within 9 hours on a peak day.

Q.18 In the question and answer which appear at page 3, lines 19-20 of his Surrebuttal Testimony, Mr. Scott expresses his belief that you did not provide any calculation to support your conclusion that Well No. 23 is "used and useful" in connection with the Company's water system operations. Do you believe that you have addressed that criticism in this Rejoinder Testimony?

A.17 Yes, in both the preceding discussion text, and through Exhibit A.

Q.18 Does this conclude your Rejoinder Testimony?

A.18 Yes, it does.

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

Mark F. Taylor
REJOINDER TESTIMONY
July 12, 2010

EXHIBIT A

Peak Day Demand Calculation Correction

ACC Staff Calculation:

Average Day Peak Month Demand = 48,746,000 gallons (June 2008) / 4,539 connections / 30 days = 358 gallons /day - connection

358 gallons /connection-day / 24 hrs/day / 60 minutes/hour = 0.249 gallons/minute – connection

WestLand Resources Calculation:

2008 Peak Day Demand = 1,998,000 gallons (June 20, 2008) / 4,669 connections = 428 gallons/day

428 gallons /connection-day / 24 hrs/day / 60 minutes/hour = 0.30 gallons/minute – connection

connection

Current Peak Day Demand = 2,154,713 gallons (May 21, 2010)/ 5,047 connections = 427 gallons /day – connection

427 gallons /day - connection / 24 hrs/day / 60 minutes/hour = 0.30 gallons/minute – connection

Storage Calculation Correction

To determine how much storage is available for use, we must account for the actual operating conditions of well and boosters that feed into and out of the reservoirs:

The 2950 Zone Booster station which pulls source water from the reservoirs to existing connections has an automatic low level shutoff of 6' above the reservoir bottom. This shutoff level is used to protect the pumps from cavitation and burn-out.

The wells are automatically set to turn on at a water level of 19.5' above the reservoir bottom. This results in approximately 13.5' of each reservoir available

Total Storage Capacity:

2850 Zone Reservoirs = 1,200,000 + 1,000,000 = 2,200,000 gallons

Active Storage Volume (1,200,000 gallons 2850 Zone Tank) = 13.5 ft x (tank radius) 46.5^2 ft $\times \pi$ = 91,704 ft^3 x 7.47 gallons/ ft^3 = 685,031 gallons

Active Storage Volume (1,000,000 gallons 2850 Zone Tank) = 13.5 ft x (tank radius) 42^2 ft $\times \pi$ = 74,814 ft^3 x 7.47 gallons/ ft^3 = 558,860 gallons

From this we must deduct a fire flow volume of 480,000 gallons (2950 Zone).

Fire flow for 2950 Zone (Per Sahuarita Water Company Water System Master Plan, prepared by WestLand Resources, dated 11/7/2007): 2,000 gpm for 4 hours = 2,000 gallon/minute x 4 hours x 60 minutes/hour = 480,000 gallons

Total Storage (2850 Zone) = 685,031 + 558,860 – 480,000 = 763,891 gallons

2950 N Zone Reservoir = 350,000 gallons

Fire flow for 2950 N Zone (Per Sahuarita Water Company Water System Master Plan, prepared by WestLand Resources, dated 11/7/2007): 1,500 gpm for 2 hours = 1,500 gallon/minute x 2 hours x 60 minutes/hour = 180,000 gallons

The 2950N Zone Booster station which pulls source water from the reservoirs to existing connections has an automatic low level shutoff of 6' above the reservoir bottom. This shutoff level is used to protect the pumps from cavitation and burn-out.

Active Storage Volume (350,000 gallons 2950 N Zone Tank) = (tank height) 9 ft – (dead storage) 6 ft = 3 ft x (tank radius) 43^2 ft x π = 17,426 ft^3 x 7.47 gallons/ ft^3 = 130,172 gallons

Total Storage (2950 N Zone) =130,172 – 180,000 = 0 gallons

Total System wide Active Storage Volume = 763,891 gallons

Total Connections based on Peak Day Demand = 763,891 gallons/ 427 gallons /connection-day = 1,789 connections –day

Well 14 Outage Example

Well 14 was out of service between 4/4/10 and 6/4/10 during this time the PDD was 427 gpd /connection ~ 0.30 gpm – connection. Assumes Well 23 is not available during this time, Well 14 could not keep up with demand on 5/21/10 thus resulting in a water outage to customers.

Well 18 pumping capacity = 1,450 gpm

Connections served by Well 18 based on capacity = 1,450 gpm / 0.30 gpm – connection = 4,833 connections

Total Connections served by storage capacity based on Peak Day Demand = 1,761,362 gallons/ 427 gallons /connection-day = 4,125 connection –day **(NOTE THIS IS ONLY ONE DAY OF STOARGE)**

Therefore after one day, storage capacity would be exhausted and Well 18 alone would not be able to keep up with the system peak day requirement. As stated above this outage occurred over a two month period. All information is based on actual water company records.

Storage Capacity During Multiple Well Outage

Example, Well 14 is out for extended period of time due to casing failure. During this outage Well 18 has an electrical outage which requires a part replacement. It is assumed that the part replacement will take several days for ordering, distribution and installation. Below is a calculation to determine the length of time that existing 2850 Zone storage capacity would provide existing connections peak day demand.

Based on a PDD of 1,998,000 gallons in December 2008 this storage would last 9 hours based on a 24 hour day (0.38 day)

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

THOMAS J. BOURASSA

ON BEHALF OF SAHUARITA WATER COMPANY

(COST OF CAPITAL)

July 12, 2010

I. INTRODUCTION AND QUALIFICATIONS

Q1. PLEASE STATE YOUR NAME AND ADDRESS.

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

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

A2. I am testifying on behalf of the applicant, Sahuarita Water Company ("SWC" or the "Company").

Q3. ARE YOU THE SAME THOMAS J. BOURASSA THAT FILED DIRECT AND REBUTTAL TESTIMONY IN THIS DOCKET?

A3. Yes. I am submitting separately bound rejoinder testimony on rate base, income statement, revenue requirement and rate design, along with this rejoinder testimony on the cost of capital

Q4. WHAT IS THE PURPOSE OF THIS VOLUME OF YOUR REJOINDER TESTIMONY?

A4. I will summarize the rejoinder position of the Company and provide a response, as appropriate, to the Surrebuttal Testimony of Mr. Manrique on behalf of Staff.

II. SUMMARY OF REJOINDER TESTIMONY AND THE PROPOSED COST OF CAPITAL FOR THE COMPANY

A. Summary of Company's Rejoinder Recommendation

Q5. WHAT IS THE COMPANY'S REJOINDER POSITION ON THE COST OF CAPITAL?

A5. The Company's position regarding the cost of equity has not changed since my rebuttal testimony was filed on May 17, 2010. The Company's proposed capital structure is 18.02 percent debt and 81.98 percent equity. I continue to recommend a cost of equity of 10.9 percent, which results in a weighted cost of capital

("WACC") of 9.69 percent.

As I explained in my rebuttal testimony, I believe that a return on equity of 10.9 percent is fair and reasonable, and properly takes into account SWC's financial and business risk. It is based on applying the Discounted Cash Flow ("DCF") model and the Capital Asset Pricing Model ("CAPM") to the sample group of publicly traded water utilities normally used by Staff and approved by the Commission in setting rates for numerous water and wastewater utilities. The return produced by those models was then adjusted downward by 70 basis points to account for the absence of debt in the Company's capital structure, and then, finally, upward by 50 basis points to account for the Company's extremely small size, lack of investment liquidity, and the additional risk that results from the particular rate-making methods employed in Arizona. The table below summarizes the Company's final position:

Method	Low	High	Midpoint
Range DCF Constant Growth Estimates	9.1%	10.5%	9.8%
Range of CAPM Estimates	10.4%	14.6%	12.5%
Average of DCF and CAPM midpoint estimates	9.8%	12.6%	11.2%
Financial Risk Adjustment	-0.7%	-0.7%	-0.7%
Specific Company Risk Premium	0.5%	0.5%	0.5%
Indicated Cost of Equity	**9.6%**	**12.4%**	**11.0%**
Recommended Cost of Equity			**10.9%**

The schedules containing the cost of capital analysis are attached to my cost of capital rejoinder testimony. There have been no significant changes in the

financial markets that affect that analysis, which was performed approximately seven weeks ago.

Q6. PLEASE SUMMARIZE YOUR RECOMMENDED REJOINDER COST OF DEBT AND EQUITY, AND YOUR RECOMMENDED REJOINDER RATE OF RETURN ON RATE BASE.

A6. The Company's recommended capital structure consists of 18 percent debt and 82 percent common equity as shown on Rejoinder Schedule D-1. Based on my updated cost of capital analysis, I am recommending a cost of equity of 10.9 percent. Based on my 10.9 percent recommended cost of equity and 4.2 percent cost of debt, the Company's weighted cost of capital ("WACC") is 9.69 percent, as shown on Rejoinder Schedule D-1.

B. <u>Summary of the Staff Recommendation.</u>

Q7. PLEASE SUMMARIZE THE RECOMMENDATION OF STAFF FOR THE RATE OF RETURN ON FAIR VALUE RATE BASE.

A7. Staff is recommending a capital structure consisting of 17.8 percent debt and 81.2 percent equity.[1] Staff determined a cost of equity of 10.3 percent based on the average cost of equity produced by its DCF and CAPM models.[2] Staff also determined the cost of debt to be 4.2 percent.[3] Based on its 17.8 percent debt and 81.2 percent equity capital structure, Staff determined the WACC for SWC to be 9.2 percent.[4]

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[1] *See* Surrebuttal Testimony of Juan C. Manrique ("Manrique Sb.") at 2.

[2] *Id.*

[3] *Id.*

[4] *Id.*

The most significant problems with Staff's recommendations are, in summary:

(1) Staff ignores the fact that SWC is riskier than the publicly traded utilities in the sample group, despite SWC's small size, lack of liquidity and Arizona's unfavorable regulatory climate. Empirical financial data demonstrate that there exists a relationship between firm size and return.[5] No rational investor would agree with Staff's position, which violates the comparable earnings standard.

(2) Staff improperly double-counts historic growth rates in estimating the future dividend growth rate – g – in the DCF model, and fails to properly utilize the best estimate of expected dividend growth, analysts' forecasts. Historic growth is already reflected in the current stock prices of the publicly traded sample utilities and is considered by analysts in developing their growth rate forecasts. This error depresses the result produced by the DCF model.

(3) Staff determines an after-tax rate of return based upon publicly traded water utilities but Staff is recommending the disallowance of income taxes in the revenue requirement for SWC. The comparison to the publicly traded water utilities is only meaningful when SWC's earnings are determined on an after-tax basis. In fact, when incomes taxes are disallowed the cash flows available dividends are significantly reduced and the value of an investment in SWC is significantly diminished.[6]

(4) Based on the Staff recommendations in the instant case (exclusion of Well #23 plant costs from rate base and a 9.2 percent rate of return), the Company will have <u>insufficient earnings</u> from which to pay dividends (distributions) at a

[5] Morningstar, Ibbotson SBBI 2010 Valuation Yearbook p85-107

[6] *See* Rebuttal Cost of Capital Testimony of Thomas J. Bourassa ("Bourassa COC Rb.") at 5-9.

level comparable to the publicly traded utilities. Moreover, the insufficiency of earnings is compounded by Staff recommendation to disallow income taxes. As a result, Staff's recommendations fail to meet the standards set forth in *Hope* and *Bluefield* and must be rejected.

Q8. DOES MR. MANRIQUE CHALLENGE YOUR TESTIMONY THAT THE RETURN PROVIDED TO A C-CORPORATION UTILITY IS NOT THE SAME AS A TAX-PASS THROUGH ENTITY IF INCOME TAXES ARE EXCLUDED FOR THE TAX-PASS THROUGH ENTITY?

A8. No. And neither has Staff's witness, Mr. Michlik. As you will recall, in my rebuttal cost of capital testimony I showed that the value of two firms (one a tax paying entity and one a non-tax paying entity) will have very different values if income tax recovery is allowed on one and not the other.[7] Also, as I stated, and which the analysis contained in my rebuttal cost of capital presentation demonstrates, if the recovery of income taxes is denied for a tax pass-through entity but allowed for a tax paying entity, the investors in a tax pass-through entity will suffer a confiscation of investment value as a result.[8] Again, Staff has not disputed this point.

Q9. PLEASE EXPLAIN WHY UNDER THE STAFF RECOMMENDATIONS IN THE INSTANT CASE THE COMPANY WILL HAVE INSUFFICIENT EARNINGS TO PAY DIVIDENDS AT A LEVEL COMPARABLE TO THE PUBLICLY TRADED WATER UTILITIES.

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[7] Bourassa COC Rb. at 5-9.
[8] Bourassa Rb. at 12.

A9. In order for the Company to pay dividends which produce a dividend yield equivalent to the dividend yield of the publicly traded water utilities, the Company will need to pay dividends of about $715,000. However, the earnings available for dividends will only be about $683,000. Let me explain. The Company has an adjusted equity balance (book value) of approximately $12.8 million.[9] If the publicly traded water utilities are comparable to SWC, as Staff assumes it is, then SWC's equity would trade at 1.8 times the book value[10] or approximately $23.0 million (1.8 times $12.8 million). Staff has computed an expected dividend yield of 3.6 percent.[11] Thus, the expected dividend payment is $715,000 ($23.0 million times 3.6 percent). Further, Staff's recommendation of 9.2 percent return produces a required operating income of about $801,000.[12] Out of this amount approximately $118,000 of interest must be paid[13], leaving net earnings available for dividends of approximately $683,000 ($801,000 minus $118,000). As a result of the inadequacy of earnings, the Company will have a negative retained earnings or a payout ratio of over 100 percent. A payout ratio of over 100 percent this is not sustainable and is in no way comparable to the publicly traded water utilities.

Q10. WHAT IS THE 5 YEAR AVERAGE PAYOUT RATIO OF THE PUBLICLY TRADED WATER UTILITIES?

A10. The 5 year historical average payout ratio of the publicly traded water utilities is

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[9] *See* Rejoinder Schedule D-1.

[10] *See* Staff Surrebuttal COC Schedule JCM-7. As shown, the market-to-book ratio is 1.8.

[11] *See* Staff Surrebuttal COC Schedule JCM-3.

[12] *See* Staff Surrebuttal Schedule JMM-1.

[13] See Rejoinder Schedule D-2. Balance of debt at end of test year is $2,816,714. This interest rate is 4.2%. Interest on this debt is $118,302.

about 75 percent. If SWC paid out 75 percent of its net earnings so that it is comparable to the publicly traded water utilities, it would pay dividends totaling about $512,000 ($683,000 times 75 percent). However, this would translate to a dividend yield of only 2.22 percent ($512,000 divided by $23 million). Of course, investors expect a dividend yield of 3.6 percent, so the value of an investment in SWC would need to decrease to about $14.2 million ($512,000 divided by 3.6 percent) in order for investors to receive a 3.6 percent dividend yield. In other words, SWC investors will lose approximately $9 million of investment value.

Q11. WHAT WOULD THE RATE OF RETURN THAT IS APPLIED TO STAFF'S PROPOSED RATE BASE NEED TO BE IN ORDER FOR THE COMPANY TO BE COMPARABLE TO THE PUBLICLY TRADED WATER COMPANIES?

A11. 12.3 percent. Let me explain. If SWC has a payout ratio of 75 percent, then it must have earnings after interest of about $953,000 ($715,000 divided by 75 percent). Adding back interest of $118,000 to the $953,000 results in a required operating income of approximately $1.07 million. Staff's proposed rate base is approximately $8.71 million[14], so the return required is 12.3 percent ($1.07 million divided by $8.71 million).

Q12. WHAT DOES THE RETURN ON EQUITY NEED TO BE IN ORDER TO PRODUCE A 12.3 PERCENT OVERALL RETURN?

A12. 14.1 percent. This can be found by first subtracting the weight cost of debt from the 12.3 percent return to get the weighted cost of equity then dividing the

[14] *See* Staff Surrebuttal Schedule JMM-1.

weighted cost of equity by the percentage of equity in the capital structure. Staff weighted cost of debt is 0.7 percent[15] and the percentage of equity in the capital structure is 82.2 percent. So, the computation is ((12.3% minus 0.7%) divided by 82.2%).

Q13. HOW DO INCOME TAXES COME INTO PLAY IN THE ABOVE ANALYSIS?

A13. A tax-paying entity pays dividends out of after-tax earnings. Under the Staff proposals and in the analysis above, the $715,000 in dividends (distributions) is paid out of pre-tax earnings. The investors of SWC will have to pay personal income tax on the Company's earnings if they are not reimbursed for those taxes. The taxes on the earnings will be approximately $270,000 assuming a 39.5 percent personal tax rate ($683,000 times 39.5 percent). As a result, the investors of SWC will net $445,231 ($715,000 minus $270,000). Alternatively, SWC could reimburse the investors for the income taxes, but this will leave the Company even less available earnings from which to pay dividends (distributions). In fact, the earnings available for dividends will be about $413,000 ($683,000 minus $270,000) compared to the $683,000 noted earlier.

Q14. DOESN'T AN INVESTOR IN A C-CORPORATION HAVE TO PAY THE TAXES ON DIVIDENDS?

A14. Yes. The tax rate on qualified dividends is 0 percent or 15 percent (depending on the individual's income tax rate). Further, the investor only pays taxes on the dividends received and not on the C-Corporations taxable income.

Q15. ISN'T THE PROBLEM OF SUFFICIENCY OF EARNINGS A FUNCTION

[15] *See* Staff Schedule JCM-1.

OF THE AMOUNT OF RATE BASE THAT STAFF IS PROPOSING AND THE AMOUNT INVESTED CAPITAL IN THE CAPITAL STRUCTURE?

A15. Yes. Staff's rate base is approximately $8.71 million[16] while total capital in the capital structure is over $15.6 million[17]. The inequality between Staff's rate base and invested capital in the instant case is partly the result of Staff's proposed disallowance of approximately $1.8 million of plant (Well #23) in rate base. But, whatever the reason for the inequality between rate base and capital, investor supplied capital always has an earnings requirement (interest, dividends, and earnings). As stated by Dr, Morin[18],

> The totality of a company's capital has to be serviced, whether through the medium of operating revenues or in part the accrual of AFUDC. Therefore, the allowed rate of return on common equity is applicable to the total common equity component of the total investments of the utility company. Anything less than that has the direct and immediate effect of reducing common equity return below the level needed to meet the capital attraction and comparable earnings standards articulated in the *Hope* and *Bluefield* decisions. To apply an allowed rate of return to a rate base that does not provide for total common equity investment does not maintain the integrity of that capital and does not enable the company to attract capital.

Q16. THE COMPANY PROPOSED RATE BASE IS LESS THAN INVESTED CAPITAL. WILL THE COMPANY HAVE SUFFICIENT EARNINGS FROM WHICH TO PAY DIVIDENDS (DISTRBUTIONS)?

A16. Yes. The Company is recommending a rate base of approximately $10.1 million. However, the earnings available to pay the $715,000 dividends will be about $857,000. Let me explain. The Company proposed operating income (after-tax) is

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[16] *See* Staff Surrebuttal Schedule JMM-1

[17] *See* Rejoinder Schedule D-1.

[18] Roger A. Morin. *New Regulatory Finance* (2006) 496-497 (emphasis added).

about $975,000.[19] As discussed above, interest expense will be $118,000, so the earnings available for dividends will be about $857,000 ($975,000 minus $118,000). After paying dividends of $715,000 the earnings retained by the Company will be $141,458. The payout ratio will be a bit higher than the publicly traded water utilities at about 83.5 percent ($715,000 divided by $857,000), but retained earnings are positive. The Company will still able to service the totality of its capital despite the inequality between its proposed rate base and total invested capital.

A. Firm Specific Risk

Q17. PLEASE RESPOND TO MR. MANRIQUE'S TESTIMONY ON PAGE 3 THAT YOU HAVE "CHERRY PICKED" CERTAINS ASPECTS OF OTHER REGULATORY ENVIRONMENTS TO DISPUTE HIS TESTIMONY THAT DOING BUSINESS IN ARIZONA IS NO LESS RISKY THAT OTHER STATES.

A17. The accusation that I "cherry picked" certain attributes of other regulatory environments is simply not true. Mr. Manrique has not provided specific examples of attributes of other regulatory jurisdictions that I have over looked nor has Mr. Manrique disputed my testimony concerning the attributes of other regulatory environments that reduce regulatory and investment risk. [20] I could similarly accuse Mr. Manrique of "cherry picking" his so-called "attractive" Arizona regulatory attributes that he cited in his testimony.[21] The important difference between Mr. Manrique and me is that I addressed and refuted each one of the

[19] *See* Rejoinder Schedule C-1, page 1.

[20] Bourassa COC Rb. at 21-26.

[21] See Direct Testimony of Juan C. Manrique ("Manrique Dt.") at 41.

Arizona attributes he cited with specific responses and examples as to why they did not make Arizona more attractive than other jurisdictions. Just as important, Mr. Manrique has not disputed that testimony. Consequently, Mr. Manrique fails to support his assertion that Arizona is no different than other jurisdictions because as he states, "it is the overall effect that is relevant".[22]

Q18. ARE THE HIGHER RISKS ASSOCIATED WITH SMALLER FIRMS A UNIQUE RISK THAT INVESTORS CANNOT EXPECT TO BE COMPENSATED FOR?

A18. No. We know that based on empirical financial data that the firm size phenomenon is real. Moreover, we know that the capital asset pricing model is incomplete and does not fully account for the higher returns on small company stocks. In other words, the higher risks associated with smaller firms is not fully accounted for by beta.

With respect to the relationship between firm size and return, *Morningstar* states[23]:

> One of the most remarkable discoveries of modern finance is that of a relationship between firm size and return. The relationship cuts across the entire size spectrum but is most evident among smaller companies which have higher returns than larger ones. Many studies have looked at the effect of firm size and return...

With respect to the CAPM, *Morningstar* states[24]:

> The firm size phenomenon is remarkable in several ways. First, the greater risk of small stocks does not, in the context of the capital asset pricing model (CAPM), fully account for their higher returns over the long term. In the CAPM only systematic, or beta risk, is rewarded; small company stocks have had returns in excess of those implied by their betas.

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[22] Manrique Sb. at 3.

[23] Morningstar, *Ibbotson SBBI 2010 Valuation Yearbook*, at 85.

[24] Morningstar at 89.

Q19. IS THERE A WAY TO ESTIMATE THE COST OF EQUITY FOR A NON-PUBLICLY TRADED COMPANY THAT DOES REQUIRE A MARKET BETA AND THE USE OF THE CAPM?

A19. Yes, it is called the Build-up Method.[25] This is a common and effective method used by appraisers and valuation experts.[26] The Build-up Method is an additive model in which the return on a security is the sum of a risk-free rate and more or more risk premia. Each premium represents the reward an investor receives for taking on a specific risk. The elegance of the Build-up Method is that it does not require an estimate of market beta which is problematic for non-publicly traded companies such as SWC. The Build-up Method can be stated as follows:

[1] $k = R_f + RP_m + RP_s +/- RP_u$

where k = the expected return

R_f = risk-free rate

RP_m = equity risk premium for the market

RPs = equity risk premium for size

RP_u = risk premium attributed to the specific company or to the industry (often call the company specific risk premium)

Or alternatively as:

[2] $k = R_f + RP_{ms} +/- RP_u$

where k = the expected return

R_f = risk-free rate

RP_{m+s} = equity risk premium for the market and size

[25] *Morningstar*, Chapter 3.

[26] *Id.* at 27.

RP_u = risk premium attributed to the specific company or to the industry (often call the company specific risk premium)

The data for the equity risk premium for the market (RP_m), the equity risk premium for size (RP_s), and the company specific or industry risk premium (RP_u) can be ready obtained from *Morningstar* and/or other size premium studies such as the *Duff & Phelps* study.[27] *Morningstar* quantifies the size premium separate from the market risk premium by market capitalization as a measure of size whereas *Duff & Phelps* study quantifies the risk premium (RP_{m+s}) (market premium (RP_m) plus the size premium (RP_s)) by book value of common equity, 5 year average net income, market value of invested capital, total assets (as reported on balance sheet), 5-year average of earnings before interest, income taxes, depreciation and amortization (EBITDA), sales, and number of employees in addition to market capitalization – all of which have been shown to be highly correlated with market returns. I should note that the authors of the *Duff & Phelps* study concludes that, by whatever measures of size is used, the results are clear that there is an inverse relationship between size and historical equity returns – small companies have higher returns than larger companies.[28] They also explain, as I have previously, in the context of the CAPM, the greater betas of smaller companies explain some, but not all of the higher average returns in their size-ranked portfolios.[29]

[27] Duff & Phelps LLC, *Risk Premium Report 2010.*

[28] Duff & Phelps at 10.

[29] *Id.*

Q20. HAVE YOU PREPARED AN ESTIMATE OF THE COST OF EQUITY USING THE BUILD-UP METHOD FOR SWC USING DATA FROM MORNINGSTAR?

A20. Yes. Using the Build-up Method, I estimate the cost of equity for SWC to be 13.18 percent. This is based upon the data from Morningstar as contained Table C-1 (the risk-rate would be 4.6 percent[30], the equity risk premium would be 6.7 percent[31], the small company risk premium of 6.28 percent[32]) and data contained in Table 3-5 – Industry Premia Estimates (negative 4.40 for the water supply industry SIC code 494). The calculation is shown as follows:

[1] $k = R_f + RP_m + RP_s +/- RP_u$

[2] $k = 4.6\% + 6.7\% + 6.28\% - 4.4\%$

[3] $k = 13.18\%$

Q21. HAVE YOU PREPARED A COST OF EQUITY ESTIMATE FOR SWC USING THE DUFF&PHELPS STUDY?

A21. Yes. Please see **Exhibit TJB-RJ-1.** I have included cost of equity estimates for the water sample companies. These estimates have been adjusted for leverage (financial risk) differences between the companies in the size portfolios contained in the study and the water sample companies and SWC. Further, like the Build-up Method cost of equity estimate using the Morningstar data, the cost of equity estimates includes a water industry risk premium adjustment. Based on various measures of size the results are as follows[33]:

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[30] Long-term (20 year) U.S. Treasury Bond Yield

[31] Long-horizon historical equity risk premium

[32] Decile 10 – smallest, market capitalization of 1 million to 214 million.

[33] *See* Exhibit TJB-RJ-1, Table 7.

Stock Symbol	Company	Cost of Equity
AWR	American States Water Co.	11.92%
WTR	Aqua America	10.77%
CWT	California Water Services Group	11.75%
CTWS	Connecticut Water Services	11.47%
MSEX	Middlesex Water Company	12.88%
SJW	SJW Corp.	12.60%
	Average	11.90%
	Sahuarita Water Company	11.98%

Q22. WHAT DOES ALL THIS MEAN?

A22. It means that my cost of equity estimate of 10.9 percent for SWC is very conservative given its size. It also shows that my size premium used in my cost of capital analysis of 50 basis points is likely far too low and should be much higher. Even accounting for financial risk differences, the indicated cost of equity for SWC based on the *Duff & Phelps* study is 10 basis points higher than the sample water companies.

B. Estimates of Growth

Q23. ON PAGE 4, MR. MANRIQUE STATES THAT YOU MAKE THE ASSERTION THAT THE ONLY FACTOR INVESTORS LOOK AT IS ANALSYTS' ESTIMATES OF GROWTH. DO YOU HAVE A COMMENT?

A23. Yes. First, let me state that I do not use analyst estimates exclusively in my cost of

capital analysis.[34] Second, Mr. Manrique has misunderstood my testimony and misses the point. That is, if analysts' estimates already consider past growth, then Staff vastly overstates the impact of past growth rates in its DCF model. And, because Staff overstates the impact of historical growth rates in its estimate of growth, Staff's models reflect a type of "double-counting" that produces extremely low results.[35] And, as I have stated, Staff gives less weight to what is arguably the best estimate of growth.[36]

Q24. DOES THAT CONCLUDE YOUR REJOINDER TESTIMONY ON COST OF CAPITAL?

A24. Yes. Although my silence on any issue not discussed herein does not necessarily constitute agreement with Staff.

[34] Bourassa COC Dt. at 30.

[35] Bourassa COC Rb. at 14.

[36] Bourassa COC Rb. at 13.

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

THOMAS J. BOURASSA, CPA
REJOINDER TESTIMONY
July 12, 2010

EXHIBIT TJB-COC-RJ-1

Sahuarita Water Company, LLC
COST OF EQUITY (COE) USING BUILD-UP METHOD

TABLE 1

	Company	Symbol	Measures of size (Millions) MV Equity[1]	Book Equity[1]	MVIC[1]	Total Assets[2]	5 Yr Avg. EBITDA[3]
1.	American States	AWR	$ 659	$ 336	$ 965	$ 1,113	$ 92
2.	Aqua America	WTR	$ 2,501	$ 1,101	$ 3,887	$ 3,763	$ 304
3.	California Water	CWT	$ 805	$ 419	$ 1,180	$ 1,526	$ 100
4.	Connecticut Water	CTWS	$ 204	$ 108	$ 316	$ 415	$ 20
5.	Middlesex	MSEX	$ 243	$ 138	$ 368	$ 458	$ 29
6.	SJW Corp.	SJW	$ 496	$ 249	$ 743	$ 878	$ 73
	Sahuarita Water Company, LLC		$ 25.2 (Estimate)	$ 13	$ 28.0 (Estimate)	$ 17.6	$ 0.8

[1] From Value Line data (12/31/2009)
[2] From Zacks Investment Research. From E-1 for subject utility.
[3] Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA). From Zacks Investment Research and Company ACC reports

Sahuarita Water Company, LLC
COST OF EQUITY (COE) USING BUILD-UP METHOD

MRP_{m+s} Estimates Using Duff & Phelps Study (Levered) **TABLE 2**

Data Smoothing with Regression Analysis ***Snoothed Premium = Constant + X Coefficients * Log(Relevent Metric)***	MV Equity (Table A-1)	Book Equity (Table A-2)	MVIC (Table A-4)	Total Assets (Table A-5)	5 Yr Avg. EBITDA (Table A-6)
Constant	17.357%	15.190%	17.375%	15.804%	13.723%
X Coefficient(s)	-2.924%	-2.296%	-2.154%	-2.230%	-2.141%

			MRP_{m+s} Estimates (Levered)					
	Company	Symbol	MV Equity	Book Equity	MVIC	Total Assets	5 Yr Avg. EBITDA	Average
1.	American States	AWR	9.11%	9.39%	10.95%	9.01%	9.52%	9.60%
2.	Aqua America	WTR	7.42%	8.21%	9.64%	7.83%	8.41%	8.30%
3.	California Water	CWT	8.86%	9.17%	10.76%	8.70%	9.44%	9.39%
4.	Connecticut Water	CTWS	10.61%	10.52%	11.99%	9.97%	10.96%	10.81%
5.	Middlesex	MSEX	10.38%	10.27%	11.85%	9.87%	10.58%	10.59%
6.	SJW Corp.	SJW	9.47%	9.69%	11.19%	9.24%	9.73%	9.86%
	Average (Unlevered)		9.31%	9.54%	11.06%	9.10%	9.77%	9.76%
	Sahuarita Water Company, LLC		13.26%	12.65%	14.26%	13.03%	13.91%	13.42%

Sahuarita Water Company, LLC
COST OF EQUITY (COE) USING BUILD-UP METHOD

Average Debt to Market Value of Equity for MRP_{m+s} for Portfilios used in Duff & Phelps RP Study **TABLE 3**
(from Duff & Phelps RP Study (W_d/W_e) for use in un-levering MRP_{m+s} . See Table 4)

			W_d/W_e					
	Company	Symbol	(Table C-1)	(Table C-2)	(Table C-4)	(Table C-5)	(Table C-6)	Average
1.	American States	AWR	34.10%	32.60%	36.10%	37.10%	35.50%	35.08%
2.	Aqua America	WTR	30.90%	33.30%	36.70%	41.50%	34.40%	35.36%
3.	California Water	CWT	32.40%	33.40%	34.90%	35.90%	35.50%	34.42%
4.	Connecticut Water	CTWS	36.60%	32.90%	35.30%	31.60%	30.70%	33.42%
5.	Middlesex	MSEX	35.70%	32.90%	34.80%	32.10%	34.40%	33.98%
6.	SJW Corp.	SJW	35.00%	34.60%	35.60%	35.60%	34.50%	35.06%
	Average		34.12%	33.28%	35.57%	35.63%	34.17%	34.55%

Sahuarita Water Company, LLC
COST OF EQUITY (COE) USING BUILD-UP METHOD

MRP Estimates Using Duff & Phelps Study (Un-levered) **TABLE 4**

Un-levered realized risk premium = {[Levered realized risk preium * 100) + (W_d/W_e)*b_d/[1 +W_d/W_e]}/100

			MRP_{m+s} (Un-levered)					
	Company	Symbol	MV Equity	Book Equity	MVIC	Total Assets	5 Yr Avg. EBITDA	Average
1.	American States	AWR	6.85%	7.13%	8.10%	6.63%	7.08%	7.16%
2.	Aqua America	WTR	5.72%	6.21%	7.11%	5.59%	6.31%	6.19%
3.	California Water	CWT	6.74%	6.92%	8.03%	6.46%	7.02%	7.03%
4.	Connecticut Water	CTWS	7.82%	7.97%	8.92%	7.62%	8.43%	8.15%
5.	Middlesex	MSEX	7.70%	7.78%	8.84%	7.52%	7.93%	7.95%
6.	SJW Corp.	SJW	7.07%	7.25%	8.31%	6.87%	7.29%	7.36%
	Average MRP (Unlevered)		6.98%	7.21%	8.22%	6.78%	7.34%	7.31%
	Sahuarita Water Company, LLC		9.89%	9.49%	10.52%	9.60%	10.37%	9.97%
	Implied small company risk premium over sample publicly traded water utilities							2.67%

Sahuarita Water Company, LLC
COST OF EQUITY (COE) USING BUILD-UP METHOD

MRP Estimates Using Duff & Phelps Study (Relevered)
(using W_d/W_e data from Table 4)

TABLE 5

			MRP_{m+s} (Relevered)						
	Company	Symbol	W_d/W_e	MV Equity	Book Equity	MVIC	Total Assets	5 Yr Avg. EBITDA	Average
1.	American States	AWR	55.3%	10.53%	10.97%	12.47%	10.18%	10.88%	11.00%
2.	Aqua America	WTR	61.2%	9.09%	9.88%	11.34%	8.89%	10.05%	9.85%
3.	California Water	CWT	55.6%	10.38%	10.66%	12.38%	9.94%	10.81%	10.83%
4.	Connecticut Water	CTWS	30.2%	10.12%	10.31%	11.54%	9.86%	10.92%	10.55%
5.	Middlesex	MSEX	51.6%	11.58%	11.69%	13.30%	11.30%	11.92%	11.96%
6.	SJW Corp.	SJW	60.5%	11.22%	11.51%	13.21%	10.90%	11.57%	11.68%
	Average MRP (Relevered)		52.41%	10.49%	10.84%	12.37%	10.18%	11.02%	10.98%
	Sahuarita Water Company, LLC		11.18%	10.97%	10.53%	11.67%	10.66%	11.50%	11.07%

Sahuarita Water Company, LLC
COST OF EQUITY (COE) USING BUILD-UP METHOD

Equity Risk Premium Adjustment and Other meterics used in Build-up Method **TABLE 6**

[1] Estimate of Current Market Risk Premium	4.25%
[2] Risk Premium Assumed in Duff & Phelps Study (1963-2009)	4.25%
[3] Equity Risk Premium Adjustment ([1] - [2])	0.00%
[4] Average MRP (relevered) for publicly traded water companies (from Table 5)	10.98%
[5] MRP (relevered) for publicly traded water companies (R_{m+s}) ([3] + [4])	10.98%
[6] Equity Risk Premium Adjustment ([3])	0.00%
[7] Average MRP (relevered) for subject utility company (from Table 5)	11.07%
[8] MRP (relevered) for subject utility company (R_{m+s}) ([6] + [7])	11.07%
[9] Industry Risk Premium (From *Ibbotson* for SIC 494 Water Supply Industry Table 3-5)	-4.40%
[10] Adjustment Factor to Industry Risk Premium ([2] / 6.7%[1])	0.6343
[11] Adjusted Industry Risk Premium (R_i) ([9] x [10])	-2.79%
[12] Risk Free Rate (Ibbotson LT U.S. Treasury Yield) (R_f)[2]	3.71%

[1] From *Ibbotson SBBI 2010 Valuation Edition Yearbook*. Long-Horison Equity Risk Premium (1926-2009)
[2] 20 year U.S. Treasury Bond Yield at July 1, 2010

Sahuarita Water Company, LLC
COST OF EQUITY (COE) USING BUILD-UP METHOD

Cost of Equity (COE) Estimate using Build-up Method **TABLE 7**

$E(R_i) = R_f + RP_{m+s} + R_i + R_u$

Where:	Sample Publicly Traded Water Utilities	Bella Vista
$E(R_i)$ =Expected rate of return		
R_f = Risk-free rate of return. See Table 6.	3.71%	3.71%
RP_{m+s} = Market risk premium including size premium. See Table 5	See Table 5	See Table 5
R_i = Industry risk premium (adjusted) See Table 6	-2.79%	-2.79%
R_u = Company-specific risk premium	0.00%	0.00%

			Indicated COE					
	Company	Symbol	MV Equity	Book Equity	MVIC	Total Assets	5 Yr Avg. EBITDA	Average
1.	American States	AWR	11.44%	11.89%	13.38%	11.10%	11.80%	11.92%
2.	Aqua America	WTR	10.01%	10.80%	12.26%	9.81%	10.97%	10.77%
3.	California Water	CWT	11.30%	11.58%	13.30%	10.86%	11.73%	11.75%
4.	Connecticut Water	CTWS	11.04%	11.23%	12.46%	10.78%	11.83%	11.47%
5.	Middlesex	MSEX	12.50%	12.61%	14.22%	12.22%	12.83%	12.88%
6.	SJW Corp.	SJW	12.14%	12.43%	14.13%	11.82%	12.49%	12.60%
	Average COE estimate		11.40%	11.76%	13.29%	11.10%	11.94%	11.90%
	Sahuarita Water Company, LLC		11.89%	11.45%	12.59%	11.57%	12.42%	11.98%

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

THOMAS J. BOURASSA
REJOINDER TESTIMONY
(COST OF CAPITAL)
July 12, 2010

SCHEDULES

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Summary of Cost of Capital

Exhibit
Rejoinder Schedule D-
Page 1
Witness: Bourassa

Line No.	Item of Capital	Adjusted End of Test Year Dollar Amount	Adjusted End of Test Year Percent of Total	Adjusted End of Test Year Cost Rate	Adjusted End of Test Year Weighted Cost	End of Projected Year Dollar Amount	End of Projected Year Percent of Total	End of Projected Year Cost Rate	End of Projected Year Weighted Cost
1	Long-Term Debt	2,816,714	18.02%	4.20%	0.76%	$ 2,724,070	16.57%	4.20%	0.70%
2									
3	Stockholder's Equity[1]	12,814,367	81.98%	10.90%	8.94%	13,712,994	83.43%	10.90%	9.09%
4									
5	Totals	$ 15,631,081	100.00%		9.69%	$ 16,437,064	100.00%		9.79%
6									
7									
8	[1] Adjustments to Equity								
9	Acumm. depreciation adjustment		$ 312,565						
10	CIAC adjustments		$ -						
11	Deferred Income Tax Adjustment		$ (186,736)						
12									
13									
14									
15									
16	SUPPORTING SCHEDULES:								RECAP SCHEDULES:
17	Rejoinder D-1								
18	Rejoinder D-2								
19	Rejoinder D-3								
20	Rejoinder D-4								
21									
22									
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29									
30									
31									
32									
33									

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Cost of Long Term Debt

Exhibit
Rejoinder Schedule D-2
Page 1
Witness: Bourassa

Line No.	Description of Debt	Adjusted End of Test Year Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost	End of Projected Year Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost
1	WIFA Loan1	2,816,714	118,302	4.20%	4.20%	2,724,070	114,411	4.20%	4.20%
2			-	0.00%	0.00%	-	-	0.00%	0.00%
3			-	0.00%	0.00%	-	-	0.00%	0.00%
4			-	0.00%	0.00%	-	-	0.00%	0.00%
5			-	0.00%	0.00%	-	-	0.00%	0.00%
6			-	0.00%	0.00%	-	-	0.00%	0.00%
7			-	0.00%	0.00%	-	-	0.00%	0.00%
8			-	0.00%	0.00%	-	-	0.00%	0.00%
9			-	0.00%	0.00%	-	-	0.00%	0.00%
10			-	0.00%	0.00%	-	-	0.00%	0.00%
11			-	0.00%	0.00%	-	-	0.00%	0.00%
12									
13	Totals	$ 2,816,714	$ 118,302		4.20%	$ 2,724,070	114,411		4.20%
14									
15	SUPPORTING SCHEDULES:								
16	E-2								
17									
18									
19	[1] Financing approved in Decision 70984, May 5, 2009. WIFA loan of $4,694,523 with loan forgiveness of $1,877,809.								
20									

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Cost of Preferred Stock

Exhibit
Rejoinder Schedule D-3
Page 1
Witness: Bourassa

Line No.	Description of Issue	End of Test Year Shares Outstanding	End of Test Year Amount	End of Test Year Dividend Requirement	End of Projected Year Shares Outstanding	End of Projected Year Amount	End of Projected Year Dividend Requirement
1							
2							
3	NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING						
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17	SUPPORTING SCHEDULES:			RECAP SCHEDULES:			
18	E-1			Rejoinder D-1			
19							
20							

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Cost of Common Equity

Exhibit
Rejoinder Schedule D
Page 1
Witness: Bourassa

Line No.		
1		
2	The Company is proposing a cost of common equity of	10.90% .
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
18	Rejoinder D-4.0 to 4.16	Rejoinder D-1
19		
20		

Sahuarita Water Company, LLC
Summary of Results

Exhibit
Rejoinder Schedule D-4.1

Line No.	Method	Low	High	Midpoint
6	Range DCF Constant Growth Estimates[1]	9.1%	10.5%	9.8%
8	Range of CAPM Estimates[2]	10.4%	14.6%	12.5%
11	Average of DCF and CAPM midpoint estimates	9.8%	12.6%	11.2%
14	Financial Risk Adjustment[3]	-0.7%	-0.7%	-0.7%
16	Specific Company Risk Premium[4]	0.5%	0.5%	0.5%
18	Indicated Cost of Equity	9.6%	12.4%	11.0%
22	Recommended Cost of Equity			10.9%

[1] See Rejoinder Schedule D-4-8
[2] See Rejoinder Schedule D-4.12
[3] See Rejoinder Schedule D-4.16
[4] See testimony.

Sahuarita Water Company, LLC
Selected Characteristics of Sample Group of Water Utilities

Exhibit
Rejoinder Schedule D-4.2

Line No.	Company[1]	% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating
4	1. American States	76%	$ 361.0	$ 962.1	A	A2
5	2. Aqua America	90%	$ 670.5	$ 2,790.5	AA-	NR
6	3. California Water	99%	$ 449.4	$ 1,079.9	AA-	NR
7	4. Connecticut Water	90%	$ 67.5	$ 273.1	A	NR
8	5. Middlesex	89%	$ 91.2	$ 329.7	A	NR
9	6. SJW Corp.	96%	$ 216.1	$ 523.7	NR	NR
11	Average	90%	$ 309.3	$ 993.2		
13	Sahuarita Water Company, LLC (as of December 31, 2008)	100%	$ 2.2	$ 21.0	NR	NR

[1]AUS Utility Reports (May 2010).

Sahuarita Water Company, LLC
Capital Structures

Exhibit
Rejoinder Schedule D-4.3

No.	Company	Book Value[1] Long-Term Debt	Book Value[1] Common Equity	Market Value[1] Long-Term Debt	Market Value[1] Common Equity
1	American States	47.7%	52.3%	31.7%	68.3%
2	Aqua America	55.7%	44.3%	35.7%	64.3%
3	California Water	47.2%	52.8%	31.7%	68.3%
4	Connecticut Water	51.0%	49.0%	35.5%	64.5%
5	Middlesex	47.4%	52.6%	34.0%	66.0%
6	SJW Corp.	49.8%	50.2%	33.2%	66.8%
	Average	49.8%	50.2%	33.6%	66.4%
	Sahuarita Water Company, LLC [2] (Adjusted as of December 31, 2008)	18.0%	82.0%	N/A	N/A

[1] Value Line Analyzer Data (April 23, 2010)
[2] Adjusted Per Rejoinder Schedule D-1

Sahuarita Water Company, LLC
Comparisons of Past and Future Estimates of Growth

Exhibit
Rejoinder Schedule D-4.4

Line No.	Company	[1] Price[1]	[2] Book Value[2]	[3] EPS[2]	[4] DPS[2]	[5] Average Col 1-4	[6] Average Future Growth[3]	[7] Average of Future and Historical Growth Col 5-6
		Five-year historical average annual changes						
8	1. American States	8.76%	4.98%	9.69%	2.88%	6.58%	5.38%	5.98%
9	2. Aqua America	NMF	6.20%	3.85%	8.81%	6.29%	9.02%	7.65%
10	3. California Water	4.93%	4.92%	6.62%	0.88%	4.34%	5.88%	5.11%
11	4. Connecticut Water	3.15%	2.88%	1.72%	1.39%	2.29%	7.25%	4.77%
12	5. Middlesex	2.61%	4.00%	0.41%	1.49%	2.13%	7.25%	4.69%
13	6. SJW Corp.	6.79%	5.68%	0.25%	5.53%	4.56%	7.25%	5.91%
16	GROUP AVERAGE	5.25%	4.78%	3.76%	3.50%	4.36%	7.01%	5.68%
17	GROUP MEDIAN	4.93%	4.95%	2.79%	2.18%	4.45%	7.25%	5.51%

[1] Average of changes in annual stock prices ending on April 23, 2010. Data from Yahoo Finance website.
[2] Data derived from Value Line Investment Survey and/or 10K Reports for period 2005 to 2010.
[3] See Rejoinder Schedule D-4.6.

Sahuarita Water Company, LLC
Comparisons of Past and Future Estimates of Growth

Exhibit
Rejoinder Schedule D-4.5

Line No.	Company	[1] Price[1]	[2] Book Value[2]	[3] EPS[2]	[4] DPS[2]	[5] Average Col 1-4	[6] Average Future Growth[3]	[7] Average of Future and Historical Growth Col 5-6
1								
2								
3								
4			Ten-year historical average annual changes					
5								
6								
7	1. American States	8.60%	4.80%	5.36%	1.79%	5.14%	5.38%	5.26%
8	2. Aqua America	7.94%	8.19%	6.34%	7.67%	7.53%	9.02%	8.28%
9	3. California Water	7.79%	3.91%	4.09%	0.80%	4.15%	5.88%	5.01%
10	4. Connecticut Water	4.73%	3.77%	2.08%	1.31%	2.97%	7.25%	5.11%
11	5. Middlesex	4.64%	3.81%	1.24%	1.71%	2.85%	7.25%	5.05%
12	6. SJW Corp.	3.01%	5.25%	1.44%	5.53%	3.81%	7.25%	5.53%
13								
14								
15	GROUP AVERAGE	6.12%	4.96%	3.42%	3.13%	4.41%	7.01%	5.71%
16	GROUP MEDIAN	6.26%	4.36%	3.08%	1.75%	3.98%	7.25%	5.18%
17								
18								
19								
20	[1] Average of changes in annual stock prices ending in 2009. Data from Yahoo Finance website.							
21	[2] Data derived from Value Line Investment Survey and/or 10K Reports for period 2000 to 2009.							
22	[3] See Rejoinder Schedule D-4.6.							
23								
24								
25								
26								
27								
28								

Sahuarita Water Company, LLC
Analysts Forecasts of Earnings Per Share Growth

Exhibit
Rejoinder Schedule D-4.6

Line No.	Company	[1] Zacks[1]	[2] Reuters[1]	[3] Yahoo[1]	[4] Value Line[1]	[5] Average Growth (G) (Cols 1-4)[2]
		ESTIMATES OF EARNINGS GROWTH				
7	1. American States	4.00%	4.00%	7.00%	6.50%	5.38%
8	2. Aqua America	8.00%	8.25%	8.33%	11.50%	9.02%
9	3. California Water	7.00%	4.00%	6.00%	6.50%	5.88%
10	4. Connecticut Water			15.00%		7.25%
11	5. Middlesex			8.00%		7.25%
12	6. SJW Corp.			10.00%		7.25%
15	GROUP AVERAGE	6.33%	5.42%	9.06%	8.17%	7.01%
16	GROUP MEDIAN					7.25%

[1] Data as of April 23, 2010

[2] Where no data available or single estimate, average of other utilities assumed to estimate for utility.

Sahuarita Water Company, LLC
Current Dividend Yields for Water Utility Sample Group

Exhibit
Rejoinder Schedule D-4.7

Line No.	Company	Curent Stock Price (P_0)[1]	Current Dividend (D_0)[1]	Current Dividend Yield (D_0/P_0)[1]	Average Annual Dividend Yield (D_0/P_0)[1,2]
6	1. American States	$ 38.09	$ 1.04	2.73%	2.86%
7	2. Aqua America	$ 18.47	$ 0.60	3.25%	2.80%
8	3. California Water	$ 38.90	$ 1.19	3.06%	3.12%
9	4. Connecticut Water	$ 23.95	$ 0.91	3.81%	3.58%
10	5. Middlesex	$ 18.12	$ 0.72	3.98%	3.99%
11	6. SJW Corp.	$ 27.28	$ 0.70	2.55%	2.27%
13	Average			3.23%	3.10%
14	Median			3.15%	2.99%

[1] Value Line Analyzer Data. Stock prices as of April 23, 2010.

[2] Average Annual Dividend is dividends declared per share for a year divided by the average annual price of the stock in the same year, expressed as a percentage. For comparison purposes only.

Sahuarita Water Company, LLC
Discounted Cash Flow Analysis
DCF Constant Growth

Exhibit
Rejoinder Schedule D-4.8

Line No.		[1]	[2]	[3]		[4]
		Average Spot Dividend Yield (D_0/P_0)[1]	Expected Dividend Yield (D_1/P_0)[2]	Growth (g)		Indicated Cost of Equity k=Div Yld + g (Cols 2+3)
8	DCF - Past and Future Growth	3.23%	3.41%	5.68%	3	9.1%
10	DCF - Future Growth	3.23%	3.46%	7.01%	4	10.5%
13		3.23%	3.43%	6.34%		9.8%

[1] Spot Dividend Yield = D_0/P_0. See Rejoinder Schedule D-4.7.
[2] Expected Dividend Yield = $D_1/P_0 = D_0/P_0 * (1+g)$.
[3] Growth rate (g). Average of Past and Future Growth. See Rejoinder Schedule D-4.4, column 7
4 Growth rate (g). Average of Analyst Estimates Future Growth. See Rejoinder Schedule D-4.6.

Sahuarita Water Company, LLC
Market Betas

Exhibit
Rejoinder Schedule D-4.9

Line No.		Company	Beta (β)[1]
1		Company	Beta (β)[1]
2	1.	American States	0.80
3	2.	Aqua America	0.65
4	3.	California Water	0.75
5	4.	Connecticut Water	0.80
6	5.	Middlesex	0.75
7	6.	SJW Corp.	0.95
8			
9		Average	**0.78**
10			
11			
12			
13		[1] Value Line Investment Analyzer data (April 23, 2010)	
14		Note: Beta is a relative measure of the historical sensitivity of a stock's price to overall fluctuations	
15		in the New York Stock Exchange Composite Index. A Beta of 1.50 indicates a stock tends to rise	
16		(or fall) 50% more than the New York Stock Exchange Composite Index. The "Beta coefficient" is	
17		derived from a regression analysis of the relationship between weekly percent-age changes in the	
18		price of a stock and weekly percentage changes in the NYSE Index over a period of five years. In	
19		the case of shorter price histories, a smaller time period is used, but two years is the minimum.	
20		The Betas are adjusted for their long-term tendency to converge toward 1.00.	

Sahuarita Water Company, LLC
Forecasts of Long-Term Interest Rates
2011-2012

Exhibit
Rebuttal Schedule D-4.10

Line No.	Description	2011	2012	Average
1				
2				
3				
4	Description	2011	2012	Average
5				
6	Blue Chip Consensus Forecasts[1]	5.1%	5.5%	5.3%
7				
8	Value Line[2]	4.9%	5.3%	5.1%
9				
10	Average			5.2%
11				
12				
13				
14				
15	[1] December 2009 Blue Chip Financial Forecasts consensus forecast of 30 Year U.S.Treasury			
16	[2] Value Line Quarterly forecast, dated February 26, 2010, Long-term Treasury			
17				
18				
19				
20				
21				
22				
23				
24				

Sahuarita Water Company, LLC
Computation of Current Market Risk Premium

Exhibit
Rejoinder Schedule D-4.11

Line No.	Month	Dividend Yield (D_0/P_0)[1]	Expected Dividend Yield (D_1/P_0)[2]	+	Growth (g)[3]	=	Expected Market Return (k)	-	Monthly Average 30 Year Treasury Rate[4]	=	Market Risk Premium (MRP)
4	Jan 2009	4.86%	6.32%	+	30.02%	=	36.34%	-	3.13%	=	33.21%
5	Feb	5.50%	7.43%	+	35.13%	=	42.56%	-	3.59%	=	38.97%
6	Mar	4.21%	5.36%	+	27.33%	=	32.69%	-	3.64%	=	29.05%
7	April	3.66%	4.47%	+	22.05%	=	26.52%	-	3.76%	=	22.76%
8	May	3.46%	4.14%	+	19.67%	=	23.81%	-	4.23%	=	19.58%
9	Jun	3.25%	3.87%	+	19.16%	=	23.03%	-	4.52%	=	18.51%
10	Jul	2.90%	3.37%	+	16.31%	=	19.68%	-	4.41%	=	15.27%
11	Aug	2.82%	3.22%	+	14.21%	=	17.43%	-	4.37%	=	13.06%
12	Sept	2.80%	3.20%	+	14.32%	=	17.52%	-	4.19%	=	13.33%
13	Oct	2.75%	3.15%	+	14.49%	=	17.64%	-	4.19%	=	13.45%
14	Nov	2.68%	3.05%	+	13.88%	=	16.93%	-	4.31%	=	12.62%
15	Dec 2009	2.56%	2.88%	+	12.58%	=	15.46%	-	4.35%	=	11.11%
16	Jan 2010	2.64%	3.00%	+	13.71%	=	16.71%	-	4.48%	=	12.23%
17	Feb	2.59%	2.97%	+	14.65%	=	17.62%	-	4.48%	=	13.14%
18	Mar	2.44%	2.75%	+	12.69%	=	15.44%	-	4.48%	=	10.96%
22	Recommended	2.56%	2.91%	+	13.68%	=	16.59%	-	4.48%	=	12.11%
24	Short-term Trends										
25	Recent Twelve Months Avg	2.88%	3.34%	+	15.64%	=	18.98%	-	4.31%	=	14.67%
26	Recent Nine Months Avg	2.69%	3.07%	+	14.09%	=	17.16%	-	4.36%	=	12.80%
27	Recent Six Months Avg	2.61%	2.97%	+	13.67%	=	16.63%	-	4.38%	=	12.25%
28	Recent Three Months Avg	2.56%	2.91%	+	13.68%	=	16.59%	-	4.48%	=	12.11%

31 [1] Average Current Dividend Yield (D_0/P_0) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

32 [2] Expected Dividend Yield (D_1/P_0) equals average current dividend yield (D0/P0) times one plus growth rate(g).

33 [3] Average 3-5 year price appreciation (annualized). Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

34 [4] Montly average 30 year U.S. Treasury. Federal Reserve.

Sahuarita Water Company, LLC
Capital Asset Pricing Model (CAPM)

Exhibit
Rejoinder Schedule D-4.12

Line No.		Rf[1]	+	beta[3]	x	Rp		=	k
1									
2									
3	Historical Market Risk Premium CAPM	5.2%	+	0.78	x	6.7%	[4]	=	10.4%
4									
5	Current Market Risk Premium CAPM	5.2%	+	0.78	x	12.1%	[5]	=	14.6%
6									
7	Average								12.5%
8									
9									
10									
11									
12	[1] Forecasts of long-term treasury yields. See Rebuttal Schedule D-4.10.								
13	[2] Value Line Investment Analyzer data. See Rebuttal Schedule D-4.9.								
14	[3] Historical Market Risk Premium from (Rp) MorningStar SBBI 2010 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2009								
15	[4] Computed using DCF constant growth method to determine current market return onValue Line 1700 stocks								
16	and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Rebuttal Schedule D-4.11.								
17									
18									
19									
20									

Sahuarita Water Company, LLC
Financial Risk Computation

Exhibit
Rejoinder Schedule D-4.13

Line No.											
1	**CAPM**										
2		Rf		+	β		x	(Rp)			k
3	Historical Market Risk Premium	5.2%	1	+	0.78	2	x	6.7%	3	=	10.4%
4	Current Market Risk Premium	5.2%	1	+	0.78	2	x	12.1%	4	=	14.6%
5											
6	Average										12.5%
7											
8											
9	**CAPM Relevered Beta**										
10		Rf		+	β		x	(Rp)			k
11	Historical Market Risk Premium	5.2%	1	+	0.70	5	x	6.7%	3	=	9.9%
12	Current Market Risk Premium	5.2%	1	+	0.70	5	x	12.1%	4	=	13.7%
13											
14	Average										11.8%
15											
16	Financial Risk Adjustment										-0.7%
17											
18											

19 [1] Forecast of long-term treasury yields. See Rejoinder Schedule D-4.10
20 [2] Value Line Investment Analyzer data. See Rejoinder Schedule D-4.9
21 [3] Historical Market Risk Premium from (Rp) MorningStar SBBI 2010 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2009
22 [4] Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks
23 and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Rejoinder Schedule D-4.11
24 [5] Relevered bata found on Rejoinder Schedule D-4.15
25

Sahuarita Water Company, LLC
Financial Risk Computation
Unlevered Beta

Exhibit
Rejoinder Schedule D-4.14

Line No.		Company	VL Beta β_L[1]	Raw Beta Raw β_L[2]	Tax Rate t[3]	MV Debt D[4]	MV Equity E[4]	Unlevered Raw Beta β_U[5]
5	1.	American States	0.80	0.70	37.8%	31.7%	68.3%	0.54
6	2.	Aqua America	0.65	0.48	39.4%	35.7%	64.3%	0.36
7	3.	California Water	0.75	0.63	38.0%	31.7%	68.3%	0.49
8	4.	Connecticut Water	0.80	0.70	19.5%	35.5%	64.5%	0.49
9	5.	Middlesex	0.75	0.63	34.1%	34.0%	66.0%	0.47
10	6.	SJW Corp.	0.95	0.93	40.4%	33.2%	66.8%	0.72
13		Sample Water Utilities	0.78	0.68	34.8%	33.6%	66.4%	0.51

[1] Value Line Investment Analyzer data. See Table 13.
Value Line uses the historical data of the stock, but assumes that a security's beta moves toward the market average over time. The formula is as follows:
Adjusted beta = .33 + (.67) * Raw beta
[2] Raw Beta = (VL beta - .33)/(.67)
[3] Effective tax rates for year ended December 31, 2009.
[4] See Rejoinder Scehdule D-4.3
[5] Raw B_u = Raw B_L / (1+ (1-t)*D/E)

Sahuarita Water Company, LLC
Financial Risk Computation
Relevered Beta

Exhibit
Rejoinder Schedule D-4.15

Line No.		Unlevered Raw Beta β_U[1]	MV Book Debt BD[2]	MV Equity Capital EC[2]	Tax Rate t[3]	Relevered Raw Beta $\beta_{RL}=\beta_U(1+(1-t)BD/EC))$ β_{RL}	VL Adjusted Relevered Beta .33 + .67(Raw Beta) β_{RL}
5	Sahuarita Water Company, LLC	0.51	10.1%	89.9%	35.26%	0.55	0.70

[1] Unlevered Beta from Table 18.

[2] Capital Structure of Company (Projected)

	BV (in Thousands)			MV (in Thousands)	%
Long-term Debt	$ 2,816.71	1.00		$ 2,817	10.10%
Preferred Stock	-	1.00		-	0.0%
Common Stock	12,814.37	1.97	(a)	25,195	89.9%
Total Capital	$ 15,631			$ 28,011	100.0%

(a) Current market-to-book ratio of sample water utilities. See work papers.

[3] Current Tax rate based on test year ending 2009. See Rebuttal Schedule D-1.

Sahuarita Water Company, LLC
Size Premium[1]

Exhibit
Rejoinder Schedule D-4.16

Line No.		Beta(β)	Size Premium	Risk Premium for Small Water Utilities[7]
6	Mid-Cap Companies[2]	1.13	1.00%	
8	Low-Cap Companies[3]	1.26	1.64%	
10	Micro-Cap Companies[4]	1.51	3.00%	
12	Decile 10[5]	1.64	4.74%	2.46%

	Risk Premium for Small Water Utilities
Estimated Risk Premium for small water utilities[6]	0.99%

[1] Data from Table 7-11 of Morningstar, *Ibbotson SBBI 2010 Valuation Yearbook.*
[2] Mid-Cap companies includes companies with market capitalization between $1,602 million and $5,936 million.
[3] Low-Cap companies includes companies with market capitalization between $432 million and $1,600 million.
[4] Micro-Cap companies includes companies with market capitalization less than $431 million.
[5] Decile 10 includes companies with market capitalization between $1.0 million and $214 million.
[6] From Table 2, Thomas M. Zepp, "Utility Stocks and the Size Effect Revisited," *The Quarterly Review of Economics and Finance*, 43 (2003), 578-582.
[7] Computed as the weighted differences between the Decile 10 risk premium and the inidicated risk premiums for the sample water utilities as shown below. Excludes risk due to differences in beta.

		Market Cap. (Millions)	Class	Size Premium	Difference to Decile 10	Weight	Weighted Size Premium
1.	American States	$ 659	Low-Cap	1.64%	3.10%	0.1666667	0.52%
2.	Aqua America	$ 2,501	Mid-Cap	1.00%	3.74%	0.1666667	0.62%
3.	California Water	$ 805	Low-Cap	1.64%	3.10%	0.1666667	0.52%
4.	Connecticut Water	$ 204	Decile 10	4.74%	0.00%	0.1666667	0.00%
5.	Middlesex	$ 243	Micro-Cap	3.00%	1.74%	0.1666667	0.29%
6.	SJW Corp.	$ 496	Low-Cap	1.64%	3.10%	0.1666667	0.52%
	Weighted Size Premium for Small Companies						2.46%

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

REJOINDER TESTIMONY OF

THOMAS J. BOURASSA

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

(RATE BASE, INCOME STATEMENT, RATE DESIGN)

July 12, 2010

I. INTRODUCTION AND PURPOSE OF TESTIMONY.

Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

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

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

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

Q4. WHAT IS THE PURPOSE OF THIS REJOINDER TESTIMONY?

A4. I will provide Rejoinder Testimony in response to the surrebuttal filing by Staff. More specifically, this first volume of my Rejoinder Testimony relates to rate base, income statement and rate design for SWC. In a second, separate volume of my testimony, I provide responses to Staff on the cost of capital and rate of return applied to the fair value rate base, and the determination of operating income.

II. SUMMARY OF SWC'S REJOINDER POSITION

Q6. WHAT IS THE REVENUE INCREASE THAT THE COMPANY IS PROPOSING AT THIS STAGE OF THE PROCEEDING?

A6. The Company is proposing a total revenue requirement of $3,484,737, which constitutes an increase in revenues of $1,269,594, or 57.31 percent over adjusted test year revenues.

Q7. HOW DOES THIS COMPARE WITH THE COMPANY'S REBUTTAL FILING?

A7. In the rebuttal filing, the Company requested a total revenue requirement of $3,518,855, which required an increase in revenues of $1,303,702, or 58.85 percent.

Q8. WHY IS THE REQUESTED REVENUE INCREASE LOWER IN SWC'S REJOINDER FILING?

A8. The decrease is primarily due to the fact that Company has adopted Staff's proposal to exclude approximately $33,000 in bonuses from salaries and wages. The Company has also revised its property tax and income tax adjustments to reflect the impact of this change on revenues and expenses.

Q9. PLEASE SUMMARIZE THE COMPANY'S REJOINDER RATE BASE AND REJOINDER ADJUSTMENTS.

A9. The Company does not propose any revisions or additions to the adjustments to rate base as set forth in its rebuttal filing. The Company continues to propose a rate base of $10,059,443 which includes the costs of Well #23 (post test year plant). The Company also continues to propose a return of 9.69 percent rate of return based on its weighted average cost of capital ("WACC").[1]

[1] *See* Rejoinder Schedule D-1.

Q10. DOES STAFF CONTINUE TO RECOMMEND THAT THE COSTS OF WELL #23 BE EXCLUDED FROM PLANT-IN-SERIVCE AND RATE BASE?

A10. Yes. Staff continues to assert that Well #23 is not needed for the ongoing provision of safe and reliable service.[2] The Company disagrees for the reasons set forth in Mr. Mark Taylor's Rebuttal and Rejoinder Testimony.

Q10. WHAT ARE THE PROPOSED REVENUE REQUIREMENTS AND RATE INCREASES FOR THE COMPANY AND STAFF AT THIS STAGE OF THE PROCEEDING?

A10. The proposed revenue requirements and proposed rate increases are as follows:

	Revenue Requirement	Revenue Incr.	% Increase
Company Rebuttal	$3,518,855	$1,303,702	58.85%
Staff Surrebuttal	$2,477,559	$ 262,416	11.85%
Company Rejoinder	$3,484,737	$1,269,594	57.31%

III. RATE BASE

Q11. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE BASE RECOMMENDATIONS AT THIS STAGE OF THE PROCEEDING?

A11. Yes, the rate bases proposed by the parties in the case, are as follows:

	OCRB	FVRB
Company Rebuttal	$10,059,443	$10,059,443
Staff Surrebuttal	$ 8,709,357	$ 8,709,357
Company Rejoinder	$10,059,443	$10,059,443

[2] Scott Sb. at 3.

A. **Plant-in-service.**

Q12. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ORIGINAL COST RATE BASE, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF?

A12. The Company's rebuttal rate base adjustments to OCRB are detailed on Rejoinder Schedules B-2, pages 3 through 6. Rejoinder Schedule B-2, page 1 and 2, summarize the Company's proposed adjustments and the rejoinder OCRB. The Company does not propose any changes from its rebuttal plant-in-service ("PIS").[3]

Q13. PLEASE SUMMARIZE THE PLANT-IN-SERVICE BALANCES RECOMMENDED BY THE PARTIES AT THIS STAGE OF THE PROCEEDING.

A13. The PIS balances proposed by the parties at this stage of the proceeding are:

Staff	$ 23,480,228[4]
Company	$ 25,274,421[5]

Q14. PLEASE DISCUSS THE DIFFERENCE BETWEEN THE COMPANY AND STAFF WITH RESPECT TO THE BALANCE OF PIS?

A14. The difference of $1,794,193 represents the costs of Well #23 which the Company seeks to include in PIS.[6] The Company believes this plant is used and useful and needed in the ongoing provision of safe and reliable service to its customers. Exclusion of well-conceived and necessary plant additions would send the wrong

[3] *See* Rebuttal Testimony of Thomas J. Bourassa ("Bourassa Rb.") at 5-8.
[4] *See* Staff Surrebuttal Schedule JMM-2.
[5] *See* Company Rejoinder Schedule B-1.
[6] Bourassa Rb. at 7. Costs include $1,779,243 for new construction costs plus $15,000 for the cost of a pump motor transferred from Well #17.

message to utilities seeking to be proactive in addressing their system needs. Mr. Taylor addresses this issue in both his Rebuttal and Rejoinder Testimony.

B. Accumulated Depreciation.

Q15. PLEASE SUMMARIZE THE PARTIES ACCUMULATED DEPRECIATION BALANCE RECOMMENDATIONS.

A15. The accumulated depreciation ("A/D") balances proposed by the parties at this stage of the proceeding are:

Staff	$ 1,353,282[7]
Company	$ 1,368,282[8]

Q16. PLEASE DISCUSS THE DIFFERENCE BETWEEN THE COMPANY AND STAFF WITH RESPECT TO THE BALANCE OF ACCUMULATED DEPRECIATION?

A16. The $15,000 difference is the cost of a pump motor being used on Well #23.[9]

C. Contributions-in-aid of Construction ("CIAC") and Advances-in-aid of Construction ("AIAC").

Q17. PLEASE DISCUSS THE RECOMMENDED AIAC AND CIAC BALANCES.

A17. The Company and Staff propose an advances-in-aid of construction ("AIAC") balance of $9,258,917.[10] With respect to contributions-in-aid of construction ("CIAC"), the Company and Staff propose a CIAC balance of $4,314,264, and an accumulated amortization balance of $251,796.[11]

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[7] *See* Staff Surrebuttal Schedule JMM-2.
[8] *See* Company Rejoinder Schedule B-1.
[9] Bourassa Rb. at 8.
[10] *See* Rejoinder Schedule B-1; Staff Surrebuttal Schedule JMM-2
[11] *Id.*

Q18. PLEASE RESPOND TO MR. MICHLIK'S TESTIMONY REGARDING THE METHODOLOGY FOR COMPUTING AMORTIZATION OF CIAC?

A18. Mr. Michlik defends Staff's method of determining the amortization rate of CIAC (dividing depreciation expense by depreciable plant) by asserting that it's appropriate when the exact amount of CIAC plant in each account is not known it is appropriate to use a composite rate.[12] I do not disagree with Mr. Michlik on this point. However, Mr. Michlik goes on to state that non-depreciable plant such a land, organizational costs, and franchise costs should be excluded from the computation because the Company did not provide evidence showing that these costs were funded with CIAC.[13] That doesn't square with Mr. Michlik's argument that a composite rate is used when we do not know the exact amount of CIAC in each account (which includes the land, organization costs, and franchise account). This sort of "heads I win, tails you lose" construct is inherently unfair and should be rejected.

Q18. IN YOUR EXPERIENCE HAVE UTILITIES USED CIAC FUNDS TO PAY FOR LAND, ORGANIZATIONAL AND FRANCHISE COSTS?

A18. Yes. Contrary to Mr. Michlik's assertions, I have seen instances where a developer contributed land and reimbursed a utility for the costs of obtaining extensions of a utility's certificate of convenience and necessary (which may be recorded as either organizational or franchise costs by the utility).

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[12] Michlik Sb. at 16.
[13] *Id.* at *17.*

Q19. DOES THE COMPANY'S METHOD OF COMPUTING THE COMPOSITE RATE HAVE THE POTENTIAL OF HARMING CUSTOMERS?

A19. No. If we accept the premise underlying the use of a composite rate - that all plant is assumed to be funded with CIAC, then there is no harm to either the Company or rate payers. In fact, using the correct composite rate is revenue neutral. This is because the depreciation expense will be exactly offset by the CIAC amortization.

Q20. CAN YOU DEMONSTRATE THIS?

A20. Yes. Assume that a utility has $10 of non-depreciable plant such as land and $90 of depreciable plant funded with $100 of CIAC. Rate base is zero ($100 minus $100). The depreciation rate for depreciable plant is 3.33% and the annual depreciation is $3 ($90 times 3.33%). The composite rate for amortizing CIAC using all plant, not just depreciable plant is 3.0% ($3 divided by $100). The annual amortization of CIAC is $3 ($100 times 3%). Thus, the annual depreciation of $3 is exactly offset by the annual amortization of $3 so there is zero net impact on operating expense. Rate base also continues to be zero into the future. Depreciable net plant is reduced by $3 and net CIAC is reduced by $3.

In contrast, Staff's approach has a negative impact on cash flows related to depreciation and amortization. Using the example above, the composite rate for amortizing CIAC using just depreciable plant is 3.33% ($3 divided by $90). The annual amortization of CIAC is $3.33 ($100 times 3.33%). Thus, the annual depreciation is $3 and it is offset by annual amortization of $3.33 resulting in a negative cash flow of $0.33.

Q21. ISN'T THE COMPANY'S RECOMMENDED ACCUMULATED AMORTIZATION BALANCE FOR CIAC BASED ON A COMPOSITE

RATE THAT INCLUDES ALL PLANT, NOT JUST DEPRECIABLE PLANT?

A21. Yes, and as I testified earlier, Staff agrees with the Company proposed accumulated amortization balance. Staff's construction of its composite rate to amortize CIAC going forward is inconsistent with the composite rate used in the past.

D. <u>Accumulated Deferred Income Taxes ("ADITs").</u>

Q22. IS THE COMPANY PROPOSING ANY CHANGES TO ACCUMULATED DEFERRED INCOME TAXES IN ITS REJOINDER FILING?

A22. No.

Q23. DOES STAFF CONTINUE TO RECOMMED ZERO ACCUMULATED DEFERRED INCOMES TAXES?

A23. Yes. Staff has removed all ADIT from rate base.[14] As I testified in my Rebuttal Testimony, this is consistent with Staff's erroneous recommendation to exclude income taxes from the revenue requirement.[15] I will respond to Staff's Surrebuttal Testimony on the issue concerning the inclusion of income taxes later in my rejoinder testimony

E. <u>Remaining Rate Base Issues.</u>

Q24. PLEASE RESPOND TO STAFF SURREBUTTAL TESTIMONY ON THE ISSUE OF INCLUDING CUSTOMER SECURITY DEPOSITS AS A REDUCTION TO RATE BASE.

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[14] Michlik Dt. at 12. See also Staff Surrebuttal Schedule JMM-2.
[15] Bourassa Rb. at 9.

A24. Mr. Michlik provides a quotation from *Accounting for Public Utilities* (Deloitte & Touche")[16] which states that customer deposits are similar in nature to customer advances for construction and, like advances, customer deposits are available for use in support of a utility's rate base investment.[17] I have several comments in response to Mr. Michlik's testimony. First, I disagree with any notion that customer security deposits are like advances. Advances fund plant and equipment which are long-term assets. At best, security deposits can help support working capital. Moreover, the rate base investment referred to in *Accounting for Public Utilities* <u>includes</u> working capital. Arguably, without recognition of working capital as an offset to customer security deposits there is a mismatch in rate base. In that regard, working capital is described in *Accounting for Public Utilities* and one of the accepted methods of computing working capital is the formula method.[18] There is no mention as to whether the size of the utility has any bearing on the formula method's acceptability, which Staff so often uses as an excuse exclude working capital based on the formula method. Other authoritative sources also do not limit the use of the formula method based on the utility size.[19] In the instant case, the formula method produces a working capital amount of over $239,000 which would more than offset the $96,204 of customer deposits Staff seeks to include as a reduction to rate base. However, as previously noted, Staff is not proposing any allowance for working capital.

Second, the Rate Case Audit Manual, published by the National Association of Regulatory Commissions ("NARUC") specifically sets forth three methods for

[16] Deloitte & Touche LLP, et. al. Accounting for Public Utilities. Lexus-Nexis (Mathew-Bender & Co.). 2009. Sec. 4.04[11](e). ("Deloitte & Touche")
[17] Michlik Sb. at 3.
[18] Deloitte & Touche, Chapter 5.
[19] National Association of Regulatory Commissioners , Rate Case and Audit Manual (Summer 2003), p 19-20.

the treatment of customer security deposits. A copy of the relevant section is included as Exhibit TJB-RB-1. One of the three methods set forth in the NARUC guide is the method proposed by the Company in the instant case. That is, rate base is not reduced by the customer security deposits and interest expense associated with the deposits is treated as a below-the-line (or non-operating expense). In fact, in my experience this has been the method traditionally used by Staff and the Commission in the past. It has only been in the past couple of years where Staff has changed its position on the treatment of customer deposits.

Q25. IS THE INCLUSION OF CUSTOMER DEPOSITS IN RATE BASE AS A DEDUCTION SET FORTH IN THE COMMISSION RULES GOVERNING RATE APPLICATIONS?

A25. No.[20] Further, I am not aware of any proposed rule-making proceedings which have modified these rules and/or provided input from all interested parties. In my view, Staff is changing the rules of the road without proper input from impacted parties.

Q26. PLEASE CONTINUE.

A26. Third, in the instant case, the customer security deposits are kept in a separate bank account and are not used by the Company for anything but support of the Company's receivables (bad debt expense) and refunds to customers.[21] As a result, this cannot even be remotely considered as non-investor supplied capital or as supporting rate base investment.

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[20] *See* R14-2-103, Appendix A - Rate Base Schedules B

[21] Bourassa Rb. at 15.

Finally, Staff now suggests that it would consider an "appropriate" amount of interest in operating expenses if the amount is appropriately supported.[22] I do not believe any more information is necessary.

Q27. WHAT DOES STAFF NEED TO DETERMINE AN APPROPIRATE AMOUNT?

A27. Staff suggests it needs substantial documentation showing the customer name, deposit amount and interest paid among other things.[23]

Q28. WHY DO YOU BELIEVE THIS INFORMATION IS NOT NECESSARY?

A28. Staff has no problem with the $96,204 it seeks to reduce rate base without this information. Staff proposes that the interest paid on customer deposits remain the same as set forth under the ACC Rules. The applicable rule (R-14-403.d) states the Company must pay an annual interest rate of 6% on customer deposits, so the computation is simple – 6% times $96,204 or $5,772.

IV. <u>INCOME STATEMENT</u>

Q29. PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF.

A29. The Company's proposed rejoinder adjustments are detailed on Rejoinder Schedule C-2, pages 1-9. The rejoinder income statement with adjustments is summarized on Rejoinder Schedule C-1, pages 1-2. I have previously testified to the Company's

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[22] Michlik Sb. at 4.

[23] Id.

proposed adjustments to revenues and expenses in my Rebuttal Testimony.[24] The Company's proposes one additional adjustment to revenue and expenses and is proposing some revisions to its rebuttal adjustments as described below.

The Company is proposing an additional adjustment to salaries and wages (Adjustment Number 6) to remove test year bonuses paid to employees totaling $33,579. Although the Company disagrees with Staff's proposed removal of bonuses, the Company is adopting Staff's proposal to help eliminate issues between the parties.

Q30. WHAT IS THE COMPANY'S VIEW ON BONUSES AND WHY ARE THEY REASONABLE AND PRUDENT IN THE COMPANY VIEW?

A30. The Company views bonuses as an effective management tool allowing the Company to achieve superior levels of service to its rate payers. This is achieved because employees are provided an incentive to "go the extra mile" in operating the Company and providing superior service to its customers. At risk bonuses are withheld from base pay and paid if the employee meets certain targets, including safety, environmental stewardship, customer service, and financial metrics. In fact, the Company has been recognized for its superior service. The Company has recently been recognized by the Arizona Water Association as "The Small System Water Plant Of The Year in Arizona for 2010". Attached as Exhibit TJB-RJ-2 is a copy of the award.

Bonuses are also used to ensure the Company's employees are paid market rates. As the Rebuttal Testimony of Ms. Marian Homiak demonstrates, the total compensation of employees, even with bonuses, is at or below comparable market

[24] Bourassa Rb. at 4-9.

rates.[25] In fact, without the bonuses, compensation would be below market rates and employees conceptually could have the incentive to leave, increasing turnover and providing a reduced level of company performance and customer service.

Q31. PLEASE COMMENT ON MR. MICHLIK'S SUGGESTION ON PAGE 14 THAT IF BONUSES ARE INCLUDED IN THE REVENUE REQUIREMENT THAT THE MONEY FOR THE PAYMENT OF BONUSES IS GUARANTEED BUT THERE IS NO GUARANTEE THAT BONUSES WILL BE PAID IN THE FUTURE?

A31. I disagree that the inclusion of bonuses in the revenue requirement guarantees enough money to pay employees. Nothing is guaranteed. The Company may or may not generate the required revenues and it may or may not recover all of its incurred operating expenses. If the Company were guaranteed these things, then the Company would also be guaranteed to earn its rate of return – which it is not. Mr. Michlik should know better. Putting that aside, bonuses do not provide any more opportunity for the Company to over-earn by later "cutting bonuses" than it does if the Company uses furloughs or across the board wage cuts after a rate case test year, none of which this Company intends to do. Mr. Michlik's conjecture is disingenuous at best.

Q32. DOES STAFF NOW AGREE WITH THE COMPANY'S PRO-FORMA ADJUSTMENT FOR AN ADDITIONAL $40,500 OF WAGES FOR A VACANT POSITION DURING PART OF THE TEST YEAR?

A32. Yes.[26]

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[25] Homiak Rb. at 7-8.

[26] Michlik Sb. at 15.

Q33. DOES STAFF CONTINUE TO DISALLOW "AFFILIATE" SALARIES AND WAGES EXPENSE INCURRED DURING THE TEST YEAR?

A33. Yes, over $100,000 of salaries and wages expense.[27] Staff has excluded the costs of all indirect ("not dedicated") employees.[28]

Q34. PLEASE RESPOND TO THE TESTIMONY OF MR. MICHLIK CONCERNING THE DISALLOWANCE OF AFFILIATE WAGES AND SALARIES?

A34. Mr. Michlik no longer attempts to justify an adjustment to wages and salaries based on the notion that since the Management Agreement between SWC and Rancho Sahuarita Management Company ("Management Company") included a provision for mark-up of 25 percent.[29] Rather, Mr. Michlik now acknowledges that he could find no evidence of such a mark-up.[30] That is simply because there never was a 25 percent mark-up.[31]

Q35. ON PAGE 9, MR. MICHLIK EXPRESSED CONCERN THAT THE COMPANY COULD BE CHARGED THE 25 PERCENT MARK-UP IN THE FUTURE. DO YOU HAVE A RESPONSE?

Q35. Yes. I am not sure why Mr. Michlik has expressed this concern. If a 25 percent mark-up were to be charged in the future and rates to not reflect this cost, rate payers are certainly not disadvantaged. In that regard, I am not suggesting that the

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[27] Michlik Sb. at 14.

[28] Michlik Sb. at 13.

[29] Michlik Dt. at 20.

[30] Michlik Sb. at 9.

[31] Homiak Rb. at 5.

Management Company has any plans to charge a mark-up or that the Company itself will pay a mark-up.

Q36. PLEASE CONTINUE.

A36. It seems to me that Mr. Michlik, having found no mark-up, was faced with an adjustment in search of a reason. He summarily dismisses the wage survey information provided by Ms. Homiak which substantiated that wages paid by the Management Company are at or below wages for comparable positions.[32] One of those studies was from the American Water Works Association ("AWWA") which provides information specific to the water utility industry. However, Mr. Michlik contends that the surveys provided are not adequate substantiation and that the comparison should be made against similarly situated Class B utilities regulated by the Commission.

Q37. IS SUCH WAGE INFORMATION AVAILABLE?

A37. Not in any public form that I am aware of. In rate cases this information is not readily available except to the immediate parties. In my view, salary and wage information is confidential information and should remain so. Further, an apples-to –apples comparison can be jeopardized by the fact that some utilities are managed by an affiliate or parent company or may have operational and management services provided to it by a third party. This is why an analysis provided by Ms. Homiak is better for a comparison.[33] In any case, Staff does have extensive experience in the auditing of water utilities and should have this information

[32] Michlik Sb. at 7.

[33] Homiak Rb. at 8.

internally in order to make an assessment of the reasonableness of the wages paid by the Management Company. It seems to me that the "standard" set by Staff is an impossible standard for the Company to meet. Moreover, Staff has not submitted any information demonstrating that the salaries and wages paid by the Company during the test year were in any manner unreasonable or unjustified.

Q38. IN YOUR EXPERIENCE, ARE THE SALARIES AND WAGES PAID BY THE MANAGEMENT COMPANY REASONABLE?

A38. Yes. And, so are the costs allocated to SWC.

Q39. WHAT DOES MR. MICHLIK SAY ABOUT THE CUSTOMER COST COMPARISON PROVIDED BY MS. HOMIAK IN HER REBUTTAL TESTIMONY?

A39. He dismisses that information[34] as well stating that the comparison includes utilities that vary in size from the Company and the comparison does not contain any salary information.[35] However, and with respect to utilities of comparable size, there are at least nine other Class B sized companies in the comparison.[36] SWC is ranked 4 out the 10 Class B companies in terms of total cost per customer; 5 out of 10 in terms of cost per customer less depreciation and taxes; and, 5 out of 10 in terms of cost per customer less depreciation, taxes, purchased power and chemicals. Further, SWC is ranked 9 out of 25 in terms of total cost per customer for the entire universe of companies listed (Class A, B, and C) ; 7 out of 25 in

[34] *See* Exhibit D attached to the Rebuttal testimony of Marina Homiak.

[35] *Id.*

[36] Lago Del Oro Water Co., Bermuda Water Company, Arizona Water Company (Oracle/Overgaard), Rio Rico Utilities, Arizona Water Company (Coolidge), Arizona Water Company (Lakeside).

terms of cost per customer less depreciation and taxes; and, 9 out of 25 in terms of cost per customer less depreciation, taxes, purchased power and chemicals. Arguably the cost metric most controllable by a utility's management is the cost per customer less depreciation, taxes, purchased power and chemicals. I would also note that several of the companies listed (including Class B companies) are managed by a much larger parent company who can arguably achieve greater economies of scale and lower costs than SWC, so the analysis is a bit skewed in favor of those companies. But, by whatever metric you choose to compare, SWC ranks very favorably.

With respect to specific salary information, this information is not available as I discussed earlier. Further, the much larger parent companies of many of the companies allocate their labor costs to expense accounts other than salaries and wages making a meaningful comparison to a top line salary and wages expense amount an impossible task. But aside from the fact that specific salary information is not available and thus a meaningful direct comparison of the salaries and wage expense levels is not possible, Mr. Michlik misses the point. The point of the comparison was to show that SWC's operating costs, which include salaries and wages costs are reasonable by comparison and one cannot argue with the fact that SWC has achieved an exceptionally high level of service in a very cost effective way. It has achieved this by no small measure through the management, administrative, and operational team of employees provided by the Management Company, as the Arizona Water Association award noted previously recognized.

Q40. DO YOU BELIEVE COMPTETIVE BIDS ARE NECESSARY GIVEN THE INDICATIONS OF YOUR ANALYSIS?

A40. No. Again, the cost metrics discussed above demonstrate that SWC's cost are reasonable.

Q41. PLEASE COMMENT ON THE FACT THAT THE "NON-DEDICATED" EMPLOYEES DID NOT KEEP TIMESHEETS TO SUBSTANTIATE THEIR TIME SPENT PERFORMING WORK FOR SWC?

A41. First let me clarify the term "non-dedicated employee". In this context a non-dedicated employee refers to an employee of the Management Company who is not allocated on a full-time basis to the Company. Putting that aside, Mr. Michlik does not argue that no time was spent by the non-dedicated employees, only that the Company did not show adequate documentation of the time spent.[37] So, I believe that even Mr. Michlik would agree that the costs of non-dedicated employees should be somewhere between an amount greater than zero and the approximately $100,000 he seeks to remove, and certainly it should not be not be zero, as he proposes. The Company has provided Staff with the job descriptions, responsibilities, and duties of these non-dedicated employees with respect to the work performed on behalf of SWC and I believe that a reasonable determination of the time required to perform these duties can be made. The Company has the estimate of each employee's time from each employee who actually performed work for SWC. These employees should know best. Putting that aside, in total, the Management Company has allocated less than one-third of the cost of these employees to SWC. This is not unreasonable. In other words, the Company and rate payers have saved two-thirds of these costs by not having to hire full time employees to do the work.

[37] Michlik Sb. at 12.

Q42. PLEASE CONTINUE WITH YOUR DISCUSS OF REVISIONS TO THE REVENUE AND EXPENSES ADJUSTMENTS PROPOSED BY THE COMPANY.

A42. The Company's property tax adjustment (Adjustment Number 2) has been revised to reflect the Company's rejoinder proposed revenues. The detail of the Company's proposed property tax adjustment is detailed on Rejoinder Schedule C-2, page 3.

Finally, the Company's income tax adjustment has been revised to reflect the rejoinder revenues and expenses. The details of the Company's income tax adjustment are detailed on Rejoinder Schedule C-2, page 9.

Q43. STAFF CONTINUES TO EXCLUDE INCOME TAXES FROM EXPENSES, CORRECT?

A43. Yes.

Q44. PLEASE COMMENT ON THE SURREBUTTAL TESTIMONY OF MR. MICHLIK (PAGE 19) REGARDING THE ISSUE OF THE INCLUSION OF INCOME TAXES?

A44. I have two comments. First, Mr. Michlik does not dispute the testimony of Company witness, Mr. David Cutler, CPA, or myself, that the income attributed to SWC is reported to and included as income on the returns of the owners which is subject to tax.[38] Mr. Michlik confirms, as Mr. Culter has stated[39], the "IRS requires

[38] Cutler Rb. at 3-6; Bourassa.Rb at 11.

[39] Cutler Rb. at 3-4.

the pass-though entity to file an informational return to report the individual owner's pro-rate 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".[40] There should be no question that the income reported to owners are directly attributed to SWC and must be included as income on the returns of the owners. If the income were not required to be reported and included as income on the returns of the owners, the owner's would have a lower tax liability. As I have stated, ultimately the payment of taxes attributed to SWC is paid by the owners.[41] Mr. David Cutler provides additional discussion on this point in his Rejoinder Testimony. The bottom line is that there is no dispute regarding this point.

Q45. BY INCLUDING INCOME TAXES IN THE REVENUE REQUIREMENT, ARE RATE PAYERS PAYING THE PERSONAL INCOME TAXES OF THE OWNERS OF THE COMPANY?

A45. Only in a technical sense. The income taxes that are paid by the rate payers are those that are directly attributed to the income of SWC. Any other income or losses, deductions, and ultimately the tax paid by owners are not paid by rate payers. In fact, if the other income or losses, deductions, and ultimately the tax paid by the individual owners are considered, there would be cross-subsidization between the owners and rate payers. There is no doubt that if income taxes are excluded, the company's owners will in effect subsidize

[40] Michlik Sb. at 19.

[41] Bourassa Rb. at 11.

rate payers by paying taxes on the income attributed to the Company's operations.. And, thus rate payers will receive an unjustified windfall.[42]

Q46. HAS MR. MICHLIK CHALLENGED YOUR PREVIOUS TESTIMONY REGARDING HOW THIS COMMISSION TREATS INCOME TAXES FOR C-CORPORATION UTILITIES THAT FILE A CONSOLIDATED TAX RETURN WITH A PARENT COMPANY?

A46. No. Mr. Michlik has not even attempted to demonstrate that there is a substantive difference between a C-Corp that whose income is reported on a consolidated tax return with a parent company and tax pass-through entity whose income is reported on the individual returns of owners. This leads to my second comment. The entire basis of Mr. Michlik's argument is based on a classification under the federal tax law[43] - its form over substance. As you will recall, I pointed out that even though a C-Corp utility does not file an individual tax return, this Commission has treated the C-Corp utility as if it were paying taxes on a stand-alone basis.[44] The other income or losses, deductions, and taxes paid by the parent company are irrelevant (as they should be). In a technical sense, rate payers are paying the taxes of the parent company of a C-Corp utility just as rate payers are technically paying the income taxes of the individual owners of a tax pass-through entity. But, just as with a tax pass-through entity, the income taxes rate payers pay for a C-Corp's income taxes are based on the income directly attributed to the utility and not from any other source. Rate payers are not disadvantaged in any way as a result.

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[42] Bourassa Dt. at 12.

[43] Michlik Sb. at 19.

[44] Bourassa Dt. at 16.

Q47. DOES MR. MICHLIK CHALLENGE YOUR TESTIMONY THAT THE RETURN PROVIDED TO A C-CORPORATION UTILITY IS NOT THE SAME AS A TAX-PASS THROUGH ENTITY IF INCOME TAXES ARE EXCLUDED FOR THE TAX-PASS THROUGH ENTITY?

A47. No. And neither has Staff's cost of capital witness, Mr. Manrique. As you will recall, in my rebuttal cost of capital testimony I showed that the value of two firms (one a tax paying entity and one a non-tax paying entity) will have very different values if income tax recovery is allowed on one and not the other.[45] Also, as I stated, and which the analysis contained in my cost of capital presentation demonstrates, if the recovery of income taxes is denied for a tax pass-through entity but allowed for a tax paying entity, the investors in a tax pass-through entity will suffer a confiscation of investment value as a result.[46] Again, Staff has not disputed this point.

Q48. DO YOU HAVE OTHER CONCERNS?

A48. Yes. Under Staff's proposals (exclusion of Well #23 plant costs from rate base, exclusion of income taxes, and a 9.2 percent rate of return), the Company will have insufficient earnings from which to pay dividends at a level comparable to the publicly traded water utilities. Moreover, earnings will be insufficient to pay dividends irrespective of the recovery of income taxes and disallowing recovery of income taxes only compounds the situation. I discuss the sufficiency of earnings in more detail in my rejoinder cost of capital testimony.

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[45] Bourassa COC Rb. at 5-9.

[46] Bourassa Rb. at 12.

A. **Remaining Revenue and Expense Issues.**

Q49. PLEASE COMMENT ON STAFF'S PROPOSED RATE CASE EXPENSE.

A49. At this stage, both Staff and the Company agree on the total rate case expense but differ on the period of time (in years) used to determine the annual amount to be included in the revenue requirement. The Company believes the appropriate number of years should be 3 years, while Staff believes it should be 5 years.[47]

Q50. DOES THE COMPANY EXPECT TO FILE ANOTHER RATE CASE WITHIN 3 YEARS, AND, IF SO, WHY?

A50. Yes, because there are expected increases in arsenic operating expenses that are not being captured in the revenue requirement in the instant case.[48] The Company should be filing another rate case as soon as possible to minimize its losses. In addition, it is more likely than not that the Company will experience additional investment in plant-in-service that will be necessary for the Company to continue to provide safe and reliable service to customers.[49]

V. RATE DESIGN

Q51. WHAT ARE THE COMPANY'S REJOINDER PROPOSED RATES?

A51. The rebuttal proposed rates are listed below.

All Classes

Meter	Monthly	Gallons included

[47] Bourassa Rb. at 15-16.

[48] Replacement of arsenic treatment filters alone will cost $15,000 to $20,000 annually.

[49] The anticipated capital projects over the next 3 years will cost between $500,000 to $1 million and include, but are not limited to: Well 14 & Well 18 rehabilitation work; Storage tank inspection and cleaning; SCADA control system upgrades and new website costs.

Size	Minimum	in Monthly Minimum
5/8	$ 24.24	0
3/4	$ 36.36	0
1	$ 60.60	0
1 1 /2	$ 121.20	0
2	$ 193.92	0
3	$ 387.64	0
4	$ 606.00	0
6	$1,212.00	0

The commodity charges and tiers by meter size are:

Residential, Commercial and Irrigation Class

Meter Size	Tier (gallons)	Charge per 1,000 gallons
5/8x3/4 Residential	1 to 4,000	$3.50
	4,001 to 10,000	$4.25
	Over 10,000	$4.80
3/4 Residential	1 to 6,000	$3.50
	6,001 to 9,000	$4.25
	Over 9,000	$4.80
1 Residential	1 to 10,000	$3.50
	10,001 to 25,000	$4.25
	Over 25,000	$4.80
5/8x3/4 and 3/4 Commercial, Irrigation	1 to 10,000	$4.25
	Over 10,000	$4.80
1 Commercial, Irrigation	1 to 25,000	$4.25

	Over 25,000	$4.80
1 ½ Res., Com., Irr.	1 to 50,000	$4.25
	Over 50,000	$4.80
2 Res., Com., Irr.	1 to 80,000	$4.25
	Over 80,000	$4.80
3 Res., Com., Irr.	1 to 160,000	$4.25
	Over 160,000	$4.80
4 Res., Com., Irr.	1 to 250,000	$4.25
	Over 250,000	$4.80
6 Res., Com., Irr.	1 to 500,000	$4.25
	Over 500,000	$4.80
Standpipe (Construction)		
All Meter Sizes	All gallons	$4.80

Q52. HAVE YOU UPDATED YOUR COST OF SERVICE STUDY USING THE COMPANY REJOINDER PROPOSED RATES?

A52. Yes. As shown on Rejoinder Schedule G-2, the returns at the rejoinder proposed rates continue to vary substantially between the various meter sizes. While all the returns are positive, the 5/8x3/4 inch and ¾ inch residential customer classes provide returns below the 9.69 percent requested in the instant case at 7.26 percent and 7.38 percent, respectively. The larger sized meters, such as the 1 inch commercial, 2 inch commercial, 3 inch commercial are providing much higher returns at 11.12 percent, 35.00 percent, and 19.10 percent, respectively. The 1 inch irrigation, 1½ inch irrigation and 2 inch irrigation are providing returns of 21.60 percent, 23.50 percent, and 35.26 percent, respectively. This indicates that the larger meter customer classes continue to subsidize the 5/8 inch and ¾ inch

customer classes under the rebuttal proposed rates. However, consistent with the concept of gradualism, there is improvement in eliminating existing subsidization under the Company's proposed rates.

Q53. WHAT IS THE IMPACT OF THE COMPANY'S REJOINDER PROPOSED RATES ON AN AVERAGE 5/8x3/4 INCH METERED RESIDENTIAL CUSTOMER?

A53. The present monthly bill for a 5/8x3/4 inch metered residential customer using an average of 5,424 gallons is $27.12. The proposed monthly bill for a 5/8x3/4 inch metered residential customer using an average of 5,424 gallons would be $44.29, an increase of $17.17 or 63.32 percent compared to the present rates.

Q54. WHAT IS THE IMPACT OF THE COMPANY'S REJONDER PROPOSED RATES ON AN AVERAGE 3/4 INCH METERED RESIDENTIAL CUSTOMER?

A54. The present monthly bill for a 3/4 inch metered residential customer using an average of 6,142 gallons is $54.93. The proposed monthly bill for a 5/8 inch metered residential customer using an average of 6,142 gallons would be $57.96, an increase of $20.27 or 53.79 percent compared to the present rates.

Q55. HAS STAFF CORRECTED ITS PROPOSED RATES SO THAT THEY PRODUCE THE STAFF PROPOSED REVENUE REQUIREMENT?

A55. The problem of the Staff proposed rates having produced too much revenue[50] continues to exist, although the difference has narrowed from approximately

[50] Bourassa Rb. at 22-23.

$180,000 too much revenue to approximately $50,000 too much revenue. In light of this problem I will attempt to provide a detailed comparison of the Staff and Company proposed rate designs. The Company believes its rate design promote conservation while balancing the promotion of conservation with both revenue stability and fairness based on cost of service principles.

Q56. WHAT CONCERNS DO YOU HAVE WITH STAFF'S PROPOSED RATE DESIGN?

A56. Staff's rate design can be characterized as having relatively low monthly minimums, low first tier commodity rates for small residential customers, and high commodity rates for small commercial and irrigation customers, and larger metered customers. This is all to the benefit of small residential customers and at the cost of other customer classes. Staff's proposed rate design shifts revenue recovery away from the 5/8x3/4 inch residential class to the small commercial and irrigation customers, and larger metered customer classes.

Q57. CAN YOU SHOW THIS?

A57. Yes. I have prepared a number of exhibits for my discussion; Exhibit TJB-RJ -3, TJB-RJ-4, TJB-RJ-5, and TJB-RJ-6. First, Staff does not increase the monthly minimums for the 1 inch and smaller meters.[51] This results in a shift from in revenue recovery away from the monthly minimums to the commodity rates. In fact, the revenue recovery from the monthly minimums drops from approximately 51.6 percent under present rates to 43.19 percent under the Staff proposed rates. This is shown in Exhibit TJB-RJ-3, by comparing the cumulative percentage of

[51] *See* Staff Surrebuttal Schedule JMM-19, page 1 of 2.

Column A on page 1 (revenue breakdown under present rates) and the cumulative percentage of Column A on page 3 (revenue breakdown under Staff proposed rates). In contrast, the Company has increased the monthly minimums for all meter sizes. And, under the Company proposed rates, the revenue recovery from the monthly minimums is about 48.5 percent as shown for the cumulative percentage of Column A on page 2 of Exhibit TJB-RJ-3.

Second, Staff's first tier commodity rate for the smaller metered residential customers is increased from the present commodity rate of $2.05 to $2.39, an increase of $0.24 or about 16.6 percent. The first tier of the smaller metered commercial and irrigation customers and larger metered customers is increased from $2.05 to $3.56, an increase of $1.51 or about 73.6 percent. As a result, the revenue recovery from the monthly minimums and the first tier commodity rates is reduced from about 66.63 percent under present rates to only 49.69 percent under the Staff proposed rates. This is shown in Exhibit TJB-RJ-3 by comparing the cumulative percent of Column B on page 1 (revenue breakdown under present rates) and the cumulative percentage of Column B on page 3 (revenue breakdown under Staff proposed rates). In contrast, under the Company proposed rates the first tier commodity rates for the smaller metered residential customers is increased from $2.05 to $3.50, or an increase of $1.45 or about 70.7 percent. The first tier of the small commercial and irrigation and larger metered customers is increased from $2.05 to $4.25, an increase of $2.20 or about 107.3 percent. As a result, the revenue recovery from the monthly minimums and the first tier commodity rates under the Company proposed rates is about 58.7 percent as shown for the cumulative percentage of Column B on page 2 of Exhibit TJB-RJ-3. While this is a reduction compared to present rates at 64.6 percent, it does not go nearly as far as the Staff proposed rates. Under the Staff proposed rates more than half of the

Company's revenue requirement is being recovered from the 2nd and 3rd tier commodity rates; exposing the Company to a greater degree of revenue instability and revenue recovery risk.

Second, revenue recovery is shifted away from the 5/8x3/4 inch residential customers to the small commercial and irrigation customers and larger metered customers under the Staff proposed rate design. This can be shown by on Exhibit TJB-RB-4, page 1, where the percent of total revenues from the 5/8x3/4 inch residential customer under the Staff proposed rates decreases from 65.17 percent to 63.24 percent. The 5/8x3/4 inch residential customers comprise the largest class of customers at over 86 percent of the total customers yet this class contributes far less of a proportion of revenues at about 65 percent under present rates and even less under the Staff proposed rates.

Further, as a group, the residential class revenue recovery under the Staff proposed rates drops from 76.66 percent to 74.22 percent. Commercial customers, as a group, contribute 4.13 percent of revenues under present rates whereas this group contributes 4.69 percent of revenues under Staff proposed rates. Further, irrigation customers, as a group, contribute 17.14 percent of revenues under present rates whereas this group contributes 19.90 percent of revenues under Staff proposed rates.

Under the Company proposed rates (Rejoinder Schedule H-1, page 1) the 5/8x3/4 inch residential customers continue to contribute about 65 percent of revenues. The residential customers, as a group, continue to contribute about 76 percent of total revenues under the Company proposed rates. The commercial and irrigation customers, as groups, contribute only slightly greater percentages of total revenues at 4.26 percent and 17.79 percent, respectively.

Q58. THAT'S A LOT OF ANALYSIS. WHAT'S YOUR CONCLUSION WITH RESPECT TO STAFF'S RATE DESIGN?

A58. Staff is discounting water service and generating a subsidy (i.e., selling water below cost in the first rate block) for the 5/8x3/4 inch metered residential customers. As a result, customers that use large amounts of water for various residential and non-residential purposes will be required to pay more than the cost of service in order to subsidize the low use residential customers.

Q59. HAVE YOU PREPARED A SCHEDULE TO FURTHER ILLUSTRATE THIS?

A59. Yes, as shown on Exhibit TJB RJ-5, page 1 is similar to the H-2 schedule contained in the Company's rejoinder filing. The H-2 shows the average bill at present and proposed rates. Staff is recommending a revenue decrease of 17.74 percent. But, as shown on the schedule, Staff is increasing the 5/8x3/4 inch residential customer rates by about 17.3 percent and increasing the larger metered customers by far greater amounts for the commercial and irrigation customers.

Q60. HOW DOES STAFF'S PROPOSED RATE STACK UP AGAINST THE COST OF SERVICE?

A60. As shown on Exhibit TJB RB-6, page 1, which is similar to Rejoinder Schedule G-0, the Staff proposed rates result in returns for the 5/8x3/4 inch and ¾ inch residential customers of just 5.11 percent and 6.43 percent, respectively. As a group, the residential customers provide an over-all 5.30 percent return. Remember, Staff is recommending a 9.2 percent return on rate base. The differential between Staff's recommended return and the return provided by the 5/8x3/4 inch metered residential customers is over 400 basis points.

Q61. HOW DO THE COMPANY'S PROPOSED RATE COMPARE IN TERMS OF THE COST OF SERVICE?

A61. Under the Company proposed rates, the 5/8x3/4 inch metered residential customer provide for a 7.26 percent return. As a group, the residential customers provide an over-all 7.28 percent return. The Company is recommending an overall return of about 9.7 percent. The differential between the Company's recommended return and the return provided by the 5/8x3/4 inch residential class is about 240 basis points. Arguably, the Company's proposed rate design is more fair than Staff's from a cost of service perspective.

Q62. PLEASE COMMENT ON STAFF'S SURREBUTAL TESTIMONY CONCERNING THE COMPANY REQUEST TO TREAT CENTRAL ARIZONA GROUND WATER REPLENISHMENT DISTRICT FEES AS A PASS-THROUGH CHARGE?

A62. Company witness, Mr. Mark Seamans provides the Company response to Staff's Surrebuttal Testimony on the CAGRD fees.

Q63. IS THERE ANY DISAGREEMENT BETWEEN THE STAFF AND THE COMPANY REGARDING SERVICE LINE AND METER INSTALLATION CHARGES?

A63. No.

Q64. DOES THERE CONTINUE TO BE DISAGREEMENT BETWEEN THE STAFF AND THE COMPANY REGARDING THE DEPOSIT INTEREST RATE ON CUSTOMER SECURITY DEPOSITS?

A64. Yes. Staff has not provided any additional testimony on this subject. The Company has not revised its position and has nothing to add.[52]

Q65. PLEASE EXPLAIN THE DISAGREEMENT OVER THE DEPOSIT INTEREST RATE.

A65. The Company continues to recommend a deposit interest rate of 1% whereas Staff recommends a deposit interest rate of 6%. The Company continues to believe its rate more accurately reflects the reality of very low interest rates at the present time than does Staff's. In fact, the current average national money market rate is 0.832%.[53]

Q66. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

A66. Yes. Although my silence on any issue not discussed herein does not necessarily constitute agreement with Staff at this time.

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[52] Bourassa Rb. at 24-25.

[53] WWW.Bankrate.com, July 9, 2010.

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

THOMAS J. BOURASSA, CPA
REJOINDER TESTIMONY
July 12, 2010

EXHIBIT TJB-RJ-1

RATE CASE AND AUDIT MANUAL

Prepared by:

NARUC Staff Subcommittee
on Accounting and Finance

Summer 2003

Customer Deposits

Customer deposits are shown as a liability on the utility's balance sheet and represent a source of non-investor supplied capital. Customer deposits are generally treated one of three ways.

The first method does not reduce rate base by the customer deposits balance and classifies any interest accrued or paid on those deposits as a below-the-line (or non-operating) expense. This method allows the utility to earn a return on a rate base that has not been reduced by the amount of customer deposits, and then allows it to use that return to pay the interest that is required to be returned to customers with the return of that deposit. One consideration in using this method is whether the return allowed on rate base is higher than the return that the utility is required to pay on its customer deposits. If so, the utility may be allowed to earn more than is necessary, and return that difference to shareholders.

The second method reduces rate base by the customer deposits balance, and classifies any interest accrued or paid on those deposits as an above-the-line (or operating) expense that is included in the revenue requirement computation. The interest that the utility must pay is generally deemed to be a legitimate expense that must be recovered in one form or another.

The third method includes the liability for customer deposits in the utility's capital structure at a zero cost, reducing the overall rate of return. If interest is paid on the customers' deposits, the utility can recover that interest expenses as an above-the line (or operating) expense.

When examining this item, the auditor may want to become familiar with the utility's deposit policies, to make sure that the amount of deposits it holds is consistent with any rules of the particular jurisdiction on the matter. One wants to make sure that the proper amount is being held, not only for the sake of customers who paid the deposits, but also to assure that too much interest expense is not being included in rates to be paid by the general body of ratepayers. One may want to look not only at the policy of how much is collected from any individual customer as a deposit, but whether deposit policies are consistent with minimizing uncollectibles. One may also wish to review policies of when deposits are returned to customers.

Prepayments

The auditor should examine the nature of the prepayments as well as the amounts of each type of prepayment. In looking at these items, one should look to see that they relate to the provision of utility service, and are the type of expense that is normally lumpy in nature, and therefore, paid periodically and then amortized over some number of months. An example of a commonly included prepayment is insurance. Watch the allocation of insurance as it often covers not only the regulated utility, but also affiliates and deregulated activities. Since the prepayment balance will vary during a period, the auditor may wish to consider using an average balance in order to reach a more normalized level for inclusion in rate base.

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

THOMAS J. BOURASSA, CPA
REJOINDER TESTIMONY
July 12, 2010

EXHIBIT TJB-RJ-2

AZ Water

HONORS

SAHUARITA WATER COMPANY LLC

SAHUARITA

AS

WATER TREATMENT PLANT OF THE YEAR

WATER TREATMENT

SMALL SYSTEM

2010

Professionals Protecting Arizona's Water

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

THOMAS J. BOURASSA, CPA
REJOINDER TESTIMONY
July 12, 2010

EXHIBIT TJB-RJ-3

Sahuarita Water Company
Revenue Breakdown Summary
Present Rates

		Current Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
5/8 Inch	Residential	$ 776,064	$ 238,918	$ 342,120		$ 1,357,102
3/4 Inch	Residential	$ 129,000	$ 20,103	$ 51,655		$ 200,758
1 Inch	Residential	$ 24,480	$ 2,369	$ 7,250		$ 34,099
		$ 929,544	$ 261,391	$ 401,025	$ -	$ 1,591,960
Percent of Revenues		58.39%	16.42%	25.19%	0.00%	100.00%
Cummulative Percentage		58.39%	74.81%	100.00%	100.00%	
1 Inch	Commercial	$ 960	$ 111	$ 423		$ 1,493
2 Inch	Commercial	$ 23,040	$ 455	$ 68,782		$ 92,277
3 Inch	Commercial	$ 2,700	$ -	$ 3,802		$ 6,502
		$ 26,700	$ 566	$ 73,007	$ -	$ 100,273
Percent of Revenues		26.63%	0.56%	72.81%	0.00%	100.00%
Cummulative Percentage		26.63%	27.19%	100.00%	100.00%	
1 Inch	Public Authority	$ 480	$ 37	$ 244		$ 761
2 Inch	Public Authority	$ 11,520	$ 469	$ 1,844		$ 13,833
		$ 12,000	$ 506	$ 2,088	$ -	$ 14,595
Percent of Revenues		82.22%	3.47%	14.31%	0.00%	100.00%
Cummulative Percentage		82.22%	85.69%	100.00%	100.00%	
5/8x3/4 Inch	Irrigation	$ 2,112	$ 156	$ 20,362		$ 22,630
3/4 Inch	Irrigation	$ 3,000	$ 319	$ 2,146		$ 5,465
1 Inch	Irrigation	$ 20,160	$ 787	$ 33,391		$ 54,338
1.5 Inch	Irrigation	$ 8,100	$ 80	$ 13,830		$ 22,010
2 Inch	Irrigation	$ 54,720	$ 267	$ 183,101		$ 238,088
3 Inch	Irrigation	$ 2,700	$ -	$ 500		$ 3,200
		$ 90,792	$ 1,609	$ 253,331	$ -	$ 345,732
Percent of Revenues		26.26%	0.47%	73.27%	0.00%	100.00%
Cummulative Percentage		26.26%	26.73%	100.00%	100.00%	
3 Inch	Construction	$ 5,400	$ 4,336			$ 9,736
Percent of Revenues		55.46%	44.54%	0.00%	0.00%	100.00%
Cummulative Percentage		55.46%	100.00%	100.00%	100.00%	
Grand Total		$ 1,064,436	$ 268,407	$ 729,451	$ -	$ 2,062,294
Percent of Total Revenues		51.61%	13.01%	35.37%	0.00%	100.00%
Cummulative Percentage		51.61%	64.63%	100.00%	100.00%	

Sahuarita Water Company
Revenue Breakdown Summary
Company Proposed Rates

		Proposed Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
5/8x3/4 Inch	Residential	$ 1,175,737	$ 205,968	$ 535,863	$ 269,449	$ 2,187,017
3/4 Inch	Residential	$ 187,618	$ 34,323	$ 62,046	$ 22,484	$ 306,470
1 Inch	Residential	$ 37,087	$ 4,039	$ 11,047	$ 137	$ 52,310
		$ 1,400,442	$ 244,330	$ 608,956	$ 292,070	$ 2,545,797
Percent of Total Revenues		55.01%	9.60%	23.92%	11.47%	100.00%
Cummulative Percentage		55.01%	64.61%	88.53%	100.00%	
1 Inch	Commercial	$ 1,454	$ 961	$ -		$ 2,415
2 Inch	Commercial	$ 37,233	$ 17,138	$ 99,147		$ 153,517
3 Inch	Commercial	$ 4,654	$ 5,973	$ -		$ 10,627
		$ 43,341	$ 24,072	$ 99,147	$ -	$ 166,559
Percent of Total Revenues		26.02%	14.45%	59.53%	0.00%	100.00%
Cummulative Percentage		26.02%	40.47%	100.00%	100.00%	
1 Inch	Public Authority	$ 727	$ 493	$ -		$ 1,220
2 Inch	Public Authority	$ 18,616	$ 4,063	$ -		$ 22,679
		$ 19,344	$ 4,556	$ -	$ -	$ 23,900
Percent of Total Revenues		80.94%	19.06%	0.00%	0.00%	100.00%
Cummulative Percentage		80.94%	100.00%	100.00%	100.00%	
5/8x3/4 Inch	Irrigation	$ 3,200	$ 519	$ 35,466		$ 39,184
3/4 Inch	Irrigation	$ 4,363	$ 2,225	$ 2,181		$ 8,769
1 Inch	Irrigation	$ 30,542	$ 18,243	$ 40,480		$ 89,265
1.5 Inch	Irrigation	$ 13,090	$ 5,206	$ 18,218		$ 36,514
2 Inch	Irrigation	$ 88,428	$ 30,948	$ 279,823		$ 399,199
3 Inch	Irrigation	$ 4,654	$ 795	$ -		$ 5,449
		$ 144,276	$ 57,936	$ 376,168	$ -	$ 578,381
Percent of Total Revenues		24.94%	10.02%	65.04%	0.00%	100.00%
Cummulative Percentage		24.94%	34.96%	100.00%	100.00%	
3 Inch	Construction	$ 9,308	$ 4,625			$ 13,933
Percent of Total Revenues		66.81%	33.19%	0.00%	0.00%	100.00%
Cummulative Percentage		66.81%	100.00%	100.00%	100.00%	
Grand Total		$ 1,616,711	$ 335,519	$ 1,084,270	$ 292,070	$ 3,328,570
Percent of Total Revenues		48.57%	10.08%	32.57%	8.77%	100.00%
Cummulative Percentage		48.57%	58.65%	91.23%	100.00%	

Sahuarita Water Company - Staff Proof Sb
Revenue Breakdown Summary
Staff Proposed Rates

		Proposed Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
5/8x3/4 Inch	Residential	$ 776,064	$ 80,531	$ 448,120	$ 284,605	$ 1,589,321
3/4 Inch	Residential	$ 129,000	$ 6,188	$ 44,051	$ 51,954	$ 231,193
1 Inch	Residential	$ 24,480	$ 14,767	$ 440		$ 39,687
Subtotal		$ 929,544	$ 101,485	$ 492,612	$ 336,560	$ 1,860,201
Percent of Revenues		49.97%	5.46%	26.48%	18.09%	100.00%
Cummulative Percentage		49.97%	55.43%	81.91%	100.00%	
1 Inch	Commercial	$ 960	$ 805	$ -		$ 1,765
2 Inch	Commercial	$ 24,576	$ 15,279	$ 87,627		$ 127,481
3 Inch	Commercial	$ 3,072	$ 4,988	$ -		$ 8,060
Subtotal		$ 28,608	$ 21,071	$ 87,627	$ -	$ 137,306
Percent of Revenues		20.84%	15.35%	63.82%	0.00%	100.00%
Cummulative Percentage		20.84%	36.18%	100.00%	100.00%	
1 Inch	Public Authority	$ 480	$ 328	$ 89		$ 897
2 Inch	Public Authority	$ 12,288	$ 3,403	$ -		$ 15,691
Subtotal		$ 12,768	$ 3,731	$ 89	$ -	$ 16,588
Percent of Revenues		76.97%	22.49%	0.54%	0.00%	100.00%
Cummulative Percentage		76.97%	99.46%	100.00%	100.00%	
5/8x3/4 Inch	Irrigation	$ 2,112	$ 434	$ 32,699		$ 35,245
3/4 Inch	Irrigation	$ 3,000	$ 824	$ 3,139		$ 6,963
1 Inch	Irrigation	$ 20,160	$ 15,146	$ 37,139		$ 72,446
1.5 Inch	Irrigation	$ 8,640	$ 3,845	$ 16,682		$ 29,166
2 Inch	Irrigation	$ 58,368	$ 25,600	$ 252,287		$ 336,254
3 Inch	Irrigation	$ 3,072	$ 659	$ -		$ 3,731
Subtotal		$ 95,352	$ 46,508	$ 341,945	$ -	$ 483,805
Percent of Revenues		19.71%	9.61%	70.68%	0.00%	100.00%
Cummulative.Percentage		19.71%	29.32%	100.00%	100.00%	
3 Inch	Construction	$ 16,896	$ (12,611)			$ 4,285
Percent of Revenues		394.31%	-294.31%	0.00%	0.00%	100.00%
Cummulative Percentage		394.31%	100.00%	100.00%	100.00%	
Grand Total		$ 1,083,168	$ 160,184	$ 922,273	$ 336,560	$ 2,502,185
Percent of Total Revenues		43.29%	6.40%	36.86%	13.45%	100.00%
Cummulative Percentage		43.29%	49.69%	86.55%	100.00%	

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

THOMAS J. BOURASSA, CPA
REJOINDER TESTIMONY
July 12, 2010

EXHIBIT TJB-RJ-4

Sahuarita Water Company - Staff Proof Sb
Test Year Ended December 31, 2008
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Page 1

Line No.	Meter Size	Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8x3/4 Inch	Residential	$ 1,314,948	$ 1,539,915	$ 224,967	17.11%	65.17%	63.24%
2	3/4 Inch	Residential	197,019	226,976	29,957	15.21%	9.76%	9.32%
3	1 Inch	Residential	34,678	40,366	5,688	16.40%	1.72%	1.66%
4								
5		Subtotal	1,546,644	1,807,257	260,612	16.85%	76.66%	74.22%
6								
7	1 Inch	Commercial	899	1,052	153	17.05%	0.04%	0.04%
8	2 Inch	Commercial	75,830	105,143	29,314	38.66%	3.76%	4.32%
9	3 Inch	Commercial	6,502	8,060	1,557	23.95%	0.32%	0.33%
10								
11		Subtotal	$ 83,231	$ 114,255	$ 31,024	37.27%	4.13%	4.69%
12								
13	1 Inch	Public Authority	$ 761	$ 897	$ 135	17.78%	0.04%	0.04%
14	2 Inch	Public Authority	13,833	15,691	1,858	13.43%	0.69%	0.64%
15								
16		Subtotal	14,595	16,588	1,993	13.66%	0.72%	0.68%
17								
18	5/8x3/4 Inch	Irrigation	$ 22,472	$ 34,988	$ 12,517	55.70%	1.11%	1.44%
19	3/4 Inch	Irrigation	4,820	6,135	1,314	27.27%	0.24%	0.25%
20	1 Inch	Irrigation	51,943	69,378	17,435	33.57%	2.57%	2.85%
21	1.5 Inch	Irrigation	22,010	29,166	7,156	32.51%	1.09%	1.20%
22	2 Inch	Irrigation	243,475	343,583	100,108	41.12%	12.07%	14.11%
23	3 Inch	Irrigation	1,175	1,427	251	21.38%	0.06%	0.06%
24								
25		Subtotal	345,895	484,677	138,782	40.12%	17.14%	19.90%
26								
27								
28	3 Inch	Construction	27,266	12,269	(14,996)	-55.00%	1.35%	0.50%
29								
30		Subtotal	27,266	12,269	(14,996)	-55.00%	1.35%	0.50%
31								
32	Total Revenues Before Annualization		$ 2,017,631	$ 2,435,046	$ 417,415	20.69%	100.00%	100.00%
33								
34								
35								
36								
37								
38								

Sahuarita Water Company - Staff Proof Sb
Test Year Ended December 31, 2008
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Page 2

Line No.	Meter Size	Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Additional Bills	Additional Gallons to be Pumped (In 1,000's)	
			Revenue Annualization						
5	5/8x3/4 Inch	Residential	$ 42,154	$ 49,406	7,252	17.20%	1,553	8,429	C-2, pg 5.1
6	3/4 Inch	Residential	3,740	4,217	478	12.77%	105	551	C-2, pg. 5.2
7	1 Inch	Residential	(579)	(679)	(100)	0.00%	(11)	(67)	C-2, pg. 5.3
9		Subtotal	$ 45,315	$ 52,944	$ 7,629	16.84%	1,647	8,913	
11	1 Inch	Commercial	594	712	118	19.85%	9	99	C-2, pg. 5.4
12	2 Inch	Commercial	16,447	22,338	5,891	35.82%	31	4,675	C-2, pg. 5.5
13	3 Inch	Commercial	-	-	-	0.00%	-	-	
15		Subtotal	$ 17,042	$ 23,051	$ 21,267	124.80%	40	4,774	
17	1 Inch	Public Authority	-	-	-	0.00%	-	-	
18	2 Inch	Public Authority	-	-	-	0.00%	-	-	
20		Subtotal	$ -	$ -	$ -	0.00%	-	-	
22	5/8x3/4 Inch	Irrigation	$ 159	$ 257	98	61.71%	-	-	C-2, pg. 5.6
23	3/4 Inch	Irrigation	645	829	184	28.49%	14	127	C-2, pg. 5.7
24	1 Inch	Irrigation	2,395	3,068	672	28.07%	23	572	C-2, pg. 5.8
25	1.5 Inch	Irrigation	-	-	-	0.00%	-	-	
26	2 Inch	Irrigation	(5,387)	(7,329)	(1,942)	0.00%	(10)	(1,538)	C-2, pg. 5.9
27	3 Inch	Irrigation	2,025	2,304	279	13.78%	9	-	
29		Subtotal	(164)	(872)	(709)	0.00%	36	(839)	
32	3 Inch	Construction	(17,530)	(7,984)	9,545	0.00%	(42)	(1,795)	C-2, pg. 5.10
34		Subtotal	(17,530)	(7,984)	9,545	0.00%	(42)	(1,795)	
37	Total Revenue Annualization		$ 44,664	$ 67,138	$ 37,733	84.48%	$ 1,681	11,053	

Sahuarita Water Company - Staff Proof Sb
Test Year Ended December 31, 2008
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Line No.		Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1							
2							
3	Subtotal Metered Revenues	$ 2,017,631	$ 2,435,046	$ 417,415	20.69%	100.00%	100.00%
4	Subtotal Revenue Annualization	44,664	67,138	22,475	50.32%	2.21%	2.76%
5	Total Metered Revenues	$ 2,062,294	$ 2,502,185	$ 439,890	21.33%		
6							
7	Misc. Revenues	$ 157,242	$ 157,242	-	0.00%	7.79%	6.46%
8	Reconciling Amount to GL/C-1	(4,394)	(51,238)	(46,844)	0.00%	-0.22%	-2.10%
9	Total Water Revenues	$ 2,215,142	$ 2,608,189	$ 393,046	17.74%	0.00%	0.00%
10							
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Sahuarita Water Company
Docket No. W-03718A-09-0359

THOMAS J. BOURASSA, CPA
REJOINDER TESTIMONY
July 12, 2010

EXHIBIT TJB-RJ-5

Sahuarita Water Company - Staff Proof Sb
Test Year Ended December 31, 2008
Customer Summary

Exhibit
Page 1

Line No.	Meter Size, Class		(a) Average Number of Customers at 12/31/2008	Average Consumption	Average Bill Present Rates	Average Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	5/8x3/4 Inch	Residential	3,913	5,424	$ 27.12	$ 31.80	4.68	17.26%
2	3/4 Inch	Residential	421	6,142	37.69	43.36	5.67	15.03%
3	1 Inch	Residential	52	6,957	54.93	64.77	9.83	17.90%
4								
5		Subtotal	4,386					
6								
7	1 Inch	Commercial	1	8,467	59.08	70.14	11.06	18.72%
8	2 Inch	Commercial	13	128,857	470.16	621.20	151.04	32.13%
9	3 Inch	Commercial	1	116,750	541.86	671.63	129.77	23.95%
10								
11		Subtotal	16					
12								
13	1 Inch	Public Authority	1	9,667	62.38	74.41	12.03	19.28%
14	2 Inch	Public Authority	8	9,958	143.19	163.45	20.27	14.15%
15								
16		Subtotal	9					
17								
18	5/8x3/4 Inch	Irrigation	11	56,939	$ 168.38	$ 261.23	92.84	55.14%
19	3/4 Inch	Irrigation	9	8,236	43.45	54.32	10.87	25.02%
20	1 Inch	Irrigation	40	26,025	107.37	137.99	30.62	28.52%
21	1.5 Inch	Irrigation	9	48,130	203.16	251.34	48.19	23.72%
22	2 Inch	Irrigation	39	147,745	522.10	705.19	183.09	35.07%
23	3 Inch	Irrigation	0	61,667	390.38	475.53	85.15	21.81%
24								
25		Subtotal	108					
26								
27								
28	3 Inch	Construction	6	41,803	413.11	185.90	(227.22)	-55.00%
29								
30		Subtotal	6					
31								
32		Total	4,524					
33								

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

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

THOMAS J. BOURASSA, CPA
REJOINDER TESTIMONY
July 12, 2010

EXHIBIT TJB-RJ-6

Sahuarita Water Company, LLC - Staff Sb.
Test Year Ended December 31, 2008
Cost of Service Study, Using Commodity Demand Method
Summary by Customer Class - Present and Staff Proposed Rates

Exhibit
Page 1

Line No.	Class	Meter Size	Rate Base	Present Rates Operating Income	Present Rates Rate of Return	Company Proposed Rates Operating Income	Company Proposed Rates Rate of Return
5	Residential	5/8x3/4 Inch	$ 6,790,076	$ 152,366	2.24%	$ 347,055	5.11%
6		3/4 Inch	904,305	31,566	3.49%	58,189	6.43%
7		1 Inch	146,936	5,418	3.69%	10,547	7.18%
9	Residential		$ 7,841,317	$ 189,349	2.41%	$ 415,790	5.30%
11	Commercial	1 Inch	$ 5,725	$ 397	6.94%	$ 649	11.34%
12		2 Inch	146,756	47,527	32.38%	81,787	55.73%
13		3 Inch	15,476	2,378	15.37%	3,909	25.26%
15	Commercial		$ 167,957	$ 50,302	29.95%	$ 86,345	51.41%
17	Public Authority	1 Inch	$ 2,908	$ 168	5.78%	$ 294	10.11%
18		2 Inch	65,242	1,025	1.57%	2,833	4.34%
20	Public Authority		$ 68,150	$ 1,193	1.75%	$ 3,127	4.59%
22	Irrigation	5/8x3/4 Inch	$ 24,373	$ 12,643	51.87%	$ 24,791	101.71%
23		3/4 Inch	21,161	1,363	6.44%	2,745	12.97%
24		1 Inch	128,737	21,848	16.97%	39,205	30.45%
25		1.5 Inch	46,862	9,034	19.28%	15,969	34.08%
26		2 Inch	365,459	114,315	31.28%	209,765	57.40%
27		3 Inch	14,425	269	1.86%	791	5.48%
29	Irrigation		$ 601,018	$ 159,471	26.53%	$ 293,266	48.79%
31	Constuction		$ 30,914	$ 1,687	5.46%	$ (3,480)	-11.26%
35	Total		$ 8,709,357	$ 402,002	4.62%	$ 795,048	9.13%

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

THOMAS J. BOURASSA
REJOINDER TESTIMONY
(RATE BASE, INCOME STATEMENT, AND RATE DESIGN)
July 12, 2010

SCHEDULES

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Rejoinder Schedule A-1
Page 1
Witness: Bourassa

Line No.		
1	Fair Value Rate Base	$ 10,059,443
2		
3	Adjusted Operating Income	152,805
4		
5	Current Rate of Return	1.52%
6		
7	Required Operating Income	$ 974,760
8		
9	Required Rate of Return on Fair Value Rate Base	9.69%
10		
11	Operating Income Deficiency	$ 821,955
12		
13	Gross Revenue Conversion Factor	1.5446
14		
15	Increase in Gross Revenue Revenue Requirement	1,269,594
16		
17	Adjusted Test Year Revenues	$ 2,215,143
18	Increase in Gross Revenue Revenue Requirement	$ 1,269,594
19	Proposed Revenue Requirement	$ 3,484,737
20	% Increase	57.31%
21		

22	Customer		Present	Proposed	Dollar	Percent
23	Classification		Rates	Rates	Increase	Increase
24	5/8x3/4 Inch	Residential	$ 1,314,948	$ 2,118,206	$ 803,258	61.09%
25	3/4 Inch	Residential	197,019	300,740	103,721	52.65%
26	1 Inch	Residential	34,678	53,211	18,534	53.45%
27		**Subtotal**	$ 1,546,644	$ 2,472,157	$ 925,513	59.84%
28						
29	1 Inch	Commercial	$ 899	$ 1,449	$ 550	61.18%
30	2 Inch	Commercial	75,830	126,423	50,593	66.72%
31	3 Inch	Commercial	6,502	10,627	4,125	63.43%
32		**Subtotal**	$ 83,231	$ 138,499	$ 55,268	66.40%
33						
34	1 Inch	Public Authority	$ 761	$ 1,220	$ 459	60.30%
35	2 Inch	Public Authority	13,833	22,679	8,846	63.95%
36		**Subtotal**	$ 14,595	$ 23,900	$ 9,305	63.76%
37						
38	5/8x3/4 Inch	Irrigation	$ 22,472	$ 38,907	$ 16,435	73.14%
39	3/4 Inch	Irrigation	4,820	7,710	2,890	59.95%
40	1 Inch	Irrigation	51,943	85,406	33,463	64.42%
41	1.5 Inch	Irrigation	22,010	36,514	14,504	65.89%
42	2 Inch	Irrigation	243,475	408,081	164,605	67.61%
43	3 Inch	Irrigation	1,175	1,959	783	66.64%
44		**Subtotal**	$ 345,895	$ 578,576	$ 232,681	67.27%
45						
46	3 Inch	Construction	$ 27,266	$ 38,841	$ 11,575	42.45%
47						
48	**Subtotal Revenues before Annualization**		$ 2,017,631	$ 3,251,972	$ 1,234,342	61.18%
49	**Revenue Annualization**		44,664	76,598	31,934	71.50%
50	Other Water Revenues		157,242	157,242	-	0.00%
51	Reconciling Amount H-1 to C-1		(4,394)	(1,075)	3,319	-75.53%
52	**Total of Water Revenues**		$ 2,215,142	$ 3,484,737	$ 1,269,594	57.31%
53						

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

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

Exhibit
Rejoinder Schedule B-1
Page 1
Witness: Bourassa

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

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

Exhibit
Rejoinder Schedule B-2
Page 1
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Proforma Adjustment Amount	Rejoinder Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 20,957,540	4,316,931	$ 25,274,471
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	1,680,847	(312,565)	1,368,282
7				
8				
9	Net Utility Plant			
10	in Service	$ 19,276,692		$ 23,906,188
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	9,334,999	(76,082)	9,258,917
15				
16	Contributions in Aid of			
17	Construction	2,436,455	1,877,809	4,314,264
18				
19	Accumulated Amort of CIAC	(251,796)	-	(251,796)
20				
21				
22	Deferred Income Taxes & Credits	338,625	186,736	525,361
23				
24				
25				
26	**Plus:**			
27	Unamortized Debt Issuance			
28	Costs	-		-
29	Deferred Reg. Assets	-	-	-
30	Working capital	-	-	-
31				
32				
33				
34				
35	Total	$ 7,418,410		$ 10,059,443
36				
37				
38				
39	SUPPORTING SCHEDULES:			RECAP SCHEDULES:
40	Rejoinder B-2, pages 2			Rejoinder B-1
41				
42				
43				
44				
45				
46				
47				
48				

Sahuarita Water Company, LLC
Test Year Ended September 30, 2008
Original Cost Rate Base Proforma Adjustments

Exhibit
Rejoinder Schedule B-2
Page 2
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Proforma Adjustments 1 Plant	2 Accumulated Depr.	3 CIAC	4 AIAC	5 DIT	Rejoinder Adjusted at end of Test Year
1	Gross Utility							
2	Plant in Service	$ 20,957,540	4,316,931					$ 25,274,471
3								
4	**Less:**							
5	Accumulated							
6	Depreciation	1,680,847		(312,565)				1,368,282
7								
8								
9	Net Utility Plant							
10	in Service	$ 19,276,692	$ 4,316,931	$ 312,565	$ -	$ -	$ -	$ 23,906,188
11								
12	**Less:**							
13	Advances in Aid of							
14	Construction	9,334,999				(76,082)		9,258,917
15								
16	Contributions in Aid of							
17	Construction (CIAC)	2,436,455			1,877,809			4,314,264
18								
19	Accumulated Amort of CIAC	(251,796)						(251,796)
20								
21								
22	Deferred Income Taxes & Credits	338,625					186,736	525,361
23								
24								
25	**Plus:**							
26	Unamortized Finance							
27	Charges	-						-
28								
29	Allowance for Working Capital	-						-
30								
31	Total	$ 7,418,410	$ 4,316,931	$ 312,565	$ (1,877,809)	$ 76,082	$ (186,736)	$ 10,059,443
32								
33								
34								
35	SUPPORTING SCHEDULES:						RECAP SCHEDULES:	
36	Rejoinder B-2, pages 3-6						Rejoinder B-1	
37								
38								
39								
40								

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1

Exhibit
Rejoinder Schedule B-2
Page 3
Witness: Bourassa

Line No.	Plant-in-Service			Adjustments						
				A	B	C	D	E	F	
1				PTY Plant						
2			Adjusted	Arsenic	Reclassify	Plant	True-Up	Intentionally	Intentionally	Adjusted
3	Acct.		Orginal	Treatment	Aresnic Media	Not Used and	Costs for	Left	Left	Original
4	No.	Description	Cost	Plant	Costs	Useful	Well #23	Blank	Blank	Cost
5	301	Organization Cost	7,541							7,541
6	302	Franchise Cost	350,861							350,861
7	303	Land and Land Rights	13,636							13,636
8	304	Structures and Improvements	171,671							171,671
9	305	Collecting and Impounding Res.	-							-
10	306	Lake River and Other Intakes	-							-
11	307	Wells and Springs	2,644,666			(236,483)	(65,027)			2,343,156
12	308	Infiltration Galleries and Tunnels	-							-
13	309	Supply Mains	-							-
14	310	Power Generation Equipment	335,668							335,668
15	311	Electric Pumping Equipment	43,912							43,912
16	320	Water Treatment Equipment	18,694	2,686,523	(120,000)					2,585,217
17	320.1	Water Treatment Plant	-							-
18	320.2	Chemical Solution Feeders	-							-
19	330	Dist. Reservoirs & Standpipe	1,811,998							1,811,998
20	330.1	Storage tanks	-							-
21	330.2	Pressure Tanks	-							-
22	331	Trans. and Dist. Mains	10,162,557	2,008,000		(30,250)				12,140,307
23	333	Services	2,081,553			(30,159)				2,051,394
24	334	Meters	1,222,335							1,222,335
25	335	Hydrants	672,037			(15,673)				656,364
26	336	Backflow Prevention Devices	816							816
27	339	Other Plant and Misc. Equip.	0							0
28	340	Office Furniture and Fixtures	283,991							283,991
29	340.1	Computers and Software	-							-
30	341	Transportation Equipment	146,129							146,129
31	342	Stores Equipment	-							-
32	343	Tools and Work Equipment	13,856							13,856
33	344	Laboratory Equipment	132							132
34	345	Power Operated Equipment	-							-
35	346	Communications Equipment	11,818							11,818
36	347	Miscellaneous Equipment	695							695
37	348	Other Tangible Plant	962,974							962,974
38	348.1	Other Tangible Plant - Arsenic Media	-		120,000					120,000
39		TOTALS	$ 20,957,540	$ 4,694,523	$ -	$ (312,565)	$ (65,027)	$ -	$ -	$ 25,274,471
40										
41	Plant-in-Service per Books									$ 20,957,540
42										
43	Increase (decrease) in Plant-in-Service									$ 4,316,931
44										
45	Adjustment to Plant-in-Service									$ 4,316,931
46										
47	SUPPORTING SCHEDULES									
48	Rejoinder B-2, pages 3.1-3.4									
49	Rejoinder B-2, pages 3.5-3.17									

Sahuarita Water Company, LLC
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.5

Account No.	Description	Deprec. Rate Before	Deprec. Rate After	Plant At 12/31/1998	1998 Accum. Depr.	1999 Plant Additions	1999 Plant Adjustments	1999 Adjusted Plant Additions	1999 Plant Retirements	1999 Salvage A/D Only	1999 Plant Balance	1999 Deprec.
301	Organization Cost	0.00%	0.00%	-	-	-		-			-	-
302	Franchise Cost	0.00%	0.00%	-	-	-		-			-	-
303	Land and Land Rights	0.00%	0.00%	-	-	-		-			-	-
304	Structures and Improvements	3.33%	3.33%	-	-	-		-			-	-
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-		-			-	-
306	Lake River and Other Intakes	2.50%	2.50%	-	-	-		-			-	-
307	Wells and Springs	3.33%	3.33%	-	-	-		-			-	-
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-	-	-		-			-	-
309	Supply Mains	2.00%	2.00%	-	-	-		-			-	-
310	Power Generation Equipment	5.00%	5.00%	-	-	-		-			-	-
311	Electric Pumping Equipment	12.50%	12.50%	-	-	-		-			-	-
320	Water Treatment Equipment	3.33%	3.33%	-	-	-		-			-	-
320.1	Water Treatment Equipment	3.33%	3.33%	-	-	-		-			-	-
320.2	Chemical Solution Feeders	20.00%	20.00%	-	-	-		-			-	-
330	Distribution Reservoirs & Standpipe	2.22%	2.22%	-	-	-		-			-	-
330.1	Storage tanks	2.22%	2.22%	-	-	-		-			-	-
330.2	Pressure Tanks	5.00%	5.00%	-	-	-		-			-	-
331	Transmission and Distribution Mains	2.00%	2.00%	-	-	-		-			-	-
333	Services	3.33%	3.33%	-	-	-		-			-	-
334	Meters	8.33%	8.33%	-	-	-		-			-	-
335	Hydrants	2.00%	2.00%	-	-	-		-			-	-
336	Backflow Prevention Devices	6.67%	6.67%	-	-	-		-			-	-
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	-	-	-		-			-	-
340	Office Furniture and Fixtures	6.67%	6.67%	-	-	-		-			-	-
340.1	Computers and Software	20.00%	20.00%	-	-	-		-			-	-
341	Transportation Equipment	20.00%	20.00%	-	-	-		-			-	-
342	Stores Equipment	4.00%	4.00%	-	-	-		-			-	-
343	Tools and Work Equipment	5.00%	5.00%	-	-	-		-			-	-
344	Laboratory Equipment	10.00%	10.00%	-	-	-		-			-	-
345	Power Operated Equipment	5.00%	5.00%	-	-	-		-			-	-
346	Communications Equipment	10.00%	10.00%	-	-	-		-			-	-
347	Miscellaneous Equipment	10.00%	10.00%	-	-	-		-			-	-
348	Other Tangible Plant	10.00%	10.00%	-	-	-		-			-	-
348.1	Other Tangible Plant (Arsenic Media)	67.00%	67.00%			-		-			-	-
	Rounding											
	Plant Held for Future Use											
	TOTAL WATER PLANT			-	-	-	-	-	-	-	-	-

Sahuarita Water Company, LLC
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.6

Account No.	Description	Deprec. Rate Before	Deprec. Rate After	2000 Plant Additions	2000 Plant Adjustments	2000 Plant Adjustments	2000 Adjusted Plant Additions	2000 Plant Retirements	2000 Salvage/Adj. A/D Only	2000 Plant Balance	2000 Deprec.
301	Organization Cost	0.00%	0.00%	210,753			210,753			210,753	-
302	Franchise Cost	0.00%	0.00%	-			-			-	-
303	Land and Land Rights	0.00%	0.00%	-			-			-	-
304	Structures and Improvements	3.33%	3.33%	167,307	(167,307)		-			-	-
305	Collecting and Impounding Res.	2.50%	2.50%	-			-			-	-
306	Lake River and Other Intakes	2.50%	2.50%	-			-			-	-
307	Wells and Springs	3.33%	3.33%	217,088			217,088			217,088	3,615
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-			-			-	-
309	Supply Mains	2.00%	2.00%	-			-			-	-
310	Power Generation Equipment	5.00%	5.00%	-			-			-	-
311	Electric Pumping Equipment	12.50%	12.50%	-			-			-	-
320	Water Treatment Equipment	3.33%	3.33%	-			-			-	-
320.1	Water Treatment Equipment	3.33%	3.33%	-			-			-	-
320.2	Chemical Solution Feeders	20.00%	20.00%	-			-			-	-
330	Distribution Reservoirs & Standpipe	2.22%	2.22%	477,449			477,449			477,449	5,300
330.1	Storage tanks	2.22%	2.22%	-			-			-	-
330.2	Pressure Tanks	5.00%	5.00%	-			-			-	-
331	Transmission and Distribution Mains	2.00%	2.00%	255,547	340,066		595,613			595,613	5,956
333	Services	3.33%	3.33%	172,759	(172,759)		-			-	-
334	Meters	8.33%	8.33%	22,464			22,464			22,464	936
335	Hydrants	2.00%	2.00%	-			-			-	-
336	Backflow Prevention Devices	6.67%	6.67%	-			-			-	-
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	-			-			-	-
340	Office Furniture and Fixtures	6.67%	6.67%	6,837			6,837			6,837	228
340.1	Computers and Software	20.00%	20.00%	-			-			-	-
341	Transportation Equipment	20.00%	20.00%	21,555			21,555			21,555	2,156
342	Stores Equipment	4.00%	4.00%	-			-			-	-
343	Tools and Work Equipment	5.00%	5.00%	4,766			4,766			4,766	119
344	Laboratory Equipment	10.00%	10.00%	-			-			-	-
345	Power Operated Equipment	5.00%	5.00%	-			-			-	-
346	Communications Equipment	10.00%	10.00%	-			-			-	-
347	Miscellaneous Equipment	10.00%	10.00%	-			-			-	-
348	Other Tangible Plant	10.00%	10.00%	-			-			-	-
348.1	Other Tangible Plant (Arsenic Media)	67.00%	67.00%	-			-			-	-
	Rounding										
	Plant Held for Future Use										
	TOTAL WATER PLANT			1,556,525	-	-	1,556,525	-	-	1,556,525	18,309

Sahuarita Water Company, LLC
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.7

Account No.	Description	Deprec. Rate Before	Deprec. Rate After	2001 Plant Additions	2001 Plant Adjustments	2001 Adjusted Plant Additions	2001 Plant Retirements	2001 Salvage A/D Only	2001 Plant Balance	2001 Deprec.
301	Organization Cost	0.00%	0.00%		(203,211)	(203,211)			7,542	-
302	Franchise Cost	0.00%	0.00%		203,211	203,211			203,211	-
303	Land and Land Rights	0.00%	0.00%	-		-			-	-
304	Structures and Improvements	3.33%	3.33%	4,215		4,215			4,215	70
305	Collecting and Impounding Res.	2.50%	2.50%	-		-			-	-
306	Lake River and Other Intakes	2.50%	2.50%	-		-			-	-
307	Wells and Springs	3.33%	3.33%	29,843		29,843			246,931	7,726
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-		-			-	-
309	Supply Mains	2.00%	2.00%	-		-			-	-
310	Power Generation Equipment	5.00%	5.00%	-		-			-	-
311	Electric Pumping Equipment	12.50%	12.50%	-		-			-	-
320	Water Treatment Equipment	3.33%	3.33%	-		-			-	-
320.1	Water Treatment Equipment	3.33%	3.33%	-		-			-	-
320.2	Chemical Solution Feeders	20.00%	20.00%	-		-			-	-
330	Distribution Reservoirs & Standpipe	2.22%	2.22%	-		-			477,449	10,599
330.1	Storage tanks	2.22%	2.22%	-		-			-	-
330.2	Pressure Tanks	5.00%	5.00%	-		-			-	-
331	Transmission and Distribution Mains	2.00%	2.00%	184,600	(172,759)	11,841			607,454	12,031
333	Services	3.33%	3.33%	(172,759)	172,759	-			-	-
334	Meters	8.33%	8.33%	113,157		113,157			135,621	6,584
335	Hydrants	2.00%	2.00%	-		-			-	-
336	Backflow Prevention Devices	6.67%	6.67%	-		-			-	-
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	-		-			-	-
340	Office Furniture and Fixtures	6.67%	6.67%	12,336		12,336			19,173	867
340.1	Computers and Software	20.00%	20.00%	-		-			-	-
341	*Transportation Equipment*	20.00%	20.00%	1,175		1,175			22,730	4,429
342	Stores Equipment	4.00%	4.00%	-		-			-	-
343	Tools and Work Equipment	5.00%	5.00%	-		-			4,766	238
344	Laboratory Equipment	10.00%	10.00%	-		-			-	-
345	Power Operated Equipment	5.00%	5.00%	-		-			-	-
346	Communications Equipment	10.00%	10.00%	-		-			-	-
347	Miscellaneous Equipment	10.00%	10.00%	-		-			-	-
348	Other Tangible Plant	10.00%	10.00%	-		-			-	-
348.1	Other Tangible Plant (Arsenic Media)	67.00%	67.00%	-		-			-	-
	Rounding									
	Plant Held for Future Use									
	TOTAL WATER PLANT			172,567	-	172,567	-	-	1,729,092	42,545

Sahuarita Water Company, LLC
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.8

Account No.	Description	Deprec. Rate Before	Deprec. Rate After	2002 Plant Additions	2002 Plant Adjustments	2002 Adjusted Plant Additions	2002 Plant Retirements	2002 Salvage A/D Only	2002 Plant Balance	2002 Deprec.
301	Organization Cost	0.00%	0.00%	-		-			7,542	-
302	Franchise Cost	0.00%	0.00%	-		-			203,211	-
303	Land and Land Rights	0.00%	0.00%	15,700		15,700			15,700	-
304	Structures and Improvements	3.33%	3.33%	-		-			4,215	140
305	Collecting and Impounding Res.	2.50%	2.50%	-		-			-	-
306	Lake River and Other Intakes	2.50%	2.50%	-		-			-	-
307	Wells and Springs	3.33%	3.33%	-		-			246,931	8,223
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-		-			-	-
309	Supply Mains	2.00%	2.00%	-		-			-	-
310	Power Generation Equipment	5.00%	5.00%	-		-			-	-
311	Electric Pumping Equipment	12.50%	12.50%	-		-			-	-
320	Water Treatment Equipment	3.33%	3.33%	-		-			-	-
320.1	Water Treatment Equipment	3.33%	3.33%	-		-			-	-
320.2	Chemical Solution Feeders	20.00%	20.00%	-		-			-	-
330	Distribution Reservoirs & Standpipe	2.22%	2.22%	-		-			477,449	10,599
330.1	Storage tanks	2.22%	2.22%	-		-			-	-
330.2	Pressure Tanks	5.00%	5.00%	-		-			-	-
331	Transmission and Distribution Mains	2.00%	2.00%	945,147		945,147			1,552,601	21,601
333	Services	3.33%	3.33%	-		-			-	-
334	Meters	8.33%	8.33%	122,534		122,534			258,155	16,401
335	Hydrants	2.00%	2.00%	-		-			-	-
336	Backflow Prevention Devices	6.67%	6.67%	-		-			-	-
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	-		-			-	-
340	Office Furniture and Fixtures	6.67%	6.67%	2,535		2,535			21,708	1,363
340.1	Computers and Software	20.00%	20.00%	-		-			-	-
341	Transportation Equipment	20.00%	20.00%	-		-			22,730	4,546
342	Stores Equipment	4.00%	4.00%	-		-			-	-
343	Tools and Work Equipment	5.00%	5.00%	-		-			4,766	238
344	Laboratory Equipment	10.00%	10.00%	-		-			-	-
345	Power Operated Equipment	5.00%	5.00%	-		-			-	-
346	Communications Equipment	10.00%	10.00%	-		-			-	-
347	Miscellaneous Equipment	10.00%	10.00%	-		-			-	-
348	Other Tangible Plant	10.00%	10.00%	-		-			-	-
348.1	Other Tangible Plant (Arsenic Media)	67.00%	67.00%			-			-	-
	Rounding									
	Plant Held for Future Use									
	TOTAL WATER PLANT			1,085,916	-	1,085,916	-	-	2,815,008	63,112

Sahuarita Water Company, LLC
Plant Additions and Retirements

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Account No.	Description	Deprec. Rate Before	Deprec. Rate After	2003 Plant Additions	2003 Plant Adjustments	2003 Adjusted Plant Additions	2003 Plant Retirements	2003 Salvage A/D Only	2003 Plant Balance	2003 Deprec.
301	Organization Cost	0.00%	0.00%	-		-			7,542	-
302	Franchise Cost	0.00%	0.00%	-		-			203,211	-
303	Land and Land Rights	0.00%	0.00%	-		-			15,700	-
304	Structures and Improvements	3.33%	3.33%		(1)	(1)			4,214	140
305	Collecting and Impounding Res.	2.50%	2.50%	-		-			-	-
306	Lake River and Other Intakes	2.50%	2.50%	-		-			-	-
307	Wells and Springs	3.33%	3.33%	41,429		41,429			288,360	8,913
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-		-			-	-
309	Supply Mains	2.00%	2.00%	-		-			-	-
310	Power Generation Equipment	5.00%	5.00%	-		-			-	-
311	Electric Pumping Equipment	12.50%	12.50%	-		-			-	-
320	Water Treatment Equipment	3.33%	3.33%	-		-			-	-
320.1	Water Treatment Equipment	3.33%	3.33%	-		-			-	-
320.2	Chemical Solution Feeders	20.00%	20.00%	-		-			-	-
330	Distribution Reservoirs & Standpipe	2.22%	2.22%	-		-			477,449	10,599
330.1	Storage tanks	2.22%	2.22%	-		-			-	-
330.2	Pressure Tanks	5.00%	5.00%	-		-			-	-
331	Transmission and Distribution Mains	2.00%	2.00%	192,243		192,243			1,744,844	32,974
333	Services	3.33%	3.33%	-		-			-	-
334	Meters	8.33%	8.33%	177,795		177,795			435,950	28,909
335	Hydrants	2.00%	2.00%	-		-			-	-
336	Backflow Prevention Devices	6.67%	6.67%	-		-			-	-
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	-		-			-	-
340	Office Furniture and Fixtures	6.67%	6.67%	10,216		10,216			31,924	1,789
340.1	Computers and Software	20.00%	20.00%	-		-			-	-
341	Transportation Equipment	20.00%	20.00%	-		-			22,730	4,546
342	Stores Equipment	4.00%	4.00%	-		-			-	-
343	Tools and Work Equipment	5.00%	5.00%	-		-			4,766	238
344	Laboratory Equipment	10.00%	10.00%	-		-			-	-
345	Power Operated Equipment	5.00%	5.00%	-		-			-	-
346	Communications Equipment	10.00%	10.00%	-		-			-	-
347	Miscellaneous Equipment	10.00%	10.00%	-		-			-	-
348	Other Tangible Plant	10.00%	10.00%	-		-			-	-
348.1	Other Tangible Plant (Arsenic Media)	67.00%	67.00%	-		-			-	-
	Rounding									
	Plant Held for Future Use									
	TOTAL WATER PLANT			421,683	(1)	421,682	-	-	3,236,690	88,109

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Account No.	Description	Deprec. Rate Before	Deprec. Rate After	2004 Plant Additions	2004 Plant Adjustments	2004 Adjusted Plant Additions	2004 Plant Retirements	2004 Salvage A/D Only	2004 Plant Balance	2004 Deprec.
301	Organization Cost	0.00%	0.00%	-		-			7,542	-
302	Franchise Cost	0.00%	0.00%	-		-			203,211	-
303	Land and Land Rights	0.00%	0.00%	-		-			15,700	-
304	Structures and Improvements	3.33%	3.33%	-		-			4,214	140
305	Collecting and Impounding Res.	2.50%	2.50%	-		-			-	-
306	Lake River and Other Intakes	2.50%	2.50%	-		-			-	-
307	Wells and Springs	3.33%	3.33%	279,664		279,664			568,024	14,259
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-		-			-	-
309	Supply Mains	2.00%	2.00%	-		-			-	-
310	Power Generation Equipment	5.00%	5.00%	-		-			-	-
311	Electric Pumping Equipment	12.50%	12.50%	-		-			-	-
320	Water Treatment Equipment	3.33%	3.33%	-		-			-	-
320.1	Water Treatment Equipment	3.33%	3.33%	-		-			-	-
320.2	Chemical Solution Feeders	20.00%	20.00%	-		-			-	-
330	Distribution Reservoirs & Standpipe	2.22%	2.22%	-		-			477,449	10,599
330.1	Storage tanks	2.22%	2.22%	-		-			-	-
330.2	Pressure Tanks	5.00%	5.00%	-		-			-	-
331	Transmission and Distribution Mains	2.00%	2.00%	(1)		(1)			1,744,843	34,897
333	Services	3.33%	3.33%	-		-			-	-
334	Meters	8.33%	8.33%	279,898		279,898			715,848	47,972
335	Hydrants	2.00%	2.00%	-		-			-	-
336	Backflow Prevention Devices	6.67%	6.67%	-		-			-	-
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	-		-			-	-
340	Office Furniture and Fixtures	6.67%	6.67%	31,691		31,691			63,615	3,186
340.1	Computers and Software	20.00%	20.00%	-		-			-	-
341	Transportation Equipment	20.00%	20.00%	-		-			22,730	4,546
342	Stores Equipment	4.00%	4.00%	-		-			-	-
343	Tools and Work Equipment	5.00%	5.00%	718		718			5,484	256
344	Laboratory Equipment	10.00%	10.00%	-		-			-	-
345	Power Operated Equipment	5.00%	5.00%	-		-			-	-
346	Communications Equipment	10.00%	10.00%	-		-			-	-
347	Miscellaneous Equipment	10.00%	10.00%	-		-			-	-
348	Other Tangible Plant	10.00%	10.00%	-		-			-	-
348.1	Other Tangible Plant (Arsenic Media)	67.00%	67.00%	-		-			-	-
	Rounding									
	Plant Held for Future Use									
	TOTAL WATER PLANT			591,970	-	591,970	-	-	3,828,660	115,856

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Account No.	Description	Deprec. Rate Before	Deprec. Rate After	2005 Plant Additions	2005 Plant Adjustments	2005 Adjusted Plant Additions	2005 Plant Retirements	2005 Salvage A/D Only	2005 Plant Balance	2005 Deprec.
301	Organization Cost	0.00%	0.00%	-		-			7,542	-
302	Franchise Cost	0.00%	0.00%	-		-			203,211	-
303	Land and Land Rights	0.00%	0.00%	-		-			15,700	-
304	Structures and Improvements	3.33%	3.33%	-		-			4,214	140
305	Collecting and Impounding Res.	2.50%	2.50%	-		-			-	-
306	Lake River and Other Intakes	2.50%	2.50%	-		-			-	-
307	Wells and Springs	3.33%	3.33%	23,015		23,015			591,039	19,298
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-		-			-	-
309	Supply Mains	2.00%	2.00%	-		-			-	-
310	Power Generation Equipment	5.00%	5.00%	-		-			-	-
311	Electric Pumping Equipment	12.50%	12.50%	3,637		3,637			3,637	227
320	Water Treatment Equipment	3.33%	3.33%	6,906		6,906			6,906	115
320.1	Water Treatment Equipment	3.33%	3.33%	-		-			-	-
320.2	Chemical Solution Feeders	20.00%	20.00%	-		-			-	-
330	Distribution Reservoirs & Standpipe	2.22%	2.22%	5,011		5,011			482,460	10,655
330.1	Storage tanks	2.22%	2.22%	-		-			-	-
330.2	Pressure Tanks	5.00%	5.00%	-		-			-	-
331	Transmission and Distribution Mains	2.00%	2.00%	3,076,432	(311,361)	2,765,071			4,509,914	62,548
333	Services	3.33%	3.33%	-	311,361	311,361			311,361	5,184
334	Meters	8.33%	8.33%	195,317		195,317			911,165	67,765
335	Hydrants	2.00%	2.00%	-		-			-	-
336	Backflow Prevention Devices	6.67%	6.67%	-		-			-	-
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	-		-			-	-
340	Office Furniture and Fixtures	6.67%	6.67%	3,777		3,777			67,392	4,369
340.1	Computers and Software	20.00%	20.00%	-		-			-	-
341	*Transportation Equipment*	20.00%	20.00%	33,954		33,954			56,684	7,941
342	Stores Equipment	4.00%	4.00%	-		-			-	-
343	Tools and Work Equipment	5.00%	5.00%	4,762		4,762			10,246	393
344	Laboratory Equipment	10.00%	10.00%	-		-			-	-
345	Power Operated Equipment	5.00%	5.00%	-		-			-	-
346	Communications Equipment	10.00%	10.00%	-		-			-	-
347	Miscellaneous Equipment	10.00%	10.00%	-		-			-	-
348	Other Tangible Plant	10.00%	10.00%	-		-			-	-
348.1	Other Tangible Plant (Arsenic Media)	67.00%	67.00%	-		-			-	-
	Rounding									
	Plant Held for Future Use									
	TOTAL WATER PLANT			3,352,811	-	3,352,811	-	-	7,181,471	178,637

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Account No.	Description	Deprec. Rate Before	Deprec. Rate After	2006 Plant Additions	2006 Plant Adjustments	2006 Adjusted Plant Additions	2006 Plant Retirements	2006 Salvage (A/D Only)	2006 Plant Balance	2006 Deprec.
301	Organization Cost	0.00%	0.00%	-		-			7,542	-
302	Franchise Cost	0.00%	0.00%	-		-			203,211	-
303	Land and Land Rights	0.00%	0.00%	-		-			15,700	-
304	Structures and Improvements	3.33%	3.33%	(167,307)	167,307	-			4,214	105
305	Collecting and Impounding Res.	2.50%	2.50%	-		-			-	-
306	Lake River and Other Intakes	2.50%	2.50%	-		-			-	-
307	Wells and Springs	3.33%	3.33%	6,176		6,176			597,215	14,838
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-		-			-	-
309	Supply Mains	2.00%	2.00%	-		-			-	-
310	Power Generation Equipment	5.00%	5.00%	-	1,549	1,549			1,549	29
311	Electric Pumping Equipment	12.50%	12.50%	8,205		8,205			11,842	726
320	Water Treatment Equipment	3.33%	3.33%	3,657	4,865	8,522			15,428	279
320.1	Water Treatment Equipment	3.33%	3.33%	-		-			-	-
320.2	Chemical Solution Feeders	20.00%	20.00%	-		-			-	-
330	Distribution Reservoirs & Standpipe	2.22%	2.22%	-		-			482,460	8,033
330.1	Storage tanks	2.22%	2.22%	-		-			-	-
330.2	Pressure Tanks	5.00%	5.00%	-		-			-	-
331	Transmission and Distribution Mains	2.00%	2.00%	(144,054)	144,054	-			4,509,914	67,649
333	Services	3.33%	3.33%	1,329,426	(311,361)	1,018,065			1,329,426	20,489
334	Meters	8.33%	8.33%	105,903		105,903			1,017,068	60,233
335	Hydrants	2.00%	2.00%	426,659		426,659			426,659	3,200
336	Backflow Prevention Devices	6.67%	6.67%	345		345			345	9
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	10,434	(10,434)	(0)			(0)	(0)
340	Office Furniture and Fixtures	6.67%	6.67%	4,095		4,095			71,487	3,474
340.1	Computers and Software	20.00%	20.00%	-		-			-	-
341	Transportation Equipment	20.00%	20.00%	64,591		64,591			121,275	13,347
342	Stores Equipment	4.00%	4.00%	-		-			-	-
343	Tools and Work Equipment	5.00%	5.00%	2,613		2,613			12,859	433
344	Laboratory Equipment	10.00%	10.00%	-		-			-	-
345	Power Operated Equipment	5.00%	5.00%	-		-			-	-
346	Communications Equipment	10.00%	10.00%	-	3,321	3,321			3,321	125
347	Miscellaneous Equipment	10.00%	10.00%	-		-			-	-
348	Other Tangible Plant	10.00%	10.00%	-	699	699			699	26
348.1	Other Tangible Plant (Arsenic Media)	67.00%	67.00%	-		-			-	-
	Rounding									
	Plant Held for Future Use									
	TOTAL WATER PLANT			1,650,743	0	1,650,743	-	-	8,832,214	192,994

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Account No.	Description	Deprec. Rate Before	Deprec. Rate After	2007 Plant Additions	2007 Plant Adjustments	2007 Adjusted Plant Additions	2007 Plant Retirements	2007 Salvage (A/D Only)	2007 Plant Balance	2007 Deprec.
301	Organization Cost	0.00%	0.00%	(1)		(1)			7,541	-
302	Franchise Cost	0.00%	0.00%		76,475	76,475			279,686	-
303	Land and Land Rights	0.00%	0.00%	(2,064)		(2,064)			13,636	-
304	Structures and Improvements	3.33%	3.33%	116,300		116,300			120,514	2,077
305	Collecting and Impounding Res.	2.50%	2.50%	-		-			-	-
306	Lake River and Other Intakes	2.50%	2.50%	-		-			-	-
307	Wells and Springs	3.33%	3.33%	203,181		203,181			800,396	23,270
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-		-			-	-
309	Supply Mains	2.00%	2.00%	-		-			-	-
310	Power Generation Equipment	5.00%	5.00%	155,594		155,594			157,143	3,967
311	Electric Pumping Equipment	12.50%	12.50%	30,223		30,223			42,065	3,369
320	Water Treatment Equipment	3.33%	3.33%	2,291		2,291			17,719	552
320.1	Water Treatment Equipment	3.33%	3.33%	-		-			-	-
320.2	Chemical Solution Feeders	20.00%	20.00%	-		-			-	-
330	Distribution Reservoirs & Standpipe	2.22%	2.22%	1,329,538		1,329,538			1,811,998	25,468
330.1	Storage tanks	2.22%	2.22%	-		-			-	-
330.2	Pressure Tanks	5.00%	5.00%	-		-			-	-
331	Transmission and Distribution Mains	2.00%	2.00%	5,631,229	2,003	5,633,232			10,143,146	146,531
333	Services	3.33%	3.33%	752,127		752,127			2,081,553	56,793
334	Meters	8.33%	8.33%	184,973		184,973			1,202,041	92,426
335	Hydrants	2.00%	2.00%	245,378		245,378			672,037	10,987
336	Backflow Prevention Devices	6.67%	6.67%	471		471			816	39
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	141,696	(141,696)	0			(0)	(0)
340	Office Furniture and Fixtures	6.67%	6.67%	126,863		126,863			198,350	8,999
340.1	Computers and Software	20.00%	20.00%	-		-			-	-
341	Transportation Equipment	20.00%	20.00%	24,854		24,854			146,129	26,740
342	Stores Equipment	4.00%	4.00%	-		-			-	-
343	Tools and Work Equipment	5.00%	5.00%	(1,893)		(1,893)			10,966	596
344	Laboratory Equipment	10.00%	10.00%	132		132			132	7
345	Power Operated Equipment	5.00%	5.00%	-		-			-	-
346	Communications Equipment	10.00%	10.00%	8,636		8,636			11,957	764
347	Miscellaneous Equipment	10.00%	10.00%	695		695			695	35
348	Other Tangible Plant	10.00%	10.00%	-	63,218	63,218			63,917	3,231
348.1	Other Tangible Plant (Arsenic Media)	67.00%	67.00%	-		-			-	-
	Rounding									
	Plant Held for Future Use									
	TOTAL WATER PLANT			8,950,223	-	8,950,223	-		17,782,437	405,850

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Account No.	Description	Deprec. Rate Before	Deprec. Rate After	2008 Plant Additions	2008 Plant Adjustments	2008 Adjusted Plant Additions	2008 Plant Retirements	2008 Salvage (A/D Only)	Plant Adjmnts Per Direct	Plant Adjmnts Per Rebuttal	2008 Plant Balance	2008 Deprec.	A/D Adjmnts Per Rebuttal
301	Organization Cost	0.00%	0.00%	-		-					7,541	-	-
302	Franchise Cost	0.00%	0.00%	147,650	(76,475)	71,175					350,861	-	-
303	Land and Land Rights	0.00%	0.00%	-		-					13,636	-	-
304	Structures and Improvements	3.33%	3.33%	51,157		51,157					171,671	4,865	-
305	Collecting and Impounding Res.	2.50%	2.50%	-		-					-	-	-
306	Lake River and Other Intakes	2.50%	2.50%	-		-					-	-	-
307	Wells and Springs	3.33%	3.33%	-		-			1,844,270	(301,510)	2,343,156	26,653	(236,483)
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-		-					-	-	-
309	Supply Mains	2.00%	2.00%	-		-					-	-	-
310	Power Generation Equipment	5.00%	5.00%	180,074	(1,549)	178,525					335,668	12,320	-
311	Electric Pumping Equipment	12.50%	12.50%	1,847		1,847					43,912	5,374	-
320	Water Treatment Equipment	3.33%	3.33%	5,840	(4,865)	976				2,566,523	2,585,217	606	-
320.1	Water Treatment Equipment	3.33%	3.33%	-		-					-	-	-
320.2	Chemical Solution Feeders	20.00%	20.00%	-		-					-	-	-
330	Distribution Reservoirs & Standpipe	2.22%	2.22%	-		-					1,811,998	40,226	-
330.1	Storage tanks	2.22%	2.22%	-		-					-	-	-
330.2	Pressure Tanks	5.00%	5.00%	-		-					-	-	-
331	Transmission and Distribution Mains	2.00%	2.00%	21,414	(2,003)	19,411				1,977,750	12,140,307	203,057	(30,250)
333	Services	3.33%	3.33%	-		-				(30,159)	2,051,394	69,316	(30,159)
334	Meters	8.33%	8.33%	20,294		20,294					1,222,335	100,975	-
335	Hydrants	2.00%	2.00%	-		-				(15,673)	656,364	13,441	(15,673)
336	Backflow Prevention Devices	6.67%	6.67%	-		-					816	54	-
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	(152,130)	152,130	0					0	0	-
340	Office Furniture and Fixtures	6.67%	6.67%	85,641		85,641					283,991	16,086	-
340.1	Computers and Software	20.00%	20.00%	-		-					-	-	-
341	Transportation Equipment	20.00%	20.00%	-		-					146,129	29,226	-
342	Stores Equipment	4.00%	4.00%	-		-					-	-	-
343	Tools and Work Equipment	5.00%	5.00%	2,890		2,890					13,856	621	-
344	Laboratory Equipment	10.00%	10.00%	-		-					132	13	-
345	Power Operated Equipment	5.00%	5.00%	-		-					-	-	-
346	Communications Equipment	10.00%	10.00%	3,182	(3,321)	(139)					11,818	1,189	-
347	Miscellaneous Equipment	10.00%	10.00%	-		-					695	70	-
348	Other Tangible Plant	10.00%	10.00%	962,974	(63,917)	899,057					962,974	51,345	-
348.1	Other Tangible Plant (Arsenic Media)	67.00%	67.00%			-				120,000	120,000	-	-
	Rounding												
	Plant Held for Future Use												
	TOTAL WATER PLANT			1,330,833	-	1,330,833	-		1,844,270	4,316,931	25,274,471	575,436	(312,565)

Sahuarita Water Company, LLC
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.15

Account No.	Description	Deprec. Rate Before	Deprec. Rate After	Year End Accumulated Depreciation by Account 1998	1999	2000	2001	2002	2003
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-
304	Structures and Improvements	3.33%	3.33%	-	-	-	70	211	351
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	2.50%	-	-	-	-	-	-
307	Wells and Springs	3.33%	3.33%	-	-	3,615	11,340	19,563	28,476
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-	-	-	-	-	-
309	Supply Mains	2.00%	2.00%	-	-	-	-	-	-
310	Power Generation Equipment	5.00%	5.00%	-	-	-	-	-	-
311	Electric Pumping Equipment	12.50%	12.50%	-	-	-	-	-	-
320	Water Treatment Equipment	3.33%	3.33%	-	-	-	-	-	-
320.1	Water Treatment Equipment	3.33%	3.33%	-	-	-	-	-	-
320.2	Chemical Solution Feeders	20.00%	20.00%	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.22%	2.22%	-	-	5,300	15,899	26,498	37,098
330.1	Storage tanks	2.22%	2.22%	-	-	-	-	-	-
330.2	Pressure Tanks	5.00%	5.00%	-	-	-	-	-	-
331	Transmission and Distribution Mains	2.00%	2.00%	-	-	5,956	17,987	39,587	72,562
333	Services	3.33%	3.33%	-	-	-	-	-	-
334	Meters	8.33%	8.33%	-	-	936	7,520	23,921	52,830
335	Hydrants	2.00%	2.00%	-	-	-	-	-	-
336	Backflow Prevention Devices	6.67%	6.67%	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	-	-	-	-	-	-
340	Office Furniture and Fixtures	6.67%	6.67%	-	-	228	1,095	2,459	4,247
340.1	*Computers and Software*	20.00%	20.00%	-	-	-	-	-	-
341	Transportation Equipment	20.00%	20.00%	-	-	2,156	6,584	11,130	15,676
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-	-
343	Tools and Work Equipment	5.00%	5.00%	-	-	119	357	596	834
344	Laboratory Equipment	10.00%	10.00%	-	-	-	-	-	-
345	Power Operated Equipment	5.00%	5.00%	-	-	-	-	-	-
346	Communications Equipment	10.00%	10.00%	-	-	-	-	-	-
347	Miscellaneous Equipment	10.00%	10.00%	-	-	-	-	-	-
348	Other Tangible Plant	10.00%	10.00%	-	-	-	-	-	-
348.1	Other Tangible Plant (Arsenic Media)	67.00%	67.00%	-	-	-	-	-	-
	Rounding								
	Plant Held for Future Use			-					
	TOTAL WATER PLANT			-	-	18,309	60,853	123,965	212,074

Sahuarita Water Company, LLC
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.16

Account No.	Description	Deprec. Rate Before	Deprec. Rate After	Year End Accumulated Depreciation by Account 2004	2005	2006	2007	2008
301	Organization Cost	0.00%	0.00%	-	-	-	-	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-
304	Structures and Improvements	3.33%	3.33%	491	632	737	2,814	7,678
305	Collecting and Impounding Res.	2.50%	2.50%	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	2.50%	-	-	-	-	-
307	Wells and Springs	3.33%	3.33%	42,735	62,033	76,871	100,142	(109,688)
308	Infiltration Galleries and Tunnels	6.67%	6.67%	-	-	-	-	-
309	Supply Mains	2.00%	2.00%	-	-	-	-	-
310	Power Generation Equipment	5.00%	5.00%	-	-	29	3,996	16,317
311	Electric Pumping Equipment	12.50%	12.50%	-	227	953	4,322	9,696
320	Water Treatment Equipment	3.33%	3.33%	-	115	394	946	1,552
320.1	Water Treatment Equipment	3.33%	3.33%	-	-	-	-	-
320.2	Chemical Solution Feeders	20.00%	20.00%	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.22%	2.22%	47,697	58,352	66,385	91,854	132,080
330.1	Storage tanks	2.22%	2.22%	-	-	-	-	-
330.2	Pressure Tanks	5.00%	5.00%	-	-	-	-	-
331	Transmission and Distribution Mains	2.00%	2.00%	107,459	170,006	237,655	384,186	556,993
333	Services	3.33%	3.33%	-	5,184	25,673	82,466	121,623
334	Meters	8.33%	8.33%	100,802	168,568	228,801	321,227	422,202
335	Hydrants	2.00%	2.00%	-	-	3,200	14,187	11,955
336	Backflow Prevention Devices	6.67%	6.67%	-	-	9	47	102
339	Other Plant and Miscellaneous Equipment	6.67%	6.67%	-	-	(0)	(0)	(0)
340	Office Furniture and Fixtures	6.67%	6.67%	7,434	11,803	15,276	24,276	40,362
340.1	Computers and Software	20.00%	20.00%	-	-	-	-	-
341	Transportation Equipment	20.00%	20.00%	20,222	28,163	41,510	68,251	97,477
342	Stores Equipment	4.00%	4.00%	-	-	-	-	-
343	Tools and Work Equipment	5.00%	5.00%	1,090	1,484	1,917	2,512	3,133
344	Laboratory Equipment	10.00%	10.00%	-	-	-	7	20
345	Power Operated Equipment	5.00%	5.00%	-	-	-	-	-
346	Communications Equipment	10.00%	10.00%	-	-	125	888	2,077
347	Miscellaneous Equipment	10.00%	10.00%	-	-	-	35	104
348	Other Tangible Plant	10.00%	10.00%	-	-	26	3,257	54,602
348.1	Other Tangible Plant (Arsenic Media)	67.00%	67.00%	-	-	-	-	-
	Rounding							
	Plant Held for Future Use							
	TOTAL WATER PLANT			327,930	506,567	699,561	1,105,411	1,368,282

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

Exhibit
Rejoinder Schedule B-2
Page 3.1
Witness: Bourassa

Line No.			
1	Post Test Year - Arsenic Treatment Plant		
2			
3	Account	Description	Amount
4	320	Aresnic Treament Plant	$ 2,686,523
5	331	Transmission and Distribution Mains	2,008,000
6			
7			
8		Total	$ 4,694,523
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			

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

Exhibit
Rejoinder Schedule B-2
Page 3.2
Witness: Bourassa

Line No.			
1	Reclassify Arsenic Media Costs		
2			
3	Account	Description	Amount
4	320	Arsenic Treament Plant	$ (120,000)
5	348.1	Other Tangible Plant	120,000
6			
7			
8		Total	$ -
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			

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

Exhibit
Rebuttal Schedule B-2
Page 3.3
Witness: Bourassa

Line No.				
1	Plant Not Used and Useful			
2				
3	Account	Description		Amount
4	307	Well#17	$ (194,773)	
5		Less: Pump Motor Used on Well #23	15,000	
6	307	Net cost of Well #17		$ (179,773)
7	307	Well #12		(56,610)
8	307	Well #19		-
9	307	Well #20		(100)
10	331	Transmission and Distribution Mains		(30,250)
11	333	Services		(30,159)
12	335	Hydrants		(15,673)
13				
14				
15		Total		$ (312,565)
16				
17				
18				
19				
20				
21				
22	SUPPORTING SCHEDULE			
23	MSJ Table H-1 (Estancia De Corazon Subdivision)			
24				
25				
26				
27				

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

Exhibit
Rejoinder Schedule B-2
Page 3.4
Witness: Bourassa

Line No.		
1	Post Test Year Plant - Well #23	
2		
3	Costs for Well #23 per Rejoinder Filing	$ 1,779,243
4	Costs for Well #23 per Direct Filing	1,844,270
5		
6		
7		
8	Increase (Decrease) in Plant (Account 307)	$ (65,027)
9		
10		
11		
12		
13		
14		
15	SUPPORTING SCHEDULE	
16	MSJ Table H-1 (Estancia De Corazon Subdivision)	
17		
18		
19		
20		

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2

Exhibit
Rejoinder Schedule B-2
Page 4
Witness: Bourassa

Line No.				A	B	C	D	E	
1	Accumulated Depreciation								
2			Per Books	Plant	Intentionally	Intentionally	Intentionally	Intentionally	Adjusted
3	Acct.		Accum.	Not Used	Left	Left	Left	Left	Accum.
4	No.	Description	Depr.	and Useful	Blank	Blank	Blank	Blank	Depr.
5	301	Organization Cost	-						-
6	302	Franchise Cost	-						-
7	303	Land and Land Rights	-						-
8	304	Structures and Improvements	7,678						7,678
9	305	Collecting and Impounding Res.	-						-
10	306	Lake River and Other Intakes	-						-
11	307	Wells and Springs	126,795	(236,483)					(109,688)
12	308	Infiltration Galleries and Tunnels	-						-
13	309	Supply Mains	-						-
14	310	Power Generation Equipment	16,317						16,317
15	311	Electric Pumping Equipment	9,696						9,696
16	320	Water Treatment Equipment	1,552						1,552
17	320.1	Water Treatment Plant	-						-
18	320.2	Chemical Solution Feeders	-						-
19	330	Dist. Reservoirs & Standpipe	132,080						132,080
20	330.1	Storage tanks	-						-
21	330.2	Pressure Tanks	-						-
22	331	Trans. and Dist. Mains	587,243	(30,250)					556,993
23	333	Services	151,782	(30,159)					121,623
24	334	Meters	422,202						422,202
25	335	Hydrants	27,628	(15,673)					11,955
26	336	Backflow Prevention Devices	102						102
27	339	Other Plant and Misc. Equip.	(0)						(0)
28	340	Office Furniture and Fixtures	40,362						40,362
29	340.1	Computers and Software	-						-
30	341	Transportation Equipment	97,477						97,477
31	342	Stores Equipment	-						-
32	343	Tools and Work Equipment	3,133						3,133
33	344	Laboratory Equipment	20						20
34	345	Power Operated Equipment	-						-
35	346	Communications Equipment	2,077						2,077
36	347	Miscellaneous Equipment	104						104
37	348	Other Tangible Plant	54,602						54,602
38			-						-
39		TOTALS	$ 1,680,847	$ (312,565)	$ -	$ -	$ -	$ -	$ 1,368,282
40									
41	Accumulated Depreciation per Books								$ 1,680,847
42									
43	Increase (decrease) in Accumulated Depreciation								$ (312,565)
44									
45	Adjustment to Plant-in-Service								$ (312,565)
46									
47	SUPPORTING SCHEDULES								
48	Rejoinder B-2, pages 3.1 to 3.12								

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

Exhibit
Rejoinder Schedule B-2
Page 4.1
Witness: Bourassa

Line No.				
1	Plant Not Used and Useful			
2				
3	Account	Description		Amount
4	307	Well#17	($194,773)	
5		Less: Pump Motor Used on Well #23	15,000	
6	307	Net cost of Well #17		$ (179,773)
7	307	Well #12		(56,610)
8	307	Well #19		-
9	307	Well #20		(100)
10	331	Transmission and Distribution Mains (2007)		(30,250)
11	333	Services (2007)		(30,159)
12	335	Hydrants (2007)		(15,673)
13				
14				
15		Total		$ (312,565)
16				
17				
18				
19				
20				
21				
22	SUPPORTING SCHEDULE			
23	MSJ Table H-1 (Estancia De Corazon Subdivision)			
24				
25				
26				
27				

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

Exhibit
Rejoinder Schedule B-2
Page 5
Witness: Bourassa

Line No.			
1	*Contributions-in-Aid of Construction ("CIAC")*		
2			
3			
4			
5	Original WIFA Loan	$	4,694,523
6			
7	Principal Forgiven	$	1,877,809
8			
9	WIFA Loan, net	$	2,816,714
10			
11			
12	Amount transferred to CIAC	$	1,877,809
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			
26			
27			
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33			
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35			
36			

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Original Cost Rate Base Proforma Adjustments
Adjustment 4

Exhibit
Rejoinder Schedule B-2
Page 6
Witness: Bourassa

Line No.			
1	Advances-in-Aid of Construction ("AIAC")		
2			
3			
4			
5	Remove AIAC (Estancia De Corazon subdivision)	$	(76,082)
6			
7			
8			
9			
10			
11			
12	Adjustment to AIAC	$	(76,082)
13			
14			
15			
16	SUPPORTING SCHEDULES		
17	MSJ Table H-1 (Estancia De Corazon Subdivision)		
18			
19			
20			

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Original Cost Rate Base Proforma Adjustments
Adjustment 5

Exhibit
Rejoinder Schedule B-2
Page 7
Witness: Bourassa

Deferred Income Tax as of December 31, 2008

Line No.		Adjusted Book Value	Tax Value	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Tax Rate[5]	Future Tax Asset Current	Future Tax Asset Non Current	Future Tax Liability Current	Future Tax Liability Non Current
6	Plant-in-Service	$ 25,274,471 [1]								
7	Accum. Deprec.	(1,368,282) [1]								
8	CIAC	(10,543,710) [2]								
9	Fixed Assets	$ 13,362,479	$ 9,094,773 [3]	100.0%	$ (4,267,705)	35.26%		-		$ (1,504,725)
10	AIAC		9,258,917 [4]	30.0%	$ 2,777,675 [4]	35.26%		$ 979,364		
12							$ -	$ 979,364	$ -	$ (1,504,725)
14				Net Asset (Liability)			$ (525,361)			
16				DIT Asset (Liability) per Direct			$ (338,625)			
18				Adjustment to DIT			$ 186,736			

1 Adjusted per Rejoinder Schedule B-2, page 2

[2] Tax Basis as of December 31, 2008

24	Unadjusted Cost Basis per 2008 Tax Return (Fiscal Year Ended 12/31/2008)	$ 7,813,696
25	Adjustments:	
26	Land not on tax return depreciation report	(1)
27	Tax accumulated depreciation through 12/31/2008	(1,309,012)
28	Bonus Depreciation/Section 179 deductions through 12/31/2008	(110,105)
29	Post Test Year Plant (Well #23)	1,779,243
30	Post Test Year Plant (arsenic treatment and associated mains less CIAC portion)	2,816,714
31	Bonus Depreciation on Post Test Year Plant (Estimate	(1,148,989)
32	Plant not used and useful (B-2 adjustments	(312,565)
33	Tax accumulated depreication on not used and useful plant	37,673
34	Timing Difference	(471,880)
40	Net tax value as of December 31, 2008	$ 9,094,773

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

44	Gross CIAC per B-2		$ 4,314,264	
45	Less: Pre-1996 CIAC		-	
46	A.A per B-2	$ (251,796)		
47	A.A on Pre-1996 CIAC	-		
48	A.A. on Post 1996 CIAC		(251,796)	
49	Net CIAC before unrealized AIAC			$ 4,062,468
51	Unrealized AIAC Component			
52	Adjusted Net AIAC (see footnote 5 below)		$ 9,258,917	
53	Unrealized AIAC Component % (1-Realized AIAC Component)		70.0%	
54	Addition to CIAC			$ 6,481,242
55	Total realizable CIAC			$ 10,543,710

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

58	AIAC per B-2	$ 9,258,917	
59	Less: Pre-1996 AIAC included for book and tax purposes	-	
60	Net AIAC before unrealized portion		$ 9,258,917
61	Less: Unrealized AIAC (from Note 4, above)		$ (6,481,242)
62	Net realizable AIAC		$ 2,777,675

[5] Effective tax rates Per C-3 schedule

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

Exhibit
Rejoinder Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	126,360
3	Pumping Power (1/24 of Pumping Power)		6,140
4	Purchased Water (1/24 of Purchased Water)		177
5	Prepaid Expenses		2,658
6	Meterials and Supplies		103,909
7			
8			
9	Total Working Capital Allowance	$	239,244
10			
11			
12	Working Capital Requested	$	-
13			
14			
15	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
16	Rejoinder C-1	Rejoinder B-1	
17			

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

Exhibit
Rejoinder Schedule C-1
Page 1
Witness: Bourassa

Line No.		Adjusted Test Year Results	Adjustment	Rejoinder Adjusted Results	Proposed Rate Increase	Rejoinder Adjusted with Rate Increase
1	**Revenues**					
2	Metered Water Revenues	$ 2,057,901	$ -	$ 2,057,901	$ 1,269,594	$ 3,327,495
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	157,242	-	157,242		157,242
5		$ 2,215,143	$ -	$ 2,215,143	$ 1,269,594	$ 3,484,737
6	**Operating Expenses**					
7	Salaries and Wages	$ -	-	$ -		$ -
8	Purchased Water	4,256	-	4,256		4,256
9	Purchased Power	147,364	-	147,364		147,364
10	Fuel for Power Production	-	-	-		-
11	Chemicals	11,866	-	11,866		11,866
12	Repairs and Maintenance	75,423	-	75,423		75,423
13	Materials & Supplies	30,131	-	30,131		30,131
14	Outside Services	770,603	(34,330)	736,273		736,273
15	Water Testing	8,750	1,632	10,382		10,382
16	Rents	13,195	(11,299)	1,896		1,896
17	Transportation Expenses	22,358	-	22,358		22,358
18	Insurance - General Liability	21,111	-	21,111		21,111
19	Insurance - Health and Life	-	-	-		-
20	Reg. Comm. Exp.	-	-	-		-
21	Reg. Comm. Exp. - Rate Case	75,000	-	75,000		75,000
22	Miscellaneous Expense	14,724	-	14,724		14,724
23	Bad Debt Expense	109	-	109		109
24	Depreciation Expense	610,853	123,307	734,160		734,160
25	Taxes Other Than Income	11,602	-	11,602		11,602
26	Property Taxes	122,230	1,697	123,927	-	123,927
27	Income Tax	104,948	(63,193)	41,755	447,639	489,394
28	**Total Operating Expenses**	$ 2,044,524	$ 17,814	$ 2,062,338	$ 447,639	$ 2,509,977
29	**Operating Income**	$ 170,618	$ (17,814)	$ 152,805	$ 821,955	$ 974,760
30	**Other Income (Expense)**					
31	Interest Income	-	-	-		-
32	Other income (loss)	-	-	-		-
33	Interest Expense	-	(76,134)	(76,134)		(76,134)
34	Other Expense	-	-	-		-
35		-	-	-		-
36	**Total Other Income (Expense)**	$ -	$ (76,134)	$ (76,134)	$ -	$ (76,134)
37	**Net Profit (Loss)**	$ 170,618	$ (93,947)	$ 76,671	$ 821,955	$ 898,626
38						
39	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
40	Rejoinder C-1, page 2				Rejoinder A-1	
41						

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

Exhibit
Rejoinder Schedule C-1
Page 2
Witness: Bourassa

Line No.		LABEL>>>>> Adjusted Test Year Results	1 Depreciation Expense	2 Property Taxes	3 Rents - Building	4 Water Testing	5 Outside Services	6 Employee Bonuses	7 Interest Synch.	8 Income Tax	Rejoinder Adjusted Results
1	**Revenues**										
2	Metered Water Revenues	$ 2,057,901									$ 2,057,901
3	Unmetered Water Revenues	-									-
4	Other Water Revenues	157,242									157,242
5		$ 2,215,143	$ -	$ -	$ -	$ -			$ -	$ -	$ 2,215,143
6	**Operating Expenses**										
7	Salaries and Wages	$ -									$ -
8	Purchased Water	4,256									4,256
9	Purchased Power	147,364									147,364
10	Fuel for Power Production	-									-
11	Chemicals	11,866									11,866
12	Repairs and Maintenance	75,423									75,423
13	Materials & Supplies	30,131									30,131
14	Outside Services	770,603					(751)	(33,579)			736,273
15	Water Testing	8,750				1,632					10,382
16	Rents	13,195			(11,299)						1,896
17	Transportation Expenses	22,358									22,358
18	Insurance - General Liability	21,111									21,111
19	Insurance - Health and Life	-									-
20	Reg. Comm. Exp.	-									-
21	Reg. Comm. Exp. - Rate Case	75,000									75,000
22	Miscellaneous Expense	14,724									14,724
23	Bad Debt Expense	109									109
24	Depreciation Expense	610,853	123,307								734,160
25	Taxes Other Than Income	11,602									11,602
26	Property Taxes	122,230		1,697							123,927
27	Income Tax	104,948								(63,193)	41,755
28	**Total Operating Expenses**	$ 2,044,524	$ 123,307	$ 1,697	$ (11,299)	$ 1,632	$ (751)		$ -	$ (63,193)	$ 2,062,338
29	**Operating Income**	$ 170,618	$ (123,307)	$ (1,697)	$ 11,299	$ (1,632)	$ 751		$ -	$ 63,193	$ 152,805
30	**Other Income (Expense)**										
31	Interest Income	-									-
32	Other income (loss)	-									-
33	Interest Expense	-							(76,134)		(76,134)
34	Other Expense	-									-
35		-									-
36	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -	$ -		$ (76,134)	$ -	$ (76,134)
37	**Net Profit (Loss)**	$ 170,618	$ (123,307)	$ (1,697)	$ 11,299	$ (1,632)	$ 751		$ (76,134)	$ 63,193	$ 76,671
38											
39	SUPPORTING SCHEDULES:										
40	Rejoinder C-2, page 1 to X										
41											

RECAP SCHEDULES:
Rejoinder C-1. page 1

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

Exhibit
Rejoinder Schedule C-2
Page 1
Witness: Bourassa

Line No.		Adjustments to Revenues and Expenses						
		1 Depreciation Expense	2 Property Taxes	3 Rent - Building	4 Water Testing	5 Outside Services Beverages	6 Employee Bonuses	Subtotal
1								
2								
3	Revenues							-
4								
5	Expenses	123,307	1,697	(11,299)	1,632	(751)		114,586
6								
7	Operating							
8	Income	(123,307)	(1,697)	11,299	(1,632)	751	-	(114,586)
9								
10	Interest							
11	Expense							-
12	Other							
13	Income /							-
14	Expense							
15								
16	Net Income	(123,307)	(1,697)	11,299	(1,632)	751	-	(114,586)
17								
18		Adjustments to Revenues and Expenses						
19		7	8	9	10	11	12	Subtotal
20		Interest	Income					
21		Syncrhonization	Taxes					
22	Revenues							-
23								
24	Expenses		(63,193)					51,393
25								
26	Operating							
27	Income	-	63,193	-	-	-	-	(51,393)
28								
29	Interest							
30	Expense	(76,134)						(76,134)
31	Other							
32	Income /							-
33	Expense							
34								
35	Net Income	(76,134)	63,193	-	-	-	-	(127,526)

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

Exhibit
Rejoinder Schedule C-2
Page 2
Witness: Bourassa

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

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 2

Exhibit
Rejoinder Schedule C-2
Page 3
Witness: Bourassa

Line No.			
1	Property Taxes:		
2			
3	Adjusted Revenues in year ended 12/31/08	$	2,215,143
4	Adjusted Revenues in year ended 12/31/08		2,215,143
5	Proposed Revenues		3,484,737
6	Average of three year's of revenue	$	2,638,341
7	Average of three year's of revenue, times 2	$	5,276,681
8	Add:		
9	Construction Work in Progess at 10%	$	-
10	Deduct:		
11	Book Value of Transportation Equipment		48,652
12			
13	Full Cash Value	$	5,228,029
14	Assessment Ratio		20%
15	Assessed Value		1,045,606
16	Property Tax Rate		11.8522%
17			
18	Property Tax		123,927
19	Plus: Tax on Parcels		0
20			
21	Total Property Tax at Proposed Rates	$	123,927
22	Adjusted Property Taxes		122,230
23	Change in Property Taxes	$	1,697
24			
25			
26	Adjustment to Revenues and/or Expenses	$	1,697
27			
28			
29			
30			
31			
32			
33			

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 3

Exhibit
Rejoinder Schedule C-2
Page 4
Witness: Bourassa

Line No.			
1	Rent - Building		
2			
3	Remove Test Year Rent Expense	$	(11,299)
4			
5			
6	Increase(decrease) Rent Expense	$	(11,299)
7			
8	Adjustment to Revenue and/or Expense	$	(11,299)
9			
10			
11			
12			
13	SUPPORTING SCHEDULES		
14	Staff Schedule JMM-14		
15			
16			
17			
18			
19			
20			

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

Exhibit
Rejoinder Schedule C-2
Page 5
Witness: Bourassa

Line No.			
1	Water Testing Expense		
2			
3			
4	Addtional Water Testing Expense	$	1,632
5			
6			
7			
8	Increase (decrease) in Water Testing Expense	$	1,632
9			
10			
11	Adjustment to Revenue and/or Expense	$	1,632
12			
13	SUPPORTING SCHEDULES		
14	Staff Schedule JMM-13		
15			
16			
17			
18			
19			
20			

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 5

Exhibit
Rejoinder Schedule C-2
Page 6
Witness: Bourassa

Line No.			
1	Remove beverages costs from Outside Services		
2			
3			
4	Bevarages	$	(751)
5			
6			
7			
8	Increase (decrease) in Outside Services	$	(751)
9			
10			
11	Adjustment to Revenue and/or Expense	$	(751)
12			
13	SUPPORTING SCHEDULES		
14	Staff Schedule JMM-12		
15			
16			
17			
18			
19			
20			

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

Exhibit
Rejoinder Schedule C-2
Page 7
Witness: Bourassa

Line No.			
1	Remove Employee Bonuses		
2			
3			
4	Employee bonuses paid during test year	$	(33,579)
5			
6			
7			
8	Increase (decrease) in Outside Services	$	(33,579)
9			
10			
11	Adjustment to Revenue and/or Expense	$	(33,579)
12			
13			
14			
15	SUPPORTING SCHEDULES		
16	Testimony		
17			
18			
19			
20			
21			
22			

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

Exhibit
Rejoinder Schedule C-2
Page 8
Witness: Bourassa

Line No.			
1	Interest Synchronization		
2			
3			
4	Fair Value Rate Base	$ 10,059,443	
5	Weighted Cost of Debt	0.76%	
6	Interest Expense		$ 76,134
7			
8	Test Year Interest Expense		$ -
9			
10	Increase (decrease) in Interest Expense		76,134
11			
12			
13			
14	Adjustment to Revenue and/or Expense		$ (76,134)
15			
16			
17	Weighted Cost of Debt Computation		

18						Weighted
19			Amount	Percent	Cost	Cost
20	Debt	$	2,816,714	18.02%	4.20%	0.76%
21	Equity	$	12,814,367	81.98%	10.90%	8.94%
22	Total	$	15,631,081	100.00%		9.69%
23						
24						

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 8

Exhibit
Rejoinder Schedule C-2
Page 9
Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjusted with Rate Increase	
1	Income Tax Computation			
2				
3				
4				
5				
6				
7	Income Before Taxes	$ 118,426	$ 1,388,020	
8				
9	Less: Per Exemptions		$ 4,200	
10	Std Deduction		$ 9,354	
11	Arizona Income Before Taxes		$ 1,374,466	
12				
13	ARIZONA INCOME TAXES			
14	Less Than 10,000		-	
15	Less Than 25,000		-	
16	Less Than $50,000		-	
17	Less Than $150,000		-	
18	Over $150,000		60,323	
19	Less Arizona Income Tax		$ 60,323	4.35%
20				
21	Arizona Taxable Income		$ 1,314,143	
22				
23	Arizona Income Taxes		$ 60,323	
24				
25	Federal Income Before Taxes		$ 1,388,020	
26				
27	Less Arizona Income Taxes		$ 60,323	
28				
29	Exemptions		$ 7,300	
30	Std Deduction		$ 11,400	
31				
32	Federal Taxable Income		$ 1,308,997	
33				
34	FEDERAL INCOME TAXES:			
35	10% BRACKET		1,670	
36	15% BRACKET		7,680	
37	25% BRACKET		17,288	Federal
38	28% BRACKET		20,664	Effective
39	33% BRACKET		54,153	Tax
40	35% BRACKET		327,617	Rate
41	Federal Income Taxes		$ 429,071	30.91%
42				
43				
44	Total Income Tax		$ 489,394	
45				
46				
47	Effective Federal and State tax rate		35.26%	
48				
49	Adjusted Test Year Income Taxes at proposed rates	$ 41,755		
50				
51	Adjusted income taxes	$ 104,948		
52				
53	Increase (decrease) to Income Taxes	$ (63,193)		
54				

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 9

Exhibit
Schedule C-2
Page 10
Witness: Bourassa

Line No.			Test Year Book Results		Test Year Adjusted Results		Adjusted with Rate Increase	
1	Income Tax Computation							
2								
3								
4								
5								
6								
7	Taxable Income		$ 275,567		$ 118,426		$ 1,388,020	
8								
9	Taxable Income		$ 275,567		$ 118,426		$ 1,388,020	
10								
11								
12								
13	Income Before Taxes		$ 275,567		$ 118,426		$ 1,388,020	
14								
15	Arizona Income Before Taxes		$ 275,567		$ 118,426		$ 1,388,020	
16								
17	Less Arizona Income Tax		$ 19,201		$ 8,252		$ 96,717	
18	Rate =	6.97%						
19	Arizona Taxable Income		$ 256,365		$ 110,174		$ 1,291,303	
20								
21	Arizona Income Taxes		$ 19,201		$ 8,252		$ 96,717	
22								
23	Federal Income Before Taxes		$ 275,567		$ 118,426		$ 1,388,020	
24								
25	Less Arizona Income Taxes		$ 19,201		$ 8,252		$ 96,717	
26								
27	Federal Taxable Income		$ 256,365		$ 110,174		$ 1,291,303	
28								
29								
30								
31	FEDERAL INCOME TAXES:							
32	15% BRACKET		$ 7,500		$ 7,500		$ 7,500	
33	25% BRACKET		$ 6,250		$ 6,250		$ 6,250	
34	34% BRACKET		$ 8,500	Federal	$ 8,500	Federal	$ 8,500	Federal
35	39% BRACKET		$ 60,982	Effective	$ 3,968	Effective	$ 91,650	Effective
36	34% BRACKET		$ -	Tax	$ -	Tax	$ 325,143	Tax
37				Rate		Rate		Rate
38	Federal Income Taxes		$ 83,232	30.20%	$ 26,218	22.14%	$ 439,043	31.63%
39								
40								
41	Total Income Tax		$ 102,434		$ 34,470		$ 535,760	
42								
43	Overall Tax Rate		37.17%		29.11%		38.60%	
44								
45	Income Tax at Proposed Rates Effective Rate →				$ 45,711			
46								

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Computation of Gross Revenue Conversion Factor

Exhibit
Rejoinder Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	30.912%
2		
3	State Income Taxes	4.346%
4		
5	Other Taxes and Expenses	0.000%
6		
7		
8	Total Tax Percentage	35.26%
9		
10	Operating Income % = 100% - Tax Percentage	64.74%
11		
12		
13		
14		
15	1 = Gross Revenue Conversion Factor	
16	Operating Income %	1.5446
17		
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
19		Rejoinder A-1
20		

Sahuarita Water Company
Test Year Ended December 31, 2008
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Rejoinder Schedule H-1
Page 1
Witness: Bourassa

Line No.	Meter Size	Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8x3/4 Inch	Residential	$ 1,314,948	$ 2,118,206	$ 803,258	61.09%	65.17%	65.14%
2	3/4 Inch	Residential	197,019	300,740	103,721	52.65%	9.76%	9.25%
3	1 Inch	Residential	34,678	53,211	18,534	53.45%	1.72%	1.64%
4								
5		Subtotal	1,546,644	2,472,157	925,513	59.84%	76.66%	76.02%
6								
7	1 Inch	Commercial	899	1,449	550	61.18%	0.04%	0.04%
8	2 Inch	Commercial	75,830	126,423	50,593	66.72%	3.76%	3.89%
9	3 Inch	Commercial	6,502	10,627	4,125	63.43%	0.32%	0.33%
10								
11		Subtotal	$ 83,231	$ 138,499	$ 55,268	66.40%	4.13%	4.26%
12								
13	1 Inch	Public Authority	$ 761	$ 1,220	$ 459	60.30%	0.04%	0.04%
14	2 Inch	Public Authority	13,833	22,679	8,846	63.95%	0.69%	0.70%
15								
16		Subtotal	14,595	23,900	9,305	63.76%	0.72%	0.73%
17								
18	5/8x3/4 Inch	Irrigation	$ 22,472	$ 38,907	$ 16,435	73.14%	1.11%	1.20%
19	3/4 Inch	Irrigation	4,820	7,710	2,890	59.95%	0.24%	0.24%
20	1 Inch	Irrigation	51,943	85,406	33,463	64.42%	2.57%	2.63%
21	1.5 Inch	Irrigation	22,010	36,514	14,504	65.89%	1.09%	1.12%
22	2 Inch	Irrigation	243,475	408,081	164,605	67.61%	12.07%	12.55%
23	3 Inch	Irrigation	1,175	1,959	783	66.64%	0.06%	0.06%
24								
25		Subtotal	345,895	578,576	232,681	67.27%	17.14%	17.79%
26								
27								
28	3 Inch	Construction	27,266	38,841	11,575	42.45%	1.35%	1.19%
29								
30		Subtotal	27,266	38,841	11,575	42.45%	1.35%	1.19%
31								
32	Total Revenues Before Annualization		$ 2,017,631	$ 3,251,972	$ 1,234,342	61.18%	100.00%	100.00%
33								
34								
35								
36								
37								
38								

Sahuarita Water Company
Test Year Ended December 31, 2008
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Rejoinder Schedule H-1
Page 2
Witness: Bourassa

Line No.	Meter Size	Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Additional Bills	Additional Gallons to be Pumped (In 1,000's)	
1				Revenue Annualization					
5	5/8x3/4 Inch	Residential	$ 42,154	$ 68,811	26,657	63.24%	1,553	8,429	C-2, pg 5.1
6	3/4 Inch	Residential	3,740	5,730	1,990	53.23%	105	551	C-2, pg. 5.2
7	1 Inch	Residential	(579)	(901)	(323)	0.00%	(11)	(67)	C-2, pg. 5.3
9		Subtotal	$ 45,315	$ 73,640	$ 28,324	62.51%	1,647	8,913	
11	1 Inch	Commercial	594	966	372	62.53%	9	99	C-2, pg. 5.4
12	2 Inch	Commercial	16,447	27,095	10,648	64.74%	31	4,675	C-2, pg. 5.5
13	3 Inch	Commercial	-	-	-	0.00%	-	-	
14					-				
15		Subtotal	$ 17,042	$ 28,061	$ 67,668	397.07%	40	4,774	
17	1 Inch	Public Authority	-	-	-	0.00%	-	-	
18	2 Inch	Public Authority	-	-	-	0.00%	-	-	
20		Subtotal	$ -	$ -	$ -	0.00%	-	-	
22	5/8x3/4 Inch	Irrigation	$ 159	$ 277	118	74.55%	-	-	C-2, pg. 5.6
23	3/4 Inch	Irrigation	645	1,059	414	64.24%	14	127	C-2, pg. 5.7
24	1 Inch	Irrigation	2,395	3,859	1,464	61.13%	23	572	C-2, pg. 5.8
25	1.5 Inch	Irrigation	-	-	-	0.00%	-	-	
26	2 Inch	Irrigation	(5,387)	(8,881)	(3,494)	0.00%	(10)	(1,538)	C-2, pg. 5.9
27	3 Inch	Irrigation	2,025	3,491	1,466	72.37%	9	-	
29		Subtotal	(164)	(195)	(32)	0.00%	36	(839)	
32	3 Inch	Construction	(17,530)	(24,907)	(7,378)	0.00%	(42)	(1,795)	C-2, pg. 5.10
34		Subtotal	(17,530)	(24,907)	(7,378)	0.00%	(42)	(1,795)	
37	Total Revenue Annualization		$ 44,664	$ 76,598	$ 88,583	198.33%	$ 1,681	11,053	

Sahuarita Water Company
Test Year Ended December 31, 2008
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Rejoinder Schedule H-1
Page 3
Witness: Bourassa

Line No.		Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1							
2							
3	Subtotal Metered Revenues	$ 2,017,631	$ 3,251,972	$ 1,234,342	61.18%	100.00%	100.00%
4	Subtotal Revenue Annualization	44,664	76,598	31,934	71.50%	2.21%	2.36%
5	Total Metered Revenues	$ 2,062,294	$ 3,328,570	$ 1,266,275	61.40%		
6							
7	Misc. Revenues	$ 157,242	$ 157,242	-	0.00%	7.79%	4.84%
8	Reconciling Amount to GL/C-1	(4,394)	(1,075)	3,319	0.00%	-0.22%	-0.03%
9	Total Water Revenues	$ 2,215,142	$ 3,484,737	$ 1,269,594	57.31%	0.00%	0.00%
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
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32							
33							
34							
35							
36							
37							
38							
39							
40							

41
42

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

Exhibit
Rejoinder Schedule H-2
Page 2
Witness: Bourassa

Line No.		Meter Size, Class	(a) Average Number of Customers at 12/31/2008	Average Consumption	Average Bill Present Rates	Average Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	5/8x3/4 Inch	Residential	3,913	5,424	$ 27.12	$ 44.29	17.17	63.32%
2	3/4 Inch	Residential	421	6,142	37.69	57.96	20.27	53.79%
3	1 Inch	Residential	52	6,957	54.93	84.95	30.02	54.65%
4								
5		Subtotal	4,386					
6								
7	1 Inch	Commercial	1	8,467	59.08	96.58	37.50	63.47%
8	2 Inch	Commercial	13	128,857	470.16	768.43	298.28	63.44%
9	3 Inch	Commercial	1	116,750	541.86	884.03	342.17	63.15%
10								
11		Subtotal	16					
12								
13	1 Inch	Public Authority	1	9,667	62.38	101.68	39.30	63.00%
14	2 Inch	Public Authority	8	9,958	143.19	236.24	93.06	64.99%
15								
16		Subtotal	9					
17								
18	5/8x3/4 Inch	Irrigation	11	56,939	$ 168.38	$ 292.05	123.67	73.44%
19	3/4 Inch	Irrigation	9	8,236	43.45	71.36	27.91	64.25%
20	1 Inch	Irrigation	40	26,025	107.37	171.77	64.40	59.98%
21	1.5 Inch	Irrigation	9	48,130	203.16	325.75	122.59	60.34%
22	2 Inch	Irrigation	39	147,745	522.10	859.09	337.00	64.55%
23	3 Inch	Irrigation	0	61,667	390.38	649.92	259.54	66.48%
24								
25		Subtotal	108					
26								
27								
28	3 Inch	Construction	6	41,803	413.11	588.49	175.38	42.45%
29								
30		Subtotal	6					
31								
32		Total	4,524					
33								

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

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

Exhibit
Rejoinder Schedule H-2
Page 2
Witness: Bourassa

Line No.		Meter Size, Class	(a) Average Number of Customers at 12/31/2008	Median Consumption	Median Bill Present Rates	Median Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	5/8x3/4 Inch	Residential	3,913	5,000	$ 26.25	$ 42.49	16.24	61.87%
2	3/4 Inch	Residential	421	5,000	35.25	53.86	18.61	52.79%
3	1 Inch	Residential	52	6,000	52.30	81.60	29.30	56.02%
4								
5								
6		Subtotal	4,386					
7								
8	1 Inch	Commercial	1	9,000	60.55	98.85	38.30	63.25%
9	2 Inch	Commercial	13	78,000	330.30	525.42	195.12	59.07%
10	3 Inch	Commercial	1	134,500	590.68	959.47	368.79	62.44%
11								
12		Subtotal	16					
13								
14	1 Inch	Public Authority	1	9,000	59.18	96.73	37.55	63.46%
15	2 Inch	Public Authority	8	13,375	132.30	219.42	87.12	65.85%
16								
17		Subtotal	9					
18								
19	5/8x3/4 Inch	Irrigation	11	5,000	$ 26.25	$ 45.49	19.24	73.30%
20	3/4 Inch	Irrigation	9	3,000	31.15	49.11	17.96	57.66%
21	1 Inch	Irrigation	40	59,000	198.05	330.05	132.00	66.65%
22	1.5 Inch	Irrigation	9	22,500	132.68	216.83	84.15	63.43%
23	2 Inch	Irrigation	39	68,000	302.80	482.92	180.12	59.48%
24	3 Inch	Irrigation	0	9,000	245.55	426.09	180.54	73.52%
25								
26		Subtotal	108					
27								
28								
29	3 Inch	Construction	6	4,500	245.25	409.44	164.19	66.95%
30								
31		Subtotal	6					
32								
33		Total	4,524					
34								

35 (a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.
36

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

Exhibit
Rejoinder Schedule H-3
Page 1
Witness: Bourassa

Line No.	Monthly Usage Charge for:	Present Rates	Proposed Rates	Change	Percent Change
1	Meter Size (All Classes):				
2	5/8x3/4Inch	$ 16.00	$ 24.24	$ 8.24	51.50%
2	3/4 Inch	25.00	36.36	11.36	45.44%
3	1 Inch	40.00	60.60	20.60	51.50%
4	1 1/2 Inch	75.00	121.20	46.20	61.60%
5	2 Inch	120.00	193.92	73.92	61.60%
6	3 Inch	225.00	387.84	162.84	72.37%
7	4 Inch	375.00	606.00	231.00	61.60%
8	6 Inch	750.00	1,212.00	462.00	61.60%
9					
10					
11					
12	Gallons In Minimum (All Classes)	-	-		
13					
14			(Per 1,000 gallons)		
15			Present	Proposed	
16	Commodity Rates	Block	Rate	Rate	
17					
18	5/8 Inch (All Classes, except Standpipe/Const.)	1 gallons to 6,000 gallons	$ 2.05		
19		over 6,000 gallons	$ 2.75		
20					
21	5/8 Inch - Residential	0 gallons to 4,000 gallons		$ 3.50	
22		4,001 to 10,000 gallons		$ 4.25	
23		over 10,000 gallons		$ 4.80	
24					
25	5/8 Inch - Commercial/Irrigation	0 gallons to 10,000 gallons		$ 4.25	
26		Over 10,000 gallons		$ 4.80	
27					
28	3/4 Inch Meter (All Classes, except Standpipe/Const.)	1 gallons to 6,000 gallons	$ 2.05		
29		Over 6,000 gallons	$ 2.75		
30					
31	3/4 Inch Meter - Residential	1 gallons to 6,000 gallons		$ 3.50	
32		6,001 to 15,000 gallons		$ 4.25	
33		Over 15,000 gallons		$ 4.80	
34					
35	3/4 Inch - Commercial, Irrigation	0 gallons to 15,000 gallons		$ 4.25	
36		Over 15,000 gallons		$ 4.80	
37					
38					
39					
40					
41					
42					
43					
44					

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

Exhibit
Rejoinder Schedule H-3
Page 2
Witness: Bourassa

Line No.	Commodity Rates	Block	Present Rate (Per 1,000 gallons)	Proposed Rate (Per 1,000 gallons)
5	1 Inch Meter (All Classes, except Standpipe/Const.)	1 gallons to 6,000 gallons	$ 2.05	
6		Over 6,000 gallons	$ 2.75	
8	1 Inch Meter Residential	0 gallons to 10,000 gallons		$ 3.50
9		10,001 to 25,000 gallons		$ 4.25
10		Over 25,000 gallons		$ 4.80
12	1 Inch Meter Commercial/Irrigation	0 gallons to 25,000 gallons		$ 4.25
13		Over 25,000 gallons		$ 4.80
15	1.5 Inch Meter (All Classes, except Standpipe/Const.)	1 gallons to 6,000 gallons	$ 2.05	
16		over 6,000 gallons	$ 2.75	
18	1.5 Inch Meter (All Classes, except Standpipe/Const.)	0 gallons to 50,000 gallons		$ 4.25
19		over 50,000 gallons		$ 4.80
22	2 Inch Meter (All Classes, except Standpipe/Const.)	1 gallons to 6,000 gallons	$ 2.05	
23		over 6,000 gallons	$ 2.75	
25	2 Inch Meter (All Classes, except Standpipe/Const.)	0 gallons to 80,000 gallons		$ 4.25
26		*over 80,000 gallons*		$ 4.80
28	3 Inch Meter (All Classes, except Standpipe/Const.)	0 gallons to 6,000 gallons	$ 2.05	
29		over 6,000 gallons	$ 2.75	
31	3 Inch Meter (All Classes, except Standpipe/Const.)	0 gallons to 160,000 gallons		$ 4.25
32		over 160,000 gallons		$ 4.80
34	4 Inch Meter (All Classes, except Standpipe/Const.)	1 gallons to 6,000 gallons	$ 2.05	
35		over 6,000 gallons	$ 2.75	
37	4 Inch Meter (All Classes, except Standpipe/Const.)	1 gallons to 250,000 gallons		$ 4.25
38		over 250,000 gallons		$ 4.80

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

Exhibit
Rejoinder Schedule H-3
Page 3
Witness: Bourassa

Line No.	Commodity Rates	Block	(Per 1,000 gallons) Present Rate	Proposed Rate
1				
2				
3	**Commodity Rates**	**Block**	**Present Rate**	**Proposed Rate**
4	6 Inch Meter (All Classes, except Standpipe/Const.)	1 gallons to 6,000 gallons	$ 2.05	
5		over 6,000 gallons	$ 2.75	
6				
7	6 Inch Meter (All Classes, except Standpipe/Const.)	0 gallons to 500,000 gallons		$ 4.25
8		over 500,000 gallons		$ 4.80
9				
10				
11				
12	Standpipe (Construction)	All gallons	$ 4.50	$ 4.80
13				
14				
15				
16				
17				
18				
19				
20				
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Sahuarita Water Company
Changes in Representative Rate Schedules
Test Year Ended December 31, 2008

Exhibit
Rebuttal Schedule H-3
Page 4
Witness: Bourassa

Line No.	Other Service Charges	Present Rates	Proposed Rates
1			
2			
3	Establishment	$ 25.00	$ 25.00
4	Establishment (After Hours)	$ 40.00	$ 40.00
5	Reconnection (Delinquent)	$ 25.00	$ 25.00
6	Reconnection (Delinquent) - After Hours	NT	$ 40.00
7	NSF Check	$ 15.00	$ 15.00
8	Meter test (If Correct)	$ 25.00	$ 25.00
9	Meter Reread (if Correct)	$ 15.00	$ 15.00
10	Deposit	*	*
11	Deposit Interest**	6%	1%
12	Reestablishment (within 12 months)	***	***
13	Late Payment Penalty	$ 5.00	$5.00 or 1.5% per month
14	Deferred Payment	1.5% per month	1.5% per month
15	Moving Meter at Customer Request	At Cost	At Cost
16	Main Extension & Addnl Facilities	At Cost	At Cost
17			
18			
19			
20			
21			
22			

23 * Per Commission Rule A.A.C. R-14-2-403(B)
24 ** Per Commission Rule A.A.C. R-14-2-403(B)
25 *** Per Commission Rule A.A.C. R14-2-403(D) - Months off the system times the monthly minimum.
26
27
28
29 IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM
30 ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE
31 TAX AND INCOME TAX. PER COMMISSION RULE 14-2-409D(5).
32
33
34
35
36

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

Exhibit
Rebuttal Schedule H-3
Page 5
Witness: Bourassa

Refundable Meter and Service Line Charges

Line No.		Present Service Line Charge	Present Meter Install-ation Charge	Total Present Charge	Proposed Service Line Charge[1]	Proposed Meter Install-ation Charge[1]	Total Proposed Charge[1]
9	5/8 x 3/4 Inch			NT	$ 445	$ 155	$ 600
10	3/4 Inch			NT	$ 445	$ 255	$ 700
11	1 Inch			NT	$ 495	$ 315	$ 810
12	1 1/2 Inch			NT	$ 550	$ 525	$ 1,075
13	2 Inch - Turbine			$ 998	$ 830	$ 1,045	$ 1,875
14	2 Inch - Compound			$ 1,488	$ 830	$ 1,890	$ 2,720
15	3 Inch - Turbine			$ 1,378	$ 1,045	$ 1,670	$ 2,715
16	3 Inch - Compound			$ 1,928	$ 1,165	$ 2,545	$ 3,710
17	4 Inch - Turbine			$ 2,208	$ 1,490	$ 2,670	$ 4,160
18	4 Inch - Compound			$ 2,823	$ 1,670	$ 3,645	$ 5,315
19	6 inch - Turbine			$ 4,218	$ 2,210	$ 5,025	$ 7,235
20	6 inch - Compound			$ 5,498	$ 2,330	$ 6,920	$ 9,250
21	8 Inch			NT	At Cost	At Cost	At Cost
22	10 Inch			NT	At Cost	At Cost	At Cost
23	12 Inch			NT	At Cost	At Cost	At Cost

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

Exhibit
Rebuttal Schedule H-3
Page 6
Witness: Bourassa

Line No.			
1			
2	**Off-site Facilities Hook-up Fee**		
3			
4		Present	Proposed
5		Charge	Charge
6	5/8 x 3/4 Inch	$ 350	$ 350
7	3/4 Inch	420	420
8	1 Inch	700	700
9	1 1/2 Inch	1,400	1,400
10	2 Inch	2,240	2,240
11	3 Inch	4,200	4,200
12	4 Inch	7,000	7,000
13	6 Inch or larger	14,000	14,000
14			
15			
16			
17			
18			
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34			
35			
36			

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

THOMAS J. BOURASSA
REJOINDER TESTIMONY
(COST OF SERVICE)
July 12, 2010

SCHEDULES

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Cost of Service Study, Using Commodity Demand Method
Summary by Customer Class - Present and Proposed Rates

Exhibit
Rejoinder Schedule G-0
Page 1
Witness: Bourassa

Line No.	Class	Meter Size	Rate Base	Present Rates Operating Income	Present Rates Rate of Return	Company Proposed Rates Operating Income	Company Proposed Rates Rate of Return
1							
2							
3							
4							
5	Residential	5/8x3/4 Inch	$ 7,676,258	$ 16,414	0.21%	$ 557,097	7.26%
6		3/4 Inch	1,066,817	9,689	0.91%	78,680	7.38%
7		1 Inch	181,512	1,740	0.96%	13,596	7.49%
8							
9	Residential		$ 8,924,587	$ 27,843	0.31%	$ 649,374	7.28%
10							
11	Commercial	1 Inch	$ 7,062	$ 192	2.72%	$ 785	11.12%
12		2 Inch	194,029	29,137	15.02%	67,918	35.00%
13		3 Inch	20,850	1,350	6.48%	3,983	19.10%
14							
15	Commercial		$ 221,942	$ 30,679	13.82%	$ 72,686	32.75%
16							
17	Public Authority	1 Inch	$ 3,599	$ 74	2.04%	$ 370	10.28%
18		2 Inch	84,805	(24)	-0.03%	5,706	6.73%
19							
20	Public Authority		$ 88,405	$ 50	0.06%	$ 6,076	6.87%
21							
22	Irrigation	5/8x3/4 Inch	$ 29,736	$ 7,816	26.28%	$ 18,271	61.44%
23		3/4 Inch	25,005	634	2.53%	2,767	11.06%
24		1 Inch	161,083	12,515	7.77%	34,796	21.60%
25		1.5 Inch	61,566	5,230	8.49%	14,465	23.50%
26		2 Inch	486,202	69,307	14.25%	171,445	35.26%
27		3 Inch	19,273	11	0.06%	1,462	7.58%
28							
29	Irrigation		$ 782,865	$ 95,512	12.20%	$ 243,205	31.07%
30							
31	Constuction		$ 41,644	$ 677	1.63%	$ 3,419	8.21%
32							
33							
34							
35	Total		$ 10,059,443	$ 154,762	1.54%	$ 974,760	9.69%
36							
37							

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

Exhibit
Rejoinder Schedule G-1
Page 1
Witness: Bourassa

Line No.		Totals	Residential 5/8" x 3/4"	Residential 3/4"	Residential 1"	Commercial 1"	Commercial 2"	Commercial 3"	Public Authority 1"	Public Authority 2"
1										
2	Water Revenues	$ 2,017,631	$ 1,314,948	$ 197,019	$ 34,678	$ 899	$ 75,830	$ 6,502	$ 761	$ 13,833
3	Revenue Annualizations	44,664	42,154	3,740	(579)	594	16,447	-	-	-
4	Misc. Revenues[1]	157,242	136,272	14,497	1,719	67	539	34	34	270
5	Reconcilation H-1 to C-1[1]	(4,394)	(3,808)	(405)	(48)	(2)	(15)	(1)	(1)	(8)
6	Total Revenues	$ 2,215,142	$ 1,489,566	$ 214,850	$ 35,770	$ 1,559	$ 92,801	$ 6,535	$ 794	$ 14,095
7										
8	Operating Expenses[2]	$ 1,162,496	$ 869,369	$ 111,636	$ 17,557	$ 655	$ 27,371	$ 2,389	$ 369	$ 6,252
9	Depreciation and									
10	Amortization[2]	734,160	541,545	80,688	14,287	555	17,097	1,826	284	7,415
11	Property Tax[3]	123,927	83,334	12,020	2,001	87	5,192	366	44	789
12	Income Tax[4]	41,755	(21,097)	817	185	70	14,004	604	23	(337)
13	Total Operating Expenses	$ 2,062,338	$ 1,473,152	$ 205,161	$ 34,030	$ 1,367	$ 63,664	$ 5,185	$ 720	$ 14,119
14	Operating Income	$ 152,804	$ 16,414	$ 9,689	$ 1,740	$ 192	$ 29,137	$ 1,350	$ 74	$ (24)
15	Interest Expense[5]	70,308	58,097	8,074	1,374	53	1,468	158	27	642
16	Net Income	$ 82,497	$ (41,682)	$ 1,615	$ 366	$ 138	$ 27,669	$ 1,192	$ 46	$ (665)
17										

18		Irrigation 5/8"	Irrigation 3/4"	Irrigation 1"	Irrigation 1.5"	Irrigation 2"	Irrigation 3"	Construction 3"
19								
20	Water Revenues	$ 22,472	$ 4,820	$ 51,943	$ 22,010	$ 243,475	$ 1,175	$ 27,266
21	Revenue Annualizations	159	645	2,395	-	(5,387)	2,025	(17,530)
22	Misc. Revenues[1]	371	337	1,416	303	1,281	34	67
23	Reconcilation H-1 to C-1[1]	(10)	(9)	(40)	(8)	(36)	(1)	(2)
24	Total Revenues	$ 22,991	$ 5,793	$ 55,714	$ 22,305	$ 239,333	$ 3,233	$ 9,802
25								
26	Operating Expenses[2]	$ 7,751	$ 2,715	$ 21,522	$ 8,275	$ 80,459	$ 1,430	$ 4,745
27	Depreciation and							
28	Amortization[2]	2,295	1,895	12,843	5,142	42,961	1,680	3,647
29	Property Tax[3]	1,286	324	3,117	1,248	13,390	181	548
30	Income Tax[4]	3,842	225	5,717	2,411	33,217	(68)	183
31	Total Operating Expenses	$ 15,175	$ 5,159	$ 43,199	$ 17,076	$ 170,026	$ 3,222	$ 9,124
32	Operating Income	$ 7,816	$ 634	$ 12,515	$ 5,230	$ 69,307	$ 11	$ 677
33	Interest Expense[5]	-	-	-	-	-	-	-
34	Net Income	$ 7,816	$ 634	$ 12,515	$ 5,230	$ 69,307	$ 11	$ 677
35								

36		Residential 5/8" x 3/4"	Residential 3/4"	Residential 1"	Commercial 1"	Commercial 2"	Commercial 3"	Public Authority 1"	Public Authority 2"
37									
38									
39	**Rate Base[6]**	$ 10,059,443	$ 7,676,258	$ 1,066,817	$ 181,512	$ 7,062	$ 194,029	$ 20,850	$ 3,599	$ 84,805
40	***Return on Rate Base[7]***	1.52%	0.21%	0.91%	0.96%	2.72%	15.02%	6.48%	2.04%	-0.03%
41										

42		Irrigation 5/8"	Irrigation 3/4"	Irrigation 1"	Irrigation 1.5"	Irrigation 2"	Irrigation 3"	Construction 3"
43								
44								
45	**Rate Base[6]**	$ 29,736	$ 25,005	$ 161,083	$ 61,566	$ 486,202	$ 19,273	$ 41,644
46	**Return on Rate Base[7]**	26.28%	2.53%	7.77%	8.49%	14.25%	0.06%	1.63%
47								

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

Exhibit
Rejoinder Schedule G-1
Page 2
Witness: Bourassa

Line No.		Residential 5/8" x 3/4"	Residential 3/4"	Residential 1"	Commercial 1"	Commercial 2"	Commercial 3"	Public Authority 1"	Public Authority 2"
8	**Percent of Total Customers**	86.66%	9.22%	1.09%	0.04%	0.34%	0.02%	0.02%	0.17%

	Irrigation 5/8"	Irrigation 3/4"	Irrigation 1"	Irrigation 1.5"	Irrigation 2"	Irrigation 3"	Construction 3"
	0.24%	0.21%	0.90%	0.19%	0.81%	0.02%	0.04%

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

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

Exhibit
Rejoinder Schedule G-2
Page 1
Witness: Bourassa

Line No.		Totals	Residential 5/8" x 3/4"	Residential 3/4"	Residential 1"	Commercial 1"	Commercial 2"	Commercial 3"	Public Authority 1"	Public Authority 2"
3	Water Revenues	$ 3,251,972	$ 2,118,206	$ 300,740	$ 53,211	$ 1,449	$ 126,423	$ 10,627	$ 1,220	$ 22,679
4	Revenue Annualizations	76,598	68,811	5,730	(901)	966	27,095	-	-	-
5	Misc. Revenues[1]	157,242	136,272	14,497	1,719	67	539	34	34	270
6	Reconcilation H-1 to C-1[1]	(1,075)	(932)	(99)	(12)	(0)	(4)	(0)	(0)	(2)
7	Total Revenues	$ 3,484,737	$ 2,322,357	$ 320,868	$ 54,018	$ 2,482	$ 154,053	$ 10,661	$ 1,254	$ 22,947
9	Operating Expenses[2]	$ 1,162,496	$ 869,369	$ 111,636	$ 17,557	$ 655	$ 27,371	$ 2,389	$ 369	$ 6,252
10	Depreciation and									
11	Amortization[2]	734,160	541,545	80,688	14,287	555	17,097	1,826	284	7,415
12	Property Tax[3]	123,927	82,590	11,411	1,921	88	5,479	379	45	816
13	Income Tax[4]	489,394	271,756	38,452	6,656	399	36,189	2,083	187	2,758
14	Total Operating Expenses	$ 2,509,977	$ 1,765,261	$ 242,187	$ 40,421	$ 1,697	$ 86,135	$ 6,678	$ 884	$ 17,241
15	Operating Income	$ 974,760	$ 557,097	$ 78,680	$ 13,596	$ 785	$ 67,918	$ 3,983	$ 370	$ 5,706
16	Interest Expense[5]	76,134	58,097	8,074	1,374	53	1,468	158	27	642
17	Net Income	$ 898,626	$ 499,000	$ 70,606	$ 12,223	$ 732	$ 66,450	$ 3,825	$ 343	$ 5,064

Line No.		Irrigation 5/8"	Irrigation 3/4"	Irrigation 1"	Irrigation 1.5"	Irrigation 2"	Irrigation 3"	Construction 3"
20	Meter Size->							
21	Water Revenues	$ 38,907	$ 7,710	$ 85,406	$ 36,514	$ 408,081	$ 1,959	$ 38,841
22	Revenue Annualizations	277	1,059	3,859	-	(8,881)	3,491	(24,907)
23	Misc. Revenues[1]	371	337	1,416	303	1,281	34	67
24	Reconcilation H-1 to C-1[1]	(3)	(2)	(10)	(2)	(9)	(0)	(0)
25	Total Revenues	$ 39,552	$ 9,104	$ 90,672	$ 36,815	$ 400,472	$ 5,483	$ 14,000
27	Operating Expenses[2]	$ 7,751	$ 2,715	$ 21,522	$ 8,275	$ 80,459	$ 1,430	$ 4,745
28	Depreciation and	0	0	0	0	0	0	0
29	Amortization[2]	2,295	1,895	12,843	5,142	42,961	1,680	3,647
30	Property Tax[3]	1,407	324	3,225	1,309	14,242	195	498
31	Income Tax[4]	9,828	1,404	18,286	7,624	91,365	717	1,690
32	Total Operating Expenses	$ 21,281	$ 6,337	$ 55,876	$ 22,350	$ 229,027	$ 4,021	$ 10,581
33	Operating Income	$ 18,271	$ 2,767	$ 34,796	$ 14,465	$ 171,445	$ 1,462	$ 3,419
34	Interest Expense[5]	-	-	-	-	-	-	-
35	Net Income	$ 18,271	$ 2,767	$ 34,796	$ 14,465	$ 171,445	$ 1,462	$ 3,419

Line No.			Residential 5/8" x 3/4"	Residential 3/4"	Residential 1"	Commercial 1"	Commercial 2"	Commercial 3"	Public Authority 1"	Public Authority 2"
40	**Rate Base[6]**	$ 10,059,443	$ 7,676,258	$ 1,066,817	$ 181,512	$ 7,062	$ 194,029	$ 20,850	$ 3,599	$ 84,805
41	**Return on Rate Base[7]**	9.69%	7.26%	7.38%	7.49%	11.12%	35.00%	19.10%	10.28%	6.73%

Line No.	Irrigation 5/8"	Irrigation 3/4"	Irrigation 1"	Irrigation 1.5"	Irrigation 2"	Irrigation 3"	Construction 3"
46	$ 29,736	$ 25,005	$ 161,083	$ 61,566	$ 486,202	$ 19,273	$ 41,644
47	61.44%	11.06%	21.60%	23.50%	35.26%	7.58%	8.21%

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

Exhibit
Rejoinder Schedule G-2
Page 2
Witness: Bourassa

Line No.		Residential 5/8" x 3/4"	Residential 3/4"	Residential 1"	Commercial 1"	Commercial 2"	Commercial 3"	Public Authority 1"	Public Authority 2"
8	**Percent of Total Customers**	86.664%	9.220%	1.093%	0.043%	0.343%	0.021%	0.021%	0.172%

	Irrigation 5/8"	Irrigation 3/4"	Irrigation 1"	Irrigation 1.5"	Irrigation 2"	Irrigation 3"	Construction 3"
	0.236%	0.214%	0.901%	0.193%	0.815%	0.021%	0.043%

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

Sahuarita Water Company, LLC
Test Year Ended December 31, 2000
Cost of Service Study Using Commodity / Demand Method
Allocation of Assets to Customer Classes

Exhibit
Rejoinder Schedule G-3
Page 1
Witness: Bourassa

Line No.		Totals	Factor	Residential 5/8" x 3/4"	Residential 3/4"	Residential 1"	Commercial 1"	Commercial 2"	Commercial 3"	Public Authority 1"	Public Authority 2"
1	Plant, Minus Accumulated Depreciation, Advances and Contributions in Aid, Meter Deposits, and Deferred Income Tax (from Schedule G-5, Page 1)										
2	Commodity	$ 533,264	C-1	$ 330,195	$ 40,254	$ 5,619	$ 165	$ 26,898	$ 1,816	$ 150	$ 1,239
3	Demand	5,350,004	D-1	3,890,737	620,862	122,729	4,813	123,210	15,401	2,406	61,605
4	Customer	1,446,271	CS-1	1,253,394	133,340	15,815	620	4,961	310	310	2,481
5	Service	1,929,771	S-1	1,646,632	175,174	23,111	906	12,157	1,067	453	6,079
6	Meter	800,133	M-1	555,300	97,187	14,239	558	26,803	2,256	279	13,401
7	Totals	$ 10,059,443		$ 7,676,258	$ 1,066,817	$ 181,512	$ 7,062	$ 194,029	$ 20,850	$ 3,599	$ 84,805
8											
9				Irrigation	Irrigation	Irrigation	Irrigation	Irrigation	Irrigation	Construction	
10			Factor	5/8"	3/4"	1"	1.5"	2"	3"	3"	
11	Commodity		C-1	$ 9,745	$ 1,132	$ 16,230	$ 6,739	$ 89,264	$ 240	$ 3,577	
12	Demand		D-1	10,588	14,439	101,071	43,316	292,623	15,401	30,802	
13	Customer		CS-1	3,411	3,101	13,024	2,791	11,784	310	620	
14	Service		S-1	4,481	4,074	19,032	4,532	28,874	1,067	2,133	
15	Meter		M-1	1,511	2,260	11,726	4,188	63,657	2,256	4,511	
16				$ 29,736	$ 25,005	$ 161,083	$ 61,566	$ 486,202	$ 19,273	$ 41,644	
17											
18				Residential	Residential	Residential	Commercial	Commercial	Commercial	Public Authority	Public Authority
19				5/8" x 3/4"	3/4"	1"	1"	2"	3"	1"	2"
20											
21	Net Rate Base	$ 10,059,443		$ 7,676,258	$ 1,066,817	$ 181,512	$ 7,062	$ 194,029	$ 20,850	$ 3,599	$ 84,805
22											
23				Irrigation	Irrigation	Irrigation	Irrigation	Irrigation	Irrigation	Construction	
24				5/8"	3/4"	1"	1.5"	2"	3"	3"	
25											
26				$ 29,736	$ 25,005	$ 161,083	$ 61,566	$ 486,202	$ 19,273	$ 41,644	
27											
28				Residential	Residential	Residential	Commercial	Commercial	Commercial	Public Authority	Public Authority
29				5/8" x 3/4"	3/4"	1"	1"	2"	3"	1"	2"
30											
31	Allocation %	100.00%		76.31%	10.61%	1.80%	0.07%	1.93%	0.21%	0.04%	0.84%
32											
33				Irrigation	Irrigation	Irrigation	Irrigation	Irrigation	Irrigation	Construction	
34				5/8"	3/4"	1"	1.5"	2"	3"	3"	
35											
36				0.30%	0.25%	1.60%	0.61%	4.83%	0.19%	0.41%	

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

Exhibit
Rejoinder Schedule G-4
Page 1
Witness: Bourassa

Line No.		Totals	Factor	Residential 5/8" x 3/4"	Residential 3/4"	Residential 1"	Commercial 1"	Commercial 2"	Commercial 3"	Public Authority 1"	Public Authority 2"
	Operation and Maintenance Expense (from Schedule G-6, Page 1)										
1	Commodity	$ 324,655	C-1	$ 201,025	$ 24,507	$ 3,421	$ 100	$ 16,375	$ 1,106	$ 92	$ 755
2	Demand	414,360	D-1	301,339	48,086	9,505	373	9,543	1,193	186	4,771
3	Customer	423,482	CS-1	367,005	39,043	4,631	182	1,453	91	91	726
4	Service	-	S-1	-	-	-	-	-	-	-	-
5	Meter	-	M-1	-	-	-	-	-	-	-	-
6	Totals	$ 1,162,496		$ 869,369	$ 111,636	$ 17,557	$ 655	$ 27,371	$ 2,389	$ 369	$ 6,252
7											
8				Irrigation 5/8"	Irrigation 3/4"	Irrigation 1"	Irrigation 1.5"	Irrigation 2"	Irrigation 3"	Construction 3"	
9			Factor								
10											
11	Commodity		C-1	$ 5,933	$ 689	$ 9,881	$ 4,103	$ 54,345	$ 146	$ 2,178	
12	Demand		D-1	820	1,118	7,828	3,355	22,664	1,193	2,386	
13	Customer		CS-1	999	908	3,814	817	3,450	91	182	
14	Service		S-1	-	-	-	-	-	-	-	
15	Meter		M-1	-	-	-	-	-	-	-	
16	Totals			$ 7,751	$ 2,715	$ 21,522	$ 8,275	$ 80,459	$ 1,430	$ 4,745	
17											
18				Residential 5/8" x 3/4"	Residential 3/4"	Residential 1"	Commercial 1"	Commercial 2"	Commercial 3"	Public Authority 1"	Public Authority 2"
19			Factor								
20	Depreciaton Expense on Plant (from Schedule G-6, Page 2)										
21	Commodity	$ 49,506	C-1	$ 30,654	$ 3,737	$ 522	$ 15	$ 2,497	$ 169	$ 14	$ 115
22	Demand	458,871	D-1	333,710	53,252	10,526	413	10,568	1,321	206	5,284
23	Customer	55,651	CS-1	48,229	5,131	609	24	191	12	12	95
24	Service	68,311	S-1	58,289	6,201	818	32	430	38	16	215
25	Meter	101,821	M-1	70,664	12,367	1,812	71	3,411	287	36	1,705
26	Totals	$ 734,160		$ 541,545	$ 80,688	$ 14,287	$ 555	$ 17,097	$ 1,826	$ 284	$ 7,415
27											
28				Irrigation 5/8"	Irrigation 3/4"	Irrigation 1"	Irrigation 1.5"	Irrigation 2"	Irrigation 3"	Construction 3"	
29			Factor								
30											
31	Commodity		C-1	$ 905	$ 105	$ 1,507	$ 626	$ 8,287	$ 22	$ 332	
32	Demand		D-1	908	1,238	8,669	3,715	25,098	1,321	2,642	
33	Customer		CS-1	131	119	501	107	453	12	24	
34	Service		S-1	159	144	674	160	1,022	38	76	
35	Meter		M-1	192	288	1,492	533	8,101	287	574	
36	Totals			$ 2,295	$ 1,895	$ 12,843	$ 5,142	$ 42,961	$ 1,680	$ 3,647	
37											
38				Residential 5/8" x 3/4"	Residential 3/4"	Residential 1"	Commercial 1"	Commercial 2"	Commercial 3"	Public Authority 1"	Public Authority 2"
39											
40	Total Expenses (excluding Income Tax and										
41	Property Taxes)	$ 1,896,656		$ 1,410,915	$ 192,324	$ 31,844	$ 1,210	$ 44,468	$ 4,216	$ 653	$ 13,667
42											
43				Irrigation 5/8"	Irrigation 3/4"	Irrigation 1"	Irrigation 1.5"	Irrigation 2"	Irrigation 3"	Construction 3"	
44											
45											
46				$ 2,295	$ 1,895	$ 12,843	$ 5,142	$ 42,961	$ 1,680	$ 3,647	
47											
48	Property Taxes, Allocated on Schedules G-1 & G-2	$ 123,927									
49	Income Tax, Allocated on Schedules G-1 & G-2	489,394									
50	Total Expenses	$ 2,509,977									
51											

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

Exhibit
Rejoinder Schedule G-4
Page 2
Witness: Bourassa

Line No.		Totals	Factor	Residential 5/8" x 3/4"	Residential 3/4"	Residential 1"	Commercial 1"	Commercial 2"	Commercial 3"	Public Authority 1"	Public Authority 2"
1	Commodity	$ 374,161	C-1	$ 231,679	$ 28,244	$ 3,943	$ 116	$ 18,873	$ 1,274	$ 106	$ 870
2	Demand	873,231	D-1	635,049	101,338	20,032	786	20,110	2,514	393	10,055
3	Customer	479,132	CS-1	415,234	44,174	5,239	205	1,644	103	103	822
4	Service	68,311	S-1	58,289	6,201	818	32	430	38	16	215
5	Meter	101,821	M-1	70,664	12,367	1,812	71	3,411	287	36	1,705
6											
7											
8	Totals	$ 1,896,656		$ 1,410,915	$ 192,324	$ 31,844	$ 1,210	$ 44,468	$ 4,216	$ 653	$ 13,667
9											
10				Irrigation	Irrigation	Irrigation	Irrigation	Irrigation	Irrigation	Construction	
11			Factor	5/8"	3/4"	1"	1.5"	2"	3"	3"	
12											
13	Commodity		C-1	$ 6,837	$ 794	$ 11,388	$ 4,729	$ 62,631	$ 168	$ 2,510	
14	Demand		D-1	1,728	2,357	16,497	7,070	47,762	2,514	5,028	
15	Customer		CS-1	1,130	1,027	4,315	925	3,904	103	205	
16	Service		S-1	159	144	674	160	1,022	38	76	
17	Meter		M-1	192	288	1,492	533	8,101	287	574	
18											
19	Totals			$ 10,046	$ 4,610	$ 34,365	$ 13,417	$ 123,420	$ 3,110	$ 8,393	
20											
21				Residential	Residential	Residential	Commercial	Commercial	Commercial	Public Authority	Public Authority
22				5/8" x 3/4"	3/4"	1"	1"	2"	3"	1"	2"
23	Total Expenses (excluding Income Tax and										
24	Property Taxes)	$ 1,896,656		$ 1,410,915	$ 192,324	$ 31,844	$ 1,210	$ 44,468	$ 4,216	$ 653	$ 13,667
25											
26											
27				Irrigation	Irrigation	Irrigation	Irrigation	Irrigation	Irrigation	Construction	
28				5/8"	3/4"	1"	1.5"	2"	3"	3"	
29											
30				$ 10,046	$ 4,610	$ 34,365	$ 13,417	$ 123,420	$ 3,110	$ 8,393	
31											
32											
33											
34	Property Taxes, Allocated on Schedules G-1 & G	$ 123,927									
35	Income Tax, Allocated on Schedules G-1 & G-2	489,394									
36	Total Expenses	$ 2,509,977									
37											

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Cost of Service Study, Using Commodity Demand Method
Allocation of Rate Base by Function

Exhibit
Rejoinder Schedule G-5
Page 1
Witness: Bourassa

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

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

Exhibit
Rejoinder Schedule G-5
Page 2
Witness: Bourassa

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

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

Exhibit
Rejoinder Schedule G-5
Page 2.1
Witness: Bourassa

Line No.	Account No.	Description	Original Cost Plant	Accumulated Depreciation	Total Net Plant Values		Demand	Commodity	Customer	Meter	Service
									-		
1	**General Plant Continued**										
2	347	Miscellaneous Equipment	695	104	591	SF-3			591		
	348	Other Tangible Plant	962,974	54,602	908,372	F-1			908,372		
3	348.1	Other Tangible Plant	120,000	-	120,000	F-1			120,000		
4	**Subtotal General Plant**		$ 1,539,595	$ 197,774	$ 1,341,821		$ 14,598	$ -	$ 1,327,223	$ -	$ -
5	Total Plant		$ 25,274,471	$ 1,368,282	$ 23,906,188		$ 17,339,250	$ 1,865,402	$ 1,971,632	$ 800,133	$ 1,929,771
6											
7	Contributions in Aid of Construction, Net		(4,314,264)	251,796	(4,062,468)	F-1	$ (3,656,221)	$ (406,247)	$ -	$ -	$ -
8	*Advances in Aid of Construction*		(9,258,917)		(9,258,917)	F-3	(8,333,025)	(925,892)	-	-	-
9	Meter Deposits		-		-					-	
10	Deferred Income Tax		(525,361)		(525,361)	SF-3			(525,361)		
11	Deferred Reg Assets		-		-				-		
12	Unamortized Debt Service Costs		-		-				-		
13	Totals		$ 11,175,928	$ 1,620,079	$ 10,059,443		$ 5,350,004	$ 533,264	$ 1,446,271	$ 800,133	$ 1,929,771
14	Rate Bases (Plant -(AIAC, CIAC, Meter Deposits & Accum. Depr.)				$ 10,059,443		$ 5,350,004	$ 533,264	$ 1,446,271	$ 800,133	$ 1,929,771

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

Exhibit
Rejoinder Schedule G-6
Page 1
Witness: Bourassa

Line No.	Description	Adjusted	Factor	Demand	Commodity	Customer	Meter	Service	Totals
1	Salaries and Wages[1]	$ -	E-1	$ -	$ -	$ -	$ -	$ -	$ -
2	Purchased Water[1]	4,256	E-5		4,256				4,256
3	Purchased Power[1]	147,364	E-4	-	147,364	-	-	-	147,364
4	Fuel For Power Production[1]	-	E-4	-	-	-	-	-	-
5	Chemicals[1]	11,866	E-9	-	11,866	-	-	-	11,866
6	Repairs and Maintenance[1]	75,423	E-1	67,881	7,542	-	-	-	75,423
7	Materials & Supplies	30,131	E-6	27,118	3,013	-			30,131
8	Outside Services[1]	736,273	E-3	294,509	147,255	294,509	-	-	736,273
9	Water Testing[1]	10,382	E-10	9,344	1,038	-	-	-	10,382
10	Rents	1,896	E-11	-	-	1,896	-	-	1,896
11	Transportation Expenses[1]	22,358	E-8	5,590	-	16,769	-	-	22,358
12	Insurance - General Liability	21,111	SE-3	5,278	-	15,833	-	-	21,111
13	Insurance - Health and Life	-	SE-3			-			-
14	Reg. Comm. Exp.	-	SE-3			-			-
15	Reg. Comm. Exp. - Rate Case	75,000	SE-3			75,000			75,000
16	Miscellaneous Expense	14,724	SE-3			14,724			14,724
17	Bad Debt Expense	109	SE-3			109			109
18									-
19	Depreciation Expense[2]	734,160		458,871	49,506	55,651	101,821	68,311	734,160
20	Taxes Other Than Income	11,602		4,641	2,320	4,641	-	-	11,602
21									-
22	Property Taxes, Allocated on Schedules G-1 & G-2	**123,927**							
23	Income Tax, Allocated on Schedules G-1 & G-2[3]	**489,394**							
24									
25	Total	$ 2,509,977		$ 873,231	$ 374,161	$ 479,132	$ 101,821	$ 68,311	$ 1,896,656
26									
27									

28 [1] Allocation factors see Schedule G-7, page 2.1.
29 [2] Depreciation allocation computed on Schedule G-6, Page 2.
30 [3] Income Taxes shown at proposed rates.
31
32

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

Exhibit
Rejoinder Schedule G-6
Page 2
Witness: Bourassa

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

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

Exhibit
Rejoinder Schedule G-6
Page 2.1
Witness: Bourassa

Line No.	Account No.	Description	Original Cost	Depreciation Rate	Depreciation Expense	Factor	Total Depr. Expense	Demand	Commodity	Customer	Meter	Service
1	**General Plant Continued**											
2	347	Miscellaneous Equipment	695	10.00%	70	SF-3	70			70		
	348	Other Tangible Plant	962,974	10.00%	96,297	F-1	96,297	86,668	9,630			
3	348.1	Other Tangible Plant	120,000	67.00%	80,400	F-1	80,400	72,360	8,040	-		
4	**Subtotal General Plant**		$ 576,621		$ 226,823		$ 226,823	$ 166,630	$ 17,670	$ 42,523	$ -	$ -
5	**Total Plant**		$ 24,311,497		$ 885,273		$ 885,273	$ 594,873	$ 64,617	$ 55,651	$ 101,821	$ 68,311
6												
7												
8	Less: Amortization of Contributions											
9	Gross Contributions-in-aid of construction		$ (4,314,264)	3.5026%	$ (151,113)	F-1	$ (151,113)	$ (136,002)	$ (15,111)	$ -		
10					-		-	-	-			
11					-		-					-
12					-		-				-	
13					-		-			-		
14	Total Depreciation Expense		(4,314,264)		$ 734,160		$ 734,160	$ 458,871	$ 49,506	$ 55,651	$ 101,821	$ 68,311
15												
16												
17												
18	* Fully Depreciated											
19												

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Summary of Commodity - Demand Method Functions Factors

Exhibit
Rejoinder Schedule G-7
Page 1
Witness: Bourassa

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

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
COMMODITY - DEMAND METHOD FUNCTION FACTORS
Plant and Depreciation Expense Allocations Functions

Exhibit
Rejoinder Schedule G-7
Page 2
Witness: Bourassa

Line No.	Description	Factor	Total	Demand	Commodity	Customer	Meter	Service
1								
2	Description	Factor	Total	Demand	Commodity	Customer	Meter	Service
3	Wells	F-1	1.00	0.90	0.10			
4	Pumps & Equipment	F-2	1.00	0.90	0.10			
5	Trans. & Dist. Mains	F-3	1.00	0.90	0.10			
6	Structures & Improv.	F-4	1.00	1.00				
7	Water Treatment Equip.	F-5	1.00	0.90	0.10			
8	Land	F-6	1.00	1.00				
9	Customer	F-7	1.00			1.00		
10	Services	F-8	1.00					1.00
11	Meters	F-9	1.00				1.00	
12	Fire Hydrants	F-10	1.00			1.00		
13	Transportation Equip.	F-11	1.00	0.25		0.75		
14	Office Furniture	F-12	1.00			1.00		
15	Communication Equip.	F-13	1.00	0.25		0.75		
16	Specific	SF-1	1.00	1.00				
17	Specific	SF-2	1.00		1.00			
18	Specific	SF-3	1.00			1.00		
19								
20								

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

Exhibit
Rejoinder Schedule G-7
Page 2.1
Witness: Bourassa

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

19 [1] Estimated based on examination of costs in repairs and maintenance and professional judgement.
20 [2] Estimated based on examination of costs included in contractual services and professional judgement.
21 [3] 100% related to pumping and water production.
22 [4] 100% related to pumping and water production.
23 [5] Based on allocation of transportation equipment. See G-7, page 2.
24 [6] 100% related to water production.
25 [7] Based on allocation of well plant and equipment. See G-7, page 2.
26 [8] The Company does not have recorded salaries and wages expense. See allocation of contractual services.
27
28
29
30
31

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

Exhibit
Rejoinder Schedule G-7
Page 3
Witness: Bourassa

COMMODITY ALLOCATION FACTOR (C-1)

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

DEMAND ALLOCATION FACTOR (D-1)

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

CUSTOMER ALLOCATION FACTOR (CS-1)

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

SERVICES ALLOCATION FACTOR (S-1) (b)

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

METER ALLOCATION FACTOR (M-1) (b)

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

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

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

Exhibit
Rejoinder Schedule G-8
Page 1
Witness: Bourassa

Line No.						Customer	Service	Meter
1	Return on Rate Base	9.69%				140,144	77,533	186,995
2	Misc. Revenues					(932)		
3	Customer, Services and Meter Expenses (From Sch. G-6. Page 1)					479,132	68,311	101,821
4	Property Taxes					123,927		
5	Income Taxes					489,394		
6	Total Revenue Requirement / Customer, Meter & Service (Line 13+15+16+17)					1,231,665	145,844	288,815
7								
8	**Customer Charge**							
9	Number of Bills =	4,664	times		12	55,968		
10								
11	**Charge per Bill**					$ 22.01		
12	*(Customer Revenue Requirement divided by Annualized Number of Bills)*							
13								
14	**Service Line and Meter Charge**							
15	Equivalent 5/8 Meters			5,558	times	12	66,696	66,696
16								
17	**Charge per Equivalent Meter**						$ 2.19	$ 4.33
18								
19								
20	**CUSTOMER CHARGE:**							
21	Monthly Minimum for 5/8 Inch Meter (with no water included in Minimum or Demand Charge)							
22	Charge per Bill						$ 22.01	
23	Charge per Equivalent Service Line						2.19	
24	Charge per Equivalent Meter						4.33	
25	(Service and Meter Revenue Requirement divided by Annual Equivalent Meters)							
26	Monthly Minimum for 5/8 Inch Meter, **WITHOUT** Demand Charge Included						$ 28.52	

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

Exhibit
Rejoinder Schedule G-8
Page 2
Witness: Bourassa

Line No.	DEMAND CHARGE:				
1					
2	Return on Rate Base 9.69%				518,415
3	Demand Expenses, from Schedule G-6, Page 1				873,231
4					
5	Totals				1,391,646
6	Total Revenue Requirement / Demand Component				
7	Equivalent Number of 5/8 Meters billings				66,516
8	Demand Charge for 5/8 Inch Meter				$ 20.92
9					
10		5/8" Demand	Meter		Demand
11	Demand Charge Per Equivalent	Charge	Ratio		Charge
12	5/8 Inch Meter	$ 20.92	1.0	$	20.92
13	3/4 Inch Meter	$ 20.92	1.5	$	31.38
14	1 Inch Meter	$ 20.92	2.5	$	52.30
15	1 1/2 Inch Meter	$ 20.92	5.0	$	104.61
16	2 Inch Meter	$ 20.92	8.0	$	167.38
17	3 Inch Meter	$ 20.92	16.0	$	334.75
18	4 Inch Meter	$ 20.92	25.0	$	523.05
19	6 Inch Meter	$ 20.92	50.0	$	1,046.10
20					
21					

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

Exhibit
Rejoinder Schedule G-8
Page 3
Witness: Bourassa

Line No.			Commodity	Customer	Service	Meter	Demand
1	Return on Rate Base	9.69%	51,673	140,144	186,995	77,533	518,415
2	Less: Miscellaneous Revenues			(157,242)			
3							
4	Expenses (From Sch. G-6. Page 1)		374,161	479,132	68,311	101,821	873,231
5	Property taxes			123,927			
6	Income Taxes			489,394			
7	Total Revenue Requirement by function		425,834	1,075,355	255,306	179,353	1,391,646
8	Gallons Sold (in 1,000's)(Zero Gallons in Minimum) (G-7, page 3)		411,304				
9	Computed Commodity Rate		$ 1.0353				
10	Annualized Number of Bills			55,968			
11	Equivalent Meters and Service Lines				66,696	66,696	66,696
12	Customer Charge (line 18 divided by line 21)			$ 19.21			
13	Meter, Service Line & Demand Charge (Line 18 divided by Line 22)				$ 3.83	$ 2.69	$ 20.87
14	Total Monthly Minimum Charge for a 5/8 Inch Meter (Sum of Customer,						
15	Service Line, Meter and Demand Charge on Lines 23 & Line 24)						$ 46.60
16							
17							

		5/8" Monthly Minimum	Meter Ratio	Demand Charge
18	*Monthly Minimum*			
19	5/8 Inch Meter	$ 46.60	1.0	$ 46.60
20	3/4 Inch Meter	$ 46.60	1.5	$ 69.89
21	1 Inch Meter	$ 46.60	2.5	$ 116.49
22	1 1/2 Inch Meter	$ 46.60	5.0	$ 232.98
23	2 Inch Meter	$ 46.60	8.0	$ 372.77
24	3 Inch Meter	$ 46.60	16.0	$ 745.54
25	4 Inch Meter	$ 46.60	25.0	$ 1,164.91
26	6 Inch Meter	$ 46.60	50.0	$ 2,329.81
27	8 Inch Meter	$ 46.60	80.0	$ 3,727.70
28				
29				
30				
31				

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

Exhibit
Rejoinder Schedule G-8
Page 4
Witness: Bourassa

Line No.		Total Rev. Req.	%	Portion of Rev. Req.	
1	**Single Tier Rate Design with Some Customer and Demand Costs recovered via the Commodity Rate**				
2					
3	Revenue Requirements Collected via Commodity Charge				
6	Customer, Service, and Meter Costs	$ 1,510,015	45%	$ 679,507	
7	Demand Costs	1,391,646	45%	626,241	
8	Commodity Costs	425,834	100%	425,834	
9	Total Costs to be Collected via Commodity			$ 1,731,581	
10	Gallons Sold			411,304	
11					
12	Commodity Charge (per 1,000 gallons)			$ 4.210	
13					
14	Revenue Requirement Collected				
15					
16	Monthly Minimum 5/8 Meter				
17	Total Revenue Requirement			$ 3,327,495	
18	Less: Portion of Revenue Requirement Collected via Commodity Charge			(1,731,581)	
19	Balance to be Recovered through Monthly Minimum			$ 1,595,914	47.96%
20					
21	Number of Equivalent 5/8 Inch Meter Billings			66,696	
22					
23	Computed Monthly Minimum 5/8 Inch Meter			$ 23.93	
24					
25					
26		5/8"	Meter	Monthly	
27	Meter Size	Minimum	Ratio	Minimum	
28	5/8 Inch Meter	$ 23.93	1.0	$ 23.93	
29	3/4 Inch Meter	$ 23.93	1.5	$ 35.89	
30	1 Inch Meter	$ 23.93	2.5	$ 59.82	
31	1 1/2 Inch Meter	$ 23.93	5.0	$ 119.64	
32	2 Inch Meter	$ 23.93	8.0	$ 191.43	
33	3 Inch Meter	$ 23.93	16.0	$ 382.85	
34	4 Inch Meter	$ 23.93	25.0	$ 598.20	
35	6 Inch Meter	$ 23.93	50.0	$ 1,196.41	
36	8 Inch Meter	$ 23.93	80.0	$ 1,914.25	
37	10 Inch Meter				
38					

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

Exhibit
Rejoinder Schedule G-9
Page 1
Witness: Bourassa

Column Number-->		(1)	(2)		(3)	(4)	(5)	(6)	(7)	(8)	(9) (Col. 2 - Col. 8) Total Revenues minus Total Charges & Costs
		Revenues									
Line No.	Water Usage	Monthly Minimum	Commodity	Total	Demand Charges	Customer Charges	Service Line Charges	Meter Charges	Commodity Charges	Total Charges & Costs	
1	0	$ 24.24	$ -	$ 24.24	$ 20.87	$ 19.21	$ 3.83	$ 2.69	0	$ 46.60	$ (22.36)
2	1,000	24.24	3.50	27.74	20.87	19.21	3.83	2.69	1.035	47.63	(19.89)
3	2,000	24.24	7.00	31.24	20.87	19.21	3.83	2.69	2.071	48.67	(17.43)
4	3,000	24.24	10.50	34.74	20.87	19.21	3.83	2.69	3.106	49.70	(14.96)
5	4,000	24.24	14.00	38.24	20.87	19.21	3.83	2.69	4.141	50.74	(12.50)
6	5,000	24.24	18.25	42.49	20.87	19.21	3.83	2.69	5.177	51.77	(9.28)
7	6,000	24.24	22.50	46.74	20.87	19.21	3.83	2.69	6.212	52.81	(6.07)
8	7,000	24.24	26.75	50.99	20.87	19.21	3.83	2.69	7.247	53.84	(2.85)
9	8,000	24.24	31.00	55.24	20.87	19.21	3.83	2.69	8.283	54.88	0.36
10	9,000	24.24	35.25	59.49	20.87	19.21	3.83	2.69	9.318	55.91	3.58
11	10,000	24.24	39.50	63.74	20.87	19.21	3.83	2.69	10.353	56.95	6.79
12	12,000	24.24	49.10	73.34	20.87	19.21	3.83	2.69	12.424	59.02	14.32
13	14,000	24.24	58.70	82.94	20.87	19.21	3.83	2.69	14.495	61.09	21.85
14	16,000	24.24	68.30	92.54	20.87	19.21	3.83	2.69	16.565	63.16	29.38
15	18,000	24.24	77.90	102.14	20.87	19.21	3.83	2.69	18.636	65.23	36.91
16	20,000	24.24	87.50	111.74	20.87	19.21	3.83	2.69	20.707	67.30	44.44
17	25,000	24.24	111.50	135.74	20.87	19.21	3.83	2.69	25.883	72.48	63.26
18	30,000	24.24	135.50	159.74	20.87	19.21	3.83	2.69	31.060	77.66	82.08
19	35,000	24.24	159.50	183.74	20.87	19.21	3.83	2.69	36.236	82.83	100.91
20	40,000	24.24	183.50	207.74	20.87	19.21	3.83	2.69	41.413	88.01	119.73
21	45,000	24.24	207.50	231.74	20.87	19.21	3.83	2.69	46.590	93.19	138.55
22	50,000	24.24	231.50	255.74	20.87	19.21	3.83	2.69	51.766	98.36	157.38
23	60,000	24.24	279.50	303.74	20.87	19.21	3.83	2.69	62.120	108.72	195.02
24	70,000	24.24	327.50	351.74	20.87	19.21	3.83	2.69	72.473	119.07	232.67
25	80,000	24.24	375.50	399.74	20.87	19.21	3.83	2.69	82.826	129.42	270.32
26	90,000	24.24	423.50	447.74	20.87	19.21	3.83	2.69	93.179	139.78	307.96
27	100,000	24.24	471.50	495.74	20.87	19.21	3.83	2.69	103.533	150.13	345.61

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Comparison of Proposed Rates to Computed Costs
For a 3/4 Inch Residential Meter

Exhibit
Rejoinder Schedule G-9
Page 2
Witness: Bourassa

Column Number-->		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
		Revenues								(Col. 2 - Col. 8) Total Revenues minus Total Charges & Costs
Line No.	Water Usage	Monthly Minimum	Commodity	Total	Demand Charges	Customer Charges	Service Line Charges	Meter Charges	Commodity Charges	Total Charges & Costs
1	0	$ 36.36	$ -	$ 36.36	$ 31.30	$ 28.82	$ 5.74	$ 4.03	0	$ 69.89	$ (33.53)
2	1,000	36.36	3.50	39.86	31.30	28.82	5.74	4.03	1.035	70.93	(31.07)
3	2,000	36.36	7.00	43.36	31.30	28.82	5.74	4.03	2.071	71.97	(28.61)
4	3,000	36.36	10.50	46.86	31.30	28.82	5.74	4.03	3.106	73.00	(26.14)
5	4,000	36.36	14.00	50.36	31.30	28.82	5.74	4.03	4.141	74.04	(23.68)
6	5,000	36.36	17.50	53.86	31.30	28.82	5.74	4.03	5.177	75.07	(21.21)
7	6,000	36.36	21.00	57.36	31.30	28.82	5.74	4.03	6.212	76.11	(18.75)
8	7,000	36.36	25.25	61.61	31.30	28.82	5.74	4.03	7.247	77.14	(15.53)
9	8,000	36.36	29.50	65.86	31.30	28.82	5.74	4.03	8.283	78.18	(12.32)
10	9,000	36.36	33.75	70.11	31.30	28.82	5.74	4.03	9.318	79.21	(9.10)
11	10,000	36.36	38.00	74.36	31.30	28.82	5.74	4.03	10.353	80.25	(5.89)
12	12,000	36.36	46.50	82.86	31.30	28.82	5.74	4.03	12.424	82.32	0.54
13	14,000	36.36	55.00	91.36	31.30	28.82	5.74	4.03	14.495	84.39	6.97
14	16,000	36.36	64.05	100.41	31.30	28.82	5.74	4.03	16.565	86.46	13.95
15	18,000	36.36	73.65	110.01	31.30	28.82	5.74	4.03	18.636	88.53	21.48
16	20,000	36.36	83.25	119.61	31.30	28.82	5.74	4.03	20.707	90.60	29.01
17	25,000	36.36	107.25	143.61	31.30	28.82	5.74	4.03	25.883	95.78	47.83
18	30,000	36.36	131.25	167.61	31.30	28.82	5.74	4.03	31.060	100.95	66.66
19	35,000	36.36	155.25	191.61	31.30	28.82	5.74	4.03	36.236	106.13	85.48
20	40,000	36.36	179.25	215.61	31.30	28.82	5.74	4.03	41.413	111.31	104.30
21	45,000	36.36	203.25	239.61	31.30	28.82	5.74	4.03	46.590	116.48	123.13
22	50,000	36.36	227.25	263.61	31.30	28.82	5.74	4.03	51.766	121.66	141.95
23	60,000	36.36	275.25	311.61	31.30	28.82	5.74	4.03	62.120	132.01	179.60
24	70,000	36.36	323.25	359.61	31.30	28.82	5.74	4.03	72.473	142.37	217.24
25	80,000	36.36	371.25	407.61	31.30	28.82	5.74	4.03	82.826	152.72	254.89
26	90,000	36.36	419.25	455.61	31.30	28.82	5.74	4.03	93.179	163.07	292.54
27	100,000	36.36	467.25	503.61	31.30	28.82	5.74	4.03	103.533	173.43	330.18

Sahuarita Water Company, LLC
Test Year Ended December 31, 2008
Comparison of Proposed Rates to Computed Costs
For a 1 Inch Residential Meter

Exhibit
Rejoinder Schedule G-9
Page 3
Witness: Bourassa

Column Number-->		(1)	(2)		(3)	(4)	(5)	(6)	(7)	(8)	(9) (Col. 2 - Col. 8) Total Revenues minus Total Charges & Costs
		Revenues									
Line No.	Water Usage	Monthly Minimum	Commodity	Total	Demand Charges	Customer Charges	Service Line Charges	Meter Charges	Commodity Charges	Total Charges & Costs	
1	0	$ 60.60	$ -	$ 60.60	$ 52.16	$ 48.03	$ 9.57	$ 6.72	0	$ 116.49	$ (55.89)
2	1,000	60.60	3.50	64.10	52.16	48.03	9.57	6.72	1.035	117.53	(53.43)
3	2,000	60.60	7.00	67.60	52.16	48.03	9.57	6.72	2.071	118.56	(50.96)
4	3,000	60.60	10.50	71.10	52.16	48.03	9.57	6.72	3.106	119.60	(48.50)
5	4,000	60.60	14.00	74.60	52.16	48.03	9.57	6.72	4.141	120.63	(46.03)
6	5,000	60.60	17.50	78.10	52.16	48.03	9.57	6.72	5.177	121.67	(43.57)
7	6,000	60.60	21.00	81.60	52.16	48.03	9.57	6.72	6.212	122.70	(41.10)
8	7,000	60.60	24.50	85.10	52.16	48.03	9.57	6.72	7.247	123.74	(38.64)
9	8,000	60.60	28.00	88.60	52.16	48.03	9.57	6.72	8.283	124.77	(36.17)
10	9,000	60.60	31.50	92.10	52.16	48.03	9.57	6.72	9.318	125.81	(33.71)
11	10,000	60.60	35.00	95.60	52.16	48.03	9.57	6.72	10.353	126.84	(31.24)
12	12,000	60.60	43.50	104.10	52.16	48.03	9.57	6.72	12.424	128.91	(24.81)
13	14,000	60.60	52.00	112.60	52.16	48.03	9.57	6.72	14.495	130.99	(18.39)
14	16,000	60.60	60.50	121.10	52.16	48.03	9.57	6.72	16.565	133.06	(11.96)
15	18,000	60.60	69.00	129.60	52.16	48.03	9.57	6.72	18.636	135.13	(5.53)
16	20,000	60.60	77.50	138.10	52.16	48.03	9.57	6.72	20.707	137.20	0.90
17	25,000	60.60	98.75	159.35	52.16	48.03	9.57	6.72	25.883	142.37	16.98
18	30,000	60.60	122.75	183.35	52.16	48.03	9.57	6.72	31.060	147.55	35.80
19	35,000	60.60	146.75	207.35	52.16	48.03	9.57	6.72	36.236	152.73	54.62
20	40,000	60.60	170.75	231.35	52.16	48.03	9.57	6.72	41.413	157.90	73.45
21	45,000	60.60	194.75	255.35	52.16	48.03	9.57	6.72	46.590	163.08	92.27
22	50,000	60.60	218.75	279.35	52.16	48.03	9.57	6.72	51.766	168.26	111.09
23	60,000	60.60	266.75	327.35	52.16	48.03	9.57	6.72	62.120	178.61	148.74
24	70,000	60.60	314.75	375.35	52.16	48.03	9.57	6.72	72.473	188.96	186.39
25	80,000	60.60	362.75	423.35	52.16	48.03	9.57	6.72	82.826	199.32	224.03
26	90,000	60.60	410.75	471.35	52.16	48.03	9.57	6.72	93.179	209.67	261.68
27	100,000	60.60	458.75	519.35	52.16	48.03	9.57	6.72	103.533	220.02	299.33