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BEFORE THE ARIZONA CORPORATION COMMISSION

2010 SEP 20 P 2: 24

IN THE MATTER OF THE
APPLICATION OF LAS QUINTAS
SERENAS WATER CO., AN
ARIZONA CORPORATION, FOR (i) A
DETERMINATION OF THE FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND (ii) AN INCREASE
IN ITS WATER RATES AND
CHARGES FOR UTILITY SERVICE
BASED THEREON.

AZ CORP COMMISSION
DOCKET CONTROL

DOCKET NO. W-01583A-09-0589

NOTICE OF FILING REJOINDER
TESTIMONY

Las Quintas Serenas Water Company, LLC ("LQSWC" 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 Thomas J. Bourassa, CPA (Rate Base); and
2. Rejoinder Testimony of Thomas J. Bourassa, CPA (Cost of Capital)

Dated this 20 day of September, 2010.

Thomas J. Bourassa, CPA

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

Arizona Corporation Commission

DOCKETED

SEP 20 2010

DOCKETED BY

1 ORIGINAL and thirteen (13)
2 copies of the foregoing were
3 filed the 20rd day of September
4 2010.

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE)
APPLICATION OF LAS QUINTAS)
SERENAS WATER CO., AN ARIZONA)
CORPORATION, FOR (i) A)
DETERMINATION OF THE FAIR)
VALUE OF ITS UTILITY PLANTS AND)
PROPERTY AND (ii) AN INCREASE IN) DOCKET NO. W-01583A-09-0589
ITS WATER RATES AND CHARGES)
FOR UTILITY SERVICE BASED)
THEREON.)
)
) PREPARED TESTIMONY
)

**REJOINDER TESTIMONY OF
THOMAS J. BOURASSA
ON BEHALF OF LAS QUINTAS SERENAS WATER COMPANY
(RATE BASE, INCOME STATEMENT, RATE DESIGN)**

September 20, 2010

TABLE OF CONTENTS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

I. INTRODUCTION AND PURPOSE OF TESTIMONY..... 1

II. SUMMARY OF LQSWC’S REJOINDER POSITION 1

III. RATE BASE..... 3

 A. Plant-in-service..... 3

 B. Accumulated Depreciation..... 4

 C. Contributions-in-aid of Construction (“CIAC”) and Advances-in-aid of Construction (“AIAC”)..... 5

 D. Accumulated Deferred Income Taxes (“ADITs”)..... 5

 E. Remaining Rate Base Issues..... 8

IV. INCOME STATEMENT 10

 A. Income Statement Adjustments..... 10

 B. Remaining Revenue and Expense Issues..... 11

V. RATE DESIGN 13

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
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I. INTRODUCTION AND PURPOSE OF TESTIMONY.

Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

A2. On behalf of the applicant, Las Quintas Serenas Water Company ("LQSWC" 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. On each occasion, 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 LQSWC. 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 LQSWC'S REJOINDER POSITION

Q5. WHAT IS THE REVENUE INCREASE THAT THE COMPANY IS PROPOSING AT THIS STAGE OF THE PROCEEDING?

1 A5. The Company is proposing a total revenue requirement of \$687,117 which
2 constitutes an increase in revenues of \$198,846, or 40.72% over adjusted test year
3 revenues. The total revenue requirement and increase in revenues is slightly higher
4 than in the Company's rebuttal filing.

5 **Q6. WHY IS THE REVENUE REQUIREMENT AND REVENUE INCREASE**
6 **HIGHER THAN IN THE COMPANY'S REBUTTAL FILING?**

7 A6. The increase is primarily due to an increase in rate base from the rebuttal filing of
8 \$1,999,859 to the rejoinder filing of \$2,015,574. As I will discuss, the Company
9 has adopted Staff's accumulated depreciation ("A/D") balance which has resulted
10 in a reduction to the A/D balance of \$22,378 and in an increase in rate base of
11 \$22,378. Accounting for the impact of the change in the A/D balance, the
12 Company's proposed accumulated deferred income tax ("ADIT") balance (an
13 asset) is reduced by \$6,663 and rate base is reduced by \$6,663. The net change in
14 rate base is \$15,574 (\$22,378 minus \$6,663).

15 **Q7. PLEASE SUMMARIZE THE COMPANY'S REJOINDER RATE BASE**
16 **AND REJOINDER ADJUSTMENTS.**

17 A7. The Company proposes two revisions to the adjustments to rate base set forth in its
18 rebuttal filing. As discussed above, the Company proposes a decrease in A/D and a
19 decrease in ADIT. The Company proposes a rate base of \$2,015,574. The
20 Company also continues to propose a return of 9.44 percent rate of return based on
21 its weighted average cost of capital ("WACC").¹

22 **Q8. WHAT ARE THE PROPOSED REVENUE REQUIREMENTS AND RATE**
23 **INCREASES FOR THE COMPANY AND STAFF AT THIS STAGE OF**
24 **THE PROCEEDING?**

25
26 ¹ See Rejoinder Schedule D-1.

1 A8. The proposed revenue requirements and proposed rate increases are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Incr.</u>	<u>% Increase</u>	
2				
3	Company Rebuttal	\$685,047	\$196,777	40.30%
4	Staff Surrebuttal	\$638,106	\$149,836	30.69%
5	Company Rejoinder	\$687,117	\$198,846	40.72%

6
7 **III. RATE BASE**

8 **Q9. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE**
9 **BASE RECOMMENDATIONS AT THIS STAGE OF THE PROCEEDING?**

10 A9. Yes, the rate bases proposed by the parties in the case are as follows:

	<u>OCRB</u>	<u>FVRB</u>	
11			
12	Company Rebuttal	\$1,999,859	\$1,999,859
13	Staff Surrebuttal	\$1,913,221	\$1,993,221
14	Company Rejoinder	\$2,015,574	\$2,015,574

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

16
17 **Q10. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
18 **ORIGINAL COST RATE BASE, AND IDENTIFY ANY ADJUSTMENTS**
19 **YOU HAVE ACCEPTED FROM STAFF?**

20 A10. The Company's rejoinder rate base adjustments to OCRB are detailed on Rejoinder
21 Schedules B-2, pages 3 through 6. Rejoinder Schedule B-2, page 1 and 2,
22 summarize the Company's proposed adjustments and the rejoinder OCRB. The
23 Company does not propose any changes from its rebuttal plant-in-service ("PIS").²

24
25
26 ² See Rebuttal Testimony of Thomas J. Bourassa ("Bourassa Rb.") at 4-8.

1 Q11. PLEASE SUMMARIZE THE PLANT-IN-SERVICE BALANCES
2 RECOMMENDED BY THE PARTIES AT THIS STAGE OF THE
3 PROCEEDING.

4 A11. The PIS balances proposed by the parties at this stage of the proceeding are:

5 Staff \$ 3,594,472³
6 Company \$ 3,594,472⁴

7
8 As you can see, both the Company and Staff are in agreement on the PIS balance.

9 B. Accumulated Depreciation.

10 Q12. PLEASE SUMMARIZE THE PARTIES ACCUMULATED
11 DEPRECIATION BALANCE RECOMMENDATIONS.

12 A12. The accumulated depreciation ("A/D") balances proposed by the parties at this
13 stage of the proceeding are:

14 Staff \$ 1,021,769⁵
15 Company \$ 1,021,769⁶

16
17 The Company has adopted Staff's adjustment to A/D for \$41,000 for plant not used
18 and useful as shown in Rejoinder Schedule B-2, page 4.3. The Company believes
19 that removing the entire cost of not used and useful plant from the A/D balance is
20 not proper. However, it has agreed with Staff for the purposes of this rate case in
21 order to eliminate issues between the parties. The Company and Staff now agree
22

23
24 ³ See Staff Surrebuttal Schedule CSB-3.

25 ⁴ See Company Rejoinder Schedule B-1.

26 ⁵ See Staff Surrebuttal Schedule CSB-3.

⁶ See Company Rejoinder Schedule B-1.

1 as to the total adjustment of \$55,659.⁷

2
3 **C. Contributions-in-aid of Construction (“CIAC”) and Advances-in-aid of**
4 **Construction (“AIAC”).**

5 **Q13. PLEASE DISCUSS THE RECOMMENDED AIAC AND CIAC BALANCES.**

6 A13. The Company and Staff propose an advances-in-aid of construction (“AIAC”)
7 balance of \$351,405.⁸ With respect to contributions-in-aid of construction
8 (“CIAC”), the Company and Staff propose a CIAC balance of \$333,555, and an
9 accumulated amortization balance of \$83,901.⁹ Thus, they are in agreement as to
10 each of these items.

11 **D. Accumulated Deferred Income Taxes (“ADITs”).**

12
13 **Q14. IS THE COMPANY PROPOSING ANY CHANGES TO ACCUMULATED**
14 **DEFERRED INCOME TAXES IN ITS REJOINDER FILING?**

15 A14. Yes. Based on its adjustment to A/D, the ADIT balance (an asset) is lower by
16 \$6,663 from \$77,709 in its rebuttal filing to \$71,046 in its rejoinder filing. The
17 details of the Company’s computation of ADIT can be found on Rejoinder
18 Schedule B-2, page 6.

19 **Q15. WHAT ADIT BALANCE DOES STAFF RECOMMEND?**

20 A15. Staff continues to recommend an ADIT balance (a liability) of \$31,307.¹⁰

21
22
23 _____
24 ⁷ See Rejoinder Schedule B-2, page 1 and Staff Surrebuttal CSB-3.

25 ⁸ See Rejoinder Schedule B-1; Staff Surrebuttal Schedule CSB-3

26 ⁹ *Id.*

¹⁰ Brown Sb. at 10. See also Staff Surrebuttal Schedule CSB-3.

1 **Q16. PLEASE EXPLAIN THE DIFFERENCE BETWEEN THE COMPANY'S**
2 **RECOMMENDED ADIT BALANCE AND STAFF RECOMMENDED ADIT**
3 **BALANCE?**

4 A16. The Company includes a net operating loss from the bonus depreciation component
5 ("NOL Component") whereas Staff does not. I have discussed the NOL
6 Component extensively in my Rebuttal Testimony¹¹ and will not repeat that
7 testimony here, except to reiterate that the NOL Component is directly related to
8 the timing difference between book and tax depreciation. In other words, it
9 essentially represents the tax benefit related to tax depreciation that the Company
10 will be able to use as an offset to future income.

11 **Q17. PLEASE COMMENT ON MS. BROWN'S TESTIMONY ON PAGE 9 THAT**
12 **THE TAX NOL COMPONENT REPRESENTS THE LOSSES INCURRED**
13 **BY THE COMPANY WHEN THE COMPAMNY FAILED TO EARN ITS**
14 **AUTHORIZED RETURN.**

15 A17. Ms. Brown's testimony demonstrates an apparent lack of understanding of the
16 NOL Component on Ms. Brown's part. Even if the Company had earned its
17 authorized return during the test year, there would still be a net operating loss for
18 tax purposes. In fact, the NOL Component would be at least as great, if not
19 greater, than the NOL Component of \$116,506 used in the Company's ADIT
20 computation.¹² This is because the book depreciation for the test year of about
21 \$33,325 and the tax depreciation of about \$54,334 are dwarfed by the
22 approximately \$775,539 of bonus depreciation¹³. Further, there would not have
23

24

¹¹ Bourassa Rb. at 7-10.

25 ¹² See Rejoinder Schedule B-2, page 6.

26 ¹³ See Rejoinder Schedule B-2, page 6.2, footnote 5.

1 been a net operating loss for tax purposes or a NOL Component if the Company
2 elected not to take bonus depreciation.

3 I have prepared **Rejoinder Exhibit TJB-RJ1**, attached hereto, to illustrate
4 this point. As you will find in the exhibit, I assumed that the authorized earnings
5 for the test year are based upon the average rate base (average of beginning of year
6 and end of year¹⁴) and a rate of return of 9.44 percent (the return requested in the
7 instant rate case). We can disagree as to whether these are appropriate
8 assumptions, but I believe this approach is conservative.¹⁵ In any event, as you will
9 find, after carrying back a portion of the tax net operating loss to prior years, as I
10 have done in the Company's computation of the NOL Component¹⁶, the NOL
11 Component would be over \$129,000 compared to the \$166,506 included in the
12 Company's ADIT computation. Also, as illustrated, there would have been no net
13 operating loss for tax purposes and therefore no NOL Component had the
14 Company not elected to take bonus depreciation.

15 **Q18. ARE RATE PAYERS DISADVANTAGED BY THE COMPANY'S**
16 **PROPOSAL TO INCLUDE A NOL COMPONENT IN ITS ADIT**
17 **COMPUTATION?**

18 A18. Absolutely not. In the instant case, if the Company had not elected to take bonus
19 depreciation, the ADIT balance (an asset) would have been \$139,313 and the
20 Company's proposed rate base thus higher by \$68,267 (\$139,313 minus \$77,046).
21 I have prepared **Rejoinder Exhibit TJB-RJ2** showing the computation. Clearly,
22 rate payers have received the benefit of a lower rate base (and lower revenue
23 requirement) by the Company's election to take bonus depreciation for tax

24 _____
¹⁴ Rate base component balances obtained from E-1.

25 ¹⁵ NOL Component would be higher at a lower authorized return.

26 ¹⁶ See Rejoinder Schedule B-2, page 6.2, footnote 5.

1 purposes. But, regardless of whether rate base would have been higher or lower as
2 a result of electing or not electing to take bonus depreciation, including all of the
3 ADIT components that have an impact on rate base and the revenue requirement
4 properly matches rate base, revenues, and expenses. And, such proper rate-making
5 is fair to both the Company and to rate payers.

6 **Q19. DO YOU AGREE WITH MS. BROWN'S TESTIMONY ON PAGE 10 THAT**
7 **JUST BECAUSE THE FINANCIAL ACCOUNTING STANDARDS BOARD**
8 **STATEMENT NO. 109 REQUIRES THE RECOGNITION OF NET**
9 **OPERATING LOSSES IN ADIT DOESN'T MEAN THAT NET**
10 **OPERATING LOSSES SHOULD BE ALLOWED FOR RATE MAKING**
11 **PURPOSES?**

12 A19. Yes. In the most recent Chaparral City Water Company ("CCWC") rate case, for
13 example, the Company proposed and Staff accepted the exclusion of ADIT related
14 to goodwill.¹⁷ The Company excluded the ADIT related to goodwill because
15 goodwill was not a component of rate base nor was the amortization of goodwill in
16 operating expenses. Inclusion of ADIT related to goodwill in rate base in the
17 CCWC rate case would have resulted in a mismatch between rate base, revenues,
18 and expenses. However, in the instant case, the NOL from bonus depreciation is
19 specifically related to plant and accumulated depreciation recognized in the
20 Company's rate base. Failure to recognize the NOL Component will result in a
21 mismatch and is not proper rate making. Staff's proposal to exclude the NOL
22 Component accordingly must be rejected.

23 **E. Remaining Rate Base Issues.**

24
25
26 ¹⁷ See Chaparral City Water, Docket No. W-02113A-07-0551.

1 **Q20. PLEASE ADDRESS THE QUESTIONS STAFF HAS CONCERNING**
2 **CUSTOMER DEPOSITS?**

3 A20. Staff offers three questions regarding customer deposits.¹⁸ With respect to whether
4 the Company collected security deposits, the answer is no. The Company currently
5 does not have a bad debt problem and there is no compelling reason at this time for
6 the Company to collect security deposits. The Company does collect key deposits.
7 As I previously testified, these are not security deposits to secure the payment from
8 customers; rather, they are deposits to insure the return of keys given to customers
9 to provide access to standpipe service.¹⁹ With respect to the balance of key
10 deposits of \$7,475, the balance may contain key deposits which are no longer
11 refundable and which may not have been cleared from the account. In some cases,
12 for example, the deposit has been forfeited (no longer refundable) because the
13 Customer has left the system and not returned the key. The Company will
14 provide information to Staff to reconcile this account. With respect to the third
15 question as to whether the additional \$5 is for either a replacement key or a second
16 key, the answer is "either" depending on the circumstances. If a customer loses
17 his/her key, for example, then the original key deposit is forfeited (no longer
18 refundable) and the customer is charged an additional \$5 which is subject to
19 refund. If the customer requests a second key, then the original deposit plus the
20 charge for the second key is subject to refund.

21 **Q21. DOES THE COMPANY BELIEVE IT SHOULD PAY INTEREST ON THE**
22 **KEY DEPOSITS?**

23 A21. No. First, these are relatively small amounts and it would cost more
24 administratively to track than it is worth. Second, these are not security deposits

25 ¹⁸ Brown Sb. at 6.

26 ¹⁹ Bourassa Rb. at 11.

1 securing payment from customers as contemplated by the ACC rules.²⁰ If the
2 Commission were to decide the Company needs to pay interest, it should certainly
3 not be at the 6 percent as suggested by Staff.²¹ The current money market rates are
4 very low and have been for several years.²² At the very least the interest rate
5 should be conditional based upon current money market rates (perhaps set annually
6 based upon the Wall Street Journal 1-year money market rate and of January 2nd of
7 each year).

8 **IV. INCOME STATEMENT**

9 **A. Income Statement Adjustments.**

10
11 **Q22. PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO**
12 **REVENUES AND EXPENSES AND IDENTIFY ANY ADJUSTMENTS YOU**
13 **HAVE ACCEPTED FROM STAFF.**

14 A22. The Company's proposed rejoinder adjustments are detailed on Rejoinder Schedule
15 C-2, pages 1-9. The rejoinder income statement with adjustments is summarized
16 on Rejoinder Schedule C-1, pages 1-2. I have previously testified to the Company's
17 proposed adjustments to revenues and expenses in my Rebuttal Testimony.²³ The
18 Company's does not propose any additional adjustments. However, the Company
19 has revised its property tax adjustment (Adjustment 2), its interest synchronization
20 adjustment (Adjustment 4), and its income tax adjustment (Adjustment 5) to reflect
21 the Company's rejoinder proposed levels of rate base, revenues and expenses.

22
23 ²⁰ See R-14-2-403B.

24 ²¹ Brown Sb. at 7.

25 ²² Current 1-year CD rate is 1.2%, 2-year CD rate is 1.55%, and 5-year CD rate is 2.46%. See
Bankrate.com on September 20, 2010.

26 ²³ Bourassa Rb. at 11-15.

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B. Remaining Revenue and Expense Issues.

Q23. PLEASE RESPOND TO MS. BROWN'S TESTIMONY ON PAGES 13 THROUGH 15 REGARDING THE METHODOLOGY FOR COMPUTING AMORTIZATION OF CIAC?

A23. The generally accepted assumption underlying the use of a composite rate is that CIAC is used to fund all PIS, not just depreciation plant.²⁴ However, Ms. Brown appears to now believe that a composite rate does not assume that all plant is funded with CIAC.²⁵ She then she states that land costs (and other non-depreciable plant costs) are removed before computing CIAC amortization.²⁶ In fact she demonstrates the computation in which she removes \$10 of land costs from the \$100 CIAC balance she uses throughout the example(s) discussed on pages 13-15.²⁷ However, she has not followed this method in her computation of amortization.²⁸ So, I am bit confused by this inconsistency in approach. Further, I stand by my rebuttal testimony that Staff's method of computing the amortization rate and amortization results in a negative cash flow and is not revenue neutral.²⁹

Q24. DOES THE COMPANY'S METHOD OF COMPUTING THE COMPOSITE RATE HAVE THE POTENTIAL OF HARMING CUSTOMERS?

A24. No. If we accept the aforesaid 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

²⁴ Bourassa Rb. at 13.
²⁵ Brown Sb. at 15.
²⁶ *Id.*
²⁷ Brown Sb. at 15, Table D
²⁸ See Staff Schedule CSB-15.
²⁹ Bourassa Rb. at 14.

1 neutral. This is because the depreciation expense will be exactly offset by the
2 CIAC amortization.³⁰

3 **Q25. ISN'T THE COMPANY'S RECOMMENDED ACCUMULATED**
4 **AMORTIZATION BALANCE FOR CIAC BASED ON A COMPOSITE**
5 **RATE THAT INCLUDES ALL PLANT, NOT JUST DEPRECIABLE**
6 **PLANT?**

7 A25. Yes, and as I testified earlier, Staff agrees with the Company proposed
8 accumulated amortization balance. However, Staff's construction of its composite
9 rate to amortize CIAC going forward is inconsistent with the composite rate used
10 in the past.

11 **Q26. PLEASE COMMENT ON STAFF'S PROPOSED RATE CASE EXPENSE.**

12 A26. At this stage, both Staff and the Company agree on the total rate case expense but
13 differ on the period of time (in years) used to determine the annual amount to be
14 included in the revenue requirement. The Company believes the appropriate
15 number of years should be 3 years, while Staff believes it should be 4 years.³¹

16 **Q27. DOES THE COMPANY EXPECT TO FILE ANOTHER RATE CASE**
17 **WITHIN 3 YEARS, AND, IF SO, WHY?**

18 A27. Yes. I have already discussed the reasons for this in my Rebuttal testimony and
19 will not repeat that testimony here in the interest of brevity.³²

20 **Q28. PLEASE RESPOND TO MS. BROWN'S ASSERTION ON PAGE 11 OF**
21 **HER SURREBUTTAL TESTIMONY THAT, IN SUPPORT OF ITS**
22 **POSITION ON RATE CASE EXPENSE THAT STAFF IS PROVIDING AN**
23 **INCREASE THAT IS SUFFICIENT TO PAY FOR THE CASH EXPENSES**

24 _____
25 ³⁰ *Id.*

26 ³¹ Bourassa Rb. at 15-16.

³² Bourassa Rb. at 15-16.

1 **AND TO PROVIDE AN OPPORTINTY TO EARN STAFF'S**
2 **RECOMMEND RATE OF RETURN.**

3 A28. I agree that a purpose or intent end result of this rate case is to determine a level of
4 revenues sufficient to provide the Company an opportunity to earn its authorized
5 return. However, I have a serious problem with the notion that Staff is providing a
6 rate increase sufficient to pay cash expenses as it relates to rate case expense. Rate
7 case expense is paid for up-front. The Company is out the cash now and there is no
8 provision for the time value of money. Further, the Company is only provided an
9 opportunity to recover rate case expense and then only over a period of several
10 years. The Company is only assured full recovery of the expense of the instant
11 case if it incurs no more regulatory related expense between rate cases.

12
13 **V. RATE DESIGN**

14 **Q29. WHAT ARE THE COMPANY'S REJOINDER PROPOSED RATES?**

15 A29. LQSWC's rejoinder proposed rates are:

16 MONTHLY SERVICE CHARGES

17	5/8" x 3/4" meters	\$20.00
18	3/4" Meters	\$30.00
19	1" Meters	\$50.00
20	1 1/2" Meters	\$100.00
21	2" Meters	\$160.00
22	3" Meters	\$320.00
23	4" Meters	\$500.00
24	6" Meters	\$1,000.00
25	Standpipe	\$20.20

26

1	<u>COMMODITY RATES</u>		
2	5/8" X 3/4" Meters	1 to 4,000 gals	\$ 1.87
3		4,001 to 10,000 gals	\$ 2.37
4		Over 10,000 gals	\$ 2.97
5	3/4" Meters	1 to 4000 gals	\$ 1.87
6		4,001 to 10,000 gals	\$ 2.37
7		Over 10,000 gals	\$ 2.97
8	1" Meters	1 to 25,000 gals	\$ 2.37
9		Over 25,000 gals	\$ 2.97
10	1 1/2" Meters	1 to 50,000	\$ 2.37
11		Over 50,000	\$ 2.97
12	2" Meters	1 to 80,000	\$ 2.37
13		Over 80,000	\$ 2.97
14	3" Meters	1 to 160,000	\$ 2.37
15		Over 160,000	\$ 2.97
16	4" Meters	1 to 250,000	\$ 2.37
17		Over 250,000	\$ 2.97
18	6" Meters	1 to 500,000	\$ 2.37
19		Over 500,000	\$ 2.97
20	Standpipe	0 to 4,000 gals	\$ 1.90
21		4,001 to 23,000 gals	\$ 2.37
22		Over 23,000 gals	\$ 2.97
23	Arsenic Surcharge	Eliminated	

25 **Q30. WHAT WILL BE THE AVERAGE 5/8 INCH CUSTOMER AVERAGE**
26 **MONTHLY BILL UNDER THE NEW RATES?**

1 A30. As shown on Schedule H-2, page 2, the average monthly bill under proposed rates
2 for a 5/8 inch customer using an average 10.768 gallons is \$44.00 – a \$11.04
3 increase over the present monthly bill or a 33.51 percent increase.

4 **Q31. DOES STAFF'S RATE DESIGN CONTINUE TO SHIRFT REVENUE**
5 **RECOVERY AWAY FROM THE SMALL RESIDENTIAL CUSTOMERS**
6 **TO THE LARGER METERED CUSTOMERS?**

7 A31. Yes. Attached hereto at **Rejoinder Exhibit TJB-RJ3** is a revenue summary under
8 present and proposed rates for Staff and the Company. Under present rates, the
9 5/8x3/4 inch metered customers provide approximately 67.0 percent of revenues.
10 Under the Staff proposed rates, the percentage drops to approximately 64.8
11 percent. Under the Company's proposed rates, the percentage also drops, but only
12 to 65.8 percent. The decrease in revenue recovery, from the Company's largest
13 customer class, has to be made up by the other customer classes.³³ So, under
14 Staff's design, more of the recovery is shifted to the other customer classes than is
15 under the Company's rate design

16 **Q32. DOES THE FACT THAT THE LARGER METERED CUSTOMERS USE**
17 **MORE WATER THAT THE SMALLER METERED CUSTOMERS HAVE**
18 **ANY RELEVANCE TO THE ISSUE OF REVENUE SHIFTING?**

19 A32. No. What is relevant is that Staff is impacting the larger metered customers in a
20 greater way that the smaller metered customers. In my experience the larger meter
21 customers are the most profitable customers (they pay more than their cost of
22 service). Shifting more revenues to the larger means the larger metered customers
23 carry more of the revenue burden. This is not only unfair, but because the larger
24 metered customers are typically more profitable, when these customers conserve

25 _____
26 ³³ In particular, the 2 inch and 4 inch metered customers see an increase in the percent of revenues under proposed rates

1 (use less water), there is a greater impact on revenue stability (instability) and the
2 Company's ability to earn its authorized return.

3 **Q33. DOES THE RECOVERY OF REVENUES FROM THE MONTHLY**
4 **MINUMIMS AND FROM THE COMMOSITY RATES CONTINUE TO BE**
5 **SIMILAR BETWEEN THE PARTY'S RESPECTIVE RATE DESIGNS?**

6 A33. Yes. Attached as **Rejoinder Exhibit TJB-RJ4** is a revenue breakdown under
7 present rates, Company proposed rates, and Staff proposed rates.

8 **Q34. IS THERE ANY DISAGREEMENT BETWEEN THE STAFF AND THE**
9 **COMPANY REGARDING SERVICE LINE AND METER INSTALLATION**
10 **CHARGES?**

11 A34. No. The Company has corrected it meter and service line installation charge for
12 the 4 inch – turbine meter as discussed by Ms. Brown.³⁴

13 **Q35. DOES THAT CONCLUDE YOUR REJOINDER TESTIMONY?**

14 A35. Yes. Although my silence on any issue not discussed herein does not necessarily
15 constitute agreement with Staff at this time.

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³⁴ Brown Sb. at 17.

Las Quintas Serenas Water Company
Docket No. W-01583A-09-0589

THOMAS J. BOURASSA
REJOINDER TESTIMONY
(RATE BASE, INCOME STATEMENT, AND RATE DESIGN)
September 20, 2010

EXHIBIT TJB-RJ1

La Quintas Serenas Water Company
Analysis of Net Operating Loss at Authorized Return

Exhibit

Line No.		<u>June 30, 2009¹</u>	<u>June 30, 2008¹</u>	<u>Average</u>
1				
2				
3	Plant-in-Service	\$ 3,797,061	\$ 1,450,070	\$ 2,623,566
4	A/D	(1,018,223)	(980,046)	(999,135)
5	Net Plant-in-Service	<u>\$ 2,778,838</u>	<u>\$ 470,024</u>	<u>\$ 1,624,431</u>
6				
7	Less:			
8	Advances in aid of Constuction	\$ 372,323	\$ 412,498	\$ 392,411
9				
10	Contributions-in-aid of Construction	333,555	283,303	308,429
11	Accumulated Amortization	(193,151)	(128,560)	(160,856)
12				
13	Service Line and Meter Installation Chgs	19,641	30,103	24,872
14				
15	Rate Base	<u>\$ 2,246,470</u>	<u>\$ (127,320)</u>	<u>\$ 1,059,575</u>
16				
17		<u>With Bonus Depr.</u>	<u>Without Bonus Depr.</u>	
18	Average Rate Base	1,059,575	1,059,575	
19	Rate of Return ²	9.44%	9.44%	
20	Authorized Operating Income (Earnings)	\$ 100,024	\$ 100,024	
21				
22	Authorized Operating Income	\$ 100,024	\$ 100,024	
23	Less: Interest Expense	(67,699)	(67,699)	
24	Net Book Income	<u>\$ 32,325</u>	<u>\$ 32,325</u>	
25				
26	Plus: Book Depreciation ³	\$ 33,325	\$ 33,325	
27	Less: Tax Depreciation ³	(54,334)	(54,334)	
28	Less: Bonus Depreciation ³	(775,539)	-	
29	Net Operating Loss (NOL)	<u>\$ (764,222)</u>	<u>\$ 11,317</u>	
30				
31	NOL for tax purposes	\$ (764,222)	\$ -	
32				
33	NOL Carryback to prior years ³	\$ 222,553	\$ -	
34				
35	NOL Carryforward to future years	<u>\$ (541,669)</u>	<u>\$ -</u>	
36				
37				
38	NOL for tax purposes	\$ 541,669	No net operating loss, therefore no NOL carryforward.	
39	Federal tax Rate	23.83%		
40	NOL Component for ADIT Computation	\$ 129,055		

41

42 ¹ From Company Schedule E-1

43 ² Return requested by Co. in instant case

44 ³ From Rjoinder Schedule B-2, page 5.2, footnote 5.

45 ⁴ From Rejoinder Schedule C-3.

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**Las Quintas Serenas Water Company
Docket No. W-01583A-09-0589**

**THOMAS J. BOURASSA
REJOINDER TESTIMONY
(RATE BASE, INCOME STATEMENT, AND RATE DESIGN)
September 20, 2010**

EXHIBIT TJB-RJ2

Las Quintas Serenas Water Company
 Test Year Ended June 30, 2009
 Original Cost Rate Base Proforma Adjustments
 ADIT Computation if Company did not elect to take Bonus Depreciation

Line No.	Deferred Income Tax as of June 30, 2009	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		Future Tax Liability	
							Current	Non Current	Current	Non Current
1		\$ 3,594,472 ¹								
2										
3										
4										
5										
6	Plant-in-Service	\$ 3,594,472 ¹								
7	Accum. Deprec.	(1,021,769) ¹								
8	CIAC	(495,638) ^{1,3}								
9	Fixed Assets	\$ 2,077,065	Federal \$ 2,426,450 ²	100.0%	\$ 349,384	23.8%	\$ 83,242	\$ -	\$ -	
10	Fixed Assets	\$ 2,077,065	State \$ 2,415,868 ²	100.0%	\$ 338,803	6.97%	23,608	-	-	
11	AIAC		Fed. and State \$ 351,405 ⁴	30.0%	\$ 105,422 ^{3,4}	30.8%	32,463	-	-	
12	Tax Benefits from O.L. Carry Forward.		Federal \$ - ⁵	100.0%	\$ -	23.8%	-	-	-	
13							\$ -	\$ 139,313	\$ -	\$ -
14										
15	Net Asset (Liability)						\$ 139,313			
16										
17	DIT Asset (Liability) per direct filing						\$ -			
18										
19	Adjustment to DIT									
20										
21										
22										
23										
24										
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45										

See footnotes on page 6.1 and 6.2

Las Quintas Serenas Water Company

Test Year Ended June 30, 2009

Original Cost Rate Base Proforma Adjustments

ADIT Computation if Company did not elect to take Bonus Depreciation (footnotes)

Line No.		Federal	State
1			
2			
3			
4	1 Adjusted per Rejoinder Schedule B-2, page 2		
5	2 Tax Basis as of June 30, 2009	\$ 3,357,452	\$ 3,357,452
6	Unadjusted Cost Basis per 2009 Tax Return (Fiscal Year Ended 09/30/2009)		
7	Adjustments:		
8	Assets added after 6/30/2009, not on books but on tax	\$ -	\$ -
9	Tax Accumulated Depreciation through 9/30/2008	\$ (758,969)	\$ (742,979)
10	Section 179 deductions through 9/30/2008	\$ (105,561)	\$ (105,561)
11	Tax Depreciation Including Bonus Depr. per 2009 Tax Return		
12	Less: Tax Depreciation related to assets added after 6/30/2009	\$ 56,568	\$ 78,051
13	Tax Depreciation Including Bonus Depr. per 2009 Tax Return	\$ -	\$ -
14	Factor (9 months through 6/30/2009)	\$ 56,568	\$ 78,051
15	Adjusted 2009 Tax Depreciation Including Bonus Depr.	0.75	0.75
16	Remove Plant Retirements per B-2 adjustment 1-A	\$ (42,426)	\$ (58,538)
17	Tax Depr on retired plant (\$7,488 times 4% times 11.25 yrs)	\$ (7,488)	\$ (7,488)
18	Remove Not Used and Useful Plant per B-2 adjustment 1-C	\$ 3,370	\$ 3,370
19	Tax Depr on not used and useful plant - Natural gas Engine Generator per Depr Rpt	\$ 5,314	\$ 5,314
20	Tax Depr on not used and useful plant - Natural gas Engine Generator per Depr Rpt	\$ 4,996	\$ 4,996
21	Tax Depr on not used and useful plant - Trans and Dist Mains (Fed - \$20,198 times 4% times .25 yrs plus \$20,918 times 50%, State - \$20,918 times 4% times .5 times .75)	\$ 10,762	\$ 303
22			
23			
24			
25	Net Tax Value	\$ 2,426,450	\$ 2,415,868
26			
27	3 Impact of change to probability of realization		
28			
29	Gross CIAC per B-2	\$ 333,555	
30	A.A per B-2	(83,901)	
31	Net CIAC per B-2	\$ 249,654	
32	Unrealized AIAC Component		
33	AIAC	\$ 351,405	
34	Unrealized AIAC Component % (1-Realized AIAC Component)	70.0%	
35	Addition to CIAC	\$ 245,984	
36	Total CIAC	\$ 495,638	
37			
38	4 AIAC (including impact of change in probability of realization)		
39	AIAC per B-2 before unrealized portion	\$ 351,405	
40	Less: Unrealized AIAC (from Note 4, above)	\$ (245,984)	
41	Net realizable AIAC	\$ 105,422	
42			
43			
44			
45			

Las Quintas Serenas Water Company
 Test Year Ended June 30, 2009
 Original Cost Rate Base Proforma Adjustments
 Adjustment 4 (footnotes)

Line No.					
1					
2					
3					
4					Federal
5	⁵ NOL from Bonus Depreciation			\$	84,985
6	Net Income 12 months ended 6/30/2009 (per E-1 schedule)				
7	Plus: Book Depreciation (07/01/2008 to 6/30/2009)				
8	Book Depreciation 12 months ended 09/30/2008	\$	35,894		
9	Factor (3 months 7/1/2008 to 9/30/2008)		0.333	\$	11,953
10	Book Depreciation 12 months ended 09/30/2009	\$	28,497		
11	Factor (9 months 10/01/2008 to 6/30/2009)		0.75	\$	21,373
12					
13	Less: Tax Depreciation (07/01/2008 to 6/30/2009)				
14	Tax Depreciation and Section 179 (10/01/2007 to 9/30/2008)	\$	35,759		
15	Factor (3 months 7/1/2008 to 9/30/2008)		0.333		
16				\$	(11,908)
17	Adjusted Tax Depreciation (10/01/2008 to 9/30/2009) from above	\$	56,568		
18	Factor (9 months 10/01/2008 to 6/30/2009)		0.75	\$	(42,426)
19					
20	Net Income (Loss)			\$	63,977
21					
22	Less: NOL Carry back to prior years			\$	-
23					
24	NOL Carryforward from bonus depreciation			\$	-
25					
26	⁶ Effective tax rates Per C-3 schedule				
27					
28					
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NO NOL FROM BONUS DEPRECIATION
 BECAUSE TAXABLE INCOME IS POSITIVE

**Las Quintas Serenas Water Company
Docket No. W-01583A-09-0589**

**THOMAS J. BOURASSA
REJOINDER TESTIMONY
(RATE BASE, INCOME STATEMENT, AND RATE DESIGN)
September 20, 2010**

EXHIBIT TJB-RJ3

Las Quintas Serenas Water Company
 Test Year Ended June 30, 2009
 Revenue Summary

Exhibit
Page 1

With Annualized Revenues to Year End Number of Customers

Line No.	Meter Size	Company Present Revenues	Company Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8x3/4 Inch	\$ 327,234	\$ 452,369	\$ 125,134	38.24%	67.02%	65.82%
2	3/4 Inch	4,095	4,956	860	21.01%	0.84%	0.72%
3	1 Inch	24,612	31,015	6,403	26.02%	5.04%	4.51%
4	1.5 Inch	14,756	20,308	5,553	37.63%	3.02%	2.95%
5	2 Inch	17,044	28,228	11,183	65.61%	3.49%	4.11%
6	4 Inch	19,237	30,671	11,433	59.43%	3.94%	4.46%
7	Subtotal	\$ 406,979	\$ 567,546	\$ 160,567	39.45%	83.35%	82.57%
8							
9							
10	Standpipe	\$ 67,100	\$ 96,536	\$ 29,437	43.87%	13.74%	14.05%
11	Fire Sprinkler	480	480	-	0.00%	0.10%	0.07%
12	Subtotal	67,580	97,016	29,437	43.56%	13.84%	14.12%
13							
14							
15	Total Revenues <u>before</u> Annualization	\$ 474,558	\$ 664,562	\$ 190,004	40.04%	97.19%	96.69%
16							
17							
18	Meter Size	Company Present Revenues	Company Proposed Revenues	Dollar Change	Percent Change	Percent of Present	Percent of Proposed
19							
20							
21	5/8x3/4 Inch	\$ (1,434)	\$ (2,918)	\$ (1,484)	103.52%	-0.29%	-0.42%
22	3/4 Inch	-	-	-	0.00%	0.00%	0.00%
23	1 Inch	499	1,012	513	102.88%	0.10%	0.15%
24	1.5 Inch	(118)	(233)	(115)	97.31%	-0.02%	-0.03%
25	2 Inch	-	-	-	0.00%	0.00%	0.00%
26	4 Inch	7,707	17,117	9,411	122.11%	1.58%	2.49%
27	Subtotal	\$ 6,654	\$ 14,978	\$ 8,325	125.12%	1.36%	2.18%
28							
29							
30	Standpipe	345	690	345	99.92%	0.07%	0.10%
31	Fire Sprinkler	-	-	-	0.00%	0.00%	0.00%
32							
33	Total Revenue Annualization	\$ 6,999	\$ 15,668	\$ 8,670	123.87%	1.43%	2.28%
34							
35	Total Revenues <u>with</u> Rev. Annual.	\$ 481,557	\$ 680,231	\$ 198,674	41.26%	98.63%	98.97%
36							
37	Misc. Serv. Rev.	6,778	6,778	-	0.00%	1.388%	0.986%
38	Annualization of Misc Service Rev.	-	-	-	0.00%	0.000%	0.000%
39	Unreconciled Difference to C-1	(65)	304	369	-567.69%	-0.013%	0.044%
40							
41	Total Revenues	\$ 488,270	\$ 687,313	\$ 199,043	40.76%	100.00%	100.00%
42							

Las Quintas Serenas Water Company - Staff Proposed Rates
 Test Year Ended June 30, 2009
 Revenue Summary
 With Annualized Revenues to Year End Number of Customers

Exhibit
Page 2

Line No.	Meter Size	Company Present Revenues	Staff Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8x3/4 Inch	\$ 327,234	\$ 418,904	\$ 91,670	28.01%	67.05%	64.94%
2	3/4 Inch	4,095	4,673	578	14.11%	0.84%	0.72%
3	1 Inch	24,612	29,695	5,083	20.65%	5.04%	4.60%
4	1.5 Inch	14,756	19,129	4,374	29.64%	3.02%	2.97%
5	2 Inch	17,044	27,672	10,628	62.35%	3.49%	4.29%
6	4 Inch	19,237	29,185	9,948	51.71%	3.94%	4.52%
7	Subtotal	\$ 406,979	\$ 529,258	\$ 122,280	30.05%	83.39%	82.04%
8							
9							
10	Standpipe	\$ 67,100	\$ 93,825	\$ 26,725	39.83%	13.75%	14.54%
11	Fire Sprinkler	240	240	-	0.00%	0.05%	0.04%
12	Subtotal	67,340	94,065	26,725	39.69%	13.80%	14.58%
13							
14							
15	Total Revenues <u>before</u> Annualization	\$ 474,318	\$ 623,323	\$ 149,005	31.41%	97.19%	96.63%
16							
17							
18							
19							
20							
21	5/8x3/4 Inch	\$ (1,434)	\$ (2,598)	\$ (1,164)	81.19%	-0.29%	-0.40%
22	3/4 Inch	-	-	-	0.00%	0.00%	0.00%
23	1 Inch	499	955	456	91.42%	0.10%	0.15%
24	1.5 Inch	(118)	(214)	(96)	81.31%	-0.02%	-0.03%
25	2 Inch	-	-	-	0.00%	0.00%	0.00%
26	4 Inch	7,707	16,344	8,637	112.08%	1.58%	2.53%
27	Subtotal	\$ 6,654	\$ 14,487	\$ 7,833	117.73%	1.36%	2.25%
28							
29							
30	Standpipe	345	606	261	75.62%	0.07%	0.09%
31	Fire Sprinkler	-	-	-	0.00%	0.00%	0.00%
32							
33	Total Revenue Annualization	\$ 6,999	\$ 15,093	\$ 8,094	115.65%	1.43%	2.34%
34							
35	Total Revenues <u>with</u> Rev. Annual.	\$ 481,317	\$ 638,416	\$ 157,099	32.64%	98.62%	98.97%
36							
37	Misc. Serv. Rev.	6,778	6,778	-	0.00%	1.389%	1.051%
38	Annualization of Misc Service Rev.	-	-	-	0.00%	0.000%	0.000%
39	Unreconciled Difference to C-1	(65)	(105)	(40)	61.54%	-0.013%	-0.016%
40							
41	Total Revenues	\$ 488,030	\$ 645,089	\$ 157,059	32.18%	100.00%	100.00%
42							

Las Quintas Serenas Water Company
Docket No. W-01583A-09-0589

THOMAS J. BOURASSA
REJOINDER TESTIMONY
(RATE BASE, INCOME STATEMENT, AND RATE DESIGN)
September 20, 2010

EXHIBIT TJB-RJ4

Las Quintas Serenas Water Company
Revenue Breakdown Summary
Company Present Rates

Attachment
Page 1

	<u>Monthly</u> <u>Mins+Surcharge</u>	<u>Commodity</u> <u>First Tier</u>	<u>Commodity</u> <u>Second Tier</u>	<u>Commodity</u> <u>Third Tier</u>	<u>Total</u>
5/8x3/4 Inch	\$ 209,538	\$ 33,212	\$ 68,071	\$ 14,979	\$ 325,801
3/4 Inch	\$ 2,848	\$ 273	\$ 882	\$ 92	\$ 4,095
1 Inch	\$ 18,278	\$ 6,278	\$ 556	\$ -	\$ 25,111
1.5 Inch	\$ 9,451	\$ 4,379	\$ 807	\$ -	\$ 14,637
2 Inch	\$ 7,725	\$ 3,443	\$ 5,876	\$ -	\$ 17,044
4 Inch	\$ 10,800	\$ 6,548	\$ 9,596	\$ -	\$ 26,944
Subtotal	\$ 258,640	\$ 54,134	\$ 85,788	\$ 15,072	\$ 413,632
Standpipe	\$ 40,245	\$ 4,503	\$ 5,148	\$ 17,549	\$ 67,445
Fire Sprinkler	\$ 480	\$ -	\$ -	\$ -	\$ 480
Subtotal	\$ 40,725	\$ 4,503	\$ 5,148	\$ 17,549	\$ 67,925
TOTALS	\$ 299,364	\$ 58,637	\$ 90,935	\$ 32,620	\$ 481,557
Percent of Total	62.17%	12.18%	18.88%	6.77%	100.00%
Cummulative %	62.17%	74.34%	93.23%	100.00%	

Las Quintas Serenas Water Company
 Revenue Breakdown Summary
 Company Proposed Rates

Attachment
 Page 2

	Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
5/8x3/4 Inch	\$ 195,360	\$ 65,428	\$ 79,833	\$ 108,829	\$ 449,450
3/4 Inch	\$ 2,160	\$ 538	\$ 891	\$ 1,367	\$ 4,956
1 Inch	\$ 17,400	\$ 11,132	\$ 3,495	\$ -	\$ 32,027
1.5 Inch	\$ 8,400	\$ 5,597	\$ 6,079	\$ -	\$ 20,076
2 Inch	\$ 7,680	\$ 5,071	\$ 15,476	\$ -	\$ 28,228
4 Inch	\$ 12,000	\$ 8,907	\$ 26,881	\$ -	\$ 47,788
Subtotal	\$ 243,000	\$ 96,673	\$ 132,655	\$ 110,196	\$ 582,524
Standpipe	\$ 38,057	\$ 8,872	\$ 6,444	\$ 43,854	\$ 97,226
Fire Sprinkler	\$ 480	\$ -	\$ -	\$ -	\$ 480
Subtotal	\$ 38,537	\$ 8,872	\$ 6,444	\$ 43,854	\$ 97,706
TOTALS	\$ 281,537	\$ 105,545	\$ 139,099	\$ 154,050	\$ 680,231
Percent of Total	41.39%	15.52%	20.45%	22.65%	100.00%
Cummulative %	41.39%	56.90%	77.35%	100.00%	

Las Quintas Serenas Water Company - Staff Proposed Rates
 Revenue Breakdown Summary
 Staff Proposed Rates

Attachment
 Page 3

	Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
5/8x3/4 Inch	\$ 195,360	\$ 37,757	\$ 70,020	\$ 113,169	\$ 416,306
3/4 Inch	\$ 2,160	\$ 311	\$ 781	\$ 1,421	\$ 4,673
1 Inch	\$ 17,400	\$ 10,070	\$ 3,180	\$ -	\$ 30,649
1.5 Inch	\$ 8,400	\$ 6,381	\$ 4,134	\$ -	\$ 18,915
2 Inch	\$ 7,680	\$ 5,580	\$ 14,412	\$ -	\$ 27,672
4 Inch	\$ 12,000	\$ 12,417	\$ 21,112	\$ -	\$ 45,529
Subtotal	\$ 243,000	\$ 72,515	\$ 113,640	\$ 114,590	\$ 543,745
Standpipe	\$ 38,057	\$ 5,120	\$ 5,652	\$ 45,603	\$ 94,431
Fire Sprinkler	\$ 240	\$ -	\$ -	\$ -	\$ 240
Subtotal	\$ 38,297	\$ 5,120	\$ 5,652	\$ 45,603	\$ 94,671
TOTALS	\$ 281,297	\$ 77,635	\$ 119,292	\$ 160,193	\$ 638,416
Percent of Total	44.06%	12.16%	18.69%	25.09%	100.00%
Cummulative %	44.06%	56.22%	74.91%	100.00%	

**Las Quintas Serenas Water Company
Docket No. W-01583A-09-0589**

**THOMAS J. BOURASSA
REJOINDER TESTIMONY
(RATE BASE, INCOME STATEMENT, AND RATE DESIGN)
September 20, 2010**

SCHEDULES

Las Quintas Serenas Water Company
 Test Year Ended June 30, 2009
 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			\$	2,015,574
2					
3	Adjusted Operating Income				52,655
4					
5	Current Rate of Return				2.61%
6					
7	Required Operating Income			\$	190,270
8					
9	Required Rate of Return on Fair Value Rate Base				9.44%
10					
11	Operating Income Deficiency			\$	137,615
12					
13	Gross Revenue Conversion Factor				1.4449
14					
15	Increase in Gross Revenue Revenue Requirement				198,846
16					
17	Adjusted Test Year Revenues			\$	488,270
18	Increase in Gross Revenue Revenue Requirement			\$	198,846
19	Proposed Revenue Requirement			\$	687,117
20	% Increase				40.72%
21					
22	Customer	Present	Proposed	Dollar	Percent
23	<u>Classification</u>	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>	<u>Increase</u>
24	5/8 Inch	\$ 327,234	\$ 452,369	\$ 125,134	38.24%
25	3/4 Inch	4,095	4,956	860	21.01%
26	1 Inch	24,612	31,015	6,403	26.02%
27	1.5 Inch	14,756	20,308	5,553	37.63%
28	2 Inch	17,044	28,228	11,183	65.61%
29	4 Inch	19,237	30,671	11,433	59.43%
30	Subtotal	<u>\$ 406,979</u>	<u>\$ 567,546</u>	<u>\$ 160,567</u>	<u>39.45%</u>
31					
32					
33	Standpipe	\$ 67,100	\$ 96,536	\$ 29,437	43.87%
34	Fire Sprinkler	480	480	-	0.00%
35	Subtotal	<u>\$ 67,580</u>	<u>\$ 97,016</u>	<u>\$ 29,437</u>	<u>43.56%</u>
36					
37	Subtotal Revenues before Annualization	<u>\$ 474,558</u>	<u>\$ 664,562</u>	<u>\$ 190,004</u>	<u>40.04%</u>
38					
39	Revenue Annualization	6,999	15,668	8,670	123.87%
40	Miscellaneous Revenues	6,778	6,778	-	0.00%
41	Reconciling Amount H-1 to C-1	(65)	108	173	-266.15%
42	Total of Water Revenues	<u><u>\$ 488,270</u></u>	<u><u>\$ 687,117</u></u>	<u><u>\$ 198,847</u></u>	<u><u>40.72%</u></u>
43					
44					
45	<u>SUPPORTING SCHEDULES:</u>				
46	Rejoinder B-1				
47	Rejoinder C-1				
48	Rejoinder C-3				
49	Rejoinder H-1				

Las Quintas Serenas Water Company
 Test Year Ended June 30, 2009
 Summary of Rate Base

Exhibit
 Rejoinder Schedule B-1
 Page 1
 Witness: Bourassa

Line No.	<u>Original Cost</u> <u>Rate base</u>	<u>Fair Value</u> <u>Rate Base</u>
1		
2	\$ 3,594,472	\$ 3,594,472
3	Less: Accumulated Depreciation	1,021,769
4		
5	Net Utility Plant in Service	\$ 2,572,703
6		
7	<u>Less:</u>	
8	Advances in Aid of	
9	Construction	351,405
10	Contributions in Aid of	
11	Construction	333,555
12		
13	Accumulated Amortization of CIAC	(83,901)
14		
15	Service Line and Meter Installation Chgs	19,641
16	Deferred Income Taxes & Credits	(71,046)
17	Customer Security Deposits	7,475
18		
19		
20	<u>Plus:</u>	
21	Unamortized Debt Issuance	
22	Costs	-
23	Deferred Reg. Assets	-
24	Working capital	-
25		
26		
27		
28		
29	Total Rate Base	\$ 2,015,574
30		
31		
32		
33	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
34	Rejoinder B-2	Rejoinder A-1
35	Rejoinder B-3	
36	Rejoinder B-5	
37		
38		

Las Quintas Serenas Water Company
 Test Year Ended June 30, 2009
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Schedule B-2
 Page 1
 Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustment Amount	Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	\$ 3,828,585	(234,113)	\$ 3,594,472
3				
4	Less:			
5	Accumulated			
6	Depreciation	1,077,428	(55,659)	1,021,769
7				
8				
9	Net Utility Plant			
10	in Service	\$ 2,751,157	\$ (178,454)	\$ 2,572,703
11				
12	Less:			
13	Advances in Aid of			
14	Construction	372,323	(20,918)	351,405
15				
16	Contributions in Aid of			
17	Construction	333,555	-	333,555
18				
19	Accumulated Amort of CIAC	(83,901)	-	(83,901)
20				
21	Service Line and Meter Installation Chgs	19,641	-	19,641
22	Deferred Income Taxes & Credits	-	(71,046)	(71,046)
23	Customer Security Deposits	-	7,475	7,475
24				
25				
26	Plus:			
27	Unamortized Debt Issuance			
28	Costs	-	-	-
29	Deferred Reg. Assets	-	-	-
30	Working capital	-	-	-
31				
32				
33				
34				
35	Total	<u>\$ 2,109,539</u>	<u>\$ (93,965)</u>	<u>\$ 2,015,574</u>

SUPPORTING SCHEDULES:
 Rejoinder B-2, pages 2

RECAP SCHEDULES:
 Rejoinder B-1

41
42
43
44
45
46
47
48

Las Quintas Serenas Water Company
 Test Year Ended June 30, 2009
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Rejoinder Schedule
 Page 2
 Witness: Bourassa

Line No.	Description	Actual at End of Test Year	Proforma Adjustments				Adjusted at end of Test Year
			1 Plant	2 Accumulated Depr.	3 AIAC	4 DIT	
1	Gross Utility Plant in Service	\$ 3,828,585	(234,113)				\$ 3,594,472
2				(55,659)			
3							
4	Less:						
5	Accumulated Depreciation	1,077,428					1,021,769
6							
7							
8							
9	Net Utility Plant in Service	\$ 2,751,157	\$ (234,113)	\$ 55,659	\$ -	\$ -	\$ 2,572,703
10							
11							
12	Less:						
13	Advances in Aid of Construction	372,323		(20,918)			351,405
14							
15							
16	Contributions in Aid of Construction (CIAC)	333,555					333,555
17							
18							
19	Accumulated Amort of CIAC	(83,901)					(83,901)
20							
21	Service Line and Meter Installation Chgs	19,641					19,641
22	Deferred Income Taxes & Credits	-			(71,046)		(71,046)
23	Customer Security Deposits	-				7,475	7,475
24							
25	Plus:						
26	Unamortized Finance Charges	-					-
27							
28							
29	Allowance for Working Capital	-					-
30							
31	Total	\$ 2,109,539	\$ (234,113)	\$ 55,659	\$ 20,918	\$ 71,046	\$ 2,015,574
32							
33							
34							
35							
36							
37							

RECAP SCHEDULES:
 B-1

SUPPORTING SCHEDULES:
 Rejoinder B-2, pages 3-6

Las Quintas Serenas Water Company
 Plant Additions and Retirements

Exhibit
 Rejoinder Schedule B-2
 Page 3.4

Account No.	Description	Prior Deprec. Rate	Current Deprec. Rate	Per Decision 67445		2004 Plant Additions	2004 Plant Adjustment	2004 Adjusted Plant Additions	2004 Plant Retirements	2004 Salvage A/D Only	September 2004 Plant Balance	2004 Deprec.
				Plant At 9/30/2003	9/30/2003 Accum. Depr.							
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-
303	Land and Land Rights	0.00%	0.00%	217	-	-	-	-	-	217	-	-
304	Structures and Improvements	3.33%	3.33%	6,599	3,110	-	-	-	-	6,599	330	-
305	Collecting and Impounding Res.	5.00%	2.50%	-	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes	5.00%	2.50%	-	-	-	-	-	-	-	-	-
307	Wells and Springs	5.00%	3.33%	300,389	141,585	-	-	-	-	300,389	15,019	-
308	Infiltration Galleries and Tunnels	5.00%	6.67%	-	-	-	-	-	-	-	-	-
309	Supply Mains	5.00%	2.00%	-	-	-	-	-	-	-	-	-
310	Power Generation Equipment	5.00%	5.00%	-	-	-	-	-	-	-	-	-
311	Electric Pumping Equipment	5.00%	12.50%	103,684	48,870	11,131	-	11,131	-	114,815	5,462	-
320	Water Treatment Equipment	5.00%	3.33%	830	391	-	-	-	-	830	42	-
320.1	Water Treatment Equipment	5.00%	3.33%	-	-	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	5.00%	20.00%	-	-	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	5.00%	2.22%	94,798	44,682	1,546	-	1,546	-	96,344	4,779	-
330.1	Storage tanks	5.00%	2.22%	-	-	-	-	-	-	-	-	-
330.2	Pressure Tanks	5.00%	5.00%	-	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	5.00%	2.00%	820,482	386,729	78,445	-	78,445	-	898,937	42,986	-
333	Services	5.00%	3.33%	2,427	1,144	-	-	-	-	2,427	121	-
334	Meters	5.00%	8.33%	100,610	47,421	-	-	-	-	100,610	5,031	-
335	Hydrants	5.00%	2.00%	-	-	-	-	-	-	-	-	-
336	Backflow Prevention Devices	5.00%	6.67%	1,137	536	-	-	-	-	1,137	57	-
339	Other Plant and Miscellaneous Equipment	5.00%	6.67%	-	-	-	-	-	-	-	-	-
340	Office Furniture and Fixtures	5.00%	6.67%	13,721	6,467	5,695	-	5,695	-	19,416	828	-
340.1	Computers and Software	5.00%	20.00%	-	-	-	-	-	-	-	-	-
341	Transportation Equipment	5.00%	20.00%	9,000	4,242	-	-	-	-	9,000	450	-
342	Stores Equipment	5.00%	4.00%	-	-	-	-	-	-	-	-	-
343	Tools and Work Equipment	5.00%	5.00%	-	-	-	-	-	-	-	-	-
344	Laboratory Equipment	5.00%	10.00%	-	-	-	-	-	-	-	-	-
345	Power Operated Equipment	5.00%	5.00%	2,592	1,222	-	-	-	-	2,592	130	-
346	Communications Equipment	5.00%	10.00%	-	-	-	-	-	-	-	-	-
347	Miscellaneous Equipment	5.00%	10.00%	-	-	2,746	-	2,746	-	2,746	69	-
348	Other Tangible Plant	5.00%	10.00%	4,424	2,085	-	-	-	-	4,424	221	-
	Rounding			1	0	-	-	-	(1)	-	(0)	-
				1,460,921	688,485	99,563	-	99,563	(1)	-	1,560,483	75,524

Plant Held for Future Use
 TOTAL WATER PLANT

1,460,921	688,485	99,563	-	99,563	(1)	-	1,560,483	75,524
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See B-2, page 3.8 See B-2, page 3.9

Las Quintas Serenas Water Company
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.5

Account No.	Description	Prior Deprec. Rate	Current Deprec. Rate	2005 Plant Additions	2005 Plant Adjustments	2005 Adjusted Plant Additions	2005 Plant Retirements	2005 Salvage/Adj. A/D Only	September 2005 Plant Balance	2005 Deprec.
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	217	-	-
304	Structures and Improvements	5.00%	3.33%	5,630	-	5,630	-	12,229	313	-
305	Collecting and Impounding Res.	5.00%	2.50%	-	-	-	-	-	-	-
306	Lake River and Other Intakes	5.00%	2.50%	-	-	-	-	-	-	-
307	Wells and Springs	5.00%	3.33%	14,095	-	14,095	-	314,484	10,238	-
308	Infiltration Galleries and Tunnels	5.00%	6.67%	-	-	-	-	-	-	-
309	Supply Mains	5.00%	2.00%	-	-	-	-	-	-	-
310	Power Generation Equipment	5.00%	5.00%	-	-	-	-	-	-	-
311	Electric Pumping Equipment	5.00%	12.50%	5,000	-	5,000	-	119,815	14,664	-
320	Water Treatment Equipment	5.00%	3.33%	910	-	910	-	1,740	43	-
320.1	Water Treatment Equipment	5.00%	3.33%	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	5.00%	20.00%	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	5.00%	2.22%	3,552	-	3,552	-	99,896	2,178	-
330.1	Storage tanks	5.00%	2.22%	-	-	-	-	-	-	-
330.2	Pressure Tanks	5.00%	5.00%	4,761	-	4,761	-	903,698	18,026	-
331	Transmission and Distribution Mains	5.00%	2.00%	-	-	-	-	-	-	-
333	Services	5.00%	3.33%	-	-	-	-	2,427	81	-
334	Meters	5.00%	8.33%	-	-	-	-	100,610	8,381	-
335	Hydrants	5.00%	2.00%	-	-	-	-	-	-	-
338	Backflow Prevention Devices	5.00%	6.67%	-	-	-	-	1,137	76	-
339	Other Plant and Miscellaneous Equipment	5.00%	6.67%	-	-	-	-	-	-	-
340	Office Furniture and Fixtures	5.00%	6.67%	3,202	-	3,202	-	22,618	1,402	-
340.1	Computers and Software	5.00%	20.00%	-	-	-	-	-	-	-
341	Transportation Equipment	5.00%	20.00%	18,292	-	18,292	-	27,292	3,629	-
342	Stores Equipment	5.00%	4.00%	-	-	-	-	-	-	-
343	Tools and Work Equipment	5.00%	5.00%	-	-	-	-	-	-	-
344	Laboratory Equipment	5.00%	10.00%	-	-	-	-	-	-	-
345	Power Operated Equipment	5.00%	5.00%	-	-	-	-	2,592	130	-
346	Communications Equipment	5.00%	10.00%	-	-	-	-	-	-	-
347	Miscellaneous Equipment	5.00%	10.00%	419	-	419	-	3,165	296	-
348	Other Tangible Plant	5.00%	10.00%	-	-	-	-	4,424	442	-
	Rounding			-	-	-	-	-	-	-
	Plant Held for Future Use									
	TOTAL WATER PLANT			55,861	-	55,861	-	1,616,344	59,899	-

Las Quintas Serenas Water Company
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.8

Account No.	Description	Prior Deprec. Rate	Current Deprec. Rate	2008 Plant Additions	2008 Plant Adjustments	Rejoinder Plant Adjustments	2008 Adjusted Plant Additions	2008 Plant Retirements	2008 Salvage and A/D Only	September 2008 Plant Balance	2008 Deprec.
301	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	-
302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-
303	Land and Land Rights	0.00%	0.00%	-	-	-	-	217	-	-	-
304	Structures and Improvements	5.00%	3.33%	-	-	-	-	12,229	-	407	-
305	Collecting and Impounding Res.	5.00%	2.50%	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes	5.00%	5.00%	-	-	-	-	(5,390)	-	10,383	-
307	Wells and Springs	5.00%	3.33%	-	-	-	-	-	-	-	-
308	Infiltration Galleries and Tunnels	5.00%	6.67%	-	-	-	-	-	-	-	-
309	Supply Mains	5.00%	2.00%	-	-	-	-	-	-	-	-
310	Power Generation Equipment	5.00%	5.00%	-	-	-	-	-	-	-	-
311	Electric Pumping Equipment	5.00%	12.50%	-	-	-	-	98,733	-	13,722	-
320	Water Treatment Equipment	5.00%	3.33%	-	-	-	-	1,740	-	58	-
320.1	Water Treatment Equipment	5.00%	3.33%	-	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	5.00%	20.00%	-	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	5.00%	2.22%	-	-	-	-	-	-	-	-
330.1	Storage tanks	5.00%	2.22%	-	-	-	-	-	-	-	-
330.2	Pressure Tanks	5.00%	5.00%	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	5.00%	2.00%	20,918	-	(20,918)	-	(20,918)	-	882,780	17,865
333	Services	5.00%	3.33%	-	-	-	-	-	-	2,427	81
334	Meters	5.00%	8.33%	-	-	-	-	-	-	101,418	8,448
335	Hydrants	5.00%	2.00%	-	-	-	-	-	-	-	-
336	Backflow Prevention Devices	5.00%	6.67%	-	-	-	-	-	-	1,137	76
339	Other Plant and Miscellaneous Equipment	5.00%	6.67%	-	-	-	-	-	-	-	-
340	Office Furniture and Fixtures	5.00%	6.67%	303	-	-	303	-	-	26,786	1,777
340.1	Computers and Software	5.00%	20.00%	-	-	-	-	-	-	-	-
341	Transportation Equipment	5.00%	20.00%	-	-	-	-	(3,500)	-	23,292	5,008
342	Stores Equipment	5.00%	4.00%	-	-	-	-	-	-	-	-
343	Tools and Work Equipment	5.00%	5.00%	-	-	-	-	-	-	-	-
344	Laboratory Equipment	5.00%	10.00%	-	-	-	-	-	-	-	-
345	Power Operated Equipment	5.00%	5.00%	-	-	-	-	-	-	2,592	130
346	Communications Equipment	5.00%	5.00%	-	-	-	-	-	-	-	-
347	Miscellaneous Equipment	5.00%	10.00%	-	-	-	-	-	-	3,165	317
348	Other Tangible Plant	5.00%	10.00%	-	-	-	-	-	-	4,424	442
	Rounding			-	-	-	-	-	-	-	-
	Plant Held for Future Use										
	TOTAL WATER PLANT			21,221	(20,918)	303	(49,890)	-	-	1,570,930	60,930

Las Quintas Serenas Water Company
Plant Additions and Retirements

Exhibit
Repeinder Schedule B-2
Page 3.10

Account No.	Description	Prior Deprec. Rate	Current Deprec. Rate	Year End Accumulated Depreciation by Account								
				Sep 2003	Sep 2004	Sep 2005	Sep 2006	Sep 2007	Sep 2008	June 2009		
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	5.00%	3.33%	3,110	3,440	3,754	4,161	4,568	4,975	5,281	-	-
305	Collecting and Impounding Res.	5.00%	2.50%	-	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes	5.00%	2.50%	-	-	-	-	-	-	-	-	-
307	Wells and Springs	5.00%	3.33%	141,585	156,604	166,842	177,314	187,787	192,779	200,499	-	-
308	Infiltration Galleries and Tunnels	5.00%	6.67%	-	-	-	-	-	-	-	-	-
309	Supply Mains	5.00%	2.00%	-	-	-	-	-	-	-	-	-
310	Power Generation Equipment	5.00%	5.00%	-	-	-	-	-	-	-	-	-
311	Electric Pumping Equipment	5.00%	12.50%	48,870	54,333	68,997	83,974	98,951	92,591	94,760	-	-
320	Water Treatment Equipment	5.00%	3.33%	391	433	476	533	591	649	693	-	-
320.1	Water Treatment Equipment	5.00%	3.33%	-	-	-	-	-	-	-	-	-
320.2	Chemical Solution Feeders	5.00%	20.00%	-	-	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	5.00%	2.22%	44,662	49,460	51,639	53,856	56,074	58,292	59,955	-	-
330.1	Storage tanks	5.00%	2.22%	-	-	-	-	-	-	-	-	-
330.2	Pressure Tanks	5.00%	5.00%	-	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	5.00%	2.00%	386,729	429,715	447,742	465,815	483,889	480,836	494,601	-	-
333	Services	5.00%	3.33%	1,144	1,265	1,346	1,427	1,508	1,589	1,649	-	-
334	Meters	5.00%	8.33%	47,421	52,452	60,833	69,247	77,695	86,143	92,479	-	-
335	Hydrants	5.00%	2.00%	-	-	-	-	-	-	-	-	-
336	Backflow Prevention Devices	5.00%	6.67%	536	593	669	744	820	896	953	-	-
339	Other Plant and Miscellaneous Equipment	5.00%	6.67%	-	-	-	-	-	-	-	-	-
340	Office Furniture and Fixtures	5.00%	6.67%	6,467	7,296	8,697	10,206	11,844	13,620	14,998	-	-
340.1	Computers and Software	5.00%	20.00%	-	-	-	-	-	-	-	-	-
341	Transportation Equipment	5.00%	20.00%	4,242	4,692	8,321	13,780	18,688	20,196	23,286	-	-
342	Stores Equipment	5.00%	4.00%	-	-	-	-	-	-	-	-	-
343	Tools and Work Equipment	5.00%	5.00%	-	-	-	-	-	-	-	-	-
344	Laboratory Equipment	5.00%	10.00%	-	-	-	-	-	-	-	-	-
345	Power Operated Equipment	5.00%	5.00%	1,222	1,351	1,481	1,611	1,740	1,870	1,967	-	-
346	Communications Equipment	5.00%	10.00%	-	-	-	-	-	-	-	-	-
347	Miscellaneous Equipment	5.00%	10.00%	-	69	364	681	997	1,314	1,551	-	-
348	Other Tangible Plant	5.00%	10.00%	2,085	2,306	2,749	3,191	3,634	4,076	4,408	-	-
	Rounding			0	-	-	-	-	-	-	-	-
				668,486	764,010	823,909	886,541	948,787	959,827	1,021,769	-	-

Plant Held for Future Use
TOTAL WATER PLANT

Line No.	Account No.	Description	Balance Per Company Before Adj.	Adjustments		Per Decision 67445 Prior Case Adjusted Plant	Initial Balance
				Adopted Staff Adjustments	Intentionally Left Blank		
1							
2							
3							
4							
5							
6	301	Organization Cost	-			-	-
7	302	Franchise Cost	-			-	-
8	303	Land and Land Rights	5,217	(5,000)		217	217
9	304	Structures and Improvements	6,599			6,599	6,599
10	305	Collecting and Impounding Res.	-			-	-
11	306	Lake River and Other Intakes	-			-	-
12	307	Wells and Springs	259,402	40,987		300,389	300,389
13	308	Infiltration Galleries and Tunnels	-			-	-
14	309	Supply Mains	-			-	-
15	310	Power Generation Equipment	-			-	-
16	311	Electric Pumping Equipment	154,555	(50,871)		103,684	103,684
17	320	Water Treatment Equipment	-	830		830	830
18	320.1	Water Treatment Plants	-			-	-
19	320.2	Chemical Solution Feeders	-			-	-
20	330	Distribution Reservoirs & Standpipe	82,215	12,583		94,798	94,798
21	330.1	Storage tanks	-			-	-
22	330.2	Pressure Tanks	-			-	-
23	331	Transmission and Distribution Mains	622,434	(1,942)		820,492	820,492
24	333	Services	2,427			2,427	2,427
25	334	Meters	99,647	963		100,610	100,610
26	335	Hydrants	-			-	-
27	336	Backflow Prevention Devices	-	1,137		1,137	1,137
28	339	Other Plant and Miscellaneous Equipment	-			-	-
29	340	Office Furniture and Fixtures	13,424	297		13,721	13,721
30	340.1	Computers and Software	-			-	-
31	341	Transportation Equipment	9,000			9,000	9,000
32	342	Stores Equipment	-			-	-
33	343	Tools and Work Equipment	-			-	-
34	344	Laboratory Equipment	-			-	-
35	345	Power Operated Equipment	-	2,592		2,592	2,592
36	346	Communications Equipment	-			-	-
37	347	Miscellaneous Equipment	6,943	(6,943)		-	-
38	348	Other Tangible Plant	-	4,424		4,424	4,424
39		Plant not in Service	-	1		1	1
40		TOTAL	1,461,863	(942)		1,460,921	1,460,921
41							

Line No.	Account No.	Description	67445 Per Decision Prior Case Adjusted A/D	Adjustment A/D	Initial Balance
5	301	Organization Cost	-	-	-
6	302	Franchise Cost	-	-	-
7	303	Land and Land Rights	-	-	-
8	304	Structures and Improvements	3,110	-	3,110
9	305	Collecting and Impounding Res.	-	-	-
10	306	Lake River and Other Intakes	-	-	-
11	307	Wells and Springs	141,585	-	141,585
12	308	Infiltration Galleries and Tunnels	-	-	-
13	309	Supply Mains	-	-	-
14	310	Power Generation Equipment	-	-	-
15	311	Electric Pumping Equipment	48,870	-	48,870
16	320	Water Treatment Equipment	391	-	391
17	320.1	Water Treatment Plants	-	-	-
18	320.2	Chemical Solution Feeders	-	-	-
19	330	Distribution Reservoirs & Standpipe	44,682	-	44,682
20	330.1	Storage tanks	-	-	-
21	330.2	Pressure Tanks	-	-	-
22	331	Transmission and Distribution Mains	386,729	-	386,729
23	333	Services	1,144	-	1,144
24	334	Meters	47,421	-	47,421
25	335	Hydrants	-	-	-
26	336	Backflow Prevention Devices	536	-	536
27	339	Other Plant and Miscellaneous Equipment	-	-	-
28	340	Office Furniture and Fixtures	6,467	-	6,467
29	340.1	Computers and Software	-	-	-
30	341	Transportation Equipment	4,242	-	4,242
31	342	Stores Equipment	-	-	-
32	343	Tools and Work Equipment	-	-	-
33	344	Laboratory Equipment	-	-	-
34	345	Power Operated Equipment	1,222	-	1,222
35	346	Communications Equipment	-	-	-
36	347	Miscellaneous Equipment	-	-	-
37	348	Other Tangible Plant	2,085	-	2,085
38		Rounding and prior Rate Case Adjustment	0	0	0
40		TOTAL	688,486	-	688,486

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - B

Exhibit
Rejoinder Schedule B-2
Page 3.2
Witness: Bourassa

Line

No.

1	<u>Remove Debt Issuance Costs</u>	
2		
3	Acct 320.1 - Water Treatment Equipment	\$ (185,625)
4		
5		
6	Adjustment to Acct 320.1 - Water Treatment Equipment	<u>\$ (185,625)</u>
7		
8		
9		
10		
11		
12		
13	<u>SUPPORTING SCHEDULES</u>	
14	Staff Schedule CSB-6	
15		
16		
17		
18		
19		
20		

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - C

Exhibit
Rejoinder Schedule B-2
Page 3.3
Witness: Bourassa

Line

No.

1	<u>Not Used and Useful Plant</u>		
2			
3	Acct 311 - Electric Pumping Equipment		
4	Well #6 - Natural gas well engine	\$ (10,090)	
5	Natural gas well engine - spare	<u>(9,992)</u>	
6	Total Acct 311 - Electric Pumping Equipment		\$ (20,082)
7			
8	Acct 331 - Transmission and Distribution Mains		
9	Sun Cruz Meadows Subdivision		<u>\$ (20,918)</u>
10			
11	Total Plant Not Used and Useful		\$ (41,000)
12			
13			
14	Adjustment to Plant in Service		<u>\$ (41,000)</u>
15			
16			
17			
18	<u>SUPPORTING SCHEDULES</u>		
19	Exhibit MSJ Table H-1		
20			

Las Quintas Serenas Water Company
 Test Year Ended June 30, 2009
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 2

Exhibit
 Rejoinder Schedule B-2
 Page 4
 Witness: Bourassa

Line No.	Accumulated Depreciation	A	B	C	D	E	Rejoinder Adjusted Accum. Depr.
		Adjusted Accum. Depr.	Debt Issuance Costs	Not Used and Useful Plant	Reconciliation To Computed A/D	Intentionally Left Blank	
1		\$ -					\$ -
2							
3							
4	Acct. No.	Description					
5	301	Organization Cost					
6	302	Franchise Cost					
7	303	Land and Land Rights					
8	304	Structures and Improvements	5,281				5,281
9	305	Collecting and Impounding Res.	-				-
10	306	Lake River and Other Intakes	-				-
11	307	Wells and Springs	200,499				200,499
12	308	Infiltration Galleries and Tunnels	-				-
13	309	Supply Mains	-				-
14	310	Power Generation Equipment	-				-
15	311	Electric Pumping Equipment	126,638	(7,488)	(4,308)		94,760
16	320	Water Treatment Equipment	693				693
17	320.1	Water Treatment Plant	27,007	(2,318)	0		24,689
18	320.2	Chemical Solution Feeders	-				-
19	330	Dist. Reservoirs & Standpipe	59,955				59,955
20	330.1	Storage tanks	-				-
21	330.2	Pressure Tanks	-				-
22	331	Trans. and Dist. Mains	516,042	(20,918)	(523)		494,601
23	333	Services	1,649				1,649
24	334	Meters	92,479				92,479
25	335	Hydrants	-				-
26	336	Backflow Prevention Devices	953				953
27	339	Other Plant and Misc. Equip.	-				-
28	340	Office Furniture and Fixtures	14,998				14,998
29	340.1	Computers and Software	-				-
30	341	Transportation Equipment	23,292		(6)		23,286
31	342	Stores Equipment	-				-
32	343	Tools and Work Equipment	-				-
33	344	Laboratory Equipment	-				-
34	345	Power Operated Equipment	1,967				1,967
35	346	Communications Equipment	-				-
36	347	Miscellaneous Equipment	1,551		0		1,551
37	348	Other Tangible Plant	4,424		(16)		4,408
38			-				-
39		TOTALS	\$ 1,077,428	\$ (7,488)	\$ (41,000)	\$ (4,853)	\$ 1,021,769
40							
41		Accumulated Depreciation per Books					\$ 1,077,428
42							
43		Increase (decrease) in Accumulated Depreciation					\$ (55,659)
44							
45		Adjustment to Plant-in-Service					\$ (55,659)
46							
47		SUPPORTING SCHEDULES					
48		Rejoinder B-2, pages 3.1 to 3.10					
49							

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - A

Exhibit
Rejoinder Schedule B-2
Page 4.1
Witness: Bourassa

Line
No.

1	<u>Plant Retirement</u>		
2			
3	Acct 331 - Pumping Equipment	Pump Bowl Assembly	\$ (7,488)
4			
5			
6	Adjustment to A/D Acct 331 - Pumping Equipment		<u>\$ (7,488)</u>
7			
8			
9			
10			
11			
12			
13	<u>SUPPORTING SCHEDULES</u>		
14	Rejoinder B-2, page 3.1		
15			
16			
17			
18			
19			
20			

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - B

Exhibit
Rejoinder Schedule B-2
Page 4.2
Witness: Bourassa

Line

No.

1	<u>Remove Debt Issuance Costs</u>	
2		
3	Acct 320.1 - Water Treatment Equipment added in 2009	\$ (185,625)
4		
5	Depreciation (\$185,625 times 3.33% times 1/2 times 3/4)	\$ (2,318)
6		
7	Adjustment to A/D for Acct 320.1 - Water Treatment Equipment	<u>\$ (2,318)</u>
8		
9		
10		
11		
12		
13		
14	<u>SUPPORTING SCHEDULES</u>	
15	Rejoinder B-2, page 3.2	
16		
17		
18		
19		
20		
21		

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - C

Exhibit
Rejoinder Schedule B-2
Page 4.3
Witness: Bourassa

Line

No.

1	<u>Not Used and Useful Plant</u>		
2			
3	Acct 311 - Electric Pumping Equipment		
4	1996 Well #6 - Natural gas well engine fully depreciated	\$ (10,090)	
5	1997 Natural gas well engine - spare - fully depreciated	<u>(9,992)</u>	
6	Total Depreciation Acct 311 - Electric Pumping Equipment		\$ (20,082)
7			
8	Acct 331 - Transmission and Distribution Mains		
9	2008 Sun Cruz Meadows Subdivision	\$ (20,918)	
10	Total Depreciation Acct 331 - Trans. And Dist Mains		\$ (20,918)
11			
12			
13	Total A/D for Plant Not Used and Useful		\$ (41,000)
14			
15			
16	Adjustment to A/D for plant not used and useful		<u>\$ (41,000)</u>
17			
18			
19			
20	<u>SUPPORTING SCHEDULES</u>		
21	Rejoinder B-2, page 3.3		
22			

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Original Cost Rate Base Proforma Adjustments
Adjustment Number 3

Exhibit
Rejoinder Schedule B-2
Page 5
Witness: Bourassa

Line

No.

1	<u>Advances-in-aid of Construction ("AIAC")</u>	
2		
3	Remove AIAC funding for not used and useful plant	
4	Sun Cruz Meadows Subdivision	\$ (20,918)
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16	Adjustment to AIAC for plant not used and useful	<u>\$ (20,918)</u>
17		
18		
19		
20	<u>SUPPORTING SCHEDULES</u>	
21	Rejoinder B-2, page 3.3	
22		

Line No.		Federal	State
1			
2	1 Adjusted per Rejoinder Schedule B-2, page 2		
3			
4	2 Tax Basis as of June 30, 2009		
5	Unadjusted Cost Basis per 2009 Tax Return (Fiscal Year Ended 09/30/2009)	\$ 3,357,452	\$ 3,357,452
6	Adjustments:		
7			
8	Assets added after 6/30/2009, not on books but on tax	\$ -	\$ -
9	Tax Accumulated Depreciation through 9/30/2008	\$ (738,969)	\$ (742,979)
10	Section 179 deductions through 9/30/2008	\$ (105,561)	\$ (105,561)
11	Tax Depreciation Including Bonus Depr. per 2009 Tax Return		
12	Less: Tax Depreciation related to assets added after 6/30/2009	\$ 1,090,620	\$ 78,051
13	Tax Depreciation Including Bonus Depr. per 2009 Tax Return		
14	Factor (9 months through 6/30/2009)	\$ 1,090,620	\$ 78,051
15	Adjusted 2009 Tax Depreciation Including Bonus Depr.	0.75	0.75
16	Remove Plant Retirements per B-2 adjustment 1-A	\$ (817,965)	\$ (58,538)
17	Tax Depr on retired plant (\$7,488 times 4% times 11.25 yrs)	\$ (7,488)	\$ (7,488)
18	Remove Not Used and Useful Plant per B-2 adjustment 1-C	\$ 3,370	\$ 3,370
19	Tax Depr on not used and useful plant - Natural gas Engine Generator per Depr Rpt	\$ 5,314	\$ (41,000)
20	Tax Depr on not used and useful plant - Natural gas Engine Generator per Depr Rpt	\$ 4,996	\$ 5,314
21	Tax Depr on not used and useful plant - Trans and Dist Mains (Fed - \$20,198 times 4% times .25 yrs plus \$20,918 times 50%, State - \$20,918 times 4% times .5 times. 75)	\$ 10,762	\$ 4,996
22			
23			
24			
25	Net Tax Value	\$ 21,072	\$ 10,613
26		<u>\$ 1,650,911</u>	<u>\$ 2,415,868</u>
27	3 Impact of change to probability of realization		
28			
29	Gross CIAC per B-2	\$ 333,555	
30	A.A per B-2	(83,901)	
31	Net CIAC per B-2	\$ 249,654	
32	Unrealized AIAC Component		
33	AIAC	\$ 351,405	
34	Unrealized AIAC Component % (1-Realized AIAC Component)	70.0%	
35	Addition to CIAC	\$ 245,984	
36	Total CIAC	\$ 495,638	
37			
38	4 AIAC (including impact of change in probability of realization)		
39	AIAC per B-2 before unrealized portion	\$ 351,405	
40	Less: Unrealized AIAC (from Note 4, above)	\$ (245,984)	
41	Net realizable AIAC	<u>\$ 105,422</u>	
42			
43			
44			
45			

Las Quintas Serenas Water Company
 Test Year Ended June 30, 2009
 Original Cost Rate Base Proforma Adjustments
 Adjustment 4 (footnotes)

Line No.				
1				
2				
3	⁵ NOL from Bonus Depreciation			
4				
5	Net Income 12 months ended 6/30/2009 (per E-1 schedule)	\$	84,985	
6	Plus: Book Depreciation (07/01/2008 to 6/30/2009)			
7	Book Depreciation 12 months ended 09/30/2008	\$	35,894	
8	Factor (3 months 7/1/2008 to 9/30/2008)		0.333	\$ 11,953
9				
10	Book Depreciation 12 months ended 09/30/2009	\$	28,497	
11	Factor (9 months 10/01/2008 to 6/30/2009)		0.75	\$ 21,373
12				
13	Less: Tax Depreciation (07/01/2008 to 6/30/2009)			
14	Tax Depreciation and Section 179 (10/01/2007 to 9/30/2008)	\$	35,759	
15	Factor (3 months 7/1/2008 to 9/30/2008)		0.333	\$ (11,908)
16				
17	Adjusted Tax Depreciation (10/01/2008 to 9/30/2009) from above	\$	56,568	
18	Factor (9 months 10/01/2008 to 6/30/2009)		0.75	\$ (42,426)
19				
20	Adjusted Bonus Depreciation (10/01/2008 to 9/30/2009) from above	\$	1,034,052	
21	Factor (9 months 10/01/2008 to 6/30/2009)		0.75	\$ (775,539)
22				
23	NOL from Bonus Depreciation	\$	(711,562)	
24				
25	Less: NOL Carry back to prior years	\$	222,553	
26				
27	NOL Carryforward from bonus depreciation	\$	(489,009)	
28				
29	⁶ Effective tax rates Per C-3 schedule			
30				
31				
32				
33				
34				
35				
36				
37				
38				
39				
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41				
42				
43				
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46				
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50				
51				
52				
53				

Las Quintas Serenas Water Company
 Test Year Ended June 30, 2009
 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)	\$	30,375
3	Pumping Power (1/24 of Pumping Power)		3,104
4	Purchased Water (1/24 of Purchased Water)		-
5	Materials and Supplies		4,220
6	Prepays		1,583
7			
8			
9	Total Working Capital Allowance	<u>\$</u>	<u>39,282</u>
10			
11			
12	Working Capital Requested	<u>\$</u>	<u>-</u>
13			
14			

15 SUPPORTING SCHEDULES:

16 Rejoinder C-1
 17 E-1

RECAP SCHEDULES:

Rejoinder B-1

18			Adjusted
19	<u>Cash Working Capital Detail</u>		<u>Test Year Results</u>
20			
21	Total Operating Expense	\$	435,615
22	Less:		
23	Income Tax		(19,826)
24	Property Tax		26,561
25	Depreciation		111,381
26	Purchased Water		-
27	Pumping Power		74,502
28	Allowable Expenses	<u>\$</u>	<u>242,997</u>
29	1/8 of allowable expenses	<u>\$</u>	<u>30,375</u>
30			
31			

Las Quintas Serenas Water Company
 Test Year Ended June 30, 2009
 Income Statement

Exhibit
 Rejoinder Schedule C-1
 Page 1
 Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Revenues					
2	Metered Water Revenues	\$ 481,492	\$ -	\$ 481,492	\$ 198,846	\$ 680,339
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	6,778	-	6,778		6,778
5		<u>\$ 488,270</u>	<u>\$ -</u>	<u>\$ 488,270</u>	<u>\$ 198,846</u>	<u>\$ 687,117</u>
6	Operating Expenses					
7	Salaries and Wages	\$ 150,775	-	\$ 150,775		\$ 150,775
8	Purchased Water	-	-	-		-
9	Purchased Power	74,502	-	74,502		74,502
10	Fuel for Power Production	4,217	-	4,217		4,217
11	Chemicals	765	-	765		765
12	Materials & Supplies	21,840	-	21,840		21,840
13	Outside Services	-	-	-		-
14	Outside Services- Legal	-	-	-		-
15	Outside Services- Other	6,568	-	6,568		6,568
16	Water Testing	7,408	(3,161)	4,247		4,247
17	Equipment Rental	-	-	-		-
18	Rents	11,874	-	11,874		11,874
19	Transportation Expenses	7,012	-	7,012		7,012
20	Insurance - General Liability	2,825	-	2,825		2,825
21	Insurance - Health and Life	-	-	-		-
22	Reg. Comm. Exp.	-	-	-		-
23	Reg. Comm. Exp. - Rate Case	26,667	-	26,667		26,667
24	Miscellaneous Expense	6,177	-	6,177		6,177
25	Bad Debt Expense	31	-	31		31
26	Depreciation Expense	117,586	(6,205)	111,381		111,381
27	Taxes Other Than Income	-	-	-		-
28	Property Taxes	26,078	483	26,561		26,561
29	Income Tax	(23,603)	3,777	(19,826)	61,232	41,405
30	Total Operating Expenses	<u>\$ 440,721</u>	<u>\$ (5,106)</u>	<u>\$ 435,615</u>	<u>\$ 61,232</u>	<u>\$ 496,846</u>
31	Operating Income	<u>\$ 47,550</u>	<u>\$ 5,106</u>	<u>\$ 52,655</u>	<u>\$ 137,615</u>	<u>\$ 190,270</u>
32	Other Income (Expense)					
33	Interest Income	-	-	-		-
34	Other income (loss)	-	-	-		-
35	Interest Expense	(103,237)	6,023	(97,214)		(97,214)
36	Other Expense	-	-	-		-
37						
38	Total Other Income (Expense)	<u>\$ (103,237)</u>	<u>\$ 6,023</u>	<u>\$ (97,214)</u>	<u>\$ -</u>	<u>\$ (97,214)</u>
39	Net Profit (Loss)	<u>\$ (55,687)</u>	<u>\$ 11,129</u>	<u>\$ (44,559)</u>	<u>\$ 137,615</u>	<u>\$ 93,056</u>

41 SUPPORTING SCHEDULES:
 42 Rejoinder C-1, page 2
 43

RECAP SCHEDULES:
 Rejoinder A-1

Las Quintas Serenas Water Company
 Test Year Ended June 30, 2009
 Income Statement

Exhibit
 Rejoinder Schedule C-1
 Page 2
 Witness: Bourassa

Line No.	Revenues	1	2	3	4	5	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Metered Water Revenues	\$ 481,492					\$ 481,492	\$ 198,846	\$ 680,339
2	Unmetered Water Revenues	-					-		-
3	Other Water Revenues	6,778					6,778		6,778
4		\$ 488,270	\$ -	\$ -	\$ -	\$ -	\$ 488,270	\$ 198,846	\$ 687,117
5									
6	Operating Expenses	\$ 150,775					\$ 150,775	\$ -	\$ 150,775
7	Salaries and Wages	-					-		-
8	Purchased Water	74,502					74,502		74,502
9	Fuel for Power Production	4,217					4,217		4,217
10	Chemicals	765					765		765
11	Materials & Supplies	21,840					21,840		21,840
12	Outside Services	-					-		-
13	Outside Services- Legal	-					-		-
14	Outside Services- Other	6,568					6,568		6,568
15	Water Testing	7,408		(3,161)			4,247		4,247
16	Equipment Rental	-					-		-
17	Rents	11,874					11,874		11,874
18	Transportation Expenses	7,012					7,012		7,012
19	Insurance - General Liability	2,825					2,825		2,825
20	Insurance - Health and Life	-					-		-
21	Reg. Comm. Exp.	-					-		-
22	Reg. Comm. Exp. - Rate Case	-					-		-
23	Miscellaneous Expense	26,667					26,667		26,667
24	Bad Debt Expense	6,177					6,177		6,177
25	Depreciation Expense	31					31		31
26	Taxes Other Than Income	117,586	(6,205)				111,381		111,381
27	Property Taxes	-					-		-
28	Income Tax	26,078	483				26,561		26,561
29		(23,603)					(19,826)		(19,826)
30	Total Operating Expenses	\$ 440,721	\$ (6,205)	\$ (3,161)	\$ -	\$ 3,777	\$ 435,615	\$ 61,232	\$ 496,846
31	Operating Income	\$ 47,550	\$ 6,205	\$ (483)	\$ -	\$ (3,777)	\$ 52,655	\$ 137,615	\$ 190,270
32	Other Income (Expense)	-					-		-
33	Interest Income	-					-		-
34	Other income (loss)	-					-		-
35	Interest Expense	(103,237)			6,023		(97,214)		(97,214)
36	Other Expense	-					-		-
37		-					-		-
38	Total Other Income (Expense)	\$ (103,237)	\$ -	\$ -	\$ 6,023	\$ -	\$ (97,214)	\$ -	\$ (97,214)
39	Net Profit (Loss)	\$ (55,687)	\$ 6,205	\$ (483)	\$ 3,161	\$ (3,777)	\$ (44,559)	\$ 137,615	\$ 93,056
40									

RECAP SCHEDULES:
 Rejoinder C-1, page 1

SUPPORTING SCHEDULES:
 Rejoinder C-2

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Adjustments to Revenues and Expenses

Line No.	1	2	3	4	5	6	Subtotal
	Depreciation Expense	Property Taxes	Water Testing Expense	Interest Synchronization	Income Taxes		
2							
3							
4							
5	(6,205)	483	(3,161)		3,777		(5,106)
6							
7							
8	6,205	(483)	3,161	-	(3,777)	-	5,106
9							
10							
11				6,023			6,023
12							
13							
14							
15							
16	6,205	(483)	3,161	6,023	(3,777)	-	11,129
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							
31							
32							
33							
34							
35							

Line No.	7	8	9	10	11	12	Subtotal
	Blank	Blank	Blank	Blank	Blank	Blank	
22							
23							
24							
25							
26							
27							
28							
29							
30							
31							
32							
33							
34							
35							

Las Quintas Serenas Water Company
 Test Year Ended June 30, 2009
 Adjustments to Revenues and Expenses
 Adjustment Number 1

Exhibit
 Rejoinder Schedule C-2
 Page 2
 Witness: Bourassa

Line
No.

1	<u>Depreciation Expense</u>		
2		Adjusted	
3	Acct.	Original	Proposed
4	No.	Cost	Rates
5	Description		Depreciation
6			Expense
7	301	-	0.00%
8	302	-	0.00%
9	303	217	0.00%
10	304	12,229	3.33%
11	305	-	2.50%
12	306	-	2.50%
13	307	309,094	3.33%
14	308	-	6.67%
15	309	-	2.00%
16	310	-	5.00%
17	311	123,768	12.50%
18	320	1,740	3.33%
19	320.1	1,977,069	3.33%
20	320.2	-	20.00%
21	330	99,896	2.22%
22	330.1	-	2.22%
23	330.2	-	5.00%
24	331	903,698	2.00%
25	333	2,427	3.33%
26	334	101,418	8.33%
27	335	-	2.00%
28	336	1,137	6.67%
29	339	-	6.67%
30	340	28,306	6.67%
31	340.1	-	20.00%
32	341	23,292	20.00%
33	342	-	4.00%
34	343	-	5.00%
35	344	-	10.00%
36	345	2,592	5.00%
37	346	-	10.00%
38	347	3,165	10.00%
39	348	4,424	10.00%
40			
41			
42			
43		<u>\$ 3,594,472</u>	
44			<u>\$ 123,296</u>
45			
46	Less: Amortization of Contributions	\$ 333,555	3.5721%
47			\$ (11,915)
48			
49	Total Depreciation Expense		<u>\$ 111,381</u>
50			
51	Test Year Depreciation Expense		<u>117,586</u>
52			
53	Increase (decrease) in Depreciation Expense		<u>(6,205)</u>
54			
55	Adjustment to Revenues and/or Expenses		<u>\$ (6,205)</u>
56			

54 SUPPORTING SCHEDULE

55 Rejoinder B-2, page 1

56 Rejoinder B-2, page 3

* Fully Depreciated

Las Quintas Serenas Water Company
 Test Year Ended June 30, 2009
 Adjustment to Revenues and 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 6/30/09	\$	488,270
4	Adjusted Revenues in year ended 6/30/09		488,270
5	Proposed Revenues		687,117
6	Average of three year's of revenue	\$	554,552
7	Average of three year's of revenue, times 2	\$	1,109,105
8	Add:		
9	Construction Work in Progress at 10%	\$	-
10	Deduct:		
11	Book Value of Transportation Equipment		-
12			
13	Full Cash Value	\$	1,109,105
14	Assessment Ratio		21%
15	Assessed Value		232,912
16	Property Tax Rate		11.4039%
17			
18	Property Tax		26,561
19	Plus: Tax on Parcels		0
20			
21	Total Property Tax at Proposed Rates	\$	26,561
22	Adjusted Property Taxes per Direct		26,078
23	Change in Property Taxes	\$	483
24			
25			
26	Adjustment to Revenues and/or Expenses	\$	483
27			
28			

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 3

Exhibit
Rejoinder Schedule C-2
Page 4
Witness: Bourassa

Line			
<u>No.</u>			
1	<u>Water Testing Expense</u>		
2			
3	Water Testing Expense per Staff	\$	4,247
4			
5	Test Water Tear Testing Expense		<u>7,408</u>
6			
7	Increase (decrease) in Water Testing Expense	\$	(3,161)
8			
9			
10			
11			
12			
13			
14			
15	Adjustment to Revenue and/or Expense	\$	<u>(3,161)</u>
16			
17			
18			
19			
20	<u>SUPPORTING SCHEDULE</u>		
21	Staff Schedule CSB-13		
22			
23			
24			

Las Quintas Serenas Water Company
 Test Year Ended June 30, 2009
 Adjustment to Revenues and Expenses
 Adjustment Number 4

Exhibit
 Rejoinder Schedule C-2
 Page 5
 Witness: Bourassa

Line
 No.

1	<u>Interest Synchronization</u>			
2				
3				
4	Fair Value Rate Base	\$	2,015,574	
5	Weighted Cost of Debt		4.82%	
6	Interest Expense			\$ 97,214
7				
8	Test Year Interest Expense			<u>\$ 103,237</u>
9				
10	Increase (decrease) in Interest Expense			(6,023)
11				
12				
13				
14	Adjustment to Revenue and/or Expense			<u><u>\$ 6,023</u></u>

17 Weighted Cost of Debt Computation

	<u>Amount</u>	<u>Percent</u>	<u>Cost</u>	<u>Weighted Cost</u>
20 Debt	\$ 1,725,175	67.93%	7.10%	4.82%
21 Equity	\$ 814,405	32.07%	14.40%	4.62%
22 Total	\$ 2,539,580	100.00%		9.44%

23
 24

Las Quintas Serenas Water Company
 Test Year Ended June 30, 2009
 Adjustment to Revenues and/or Expenses
 Adjustment Number 5

Exhibit
 Rejoinder Schedule C-2
 Page 6
 Witness: Bourassa

Line No.			Adjusted with Rate Increase
1	<u>Income Tax Computation</u>		
2			
3			
4			
5			
6			
7	Taxable Income	\$ (64,385)	\$ 134,462
8			
9	Taxable Income	<u>\$ (64,385)</u>	<u>\$ 134,462</u>
10			
11			
12			
13	Income Before Taxes		<u>\$ 134,462</u>
14			
15	Arizona Income Before Taxes		\$ 134,462
16			
17	Less Arizona Income Tax		<u>\$ 9,369</u>
18	Rate =	6.97%	
19	Arizona Taxable Income		\$ 125,092
20			
21	Arizona Income Taxes		\$ 9,369
22			
23	Federal Income Before Taxes		\$ 134,462
24			
25	Less Arizona Income Taxes		<u>\$ 9,369</u>
26			
27	Federal Taxable Income		<u>\$ 125,092</u>
28			
29			
30			
31	FEDERAL INCOME TAXES:		
32	15% BRACKET		\$ 7,500
33	25% BRACKET		\$ 6,250
34	34% BRACKET		\$ 8,500
35	39% BRACKET		\$ 9,786
36	34% BRACKET		\$ -
37			Rate
38	Federal Income Taxes		<u>\$ 32,036</u> 23.83%
39			
40			
41	Total Income Tax		<u>\$ 41,405</u>
42			
43	Overall Tax Rate		<u>30.79%</u>
44			
45	Income Tax at Proposed Rates Effective Rate	<u>\$ (19,826)</u>	
46			

Las Quintas Serenas Water Company
 Test Year Ended June 30, 2009
 Computation of Gross Revenue Conversion Factor

Exhibit
 Schedule C-3
 Page 1
 Witness: Bourassa

Line No.	<u>Description</u>	Percentage of Incremental Gross <u>Revenues</u>
1	Federal Income Taxes	23.83%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	<u>0.00%</u>
6		
7		
8	Total Tax Percentage	30.79%
9		
10	Operating Income % = 100% - Tax Percentage	69.21%
11		
12		
13		
14		
15	<u>1</u> = Gross Revenue Conversion Factor	
16	Operating Income %	1.4449
17		
18	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
19		Rejoinder A-1
20		

Las Quintas Serenas Water Company
 Test Year Ended June 30, 2009
 Analysis of Average Bill by Detailed Class

Exhibit
 Rejoinder Schedule H-2
 Page 1
 Witness: Bourassa

Line No.	Meter Size and Class	(a)	Average Consumption	Average Bill		Proposed Increase	
		Average Number of Customers at 6/30/2009		Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	5/8x3/4 Inch	820	10,768	\$ 32.95	\$ 44.00	11.04	33.51%
2	3/4 Inch	6	15,598	56.69	68.35	11.66	20.57%
3	1 Inch	28	16,842	72.79	89.94	17.15	23.56%
4	1.5 Inch	7	52,477	172.19	225.93	53.75	31.21%
5	2 Inch	4	153,057	337.57	566.81	229.24	67.91%
6	4 Inch	2	401,611	971.37	1,543.39	572.01	58.89%
7	Subtotal	<u>867</u>					
8							
9							
10	Standpipe	156	11,823	\$ 34.27	\$ 47.33	13.07	38.13%
11	Fire Sprinkler	4	-	\$ 10.00	\$ 10.00	-	0.00%
12	Subtotal	<u>160</u>					
13							
14	Totals	<u><u>1,026</u></u>					

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

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Las Quintas Serenas Water Company
 Test Year Ended June 30, 2009
 Analysis of Average Bill by Detailed Class

Exhibit
 Rejoinder Schedule H-2
 Page 2
 Witness: Bourassa

Line No.	Meter Size and Class	(a)		Median Bill		Proposed Increase	
		Average Number of Customers at 6/30/2009	Average Consumption	Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	5/8x3/4 Inch	820	10,768	\$ 30.35	\$ 38.16	7.81	25.75%
2	3/4 Inch	6	15,598	55.43	65.09	9.66	17.43%
3	1 Inch	28	16,842	67.80	79.64	11.85	17.48%
4	1.5 Inch	7	52,477	153.82	186.56	32.74	21.29%
5	2 Inch	4	153,057	206.37	253.67	47.31	22.93%
6	4 Inch	2	401,611	911.70	1,390.03	478.33	52.47%
7	Subtotal	867					
8							
9							
10	Standpipe	156	11,823	\$ 34.27	\$ 47.33	\$ 13.07	38.13%
11	Fire Sprinkler	4	-	-	-	-	0.00%
12	Subtotal	160					
13							
14	Totals	1,026					

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

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Las Quintas Serenas Water Company
 Test Year Ended June 30, 2009
 Present and Proposed Rates

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:				
2	5/8 Inch	\$ 10.00	\$ 20.00	\$ 10.00	100.00%
3	3/4 Inch	22.50	30.00	7.50	33.33%
4	1 Inch	25.00	50.00	25.00	100.00%
5	1 1/2 Inch	55.00	100.00	45.00	81.82%
6	2 Inch	70.00	160.00	90.00	128.57%
7	3 Inch	125.00	320.00	195.00	156.00%
8	4 Inch	225.00	500.00	275.00	122.22%
9	6 Inch	350.00	1,000.00	650.00	185.71%
10	8 Inch	-	-	-	-
11					
12	Standpipe	10.10	20.20	10.10	100.00%
13					
14	Fire Sprinkler Connection, less than 6 inch	\$ 10.00	\$ 10.00	-	0.00%
15	Fire Sprinkler Connection, larger than 6 inch	\$ 15.00	\$ 15.00	-	0.00%
16					
17	Gallons In Minimum	-	-	-	-
18					
19					
20					
21	Commodity Rates				
22	(Residential, Commercial, Industrial)				
23	5/8 Inch and 3/4 Inch				
24					
25					
26					
27	1 Inch				
28					
29					
30	1 1/2 Inch				
31					
32					
33	2 Inch				
34					
35					

Block	Present Rate	Proposed Rate
0 gallons to 4,000 gallons	0.95	N/A
4,001 gallons to 23,000 gallons	1.15	N/A
over 23,000 gallons	1.35	N/A
0 gallons to 40,000 gallons	1.15	N/A
over 40,000 gallons	1.35	N/A
0 gallons to 100,000 gallons	1.15	N/A
over 100,000 gallons	1.35	N/A
0 gallons to 150,000 gallons	1.15	N/A
over 150,000 gallons	1.35	N/A

Las Quintas Serenas Water Company
 Test Year Ended June 30, 2009
 Present and Proposed Rates

Line No.	Commodity Rates (Residential, Commercial, Industrial)	Block	(Per 1,000 gallons)	
			Present Rate	Proposed Rate
1				
2				
3				
4				
5	4 Inch	0 gallons to 400,000 gallons	\$ 1.15	N/A
6		over 400,000 gallons	\$ 1.35	N/A
7				
8	6 Inch	0 gallons to 400,000 gallons	\$ 1.15	N/A
9		over 400,000 gallons	\$ 1.35	N/A
10				
11	Standpipe	0 gallons to 4,000 gallons	\$ 0.95	N/A
12		4,001 gallons to 23,000 gallons	\$ 1.15	N/A
13		over 23,000 gallons	\$ 1.35	N/A
14				
15	5/8 Inch	0 gallons to 4,000 gallons	N/A	\$ 1.87
16		4,001 to 10,000 gallons	N/A	\$ 2.37
17		over 10,000 gallons	N/A	\$ 2.97
18				
19	3/4 Inch	0 gallons to 4,000 gallons	N/A	\$ 1.87
20		4,001 to 10,000 gallons	N/A	\$ 2.37
21		over 10,000 gallons	N/A	\$ 2.97
22				
23	1 Inch	0 gallons to 25,000 gallons	N/A	\$ 2.37
24		over 25,000 gallons	N/A	\$ 2.97
25				
26	1 1/2 Inch	0 gallons to 50,000 gallons	N/A	\$ 2.37
27		over 50,000 gallons	N/A	\$ 2.97
28				
29	2 Inch	0 gallons to 80,000 gallons	N/A	\$ 2.37
30		over 80,000 gallons	N/A	\$ 2.97
31				
32	3 Inch	0 gallons to 160,000 gallons	N/A	\$ 2.37
33		over 160,000 gallons	N/A	\$ 2.97
34				
35				
36				

Las Quintas Serenas Water Company
 Test Year Ended June 30, 2009
 Present and Proposed Rates

Exhibit
 Schedule H-3
 Page 3
 Witness: Bourassa

Line No.	Commodity Rates (Residential, Commercial, Industrial)	Block	Present Rate (Per 1,000 gallons)	Proposed Rate	Present Rates	Proposed Rates	Change	Percent Change
1								
2								
3								
4								
5		0 gallons to 250,000 gallons	N/A	2.37			(11.37)	-100.00%
6		over 250,000 gallons	N/A	2.97			(17.05)	-100.00%
7							(28.42)	-100.00%
8		0 gallons to 500,000 gallons	N/A	2.37			(56.84)	-100.00%
9		over 500,000 gallons	N/A	2.97			(90.94)	-100.00%
10							(170.52)	-100.00%
11		0 gallons to 4,000 gallons	N/A	1.87			(284.20)	-100.00%
12		4,001 gallons to 10,000 gallons	N/A	2.37			(568.40)	-100.00%
13		over 10,000 gallons	N/A	2.97				
14								
15								
16								
17								
18								
19								
20								
21								
22								
23								
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26								
27								
28								
29								
30								
31								
32								
33								
34								
35								

Arsenic Cost Recovery Surcharge

Meter Size:

5/8 Inch	\$ 11.37	\$ -						
3/4 Inch	17.05	-						
1 Inch	28.42	-						
1 1/2 Inch	56.84	-						
2 Inch	90.94	-						
3 Inch	170.52	-						
4 Inch	284.20	-						
6 Inch	568.40	-						
Standpipe	\$ 11.37	\$ -						

Las Quintas Serenas Water Company
Changes in Representative Rate Schedules
Test Year Ended June 30, 2009

Exhibit
Rejoinder Schedule H- 3
Page 4
Witness: Bourassa

Line No.	<u>Other Service Charges</u>	Present Rates	Proposed Rates
1	Establishment	\$ 20.00	\$ 20.00
2	Establishment (After Hours)	\$ 30.00	\$ 30.00
3	Reconnection (Delinquent)	\$ 20.00	\$ 20.00
4	Reconnection (Delinquent and After Hours)	\$ 30.00	\$ 30.00
5	Meter Test (If meter reading correctly)	\$ 25.00	\$ 25.00
6	Deposit	*	*
7	Deposit Interest	*	*
8	Re-Establishment (With-in 12 Months)	**	**
9	NSF Check	\$ 15.00	\$ 15.00
10	Deferred Payment, Per Month	N/T	1.50%
11	Meter Re-Read (if correct)	\$ 15.00	\$ 15.00
12	After hours service charge, per Rule R14-2-403D	N/T	Cost
13	Late Charge per month (per R-14-2-409G(6))	1.50%	1.50%
14			
15	Stanpipe Charges		
16	Original Key Deposit	\$ 30.00	\$ 30.00
17	Additional Set	\$ 5.00	\$ 5.00
18	Offsite Facilities Hook-Up Fee	\$ 250.00	See H-3, page 6
19	Arsenic Impact Hook-Up Fee	See H-3 page 6	See H-3 page 6
20			
21	* PER COMMISSION RULE (R14-2-403.B)		
22	** Months off system times the minimum. PER COMMISSION RULE (R14-2-403.D)		
23			
24	N/T = No tariff.		
25			
26			
27	IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM		
28	ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE		
29	TAX. PER COMMISSION RULE (14-2-409.D 5).		
30			
31	ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS,		
32	AND ALL APPLICABLE TAXES.		
33			
34			

Las Quintas Serenas Water Company
 Test Year Ended June 30, 2009
 Service Charges
 Meter and Service Line Charges

Exhibit
 Rejoinder Schedule H-3
 Page 5
 Witness: Bourassa

Line No.		Total Present Charge	Proposed Service Line Charge*	Proposed Meter Installation Charge*	Total Proposed Charge*
1					
2					
3					
4					
5					
6	5/8 x 3/4 Inch	\$ 150.00	\$ 445.00	\$ 155.00	\$ 600.00
7	3/4 Inch	NT	445.00	255.00	700.00
8	1 Inch	225.00	495.00	315.00	810.00
9	1 1/2 Inch	475.00	550.00	525.00	1,075.00
10	2 Inch	625.00	N/A	N/A	N/A
11	2 Inch / Turbine	NT	830.00	1,045.00	1,875.00
12	2 Inch / Compound	NT	830.00	1,890.00	2,720.00
13	3 Inch	850.00	N/A	N/A	N/A
14	3 Inch / Turbine	NT	1,045.00	1,670.00	2,715.00
15	3 Inch / Compound	NT	1,165.00	2,545.00	3,710.00
16	4 Inch	1,800.00	N/A	N/A	N/A
17	4 Inch / Turbine	NT	1,490.00	2,670.00	4,160.00
18	4 Inch / Compound	NT	1,670.00	3,645.00	5,315.00
19	6 Inch	3,000.00	N/A	N/A	N/A
20	6 Inch / Turbine	NT	2,210.00	5,025.00	7,235.00
21	6 Inch / Compound	NT	2,330.00	6,920.00	9,250.00
22	8 Inch	NT	At Cost	At Cost	At Cost
23					
24					
25					
26	*Based on Staff update of typical service line and meter installation charges dated				
27	February 21, 2008.				
28					

Las Quintas Serenas Water Company
Changes in Representative Rate Schedules
Test Year Ended June 30, 2009

Exhibit
Rejoinder Schedule H- 3
Page 6
Witness: Bourassa

Line

No.

1

2 **Arsenic Impact Hook-up Fee**

3

4

Present Proposed

5

Charge Charge

6 5/8 x 3/4 Inch

\$ 1,135 \$ 1,135

7 3/4 Inch

1,703 \$ 1,703

8 1 Inch

2,838 \$ 2,838

9 1 1/2 Inch

5,675 \$ 5,675

10 2 Inch

9,080 \$ 9,080

11 3 Inch

18,160 \$ 18,160

12 4 Inch

28,375 \$ 28,375

13 6 Inch

56,750 \$ 56,750

14

15

16 **Offsite Facilities Hook-up Fee**

17

18

Present Proposed

19

Charge Charge

20 5/8 x 3/4 Inch

\$ 250 \$ 250

21 3/4 Inch

250 250

22 1 Inch

250 250

23 1 1/2 Inch

250 250

24 2 Inch

250 250

25 3 Inch

250 250

26 4 Inch

250 250

27 6 Inch

250 250

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE)
APPLICATION OF LAS QUINTAS)
SERENAS WATER CO., AN ARIZONA)
CORPORATION, FOR (i) A)
DETERMINATION OF THE FAIR)
VALUE OF ITS UTILITY PLANTS AND)
PROPERTY AND (ii) AN INCREASE IN) DOCKET NO. W-01583A-09-0589
ITS WATER RATES AND CHARGES)
FOR UTILITY SERVICE BASED)
THEREON.)
)
)
) PREPARED TESTIMONY
)

**REJOINDER TESTIMONY OF
THOMAS J. BOURASSA
ON BEHALF OF LAS QUINTAS SERENAS WATER COMPANY
(COST OF CAPITAL)**

September 20, 2010

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TABLE OF CONTENTS

I. INTRODUCTION AND QUALIFICATIONS..... 1

II. SUMMARY OF REJOINDER TESTIMONY AND THE PROPOSED COST OF CAPITAL FOR THE COMPANY..... 1

 A. Summary of Company’s Rejoinder Recommendation 1

 B. Summary of the Staff Recommendation. 3

III. RESPONSE TO STAFF’S COST OF CAPITAL ANALYSIS 4

 A. Staff’s Hypothetical Capital Structure Inadequately Addresses LQSWC’s Financial Risk..... 4

 B. Inadequacy of Earnings Under the Staff Recommendations. 9

 C. Response to Other Staff Criticisms of LQSWC’S Cost of Capital Analysis. 14

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I. INTRODUCTION AND QUALIFICATIONS

Q1. PLEASE STATE YOUR NAME AND ADDRESS.

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

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

A2. I am testifying on behalf of the applicant, Las Quintas Serenas Water Company ("LQSWC" 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 August 23, 2010. The Company's proposed capital

1 structure is 67.93 percent debt and 32.07 percent equity. I continue to recommend
2 a cost of equity of 14.4 percent and cost of debt of 7.1 percent, which results in a
3 weighted cost of capital ("WACC") of 9.44 percent.

4 As I explained in my rebuttal testimony, I believe that a return on equity of
5 14.4 percent is fair and reasonable, and properly takes into account LQSWC's
6 financial and business risk. It is based on applying the Discounted Cash Flow
7 ("DCF") model and the Capital Asset Pricing Model ("CAPM") to the sample
8 group of publicly traded water utilities normally used by Staff and approved by the
9 Commission in setting rates for numerous water and wastewater utilities. The
10 return produced by those models was (i) then adjusted upward by 150 basis points
11 to account for the higher level of debt in the Company's capital structure, and (ii)
12 then further adjusted upward by an additional 100 basis points to account for the
13 Company's extremely small size, lack of investment liquidity, and the additional
14 risk that results from the particular rate-making methods employed in Arizona.
15 The table below summarizes the Company's final position:

16

<u>Method</u>	<u>Low</u>	<u>High</u>	<u>Midpoint</u>
17 Range DCF Constant Growth Estimates	9.1%	11.3%	10.5%
18 Range of CAPM Estimates	<u>10.4%</u>	<u>15.8%</u>	<u>13.2%</u>
19 Average of DCF and CAPM midpoint			
20 estimates	<u>10.2%</u>	<u>13.5%</u>	<u>11.9%</u>
21 Financial Risk Adjustment	1.5%	1.5%	1.5%
22 Specific Company Risk Premium	<u>1.0%</u>	<u>1.0%</u>	<u>1.0%</u>
23 Indicated Cost of Equity	12.7%	16.0%	14.4%

24 The schedules containing my updated cost of capital analysis from my rebuttal
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testimony are attached to this rejoinder testimony. Also attached are two exhibits, which are discussed below.

There have been no significant changes in the financial markets that affect that analysis, which was performed approximately four weeks ago.

B. Summary of the Staff Recommendation.

Q6. PLEASE SUMMARIZE THE RECOMMENDATION OF STAFF FOR THE RATE OF RETURN ON FAIR VALUE RATE BASE.

A6. Staff is recommending a hypothetical capital structure consisting of 60 percent debt and 40 percent equity.¹ Staff's updated cost of equity of 10.4 percent is based on the average cost of equity produced by its DCF and CAPM models.² Staff also determined the cost of debt to be 7.1 percent.³ Based on its recommended hypothetical capital structure, Staff determined the WACC for SWC to be 8.5 percent.⁴

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

(1) Staff ignores the fact that LQSWC is riskier than the publicly traded utilities in the sample group, despite LQSWC'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

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

² *Id.*

³ *Id.*

⁴ *Id.*

⁵ Morningstar, *Ibbotson SBBI 2010 Valuation Yearbook*, 85-107.

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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 which are analysts' forecasts of growth. 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 "double count" error depresses the result produced by the DCF model.

(3) Staff's recommended hypothetical capital structure contains more debt than its sample publicly traded utility companies and, without an upward financial risk adjustment to recognize this fact, Staff inadequately addresses the financial risk associated with LQSWC's highly leveraged actual capital structure.

(4) Based on the Staff recommendations in the instant case, the Company will have insufficient earnings from which to pay dividends (distributions) at a level comparable to the publicly traded utilities. Thus, Staff's recommendations in the instant case will not allow the Company to attract capital. As a result, Staff's recommendations fail to meet the standards set forth in *Hope* and *Bluefield* and must be rejected.

III. RESPONSE TO STAFF'S COST OF CAPITAL ANALYSIS

A. Staff's Hypothetical Capital Structure Inadequately Addresses LQSWC's Financial Risk.

Q7. PLEASE RESPOND TO MR. MANRIQUE'S TESTIMONY ON PAGE 3 CRITICIZING YOU FOR POINTING OUT THAT THE TWO PRIOR COMMISSION DECISIONS ADOPTING A HYPOTHETICAL CAPITAL

1 **STRUCTURE ALSO INCLUDED AN UPWARD FINANCIAL RISK**
2 **ADJUSTMENT.**

3 A7. I have two comments. First, it was Staff that justified its use of a hypothetical
4 capital structure in the instant case (thereby deviating from its typical
5 recommendation to use the actual capital structure and use a direct financial risk
6 adjustment using the Hamada) by citing the two prior Commission decisions.⁶ In
7 both cases, while the Commission adopted a hypothetical capital structure, the
8 Commission also adopted an upward financial risk adjustment to further address
9 the highly leveraged capital structures. However, in this case, Staff does not
10 propose such a risk adjustment. Second, Mr. Manrique's claim that Staff did not
11 recommend a hypothetical capital structure in the Arizona-American rate case and
12 accepted the recommendation of the company in the Southwest gas rate case is
13 true. I did not testify otherwise.⁷ The simple fact is that the Commission adopted
14 Staff's recommended cost of equity including a 100 basis point upward financial
15 risk adjustment based on (i) the Hamada method in the Arizona-American Mohave
16 case⁸ and (ii) Staff's cost of equity which included a 30 basis point upward
17 financial risk adjustment in the Southwest Gas case⁹. As I testified, this was
18 appropriate given that the hypothetical capital structures adopted in those cases
19 were more leveraged than the sample publicly traded utilities.¹⁰

20 **Q8. ARE THE FACTS AND CIRCUMSTANCES IN THE INSTANT CASE**
21

22 _____
23 ⁶ Southwest Gas Corporation, Decision No. 68487 and Arizona American Mohave Water and
24 Wastewater Districts, Decision No. 69440.

25 ⁷ Bourassa COC Rb. at 5.

26 ⁸ Arizona-American Water Company, Decision 69440, at 18.

⁹ Southwest Gas Corporation, Decision 68487, at 30.

¹⁰ Bourassa COC Rb. at 7.

1 **SIMILAR TO THE SOUTHWEST GAS AND THE ARIZONA-AMERICAN**
2 **CASE?**

3 A8. Yes (and no). In both the Southwest Gas and Arizona-American rate cases, the
4 utilities had a more leveraged capital structure than the sample publicly traded
5 utilities. In the Southwest Gas rate case, the actual capital structure consisted of
6 34.5 percent common equity, 5.3 percent preferred equity, and 60.2 percent debt¹¹
7 compared to the sample utilities which had on average 48.5 percent common
8 equity, 0.3 percent preferred equity, and 51 percent long-term debt. In the
9 Arizona-American rate case, the actual capital structure consisted of 37.2 percent
10 common equity, 62.8 percent debt¹² compared to the sample utilities which had on
11 average 50 percent common equity and 50 percent long-term debt¹³. And, in
12 both rate cases, the hypothetical capital structure that was adopted contained more
13 debt and less equity than the sample publicly traded utilities. In the Southwest Gas
14 rate case, the Commission adopted a hypothetical capital structure consisting of 40
15 percent common equity, 5 percent preferred equity, and 55 percent debt.¹⁴ In the
16 Arizona-American rate case, the Commission adopted a hypothetical capital
17 structure consisting of 40 percent common equity and 60 percent debt.¹⁵

18 An important distinction between the instant case and the other two rate
19 cases is that both utilities in the other rate case were much larger, had access to the
20 capital markets, and both had a history of highly leveraged capital structures¹⁶

21
22 ¹¹ *Id.* at 23.

23 ¹² *Id.* at 24.

24 ¹³ Arizona-American Water Company, Docket No. W-01303A-06-0014.

25 ¹⁴ Southwest Gas Corporation, Decision 68487, at 31.

26 ¹⁵ Arizona-American Water Company, Decision 69440, at 20.

¹⁶ The Commission specifically noted that the utilities needed to improve their common equity
 position to 40 percent. See Southwest Gas Corporation, Decision 68487, at 25; Arizona-

1 whereas LQSWC is much smaller, does not have access to the capital markets, and
2 has only recently experienced a highly leveraged capital structure¹⁷. In these
3 respects, the upward financial risk adjustment is more justified in instant case than
4 in the prior two cases cited by Staff.

5 **Q9. DOES THE INCLUSION OF AN UPWARD FINANCIAL RISK**
6 **ADJUSTMENT ALONG WITH A HYPOTHETICAL CAPITAL**
7 **STRUCTURE DOUBLY COMPENSTATE THE COMPANY FOR ITS**
8 **HIGHLY LEVERAGED CAPITAL STRUCTURE AS MR. MANRIQUE**
9 **ASSERTS ON PAGE 4 OF HIS SURREBUTTAL TESTIMONY?**

10 A9. No. To the contrary, the exclusion of an upward financial risk adjustment
11 significantly under compensates the Company for its highly leveraged capital
12 structure. While Staff is recommending approximately 8 percent more equity and
13 approximately 8 percent less debt in its hypothetical capital structure, a
14 hypothetical capital structure of 60 percent debt and 40 percent equity is still a
15 capital structure which has approximately 10 percent less equity and 10 percent
16 more debt than that contained in the capital structures of the publicly traded water
17 utilities, who on average have about 50 percent debt and 50 percent equity. In
18 other words, the hypothetical capital structure Staff⁷ proposes still has a higher
19 level of financial risk. As I testified in my rebuttal testimony, an upward
20 adjustment of 230 basis points is required to recognize this difference in financial
21 risk compared to the sample publicly traded water utilities.¹⁸

22
23 American Water Company, Decision 69440, at 14.

24 ¹⁷ LQSWC borrowed approximately \$1.75 million in 2009 from the Water Infrastructure and
25 Finance Authority (“WIFA”) to fund arsenic treatment facilities in order to meet federally
26 mandated water quality standards.

¹⁸ See Rebuttal Testimony of Thomas J. Bourassa (“Bourassa COC Rb.”) at 6.

1 **Q10. WHAT IS THE IMPLIED UPWARD FINANCIAL RISK ADJUSTMENT**
2 **TO THE COST OF EQUITY PROVIDED UNDER THE STAFF**
3 **RECOMMENDED HYPOTHETICAL CAPITAL STRUCTURE?**

4 A10. 100 basis points. Let me explain. Staff claims it uses a hypothetical capital
5 structure to recognize the higher financial risk of LQSWC compared to the sample
6 companies.¹⁹ Staff recommends a 10.4 percent cost of equity for use in its
7 hypothetical capital structure. Thus, the effective cost of equity under the Staff
8 recommendation is 11.4 percent. This can be found by solving the weighted
9 average cost of capital ("WACC") formula for the equity return using the actual
10 weight of debt (67.93 percent) and equity (32.07 percent) in LQSWC'S proposed
11 capital structure, a cost of debt of 7.1 percent, and a WACC of 8.5 percent.²⁰ So,
12 comparing the 10.4 percent recommended by Staff to the effective cost of equity of
13 11.4 percent, the difference is 100 basis points (11.4% minus 10.4%). The 100
14 basis points is the implied upward financial risk adjustment under Staff's approach.

15 **Q11. DOES A 100 BASIS POINT UPWARD ADJUSTMENT TO THE COST OF**
16 **EQUITY IMPLIED BY STAFF'S HYPOTHETICAL CAPITAL**
17 **STRUCTURE ADEQUATELY ADDRESS THE HIGHER FINANCIAL**
18

19 ¹⁹ Manrique Sb. at 3.

20 ²⁰ Starting with the WACC formula:

21 [1] $WACC = W_d * D + W_e * E$

22 where WACC = weighted average cost of capital

23 W_d = % or weight of debt in capital structure

24 W_e = % or weight of equity in capital structure

25 D = cost of debt

26 E = cost of equity

Solving for E, we get

[2] $E = (WACC - W_d * D) / W_e$

Finally, inserting the values for the WACC, actual weights of debt and equity, and the cost of debt we get

[3] $E = (8.5\% - 67.93\% * 7.1\%) / 32.07\%$

or

[4] $E = 11.47\%$

1 **RISK OF LQSWC'S ACTUAL CAPITAL STRUCTURE COMPARED TO**
2 **THE CAPITAL STRUCTURES OF THE PUBLICLY TRADED WATER**
3 **UTILITIES?**

4 A11. No. Using the Hamada method, which Staff typically employs addressing
5 differences in financial risk between the subject utility and the publicly traded
6 utilities, the financial risk adjustment would be 380 basis points. This is illustrated
7 in Exhibit TJB-COC-RJ-1.

8 **Q12. WHAT WOULD BE THE COST OF EQUITY USING THE 380 BASIS**
9 **POINT UPWARD ADJUSTMENT AND STAFF'S RECOMMENDED COST**
10 **OF EQUITY OF 10.4 PERCENT?**

11 A12. 14.2 percent (10.4 percent plus 3.8 percent). This is only 20 basis points lower
12 than my recommended 14.4 percent cost of equity. Further, comparing the 14.2
13 percent to the implied 11.4 percent under the Staff approach, LQSWC is
14 inadequately compensated for its highly leveraged capital structure and there is
15 certainly no double compensation as Mr. Manrique asserts.

16
17 **B. Inadequacy of Earnings Under the Staff Recommendations.**

18 **Q13. PLEASE EXPLAIN WHY UNDER THE STAFF RECOMMENDATIONS IN**
19 **THE INSTANT CASE THE COMPANY WILL HAVE INSUFFICIENT**
20 **EARNINGS TO SUPPORT ITS INVESTED CAPITAL. THAT IS, WHY**
21 **WILL LQSWC NOT HAVE THE ABILITY TO COVER ITS INTEREST**
22 **EXPENSE AND TO PAY DIVIDENDS AT A LEVEL COMPARABLE TO**
23 **THE PUBLICLY TRADED WATER UTILITIES?**

24 A13. In order for the Company to pay dividends which produce a dividend yield
25 equivalent to the dividend yield of the publicly traded water utilities as determined
26

1 by Staff, the Company will need to pay dividends of about \$49,800. However, the
2 earnings available for dividends under Staff's proposal will only be about \$40,000.
3 Let me explain. The Company has an adjusted equity balance (book value) of
4 approximately \$814,000.²¹ If the publicly traded water utilities are comparable to
5 LQSWC, as Staff assumes, then SWC's equity would trade at 1.7 times the book
6 value²² or approximately \$1.38 million (1.7 times \$814,000 million). Staff has
7 computed an expected dividend yield of 3.6 percent.²³ Thus, the expected dividend
8 payment is about \$49,800 (\$1.38 million times 3.6 percent). Further, Staff's
9 recommendation of 8.5 percent return produces a required operating income of
10 about \$162,600.²⁴ Out of this amount approximately \$122,500 of interest must be
11 paid²⁵, leaving net earnings available for dividends of approximately \$40,100
12 (\$162,600 minus \$122,500). The earnings available for dividends of \$40,100 are
13 less than the required dividends of \$49,800 and as a result the Company will have
14 negative earnings retained. In other words, the payout ratio will be 124 percent
15 (\$49,800 divided by \$40,100). A payout ratio of over 100 percent is not
16 sustainable and is in no way comparable to the publicly traded water utilities.

17 **Q14. WHAT IS THE 5 YEAR AVERAGE PAYOUT RATIO OF THE PUBLICLY**
18 **TRADED WATER UTILITIES?**

19 A14. The 5 year historical average payout ratio of the publicly traded water utilities is
20 about 75 percent.²⁶

21 ²¹ See Rejoinder Schedule D-1.

22 ²² See Staff Surrebuttal COC Schedule JCM-7. As shown, the market-to-book ratio is 1.7.

23 ²³ See Staff Surrebuttal COC Schedule JCM-3.

24 ²⁴ See Staff Surrebuttal Schedule CSB-1.

25 ²⁵ See Rejoinder Schedule D-2. Balance of debt at September 30, 2009 is \$1,725,175. The
interest rate is 7.1%. Interest on this debt is \$122,487 (\$1,725,175 times 7.1%).

26 ²⁶ 5 year average 2005 through 2009.

1 **Q15. IF THE COMPANY WERE TO PAY OUT EARNINGS AT A RATE**
2 **COMPARABLE TO THE PUBLICLY TRADED WATER UTILITY**
3 **COMPANIES, WHAT WOULD HAPPEN TO THE VALUE OF AN**
4 **INVESTMENT IN LQSWC?**

5 A15. The value of an investment in LQSWC would decrease significantly. Let me
6 explain. If LQSWC paid out 75 percent of its net earnings so that it is comparable
7 to the publicly traded water utilities, it would pay dividends totaling about \$30,100
8 (\$40,100 times 75 percent). However, this would translate to a dividend yield of
9 only 2.2 percent (\$30,100 divided by \$1.38 million). According to Staff, investors
10 expect a dividend yield of 3.6 percent, so the value of an investment in LQSWC
11 would need to decrease to about \$836,200 (\$30,100 divided by 3.6 percent) in
12 order for investors to receive their expected 3.6 percent dividend yield. In other
13 words, LQSWC investors will lose over \$548,000 of investment value (\$1.38
14 million minus \$836,200) – a loss of nearly 40 percent of investment value.

15 **Q16. WHAT WOULD THE RATE OF RETURN THAT IS APPLIED TO**
16 **STAFF'S PROPOSED RATE BASE NEED TO BE IN ORDER FOR THE**
17 **COMPANY TO BE COMPARABLE TO THE PUBLICLY TRADED**
18 **WATER COMPANIES?**

19 A16. 9.9 percent. Let me explain. If LQSWC has a payout ratio of 75 percent, then it
20 must have earnings after interest of about \$66,400 (\$49,800 divided by 75 percent).
21 Adding the loan interest of \$122,500 to the \$66,400 results in a required operating
22 income of approximately \$188,900 million. Staff's proposed rate base is
23 approximately \$1.913 million²⁷, so the return required is 9.9 percent (\$188,900
24 divided by \$1.913 million).

25
26 ²⁷ See Staff Surrebuttal Schedule CSB-1.

1 **Q17. ISN'T THE PROBLEM OF SUFFICIENCY OF EARNINGS A FUNCTION**
2 **OF THE AMOUNT OF RATE BASE THAT STAFF IS PROPOSING AND**
3 **THE AMOUNT OF INVESTED CAPITAL IN THE CAPITAL**
4 **STRUCTURE?**

5 A17. Yes, to some extent. But that doesn't explain the entire situation. Staff's rate base
6 is approximately \$1.913 million²⁸ while total capital in the capital structure is
7 approximately \$2.54 million²⁹. There is a similar discrepancy between Company's
8 proposed rate base and total capital. However, as I will discuss, the Company's
9 recommendation does provide for sufficient earnings to support its invested capital.
10 The primary problem is that Staff's recommended return on equity is simply too
11 low. Regardless of the reason for the difference between rate base and capital,
12 investor supplied capital always has an earnings requirement (interest, dividends,
13 and earnings). As stated by Dr, Morin³⁰,

14
15 The totality of a company's capital has to be serviced, whether
16 through the medium of operating revenues or in part the accrual of
17 AFUDC. Therefore, the allowed rate of return on common equity is
18 applicable to the total common equity component of the total
19 investments of the utility company. Anything less than that has the
20 direct and immediate effect of reducing common equity return below
21 the level needed to meet the capital attraction and comparable
22 earnings standards articulated in the *Hope* and *Bluefield* decisions.
23 To apply an allowed rate of return to a rate base that does not
24 provide for total common equity investment does not maintain the
25 integrity of that capital and does not enable the company to attract
26 capital.

28 See Staff Surrebuttal Schedule CSB-1

29 See Rejoinder Schedule D-1.

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

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Q18. THE COMPANY'S PROPOSED RATE BASE IS LESS THAN INVESTED CAPITAL. WILL THE COMPANY HAVE SUFFICIENT EARNINGS FROM WHICH TO PAY DIVIDENDS?

A18. Yes. The Company is recommending a rate base of approximately \$2 million. However, the earnings under the Company's proposal available to pay dividends will be about \$66,300 which will provide enough earnings to pay dividends as well as have positive retained earnings. Let me explain. The Company's proposed operating income is about \$188,800.³¹ As discussed above, interest expense will be \$122,500, so the earnings available for dividends will be about \$66,300 (\$188,800 minus \$122,500). After paying dividends of \$52,200³², the earnings retained by the Company will be \$14,100 (\$66,300 minus \$52,200). The payout ratio will be a bit higher than the publicly traded water utilities at about 79 percent (\$52,200 divided by \$66,300), but retained earnings are positive. In other words, the Company will still be able to service the totality of its capital despite the disparity between its proposed rate base and total invested capital.

Q19. HAVE YOU PREPARED AN EXHIBIT TO ILLUSTRATE THE ADEQUACY/INADEQUACY OF EARNINGS UNDER BOTH THE COMPANY RECOMMENDATIONS AND THE STAFF RECOMMENDATIONS?

A19. Yes. Attached as **Exhibit TJB-COC-RJ2** is a schedule illustrating the adequacy of earnings under both the Company recommendations and the Staff recommendations in the instant case. As already discussed, under the Staff

³¹ See Rejoinder Schedule A-1.

³² The dividend yield based on the Company's cost of capital analysis is 3.8% and the market value of equity using a market-to-book ratio of 1.78 is about \$1,449,600 (\$814,000 times 1.78). Therefore, the expected dividends will be approximately \$66,300 (\$1,449,641 times 3.8%).

1 recommendations, earnings will be inadequate to service the Company's invested
2 capital and the Company will be required to have a payout ratio of over 100
3 percent, which is not sustainable.³³

4 C. Response to Other Staff Criticisms of LOSWC'S Cost of Capital
5 Analysis.

6 **Q20. PLEASE RESPOND TO MR. MANRIQUE'S TESTIMONY ON PAGE 4**
7 **CONCERNING THE WEIGHT OF HISTORICAL GROWTH ESTIMATES**
8 **PROVIDED UNDER THE STAFF METHODOLOGY.**

9 A20. I have three comments. First, the fact that under the Staff methodology historical
10 growth rates has a weighting of one-twelfth (or 8.35 percent) is not undermined by
11 Mr. Manrique's argument that the Staff uses a sustainable growth model. In
12 computing the 8.35 percent I considered Staff's use of sustainable growth in its
13 growth estimates. Second, my methodology also considers sustainable growth by
14 incorporating book value growth in computing my estimated growth rates. Book
15 value growth, as shown on Rejoinder Schedule D-4.4, is a proxy for sustainable
16 growth. Third, my estimate of sustainable growth of 6.0 percent³⁴ is far more
17 conservative than Staff's of sustainable growth is 7.1 percent³⁵. Consequently,
18 Mr. Manrique's assertion that my method of estimating growth suffers from an
19 omission of consideration of sustainable growth is unfounded. Further, Mr.
20 Manrique's assertion that my method of estimating growth unnecessarily exposes
21 my methodology to undesirable upward bias is also unfounded.

22
23 ³³ The payout ratio under the Staff recommendations will need to be 124 percent as shown in
24 Column B, line 19 of Exhibit TJB-COC-RJ1 in order to provide dividends comparable to the
publicly traded water utilities.

25 ³⁴ See Rejoinder Schedule D-4.4.

26 ³⁵ Average of Staff's historical sustainable growth estimate of 5.0 percent and Staff's projected
sustainable growth estimate of 9.2 percent, as shown on Staff Surrebuttal Schedule JSM-6.

1 **Q21. PLEASE RESPOND TO MR. MANRIQUE'S SURREBUTTAL**
2 **TESTIMONY ON PAGE 5 THAT YOUR ANALYSIS IGNORES PAST**
3 **FINANCIAL INDICATORS THAT RESULT IN AN INCREASE IN YOUR**
4 **COST OF EQUITY RESULT.**

5 A21. Mr. Manrique asserts that my use of forecasted U.S. Treasury yields in my CAPM
6 upwardly biases my results. He also claims that current interest rates are a more
7 accurate indicator of future growth. Putting aside the fact that Mr. Manrique
8 provides absolutely no actual evidence that current interest rates are a more
9 accurate indicator of the future, it is investor expectations of the future that matter
10 in evaluating required investor returns. As Dr. Morin states,

11
12 "At the conceptual level, given that rate-making is a forward-looking
13 process, interest rate forecasts are preferable. Moreover, the
14 conceptual models used in the determination of the cost of equity,
such as the CAPM, are prospective in nature and require
expectational inputs."³⁶

15 The accuracy of forecasts it is of little relevance to the issues at hand here. What
16 really matters is whether the forecasts strongly influence investors and hence the
17 market prices they are willing to pay for stocks. The forecasted U.S. Treasury
18 yields are based on the consensus forecasts of leading economists as reported in the
19 *Blue Chip Financial Forecasts* and *Value Line*. Forecasts of long-term interest
20 rates would not be reported unless it represented value to investors, whether for
21 informational, forecasting, or analytical purposes. And, the consensus of leading
22 economists is that interest rates will be higher during the period of time rates will
23 be in effect for LQSWC.

24 **Q22. DOES THE HOLDING PERIOD DICTATE THE LENGTH OF THE U.S.**
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26 ³⁶ Morin at 152.

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TREASURIES USED IN THE CAPM?

A22. No. Staff assumes, without substantiation, that the holding period of investors in water utility stock is 5-10 years.³⁷ However, as Dr. Morin states³⁸,

As a proxy for the risk-free rate, long-term rates are the relevant benchmarks when determining the cost of common equity rather than short-term or intermediate interest rates. There are several reasons for this, both conceptual and practical.

At the conceptual level, because common stock is a long-term investment and because the cash flows to investors are in the form of dividends last indefinitely, the yield on very long-term government bonds, namely, the yield on 30-year Treasury bonds, is the best measure of the risk free rate for use in the CAPM.....The expected common stock return is based upon long-term cash flows, regardless of an individual's holding time period. Utility asset investments generally have longterm useful lives and should e correspondingly matched with long-term maturity financial instruments. Moreover, short-term Treasury bill yields reflect the impact of factors different from those influencing the yields on long-term securities such as common stock...On grounds of stability and consistency, the yields on long-term Treasury bonds match more closely with expected returns on common stocks....

At the practical level, short-term rates are volatile, fluctuate widely and are subject to more random disturbances than are long-term rates, leading to volatile and unreliable equity return estimates...

Q23. PLEASE RESPOND TO MR. MANRIQUE'S TESTIMONY ON PAGE 6 THAT YOU HAVE "CHERRY PICKED" CERTAIN ASPECTS OF OTHER REGULATORY ENVIRONMENTS TO DISPUTE HIS TESTIMONY THAT DOING BUSINESS IN ARIZONA IS NO LESS RISKY THAT OTHER STATES.

A23. The accusation that I "cherry picked" certain attributes of other regulatory environments is simply not true. Mr. Manrique has not provided specific examples

³⁷ Manrique Sb. at 5.

³⁸ Morin at 151-152.

1 of attributes of other regulatory jurisdictions that I have allegedly over looked nor
2 has Mr. Manrique disputed my testimony concerning the attributes of other
3 regulatory environments that reduce regulatory and investment risk.³⁹ I could
4 similarly accuse Mr. Manrique of “cherry picking” his so-called “attractive”
5 Arizona regulatory attributes that he cited in his testimony.⁴⁰ The important
6 difference between Mr. Manrique and me is that I addressed and refuted each one
7 of the Arizona attributes he cited with specific responses and examples as to why
8 they did not make Arizona more attractive than other jurisdictions. Just as
9 important, Mr. Manrique has not disputed that testimony. Consequently, Mr.
10 Manrique fails to support his assertion that Arizona is no different than other
11 jurisdictions because as he states, “it is the overall effect that is relevant”.⁴¹

12 **Q24. ARE THE HIGHER RISKS ASSOCIATED WITH SMALLER FIRMS A**
13 **UNIQUE RISK THAT INVESTORS CANNOT EXPECT TO BE**
14 **COMPENSATED FOR?**

15 A24. No. We know, that based on empirical financial data, that the firm size
16 phenomenon is real. Moreover, we know that the capital asset pricing model is
17 incomplete and does not fully account for the higher returns on small company
18 stocks. In other words, the higher risks associated with smaller firms is not fully
19 accounted for by beta.

20 With respect to the relationship between firm size and return, *Morningstar* states⁴²:
21 One of the most remarkable discoveries of modern finance is
22 that of a relationship between firm size and return. The
23 relationship cuts across the entire size spectrum but is most
24 evident among smaller companies which have higher returns

25 ³⁹ Bourassa COC Rb. at 18-22.

26 ⁴⁰ See Direct Testimony of Juan C. Manrique (“Manrique Dt.”) at 41.

⁴¹ Manrique Sb. at 6.

⁴² Morningstar, *Ibbotson SBBI 2010 Valuation Yearbook*, 85.

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than larger ones. Many studies have looked at the effect of firm size and return...

With respect to the CAPM, *Morningstar* states⁴³:
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.

Q25. ON PAGE 6, MR. MANRIQUE STATES THAT YOU MAKE THE ASSERTION THAT THE ONLY FACTOR INVESTORS LOOK AT IS ANALYSTS' ESTIMATES OF GROWTH. DO YOU HAVE A COMMENT?

A25. Yes. First, let me state that I do not use analyst estimates exclusively in my cost of capital analysis.⁴⁴ 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.⁴⁵ And, as I have stated, Staff gives less weight to what is arguably the best estimate of growth.⁴⁶

Q26. DOES THAT CONCLUDE YOUR REJOINDER TESTIMONY ON THE COST OF CAPITAL FOR LQSWC?

A26. Yes.

⁴³ Morningstar at 89.
⁴⁴ See Direct Testimony of Thomas J. Bourassa ("Bourassa COC Dt.") at 29-30.
⁴⁵ Bourassa COC Rb. at 11.
⁴⁶ Bourassa COC Rb. at 10.

**Las Quintas Serenas Water Company
Docket No. W-01583A-09-0589**

**THOMAS J. BOURASSA
REJOINDER TESTIMONY
(COST OF CAPITAL)
September 20, 2010**

EXHIBIT TJB-COC-RJ1

Las Quintas Serenas Water Company
 Estimate of Financial Risk Computation using Staff Hamada Method

Line No.								
1	CAPM							
2	Historical Market Risk Premium	Rf	+	β	x	(Rp)	=	k
3	Current Market Risk Premium	2.1%	+	0.78	x	7.2%	=	7.7%
4	Average	3.7%	+	0.78	x	13.0%	=	13.8%
5								
6								10.8%
7								
8								
9	CAPM Relevered Beta							
10	Historical Market Risk Premium	Rf	+	β	x	(Rp)	=	k
11	Current Market Risk Premium	2.1%	+	1.15	x	7.2%	=	10.4%
12	Average	3.7%	+	1.15	x	13.0%	=	18.7%
13								
14								14.6%
15								
16	Financial Risk Adjustment							<u>3.8%</u>
17								
18								
19								
20								
21								
22								

¹ From Staff Schedule JCM-3.
² Relevered beta found on Page 3.

Las Quintas Serenas Water Company
Financial Risk Computation
Unlevered Beta

Line No.	Company	VL Beta β_L^1	Raw Beta β_U^2	Tax Rate t^3	Book Value Debt D^4	Book Value Equity E^4	Unlevered Raw Beta β_U^5
1	American States	0.80	0.70	37.8%	46.8%	53.2%	0.45
2	Aqua America	0.65	0.48	39.4%	56.6%	43.4%	0.27
3	California Water	0.75	0.63	38.0%	48.0%	52.0%	0.40
4	Connecticut Water	0.80	0.70	19.5%	55.8%	44.2%	0.35
5	Middlesex	0.75	0.63	34.1%	53.3%	46.7%	0.36
6	SJW Corp.	0.95	0.93	40.4%	49.0%	51.0%	0.59
11							
12							
13	Sample Water Utilities	0.78	0.68	34.8%	40.0%	60.0%	0.47
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
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27							

¹ Value Line Investment Analyzer data. See Schedule D-4.13
 Value Line uses the historical data of the stock, but assumes that a security's beta moves toward the market average over time. The formula is as follows:
 Adjusted beta = .33 + (.67) * Raw beta
² Raw Beta = (VL beta - .33)/(.67)
³ Effective tax rates for year ended December 31, 2009.
⁴ See Staff Schedule JCM-4.
⁵ Raw $B_U = \text{Raw } B_L / (1 + (1-t)D/E)$

Las Quintas Serenas Water Company
 Financial Risk Computation
 Relevered Beta

Exhibit
 Page 3

Line No.	Unlevered Raw Beta β_{UL}^1	Book Value Book Debt $\frac{BD^2}{EC^2}$	Book Value Equity Capital $\frac{EC^2}{EC^2}$	Tax Rate t^3	Relevered Raw Beta $\beta_{RL} = \beta_U (1 + (1-t)BD/EC)$	VL Adjusted Relevered Beta β_{BAL}
1						
2						
3						
4						
5	Las Quintas Serenas Water Compan	68.0%	32.0%	24.69%	1.22	1.15
6						
7						
8						
9						
10						
11						
12						

¹ Unlevered Beta from Schedule D-4.14.

² Hypothetical capital structure consisting of 60 percent debt and 40 percent equity as recommended by Staff.

³ From Staff Schedule CSB-2.

**Las Quintas Serenas Water Company
Docket No. W-01583A-09-0589**

**THOMAS J. BOURASSA
REJOINDER TESTIMONY
(COST OF CAPITAL)
September 20, 2010**

EXHIBIT TJB-COC-RJ2

Las Quintas Serenas Water Company
Analysis of Adequacy of Earnings

Exhibit

Line No.	A	B
	<u>Per Company</u>	<u>Per Staff</u>
1		
2		
3	\$ 814,405	\$ 814,405
4	1.78 ¹	1.7 ⁵
5	\$ 1,449,641	\$ 1,384,489
6	3.8% ²	3.6% ⁶
7	\$ 52,187	\$ 49,842
8		
9	\$ 1,725,175	\$ 1,725,175
10	7.1%	7.1%
11	\$ 122,487	\$ 122,487
12		
13		
14	\$ 190,270 ⁴	\$ 162,624 ⁷
15	\$ 122,487	\$ 122,487
16	\$ 67,783	\$ 40,137
17	\$ 52,187	\$ 49,842
18	\$ 15,596	\$ (9,705)
19	0.77	1.24
20		
21	0.75	
22		
23	¹ Per Company Rejoinder Schedule D-4.15	
24	² Per Company Rejoinder Schedule D-4.8	
25	³ Per Company Rejoinder Schedule D-1	
26	⁴ Per Company Rejoinder Schedule A-1	
27	⁵ Per Staff Surrebuttal Schedule JCM-7	
28	⁶ Per Staff Surrebuttal Schedule JCM-3	
29	⁷ Per Staff Surrebuttal Schedule CSB-1	
30		

**Las Quintas Serenas Water Company
Docket No. W-01583A-09-0589**

**THOMAS J. BOURASSA
REJOINDER TESTIMONY
(COST OF CAPITAL)
September 20, 2010**

SCHEDULES

Las Quintas Serenas Water Company
 Test Year Ended June 30, 2009
 Summary of Cost of Capital

Exhibit
 Rejoinder Schedule D-1
 Page 1
 Witness: Bourassa

Line No.	Item of Capital	As of September 30, 2009				End of Projected Year			
		Dollar Amount	Percent of Total	Cost Rate	Weighted Cost	Dollar Amount	Percent of Total	Cost Rate	Weighted Cost
1	Long-Term Debt	1,725,175	67.93%	7.10%	4.82%	\$ 1,667,815	64.76%	7.10%	4.60%
3	Adjusted Stockholder's Equity ¹	814,405	32.07%	14.40%	4.62%	907,461	35.24%	14.40%	5.07%
5	Totals	\$ 2,539,580	100.00%		9.44%	\$ 2,575,276	100.00%		9.67%

SUPPORTING SCHEDULES:

- Rejoinder D-2
- Rejoinder D-3
- Rejoinder D-4
- Direct D-1

RECAP SCHEDULES:

- Rejoinder A-1.

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35

Las Quintas Serenas Water Company
 Test Year Ended June 30, 2009
 Cost of Long Term Debt

Exhibit
 Rejoinder Schedule D-2
 Page 1
 Witness: Bourassa

Line No.	Description of Debt	As of September 30, 2009				End of Projected Year			
		Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost	Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost
1	WIFA Loan	1,725,175	122,487	7.10%	7.10%	1,667,815	118,415	7.10%	7.10%
2		-	-	0.00%	0.00%	-	-	0.00%	0.00%
3		-	-	0.00%	0.00%	-	-	0.00%	0.00%
4		-	-	0.00%	0.00%	-	-	0.00%	0.00%
5		-	-	0.00%	0.00%	-	-	0.00%	0.00%
6		-	-	0.00%	0.00%	-	-	0.00%	0.00%
7		-	-	0.00%	0.00%	-	-	0.00%	0.00%
8		-	-	0.00%	0.00%	-	-	0.00%	0.00%
9		-	-	0.00%	0.00%	-	-	0.00%	0.00%
10		-	-	0.00%	0.00%	-	-	0.00%	0.00%
11		-	-	0.00%	0.00%	-	-	0.00%	0.00%
12		-	-	0.00%	0.00%	-	-	0.00%	0.00%
13	Totals	\$ 1,725,175	\$ 122,487			\$ 1,667,815	118,415		7.10%
14									

SUPPORTING SCHEDULES:
 E-1

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Cost of Preferred Stock

Exhibit
Rejoinder Schedule D-3
Page 1
Witness: Bourassa

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

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
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 14.40% .

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SUPPORTING SCHEDULES:

RECAP SCHEDULES:

18

Rejoinder Schedules D-4.0 to D-4.16

19

Rejoinder D-1

20

**Las Quintas Serenas Water Company
Summary of Results**

**Exhibit
Rejoinder Schedule D-4.1**

Line No.	<u>Method</u>	<u>Low</u>	<u>High</u>	<u>Midpoint</u>
1				
2				
3				
4				
5				
6	Range DCF Constant Growth Estimates ¹	9.7%	11.3%	10.5%
7				
8	Range of CAPM Estimates ²	10.7%	15.8%	13.2%
9				
10				
11	Average of DCF and CAPM midpoint estimates	10.2%	13.5%	11.9%
12				
13				
14	Financial Risk Adjustment ³	1.5%	1.5%	1.5%
15				
16	Small Company Risk Premium ⁴	1.0%	1.0%	1.0%
17				
18	Indicated Cost of Equity	12.7%	16.0%	14.4%
19				
20				
21				
22	Recommended Cost of Equity			14.4%
23				
24				
25				
26				
27				
28				
29				

¹ See Schedule D-4.8

² See Schedule D-4.12

³ See Schedule D-4.16

⁴ See testimony.

Las Quintas Serenas Water Company
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
1	American States	74%	\$ 371.6	\$ 769.0	A	A2
2	Aqua America	97%	\$ 676.6	\$ 2,813.6	AA-	NR
3	California Water	98%	\$ 453.0	\$ 1,095.8	AA-	NR
4	Connecticut Water	90%	\$ 68.0	\$ 274.7	A	NR
5	Middlesex	88%	\$ 92.3	\$ 332.7	A	NR
6	SJW Corp.	96%	\$ 216.5	\$ 536.5	NR	NR
10	Average	91%	\$ 313.0	\$ 970.4		
13	Las Quintas Serenas Water Company	100%	\$ 0.5	\$ 2.8	NR	NR
14	(as of December 31, 2009)					

¹AUS Utility Reports (August 2010).

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25

**Las Quintas Serenas Water Company
Capital Structures**

**Exhibit
Rejoinder Schedule D-4.3**

No.	Company	Book Value ¹		Market Value ¹	
		Long-Term Debt	Common Equity	Long-Term Debt	Common Equity
1	1. American States	47.7%	52.3%	35.0%	65.0%
2	2. Aqua America	55.7%	44.3%	34.8%	65.2%
3	3. California Water	47.2%	52.8%	34.2%	65.8%
4	4. Connecticut Water	51.0%	49.0%	38.4%	61.6%
5	5. Middlesex	47.4%	52.6%	36.7%	63.3%
6	6. SJW Corp.	49.8%	50.2%	37.2%	62.8%
7	Average	49.8%	50.2%	36.1%	63.9%
8	Las Quintas Serenas Water Co. ²	18.3%	81.7%	N/A	N/A
9	(Adjusted as of December 31, 2009)				

¹ Value Line Analyzer Data (August 13, 2010)

² Adjusted Per Schedule D-1

**Exhibit
Rejoinder Schedule D-4.4**

**Las Quintas Serenas Water Company
Comparisons of Past and Future Estimates of Growth**

Line No.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	Price ¹	Book Value ²	EPS ²	DPS ²	Average Col 1-4	Average Future Growth ³	Average of Future and Historical Growth Col 5-6
	<u>Five-year historical average annual changes</u>						
1							
2							
3							
4							
5							
6							
7	Company						
8	1. American States	4.04%	5.00%	8.50%	2.50%	5.00%	5.00%
9	2. Aqua America	NMF	8.50%	5.00%	8.00%	8.37%	7.77%
10	3. California Water	0.88%	6.00%	6.50%	1.00%	6.31%	4.95%
11	4. Connecticut Water	NMF	3.00%	Negative	1.50%	7.44%	4.84%
12	5. Middlesex	Negative	5.50%	3.50%	3.50%	8.00%	5.75%
13	6. SJW Corp.	0.55%	8.00%	3.00%	5.50%	9.50%	6.88%
14							
15							
16	GROUP AVERAGE	1.82%	6.00%	5.30%	3.33%	7.44%	5.87%
17	GROUP MEDIAN	0.88%	5.75%	5.00%	2.00%	7.72%	5.38%
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							

¹ Average of changes in annual stock prices ending on August 13, 2010. Data from Yahoo Finance website.

² Value Line Analyzer Data, August 13, 2010

³ See Schedule D-4.6.

Exhibit
Rejoinder Schedule D-4.5

Las Quintas Serenas Water Company
Comparisons of Past and Future Estimates of Growth

Line No.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
3							
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25							
26							
27							
28							
	Ten-year historical average annual changes						
	<u>Price¹</u>	<u>Book Value²</u>	<u>EPS²</u>	<u>DPS²</u>	<u>Average Col 1-4</u>	<u>Average Future Growth³</u>	<u>Average of Future and Historical Growth Col 5-6</u>
1. American States	7.97%	4.50%	4.00%	1.50%	4.49%	5.00%	4.75%
2. Aqua America	7.21%	9.50%	6.50%	7.50%	7.68%	8.37%	8.02%
3. California Water	6.01%	4.00%	1.00%	1.00%	3.00%	6.31%	4.65%
4. Connecticut Water	3.10%	4.00%	1.00%	1.50%	2.40%	7.44%	4.92%
5. Middlesex	4.05%	4.50%	1.50%	2.00%	3.01%	8.00%	5.51%
6. SJW Corp.	1.81%	6.00%	2.00%	5.00%	3.70%	9.50%	6.60%
GROUP AVERAGE	5.02%	5.42%	2.67%	3.08%	4.05%	7.44%	5.74%
GROUP MEDIAN	5.03%	4.50%	1.75%	1.75%	3.36%	7.72%	5.21%

¹ Average of changes in annual stock prices ending August 13, 2010. Data from Yahoo Finance website.

² Value Line Analyzer Data, Aug 13, 2010

³ See Rejoinder Schedule D-4.6.

Exhibit
Rejoinder Schedule D-4.7

Las Quintas Serenas Water Company
Current Dividend Yields for Water Utility Sample Group

Line No.	Company	Current Stock Price (P ₀) ¹	Current Dividend (D ₀) ¹	Current Dividend Yield (D ₀ /P ₀) ¹	Average Annual Dividend Yield (D ₀ /P ₀) ^{1,2}
1	American States	\$ 32.80	\$ 1.04	3.17%	2.94%
2	Aqua America	\$ 19.18	\$ 0.59	3.08%	3.09%
3	California Water	\$ 34.72	\$ 1.19	3.43%	3.07%
4	Connecticut Water	\$ 21.15	\$ 0.91	4.31%	4.11%
5	Middlesex	\$ 16.06	\$ 0.72	4.49%	4.71%
6	SJW Corp.	\$ 22.90	\$ 0.70	3.04%	2.84%
13	Average			3.59%	3.46%
14	Median			3.30%	3.08%

¹ Value Line Analyzer Data. Stock prices as of August 13, 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.

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25

Las Quintas Serenas Water Company
Discounted Cash Flow Analysis
DCF Constant Growth

Exhibit
Rejoinder Schedule D-4.8

Line No.	[1] Average Spot Dividend Yield $(D_0/P_0)^1$	[2] Expected Dividend Yield $(D_1/P_0)^2$	[3] Growth (g)	[4] Indicated Cost of Equity $k = \text{Div Yld} + g$ (Cols 2+3)
8	3.59%	3.80%	5.87% ³	9.7%
10	3.59%	3.85%	7.44% ⁴	11.3%
14	3.59%	3.82%	6.65%	10.5%

¹ Spot Dividend Yield = D_0/P_0 . See 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 Schedule D-4.4, column 7

⁴ Growth rate (g). Average of Analyst Estimates Future Growth. See Schedule D-4.6.

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28

**Las Quintas Serenas Water Company
Market Betas**

**Exhibit
Rejoinder Schedule D-4.9**

<u>Line No.</u>	<u>Company</u>	<u>Beta (β)¹</u>
1	American States	0.80
2	Aqua America	0.65
3	California Water	0.75
4	Connecticut Water	0.80
5	Middlesex	0.75
6	SJW Corp.	0.95
7		
8		
9	Average	0.78
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		

¹ Value Line Investment Analyzer data (August 13, 2010)

Note: Beta is a relative measure of the historical sensitivity of a stock's price to overall fluctuations in the New York Stock Exchange Composite Index. A Beta of 1.50 indicates a stock tends to rise (or fall) 50% more than the New York Stock Exchange Composite Index. The "Beta coefficient" is derived from a regression analysis of the relationship between weekly percent-age changes in the price of a stock and weekly percentage changes in the NYSE Index over a period of five years. In the case of shorter price histories, a smaller time period is used, but two years is the minimum. The Betas are adjusted for their long-term tendency to converge toward 1.00.

**Las Quintas Serenas Water Company
Forecasts of Long-Term Interest Rates
2011-2012**

**Exhibit
Rejoinder Schedule D-4.10**

Line No.	Description	<u>2012</u>	<u>2013</u>	<u>Average</u>
1				
2				
3				
4				
5				
6	Blue Chip Consensus Forecasts ¹	5.3%	5.7%	5.5%
7				
8	Value Line ²	5.2%	5.6%	5.4%
9				
10	Average			5.5%
11				
12				
13				
14				

¹ June 2010 Blue Chip Financial Forecasts consensus forecast of 30 Year U.S. Treasury

² Value Line Quarterly forecast, dated May 28, 2010, Long-term Treasury

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16
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Las Quintas Serenas Water Company
Computation of Current Market Risk Premium

Exhibit
Rejoinder Schedule D-4.11

Line No.	Dividend Yield (D_t/P_t) ¹	Expected Dividend Yield (D_t/P_t) ²	+ Growth (g) ³	=	Expected Market Return (k)	-	Monthly Average 30 Year Treasury Rate ⁴	=	Market Risk Premium (MRP)
1									
2									
3	Month								
4	Jan 2009	4.86%	6.32%	+	30.02%	=	36.34%	=	33.21%
5	Feb	5.50%	7.43%	+	35.13%	=	42.56%	=	38.97%
6	Mar	4.21%	5.36%	+	27.33%	=	32.69%	=	29.05%
7	April	3.66%	4.47%	+	22.05%	=	26.52%	=	22.76%
8	May	3.46%	4.14%	+	19.67%	=	23.81%	=	19.58%
9	Jun	3.25%	3.87%	+	19.16%	=	23.03%	=	18.51%
10	Jul	2.90%	3.37%	+	16.31%	=	19.68%	=	15.27%
11	Aug	2.82%	3.22%	+	14.21%	=	17.43%	=	13.06%
12	Sept	2.80%	3.20%	+	14.32%	=	17.52%	=	13.33%
13	Oct	2.75%	3.15%	+	14.49%	=	17.64%	=	13.45%
14	Nov	2.68%	3.05%	+	13.88%	=	16.93%	=	12.62%
15	Dec 2009	2.56%	2.88%	+	12.58%	=	15.46%	=	11.11%
16	Jan 2010	2.64%	3.00%	+	13.71%	=	16.71%	=	12.23%
17	Feb	2.59%	2.97%	+	14.65%	=	17.62%	=	13.14%
18	Mar	2.44%	2.75%	+	12.69%	=	15.44%	=	10.96%
19	April	2.36%	2.63%	+	11.61%	=	14.24%	=	9.55%
20	May	2.61%	3.00%	+	14.80%	=	17.80%	=	13.51%
21	June	2.79%	3.30%	+	18.20%	=	21.50%	=	17.37%
22	July	2.61%	3.03%	+	15.95%	=	18.98%	=	14.99%
23									
24	Recommended	2.59%	2.96%	+	14.23%	=	17.19%	=	13.25%
25									
26	Short-term Trends								
27	Recent Twelve Months Avg	2.64%	3.01%	+	14.26%	=	17.27%	=	12.94%
28	Recent Nine Months Avg	2.59%	2.96%	+	14.23%	=	17.19%	=	12.83%
29	Recent Six Months Avg	2.57%	2.95%	+	14.65%	=	17.60%	=	13.25%
30	Recent Three Months Avg	2.67%	3.11%	+	16.32%	=	19.42%	=	15.29%
31									
32									
33									
34									
35									
36									
37									

¹ Average Current Dividend Yield (D_t/P_t) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

² Expected Dividend Yield (D_t/P_t) equals average current dividend yield (D_t/P_t) times one plus growth rate(g).

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

⁴ Monthly average 30 year U.S. Treasury. Federal Reserve.

Las Quintas Serenas Water Company
 Capital Asset Pricing Model (CAPM)

Exhibit
 Rejoinder Schedule D-4.12

Line									
No.		Rf ¹	+	beta ³	x	Rp	=	k	
1									
2									
3		5.5%	+	0.78	x	6.7%	=	10.7%	
4									
5		5.5%	+	0.78	x	13.3%	=	15.8%	
6									
7									13.2%
8									
9									
10									
11									
12									
13									
14									
15									
16									
17									
18									
19									
20									

Historical Market Risk Premium CAPM

Current Market Risk Premium CAPM

Average

¹ Forecasts of long-term treasury yields. See Schedule D-4.10.

² Value Line Investment Analyzer data. See Schedule D-4.9.

³ Historical Market Risk Premium from (Rp) MorningStar SBB1 2010 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2009

⁴ Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.11.

Exhibit
Rejoinder Schedule D-4.14

Las Quintas Serenas Water Company
Financial Risk Computation
Unlevered Beta

Line No.	Company	VL Beta β_L^1	Raw Beta β_U^2	Tax Rate t^3	MV Debt D^4	MV Equity E^4	Unlevered Raw Beta β_U^5
1	American States	0.80	0.70	37.8%	35.0%	65.0%	0.52
2	Aqua America	0.65	0.48	39.4%	34.8%	65.2%	0.36
3	California Water	0.75	0.63	38.0%	34.2%	65.8%	0.48
4	Connecticut Water	0.80	0.70	19.5%	38.4%	61.6%	0.47
5	Middlesex	0.75	0.63	34.1%	36.7%	63.3%	0.46
6	SJW Corp.	0.95	0.93	40.4%	37.2%	62.8%	0.69
7							
8							
9							
10							
11							
12							
13	Sample Water Utilities	0.78	0.68	34.8%	36.1%	63.9%	0.50
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							

¹ Value Line Investment Analyzer data. See Schedule D-4.13

Value Line uses the historical data of the stock, but assumes that a security's beta moves toward the market average over time. The formula is as follows:

Adjusted beta = $.33 + (.67) * \text{Raw beta}$

² Raw Beta = $(\text{VL beta} - .33) / (.67)$

³ Effective tax rates for year ended December 31, 2009.

⁴ See Schedule D-4.3

⁵ Raw $\beta_U = \text{Raw } \beta_U / (1 + (1-t)D/E)$

Exhibit
Rejoinder Schedule D-4.15

Las Quintas Serenas Water Company
Financial Risk Computation
Relevered Beta

Line No.	Unlevered Raw Beta β_{UL}^1	MV Book Debt $\frac{BD^2}{EC^2}$	MV Equity Capital $\frac{EC^2}{EC^2}$	Tax Rate t^3	Relevered Raw Beta $\beta_{RL} = \beta_{UL} (1 + (1-t)BD/EC)$	VL Adjusted Relevered Beta β_{BL}
1	0.50	54.4%	45.6%	30.79%	0.91	0.94
2						
3						
4						
5	Las Quintas Serenas Water Corr					
6						
7						
8						
9						
10						
11						
12						

¹ Unlevered Beta from Schedule D-4.14.

² Capital Structure of Company (As of September 30, 2009)

Line No.	BV	MV	
15	(in Thousands)	(in Thousands)	%
16	\$ 1,725.18	\$ 1,725	54.40%
17			
18	-	-	0.0%
19	814.41	1,447	45.6%
20	\$ 2,539.58	\$ 3,173	100.0%
21			

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

³ Current Tax rate based on test year ending 3/31/2009. See Schedule D-1.

22
23
24
25
26

**Las Quintas Serenas Water Company
Size Premium¹**

**Exhibit
Rejoinder Schedule D-4.16**

Line No.	<u>Beta(β)</u>	<u>Size Premium</u>	<u>Risk Premium for Small Water Utilities⁷</u>
1			
2			
3			
4			
5			
6	1.13	1.00%	
7			
8	1.26	1.64%	
9			
10	1.51	3.00%	
11			
12	1.64	4.74%	2.46%
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			
26			
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38			
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41			
42			
43			

Risk Premium for Small Water Utilities

Estimated Risk Premium for small water utilities⁶

0.99%

¹ Data from Table 7-11 of Morningstar, *Ibbotson S&P 500 2010 Valuation Yearbook*

² Mid-Cap companies includes companies with market capitalization between \$1,602 million and \$5,936 million.

³ Low-Cap companies includes companies with market capitalization between \$432 million and \$1,600 million.

⁴ Micro-Cap companies includes companies with market capitalization less than \$431 million.

⁵ Decile 10 includes companies with market capitalization between \$1.0 million and \$214 million.

⁶ From Table 2, Thomas M. Zepp, "Utility Stocks and the Size Effect Revisited," *The Quarterly Review of Economics and Finance*, 43 (2003), 578-582.

⁷ Computed as the weighted differences between the Decile 10 risk premium and the indicated risk premiums for the sample water utilities as shown below. Excludes risk due to differences in beta.

Market Cap.	(Millions)	Class	Beta	Size Premium	Difference to Decile 10	Weight	Weighted Size Premium
1. American States	\$ 567	Low-Cap	1.64%	1.64%	3.10%	0.1666667	0.52%
2. Aqua America	\$ 2,597	Mid-Cap	1.00%	1.00%	3.74%	0.1666667	0.62%
3. California Water	\$ 719	Low-Cap	1.64%	1.64%	3.10%	0.1666667	0.52%
4. Connecticut Water	\$ 180	Decile 10	4.74%	4.74%	0.00%	0.1666667	0.00%
5. Middlesex	\$ 215	Micro-Cap	3.00%	3.00%	1.74%	0.1666667	0.29%
6. SJW Corp.	\$ 417	Low-Cap	1.64%	1.64%	3.10%	0.1666667	0.52%
Weighted Size Premium for Small Companies							2.46%